

TEXT version of Transcript

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Presentation

Operator [1]

Ladies and gentlemen, thank you very much for joining Renesas Electronics Corporation Earnings Call for 2023 Q2. [Operator Instructions] Today, we're being attended by Mr. Hidetoshi Shibata, Representative Director, President and CEO, and Mr. Shuhei Shinkai, Senior Vice President and CFO as well as other staff members.

We will first have Mr. Shibata give an opening remark. And after that, you will hear from Mr. Shinkai, earnings results for Q2. After that, we will have Q&A session. We expect the entire session to be 60 minutes. The materials to be used in today's earnings call is the same material that is within our IR website.

With that, Mr. Shibata, please turn on your microphone.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [2]

Thank you very much for joining in spite of your busy schedule. The numbers for Q2, I do believe is in line with our expectation. On the other hand, when we think about Q3 and onwards, I do believe that I mentioned that we want to be prepared for upside. But then when we look at the contents, not exactly sure upside would be the right word, but we do believe there are areas where we can make a very good progress. However, there still are uncertainties that will continue, that is our current thought. And so for the time being, we do want to go for -- to make sure that we'd be able to go on the safe side. And so as for details, I would like to leave it to Mr. Shinkai to explain.

So with that, Mr. Shinkai, please.

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [3]

Yes. This is Shinkai, CFO. Allow me to go over with you the details for Q2 results, referring to the materials within our IR website. Can we start with Slide #3. So here are some disclaimers. And so I do recall that I did give some heads up at the point of Q1 result as for the integration of ERP system. But then we have not really been able to prepare. And so there is a delay. And so that there is not going to be any impact to Q3. We currently are expecting that we'll be able to do that next year, and I will make sure that I'd be able to update you when we are ready. And so here we have the -- and so please look at the middle blue column for the actuals for Q2.

Revenue stands at JPY 368.7 billion, gross margin, that's 57.4% and operating profit, that's JPY 129.1 billion with the margin standing at 35%. As for profit attributable to north of par, that's JPY 119 billion. And excluding the currency impact, that's JPY 108.2 billion EBITDA, that will be JPY 149 billion. Our currency that stands at JPY 135 versus dollars, JPY 146 versus Euro. And if you'd be able to look at three columns on the right, we have the comparison versus the forecast, which I will be going over in the following slides. And also for the year-to-date for the first half, that is on the next dark blue column.

Moving on to the next slide. which is about the quarterly revenue trend. And if you'd be able to look at the far right, that shows the actuals for Q2. So in total, the revenue fell by 2.2% year-on-year and increased by 2.5% Q-o-Q, but then if we try to exclude ForEx impact, that's a decline by 8% year-over-year and then it increased by 0.8% Q-on-Q.

As for the breakdown, anything for automotive or industrial infrastructure, IoT, you see all the numbers there. But then at the same time, we try to exclude foreign currency impact automotive, that was -- that's a negative trend. In other words, negative 2.7% year-over-year and then negative 1.1% Q-on-Q. On the other hand, industrial infrastructure IoT, that's declined by 12.3% year-over-year and then plus 2.5%, that's an increase on Q-on-Q basis. Please go to the next slide.

Here we have the revenue gross margin, operating margin for Q2. First, start with the company total referred to the upper right-hand corner, pertained against the forecast. Revenue was 2.4% above the medium forecast JPY [8.5 billion] in real terms. Slight more than half is due to the exchange rate effect, just under half for non-exchange rate effects. By segment there was a slight decrease in automotive, while industrial/infrastructure/IoT registered and increased. Gross margin was 1.9 percentage points above forecast.

Mean reason is risks that was considered at the time of guidance were not realized. And ForEx was in line with expectations, product mix-positive. However, products, we find that in terms of cost, we see an increase in terms of cost. This is attributed to decline in production. And also, we had expected costs associated with raw materials. However, this was under expectations and therefore, these are the main reasons.

And as for operating expenses, when we look at R&D, SG&A was down against expectations. And therefore, it was 3.0 percentage points above our expectations. And below, we are looking at Q-on-Q. And as for operating margin, it was plus -- revenue, excuse me, it was plus 2.5% and 1.2% in terms of gross margin.

In terms of product mix, infrastructure/IoT/industrial, we see some positives. In terms of utilization, due to decline in utilization, there was a decline in terms of recovery. However, production costs, of course, we need

to take account for accounting factors, what we are seeing on a net basis, this is a positive. And we need to look at the left-hand corner and by segment, please take a look.

And here, we here we've got Q-on-Q variabilities. In terms of automotive, there have been impact from weak production recovery. In industry, infrastructure and IoT, there was an improvement in mix, and there was also evaluation downgrade. And therefore, net it out, this is a positive. And for industrial/infrastructure/IoT, we find that Q-on-Q, there is an increase in R&D, and this was one factor behind us.

And going on to Page 7. Here, we're looking at in-house inventory. Overall, when we look at the DOI, days of inventory, that's indicated to the right, in the second quarter on Q-on-Q, there's a decline, First quarter was 107 days and now it's 106 days for infrastructure and also automotive, we see a decline.

And going on to the next page. This is a sales channel inventory, and we were looking at WOI, weeks of inventory, all segments on Q-on-Q basis, we're seeing increase. Automotive, somewhat of an increase and industry, infrastructure and IoT, somewhat of an increase as expected, around 9 weeks overall.

And factors behind the increase and decrease of inventory to the very left, we have our in-house inventory. Overall, we are looking at JPY 10.3 billion decline. In terms of raw materials, Q-on-Q, it's JPY 1.7 billion plus. There have been production adjustments, and therefore, there have been lower wafer consumption and this is a factor. And we have, of course, long-term contracts and the utilization rate has declined. And therefore, in the third quarter, we are expecting an increase that will continue, and it's a work in progress.

For internal products, we increased the die bank inventory, but there have also been production adjustment as anticipated, and therefore, work in progress decreased. And therefore, it was basically flat Q-on-Q. And for the third quarter expectations, we are also intending to pursue further increase in die bank inventory. And also, we would like to decrease the inventory, and therefore, we'll decrease the finished products, which will mean that the work in progress will increase and therefore, Q-on-Q, there will be a slight increase that is expected.

And lastly, in terms of finished products, in the first quarter, it has declined. And for a handful of products, there would be a temporary increase expected.

And to the right, we have the channel inventory. In all of these segments, there is somewhat of an increase for automotive, sell-through, somewhat increased and therefore, WI has slightly increased. For industry, infrastructure, sell-through and also sell-in also increased. And therefore, as anticipated, we have registered an increase. And as for the third quarter, expectations for automotive, industrial and IoT, we expect to see somewhat of an increase.

And next page. This is the quarterly trends in front-end utilization rate for wafers, 6% in the first period. However, due to production adjustment, somewhat declined against expectations. And into the third quarter, we expect to see a flattening trend.

And moving on, and here, we look at gross profit and operating profit, quarterly trends. And please take a look. And moving on to the next page, we are looking at EBITDA and also free cash flow. To the right, I would like to make a comment. For Q2 and Q1, we see that there's quite a gap in the second quarter the operating cash flow when you compare to the first quarter. There have been, of course, tax payments and also increase in terms of bonus payments, that's the factor behind this.

In third quarter, there'd be interim payment of taxes as well as bonus payments, and therefore, we will see minus figures.

And going on to the next page. In third quarter, our forecast is indicated here. And please look at the dark blue column in the middle. The forecast for median revenue is JPY 370 billion. Year-on-year, it will be minus 4.5%, Q-on-Q plus 0.3%. And below, excluding ForEx impact, the figures are minus 5.4% year-on-year and minus 0.1% Q-on-Q.

In terms of gross margin, 56.5%, that will translate to 0.9% down Q-on-Q and 32.5% in terms of operating margin. And when we look at this on a Q-on-Q basis, 0.9% decline is attributed to product mix deterioration and also increase in manufacturing costs.

In terms of production mix, in the first quarter, we saw [price] performance. However, there has been a decline. And in terms of production costs, there are increase in write-downs and also utility costs have surged and also facility construction.

In terms of operating margin, third quarter, R&D is expected to increase. In second half of the year, R&D spending will increase, mainly for automotive [indiscernible] and also SoC rather, next-generation product where the focus will be placed.

[indiscernible] appendix, and please take look at Page 19. And this is for the second quarter, non-GAAP to GAAP. One point worthy of mention, the third from the right, and this is a reference stock-based compensation for '23, this year, it is increasing year-on-year. Dialog employees will be integrated into the same cycle as Renesas' in M&A. Due to M&A, the number of head count is also increasing and also due to attributed to the weekend, on a quarterly basis, the expenses was about JPY 4 billion up to now but it will increase to JPY 7 billion in the second quarter.

And moving on to Page 21. And this was in terms of CapEx. The subsidies that have been gained from METI that have been indicated in light blue. End of April, announcement has been made. The subsidies indicated is highlighted in light blue, and it's about 1/3 of what's indicated here.

And moving on to the next page. This is just for reference sake. With Wolfspeed for the latest wafer supply agreement, it was July 5, that we have been able to sign a 10-year supply agreement.

And that will conclude my presentation. Thank you for your attention.

Question And Answer

Operator [1]

Thank you very much. We will now like to open the floor for Q&A. So Mr. Shibata, thank you very much for turning your video camera on as well. [Operator Instructions] With that, may we ask Sugiura-san from Daiwa Securities.

Toru Sugiura, Daiwa Securities Co. Ltd., Research Division - Research Analyst [2]

This is Sugiura from Daiwa Securities. I have 2 questions, and I would like to start with the first one. It goes back to what Mr. Shibata said at the outset. I think you're saying that there's been a little bit of color in terms of how the revenue is progressing. Can you tell us a little more detail? For example, if you'd be able to also speak to your subcategories, what is doing well? What is not exactly versus your expectation, et cetera?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [3]

Yes, thank you very much. This is Shibata. So up until now, we know that anything around industrial has been very strong. But then there is going to be a continuous growth year-over-year. However, the pace of the growth is going to slow down. That is what we are expecting at the moment. In other words, we were extremely strong up until today, but then the strength seems to be slowing down. That's what -- that's more like the negative side.

But then I did mention that everything is pretty much in line. So that's about PC and consumer side versus last year, it still is a low, but then it is still in line. In other words, it bottomed in Q2. And so from Q3 and onwards, we are expecting some modest growth, in other words, a recovery. And that is exactly in line with our expectation.

Toru Sugiura, Daiwa Securities Co. Ltd., Research Division - Research Analyst [4]

One more thing. That's the -- anything for data center?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [5]

No, it's probably too early to speak just looking at a specific quarter, and I don't want to say too much here. But then when we look at how things are developing at this moment, DDR5 -- switch to DDR5 seems to be progressing very fast. And so thanks to that, I think that at next quarter, I think we'd be able to expect a large growth. Now how that will go, is it going to be -- is it going to continue? Of course, we do want to see that. But then there are still some customers that will be using DDR4, who would want to utilize their inventory. In other words, they are slimming down the amount they would be purchasing. And so there might be a bit of a rebound in the future. But then at least when we look at how things are going at the moment, there is this strong move towards DDR5. And this trend itself is -- that's going to mean even more content, so that's favorable.

Toru Sugiura, Daiwa Securities Co. Ltd., Research Division - Research Analyst [6]

And also, anything from automotive side?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [7]

For the automotive side, it's still uncertain, that's my frank comment, and it's really as it is. In other words, it's not that we're seeing a real weakness, but then we're expecting there will be a little more robustness. However, that's not exactly what we are feeling. It seems like this is really the situation, the status that is just going to continue. That's the feel that we have right now.

And so I think there are 2 factors based on our assumption today. In other words, one is what's going on in China. In other words, the enhanced growth of EV and the reduction in ICE. That is especially something -- it's something that we are observing. In other words, that's exactly what's creating the uncertainties, especially amongst our Japanese customers. And of course, when we look at the large Tier 1 customers, the global customers, I'm sure if you'd be able to look at the numbers, it's self-explanatory, but cash flow is really tight. In other words, we believe that everyone is really trying to control their inventory.

And I think that's what's happening right now. And it seems like everyone is really focusing on cash. And so there are some shortages in inventories every -- at some point, but then we still do have to keep an eye on how the develop goes -- the demand goes. And so with all of that in mind, I -- that's why I'm saying we are seeing some uncertainties.

Toru Sugiura, Daiwa Securities Co. Ltd., Research Division - Research Analyst [8]

Now my second question, I think I should ask Mr. Shinkai. Now the Wolfspeed, that \$2 billion deposit, I'd like to ask more about that. So how are you going to pronounce this? And I think you have always been putting forward a very proactive message in terms of shareholder return. In other words, how you'd like to come back to paying dividends and so forth, but what is your expectation now?

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [9]

Yes, so \$2 billion. So the first \$1 billion has already been paid and one -- and the other \$1 billion is going to be paid next year and onwards. The source of this is our own cash. Now the implication to the shareholder return is no major change to our policy thus far. So that's my response.

Operator [10]

From Goldman Sachs, Takayama-san.

Daiki Takayama, Goldman Sachs Group, Inc., Research Division - MD, Co-Head of Japan Equity Research & Equity Research Analyst [11]

Daiki Takayama from Goldman Sachs. I have 2 questions. First of which is the revenue outlook. And when you look at the inventory, in third quarter, you intend to increase your inventory. And I'd like to inquire as to how far you will go? What is the policy direction? And also, perhaps it will not be that pronounced in third quarter. However, fourth quarter you will bottom out, is that your expectations? If we could confirm your outlook?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [12]

In terms of the inventory, we talked about in-house inventory, and we talked about DOI. When we look at the channel inventory and also in in-house inventory in terms of level, we have identified a target and if you view, it is very clear. As of now, when we look at the holding inventory, it is beneath the target. Basically, we hope to be able to achieve the target. And from that perspective, bit by bit, we are trying to increase our inventory.

And as for the outlook ahead, if it is clear, we will be able to, of course, increase the inventory substantially. However, that is not the case. And therefore, we are very attentive to the market situation as we try to increase our inventory. If the weak situation prolongs, or if there is a reversal, we hope to be able to increase our inventory, but we need to inch closer to the target. So we are taking a wait-and-see approach, and that is what we are doing as of now.

And likewise, as for the third quarter, as Shinkai-san has mentioned, as we go into the year-end, the utilization is very early to refer to, and therefore, I would not be able to make a definitive comment. However, as we're looking at the quarters ahead, of course, the market situation might change. It's very difficult to say for now. But as of now, as I have mentioned upfront, the uncertainty prolongs, and therefore, we cannot really accelerate the situation. We need to look at the situation, second quarter and third quarter as we try to manage our inventory. And in the first quarter of next year, if the outlook becomes more clear, where necessary, we will also apply adjustment. That is all.

Daiki Takayama, Goldman Sachs Group, Inc., Research Division - MD, Co-Head of Japan Equity Research & Equity Research Analyst [13]

And as for the second question, This is a reference to order placement or backlog, what is the trend?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [14]

In terms of order backlog, as you all know, in the midterm, there have been some accumulation and therefore, new orders. We are finding that the situation is rather slow. And we need to consume, of course, what has piled up in the past, and that is -- describes the current situation and that is also within our expectations.

On the other hand, as you might recall, we are looking at NCNR, noncancelable orders. We have departed from that, and the lead time is also very short, which also means that, of course, we need to have ample inventory. And therefore, when orders come in from our clients compared to the past, we find that the orders are coming in, in a shorter span based on actual demand. And therefore, the current expectations as of now is that our new orders that will come in, as the orders are processed, we believe that the orders will begin to climb up.

Daiki Takayama, Goldman Sachs Group, Inc., Research Division - MD, Co-Head of Japan Equity Research & Equity Research Analyst [15]

Against revenue, the orders comparatively is quite high. As we look at the revenue, you expect revenue to increase in the future, and therefore, expect orders to come in and pick up?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [16]

Well, it's early to say for now. But as for this fiscal year, we are not concerned in any form.

Operator [17]

Can we ask Mr. Hirakawa from Bank of America.

Mikio Hirakawa, BofA Securities, Research Division - Research Analyst [18]

This is Hirakawa from BofA. I have 2 questions. My first question. I think it's a recap of the earlier question. In other words, it was about -- it's about wafer. Wolfspeed and \$2 billion, I do believe it's quite a large number. As we look into the future, so SiC power semiconductor, how much share do you mean to gain through this contract? If there's anything that you'd be able to share with us anything about your outlook, we'd be happy to hear. And also, mention about R&D, enhancing your R&D. So this SiC production technology, like where are you in that sense? That's also something I'd also like to hear. That's my large first question.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [19]

Yes. Thank you very much. So SiC, the process is something that we're starting and I do not think that we will -- I mean it's not that we're making such a large investment here. And at this moment, we're not expecting that we're going to just accelerate this investment here. It's just going to be like a step-by-step, gradual increase into the investment for the technology.

Now as for the size, this investment, for example, IGBT, 300-millimeter or IPD, that's an intelligent power device, any development, R&D to go there. But at the same time, there's also going to be the investment for our digital purpose. For example, fifth-generation SoC, we know that's also going to accelerate. And so there are a lot of things that we do need to invest.

Mikio Hirakawa, BofA Securities, Research Division - Research Analyst [20]

So what's going to happen to our share in the SiC power semiconductor?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [21]

That's a good question, like 10% or 15%. if not -- I mean trying to put forth a figure, maybe I can, like 10% or 15%, et cetera, but then at this moment, it's not that we have that clear visibility. But then we're going to start slow. And once we make some good progress, we're trying to make this step ups and we also are trying to enhance the values that we'll be able to gain here. And from all means from -- I believe that there -- it's probably going to be the time of when we have a switch over to 8-inch from 6 inch. That's probably when we'd be making another large investment increase. And it's not something that we want to go hastily, it's something that we do want to make sure that we assess the timing well.

Mikio Hirakawa, BofA Securities, Research Division - Research Analyst [22]

My second question is almost like a follow-up to my first one, sorry for that. A follow-up to the earlier question. So in the Capital Day, I think I did have a sense that you will be giving us some explanation at early days and how you're thinking about the shareholder return. But then today, we're hearing about CapEx and investment and what is going to be your capital allocation. And if you'd be able to recap that for us? So that's my second question.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [23]

Yes. Thank you very much for your question. So again, no major change to our shareholder return policy, the capital allocation. In terms of shareholder return policy, it is something that we have been saying from before. Now in terms of dividend, try to look at our annual cycle. In other words, the large milestone is it's probably - - we probably will be talking about the timing around the AGM. In other words, we will be looking at that point of time to prepare about what kind of dividend we'll be able to have.

I don't know what your image would be in terms of the shareholder return. But then as I have been saying from before, we need to start small. So it's not that we're going to be making a large, for example, dividend payout that is going to pressure the source -- the cash flows that we will have for R&D and other investments. So we'd like to start small. That's my response.

Operator [24]

[indiscernible]

Unknown Analyst [25]

[indiscernible] In the earlier financials, you said that with the AI -- generative AI, this will impact the numbers. And upon reflection, what would you say? And also third quarter and onwards, what would you say would be the outlook?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [26]

Did I say second quarter, there have been an impact from generative AI? I do not really recall. I believe that I said that it would be second quarter and onwards. As for third quarter and onwards, we believe that the impact will be felt. And the implications to our operations will not be that sizable. On a net basis, it will turn positive for example, in terms of OPI, it will not be 3-digit numbers or the 2-digit numbers in terms of OPI. So we'll start to see the impact on a positive sense in a moderate level.

In the immediate future, we are looking at generative AI. But rather than that, we believe that the impact will be more pronounced with memory architecture and also power architecture as there's a shift to next-generation and from where we will be able to enjoy a larger impact in terms of numbers and figures. But of course, if our pipeline does -- is realized in the future, of course, there will be an impact. As for generative AI, the impact will be positive. However, more than that, for MPU, the architecture side, with a shift in generation, the impact will be more pronounced.

Unknown Analyst [27]

And another question. And this is in terms of product mix improvement in second quarter, if you could once again brief us? And also, what is your outlook for the third quarter in terms of product mix?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [28]

I will turn to Mr. Shinkai.

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [29]

As for the second quarter, for infrastructure, the analog products, specifically, timing IC and timing device. And for these products more than expected, there were positives. And hence, these are products with a large gross margin, which has, of course, pulled up the entire product mix performance. And as for the third quarter, because of the backlash, there might be some, of course, weakening of the numbers. And also seasonality will be felt. So overall, for consumables for the gross margin is somewhat lower, we believe this will pull down the numbers. That is all.

Operator [30]

Can we ask [Mr. Kojima from Nikkei BP] to ask your question.

Unknown Analyst [31]

This is [Kojima from Nikkei BP]. My first question is about your power semiconductor. So you're going to have a slow start. You're going to start with SiC, slow start. But then I'd like to ask about the expected scale of your business in terms of SiC power semiconductor. At this moment -- I mean, for example, you might be able to say like right now, you're around this level. But then, for example, like in years down the road, how much you want to be like, for example, in like the year 2030?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [32]

I think that's a question for Mr. Shinkai.

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [33]

Yes, this is Shinkai. So 2030, where we would be for power semiconductor? That is good question, not an easy one to answer now. It's exactly what Mr. Shibata said earlier. In other words, for SiC, we're going to have a slow start. But then for IGBT, from F '25, year '25, in other words, from 2024, we're going to resume Kofu plant. So that for 300-millimeter, we'd be able to resume our production, the mass production from 2025 at Kofu. And so down the road from there, there's going to be an expansion of production in Kofu plant. And so those are some of the things that we are keeping in mind. So that's my response.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [34]

Well, this is Shibata. At this moment, I would say some -- little more than JPY 10 billion or a little under JPY 100 billion, that's probably the scale of our power semiconductor at the moment on an annual basis. And it's really about how we'd be able to make good steady progress in expanding the scale.

Unknown Analyst [35]

My second question, I believe there was a brief comment about the fifth generation, the 5G. So here, when do you think you'd be able to have your new product? And how will this fifth generation SoC differ from first generation?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [36]

Well, when we be able to have 5 -- Gen 5 SoC? We can't really say at this moment, but then it might be as early as 2027, year '27. And if its after that, it probably will be pushed out by 2 or 3 years. That's how we imagine the pace will be as we prepare. I don't want to say too much here. But then, of course, higher computation capability is one differentiation from G4 and G5 -- Gen 5. And of course, that's easy to understand.

But then in addition to that, I think there are 2 -- I mean compared to Gen 4, I think there are some more other changes that we want to limit. For example, I'm trying to find the right word to explain this, but I don't exactly want to say, customized but like utilizing chiplets, we're hoping that we'd be able to seek more flexibility in responding to the needs of our customers.

And one another factor, for example, compared to the past, it was like SoC versus MCU. I think that was 2 categories and computation, and I think that was really the reality. And I did talk about scalability. And from next generation, we want to have a crossover device. So high-compute and the more traditional MCU something in between is something that we'd like to have. And so that we'd be able to have a true seamless situation. And so from that perspective, like ARM core trying to implement that in MCU is something that we are trying to prepare. So I guess it's really those 2 factors.

In other words, flexibility, higher flexibility device and to seek more scalability. We want to make a step further scalability than what we have been doing in the past. And I guess that's something that is more on the hardware side. And of course, the computation feature, it will be increasing, and that's the precondition to make these happen. But then it's really the software part is really also going to be crucial. So simulation, emulation, how we'd be able to create a better environment for that? What kind of model would fit that? That's probably where we will be allocating more of our resources. So that's my response.

Unknown Analyst [37]

So if I may just confirm. So currently, you are producing fourth generation, right?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [38]

Currently, we are mainly offering Gen 2 and Gen 3.

Unknown Analyst [39]

I see. So there's still this fourth generation that we haven't really been able to see in its entirety, but you also have talked about fifth generation SoC?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [40]

That's right. So we're really talking about something that is happening in the future.

Operator [41]

Citi Group Securities, Mr. Fujiwara.

Takero Fujiwara, Citigroup Inc., Research Division - Research Analyst [42]

From Citi Group Securities. My name is Fujiwara. I also have 2 questions. Firstly, earlier, you mentioned the Tier 1 vendors in which the inventory is being controlled, and you referred to this 3 months ago during your financials. And within the past 3 months, how has the situation changed perhaps by region? And also how serious and dedicated are the customers in controlling inventory? That's the first question.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [43]

That's a tough one to respond to. How should we put it? To quite some extent, there has been an emphasis in looking at the -- easing the burden on the balance sheet. And such a trend is being observed and that will be one of the most pronounced transfer in the past 3 months. There is an emphasis on controlling the dollar amount. So there's a lot of fixation here and there and dedication -- dedicated efforts. And as a result, oftentimes, there's been excessive control, and therefore, customers find that they are now short of inventory. And therefore, looking at it from our perspective, we find that it's very, very difficult to achieve certainty.

In terms of regionality, for now, that's not yet been felt. In global Tier 1, that are selling into various regions, on their platforms, it appears as if they are trying to reduce or control their inventory according to some fragmented information. And that is the interpretation as of now.

Takero Fujiwara, Citigroup Inc., Research Division - Research Analyst [44]

The second question, in terms of ForEx implications, I understand you're hedging against the dollar. I'm sure it is time that you're considering what to do for next year. And of course, a scheme -- are you going to devise a scheme by which to account for a weekend? And what is the flow? When you look at the revenue and also expenses, are there not a major change there? That's the second question.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [45]

And Mr. Shinkai will respond.

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [46]

2024, our preparations are moving ahead, and the policy is the same as we have applied this year. We will hedge against the currency. This year, of course, it was based on dollar-yen terms, but of course, we are also looking at a high euro. And therefore, we will also hedge against the euro for next year as well. And as for the flow and by currency, there will not be a major change from the past.

On a revenue basis, of course, primarily dollar and cost side, a yen's denomination is higher. And therefore, when we look at the profit and also cash flow, basically in dollar terms, and that is unchanged from the past. And that is all.

Operator [47]

Can we me ask [Mr. Ishizaka from Toyoke] to ask your question?

Unknown Analyst [48]

This is [Ishizaka from Toyoke]. So I'd like to ask your supply contract with Wolfspeed for SiC wafer. So I'm sure there are other companies as a SiC wafer supplier. And amongst the other players in the world, why did you select Wolfspeed this time?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [49]

Well, they offer good quality. And again, this time, what we did was we wanted to focus on 8-inch wafer. And we have been able to, for the first time in the world, secure supply for this 8-inch. And I think that means a lot for us. And also for Wolfspeed, they needed cash. And so they have the needs to obtain cash so that they'd be able to expand their capacity. And so the 2 sides needs met. That's my response.

Operator [50]

[indiscernible] Yamamoto-san, please?

Unknown Analyst [51]

Am I being heard?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [52]

Yes.

Unknown Analyst [53]

The first question referenced the front-end utilization. You said between 50% to 70%, the early part of 70% from what I have recently heard. As your outlook ahead, I believe you mentioned it will be basically flat. But what is the recovery from the next fiscal year and onwards? So that's my first question.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [54]

Yes, next term, we are looking at the utilization being mainly flat. And for the fourth quarter, this is, of course, dependent on the trends for the next fiscal year and a decision will be made.

Unknown Analyst [55]

And the second question. This is a reference to revenue, down from previous year, 2.4% -- 2.5%, excuse me. Well, the situation appears to be fragmented. There is, of course, a sign of recovery, and that would be -- that would explain the total picture. Would that be correct?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [56]

The overall outlook I will say that there are not yet signs of recovery, and therefore, uncertainty is still very pronounced, and that is what I wanted to convey to you. And we look at the circumstances as anticipated. There are some areas in which recovery is being observed. However, there are ups and downs. And therefore, overall picture is such that at least compared to 3 months ago, when I spoke to you, a full-fledged recovery appears to be somewhat later in time.

Operator [57]

Next, Mr. Hanaya from Nikko Securities.

Takeru Hanaya, SMBC Nikko Securities Inc., Research Division - Research Analyst [58]

Yes. This is SMBC Nikko Securities. This is Hanaya. I have 2. My first one is just a confirmation, but then in your earlier comment, I think you were talking about consumer products, which is in line with your expectation, I think that's what you said. But then every time in your quarterly result, you have been saying that there's been some delays. But then at the moment, you believe that this bottoming out is in line with expectation?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [59]

Yes, this is Shibata. Consumer, computer side, like I mentioned in Q1. And when you look at the numbers, I think we now are seeing it clearly that we have bottomed out. It's in the numbers.

Takeru Hanaya, SMBC Nikko Securities Inc., Research Division - Research Analyst [60]

My second question is about Wolfspeed deal. So you mentioned about 8-inch, and I was -- and I'm thinking that probably more into the future when you say 8-inch. So you're trying to get supplied and you're trying to obtain some scale here. But then at the same time, I do believe there is also going to be more CapEx for your internal production. And what is going to be the size of this CapEx and the timing? Is there anything you'd be able to share that with us?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [61]

Well, this is Shibata. Well, please look forward to what we'd be able to announce in the future. We do want to be careful in making this decision. We don't want to go too hasty because that's not really going to create good results. So from Q3, we are going to be shipping out some samples for the 6-inch and we want our customers to look at that and be happy with that. And once we go to that point, we should be able to increase the 6-inch and 8-inches more down the road after that. So that means we're talking about something that should happen a little more down in the future.

Takeru Hanaya, SMBC Nikko Securities Inc., Research Division - Research Analyst [62]

So 6-inch, is there going to be any investments or capacity increase?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [63]

Well, we will be, yes, and adding some capacity here, too.

Operator [64]

[Operator Instructions] Nomura Securities, Yamasaki-san.

Masaya Yamasaki, Nomura Securities Co. Ltd., Research Division - Head of Electronics Industry Research, Japan [65]

Yamasaki from Nomura Securities. I have 2 questions. The first of which is in reference to SiC wafers. In terms of financial benefits and how do you look at this? On a dollar basis, with interest rates very high, will you be able to enjoy some major discounts? Or in the recovery period, within the 10-year contract, will you be able to recover the cost? Or if it really sells well, then what will be the upside? In terms of financial benefits, how do you look at the contract to the extent possible, we'd like to hear your thoughts. That's the first question.

The second question has to do with the automotive. There were some comments made by region. And when you look at this by product to product segment, what is the situation? Of course, the shorter supply has now been eased. But are there still some shortages where inventory is being suppressed? We hear this from other companies. When we look at the situation, say, for 40 nano, pretty strong, as you have mentioned. But what are the circumstances today at this point in time, if you could share the situation?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [66]

Now I'd like to respond with the second question. Firstly, I would, of course, respond to your first question, and where necessary, I'd like to ask Mr. Shinkai to fill in. As for anything that is short in terms of the supply and whether that situation exists, the numbers have declined. However, that still remains. So that is a comment I would like to make. And also, I referred to this several times within my comments. To quite some extent, there's an emphasis on reducing the dollar valuation of the inventory which has led to some shortage of inventory. And the circumstances of that nature appear to be on the rise compared to the first quarter.

The supply in the beginning was short. However, now we're looking at a different situation in which companies have been trying to control the inventory. However, with the demand increasing, now they are falling short of supply. And that is what we are observing in the automotive semiconductor segment in terms of supply and also demand.

And as for Wolfspeed, as you know, capital procurement situation for borrowers is favorable because of the low interest rate. And therefore, looking at this from our perspective, we want to be able to capitalize on this situation. And given the interest rate environment that we are currently in and the U.S.-based interest market, we are, of course, seeing an arbitrage. So this is upbeat situation for our company. And Wolfspeed, which is a borrower rather than procuring for the U.S. market, of course, there are benefits in terms of interest rate payment by procuring in Japan. So this is a win-win situation for both sides.

And as for the wafer pricing, this will have, of course, implications on our operations. And therefore, I would like to refrain from making that remark. However, on the question as to what has driven us to invest at this scale? Of course, I'm sure that you will be able to read between the lines. I would like to refrain from commenting further.

And also SiC substrate is very tight in terms of supply. And therefore, procurement of supply is very difficult. With the long-term contract, supply contract, we will avail ourselves of substrates that are necessary for operations. And therefore, which will mean the certainty of our operations will also be enhanced. And there is, of course, an interest rate [gap]. And we find that, of course, we will be able to reap the rewards. And that is our, of course, a judgment.

Masaya Yamasaki, Nomura Securities Co. Ltd., Research Division - Head of Electronics Industry Research, Japan [67]

And just one more thing. This is for automotive. Within your company, are there differences, of course, which nano micron is strong or weak, depending on the product, are there some differences?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [68]

Well, it's not so pronounced. In terms of the order placement, 40-nanometer, of course, remains strong for the MCUs. Does that mean that we'll fall short? I do not think that, that will be the case. However, when you look at the order book, this informs us that 40 nanometers MCU is strong.

Masaya Yamasaki, Nomura Securities Co. Ltd., Research Division - Head of Electronics Industry Research, Japan [69]

And for Mr. Shinkai, we talked about die bank inventory to be increased. As for 40-nanometer MCUs, with - on that point, is the die bank inventory being increased?

Shuhei Shinkai, Renesas Electronics Corporation - Executive VP, CFO & Director [70]

That is not the case because what we produce is being sold and that is the situation.

Operator [71]

Thank you very much. And with that, we'd like to end the Q&A session because we're nearing the time to end. So before we end, can we ask Mr. Shibata to give a closing remark?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [72]

Yes. Thank you very much. Now -- so I guess, today's earnings call didn't give you such a surprise. But then with that said, some of our future outlook, again, it's not that we've changed our outlook. We are trying to be prudent in how we manage ourselves. But then -- and -- but we do want to make sure that we be prepared when the market picks up. And so that is why we want to use both levers, accelerator as well as how we'd be able to put on some brakes if we need to slow ourselves. So that's really has been our stance.

And so I hope I'd be able to tell you more about what is going to be our outlook for Q4 and onwards in the next quarter's earnings result. So please look forward to what we'll be able to say. But with that, thank you very much for taking your time to join with us. Thank you.

[Statements in English on this transcript were spoken by an interpreter present on the live call.]