

## Q&A for FY2023 Nine Months Results Briefing (Summary)

Yaskawa Electric Corporation

(January 12, 2024 (Fri.))

[Speakers]

Shuji Murakami, Representative Director, Senior Managing Executive Officer  
Ayumi Hayashida, Senior Executive Officer, General Manager, Corporate Branding 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 You have revised down your forecasts for both Motion Control and Robotics.

How do you see the 3Q landing, including the status of order backlog and outlook for Motion Control and Robotics?

A We have revised down forecasts for Motion Control slightly, but this was due to a slowdown of AC Servo in China being more than expected. We were affected by the drop in revenue in China, as orders in the country were sold immediately. We feel it would be difficult to recover this part in 4Q, so we revised down the forecast for Motion Control. Orders in China slowed from June to August and bottomed in September. It started to recover gradually from October, so we see 3Q as the bottom. Currently, customers' inventory adjustments are in the final phase. The order backlog for AC Servo have decreased, and it is now less than four months worth.

The order backlog for Drives has remained at about five months worth, and there is no concern about revenue. However, the reason for the drop in revenue from 2Q to 3Q is that there was a mismatch in the allocation of substrate components globally. We have already taken measures to this and plan to recover it in 4Q.

In Robotics we increase goods in process in 3Q and sell them in 4Q as planned. Since some projects are shifted from 3Q to 4Q, we will make sure the revenue will catch up in 4Q.

System Engineering has remained steady and will contribute to the business performance in 4Q.

Q What are the expectations for a recovery in semiconductor demand and trends in EV-related demand toward 4Q? What is the status of 3Q and the outlook for 4Q?

A Semiconductor markets in the United States, Europe (Israel), South Korea, and Taiwan are recovering in 3Q. Japan is still in inventories adjustment, so it cannot be said that the overall semiconductor recovery is on the horizon, but it is expected to rise slightly further in 4Q. It was originally assumed that the semiconductor demand would rise in 4Q, so it is not being delayed.

In terms of EV, although it has slowed down from the high volume of orders in China in the first half of FY22, the sales have continued to be steady.

Meanwhile, new EV projects in South Korea, Europe, and parts of the United States have also started to move, and orders for Robotics have been firm.

Some investments have slowed down due to concerns about EV sales in Europe and the United States, which had some impact for us as delayed orders, but recently EV-related orders have continued. At Doolim Yaskawa, a subsidiary of Robotics in Korea, we have received a large order from Korean automotive OEM, which is not only relevant in Korea but also in Europe and the United States, so the trend has continued to be strong.

Q While the EV projects have completed their first stage in China, those in Europe and the U.S. are solid. Can this trend be a driver in the future?

A EV-related investments in Europe and the U.S. have just started, and we think it is inevitable that investments will start to compete with Chinese manufacturers globally. We think that increase in investments in Japan will follow Europe and the U.S. Beyond that, investments in China are expected to revive at the level of FY22 with the introduction of new models.

Q How did the order of 3Q (128.3 billion yen) progress against the internal plan? Also, how do you anticipate the order of 4Q?

A Regarding the order of 3Q, AC Servo was negative compared to the plan due to the drop in China being larger than expected. However, the orders for Drives and Robotics were almost as planned. For the assumption of the orders in 4Q, we expect to receive orders from customers who have finished inventory

adjustment in AC Servo. The order level for Drives is still high, and it is expected to continue in 4Q. In addition, there was a large order for oil/gas in the United States in 3Q, so if there is no similar size order in 4Q, it is possible to have a decrease in the order level against 3Q. As for Robotics, Doolim Yaskawa in Korea received a large order in 3Q, but we do not expect to receive such a large order in 4Q, so we expect a slight QoQ decrease. Overall order in 4Q is expected to be positive in terms of YoY.

Q Chinese New Year is approaching, and it is uncertain whether demand will increase after the new year. Are there any promising points?

A Although a large economic recovery cannot be expected due to the decline in consumer spending, active investment continues in the government-led new energy fields such as extrication from dependence on oil and coal. Solar-related investment, which had been stagnant due to inventory adjustments, bottomed in September and rose between October and November, and this trend will continue. There is no need to be pessimistic about the energy storage sector, which is also gaining momentum and is likely to become active.

Q You expect China's AC Servo orders to recover by 4Q, but will the driver be solar related? Or is recovery also expected from smartphones?

A In China, while machine tool market remained weak, inventory adjustments for solar-related products were completed, and 3C\* related projects for new handsets and overseas exports have started. In addition, projects for laser processing machines for export are also showing signs of activity, which seems promising for the demand after the Chinese New Year.

Q Some say that the solar industry has overcapacity, and the investment has come to a pause. How do you see this trend?

A Demand was quite high in June but fell from July to September and recovered from October to December. Currently, the recovery trend has started as inventory adjustments have settled and demand for welding systems has been seen in Robotics.

Q How much have orders for semiconductor-related AC Servos increased in terms of QoQ?

A The level of semiconductor-related orders in 3Q has increased in some regions,

but the overall level has not changed much since 2Q, with inventory adjustments continuing in Japan. It is assumed that the level will rise in regions where inventory adjustments have been completed.

Q In a recent newspaper report, the company president, Mr. Ogawa made an encouraging comment about cutting-edge industries in the U.S. What changes can be expected in the future?

A There is no doubt that the U.S. semiconductor market is a cutting-edge industry, and Yaskawa will support the evolution of customers in this market and increase its presence. We cannot announce in detail yet, but we plan to invest about 30 billion yen in capital investment across the United States. As 3D packaging evolves in the back-end process of semiconductors, we will strengthen our system so that we can make our unique proposals in its ecosystem by taking advantage of our company's strengths, such as combining AC servos and robots.

Q Why has AC Servo seen quarterly declines in revenue despite having order backlog?

A Amid the slump in semiconductors, we have been working to eliminate order backlog, but shipments have also declined in 3Q to balance with customer inventory adjustments. As a result, revenue has also declined, partly in line with the decline in orders. The order backlog is about four months worth, and the adjustment is being completed, so we are almost prepared for immediate delivery. Through 4Q, we aim to obtain orders with short delivery times.

Q Is the current high level of gross margin ratio sustainable for the next fiscal year? With the decrease of order backlog, what are the factors for added value improvement not dependent on volume?

A Due to price pass-through, profits for this fiscal year are expected to improve by about 8 billion yen from the previous fiscal year. This will be fully effective from the beginning of next fiscal year. In addition, we are beginning to see the results of the high added value proposal using our solution concept i<sup>3</sup>-Mechatronics, which will be accelerated. Also, we will focus on increasing added value by increasing efficiency through in-house manufacturing and automation in each plant.

Q If we look at the profit of 3Q alone, it is much worse than 2Q. Why is the decrease width in profit larger than that of revenue?

A The decrease in 3Q profit is due to the decrease in revenue. Since the company has not been able to reduce overhead costs in response to the decrease in revenue, 50% (equivalent to the marginal profit rate) of the decrease in revenue put pressure on profits, but the total decrease has been reduced by improving added value.

\*Abbreviation for consumer digital communication devices (from three acronyms: Computer, Communication, and Consumer Electronics).