

FANUC CORPORATION
Q&A Summary of the Telephone Conference
on Financial Results for the Second Quarter ended September 30, 2022
(October 27, 2022)

Q: It is presumed that the weakening of the Japanese yen has had an impact. Please explain the reasons why the operating profit for the first half decreased compared to the forecast that was announced three months ago.

A: The sharp increase in the price of parts and transportation costs had a considerable effect, and although efficiency improved by increasing production volume, the impact of the cost increases outweighed such improvements, thus bringing down profits.

Q: Regarding the downward revision for the entire year, what are your overall thoughts and views on the changes in the business environment?

A: Demands for robots continue to be strong throughout the world. The economy of China is actually not bad, but the uncertainty of the future has dampened the demands for FA products and ROBOMACHINES. The downward revision for the full year is in consideration of this trend.

Q: The currency rate is an influential factor. In comparing pluses and minuses, which is greater with a weaker yen? How has the currency rate affected costs?

A: A weaker yen will make overseas sales easier, and basically this is a plus. However, the increase in parts prices has generated a huge minus diminishing this plus, therefore the scope of the plus cannot be said to be big.

The increase in the price of parts is creating a most difficult situation, but we are exploring possibilities with second/third party suppliers to cut costs. Furthermore, our factories are continuing to pour efforts into reducing costs no matter how minimal, by increasing efficiency in manufacturing and reducing takt time.

As for reflecting the cost increases in the selling price, the value of our products are explained politely in detail to our customers, and we are doing our best to persuade our customers to purchase at a reasonable price. This approach has been continued from the past.

Q: Please provide an update on the procurement environment of semiconductors and other essential parts.

A: Compared to the extremely tough period in the past, the impression is that the situation has become much better. FANUC is a company which manufactures by assembling. The

shortage of merely a single component will not allow assembly to be possible. Such parts are not limited to semiconductors, but include other parts as well. Normally, FANUC should be producing more, but the present circumstances continue to hinder this from happening. At the same time, the bottlenecks are decreasing and production is increasing gradually. Procurement continues to be our top priority in order to prevent an unexpected or sudden inability to acquire parts.

Q: Sales of ROBOTS in Q2 continued to be high, with backlog accumulating. Though there are some limitations in production, why are sales not expected to increase in the second half? Has the production capacity reached its limit?

A: FA products and ROBOTS both use controllers and motors, and in terms of supply chain, both are experiencing common constraints mainly regarding semiconductors and motor parts. In addition, ROBOTS require being alert to the status of various components such as casted parts, machine parts and harnesses.

At present, the manufacturing capacity of FANUC's factories are not a bottleneck. In fact the increase in our manufacturing capacity is a bit ahead of parts procurement. Still, we must think of increasing our production volume for the future, and are actively evaluating building new factories. Construction of new factories will not be soon, so for the time being, our present facilities will be used efficiently, and production capacity will be enhanced by accelerating processes, such as shortening the time for testing.

Q: When customers wish to reschedule the delivery date to a later date, won't this cause a discrepancy with the lead time?

A: Requests to push back the delivery date due to customers' reasons are usually notified before assembly, so it is rare that mismatch occurs with the lead time. In the case of CNCs in China, our local FA sales company, BEIJING-FANUC, had received orders far in advance from Chinese machine tool builders. Orders from BEIJING-FANUC to FANUC Headquarters are being adjusted for this reason.

Q: What are FANUC's presumptions of costs and supply chain for the second half, in connection with parts procurement costs, transportation costs, and fixed costs including labor costs?

A: For ROBOTS, bookings are extremely favorable. There are absolutely no signs of decrease in bookings, and only an upward trend is foreseen. FANUC is increasing its capacity, including improvements in supply chain, therefore sales for Q3 and Q4 are expected to go up.

As opposed to ROBOTS, bookings for FA and ROBOMACHINE products are sluggish, and sales are expected to decrease. This decrease is expected to surpass the increase in

ROBOT sales, resulting in the contraction of total sales. As for procurement costs, discussions on price increases are being held with each individual supplier in a respectful and thorough manner, and such increases are accepted if deemed reasonable. Rises in costs are expected to continue for a while.

Transportation costs have become more stable compared to the period when they soared, but are still at a higher level than before. Our outlook is based on the assumption that this state will continue for a while.

Q: When separating the FA and ROBOMACHINE businesses in the second half plans, which is expected to have lower performance compared to the forecast three months ago?

A: FA was forecasted to decrease three months ago, but it has become inevitable to be more cautious about the outlook. Of ROBOMACHINEs, there were several surges in demands for ROBODRILLs in the past, but this was not anticipated to happen from the beginning. It does not mean that our estimates for ROBODRILL were inaccurate. China occupies a large percentage of the sales of ROBOMACHINEs, including ROBODRILLs. As bookings in China have toned down for ROBOMACHINEs in a similar fashion as demands for FA products, there has been a downward revision of the forecast.

The volume for FA is roughly twice as large as that for ROBOMACHINE, therefore the decrease in FA will be reflected as a much larger portion.

Q: Is the decrease in bookings in China due to supply chain problems? How has this changed during Q1 and Q2? Are certain sectors such as smartphones or automobiles having a notable effect?

A: Compared to machine tool builders in Japan, the actual situation is that Chinese machine tool builders mainly manufacture low-cost and simple machines in a manufacturing environment where many of their machines can be delivered in a relatively short time. Operating as such, they have the flexibility to rapidly change their manufacturing structure to produce more when the economy is anticipated to become good, and produce less if the economic outlook is bleak. In Q1, CNC bookings were based on expectations that the economy in China will continue to grow, but since the Chinese machine tool builders have become more cautious, demands are expected to decrease, and order adjustments are being made to decrease the large backlog from the past.

The slowdown in demands for smartphones also seems to be having an effect. The Japan Machine Tool Builders' Association believes that demands for EVs will be high, and we are in complete agreement.

Q: Have you considered selling servo motors as a single product in order to develop your FA business?

A: There is no doubt that the best performance can be attained by combining our controllers, motors and amplifiers as a package, and that is why we recommend using them as a package as much as possible. However, when customers wish to make good use of their software assets that they have developed up to the present, FANUC sells motors and amplifiers to support these customers' controllers. Such approaches are considered to become promising businesses in the times ahead.

As for the future of the FA business, despite the stagnation in China, the rate of NC introduction to machines is still low, so there is much room for growth. Also, sales in India are increasing. As such, we feel that opportunities for growth are still substantial especially overseas.

Q: Regarding the relationship between bookings and sales of FA, though backlogs had been increasing, there was a downward revision of the sales forecast for China immediately after becoming more cautious about the outlook of their economy. What is the reason for this?

A: FA products are sold to machine tool builders in China through BEIJING-FANUC. As a characteristic of end users in China, there is a great fluctuation in demands which has led to BEIJING-FANUC having a larger stock. When this stock becomes extensive, orders to FANUC Headquarters decrease. With the slackening of shipments from machine tool builders, orders are adjusted at an early stage so that FA products will not become excessive in BEIJING-FANUC's warehouse, and this is reflected quickly in our sales. This has occurred in the economic cycles in the past, and is not considered to be out of the ordinary.

(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.)