

First Quarter Ended March 31, 2018

-Financial Results Announcement (May 11, 2018) - Main Q&A for Briefing Session

Q: We understand that you will be adjusting your stocking conditions in your distribution channels, but it appears that Renesas itself has an excess of stock. This means that you will be reducing your capacity utilization ratio in Q2 to reduce production volume. Does the stock you have now accumulated consist of automotive products? Or is it industrial products? What do you consider an appropriate level of stocking? Also, how long will it take to reach that level?

A: Our stock currently consists mainly of automotive products. While it is difficult to say what an appropriate level would be, that level is closely related to our expectations for future sales. Up until now, we have been operating our plants at a high level, and we cannot change that level greatly. If there will be demand in the future, it is necessary to prepare stock in advance. This is not a matter of simply calculating amount of stock turnover from our current sales and the cost of goods sold (COGS). Since we are currently expecting demand to ramp up significantly through next year, our idea is to consume the stock through the end of next year.

Q: We understand that in order to get the stock at your sales channels and customers for automotive products to an appropriate level, there was slowdown in sales in Q1. What is the current level of those stocks?

A: We think that the adjustment of excessive stock of automotive products in sales channels was largely completed in Q1. Due to the timing of the announcements of financial results by the companies in the sales channels, it is not possible to avoid the occurrence of characteristic movements in stock management. This must be carefully watched in the long term. Depending on expectations for longer term demand, moving forward, we may decide that further stock is required, or that it is not required. In any case, the short-term adjustment of levels of stock accumulated last year was completed in the first quarter.

Q: What are the conditions in the sales channels for products other than automotive ones?

A: There are a variety of outlooks in these areas, so we can't say anything for certain. We think that the overshoot in products other than automotive came later than expected. Thus the adjustment to these stock levels is taking place in Q2. Non-automotive products are delayed by about one quarter, so this adjust will be completed in Q2 as a one-time adjustment.

Q: When seen from an output base for the capacity utilization ratio, at the time of your "Guidance" for the previous period, your production input was completed and you might have grasped the production level in a certain level. What has changed?

A: Items that have entered the manufacturing process can be controlled in the short term as WIP. If we consider lead times, though, things are as you point out. Thus, if you ask what it is we are trying to control, it is our medium-term stock levels. Rather than the outlook at the time we published the Guidance, if we consider actual results, adjustment has been delayed. We performed adjustments in two major stages from April through May.

Q: Regarding the market outlook, you stated that you'd like it to grow by about +5% year over year in 2018. What is your current outlook? How does that look when broken down by area, such as automotive and industrial products?

A: This is the thing we are most concerned about, and at the current point, our forecasts are for weaker growth than they were at the point the previous Guidance was issued. Since we don't issue an annual Guidance, this is just a qualitative comment, but we think that it will come in below the +5% YoY forecast. The effects of the automotive sector are large, but there are parts of the industrial sector, such as the air conditioning area in China, that have their own unique motions.

Q: There are currently several problems occurring: relations between the US and China, the ZTE problem, the Broadcom vs. Qualcomm problem. How will these affect you policies on M&A? Also, regarding the ZTE problem. how will that affect demand for semiconductors?

A: We are in the state where we can't say that these will, or will not, have effects. We are keeping our eye on geopolitical states and changes and continuing to update our priorities and levels of risk we are prepared to accept. In that sense, these problems have influences. However, there are no changes in our policy of improving our portfolio by focusing on analog and mixed signal devices. We will look into each option carefully before moving forward.

Regarding ZTE, right now, we do not feel that this will have a positive impact on Renesas. While I can't talk about specific individual customers, it cannot be said that there are no negative effects in the short term.

Q: We see that your stocking levels have increased significantly. Since this increase in stock is so large, we do not think that it can be handled by adjusting operating levels in Q2. Since demand is not as high as it was last year, we do not understand why you are not reducing stock levels. Is there a reason Renesas alone seems to have a different outlook for the automotive market?

A: We are expecting significant increases in demand for certain product lines starting the second half of this year and continuing into next year. If we don't prepare for that well, we could see the tight supply situation we faced last year again. We are carefully considering all aspects and preparing so that an insufficient supply situation does not occur. Although we will be reducing operating levels in Q2, the value of our stock will not decrease significantly. We will maintain our stocks at a high level. Our view is as follows. There is a lot of weakness in our customer base, especially among Japanese customers. Based on actual situation and forecasts, our customer base other than our Japanese customers is growing solidly. When a sales structure includes many overseas customers, I think that it can be said that sales expectations will change as well. The reason here is that the regional mix in the customer base differs.

Q: Renesas design-in performance for automotive continued at a high level the year before last and last year. What is the current status? Are there any topics you could

share with us?

A: Our performance the year before last was too good, but last year we were on a steady-state growth path. There are many topics I could not discuss, but in the context of automobiles becoming more connected as represented by the keyword "CASE", we expect a high volume of sales for products both at the portal where the car connects to the network and at the point below that where a variety of functions are integrated together. When looking at the trends in actual design-ins, there are many examples related to "CASE" and we are comfortable with our future figures.

Q: What are the conditions in the market for air conditioners in China?

A: We see that market as slowing compared to last year. If we look at our statistics related to the Chinese air conditioner market, we see that stocks are accumulating, so we will have to enter an adjustment phase.

Q: Regarding stock, can we say that you tried to apply the brakes during Q1 but that you were not in time, so the operating rate continued at a high level, and now you are applying brakes to production in Q2?

A: Yes. That is correct.

Q: Since the structure of sales for automotive products is large, I don't understand how such a problem could occur. What are the opportunities/chances with which you apply the brakes or acceleration to production?

A: One factor is the method of establishing an outlook for future demand. There are product groups that are expected to ramp up in the near future, and we do not want to repeat the last year's experiences we had with tight supply. Also, opinions differ as to whether or not it's a good idea to give priority to applying the brakes and controlling stock. The basic factor is that we don't have confidence in applying brakes to production. Compared to the situation at the start of the year, the current expectation is for the market to remain weak throughout the year. Therefore the situation is that it is only now that we are applying the brakes in full force.

Q: We think that the ideal approach would be to apply brakes to the outsourced part of production. Was it impossible to use such an adjustment method?

A: The products being produced are different. The situation became one in which we were applying the brakes an acceleration to different production processes.