FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Third Quarter ended December 31, 2021
(January 26, 2022)

Q: Please provide an update on the supply shortage situation, with focus on semiconductors. In Q2, there was a downward revision of your forecast due to the situation of the shortage of semiconductors being more critical than expected. On the other hand, sales and profits increased in Q3 compared to Q2, and there was even an upward revision of the yearly forecast. Sales is expected to decrease slightly in Q4.
What has changed in the external environment and FANUC's approach?

A: The downward revision in Q2 was due to the decrease in production and sales resulting from the shortage of components, mainly semiconductors. Procurement gradually improved in Q3, but the overall situation continued to be harsh. Under such circumstances, changing designs and acquiring parts sold at large in the market, enabled us to persevere and continue production, so that the production volume was higher than in Q2. We are bracing ourselves to face another half year or so of difficulties in procuring parts, especially semiconductors, and expect that production and sales for Q4 will remain at the same level as Q3. FANUC is continuing to do its utmost to acquire parts, in order to manufacture even at least one more unit to deliver to our customers.

Q: ROBOTs are being manufactured both in FANUC Headquarters and Tsukuba. What are your plans for enhancing production capacity in these sites, as well as in the Mibu area?

A: The monthly production capacity of ROBOTs is 11,000 units, and it seems that manufacturing at full capacity is on the horizon. By using free space within the company and improving efficiency, prospects are clear for increasing the monthly production volume to approximately 14,000 units. Also, the evaluation of achieving a production capacity of 16,500 units per month, without new constructions, is ongoing.
Still, as the robot market is expected to expand dramatically, such enhancements are seen as being limited, and will cover demands only for the next few years. Building a new ROBOT factory in Tsukuba is contemplated as the next step. If demands increase even further, there is a possibility to consider using Mibu as an option for additional production.

Q: In your Annual Report, in addition to conventional directions of making huge capital investments in ROBOTs to maximize the automation rate, there is a new

trend in which investments are suppressed and production is dispersed to ensure continuous stable supply. Such a case is written in your Annual Report. What kind of business is FANUC targeting?

A: Even at present, major manufacturers are installing a considerable amount of equipment and facilities to fully automate production, and this direction will continue into the future, and is quite important. On the other hand, more and more manufacturers of large varieties in small volumes, and companies belonging to what we call “general industries” are expected to introduce automation one step at a time, prioritizing cost efficiency, without investing heavily. FANUC shall develop products to meet such needs as well.

Q: What is the environment for demands, especially in China?

A: Although page 8 in the material mentions the decrease of FA sales in China, this is due to the increase in backlog, as our production is unable to keep up with demands, and customers are adjusting orders. Demands for FA products continue to be extremely high, and we can sell as much as we can supply, if only the situation will permit.

The increase in ROBOTs is derived from the active conversion to automation, which is leading to a mammoth growth in demands from a wide range of areas. The most prominent are those related to EVs and IT.

The outlook for ROBOMACHINE is rather obscure, but in Q4, demands are expected to some extent.

Q: Bookings for ROBOTs amounted to 90.9 billion yen and is probably the highest recorded. Is this due only to the increase in overall demands, or is anything changing, such as the expansion in the ways robots are used?

A: As pointed out, ROBOTs recorded the highest quarterly bookings in our history, in Q3. Though partially inflated by pent-up demands due to COVID-19, the pandemic has also triggered a change, and has given momentum to the transition to automation. Robot inquiries have soared throughout the industry. Especially, EV related inquiries stand out, and various manufacturers in the Americas and China are trying to increase production capacity all at once. The impression is that demands for robotization is increasing significantly in EV-related areas, such as batteries and car bodies. In China, the IT industry has formed clusters, and is focusing on automation, resulting in a sharp spike in the number of inquiries.

Q: Is there a difference between difficulties in parts procurement for ROBOTs and those for FA?

A: Bottlenecks in the procurement of electric/electronic parts, particularly semiconductors,

is not a problem that is unique to us. Manufacturers around the world are more or less facing a similar situation. At the same time, various machine components are hard to obtain, though not to the extent of difficulties in procuring electric/electronic parts such as semiconductors, and there is also a global shortage associated with plastics. With the increase in orders for ROBOTs, we are in the midst of pouring efforts into increasing production. Parts procurement for ROBOTs is indeed onerous, though not as much as parts for FA products.

Q: Will the present high level of ROBOT bookings rise in the future? Will sales increase as well?

A: As a trend, orders for ROBOTs are anticipated to surge even more. The lead time is getting longer because of problems in parts procurement and other factors, but it is a fact that the procurement status is improving gradually. From this, sales will increase with each quarter from the viewpoint of moving average.

Q: As for FA bookings, does increase seem to be unlikely in light of future demands?

A: Regarding FA bookings, it is written that there is “a decrease in China, South Korea, and Taiwan,” but this a consequence of large backlogs, bringing about order adjustments. The reality is that demands in China are astonishingly high, and if we were able to supply more, we would win more orders. Enhancement of production capacity is considered to be an urgent matter. The Mibu factories which produce CNCs, motors and amplifiers, will reach the limit in capacities in their facilities in the next few years. Furthermore, the increase in the production capacity of ROBOTs will require more controllers, motors and amplifiers to manufacture ROBOTs. Therefore this extra amount has to be taken into account as well. Measures are being considered, and when plans are finalized, they will be disclosed.

Q: Concerning the growth of the FA business, will the rise in the rate of NC usage in China, the switch from hydraulic control to electric control that is highlighted in the reference material, and the movement towards energy saving have an effect?

A: As to whether the change from hydraulic control to electric control is explicitly reflected in our orders, our reply is that we are not at that stage yet. However, the shift towards using numerically controlled machine tools, and replacing hydraulic control with electric control in machines, will definitely be propelled. In that respect, there is much room for FANUC to make a contribution. In addition to our approach to achieve carbon neutrality in our manufacturing activities, FANUC will devote more efforts into making our products more energy efficient than before.

(Note: Any reference in this material about the future may be affected by uncertain factors, such as supply and demand trends, industry competition, and economic climate. Therefore, actual outcomes may differ.)