

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Second Quarter ended September 30, 2021
(October 27, 2021)

Q: The results of the first half were below expectations. Is it correct to attribute this to the slowdown in the sales of ROBOTs and FA products due to the shortage of semiconductors in Q2? The forecast for the entire year is susceptible to being revised according to two risks: one for demand and the other for supply. Of the two, is the risk regarding supply the main cause of the downturn?

A: Demands are increasing steadily, and this favorable state of the market is perceived to continue into Q3. On the other hand, many items are in short supply globally, especially semiconductors, along with electric and electronic components, machine parts and materials. Procuring these items is extremely difficult. This situation has hindered us from increasing production, and it is a reality that the results for Q2 were lower than our forecast.

Q: What are your views on the trend in demands in China?

A: Some of the parts which are used to manufacture products shipped to China could not be procured sufficiently and this shortage had an immense impact. Still, bookings for FA and ROBOTs are doing extremely well.

Q: Is FANUC losing sales opportunities due to delivery time becoming longer, arising from production being limited with the shortage of parts?

A: Delivery time is indeed becoming longer compared to the past, and this is greatly inconveniencing machine tool builders - our customers. The global shortage of parts, mainly semiconductors, is the root cause, and we suspect that other companies are also experiencing difficulties in supply. FANUC is keeping close contact with machine tool builders, in order to minimize the burden that we are imposing upon them. Our company is doing its best in order to continue manufacturing present products, by such means as procuring alternative parts, or in some cases, even changing the design.

Q: Being exposed to risk in production due to the shortage of parts, is FANUC considering any changes in supply chain management?

A: Regarding supply chain, having experienced hard times following the rapid recovery after the Great Recession (which began in 2007) and the Great East Japan

Earthquake of 2011, FANUC has introduced recovery measures such as keeping stock. It is a fact that several years ago, we started to store a surplus of dedicated items and parts such as semiconductors, and this has enabled us to continue production at this time. However, a shortage of this scale is unprecedented, and we should keep stocks for the long-term, though this may imply taking on more risks. We recognize that this matter needs to be improved for the future.

Q: Will the acceleration of the transition to EVs have any effect on FANUC’s capital investment?

A: A notable point is that the motivation to robotize will increase substantially. FANUC has foreseen this trend, and has increased production capacity in advance, but in tune with the possibility that demands for ROBOTS may accelerate even further, we are presently refining our plans. A 20% increase in the production capacity of ROBOTS, which is presently 11,000 units per month, is planned and considered feasible, but it is anticipated that in the not so far future, further investments will be required. As for CNCs, we are well aware that we must also consider new investments in the Mibu Factories (Tochigi Prefecture) to manufacture CNCs, motors and amplifiers. Otherwise, we may not be able to keep up with demands.

There will certainly be ups and downs, necessitating some adjustments, but compared to two or three years ago, we can actually feel the rise in demands. Therefore, we must organize our supply structure to maintain a firm position to achieve further growth.

Q: Will QSSR AUTO PATH contribute to the ROBOT business model to steadily produce profits?

A: QSSR AUTO PATH adds values to ROBOTS by improving their convenience and user-friendliness, therefore it is believed to be profitable. Since FANUC, as a manufacturer, provides QSSR AUTO PATH functions, there are advantages for system integrators who will experience less hassles in set up, and for end users who will be able to start up machines and equipment more quickly.

Q: Regarding advance orders, won’t the risks for ROBOTS be high?

A: When a project is fixed far into the future, orders may be issued at an early stage in order to meet the requested delivery dates. As this is basically linked to facility planning, advance orders should not deviate much from actual demands.

Q: Are the contents of the temporary demands for ROBODRILLS from IT related industries different from those of the past? Have demands returned to normal?

A: The demands for smartphones, which were very high in the past, will constantly

remain to some extent. However, the latest peak in demands was primarily for PCs and tablets, as we have been explaining from before. This temporary demand has come to an end, and it can be said that the volatility of bookings has settled down. As for the future, it is expected that IT related demands will increase somewhat from Q4, but our forecast only reflects what we believe to be certain.

Q: Sales for the second half is expected to increase by 2% compared to the first half. Then why will the operating margin decrease from 27% in the first half to 23% in the second half?

A: This forecast takes into account the expected rise in the costs of materials and parts on a global level, along with logistics costs, such as sea freight, among other factors. If items cannot be procured through regular channels, there will be cases in which other channels will be used even though the cost will be higher, since causing downtime at our customers will result in a greater loss. As such, we will endeavor to fulfill our responsibilities as a supplier, even if we have to bear higher procurement costs. Our response to the increase in prices worldwide is a challenge to be attended to in the near future.

Q: Compared to three months ago, do you see any changes in capital investments in the automotive industry in the Americas? Please provide information on the trends in EV manufacturing and capital investments as well as investments in ROBOTS.

A: Bookings for ROBOTS in Q2 in the Americas slightly decreased, but still retains a high level. Investments in automotive related industries will focus on EVs, and introduction of equipment/facilities for their production will proceed extremely rapidly. Automakers, battery producers and other manufactures in regions not limited to the Americas, have expressed their desire to use FANUC ROBOTS in their production lines related to EVs, and we have received a considerable amount of ROBOT inquiries. EVs will become an important field for robotization from now.

(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.)