

3Q of the year Ended December 31, 2026

Conference Call (Held October 29, 2026)

Presentation and Question & Answer Summary

Presentation

Moderator: Thank you very much for taking your precious time to attend Renesas Electronics Corporation's FY2026 Q3 earnings call. We thank you very much indeed.

Today's session is attended by our CFO, Mr. Shuhei Shinkai, as well as other staff members of the Company. After a few words from Mr. Shinkai, we would like to provide you with the explanation of the Q3 results, which will be followed by a Q&A session. We expect to finish the entire session in about 60 minutes. The materials to be used for today's presentation is already posted on the IR site of our corporate homepage.

Mr. Shinkai, please turn your microphone on and begin your presentation.

Shinkai: Thank you. I am Shinkai, CFO of the Company. Good morning to you.

From this time around, the earnings call update method was reviewed. In June of this year at the Capital Market Day, our mid- to long-term business direction and strategies as well as the aspirational financial targets were presented to you in a comprehensive manner. So, the progress of those mid- to long-term things will be explained during the full-year earnings call also at the Capital Market Day from Mr. Shibata, but the recent or the quarterly performance of the Company will be explained mainly by myself, so please be aware of that.

Now, if I could begin the presentation using the presentation slides, but before that, in Q3 of this year, I would like to just briefly talk about the highlights of the Q3 results as well as the outlook for Q4.

The Q3 actuals with the industrial and infrastructure sales came in higher than the projected numbers. On an actual apples-to-apples basis without the impact of forex, it was a 1.8% increase compared to the plan.

As for Q3, on July 1, the timing business was transferred. We completed that transfer. So, the GAAP-based operating profit, we recognized the gain on the sales of JPY450.3 billion.

For Q4, on a QoQ basis, excluding the foreign exchange impact on an apples-to-apples basis, a 4.2% QoQ increase is expected. The details were driven by the growth of automotive, SoCs, and also the R-Car Gen4 started off. Also, the 28nm MCU adoption spread, so that was also a factor. Also, industrial and infrastructure continued to be strong.

The Q4 outlook, so if I try to summarize for the full year of 2026 on a YoY basis, a 26.4% revenue increase is expected for the landing. There is also foreign exchange favorability, but on a YoY basis, excluding the tailwind from the weaker yen, approx. 20% increase is expected for the full year.

Now, for the mid- to long-term aspirational targets, towards these goals, we will continue to grow, and we are also tackling to increase the production capability. The in-house production will be expanded through capital expenditures. In Q3, Q4, we will continue to make those capital investments.

So, now, I would like to go into the explanation using the presentation slides.

DISCLAIMER

- **Adoption of IFRS:** With the outlook that the Group will continue to expand globally and to provide financial figures that can be compared on a global scale, the Group discloses its consolidated financial statements in accordance with IFRS starting from the annual securities report for FY2018/12.
- **Non-GAAP figures:** Non-GAAP figures are calculated by removing or adjusting non-recurring items and other adjustments from GAAP (IFRS) figures following a certain set of rules. This adjustment and exclusion include the amortization of intangible assets recognized from acquisitions, other PPA (purchase price allocation) adjustments relating to acquisitions, stock-based compensation, as well as other non-recurring expenses and income the Group believes to be applicable. In addition, the Timing business, for which a business transfer was announced in February 2026, was transferred on July 1, 2026, and its financial results from February 2026 through the transfer date and a gain on sale of the Timing Business have been excluded from Non-GAAP financial measures.
- **Presentation of financial forecasts:** Starting from the consolidated forecasts for the three months ended March 31, 2019, the Group presents its financial forecasts as a range, and gross margin and operating margin figures in the Non-GAAP format. The gross margin and operating margin forecasts are given assuming the midpoint in the sales revenue forecast.
- **Change of the method for aggregating Reportable Segment:** Due to the Group's organizational changes in the three months ended March 31, 2024, the methodology for aggregating revenue for reportable segments changed from a product-based approach to an application-based approach. The reportable segment classification for the Timing business has been reclassified from "Automotive Business" and "Industrial/Infrastructure/IoT Business" to "Others" beginning with the three months ended June 30, 2026. Note that segment information from FY2025 has been prepared based on the categorization method following the change.

Now, if you can go to page three, this is a disclaimer here.

As I said at the outset, on July 1, the timing business was transferred, so those were excluded from the non-GAAP numbers, and the GAAP-based Q3 numbers recognize the proceeds from the transfer of the timing business, the gains from the sale.

3Q 2026 FINANCIAL SNAPSHOT

NON-GAAP

	2025		2026									Results adjusted for the Timing business ⁴	
(B yen)	3Q (Jul-Sep)	9 months (Jan-Sep)	2Q (Apr-Jun)	3Q (Jul-Sep) Forecast	3Q (Jul-Sep) Actual	YoY	QoQ	Change from Jul. 31 FCT ¹	9 months (Jan-Sep)	YoY	Change from Jul. 31 FCT ¹	2025 3Q (Jul-Sep)	YoY (Adjusted)
Revenue	334.2	967.6	405.3	430.0 (±7.5)	435.2	+30.2%	+7.4%	+1.2%	1,212.8	+25.3%	+0.4%	326.7	+33.2%
Revenue (Excluding FX and one-time ² impact)	-	-	-	-	-	+22.3%	+8.6%	+1.8%	-	+18.0%	+0.7%	-	+25.0%
Gross Margin	57.6%	57.1%	58.1%	57.5%	59.4%	+1.8pts	+1.3pts	+1.9pts	58.9%	+1.8pts	+0.7pt	57.2%	+2.1pts
Operating Profit (Margin)	103.2 (30.9%)	278.9 (28.8%)	132.7 (32.7%)	(32.5%)	150.5 (34.6%)	+47.3 (+3.7pts)	+17.8 (+1.8pts)	(+2.1pts)	408.7 (33.7%)	+129.8 (+4.9pts)	+10.8 (+0.7pt)	(30.2%)	(+4.4pts)
EBITDA ³	122.5	336.3	154.3	-	173.4	+50.8	+19.1	-	473.9	+137.6	-	-	-
Profit Attributable to Owners of Parent	88.2	239.3	113.3	-	125.0	+36.8	+11.7	-	341.2	+101.9	-	-	-
1 US\$=	146 yen	149 yen	159 yen	159 yen	161 yen	14 yen JPY dep.	2 yen JPY dep.	2 yen JPY dep.	158 yen	10 yen JPY dep.	1 yen JPY dep.	146 yen	14 yen JPY dep.
1 Euro=	170 yen	164 yen	185 yen	184 yen	185 yen	15 yen JPY dep.	0 yen JPY dep.	1 yen JPY dep.	184 yen	20 yen JPY dep.	0 yen JPY dep.	170 yen	15 yen JPY dep.

1. Each figure represents comparisons with the midpoint in the sales revenue forecast range. 2. Revenue reserve adjustment.
3. Operating profit + Depreciation and amortization. 4. Reference figure calculated by excluding the Timing business from the results of the comparable period.

The fourth page, the Q3 actuals are presented here.

If you look at the shaded part on the left, those are Q3, so if you can look at that.

For revenue, JPY435.2 billion; gross margin, 59.4%; operating profit, JPY150.5 billion; operating margin, 34.6%; EBITDA, JPY173.4 billion; profit attributable to the owners of the parent, JPY125 billion; and foreign exchange, JPY161 to the US dollar, JPY185 to the euro.

As always, the timing business, excluding all that, the YoY comparison, excluding the timing business is presented on the right-hand side of the screen.

For Q3, there was a one-off accounting-related factor, so excluding that, we wanted to show this apples-to-apples as much as possible so that we can explain the real strength. So, excluding the foreign exchange and the one-off factor, if you look at the second column there, that's already presented. So, it's the one that says that excluding foreign exchange impact and also the one-off factor.

The Ship and Debit transaction-related adjustments, this one-off factor, the Ship and Debit we have made a quotation for the provisions, and then based on the actual sales of the act to the customers, we have settled that. We have changed the methodology for the quotation, so that's the reason why we have decided to make this adjustment one-off here. The number was quite significant, so that's the reason why we have decided to exclude this as a one-off factor. It's just a technical adjustment.

3Q 2026 REVENUE AND GROSS / OPERATING MARGIN

	Company Total	vs FCT	QoQ	Automotive	Industrial / Infrastructure / IoT
Revenue	435.2 B yen vs FCT: +1.2% QoQ: +7.4%	+	+	189.5 B yen vs FCT: - QoQ: +1.3%	243.8 B yen vs FCT: + QoQ: +12.7%
Gross Margin	59.4 % vs FCT: +1.9pts QoQ: +1.3pts	+ ▲ Yen depreciation ▲ Mix improvement ▲ Decreased manufacturing costs	+ ▲ Yen depreciation ▲ Mix improvement ▲ Increased utilization	55.3 % QoQ: +0.1pt	62.8 % QoQ: +2.2pts
Operating Margin	34.6 % vs FCT: +2.1pts QoQ: +1.8pts	+ ▲ Increased gross profit	+ ▲ Increased gross profit ▼ Increased operating expenses	32.9 % QoQ: -1.5pts	36.2 % QoQ: +4.3pts

If you can look at the next page, this is the comparison vis-a-vis the plan.

The Q3 revenue, gross margin, and also the OP margin, I would like to explain them one by one versus the plan.

If you look at the column versus the plan, revenue was plus 1.2%, and on a like-for-like basis was higher. So, it came in higher on an apples-to-apples basis, higher than the plan, but because of the foreign exchange impact and also the one-off factor, those factors canceled out each other.

Now, the actual demand, 1.8% incremental revenue. If you look at the actual demand, automotive compared to the plan was slightly higher. Infrastructure, industrial, and IoT was higher. Therefore, the vast majority came from the contribution of IIoT.

Then, there are three major factors here. Data center actual demand increased and also back-end supply for data center products improved. Therefore, we were able to have an increase in shipments. Also, as for the mass market in the industrial sector, AI and semiconductor-related demand increased. So, those are the three major factors behind this upside compared to the plan.

Now, as for the gross margin, compared to the plan, a 1.9% point increase compared to the plan, and the weaker yen, mix improvement, and the cost reduction for production were the major factors. Weaker yen, 20%; mix improvement, 50%; and the cost reduction, 30%. Those are the contribution towards this improvement versus the plan.

As far as the mix improvement is concerned, the data center and also the supply improvement, that was the factor behind the revenue improvement, and so likewise here, revenue growth in memory interface and digital power products for data centers was a contributor to the mix improvement.

Also, when it comes to the production cost reduction, the write-down and write-off of inventory did not occur as much as what we had planned, so that resulted in lower-than-expected expenses.

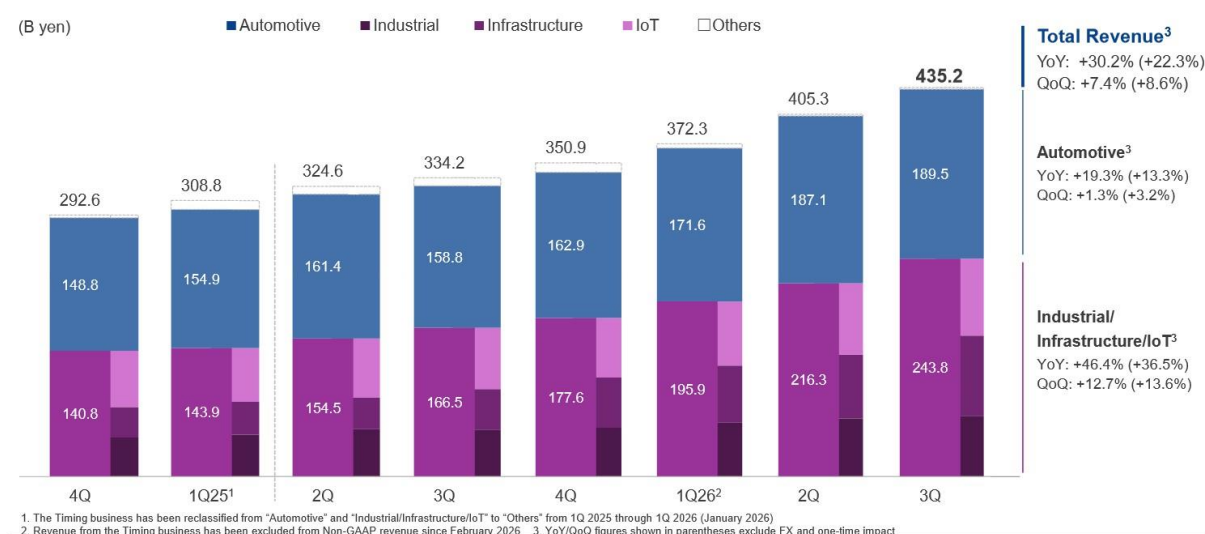
Also, for the OP, or operating margin, compared to the plan, 2.1% higher compared to the plan. The gross margin, the upside factors for the gross margin was the same here for the OP margin. Opex itself came in more or less in line with the plan, with some ups and downs. Expenses decreased due to the review of the hiring plan, while AI infrastructure investment inside the Company, and also the increase of the STI-related provisions offset the favorability. So, the actual landing numbers came in more or less in line with the plan.

If you look at the right-hand side, on a QoQ basis, the gross margin increased largely due to the same factors as in the comparison versus the projection. Also, for the operating margin, on a QoQ basis, we anticipated an expense increase, and we landed according to the plan.

By segment, IIoT on a QoQ basis, there has been a significant increase, as you can see here, but when it comes to the gross margin, foreign exchange and mix were also factors. Also, for the operating profit, the scale increase was the major driver behind the good performance.

QUARTERLY REVENUE TRENDS

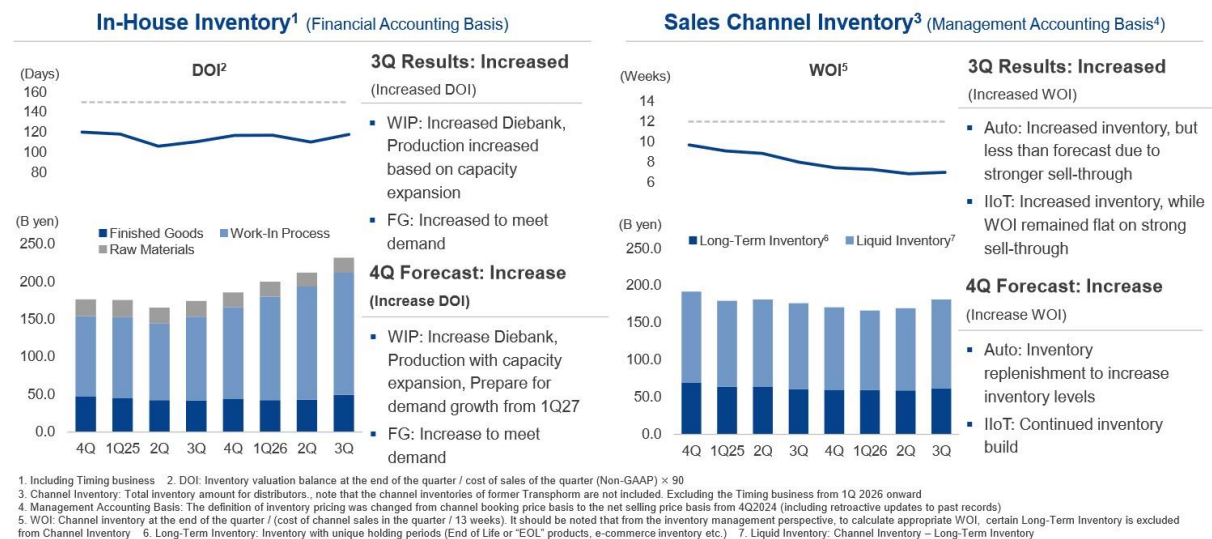
NON-GAAP



If you look at the next page, this is the quarterly performance of the revenue.

Overall, YoY, 30.2% increase; on QoQ, 7.4% increase. The numbers in the brackets are the actuals, apples-to-apples, excluding the one-off factor and foreign exchange, a 22.3% increase YoY and an 8.6% increase QoQ.

INVENTORY



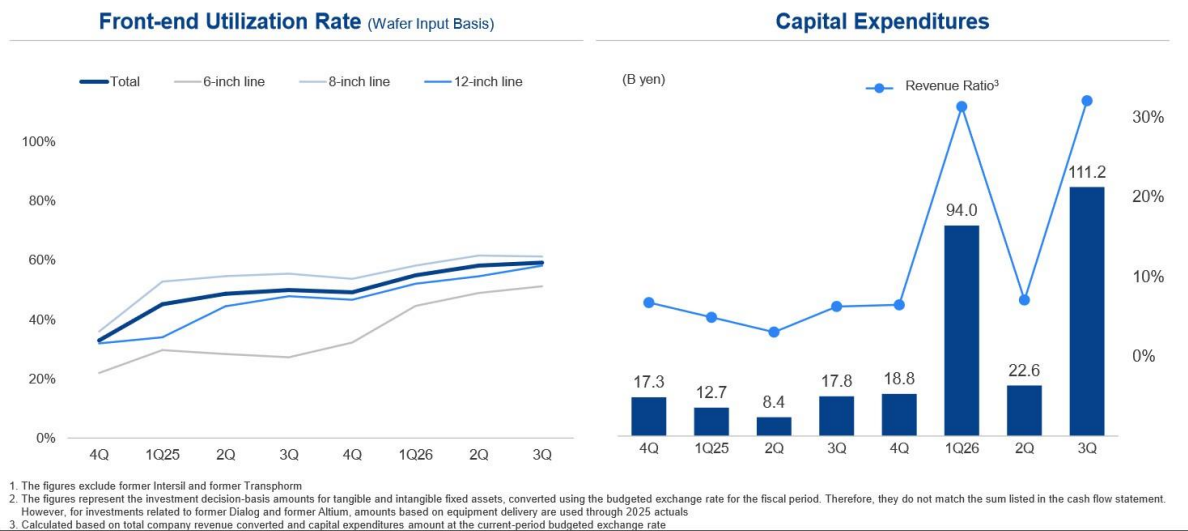
The next page, inventory.

The left-hand side shows our own inventory. Both work in progress and finished goods increased quarter on quarter in Q3, mainly due to die bank expansion and increased work in progress associated with production capacity expansion. Q4, QoQ, there is an increase to be expected. Diebank and production capacity fulfillment by which work in progress will be increased, and Q4 has inventory increases to be expected.

In addition, on the right-hand side, sales channel inventory shows the Q3 QoQ or inventory increases, and auto and industry has been increasing in inventory. On the other hand, for automotive, more than the assumption, the sell-through is increasing. So, for fulfillment, it's not so large, but it has been increasing as a trend.

The Q4 channel inventory fulfillment is to be continued. For auto, as mentioned at the beginning, 28nm MCU and R-Car mainly will be fulfilled, so that demand fulfillment preparation will be made. For industry infrastructure, data center is still at a low level in inventory levels, but in actual amount, it will be increased, and we will work on that.

FRONT-END UTILIZATION RATE¹ AND CAPITAL EXPENDITURES²



Next page, please. So, Capex and utilization processes wafer.

Q3 is as assumed. Our Kawashiri plant, earthquake impact, wafer input had been decreased, but the impact is very small, and it is 59% as a result.

Q4 expects some increases.

On the right-hand side, there is a Capex situation.

Q3 has MCU and Digital power to be increased in production with in-house factory and R&D investments related to process developments, which is JPY111.2 billion to be fixed. The increase in production is 80% overall.

For MCU, the domestic Naka plant, and for power, mainly for the back-end process for Malaysia factories to be handled for increase in production and domestic Saijo factory, where production will be increased, and the back-end process and interim processes is where it will handle those processes.

Q4 continues for AI infrastructure. Back-end process is mostly and in-house factory capacity increases will be worked on.

4Q AND FULL YEAR 2026 FORECAST NON-GAAP

	2025		2026						Adjusted for the Timing business ²				
	4Q (Oct-Dec)	Full-year (Jan-Dec)	3Q (Jul-Sep)	4Q (Oct-Dec) Midpoint Forecast (Range) ¹	YoY	QoQ	Full-year (Jan-Dec) Forecast	YoY	2025 4Q (Oct-Dec)	YoY	2025 Full-year (Jan-Dec)	2026 Full-year (Jan-Dec) Forecast	YoY
(B yen)													
Revenue	350.9	1,318.5	435.2	454.0 (±7.5)	+29.4% (±2.1pts)	+4.3% (±1.7pts)	1,666.8 (±7.5)	+26.4% (±0.6pt)	342.0	+32.8%	1,287.5	1,663.6	29.2%
Revenue (Excluding FX and one-time ³ impact)	-	-	-	-	+24.6%	+4.2%	-	+19.7%	-	+27.7%	-	-	22.2%
Gross Margin	59.3%	57.6%	59.4%	58.0%	-1.3pts	-1.4pts	58.6%	+1.0pt	58.8%	-0.8pt	57.2%	58.6%	+1.4pts
Operating Margin	30.8%	29.3%	34.6%	32.0%	+1.2pts	-2.6pts	33.2%	+3.9pts	29.9%	+2.1pts	28.6%	33.2%	+4.6pts
1 US\$=	152 yen	150 yen	161 yen	157 yen	6 yen JPY dep.	4 yen JPY app.	158 yen	9 yen JPY dep.	152 yen	6 yen JPY dep.	150 yen	158 yen	9 yen JPY dep.
1 Euro=	176 yen	167 yen	185 yen	178 yen	2 yen JPY dep.	7yen JPY app.	183 yen	16 yen JPY dep.	176 yen	2 yen JPY dep.	167 yen	183 yen	16 yen JPY dep.

¹ Each figure represents comparisons with the midpoint in the sales revenue forecast range. ² Reference figures calculated excluding the Timing business from actual results. ³ Revenue reserve adjustment.	4Q 2026 Forecast	(B yen)	US\$	Euro
	FX Sensitivity	Revenue	2.2	0.2
	Impact of a 1 JPY fluctuation	Operating Profit	1.1	0.1

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RENESAS

Next page, the Q4 and full-year forecast.

For Q4, on the left-hand side, there is a shaded portion to be referred to.

Revenue and profit, JPY454 billion for revenue; 58.0% for GP; 32.0% for OP; and forex, US dollar, JPY157, and euro is JPY178; are expected. Respectively, the contents will be explained.

Revenue, JPY454 billion, is shown at the midpoint. YoY, on the right-hand side, is 29.4%. QoQ is 4.3%. These increases are expected. QoQ, 4.3% will be explained where yen appreciation factors and the Q3 onetime factor may be included, but excluding that, it will be around 4.2% of increase to be expected in revenue, as written in revenue, excluding forex and onetime impact. This 4.2% QoQ increase is for the revenue.

For data center and industrial increases are mostly the portions. For automotive, 28nm MCU deployments, and Japan Gen4 deployments. These are the main drivers for the growth.

Gross margin, 58% is QoQ. A 1.4% decrease to be expected. Yen appreciation and mix and production expense increases are included. Then, 50% or more is mix factor, and the remainder is forex and production expense increases. For the production expense in Capex, as has been explained, gradually, there is more investment into production increases, so investment-related expenses in Q4 are increasing. Year-end maintenance is also necessary, so repair works expenses will concentrate at the end of the year.

32% of the operating margin, 2.6% reduction occurs.

In Q4, an Opex increase is expected, and there are about three factors to this. One is the office upgrading and infrastructure, internal IT, and AI infrastructure to be prepared for, and investments for that are necessary. R&D investments, there are some seasonal factors where it concentrates towards the end of the year, and other portions are also included. QoQ, operating expenses are increasing thereby.

At the bottom, there is the sensitivity of forex.

The Q4 forex sensitivity, as it were a JPY1 fluctuation and impact to operating profit is shown. In the US dollar case, it is JPY2.2 billion, and operating profit JPY1.1 billion; in euro, in sales, JPY0.2 billion, and the operating profit impact is JPY0.1 billion. So, based on the constant currency, US dollar, JPY100, and euro, JPY120, means the performance forecast by 32% is 26.2%.

3Q 2026 FINANCIAL SNAPSHOT

GAAP

(B yen)	2025		2026					
	3Q (Jul-Sep)	9 months (Jan-Sep)	2Q (Apr-Jun)	3Q (Jul-Sep)	YoY	QoQ	9 months (Jan-Sep)	YoY
Revenue	335.4	969.7	418.4	435.9	+30.0%	+4.2%	1,234.7	+27.3%
Gross Margin	57.3%	56.4%	58.6%	59.0%	+1.6pts	+0.4pt	58.8%	+2.4pts
Operating Profit (Margin)	72.6 (21.7%)	133.9 (13.8%)	102.1 (24.4%)	565.3 ² (129.7%)	+492.7 (+108.0pts)	+463.2 (+105.3pts)	758.0 ² (61.4%)	+624.1 (+47.6pts)
EBITDA¹	117.4	276.7	148.9	610.2	+492.8	+461.3	897.0	+620.3
Profit Attributable to Owners of Parent (Loss)	106.3 ³	-69.1 ³	149.2	372.2 ³	+265.9	+223.0	589.5 ³	+658.6
1 US\$=	146 yen	149 yen	159 yen	161 yen	14 yen JPY dep.	2 yen JPY dep.	158 yen	10 yen JPY dep.
1 Euro=	170 yen	164 yen	185 yen	185 yen	15 yen JPY dep.	0 yen JPY dep.	184 yen	20 yen JPY dep.

1. Operating profit + Depreciation and amortization 2. Recognized a ¥450.3 billion gain from the transfer of the Timing business 3. Valuation losses and profits on the deposit to WolfSpeed and other financial assets (2Q25: valuation loss of ¥235.0 billion; 3Q25: valuation profit of ¥44.5 billion; 1Q26: valuation loss of ¥5.8 billion; 2Q26: valuation profit of ¥63.3 billion; 3Q26: valuation loss of ¥44.9 billion)

In addition, for the appendix, please jump over to page 17.

Operating profit, the third from the top, JPY565.3 billion is shown, and as mentioned at the outset, the gain on sale of the timing business transfer are booked here equal to JPY450.3 billion.

So, that is the conclusion of the slide explanation.

Question & Answer

[Questioner 1]

Q: My first question is the revenue for data centers and also digital power that is a portion of that. In Q3 and also for Q4, can you give us the outlook for Q4? Also, as you ramp up your production inside the Company, what is the output that can be expected for Q1 of next fiscal year? How further can you increase your production? I would like to confirm these points.

Then, when it comes to the profit margin, in Q3, because the IIoT profit margin has been increasing, I'm sure that data center performance is improving. But other than memory interface, the digital power is also, I believe, improving. Can you explain those trends, if you could?

Also, related to data center, Agentic AI impact, if you see any impact from that, if you can comment on that point as well.

That's my first question.

Shinkai: All right. Agentic AI impact, it's not possible for us to quantify that yet. However, industrial and also the mass market business of ours is indirectly affected by that in the form of revenue increase. That's how we see it. We need to further analyze and study this impact.

Also, digital power and memory interface trends in Q3 to Q4, we are expecting a growth QoQ. Data center overall at the whole company level in Q3, 21% was the contribution to our total sales, and in Q4, its contribution will rise further from the 21% level to a higher level. Therefore, this will be one driver of our growth.

As far as Capex is concerned, digital power front-end, digital power middle-end, and also the back-end for those needs, we are going to make investments. Also, the memory interface front-end currently from foundry, we are securing these from the foundries, but we are going to increase the capacity for test at the back-end, and that is our plan. Therefore, the Capex impact on revenue growth in that regard, digital power contribution will likely be higher, and also its impact scale will be larger.

In a phased manner, the supply will increase gradually. One of the major steps will be next year, Q1. At Saijo, the capacity increase investment output will come in, in full strength, from Q1 next year. Therefore, we expect that will have a boost to our revenues.

Also, digital power is simple as that portion only. Saijo production increase investment and also the foundry capacity increase investment, including all these things, compared to FY2026, double to 2.5 times. The run rate production increase is expected from next fiscal year Q1. So, that is the contribution that we foresee right now.

Also, as far as the mix is concerned, memory interface, digital power, and the customer, architecture and platform, those are quite diverse. Therefore, the cost configuration and also the gross margin breakdown is quite different from customer to customer, from platform to platform. So, just like market share, this changes quite dynamically, so that was the major factor. That will be the major factor behind the change of the mix.

So, as a general trend, gradually, as the product matures, the yield will also improve. Also, depending on the maturity of the production, the gross margin will also improve, but in the near term, it will be affected by the mix, and that may seem to be significant.

Q: A supplementary question, regarding the data center breakdown, you mentioned the breakdown. On a QoQ growth, Q3 versus Q4, what is your projection for that? Also, that is going to result in an increase in Q1 on a run rate basis. Is that what you see? Is that correct?

Shinkai: Q3, the Q4 comparison, if I give you some numbers, we are expecting an increase, approximately 10%-some, mid-teen percent is the growth that we are expecting. We can fairly say that if you consider the comparison between Q3 and Q4, a mid-teen level of increase is what we project.

Also, from FY2027 onwards, especially when it comes, because we are going to increase the capacity mainly for digital power with increased production capacity, we are expecting further growth.

Q: So Q3, Q4, a QoQ increase of mid-teen level, and Q1, can we expect a higher growth rate because of the increased capacity?

Shinkai: The capacity of the overall data center, digital power is the area where we are going to increase the capacity, and that will account for, let's say, less than 50% of the total. So, digital power will increase due to the capacity increase, but for others, it will grow at a normalized level. So, if you can understand it that way, that will be good.

Q: The second large question is about SiTime, JPY450 billion of gain is expected, and for its use, three months or six months ago, the buy backs or some kind of investments were mentioned. We would like to know what your thoughts are about this.

From a wider perspective, I suppose financials and valuation and stock prices are rather difficult to link together. What are the factors by which improvements and valuation increase can be gained, including the buybacks? What is the intent of the Company?

Shinkai: For SiTime, a gain was recorded, but half is cash, and half is in stocks that we acquired. And the stock portion is not cashed in yet. On the other hand, the cash portion has been acquired. For its use, the capital allocation framework, basically, accordingly is applied so that it can be used. So, Capex and deleverage, shareholder returns, and growth investments would be considered.

Presently, as mentioned within this slide, our in-house capacity will be increased, so that Capex will be reinforced for that thing. That is our thought. Other than that, growth area, investment possibilities will be searched for continuously, and we will prioritize and determine what is most important. Accordingly, whether we will acquire treasury stocks or not will be determined. At this moment, Capex is what we prioritize more.

For valuation, always, Capital Market Day timing is where we talk about our metrics with 6x, and it is in line with that metric. Organic growth through which sales growth may be gained and scale expansion to be materialized is one point, and valuation gap will be filled in and further reinforced. Then, there will be payout out of that to be worked on, and business itself will have the mixes to be changed through digitalization. The composition of the businesses will be changed. Those are the plans we have.

That's all for the answer.

Q: So, is there some kind of delay in the payout for them because for the cash, there is ample amounts and there is some kind of additional portion to be considered. Investments, is it so heavy next year? Or after the year has ended, maybe you can think in more neutral terms to use them in other ways.

Shinkai: It is the latter policy. What kind of items or investments we have as in balance with the annual budget, we will consider. In addition to that, if it's M&A, there are opportunities for various projects that may be arising, and we will look at them carefully. At appropriate timing, we will decide what is best. One timing is at the year-end, and that may be one of the milestones.

[Questioner 2]

Q: I have a question relating to automotive semiconductors.

On a YoY basis, there is a 19% increase, so you are seeing signs of recovery. Two questions here. One is that, in this, what is the actual demand recovery? And if you divide that with the inventory build-up, what is the contribution of these two factors for the increased performance?

As far as the demand recovery is concerned, you said R-Car Gen4 and 28nm MCU. I think you talked about the possibility of share gain, share improvement. So, the market improvement and the share gains, if you look at your own opportunities for business expansion, can you just sort out what is the contribution of these two factors for your performance improvement? And if you can also talk about the sustainability of this performance, that would be appreciated.

Shinkai: So, the automotive YoY increase of 19%, how we analyze that. That, I think, was the question, right?

So, the foreign exchange, the weaker yen favorability is also included in this number. So, if you exclude that, on a YoY basis, a 13.3% increase in revenue. What are the results for Q3? And so, the inventory in the channel, as I said, we have been building up the channel inventory, but when you look at the sell-through, only half of that level is the sell-through, so the actual demand has been improving. And that accounted for half of the 13.3% increase, and the remaining half is due to the increase of inventory.

The sell-through improvement, which translates into the actual demand improvement, the driver behind this was, as I said earlier, the 28nm MCU, especially in China. Chinese OEM is adopting this more broadly. That's one factor. Also SoC, the new R-Car Gen4, recently, I think this is primarily expanding among the Japanese customers. So, from Q3 to Q4, those are all increasing. 28nm MCU, mainly among the Chinese customers, we are expanding our sales, and that is also projected going forward. Also, the R-Car Gen4, beyond Japanese customers, the adoption by other regions' customers is expected going forward.

Overall, the legacy decline is muting the growth to some extent. So, to some extent, there has been an offset factor from that, but still, our unique growth drivers are the MCU of 28nm MCU and R-Car Gen4

. So that's the two major distinctive drivers for us.

Q: Follow-up on that, the 28nm MCU expanded adoption by the Chinese OEMs. Is this only one company or multiple companies?

Shinkai: Multiple companies.

Q: Multiple companies, okay, got it. Thank you very much.

Then, my second question, this relates to all segments of your business. Currently, backlog and the lead time, the product lead time for each subsegment, can you talk about the current status of your lead time, if there's any difference between different segments?

Also, in 2027, towards early 2027, given the market situation, how is the order faring? If you can give us some guidance towards 2027 up to, let's say, half-year into 2027?

Shinkai: The backlog for each of the segments basically is performing very favorably. Internally, data center-related and others, we classify into these two different categories and look at the general trends. But also, for these other segments, we continue to see strong backlog demand, the backlog coming in quite strongly.

Also, the lead time for data center is also getting longer. Therefore, the backlog cover until H1 of next fiscal year is already there. That is the current status. So, on an ongoing basis, until H1 of next year, we have coverage with the backlog already.

Q: Okay, then, so that applies to non-data center-related for automotive and IIoT. You believe the current market conditions will continue into H1 of next fiscal year?

Shinkai: To be more precise, the data center lead time is getting longer, so we have H1 coverage already. Other than that, the situation is mixed, but backlog, generally speaking, is building up favorably even for other segments. That's what I wanted to say.

[Questioner 3]

Q: The unit price increase is the first question. From this March, each competitor has started to increase prices, as you said. When would the effects arise? I think it should be around July or thereabouts. Is there an effect on the unit price, and also the gross margin increases should be expected? Is there such an effect on unit prices?

Shinkai: We review pricing in a timely and appropriate manner, based on the principle that **cost increases should be shared to some extent across the supply chain**.

What about Q3, was the question to that? It's not so much, but slightly, unit prices have been revisited, and that in Q3 has been impacting. On the other hand, the gross profit margin to be improved significantly is not the level of impact that has been reached.

Q: It depends on the levels. 0.5%, for example, of contribution, is that the level of contribution that was achieved?

Shinkai: Not to that level. Please understand that it is not to that level.

Q: There are various products. It's not for all. On the other hand, what is lacking should be rising in unit prices. What is the product that is easier to raise the unit prices for?

Shinkai: Generally speaking, mass market products have unit prices that are quite easy to increase. On the other hand, there are cost increases to be added to from that perspective, as according to products. Exposure or cost structure may change according to how easy it is to see that the costs are increased. All in all, on an average basis, mass market products are easier to revise the prices for.

Q: The second question is about data center. Digital power, considering the capacity is 2 times to 2.5 times to be expected for next year. Memory interface or CPU having a major strength is what I have heard about. Capacity considered, what is the sense of level? And in data center, mass markets are growing, and I'm not sure of its definition. What is the sense of scale of the data center mass market? And what kind of products are included in that? Can you give me some insight?

Shinkai: Digital power, 2 times to 2.5 times is the run rate production capacity, and it's not that it will contribute cleanly next year. It will start up in order. So, that is one point I needed to revise and comment on. For data center or memory interface, it is where the front-end process can be considered and capacity for that to be expanded and acquired is where, presently, we are working on.

It's actually quite the opposite of having enough capacity; the reality is that capacity is currently the bottleneck in this area. Moving on the mass market, for example, for data center, air conditioning direct application is

not grasped in many areas, which are in the mass market, and that in AI, data center, semiconductor production equipment is where they will be applied into. That is what we assume. This has to be reviewed more deeply, and I would like to explain in more details when things are clearer.

Q: Intuitively, industrial is where mass markets are included. Is that the case?

Shinkai: That is so.

[Questioner 4]

Q: I also have two questions. Some is overlapping.

Regarding the gross margin, I would like to reconfirm. The Q3 gross margin has improved significantly. Memory interface was good, but digital power was not favorable in the past. But of course, this is affected by the mix already, but is it also improving?

Then in Q4, if you listen to your story, the industrial and data center is also likely to increase, and the mix may improve, I think, according to what you said and also because of the unit price improvement. Then, so the profit margin for Q4, what is your outlook for the digital contribution coming in, but is that really going to decline this much? So, if you can give us your view for Q3 and Q4, that would be appreciated.

Shinkai: Well, Q3, digital power, first of all, if it increases, the gross margin comes down, not really. What we call digital power includes many diverse subproduct lines, or the different sets of products are included under there. Therefore, depending on these products, the results are different because digital power comprises new products as well as old products and things on many different platforms. So, it's a mixture of them. So, depending on the change of the mix, the numbers could change dynamically. So, digital power overall is not going to push down the gross margin necessarily. So, that's one comment that I wanted to add in the beginning.

Then, now, in Q3, compared to the forecast, the gross margin improved compared to the plan, and this was due mainly to digital power and memory interface. Those were the drivers behind this performance. Amid digital power, there are many different elements there, some with the higher gross margin increased, and that was the driver. Also, memory interface also had a contribution because its gross margin was also better.

Towards Q4, on a QoQ basis, the gross margin, a 1.4-percentage point decrease is expected, but the mix accounts for, let's say, 50% or more of that decline. And because within digital power, the mix will change in itself. So, this time around, this will have a negative impact on the gross margin. So, that is the difference between Q3 and Q4.

Now, more than half of the element was the mix factor, but the remaining half will be, as I mentioned earlier, this will be coming from the investment for production capacity. We are going to increase our cost, and also, the maintenance towards the year-end would also be done, so those expenses are also included there. So, although these are one-off things, these will have an impact to deteriorate the gross margin.

That's all.

Q: So, within digital power, the gross margin, some have a lower gross margin. Is there any room for improvement for these? Are you contemplating any measures to improve the gross margin of those products?

Shinkai: As I said a little bit earlier, this is a new product. Therefore, the yield is generally lower. So, because of these reasons, the gross margin is low with some of the products. So, for those, as the product continues to mature, we can expect an improvement.

On the other hand, the production mix, i.e., depending on the site of production, maybe we are using some OSATs or foundries, there's a difference there. So, at those, cost increases by the site of production, those will have an impact on both deteriorate or improve the margin. So, that's how we see it.

Q: My second question is about the memory interface and the digital power. Compared to three months ago, can you give us an update on the demand situation? You talked about the run rate, 2 times or 2.5 times. That's quite large.

Also, memory interface, the CAGR 20% to 30% increase was your original projection, but I think you're already achieving some upside to that. So, can you give us a mid- to long-term direction? I heard that you are going to elaborate on this on Q4 or Capital Market Day, but can you give us an answer for that?

Shinkai: Compared to three months ago, I would say that on a continual basis, we continue to hold a very bullish outlook. That's the reason why we are going to increase the capacity for production so that we can respond to this increased demand. That is our priority that we are tackling right now.

Most recently, the backlog, this is not a mid-term thing, but the backlog is increasing in a very steadfast fashion. So, that's another reason we are taking this view. So, compared to three months ago, we continue to see a very strong outlook.

Q: The growth rate, is it rising because of the prices or demand?

Shinkai: I would say, rather, the visibility into the next platform and how much we can contribute to them. So, the visibility vis-a-vis the program is getting higher. That's the situation.

[Questioner 5]

Q: The market perspective and data center, especially, is the area of question I have.

Next year, there will be direct current 800 volts in the market to be launched. Towards that, the development situation, and when will it contribute towards the performance?

Shinkai: 800 volts is the version we are very much proactive in working on. Firstly, in our device scan, gallium nitride to be applied for the 800-volt solution, major customers' architecture candidate structure is including that. In order to secure the projects, we are proceeding with our activities. For the technology lineup or capability, we can provide 800V-to-48V and 800V-to-12V solutions, and for 800V-to-6V. As of this October trade show, the minimum-size version has been exhibited.

There are various lineups to be supplied so that it can be applied within the architecture. It's not that we have had them applied, and that sales are set up yet, but it is a very important area. So, we would like to focus on it so that we can secure the business cases, and that is the situation for the 800-volt version.

Q: With the customers at this moment, is there some kind of dialogue and some kind of considerations? I suppose the application is not yet established, but in the market, when it's launched and if it's applied, then some contribution or in time frame-wise perspective, what do you expect is the progress?

Shinkai: In our mid- to long-term plan, 2030 or 2035 being this and that level for sales, plans or targets are set. So, this 800-volt DC solution in 2030 and 2035 is in our minds, and I'm sure it will contribute greatly within that time frame.

Q: To add on to this, with this 800-volt and others next year, the perspective of the market is what I would like to know about. For data center, the capacity level has been mentioned, and when will this continue? In 2027, the demand may fluctuate to a certain level, or EV compared to a stronger situation may be continuing. Can you comment on this?

Shinkai: For data center, you mean? For data center, it will continue that demand is strong, and inventory in the sales channel remains very low. As asked previously, there is a lot of accumulation of the backlog, and we expect continued very strong growth in 2027.

Q: Is that trend to continue?

Shinkai: Towards H2 of 2027, or rather, it will continue to be strong.

[Questioner 6]

Q: It was already asked earlier, regarding your capital allocation plan, for Capex, you're going to increase the allocation to Capex. I think that was the nuance that you have given to us. The quarterly disclosure numbers are based on decisions, so it's very difficult for us to foresee. But next year or two years from now, on a payment basis versus sales number, 5% of revenue, was the projection on your capital allocation plan. What kind of upside should we expect?

Shinkai: The Capex amongst capital allocation, on average, it's going to be 5% of the revenue as the midterm average. So, in reality, it changes year by year.

Right now, what is already decided at this point of time, and altogether for this fiscal year, more than JPY200 billion of Capex was planned for this fiscal year, and so, this is mainly linked with the investment when we make for the equipment facility.

So, the cash out is generally done at that point of time. So, there is a one-year or two-year lapse vis-a-vis the plan. So, the cash out timing from that perspective, the cash out is expected to be done from next fiscal year onwards. So that's our current projection.

So, for the near term, 5%, there are some years where we will spend more than 5% of revenue, but if you even them out or take an average, 5% of revenue is the medium-term model, and I think the actual numbers will converge it with that level.

Q: All right. Understood. Then, if that is the case, the revenue is growing. So, I don't think Capex will put that much pressure on free cash flow, and for your leverage already in this quarter, your target level of net debt to EBITDA, 1 time or lower, is already achieved in this quarter.

So, I'm not just saying that the return is the absolute good, but your target of shareholder returns phased increase to more than 30% of free cash flow, I think you're well positioned to achieve that, and it will balance well with other growth investments. What's your view on that?

Shinkai: Yes. As you rightly pointed out, at the right timing, at the adequate timing, we would like to discern the best priority and make a decision. I think that's what we should do. As it was asked earlier, one good milestone is the end of the fiscal year.

Q: Okay. My second question is about your SG&A.

Up until H1 of this year, when you average out, JPY100 billion per quarter was the total amount for the combined amount of your R&D and SG&A, but now, in H2, if I also take into consideration your guidance, JPY110 billion per quarter was the run rate, I think, is currently the run rate.

You've mentioned that you have to make office investments and also some items. You raised some items for expenditures. Is this level going to be your new normal? Or is this just a onetime thing? Is this inflated due to one-off costs?

Shinkai: As we previously mentioned, the SG&A Opex run rate will be JPY100 billion-plus per quarter, and this year, if you take an average for this year, that's going to be the level per quarter. As you mentioned, for H2, JPY110 billion per quarter is the average amount. But then, when we talked about the financial model, as far as Opex is concerned, especially primarily R&D expenses, for the growth of the Company for the future, we have to make proper investments. That is the policy that we are adhering to.

So, of course, this is about a balance with the revenue growth rate, but the Opex investment size is not going to be considered a one-off thing. We would like to make continuous investments. That is our view.

Moderator: The Q&A session will be concluded here, and lastly, there will be remarks from Mr. Shinkai.

Shinkai: Ladies and gentlemen, thank you very much for today.

Q3 and Q4 mainly have been explained.

Recently, there is a very healthy situation that is continuing. For automobiles, production volumes remain somewhat weak, but we have our independent strength, 28nm MCU and R-Car Gen4 are starting up, and the strong situation will be continued accordingly. Needless to say, infrastructure and industrial are also expected to remain strong.

Going forward, growth will be continued, and for that sake, R&D and Capex and other factors will be continued, as we mentioned today.

We would like to conclude at this point. Thank you very much for your participation. Thank you, and goodbye.

Moderator: With that, Renesas Electronics' 2026 Q3 financial report will be closed. Thank you very much for your participation.

[END]