

# Consolidated Financial Results Briefing for the First Quarter of Fiscal Year Ending March 2025 (July/31, 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 the YoY changes in net sales and operating income, product revenue decreased by about 15 billion yen, excluding the effect of foreign exchange, while product gross profit decreased by 1.1 billion yen. The impact of the lower product revenues to the decrease of product gross profit is probably larger, and I assume there may be some positive factors that offset this. What factors contributed to the smaller decrease in product gross profit compared to the decrease in product revenue?

**A1.** In the first quarter last year, there were over 10 billion yen in sales from Special Demand. This year we did not have that. In addition, sales of existing products not related to Special Demand also decreased by 2-3 billion yen.

As for the reasons for the smaller decrease in product gross profit, one factor is that the decrease in sales from Special Demand led to an improvement in the product mix, which improved our profitability. Furthermore, we are currently in the process of reducing inventories and are purchasing less materials. The indirect foreign exchange impact from the difference in purchasing amount also contributed to better product cost ratio. These factors contributed to the smaller decrease in the product gross profit. In the presentation slide, this indirect impact is included in the change in product gross profit.

**Q2.** Please tell us about the North America Data Center business opportunities that you mentioned at the last financial results briefing. Is there any progress since three months ago? How do you see the scale of the business, profitability, and the timing of mass production?

**A2.** We cannot disclose the details of individual business opportunities. However, in general, we can say that we are moving in the right direction. We have not reached an official contract by the end of this first quarter. However, we are already discussing specifications with the customer, and have effectively started the development. In general, the scale of business opportunities for data centers are larger than that of our average businesses, and the product gross margin for such larger projects tend to be lower. However, the expansion of sales from large-scale businesses would improve the ratio of R&D and SG&A expenses, and that leads to an improvement in the operating margin from the current level. As for the timing of mass production, we expect to complete the development in about two years, then we will ramp up the production.

**Q3.** We believe almost all of the advanced packages, such as 2.5D, are supplied by one major foundry in Taiwan. Will you be able to secure sufficient production capacity under the current strong demand for AI-related products?

**A3.** We also outsource back-end production of our existing products to the major Taiwanese foundry, so we do not start securing production quota from scratch. We secure the production quota from the foundry by negotiating upfront. We make sure to negotiate early, especially in the case of large-scale business.

**Q4.** With regards to the U.S. presidential election to be held in November this year, is there anything that you are preparing for a change of administration? Is there any impact on your business if the administration changes?

**A4.** We do not think there will be any direct impact from the change of administration, but we will be closely monitoring how the exchange rate fluctuates. We will also closely watch how the U.S.-China relationship changes. Especially, whether the U.S. export restrictions to China are tightened or not will have some effect on our business.

**Q5.** You explained that demand for industrial equipment and consumer products was weaker in the first quarter than in the same quarter last year, and in the previous quarter. What are your views on the latest demand, inventory adjustments and the outlook?

**A5.** As for the comparison with the same quarter last year, most significant reason for the decrease in sales is the end of Special Demand. Other than that, demands continue to be weak in China, as well as for consumer products and part of industrial, especially FA. The current situations are within the range of our expectation, however, there has been some progress in inventory adjustment for consumer products recently. Our level of inventory has been relatively high in order to secure capacity at the foundries, but it is becoming closer to the normal level, as we control purchasing volume according to the demand. However, inventory adjustments are still being made by customers and some distributors, and we expect a gradual recovery of the demand.

**Q6.** You explained that the product gross margin was better than the level based on the foreign exchange sensitivity, because of the less amount of purchases. Is it correct that we cannot expect that effect after this quarter, since the inventory is approaching an adequate level?

**A6.** The inventory will continue to decline through the third quarter, so we will probably see this indirect foreign exchange effect until then. In the fourth quarter, the inventory will be at the level of three months, so the effect will not continue.

**Q7.** In the first quarter, NRE revenue for "Data Center & Networking" declined significantly from the previous quarter. Does it fluctuate from quarter to quarter because of the small number of customers?

**A7.** Majority of the NRE revenue in "Data Center & Networking" used to come from our Networking business, but we expect the revenue from Data Center business will increase from now on, due to the design wins of several projects in the area. NRE revenue is a deliverable of our design and development activities, and it fluctuates from quarter to quarter. We would like you to check the trend on an annual basis.

**Q8.** Please tell us how the new design wins were in the first quarter. Are the businesses other than those for North American Data Center also going well?

**A8.** We are aiming to acquire design wins of 250 billion yen in this fiscal year, too. We believe we are on track to achieve that level, with the data center business currently in progress, as well as other projects. Our focus was more on the Automotive until the previous fiscal year. But we have a firm feeling that we can acquire wider range of Data Center businesses, starting with the North American business and including the project in India.

**Q9.** According to your company's Annual Securities Report, the revenue from your largest customer was about 60 billion yen in the previous fiscal year. I assume this is from your 5G networking business. Do you have any other business with this customer? Or, will the business with this customer end in this fiscal year?

**A9.** We have other products with this particular customer other than those for 5G network, but the sales from this customer will decrease, as the Special Demand has ended. Although the special demand has ended, we will continue to have a baseline portion of business with the customer and a certain level of sales is expected to remain.

**Q10.** In terms of the NRE revenue by the process node, the advanced nodes, from 3 to 7nm accounted for 85% of the total NRE revenue in the first quarter. What is the percentage of the 3nm among these?

**A10.** We have not disclosed the percentage of 3nm, as there are still limited number of products. But the 3nm and 5nm combined account for 50% of the total NRE revenue.

**Q11.** In terms of the NRE revenue by the region, the U.S. accounted for 51%. Do most of the revenue in the U.S. come from Automotive?

**A11.** Currently, the major part of the NRE revenue in the U.S. is from Automotive with advanced technology nodes, but consumer products such as cameras are also included. The ratio of the U.S. will increase in the future, as we expect to see NRE from the Data Center business.

**Q12.** I understand you are a custom SoC provider. Are your products sold under your own brand or under customer's brand? What brand is marked on your products?

**A12.** In general, customer's brand is marked, but it depends on customer's request. Some of our standard products have our company's name, but as for custom SoC in general, the customer's name will be marked based on the customer's specifications.