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AMKR - Q4 2016 Amkor Technology Inc Earnings Call

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OVERVIEW:

Co. reported 2016 revenues of $3.9b and EPS of $0.69. 4Q16 revenues were just over $1b and EPS was $0.42. Expects 1Q17 YonY revenue to grow 4%.

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CORPORATE PARTICIPANTS

Greg Johnson *Amkor Technology, Inc. - VP of Finance and IR*

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

Megan Faust *Amkor Technology, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Randy Abrams *Credit Suisse - Analyst*

Sidney Ho *Deutsche Bank - Analyst*

Atif Malik *Citigroup - Analyst*

Ana Goshko *BofA Merrill Lynch - Analyst*

David Duley *Steelhead Securities - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Amkor Technology fourth-quarter and full-year 2016 earnings conference call. My name is Sonya, and I will be your conference facilitator today.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to Greg Johnson, Vice President of Finance and Investor Relations. Mr. Johnson, please go ahead.

Greg Johnson - *Amkor Technology, Inc. - VP of Finance and IR*

Thank you, Sonya, and good afternoon, everyone. Joining me today are Steve Kelley, our President and Chief Executive Officer, and Megan Faust, our Chief Financial Officer. Our earnings press release was filed with the SEC this afternoon and is available on our website.

During this conference call, we will use non-GAAP financial measures. 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 the 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'll discuss our fourth-quarter and full-year performance, our 2017 priorities, our pending acquisition of NANIUM, and our first-quarter forecast.

In the fourth quarter, we generated year-on-year revenue growth of $350 million, consistent with our guidance. Demand was stable in most end markets, and our factories executed well.

Our strong revenue performance drove healthy profits, as well as nearly $120 million of free cash flow. Full-year 2016 revenues were $3.9 billion, a $1 billion increase over 2015. The consolidation of J-Devices, together with solid execution of our automotive, Greater China, and advanced SiP initiatives drove both revenue growth and better profitability.

Mobile communication sales grew 8% year on year, contributing 44% of total revenue. We believe that we gained share in the major smartphone ecosystems in 2016. Combined Amkor and J-Devices automotive sales grew 20% year on year to just under $1 billion, accounting for 25% of overall revenue.

In Greater China, sales grew 70% year on year. Our investments in Greater China in advanced packaging and test capacity, together with a more capable customer support organization, are paying dividends.

Advanced SiP sales of $775 million grew 7% year on year, contributing 20% of total revenue. Space-constrained, performance-sensitive mobile applications are driving the development and growth of advanced SiP products. These products are also migrating into other applications, such as automotive, data processing, and storage.

J-Devices performed well in 2016, showing healthy growth in revenue and profitability. The J-Devices team is executing a consolidate-and-fill strategy, which will lower fixed cost. We expect to reap the full benefit of these structural cost reductions in 2018.

Now I'd like to move on to our 2017 priorities. Balanced revenue growth remains the overriding objective for Amkor. We believe that engaging broadly with customers across multiple markets and regions is the best way to achieve consistent financial performance through all phases of the business cycle.

We employ a number of strategies to achieve our balanced growth objective. First, we are increasing our revenue in more stable markets, such as automotive. Helped by the acquisition of J-Devices, these non-mobile comm markets now contribute 56% of our total revenue, up from 45% in 2015.

Second, we are broadening our mobile communications customer base, with a particular focus on Greater China. This go-broader approach is helping to improve utilization of our advanced package capacity.

Third, we are gaining market share in flagship smartphones, leveraging our expertise in advanced SiP, MEMS, and wafer-level packages to contribute more value. And finally, we're focused on increasing factory utilization through more sophisticated planning processes and more intensive efficiency improvement activities.

Mobile communications will continue to drive investment and innovation in 2017. We have a strong position in the smartphone market, and are encouraged by the rapid migration of features such as fingerprint sensors from the high end into the mid-range. Although the smartphone market is off to a seasonally slow first quarter, we anticipate that demand will improve with major flagship phone launches later this year.

Demand in automotive and other non-mobile comm markets remains healthy, and channel inventories seem to be under control. Automotive will continue to be a key focus area for us in 2017. It's a long life-cycle market with stable volumes and steady growth. Average electronic content per vehicle continues to increase. Execution and quality, together with geographic and financial stability, are the key reasons why we've become the number-one OSAT for automotive ICs.

As we look forward, it's worth noting some industry trends which are benefiting Amkor. First, consolidation in the Tier 1 OSAT space is spurring many customers to reassess their OSAT engagement strategies, leading to increased opportunities for Amkor. Second, consolidation in our customer base is re-energizing supply reduction initiatives, which tend to favor broad-based Tier 1 OSATs such as Amkor. And finally, the trend towards package level integration, also known as advanced SiP, is accelerating. This is allowing Amkor to capture more value.

Now I'd like to discuss our pending acquisition of NANIUM, the wafer-level fan-out technology leader which has already shipped nearly 1 billion units to major customers. This acquisition will strengthen our position in the wafer-level packaging market, and it fills a gap in our portfolio. We plan to expand capacity this year at NANIUM's factory in Portugal. Over time, we will bring up a second wafer-level fan-out production line in Korea using a copy exact approach. We will immediately bring NANIUM's technology to customers all over the world, leveraging our worldwide sales and technical support team.

For the first quarter, we expect revenues to be up 4% year on year, and down 12% sequentially. This forecast reflects a generally healthy IC market, tempered by seasonality and smartphone demand. Megan will now provide more detailed financial information.

Megan Faust - *Amkor Technology, Inc. - CFO*

Thank you, Steve, and good afternoon, everyone. First, I will review our fourth-quarter results, followed by a recap of our 2016 performance and a few comments about our 2017 activities. We delivered revenues of just over $1 billion in Q4, up $350 million year over year. The consolidation of J-Devices contributed about $230 million of that growth, with the remaining $120 million coming from a healthier demand environment and the benefits of our strategic initiatives.

Fourth-quarter profitability was strong, with gross margin of 22% and EPS of $0.42. As expected, we received approximately $26 million, or $0.08 per share, as insurance proceeds related to the second-quarter 2016 Japan earthquakes. These proceeds contributed about 250 basis points to gross margin. In both Q3 and Q4, we were able to achieve gross margins of around 20%, with revenues of over $1 billion.

Our fourth-quarter EPS included $0.12 resulting from foreign currency gains and tax benefits related to the remeasurement of liabilities on our balance sheet. EPS was $0.69 for the full-year 2016, an increase of $0.37 over non-GAAP EPS for 2015. This is due largely to revenue growth and our cost control initiatives. Note that with the receipt of the insurance payments in Q4, the impact of the Japan earthquakes on our full-year 2016 results was minimum.

With the improvement in our profitability, we generated $850 million of EBITDA in 2016, a $190 million increase over 2015. At December 31, we had total debt of $1.5 billion, and debt to EBITDA of 1.7 times, a significant improvement from our ratio of 2.4 times one year ago. Our liquidity is solid, with $550 million in cash and $450 million in available undrawn loans.

We generated $140 million in free cash flow for the full year. We also paid down around $100 million of debt in the fourth quarter.

Looking out to 2017, the depreciation and other costs related to our new K5 facility in Korea will begin in the first quarter. A portion of these incremental costs will be offset by the savings from the closure of our K1 factory.

Operating expenses in the fourth quarter were $100 million. For the first quarter of 2017, we expect operating expenses to be around $110 million. This increase is primarily due to K5 costs, which will be classified as R&D expense until we commence high-volume manufacturing. Once high-volume manufacturing begins later this year, some of these future expenses will be recognized in cost of goods sold.

We expect our 2017 full-year effective tax rate to be about 25%. In 2017, we expect to make capital investments of approximately $500 million.

Finally, our pending acquisition of NANIUM is expected to close at the end of Q1. We plan to provide further financial details on NANIUM during our April earnings call. However, the impact is expected to be modest, given the current size relative to Amkor. With that, we will now open the call up for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Randy Abrams, Credit Suisse.

Randy Abrams - *Credit Suisse - Analyst*

Yes, Hi. Thank you. I wanted to ask the first question about the first-quarter guidance. If you could talk a bit more about the factors.

It looks a little bit below seasonal. If it's related to timing of some of these flagship launches, or if there is -- if you're seeing an inventory overhang at customers. I'm curious at an early look into second quarter where some of the foundries are pointing to another slow quarter, just if you get the sense it's more an issue at the wafer bank level that you see a pickup, or normal pickup going into second quarter?

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

Yes, sure, Randy. So basically let me just answer in two parts. First, I'll talk about the general market, then I'll go into the smartphone ecosystems.

I think in the general marketplace we see good demand right now. That's most easily measured when we look at our capacity utilization in the Philippines and other mainstream plants, which is very healthy.

This includes automotive, industrial, consumer, PC, networking type applications. That part of the market is good.

We are seeing this quarter the three main ecosystems in smartphones, namely Apple, Samsung, and the Chinese companies, they're going through a bit of a trough quarter. Some of it's a period between the old phones and the new flagship phones that are coming out, some of it's inventory correction.

So that's what's really happening in Q1, where we're just seeing a dip, which is probably, yes, a little bit a more than seasonal for Q1. So I think you've correctly identified that.

As we look into Q2, I think again we don't see any reasons to be pessimistic about the general market, we think that will hold up because we think inventories are under control. Our checks of the distribution channel have shown that recently.

So again it comes down to the smartphone ecosystems. I think you'll see a flagship phone cadence similar to what we've seen in past years where Samsung should launch their flagship in Q2 and Apple in Q3.

I think the Chinese will probably recover somewhat in Q2. I think they're going through a bit of an inventory correction this quarter, so I expect to see the demand from Chinese OEMs to start to recover in Q2.

I see Samsung recovering in Q2 at some point. And then I see the second half of the year being quite strong, as all three of those ecosystems are engaged in Q3 and into Q4.

Randy Abrams - *Credit Suisse - Analyst*

Okay, great. It looks like the CapEx was maintained versus the tone you had given before on 2017. Could you talk about -- you were mentioning last call potential you could pull in SLIM and SWIFT. Do you have any figure for that, and maybe how much CapEx would be a swing factor?

The second part of that is the new NANIUM investment. If you can talk about how their technology fits in with the internally developed SLIM and SWIFT?

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

Yes, be happy to. Let me just take those in order. First of all in the CapEx, we've been guiding to roughly $500 million in CapEx expense for 2017 for the last three calls, actually. And we still feel that $500 million is the right number for 2017 CapEx, and that will all be focused on capacity expansion and maintenance.

Right now, I don't see a pulling of the SLIM and SWIFT capacity. Right now, Randy, our plan is to install about 2,500 wafers per month capacity of SWIFT in K5 because we see this year as primarily a qualification and low rate initial production year for SWIFT. So we see that capacity being installed primarily in 2018 and 2019.

Let's talk about NANIUM. I think maybe just a few words about NANIUM and then where we're going in the future.

First of all, for us NANIUM is a technology play that fills a gap in our portfolio. If you look at wafer level fan-off versus SWIFT, the best way to think about it is wafer level fan-out is, it's really a low density fan-out technology which is geared towards single die applications. We're basically stretching the die using an epoxy border which allows more I/Os, or more [bom] pads.

The economics of this, obviously wafer level fan-out is more expensive than wafer level CSP. But it makes sense for the customer when the die shrink cost savings outweighs the incremental fan-out cost. That's really what we're getting with NANIUM are those single die solutions where the customer's shrunk the die and needs to stretch it so that they can accommodate all the I/Os.

The SWIFT technology is different. The best way I think about SWIFT, it's an ultra-thin substrate for high density applications, small geometry, 2-micron line and space type geometries. It's geared towards more complex die with more I/O's. And what it really does is facilitate SIP for very thin form factors.

So I think that's where SWIFT will gain most traction, when we're combining multiple die onto a very thin substrate. It's very similar to a conventional laminate substrate except much thinner.

Randy Abrams - *Credit Suisse - Analyst*

Okay, great. The final question I wanted to ask, the gross margin down to mid-teens. Is that what you'd consider normal leverage with the revenue decline, or if there's any mix, say, more advanced packaging related, more pricing impact? I guess, as we look at 2017, last year had a bit of gross margin improvement but the way you're thinking about gross margin year over year as we move toward peak season?

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

Yes, Randy. The result we're seeing is very consistent with our model. There's a high degree of leverage up and down between $900 million and $1 billion in sales.

So our model shows that at $1 billion we can deliver roughly 20% gross margin. We proved that in Q3 and Q4. But unfortunately it deteriorates when we get to $900 million, so that's what you're seeing here.

I don't think mix plays a major issue, a major role, in the reduction in gross margin expectations for Q1. The important thing to remember, though, is Q1 is a trough quarter. So I think we're going to improve over the course of this year.

Randy Abrams - *Credit Suisse - Analyst*

Okay, great. Thanks a lot, Steve.

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Operator

(Operator Instructions)

Sidney Ho, Deutsche Bank.

Sidney Ho - *Deutsche Bank - Analyst*

Hi. Thanks for taking my question. Just a follow-up on Randy's question earlier. If you look at the NANIUM -- first of all thanks for the explanation on the NANIUM technology versus SWIFT. But understanding that the NANIUM generated about $40 million in revenue last year, can you talk about how soon do you think this deal will be accretive to earnings and what kind of revenue cost in the future do you expect going forward?

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

Yes. Sidney, let me give you a little background on NANIUM, maybe circle back to what you're looking for. Again, NANIUM is a technology play it fills a gap in our portfolio. But it also brings a few other things.

It brings the revenue, relatively new equipment set that they've installed in Portugal, experienced engineers, and a very good factory. And so we looked at that together with the culture, we thought it was a great fit for Amkor.

We also consulted with our customers and we got very positive feedback from our customers on the capabilities of NANIUM, particularly on their process maturity, process yields, and the quality of their people. There's also, I think, very good feedback from customers on the Amkor/NANIUM combination because it fills some of the gaps NANIUM had, primarily in expansion capital and a worldwide service organization. So that's the basic rationale for NANIUM.

In looking forward, the immediate plan, Sidney, is to build more capacity in Portugal to take advantage of NANIUM's number one position in the marketplace from a quality and execution standpoint to generate more demand. One of the things that NANIUM couldn't do was address the needs of Asian customers because they didn't have any salespeople in Asia. We have a lot of salespeople in Asia, so we're bringing that technology to them even before the deal closes.

And then of course, we're pursuing a seamless integration so that the NANIUM employees feel welcome in the Amkor team, and then also trying to maximize our cross-learning once the deal closes so the Amkor and NANIUM engineers learn as much as possible from each other. So that's the basic value proposition of NANIUM.

We haven't looked at all the financials yet for 2017, but what I can tell you is, you're right, their revenue was just under $40 million last year and they are making a profit. I believe that they're going to be a positive for Amkor financially.

Sidney Ho - *Deutsche Bank - Analyst*

Great, thanks. Thanks for the explanation. My follow-up question is on the gross margin side. If you back out the insurance proceeds, Q4 is roughly 20% of gross margin, was slightly over billing dollars, which is exactly your target. Is it fair to assume this will be your baseline going forward when the next time you hit billing dollars, I assume sometime this year; or are there other factors like higher depreciation or any one-time charges that may deter that 20%?

Megan Faust - *Amkor Technology, Inc. - CFO*

Sidney, I think you're right that that's the right level. Keep in mind that that's based on a leverage of a $1 billion revenue mark. As long as we consistently have the demand for the $1 billion, we should be able to hit the 20% margin.

Sidney Ho - *Deutsche Bank - Analyst*

Okay, great. My last question, if I may, is on the automotive side, clearly a strong end market right now. Can you talk about your ability to grow above and beyond the industry unit growth rate?

I'm especially interested in the outsourcing trend for packaging and testing in auto. My understanding is that this market, particularly in Japan, does not tend to outsource their backend as much as some of the markets. If the entire industry is like 50% outsourced, what is the percentage in auto today, and where do you think it will go in two- to three-year time frame?

Megan Faust - *Amkor Technology, Inc. - CFO*

Yes, I don't have a lot of specifics, but let me just comment generally on automotive. I think the first data point I would point to is that we grew about 20% year on year in automotive. I believe that's probably faster than the overall growth rate in the industry, so I think we're getting some share there.

I think in Japan, in particular with J-Devices, we are very well positioned because those factories used to be part of Toshiba, Renaissance, and Fujitsu. So what happened J-Devices revenue is automotive, but those used to be internal factories so it was pretty easy to convert to an outsourced model in Japan.

On the import side, we've had customers at Amkor producing automotive ICs for decades at a variety of facilities but it's concentrated in the Philippines. The automotive customers and their customers are very familiar with our factories.

They have been thoroughly vetted and they're very comfortable going back year after year with new programs. So that's what gives us a bit of an advantage in the market.

I think speaking globally about the trend towards outsourcing, I think certainly for many customers they probably have a preference for building that internally when they can because the strong quality requirements of their end automotive customers. We understand that.

And so we're basically in a position where we need to be as good if not better than their internal factories to be successful in the market. And that's the focus of all of our manufacturing team.

Sidney Ho - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Atif Malik, Citigroup.

Atif Malik - *Citigroup - Analyst*

Hi. Thanks for taking my question. Steve, you commented on below seasonal in mobile demand in the March quarter. I was wondering if you could give bit more color?

Are you exposed to one particular customer more? I think your guidance is kind of predictive of what [Corgo] mentioned on their call. Of course, Corgo had a little bit of a trend. If you can help us out on, if your overexposed to one or two particular guys that are driving the guidance below seasonal? And then I have a follow-up.

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

Yes, Atif, I think without getting too specific there was one particular customer where we have a very good share, that is going through a bit of an inventory question quarter. Yes, we may have felt it a little bit more than some others. So that's correct.

Atif Malik - *Citigroup - Analyst*

Then if you looked into the full year, last year you had very strong design wins that [caused] some gains in advanced SiP. So how confident do you feel for the full year that you can kind of a grow on that advanced SiP content wins this year?

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

Yes, I'm very confident about advanced SiP. I think we've proven our ability to be successful. Right now the most challenging SiPs are the RF and front-end SiPs. We're the number one or very close to it today, coming from a starting position three years ago.

Our ability to execute on high precision assembly is quite good, particularly in our flagship factory in Korea, called K4. We built on that success, broadened the customer base, and we are investing for a lot of growth this year in advanced SiP.

In addition to that we build advanced SiP memory modules in China and also in Korea. And we have other products that are built in various factories around the Company. So I think we're pretty well positioned there.

Atif Malik - *Citigroup - Analyst*

And lastly, if you could comment on the timing of the NANIUM acquisition. Why now? And is the adoption of integrative fan-out packaging processes becoming much more broader than outside the application processes?

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

The timing of NANIUM, I think there are a number of factors that went into the timing, but the biggest one was the market is growing to a size where it's of interest to us. And rather than investing a lot internally, we thought it was advantageous to go buy NANIUM because we like their technology and we like their people. So it was a good fit.

What was your second question? I'm sorry. I didn't write it down.

Atif Malik - *Citigroup - Analyst*

My second question was, are you seeing a much broader adoption of fan-out packaging processes outside application processes?

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

Yes, for sure. So this particular technology is typically for the smaller ICs, not this brand of wafer level fan-out is not for the apps processors but typically for things like PMICs, primary management type products and other peripheral communications chips and networking chips.

So where we see this is as part of a larger chipset and where our customers have been able to shrink the die down, save money on their wafer cost, but now the die is too small to fit all the I/Os on. So that's what's driving wafer level fan-out. They need to stretch that die, and we can do that for this wafer level fan-out process.

Atif Malik - *Citigroup - Analyst*

Got it. Thank you.

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

Sure.

Operator

Ana Goshko, Bank of America.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Hi. Thanks very much. I wanted to ask about potential sources and uses of cash and cash flows this year. I understand that you have NANIUM coming up as a use.

I believe you also have some proceeds coming in from excess real estate sales in Korea. The Company has also said that with the lower CapEx after the completion of K5 that you believe you'd be in a position to generate enhanced free cash flow this year. All together, wanted to understand how much excess or free cash flow might be available this year and what would be the uses of that?

Megan Faust - *Amkor Technology, Inc. - CFO*

Sure, Ana. Although we don't normally guide free cash flow, we do expect to be free cash flow positive for 2017. And as you mentioned, those specific uses for an acquisition, and then were expecting midyear about $130 million in proceeds on the sale of our K1 factory, and then with the CapEx discipline of $500 million and how that compares to the 2016 CapEx numbers. 2016 showed a healthy year of cash flow generation and EBITDA. We continued -- with that continued strength of our business and leveraging those fixed costs, we expect to see 2017 also to have free cash flow positive figures.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay. Then a few follow-ups, if I could. Do you have an updated leverage target? You cited 1.7 debt to EBITDA, that is now below 2 times. Are you at your leverage target or would you like to further reduce leverage?

Megan Faust - *Amkor Technology, Inc. - CFO*

Sure. We don't have an absolute target. As we continue to grow EBITDA and as we start to delever, that will have a positive effect on that ratio. But we were very pleased with the improvement that we gained here in the end of Q4.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay, thank you. Finally, [there are] still two bonds still in the capital structure. Both are callable and both have interest rates over 6%, which I think is expensive relative to the country level financing that you've gotten in Korea and Taiwan, for example. So I'm wondering what your plan is with regard to potentially trying to refinance those bonds and reducing the cost of funding?

Megan Faust - *Amkor Technology, Inc. - CFO*

Sure. So just as a reminder, our first priority is to reinvest in the business and fund our capital expenditures. And then secondly, we would look at paying down some of that debt.

You're right, right now we have a mix of both foreign debt and the capital listing or notes that you mentioned. So as we have cash proceeds come in, we'll start to take a look at what the most opportunistic play is to further reduce our debt.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay. Well, thank you.

Operator

David Duley, Steelhead.

David Duley - *Steelhead Securities - Analyst*

Yes. Thanks for taking my question. I apologize, I got cut off or just a minute or so. Could you talk a bit about your growth rate in your SiP business going forward and what the key drivers of the growth will be? Also how do you view the profitability of that segment of your business at this point?

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

Yes, David. I think on SiP, the growth rate was quite good. We [represented] earlier, I think we grew 7% last year.

And I believe that we'll grow faster than that this year. If I look at the opportunities that are in front of us, they're quite impressive for SiP.

So I wouldn't be surprised to see us grow 10% or more in 2017 for advanced SiP. That's my expectation.

David Duley - *Steelhead Securities - Analyst*

And on the profitability side?

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

On the profitability side, the advanced SiP is definitely averaging up the Company. They're quite good. We add more value in advanced SiP than we do in just the standard packaging and test.

David Duley - *Steelhead Securities - Analyst*

Okay. And then as far as your CapEx plans go for this year, how much do you think is going to be focused on SiP and fan-out and some of these advanced initiatives?

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

David, I don't have that level of detail here but I can tell you in general of the expansion capital, we definitely have a bias towards advanced product capacity and both SiP and wafer level products fit into that category. In the past we've typically spent roughly 60%, maybe 65% on advanced and the rest of it on mainstream technologies.

David Duley - *Steelhead Securities - Analyst*

Okay. And then just one final -- let me slip in one final question. On the NANIUM, I'm assuming that's kind of a lower cost fan-out process. Is it panel-based lithography, or how does NANIUM compete in the marketplace in the lower cost area?

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

Yes. It depends on what your comparing it to. So wafer level fan-out as practiced by NANIUM is certainly less expensive than SWIFT because SWIFT is for higher density, it's finer line and space geometries.

But wafer level fan-out is certainly more expensive than wafer level CSP where you don't need to expand the die. So again, the decision to use fan-out is really driven by this cost trade-off between the benefit of shrinking the die versus the penalty of paying more for the packaging.

The economics will vary from customer to customer and application to application. But there's definitely a niche for it, a growing niche, because the opportunity to shrink these die is out there. And in general, you can make the economics work for PMICs as well as for a lot of the other peripheral chips that go into a phone.

David Duley - *Steelhead Securities - Analyst*

Okay. Thank you.

Greg Johnson - *Amkor Technology, Inc. - VP of Finance and IR*

Thanks very much, Dave. There are no more questions, so that ends the Q&A portion of the call. I'd like to turn the call back over to Steve for his closing remarks.

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

I'd like to recap our key messages. First, healthy demand and good factory execution fueled strong fourth-quarter results.

Second, we think 2017 will be a good year for Amkor. Many of our initiatives have gained traction, and industry trends are working in our favor.

And finally, we are excited about our pending acquisition of NANIUM, a best-in-class manufacturer of high-yielding wafer level fan-out packages. Thank you for joining the call today.

Operator

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