ChipMOS TECHNOLOGIES INC. Q4 and Full Year 2020 Earnings Conference Call
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Company Participants
S.J. Cheng – Chairman and President
Silvia Su – Vice President-Finance and Accounting Management Center
Jesse Huang – Spokesperson and Senior Vice President-Strategy and Investor Relations.
G.S. Shen – Technical Deputy Director-Strategy and Investor Relations

Conference Call Participants
Jerry Su - Credit Suisse

Operator
Greetings, and welcome to the ChipMOS Fourth Quarter and Full Year 2020 Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. I would now like to turn the conference over to Dr. GS Shen, of ChipMOS TECHNOLOGIES Strategy and Investor Relations team to introduce the management team of the Company in Conference. Dr. Shen, you may begin.

GS Shen
Thank you, operator. Welcome everyone to ChipMOS' fourth quarter and full year 2020 results conference call. Joining us today from the company are Mr. S.J. Cheng, Chairman and President; and Ms. Silvia Su, Vice President of Finance and Accounting Management Center. We are also joined on the call today by Mr. Jesse Huang, Spokesperson and Senior Vice President of Strategy and Investor Relations. S.J. will chair the meeting and review business highlights and provide color on the operating environment. After Silvia's review of the company's key financial results, SJ will provide our current business outlook. All company executives will then participate in an open Q&A session.

Please note, we have posted a presentation on the MOPS and the ChipMOS' website www.chipmos.com to accompany today's conference call. Before we begin the prepared comments, we advise you to review our forward-looking statements disclaimer, which is noted as the "Safe Harbor Notice" on the second page of today's presentation. As a reminder, today's conference call is being recorded and a replay will be made available later today on the Company's website.

At this time, I'd like to now turn the call over to our company's Chairman and President, Mr. S.J. Cheng. Please go ahead, sir.

S.J. Cheng
Yes, thank you, GS. We appreciate everyone joining our call today. We are pleased with our strong results for the full year 2020. We achieved record revenue growth through the year.
The year was unique and full of challenges for everyone. Our team did an excellent job supporting customers through the global pandemic, trade tensions and widespread supply chain tightness. We are very pleased to report:

- Revenue for the full year 2020 grew 13.1% over the full year 2019. We ended the year with a new quarterly record high revenue level in Q4 2020.
- Gross Margin expanded 260 basis points for the full year to 21.9% compared to the full year 2019. For Q4, Gross margin was up 510 basis points compared to Q3 2020. Gross margin benefitted from higher utilization levels and price increases for DDIC test and memory assembly.
- Our Q4 assembly utilization level increased significantly to 97%, with an uptick in Testing and Assembly programs. Capacity remains tightened. New added assembly capacity we added was reserved in support of customer programs in advance. Our high-end DDIC test platforms, including new capacity we added in Q4 were also fully utilized in support of strong TDDI demand. The average utilization level was up to 85%.

Regarding our manufacturing business, assembly represented more than 26% of Q4 revenue. Testing represented around 20% of Q4 revenue and wafer bumping represented around 23.5% of Q4 revenue. On a product segment basis, our DDIC, including COG and COF, was around 30% of Q4 revenue and gold bumping represented around 19.5% Q4 revenue. Revenue from DRAM and SRAM represented 18.5% of Q4 revenue and our flash segment represented 23.4% of Q4 revenue. The Mixed-signal segment represented around 8.5% of Q4 revenue.

In terms of adding color on our two major businesses, our memory product benefitted from strong demand across all end markets with growth in servers, cloud computing, IoT, mobile and more. We were able to increase assembly prices to offset higher material costs and tightened capacity. You can see that positive impact in our higher gross margin. Memory products represented around 42% of total Q4 revenue. This is an increase of more than 10% in Q4 compared to Q3 and an increase of 11.6% compared to Q4 2019. 2020 full year memory product revenue significantly increased 18.6% compared to 2019. DRAM revenue was up 11.4% year-over-year, and increased 6% compared to Q3. Total Flash revenue grew 13% in Q4 compared to Q3. This reflects the significant growth of NOR and Mask ROM, led by strong demand from gaming and new product launches. Lastly, our NAND Flash business grew 14% led by increasing demand from module customers. This represented about 30% of our total Q4 Flash revenue.

As for driver IC-related product, we continue to benefit from higher prices, with TDDI volumes increasing from new 5G smartphone launches. Driver IC-related product revenue increased around 11.7% in Q4 compared to Q3 and was up around 20% year-over-year. This represented around 49.6% of total Q4 revenue. 2020 full year Driver IC related product revenue grew around 11% compared to 2019. Revenue from gold bumping in Q4 increased around 11.4% compared to Q3. DDIC assembly and test revenue grew 12% in Q4 driven by the strong demand for TDDI products and test price increases with our mid to high-end wafer test platforms fully utilized. As I mentioned earlier, we are carefully adding new capacity, which has already been reserved by customers in advance. Lastly, the COG package format accounted for more than 60% of Q4 DDIC revenue, with TDDI representing about 34% of Q4 DDIC revenue. Our high-end DDIC test platforms, including new capacity we added in Q4 were fully utilized reflecting the strong TDDI demand we continue to see.

On an end market basis, revenue from smartphones increased to 37% of Q4 revenue, with 12% from Automotive and Industrial. TV as an end market accounted for 16% of Q4 revenue, with computing at 12% and consumer at 23%.

Now let me turn the call to Ms. Silvia Su, to review the fourth quarter and full year 2020 financial results.
Silvia, please go ahead.

Silvia Su

Thank you S.J.
All dollar amounts cited in our presentation are in NT dollars. The following numbers are based on the exchange rates of NT$28.08 against US$1.00 as of December 31, 2020.
All the figures were prepared in accordance with Taiwan-International Financial Reporting Standards.

Page12 Consolidated Operating Results Summary
For the fourth quarter of 2020, total revenue was NT$6,310 million.
Net profit attributable to the Company was NT$687 million in Q4.
Net earnings for the fourth quarter of 2020 were NT$0.94 per basic common share or US$0.67 per basic ADS.
EBITDA for Q4 was NT$2,219 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.
Return on equity of Q4 was 13.4%.

Page13 Consolidated Statements of Comprehensive Income

Compared to 3Q20:
Total 4Q20 revenue increased 11.0% compared to 3Q20
4Q20 Gross profit was NT$1,541 million, with gross margin at 24.4% compared to 19.3% in Q3. This represents an increase of 5.1ppts.
Our operating expenses in Q4 were NT$413 million, or 6.5% of total revenue, which is about a 4.7% improvement compared to Q3.
Operating profit for Q4 was NT$1,160 million, with Q4 operating margin at 18.4%, which is about a 5.8ppts improvement compared to Q3.
Net non-operating expenses in Q4 were NT$278 million. The difference between Q4 and Q3 is mainly due to the increase of the share of loss of associates accounted for using equity method of NT$49 million and the increase of foreign exchange loss of NT$47 million.
Profit attributable to the Company in Q4 expanded 62.1% compared to Q3. The difference between Q4 and Q3 is mainly due to the increase of the gross profit of NT$446 million and partially offset by the increase net non-operating expense of NT$99 million and the income tax expense of NT$80 million.
Basic weighted average outstanding shares were 727 million shares.

Compared to 4Q19:
Total revenue for 4Q20 was up 13.3%.
Gross margin at 24.4% increased 1.7ppts compared to 4Q19.
Operating expenses increased 5.3% compared to 4Q19.
Operating profit margin at 18.4% increased 2.2ppts compared to 4Q19.
Net non-operating expenses in Q4 were NT$278 million which increased 23.5% compared to 4Q19.

Profit were up 29.5% compared to 4Q19. The difference between 4Q20 and 4Q19 is mainly due to the increase of the gross profit of NT$275 million and partially offset by the increase net non-operating expense of NT$53 million and the income tax expense of NT$50 million.

Page14 Consolidated Statements of Comprehensive Income
Compared to last year:
Total revenue for 2020 was NT$23,011 million, which is up 13.1% compared to 2019.
Gross margin increased to 21.9%, up 2.6ppts compared to 2019.
Our operating expenses in 2020 were NT$1,601 million, which was up 2.5% compared to 2019.
Operating profit margin in 2020 was 15.5%, an improvement of 3.4ppts compared to 2019.
Net non-operating expense in 2020 was NT$593 million. The difference primarily reflects the one-time gain of NT$982 million we recognized in 2019 on the disposal of investment accounted for using equity method and the increase of foreign exchange loss of NT$200 million.
Net profit in 2020 was NT$2,368 million, an 8.4% decline from 2019. The difference primarily reflects the one-time gain of NT$982 million we recognized in 2019 on the disposal of investment accounted for using equity method, the increase of foreign exchange loss of NT$200 million, income tax expense of NT$160 million and partially offset by the increase of gross profit of NT$1,106 million.
Net earnings for the year of 2020 were NT$3.26 per basic common share compared to NT$3.55 per basic common share for 2019.

Page15 Consolidated Statements of Financial Position & Key Indices
Total assets at the end of 4Q20 were NT$35,081 million.
Total liabilities at the end of 4Q20 were NT$14,249 million.
Total equity at the end of 4Q20 was NT$20,832 million.
Accounts receivable turnover days in 4Q20 were 73 days, compared to 74 days in Q3. Inventory turnover days was 40 days in 4Q20, compared to 44 days in Q3.

Page16 Consolidated Statements of Cash Flows
As of December 31, 2020, our balance of cash and cash equivalents was NT$4,114 million, compared to NT$590 million at the beginning of the year.
Free cash flow for the year was NT$1,559 million compared to negative NT$133 million in 2019. The difference is mainly due to our increased operating profit of NT$1,109 million and decreased CapEx of NT$763 million.
Free cash flow was calculated by adding depreciation, amortization, interest income together with operating profit and then subtracting CapEx, interest expense, income tax expense and dividend from the sum.

Page 17 Capital Expenditures and Depreciation
We invested NT$1,760 million in CapEx in Q4 and NT$4,134 million in CapEx in 2020.
The breakdown of CapEx was 3.9% for bumping, 60.4% for LCD Driver, 25.7% for assembly and 10.0% for testing.
Depreciation expenses were NT$1,060 million in Q4.
Depreciation expenses were NT$4,176 million in 2020.

As of February 28, 2021, the Company’s outstanding ADS number was approximately 4.0 million units, which represents around 11.7% of the Company’s outstanding common shares.

That concludes the financial review. I will now turn the call back to our Chairman Mr. S.J. Cheng for our outlook. Please go ahead, sir.

SJ Cheng
Thank you, Silvia. As we look forward in 2021, we expect positive trends in both memory and DDIC products will continue. Semiconductor demand has been increasing with the big hurdle being supply constraints. We expect to benefit from the increasing demand and customer re-stocking. In the meantime, the strong demand with capacity constraints supports higher prices. We are strategically adding capacity with customers locking-up the capacity.

In memory, we increased the assembly price to reflect the higher cost of materials and the tightened capacity situation. We are benefiting from momentum in DRAM with customers re-stocking. We expect Flash businesses, including NOR and NAND will continue to grow as we move through 2021. New adding assembly capacity are all reserved in advance for support customer's demand.

In DDIC, to reflect the whole supply chain tightness, around 5~10% of each process step price increase should settle down in Q1. We also expect to gain more allocation share, with COF utilization level for TV on track for further improvement. We also expect to benefit from continued strong demand levels in smart phone for TDDI. New capacity, including what we added in Q4, are also all reversed in advance by take or pay contracts to meet the strong TDDI demand.

Finally, we are continuously driving higher profit through increased AI and automation to further reduce operating costs. Reflecting our business strength and positive outlook, our Board approved another dividend. Pending shareholder approval at our May AGM, we will distribute NT$2.2 per common share.

Operator, that concludes our formal remarks, we can now take questions.

Question-and-Answer Session

Operator
Thank you. At this time, we will be conducting a question-and-answer session. [Operator Instructions]

Our first question comes from the line from Jerry Su from Credit Suisse. You may begin.

Jerry Su
Chairman, Silvia and everybody. There are some questions from our site. The first one is regarding to the outlook for memory and driver IC, which will perform better in 2021? Would you please talk about the outlook for Q1 2021, such as revenue and Gross margin since the base for Q4 2020 has already been high?

SJ Cheng
Jerry, to answer your question. There were only 28 work days in February and we spent one day for annual facility maintenance. So, overall the total work days in Q1 were significantly less than Q4 last year. Based on our current business momentum for the first half of this year and the

reported revenue for January and February, we are confident that the Q1 revenue will be flattish to Q4. And also the gross margin.

Jerry Su
Do you mean the gross margin will be close to the Q4?

SJ Cheng
Yes, we think it should be close to Q4 20. However, overtime costs for the Chinese New Year Holiday were normally higher. So, there will be some impact.

Jerry Su
OK. Besides, could you guide the CapEx and depreciation of this year?

Silvia Su
Jerry, let me answer your question. I assume what you mean "this year" is for 2021.

Jerry Su
Yes.

Silvia Su
The Capex for 2020 is around NT$ 4,100 million. It accounted below 20% of annual revenue. As for this year, as chairman just mentioned, we are optimistic for the industry and business in 2021. So, our CapEx should be around 20 to 25% of annual revenue for 2021 and the amount will be higher than last year. For depreciation, the Q4 2020 amount was about NT$ 1,060 million. Q1 2021 should be between NT$ 1,100 million to NT$ 1,200 million. In the following quarters for Q2, Q3, Q4, it will be increased 3% to 4 % quarterly.
This is how we roughly look at the depreciation in 2021.

Jerry Su
So, it will be around NT$ 1,100 million to NT$ 1,200 million for Q1? And then increasing 3% to 4 % quarterly?

Silvia Su
Yes.

Jerry Su
Got it. We just talked about the guidance for CapEx will be 20% to 25% of annual revenue. We would like to ask chairman to give a guidance for the revenue 2021.

SJ Cheng
Jerry, let me answer you this way. Normally, ChipMOS would not provide the financial guidance. Based on the revenue outlook for the first half and contracts we have signed with customers, we are very optimistic for 2021. The annual revenue can possibly grow with double digits. We are also targeting for gross margin to be better than last year. Regarding to the profit, it should also be better than last year, based on the targeted growth of revenue and maintaining the gross margin, and also the material cost could be reflecting to customer. So, if that scenario happens the dividend would also be better than last year.

Jerry Su
Ok, got it. The last question is about non-operating portion from my reading the financial report, suppose the major loss was from Unimos by using equity method. If it looks like the loss is getting smaller year on year. Could you please provide current status of Unimos? When could we expect it can become profitable?

SJ Cheng
Let me answer your question. The previous major shareholder was Unigroup, and it transferred to YMTC 2 years ago. So, the major shareholder is YMTC, and Unigroup is no longer holding any shares. This is first point. Secondly, YMTC would like to better plan for this backend operation, so it recognized one-time depreciation for non-flash related product line. So, this year could be turned profitable since the demand for whole backend industry is still very tight. For the long term, we will continue to survey suitable investors to proceed in the most beneficial way to shareholders and Chip MOS in the right time. It will take some time.

Jerry Su
Ok, thank you, Chairman.
There are two more questions. First, Chairman just mentioned a lot about TDDI, could you please talk about OLED status?

SJ Cheng
The growth for OLED will be significant this year since the OLED panel maker in China and also our customers, including China and Taiwan all grow in this segment. So, the ratio from this portion will grow.

Jerry Su
Ok, got it. The second question, I would like to ask Silvia about the CapEx. Does the CapEx guidance include any factory building or land or just all for capacity expansion in equipment?

Silvia Su
The mentioned CapEx would be 20% to 25% of annual revenue, which includes some building and land expansion.

Jerry Su
So, will it be by re-construction or new building?

SJ Cheng
The expansion will be done by re-construction. Our construction rate is still within the regulation of the Science Industrial Park, which allows us to do re-construction to expand the floor space. And we also removed some older machines to optimize the process flow, and introduce automation and AI to improve the production efficiency in order to increase the capacity.

Jerry Su
OK, understood. Thanks.

Operator
Thank you. And I am not showing any further questions in the queue. I would like to turn the call back over to GS.

GS Shen
Thank you, I will orally read some questions from foreign institutional investors, who could not attend this Mandarin call.

The question is asking about the Company expect it will be cash flow positive for the year 2021?

Jesse Huang
We were free cash flow positive for the full year 2020 after a deficit in 2019. We are cautiously optimistic and confident about 2021. We are targeting to achieve positive free cash flow again in 2021 depending on our final CapEx budget and dividends paid to shareholders.

GS
That concludes our question-and-answer session. Thank you for participating. I'll turn the floor back to Mr. S.J. Cheng for any closing comments.

S.J. Cheng
Thank you everyone for joining our conference call. Please email our IR Team if you have any more questions. We appreciate your support. Goodbye.

Operator
Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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