ChipMOS TECHNOLOGIES INC. Q4 and Full Year 2022 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

Operator
Greetings, and welcome to the ChipMOS Fourth Quarter and Full Year 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' fourth quarter and full year 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. 2022 was a year of opportunities and challenges. COVID, inflation and inventory issues impacted all industries and markets. For ChipMOS, we ended 2022 year in a very strong financial position, with liquidity. We will remain conservative and continue to monitor the broader trends and inventory levels. We will also remain focused on supporting our customers and driving growth when volumes rebound.

In terms of Q4 2022….

- Our Q4 revenue was down 10.8% from Q3 2022 and down 14.2% in 2022 revenue.

- Q4 Gross Margin came in at 14.5%, decreased 100 basis points compared to Q3. And decreased 560 basis points for 2022 to 20.9% compared to 2021 with Net Earnings of NT$ 0.22 in Q4 or NT$ 4.64 for 2022.

Reflecting the impact of the challenges I just mentioned, our overall utilization rate in Q4 2022 decreased to 49%. Assembly utilization was at 46% and Testing average was 53%. DDIC increased to 53%, driven by rush order and Bumping UT level was 41%.

Regarding our manufacturing business, our assembly represented 26.6% of Q4 revenue. Testing represented around 22.7% and wafer bumping represented around 17% of Q4 revenue. On a product basis, our DDIC product increased to 33.8%, with gold bumping representing about 15%. Revenue from DRAM and SRAM represented about 15.5% of Q4 revenue. Our Mixed-signal products represented about 11.2%.

As additional color on our business, our memory product revenue was down about 23.2% compared to Q3 2022, and down around 30.7% on a year over year basis. Memory products represented about 40.1% of total Q4 revenue. DRAM revenue represented about 15.1% of total Q4 revenue. Total Flash revenue represented about 24.6% of Q4 revenue. This was down 14.4% compared to Q3. NAND declined about 4% compared to Q3 and represented about 28.4% of Q4 total Flash revenue.

Moving onto Driver IC-related product revenue – the macro demand picture is still soft but we benefited from a pick-up in rush orders. Including gold bumping, revenue increased 4.6% compared to Q3 and represented about 48.7% of total Q4 2022 revenue. DDIC revenue increased significantly by about 13%, while COF revenue for large panel, like TV, grew more than 20% and COG for small panel, like smartphone, also increased over 8%. TDDI revenue represented around 15% of Q4 DDIC revenue. Regarding OLED, revenue grew significantly more than 35% both compared to Q3 and on a year over year basis, and represented about 9.4% of Q4 DDIC revenue. In the meantime, the Automotive portion of our DDIC in Q4 and full year 2022 represented 22% and 20%, respectively. And the Automotive portion represented about 15% of 2022 full year OLED revenue.

On an end market basis, revenue from Automotive and Industrial represented about 20.7% of Q4 revenue. Driven by the popularization of automotive panels, DDIC-related products represented to nearly 60% of Automotive and Industrial. Smartphones and TVs, as an end market, accounted about 27% and about 16.3%, respectively. Computing represented just about 6.4% and consumer represented 29.6% of Q4 revenue.

Now let me turn the call to Ms. Silvia Su, to review the fourth quarter and full year 2022 financial results. Silvia, please go ahead.

<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$ 30.73 against US$1 as of December 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 fourth quarter of 2022, total revenue was NT$ 4,686 million.
Net profit attributable to the Company was NT$ 155 million in Q4.
Net earnings for the fourth quarter of 2022 were NT$ 0.22 per basic common share or US$ 0.14 per basic ADS.
EBITDA for Q4 was NT$ 1,477 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.
Return on equity of Q4 was 2.5%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income
Compared to 3Q22:
Total 4Q22 revenue decreased 10.8% compared to 3Q22. This reflects the challenges SJ noted earlier facing all industries and end markets.
4Q22 Gross profit was NT$ 680 million, with gross margin at 14.5% compared to 15.5% in 3Q22. This represents a decrease of 1.0ppt.
Our operating expenses in 4Q22 were NT$ 417 million, or 8.9% of total revenue, which is about 8.6% lower compared to 3Q22.
Operating profit for 4Q22 was NT$ 310 million, with operating profit margin at 6.6%, which is about a 1.0ppt decrease compared to 3Q22.
Net non-operating expenses in 4Q22 were NT$ 130 million compared net non-operating income of NT$ 403 million in 3Q22. The difference is mainly due to an increase of the foreign exchange losses of NT$ 515 million from the foreign exchange gains of NT$ 298 million in 3Q22 to the foreign exchange losses of NT$ 217 million in 4Q22, the decrease of share of profit of associates accounted for using equity method of NT$ 87 million and partially offset by the increase of gain on valuation of financial assets at fair value through profit or loss of NT$ 47 million and interest income of NT$ 27 million
Profit attributable to the Company in 4Q22 decreased 76.9% compared to 3Q22. The difference is mainly due to an increase of net non-operating expenses of NT$ 533 million, a lower operating profit of NT$ 87 million and partially offset by the decrease of income tax expense of NT$ 103 million
Basic weighted average outstanding shares were 727 million shares.

Compared to 4Q21:
Total revenue for 4Q22 decreased 31.0% compared to 4Q21.
Gross margin at 14.5% decreased 11.5ppts compared to 4Q21.
Operating expenses decreased 10.7% compared to 4Q21.
Operating profit margin at 6.6% decreased 13.1ppts compared to 4Q21.
Net non-operating expenses of NT$ 130 million in 4Q22 compared to net non-operating income of NT$ 319 million in 4Q21 which increased NT$ 449 million. The difference is mainly due to a lower share of profit of associates accounted for using equity method of NT$ 291 million, an increase of the foreign exchange losses of NT$ 206 million and partially offset by the increase of interest income of NT$ 35 million and gain on valuation of financial assets at fair value through profit or loss of NT$ 14 million.
Profit decreased 89.1% compared to 4Q21. The difference is mainly due to a decrease of operating profit of NT$ 1,025 million and increase of the net non-operating expenses of NT$ 449 million and partially offset by the decrease of income tax expense of NT$ 212 million.

Referencing presentation Page 14 Consolidated Statements of Comprehensive Income
Compared to last year:

Total revenue for 2022 was NT$ 23,517 million, which decreased 14.2% compared to 2021.
Gross margin at 20.9%, decreased 5.6ppts compared to 2021.
Our operating expenses in 2022 were NT$ 1,825 million, which was up 0.4% compared to 2021.
Operating profit margin in 2022 was 13.7%, a decrease of 6.6ppts compared to 2021.
Net non-operating income in 2022 was NT$ 811 million. The difference mainly due to an increase of the foreign exchange gains of NT$ 537 million and interest income of NT$ 47 million and partially offset by the decrease of share of profit of associates accounted for using equity method of NT$ 172 million and increase of loss on valuation of financial assets at fair value through profit or loss of NT$ 85 million.
Net profit in 2022 was NT$ 3,372 million, which decreased 33.3% compared to 2021. The difference due to a decrease of the operating profit of NT$ 2,346 million and partially offset by the increase of net non-operating income of NT$ 338 million and the decrease of income tax expense of NT$ 321 million.
Net earnings for the year of 2022 were NT$ 4.64 per basic common share compared to NT$ 6.96 per basic common share for 2021.

Referencing presentation Page 15 Consolidated Statements of Financial Position & Key Indices
Total assets at the end of 4Q22 were NT$ 44,943 million.
Total liabilities at the end of 4Q22 were NT$ 20,131 million.
Total equity at the end of 4Q22 was NT$ 24,812 million.
Accounts receivable turnover days in 4Q22 were 87 days.
Inventory turnover days was 74 days in 4Q22.

Referencing presentation Page 16 Consolidated Statements of Cash Flows
As of December 31, 2022, our balance of cash and cash equivalents was NT$ 9,897 million, increased NT$ 3,990 million compared to the beginning of the year.
Net free cash outflow for 2022 was NT$ 818 million compared to net free cash inflow was NT$ 956 million in 2021. The difference is mainly due to a decrease of operating profit of NT$ 2,346 million and the increase of cash dividend paid of NT$ 1,527 million and partially offset by the decrease of CapEx of NT$ 1,634 million, income tax expense of NT$ 321 million and increase of depreciation expenses of NT$ 118 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 17 Capital Expenditures and Depreciation
We invested NT$ 1,831 million in CapEx in Q4 and NT$ 4,919 million in CapEx in 2022.
The breakdown of CapEx in Q4 was 4.6% for bumping, 50.9% for LCD Driver, 17.0% for assembly and 27.5% for testing.
Depreciation expenses were NT$ 1,166 million in Q4.
Depreciation expenses were NT$ 4,752 million in 2022.

As of January 31, 2023, the Company’s outstanding ADS number was approximately 4.4 million units, which represents around 12.1% 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 a solid position entering 2023. We have the strong balance sheet and liquidity needed to support our customers and long-term growth. In the near term, however, a lot of uncertainty remains around global inflationary pressures, macro weakness and inventory levels. So, we are taking a more conservative approach with our CapEx budget in 2023 than in prior years. We plan to carefully invest in green energy, building re-layout & construction, quality improvement, automation/AI and R&D. We are not looking to add capacity but will be able to move quickly when the market rebounds. As part of this strategy, we are working with our customers and retain flexibility in the OEM price to the improvement of the utilization rate.

In our memory product, we expect the business will continue to be impacted by the factors I mentioned earlier. And in DDIC, Automotive panel demand is remains stable and just slightly down compared to other DDIC products. We also seeing some demand improvement in specific products, for example, OLED is gradually rebounding

Despite, revenue will be impacted by the fewer work days in Q1 and inventory adjustment. However, according to the current industry situation and customers' feedback, we expect Q1 will be the bottom, with operating momentum expected to gradually rebound from Q2. And we think memory product would be later than DDIC and Mixed-signal products.

Finally, our Board approved another dividend. This reflects our balance sheet strength, strong market position and our focus on building shareholder value. Pending shareholder approval at our May AGM, we will distribute NT$ 2.3 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 Angela Dai Su from Credit Suisse. You may begin.

Angela Dai
Could you provide OSAT price guidance for DDIC and Memory product in 1Q23?

Jesse Huang
As SJ mentioned in our prepared comments, we are working with our customers to help support them in this challenging period. We are taking this on a customer by customer basis and retaining some flexibility in the OEM price with the improvement of the utilization rate for some rush orders with volume.

Operator
Next comes from Stanley Wang from SinoPack Securities. You may begin.

Stanley Wang
Could you provide more some color on your 2023 revenue outlook, under the condition of better DDIC business visibility than memory starting from 2Q?

S.J. Cheng
As you know, the industry continues to face several headwinds, with macro softness and overall uncertainty. We will continue to work with customers and closely monitor the demand and inventory situation. According to the current industry situation and customers' feedback, we expect Q1 will be the bottom, with operating momentum expected to gradually rebound from Q2. Due to the earlier correction, DDIC should rebound more quickly than memory product.
For full year 2023, we expect 1H23 vs 2H23 would roughly be the reverse of 2022 1H with 57% vs 2H with 43%. However, it would really be dependent on customers' inventory digestion progress.
That said, as I mentioned earlier on the call, there are areas where we will prudently invest other than capacity. These are tied to increasing operating efficiency, green energy, quality improvement, automation/AI R&D and building re-layouts etc. These are areas that make good business sense and do not require any capacity expansion. Meanwhile, we way take the chance to increase automotive and Industrial segments business scale to optimize our product mix.

Stanley Wang
Could you comment on those capacity expansions, which were cancelled or postponed last year, would they be executed this year or not? And how about the CapEx and depreciation in 2023?

S.J. Cheng
For CapEx there are areas where we will prudently invest other than capacity. These are tied to increasing operating efficiency, green energy, automation/AI, building re-layouts and maintenances etc. After that, we would not expand new capacity without take or pay contracts. Therefore, we estimate the CapEx would be around 15% of 2023 total revenue.

Stanley Wang
Could Ms Silvia Su provide more color about OpEx and tax rate of 2023?

Silvia Su
Firstly, comment on your previous question about depreciation, 2022 depreciation was about 4.8BNTD and we expect 2023 will be similar to this level. As for OpEx, we managed to control OpEx between 6 to 8 percent of revenue, however it really depends on revenue scale. And then the tax rate, we expect it would be around 18 to 19 percent, which also depends on the unrealized gains and losses.

Stanley Wang
Could you share the current situation of wafer bank for customer comparing to previous quarter and what does the movement look like?

S.J. Cheng
For DDIC, the wafer bank level has been reducing pretty significantly. We also see some new product wafers in. Only little improvement for memory at this moment.

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.