

# Second Quarter of the Year Ended December 31, 2023

## Conference Call (Held July 27, 2023)

### Presentation and Question & Answer Summary

## Presentation

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**Moderator:** Good afternoon, everyone. 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 Q2 FY2023.

The simultaneous interpretation channel is available today. Click on the earth symbol at the bottom of the screen and select the language accordingly.

Today's briefing is attended by Hidetoshi Shibata, Representative Director, President and CEO, Shuhei Shinkai, Senior Vice President and CFO and other staff members.

After Mr. Shibata's remarks, Mr. Shinkai will give an overview of Q2, followed by a question and answer session. 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 page of the company's website.

Now, Mr. Shibata, please turn on the microphone and say hello.

**Shibata:** Thank you all for your time.

We believe that the figures for Q2 were about as expected. We talked last time about how we wanted to be ready for the upside in the next Q3 onward. However, when we look at the contents, there is some upside, or rather, steady improvement, but overall, we are still uncertain at this point. Our policy at the moment is to continue safe driving for the time being.

So, Mr. Shinkai will talk to you about the details.

Mr. Shinkai, please.

## DISCLAIMER

- **Adoption of IFRS:** With the outlook that the Group will continue to expand globally and to provide financial figures that can be compared on a global scale, the Group discloses its consolidated financial statements in accordance with IFRS starting from the annual securities report for FY2018/12.
- **Non-GAAP figures:** Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS) figures following a certain set of rules. 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.
- **Presentation of financial forecasts:** Starting from the consolidated forecasts for the three months ended March 31, 2019, the Group presents its financial forecasts as a range, and gross margin and operating margin figures in the non-GAAP format. The gross margin and operating margin forecasts are given assuming the midpoint in the sales revenue forecast.
- **Start of consolidation of Panthronics:** The Group completed acquisition of Panthronics AG ("Panthronics") on June 2 (JST), 2023. The Group has since begun the consolidation of their financial figures.
- **Purchase Price Allocation (PPA):** The allocation of the acquisition costs for the business combination with Steradian Semiconductors Private Limited ("Steradian") , which was completed on October 17, 2022, has been revised at the end of three months ended March 31. This revision to the allocation of the acquisition costs (PPA) has been reflected in the consolidated financial results for the year ended December 31, 2022.

**Shinkai:** I'm Shinkai, the CFO. I will explain the financial results for Q2 according to the material posted on the IR website.

On page three, you will find a note of caution.

At the time of the Q1 results, we announced that we were going to integrate the ERP system, but due to a lack of preparation, we postponed the integration. Therefore, there is no impact on the financial results for Q3. It is scheduled for next year and we will update again.

## 2Q 2023 FINANCIAL SNAPSHOT NON-GAAP

(B yen)	2022				2023						
	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun) Forecast	2Q (Apr-Jun) Actual	YoY	QoQ	Change from Apr 27 FCT <sup>1</sup>	1H (Jan-Jun) Actual	YoY	Change from Apr 27 FCT <sup>1</sup>
Revenue	377.1	723.8	359.7	360.0 (±7.5)	<b>368.7</b>	-2.2%	+2.5%	+2.4%	<b>728.4</b>	+0.6%	+1.2%
Revenue (Excluding Foreign Exchange Impact)	-	-	-	-	-	-8.0%	+0.8%	+0.8%	-	-	-
Gross Margin	58.6%	58.5%	56.2%	55.5%	<b>57.4%</b>	-1.2pts	+1.2pts	+1.9pts	<b>56.8%</b>	-1.7pts	+0.9pt
Operating Profit (Margin)	145.3 (38.5%)	280.9 (38.8%)	124.8 (34.7%)	32.0%	<b>129.1</b> (35.0%)	-16.3 (-3.5pts)	+4.3 (+0.3pt)	+13.9 (+3.0pts)	<b>253.8</b> (34.8%)	-27.0 (-4.0pts)	+13.9 (+1.5pts)
Profit Attributable to Owners of Parent	81.4	171.6	107.5	-	<b>119.0</b>	+37.6	+11.5	-	<b>226.5</b>	+54.8	-
Profit Attributable to Owners of Parent (Excluding Foreign Exchange Impact) <sup>2</sup>	120.4	228.2	106.8	-	<b>108.2</b>	-12.3	+1.3	-	<b>215.0</b>	-13.2	-
EBITDA <sup>3</sup>	165.2	320.4	144.3	-	<b>149.0</b>	-16.2	+4.7	-	<b>293.3</b>	-27.1	-
1 US\$=	124 yen	120 yen	133 yen	132 yen	<b>135 yen</b>	10 yen depreciation	2 yen depreciation	3 yen depreciation	<b>134 yen</b>	14 yen depreciation	1 yen depreciation
1 Euro=	134 yen	132 yen	142 yen	143 yen	<b>146 yen</b>	12 yen depreciation	4 yen depreciation	3 yen depreciation	<b>144 yen</b>	12 yen depreciation	2 yen depreciation

<sup>1</sup>: Each figure represents comparisons with the midpoint in the sales revenue forecast range <sup>2</sup>: Profit attributable to owners of parent – foreign exchange gain/loss <sup>3</sup>: Operating profit + Depreciation and amortization

This is a summary of the financial results.

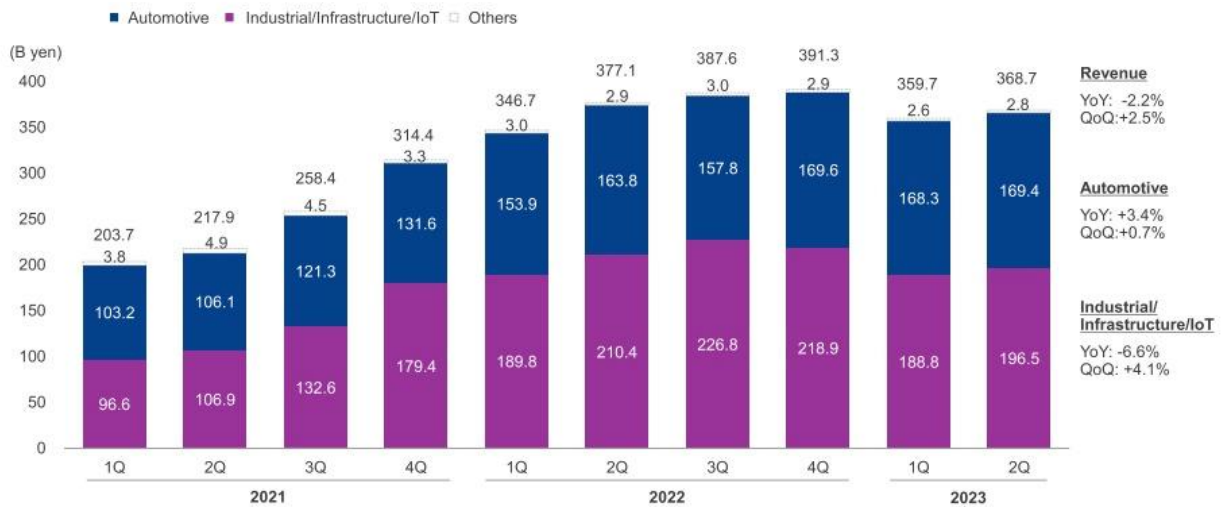
For Q2, look at the dark blue segment in the middle. Revenue was JPY368.7 billion, the gross margin was 57.4%, operating profit was JPY129.1 billion, the profit margin was 35%, net income was JPY119 billion, or JPY108.2 billion excluding exchange rate effects, EBITDA was JPY149 billion, and exchange rates for the period were JPY135 to the dollar and JPY146 to the euro.

See the third column to the right for forecast ratios. We will explain on a later page.

Please for the H1 accumulation, refer to the dark blue column, which is to the right.

# QUARTERLY REVENUE TRENDS

## NON-GAAP



This shows quarterly revenue trends.

In Q2, on the right most side, overall revenue decreased by 2.2% YoY and increased by 2.5% QoQ. Excluding foreign exchange effects, revenue was down 8% YoY and up 0.8% QoQ.

The breakdown is as below for automotive and for industrial/infrastructure/IoT. Similarly, excluding foreign exchange effects, revenue to the automotive sector were negative, minus 2.7% YoY and minus 1.1% QoQ. Meanwhile, industrial/infrastructure/IoT posted a 12.3% revenue decline YoY and a positive 2.5% increase QoQ.

## 2Q 2023 REVENUE AND GROSS / OPERATING MARGIN NON-GAAP

	Automotive	Industrial / Infrastructure / IoT	Company Total	Operating Margin vs FCT +3.0pts
Revenue	169.4 B yen vs FCT: + QoQ: +0.7%	196.5 B yen vs FCT: + QoQ: +4.1%	368.7 B yen vs FCT: +2.4% QoQ: +2.5%	<ul style="list-style-type: none"> <li>Revenue</li> <li>Gross Margin vs FCT: +1.9pts                             <ul style="list-style-type: none"> <li>Currency Impact</li> <li>Product Mix</li> <li>Production Recovery</li> <li>Production Costs, etc.</li> </ul> </li> <li>Operating Expenses</li> </ul>
Gross Margin	51.5% QoQ: -1.3pts	62.6% QoQ: +3.2pts	57.4% vs FCT: +1.9pts QoQ: +1.2pts	<ul style="list-style-type: none"> <li>Revenue</li> <li>Gross Margin QoQ: +1.2pts                             <ul style="list-style-type: none"> <li>Currency Impact</li> <li>Product Mix</li> <li>Production Recovery</li> <li>Production Costs, etc.</li> </ul> </li> <li>Operating Expenses</li> </ul>
Operating Margin	34.9% QoQ: -1.2pts	35.4% QoQ: +1.9pts	35.0% vs FCT: +3.0pts QoQ: +0.3pt	

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RENESAS

This is about the gross margin, operating margin, etc.

First, please refer to the box in the upper right-hand corner for company-wide totals. Revenue was 2.4% above the median forecast, and a little more than half of that upside was due to foreign exchange, and a little less than half excluding foreign exchange. Among industrial/infrastructure/IoT, sales increased compared to the forecast, mainly for analog products in infrastructure/IoT.

The gross margin is 1.9 percentage points above the forecast. The exchange rate is almost in line with our expectations. The product mix was slightly positive due to an upswing in analog products. Then production recovery was slightly negative due to adjustments.

On the other hand, manufacturing costs are positive. In addition to the cost reduction due to the decrease in production, we had estimated the cost of inventory write-downs, but these were less than expected. This manufacturing cost and other items are the main reasons for the upward movement in the gross margin.

Operating expenses, R&D and SG&A were all lower than expected. As a result, the operating margin exceeded the forecast by 3.0 percentage points.

Under that, for QoQ, there was a 2.5% increase in revenue, and then a 1.2 percentage point increase in the gross margin.

As for the mix, there is a slight improvement due to increases in industrial/infrastructure/IoT. Although production recovery was negative due to a decrease in capacity utilization, manufacturing and other costs improved, including accounting factors, resulting in a positive net gross margin.

See the left for each segment. I would like to add a few words on the QoQ variation in the gross margin. For automotive, the impact of the decrease in production recovery is evident. Industrial/infrastructure/IoT were also affected by lower production recovery, but the net result was positive due to an improved mix and lower inventory write-down expenses.

Regarding the operating margin, the small improvement in the operating margin for industrial/infrastructure/IoT is due to a slight increase in R&D QoQ.



# IN-HOUSE INVENTORY (FINANCIAL ACCOUNTING BASIS) AND DOI\*1\*2

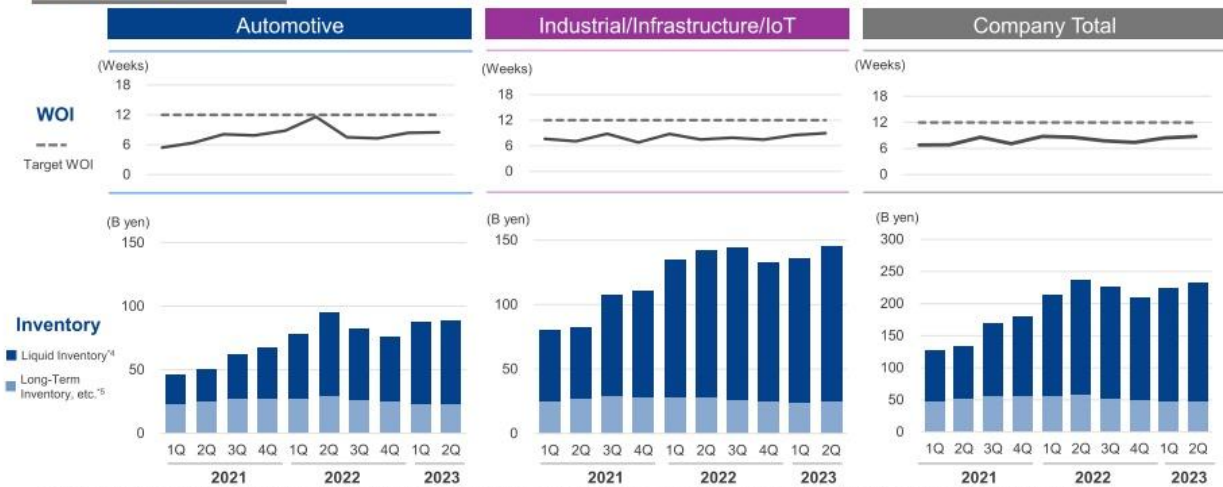


\*1: DOI: Days of Inventory = Inventory valuation balance at the end of the quarter / cost of sales of the quarter (Non-GAAP) × 90.  
 \*2: The figures include Dialog's inventories from 3Q21 and Celeno's inventories from 4Q21. However, note that Dialog's quarterly cost of sales for 3Q21 is calculated by multiplying Dialog's September costs by 3.

This is about our in-house inventory.

Overall DOI on the far right. It decreased QoQ in Q2, with 107 days in Q1 and 102 days in Q2. It decreased in both automotive and industrial/infrastructure/IoT.

# SALES CHANNEL INVENTORY\*1 (MANAGEMENT ACCOUNTING BASIS\*2) AND WOI\*3

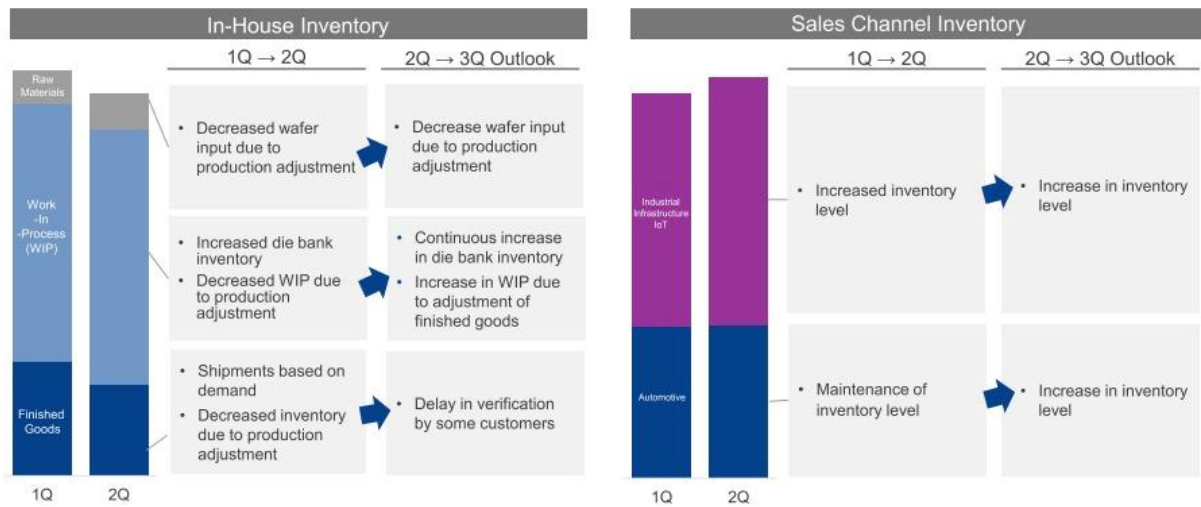


\*1: Channel Inventory: Total inventory amount for Tokuyakutens for Japanese customers and overseas distributors (including channel inventories of Dialog from September 2021 and those of Celeno from March 2022).  
 \*2: Management accounting Basis: Exchange rates for the FY2021 and FY2022 have been adjusted (and are calculated based on the FY2023 exchange rate) in accordance with the change in exchange rate for the FY2023 budget.  
 \*3: 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, certain Long-Term Inventory is excluded from Channel Inventory.  
 \*4: Liquid Inventory: Channel Inventory - Long-Term Inventory, etc. \*5: Long-Term Inventory: Inventory with unique holding periods (End of Life or "EOL" products, e-commerce inventory etc.)

This is about channel inventory.

Weeks of inventory (WOI) increased QoQ in all segments, with a slight increase in automotive and a slight increase in industrial/infrastructure/IoT as expected. The overall result is about nine weeks or less.

# INVENTORY ANALYSIS



These are the factors and forecasts for inventory increases and decreases.

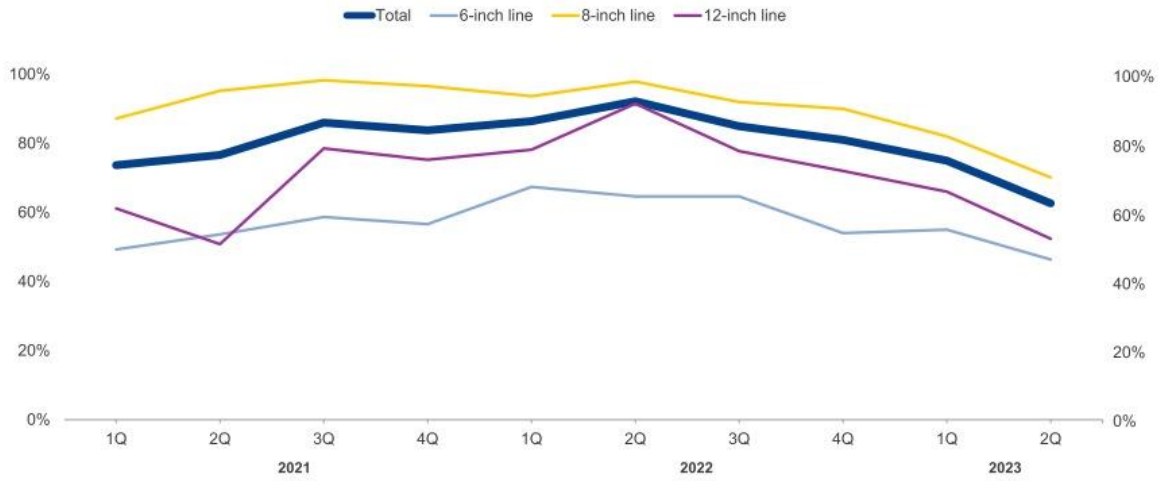
First, regarding our in-house inventory, our inventory shown on the left side, the overall inventory has decreased by JPY10.3 billion. Raw materials increased from Q1 to Q2 QoQ, and were affected by a decrease wafer input due to production adjustments. This means that while purchases are being held down by long-term contracts, usage is decreasing. Therefore, we expect a similar increase in Q3.

Next is work-in-process. In Q2, while the die bank for in-house products was expanded, work-in-process decreased due to production adjustments. As a result, it was almost flat QoQ. In Q3, we are going to expand the die bank a little more, and then we will hold down finished products to reduce overall inventories. So, the amount of work in process stops at the work in process, and the work in progress increases. Therefore, we expect a slight increase QoQ.

Finally, the finished product. In Q2, the number of products decreased as expected, while in Q3, there was a delay in verification of some products by our customers. We expect a slight temporary increase due to this effect.

The channel inventory was shown on the right side. All segments increased slightly, but in automotive, sell-through lagged slightly and WOI increased only slightly. On the other hand, both sell-through and sell-in in industrial/infrastructure/IoT increased as expected. For Q3, we expect to slightly increase our holding levels in both automotive and industrial/infrastructure/IoT.

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



\*1: Utilization rates are calculated by excluding the 6-inch line capacity of the Shiga Factory (closed in August 2021) and the Yamaguchi Factory (closed in June 2022) from 1Q21 and 1Q22 onwards, respectively.

This is the utilization rate of the front-end process on a wafer input basis.

In Q2, the rate was in the low 60% range. The production adjustment resulted in a slightly lower-than-expected decline. In Q3, we expect the utilization rate to remain mostly flat from here.

## GROSS PROFIT AND OPERATING PROFIT QUARTERLY TRENDS NON-GAAP

### Gross Profit (Margin)



### Operating Profit (Margin)



As for trends in gross margin and operating margin, please see this later.



# NON-GAAP EBITDA\*1 AND GAAP CASH FLOWS

## Non-GAAP EBITDA



## GAAP Cash Flows



\*1: Operating profit + Depreciation and amortization \*2: The figures exclude acquisition-related payments and payments for acquisitions of subsidiaries for the contingent consideration  
 \*3: Cash flows from operating activities + Cash flows from investing activities

This shows EBITDA and free cash flow.

I would like to make a few comments on the free cash flow on the right side. Comparing Q1 and Q2, the QoQ gap is large. Comparing operating cash flow in Q2 with Q1, there was a large positive impact from the payment of corporate taxes and the payment of bonuses in 1Q. QoQ is expected to be negative in Q3 due to the interim payment of corporate taxes and the payment of interim bonuses.

## 3Q 2023 FORECAST

### NON-GAAP

(B yen)	2022		2023					
	3Q (Jul-Sep)	9 months (Jan-Sep)	2Q (Apr-Jun)	3Q (Jul-Sep) Midpoint Forecast (Range) <sup>*1</sup>	YoY	QoQ	9 months (Jan-Sep) Forecast	YoY
Revenue	387.6	1,111.4	368.7	370.0 (±7.5)	-4.5% (±1.9pts)	+0.3% (±2.0pts)	1,098.4 (±7.5)	-1.2% (±0.7pt)
(Excluding Foreign Exchange Impact)	-	-	-	-	-5.4%	-0.1%	-	-
Gross Margin	57.0%	58.0%	57.4%	56.5%	-0.5pt	-0.9pt	56.7%	-1.3pts
Operating Margin	36.8%	38.1%	35.0%	32.5%	-4.3pts	-2.5pts	34.1%	-4.1pts
1 US\$ =	135 yen	125 yen	135 yen	138 yen	3 yen depreciation	3 yen depreciation	135 yen	10 yen depreciation
1 Euro =	139 yen	135 yen	146 yen	153 yen	14 yen depreciation	7 yen depreciation	147 yen	13 yen depreciation

\*1: Each figure represents comparisons with the midpoint in the sales revenue forecast range

This is about the forecast for Q3.

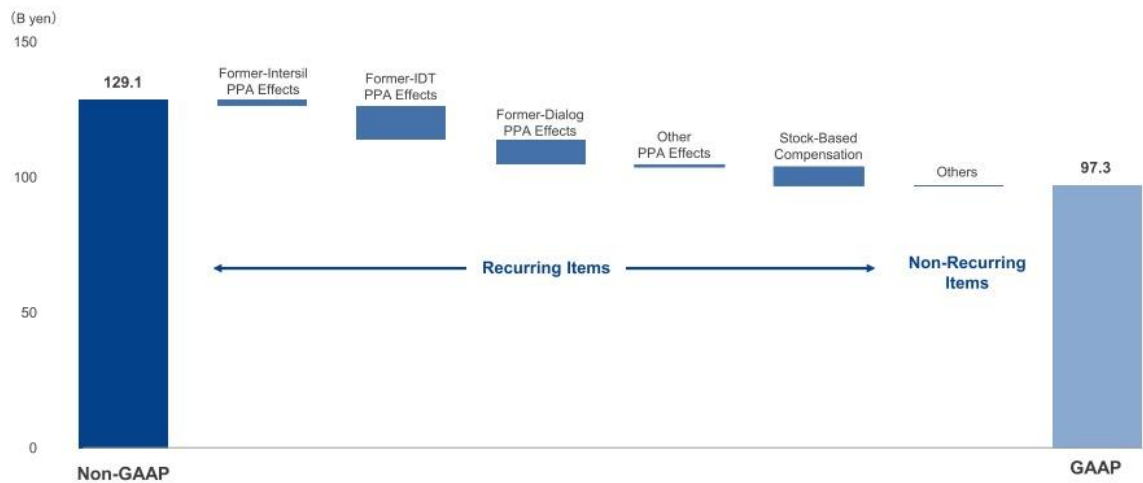
Please refer to the dark blue column in the middle. Median revenue is expected to be JPY370 billion, minus 4.5% YoY and plus 0.3% QoQ, or minus 5.4% YoY and minus 0.1% QoQ excluding the foreign exchange effects in the lower column.

The gross margin is expected to be 56.5%, or minus 0.9 percentage points QoQ, then the operating margin is expected to be 32.5%, or minus 2.5 percentage points QoQ.

To comment slightly on the gross margin, the 0.9 percentage point decline QoQ is due to a deteriorating product mix and higher manufacturing costs. As for the product mix, we expect an increase in consumer products due to a reactionary decline from the good results in Q2. As for manufacturing costs, we expect an increase in depreciation costs, an increase in electricity costs used at the plant, plus start-up costs for the Kofu plant.

Regarding operating margin, we expect the Capex to increase in Q3, mainly in R&D. In H1, the company operated its R&D spends in a restrained manner but plans to slightly increase R&D investment in H2. The funds will be used mainly for the development of IGBTs and SiCs for automotive applications, and next-generation SoC products.

## 2Q 2023 CONSOLIDATED OPERATING PROFIT BRIDGE FROM NON-GAAP TO GAAP

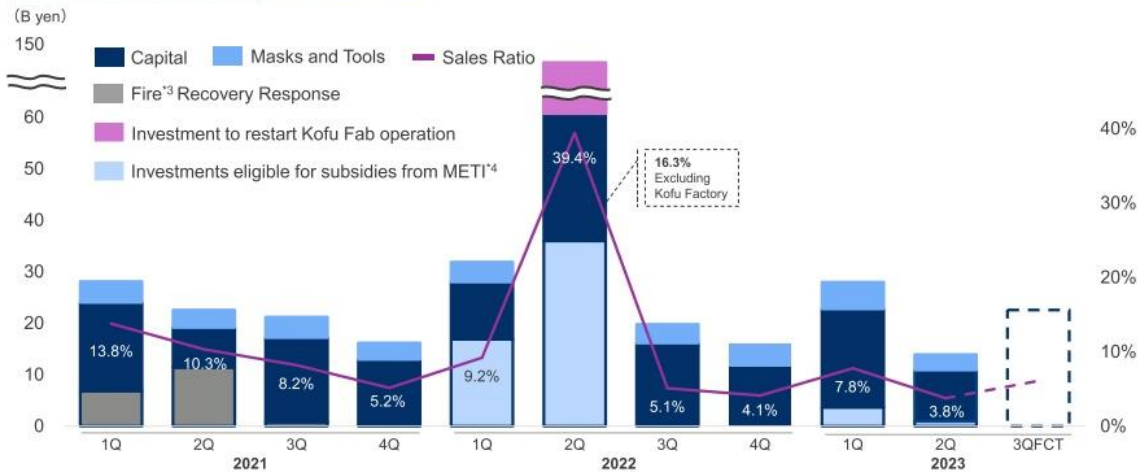


This is a bridge from Non-GAAP to GAAP for Q2.

One point I would like to add is that for this third stock compensation from the right, in FY2023, this year's stock compensation is expanding compared to the previous year.

Dialog employees' compensations were integrated into this same cycle of Renesas equity compensation. In addition, the number of employees is increasing due to M&A, and the depreciation of the yen is having an impact. As a result, the cost of stock-based compensation per quarter has increased from a little over JPY4 billion to just under JPY7 billion beginning in Q2.

## CAPITAL EXPENDITURES\*1\*2



\*1: The figures represent the investment decision basis tangible and intangible assets and do not match the sum listed in the cash flow statement. However, the investment amount for former Dialog and Celero is based on equipment delivery.  
 \*2: Total amount of the Group's capital investment, including investments made by former Dialog from 3Q 2021 and by former Celero from 1Q 2022.  
 \*3: The fire which occurred at a Renesas consolidated subsidiary on March 19, 2021.  
 \*4: Up to one-third (partially three-quarter) of the investments that are eligible for subsidies from METI will be subsidized. METI: Ministry of Economy, Trade and Industry

This shows capital expenditures.

We have re-labeled the projects eligible for METI subsidies in this light blue color, including those announced at the end of April. The subsidy amount is approximately one-third of the portion highlighted in light blue.

## SIC WAFER SUPPLY AGREEMENT WITH WOLFSPEED

Agreement Highlights	Purpose
<p><b>Renesas and Wolfspeed signed a 10-year SiC wafer supply agreement</b></p> <p>Renesas provides \$2 Billion deposit to Wolfspeed and supports Wolfspeed's U.S. capacity expansion plans</p> <div style="display: flex; justify-content: space-around; align-items: center;"> </div> <p>Wolfspeed supplies Renesas with both 150mm and 200mm silicon carbide bare and epitaxial wafers</p>	<ul style="list-style-type: none"> <li style="margin-bottom: 10px;">  Secure a stable, long-term supply base of quality SiC wafers for mass production of SiC semiconductors starting in 2025                 </li> <li style="margin-bottom: 10px;">  Fortify Renesas' commitment to boost its power semiconductor roadmap to better serve its customers' vast array of applications spanning EVs, renewable energy and more                 </li> <li>  Aim to be a key player in the rapidly expanding SiC market                 </li> </ul>

Here is another reference to the SiC wafer supply agreement with Wolfspeed. The 10-year supply contract was signed on July 5.

This concludes the presentation.

**Moderator:** Thank you.

## Question & Answer

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### [Questioner 1]

**Q:** As the first of two questions, in your comment at the beginning, you explained that there is a difference in sales. If possible, in light of your company's subcategories, could you please tell us about the colors on each subcategory, what areas are good and what areas are falling a little short of your expectations?

**A:** First of all, we currently expect that the pace of growth itself will slow down for industrial applications, which have been very strong so far, although they will continue to grow YoY. The negative side is that the strength of the market, which has been very strong up to now, will slow down.

As expected, PC and consumer sales are still largely down compared to the previous year, but they will bottom out in Q2, almost as expected. We expect moderate growth, or rather recovery, from Q3 onward.

The other is the ones for data centers. It may still be a bit early to discuss this in a single quarter, so I don't want to put it too strongly. Looking at it at this stage, we are seeing a fairly rapid transition to DDR5. This will allow us to anticipate significant growth, at least in the next quarter.

I hope this will continue to happen, but some of our customers who are still using DDR4 and are narrowing down their purchases to digest their inventory. So, there may be a little more rebound when it returns.

Right now, it looks like it is moving very rapidly to DDR5, so this trend itself is positive for us because it will increase our content considerably.

Then we turn to automotive, to be honest, I have to admit that I'm a bit confused. I don't mean to imply that it is very weak, but I was thinking that it could be much stronger, but so far it doesn't seem so. What we currently sense is that we are somehow going to go with this state of affairs.

We currently estimate that there are two major factors. One is the rapid growth of EVs in China and the corresponding decline in internal combustion engines, which has led to this uncertainty, especially among Japanese customers.

Also, as you can see, cash flow is quite tight at our major global Tier 1 customers. The current situation is probably that they are managing their inventory to a considerable degree by packing it down to the very last minute. As a result, management seems to be prioritizing cash, and while there is talk of a shortage of this or that, the current situation is that there is not such strong demand coming in the future.

Based on the above situation, I said that the situation continues to be a bit uncertain.

**Q:** Thank you. The second point I think it would be better to ask Mr. Shinkai about. I would like to ask you about this USD2 billion deposit to Wolfspeed. Your company has been relatively positive about shareholder returns in the past, such as your desire to resume dividend payments at a relatively early date. Please comment on impacts on that to the extent you can.

**A:** USD2 billion. The first USD1 billion has already been deposited. Another USD1 billion will be deposited next year onward. Thus, the source of funds is our own funds.

Regarding the implication of shareholder returns, our policy has remained unchanged. That's all.



## [Questioner 2]

**Q:** Looking at the current sales outlook, the direction of inventory is to raise the channel somewhat in Q3, what is your thinking on how far you will go in creating or taking the channel?

Also, I don't think that we cannot expect profits from production recovery in 3Q. But are you saying that you are looking at this as a direction of bottoming out basically and production recovery for Q4? I would like to check with you the sense of direction.

**A:** Regarding inventory, we talked about the DOI level of our own inventory last time, and we have set targets for both channel inventory and our own inventory levels as we have announced. As you can see, the current inventory holding level is below target. Therefore, we basically want to get closer to our target, and from that perspective, we are gradually increasing the number of these products.

If the outlook for the future were brighter, we would have to increase the level more all at once, but that is not necessarily the case. So, we are increasing them little by little as we see how things are going. In the unlikely event that this slow situation persists or reverses, we are looking to be able to hit the brakes immediately.

However, having said that, the way to proceed now is to move a little closer to the target and see how things go.

Also, as Mr. Shinkai mentioned about the operation of Q3, I naturally cannot say anything definite about the operation toward the end of the year, as it is still a bit premature at this time. Also it's hard to say, just because there are some things that will change to some extent next year with the demand match for Q1. At this point, the uncertain situation that I have mentioned in the beginning continues, so rather than stepping on the accelerator too much, we are operating with the idea that it would be appropriate to proceed at the current Q2 and Q3 level while keeping an eye on the situation.

I am also thinking of making a few more adjustments, if necessary, to the Q1 outlook next year as the resolution improves a bit more. That's all.

**Q:** Thank you. Second, in terms of orders or order backlogs, please tell us how they are coming in and how they are trending.

**A:** As previously explained, the order backlog continued to build up quite significantly. Therefore, new orders continue to be slow, and we are currently in a situation where the order backlog is being eaten up. This is the situation as expected.

On the other hand, as you may recall, we stopped taking long-term, so-called NCNR, non-cancelable orders some time ago. In addition, lead times are now much shorter, so we are trying to keep inventory levels a little thicker. So, in order to meet actual demand, orders from customers are coming in in a much shorter span of time than in the past.

Therefore, as for our expectation at this point in time, we are thinking that new orders will increase from here as the redemption of the previous order backlog progresses. That's all.

**Q:** The level of orders relative to sales still high, or are you thinking that the orders are coming in at a certain level in terms of revenue growth for next year?

**A:** I think it is too early to say until next year, but I am not worried about the end of this term at least. That's all.

### [Questioner 3]

**Q:** The first is about wafers, which was mentioned in the previous question. USD2 billion is quite a large amount, even though it will receive interest. Therefore, to what extent will the contract enable you to increase your share of the SiC and power semiconductor market in the future? If you have an image of this, please tell us if there is anything you can share with us at this point.

In addition, you mentioned earlier that you are strengthening R&D. I would like to ask you to comment on the current stage of the SiC manufacturing process technology. This is the first question.

**A:** The SiC process is just now being launched, and we are not making such a large investment at this time, nor do we expect to increase it all at once at this time. We are planning to do this gradually in stages.

In terms of the monetary scale, the investment in the development of 300mm IGBTs and IPDs (Intelligent Power Devices), as I mentioned earlier, as well as the investment in the development of digital devices, tend to be more expensive. So, a major factor is that the development of the generation-five SoC will be launched in a much larger scale.

About SiC's share, this is difficult to say, but I can state a figure of 10% or 15% or something like that, but the outlook is still quite unclear, in a good way, so it is difficult to say anything. We are thinking of starting up with a slow start, and as we get up and running smoothly, we will increase the amount of money in a step-functional manner at some point.

In many ways, the major investment with capacity expansion will probably come at the time of the transition to 8 inches instead of 6 inches. So, I am thinking of doing so while carefully determining the timing, since it should not be too early. That's all.

**Q:** Thank you very much. I am afraid that the second question also overlaps with the previous one. I recall that you explained at Capital Market Day that you would be able to comment on the commencement of dividends in the not-too-distant future.

At this point, I would like to know again your thoughts on capital expenditures, strategic investments, allocation of funds for dividends and share buybacks, and fundraising. This is my second question.

**A:** Nothing has changed. As I have mentioned in the past, we are currently thinking of shareholder returns, especially regarding dividends, in the so-called annual cycle, with the major milestone being around the time of the annual shareholders meeting. We have been preparing with that timing in mind for some time.

Also, I am a little nervous about where your image is, but in the meantime, as I have said before, we are going to start small. Therefore, we are not considering any amounts that could suppress R&D or capital investment, and we are making preparations from the viewpoint of starting steadily. That's all.

#### [Questioner 4]

**Q:** In the last financial results briefing, I think you explained that the impact by generative AI would appear in Q2. How was it? What is your outlook for Q3 and beyond?

**A:** I'm sorry, did I say in Q2? I don't remember much about it. I think I said I thought it would be in Q2 onward.

I think it will appear from Q3 onward, but I don't expect the impact on us to be that great. I think it's positive in total. For example, we do not anticipate a three-digit billion-yen figure, but rather, we think will gradually see positive effects from small two-digit billion-yen figures.

For us, the monetary and numerical impact of the transition to the next generation of memory and power architectures, which I mentioned earlier, is greater than the impact of generative AI in the immediate future.

Many years down the road, if what we are preparing now blossoms, it will be a different story. But please understand that for the time being, the impact of generative AI is positive, but the impact of generational turnover and progress in MPU-based architecture is more significant. That's all.

**Q:** Thank you. Just one more point.

Could you be more specific about the improvement in the product mix in Q2? Also, could you please give us your outlook for Q3 and beyond?

**A:** In Q2, more analog products for infrastructure, specifically what we call timing ICs and timing devices, came out than expected. They were products with very high gross margins, which boosted the overall mix.

In Q3, there is a slight deterioration in the reaction to that, and then there is the fact that consumer products, which have relatively low gross margins will rise due to seasonality. Therefore, we expect a slightly negative result. That's all.

#### [Questioner 5]

**Q:** My first question is about power semiconductors. For SiC, you mentioned that you are going to start slowly, but I would appreciate it if you could tell me a little bit about the scale of the power semiconductor business in your company and how it is going to change in the future. If you have any suggestions on how far into the future, even to 2030, you would like to go, I would like to hear from you. Thank you.

**A:** Power semiconductors, 2030, that's a bit of a difficult question. As Mr. Shibata mentioned earlier, a slow start for SiC. However, for IGBT, we will reopen the Kofu Plant in 2024 and start mass production of 300mm in 2025. In addition, we are considering various options with a view to expanding production at the Kofu Plant in the future. That's all.

**A:** I don't know how much it is currently. I think it's the latter half of a few tens of billions of yen in a year, a little below JPY100 billion. The scale of the power semiconductor business is roughly like that. We would like to steadily expand this. That's all.

**Q:** Thank you very much. Second question.

Could you tell us when the generation-five automotive SoC that you mentioned earlier will be released and what are the main differences from the generation-four SoC?

**A:** We are still in a situation where we can't decide when the product will be released, but I think it will be as early as 2027, or something like that. We are preparing for it with such an image that if it is late, we will push out two or three years more than that.

We don't want to mention too specific, but of course, it increases computing power for ordinary compute systems, and also for the large AI part. In addition to that, we would like to introduce two major changes, a little more significant than the previous generation-four.

One thing we are thinking of doing is, it sounds strange to call it customization, but to put it another way, using chiplets, etc., to be a little more flexible than before in meeting the needs of our customers.

Another thing is that in the past, SoCs and MCUs have been considered as two separate compute devices, or rather, they have been virtually so. However, we have been emphasizing scalability for some time, and we would like to introduce crossover devices in the next generation. We would like to include devices that connect between the real high-compute and traditional microcomputer areas, so that the connection is truly seamless.

From that perspective, we are preparing to introduce, for example, Arm cores into microcontrollers. In terms of hardware, we are trying to make the device highly flexible and to achieve scalability that is much more advanced than what we have achieved in the past.

Of course, the assumption is that computing performance will increase, as I mentioned earlier. However, in reality, it is still very important to expand the software side of the business. Therefore, we would like to devote more effort and resources to the development of an environment for simulation and emulation, and to the preparation of models for that purpose. That's all.

**Q:** Thank you very much. Just to confirm, I am assuming that what you are selling now is a generation-four SoC?

**A:** Right now, we mainly sell generation-two and three.

**Q:** I see. There is a generation-four that we have not seen yet, and what you just mentioned is the generation-five, is that correct?

**A:** Yes, that's right. So it is quite a long way off.

#### **[Questioner 6]**

**Q:** Regarding the first question, you mentioned earlier that there is a move to hold down inventories a bit with regard to automotive Tier 1. I think you mentioned this about three months ago at the time of the financial results briefing. I would like to know how the situation has changed in the last three months, by region and how seriously customers have come to take it. That is my first question.

**A:** It is a little difficult to answer this question, but I would venture to say that there have been some moves to suppress the burden on the balance sheet with a very strong force, which is a difference from the last time. Rather than somehow trying to hold back as a whole, we see a bit more like a dollar amount, or a considerably stronger will to hold the amount of money.

As I mentioned earlier, as a result, there are a few more stories than before that it was squeezed too much and no longer has enough, so the view from our perspective is that this makes it more difficult to read.

I don't really feel much for regional factors at the moment. My current view, based on fragmented information and some speculation at this point, is that global Tier 1 companies are largely narrowing down on their platforms to sell to a variety of customers in a variety of regions. That's all.

**Q:** Thank you very much. My second question is about foreign exchange.

I understand that you are still using hedges, but I think it is time to start thinking about hedging for next year. Do you intend to make the scheme so that you can take advantage of the current depreciation of the yen? In terms of sensitivity, I assume that there are also internal flows, revenue and expenses, by currency, but has there been any significant changes in these flows? That is my second question. Thank you.

**A:** In preparation for 2024, we will basically hedge with the same idea as we did this year. This year we have been focusing on the dollar, but the euro is high at the moment, so we are thinking of preparing for the euro as well for next year.

Also, I don't think there has been that much change in the currency of the flows. The point is that the sales base has a significant dollar portion and the cost side has a larger yen portion. The structure is the same as before, with most of the profit and then cash flow coming from the profit. That's all.

#### **[Questioner 7]**

**Q:** My question is about the SiC wafer supply agreement with Wolfspeed. I think there are several suppliers of SiC wafers on a global basis. Can you give us some background on why you chose to partner with Wolfspeed this time?

**A:** Their quality is excellent. And, as I have mentioned before, this time, we were the first in the world to secure procurement for the eight-inch budget. These are the major factors from our point of view. We also believe that the other party had a great need for funds, and that it was largely due to the fact that the needs of the other party to secure funds and a source of financing matched. That's all.

#### **[Questioner 8]**

**Q:** First of all, I see that the utilization rate of the front-end production line has been around 50% to 70% in the most recent period. I'm sorry, I missed it earlier, but I think you mentioned something about flattening out, but I would appreciate your comments on the status of recovery, etc., in the next fiscal year and beyond. This is my first question.

**A:** We are considering it to be flat for the next quarter, and for Q4, we will make adjustments while watching demand trends for next year.

**Q:** Regarding the next question, sales revenue for the current quarter, down from the same period last year, is up 2.4% from our guidance and up 2.5% from the previous quarter. To repeat what I said earlier, would it be correct to consider the overall sense of the situation to be that a recovery has been seen to some extent, albeit in a speckled pattern?

**A:** From an overall perspective, I would say that we are not seeing a recovery. So I wanted to say that the uncertainty is continuing. Looking at the details, there are some items that are recovering as expected, but there are also other items that are being pushed out and pulled in. Overall, my comment today is that, at least compared to when I spoke to you three months ago, a full-fledged recovery may be delayed.



### [Questioner 9]

**Q:** In your earlier comment, I believe you mentioned that the consumer product area is hitting bottom as expected. I have the impression that there are many comments on delays at this quarter's financial results briefing. From your company's point of view, is it correct to say that it has already bottomed out to a certain extent within your expectations?

**A:** As I mentioned in the previous quarter for consumer and compute, our numbers show a pretty clear bottom-out. That's all.

**Q:** Second, I would like to ask about Wolfspeed. I think it is quite a way off, since it is meant to be when it is eight inches. While your company is able to decide procurement on a certain scale, I believe that it will be necessary for your company to invest in equipment for in-house production in the future. If so, is there anything you can share with us about the timing or scale of the project at this time?

**A:** Please keep that in mind for your enjoyment. I think I will watch and work carefully there. Too much too soon is really not a good thing, so we will start with six inches anyway and begin shipping samples from Q3. So, I would like to increase the number of samples as they are viewed and liked by customers. After that, it is eight inches, so take it as if it is still a bit further away.

**Q:** By the way, does that mean that the six inches is without any special additions?

**A:** Yes, that's right. We will add equipment.

### [Questioner 10]

**Q:** First, I would like to ask an additional question about SiC wafers. What is the financial benefit of this idea? The point is that in a situation where interest rates are quite high in dollar terms, is it something that can be discounted in any way? Or, what is the payback period for this, or whether it will be paid back in this 10-year supply contract, or if it sells very well, what is the upside if this is not enough, or what is the financial aspect of this contract? Please let us know as much as possible. That is my first question.

Second, you mentioned earlier about automotives in some of the regions, but what is the situation now when we look at it by product? I think the supply shortage has been eliminated to a large extent, but there are still some missing parts in the world, so I think other companies are talking about reducing other inventories. From your company's point of view, by product, for example, you mentioned before that 40 nano is relatively strong, so could you tell us a little bit about the current situation? This is all from me.

**A:** So, I will start with the second point, and I will answer the first one, and if necessary, Mr. Shinkai will supplement it.

One point to the question of whether there are still things missing is that there still seem to be some, although the number has decreased.

Another thing, which I think came up several times in my remarks today, is that we have been trying to keep down the amount of inventory, and as a result we have run short, and I think the situation of shortages in the short term has increased a little from the previous quarter. The situation seems to be a mixture of a limited supply and a short-term shortage caused by a slight increase in demand after the company reduced orders in an effort to reduce inventories. That is the answer to the question of supply and demand for automotive semiconductors.

As you mentioned, Japan has a financing environment that is very favorable to borrowers, and interest rates remain very low, so we are trying to take advantage of this environment and create a sort of arbitrage between this interest rate environment and US-based market rates. This is a bit accretive for us, and for Wolfspeed as a borrower, it is more advantageous than sourcing from the market as it is in the US. I think these circumstances make it a win-win financial arrangement for both parties.

Please forgive me for not mentioning the wafer prices, as they are related to various future business developments. I think it would be good to draw an analogy from the point of view of what we are contributing such a large amount of money for. We're sorry but we don't really want to talk about it. I am sorry. Please forgive us.

**A:** Also, to add, SiC substrates are very tight and difficult to secure in the world. On the other hand, this long-term supply contract allows us to secure the substrates, which in essence increases the certainty of our business plan. We compare its value with the difference in interest rates of the market price, and we make such a judgment that the former is greater. That's all.

**Q:** One additional point, regarding the question about automotive, is there any difference between the different products in your company? 40 nano microcontrollers are strong or weak?

**A:** It is subtle. As for the state of the order, 40 nano microcontrollers continue to be strong, but I'm not sure if that is directly related to an equal shortage situation, maybe, maybe not. However, looking at the order book situation, the fact that it is strong has not changed.

Therefore, although Mr. Shinkai mentioned that we are expanding our die bank in terms of inventory, for example, in terms of 40 nano microcontrollers, we are not expanding our die bank at all. The current situation is that what we produce continues to sell. That's all.

#### **<Closing Comments from CEO Shibata>**

I think it was the earnings period with not so many special features. However, the outlook for the future has not changed much. Our stance is to continue to operate cautiously, while keeping an eye on both the accelerator and the brake to keep up with the market as it picks up, and to expand our inventory slowly and steadily. So, I look forward to another opportunity to talk with you in three months about the outlook for the fourth quarter and beyond.

Thank you very much for taking time out of your busy schedules today. That is all.