



**ChipMOS TECHNOLOGIES INC. Q1 2023 Earnings Conference Call
May 4, 2023 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 2023 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 2023 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 are pleased with our results in Q1, as the industry was impacted by macro-economic weakness, inflation and continued inventory adjustments at customers. In terms of Q1 2023....

- Our Q1 revenue was just slightly down 1.7% from Q4 2022. And as you know there are always fewer working days in Q1 due to holidays.



- Q1 Gross Margin came in at 12.4%, down 210 basis points compared to Q4 2022 with Net Earnings of NT\$ 0.28 in Q1, increased 27% compared to NT\$0.22 of Q4 2022.

I am pleased to report that our overall utilization rate increased to 52% in Q1 2023. Assembly utilization was at 42% and Testing average was 55%. DDIC increased to 58% and Bumping UT level significantly up to 52%.

Regarding our manufacturing business, our assembly represented 23.4% of Q1 revenue. Mixed-signal and memory Testing represented around 22.3% and wafer bumping represented around 19.6% of Q1 revenue. On a product basis, our DDIC product increased to 35%, with gold bumping representing about 18%. Revenue from DRAM and SRAM represented about 15% of Q1 revenue. Our Mixed-signal products represented about 10.8%.

As additional color on our business, our memory products represented about 36.3% of total Q1 revenue. Memory product revenue was down about 11.1% compared to Q4 2022, and down around 38.8% on a year over year basis. DRAM revenue represented about 14.6% of total Q1 revenue. Flash revenue represented about 21.3% of Q1 revenue, and this was down 14.7% compared to Q4. NAND represented about 33.3% of Q1 total Flash revenue, and kept flat compared to Q4.

Moving onto Driver IC and gold bump revenue, it represented about 52.9% of total Q1 2023 revenue and increased 6.7% compared to Q4 2022. The revenue increase in March was the most significant. Q1 benefited from a product demand rebound in specific areas and customer restocking. The improvement led DDIC revenue an increased about 1.8% compared to Q4 2022. At the same time, gold bump revenue increased 18%, which was a significant move up, with an obvious reduction in our wafer bank. I am also pleased to report that more than 24% of DDIC revenue came from Automotive panels in Q1, which was also up significantly by nearly 19%. It is early but we also saw some encouraging signs in COG for small panel, driven by automotive panel, TDDI and OLED demand, which was up over 7%. TDDI revenue increased about 15% and represented around 17% of Q1 DDIC revenue. Regarding OLED represented about 9% of Q1 DDIC revenue.

On an end market basis, total revenue from Automotive and Industrial represented about 23.3% of Q1 revenue and increased about 10.8%. Smartphones and TVs, as an end market, accounted about 29% and about 17%, respectively. Computing represented just about 4.4% and consumer represented 26.3% of Q1 revenue.

Now let me turn the call to Ms. Silvia Su, to review the first quarter 2023 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\$ 30.48 against US\$1 as of March 31, 2023. 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 2023, total revenue was NT\$ 4,605 million. Net profit attributable to the Company was NT\$ 202 million in Q1. Net earnings for the first quarter of 2023 were NT\$ 0.28 per basic common share or US\$ 0.18 per basic ADS.

EBITDA for Q1 was NT\$ 1,383 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q1 was 3.2%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income Compared to 4Q22:

Total 1Q23 revenue decreased 1.7% compared to 4Q22.

1Q23 Gross profit was NT\$ 570 million, with gross margin at 12.4% compared to 14.5% in 4Q22. This represents a decrease of 2.1ppts.

Our operating expenses in 1Q23 were NT\$ 401 million, or 8.7% of total revenue, which is about 3.9% lower compared to 4Q22.

Operating profit for 1Q23 was NT\$ 185 million, with operating profit margin at 4.0%, which is about a 2.6ppts decrease compared to 4Q22.

Net non-operating income in 1Q23 was NT\$ 44 million compared net non-operating expenses of NT\$ 130 million in 4Q22. The difference is mainly due to a decrease of the foreign exchange losses of NT\$ 173 million.

Profit attributable to the Company in 1Q23 increased 30.7% compared to 4Q22. This primarily reflects an increase of net non-operating income of NT\$ 174 million and partially offset by the decrease of operating profit of NT\$ 125 million.

Basic weighted average outstanding shares were 727 million shares.

Compared to 1Q22:

Total revenue for 1Q23 decreased 31.5% compared to 1Q22. Gross margin at 12.4% decreased 12.6ppts compared to 1Q22.



Operating expenses decreased 14.2% compared to 1Q22.

Operating profit margin at 4.0% decreased 14.3ppts compared to 1Q22.

Net non-operating income of NT\$ 44 million in 1Q23 compared to NT\$ 229 million in 1Q22 which decreased NT\$ 185 million. The difference is mainly due to an increase of the foreign exchange losses of NT\$ 187 million from the foreign exchange gains of NT\$ 143 million in 1Q22 to the foreign exchange losses of NT\$ 44 million in 1Q23.

Profit decreased 83.5% compared to 1Q22. The difference is mainly due to a decrease of operating profit of NT\$ 1,047 million and decrease of the net non-operating income of NT\$ 185 million and partially offset by the decrease of income tax expense of NT\$ 210 million.

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

Total assets at the end of 1Q23 were NT\$ 45,710 million.

Total liabilities at the end of 1Q23 were NT\$ 20,663 million.

Total equity at the end of 1Q23 was NT\$ 25,047 million.

Accounts receivable turnover days in 1Q23 were 86 days.

Inventory turnover days was 69 days in 1Q23.

Referencing presentation Page 15 Consolidated Statements of Cash Flows

As of March 31, 2023, our balance of cash and cash equivalents was NT\$ 11,736 million, which represents an increase of NT\$ 1,839 million compared to the beginning of the year.

Net free cash inflow for the first quarter of 2023 was NT\$ 1,033 million compared to NT\$ 1,536 million for the same period in 2022. The difference is mainly due to the decrease of operating profit of NT\$ 1,047 million and partially offset by the decrease of CapEx of NT\$ 311 million and income tax expense of NT\$ 210 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\$ 313 million in CapEx in Q1.

The breakdown of CapEx in Q1 was 9.6% for bumping, 49.9% for LCD Driver, 25.1% for assembly and 15.4% for testing.

Depreciation expenses were NT\$ 1,198 million in Q1.

As of April 30, 2023, the Company's outstanding ADS number was approximately 4.3 million units, which represents around 11.9% 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 expect Q1 will be the bottom, with operating momentum expected to gradually rebound as we move through 2023. We remain conservative, however, because the headwinds from inflation, inventory adjustments and macro-economic pressure remain.

In our memory product, we expect the business will continue its momentum in Q2 from Q1 with Memory IDMs lowering their UT level and the short order benefit. This momentum will help offset the impact from customers that continue destocking. In DDIC, Automotive panel, TDDI and OLED demand is gradually rebounding. This results in the need to immediately load new wafers coming in for the gold bumping process. This also leads to the UT level of high end DDIC test platforms further improving. According to the current situation, we think memory product will rebound later than DDIC and Mixed-signal products.

As a result, we continue to take a cautious approach with our CapEx budget in 2023. We plan to carefully invest in green energy, AI and automation. And depends on the UT level and customers' demand to do suitable capacity plan.

Finally, our Board approved another dividend. This reflects our balance sheet strength, strong market position, our focus on building shareholder value and returning capital to shareholders. 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 Stanley Wang from SinoPack Securities. You may begin.

Stanley Wang

Could you comment whether lower gross margin in Q1 is impacted by price cuts from customers or a foreign exchange rate issue?

S.J. Cheng

As reported, in Q1, March revenue MoM grew about 28%, which was much better than that of January and February. Therefore, we still suffered from some negative factors to the gross margin.

Silvia Su

By the way, our Q1 revenue was also impacted by weaker US dollar comparing to Q4.



Stanley Wang

The Q1 tax rate is 11.6%. Would there be a favorable investment tax credit? How would you comment for 2023 full year tax rate?

Silvia Su

Certainly there are unrealized items such as investment by equity method, valuation of financial assets by fair value method and equipment investment tax credit in Q1. Generally speaking, our average tax rate would be in range between 19 to 21%.

Stanley Wang

In the revenue breakdown for end applications, smart mobile segment performed QoQ 5.9% growth. Could you give us more color about the result from what kind of end application or customer?

Jesse Huang

We saw some encouraging signs driven by TDDI and OLED demand. TDDI demand benefitted from repair market demand.

Stanley Wang

Could you provide more color about NOR in Q1?

Jesse Huang

Overall, the NOR revenue QoQ declined in Q1. However, we also received some NOR rush orders in March.

Operator

Next question comes from Jerry Su from Credit Suisse. You may begin.

Jerry Su

Follow up to Q1 gross margin, except foreign exchange rate, due to significant revenue growth from gold bumping, would it be one of the causes for lower gross margin? If yes, please comment how could it be reverted?

Secondly, please comment on the price pressure from DDIC?

S.J. Cheng

I mentioned earlier on the call that gold bump revenue increased in Q1. That means gold consumption increased in our gold bumping, which led the Q1 raw material cost increase.

We would still maintain the price level of high-end tester due to higher UT rate. For low-end tester and COF, we are taking this on a customer by customer basis and retaining some flexibility in the OEM price to the further improvement of the utilization rate.



Jerry Su

As previously mentioned, you could grow QoQ under the conditions of flattish memory and much better in DDIC, would company growth be double digits in Q2?

S.J. Cheng

Firstly, there has been an obvious reduction in our wafer bank, and customers also started to place new orders to foundry in DDIC. Therefore, we expect DDIC revenue could grow significantly.

Jerry Su

Any visibility for memory segment business recovery?

S.J. Cheng

Because customers' inventory levels are still high, we expect the recovery would be more obvious starting in Q3.

Jerry Su

Please give us more color about memory segment recovery in Q3?

S.J. Cheng

It seems NOR, NAND, and niche DRAM would perform better than commodity DRAM.

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.



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