1Q of the year Ended December 31, 2026
Conference Call (Held April 24, 2026)
Presentation and Question & Answer Summary

Presentation

Moderator: Thank you for taking the time to join the Renesas Electronics Q1 2026 earnings conference call. Simultaneous interpretation is available during the call. Please click the interpretation icon at the bottom of the screen and select a language. At this time, speakers are asked to turn their video on.

Joining me on the call today are Hidetoshi Shibata, Representative Executive Officer, President and CEO; Shuhei Shinkai, Senior Vice President and CFO; and some members of the staff. After initial remarks by Mr. Shibata, the Q1 results will be presented by Mr. Shinkai, followed by a Q&A session.

The earnings call is expected to last for 60 minutes. The materials that will be presented are the same as those posted on the IR page of the Company's website.

Shibata-san, please turn on the microphone. The floor is yours.

Shibata: Good morning. This is Shibata speaking. The earnings results this time had the effect of the divestment of the timing business during the period. Because of the decision to divest the timing business, it may be more difficult to understand the numbers than usual. Later, Shinkai-san will explain and would like to provide thorough information so that an apple-to-apple comparison is possible as much as possible.

All in all, I believe we had good Q1 results. Generally, in comparison to the guidance that we issued last time, we had stronger results overall. As a result, since our outlook is that demand will be growing, we wanted to build up channel inventory, but we were able to do so to a smaller extent than we expected. We will have to increase channel inventory more.

Automotive demand was also stronger than expected. It is still small, but Generation 4 SoC R-Car is ramping up very successfully. On the other hand, the previous generation of R-Car and MCU are also showing strong growth. Automotive results were therefore strong.

As for segments other than automotive, Data center AI may be attracting much attention. Data center AI and client-side AI were both growing strongly. Regarding these, towards the end of last year, there was a major earthquake in Taiwan, as some of you may recall. Our partners were affected by that large earthquake.

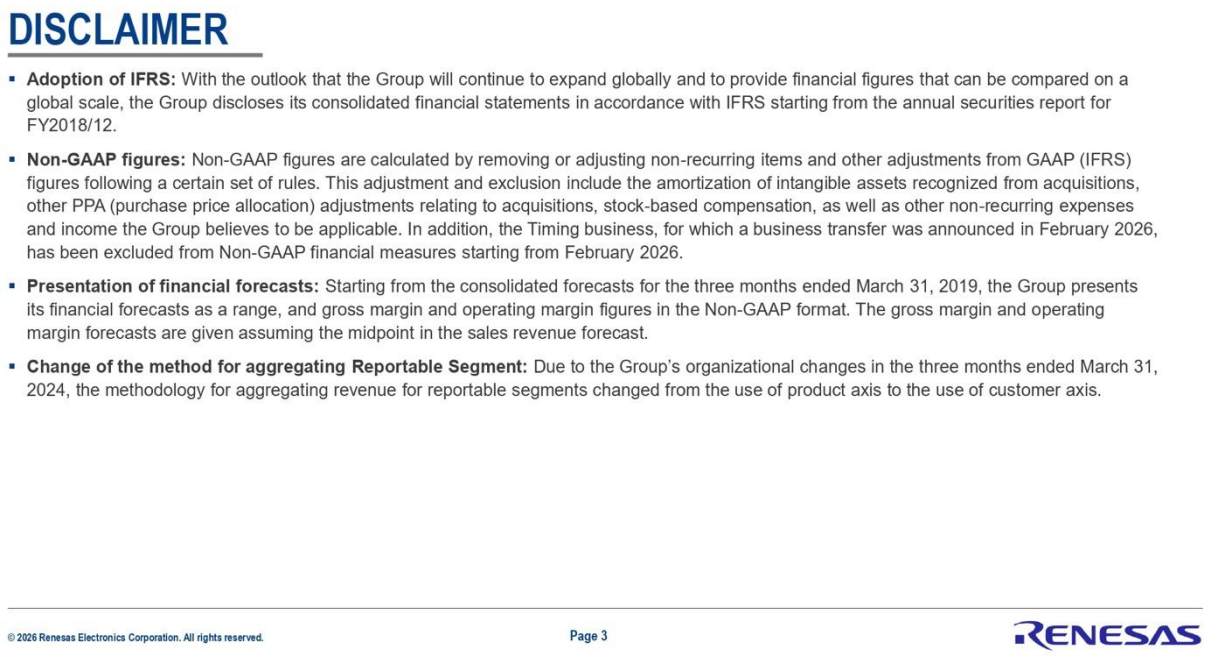
Originally, to begin with, the demand supply was already tight, and on top of that, because of the earthquake, the supply was not catching up. After Q2, we will do our best to catch up. Demand is very strong, but because of the rate-limiting factor of production, in Q1, there was an impact from that. In Q2, we have an overall strong outlook.

Of course, there are some products where there are strong seasonal factors, and there may be a decline as a result of such seasonal factors. But overall, the impression is that results are very strong. Automotive is strong, and other segments are also strong.

Especially in non-automotive segments, if I may repeat, we have to catch up with the demand. The bottleneck is supply constraints, and if we can successfully address this, we may be able to see results better than the guidance that we will be issuing today. Execution is the key. That is the overall situation. The conditions are very strong, and for the foreseeable future, we anticipate the conditions to be strong.

Now, I would like to turn it over to our CFO, Shinkai-san.

Shinkai: Thank you very much. This is Shinkai, CFO. I would like to present the results from Q1 based on the slides.



Next slide, please, page three. What you are seeing on the screen is the disclaimer.

In February 2026, timing business transfer was announced. After the announcement, from February onwards, in non-GAAP reporting numbers, timing business is excluded. In Q1, only the month of January is included, and beyond February, timing business is not included anymore. But for the sake of an apple-to-apple comparison, we also included numbers excluding the timing business entirely for comparison's sake.

1Q 2026 FINANCIAL SNAPSHOT
NON-GAAP

(B yen)	2025 1Q (Jan-Mar)	2025 4Q (Oct-Dec)	2026 1Q (Jan-Mar) Forecast	2026 1Q (Jan-Mar) Actual	YoY	QoQ	Change from Feb. 5 FCT[1]	Results adjusted for the Timing business[3] 1Q (Jan-Mar) Forecast	1Q (Jan-Mar) Actual	Change from FCT[1] (Adjusted)
Revenue	308.8	350.9	375.0 (±7.5)	**372.3**	**+20.6%**	**+6.1%**	**-0.7%**	364.1	**369.1**	**+1.4%**
Revenue (Excluding FX Impact)	-	-	-	**-**	**+16.0%**	**+3.3%**	**-1.5%**	-	**-**	**+0.5%**
Gross Margin	56.7%	59.3%	58.5%	**59.2%**	**+2.4pts**	**-0.1pt**	**+0.7pt**	58.0%	**59.1%**	**+1.1pts**
Operating Profit (Margin)	83.8 (27.1%)	108.0 (30.8%)	32.0%	**125.4 (33.7%)**	**+41.6 (+6.5pts)**	**+17.4 (+2.9pts)**	**(+1.7pts)**	31.0%	**123.7 33.5%**	**(+2.5pts)**
EBITDA[2]	103.5	127.8	-	**146.2**	**+42.7**	**+18.4**	**-**	-	**-**	**-**
Profit Attributable to Owners of Parent	73.3	90.0	-	**102.9**	**+29.7**	**+12.9**	**-**	-	**-**	**-**
1 US$=	154 yen	152 yen	154 yen	**156 yen**	**2 yen** depreciation	**4 yen** depreciation	**2 yen** depreciation	154 yen	**156 yen**	**2 yen** depreciation
1 Euro=	161 yen	176 yen	182 yen	**183 yen**	**23 yen** depreciation	**7 yen** depreciation	**1 yen** depreciation	182 yen	**183 yen**	**1 yen** depreciation

1. Each figure represents comparisons with the midpoint in the sales revenue forecast range 2. Operating profit + Depreciation and amortization
3. Reference figures calculated by excluding the Timing business from both forecast and actual results, including January 2026

Next page, please. Financial snapshot.

In Q1, non-GAAP results are shown in the fourth column from the left in the table. Revenue, JPY372.3 billion; gross margin, 59.2%; operating profit, JPY125.4 billion; operating margin, 33.7%; EBITDA, JPY146.2 billion; net profit, JPY102.9 billion; exchange rate, dollar JPY156, euro JPY183.

Regarding the timing business, last time on February 5, at the time of the last earnings call, we announced a forecast which included three months of the timing business. However, in reality, only the month of January is included. Therefore, for an apple-to-apple comparison, for both forecast and actual results, it would be better to exclude the timing business.

Pro forma numbers are prepared and shown in the rightmost three columns. It says, after adjustments for the timing business, assuming that there is no timing business in the forecast and actual results. The shaded columns are actual for a pro forma basis. JPY369.1 billion in revenue; this is above forecast by 1.4%. Gross margin is 59.1%, above the forecast by 1.1 percentage points. Operating profit, JPY123.7 billion, operating margin is 33.5%, it is above the forecast by 2.5 percentage points.

1Q 2026 REVENUE AND GROSS / OPERATING MARGIN[1]

RESULTS ADJUSTED FOR THE TIMING BUSINESS[1]

	Company Total	vs FCT	QoQ	Automotive	Industrial / Infrastructure / IoT
Revenue	369.1 B yen vs FCT: +1.4% QoQ: +7.9%	+	+	171.6 B yen vs FCT: + QoQ: +5.4%	195.9 B yen vs FCT: + QoQ: +10.3%
Gross Margin	59.1 % vs FCT: +1.1pts QoQ: +0.3pt	+ ▲ Mix improvement ▲ Decreased manufacturing costs	+ ▲ Yen depreciation	56.2 % QoQ: -0.3pt	61.9 % QoQ: +0.8pt
Operating Margin	33.5 % vs FCT: +2.5pts QoQ: +3.6pts	+ ▲ Increased gross profit ▲ Decreased operating expenses	+ ▲ Increased gross profit ▲ Decreased operating expenses	35.9 % QoQ: +1.6pts	31.9 % QoQ: +9.0pts

1. Reference figures calculated by excluding the Timing business from both forecast and actual results, including January 2026

RENESAS

Based on this pro forma basis, I would like to turn to the next page.

This shows revenue, gross margin, and operating margin in Q1. This is a pro forma basis number. Company total is given in the leftmost column, shaded in blue.

Revenue is up by 1.4% from the forecast. About 80% of that is due to yen depreciation, and the remainder is due to the automotive segment, especially with Japanese clients outperforming.

Gross margin was above forecast by 1.1 percentage points. About one-third of that is due to mix improvement, and two-thirds is due to a decline in manufacturing expenses.

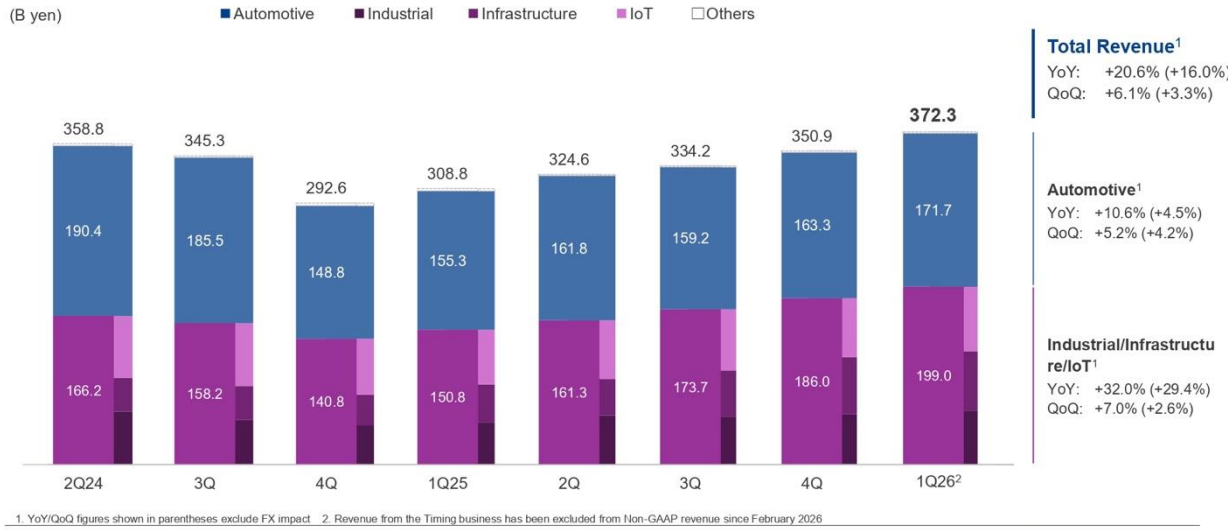
As for the mix improvement, to begin with, we expected deterioration in mix, but rather, it was flat; it did not deteriorate. Those that will be impacting gross margin the most are power products, which have a lower gross margin than the company total. In comparison to the forecast, the results were lower due to some supply factors. As for manufacturing expenses, fixed costs decreased and COGS decreased. Maintenance expenses were also reduced, and we had a more conservative forecast.

As for operating margin, it was up 2.5% from the forecast. Gross margin increased and revenue increased. Aside from those, the operating expense decline impact accounted for about 1 percentage point. The expense decline, however, was mostly one-time, or there is a timing differential, which will be booked, and therefore, expenses will be booked in Q2. That will be a deteriorating factor for Q2.

In the next column, QoQ results, generally, it is repetitive with what I have already presented. Regarding gross margin, it improved due to depreciation of the yen, and mix was flat. Operating margin, because of increase in volume and one-time factor improvement, we had a decline QoQ.

By segment, shown on the right, automotive, there is nothing noteworthy. Industrial Infrastructure, IoT, if you could refer toward the right bottom, in operating margin, QoQ, there was a significant improvement by 9 percentage points. OPEX seasonality was one factor, and there is also a decline from the higher level from last year. In QoQ, a 10% increase was recorded in revenue, and there is operating leverage. Three percentage points are accounted for by all of these three factors each.

QUARTERLY REVENUE TRENDS
NON-GAAP



1. YoY/QoQ figures shown in parentheses exclude FX impact 2. Revenue from the Timing business has been excluded from Non-GAAP revenue since February 2026

Next, revenue by quarter.

This is based on non-GAAP numbers. For Q1 up to January, the timing business is included in the non-GAAP results. We have company-wide and by segment results YoY and QoQ. Please refer to the numbers on the right-hand side.

INVENTORY

1. Including Timing business
2. DOI : Inventory valuation balance at the end of the quarter / cost of sales of the quarter (Non-GAAP) × 90
3. Channel Inventory : Total inventory amount for Tokuyakutens for Japanese customers and overseas distributors, note that the channel inventories of former Transphorm are not included. Including Timing business
4. Management Accounting Basis: The definition of inventory pricing was changed from channel booking price basis to the net selling price basis from 4Q2024 (including retroactive updates to past records)
5. WOI : Channel inventory at the end of the quarter / (cost of channel sales in the quarter / 13 weeks). It should be noted that from the inventory management perspective, to calculate appropriate WOI, certain Long-Term Inventory is excluded from Channel Inventory
6. Long-Term Inventory : Inventory with unique holding periods (End of Life or "EOL" products, e-commerce inventory etc.) 7. Liquid Inventory: Channel Inventory – Long-Term Inventory, etc

Please go to the next page. This is about inventory.

On the left-hand side is in-house inventory. For Q1, on a QoQ basis, both inventory actual amount and DOI increased in line with our expectations. As for Q2, in terms of the actual amount, we are expecting it to be flat to increase.

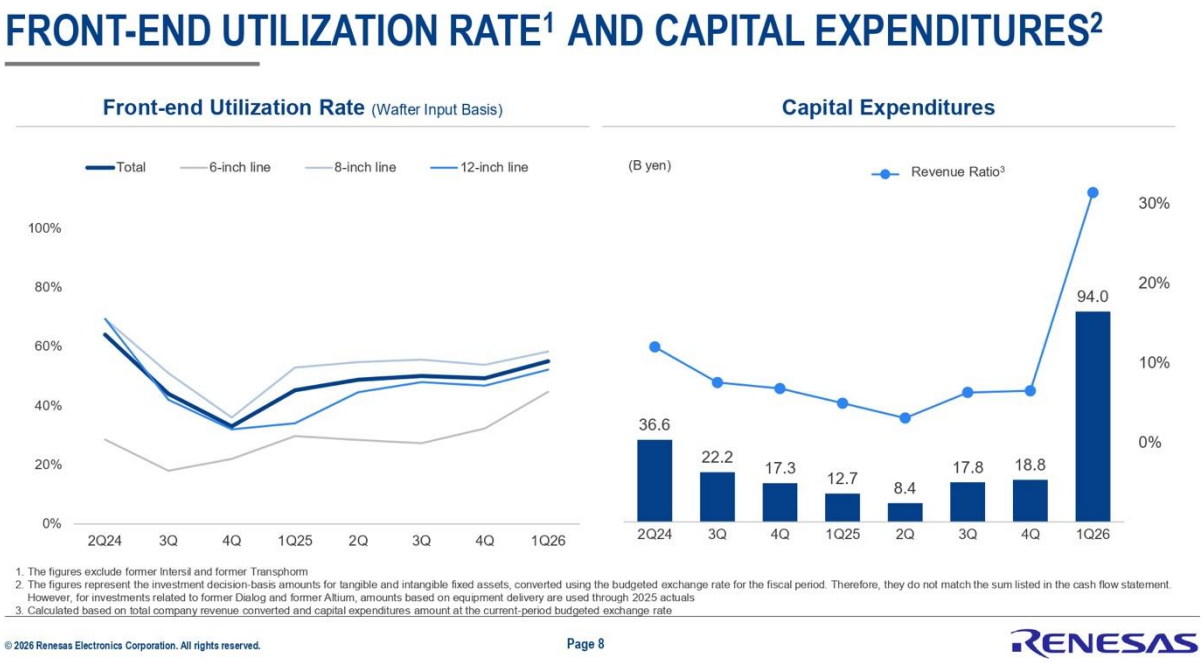
On the other hand, for DOI, due to an increase in revenue and scale, we expect DOI to decrease. As was mentioned during the previous earnings results announcement, as for the buffer and making advanced arrangements for certain risks, our target for DOI is 150 days. But, considering the risks, both die banks and finished products; to accommodate buffer needs and shorter deliveries, this is a policy that we will have.

On the right-hand side is the channel inventory. For Q1, the channel inventory increased QoQ. As for automotive, both sell-in and sell-through had upside compared to expectations. We had originally planned for expansion of channel inventory, but due to the increase in sell-through, we were not able to achieve the expected increase. As a result, channel inventory decreased.

As for industrial infrastructure and IoT, generally speaking, we were able to have a slight buildup of channel inventory, mostly for data centers. For Q2, looking ahead to anticipated demand, the policy is to continue building up channel inventory, but we expect a higher sell-through increase. As for the ratio in terms of WOI for automotive and IIoT, we expect WOI to decrease.

Looking by segment, for automotive, we expect an increase in demand, and also to respond to short delivery demand, the policy is to further build up channel inventory. As for IIoT, including the mass market and the general market, we continue to build up inventory.

Also, for data centers, we have new products. Before certification, we plan to have advance shipments. Also, for mobile, ahead of the mass production ramp-up before the high season, we will also have advance shipments. These are mostly advance shipments. From the actual amount basis, we plan to continue building up channel inventory.



If you could go to the next page, this is the utilization rate and CAPEX status.

On the left-hand side is the utilization rate based on front-end wafer input. For Q1, the utilization rate was around 55%. In the previous quarter, Q4 of the previous year, since then, we have seen the utilization rate increase by about 6 points. At the Naka factory, 12-inch MCU, 40nm MCU, and also Saijo digital power products, these are mostly seeing an increase in demand, and as a result, we have also increased wafer input. For Q2, we are expecting a flat to slight increase from the current level.

As for CAPEX, as shown on this graph, for Q1, we made the decision to invest in capacity expansion. This is a rather substantial investment decision made in terms of the amount, JPY94 billion in terms of decision-based investment, and 80% of that will be investments for capacity expansion.

Specifically, AI, data center, and digital power for these applications will be made in-house. Most of these are for front-end investments. Kofu, Naka, and Saijo factories are for 8-inch production. We hope to make these investments for capacity expansion at these factories.

Also, for the back-end process as well, packages and modules must increase production, and for development, we plan to make investments. For the front-end, mostly investments for digital power products have been completed, so we are now considering investments for the back-end process.

2Q 2026 FORECAST
NON-GAAP

	2025		2026					Adjusted for the Timing business[2]			
(B yen)	2Q (Apr-Jun)	1H (Jan-Jun)	1Q (Jan-Mar)	2Q (Apr-Jun) Midpoint Forecast (Range)[1]	YoY	QoQ	1H (Jan-Jun) Forecast	YoY	2025 2Q (Apr-Jun)	YoY (Adjusted)	2026 1Q (Jan-Mar)	QoQ (Adjusted)
Revenue	324.6	633.4	372.3	**388.0 (±7.5)**	**+19.5% (±2.3pts)**	**+4.2% (±2.0pts)**	**760.3 (±7.5)**	**+20.0% (±1.2pts)**	317.3	**+22.3%**	369.1	**+5.1%**
Revenue (Ex-FX Impact)	-	-	-	-	**+12.8%**	**+4.1%**	-	**+14.3%**	-	**+15.3%**	-	**+5.0%**
Gross Margin	56.8%	56.8%	59.2%	**57.0%**	**+0.2pt**	**-2.2pts**	**58.1%**	**+1.3pts**	56.3%	**+0.7pt**	59.1%	**-2.1pts**
Operating Margin	28.3%	27.7%	33.7%	**29.0%**	**+0.7pt**	**-4.7pts**	**31.3%**	**+3.6pts**	27.5%	**+1.5pts**	33.5%	**-4.5pts**
1 US$=	146 yen	150 yen	156 yen	**156 yen**	**10 yen** depreciation	**0 yen** depreciation	**156 yen**	**6 yen** depreciation	146 yen	**10 yen** depreciation	156 yen	**0 yen** depreciation
1 Euro=	162 yen	161 yen	183 yen	**180 yen**	**18 yen** depreciation	**3 yen** appreciation	**182 yen**	**20 yen** depreciation	162 yen	**18 yen** depreciation	183 yen	**3 yen** appreciation

1. Each figure represents comparisons with the midpoint in the sales revenue forecast range 2. Reference figures calculated by excluding the Timing business from actual results, including January 2026

2Q 2026 Forecast **FX Sensitivity Impact of a 1 JPY fluctuation**

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

Please go on to the next page. This is the Q2 forecast.

On the left-hand side, the fourth column from the left in the shaded column, please refer to that. Revenue midpoint forecast is JPY388 billion; gross margin, 57.0%; operating margin, 29.0%; and exchange rate assumptions are JPY156 to the dollar and JPY180 to the euro.

In relation to the timing business, the Q2 forecast does not include the timing business. The timing business has been excluded from the non-GAAP results since February of this year. Therefore, it is not included in the Q2 forecast. However, for comparability sake, we have YoY and QoQ results adjusted for timing business figures shown on the right-hand side.

As for the Q2 forecast, on a pro forma basis, QoQ, these are the two right columns. The far-right column should be kept in mind as I make this comment. For revenue, the midpoint of JPY388 billion, but on a pro

forma basis, we expect an increase of 5.1% QoQ. Excluding FX impact, revenue is expected to increase by 5%. For both automotive and IIoT, we expect both segments to increase.

As for gross margin, we are forecasting 57.0%. On a pro forma basis, that would be minus 2.1 percentage points from QoQ due to production absorption. We expect improvements, but due to FX impact and also mix, this mix also includes a currency mix impact, and also an increase in manufacturing costs results in an expected QoQ deterioration.

As for operating profit margin, we are expecting 29.0%. That will be minus 4.5 percentage points QoQ. It's a rather significant decrease. This is due to the deterioration from the gross margin decrease. Excluding that factor, there's also a deterioration coming from an increase in operating expenses, which contributes about 3%, of which 1% concerns one-time factors that were mentioned during Q1 and timing differentials. About 2% is the net increase in operating expenses expected for Q2.

If we look at the breakdown, first is labor cost increase. The annual salary is to be increased from the April term. That will affect the Q2 results, and also the continued investments in R&D, as well as seasonality factors, all contributing to an operating expense increase of 2%.

As for the FX sensitivity, you can see the table at the bottom.

In the appendix, there are several items that I would like to highlight. Please go to page 18.

HIGHLIGHTS

R-Car Gen4

- Renesas R-Car V4H ADAS SoC Selected for Toyota RAV4 Model
- R-Car V4H performs core ADAS signal processing such as camera and radar sensing and Driver Monitor, supporting higher levels of vehicle safety

GaN Products

- Renesas Unveils First Bidirectional 650V-Class GaN Switch For Solar Power Inverters, AI Data Centers and More
- First-of-its kind bidirectional GaN technology with DC blocking dramatically reduces switch count needed for power conversion topologies

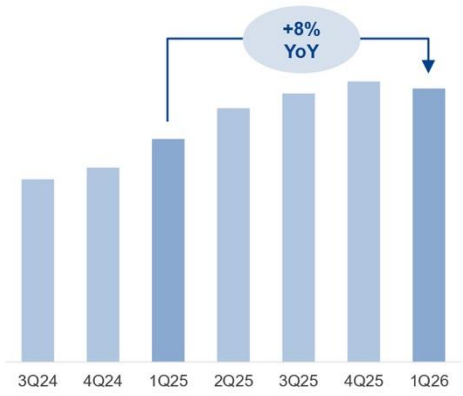
Radiation Hardened ICs

- Renesas' Radiation Hardened ICs Take Flight on NASA's Artemis II Crewed Lunar Mission
- These devices are embedded in the space vehicle's avionics and safety launch system, helping to regulate and distribute power, maintain signal integrity and support onboard computing

The highlights. Please look at the far left. R-Car Gen 4 is ramping up. These are the specific customers that will be using this.

ALTIUM PROGRESS TO DATE

Group ARR[1] Progression



General Availability of Renesas 365[2]

First open end-to-end electronics development platform unites early concept validation, device exploration, model-based system development and device lifecycle management in one unified cloud environment

1. ARR Definition: Annual Recurring Revenue ("ARR") is the annualized value of active customer contracts. Includes all term-based licenses and subscription services, plus maintenance for perpetual licenses, server-based licenses, and Altium 365 subscriptions. Annualized value is calculated as total contract value divided by contract days, multiplied by 365. Octopart ARR is based on trailing six-month recognized revenue x2.
2. Renesas Announces General Availability of Renesas 365 | Renesas

Please go to the next page.

Regarding Altium, I would like to also give a progress update. Q1 ARR was increased by 8% YoY. Compared to the past growth rates, we've seen a slight slowdown in the short term. Rather than maximizing ARR growth in the short term, we would like to promote the adoption of the platform and also increase the number of accounts. That has been our priority. As a result of that, we've seen this result.

In some services and some regions, we are seeing a transition from the older model to the new model, and this has resulted in a temporary decrease in ARR. As for our approach to ARR and how we should constitute the transition period, and how we should apply the thinking of KPIs, that will be updated in due time. On the right-hand side, we started the general availability of Renesas 365 as shown here.

That concludes my presentation. Thank you.

Question & Answer

[Questioner 1]

Q: This time, you emphasized the rate-limiting factor of supply, supply not catching up with demand. Towards the April to June quarter, what are you focused on to address the bottleneck? And what can you do to increase sales further?

As for CAPEX, when will CAPEX start to make a contribution? Is it in H2? What is the pace that you expect to increase supply with, and as a result, sales? I believe digital power mainly is performing strongly. You've also mentioned that automotive performance was also strong. Is there any supply constraints regarding automotive? But conversely, why is demand so strong in the automotive segment?

Shibata: As for the capacity of Renesas itself, realistically, I believe we will be having a contributory effect from the beginning of next year. In a step-function way, we are not expecting an increase in supply in a step-function way. Bottlenecks change constantly in small ways.

What are we doing recently to address the bottleneck? We are looking at testers. Even when we receive wafers, since the number of units of testers is not sufficient, wafers just lie idle. In some cases, we have placed orders for testers quite some time ago, but as you are aware, there is an overall shortage in general. We would like to receive testers earlier and in greater numbers, even by one unit.

As we continue these efforts, we expect bottlenecks to be resolved and shipments to increase. If this is successful, then it could be an upside factor in Q2.

On the other hand, concerning some products, as I discussed earlier, last year on December 27, there was an earthquake in Taiwan. There were also subsequent earthquakes, and there was also a blackout. That resulted in wafers being a bottleneck.

On the wafer side, we are making efforts to pull in. Depending on what the product is, the situation is different, but we want to pull in incrementally. We want to increase gradually. We are making a great effort in this, and we will continue to make these efforts. Gradually, we expect capacity to increase.

As for suppliers, especially in Q3 and beyond, suppliers are already increasing supply. As these materialize, then in Q3 and beyond, in particular, regarding wafers, which I mentioned earlier, I believe that we can expect a significant increase in supply. From some time in Q2, at the earliest, supply may begin to increase. If not, we expect wafer supply to increase from Q3.

As for the automotive segment, I did not mean to emphasize that the performance is extremely strong. It is stronger than we expected. For one thing, Gen 4 R-Car, 40nm MCU, and Gen 3 R-Car are also contributing. R-Car fluctuates from quarter-to-quarter, as we discussed before, but the trend is a stronger trend. I have covered this last year as well. The environment surrounding the automotive industry has changed, more so than we expected. I believe there is a tendency to continue to use previous generations' products.

As for 28nm MCU, we see steady growth. But in particular, because China is large, especially some customers in China, their production and sales are affecting our results. There is some volatility in the short term, but overall, the trend is smooth growth.

MCU, the older generation, the new generation, and R-Car older generation and newer generation, we are seeing ramping up of the new generation. Not by a very large margin, but a steady increase. As for the older

generation, they are being used longer than we expected. I believe the combination of these has resulted in stronger results.

Q: The second question is about the price environment. I would like to understand better. Some non-Japanese players are commenting to the effect that there may be price increases. How do you see the situation? And what are the developments that you expect?

Shibata: That is a question that is difficult to address because of different expectations from investors and our customers. Raw material and transportation costs, as you know, are rising. There are also supply constraints. Memory price, as a result, is increasing. When necessary, our competitors are also increasing their prices. That is the actual situation. Given this situation, it would be very difficult for us alone not to increase prices. At some point in time, by a certain magnitude, we may have to adjust our prices.

[Questioner 2]

Q: The first question is regarding gross margin for Q2 and how we should think about that. As per Mr. Shinkai's presentation, we have the breakdown, but looking at that, what I struggled to understand was that sales are expected to be flat QoQ. However, you're expecting a 2% decrease. How should I think about that? To what extent are the risks incorporated? Is there any upside? If you could talk about those things, I would appreciate that.

Also, for power, gross margin is low. Mix deterioration is expected, as per your presentation. But what is the contribution in terms of OP margin? That's my first question. Thank you.

Shibata: I will ask Mr. Shinkai to respond to those questions.

Shinkai: Regarding gross margin decreasing by two percentage points, as for the breakdown, due to production absorption, we expect a slight improvement, but because of the FX impact and manufacturing cost increases, we expect an overall deterioration. As for the contribution and the breakdown, FX impact is one-third. Manufacturing cost is about two-thirds in terms of the impact. As for FX, in Q2, we expect an appreciation of the yen. In terms of FX, there is an upside based on our current view.

As for the mix, there is the product mix and also the currency mix that is also impacting the results. For Q2, the yen portion is expected to slightly increase. The foreign currency upside would decrease in turn. Therefore, the currency mix will also contribute to the deterioration. In terms of the product mix, we have legacy power products. These are low gross margin products. Shipments of those products are expected to increase QoQ, and this will impact the overall gross margin.

As for the manufacturing costs, this accounts for about two-thirds of the overall impact. For Q2, there is a unique factor in the quarter. The utility costs, the energy costs, with higher temperatures, of course, utility costs will also increase.

The operating expense, when I talked about that, I mentioned this briefly. Due to the merit increase, we also expect a labor cost increase. Periodic repairs and maintenance will be done during the Golden Week holiday, and also in preparation for capacity expansion, there will be some inspections done, contributing to an overall increase in costs. As a result, the manufacturing cost increases, contributing to a lower gross margin for Q2.

Shibata: If I may supplement, Mr. Shinkai already gave the forecast for Q2, but generally speaking, as for the currency and product mix, simply, we expect fluctuations. For power for AI demand, we have low gross margin products to high gross margin products. There is a rather wide range of products with gross margin levels. Our in-customer share is also expected to change drastically.

It's a bit difficult to forecast, but our intention is to have higher gross margin products and higher customer share. If this starts to be realized, then if we have an increase in power for AI demand, this should not contribute to lower gross margin, but for the time being, we expect some fluctuations.

Generally speaking, as Shinkai-san already mentioned, manufacturing costs are expected to increase given the current crude oil situation. According to media reports, we should expect an impact in six months' time or so. Maybe looking at H2, we should expect an impact in terms of energy costs.

Generally speaking, we do not expect gross margin to continue to rise. The key is how to manage the manufacturing cost increase, including energy costs, through such measures as improvements in mix. For example, for products for AI, by improving the mix, we can absorb, to an extent, the increase in manufacturing costs. You should not expect this to have a steady increase.

Shinkai: Sorry, I forgot to answer another part of the question. In terms of the OP margin, we should expect a positive contribution, a positive impact.

Q: Thank you.

Another question. Maybe I misread, but on page nine, the FX, JPY156 to the dollar is the assumption in Q2. That's for Q1. Would that have any impact QoQ? Sorry, for the euro, in terms of euro FX sensitivity, I don't see much impact. Would that have much impact in terms of a JPY1 fluctuation? That's a rather limited impact, correct?

Shinkai: Yes. The currency mix has a bigger impact, a stronger yen. This is an expected increase in sales for Japanese customers contributing to that.

Q: This relates to my first question. For the automotive business, you said that it is stronger than your expectation, but on the other hand, for H2, demand for automotive is still uncertain, as what we hear from peers. Given the macro environment and what you know so far, what is your expectation for H2? What is your outlook?

Shibata: Well, it is uncertain for sure. I don't know how I should phrase this. But macro uncertainty affecting automobile consumption certainly exists, and that's a big factor to consider. If there are no such factors, we do not expect such a substantial increase, but depending on what platforms are to be launched and other factors all included, we do expect an increase going forward to some extent.

The outlook is rather bright. But the Middle East situation is affecting crude oil prices by a large margin. Maybe this will result in sales of gasoline cars, hybrids, or EVs. So all factors need to be considered.

Having said that, as for sales for ourselves, as was shown during Shinkai-san's presentation, recently, we are seeing stronger results coming in compared to our expectation. Inventory, particularly channel inventory, has to be built up. Adjustments in that sense have to be made, and that will give the necessary support to an extent. As for the sales outlook, relatively speaking, we have an optimistic view for our sales going forward. That is an honest assessment of where we are.

[Questioner 3]

Q: First, about SG&A, labor cost increase, and R&D cost increase were mentioned, and this accounted for close to a 2 percentage point increase. But H2 onwards, what is your outlook? And QoQ, in terms of percentage, is there going to be an increase, or is it going to be an increase in value if sales also increases? In terms of percentage, will the increase be more mild? How do you foresee H2?

Shibata: Shinkai-san, please.

Shinkai: This time between Q1 and Q2, there were some timing issues of when expenses are booked in Q1 or Q2, and that accounts for 1 percentage point. Adjusting for that, in Q2, operating expenses will be about JPY100 billion or more. Therefore, in Q2, labor cost increases and seasonality factors are taken into account. In H2, this also depends on the foreign exchange rate, but every quarter, JPY100 billion or so of operating expenses is what we generally expect towards H2.

Q: The second question is related to the data center business. You have decided to make a large capital expenditure. In comparison to three months ago, do you have a different outlook? Doubling growth in AI was your previous forecast. Does that remain unchanged? Intel announced a strong performance. Non-AI may also be an area to pay attention to. Including the non-AI area, what is your vision in the medium to long term?

Shibata: At least as far as until the end of this year is concerned, our outlook remains more or less unchanged. At least it is not deteriorating, so it is not unchanged in a positive sense. As for next year onward, I believe strong momentum will be maintained. Thus, as soon as possible, we would like to increase our internal capacity to capture that stronger momentum.

As for non-AI, it's not glamorous, but certainly, it is growing and we expect this growth to continue. It is true for power, but memory interface also is one of the drivers for profit where we can enjoy the benefit. We would also like to make sure that we capture that benefit. Overall, I think we are similar to our peers.

In the near future, we expect strong momentum, and because of that expectation, we will need to expand capacity. Towards next year, supplier partners from Taiwan that I've mentioned earlier, we would like to increase capacity further. We are discussing with them as such. We believe we will be able to secure the necessary capacity. I expect strong growth in a step-function way in Q3 and also next year.

Q: As a follow-up, do you have an outlook about share, digital power, and memory interface? Do you expect any change in outlook in a positive or negative sense?

Shibata: In memory, in the positive sense, we do not expect any change. Especially Gen 5 and beyond, we believe we are in a good position. We would like to maintain that good position. As for AI power, I have been discussing this on numerous occasions. We would like to maintain our share or increase our share. But in the short term, there is going to be strong competition, so we should not become complacent. I believe that is the best way to put this.

[Questioner 4]

Q: First, related to automotive. Earlier, Shibata-san said that the automotive mix may change. The other day, in Europe, EVs are selling and increasing in volume. Due to changes in energy prices, EVs are now gaining traction, particularly battery-powered EVs are rising. Generally speaking, battery cars and EVs, I believe semiconductors are used in large quantities.

For Renesas, the fact that EV is growing, what does it mean? Your company's exposure to EV is not that significant, but with the change in the mix, for your company in the medium to long term, is it going to be a tailwind or is it going to be a headwind? That's my first question, please.

Shibata: In comparison to the peers, we do not consider it to be a tailwind. There are two factors to consider here. First, we have power discrete, but we do not sell this in large quantities. SiC MOS companies that sell such products would be directly impacted more by EVs and BEVs in a positive way. That's the first thing.

The second thing, I believe last year or the year before that, from that timing, in a continued manner, this is something we've talked about. As for our share of MCU, as a fact in terms of EVs, our German competitor has a higher share, and this situation is expected to continue for some time.

As I've said before, of course, we are implementing certain measures, and we expect the results of those measures to be realized going forward. But in the short term, for the next quarter and the quarter before that, there are timing differences. With a shift to BEVs, we do not expect any negative impact on our company alone, but in comparison to our peers, our growth rate would be muted. That's all.

Q: Thank you.

This is my second question. Now, you made a decision for large investments in capital expenditure, Naka, Saijo, and Kofu. I have a question for the Kofu factory. So far, we have not seen the introduction of the mass production phase. With this CAPEX, I believe this is mostly for digital power. Now you have visibility on the start of operations at the Kofu factory, and once operations start, I believe costs will also increase. How should we interpret the P&L impact?

Shibata: P&L impact will be explained by Shinkai. Yes, we do have visibility as to the operational start at Kofu. This is going to be 300mm. Products using 8 inches will run on the lines. The running change is something customers do not readily accept, but we will expect a gradual shift, and we do have visibility now.

As for the impact on P&L, Shinkai will explain.

Shinkai: With the investments that I've covered, the actual start of production is expected to be FY2028. The depreciation will start from the time of the start of production. As for the actual depreciation amounts, the back-end and the intermediate process investments are not yet determined. The finalized amount will be determined after determining these other processes and investments.

Q: I believe the CAPEX is JPY94 billion, and you mentioned that about 80% of that is for capacity expansion. Just to get a general idea, what will be the allocation to each factory of this investment?

Shibata: Shinkai-san, please.

Shinkai: For capacity expansion, it's 80%. That will be about JPY77 billion in investments for capacity expansion. About half of that is for Kofu, over 20% is for Naka, and around 15% is for Saijo. The remaining amount is for the back-end processes.

[Questioner 5]

Q: In H2, I have a question regarding automotive. Shibata-san said that demand side, including energy cost increases and consumption, were mentioned as concerns, but memory purchasing may also be a difficulty, and for how long inventory will last, there may be concerns for Tier 1 suppliers. In terms of procurement of raw materials, is there going to be an impact in H2 to 2027 in terms of impact on the production of automobiles? Do you have any concerns?

Shibata: Since last time, personally, my view has not changed so much. It is a concern, but it's not materializing. Is this going to be a large impact? I have a sense that it will not be a large impact. DRAM is oftentimes highlighted, but not only DRAM. For example, PCBs on which devices will be mounted, but PCBs, for example, are in shortage. Because of short supply, it is not possible to produce. That is a possibility.

But if I may repeat, many people are anticipating this, and they are taking preemptive measures. I do not think that there will be too large an impact. That is my take at the moment.

Q: My second question is about price increases. About five years ago, I believe a surcharge mechanism was adopted. For incremental costs, prices will be increased so that margins will not deteriorate for Renesas. I believe that type of price increase was implemented.

But oftentimes, American companies also say that because of higher wages, price increases are on top of the increase in costs, and gross margin, as a result, will be higher compared to before the price increase. Which approach would you be adopting? It may be difficult for you to discuss this, but to the extent possible, if you could share your thoughts on this.

Shibata: It is difficult to say on our part. We would like to do what is best for shareholders and customers, what is reasonable for shareholders and customers in terms of pricing. As for the surcharge method, it is difficult to implement this in reality in many respects. We would like to have a more clear-cut way to adjust prices. That is all.

Q: Regarding automotive, you may have long-standing relationships with your customers since the days of the former Renesas. You may not be able to increase prices so aggressively. But acquired companies, the business of formerly acquired companies, may have more leeway to increase prices more aggressively in IIBU. Can I have such expectations?

Shibata: Former Renesas and other businesses, we do not make such a distinction anymore. In the short term, if we do something radical about price, of course, no customer would like to see that. We would like to be sincere. I think we focused primarily on customers when we try to be sincere, but we would like to be sincere vis-à-vis customers as well as vis-à-vis our shareholders when we consider price. I hope that answers your question.

[Questioner 6]

Q: Regarding AI and data center applications, you mentioned the digital and power products as products for these applications. You have power, and you also have drivers. You have analog. You have MCUs. This digital power signal chain exists in the Company. Are you referring to that? What specifically do you mean when you say digital power?

Shibata: Thank you. In principle, basically, what we mean is using digital technology to manage and control. That's what we mean.

Q: I think it's a strength of Renesas that you have everything covering the whole range. Are you going to sell in a bundled way?

Shibata: Right. We have the controller using digital to control various devices and components. Also, for designing such products, we also have the environment. This is what are unique characteristics for us.

In recent media reports, finally, NVIDIA’s strength, CUDA, is now highlighted on more occasions. Of course, those in the industry have been aware of this for quite some time. For our digital power as well, it’s the same kind of differentiation as that. For each individual device performance, of course, we work to further improve and enhance that. But more so, we focus on the use of these devices. That’s where we find attractive in our solutions. We provide solutions that are attractive in usage.

Q: I think 48 volts DC is currently selling?

Shibata: Yes, of course. Within the grid to core, from grid to core, including GPU, we cover the whole range. We originally focused on core where devices actually operate, but then we've expanded gradually towards the grid, including the 48 volts. We are still in the process of expanding towards the grid.

Q: I see. 800 volts, that is currently attracting attention, and you will eventually target that area of business as well?

Shibata: We already have solutions for that. A certain GPU manufacturer's publication covers our solution. We do have a full suite. But of course, we intend to further expand and innovate in terms of our offering. So, yes, your understanding is correct that we will be pursuing these areas going forward.

Moderator [M]: Thank you. It is now time to end the conference. We would like to end the Q&A session. But before we end the conference, final remarks by Shibata-san, please.

Shibata: At the risk of repeating myself, due to macroeconomic factors, mainly, there are uncertainties. Uncertainties remain. But despite these uncertainties, we also have several structural drivers that are becoming more visible. In the meantime, we would like to deliver as much upside as possible, and we will focus on execution.

If all goes well, we hope that we will have higher inventory next year and stronger, expanded capacity to achieve further growth. I hope we will be able to realize that trajectory. We would like to ask for your continued support.

On Capital Market Day, which will be held in about two months' time, I don't expect any major updates, but rather than providing simply an update, we would like to have a good Q&A session, a constructive Q&A session. Thank you very much for joining us today.

Moderator [M]: With that, we would like to end Renesas Electronics' Q1 2026 earnings conference call. Thank you very much for joining us today.

[END]