



**ChipMOS TECHNOLOGIES INC. Q3 2021 Earnings Conference Call
November 08, 2021 4:00 PM Taiwan**

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
Stanley Wang – SinoPac Securities

Operator

Greetings, and welcome to the ChipMOS Third Quarter 2021 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' third quarter 2021 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. This was another strong quarter for us with record revenue for the fourth consecutive quarter in Q3 2021. We have delivered over 23.4% revenue growth in the first nine months of 2021 compared to 2020, with strong profitability and cash flow. We remain very close with our customers and are doing a good job supporting their demand and forecasts. Challenges remain across the broader industry but we are covering everything within our control. Let me give you some highlights from the quarter:



- First, we achieved a new quarterly revenue record with a 25.9% increase in Q3 2021 revenue year over year. This is up 2.6% over Q2 2021.
- Gross Margin increased 800 basis points for Q3 2021 to 27.3% compared to Q3 2020. Higher costs led to a 90 basis point decline compared to Q2 2021.
- And we achieved NT\$ 1.93 in Q3 EPS, compared to NT\$ 1.76 of Q2 2021, with a 117% increase in the first nine months of 2021, NT\$ 5.01, compared to the same period of 2020, NT\$ 2.31.

I am very pleased that our profitability expansion is higher than our revenue growth. We continue to stress operating efficiency targets and utilization improvement. Our ongoing investments in automation are helping us maintain a safe work environment and let us hold operating expense at 6.5% of Q3 revenue.

The overall utilization was 85% in Q3 compared to 87% in Q2 as we continue to benefit from customers' demand, even with added capacity in before several quarters. And while we had a slightly lower Assembly utilization level, it remained strong at 90% in Q3 2021. Testing also held strong at 85%. Lastly, our high-end DDIC test platform utilization remained high in Q3 and DDIC remained at around 80%, despite the non-linear wafer supply led.

Regarding our manufacturing business, assembly represented 30% of Q3 revenue. Testing represented around 22% and wafer bumping represented about 18.5% of Q3 revenue. On a product segment basis, our DDIC, including COG and COF, was about 29.8% of Q3 revenue, with gold bumping representing about 15.7% of Q3 revenue. Revenue from DRAM and SRAM represented about 18.6% of Q3 revenue. Our Flash segment and the Mixed-signal segment represented about 24.8% of Q3 revenue and 11% of Q3 revenue, respectively.

In terms of adding color on our business, our memory product benefitted from healthy demand across all end markets with growth in IoT and Consumer electronics, including gaming. Revenue was up about 3.5% in Q3 2021 compared to Q2 2021. On a year over year basis revenue was up about 32%. Memory products represented about 43.5% of total Q3 revenue. DRAM revenue increased 5.3% compared to Q2 2021, led by Consumer and Automotive electronics demand, and 22% year over year. Total Flash revenue benefitted from application diversified and customers' continuing re-stocking. NOR grew 4.3% in Q3 compared to Q2 2021 and grew more than 34% year over year. Our NAND Flash business increased about 6% compared to Q2 2021 and increased 47% year over year. This represented 31% of our total Q3 2021 Flash revenue.

Moving onto Driver IC-related product revenue, including gold bumping. I am pleased to report that our test ASP increased driven by customers optimized their product mix. This would have been even higher but we continue to work through ongoing wafer supply bottlenecks from foundry capacity constraints. Despite the supply limits, our Driver IC-related product revenue increased about 2.6% compared to Q2 2021 and increased about 15.5% compared to Q3 2020. Driver IC-related revenue was about 45.4% of total Q3 revenue. Total DDIC revenue, including COG and COF, was up just over 25.4% year-over-year and increased 3.3% compared to Q2 2021. We are benefitting from higher wafer loading with some key customers. This helped our COF revenue



increase 4% compared to Q2 2021 and represented 45% in Q3 DDIC revenue. TDDI revenue represented 24.3% of Q3 DDIC revenue. OLED significantly grew 11.2% compared to Q2 2021 and represented about 4.5% of Q3 DDIC revenue.

On an end market basis, revenue from Automotive and Industrial increased to 15% of Q3 revenue. We continue to see long-term growth in both Auto and Industrial. Smartphones and TV, as an end market, accounted about 33.5% and about 16.5% of Q3 2021 revenue, respectively. Computing represented about 11% and consumer represented 24% of Q3 revenue.

Now let me turn the call to Ms. Silvia Su, to review the third quarter 2021 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\$ 27.84 against US\$ 1 as of September 30, 2021.

All the figures were prepared in accordance with Taiwan-International Financial Reporting Standards.

Referencing presentation Page12 Consolidated Operating Results Summary

For the third quarter of 2021, total revenue was NT\$ 7,161 million.

Net profit attributable to the Company was NT\$ 1,399 million in Q3.

Net earnings for the third quarter of 2021 were NT\$ 1.93 per basic common share or US\$ 1.38 per basic ADS. We achieved a 116.9% increase in net earnings for the first nine months of 2021 to NT\$ 5.01 from NT\$ 2.31 in the first nine months of 2020.

EBITDA for Q3 was NT\$ 2,724 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q3 was 24.4%.

Referencing presentation Page13 Consolidated Statements of Comprehensive Income Compared to 2Q21:

Total 3Q21 revenue increased 2.6% compared to 2Q21.

3Q21 Gross profit was NT\$ 1,958 million, with gross margin at 27.3% compared to 28.2% in 2Q21.

This represents a decrease of 0.9ppts.

Our operating expenses in 3Q21 were NT\$ 463 million, or 6.5% of total revenue.

Operating profit for 3Q21 was NT\$ 1,528 million, with operating profit margin at 21.3%, which is a decline of about 0.8ppts compared to 2Q21.

Net non-operating income in 3Q21 was NT\$ 148 million compared to net non-operating expenses in 2Q21. The difference is mainly due to the increase of the share of gain of associates accounted for using equity method of NT\$ 85 million, the decrease of foreign exchange losses of NT\$ 62 million and the increase of gain on valuation of financial assets at fair value through profit or loss of NT\$ 15 million.

Profit attributable to the Company in 3Q21 expanded 9.0% compared to 2Q21.



Basic weighted average outstanding common shares were 727 million shares.

Compared to 3Q20:

Total revenue for 3Q21 was up 25.9%.

Gross margin increased 8.0ppts to 27.3%.

Operating expenses increased 17.4%.

Operating profit margin increased 8.7ppts to 21.3%.

Net non-operating income in 3Q21 were NT\$ 148 million compared to net non-operating expenses in 3Q20. The difference is mainly due to the increase of the share of gain of associates accounted for using equity method of NT\$ 201 million and the decrease of foreign exchange losses of NT\$ 112 million.

Profit was up 230.4% compared to 3Q20. The difference is mainly due to the increase of the operating profit of NT\$ 810 million, net non-operating income of NT\$ 327 million and partially offset by the increase of income tax expense of NT\$ 160 million.

Referencing presentation Page14 Consolidated Statements of Financial Position & Key Indices

Total assets at the end of 3Q21 were NT\$ 39,334 million.

Total liabilities at the end of 3Q21 were NT\$ 16,492 million.

Total equity at the end of 3Q21 was NT\$ 22,842 million.

Accounts receivable turnover days in 3Q21 were 77 days.

Inventory turnover days were 45 days in 3Q21.

Referencing presentation Page15 Consolidated Statements of Cash Flows

As of September 30, 2021, our balance of cash and cash equivalents was NT\$ 5,189 million, increased NT\$ 1,075 million compared to the beginning of Q1.

Free cash flow for the first nine months of 2021 was NT\$ 1,416 million compared to NT\$ 1,329 million for the same period in 2020. The difference is mainly due to the increase of operating profit of NT\$ 1,820 million and depreciation expenses of NT\$ 364 million and partially offset by the increase of CapEx of NT\$ 1,494 million, income tax expenses of NT\$ 329 million and cash dividend paid of NT\$ 291 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.

Referencing presentation Page 16 Capital Expenditures and Depreciation

We invested NT\$ 1,171 million in CapEx in Q3.

The breakdown of CapEx was 4.4% for bumping, 41.1% for LCD Driver, 30.0% for assembly and 24.5% for testing.

Depreciation expenses were NT\$ 1,196 million in Q3.

As of October 31, 2021, the Company's outstanding ADS number was approximately 4 million units, which represents around 12.4% 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 move into the fourth quarter, we expect to see continued customer re-stocking for consumer electronics launches, workplaces restarting and economies around the world continuing to grow. Capacity is expected to remain tight and OSAT ASPs will likely increase led by product mix optimization. However, this continues to be a challenging period for the industry as we all work together to remove supply chain bottlenecks. We were not directly impacted by recent power shortages in China but this does not help when wafer supply is already tight. Overall, we are cautious about the fourth quarter and taking a conservative view given broader market challenges and how strong the first nine months of 2021 have been for us.

For example, in memory, despite demand increasing in Consumer and Auto electronics, there is a semiconductor supply imbalance that may impact overall Q4 demand in the segment. Therefore, we are taking a conservative view about memory in Q4.

And in DDIC, tightened wafer supply is expected to continue in Q4, which will cause DDIC utilization level fluctuations. However, our ASP continues to increase driven by customers optimize their product mix and OLED increase in Q4. So, we are somewhat cautiously optimistic about DDIC continuing to grow in Q4.

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 provides Q&A instructions]

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

Jerry Su

Why did Q3 revenue grow but gross margin declined?

Silvia Su

In Q3 we had increased depreciation, higher power costs and we recognized higher bonus costs due to the higher profit in Q3. Gold material inventory valuation loss compared to previous quarter

Jerry Su

Could you provide more color about Q4 revenue and gross margin?

SJ Cheng

As we move into the fourth quarter, in memory, despite demand increasing in Consumer and Auto electronics, there is a semiconductor supply imbalance that may impact overall Q4 demand in the segment. Therefore, we are taking a conservative view about memory in Q4.



And in DDIC, our ASP continues to increase driven by customers optimizing their product mix and OLED increasing in Q4. Further, ChipMOS did get some rush orders from customers led by the uncertainty of power shortages in China. So, we are somewhat cautiously optimistic about DDIC to be flat in Q4.

In all, given the strength in the first nine months of 2021, we expect revenue could be flat to down in the low single digits. Gross margin would be slightly impacted by revenue declines and higher depreciation in Q4.

Operator

Next question comes from Stanley Wang of SinoPac Securities. Stanley you may begin.

Stanley Wang

Any impact to Unimos from the Power shortage in China recently? If any, is there any counter measure?

SJ Cheng

There was no impact, and Unimos has been turning profitable.

Stanley Wang

Is there any customer input seeing signs of wafer supply improvement? How is ChipMOS offsetting the impact on operations of wafer supply shortages?

SJ Cheng

So far, we are not seeing any real wafer supply relief. Under such situation, we did see customers optimizing product mix causing a longer test time. Currently, better UT for high end testers led, and worse UT for the others.

Stanley Wang

Business momentum for memory products in Q4 by ranking, which is stronger, Nor, NAND or DRAM?

SJ Cheng

NOR flash is better owing to Auto and TWS application demand. Secondly would be 2D-NAND and then Niche DRAM.

Stanley Wang

How is the tax rate of 2021?

Silvia Su

As usually, about 18%.

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. The question is asking about your 2022 dividend?

Jesse Huang

We don't expect any major changes to our dividend payout ratio, 50~60% of EPS. However, the final dividend will be discussed and proposed by our board and need to get approval at our normal annual AGM.

GS Shen

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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