Q&A for FY2026 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

[Performance]
Q How do you evaluate 2Q results?
A Orders significantly exceeded our expectations. We had expected orders to moderate in 2Q following the record-high quarterly orders achieved in 1Q, but orders actually reached another record high. Demand continued to be driven primarily by AI- and semiconductor-related markets. In Robotics, while demand from the automotive industry remained flat, growth in demand from general industries also contributed to the strong results.
On the other hand, revenue, excluding foreign exchange effects, fell short of our expectations. The primary reason was that it took longer than anticipated to resolve the impact of the new ERP system. Profit was also negatively affected by delays in ramping up production. Although revenue was supported by sales from inventory, operating profit fell short of expectations due to lower production profits.

Q Operating profit and orders in Robotics improved significantly QoQ. What were the factors behind this improvement?

A The improvement in profitability was driven by the absence of the 1.0 billion yen restructuring costs incurred in Europe in 1Q, as well as higher production profits and an improved sales mix resulting from the resolution of production issues caused by the new ERP system and increased production of semiconductor robots, which carry higher profit margins. Order growth was supported by increasing automation demand in general industries globally, in addition to expanding demand for semiconductor robots across Japan, South Korea, Taiwan, and China.

Q Which industries are showing particularly strong automation demand within the general industrial market for robots?

A Demand is strong across a wide range of industries rather than being concentrated in any specific sector. In particular, industries related to data centers are performing well. There is growing adoption of robots in applications requiring high production volumes to support data center demand, such as server rack assembly and machine tending. In addition, robot utilization is increasing in the medical, pharmaceutical, and logistics industries. These factors are collectively driving automation demand in the general industrial market.

[Outlook]

Q How confident are you in achieving the planned operating profit and operating profit margin in Motion Control in 2H compared with the previous year?

A In the previous year's second half, production was intentionally held below revenue levels. In contrast, the impact of the new ERP system that affected production in 1H has improved, and we expect production profits to increase in line with revenue growth in 2H. In addition, we do not expect inventory valuation losses similar to those recorded in the previous year, and we expect an improvement in added value.

Q The Company forecasts operating profit margins of 15% for Motion Control and 9% for Robotics in 2H. Is there potential for further upside resulting from increased production?

A In 1H, operating profit was negatively affected by approximately 4.0 billion yen due to lower production profits. In 2H, we expect production volumes to increase in line with revenue growth. While some increase in indirect costs is expected as production expands to meet current demand, we believe the positive impact from higher revenue and increased value-added generated by higher production

volumes will be greater. As a result, we expect profitability to continue improving toward FY2027.

Q How do you plan to further improve profitability in Robotics?

A Increased production of semiconductor robots contributes positively to profitability. We will therefore strengthen our production capacity and convert strong order demand into revenue and earnings growth. In addition, we will fully leverage our highly productive Robot Factory No. 5 and eventually deploy its manufacturing approach in the Americas and Europe to further improve profitability. We also expect profitability to improve as the proportion of general industrial applications increases while investment in the automotive market has yet to fully recover. Furthermore, price revisions are becoming increasingly common across the FA industry amid growing demand, and we will continue to implement such measures. We will also promote the sale of high-value-added solutions incorporating AI technologies and further expand the Robotics business.

Q Are there any plans for specific product price increases?

A Our current priority is to increase production to meet demand. We expect to offset approximately 70% of higher material costs through price pass-through measures.

Q How has the business environment changed compared with the assumptions made when formulating the mid-term business plan “Dash 35” (FY2026–FY2029)?

A The impact of the new ERP system was greater than we initially anticipated. In terms of market demand, the scale of data center-related demand has exceeded our expectations, and we believe it is necessary to respond with greater speed. In addition, we believe the expansion of the Indian market is progressing faster than originally expected.

Q Do you expect your market share to increase as demand grows?

A Given that overall demand is expanding and customers typically request quotations from multiple suppliers, we believe it will be difficult to significantly increase market share under the current market environment.

Q What are the key challenges toward achieving the FY2027 targets, which

represent the midpoint of the mid-term business plan “Dash 35” (FY2026–FY2029)?

A Our primary challenge is component procurement, particularly semiconductors. Global semiconductor supply-demand conditions are tightening as demand, especially for data center applications, continues to expand rapidly. Several years ago, shortages of machined components were a major concern. Today, securing a stable supply of semiconductors has become a key priority. We will therefore continue focusing on preparing alternative components and securing a stable supply from overseas semiconductor manufacturers.

[Orders]

Q How do you view the current order environment and demand trends in the FA market?

A Market conditions have not changed significantly since 1H, and demand continues to be driven by AI-, semiconductor-, and data center-related investments. In particular, data center investments are expanding globally, and related markets remain very active.

Data center demand is not limited to new capacity investment. Semiconductor technologies such as GPUs are advancing rapidly, with performance improvements occurring every one to two years, generating ongoing replacement demand for servers and related equipment. Demand is expanding rapidly and could exceed our current expectations.

Looking ahead, we also expect the spread of Physical AI, humanoid robots, and edge computing, where AI processing is performed closer to the point of use rather than solely in the cloud. In applications requiring real-time performance, faster simulation capabilities at production sites will become increasingly important. The accelerated development of Physical AI and humanoid robots in China is also supported by aggressive GPU investments. Given these market developments, we believe it is important to capture further opportunities for order growth.

Q What is your outlook for orders from 3Q onward?

A Orders remained strong in 2Q. Many customers are preparing for production increases in FY2027 and have requested that we expand our supply capacity. Current orders include projects scheduled for delivery in FY2027, particularly in semiconductor-related markets, and we expect the current level of orders to

continue through 3Q and 4Q. Another notable development in 2Q was demand from the U.S. oil and gas market. Driven in part by developments in the Middle East, momentum toward increased oil production in the United States has been gaining traction, and we secured large-scale oil and gas projects. We expect these projects to provide an additional source of demand alongside continued strength in data center-related markets.

Q Do you expect any differences in order trends among AC servo, Drives, and Robotics from 3Q onward?

A We do not expect any significant differences in the overall direction of demand. Much of the current order growth is driven by data center-related demand, and the three businesses are generally experiencing similar trends.

Q Are you seeing any signs of advance ordering?

A Across the FA industry, widespread advance ordering extending more than one year ahead is not currently taking place. However, some projects already assume deliveries in early FY2027.

In addition, driven by AI-related demand, some overseas semiconductor manufacturers are entering into supply agreements extending approximately two years ahead. As a result, we are sharing longer-term demand forecasts with customers more closely than before. Extended semiconductor lead times require corresponding investments in equipment and production capacity, which can lead to advance orders. Such orders, however, are generally linked to specific projects. Outside semiconductor-related applications, advance-ordering activity remains limited.

[Production]

Q What is your outlook for production and revenue in light of increasing demand?

A Although production was affected by the new ERP system in 1H, we were able to support revenue by utilizing product inventories. Our 2H plan assumes both the normalization of the new ERP system and the establishment of a production structure capable of supporting current order levels. We expect the new ERP system to be normalized by 3Q and plan to achieve a production level capable of meeting current demand from 4Q onward. We will respond to current demand by stabilizing production operations and increasing operating days and hours.

Q What level of production operation are you assuming in 2H? In addition, could you provide an update on the recovery of production and actual production performance as of September?

A To achieve our full-year forecast, AC servo production capacity needs to increase by approximately 1.6 times compared with the 1H level, and our production has already improved to that level. While maintaining the current production pace, our internal target is to increase capacity to approximately 1.8 times the 1H level. There are currently no production constraints affecting Drives.

In Robotics, production of industrial robots has nearly reached a level sufficient to meet demand. However, production capacity for semiconductor robots needs to increase to approximately 2.7 times the 1H level. We have already improved capacity to about twice the 1H level and plan to implement a full two-shift production system during October. We are therefore confident of achieving the targeted 2.7-fold increase in capacity. Going forward, having largely normalized the new ERP system, we will focus on increasing production to meet demand.

In September, production capacity for both AC servo and Robotics increased by approximately 20% compared with the average level in 2Q, and production exceeded that level during the final week of September.

Compared with production levels achieved in FY2025, we expect production in 2H to increase by approximately 1.3 to 1.5 times, primarily for AC servo products.

Q What are the bottlenecks to further production increases? In addition, will it be necessary to establish a production structure capable of supporting demand beyond the level planned for 2H of this fiscal year?

A Procurement of components, particularly semiconductors, is a challenge for next fiscal year. However, we have already secured the components required for production in 2H, and component procurement is not currently a bottleneck. On the other hand, securing sufficient production personnel remains a challenge.

In Japan, we believe current demand can be addressed by increasing operations to a two-shift structure. In the United States, we have continued making investments and do not currently see any significant production capacity constraints. In China, we believe additional demand can be addressed by expanding operations to a three-shift structure if necessary. In Europe, the current production setup remains sufficient given the smaller market size.

To support future demand growth, our key challenges are securing human resources and materials rather than expanding capacity itself. In particular, we

recognize that the labor environment is most challenging in Japan.
We are also monitoring the potential impact of rare-earth supply constraints. However, we have secured magnets on a long-term basis and believe technological advances, including rare-earth-free technologies, will enable us to address this issue.

[Impact of the new ERP system]

Q What was the impact of the new ERP system on 2Q results?

A The impact on revenue amounted to an opportunity loss of approximately 10.0 billion yen in 2Q. From a profitability perspective, if production had kept pace with revenue in 2Q, we estimate that production profits could have increased by approximately 1.5 billion yen.

Q The negative impact of the new ERP system on operating profit appears to be declining. How is production recovery progressing in each segment?

A Production capacity has improved across all segments, and the negative impact on production profits has continued to decline. In 2Q, the impact on Robotics was largely eliminated. Production in AC servo has also improved. However, because production volumes are increasing in response to strong demand, the impact of the new ERP system remains somewhat greater than in Robotics.
Efforts to normalize the new ERP system and increase production are progressing in parallel. We expect the new ERP system to be fully normalized during 3Q and are increasingly shifting our focus toward supporting production expansion.

Q Are there plans to deploy the new ERP system globally in the future? In addition, what measures will be taken to prevent similar production disruptions?

A When we previously deployed ERP systems globally, our policy was to avoid adding extensive customizations to peripheral systems. At our U.S. operations, implementation of the new ERP system was completed during a three-day holiday period and has been operating without major issues. Compared with Japan, where we migrated from a legacy system that included a large number of customizations, we believe the risk of similar disruptions occurring overseas is relatively low.

Q Once the new ERP system operations are fully normalized, what quantitative

benefits do you expect, such as lower inventories and improved production planning accuracy?

A At this stage, it is still too early to provide specific quantitative targets for the benefits expected in the next fiscal year. However, in addition to functional improvements, the new ERP system will strengthen global data integration through YDX (YASKAWA Digital Transformation). Going forward, we intend to strengthen supply chain management by more closely linking demand forecasts with revenue, production, and procurement planning. Realizing this capability is the key objective of the ERP system migration. We expect inventories to be the area where the benefits will be most visible. By reducing inventory levels, we aim to improve both ROE and ROIC.

[AI robotics]

Q Regarding the expansion of the AI robotics business, the palletizing and food-filling applications introduced this quarter appear applicable to other customers as well. What progress are you seeing in expanding these solutions?

A We believe the examples introduced have attracted considerable market interest. However, there are still relatively few cases where customers are designing production lines specifically around the adoption of AI robotics. Our approach is to propose solutions that optimize the entire production process, including not only the processes where AI robotics can be applied directly, but also the upstream and downstream processes. We also envision replacing manual operations that remain within otherwise automated production lines with AI robotics solutions. By integrating AI robotics with existing equipment, we aim to deliver solutions that optimize the entire manufacturing process.

Q Could the introduction of these use cases encourage other companies to adopt AI robotics as well?

A We certainly hope to see that occur. However, customers are not looking to adopt AI robotics simply for the sake of implementing AI. They place significant emphasis on return on investment. Accordingly, adoption could accelerate as more high-value applications demonstrating strong investment returns are developed and as labor costs continue to rise.