

Q&A for Online Briefing, FY2022 1Q Results (Summary)

Yaskawa Electric Corporation

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[Speakers]

Shuji Murakami, Representative Director, Senior Managing Executive Officer

Ayumi Hayashida, Executive Officer, General Manager, Corporate Communications Div.

(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 FY2022 1Q?

A AC servo: 32% in Japan, 22% in the Americas, 10% in Europe, 23% in China, 13% in Asia excluding China

Drives: 19% in Japan, 42% in the Americas, 13% in Europe, 16% in China, 10% in Asia excluding China

Q What is the percentage of AC servo and Drives in Motion Control revenue for FY2022 1Q?

A 67:33

Q With regard to the graph of quarterly orders on P. 23, please tell us the regional and groupwide rate of change in each business in FY2022 1Q.

A · AC servo

YoY: -2 % overall

Breakdown: Japan +24 %, the Americas +15 %, Europe -11 %, China -36 %, and Asia excluding China +10 %

QoQ: +4 % overall

Breakdown: Japan -0 %, the Americas +8 %, Europe +1 %, China +8 %, and Asia excluding China +9 %

· Drives

YoY: +23 % overall

Breakdown: Japan +42 %, the Americas +66 %, Europe -26 %, China -19 %, and Asia excluding China +10 %

and Asia excluding China +70 %

QoQ: +11 % overall

Breakdown: Japan -10 %, the Americas +25 %, Europe -18 %, China +21 %, and Asia excluding China +28 %

• Robotics

YoY: +33 % overall

Breakdown: Japan +6 %, the Americas +31 %, Europe +8 %, China +67 %, and Asia excluding China +39 %

QoQ: +9% overall

Breakdown: Japan +0 %, the Americas -26 %, Europe -17 %, China +54 %, and Asia excluding China +24 %

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

Q Regarding orders received in China in 1Q, how did AC servo, Drives, and Robotics perform?

A We assumed that orders of AC servo and Drives would not reach the level of orders received in the 1Q of last year due to problems with electricity supply and real estate occurred in the second half of FY21, tariff hike on exports from China by U.S., and strong CNY. Against this assumption, the lockdown had been imposed mainly in Shanghai from the latter half of March, so orders of AC servo and Drives which have many customers in east China in 1Q were weaker than expected. Although orders in June recovered from the lockdown impact, it remains to be seen whether orders will return to the level in the 1Q of last year. Robotics had little impact on the lockdown since its main customers, most of the OEM in automotive industry, and battery industry, aren't located in Shanghai and our factory is in Changzhou. Major customers are proceeding with their projects as planned, and Yaskawa has certainly acquired large projects related to EVs and batteries. We see that Yaskawa had an advantage over other companies because their robot factories are located in Shanghai. Orders have been bumped up by some advance orders as other robot manufactures have struggled to meet deadlines. Robotics business, which is in line with Chinese government policy, continue to perform well.

Q Since the middle of FY 20, the company have accumulated a backlog of orders of about 100 billion yen for Motion Control and about 50 billion yen for Robotics. Are there any products that will be canceled? In order to achieve full-year financial forecasts, have production constraints been resolved and are shipments proceeding smoothly?

A At the moment, there are no cancellations on the backlog. We had a hard time to ship

robots due to shortages of parts supply in 1Q. Competitors have had a delivery time issue, so under this circumstance, advance orders have started to arrive at YASKAWA, but there is no cancellation for them. Regarding the full-year financial forecasts, although China was weaker than expected, the rest of the regions were as expected, and the revenue increased from the 4Q of last year even without the impact of depreciation of the yen. Slowly, though, revenue has increased in Motion Control as we shifted our focus to obtaining parts at a higher price in the market and shipping products when some parts are in short supply until we can get substitutes. What remains to be seen is how China's revenue will catch up with the level originally envisaged in the remaining three quarters. Even if it cannot catch up, we will be able to make up for it in total as orders in Robotics are strong.

Q Has material procurement and lead time improved compared to three or six months ago?

A It recovered in regions except for China and it also has been gradually improving since June in China.

Q What is the impact of forex rates on orders received in FY 22 1Q?

A In revenue, the figure increased by about 7.5 billion yen from the same period of last year due to the impact of the forex rate. As the orders received in 1Q are larger than revenue, the impact of forex rate is also larger than that on revenue.

Q Why did orders in the Americas increase and those in Japan decrease as a QoQ basis?

A The increase in orders received in the Americas was largely due to continued strong demand for semiconductors in AC servo and rising demand for oil and gas in Drives. Demand for robots for general industries is also strong. On the other hand, orders decreased in Japan because of the concentration of system engineering projects at the end of the fiscal year.

Q What is the current volume of collaborative robots in terms of sales and orders?

A The revenue is not large as demand for collaborative robots is not large yet. However, the number of projects of installing robots to customers' facilities which had not been able to use robots is increasing, and we can expect a change in figures in six months. The response to the food transport robot displayed at the exhibition was great, and the number of projects related to it has been increasing.

Q In terms of profits, costs have continued to rise, such as rising raw material costs and wages. What is the impact on the full-year financial forecasts?

A Excluding the impact of the decrease in revenue, the decrease in added value and increase in total expenses in 1Q were as expected. China was a major factor behind revenue's decline, but we want to recover in the 2Q and beyond.

The impact of rising material costs was more than expected for Motion Control. Although the use of substitutes and design changes are being addressed, we are forced to use expensive parts before receiving standard certification, which put pressure on profits temporarily. The rise in logistics costs is also taking longer than expected, squeezing profits in Motion Control. Although we are trying to pass on the cost to customers, it will take time for the effect of the price transfer to be reflected in the figures due to the large backlog of orders.

Robotics have also been affected by material costs hikes, but since they are project-based business, we are able to pass on the costs easily. Profitability has also improved due to an increase in service business and system projects. Robotics make up for the decrease in profitability of Motion Control.

The increase in total expenses was as expected. According to the breakdown of the increase in total expenses on page 12 of the supplementary material, except for the increase in strategic costs (an increase in labor costs due to the advance allocation of medium- and long-term incentives and normalization from COVID-19 crisis), the increase in activity costs was held to 800 million yen. This is an appropriate level of increase in response to the increase in revenue outside China.

Q Please tell me the breakdown of Robotics' orders for automobiles and semiconductors.

And will companies continue to make capital investment to robots even in the recession?

A The percentage of Robotics' orders in units in 1Q was 40% for automobiles, 14 - 15% for 3C (assemblies for smartphones, home appliances, PC etc.), 30 - 40% for handling, etc., and less than 10% for semiconductors.

I think the length and depth of a recession is the key, but current inflation is coming from supply-side constraints, which is putting pressure on demand. On the supply side, it is necessary to advance the automation in order to deal with the increase in labor costs and the lack of people. From this perspective, automation is not the field to save money, so we think the impact will be small if it's a short-term recession. So far there are no signs of investment slowdown for automation field.

Q As capital investment for semiconductors continues to be strong, the supply has been gradually balanced with the demand in the memory and other markets. Is there any change in the order situation? The Chinese economy is expected to recover in the future, but will there be a change in the outlook for demand in the latter half of FY22 and the first half of FY 23?

A We think supply and demand balance of semiconductor memory will be eased because demand for 3C is declining. However, from the perspective of capital investment, plans are being made to build many plants, and we do not think that a situation will suddenly occur in which the supply becomes so excessive as they stop. Therefore, orders placed with Yaskawa have not stopped, and orders continue to be strong.

China's current situation is by no means weak, but it was pretty strong across the country in the 1Q of FY21, so it's not quite there yet. It will be over FY21 figures, if the government's economic stimulus measures become more widespread and private companies regain their vitality, but it is not clear yet. Through the second half of FY22, we expect to see the effects of the economic stimulus measures and be able to reach the full-year financial forecasts. However, exporting industries are currently in a slump due to the strong impact of the appreciation of the CNY and soaring logistics costs. Demand for consumer goods is weak in COVID-19 crisis, so the demand for machine tools and other general-purpose machinery used in the production of such goods is also weak. Instead, demand for new infrastructure and new energy, which is led by the government, is very strong, especially among large companies. For Yaskawa, the weight of machine tools is also large, but overall demand will improve as the volume of new infrastructure businesses increases.

Q We want to see how the capacity is going to be increased. Also, if there are any efforts for stable procurement, please let us know.

A A new plant has been established in Changzhou, where robot controllers will be manufactured. Since robot controllers were originally produced at a plant in Shenyang, due to the shift in production location, more space will be created in the plant in Shenyang, so new equipment for AC servo drives will be introduced to increase capacity. We also plan to use the new plant to boost capacity of AC drives. At present, the next mid-term business plan (scheduled to be announced in April 2023) is being formulated, and we are considering how we proceed with in-house production while at the same time operate more efficiently at the domestic plants. In terms of procurement, the production engineering divisions has been gathered following the full-scale operation of YASKAWA Technology Center (YTC), so that it has become possible to respond flexibly to parts that

are a bottleneck in production. We will also promote the standardization of parts that make up our products and reduce the number of parts to ensure more stable procurement.

Q At FY21 results briefing on April 8, 2022, I heard that about 10% of all projects had a long delivery time. What is the current situation?

A In Motion Control, we continue to see the same level of projects with long delivery time. As for robots, previously there was no movement to arrange them in advance. However, large-scale projects that other companies cannot deal with in China and other countries have come to Yaskawa, and due to this, there is a trend toward slightly longer delivery times.