

FANUC CORPORATION
Q&A Summary of the Telephone Conference on the
Financial Results for the Year ended March 31, 2024
(April 24, 2024)

Q: There are different ways of calculating the orders results, such as subtracting the end-of-term backlog from the total, or accumulating the orders received in the quarter. In your case, how is the currency rate handled for orders?

A: In our company, many orders are received locally overseas. The exchange rate for the Japanese yen that applies to the local currency is used in calculation, and we accumulate this amount in yen.

Q: Please elaborate your views on your forecast for FY2024 that you have just reported. From the first half to the second half of FY2024, sales are foreseen to grow, but contrary to this increase, the operating margin will decrease. What is the reason?

A: Even though orders recovered somewhat in Q4, compared to past quarters in which sales were more or less than 200 billion yen, the amount for Q4 is still considered to be low. Backlog has substantially normalized, and we expect the gap between sales and orders to become narrower for the time being. For this reason, we predict that sales for the first half will decrease to correlate with orders. As for the second half, sales are expected to recover, but only gradually. Therefore, we are currently not able to forecast a major recovery for sales.

As for the operating margin decreasing from the first half to the second half, our calculations are based on an exchange rate of 135 yen to the dollar and 150 yen to the euro. The difference with the actual exchange rate will have a greater effect on the profit/loss of the second half compared to the first half.

Q: How is your outlook on the recovery of the automotive industry reflected in your forecast?

A: In general, the recovery of the automotive industry is not largely anticipated. There is an overall trend to postpone investments in EV, so some investments may be delayed. On the other hand, investments in hybrid cars and internal combustion engine cars are accelerating. From this, it is assumed that the minuses and pluses will cancel each other out.

The delay in EV investments may have some impact on future facilities plans.

Q: What is the status of inventory adjustments of FA and ROBOT products and your expectations on when adjustments will be completed?

A: First, regarding FA, the inventory in China has significantly diminished, and the

amount that BEIJING-FANUC is selling to Chinese machine tool builders is starting to align with the orders that Headquarters receives from BEIJING-FANUC. Apart from China, on the whole, there are some countries which still have a high inventory level, and there is a possibility that inventory adjustments may continue for a few more months. Still, compared to ROBOTs, the considerable decrease in FA inventory is a reality.

I must mention that from the beginning, ROBOTs have maintained a much better order status compared to FA. However, this has delayed the start of inventory adjustments of ROBOTs. In the U.S., Europe and China, which are our major markets, inventory adjustments have progressed, but not sufficiently. It is expected that adjustments will continue for at least half a year more. This does not mean that orders will continue to be low during this time. In fact, orders are starting to come in for models which have completed inventory adjustments at an early stage.

Q: What is the state of orders and sales of FA and ROBOT? Would it be correct to assume that FA has hit the bottom and will recover step by step in terms of both orders and sales in FY2024?

It was mentioned that more time would be required for ROBOT inventory adjustments, but will orders for ROBOTs pick up in the second half of FY2024? Also, what are your forecasts according to region?

A: Allow me to start with FA. According to the Japan Machine Tool Builders' Association's statistics regarding machine tool orders, orders will continue to be lower than the past year. However, the difference is becoming smaller and there are hopes that the bottom will be reached in due time. Nevertheless, the forecast from that point on is difficult. Therefore, our forecast is based on the presumption that the present level of orders will continue for FA. The same applies to ROBOTs. We anticipate that orders will slightly grow towards the second half, but a sharp surge cannot be expected at this moment. The future includes some aspects which are extremely opaque, so we are forecasting on the premise that either the present level will continue, or that there will be a slight increase. Significant investments were made in ROBOTs in areas such as EVs and PVs (solar panels), especially in China, and presently, as a counterreaction, such investments are shrinking. Although investments are actively being made in the IT and other industries, on the whole, demands for ROBOTs in China have flattened out. Contrary to China, demands will be relatively favorable in the Americas, even though there is inventory that must be consumed at the same time. Europe has geopolitical risks which makes predictions rather difficult, but we are optimistic that demands will continue to be fairly steady.

Q: What are your targets for the mid-term operating profit margin?

A: We are not satisfied with the present operating profit margin. Though not announced outside the company, we have set goals internally, and are presently striving to

meet these goals. As measures we have adopted, it goes without saying that our products have to become more attractive. In addition, the unit cost is being lowered by producing new models and other means. There are various other activities such as thoroughly cutting back on internal expenses. We are taking such actions and are fully determined to restore the operating profit margin to the targeted level.

Q: Orders for ROBOTs by quarter dropped from a level of approximately 100 billion yen in FY2022 to around 75 billion yen in FY2023. Please explain the background for this decrease.

A: The drop in orders for ROBOTs is due to factors such as inventory adjustments and the Chinese market reaching the peak and temporarily stagnating. What is more, I feel that ROBOT investments in China have started to settle down a bit. Even so, China must invest in automation in order to manufacture, and demands are still high in some areas. For instance, the winners among EV manufacturers continue to invest. Some areas in IT related industries are doing very well. The impression is that polarization of those who can invest and those who cannot is progressing.

Q: Both Orders and Sales of Service in Q4 are the highest recorded. Which area experienced substantial growth? What is the background?

A: Orders for Service have gradually increased, reaching the highest level in our history in Q4. We are paying much attention to this trend. Although we are pursuing various approaches such as IoT and digitalization, these are still new frontiers. The reason Service reached the highest level in Q4 can be attributed to the yearly increase in shipments, and expansion of installations which Service caters to. This has resulted in the overall increase in Service work, and we are succeeding by unflinchingly winning each opportunity. There are also customers who do not use our services, and are struggling. We are also taking measures to propose our services to such customers. Such subdued activities have contributed to the slow yet steady growth of sales of Service.

I feel there is great potential to expand the significance of Service in the mid-to-long term. FA and ROBOT have acquired large market shares, and business which leverages the volume of installments will become highly profitable in the future. Therefore, such businesses will be further increased.

Q: Is the release of new types of robots, such as collaborative robots and scara robots, contributing to the sales and profits of ROBOTs in total? Do you have plans to spend much more on R&D? Or will retaining the present level be enough to cope?

A: A few years ago, there was a time when we invested heavily in R&D, but now, we are in a phase in which we should curtail investments and focus on efficiency. After becoming more efficient, the next phase will be to increase human resources and invest in R&D even more.

Our collaborative robots have made an outstanding contribution to our sales which has exceeded our expectations. On the other hand, when looking at global statistics, collaborative robots account for just a little over 10% of all robots, and when considering the entire volume, it can be said that the future age of collaborative robots is yet to come. Scara robots have largely contributed to the rise in ROBOT sales units, but having limited number of axes and being low-priced, the impact on the sales amount cannot be said to be significant.

Q: Orders for ROBOTs in the Americas have increased consecutively for two quarters, and in Q4 FY2023, orders have resurged to 52.2 billion yen. What is the reason for this? In addition, how do you perceive the situation to be in FY2024?

A: Small and medium sized customers in the United States are sensitive to changes in the interest rate, and the impression is that investments are moderately undergoing a “wait-and-see” situation. However, reshoring to the U.S. is becoming more popular, and manufacturing will no longer be possible without automation. In areas with such perspectives, investments are being conducted energetically, along with steadfast actions. EV investments are being postponed to some extent, but in their place, investments in hybrid cars and internal combustion engine cars are on the rise.

The advantages and disadvantages are difficult to predict, but as regards automobiles, the basic direction is for the volume to increase, and though there may be a time lag, I think this good state will continue. The lowering of high interest rates will motivate investments, and I see this situation as being extremely positive for the future in the Americas and the future of investments in the manufacturing industry.

This trend is not limited to the United States. Mexico and European countries are also experiencing an active shift. Relocating manufacturing to Vietnam is currently ongoing. In line with expectations that future demands for automation will increase even more, we have been investing in advance, such as gradually expanding our sites in the United States, Mexico, Vietnam, India and Europe.

Q: Did last year’s United Auto Workers strike have any effect?

A: There were some cases in which investment plans were slightly postponed, and there was a lapse in activities, but nothing significant. There is no change in that the United States will face a labor shortage in the future. Though demands will not surface immediately, I feel that the trend to robotize will accelerate going forward.

Q: The number of employees has doubled in the last ten years, and the growth of sales and profit per employee has become sluggish. Isn’t there too many people?

A: It is a fact that sales and profits have not increased in proportion to the rise in the

number of employees. Still, human resources are valuable assets and I expect that our employees will make an appreciable contribution to our future growth. We are entering a phase of improving efficiency and considering how to bring out the best in our people. We will unite our forces to boost employees' motivation and expand our business.

(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.)