Second Quarter of the Year Ended December 31, 2021

Conference Call (Held July 29, 2021) Presentation and Question & Answer Summary

Presentation

Moderator: Good afternoon, everyone. Thank you very much for taking time out of your busy schedule to join us today for the 2Q Financial Results Briefing for the Fiscal Year Ending December 2021 of Renesas Electronics Corporation. In attendance at today's briefing is Hidetoshi Shibata, the Representative Director, President and CEO. Furthermore, we have Shuhei Shinkai, Senior Vice President and CFO, and Takeshi Kataoka, Senior Vice President and General Manager of the Automotive Solution Business Unit, as well other staff from accounting and investor relations with us.

Shibata, our CEO, will deliver an introduction, followed by Shinkai, our CFO, who will explain our financial results for Q2, and then we will have a question-and-answer session. The entire briefing is scheduled to last approximately 60 minutes.

The materials to be used in today's briefing are the same as those that have just been posted on the IR site of our website.

Now, Shibata, please turn on the video and turn on the microphone.

Shibata: Hello, everyone. My name is Shibata, the CEO. Thank you for taking time out of your busy schedule to join us.

Due to the fire at our Naka factory in March, we have been struggling to manufacture and ship various products, but with the great help of our suppliers and everyone else involved, we have been able to finish Q2 with a little more upward momentum than we had initially forecasted.

However, as for the current shipment level, when we sent out the press release on June 25, we said that the shipment level was expected to return to the pre-fire level around the third week of July. Unfortunately, since then, there have been a series of problems with some manufacturing equipment, and the current level of shipments is roughly 90% of the level of shipments before the fire.

However, in terms of production level, if we trace the current wafer out production level since the beginning of this week, we can see that the level is roughly 30% higher than the regular production capacity. Even in comparison with the stretched target, which Shinkai will talk about later, production has been continuing at a level that is 10% to 20% above the target.

In light of this situation, we are now expecting to be able to continue shipments at a pace well above the pre-fire shipment level by the middle of August.

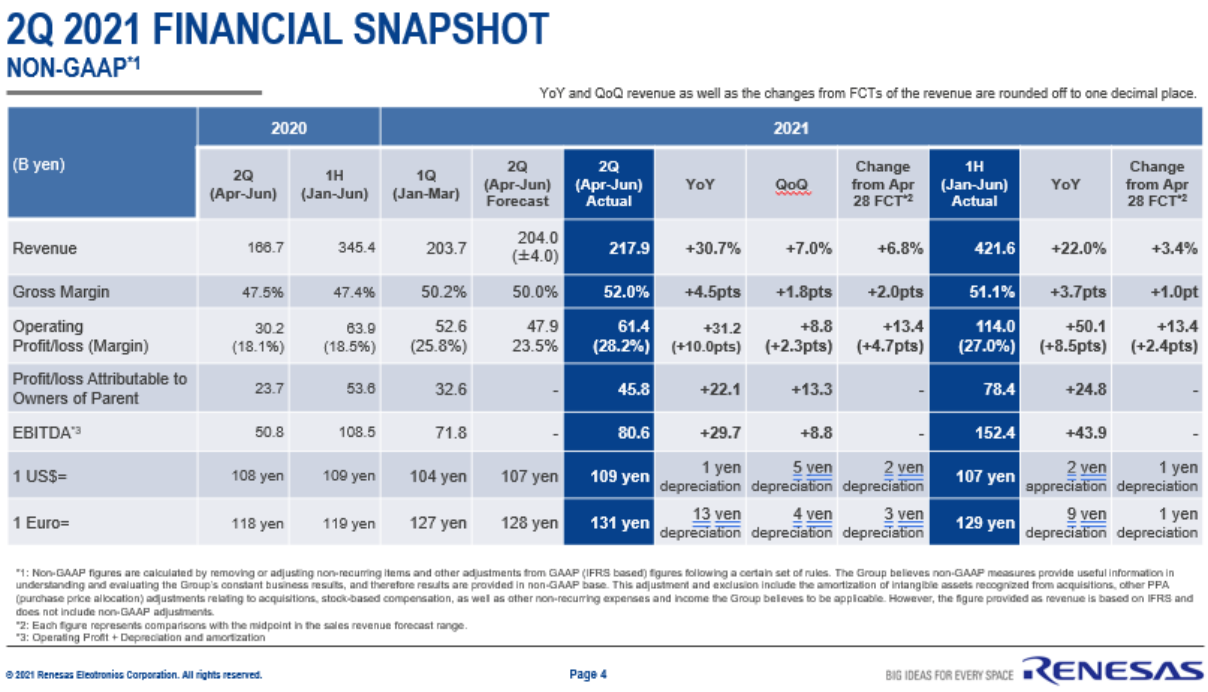
Therefore, at the moment, we are still behind a little bit, but if you look at the entire Q3, we have the prospect of catching up to some extent.

On the other hand, the alternative production that we have been talking about since the beginning of the fire is progressing extremely well. In addition, the situation surrounding the supply chain has been extremely unstable due to the spread of the Coronavirus in Malaysia, but we have managed to minimize the impact on the supply chain. In Q3, we expect sequential sales growth.

So, we are still in a very unstable situation. As of today, the latest situation is that we are able to provide you with a slightly brighter outlook.

With that, I would like to hand over the baton to CFO Shinkai to let him explain Q2 results and Q3 forecast in more detail. Shinkai, please.

Shinkai: I am Shinkai, the CFO. The following is an explanation of the contents of the financial results for Q2 based on the presentation on the IR website.



2Q 2021 FINANCIAL SNAPSHOT

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								
	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun) Forecast	2Q (Apr-Jun) Actual	YoY	QoQ	Change from Apr 28 FCT*2	1H (Jan-Jun) Actual	YoY	Change from Apr 28 FCT*2
Revenue	166.7	345.4	203.7	204.0 (±4.0)	217.9	+30.7%	+7.0%	+6.8%	421.6	+22.0%	+3.4%
Gross Margin	47.5%	47.4%	50.2%	50.0%	52.0%	+4.5pts	+1.8pts	+2.0pts	51.1%	+3.7pts	+1.0pt
Operating Profit/loss (Margin)	30.2 (18.1%)	63.9 (18.5%)	52.6 (25.8%)	47.9 23.5%	61.4 (28.2%)	+31.2 (+10.0pts)	+8.8 (+2.3pts)	+13.4 (+4.7pts)	114.0 (27.0%)	+50.1 (+8.5pts)	+13.4 (+2.4pts)
Profit/loss Attributable to Owners of Parent	23.7	53.6	32.6	-	45.8	+22.1	+13.3	-	78.4	+24.8	-
EBITDA*3	50.8	108.5	71.8	-	80.6	+29.7	+8.8	-	152.4	+43.9	-
1 US$=	108 yen	109 yen	104 yen	107 yen	109 yen	1 yen depreciation	5 yen depreciation	2 yen depreciation	107 yen	2 yen appreciation	1 yen depreciation
1 Euro=	118 yen	119 yen	127 yen	128 yen	131 yen	13 yen depreciation	4 yen depreciation	3 yen depreciation	129 yen	9 yen depreciation	1 yen depreciation

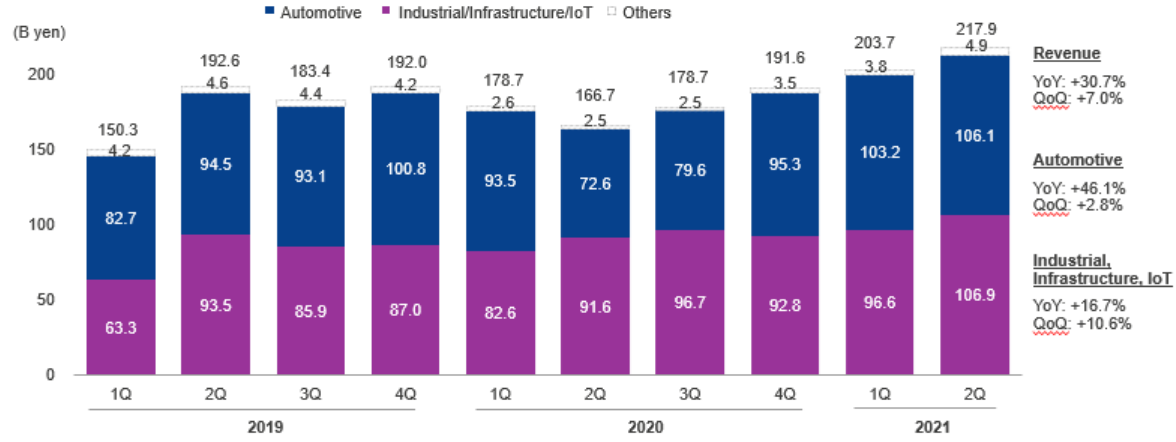
*1: Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS based) figures following a certain set of rules. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, 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. However, the figure provided as revenue is based on IFRS and does not include non-GAAP adjustments.
*2: Each figure represents comparisons with the midpoint in the sales revenue forecast range.
*3: Operating Profit + Depreciation and amortization

Please go to page 4. This is about the financial results for Q2. Please refer to the blue column in the middle of the table. In terms of revenue, we recorded JPY217.9 billion, a gross profit margin of 52.0%, operating income of JPY61.4 billion, a profit margin of 28.2%, current net income of JPY45.8 billion, and EBITDA of JPY80.6 billion.

See the 3 forecast ratios on the right. Sales revenue exceeded the median guidance by 6.8%, or JPY13.9 billion.

Gross profit also landed 2.0 percentage points above the median. Operating income was JPY13.4 billion, 4.7 percentage points higher than the guidance.

QUARTERLY REVENUE *1 TRENDS



*1: The figure provided as revenue is based on IFRS and does not include non-GAAP adjustments

Next page, please. The table shows quarterly changes in sales revenue.

In Q2, on the far right, overall sales increased by 30.7% YoY and 7.0% QoQ. For automotive and industrial/infrastructure/IoT businesses, please refer to the information below.

2Q 2021 REVENUE AND GROSS/OPERATING MARGIN
NON-GAAP*1

	1Q 2021 Actual (Jan-Mar 2021)	2Q 2021 Forecast (Apr-Jun 2021)	2Q 2021 Actual (Apr-Jun 2021)
Revenue vs FCST: +6.8% QoQ: +7.0%	203.7 B yen	204.0 B yen (±4.0 B yen)	217.9 B yen
Gross Margin vs FCST: +2.0pts QoQ: +1.8pts	50.2%	50.0%	52.0%
Operating Margin vs FCST : +4.7pts QoQ: +2.3pts	25.8%	23.5%	28.2%

Operating Margin vs FCTS + 4.7pts
- Revenue
- Gross Margin
  - Currency Impact
  - Product Mix
  - Production Recovery
  - Production Costs, etc.
- Operating Expenses

Operating Margin QoQ +2.3pts
- Revenue
- Gross Margin
  - Currency Impact
  - Product Mix
  - Production Recovery
  - Production Costs, etc.
- Operating Expenses

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Then, please turn to the next page. This is a summary of sales revenue, gross profit margin, and operating profit margin for Q2.

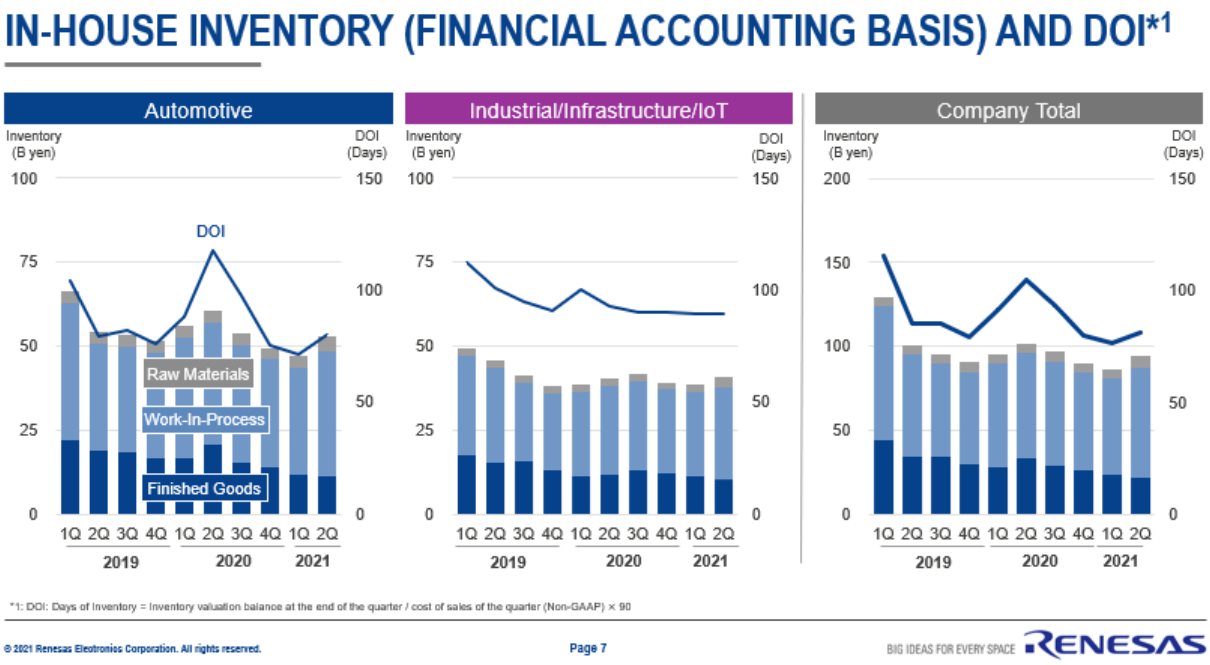
First, let's talk about the details of the top right box: the increase of 4.7 percentage points in operating profit margin, compared to the forecast. The actual amount of sales revenue was JPY13.9 billion, of which about

20% was due to the impact of foreign exchange rates and 30% was due to the smaller-than-expected impact of the Naka factory fire.

The remaining 50% were improvements in supply, mainly for industrial/infrastructure/IoT business, which led to an increase in sales revenue.

The gross profit margin was improved 2.0 percentage points compared to the forecast, while the improvement was due to an improved product mix and lower manufacturing costs. Operating expenses decreased compared to the forecast, mainly in R&D. Therefore, as shown in the upper row, the operating income margin has arrived at 4.7 percentage points above the forecast.

Next is about the QoQ below. As for the gross profit margin, the negative impact of fire and other cost increases were offset by the improvement in the product mix, increased production, and production recovery. Operating expenses have increased mainly in R&D.



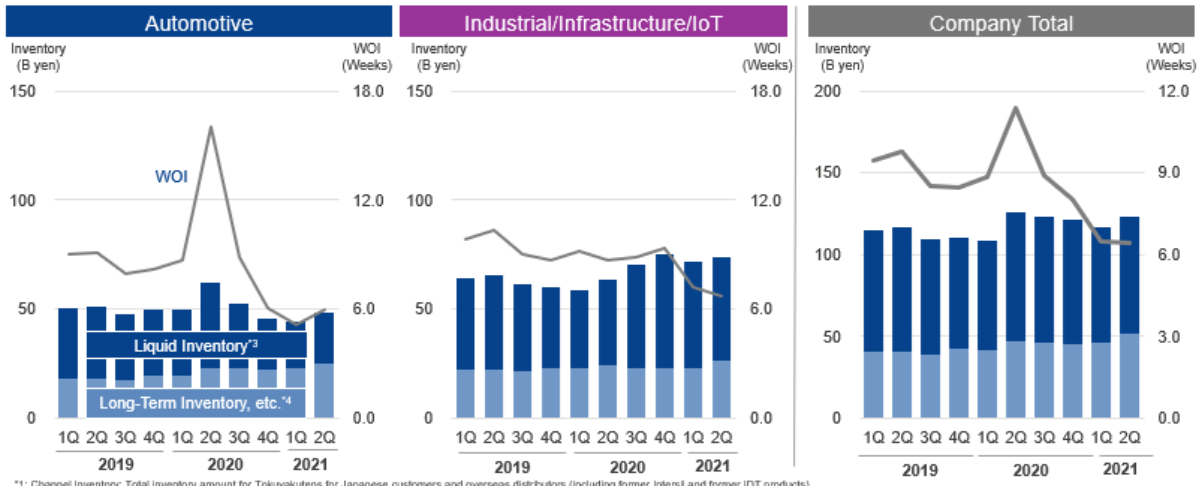
Please go to the next page. About the inventory status.

This shows the Company's inventory, the number of days stored, and the DOI. The trend is generally the same: A decrease in finished goods and an increase in work-in-process inventory and raw materials for both automotive and industrial/infrastructure/IoT businesses.

Looking at the overall picture, the increase in work-in-process inventory is in response to the increase in production, and strategic inventory holdings such as die banks. In addition, the number of products that have not yet been made into finished products due to bottlenecks in the production capacity of back-end processes and the supply of parts and materials is increasing QoQ.

Some of the raw materials have been ordered in advance, and this has also increased in QoQ.

SALES CHANNEL INVENTORY*1 (MANAGEMENT ACCOUNTING BASIS) AND WOI*2



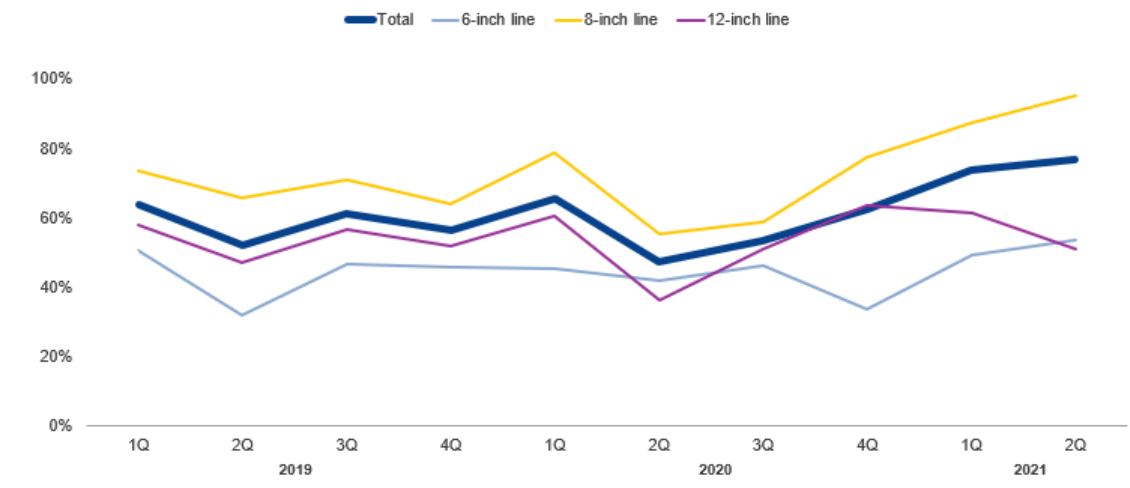
*1: Channel Inventory: Total inventory amount for Tokuyakutens for Japanese customers and overseas distributors (including former Intersil and former IDT products)
*2: WOI: Weeks of Inventory = Channel inventory at the end of the quarter / (cost of channel sales in the quarter / 13 weeks). It should 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.)

Next, please turn to page 8. This section is about sales channel inventory, number of weeks held, and WOI.

WOI, the total for the entire company, is flat compared to the previous quarter, but the trend is a little different for automotive and industrial/infrastructure/IoT businesses.

The automotive segment is on an upward trend as WOI in QoQ. On the other hand, WOI for industrial/infrastructure/IoT segment is on a downward trend. This is driven by the continued strength of sell-through for PCs and other peripheral equipment.

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

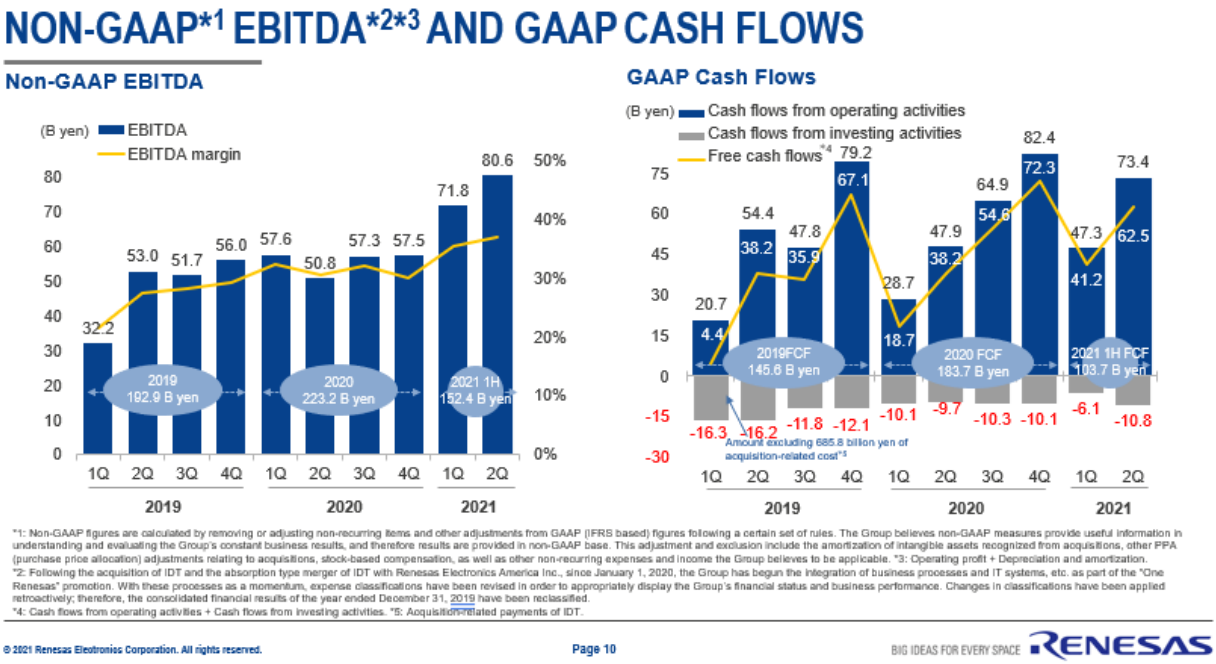


*1 The total unitization rate as of 1QFY21 is calculated by excluding the utilization rate of the Shiga factory, which is to be consolidated.

On the next page, we will discuss the utilization rate.

The table below shows the utilization rate of the front-end process on a wafer input basis. The utilization rate of the input base in Q2 was generally in line with our expectations, in the low 70% range.

From Q3 onward, for the second half of the year, this yellow line, 8 inches, is expected to remain at a high level. We expect that the 12-inch products will rise along with the recovery of production at the Naka factory.



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*2: 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.

Next page, please. EBITDA and free cash flow.

EBITDA for Q2 was JPY80.6 billion, which is 37% of sales, or JPY152.4 billion cumulatively for the first half.

On the right side, cash flow, operating cash flow for Q2 was JPY73.4 billion, and free cash flow was JPY62.5 billion. Cumulative free cash flow for the first half was JPY103.7 billion.

However, we expect the majority of the cash outflow from the equipment procured in response to the fire at Naka factory from Q3 onward. Therefore, we expect that the level of free cash flow from Q3 onward will decrease from here.

2Q 2021 FINANCIAL RESULTS BY MAIN SEGMENT
NON-GAAP*1

	Automotive Business	Industrial/Infrastructure/IoT Business	Company Total
Revenue (QoQ)	106.1 B yen (+2.8%)	106.9 B yen (+10.6%)	217.9 B yen (+7.0%)
Gross Margin (QoQ)	43.8% (+1.4pts)	61.8% (+2.0pts)	52.0% (+1.8pts)
Operating Margin (QoQ)	23.6% (+1.5pts)	32.4% (+6.6pts)	28.2% (+2.3pts)

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Next, please. Business results by segment.

In the automotive business, production increased QoQ, and the mix improved. As for OPEX, it was almost flat, with an operating margin of 23.6%. The industrial/infrastructure/IoT business improved its mix in QoQ, resulting in a gross profit margin of 61.8%.

As for the operating margin of the industrial/infrastructure/IoT applications business, there was a large loss added to the segment in Q1, but since there was no such loss in Q2, the improvement in the operating margin in QoQ was large.

3Q 2021 FORECAST
NON-GAAP*1

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

(B yen)	2020		2021					
	3Q (Jul-Sep)	9 months (Jan-Sep)	2Q (Apr-Jun)	3Q (Jul-Sep) Midpoint Forecast (Range)	YoY	QoQ	9 months (Jan-Sep) Forecast	YoY
Revenue	178.7	524.1	217.9	**240.0 ±4.0**	**+34.3% (±2.2pts)**	**+10.2% (±1.8pts)**	**661.6 (±4.0)**	**+26.2% (±0.8pt)**
Gross Margin*2	47.5%	47.4%	52.0%	**53.0%**	**+5.5pts**	**+1.0pt**	**51.8%**	**+4.4pts**
Operating Margin*2	20.4%	19.2%	28.2%	**29.0%**	**+8.6pts**	**+0.8pt**	**27.8%**	**+8.6pts**
1 US$ =	107 yen	108 yen	109 yen	**109 yen**	2 yen depreciation	0 yen depreciation	**107 yen**	1 yen appreciation
1 Euro=	123 yen	121 yen	131 yen	**130 yen**	7 yen depreciation	1 yen appreciation	**129 yen**	9 yen depreciation

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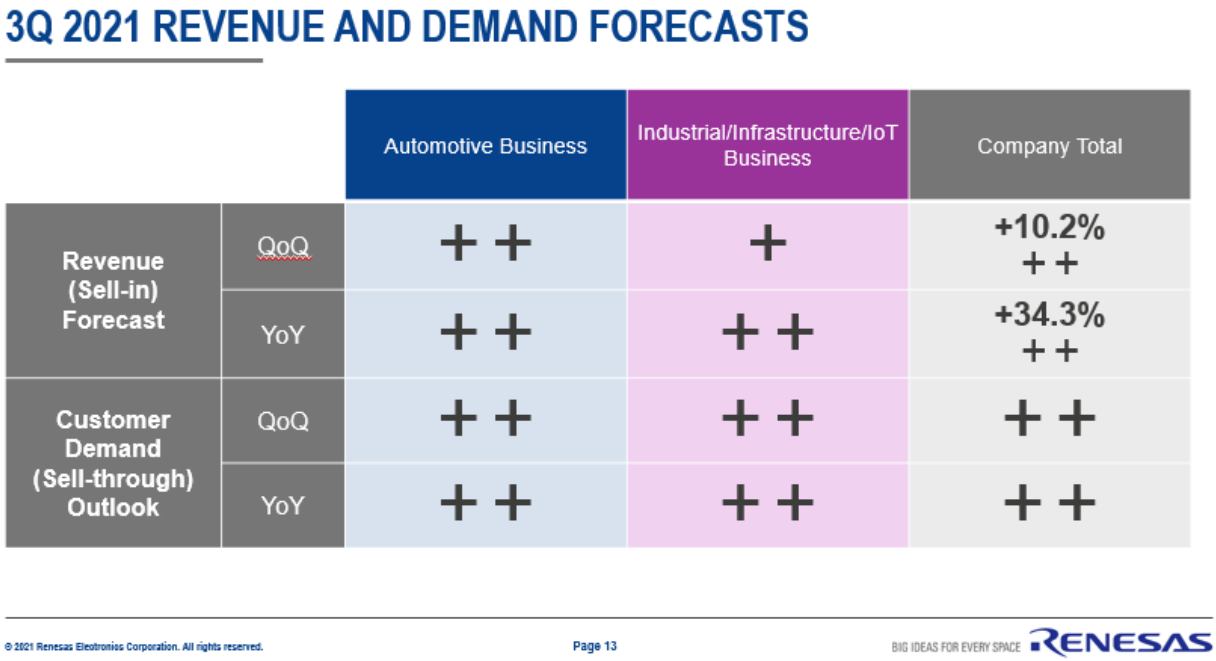
*2: Each figure represents comparisons with the midpoint in the sales revenue forecast range.

Next page, please. This is about the forecast for Q3. Please refer to the blue column in the middle.

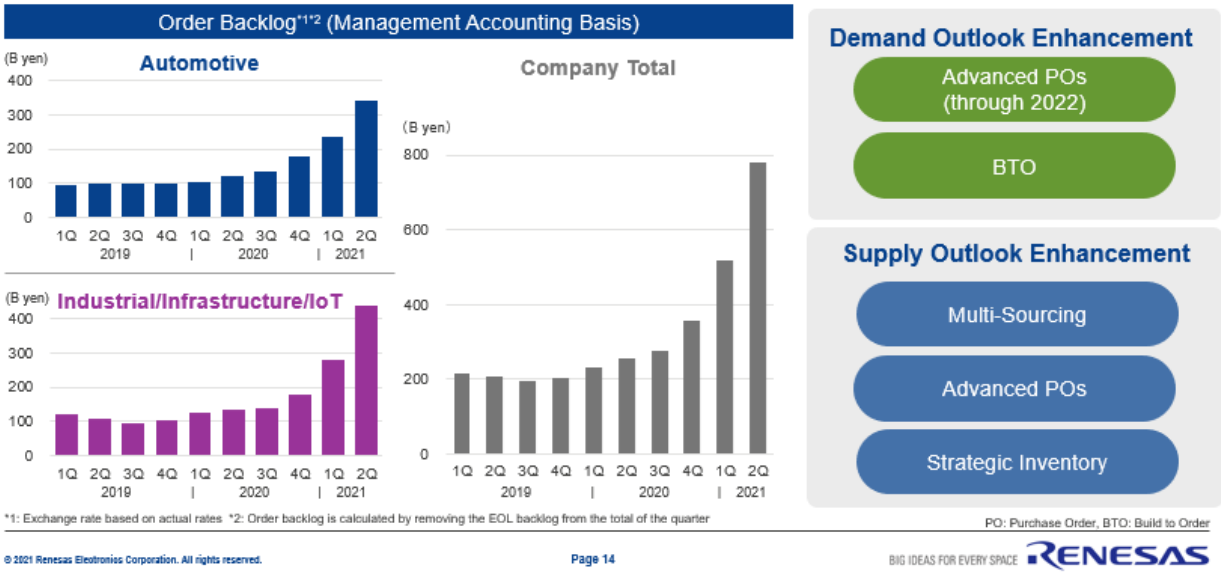
The median sales revenue is expected to be JPY240 billion, an increase of 10.2% QoQ. The gross profit margin was 53.0%, up 1 percentage point in QoQ. The operating margin is expected to be 29.0%, up 0.8 percentage points QoQ.



Next page, please. Here is the sales and demand forecast for Q3.

The QoQ forecast of sell-ins is 10.2% for the entire company, as shown on the previous page, with a gain in the high 10%-range for automotive, and a gain close to 10% for industrial/infrastructure/IoT business.

For sell-through in the lower row, we expect double-digit QoQ and YoY increases in both segments.



Next page, please. This is about the status of orders.

In order to show the outlook for sell-in, the total backlog of orders is shown. This time, the right side of the page summarizes the background of the behavior of the order backlog and the countermeasures taken in response. First, on the demand side, we are taking measures such as long-term orders as well as BTOs based on these orders.

The purpose is to plan and execute production based on orders received in advance with long lead times. By the action of acquiring long-term orders, the order backlog is thereby expanded, as you can see on this left side.

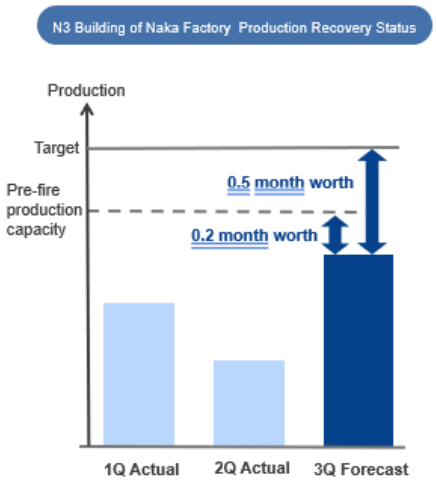
The bottom row shows the supply-side initiatives. The first thing we are doing in the medium term is to promote multi-sourcing in order to diversify supply risks. On the other hand, we are also placing long-term and advance orders with our suppliers to secure capacity for materials, foundries, and OSAT.

Lastly, we are implementing strategic inventory management with a focus on die banks.

Therefore, we are taking measures to ensure a firm supply based on these measures to deal with this large increase in orders.

FIRE *1 IMPACT

	2021			Overview
	1Q (Jan-Mar) Actual	2Q (Apr-Jun) Forecast	2Q (Apr-Jun) Actual	
Gross Impact	—	-23.0	-18.7	Shipment reduction
Recovery	—	+6.0	+6.0	Inventory shipment, alternative production, elimination of raw material procurement bottleneck, etc.
Revenue	—	-17.0	-12.6	
Operating Profit (Non-GAAP)	-0.8	-14.0	-11.4	Including operation loss
Operating Profit (GAAP)	-2.4	-21.5	-19.3	Including inventory disposal, restoration and repairment costs
Capital Investment (Authorization Basis)	+6.8	+18.0	+11.2	Procurement of equipment impacted by fire



*1: The fire which occurred at a Renesas subsidiary on March 19, 2021

Next page, please. This summarizes the impact of the fire.

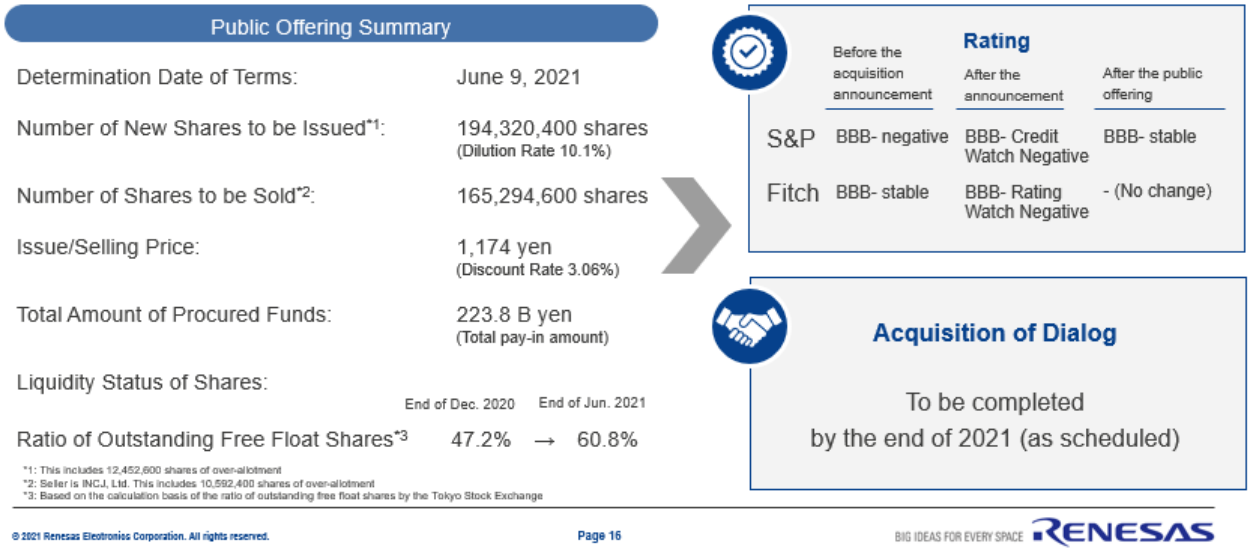
This section summarizes the outlook and actual results for Q2. The actual impact on gross sales revenue for Q2 was JPY18.7 billion, compared to the forecast of JPY23 billion. Recovery from alternative production, etc. contributed JPY6 billion, the same as the forecast.

The non-GAAP impact on sales and operating income was JPY11.4 billion. The net impact on sales revenue was JPY12.6 billion in Q2, while the impact on operating income was JPY11.4 billion, which is a high ratio.

This is because the recovery measures will contribute to the recovery of sales but will not fully contribute to the recovery of in-house-fab production. Thus, if you look at the operating income in comparison with the sales of JPY12.6 billion, the impact of the former will appear larger.

GAAP operating income, one unit below that, was JPY19.3 billion. One-time expenses, such as repair costs for equipment and clean rooms, were higher than expected. As for capital investment, we expect to make a cumulative total of about JPY28 billion from this point on, for the replacement of burned-out equipment and additional investment to stabilize production. In Q3, we expect to make about JPY10 billion of these decisions.

The bar graph on the right shows the outlook for Q3, illustrating the status of production recovery. The production forecast for Q3 is 0.2 months behind the steady-state production capacity before the fire for the entire Q3. We expect to have about 0.5 months delay against the stretched target.



Next page, please. This is a summary of the public offering and secondary offering.

This is a summary of the public offering and secondary offering whose terms were determined on June 9. The public offering is 10.1% diluted, and the issue price is a 3.06% discount. The total payment amount was JPY223.8 billion. This public offering and secondary offering have improved the float ratio to about 60%.

On the right, we see the impact on the issuer ratings. S&P has improved to BBB-Stable Outlook. As for Fitch, it is currently in Rating Watch status, but we expect an update soon.

Under these circumstances, we expect to close the acquisition of Dialog Semiconductor Plc by the end of the year as planned, which is the intended use of proceeds from the public offering.

2Q 2021 FINANCIAL SNAPSHOT
GAAP

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

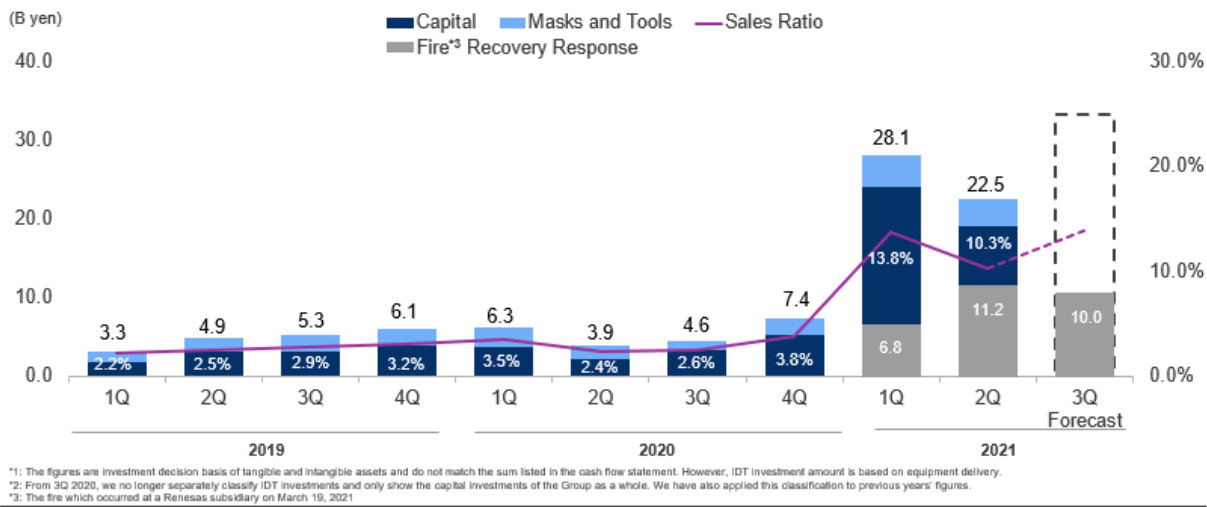
(B yen)	2020		2021					
	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun)	YoY	QoQ	1H (Jan-Jun)	YoY
Revenue	166.7	345.4	203.7	**217.9**	**+30.7%**	**+7.0%**	**421.6**	**+22.0%**
Gross Margin	47.5%	46.7%	48.0%	**48.2%**	**+0.7pt**	**+0.2pt**	**48.1%**	**+1.4pts**
Operating Profit/loss (Margin)	17.3 (10.4%)	30.6 (8.8%)	30.2 (14.8%)	**35.5 (16.3%)**	**+18.2 (+5.9pts)**	**+5.3 (+1.5pts)**	**65.7 (15.6%)**	**+35.1 (+6.7pts)**
Profit/loss Attributable to Owners of Parent	11.9	23.2	13.7	**24.0**	**+12.1**	**+10.3**	**37.7**	**+14.5**
EBITDA*1	51.6	103.7	62.7	**68.7**	**+17.1**	**+6.1**	**131.4**	**+27.7**
1 US$=	108 yen	109 yen	104 yen	**109 yen**	1 yen depreciation	5 yen depreciation	**107 yen**	2 yen appreciation
1 Euro=	118 yen	119 yen	127 yen	**131 yen**	13 yen depreciation	4 yen depreciation	**129 yen**	9 yen depreciation

*1: Operating profit + Depreciation and amortization.

Next is page 24. I would like to make a few comments on the GAAP operating income.

Non-GAAP operating income was JPY61.4 billion, while GAAP operating income was JPY35.5 billion. Thus, there is a difference of JPY25.9 billion. Of this amount, about 30%, or JPY8 billion, was for one-time costs associated with the Naka fire, such as the cost for repairing equipment and other such things as I mentioned earlier. The remaining JPY18 billion is an adjustment item that occurs on a regular basis.

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.
*3: The fire which occurred at a Renesas subsidiary on March 19, 2021

The next page summarizes our capital investment.

The highlighted areas of Q1, Q2, Q 3 in grey show the past and forecasted capital investment decisions made in response to the fire.

As I mentioned earlier, we expect to make a decision of about JPY10 billion in Q3.

This concludes the explanation.

Moderator: Thank you very much.

Q&A session

<Questioner 1>

Q: The first point I would like to ask you is based on page 6 of the presentation materials. I like to ask you about the results of this Q2 and the details of the comparison to the guidance.

I heard from Mr. Shinkai that the factors behind the upswing in sales were 20% foreign exchange rates, 30% due to the less-than-anticipated impact of the fire, and the remaining 50% due to improved supply from IIBU. Can you explain a little bit more?

In addition, please explain about the gross profit margin. The product mix, and the manufacturing costs are working positively against the assumptions, but please share the details on this. This is the first point.

A: Shinkai will answer your question. Shinkai, please.

A: First, let's talk about the 50% uptick in sales revenue. The ratio of industrial/infrastructure/IoT business was relatively high. One of the reasons for this is that we were able to supply more than we thought, due to availability of parts and catching up with back-end processes. As a result, shipments were enabled.

As for the second point, the impact of gross profit was due to the improved product mix. To be more specific, this mix improvement is due to the fact that sales of former Intersil products for industrial/infrastructure/IoT business have increased compared to the assumption.

The decrease in manufacturing costs was due to the manufacturing at the plant itself being cheaper than expected, as well as some accounting effects, such as more efficient write-downs due to increased production. That is all.

Q: Thank you very much. I would like to follow-up on the first point. So, you initially thought that you could not supply enough IIBU, but this was not really a problem. Also, mentioned that Intersil products contributed to the mix. Is this a sustainable even after Q3?

Also, based on that, could you please comment on how such points are incorporated into the guidance?

A: I do not think it is sustainable. However, based on the current situation, we see a certain amount of supply-side risk. Therefore, the sales guide for Q3 has been formulated with a certain amount of supply risk in mind. That is all.

Q: Thank you very much. Secondly, I would like to know your thoughts on how you see sales in Q4 or next year.

Mr. Shibata once commented that high orders would continue until the middle of next year, and that there would be no major adjustments after that. Now that some time has passed, we are starting to hear more and more about finished vehicle manufacturers in particular stepping up production in the second half of the year. Thus, taking into account these changes in the external environment, can you tell us your thoughts on sales and orders for next year, to the extent possible? That is all.

A: In Shinkai's part, we gave an overview of our efforts to stabilize our supply chain by taking and placing long-term orders. In particular, various discussions are underway with customers regarding orders for the

whole next year. The schedule is such that we hope to have a clear picture of the project by September.

Therefore, if you wait for the next 2 months, we will be able to provide you with better insights. If we look at the situation at the moment, there is a ups and downs, but now I feel like figures will be stronger than during the recent earnings call with you all.

In particular, industrial and factory automation-related products continue to be strong, and compute products, such as PCs and tablets, are very strong and this trend can be expected to continue.

Also, I was expecting the white goods to slow down sooner last time, but I am changing my view that it is going to continue to be strong for a while.

As for automotive business, the view has not changed much since the last time, but if anything, looking at third party research, it seems like they might be lowering their production and sales outlook for this year a little bit.

I think the view is that production and sales will not grow as much as expected this year due to supply constraints, and that some of this will be carried over to next year.

Therefore, we currently have the view that the situation will continue to be a little stronger depending on both factors.

However, I think many of you in the market are already looking for the beginning of the end. Even so, the buildup of this order backlog is quite rapid, so I would like to continue observing it carefully.

So, I do not want to get too carried away with the current strength and cause a big backlash. Therefore, we are already discussing about the supply and procurement of products with a much earlier delivery date, while making moderate adjustments so that our strength will continue to be gradual and continuous. That is all for now.

Q: This was very helpful. Thank you.

<Questioner 2>

Q: I have 2 questions. The first is about the gross margin. In Q2, the Company has already achieved a high level of 52%, exceeding the mid-term target of 50%, but there still seems to be room for improvement when compared to the competition. What is the level of gross margin/gross profit margin that can currently be achieved when we exclude Dialog Semiconductor Plc?

Could you also tell us about the 53% in Q3? This is the first point.

A: This is a difficult question, and I would like to give you a proper update after the acquisition of Dialog is over. As you can see in Q2 results, the growth of automotive business is much larger than that of other businesses this year. For example, compared to Industrial Infrastructure and IoT.

So now, even in this situation, we have a gross margin gap of 15% to 20% in each BU. Simple calculation reveals that the more the automotive business grows, the more moderation is required for the margin expansion of the corporation as a whole.

Therefore, if we extrapolate the current trend, it is unfortunately difficult to imagine that it will reach 55% sooner or later.

Going a bit further, and this was also touched on by Shinkai, we are in the process of deciding on a CAPEX that is quite large compared to the run rate for this year. Therefore, I think there will be a gross margin drag around the base level of 150 as for the run rate in the next five years.

I would like to provide a firmer view during the medium to long term updates, after properly investigating if IIBU sales are steadily expanding, margins are increasing. Margins are dragged due to the increase in precision due to CAPEX. That is all for now.

Q: Thank you very much for your time. Secondly, you have explained about your efforts to supply. It seems that other domestic companies, such as Sony, are not necessarily reluctant to participate in domestic foundries.

If you could give us some hints on how your company plans to deal with the possibility of a foundry being built in Japan, I would appreciate it. That is all.

A: Of course, the general consensus is that we welcome it, and we would be grateful if it were up and running soon.

However, considering the supply environment for the remainder of this year and the next year, which many of you are interested in, such efforts probably do not fit the time frame, so we have to secure capacity with existing foundries.

Also, I may have talked about this a little bit before, or I may have talked about this during equity financing. In our own manufacturing bases, we are trying to increase our manufacturing capacity a little bit here and there, and we are starting to work on ways to increase our supply capacity at least a little bit next year.

In the medium to long term, if new large greenfield capacities become available in Japan, the U.S., or elsewhere, I would like to explore ways to actively utilize those. That is all.

Q: Thank you very much for your time.

<Questioner 3>

Q: There are 2 questions from my side. First of all, I think it was at the last financial results briefing. I remember that you mentioned that you envisioned the peak of our business performance in the near future to be around JPY220 billion.

This time, you landed at a little less than JPY220 billion in this quarter as the actual results state, and the guidance from Q3 onwards, which is when the Naka plant recovers, is JPY240 billion. Where does this upward gap come from? Please let us know. This is the first point.

A: Now, since Kataoka is on line, I will ask him to reveal some details after my answer.

When I said last time that it would be difficult to greatly exceed JPY220 billion for whatever reason, I was saying this in consideration of various supply constraints for us.

At the beginning of this session, I talked about the coronavirus in Malaysia. In addition to that, we are talking every day about how the materials are not going to be enough, or how this part is going to go down, and so on.

Last time, I thought it would be necessary to include the bottlenecks in the supply of raw materials, foundries, and OSAT on a regular basis.

But let's talk about the situation at hand. In particular, the multi-sourcing of raw materials, which I mentioned earlier, is advancing at a much faster pace than anticipated. I do not think you can completely relax about those risks, but I am starting to think that it is okay to have a somewhat relaxed perspective, and I have adjusted my perspective on the revenue outlook a little bit.

Then, Kataoka, could you talk a little bit about what kind of constraints we are facing and what kind of initiatives we are taking?

A: I am Kataoka from the Automotive Solution Business Unit. Let me put it this way. In terms of profits, as you all know, demand continues to be very strong. As Shibata just said, the supply side is the key point.

On one hand, the so-called front-end process, the wafers. On the other hand, OSAT of the back-end process. In terms of this, we are in a situation where supply and allocation will definitely increase. We have also been able to secure wafers. Also, regarding OSAT, some of the capacity allocations, for example, have been made in a form similar to a contract.

When this happens, the bottleneck will be the so-called components. It can be a lead frame, a substrate, or a resin. We are also working on the relationship with suppliers from our point of view, talking to them very closely every day to make sure that they can supply us as much as possible.

This is still the place to be, though. When you look at it from a worldwide perspective, the demand is really strong. In a sense, there is a competition for parts and materials, for lack of a better word. Therefore, we are focusing on this issue more than ever before by working very closely with our suppliers to get them to supply us.

Therefore, compared to the current 1H, our current plan is to increase the supply of 2H, and further increase the supply by expanding the product. That is all.

A: What I will say now is not about a specific supplier or a specific component or anything like that. However, currently, there is a lot of talk in many places about supplies being reduced by 50% at some point.

So, I received such information that there might be no supplies with a huge magnitude. In response to this, we are trying to do everything we can to bring it up to 90%, or 100% as a matter of routine.

In that context, I expected a certain amount of risk last time. Again, I think the progress we have made since then is that our customers and our suppliers are gradually getting the hang of this kind of situation. That is all for now.

Q: Thank you very much. As for the second point, I think the status of the order backlog was mentioned in the presentation materials. According to what you said earlier, by September, the negotiations will have progressed a little further and quantities for next year might be more fixed, so I think there will be an increase.

In the rapidly rising order backlog, how much of it is temporary demand, or double orders? I hope you can tell me about it. This is the second point.

A: This is really a million-dollar question, and I do not know how to answer it. However, as I have said many times, we are working on this project in a much, much different way than before, so it highly unlikely that the orders we have accumulated here will disappear later. Thus, they will lead to sales for us.

However, to be honest, it is difficult to predict the risk of the customer not using or buying the product in the end, even though the development was completed.

Incidentally, I would like to tell you now what factors will cause the order backlog to move up or down in the future. It is not just a straight-up rise, but there are factors that could cause it to fall from here.

In particular, the remaining orders for this year are showing signs of not being able to be supplied, so we have asked to remove those items temporarily and place them again as orders for 2022.

Therefore, some of them may go down and be carried over to next year. I have been managing it as an existing order. However, there are some items worth several tens of billions of JPY for which the order was actually received more than 6 months ago, so we are trying to adjust the figures by asking whether we really need them.

Therefore, on the overall, we still have a feeling that orders will build up significantly from here, but some of them may be adjusted and offset from this year's, which could cause both upward and downward movements.

We need a certain amount of time for this, so we are working on making a proper and beautiful order book over the whole month of September. That is all.

Q: Thank you very much. That is all.

<Questioner 4>

Q: First of all, I would like to ask about the recovery status from the fire. At the briefing session you announced that about 90% of the loss from the shutdown of operations can be recovered within this year through means such as alternative production. I would like to ask you about how this outlook has changed in light of the current situation. This is the first point.

A: At the moment I do not have a figure for the percentage. In terms of alternative production, I think we have not deviated too far from our initial forecast. If anything, the Naka factory itself has been a little behind in terms of the start of shipment levels, as I mentioned earlier. However, as I said, shipments will probably start to pick up in mid-August.

I am saying this because we have made significant progress in our current production. In light of these factors, I believe that the overall trend will be in line with the initial forecast or slightly positive. That is all for now.

Q: Thank you very much. As for the second point, it will take about a year for the new foundry to start up its production capacity, when assuming the current supply capacity.

Based on this, what are the risks now that could become new supply constraints? I think you mentioned earlier that the procurement of materials is quite unstable. So if there are any risk factors, I would appreciate it if you can let us know. That is all.

A: I think the biggest risk is the supply for us. I think the procurement of raw materials is a major factor.

As you can see, if you look at our overall manufacturing distribution, roughly half of it is already foundry or OSAT, both front-end and back-end. We need to look not only at the capacity of our in-house factories, but also at the entire capacity, including foundries and OSAT. More than that, what I am very worried about are the raw materials.

As long as we can procure the raw materials, we are able to expand our manufacturing capacity incrementally, as I mentioned in the middle of the presentation. That is all for now.

Q: Thank you very much. I have one more point, if possible, as a follow-up. I heard that there is a shortage of parts and materials in various fields. I would like to hear about the front-end and back-end processes, and if there are any areas that are under particular pressure. That is all.

A: It is hard to say about this because of the relationship with our business partners. It is not just about the front-end process or the back-end process at all. Both are available. Of course, there are some shades of gray, and concerns surrounding supply exist in both front-end and back-end processes.

However, I would say that I am a little more concerned about the latter. That is all.

Q: Thank you very much.

<Questioner 5>

Q: I would like to make 2 points. The first point is the following: At the moment, various manufacturers are lamenting the shortage of semiconductors in the consumer market. Traditionally, the automotive sector has been the focus of media coverage, but it has been pointed out that this sector is expanding to include home appliances as well.

If Mr. Shibata could give some guidance to the consumers who are interested in these products, including home appliances, when do you expect the supply and demand environment situation to be resolved by? Please let us know. This is the first point.

A: This is a very difficult question, let me think. I am afraid it does not sound much different from last time, but I think the balance will improve a little somewhere in the first half of next year. I feel that the situation will continue to be tight throughout the rest of the year.

Q: Thank you very much. Second point. As another person asked earlier, you said that you welcome and support the idea of locating logic foundries in Japan.

Actually, the benefits of establishing a logic foundry in Japan are not clear to me. What is the point of manufacturing semiconductors in Kyushu, when they eventually do not have the Japanese flag on them, but rather the brand of other companies, specifically foreign manufacturers? Can you give us some specific advantages? Thank you.

A: In normal times, I do not think there is anything special. I believe that it is simply a matter of capacity, no matter where it is located.

However, this is probably just my own personal guess. I think that a lot of discussions these days are not about normal times, but about emergencies. In the event of an emergency, having a manufacturing base under the same legal system and in very close proximity to each other is a plus in terms of ensuring some kind of security or flexibility. I think that there is an option value.

I think it will be easier for me to understand if I separate the 2 scenarios, the normal times and the case where something unusual happens. That is all.

Q: Thank you very much. I have one more follow-up question. Do you think that it should be possible for the government to contribute hundreds of billions of JPY for that option value? Thank you.

A: It is a little difficult to discuss this issue alone by taking it out of the context. In addition, I believe that it is important for any initiative to show ongoing efforts to maintain continuous innovation, production capacity, employment, and so on. If it was just a temporary initiative, it would not have much meaning.

On the other hand, if this is an initiative that leads to the future, I think it will help maintain and strengthen Japan's technological capabilities, especially in electronics, and will also contribute positively to Japan's security. No matter what, I personally believe that it is important to not end up with temporary initiatives. That is all.

Q: I understand very well. Thank you.

<Questioner 6>

Q: I would like to ask 2 questions about the table on production, which is on page 15 of the PowerPoint presentation. First of all, is it correct to understand that the reason for the decline in Q2 production results compared to Q1 was the trouble with semiconductor manufacturing equipment that Mr. Shibata explained at the beginning of his presentation? Also, what exactly happened and is it still going on?

I am going to go with 2 questions at once because they are related. As for the second point, you also explained in the table on the same page that even in Q3, there will be a delay of 0.2 months compared to the pre-fire period. If that is the case, when do you expect production to return to pre-fire levels? Thank you very much for your cooperation.

A: I do not want there to be any misunderstandings, but the production level is already much higher than before the fire. I think I mentioned this earlier and at the beginning of this article. If you look at the production level before the fire and the current production level, the current level is roughly 70% above the pre-fire level, so at 170%. Thus, we have already greatly exceeded the pre-fire level.

The reason for the big dent in Q2 production is quite simple, and basically boils down to the fact that the factory was shut down due to the fire. The fire broke out on March 19, with only 10 days left in Q1, and for month operations were entirely shut down.

We are finally recovering, but since Q2 was characterized through a shutdown which was more than a month long, the reason for the dent is very simple: Production has dropped significantly. That is all.

Q: My apologies. If so, am I correct in understanding that the semiconductor problem occurred in July?

A: It was not really a semiconductor problem, but a problem with the manufacturing equipment.

Q: Ok, the manufacturing equipment.

A: This is something that happens all the time. So, that is not really something to make a big deal about. It just so happened that after we issued the press release on June 25, such events continued unfortunately. We are talking about shipping now, though, not production. I meant to mention that the timing for the shipment to return to pre-fire levels has slipped back a bit. That is all.

Q: My apologies. I understand now. Thank you very much.

<Questioner 7>

Q: My point is related to the previous question. One thing I would like to ask is whether it is correct to say that the trouble with the manufacturing equipment itself is not something structural, but rather a special kind of trouble, or whether it is really a series of individual troubles.

When you mentioned earlier, I think you said that the shipment level would be exceeded around mid-August. When do you think it will return to its original level? Please.

A: I am sorry. What do you mean with the original level?

Q: In your introduction, I think you explained that the shipment level would exceed the pre-fire level around mid-August. When do you think you will reach 100% of the original level?

A: I think it would be good if you assume that it would exceed 100% in mid-August and rise sharply.

Q: I understand.

A: If I were to talk about the problems with the manufacturing equipment, specifically 2 to 3 points. First of all, there is always a little bit of trouble here and there. On the other hand, under normal circumstances, we operate with a little more production capacity, so even if there is some trouble, we can absorb it with our inventory and production capacity. One of the factors is that everything is already on the brink, so even a single minor problem can suddenly affect production and shipments.

Also, after the fire, we installed new equipment or parts in the equipment. These were not only screws or nails, but large parts that were used for replacements. The second reason is that we had to make some adjustments due to unexpected problems that occurred through this.

Then, almost the same thing as the first, and I really do not think this has anything to do with the fire at all. It just so happened that one of the major parts failed at an inopportune time, and we had to replace the entire part. This was due to the fact that the lithography equipment was down until it was replaced.

So, there is no need to worry about that, because there is nothing fundamentally different. It just so happened that after we made the announcement on June 25, a few of these cases came together.

As I mentioned earlier, we have the actual manufacturing device already. But we procured new and larger components that expand the capacity of this device, which was mainly done in 2 steps involving the wiring process.

After this, we need to install equipment to secure the extra capacity for production itself. I would like to finish this in the summer or fall, if possible, but there is 1 project that may take until late in the year. Also, there is 1 project that will take until next year under some circumstances, but it is in progress now.

As we mentioned in the beginning, it would be more accurate to picture it as us being able to absorb and handle usual problems in a smoother manner. That is all.

Q: Thank you very much.

<Comments from CEO Shibata>

Thank you again for taking time out of your busy schedule to speak with us. Again, demand remains strong and, in my opinion, is a bit stronger than when we last spoke.

On the other hand, the situation at the Naka factory and other parts of the supply chain are still experiencing problems on a daily basis, which is causing a great deal of concern and possibly inconvenience to our users.

We would like to continue our efforts to alleviate the current tight situation by delivering products as fast as possible, even if it is a matter of a day, in addition to firmly achieving the numbers that are of interest to everyone. We look forward to your continued support.

Thank you very much for your time today. Thank you for your continued support.

[END]