

Q&A for FY2024 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

Q Since the forecast has been revised, I would like to know the concept of the new plan. I am concerned about the strong top line in the second half. How reliable is it?

A Excluding the impact of the stronger yen of -12 billion yen from the first half, revenue in the second half is expected to increase by 42 billion yen. The breakdown of that is 23 billion yen derived from the order backlog for robots, which is expected to be recorded as revenue. Also, revenue of Motion Control is expected to increase by 16 billion yen, reflecting the improvement of sales related to semiconductors and electronic components, and the elimination of the order backlog for Drives.

Operating profit is expected to increase by 21.5 billion yen due to the increase in revenue excluding foreign exchange and by 3 billion yen due to the improvement in added value, and decrease by 2.5 billion yen due to the increase in expenses expected in the second half. To achieve the target of operating profit of 100 billion yen for the next fiscal year, we have confirmed improvements in quality and marginal profit ratio, and we will stick to the target while controlling expenses in particular.

Q Could you tell us about the 2Q utilization rate of each business? How do you expect it to increase in the second half? What are the inventory level and the outlook of the demand?

A The utilization rate of AC servo was over 70%, and of that, less than 90% in Japan and less than 60% in China. For AC drives, it was 70%, and of that, 80% in Japan and more than 75% in China. It was less than 50% in the United States, 30% in the UK and 65% in India. The utilization rate of Robotics was more than 70%. Of that, 75% in Japan, 70% in China, 60% in Europe. As production capacity,

which is the basis for the figures, has been reviewed to improve accuracy, so it is difficult to make an Apple-to-Apple comparison in QoQ. We will refrain from providing quantitative comments on production for the second half of the year, but we will link production and sales to increase the utilization rate.

Q You mentioned that you do not expect too much from the recovery of the Chinese market. With the Chinese government announcing economic stimulus measures, how do you see the market recovery after 3Q?

A The effects of economic stimulus measures are not factored into the figures, and we continue to be cautious. We will closely watch how domestic demand recovers, as monetary policy and stock market measures are the key points of the economic stimulus measures.

Q The backlog of Drives orders is about 4 months, and there is no change. As the production is recovering, why is it not decreasing?

A The production is back to normal, but we are unable to deliver pre-ordered items mainly in Japan due to customers' reasons. We are making efforts to expedite the process as soon as possible.

Q Regarding Robotics in Europe, it seems that the large-scale orders you received in 1Q did not result in revenue. Was there any trouble?

A There was no trouble. It is a large-scale project with long lead time.

Q In the breakdown of changes in operating profit, there was increase in added value and decrease in total expenses. Please give us a quantitative breakdown of the increase in added value of FY2023 and FY2024 comparison.

A In Motion Control, added value is + 3.4 billion yen. The breakdown is the effect of switching to new products of about +500 to 600 million yen, and about the same amount for the effect of in-house production. We have reported that the price pass-through has been completed, but there are some that are continuing. The increase is about 1.5 billion yen including the sales price improvement in the solution proposal by i³-Mechatronics. In Robotics, the added value has been improved partly by the solution proposal combined with Motion Control, but it has also been negatively affected by large-scale projects.

Q As the mid-term business plan has reached its halfway, the macro environment has become severe. You mentioned that there is no change to the target value of the plan, but how do you plan to achieve the operating profit of 100 billion yen?

A We have already achieved the marginal profit ratio target for FY2025, one year ahead of schedule. However, our sales volume is not enough, so we are focusing on controlling expenses at the moment, and we have been able to reduce this by a little over 20 billion yen compared to the initial expectation. We will continue

to operate in a way to increase revenue while continuing to control expenses in the next fiscal year. Achieving our revenue target is challenging, but we think we can achieve it if we can increase revenue by about 60 billion yen compared to FY2024. In other words, our revenue for FY2025 will be a little more than double the level of our plan for the second half of FY2024, so this target is not impossible to achieve. On the profit side, we will continue to improve the quality in FY2025, so we expect to reach our target. We are focusing on achieving operating profit target without relying on volume.

Q In China, competitors are increasing their capability in the AC servo market, and selling price pressure is increasing. Assuming that the business environment will not return to the previous one, is it not necessary to review the costs?

A We do not expect an upward growth in China in the future, and the current situation is not good either. Based on the current volume, we will try to operate more efficiently. Competition is severe, but we will not engage in price competition. We will rather offer high-value-added proposals to customers who require high-value-added machinery or more efficient production lines to maintain prices. We will support such customers who are promoting the export of products and the relocation of production bases overseas. We will not impose ourselves on excessive competition. We are preparing to realize a system that does not depend on an increase in volume, including some restructuring and consolidation of bases. However, if the situation changes due to economic stimulus measures, we will secure a system to handle projects that can maintain a certain level of added value. These restructuring costs are included in expenses for the current fiscal year.

Q What is your medium- to long-term strategy of positioning the Motion Control business in the Americas in terms of market share and profitability?

A In the Americas, in addition to following the continued growth in the semiconductor market, we will strive to improve profitability by launching the iC9000 series, which is the U.S. and Europe version of YRM controller for general industries such as logistics. We will further differentiate ourselves from our competitors by developing a solution strategy that combines devices utilizing this controller with robots.

Q What is your strategy for achieving revenue expansion and high profitability that exceeds market growth in the Indian market?

A In India, we had revenue of around 7 billion yen in the first half of the year and expect full-year revenue to be over 15 billion yen. This is an increase of just under 40% from FY2023 and is gaining momentum. In addition to Drives, Robotics is particularly growing, especially in the automotive industry. Yaskawa established a factory in 2010 and entered the Indian market since then. Up until then, we had been operating as a joint venture or with exclusive sales partners,

but we had already established a system at that time where we could exercise our discretion by establishing full ownership. Since then, the distributor network of our sales partners has come to us, and we have been able to enter the market faster than other companies and build a local system.

In India, we don't see price competition, and the components are very profitable. In the HVAC market, we have adopted a business model similar to that in the United States, and we have been working on it from the point of bundling panels, where we can expect growth in the future. We think that the situation in China in the late 2000s is what is happening in India today. It will become an important market in a few years, so we will strengthen our local system and respond to it.

Q What are the expected changes in the demand environment in 3Q? What was the order situation in September?

A In semiconductor-related market, inventory adjustments have been completed in the United States and South Korea, and the demand is close to the peak level. In Japan, some customers have completed inventory adjustments, and the order frequency is increasing. We expect this to pick up in the second half. In the latter half of the second half of FY2024, electronic components market in Japan will recover in conjunction with semiconductors. In addition to semiconductors, investment in automobile industry in Japan has been suspended due to authentication issues and a review of the adoption of EVs, but it will start to return in the second half of FY2024. Investment in the United States was held back due to the upcoming presidential election, but it will restart after the election. For Robotics, monthly orders fluctuate considerably depending on the timing of orders, but there are large orders planned in October. For Motion Control, the orders have not experienced a rapid increase after inventory adjustments yet. We expect a full-fledged recovery in 4Q.

Q It is becoming more difficult to achieve the operating profit target of 100 billion yen for FY2025. Please tell us which factors deviated from the initial scenario, which can be recovered, and which can't.

A What we did not expect was a decline in revenue due to the Chinese market and the slow upturn in semiconductors. The demand related to semiconductors is expected to pick up during the second half of this year and FY2025, driven by equipment demand for the multilayer 3D packaging process, and we believe we can catch up the delay. On the other hand, the decline in the Chinese market is severe, and it will be difficult to make up for the decline in volume. On the profit side, however, we will improve the added value and control expenses to secure the profit.

Q What is the situation of cost reduction in Europe?

A Except for the results of a subsidiary related to a large-scale wind power generation, which was sold in the second half of FY2023 (the order of 9 billion

yen and the revenue of 6 billion yen in the first half of FY2023), there was no significant decline in FY2024 compared to the previous year. In regard to the business segment, Robotics was relatively firm. As a result of strengthening the system responsiveness, we were able to obtain system projects and increase volume, while in Motion Control, OEM supply which had a low profitability decreased, resulting in a decrease in volume. We will review the supply system due to the decrease in OEM supply in Motion Control. In terms of the sales, we have also started transforming to a sales system to propose motion products and robots together based on i³-Mechatronics. We plan to restructure the business in Europe during FY2024 in line with these organizational reforms, and the related costs are reflected in our forecasts.

Q The operating profit for Robotics is expected to improve significantly in the second half of FY2024. What is the reason and feasibility of this improvement?

A The reason for the improvement in operating profit is that we will be able to increase the marginal profit because we have completed the upfront investment and can respond to the volume increase without increasing expenses. There is no significant difference of added value ratio between the results of the first half and the forecasts of the second half.

Q Regarding the full-year forecast for Robotics, the revenue has been revised downward. Are there any delays in projects?

A Some of the orders planned in the first half have been delayed, reflecting business confidence and other factors. The timing of orders has been changed due to delays in decision on specifications, and the projects themselves have not disappeared.

Q What is the current demand situation for AC drives in North America?

A Orders decreased in FY2023 4Q and some of them shifted to FY2024 1Q, resulting in the strong orders in FY2024 1Q. Therefore, orders received in FY2024 2Q decreased quarter on quarter, but actual demand has not. On the other hand, due to the upcoming the U.S. presidential election, there has been a temporary postponement of investment in oil & gas and solar power. Since these are necessary capital investments, we expect them to resume in the near future, but for now, it's a wait-and-see situation.

Q Is data center related demand in North America positive for Yaskawa?

A There are projects for data centers not only in North America but globally, and there is no doubt that this will have a positive impact on us. Since AC drives are used in HVAC, vacuum pumps, and chillers, we expect that demand will arise along with new investment in infrastructure that consumes electricity.

Q Since i³-Mechatronics is often mentioned in your explanations, is it difficult to

quantitatively disclose the revenue and the degree of contribution to the operating profits of this?

A We quantitatively grasp this internally in the form of "case studies (the number of projects)," so we will improve the disclosure by organizing the data and setting KPIs and others so that we can explain it to stakeholders outside.

Q What is your self-evaluation of promoting the i³-Mechatronics concept so far?

A i³-Mechatronics is a solution concept, so it isn't a packaged product. It is true that the number of products that materialize the concept, such as YRM controller, iC9000 series, and MOTOMAN NEXT, is increasing. However, the reason of an increase in the gross margin is the result of our customers appreciating our contribution to improving their added value by solving their issues. For example, the signing of a MOU (memorandum of understanding) with Astellas Pharma Inc. is a positive result, and we would like to continue to solve customers' "issues" and further increase added value.

Q I understand that the semiconductor market is severer than expected. Could you explain specifically by region and application?

A The supply chain of the semiconductor business differs depending on the region, so the situation is different. In the United States and South Korea, where we had product inventories, adjustments have been completed, but in Japan, it is taking time for our customers and distributors to consume large inventories ordered when delivery issues arose due to parts shortages in the past. Also, in China, demand for semiconductor production equipment is firm. Since many of them are imported from outside China, we will catch up with the trend of shifting from imports to domestic production.

Q What is your view on the annual statistics of IFR released on September 24? Please tell us about the growth of local manufacturers in China in particular.

A According to IFR statistics, we believe that the market continues to grow at a certain level from last year to this year. In terms of the rise of local Chinese manufacturers, we believe that it's driven by the expansion of the field of collaborative robots. We have not confirmed yet that local Chinese manufacturers have made their way into the industrial field, which is dominated by the four major robot manufacturers including us. The fields of application of robots in China are certainly expanding, but we don't take a strategy to deal with all of them.

Q Yaskawa's China business has been seen as a highly profitable business with its competitive products and strategies. What is the current situation?

A Even now, we don't take a strategy to compete in markets where market prices have collapsed. On the other hand, as we can see the fact that drones and service robots (such as serving robots) are mostly made in China, AMR (autonomous

mobile robot) and transportation applications related to service robots are growing in China. As an extension of robotics, we would like to focus on the role of motors in this field, bearing in mind the possibility that this field will emerge like humanoids.

Q By region, what are the operating profit ratios in China and the United States?

A Production-related profits in China fluctuate depending on volume, but it is not true that profitability is decreasing due to intensified competition. Although production-related profits in the United States are lower than those in China since many products are not produced locally, operating profit of the U.S. is still very high.

Q What is the reason of the increase in the capital investment plan?

A The reason is the depreciation of yen in the first half of FY2024 and the effect of bringing forward the acquisition of land, which was originally planned after FY2025, in the ongoing plant restructuring and strengthening plan in the United States. The plan itself remain unchanged.