Q&A for FY2025 2Q 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

[Results]

Q How do you evaluate the results for 2Q?

A Orders, revenue, and operating profit all slightly exceeded initial expectations. Due to strong demand for chip mounters, Japanese electronic components market performed particularly well. These chip mounters are mainly destined for China, as well as Southeast Asia and India, where production has shifted from China.

Q What led to the improvement in the Motion Control profit margin on a QoQ basis?

A In 1Q, we recorded approximately 2 billion yen of inventory valuation losses, which did not occur in 2Q. Additionally, in a large-scale robot project in China, we mass-produced and sold spot welding robots. The AC servos installed in these robots were all manufactured at our Shenyang plant, and the resulting production profit contributed to the improved profit margin in the Motion Control segment.

[Outlook]

Q Regarding the upward revision for this fiscal year, what factors were incorporated in terms of increased revenue, added value, and total indirect costs?

A Compared to the previous forecast, revenue increased, and we incorporated a profit increase of +4.3 billion yen due to revenue increase. On the other hand, regarding added value, we incorporated -1.4 billion yen as the increase in product inventory is relatively small compared to the additional revenue expected in the second half for Motion Control and Robotics. As for total expenses, we are seeing more progress in cost reductions than previously planned, and have incorporated a positive impact of +1.5 billion yen.

Q Until when is the adjustment of inventory (product balance) planned? Also, is there concern about the impact of inventory valuation losses in the second half of the fiscal year?

A In the first half of the fiscal year, production was relatively high compared to revenue, so production in the second half of the year is planned to be balanced according to annual revenue. Inventory valuation losses have continued to significantly affect operating profit since the year before last, and we are strictly managing to prevent additional occurrences. We plan to optimize product inventory by the end of the fiscal year.

Q The operating profit margin for Robotics is expected to improve from the first half to the second half of the fiscal year, but revenue is expected to decline. What is the background behind this?

A The shift in the proportion of automotive OEM projects is a key factor heading into the second half of the fiscal year. Specifically, large-scale projects in China were concentrated in the first half, contributing to revenue but having limited impact on operating profit. In the second half, while revenue is expected to decline, the lower ratio of OEM projects will lead to an improved business mix, allowing us to maintain profitability.

Q What is the background of the upward revision by segment, region, and application ?

A The 10 billion yen upward revision in revenue consists of approximately 50% from Motion Control, about 30% from Robotics, and the remainder from System Engineering. In Motion Control, we incorporated the expansion of the chip mounter market in Japan. In the semiconductor sector, we expect increased production by equipment manufacturers driven by strong demand for advanced semiconductors in the U.S., as well as new plant investments by Korean semiconductor manufacturers, which are expected to gradually materialize in the second half of the fiscal year. For Robotics, large-scale projects from automotive OEMs are a positive factor. In System Engineering, orders for steel-related and water treatment systems are steadily progressing and are incorporated into the revised plan.

Q Was the strong domestic demand for chip mounters and the large-scale robotics projects not anticipated at the time of 1Q?

A Although strong demand in the chip mounter market was already seen in 1Q, we remained cautious. However, since July, customers have expressed intentions to increase production, and orders have increased more than expected. Regarding the large-scale automotive projects, we had some visibility into future orders as of 1Q, but as the projects became more concrete, the number of units ordered

became clearer and exceeded expectations. The required delivery timelines were also shorter than expected, so we are prompting urgent production responses internally. For Korean automotive manufactures, some projects originally scheduled for sale in the second half were brought forward to the first half, and additional new projects have also emerged. Overall, the scale of these projects has expanded more than initially expected.

Q While order intake appears to be increasing toward the second half, operating profit seems to remain flat from 2Q through 3Q and 4Q. Could you explain the reason for this?

A Since the level of revenue in 3Q and 4Q is expected to remain largely unchanged from 2Q, we also expect operating profit to remain relatively flat.

[Next mid-term business plan]

Q What management indicators will be emphasized in the next mid-term plan?

A The most important indicators we focus on are "profit margin" and "profit amount." While business volume is also a key factor in achieving these, we recognize the need for balanced management aimed at sustainable growth rather than relying solely on volume. Therefore, although ROE (Return on Equity) is important, we place greater emphasis on ROIC (Return on Invested Capital) as a more essential indicator. ROIC allows for a more accurate evaluation of capital usage and profit generation. From the perspective of invested capital, we are strategically utilizing inventory assets.

If we were asked to choose between the two indicators, we would fundamentally prioritize "profit margin." However, since we are targeting industries with strong growth potential, we also recognize the need to focus on expanding "profit amount", not just improving margins.

Q What will be the content of the next mid-term business plan?

A The next mid-term plan will not involve starting something entirely new. Instead, we will focus on steadily commercializing and accelerating the initiatives we have been working on under the current plan, as well as those already underway. In terms of management indicators, we plan to clearly manage and operate based on ROIC. We will also focus on strategic utilization of inventory assets and realization of value through DX. Regarding expenses, we aim to reduce waste and build a better management structure. To improve profitability, we believe it is important to enhance production added value, including strengthening the functions of the fifth robot factory, which will begin full-scale operations next fiscal year.

[Orders]

Q What is the background behind the recovery of Motion Control orders, and what

is the outlook for the second half?

A Orders for AC servos showed improvement from 1Q to 2Q, with significant growth in the Korean market. This trend is incorporated into the upward revision of our performance forecast, and we have also taken into account the expected movement of semiconductor-related investment projects. Drives business is performing well, including HVAC for U.S. data centers. For the second-half orders, although the revenue will be recognized in the next fiscal year, we have included large-scale projects related to the oil and gas sector in our order outlook. Additionally, PV inverters are performing well in the U.S. market. Demand in the solar sector remains strong due to the continued application of the IRA (Inflation Reduction Act).

Q What is the outlook for orders in 3Q and the second half of the fiscal year?

A While we are not disclosing specific figures, we expect a slight increase in orders in 3Q compared to 2Q, and anticipate growth in 4Q relative to 2Q.

Q Regarding company-wide orders in the second half, which are expected to recover in 3Q and 4Q, what are the expectations for Drives and Robotics?

A For Drives, we expect a slight increase in orders partly due to large-scale oil and gas projects scheduled for next fiscal year. For Robotics, we expect orders to remain at a similar level to the first half due to continued projects from Korean automotive OEMs. Additionally, we anticipate that investment plans of Japanese automakers will materialize toward the end of this fiscal year, which could lead to increased related demand.

[Profitability]

Q In Robotics, even though revenue increased, profitability has not improved because of low-profitability projects. Will the profit margin return to double digits next fiscal year?

A We believe competitors are in a similar situation. When the ratio of automotive OEM projects increases, profit margins tend to decline slightly. This is due to intensified price competition resulting from the large volume of these projects. However, OEM projects are strategically acquired from a long-term perspective, and the revenue ratio for OEMs has increased by 4 points compared to the corresponding period of previous fiscal year. Going forward, we expect orders from related Tier 1 manufacturers and expansion of after-sales service revenue to contribute to improved profit margins. Although we do not expect a significant increase in Tier 1 projects during the current fiscal year due to the sluggish automotive market, we anticipate improved business mix and profit margin recovery in the next fiscal year.

Q The operating profit margin for Motion Control, which had declined in recent years,

is expected to recover to 11% this fiscal year. What contributed to this?

A The profitability of Motion Control is supported by China. We have shifted from a "order-dependent" production system to a "sales-linked" model, adjusting the cost structure according to sales scale to improve production density and efficiency. By further advancing this initiative, I believe we can reach the peak profit margin achieved in the past. In inventory control, we have built a production system that is not affected by volume fluctuations through "sales-linked" management, producing only what has been consumed.

[Impact of U.S. tariffs]

Q How do you view the risk of U.S. tariffs? Is there any change in order trends for robots destined for the U.S.?

A We are currently assessing tariffs related to steel and aluminum, but based on our estimates, we do not expect a significant increase in costs. Unlike robot tariffs, which apply to the entire import price, we believe the impact can be absorbed through price pass-through. Regarding the order environment for robots destined for the U.S., although tariff rates have been confirmed, automotive manufacturers seem concerned about increased costs due to tariffs on products from Mexico and Canada. Therefore, orders related to automobiles have not significantly increased at this time.

[Market]

Q Regarding AC servos, how is the global situation in the semiconductor market compared to expectations? What is the outlook?

A The situation has not changed significantly since 1Q. Demand related to AI is driving growth, and that sector is booming, but legacy semiconductors remain sluggish. Some U.S. customers have expressed plans to increase production in the second half due to strong demand for advanced semiconductors. Therefore, we are strengthening our efforts to propose technologies related to middle-end process (packaging) for AI chips and promote adoption of our products, and projects adopting our products are emerging.

Q What about the domestic semiconductor market?

A We do not expect significant changes in the second half.

Q Regarding Robotics, automotive-related projects appear large. Is this due to strong investment by Yaskawa’s customers, and not reflective of the overall market? Will these projects continue?

A The first-half projects were in China and Korea. In China, customers are actively investing in equipment, aiming at expanding into overseas markets such as Southeast Asia and Europe. The projects we received are related to such overseas expansion.

In Korea, we received EV-related projects from OEMs for capital investment targeting the U.S. and the Korean markets. Our automation solutions were adopted in competitive proposals with other companies, leading to orders. Regarding sustainability, we expect Chinese manufacturers' overseas expansion to continue for the time being. On the other hand, the Korean projects are very large, and once the current investment settles, we expect to shift to order activities targeting related Tier 1 manufacturers.

Q Chinese competitors in AC servos seem to be expanding their product lineups and aiming for one-stop solutions. What are your future strategies and countermeasures?

A We have strengthened our solution proposals to customers by leveraging the comprehensive capabilities of our core products which are AC servos, AC drives, and robots, and have received high evaluations from customers expanding their business globally. We will continue these efforts steadily and aim to expand our customer base that recognizes our value. We will take all necessary measures to address local competitors in China.

[Collaboration with Fujitsu and NVIDIA]

Q What is the aim of the collaboration with Fujitsu and NVIDIA, and why was Yaskawa selected by these two companies?

A The aim of this collaboration is technological cooperation for the social implementation of AI robotics to enhance hardware as social infrastructure. We believe Yaskawa was selected by Fujitsu and NVIDIA because we are the most proactive company in Japan in applying AI to robots in the physical domain.

[Humanoid Robots]

Q What are the prospects and objectives regarding Tokyo Robotics, whose shares were acquired?

A The goal is to accelerate the development of humanoid robots by leveraging Tokyo Robotics' technological capabilities. For humanoids, I believe "work capability" is more important than "walking or running." The core of this work capability is the "actuator," and we are advancing its development using Tokyo Robotics' expertise. Humanoids require flexibility and autonomy to handle multiple purposes, and with the evolution of generative AI, judgment and responsiveness can now be handled by AI. Therefore, enhancing hardware performance is crucial, and the potential of humanoids is expanding. Although we were not proactive in the humanoid field before, we now see strategic value in pursuing it amid the fusion of AI and robotics. Through the acquisition of Tokyo Robotics, we aim to incorporate technologies we previously lacked, shorten the development period for actuators, and achieve practical application within a few years. These developed actuators will be utilized not only in humanoid robots but also in

updates and series expansions of MOTOMAN NEXT.

Q What are the sales targets for actuators for humanoids and physical AI, including MOTOMAN NEXT?

A We have not disclosed specific figures, but on the assumption that traditional industrial robot domains such as welding and painting are maintained, we believe 70–80% of future potential of growth market can be addressed by MOTOMAN NEXT and autonomous mobile robots with AI.

Q Yaskawa had previously taken a cautious stance toward humanoid robots. What prompted the shift to a proactive approach? Isn't this timing a bit late?

A The evolution of AI robotics, which had been immature, has accelerated the shift. I feel that the conditions have finally come together. I do not believe the timing is late. If we only promote low cost without delivering reliable products, humanoid robots will remain a passing fad and will not become widespread.

Q Ultimately, does Yaskawa aim to generate revenue from actuators as components, or to enhance the value of robots themselves through actuator development?

A We do not intend to treat actuators as standalone business products initially. Their value will be recognized only after humanoid robots equipped with these actuators gain acceptance.

[MOTOMAN NEXT]

Q Is there a plan to promote MOTOMAN NEXT in China?

A Until now, we have refrained from expanding AI robotics in the Chinese market due to the risk of improper evaluation. However, recently, we have received increasing approaches from reliable customers, so there is a need to consider expanding production capacity for MOTOMAN NEXT. That said, we do not intend to engage in indiscriminate sales and will carefully select our partners for collaboration.