

Conference Call Regarding the Acquisition of IDT (September 11, 2018)

Main Q&A for the Briefing Session

Q: With regard to the process necessary for completing the acquisition, are US CFIUS or Chinese anti-trust necessary, and are there risks associated with this?

A: Yes, naturally CFIUS approval and anti-trust clearance must be acquired in several countries. When we implement M&A, these are the points that we consider in prioritizing. With regard to IDT, if we think rationally, national security threats and technologies related to this is almost non-existent in terms of their products. A small portion of the products is for military use but the EOL for these products have already been announced. In terms of geographic regions, if we look at the breakdown of IDT, out of the 100 billion of total sales, 10% or so is from China. Chinese anti-trust should not be a major problem. That is a reasonable assumption and therefore, although we cannot say there is no risk, looking at this from certain angles, we believe these risks are manageable and therefore, is not a hindrance, realistically, for closing.

Q: IDT has good connectivity technology which can be used for Renesas Automotive as well as Industrial applications. How would you like to utilize their connectivity?

A: In page 5 of the presentation shows the products and among them, connectivity related products for the Automotive and Industrial applications, they are not widely available to use tomorrow. We don't have many products that can be utilized immediately. However, the RF products or milli-wave technology can be turned into other connectivity products, for example for RADAR, NB-IoT and wireless LAN. From a business point of view, at what timing and what way is so called IoT and connected cars to those businesses we would be able to introduce those technology and repurpose those products to these applications, going to be discuss that.

Q: Regarding Intersil and IDT product portfolio, how is it different from yours?

A: What we call power in the IDT portfolio means 2 things; power management IC which is quite similar to Intersil and wireless power charger IC. For power management IC, it is almost the same as that from Intersil but IDT products for the Automotive application, particularly the actual qualification work is underway and mass production

has already started. As for the wireless power charge, it is not within the Intersil product portfolio, so it is unique to IDT.

Q: I understand the funds required for the acquisition will be borrowed from banks. The interest rate that we should envisage, should it be about 1%?

A: It depends on the TIBOR. It's a little lower than the figure, a more competitive interest rate is what we are looking at.

Q: In terms of synergy timeline with regards to cost, you said you would be frontloading a lot of it. In terms of sales and cross sell, what is the idea of the timeline? Going forward, are there areas you would feel there will be an upside in synergy?

A: Topline synergy will take some time to materialize for 3-4 years, and I believe there will be a takeoff after that. There are a lot of upsides. At the present point in time, rather than look at the upside, we should look at the numbers with the downside risk and we want to focus on these. As the case with Intersil, in the actual integration process, among the synergy items that we are looking at there may be things that prove to be difficult. We want to make up for this and take the upside as much as possible at all times and we want to update the list and refresh our look at the upside to realize the figures in terms of target.

Q: It was mentioned that EBITDA estimate forecast for 2-3 years down the road, EBITDA will be 220-230 billion yen, the IDT integration will be 40-50 billion yen, synergy effect will be 10 billion yen. On the other hand, you are going to use CAPEX which is 40 billion yen. In total, the Net debt/EBITDA multiple will be lower than 1 for 2-3 years. Is that the official number?

A: The official numbers are not disclosed as we do not disclose forward looking numbers, but please use this as an indicator for reference. As for the numbers we are modelling, we have the higher or stronger numbers than we expect. For conservative basis with some haircut are the numbers you mentioned, and they are at the run rate basis.

Q: For the Automotive business, by 2021 the car designs have already been finalized including semiconductors. So, the synergy you can expect is beyond 2021, that is my understanding, or can you achieve something earlier than that?

A: Whether there is a possibility or not, I should say there is a possibility. But is it going to be large in the actual result, well may be not so. Depending upon the model cycle, for the large ones or the major ones, will be influenced by the model cycle.

Q: This is not the last M&A transaction. You talked about deleveraging, but this is only limited to this particular integration of IDT. Are you going to continue your M&A efforts?

A: I won't say we won't do any more M&A, but it depends upon the market conditions or the progress with regards to our integration process. Considering all these factors and without stretching too much, if the environment allows, then we will consider future M&A.

Q: Among topline synergy, positive 160 million USD, what is the image in terms of break down?

A: About half would be Automotive, and the remaining would be others.

Q: Regarding the automotive business revenue synergy, presently your business is such that MCUs or SoCs and Intersil products are sold as individual products. You now have a group of parts with Intersil and IDT products in terms of proposing design. Will you propose solutions rather than proposing individual designs? Will your model change?

A: The answer is yes. Proposing solutions is something we aimed at since 2013 and have been achieving progress little by little. In fact, IDT device are used for our R-Car reference boards. We will do the same thing we do with Intersil power management ICs. Through this, in addition to our SoCs and MCUS, we aim to supply other peripheral analogs from ourselves to be mounted on one board.

Q: IDT is a design company but are there any changes expected to their manufacturing aspect and is there any cost synergy expected by changing the manufacturing?

A: In the short term, we don't expect synergies from the point of view of production. For the mid- to long-term, since they outsource their front-end production to foundries, they may bring that to Renesas fabs. Or IDT Malaysia testing center can be used to test Renesas products. These are ideas we are studying. We learned this through the Intersil integration that these production synergies is going to take much longer time than cross selling. In terms of the number, it is not included in the financial forecast, but that is the topic we'd like to look into.

Q: You ask foundries to outsource production of your power IC. Are IDT foundries and Renesas foundries not overlapping? So, should we not expect much synergy from that?

A: In that case we expect synergy and it's included in our expectation.

Q: On page 5 of the slides, you have some products and the overall market share in each segment as well as the competitive landscape. Can you please explain that?

A: In the area of data interconnect, IDT market share is high. Memory interface for example, as a snapshot, has a big market share. As for past trends, they are constantly growing and expanding their market share. This is a segment they are growing. In this business area the remaining major players are very few. Stable market share can be maintained. As for RF and optical, there are many players and IDT share here is limited. We do not expect to grow their market share here significantly. As for the Power segment, IDT shares are very small, and IDT alone is not considered to grow. However, through the integration with Renesas and Intersil, their power business will become larger and their shares are also expected to become larger. As for wireless power, there are several standards, among them, for mobile application "Qi", they have a very large market share. As for the sensor segment, they have many different products included; their share is not so big but there is nobody who is big here. Comparatively speaking, their share is larger but not the largest.

Q: You talked IDT's sensors will grow by lower range of double digits. What is your view for the organic IDT topline growth?

A: What we can achieve there will be equivalent to the sensors. For the management side they have more robust, bullish numbers but we are buyers and we discount from that number but still, even after discounting, we believe we can achieve double digit growth.

Q: Regarding the impairment test, you mentioned the possibility of impairment risk is low since the impairment test would be conducted by Renesas group as a whole. However, using IFRS, the decision unit and standards may become be more detailed. The risk associated with it, there are diverse products and there may be products not generating profit and there may be impairments. Do we need to think about this or not?

A: The impairment test is how you categorize in designating goodwill and how you monitor the cash flow would be a core part of this. As you saw with the case of Intersil, what we are thinking is to completely integrate IDT. We are not going to leave it hanging under an umbrella but we will integrate it completely. We will be reorganizing to some degree and so it will look different from the present IDT organization as we move forward in terms of business. Physically, it will be very difficult to divide IDT into bits and pieces to monitor them. I believe it's valid to look at the cash flow for the company as a whole. That was a discussion that emerged when we did Intersil. If our understanding is correct, whether it's J-GAAP or IFRS, it should be the same discussion with regard to this problem.

Q: Based on your experience with Intersil, you said you might achieve cost savings of 80 million dollars in 2 years. This cost saving, specifically, what are the items of cost savings?

A: They will be procurement cost utilizing the merit of scale. For example, they will be the wafer procurement, EDA procurement and licensing fees. This was the same for Intersil. IDT is a listed company in the United States, so the listed cost can be saved. We've done some learning through Intersil and based on what we have learned, the former Intersil and IDT supply chain and logistics are quite similar in terms of systems

and mechanism. We believe it can easily be merged. If we do this, we believe costs can be reduced within a very short period.

Q: You approached IDT because the company feels it can grow more being acquired by Renesas. Although IDT was not on sale, but they finally agreed with Renesas intention. In other words, are there any risks associated with the IDT's organic growth? Why did they change the mind?

A: At the present point in time, if they faced risks in the future alone, they did not envisage any risks on their part. In terms of last year's actual, their revenue was 840 million USD. To increase this to 1.5 billion USD, that's a solid plan they had, if there are any concerns, 1.5 billion is a little bit large than the actual. For the next several years, up to 1.5 billion USD, it's just the matter of implementing the solid road map they had. From such a standpoint, they said they had no intention of selling. That was the initial response on their part.

Q: In the end they decided to sell, is that because they felt the achievement of 1.5 billion USD would come sooner?

A: Yes, and what would lie ahead of that is easier to envisage. Renesas' strengths were in the end markets of Automotive and Industrial, whatever you want to grow there, it's time consuming. Since Renesas has strong foot print and we can see the customers' road map way ahead there, IDT's growth will be secured with high visibility. On the part of IDT, they felt that what they had to think about, about the future, can be foreseen better through the acquisition and that gives more certainty in terms of their growth road map.

Q: M&A related goodwill and intangible assets per net debt is expected to be 1.6 times. How should I see this number as compared to the number at the end of June? At the end of June, intangible assets are approximately 300 billion yen and equity capital are approximately 550 billion yen. How are these numbers going to change?

A: Along with the integration of IDT, somewhere between 620-630 billion yen of goodwill and developed technology of intangible assets will be added on top of what you talked about. However, there is one point to be considered, starting from next year we are going to switch to IFRS. At this timing of the switch, the goodwill which was

amortized based upon the J-GAAP will be changed. The goodwill will go back to the stage of before the amortization. Before the amortization, the amount of the goodwill would be 190 billion. In addition to it, there is 120-130 billion yen of developed technology in intangible asset. On top of that, 620-630 billion yen of additional goodwill and developed technology will be added. So, the total intangible asset (goodwill + developed technology) will be 1 trillion yen.