First Quarter of the Year Ended December 31, 2021

Conference Call (Held April 28, 2021) Presentation and Question & Answer Summary

Presentation

Moderator: Thank you very much for taking time out of your busy schedules to join us today for the financial results briefing of Renesas Electronics Corporation for Q1 FY2021. Hidetoshi Shibata, Representative Director, President and CEO, Shuhei Shinkai, Senior Vice President and CFO, Takeshi Kataoka, Senior Vice President, General Manager of Automotive Solution Business Unit, and other IR staff are attending today's briefing.

Shibata, our CEO, will give a short speech, and Shinkai, our CFO, will explain the financial results of Q1. The entire briefing is scheduled to last approximately 60 minutes. The materials used in today's presentation are the same as those posted earlier on the IR site of the Company's website.

Now, please go ahead, Mr. Shibata.

Shibata: Hello, everyone. This is Shibata from Renesas.

Shinkai will explain this in detail later, but immediately after the earthquake in February, we announced that the impact would be minor. Even with that in mind, we finished the Q1 a little above the median of the guide. The main factors are the exchange rate and the pull-ins, or rather the catch-ups in the production factories those affected by the earthquake/fire-incidents.

In Q2, we are in the middle of ramping up from the fire. When I spoke to you all just 10 days ago, I said that we would like to get to 50% operation by the end of this month. Currently, we are a little behind, and as of today, the operation rate to be a little less than 40%.

However, we have a pretty clear idea of the bottlenecks, and how to deal with them. And so, we'd like to tell you, including my wishful thinking, that we'd like to catch up as soon as May starts.

Finally, as some of you may have noticed, we have added some information and improved the presentation of the information in order to enhance the disclosure. We would like to continue to improve this area through trial and error, incorporating your feedback as we move forward.

With that, I would like to conclude my opening remarks and hand over the baton to Shinkai. Please go ahead.

Shinkai: I'm Shinkai, the CFO. I will explain the financial results for the Q1 of fiscal year 2021 based on the materials posted on the IR website.

As Shibata mentioned earlier, from the Q1 of this fiscal year, we are enhancing our segment disclosures to provide a deeper understanding of our business and business performance in the automotive and industrial/infrastructure/IoT businesses, and I would like to explain them from time to time.

Non-GAAP

1Q 2021 FINANCIAL SNAPSHOT

IFRS, NON-GAAP*1

YoY and QoQ revenue as well as the changes from FCTs of the revenue are rounded off to one decimal place.

(B yen)	2020		2021				
	1Q (Jan-Mar)	4Q (Oct-Dec)	1Q (Jan-Mar) Forecast	1Q (Jan-Mar) Actual	YoY	QoQ	Change from Feb 10 FCT*2
Revenue	178.7	191.6	201.0 (±4.0)	**203.7**	**+14.0%**	**+6.3%**	**+1.3%**
Gross Margin	47.3%	47.0%	48.5%	**50.2%**	**+2.9pts**	**+3.1pts**	**+1.7pts**
Operating Profit/loss (Margin)	33.7 (18.8%)	37.2 (19.4%)	44.2 (22.0%)	**52.6 (25.8%)**	**+18.9 (+7.0pts)**	**+15.4 (+6.4pts)**	**+8.4 (+3.8pts)**
Profit/loss Attributable to Owners of Parent	29.9	24.2	-	**32.6**	**+2.7**	**+8.4**	-
EBITDA*3	57.6	57.5	-	**71.8**	**+14.2**	**+14.3**	-
1 US$=	110 yen	105 yen	103 yen	**104 yen**	5 yen appreciation	1 yen appreciation	1 yen depreciation
1 Euro=	121 yen	124 yen	125 yen	**127 yen**	6 yen depreciation	3 yen depreciation	2 yen depreciation

*1: Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS based) figures following a certain set of rules. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore results are provided in non-GAAP base. This adjustment and exclusion include the amortization of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable.
*2: Each figure represents comparisons of the midpoint in the sales revenue forecast range.
*3: Operating Profit + Depreciation and amortization

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Now, please turn to page 4. This is a summary of the financial results for Q1.

Please refer to the dark blue column in the middle.

Revenue was JPY203.7 billion, gross profit margin was 50.2%, operating income was JPY52.6 billion, 25.8%, net income was JPY32.6 billion, and EBITDA was JPY71.8 billion.

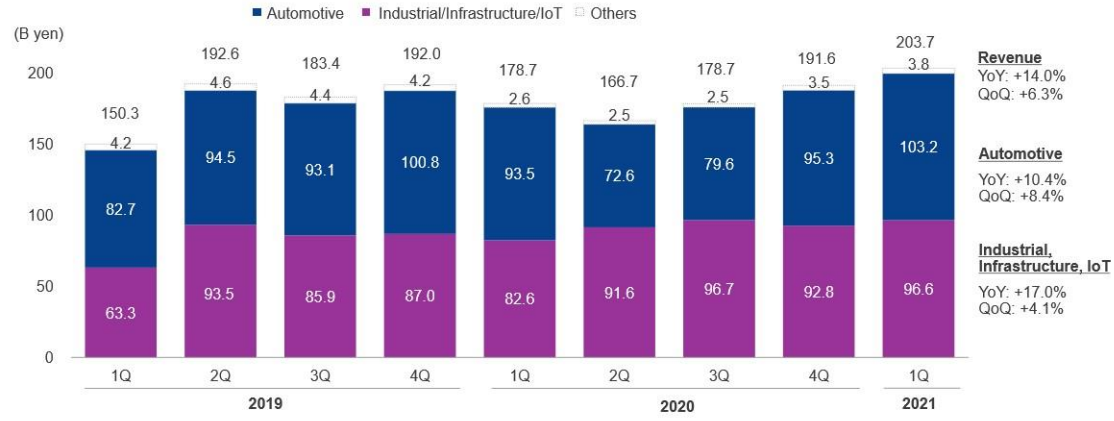
Please refer to the rightmost column for the change from the forecast.

Revenue resulted in 1.3% or JPY2.7 billion above the median guidance. The gross profit margin resulted in 1.7 percentage points above the median. Operating income was JPY8.4 billion higher, or 3.8 percentage points above the guidance.

Non-GAAP

QUARTERLY REVENUE TRENDS

IFRS, NON-GAAP*1



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Page 5 is about sales revenue. The following table shows quarterly changes.

The rightmost column shows the results for the Q1. Overall sales revenue increased 14.0% YoY and 6.3% QoQ. Sales for automotive applications also increased by 10.4% YoY and 8.4% QoQ. For Industry, Infrastructure, and IoT sales increased by 17.0% YoY and 4.1% QoQ.

Non-GAAP

1Q 2021 REVENUE AND GROSS/OPERATING MARGIN

IFRS, NON-GAAP*1

	4Q 2020 Actual (Oct-Dec 2020)	1Q 2021 Forecast (Jan-Mar 2021)	1Q 2021 Actual (Jan-Mar 2021)
Revenue vs FCST: +1.3% QoQ: +6.3%	191.6 B yen	201.0 B yen (±4.0 B yen)	203.7 B yen
Gross Margin vs FCST: +1.7pts QoQ: +3.1pts	47.0%	48.5%	50.2%
Operating Margin vs FCST : +3.8pts QoQ: +6.4pts	19.4%	22.0%	25.8%

Operating Margin vs FCTS + 3.8pts
- Revenue
- Gross Margin
  - Currency Impact
  - Product Mix
  - Production Recovery
  - Production Costs, etc.
- Operating Expenses

Operating Margin QoQ +6.4pts
- Revenue
- Gross Margin
  - Currency Impact
  - Product Mix
  - Production Recovery
  - Production Costs, etc.
- Operating Expenses

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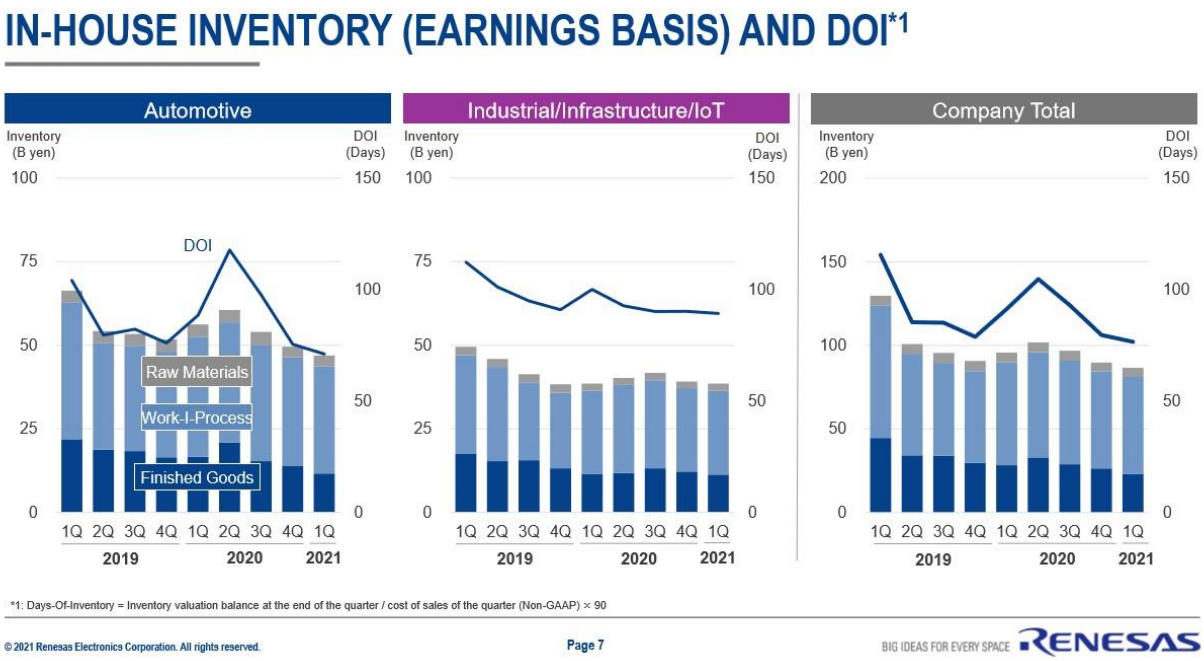
Next, on page 6, I would like to explain the differences regarding sales revenue, gross profit margin, and operating profit margin.

First, the deffernce from the guidance is in this upper right box. The JPY2.7 billion increase in sales from the median is mostly due to the foreign exchange rates. In terms of net sales impact, excluding the impact of foreign exchange rates, the decreased number of shipments due to the Fukushima earthquake offsets the positive impact of other factors.

As for the gross profit margin, the improvement in the production mix, and the decrease in manufacturing costs, were partially offset by the decrease in production operating due to the earthquake and fire. Operating expenses were below the forecast by JPY3.7 billion, and roughly two-thirds were the decrease in R&D. This includes increases in NRE and development deposits. One-third of the decline was from SG&A. As a result, the operating income margin is 3.8 percentage points higher than the forecast, and the amount is JPY8.4 billion higher than the forecast.

The bottom row is shown the change in QoQ. As for the gross profit margin, the impacts due to earthquake and fire were partially offset by an improvement in the gross profit margin due to increased sales, improved production mix, and increased production operating. Operating expenses decreased as a result. As a result of the QoQ decrease, the operating income margin increased by 6.4 percentage points or JPY15.4 billion.



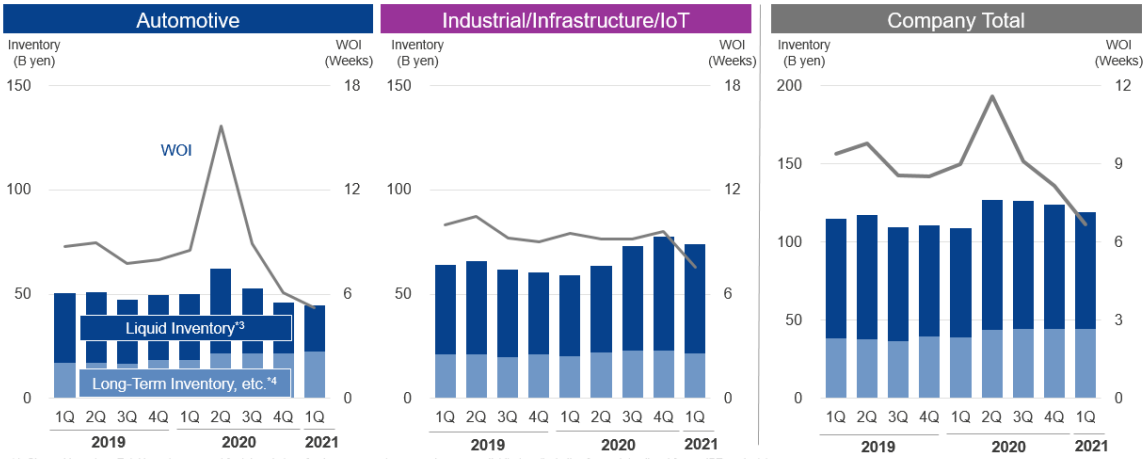
Next, please turn to page 7 for the inventory status.

This inventory status is shown in 2 separate slides. The first page shows the inventory we have, the number of days we have it, and the DOI. The second page, on the next page, shows sales channel inventory, number of weeks held, and WOI.

First, let's look at our inventory on page 7. Raw materials, work in process, and finished goods are shown by segment.

As you can see, we have seen a QoQ downward trend in both the automotive and industrial/infrastructure/IoT businesses, especially in finished goods. We expect to increase production, especially in work-in-process, by increasing the die bank, but it will take some time before we are able to increase the die bank sufficiently.

CHANNEL INVENTORY*1 (MANAGERIAL BASIS) AND WOI*2



*1: Channel Inventory: Total inventory amount for tokuyakutens for Japanese customers and overseas distributors (including former Intersil and former IDT products)
*2: WOI = Channel inventory at the end of the quarter / (cost of channel sales in the quarter / 13 weeks). It should be noted that from the inventory management perspective, to calculate appropriate WOI, Inventory Balance where certain Long-Term Inventory (EOL, e-commerce inventory, etc.) is subtracted from Channel Inventory
*3: Liquid Inventory: Channel Inventory – Long-Term Inventory, etc. *4: Long-Term Inventory: Inventory with unique holding periods (EOL products, e-commerce inventory etc.)

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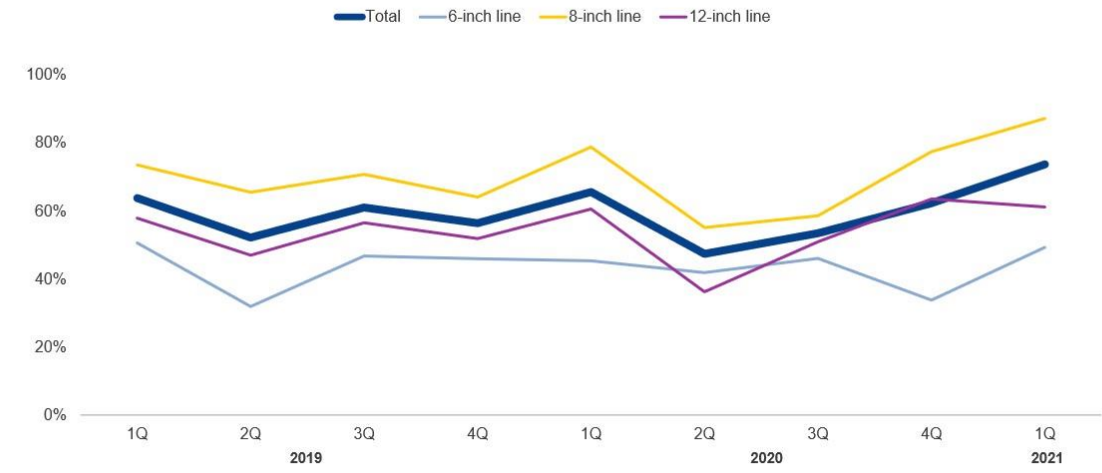
This is followed by the next page, sales channel inventory.

This page shows normal inventory and long-term inventory such as EOL. It shows WOI, the number of weeks held comparing with the sell-through sales through the relevant channels.

As for the automotive market, the actual amount of channel inventory itself appears to have been almost flat QoQ, but you can see that it has decreased in comparison to sell-through sales.

I think you can see the trend that the industrial/infrastructure/IoT business is also decreasing in both actual value and this WOI. Especially for the industrial/infrastructure/IoT business, we have been increasing in these 2 quarters in anticipation of increasing demand, but in this Q1, the tightness has continued even further.

QUARTERLY TRENDS IN FRONT-END UTILIZATION RATE*1
WAFER INPUT BASIS



*1 The total unitization rate as of 1QFY21 is calculated by excluding the utilization rate of the Shiga factory, which is to be consolidated.

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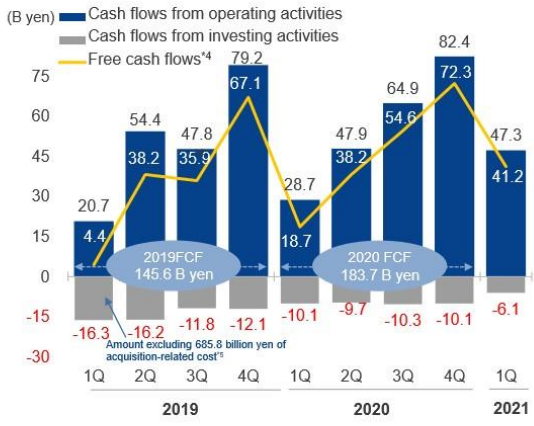
Next, page 9, is about the fab-utilization rate. This is the utilization rate of the front-end process on a wafer input basis. From this Q1, the production capacity of the Shiga 6-in, which was discontinued in January of this year, is excluded from the denominator of the utilization rate calculation. The overall utilization rate on an input basis in the Q1 was in the mid-70% range, which was generally in line with our forecast.

Non-GAAP (EBITDA)
GAAP IFRS (Cash Flows)

NON-GAAP*1 EBITDA*2*3 AND GAAP CASH FLOWS

Non-GAAP EBITDA

GAAP Cash Flows



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*3: Following the acquisition of IDT and the absorption type merger of IDT with Renesas Electronics America Inc., since January 1, 2020, the Group has begun the integration of business processes and IT systems, etc. as part of the "One Renesas" promotion. With these processes as a momentum, expense classifications have been revised in order to appropriately display the Group's financial status and business performance. Changes in classifications have been applied retroactively; therefore, the consolidated financial results of the year ended December 31, 2019 have been reclassified.
*4: Cash flows from operating activities + Cash flows from investing activities. *5: Acquisition-related payments of IDT.

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Next, page 10 is about EBITDA and free cash flow. EBITDA for the Q1 was JPY71.8 billion, which is 35% of sales. On the right side, for the status of cash flow, operating cash flow was JPY47.3 billion, and free cash flow was JPY41.2 billion. Operating cash flow in the Q1 is usually low due to the payment of annual bonus in March.

Non-GAAP

1Q 2021 FINANCIAL RESULTS BY MAIN SEGMENT

IFRS, NON-GAAP*1

	Automotive Business	Industrial/Infrastructure/IoT Business	Company Total
Revenue (QoQ)	103.2 B yen (+8.4%)	96.6 B yen (+4.1%)	203.7 B yen (+6.3%)
Gross Margin (QoQ)	42.4% (+4.6pts)	59.8% (+1.9pts)	50.2% (+3.1pts)
Operating Margin (QoQ)	22.1% (+5.9pts)	25.8% (+2.7pts)	25.8% (+6.4pts)

*1: Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS based) figures following a certain set of rules. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore results are provided in non-GAAP base. This adjustment and exclusion include the amortization of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable.

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Next, page 11 shows the results by segment.

We are reviewing the format of disclosure from this Q1. This is the same sequence as the Target Financial Model explained in the Analyst Day, and the indicators that require more focus in each segment are shown in a lighter color.

We focus on sales revenue, sales growth, in both automotive and industrial/infrastructure/IoT. On the other hand, in terms of profit indicators, we are focusing more on the operating margin for automobiles and more on the gross profit margin for industrial/infrastructure/IoT.

As for the automotive business, production increased, QoQ and OpEx was almost flat, including R&D. Thus, the operating profit margin was 22.1%. For the industrial/infrastructure/IoT business, the gross profit margin was 59.8%, mainly due to improved production mix QoQ.

Non-GAAP

2Q 2021 FORECAST

IFRS, NON-GAAP*1

YoY and QoQ results of the revenue are rounded off to one decimal place.

(B yen)	2020		2021					
	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun) Midpoint Forecast (Range)	YoY	QoQ	1H (Jan-Jun) Forecast	YoY
Revenue	166.7	345.4	203.7	**204.0 ±4.0**	**+22.4% (±2.4pts)**	**+0.2% (±2.0pts)**	**407.7 (±4.0)**	**+18.0% (±1.2pts)**
Gross Margin*2	47.5%	47.4%	50.2%	**50.0%**	**+2.5pts**	**-0.2pt**	**50.1%**	**+2.7pts**
Operating Margin*2	18.1%	18.5%	25.8%	**23.5%**	**+5.4pts**	**-2.3pts**	**24.7%**	**+6.2pts**
1 US$ =	108 yen	109 yen	104 yen	**107 yen**	1 yen appreciation	3 yen depreciation	106 yen	3 yen appreciation
1 Euro=	118 yen	119 yen	127 yen	**128 yen**	10 yen depreciation	1 yen depreciation	127 yen	8 yen depreciation

*1: Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS based) figures following a certain set of rules. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore results are provided in non-GAAP base. This adjustment and exclusion include the amortization of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable.
*2: Each figure represents comparisons of the midpoint in the sales revenue forecast range.

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Next, on page 12, is the earnings forecast for the Q2.

Please look at the dark blue row in the middle.

Median sales revenue is JPY204 billion, almost flat QoQ, plus 0.2%.

Gross profit margin is 50.0%, also almost flat QoQ. Operating margin is expected to be 23.5%, minus 2.3 percentage points QoQ.

Non-GAAP

2Q 2021 REVENUE AND DEMAND FORECASTS IFRS, NON-GAAP*1

		Automotive Business	Industrial/Infrastructure/IoT Business	Company Total
Revenue (Sell-in) Forecast	QoQ	−	+	+0.2% +
	YoY	+ +	+ +	+22.4% + +
Customer Demand (Sell-through) Outlook	QoQ	+ +	+ +	+ +
	YoY	+ +	+ +	+ +

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Then, on page 13, this sales and demand forecast is shown for each segment.

For sell-in sales and sell-through demand, the outlook for this Q2 is broken down into segments to give a sense of relative scale QoQ and YoY.

First of all, the outlook for sell-in is almost flat QoQ at plus 0.2%, as shown on the previous page, for the entire Company.

As you can see on the left side, QoQ, there was a slight decrease in the automotive business, and a slight increase in the industrial/infrastructure/IoT business.

On the other hand, for the sell-through forecast in the lower art of the table, we expect both segments to increase by double-digit percentages QoQ.

ORDER BACKLOG*1*2 (MANAGERIAL BASIS)

*1: Exchange rate based on actual rates
*2: Order backlog is calculated by removing the EOL backlog from the total of the quarter

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Next, on page 14, as a reinforcement of the sell-in forecast, the quarterly trends of total order backlog based on customer-requested are shown for each segment.

As you can see, there has been a rapid increase in orders in both segments since the second half of 2020.

IMPACT FROM DISASTERS: ACTUAL AND OUTLOOK

(B yen)			2021 1Q (Jan-Mar)	2021 2Q (Apr-Jun)	Overview
Earthquake Impact *1					
	Revenue		-2.4	-1.5	Shipment reduction
	Operating Profit (Non-GAAP)		-2.4	-0.5	Including operation loss
	Operating Profit (GAAP)		-3.0	-1.0	Including inventory disposal, restoration and repairment costs
Fire Impact *2					
		Gross Impact	—	-23.0	Shipment reduction
		Recovery	—	+6.0	Inventory shipment, alternative production, elimination of raw material procurement bottleneck, etc.
	Revenue		—	-17.0	
	Operating Profit (Non-GAAP)		-0.8	-14.0	Including operation loss
	Operating Profit (GAAP)		-2.4	-21.5	Including inventory disposal, restoration and repairment costs
	Capital Investment (Authorization Basis)		+6.8	+18.0	Procurement of equipment impacted by fire

*1: Impacts from the earthquake occurred off the coast of Fukushima on February 13, 2021
*2: Impacts from the fire which occurred at a Renesas subsidiary on March 19, 2021

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Lastly, on page 15, we list the actual and projected impact of disasters.

This page summarizes the impact of the earthquake off the coast of Fukushima in February and the fire at the Naka site in March in Q1 and Q2 of this fiscal year.

First, I would like to talk about the impact of the earthquake in the upper section. The main impact of the earthquake was a decrease in operations due to damage to wafers in process and a corresponding decrease in shipments.

First, I will focus on the Q1. The impact on sales revenue was JPY2.4 billion, the impact on non-GAAP operating income was JPY2.4 billion, and the impact on GAAP operating income was JPY3 billion. This impact on non-GAAP operating income includes decreased marginal profit due to the decreased sales, i.e. gross profit and production operating decrease. GAAP's impact on operating income includes this plus one-time expenses such as the cost of destroying damaged wafers-in-process and facility repair costs.

The impact for Q2 is approximate, but it is as described on the right side of this page.

This is followed by a summary of the impact of fire on the building N2, in the middle of the lower section. I would like to focus on the impact on Q1 on the right here. The sales impact on Q2 will be JPY23 billion on a gross basis, and since the monthly production of the Naka N3 building is approximately JPY13 billion, this cross-section of Q2 will have an impact equivalent to approximately 1.8 months. In contrast, we expect to offset this by the recovery measures equivalent approximately to JPY6 billion.

Specifically, we expect to offset this JPY6 billion by eliminating bottlenecks, which means shipping from inventory, alternative production, and accelerating the procurement of raw materials and components, which will allow us to ship those that are currently sitting as bottlenecks. Therefore, we expect the impact on net sales revenue to be approximately JPY17 billion.

The impact on non-GAAP operating income is expected to be JPY14 billion, and the impact on GAAP operating income is expected to be JPY21.5 billion. The impact on non-GAAP operating income is mainly due to a decrease in gross profit and production operating, or marginal profit. In addition to this, the impact on GAAP operating income includes the cost of destroying wafers in process and one-time expenses such as repair and restoration costs for equipment and clean rooms.

Let me correct one point here. At the time of the press conference on March 30, we explained that the marginal profit margin was about 60% in terms of the profit impact as compared to the sales impact. To be correct, we expect this marginal profit margin to gross sales impact to be about 70%. Please allow me to correct this point.

Finally, we expect to incur a cumulative cash-out of approximately JPY25 billion in capital expenditures, mainly for the replacement of burned-out facilities.

This is all for the explanation of the main material. As for the appendix, I would like to run through it a bit and mention some of the points that are being revised.

GAAP
IFRS

STATEMENT OF FINANCIAL POSITION
GAAP (IFRS)

(B yen)	20/3	20/6	20/9	20/12	20/3
Total Assets	1,657.8	1,634.5	1,620.4	1,609.0	**1,688.1**
Cash and Cash Equivalents*1	136.9	148.5	175.9	219.8	**243.6**
Inventories	95.7	101.8	96.9	89.8	**86.6**
Goodwill	620.9	614.6	603.6	590.5	**631.6**
Intangible Assets	430.3	409.8	386.7	364.8	**369.7**
Total Liabilities	1,030.5	1,005.1	988.3	989.3	**966.9**
Interest-Bearing Liabilities*2	764.2	740.2	717.1	693.7	**671.1**
Total Equity	627.3	629.4	632.2	619.7	**721.1**
D/E Ratio (Gross)*3	1.22	1.18	1.14	1.12	**0.93**
D/E Ratio (Net)*4	1.00	0.94	0.86	0.77	**0.60**
Equity Ratio Attributable to Owners of Parent*5	37.7%	38.3%	38.8%	38.3%	**42.5%**
Leverage Ratio (Gross)*6	3.5	3.4	3.2	3.1	**2.8**
Leverage Ratio (Net)*7	2.9	2.7	2.4	2.1	**1.8**

*1: Sum of Cash and deposits and Short-term investment securities minus Time deposits with maturities of more than three months and securities with maturities of more than three months.
*2: Borrowings (current and non-current liabilities) + Lease Liabilities (current liabilities) + Lease Liabilities (non-current liabilities) + Bonds.
*3: Interest-Bearing Liabilities / Equity attributable to owners of parent. *4: (Interest-Bearing Liabilities - Cash and Cash Equivalents) / Equity attributable to owners of parent.
*5: Equity attributable to owners of parent / Total liabilities and equity. *6: Interest-Bearing Liabilities / EBITDA (Non-GAAP) *7: (Interest-Bearing Liabilities-Cash and Cash Equivalents) / EBIDTA (Non-GAAP)

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Page 19, balance sheet status.

The bottom 2 rows show the gross and net leverage ratios. At the end of March, the end of Q1, the net result was 1.8 times.

CAPITAL EXPENDITURES*1*2

*1:The figures are investment decision basis of tangible and intangible assets and do not match the sum listed in the cash flow statement. However, IDT investment amount is based on equipment delivery.
*2: From 3Q 2020, we no longer separately classify IDT investments and only show the capital investments of the Group as a whole. We have also applied this classification to previous years' figures.

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Then, on page 24, we show the status of capital expenditures.

For Q1 and Q2, the actual amount on the basis of decisions made and forecast for capital investment due to fire, including the replacement of equipment burned down, are shown here.

This concludes the presentation.

Question & Answer

<Questioner 1>

Q: First of all, please tell us what you think is the appropriate level of the order backlog, or rather, how you plan to resolve, as shown on page 14 of this document. Various companies have commented that they will be strong for the rest of the year, and so, I think it will take quite a long time, but I am a little confused as to where the appropriate level of this order backlog is, and so, could you please comment on that?

A: I think it's a difficult question to answer. I will provide additional information to make the order backlog proper, or rather make the perspective as accurate as possible. The first is pure demand trend. The other thing is that in light of this situation, we are changing what we ourselves ask our customers in terms of order lead time. I think we need to look at a combination of these two.

As you may remember, in Q2 last year, at the end of the first half of last year, we started requesting our distributors in Japan and our global customers overseas, especially in the automotive industry, to extend the order lead time. The results are, it’s a little hard to see in this image, but on the leftmost side, automotive order backlog in the Q2 of last year increased rapidly. As you may remember, the Q2 was the time when sales dropped drastically. This is the reason why orders increased in spite of that.

At that time, in order to secure production capacity and raw materials in anticipation of a future recovery in the face of a large decrease in demand, we requested that orders be placed properly over a long period of time, as I mentioned earlier.

On the other hand, the recent situation is the exact opposite. As you know, many things are getting very tight right now. To be honest, we cannot make arrangements for raw materials unless we receive orders far in advance. This hasn't actually come to fruition yet, and we are in the process of talking to each customer about it. We ask them for a much longer lead time of orders than in the past. We are starting to talk about the fact that we can't really deliver products unless we receive confirmed orders at least 6 months in advance.

The appropriate order backlog will change accordingly, and so, we would like to provide as much information as possible for each quarter so that you can have a correct view and outlook at that time.

That's the most important information, but to the question how we look at these numbers right now, what can I say? I'm sure that a large part of it is actual demand. On the other hand, looking at this extreme increase in the order backlog, especially in non-automotive industrial/infrastructure/IoT, I don't think this is a sustainable curve. So I'm thinking that it will peak out somewhere and settle down.

I'm afraid I'm being very vague, but if I were to give you the latest information, I would say that we would probably enter into some sort of adjustment phase around the first half of next year. Our current feeling is that strong demand would continue until the Q1 of next year.

I'm sorry, this is a bit of a vague answer.

Q: No, no. You said at the last time about the impact of the fire that the solution to the problem of the buildup of die banks will take until the first half of next year, but if the demand continues that long, I think it will take until the second half of next year. Is that the right perception?

A: Well, as I said, the demand is probably going to be quite strong until the Q1 of next year, and so, the outlook is that the die bank would gradually be enriched from around the Q2 of next year.

Q: I see. My second question is a simple one; if possible, what is the impact on insurance income, i.e., has the impact of insurance on this earthquake and fire been factored in or not? Can you briefly comment on this area, whether it will be factored in after the third quarter?

A: Now, Shinkai will answer your question. Please go ahead.

A: The impact of insurance deposits is not factored into what we have shown on this page 15. The final decision will be made based on the negotiations with the insurance company. We expect it to take a little longer. That's all from me.

Q: How will the expenses be recorded? Will it be operating revenue, or will it have no impact on revenue as it is for the equipment allowance?

A: We see it does not contribute to the so-called non-GAAP operating income.

Q: I see. That's all from me. Thank you very much.

<Questioner 2>

Q: I have 2 questions. First question. I would like to ask you the performance in the Q1. Looking at it QoQ, net sales increased by JPY12 billion and operating income increased by JPY15 billion. It seems like a little too strong of a profit margin to be considered continuous. I would like to ask you again about the increase in operating income. Were there any price increase effects? I see a relatively large profit component in the adjustment amount (page 18), but can I assume that this will not occur in the future? I would like to ask you to explain again including these two. This is the first point.

A: Now, let's hear from Shinkai. Please go ahead.

A: We described as product mix improvement, but this includes the effects of price increases to some extent. Also, overall operating expenses were relatively low in the Q1, and as I mentioned a little bit earlier, offsetting expenses by development deposits was effective, which resulted in a slightly larger operating income.

Q: Is there anything specific that has been disclosed about what happened?

A: In the Q1, this includes the addition and increase of provisions for contingent liabilities. These are the profit of the segment and the entire company. Therefore, the expenses are included in the operating income of industrial/infrastructure/IoT business, which is deducted from the entire company, and so, there is a gain of JPY4.5 billion here. This is a very confusing adjustment.

Q: I see. You said it's an internal part, and so, this is a one-off factor, isn’t it?

A: That's right. It does not work for non-GAAP. This is a factor that only works for GAAP.

Q: I think it's in the non-GAAP table though.

A: These are costs that are charged to the BU segment, but deducted from the entire company.

Q: I understand. Thank you very much.

The second point is that the order backlog is also very large, and I think that sales will remain about the same in the Q2, even with the impact of the fire. The impact of the fire would come back to this. I think that just

under JPY20 billion for the Q2 means in net. Is it possible to think that this level of just under JPY20 billion is the level of sales that will peak to some extent as the strong situation continues for the next year?

In addition, is it possible to foresee the associated profit structure if we assume it based on sales? Thank you.

A: It's difficult to foresee the full year. I still think that the amount for this recovery is not normal. For example, when asked if it is possible to do various pull-ins like this, in a normal situation, the answer is no. It is recovered together with the decline of JPY2.3 billion. Therefore, if there was no impact from the fire, let's not put back the gross one, but put back, say, about JPY17 billion in net. Then, I think, the outlook for sales in the Q2 would be around JPY220 billion.

Then, when asked if it is OK to use the JPY220 billion as it is for the remaining 2 quarters, I don't know about that, but I think that would be a bit too strong a figure. There is a certain degree of seasonality, and the products of our own factories and those of foundries are reaching the limits of their supply capacity, and so, I feel that things will be somewhat up and down.

Therefore, I am afraid it is a long answer, but if you take the JPY220 billion as it is, I myself feel that it is a little too strong. That's all from me.

Q: I understand. Thank you very much. This is all from me.

<Questioner 3>

Q: This is a follow-up to the previous person's question. Sales are expected to be flat in the Q2. I think it would be a very good content despite the conditions with fire. For example, is there a possibility that the current inventory of finished products will be expelled at a much faster rate than before?

The inventory of finished products is shown on page 7, but are you planning for a large drop in these inventories in the Q2? Can you tell me about that first?

A: Shinkai might add a few details, but basically, we don't expect the inventory to go down rapidly from here. This is because it is simply too difficult. Even though they are made and consumed immediately, there can be various periods of transit. We believe that the inventory we have now, and the inventory in our channels, has already reached the bottom, the level where it is consumed as soon as it is made.

On the other hand, there are a lot of ups and downs in the short term, and since we are in this situation, we will just start making what we can make. For example, even if there is a bottleneck in the back-end, we make what we can make in the front-end process, not start making because the finished goods are sold. That's what we're doing now.

In the short term, there will be bumps, but the trend is that rather than surplus of inventory decreasing dramatically to turn to sales, we believe that from here on out, what we make will basically become sales.

Shinkai will give a supplementary explanation if he has any.

A: In terms of inventory levels, we do not expect the level of finished products to drop for this Q2. We expect a flat or slight increase. On the other hand, we have the prospect of an increase in work in progress. So, I think it would be better if you understand that we are currently increasing the input of wafers and the number of wafers in process is increasing, which will lead to more and more finished products to be shipped. That's all from me.

Q: I see. Thank you very much.

Another point is that the improvement in the product mix in terms of profit margin was also affected by price hikes and other factors, but as we look ahead, there is a possibility of price hikes for both automotive and non-automotive products, or do you see more value-added products in the product mix, for example, more products for data centers? If there are any factors that could improve profitability further, could you tell us about them?

A: Now, Shinkai will answer.

A: I don't really expect to see a big improvement from here. Gradually, the effects of the price increase will take effect cumulatively. Also, the input of wafers is increasing, and as the operation of the N3 building recovers, we expect that this will contribute to the profit margin in terms of production and recovery. That's all from me.

A: On the other hand, as I have already explained, we are increasing CapEx considerably, and we have no choice but to increase it. That amount will come into effect as a drag on the gross margin through depreciation. I don't know how much the CapEx will be in the end, but our current forecast is JPY25 billion for the renewal of burned-out facilities, and if we convert it into annual depreciation, it will probably have an impact on the scale of JPY7 billion or so. We think it would become that much drag for gross margin.

On the other hand, not only data centers, but as I have mentioned in the past, the industrial/infrastructure/IoT business will probably grow a little faster. In the short term, automotive sales fell sharply last year and will recover this year and next year, and so, the short-term growth of automotive sales will be very large. However, I think the trend will be for industrial/infrastructure/IoT to grow faster. This will change the mix of BUs for the company as a whole, and I think the margins will expand. That's all from me.

Q: Thank you very much. It was very easy to understand.

<Questioner 4>

Q: I would like to have a follow-up supplementary explanation on the sell-through movement. It was mentioned that it would grow by double digits in Q2 as shown. In the presentation earlier, it was mentioned the market will be strong until about the Q1 of next year, but does that mean that it will increase further QoQ? Or did you have in mind to maintain a high level? I would like to ask you about that.

Also, you mentioned that there may be adjustments after that, but do you think that these adjustments will be like the conventional cycle where demand peaks and then decreases QoQ? Or, since customers are changing the way they hold their inventory, is it likely to remain flat rather than decrease significantly from the peak?

Can you please provide some additional information about these?

A: First of all, the first part of your question is the latter. Again, the supply capacity is pretty much limiting globally, and so, I think it is a little difficult from a supply perspective to grow sales more and more with each passing quarter. The demand is there, though.

The latter part is a year away, and so, if I talk too much about it, I'm afraid I might just be giving an impression that would eventually be out of the way, and so, it's difficult. I don't see any sign of a major cyclical drop at the moment, as our competitors are saying. Since the increase in fundamental contents can be expected to

continue, I myself feel that even if adjustments are made, they will be moderate to some extent. That's all from me.

Q: Thank you very much. Second question, I'm afraid it's similar. While sell-through itself will continue to be at a fairly high and stable level, considering your company's past design-in, I think the company's market share is expected to increase somewhat and sales to surpass sell-through. On the other hand, in the presentation earlier, it was commented that the sales figure of JPY220 billion for the quarter would be a little too strong.

I'm sorry, I felt a bit of a gap when it was said to be a bit higher, but JPY220 billion would a bit too strong. I personally felt that it can be a little bit higher, but JPY220 billion was a bit too strong, and so, I felt there was a gap. I would like to know if that gap is a mistake in the first place, or if there is anything else you can add to explain that point.

A: I'm sorry. I don't know if I'm grasping your question correctly, but anyway, the constraints in supply are huge. Therefore, the foundry is also running at full capacity. We are trying to figure out the best way to describe it in the presentation, and so, for our factory operation, the full picture may not have been conveyed. However, for the facilities that are available for operation, the level of operation is very high.

Then there are the raw materials. This is also very tight, and just yesterday we received a notice that the supply of a certain raw material in the Q2 will be reduced. From that perspective, demand will remain strong, but we are not in a situation where we can make sales by having more and more materials, and so, I think having 2,200 continuously is rather strong.

Therefore, if there is demand and supply can keep up, I think we can draw a growth curve that is close to what you have somewhat envisioned for us in the near future. The supply-side is tight.

Q: I understand very well. Thank you very much.

<Questioner 5>

Q: The first question. About expenditure associated with the plant fire, the cash-out, will there be anything else other than the approximately JPY25 billion in capital investment?

A: Shinkai will answer. Please go ahead.

A: In addition to capital investment, there are cash items for restoration and repairs. This is currently expected to be in the second half of double digits in hundred millions. So, the cash out is expected to be a little less than JPY35 billion, which is a combination of that and JPY25 billion of capital investment. That's all from me.

Q: Thank you very much. Another point is that the supply-demand situation is quite tight at the moment, and I think you have been taking measures such as extending the order lead time. In addition to that, do you have any additional measures in mind to ensure a stable supply in the future, whether in terms of sales or manufacturing? Also, is there any possibility for investment related to that?

A: I think many things can be mentioned, when talking with the perspective of stabilizing the supply. This is something we have been doing for a long time, but the first is to strengthen our resilience to disasters. In the wake of the fire, we should take measures immediately to put out fires, even if we thought it is not a burnable material, and as was mentioned today, it will take some time, but we should also improve the die bank.

In addition, we are already moving forward with the multi-line production of our production bases, which can be expressed as complete multi-sourcing, beyond such level. Naturally, we have been able to do this for some

time, but we are now starting to go a little beyond the conventional level. Although we cannot produce the exact same product at multiple locations, we are working on producing products with the same functions at multiple locations.

In this way, we intend to take all possible measures to improve the stability of supply. That's all from me.

Q: I see. Thank you very much.

A: Thank you very much.

<Comments from CEO Shibata>

Thank you all for taking time out of your busy schedules to join us today. Currently, the demand is very strong, and the outlook is strong. Therefore, we would like to do our best to recover from fires and do everything we can to meet the demands of our customers as much as possible.

Also, we have provided a little supplementary color materials today on the status of recovery from the fire, and we will continue to provide appropriate updates in this manner at any opportunity. Also, I know I'm repeating myself a lot, but we've enhanced the disclosure a bit this time, and so, please let us know what you think and what you'd like to see, and we'll continue to work on making improvements.

Thank you very much for taking the time today.