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AMKR - Q1 2013 Amkor Technology, Inc. Earnings Conference Call

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OVERVIEW:

AMKR reported 1Q13 sales of \$688m and EPS of \$0.07. Expects 2Q13 sequential sales to grow 6-13% and EPS to be \$0.09-0.19.



CORPORATE PARTICIPANTS

Ken Joyce *Amkor Technology, Inc. - President and CEO*

Joann Solomon *Amkor Technology, Inc. - EVP and CFO*

CONFERENCE CALL PARTICIPANTS

Vishal Shah *Deutsche Bank - Analyst*

Chad Dillard *Deutsche Bank - Analyst*

Sundar Varadarajan *Vi en Vi Peravis - Analyst*

Berneth Kinate *Hutchin Hill Capital - Analyst*

David Foropoulos *UNUM Corporation - Analyst*

Ana Goshko *Bank of America Merrill Lynch - Analyst*

Jake Kemeny *Morgan Stanley - Analyst*

Arun Seshadri *Credit Suisse - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. And welcome to the First Quarter 2013 Amkor Technology, Inc. Earnings Conference Call. My name is Lily, and I will be your conference operator for today's call. (Operator Instructions)

Before we begin this call, Amkor would like to remind you that there will be forward-looking statements made during the course of this Conference Call. These statements represent the current view of Amkor management. Actual results could vary materially from such statements.

Prior to this Conference Call, Amkor's First Quarter 2013 Earnings Release was filed with the SEC on Form 8-K. The Earnings Release, together with Amkor's other SEC filings, contain information on risk factors, uncertainties and exceptions that could cause actual results to differ materially from Amkor's current expectations.

I would now like to turn the Conference over to Mr. Ken Joyce, Amkor's President and Chief Executive Officer. Please go ahead, sir.

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

Thank you, Lily. And good afternoon, everyone. With me today is Joann Solomon, our Chief Financial Officer.

Today, I'll talk about our first quarter 2013 results and the guidance for the second quarter. Joanne will then discuss our financial performance in more detail. And finally, we'll open up the call for your questions.

To begin -- we are pleased with our first quarter results, driven by our strong performance in mobile communications, our sales of \$688 million, gross margin of 17%, and earnings per share of \$0.07 -- were all at the high end of our expectations. Our investments in the advanced technology and production capacity in support of the fast-growing market for Smartphones and tablets are paying off, as we see notable improvement in our results over the first quarter of 2012.



Mobile communications is a strategic focus for us, and our communications revenue grew around \$90 million or 30% over the first quarter of 2012 and represented 59% of our total sales in the first quarter. Demand for Smartphones and tablets continues to grow at a really healthy pace. A number of our major customers have deep penetration in these devices, and we package and test many of the different chips used in them.

To give a sense of the mix of technologies involved -- our communications sales for the most recent 12 months are comprised of about 60% Flip Chip and wafer level processing, 25% wire bond and 15% test. While our position in communications is very strong, we have seen some softness in our other end markets. Compared with the first quarter of 2012, sales and support of consumer electronics were down, driven by weakness in home electronics market and lower levels of demand for our gaming business. Our computing sales were also down year-over-year, as some of the business we gained last year from customers whose supply chains were disrupted from the flooding in Thailand shifted back to their original suppliers.

Capital additions were \$124 million during the first quarter. We are raising our estimate of capital additions for the year from around \$450 million to around \$525 million. The increase is primarily for the second half of the year and is for additional growth opportunities we are seeing in the mobile communications. We expect to see some additional revenue in the second half of 2013 from these new investments in our core growth markets, with the full benefits expected to be realized in 2014 and beyond.

For the year as a whole, our spending is focused primarily on packaging equipment and advanced test platforms in support of NAND memory, power management and connectivity applications, 28-nanometer chipsets, manufacturing efficiencies in certain wire bond lines, and research and development projects.

As you know, we operate in a capital-intensive business. And the amount and timing of our capital spending is driven primarily by the specific demand presented by our customers. Naturally, this demand is influenced by many factors and can be fluid over time, increasing or decreasing from today's expectations.

We are also currently planning an additional \$150 million in capital spending for the acquisition of land and commencement of construction relating to our new factory and R&D center in South Korea. This quarter, we made an initial payment of \$10 million for the land; the remaining \$90 million will be paid in the second half.

Looking ahead to the second quarter of 2013 -- we expect sequential sales growth of 6% to 13%. At the midpoint of 10%, our growth would be better than our typical seasonal performance and would represent a substantial increase over the first half of 2012. This growth is being driven by gains in the mobile communications end market, particularly in Smartphones and tablets. Second quarter gross margin is expected to be in the range of 17% to 20%, and we anticipate earnings per share to be between \$0.09 and \$0.19 per share.

Now, I'd like to discuss our possible acquisition of Toshiba's semiconductor packaging operations in Malaysia. These discussions were postponed in the fall of 2011 after the flooding in Thailand. And I'm happy to say that we have resumed our dialogue with Toshiba. We believe that this opportunity will provide an excellent platform for increasing our presence in the power discrete market, where we expect increasing outsourcing trends for packaging and test services. Although these discussions have resumed, any transaction is subject to satisfactory conclusion and due diligence, negotiation, and signing of definitive agreements and receipt of any necessary government approvals.

Turning to J-Devices -- we completed the exercise of our option this week and have increased our ownership to 60%. Their acquisition of the semiconductor backend operation business of the three Renesas factories in Japan remains on track to close in the second quarter.

In closing -- we believe our focus on technology leadership in close collaboration with our customers will continue to serve us and our shareholders very well. We are well positioned to take advantage of the significant growth opportunities in mobile communications. Our investments in support of Smartphones and tablets are paying off and gaining momentum. And we believe this momentum should deliver both revenue growth and higher earnings.

With that, I'll now turn the call over to Joann.



Joann Solomon - Amkor Technology, Inc. - EVP and CFO

Thank you, Ken. And good afternoon, everyone.

Beginning this quarter, we are reporting packaging sales in two categories -- wire bond services as one category, and Flip Chip and wafer level processing services as the other. To provide historical perspective, annual and quarterly results for 2011 and 2012 by the new categories are posted on our website.

Moving on to our results -- first quarter sales of \$688 million were a 5% increase over the first quarter of 2012. Flip Chip and wafer level packaging sales grew 27%, and test sales were up 28%, driven by our strong position in mobile communications. Much of this growth came from sales of 28-nanometer chipsets and power management and connectivity applications.

We're seeing strong sales and support of NAND memory. However, overall wire bond sales declined 17% due to the consumer electronics and computing and markets Ken mentioned.

Gross margin of 17% was an improvement of 70 basis points over the first quarter of 2012. Leverage from higher sales drove the improvement, although this is partially offset by compensation expense and unfavorable foreign exchange rate movements.

Our operating expenses of \$74 million were up from \$70 million in the fourth quarter of 2012. This sequential increase included higher compensation expense due to the restoration of incentive compensation for 2013 and higher professional fees. We expect operating expenses to be around \$80 million in the second quarter of 2013, with the increase due to deal costs for the possible Malaysia factory acquisition.

Our effective tax rate in the first quarter was 23%. For the second quarter and for the full year 2013, we expect an effective tax rate of around 20%.

As Ken mentioned in his remarks, we have a number of strategic investments in the pipeline for 2013. First, we've just completed our acquisition of an additional 30% equity interest in J-Devices for approximately \$70 million. In addition, we expect to spend around \$150 million for land and construction-related costs in connection with our planned factory and R&D center in South Korea. We also have an opportunity for the possible acquisition of Toshiba's power discrete packaging factory in Malaysia. Although the final purchase price has not yet been determined, we currently expect to pay approximately \$72 million in cash plus the license royalty.

Moving on to our liquidity and capital structure -- at March 31, we had \$467 million in cash and total debt of \$1.6 million. We believe our liquidity is sound. Our next potential debt maturity is our \$250 million convertible note due in April 2014. This instrument is in the money, and we expect that'll be converted into equity rather than paid at maturity.

To bolster our liquidity, in the first quarter, we entered into a new credit facility with a Korean bank under which we can borrow up to an aggregate of \$150 million on a secured basis. Any borrowings under this facility become term loans that are payable ratably over four and a half years. We are also finalizing terms of an additional credit facility with another Korean bank where we can borrow up to \$150 million on a secured basis. Borrowings under this credit facility are expected to be payable at maturity in three years.

Based on our current cash outlook for the year, we expect to incur debt to fund our investments in J-Devices, our new Korean factory and the potential investment in Malaysia. Of course, the amount and timing of any incremental borrowings will depend on a number of factors, including our liquidity, the timing and implementation of the capital projects and investments, economic and market conditions, customer demand, and the performance of our business.

In summary -- as Ken discussed, we believe our investments can help drive profitable growth, enhance our technology leadership and provide solid returns.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Vishal Shah, Deutsche Bank.

Chad Dillard - Deutsche Bank - Analyst

This is Chad Dillard on the line for Vishal.

Could you talk about how you see the utilization trending as we look towards the back half of the year?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

Yes, we expect to see utilization continue to improve as we enter the back half of the year. We're seeing strong utilization of our Flip Chip assets, and we're seeing improving utilization of our wire bond assets. Test is linked very heavily in support of communications, and we're seeing strong attach on the test perspective.

Chad Dillard - Deutsche Bank - Analyst

Got it.

Also, given the pullback in gold price, can you talk about how your gross margin should be impacted over the back half of the year?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

Yes, it's clearly a tailwind that we will benefit as we come into the back half of the year, if gold stays at these prices and doesn't go back up, or if it goes down further. We do operate with some level of gold inventory, so it'll take a bit to burn that off. But I do expect it to be a small positive, I don't expect it to move the needle that much.

Chad Dillard - Deutsche Bank - Analyst

Great. Thank you.

Operator

Sundar Varadarajan, [Vi en Vi Peravis].

Sundar Varadarajan - Vi en Vi Peravis - Analyst

I just want to kind of dig a little bit into your CapEx spending. Clearly, you're spending it, given the strength you're seeing in wireless. Could you provide some context for where you're seeing this growth coming from? It is one or two IDMs, or is it one or two -- tied to one or two particular OEMs? Or is it more broad-based? And how much -- you're spending about \$500,000 of CapEx this year. I think you had said, probably in the last call, your CapEx is going to be at similar levels next year as well. What kind of quarterly revenue run rate do you think you will be in a position to support given all t his CapEx spend?



Ken Joyce - Amkor Technology, Inc. - President and CEO

Sundar, this is Ken Joyce. Thank you for the question.

The participation in the communications segment of the business for us is really very broad-based across both IDMs and fabless companies that supply into various aspects. We're virtually in many different chips in both the Smartphones and tablets. Whether that's everything from apps processors to base [bands] to MEMS microphones to power management, you can go right down the line. So we really participate very broadly at both the IDM side and the other.

With respect to the CapEx -- once again, we're investing to support these opportunities, which are very broad-based. I don't want to speak exactly to a specific revenue number that that's going to produce. Obviously, it's going to increase based on the mix of the packages that are in there. But it will support good, healthy growth and profitability going forward as we see it.

Sundar Varadarajan - Vi en Vi Peravis - Analyst

And in the past -- and this is probably eight years ago -- we've seen the backend industry kind of spend aggressively on CapEx, and then sometimes the revenue doesn't materialize. And you guys put a lot of procedures in place to see that there's a lot of tie-back or visibility to the revenue. How do you see that -- has any of that changed? Or in other words, do you have a greater degree of visibility beyond year one in terms of how sustainable this revenue would be?

Ken Joyce - Amkor Technology, Inc. - President and CEO

Well, the important thing is how fungible is the equipment that you have, and we have a lot of fungible equipment sets. A lot of the technologies that are being used in the Smartphones and tablets are the advanced technologies -- so Flip Chip, the wafer level CSP. And they can be used to support a number of different applications aside from the communications market. So I think we're protected there.

Sundar Varadarajan - Vi en Vi Peravis - Analyst

Great.

Then I had one more question, on the gaming side -- it used to be a pretty important revenue source for you guys. Obviously, you've seen some weakness over the last couple of quarters. Do you think that more end market-related, or are you seeing some kind of [shared] impact? And again, specifically, the reason I'm asking this question is recently AMD is talking about a lot of design wins in the gaming side. How does that impact you guys in the long run?

Ken Joyce - Amkor Technology, Inc. - President and CEO

It's both. The end markets are changing, as there's a migration from some of the boxes onto the other platforms, such as onto the mainstream computers or onto the Smartphones and things of that nature. That's part of it.

The second part is exactly what you alluded to. AMD has had a very good win on all three of the major game platforms. Whether it's PlayStation or the Xbox, or Nintendo, they've all shifted towards AMD, away from Sony and Toshiba and Microsoft -- or IBM. So they've shifted away. So it's both.

Sundar Varadarajan - *Vi en Vi Peravis - Analyst*

And AMD, you've heard, does most of their packaging in-house, so that probably is not a positive thing from your perspective, right?

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

That's correct.

Sundar Varadarajan - *Vi en Vi Peravis - Analyst*

Thanks. That's all I have.

Operator

[Berneth Kinate], Hutchin Hill.

Berneth Kinate - *Hutchin Hill Capital - Analyst*

Congratulations on a great quarter.

One of the things I wanted to kind of touch on during this call is one of the more published things out there right now is about -- Apple has moved from Samsung to TSMC. And as we all know, TSMC does not have its own really advanced packaging backend capability. And just kind of looking at how you guys are increasing your CapEx and commenting about it as a revenue opportunity coming in the second half, and more of it in 2014 -- is it fair to assume that, all else equal, the opportunity from Apple should come to Tier 1 players?

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

I don't think we're really going to comment on what Apple's doing with their supply chain, quite frankly.

Berneth Kinate - *Hutchin Hill Capital - Analyst*

Got you. But if you were to hypothetically speak, and things were to go to TSMC, and they weren't able -- clearly, you don't have the packaging and testing capacity there -- there has to be someone that's going to do it, right?

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

Of course. And we'd be happy to participate. And I think that we would be one of the leading candidates for that.

Berneth Kinate - *Hutchin Hill Capital - Analyst*

Got it. And how would I think about the revenue opportunity coming out of there?



Ken Joyce - *Amkor Technology, Inc. - President and CEO*

Oh, I think it's a little premature. As I said, we can't comment. It's obviously very substantial. I mean, they're a very big company both the in Smartphones and the tablets. We participate strongly in both of those areas. So it'd be a very large opportunity. You see what's going on with our current supplier, Samsung.

Berneth Kinate - *Hutchin Hill Capital - Analyst*

Right.

Those were really the only questions I had. Congrats again.

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

Thank you.

Operator

(Operator Instructions) David Foropoulos, UNUM.

David Foropoulos - *UNUM Corporation - Analyst*

I had a couple questions on the balance sheet. With the sharp uptick in CapEx and the other deals that are going on, do you kind of have a leverage ceiling that you're looking at? Can you walk through that? I know the convertible is going to be retired into stock. But can you talk through that, please?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Yes, absolutely.

So from goals that we operate here, we do strive to keep our debt-to-EBITDA below three times. As you did say, we have the convert that's coming up here. So some of the increase in leverage will get offset by the reduction of the leverage when that converts, assuming it converts into equity. But that's from our goals we try to operate.

As Ken and I mentioned in our script, and we have a lot of strategic initiatives coming out. It's very significant cash outlays, but we are also seeing great improvements in both growth and profitability, so we are expecting increased cash flows here as well. So we think that the leverage is in line with the cash flows that we're generating.

David Foropoulos - *UNUM Corporation - Analyst*

On the convertible, do you guys have the option of how you want to retire that?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

We don't. It's a conventional convert. So at maturity, the holders will have that decision.



David Foropoulos - UNUM Corporation - Analyst

Okay. It's obvious that should go in the money. That makes sense.

The Toshiba deal -- presumably comes with a supply agreement. I know it's maybe premature, but can you give any color on that? Is that a merchant operation now, or is that primarily Toshiba products? And can you give us any color?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

Yes, I can give you some color. But as you said, since it is an active deal, there's some limitation in which I can share.

Over the past, Amkor as well as J-Devices have done a series of transactions with Toshiba. And I would expect this transaction would look similar to what we've done in the past, where it's an acquisition of the factory by Amkor and/or J-D, as it relates to history, followed by a supply agreement.

The factory that we're looking at is a Toshiba Captive factory. It's predominantly in power discrettes, so it's a very sizeable operation. And Toshiba is a leader in the power discrete area, which is a real nice fit for us, because it's a product line extension off of our existing wire bond business.

David Foropoulos - UNUM Corporation - Analyst

And then, one last question -- with Intel -- I don't know if this overlaps with you guys, but coming into the merchant market a little bit here -- I don't know the extent it overlaps you guys -- is that any kind of competitor or threat right now, the way you're looking at it?

Ken Joyce - Amkor Technology, Inc. - President and CEO

We compete well with all the foundries, quite frankly. And so it's yet to be seen how they're going to play. But it's not just a threat; it's also an opportunity. We do a very nice job, Intel is a good customer of ours. And I think in the advanced packaging side, especially in the mobile space, that could be some opportunity to us in the future. So it's both a threat and an opportunity.

David Foropoulos - UNUM Corporation - Analyst

Thank you.

Operator

Ana Goshko, Bank of America Merrill Lynch.

Ana Goshko - Bank of America Merrill Lynch - Analyst

I just had a couple more on liquidity.

So I'm looking back in my notes from last quarter. And I think you said for 2014 that you expected another \$250 million on the spend for the development of the facility in Korea, in addition to any kind of ongoing CapEx. I just wanted to confirm that's still the expectation.



Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Yes, that is the current expectation. We think to improve the land and build the shell, it's going to be about \$300 million, plus the land of \$100 million. We think of that total \$400 million, \$150 million will be spent this year, and then \$250 million next year, with the building becoming operational sometime in 2015. So with any construction project this size, our estimates and the timing are going to shift.

Ana Goshko - *Bank of America Merrill Lynch - Analyst*

Thanks.

And then, with the increase in capital additions expectations for 2013, is that a pull-forward of what you were expecting in '14? Or is it really incremental?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

The way we operate the business, I wouldn't say it's one year versus the next. So in some respects, it is a pull-forward, because you're reaching higher capacity than you would have expected in this current year. So in that sense, it's a pull-forward. But as it relates to the demand, we think it's demand the partially helps us this year, but it is setting up for 2014. So long lead time.

Ana Goshko - *Bank of America Merrill Lynch - Analyst*

Okay.

So I'm just trying to add up all the cash uses potentially for 2013 and '14. So in addition to the JCOM and Toshiba, which would be this year; and then the South Korea spend, and then the CapEx, and then next year -- and any Tessera arbitration payments would also be this year?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

That would be my expectation. It's an ongoing litigation, it's in-progress. Please refer to our 10-Q for the latest update as we file it here in the coming weeks. But my expectation is that to the extent we have another payment, it would be sometime this year.

We accrued \$56 million as a reasonable estimate at the low end of the range, of which we've paid \$20 million so far.

Ana Goshko - *Bank of America Merrill Lynch - Analyst*

Okay. And then next year, maybe around \$700 million for CapEx and the South Korea build, and then potentially some more for JCOM. Is that (multiple speakers) everything?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

I think that's J-Devices. And --

Ana Goshko - *Bank of America Merrill Lynch - Analyst*

Oh, I mean J-Devices, I misspoke, yes.



Joann Solomon - Amkor Technology, Inc. - EVP and CFO

That's fine. So J-Devices is an equity investment. They are a standalone company, and we do not include their capital expenditures in ours. They're funded from their own resources.

Ana Goshko - Bank of America Merrill Lynch - Analyst

So I was referring to potentially taking in an additional piece of the equity.

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

At this point, we went up 30%. Come 2015, we have an option to pull in about another 5.7% potentially. So that would not be until 2015. And by the time it closes, maybe that's more like 2016.

Ana Goshko - Bank of America Merrill Lynch - Analyst

Got it. So the net of (multiple speakers)

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

-- I may be off a year, but the payment may be 2015. The payment will be 2015, sorry.

Ana Goshko - Bank of America Merrill Lynch - Analyst

So the net of all of this is -- do you believe that the \$300 million incremental facilities that you just entered into is really going to be adequate to cover all of the potential spending needs in '13 and '14?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

We'll see how the year progresses, but I think it'll be adequate, depending on -- we may bring in a couple other lines just to have the borrowings in the right jurisdictions. But ultimately, the amount of draw under each facility would be based on what the liquidity need would be.

Ana Goshko - Bank of America Merrill Lynch - Analyst

Okay.

Then, what about share buybacks?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

On the share buyback -- our Board of Directors approved \$300 million. We've bought in \$210 million so far, so we have \$90 million left to go. We haven't bought anything back in the last two quarters. So at this point, it hasn't been a priority of ours.



Ana Goshko - Bank of America Merrill Lynch - Analyst

Thanks very much.

Operator

Jake Kemeny, Morgan Stanley.

Jake Kemeny - Morgan Stanley - Analyst

Joann, I just wanted to circle back little bit on the capital spending, and just kind of -- is the thought process that you guys are comfortable burning cash in 2013 because you have access to these other credit lines, but you also fully intend on growing, and so the EBITDA should grow as well? And therefore, when we look at leverage, leverage is going to stay in this kind of two to three times zone? Is that how you guys are thinking of balancing everything?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

Yes, that's certainly how we see it. These investments are meant to drive growth, especially as it relates to the equity and the investments for any business acquisitions. That's driving immediate cash flow.

With respect to the K5 construction, the facility in South Korea -- obviously that piece of it is a little bit longer-term basis. So that's investing further down the future. But we do expect our EBITDA to grow here, so we do expect to operate within similar leverage terms at this point, especially in light of that convert.

Jake Kemeny - Morgan Stanley - Analyst

Okay.

The funding sources lately have largely come over at Korea, and they've been secured by assets in Korea. Is that kind of the game plan going forward -- if you should need more than this \$300 million, you would likely continue to borrow overseas at the Korean banks?

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

We just did a high-yield instrument last year, so I wouldn't say we're exclusive to foreign debt. We're very open to any attractive source of capital. So I wouldn't say it's to the exclusion of any other source.

Jake Kemeny - Morgan Stanley - Analyst

Okay.

Then, on the Smartphone and tablet opportunity -- it sounds very attractive, and sounds like you guys are executing very nicely on that. How much of it would you ascribe to kind of a rising tide lifting all boats, and it's just a very strong end market for a lot of folks? And how much would you ascribe to it, particularly as it relates to Amkor's technology and taking market share from others in the space?



Ken Joyce - Amkor Technology, Inc. - President and CEO

I think we're performing really very well here in terms of the market share. Clearly, you can look at the data in terms of the advanced technologies on Flip Chip, on wafer bump that goes along with that, and with wafer level CSP and those areas. We clearly lead the pack, both in technology, in terms of units that have been packaged -- so we're really well positioned.

We do enjoy the ride, as you say, as the market grows. And the trends of the data that we see coming out of the research houses and what we hear from our customers, who we collaborate with very closely -- all those trends indicate that the trend of growth should continue at least into the next five years, both in the Smartphones and tablets. So we're really well positioned in technology and in terms of production capacity. So yes, we're well placed to take advantage of that market right now.

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

(Multiple speakers)

Jake Kemeny - Morgan Stanley - Analyst

Do you have any estimates as to what your market share is in that specific segment?

Ken Joyce - Amkor Technology, Inc. - President and CEO

I don't have a market share number. Because market share depends on how you measure it -- if it's over all the OSETs, or Captive plus the OSETs. I'm sorry, I don't have that number I could share with you right now.

Jake Kemeny - Morgan Stanley - Analyst

Okay.

Joann Solomon - Amkor Technology, Inc. - EVP and CFO

One of the things that may be helpful for you, Jake, is to understand that it's not just one or two customers or one or two devices within the phone. Our penetration in Smartphones and tablets is numerous customers and numerous semiconductor chips within each of those devices. And it takes a lot of technology and a lot of effort by the team here to make sure we stay on the ride, and to make sure we stay really well positioned to capitalize on it.

Jake Kemeny - Morgan Stanley - Analyst

What would you ascribe your competitive advantage? Is it your manufacturing technology, is the capacity you have in place, is it relationships? What would you ascribe your -- what makes you different from the others?

Ken Joyce - Amkor Technology, Inc. - President and CEO

It's both. I'll say this, in terms of R&D -- we continue to outspend our competition, I believe. If you look at the numbers on R&D that we've spent over the last couple years, we've put a lot of money not just in the R&D expense on the P&L, but in terms of capital equipment and development. It's something that's been a key strategy of Amkor's, is to lead on the leading edge. So we clearly benefit from that.



We've also, over the last years -- as you've seen this increased CapEx spend, a lot of it was to position us all throughout the chips in these packages. So it's both technology and scope and scale. And we also have the diversified geographic footprint with operations in Korea, the Philippines, Japan, Taiwan. So we're really well positioned, and now possibly with Toshiba in Malaysia.

Jake Kemeny - *Morgan Stanley - Analyst*

Thanks.

Just one last one for me -- there's a lot of folks, especially from the credit side, that have been covering the Company for a very long time and have seen periods of aggressive capital spending and cash burn, as Sundar mentioned earlier. How much of your CapEx is essentially discretionary? Like, if you did see things kind of slowing down, how much of it could you kind of pull back on?

And in the past, you mentioned some of your customers were actually helping contribute some capital for specific projects. Is that still going on today?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

With respect to the CapEx -- we do have some flexibility in starting to cancel orders and push out orders, and things like that, to manage liquidity in a downturn. And you saw us do a lot of that at end of 2008 into 2009 most recently. So we do have some ability to -- just because we announce a plan of around \$525 million plus the \$150 million -- that we can ultimately control our own destiny, to the extent that we need to enter into a cash-preservation mode. So we do have that flexibility.

With respect to customers and customer advance payments -- I would not say that that's any kind of material trend. From time to time, it's a very specific piece of equipment, we do have our customers consign the equipment to us, especially if it's of a single purpose and we can't really deploy it for other customers.

Jake Kemeny - *Morgan Stanley - Analyst*

Great.

Thanks very much. Good luck.

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Thank you, Jake.

Operator

Arun Seshadri, Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Thanks for taking my questions. Most have been answered.



A couple of quick ones -- first, I just wanted to get a sense for sort of operating leverage here as we go forward. In terms of the percentage of incremental revenue that had dropped through the gross profit line -- looks like it's sort of just inside a 40% here -- is that a fair level of operating leverage we should expect going forward, beyond the second quarter as well?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Yes, I think that's a fair estimate, Arun.

Arun Seshadri - *Credit Suisse - Analyst*

Great.

As far as normal seasonality -- obviously, it's a little -- it's not that straightforward to tell beyond the second quarter. But how would you characterize your expectations for the balance of the year from second quarter to third quarter? I think street estimates are expecting a fairly share ramp in Q3 and Q4. Any color you can shed on what is normal, or what would be considered normal seasonality?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Yes. I don't want to give you the sense that I'm giving any guidance. But when you look towards the year-over-year trends, I think that starts to set up some expectations for the second half of the year. As far as normal seasonality goes, the historical trends, I think, have Q3 up 7%, 8%.

Arun Seshadri - *Credit Suisse - Analyst*

That's helpful.

And then (multiple speakers) you expect a slightly higher OpEx spend for Q2. Again, going forward for Q3 and Q4, should we expect sort of a similar OpEx at percent of revenue? Is that the right way to think about it?

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Because there is a hefty amount of deal cost that we're expecting to hit us in Q2, I do expect OpEx to start to come back down again. The other variable is the timing of any litigation expenses, but somewhere in the 75 to 80 range is where we've been operating.

Arun Seshadri - *Credit Suisse - Analyst*

Great.

Last question for you -- obviously, you've spent -- you are embarking on a fairly significant CapEx spend program. Maybe you could comment also a little bit on pricing pressure, and sort of how you're seeing it develop, especially since everyone seems to be spending CapEx. Just a comment on pricing -- thank you.

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Yes. With respect to pricing, we operate in a very price-competitive environment. And so that always puts pressure on us to ensure we're investing for cost reduction and competing very favorably, and lowering cost to manufacture.



I would say pricing remains very healthy on the advanced technologies. On the more legacy commodity stuff, it tends to be more competitive, which puts the pressure on making sure are you investing ultra-high-density leadframes and pin-gate mold injection and the like, to make sure that you can operate and return even in that competitive environment. And I think that's how the Tier 1 OSET players are distinguishing themselves from the Tier 2 players to actually be able to dominate that market as well.

Arun Seshadri - *Credit Suisse - Analyst*

Appreciate the comments. Nice quarter. Thanks, guys.

Joann Solomon - *Amkor Technology, Inc. - EVP and CFO*

Great, thank you.

Operator

(Operator Instructions)

Mr. Joyce, there are no further questions at the queue. Please continue with any closing remarks you may have.

Ken Joyce - *Amkor Technology, Inc. - President and CEO*

Thank you, Lily. And we thank everyone for their participation in our call today.

Operator

Ladies and gentlemen, this concludes the Amkor Technology, Incorporated First Quarter Earnings Conference Call.

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