

Renesas Electronics Reports First Quarter 2019 Financial Results

Due to Weakening Market and Channel Inventory Adjustments, First Quarter Revenue Decreased Year-on-Year.

Second Quarter Revenue to See Significant Increase from IDT Integration and Seasonality. Renesas to Pursue Continued Thorough Cost and Cash Management in Preparation Against Continuing Weak End Demands

- Q1 2019: Non-GAAP⁽¹⁾ revenue from semiconductors of 146.7 billion yen, down 19.4% year-on-year. Non-GAAP gross margin of 39.3%, down 8.2 points year-on-year and Non-GAAP operating profits (margin) of 7.2 billion yen (4.8%), down 22.9 billion yen (11.4 points) year-on-year.
- Outlook for Q2 2019: Non-GAAP revenue from semiconductors within the range of 181.5 billion and 189.5 billion yen with the IDT integration⁽²⁾. Non-GAAP gross margin of 43.5%, based on the midpoint of forecasted revenue.

TOKYO, Japan, May 14, 2019 — Renesas Electronics Corporation (TSE:6723, “Renesas”), a premier supplier of advanced semiconductor solutions, today reported the financial results for the first quarter ended March 31, 2019 (January 1, 2019 to March 31, 2019).

“In our first quarter, our non-GAAP revenue from semiconductors decreased by 19.4% year-on-year, and the non-GAAP gross margin decreased by 8.2 points on a year-on-year basis. Impacts from the weak market conditions as well as our continued efforts to achieve optimal inventory levels at our channels led to these decreases,” said Bunsei Kure, Representative Director, President and CEO, Renesas Electronics Corporation. “For the second quarter ending June 30, 2019, although revenue from semiconductors is expected to increase significantly on a sequential basis from to the IDT integration and seasonality, we expect sales to decrease in light of the continued weak markets surrounding industrial applications on a year-on-year basis. We also expect a year-on-year decrease in our Non-GAAP gross margin. With uncertainties for sales in the short term, we will thoroughly control cash and improve operational efficiency and reduce costs through selective concentration of R&D.”

Quarterly Financial Summary (Billion yen)

Non-GAAP Basis	Q1 FY2019 (Jan-Mar 2019)	Q4 FY2018 ⁽³⁾ (Oct-Dec 2018)	Q1 FY2018 (Jan-Mar 2018)	QoQ	YoY
Revenue	150.3	187.7	185.6	-20.0%	-19.0%
Revenue from Semi.	146.7	183.7	182.0	-20.1%	-19.4%
Gross Margin	39.3%	40.5%	47.5%	-1.2pts	-8.2pts
Operating Income	7.2	19.4	30.1	-12.3	-22.9
Operating Margin	4.8%	10.4%	16.2%	-5.6pts	-11.4pts
EBITDA ⁽³⁾	32.3	43.4	53.7	-11.0	-21.4

GAAP Basis (IFRS)	Q1 FY2019 (Jan-Mar 2019)	Q4 FY2018 (Oct-Dec 2018)	Q1 FY2018 (Jan-Mar 2018)	QoQ	YoY
Revenue	150.3	187.7	185.6	-20.0%	-19.0%
Revenue from Semi.	146.7	183.7	182.0	-20.1%	-19.4%
Gross Margin	38.1%	40.5%	46.7%	-2.4pts	-8.7pts
Operating Income	-1.3	-1.1	23.4	-0.2	-24.6
Operating Margin	-0.8%	-0.6%	12.6%	-0.3pt	-13.4pts
EBITDA ⁽⁴⁾	28.0	27.1	51.5	+0.9	-23.5

(1) Non-GAAP Basis: Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP figures following a certain set of rules. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group’s constant business results, and therefore results are provided in non-GAAP base. This adjustment and exclusion include the amortization of intangible assets

recognized from acquisitions, other PPA (purchase price allocation) adjustments and costs relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable. For a detailed reconciliation of the GAAP / non-GAAP items, please see page 5.

- (2) IDT integration: The acquisition of Integrated Device Technology, Inc. (IDT) was completed as of March 30, 2019 and IDT became a wholly-owned subsidiary of Renesas.
- (3) As of the first quarter ended March 31, 2019, there has been a change to the Group's auditor, and therefore quarterly figures of the year ended December 31, 2018, provided under IFRS are not reviewed by the previous auditor. However, for each of the quarterly figures of the year ended December 31, 2018 provided under the generally accepted accounting principal in Japan (J-GAAP) have been reviewed by the Group's previous auditor.
- (4) EBITDA: Sum of operating income, depreciation and amortization

Quarterly Revenue from Semiconductors by Application (Billion yen)⁽⁵⁾

Following the completion of the Intersil acquisition in February 2017, Renesas integrated Intersil into its operations and reformed its business organization into three business units. To align with this change, Renesas redefined its semiconductor sales breakdown to: "Automotive," "Industrial" and "Broad-based," the three application categories that constitute the main business of the Group, and "Other semiconductors," that constitute the businesses that do not belong to the above three application categories.

Non-GAAP Basis Revenue from Semiconductors by Application (Billion yen)	Q1 FY2019 (Jan-Mar 2019)	Q4 FY2018 (Oct-Dec 2018)	Q1 FY2018 (Jan-Mar 2018)	QoQ	YoY
Automotive ⁽⁶⁾	83.4	104.5	92.4	-20.2%	-9.7%
Industrial ⁽⁷⁾	31.8	43.1	50.9	-26.2%	-37.5%
Broad-Based ⁽⁸⁾	30.1	35.1	38.1	-14.3%	-21.0%
Other Semiconductors	1.4	1.0	0.6	36.4%	121.3%
Total	146.7	183.7	182.0	-20.1%	-19.4%

(5) Revenue from Semiconductors by application: From the fiscal year ended December 31, 2018, the company partially changed the sales categories, consisting of "Automotive", "Industrial" and "Broad-based" by transferring part of sales from "Industrial" to "Broad-based" among other changes, to accurately represent the business content. Accordingly, the figures of the fiscal year ended December 31, 2017 have been retroactively amended to reflect the new categories of the fiscal year ended December 31, 2018.

(6) Automotive: Renesas mainly supplies microcontrollers (MCUs), system-on-chip (SoCs), analog semiconductors and power semiconductor devices for the "Automotive control" and "Automotive information" categories.

(7) Industrial: Renesas mainly supplies MCUs and SoCs for "Smart factory," "Smart home" and "Smart infrastructure" categories.

(8) Broad-based: Renesas mainly supplies "General-purpose MCUs" and "General-purpose analog semiconductor devices" to a wide variety of end market solutions.

Summary of First Quarter 2019 Results (Non-GAAP Basis)

First quarter consolidated revenue was 150.3 billion yen, down 20.0% quarter-on-quarter and down 19.0% year-on-year. First quarter revenue from semiconductors was 146.7 billion yen, down 20.1% from the previous quarter and down 19.4% from the previous year. Automotive revenue decreased by 20.2% quarter-on-quarter and decreased by 9.7% year-on-year, mainly due to a decrease in vehicle production mainly in China and adjustments in channel inventory. Industrial revenue decreased by 26.2% quarter-on-quarter and decreased by 37.5% year-on-year, mainly owing to decreases in demand for both factory automation (FA) equipment and air conditioners for China. Broad-based revenue decreased by 14.3% quarter-on-quarter and by 21.0% year-on-year.

Non-GAAP gross margin in the first quarter was 39.3%, decreased by 1.2 points quarter-on-quarter and decreased by 8.2 points on a year-on-year basis.

Non-GAAP R&D⁽⁹⁾ expenses in the first quarter were 27.8 billion yen, compared to 30.5 billion

yen and 32.4 billion yen in the sequential and year-ago quarter. First quarter R&D ratio to revenue was 18.5%.

Non-GAAP SG&A ⁽¹⁰⁾ and Other expenses in the first quarter were 24.1 billion yen, compared to 26.0 billion yen and 25.7 billion yen in the sequential and year-ago quarter. First quarter SG&A and Other ratio to revenue was 16.0%.

While Renesas focuses its OPEX (operating expenses such as R&D and SG&A costs) on R&D expenses for future growth, the Group is continuing its control of disciplinary SG&A, and aims to sustain long-term financial targets at around 30% which is the sum of the ratios of R&D- and SG&A-to-revenue.

Non-GAAP operating income was 7.2 billion yen, equivalent to 4.8% of operating margin in the first quarter, showing a decrease of 12.3 billion yen from the 19.4 billion yen on a sequential basis. Non-GAAP operating margin decreased by 5.6 points from 10.4% in the previous quarter. On a year-on-year basis, non-GAAP operating income decreased by 22.9 billion yen (11.4 points) from 30.1 billion yen (16.2%) due to a decrease in sales revenue and production control leading to a decrease in gross profit, despite of controlling SG&A.

Non-GAAP net income in the first quarter was 6.6 billion yen, and Non-GAAP basic earnings per share was 4.0 yen.

Inventories at the end of the first quarter was 129.8 billion yen, a 14.4 billion yen increase from the 115.4 billion yen in the previous quarter. However, following the acquisition of IDT as of March 30, 2019, IDT's inventory of 20.4 billion yen has been added. In addition, 13.0 billion yen out of 20.4 billion yen for IDT's inventory is the amount increased by the market valuation based on the PPA (Purchase Price Allocation) effects following the acquisition. Excluding IDT inventory, inventories at the end of the first quarter reduced by 6.0 billion yen sequentially.

Net cash provided by operating activities in the first quarter was 20.0 billion yen and net cash used in investing activities was 702.1 billion yen. These resulted in negative free cash flows of 682.1 billion yen. Also, IDT acquisition related payments were 685.8 billion yen and the free cash flows excluding the impact from the acquisition was a positive of 3.8 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 1.9 billion yen in the first quarter. These expenditures are based on the amount of investment decisions made and does not refer to the cash outlays in the cash flow statement.

Equity ratio was 34.3% as of March 31, 2019, against 56.7% as of December 31, 2018. Debt/equity ratio (gross) was 1.53 as of March 31, 2019.

(9) R&D: Research & Development

(10) SG&A: Selling, General and Administrative expenses

Outlook for Second Quarter 2019

In the second quarter of 2019, Renesas expects revenue from semiconductors within the range of 181.5 billion yen and 189.5 billion yen (an increase of 23.7% to 29.1% sequentially, and a decrease of 4.8% to 8.8% year-on-year). For the first half of 2019, revenue from semiconductors is expected to be within the range of 328.2 billion yen to 336.2 billion yen (a decrease of 11.8% to 13.9% year-on-year).

Based on the midpoint of the revenue outlook, Non-GAAP gross margin and operating margin for the second quarter of 2019 is expected to be 43.5% and 9.5%, respectively, and for the first half of 2019, 41.6% and 7.4% respectively.

The forecasts for the second quarter of the 2019 are calculated at the rate of 110 yen per USD and 124 yen per Euro. The forecasts for the first half of 2019 are calculated at the rate of 110 yen per US and 125 yen per Euro.

Capital expenditure for fixed assets (production facilities) and intangible assets (investment decision basis within the period) for the first half of 2019 is expected to be 7.0 billion yen.

Reference: IDT's Financial Results for the Full Year Ended March 31, 2019

IDT's sales revenue for the full year ended March 31, 2019 (April 1, 2018 to March 31, 2019) was 948 million USD, an increase of 12.5% year on year. Non-GAAP gross margin for the full year was 64.1%, an increase of 2.0 points from the year on year. Non-GAAP operating income was 291 million USD (an increase of 58 million USD year on year), and Non-GAAP operating margin was 30.7% (3.1 points increase year on year). Further, IDT's profit and loss will be consolidated into the financial statements of the Renesas Group from the second quarter of 2019 (April 1, 2019 to June 30, 2019).

Other References

Refer to Renesas Electronics' earnings report "*Renesas Electronics Reports Financial Results for the Three Months Ended March 31, 2019*" for the consolidated balance sheets, the consolidated statements of income and the consolidated statements of cash flows.

Refer to the separate sheet for IFRS – non-GAAP reconciliation.

Forward-Looking Statements

The statements in this press release with respect to the plans, strategies and financial outlook of Renesas Electronics and its consolidated subsidiaries (collectively "we") are forward-looking statements involving risks and uncertainties. We caution you in advance that actual results may differ materially from such forward-looking statements due to several important factors including, but not limited to, general economic conditions in our markets, which are primarily Japan, North America, Asia, and Europe; demand for, and competitive pricing pressure on, products and services in the marketplace; ability to continue to win acceptance of products and services in these highly competitive markets; and fluctuations in currency exchange rates, particularly between the yen and the U.S. dollar. Among other factors, downturn of the world economy; deteriorating financial conditions in world markets, or deterioration in domestic and overseas stock markets, may cause actual results to differ from the projected results forecast.

About Renesas Electronics Corporation

Renesas Electronics Corporation ([TSE: 6723](#)) delivers trusted embedded design innovation with complete semiconductor solutions that enable billions of connected, intelligent devices to enhance the way people work and live. A [global](#) leader in microcontrollers, analog, power, and SoC products, Renesas provides comprehensive solutions for a broad range of automotive, industrial, home electronics, office automation, and information communication technology applications that help shape a limitless future. Learn more at [renesas.com](#).

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Separate Sheet

Renesas Electronics
GAAP (IFRS) – Non-GAAP Reconciliation

(Billion yen)	Q1 FY2019 Actual (Jan-Mar 2019)	Q4 FY2018 Actual (Oct-Dec 2018)	Q1 FY2018 Actual (Jan-Mar 2018)
Revenue (after PPA adjustments)	150.3	187.7	185.6
PPA Effects	-	-	-
Non-GAAP Revenue	150.3	187.7	185.6
GAAP Gross Profit	57.2	75.9	86.7
GAAP Gross Margin (%)	38.1%	40.5%	46.7%
PPA Effects (Depreciation of Fixed Assets: COGS)	+0.3	+0.3	+0.3
Stock-Based Compensation (COGS)	+0.2	+0.2	+0.1
Other Adjustments ⁽¹⁾ (COGS)	+1.3	-0.5	+0.9
Non-GAAP Gross Profit	59.0	76.0	88.1
Non-GAAP Gross Margin (%)	39.3%	40.5%	47.5%
GAAP Operating Profit	-1.3	-1.1	23.4
Reconciliations in Gross Profit Level	+1.9	+0.0	+1.4
PPA Effects (Amortization of Intangible Assets: SG&A)	+3.8	+3.9	+4.1
PPA Effects (Depreciation of Fixed Assets: R&D)	+0.1	+0.1	+0.1
PPA Effects (Depreciation of Fixed Assets: SG&A)	+0.0	+0.0	+0.0
Stock-Based Compensation (R&D)	+0.4	+0.5	+0.3
Stock-Based Compensation (SG&A)	+1.0	+0.7	+0.8
Other Adjustments ⁽²⁾ (R&D)	+0.1	-0.0	+0.1
Other Adjustments (SG&A)	+0.8	+2.7	-0.7
Other Non-Recurring Adjustments ⁽³⁾ (SG&A, Others)	+0.4	+12.6	+0.7
Non-GAAP Operating Profit	7.2	19.4	30.1
Non-GAAP Operating Margin (%)	4.8%	10.4%	16.9%

GAAP Net Profit	-1.8	-10.9	18.6
Reconciliations in Operating Profit Level	+8.5	+20.5	+6.7
Reconciliations in Net Profit (PPA Effects)	-	-	-
Reconciliations in Net Profit (Tax Impacts from Non-GAAP Adjustments)	0.0	-2.4	-0.1
Non-GAAP Net Profit	6.6	7.2	25.2

- (1) Including adjustments to equalize period expenses such as taxes
- (2) Including adjustments to equalize period expenses such as taxes, in addition to acquisition related costs and costs related to offering
- (3) Including non-recurring profit or losses above a certain amount

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