

Q&A for FY2022 2Q Results Briefing (Summary)

Yaskawa Electric Corporation

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[Speakers]

Hiroshi Ogasawara, Representative Director, Chairman of the Board, President

Shuji Murakami, Representative Director, Senior Managing Executive Officer

(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 1H?

A AC servo: 32% in Japan, 23% in the Americas, 10% in Europe, 23% in China, 12% in Asia excluding China

Drives: 17% in Japan, 38% in the Americas, 11% in Europe, 24% in China, 10% in Asia excluding China

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

A 63:37

Q With regard to the graph of quarterly orders on P. 27, please tell us the regional and groupwide rate of change in each business in 2Q FY2022.

A · AC servo

YoY: +1 % overall

Breakdown: Japan +13 %, the Americas +18 %, Europe -3 %, China -18 %, and Asia excluding China -16%

QoQ: -4 % overall

Breakdown: Japan +2 %, the America +6 %, Europe -11 %, China -7 %, and Asia excluding China -29 %

· Drives

YoY: +24 % overall

Breakdown: Japan +27 %, the Americas +79 %, Europe -56 %, China -1 %, and Asia excluding China -16%

and Asia excluding China +26 %

QoQ: +2 % overall

Breakdown: Japan +11 %, the Americas +14 %, Europe -45 %, China +9 %, and Asia excluding China -24 %

- Robotics

YoY: +34 % overall

Breakdown: Japan +4 %, the Americas +49 %, Europe +10 %, China +40 %, and Asia excluding China +109 %

QoQ: -4% overall

Breakdown: Japan +2 %, the Americas +25 %, Europe -11 %, China -26 %, and Asia excluding China +40 %

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

Q When the company announced its 1Q results, it explained that higher raw material and logistics costs could be covered by higher sales prices, but the tone has changed. What are the results of the first half of the fiscal year and the outlook of the full year for the inflation impact among added value factors in breakdown of changes in operating profit?

A The impact of the cost surge in the first half was -6.5 billion yen, of which 3 billion yen was recovered by price pass-through, resulting in a net impact of -3.5 billion yen. For the full year, the impact of cost surge will be -11.5 billion yen, of which 5 billion yen is expected to be recovered by price pass-through, so the net impact will be -6.5 billion yen.

Q What was the plant utilization rate in 2Q?

A It was 140% for AC servo overall, and 120% in Japan, and a little less than 190% in China.

It was a little less than 120% for drives overall, and a little less than 120% in Japan, and a little less than 150% in China.

It was 85% for robotics overall, and 75% in Japan, and a little less than 100% in China.

Q What are the backgrounds of the increase in overhead costs?

A Of the -7.6 billion yen in breakdown of changes in operating profits in the supplementary material for the company's financial results (p.17), the largest was labor costs (Inflation, normalization from COVID-19, bonuses), totaling just over 4 billion yen. And the increase in activity costs is just under 3 billion yen. The policy of controlling the increase in activity costs to within 10% of revenue increase has somewhat restrained activity costs. It is expected that there will be some increase in the future due to normalization from COVID-19, but we want to control it.

Q What is the current profit margin situation for robots and how do you think about it in the future?

A Improvement in the Robotics margin is greater than planned. Automation has been promoted to cope with the expansion of production. In Europe and the United States, we used to experience fluctuation in the profits with the system projects, but with YDX(YASKAWA Digital Transformation), profits have been visualized, so we can now operate in a way to stabilize the profit ratio.

What's more, the robot market is expanding, so there's less price competition. That combination of factors is generating profits.

Q Is profit margin for robots going to increase in the future plan?

A I think it is going to increase more from now on.

Q With regard to motion control, I think there is a gap between the mid-term target and the current situation, because of the impact of material shortage, but can you aim for a profit margin of more than 20% from the next fiscal year on the recognition that the impact, such as cost increases, is temporary?

A AC servo's main market is China, Japan, and semiconductor market in the U.S., but we do not have much business volume in Europe. We have been profitable in China, but profits are falling as machinery exports from China have fallen and sales of certain types of AC servo drive which Yaskawa excels are decreasing.

The material shortage has calmed down, including the purchase of goods from the commercial market. Material prices are also expected to come down and normalize in the future. The positive impact of price pass-through will be seen.

Moreover, for the next fiscal year, profits will improve with the introduction of Σ -X and its model for the Chinese market.

Drives business, like AC servo, will recover and stabilize overall from a decline in operations due to a shortage of materials and from a lack of progress in switching to new products.

Q With regard to the impact of rising material and logistics costs, what is the impact of rising material costs? Is the cost of robotics also increasing, even though we recognize that motion control has a bigger impact?

A There is little impact of cost hike on robotics due to the price pass-through.

Motion control is mostly affected at the moment because the positive impact of passing the costs on customers will be realized after the rise in material costs. Of the 11.5 billion yen increase in costs, about 70% is rising material costs, and the rest is logistics costs. Logistics costs remain high, but it will normalize gradually in the future. Material costs may still rise for semiconductors, but we assume that cost increases of magnet and copper have generally peaked out due to stabilized market conditions. The impact will diminish in the future as price pass-through will gradually take effect.

Q Drives business seems to pick up production and its revenue is growing, but orders seem to be declining in all regions, excluding the impact of forex rates. Is this due to a decline in advance orders, which used to be about 10% of total order?

A Revenue of Drives is expected to expand and keep the level beyond the third quarter. On the other hand, orders remained at high levels in both the first and second quarters of FY 22, but since this included advance orders, it is assumed that this will disappear after the third quarter. In terms of actual demand, investment in energy conservation is strong overall, and in China, government led infrastructure investment projects such as port and factory cranes are moving forward.

Q You are planning to make a major capital investment in Kitakyushu where the headquarters is located. Could you tell us about your future production strategy?

A Local production for local consumption is our basic policy, and when demand reaches a certain level, production should be conducted in that area. In addition, we are conscious of getting the cheapest parts for procurement, but considering geopolitical risks and other factors, it may not always be the best to purchase based on price alone, so we examine the optimal procurement method each time.

With the capital investment, we are trying to increase the rate of in-house production, but we need to consider whether it is better to buy parts from outside or to produce in-house, and what the lead time will be in each case. Know-how has been gradually accumulated,

such as how much automation can be pursued to reduce labor costs in cases where traditional suppliers do not have components, or we can not secure the shortest lead time. The myth of simply producing things where the price is low will crumble, and there will be a trend around the world to produce parts in-house with increased automation and cost consciousness. Yaskawa decided to move ahead with in-house production.

Q What is the outlook of demand for robots and AC servo?

A Orders will stabilize in the second half. However, with the exception of some semiconductor-related investments, planned investments in the FA industry have basically not stopped. There are no cancellations of orders. In the second half, supply and demand will be balanced through stable orders and filling orders backlogs. As for the market, we are not too worried about the demand related to EVs and carbon neutrality because investments continue in these markets. At the same time, investments in consumer electronics and smartphones, which had gained momentum, have slowed. In summary, a slight adjustment in the second half of the year will normalize the abnormal conditions.

Q What are the images of regional profitability for AC servo and robotics?

A AC servo's profitability is surely high in China, and is better in Japan and the U.S. than in Europe. Profitability for robotics is not bad in all regions, although it may vary from quarter to quarter depending on the volume of system projects.

Q You will be strengthening your approach to automotive and battery manufacturers with the i³-Mechatronics concept in the second half. Please explain it in detail.

A Based on the concept of "integrated", our approach is to combine robots, AC drives and AC servos. Until now, the company has been selling only welding robots and painting robots to automotive OEMs as a single application, but in the future, the company will accelerate proposals for peripheral areas, including AC servo.

Battery production facilities are large. There are many system projects such as film winding in the upstream process, so we sometimes cooperate with Yaskawa Automation & Drives to make suggestions to customers. Instead of selling products individually, the company aims to stabilize profits.

Q What is the demand environment for products for semiconductor manufacturing equipment? Some semiconductor manufacturers have cut production plans. How is the impact on your company?

A AC servo is one of the components that go into manufacturing equipment, but the orders don't neatly match with semiconductor manufacturers' production plans. There hasn't been a drop in orders from semiconductor equipment makers just yet. Equipment manufacturers are also struggling to fill a large backlog of orders. I think it will be a few months before we can see the situation.

Q Regarding the procurement situation in China, does the lack of materials continue, or are you unsuccessful in purchasing compared to Chinese automakers?

A As for semiconductors, it is difficult to evaluate their procurement capabilities because they do not purchase the exact same products. It may be possible to procure lower-performing semiconductors, but they can't be used in our company products. We purchase parts of specific manufacturers in the commercial market, and some parts may be discontinued as they draw up plans to increase production or reorganize. All these factors are making it harder to procure, but it does not necessarily mean we are being unsuccessful against other manufacturers.

Q As for the Robotics, there is an opinion that the order environment may be adjusted like other FA equipment. What is different from the traditional order environment this time? What factors explain why robot orders are expected to continue, such as increased sensitivity to labor costs?

A We expect a slight adjustment in the order environment in the second half. However, not only Yaskawa Electric but also other companies are investing in automation to make their products in-house. This comes against the backdrop of the idea of increasing the scope of the company's control due to supply chain issues and the impact of the COVID-19 pandemic, as well as changes in the perception that robots are expensive due to a shortage of human resources and rising labor costs, and a turning point is approaching where labor costs will be higher than robots. Under these circumstances, not only the FA industry but also various other industries are making the same moves for survival, so I think there will be no more intense adjustments than in the past and the future will be bright.

Q Regarding the capital investment for drive business, will profitability change as production becomes smarter at new plants?

A We aim to produce parts domestically for domestic production with the new plant. EMS's response to parts procurement and changes in the volume of production has fallen short of our expectations, so we decided to promote in-house production to reduce dependence on EMS. We calculate how much it will benefit our bottom line but don't disclose it. In the past, we used to procure parts because they were cheap, but now we think we can make it cost effective to produce in-house.

Q The current fiscal year is the final year of the mid-term plan, but excluding the impact of foreign exchange and gains on the sale of assets, the profit target of 60 billion yen has not been reached. I believe that inflation is a major factor, but what discussions are being held regarding the formulation of the next medium-term plan?

A In the AC servo business, in addition to the Sigma-X and its China-market models, the YRM controller will be the key. The YRM controller consolidates robots and AC servos to increase system integration sales. In the robotics business, in addition to properly releasing the next model, we hope to launch the digital twin concept in the market. In addition to advancing the robot's performance by improving its operability and compatibility with other companies' controllers, we will also promote in-house production to make the robot more cost competitive. As for drives, we will make the subsidiary Yaskawa Automation & Drives independent and aggressively expand business overseas, mainly in Asia. In addition, the effects of absorbing Yaskawa Engineering, such as profits from the service business, are becoming apparent through DX efforts. At the interface between the customers and Yaskawa, it is becoming possible to connect after and before sales. This is what we are discussing for the next midterm plan.

Q With the impact of inflation expected to exceed 10 billion yen this year, when do you expect the effect of price increase to overtake that of inflation?

A In the first half of the year, there was a 1 billion yen impact from buying parts in the commercial market, but this will improve in the second half. Market conditions for copper, aluminum and other metals have gradually calmed, and logistics costs have fallen considerably. We think we can cancel the inflation impact in the first half of next year because the price pass-through will also gradually come into effect as the portion left in the backlog of orders sells up. We believe that the burden will be greatest in the first and second half of this fiscal year.