ChipMOS TECHNOLOGIES INC. Q1 2024 Earnings Conference Call
May 9, 2024, 3:00 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

Operator
Greetings, and welcome to the ChipMOS First Quarter 2024 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, Technical Deputy Director-Strategy and Investor Relations
Thank you, operator. Welcome everyone to ChipMOS' first quarter 2024 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 also on the ChipMOS' website www.chipmos.com to accompany today's conference call. Before we begin the prepared comments, we remind you to review our forward-looking statements disclaimer, which is noted as the "Safe Harbor Notice" on the second page of today's presentation and in the results press release we issued. 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, Chairman and President

Yes, thank you, GS. We appreciate everyone joining our call today.

We are very pleased with our strong results and business execution in the face of industry headwinds and end market challenges. We continue to carefully add capacity, expand our leadership, and build long-term value for shareholders.

In terms of Q1 highlights….

- Our Q1 revenue increased 17.7% compared to Q1 2023, and was down 5.4% from Q4 2023 reflecting fewer working days in Q1 and industry headwinds.
- Q1 Gross Margin increased 180 basis points to 14.2% from 12.4% in Q1 2023, and decreased 590 basis points compared to Q4 2023.
- Net Earnings more than doubled to NT$ 0.6 in Q1 2024 on a year over year basis.

Our overall utilization rate was strong at 63% in Q1 2024. Assembly utilization increased to 62% and Average Test utilization was 60%. DDIC was at 67% and Bumping UT level increased to 61%.

Regarding our manufacturing business, assembly represented 25.6% of Q1 revenue. Mixed-signal and memory Testing represented 20.4% and wafer bumping represented 21.3% of Q1 revenue. On a product basis, our DDIC product represented 32.5% of total revenue in Q1, with gold bumping representing about 18.6%. Revenue from DRAM and SRAM represented 16.3% of total Q1 revenue. Our Mixed-signal products represented 9.7%.

As additional color on our business, our memory products represented 39.2% of total Q1 revenue. Memory product revenue increased 1.6% compared to Q4 2023, and increased 26.4% on a year-over-year basis. DRAM revenue decreased 3.6% compared to Q4 2023 and represented 15.8% of total Q1 revenue. Flash revenue represented about 23% of Q1 revenue, which was up 5.6% compared to Q4 2023. NAND Flash also benefitted significantly from customers rebuilding inventory levels and increased 17.4% compared to Q4 2023. NAND Flash represented 45.3% of Q1 total Flash revenue. We are pleased with our growth in this important area to the company and expect growth throughout 2024 based on demand we see today.

Moving onto Driver IC and gold bump revenue, this represented about 51% of total Q1 revenue. This was up 14.3% on a year-over-year basis but decreased 11% compared to Q4 2023. Of note, Gold bump revenue was down 1.8% compared to Q4 2023 and DDIC revenue was down 15.5% compared to Q4 2023. Demand from Auto panels drove more than 27% of our Q1 DDIC revenue. We continue to view Automotive as an important mid and long-term growth market for us. The most demanded auto features are reliant on semiconductors. As a result, Semiconductor content is increasing at a rapid rate in models at all price points. Our track record of quality excellence and required qualifications gives us a competitive edge in serving Auto customers. Regarding TDDI, it represented around 20.7% of Q1 DDIC revenue, with OLED at 23.3% of Q1 DDIC revenue.

On an end-market basis, total revenue from Automotive and Industrial represented about 22% of Q1 revenue. Smartphones related demand represented 38.4% of Q1 revenue, and decreased 10.9% compared to Q4 2023. Consumer related demand represented 20.5% of Q1 revenue, and increased to 6.3% compared to Q4 2023. TVs panel demand represented 15.8% of Q1 revenue, which was flat with Q4 2023. Lastly, Computing accounted for 3.3% of Q1 revenue.

Now let me turn the call to Ms. Silvia Su, to review the first quarter 2024 financial results.
Silvia, please go ahead.

ChipMOS

<u>**Silvia Su, Vice President-Finance and Accounting Management Center**</u>

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$ 31.93 against US$1 as of March 29, 2024.
All the figures were prepared in accordance with Taiwan-International Financial Reporting Standards.

Referencing presentation Page 12 Consolidated Operating Results Summary
For the first quarter of 2024, total revenue was NT$ 5,419 million.
Net profit attributable to the Company was NT$ 438 million in Q1.
Net earnings for the first quarter of 2024 were NT$ 0.60 per basic common share or US$ 0.38 per basic ADS.

EBITDA for Q1 was NT$ 1,544 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q1 was 7.0%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income
Compared to 4Q23:
Total 1Q24 revenue decreased 5.4% compared to 4Q23.

1Q24 Gross profit was NT$ 771 million, with gross margin at 14.2% compared to 20.1% in 4Q23. This represents a decrease of 5.9ppts.

Our operating expenses in 1Q24 were NT$ 430 million, or 7.9% of total revenue, which decreased 3.5% compared to 4Q23.

Operating profit for 1Q24 was NT$ 363 million, with operating profit margin at 6.7%, which is about a 5.8ppts decrease compared to 4Q23.

Net non-operating income in 1Q24 was NT$ 156 million compared to net non-operating expenses of NT$ 137 million in 4Q23. The difference is mainly due to the increase of the foreign exchange gains of NT$ 348 million from the foreign exchange losses of NT$ 195 million in 4Q23 to the foreign exchange gains of NT$ 153 million in 1Q24 and partially offset by the decrease of share of profit of associates accounted for using equity method of NT$ 55 million.

Profit attributable to the Company in 1Q24 decreased 9.2% compared to 4Q23. This primarily reflects the decrease of operating profit of NT$ 352 million and partially offset by an increase of net non-operating income of NT$ 293 million and the decrease of income tax expense of NT$ 14 million.

Basic weighted average outstanding shares were 727 million shares.

Compared to 1Q23:
Total revenue for 1Q24 increased 17.7% compared to 1Q23.

Gross margin at 14.2% increased 1.8ppts compared to 1Q23.
Operating expenses increased 7.2% compared to 1Q23.
Operating profit margin at 6.7% increased 2.7ppts compared to 1Q23.
Net non-operating income increased NT$ 113 million compared to 1Q23. The difference is mainly due to the increase of the foreign exchange gains of NT$ 197 million from the foreign exchange losses of NT$ 44 million in 1Q23 to the foreign exchange gains of NT$ 153 million in 1Q24 and partially offset by the decrease of share of profit of associates accounted for using equity method of NT$ 44 million, rental income of NT$ 16 million and interest income of NT$ 13 million.

Profit attributable to the Company increased 116.3% compared to 1Q23. The difference is mainly due to an increase of operating profit of NT$ 178 million and net non-operating income of NT$ 113 million and partially offset by the increase of income tax expense of NT$ 55 million.

Referencing presentation Page 14 Consolidated Statements of Financial Position & Key Indices
Total assets at the end of 1Q24 were NT$ 45,563 million.
Total liabilities at the end of 1Q24 were NT$ 20,280 million.
Total equity at the end of 1Q24 was NT$ 25,283 million.
Accounts receivable turnover days in 1Q24 were 88 days.
Inventory turnover days was 51 days in 1Q24.

Referencing presentation Page 15 Consolidated Statements of Cash Flows
As of March 31, 2024, our balance of cash and cash equivalents was NT$ 12,165 million, which represents a decrease of NT$ 189 million compared to the beginning of the year.

Net free cash inflow for the first quarter of 2024 was NT$ 800 million compared to NT$ 1,033 million for the same period in 2023. The decrease was mainly due to the increase of CapEx of NT$ 319 million and income tax expense of NT$ 55 million and partially offset by the increase of operating profit of NT$ 178 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$ 633 million in CapEx in Q1.
The breakdown of CapEx in Q1 was 4.4% for bumping, 22.4% for LCD Driver, 46.8% for assembly and 26.4% for testing.
Depreciation expenses were NT$ 1,181 million in Q1.

As of April 30, 2024 the Company's outstanding ADS number was approximately 4.3 million units, which represents around 12.0% 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, Chairman and President

Thank you, Silvia.

According to the current industry situation and customers' feedback, we are cautiously optimistic entering Q2. Industry headwinds are expected to remain in nearly every end market. We expect Q1 to be the seasonal trough quarter for 2024, which is in line with normal industry seasonality. We expect the broader market condition will improve as we move through 2024 leading to a stronger second half with improved operating momentum, end markets and end customer inventory levels.

In our memory product, the assembly and test UT level are improving with DRAM and Flash customers' re-stocking.

In our DDIC product, the Automotive panel and OLED demand still remain stable compared to other products. This leads to the high UT level of high-end DDIC test platforms. In addition, benefitting the TV rush order, it is increasing the related assembly and test UT level. Therefore, we think DDIC will outgrow memory product momentum in Q2.

With regard to CapEx, based on current customer forecasts and UT level improving, we plan to support customers with careful CapEx additions, including our DDIC high-end test platform in the second half of the year. We will continue to be disciplined in order to maintain our balance sheet strength, while also maintaining our business growth momentum, and competitive advantage. In general, based on market commentary across the industry, we expect the inventory situation to improve as we move through the second half with headwinds decreasing.

Finally, in terms of our capital allocation, our Board approved our latest dividend. This reflects our balance sheet strength, strong market position and our focus on building shareholder value. Pending shareholder approval at our May 2024 AGM, we will distribute NT$ 1.8 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.
Our first question comes from Haas Liu from UBS. You may begin.

Hass Liu, Analyst, UBS
Hi Jesse and Dr. Shen and management team, thanks for taking my question. If possible, I'll ask with English for overseas investors and you can answer with Chinese or English. My first question will be on your outlook for 2Q. From our supply chain loading check, the TV demand is still pretty solid and smart phone demand seems pretty muted, and on the memory business, NAND and DRAM demand and pricing have been improving as you just mentioned. Could you try to quantify your outlook for 2Q? And could you please rank the weakness and strength for your business during the quarter? Thanks.

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
Thanks for your question. I'll give you some rankings regarding to our business for memory and DDIC. For DDIC, as our chairman just mentioned, OLED and automotive applications are maintaining relatively stronger demand, with large panel TV DDIC from domestic and overseas customers demand getting better. As for smartphone, as you mentioned demand is still not improving.
For memory, both DRAM and NAND demand have been improving. And recently, followed by previous NAND demand, we also see NOR flash customers are also picking up their utilization and the loading to ChipMOS. This is more of the color that I can share with you.

Hass Liu, UBS
The feedback from your peers and front-end fab and fabless companies, is high teens percent for 2Q QoQ. Do you think you can reach that as your peers or outperform since you have higher memory exposure?

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
Because normally we do not provide quidance for the following quarter, I can just tell you that 1Q would be the bottom, and the results should be gradually improving and DDIC should be better than memory in 2Q.

Hass Liu, Analyst, UBS
So how is your 2Q margin outlook? Because in your utilization is improving and the mix is unfavorable?

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
When we improve our utilization, the gross margin will certainly be improved. Q2 will also have less additional cost adders like bonus and higher electricity cost…etc. These will be the positive factors to our cost structure and certainly the profitability.

Hass Liu, Analyst, UBS
Could you please tell us how the electricity price hike may impact your business and cost structure?

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
We did do some modeling for the case. The price increase for our segment would be 14% roughly and would impact our quarterly gross margin by about 0.5%.

Hass Liu, Analyst, UBS
My 2nd question would be your outlook for 2H. Do you think you can gain share from your customers? Also how should we think about your revenue ratio for first and 2nd half?

SJ Cheng, Chairman and President
For 2H, OLED and auto demand would be significantly increased, that is for the display area; logic and mix signal and sensor would be also gradually increased. As for memory, many of our customers are increasing their capacity and loading. By ranking, high end tester for DDIC would be better and then niche memory and 2D NAND, NOR flash, logic and mix signal would be next. So we are pretty optimistic for the second half.

Hass Liu, Analyst, UBS
When you talk about significant improvement for OLED DDIC demand for 2H, could you give us more color for what kind of gain share or from new customer or new product?

SJ Cheng, Chairman and President
We are going to increase high-end testers for OLED and auto demand, and the OLED will be for our existing customers and new applications.

Hass Liu, Analyst, UBS
Please share with us your comments on the competition from China?

SJ Cheng, Chairman and President
China competition is for everybody. We are going to increase our value added product, investment on automation, and further simplify the process, in order to reduce our costs and improve our profitability, as we maintain our competition position. So far so good..

Operator
Our second question comes from Stanley Wang from SinoPac.

Stanley Wang, Analyst, SinoPac
How do you see the revenue ratio for 1H and 2H?

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
In last quarter's earnings call, our CFO gave 47:53. We think this number could be similar.

Stanley Wang, Analyst, SinoPac
Do you think the UT rate for the second quarter would reach 70%?

SJ Cheng, Chairman and President
Almost in the range.

Stanley Wang, Analyst, SinoPac
It looks like your depreciation didn't increase too much but the operating cost increased a lot. Does it imply your encountering higher material cost pressure? If yes, could it be transferred to your customers?

SJ Cheng, Chairman and President
Gold material cost for bumping has a formula, which could be shared between ChipMOS and customers. However, the assembly gold wire cost would not be.

Stanley Wang, Analyst, SinoPac
Further, you mentioned about capacity expansion in 2H. Would it be possible to have contracts with customers?

SJ Cheng, Chairman and President

Basically, we would move in this way, since we have lots of experience in this kind of business model.

Stanley Wang, Analyst, SinoPac
In the script, you mentioned about stable demand from automotive in Q2. Please give us more color for other applications.

Jesse Huang, Spokesperson and Senior Vice President-Strategy and Investor Relations
Smart mobile likely gradually bottoming out, and TV demand favored by domestic and oversea customers.

Stanley Wang, Analyst, SinoPac
Based on your current financial data, your Capex in Q1 is still relatively lower. Please give us more color about whole year capex and depreciation.

Silvia Su Vice President-Finance and Accounting Management Center
As our Chairman just mentioned, we should have higher capex in 2H. The percentage to annual revenue would be an increase from 15-16% up to 18-19% in 2024. On the basis of 1Q24, the depreciation rate would increase around 1% to 3% quarterly. Echo to Jesse's reply to your question about 1H and 2H ratio, it would be roughly 47:53.

Operator
Our second question comes from Michael Hsu from Yuanta.

Michael Hsu, Analyst, Yuanta
How is your price pressure for currently and 2H?

SJ Cheng, Chairman and President
Generally speaking, it is stable. Our only concern is whether we can transfer the increased material cost to customers.

Michael Hsu, Analyst, Yuanta
Do you think you can still maintain your price position even under lower price competition from Chinese competitors?

SJ Cheng, Chairman and President
Again, China player competition is for everybody. We would focus on the high-end product segment, for example, OLED, automotive, and high-end TV. We also gain share from Chinese customers targeting market demand outside China.

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 Shen.

GS Shen, Technical Deputy Director-Strategy and Investor Relations
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, Chairman and President
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.