

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Third Quarter ended December 31, 2022
(January 27, 2023)

Q: Domestic sales of FANUC's FA products continue to be moderately lower than the machine tools orders announced by the Japan Machine Tool Builders' Association (JMTBA). In terms of sales amount, the impression is that the gap between FANUC's FA domestic sales and domestic orders reported by JMTBA is widening. What is your analysis of this situation?

A: Due to difficulties in procuring parts, the delivery time of all products became longer, and FA products were no exception. For this reason, we received orders from customers into the future. However, as the delivery time is becoming shorter, stocks have started to accumulate at our customers, resulting in the decrease in orders to FANUC. It is correct that there is a slight gap between JMTBA's data and the status of FANUC's FA products. In many cases, orders for CNCs are issued before machine tools are ordered by end users, therefore such advance orders to ensure the acquisition of FANUC CNCs have also been witnessed in the past. This time, the lengthening of our delivery time stemming from the shortage of parts is the reason for this gap becoming wider.

Q: Compared to Q2, FA bookings for Q3 decreased by nearly 30%. Referencing JMTBA's data, this decrease exceeds the extent of the drop in the industry. Does the FA booking level for Q3 represent actual demands? Or are order adjustments being made resulting in bookings being depicted as being lower than actual demands?

A: Regarding FA, FANUC's delivery time was quite long, so we received orders far into the future. Since we were able to gradually increase our supply, and the necessity to order for the long term has diminished, customers have tended to adjust their orders. This had been distinct in China, but in Q3, the same trend could be seen in Japan, South Korea and India. It can be said that order adjustments are being made overall. On the other hand, the number of machine tools that are fitted with CNCs and are shipped as products has not actually decreased to this extent, and corresponds to JMTBA's data. There is a tendency to take action beforehand in the FA business, therefore there are times when overshooting or undershooting occurs. In Q3, bookings were reported as being at a lower level than actual demands.

Q: FA bookings are facing a slowdown but ROBOTS continue to be in an extremely good state. Please explain the background.

A: JMTBA's statistics also show a modest downturn in FA products, and it is suspected that a repetitive cycle is factored in. Investments in FA products are being suppressed especially for engines and related products. Although there are new demands encompassing EVs, they seem to be cancelling out some of the demands for previous types of engines. In contrast, ROBOTS were almost never used in the manufacturing of conventional engines, so there is no offset in demands. For EV related manufacturing, many ROBOTS are mainly used in battery production. Also, investments in EV and relevant products are increasing globally, which give rise to new demands for spot welding of car bodies. There may be an impression that the EV sector accounts for a large percentage of our ROBOT business, but actually, there are more applications in other areas. With labor shortages, and considering quality, production is becoming more and more difficult without robotization. As there are such strong demands, and though it is true that robotization in the EV sector stands out, the reality is that there is a huge amount of inquiries from the general market. Such inquiries are from everywhere, including the U.S., Europe and China.

Q: In Q3, the limitations on parts procurement were resolved to reduce backlogs, leading to the increase in sales. At the same time, increase in costs due to rising inflation has impeded profitability. What is the actual situation? Please explain the reason for the upward revision and the forecast for Q4.

A: The state of supply has basically remained unchanged from what was explained three months ago. However, it is a fact that the situation has slowly improved and parts that were very difficult to acquire have decreased. FANUC continues to do its best to obtain parts which are in tight demand. Though there are still limitations, efforts are being made to satisfy customers' requests to the extent possible. The semiconductors that are used in our products are manufactured by existing processes, therefore the increase in production capacity of semiconductor suppliers will not improve the situation immediately, and this state is expected to continue for some time.

As for Q4, due to the long delivery time of FA products, orders are being adjusted in China, Japan, South Korea, and Taiwan among other countries, which is decreasing orders. The forecast for Q4 is based on these aspects. In China, the ROBOT business is doing very well, but as for FA and ROBOMACHINES, it is a wait and see situation after the Chinese New Year.

Q: The sharp increase in the sales of ROBOTS in Q3 is quite positive, but why will sales drop in Q4 while the backlog of orders is still large?

A: ROBOT sales fluctuates according to the timing of when the sales of large projects are recorded. Sales for Q4 is affected by such factors as requests to slightly delay deliveries

as stock was accumulating with the backlog orders from the past.

Q: Requests to push back the delivery time is frequent for CNCs destined for China, but the situation with ROBOTs is different. If backlog returns to a normal state, will sales increase in the following term?

A: In the current environment, the more we can supply ROBOTs, the more orders and sales will increase. The ROBOT business is doing very well in the U.S., Europe, China and all other areas. Unfortunately, we cannot meet every single request. Nevertheless, we feel that it is our mission to deliver even one unit more to our customers.

Q: In Q3, the ROBOT sales ratio has gone up, and compared to Q2, the operating margin has improved. In the stock market, there are talks that in light of the competitive environment and cost structure, the rise in the percentage of the ROBOT business will synchronize with the negative effect on overall profitability. What are your views?

A: As FANUC is a single-segment firm, the profitability of each business division is not disclosed. We are striving daily to have the values of our products be recognized as much as possible, and be purchased at the most suitable price.

Q: Compared to the past, is the ROBOT business becoming more profitable?

A: We are trying to increase profitability. For example, besides explaining the initial cost, TCO is often explained as well. As FANUC ROBOTs are highly reliable, the cost after installation is extremely low, and this is an advantage we are actively promoting. Even if the initial cost is high, when looking at a span of 10 to 15 years, the total cost will be quite low. There are more customers who are starting to understand such values. Though such measures are not immediately effective, by piling up such benefits, profitability is expected to gradually increase. For this end, it will be necessary to enhance the effectiveness of our products. As such, improvements will continue to be pursued not only for functions and performance, but also in terms of reliability which strongly appeals to professionals who work first-hand with robots in factories.

Q: Is FANUC contemplating a scheme in which the FA business will generate extra added values?

A: Achieving ease of use will lead to generating added value to machine tools. For instance, if we are able to provide functions which enable easier use at a lower price and in a simpler fashion to machine tool builders who outsource such functions, this will be useful to machine tool builders, and will also expand our business. FANUC is vigorously focusing on

ease of use and look forward to its effect.

(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.)