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AMKR - Q1 2016 Amkor Technology Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 revenue of nearly \$870m. Expects 2Q16 revenues to be around \$875m.



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CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology first quarter 2016 earning conference call. My name is Michele, and I will be your conference facilitator today.

At this time, all participants are in a listen-only mode. After the speakers' remarks, we will conduct a question-and-answer session.

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, go ahead.

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

Thank you, Michele, 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. These non-GAAP measures include combining J-Devices' financial results for certain periods prior to their consolidation.

We will also make forward-looking statements about our expectations for Amkor's future performance based on the environment as we currently see it and statements about the impact of the earthquakes in Japan and our ongoing recovery efforts.

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 in our Form 10-Q.



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And 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 first-quarter results, our second-quarter outlook, and the status of our key growth initiatives.

First-quarter revenue of nearly \$870 million was well above the high end of our guidance. We benefited from better-than-expected demand in Japan and strengthened the high-end Android smartphone market.

On a combined basis with J-Device, revenues were flat sequentially. Year on year, combined revenues were down 9% due to a weaker demand environment, particularly in the communication space. This lower revenue led to breakeven financial results.

Looking ahead, we see improved demand across most end markets. Unfortunately, we do not expect to realize meaningful revenue growth in Q2 due to temporary disruptions stemming from the recent earthquakes in Japan.

Our Kumamoto factory was damaged in the earthquakes and is currently operating on a limited basis. Repair work is being expedited. We expect to ramp to full operational capacity over the next 11 weeks.

We are working closely with our customer base to minimize disruption during the recovery period.

I've been impressed with the speed and professionalism of our team in Japan, the constructive approach taken by our customers, and the support provided by the worldwide Amkor manufacturing team.

The entire supply chain is working together to ensure a speedy recovery. We were relieved that only a few of our employees suffered minor injuries during the earthquakes. Others on Kyushu Island weren't as fortunate and we extend our condolences to those who were seriously impacted by this natural disaster.

We expect Q2 revenue of around \$875 million, which reflects the impact of roughly \$35 million in lower sales due to the temporary disruption in Japan.

Taking into account insurance payments, we expect the disruption in Japan to have only a modest impact on our 2016 results.

Now I'll discuss four of our key growth initiatives. J-Devices, automotive, greater China, and advanced packaging leadership.

The J-Devices acquisition was completed in December 2015. It is expected to add roughly \$800 million of annual revenue to Amkor's top line.

The acquisition also cements Amkor's leadership position in the automotive IC market. The addition of J-Devices creates a more balanced business for Amkor. We are now less dependent on the communications market, which accounted for 42% of our Q1 2016 revenue, down from 57% in Q1 2015.

Also as a result of the acquisition, our participation in the relatively stable automotive market has increased. Automotive accounted for 25% of our Q1 2016 revenue, up from 11% in Q1 2015.

On a combined basis, first quarter automotive revenue of \$220 million was up 6% year on year and up 7% sequentially.

Now I'd like to shift the discussion to greater China where Amkor revenue grew 21% sequentially in the first quarter. We expect to see significant year-on-year revenue growth as we gain share in the region. This growth will come primarily from new customers.

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We are taking steps to elevate Amkor's profile in the region. Last month I was a keynote speaker at SEMICON China, one of China's premier industry events.

In addition, we recently held our first press event in Shanghai and received excellent coverage in China's trade press.

Our Shanghai factory is now Amkor's second largest factory by revenue and offers a wide variety of advanced packaging and test services, including wafer probe, 8- and 12-inch wafer bumping, wafer-level packaging, and advanced SiP capability.

We're able to offer quick-turn engineering assistance to our customers and leverage our location in a free-trade zone to simplify logistics.

The expansion of our Shanghai factory is on track. The structure will be completed this quarter and equipment installation will begin in July. This expansion will boost our Shanghai cleanroom space by nearly 45% to roughly 625,000 square feet.

Now I would like to briefly review Amkor's technology leadership strategy. This strategy is critical to our long-term success since advanced packages will drive a substantial part of our future growth.

For Amkor, it starts with the smartphone. Since smartphone applications drive capacity investments and technology roadmaps for much of the IC industry.

Smartphone IC and module makers want thin, low-cost, high-performance, and high reliability products.

Package technologies developed for high-end smartphones often migrate quickly to lower tiers of the phone market, as well as to the tablet, networking, and wearable markets.

In our view, there are five technologies which will dominate the advanced packaging landscape over the next five years. These big five technologies are wafer-level CSP packages, low-cost flip chip, laminate-based advanced SiP, wafer-based advanced SiP, and MEMS. Amkor has a leadership position in all of these technologies.

Today we have nearly 100 wafer-level CSP customers. Wafer-level CSPs eliminate the need for a substrate for most ICs less than 100 square mils. Wafer-level CSP capacity is expensive since we build the package in very clean environments while the die are still in wafer form. Amkor has large-scale wafer-level CSP lines in Korea, China, and Taiwan.

Low-cost flip chip is a thin substrate-based technology and is a good choice for larger ICs where wafer-level CSP is not a reliable option. It is also an enabling technology for advanced SiP products.

Low-cost flip chip leverages Amkor's existing capacity and expertise built up over many years in the standard flip chip business.

For multiple die products, Amkor offers a variety of technologies. Three of the most popular are laminate-based advanced SiPs, wafer-based advanced SiPs, and MEMS.

Laminate-based advanced SiPs are the mainstream choice today for cost-sensitive SiP applications. You'll find these modules in smartphones, wearables, and other applications where space savings and performance are important. Our K4 manufacturing plant in Gwangju, Korea is Amkor's Center of Excellence for this technology.

Wafer-based advanced SiPs utilizing a die-less technology we call SWIFT, offer the very best performance and thinnest form factor. We plan to ramp this technology to production in 2017, at our state-of-the-art K5 facility in Incheon, Korea.

Our MEMS technology is typically used for very small sensor modules. Our MEMS Center of Excellence is in the Philippines, and we are bringing up a second manufacturing line in Shanghai.

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So the long-term technology trends look very positive for Amkor. More integration is occurring at the package and module level as the economics of advanced silicon nodes become more and more challenging.

Also, working in our favor are the relatively high cost of adding new advanced packaging capacity and the need for skilled engineers to build and maintain these high-tech production lines.

Only large OSATs such as Amkor have the financial and engineering resources required to compete effectively in the advanced packaging space.

I'd like to close with a few comments about the consolidation occurring in our customer base and in the OSAT space.

We view consolidation of our customer base as a good thing for Amkor since, in general, larger customers want to deal with larger OSATs. Amkor's technology, broad geographic footprint, large installed base, and strong financial footing are meaningful attributes for these customers.

The OSAT industry landscape is also changing with STATS/ChipPac being integrated into JSAT, and ASE aiming to acquire SPIL.

In the midst of this activity, Amkor is positioned as a stable and reliable choice. We are focused on the basics - execution, quality, and technology, satisfying customers and growing market share that will drive us day to day.

In closing, I would like to note that Amkor recently received Intel's Preferred Quality Supplier Award for the third consecutive year. We were proud to be included in the select group of companies recognized by Intel.

Joanne will now provide more detailed financial information.

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

Thank you, Steve, and good afternoon, everyone. Our first-quarter revenues were up 30% sequentially with the consolidation of \$217 million of sales from J-Devices. J-Devices also contributed \$0.04 to our earnings per share in the quarter.

Although advanced product revenues increased 7% sequentially, we had 250 million fewer units, driven by a shift in wafer-level chip-scale package mix to wafers with larger die sizes.

Revenue for mainstream products was up 50% and units were up 560 million with the addition of J-Devices to the mix. Our gross margin of 14% was above the high end of guidance due to our better-than-expected revenue for the quarter.

A substantial portion for the cost at our factories is fixed, so there tends to be a direct relationship between our revenue levels and gross margin.

Generally, we would expect margins to reach 20% area at around \$1 billion of quarterly revenues and around 25% at \$1.1 billion dollars.

Operating expenses in the first quarter were \$100 million. The year-on-year increase is due mostly to the addition of J-Devices operating expenses to our total. For the second quarter, we expect operating expenses to remain around this level.

Interest expense in the first quarter was \$17 million. With the completion of K5 in the second quarter, we will no longer capitalize interest on the project. So for the rest of 2016, we expect interest expense to be around \$22 million per quarter.

For Q2, we expect an income tax benefit of approximately \$4 million. We expect our effective tax rate for the full year will be around 35%.

On a combined basis, Amkor and J-Devices generated \$730 million of adjusted EBITDA over the past 12 months.

At March 31, we had total debt of \$1.5 billion and debt to combined adjusted EBITDA was 2.1 times.

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Looking at the second-quarter financial impact of the earthquakes in Japan, we expect a decline in revenue of about \$35 million. We also expect to incur incremental costs of around \$20 million for damaged inventory and repairs to buildings and equipment.

In total, the earthquakes' impact reduced our second-quarter EPS guidance by \$0.11. We expect our insurance recovery to be about \$25 million. We anticipate receiving the insurance proceeds in the second half of 2016, and we will record the offsetting gain on insurance recoveries at that time.

Taking into account these insurance payments, we expect the net impact on our full-year 2016 results to be modest.

Our liquidity is solid with over \$410 million in cash and \$300 million in available un-drawn loans.

Our full year 2016 capital expenditures forecast of around \$650 million remains unchanged, and any capital expenditures associated with the earthquakes in Japan are reflected in this estimate.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We ask in the interest of time and fairness that you limit yourself to two questions and then re-prompt. Randy Abrams with Credit Suisse.

Randy Abrams - Credit Suisse - Analyst

My first question, just wanted to ask on the business and first on the upside in first quarter relative to the initial guidance, how much of that came from the high-end smartphone builds versus other areas?

And then, as you look forward, the Kumamoto impact, if you expect to recover some of the lost revenue or due to the disruption it may go to, say other suppliers, but how much you may be able to recover later in the year as you restore production?

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

Yes, Randy, as far as your first question goes, the high-end smartphone boost we think was roughly [\$15] million in Q1. So that was the impact.

In addition to that, we saw strength in Japan. We didn't see the typical seasonal pattern in Japan, as well as a strengthening yen.

So those three factors together accounted for substantial part of the Q1 upside.

In addition, we had a number of customers that beat their forecast by varying degrees.

Your second question, on the Kumamoto recovery of lost revenue, I'll give you a little color on that. We've had discussions with the customers and the real emphasis from these customers is getting that factory back up and running as soon as possible. So we do see the potential for recovery of some of that revenue in the second half.

The customers do not want to spend a lot of time and effort transferring their product to other factories. They'll do some waiver-type production, but they want to bring it back into the Amkor factory in Kumamoto as soon as they possibly can. So that's where the focus is.

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So I think it's a positive for the second half potentially. We have not built that into our forecast, but we think that we'll see some rebuilding of the pipeline the second half and some building of stock as well.

So I think while Q2 is full of challenges and getting that plant up and running again, I think in the second half we could see upsides.

Randy Abrams - *Credit Suisse - Analyst*

Okay, great. And on the China, it looks like it's reaccelerating again on revenue.

Could you talk about where you're seeing the strength that this is coming from the smartphone and mobile or it's some of the other [like] consumer mature products? And maybe a perspective where we're at now, contribution from greater China and some rough expectations for how that may grow?

And if you're seeing any benefit now from, you mentioned a bit on the consolidation activities, but if that's also starting to benefit, your market share potential.

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

Yes, that's a lot of questions. Let me try to answer them all. If I miss anything, just remind me.

Your first question, where is it coming from, it's almost all coming from advanced packaging and it's being driven by smartphone and tablet applications.

Why is it coming now? First of all, we've been working this for the last 2.5 years. But I would have to say that the consolidation activity within the OSAT space is certainly giving us a push, it's helping us, in addition to the people we put in place to call on these accounts and provide technical assistance.

And the requirements from these customers, they're really driving a lot of the activity in Shanghai to expand our factory, because we see quite an upside from our customers in China and Taiwan over the coming years.

We start from a relatively low base in greater China. We're just talking fab-less revenues. What I can tell you is, I believe over the next 12 to 24 months, there'll become a much more significant part of our overall revenue.

And more importantly, the demand from these customers tends to come off cycle, off cycle from the iOS and Android demand peaks. So it keeps our factories full.

So for us, there's a double impact - one is the revenue and profit impact, but also there's the factory impact as well.

Randy Abrams - *Credit Suisse - Analyst*

Okay. And then the final question if I could ask, on the SiP, maybe the [SIS MEM] package, if you can give an update on the scale of that business. And where you're seeing interest in the SWIFT, if we may get some meaningful volume projects, say for mobile or other applications when you launch that next year or if it's just too early at this stage.



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

Yes, the advanced SiP business, as I mentioned last quarter, is growing quite rapidly. We saw a bit of a decline in Q1 basically because of the decline in the communications TAM in Q1, driven by some corrections in the iOS ecosystem.

I expect our advanced SiP business to really take off in the second half as we see a number of product launches from China, from the iOS ecosystem, and some additional launches from Samsung.

So I anticipate that we'll see a surge and we'll be pretty close to being full in advanced SiP in the second half of this year.

Now, as far as SWIFT goes, our objective right now is trying to take as much cost as possible out of the SWIFT process so that it is accessible to the masses.

Right now it's a fairly high end type of package, but we're working very diligently to get the cost down so it's attractive to all the market participants in the high-end smartphone space and the mid-tier smartphone space.

So I anticipate that we'll start ramping that next year in K5. And the good news is on that particular line we'll also be able to build smaller wafer-level fan-out devices on the same line that we build our SWIFT devices.

Randy Abrams - Credit Suisse - Analyst

Okay, great. Thanks a lot, Steve.

Operator

Thank you. Suji Desilva with Topeka.

Suji Desilva - Topeka Capital Markets - Analyst

On the Japan earthquake damage, can you talk about what end markets the Kumamoto fab serviced and what percent of the capacity Kumamoto is roughly?

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

Well, I'll give you a general answer because I don't have all the specifics. But I can tell you that it served a variety of markets, including automotive.

Again, this is one factory out of 10 factories we have in Japan right now.

Suji Desilva - Topeka Capital Markets - Analyst

Okay.

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

But it's a significant factory. And right now we're receiving assistance from not just our customer, but also our customers' customers. And they're helping us prioritize and get priority from our repair firms.

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So the construction firms we've engaged are spending quite a bit of time and effort trying to better the schedule we've been given for our Kumamoto factory.

I can give you a little more color on Kumamoto. There are three main buildings there. There's a central utilities building and two factory buildings. The central utilities building is basically undamaged. What that means is we have electricity, we have water, we have chemicals, we have gasses uninterrupted. And that's usually the biggest issue in these earthquake situations.

Suji Desilva - Topeka Capital Markets - Analyst

Yes.

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

The first factory is partially running today and will be fully up and operational next week. The second factory building will take a little bit longer, but we'll take that in stages. And I think 11 weeks is a conservative estimate. We're aiming to bring it up faster than that.

Suji Desilva - Topeka Capital Markets - Analyst

Okay, great. That's helpful color. And then on the -- you answered some of the questions about China being predominately a smartphone growth driver.

How well diversified do you feel you are with the smartphone customers, or do you feel like you're concentrating and relying on a few customers across the premium vendors and the China handset guys?

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

Yes. Historically that's been an issue for us, we were too focused on the high end. I think over the last couple years we've diversified. I think you'll find us in a lot more mid-tier phones and even some of the entry-level phones.

So we're a lot more focused on the second-wave customers than we were three years ago, and I think you'll see the benefit of that the second half of this year, [when server] designs in China and Taiwan come to fruition.

Suji Desilva - Topeka Capital Markets - Analyst

Okay. Then the last question, you did a great job outlining the five tech areas that are focus for you. Where do you feel like your competition is in those five areas? Are you ahead of them? What's the share relatively? Are they playing catch-up or are they at level setting with you?

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

Yes, let me just give you a general answer. I think in general, Amkor is the technology leader in the packaging space, which means we're there a little bit faster than our competitors.

But our competitors tend to catch up quickly. We have strong competition, particularly in Taiwan. And so while we're proud to be the first guy out there, we also know it's very important to reduce costs quickly.

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And so one of the things we've done is to really split our R&D team into two parts. The first part brings out the new technologies. The second part of the team gets the cost out of those technologies, because we need to do that very quickly so that we can maintain good share once the other competitors get into the market.

Suji Desilva - Topeka Capital Markets - Analyst

Take advantage of your lead. Great. Thanks, Steve.

Operator

Thank you. Sidney Ho with Deutsche Bank.

Sidney Ho - Nomura Securities - Analyst

Maybe first one for, just a clarification for a earlier question. So for the \$35 million revenue that you guys will be missing in Q2, you're not expecting the full \$35 million to come back in the second half of the year. I should model maybe some longer term, longer time?

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

Yes, I don't think we'll see the full \$35 million come back in second half. I think we'll see some percentage of it come back to us as they restock and they build some inventory.

But at this point we haven't really come up with a number. But we're hoping for something that's probably midway between zero and \$35 million.

Sidney Ho - Nomura Securities - Analyst

Okay. That's helpful. Maybe another question for Joanne. For the guide, just trying to understand the gross margin guidance. I was hoping you can give like a bridge between Q1 and Q2, Q1's 14% and Q2 10% to 13%.

It may simply be the earthquake-related cost you mentioned. But all else equal, I would expect gross margin would improve given Amkor's revenue goes up and J-Devices' revenue goes down? Or is there some other factors I should be thinking about?

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

So the first thing you said is the correct answer. It's the \$20 million of incremental costs all hit on the cost of goods sold line, so that's what's compressing the gross margins for Q2.

Sidney Ho - Nomura Securities - Analyst

Okay, thanks. Thanks for that clarification. And maybe one other question on your [comms] business. Very clearly some concerns that the smartphone market is saturating, especially in the high end, and there are also the typical seasonality that we all expect.

From a longer-term perspective, if the smartphone market levels off in terms of units and ASPs of phones started to come down, do you expect that comms business will still be a growth business for you?

I guess I'm specifically looking for your comments on a content increase and share gain opportunity.



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

Yes, I deftly think the communications business will be a growth area for Amkor because we have a lot of room to grow in areas where we haven't participated in the past, specifically in the mid-tier and entry-level phones and specifically in greater China. So those are all greenfields for us.

And so even though the high-end could be saturated, we believe that there's a lot of share gain to be had in the other tiers of the smartphone market.

Sidney Ho - Nomura Securities - Analyst

Okay, great. And if I can squeeze in one last question, also related to comms business. Your largest customer has talked about the expectations for a second source to supply modems at their largest customer.

If and when that happens, how should we think about the impact on your P&L if there's any?

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

I wouldn't spend a lot of time thinking about that one, tell you the truth, because I think Amkor, one of the beauties of being a broad-line supplier is we supply to many different customers.

And so I think no matter what way it turns out, we'll have a piece of the business.

Sidney Ho - Nomura Securities - Analyst

Very helpful. Thanks so much.

Operator

Thank you. Atif Malik with Citigroup.

Atif Malik - Citigroup - Analyst

This is a follow-up, Joanne. Including those \$35 million lost revenues, your gross margins would have been where in the June quarter?

And what is the bridge from there to the 20% number you talked about at \$1 billion level? And if you can just talk about that.

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

Okay. Let me take your first question first, and then you can remind me your second question.

So if I add the \$20 million to our \$100 million of gross profit at the midpoint, I get \$120 million. And if you divide by the \$875 million, that puts margins right at the 14%. So very comparable to the \$868 million.

The \$35 million of lost revenue, you can assume about a 50% incremental fall-through. So there is some variability when it comes to, obviously, materials and labor. So not all of that impacts the profit line.



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And then if you could remind me your second part of your question.

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

I can probably address it. I think you're asking us how we get to 20% gross margins. Does that correctly --

Atif Malik - Citigroup - Analyst

Right.

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

-- [portray] -- yes. Okay. So the way I think about it is if I start with our Q2 revenues, if I exclude the earthquake effect, we're forecasting Q2 revenue at \$910 million.

We believe that at a billion dollars we'll be at 20% gross margin. So we're looking at a revenue increase requirement of roughly 10%. And at \$1.1 billion, we can expect gross margins in the 25% range.

So the question would be, is that realistic? And the answer is yes. In fact, in the second half of 2014, we were operating in that range. We had combined revenues in the second half 2014 of roughly \$1.05 billion per quarter. So right between \$1 billion and \$1.1 billion.

So I think if we see a reasonable market recovery, some success in some of these new smartphones, we'll certainly be operating in that area as soon as the second half of this year, although we're not making the forecast yet.

Atif Malik - Citigroup - Analyst

Okay. And then if you can break out what percentage of your CapEx this year is on SLIM and SWIFT type advanced technologies. And then also, if you can remind us if you're still expecting free cash flow to be positive this year.

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

So on the CapEx side, \$650 million is the total for the year, \$170 million of that is for K5. A lot of the SWIFT and SLIM spending right now is more on the R&D side, and we'll start to build those lines in 2017 closer to the time we expect to ramp.

As far as free cash flow goes, as a reminder, our business generates strong cash flow and EBITDA. Last year in a down market, we were free cash flow positive despite the spending of \$150 million for K5 that year. And we are managing CapEx very tightly.

We expect to be -- had we not -- if we didn't have to spend the K5 money, we would certainly expect to be free cash flow positive. With K5, we may not get free cash flow positive this year.

Atif Malik - Citigroup - Analyst

Okay. Thanks.



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Operator

Thank you. Ana Goshko with Bank of America.

Ana Goshko - Bank of America - Analyst

I just got preempted on that free cash flow question. But just on K5, could you provide an update on when that's supposed to be complete over the course of the year? And with the CapEx, should we expect the rest of that to really be front-loaded into the first half of the year?

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

Yes, Ana, the building is largely complete. I think we're finishing up this quarter. And so the next step will be installing equipment, and we don't expect that to happen until late this year where we'll start to build some capacity for SWIFT and wafer-level fan-out.

We look at that pending more as the normal course of business spending, because we would be spending that money whether it was K5 or some other facility at Amkor. But I think the heavy lifting on K5 is pretty much behind us as far as the construction of the building.

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

From a payment side, the \$170 million is expected to hit us in the first half of this year. We will likely borrow about \$100 million or so to help offset some of those payments.

Ana Goshko - Bank of America - Analyst

Okay. And then that should reverse to some degree in the second half, just from a kind of a --

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

That's right.

Ana Goshko - Bank of America - Analyst

-- timing of cash flow. So for the full year probably some negatives, but to revert to positive in the second half?

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

That's absolutely correct.

Ana Goshko - Bank of America - Analyst

Okay. Okay, great. Well, thank you very much.

Operator

Thank you. Umesh Bhandary with Jefferies.



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Umesh Bhandary - *Jefferies - Analyst*

So maybe just sticking with K5 question here, maybe can you remind us what was the purpose of spending this CapEx on K5? Is that really to drive revenue growth or, I mean, what was sort of the rationale for that?

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

Yes, a couple things. First of all, as we look at the requirements for future technology, you're looking at very clean environments. You're basically looking at wafer fabs for packaging, and you need a specialized building to really build these complex modules and other products.

So that's the primary purpose is to build a state-of-the-art assembly-and-test factory that is good for the next 10 years.

Secondly, it's a way for us to consolidate our operations in Korea. So today we have three factories in Korea. And when we're done, we'll have two. We'll have K5 in Incheon, then we'll have K4 in Gwangju. So I think we'll have a more efficient operation once we are able to consolidate the remaining business into those two facilities.

The third aspect of this is R&D. And, as you know, we like to conduct our R&D on our production line. So having a state-of-the-art facility for production as well as a line where R&D can work, that was the third rationale K5.

Umesh Bhandary - *Jefferies - Analyst*

Okay. Thank you. Thank you for that. So as you consolidate the three factories into two, with the third factory that it sort of goes out of commission, I mean, what is the plan there? Just I guess from a real estate perspective, from the factory perspective, is there a way to sort of monetize that particular property?

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

From a monetization standpoint, yes. So this is real estate in downtown Seoul. So we would expect proceeds on sale of about \$150 million to \$200 million. We're still in early stages of marketing, so I don't have an exact dollar amount to give to you on what we would expect.

But the second facility is not quite as centrally located, so we would expect some proceeds from that one as well.

Umesh Bhandary - *Jefferies - Analyst*

And then you have any thoughts on how you might spend that \$150 million, \$200 million cash that might be coming in?

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

So we can certainly look to reducing debt or, depending where we are on the business cycle, will be investing into the business.

Umesh Bhandary - *Jefferies - Analyst*

Got you. And the next question I had was with the J-Devices, seems like in [the] devices last year declined about 12%, sort of 15% for Amkor.

What is the business mix at J-Devices? [Without relevant brush and metals] is more auto, so I would have thought it would have been more stable.

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

Your right, the business mix at J-Devices is roughly 50% automotive. The biggest issue J-Devices has is they have probably more factories than they need.

So what we're focused on right now is a consolidate and fill strategy, where over time we reduce the number of factories J-devices operates and fill the remaining factories.

So we think we can get J-Devices into the 15% to 20% gross margin range over the next two to three years.

Umesh Bhandary - *Jefferies - Analyst*

Got you. And if I may, just one final question for me. As you sort of alluded to sort of the consolidation within the OSAT space, do you feel the need that you need to get bigger? And if that is the case, sort of how do you think you can sort of get to that level? Obviously, you consolidated the device right now. But do you think you need to bulk up more?

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

Well, right now we see a lot of organic growth possibilities. So we're clear number two right now in the industry. And we think with the market strengthening, we can grow quite nicely organically.

However, we're always looking at ways to increase our revenues. And in the past, we have engaged in plug-in transactions where factories may become available, and if they fit in Amkor, we could purchase the factories and bring some business with the factories.

Umesh Bhandary - *Jefferies - Analyst*

I hate this, but let me just ask one quick follow-up on that. Do you think there needs to be probably more consolidation within the tier two players then?

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

I really don't know, tell you the truth. I think our focus really is on tier one players because most of our investment, most of our growth is in the advanced packaging space, and that space is consolidating rather rapidly.

Umesh Bhandary - *Jefferies - Analyst*

Okay. Thank you very much.

Operator

Thank you. David Duley with Steelhead Securities.

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David Duley - Steelhead Securities - Analyst

Joanne, in your prepared remarks you talked about how your advanced packaging revenue was up but your units were down. And I didn't catch the explanation there. Could you just give a little bit more color as to what you were referring to?

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

Yes. So when you look at the dataset that we provided in the press release, there's a disconnect. You see revenue dollar growth, but then you see a pull-down in the units.

So the reason why there's a pull-down in the units, wafer-level CSP, we don't count the wafers, we count the number of die on the wafers. So depending on the wafer mix we have within wafer-level CSP, the die count can vary quite significantly.

So we processed a lot wafer-level CSP this quarter that had large die sizes, so then fewer die count as compared to the sequential quarter, which it was smaller die sizes, more die count.

David Duley - Steelhead Securities - Analyst

Is that a trend that you'll see going forward, given whatever -- I am assuming this is in the mobility space.

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

You know what? I would certainly expect the smaller die size wafer-level CSP processing to heat up in the coming quarters.

David Duley - Steelhead Securities - Analyst

Okay. And then you gave some very helpful math about improvements in gross margins at certain revenue levels. And I was wondering if it was just purely revenue growth that you refer to, to improve the margins, or was some of this consolidation or filling in with better utilization of the J-Device factories? What are the pieces there?

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

The sensitivity model that we provided is revenue-based. Because we were operating at a higher revenue threshold prior to the cyclical correction, we just wanted to give people the sense of where we would be when the revenue comes back.

There's certainly opportunity to cost reduce, as Steve mentioned, with J-Devices. There's the opportunity to consolidate and fill to help reduce their fixed cost. And then just broadly within Amkor, we always look for opportunities to reduce our fixed costs.

David Duley - Steelhead Securities - Analyst

Would you help us understand over time, now that you've got your arms around J-Devices, is there a significant gross margin or operating margin improvement opportunities? And maybe you could quantify what they might be, that aren't revenue driven, I mean.

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

Yes. So J-Devices is principally in the mainstream space, so they -- very standard wire-bond packages. So over time -- right now they're in the low teens. Over time we'd like to get them to the 15% to 20% range. We think we can do that through their portfolio mix as well as from cost initiatives.

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David Duley - Steelhead Securities - Analyst

Okay. And final thing for me is, you talked about, just in your second-quarter guidance [which] gave us lots of detail about what might be missing from the factories that aren't up and running in Japan. But could you just talk about without that impact, what are the end market sectors doing in the second quarter for Amkor?

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

Yes, I'll make a few comments here. First, we think the high-end Android market will continue to be strong this quarter. We're seeing that in our forecast.

We've seen broad-based strength as well. Three weeks into the quarter we've seen incremental improvements in our forecast each week this quarter.

Specific markets, we see strength in greater China in automotive.

The other two things I would cite would be customer sentiment. Again, this is an informal measure. But certainly the sentiment is better today than it was three months ago.

And the last thing is, we're getting more expedites and less request for price down. For us that's always nice. And it's a leading indicator, let's put it that way.

David Duley - Steelhead Securities - Analyst

Always a good indicator. And good luck going forward, and thank you very much. That was very helpful.

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

Thank you.

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

Thank you, David.

Operator

Thank you. (Operator Instructions) Sean Dixon with Bradford Marquis.

Sean Dixon - Bradford Marzec - Analyst

Bradford Marzec. Steve, quick question, high-end Android smartphones, I assume is mostly Samsung. And I know they've recently launched their S7 device.

Is there anything different that leads you to believe there is better sell-through on that device and, therefore, better follow-through on demand for Amkor, or is it kind of similar to what they do every year in the past?



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

Yes, you're correct that the Samsung Galaxy phone is what I'm referring to. I don't have insight into their sell-through. All I see is the amount of product that we're shipping into our customer. And it was stronger than we expected in Q1 and continues to be very strong this quarter.

Sean Dixon - *Bradford Marzec - Analyst*

Okay. So is it any different than quarters past or years past when they've launched a flagship device in terms of when you sell a chip into them or deliver a chip or whatever, however you want to phrase it, that you're seeing a reorder or multiples of reorders, such that you could sort of draw conclusions that there's better demand pull coming or that -- because I know Samsung's probably pulled back a little bit or gotten a little more rational. But maybe they are seeing some successes. I know it's still very early on in the cycle.

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

It's difficult to make comparisons because we have a different share this year than we have in the past.

Sean Dixon - *Bradford Marzec - Analyst*

Okay.

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

And also, there are other issues downstream. It's really difficult to compare this launch with past launches.

Sean Dixon - *Bradford Marzec - Analyst*

Okay. Okay. That's enough for me. Thank you.

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

Thanks very much, Sean. That ends the Q&A today, and I'd like to turn the call back to Steve for his closing remarks.

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

Thank you very much. I'd like to recap our key messages. First, our first-quarter results were better than expected, driven by strength in Japan [in] the high-end Android market.

Secondly, market conditions are improving, but Amkor revenue growth in the second quarter will be limited by the impact of the Japan earthquakes.

And finally, our growth initiatives, particularly our efforts in the automotive and greater China markets are gaining traction. Thank you for joining us today.

Operator

Ladies and gentlemen, this concludes today's conference call. You may all now disconnect. Everyone have a great day.



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