Renesas Electronics Reports Second Quarter 2018 Financial Results

~Second Quarter Sales Increased Year-on-Year Driven by Stable Demand.
Temporary Decrease in Gross Margin Due to Optimization of Inventory Levels~

- Q2 2018: Non-GAAP(1) semiconductor sales of 199.1 billion yen, up 2.5% year-on-year. Non-GAAP gross margin of 45.4%, down 0.3 point year-on-year and Non-GAAP operating profits (margin) of 33.9 billion yen (16.7%), up 4.9 billion yen (up 2.0 points) year-on-year
- Outlook for Q3 2018: Non-GAAP semiconductor sales of 172.6 billion yen, down 10.2% year-on-year, Non-GAAP gross margin of 43.2%, down 4.5 points year-on-year and Non-GAAP operating margin of 8.8%, down 9.6 points year-on-year

TOKYO, Japan, July 31, 2018 — Renesas Electronics Corporation (TSE:6723, “Renesas”), a premier supplier of advanced semiconductor solutions, today reported the financial results for the second quarter ended June 30, 2018 (April 1, 2018 to June 30, 2018).

“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. “While our second quarter non-GAAP semiconductor sales increased by 2.5% year-on-year, we have been focusing on restraining our production volume as part of our improvement measures to achieve optimal inventory levels and kept our inventory on par with the level of the previous quarter. This led to our non-GAAP gross margin to be a similar level on a year-on-year basis. For the third quarter ending September 30, 2018, in light of the inventory situations at our sales channels, we expect semiconductor sales to decrease year-on-year and also foresee a drop in gross margin from a year-ago quarter. Although our short-term financial performance is expected to grow weaker from these improvement measures for future growth, we will continue our efforts to realize our mid- to long-term targets.”

Quarterly Financial Summary (Billion yen)

Non-GAAP Basis	**Q2 FY2018** (Apr-Jun 2018)	**Q1 FY2018** (Jan-Mar 2018)	**Q2 FY2017** (Apr-Jun 2017)	**QoQ**	**YoY**
Net Sales	203.5	185.9	198.1	+9.5%	+2.7%
Semi. Sales	199.1	182.0	194.3	+9.4%	+2.5%
Gross Margin	45.4%	48.0%	45.7%	-2.6pts	-0.3pt
Operating Income	33.9	31.4	29.0	+2.5	+4.9
Operating Margin	16.7%	16.9%	14.6%	-0.2pt	+2.0pts
EBITDA(2)	56.5	53.5	47.2	+3.0	+9.3

Japan GAAP Basis	**Q2 FY2018** (Apr-Jun 2018)	**Q1 FY2018** (Jan-Mar 2018)	**Q2 FY2017** (Apr-Jun 2017)	**QoQ**	**YoY**
Net Sales	203.5	185.9	197.3	+9.5%	+3.1%
Semi. Sales	199.1	182.0	193.5	+9.4%	+2.9%
Gross Margin	45.2%	47.8%	41.5%	-2.6pts	+3.7pts
Operating Income	23.0	20.6	9.4	+2.4	+13.5
Operating Margin	11.3%	11.1%	4.8%	+0.2pt	+6.5pts
EBITDA	54.8	52.3	37.8	+2.6	+17.1

(1) Non-GAAP Basis: Results excluding non-recurring and certain other items. Following the completion of the purchase of Intersil in February 2017, Non-GAAP figures 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 acquisition. See page 5 for reconciliation of Japan GAAP and Non-GAAP.

(2) EBITDA: Sum of operating income, depreciation and amortization, and amortization of long-term prepaid expenses. Amortization of goodwill is also included for Japan GAAP-based EBITDA.

Quarterly Semiconductor Sales by Application (Billion yen) (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.

Non-GAAP Basis	**Q2 FY2018** (Apr-Jun 2018)	**Q1 FY2018** (Jan-Mar 2018)	**Q2 FY2017** (Apr-Jun 2017)	**QoQ**	**YoY**
Automotive (4)	105.8	92.4	104.0	+14.5%	+1.7%
Industrial (5)	51.5	50.9	48.5	+1.2%	+6.2%
Broad-Based (6)	40.8	38.1	40.7	+7.2%	+0.1%
Other Semiconductors	1.0	0.6	1.1	+60.6%	-5.7%
Total	199.1	182.0	194.3	+9.4%	+2.5%

(3) Semiconductor sales by application: From the fiscal year ending 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 ending December 31, 2018.

(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 Second Quarter 2018 Results (Non-GAAP Basis)

Second quarter consolidated net sales were 203.5 billion yen, up 9.5% quarter-on-quarter and up 2.7% year-on-year. Second quarter semiconductor sales were 199.1 billion yen, up 9.4% from the previous quarter that saw a decline in sales due to channel inventory adjustments, and up 2.5% year-on-year. Automotive sales increased by 1.7% year-on-year. Industrial sales increased by 6.2% year-on-year, mainly due to a strong demand in factory automation (FA) and home appliances. Broad-based sales remained flat year-on-year.

Non-GAAP gross margin in the second quarter was 45.4%, 1.4 points above the Company’s guidance, mainly due to decreased expenses in addition to increase in sales. On a sequential basis, due to a production decrease, gross margin decreased by 2.6 points and year-on-year decreased by 0.3 point.

Non-GAAP R&D (7) expenses in the second quarter were 30.5 billion yen, compared to 31.9 billion yen and 33.5 billion yen in the sequential and year-ago quarter. Second quarter R&D ratio to net sales was 15.0%.

Non-GAAP SG&A (8) expenses in the second quarter were 28.0 billion yen, compared to 26.0 billion yen and 28.0 billion yen in the sequential and year-ago quarter. Second quarter SG&A

ratio to net sales was 13.8%.

While Renesas focuses its OPEX (operating expenses such as R&D and SG&A costs) on R&D expenses for future growth, the Company 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-net sales.

Non-GAAP operating income was 33.9 billion yen, equivalent to 16.7% of operating margin in the second quarter, showing an increase of 2.5 billion yen from the 31.4 billion yen on a sequential basis. However, Non-GAAP operating margin decreased by 0.2 point from 16.9% in the previous quarter due to the decrease in gross margin. On a year-on-year basis, non-GAAP operating income improved by 4.9 billion yen (2.0 points) mainly due to sales increases and cost-containment effects.

Non-GAAP net income attributable to shareholders of parent company in the second quarter was 30.4 billion yen, and Non-GAAP net income per share was 18.2 yen.

Net cash provided by operating activities in the second quarter was 47.2 billion yen and net cash used in investing activities was 15.8 billion yen. These resulted in positive free cash flows of 31.4 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 5.0 billion yen in the second 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 52.1% as of June 30, 2018, against 49.8% as of March 31, 2018. Debt/equity ratio (gross) was 0.43 as of June 30, 2018.

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

Outlook for Third Quarter 2018

In the third quarter of 2018, Renesas expects semiconductor sales of 172.6 billion yen (down 13.3% quarter-on-quarter, and down 10.2% from year-ago quarter).

Non-GAAP gross margin for the third quarter of 2018 is expected to be 43.2% (down 2.2 points quarter-on-quarter, and down 4.5 points year-on-year, mainly due to a sales decline and low operation with adjustments in production). For the cumulative nine months ending September 30, 2018, it is expected to be 45.6% (down 0.7 point from year-ago quarter).

Non-GAAP operating margin is expected to be 8.8% (decrease by 7.8 points quarter-on-quarter, down 9.6 points from year-ago quarter). For the cumulative nine months ending September 30, 2018, operating margin is expected to be 14.3% (down 2.2 points from year-ago quarter due to a decrease in gross margin and proactive investments in R&D).

The forecasts for the third quarter of the 2018 are calculated at the rate of 109 yen per USD and 126 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 nine months ending September 30, 2018, and they are expected to be 3.0% of net revenue.

References

Refer to Renesas Electronics' earnings report *"Renesas Electronics Reports Financial Results for the Second Quarter Ended June 30, 2018"* for the consolidated balance sheets, the consolidated statements of income and the consolidated statements of cash flows.

Refer to the separate sheet for Japan GAAP – 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—securely and safely. A global leader in microcontrollers, analog & power and SoC products and integrated platforms, 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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Separate Sheet

Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

(Billion yen)	**Q3 FY2018 Forecast (Jul-Sep 2018)**	**Q2 FY2018 Actual (Apr-Jun 2018)**	**Q1 FY2018 Actual (Jan-Mar 2018)**	**Q2 FY2017 Actual (Apr-Jun 2017)**
Net Sales (after PPA adjustment)	175.6	203.5	185.9	197.3
PPA Effects	-	-	-	+0.8
Non-GAAP Net Sales	175.6	203.5	185.9	198.1
GAAP Gross Profit	75.5	91.9	88.8	81.9
GAAP Gross Margin (%)	43.0%	45.2%	47.8%	41.5%
PPA Effects (COGS)	+0.2	+0.3	+0.3	+8.5
Stock-Based Compensation (COGS)	+0.2	+0.1	+0.1	+0
Non-GAAP Gross Profit	75.9	92.4	89.3	90.5
Non-GAAP Gross Margin (%)	43.2%	45.4%	48.0%	45.7%
GAAP Operating Profit	4.4	23.0	20.6	9.4
Inventory Buildup	-	-	-	-
PPA Effects (Net Sales/COGS)	+0.2	+0.3	+0.3	+8.5
PPA Effects (R&D, SG&A) Increase in Depreciation of Fixed Assets, etc.	+0.1	+0.1	+0.1	+0.2
Stock-Based Compensation (COGS)	+0.2	+0.1	+0.1	+0
Amortization of Goodwill (SG&A)	+5.1	+5.2	+5.1	+5.2
Costs Related to the Acquisition of Intersil (SG&A)	+0.2	+0.2	+0.2	+0.4
Costs Related to the Acquisition of Intersil (R&D)	+0	+0.1	+0	-
Amortization of Purchased Intangible Assets (SG&A)	+3.7	+3.7	+4.1	+4.4
Stock-Based Compensation (R&D)	+0.4	+0.5	+0.2	+0.3
Stock-Based Compensation (SG&A)	+0.9	+0.6	+0.6	+0.3
Costs Related to the Offering and Others (SG&A)	+0.3	+0.2	+0	+0.2
Non-GAAP Operating Profit	15.5	33.9	31.4	29.0
Non-GAAP Operating Margin (%)	8.8%	16.7%	16.9%	14.6%

GAAP Net Profit Attributable to Shareholders of Parent Company	1.6	26.1	23.3	19.1
Reconciliations in Operating Profit Level	+11.1	+10.9	+10.8	+19.6
Reconciliations in Ordinary Profit (PPA Effects)	-	-	-	-
Reconciliations in Net Profit (PPA Effects)	-	-	-	-1.4
Reconciliations in Net Profit (Impact from Intersil Acquisition)	-	-6.7	-8.2	-
Non-GAAP Net Profit Attributable to Shareholders of Parent Company	12.6	30.4	25.9	37.3