

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Second Quarter ended Sep. 30, 2024
(Oct. 25, 2024)

Q: In the Breakdown of Changes in Operating Income, what affected unrealized profit?

A: Unrealized profit was affected by the amount of decrease in inventory volume and the amount of decrease in inventory caused by a stronger yen. First, unrealized profit in 1H was 13.1 billion yen, which boosted operating income, with the decrease in volume and changes in the currency exchange rate contributing to the same degree. In comparison, unrealized profit for Q2 was influenced significantly by the exchange rate with the yen becoming much stronger, but it can be said that the decrease in volume and the currency exchange rate both impacted positively.

Q: What is the reason for the upward revision of the FY2024 forecast?

A: As inventory adjustments of ROBOTs have progressed steadily, ROBOT bookings are expected to gradually recover. Also, ROBOMACHINE bookings are forecasted to increase. Based on these, bookings and sales for 2H are estimated to grow.

Regarding FA, although bookings in Q2 have slightly decreased from Q1, on the whole, the same level is expected to be retained.

On the other hand, the ROBOMACHINE increase is for the IT industry which is tremendously volatile, so we cannot foresee whether this trend will continue or not.

Our forecast reflects what we can anticipate to a certain extent at this point in time.

Q: If there are any approaches that are expected to improve profitability or increase added values for the mid-to-long term, please provide information.

A: To begin with, it will be key to enforce product development. We shall start by making a difference with our technologies, such as developing products which are highly competitive, extremely reliable, having high performance and being low cost. Furthermore, we shall appeal the excellent energy saving features of the products that we manufacture, including motors. There is also room for improvement in our manufacturing, so we shall enhance existing automation equipment as much as possible, automate and robotize even more, and shall be conscious of operating our factories for a longer time without human involvement. What is more, maintenance service which presently comprises less than 20% of sales, is growing stably, and is expected to exceed 20% in the not so far future. Focusing on enriching maintenance services going forward, will lead to improvements in profitability. Since our products are highly reliable and features lifetime maintenance, the total cost of ownership, inclusive of future maintenance costs, is outstandingly beneficial. Our customers have begun to understand this advantage, so we are striving to spread awareness that even though the initial cost may be high, when including future costs, it would be more advantageous to choose FANUC.

Q: In the Breakdown of Changes in Operating Income, what are causing cost variance?

A: Being a manufacturer, the main reasons leading to cost variance are related to manufacturing. This mainly consists of the difference between the actual capacity utilization and the standard capacity utilization, along with the price increase of materials.

When compared to the same period last year, capacity utilization was higher a year ago, and this has manifested as a cost variance.

Q: Has the environment for ROBOT bookings changed compared to three months ago?

A: The trend to postpone or reduce investments related to EVs has become more pronounced, affecting total bookings. This can be seen in the Americas and Europe. In China, while there are companies which continue to invest, companies which are not doing well are abstaining from investing. The slackening of EV related projects has caused total demands for ROBOTs to decrease somewhat.

Q: According to the data announced by IFR, the shares of Chinese robot manufacturers have increased. What is the state of shares of the market your company is targeting? Is there a tendency to switch to Chinese manufacturers also for CNCs?

A: Market shares are an important index to measure our competitiveness and we gather data on our own. According to this data, although there are ups and downs according to the quarter, it is my understanding that our global shares are maintained or are increasing.

Nevertheless, we can confirm that Chinese manufacturers are gaining shares. Especially for collaborative robots, the number of manufacturers is astonishing, and due to their low prices, the number of units are increasing. Apart from collaborative robots, for simple handling applications, we have found that Chinese industrial robot manufacturers are increasing shares in the Chinese market. Large end users do not seem to be adopting robots of Chinese manufacturers on a broad scale, but this may be possible in the future. We shall do our best to engage in technological developments that make price advantages and performance as seen as a whole, appealing, and not let others catch up.

As for CNC shares, we are monitoring in the same manner as ROBOTs. We are not aware of a significant switch from FANUC to other companies. Still, it is evident that our competitors are gaining strength, so we must not let our guard down, and pour more efforts into development so that our CNCs being high in value is sufficiently propagated.

Q: What are the results up to now of FIELD system? Please explain the present state.

A: Initially, FIELD system was based on a cloud system. However, we have found that there are many customers who hesitate to connect to a cloud, and that it is burdensome to develop applications on FIELD system, and that such aspects were obstructing the use of FIELD system from becoming widespread. In 2023, FIELD system was renewed to become closer to what customers desire, and was released as FIELD system Basic Package. This Package basically operates on-premise, and is sold as a packaged product with hardware, software and main applications as a set, thus enabling easy introduction. Currently, our main target is the domestic market, but it is attracting interest in Asia and other regions.

There are many customers who wish to visualize their manufacturing sites. We offer main

applications on FIELD system, and allow customers themselves to share data at the upper layer, or make good use of the data. Being easy to introduce, FIELD system Basic Package has received good feedback from customers. We believe that it will become indispensable to increase the sales of our products.

Q: For expanding the market for ROBOTs to the aircraft market, you explained about drilling holes in aircraft bodies. Have problems caused by the strikes of an American aircraft manufacturer had any effect?

A: It may be possible that our bookings may be affected in the short term. However, such problems will eventually be solved, and demands for aircrafts are expected to increase as a future trend.

In relation to aircrafts, in recent years, requests to automate have become exceedingly strong not only in the United States, but also in Europe and from Japanese companies which support supply chains. Our ROBOTs are making a contribution in this area, and in addition, there are customers who use our CNCs in manufacturing aircraft bodies. We believe that this market has extremely high potential.

(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.)