Consolidated Financial Results Briefing for the Third Quarter of Fiscal Year Ending March 2025 (January/31, 2025)

Summary of Q & A

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Q1. The full-year forecast has been revised again, following 2Q. What specifically has changed from the previous forecast?

A1. Factors include demand for telecommunications equipment in China expected to be lower than projected in October, as well as inventory adjustment at customers expanding.

Q2. Is the revision of full-year forecast mainly due to the decline in the 3Q? Or is it due to 4Q results expected to be lower?

A2. It is mainly due to the impact of inventory adjustment at customers expected in 4Q.

Q3. This was the second revision in three months since the last financial results announcement. Is there any risk of further decline? Also, how are you going to improve the management of demand, such as how to better understand the inventory situation at your customers?

A3. We had to revise the forecast because we did not fully understand the inventory situation of end-users, as well as our direct customers. Going forward, we will look at the inventories of end users in addition to those of our direct customers, as well as the distribution inventories and demand trends of the final products. We believe that the latest revision well reflects the impact of customer inventory adjustments expected in 4Q. Another factor in the revision is the dependence on specific customers. We intend to work toward more balanced customer mix, making the company less susceptible to demand fluctuation of individual customers.

Q4. I believe your mid-term sales can be projected to some extent based on your Design Win Balance. However, if there are some customers that are forced to revise their demand forecast downward as was the case this time, is there any concern that the current Design Win Balance will not necessarily lead to future sales?

A4. As for the customers that we factored in the revision, we have already received purchase orders that are matched to their forecast. So, although the timing of delivery and revenue may vary, there is no concern that the sales would fall short of the figures of Design Win Balance.
Design Win Amount and Design Win Balance are the most important indicators for evaluating and analyzing sales trends over the mid- to long term. Design Win Balance is being constantly reviewed to reflect economic conditions and customer demand trends, in order to improve visibility of our mid-term sales outlook.

Q5. Regarding the future outlook for Operating Margin, there as an explanation that revenues are expected to grow from fiscal year March 2027, but product gross margin is expected to decline, due mainly to the start of mass production of large-scale projects. What is the background to this?

A5. In fiscal year March 2027 and after, we expect our revenue to grow, as the data center project in U.S. that we acquired in this year, and the automotive projects we acquired in the previous years are going to enter mass production phase. All of such projects will require most advanced technologies, and the yield will be unstable in the early stages of production. In addition, although the profit margin of the larger-scale projects tends to be lower than the average, the absolute amount of operating income will be large, and we expect overall operating margin will be in an increasing trend due to the leverage by such projects.

Q6. At the previous briefing in October, it was explained that revenues were expected to remain flat from this fiscal year to next. However, this time, the full-year forecast for the current fiscal year has been revised downward, and the revenues are still expected to be flat in the next fiscal year. Does this mean the previous forecast for next fiscal year has also been revised? Are there any factors for this, other than the demand decline for the telecommunications equipment in China?

A6. Currently we are closely examining our plans for the next fiscal year. We do not expect the overall revenue composition to change significantly from that of current fiscal year. As for the demand in China, which we lowered the forecast for this fiscal year, we see that it is difficult to expect a recovery in next fiscal year and we are closely checking the situation of each of the customers. Our overall view is that the current situation will continue in the next fiscal year.

Q7. In November last year, a major foundry in Taiwan has voluntarily restricted shipments of advanced technology products to China. I believe the restriction is for products that exceed certain die size with 7nm or more advanced process node. Has it affected your products?

A7. There has been no significant impact for us so far. But the new regulations from U.S. BIS were also issued in January in addition to this voluntary one, and we are carefully conducting our export control, looking at both regulations. There have been some delays due to the additional time required for shipment procedure, but in general, there would be no major impact.

Q8. As for the illustrative image of growth, it has been explained that the company expects to return to growth from fiscal year March 2027. But, in the presentation today, the growth curve appears to have moved down a little. To what extent it has dropped?

A8. Our forecast for product development and productions in and after fiscal year March 2027 has not been changed. The level of revenues in next fiscal year (March 2026) has been slightly lowered from the previous forecast, and the growth curve has been slid accordingly.

Q9. In NRE revenue this quarter, the proportion of "40nm & above / Others" has increased. What is the background for this?

A9. This is due to the completion of development of the product using 40nm RF technology.

Q10. You have opened an office in Bangalore, India, in 2023. Are you going to increase personnel there in the next fiscal year and after, to expand business?

A10. As 80% of our business is now outside of Japan, we are planning to strengthen human resources in the U.S. and India. In India, we are trying to hire people who are capable of managing and controlling of outsourced design companies, rather than to increase the number of engineers who engage in actual design activities.