



**ChipMOS TECHNOLOGIES INC. Q3 2022 Earnings Conference Call
November 3, 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 Third 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' third 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 focus on supporting our customers as they work through inventory adjustments and other market challenges. This is the same approach we have taken during prior downturns. This helps us build long-term relationships and drive growth when volumes rebound.

In terms of Q3 2022....

- The macro headwinds of global inflation and inventory adjustments impacted our results like nearly every other semiconductor company. For ChipMOS, our Q3 revenue was down 23.3% from Q2 2022 and down 26.6% year over year.



- Q3 Gross Margin came in at 15.5%, with Net Earnings of NT\$0.92 or NT\$4.42 for the first nine months of 2022.
- Operating expenses, which came at 8.7% of revenue for Q3 due to revenue decline.

Our overall utilization rate decreased to 57% in Q3 2022, also reflecting the impact of global inflation, inventory adjustments and demand softness. Assembly utilization was at 64% and Testing average was 63%. Both DDIC and Bumping UT levels decreased to 49% and 46%, respectively.

Regarding our manufacturing business, our assembly represented 32% of Q3 revenue. Testing represented around 24.6% and wafer bumping represented around 16.8% of Q3 revenue. On a product basis, our DDIC product was about 26.8%, with gold bumping representing about 14.8%. Revenue from DRAM and SRAM represented about 21% of Q3 revenue. Our Flash and the Mixed-signal products represented about 25.7% and 11.7%, respectively.

As additional color on our business, our memory product revenue was down about 10.9% compared to Q2 2022, and down around 21% on a year over year basis. Memory products represented about 46.7% of total Q3 revenue. DRAM revenue declined 19.4% compare to Q2 and represented about 20.6% of total Q3 revenue. Total Flash revenue represented about 25.7% of Q3 revenue. This was down 2.3% compared to Q2. NOR and ROM revenue held flat compared to Q2 2022, and NAND represented about 25.4% of Q3 total Flash revenue.

Moving onto Driver IC-related product revenue – this segment was impacted by macro softness in TV panels and smartphones and inventory adjustments. Including gold bumping, the decline was 34.6% compared to Q2 and was down about 32.9% on a year over year basis. It represented about 41.6% of total Q3 2022 revenue, with COF revenue represented less than 40% of Q3 DDIC revenue. And gold bumping revenue was down 32.8% compared to Q2. TDDI revenue represented around 24% of Q3 DDIC revenue. OLED although declined in Q3, however significantly grew near 10% on a year over year basis. OLED represented over 7.5% of Q3 DDIC revenue and more than 20% is for Automotive application in the first nine months OLED product quantity.

On an end market basis, revenue from Automotive and Industrial represented about 21.5% of Q3 revenue. Smartphones and TVs, as an end market, accounted about 23.9% and about 12.9%, respectively. Computing represented just about 9.6% and consumer represented 32.1% of Q3 revenue.

Now let me turn the call to Ms. Silvia Su, to review the third 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\$ 31.78 against US\$ 1 as of September 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 third quarter of 2022, total revenue was NT\$ 5,254 million.



Net profit attributable to the Company was NT\$ 672 million in Q3.

Net earnings for the third quarter of 2022 were NT\$ 0.92 per basic common share or US\$ 0.58 per basic ADS.

EBITDA for Q3 was NT\$ 1,597 million. EBITDA was calculated by adding depreciation and amortization together with operating profit.

Return on equity of Q3 was 11.1%.

Referencing presentation Page 13 Consolidated Statements of Comprehensive Income

Compared to 2Q22:

Total 3Q22 revenue decreased 23.3% compared to 2Q22.

3Q22 Gross profit was NT\$ 812 million, with gross margin at 15.5% compared to 25.4% in 2Q22. This represents a decrease of 9.9ppts on lower revenue and product mix.

Our operating expenses in 3Q22 were NT\$ 456 million, or 8.7% of total revenue, which is about a 5.9% decrease compared to 2Q22.

Operating profit for 3Q22 was NT\$ 397 million, with operating profit margin at 7.6%, which is about a 11.0ppts decrease compared to 2Q22.

Net non-operating income in 3Q22 was NT\$ 403 million compared to NT\$ 309 million in 2Q22. The difference is mainly due to an increase of the foreign exchange gains of NT\$ 74 million and the decrease of loss on valuation of financial assets at fair value through profit or loss of NT\$ 18 million.

Profit attributable to the Company in 3Q22 decreased 49.1% compared to 2Q22. The difference is mainly due to a decrease of the operating profit of NT\$ 880 million and partially offset by the decrease of income tax expense of NT\$ 136 million and the increase of net non-operating income of NT\$ 94 million.

Basic weighted average outstanding shares were 727 million shares.

Compared to 3Q21:

Total revenue for 3Q22 decreased 26.6% compared to 3Q21.

Gross margin at 15.5% decreased 11.8ppts compared to 3Q21.

Operating expenses decreased 1.4% compared to 3Q21.

Operating profit margin at 7.6% decreased 13.7ppts compared to 3Q21.

Net non-operating income of NT\$ 403 million in 3Q22 compared to NT\$ 148 million in 3Q21. The difference is mainly due to an increase of foreign exchange gains of NT\$ 301 million and partially offset by the increase of loss on valuation of financial assets at fair value through profit or loss of NT\$ 44 million.

Profit decreased 52.0% compared to 3Q21. The difference is mainly due to a decrease of the operating profit of NT\$ 1,130 million and partially offset by the increase of net non-operating income of NT\$ 255 million and decrease of income tax expense of NT\$ 147 million.

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

We ended Q3 in a very healthy financial position with a strong balance sheet and liquidity position. Total assets at the end of 3Q22 were NT\$ 42,052 million.

Total liabilities at the end of 3Q22 were NT\$ 17,535 million.

Total equity at the end of 3Q22 was NT\$ 24,517 million.

Accounts receivable turnover days in 3Q22 were 90 days.

Inventory turnover days was 66 days in 3Q22.

Referencing presentation Page 15 Consolidated Statements of Cash Flows



As of September 30, 2022, our balance of cash and cash equivalents was NT\$ 7,468 million, increased NT\$ 1,562 million compared to the beginning of the year.

Free cash flow for the first nine months of 2022 was negative NT\$ 428 million compared to NT\$ 1,416 million for the same period in 2021. The difference mainly due to the increase of cash dividend paid of NT\$ 1,527 million and decrease of operating profit of NT\$ 1,321 million and partially offset by the decrease of CapEx of NT\$ 780 million, the decrease of income tax expense of NT\$ 109 million and increase of depreciation expenses of NT\$ 106 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\$ 1,063 million in CapEx in Q3.

The breakdown of CapEx in Q3 was 3.2% for bumping, 56.8% for LCD Driver, 21.6% for assembly and 18.4% for testing.

Depreciation expenses were NT\$ 1,200 million in Q3.

As of October 31, 2022, 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.

As Silvia just noted, we ended Q3 in a strong financial position with good liquidity. Our ongoing efforts to diversify our business and further strengthen our balance sheet put us in a good position to weather the current market uncertainty. So, we feel good about the strength of our financial position and ability to support customers in the challenging period. As we have done in the past, we are taking a very conservative approach on the business and our CapEx plans.

We are taking additional actions however given the market uncertainty. As one example, we are looking to reduce our CapEx budget in 2023. We plan to carefully invest in green energy, building re-layout & construction, quality improvement 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, with the ongoing inventory adjustments and demand weakness over the near term. And in DDIC, customers are still adjusting near term demand lower. As we have said before, we are not immune to the macro weakness and DDIC business is still in a slight correction into Q4. However, the correction is reduced. OLED and automotive panel demand is also stable and just slightly down compared to other DDIC products. We are seeing new customer demand mostly for automotive and OLED panels.



Meanwhile, ChipMOS continues to implement manufacture process optimizations and simplifications, and additional cost reduction actions where possible. This includes working to lower energy consumption of facilities and equipment, and control of raw material inventory and consumption. Our efforts continue to help further improve product quality, enhance efficiency, reduce costs and maintain the competitive advantage and strength of ChipMOS.

Overall, we feel good about our financial position and core strength of our customers. We are controlling everything under our control including being conservative on CapEx, keeping costs down and keeping our liquidity up. For now, we are confident longer term but being very careful and cautious.

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

Please give us more color about weaker memory demand in Q4? Then could you comment about when inventory digestion could be down to healthy level? And 2023 outlook?

SJ Cheng

As you know, for commodity DRAM, due to softer PC demand and high inventory, customers are conservative for more wafer loading in assembly. NAND and low density NOR Flash are still suffering from lower market price and higher inventory level. However, automotive and Industrial demand is relatively more stable than other applications. Based on customers' feedback, after Chinese New Year and 2H23 are two check points for inventory digestion. Overall, 2023 will really depend on how soon the inventory correction could be completed. As the market situation becomes more clear, we will update our outlook and plan on our future earnings calls.

Jerry Su

Could you give us more color about how the mentioned two check points of inventory correction correlates to your business performance outlook?

SJ Cheng

Firstly, if we see the wafer foundry UTR starting to decline as well, it means we are approaching the bottom. Secondly, if we see our wafer bank starting to decline as well, it means our business is recovering.

Operator

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

Stanley Wang



Please help us to break down non-operating income for the quarter?

Silvia Su

Net non-operating income in 3Q22 was NT\$ 403 million. This mainly comes from foreign exchange gains, around NT\$ 300 million, and from the share of profit of associates and joint ventures accounted for using equity method of around NT\$ 100 million.

Stanley Wang

Please give us more color about how the UTR change correlates to your gross margin rate?

Jesse Huang

It really depends on product mix instead of average UTR.

Stanley Wang

In the past period, your company expanded capacity based on customers' long term agreements. Could you give us more color about the execution of the agreements?

SJ Cheng

We are closely monitoring and managing those agreements. For some expiring agreements we will review with customers then.

Stanley Wang

Please comment about your dividend policy under current recession period.

SJ Cheng

In order to cope with the recession and to reserve more cash on hand, we will review it closely.

Stanley Wang

So, the dividend policy would likely be by stable dividend or by dividend yield?

Silvia Su

The dividend policy would be by dividend yield, about 40~60% range in the past.

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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