OVERVIEW:
Co. reported 1Q19 sales of $895m and diluted EPS of negative $0.10. Expects 2Q19 revenues to be $850-930m and loss per share to be between $0.25 to $0.04.
CORPORATE PARTICIPANTS
Megan Faust  Amkor Technology, Inc. - Corporate VP & CFO
Stephen D. Kelley  Amkor Technology, Inc. - President, CEO & Director
Vincent Keenan  Amkor Technology, Inc. - VP of IR

CONFERENCE CALL PARTICIPANTS
Anastazia Goshko  BofA Merrill Lynch, Research Division - MD
Jeffrey A. Rand  Deutsche Bank AG, Research Division - Research Associate
Randy Abrams  Crédit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department

PRESENTATION
Operator
Good day Ladies and gentlemen, and welcome to the Amkor Technology First Quarter, 2019 Earnings Conference Call. My name is Justin, 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 Vincent Keenan, Vice President Investor Relations. Mr. Keenan, please go ahead.

Vincent Keenan - Amkor Technology, Inc. - VP of IR
Thank you, Justin. Good afternoon, everyone, and thank you for joining us for Amkor's First Quarter 2019 Earnings Conference Call. Joining me today are Steve Kelley, our Chief Executive Officer; and Megan Faust, 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 U.S. GAAP equivalent on 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 in our Form 10-Q.

And now, I would like to turn the call over to Steve.

Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director
Good afternoon, and thanks for joining the call. Today, I'll review our first quarter performance and second quarter outlook. I'll also explain why Amkor is well positioned for success in key high-growth markets such as 5G, automotive and IoT.

Our first quarter revenue of $895 million was $15 million above midpoint guidance. Demand in the general market was a bit stronger than expected, while demand in mobile communications met our expectation. Our profitability was also better than expected, due largely to the success of our cost reduction efforts.
In the general market, which we identify as everything but mobile communications, we see signs of stability after 3 consecutive quarters of sequential revenue decline. In fact, we expect second quarter general market revenue to be roughly flat sequentially. In the mobile communications market, we also expect second quarter revenue to be flat sequentially. Looking beyond the second quarter, we believe that mobile communications revenue will grow in the second half due to the launch of multiple flagship phones. Because the general market seems to have stabilized, and the mobile communications market is poised to grow, we think that overall Amkor revenue will rise in the second half of 2019. The amount of growth in the second half will be determined by the success of the flagship phone launches as well as by the rate of recovery in the general market. I would like to note that most of our customers are also forecasting stronger second half demand. And their current build forecast support that proposition.

From an operational standpoint, we are taking advantage of lower asset utilization to speed new product qualifications, accelerate quality improvement initiatives and improve manufacturing efficiency. In addition, we plan to maintain strong cost discipline, as we did in the first quarter.

Now I’d like to review, how our broad portfolio of technologies and capabilities is positioning Amkor for success in high-growth areas such as 5G, automotive and IoT.

Our long-term objective at Amkor is balanced revenue growth. As a high fixed-cost company, we can’t cut our way to sustain profitability. Instead, we need to grow revenue and take advantage of our high operating leverage. When our revenues grow, our profits grow at an even faster rate. Over the long term, the best way to grow revenue in our business is to consistently deliver best-in-class quality, yields and technology. That builds customer loyalty and customer loyalty leads to higher revenue.

Our customers in the communications, automotive and high-performance computing markets, which account for over 75% of our revenue, particularly value superior quality, high yields and access to leading-edge technology. The technology leadership has long been an important part of our value proposition. Our reputation as a technology leader was earned over many decades by working closely with our customers to develop and perfect reliable and cost-effective packaging. Today, Amkor has all of the key enabling packaged technologies our customers need, such as double-sided assembly, advanced RDL molding, and RF shielding. Most of our enabling technologies are already in high volume and setting industry standards for quality, reliability, and yield.

Our capabilities and expertise across technologies are fueling our success in the fast-growing advanced system-in-package area, where we are a leading supplier to mobile communications, automotive, and IoT customers.

In mobile communications, the introduction of 5G means more silicon and bigger batteries, creating space constrains, which advanced SiP products from Amkor help to address. These advanced SiPs also mitigate performance challenges by squeezing electrical components closer together, producing parasitic and improving system reliability. The latest additions to our advanced SiP product family our antenna-in-package, or AIP, modules which integrate millimeter wave antennas directly into a package. We work closely with a major customer to manufacture this first-of-its-kind product. We believe that AIP modules will be a critical enabling technology for 5G terminals. Building AIPs is a natural next step for Amkor given our expertise and experience in RF front-end module manufacturing.

We also deploy our advanced SiP technologies in a number of other important markets, including memory modules, wearables and automotive. For memory modules and wearables applications, the space savings and performance advantages of advanced SiPs are very important. For automotive customers, SiPs also offer a way to reduce competent count, and increase overall system reliability.

Another key Amkor technology is wafer-level fan-out. In addition to applications in mobile communications, fan-out is a popular choice for performance-sensitive automotive radar applications. Amkor’s best-in-class fan-out technology allows our customers to eliminate substrates while accommodating higher pin counts and more sophisticated routing.

Looking forward, I'm convinced that our focus on best-in-class technology, quality and yields will enhance customer loyalty and ultimately drive profitable revenue growth for Amkor.

Megan will now provide more detailed financial information.
Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

A thank you, Steve, and good afternoon, everyone. Today I will review our first quarter results then provide some comments about our second quarter outlook.

March quarter sales of $895 million were just above the midpoint of guidance. The impact of the smartphone inventory correction and slowdown in the general market was evident as revenue declined 17% sequentially. Despite these market challenges, our first quarter results benefited from our focus on cost control, which drove better-than-expected gross profit, operating income and EBITDA. We proactively managed labor cost reduction by implementing furloughs, reducing overtime and adjusting incentive compensation to align with current profit expectations. We also reduced other cost of goods sold such as supplies and repairs and maintenance during an expected soft quarter. As a result, gross margin at 13.5% was above the high end of guidance.

Operating expenses were lower than expected due to prudent cost control. Specifically, SG&A expenses in Q1 were $9 million lower than Q1 a year ago. This is primarily due to decreased employee compensation cost and reduced discretionary spending. The combination of better gross margins and lower expenses drove operating income of $13 million, or 1.5% of revenue.

Earnings per diluted share was a negative $0.10, or $0.07 above the midpoint of our guidance.

Net income for the quarter was negatively impacted by $15 million noncash discrete income tax charge or $0.06 per diluted share to reduce the value of certain deferred tax assets.

EBITDA was $153 million in the first quarter, and EBITDA margin was 17% consistent with the year ago quarter.

CapEx paid was $200 million in Q1 the majority of which was carryover from CapEx received in late 2018.

Turning to our balance sheet. We successfully refinanced $525 million of our senior notes, enabling greater financial flexibility for managing the business by extending maturities to 2027. The redemption of the 2022 senior notes was completed in April, subsequent to our March 2019 quarter end. As a result, our balance sheet at March 31 includes both the liability and the related proceeds for the new senior notes as well as the liability for the old senior notes. After giving pro forma effect to the redemption of the old notes as of March 31, our debt-to-EBITDA ratio would have been 1.6x, consistent with the second half of 2018. Our total debt would have been $1.3 billion, and our total liquidity would have been approximately $800 million, including $520 million in cash.

Moving to our second quarter outlook. We expect revenue to be in a similar range as Q1, $850 million to $930 million. Second quarter gross margin is expected to be between 9% and 14%. The sequential decline in gross margin is primarily due to changes in product mix and increased manufacturing cost. Consistent with historical trends, factory labor wages typically increase in the second quarter. Operating expenses are expected to remain flat for the second quarter. We expect a net loss of between $59 million and $10 million, or $0.25 to $0.04 loss per share. Net income will include an $8 million charge, or $0.03 per share related to the early redemption of our senior notes due 2022. Generally, our effective tax rate is around 25%, subject to a minimum level of taxes not dependent on our income. Our 2019 forecast for capital expenditures is unchanged at $475 million.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is going to come from Sidney Ho from Deutsche Bank.
Jeffrey A. Rand - Deutsche Bank AG, Research Division - Research Associate

This is Jeff on for Sidney. I'm just -- talking about gross margins, you've seen upside to the margin guidance in the last few quarters. What are some of the main factors that will allow you to kind of get to that upper range or above gross margins again next quarter?

Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

Sure. Thank you, Jeff. Just a reminder, we are a high fixed-cost structure. So the high operating leverage is where we find margin expansion. So utilization is our greatest lever to improving margin. And so once revenues increase, we will see sell-through of 40% to 50% as our general incremental sell-through. So with our Q2 guidance, which we're guiding flat revenue, although we aren't expecting to see that similar sell-through then because of some increased cost, in the second half of the year, we would expect to see that margin expansion in sell-through come through.

Jeffrey A. Rand - Deutsche Bank AG, Research Division - Research Associate

Great. And then just on CapEx, I know you guys kept your $475 million target for the year. But you've already kind of gone through $200 million of that. Do you expect kind of a similar kind of flow through the year as you saw last year, which was very first half-weighted?

Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

Yes, so Q1, we did have $200 million in CapEx. And that's very typical for us to be first half-heavy compared to the second half, as we bring in capacity and capability for the second half peak.

Anastazia Goshko - BofA Merrill Lynch, Research Division - MD

So wondering, how you feel about your ability to generate free cash flow this year? I know you last quarter said that it was the goal. But given the kind of profitability being under pressure, just wanted to understand just working capital a little being in your favor and just what your outlook is for that?

Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

Yes, Anna. As far as our free cash flow outlook, we don't guide for the full year, but it is still our goal for this year to be free cash flow positive. Typically as mentioned, we tend to use cash in the beginning of the year. So despite Q1, using some cash, we do forecast to see as the business increases in the second half of the year, that's where we generate our cash, and we would then anticipate free cash flow positive for the year.

Anastazia Goshko - BofA Merrill Lynch, Research Division - MD

Okay. Great. And then so now that you've got this bond refinancing out of the way, in your debt structure, you have quite a bit of different facilities at the country levels, like China, Korea, Japan and some of that does amortize. So wondering what your strategy or kind of next steps are in terms of doing financing at the local level and maybe pushing some of those maturities out.
Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

Sure. So we've been very active in negotiating our local debt and being able to push that out. And we expect we'll be able to continue to do that given the relationships that we have. And we do strike a balance between the term loans and any amortizing debts in order to optimize that cost of capital.

Anastazia Goshko - BofA Merrill Lynch, Research Division - MD

Okay. And then just a few more, if I can. So you mentioned the labor cost increasing, and wondering, is that a seasonal increase or is that an annual kind of structural increase that you will have to kind of work to offset.

Megan Faust - Amkor Technology, Inc. - Corporate VP & CFO

Sure. So it's more seasonal where that is the timing for when the foreign specifically, Asia locations typically have their merits and promotion increases.

Operator

(Operator Instructions) Our next question comes from Randy Abrams from Crédit Suisse.

Randy Abrams - Crédit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department

I wanted to ask the first question on the outlook for second quarter. It's a bit sub-seasonal, I know it's been going through slowdown in the past couple of quarters. But if you could run through maybe the factors for that? We are starting to see some of the other back-end packaging companies and foundries guide for a bit more sequential improvement. So if you could discuss if you think it's a difference on mix or end market exposure or any other factors that might be affecting your seasonal outlook? And then maybe following on that, if you could think about third quarter normal seasonal and coming off of the slowdown, if you're seeing order levels at this stage that could support above seasonal pickup coming off the bottom?

Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director

Yes, Randy, we'll do. So while we will just started Q1 and go to Q2 and then we'll go to the second half, Q1, there are 2 major factors that came together. One is the inventory correction in the smartphone market, and we saw that in both iOS and Android, and it's well publicized. The second was what we see as the third consecutive quarter of sequential decline in the general market. So those 2 things came together and created a pretty steep drop from Q4 to Q1. Right now, we're forecasting Q2 as flat, stable. There is potential for us to upside that, of course. But at this point, we're taking a conservative approach because for most of our customers, it's still a month-to-month exercise. But I could tell you my sense is that things are starting to pick up a little bit over the last 30 to 45 days. Now the second half, the way I'm thinking about the second half, Randy, is, I believe, we have hit a bottom in the general market again the non-smartphone market. In worst case, we're flat. But the more likely case is that we're going to grow again in second half, I just don't know at what rate. When we look at mobile, we see definite growth. There's going to be a big increase in volume on the iOS side for 2 reasons. One is, there are a number of new flagship phones being launched in the second half; and the second is, I think the first half is artificially depressed as we went through this inventory digesting period. So I'm bullish on the second half. I think it's going to be significant step-up for Amkor.

Randy Abrams - Crédit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department

Okay. Great. And if I could ask on the SiP business? There's been more, I think, market -- I guess, it's a market shatter that's leading Amkor to be potentially be losing and adding additional SiP projects, some in the EMS area like traditionally it's been in the advanced packaging. I'm curious if
you're seeing opportunities to expand out of SiP to go after maybe more types of projects than you have in the past. And if you could give an outlook for SiP, if you see that like content gain or revenue gain from that? And then on the margin side, if there's any impact to SiP, the mix starts shifting in that direction?

**Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director**

Sure. I think, last year what you saw was a strong increase in our SiP business, high teens increase year-on-year in advanced SiP. And I see that continuing for some years because advanced SiP is where our biggest opportunities are. And that's the latest term used for package integration. So anyway, customers are reaching the point where it doesn't make sense financially to integrate silicon, particularly advanced silicon. And so they're coming to us and asking us to put different silicon pieces together along with external components in the substrate and put it into a very small package. And we see that in many different areas. Of course, the smartphone application is the leading application for SiPs, but you're also seeing it in memory, you're seeing it in variables, you've seen it in automotive today. So we think this is the highest single growth area for the company. We will continue to go after opportunities where they make financial sense. Some of those opportunities will have high cost of materials. In other words, we'll be in sourcing more material than we normally do. So we'll have some impact on our gross margins, but I think, we'll -- when we reach that bridge, we'll explain that. But we don't have a forecast on gross margin for the second half of the year right now.

**Randy Abrams - Crédit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department**

Okay. And if I could ask that the 5G, we're starting to see the first phones roll out, very small volume. But if you could look at it, if there's a way to gauge now 5G content versus what you're seeing on 4G, if you see that much of a pickup on the packaging or sales upfront or RF front end module? If there's a way to kind of gauge how that 4G to 5G transition could be for the content opportunities?

**Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director**

Yes, yes. So I think there are some common elements to 4G and 5G and then some unique elements for 5G that are an additive for us. The common elements includes things like application, processors and baseband modems and combo chips as well as finance in transceivers. But what you're seeing with 5G is more front-end modules. They just multiply. And also you're seeing these antenna modules, which I discussed during my prepared remarks. So we see quite a bit of opportunity to add value there. Also, the memory modules are getting more complex and bigger, and I think there'll be other parts of the phone where you see a trend towards modules because you're trying to squeeze more and more functionality into the same space. And that bodes well for companies like Amkor who can manufacture modules in high volume with very high yields and very high quality levels.

**Randy Abrams - Crédit Suisse AG, Research Division - MD and Head of Taiwan Research in the Equity Research Department**

Okay. If I could ask just one last question on the recent Qualcomm-Apple settlement. Just your view on landscape on mobile, how that's shift -- I think it's in public about Intel has been supplying it, and now move more toward Qualcomm, which has been your top -- one of the top customers when you disclosed 10%. So if you could give a view how that shift would affect Amkor for puts and takes?

**Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director**

Sure, sure. Well first of all, both Qualcomm and Intel are very important large customers for Amkor. But saying that, I would say that the recent move you saw with Intel withdrawing from modern business and Qualcomm and Apple settling their dispute, I would characterize that as very important for Amkor. For the simple reason that Qualcomm outsources 100% of their packaging and test and Intel doesn't. So Intel in-sources a significant portion of their assembly testing, so this is a -- it's a win starting next year for Amkor.
Vincent Keenan - Amkor Technology, Inc. - VP of IR

Thanks, Justin. This ends the question-and-answer portion of our call. I will now turn the call back to Steve for his closing remarks.

Stephen D. Kelley - Amkor Technology, Inc. - President, CEO & Director

Thank you, Vincent. I’d like to recap our key messages. First quarter revenue came in slightly ahead of midpoint guidance. Profitability was better than expected due primarily to the success of our cost control efforts. Second quarter revenue will be roughly flat sequentially, but we expect revenues to grow in the second half of the year. And finally, leveraging our broad portfolio of technologies and capabilities, Amkor is well positioned for success in key high-growth markets, such as 5G, automotive and IoT. Thank you for joining the call today.

Operator

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