

Renesas Electronics Reports Full Year 2018 Financial Results

Due to Repercussions of Inventory Buildup in FY17 and Impacts from Weakening End Demands, Full Year Sales Decreased Year-on-Year

FY19 to Generate Early Synergies from IDT Integration and Pursue Continued Thorough Cost and Cash Management in Preparation for the Continuing Weak End Demands in FY19

- Q4 2018: Non-GAAP⁽¹⁾ semiconductor sales of 183.8 billion yen, down 11.0% year-on-year. Non-GAAP gross margin of 40.9%, down 7.0 points year-on-year and Non-GAAP operating profits (margin) of 21.2 billion yen (11.3%), down 12.9 billion yen (4.9 points) year-on-year.
- Full Year 2018: Non-GAAP semiconductor sales of 740.5 billion yen, down 3.3% year-on-year. Non-GAAP gross margin of 44.7%, down 2.1 points year-on-year and Non-GAAP operating profits (margin) of 110.6 billion yen (14.6%), down 17.5 billion yen (1.8 points) year-on-year.
- Outlook for Q1 2019 (IFRS basis): Non-GAAP semiconductor sales within the range of 146.0 billion and 154.0 billion yen. Non-GAAP gross margin of 39%, based on the midpoint of forecasted sales.

TOKYO, Japan, February 8, 2019 — Renesas Electronics Corporation (TSE:6723, “Renesas”), a premier supplier of advanced semiconductor solutions, today reported the financial results for the fourth quarter ended December 31, 2018 (October 1, 2018 to December 31, 2018) and the financial results for the year ended December 31, 2018 (January 1, 2018 to December 31, 2018).

“In our full year 2018 and fourth quarter, our non-GAAP semiconductor sales decreased by 3.3% year-on-year, and the non-GAAP gross margin decreased by 2.1 points on a year-on-year basis. Our fourth quarter non-GAAP semiconductor sales decreased by 11.0% year-on-year, and non-GAAP gross margin decreased by 7.0 points on a year-on-year basis. Impacts from the weak market conditions as well as our continued efforts to restrain our production volume to achieve optimal inventory levels led to these decreases,” said Bunsei Kure, Representative Director, President and CEO, Renesas Electronics Corporation. “For the first quarter ending March 31, 2019, in light of the continued weak market, we expect semiconductor sales to decrease year-on-year and also foresee a drop in gross margin from a year-ago quarter. With uncertainties for sales in the short term, we will thoroughly control cash and improve operational efficiency and reduce costs through selective concentration of R&D. As for our growth strategy, we will update and announce our mid-term plan after the completion of IDT acquisition.”

Quarterly Financial Summary (Billion yen)

| Non-GAAP Basis | Q4 FY2018 (Oct-Dec 2018) | Q3 FY2018 (Jul-Sep 2018) | Q4 FY2017 (Oct-Dec 2017) | QoQ | YoY |
|-----------------------|-----------------------------|-----------------------------|-----------------------------|---------|---------|
| Net Sales | 187.7 | 180.2 | 210.2 | 4.2% | -10.7% |
| Semi. Sales | 183.8 | 175.6 | 206.4 | 4.7% | -11.0% |
| Gross Margin | 40.9% | 44.4% | 47.9% | -3.5pts | -7.0pts |
| Operating Income | 21.2 | 24.1 | 34.1 | -3.0 | -12.9 |
| Operating Margin | 11.3% | 13.4% | 16.2% | -2.1pts | -4.9pts |
| EBITDA ⁽²⁾ | 43.9 | 46.8 | 54.5 | -2.9 | -10.6 |

| Japan GAAP Basis | Q4 FY2018 (Oct-Dec 2018) | Q3 FY2018 (Jul-Sep 2018) | Q4 FY2017 (Oct-Dec 2017) | QoQ | YoY |
|------------------|-----------------------------|-----------------------------|-----------------------------|---------|---------|
| Net Sales | 187.7 | 180.2 | 210.2 | 4.2% | -10.7% |
| Semi. Sales | 183.8 | 175.6 | 206.4 | 4.7% | -11.0% |
| Gross Margin | 40.7% | 44.1% | 47.7% | -3.5pts | -7.0pts |
| Operating Income | 10.1 | 13.1 | 21.9 | -3.0 | -11.7 |
| Operating Margin | 5.4% | 7.3% | 10.4% | -1.9pts | -5.0pts |
| EBITDA | 42.4 | 45.0 | 52.6 | -2.7 | -10.2 |

Yearly Financial Summary (Billion yen)

| Non-GAAP basis | Full-Year 2018 (Jan-Dec 2018) | Full-Year 2017 (Jan-Dec 2017) | YoY |
|-----------------------|---|---|------------|
| Net Sales | 757.4 | 781.5 | -3.1% |
| Semi. Sales | 740.5 | 765.6 | -3.3% |
| Gross Margin | 44.7% | 46.7% | -2.1pts |
| Operating Income | 110.6 | 128.1 | -17.5 |
| Operating Margin | 14.6% | 16.4% | -1.8pts |
| EBITDA | 200.6 | 202.8 | -2.2 |

| Japan GAAP basis | Full Year 2018 (Jan-Dec 2018) | Full Year 2017 (Jan-Dec 2017) | YoY |
|-------------------------|---|---|------------|
| Net Sales | 757.4 | 780.3 | -2.9% |
| Semi. Sales | 740.5 | 764.4 | -3.1% |
| Gross Margin | 44.4% | 45.2% | -0.8pt |
| Operating Income | 66.8 | 78.4 | -11.6 |
| Operating Margin | 8.8% | 10.0% | -1.2pts |
| EBITDA | 194.5 | 187.1 | +7.4 |

- (1) Non-GAAP Basis: Non-GAAP figures are calculated by adjusting or removing non-recurring items and other adjustments from GAAP figures. The Group believes non-GAAP measures provide useful information in understanding and evaluating the Group's constant business results, and therefore results are provided in non-GAAP base. This adjustment and exclusion include the amortization of goodwill and depreciation of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments and costs relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable. In addition, following the adoption of IFRS, amortization of goodwill has been removed from the definition above.
- (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 | Q4 FY2018 (Oct-Dec 2018) | Q3 FY2018 (Jul-Sep 2018) | Q4 FY2017 (Oct-Dec 2017) | QoQ | YoY |
|----------------------------|------------------------------------|------------------------------------|------------------------------------|-------------|---------------|
| Automotive ⁽⁴⁾ | 104.5 | 95.8 | 109.1 | 9.1% | -4.2% |
| Industrial ⁽⁵⁾ | 43.1 | 41.8 | 54.2 | 3.1% | -20.5% |
| Broad-Based ⁽⁶⁾ | 35.1 | 37.3 | 40.9 | -6.0% | -14.2% |
| Other Semiconductors | 1.0 | 0.7 | 2.2 | 52.6% | -52.7% |
| Total | 183.8 | 175.6 | 206.4 | 4.7% | -11.0% |

| Semiconductor Sales by Application (Billion yen) | Full Year 2018 (Jan-Dec 2018) | Full Year 2017 (Jan-Dec 2017) | YoY |
|---|---|---|--------------|
| Automotive ⁽⁴⁾ | 398.5 | 412.6 | -3.4% |
| Industrial ⁽⁵⁾ | 187.2 | 196.4 | -4.7% |
| Broad-Based ⁽⁶⁾ | 151.3 | 151.7 | -0.2% |
| Other Semiconductors | 3.4 | 5.0 | -31.3% |
| Total | 740.5 | 765.6 | -3.3% |

(3) Semiconductor sales by application: From the fiscal year ended 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 ended 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 Fourth Quarter 2018 Results (Non-GAAP Basis)

Fourth quarter consolidated net sales were 187.7 billion yen, up 4.2% quarter-on-quarter and down 10.7% year-on-year. Fourth quarter semiconductor sales were 183.8 billion yen, up 4.7% from the previous quarter and down 11.0% year-on-year. Automotive sales increased by 9.1% quarter-on-quarter and decreased by 4.2% year-on-year, mainly due to changes in channel inventory levels. Industrial sales increased by 3.1% quarter-on-quarter and decreased by 20.5% year-on-year. Broad-based sales decreased by 6.0% quarter-on-quarter and by 14.2% year-on-year. Industrial and Broad-based sales decreases were mainly due to reduced demand in factory automation (FA), home appliances and broad-based markets stemming from the economic slowdown in China.

Non-GAAP gross margin in the fourth quarter was 40.9%, 0.9 point above the Company's guidance, mainly due to an increase in sales and cost containment. On a sequential basis, due to a production decrease to achieve optimal inventory levels, gross margin decreased by 3.5 points quarter-on-quarter and decreased by 7.0 points on a year-on-year basis.

Non-GAAP R&D⁽⁷⁾ expenses in the fourth quarter were 30.1 billion yen, compared to 30.4 billion yen and 34.3 billion yen in the sequential and year-ago quarter. Fourth quarter R&D ratio to net sales was 16.0%.

Non-GAAP SG&A⁽⁸⁾ expenses in the fourth quarter were 25.6 billion yen, compared to 25.5 billion yen and 32.4 billion yen in the sequential and year-ago quarter. Fourth quarter SG&A ratio to net sales was 13.6%.

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 21.2 billion yen, equivalent to 11.3% of operating margin in the fourth quarter, showing a decrease of 3.0 billion yen from the 24.1 billion yen on a sequential basis. Non-GAAP operating margin decreased by 2.1 points from 13.4% in the previous quarter due to production control despite of controlling SG&A. On a year-on-year basis, non-GAAP operating income decreased by 12.9 billion yen (4.9 points) mainly due to sales decreases and reduced production.

Non-GAAP net income attributable to shareholders of parent company in the fourth quarter was 17.4 billion yen, and Non-GAAP net income per share was 10.4 yen.

Inventories at the end of the fourth quarter was 118.0 billion yen, a 23.5 billion yen decrease from the 141.5 billion yen in the previous quarter.

Net cash provided by operating activities in the fourth quarter was 60.0 billion yen and net cash used in investing activities was 13.2 billion yen. These resulted in positive free cash flows of 46.8 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 4.4 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 54.1% as of December 31, 2018, against 53.7% as of September 30, 2018. Debt/equity ratio (gross) was 0.37 as of December 31, 2018.

(7) R&D: Research & Development

(8) SG&A: Selling, General and Administrative expenses

Summary of Full Year 2018 Results (Non-GAAP Basis)

Full year consolidated net sales were 757.4 billion yen, down 3.1% year-on-year. Full year semiconductor sales were 740.5 billion yen, a 3.3% decrease year-on-year. Automotive sales decreased by 3.4% year-on-year. Steady sales from non-Japanese customers despite slowdown in the second half caused by the European vehicle emission regulations and decrease in Chinese sales were offset by weakened demand from Japanese customers in respect to the inventory buildup in FY17. Industrial sales and Broad-based sales decreased by 4.7% year-on-year and by 0.2% year-on-year, mainly due to a decrease in demand in the FA, home appliance and broad-based markets owing to an economic slowdown in China, respectively.

Non-GAAP gross margin in the full year was 44.7%, decreased by 2.1 points due to decreased revenue and restrained production.

Non-GAAP R&D expenses in the full year were 122.9 billion yen, compared to 125.8 billion yen year-on-year. Full year R&D ratio to net sales was 16.2%.

Non-GAAP SG&A expenses in the full year were 105.0 billion yen, compared to 111.5 billion yen year-on-year. Full year SG&A ratio to net sales was 13.9%.

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

Non-GAAP operating income was 110.6 billion yen, equivalent to 14.6% of operating margin in the full year. On a year-on-year basis, non-GAAP operating income decreased from 128.1 billion (16.4%) yen by 17.5 billion yen (1.8 points), mainly due to a decrease in sales despite continued OPEX discipline.

Non-GAAP net income attributable to shareholders of parent company in the full year was 92.3 billion yen. Non-GAAP net income per share for the full year was 55.4 yen.

Net cash provided by operating activities in the full year was 164.2 billion yen and net cash used in investing activities was 61.3 billion yen. These resulted in positive free cash flows of 102.8 billion yen.

Capital expenditures for property, plant, equipment (manufacturing equipment) and intangible assets, were 17.6 billion yen in the full year. These expenditures 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 2019

Renesas will disclose its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) starting from the annual securities report for the fiscal year ended December 31, 2018. Similarly, starting from the consolidated forecasts for the three months ending March 31, 2019, the Group will present financial forecasts as a range. In order to provide useful information that will help to better understand the Group’s constant business

results, figures such as sales, semiconductor sales and gross margin will be presented in the non-GAAP format, which excludes or adjusts the non-recurring items related to acquisitions and other adjustments removed as non-recurring expenses or income. Therefore, as the first and the fourth quarter of 2018 was represented under Japan GAAP, the percentage change from those periods are not provided.

In the first quarter of 2019, Renesas expects semiconductor sales within the range of 146.0 billion yen and 154.0 billion yen.

Based on the midpoint of the sales outlook, Non-GAAP gross margin and operating margin for the first quarter of 2019 is expected to be 39% and 4.5%, respectively.

The forecasts for the first quarter of the 2019 are calculated at the rate of 109 yen per USD and 124 yen per Euro.

Refer to page 19 of the presentation material available on our website for Japan GAAP based percentage change from the previous quarter and the year-ago quarter.

References

Refer to Renesas Electronics' earnings report "*Renesas Electronics Reports Financial Results for the Year Ended December 31, 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](https://www.tse-europe.com/quote/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. A [global](#) leader in microcontrollers, analog, power, and SoC products, Renesas provides comprehensive solutions for a broad range of automotive, industrial, home electronics, office automation, and information communication technology applications that help shape a limitless future. Learn more at [renesas.com](https://www.renesas.com).

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Separate Sheet

Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

| (Billion yen) | Q4 FY2018 Actual (Dec-Oct 2018) | Q3 FY2018 Actual (Jul-Sep 2018) | Q4 FY2017 Actual (Dec-Oct 2017) |
|---------------|--|--|--|
|---------------|--|--|--|

| | | | |
|----------------------------------|-------|-------|-------|
| Net Sales (after PPA adjustment) | 187.7 | 180.2 | 210.2 |
| PPA Effects | - | - | +0.0 |
| Non-GAAP Net Sales | 187.7 | 180.2 | 210.2 |

| | | | |
|---------------------------------|-------|-------|-------|
| GAAP Gross Profit | 76.3 | 79.5 | 100.2 |
| GAAP Gross Margin (%) | 40.7% | 44.1% | 47.7% |
| PPA Effects (COGS) | +0.3 | +0.3 | +0.4 |
| Stock-Based Compensation (COGS) | +0.2 | +0.2 | +0.2 |
| Non-GAAP Gross Profit | 76.8 | 80.0 | 100.8 |
| Non-GAAP Gross Margin (%) | 40.9% | 44.4% | 47.9% |

| | | | |
|--|-------|-------|-------|
| GAAP Operating Profit | 10.1 | 13.1 | 21.9 |
| PPA Effects (Net Sales/COGS) | +0.3 | +0.3 | +0.4 |
| PPA Effects (R&D, SG&A) Increase in Depreciation of Fixed Assets, etc. | +0.1 | +0.1 | +0.2 |
| Stock-Based Compensation (COGS) | +0.2 | +0.2 | +0.2 |
| Amortization of Goodwill (SG&A) | +5.3 | +5.2 | +5.3 |
| Costs Related to the Acquisition of Intersil (SG&A) | +0.2 | +0.2 | +0.2 |
| Costs Related to the Acquisition of Intersil (R&D) | +0.1 | +0.1 | +0.1 |
| Amortization of Purchased Intangible Assets (SG&A) | +3.9 | +3.8 | +4.5 |
| Stock-Based Compensation (R&D) | +0.5 | +0.4 | +0.5 |
| Stock-Based Compensation (SG&A) | +0.5 | +0.5 | +0.9 |
| Costs Related to the Offering and Others (SG&A) | +0.1 | +0.4 | - |
| Non-GAAP Operating Profit | 21.2 | 24.1 | 34.1 |
| Non-GAAP Operating Margin (%) | 11.3% | 13.4% | 16.2% |

| | | | |
|--|-------|-------|-------|
| GAAP Net Profit Attributable to Shareholders of Parent Company | -2.4 | 7.6 | 18.6 |
| Reconciliations in Operating Profit Level | +11.1 | +11.1 | +12.2 |
| Reconciliations in Ordinary Profit (PPA Effects) | - | - | +0.1 |
| Reconciliations in Net Profit (PPA Effects) | - | - | -0.5 |
| Reconciliations in Net Profit (Impact from Intersil Acquisition) | - | - | - |
| Reconciliations in Net Profit (Other Non-Ordinary Income) | +8.7 | - | - |
| Non-GAAP Net Profit Attributable to Shareholders of Parent Company | 17.4 | 18.6 | 30.3 |

Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

| (Billion yen) | Full Year 2018 (Jan-Dec 2018) | Full Year 2017 (Jan-Dec 2017) |
|---------------|----------------------------------|----------------------------------|
|---------------|----------------------------------|----------------------------------|

| | | |
|-----------------------------------|-------|-------|
| Net Sales (after PPA adjustments) | 757.4 | 780.3 |
| PPA Effects | - | +1.2 |
| Non-GAAP Net Sales | 757.4 | 781.5 |

| | | |
|---------------------------------|-------|-------|
| GAAP Gross Profit | 336.6 | 352.8 |
| GAAP Gross Margin (%) | 44.4% | 45.2% |
| PPA Effects (COGS) | +1.3 | +12.4 |
| Stock-Based Compensation (COGS) | +0.6 | +0.2 |
| Non-GAAP Gross Profit | 338.5 | 365.3 |
| Non-GAAP Gross Margin (%) | 44.7% | 46.7% |

| | | |
|---|-------|-------|
| GAAP Operating Profit | 66.8 | 78.4 |
| PPA Effects (Net Sales/COGS) | +1.3 | +12.4 |
| PPA Effects (R&D, SG&A) | +0.3 | +0.7 |
| Increase in Depreciation of Fixed Assets, etc. | | |
| Stock-Based Compensation (COGS) | +0.6 | +0.2 |
| Amortization of Goodwill (SG&A) | +20.7 | +17.4 |
| Costs Related to the Acquisition of Intersil (SG&A) | +0.8 | +1.5 |
| Costs Related to the Acquisition of Intersil (R&D) | +0.2 | +0.1 |
| Amortization of Purchased Intangible Assets (SG&A) | +15.5 | +14.7 |
| Stock-Based Compensation (R&D) | +1.7 | +1.1 |
| Stock-Based Compensation | +2.2 | +1.5 |

| | | |
|--------------------------------------|-------|-------|
| (SG&A) | | |
| Costs Related to the Offering (SG&A) | +0.6 | +0.2 |
| Non-GAAP Operating Profit | 110.6 | 128.1 |
| Non-GAAP Operating Margin (%) | 14.6% | 16.4% |

| | | |
|--|-------|-------|
| GAAP Net Profit Attributable to Shareholders of Parent Company | 54.6 | 77.2 |
| Reconciliations in Operating Profit Level | +43.8 | +49.7 |
| Reconciliations in Ordinary Profit (PPA Effects) | - | +0.1 |
| Reconciliations in Net Profit (PPA Effects) | - | -3.0 |
| Reconciliations in Net Profit (Impact from Intersil Acquisition and Non-Recurring Expense) | -6.1 | - |
| Non-GAAP Net Profit Attributable to Shareholders of Parent Company | 92.3 | 123.9 |

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