

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Third Quarter ended December 31, 2023
(January 26, 2024)

Q: What is the current status of inventory adjustment of each product line, and when do you think these adjustments will be completed?

A: First, regarding FA, FA products are seen as being components by our customers who are machine tool builders, hence there were cases in which they placed orders in advance. Especially as there was a shortage of electric and electrical parts, which vastly prolonged the delivery of our FA products, FA was the first to experience an excess in inventory. Though the appropriate level has yet to be reached, inventory adjustment is progressing at a relatively fast pace. The inventory in China, which is highest in volume, has substantially decreased, and though some countries still have inventory slightly more than required, it can be said that inventory adjustment is gradually proceeding. Next, as for ROBOTS, orders have continuously been received actively, but inventory adjustment was started late so it is still ongoing. The forecast for the duration of inventory adjustment includes factors which cannot be foreseen. For example, if local demands are weak, inventory adjustment will take longer, and if orders are higher than expected, an earlier completion can be possible. Though there are differences between countries, the United States, Europe and China have a high level of inventory locally. Therefore, we presume that it will take around half a year at the minimum for inventory adjustment to be completed. As for ROBOMACHINE, the inventory is almost at a suitable level.

Q: Tell us about the inventory in the United States.

A: FANUC America's inventory can roughly be categorized into two types. One is where orders are received from customers, but due to minor delays in their plans, FANUC America keeps the ordered items in their inventory. The second is the case in which FANUC America presumed orders would be placed by customers and ordered to FANUC Headquarters at their own risk. These ordered items are included in their inventory. In the second case, immediate delivery is possible, so items can be sold quickly under the favorable condition of a short delivery time. However, the percentage of the second case is not very large. Therefore, decreasing inventory is expected to take time.

Q: What is the order status of ROBOT and FA and details according to region?

A: From Q2 to Q3, orders for ROBOTS have increased by an amount close to 5 billion yen. The decrease in China has been compensated by increases in the United States and Europe. In the United States, the performance of Q2 was low, which in comparison makes Q3 look good. In Europe, orders for the automotive industry, mainly for EV related products, have increased, which is the background for this increase. The performance of each quarter

changes substantially depending on whether a large order is received or not, so please consider this as reference information.

As for orders for FA, inventory adjustment in China has progressed to some extent and Headquarters is starting to gradually receive orders from our group company in China. On the other hand, in other regions, demands for machine tools continue to be weak, and being in the midst of inventory adjustment, we are still monitoring the situation carefully. By considering the overall situation as described above to calculate the total, recovery is becoming realistic for FA in terms of volume, due to the gradual rise in orders, though limited to China.

Q: Can you provide details on the backlog of ROBOT and FA?

A: Compared to other products, the backlog of ROBOTs was large for a longer time, but at present, delivery time has become normal. The same applies to FA. Though inventory adjustment has not been completed, inventory has decreased considerably. Though there was a gap in the past, we are receiving orders from our overseas group companies at a level that is close to the volume that is sold to machine tool builders.

Q: What is the present production status and forecast for the future?

A: The current situation is that in proceeding with inventory adjustment, we are adjusting production within the company. Compared to Q2, production has slightly decreased in Q3. A drop in sales is expected in Q4, so we presume that production will also be reduced in line with this drop.

Q: Are there any negative factors for Q4 that you are presently aware of?

A: Compared to Q3, sales is forecasted to decrease. Up to now, the order backlog was large which resulted in the high level of sales compared to orders. However the backlog will soon become appropriate, so the level of sales is predicted to match the level of orders.

Q: If orders in Q4 retains the same level as Q3, and the backlog of orders is cleared, profits will probably decrease. What countermeasures are you taking in light of this scenario?

A: If the state of orders continues as it is, a decrease in sales can be expected. To deal with this situation and raise profits, even if minimal, we are cutting costs and trying to increase sales and profits by enhancing added values. Especially, software functions are being developed, and we are thoroughly making efforts to improve profitability, no matter how little the amount is.

Also, inflation is becoming an overall trend, but compared to a certain period in the past, the increase in prices of materials has settled down, so we will focus on cutting costs even more seriously than in the past.

It is FANUC's tradition for all employees to take part in lowering the cost of sales ratio and increase profits by even one yen. I feel that it is necessary to do this extensively.

Q: Teachingless Robots, CPS: What does FANUC think about robots using Cyber Physical Systems (CPS)?

A: For more than 20 years, we have been using robots in our own factories which move autonomously using sensors, and have also been selling them to customers. Connecting robots from different manufacturers, or moving robots by having robots recognize the outside world with sensors to generate paths in a virtual world using CAD data are possible with our ROBOTS as well.

We presume that our customers understand such technology, but we feel that there is a need to make efforts to have our securities analysts and shareholders understand by explaining our technology in a manner that is easier to comprehend.

Q: Can you explain the state of shares in the Chinese robot market?

A: It is a fact that local manufacturers in China are increasing their shares. On the other hand, FANUC, from the start, does not focus on robots without requirements for high performance and that are extremely low priced.

Q: Did people from non-manufacturing industries visit the International Robot Exhibition (IREX)?

A: There were many visitors from industries related to logistics. At this exhibition, we displayed the palletizing of cardboard boxes. There was also an abundance of visitors from food-related industries. A great number of visitors were interested in the exhibit of robots decorating cakes. Our display consisted of a system that was set up being conscious of how robots are actually used in factories. There were many visitors who said they would like to take our system back to their companies in the state in which it was displayed.

Q: It is said that the number of visitors and business discussions have substantially increased at the International Robot Exhibition. What do you think is necessary to turn such opportunities into orders?

A: It is necessary for robot manufacturers like ourselves and system integrators to explain the benefits to customers and make efforts to motivate capital investments. When a situation turns into one in which “we have to hire people but there are no applicants, yet we must manufacture,” this will result in investments in robots, which will gradually increase in the future.

Q: Looking ahead, if logistics costs increase, will you consider manufacturing overseas?

A: It is our view that manufacturing overseas will not reduce costs by much. The increase in logistics costs that is expected at present will not be reason enough to contemplate manufacturing overseas. It is our belief that concentrating production in Japan and exporting overseas will cost less.

(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.)