OVERVIEW:
AMKR reported 1Q14 sales of $696m. Expects 2Q14 sequential revenue growth to be nearly 10%.
Good day ladies and gentlemen, and welcome to the Amkor Technology first-quarter 2014 earnings conference call. My name is Colton. I will be your conference facilitator today.

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

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 at our website.

We will also make forward-looking statements about our expectations for Amkor’s future performance based on the environment as we currently see it. Of course, actual results could be different. Please refer to our press release and other SEC filings for information on risk factors, uncertainties, and exceptions that could cause actual results to differ materially from these expectations.

Please note that the financial results discussed today are preliminary, and final data will be included in our Form 10-Q. With that, let me hand it over to Steve.
Steve Kelley - Amkor Technology Inc - President & CEO

Good afternoon. Thanks for joining the call today. Our outlook for 2014 has improved significantly.

Customer forecasts have strengthened, and our growth initiatives are gaining traction. We are seeing increased demand for wafer level and other advanced packaging where Amkor is a leader. We are preparing for a strong third quarter, where a number of flagship mobile devices with high Amkor content will be launched to market.

In the first quarter, we generated revenues of $696 million, near the high end of our guidance. We benefited from incremental demand in the mobile device market and ramped a fingerprint sensor product to high volume. Our increased revenues drove the first-quarter gross margin and earnings above our guidance range.

We expect sequential revenue growth of nearly 10% in Q2 with improved gross margin and earnings. For the full year, we expect Amkor revenues to grow faster than the overall semiconductor market.

Many customers are migrating quickly to wafer level packaging because it is a cost effective way to meet the very thin requirements of today’s smartphones and tablets. Customer preferences for wafer level and other advanced packages work in Amkor’s favor. We invested early in these technologies and are well down the learning curve.

The automotive market is also an important part of our business and a key element of our growth plan. We like the stability and potential of the automotive business. It’s a natural fit for Amkor, given our emphasis on quality, execution, and manufacturing stability.

We expect the combined automotive revenues of Amkor and J-Devices to exceed $750 million this year. As a reminder, Amkor owns a 60% stake in J-Devices, the largest OSAT in Japan. We intend to increase our stake to 80% in 2016, at which time we will fully consolidate J-Devices’ results into the Amkor P&L. Today, from a reporting standpoint, we treat J-Devices as an investment.

In our other major markets, computing, consumer, and networking we expect to see steady year-over-year growth. Our sales and marketing teams are focused on broadening our customer base, as well as deepening our engagements with current customers. These efforts are helping to stimulate revenue growth across the portfolio.

Our power discrete business secured production commitments from two new major customers in Q1. This is an important milestone which demonstrates our ability to compete in this space; in particular our ability to reduce manufacturing costs, achieve high-quality levels, and execute on commitments were keys to winning these deals. Other potential customers are working with our engineering and quality teams to evaluate and qualify our power discrete factory in Malaysia.

J-Devices is making excellent progress with their consolidate-and-fill strategy, delivering solid results in the first calendar quarter of 2014. J-Devices’ outlook for the coming fiscal year is good, with a revenue forecast of just under $1 billion and improved gross margins.

The alignment and collaboration between Amkor and J-Devices continues to strengthen. We are working together on key R&D projects, jointly visiting customers, and sharing best practices.

A key first quarter win for J-Devices was Renaissance Electronics’ decision to transfer most of its Singapore production to J-Devices’ factories. This plan will boost J-Devices’ revenue and factory utilization beginning in 2016. Most of the transfer of business will be for automotive microcontroller customers.

We are also making good progress in new marketing and sales initiatives designed to leverage our existing assembly and test capacity. The most prominent of these initiatives is a push to expand our business with fabless companies in China and Taiwan.
In the first quarter, we gained a number of design wins and began ramping a smartphone win to high volume production. We continue to broaden our customer base in the region, and are adding marketing, sales, application, and customer service personnel, including some engineers who we based directly on customers.

We are raising our expectations for full-year 2014 capital expenditures to $575 million, plus or minus. Nearly all of the incremental investment will be for advanced package capacity and leading-edge testers. The demand for this capacity is spread across many customers, which reduces our investment risk. We believe that these investments are the foundation for a long-term growth.

In closing, I would like to note that Amkor recently received Intel's Preferred Quality Supplier Award. We are proud to be 1 of just 18 suppliers Intel recognized for outstanding performance in 2013. Joanne will now provide more detailed financial information.

Joanne Solomon - Amkor Technology Inc - CFO

Thank you Steve, and good afternoon, everyone. Overall, Q1 was a solid quarter and better than our expectation. First quarter sales of $696 million were up 1% from a year ago. We saw significant improvement in our mainstream wirebond product business, particularly for memory and discrete products. Advanced product sales were off due to the temporary pause in the mobile communications market.

Our gross margin improved 180 basis points, and earnings per share increased 29% over the first quarter of 2013. The increase in gross margin was primarily due to the improved capacity utilization and lower cost of goods sold. With gross margin at 18.5% in our trough quarter, this is strong evidence that our profitability improvement initiatives are gaining traction. We expect to deliver gross margin of nearly 20% for the second quarter.

We made substantial progress with our research and developments efforts for next-generation 2.5-D and 3-D packaging technologies. We are working closely with our customers to develop cost effective 3-D edge packages.

Operating expenses in the quarter were $83 million. This was up from $76 million in the fourth quarter, principally from our R&D activities in connection with the ramp of 20-nanometer production and other technology initiatives, as well as higher compensation costs. For the rest of 2014, we expect operating expenses to be about $85 million a quarter.

Our effective tax rate in the first quarter was 24%. With our improved outlook for the year, we expect to benefit more significantly from our tax holiday jurisdictions. For the full year 2014, we now expect an effective tax rate of around 22%.

Our equity pick-up from our 60% ownership in J-Devices in the first quarter was flat with the fourth quarter, and up $6 million versus the prior-year quarter.

Q2 is their seasonally slowest quarter, and we expect our equity pick-up will step down as well. We see their contribution to our earnings accelerating in the second half as they continue executing on their consolidate-and-fill strategy, and from the expected benefit on the settlement of a take-or-pay contract likely in the third quarter.

At March 31 we had total debt of $1.7 billion and our debt-to-EBITDA was 2.5 times. Our liquidity is solid, with $629 million in cash and $440 million in available revolving credit lines and undrawn secured term loans.

In April we reduced our debt by $116 million and improved our leverage. The remaining $56 million of our convertible debt was converted by the holders into 19 million shares of our common stock. As a reminder, this has no impact on our diluted EPS since the convert has historically been accounted for on an as-converted basis.

Also in April we prepaid $60 million of our foreign debt. With that, we will now open the call up for your questions. Operator?
Randy Abrams, Credit Suisse.

**Randy Abrams - Credit Suisse - Analyst**
The first question, I just wanted to see, I think relative to a few months ago, your prior plan was probably to at least track in line with the industry. And I think now your shifting to view to outgrow the market. Could you maybe talk about the swing factors over last few months to give you a more confidence to actually outgrow the industry now?

**Steve Kelley - Amkor Technology Inc - President & CEO**
Randy, a couple of things. Our major market is in mobile communications, the mobile device market in particular. And we've seen some things in that market that give us more confidence.

We're seeing good progress on the 20-nanometer side. That technology appears to be hitting all the yield benchmarks that we expect hit in the first half of this year. So we have higher confidence in the ramp in Q3 and Q4.

We also have higher confidence in our share percentage in mobile communications going to the second half of this year. We have better visibility into the sockets we've won.

The second aspect to our revision is on the mainstream product side. We had a strong first-quarter mainstream products, and we expect to maintain that level of strength for the remainder of this year.

**Randy Abrams - Credit Suisse - Analyst**
Okay, great. And for the J-Devices, I think you mentioned second half a few things happened. If you could elaborate a bit on the take-or-pay settlement and growth driver. I think first second half, and maybe a first view by 2016 as you consolidate it.

I think your target you mentioned to get to about $1 billion sales. If you could talk about potential, or at least an early cut on what margins and profit contribution would be, or at least an early target for that a couple years out once you start consolidating that?

**Steve Kelley - Amkor Technology Inc - President & CEO**
Randy, let me take that question. So let's talk about the plan first for J-Devices. We expect J-Devices to deliver roughly $900 million to $1 billion in revenue this coming fiscal year. So their fiscal year starts April 1 and ends March 30.

And we're expecting margins to trend upward. So I won't give you specific numbers, but we expect a significant increase in margins this year and also the year following. Let me tell you why I think that's going to happen.
There’s a basic reason in that J-Devices is executing a consolidate-and-fill strategy where they’re reducing their footprint over time and bringing more business in to fill that footprint. But the second part of the strategy is really a focus on automotive. So if you take a look at their business plan, in the past fiscal year they were about 45% automotive revenue.

As we exit the next fiscal year, their revenue will be about 60% to 65% automotive. That’s very sticky revenue, and we have confidence that’s going to continue to grow, and it’s certainly an area of strength in Japan.

Your second question was with regards to the take-or-pay. As you may recall, J-Devices purchased a number of factories over the past two years.

One of the customers they purchased factories from agreed to basically true-up their revenue and their profit on a yearly basis, and that’s where that payment’s going to come from. We think it’s going to happen in Q 3. There’s some potential to make it fold into this quarter, but we’re not willing to forecast it yet.

Randy Abrams - Credit Suisse - Analyst

Okay, great. And last question for now, on the recent industry trend, it seems a little more discussion on the fan-out wafer level packaging where we had TSMC announce, or give more details on, info and stats on their call talked a bit more on EWLB.

If you could maybe talk if you’re seeing more customer interest in that area, where a scenario you want to invest in, and how Amkor would be positioned if that were to take off? And maybe some of the applications that may adopt this fan-out wafer level packaging?

Steve Kelley - Amkor Technology Inc - President & CEO

Yes, I’d be happy to make a comment on that. First, let me just make a comment on wafer level packaging. We’re seeing a tremendous uptake in wafer level packaging, and that’s generally for the smaller packages, not for applications, processors, and base-bands but for everything else that goes into a phone.

So what’s driving that is a desire for very thin packages. That’s being driven by smartphones and by tablet applications.

We have a lot of things in the R&D shop, a lot of projects where we’re focused on this very issue. A number of different approaches to it, including wafer level fan-out, but also other approaches.

So I think as I look at what’s being talked about by TSMC and others, we’re all trying to achieve the same objective. That is to deliver a highly reliable very thin device to customers at a reasonable price.

And our history with TSMC is that we’ve worked together in a partnership fashion. One example is our copper pillar bump technology which we licensed to TSMC last January. So I anticipate moving forward that TSMC will develop their fan-out technology, we’ll continue developing our technologies, but we’ll work together to optimize costs and availability for the customer base.

Randy Abrams - Credit Suisse - Analyst

Okay, great. Thanks a lot.

Operator

Chad Dillard, Deutsche Bank.
Congratulations on the great quarter. Just first question, just given that you've guided the CapEx up to $575 million, do you still expect to remain free cash flow positive in 2014?

And how should we think about the linearity between the third and fourth quarters? And how does the incremental CapEx break out between advanced packaging and testers?

Sure, I can take that question. We do expect to be free cash flow positive for 2014, with the strength of the business in the second half in support of mobile communications. That will throw out some good cash flows so will offset the CapEx.

As far as linearity goes, we are obviously, with the peak quarter expected in Q3, most of the CapEx is heading in in Q2 and Q3. We do have CapEx that goes into Q4 that begins to set up 2014.

Great. And then how does it break out between advanced and test?

On the breakout of CapEx, we look at it more on a turnkey basis now. I would say 50% of CapEx is heading into our advanced product, 30% is heading into mainstream, which does include our advanced stats packages for memory, and then 10% is R&D, and 10% for infrastructure and other.

Great. And then can you give us a sense of where utilization levels are for flip chip as well as wirebonded? I know you had mentioned in the previous quarter they had been a little bit low. But maybe you can give us some color on how to think about that against your gross margins guiding to about the low 20%s in the back half of this year?

I can start the comment to give some color on utilization. We're seeing really good utilization on the wirebond front. We see steady improvement throughout the year. I would describe it very seasonally.

On the advanced side, as we hit the pause on mobile communications here in Q1, they're clearly at a trough. We see some build up in Q2, but it's definitely more second half loaded with a much stronger Q3 and Q4.

Great. Thank you very much.
Suji De Silva, Topeka Capital Markets.

Suji De Silva - Topeka Capital Markets - Analyst

Nice job on the quarter, guys. In terms of the advanced packaging, it seems like the pricing there came up sequentially the first time in several quarters. Can you talk about the dynamics there and what the expected pricing trend as you see this growth improvement would be going forward?

Randy Abrams - Credit Suisse - Analyst

Yes, I'll make a comment there. I think in general pricing in our business is always pretty competitive. The difference with advanced products is typically they demand a high level of capital investment, both on the assembly and the test side. So there are only a few companies that can invest to that degree, and Amkor is one of them.

And the other characteristic of these advanced products is they're typically short lifecycle products. I think all of us look at the economics of these deals in a similar way where we need to ensure that we achieve some payback in a reasonable amount of time. So I think that's probably keeps a lid on price reductions to a certain extent.

Suji De Silva - Topeka Capital Markets - Analyst

Okay. Thanks, Steve.

Joanne, you said OpEx I think would be flat sequentially next couple of quarters. Can you sustain that level of leverage versus what kind of OpEx growth will you expect longer term versus revenue as you scale the business?

Joanne Solomon - Amkor Technology Inc - CFO

In my prepared remarks I mentioned $85 million on average for the quarter. I do see the pattern being higher in -- here in Q2 and then beginning to taper down in Q3 and Q4.

We did see a pop-up in operating expenses driven by R&D with the pace of heading into the second half on 20-nanometers. So there was an increase. As we hit high volume production that will begin to taper down.

Moving forward, OpEx will scale with the business. So I do expect R&D will move up higher as we continue the growth in the advanced products, but we'll keep a balance on it.

Suji De Silva - Topeka Capital Markets - Analyst

Okay, great. And then lastly, what's the gross margin differential between advanced products and mainstream, roughly? Just to understand, because if the mix improves in advanced, I'd imagine your gross margin could continue to trend higher, if that's what you expect. Thanks.

Steve Kelley - Amkor Technology Inc - President & CEO

So we don't typically give specifics on that, but your assumption is correct. The advanced products generate higher margins than the mainstream products.
Suji De Silva - Topeka Capital Markets - Analyst
Okay. Thanks, guys.

Operator
Eric Rubel, Stifel Nicholas.

Eric Rubel - Stifel Nicolaus - Analyst
Steve or Joanne, I wanted to ask a question about the two new designs that you had in power discrete. Could you give a little bit more color on those designs?

And then if you could talk more broadly about analog mixed-signal strategically. If I think about your facility infrastructure, I think about it as being historically more optimized for higher volume designs. How are you adapting your facility infrastructure to possibly be more well-suited for low volume packages?

I know historically you may not have wanted to swap designs frequently. Have things changed, and how aggressive do you think you can be in the mixed-signal market? Thanks.

Steve Kelley - Amkor Technology Inc - President & CEO
Okay, sure Eric. Good question. Let me talk about prior discretes first.

We acquired Toshiba’s Malaysia facility back in August of last year. And so these design wins, these major design wins that we earned in Q1 were pretty significant because they’re basically our first third-party customers. So it validates our ability to be competitive in the power discrete market.

This is not a big OSAT market today. Most of the players in this market are vertically integrated. So both of the customers that we won, their designs in Q1, they’re both highly vertically integrated companies that have reached a point where they don’t necessarily want to invest incrementally for their assembly and test capacity. So it basically validates our business model.

I think moving forward, you’ll see further announcements where we’re bringing customers into that facility. So I’m very happy that this is happening. It validates the purchase.

Eric Rubel - Stifel Nicolaus - Analyst
Terrific. Thanks. Sorry, did you have more, Steve?

Steve Kelley - Amkor Technology Inc - President & CEO
I wanted to ask you the second part of your question, though, and answer that one on analog mixed-signal part.

Eric Rubel - Stifel Nicolaus - Analyst
Yes?
Steve Kelley - Amkor Technology Inc - President & CEO

So I think on the analog mixed-signal area, no matter who you deal with, whether it’s a large customer or small customer, there’s a lot of variety, right? And so that’s just a precondition for doing business in that area.

Our number one facility for that is in the Philippines. And so that’s our number one wirebond facility. It’s also our automotive center of excellence.

I think the challenge has primarily been on the sales side as opposed to the factory side. We’re just introducing ourselves to new customers and also reintroducing ourselves to customers we used to deal with who drifted off over time. So I think a lot of this is just a matter of us going and working with new customers, going deeper with existing customers to fill our lines, particularly in the Philippines.

Eric Rubel - Stifel Nicolaus - Analyst

That’s good color, thanks. Joanne, quick question. You repurchased some debt in the quarter. Could you talk a little bit about how you’re thinking about the capital structure there?

Joanne Solomon - Amkor Technology Inc - CFO

Okay. So in April there were two debt transactions that took us down and our leverage. Right now we’re at $1.5 billion.

The remaining $56 million of our convert, the holders converted into shares. And then we did repay some of our foreign debt in Korea.

How we are looking at the capital structure these days fits with the strategies around sales growth and profitability. With the higher level of profitability, our EBITDA’s going up. So our debt-to-EBITDA continues to improve. So we feel very comfortable with our leverage.

Over time we do want to bring down our debt. And we do have a senior note that has its first call date coming up here, and we’ll actively monitor the market to see if there’s a transaction that makes sense to reduce our cost of debt. But we feel very comfortable with level of debt we have today. Over time, we expect to reduce, and our maturities are in good shape.

Eric Rubel - Stifel Nicolaus - Analyst

Is there a leverage target that you have in mind, or is that not something you think about?

Joanne Solomon - Amkor Technology Inc - CFO

So I’d like to see us get closer to the 2 times EBITDA level and sustain it there.

Eric Rubel - Stifel Nicolaus - Analyst

Okay. Thank you very much.

Operator

Ana Goshko, Bank of America.
Ana Goshko - BofA Merrill Lynch - Analyst
If you wouldn't mind reminding us, or me at least, on the J-Devices on the potential to buy in the additional 20% stake, how will that valuation be determined in 2016?

Joanne Solomon - Amkor Technology Inc - CFO
Okay. There is a predetermined option calculation formula. It’s a combination of an EBITDA multiple as well as based off of the net assets of the company.

Ana Goshko - BofA Merrill Lynch - Analyst
Okay. So order of magnitude, do you have a sense of what that could run in terms of the cash?

Joanne Solomon - Amkor Technology Inc - CFO
We don’t have an estimate right now.

Ana Goshko - BofA Merrill Lynch - Analyst
Okay. And then how is J-Devices capitalized now? Is there any debt that you would be consolidating at the time that you consolidate it?

Joanne Solomon - Amkor Technology Inc - CFO
They do have some debt. It’s very well capitalized. It’s about $100 million in debt.

Ana Goshko - BofA Merrill Lynch - Analyst
Okay. And that’s something that you would just consolidate onto your books, or would you need to refinance it, do you think?

Joanne Solomon - Amkor Technology Inc - CFO
A lot of it tends to be short term. The closer we get to it, we’ll have to figure out whether we need to refinance it ahead of the consolidation.

Ana Goshko - BofA Merrill Lynch - Analyst
Okay, thanks. And then if I could also ask for an update on the arbitration with Tessera? I think there’s a low-end estimate of $60 million of total payments there, and about $20 million had been made the last I had gotten updated. So I’m wondering if there are any additional payments or any kind of update on the outlook?

Steve Kelley - Amkor Technology Inc - President & CEO
Ana, for this question I’d like to defer to Gil Tily, our General Counsel.
Gil Tily - Amkor Technology Inc - General Counsel

Hi, Ana. This is Gil Tily, happy to answer your question.

We expect the arbitration panel will issue an award, probably sometime during the second quarter. And we estimate that the award will be around $113 million in royalties plus interest.

However, I want to make it clear that the issuance of the award is not the end of the case, because any arbitration award must next be confirmed by the courts, and we plan to challenge confirmation of the award. So let me walk through the pieces and comment.

Most of the claimed royalties relate to Amkor’s alleged use of a single US patent and to the period following termination of the license agreement. Last year, we initiated a proceeding with the Patent and Trademark Office challenging the validity of that patent. And we were very gratified when the USPTO agreed to institute formal review proceedings.

In doing so, the PTO determined that there is a reasonable likelihood that we will prevail with respect to at least one of those patent claims being challenged. And that proceeding is going forward in May.

We also have pending an action in California challenging the Panel’s authority to award post-termination royalties. A favorable outcome may help to significantly reduce an award. And based on recent developments, we’ve reduced our estimate of the possible range of royalties due to be from a minimum of $11 million to $113 million, net of the amounts we paid previously in 2012. This is down from our estimated range of net from last quarter of from $43 million to $116 million.

As a reminder, our accrual for these royalties was $43 million at December 31, and we have determined not to change our accrual, due to the inherent uncertainty of the outcome. So with that, I would commend you to our SEC filings which has a lot more detail on that.

Ana Goshko - BofA Merrill Lynch - Analyst

Okay. Thanks very much. Very fulsome answer. Okay.

So when this ruling comes out in second quarter, there would be no immediate cash payments because it sounds like you’re still will be pursuing various avenues, is that the takeaway?

Steve Kelley - Amkor Technology Inc - President & CEO

That’s correct, yes.

Ana Goshko - BofA Merrill Lynch - Analyst

Okay, great. And then Joanne, finally I wanted to ask, on the pay-down in Korea, on the prepayment, why did you decide to pay that down? Because I would have thought with the bonds being callable you might have gotten better NPV of value for taking on a higher cost debt?

Joanne Solomon - Amkor Technology Inc - CFO

The decision to pay down the Korean debt as opposed to paying down any of the US debt was based off of where the cash was in the portfolio. So we had some excess cash that was building up in Korea and it was our nearest term maturity. So that’s why we went after that debt instead of the senior debt.
Ana Goshko - BofA Merrill Lynch - Analyst
Okay, got it. Thank you very much.

Operator
Atif Malik, Citigroup.

Atif Malik - Citigroup - Analyst
Steve and Joanne, good job on the quarter and the strong guide. Steve, I believe in your prepared remarks you mentioned you expect a strong Q3. I wanted to get some color on that.

If I look at your seasonality for the last three years, it’s around 4%. And with the share gains you’ve had and the fingerprint sensor and the 20-nanometer foundry opportunity nearing on that seasonality, is it safe to expect your Q3 to be above seasonal?

Steve Kelley - Amkor Technology Inc - President & CEO
Yes, I think you should definitely expect Q3 to be above seasonal for the simple reason that we’re going to see some major phone and tablet launches in that quarter. So as we look at our business, I think on the mainstream side we still look at a seasonal model. But on the mobile device side of the business, the advance product side of the business, we’re typically more tied to the launch of these flagship platforms.

Atif Malik - Citigroup - Analyst
Great. And Joanne, at $850 million revenue level, is it possible for you to provide a range for gross margin? I understand it’s a function of the mix.

Joanne Solomon - Amkor Technology Inc - CFO
Yes. I would expect at $800 million we would be in the low 20%s.

Atif Malik - Citigroup - Analyst
Okay. One last one, can you comment if there were any 10% of sales customers in the reported quarter?

Joanne Solomon - Amkor Technology Inc - CFO
So as far as 10% customers, we had two customers that were greater than 10% last year, and I expect that would be the case this year as well. Same two.

Atif Malik - Citigroup - Analyst
Thanks.

Operator
Jairam Nathan, Sidoti & Company.
Jairam Nathan - Sidoti & Company - Analyst

Sticking to the gross margin, I had a couple questions. You mentioned the volume as well as some cost of goods sold reductions. Can you -- was it growth related, or were there any more efficiencies that came along the way?

Joanne Solomon - Amkor Technology Inc - CFO

A lot of the -- some of the cost savings was on the gold side. We were -- we did benefit from the lower gold prices this year as compared to last year.

When I look at the principal drivers and why our gross margin is beginning to outperform, it's largely on the utilization of our mainstream assets, and particularly the strength that we're having on the memory side. We've built significant scale in China and those assets are beginning to be very well utilized. So that's the drivers on the gross margin.

Jairam Nathan - Sidoti & Company - Analyst

Okay. And can you compare J-Devices' margins to Amkor, just to give us an idea of how we should think about that?

Steve Kelley - Amkor Technology Inc - President & CEO

I'll make a comment here. If I look at J-Devices' margins, their business is primarily in the wirebond side. So I think it's best to compare them with our mainstream business.

And J-Devices margins are as good or better as Amkor's margin in this part of the business for this year, 2014. So as they increase their percentage of sales into the automotive market, we expect to see continued improvement in the gross margin side for J-Devices.

Jairam Nathan - Sidoti & Company - Analyst

Okay. And just one more on the power discrete, can you just give me, what is the contribution this quarter?

Joanne Solomon - Amkor Technology Inc - CFO

On the power discrete business it runs about $40 million a quarter. We do expect to see growth in the second half as the two new wins begin to ramp.

Jairam Nathan - Sidoti & Company - Analyst

Okay. Thank you. That's all I had.

Operator

(Operator Instructions)

Jeff Harlib, Barclays Capital.
Jeff Harlib - Barclays Capital - Analyst

Can you update us on where things stand on the plans for the K5 facility on the cost of that and the timing? And also a little bit on capital intensity of the business with the additional growth in mobility and communications?

Steve Kelley - Amkor Technology Inc - President & CEO

Let me say a few words about K5, and then I’ll turn it over to Joanne to talk about capital intensity in general. Our current plan for K5 is that we will begin to start construction later this year, and then the bulk of construction will happen in 2015. And then we’ll finish it up in the first quarter 2016. So that’s the schedule.

As I look at the capital expenses associated with that plan, right now we have about $35 million open to our 2014 capital budget. And then we’ve got somewhere between $220 million and $250 million in our 2015 capital budget earmarked for K5.

Joanne Solomon - Amkor Technology Inc - CFO

On the capital intensity front, we’ve been running in the high teens over the last several years. With the start of construction here of K5 in 2014 it’s about, as Steve mentioned, $30 million this year.

What’s driving up our capital intensity has a lot to do with the advanced products. As we start to invest more and more on wafer level CSP, it’s a very capital intensive process.

It’s also turnkey so it has cap attached with it. So that’s why you’re seeing some of our capital intensity go higher.

Jeff Harlib - Barclays Capital - Analyst

Okay, that’s helpful. And you commented that you expect steady growth in some of your other markets, some of which had struggled last year. So can you talk a little bit about some of those other consumer, networking, computing markets? Is it that the market is getting better, or are you getting new design wins in certain areas?

Steve Kelley - Amkor Technology Inc - President & CEO

Combination of things. I’d say the two primary factors would be that we’re getting new design wins. Again, this effort to penetrate new customers and to go deeper at existing customers is paying off, primarily in those three spaces consumer, computing, and networking. A second part of this is the packages are getting more expensive in some of those areas as they try to integrate more and more into a single package, that actually increases the content for Amkor.

Jeff Harlib - Barclays Capital - Analyst

Great. Thank you.

Greg Johnson - Amkor Technology Inc - Senior Director of IR and Corporate Communications

There are no questions, so this ends our Q&A. I will now turn the call back to Steve for his closing remarks.
Steve Kelley - Amkor Technology Inc - President & CEO

Thanks, Greg. I would like to recap our key messages.

First-quarter revenues were at the high end of our guidance. Gross margin and earnings were above guidance.

We expect second quarter revenues to be up roughly 10%. We are optimistic about the second half, due to the launch of flagship mobile devices with high Amkor content.

And finally, we are making good progress in achieving our primary corporate objective, growing revenue. These higher revenues are driving sustainable earnings growth. And thank you for joining us on the call today.

Operator

Ladies and gentlemen, this concludes the Amkor Technology first-quarter 2014 earnings conference call. Thank you for your participation. You may now disconnect.