

## Q&A for FY2024 1Q 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 Orders for this 1Q exceeded 130 billion yen, which was higher than revenue. On the other hand, revenue appear to be lagging. How will you catch up to meet the full-year guidance?

A Orders in the 1Q were stronger than our expectation, but they were in line with it when we exclude the impact of weaker yen. Although the recovery of semiconductor market was delayed, orders for AC servo rose in May. In Robotics, we received more orders than expected, mainly from large-scale projects in Europe. Meanwhile, revenue was in line with expectations, supported by the weaker yen. Although our AC servo business in China has established a system of immediate sales of orders, the orders were weak, and revenue were below our expectations. However, with the rise of semiconductor industry, we expect the revenue to bounce back in the second half of this year. For Drives, although we are promoting the shipment of order backlogs, the revenue did not increase as expected because some customers put their orders on hold due to inventory adjustments. As production of AC drives is recovering, we will continue to digest order backlogs to boost revenue after 2Q. In summary, Robotics made up for the shortfall in AC servo and Drives, for the revenue of 1Q.

Q For AC servo orders in China, orders of semiconductors were good, but were sluggish due to a backlash from solar panel-related orders, which were strong last year. Is this because of the bad environment or because of the company's individual factor?

A Since there were large-scale orders related to solar panels in 1Q last year, the orders look weak compared to the previous year, but QoQ orders are improving so we expect them to recover gradually. However, even though AC servo is affected by domestic demand in China, the demand in this area is still weak. In this situation, we will catch up with Chinese manufacturers' export projects.

Q Can you keep the BB ratio above 1?

A The YoY of company-wide 1Q orders were negative, but if we exclude orders from a subsidiary (The Switch Engineering Oy) which was sold in the second half of last fiscal year, they are positive YoY. As we can see the recovery of semiconductors and normalization of the order backlogs, we expect the recovery of revenue will follow and BB ratio will continue to be above 1.

Q Operating margins for both Motion Control and Robotics are below 10%. The lack of the volume can't be helped, but profits for Robotics have been falling for more than a year. We get the impression that operating margins for AC servo have been deteriorating along with a decline in revenue in China. How will you improve profitability to meet the full-year guidance?

A In Motion Control, YoY revenue has decreased by about 12 billion yen, which had a negative impact of more than 6 billion yen in marginal profit. However, we made up for the shortfall in revenue by increasing added-value and reducing overhead costs. If the volume returns to the level of the 1Q of last year, we expect the profit to recover more than that. In Robotics, we are strengthening system engineering capacity and have made upfront investments since the second half of last year. As a result of these efforts, we have been able to secure system-related orders, but due to the poor overall market environment, we have received less orders for robot units and services, and our operating margin has declined. We believe that upfront investments will lead to profits if the market environment recovers and revenue and production return. For this fiscal year, we will implement a thorough management that does not allow increases in expenses even if the revenue increases.

Q Since AC servo orders in China seems weak, is there any change in the competitive environment? Orders in China are usually seasonally high in 1Q and then tend to decrease. Is this the same trend in this fiscal year? Why do orders of Drives and Robotics grow remarkably?

A In the past, AC servo was supported by solar power, batteries, and 3C-related projects. This quarter faced the weakness in these markets, and the growth was below normal because production is not being accelerated by buying up parts all at once after the Chinese New Year as usual. Therefore, the competitive environment has not changed.

We observe a slight increase in 3C-related demand. We expect more investment in mass production by Chinese manufacturers and in the installation of AI in smartphones. Also, we are seeing movements of Chinese EMS to expand overseas, and the adoption of our products is increasing, following this trend. Although we cannot expect much domestic demand, we are in an advantageous position because of Chinese companies' active response to external demand and overseas expansion.

For Drives, investment in semiconductor-related products such as vacuum pumps have become quite active. The overall market environment is not good, but we are able to do business with competitive customers.

In Robotics, after rapid investment in EVs continued globally, including in China, in the first half of last year, in the latter half of the year, the investment came to an end and there was a growing concern about EV in Europe and America, so the situation remained on the sidelines. Since then, investment in gasoline-powered and hybrid vehicles has started to move globally, and investment in EV related products such as battery packaging has recovered. In China, we have connections with strong local automotive OEMs, and their active investment has led us to perform well. The Chinese government has also led a project to upgrade the manufacturing industry by renovating old equipment, and related equipment demand has increased.

Q At the full-year financial results briefing for fiscal 23, you mentioned that strategically acquired projects in the robotics business weighed on profit margins in the fourth quarter. Will similar projects have an impact in the first quarter?

A In the fourth and first quarters, system-related orders increased as a result of strengthening system engineering capacity. With system projects that include some peripheral equipment, it is not possible to obtain added production value because we purchase the peripheral equipment, and profitability of those projects are typically lower. We have seen an increase in the ratio of such system projects in the past two quarters. We believe that such an impact will diminish as the demand environment recovers and sales for robots and SIers increase.

Q I heard that semiconductor-related demand has been recovering since May. Has it continued in June?

A Demand for semiconductors rose sharply in May across the globe, led by AI-related demand. Taiwanese manufacturers are investing globally. We expect that demand will gradually increase from May through the second half of the fiscal year, and recover to the previous peak level by the end of the current fiscal year. In fiscal 25, we expect demand to exceed that of fiscal 24, driven by a new field of multi-layered semiconductors that can take advantage of our strengths in both robots and AC servos.

Q What are the large-scale projects in Europe? How do you view the current business environment in Europe?

A Although the economy is weak and the market is generally sluggish, we expect demand for AC servos to recover in the future, as we are seeing demand for EV-related wire winding machines. On the other hand, drives business is struggling. Large-scale projects for robots are battery case welding projects related to EVs, which we were able to acquire because of our system engineering capacity.

Q How long will the high demand for oil and gas in North America continue?

A Investment in oil and gas was held back for a long time due to concerns about the impact on the environment, but the global situation changed in 2023 and investment began to recover. In this situation, in addition to low-voltage inverters, which had been our mainstay product, we started local production and introduction of medium-voltage inverters for the oil and gas market, creating new demand and achieving growth that exceeds the growth of the overall market.

Q Data centers are booming in North America. Are there any orders for data centers?

A Although there are no direct transactions, our customers, such as those related to air conditioning, supply data centers. It is difficult for us to know exactly for what use the air conditioning customers to whom Yaskawa has sold inverters are shipping their products, but large investments in data centers over the next 2-3 years will drive demand for AC drives as well as AC servos and robots.

Q Is the recent Chinese government subsidies temporary?

A Up until now, subsidies from the Chinese government have been linked to capital investment, but the financial situation of local governments is deteriorating due to the real estate slump, so I think it is better not to expect the continuation of the subsidy policy.

Q When we compare revenue and operating profit of 1Q with those in the 4Q of fiscal 23, the decline in operating profit of Motion Control is noticeable. What is the reason for this decline? Why did profitability deteriorate in 3 months?

A Excluding the impact of foreign exchange, revenue decreased by more than 7 billion yen, largely due to a decrease in marginal profit due to a decrease in volume. The reason for the slight deterioration in quality is the impact of inventory-related factors and unrealized profits. In the 4Q, there were positive factors such as an accumulation of inventory at the end of the fiscal year, but none were seen in the 1Q.

Q Was company-wide operating profit lower than expected?

A Profit was as expected including the impact of foreign exchange. Motion Control revenue were expected to rise a little more, but the backlog of orders did not lead to sales as expected. However, we made up for the decline in revenue with foreign exchange and robotics revenue, so the results were as expected. We hope to make a comeback in the second half of the fiscal year.

Q What is the current situation for backlog of orders?

A The backlog of AC servo orders is three months, and the BB ratio is improving, so revenue is catching up with orders. As for Drives, there is a backlog of orders of about four months, and there are some items that are on hold for shipment,

so it is important how we can clear them up. The backlog of orders for Robotics is about six months, and it is in a normal condition.