

FANUC CORPORATION
Q&A Summary of the Telephone Conference on the
Financial Results for the Year Ended March 31, 2022
(April 26, 2022)

Q: In Q4, in addition to the shortage of semiconductors, costs increased for materials and logistics. What was the expenditure for such rise in costs, and what are your plans for FY2022 to tackle such issues?

A: Compared to Q2, procurement continued to be backbreaking in Q3 and Q4, although sales increased. In the face of such difficulties, the R&D Divisions, factories and Purchasing Department have united as one, and have been working on procurement as their highest priority, including acquiring items on the market. The sharp increase in costs for materials is expected to continue for a while, as well as the soaring costs for logistics. The forecast for FY2022 has been planned in consideration of such increases in costs for procurement and logistics.

Q: Is it correct to assume that you foresee the shortage of semiconductors as continuing for some time in FY2022 and have planned accordingly? What are your views on your sales and the shortage of semiconductors?

A: The status of the shortage of semiconductors is very difficult to predict for the long term, but we presume that the shortage will last for about six months to a year. We also expect that sales in FY2022 will increase slightly compared to the present, although the situation must be monitored carefully as procurement issues will continue.

Q: How do you envisage the penetration in the market of teachingless robots? What is your perception of the potential of teachingless robots in terms of scale and profitability?

A: As the task of teaching robots requires high skills, decreasing the workload has long been requested from the past. There are various levels of being “teachingless,” such as being in a form of a simple support function, to targeting full automatization to some degree, but ultimately, it should become a feature of all robots. There are cases in which labor and money required to teach robots is substantial and becomes an impediment to the introduction of robot systems. If teaching can be simplified, introduction costs of robot systems will decrease, and this should be a major trigger to extensively expand the robot business. Having the added value of teaching as a function embedded in robots, and reflecting this function in the price will be a benefit for robot manufacturers. At the same time, system integrators will have more time for creative activities. This will lead to the

increase of the installment of robot systems and will have a positive effect.

Q: What are your expectations for the sales and bookings for FY2022 according to region?

A: It is a fact that Europe is facing a crisis in Ukraine, the U.S. is confronting inflation, and China is imposing lockdowns to combat COVID-19. Although the effect on our inquiries and orders are not zero, we have not reached a stage in which this is explicitly reflected in our numbers.

Q: In Q4, sales of robots decreased and FA sales mainly remained unchanged compared to Q3. The decrease is said to be temporary. What is the basis for this point of view?

A: In China, business discussions are progressing with expectations that the pandemic will settle down. Furthermore, I believe that it is assessed that mid-to-long term investments in carbon neutrality and EVs cannot be avoided. From FANUC's perspective, the willingness to make capital investments will continue to be strong and steady. On the other hand, our delivery time is currently quite long. Therefore, we are requesting our customers to order with ample lead time to the extent possible.

Increase in sales being subtle in the ROBOT and FA businesses in Q4 is due to the limitations in supply on our part. There are strong demands in each territory for FANUC to supply more and more. The biggest issue for FY2022 is to deliver even one more unit with delivery shortened by even one day to our customers. Of course, it will be necessary to carefully observe profitability at the same time.

Q: In Q4, sales exceeded the forecast but operating profits were below. Was the rise in the cost of materials the cause of the lower gross margin?

A: In the forecast announced in January, the effects of such cost increases were foreseen to some extent. However, the surge in the costs of materials, sea freight, and use of air freight for some projects in order to meet the delivery date, was a bit more than expected. Also, at the consolidated subsidiaries, the increase in inventory slightly surpassed our forecast, and furthermore, the sharp drop of the Japanese yen at the end of the fiscal year required additional adjustments to the cost of sales. As such, the results fell moderately below our January forecast.

Q: Is the major portion of capital investments for FY2022 being directed to the increase in production capacity of robots?

A: The largest increase in production capacity is for robots. The rise in the volume of robots manufactured requires more motors and controllers to be fitted to these robots. Therefore,

investments to strengthen the production capacities of FANUC Headquarters and Mibu factories are included in capital expenditure. There is still some space in the Mibu and Tsukuba factories, and before constructing new buildings, the monthly production volume is targeted to climb from 11,000 units to 14,000 units. With further improvements in efficiency and usage of unused workspace, we intend to raise our target to 16,500 units per month. Still, buildings will become full in the not so far future, so we are considering investing in new buildings as well. Plans shall be disclosed as soon as they are organized.

Q: In your FY2022 forecast, the operating margin is in the higher 23% range. For the mid-term, for three years from the present, how do you think the operating margin will change?

A: Until a few years ago, there was a temporary demand for ROBODRILLS, which was not expected to last long. This was why we invested in the increase in the production capacity of robots. With this investment, the depreciation cost increased which brought about decrease in profits, but we were able to configure a structure to cope with the increase in demands for robots. Demands for NCs will continue to increase steadily, but it will be robots which will be high in demand. Looking three years into the future, we have just begun additional capital investments for robots and the depreciation cost will be quite high. Despite improvements in production efficiency, it would be realistic to pursue the operating margin to be on par or with only a slight increase.

Q: It is expected that sales will increase but profits will decrease in FY2022. Among the causes such as rise in costs due to parts shortage and logistics, what has the most negative effect?

A: The greatest impact is incurred from the price increase owing to the global shortage of parts. Next is the rise in sea freight costs. This is followed by the procurement on a spot basis of parts on the market, and the use of air freight to meet the delivery date, though limited to a few times. In general, this is the order according to the extent of impact.

Q: Raising the selling price of FANUC products and the Japanese yen being weak can be perceived to have a positive influence on profitability. How are they reflected in your plans?

A: Transferring the increase in costs to the selling price should be deliberated carefully and meticulously in parallel with holding discussions. The depreciation of the yen will make it easier to sell overseas, but there is also a negative side in terms of procured parts becoming more expensive. Therefore, it cannot be simply concluded that a weak yen is a “plus” factor only.

Q: Regarding share buybacks, looking back at the past year, even at the level in which FANUC's shares dropped below 20,000 yen, shares were not bought back. Are there any chances for a different decision with the acquisition limit that is set for this year?

A: Shares will be bought back when deemed to increase our corporate value, with the stock price being one indicator among many other factors to be considered. Large capital investments such as increasing the production capacity of robots are planned for the future, and inventory is being accumulated to address the shortage of parts.

Our intention is to use valuable cash to improve FANUC's value as a company.

(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.)