

Consolidated Financial Results Briefing for the Second Quarter of Fiscal Year Ending March 2024 (October/31, 2023)

Summary of QA

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Q1. I think "Special Demand," which was about 10.0 billion yen in the first quarter and about 5.0 billion yen in the second quarter, was in line with your expectations. Considering the second half of the current fiscal year, the next fiscal year, and through to the fiscal year after next under the assumption that there will be no sales via "Special Demand" from the second half of the current fiscal year and there will be no "Special Demand" in the next fiscal year, I believe the growth in sales will come to a halt during the next fiscal year. According to the briefing material, however, your sales forecast seems to remain flat even for the fiscal year after next. Can you share with us how you see demand (sales) from this specific customer?

A1. We think that "Special Demand" ended in the first half of the current fiscal year. From the second half of the current fiscal year, we expect sales from this customer to continue at the level without "Special Demand" for about one year and a half. Although some sales via "Special Demand" may have been front loaded, we conservatively expect sales after "Special Demand."

For the current fiscal year, the next fiscal year, and the fiscal year after next, we think we should take into account the absence of "Special Demand" and conservatively expect sales from existing products except for "Special Demand." We anticipate sales growth due to another mass production launch to be offset, and as of now, we expect sales to remain unchanged or perhaps decline slightly.

Q2. You said that "Special Demand" would end during the next fiscal year. However, if sales other than "Special Demand" grow, I think your presumption that sales for the next fiscal year would remain flat is conservative since it accounts for only less than 10% of your company-wide sales of over 200.0 billion yen. Can you share with us the background to your view?

A2. Regarding "Special Demand" accounting for only less than 10% of our company-wide sales of 200.0 billion yen, you can see from the sales breakdown that we have NRE sales of 35.0 to 40.0 billion yen annually, so "Special Demand" accounts for about 10% of product sales. While "Special Demand" will be absent from the next fiscal year, there will be growth in sales due to another mass production launch and we expect sales to grow about two-digit percent without "Special Demand."

Q3. I believe the amount of order backlogs for the previous fiscal year was a little more than 250.0 billion yen. What is your forecast for the amount of orders received and the order backlog for the current fiscal year?

A3. Currently, the level of orders received is below that of sales. However, we see this as currently in the adjustment phase due to long-lasting orders received during the previous year and the year before last. Since we have sufficient order backlogs, there is no concern for our forecast for the current fiscal year's sales. Our business is based on custom products. As such, rather than counting orders from customers, it is important to understand the actual demand from each company in order to forecast our prospects. Based on that, we allocate the Design Win Balance across fiscal years and always monitor the balance

level through to the future. Although the relationship between orders received and actual demand is quite different depending on the industry and customer, we expect it to take a little more time for the level of orders to return to normal.

Q4. Have you already negotiated with foundries regarding production quotas for the next fiscal year onward? In the event of an upswing in demand, will there be any problem with negotiations assuming demand to be flat in the next fiscal year, such as an inadequate production quota?

A4. In ensuring production quotas at foundries, we are working with them while sharing information such as the planned start of production between 2025 and 2026 for the Design Wins acquired from the automotive industry in the previous and this fiscal year. Although growth may remain flat in 2024 and 2025, we expect double-digit growth to continue from 2026 onward for a while. Accordingly, we are closely communicating with the foundries regarding securing of wafers during such period and access to advanced technologies (the shift to 3nm products, etc.) so that we can meet customers' future demand without fail.

Q5. I think the factor behind your positive growth in this recession in the semiconductor industry is partly attributable to the effect of "Special Demand." What do you think are the other factors besides that? I think the effect of the weaker yen is also a factor, but are your sales growing even on a dollar basis?

A5. We consider the largest factor behind our growth to be the shift in the business areas, from those mainly in the consumer products to growth areas, including the automotive, data center, and smart devices. In these areas, demand for cutting-edge products is increasing overseas. By shifting our business areas and focusing on cutting-edge products, our ratio of overseas sales has increased. Currently, about 80% of NRE sales and over 50% of the product sales are from outside Japan. Since dollar-based transactions are also growing due to an increase in the ratio of non-Japan sales, our sales are growing steadily even on a dollar basis while there is an impact of the weaker yen.

Q6. You mentioned that you have significantly shifted your business overseas. Can you share with us how you have strengthened your overseas sales force and how you have expanded the advanced node business, such as 5nm and 7nm, overseas?

A6. First, we undertook a fundamental review of the sales structure in the U.S., China, and other countries in order to transform our business model from ASSP to Solution SoC. Then, we also undertook a significant overhaul of the R&D structure. The previous structure, in which engineers from upstream to back-end were vertically divided by business unit, was changed to a flat organizations, by integrating engineers for each technology area. By building a structure that can respond to global customers by a project-based team of engineers from system, software through back-end, we have strengthened support for overseas customers.

Q7. You explained the one-time expenses incurred in the second quarter as expenses mainly for the restructuring of the R&D structure. What was the purpose of restructuring, and what kind of changes were made? Will such restructuring expenses be incurred during the second half or later?

A7. We are constantly reviewing our R&D structure, and doing so may or may not incur expenses. We have integrated some of our overseas sites under "restructuring of global R&D resources", and its expenses were recorded during the second quarter. While resources were reduced in some sites, they

have been strengthened in others. Although we are constantly reviewing the structure, at this point there is no plan to record equivalent expenses during the second half. At the beginning of the current fiscal year, we did not plan to record the restructuring expenses during the second quarter. We expect selling, general, and administrative expenses to absorb the addition and the total expenses will remain at the initially planned level.

Q8. You upwardly revised the full-year forecast. I think annual net sales were reduced by about 10.0 billion yen from the amount calculated by the revised foreign exchange sensitivity based on the revision of the assumed exchange rates. Excluding the impact of foreign exchange fluctuations, I think you revised the forecast at the beginning of the fiscal year downward. Was this revision made due to the backdrop of weak demand for products for China and consumer products? Or was it made to include the impact of recent inventory adjustments for the so-called late-cycle products, such as automotive and industrial equipment?

A8. In the full-year forecast for net sales, we included a reduction of about 7, 8 to 10 billion yen excluding the impact of foreign exchange rate. As for its breakdown, about half reflects the impact of lower-than-expected "Special Demand," while the remaining half reflects the impact of weak demand for consumer products for China and Japan including cameras, MFPs, and other products.

Q9. I think the recently announced 2nm and 3nm products can be considered a factor for another period of accelerated growth starting from the March 2027 fiscal year. When is the expected start of mass production?

A9. The situation differs between 2nm and 3nm. Regarding 2nm, three companies are cooperating together to start development of the test chips. However, this is only the development of test chips and we believe we will have specific opportunities with customers when they are completed. For 2nm, we will start with products for standard process, so we believe the initial products will be those for data centers and networks, and then we will move on to those for automobiles in the next stage.

Unlike 2nm, we have started development of 3nm product intended for mass production. The shift to mass production is scheduled for 2026. As for the 3nm automotive process technology, we believe we will enter mass production stage as one of the leading group. As for growth from the March 2027 fiscal year, we expect contribution of the 3nm automotive product. We expect contribution of 2nm to be later than that.

Q10. Recently, inventory adjustments of general-purpose products are seen even for automotive applications. Is my understanding correct that the products for automotive applications that you are developing are custom products and are therefore not linked to the conditions of the market for semiconductors for automotive applications? Can you tell us whether there is any impact from final demand for automobiles, including customer inquiry status?

A10. Design Win and development of products for automobiles are extremely active, and we see no signs of decline there. We have the impression that customers are actively engaged in competition for development. After entering the current fiscal year, we have acquired multiple new Design Wins, with some customers expressing desire for 3nm products.

Our sales for the automotive for the current fiscal year are forecast to be on an increasing trend compared to the previous fiscal year due partly to the launch of new projects, and these will not decline. Sales are decreasing in the business with "Special Demand," MFP, consumer products, and other products for the Chinese market due to the impact of demand for final products.

Q11. Previously, you explained that for the current fiscal year, you wanted to aim for the same level of Design Win Amount as the previous fiscal year, which was 250.0 billion yen. Is it going smoothly?

A11. We plan to disclose and explain the specific Design Win Amount and Balance during the full-year consolidated financial results briefing. In the current fiscal year, we have already acquired more than half of the Design Wins Amount that we did during the previous fiscal year by the end of the first half, and we consider that things are progressing smoothly mainly with products for automobiles.

Q12. Regarding the U.S.'s controls on exports to China, you explained that these were not a problem in particular. Has the recent tightening of the controls had any impact?

A12. We believe it is necessary to further examine the details of the recent tightening of controls. At the moment, however, we do not expect to see any major impact in particular on the current fiscal year or next fiscal year.

Q13. Your focus areas have thus far been automotive, data center/networks, and smart devices. Can you tell us the background of adding industrial equipment to the focus areas?

A13. Until three or four years ago, we did not think of designating it as a focus area, but today we consider it as one of our focus areas. In this area, while we will continue to focus efforts on securing a certain market share with MFP, demand for custom SoCs for testers and other measuring-instrument-related products is increasing. In the factory automation area, demand is also increasing for security strengthening, networking, and virtualization. Moreover, new applications are also emerging in radio-frequency- (wireless-) related products. Although we did not necessarily consider industrial equipment as a focus area at the time when we became listed on the stock exchange, we will consider it to be a focus area going forward.

Q14. Regarding the press release of 3nm for automotive applications, I understand that you will launch development of cutting-edge products using the foundry's early process technology for 3nm for automotive applications. Can you share with us the background to being able to do so ahead of others? Is it a request from a customer with a track record in 5nm or 7nm, or is it from a new customer?

A14. If we include the currently ongoing opportunities, We have both repeat and new customers. The most important thing is whether the performance required by the customer requires 3nm. We think that whether the customer applies 3nm depends on the result of the customer's comprehensive judgment of the economy, required functionality, the availability of the necessary IPs, and so forth.

We are now able to provide support to customers because we can offer proposals and give advice regarding the best choice for a fabrication facility and IPs as well as to fulfill the required performance based on our track record with 7nm and 5nm.