Renesas Electronics Reports Third Quarter 2017 Financial Results

Significant Increase in Q3 Sales Year-On-Year Driven by Growth Mainly in Automotive and Industrial Businesses and Integration of Intersil.
Achieved Improvements in Year-On-Year Q3 Gross and Operating Margins

- Q3 2017: Non-GAAP(1) semiconductor sales of 192.3 billion yen, up 29.6% year-on-year. Non-GAAP gross margin of 47.7%, up 5.2 points year-on-year and Non-GAAP operating profits (margin) of 35.9 billion yen (18.4%), up 19.4 billion yen (up 7.5 points) year-on-year
- Outlook for Q4 2017: Non-GAAP semiconductor sales of 197.6 billion yen, up 22.4% year-on-year, Non-GAAP gross margin of 46.3%, up 0.7 point year-on-year and Non-GAAP operating margin of 12.9%, down 0.8 point year-on-year
- Outlook for the full year 2017: Non-GAAP semiconductor sales of 756.7 billion yen, up 22.0% year-on-year, Non-GAAP gross margin of 46.3%, up 2.7 points year-on-year and Non-GAAP operating margin of 15.5%, up 3.3 points year-on-year

TOKYO, Japan, November 2, 2017 — Renesas Electronics Corporation (TSE:6723, "Renesas"), a premier supplier of advanced semiconductor solutions, today reported financial results for the third quarter ended September 30, 2017.

"We have been continuously improving our gross and operating margins by pursuing sales growth and cost efficiency", said Bunsei Kure, President and CEO, Renesas Electronics Corporation. "Our third quarter non-GAAP semiconductor sales increased by 29.6% year on year, driven by increased sales mainly in the automotive and industrial businesses, and the dissipation of the impact from the Kumamoto earthquake that occurred in the same period a year ago, in addition to the integration of Intersil. We expect to achieve traction in semiconductor sales and gross margin during the coming quarter on a year-on-year basis."

Quarterly Financial Summary (Billion yen)

Non-GAAP basis	**Q3 2017** (Jul-Sep 2017)	**Q2 2017** (Apr-Jun 2017)	**Q2 2016** (Jul-Sep 2016)	**QoQ**	**YoY**
Net Sales	195.5	198.1	152.6	-1.3%	+28.1%
Semi. Sales	192.3	194.3	148.3	-1.1%	+29.6%
Gross Margin	47.7%	45.7%	42.5%	+2.1pts	+5.2pts
Operating Income	35.9	29.0	16.6	+6.9	+19.4
Operating Margin	18.4%	14.6%	10.8%	+3.7pts	+7.5pts
EBITDA(2)	55.0	47.5	31.5	+7.5	+23.6

Japan GAAP basis	**Q3 2017** (Jul-Sep 2017)	**Q2 2017** (Apr-Jun 2017)	**Q2 2016** (Jul-Sep 2016)	**QoQ**	**YoY**
Net Sales	195.5	197.3	152.6	-0.9%	+28.1%
Semi. Sales	192.3	193.5	148.3	-0.6%	+29.6%
Gross Margin	47.5%	41.5%	41.2%	+6.1pts	+6.3pts
Operating Income	24.9	9.3	14.6	+15.6	+10.3
Operating Margin	12.7%	4.7%	9.5%	+8.0pts	+3.2pts
EBITDA	54.1	38.0	29.5	+16.1	+24.6

(1) Non-GAAP Basis: Results excluding non-recurring and certain other items. Non-GAAP basis excludes the impact of sales and profit/loss of Renesas SP Drivers, impact of profit/loss of LTE modem business and profit/loss from inventory buildup until the end of FY2016 ended December 2016. Starting from FY2017 ending December 2017, Non-GAAP definition was revised to exclude amortization of goodwill, amortization of purchased intangible assets, costs related to the Intersil acquisition, stock-based compensation cost, costs related to the offering, and PPA (purchase price allocation) effects associated with the Intersil acquisition. (Reference: The impact on the operating income from the inventory buildup in FY2017 Q3 was negative 0.3 billion yen.) See page 5 for reconciliation of Japan GAAP and Non-GAAP.

(2) EBITDA: Operating income + Depreciation and amortization + Amortization of long-term prepaid expenses. Amortization of goodwill is also included for Japan GAAP-based EBITDA.

Quarterly Semiconductor Sales by Application (Billion yen) Pro-Forma Basis(3)

Following the completion of the acquisition of Intersil 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.

Semiconductor sales by Application (Billion yen)	**Q3 2017** (Jul-Sep 2017)	**Q2 2017** (Apr-Jun 2017)	**Q2 2016** (Jul-Sep 2017)	**QoQ**	**YoY**
Automotive (4)	100.6	102.9	86.0	-2.2%	+16.9%
Industrial (5)	53.5	54.0	45.1	-1.0%	+18.5%
Broad-based (6)	37.4	36.3	30.9	+3.0%	+21.1%
Other semiconductors	0.8	1.1	0.5	-25.5%	+56.8%
Total	192.3	194.3	162.5	-1.1%	+18.3%

(3) Pro-forma basis: Renesas net sales including Intersil’s historical revenue prior to the close of the acquisition on February 24, 2017.
(4) Automotive: Renesas mainly supplies microcontrollers (MCUs), system-on-chip (SoCs), analog semiconductors and power semiconductor devices for the “Automotive control” and “Automotive information” categories.
(5) Industrial: Renesas mainly supplies MCUs and SoCs for “Smart factory,” “Smart home” and “Smart infrastructure” categories.
(6) Broad-based: Renesas mainly supplies “General-purpose MCUs” and “General-purpose analog semiconductor devices” to a wide variety of end market solutions.

Summary of Third Quarter 2017 Results (Non-GAAP Basis)

Third quarter consolidated net sales were 195.5 billion yen, roughly the same as the forecast, down 1.3% quarter-on-quarter and up 28.1% year-on-year. Third quarter semiconductor sales were 192.3 billion yen, almost in line with the forecast, and down 1.1% quarter-on-quarter. On a year-on-year basis, semiconductor sales increased by 29.6%, which can be attributed mainly to: the solid growth of the Renesas standalone sales, which excludes the sales of Intersil from the entire Renesas Group sales; the integration of Intersil and the dissipation of the impact from the Kumamoto earthquake that occurred in the same period a year ago. Automotive sales increased by 16.9% year-on-year on a pro-forma basis, driven by strong demand for Automotive Control and for Automotive Information products. Industrial and Broad-based sales increased year-on-year on a pro-forma basis by 18.5% and 21.1%, respectively, mainly due to the strong demand for factory automation, home appliance and analog semiconductor devices.

Non-GAAP gross margin was 47.7%, 2.3 points above the Company’s guidance, mainly due to the increased production. On a sequential basis, gross margin increased by 2.1 points and improved by 5.2 points year-on-year, benefiting from the significant increase in both sales and production as well as integration of Intersil.

Non-GAAP R&D (7) expenses in the third quarter were 31.2 billion yen, compared to 33.5 billion yen and 25.5 billion yen in the sequential and year-ago quarter. Third quarter R&D ratio to net sales was 16.0%.

Non-GAAP SG&A (8) expenses in the third quarter were 26.2 billion yen, compared to 28.0 billion yen and 22.9 billion yen in the sequential and year-ago quarter. Third quarter SG&A ratio to net sales was 13.4%.

Excluding seasonal headwinds, OPEX (Operating expenses such as R&D and SG&A) was kept under control within the range of long-term financial targets.

Non-GAAP operating income was 35.9 billion yen, equivalent to 18.4% of net sales in the third quarter, showing an improvement of 6.9 billion yen (3.7 points) from the 29.0 billion yen and 14.6% of net sales in the 2017 second quarter. On a year-on-year basis, non-GAAP operating income improved by 19.4 billion yen (7.5 points) mainly due to sales increases and continued OPEX discipline.

Non-GAAP net income attributable to shareholders of parent company in the third quarter was 32.7 billion yen.

Net cash provided by operating activities in the third quarter was 44.0 billion yen and net cash used in investing activities was 26.2 billion yen. These resulted in positive free cash flows of 17.8 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 10.0 billion yen in the third 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 46.7% as of September 30, 2017, against 44.2% as of June 30, 2017. Debt/equity ratio (gross) was 0.49 as of September 30, 2017.

(7) R&D: Research & Development
(8) SG&A: Selling, general and administrative expenses

Outlook for Fourth Quarter and Full-Year 2017

In the fourth quarter of the 2017, Renesas expects semiconductor sales of 197.6 billion yen, up 22.4% year-on-year. Despite the increased sales, non-GAAP gross margin will decrease by 1.5 points quarter-on-quarter, due to increased depreciation expense, but will increase by 0.7 point, resulting in at 46.3% on a year-on-year basis. Non-GAAP operating margin is expected to decrease by 5.5 points quarter-on-quarter, mainly due to seasonal cost increase in the year-end, and decrease by 0.8 point year-on year to 12.9%. The forecasts for the fourth quarter ending December 31, 2017 are calculated at the rate of 110 yen per USD and 125 yen per Euro.

Capital expenditures are based on the amount of investment decisions made for property, plant and equipment (manufacturing equipment) and intangible assets during the fourth quarter, and are expected to be 11.4% of net revenue.

For the full year ending December 31, 2017, Renesas expects semiconductor sales of 756.7 billion yen, up 22.0% year-on-year. Non-GAAP gross margin is expected to come in at 46.3%, up 2.7 points year-on-year, and non-GAAP operating margin is expected to come in at 15.5%, up 3.3 points year-on-year.

Capital expenditures are based on the amount of investment decisions made for property, plant and equipment (manufacturing equipment) and intangible assets during the full year ending December 31, 2017, and are expected to be 11.4% of net revenue.

The full-year forecasts are calculated at the rate of 111 yen per USD and 125 yen per Euro.

References

Refer to Renesas Electronics' earnings report *"Renesas Electronics Reports for the Third Quarter Ended September 30, 2017"* for the quarterly consolidated balance sheets, the quarterly statements of income and the quarterly consolidated statements of cash flows.

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—securely and safely. A global leader in microcontrollers, analog & power and SoC products, Renesas provides the expertise, quality, and comprehensive solutions for a broad range of Automotive, Industrial, Home Electronics, Office Automation and Information Communication Technology applications to help shape a limitless future. Learn more at renesas.com.

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Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

(Billion yen)	**Q4 2017 Forecast (Oct-Dec 2017)**	**Q3 2017 Actual (Jul-Sep 2017)**	**Q3 2017 Actual (Oct-Dec 2017)**	**Q2 2016 Actual (Jul-Sep 2017)**
Net Sales (after PPA correction)	200.9	195.5	166.4	152.6
PPA Effects	-	-0	-	-
Non-GAAP Net Sales	200.9	195.5	166.4	152.6
GAAP Gross profit	92.5	92.9	74.7	62.9
GAAP Gross margin (%)	46.0%	47.5%	44.9%	41.2%
PPA Effects (COGS)	+0.5	+0.4	-	-
Inventory Buildup	-	-	+1.2	+2.0
Stock-Based Compensation (COGS)	+0	+0	-	-
Non-GAAP Gross Profit	93.0	93.3	75.9	64.9
Non-GAAP Gross Margin (%)	46.3%	47.7%	45.6%	42.5%
GAAP Operating Profit	14.7	24.9	21.6	14.6
Inventory Buildup	-	-	+1.2	+2.0
PPA Effects (net sales/COGS)	+0.5	+0.4	-	
PPA Effects (SG&A) Increase in depreciation of fixed assets, etc.	+0.2	+0.1	-	
Stock-Based Compensation (COGS)	+0	+0	-	-
Amortization of Goodwill (SG&A)	+5.2	+5.2	-	-
Costs Related to the Acquisition of Intersil (SG&A)	+0.4	+0.4	-	-
Costs Related to the Acquisition of Intersil (R&D)	-	-	-	-
Amortization of Purchased Intangible Assets (SG&A)	+4.3	+4.4	-	-
Stock-Based Compensation (R&D)	+0.2	+0.2	-	-
Stock-Based Compensation (SG&A)	+0.5	+0.4	-	-
Costs Related to the Offering (SG&A)	-	+0	-	-
Non-GAAP Operating Profit	25.9	35.9	22.8	16.6
Non-GAAP Operating Margin (%)	12.9%	18.4%	13.7%	10.8%