

Q&A for FY2021 Results Briefing (Summary)

Yaskawa Electric Corporation

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[Speakers]

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(Note):

Motion Control: Motion Control segment

AC servo: AC servo & controller business (Motion Control segment)

Drives: Drives business (Motion Control segment)

Robotics: Robotics segment

System Engineering: System Engineering segment

Other: Other segment

Q What is the regional revenue ratio in AC servo and Drives for FY2021?

A AC servo: 31% in Japan, 14% in the Americas, 10% in Europe, 30% in China, 16% in Asia excluding China

Drives: 18% in Japan, 33% in the Americas, 12% in Europe, 27% in China, 10% in Asia excluding China

Q What is the percentage of AC servo and Drives in Motion Control revenue for FY2021?

A 63:37

Q What is the segment breakdown of each cause of change in supplemental material (P. 12) for analysis of changes in operating profit from FY2020 to FY2021?

A Effect of changes in forex rates: Motion Control +4.6 billion yen and Robotics +3.6 billion yen.

Profit increase due to revenue increase: Motion Control +21.6 billion yen, Robotics +13.6 billion yen, System Engineering +0.2 billion yen, and Other -0.3 billion yen.

Decrease in added value: Motion Control -3.0 billion yen, Robotics -0.3 billion yen, System Engineering +0.5 billion yen, and Other +0.6 billion yen.

Increase in total expenses: Motion Control -9.1 billion yen, Robotics -6.5 billion yen, System Engineering +2.2 billion yen, and Other -1.4 billion yen.

Other: Motion Control -0.6 billion yen, Robotics -0.1 billion yen, System Engineering +0.2 billion yen, and Other -0.3 billion yen.

Q What is the segment breakdown of each cause of change in supplemental material (P. 20) for analysis of changes in operating profit from FY2021 to FY2022 forecast?

A Effect of changes in forex rates: Motion Control +4.0 billion yen and Robotics +3.5 billion yen.

Profit increase due to revenue increase: Motion Control +3.6 billion yen, Robotics +5.0 billion yen, and Other +0.2 billion yen.

Increase in added value: Motion Control +0.6 billion yen, Robotics +2.0 billion yen, System Engineering +0.4 billion yen, and Other +0.1 billion yen.

Increase in total expenses: Motion Control -1.2 billion yen, Robotics -1.6 billion yen, and Other -0.5 billion yen.

Other: Motion Control +0.2 billion yen, Robotics +0.3 billion yen, System Engineering -0.3 billion yen, and Other +3.2 billion yen.

Q With regard to the graph of quarterly orders on P. 29, please tell us the regional and groupwide rate of change in each business in 4Q FY2021.

A · AC servo

YoY: +21 % overall

Breakdown: Japan +41 %, the Americas +35 %, Europe +43 %, China -15 %, and Asia excluding China +21%

QoQ: +0 % overall

Breakdown: Japan -7 %, the America +12 %, Europe -6 %, China -4 %, and Asia excluding China +21 %

· Drives

YoY: +67 % overall

Breakdown: Japan +108 %, the Americas +94 %, Europe +60 %, China +21 %, and Asia excluding China +39 %

QoQ: -2 % overall

Breakdown: Japan -10 %, the Americas +14 %, Europe +5 %, China -18 %, and Asia excluding China -7 %

· Robotics

YoY: +41 % overall

Breakdown: Japan +9 %, the Americas +42 %, Europe +66 %, China +63 %, and Asia excluding China +22 %

QoQ: +25% overall

Breakdown: Japan +1 %, the Americas +45 %, Europe +41 %, China +26 %, and Asia excluding China +22 %

and Asia excluding China +21 %

*YoY=year-on-year, QoQ=quarter-on-quarter

Q What is the reason of Robotics doing well?

A Aggressive investment by Tier 1 and Tier 2 automobile components manufacturers continued in North America and Europe. Additionally, in North America, there is a strong demand from medical sector for virus analysis in response to the coronavirus outbreak. Strong demand emerged from the general industries and medical sector.

Q Is there any project cancellation because of the lockdown in China?

A Not at all.

Q Why is there a huge difference between revenue growth rate of servos and robots?

A We supply servos for our robots preferentially. Although there has been a lack of peripheral equipment, production and sales are normalized in Robotics, resulting in increase of revenue growth rate in Robotics.

Q Are robots becoming drivers for profitability?

A Exactly.

Q While the order backlog for servos increased by about 80 billion yen, revenue plan increases by only 20 billion yen. Does that mean the order backlog won't be filled or orders will decrease?

A We received quite huge orders in AC servo in FY 2021. In FY 22, there are no factors that will put the brakes on orders, and while adjustments are being made, orders are expected to continue at a high level. Although the company has secured a production system that can handle the order backlogs, it is not expected that the backlog of orders will be completely filled in FY2022 because all the necessary parts cannot be supplied.

Q What percentage of robot orders are for automobile industry?

A In unit base, automobile accounted for nearly 40% of all applications in FY2021. There has not been a sudden change. The 3C industry is about less than 15%. Needs for semiconductor robots are also rising steadily. With the growth of the market as a whole, the general industrial sector is also expanding.

Q In regard to the analysis of changes in operating profit from FY2020 to FY2021 in supplemental material (P. 12) and the analysis of changes in operating profit from FY2021 to FY2022 forecast in supplemental material (P. 20), what are the details of the changes in added value?

A In FY2021, the impact of switching to new products was about +1.6 billion yen, and the impact of corporate efforts, such as the increase in robot service revenue, was about +2 billion yen in total. The impact of rising material and logistics costs was about -4 billion yen, of which about 2 billion yen was passed on. The impact of the reclassification of development expenses was approximately -3 billion yen, and the increase in inventories was approximately +1 billion yen. The main reason for the improvement in FY2022 plan is that there will be no impact from the reclassification of development costs. In addition, the impact of rising material and logistics costs will be about -2 billion yen, of which about 1 billion yen will be passed on. In addition, the impact of switching to new products and so on will be 1 billion yen.

Q Based on the analysis of changes in operating profit from FY2021 to FY2022 forecast in supplemental material (P. 20), it appears that the increase in added value is small. Are you struggling to increase added value?

A The impact of switching to new products is expected to be about +1 billion yen, but we expect it to happen in the second half of this fiscal year or later. Rather than rushing to switch to new products, we are now focusing on stable production.

Q Where are we in the order cycle in the FA market?

A The robot orders seem a little too strong. Excessive orders, including short-term responses to labor shortages, are expected to remain high for the time being. Since AC servo is mainly focusing on sales for machine manufacturers and production of machines by customers is not progressing as expected, so subtle adjustments will be made from now on. In China, demand from distributors has fallen due to monetary tightening, but demand itself has not. Demand is expected to increase further as reorganization progresses among small and midsize companies and COVID 19 crisis normalizes. China proceeds with adoption of 5G well ahead of Japan and it has a 70% share in solar panel production so there is little concern about its future. In Japan, the United States, and Europe, the impact of geopolitical risks has not reached the FA industry so we are not so much concerned about the future.

Q You expect the procurement environment to improve after 2Q. Why will it improve in 2Q?

A The reasons for improvement after 2Q are the easing of COVID-19 effects and stabilization of semiconductor manufacturing. The lockdown in Shanghai should be concerned, but we have recovered a loss through holidays and night shifts. Increased production and allocation of semiconductors are also advancing. As the level of parts accumulation increases and some of the inventory parts are adjusted, parts that have been difficult to obtain will become easier to obtain. We don't expect the rapid improvement in the procurement environment, but there is a sign of recovery.

Q I have the impression that FY2022 revenue plan doesn't increase that much except for the impact of the forex rates. Is this correct?

A It's correct. The impact of the new consolidation of Doolim-Yaskawa Co., Ltd. in the robotics business, which has approximately 7 billion yen revenue, is also included.

Q In FY 2022, even if the new orders decrease, there will be a backlog of orders, so I think it will be possible to achieve the plan. How many order decrease are admissible to achieve the plan?

A In FA industry, we can see a sign of decline in orders, but since there is no such sign so far, we do not anticipate it. We are now focusing more on production issues.

Q What is the reason for shortfall in FY2021 plan?

A Excluding the impact of the forex rate, revenue decreased by approximately 12 billion yen, and marginal profit decreased by approximately 6.5 billion yen. This was the main reason why we did not achieve the operating profit target. The impact of the forex rate was approximately +2 billion yen and the impact of material cost hike was offset by passing on to prices so the profit structure for 4Q of FY2021 was as planned.

Q What are downside risks of FY2022 plan?

A Revenue is expected to increase by about 16 billion yen in real terms excluding the impact of the forex rate and the impact of the new consolidation. As inventories have been increasing recently and the figures have already included risks, further downside risks are considered to be low.

Q How do you respond to changes in the external environment such as geopolitical risks?

A While analyzing how competitors are responding to the Russia-Ukraine crisis, the COVID-19 lockdown in China, and so on, we are now considering how we should respond.

Q What is the level of penetration of i³-Mechatronics to customers? Is it profitable?

A It's penetrating. We work with customers to introduce it to their production lines. We create profit by providing a business model with which customers can win in their market. This has improved our margins. There is no price reduction.

Q What is the current status of wind and solar power generation related businesses?

A As wind turbines have become larger, manufacturers have been narrowed down. Hence, we need to do business strategically because we can't find much added value. For solar power generation, AC servo and AC drive are used to automate panel production. We hope to accelerate sales of power conditioners for photovoltaic power generation.

Q What is the state of procurement of robot parts?

A In the past, we experienced many times that we had difficulty procuring robot components. In many cases, a specific component was the bottleneck. Since then, parts manufacturers have been increasing their production capacity, and the situation has not reached a point where there is a critical shortage of parts. Furthermore, since the motors used for the robot joints are supplied by ourselves, we can supply motors preferentially. There is a concern about the supply of products procured from outside the company such as harnesses, teaching pendants, and circuit boards. However, we strive to procure and secure inventory.

Q Orders for robots seem to be increasing. Could you tell me if there is any improvement in competitiveness?

A While FA industry is doing well as a whole, the idea that we can properly generate profits by helping customers win in their market has spread throughout the company. And with the spread of i³-Mechatronics, it is getting possible to conduct sales activities by discussing how the whole cell should be, instead of just looking at robots.

Q EV-related demand is growing particularly in China. Is there any change in market needs?

A We have been getting orders which result from the change of the production line with the adoption of EVs. The way of making automobiles is changing, for example, the way of welding and the materials are changed. It is not important whether EVs are large or small. Even if they are small, the scale of capital investment will not decrease because some customers expand the area of automation on the premise of mass production.

Q Regarding "Production capabilities" on P. 21, what are the new initiatives?

A Regarding parts, we are not considering a shift to general purpose products as we can better obtain exclusive products. Also, when new parts are used in new products, old generation parts of existing products are redesigned and replaced with new parts so that the number of parts does not increase. From BCP point of view, purchasing from two companies is correct, but when various parts are missing, it becomes more difficult to obtain necessary parts. Furthermore, we will also focus on increasing the in-house production rate and stabilize production.

Q What are the signs that the FA industry is going bad?

A In the case of China, demand will fall and return quickly, so we need to take a look at the big trend. In case of Japan, Europe, and the United States, we monitor the production status of dozens of major customers on a regular basis. Financial risks such as the collapse of Lehman Brothers and geopolitical risks cannot be assumed, but we can estimate the industrial risks 1 month ahead by monitoring the current production status of each company, which will be reflected in our orders received 2 - 3 months later.

Q What is the outlook for orders in FY2022?

A If we simply add up all the projects, we expect orders to increase year on year. On the other hand, we cannot be optimistic because we need to determine the market trend where Yaskawa products are being demanded, since even though people say that EVs will grow, they are not fully produced.