Fiscal Year Ending December 2017 - Third Quarter Financial Results Announcement
(November 2, 2017) - Main Q&A for Briefing Session

Q: We understand that software and technology assets are allocated by the revisions of the PPA (purchase price allocations). What are the depreciation periods for those items?
A: While the period differs depending on the nature of the intangible asset, the depreciation period for technology assets is about 10 years. There is no particular or special distribution of software.

Q: While the year-on-year sales in Q3 were solid, at your Q2 briefing session you explained that there were risks associated with the Q3 automotive sales. Given that explanation, could you explain the quarter-on-quarter trends in sales for the Q3 automotive and industrial areas?
A: Renesas' business is easier to understand if it is seen as a matrix consisting of (1) end markets (applications) and (2) products. In moving from Q3 to Q4, microcontroller numbers are weak. There are two factors causing this. One is the dissipation of excessive demand. Following last year's earthquakes, tight supply conditions continued, and in the first half of this year, demand was recognized as overly strong and there were excessive demand from certain customers. Since for certain products, we became able to provide adequate supply and demand for products that were over-presented normalized, it appeared that demand was falling. The second factor was production mismatch. Although Renesas was able to maintain a high operating ratio for production, there were some products for which a lead time of as much as 4 months was required, and several months were required from recognizing the change in demand until production caught up. When we continued with the production mix as it had been before without change, a mismatch would occur in shipments and drops in sales for some products would occur. Although we did change our production mix, it will only be in the latter part of November when this will lead to improved sales, so this mismatch will still remain for part of Q4.

Q: While we understand that you are expecting a +2.8% quarter-on-quarter increase in semiconductor sales for Q4, what are your expectations for end market and product performance? Also, regarding Q4 costs, since there will be no benefits due to increased production, how will this influence marginal profits? Will costs actually increase this far? Is there a special or specific reason for this?
A: We expect Q4 sales of automotive products to have the same +2.8% increase across the whole company. FA and home appliance areas are showing strong numbers. At the same time some consumer and computing related products are expected to be weak. This is the mix we are expecting. Again, semiconductor sales overall are expected to show a +2.8% quarter-on-quarter increase. Regarding the relationship between production and gross margin, this was also a point of concern and when we provided the Q3 guide; the guide was written with comparatively conservative margin and PL values, which we now regret. While the Q3 gross margin was +2.3 points higher than the forecast, we have changed how we create Q4 forecasts so that there will not be such large gaps.
OPEX is basically subject to seasonality. Since the Renesas bonuses are calculated based on company performance, that amount is also increasing in Q4. Also, to resolve the tight supply conditions, we also hired external services to increase yield at our factories, and were successful in that effort. These one-off costs are also incorporated in the Q4 forecast. There are additional factors in addition to simple seasonality ones.

Q: Regarding synergy with Intersil, we heard that you are extending the time axis to achieve those effects. Do you have any updates on this issue?
A: Regarding overall synergy, we do not expect to extend the time axis to achieve these effects. Currently, these efforts are on track. While we are monitoring these efforts on a monthly basis, at present they are proceeding well. We are reviewing our simple cost synergy approach and working on full-scale cost-reduction strategies, aiming to achieve even larger synergistic effects. Of our target of 170 million dollars in synergistic effects, 1/4 is in cost synergies and the major part, 3/4 of the effects, are currently on track.

Q: What are the ratios of increase, excluding exchange rate effects, for the automotive, industrial, and broad-based areas?
A: Excluding exchange rate and rebound from the Kumamoto earthquake, year-on-year, automotive sales increased by 5%+. The industrial area showed a slightly higher than the automotive sales growth, and broad-based area grew by low-teens%.

Q: We understand that depreciation in the next year will be similar to that for this year. You also explained that improvements to gross margin will be tail heavy but are expected to be achieved and that the reason for that is the increase in depreciation burden compared to that up to now. Is this because you have changed directions so that depreciation burden does not increase all that much through making use of OSAT (outsourced assembly and test)?
A: While that is the case, it is not the case that we feel we have changed directions. Depreciation will continue at a high level through both this year and next year. Even when we get to 2019, it will not be the case that the depreciation burden will fall radically. Rather, we expect it to fall gradually. Our various strategies other than that, such as cost reductions and product mix improvements, are proceeding according to plan. Due to these factors, during this planning period, results of the improvements to gross margin will appear in a tail heavy form.

Q: We understand that PPA associated with the Intersil purchase is almost completed. How will goodwill and intangible assets be distributed?
A: Goodwill was evaluated at just under 200 billion yen and intangible assets at just under 150 billion yen. Although the PPA is not completely finished, there should be no significant changes moving forward.

Q: We understand that the intangible assets will be depreciated over 10 years. Will the goodwill be depreciated over the same period?
A: No, goodwill will be depreciated over 9 years.
Q: What do you expect tax rates to be from next year and after that?
A: There are no indications that tax rates will change significantly. Since we continue to have the tax losses carried forward, the tax rate will remain lower than the statutory tax rate.

Q: When will the tax losses carried forward be cleared?
A: These can be valid through around 2022.

Q: We understand that Renesas’ outsourcing ratio for production will increase next year. What will be the influence of this on your gross margin?
A: Speaking generally, production outsourcing, either OSAT or foundry, results in increased costs, and applies downward pressure on margins. Since if that happened, it would be meaningless to outsource, we do not outsource widely, but rather we arrange to outsource with significant volumes for multiple strategic partners together. Also, for example, we introduce testers that are able to test efficiently. In this way, there are no negative influences on margins and we proceed diligently so that we create positive influences. We do not assume that either upwards or downwards influences on margins will occur due to increasing the outsourcing ratio.

Q: We understand that you have the impression that growth in content related to automotive semiconductors is accelerating. However, could you analyze the automotive semiconductor field by both area, e.g. automotive control and automotive information, and by product type, e.g. microcontroller, analog devices, and SoC products?
A: ADAS functions and cockpits that use graphics are, compared to earlier assumptions, being adopted more commonly in mid-range and entry class vehicles. Even among Renesas customers, the outlook for demand from major tier 1 companies in Japan and Europe seems to be one of ever increasing demand as time passes. Although every type of product is growing, there are differences in the pace of the growth. As sensor nodes increase in number, the number of associated analog devices increases at a rate greater than 1:1, and the number of analog devices increases greatly. Even if microcontrollers grow, however, the growth maybe slower compared with other competitors who are strong at analog devices. Therefore we are engaged in sales campaigns for analog and other devices other than microcontrollers.

Q: While we understand that demand for automotive devices is growing, what was the status in 2017 of the design-in amounts that you made public last year.
A: Although we are refraining from disclosing detailed figures, we are incorporating many products with higher margins into our mid-term target due to our product mix improvement efforts. Our design-in efforts are even more refined than before in terms of focusing on improving margins. We expect, however, that the figures for design-in will be reduced from the previous year. Since we are intentionally focusing on the margin, we are not concerned at all.

Q: What is the state of the competition for, and the competitiveness of, the Renesas R-
Car products for the autonomous driving car market? Also, when do you expect these products to contribute to Renesas' business results, and what do you expect the scale of that business to be?

A: One milestone will be the 2020 Tokyo Olympics. The major car manufacturers are also announcing autonomous driving cars for 2020 and 2021. So we think that the market for the brain parts of self-driving cars will begin to ramp up in 2020 or thereafter. However, in actuality, and in terms of numbers, it is clear that even in 2020 and 2021 the volume will be quite small. Financially, it is hard to claim that this area will soon become a major topic. Renesas devices, at the same time as featuring low power consumption, also have an architecture that provides high computational capacities. It is the case that we are receiving many strong inquiries from car manufacturers and tier 1 companies regarding the use of these devices in autonomous driving functionality at large scale. We are positioned well for this market. We think that we can achieve good results here if we continue with these efforts in the current manner over the next 5 years.

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