



Harmonic Drive Systems Inc.

Q2 Financial Results Briefing for the Fiscal Year Ending March 2025

November 19, 2024

Event Summary

[Company Name]	Harmonic Drive Systems Inc.	
[Company ID]	6324-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q2 Financial Results Briefing for the Fiscal Year Ending March 2025	
[Fiscal Period]	FY2025 Q2	
[Date]	November 19, 2024	
[Number of Pages]	36	
[Time]	10:00 – 11:10 (Total: 70 minutes, Presentation: 34 minutes, Q&A: 36 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	Akira Maruyama Kazutoshi Kamijo	President and CEO Representative Director, Senior Managing Executive Officer, CFO, General Manager of Finance Accounting, Finance and Tax Division
[Analyst Names]*	Yuichiro Isayama	Goldman Sachs
	Toshiharu Morota	Okasan Securities
	Graeme McDonald	Citigroup Global Markets
	Wendy Pan	Macquarie Capital Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Support

Japan	050.5212.7790	North America	1.800.674.8375
Tollfree	0120.966.744	Email Support	support@scriptsasia.com

Presentation

Moderator: Thank you for your patience. We will now begin the Financial Results Briefing of Harmonic Drive Systems Inc. for Q2 of the Fiscal Year Ending March 31, 2025.

First, I would like to introduce today's attendees. Mr. Akira Maruyama, President and CEO.

Maruyama: My name is Maruyama. Thank you very much for your cooperation.

Moderator: Mr. Kazutoshi Kamijo, Representative Director, Senior Managing Executive Officer, CFO, General Manager of Finance Accounting, Finance and Tax Division.

Kamijo: My name is Kamijo. Thank you for your cooperation.

Moderator: For today's presentation, Representative Director Kamijo will give an overview of the financial results and the forecast for this fiscal year, and President and CEO Maruyama will explain the future outlook. Today's presentation materials are also available on our website. Today's briefing is being audio streamed on the web.

Now, Representative Director Kamijo, please begin.

Kamijo: My name is Kamijo, and I was just introduced to you. Thank you very much for taking time out of your busy schedule today to attend our Q2 financial results briefing. I will now give an overview of Q2 financial results and the full-year earnings forecast, in accordance with the materials uploaded on our website today.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Consolidated results for 1H FY03/25 (Vs. original forecasts)

(millions of yen)

	Original forecasts (announced May.13)		1H FY03/25 (actual)		Vs. original forecasts	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	27,000	100.0	26,559	100.0	▲440	▲1.6
Operating income	100	0.4	▲637	—	▲737	—
Ordinary income	100	0.4	▲828	—	▲928	—
Net income	100	0.4	▲850	—	▲950	—
EPS (yen)	1.05	—	▲8.95	—	▲10.00	—

Net income (loss) refers to net income (loss) attributable to owners of parent.

First, let me give you a summary of the financial results for Q2. See page two.

Consolidated results for H1 of the fiscal year against the earnings forecast announced on May 13 are as shown in the table below. Unfortunately, both sales and profits were not achieved. This was mainly due to the fact that our non-consolidated sales, mainly in the Japanese market, did not reach our initial forecast.

This was compounded by the fact that sales of collaborative robots and semiconductor manufacturing equipment at the German subsidiary did not reach the initial forecast, and that the sales mix resulted in lower-than-expected margins in Q2.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

Consolidated results for 1H FY03/25 (year-on-year change)

(millions of yen)	1H FY03/24		1H FY03/25		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	28,765	100.0	26,559	100.0	▲2,205	▲7.7
Operating income	872	3.0	▲637	—	▲1,510	—
Ordinary income	1,163	4.0	▲828	—	▲1,992	—
Net income	313	1.1	▲850	—	▲1,163	—
EPS (yen)	3.29	—	▲8.95	—	▲12.24	—
Capital investment	1,760	—	2,403	—	642	36.5
Depreciation	4,946	—	3,936	—	▲1,010	▲20.4
R&D expenses	1,659	—	1,936	—	277	16.7

Net income (loss) refers to net income (loss) attributable to owners of parent.
Depreciation includes depreciation of tangible assets and amortization of intangible assets and goodwill.



Harmonic Drive Systems Inc.

3

Copyright © 2024 Harmonic Drive Systems Inc.

See page three.

Here are the consolidated results compared to the same period last year. As you can see, both sales and profits decreased compared to the previous year.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



4

Performance of main group companies in 1H FY03/24

(millions of yen)		Equity stake	Net sales		Operating income	
			Amount	Year-on-year Change(%)	Amount	Year-on-year Change(%)
※2	HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (100%)	5,790	▲13.2	254	▲71.4
	Harmonic AD, Inc.	100%	978	▲1.5	▲13	—
	Harmonic Precision Inc.	100%	1,512	51.4	▲333	—
※3	Harmonic Drive Systems (Shanghai) Co., Ltd	100%	3,006	32.3	332	17.3
※4	Harmonic Drive SE (Germany)	100%	8,152	▲0.7	254	▲74.3

*1 For overseas subsidiaries, the fiscal year ends December 31.

*2 Exchange rates: Jan–Jun 2023 1USD = ¥134.85 Jan–Jun 2024 1USD = ¥152.25

*3 Exchange rates: Jan–Jun 2023 1CNY = ¥19.45 Jan–Jun 2024 1CNY = ¥21.05

*4 Exchange rates: Jan–Jun 2023 1EUR = ¥145.79 Jan–Jun 2024 1EUR = ¥164.60



Harmonic Drive Systems Inc.

4

Copyright © 2024 Harmonic Drive Systems Inc.

See page four.

Here are the results of the main group companies. First is the US subsidiary. In addition to a decrease in sales for semiconductor manufacturing equipment, sales for medical equipment decreased from the same period of the previous year due to temporary production adjustments by customers. Profit decreased mainly due to the impact of lower sales.

Next, Harmonic A.D., which manufactures planetary reduction gears, posted slight declines in sales and earnings due to a lack of recovery in demand for gearheads for motor manufacturers and semiconductor manufacturing equipment.

Next is Harmonic Precision, another domestic subsidiary. This company is a subsidiary that manufactures a special type of bearing called a cross roller bearing, which is an integral part of many of our products. During the period under review, the capacity utilization ratio increased in line with the YoY increase in production volume, but it did not reach the break-even point, resulting in an operating loss, although the deficit narrowed.

Next is the sales subsidiary in China. Both sales and income increased due to increased demand from local robot manufacturers in China.

Finally, there is the German subsidiary. Demand was soft, especially for collaborative robots and semiconductor manufacturing equipment, and sales on a euro basis declined about 12% from the same period of the previous year. Net sales, in yen terms, declined only slightly due to the weak yen. On the other hand, profits were significantly lower due to the impact of lower sales on a euro basis.

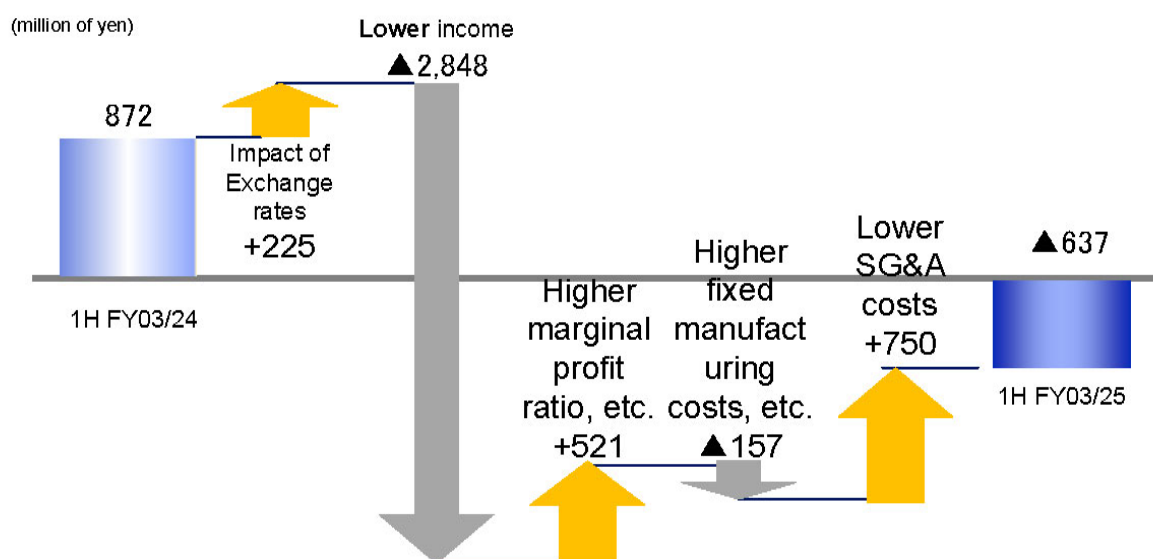
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasiasia.com



Breakdown of year-on-year change in consolidated operating income



Harmonic Drive Systems Inc.

5

Copyright © 2024 Harmonic Drive Systems Inc.

See page five.

This is an analysis of factors contributing to the increase or decrease in consolidated operating income. First, the foreign exchange impact from yen depreciation was JPY0.2 billion in a positive direction.

On the other hand, the impact of the revenue decline was JPY2.8 billion in the negative direction, while the impact of marginal profit margin and other factors was JPY0.5 billion in the positive direction.

This is mainly due to the fact that the negative impact of the sharp rise in the price of electronic components in the previous year has been largely eliminated in this fiscal year. Manufacturing fixed costs were minus JPY0.1 billion due to an increase in labor costs, while SG&A expenses were JPY0.7 billion in the positive direction due to a decrease in depreciation expenses resulting from the impairment of goodwill and other assets implemented in the previous fiscal year.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Non-consolidated results for 1H FY03/25 (year-on-year change)

(millions of yen)	1H FY03/24		1H FY03/25		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	15,114	100.0	13,995	100.0	▲1,119	▲7.4
Operating income	503	3.3	▲727	—	▲1,231	—
Ordinary income	3,299	21.8	▲699	—	▲3,999	—
Net income	3,028	20.0	▲701	—	▲3,729	—
EPS (yen)	31.86	—	▲7.38	—	▲39.24	—
Capital investment	959	—	1,343	—	383	40.0
Depreciation	2,228	—	2,175	—	▲53	▲2.4
R&D expenses	1,087	—	1,186	—	98	9.1

Page six.

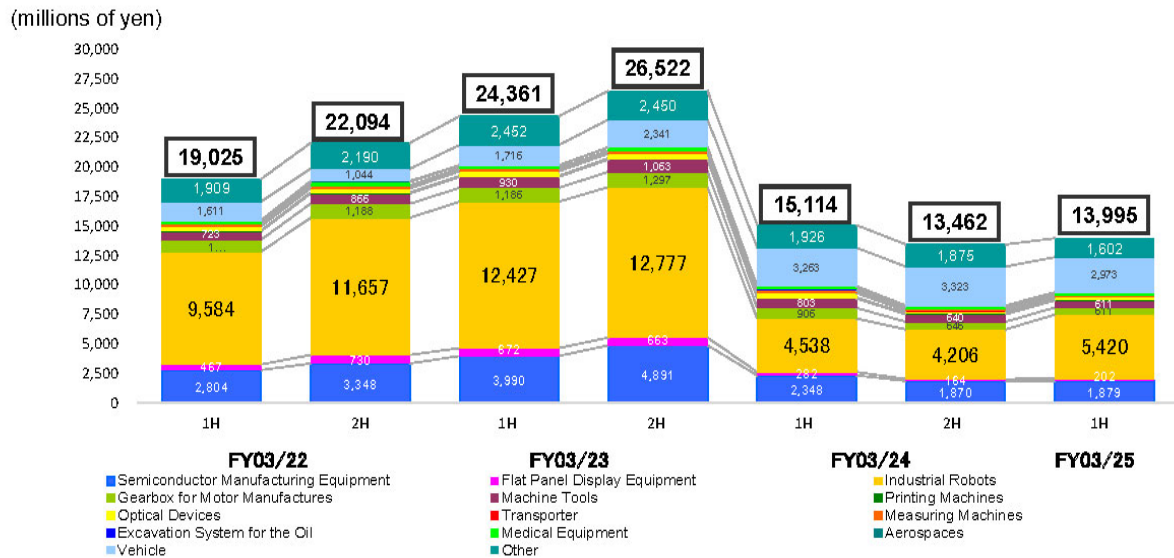
Non-consolidated results also showed declines in both revenue and earnings, as you can see. The decrease in operating income was larger than that in net sales due to a lower marginal profit margin resulting from a change in the product mix compared to the same period of the previous year, higher R&D expenses, and higher personnel expenses.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

Non-consolidated net sales by application



7

Copyright © 2024 Harmonic Drive Systems Inc.

See page seven.

Here are the non-consolidated sales by application. As you can see, the results show a decrease compared to H1 of the previous year, but a modest increase compared to H2 of the previous year. Comparing H1 of last year and H1 of this year by application, sales for semiconductor production equipment declined, while the ratio for industrial robots increased.

With regard to sales for semiconductor production equipment, while in H1 of last year sales were booked in the form of orders received in earlier fiscal years, in H1 of this fiscal year sales were booked in line with the current increase in orders received. As a result, sales were lower than in the same period of the previous year.

On the other hand, for industrial robots, the order backlog had been adjusted compared to that for semiconductor manufacturing equipment at the beginning of last year, and this, combined with the recent increase in orders, led to an increase in sales compared to the same period last year.

Support

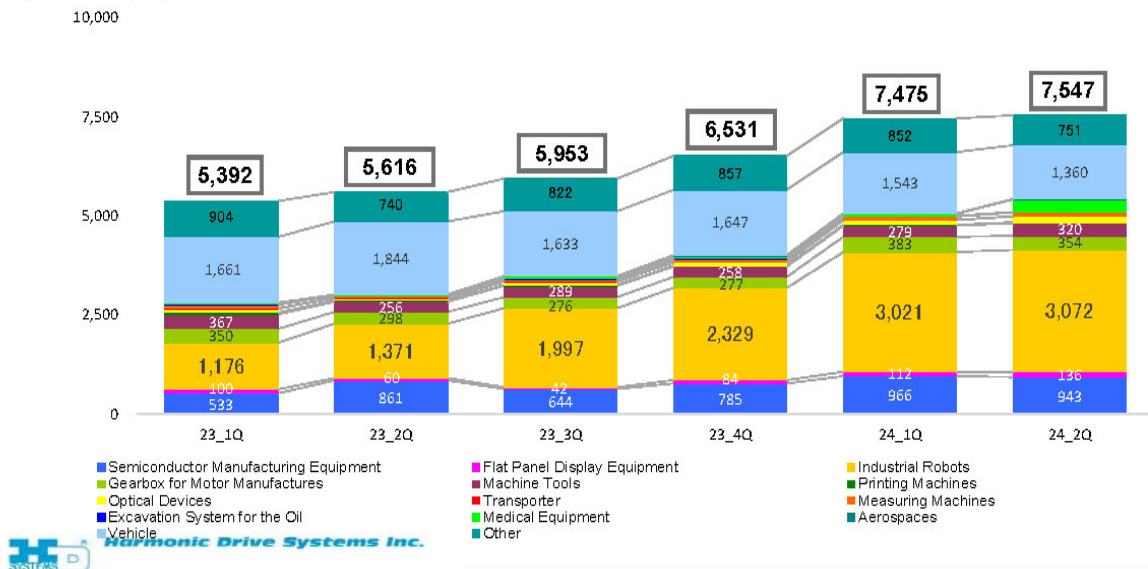
Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

Non-consolidated bookings by application (quarterly)

(millions of yen)



8

Copyright © 2024 Harmonic Drive Systems Inc.

See page eight.

This is our non-consolidated quarterly order volume by application. As you can see, the trend over the last 18 months has been a gradual but increasing performance. However, the pace of order recovery was slower than the assumption in the initial forecast, and the level of orders in Q2 was behind schedule compared to the plan.

Inventory adjustments at customers and distributors, which have been driving the recent recovery in orders, are making steady progress toward the end of the tunnel, but the progress rate is still about 60% and has not yet been completely resolved.

In addition, the current pace of inventory digestion is a little slower than expected compared to our initial forecast at the beginning of the period. However, even for customers who are still in the middle of inventory adjustment—for example, robot manufacturers—inventory adjustment for some models in their robot lineups has been completed in some cases. We believe that the number of orders will gradually increase even if only due to the progress of inventory adjustment.

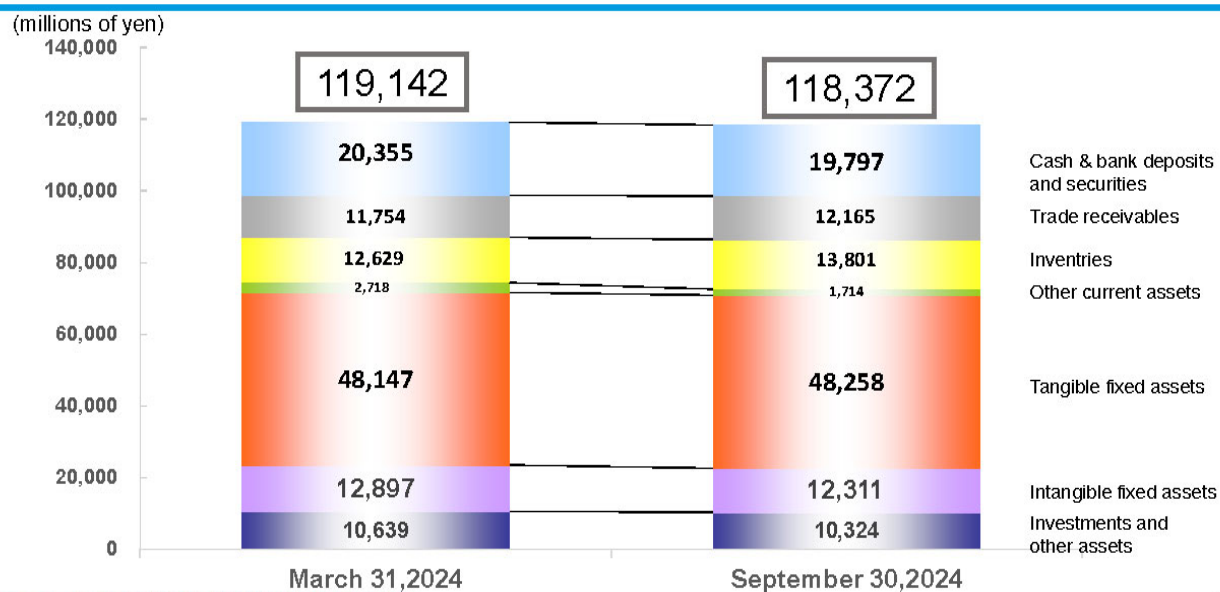
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

Status of consolidated assets



9

Copyright © 2024 Harmonic Drive Systems Inc.

Page nine is the consolidated balance sheet. Please refer to the financial statements for more details.

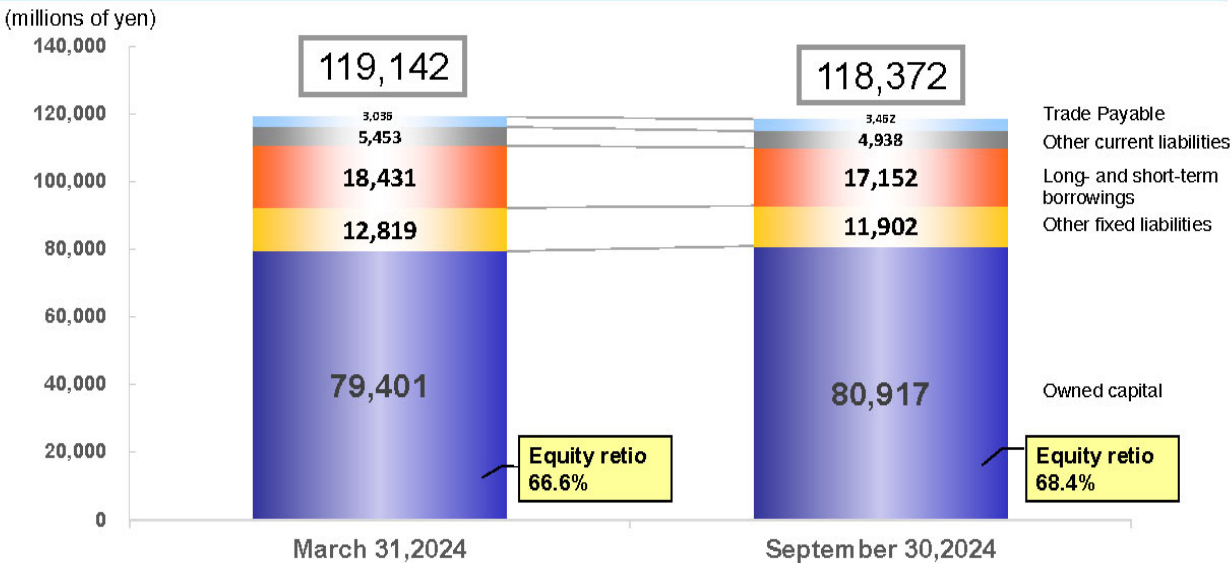
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

Status of consolidated liabilities and net assets



Harmonic Drive Systems Inc.

The same applies to page 10.

Support

Japan

050.5212.7790

North America

1.800.674.8375

Tollfree

0120.966.744

Email Support

support@scriptsasia.com

Status of consolidated cash flows

(millions of yen)	1H FY03/24	1H FY03/25
Cash flow from operating activities	8,246	3,161
Cash flow from investing activities	▲4,379	▲3,501
Cash flow from financing activities	▲5,164	▲2,600
Effect of exchange rate changes on cash and cash equivalents	362	1,253
Net increase (decrease) in cash and cash equivalents	▲936	▲1,686
Cash and cash equivalents at end of period	18,985	17,254



Harmonic Drive Systems Inc.

11

Copyright © 2024 Harmonic Drive Systems Inc.

Page 11 is cash flow. Please look at the financial results here as well.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Consolidated results for FY03/25 (Vs. original forecasts)

【Versus original forecast】

(millions of yen)	Original forecasts (announced May. 13)		Revised forecasts (announced Nov. 12)		Versus original forecast	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	58,500	100.0	54,000	100.0	▲4,500	▲7.7
Operating income	2,700	4.6	▲400	—	▲3,100	—
Ordinary income	2,700	4.6	▲500	—	▲3,200	—
Net income	2,000	3.4	▲400	—	▲2,400	—
EPS (yen)	21.06	—	▲4.21	—	▲25.27	—

Assumed exchange rate for FY03/25 forecasts: 1USD = ¥148.50 1EUR = ¥160.50 1CNY = ¥20.50

Reason for revisions

- ◆ While we expect bookings (in value terms) to increase primarily in Japan and other parts of Asia in 2H, we have revised down the net sales forecast due to a slower-than-expected recovery or expansion in the markets for industrial robots and semiconductor manufacturing equipment—the main applications for our Group's products.
- ◆ The profit forecasts were revised down as well, primarily reflecting the downward revision to the net sales forecast.



Harmonic Drive Systems Inc.

13

Copyright © 2024 Harmonic Drive Systems Inc.

I will now continue to explain the full-year forecast. See page 13.

We have recently revised downward our full-year forecasts. We are very sorry for any concern or inconvenience this may have caused to our investors due to the large movement in our stock price.

The revision is due to the fact that H1 results fell short of the initial forecast, and also due to the revision of the slope of sales growth for industrial robots and semiconductor production equipment to a slower pace, which was expected to accelerate in H2 of the fiscal year at the time of the initial forecast. We have also revised downward our assumptions for H2 of the fiscal year for automotive applications in light of recent demand trends.

With regard to autonomous robots and humanoid robots combined with AI, although H1 of the fiscal year has generally progressed in line with the assumptions made in our initial forecast, we have revised downward our full-year non-consolidated sales forecast by about JPY500 million because our customers' production and sales plans have been slightly delayed from H2 of the fiscal year.

Operating income decreased mainly due to the downward revision of non-consolidated net sales, and the downward revision of the earnings forecast for domestic subsidiaries, whose net sales are eliminated internally, also influenced the increase in the revision range.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Revisions to non-consolidated full-year earnings forecasts

【Versus original forecast】

(millions of yen)	Original forecasts (announced May. 13)		Revised forecasts (announced Nov. 12)		Versus original forecast	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	34,000	100.0	30,000	100.0	▲4,000	▲11.8
Operating income	600	1.8	▲700	—	▲1,300	—
Ordinary income	600	1.8	▲750	—	▲1,350	—
Net income	450	1.3	▲500	—	▲950	—
EPS (yen)	4.74	—	▲5.26	—	▲10.00	—

Assumed exchange rate for FY03/25 forecasts: 1USD = ¥148.50 1EUR = ¥160.50 1CNY = ¥20.50

Reason for revisions

◆Same as for consolidated forecasts (see previous slide)



Harmonic Drive Systems Inc.

14

Copyright © 2024 Harmonic Drive Systems Inc.

Page 14 is a stand-alone amendment.

The main revisions are as explained earlier in the consolidated forecast section.

In H2 of the fiscal year, we will first achieve profitability in the first six months of H2 of the fiscal year, and then lay the groundwork for improved profitability in the next fiscal year and beyond.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Consolidated performance forecasts for full-year FY03/25

(millions of yen)	FY03/24		FY03/25 (forecast)		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	55,796	100.0	54,000	100.0	▲1,796	▲3.2
Operating income	124	0.2	▲400	—	▲524	—
Ordinary income	570	1.0	▲500	—	▲1,070	—
Net income	▲24,806	—	▲400	—	24,406	—
EPS (yen)	▲261.00	—	▲4.21	—	256.79	—
Capital investment	4,955	—	7,200	—	2,244	45.3
Depreciation	10,362	—	8,100	—	▲2,262	▲21.8
R&D expenses	3,613	—	3,700	—	86	2.4

Assumed exchange rate for FY03/25 forecasts: 1USD = ¥148.50 1EUR = ¥160.50 1CNY = ¥20.50
 Net income (loss) refers to net income (loss) attributable to owners of parent.
 Depreciation includes depreciation of tangible assets and amortization of intangible assets and goodwill.



Harmonic Drive Systems Inc.

15

Copyright © 2024 Harmonic Drive Systems Inc.

Page 15 is a comparison of the new full-year forecast with the previous year.

Both sales and profits are expected to decrease from the previous fiscal year as well. The Company planned to invest JPY12 billion in capital expenditures at the beginning of the period but has reduced the planned amount by carefully selecting investment projects to curb the increase in fixed costs, taking into consideration that the recovery of business performance has been delayed.

In addition, we had planned to invest approximately JPY8 billion from the current fiscal year to the next fiscal year to increase the production capacity of small reduction gears in anticipation of an increase in applications for humanoid robots in the next fiscal year and beyond. However, in light of changes in customer sales and production plans, we reviewed the timing and content of investments flexibly and reduced the investment amount by approximately JPY4 billion in the current fiscal year.

Support

Japan 050.5212.7790
 Tollfree 0120.966.744

North America 1.800.674.8375
 Email Support support@scriptasiasia.com



Performance forecasts on main group companies for full-year FY03/25

(millions of yen)		Equity stake	Net sales		Operating income	
			Amount	Year-on-year Change(%)	Amount	Year-on-year Change(%)
※2	HD Systems, Inc. (Harmonic Drive L.L.C.) (U.S.A)	100% (100%)	11,600	▲12.8	800	▲54.1
	Harmonic AD, Inc.	100%	2,000	4.0	▲30	—
	Harmonic Precision Inc.	100%	2,900	37.6	▲550	—
※3	Harmonic Drive Systems (Shanghai) Co., Ltd	100%	5,500	28.0	450	6.5
※4	Harmonic Drive SE (Germany)	100%	16,300	▲2.6	600	▲69.8

*1 For overseas subsidiaries and affiliates, the fiscal year ends December 31.

*2 Exchange rates: Jan–Dec 2023 1USD = ¥140.56, Jan–Dec 2024 1USD = ¥148.50

*3 Exchange rates: Jan–Dec 2023 1CNY = ¥19.82, Jan–Dec 2024 1CNY = ¥20.50

*4 Exchange rates: Jan–Dec 2023 1EUR = ¥152.00, Jan–Dec 2024 1EUR = ¥160.50



Harmonic Drive Systems Inc.

16

Copyright © 2024 Harmonic Drive Systems Inc.

See page 16.

Here are the full-year forecasts for the major groups. As for the US subsidiary, we had assumed at the beginning of the fiscal year that sales and profits would decrease, and we have revised downward net sales and operating income by JPY400 million and JPY200 million, respectively, for the current fiscal year. Orders are expected to decrease in Q3 on a QoQ basis due to a reaction to the completion of projects in Q2, but we expect a recovery in orders for surgical robots and semiconductor manufacturing equipment from Q4 onward.

Next is the domestic Harmonic A.D. Demand for planetary gear reducers in H2 of the fiscal year is expected to increase slightly from H1 of the fiscal year, resulting in an increase in sales and a decrease in losses compared to the previous fiscal year.

Next, here is another domestic Harmonic Precision. Although the production volume of cross roller bearings is expected to increase moderately, it is inevitable that sales will remain below the break-even point in H2 of the fiscal year, and an operating loss of JPY500 million is projected for the full year. On the other hand, since the bearings manufactured by this company are essential components for many of our products, we will preserve the basic production capacity and prepare for the coming phase of increased production.

Next is the Chinese subsidiary. Sales are expected to decline slightly in H2 of the fiscal year due to the absence of large orders and sales from local robot manufacturers in H1 of the fiscal year. However, compared to the previous year, we expect both sales and income to increase for the full year.

Finally, there is the German subsidiary. The current European economy is very severe, and we expect severe demand trends in H2 of the year for industrial robots, machine tools, humanoid robots, and other products.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Although we will focus on building up small-lot projects, we expect both sales and profits to decline for the full year.

Non-consolidated performance forecasts for full-year FY03/25

(millions of yen)	FY03/24		FY03/25 (forecast)		Year-on-year change	
	Amount	Percent (%)	Amount	Percent (%)	Change	Rate (%)
Net sales	28,577	100.0	30,000	100.0	1,422	5.0
Operating income	▲542	—	▲700	—	▲157	—
Ordinary income	2,288	8.0	▲750	—	▲3,038	—
Net income	▲18,460	—	▲500	—	17,960	—
EPS (yen)	▲194.23	—	▲5.26	—	188.97	—
Capital investment	3,275	—	4,900	—	1,624	49.6
Depreciation	4,761	—	4,500	—	▲261	▲5.5
R&D expenses	2,327	—	2,300	—	▲27	▲1.2

Assumed exchange rate for FY03/25 forecasts: 1USD = ¥148.50 1EUR = ¥160.50 1CNY = ¥20.50
Depreciation includes depreciation of tangible assets and amortization of intangible assets and goodwill.



Harmonic Drive Systems Inc.

17

Copyright © 2024 Harmonic Drive Systems Inc.

Page 17 is a non-consolidated comparison with the previous year.

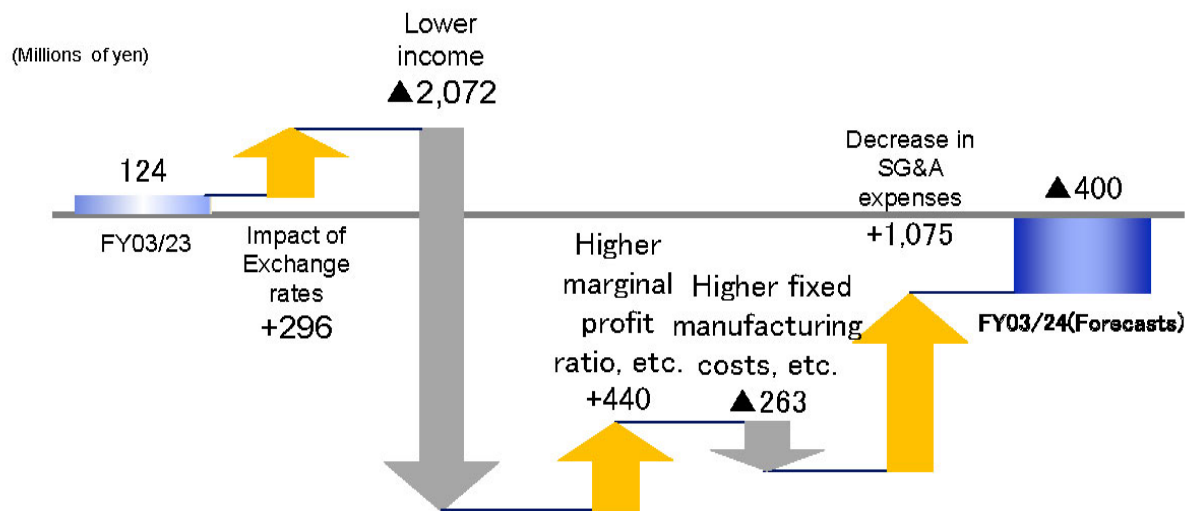
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Factors in year-on-year change in consolidated operating income (fiscal year ending March 31, 2025 forecasts)



Finally, page 18 is an analysis of the factors that may cause changes in consolidated operating income for the full year. As for the numbers, they are as you see. We expect the trend to be similar to the increase/decrease factors in H1 of the fiscal year as explained on page five.

As described above, we are still facing a difficult business environment in the fiscal year ending March 31, 2025, but our performance is now gradually recovering, and we will be well prepared for a new phase of growth from next year onward.

This is the end of my explanation, although it was rushed. Thank you for your attention.

Now, President Maruyama will continue with an explanation of our future outlook.

Maruyama: I am President Maruyama. I would now like to explain our future outlook.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

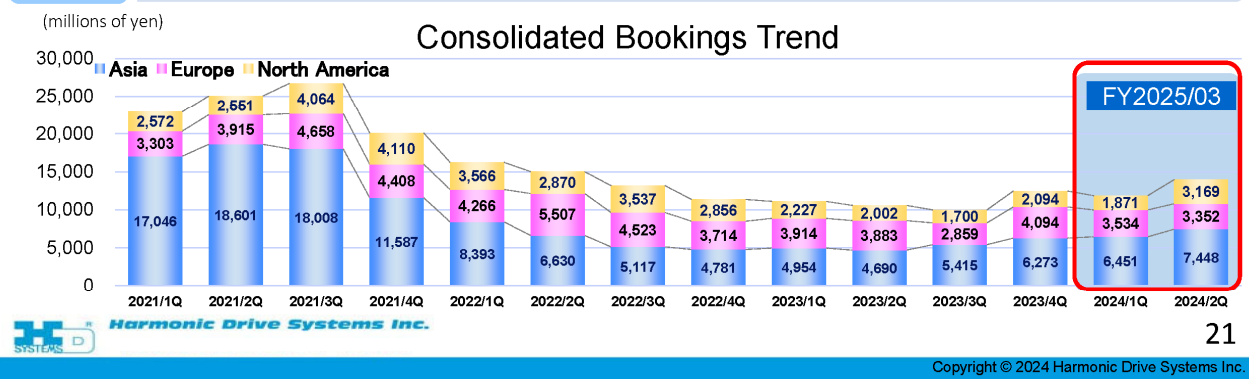
North America 1.800.674.8375
Email Support support@scriptsasia.com

1-1. Consolidated Bookings Status by Region

North America
While there were bulk bookings from some customers in Q2, inventory adjustments continued at semiconductor-related customers

Europe
Bookings were robust, despite a stagnation in the European economy

Asia
Despite steady progress in customers' inventory optimization of our products, the recovery in bookings has been slower than anticipated due to weak end-market demand in China and Europe



Now look at page 21.

First of all, as explained by Kamijo, this is a review of H1 of the year, showing demand and orders by region.

To briefly summarize, in Asia, including Japan, the bottom line is that our major customers are making steady progress in optimizing their product inventories, including those of our reduction gears, but the speed of inventory optimization itself is still slowing as end-market demand is not returning to normal.

Naturally, we are also aware that the recovery in orders has been quite slow compared to our initial expectations.

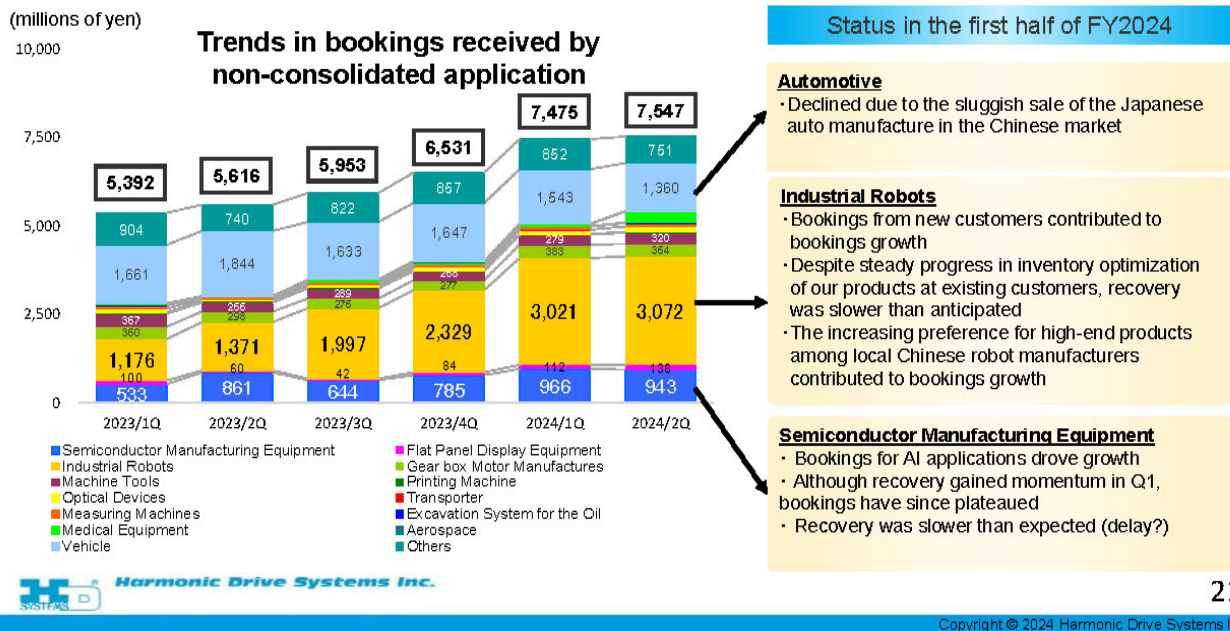
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



1-2. Bookings by non-consolidated application



22

Copyright © 2024 Harmonic Drive Systems Inc.

Page 22.

This is the status of orders received on a non-consolidated basis by application. The information is summarized on a quarterly basis. In particular, there was a certain amount of growth from Q4 to Q1 of the previous fiscal year, but in Q2 of the current fiscal year, the growth in orders was below our expectation as well.

To summarize a little more, we had high expectations for semiconductor production equipment at the bottom during the summer, but our assumptions, including customer trends, have not returned to normal, and the current situation is that the market is not rising.

However, this does not mean that demand of the equipment in which our products are contained is weak, but rather that the demand itself is weak.

Next is industrial robots. This is a similar story, but one point that has taken a slightly different turn is that we are now aware that the expansion of so-called high-end orientation among local robot manufacturers in China has become considerably stronger since the beginning of this fiscal year. I feel that this is one of the factors that have greatly boosted robot orders from Q1 to Q2.

In the area of vehicle-mounted products, Nissan Motor has reduced its production capacity in the Chinese market and other regions. Our products themselves are somewhat affected by this, but we still expect to develop new models in the future, so although we were affected by such sluggish sales in H1 of this fiscal year, we expect sales to rise slightly in the future.

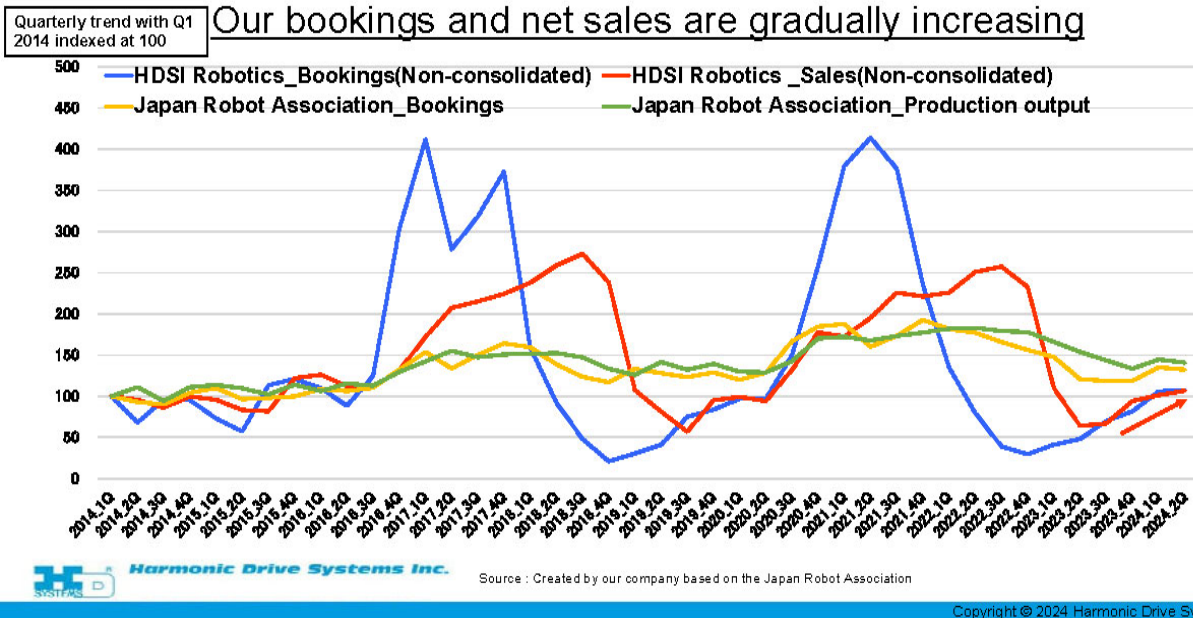
Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

1-3. HDSI bookings and net sales vs. Japan Robot Association bookings and production output



23

Page 23.

This graph looks back over the past 10 years and shows the trends of orders and sales of the Japan Robot Association, which specializes in robots, and our related trends in orders and sales. I am sure you have seen it often as I have shown it to you before. There are two major peaks, and finally, about a year and a half ago, we entered a gradual but definitely upward phase.

However, the question is whether the pull of so-called end-market demand in the future will really be as great as the previous mountain, and whether it will be as great as the previous mountain. We are not trying to overtake the past mountains of orders, we faced due to the problem of our production capacity, but rather, we will continue to supply goods in a timely manner based on demand, and aim for the next high mountain.

Support

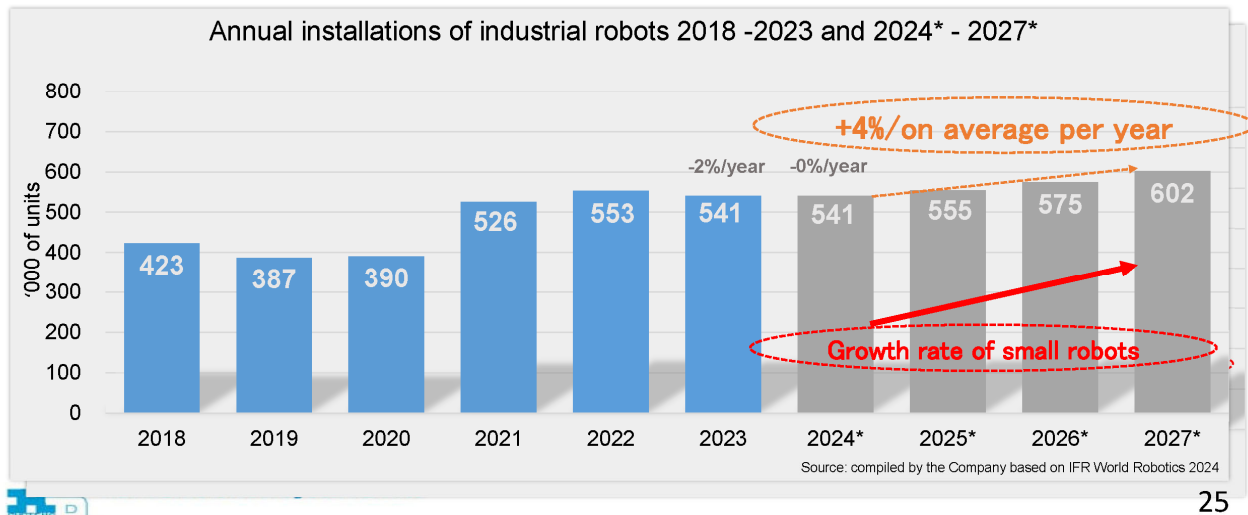
Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

2-1. Factory automation robot market forecast

- Growth rates of industrial robots : Annual rate of 4%
- We have maintained our assumption that the growth rate for small robots will exceed that of industrial robots



25

Copyright © 2024 Harmonic Drive Systems Inc.

We will now move on to future trends. See page 25.

This is the kind of long-term outlook from the International Federation of Robotics that we present to you every year. Until now, the IFR had been quite bullish at 6% or 7%, but this year, the IFR is changing the figure to 4%.

However, as a long-term outlook for the time being, I am certain that the growth rate, especially in the area of small and collaborative robots, will exceed this growth rate. I think we will continue to monitor this area closely.

Support

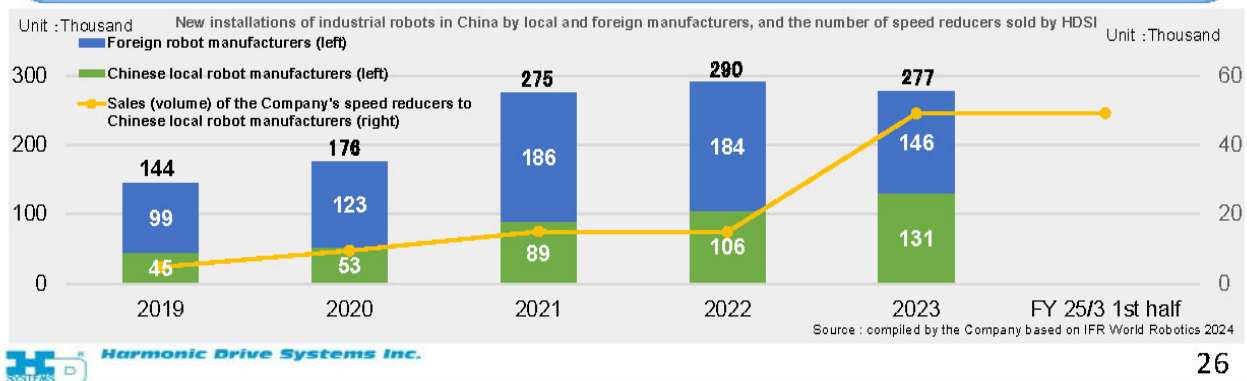
Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

2-2. Emergence of local manufacturers in Chinese robotics market

- Share of local manufacturers in Chinese robotics market
 - The share of local manufacturers for collaborative robots and small size robots has expanded
- Growing preference for high-end products by local robot manufacturers in China
 - The polarization between low-cost models and high-reliability models is accelerating
 - Our market share is on a clear uptrend



Copyright © 2024 Harmonic Drive Systems Inc.

On page 26, I would like to briefly explain a little about the local robot manufacturers in China and our current situation.

First of all, if we limit ourselves to the Chinese market, the market share of so-called local Chinese robot makers has been growing considerably. Especially in the area of small robots and collaborative robots, there has been considerable growth. That is what this bar chart summarizes.

For our part, this yellow line graph shows our sales volume trends limited to local robot manufacturers in China. Especially in the past year or two, some local robot manufacturers have become quite high-end oriented.

In China, there is a considerable polarization between so-called "ultra-low-priced" and "high-end" products, and there is a sense of acceleration in this polarization. We feel that our business with local robot manufacturers who are looking for so-called high-end orientation has increased considerably over the past year.

Incidentally, as of H1 of 2024, we have already shown the number of units sold for the entire year of 2023, and we expect that the growth rate will probably increase considerably for the entire year of 2024.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

2-3. Semiconductor equipment and Automotive

Semiconductor equipment

■ Demand for semiconductor-related customers is showing signs of improvement, but the recovery remains moderate

- Sales of semiconductor manufacturing equipment for AI semiconductors used in servers were robust
- Demand for semiconductor manufacturing equipment for power semiconductors and automotive semiconductors remained subdued
- For memory devices, corporate investment is anticipated in 2025 or later



Automotive

■ The impact of weak sales of the Japanese auto manufacturer was offset by increased adoption of our products in new vehicle models

- Sales were sluggish in China
- Expansion of installation in new vehicle models in North America



Harmonic Drive Systems Inc.

27

Copyright © 2024 Harmonic Drive Systems Inc.

Page 27.

In the semiconductor and automotive sectors, there has been a slight improvement since Q1, but since then we have seen a slowdown in orders from our customers.

As for semiconductor production equipment, as mentioned in the three items above, sales for servers and AI semiconductors continue to be strong. Otherwise, there is quite a lull in the market. Especially with regard to memory, I think that this quarter will probably be quite slow, but we can expect to see this type of investment from 2025 onward.

The next step is in-vehicle. As I mentioned earlier, although the volume itself is sluggish, we hope to make up for it in the near term, especially in North America, as we are preparing to roll out new models and so on.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



3-1. Humanoid robots

■ Emergence of humanoid robot market driven by advances in generative AI

- We have identified demand for humanoid robots in workplaces as an advanced form of collaborative robots
- We will continue providing prototype products to multiple startups
- We have begun mass production for some customers
- The launch of fully operational humanoid robots requires AI and GAI capable of processing vast amounts of data received through cameras and sensors to enable autonomous operations. The development of these advanced technologies will require more time.

<Humanoid robots remain the next growth driver>



<Our response>

While fully utilizing our development capabilities in the operational design of individual projects, we will make timely and necessary capital investments with an eye to the transition to the mass production phase



29

Copyright © 2024 Harmonic Drive Systems Inc.

I will continue with a few new stories. Page 29.

Let me tell you a little about humanoid robots. We have focused considerable attention over the past year on the impact of AI advances on humanoid robots. As written here, we have not yet reached the level where the chassis itself has legs and can move and work just like a human being. In fact, the situation is such that we are trying to evolve collaborative robots, first with dual arms, and then with a well-developed brain, and let them do their work.

Naturally, quite a few ventures have come in here, and we ourselves have been able to fit in quite a few prototypes. Some companies are entering the phase of mass production.

As mentioned at the end, the current situation is that the evolution and development of the so-called brain, or AI, may still be lacking in areas where it is necessary to make it work properly as an autonomous system. I wonder if it actually takes a little more time to grow by leaps and bounds.

However, for us, this industry is the next driver of growth, and this will not change. As Mr. Kamijo mentioned earlier about investment, we are now fully engaged in the development of our own products for so-called "motion design" in the context of robots that are changing in various ways.

On the other hand, there are some areas that are stagnating a little while entering the mass production phase, so I think we should try to meet their demands by making the necessary investments in a timely and steady manner while keeping a close eye on the situation.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



3-2. Space

FY2026 sales target: Over 3 billion yen (more than double the FY2023 sales result)

➤ Optical Satellite Communication

- Laser Communication System is a method of communication between artificial satellites and the ground using laser light.
- Our group's products are adopted for TESAT 's OPTICAL Communication Terminal
- Highly praised for its high precision and long life in space



by : Tesat-Spacecom GmbH & Co.KG

➤ eVTOL(Electric Vertical Takeoff and Landing vehicle)

- Customers are expanding production capacity and preparing to obtain international certifications to achieve the earliest possible start of commercial operations
- To support the launch of customers' commercial operations, we have begun preparations for the mass production of speed reducers for eVTOLs



 Harmonic Drive Systems Inc.

30

Copyright © 2024 Harmonic Drive Systems Inc.

Continuing on page 30, aeronautics and space.

What I am presenting here is a European project, a so-called European version of Starlink, a satellite-based communication network. The HarmonicDrive® is installed in the satellite.

The eVTOL shown below, which we have been introducing for some time, will finally be put into test operation at the Osaka Expo next year. We are now in the process of confirming the final mass production phase, including process confirmation, with our US customer.

We have been focusing on space for the past few years, and we are still looking conservatively at the scale of orders and sales that we can expect from this group, which we estimate to be in the JPY3 billion range or more. Until now, space-related activities have not had a large weighting, but now we are seeing the gradual expansion of this weighting.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

 **SCRIPTS**
Asia's Meetings, Globally

3-3. Mobility

➤ Lean Mobility

- Urban compact EVs
- Realize safe and exhilarating driving through state-of-the-art sensing and control technologies
- Our products are integrated into active lean technology, which optimally controls vehicle tilting during a drive
- Mass production slated to start from 2025



Source: Lean Mobility Inc.

Next is page 31.

This is mobility, also for one person. The main market here is Taiwan. This company, Lean Mobility, is located in Taiwan, and its original technology is Toyota's i-ROAD. The company that applied this technology spin-out and will actually mass produce this in Taiwan.

As you know, the reason for the Taiwanese market is that many people commute to work on very small motorcycles, and the company is targeting this type of mobility mainly in Taiwan.

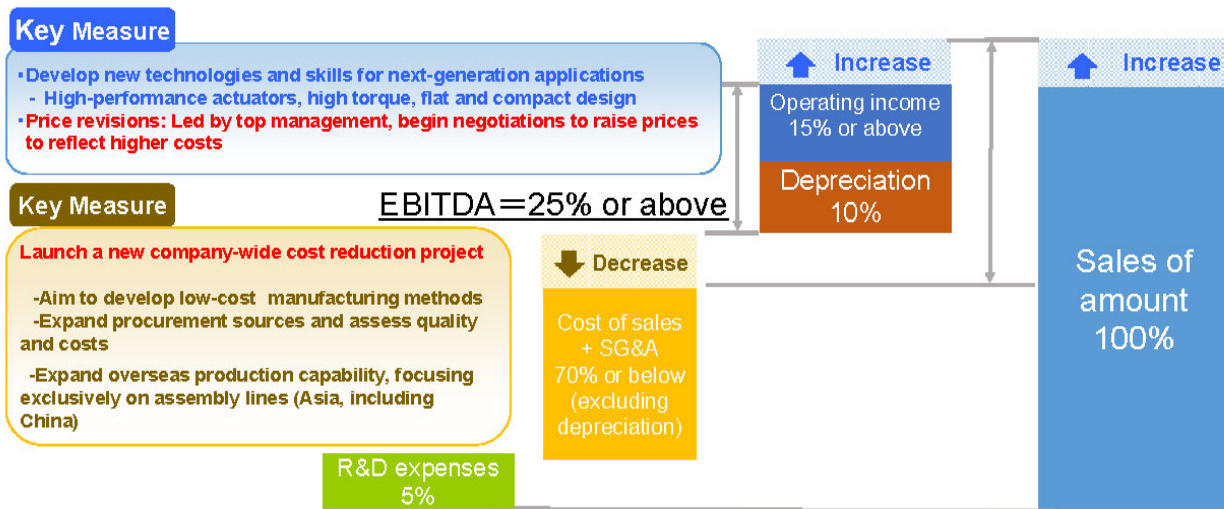
Harmonic Drive® was originally included here, but of course we are now in the phase of mass production, and although the first year is still small, we will finally enter the phase of mass production in the next fiscal year, starting in 2025.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

4-1. Sustainable growth of all businesses with an emphasis on profitability



Harmonic Drive Systems Inc.

33

Copyright © 2024 Harmonic Drive Systems Inc.

Now, I would like to introduce a few of our initiatives for this fiscal year, including the most recent. See page 33.

First, we are focusing on the growth of all businesses with an emphasis on profitability. In particular, one of our priority measures is the development of new technologies and new applications, and the other is how to increase profits, or simply put, how to pass this on to the price.

This is simply to increase sales. In particular, with regard to pricing, we have notified all of our customers that we will be raising the prices of our Harmonic Drive products this quarter. I believe that such movements will gradually emerge in H2 of this fiscal year and beyond, but to be honest, I do not see the contribution of these activities to this fiscal year's sales, as Kamijo mentioned earlier.

In fact, we believe that this should have a considerable impact on future orders, so we will be watching closely to see how much of this will actually be reflected in the next fiscal year and beyond.

On the other hand, we are trying to produce products as low as possible, and we are a manufacturer, so naturally we have always tried to reduce costs to the lowest possible level.

In addition, we will procure from places where we have not made products before, or from areas where we have not procured before. In a sense, as written here, we are planning to build such products with a view to sales in the Asian region, which is expected to grow in the future, especially in overseas production limited to assembly, which is assumed to be in the Asian region, including China.

We have taken a major step forward. The Company is in the midst of promoting this project as well.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

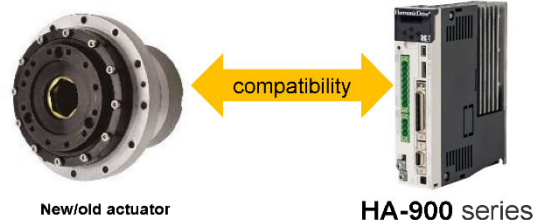
SCRIPTS
Asia's Meetings, Globally

4-2. New Product Releases

Enhancement and expansion of high-value-added mechatronics products

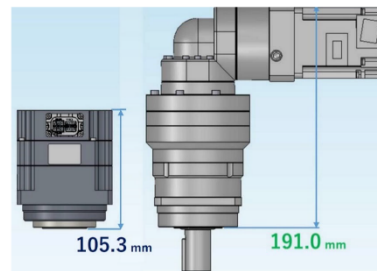
➤ AC Servo Driver HA-900A Series

- Successor to the HA-800 A series (upward compatibility)
- Position control performance: 2.5x improvement (compared to our previous model)
- Enhanced usability: Dedicated utility software
- Improved customizability: Able to accommodate customer-specific requirements



➤ High-precision Planetary Speed Reducer-type Servo Actuator

- Advantages over conventional right-angle planetary gears + servo motors
 - High performance
 - Low power loss
 - Space-saving design
 - Enhanced profitability



 Harmonic Drive Systems Inc.

Product under development (L) and competitor product (R) 34

Copyright © 2024 Harmonic Drive Systems Inc.

In the area of high-functionality products, we have a series of mechatronics products, but we are now putting more effort into these products to make them easier to use and to develop smaller and more compact actuators that were unthinkable in the past, especially the planetary reduction gears shown here in the lower part of this page.

We are now focusing our efforts not only on planetary reduction gears but also on high-function actuators, especially targeting semiconductor manufacturing equipment and machine tools.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

 **SCRIPTS**
Asia's Meetings, Globally

Finally, I will show you a little bit about page 35.

As for non-financial information, we began publishing an integrated report last year. The 2024 edition was finally completed yesterday and uploaded to our website, so I won't go into the details here, but I hope everyone will take a look at it.

That is all for my explanation. Thank you very much for your attention.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Question & Answer

Moderator [M]: I will now move on to the question-and-answer session.

Isayama [Q]: Thank you very much for all your help. My name is Isayama of Goldman Sachs. Thank you very much for your time today.

I would like to ask you mainly about revenue today. There are always growth expectations, but the earnings shock is quite large this time around. I would like to focus on page 33 of slides that you have prepared for us.

I think it is very good that you included the story of the price increase, and the Cost Innovation Project, et cetera. I think it is very positive that this kind of initiative is finally emerging, but I am still wondering, since the profitability has been low for a while, how much of an impact it will have, and I am sorry to say that I don't believe it, but I am wondering if you can get a little more resolution, how much of an impact it will have, and if we will be able to get it right. I am wondering how much of an impact it will have and whether it will be profitable.

So, as President Maruyama mentioned about price increase, how much are you negotiating for new orders from H2 of the year, starting October 1? Please let me confirm whether you have changed your pricing stance so that you can adjust your pricing accordingly in the event that the cost trend increases again in the future.

As for the cost reduction part, I think you have been saying that demand will return someday, and it is good that you are making these changes, but your plan for H2 of this fiscal year still shows a minus figure for fixed manufacturing costs. So, what are you going to cut and how much?

For example, I think you said that you would keep investment within the scope of amortization for the time being, or that you would hold back on personnel expenses, but will you finally implement this as well? I would like to know about the actual actions and what you are thinking about here as well. We would appreciate a resolution on the selling price side and the cost side. Thank you.

Maruyama [A]: Maruyama will respond to you. First of all, regarding the price increase, we are wondering what level of increase we can do. Of course, if the price is to be raised, the background and reason for the increase must be clearly explained. Naturally, there are many factors involved, including cost increases at our procurement level, labor cost increases, and other expenses, but we are preparing materials on the background. In fact, we are asking for orders from H2 of this fiscal year onward.

This may not be very detailed on the website. We have already made a request for a flat rate of 5% for harmonic drives and planetary speed reducers, and 10% for mechatronics products, especially since electronic components have risen considerably, and we are now in the process of negotiating with each customer.

Naturally, there are different levels of acceptance and non-acceptance, depending on the customer and the product. However, we did raise prices once before, about 14 years ago, after the Lehman Brothers collapse. Compared to that time, I think the background for raising prices is now much more favorable. This is not to say to what extent this is acceptable or not.

In that sense, we rarely have customers who give zero response to these requests. However, we have not yet finalized the specifics of when, on which products, and for how long. As soon as that is finalized, we will take a proper look at the results and look back to see how much we have accomplished. Then, we can show you the details.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasias.com



One more thing, though, is cost reduction. It is difficult to ask clients to reduce prices. It is the variable cost area in particular that we are trying to do a great deal of work on right now. We will not do so because we are now in an upward phase, albeit a gradual one, rather than a downward phase.

However, as Kamijo mentioned, we will have to take a much stricter look at the so-called capital investment part of the outlook for the foreseeable future.

Also, with regard to variable costs, we will step out of Japan, especially with regard to procurement items and the places where we actually manufacture and sell our products, and create products in such places, especially in procurement and assembly, which may be called collaboration. We will do some targeting there as well.

We do not make cheap or inferior products, but we do not believe that we can easily bring such products to Japan and sell them at a certain level. We are now working to create such strategic products with an eye to local robot manufacturers in China, which are expected to expand even more in the future, and whose rise is gaining momentum, and who are now looking this way. That is all.

Isayama [Q]: I think this is the first time you have specifically brought up the subject of overseas production, et cetera, in this way. So, I think it's a very good story, but what you mentioned earlier, just here, is an EBITDA margin of 25% or more.

Can you protect this by implementing these measures, and do you take the stance that you will aggressively raise prices when they are likely to fall below this level? What are your thoughts or enthusiasm about the margins as a new administration of President Maruyama?

Maruyama [A]: Since we have set these numbers, I think it is absolute that we must not remove that as our goal anymore. However, we cannot raise prices even to the point of betraying our customers' trust. I think we will keep pace with those areas and make sure that we are getting closer to our goals. Sorry for being a bit abstract.

Isayama [Q]: Thank you very much. Second, I'd like to ask you about sale. In the end, inventory management and the speed of digestion on the customer side have taken much longer than expected, and the recovery of actual demand has been more sluggish and prolonged than expected. I think this is the main reason why the demand is weaker than the actual demand.

There is a three-month gap in disclosed information with overseas subsidiaries, and I am concerned about the fact that the gap between the consolidated and non-consolidated portions of the business is having a delayed effect on the revenue gap as well. How do we leverage the management of sales, including overseas sales, for the next cycle, since there is nothing more we can do this cycle? In particular, are there any plans to change the trading company in order to manage the inventory within the group and for customers?

I know that in both the previous cycle and the current cycle, this inventory part has become quite an issue, so I am wondering if there is any way to change that. Do you have any ideas?

Maruyama [A]: In terms of customer inventory management, the level of sensitivity has increased considerably over the past few years, especially non-consolidated in Japan. Therefore, most of the major robot manufacturers have an intermediary distributor to handle the logistics, but we are able to manage, or at least keep track of, the inventory of the distributor, which is supplemented by the inventory of the robot manufacturer, the end user. We are constantly working on this, trying to determine what kind of demand there is and how much demand we can attract.

As I mentioned earlier, it is important for us not to create such a high mountain of orders. For this reason, we will never let a delivery date of a year or more happen again. I believe that the capital investment we made

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



in 2022, especially in Japan, will contribute considerably to this, and another thing is that even so, some customers are anxious to get things done ahead of time. We have established a method of controlling orders below a certain level within our company.

Basically, we have been trying not to let another year or two of excess inventory caused by such a high mountain get us into this kind of situation. We cannot yet say when the next mountain will be reached, but we are confident that it will not be too far away, and we are now ready to manage it properly.

Isayama [Q]: Can't you change the idea, which sometimes happens with materials and such, to do a certain number of contracts for a long term, and then the penalty goes or doesn't go, or something like that? As you mentioned, at the time of the previous supply chain disruption, some major companies asked for too much and ended up in such a situation that order backlogs have not been completed yet. To prevent this from happening, do you have any plans to negotiate with them there in order to change the way they receive orders?

I think you can achieve the margin increases and cost reductions you are talking about today, but I think it will be difficult if you don't manage the entry point well in the first place, so do you have any ideas that you should try to implement such measures, like trying to do certain things because you are in a more upstream industry of other materials?

Maruyama [A]: As for what needs to be done, I don't have anything more than what I just talked about, but I can't say that this is what we need to do now. I believe that what we have prepared will be solemnly deployed from now on.

Isayama [M]: Thank you very much.

Moderator [M]: Okay, those in the second row from the front, please.

Morota [Q]: I am Morota of Okasan Securities. Thank you.

First, I assume that you have revised your non-consolidated order forecast in the downward revision. I think last time, I think it will be more than JPY10 billion in the fiscal year, I think it will be Q4, I think it will be in 2025, I think you were looking at more than JPY10 billion.

In the case of your company, I assume it is based on the client's plan, so I would like to know what was said last time and what is being said this time. For example, this time it will be delayed by JPY10 billion or so, but the next time it is likely to come back at around certain timing. If you have such a story, I would like to know a little bit about it. If possible, please tell us not only the robot, but also the SP and in-vehicle, if any.

Maruyama [M]: What kind of figure is JPY10 billion?

Morota [Q]: On non-consolidated orders. Non-consolidated quarter.

Maruyama [A]: This is just an assumption, but if the current market conditions are linked to normal demand, not to inventory factors, for example, I think robot manufacturers have the ability to make JPY10 billion or so in a non-consolidated quarter.

However, we believe that the current discrepancy is not a reduction in scale, but rather a delay in the start-up of the business. If I am to ask whether this delay is in the so-called Q1 or Q2, I would say it is probably closer to Q2.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



In that sense, it is difficult to predict where the next peak will be, but in semiconductors in particular, we expect to see some movement in orders after January, in Q4. You may say that the industry is quick to talk about that kind of thing, but it's hard to hit on it, but I think that's what it's like.

As for robots, in fact, some companies that have stock have already come to us, depending on the model. Although it is not clear whether there is active movement, it is clear that it is coming back to us, so I think we will continue to make a balance between those models that are in stock and those that are not.

Morota [Q]: I wanted to ask how you see the US as a driving force behind the robot recovery. When I attended briefings by FANUC and Yaskawa, I was told that they have recently been investing in the US in a very unusual way. Also, when I talked to an analyst in the US, he said that after the presidential election, there is a need for manpower saving and robotization itself, partly because of the vintage of the equipment.

For example, there is the question of how robotization, which has not progressed to date, will fare with the involvement of Trump. Please let me know how you are thinking about whether or not it would be a good idea for the US to play a pretty big role in the next robot recovery, for example, as the robot density and other factors increase.

Maruyama [A]: Up until now, we have not been fully aware of China, especially in the area of small industrial robots. As Mr. Morota just mentioned, I believe that major robot manufacturers are looking at the US quite closely.

The other thing is that the US is the most active region in terms of humanoid robots, which has been mentioned earlier, as well as industrial robots, so we expect the market to be quite beneficial for us in conjunction with this.

Morota [Q]: I understand. Second, you mentioned high-end products in China, and looking at the past year, it is clear that Inovance has made the most rapid progress. I think Inovance is truly high-end oriented.

I think it might be better to ask Inovance, but does Inovance's high-end orientation mean that there are Japanese manufacturers on top of Inovance, or does it mean that ESTUN is more cost-oriented? What is the background behind such a breakthrough, and where do you see it going from here?

Maruyama [A]: It is difficult for us to say whether this robot is high-end or not. In China right now, they are still far behind Japanese manufacturers in the area of robots for automobiles, an area in which FANUC and Yaskawa excel, and they themselves are aware of it.

However, I have the impression that many Chinese manufacturers are beginning to think that they have already caught up with certain aspects of Japanese robot makers, regardless of the actual situation regarding so-called "small" or "collaborative" Chinese robots.

Another reason for this growing trend toward high-end products is their own exports, not just looking at the so-called Chinese market. We have heard that they are looking at overseas markets as well.

Morota [Q]: Last, I would like to add that I think you are doing business with Inovance, but how many of those high-end manufacturers, or rather, how many companies are you doing business within China right now?

Maruyama [A]: Specifically, I think we will soon have about three companies.

Morota [M]: I understand. Thank you very much. That's all from me.

Moderator [M]: Okay, second from the front by the wall.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

McDonald [Q]: Thank you. McDonald. Three brief points.

Continuing on from Mr. Morota's earlier discussion, there is a lot of talk about China's high-end orientation and so on, but what about profitability? The chart on page 16 today shows that the profit margin in China for the current fiscal year is about 8%. I don't think it is that good regarding page 33. I think it is quite competitive.

If you are really going to focus your efforts in China, how do you feel about whether profitability should really be expected or not? Earlier, there was talk of various price hikes, but I think that Chinese manufacturers may not be willing to raise prices.

Maruyama [A]: With regard to Chinese manufacturers, rather than raising prices, at the bottom of page 33, the priority measures below, how to satisfy their demands while keeping costs down. This is the focus here.

McDonald [Q]: So, if you look at the priority measures now, this table on page 33 is a little different from the May table, the red price pass-through and the limited assembly. As I mentioned earlier, though, how about profitability? This is what was put out today, so I would like to ask one more time how is the profitability in China?

As President Maruyama pointed out, assembly will be considered in China, but I have the impression that not much is being made in China at this time. Sorry for being persistent.

Maruyama [A]: Until now, when we have not specifically implemented such measures, so-called "all made in Japan" products have still been accepted by robot manufacturers who desire high-end products. However, as you mentioned, price and cost will become very important if we want to expand this further. In order to increase our profit margins, we are trying to increase our profit margins by doing these things.

In short, the Japanese and European robot manufacturers that have been our mainstay remain strong. In any market. If that were the case, I probably would not have bothered to do this. After all, local Chinese manufacturers are gaining such strength and taking market share. In that case, our share of the reducer market would naturally decrease. I wondered if I couldn't just sit back and watch it happen.

Therefore, we do not intend to enter the market at a really low price at all, but to ensure profitability where our value is recognized.

McDonald [Q]: Thank you. Just to confirm: I have heard the word "severe" many times at today's briefing, and yet capital investment has been lowered from about JPY12 billion in May to JPY7.5 billion, or about JPY7 billion, but what are you going to use that JPY7.6 billion for? Does this include Chinese production sites or not?

Maruyama [A]: This is hardly in there.

McDonald [Q]: So, are you going to be talking about local assembly in China perhaps next fiscal year?

Maruyama [A]: It may come out to some extent, but as for the JPY12 billion figure, as Mr. Kamijo explained, we originally planned to invest in mass production of the so-called "small size," the so-called "human type," because we thought it was quite important.

However, looking at the recent growth rate of humanoids in the current footprint, as well as the inquiries, there is no need to rush that much and that we are holding back on our investment. Naturally, we will also make investments to increase productivity, such as in the renewal of facilities, so the total investment will be about JPY7 billion.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasias.com



McDonald [Q]: Also, another way to look at it, and I'm expressing interest, your biggest customer is Nissan. Nissan has recently announced in newspapers and other media that it will reduce its production capacity by about 20% worldwide. It's already a hell of a tough situation. Earlier, you mentioned the introduction of models that you are expecting from H2 of the year in the US, and many other things.

I don't know if it would be a good idea to join a company like that in the future, for a top customer. I still think that this in-vehicle business is not a very significant contribution.

Lately, when I see it in Nissan's announcements, I think it might be bad to say the least, but am I worrying too much? Are you okay with this on-board business? If the top 20% of customers are going to shrink, I think it's going to be a little tough. How do you feel about it?

Maruyama [A]: The parts we deliver, which go into engines, will probably not be drastically reduced at the plants that make the models that carry them. If anything, this is something new, so.... in that sense, if you ask me whether or not there is any concern, I will say that there is, but we think we can maintain at least JPY5 billion or JPY6 billion per year for the time being.

This is a significant contribution to our current profit structure, so we will continue to monitor this closely.

McDonald [Q]: Finally, briefly, six months ago you took the trouble to announce your medium-term plan, which showed sales of JPY90 billion, operating income of JPY15 billion, operating margin of 16.7%, and ROE of more than 10% for FY2026. How is this goal as of today? I think it's pretty tough from the outside looking in. Will you stop this medium-term planning outlook?

Maruyama [A]: We basically do not change the medium-term plan itself from YtoY. I have not yet had the thought of giving up on the idea of abandoning 2026 already because of our current footing. I am sure that it will be a tough road, though.

McDonald [M]: Thank you.

Moderator [M]: Okay, third row from the front in the center, please.

Pan [Q]: Thank you for your explanation. My name is Pan from Macquarie Capital Securities.

First point, on page 22 of the slides, in the industrial robots section, there are new customer projects that are contributing to the increase in orders, is my understanding correct that these are local robot manufacturers in China?

Maruyama [A]: Actually, this includes so-called humanoid robots, which are not fully humanoid robots, and in that sense, new customer projects have contributed to the increase in orders.

Pan [Q]: Thank you very much. In short, am I correct in understanding that the contribution here is largely due to the increase in orders for humanoid robots in the US?

Maruyama [A]: No, I don't mean that it is limited to the United States. The positive amount is simply for use in humanoid robots.

Pan [Q]: Thank you very much. Also, in Q2, in the last three months, have you seen another increase in new customer projects? Only for humanoid robots.

Maruyama [A]: Actually, inquiries are increasing. Its provability is also increasing. However, I think the phase of mass production is just beginning everywhere.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasiasia.com



Pan [Q]: I'm sorry. As for the extent of the relationship, in your explanation so far, you said that the main manufacturers were roughly 14 or 15 companies, and that you mainly dealt with three of them. At the current pace, for example, would these numbers change?

Maruyama [M]: By numbers, do you mean actual projected numbers?

Pan [Q]: Yes. For example, the number of customers with whom your company does business, and then the changes in the main players, the main players that your company can now observe. For example, after the US presidential election, did the change of administration cause any changes in the main manufacturers, such as Tesla for example, to review their current supply chain, or any other changes in that area in the past three months?

Maruyama [A]: I am not aware of any extreme changes resulting from this, but I assume that there will probably be some changes.

Pan [Q]: Thank you very much. In short, the number of inquiries has increased, but your three main customers have not changed much over the past three months. Would it be correct to say that sales of about JPY500 million have been shifted to the next fiscal year?

Maruyama [A]: Well, I guess that's the general idea.

Pan [Q]: Thank you very much. Second, I would like to ask about Chinese robot manufacturers. We have received separate data on non-consolidated orders and sales. In this case, the blue broken line looks like a big drop for China.

This is only non-consolidated orders and sales, but I don't feel this at all in your current explanation, so I wonder if this is your company's sales being booked by subsidiaries, or in short, why does this Q2 movement seem so large?

Maruyama [A]: What I just described focuses only on so-called local robot manufacturers. China is largely comprised of European robot makers, and some Japanese companies are also involved, but these are excluded. Conversely, it may be that the total is not so great, with that side not doing so well and the local side coming up.

Pan [Q]: Thank you very much. In short, am I correct in understanding that sales to Chinese robot manufacturers are not recorded on a non-consolidated basis, but through a subsidiary? China here reflects the trends of European and Japanese manufacturers.

Maruyama [A]: Of course, we sell through our subsidiaries.

Pan [Q]: Are you saying that local Chinese manufacturers are not reflected in the non-consolidated graph?

Kamijo [A]: In this graph of China, a robot manufacturer in China, two European companies and a local robot manufacturer in China, and our customers. Both of these products are ordered and sold through our subsidiary in China.

This graph shows that the number of orders received is a bit larger in Q1 and lower in Q2. This is a situation where orders from certain local Chinese robot manufacturers are rather solid in Q1, and Q2 is a reaction to Q1. I would like to ask you to look at this as a half, or average, because the impact of the orders placed by one company or individual company is significant here.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasias.com



Pan [Q]: Thank you very much. Sorry for being persistent. Am I correct in understanding that China's high-end orientation is more toward large robots with six axes or other advanced three axes, or for automobiles? Not small size.

Maruyama [A]: No, it is a small robot.

Pan [Q]: It is the smaller one. In short, is it a small robot that uses five or six of your Harmonic Drive?

Maruyama [A]: Yes. You are right.

Pan [Q]: Thank you very much. Finally, sorry, I would like to ask about the stock price. We received feedback that it is very volatile, and that it is a bit tough for investors who are holding for the long term.

The fact that market conditions are difficult is not only for your company, but also for your competitors and customers, and this is something that you cannot control. I would like to know if you have any thoughts or measures to stabilize the stock price under such severe circumstances from a financial perspective, for example, in terms of shareholder returns or management.

Maruyama [A]: I thought there would be such questions. So, it is difficult for me to say at this time what steps we will take immediately. Basically, I believe that it is already best for us to make a solid performance and build up our strength. That being said, if the slump is to continue, I think we should be proactive in considering other measures, not limited to these, but with a variety of options in mind.

Pan [Q]: In short, share buybacks, et cetera.

Maruyama [A]: We will not deny that either.

Pan [Q]: So, you are considering this without denying it.

Maruyama [A]: Yes. We would like to consider that.

Pan [M]: Thank you very much. That's all from me. Thank you very much.

Moderator [M]: Okay, we will end the question-and-answer session at this point. Thank you very much for your kind attention to the end.

This concludes the presentation of financial results for Q2 of the fiscal year ending March 31, 2025. Thank you very much for your participation.

[END]

Document Notes

1. Portions of the document where the audio is unclear are marked with [inaudible].
2. Portions of the document where the audio is obscured by technical difficulty are marked with [TD].
3. Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.
4. This document has been translated by SCRIPTS Asia.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2024 SCRIPTS Asia K.K. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

