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# EDITED TRANSCRIPT

AMKR - Q4 2015 Amkor Technology Inc Earnings Call

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## OVERVIEW:

Co. reported 4Q15 results. Expects 1Q16 YoY revenue growth to be 9% and sequential revenue growth to be 21%.



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## CORPORATE PARTICIPANTS

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

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

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

## CONFERENCE CALL PARTICIPANTS

**Randy Abrams** *Credit Suisse - Analyst*

**Sidney Ho** *Deutsche Bank - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology fourth-quarter and full-year 2015 earnings conference call. My name is Ranya, and I will be your conference facilitator today.

(Operator Instructions)

As a reminder this call is being recorded.

I would now like to turn the call over to Greg Johnson, Senior Director in Finance and Investor Relations. Mr. Johnson, please go ahead.

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

Thank you Ranya, and good afternoon everyone.

Joining me today are Steve Kelly, 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 the conference call, we will use non-GAAP financial measures, and you can find the 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-K.

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

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

Good afternoon, and thanks for joining the call.

Today, I will review our 2015 performance, our 2016 priorities, and our first-quarter forecast. First, however, I like to note that we have successfully completed our acquisition of J-Devices, which establishes Amkor as the leading OSAT for automotive ICs, with roughly \$750 million in annual automotive revenue. In addition, this combination increases our scale, and will boost our cash flow and EBITDA performance.



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Looking back, 2015 was a challenging year for the industry, and for Amkor. General economic conditions, and a lack of compelling new mobile products, constrained overall demand. The high-end smartphone market was a particular issue for us in 2015. In part, due to lackluster market conditions, and in part, because of changes in the supply chain, which impacted one of our major customers.

We closed 2015 with a fourth-quarter that met our gross profit guidance, helped by favorable exchange rates, and cost-reduction initiatives. Faced with uncertain market conditions, we started taking action early in 2015 to control costs and spending. This allowed us to generate positive free cash flow for 2015, despite a year-on-year revenue decline. We reduced CapEx 40% year-on-year, excluding spending on K5, and we controlled operating expenses.

In 2015, we made good progress in many of our strategic focus areas. Advanced system and package products, the Greater China market, and the automotive sector were all bright spots of the Company. Our advanced SiP business grew 16% year-on-year, to roughly \$725 million, driven by the space constraints and performance needs of mobile devices.

In addition, advanced SiPs are gaining traction in memory and automotive applications. We define advanced SiPs as multi-component, multi-function products in an IC package. They require high precision assembly technologies, which leverage Amkor's strengths.

Greater China revenues grew 20% in 2015. We established a dedicated Greater China business unit, upgraded our regional sales and customer service teams, and significantly expanded the number of accounts we engaged with in the region.

Automotive revenue grew 10% in 2015, and will account for more than 20% of Amkor's 2016 revenue. Amkor is a good choice for automotive customers who demand high-quality, and long-term stability.

Now let's turn to our expectations and priorities for 2016. The J-Devices acquisition will drive top-line growth for Amkor in 2016. Operationally, our integration with J-Devices has been underway for quite some time. We are aligned on many fronts, including sales, operations, and R&D. We will accelerate the consolidate and fill plan at J-Devices this year. Execution of this plan will lower our fixed cost in Japan, enhancing our profitability from 2017 forward.

In Greater China, we expect to see significant revenue growth in 2016. To support this effort, we are expanding our Shanghai factory by nearly 50%. Bringing total clean room space to roughly 600,000 square feet.

Our Shanghai factory serves international and local customers, providing wafer-level packaging, wafer bumping, advanced SiP, and test services. Amkor will be one of the first OSATs to offer 12-inch bumping in China, with production ramping this quarter, and next.

In 2016, we expect to make capital investments of approximately \$650 million, including \$170 million to complete the construction of K5, our new R&D and manufacturing facility in South Korea. We plan to ramp K5 in 2017, and we'll time our capacity investments to match customer demand. Until K5 opens, we will use our existing development lines to perfect and cost-reduce Amkor's advanced fan-out technologies, including SWIFT and SLIM.

For the first quarter, we expect revenues to be up 21% sequentially, and up 9% year-on-year. Our midpoint guidance of \$810 million includes legacy Amkor revenues of \$625 million, and J-Devices revenues of \$185 million. I believe the Q1 will be the trough quarter for 2016, and that the market will strengthen over the course of the year. In the meantime, we will continue to take advantage of open capacity to accelerate development programs, qualify new products, and improve efficiency.

There are many industry trends working in Amkor's favor that will accelerate our growth moving forward. First, we are benefiting from increased semiconductor M&A activity. As customers get larger, they typically prefer to work with larger, more capable OSATs. In addition, OSAT consolidation trends favor Amkor, as customers seek to rebalance their business to avoid relying too heavily on any single supplier.

Second, the pace of package level integration is picking up. And this is where Amkor adds the most value. The growth in our advanced SiP business directly reflects our success in this area.



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Third, our efforts to develop relationships with customers in Greater China are bearing fruit. We will grow faster than the market as we gain share in the region. And finally, we will leverage our strengths in automotive to drive further sales growth.

Our long-term financial objectives remain unchanged: to grow our revenue, and by growing revenue, improve our profitability. We will increase our share, and more fully utilize our factories. We will continue to invest where necessary, offering full support to our customers. Joanne will now provide more detailed financial information.

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

Thank you, Steve, and good afternoon everyone.

On December 30, we increased our ownership of J-Devices to 100%, and gained control of the Company. Amkor's 2015 balance sheet reflects the consolidation of J-Devices, and the operating results of J-Devices will be consolidated beginning in 2016. We paid \$105 million for the additional 34% in ownership interest. We invested a total of \$202 million to acquire 100% of J-Devices. At year-end, J-Devices' cash was \$128 million, and total debt was only \$56 million.

Amkor generated adjusted EBITDA of \$689 million in 2015. On a combined basis, Amkor and J-Devices generated \$773 million of adjusted EBITDA. At December 31, we had total debt of \$1.6 billion. Debt to adjusted EBITDA was 2.3 times, and was 2.1 times, including J-Devices EBITDA.

Our liquidity is solid, with over \$520 million in cash, and \$20 million in available undrawn loans. In 2015, and into 2016, we are tightly controlling CapEx and working capital, in line with decreased demand environment. For 2015, we generated \$40 million in free cash flow.

Amkor's GAAP financial results for the fourth quarter included accounting charges related to the increase in our ownership interest in J-Devices. These items include a gain of \$16 million related to the step-up to fair value of our previous investments in J-Devices, and a non-cash loss of \$30 million, relating to the release of the cumulative foreign currency translation adjustment account, for a net loss of \$14 million.

Amkor's fourth-quarter gross profit was at the midpoint of our guidance, despite slightly softer than expected revenue, largely due to favorable foreign-exchange rates and cost control. For the full-year, operating expenses were down \$17 million, a 5% reduction on lower professional fees, and reduced incentive compensation.

Operating expenses in the fourth quarter were \$81 million, and for the first-quarter 2016, we expect operating expenses to be around \$95 million. The increase over the 2015 run rate is due to the addition of J-Devices operating expenses to our total. Interest expense in the fourth quarter was \$18 million and we expect it to remain around this level in the first quarter of 2016. And finally, we expect our effective tax rate for the full-year 2016 will be around 35%.

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

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## QUESTIONS AND ANSWERS

**Operator**

Thank you.

(Operator Instructions)

Randy Abrams, Credit Suisse.



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**Randy Abrams** - *Credit Suisse - Analyst*

Okay, yes. Thank you. My first question, I wanted to ask on the SiP business. I think the first time you've quantified [it] \$725 million brings in about 25% of sales? Could you talk about what applications are in there, like what the biggest components of that SiP that you are doing now, and if you could kind of give your initial take -- last year it sounds like it grew double digit, the type of growth you're seeing continuing in that business?

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

Yes Randy, let me -- a little background on the SiP business. We have been in the SiP business for roughly 15 years. It used to be called MCM and modules, and eventually migrated to SiPs.

So, the way we're [defining] advanced SiP, is basically including multiple electronic components, multiple functionality, into a single IC package. We went back and took a look at which products we were shipping that met that definition. And among the products are our [F] and front-end modules; we have memory stacks with ASIC controller chips, intelligent sensors, and really a variety of SiPs for smartphone applications and tablet applications, which combine types of [dye] in a single package.

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**Randy Abrams** - *Credit Suisse - Analyst*

Okay. And maybe kind of the growth, the growth you're seeing in that type of business, or how you have seen it the last couple of years, and what kind of growth -- if you see a lot of growth continuing for that.

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

Yes. I see a lot of growth here, because, as people seek to reduce the size and improve their performance of their products, the best way to do that is to move the dye closer together essentially, into a package. So, if it doesn't make sense to integrate the dye on a wafer, then Amkor can help them integrate that into a package. And so we're seeing two camps, one camp is the applications that require both space savings as well as performance. And then the other camp are high-performance applications, which are seeking the higher speed and lower power consumption typical of these types of advanced SiPs.

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**Randy Abrams** - *Credit Suisse - Analyst*

Great, okay. And my second question, I want to ask about the China -- I guess two fronts; you were seeing some M&A where Chinese have been more aggressive on acquiring either IDM or traditional assets. I want to see the way this -- kind of your view on competition, or if there has been some spillover after their acquisitions. And, you are expanding quite a bit of capacity in Shanghai it looks like, so I guess your expectations also for the China business, for a growth from that business and contribution from Greater China?

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

Yes, we have very high expectations for the business in China. This is a business where we -- classically has not -- we have not focused in China over the years. The past two years have been different, and we're seeing the effect in our revenue line. China -- the China customers, many of them are looking not just to China for growth, but also to export markets. So, they're looking for a reliable source of advanced packaging. And preferably one that has substantial assets in China.

So, with our factory in Shanghai, I think that factory is acknowledged as the most advanced OSAT in China today. We've got 8-inch bump capacity, and bringing on 12-inch as we speak. And so we could do just about anything in that facility that Chinese customers need.



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In addition, those Chinese customers are looking at our facilities in Korea and in Taiwan. So we offer them geographic diversity, but also a team of Chinese-speaking application engineers and salespeople to develop that business.

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**Randy Abrams** - *Credit Suisse - Analyst*

Okay, thanks. And if I could ask on the CapEx, to drill a little more into the \$650 million guidance. How much you are allocating to this China, to the K5, I think you disclosed? And then, within the equipment portion, the priorities for investment for equipment, say between assembly or test, or some other things like SLIM/SWIFT, and then implications for depreciation in 2016.

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

Let me start the answer, and I will turn the rest of the answer over to Joanne. We guided to \$650 million in CapEx spending for 2016; roughly \$170 million of that will be for the completion of K5 construction.

If I take a look at the \$650 million a different way, of the \$650 million, \$350 million is for infrastructure spending, including K5. And the completion of our China facility, and IT and R&D. The other \$300 million is for classic capacity expansion and capability expansion.

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**Randy Abrams** - *Credit Suisse - Analyst*

Okay.

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

On the depreciation side, since a lot of the incremental of CapEx is associated with the building with a very long life, it won't have much of an impact. We expect depreciation for 2016 at those CapEx levels to be right around \$500 million. \$550 million when you include SG&A, with including SG&A. The uptick from the prior year is entirely driven by the acquisition of J-Devices, and not from the CapEx side.

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**Randy Abrams** - *Credit Suisse - Analyst*

Okay. Okay, great. And tax rate I guess stays 35%, is there potential for that to come down over time?

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

I think there is a potential for it to come down over time. Right now, we have some losses in jurisdictions where we benefit from a tax holiday. And as profitability in those regions recover, I would expect that tax rate over time to gravitate back down towards the 25% to 30% range.

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**Randy Abrams** - *Credit Suisse - Analyst*

Okay. Alright, great. Thanks a lot.

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

Thanks, Randy.

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### Operator

(Operator Instructions)

Sidney Ho, Deutsche Bank.

### Sidney Ho - Deutsche Bank - Analyst

Hi, thanks for taking my questions. A couple of (inaudible) ones (inaudible) essentially on the communication business, I think you've previously talked about I think that (inaudible) 10% quarter over quarter? You've previously talk about the three main buckets within the smartphone or [com] smartphone business, which is Cupertino, Android, and China.

Can you remind us what's the relative size of your revenue, and content [their phone] for each of these three buckets today? And then 2015 was obviously a tough [comps] for you, Steve mentioned that in the prepared remarks. How confident are you that the comps business will grow this year? And if you could give some color on each of the three buckets, that would be great.

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

Yes, Sidney, that's a good question. I can't break it down by dollar value, but what I could comment are the trends in those three ecosystems. I think today we are strongest in the Cupertino ecosystem, if you take a look at our content in those phones, it's pretty high. We also have a presence in the Samsung ecosystem, which is actually getting a lot better this year. We have much better content in the upcoming Galaxy launch than we did last year at this time. So that's a positive point for us.

In the China ecosystem, this is where we have the most potential for growth, and so that's where a lot of our focus is. But I think the trend is definitely very positive there. So, to summarize, I think in Cupertino, we'll be probably flat from a content standpoint, maybe slightly down. But we will be up in Samsung and Greater China moving throughout 2016.

### Sidney Ho - Deutsche Bank - Analyst

Okay, great. And my second question is, can you talk about the inventory situation in the channel, and with the customers? The past month we heard from the few analog companies that think the points of inventory are kind of returning somewhat to normal levels? Now that we are almost a month and half into the quarter, I wonder if things have gotten better or worse, especially given the macro volatility, and if you can give some color by analog and regions, that would be great.

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

Yes. You know, I have a lot of talks with customers as well, I'm hearing similar things. I look at the reports from distribution, and I think inventory is well under control. So I think right now we're in a situation where many customers are a little skittish about demand. They're keeping low inventories. But when they see the demand start to pick up, then we will see a lot of orders flow in.

So I think it is a typical, I guess, mid-cycle behavior that we're seeing today. But I have hopes that the general market will improve this year, and looking at past semiconductor cycles, when it improves, it improves fairly quickly.

### Sidney Ho - Deutsche Bank - Analyst

Okay. If I can squeeze one more in. In the past you've talked about J-Devices can grow margins by themselves through continued right-sizing of the factory footprint. Can you give us some idea, the timeline of those actions, and how does K5 fit into this (inaudible).

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

Yes. So, for J-Devices, our plan is to consolidate and fill. And what that mean is, we will reduce the factory footprint over time, and then bring more business in to fill the remaining factories. So that really started last year, but it will be accelerated this year.

We anticipate reducing the fixed costs significantly over the course of this year into 2017, and enhancing profitability. We were also able to insource some major business from Renesas after they closed their Singapore facility, which produced automotive microcontrollers. Much of that load is being moved into J-Devices factories in Japan. We're looking at other actions like that to optimize the loading at our J-Devices factories.

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**Sidney Ho** - Deutsche Bank - Analyst

Any chance you can kind of quantify what that means to the EBITDA margins? I think J-Devices was, what, 14% last year?

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

That's right. On a bridge-margin basis, they were at 13% in 2015. As a mainstream factory, we have always targeted that they could get to the 15% area. So that would be the target for improvement on a J-Devices side.

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**Sidney Ho** - Deutsche Bank - Analyst

Okay. Thank you very much.

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

Okay, thank you, Sidney.

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

Okay, thanks very much Sidney. There are no more questions, so that ends the Q&A portion of the call. I will now turn the call back to Steve, for his closing remarks.

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

Yes. I would like to recap our key messages. First, we achieved our Q4 gross-profit target. Secondly, we will grow revenues roughly 21% sequentially in Q1. Third, our key growth initiatives gained significant traction [to] 2015. And finally, a number of long-term trends in the industry favor Amkor. Thank you very much for joining us today on the call.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference, this concludes today's program. You may now all disconnect. Everyone have a great day.

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