

TEXT version of Transcript

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Presentation

Operator [1]

[Interpreted]

Hello all. If you like to hear this session in English, please click the globe icon on the bottom and select English channel.

Thank you, everyone, for joining Renesas Electronics' Fiscal '22 Q4 and Full-Year Results Briefing. Simultaneous interpretation channels can be used. Please click on the globe mark at the bottom of the screen

and choose the language of your choice. Speakers, please turn your video on.

At today's briefing, we have with us our Representative Director, President and CEO; Hidetoshi Shibata; SVP and CFO, Shuhei Shinkai; SVP, Co-General Manager of Automotive Solutions Business, Takeshi Kataoka. We also have staff members on the call.

Mr. Shibata will brief you all first, then after, Mr. Shinkai will explain results for Q4 and the full year, followed by Q&A. The total amount of time provided is 60 minutes long. And the materials that we're going to use today for the briefing are the materials available on our Investor Relations site.

Now without further ado, I would like to pass on to Shibata-san. Please turn your mic on and go ahead.

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

[Interpreted]

Hello. This is Shibata speaking, the CEO. First of all, in Turkey and Syria, there was a massive earthquake and there are those who have been directly or indirectly been affected and presently may be in pain. And I would like to extend my condolences. In Turkey, we have several dozens of employees there. And back in 2011, Turkey, we were affected by the Great Eastern Earthquake, and we were supported by our friends from Turkey and other countries. We still have that fresh in our minds. So, we would like to make donations and try to extend our support as much as possible. Thank you for that.

And for today, it is our full-year results briefing. For fiscal year '22, revenue as well as our profitability, gross margins, operating margins and EBIT margins have achieved record highs for our company. For GAAP and non-GAAP numbers -- for non-GAAP, it's pretty obvious. But given for non-GAAP, we were able to achieve record high numbers. Last year, we had an Analyst or Capital Market Day, and I touched upon this. But for last year, from many industries and stakeholders, they were telling us that we finally came back to the global market, and we were being extremely encouraged and now being able to see it be materialized in numbers is something that we feel very happy about. And especially -- although there were lot of predicaments and difficulties, we were able to make these achievements because of our 22,000 employees and their hard work.

So, I would like to take this opportunity to tell you that we feel proud of these achievements. So regarding the market, PC, mobile, consumer in these segments, the considerably large adjustments or correction has been ongoing. And I think Mr. Shinkai will touch upon this later, but for inventory levels and amount, whether it be our inventory or distribution inventory, I think we are fairly able to control it well. So, I hope you can check that. And under these circumstances, at early last year, we did some share buybacks, but once again, we have decided to do another round of share buybacks this time around. Market corrections are ongoing, but our stock prices have relatively been firm. Also -- and with the acquisition of Dialog, we did a capital raise and we wanted to try to buy that portion back at least. So from these 2 reasons, up to JPY50 billion, which is smaller in scale compared to last year, but the share buyback scale will be up to 5-0, JPY50 billion.

Furthermore, finally, another point I wanted to make, which is a housekeeping announcement. I don't want to forget it. That's why I'm going to say it now instead of the end. But typically, ever since I become the CEO, twice a year towards the capital market, we have been providing updates. But like we've been communicating, we are now at a comparable position against our peers compared to the past, humbly speaking. So for this Analyst Day as well, like our peers are doing, we would like to do it once a year. That is the cycle we would like to follow in updating you going forward. This year, we haven't decided completely yet, but we're thinking around the May timeframe where we could provide presentations. So the way we are going to be conducting this will be different from the past. We hope you understand.

So now without further ado, I'd like to pass over to Mr. Shinkai, who will go into the details.

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

This is the CFO. My name is Shinkai. For Q4 and fiscal year 2022 results, I would like to explain based off the presentation that has been posted on our Investor Relations site.

Please turn to Page 4 in the presentation. So for Q4 results, as you could see in navy in the middle, revenue was JPY391.3 billion. Gross margin was 56%. Operating profit, JPY135.7 billion, which was 34.7% in operating margin and JPY109.3 billion. And profit attributable to the owner, excluding FX impact, it was JPY85.6 billion and JPY155.5 million for EBITDA and the dollar was JPY144 against the dollar and JPY144 against the euro for this period.

And going 3 columns to the right are the comparisons against our expectations are shown. I'll explain this later. And for the full-year results, it is in maybe once again on the right. It was JPY1,502 billion plus for revenue. And this time around as well, we wanted to show you the constant level of net profit. Therefore, net profit, excluding FX is also shown here. In Q4, the cash pooling method between group companies has changed. And when we conducted this change, gains and losses related to FX has been incurred. Ever since Q1, with the pooling factor, FX impact exposure has become quite small. So we are -- have been able to minimize its impact.

Please turn the page. The revenue trends are shown here by quarter. So for Q4, it is on the very right. Overall, on a year-over-year basis, our revenue went up by 24.5% and Q-on-Q by 1%. If you exclude FX impact on year-on-year, it was up by 4.1% in revenue and minus 3.5% Q-on-Q. For the breakdown, the details are shown here. Automotive went up by 7.5% Q-on-Q, and industrial infrastructure, IoT went down in revenue by 3.5%. Likewise, if you exclude FX impact, Q-on-Q, automotive was up by 3.3% and industrial infrastructure, IoT was down by 8.6%.

Please turn the page. For Q4, revenue and gross operating margin, to talk about the total first. Comparison against guidance is shown at the top right. So revenue compared to the median, it was up by 1.6%. It exceeded our expectations. And half of it was due to FX and the other half was due to automotive. In the overseas market, we were able to see growth. And gross margins compared to our guidance, it was above by 2%. Major reason was product mix, which was about 40% and manufacturing expenses improved as well. And for product mix or for FX, the foreign currency ratio went up and its impact was about a 1/4 and the rest was due to product mix. And royalty sales increased. And for manufacturing expenses, at the end of the year, last year, we did some regular inspections that went down and mainly around OSATs, manufacturing expenses went down. That led to an improvement.

And for operating expenses, R&D, SG&A was below our expectations and operating margins as a result was 4.2 percentage points higher than expectations. And looking at the bottom right, Q-on-Q. So revenue went up by 1%. Excluding our currency impact, it was down. And by segment, industrial infrastructure, IoT was down due to less demand from PCs and so forth and mobile. And for gross margins, it was minus 1 percentage point because of less production recovery and higher production costs. And for operating costs, R&D, SG&A went up, respectively.

Next is by segment, which you can refer to on the left-hand side, gross margin and operating margin on a Q-on-Q basis. Industrial infrastructure, IoT changed substantially. And in Q4, there was settlement expenses related to a litigation which is one-off that was recognized. Therefore, it was half of the decline Q-on-Q.

So next page, please, the in-house inventory. On the right-hand side, the company total DOI declined Q-on-Q. And it is [98] days. Looking at each segment, for both of the segments, DOI declined. As of the end of fourth quarter, the yen strengthened, so that was a positive element. And excluding FX impact, it was Q-o-Q increase to 111 days. This is sales channel inventory in WOI. And the WOI Q-on-Q declined and both -- in both segments, it is 7 weeks or so. This is inventory analysis and the outlook. From in-house inventory to the left, from third quarter to fourth quarter, the actual amount declined and that was due to FX impact.

Excluding FX, it increased. The valuation increased, reflecting material and utility cost increase. Also for materials in response to BCM, we have conducted upfront ordering of the maintenance parts and the purposes for stable operation. We expect this to slightly increase in the first quarter. Regarding work in process, we have strengthened the die banks, and we are continuing. On the other hand, we suppressed the wafer input, including purchase from foundry in response to the demand.

So first quarter work-in-process will be a slight decline. The die bank operation, we have target volume per product line. And depending on the product, they are different and volume-based, 4 weeks to 12 weeks, average is 6 weeks to 7 weeks. That is the target of the building up of our die bank inventory. 6 weeks to 7

weeks means roughly 45 days. We are to hold in wafer as the monetary amount will be half. The impact to DOI will be half, roughly 22 days to 23 days.

As I have said, as of the end of fourth quarter, DOI was 98 days, out of which die banks are actual for in-house and foundry combined, 18 days. The target is 22 days to 23 days. So, we needed to build up some more. Out of 18 days, roughly 4 days is the in-house production part. Legacy product category, we completed almost entirely the expansion for die bank, but we still need to expand the inventory level of die bank for our growth products. Therefore, finished goods in fourth quarter, mostly for automotive application, we shipped the production done in the previous quarter.

On the other hand, in the industry infrastructure and IoT, we suppressed the shipment to the sales channel by looking at the demand. So it is flat. In the first quarter and onwards, according to the demand, we will conduct shipment. So the inventory level of finished goods Q-on-Q will likely be flat. For all of the channels, the trend of the demand is being monitored quite conservatively so that there will not be excessive inventory in the sales channel. So first quarter as well, we will conservatively manage the inventory so as not to consume the future demand. For industrial and infrastructure, IoT, fourth quarter, the inventory actual amount in WOI slightly declined Q-on-Q. In the first quarter, we expect a slight decline of the inventory level, but we also expect a slight decline of the demand. So, we expect WOI to increase slightly. In the automotive, we recovered what was decreased excessively in the third quarter. However, the financial demand was higher than our expectations. Therefore, for actual amount in WOI, we saw a Q-on-Q decrease. So in the first quarter, in order to compensate for the excessive decrease in the fourth quarter, we expect, both the amount in WOI to increase.

This is the utilization rate of the front-end. And fourth quarter wafer input base utilization was 80% or so, and in line with our expectation. We scheduled -- there was a scheduled maintenance at the end of the year and the beginning of the year, and the days of operation were lower. That was the reason. And for the first quarter, due to decline in the number of days of operation and production adjustment, we expect the rate of utilization to slightly decline.

This is EBITDA and FCF. Fourth quarter EBITDA is JPY155.5 billion. Fourth quarter operating cash flow was JPY106.2 billion. Free cash flow was JPY83.9 billion. From EBITDA to operating cash flow of [JPY38 billion] was the increase of the GAAP Q-on-Q. And the 30% of the reason is a one-time reason and also the upfront payment of the -- in order to ensure production capacity. Also settlement of the -- our patent lawsuit and other working capital increase is included.

This is the forecast of the first quarter 2023. Please look at the first quarter column highlighted in dark blue. The revenue in midpoint forecast at JPY355 billion, our gross margin, 54.5%; operating margin, 32.5%. The revenue, we expect a 2.4% increase year-on-year and Q-on-Q, minus 9.3%. Excluding foreign exchange impact year-on-year, minus 7%. Q-on-Q is minus 3.3%. In gross margin, Q-on-Q decline is minus 1.5 percentage points. The reduction of the in-house production is the major -- a major reason.

We are expecting the adjustment in the production. And for production costs, foundry costs, raw material, utility, the increase of those costs are reflected. The operating margin Q-on-Q, 2.2 percentage point reduction. [FX] itself due to seasonality, it will decline. But due to the revenue decrease, we expect a negative operating margin.

Next page, please. This is the acquisition and tender offer of our own shares. Following April last year, we will conduct the acquisition of our own shares. The upper limit is JPY50 billion, slightly lower this time. INCJ is planning to tender 40 million shares. The impact is shown to the right.

Next page, please. Please turn to Page 18 of the appendix. -- excuse me, Page 19. These are GAAP and non-GAAP reconciliations. The fourth quarter non-recurring items, there is a large number. This is the reconciliation cost for the patent-related lawsuit. This is the CapEx, capital expenditure, up by first half of 2022. Major investment for the increase of the production is being completed. So in the following period, we expect 1 single-digit CapEx per sales. Thank you.

Question And Answer

Operator [1]

[Interpreted] We'd like to now proceed to Q&A. Mr. Shibata, Mr. Kataoka. Can you turn your video on? [Operator Instructions] So now UBS Securities. Mr. Yasui, please go ahead with your question.

Kenji Yasui, UBS Investment Bank, Research Division - Executive Director and Analyst [2]

This is Yasui from UBS. I have 2 questions. My first question is regarding the sales channel distribution inventory. Thank you for giving us the information. 2 quarters in a row, it has been going down for automotive. So from a demand-supply point of view, is it like your supply hasn't caught up? And throughout the year, can you also comment on whether steady demand can be expected just for automotive first? And also if you can touch about -- give us some guidance on industrial infrastructure IoT as well. And FX is still moving. So when you think about the year, how much of an impact are you expecting at the revenue and profit level next -- this fiscal year?

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

Well, I will answer the first part of your question. For FX, Mr. Shinkai will take that question. Whether or not we haven't been able to catch up with demand, I don't really think so. It's not the case. As Mr. Shinkai said earlier, right now, for 40-nanometer MCU, we are ramping up right now, and it's selling as we make them. So demand and supply is tight. But overall, it's not as if we haven't been able to catch up with demand against the supply chain. How should I put it? Including ourselves, people's perspective has changed, which is one reason why. But people are feeling -- we are feeling that we should start to carry more inventory. So, there's a certain level that we were shipping for, but channel is selling through more. Therefore, in order to recover back the inventory up, as Mr. Shinkai mentioned, for the first quarter, for the end event beyond the channel, we are trying to supply more to ramp up the inventory levels. But if levels are at the current level, it's not as if we are short of inventory. So, we want to ensure that we maintain the sweet spot by controlling our inventory up and down.

So now Mr. Shinkai will talk about FX.

Shuhei Shinkai, Renesas Electronics Corporation - Senior VP & CFO [4]

Yes. For FX, the variability is quite significant. And as we've been communicating from before, when the yen strengthens, in order to protect the downside, we have been hedging. Therefore, benefiting the upside of the weakening yen is being controlled. We haven't been able to benefit completely. So if currencies stay within the range, we have been successful with our hedging, but if it's out of range, it's different. So for Q1 and what our view is -- at this level of currency sensitivity wise, at the revenue level, with the 1-year move against the dollar, it's JPY1.7 billion and for JPY1 billion gross profit and JPY700 million against the operating profit level, that is the sensitivity.

Operator [5]

BofA Securities, Hirakawa.

Mikio Hirakawa, BofA Securities, Research Division - Research Analyst [6]

I have 2 questions. Regarding sales on the first quarter, Q-on-Q, minus 3%, excluding FX, and the reasons were explained by Shibata, Shinkai. If you break them down into automotive and IIoT, what would it be? And also could you provide that outlook for 2023? The treasury stock -- share buyback will be JPY50 billion. And considering the cash flow generating capability, I believe you have more potential to conduct the share buyback. But why was it this amount? Did you discuss with the major shareholders to take it slowly? Or looking at the balance of share buyback and the dividend, if you could explain the background?

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

Your first point, how shall I reply? FX from fourth quarter to first quarter, yen has strengthened significantly. So if we reflect the FX entirely, then the visibility will be sacrificed. So why don't we keep the FX constant. In replying, in first quarter, automotive, the sales will grow. That is our outlook. Major factor, there are 2 that

were already mentioned. 47 microcomputer demand is extremely strong. The demand is strong, or the platform is ramping up, increasing that is the situation. And also partially, we want to restock the sales channel inventory. So, our automotive will grow without FX impact.

Regarding IIoT, even FX is fixed. High single-digit sales decline is our expectation. To put it simply, PC, mobile consumers in these areas, in the short term, the market is still soft. So the sales channel inventory, we don't want to keep excessive level. So, we are careful to sell to the sales channel. Many people comment about various things. But in the second quarter, the adjustment for PCs will bottom out. I think that is the dominant view lately. And towards second half, what would be the truly new demand that will emerge? That is the major question. We don't have that visibility yet. And in second quarter, we expect correction or adjustment to a certain extent. So in the first quarter, we are careful not to build up excessive inventory in the first quarter.

And regarding share buyback, there's no major logic. However, along with the acquisition of Dialog, we conducted fundraising to a certain extent and we wanted to recover that amount in terms of EPS. And we were considering larger scale, a continuous share buyback. At least compared to last year's share buyback, the share price level is coming up. So, we are thinking of doing this in small installments. And compared to global peers, we are back in the global market, in the global map. So, we are serious about looking into dividend. Considering these factors, on share buyback, I think it's a good opportunity to shift our focus a little bit to dividend. So after various discussions, we may continue share buyback. But for now, reduce the scale and expand the option. So, this is a result of such thinking.

Operator [8]

Next is Goldman Sachs, Mr. Takayama.

Daiki Takayama, Goldman Sachs Group, Inc., Research Division - MD, Co-Head of Japan Equity Research & Equity Research Analyst [9]

First question is, you were saying from before, order backlog, and you never know when if that's going to change. But you were saying last time around that so far, it remains to be firm. So what about now? What's the sentiment? Is order backlog going to materialize? Have you been gaining visibility? Or is it still uncertain? So can you talk about what's actually happening in the field?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [10]

Well, for order backlog and its quality, I think, rather, it's getting better. That's how I feel. For the things that they don't need, we have been proactive in telling them you should cancel those orders. And I think that's a consequence of that. Whether this is good or bad, I'm not sure. But because we are going back to normalx to a certain extent, for those applications where the product life cycle is not that long, such as PC, mobile and consumer. For this part of the business under current environment circumstances, we don't have to order out into the future. So for 2021, they attempted to place orders over the long term that was non-returnable and non-cancelable. But nowadays, those practices are gone, and they're just placing orders for the near term.

So operationally, it has shifted. So, order backlog overall has been declining somewhat, but the content of the backlog is more intense and better. So, I would say we are becoming healthier and sounder. And for a total order backlog, we still have a high level. So, I think it is at a -- we're in good conditions. Other than that, lately, inflation seems to have settled down somewhat and because of the warm winter in Europe. Energy-wise as well, the worst case scenario hasn't hit us. So if comp conditions are ongoing, order backlog can be credible and we expect backlog to increase even more. And towards the second half of the year, energy inflation, circumstances, it really depends on how macro trends unfold.

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

So that's it for me. My second question is, you were talking about Q1 in non-automotive. And for consumer, PC, mobile, with Q2 being the bottom, but for data centers and so forth in industrial, what is your image for the first quarter? For industrial, it's pretty strong. It is strong for EVs and decarbonization-related applications

and the move out of fossil fuels, although it may not be directly related. The conversion to heat pumps is another reason why. So, I think there is a structural change that is taking place. And because of that, for industrial, we continue to see firmness.

For data centers, I think we're seeing some stagnant signs. Investments into data centers are stagnant at this moment. And from our point of view, VR14, [VR5] NPU's, as they progress into next generation, structurally, we are expecting content growth. However, this process has somewhat been pushed out. So, we do think we are going to see growth, but we're not expecting a strong momentum to continue around the second quarter. In the second half, we are expecting that we might start to see a pickup, but we are not sure about the macro conditions in the second half, whether they be good or bad at this moment. So, I don't think I should comment on that at this point in time.

Operator [12]

Nikkei, [Eguchi-san].

Unknown Analyst [13]

This is Eguchi. Can you hear me? I have 2 questions. First is regarding supply chain. In your presentation, you talked about the fees to OSAT going down. Your suppliers manufacturing companies, the operations -- has these operations returned to normal? And cost increase of the materials at that new supply, what is the pressure coming from that? The geopolitical risk is going up. So the concept of footprint in outsourcing, how are you handling such risks?

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

Let me quickly reply to your second question. The first part, the overall picture will be replied by Shinkai-san and Kataoka-san. We'll talk about some anecdotal topics. So, that would be the order. With regards to geopolitical risks, you correctly pointed that out. The overall market capacity is strengthening or securing such a movement within the entire market is to be monitored thoroughly. So how should I say? Depend through the attention of the geopolitical risks, we should not have our business being affected. So, we are looking into measures.

We have been fab-light, and we will continue to be fab-light. That will be unchanged. So our foundries and our partners and with OSAT, we need to have a good discussion. For instance, the nationality, even if the nationality is Taiwanese, we are proactively expanding the capacity outside of Taiwan. So, we are not going to rush to move from right to left, but we will move step by step in order to strengthen our supply chain resiliency. We are to tackle this carefully. So when the time comes, we are going to provide information in an appropriate manner.

The OSAT situation and overall picture, Shinkai-san?

Shuhei Shinkai, Renesas Electronics Corporation - Senior VP & CFO [15]

The procurement overall picture on this topic, the tightening of demand and supply compared to the past, I think it has settled down a bit. It's not just OSAT, it's foundry and raw materials in all areas. The overall picture is calmer. But depending on the product, there are shortages that are continuing. So for such items, the costs will also be high. For instance, foundry, 8-inch product or mature node product, for those products, capacity is limited and the popularity is high.

OSAT, depending on the package type, there are large various or consumer appliances. There are differences depending on the product. For raw material, the situation is similar. The supply and demand is tighter in one area and loosened in other areas.

Kataoka-san, anything to add?

Kataoka Takeshi, Renesas Electronics Corporation - Senior VP & Co-GM of Automotive Solution Business Unit [16]

Well, this is more of a real-world situation. In a nutshell, it has -- the stress has been alleviated, but our process node, specific process node continues to be tight. With regards to the costs, it has come down. But for this year, year-on-year basis, on a total basis, the prices have gone up slightly. Especially energy costs has been going up for raw materials. And during the 2 to 3 -- past 2 years to 3 years, the supply and demand was tight. So through LTA, various semiconductor companies have secured. So although the overall demand is declining, the demand that is not real exists. So if we try to get them additionally, then costs goes up for such a case. So overall, the cost is slightly higher. So for such higher costs, throughout the industry, the cost increase has been born in a fair manner. The utility is a headache. We are receiving impacts to a certain extent.

Operator [17]

Nikkei BP, [Kojima-san] is next.

Unknown Analyst [18]

This is Kojima from Nikkei BP. Can you hear me?

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

Yes, we can.

Unknown Analyst [20]

Highest ever results. Congratulations. It's not related to your results, but I have 2 questions. One is last year, you were saying that you're going to do SiC as well. And do you have any updates around it and any plans around its launch? Electronic was when you referred to this and also last month. In order to secure semiconductors, there was a plan that was announced. But can you talk from your point of view about good things or not so great things that are likely to happen?

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

For SiC, there is some progress being made, but we want to wait a little more to see more progress before we make any grand announcement. So, I hope you can wait for a little bit more. Regarding the subsidies, we do appreciate it. For Kofu, our plant as well as our own capacity, we would like to expand even more. So being able to receive grants is something that we truly appreciate. So, we really hope that these types of measures will be ongoing. And also the stabilization of the supply chain as well as the contributions to industry in Japan is what we would like to have in mind and also be aligned with the government and expand our capacity by leveraging the grant system. So, we would like to move hand-in-hand.

Operator [22]

Next, Fujiwara-san from Citigroup Securities.

Takero Fujiwara, Citigroup Global Markets Japan Inc., Research Division - Assistant VP & Analyst [23]

I'm Fujiwara from Citigroup. Can you hear?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [24]

Yes.

Takero Fujiwara, Citigroup Global Markets Japan Inc., Research Division - Assistant VP & Analyst [25]

I have 2 questions. First point, regarding channel inventory and especially for IIBU, I understand that you are suppressing the shipments. That is mostly on PCs and smartphones. You mentioned the industrial equipment demand is strong, and also the data center application are in a plateau. The tight situation is still continuing. That is my first question.

Second question. The demand is softening and the utilization is continuously declining. In the first quarter, the utilization will decline by several percentage points. And if you have an outlook for the second quarter utilization, can you share?

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

For industrial applications, the channel inventory is quite small. The volume itself is not that large. So in terms of monetary value, it's not going to move the overall picture. From BCP, die bank perspective, there are many items with shortage. So for industrial, we need to strengthen our production. In terms of the overall volume and amount, it is very small. So the visibility would be very small.

With regards to data center, it will depend on the item. In the past, I briefly mentioned about the power stage, the kit sales controller and switching device used as a set. There's such a product. And in the past, there was shortage in controller, and we were able to prepare a switching device first, and the inventory rose. So especially related to power, such inventory buildup through mismatch is happening.

Takero Fujiwara, Citigroup Global Markets Japan Inc., Research Division - Assistant VP & Analyst [27]

The data center memory interface related inventory overall, what is the status?

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

It's in line with the demand. So, there is no excess or shortage overall, but there are some items if you look deeper with higher inventory or lower inventory. So it's not really constant. That is the situation. So, we try to even them out and working to do so continuously.

What was your second question?

Takero Fujiwara, Citigroup Global Markets Japan Inc., Research Division - Assistant VP & Analyst [29]

The utilization from second quarter?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [30]

Well, first quarter would be the bottom. Shinkai-san, correct me if I'm wrong. It will be up to the situation in the second half. So as of today, we don't have the visibility. According to the current forecast, second half will come up as growth. So long as we can maintain that forecast, then utilization will start to come up in the second quarter. FX and others will be very volatile. So, we need to catch the signs of changes.

Operator [31]

Next is Mr. Sugiura from Daiwa.

Toru Sugiura, Daiwa Securities Co. Ltd., Research Division - Research Analyst [32]

This is Sugiura from Daiwa Securities. I have 2 questions. The first one is about what was discussed earlier in the Q&A about cancellations and you actually approaching the customer to cancel orders that they don't need. And 3 months ago at the results briefing, you were commenting on the same thing. But that time around, there were differences in customer acceptance based off what you were offering. For PC, smartphones, they do accept that proposal, but in other cases, they did not. So have you been experiencing

any changes? Are there more customers accepting your proposal? Or are trends the same? So that's my first question.

My second question is prices and the direction of semiconductor prices. You're saying that raw material prices have gone up even more and foundry procurement prices also have been going up. So a reflection of that, more procured products as well as your in-house production, do you think prices can be increased this year? Or because of the deterioration of the economic -- and the economy because of worst sentiment from customers, is there more pricing pressure? And do you think it's going to be hard to raise prices? So can you talk about the direction of prices going forward?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [33]

Well, for prices, that's a really difficult question. It's really hard to say. It's hard to say. It's more about prices from next year onwards. That's hard to say. But like I always say, it's pretty much the same as what I said before, supply prices. Opportunistic trends are not the case like we've been seeing in the past. I think prices as a level are up compared to the past, whether it be foundry prices, raw material prices. Prices have gone up like in reality. Therefore, based off what we're seeing, of course, demand fluctuates. That's a given. But ASPs for semiconductors compared to the past do not fluctuate as much.

Having said that, for semiconductors overall, memories that are commodities do fluctuate more, I presume. But for the products we carry, not all of our products have commoditized. So, we would like to be -- watch the trends closely. But for embedded products, I don't think they fluctuate as much as before. That is my view. Also, for the cleanup of order backlog, overall, I think we are past the peak and cancellations. Customers that are pushing out pretty much agree and they have agreed to accept our terms. Of course, partially for some Chinese customers because the macro situation is changing drastically, meaning their economy was stagnant because of the lockdown. But then from Q2 onwards, there might be stimulus measures from the government. So the stop and go is pretty drastic in China. So compared to other regions across the world, China might be an anomaly. However, overall, I think we are pretty much in the final stages. That's my view.

Operator [34]

Next is [Sita-san] from Semicon Portal.

Unknown Analyst [35]

I'm Sita from Semicon Portal. Year-on-year 51%, this is a very high number. Mr. Shibata, you said that we're now in part of the global map, and you are still humble. I think you are the top company among the global peers in terms of the growth rate. So this time, FY '22, the overseas ratio, regional breakdown, it can be rough figures, but if you have that information, could you share? Another point is Kofu fabs current situation. So those are the 2 questions.

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

Shinkai-san will reply to both of the questions. I'm happy for your compliment. When looking at the numbers, there are 2 cautions to be made. One is regarding Dialog. It's August or September is when the consideration started with Dialog. So full-year contribution, well, on the full-year basis, the growth rate would be 40% or so. So, 51% is a little bit superficial. Last year, it was good because the yen weakened significantly, and there is a large impact coming from that. So this number, well, we shouldn't be complacent just because we achieved this number. And I would like data centers support us continuously.

Shinkai-san, please.

Shuhei Shinkai, Renesas Electronics Corporation - Senior VP & CFO [37]

First point, the ratio of domestic versus international, if 75% are international, 25% domestic in FY '22 and FY '21, compared on a year-on-year basis, international is increasing partly due to acquisition of Dialog. The

second is Kofu fab. What was the question?

Unknown Analyst [38]

Current status. 300 milli, it was introduced and what's going over now?

Shuhei Shinkai, Renesas Electronics Corporation - Senior VP & CFO [39]

It was restart of the operation. We are working on the preparation cleanup of the building and soil cleanup and equipment procurement is underway. So against our schedule, well in line with the schedule. We expect to start mass production. So far, there is no hiccup in the procurement and preparation.

Unknown Analyst [40]

75% of overseas, what is the regional breakdown? Which region makes up a large part? Any ballpark?

Shuhei Shinkai, Renesas Electronics Corporation - Senior VP & CFO [41]

Japan 20% or so; America, 10%; Europe slightly below 20%; China, roughly [30%] and the rest of Asia, 20%. That is the rough breakdown.

Operator [42]

So next is the final question because of time. From Toyo Kezai, Mr. Sasaki.

Norihiko Sasaki [43]

This is Sasaki from Toyo [indiscernible]. For fiscal year '23 and your expectations, can you give us some implications? For automotive, do you think it's going to continue to be at [risk] without correction? And for IIBU, you're saying hitting the bottom in Q2. But then after, what kind of recovery are you expecting as a story together with a pickup in the macro economy? Are you expecting a recovery? Or are you expecting like data centers or a certain application to be the driver? Can you give us some implications that you are feeling right now?

And my second question is regarding share buybacks and shareholder return and your thoughts around it? For INCJ, are you going to start dividends after the acquisition of shares? Or are you going to do this concurrently? So what are the conditions of when you're going to start paying dividends?

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [44]

For Q2, we don't have it. But for the first question, it's really dependent on the macro situation. So overall, at this point in time, it is really hard to say whether we're going to see things move upwards or downwards, but structurally speaking, for us and tailwinds, meaning drivers of our growth, it goes back to my previous comment around, well, of course for data centers, although we're expecting a slowdown, we still expect growth from it and also in the Intel NPU generational changes.

AMD especially is increasing its share. And currently, AMD, when they increase their share, our pie expands. That's our business structure. So the generational change in AMD's market share increase will both be tailwinds for us, for data centers. Over the short term, I think we'll see ups and downs, but we do believe this is promising. Other than that, [as a] and so forth, they can also be growth drivers as well for industrial. Therefore, we do expect growth to be ongoing. For automotive, it's really hard to tell. Structurally, of course, electrification, expansion of ADAS are factors, but there are some other factors of content increase due to greater demand for electronic components. So as a trend, we do believe there's -- that's going to serve as a headwind as well, of course, for some OEMs. And when you look at their announcements, they are saying that working capital is increasing and inventory levels are high up. So for some products, we might go through some corrections. But structurally, we are expecting growth. That's what we are envisioning at this point in time.

Operator [45]

Thank you very much. We would like to close Q&A session now. Lastly, Mr. Shibata will say a few words.

Hidetoshi Shibata, Renesas Electronics Corporation - Chairman, President, CEO & GM of Corporate Planning Unit [46]

There's no additional message. But major macro factors still exists in large volume. We will continue to focus on forecasting and also control our business. Thank you very much for attending this session in your busy schedule. This concludes the results briefing. Thank you very much for your participation.