4Q/Full-year Ended December 31, 2025
Conference Call (Held February 5, 2026)
Presentation and Question & Answer Summary

Presentation

Moderator: Good morning, everyone. Thank you very much for attending the Renesas Electronics Corporation Q4 and Full-Year 2025 Earnings Call. Today, we offer you a simultaneous interpretation service.

Today's presentation, we have Representative Executive President and CEO, Hidetoshi Shibata; Executive Officer, CFO, Shuhei Shinkai; and other staff are present. After Shibata has given his words, Shinkai will explain about the Q4 and full-year earnings, then we'll go into a Q&A session. We are planning for 60 minutes for this earnings call. The presentation material that we're using today is available on our website, on our IR site.

Mr. Shibata, the floor is yours.

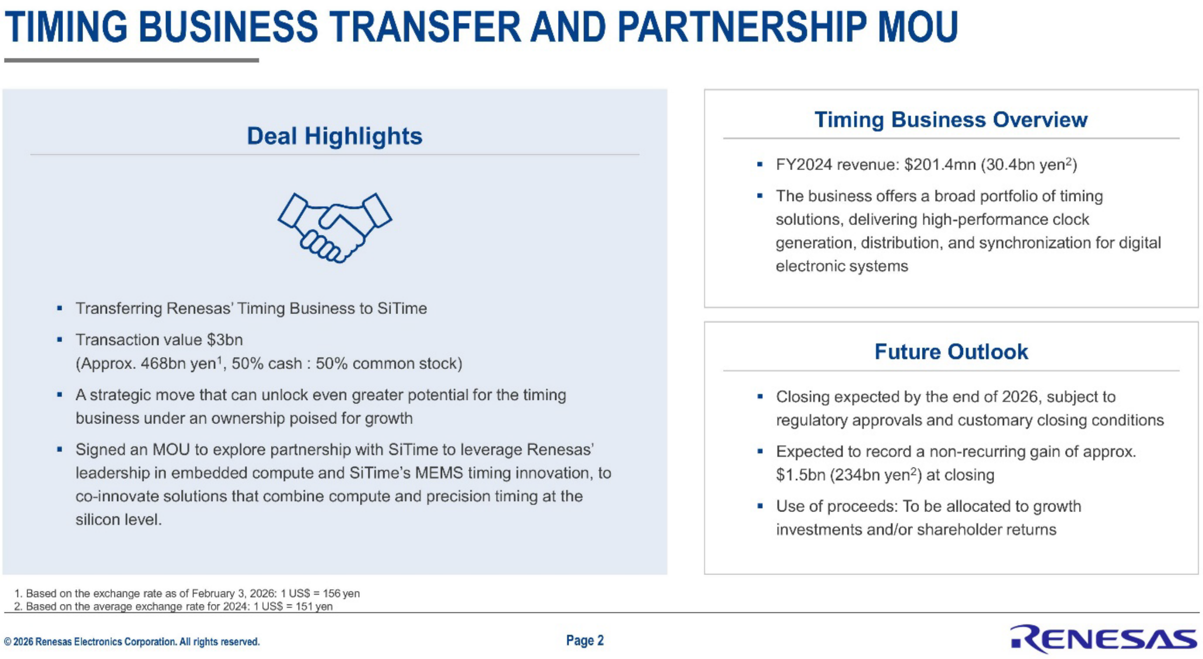
Shibata: Good morning. This is Shibata speaking. The Q4, I think it was better than our expectations. The end demand, not large, but it has grown. AI is strong, I think that goes without saying. On top of that, the industrial applications, they have been slightly moderate than expected, but we have seen a good, strong robust growth.

Towards Q1 of next fiscal year, I would like to give you an outlook about that. Our revenue outlook, it is shown in the presentation, but beyond that, the end demand outlook, automotive, IIoT, we are expecting a moderate growth, specifically for IIoT. Of course, AI is going to be very strong. For the industrial, we are expecting solid growth in Q1. Mobile consumer applications due to seasonality will go down, but IoT overall will show a moderate and solid growth. As a result, for the whole Company, well, this is a repetition, but although moderate, we think we'll be able to show some solid growth.

For this fiscal year, for the full year, we haven't shown you any guidance in terms of the numbers because we have not been able to decide over the details, but compared to the previous presentation, I think we have started to see a better momentum. For automotive, basically, sometimes, it goes up, sometimes, it goes down, but industrial, we think we were able to expect a solid growth. The AI data center, AI, those areas, I think we'll be able to see robust growth.

For the AI infrastructure, for this year, I think it's the same for other companies, we are expecting a very good growth, YoY basis. We have transferred the timing business. Towards the Capital Day that we're going to hold in June, we want to update our AI business, but roughly speaking, maybe double and grow by double. I think that is our outlook.

In terms of IoT, a very moderate growth is what we are expecting, specifically towards H2. For the DRAM, shortage may have an impact on the business. That is the reason why we are a little subdued in our outlook. Compared to the previous earnings call, I think we have a more positive view.



Let me pull up a slide and talk about the transfer of the timing business. This is a brief summary. After that, I will hand it over to Shinkai for more detailed numbers.

Broadly speaking, the timing business, mainly this is a clock business. We have decided to transfer this business, half and half, cash and common stock, in total, USD3 billion transaction value. From our point of view, our timing clock business, we think we can grow this business, but from the technological trend, it is high potential for the MEMS timing. If that is the case, SiTime is a better owner. It is better for us to integrate this business and seek growth. It's not the case that we just sell it and then that's it. We will acquire some stock from SiTime. From our point of view, we would like to enjoy some of the fruit that will be coming from the growth of the MEMS timing. That's the reason of the partnership. The timing business transfer that we're going is the size of the scale on the top right. This is for FY2024 because we have not closed the books yet.

For 2025, the full-year revenue won't change that much from this level. A USD207 million to USD208 million business is what we are going to talk about. I think for SiTime, this is a very complementary business. We focus on clock and SiTime focuses on oscillators. If you combine both, this will be a kind of end-to-end technological coverage. We do not assume any roadblocks, but of course, we have to clear some regulation hurdles. By the end of this year, at the latest, we think we'll be able to close this deal.

In terms of use of this cash, so whether we're going to hold all this cash or are we going to sell at early timing, we're still considering, but in any case, this is growth for investment or for the shareholder return, and we will look at both ways to allocate the cash.

That has been the summary about the transfer of the timing business, then I will hand it over to Shinkai and talk about the details of the numbers, and then go to Q&A afterwards.

Shinkai-san, please?

Shinkai: This is Shinkai. I would like to talk about our Q4, full-year results based on the presentation.

4Q/FULL-YEAR 2025 FINANCIAL SNAPSHOT
NON-GAAP

	2024		2025								
(B yen)	4Q (Oct-Dec)	Full-Year (Jan-Dec)	3Q (Jul-Sep)	4Q (Oct-Dec) Forecast	4Q (Oct-Dec) Actual	YoY	QoQ	Change from Oct 30 FCT[1]	Full-Year (Jan-Dec) Actual	YoY	Change from Oct 30 FCT[1]
Revenue	292.6	1,348.5	334.2	340.0 (±7.5)	**350.9**	**+19.9%**	**+5.0%**	**+3.2%**	**1,318.5**	**-2.2%**	**+0.8%**
Revenue (Excluding FX Impact)	-	-	-	-	-	**+13.2%**	**+2.3%**	**+1.7%**	-	**-4.7%**	**+0.4%**
Gross Margin	54.9%	56.1%	57.6%	57.0%	**59.3%**	**+4.4pts**	**+1.7pts**	**+2.3pts**	**57.6%**	**+1.6pts**	**+0.6pt**
Operating Profit (Margin)	75.4 (25.8%)	397.9 (29.5%)	103.2 (30.9%)	27.5%	**108.0 (30.8%)**	**+32.5 (+5.0pts)**	**+4.8 (-0.1pt)**	**(+3.3pts)**	**386.9 (29.3%)**	**-11.0 (-0.2pt)**	**(+0.9pt)**
EBITDA[2]	98.2	486.2	122.5	-	**127.8**	**+29.5**	**+5.2**	-	**464.1**	**-22.2**	-
Profit Attributable to Owners of Parent	71.9	360.4	88.2	-	**90.0**	**+18.1**	**+1.8**	-	**329.3**	**-31.1**	-
1 US$=	149 yen	151 yen	146 yen	150 yen	**152 yen**	**2 yen** depreciation	**5 yen** depreciation	**2 yen** depreciation	**150 yen**	**1 yen** appreciation	**1 yen** depreciation
1 Euro=	162 yen	164 yen	170 yen	175 yen	**176 yen**	**14 yen** depreciation	**6 yen** depreciation	**2 yen** depreciation	**167 yen**	**4 yen** depreciation	**0 yen** depreciation

1. Each figure represents comparisons with the midpoint in the sales revenue forecast range 2. Operating profit + Depreciation and amortization

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For Q4, please look at the left-hand side from the slightly left to the middle, the revenue, JPY350.9 billion, gross profit margin, 59.3%, operating profit, JPY108 billion, operating margin, 30.8%, EBITDA, JPY127.8 billion, net profit, JPY90 billion, the forex, JPY152 to the dollar, EUR1, JPY176.

For the full year, please look at the blue column on the right, blue one, the revenue, JPY1,318.5 billion, gross profit ratio, 57.6%, operating profit, JPY386.9 billion, operating margin, 29.3%, EBITDA, JPY464.1 billion, net profit, JPY329.3 billion, forex assumptions, JPY150 to the dollar, JPY167 to the euro.

For the full-year outlook, I would like to give you some brief comments. This is on the YoY comparison as shown. In terms of the revenue, it's 2.2% of decline, automotive, minus, and industrial, IoT is plus. Net-net, it was a minus. In terms of the gross margin YoY, 1.6% of improvement. This is due to the manufacturing cost reduction based mainly on the fixed cost. From last year, from FY2025, we have been changing the depreciation period. This is not a one-off. This will contribute to us going forward.

In terms of the operating profit margin, 0.2% worsening. We have been able to reduce costs, but basically, this was offset with the merits. The sales volume decreased, and there has been a backlash coming from a one-off in 2024. Net, 2.2% worsening.

4Q 2025 REVENUE AND GROSS / OPERATING MARGIN

NON-GAAP

	Company Total	vs FCT	QoQ	Automotive	Industrial / Infrastructure / IoT
Revenue	350.9 B yen vs FCT: +3.2% QoQ: +5.0%	+	+	163.3 B yen vs FCT: + QoQ: +2.6%	186.0 B yen vs FCT: + QoQ: +7.1%
Gross Margin	59.3 % vs FCT: +2.3pts QoQ: +1.7pts	+ ▲ Mix improvement ▲ Decreased manufacturing costs	+ ▲ Decreased manufacturing costs ▲ Increased utilization ▲ Yen depreciation	56.5 % QoQ: +1.3pts	61.8 % QoQ: +1.9pts
Operating Margin	30.8 % vs FCT: +3.3pts QoQ: -0.1pt	+ ▲ Increased gross profit ▲ Decreased operating expenses	− ▲ Increased gross profit ▼ Increased operating costs	34.5 % QoQ: -0.9pt	24.9 % QoQ: -3.4pts

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Let's go to the next slide.

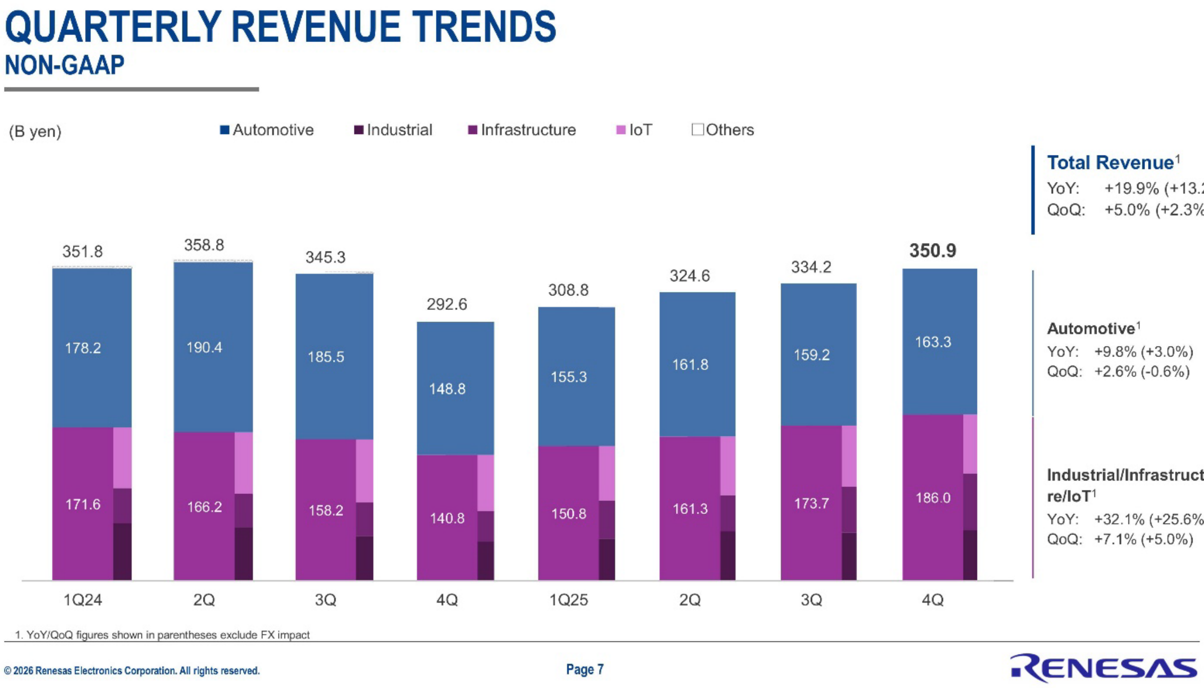
Going back to Q4, let's look at the columns from the left, revenue 3.2%plus. Half is through the weaker yen, half is through the actual demand, due to demand. Automotive, industrial, IoT, this has been over expectations. In terms of the gross margin, plus 2.3% improvement. This is due to the mix improvement and the reduction of manufacturing expenses. In terms of the mix, we were anticipating that this will worsen, but it has not been bad as such. The high gross margin products, for instance, memory, timing, et cetera, have increased and that led to improvement of the gross margin.

In terms of the manufacturing cost, there were a lot of one-offs. For instance, the manufacturing-related projects cost has been less than expected. Due to this, this has been a contribution to the improvement of the gross margin, but the operating margin, plus 3.3% improvement against the target. The volume growth, the gross margin improvement, these are some contributions for the operating cost. In terms of the expenses, they were basically in line with our expectations.

The QoQ comparison, please look at this chart. In terms of the revenue, plus, positive, gross margin, plus 1.7 percentage points. On a QoQ basis, manufacturing cost has gone down. The utilization has improved. In terms of the operating margin, it was minus. The Opex has increased is the main reason. This is due to the seasonality because it's more concentrated at the year-end.

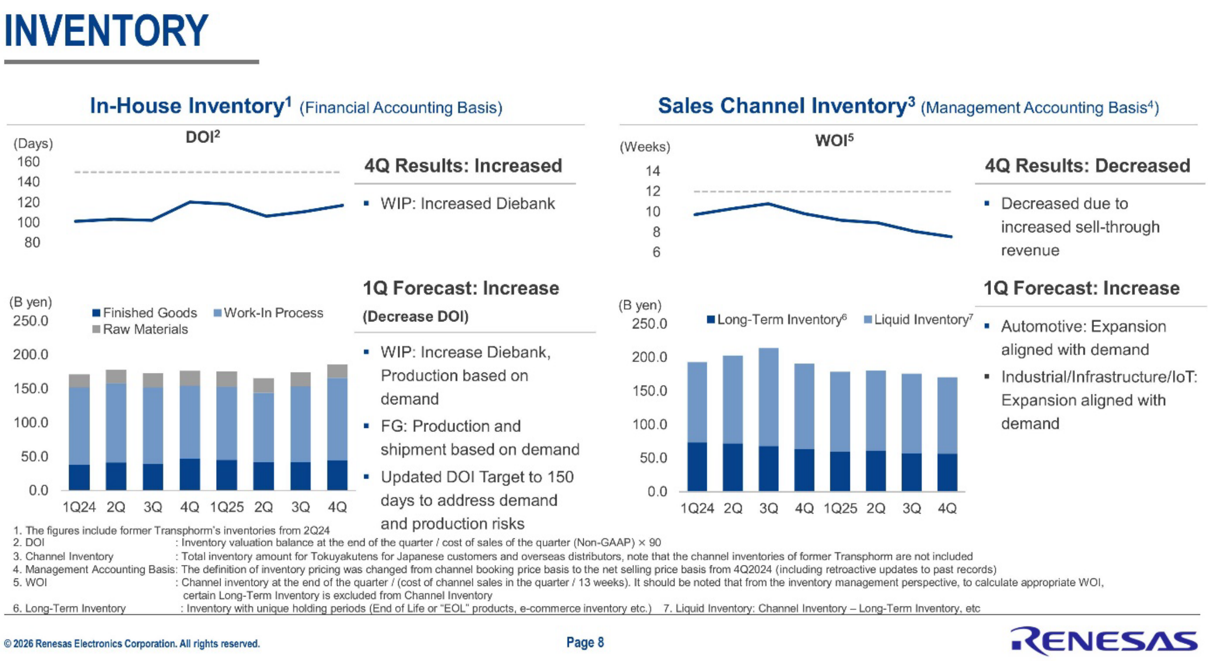
For each segment, it's on the right-hand side. For automotive, industrial, infrastructure, and IoT, there's nothing that's notable this time around, but when you look at OP margin for industrial, infrastructure, and IoT, it has deteriorated QoQ by 3.4 points. This is due to development items and loss recognition that happened in Q4.

Also, regarding the segment performance for this fiscal year, from FY2026, Non-GAAP segment performance definition is scheduled to change. Up until 2025, as shown here, out of total company non Non -GAAP adjustment items, if they are inherent to the segment, we were adding it back, or if it's a loss, we were deducting it by segment. However, from this fiscal year, in principle, we will be adjusting it together with company-wide Non-GAAP performance. That is the way we intend to report going forward.



Please turn the page.

This is the page about revenue. We changed the format a little. For industrial, infrastructure, and IoT, we made it more visible. On the right-hand side, for revenue, this is YoY and QoQ numbers that are shown, inclusive of FX, as well as in parenthesis, it's excluding FX impact. We have added that because FX is fluctuating quite a lot. We wanted to make things more visible and easier to understand.



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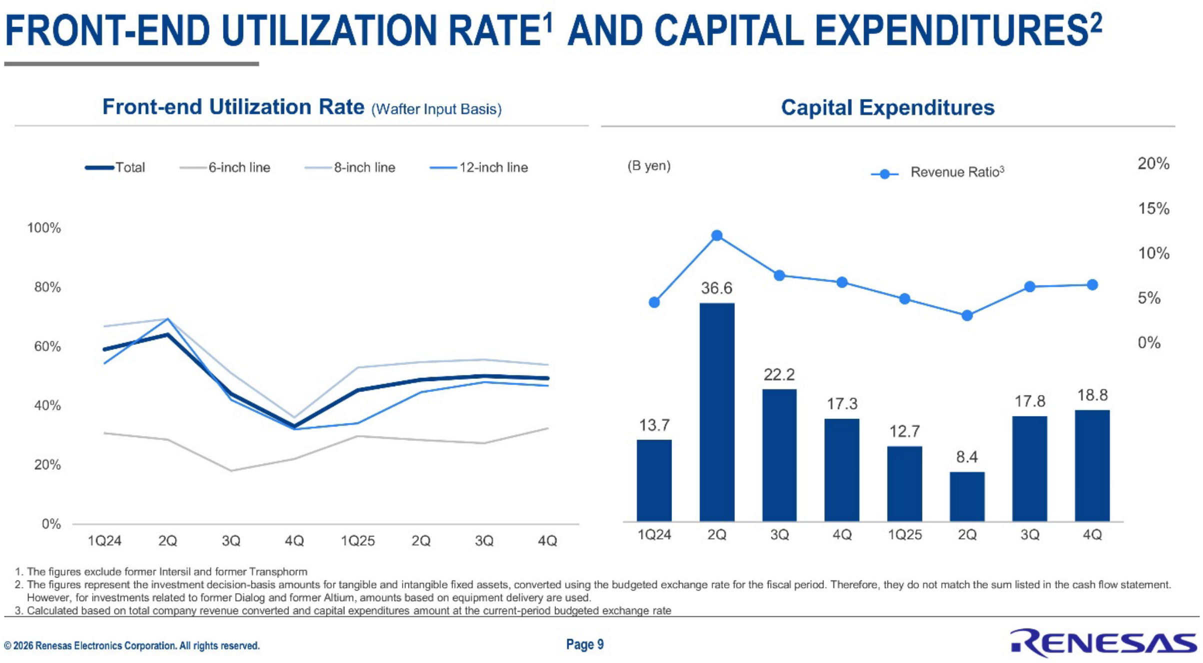
This page is about inventory. First, on the left-hand side, for in-house inventory for Q4, QoQ, inventory amount and DOI both increased in line with expectations. It was at 117 days of DOI as of end of Q4.

For Q1, we are expecting an increase in the amount QoQ due to demand recovery. We will be expanding the Diebank in anticipation. Also, in Q2, the IT system or the ERP system integration is scheduled to happen. Therefore, at the time of integration, we will need to build up towards this phase. Due to this impact in Q1, we expect a little higher work-in-progress inventory.

Under the third bullet, as shown for the DOI target, it used to be 120 days. We have updated it and are thinking about raising it to 150 days. It's because demand is increasing, especially around AI and data centers. Also, supply chain risk-wise, we believe that we need to have some more buffer stock for finished products and Diebank, on top of that, to secure raw materials that may be subject to risk. In consideration of these factors, we have decided to raise DOI targets from 120 to 150 days in managing our in-house inventory.

Looking at the right-hand side, it's channel inventory. For Q4, QoQ, channel inventory declined. Overall, it was 7.5 weeks of inventory, WOI. For automotive, we were planning to do shipments in line with sell-through, but sell-through went higher than expectation. Channel inventory went down. For industrial, infrastructure, IoT, inventory went up slightly, but this was due to power for data centers and AI, where demand is strong. We were shipping as soon as it was completed. Therefore, sell-through was a little bit higher than expected.

For Q1, QoQ, we are planning to expand sales channel inventory. Orders have been brisk. Up until the end of Q4, WOI was trending at low levels. For sales channel inventory, we would like to strive to have higher levels of inventory. That is why we intend to expand inventory levels.



Turning the page.

We talk about utilization rates on the left-hand side. First of all, for Q4 compared to our forecast, it was a little bit higher at close to 50%. Also, for Q1, we are expecting a slight increase in trend at around 50%-plus utilization. Regarding capital expenditures on the right-hand side, Q4, there are no items that were notable, but for Q1, towards capacity expansion, we are planning to make investments, which we will share with you on a later date.

1Q 2026 FORECAST
NON-GAAP

(B yen)	2025 1Q (Jan-Mar)	2025 4Q (Oct-Dec)	2026 1Q (Jan-Mar) Midpoint Forecast (Range)[1]	2026 YoY	2026 QoQ
Revenue	308.8	350.9	**375.0 (±7.5)**	**+21.4% (±2.4pts)**	**+6.9% (±2.1pts)**
Revenue (Excluding FX Impact)	-	-	-	**+17.8%**	**+4.9%**
Gross Margin	56.7%	59.3%	**58.5%**	**+1.8pts**	**-0.8pt**
Operating Margin	27.1%	30.8%	**32.0%**	**+4.9pts**	**+1.2pts**
1 US$=	154 yen	152円	**154円**	**0 yen appreciation**	**3 yen depreciation**
1 Euro=	161 yen	176円	**182円**	**21 yen depreciation**	**6 yen depreciation**

1Q 2026 Forecast
FX Sensitivity Impact of a 1 JPY fluctuation

(B yen)	US$	Euro
Revenue	18	2
Operating Profit	8	1

1. Each figure represents comparisons with the midpoint in the sales revenue forecast range

Please turn the page.

This is our forecast for Q1 FY2026. Please look at the shaded area in the middle. For revenue and the midpoint forecast, it's JPY375 billion, gross margin, 58.5%, operating profit margin, 32%, FX, JPY154 against the dollar, and JPY182 against the euro.

For revenue, QoQ, we're expecting growth of 6.9%, as you could see on the right column. FX-wise, inclusive, we're expecting revenue growth of 1.9% and excluding FX impact, 4.9% growth. We're expecting gross margins to go down by 0.8 points to 58.5%. The weak yen is a tailwind, but due to mix, we're expecting a reactionary fall QoQ and due to the cost revision at the beginning of the year, we are expecting a minus 0.8point decline.

For operating margin, we are expecting 1.2 points higher operating margins QoQ to 32% due to volume growth due to revenue growth. That is the main factor.

For Opex, overall, we are expecting flattish trends QoQ expenditure-wise. For FX sensitivity, you could see the sensitivity analysis at the bottom. Based off the sensitivity, the forecast for Q1 and OP margins of 32%, at JPY100 against the dollar and JPY120 against the euro, OP margins will be 25.7%.

4Q/FULL-YEAR 2025 FINANCIAL SNAPSHOT

GAAP

	2024		2025					
(B yen)	4Q (Oct-Dec)	Full-Year (Jan-Dec)	3Q (Jul-Sep)	4Q (Oct-Dec)	YoY	QoQ	Full-Year (Jan-Dec)	YoY
Revenue	292.6	1,348.5	335.4	**351.5**	**-+20.1%**	**+4.8%**	**1,321.2**	**-2.0%**
Gross Margin	54.4%	55.6%	57.3%	**59.0%**	**+4.6pts**	**+1.6pts**	**57.1%**	**+1.4pts**
Operating Profit (Margin)	22.1 (7.5%)	223.0 (16.5%)	72.6 (21.7%)	**67.2 (19.1%)**	**+45.2 (+11.6pts)**	**-5.4 (-2.5pts)**	**201.2 (15.2%)**	**-21.8 (-1.3pts)**
Profit Attributable to Owners of Parent (Loss)	21.8	219.1	106.3[1]	**17.3**[2]	**-4.5**	**-88.9**	**-51.8**[3]	**-270.8**
EBITDA[4]	78.4	433.7	117.4	**113.0**	**+34.7**	**-4.4**	**389.8**	**-43.9**
1 US$=	149 yen	151 yen	146 yen	**152 yen**	**2 yen depreciation**	**5 yen depreciation**	**150 yen**	**1 yen appreciation**
1 Euro=	162 yen	164 yen	170 yen	**176 yen**	**14 yen depreciation**	**6 yen depreciation**	**167 yen**	**4 yen depreciation**

1: In 3Q25, a valuation profit of ¥44.5 billion was recorded on other financial assets related to Wolfspeed 2: In 4Q25, a valuation loss of ¥47.2 billion was recorded on other financial assets related to Wolfspeed
3: In addition to 1 and 2, in 2Q25, an impairment loss of ¥235.0 billion was recorded on the deposit to Wolfspeed 4: Operating profit + Depreciation and amortization

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I would like to also pick up some slides from the appendix as well. Please turn to page 18.

These are the GAAP numbers. On a full-year basis, the second from the right, please refer to this column, on a GAAP basis, for net income, JPY51.8 billion of losses were generated. This is related to Wolfspeed and impairment losses worth JPY237.6 billion. That has led to the loss. This is a big difference between GAAP and Non-GAAP.

HIGHLIGHTS

Continuation of Dividends

- Cash Dividends: 28 yen per share, Total 50.8 billion yen
- Dividend Yield: 2.0% (vs. stock price at the end of December)
- Dividends resumed in 2023 and have continued since then, remaining flat year over year.

Wolfspeed status update

- On January 30, 2026, following CFIUS approval, acquired Wolfspeed's convertible notes and common stock
- One director appointed
- Isolating equity-method impact from Wolfspeed via partial restriction of shareholder rights

Renesas 365

- Renesas 365 Powered by Altium, a first-of-its-kind industry solution designed to streamline electronics system development from silicon selection to system lifecycle management, is scheduled to be released at embedded world in March 2026

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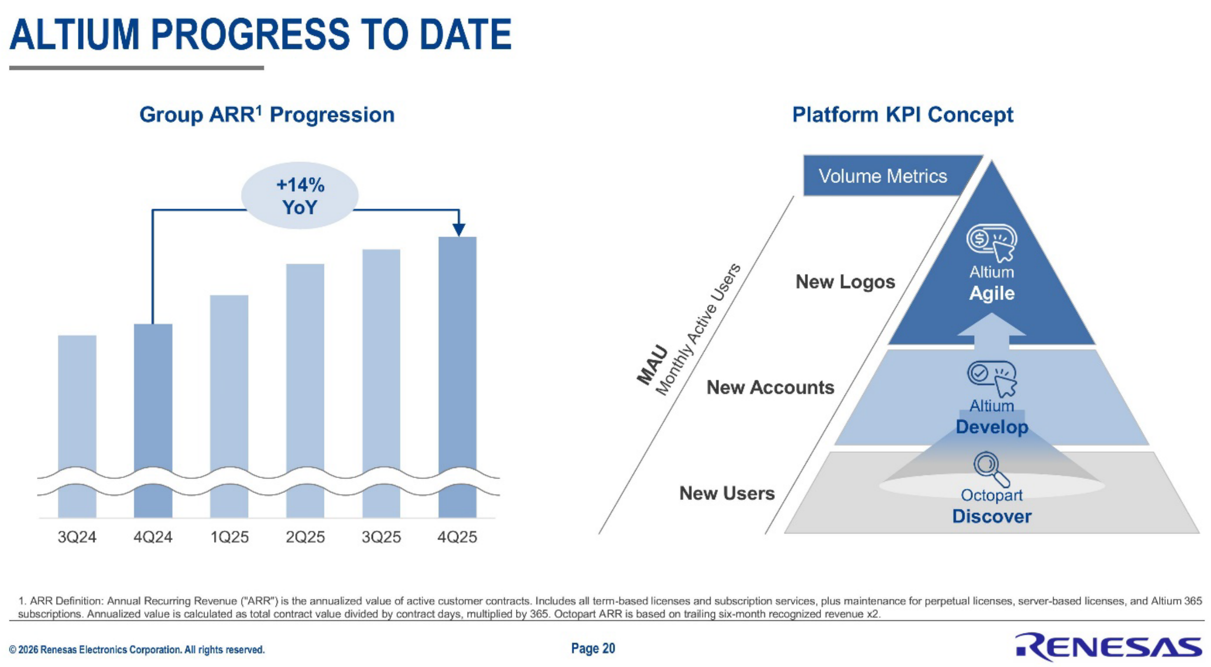
Please also turn to the next page.

These are highlights from the fiscal year under review. We will continue to pay dividends worth JPY28 a share. For Wolfspeed transactions, CFIUS approval has come through. Common stock and convertible notes, the rights will be acquired.



Looking at the next page, this is a continuous update on Altium. Left-hand side shows ARR steadily increasing. For the KPI concept, we continue to work on it. For comprehensive updates, we will do it in June when we have the Capital Markets Day. That concludes my explanation. Thank you for your kind attention.

Question & Answer

[Questioner 1]

Q: The first question is that the comment Shibata-san at the beginning, the AI, said that it may double for this year. Basically, it will be interface, PMIC that will be the major applications. Could you provide some additional color and granularity on how these two application areas are expected to grow? For example, on the interface side, SOCAMM is likely to attract attention, along with the transition to DDR5, and on the PMIC, GPU plus, custom ASIC is going to grow. Within the range you can share, could you elaborate with more granularity on what will drive the growth in these applications?

The second question, this is not related to the earnings, but in Japan, there is a lot of realignment or integration with the domestic power semiconductors. The president of Mitsubishi Electric has said that maybe they would like to consider that for this fiscal year. There has also been the situation involving Wolfspeed, and in that context, there may be some potential for your silicon carbide and gallium nitride businesses to regain momentum, including for the data center demand. Could you explain how you position your power semiconductor business and whether there is any possibility of participating in domestic consolidation?

Shibata: On the AI-related business, as I said in the beginning, our definition, we are going to transfer the timing business, and we are considering how to update the business. In June, what we are going to present is based on updated information, but as of today, basically, we will be talking based on the existing definition. In terms of the digital power, this will drive the growth. In terms of the absolute amount, in terms of the growth rate, I think this will be the driver.

Last year, GPU has grown strongly. For this year, I think application for ASIC is going to grow a lot. Going to Q1 numbers, I think that's what I'm anticipating. ASICs for hyperscalers by phases, they are being ramped up. I think that will be the main driver for this business.

The memory interface, again, the same story, I think it's going to grow, but the baseline has been bigger. I think the growth rate in itself will be more moderate, but overall, maybe if you include all these factors, maybe double around that level, will be the level of growth that we're anticipating. Power will be the driver and memory will grow as well.

Overall, on a net basis, we are looking at growth of roughly around two times, give or take. We have to understand this more deeply. The AI computing, when it is growing, it used to be the case that the GPU draws a lot of attention, but CPU, I think, will grow as well. ARM is showing a stronger position. I think it will be SOCAMM or direct-attach configurations, et cetera, maybe a lot of directions, but if you look at the one-year timeline, I think traditional-based architecture will be the mainstay. Our memory interface will be used in various contents. That is what we are anticipating.

About for the power semiconductors, GaN, as you know, we have already our own, do it internally. We need some time, but we are going to internalize our manufacturing. Shinkai has talked about the utilization rate at our plants, continue to be slightly higher than 50%, out of which some are going to be utilized for GaN. What we have to be more conservative is about the silicon-based MOSFET because in terms of volume, it's going to be used a lot. BCD process, we want to bring this internally as well. The utilization with the plant, including CapEx, I think this will be going up.

SiC, what are we going to do about SiC? All this is a thing that you have been pondering a lot. Currently, ourselves, we are not anticipating that we will be doing the development. Wolfspeed is one of the partners that we are looking at and with other partners. By having these partnerships, we will procure the SiC and then embed it into our solutions. I think that is the direction that we are considering.

In terms of the realignment with the power semiconductor industry, us taking the lead of being proactive, I don't think that that matches our direction right now, but depending on how things go, we'll consider it case by case.

[Questioner 2]

Q: My first question is about, you talked about digital power. It's a follow-up question about it. Regarding your share positioning, it's about 1/3 to 50% for GPU. For ASIC-related, it's likely to grow this year. In November, you were saying that it's really high, but for this year and your positioning, what are you going to target, or what do you already see?

Also related to profitability, I think you were saying that it's relatively low, but when volume goes up this much, are you going to be able to secure better profitability? Can you give us some implication on that?

Shibata: Actually, it's really hard for us having 1/3 or 50%. We have it as milestones. Of course, it would be better to be on the better side of things. At minimum, we would like to exceed 1/3, but then on the other hand, I think other companies are the same, but when you look at the demand coming from customers, supply is not keeping up. Therefore, it's always the case in these circumstances.

What is the inflated demand piece and what is the underlying demand? When demand is strong, everybody always talks about this, and we are not able to figure it out, but if it's real demand, obviously we won't be able to catch up. Therefore, qualifying multiple suppliers will happen on a constant basis. The 1/3 or 50% number, we do not feel that it's going to be steady depending on generation or because of a supply pickup. I think we're going to see our positioning dramatically change, and possibly, it will go up or down.

For power interfaces, right now, we need to ensure that we supply steadily as a supplier. As Mr. Shinkai said in his part, we would like to ensure we have sufficient inventory, as well as sales channel inventory, or else, it's going to be dangerous. Therefore, even if we have to put a further load on our balance sheet, we would like to have greater levels of inventory, so that we won't have to sacrifice our share or positioning.

How about profitability? For gross margins, depending on the product or the customer, it differs and varies, but for gross margin itself, compared to the company-wide average, it's not that greater, but if volume goes higher, operating margins should improve, as you rightly said. If volume increases, it should be a positive incremental impact on OP margin.

Q: Thank you very much. My second question is about managing company-wide profitability. At JPY100, it's 25% to 30%, 30% to 35% based off current FX levels. You're at around 32% right now. Were you trying to say and imply that the improvement is going to be moderate this year, but because you were also talking about advanced investments in R&D spend, if profitability is going to steadily improve, there may be a chance that you will be able to exceed 35%, right? There are some companies who decide to invest more because profits are increasing. Are you going to allow profitability to improve, or are you going to allocate the excess profits to fund your future growth and make investments?

Shibata: Just because profits are higher, we are not thinking about simply allocating that for investment purposes. When you think about increasing R&D on a QoQ basis, the nature of it is not one where you could increase it significantly all of a sudden. As we said, operating margins in Q1, my personal view is we are facing challenges because when we show these numbers, we will get questions like the one you asked. We would like to increase R&D spend steadily in the future.

For this fiscal year, for top line, our forecast looks good at this moment. If operating margins become higher as a result, of course, that may be possible. However, we don't want to be reactive to top line and we would like to ensure that we make R&D spends to areas that we need to invest into. Of course, for digital power, investments are necessary, and we would like to go ahead with our investments, but I would say, recently, when it comes to AI, in the edge or embedded world of things, regarding its adoption, it has been spreading nowadays. When it comes to automotive and robotics, mainly for inference, AI, the role of AI, is becoming greater, and it's likely to become even greater in the future.

We are reviewing where we stand, and we are thinking that towards AI, we need to be more proactive in our efforts, meaning understanding AI applications better and showing our capabilities, developing capabilities internally, if needed. Regarding power and AI, those are some big R&D targets.

Another area would be AI inference, especially for automotive and robotics. We do believe we will need to make some big AI-related investments there. Is this going to be through an M&A, or is this going to be organic? Of course, we are thinking about the options constantly with an open stance, and we will accordingly give you updates, but compared to before, we do believe we need to do more in a proactive manner.

That's all from me.

Q: If that's the case, just to confirm, you're not going to control profitability intentionally, but you will also be making necessary spending in areas like AI for R&D, but as a result, if top line goes up, because of marginal profitability, you should see, naturally, profitability increase. Is that all right? Do you feel comfortable with that? That was my view in hearing your comment.

Shibata: Yes. For OP margin, naturally, it should go up and down. Right now, in this case, it should be increasing. Just because of increasing profitability, it's not like we're going to open or shut R&D spend.

[Questioner 3]

Q: My first question is, at the beginning, you have explained about the timing business transition. I think, basically, you're going to allocate it to the growth investment or the shareholder returns. What we have understood in terms of the cash usage, we're paying the debt, growth investment, and then I think, basically, you've given us in terms of your priority of usage of cash. What is your idea right now?

My second question, in terms of the automotive business, I think, basically, you said that it goes up and down. I understand it's very difficult to have a visibility, but what is your take on Q1? For the full-year FY2026, what are the positive and negative factors for the automotive business?

Shibata: In terms of cash usage, AI-related investment, we are not being coy, nothing is decided, so we have been very frank about that. Depending on how we're going to look at this matter, I think the use of cash allocation will be different. That's the reason why in terms of use of proceeds, we gave you all these factors. If there are no major acquisitions and no major M&A, if we assume that way, I think you're right. Paying the debt, shareholder return, I think that will end. I think that will be our focus.

Internally, I discussed this with Shinkai-san, maybe at this point, we will show this and say that we pay the debt and then use it for shareholder return. If it's a growth investment, if that happens, we'll be acting that way, but we didn't want to mislead you. We decided that this will be the right expression. If there's no specific investment target, then we will use it for repaying debt and shareholder return. If there is a specific candidate, then we will invest for growth. I think that is the idea behind this.

For the automotive business, if you talk about the QoQ and compare the QoQ, there are individual reasons that have an impact on the business. I do not want to mislead you. If you look at Q1, if the Nikkei has written about this, in China, we have a major client there, and they are slowing down right now for our overall automotive business and it is not a positive. China, as a whole slowing down, I think that is what we're looking. Japan, I think, flat, for better or for worse, it's stable. Europe, mainly Europe, maybe the same situation as us, but I think that maybe they're trying to build up the inventory more. The end demand is not that strong, but maybe they are feeling that they have reduced inventory too far. Europe, we think the revenue is going to go up, all in all, a slight growth.

As a momentum or a trend, we do not feel that this is the beginning of the high growth. I think for individual reasons, I think the business will go up and down. Things are very fluid right now. There is a possibility that I may change what I'm going to say, but as we have been considering the situation for a long period of time for geopolitics-related supply situations, and we have to consider the supply chain and the way to hold inventory, the dramatic change happening, and then things will not, we will be driven into a corner, I do not think that is going to happen.

In the short term, there will be some spats or some pushbacks, et cetera, but depending on that, the inventory of the supply chain will be disrupted. Maybe that's the nature of the thing that is happening right now. That is the way I'm thinking right now. From that perspective, trying to dramatically change the direction of the supply chain, no, we're not thinking about that. We will, of course, look at the supply chain, but actually, by looking at the way to hold inventory, how to absorb this for short-time shocks, I think that is the most effective way to operate the business. I think I have the feeling the customers are going to that direction. With the change of geopolitics and the impact that has on the business won’t lead to a drastic change of the supply chain. I think having the inventory in a strategic manner will be the way that people will be responding to the situation.

[Questioner 4]

Q: First, regarding gross margins for Q4, you talked about you were expecting deterioration, but it didn't. Can you give us more flavor on that? Q4-wise, QoQ, automotive and IoT improved by 1 point-plus. Therefore, can you sort things out for us?

Shibata: Mr. Shinkai will explain.

Shinkai: For automotive, there were price negotiations for certain deals. We were anticipating price decline QoQ, but that didn't happen as a result of the negotiations. Also, regarding mix, sales of lower gross margin products were expected to rise, but it didn't grow as much. These products are new products related to digital power, as well as automotive, old products for mixed signal. That's all for me.

Q: For automotive, and that prices didn't go down as much, is that because of positive impact from demand and supply, or is that because of positive impact from share? Was it by chance? Are there any reasons why things are working out well?

Shibata: It's more of a specific factor actually. It's not notable, but from 1Q, actually it's going to deteriorate. It's just a timing thing.

Q: Second question is about automotive and IoT regarding share or products. When you look at other company results, Europe automotive, they have a cautious outlook and a cautious outlook on automotive overall, but when you look at your forecast, as well as hear your comments, it's not that bad. It seems that your share is also rising in Europe apparently. For automotive and share, are you getting good response in business? Are there any unique reasons why you're feeling that way? For IoT, physical AI has now come into the picture. It may be too early to say, but have you been able to capture any opportunities? Can I have a comment on both automotive and IoT?

Shibata: Unfortunately, we won't be able to meet your expectations. In automotive, idiosyncratically, there is nothing that we're seeing that is amazing that's underway. It was last year or the year before last, our MCU share went down. When we were talking about what we're going to do about it, we were saying that it may take time, but we do have various countermeasures underway. We're not that concerned about the longer future. That was true actually. It's not that bad, but it's not as if we're going to see big impact this year or next year.

Over the short term, for 28nm MCUs, we do believe steady growth this year, for Gen 4 R-Car, it will start to pick up as well, which are likely to become growth drivers, but as you rightly know, probably, since last year, traditional auto OEMs, technology updates in a sense, have started to slow down. It's probably because it's under review. 40nm MCU and Gen 4 R-Car is likely to sell. It was more moderate than expected. For 2026, I think we will go back and forth, but hopefully, we'll move forward and move backwards less.

For IoT, I would say the DRAM impact is the uncertainty, impact from memory. Of course, we have accounted for this uncertainty when looking at 2nd half. If we're able to well manage this for IoT, I think business will be strong because AI is strong. Military and aero is strong in industrial. For mobile IoT, I don't know if I should put it as a share gain, but the number of sockets we were able to win have increased in number, so due to inherent reasons, we are expecting growth. However, because of lack of DRAM, there might be a gravitation to higher-end models. I think that trend is likely to happen. We are cautious in our stance, but trend-wise, momentum-wise, I think it's relatively strong.

[Questioner 5]

Q: First, this time, so 150 days, you're going to raise your internal inventory target to 150 days. When you answer the question, you think you have to increase your inventory for AI-related applications, 150 by applications for your segment by automotive and IoT, is it different? Inventory levels and the pace of this increase of the inventory, by doing so, how much can we expect this will push up the profit? This is the first question.

Shibata: Shinkai-san, please?

Shinkai: Between automotive and IoT, we do not think that there is an appropriate way to look at the inventory. The reason is that we have three buckets that we're looking at. One is the high-demand growing area, that will be data center, AI, that is IoT. The second bucket is that we want to respond to the request of the customers who want to have a redundant supply chain, that will be more on the automotive side. The third bucket is, generally speaking, the risk for the supply of the material, for instance, if it's rare earth, some will be difficult maybe to acquire, or there are some situations that some parts were difficult to acquire, this was taken up by other demands, meaning that demand supply was tight. We want to be proactive in securing that procurement.

We have these three buckets that we're thinking about when we talk about inventory. In terms of pushing up the profit, we are not actually looking into that too much because raw materials do not really contribute.

Then for AI, data center-related products, many of them are procured from foundries, so those also do not really contribute to profit uplift. The buffer stock based on some products, some we're producing internally, some not. It's not the case that the 30 days of increase of the inventory will fully cater profits, maybe some contribution, but not all.

Q: My second question is, that you said to the previous person, is due to the high price of memory, so I would like to ask your view about that. I think PC, smartphone, automotive, I think that is where the DRAM price will hit you. If you look at PC, smartphones, the impact on the volume in itself, and specifically, maybe smartphone is the case, but if we look at the cost, maybe there is a negative impact when you have a price negotiation with customers.

In terms of automotive, so infotainment area, maybe that will impact the infotainment area. When you negotiate the customers currently, do you think that this will impact the volume? In the previous cycle of the lack of semiconductor, there was a move to have lower specs for the automotive applications. Are you discussing about this at this point?

Shibata: For automotive, we do not have a clear visibility about the situation right now. In terms of volume, it's not that big a business. Maybe the volume is not that large in terms of usage, maybe you can just pay up, you'll be able to get your hands on the DRAM. Volume-wise, that's the situation, but what I said that I don't know what's going to happen is that there are applications that they're using old models. For instance, they're using DRAM DDR4. The memory suppliers are saying that we can't supply DDR4, but we can supply DDR5. I think that's going to happen. That is where we do not have a visibility. All in all, I think things it's like one step forward and one step backwards. I do not think that the volume in itself is going to plunge, but we cannot be too optimistic about the situation.

For the nonautomotive areas, of course, the DRAM price is going up this level. Some customers will ask us to do something about that, but as of now, we are not experiencing that. I think our customers are very, very careful in this area already.

As Shinkai has implied, this frenzy that the AI is generating, some raw material is already lacking in supply. There are already some areas there is a lack of supply. If that is the case, if they put too much pressure on the suppliers, then there is a risk that they will not be able to get their products from the suppliers. I think customers are trying to strike a balance in this area because it is true that there is a shortage of products. We do want to be ahead of placing orders and try to build up an inventory, so that we don't have a lack of the supply. This kind of imbalance situation is already there. We are telling ourselves that we should be very careful about the supply chain.

Moderator [M]: Thank you. We are drawing close to the ending time. We would like to conclude the Q&A session here. Finally, Mr. Shibata will expand on closing comments.

Shibata: Market cycle-wise, we are finally at a point where we're seeing light, also centered around AI. In consideration of geopolitical risk, the way we hold inventory, as well as how we can steadily supply, will be one of our focused areas for the time being. It will be a tailwind if we do it well. If we fail, it will be a headwind.

Regarding the transfer of the timing business, in the area of AI, the necessity of making investments are growing higher day by day. We're going to change our narrative compared to before. Accordingly, we would like to think about making significant investments where necessary. Apart from that, we will be focusing on balance sheet management and shareholder return.

Like I always say, factors that may allow our performance to go upwards or downwards are all over the place. Therefore, we would like to ensure that we are able to disclose information to you, so that we could heighten our predictability without delay.

That's all from me. Thank you very much.

Moderator [M]: Thank you very much. This concludes Renesas Electronics Corporation FY2025 Q4 and full-year results briefing. Thank you very much for joining today.

[END]