

# **Consolidated Financial Results Briefing for the First Quarter of Fiscal Year Ending March 2024**

**(July/28 2023)**

## **Summary of QA**

Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

**Q1. You said that the full-year forecast remains unchanged from the forecast announced in April, but I wonder why you are not reviewing it, given that the first quarter results were quite good. Were the first quarter results in line with your expectations?**

A1. As we mentioned at the last financial results briefing, we expect sales due to "Special Demand" to increase from the fourth quarter of the previous fiscal year to the first half of the current fiscal year. The first quarter results were in line with this expectation, except for exchange rate fluctuations. Although some shipments for the second quarter were brought forward slightly, at this moment, we expect that annual sales will overall be in line with our forecast.

**Q2. I understand that your policy is to quantitatively disclose the Design Win Amount and Design Win Balance only on an annual basis (upon announcement of full-year financial results). At the last financial results briefing, you explained that 40% of the Design Win Amount in the previous fiscal year was for automobiles, and 40% was for the U.S. Did you see any change in this trend in the first quarter compared to the previous fiscal year?**

A2. There has been no change in the situation regarding strong sales for the automotive field in the U.S. We have received inquiries from other fields as well, so projects are progressing as expected.

**Q3. You mentioned that "Special Demand" is for data center & networking in China. Can we consider sales to China, other than those through "Special Demand," to be relatively stable? Will "Special Demand" be zero from the third quarter onward?**

A3. Except for "Special Demand," we expect sales to remain stable. "Special Demand" refers to the amount of additional demand, especially for infrastructure startup, that was added to the initially expected Design Win Amount in the fourth quarter of the previous fiscal year and the first half of the current fiscal year. We expect "Special Demand" to run out in the first half of the current fiscal year, but base demand other than "Special Demand" is expected to continue.

**Q4. In addition to Design Win Balance, figures for orders received and order backlogs are also disclosed in the Annual Securities Report. Are these figures disclosed quarterly? How has the order backlog situation changed since the end of March?**

A4. We do not intend to disclose orders received and order backlogs on a quarterly basis. Basically, we have finished receiving orders for the current fiscal year. Currently, we are accepting orders for the next fiscal year (ending March 2025).

**Q5. You explained that NRE sales to the automotive industry are increasing. Could you share some background as to whether this is because your company is strategically trying to increase such sales or because demand is strong?**

A5. In particular, NRE sales for the automotive sector in the U.S. are increasing. U.S. automakers have a strong need to develop their own (customized) SoCs rather than standard products because they need to differentiate themselves by realizing unique services and specifications with respect to automated driving and ADAS functions, etc. Our business model, in which we work together with customers from the initial phase of design to develop unique SoCs, is well suited to automakers, and we believe this has led to an increase in business opportunities.

**Q6. Regarding NRE sales by process node, the ratio for 5-7 nm increased in the first quarter. Does this increase come from 7nm products or 5nm products? Please tell us about the current status of the development of 3nm products and their business opportunities.**

A6. The increase in the ratio is mainly due to 5nm products. We are already receiving inquiries about 3nm products, reflecting customers' strong interest. We feel that needs for cutting-edge products are shifting to 3nm and beyond.

**Q7. You explained the product mix as a factor behind the increase in operating income. What specific factors are contributing to the improvement in income? Is this improvement sustainable?**

A7. Yield has improved particularly for cutting-edge products, and some products have improved their individual profitability. Increased sales of such products have led to an improved product mix. We expect this trend to continue throughout the current fiscal year.

**Q8. In terms of NRE sales by region during the first quarter, the percentage of "Other" increased significantly. What are the factors behind this?**

A8. Since these are quarterly NRE sales, it will probably be equalized on an annual basis. The increase in percentage of NRE sales in the "Other" region in the first quarter was due to a recording of NRE sales from customers in Europe. We strive to conduct business in a well-balanced manner in terms of regions, but there was a certain amount of NRE revenue from Europe in the first quarter that led to an increase in the ratio of the "Other" region. Since NRE sales fluctuate by the timing of acceptance inspections of developed products, I hope you will make use of the trend (moving average) to examine the results.

**Q9. Generative AI is currently drawing a lot of attention around the world. Your company has identified the expansion of business for data centers in North America as an issue. What efforts are you undertaking?**

A9. One objective of SoCs that use cutting-edge technology is to expand computing capabilities. I believe that the advancement of AI technology will lead to an expansion of our business across a wide range of areas. In the automotive field, where we are strong, I believe that the use of AI is leading to an expansion in the market for SoCs that employ cutting-edge technologies, such as automated driving.

As for business expansion in the North American data center market, we will proceed through the "Second Transformation," including strengthening our R&D system, so that we can leverage the growing market for generative AI, which is a trending topic, to grow our business.