

Renesas Electronics Reports Second Quarter 2017 Financial Results

Significant Increase in Q2 Sales Year-on-Year, Driven by Solid Demand and Integration of Intersil. Achieved Improvements in Year-on-Year Q2 Gross and Operating Margins

- Q2 2017: Semiconductor sales of 194.3 billion yen, up 31.7% year-on-year and up 12.6% sequentially. Non-GAAP⁽¹⁾ gross margin of 45.7%, up 1.4 points year-on-year and operating profits (margin) of 29.0 billion yen (14.6%), up 8.2 billion yen (up 0.9 points) year-on-year
- Outlook for Q3 2017: Semiconductor sales of 191.9 billion yen, up 29.4% year-on-year, Non-GAAP gross margin of 45.5%, up 2.9 points year-on-year and Non-GAAP operating margin of 15.6%, up 4.7 points year-on-year

TOKYO, Japan, July 28, 2017 — Renesas Electronics Corporation (TSE:6723, “Renesas”), a premier supplier of advanced semiconductor solutions, today reported financial results for the second quarter ended June 30, 2017.

“We have been successfully improving our gross and operating margins by pursuing sales growth and cost containment”, said Bunsei Kure, President and CEO, Renesas Electronics Corporation. “Our second quarter semiconductor sales increased by 31.7% year on year mainly driven by strong demand for our products in the automotive and industrial markets. The growth is also attributed to the integration of Intersil and the dissipation of the impact from the Kumamoto earthquake that occurred in the same period a year ago. We expect to achieve traction in semiconductor sales and gross/operating margins during the coming quarter on a year-on-year basis.”

Quarterly Financial Summary (Billion yen)

Non-GAAP basis	Q2 2017 (Apr-Jun 2017)	Q1 2017 (Jan-Mar 2017)	Q2 2016 (Apr-Jun 2016)	QoQ	YoY
Net Sales	198.1	177.6	152.0	+11.5%	+30.4%
Semi. Sales	194.3	172.6	147.5	+12.6%	+31.7%
Gross Margin	45.7%	45.5%	44.3%	+0.2pts	+1.4pts
Operating Income	29.0	29.1	20.9	-0.2%	+39.2%
Operating Margin	14.6%	16.4%	13.7%	-1.7pts	+0.9pts
EBITDA ⁽²⁾	47.3	46.2	35.4	+2.5%	+33.8%

Japan GAAP basis	Q2 2017 (Apr-Jun 2017)	Q1 2017 (Jan-Mar 2017)	Q2 2016 (Apr-Jun 2016)	QoQ	YoY
Net Sales	198.1	177.6	152.0	+11.5%	+30.4%
Semi. Sales	194.3	172.6	147.5	+12.6%	+31.7%
Gross Margin	45.7%	45.5%	42.8%	+0.2pts	+2.9pts
Operating Income	18.8	25.5	18.6	-26.3%	+1.2%
Operating Margin	9.5%	14.3%	12.2%	-4.9pts	-2.7pts
EBITDA	46.0	45.6	33.1	+0.8%	+39.1%

(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 ending 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 and costs related to the offering. (Reference: The impact of inventory buildup in FY2017 Q2 was 0 yen in operating income.) See page 5 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 (Billion yen) 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)	Q2 2017 (Apr-Jun 2017)	Q1 2017 (Jan-Mar 2017)	Q2 2016 (Apr-Jun 2016)	QoQ	YoY
Automotive ⁽⁴⁾	102.9	96.9	84.5	+6.2%	+21.8%
Industrial ⁽⁵⁾	54.0	50.6	45.4	+6.8%	+18.9%
Broad-based ⁽⁶⁾	36.3	33.0	31.1	+10.0%	+16.7%
Other semiconductors	1.1	0.8	1.0	+31.0%	+8.9%
Total	194.3	181.3	162.0	+7.2%	+19.9%

(3) Pro-forma basis: Renesas net sales including Intersil’s historical revenue prior to the close of the acquisition.

(4) Automotive: Renesas mainly supplies microcontrollers (MCUs), system-on-chip (SoCs), analog semiconductors and power devices for the “Automotive control” and “Automotive information” product categories.

(5) Industrial: Renesas mainly supplies MCUs and SoCs for “Smart factory,” “Smart home” and “Smart infrastructure” product categories.

(6) Broad-based: Renesas mainly supplies general-purpose MCUs and general-purpose analog semiconductors to a wide variety of end market solutions.

Summary of Second Quarter 2017 Results (Non-GAAP Basis)

Second quarter consolidated net sales were 198.1 billion yen, up 11.5% quarter-on-quarter and up 30.4% year-on-year. Second quarter semiconductor sales were 194.3 billion yen, up 12.6% quarter-on-quarter. On a year-on-year basis, semiconductor sales increased by 31.7%, which can be attributed to the solid growth of the Renesas standalone sales, which excludes the sales of Intersil from the entire Renesas Group sales. The growth is also attributed to 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 21.8% year-on-year on a pro-forma basis, driven by strong demand for Automotive Control and for Automotive Information products. Industrial and Broad-based sales increased year-on-year on a pro-forma basis by 18.9% and 16.7%, respectively, mainly due to the strong demand for factory automation, home appliance and analog semiconductors.

Non-GAAP gross margin was 45.7%, 1.8 points above the Company’s guidance. On a sequential basis, gross margin increased by 0.2 points and improved by 1.4 points year-on-year, benefiting from the significant increase in sales and integration of Intersil.

Non-GAAP R&D⁽⁷⁾ expenses in the second quarter were 33.5 billion yen, compared to 27.0 billion yen and 24.4 billion yen in the sequential and year-ago quarter. Second quarter R&D ratio to net sales was 16.9%.

Non-GAAP SG&A⁽⁸⁾ expenses in the second quarter were 28.0 billion yen, compared to 24.7 billion yen and 22.1 billion yen in the sequential and year-ago quarter. Second quarter SG&A ratio to net sales was 14.2%.

Excluding seasonal headwinds, half-yearly 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 29.0 billion yen, equivalent to 14.6% of net sales in the second quarter, showing a decrease versus 29.1 billion yen, or 16.4% of net sales in the 2017

first quarter. Non-GAAP operating margin varies due to the seasonal headwinds of OPEX on quarterly basis. On a year-on-year basis, Non-GAAP operating income improved by 8.2 billion yen (0.9 points) mainly due to sales increases and continued OPEX discipline.

Non-GAAP net income attributable to shareholders of parent company was 37.3 billion yen, due to special income of 14.4 billion yen, which can mainly be attributed to the insurance income related to last year's Kumamoto earthquake.

Net cash provided by operating activities in the second quarter was 59.5 billion yen and net cash used in investing activities was 28.1 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 24.2 billion yen in the second quarter. These expenditures are based on the amount of investment decisions made during the period and does not refer to the cash outlays in the cash flow statement.

Equity ratio was 46.2% as of June 30, 2017 and was 44.5% as of March 31, 2017. Debt/equity ratio (gross) was 0.54 as of June 30, 2017.

(7) R&D: Research & Development

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

Outlook for Third Quarter 2017

Based on an assumed exchange rate of 110 yen to the US\$ and 125 yen to the Euro, in the third quarter of the 2017, Renesas expects semiconductor sales of 191.9 billion yen, up 29.4% year-on-year. Non-GAAP gross margin and non-GAAP operating margin are expected to come in at 45.5% and 15.6%, respectively.

Capital expenditures are based on the amount of investment decisions made for property, plant and equipment (manufacturing equipment) and intangible assets during the third quarter, and are expected to be 18.7% of net revenue.

References

Refer to *"Consolidated Financial Results for the Second Quarter Ended June 30, 2017"* for the quarterly consolidated balance sheets, the quarterly statements of income and the quarterly 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), the world's number one supplier of microcontrollers, is a premiere supplier of advanced semiconductor solutions including microcontrollers, SoC solutions and a broad-range of analog and power devices. Business operations began as Renesas Electronics in April 2010 through the integration of NEC Electronics Corporation (TSE:6723) and Renesas Technology Corp., with operations spanning research, development, design and manufacturing for a wide range of applications. Headquartered in Japan, Renesas Electronics has subsidiaries in 20 countries worldwide. More information can be found at www.renesas.com.

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Renesas Electronics
Japan GAAP – Non-GAAP Reconciliation

(Billion yen)	Q3 2017 Forecast (Jul-Sep 2017)	Q2 2017 Actual (Apr-Jun 2017)	Q1 2017 Actual (Jan-Mar 2017)	Q2 2016 Actual (Apr-Jun 2016)
Net Sales	195.2	198.1	177.6	152.0
Semiconductor Sales	191.9	194.3	172.6	147.5
GAAP Gross profit	88.8	90.5	80.8	65.1
GAAP Gross margin (%)	45.5%	45.7%	45.5%	42.8%
Inventory Buildup	-	-	-	+2.3
Stock-Based Compensation (COGS)	+0	+0	+0	-
Non-GAAP Gross Profit	88.8	90.5	80.8	67.4
Non-GAAP Gross Margin (%)	45.5%	45.7%	45.5%	44.3%
GAAP Operating Income	20.7	18.8	25.5	18.6
Inventory Buildup	-	-	-	+2.3
Stock-Based Compensation (COGS)	+0	+0	+0	-
Amortization of Goodwill (SG&A)	+8.8	+8.7	+2.9	-
Costs Related to the Acquisition of Intersil (SG&A)	+0.1	+0.4	+0.5	-
Costs Related to the Acquisition of Intersil (R&D)	+0.1	-	-	-
Amortization of Purchased Intangible Assets (SG&A)	+0.2	+0.3	+0.1	-
Stock-Based Compensation (R&D)	+0.1	+0.3	+0	-
Stock-Based Compensation (SG&A)	+0.5	+0.4	+0.1	-
Costs Related to the Offering (SG&A)	-	+0.2	-	-
Non-GAAP Operating Income	30.5	29.0	29.1	20.9
Non-GAAP Operating Margin (%)	15.6%	14.6%	16.4%	13.7%