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AMKR.OQ - Q2 2021 Amkor Technology Inc Earnings Call

EVENT DATE/TIME: JULY 26, 2021 / 9:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology Second Quarter 2021 Earnings Conference Call. My name is Diego, 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 Jennifer Jue, Head of Investor Relations. Thank you, Ms. Jue. Please go ahead.

Jennifer Jue - *Amkor Technology, Inc. - Senior Director of IR and Finance*

Thank you, operator. Good afternoon, everyone, and thank you for joining us for Amkor's Second Quarter 2021 Earnings Conference Call. Joining me today are Giel Rutten, 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 the Investor Relations page of our website, along with the presentation slides that accompany today's call. During this presentation, we will use non-GAAP financial measures, and you can find the reconciliation to the U.S. GAAP equivalent on our website. We will 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 differ. 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 Giel.

Giel Rutten - *Amkor Technology, Inc. - President, CEO & Director*

Thanks, Jennifer. Good afternoon, everyone, and thank you for joining the call today. Today, I will review our second quarter performance and will provide the outlook for the third quarter. I will also make a few comments on dynamics in the markets and technologies where Amkor is well positioned for future growth.

We delivered solid financial results in the second quarter with an all-time quarterly revenue record of \$1.41 billion, above the high end of guidance and an increase of 20% year-on-year and 6% sequentially. Following a strong first quarter, continued momentum resulted in better-than-expected performance in all end markets, most notably communications and consumer, where we saw a sequential increase of 6% and 9%, respectively. High factory utilization for our advanced technology portfolio, and continued improvement in our mainstream business resulted in a record second quarter EPS of \$0.51.

The 6% sequential growth in communications exceeded our expectations after a strong first quarter in this segment. Year-on-year, our communications business grew 28%, representing 40% of total quarterly revenue. For the full year of 2021, we expect continued growth in this business, driven by

the strength in the smartphone market, particularly in 5G with current industry forecast of over 500 million 5G-enabled smartphones to be built this year.

Amkor has a leading position in the 5G RF domain. And over recent years, we have established a proven technology portfolio to address the advanced requirements needed to enable 5G. With our DSMBGA advanced SiP platform, we have established a preferred advanced packaging solution for this demanding application. Amkor's industry-leading design rules, dual-sided molding technology, conformal shielding together with in-line RF testing deliver best-in-class integration levels in high-volume, high-yield manufacturing process. We continue to develop technology and manufacturing scale to support our customers in this growing market segment.

In the automotive and industrial markets, we achieved another quarterly revenue record. Year-on-year growth of 33% underlines the recovery in these end markets. Some supply chain constraints, especially in the wafer and substrate supply, dampened even further growth. We continue to see strength in the mainstream part of our automotive portfolio and have received several customer endorsements, especially for the quality and delivery performance in our Philippines factories.

In the advanced product part of our portfolio, we ran several new products in the automotive sensor domain. For radar sensors, we utilize wafer-level fan-out technology in our Portugal factory. Customers are rapidly adopting this technology due to the strict requirements of radar sensors. In addition to the growing sensor markets, we also ramped several new products targeting the automotive high-power domain accelerated by the growth of the EV market. For the second half of the year, we anticipate the automotive supply chain will gradually improve, resulting in further growth. Beyond the second half, we believe the growth drivers in this market remain in place, and we expect that semiconductor content per car will further increase due to accelerated proliferation of driver assistance electronics and the electrification of more car models.

Strength in the consumer market resulted in a better-than-expected sequential increase of 9%. We continue to diversify our product and customer portfolio in IoT wearables and ramped several new products in the quarter. We expect this market will be an important driver of growth, and our overall broadened customer pipeline for advanced SiP solutions in this domain remains strong. In addition to the wearable market, we also experienced strength in traditional consumer products like gaming, display and video devices, and we expect continued growth going forward.

Revenue in the computing market set another quarterly record with sequential growth of 6% and a year-on-year growth of 21%. We experienced solid performance in all computing applications and a further strengthening of our project pipeline. We are investing in technology and manufacturing scale to capitalize on opportunities across the computing domain, from personal computing to infrastructure and data centers. We see more opportunities in this market in emerging segments like AI and high-performance computing and in the changes brought by the ongoing deverticalization in these markets. Finally, our test business grew 12% year-on-year in the second quarter as we broadened the scope of our test services, 5G communications and system-level testing and expanded our test attach rates.

To prepare for the volume ramp in the second half of 2021, our manufacturing organization has expanded cleanroom space and capacity, most notably for advanced packaging in our factories in Korea. Also, we are encouraged by progress in the U.S. on investment policies to incentivize domestic semiconductor manufacturing. The Amkor team is exploring a possible factory location to align with the investments in the U.S. supply chain of other major semiconductor companies.

During the quarter, we increased our CapEx target for the year to around \$775 million, partially in anticipation of some initial investments in a new factory location. Other major investments in 2021 are planned for wafer-level flip chip technology, SiP and test capacity as well as facility expansions and specific investments to support our Industry 4.0 program.

Now let me turn to our third quarter outlook. We expect significant growth with revenue of \$1.7 billion at the midpoint of guidance. This would represent a sequential increase of 21% and a year-on-year increase of 26%. The ongoing short-term constraints in the supply chain of materials and equipment are expected to continue into the second half of 2021, and we are working closely with our suppliers and customers to help mitigate these risks. For full year 2021, we expect growth in all end markets, particularly communications. And we are well positioned to support the continued recovery in automotive. We remain confident in our strong market position and the overall demand environment and expect to outgrow the semiconductor market in 2021.

Megan will now provide more detailed financial information.

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

Thank you, Giel, and good afternoon, everyone. Today, I will review our second quarter results and then provide some comments about our third quarter outlook.

Second quarter sales were better than expected, up 6% from the first quarter to an all-time quarterly record of \$1.41 billion. All of our end markets experienced growth this quarter. And as Giel noted, revenue in both automotive and industrial as well as computing were new quarterly records. Advanced products revenue grew 17% in the first half of 2021 over the same period last year, and represent approximately 70% of our business. Our mainstream products revenue also improved, driven by the recovery in automotive, and increased 20% in the first half of 2021 over the same period last year. Advanced SiP products grew double digits sequentially in Q2, primarily in support of the communications and consumer end markets.

With strong growth in both advanced and mainstream products, gross margin grew 300 basis points over prior year Q2 to 19.4%, and gross profit dollars of \$273 million is a second quarter record. Material content increased 150 basis points sequentially and cost in support of second half growth moderately constrained gross margin.

Operating expenses for the quarter came in slightly lower than expected at \$118 million, and operating income margin growth outpaced gross margin expansion, increasing 365 basis points year-on-year to 11%. Net income for the quarter was \$126 million, resulting in record Q2 EPS of \$0.51.

Q2 EBITDA increased over 40% year-on-year to \$295 million, and EBITDA margin was 21%. We ended the quarter with \$885 million of cash and short-term investments and total liquidity of \$1.3 billion. Our solid financial position provides flexibility to continue to invest in growth opportunities.

Moving on to our third quarter outlook. We expect revenue to be between \$1.65 billion and \$1.75 billion. Gross margin is expected to be between 18.5% and 20.5%, Consistent with historical seasonality, Q3 expectations include a significant increase in communications, driven by advanced SiP products. We expect Q3 operating expenses of around \$115 million. Our plans for controlling OpEx in a significant growth environment are expected to contribute to operating income margin expansion of around 150 basis points. We expect full year effective tax rate to be reduced to around 15% due to discrete tax benefits recognized in the first half of 2021 and favorable foreign currency movements.

Q3 net income is expected to be between \$150 million and \$200 million, resulting in EPS of \$0.60 to \$0.80. This would represent over 80% growth in EPS at the midpoint compared to the prior year quarter. We are increasing our planned capital expenditures to \$775 million for the year to meet strong second half demand and for initial investments in a new factory location. Our target capital intensity remains in the low teens, and we expect free cash flow for 2021 to exceed prior year free cash flow.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Haas Liu with Credit Suisse.

Unidentified Analyst

This is [Angela] on behalf of Randy, and congratulations on a great quarter. So if you can give a little more color on what has moved the strength of your third -- what will be driving the strength of your third quarter results and about like relative strength and weakness of application and your initial view for 4Q.

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

[Angela], let's just clarify the question. There was a little bit of audio on our side. So I think your question is to add some color with respect to any supply constraints that we might be experiencing heading into the third quarter to perhaps expand, by application, on those supply constraints and then whether or not we have any comments as it relates to impact in the fourth quarter. Did I capture your question appropriately?

Unidentified Analyst

Actually, my question is more so around these larger drivers of your performance.

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

Okay. So end market drivers. Okay, [Angela]. Giel, would you like to address the end market drivers?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Yes. [Angela], let's try to summarize that. I'm -- the main catalyst for growth is -- certainly in the third quarter is 5G communication then IoT, specifically IoT wearables. Generally, automotive -- and in automotive, we see strength in the driver assistance features and also in the automotive power domain and then, of course, high-performance computing in general. But if you look specifically into Q3, we see that the communication market is strong. We expect growth both in the volume of smartphones to be sold in the third quarter as well as an increase in the number of 5G handsets to be sold. Comparing to last year, it is expected that this year, 500 million smartphone 5G-enabled handsets will be deployed into the market, which is a doubling compared to last year. And that drives a significant semiconductor content, where Amkor has a good position in the RF domain but also in multiple other components in the 5G smartphones.

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

So [Angela], just to add to Giel's comments to give you some color, our 21% increase for Q3 at the midpoint. Our -- the last 5 years, we've had about 15% increase. So that significant increase in Q3 we're expecting, as Giel mentioned, is led by communications. Typically, if you look back at our Q3 performance, you'd see around a 30% increase for communications. And we're expecting something around 40% for the communications market. Any follow-up questions, Angela ?

Unidentified Analyst

Yes. Sure. About your third Q gross margin guidance, it -- does that -- you briefly mentioned about some costs factoring in. Can you elaborate upon that mid-20% margin?

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

Yes. [Angela], are you speaking specifically to the Q3 guide for gross margin or specific to the Q2 actuals? I just wanted to make sure I addressed the right question.

Unidentified Analyst

Yes, the 3Q guide.

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

Okay. Yes. So our midpoint for the gross margin guide is flat sequentially, acknowledging revenue is expected to increase 21%. So as you know, gross margin can fluctuate based on utilization or product mix. So advanced SiP revenue is increasing significantly in Q3. As I mentioned, that is supporting the communications market. And advanced SiP does have a higher material content, and so that's what impacts product mix. However, our gross profit dollars are projected to be up over \$50 million or 20%, and operating income margin is expected to expand around 150 basis points sequentially. EPS is also expected to be up around \$0.20 or 40% to a record \$0.70. So overall, while the product mix can have an impact on gross margin percentage, advanced SiP is profitable, generating good results and cash flow. Any...

Unidentified Analyst

And a follow-up around your -- yes, around your SiP pipeline. Can you give an update on your SiP pipeline, the revenue expectation for the full year? And do you see it growing, factoring multi-sourcing on some of the consumer audio products?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Thanks, [Angela]. Let me try to answer that question. I think with respect to our SiP pipeline, as we already mentioned earlier, we have a strong pipeline both in the communications segment as well as in the consumer segment. For communication, we see healthy growth in the third quarter. And of course, we don't guide for the full year, but we expect that to extend in the fourth quarter also. For the consumer markets, we are ramping up several new products in the second quarter as well as in the third quarter. And we see continued strength there, proliferating in multiple products as well as in multiple customers there. So going forward, we expect SiP to be an important product -- part of our product portfolio in Amkor where it goes -- from starting with communication, it extends into the consumer market as well as in the automotive and the computing market. Any further questions there?

Unidentified Analyst

And on lead -- yes. On lead times, are your lead time running normal for assembly and test? And how are your lead times now? Are you getting additional equipment?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Okay, [Angela]. In the supply chain, we are experiencing several challenges. One is in the lead time of equipment. New equipment, we saw, over the last 6 to 8 months, lead times actually doubling. But overall, we were able to install the capacity that we require for our ramp in the third quarter. So although that lead times are extending, we don't see that as a bottleneck for the second half of this year. And we're already in anticipation of these lead times in selected areas, ordering equipment for the following year.

Now if we look to the lead time for our manufacturing process, these lead times are not changed. We don't see an extension there. We start our manufacturing process when we have all the materials available. And then the -- our manufacturing lead time is unchanged, and that holds both for assembly as well as test. Of course, besides equipment, we see more challenges in the supply chain for materials specifically where we see significant challenges for substrates and lead frames in different parts of the market. For the second and third quarter, we're able to work with our suppliers and customers to deliver on our forecast. However, we see a challenge to support further upsides.

Unidentified Analyst

That's great. And next, regarding the industry for billing data. So the billings are at a record high and do worry some investors. So how do you see the industry response? And do you have any concern on the reversal to oversupply? And do you negotiate with your customers on any agreement to guarantee volume and mitigate risk or capacity?

Giel Rutten - *Amkor Technology, Inc. - President, CEO & Director*

Okay. Thanks, [Angela]. Let me start with the second part of your question. It's the agreements that we have with our customers. In the current market conditions, we see several agreements with our customers that go beyond our regular agreements that we have. And they range from prepayments to minimum loading agreements in critical areas where we see significant increases. And customers are willing to support these changing commercial terms and work with us.

Then going back to your first part of the question that was very much related to billings in the equipment industry. And this is indeed a very strong year for the equipment industry. We see significant installation of new capacity in the course of this year. The way that we look at this is very much that in 2020, we saw a significant moderation in the installed capacity due to the COVID situation. So I see 2021 a bit of a catch-up year where there is higher investments. That will continue. Of course, the industry is expected to grow, but I see this year very much as a catch-up year versus a moderate 2020 investment year.

When it comes to the lead times for critical equipment, we're working with our suppliers there to ensure that we have the forecast for 2022, in such a way that our suppliers can preempt the volumes that they need to build for us next year. And we are confident that we are able to also support our customers in the coming year. Does that answer your question, Angela ?

Unidentified Analyst

Yes, yes. Thank you so much.

Operator

And our next question comes from Art Winston with Pilot Advisors.

Arthur Michael Winston - *Pilot Advisors, L.P. - CEO, President, and Chief Operations Officer*

Congratulations on such a great quarter for shareholders. My first question, Giel, is would you anticipate, if you forget seasonality, that the 5G business will continue to grow from this level? Or would you anticipate it should flatten out going forward?

Giel Rutten - *Amkor Technology, Inc. - President, CEO & Director*

Yes. That's a good question. I mean we see the transition from 4G to 5G continue for the next 2 to 3 years. This year, it's expected 500 million handsets being built with 5G capability, which is about 40% of the total handset market. We expect that to grow in 2022 to something like 65% to 70%. And then the years after, it will gradually move to a higher percentage. The overall smartphone market, if you take the overall volume, it grows mid-single-digit percentage this year. And we expect, let's say, a moderate growth going forward. We saw some of the critical markets like, for example, the India market holding back a bit in the second quarter, but we expect that to recover going forward. So that's what we see over the next 2 years, continued growth in 5G. We have a strong footprint there, and that is a strong growth driver for Amkor going forward.

Arthur Michael Winston - Pilot Advisors, L.P. - CEO, President, and Chief Operations Officer

Good. In terms of capacity utilization, are we bumping up against utilization in any place like Korea or someplace where it's fully utilized?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Well, we installed significant incremental capacities actually in the second quarter to prepare for the third quarter ramp. Currently, our lines are highly utilized. We see still some utilization improvement possibilities in our Japan factory, for example. But generally, in the third and fourth quarter, we are close to fully utilized. And we also expect this year to be close to fully utilized in the third and fourth quarter.

Arthur Michael Winston - Pilot Advisors, L.P. - CEO, President, and Chief Operations Officer

Wow. Okay. Have you picked out a location in the United States? And if so, what do you think the whole project will cost when you're finished up with it?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Well, we're watching closely the activities in the U.S. with establishing a semiconductor manufacturing supply chain. Of course, we are encouraged to see the passage of the chips for American funding. Amkor's uniquely positioned to be an OSAT in the U.S. with a U.S.-based company. We are headquartered in Tempe, Arizona. Of course, with respect to the U.S. cost structure as compared to the Asian cost structure, we are really currently working with federal, state and local jurisdictions to really understand the incentives that could become available to build a competitive supply chain in the U.S. I mean currently, we're actively exploring and evaluating potential sites for U.S. facilities and to bring that up in line with other investments in the supply chain to be able to support our customers in the U.S.

Arthur Michael Winston - Pilot Advisors, L.P. - CEO, President, and Chief Operations Officer

But nothing has been signed so far? You have nothing in that way?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Nothing is -- yes. No, but we're zooming in to a few possible locations, and we expect to finalize this in the next phase.

Arthur Michael Winston - Pilot Advisors, L.P. - CEO, President, and Chief Operations Officer

Okay. My last question is, on a couple of older conference calls, you alluded to going into sort of more high technology testing and emphasizing testing going forward but you're really not talking about it very much. So is that -- is testing growth in the cards for the future?

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Well, the test -- let me step back here to clear the perspective. I think turnkey services for Amkor is important. And turnkey basically includes bumping, probing, assembly and final test. So testing is an integral part of our offering. And we are investing significantly to expand our test capability and capacity, very specifically in the 5G domain, where 5G testing is a new technology area where we started to invest in about 2 years ago, and we now have significant volume capability in place in our Korea facility.

Operator

Thank you. And at this time, I'm showing no further questions. I would like to turn the call back over to Giel for closing remarks. Thank you.

Giel Rutten - Amkor Technology, Inc. - President, CEO & Director

Okay. Thank you. Before closing the call, I would like to recap our key messages. For the second quarter of 2021, we delivered all-time record revenue of \$1.41 billion and record second quarter EPS of \$0.51. For the third quarter, we expect robust year-on-year growth of 26%, with revenue of \$1.7 billion. Supply chain constraints are expected to continue in the second half of this year, with gradual recovery occurring through the first part of next year. We are working closely with our customers and suppliers to help mitigate risks from these ongoing constraints. The main catalysts for growth are 5G, IoT, automotive and high-performance computing. And with Amkor's position in these key markets, we expect to outgrow the semiconductor market in 2021. And last but not least, I would like to thank the global Amkor team for delivering another great quarter. Thank you for joining the call today.

Operator

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

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