

Q&A for FY2024 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 4Q orders seem to have recovered moderately. What is the current order situation of AC servo in China and Drives in the United States? Are there any areas that were better than expected?

A 4Q order results fell short of expectations which factored in recovery by about 20 billion yen. Our expectations for 4Q orders at the end of 3Q were optimistic. Among them, orders of AC servo increased QoQ, and orders in regions other than the United States, where semiconductor adjustment occurred, increased. Metal processing in Japan, semiconductors in South Korea, and electronic components in Taiwan showed a recovery trend. China showed a slight recovery trend in the second half of 4Q. Orders were received for processing machines for export. As for Drives, orders in the United States increased QoQ by 21% due to the completion of inventory adjustments at U.S. distributors and firm demand for oil and gas. Orders of Robotics decreased slightly QoQ because orders of system projects mainly in Europe shifted to FY2025 1Q.

There were some small areas that were favorable, for example PV inverters performing well, but that made no significant impact on overall orders. Orders of 4Q were on an increasing trend, with QoQ+5% and YoY+15%, but the recovery was not as expected and there was a large gap from the expected figures.

Q In Motion Control, why did profit increase more than the revenue from 3Q to 4Q?

A There were positive effects in all areas, including the effects of changes in forex rates, effects of revenue increase, the impact of added value, and the impact of total expenses. The biggest contributions were the increase in added value and the reduction of total expenses.

Q What is your review of business performance from a medium- to long-term perspective? As it became difficult for to achieve the company's target of 100 billion yen in operating profit and 15% operating profit margin in FY2025, you have announced a new target for FY2025. What were the challenges and achievements in FY2024?

A In FY2024, I consistently stated that we would not change the goals of our mid-term plan. However, after the end of the fiscal year, I felt that we were too optimistic about the market environment. In FY2024, we expected that China and semiconductors would be the key markets. Although we did not expect high growth in China, we expected a gradual recovery. In fact, however, the signs of recovery were not sustained and did not go in the expected direction, especially in Motion Control. As for semiconductors, although there were various opinions on the timing of a full-scale recovery, we expected it to start in the second half of FY2024. In fact, there were movements in North America, mainly for equipment for AI chips, but such movements did not spread globally, as evidenced by the postponement of investment by a South Korean semiconductor manufacturer. Motion Control business was also hit by these unexpected market movements, which had a negative impact on volume and profitability. Based on these factors, we judged that it would be impossible to achieve the previous FY2025 target at this point, so we reviewed our profit structure relative to the current volume and revised our plan. However, in FY2024, our profit structure itself did not suffer, as profit margins in China were on the rise and production remained fair, excluding inventory write-downs. I believe that we have achieved a profit structure that enable us to achieve the medium-term targets as long as we can secure volume.

Q I understand that the profit structure is improving, but I am concerned about whether revenue increase will be possible in the future. In China, there is a large potential market in areas where local competitors excel, and I am concerned about whether Yaskawa can follow the market recovery. Furthermore, in the United States, we had high hopes for the construction of new factories, but the tariff issue has left us in confusion. What is your medium- to long-term view on this point?

A It is difficult to seek volume in the Chinese market, since local companies are gaining strength and adoption of Chinese products are becoming more common. However, major Chinese manufacturers including automobiles and metal processing are also starting to export to Western countries because it is difficult to grow from domestic demand alone. In this case, global capabilities will be important. Moreover, these major customers have shown interest not in products but in i³-Mechatronics solution, which is called "comprehensive power of Yaskawa" in China, and our presence in this field is significant. By shifting from the sales method through distributors to the account-based sales system, we

have been increasing the quality rather than the volume, and the effect of this has already appeared in FY2024.

We have no intention of changing our strategy in the United States, and we will continue to make steady progress on capital investment. Regarding the Robotics market, we expect strong market and technology in the United States, and we would like to promote stronger collaboration between Japan and the United States.

Q In the breakdown of changes in operating profit between FY2023 and FY2024, what was the cause of approximately 4 billion yen inventory valuation losses, which is included in added value?

A Regarding the inventory valuation losses that occurred in FY2024, half was product inventories and the other half was parts inventories. Especially in FY2024 4Q, revenue did not grow as expected, and excess product inventories increased, resulting in product valuation losses. Parts valuation losses were partially recovered in the latter half of the fiscal year, but there were many valuation losses that occurred at the beginning of the fiscal year.

Q Do you have quantitative information to measure the effects of i³-Mechatronics and "MOTOMAN NEXT"?

A As for the effects of i³-Mechatronics, we are working to visualize them as "sales capabilities", but we would like to ask you to wait a little longer for quantitative information. We get results steadily in the form of gross margin improvement and the expansion of relationships, and it is not only in Japan, but also in China. On the other hand, the number of delivered units of "MOTOMAN NEXT" has exceeded 100, and as it can link edge AI and cloud solutions, we have been approached by various companies mainly in the United States. There are some individual projects with companies such as Astellas Pharma and a major beverage manufacturer that have already put MOTOMAN NEXT into practical use or are now in implementation, and we will continue to expand similar projects laterally.

Q The number of companies that joined i³-Mechatronics CLUB is about 160. Has the penetration of i³-Mechatronics changed the products you sell or the way you sell them?

A There is no major change in the types of products at the moment, but with the launch of "iC9000 series," a controller that realizes i³-Mechatronics, in Europe and the United States, we will strengthen partnership in the United States and accelerate the development of solution businesses.

Q Which segment will be affected by tariffs?

A On a revenue basis, 60% of AC servos, 30% of Drives, and 100% of Robotics are exported from Japan, which possibly get affected by tariffs. The rest are produced in the United States.

Q How will the impact of tariffs in the United States change your short-term strategy? Are you going to increase the local procurement ratio in the United States?

A We are closely examining the situation, but we will basically respond to the tariffs by raising prices. Although there were differences in scale, there have been tariffs, so we have contracts with customers that include tariffs. We also want to take this opportunity to reevaluate our supply chain and strengthen our competitiveness by looking for local suppliers and products made in the United States. Currently, all robots sold in the United States are imported, so local production needs to be accelerated. Tariffs may weigh on competition in the short term, but in the long term, local production will be our advantage.

Q In the future, as there is increasing concern that manufacturers will freeze capital investment due to the intensification of reciprocal tariffs, how do you plan to secure more sales volume than other companies?

A While it would be negative for our company to see investment activity stagnate or postpone globally, we will closely examine whether capital investment will actually stop globally, and whether there are any regional variations. We will focus on how to reduce lost opportunities compared to other companies by taking advantage of our strength of local production in demand areas. In doing so, however, we must be careful not to sell at low prices to secure sales volume.

Q Southeast Asian countries may reduce their trade with China to avoid higher tariffs. Why do you see the potential of China in this situation?

A The circumstances may differ depending on what they produce. For example, goods that have a market in the United States and are mainly exported to the United States are likely to be affected by the policy of fragmentation. On the other hand, if the price of goods procured from the United States rises, goods from other countries will sell if they are available from outside the United States. For example, if the price of goods procured from the United States in Europe rises due to tariffs and you seek alternatives from China, a new supply chain could be created. There is no single answer, and we will keep an eye on the big picture of developments.

Q What are the different assumptions in your FY2025 forecasts? How do you view the certainty of your plans?

A In FY2024, we were looking more positively at backlog sales and the recovery in the market. However, we were not able to reflect them appropriately to the sales and production plan and were unable to implement actual sales and production. When making the outlook for the current fiscal year, we disaggregated existing orders by region and segment to confirm their certainty. We did not factor in the recovery of the market so much, and prioritized certainty of the plan. We want to link production and sales based on revenue. As long as there are no significant changes of customers' investment plans due to the impact of the tariffs imposed by President Trump, we can achieve the plan.

Q Regarding the new plan, you have estimated the demand environment conservatively. How do you see the demand environment by segment?

A Regarding AC servo, we factored in a moderate recovery in electronic components, machine tools, and metal processing as well as semiconductors. As for Drives, inventory adjustments have been completed at major customers, and we have confirmed a recovery in orders through conversations with customers. As for Robotics, we factored in recoveries in automobile market in Japan which experienced sluggish growth and in Europe which remained weak in FY2024, as well as China which is aggressively advancing overseas, in the plan because projects are proceeded in these areas. Investment in automation in general industries is also solid. As semiconductor-related orders are also on the rise, we expect orders to increase gradually.

Q Regarding the breakdown of changes in operating profit between FY2024 to FY2025, besides the effect of eliminating inventory valuation losses, added value will increase by about 3 billion yen. What is the breakdown of this?

A In FY2025, it is highly unlikely that a new valuation loss will occur considering the current forecast for revenue. The added value of 3 billion yen for FY2025 includes the effect of switching to new products such as AC servo, the effect of in-house production of parts of robots and circuit board, and the effect of improving gross margin on a global basis.

Q Regarding the forecast for FY2025, how do you expect the demand environment for AC servo in China and AC drives in North America?

A Just over 20% of the total orders of AC servo is expected to be for China. Just over 40% of that of AC drive is expected to be for the United States.

Q In the forecast for FY2025, you mentioned that you will surely capture the demand in markets that are on a recovery trend. What kind of market specifically do you imagine?

A We expect the recovery of China, Japan, and South Korea in Motion Control including semiconductor-related demand for example.

Q Humanoid robot is a hot topic in the stock market. What are your thoughts and measures?

A Humanoid robots have existed for a long time, mainly for entertainment, but they have not been established as a profitable business. As the field of automation by robots expands in the future, we feel the potential of "MOTOMAN NEXT" as a robot with multiple arms for the upper body, regardless of whether the lower body should be a walking type, and we are currently working on this development. In addition, we are not thinking of simply making humanoids, but we are starting to develop a combination of actuators, motion control, and edge AI.