



ChipMOS TECHNOLOGIES INC. Q2 2024 Earnings Conference Call
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Company Participants

S.J. Cheng – Chairman and President
Silvia Su – Vice President of Finance and Accounting Management Center
Jesse Huang – Spokesperson and Senior Vice President of Strategy and Investor Relations
G.S. Shen – Technical Deputy Director-Strategy and Investor Relations

Operator

Greetings, and welcome to the ChipMOS Second 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. Dr. Shen, you may begin.

GS Shen, Technical Deputy Director of Strategy and Investor Relations

Thank you, operator. Welcome everyone to ChipMOS' Second 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 headwinds from inventory adjustments across most end markets. We delivered strong revenue growth, profit expansion and drove free cash flow. We continue to carefully add capacity, expand our leadership, and build long-term value for shareholders through disciplined capital allocation and by focusing on the highest return opportunities.



In terms of Q2 highlights....

- Our Q2 revenue increased 7.2% compared to Q1 2024, and was up 6.7% on a year-over-year basis.
- Q2 Gross Profit increased 5.8% compared to Q1 2024, while Gross Margin remained flat over the same period, and decreased 330 basis points compared to Q2 2023.
- Net Earnings increased to NT\$ 0.62 in Q2 2024, up from NT\$ 0.60 in Q1 2024 and accumulated first half of 2024 EPS is NT\$ 1.22.

In terms of the details, our overall utilization rate improved to 69% in Q2 2024 from 63% in Q1 2024. This reflects a combination of an overall improvement in our business and loading levels and a seasonal uptick. Assembly utilization increased to 65% and Average Test utilization was 67%. DDIC was at 75% and Bumping UT level increased to 65%.

Regarding our manufacturing business, assembly represented 22.3% of Q2 revenue. Mixed-signal and memory Testing represented 21.9% and wafer bumping represented 21.9% of Q2 revenue. On a product basis, our DDIC product represented 34.1% of total revenue in Q2, with gold bumping representing about 18.5%. Revenue from DRAM and SRAM represented 14.5% of total Q2 revenue. Our Mixed-signal products represented 10.2%.

As additional color on our business, our memory products represented 37.2% of total Q2 revenue. Memory product revenue increased 2.4% compared to Q1 2024, and increased 17.6% on a year-over-year basis. DRAM revenue decreased 5% compared to Q1 2024 and represented 13.9% of total Q2 revenue. Flash revenue represented about 22.7% of Q2 revenue, which was up 7.3% compared to Q1 2024. NOR Flash also benefitted significantly from customers rebuilding inventory levels and increased more than 30% compared to Q1 2024. NAND Flash represented 34.8% of Q2 total Flash revenue, and decreased 17.7% compared to Q1 2024.

Moving onto Driver IC and gold bump revenue, this represented about 52.6% of total Q2 revenue. This was up 11.3% compared to Q1 2024 and flat on a year-over-year basis. Of note, Gold bump revenue was up 7.6% compared to Q1 2024. We benefitted from Large panel rush orders and stable demand from Auto panels. OLED growth helped drive DDIC revenue up 13.3% compared to Q1 2024, and Large panel rush order helped COF significantly grow 32.5%. Auto panel contributed about 26% of our Q2 DDIC revenue. This growth tracks with our prior comments. We continue to view Automotive as an important mid and long-term growth market for us. Our track record of quality excellence and required qualifications gives us a competitive edge in serving Auto customers. Regarding TDDI, it represented around 17.8% of Q2 DDIC revenue, with OLED at 23.8% of Q2 DDIC revenue and was up 13.6% compared to Q1 2024 driven by customers' re-stocking.

On an end-market basis, total revenue from Automotive and Industrial represented about 23.3% of Q2 revenue. This was up 14.7% compared to Q1 2024. TV panel demand represented 18.7% of Q2 revenue, which was up 27.7% compared to Q1 2024. Smartphone related demand represented 35.6% of Q2 revenue, which was flat with Q1 2024. Computing accounted for 3.6% of Q2 revenue, and increased 15.3%



compared to Q1 2024. Lastly, Consumer related demand represented 18.8% of Q2 revenue, and was flat compared to Q1 2024.

Now let me turn the call to Ms. Silvia Su, to review the second quarter 2024 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\$ 32.45 against US\$1 as of June 28, 2024.

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 2024, total revenue was NT\$ 5,810 million.

Net profit attributable to the Company was NT\$ 451 million in Q2.

Net earnings for the second quarter of 2024 were NT\$ 0.62 per basic common share or US\$ 0.38 per basic ADS.

EBITDA for Q2 was NT\$ 1,558 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q2 was 7.2%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income Compared to 1Q24:

Total 2Q24 revenue increased 7.2% compared to 1Q24.

2Q24 Gross profit was NT\$ 815 million, with gross margin at 14.0% compared to 14.2% in 1Q24. This represents a decrease of 0.2ppts.

Our operating expenses in 2Q24 were NT\$ 460 million, or 7.9% of total revenue, which increased 7.1% compared to 1Q24.

Operating profit for 2Q24 was NT\$ 374 million, with operating profit margin at 6.4%, which is about a 0.3ppts decrease compared to 1Q24.

Net non-operating income in 2Q24 were NT\$ 128 million which decreased NT\$ 29 million compared to 1Q24. The difference is mainly due to the decrease of the foreign exchange gains of NT\$ 128 million and partially offset by the increase of gain on disposal of non-current assets held for sale of NT\$ 72 million and interest income of NT\$ 17 million.

Profit attributable to the Company in 2Q24 increased 2.9% compared to 1Q24.

Basic weighted average outstanding shares were 727 million shares.



Compared to 2Q23:

Total revenue for 2Q24 increased 6.7% compared to 2Q23.

Gross margin at 14.0% decreased 3.3ppts compared to 2Q23.

Operating expenses increased 4.1% compared to 2Q23.

Operating profit margin at 6.4% decreased 3.2ppts compared to 2Q23.

Net non-operating income decreased NT\$ 95 million compared to 2Q23. The difference is mainly due to the decrease of the foreign exchange gains of NT\$ 124 million and share of profit of associates accounted for using equity method of NT\$ 47 million and partially offset by the increase of gain on disposal of non-current assets held for sale of NT\$ 72 million.

Profit attributable to the Company decreased 28.3% compared to 2Q23. The difference is mainly due to a decrease of operating profit of NT\$ 148 million and net non-operating income of NT\$ 95 million. This was partially offset by a NT\$ 64 million decrease in income tax expense.

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

Total assets at the end of 2Q24 were NT\$ 45,435 million.

Total liabilities at the end of 2Q24 were NT\$ 20,919 million.

Total equity at the end of 2Q24 was NT\$ 24,516 million.

Accounts receivable turnover days in 2Q24 were 85 days.

Inventory turnover days was 49 days in 2Q24.

Referencing presentation Page 15 Consolidated Statements of Cash Flows

As of June 30, 2024, our balance of cash and cash equivalents was NT\$ 14.652 billion.

Net free cash inflow for the first half of 2024 was NT\$ 1,433 million compared to NT\$ 1,950 million for the same period in 2023. The decrease was mainly due to a NT\$ 486 million CapEx increase and a NT\$ 42 million reduction in depreciation expenses.

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\$ 858 million in CapEx in Q2.

The breakdown of CapEx in Q2 was 4.3% for bumping, 44.7% for LCD Driver, 28.7% for assembly and 22.3% for testing.

Depreciation expenses were NT\$ 1,184 million in Q2.

As of July 31, 2024 the Company's outstanding ADS number was approximately 4.2 million units, which represents around 11.6% 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.

Based on what we are hearing from customers and companies in the industry, we are cautiously optimistic entering Q3. The market has been going through a series of challenges with the latest being inventory destocking. Inventory levels have been getting back to normal but are not there yet in all markets. We expect the broader market condition will continue to improve as we move through 2024 based on the broader market drivers and ChipMOS specific growth drivers. We expect this will lead to a stronger second half of 2024 with improved operating momentum.

In our memory product, DRAM and Flash products are maintaining stable momentum with improving end markets and end customer inventory levels. We are benefitting from customers' re-stocking, which is driving higher momentum growth of NAND Flash and Niche DRAM compared to other memory products.

In our DDIC product, Automotive panel and OLED demand remains stable compared to other products. This is leading to a high UT level for our high-end DDIC test platforms, particularly Automotive panel portion. In addition, we are benefitting from customers re-stocking for new smart phone launches, which is increasing the related assembly and test UT level of COG. Therefore, we think DDIC will continue to outgrow memory product momentum in Q3.

With regard to CapEx, we currently plan to invest in our memory test platform in the second half of the year to meet demand supporting memory upgrade to DDR4/DDR5 from DDR3. Based on current customer forecasts and the increasing UT level, we acquire DDIC capacity to expand our DDIC high end test capacity in short expansion schedule for coming DDIC test capacity demand. In addition, we plan to purchase an idle factory, located in the Southern Taiwan Science Park, to handle test capacity expansion of Automotive panel and OLED in Tainan to strengthen our further business growth momentum.

We continue to shift our product mix into higher growth, higher margin product areas. We are making CapEx investments in support of growth in these areas. Our strategy is to use these higher growth, higher margin areas to reduce operating costs, improve profit and maintain business growth momentum and competition advantage. This is also inline with our continued cost reduction, quality improvement and operating strength actions.

Finally, as we remain focused on expanding our leadership position, we are equally focused on building value for shareholders. Our latest action was returning cash to shareholders in the form of our latest dividend distribution, NT\$ 1.8 per common share, on July 19.

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 Anthony Liu from Yuata. You may begin.



Anthony Liu, Analyst, Yuanta

Why did gross margin go down as UT level increased in Q2?

Silvia Su, Vice President of Finance and Accounting Management Center

Thanks for your question. In 2Q24, gross margin was impacted by higher costs compared to Q1 2024. Electricity charges increased more than NT\$100M with the higher normal summer rate, a general charge rate increase since April and UT increase compared to Q1 2024. Meanwhile, the higher price of gold led a gold bump material cost increase. Salary and overtime pay also increased with the UT level improvement in Q2.

Anthony Liu, Analyst, Yuanta

Could you comment on the H1 vs H2 ratio maintain the previous call, 47:53? And the gross margin target of H2 based on the ratio?

SJ Cheng, Chairman and President

As I mentioned in the call, we are cautiously optimistic. We continue to expect our business momentum will improve through 2024 leading to a stronger second half with operating momentum, end markets and end customer inventory levels currently improving. The ratio would be very close as noted on the previous call, which is still depending on end-consumer demand. As for the margin target, we continuously work to improve our cost structure for a better margin compared to H1, such as controlling electricity usage in order to manage electricity charges.

Anthony Liu, Analyst, Yuanta

What is the Company's long term depreciation as the Capex increase in H2? And could you comment on the Company's strength and action for the DDIC OSAT competition, including China?

Silvia Su, Vice President of Finance and Accounting Management Center

Let me answer the depreciation question. By using 1Q24 depreciation as a base line, the depreciation rate of H1 should be around a 1%~3% quarterly increase. However, it would be up to a ~3% to 4% quarterly CapEx increase.

SJ Cheng, Chairman and President

Regarding the competition, including China, we have always assumed there would be competition in the industry. We always run our business with competition in mind. We are in a strong position to support customers and are positive about our business going forward. Our focus is on providing a superior OSAT product and service.

We continue to improve our quality, operations and competitiveness. This includes expanding the penetration rate of high-end products such as OLED, automotive panels, and high-end TVs to maintain the Company's competitive advantage. We also expect to benefit from a higher quality level requirement for European and American brands.

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 of 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.

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