FANUC CORPORATION
Q&A Summary of the Telephone Conference on the Financial Results for the First Quarter ended June 30, 2023 (July 28, 2023)

Q: Bookings for Q1 was 177.3 billion yen. What is your forecast for the future? Also, what is the state of demand and supply, along with competition, especially for the FA business in China and the ROBOT business in the U.S.?

A: Though bookings will slightly be volatile, we estimate that the current level will continue till the end of the fiscal year. According to our forecast, bookings will decrease in Q2 with some recovery in Q3 and Q4, but there is much uncertainty.

As for the FA business in China, inventories are starting to decrease at BEIJING-FANUC and Chinese machine manufacturers, but the speed is slightly slower than what we anticipated three months ago. There is still a “wait and see” attitude for capital investments in China, and it will take some time for demands to fully recover. The competition environment in China has not changed compared to the past, and we are mainly competing with non-Chinese manufacturers, local Chinese manufacturers as well as manufacturers from Taiwan.

Regarding ROBOTs, though it is a fact that inventory adjustments are being made in the Chinese market, capital investments for EV batteries and related products were made all at once. This onrush has passed and has resulted in a quieter market. We consider this to be a transition period.

In the U.S. market, demands for ROBOTs have basically remained the same. However, inventory in the U.S. has risen substantially, and we are in the midst of bringing it down to an appropriate level. The amount of adjustments will hamper bookings. On the other hand, since the backlog is large, sales is expected to reach the amount that was initially forecasted.

As for ROBOMACHINEs, the “wait and see” attitude of the Chinese market is becoming a growing trend. In Japan, machine manufacturers presently have a large inventory which is resulting in the decrease in orders.

Q: Three months ago, the forecast for the sales cost ratio for the first half was 64.6%, but the actual percentage in Q1 rose to 67.4%. What caused this increase and what measures are being taken to lower this percentage?

A: Basically, the state has not changed from three months ago. The effects of the increase in the cost of materials has become lax, and passing on cost increases to the selling price is gradually beginning to produce positive results. The largest reason for the increase in the sales cost ratio is that FANUC’s factories are operating less due to inventory adjustments, as was explained at the last Conference. The most effective measure to lower the sales cost ratio is to increase sales which ensure profitability. Also, we are reconsidering our investment in a new ROBOT factory more carefully, as the market environment is changing. As such, we are evaluating such possibilities as increasing the production capacity of existing factories and postponing new investments.

Q: Compared to the same period last year, the decrease in profits exceeded the decrease in sales. Please explain the profitability of ROBOTs.

A: The biggest reason for the decrease in profits is due to the reduction of the uptime of our factories, which is attributable to inventory adjustments. The majority of ROBOTs that we manufacture are exported, and the weaker yen is facilitating price negotiations overseas. We are trying hard to increase profitability from this perspective. Also, from the past, FANUC has been promoting sales of its products focusing on the total cost of ownership besides initial costs, as well as explaining that when including future maintenance costs, FANUC products excel in terms of entire cost performance. This has been much appreciated. Through such efforts, we are trying hard to increase profitability. However, the recent rise in the cost of materials and decrease in factory operation has impaired efficiency, and has cancelled out the benefits of such efforts.

Q: In the past, BEIJING-FANUC has adjusted inventory a few times due to downcycles. This time, the impression is that the scale and effects of inventory adjustments are bigger than before, and FANUC's business in China is also not as strong. What is the actual situation? When will inventories be depleted?

A: We believe that we are currently retaining market shares in China in line with our expectations and do not feel that our competitiveness is weakening. As China is a market where competition is extremely fierce, we are being careful.

It is a fact that inventories have reached an unprecedented high level. Supply chain disruptions have significantly prolonged deliveries, and China's rapid recovery from the COVID-19 pandemic aggressively drove demands for machines to the extent that we had never experienced. After this surge settled down, demands dropped suddenly as never before and the stagnation of inventory adjustments and actual demands have had a tremendous effect. We presume that actual demands will stop decreasing and will eventually recover, but the pace will be slower than expected. Though it is difficult to say, the depletion of inventory will extend to 2024 or beyond.

Q: Can it be said that the decrease in ROBOT orders in Q1 was temporary? In the mid-to-long term, how will FANUC be affected by the changes in the manufacturing processes of automobiles such as Gigacasting?

A: Our ROBOTs were doing very well in China for quite some time. As a leading example, demands for ROBOTs for EV bodies and batteries stood out, and there were strong inquiries from every industry besides those related to EVs. According to the media, the production capacity of EV and related items has exceeded demands, and it seems that investments have calmed down for the time being. Nevertheless, sooner or later, various equipment and facilities will start running and the operating rate is expected to increase. This leads us to believe that the decrease in bookings is only temporary.

On the topic of Gigacasting, spot welding robots will probably be replaced by Gigacasting. However, a larger handling robot and machines for manufacturing high-precision molds will become necessary. Also, at present, robots are rarely used in final assembly, but the future should see many robots engaging in this process. It is evident that demands for robots related to EV battery production is on the rise, so in total, demands for robots will increase with the transition to EVs.

EVs are a recent development and still in its early stages. Manufacturing processes will change more and more over time. As a robot manufacturer, FANUC is challenged to have the capabilities to cope with such changes. Our technical staff excel in their skills, and they will be able to embrace new manufacturing methods and propose robotization to not only automotive manufacturers but also to manufacturers in other industries.

Q: Orders for the FA business have recovered compared to the previous quarter. What about the future? What is your forecast for overall bookings for Q2? The operating rate seems to be low in Q1 but will it become even lower in Q2?

A: The increase in FA bookings in Q1 was foreseen from the beginning, and we expected more recovery afterwards. However, we now perceive bookings for Q2 to be more or less or on par with Q1. With the gradual decrease in inventory, we believe there will be a recovery to some extent in Q3 and Q4.

Overall bookings in Q2 is expected to drop somewhat. This is based on our presumption that inventory adjustments for ROBOTs and ROBOMACHINEs will have a negative impact, and that the number of ROBOMACHINE inquiries will decrease, mainly in China. The factory operating rate in Q2 is expected to be roughly the same as in Q1 or to decline slightly.

Q: Are you increasing the procurement of parts? What is your stance on procurement?

A: The pandemic caused the shortage of parts, and significantly extended their delivery time. This was especially true for semiconductors. Therefore, we tried hard to procure parts by presenting forecasts and placing orders far into the future. Currently, there are still some parts which are just enough to meet demands, and we are striving to increase the inventory of such parts to a safe level. At the same time, overall parts inventory within the company is increasing, so we will adjust orders by having considerate and careful discussions with our suppliers.

(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.)