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AMKR - Q4 2013 Amkor Technology, Inc. Earnings Conference Call

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OVERVIEW:

AMKR reported 2013 preliminary revenues of nearly \$3b. 4Q13 preliminary sales were \$755m. Expects 1Q14 revenues to be down roughly 11% sequentially.



CORPORATE PARTICIPANTS

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

Steve Kelley *Amkor Technology Inc - President & CEO*

Joanne Solomon *Amkor Technology Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Ana Goshko *BofA Merrill Lynch - Analyst*

Suji De Silva *Topeka Capital Markets - Analyst*

David Dooley *Steelhead Securities - Analyst*

Jairam Nathan *Sidoti & Company - Analyst*

Randy Abrams *Credit Suisse - Analyst*

Arun Seshadri *Credit Suisse - Analyst*

Alex Kotsubey *EOS Partners - Analyst*

Thomas Eagan *JPMorgan - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology fourth-quarter and full-year 2013 earnings conference call. My name is Colton, and I will be your conference facilitator today.

(Operator Instructions)

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

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

Thank you, Colton, 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 a reconciliation to the US GAAP equivalent in our press release.

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-K. With that, let me hand it over to Steve.



Steve Kelley - Amkor Technology Inc - President & CEO

Good afternoon, and thanks for joining the call today. 2013 was a very good year for Amkor.

Revenues grew 7% to nearly \$3 billion, a new record for the Company. Gross margin improved by 160 basis points, and earnings per share increased 20%.

My comments today will focus on the progress of our 2013 initiatives, as well as our 2014 plans. In 2013, we leveraged our strong technology base to win key 20-nanometer designs, primarily in the mobile device space. These wins were ramped to production this year.

We also secured a number of other important wins, including a fingerprint sensor, which is ramping to high volume this quarter and next. Our NAND Flash business, which is closely tied to the mobile device market, grew 70% year-on-year. And will continue to grow in 2014.

We enhanced our marketing and sales strategy in 2013. Most notably, we began a concerted effort to increase our sales to Chinese and Taiwanese fabless chip companies. Success for these companies is essential since they dominate the mid-tier and entry-level segments of the mobile device market, where most of the growth is occurring.

To support this initiative, we reorganized our Asia sales team and are making rapid progress building a world-class support group. We expect sales to Chinese and Taiwanese fabless chip companies to increase by a factor of two to three in 2014.

Our technology leadership, our factories in Taiwan and China, and our talented employees are fueling success in the region. In addition, many customers are moving from wire bond to flip chip and wafer-level packaging, which plays to Amkor's strengths.

Also in 2013, we began efforts to seek out and engage new customers in the analog sector. Many potential customers are open to an engagement with Amkor, given our reputation for technology, quality and execution. This effort to enlarge our customer base will accelerate in 2014.

We also created a new test sales team focused on improving our test attach rates and overall asset utilization. All of these demand-creation initiatives -- the China-Taiwan fabless initiative, analog and test sales -- are all capital-efficient. While some capital will be required to meet the needs of these new customers, most of the incremental business can be supported using existing assets.

An important measure of customer engagement is new product introduction, or NPI builds. I am pleased to report that NPI builds increased 13% in Q4, following 12% sequential growth in Q3. Many of these NPI builds turn into volume production, so an increase in the number of NPIs is good news for Amkor.

To accelerate execution of the strategy and to improve our overall responsiveness, I recruited senior sales and business unit leaders with deep semiconductor experience, a sense of urgency and a strong will to win. Our newly appointed CTO is an industry-recognized expert in packaging and materials technology. And our new quality leader has broad experience in manufacturing, technology and business, which he will use to drive continuous improvement throughout the Company.

We entered the power discrete packaging and test business in mid-2013 with the acquisition of Toshiba's Malaysia factory. I am very pleased with the strong interest customers have shown in this new Amkor capability. We have hosted many visits to the factory, and expect to see opportunities turn into revenue later this year.

We ramped up our engagement with J-Devices in 2013. In addition to increasing our ownership interest in the JV from 30% to 60%, we strengthened the links between Amkor and J-Devices in many areas, including procurement, sales, asset management, manufacturing and business strategy. We believe that these joint efforts will improve revenues and margins at both Companies, as well as enhance our collective manufacturing expertise.

One area of particular focus is the automotive market, where J-Devices and Amkor together will generate more than \$0.75 billion in revenue this year. Now, automotive is a very important market for Amkor. And our goal is to exceed \$1 billion in revenue by 2017.



In the R&D area, we have reduced the number of projects in the development pipeline by about 40%, freeing up valuable resources to focus on the most important projects and ensure their timely completion. We have made substantial progress in the 2.5D and 3D areas as we work closely with our customers to develop cost-effective leading-edge packages. A significant portion of our 2014 capital budget is dedicated to equipment for 2.5D and 3D manufacturing lines.

Looking forward to Q1 and 2014. Historically, Q1 is our weakest quarter of the year, and 2014 fits that pattern. We expect that Q1 revenues will be down roughly 11% sequentially, mostly due to seasonality, but also because of continuing sluggish conditions in the high end of the mobile device market.

Our primary objective in 2014 is to grow revenue. We received sequential growth in Q2, followed by a strong second-half, sparked by the launch of flagship mobile devices.

We also expect to grow share at current customers through superior execution and quality performance, complemented by leading technology. We will leverage Amkor's existing manufacturing base with our China-Taiwan fabless, analog and test sales initiatives. And we will continue to invest in R&D and advanced product capacity, since these investments are the foundation for our long-term growth.

JoAnn will now provide more detailed financial information.

Joanne Solomon - Amkor Technology Inc - CFO

Thanks, Steve, and good afternoon, everyone. Looking at the fourth quarter, sales came in at the midpoint of our guidance, and gross margin and earnings per share were at the high-end.

Sales of \$755 million were up 4% from a year ago, driven by our acquisition of Toshiba's power discrete factory and strong NAND memory sales. Looking sequentially, sales were down 2% as we saw the expected seasonal declines in the consumer and computing markets. Gross margin of 19.9% was consistent with adjusted results in the third quarter, and 150 basis points higher than the fourth quarter of 2012. Fourth-quarter operating expenses were \$76 million.

For 2014, we expect operating expenses to be around \$80 million a quarter. Our effective tax rate was 18% for 2013, reflecting the benefit of several positive discrete items. Excluding these discrete items, our effective tax rate would have been 27%. And for 2014, we expect an effective tax rate of around 27% as well.

Our leverage improved in 2013. Debt to adjusted EBITDA is 2.5 times, down from 2.7 times in 2012. We expect further improvement in 2014. Our liquidity is solid, with \$610 million in cash and \$470 million in available credit lines.

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Ana Goshko, Bank of America Merrill Lynch.



Ana Goshko - BofA Merrill Lynch - Analyst

On the outlook, wanted to get a sense of -- you did guide to improvements in the second quarter and what should be a better second half of the year. And wanted to get a sense of if you believe the trajectory of gross margin should follow the revenue guidance you're giving for the subsequent three quarters.

Steve Kelley - Amkor Technology Inc - President & CEO

Ana, let me make a comment there. I think what we're seeing in 2014 -- when we look at the Amkor revenues, we split the revenues basically in two parts. We have the mobile communications part, which is about half our revenue. And the other part we classify as non-mobile com, or mainstream.

What's happening in 2014 is that on the non-mobile com side, we're seeing a seasonal uptick in the second half. And on the mobile com side, we're also seeing a seasonal -- actually an uptick due to launches of new flagship phone models.

So you're seeing a weak first half, then a strong second half. Because both the mainstream and the mobile communications products are peaking in the second half. So it's a bit more than normal, but it's being driven by, really, the phone launches.

If you look at our gross margin performance, our gross margin performance tracks very closely with revenue. So I believe that we'll be back into the low-20% range in the second half of next year. We actually hit 20% in Q4 of 2013 -- this past quarter -- at \$750 million in revenue.

Ana Goshko - BofA Merrill Lynch - Analyst

Okay. Thanks very much. And then if I could just follow up, I wanted to get an update on some cash items.

So wanted to understand where you believe -- or where you stand right now on payments related to the Tessera litigation settlement. And then also on the CapEx guidance for the year, does that include any expenditures related to the build of the facilities in Korea?

Joanne Solomon - Amkor Technology Inc - CFO

Okay. With respect to Tessera, we are weeks away from filing our 10-K. So ultimately, I would refer you to our 10-K for the status of that litigation.

We have about -- just under \$50 million accrued for Tessera. Depending on how the case moves along in the year, we may have some payments, some additional payments this year. And that accrual represents the low-end of our range.

On the CapEx guide of around \$450 million, it does include some incremental expenses as it relates to breaking ground for K5 in the second half of the year.

Ana Goshko - BofA Merrill Lynch - Analyst

Okay, great. Thank you very much.

Joanne Solomon - Amkor Technology Inc - CFO

Thank you, Ana.



Operator

Suji De Silva, Topeka Capital Markets.

Suji De Silva - *Topeka Capital Markets - Analyst*

Quick question on the mobile communications area. You had some programs that helped you in 2013 with the ramps.

I'm wondering what you talked about, Steve, about the new models coming in the second half, whether that would help drive in a similar fashion overall year-over-year growth. Or whether the programs in 2013 were fairly robust versus what you're expecting in 2014?

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

Yes. We're definitely expecting those mobile platforms to drive our growth in second-half. We spent a lot of money on our R&D side, as well as on the capacity side, building the capability to win these designs in 2013. So we're expecting this to start to pay off for us in the second half of this year.

So the magnitude of that uptick will depend on the success of those platforms. But I could tell you that we're ready at Amkor to meet the needs of those customers.

Suji De Silva - *Topeka Capital Markets - Analyst*

Okay, fair enough there. And then also, Steve, I'm curious on your comment about streamlining certain projects in favor of others. What were the parameters considerations you used about how to focus your project efforts versus other elements?

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

You're referring to the R&D project streamlining process. And the basic criteria that we use is to look at the impact on our revenue. So we rank the projects based on their ability to move the needle at Amkor.

And so we took a look at the projects that we were working on and realized that many of them really weren't going to move the needle too much. So we either finished them quickly or stopped working on them. Moved the resources onto the high-impact projects.

So our new CTO, Choon Lee, is back in Korea after a year-and-a-half assignment here in the US. And he's basically driving performance of the R&D group.

And my own personal view is, you end up with much more output when you reduce the number of projects and finish them quicker. So I think what we're going to find is, we are much more productive as an R&D organization.

Suji De Silva - *Topeka Capital Markets - Analyst*

Thanks, guys. I'll jump back in the queue.

Operator

Vishal Shah, Deutsche Bank.

Unidentified Participant -- Analyst

This is [Che Tua] on line for Vishal. You had mentioned that you had been integrating some of your services between -- with Amkor and J-Devices. I was wondering if you could potentially put any number value or incremental margin improvement or timing with what you're doing on that front?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes, I could give you some color there. I'm working closely with Nakaya [son] -- who is the CEO of J-Devices -- in a number of different areas. Bottom line is, we expect to improve gross margin in the J-Devices operation significantly this year. He has a plan to do so, basically using a consolidate and fill strategy.

So he has a number of assets in Japan. And we're basically in a position where he is reducing the footprint somewhat by focusing a lot on bringing new business into his existing footprint.

And we're helping. So we've enlisted the Amkor sales force to start bringing business into Japan from customers outside Japan. And we're also helping bring business in from other parts of Asia into Japan.

J-Devices is helping us. They have a very strong automotive operation. And we're learning a lot working with them, and bringing those learnings back to our own Automotive Center of Excellence in the Philippines. So I think it's a very symbiotic relationship, and it's going to improve our margins as well as J-Devices' margins.

Unidentified Participant -- Analyst

And then, you had mentioned that you're going to increasingly focus your capital to the 2.5D and 3D. And I was just curious. How do you think about the share of your revenue that you can generate over the next two years in that area?

Steve Kelley - Amkor Technology Inc - President & CEO

I think what you'll find is that 2.5D and 3D in particular will start to really take off in the latter part of 2015 and 2016. I think what we've done within Amkor is, we've taken a cost-effective approach in both 2.5D and 3D. So we're constantly looking for what would work for the smartphone market, for the mobile device market.

We also work with some of the high-end participants in networking, and so forth. But oftentimes the solution that works for networking IC maker will not work for the mobile device maker because of cost. We are very conscious of that, and we've moved most of our resource and effort onto the cost-sensitive projects.

Unidentified Participant -- Analyst

Got it. Thank you.

Operator

David Dooley, Steelhead Securities.



David Dooley - *Steelhead Securities - Analyst*

My question involves capital intensity of your advanced products group. It's roughly \$1.5 billion in size in 2013.

What sort of -- as far as the CapEx goes, how much is focused in on this particular bucket? And what is the capital intensity, i.e., like how many dollars do you have to spend to get a dollar of revenue in this area?

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

Let me make a comment there. On capital intensity standpoint, we spend most of our money on the advanced product area. And the basic strategy is to get our money back quickly. So there's a return on investment criteria that we use in advanced products that we wouldn't use in mainstream, for instance.

The second thing we're doing in advanced products is, we are putting much more effort on second-wave customers. So typically, we'll go out and buy a new tester or a new piece of assembly equipment for a first-wave customer who will use that piece of equipment for two or three years. It's important for us to have a second wave of customers who are ready to take that capacity when the lead customer moves to the next platform.

So that's where a lot of our focus is right now. But I could tell you, from a pricing standpoint, the capital that we spend in advanced products influences our pricing at Amkor.

David Dooley - *Steelhead Securities - Analyst*

Okay. And as a follow-up, what are the key levers going forward to improve the gross margins to get back to -- besides revenue. You can see over the last couple quarters your material costs have come down.

Are there any other trends here on the cost side of things that will help you improve margins? Maybe you could give us a comment on the depreciation trends as well. Thank you.

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

I'll make a comment overall about costs, and then I'll turn it over to Joanne for the depreciation discussion. But clearly, we see a trend towards lower-cost packages, particularly in mobile com, moving -- leading-edge customers moving more from flip chip and wafer-level CSP. Which are definitely lower cost, and certainly lower material costs. So that's a good trend from a margin standpoint.

The other thing that we focus on quite a bit is capacity utilization, right? We need to keep our factories full. And though that's hard to measure, you can definitely see it as we report our results. We're a high-fixed cost Company, and we need to keep our factories full.

Joanne Solomon - *Amkor Technology Inc - CFO*

On the depreciation trends, if you look just at Q4 2013, it's about \$100 million in the quarter, as it relates to depreciation, specifically on the manufacturing side. It doesn't include the SG&A or some of the building side. We do see that starting to increase throughout 2014 as you get closer to that 20-nanometer ramp in the second half.

David Dooley - *Steelhead Securities - Analyst*

Okay, thank you.



Operator

Jairam Nathan, Sidoti & Company.

Jairam Nathan - Sidoti & Company - Analyst

You guys mentioned in the prepared remarks about getting China -- making China and Taiwan-based mobile devices two to three times of where it is currently. Can you give us some idea of what it is -- where it is currently in the sense as a percentage of sales, or some other way? Or if it's largely insignificant right now?

Steve Kelley - Amkor Technology Inc - President & CEO

I would classify our sales to established Chinese and Taiwanese customers as low. And we're talking somewhere between 1% and 2% of our revenue.

Jairam Nathan - Sidoti & Company - Analyst

Okay.

Steve Kelley - Amkor Technology Inc - President & CEO

So the good news is, it's all upside. But by the time we're exiting the year, I expect to be hopefully north of 3% of our revenue being generated in that particular segment of Taiwan -- Taiwanese and Chinese established customers.

Jairam Nathan - Sidoti & Company - Analyst

Okay, thanks. And you mentioned -- the other question was on -- there have been some -- one of the competitors asked on having an issue with the wastewater treatment. Do you see that as impacting your business more longer-term (inaudible)?

Steve Kelley - Amkor Technology Inc - President & CEO

Let me just make a general comment. I was impressed with the ability of Amkor and the rest of the OSEC community to respond to that particular problem, and to help our customers maintain their supply chains.

As far as I know, between Amkor and other OSECs, we've been able to keep our customers whole, and avoid any major impact on their manufacturing. So that's very good, I think, commentary on the industry.

There's always some opportunity in these types of situations. We're certainly engaged with more than a few customers in this lumping area. And hopefully, we can build business in the future, based on our service over the last few months.

Jairam Nathan - Sidoti & Company - Analyst

Okay, thank you. That's all I had.



Operator

Terence Whalen, Citibank.

Unidentified Participant - - *Analyst*

This is [Office] in for Terence. Firstly, congratulations on the fingerprint sensing win.

As we look into the second half, can you talk about your communications revenue growth, half over half, with the 20-nanometer opportunity, as well as the fingerprint sensing opportunity? And also, how much sales you had from J-Devices in the fourth quarter?

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

Let me start with J-Devices. J-Devices right now is at a revenue run rate just under \$1 billion a year. Right now, I think Joanne is trying to look up your answer on the communications side of the equation.

Joanne Solomon - *Amkor Technology Inc - CFO*

When you look at the communications growth in 2014, there's some positives and negatives that are impacting us. As Steve mentioned, on the -- in support of 20-nanometer, we're starting to see some significant growth. But we are starting to see some migrations to some lower-cost packages, as well as some reduced test times.

And we did have one customer who exited the wireless base in 2012. So we're having some headwinds on that. So all those puts and takes together -- while we grew 24% in communications this year, we're not expecting anything like that for 2014.

Unidentified Participant - - *Analyst*

Okay. And then --

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

So I think -- yes, I'll just make one more comment. I think if you look at that on a unit basis, we have pretty impressive growth. But really, it's a story of mix. As our customers move to lower-cost packages, we're going with them.

So the gross margin stays as good, if not better. But the overall dollars stay relatively flat year on year. Because we're compensating for some of these customers that have gone away.

Unidentified Participant - - *Analyst*

Okay. And then a follow-up on the gross margins. 19.9% -- pretty close to your -- I believe your long-term model of 20%.

How should we think about the gross margin expansion from here? Is it more of the mix? If you can talk about any impact from foreign-exchange exposure to Korean won or Japanese yen?

Steve Kelley - Amkor Technology Inc - President & CEO

We don't think that foreign exchange is going to have a material impact on our results this year. I believe that our gross margin moving forward is primarily a function of how well we use our capacity, first of all. And secondly, it will be mix.

Unidentified Participant - - Analyst

Okay, thanks.

Operator

Randy Abrams, Credit Suisse.

Randy Abrams - Credit Suisse - Analyst

I wanted to ask a follow-up on CapEx. I may have missed this, if you guided the 2014 CapEx. But if you could also list out or go through the allocation for that spending, like how much would be tied to the 2.5 and 3D line, and how much to the new plant in Korea in second-half.

Steve Kelley - Amkor Technology Inc - President & CEO

I can give you some color there. Right now, as we look at the roughly \$450 million that we're planning to spend this year on new capital additions, about 55% of it is capacity-related. And most of that will be in advanced products.

About 10% is R&D, and that's almost all 2.5 and 3D investments. And then the last 35% is for infrastructure. And the infrastructure includes the spending on K5.

Randy Abrams - Credit Suisse - Analyst

Okay, great. And a follow-up question on the memory business. If you could give an updated snapshot on the size and profitability of that business, and potential to broaden out the customers on the memory side. Or if that's going to be bigger focus.

Steve Kelley - Amkor Technology Inc - President & CEO

I can make a comment about the memory business in 2013, and then I'll move to 2014. But 2013 was a great year for us in memory. We grew it 70%. And that's NAND Flash primarily, with some mobile DRAM mixed in. And most of that business is being driven out of our China facility, and our plant in Korea.

So it's going to be hard to repeat a 70% growth year. But last year we did about \$300 million in sales into the memory market.

This year we're planning to grow with the market. So we're expecting to be right around \$330 million this year, which is growing right around with the market.

Randy Abrams - Credit Suisse - Analyst

Okay, great. And how is the -- is the profitability relative to corporate average, if there is a way to think about that?



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

Yes, this average is up our business, no doubt about that. It's capital-intensive. So it's important for us to maintain a healthy memory business moving forward. But the gross margin is good.

Randy Abrams - *Credit Suisse - Analyst*

Okay. Thank you.

Operator

Arun Seshadri, Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

First, I wanted to understand -- as far as Q4 goes, nice gross margin performance there. If you can talk about what drove gross margin upside, given that revenue came in at the middle of the range?

Joanne Solomon - *Amkor Technology Inc - CFO*

When you look at gross margins in Q4, revenues were down sequentially. But we were able to sustain the margins to account for the level of Q3. And that has a lot to do with the strength we saw on wafer-level CSP heading into the communications. So it was a favorable mix on that front.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, that's great. Thank you. And then, I don't know if you gave this during the call, but I may have missed it. Can you talk about utilization and test in packaging in Q4, and your expectations for Q1?

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

We don't report utilization any more for a number of reasons. But the most important one is, we found that the aggregate utilization numbers didn't have a lot of utility inside the Company.

I can tell you that we have a lot of unused capacity. That's something I know for sure -- both on the test and packaging side.

That's why we've started these three initiatives -- the Taiwan-China initiative, the test sales initiative and the analog initiative. The idea is to use the capacity we have. So I have confidence we can improve our utilization this year just by going out and selling what we have, in addition to the business that we bring in through investment.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. That was excellent, Steve, thank you. And then, Joanne, I think you made a comment that you expect leverage to decline further in 2014. If you could talk about -- you expect most of that leverage improvement to come from EBITDA growth?



Joanne Solomon - *Amkor Technology Inc - CFO*

I would expect most of it come from EBITDA growth. We also have a convert that matures here in April -- \$56 million. That convert is in the money, and the exercise price is \$3.02. So we certainly expect that to convert into equity rather than us paying it off at maturity.

And other things of note on the capital structure that are coming up this year is, we have our 2018 senior notes, 7.375. They become callable in May. So we're monitoring the debt markets, and if there's an opportunity to reduce our cost of debt, we'll certainly continue to be opportunistic.

Arun Seshadri - *Credit Suisse - Analyst*

Okay, great. And then, Joanne, are you still -- in terms of free cash flow in 2014, you still expect to generate free cash flow? And then, can you comment in terms of uses of free cash flow?

Joanne Solomon - *Amkor Technology Inc - CFO*

We certainly do expect to be free cash flow-positive in 2014. In 2013, we started to see some tremendous improvement, even in the face of making the land payment for K5. So we're heading in the right direction on free cash flow as a result of all the initiatives to improve our utilization and grow the top line.

As far as uses of that cash go, our priority is, as always, to invest in the business, both organic and inorganic. And after that, we'll look to other capital structure scenarios, whether it's either bringing down the debt level or resuming the stock buyback program.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. Thanks very much.

Operator

Alex Kotsubey, EOS Partners.

Alex Kotsubey - *EOS Partners - Analyst*

First, I just wanted to see -- you mentioned that you had a lot of excess capacity. And I'm just wondering if you could talk about what areas that excess capacity would be in. Because with the market going your way towards advanced packaging, I would think that you would actually have tighter capacity than what you are citing.

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

Well, I guess I'll use this opportunity as an advertisement, right? If any customers are listening. But we certainly have a fair amount of flip chip capacity available. Much of that business is migrating to wafer-level CSP.

We're seeing openings in flip chip, and we're going after that business. Again, there's a lot of business to be had in the second-wave market in that area.

We also have a lot of capacity open in the wire bond area. And again, that's a collection of a lot of different types of packages, a lot of different types of assembly lines. But it's out there. And we focused our sales and marketing teams on going out and trying to fill that capacity.



Alex Kotsubey - EOS Partners - Analyst

Got it, okay. And then, you cited for the strength that you expect in the back-half of the year, new product introductions. I was just wondering if you could give a little more context around that, just given the fact that some of the product introductions in 2013 were below expectations in terms of volume for the manufacturers.

So just wondering what you're focusing on. Do you see new form factors or new devices coming? What gets you excited about the back-half?

Steve Kelley - Amkor Technology Inc - President & CEO

The reason I'm excited is that we've got a whole new technology coming, this 20-nanometer technology. And what that does, it improves performance significantly. It improves power consumption significantly. And there's some other features coming on board as well.

So I think from what I've seen and heard, the product intros that are on the table for second half of this year should be much higher impact than the product intros we saw last year. Which were more incremental in scope.

Alex Kotsubey - EOS Partners - Analyst

Okay. So I guess your read, based on what customers are sharing with you, is that they realize that some of their late 2013 introductions weren't really revolutionary enough, so to speak? And you're seeing better products along the way?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes. The question is, what will inspire customers to go in and trade their phones in?

Alex Kotsubey - EOS Partners - Analyst

Right.

Steve Kelley - Amkor Technology Inc - President & CEO

And it's got to be something special.

Alex Kotsubey - EOS Partners - Analyst

Right.

Steve Kelley - Amkor Technology Inc - President & CEO

And I see that potential in the second half of this year.

Alex Kotsubey - EOS Partners - Analyst

Okay, great. And then, one last question. So totally understand that you had this big shift to the communications space, but you're still highly tied to the semi industry in general.



So I'm just wondering, in the context of an improving semi industry that's expected for 2014, should we expect you to show better revenue growth than you did in 2013? Or how should we be looking at you in relation to the semi industry as a whole?

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

Well, I think that we'll grow roughly in line with the semi industry. The question is, how much will the semi industry grow in 2014?

But I think at the end of the day, if you take a look at our track record, we typically grow roughly with the market. And I think that's where we're going to end up this year.

Alex Kotsubey - *EOS Partners - Analyst*

Okay, that's very helpful. Thank you.

Operator

Thomas Eagan, JPMorgan.

Thomas Eagan - *JPMorgan - Analyst*

Just a follow-up on the strength that you expect in the second half of the year, particularly in the handset space. Is that something where you're looking at the handset space in general and you're seeing what new models are coming, and you think you're going to get a piece of that business? Or are there specific customers who have already signed you up to do the work for them when those models appear in the second half of the year?

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

I could tell you without going into specifics that we have agreements with customers today that lead me to believe that we'll have a very good share of that business in the second half.

Thomas Eagan - *JPMorgan - Analyst*

Okay, great. That's all I need to know. Thank you.

Operator

John [Desour], Deutsche Bank.

Unidentified Participant - *Analyst*

You mentioned your exposure to Chinese fabless players. Can you give a sense in the last 12 months, as a percentage of revenues, what percentage of revenues actually are from fabless customers?

Steve Kelley - Amkor Technology Inc - President & CEO

So overall at Amkor, we're roughly 50-50 fables versus IDM sales. But in China and Taiwan, obviously, we have very low penetration there. So that's why we're putting so much focus in that area, to try to be as good in China and Taiwan as we are in Japan and the US and in Europe, where we have very good share.

Unidentified Participant - - Analyst

Okay, great. And throughout 2013, was that trend in fables customer share rising or declining or holding steady?

Steve Kelley - Amkor Technology Inc - President & CEO

Oh, it's going to rise, I believe. Because we're entering a whole new market. In the past, Amkor has focused primarily on the high-end of the mobile device market.

This year -- actually, beginning last year, we expanded our focus. So we're focused intently not just on high-end, but also the mid-tier of the market, and even some entry-level opportunities. And we're doing that with our existing customer base. We're migrating to those different parts of the market. But we're also going to partner with new customers, who are already very strong in that market.

Unidentified Participant - - Analyst

Okay, great. Can you share in the fables space where -- what end-markets you participate most strongly in?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes. The two big ones will be smartphones and tablets.

Unidentified Participant - - Analyst

Okay, great. Thanks a lot.

Operator

(Operator Instructions)

Ana Goshko, Bank of America Merrill Lynch.

Ana Goshko - BofA Merrill Lynch - Analyst

I think my follow-up was covered. I was going to ask about the plans with regard to the debt capital structure. And it sounds like you're monitoring potentially the high-yield markets to take out the bonds that become callable in May.

But as a follow-up, is that where you're looking? Or is there more opportunity potentially to issue debt at the subsidiary kind of in-country level of your cap structure?



Joanne Solomon - Amkor Technology Inc - CFO

Yes. And I thank you so much for the question. We do monitor both the US markets, as well as the foreign markets. We have some existing lines already in Korea that, depending on our liquidity situation and how much we may need to borrow in support of the construction of K5, we could find ourselves borrowing more at the local level than at the US level.

Ana Goshko - BofA Merrill Lynch - Analyst

Got it. Okay, well, thanks very much.

Joanne Solomon - Amkor Technology Inc - CFO

Thank you.

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

Okay, thanks, Ana. That ends our Q&A. I will now turn the call back to Steve for his closing remarks.

Steve Kelley - Amkor Technology Inc - President & CEO

I would like to recap our key messages. First, 2013 was a banner year for Amkor. We achieved record revenues and improved the bottom line.

We won key [sockets] in 2013, which will ramp to volume this year. We are actively expanding our customer base. We are building a solid executive team to help drive growth.

J-Devices and our new power discrete business are making solid progress. And despite a slow start in Q1, we expect year-on-year growth in 2014. Thanks very much for joining us today.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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