



ChipMOS TECHNOLOGIES INC. Q2 2022 Earnings Conference Call
August 4, 2022 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 Second Quarter 2022 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' second quarter 2022 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 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, Chairman and President

Yes, thank you, GS. We appreciate everyone joining our call today. We continue to deliver revenue growth, profit expansion and strong financial results. Our strong results show the good job we have been doing so far with the near term supply chain, global inflation and recent macro end market weakness. In terms of Q2 2022....

- For ChipMOS even with the headwind of geopolitics, global inflation and end-demand noise in Q2, our revenue was up 1.9% from Q1 2022 and was down just 1.9% year over year.
- We are very pleased that Gross Margin increased 40 basis points to 25.4% compared to Q1 2022. This remains a priority for us.



- We are also pleased with our management of operating expenses, which came at 7.1% of revenue for Q2. We have been reducing costs through increased automation and other programs we implemented at our manufacturing facilities. Our multiyear automation efforts have been a key driver of our profitable growth.
- Finally, Net Earnings were NT\$1.82 in Q2, with first half EPS of NT\$3.50. This was up about 14% year over year. I am very proud of the ChipMOS team for delivering the higher profitability in such a challenging operating environment.

Let me give you some additional color on our Q2 performance...

Assembly utilization held at 69% in Q2 2022, Testing increased to 75%. Our utilization rates reflect the industry wide capacity adjustments. Customer are adjusting inventory led by end demand softness our high-end DDIC test capacity increased in Q2, while both DDIC and Bumping UT levels decreased to 80% and 77%, respectively. Our overall utilization rate decreased to 75% in Q2 2022.

Regarding our manufacturing business, our assembly represented 28% of Q2 revenue. Testing represented around 22% and wafer bumping represented around 19% of Q2 revenue. On a product basis, our DDIC product was about 32% of Q2 revenue, with gold bumping representing about 17%. Revenue from DRAM and SRAM represented about 20% of Q2 revenue. Our Flash and the Mixed-signal products represented about 20.5% and 10.7% of Q2 revenue, respectively. Mixed-signal revenue grew more than 10% compare to Q1 2022 as we benefitted from strong demand and inventory rebuilding in automotive.

As additional color on our business, our memory product revenue was up about 1.5% compared to Q1 2022, and down 7.7% on a year over year basis. Memory products represented about 40.5% of total Q2 revenue. DRAM revenue increased 4.8% compare to Q1 and was up about 10% year over year. This represented about 19.6% of total Q2 revenue, led by underlying loading increase of commodity DRAM. Total Flash revenue represented about 20.5% of Q2 revenue. This was down just 1% compared to Q1 and down about 19% year over year, led by macro demand softness. NOR revenue increased around 3.3% compared to Q1 2022, and NAND represented about 27% of Q2 total Flash revenue.

Moving onto Driver IC-related product revenue, including gold bumping. This business benefitted from a price increase in March and the use of added high-end test capacity in Q2, which helped offset the impact of softness in TV panels and smartphones. Our Driver IC-related product revenue was slightly up compared to Q1 and was up about 5.2% on a year over year basis. Driver IC-related revenue was about 48.8% of total Q2 2022 revenue. Thanks to COF short term and rush orders, DDIC revenue increased 1.3% compared to Q1 and around 6% year-over-year. COF revenue significantly increased 11% compared to Q1 and represented more than 40% of Q2 DDIC revenue. TDDI revenue represented about 20% of Q2 DDIC revenue. OLED also grew significantly over Q1 and represented more than 5% of Q2 DDIC revenue.

On an end market basis, driven by strong demand for car display panels, more sensor consumption and electronics content, revenue from Automotive and Industrial represented about 19.7% of Q2 revenue and significantly grew more than 20% over Q1. Smartphones and TVs, as an end market, accounted about 27.2% and about 17.8% of Q2 revenue, respectively. Computing represented about 8.6% and consumer represented 26.7% of Q2 revenue.

Now let me turn the call to Ms. Silvia Su, to review the second quarter 2022 financial results.



Silvia, please go ahead.

Silvia Su, Vice President-Finance and Accounting Management Center

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\$ 29.74 against US\$ 1 as of June 30, 2022.

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

Referencing presentation Page 12 Consolidated Operating Results Summary

For the second quarter of 2022, total revenue was NT\$ 6,852 million.

Net profit attributable to the Company was NT\$ 1,321 million in Q2.

Net earnings for the second quarter of 2022 were NT\$ 1.82 per basic common share or US\$ 1.22 per basic ADS.

EBITDA for Q2 was NT\$ 2,474 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q2 was 21.3%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income Compared to 1Q22:

Total 2Q22 revenue increased 1.9% compared to 1Q22.

2Q22 Gross profit was NT\$ 1,742 million, with gross margin at 25.4% compared to 25.0% in 1Q22. This represents an increase of 0.4ppts.

Our operating expenses in 2Q22 were NT\$ 485 million, or 7.1% of total revenue, which is about a 3.9% improvement compared to 1Q22.

Operating profit for 2Q22 was NT\$ 1,277 million, with operating profit margin at 18.6%, which is about a 0.3ppts increase compared to 1Q22.

Net non-operating income in 2Q22 was NT\$ 309 million compared to NT\$ 229 million in 1Q22. The difference is mainly due to an increase of the foreign exchange gains of NT\$ 82 million, share of profit of associates accounted for using equity method of NT\$ 41 million and the decrease of finance expense of NT\$ 10 million and partially offset by the increase of loss on valuation of financial assets at fair value through profit or loss of NT\$ 54 million.

Profit attributable to the Company in 2Q22 increased 7.8% compared to 1Q22.

Basic weighted average outstanding shares were 727 million shares.

Compared to 2Q21:

Total revenue for 2Q22 decreased 1.9% compared to 2Q21.

Gross margin at 25.4% decreased 2.8ppts compared to 2Q21.

Operating expenses increased 4.8% compared to 2Q21.

Operating profit margin at 18.6% decreased 3.5ppts compared to 2Q21.

Net non-operating income of NT\$ 309 million in 2Q22 compared to net non-operating expenses of NT\$ 19 million in 2Q21, which increased of NT\$ 328 million. The difference is mainly due to an increase of foreign exchange gains of NT\$ 289 million and share of profit of associates accounted for using equity method of NT\$ 76 million and partially offset by the increase of loss on valuation of financial assets at fair value through profit or loss of NT\$ 48 million.



Profit was up 2.9% compared to 2Q21.

Referencing presentation Page 14 Consolidated Statements of Financial Position & Key Indices

Total assets at the end of 2Q22 were NT\$ 43,037 million.

Total liabilities at the end of 2Q22 were NT\$ 19,262 million.

Total equity at the end of 2Q22 was NT\$ 23,775 million.

Accounts receivable turnover days in 2Q22 were 77 days.

Inventory turnover days was 56 days in 2Q22.

Referencing presentation Page 15 Consolidated Statements of Cash Flows

As of June 30, 2022, our balance of cash and cash equivalents was NT\$ 7,270 million, increased NT\$ 1,363 million compared to the beginning of the year.

Free cash flow for the first half of 2022 was NT\$ 2,321 million compared to NT\$ 1,768 million for the same period in 2021. The difference is mainly due to a decrease of CapEx of NT\$ 671 million and increase of depreciation expenses of NT\$ 102 million and partially offset by the decrease of operating profit of NT\$ 190 million and increase of income tax expense of NT\$ 39 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\$ 1,401 million in CapEx in Q2.

The breakdown of CapEx in Q2 was 3.8% for bumping, 59.6% for LCD Driver, 18.9% for assembly and 17.7% for testing.

Depreciation expenses were NT\$ 1,197 million in Q2.

As of July 31, 2022, the Company's outstanding ADS number was approximately 4.5 million units, which represents around 12.3% 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.

We are in the right markets for long term growth. We had a good start to the first half of 2022 and we continue to work with our customers to meet demand. We can be impacted by the broader market issues over the near term semiconductor supply chain and China COVID lock downs just like everyone else. And the inventory increase reflects global inflation and consumer electronics macro softness. According to this situation, we are conservative on the business and restrained on CapEx investment to reduce depreciation pressure and maintain UT level.

In our memory product, we expect the business momentum to remain similar in Q3 to Q2, led by DRAM from new products and Niche DDR3. We also expect a gradual production increase and positive demand from Flash products driven by normal seasonal demand.



And in DDIC, customers are adjusting near term demand lower because of high TV panel inventory and soft smartphone sales. We are not immune to that macro weakness and DDIC business is in a more obvious correction over the near term. However, OLED and automotive panel demand is also steady and just slightly down compared to other DDIC products. We are seeing some of the pressure offset by customers optimizing product mix and our use of take or pay contracts. To reflect the near term market situation and considering the long term business cooperation of customers, we are moving H2 high end test capacity to 2023. We have discussed this with customers and this decision can help reduce depreciation and maintain UT level pressure for both ChipMOS and customers.

Finally, reflecting the longer term positive customer demand growth outlook, ChipMOS through the Invest Taiwan initiative of the Ministry of Economic Affairs is participating in a government incentive program. I am pleased to report that we got approval for a 3-year investment project in July. This investment plan includes extending manufacturing facilities, capacity de-bottle neck, AI and Automation and green energy investments for future business operations. Meanwhile, ChipMOS continues to implement manufacture process optimization and simplification, and AI and automation to maintain the competitive advantage and strength of ChipMOS. Our efforts continue to help further improve product quality, enhance efficiency and reduce costs.

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

You just mentioned that DDIC business is in a more obvious correction over the near term, would you give us more color about this statement? Under the condition, how long do you think the correction will take for the DDIC segment and also potential pressure on DDIC and memory?

SJ Cheng

As you know, the near term semiconductor supply chain inventory increase reflects global inflation and consumer electronics macro softness. Ongoing China COVID-19 shut downs may also further impact inventory levels. Our DDIC and Mixed-signal products are not immune to the macro weakness of panels and consumer electronics along with the broader market, and obviously corrected. However, memory product could maintain similar momentum in second half.

So as we have done in the past, we are taking a conservative view. We currently expect third quarter revenue to be lower than the second quarter, with a decline for 2022. Regarding our longer-term outlook, we will continue to update you on our quarterly calls as is our normal process.



We serve a diverse base of customers. There are always pockets of the market that are stronger than others. Our customers reflect this based on their business and customer profile. And each individual customer's situation is such different. So, it is hard to make a broader call on inventory for the end of the year.

We are still OK with the price pressure from memory products and DDIC high-end platform contract customers. For non-contract customers, we could waive some prices for specific products in order to gain volume and maintain the utilization level.

Jerry Su

Would you give us more color about your mentioned DRAM new product and DDR3 higher volume? How about the 2022 CapEx and depreciation?

SJ Cheng

A couple of customers show better DDR3 visibility. Regarding the new DRAM product, it referred to mass production for customers using advanced DRAM technology.

Silvia Su

Regarding 2022 CapEx, it will be near 20% of annual revenue. Q2 depreciation is around 1,197 million NTD, and depreciation of Q3 and Q4 would be expected around 1.2 billion NTD.

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

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.

DISCLAIMER

ChipMOS TECHNOLOGIES INC. ("ChipMOS" or the "Company") is providing a textual representation in English of its Mandarin conference call. The Company reserves the right to make changes to this or any documents, content, or other information on this website without obligation to notify any person of such changes.



The conference call upon which this textual representation is based may contain certain forward-looking statements. These forward-looking statements may be identified by words such as 'believes,' 'expects,' 'anticipates,' 'projects,' 'intends,' 'should,' 'seeks,' 'estimates,' 'future' or similar expressions or by discussion of, among other things, strategies, goals, plans or intentions. These statements may include financial projections and estimates and their underlying assumptions, statements regarding plans, inventory, demand and pricing levels, objectives and expectations with respect to future operations, products and services, and statements regarding future performance. Actual results may differ materially in the future from those reflected in forward-looking statements contained in this document, due to various factors. Further information regarding these risks, uncertainties and other factors are included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.

WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TEXTUAL REPRESENTATION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALL. IN NO WAY DOES THE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEBSITE OR ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE COMPANY'S CONFERENCE CALL ITSELF AND THE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.