

1Q of the Year Ended December 31, 2024

Conference Call (Held April 25, 2024)

Presentation and Question & Answer Summary

Presentation

Moderator: Good morning, everyone. Thank you very much for taking the time out of your busy schedule today to participate in the Renesas Electronics Corporation, Q1 2024 financial results briefing.

The participants of today's session include Mr. Hidetoshi Shibata, Director, Representative Executive Officer, President and CEO, and Mr. Shuhei Shinkai, Senior Vice President and CFO, as well as other staff members.

Mr. Shibata will open the session with a few words, and Mr. Shinkai will discuss the Q1 financial results, followed by a Q&A session. The event is scheduled to conclude in approximately 60 minutes. Handouts for today's briefing are available on the IR site of the corporate website.

Shibata: Good morning, everyone. This is Shibata. It has been a trend for a while now, and this time too I don't think there is anything particularly newsworthy about the financial report.

We applied a slightly updated classification of the segments to this round, which was triggered by an internal organizational change. Mr. Shinkai will give you a detailed report, but it is not a major change.

The acquisition process between Transphorm and Altium has been going smoothly so far, and there have been no unexpected events.

Regarding the Q1 financial results, I remember that I briefly mentioned in the previous round of briefing, that Q1 would probably bottom out during Q1 or Q2. My perspective has not changed.

The outlook for automobiles is not strikingly strong growth, that said, at this time I expect a moderate full-year growth.

Although they don't carry huge weight in our business, the data center and infrastructure domains are expected to grow steadily throughout the year, leveraged by AI and the transition to DDR5.

The industrial domain, plus the mobile, which is also not that big one, but I expect that these will remain soft for the time being. Looking at these businesses by region, I assume that it may take a while for the inventory to be consumed by mainly Japanese customers.

So, overall, the Q1 bottom has not changed. However, looking inside, as I mentioned earlier, the outlook at this stage is a mixed picture, with some segments growing gradually, others growing strongly, and still others remaining soft.

Now, from here on, CFO Shinkai will provide more detail. Mr. Shinkai, please go ahead.

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.
- **Purchase Price Allocation (PPA):** The allocation of the acquisition costs for the business combinations with Steradian Semiconductors Private Limited ("Steradian"), and Panthronics AG ("Panthronics") has been revised: at the end of the three months ended March 31, 2023 and at the end of three months ended December 31, 2023, respectively. These revisions to the allocation of the acquisition costs have been reflected in the consolidated financial results for the year ended December 31, 2022, for the three months ended June 30, 2023 and for the three months ended September 30, 2023.
- **Change of the method for aggregating Reportable Segment:** Due to the Group's organizational changes in the three months ended March 31, 2024, the methodology for aggregating revenue for reportable segments changed from the use of product axis to the use of customer axis. Accordingly, previously reported segment information for the year ended December 31, 2023, has been revised using the new methodology in order to be comparable with the segment information for the year ending December 31, 2024.

Shinkai: I am Shinkai, CFO of Renesas Electronics. I will discuss the details of the Q1 financial results based on the presentation materials.

Page three provides a disclaimer. As Mr. Shibata mentioned, we changed the method of aggregation of reportable segments from Q1 of this fiscal year. With the January change in January of this year, the method of aggregation, which was previously based on the product axis, has been changed to a method based on actual customers and applications.

To put a finer point on it, for example, a product that is determined to be an automotive product is recorded as revenue from automotive sales, no matter what the actual customer or application is. In the future, if the actual customer and application is for automotive, it will be recorded in automotive, and if it is for industrial, for example, it will be recorded in industrial, infrastructure, and IoT sales revenue, respectively.

Then, information on segments for the year ended December 31, 2023, which was prepared based on the changed aggregation method, is also disclosed in this document.

Also, although not mentioned here, regarding the integration of ERPs, which was discussed at the previous financial results meeting, the first go-live date was scheduled for May of this year, but we have decided to postpone its implementation until next year. To ensure the quality and consistency of the product data, we decided it would be better to spend more time integrating the system and expanding the scope of the work.

In addition, as this is a new fiscal year, we are reviewing the order and layout of presentation slides.

1Q 2024 FINANCIAL SNAPSHOT

NON-GAAP

(B yen)	2023		2024				
	1Q (Jan-Mar)	4Q (Oct-Dec)	1Q (Jan-Mar) Forecast	1Q (Jan-Mar) Actual	YoY	QoQ	Change from Feb 8 FCT ^{*1}
Revenue	359.7	361.9	345.0 (±7.5)	351.8	-2.2%	-2.8%	+2.0%
Revenue (Excluding Foreign Exchange Impact)	-	-	-	-	-8.2%	-2.7%	+0.2%
Gross Margin	56.2%	56.4%	55.0%	56.7%	+0.5pt	+0.3pt	+1.7pts
Operating Profit (Margin)	124.8 (34.7%)	115.5 (31.9%)	30.0%	113.5 (32.3%)	-11.3 (-2.4pts)	-2.0 (+0.4pt)	(+2.3pts)
Profit Attributable to Owners of Parent	107.5	98.2	-	105.9	-1.6	+7.7	-
EBITDA ^{*2}	144.3	136.0	-	133.8	-10.5	-2.3	-
1 US\$=	133 yen	149 yen	142 yen	147 yen	14 yen depreciation	2 yen appreciation	5 yen depreciation
1 Euro=	142 yen	159 yen	155 yen	159 yen	18 yen depreciation	0 yen depreciation	4 yen depreciation

*1: Each figure represents comparisons with the midpoint in the sales revenue forecast range *2: Operating profit + Depreciation and amortization

This is a summary of the financial results. For Q1, see the dark blue column in the middle of the table. Revenue was JPY351.8 billion, gross margin was 56.7%, operating profit was JPY113.5 billion, profit margin was 32.3%, profit attributable to Owners of parents was JPY105.9 billion, EBITDA was JPY133.8 billion, and foreign exchange rates were JPY147 to the US dollar and JPY159 to the euro. The contents are explained on the next page.

1Q 2024 REVENUE AND GROSS / OPERATING MARGIN

NON-GAAP

	Company Total	Automotive	Industrial / Infrastructure / IoT	vs FCT
Revenue	351.8 B yen vs FCT: +2.0% QoQ: -2.8%	178.2 B yen vs FCT: + QoQ: +3.6%*1	171.6 B yen vs FCT: + QoQ: -8.6%*1	✓ Revenue : + ✓ Gross Margin : + (+) Increased utilization, Decreased production cost (-) Worsen product mix ✓ Operating Margin : + (+) Decreased sales operating cost
Gross Margin	56.7% vs FCT: +1.7pts QoQ: +0.3pt	52.4% QoQ: +0.1pt*1	61.6% QoQ: +1.2pts*1	✓ Revenue : - ✓ Gross Margin : + (+) Currency Impact, Increased utilization, Decreased production cost (-) Worsen product mix ✓ Operating Margin : + (+) Decreased sales operating cost
Operating Margin	32.3% vs FCT: +2.3pts QoQ: +0.4pt	32.2% QoQ: -0.9pt*1	32.5% QoQ: +2.4pts*1	

*1: Compared with the revised segment information based on the new aggregation method

First, the forecast ratio for the company-wide total is shown in the upper right box. Revenues were 2% above the median, mostly due to the impact of foreign exchange rates. Gross margin was positive overall due to an increase in capacity utilization, a decrease in expenses, and the absence of inventory valuation costs, while foreign exchange impact was almost flat and the product mix deteriorated slightly.

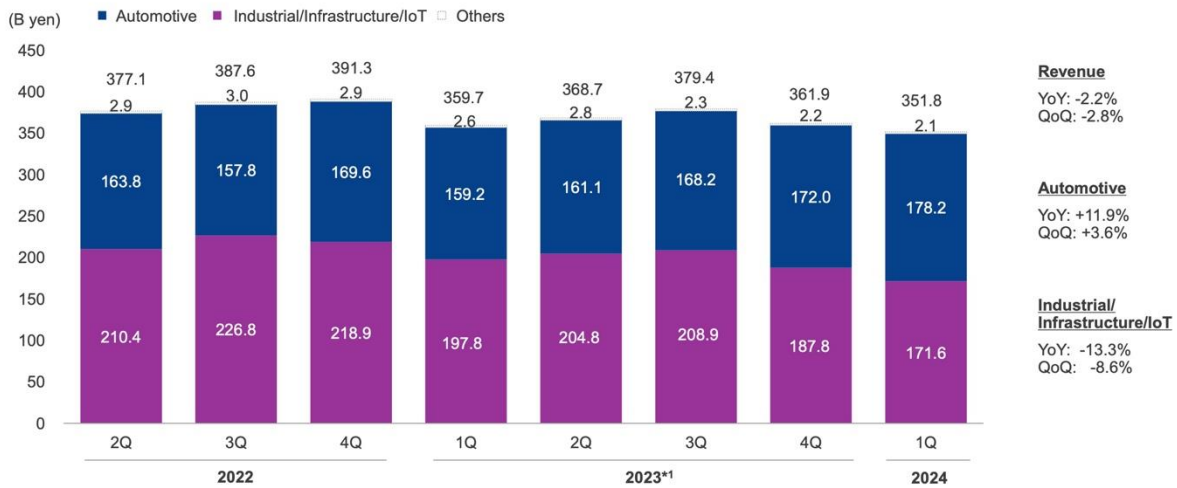
The main reason for the product mix was an increase in power with relatively low gross margins. As we will discuss later, the utilization rate was slightly higher than we had expected. The operating margin increased by 2.3 points due to a decrease in operating expenses.

In QoQ, revenue was down 2.8%, or 2.7% excluding foreign exchange. Gross profit was slightly positive, but the overall improvement was due to an increase in utilization and a decrease in disposal and other costs. However, the mix of products deteriorated due to an increase in automotive and a decrease in industrial, infrastructure, and IoT products. The operating margin was positive due to a decrease in operating expenses.

Next is the revenue by segment. Please refer to the automotive and industrial/infrastructure/IoT columns in the table on the left. To add one or two points, the gross margin for the automotive segment remained almost unchanged from QoQ, while the industrial, infrastructure, and IoT segments improved in QoQ mainly due to improved inventory write-down costs. As for the operating margin, the operating margin deteriorated in QoQ due to an increase in the automotive business, mainly R&D.

QUARTERLY REVENUE TRENDS

NON-GAAP



*1: 2023 segment revenue: revised based on the new aggregation method

Next is revenue. The 2023 segmented revenues listed here are retroactively revised based on the new aggregation method I mentioned earlier.

Overall revenue fell 2.2% YoY and 2.8% QoQ in Q1. Excluding foreign exchange effects, sales declined by 8.2% in YoY and 2.7% in QoQ. The breakdown is shown below, but to add a little to the YoY excluding exchange rates, since there is a large gap, the result was a negative 4% plus for automobiles and a negative 18% for industrial, infrastructure, and IoT.

QUARTERLY BUSINESS TRENDS NON-GAAP

Gross Profit (Margin)



Operating Profit (Margin)



EBITDA*1 (Margin)



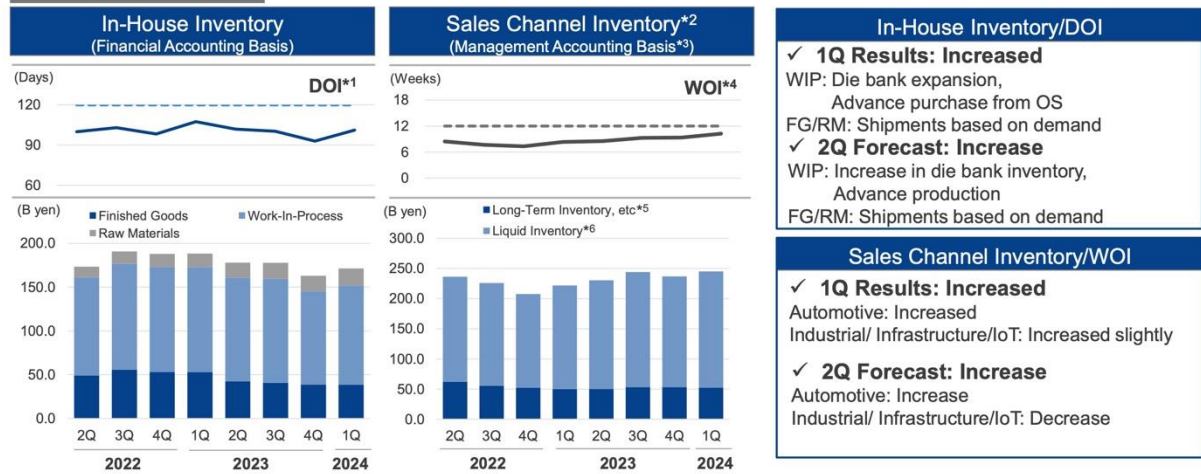
FREE CASH FLOWS*2



*1: Operating profit + Depreciation and amortization *2: Cash flows from operating activities + Cash flows from investing activities; The cash flows from investing activities do not include: (1) acquisition-related payments; (2) payment of contingent consideration for acquisition of subsidiaries; and (3) deposits provided to Wolfspeed

These charts represent the historical shift in various indicators. As for the cash flow in the lower right-hand corner, there was a decrease in Q1 due to profit tax payment and bonus payment, etc., and the cash flow decreased historically in Q1. In addition, if we compare this year's Q1 to last year's Q1, we can say that this year appears to be more dented by the presence of insurance deposits. We expect a steady recovery from Q2 onward without any special factors.

INVENTORY



*1: DOI: Days of Inventory = Inventory valuation balance at the end of the quarter / cost of sales of the quarter (Non-GAAP) × 90
 *2: Channel Inventory: Total inventory amount for Tokuyakultens for Japanese customers and overseas distributors
 *3: Management accounting Basis: Exchange rates for the FY2022 and FY2023 have been adjusted (and are calculated based on the FY2024 exchange rate) in accordance with the change in exchange rate for the FY2024 budget
 *4: 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 *5: Long-Term Inventory: Inventory with unique holding periods (End of Life or "EOL" products, e-commerce inventory etc.) *6: Liquid Inventory: Channel Inventory – Long-Term Inventory, etc.

For the inventory, we combined reports into one slide beginning this round of briefing. In the past, we disclosed the inventory data by channel that we own and by segment, and it was for the purpose of visualizing inventory management. We believe that we have achieved a certain level of success and will continue to manage our inventory at an appropriate level.

Therefore, we have decided to simplify the description from this fiscal year, while at the same time, we have revised the wording so that the segment trends are supplemented by this comment.

Inventory QoQ, reasons for increase or decrease, and future outlook are summarized in this right-hand box.

First, in-house inventory DOI increased in Q1 QoQ to 101 days. This is the result of expanding the die banking for 40 nm microcontrollers. Also because we placed advance orders to foundries, the volume of work-in-process has increased.

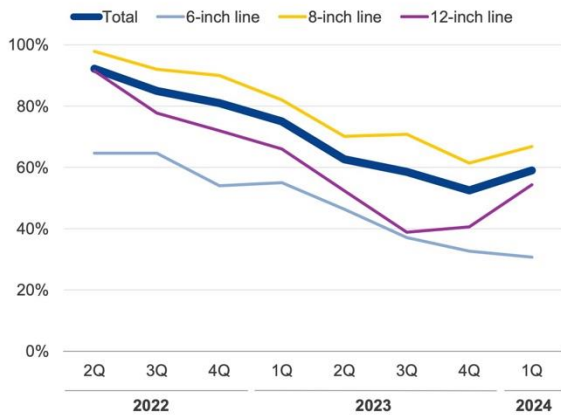
As for the outlook for Q2 and beyond, we expect to continue to make die banks at our plants and increase work-in-process inventory by utilizing advanced production at our plants.

Below that, for WOI and channel inventories, there was an increase in QoQ, which means a little over 10 weeks overall. Sales channel inventory for automotive applications increased as expected, while those for industrial, infrastructure, and IoT applications increased slightly.

From Q2 onward, we plan to continue to expand channel inventories for automotive applications, while we expect some restraint in industrial, infrastructure, and IoT applications.

FRONT-END UTILIZATION RATE AND CAPITAL EXPENDITURES*1

FRONT-END UTILIZATION RATE (WAFER INPUT BASIS)



CAPITAL EXPENDITURES



*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 is based on equipment delivery

Utilization and CapEx are summarized in one sheet. The utilization rate on the left is based on wafer input. The input base utilization rate for Q1 was just under 60%, up from the expected mid-50%. As originally expected, the utilization rate bottomed out in Q4 of last year.

In Q1, as indicated by the increase in the 12-inch utilization ratio, investment in increased production of 40-nano-MCUs at the Naka Plant and expansion of the die bank contributed to the increase in the input base utilization ratio.

A slight increase is expected in Q2. Similarly, die bank production will contribute. In addition, there will be a summer vacation in Q3, so we expect some of the production that will not be available in Q3 will be produced in advance in Q2. Supported by both of these factors, we expect a slight increase in utilization rates in Q2.

On the right side, capital investment was 3.9% of sales in Q1. In Q2, we expect to invest about mid-single-digit percentages, mainly in R&D.

2Q 2024 FORECAST NON-GAAP

(B yen)	2023			2024				
	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun) Midpoint Forecast (Range) ^{*1}	YoY	QoQ	1H (Jan-Jun) Forecast	YoY
Revenue	368.7	728.4	351.8	355.0 (±7.5)	-3.7% (±2.0pts)	+0.9% (±2.1pts)	706.8 (±7.5)	-3.0% (±1.0pt)
Revenue (Excluding Foreign Exchange Impact)	-	-	-	-	-8.6%	+0.4%	-	-
Gross Margin	57.4%	56.8%	56.7%	55.5%	-1.9pts	-1.2pts	56.1%	-0.7pt
Operating Margin	35.0%	34.8%	32.3%	30.5%	-4.5pts	-1.8pts	31.4%	-3.5pts
1 US\$ =	135 yen	134yen	147 yen	150 yen	15 yen depreciation	3 yen depreciation	148 yen	15 yen depreciation
1 Euro=	146 yen	144yen	159 yen	161 yen	15 yen depreciation	2 yen depreciation	160 yen	16 yen depreciation

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

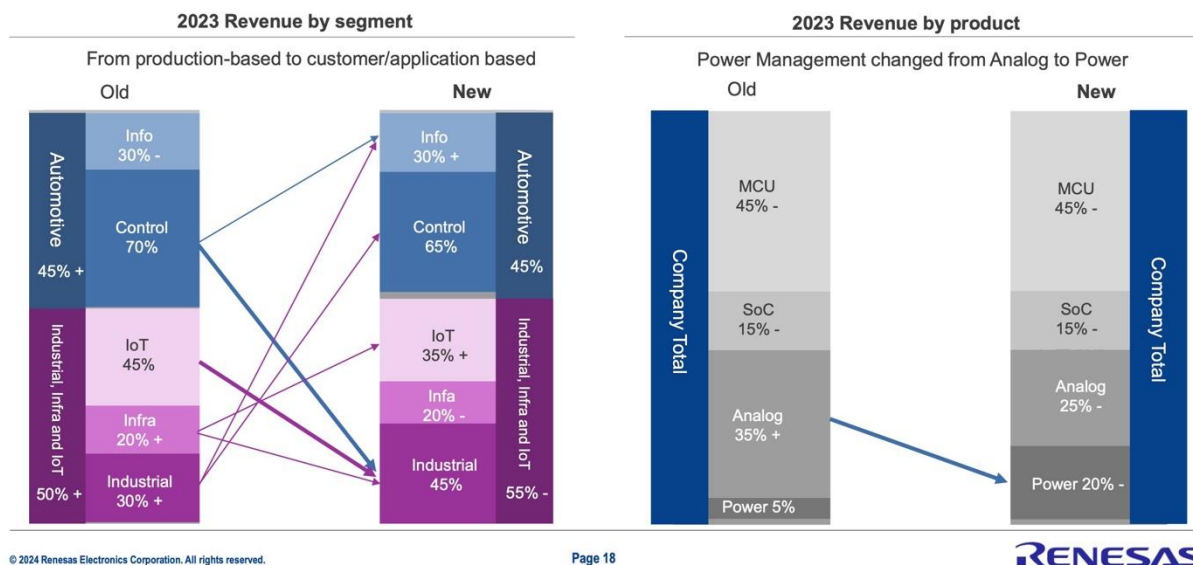
As for the Q2 forecast, please refer to the dark blue column in the middle. The median sales revenue is JPY355 billion, the gross margin is 55.5%, the operating margin is 30.5%, and the exchange rate assumptions are JPY150 to the dollar and JPY161 to the euro.

To add a little more detail, revenue, as shown on the right, is expected to decrease by 3.7% in YoY and increase by 0.9% in QoQ, while excluding exchange rate impact, revenue is expected to decrease by 8.6% in YoY and increase by 0.4% in QoQ. In terms of the contents, we expect a slight increase in automotive and a slight decrease in industrial, infrastructure, and IoT.

We expect the gross margin to decrease by 1.2 percentage points in QoQ due to a slight deterioration in the product mix, followed by an expected increase in manufacturing and other costs.

As for the operating margin, we expect an increase in QoQ, mainly in R&D, and a decrease of 1.8 percentage points in QoQ, speaking in terms of operating margin.

RENESAS BREAKDOWN OF REVENUE



Next, I will discuss some more details using the appendix of the handouts.

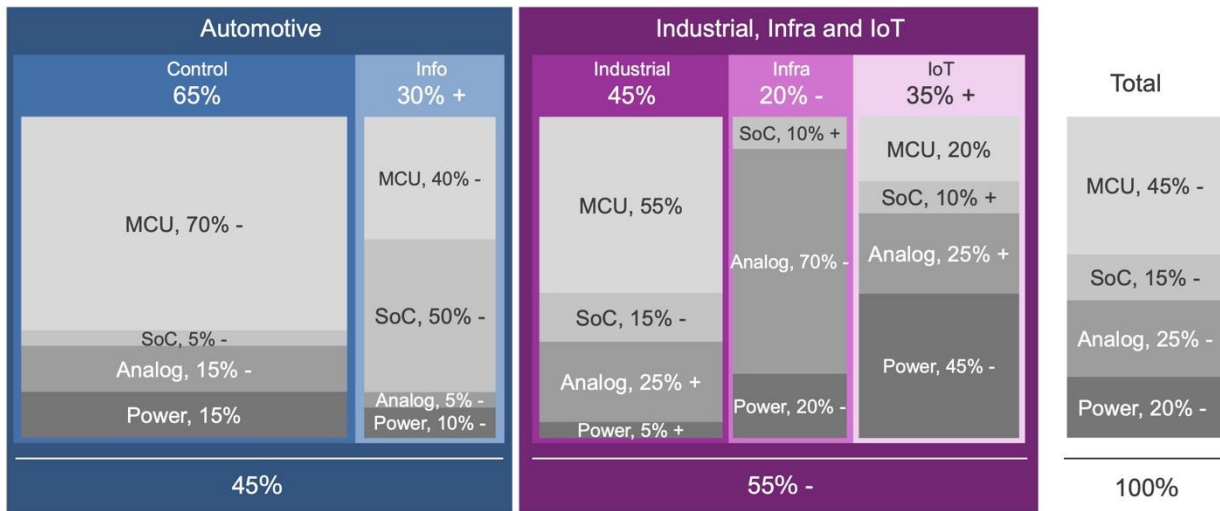
Please turn to page 18. I would like to discuss the method of aggregating the segments I mentioned earlier. The left side shows the before and after relationship between this old and new classification. This thick arrow represents a major shift. It means that power products and MCU products, which have been included in the automotive control system, will be divided into different sales categories, and a part of these products will be for this industry.

Then, in terms of industrial, infrastructure, and IoT, the smart home, which has been included in IoT, is being processed around the fact that this will be reconfigured for Industrial.

Looking at the total, the breakdown of the structure between automotive and industrial/infrastructure/IoT will not change much, but we expect a decrease of 2 to 3 percentage points in the automotive sector and a shift to industrial/infrastructure/IoT.

On the right is a review of the product axis. Power management ICs used to be categorized as analog, but since they are generally regarded as power ICs, we have decided to reclassify them as power ICs from this time. Therefore, in the new classification on the right, power includes both discrete power semiconductors, which are generally referred to as power semiconductors, and power management ICs.

2023 REVENUE COMPOSITION



This is just a reference that the overall portfolio will look like this when organized under the new definition.

HIGHLIGHTS

Altium*1 Acquisition	Build OSAT in India	Kofu Factory Reopening
<ul style="list-style-type: none"> ✓ Transaction Value: Approx. A\$9.1b ✓ Closing: 2H of 2024 ✓ Business: Development and sales of software tools for PCB design, etc. ✓ Rationale: Accelerate digitalization strategies and improve user experience to create shareholder value 	<ul style="list-style-type: none"> ✓ Overview: CG²(India), Renesas and Stars Microelectronics³ (Thailand) to establish a Joint Venture to build and operate an OSAT facility in India ✓ Equity capital ratio: 6.8% ✓ Rationale: Accelerate investment in India and bolster India's semiconductor ecosystem to address the growing semiconductor demand 	<ul style="list-style-type: none"> ✓ Overview: Renesas reopened the Kofu Factory in April 2024 as a 300-mm wafer fab ✓ Opening ceremony: April 11, 2024 ✓ Rationale: Boost power semiconductor production capacity in response to growing demand for EVs ✓ Future schedule: Mass production to begin in 2025

*1: Altium Limited
 *2: CG Power and Industrial Solutions Limited
 *3: Stars Microelectronics (Thailand) Public Co. Ltd

Here are the highlights. We have made recent announcements regarding the acquisition of Altium, the establishment of an OSAT joint venture in India, and the resumption of operations at our Kofu Factory.

This is the end of my presentation.

Question & Answer

[Questioner 1]

Q: I have two questions. First, three months ago, I thought the recovery would become noticeable during July and September. From April to June, the recovery would still be sluggish, and I don't think that tone has changed this time around.

Now, after three months have passed, although it was not included in the guidance, are there any signs of strong or weak performance you noticed leading up to the expected recovery in July to September timing? And if available, I would like to hear what is slower than expected, or better than expected, by application.

I think this will have a bearing on how you want to run operations during April and June, for example, so I would like to confirm the tone. Thank you.

A: When I spoke last time, I thought I concluded that despite the recent view of H2 it was unfeasible to determine a clear outcome. From the view I can see now, I think there will be a slight increase from the Q2 to the Q3. I'm not seeing anything extremely good or bad at this point.

It is possible to classify them by segment, but, as far as I can see, the inventory consumption appears to be concentrated in Japan, especially among the not-so-large size Japanese organizations. This customer group was slower than the major players in ordering inventory to provisional deployment during the supply crunch and is now entering the depletion phase, perhaps because of the delayed wave. I think the main factor is that it is taking longer than expected because the end demand is not recovering as strongly as expected.

I would venture to say that this is clearly visible in the segment, though, in the industrial and some automotive Tier 1. That does not necessarily match the demand for the set of end of the range that we can see now, so we are looking at it as a prolonged inventory adjustment there.

Therefore, if I intentionally focus on segments, some of the automotive and industrial applications are prominent, but the rest is the mass market, and rather than a segment view, our current observation is that this seems to be occurring more prominently in Japan.

Q: I understand. It is challenging to call out by segment, but for example, data centers and infrastructure are probably stronger than they were three months ago. There was a mention of smartphones earlier, though. I think the seasonality is also for consumer use, so I guess you could say that the seasonality typically drives the sales during July and September.

A: Yes, that's right. That said, I think that overall growth will be driven by automotive, AI as you said. Additionally, I expect that the data center applications triggered by the DDR transition could also drive sales.

Q: I understand. Thank you. Second question. I've often been asked about this, and I wonder if I could verbalize it if I dare to try. When you talked about the scale of so-called AI-related revenues, I think you expressed that it has stayed small to this day and the scale is not that large yet.

For example, from here to the end of the year and into next year, the Industry is increasing rapidly, so I think it will be of a certain size, but it depends on the definition of how big it is and how much of it is AI. Can you describe which products are AI-related and how big they are? I mean, for example, it will probably be about this much at the end of the year.

A: I really understand the purpose of your question, but as you just asked, it depends on how you define AI. I didn't want to see or talk about inflated numbers there too much. The real, real hard core of that AI, in our opinion, is about the power around the GPU.

Therefore, as a percentage of company-wide sales, the current situation is already in the lower to mid percentages of single digits. I don't envision that changing that much.

So, it will go up another point or two toward the end of the year, but I don't envision it going up to 10% of the Company on such a scale.

This is not currently in an outlook, so there may be some wishful thinking involved. However, the domino effect of AI, for example, can be achieved by using AI, for example, DDR4 to DDR5 as I mentioned earlier. This is not a GPU, so we do not count it directly. It is still possible that DDR5 transitions will be accelerated by secondary effects, such as the CPU and the need for faster data.

Then we will have, as I have told you before, much more content in DDR5 than in DDR4. I hope to see growth as well. But it is premature at this stage, so we have not factored it in as an outlook, and that is the situation.

[Questioner 2]

Q: First of all, I'm sorry, I'm going to deviate from the financial results, about which you mentioned that there is no news. Infineon announced that the business grew by 44% YoY in the automotive MCU sales in 2023 which pushed the company to the number one position with 28% market share, I was wondering if you could tell us where you stand, or if you are aware that Infineon is taking away the market share from your company. Additionally, what is your company's share of the automotive MCU market right now? Here is the first one.

A: I have a plan to talk about that on the Capital Market Day next month, so I intentionally avoided mentioning it today.

I'm embarrassed to say that we too were surprised when we saw the numbers. Maybe a 6% share drop, our numbers, sorry, I'm talking about automotive, especially in MCU. I think Gartner's figure was probably a drop in share of about 200 basis points overall. Automotive is leading the way, and Gartner's figures showed that it lost about 6% of its market share.

I would say that about half of the figures are transitory, and I would say that about half of them are probably due to foreign exchange factors and the difference in thinking about NCNR and channel inventory that I have been talking about since the beginning of last year. However, we are still seeing that about half of them are really losing market share.

As you mentioned, in automotive computing, it takes about five years from design-in to becoming a number. Now, when I think about where the movement in these numbers was triggered in the first place, I think this trigger was probably created around 2018 or 2019.

At that time, we did not fully anticipate the movement of these figures, but our current thinking is that the specifications of our products may not have been in line with the mainstream market in terms of results.

As you mentioned, we were the fastest in the industry in the transition to 40 nm and the transition to 28 nm. This has allowed us to capture the needs of the early movers, or fast adopters, in the market, and our sales have increased. I think a major factor was that subsequent waves demanded slightly different specifications, and Infineon, which came later, was able to capture that.

Also, this is an internal story, but in 2018 and 2019, our internal organizational leadership was slightly slow in some areas, and in retrospect, I think there was some design loss in that area.

If that is the case, I doubt that this 3% gap will be filled in the next year, so I am guessing that it will be filled over the next few years.

If we are to provide you with reassuring materials, of course, we have already expanded our product specifications since then, and we believe that we are now providing features that are exactly in line with what the market is demanding.

However, the reality is that the results of the current design will only be available again in another five years, so there will inevitably be a time lag until the final results are presented to you in the form of sales and market share.

However, at this point, this is simply the result that we take it seriously. That said, looking at the recent lineup, I think the reality is that our employees are not pessimistic about the future. That's all from me.

Q: Thank you very much. Sorry, just one more follow-up question though. Can you give us a hint as to what different trends or what is mainstream in the current trend?

A: One big thing was that we didn't think that EVs would accelerate so quickly at the time, especially during the transition to the 28 nano. For the preceding product, we designed the product to meet the needs of high-competitiveness of gasoline engine powertrains, which are more environmentally friendly. And there is the fact that zoning will probably increase considerably, and microcontrollers will probably be used for cross-functional purposes in this context. So we integrated quite a variety of functions. This was another product design with high arithmetic precision, initially.

When the lid was lifted, there was not that much progress in investment in powertrains, and the transition to EVs was accelerated. Then, the market for zonal computing architecture over here did not move as far ahead in the direction of using high-performance computing as I had expected. I think it means that the market has largely remained as it has in the past, where discrete is a different expression, but it is fine to have different pieces for different purposes.

As I have repeatedly said, we were quick to recognize this trend and have introduced Arm cores in our new product designs. We have achieved scalable product designs using integrated microcontrollers, function-specific microcontrollers as in the past, and Arm.

In fact, we are not pessimistic at all about the future, since we receive extremely positive traction in the current business negotiations, I think the actual drop in market share has been surprising even to us.

We will update our understanding as necessary as we look at Gartner's figures over the next year and next year, but at this point, this is how we see it. That's all from me.

[Questioner 3]

Q: I would like to ask you two questions. First, I have the impression that the trend toward in-house production of Chinese products, in other words, the preference of Chinese customers for domestic vendors, has been gaining momentum over the past year or so. The first question is whether this movement is true to microcomputers.

My second question is, with the new segmentation, sales in China, I understand that your company is about 25%. I would like to get more clarity. For example, smartphones. Are those produced in China counted for China? I have an impression that those can essentially count for the US, so I would appreciate your suggestion in terms of customers who could really shift their procurement sources to China. That is all.

A: Thank you. This is a very spot-on question. What we are talking about in sales to China is what we call destinations or ship-to figures. Of these, roughly 20% to 30% are true local designs, although, of course, they are bumpy depending on the quarter. Therefore, multiplying by 25, I think that roughly 6% or so of company-wide sales can be considered true local sales, as Mr. Yasui just pointed out. This is not so different for automotive and IIoT.

As for local sourcing in China, so far we haven't seen that phenomenon in the embedded compute world as much as we worried about it. By far, it is the power discrete that is advancing. We will update our view at next month's Capital Market Day, but our current pipeline and outlook, especially in silicon IGBT, has changed dramatically compared to, say, a year and a half or two years ago. China is probably still very tough. We are not too worried because we have been able to get Europe, etc. for that amount, but we expect that the breakdown of the region will change a lot.

As for microcomputers, I am repeating myself here but, we have an advantage in the original features, which are still a few years old, I don't know. The other difference is the stickiness of the ecosystem around the software. Therefore, I think it is difficult to make such a big change in such a short period of time.

I have not changed my view, which I have been talking about for about two years, that aspiration and digitalization in 2030, or about that time, will be one important milestone. Therefore, I think the best defense and offense for us is to shift our differentiation factor to areas other than hardware specs and price. This view has not changed much. That's all from me.

[Questioner 4]

Q: I have two general questions. First, recently in the media, there has been talk of a slight shift from EVs to hybrids, and I wonder if your organization agrees with that. And if that is the case, please tell me if this would affect Renesas Electronics sales and performance. That's my first question.

A: When it comes to sense of direction, probably yes to both, movement is happening and I believe it will have a positive impact on our performance.

However, as I mentioned earlier, hybrids are probably more likely to be used by Japanese customers in this direction. In particular, Japanese small-scale organizations, although it is misleading to say that they are not major players, perhaps those who are less large, it seems that mainly Tier 1 customers, for example, are taking plenty of time to adjust their inventories, so a kind of transitory factor and a tailwind from the hybrid are offsetting each other. I can only assume that this is the situation. That's all from me.

Q: Thank you very much. My second question is about chiplet or Heterogeneous Integration. At the moment, I don't think Renesas Electronics has any products that integrate heterogeneous integration chiplets. Are there any developments that may emerge in the future? If so, I would appreciate your comments as to how far ahead you expect to be.

A: This is not much different from what we have been talking about for some time, and we are doing it. This is not only for our convenience, but also for the convenience of users, so it is difficult to say exactly when the

market will launch, but to give a rough idea, we are preparing to launch the product in 2027. That's all from me.

Q: Is it correct to assume that what you are likely to introduce in 2027 is intended for in-vehicle use?

A: Yes, it is for automobile.

[Questioner 5]

Q: I would also like to ask two questions, one is about the swing back from EVs to hybrids and ICE, and the other is about the impact of this swing and the business opportunities. I am particularly interested in the power business. Companies in various countries, in various places, are investing a lot in power. My understanding is that your company was somewhat behind in accelerating the investment. I am not sure if you can take this as a sign that the situation has been shaken up and that you now have a chance to catch up.

Also, I think there is a risk of the supply-demand balance in the stock market, including SiC, and I would appreciate it if you could share your perception of this and the current situation. Thank you.

A: I get the feeling that it is not necessarily advantageous to play catch-up. So I am not very optimistic there. However, in terms of power, our strategy is to offer a full lineup, from silicon to SiC and gallium nitride, and this has not changed.

It has to do with the timing of the investment and the size of the investment, but we don't take the stance of being very all-in on power, for us. We see data centers as an indispensable piece of the solution for the future, especially for automobiles. So, I would like to grow at a certain scale, but I don't think of it in the same way as, for example, competitors who are more focused on power, and I don't think of it that way.

So, in that sense, the current market collection is a bit of a relief for us, although we may be reprimanded later if we are too optimistic. I am glad that capacity did not have to be expanded so much, or so I think.

So, strategically, the original view has not changed either. If we need more volume than we handle currently, we will collaborate with outside partners to procure it, even if it is a little more expensive. Rather than making more and more money with power, we are strengthening our position with power, analog, and compute solutions by delivering power as well.

Therefore, in the short term, it is a tailwind, but it is good that we are not in a situation where demand is building up and capacity is also increasing.

Q: Thank you. Second question. I would like to talk about the status of price negotiations with foundries. I think that the once-a-year program has probably already been completed in some areas. Normally, of course, it would be in the direction of a decline, which would affect your company's margins. I would appreciate it if you could tell me if there are any significant changes compared to normal and what the colors are. Thank you.

A: I would like to ask Mr. Shinkai to add his comments if necessary. It's tough in the short term. We are not in a circumstance where we gain impactful price concessions, unfortunately.

However, in terms of the price for the medium to long term, we are now in a position where we can receive very strong expectations from foundries because our efforts over the past few years have been successful, and we have been able to get them to offer a more reasonable price, but we have not been able to get them to lower the price significantly this year or last year. However, the front end of the market is not in such a

situation. I think the reality is that the back end is getting quite a bit of price adjustment, but the front end is not so much.

Before or during the pandemic, we didn't face a situation where the price kept climbing up, however, current business performance has not yet fully caught up with the level of pre-COVID-19. That's all from me.

[Questioner 6]

Q: First, regarding chip price trends, have there been any price reductions for automotive and IIoT applications, or is the trend of price reductions already returning? Could you please tell us what is happening from January-March to April-June from the previous quarter?

A: This is a difficult question to answer. I guess I am just saying that we are not in a situation where we should be so worried, at least from an investor's point of view. We are not in a situation where wafer costs from foundries are also coming down significantly, as I mentioned earlier. The price of raw materials themselves has not declined either. So, I think many of our customers are not so happy about it, but we are doing it with their acceptance.

However, the ASP for the entire company is not in such a situation as to be so surprisingly low. The pricing situation is like a pendulum that swung from right to left after the COVID-19 supply crunch and has now returned to the middle of its swing. I sense that we have moved to a slightly different paradigm rather than a complete return to what we had before.

Q: Thank you very much. One more question: You mentioned that market conditions were at their bottom, but the operating profit margin exceeded 30%, which is higher than the previous forecast. Also, since you mentioned that there was a QoQ decrease in operating expenses, can you tell us a little more about what exactly you did in each segment?

A: I will try to answer the latter part from Mr. Shinkai as much as possible, but as for the first part, of course sales are down even in QoQ, so I am not at all proud of this and don't think it is good. However, at the very least, in the early days of COVID-19, when the numbers were growing considerably, when I spoke with investors, they asked me what would happen when Renesas Electronics went through another down cycle, although Renesas Electronics has changed its structure in various ways and is doing very well now. In response to your question, I am looking at this from a hopeful perspective, hoping that we somehow managed to get a passing grade.

A: I think your question is about the results for Q1. In terms of Q4 comparison, there is nothing too noteworthy, but in general, in terms of seasonality, both R&D and SG&A expenditures are high in Q4, and Q1 is at the lowest level relative to the rest of the year, so the difference in seasonality is a big part of the difference. That's all from me.

[Questioner 7]

Q: You have been talking about this for some time now, but once again, with the softening of the global EV market being pointed out, what is your outlook for the future of electrification in the automotive industry? And how will this affect the strategy of your power products business? I would like to ask again about this point.

A: I think that electrification will progress over time. I don't mean to teach fish how to swim, but in many ways, electric vehicles are easier to make and use afterwards, so I think the shift to electric vehicles will definitely continue. However, I think it will just take a little time and a realistic viewpoint. That's all from me.

Moderator : Thank you very much. Now, I would like to invite Mr. Shibata. Mr. Shibata, to offer a few words before the meeting is closed. Please go ahead.

Shibata : I guess it was not a very newsworthy financial statement. I don't think there will be any newsworthy content at the Capital Market Day we are planning for next month, and I don't think there is that much novelty in what we will be sending out this time around.

But this time, we are upgrading our organizational leadership structure. We would like to provide an opportunity for today's participants to talk directly with members who are in charge of our business through Q&A sessions, so that they can get a better sense of what is not written down, such as our level of confidences. We look forward to your participation if you have time and interest.

Thank you for your time today.

Moderator: That concludes the Renesas Electronics, Q1 FY12/2024 financial results briefing. Thank you all for your participation.

[END]