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AMKR - Q3 2015 Amkor Technology Inc Earnings Call

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OVERVIEW:

Co. reported 3Q15 revenues of \$734m.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology third quarter 2015 earnings conference call. My name is Lateef, and I will be your conference facilitator today.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the call over to Greg Johnson, Senior Director of Finance and Investor Relations. Mr. Johnson, please go ahead.

Greg Johnson - Amkor Technology Inc - Senior Director, IR & Finance

Thank you, Lateef, and good afternoon, everyone. Joining me today are Steve Kelley, our President and Chief Executive Officer, and Joanne Solomon, our Chief Financial Officer. Our earnings press release was filed with the SEC this afternoon and is available on our website.

During this conference call, we will use non-GAAP financial measures. And you can find the reconciliation to the US GAAP equivalent at our website. We will also make forward-looking statements about our expectations for Amkor's future performance, based on the environment as we currently see it.

Of course, actual results could be different. Please refer to our press release and other SEC filings for information on risk factors, uncertainties and exceptions that could cause actual results to differ materially from these expectations. Please note that the financial results discussed today are preliminary, and final data will be included on our Form 10-Q.

Now, I would like to turn the call over to Steve.



Steve Kelley - Amkor Technology Inc - President & CEO

Good afternoon, and thanks for joining the call. Today, I'll discuss our third-quarter results, our fourth-quarter outlook, the status of our key growth initiatives and industry trends.

Third-quarter revenues were at the higher end of our expectations, and roughly flat to Q2. Mobile communications and automotive revenues were slightly better than expected.

Third-quarter profit beat expectations, helped by favorable exchange rates and a richer product mix. Earnings per share increased \$0.08, sequentially, and we generated \$37 million in free cash flow.

As we move into Q4, the overall semiconductor market remains sluggish. In general, our customers are controlling the inventory levels due to a challenging economic environment. While it's been a disappointing year for the semiconductor industry and for Amkor, as downturns, go this one has been relatively mild.

Our focus this year has been to grow share and win new designs. So that we emerge from the downturn a stronger Company with a more diversified customer base and more opportunities to grow.

Revenue growth continues to be our key objective. Since it offers the best opportunity to improve margin, free cash flow, and earnings per share.

We're tightly controlling CapEx and working capital in line with the demand environment. Accordingly, we've reduced our 2015 CapEx plan by another \$25 million, and are now projecting to spend roughly \$525 million this year, including \$150 million for K5 construction. We expect to be cash flow positive this year.

Now, I'll discuss some of our key growth initiatives. This quarter, we will exercise an option to increase our ownership stake in J-Devices to 80%. We will begin consolidating their financial results and 2016, adding roughly \$200 million per quarter to Amkor's top line.

This consolidation will improve our free cash flow and EBITDA performance. And cement our position as the world's second largest OSAT, well ahead of the next two players.

Our integration activities with J-Devices are progressing smoothly. As part of those efforts, we're working closely with J-Devices to broaden their customer base, particularly in the area of automotive ICs.

An example of J-Devices strength in automotive was the decision by Renesas to transfer most of its Singapore-based automotive microcontroller production to J-Devices factories. That transfer began this year, and will be completed in 2016.

The automotive market is a key area of strength for Amkor, as well. Together with J-Devices, we are the leading OSAT for automotive ICs, with roughly \$750 million in combined revenues in 2015.

Automotive IC makers appreciate Amkor's execution, quality and reliability. Our geographic and financial stability are also strong positives.

We continue to focus strongly on growing our business in greater China. Through the first nine months of the year, our greater China revenues were up 37% year-on-year. During the third quarter, we saw an increase in design and qualification activity by customers in the region.

To further accelerate our progress, we've established a greater China business unit, and tapped one of our senior executives to lead it. This focused marketing and business development team will complement our dedicated sales team, who are primarily located in Shanghai, Beijing, Shenzhen and Taipei.

The expansion of our Shanghai factory will be completed in mid-2016. Cleanroom space will expand by nearly 50% to a total of roughly 600,000 square feet.

We will serve international and local customers, with a heavy emphasis on wafer level packaging, 8- and 12-inch wafer bumping, stacked die packaging and advanced test services. We will be one of the first OSATs to offer 12-inch bumping in China, with production ramping up in the first half of 2016.

Our system and package, or SIP business, is gaining significant traction. Particularly for high value-added RF, and front-end applications. These SIPs essentially collapse a circuit board onto a substrate, and contain up to 75 active and passive elements.

These products demand a variety of high precision assembly technologies, which plays to Amkor's strengths. We've built these RF and front and SIPs at our K4 manufacturing plant in Qwangju, South Korea. We believe that Amkor is now a leading supplier of RF and front-end SIPs.

K5, our new R&D manufacturing facility in South Korea, will be our center for advanced wafer level SIP technologies such as swift and slim. These technologies will enable our customers to build very thin, very small products, combining processor, memory and other prophylaxis.

This package and module level integration is vital, as the economics of advanced silicone nodes become more and more challenging. And the Demand for thin form factors continues to increase.

Finally, I would like to comment on the rapid consolidation currently happening in the chip industry and its impact on Amkor. First, we view consolidation of our customer base as a good thing for Amkor. In general, larger customers want to deal with larger OSATs.

Amkor is a one-stop shop for these larger customers. In addition to technology, execution, high quality and a competitive price, Amkor offers these larger merged companies geographic stability and the ability to invest in advanced technology.

All of our tier 1 OSAT competitors are currently engaged in merger and acquisition activity creating a cloud of uncertainty and risk. From a customer perspective, the OSAT industry is a bit less stable than it used to be.

In the midst of this turbulence, Amkor is positioned as a stable and reliable choice. We're focused on growing our business by keeping our customers happy, as well as by out executing and out innovating our competition. We like our competitive position going into 2016.

Joanne will now provide more detailed financial information.

Joanne Solomon - *Amkor Technology Inc - CFO*

Thank you, Steve, and good afternoon, everyone.

Third-quarter revenues of \$734 million were flat sequentially. Our gross margin of 17% increased 160 basis points sequentially, and exceeded our expectations. Largely due to favorable exchange rates and a richer mix of assembly and test services.

Our foreign currency exposure stems from the mix of our revenues and expenses. Around 95% of our revenues and 65% of our cost of sales and operating expenses are denominated in US dollars. The remaining portion of our cost of sales and operating expenses are principally denominated in Asian currencies, where protection facilities are located, and largely consist of labor and utilities.

We also have monetary obligations that are denominated in foreign currencies. Principally, our severance plan in Korea and our construction costs for K5.

This quarter, the dollar strengthened relative to most of our Asian currencies. Particularly, the Korean Won, which drove the beneficial impacts to gross margin and also to earnings.

Operating expenses in the quarter were \$75 million, and we expect our operating expense to remain below \$80 million for the fourth quarter. For the full year, we expect operating expenses to be down around \$20 million, a 6% reduction on lower professional fees and reduced incentive compensation.

Interest expense in the quarter was \$19 million, down from \$24 million in the second order. Last quarter, we redeemed our 7.375 senior notes due 2018 using cash on hand and borrowings under our credit facilities, which bear interest at floating rates tied to LIBOR. Current rates on this new debt are significantly lower and drove the interest expense savings.

We expect the effective tax rate to be around 35% for the full year. The increase in the effective tax rate is driven by minimum taxes in certain jurisdictions.

As a reminder, we currently own 66% of J-Devices. During the fourth quarter, we plan to exercise our option to increase our ownership to 80%. The exercise price is expected to be around \$45 million, and in the transaction is expected to close during the first quarter of 2016.

At that time, we will begin consolidating the results. The consolidation of J-Devices is expected to materially increase our revenue, free cash flow, and EBITDA performance and lower our capital intensity. Our EPS pick up will increase by the 14% incremental ownership change.

We generated EBITDA of \$785 million over the past 12 months adjusted to exclude a litigation charge. On a combined basis, Amkor and J-Devices generated \$870 million of EBITDA over the past 12 months.

At September 30, we had total debt of \$1.4 billion, and J-Devices debt was only \$50 million. On a combined basis, debt to adjusted EBITDA was 1.7 times.

Finally, our liquidity is solid, with over \$400 million in cash and \$300 million in available undrawn loans. We are tightly controlling CapEx and working capital in line with the decreased demand environment. For the first nine months of the year, we generated \$70 million in free cash flow and we expect to be free cash flow positive for the full year.

With that, we will now open the call up for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jairam Nathan of Sidoti.

Jairam Nathan - Sidoti & Company - Analyst

First, I wanted to get an idea on the mix impact. You said that the mix was better.

Can you give us more details on what specifically was better? And is it a kind of package or -- ?

Joanne Solomon - Amkor Technology Inc - CFO

The [enriched] mix had to do with some higher level of test services we did, as well as mobile communications was slightly better than what we had forecast.



Jairam Nathan - Sidoti & Company - Analyst

Okay. Steve, a longer-term question for you. So I know 2016, it's too early to call it. But if I think about the various factors outside of the industry, of macroeconomic factors.

Things like TSMC with their final package, QUALCOMM business with Samsung, and the whole Apple business comes to mind. Can you walk through where Amkor stands on these variables here? And what it could mean for 2016?

Steve Kelley - Amkor Technology Inc - President & CEO

I'd be happy to make a few comments there. For sure, 2016 is going to be a strong growth year for Amkor, given the addition of J-Devices. So that's going to be about \$800 million in revenues for next year.

Now with regards to the various puts and takes, there was some positive things going on for Amkor, many of which I really can't talk about in this call. But certainly, you mentioned a couple of players there in the mobile communications space. I think that on the info side, from TSMC, we continue to work closely with TSMC.

They're a key partner for us, and I anticipate that we'll have some type of wafer level SIP package coming out of both TSMC and Amkor in the coming two to three years. And I think we'll both be successful with it, and we'll work together with them to make sure that we support our customers.

On the QUALCOMM side, I have a lot of confidence that the QUALCOMM will be successful in 2016. They are our biggest customer, we are their biggest OSAT and we work very closely together to develop new packages and get the cost out of those packages. So I think they're very well positioned going into 2016.

Jairam Nathan - Sidoti & Company - Analyst

Okay. That's all I had. I'll come back.

Operator

Randy Abrams of Credit Suisse.

Randy Abrams - Credit Suisse - Analyst

I wanted to follow-up on the fourth quarter, where you're guiding 3% to 10% down. Usually, there's a lift from the flagship smartphone launch.

If you could characterize the 3% to 10% how it compares by end market, and maybe the difference on the flagship launch? If you are still seeing some balance seasonally this year from that part of the market.

Steve Kelley - Amkor Technology Inc - President & CEO

Randy, I will make a few comments, it will be a little subjective. But we did see a little bit of uptick on a flagship launch in September, I think that's why we exceeded our guidance by a small margin. I think some of that demand was, quite frankly, probably pulled from Q4 into Q3.

We're also starting to see some signs that there may be some more flagship revenue on its way, either early next year or late this year. So, we'll have to stay tuned and see what happens there. But there's some positive signs we're seeing from some of our customers.

Randy Abrams - *Credit Suisse - Analyst*

Okay. That's great. A follow-up on that. The first quarter, because now, with the base a bit lower for -- a little bit different timing Q3 to Q4, but based lower in fourth quarter. Normally, seasonality is anywhere from down low single to down low teens.

If you could characterize where we're at, just from how much this is inventory correction and if we are through that, that could help and first quarter? Or if this is more a demand [initiation], and we should expect, say, normal seasonal down where it's still more like high single digit or low teens decline. If you could characterize how demand inventory and the fourth quarter base may affect your outlook entirely next year.

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

Randy, we haven't really gone to that level of detail, yet. We're working this quarter by quarter. It's difficult to predict when the market begins to recover.

I think the comments from TSMC were quite illustrative. I think they basically said that Q4, they are starting to see some real discipline from the customers as they try to reduce inventory. And so that bodes well, I think, for either Q1 or Q2 to strengthen.

I think speaking for Amkor, I see some positive things that will impact the first half of next year. So, we're working hard to limit the damage from any continuing inventory correction.

Randy Abrams - *Credit Suisse - Analyst*

Okay. If you could take a look, you mentioned positive things. I think one was the high-end smartphone that you might get an early build next year.

Maybe if you could talk about a few of the other drivers you are most confident in. Some of the areas you've been expanding like memory or China, or if there's some other opportunities you see for Amkor next year that look promising.

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

Yes. Most of the opportunities that we see that are really going to drive revenue are in the smartphone segment. The smartphones and tablets still account for a little more than half of our revenue.

So we see some positive things happening at the high end, but also at the low end. We've been making some progress in greater China, and I think that will begin to bear fruit next year.

Randy Abrams - *Credit Suisse - Analyst*

Okay. Great. Thanks a lot.

Operator

Atif Malik of Citigroup.



Atif Malik - Citigroup - Analyst

Steve, can you talk about when do you expect to ramp your own SLIM and SWIFT prophecies for Amkor?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes. We're actually running some prototypes through our line today. But the center of excellence for SLIM and SWIFT will be our new factory in Incheon, which we call K5. And we will be running the first [qual] loss through that facility in the second quarter of next year, and we hope to begin running some low rate production in the second half of next year.

So I think you'll see us doing that for a number of customers, particularly in the mobile phone and tablet space. These are the customers who really need thin products, and so this is the best solution for companies that are building their own apps, processors and want to combine other chips into a very small module. I think you'll see it start to take flight next year, and go into full production in 2017 and 2018.

Atif Malik - Citigroup - Analyst

Okay. As a follow-up, Joanne, you mentioned lower capital intensity next year post J-Devices consolidation. How much lower can the capital intensity go? Can you provide a rough range?

Joanne Solomon - Amkor Technology Inc - CFO

I can give some color. With respect to the comment on lower capital intensity, it has a lot to do with adding the \$800 million on top of our revenue base. So that, by definition, will lower it.

But J-Devices is also very much -- it's lower capital intensity. It's in the single digits as opposed to our double digits. So I could see us just being slightly above the current levels, or we'll have to take it quarter by quarter as we see the demand progress.

Atif Malik - Citigroup - Analyst

Okay. Thank you.

Operator

David Duley of Steelhead.

David Duley - Steelhead Securities - Analyst

Could you just give a -- I think you mentioned it, but could you give us an idea about how each segment of, or your end markets, are going to act in Q4? And maybe you've mentioned it, but what should your gross margins do in the fourth quarter?

Joanne Solomon - Amkor Technology Inc - CFO

So with the guidance range on revenues being down 3% to down 10%, all our end markets are going to be impacted by the decline. So I don't expect any significant shift between the percentages of the end markets. So we do expect to see weakness in communications, which is over 50% of our business, I would expect in the fourth quarter, they will still be over 50% of our business.



On the gross margin side, we are right around 15% at the midpoint of our guidance. So we do expect that on the lower demand, that the profitability will go down.

David Duley - *Steelhead Securities - Analyst*

Okay. Great. As far as your CapEx goes, was the outlook for Q4 being down this 3% to 10% and an uncertain March quarter. Why are you still spending so much money this year?

Or do you have a lot of projects that you are lined up that you think the spending path would require to? Have you given a thought about lowering the CapEx even further, I guess, is the question?

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

I think it's important when you look at our CapEx to divide it into two parts. One is the typical capacity related CapEx, which is down, I think, over 42% year on year. So 2014 and 2015, so we've really cut back there.

The other part of the CapEx is our spending on K5, which is a long-term investment. So that's certainly driving a fair amount of spending in 2015, roughly \$150 million and in 2016 it will be roughly \$200 million. That is a pretty big chunk of the overall CapEx.

David Duley - *Steelhead Securities - Analyst*

Got it. A clarification, did you say it was your SIP business that was going to be ramping next year in response to an earlier question?

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

Yes. Let me explain a little bit about our SIP business, because I didn't fully explain our strategy there. First of all, we're looking at high value-added SIPs, where we could leverage our precision assembly technologies and extract some value.

Today in our K4 plan Gwangju, we basically built all of our substrate-based SIPs. And this is the bulk of the market today, almost all of it, in the front end in RF module sector.

But as you move forward, we see another type of SIP, and this basically wafer level type of SiP product, which we're going to build in K5. So our SiP strategy from a manufacturing standpoint centers up in Korea. And if you want a substrate-based chip you go to K4, if you want to wafer level SIP you go to K5.

David Duley - *Steelhead Securities - Analyst*

So the wafer level SIP stuff was what you were referring as growing or starting to ramp up in the middle of next year?

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

That's right. That's correct. The substrate SIPs are the ones that are in full production today and they have been for this year.

David Duley - *Steelhead Securities - Analyst*

Thank you so much.

Operator

(Operator Instructions)

Sean Dixon of Bradford and Marzec.

Sean Dixon - *Bradford & Marzec - Analyst*

A lot of my questions have been answered. I'm not really a technology person, but I've been reading about this fan-out technology and some implications for Amkor. Most of which, it's sort of implied or was suggesting that there could potentially be a hiccup at some point when this technology takes off.

Could you walk us through your thoughts around that? And if you agree or disagree, and how you get around that, and does that have something to do with this K5? How does your K5 facility fit into that fan-out paradigm?

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

Yes, so we can go over the fan-out environment. But I think you are referring to the info packaging from TSMC, primarily.

Sean Dixon - *Bradford & Marzec - Analyst*

Yes.

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

So basically, what I was talking about with the wafer level SiP business, it is the same basic thing, but we do it in a different way. But from a customer standpoint, you're accomplishing the same objective. So yes, that's the way to think about it.

If you take a look at the value of that packaging service, relative to the entire TAM in our segment, we're talking roughly 1% of the TAM next year will be in this info/SWIFT sector. So, it's still -- it's getting a lot of publicity.

It's not very large at this point. But I think as it gets large, Amkor is going to be a full participant, if not the leader, in this technology.

Sean Dixon - *Bradford & Marzec - Analyst*

Will that be -- that will be around your K5 facility? Like your K5 facility can accommodate that as you go along, and you'll be able to add that in? Does TSMC have IP that could potentially be very disruptive and cause Amkor to have problems?

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

I don't think IP is going to be an issue. We have a history of cross licensing in our industry, and in particular between TSMC and Amkor. The last transition was the fine pitch copper pillar bumping transition a couple of years ago.

And they ended up licensing our technology. So I think we need to see how it plays out next year. I think the ultimate winning technology may be some hybrid of their approach and our approach, and we'll probably cross license each other.

That's my best guess at this point. But in any case, I think that you'll end up with at least two or three suppliers of this technology moving forward.

Sean Dixon - *Bradford & Marzec - Analyst*

Okay. Great. Can you talk -- there was some discussion about J-Devices and the capital intensity? Can you just walk us through what -- exactly what -- you mentioned automotive, J-Devices is heavy automotive. Can you walk us through what is the future of J-Devices, and once you bring it online and start -- I guess -- you are probably operating it now.

But what is the future there in terms of capital needs, spending needs? Because you make it sound like it's just going to come online and it's going to bring all this cash flow and all this revenue. But things don't stay static. I'm just curious what your thoughts are around that going forward.

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

Yes. Happy to explain my thinking about J-Devices. First of all, J-Devices is almost entirely a mainstream business, so it's all wire bond and it's about half automotive. So, very sticky business. I think most of the spending that you're going to see out of J-Devices will be in the realm of consolidation.

So J-Devices is a rollup play. It's a collection of about 10 different factories from Fujitsu, Renaissance and Toshiba, and you probably don't need 10 factories moving forward. So there will be an orderly process in which they reduce their footprint in Japan, and as they do that, and they reduce their fixed costs, you'll see the mergers improve over the next 3 to 4 years.

Sean Dixon - *Bradford & Marzec - Analyst*

Okay. Thank you very much.

Operator

Suji Desilva of Topeka.

Suji Desilva - *Topeka Capital Markets - Analyst*

I'm not sure if you gave this already, but the top 10 customers. What percent of revenues is that? And so you expect that to increase the mix or concentration or diversify in the next several quarters?

Joanne Solomon - *Amkor Technology Inc - CFO*

So top 10 customers are 61% of our revenues. While we've seen some shifting around amongst the top 10, it's been relatively consistent, although they are changing places.

So with the consolidation, I do expect some players to get larger. But overall, I would expect that our top 10 customers to remain in this 60% ish range.

Suji Desilva - *Topeka Capital Markets - Analyst*

Great. And the other question I had was on the MEMS and the NAND businesses. Can you update us on how those are progressing in growth, and whether those are going to meaningful opportunities the next several quarters?

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

I'll make a subjective comment, and Joanne perhaps will add some numbers to it. I think the MEMS business continues to go very well for us. I think the growth may have tapered a bit in Q3 because of general market conditions.

But MEMS will be a continued growth area for us for the foreseeable future. I think on the NAND flash side, we had very good growth in the first half, we were up 20% year on year. But we're starting to see some changes in the NAND flash market.

So I'm not anticipating a lot of growth there in the coming couple of quarters. So we'll have to monitor that.

Suji Desilva - *Topeka Capital Markets - Analyst*

Great. Thanks, guys.

Operator

Jeffrey Harlib of Barclays.

Jeffrey Harlib - *Barclays Capital - Analyst*

Can you just talk about if you're seeing increased pricing pressures either in advance or more traditional packaging, given the week revenues in the industry?

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

Yes. Our industry is characterized by price pressure. Come rain or shine we face price pressure. So I haven't felt it to be extraordinary this year.

I think what's interesting in these types of downturns is, the customer has become a little conservative when it comes to building product. And so, you end up getting orders at the last minute and having to expedite those orders. So the pressure comes in a different way.

It's certainly competitive. But I wouldn't say it's more so than the past couple of years.

Jeffrey Harlib - *Barclays Capital - Analyst*

Okay. Just the weakness in mobile communications. Can you compare what you're seeing with the Android versus iPhone's?

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

Yes. Clearly, Android has been relatively sluggish the whole year. There haven't been any breakout products.

I think on the iOS side, obviously, the iPhone 6 was a great success and it's carried over into this year. Obviously, not quite as intense, the build, because this was an update to last year's phone.

So I think if you look at 2015, the big difference between 2015 and 2014 is that in 2014 we had a breakout product with had iPhone 6. In 2015, we didn't have that type of product. So we had some good products but not great products.



Jeffrey Harlib - *Barclays Capital - Analyst*

Okay. Lastly, the J-Devices. You have the revenue and EBITDA performance in the quarter, and any effect from the strong dollar?

Joanne Solomon - *Amkor Technology Inc - CFO*

I'm sorry, can you repeat the question one more time?

Jeffrey Harlib - *Barclays Capital - Analyst*

Yes. The J-Devices, their performance in the quarter revenues and EBITDA and the effect of the strong dollar?

Joanne Solomon - *Amkor Technology Inc - CFO*

Okay. So on the strength of the dollar, J-Devices revenues are largely Japanese yen denominated. Their expenses are also yen denominated.

So the impact to EBITDA is slight. But the decrease in revenues, because of the dollar appreciation, can be significant. So it's felt a little bit stronger at the top line than the bottom line.

Jeffrey Harlib - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Mesh Bendari of Jefferies.

Mesh Bendari - *Jefferies & Co. - Analyst*

First question, in the fourth-quarter guidance, how are you able to delineate the weakness that you're seeing from the macro environment perspective? Versus some of the customer specific challenges that Amkor might be facing?

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

Mesh, the short answer is no. But I could just make a comment that we're seeing broad-based weakness.

I think, in general, customers are assuming a conservative posture, with some exceptions. So I don't think they are going to tax our capacity infrastructure this quarter, let's put it that way.

Mesh Bendari - *Jefferies & Co. - Analyst*

Got it. The second question is, I think that you said that your CapEx as it relates to K5 is going to be around \$200 million next year. Is that going to be the end of it? Or when does K5 come to a conclusion in terms of build out there?



Steve Kelley - Amkor Technology Inc - President & CEO

The \$200 million will complete the infrastructure build. It does not include any equipment that we install in K5, but that will be related to capacity. So it will be part of our capacity expansion capital budget.

Mesh Bendari - Jefferies & Co. - Analyst

My question to that in that regard is, (inaudible) your ability to generate free cash flow. I think in the past, you have said after your K5 expansion is completed, then you're probably going to generate cash flow on a sustainable basis. Do think that is still possible?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes, definitely. We're expecting it to become a consistent cash generator in 2017.

Mesh Bendari - Jefferies & Co. - Analyst

Got it. My final question is really on the consolidation that is happening in your own industry, just in terms of what AC is doing, what some of the China is -- what their players are doing. So how do think you guys fit in that landscape, and your own thinking around consolidation in [nodes] that sector?

Steve Kelley - Amkor Technology Inc - President & CEO

From our perspective, all this consolidation in our sector has been a strong positive for Amkor. A lot of doors are opening that had not been open before. Because of various issues at some of our competitors.

So what we're trying to do, at this point, is entertain the opportunities in front of us, execute and win as much business as we can. So coming out of the downturn, we're able to increase our market share.

Mesh Bendari - Jefferies & Co. - Analyst

If I could just follow-up on that. You don't think you need to potentially acquire another player just to be able to compete with your number one player? Or number one competitor in the industry?

Steve Kelley - Amkor Technology Inc - President & CEO

Let me go back to our objective, as a Company, is to grow revenue. Because that improves all of our metrics, essentially. One of our strategies for growth is to selectively build our scale and scope through strategic investments.

Just to point out a couple of recent ones, one is J-Devices, of course. And the other is when we acquired the power discrete business in Malaysia of Toshiba. So, we always are on the lookout for good opportunities.

Mesh Bendari - Jefferies & Co. - Analyst

Okay. Thank you very much.



Operator

Randy Abrams of Credit Suisse.

Randy Abrams - Credit Suisse - Analyst

I wanted to ask on the J-Devices, to make sure I caught it. I think in the prepared remarks, you mentioned a \$200 million run rate when it's consolidated. And the 2014, I think the run rate was a bit over \$900 million per year.

So I just wanted to clarify if that's the amount it is now running. And was that partly the yen impact?

And also are they seeing the same type of demand slowdown in theirs? So I guess if you could characterize the change in run rate, and if the margin structure has changed much. I think we were thinking about low teens gross margin, mid-to high single digit operating margin.

Joanne Solomon - Amkor Technology Inc - CFO

Randy, the drop in revenues is largely the appreciation of the US dollar and the drop in the yen. So that explains the drop from the \$900 million to \$800 million, largely.

From our margin expectation standpoint, we do expect them to be in the low double-digit teens area, and as their cost structure improves and as we can start to bring in customers from outside of Japan on to the island. That will continue to help improve their profitability to be more in line with our experiences in the wire bond side in Korea.

Steve Kelley - Amkor Technology Inc - President & CEO

Just to comment, Randy. I think you asked on other question.

I think that J-Devices, because of their high automotive content, it's a little less dynamic than our business. So that it tends to be more stable. Not to say that they are growing by leaps and bounds, but they don't see the swings that we do in the mobile communication segment.

Randy Abrams - Credit Suisse - Analyst

Okay. Great. A follow-up on the CapEx.

If you could mention where the -- and it's just a modest cut, but the CapEx, where the revision came through from? And directionally 2016, is your thought on the equipment CapEx into next year now? And what the outlook for combined depreciation would be?

Steve Kelley - Amkor Technology Inc - President & CEO

Randy, that \$25 million that we took out of the plan this past quarter was all capacity related, and basically programs that did not happen as we expected. So we were able to push the CapEx out. Or in some cases, we achieved better efficiency than we expected.

Moving forward, our expectation is to continue to exercise very tight control over CapEx next year. So we're going to be very careful about what we spend.

Randy Abrams - *Credit Suisse - Analyst*

Okay. All right. Thanks a lot.

Greg Johnson - *Amkor Technology Inc - Senior Director, IR & Finance*

Thanks, very much, Randy. There are no more questions, so that ends the call today. I'd like to turn it over to Steve for his closing remarks.

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

I'd like to recap our key messages. First, our Q3 results were better than expected. Our Q4 revenue outlook is consistent with the rest of the industry.

Our growth initiatives continue to gain traction. J-Devices will be consolidated in 2016, adding roughly \$200 million in revenue per quarter.

Finally, we like our competitive position going into 2016. Thank you very much for joining us today.

Operator

Thank you, ladies and gentlemen. This concludes today's conference call. You may now disconnect.

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