

Consolidated Financial Results Briefing for the Fiscal Year Ended March 31, 2024 (April 26, 2024)

Summary of Q & A

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. Regarding design wins, how long should we expect it to take for those acquired in the last fiscal year (FY March 2024) to contribute to mass production? You said that you have not changed your forecast that the sales will generally remain flat for the next two years. Are there any projects that will contribute to mass production during these two years? Also, is there any change in the profitability of projects that you acquired in the last fiscal year compared to those acquired in the past?

A1. The U.S. in terms of region and Automotive in terms of application market have taken larger part in our design wins in the previous fiscal year. Automotive businesses take longer to reach mass production than those for other applications, and we expect that they will not contribute to mass production until 2027 or later. In addition to Automotive, we have also acquired design wins from Smart Devices and Data Center & Networking. We expect those projects to enter mass production mostly in 2026 and 2027. We have already explained our forecast for the FY March 2025 and 2026 based on the review we conducted last fall, mainly on existing projects. The forecast has not been changed from that time. Design wins that we have acquired since last fall are not expected to contribute to sales in FY March 2025 and 2026.

We do not see big change in the profitability of the projects that we won last fiscal year, although the cost rate for "Special Demand" is a little higher than other products. The cost rate of large-scale projects for data center business, which we expect to grow, will be higher than the level of current projects. But we expect the expansion of the net sales would improve our overall profit margin.

Q2. As for the Special Demand, has there been any significant changes from the forecasts announced three months or six months ago? How do you see it in FY March 2027 and beyond?

A2. The forecasts for FY March 2025 and 2026 have been factored into the forecasts we reported in the fall of last year, and there has been no significant change since then.

From FY March 2027 onward, factors other than special demand will lead our growth. We do not expect any big impact on the scenario that we are currently foreseeing.

Q3. There is an explanation that "demand for existing products for Smart Devices will increase" for the FY March 2025 forecast. However, there is also a view that there will be inventory adjustment for products such as digital cameras. Is there any risk that the forecast for this fiscal year will be lower?

A3. We see that inventory adjustments for products such as cameras and office equipment will continue in Japan, but we expect that demand will increase from some of our overseas customers.

Q4. Regarding the data center business in the U.S., you explained that new business opportunities are active. Do you think you can secure the design win?

A4. Although we have not officially acquired design win, we can say that negotiation is in full swing. We expect to see the outcome of our efforts, including our track record in leading-edge fields for automotive, joint development of 2nm test chips announced last year, and the strengthening of resources in the U.S.

Q5. You mentioned that the data center business opportunity in the U.S. includes the upstream design. I think many of U.S. data center customers design their own architecture and outsource only the physical design. Do you think opportunities that include upstream design will increase in the future?

Also, in terms of expansion of data center business in the U.S., are you trying to win more projects from customers you already work with, or are you looking to increase the number of new customers?

A5. The current data center business opportunity which we are working on includes upstream design. But we also have opportunities for back-end only projects, and we believe we must have the competitive edge in doing such projects. Processors and SoCs required for data centers are becoming more diverse, and the types and numbers of chips to be custom developed are steadily increasing. There is a question of how far customers would go in developing such chips on their own. In this regard, we believe that business opportunities for our solution SoC model will increase for Data Center as well. As for expanding business, we would like to both acquire more projects from customers who we already have design wins, and further increase the number of new customers.

Q6. Does your current data center opportunity in the U.S. use the 2nm process product?

A6. We are currently working on a 3nm product. The 2nm product will be a little bit further down the road.

Q7. There was an explanation about cancellation of projects. Is there any concern that the risk will increase in the future, as projects with advanced technology expand and applications diversify?

A7. We had some cancellations in the last fiscal year. But if you look at the accumulated amount of the Design Win Balance from the projects acquired to date, there were increases in some projects and they offset the decline due to the cancellation. Overall, we maintained the same level of Design Win Balance as initially calculated from each design win. There are various reasons for the cancellations, but we are making efforts to fully assess the risks at the negotiation stage when acquiring new design wins. In addition, we will continue to acquire as many projects as possible to hedge risks, as the number of large-scale business opportunity increases.

Q8. Last fiscal year, you achieved the goal of acquiring 250 billion yen in design wins. How do you set your goal for this fiscal year? I understand it depend on the size of the deal, but if you acquire the data center business opportunity, should we expect the amount to go up one level from last year? Or should we expect the same level of amount as previous year?

A8. As for the Design Win Amount for this fiscal year, we aim to first achieve 250 billion yen, the amount we acquired in the previous fiscal year, and then exceed the amount. Looking at Design Win Balance, the figures from data center business have not increased. We would like to have more balanced structure in the four focus areas.

Q9. There are demands from automobile OEMs to install generative AI to their vehicles. How does this trend affect your business?

A9. The impact of generative AI is seen also in automotive field. Incorporating accelerators for processing power, including that for generative AI, or increasing processing power and performance of GPUs are driving the motivation to develop custom chips for automotive. This trend can be seen not only in the automotive but also in broader field, such as industrial, where advanced SoCs and technologies are required to utilize AI. This is also the background that we newly identified "Industrial" as one of our focus areas.

Q10. Will there be more products using chiplet and heterogeneous integration technologies?

A10. We see them increasing. I think there are many products of homogeneous integration today, but customers are increasingly interested in heterogeneous integration. However, difficulty of design is increasing, and not only system-level but also various interface technologies are becoming more important. We have established a design and development platform optimized for our "Solution SoC" model, which involves "Entire Design" of multiple products in multiple fields. We are also strengthening our efforts for design and production of products that support these technologies, including chiplet.

Q11. You explained that your advantage is in the ability to integrate various IPs and circuit blocks and bring out their full performance. Are you considering developing your proprietary IPs for differentiation?

A11. The basis of our business model is to make full use of IPs and technologies that are market available. The availability of IPs in the market has increased recently, due to evolution and expansion of the SoC ecosystem. SoCs require various IPs. In general, ratio of IPs purchased from outside will increase to develop advanced SoCs. We believe it is also necessary to develop in-house or to collaborate closely with the vendors for essential IPs.