4Q/Full-Year Ended December 31, 2022
Conference Call (Held February 9, 2023)
Presentation and Question & Answer Summary

Presentation

Moderator: Good afternoon, ladies and gentlemen. Thank you very much for taking time out of your busy schedule today to participate in the Renesas Electronics Corporation's FY2022 and Q4 financial results meeting.

In attendance at today's briefing are Hidetoshi Shibata, President and CEO; Shuhei Shinkai, Senior Vice President and CFO; Takeshi Kataoka, Senior Vice President and Co-General Manager of the Automotive Solution Business Unit; and other staff members.

After the greeting from Mr. Shibata, Mr. Shinkai will explain the financial results of the FY2022 and Q4, followed by a question & answer session.

The entire briefing session is scheduled to last 60 minutes. The materials used in today's briefing are the same as those posted on the IR site of the Company's website.

Now, Mr. Shibata, please.

Shibata: Hello, everyone. This is Shibata, the CEO.

First of all, I would like to express my sympathy to those who have been directly or indirectly affected or are in pain regarding the major earthquakes that occurred in Turkey and Syria.

We have a few dozen employees in Turkey, and the memory of the great help we received in 2011 from the Great East Japan Earthquake, especially from Turkey, is still fresh in our minds. Renesas Electronics would like to provide as much support as possible, including donations.

Today, we are announcing our financial results for the full year, and we are pleased to announce that we have recorded the highest numbers in our history in terms of sales, profit margins such as gross margin, operating margin, and EBITDA margin for FY2022.

This was a record high in both GAAP numbers and non-GAAP numbers. Non-GAAP is a given, but we were also able to achieve record-high numbers in GAAP numbers.

As I mentioned briefly at last year's Capital Market Day or Analyst Day, I myself received very encouraging comments from many people in the industry last year that Renesas Electronics had returned to the global market, and I am very happy to be able to confirm this once again in the materialized numbers.

I would like to take this opportunity to share with you how proud I am of achievement, especially because I believe it is the efforts of our more than 21,000 employees that have enabled us to achieve these figures despite various difficulties.

As you know, the market is still in a major adjustment phase, especially for PCs, mobile phones, and consumer products, but I think we are doing a good job of controlling the amount and level of inventory, both our in-house inventory and that of our distributors, as Mr. Shinkai will go into more detail later.

Under these circumstances, today we decided to buy back our own shares again, following the share buyback we conducted earlier last year.

Stock prices have remained relatively steady amid the various market adjustments that have been taking place this time around. In addition, I wanted to recover at least the amount of the capital increase we had made in conjunction with the acquisition of Dialog. From these two perspectives, we are planning to buy back approximately JPY50 billion of our own stock, though on a smaller scale than last year.

Finally, this is housekeeping that I really should tell you about at the end, but I'm telling you now in case I forget. Ever since I became the CEO, we had been conducting Capital Market Day or Analyst Day twice a year, however as I mentioned, I think we are now on par with our competitors and other companies. We would like to take a solid chunk of time to provide updates to everyone on an annual cycle going forward.

We have not finalized this year, but at this point we hope to give a comprehensive update in May or so. We would appreciate your understanding that we will be changing our approach a bit.

I will now hand over to Mr. Shinkai to discuss the details. Please, Mr. Shinkai.

4Q/FULL-YEAR 2022 FINANCIAL SNAPSHOT

NON-GAAP

(B yen)	2021		2022								
	4Q (Oct-Dec)	Full Year (Jan-Dec)	3Q (Jul-Sep)	4Q (Oct-Dec) Forecast	4Q (Oct-Dec) Actual	YoY	QoQ	Change from Oct 26 FCT*1	Full-Year (Jan-Dec) Actual	YoY	Change from Oct 26 FCT*1
Revenue	314.4	994.4	387.6	385.0 (±4.0)	391.3	+24.5%	+1.0%	+1.6%	1,502.7	+51.1%	+0.4%
Gross Margin	54.3%	53.2%	57.0%	54.0%	56.0%	+1.7pts	-1.0pt	+2.0pts	57.4%	+4.3pts	+0.5pt
Operating Profit (Margin)	98.7 (31.4%)	296.6 (29.8%)	142.8 (36.8%)	30.5%	135.7 (34.7%)	+37.0 (+3.3pts)	-7.1 (-2.2pts)	+18.3 (+4.2pts)	559.4 (37.2%)	+262.8 (+7.4pts)	+18.3 (+1.1pts)
Profit Attributable to Owners of Parent	80.9	222.2	96.4	-	109.3	+28.4	+12.9	-	377.3	+155.1	-
Profit Attributable to Owners of Parent (Excluding Foreign Exchange Impact)*2	88.8	246.4	115.4	-	85.6	-3.2	-29.7	-	429.2	+182.8	-
EBITDA*3	119.4	375.4	163.4	-	155.5	+36.1	-7.9	-	639.2	+263.9	-
1 US$=	112 yen	109 yen	135 yen	144 yen	144 yen	32 yen depreciation	9 yen depreciation	0 yen depreciation	130 yen	21 yen depreciation	0 yen depreciation
1 Euro=	130 yen	130 yen	139 yen	142 yen	144 yen	13 yen depreciation	5 yen depreciation	2 yen depreciation	137 yen	7 yen depreciation	0 yen depreciation

*1: Each figure represents comparisons with the midpoint in the sales revenue forecast range
*2: Profit attributable to owners of parent – foreign exchange gain/loss
*3: Operating profit + Depreciation and amortization

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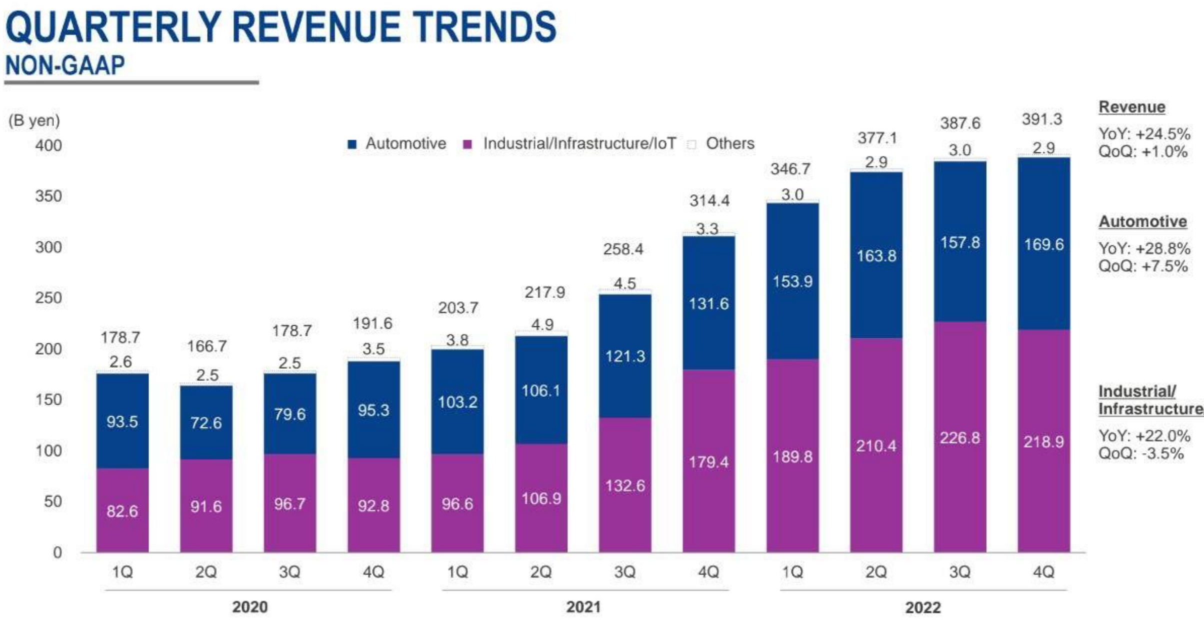
Shinkai: This is Shinkai, the CFO. I will explain the details of the financial results of FY2022, and Q4, based on the presentation materials posted on the IR website.

Page four shows the results for the quarter. Please refer to the blue column in the middle of the table.

Revenue was JPY391.3 billion, gross margin was 56%, operating profit was JPY135.7 billion, operating margin was 34.7%, net income was JPY109.3 billion, net income excluding foreign exchange impact was JPY85.6 billion, EBITDA was JPY155.5 billion, and exchange rates for Q2 were JPY144 to USD1 and JPY144 to EUR1. Please refer to the three right-hand columns there for the forecast ratios. We will explain on a later page.

The full-year results are on the right side of that. Please see the dark blue column. As for sales revenue, we were able to record results at a level exceeding JPY1.5 trillion. Again, in order to show the steady-state level of current net income, we provide net income excluding foreign exchange impact.

The change in the cash pooling method between group companies was made in Q4, and although there was a temporary foreign exchange gain at the time of the change, the impact of the pooling factor on foreign exchange from Q1 onward is expected to be minimal since the exposure to foreign exchange has been reduced considerably.



This is about quarterly revenue trends.

Please refer to the far right for Q4. Overall sales revenue increased 24.5% in YoY and 1% in QoQ.

On the other hand, excluding this foreign exchange effect, sales increased by 4.1% in YoY and decreased by 3.5% in QoQ. The breakdown is as shown below, with a 7.5% increase in QoQ in sales to the Automotive Business Unit. Sales for industry, infrastructure, and IoT Business Unit decreased by 3.5%.

Similarly, excluding foreign exchange impact, QoQ, sales to the Automotive Business Unit increased 3.3%, while sales to the industrial, infrastructure, and IoT Business Unit decreased 8.6%.

4Q 2022 REVENUE AND GROSS/OPERATING MARGIN

NON-GAAP

	Automotive	Industrial / Infrastructure / IoT	Company Total
Revenue	169.6 B yen vs FCT: + QoQ: +7.5%	218.9 B yen vs FCT: - QoQ: -3.5%	391.3 B yen vs FCT: +1.6% QoQ: +1.0%
Gross Margin	48.2% QoQ: -1.0pt	62.5% QoQ: -0.1pt	56.0% vs FCT: +2.0pts QoQ: -1.0pt
Operating Margin	31.0% QoQ: -0.4pt	36.7% QoQ: -3.6pts	34.7% vs FCT: +4.2pts QoQ: -2.2pts

Operating Margin vs FCT +4.2pts

- ↑ **Revenue**
- ↑ **Gross Margin** vs FCT: +2.0pts
  - ↑ Currency Impact
  - ↑ Product Mix
  - ↑ Production Recovery
  - ↑ Production Costs, etc.
- ↓ **Operating Expenses**

Operating Margin QoQ -2.2pts

- ↑ **Revenue**
- ↓ **Gross Margin** QoQ: -1.0pt
  - ↓ Currency Impact
  - ↓ Product Mix
  - ↓ Production Recovery
  - ↓ Production Costs, etc.
- ↑ **Operating Expenses**

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This section discusses Q4 sales gross profit and operating profit.

Speaking from the company-wide total, please refer to the upper right corner for the forecast ratio. Revenue was 1.6% above median compared to forecast. Foreign exchange impact accounted for roughly a little less than half, and the remainder was almost exclusively for Automotive Business Unit. Overseas sales, mainly MCU & SoC, grew compared to the forecast.

Gross margin is two percentage points above forecast. The main factor is the product mix, which is about 40%. Then, the improvement in manufacturing costs is generally around 60%.

As for the product mix, it is a currency mix. About a quarter of the increase was due to an increase in the ratio of foreign currency exchange rates, and the remainder was due to general product mix and increase in non-device sales such as royalty sales.

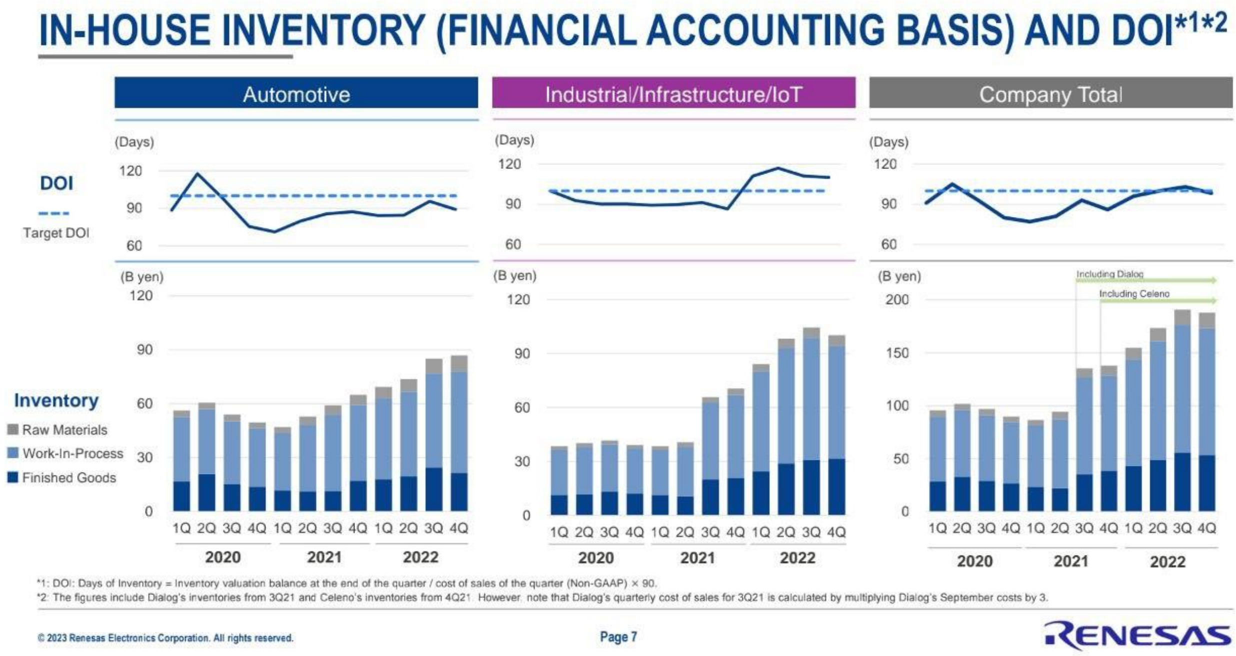
Manufacturing costs improved due to a decrease in cost of periodic inspections conducted at the end of last year and a decrease in outsourced manufacturing costs, mainly for OSAT. Operating expenses decreased from the forecast in both R&D and SG&A, resulting in an operating margin of 4.2 percentage points above the forecast.

Next, we will discuss the QoQ in the lower right corner. Revenue increased by 1%, though it would be negative excluding foreign exchange, as noted earlier. By segment, the negative growth was for industrial, infrastructure, and IoT, and was due to lower demand for PCs, mobiles, and mass markets.

The gross margin was minus one percentage point, mainly due to a decrease in production recovery and an increase in manufacturing costs. As for operating expenses, both R&D and SG&A increased within the seasonal range.

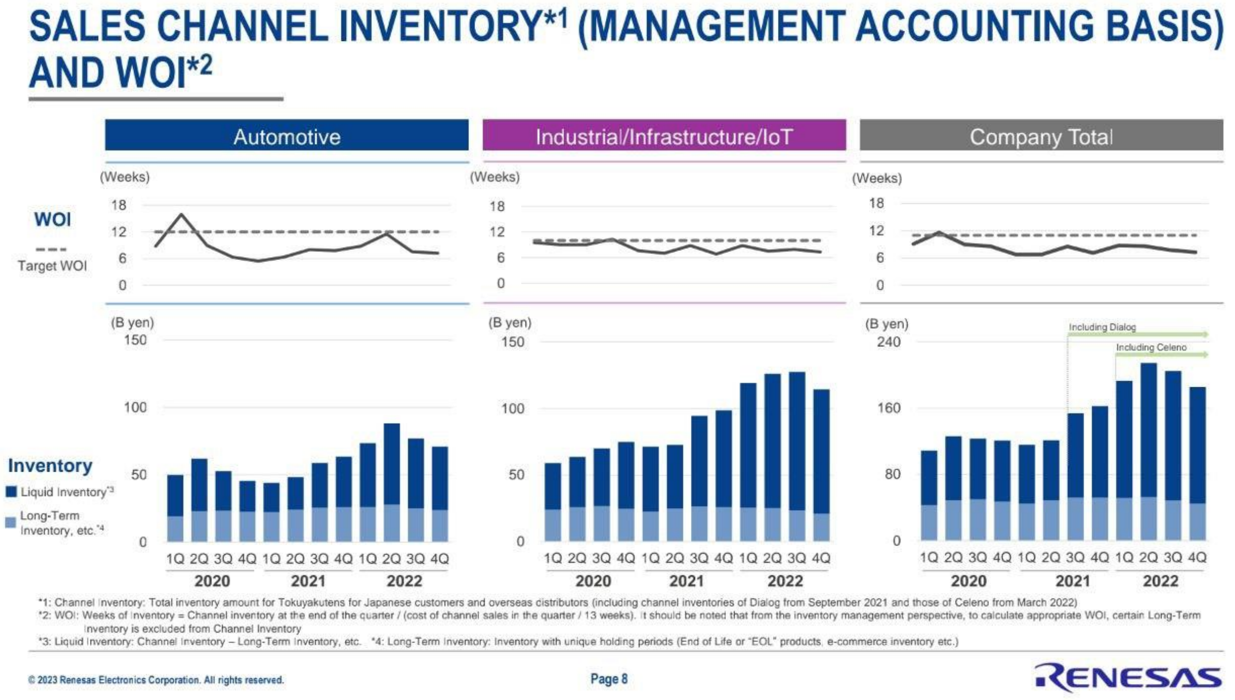
Then, regarding segmentation, please refer to the left.

Regarding the QoQ fluctuations in gross margin and operating margin, I would like to comment on the operating margin of the industrial, infrastructure, and IoT segment, which fluctuates significantly. We recorded settlement costs related to patent litigation in Q4, which is a one-time item. Roughly half of this QoQ decline is attributable to this effect.



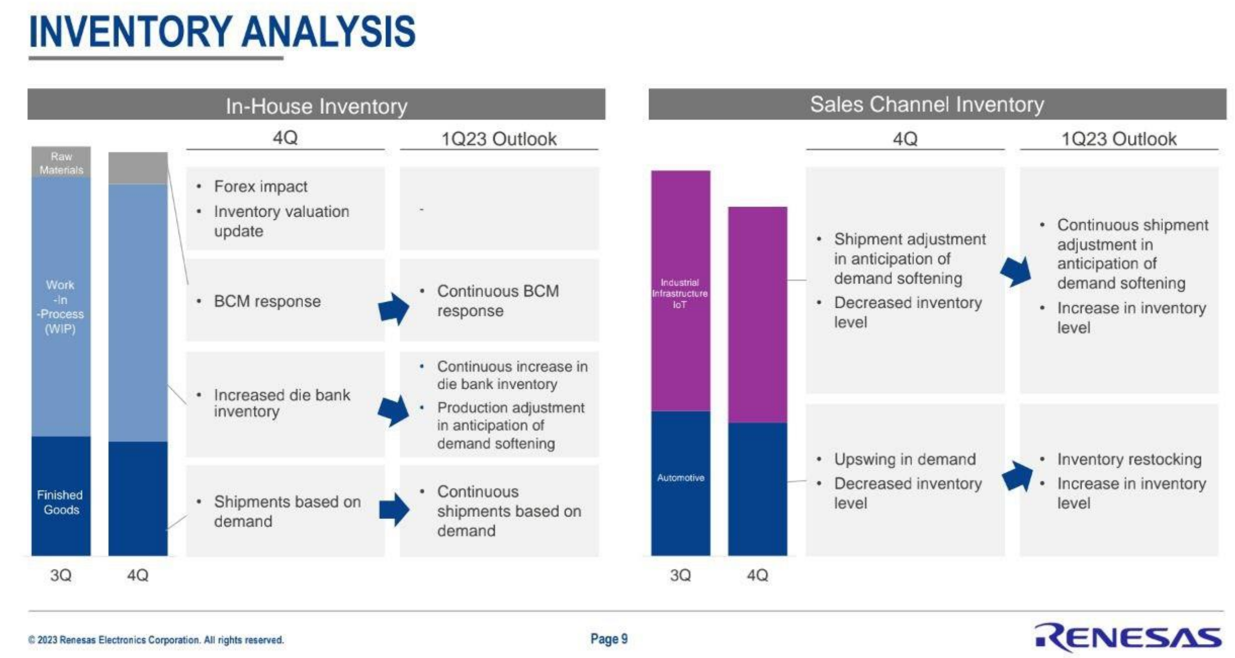
Next is our inventory.

On the right, company-wide business DOI decreased in QoQ to 98 days. By segment, there were declines in both automotive and industrial/infrastructure/IoT. However, the effect of the strong yen at the end of Q4 had a slightly positive effect, and the flat exchange rate means that inventories increased slightly in QoQ.



Next is the sales channel inventory.

The WOI here also declined in the QoQ, with both automotive and industrial/infrastructure/IoT landing at just over seven weeks at the end of the quarter.



Next, I would like to discuss the factors behind the increase/decrease and the outlook for the inventory.

First of all, from our inventory on the left side, the actual decrease from Q3 to Q4 was due to the effect of foreign exchange, and the inventory increased slightly excluding the foreign exchange impact.

Overall, if we start with that, it's the overall bulk of the increase in inventory valuation. This reflects the rising cost of materials and electricity.

Then, for raw materials, we are expanding repair parts for stable operation of factory equipment as a BCM response. This is expected to increase slightly in Q1 and beyond.

As for work-in-process, we are continuing to expand our die bank, while at the same time, we are curtailing the introduction of wafers, wafers for our in-house factories, and purchase of foundry products, respectively, in response to demand. Therefore, we expect a slight decrease in overall work-in-process in Q1.

The target volume of our die bank is set for each product and product line, and although it differs depending on the product, we aim to hold the volume for approximately 4 to 12 weeks, with an average of 6 to 7 weeks. 6 to 7 weeks means roughly 45 days, we are to hold as wafers so monetary amount will be half. In terms of the impact of the DOI, we are now looking at 22 to 23 days, which is half of the 45-day period.

As I mentioned earlier, the DOI was 98 days at the end of Q4, of which the results for the die bank were for 18 days for both internal products and foundry products combined. We are looking at 22 to 23 days, so we are thinking that we need to build some more.

Of the 18-day supply, the proportion of internal products is very small in terms of value, approximately 20% or four days. We have already expanded our in-house production of legacy products and expanded our die bank, but we still need to expand our in-house production of growth products.

About finished products, in Q4, we shipped the products that were produced in advance in the previous quarter, mainly for Automotive Business Unit. On the other hand, shipments to the industrial, infrastructure, and IoT Business Unit remained almost flat due to the curbing of shipments to the channel to meet demand. Finished products are expected to be flat in QoQ in order to ship to the channel after Q1, depending on the demand situation.

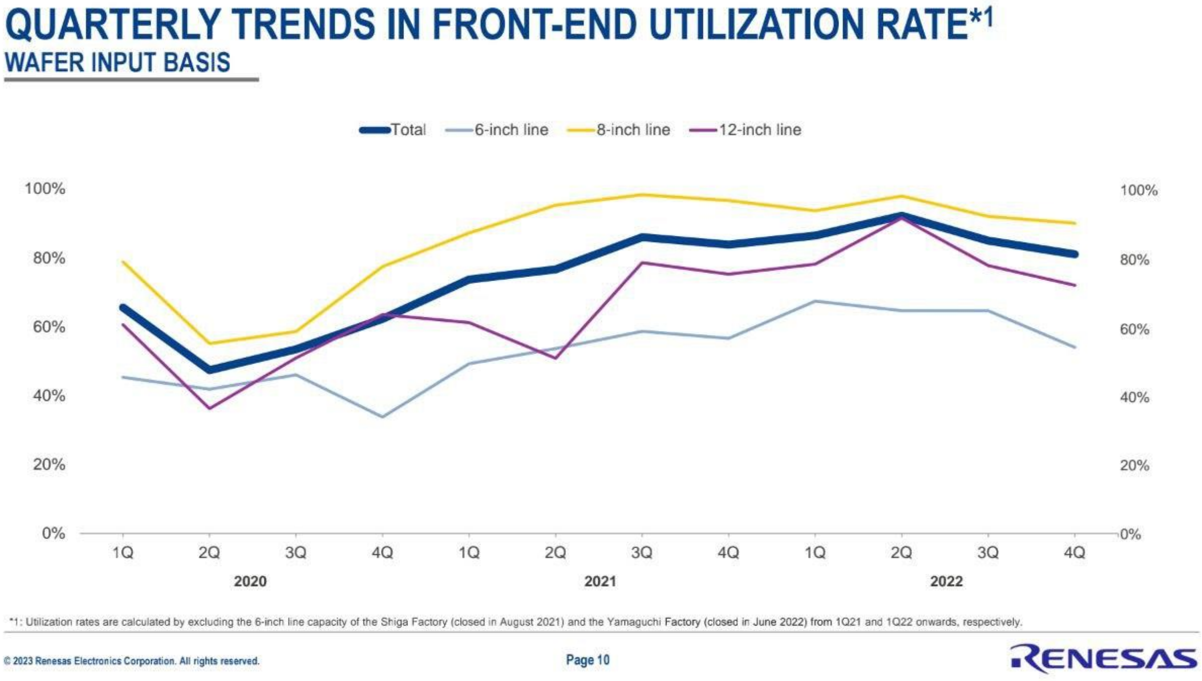
The right section discusses the channel inventory on the right. In common with both segments, we are cautiously watching demand trends in both automotive and industrial/infrastructure/IoT, and we are adjusting shipments with care to avoid excess channel inventories.

In Q4, we landed on just over seven weeks, but we will continue to do so carefully so as not to lose the demand ahead of us in Q1 and beyond. By segment, industry, infrastructure, and IoT saw a QoQ decline in both actual value and then level WOI in Q4.

In Q1, inventory itself is expected to decrease slightly, but WOI is expected to increase due to the anticipated decrease in demand.

Next is automotive. In Q4, we made back what we had lost in the previous quarter, but final demand was higher than we had originally expected. The demand for increased production in this Q1, especially in Japan, was higher, resulting in a decrease in both actual value and WOI in the QoQ.

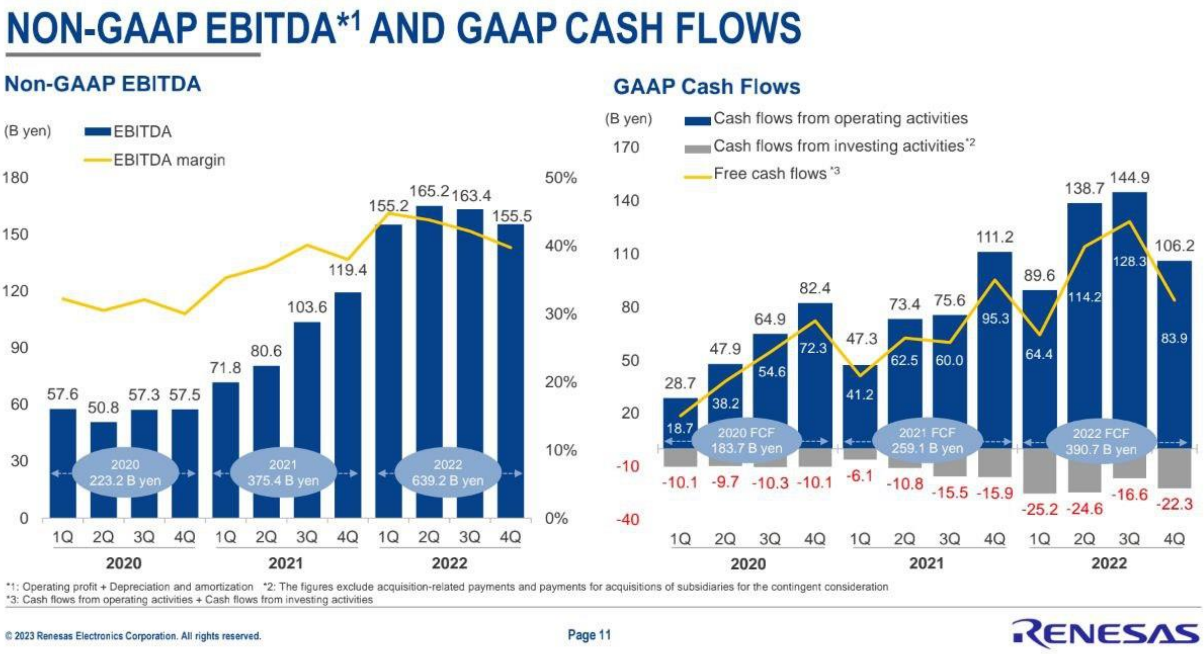
Therefore, in Q1, we expect both the actual amount and level to increase to replenish the amount that was reduced too much in this Q4.



Next is the utilization rate based on wafer input in the front-end process.

Occupancy in Q4 was just over 80%, generally in line with expectations. The main reason for the QoQ decline is that the number of operating days has been reduced due to scheduled year-end inspections.

In Q1, we expect the utilization ratio to decline slightly by a few percentage points from this point due to fewer operating days and some production adjustments.



This page shows the EBITDA and cash flow.

EBITDA for Q4 was JPY155.5 billion, operating cash flow was JPY106.2 billion, and free cash flow was JPY83.9 billion.

In Q4, the difference between EBITDA and operating cash flow was large, amounting to about JPY50 billion, of which about 30% was for routine expenditures such as taxes, 30% was for one-time expenditures, and the remainder was for changes in working capital.

One-time factors include advance payments for securing foundry production capacity, patent litigation settlement costs, and advance payments for licensing costs.

1Q 2023 FORECAST

NON-GAAP

(B yen)	2022		2023		
	1Q (Jan-Mar)	4Q (Oct-Dec)	1Q (Jan-Mar) Midpoint Forecast (Range)*1	YoY	QoQ
Revenue	346.7	391.3	355.0 (±7.5)	+2.4% (±2.2pts)	-9.3% (±1.9pts)
(Excluding Foreign Exchange Impact)	-	-	-	-7.0%	-3.3%
Gross Margin	58.4%	56.0%	54.5%	-3.9pts	-1.5pts
Operating Margin	39.1%	34.7%	32.5%	-6.6pts	-2.2pts
1 US$ =	115 yen	144 yen	130 yen	15 yen depreciation	14 yen appreciation
1 Euro=	130 yen	144 yen	140 yen	10 yen depreciation	4 yen appreciation

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

This is about Q1 earnings forecast.

Please refer to the dark blue column in the middle of the table. Median revenue is projected at JPY355 billion, gross margin at 54.5%, and operating margin at 32.5%. To add a bit of context, revenue was up 2.4% in YoY and down -9.3% in QoQ.

On the other hand, excluding foreign exchange impact, the YoY is -7%, and the QoQ is -3.3%. The 1.5 percentage point decrease in gross margin in QoQ is mainly due to a decrease in production recovery and an increase in manufacturing costs.

The decrease in production recovery is due to the fact that we expect to make some production adjustments, as I mentioned earlier in the inventory section and a little bit in the utilization rate section. As for manufacturing costs, we expect the impact of price increases in foundry costs, raw material costs, and electricity costs.

Operating margin is down 2.2 percentage points QoQ. Operating expenses will decrease due to seasonality, however the operating margin is expected to be negative due to the decrease in sales size.

ACQUISITION AND TENDER OFFER OF OWN SHARES

Summary of acquisition of own shares

Total number of shares to be purchased:
40,453,074 shares of common stock (maximum)
(Equivalent to 2.25% of the total number of issued shares)

Price of purchase:
1,236 yen per share of common stock
(12.5 % discount to the closing price of Renesas' common stock as of February 9, 2022)

Total acquisition price:
50.0 billion yen (maximum)
(Apply cash on hand to the entire amount)

Tender offer period:
From Friday, February 10, 2023 to Friday, March 10, 2023

Others:
Entered into the Tender Agreement with INCJ by which INCJ will tender 40,000,000 shares through tender offer

	As of end of December 2022	After acquisition of own shares*2
Free float weight*1	63.6%	65.0%
Non-GAAP EPS accretion*2		2.2%

*1: Calculated by dividing the number of tradable shares as specified by the Tokyo Stock Exchange by the number of shares issued (excluding treasury stock)
*2: Calculated based on the number of shares planned to acquire (40,453,074 shares)

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Acquisition of treasury stock.

We will conduct a share buyback following last April. This time, we plan to reduce the size of the acquisition to a maximum of JPY50 billion. INCJ will tender 40 million shares through tender offer. This impact is described on the right side of this page.

GAAP / NON-GAAP RECONCILIATION*1 (FY2022)

(B yen)	9 months (Jan-Sep)				4Q (Oct-Dec)				Full-Year 2022 (Jan-Dec)			
	Gross Profit	Operating Profit	Net Profit	EBITDA	Gross Profit	Operating Profit	Net Profit	EBITDA	Gross Profit	Operating Profit	Net Profit	EBITDA
Non-GAAP (vs Revenue)	644.1 (58.0%)	423.7 (38.1%)	268.0 (24.1%)	483.8 (43.5%)	219.1 (56.0%)	135.7 (34.7%)	109.3 (27.9%)	155.5 (39.7%)	863.2 (57.4%)	559.4 (37.2%)	377.3 (25.1%)	639.2 (42.5%)
Recurring Items	-4.8	-93.8	-81.2	-16.5	-1.2	-33.3	-26.3	-5.1	-6.0	-127.2	-107.5	-21.5
Former-Intersil PPA Effects	-0.2	-10.7	-8.1	-	-0.1	-3.9	-0.5	-	-0.3	-14.6	-8.7	-
Former-IDT PPA Effects	-0.3	-35.0	-30.8	-	-0.1	-13.5	-11.9	-	-0.5	-48.4	-42.7	-
Former-Dialog PPA Effects	-1.6	-30.5	-24.6	-1.3	-0.6	-10.5	-8.4	-0.5	-2.2	-41.0	-33.0	-1.8
Former-Celeno PPA Effects	-1.5	-4.0	-4.0	-1.5	-	-1.0	-1.0	-	-1.5	-5.0	-5.0	-1.5
Former-Reality AI PPA Effects	-	-0.0	-0.0	-	-	-0.0	-0.0	-	-	-0.0	-0.0	-
Stock-Based Compensation	-1.2	-13.6	-13.6	-13.6	-0.4	-4.5	-4.5	-4.5	-1.5	-18.1	-18.1	-18.1
Non-Recurring Items	-3.5	-1.9	-1.7	-1.4	0.3	-6.1	-11.5	-6.0	-3.2	-8.0	-13.2	-7.5
Naka Factory Fire Impact	-0.9	0.0	0.0	0.0	-	-0.0	-0.0	-0.0	-0.9	-0.0	-0.0	-0.0
Others	-2.6	-1.9	-1.7	-1.4	0.3	-6.1	-11.5	-6.0	-2.3	-8.0	-13.2	-7.5
Non-GAAP Adjustments Total	-8.3	-95.8	-82.9	-17.9	-0.9	-39.5	-37.8	-11.1	-9.2	-135.2	-120.7	-29.0
GAAP (vs Revenue)	635.7 (57.3%)	327.9 (29.5%)	185.1 (16.7%)	465.8 (42.0%)	218.2 (55.8%)	96.2 (24.6%)	71.5 (18.3%)	144.4 (36.9%)	854.0 (56.9%)	424.2 (28.3%)	256.6 (17.1%)	610.2 (40.7%)

*1: From 3Q 2021 onwards, Non-GAAP adjustments have been also applied to the revenue following the implementation of PPA

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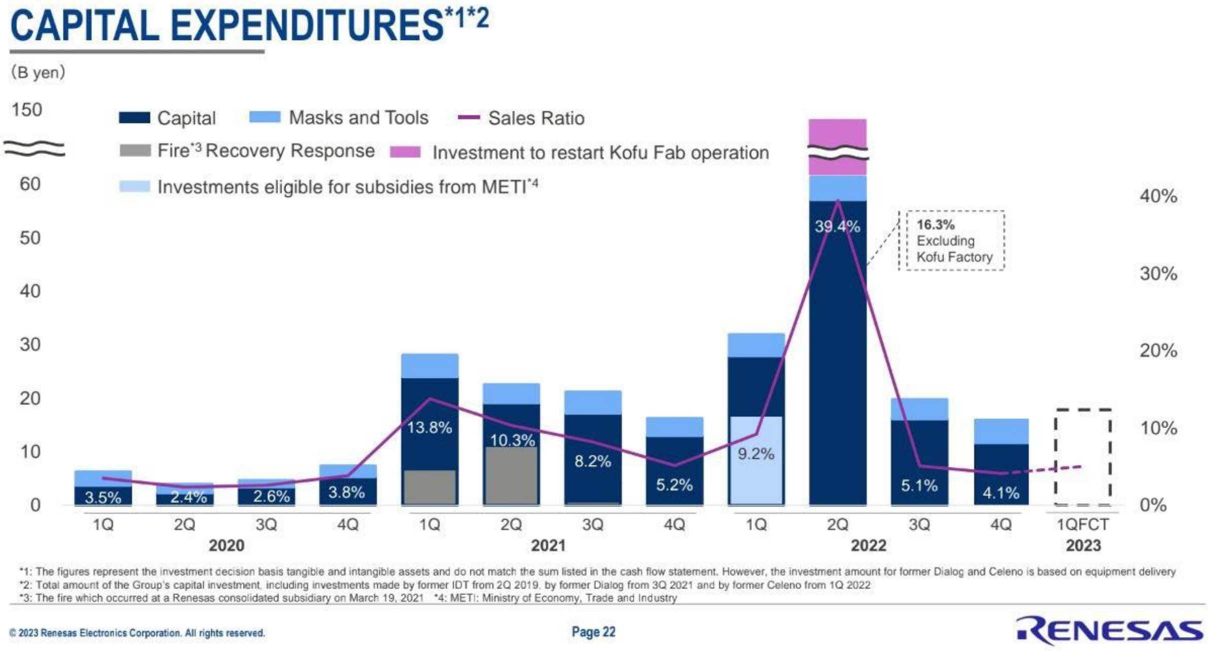
Next is page 19 of the appendix.

This is the GAAP and Non-GAAP reconciliation. The Q4 non-recurring items, which is a bit large, includes the costs of settling the patent lawsuit I mentioned earlier.



Next, we discuss the status of capital investment.

As for capital investment, we have already completed a major project to increase production in 1H of last year, and we expect capital investment in the mid-single-digit percentage for Q1.

This concludes the explanation.

Question & Answer

[Questioner 1]

Q: First of all, thanks again for the sales channel inventory chart. As for automotive, since the inventory has already decreased for two consecutive quarters, in terms of supply and demand, it appears that your company's shipments are not keeping up with your customers' production. Thus, I would like an explanation of this inventory trend, including whether we can expect stable demand throughout this year. If possible, I would like to have a little outlook on industry and infrastructure as well. This is the first point.

Secondly, simply because the exchange rate is moving a bit, there is a change in the quarters, but if you could give me some rough guidance on how much of an impact it will have on sales and profits over the course of a year, that would be helpful. That is all.

A: I will answer the first point, and Shinkai will answer about the exchange rate.

It's not as if we are not keeping up with demand. As Shinkai mentioned earlier, the 40-nanometer microcontrollers that are being ramped up right now are in a pretty tight supply, and they are being used as fast as they are made.

However, due in part to the change in perspective on the supply chain, we were wondering if it was necessary to have a little more inventory in various locations, and we were shipping to the channel accordingly.

The channel's inventory has been depleted because more has been consumed beyond the channel. In order to make up for this, we are planning to supply the channel with a little more for Q1 than we currently anticipate demand to be.

So, at the current level, of course, there is no shortage at all, and we will continue to make adjustments, increasing and decreasing, to maintain the sweet spot.

Mr. Shinkai will explain about the exchange rate.

A: Regarding foreign exchange rates, they are highly volatile, and as I have mentioned before, we hedge the exchange rate to protect our downside in case the yen appreciates.

The reality is that the situation changes when the exchange rate fluctuates within a certain range or out of the range because of this abandonment of the upside of the yen's depreciation. Therefore, it is quite difficult to provide the sensitivity throughout the year.

As for Q1, we estimate that a JPY1 change in the US dollar's exchange rate will have a sensitivity of JPY1.7 billion to sales, JPY1 billion to gross profit, and JPY0.7 billion to operating profit. That is all.

[Questioner 2]

Q: Mr. Shibata has just explained the reason for the relatively strong Q1 sales, but how is the breakdown between automotive and IIoT? Also, I would like to know your outlook for 2023 as well.

Secondly, considering the JPY50 billion share buyback this time and the ability to generate cash flow in the future, I would like to know about the background behind the decision to buy back a small amount of shares in a flexible manner this time.

For example, I would like to know if there is any discussion with the major shareholders to slow down the process until March 2025, or if there is any background to consider a balance between share buybacks and dividend payments in the future.

These are the two points.

A: Let me answer your first point.

The exchange rate has been moving from Q4 to Q1, and the yen has been appreciating considerably, so it would be difficult to see the picture if we reflect all the exchange rates. So, to speak on a constant currency basis, we expect that sales of automotive will grow toward Q1.

The major factors for this are the two I mentioned earlier, but the demand is very strong, especially for 40 nano microcontrollers, meaning that the platform is ramping up. We are in a situation where we are increasing more and more, and we also want to bring back the channel inventory level to a degree. From this perspective, we expect automotive to grow when viewed on a constant currency basis.

IIoT, on the other hand, expects a high single-digit decrease in sales even at fixed exchange rates. To put it simply, the market environment, especially for PC, mobile and consumers, is still weak in the short term, and we do not want to carry excessive distribution inventory. The idea is to be as cautious and restrained as possible in our approach to distribution.

Various people say different things, but I think the view that the PC-related adjustment will probably bottom out roughly around Q2 is probably the dominant view these days.

The other question is how much new demand will be generated in the second half of the market. Assuming that there will be a lot of adjustments in Q2, we did not try to carry too much inventory in Q1. The result of such careful management is what we see now.

As for share buybacks, there is no specific reason behind it, but since we increased its capital to a certain extent with the Dialog acquisition, we would like to recoup at least that amount. We would like to return the EPS, at least for that amount.

Then, I had actually considered doing it on a slightly larger scale continuously, but at least compared to last year's share buyback, the stock price level has also risen, so I think it might be better to keep it that way.

Also, as you said, we have also come to the point where people say that we have returned to the global map compared to global peer, though we may be presumptuous. So, I think it is time to really think seriously about dividends, but not yet this year.

Thinking about such things, I feel like we should move our focus a little from own stock purchases to dividends. As a result of various considerations, our own stock purchases may continue in the future, but for the time being, we have decided to scale down the size and expand options. That is all.

[Questioner 3]

Q: Mr. Shibata said that he was not sure when or how the customer orders or backlog of orders would change, and that the orders are currently strong. What is the mood of the customers right now?

I would appreciate it if you could share with us your perspective on the current situation, whether the current backlog of orders is strong enough to make it through the current fiscal year, or whether you are still unsure.

A: As for the quality of the order backlog itself, I think it has rather improved. I believe this is the result of our own active efforts to cancel what customers no longer want.

Originally, there are applications and customers whose product life cycles are not that long, and some are returning to a partially recurring state. Simply put, though, PC and mobile consumers. In this environment, there is no need to order so far ahead of time, and from 2H of 2020 to 2021, even short-term application customers were making orders with very long dates as NCNR or non-cancellable, non-returnable.

We have almost stopped using such practices for these customers and have changed to an operation in which orders are placed only for what is really needed at the earliest possible time. I believe that the balance of orders has become more substantial. Therefore, I think we are on the way to soundness, and the absolute figure of the order backlog itself is still very large, so I think we are in a very good position.

Also, I think that inflation has recently calmed down a bit, and with the warm winter in Europe, energy is not at its worst as I feared. Thus, if these calm conditions continue, I think we can trust this order backlog as it is, and it will increase again from here.

Then again, it could increase a bit depending on how the energy situation, inflation situation, and other such macro conditions evolve toward the second half. That's all for now.

Q: Secondly, I heard earlier about Q2 bottom line for consumers and PCs, but if you have an image of what kind of curve will be drawn in Q1 and Q2 for industrial and data center applications, I would appreciate it if you could share it with us.

A: Industry is quite strong. It is as we expected. Strong.

I think that there is a structural shift such as EVs and other so-called decarbonization-related things and the sift from boilers to heat pumps, which I don't think will lead directly to fossil fuel phase-out, so the industry continues to look strong.

The data center appears to be slightly stagnating, though on an upward trend. In terms of investment in data centers themselves, we are probably at a plateau. In our case, we are seeing an increase in structural content as we move into the next generation of MPUs, such as VR14 and DDR5, which, combined with the fact that there is a bit of a push on, will lead to growth. I think it will grow, but I don't see it continuing at the moment with the tremendous momentum that it had in the past, around Q2.

I think that the second half of the market will be the place where people will start to come up with new ideas, but as you can imagine, we don't know the macro situation, so I think it would be better not to mention it right now. That is all.

[Questioner 4]

Q: The first point is about the supply chain. In your explanation, you mentioned that the fees to OSAT have gone down. Also, please tell us what the current situation is regarding the high cost of the materials you procure, or the pressure to raise costs.

Also, in relation to your company's approach to geopolitical risks, please tell us how you are currently dealing with the issue of your outsourcing footprint.

A: I will quickly answer the second point, and Shinkai will answer the first point about the overall view, and then I hope Kataoka can provide a little bit of a raw, anecdotal story.

We are also paying close attention to the industry-wide moves to expand and secure capacity due to geopolitics, and we are currently studying ways to ensure that our business will not be hindered by geopolitical tensions.

However, we have always been fab-lite and will continue to be fab-lite. This will not change. Thus, we will continue to talk with our foundry partners and OSAT foundry partners. Even if their nationality is Taiwanese, they want to proactively expand their capacity outside of Taiwan. We are trying to keep pace with such movements and increase resiliency in the supply chain step by step, without rushing from right to left.

I will try to be very careful here, and when the time comes, I will provide the appropriate information. Shinkai will give us some information on the current OSAT situation.

A: Regarding the overall view of procurement, I think that the tightness of supply and demand has calmed down a bit compared to the past.

That is true not only for OSAT, but also for foundry OSAT, then raw materials, and the overall view of both areas.

On the other hand, there are some items that will not continue to be available, and the cost of such items will naturally increase accordingly. For example, in the case of foundries, 8-inch products and mature node products are still very popular because of their limited capacity. There is a great deal of variation in OSAT, depending on the type of package. Of course, this is easing in areas such as consumer products, but it also means that it continues to be high in areas where it is not.

The same is true for raw materials, where supply and demand are tightening in some areas and easing in others. That is all.

A: Kataoka-san, do you have anything to add?

A: Thank you. Roughly speaking, it's certainly easing up. The situation has been improving. On the other hand, however, certain process nodes and such are still tight.

As for costs, they have settled down, but this year, in total, I think prices are still a little higher than last year.

In particular, the cost of raw materials is still rising due to the rising cost of energy and other factors, and the supply-demand balance has been tight over the past two to three years. Thus, some items are already held by various semiconductor companies in the LTAs. Despite the fact that overall receipts for such things are actually declining, the point is that the demand itself is not realistic, and therefore, seeking such demand in an ad hoc manner has become a bit costly.

Therefore, I think the current situation is that the industry as a whole is bearing a fair share of these higher costs. That's all from me.

A: Thank you very much. The electricity cost is a real headache. It has had a significant impact in its own right. That is all.

[Questioner 5]

Q: First, I think you mentioned at last year's electronica that you were going to do the SiC, and I would like to know if there have been any updates since then, and when you are going to release it.

The second point is that last month, I think METI announced that measures will be taken to secure stable semiconductor supply. Could you please give us any comments on that? Thank you for your explanation.

A: SiC is making progress. However, we are preparing to make an announcement when we have made further progress. Thus, we would appreciate it if you could wait a little longer.

And as for subsidies, of course we are grateful. We will continue to expand the capacity of our own factories under fab-lite strategy, as we did with last year's grant, and we would be very grateful to receive subsidies for this expansion.

I strongly hope that these efforts will continue in the future, and with an eye on stabilizing the supply chain and contributing to Japan's demand and industry, and in step with the national government, I would like to work with them to expand capacity and pursue economic rationality by actively utilizing as much capacity as possible. That is all.

[Questioner 6]

Q: First of all, I would like to ask you about the channel inventory, especially regarding IIBU. It was mentioned that there's a sense of caution here and that shipments are being held back a bit, but I think that may be centered on things like PCs and smartphones. For the stronger industrial equipment that was mentioned earlier, or for data centers that are doing well, is the tightness still continuing in the channel inventory? This is the first point.

Second, demand has softened considerably, and I wonder if the utilization rate has been continuously declining. While I understand that the Q1 utilization rate will be down a few percent, I would like to know the outlook, if any, for the Q2 utilization rate. This is the second point.

A: Channel inventory for the industry is thin. Since the volume is not that big, it won't move the overall direction much even when converted to monetary basis. However, there are still quite a few things missing from the perspective of the BCP stock as well as of the die bank, so the situation for the industrial sector is that they have to keep producing more and more.

But in terms of overall volume or monetary value, it is totally small. In terms of the consolidated amount of money, the movement is not that clear to see.

As for data centers, this depends. I think I mentioned selling kits of power stages in the past.

There are products that use a controller and a switching device as a set, and there has been talk for some time that there is a shortage of controllers and that only the switching device is ready as inventory. Thus, there is a little bit of a mismatch in power-related products.

In terms of the overall view, the inventory for data centers or memory interfaces is about the same as demand, so I don't think the overall view is that there is a sense of scarcity or excess.

In details, some parts are scarce, while others are excessive, so there is still a lack of balance to a degree. Therefore, we are continuously trying to improve the situation as much as possible.

What was the second point? I'm sorry.

Q: The second point is the utilization rate after Q2. In particular, I would like to know if Q1 will be the bottom.

A: I see. Mr. Shinkai, please add or correct me if I am wrong, but in the end, it depends on the second half. At this stage, we are still not sure.

Based on the outlook we have right now, the second half is expected to come up. If that outlook holds, I think we'll be up and running in Q2. As expected in this area, the situation moves tremendously, including the exchange rate, so I am going to keep a close eye on it and try not to miss any signs of change. That is all.

[Questioner 7]

Q: First, I believe you explained that you are also asking customers their cancellations. You probably made the same comment at the briefing three months ago. However, at that time, I recall that you also explained that the acceptance of your company's approach varied from customer to customer.

For example, what kind of changes are occurring in the situation where customers of PCs and smartphones accept cancellations, but not others? The first point is that I would like to know if there are any changes, such as a potential increase in the number of customers who accept cancellation, or something in that direction.

Second, I would like to know about the direction of semiconductor prices. In your earlier explanation, you said that raw material prices have gone up another notch. Also, you have estimated that the procurement price from foundries has also increased. Reflecting this, we are wondering if it is possible to raise the prices of your internal products and products procured from foundries this year.

As the economic environment has become worse, and the business confidence of your customers has also become worse, the pressure to lower prices has increased, and it is difficult to expect prices to go up. Could you also tell me about the direction of prices in this regard? That is all.

A: The price is a difficult point. I guess it's hard to say. I can't say for sure, though I think it will mainly be next year and beyond, rather than this year's prices.

I understand that I am repeating what I mentioned previously, but I still think that the prices of supplies are not moving in an opportunistic manner like before, but rather that they are increasing.

The same is true of foundry prices, raw materials, and the fact that prices have been rising. I think it is becoming more difficult for ASP of semiconductors to go up and down compared to the past.

However, if you look at semiconductors as a whole, I think that commodity memory and other such things will move quite well, but the embedded products that we use are not really commodities at all, so we will continue to work carefully. My view is that we are no longer in the situation of going up and down as in the past.

Regarding the cleanup of the backlog, I think we have mostly overcome the peak and most of the customers who were subject of cancellations or push-outs are accepting that it is the case. That is my understanding.

Some, for example, Chinese customers, are in a rapidly changing macro situation. The economy came to a halt due to the lockdown, but there is a possibility that the government's measures may come out again in 2Q or later, and the stop-and-go is quite intense. Thus, so the situation may differ from other regions. Overall, I think we are entering the final stage at this point. That is all.

[Questioner 8]

Q: President Shibata said earlier that we are now one of the global companies, but I think he was being modest in saying that. It is a top company globally, if we look at the growth rate, YoY 51%. We can certainly say that. In this FY2022, please let me know the overseas ratio, by region, if you have any rough figures for that.

One more point, please tell us about the current situation and status of the Kofu factory. These are the two points. Thank you for your explanation.

A: Shinkai will answer both questions. I am happy to hear Mr. Tsuda's praise, but there are two points to keep in mind when looking at the figures.

One is that Dialog has been consolidated since the end of August or September of last year, so on the basis that Dialog was consolidated in 2022 for the full year, the growth rate is almost 40%. So, 50% is a bit of an apparently inflated number, if you want to put it that way.

The yen's depreciation, which had a positive effect last year, has also had a large impact.

So, I think we ourselves should not be too blinded by these numbers. While we would continue to have your support, I think it would be good to see them slightly in a discounted manner.

Now, Shinkai will answer the question.

A: I think the first point is the domestic/foreign ratio. In 2022, approximately 75% will be overseas and 25% domestic. The year before last, the overseas ratio increased slightly compared to FY2021, partly due to the effect of the acquisition of Dialog.

Is the second question something about Kofu? Please repeat.

Q: The current situation at the Kofu factory. I would like to know what is going on now that the 300mm has been introduced.

A: We are preparing diligently to reopen the plant. We are also working diligently to procure equipment so that we can start mass production toward the anticipated schedule. So far, we are at the point where we have been able to procure and prepare without any major obstacles.

Q: Thank you very much. The 75% overseas ratio you mentioned earlier, what are the regions in which this is the case? Rough numbers are fine.

A: Japan is about over 20%. The US is roughly 10%. Then there is Europe at slightly less than 20%. China is roughly 30%. Other Asia is about 20%. This is roughly the global breakdown, for now.

[Questioner 9]

Q: The first point is that I would like to get some suggestions on how to think about the performance for FY2023. In addition, you mentioned earlier that industrial infrastructure sales bottomed out in Q2, but what kind of recovery story can we expect after that?

Do you have any suggestions at this point as to whether the market will improve along with the macroeconomic recovery or whether some applications, such as data centers, will be the driving force?

Second, I would like to ask your thoughts on share buybacks and shareholder returns. Will you not start paying dividends until after the INCJ buyback is completed? Or is there a possibility you can do that in parallel? Please let us know if there are any conditions under which you would like to start paying dividends.

A: Regarding the second point, no. The first point is that the overall view is very much dependent on macroeconomic conditions, so it is difficult to say at this stage whether the overall market will go up or down, but there is a structural tailwind for us.

As for what will drive growth, it's the data centers I mentioned earlier. Even though they will slow down, they will probably grow, and then there is the generational shift MPUs of AMD and Intel. In particular, AMD is expanding its market share right now, and in our case, we are now in a business where our pie will increase as AMD increases its market share.

The generational change and AMD's increasing market share will all work as a tailwind, and although there will be many things in the short-term regarding data centers, I think it is safe to say that they are in a very promising state.

As I mentioned earlier, the hardcore industries such as FA or factory automation also have structural growth drivers, and the stock level is not high at this moment, so it appears that the strength will continue.

I am not sure about the automotive segment. As structural factors, electrification, expansion of ADAS, and increase in semiconductor content due to expansion of electronic components are continuing, I think it is a tailwind as a trend.

Some OEMs have announced that they have large working capital and inventory levels, so the picture will probably be one of structural growth with some adjustments. This is our current view. That is all.

<Closing Comments from CEO Shibata>

I don't have anything to add, but we are still in a situation where there are a lot of big macro factors, so we will continue to look ahead. At the same time, we will continue to take the reins to keep up with the changing situation. Thank you for your continued support.

Thank you for taking time out of your busy schedule today.