

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the First Quarter ended June 30, 2022
(July 27, 2022)

Q: Despite problems such as semiconductor shortages and lockdowns in China, FANUC's sales for Q1 has reached 211.6 billion yen. On the other hand, the operating margin showed little growth. Please explain the background of these results.

A: Having achieved sales as initially forecasted can be attributed entirely to the hard work of our employees in relentlessly negotiating the delivery time of parts, and implementing alternative measures such as changes in design. As for the lockdown in China, the effects on sales were minimized mainly through the efforts of our local joint venture. It is a fact, however, that we struggled to acquire parts due to the lockdown in China, which caused significant disruptions in the supply chain.

The operating margin was negatively affected by the increase in the costs of parts and shipments by sea, as well as other surges in expenditures. This has been explained with care to our customers in order to persuade them to accept the increase in the price of FANUC products. Such efforts are being continued steadily.

Q: It is heard more and more that the semiconductor shortage situation is improving. Has this been one of the factors which led to the increase in Q1 sales?

A: Though it is true that semiconductors have become more readily available than before, the situation still remains critical. FANUC manufactures products by assembling parts, so the shortage of even a single component will impact the entire manufacturing process. That is why we cannot feel secure when looking at the overall picture. There is absolutely no change in committing to doing our best to continue production, including procurement and changes in design.

Q: Please provide information on the trends of FA and ROBOTS in China in Q1. Is the decrease in FA bookings only temporary, and is recovery foreseen? ROBOTS seem to be doing favorably not only in China but also in other regions. What is behind this trend?

A: A major part of the decrease in FA bookings is due to the accumulation of backlog. This situation is settling down for the moment. Also, the lockdown in China has somewhat slowed down bookings and sales. Still, local demands for machines have not changed much, and FANUC is devoting its time and efforts to manufacturing in order to reduce

this massive backlog and transform even one open order into sales.

The high bookings for ROBOTS has remained unchanged. Though there were lockdowns in China, which rendered the possibility of affecting ROBOT bookings, even if this was the case, it was at an unnoticeable level. Enquires are strong in the automotive, automotive parts and general industries. In the automotive parts industry, a large part of business is currently related to batteries. Furthermore, FANUC is successful in various sectors such as those related to IT and printed circuit boards, as well as solar energy. Bookings are also quite favorable in regions besides China, so the issue at hand is how to improve our production capacity, in order to be able to offer even one unit more and develop this into sales.

Q: Regarding FA products which are in demand in China, is the usage at the final destination for EVs or batteries? If FA bookings has become stable only for the short term, are there concerns such as having to make inventory adjustments?

A: It is my understanding that demands in China in the machine tool industry have not changed from before the lockdown, and continue to be high for various applications, such as in the automotive, non-automotive, and semiconductor-related industries. As for inventory, there is a tremendous demand for machines in the local market, so if FANUC can supply more CNCs, more machine tools can be delivered in China.

Q: If bookings for ROBOTS continue at a level of 100 billion yen, increasing production capacity by approximately 1.5 times that you mentioned in the earlier conference may not be sufficient. What are your views?

A: By increasing equipment in our present facilities and enhancing efficiency, we should be able to handle bookings amounting to about 100 billion yen per quarter. Even so, if bookings increase at an annual rate of 10% for instance, it is evident that our production capacity will no longer be able to keep up, and a major increase in production, such as by building or expanding factories will become necessary. At present, a feasible plan to increase the production of existing factories from the current 11,000 to 14,000 units on a monthly basis, has been created and is being executed. If there are still shortages, various other methods will be devised to raise production to about 16,500 units per month with our existing factories. However, we perceive that this will not be workable for the long term. That is why in looking ahead to the future, a variety of plans are being created which include new constructions as well.

Q: If there are examples of how the new strategy of the collaborative robot CRX is increasing shares, or how the CRX is turning customers into loyal FANUC users, please introduce them.

A: The CRX series has been completed and we are promoting this series even more than before. FANUC's ROBOTS, not limited to CRX, are highly reliable and we are highlighting that they are extremely competitive in terms of TCO (total cost of ownership). It is important to increase the reliability of our ROBOTS so as not to diminish customers' productivity and to achieve maximum efficiency, which will duly lead to the increase in their profits. In considering the needs of customers, we are focusing on high reliability and having minimum need of maintenance.

Though FANUC was a latecomer in the collaborative robot market, our collaborative robots are seen as being outstanding. High reliability and excellent maintenance services have played a major role in bringing about this formidable appraisal. Nevertheless, no matter how reliable FANUC ROBOTS are, this does not imply that they will not break down at all. Therefore, much attention is being paid to maintenance services to deal with malfunctions. I believe that this is one advantage that differentiates us from the competition. Another advantage is the ease of use. Many comments have been received that the new user interface of our collaborative robots is easy to use. These three factors (i.e.; high reliability, superior maintenance services, ease of use) are the reasons why the CRX collaborative robot series are increasing in demand and becoming popular.

(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.)