

Renesas Electronics Reports Full Year 2017 Financial Results

Significant Increase in Full Year Sales Year-On-Year Driven by Growth Mainly in Automotive and Industrial Businesses and Integration of Intersil.

Achieved Improvements in Year-On-Year Full Year Gross and Operating Margins

- Q4 2017: Non-GAAP⁽¹⁾ semiconductor sales of 206.5 billion yen, up 28.0% year-on-year. Non-GAAP gross margin of 47.9%, up 2.3 points year-on-year and Non-GAAP operating profits (margin) of 34.1 billion yen (16.2%), up 11.3 billion yen (up 2.5 points) year-on-year
- Full Year 2017: Non-GAAP semiconductor sales of 765.7 billion yen, up 23.4% year-on-year. Non-GAAP gross margin of 46.7%, up 3.1 points year-on-year and Non-GAAP operating profits (margin) of 128.1 billion yen (16.4%), up 50.1 billion yen (up 4.2 points) year-on-year
- Outlook for Q1 2018: Non-GAAP semiconductor sales of 178.7 billion yen, up 3.5% year-on-year, Non-GAAP gross margin of 43.9%, down 1.6 points year-on-year and Non-GAAP operating margin of 11.3%, down 5.1 points year-on-year

TOKYO, Japan, February 9, 2018 — Renesas Electronics Corporation (TSE:6723, “Renesas”), a premier supplier of advanced semiconductor solutions, today reported financial results for the fourth quarter ended December 31, 2017 (October 1, 2017 to December 31, 2017) and financial results for the year ended December 31, 2017 (January 1, 2017 to December 31, 2017).

“We have been continuously improving our gross and operating margins by pursuing sales growth and cost efficiency”, said Bunsei Kure, Representative Director, President and CEO, Renesas Electronics Corporation. “Our fourth quarter non-GAAP semiconductor sales increased by 28.0% year on year, driven by increased sales mainly in the automotive and industrial businesses, in addition to the integration of Intersil. We expect to achieve traction in semiconductor sales during the coming quarter on a year-on-year basis.”

Quarterly Financial Summary (Billion yen)

Non-GAAP basis	Q4 FY2017 (Oct-Dec 2017)	Q3 FY2017 (Jul-Sep 2017)	Q3 FY2016 (Oct-Dec 2016)	QoQ	YoY
Net Sales	210.2	195.5	166.4	+7.5%	+26.3%
Semi. Sales	206.5	192.3	161.4	+7.4%	+28.0%
Gross Margin	47.9%	47.7%	45.6%	+0.2pts	+2.3pts
Operating Income	34.1	35.9	22.8	-1.9	+11.3
Operating Margin	16.2%	18.4%	13.7%	-2.2pts	+2.5pts
EBITDA ⁽²⁾	54.5	55.0	38.6	-0.5	+15.9

Japan GAAP basis	Q4 FY2017 (Oct-Dec 2017)	Q3 FY2017 (Jul-Sep 2017)	Q3 FY2016 (Oct-Dec 2016)	QoQ	YoY
Net Sales	210.2	195.5	166.4	+7.5%	+26.3%
Semi. Sales	206.5	192.3	161.4	+7.4%	+28.0%
Gross Margin	47.7%	47.6%	44.9%	+0.1pts	+2.8pts
Operating Income	21.9	25.0	21.6	-3.1	+0.3
Operating Margin	10.4%	12.8%	13.0%	-2.4pts	-2.6pts
EBITDA	52.6	54.1	37.4	-1.5	+15.1

Yearly Financial Summary (Billion yen)

Non-GAAP basis	Full-Year 2017 (Jan-Dec 2017)	Full-Year 2016 (Jan-Dec 2016)	YoY
Net Sales	781.5	638.8	+22.3%
Semi. Sales	765.7	620.4	+23.4%
Gross Margin	46.7%	43.6%	+3.1pts
Operating Income	128.1	78.0	+50.1
Operating Margin	16.4%	12.2%	+4.2pts
EBITDA	203.0	138.8	+64.2

Japan GAAP basis	Full Year 2017 (Jan-Dec 2017)	Full Year 2016 (Jan-Dec 2016)	YoY
Net Sales	780.3	638.8	+22.1%
Semi. Sales	764.4	620.4	+23.2%
Gross Margin	45.2%	42.4%	+2.8pts
Operating Income	78.4	70.4	+8.0
Operating Margin	10.0%	11.0%	-1.0pts
EBITDA	187.1	131.2	+55.9

- (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 ended 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 Q4 was negative 0.1 billion yen.) See page 6 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 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)	Q4 FY2017 (Oct-Dec 2017)	Q3 FY2017 (Jul-Sep 2017)	Q3 FY2016 (Oct-Dec 2016)	QoQ	YoY
Automotive ⁽⁴⁾	107.8	100.6	94.0	+7.2%	+14.7%
Industrial ⁽⁵⁾	59.6	53.5	48.2	+11.3%	+23.5%
Broad-based ⁽⁶⁾	37.0	37.4	31.6	-1.1%	+17.2%
Other semiconductors	2.2	0.8	2.9	+170.6%	-23.4%
Total	206.5	192.3	176.6	+7.4%	+16.9%

Semiconductor Sales by Application (Billion yen)	Full Year 2017 (Jan-Dec 2017)	Full Year 2016 (Jan-Dec 2016)	YoY
Automotive ⁽⁴⁾	408.1	358.4	+13.8%
Industrial ⁽⁵⁾	217.7	188.1	+15.7%
Broad-Based ⁽⁶⁾	143.7	127.3	+12.9%
Other Semiconductors	5.0	5.5	-10.2%
Total	774.4	679.4	+14.0%

- (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 Fourth Quarter 2017 Results (Non-GAAP Basis)

Fourth quarter consolidated net sales were 210.2 billion yen, up 7.5% quarter-on-quarter and up 26.3% year-on-year. Fourth quarter semiconductor sales were 206.5 billion yen, up 7.4% quarter-on-quarter. On a year-on-year basis, semiconductor sales increased by 28.0%, 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 2016. Automotive sales increased by 14.7% year-on-year on a pro-forma basis, driven by strong demand for both Automotive Control and Automotive Information products. Industrial and Broad-based sales increased year-on-year on a pro-forma basis by 23.5% and 17.2%, respectively, mainly due to the strong demand for factory automation (FA), home appliance and analog semiconductor devices.

Non-GAAP gross margin in the fourth quarter was 47.9%, 1.6 points above the Company's guidance, mainly due to inventory revaluation and increased sales. On a sequential basis, gross margin increased by 0.2 point and improved by 2.3 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 fourth quarter were 34.3 billion yen, compared to 31.2 billion yen and 28.2 billion yen in the sequential and year-ago quarter. Fourth quarter R&D ratio to net sales was 16.3%.

Non-GAAP SG&A ⁽⁸⁾ expenses in the fourth quarter were 32.4 billion yen, compared to 26.2 billion yen and 24.9 billion yen in the sequential and year-ago quarter. Fourth quarter SG&A ratio to net sales was 15.4%.

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 34.1 billion yen, equivalent to 16.2% of operating margin in the fourth quarter, showing a decrease of 1.9 billion yen (2.2 points) from the 35.9 billion yen and 18.4% of operating margin in the 2017 third quarter due to seasonal and temporary cost increases. On a year-on-year basis, non-GAAP operating income improved by 11.3 billion yen (2.5 points) mainly due to sales increases and continued OPEX discipline.

Non-GAAP net income attributable to shareholders of parent company in the fourth quarter was 30.3 billion yen.

Net cash provided by operating activities in the fourth quarter was 51.0 billion yen and net cash used in investing activities was 31.0 billion yen. These resulted in positive free cash flows of 20.0 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 14.0 billion yen in the fourth 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 47.7% as of December 31, 2017, against 46.5% as of September 30, 2017.

Debt/equity ratio (gross) was 0.45 as of December 31, 2017.

(7) R&D: Research & Development

(8) SG&A: Selling, general and administrative expenses

Summary of Full Year 2017 Results (Non-GAAP Basis)

Full year consolidated net sales were 781.5 billion yen, up 22.3% year-on-year. Full year semiconductor sales were 765.7 billion yen. On a year-on-year basis, semiconductor sales increased by 23.4%, 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 13.8% year-on-year on a pro-forma basis, driven by strong demand for both Automotive Control and Automotive Information products. Industrial and Broad-based sales increased year-on-year on a pro-forma basis by 15.7% and 12.9%, respectively, mainly due to the strong demand for FA, home appliance and analog semiconductor devices.

Non-GAAP gross margin in the full year was 46.7%, and increased by 3.1 points due to an increase in net sales and integration of Intersil.

Non-GAAP R&D expenses in the full year were 125.9 billion yen, compared to 105.3 billion yen year-on-year. Full year R&D ratio to net sales was 16.1%.

Non-GAAP SG&A expenses in the full year were 111.3 billion yen, compared to 95.4 billion yen year-on-year. Full year SG&A ratio to net sales was 14.2%.

With regard to OPEX (Operating expenses such as R&D and SG&A), while R&D investments were made to attain future growth, we continued to control SG&A discipline.

Non-GAAP operating income was 128.1 billion yen, equivalent to 16.4% of operating margin in the full year. On a year-on-year basis, non-GAAP operating income improved by 78.0 billion yen equivalent to 12.2% of operating margin mainly due to sales increases and continued OPEX discipline.

Non-GAAP net income attributable to shareholders of parent company in the full year was 123.9 billion yen. Non-GAAP net income per share for the full year was 74.3 yen.

Net cash provided by operating activities in the full year was 164.2 billion yen and net cash used in investing activities was 432.6 billion yen, mainly due to expenditures in the amount of 311.4 billion yen. These resulted in negative free cash flows of 268.4 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 78.5 billion yen in the full year. These expenditures for the acquisition of Intersil are based on the amount of investment decisions made and does not refer to the cash outlays in the cash flow statement.

Outlook for First Quarter 2018

In the first quarter of the 2018, Renesas expects semiconductor sales of 178.7 billion yen, up 3.5% year-on-year. Non-GAAP gross margin is expected to decrease by 4.1 points quarter-on-quarter, mainly due to a decrease in sales, and 1.6 points down from year-ago quarter to 43.9%, mainly due to an increase in depreciation cost and non-GAAP operating margin is expected to decrease by 4.9 points quarter-on-quarter, down 5.1 points from year-ago quarter to 11.3%. The forecasts for the first quarter of the 2018 are calculated at the rate of 107 yen per USD and

132 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 first quarter, and are expected to be 10.4% of net revenue.

References

Refer to Renesas Electronics' earnings report "*Renesas Electronics Reports Financial Results for the Year Ended December 31, 2017*" for the consolidated balance sheets, the consolidated statements of income and the 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)	Q1 FY2018 Forecast (Jan-Mar 2018)	Q4 FY2017 Actual (Oct-Dec 2017)	Q1 FY2017 Actual (Jan-Mar 2017)	Q3 FY2016 Actual (Oct-Dec 2016)
Net Sales (after PPA adjustment)	182.0	210.2	177.2	166.4
PPA Effects	-	+0.0	+0.4	-
Non-GAAP Net Sales	182.0	210.2	177.6	166.4
GAAP Gross Profit	79.4	100.2	77.7	74.7
GAAP Gross Margin (%)	43.6%	47.7%	43.8%	44.9%
PPA Effects (COGS)	+0.3	+0.4	+3.1	-
Inventory Buildup	-	-	-	+1.2
Stock-Based Compensation (COGS)	+0.1	+0.2	+0.0	-
Non-GAAP Gross Profit	79.8	100.8	80.8	75.9
Non-GAAP Gross Margin (%)	43.9%	47.9%	45.5%	45.6%
GAAP Operating Profit	10.0	21.9	22.1	21.6
Inventory Buildup	-	-	-	+1.2
PPA Effects (Net Sales/COGS)	+0.3	+0.4	+3.1	-
PPA Effects (SG&A) Increase in Depreciation of Fixed Assets, etc.	+0.1	+0.2	+0.1	-
Stock-Based Compensation (COGS)	+0.1	+0.2	+0.0	-
Amortization of Goodwill (SG&A)	+5.0	+5.3	+1.8	-
Costs Related to the Acquisition of Intersil (SG&A)	+0.4	+0.2	+0.5	-
Costs Related to the Acquisition of Intersil (R&D)	+0.1	+0.1	-	-
Amortization of Purchased Intangible Assets (SG&A)	+3.8	+4.4	+1.5	-
Stock-Based Compensation (R&D)	+0.3	+0.5	+0.0	-
Stock-Based Compensation (SG&A)	+0.5	+0.9	+0.0	-
Costs Related to the Offering (SG&A)	-	-	-	-
Non-GAAP Operating Profit	20.6	34.1	29.1	22.8
Non-GAAP Operating Margin (%)	11.3%	16.2%	16.4%	13.7%

GAAP Net Profit Attributable to Shareholders of Parent Company	16.0	18.6	17.2	24.7
Reconciliations in Operating Profit Level	+10.7	+12.2	+7.0	+1.2
Reconciliations in Ordinary Profit (PPA Effects)	-	+0.1	-	-
Reconciliations in Net Profit (PPA Effects)	-	-0.5	-0.5	-
Reconciliations in Net Profit (Impact from Intersil Acquisition)	-8.2	-	-	-
Non-GAAP Net Profit Attributable to Shareholders of Parent Company	18.4	30.3	23.6	25.9

Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

(Billion yen)	Full Year 2017 (Jan-Dec 2017)	Full Year 2016 (Jan-Dec 2016)
Net Sales (after PPA adjustments)	780.3	638.8
PPA Effects	+1.2	-
Non-GAAP Net Sales	781.5	638.8
GAAP Gross Profit	352.8	271.2
GAAP Gross Margin (%)	45.2%	42.4%
PPA Effects (COGS)	+12.4	-
Inventory Buildup	-	+7.6
Stock-Based Compensation (COGS)	+0.2	-
Non-GAAP Gross Profit	365.3	278.8
Non-GAAP Gross Margin (%)	46.7%	43.6%
GAAP Operating Profit	78.4	70.4
Inventory Buildup	-	+7.6
PPA Effects (Net Sales/COGS)	+12.4	-
PPA Effects (SG&A)	+0.7	-
Increase in Depreciation of Fixed Assets, etc.		
Stock-Based Compensation (COGS)	+0.2	-
Amortization of Goodwill (SG&A)	+17.4	-
Costs Related to the Acquisition of Intersil (SG&A)	+1.5	-
Costs Related to the Acquisition of Intersil (R&D)	+0.1	-
Amortization of Purchased Intangible Assets (SG&A)	+14.7	-
Stock-Based Compensation (R&D)	+1.1	-

Stock-Based Compensation (SG&A)	+1.5	-
Costs Related to the Offering (SG&A)	+0.2	-
Non-GAAP Operating Profit	128.1	78.0
Non-GAAP Operating Margin (%)	16.4%	12.2%

GAAP Net Profit Attributable to Shareholders of Parent Company	77.2	54.4
Reconciliations in Operating Profit Level	+49.7	+7.6
Reconciliations in Ordinary Profit (PPA Effects)	+0.1	-
Reconciliations in Net Profit (PPA Effects)	-3.0	-
Non-GAAP Net Profit Attributable to Shareholders of Parent Company	123.9	62.0

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