

Q&A for FY2022 First Three Quarters 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 FY2022 first three quarters?

A AC servo: 33% in Japan, 24% in the Americas, 10% in Europe, 22% in China, 11% in Asia excluding China

Drives: 16% in Japan, 38% in the Americas, 11% in Europe, 25% in China, 10% in Asia excluding China

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

A 60:40

Q With regard to the graph of quarterly orders on P. 25, please tell us the regional and groupwide rate of change in each business in 3Q FY2022.

A · AC servo

YoY: -30 % overall

Breakdown: Japan -33 %, the Americas -13 %, Europe -30 %, China -23 %, and Asia excluding China -60%

QoQ: -30 % overall

Breakdown: Japan -29 %, the America -37 %, Europe -12 %, China -20 %, and Asia excluding China -56 %

· Drives

YoY: -8 % overall

Breakdown: Japan -32 %, the Americas +28 %, Europe -36 %, China -23 %, and Asia excluding China +4 %

QoQ: -17 % overall

Breakdown: Japan -24 %, the Americas -21 %, Europe +41 %, China -27 %, and Asia excluding China +6 %

- Robotics

YoY: +42 % overall

Breakdown: Japan -22 %, the Americas +62 %, Europe +32 %, China +90 %, and Asia excluding China +44 %

QoQ: +8% overall

Breakdown: Japan -24 %, the Americas +18 %, Europe +28 %, China +33 %, and Asia excluding China -31 %

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

Q What is the reason of the big drop in 3Q orders for Motion Control?

A Pre-orders were placed in the first half of FY2022, and orders increased accordingly, but they disappeared after 3Q. In AC servo, demand for semiconductors began to decline globally in September. This was due to changes in customers' production plans and export restrictions in the United States, which led to greater adjustments than for other applications. In China, due to the impact of the lockdown in the 1Q and 3Q of FY2022, consumption has been sluggish and capital investment has declined in general industries. The most recent change to zero-Covid policy led to a rapid and short-lived outbreak in Yaskawa's China bases in late December. They have been operating normally since January and it has had little impact on business performance.

Q Will orders from Chinese distributors fall further?

A China has an immediate shipment system, so distributors don't have to build up a lot of inventory. They also don't want to build up inventory themselves because of concerns about deteriorating cash flow. Yaskawa also doesn't have enough components to supply products which are going to be in stock. Because of these conditions, it's unlikely that significant inventory adjustments will occur in the future, leading to a decline in orders.

Q For 4Q and the next fiscal year, I think the direction is basically toward the end of production constraints. With the recent decline in orders, is backlog of orders large enough to be able to expect continuous strong revenue, or is the assumption that the strong robot revenue will make up for it?

A Motion Control has an abundant backlog of orders. Customers will not ask to delay shipments of Yaskawa products because they are facing deadlines for their own customers. With parts procurement expected to ease in the future, we can expect an increase in revenue in the first half of the next fiscal year. Also, it is said that demand for semiconductors bottom out in the first half of the next fiscal year. We can expect an increase in revenue as demand recovers in the second half. There is no concern about a decline in orders for robots. Investment related to EVs and batteries continues to be strong, as does automation investment stemming from labor shortages. Automation is also in demand to control inflation, and orders are likely to rise again next year.

Q What's behind the new plan's upward revision of Motion Control and downward revision of Robotics?

A It's the result of adjusting the gap between the 3Q plan and actual results, with little change in the 4Q plan. Motion Control was better in 3Q than expected. As for added value, logistics costs were on a downward trend and price pass-through was underway, so the cost increase factor was less than expected. This situation is reflected somewhat in the 4Q plan. In Robotics, some projects moved from 3Q to 4Q and beyond, so the 3Q results fell short of expectations. Hence, the full-year plan was revised slightly downward. However, there is no significant change in the demand environment for robots, so the increase in production will cover the forex rates impact revised to a stronger yen in 4Q.

Q The 4Q plan for Robotics is that revenue is 61.7 billion yen and operating profit is 9.2 billion yen. Is it fair to assume that this level of revenue and operating profit can continue?

A The projects are abundant. We believe it is possible to maintain the level above 60 billion yen. Orders have exceeded 60 billion yen and we think that they are based on actual demand because there is no advance arrangement in Robotics. In addition, we will meet the demand and secure revenue by increasing the production capacity to produce large robots in China. It is possible to maintain the revenue level of 60 billion yen in a quarter.

Q How do you see orders in 4Q?

A We expect 4Q orders in Motion Control to decline slightly from 3Q, partly due to the Chinese New Year holiday. As for Robotics, we expect demand for robots for semiconductors to decline, and we expect orders to be slightly below 60 billion yen, depending on the projects' timing. However, there is no concern that demand will slow down in the future.

Q Robotics orders in 3Q were +8% QoQ, but negative growth was seen in Japan and other Asian countries. What were the factors?

A The reason of order decline in Japan is a slowdown in semiconductor robots and a temporary slip of some projects. The slipped projects are expected to be recorded in 4Q. As for other Asian countries, it is not slowing down. It enjoyed very high levels of orders in 2Q because projects concentrated. 3Q orders returned to the same level of 1Q orders. Overall, robots for semiconductor application are certainly slowing down, but there is no sign of deceleration for the main market, automobiles.

Q Please tell us specifically about parts procurement and easing production constraints. Which is more likely to ease, AC servo drives or AC drives? How are delivery times and lead times compared to normal times due to the easing of parts procurement and production constraints?

A We were able to better produce AC drives in 3Q due to the improvement of parts procurement. The switch to substitute parts and the elimination of bottleneck parts such as circuit boards made by EMS have progressed. We have made similar efforts in AC servo, but new bottleneck parts are emerging and have not made significant improvements. In terms of delivery time, both AC servo drives and AC drives have a backlog of orders worth around six months, which means delivery times which is usually three months or less, are delayed by about a quarter.

Q I don't think there will be a temporary positive impact on other income next fiscal year, but is that expected to be around 8 billion yen?

A Temporary positive factors such as the 3.6 billion yen impact from the transfer of pension to DC and the 3.6 billion yen gain on the sale of real estate will disappear next quarter. From the next fiscal year, we will control expenses and improve added value by increasing production and price pass-through and recover the portion where the positive impact disappears.

Q What percentage of robot orders are related to EVs?

A In 3Q, there are about 40% of orders for automobiles globally, and we have not been able to scrutinize to what extent EV-related orders are included. However, extrapolating from the concluded projects, I believe that China and Europe have an EV ratio of about half that of automobiles.

Q Of the added value in the breakdown of changes in operating profit for the full-year forecast for FY2022, please tell us the amount that has been reviewed in terms of the impact of soaring material and logistics costs.

A When we announced our financial results in 2Q, we expected a 11.5 billion yen negative impact on soaring material and logistics costs, 5 billion yen positive impact of price pass-through, and 6.5 billion yen of net negative impact. This time, we revised the impact on soaring material and logistics costs to a 10 billion yen negative impact and the price pass-through to a 7 billion yen positive impact. The situation has been easing since the 2Q results announcement, mainly on logistics costs.

Q What is the percentage of pre-orders in 3Q?

A It was about 10% for those with delivery time of more than 6 months in Motion Control, but the situation has not changed. The delivery time itself has not been shortened, and some orders have delivery dates more than 6 months away. However, there are fewer orders that would increase outstanding order, and normalization is progressing.

Q Were 3Q orders for Motion Control weak compared to expectations three months ago? Are there differences by application?

A It was expected that pre-orders that existed in 2Q would disappear and that orders would decrease in 3Q. Additionally, as customers revised their production plans due to the impact of U.S. export restrictions in the semiconductor market, the size of AC servo orders decline became larger. AC drives' 3Q orders landed as expected three months ago.

Q How about 3Q Robotics orders +8% QoQ?

A It is slightly higher than expected three months ago.