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AMKR - Q2 2013 Amkor Technology, Inc. Earnings Conference Call

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OVERVIEW:

Co. reported 2Q13 sales of \$746m. Expects 3Q13 revenues to be up more than 6% YoverY and flat sequentially and EPS to be \$0.04-0.13.



CORPORATE PARTICIPANTS

Greg Johnson *Amkor Technology, Inc. - Senior Director IR & Corporate Communications*

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Chad Dillard *Deutsche Bank - Analyst*

Suji DeSilva *Topeka - Analyst*

Terence Whalen *Citigroup - Analyst*

Jeff Harlib *Barclays Capital - Analyst*

Alex Kotsubey *EOS Partners - Analyst*

PRESENTATION

Operator

Hello and welcome to the Amkor Technology Second Quarter 2013 Earnings Conference Call. My name is Lily and I will be your operator for today's call. At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. This conference call is being recorded today, Monday, July 29, and will run for up to one hour. I would now like to turn the call over to Greg Johnson, Senior Director of Investor Relations and Corporate Communications. Mr. Johnson, please go ahead.

Greg Johnson - Amkor Technology, Inc. - Senior Director IR & Corporate Communications

Thank you, Lily. Good afternoon, everyone. With me here today are Steve Kelley, our President and Chief Executive Officer, and Joanne Solomon, our Chief Financial Officer.

Before we begin, let me remind everyone that there will be forward-looking statements made during the course of this conference call. These statements represent the current view of Amkor management. Actual results could vary materially from such statements. Prior to this conference call, Amkor's second quarter 2013 earnings release was filed with the SEC on Form 8-K. The earnings release, together with Amkor's other SEC filings, contains information on risk factors, uncertainties, and exceptions that could cause actual results to differ materially from Amkor's current expectations. With that, I'll turn the call over to Steve.

Steve Kelley - Amkor Technology, Inc. - President & CEO

Thanks, Greg. Good afternoon, everyone. I'm pleased to be with you today on my first call as President and CEO of Amkor Technology. On today's call, I will discuss my initial impressions of Amkor, as well as Amkor's priorities moving forward. I will then cover our second quarter performance and third quarter expectations. After Joanne discusses our financial performance in more detail, we'll open up the call for your questions.

First, I'd like to say a few words about why I chose to join Amkor. I was an Amkor customer for many years. As a customer, I was impressed by Amkor's technology, its execution, and its attention to detail. Many of the customers I've visited over the past three months have expressed similar thoughts about the Company. When I received a call regarding the Amkor CEO job, I was quick to express interest. Over the course of many meetings with Amkor's Board of Directors and particularly with Executive Chairman, Jim Kim, it became apparent there was a good match between my skills and experience and the challenges at Amkor. Since joining the Company in May, I have been working closely with the management team and with our customers to assess Amkor's business and operations. Overall, I believe Amkor is well-positioned. We are investing in the right technologies and in the right end markets. I'm very optimistic about our long-term prospects for revenue growth and improved profitability.



Clearly, Amkor's financial performance needs to improve. Although there have been some gains in the first half of this year, revenues and profits over the last several years have been relatively flat. Our capital intensity and depth have increased due to heavy investments in advanced technology. Although these investments have constrained cash flow, they are fueling our success in high-growth markets; particularly mobile communications. My primary focus, at this point, is driving better top line performance. First, by expanding our business in advanced packaging and test, where we typically generate gross margins better than corporate average. Second, by doing a better job growing our mature lines, where increased utilization is the key to improved profitability and also, focused on improving factory efficiency and cost levels. A dedication to high quality, a continuous cost reduction mentality, and a drive for operational excellence will be the keys to our success in the efficiency and cost areas.

Amkor has many competitive advantages. We are a technology leader. We have excellent engineers. We have strong relationships with our customers and we have an excellent network of Asia-based factories. Amkor leads the industry in developing and commercializing advanced packaging technologies. Demand for small, thin packages containing multiple chips is being driven by the mobile communications industry. In addition to saving space, these tiny packages help improve system performance, lower power consumption, and reduced system cost.

Amkor's success in the smartphone and tablet markets is broad-based. We package and test nearly all of the key integrated circuits inside a mobile device, including applications processors, memory chips, power management ICs, MEMS sensors, and communication products. In addition to products for mobile communications, we also develop innovative solutions for other growing markets; including the automotive, networking, and industrial markets. As a result of this focus on technology leadership, Amkor has captured the largest share of the FlipChip and wafer level chip scale packaging market. Today, we are working closely with many customers to develop cost-effective, 2.5D and 3D packages. In addition, we are ramping fine pitch copper pillar and wafer level CSP technologies in multiple factories.

The increased capital investment required by today's FlipChip and wafer level packaging technologies limits the number of companies who can effectively compete. Only companies with strong technical and financial resources can deliver high-quality, leading-edge products in high volume. Amkor is one of those companies. Over the past three months, I have visited most of our top customers. Clearly, Amkor has deep ties and long-standing relationships with many successful chip companies.

Within our IDM customer base, the trend towards increased outsourcing seems to be accelerating. Essentially, it is becoming more difficult for IDMs to justify building incremental internal capacity when that same capacity is already available at companies such as Amkor. Amkor is a great choice for IDM, since we can provide the levels of service, quality, and reliability, which they have come to expect from their internal factories. Fabless chip companies account for more than half of our business today and I believe that we can make further gains in this fast-growing fabless market. First, by growing market share at customers where we have a solid foundation today. Second, by casting our net a bit wider and expanding our business with other fabless customers where we are not currently a significant player.

We may also grow through select investments and acquisitions. Two current examples are J-Devices, our joint venture in Japan, and pending acquisition of Toshiba's Malaysia-based power discrete factory. I've visited all of our factories over the past three months. They are impressive facilities with the scale, capability, and technical competence our customers demand. They are strategically located throughout Asia. Our focus will be on improving operating efficiencies and reducing cost in each of those factories. Please keep in mind that these are just my initial assessments and I still have work to do to identify all of the untapped value at Amkor. Now, I'd like to discuss the second quarter.

Financial results were generally in line with our expectations, with revenues up more than 8% sequentially and year-over-year. Gross margins improved by 180 basis points quarter-on-quarter and by 110 basis points year-over-year. Sales into the mobile communication market grew approximately \$125 million year-over-year, or 42% growth. Sales into the automotive and industrial markets grew about 10% year-over-year. In April, we increased our ownership interest in J-Devices, our joint venture in Japan, to 60%. As the largest OSAT in Japan, J-Devices is in a unique position to help drive market share gains with Japan's chipmakers as they transition to an asset-light model.

(inaudible) work for our new K5 factory and RD center in South Korea is progressing well. We recently broke ground for the complex and expect to begin construction at the end of this year. Our objective is to make K5 the world's most efficient, advanced packaging and test facility, the world's premier center for packaging R&D and a magnet for talented engineers and scientists.

Looking ahead to the third quarter, our revenues are expected to be up more than 6% year-over-year, but flat sequentially. Some of our customers are adjusting their inventory levels due to a recent slowing in the smartphone market. In light of these developments, we are lowering our estimate of 2013 capital additions from around \$525 million to around \$450 million. Although the smartphone market slowdown has reduced our expectations for the third quarter, we remain very confident in the strong growth prospects for mobile communications. Third quarter gross margin is expected to be in the range of 16% to 19%. We anticipate earnings per share to be between \$0.04 and \$0.13. We expect to complete our planned acquisition of Toshiba's Malaysia-based power discrete factory in the very near future. We will leverage the technology and scale of this new factory to attract leading power discrete customers to Amkor.

In closing, I'm very excited about what lies ahead. We have a lot of work to do and it will take some time to improve our financial performance. That said, we are well-positioned with solid investments and the right technologies, customers, and end markets. I'm very optimistic about our long-term prospects for revenue growth and improved profitability. With that, I will turn the call over to Joanne.

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

Thank you, Steve. Good afternoon, everyone. To begin, second quarter sales of \$746 million increased more than 8% over the second quarter of 2012. FlipChip and wafer level packaging sales grew 24% and test sales were up 31%, driven by our strong position in mobile communications. Wirebond sales were down 9%, due to declines in the consumer electronics and computing end markets, partially offset by strength in NAND memory and automotive products. The declines in consumer electronics were, in part, due to decreased sales from gaming. Our packaging for the CPU and GPU gaming chips largely ended in 2012. We continue to package and test other peripheral devices for gaming consoles and our 2013 revenues have reset to this new run rate.

In the computing end market, our 2012 sales benefited from incremental demand from customers whose supply chains were disrupted by the flooding in Thailand. Gross margin of 18.5% was an improvement of 110 basis points over our adjusted gross margin in the second quarter of 2012. Leverage from higher sales drove the improvement. Our operating expenses of \$80 million were up from \$74 million in the first quarter and consistent with our expectations. The sequential increase includes cost and expenses related to the possible Malaysia factory acquisition and our CEO succession. We expect operating expenses to be around \$80 million in the third quarter, as we anticipate incurring some additional costs for the Malaysia transaction.

Our equity pickup for J-Devices was \$1 million in the second quarter. During the second quarter, we increased our ownership interest in J-Devices from 30% to 60% and J-Devices completed its acquisition of three packaging and test factories from Renesas. J-Devices had lower customer demand during the quarter, as well as increased costs related to these acquisitions and ongoing integration efforts. These factories constrained J-Devices profitability and reduced our equity pickup during the period. We had a \$10 million net tax benefit in the quarter driven by a \$15 million benefit from two discrete tax items. For the third quarter, we expect an effective tax rate of around 25%. For the full year 2013, we expect effective tax rate of around 10%; reflecting the benefit of these discrete items.

Our capital additions were \$283 million in the first half of the year and around \$170 million remains to be spent in the second half. We may adjust this number up or down, should our expectations for customer demand in the second half of the year change. Moving on to our liquidity and capital structure, at June 30, we had \$636 million in cash and total debt of \$1.7 billion. We have \$555 million in available and revolving credit lines and undrawn secured term loans. We anticipate drawing less than \$100 million under these facilities in the second half of the year. During the quarter, we took advantage of favorable conditions in the capital markets to raise additional funding. The \$225 million addition to our senior notes due 2022 provides resources for our investments and initiatives.

We also completed a tender offer for our convertible senior subordinated notes due 2014 and exchanged approximately \$194 million of these notes for approximately 64 million shares of our common stock and a cash payment of \$12 million. The cash payment was equivalent to the remaining coupons for the tender notes and was recorded as a charge to our second quarter earnings. We expect to close on our acquisition of Toshiba's Malaysia factory shortly. Our guidance does not include the revenue or net income associated with these operations. We expect average monthly revenues for this operation to be around \$15 million in the near term, with around a 5% net income margin under the terms of our cost-plus supply arrangement with Toshiba.

In summary, as Steve discussed, we are well-positioned with solid investments and the right technologies, customers, and end markets and are optimistic about our long-term prospects for sales growth and improving profitability. With that, we will now open up the call for your questions.
Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Vishal Shah, Deutsche Bank.

Chad Dillard - Deutsche Bank - Analyst

This is Chad Dillard on the line for Vishal. I just wanted to get a little bit more clarity into your guidance for the third quarter. I know you don't break out individually for the end segments, but if you could just give any detail on what your thoughts are on the outlook, that'd be helpful.

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

With respect to the guidance for the third quarter and the end markets, we're taking a close look at the mobile communication space and understanding the inventory correction. Mobile communications continues to be a big part of our results and would continue to be a big part of results for Q3. We are seeing some modest improvement in consumer and computing, as a result of some design wins and some seasonable improvement. But it's sequentially, an expected decline in communications, but it will still be the biggest piece of the pie.

Chad Dillard - Deutsche Bank - Analyst

Great. Also, with 3D NAND coming down the pike and then also, since that, how are you positioning to take advantage of some of these transitions with a potential change in packaging architecture?

Steve Kelley - Amkor Technology, Inc. - President & CEO

This is Steve. I'll take that question. I think we're actually very well-positioned. If you take a look at our market share in advanced packaging, we're number one. We continue to invest heavily in advanced packaging in a couple different ways.

The first way we do it is, we invest heavily in R&D. We work closely with the leading customers, particularly in the mobile communication space, to design cost-effective packaging. The second way we do it is we invest in advanced packaging and test capacity. We're basically building upon our learnings already. We're well down the curve in advanced packaging and I think we're leading the way as the industry transitions to 2.5D and 3D technologies.

Chad Dillard - Deutsche Bank - Analyst

If I could squeeze one more in. I know it's a little bit early, but maybe you could provide some of your initial thoughts on your outlook for 2014 from a revenue perspective, as well as a CapEx perspective, if you can?



Steve Kelley - Amkor Technology, Inc. - President & CEO

I can't give specific guidance on 2014, but I can give you some general thoughts. I think mobile communications will continue to drive our business, both on the top line as well as from an investment standpoint. My expectation is that we'll continue to invest heavily in new packaging technology and capacity, as well as in new test platforms because these investments are critical to our growth. They're necessary to engage with key customers in the mobile communications segment. That's where I think we're going. I think sales will grow significantly next year, because I think mobile communications will, after a short hiccup here, will go back to its growth curve. I think Amkor should benefit quite a lot from that mobile communications growth.

Chad Dillard - Deutsche Bank - Analyst

Thank you.

Operator

Suji DeSilva, Topeka.

Suji DeSilva - Topeka - Analyst

First of all, Steve, you talked about expanding share in some customers where you have low share today. Can you specify what end markets or products or [geos] those customers might be in, just to understand that?

Steve Kelley - Amkor Technology, Inc. - President & CEO

They're in a variety of geographies, but I think I've talked to some already in the US, where, for various reasons, we don't have much penetration today. There are also number of companies in Asia where we haven't focused in the past. I think with the investments we've made, particularly in the mobile communication space, we have the opportunity to engage with more customers today and we need to focus more on the second wave of customers so that we can ensure that our capacity utilized for many years.

Suji DeSilva - Topeka - Analyst

Okay great. With J-Devices increasing their share ownership there, can you talk about the demand trend in Japan? Are you seeing near-term softness that might impact your results or is that something that the demand environment is relatively stable over there?

Steve Kelley - Amkor Technology, Inc. - President & CEO

I think the demand environment is relatively soft in Japan. There are a lot of companies that are undergoing restructuring, they're changing their strategic priorities. J-Devices is essentially a roll-off play, where they've purchased a number of assembly and test factories from Toshiba, Fujitsu, and Renaissance. To drive more profitability, J-Devices needs to bring supply and demand into balance, so they're looking at ways to bring more demand into their factories and also reducing their fixed costs. If I look at some bright spots in the Japan area, one bright spot that we participate in is in the NAND flash business, in the memory business, with Toshiba. That business continues to be very robust. Obviously, a lot of penetration into the cell phone market, the smartphone market, as well as in (inaudible) drives.

Suji DeSilva - Topeka - Analyst

Last question, for Joanne, can you talk about the utilization by the different package types and the trends there? Thanks.

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

When we look at our utilization number in our press release, we give some aggregate numbers for packaging and tests. Packaging, we said, for the quarter is at 85% and test is at 81%. When you break it down further between advanced technologies and then some of the more mature technologies, we tend to run at higher utilization levels on the packaging side than we do in some of the more mature areas. We're seeing some improvement in the more mature areas as we continue to do better in things like automotive. That's helping drive utilization. When we look at, on the advance side, we've made very heavy investments in support of mobile communication. With the inventory correction late in June, we started to see some capacity opening up on the advanced.

Suji DeSilva - Topeka - Analyst

Thank you.

Operator

John Pitzer, Credit Suisse.

Unidentified Participant - - Analyst

[Sirhan] (inaudible) asking question on behalf of John. Can you talk about the CapEx split between the FlipChip and wirebond in this year?

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

Yes, when I look at the CapEx breakout of the \$450 million, the majority of it will go into packaging about 55%, test is about 30%, and facilities and infrastructure is 15%. Test was higher last year at 40% of the total spend because we saw some tester migrations from one platform to another in our leading mobile communications customer.

Unidentified Participant - - Analyst

Between the packaging, how is it split between advanced packaging and wirebonding?

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

We do have some investment in the wirebond front; I'll highlight two areas with respect to wirebond. As Steve mentioned, we're doing extremely well in the memory space, so we are seeing some investment in support of the stacked packaging that's heading into memory, so there's some wirebond spend there. There's also some spending in the more mainstream lead frame packages to drive cost reductions as we advance to wider strip sizes and some copper wirebond migration. I would say the majority of the spend, if you consider the memory packages are very complicated and [advance is heading into advance].

Unidentified Participant - - Analyst

Okay. In terms of your units, if I look at units for wirebonding, they were up quite a bit. On the FlipChip side, I noticed there seems to be a significant decline in ASP's, just like if I look at the revenue growth and your unit growth, your unit growth is much higher. Can you just talk about what's driving those changes, like on wirebond and the sequential growth is very strong if I look historically, it's not been that strong in any of the prior quarters.

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

Yes, on the advanced side, there has been a product shift mix that's going on. We're seeing a lot more adoption of the wafer level CSP packages and is very high units and in comparison, that's what's driving down the ASP on the advanced side. We're just doing great on that side heading into mobile communications and the wafer level processing side, so that's shifting around the ASP a bit. On the wirebond side, we're seeing strong unit growth from memory and we're also seeing strong unit growth on the lead frame side supporting automotive.

Unidentified Participant - - Analyst

Got it. That's all I have. Thank you.

Operator

Terence Whalen, Citigroup.

Terence Whalen - Citigroup - Analyst

Congratulations and welcome to Steven. The first question that I had was regarding the wirebond market. It's obviously an area where you have participated a little less than you'd like and are having efforts to recall back some market share in that market. Joanne, I think you alluded to automotive and memory being some conduits to do that and to reestablish yourself in a firmer position with wirebonding. Can you just provide us a higher-level understanding of where you are and what inning you are in terms of regaining progress in that market? What initiatives you have, specifically, and what timeframe we can expect for you to feel like you're in a firmer place than wirebond? Thanks.

Steve Kelley - Amkor Technology, Inc. - President & CEO

This is Steve. Let me make a few comments about wirebond. We started a program last year to basically do a better job of filling our lines, our mature lines; many of which are in the Philippines. That effort is starting to bear fruit. We still have a ways to go. I think, when you look at wirebond, it's all about utilization. But there are certain limits, there isn't too much pricing power in the wirebond market, there are too many competitors.

That being said, that means you need to get more efficient and for us, that largely boils down to capacity and making sure we utilize that capacity. We're working on bringing business into the Philippines factories that is foundational. That doesn't vary to the same degree as the mobile communications market, for instance. We're looking at automotive, we're looking at industrial applications, we're looking at smaller customers and larger customers to help us build a nice base there that we can count on in good times and bad.

Terence Whalen - Citigroup - Analyst

Okay, thanks. My follow-up, then, is in terms of the timing of how the quarter developed, I think that you alluded earlier to seeing sort of late June mobile inventory correction. Can you just help us understand a little bit more context of that; maybe the timing of when you began to foresee softness develop through the magnitude and how things have played into July, perhaps, as well? Thanks.

Steve Kelley - Amkor Technology, Inc. - President & CEO

I'd be happy to. What we saw basically was that our largest mobile communications customers began to adjust their forecast in June. That spurred us to reconfirm our forecast with the rest of the mobile communications customer base. The results of that survey, together with (inaudible) judgment resulted in this flat forecast we have for Q3. As Joanne mentioned, the reductions in the communications demand were partially offset by increases in other areas; in particular, computing and consumer. That's where we're at. We have already installed equipment to support a higher



Q3 forecast in the advanced areas, so we do have upside capacity available should the smartphone market pick up more quickly than we currently forecast this quarter.

I'll to you what we're doing though, maybe one more comment. I think it's important that you know that Amkor is going full speed ahead even in a slow quarter. This basically offers us an opportunity to accelerate our new product builds for customers. We have extra capacity to deal with new products. We're accelerating cost reduction programs and we're aggressively addressing efficiency issues. We're staying pretty busy and we're taking advantage of the temporary slowdown in demand.

Terence Whalen - *Citigroup - Analyst*

Stephen, maybe just to understand that point a little bit more clearly, are customers still reducing forecasts or have things stabilized or have you seen any improvement from run rates earlier in July?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

I can tell you, at this point, it seems to have stabilized. Once it rippled through the system from a couple large end customers, we seem to be on an even keel for the past couple of weeks.

Terence Whalen - *Citigroup - Analyst*

My last question was just to understand the copper pillar market a little bit more clearly. What's the total opportunity there and how do you feel like your position versus a couple of your competitors, when will copper pillars surpassed the size of maybe the solder bumping market?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

That's a great question. I think copper pillar is very important technology; particularly for the mobile space, for tablets and for cell phones. Amkor is leading there; we invented it, basically. We've installed it and are ramping it in three different geographies. We have the most capacity, we have the highest share on the copper pillar market and I think you'll see, over the next two years, that it basically takes over as the dominant technology for smartphones and tablet.

Terence Whalen - *Citigroup - Analyst*

Maybe just to understand that a little bit better, as customers begin to release designs on newer nodes of technology like 20-nanometer planer and 60-nanometer thin sets, are you pretty confident that those types of chips will be using copper pillar, then?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

Yes. In fact, that's really their only choice in most cases. The big advantage for copper pillar is you can squeeze more bumps into the same amount of space and the geometries at 20-nanometers and below demand a copper pillar approach. I don't think you can get there with conventional technology. At least, you can't get there easily.

Terence Whalen - *Citigroup - Analyst*

What will your share be, do you think, of that market as it develops next year? Will it be similar to your current share in wafer level packaging or will you attain higher market share in that market?



Steve Kelley - *Amkor Technology, Inc. - President & CEO*

I would hope to have market share at least as good as what we have today, if not better. It's very difficult to predict, though.

Terence Whalen - *Citigroup - Analyst*

Okay, fantastic. Thank you so much.

Operator

(Operator Instructions)

Jeff Harlib, Barclays.

Jeff Harlib - *Barclays Capital - Analyst*

Can you just update us on the pricing environment for advanced and lead frame packaging? Are you seeing any pressure or is it pretty stable?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

Can I make two comments? I'll make a comment on the wirebond part and then I'll make a comment on the advanced part. I think in the wirebond area, there's a lot of competition and that's why it's the most margin-challenged part of our business. It's just a fact of life. We're focusing on quality service and keeping our lines full to move our margin up there. I think the advanced packaging and test side is more interesting. What makes that part of the business different is you need a lot of money to play there.

That essentially limits the number of competitors. You also need very good engineers and operations people, which narrows the field even more. Basically, with a limited set of competitors, I would say that pricing is competitive, but rational in this part of the market. Because a lot of the focus for the players in the top end of the market is on return on investment, the payback time. Because these are major investments that Amkor is making and some of our competitors are making.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, that's helpful. Maybe just an update on 2014 CapEx related to the K5 facility? I know you said you're spending \$140 million this year, what it looks like in 2014 and when should it be completed? Also the cost of the Malaysian acquisition that you expect to close on?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

Why don't I handle the capital part of it and I'll turn the Malaysian commentary over to Joanne. On the K5 factory, we are still in that planning phase on that project. I'll be able to tell you more in our next conference call. But we need to do more work there to understand exactly how we're going to build that factory and that complex. We're in that process today.

Joanne Solomon - *Amkor Technology, Inc. - EVP, CFO*

On the Malaysian acquisition, with respect to the acquisition of the shares, it is a stock deal. It's going to be around \$60 million to \$65 million. It is subject to a purchase price adjustment and then we also expect to enter into an IP licensing arrangement as well.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. Lastly, do you have exposure on meaningful exposures to the Chinese handset companies given the expected growth in emerging markets and their position?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

I think that's been an area of weakness for us, quite frankly, in the past. But I can tell you, over the past six to nine months, we've had focused more intently on that area. We have some wins in that area with some of those customers, but I would classify the Chinese and Taiwan mobile communications IC vendors as an area of opportunity for Amkor.

Jeff Harlib - *Barclays Capital - Analyst*

Great. Thank you.

Operator

Alex Kotsubey, EOS Partners.

Alex Kotsubey - *EOS Partners - Analyst*

Piggybacking on the previous question, there's been a lot in the press that the low end side of the smartphone market is growing pretty well. I'm just wondering if that's what you're seeing as well? Also, what kind of exposure you have to that versus the high end side of the smartphone market?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

I think that, if you look at where we sell into, it's mostly into the mid-tier and high end of the market, those are our customers and that's where with they sell into, primarily. But our customers are also moving into the low end, so we're participating with them as they move into that part of the market. I would say we're not real exposed today, but we expect to be more exposed to that market in the coming 12 months.

Alex Kotsubey - *EOS Partners - Analyst*

Got it. Maybe drilling more into that, is that also why you're seeing the slow down in some of your smartphone exposure this past quarter? Because the high end side is underperforming or is that just something that we're hearing?

Steve Kelley - *Amkor Technology, Inc. - President & CEO*

There's a lot of chatter, but I've seen a lot of commentary that the entire smartphone market's slowing down a little bit, not just the high-end part. I think the markets tend to get ahead of themselves and you go through these minor inventory corrections and then you get back on track again. I believe both the high end and the other tiers in the smartphone market are driven by applications, new applications that offer people a reason to go buy a new phone and they're also driven by normal upgrade cycles. Most people in the developed world are still buying new phones every two years because they're subsidized plans. That hasn't changed.



Alex Kotsubey - EOS Partners - Analyst

What is it, in your view or maybe something your customers have expressed to you as you do these surveys, what is it that's causing this temporary inventory correction right now?

Steve Kelley - Amkor Technology, Inc. - President & CEO

I'm just speculating. I'm not a market expert, but I would say there's been a lack of complying features in the past month and hopefully, with new phones coming out in the fall, that situation will change.

Alex Kotsubey - EOS Partners - Analyst

Got it. I know last quarter you didn't really want to elaborate on the Apple opportunity with the shift to TSMC. Now that has become more publicized, do you have any more color on what that might do for your industry?

Steve Kelley - Amkor Technology, Inc. - President & CEO

I can make a few comments. First, I want to say we are a leader in the mobile communications market. It's our biggest end market and it's going to get even bigger for us next year into 2015. I expect to grow our share of the mobile communications market in each of the next three years. I can't comment specifically about Apple. While I can't do that, I can say that generally speaking, I am very pleased with our wins and with our progress in the mobile communications space.

Alex Kotsubey - EOS Partners - Analyst

Okay. With the Apple shift happening, if it does happen, do you expect that to soak up some of the excess capacity and maybe help firm up pricing? Or do you think there's capacity coming online to accommodate that move anyway?

Steve Kelley - Amkor Technology, Inc. - President & CEO

I can't really offer too much more commentary on the Apple and what Apple intends to do.

Alex Kotsubey - EOS Partners - Analyst

Okay. Thank you very much.

Operator

[Eric Rubell], Stifel Nicolaus.

Unidentified Participant 2 - - Analyst

Steve, one quick question for you. You talked about building a stable foundation of industrial and automotive customers for the Philippines, part of the lead frame operation. You guys are doing a fantastic job on advanced, absolutely, but in order for the margins to really excel across the enterprise, the lead frame is a critical driver for that. Question about building that stable portfolio of customers, is that tied to the deeper penetration that you're making in Japan? How should we be thinking about timing for that to rollout?

Steve Kelley - Amkor Technology, Inc. - President & CEO

I think your question is really focused on profitability and margins, because wirebond is certainly a part of that. I think that probably the most important thing to keep in mind is product mix. I think what you'll find is that our product mix will continue to skew towards advanced packaging and test. Right now, if you look at our sales in Q2, close to 60% of our business is an advanced packaging and test; both of which average gross margin performance.

Unidentified Participant 2 - - Analyst

Right.

Steve Kelley - Amkor Technology, Inc. - President & CEO

It will continue to get bigger, but as we look at the mature lines, it's a consolidation strategy. We're trying to fill the Philippines, we're using J-Devices to help the Japanese customers build a cost-effective supply chain within the country of Japan. I think we can make money in both operations, in the Philippines and in Japan, through J-Devices. But again, it's a capacity utilization equation. You need to bring supply and demand into balance to keep it there.

Unidentified Participant 2 - - Analyst

Great. A quick follow-up for you, Joanne, on the credit lines that you outlined, could you just go through the \$550 million of available capacity or correct me to make sure I heard that correctly? Thanks.

Joanne Solomon - Amkor Technology, Inc. - EVP, CFO

That's right. It's \$555 million. We have about \$225 million of revolving credit facilities, of which \$150 million is the US line. The balance is about \$330 million of undrawn secured term loans, largely in Korea. Those lines are there to help support the investments in 2014. The construction of K5 and capital equipment.

Unidentified Participant 2 - - Analyst

Okay. Thank you.

Operator

(Operator Instructions)

Mr. Kelley, there are no further questions at this time. Please continue with your closing remarks.

Steve Kelley - Amkor Technology, Inc. - President & CEO

I just want to thank everybody who participated on the call today. I look forward to talking to you again in three months.



Operator

Ladies and gentlemen, this concludes the Amkor Technology Second Quarter Earnings Conference Call. If you'd like to listen to a replay of today's conference, please dial 800-406-7325 and enter access code 4626101. ACT would like to thank you for your participation, you may now disconnect.

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