3Q of the Year Ended December 31, 2024
Conference Call (Held October 31, 2024)
Presentation and Question & Answer Summary

Presentation

Moderator: Thank you for joining Renesas Electronics Corporation's FY2024 Q3 earnings call.

We have with us today our Representative Executive Officer and CEO, Hidetoshi Shibata; and our Senior Vice President and CFO, Shuhei Shinkai. We also have some members of our staff here present. Mr. Shibata will welcome you. After, Mr. Shinkai will explain our Q3 results. This will be followed by a Q&A session. The earnings call will be about 60 minutes long. The materials that will be used today is available on our IR section on our website.

Shibata: Good morning, everyone. This is Shibata.

I'm sure that some of you have already seen the numbers. But for Q3 results, we thought we were stepping on the brakes before, but we needed to step on the brakes more. That's how we see the results.

Revenue-wise, excluding FX impact, we were within our guidance range. However, for end demand, more than expected, it became weaker. Therefore, channel inventory-wise, more than expected, we saw an increase.

In Q4 of the year, we would like to reduce the inventory levels. That's one thing we would like to take on. Inclusive of that, for Q4 guidance, we are expecting a significant decline in revenue, close to 20%, out of which 1/4 is expected to be impacted by the stronger yen. When you take that item out, the impact is about a revenue decline of 15%.

Earlier, I talked about channel inventory and that we are going to reduce inventory. About 1/3 of the 15% comes from that effort. When you look at the mix, what reflects demand compared to the 20% significant number, it's about half that's attributed to end demand. I would say, more or less around 10% of the revenue decline is the substantial guidance.

Timing-wise, there was a slight shift, and Mr. Shinkai may refer to this later, and we can also take on your questions in the Q&A. But when you look at our performance YoY, automotive, still mid-single-digit growth has been observed.

Stepping on the brakes during Q4 may have been a surprise for some of you. But before, I was saying that we had a lot to regret in the previous results. But this time around, it's more about taking a deep breath, and engaging in measures in anticipation of the future. From that perspective, automotive, on an annual basis, is still on a growth trajectory. We would like to take on the long-term challenges and implement measures steadily.

Now, without further ado, I would like to pass the mic over to Mr. Shinkai, who will talk about the actual numbers. Then after that, we would like to move on to the Q&A, like we always do. Mr. Shinkai, please.

Shinkai: Hello. I am Shinkai, CFO. I'd like to talk about the Q3 results. I'm going to be talking off the material that is on our IR site.

And next page, 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.
- **Purchase Price Allocation (PPA):** The allocation of the acquisition costs for the business combinations with Panthronics AG ("Panthronics") has been revised at the end of three months ended December 31, 2023. These revisions to the allocation of the acquisition costs have been reflected in the consolidated financial results 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.
- **Start of consolidation of Altium:** The Group completed acquisition of Altium Limited ("Altium") on August 1 (JST), 2024. The Group has since begun the consolidation of their financial figures.

 Page 3 RENESAS

Here's the disclaimer page.

At the very bottom, please look at the bottom bullet. We concluded the acquisition of Altium as of August 1, 2024, and it's been consolidated from August. For Q3 results, Altium's performance is included. Regarding segment allocation, it is mostly included under industrial infrastructure and IoT. For PPA, in the full year results, we expect to close, and we would like to retrospectively revise the actual impact.

3Q 2024 FINANCIAL SNAPSHOT

NON-GAAP

(B yen)	2023		2024									
	3Q (Jul-Sep)	9 months (Jan-Sep)	2Q (Apr-Jun)	3Q (Jul-Sep) Forecast	3Q (Jul-Sep) Actual	YoY	QoQ	Change from Jul 25 FCT*1	9 months (Jan-Sep) Actual	YoY	Change from Jul 25 FCT*1
Revenue	379.4	1,107.8	358.8	348.0 (±7.5)	345.3	-9.0%	-3.8%	-0.8%	1,055.9	-4.7%	-0.3%
Revenue (Excluding Foreign Exchange Impact)	-	-	-	-	-	-12.0%	-3.4%	+0.5%	-	-9.6%	+0.2%
Gross Margin	57.9%	57.2%	56.7%	55.5%	55.9%	-2.1pts	-0.9pt	+0.4pt	56.4%	-0.7pt	+0.1pt
Operating Profit (Margin)	132.3 (34.9%)	386.1 (34.9%)	110.6 (30.8%)	27.5%	98.4 (28.5%)	-33.9 (-6.4pts)	-12.2 (-2.3pts)	(+1.0pt)	322.5 (30.5%)	-63.7 (-4.3pts)	(+0.3pt)
Profit Attributable to Owners of Parent	108.3	334.8	96.7	-	86.0	-22.3	-10.7	-	288.5	-46.2	-
EBITDA*2	152.6	445.8	132.8	-	121.4	-31.1	-11.3	-	388.0	-57.9	-
1 US$=	142 yen	137 yen	153 yen	157 yen	154 yen	12 yen depreciation	1 yen depreciation	3 yen appreciation	151 yen	15 yen depreciation	1 yen appreciation
1 Euro=	156 yen	148 yen	165 yen	170 yen	168 yen	12 yen depreciation	2 yen depreciation	2 yen appreciation	164 yen	16 yen depreciation	1 yen appreciation

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

RENESAS

Next page talks about the results. Look at the dark blue column that shows Q3 results.

Revenue, we were at JPY345.3 billion. Gross margins were 55.9%. Operating profit was JPY98.4 billion, and operating profit margins were at 28.5%. Net income was JPY86 billion. EBITDA, JPY121.4 billion, and currency rates were JPY154 to the dollar and JPY168 to the euro.

3Q 2024 REVENUE AND GROSS / OPERATING MARGIN

NON-GAAP

	Company Total	Automotive	Industrial / Infrastructure / IoT
Revenue	345.3 B yen vs FCT: -0.8% QoQ: -3.8% Excl. Altium 337.4 B yen	185.5 B yen vs FCT: + QoQ: -2.6%	158.2 B yen vs FCT: - QoQ: -4.8%
Gross Margin	55.9% vs FCT: +0.4pt QoQ: -0.9pt Excl. Altium 54.9%	52.1% QoQ: -1.7pts	60.6% QoQ: +0.3pt
Operating Margin	28.5% vs FCT: +1.0pt QoQ: -2.3pts Excl. Altium 28.6%	30.6% QoQ: -2.3pts	26.6% QoQ: -1.7pts

vs FCT

- ✓ **Revenue:** −
  (+) Altium, (-) Foreign Exchange Impact
- ✓ **Gross Margin:** +
  (+) Decreased production cost, Altium
  (-) Decreased utilization, Worsen product mix
- ✓ **Operating Margin:** +
  (+) Decreased operating cost

QoQ

- ✓ **Revenue:** −
- ✓ **Gross Margin:** −
  (+) Decreased production cost, Altium
  (-) Decreased utilization
- ✓ **Operating Margin:** −
  (-) Decreased gross profit

RENESAS

The comparison against our forecast, please look at the row that is the third to the right. Looking at the Q3 results, please look at the left column. Excluding the August and September Altium impact, please look at the part that says Altium excluded, which is the fourth row. Compared to the forecast by item, please look at the top right.

For revenue, compared to forecast, median, we were slightly below, but we were within the lower end of our range. Altium's consolidation, if it didn't exist, we would have been below the forecast range due to a stronger yen.

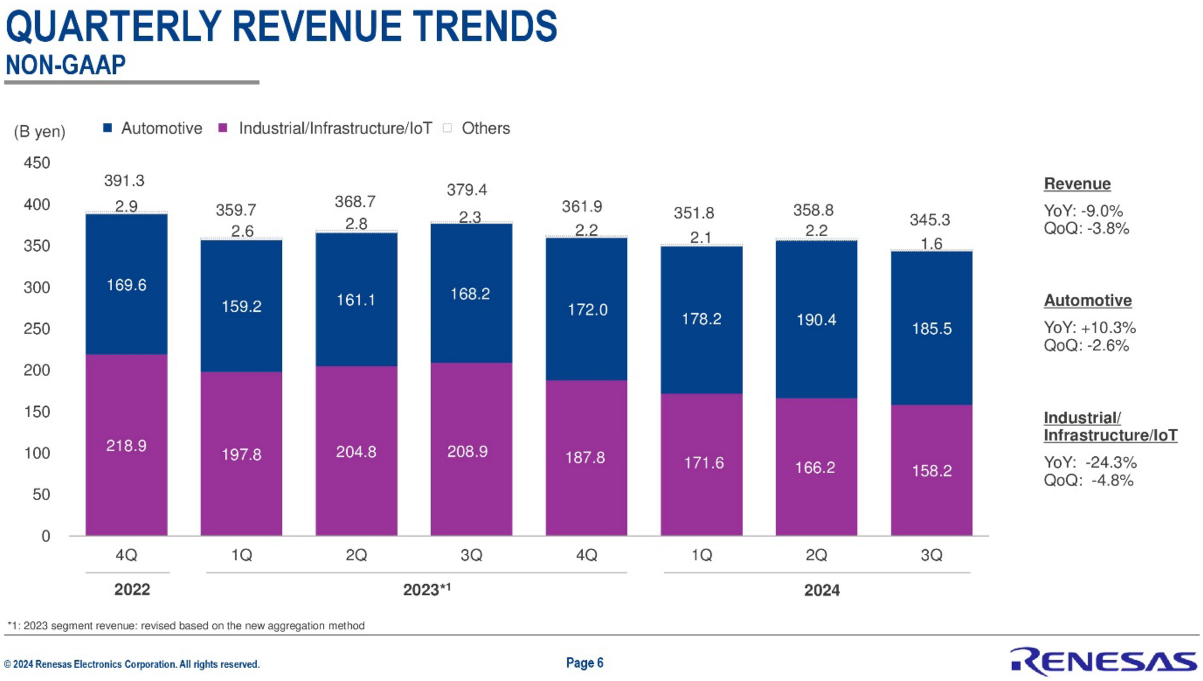
In IoT, especially industrial and mass market contributed significantly negatively. For automotive and mobile, it was slightly positive compared to expectations. For gross margins, we were at 55.9% for the quarter, which was slightly above our median forecast. If we excluded the Altium consolidation, it was at 54.9%, which was slightly below 55.5%, the forecast median.

The reason is because due to less utilization, the production recovery decrease was the main factor. Because of cutting inventory during Q3, input and production was cut. Operating margin-wise, we were at 20.5%, and this was above our forecast median. The impact from Altium's consolidation was neutral. Compared to forecast, OPEX went down. This was mainly due to cost control. It was down on a net-net basis when one accounts for the Altium impact.

QoQ, looking at the bottom right, or revenue QoQ, it went down by 3.8%. Altium and FX impact excluded, it was 5.5%, more or less a decline. For gross margins, QoQ, it went down by 0.9 points. Due to less production recovery, QoQ, it went down by 200 basis points.

On the other hand, because of Altium's consolidation, part of this was offset. For operating margins, QoQ, it went down by 2.3 points. Like we mentioned earlier, we did cost control. But in Q3, because Transphorm and Altium were consolidated, OpEx of the base went up. As a result, operating margins QoQ went down by 2.3 points.

Segment-wise, for automotive and IIoT. For automotive, gross margins, operating margins went down QoQ, and the utilization decline impact was substantial. For IIoT, for gross margins, Altium's consolidation impact was a positive. Apart from that, the trends were the same as automotive. For operating margins, on top of utilization declines, OPEX cuts and cost control were able to offset the negative coming from sales volume decline.

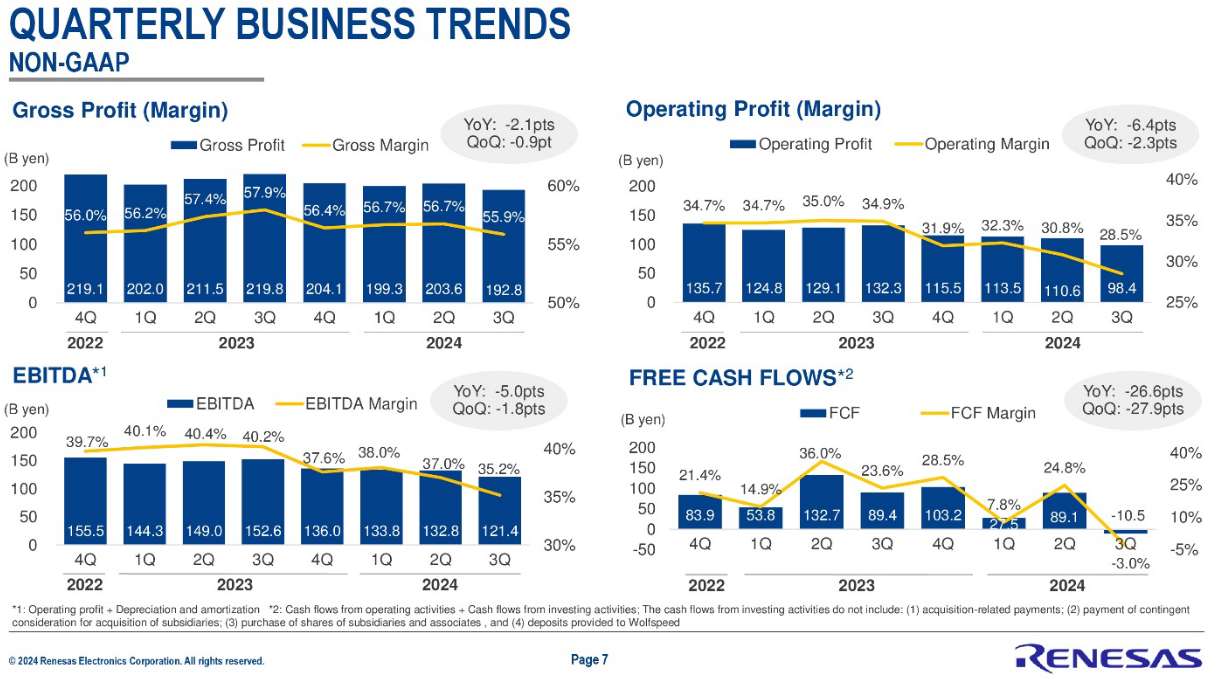


Next page, please. Here are the quarterly revenue trends. For Q3, the results are on the right-hand side.

Overall, we saw revenue decline 9%, and QoQ revenue declined by 3.8%.

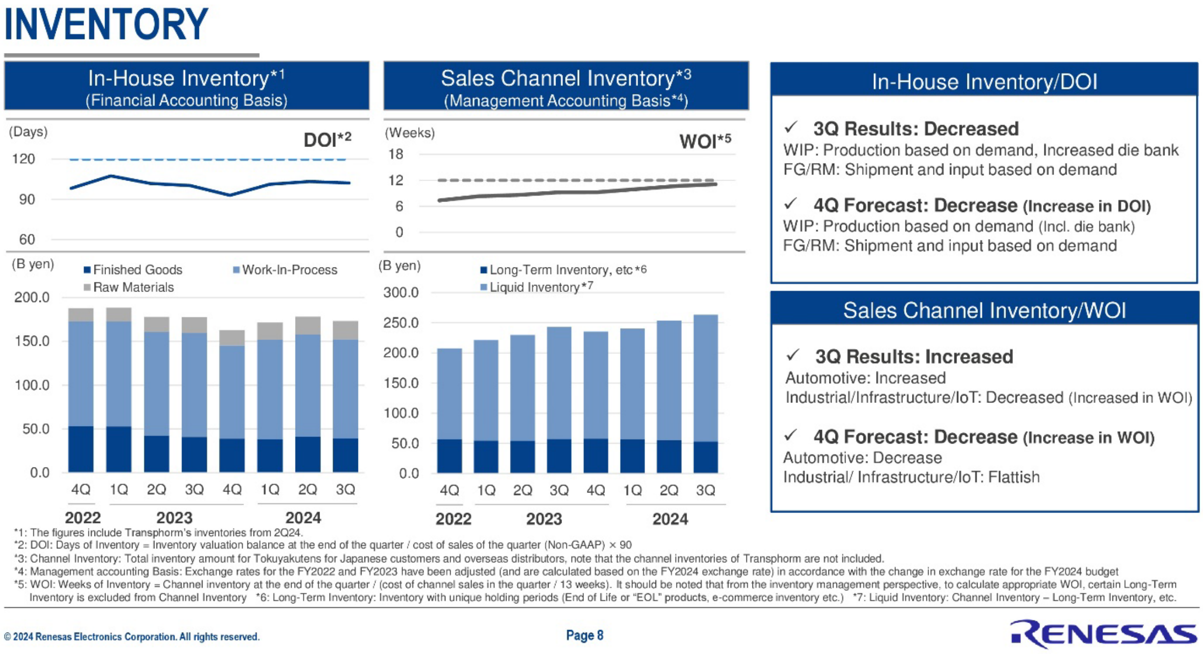
By segment, it is as shown here. For FX YoY, overall, the impact was about 3 percentage points, and it had the same impact by segment. In QoQ, it was about less than 1% of an impact.

For the Altium consolidation, which I would like to comment on for IIoT, it is recognized here, most of it actually. Revenue-wise, YoY, it's 3 points worth of contribution. Therefore, for IIoT YoY results, it says minus 24.3%. But when you exclude the FX impact and Altium impact, it was close to a minus 30% decline, or it's actually a weak yen, not a strong yen of an impact.



Next page, please. Here, we are looking at trends in financial indicators.

Let us look at the cash flow. Free cash flow, please take a look. To exempt M&A impact in Q3, and we have also exempted the outlays for the Altium acquisition, the free cash flow is negative QoQ. Q3 is negative periodical cash items, namely corporate tax payment and interim bonus payment have taken place. There have also been one-off items, which include the foundry prepayment for capacity buildup. This has contributed to the decline in numbers. In Q4, we return basically to normal.



Going on to the next page.

To the left-hand side, we have the inventory, sales channel inventory and to the right, the change factors. Now, let us look at the in-house inventory DOI. As earlier mentioned in the Q3 results, during Q3, production adjustments took place, input reduction also have taken place, resulting in lower utilization rate. Due to a higher end and also DOI, we have seen a decline. This is for Q3.

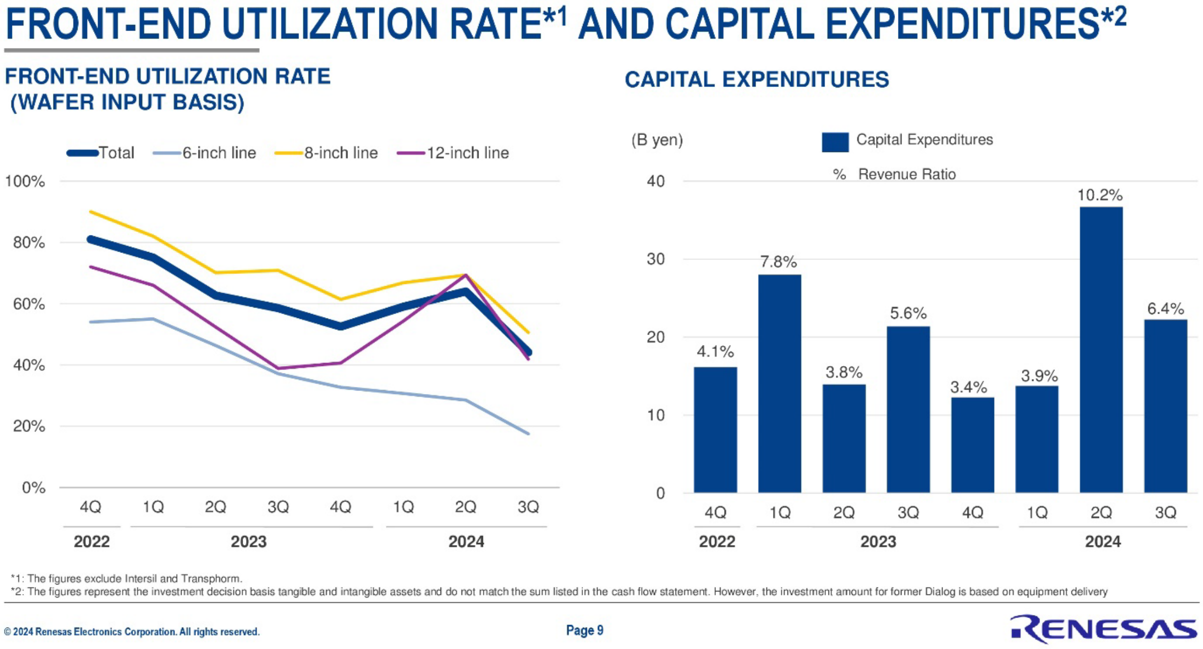
As for Q4, further production adjustments for own plants will take place, and there will also be a reduction in die bank and foundry goods. In actual value terms, QoQ is expected to decline. Yes, there will be a cutback in scale, and therefore, we can expect DOI to increase.

The bottom right-hand corner, we have the sales channel inventory. Q3 results showed a QoQ increase. As for WOI, 11.1 weeks. In terms of the actuals, increased decline for auto and for IIoT. The direction is in line with expectations for IIoT sell-through in the industry, and also the mass market was weaker than expected for IIoT, pitching up the WOI. Hence, in Q4, we plan to reduce inventory in these segments. Enhanced sell-in will be controlled for that purpose.

In automotive, control sell-in rather than sell-through will be done to promote efforts to clear out inventory among Japanese customers. We will work to compress channel inventory. As for IIoT, sell-in, more or less similar to the sell-through level, is expected. Enhanced channel inventory will basically be flat. Supplementary marks in auto, 2023 by year-end, we have concluded market inventory adjustment.

However, during the interim, for the 40-nano MCU, the supply was temporarily tight. Hence, in H1 of 2024, the 40-nanometer MCU inventory buildup has continued. Especially in Japan and the EU, due to the expectations of the auto market weakening, inventory buildup occurred. Now, due to a surplus, we are now at a juncture in which we'll need to control inventory, and therefore, there will be a decline in inventory.

Meanwhile, for IIoT in Q3, WOI is expected to increase as we have indicated. Mainly around MCU, WOI is high. In terms of the actual terms, it is easing, declining. Therefore, in terms of the short-term lead time order due to the size of the market, in order to support the short-term IIoT order, we will conduct control measures that we will not have a surplus inventory.



Next slide. This is a reference to utilization rate.

To the left, we have Q3 somewhat weaker than forecast, and had declined to the mid-40% range. For Q4, further production adjustment is expected to lower the utilization rate, on average, around 30% QoQ decline of about 15%.

To the right, we have the CapEx situation. Apart from production, we have decided on CapEx Q3 to focus on IP and EDA procurement. In Q4, we will continue with R&D investment.

4Q AND FULL YEAR 2024 FORECAST

NON-GAAP

(B yen)	2023		2024					
	4Q (Oct-Dec)	Full year (Jan-Dec)	3Q (Jul-Sep)	4Q (Oct-Dec) Midpoint Forecast (Range)*1	YoY	QoQ	Full year (Jan-Dec) Forecast	YoY
Revenue	361.9	1,469.7	345.3	278.5 (±7.5)	-23.1% (±2.1pts)	-19.3% (±2.2pts)	1,334.4 (±7.5)	-9.2% (±0.5pt)
Revenue (Excluding Foreign Exchange Impact)	-	-	-	-	-19.8%	-14.9%	-	-12.0%
Gross Margin	56.4%	57.0%	55.9%	52.5%	-3.9pts	-3.4pts	55.6%	-1.4pts
Operating Margin	31.9%	34.1%	28.5%	22.5%	-9.4pts	-6.0pts	28.9%	-5.3pts
1 US$ =	149 yen	140 yen	154 yen	145 yen	4 yen appreciation	9 yen appreciation	150 yen	10 yen depreciation
1 Euro=	159 yen	151 yen	168 yen	160 yen	1 yen depreciation	8 yen appreciation	163 yen	12 yen depreciation

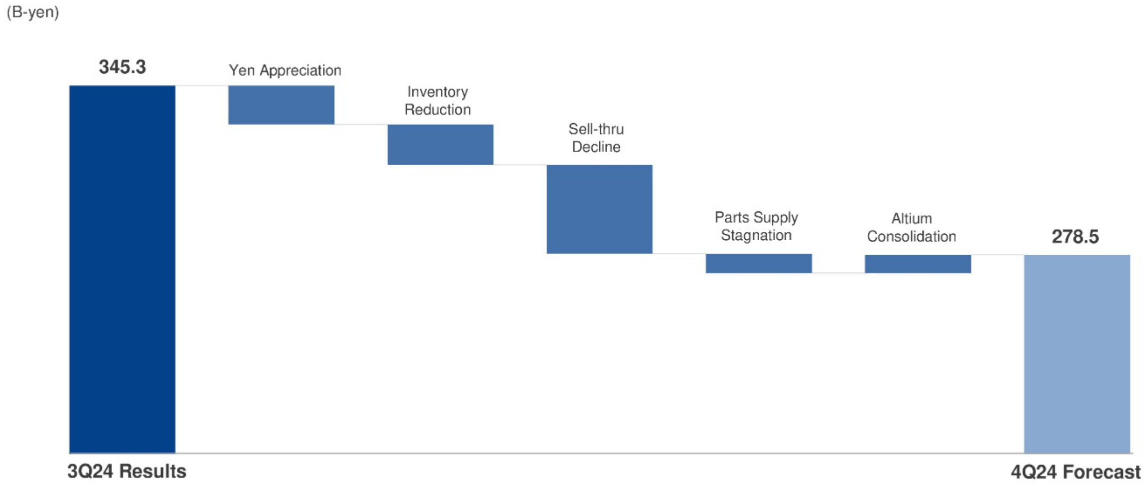
*1: Each figure represents comparisons with the midpoint in the sales revenue forecast range

RENESAS

Next page, this is the revenue for Q4 and also full-year 2024 forecast.

Please look at the dark blue column. For the midpoint forecast, it is JPY278.5 billion. In terms of GM, gross margin, 52.5%; operating margin, 22.5%, Forex assumption, JPY145 to the dollar, and JPY160 to the euro. In terms of revenue, QoQ, 19.3% decline, excluding Forex. If you look at the line above, a 14.9% decline is expected.

4Q 2024 REVENUE FORECAST BREAKDOWN



As for the breakdown, we would like to supplement details in a subsequent slide.

At this chart, we are looking at the expectations that bridge Q3 and Q4. Looking at it from the left to right, let's look at the higher yen, 5 percentage points of an impact is to be observed in dollar, JPY145, and we expect the September rate to continue.

As for the channel inventory reduction, that will be worth 5% or so. The channel inventory decline is expected, and we will apply the controls on automotive to compensate for this. We have the sell-through at the bottom, that's about 10% points. For auto and also IIoT, generally split half and half.

As for auto, for Japan and the EU, we are seeing a weakening of demand. For IIoT, due to seasonality of the mobile industry, mass market decline is also expected. Thereafter, we're looking at supply, and we are looking at 2 percentage points of impact for supply parts and supply. This is attributed to quality issues, by which temporarily supply for particular components have been stalled, translating into delay in shipments of particular products. The impact will be 2% in Q4 as expected. However, we will be able to recover the delay by Q4. There's the Altium consolidation impact, worth about 2%.

Going back to the earlier page, and we are looking at the GM, 52.5% QoQ, that's a 3.4% decline. This is attributed to a lower utilization rate and weakened production recovery. As for the input utilization rate, we are seeing, QoQ, a 15-percentage point decline.

For work in progress, we have had to partially suspend operations to reduce inventories. In the front end and back-end process, adjustments have had to be made. Therefore, 15-percentage point in the utilization rate decline for the input, as I've indicated. But more than that, we can expect to see a larger drop in production recovery. Year-end maintenance fee allowances are also expected to rise. With the Altium consolidation impact, this will be partially offset. QoQ, a 3.4% decline is expected.

As for operating margin, 22.5% in QoQ, 6% decline is expected. Generally, in OPEX, the trend is upwards QoQ due to seasonally driven year-end adjustment. Starting from October, the Global Pay raise impact will also be a contributing factor and the Altium consolidation. Therefore, OPEX baseline terms will increase. Due to onetime factors, it will be offset. Therefore, on a net basis, it will decline.

As for onetime factors, we can cite the bonus allowance, which will have to be reverted in Q3, and that is a test that is expected. Cost synergy with the acquisition will also help to offset this number, and also on an offset basis, net basis will decline. However, in the revenue, it will not compensate for the decline in revenue. The operating margin will be negative.

STATEMENT OF FINANCIAL POSITION

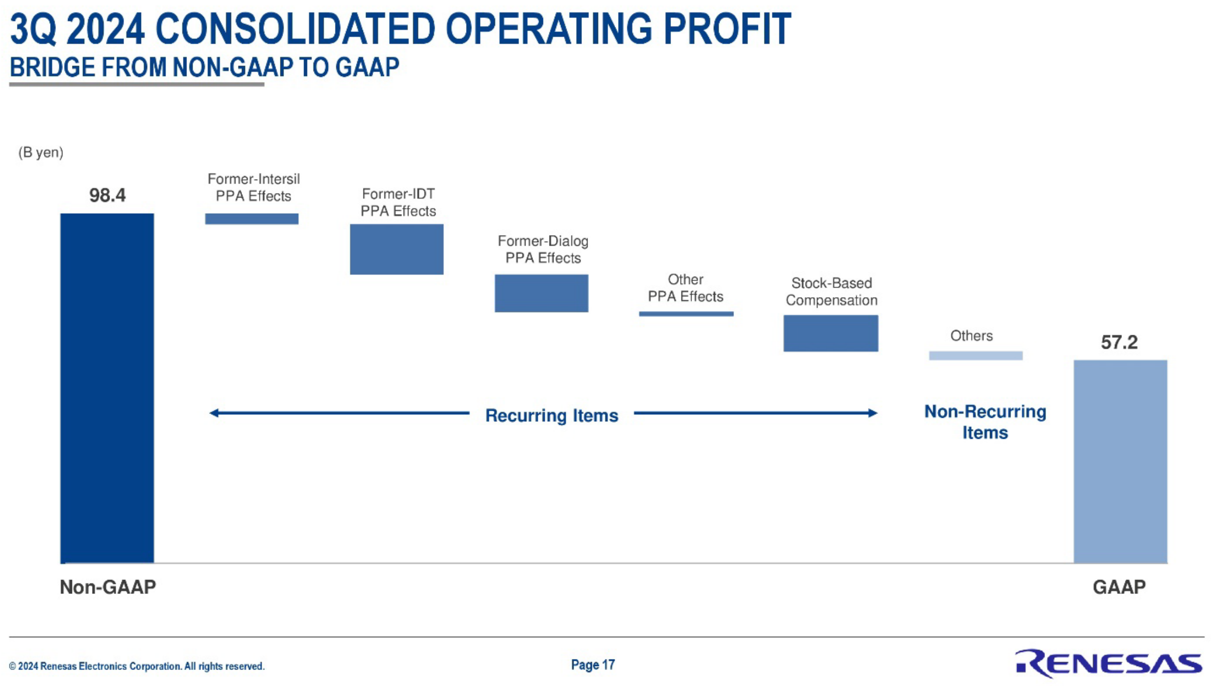
GAAP

(B yen)	23/3	23/6	23/9	23/12	24/3	24/6	24/9
Total Assets	2,840.8	3,123.5	3,292.2	3,167.0	3,233.7	3,661.6	**4,138.9**
Cash and Cash Equivalents[*1]	361.4	458.1	392.5	434.7	231.8	288.4	**239.1**
Inventories	188.2	177.9	177.8	163.1	171.4	178.1	**173.1**
Goodwill	1,272.3	1,392.4	1,436.0	1,362.1	1,453.8	1,602.8	**2,272.4**
Intangible Assets	466.9	483.0	467.6	421.8	417.9	456.2	**386.3**
Total Liabilities	1,179.7	1,228.0	1,235.9	1,161.4	1,031.4	1,193.9	**1,991.8**
Interest-Bearing Liabilities[*2]	741.4	733.7	710.3	667.7	532.9	619.4	**1,511.6**
Total Equity	1,661.1	1,895.5	2,056.3	2,005.6	2,202.3	2,467.8	**2,147.1**
D/E Ratio (Gross)[*3]	0.45	0.39	0.35	0.33	0.24	0.25	**0.71**
D/E Ratio (Net)[*4]	0.23	0.15	0.15	0.12	0.14	0.13	**0.59**
Equity Ratio Attributable to Owners of Parent[*5]	58.3%	60.6%	62.3%	63.2%	68.0%	67.3%	**51.8%**
Leverage Ratio (Gross)[*6]	1.2	1.2	1.2	1.1	0.9	1.1	**2.9**
Leverage Ratio (Net)[*7]	0.6	0.5	0.5	0.4	0.5	0.6	**2.4**
Average number of shares during the period (excluding treasury stock) (in million shares)	1,799	1,763	1,769	1,775	1,779	1,789	**1,792**

*2: Borrowings (current and non-current liabilities) + Lease Liabilities (current liabilities) + Lease Liabilities (non-current liabilities) + Bonds
*3: Interest-Bearing Liabilities / Equity attributable to owners of parent *4: (Interest-Bearing Liabilities - Cash and Cash Equivalents) / Equity attributable to owners of parent
*5: Equity attributable to owners of parent / Total liabilities and equity *6: Interest-Bearing Liabilities / EBITDA (Non-GAAP) *7: (Interest-Bearing Liabilities-Cash and Cash Equivalents) / EBIDTA (Non-GAAP)

Now, moving on to the appendix and going on to page 15.

The borrowings for the Altium aquidition have been executed, and it has been temporarily reflected in goodwill and revised post PPA calculations.



Page 17, please.

The bridge, this is a non-GAAP reconciliation. There are nonrecurring items worth JPY2.4 billion. Onetime acquisition-related expenses have been incurred, and structure reorganization-related expenses are among the main items.

COMPLETION OF ALTIUM[*1] ACQUISITION

Financial impact

- ✓ Acquisition Completion: August 1, 2024; consolidation starts from 3Q 2024
- ✓ Purchase price: Approximately AUD 9.1 billion
- ✓ Business overview: Development and sales of software of PCB[*2] design
- ✓ Financial impact: Altium's financials have been consolidated from Q3 2024, with most figures recorded under the "Industrial, Infrastructure, and IoT" segment
- ✓ PPA: Expected to be reflected in the Q4 2024 financial results

PMI

PMI Progress

- ✓ Altium CEO, Aram Mirkazemi, has assumed the role of Head of Software & Digitalization at Renesas
- ✓ Cost synergies have begun to materialize since the completion of the acquisition
- ✓ Preparations are underway to generate sales synergies

Arm's Lengths and Integration

- ✓ The Altium brand and customer information retain their independence and impartiality
- ✓ Integration is being actively promoted across R&D, Sales & Marketing, and Operations

*1: Altium Limited
*2: Printed-circuit board

RENESAS

Page 19, completion of the Altium acquisition.

Acquisition completed August 1 and consolidation started Q3. Most figures recorded under industrial infrastructure, IoT segment. The business perse is making good progress, and also PMI and also synergy effect is to be enjoyed. We are seeing a smooth progress.

With this, I would like to conclude my presentation. Thank you very much.

Question & Answer

[Questioner 1]

Q: The first question I have is about Q4. You were talking about a 19% revenue decline. Can you break this down into detail by application? Can you break it down into automotive and IIoT? Also, can you give us your view on signs of a bottoming-out process? Have you already gained visibility looking out into the next quarter, to the March quarter? Because you were just talking about taking a deep breath. I was wondering if you're already looking out into the next quarter, the March quarter. Can you share with us your view, as well as the probability of that materializing?

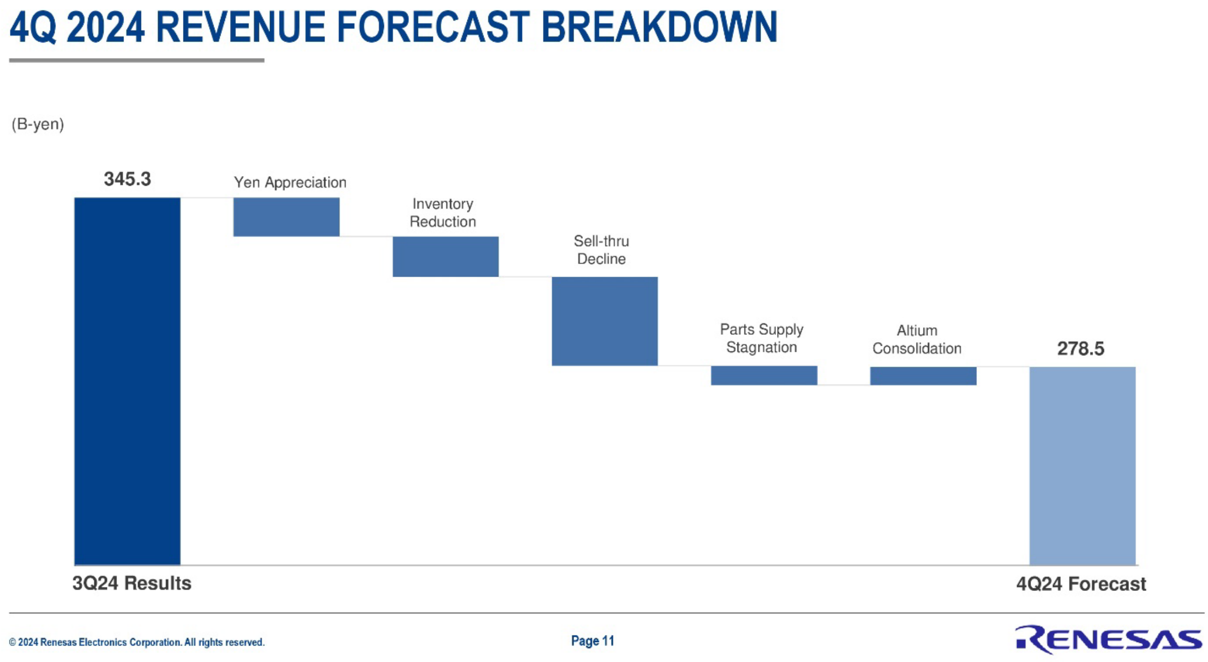
A: Thank you for your question. The details of Q4 numbers will be given out by Mr. Shinkai. But from myself, I'd like to say, before talking about the next Q1, it's too early to say, I will refrain from doing so. But the reason why I said now is the time to take a deep breath is because, up until now, over the short term, it was about stepping on the brakes where necessary, but we didn't want to miss opportunities either. That is how we've been managing the company. We didn't want to miss the upturn.

Now, we want to change the balance of taking on the opportunities and stepping on the brakes. Stepping on the brakes is going to be stronger of a balance compared to capturing upturn opportunities. They're two sides of the same coin. For Q1, right now, our expectations are cautious. The major reason being due to Japanese industrial and automotive customers mainly, actually, we're not sure yet, but in anticipation of the fiscal year ending March results, customers may accelerate their efforts to reduce inventory.

Just to say this once again, customers have not communicated that to us. However, right now, we want to be increasingly cautious about the outlook. That is why we have started to account for a slowdown scenario as well. Of course, there are some applications and regions that will grow, but mainly around Japan, from Q4 going into Q1, we expect that there might be pressures of a slowdown. We're not really expecting a strong recovery from Q1 next fiscal year. At least at this point, that's how we feel.

From a Q4 point of view, it's kind of a trend where we're going to be trending from the bottom. In the next earnings call, we hope that our expectation was too cautious and conservative. We don't want to repeat a process where we'll be revising down our expectations again. That's why we changed our outlook.

Shinkai-san, can you go through the breakdown?



A: If you can project page 11 on the screen, please.

Looking at the waterfall chart, the second one, where it says inventory reduction, this is mainly attributed to automotive. That's our assumption. For sell-through decline, which is about 10 points' worth of impact, automotive and IIoT are expected to contribute by half each.

For automotive, it's not really which product, but it's more like region, which is Japan and Europe, that is going to weigh and be weak. Inventory adjustments by customers, we believe, will contribute to a certain degree.

For IoT, there's two things to say here. First is mobile; seasonal factors are expected to lead to this decline. Industrial and mass market-related QoQ decline is anticipated. For parts supply stagnation, it's predominantly SoC substrates for automotive. That's it for me.

Q: Well, Shibata-san, going back to your comment and interpreting it from my perspective. For the first quarter, you do want a pickup. You did feel that you don't have to cut production that much or inventories that much. By being cautious, because you regretted what has been done in H1 of the year, are your operations based off the assumption that it's going to be really conservative? That's the way I interpreted your comment.

A: Yes, exactly. However, we don't want to be too extreme. If we see signs of a change, we would like to swiftly change the weight of our focus. Right now, as you rightly said, we feel that we need to be very cautious and conservative in managing the Company right now.

Q: That leads to my second question. When it comes to the pickup in profitability then, is it going to be moderate due to the way you're operating the company, or 55% gross profit gross margin or 30% OPM is probably on your minds. Have you changed your approach? Or would you like to try to strive for a quick recovery?

From a stock price point of view, I think there's higher expectations toward your company compared to the pickup in the cycle. You have been increasing borrowings, share buybacks might not be easy to do. Do you have anything on your minds as to shareholder return or share buybacks?

A: Thank you for the question. From margins or gross margins, how should I put it, of course, we're not in a great position. However, having said that, I think it is being well-controlled. The challenge, actually, for operating margins, when you think about it, I think we were in a rush to grow the Company. This is a regret that has been ongoing. For a baseline, OPEX has been increasing. I think we need to become a little bit leaner than where we are right now. We will be implementing a variety of measures.

However, over the short term, it's not about addressing quarterly operating expenses, but we need to take a deep breath and look out over the medium to long term to better control our costs. That's what we would like to do.

In Q1 next fiscal year or Q2 next fiscal year, I'm not sure what's going to happen. When you look out to the full year, next fiscal year, you'll probably be able to know what we had on our minds. We need to take that kind of bold approach.

For shareholder returns, of course, we would like to consider the best of what we can do. When we acquired Altium, and after Altium, we have talked from time to time about our digitalization vision. In order to realize this vision, Altium is not going to fill all the pieces we need, and that was our initial way of thinking. It’s not going to be multibillion, but we still have some areas where we would like to acquire and reinforce. The timing when we can take that action needs to be on our minds.

Of course, if we don't need the funds at some point in time, we could allocate that to shareholder return. If we see an opportunity, we may prioritize that opportunity. We resume dividends. We would like to ensure that dividends are paid out consistently going forward as well.

[Questioner 2]

Q: There are two questions. The first of which is in Q4, your revenue plan. As a backdrop, I believe I have been able to understand your train of thought. Sell-through declined QoQ, 10% decline is expected. However, the performance of your peers has not really been disclosed as of yet, but it appears as if your outlook is rather weak, and sell-through, a 10% decline. What would you say about the factors and your train of thought?

A: As you have pointed out, if you look at this target itself, we understand that this does appear to be very constrained. Because of the impact of the end demand, auto, and IIoT put together accounts for about 10% in terms of contributing factors. In terms of the end-demand and when we look at the breakdown, we find that on the customer side, there are inventory adjustments, which account for quite a sizable portion of the total. Hence, when the final product comes into the market, and if that is a contributing factor for the decline in demand, that is not the case.

What is the factor behind the 10% decline? For auto, as Shinkai-san has earlier mentioned, and you might recall at the beginning of the year, I talked about RH850 MCU, it has been selling rapidly, almost as soon as it is produced. But given the situation on the customer side, and also the sales channel side and also on our side as well, there have been movements to step up on inventory buildup, and that has become prolonged. This level of inventory is truly appropriate compared to other products.

There has been a delay in the timing. We should have taken action to reduce inventory. However, we have witnessed a delay. Therefore, into Q4, the impact will hit our performance. It may appear very sizable. I would like to repeat, but on a YoY basis, that is not so dramatic. In our automotive business alone, it is not as if our revenue has been dramatically hit, even if we look at this very objectively. The performance this year was not that bad.

On the other hand, on the IIoT side, in terms of substance, we do recognize a decline. Alas, Shinkai-san has earlier mentioned Q3, 30-percentage points as a figure has been mentioned, and this describes the sizable decline that we are witnessing versus our competitor. If this number is very weak, where would the impact lie? Of course, it really depends on who we compare this to. If we look at the exposure to our local customers in China versus our competitors, it is rather small. On top of that, and this is also something that I've mentioned at the beginning of the year, it really depends on who we compare ourselves to.

In generative AI, our solution exposure has grown very strongly. Compared to the revenue overall, it is not a large proportion. Rather, it's likely larger industries of the growth in white goods are overshadowing this segment. What is peculiar to our business is how we capture the sockets, and we find that the mobile is rather weak. As we move into the next year, the new sockets will increase.

In terms of substance, we have to, of course, refer to the exposure in China and also related smaller customers, smaller in size, but generating growth. This is an area in which we have not been able to really build upon compared to our peers. Therefore, there have been swings in the business cycle that has also had an impact on our IIoT business.

Q: The second is about power semiconductor devices, and we have to divide this into three components. The operating status of Kofu Factory, its launch status and also the P&L. And the outlook regarding the launch of SiC starting in 2025. This is the second point. The third point relates to SiC, for Wolfspeed, your deposit of USD2 billion, do we need to be attentive to the risk of impairment losses?

A: The points you have raised, they are very good questions. As to the Kofu factory utilization, more than expected, we are expecting a delay. The operations have already begun at Kofu. However, when it comes to commercial production, we need to take a more cautious approach. In 2025, what is our plan? We still have some time before 2025 comes around. I will not be able to make a decisive comment. However, we will take a cautious approach in order to delay the process to the extent possible.

On a similar note, for SiC, to quite some extent, the market situation, of course, we need to look at demand and supply and the competitor situation, as well as the business in China. We find that there have been substantial changes from the initial outlook. The difficulty with SiC is to be sure that we do not rush forward.

We understand undoubtedly that this is going to be a growth market. Of course, we need to take a very long-term perspective. Rather than focusing in the beginning of the business, we have to place an emphasis on R&D, and that is how we'll be shifting our focus. Therefore, for Wolfspeed, initially as expected, are we going to procure wafers? That will not really be the case. There has been a change in plan. Of course, there are some sensitive matters. I will not be able to, at this point in time, disclose everything.

Wolfspeed, under the CHIPS Act funding, acquisition has been made, and that will enhance the possibility of recovery of our deposits into Wolfspeed. However you look at it, this is going to translate to a positive. In terms of cash interest payment to be received, we have agreed on a delay. Not only that, at the same time, of course, I will not be able to quote on details. However, as Renesas and what we are to Wolfspeed, there are obligations and liabilities to address. There have been changes to ensure that there will be a win-win engagement for both sides.

The question arises as to whether there will be a USD2-billion scope of demand. The situation has changed dramatically. However, as to expectations of recovery of the USD2 billion deposit, because of the CHIPS Act, in terms of financials, the prospects are brighter and the 8-inch operations that we'll see when it is up and running, the concerns can be eased. Compared to a while ago, we believe that we can take a more optimistic view.

Q: There's a follow-up question. In terms of changes to the liability terms, when the time comes, are you going to disclose the information to us?

A: Yes. We may not be able to, of course, divulge all the specifics. However, as for the implications, we will be able to share information with you.

[Questioner 3]

Q: The first one is about the Sell-thru demand decline for Q4. It's about three months from your previous earnings. During the three months, from when did the probability of demand decline materialize? In the past three months, up until right now, talking with your customers for the demand decline, do you think this is going to continue? Is it continuing? Or has it settled down as you approached this earnings call? That's my first question.

A: The demand decline for Q4, from when did we sense it? I would say it is due to the conditions in Q3. What I mean by that is, I have mentioned this before, the demand-and-supply situation has changed quite a lot, and short lead time orders have been increasing, as Mr. Shinkai has mentioned. Before the quarter started, there were some orders that were not a backlog. The orders came in when the quarter started. So, when the quarter starts, these are numbers that, of course, we haven't anticipated or accounted for.

When you compare with the trends that we've been seeing far, after entering Q3, short lead time orders. We did forecast in our planning how much of those types of short lead time orders will come in. However, for July, August, maybe it was summer vacation, but maybe it's a little bit weaker than we thought.

Entering September, there's only four weeks left. However, last-minute orders didn't really come in, is what I've been hearing. Even for short-term orders, it seems that it became weaker. That's the reason why. I would say from around the summer holiday season, we were wondering if that was the case. We started to feel that things have changed ever since we entered September, and ever since I started to get everyone's feedback.

For Q4, Shinkai-san, would you like to speak about it?

Q: Over the past three months, it's been about a month since Q4 started. You just talked about short lead time orders, but is the demand outlook deteriorating? Or has it settled down?

A: For short lead time orders, in balance with that, when you look at order booking trends, further deterioration is not a trend we're seeing. It's not a trend we're seeing. We continue to trend at low levels as before. That's how we are anticipating October.

A: To add a comment here, our forecast for short lead time type orders, we have reduced it to close to zero now. If anything was to come in going forward, that will be an upside for us. That's a big change we have made this time around.

Speaking with customers, I would say, for automotive, first of all, compared to three months ago, I do feel that it has become quite weaker. For other areas compared to three months ago. I don't really feel that there has been a big change. Whichever customer you talk to, they talk about anticipated recovery in Q1 or Q2 next fiscal year, although their comments don't give a reason why. My gut feeling is that we haven't been seeing an improvement, nor have we been seeing a deterioration.

Q: My second question is about, earlier, you talked about free cash flow and Q3 numbers were weak. With your performance weakening, I would anticipate that free cash flow is going to decline. You acquired Altium, and you increased your borrowing substantially. For the repayment schedule, will it be impacted in any kind of way? Or will this impact your dividend payout?

A: Mr. Shinkai will address that question.

A: For Q4 free cash flow, it's likely to be about the same level as Q2. Debt repayment or dividend impact is not expected. That's all from me.

[Questioner 4]

Q: Firstly, what is the impact of the action that you mentioned earlier, which is a little further action.

The second question, recently, taken up by the media, how the trends will affect your business? I'm just going to throw the questions at the outset. Earlier, you disclosed an action to be taken. There are two things that come to mind. This is in reference to the Altium acquisition, where the platform will be developed. I believe that is what you have said. What will be impacted?

The other question is in reference to automotive products, the 5th generation product with functionality, having been enhanced. You will work on your R&D efforts you have mentioned. With the tightening, what will be the impact? Will there be an impact? These are questions in reference to the action forward.

The second set of questions is in reference to the market trend. How would that play out in your business? In terms of trends that come to mind, there are two. For DDR5, transition, to some extent, has progressed. What is the impact there? Is it a positive or a negative impact? The second is in EV. HV is on the rise. EV is kind of trending downwards. I would like to inquire as to the impact on these.

A: SoC Generation 5 of R-Car and digitalization platform, I will say that there is absolutely no impact, and we are progressing as initially intended, and that is how we will proceed. I would hesitate, given the situation, to speak about activities ahead. I would like to be cautious. If things go well, for R-Car Gen 5, in November or December, we will be able to disclose information about the progress made. Of course, if all goes well. I would like to ask you to stay tuned.

For Altium's digitalization platform, two weeks later, there was an exhibit called Electronica, where just a part of our new projects will be exhibited. I would like you to visit our exhibit. This is something that I'm very proud of. I would encourage you to take a look.

For DDR5, however you look at it, for Renesas, it is a positive. There is no negative factor there. For DDR5 this year, we have mentioned that it is really going to pick up. But beyond expectations, it is slower than earlier anticipated. The main reason for this is that memory interface device, the power management from other companies, when combined, presented a problem. Therefore, for our power management IC to be qualified, this has consumed time, and this has been the major factor.

When we combine, of course, devices from various companies, of course, this is very challenging. I'm sure that, that has been well understood by customers. Therefore, when we go into the next version, our memory interface and power management IC will be a combination. However you look at it, this will be, of course, a tailwind for us. It's too early to say. In terms of direction going forward, I will absolutely say for certain that this is not going to be a negative factor. Please put your concerns to rest.

EV and HV, EV is displaying a slowdown. For business, it's not necessarily a negative factor. I'm sure the analysts are concerned about EV. Is it going to be a tailwind? If so, is it going to be a tailwind for Renesas? I'm sure that is a point in question. I would say, yes, but not to such a sizable extent. Therefore, when we look at the trend, more than expected, the EV start has taken time. But that's not necessarily a negative.

Having said that, Fujiwara-san presented a question about power devices and how that is rolling out. Of course, for the Company, it is also a negative. We will begin IGBT next year, and SiC as well. This has been a very ambitious plan that we have put together. The situation has changed, and therefore, we will take a cautious approach into next year. Therefore, in terms of the numbers per se, it would be fair to say that it is a negative.

M: We have received some other questions, but as we are drawing to the end of this earnings call, we would like to end the Q&A session. Finally, in closing, Mr. Shibata will speak.

A: For two quarters in a row, the downward revision of the guidance has been widening. I don't think it's appropriate for me to say a lot about this. We will be changing perspective from here on, and ensure that we show results.

For Q4 this year and Q1 next year, we will be more cautious in our management. We hope that in Q2 next year or in H2 next year, we will be ready for Q2 or H2 next year. From a cost control and also with regard to continuing with our R&D, we don't want to be reactive in the short term, but we would like to have a long-term perspective. We would like to ask you for your ongoing support. Thank you very much for joining today.

Moderator: That concludes Renesas' FY2024 Q3 earnings call. Thank you very much for joining today.

[END]