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Renesas Electronics Reports Third Quarter 2018 Financial Results

Third Quarter Sales Decreased Year-on-Year, from Weakening End Demand Mainly in Industrial Business.
Temporary Decrease in Gross Margin Due to Optimization of Inventory Levels

- Q3 2018: Non-GAAP(1) semiconductor sales of 175.6 billion yen, down 8.7% year-on-year. Non-GAAP gross margin of 44.4%, down 3.3 points year-on-year and Non-GAAP operating profits (margin) of 24.1 billion yen (13.4%), down 11.8 billion yen (5.0 points) year-on-year.
- Outlook for Q4 2018: Non-GAAP semiconductor sales of 181.1 billion yen, down 12.3% year-on-year. Non-GAAP gross margin of 40.0%, down 7.9 points year-on-year and Non-GAAP operating margin of 7.3%, down 8.9 points year-on-year.

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

“Our third quarter non-GAAP semiconductor sales decreased by 8.7% year-on-year, and our efforts to restrain our production volume as part of our improvement measures to achieve optimal inventory levels led to our non-GAAP gross margin to decrease by 3.3 points on a year-on-year basis,” said Bunsei Kure, Representative Director, President and CEO, Renesas Electronics Corporation. “For the fourth quarter ending December 31, 2018, in light of the weakening end demand mainly in the Industrial business, we expect semiconductor sales to decrease year-on-year and also foresee a drop in gross margin from a year-ago quarter to continuously promote optimization of inventory levels. As for our growth strategy, will continue our efforts to realize our mid- to long-term targets.”

Quarterly Financial Summary (Billion yen)

Non-GAAP Basis	**Q3 FY2018** (Jul-Sep 2018)	**Q2 FY2018** (Apr-Jun 2018)	**Q3 FY2017** (Jul-Sep 2017)	**QoQ**	**YoY**
Net Sales	180.2	203.5	195.5	-11.4%	-7.8%
Semi. Sales	175.6	199.1	192.3	-11.8%	-8.7%
Gross Margin	44.4%	45.4%	47.7%	-1.0pt	-3.3pts
Operating Income	24.1	33.9	35.9	-9.8	-11.8
Operating Margin	13.4%	16.7%	18.4%	-3.3pts	-5.0pts
EBITDA(2)	46.8	56.5	54.9	-9.7	-8.2

Japan GAAP Basis	**Q3 FY2018** (Jul-Sep 2018)	**Q2 FY2018** (Apr-Jun 2018)	**Q3 FY2017** (Jul-Sep 2017)	**QoQ**	**YoY**
Net Sales	180.2	203.5	195.5	-11.4%	-7.8%
Semi. Sales	175.6	199.1	192.3	-11.8%	-8.7%
Gross Margin	44.1%	45.2%	47.6%	-1.0pt	-3.4pts
Operating Income	13.1	23.0	25.0	-9.9	-11.9
Operating Margin	7.3%	11.3%	12.8%	-4.0pts	-5.5pts
EBITDA	45.0	54.8	54.1	-9.8	-9.1

(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	**Q3 FY2018** (Jul-Sep 2018)	**Q2 FY2018** (Apr-Jun 2018)	**Q3 FY2017** (Jul-Sep 2017)	**QoQ**	**YoY**
Automotive [(4)]	95.8	105.8	101.7	-9.5%	-5.8%
Industrial [(5)]	41.8	51.5	48.5	-18.8%	-13.8%
Broad-Based [(6)]	37.3	40.8	41.3	-8.5%	-9.6%
Other Semiconductors	0.7	1.0	0.8	-33.8%	-16.2%
Total	175.6	199.1	192.3	-11.8%	-8.7%

(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 Third Quarter 2018 Results (Non-GAAP Basis)

Third quarter consolidated net sales were 180.2 billion yen, down 11.4% quarter-on-quarter and down 7.8% year-on-year. Third quarter semiconductor sales were 175.6 billion yen, down 11.8% from the previous quarter that saw a decline in sales due to channel inventory adjustments, and down 8.7% year-on-year. Automotive sales decreased by 5.8% year-on-year. Industrial sales decreased by 13.8% year-on-year, mainly due to a weak demand in factory automation (FA) and home appliances. Broad-based sales decreased by 9.6% year-on-year.

As for the sell-out basis [(7)] sales trend, Automotive sales for Japanese customers remained almost flat year-on-year, while non-Japanese customer sales were up by mid-single digit year-on-year. Industrial sales declined by mid-single digit, and Broad-based sales were down by mid-single digit compared to the year-ago quarter.

Non-GAAP gross margin in the third quarter was 44.4%, 1.2 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 1.0 point and decreased by 3.3 points on a year-on-year basis.

Non-GAAP R&D [(8)] expenses in the third quarter were 30.4 billion yen, compared to 30.5 billion yen and 31.0 billion yen in the sequential and year-ago quarter. Third quarter R&D ratio to net sales was 16.9%.

Non-GAAP SG&A [(9)] expenses in the third quarter were 25.5 billion yen, compared to 28.0 billion yen and 26.3 billion yen in the sequential and year-ago quarter. Third quarter SG&A ratio to net sales was 14.1%.

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 24.1 billion yen, equivalent to 13.4% of operating margin in the third quarter, showing a decrease of 9.8 billion yen from the 33.9 billion yen on a sequential basis. Non-GAAP operating margin decreased by 3.3 points from 16.7% in the previous quarter due to the decrease in gross margin. On a year-on-year basis, non-GAAP operating income decreased by 11.8 billion yen (5.0 points) mainly due to sales decreases and reduced production.

Non-GAAP net income attributable to shareholders of parent company in the third quarter was 18.6 billion yen, and Non-GAAP net income per share was 11.2 yen.

Inventories at the end of the third quarter was 141.5 billion yen, a 3.1 billion yen increase from the 138.5 billion yen in the previous quarter.

Net cash provided by operating activities in the third quarter was 41.6 billion yen and net cash used in investing activities was 14.5 billion yen. These resulted in positive free cash flows of 27.1 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 4.1 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 53.7% as of September 30, 2018, against 52.1% as of June 30, 2018. Debt/equity ratio (gross) was 0.41 as of September 30, 2018.

(7) Sell-out basis: Internal indicator including sales from exclusive distributors and sales agents' inventories
(8) R&D: Research & Development
(9) SG&A: Selling, General and Administrative expenses

Outlook for Fourth Quarter 2018

In the fourth quarter of 2018, Renesas expects semiconductor sales of 181.1 billion yen (up 3.1% quarter-on-quarter, and down 12.3% from year-ago quarter). For the full year ending December 31, 2018, it is expected to be 737.8 billion yen, down 3.6% from year-ago quarter.

Non-GAAP gross margin for the fourth quarter of 2018 is expected to be 40.0% (down 4.4 points quarter-on-quarter due to low operation with adjustments in production to control inventories to an optimal level, and down 7.9 points year-on-year mainly due to a sales decline and low operation). For the full year ending December 31, 2018, it is expected to be 44.5% (down 2.3 points from year-ago quarter).

Non-GAAP operating margin is expected to be 7.3% (decrease by 6.1 points quarter-on-quarter, down 8.9 points from year-ago quarter due to the decrease in gross profits). For the cumulative twelve months ending December 31, 2018, operating margin is expected to be 13.6% (down 2.8 points from year-ago quarter).

The forecasts for the fourth quarter of the 2018 are calculated at the rate of 112 yen per USD and 129 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 twelve months ending December 31, 2018, and they are expected to be 2.3% of net revenue.

References

Refer to Renesas Electronics' earnings report *"Renesas Electronics Reports Financial Results for the Third Quarter Ended September 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, 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)	**Q4 FY2018 Forecast (Oct-Dec 2018)**	**Q3 FY2018 Actual (Jul-Sep 2018)**	**Q2 FY2018 Actual (Apr-Jun 2018)**	**Q3 FY2017 Actual (Jul-Sep 2017)**
Net Sales (after PPA adjustment)	185.0	180.2	203.5	195.5
PPA Effects	-	-	-	-0.0
Non-GAAP Net Sales	185.0	180.2	203.5	195.5
GAAP Gross Profit	73.5	79.5	91.9	93.0
GAAP Gross Margin (%)	39.7%	44.1%	45.2%	47.6%
PPA Effects (COGS)	+0.3	+0.3	+0.3	+0.3
Stock-Based Compensation (COGS)	+0.1	+0.2	+0.1	+0.0
Non-GAAP Gross Profit	74.0	80.0	92.4	93.3
Non-GAAP Gross Margin (%)	40.0%	44.4%	45.4%	47.7%
GAAP Operating Profit	2.5	13.1	23.0	25.0
PPA Effects (Net Sales/COGS)	+0.3	+0.3	+0.3	+0.3
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	+0.2	+0.1	+0.0
Amortization of Goodwill (SG&A)	+5.2	+5.2	+5.2	+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)	+0.1	+0.1	+0.1	-
Amortization of Purchased Intangible Assets (SG&A)	+3.8	+3.8	+3.7	+4.4
Stock-Based Compensation (R&D)	+0.4	+0.4	+0.5	+0.3
Stock-Based Compensation (SG&A)	+0.5	+0.5	+0.6	+0.3
Costs Related to the Offering and Others (SG&A)	+0.2	+0.4	+0.2	+0.0
Non-GAAP Operating Profit	13.5	24.1	33.9	35.9
Non-GAAP Operating Margin (%)	7.3%	13.4%	16.7%	18.4%

GAAP Net Profit Attributable to Shareholders of Parent Company	1.6	7.6	26.1	22.3
Reconciliations in Operating Profit Level	+10.9	+11.1	+10.9	+10.9
Reconciliations in Ordinary Profit (PPA Effects)	-	-	-	-
Reconciliations in Net Profit (PPA Effects)	-	-	-	-0.6
Reconciliations in Net Profit (Impact from Intersil Acquisition)	-	-	-6.7	-
Non-GAAP Net Profit Attributable to Shareholders of Parent Company	12.5	18.6	30.4	32.7