

MediaTek 1Q21 Earnings Call Prepared Remarks

Wednesday, Apr 28, 2021, 3:00pm Taiwan Time

Jessie Wang, Deputy Director of Investor Relations

Good afternoon, everyone. Joining us today are Dr. Rick Tsai, MediaTek CEO and Mr. David Ku, MediaTek CFO. Mr. Ku will report our first quarter results and then Dr. Tsai will provide our prepared remarks. After that, we will open for Q&A.

As a reminder: Today's presentation will provide forward looking statements based on our current expectations. The statements are subject to various risks and factors which may cause actual results materially different from the statements. The presentation materials supplement Non-TIFRS financial measures. Earnings distribution will be made in accordance with financial statements based on TIFRS. For details, please refer to the safe harbor statement in our presentation slides.

In addition, all contents provided in this teleconference are for your reference only, not intended for investment advice. Neither MediaTek nor any of independent providers is responsible for any actions taken in reliance on contents provided in today's call.

Now I would like to turn the call to our CFO, Mr. David Ku, for the first quarter financial results.

David Ku, Chief Financial Officer

Good afternoon, everyone. Now let's start with the 2021 first quarter financial results. The currency here is in NT dollar. Revenue for the quarter was NT\$108 billion dollars, up 12.1% sequentially, and up 77.5% year-over-year.

Gross margin for the quarter was 44.9%, up 0.4 percentage points sequentially, and up 1.8 percentage points year-over-year.

Operating expenses for the quarter were NT\$28.3 billion dollars, compared with NT\$27.5 billion dollars in the previous quarter and NT\$20.4 billion dollars in the same period last year.

Operating income for the quarter was NT\$20.2 billion dollars, up 31.4% sequentially and up 248.1% year over year. Non-TIFRS operating income for the quarter was NT\$20.5 billion dollars.

Operating margin for the quarter was 18.7%, increased 2.8 percentage points from the previous quarter and increased 9.2 percentage points from the year-ago quarter. Non-TIFRS operating margin for the quarter was 19%.

Net income for the quarter was NT\$25.8 billion, up 72.3% sequentially and up 344.1% year-over-year. Non-TIFRS net income for the quarter was NT\$26 billion dollars.

Net profit margin for the quarter was 23.9%, increased 8.4 percentage points from the previous quarter and increased 14.4 percentage points from the year-ago quarter. Non-TIFRS net profit margin for the quarter was 24.1%.

EPS for the quarter was NT\$16.21 dollars, up from NT\$9.35 dollars in the previous quarter and up from NT\$3.64 dollars in the same quarter last year. Non-TIFRS EPS for the quarter was NT\$16.38 dollars.

A reconciliation table for our TIFRS and Non-TIFRS financial measures is attached in our press release for your information.

That concludes my comments. Thank you.

Jessie Wang, Deputy Director of Investor Relations

Thank you, David. And now I would like to turn the call to CEO, Dr. Rick Tsai for prepared remarks.

Dr. Rick Tsai, Chief Executive Officer

Good afternoon, everyone. MediaTek began 2021 with a very strong first quarter. First quarter revenues grew 77.5% from last year to NT\$108bn dollars, exceeding guidance mainly driven by a better product mix, healthy market demand as well as a favorable exchange rate of NT\$28.3 to US\$1 versus guidance of NT\$27.9 to US\$1. First quarter gross margin came in at the high-end of guidance due to a better product mix.

Before we start business discussion, I'd like to introduce you on how we now break down our revenues. We categorize our revenues into four product groups: the first is Mobile Phone; the second is IoT, Computing and ASIC; the third is Smart Home and finally Power IC. We believe by updating our revenue groups, we could better present our growth strategies for MediaTek diverse product portfolio in their respective markets.

Addressable markets for all four groups are around US\$70bn dollars this year. Among which, Mobile Phone accounts for US\$29bn dollars; IoT, Computing and ASIC has US\$28.5bn dollars, representing another sizable market opportunity in addition to Mobile Phone. Smart Home and Power IC has US\$5.5bn dollars and US\$7bn dollars respectively. With our competitive IP portfolio and technology investments, we are confident that we could not only capture the industry uptrend but also outperform in each of these markets.

I will now discuss our business according to these four groups.

First, **Mobile phone**. Mobile Phone accounted for 54% of first quarter revenue, growing very strongly at 149% year-over-year and 32% sequentially. The substantial increases were mainly driven by 5G revenue share gain as we further expand into high-end models.

We are seeing healthy smartphone end market demand and continue to believe global 5G smartphone shipment would exceed 500 million units this year.

Among 5G products which we name Dimensity, our high-end 5G products adopt advanced processing technology and offer excellent AI, camera and multimedia features. They are highly recognized by the market. Numerous high-end smartphones powered by our Dimensity 1200 from global major brands were launched in the first quarter. We expect a strong shipment and revenue ramp to continue in the second quarter and beyond. With that, we believe our revenue share in the high-end segment to continue to rise throughout the year and beyond.

For high-volume mid-range and mass markets, we expect 5G penetration to continue. MediaTek is already a leading 5G solution supplier to all major Android smartphone brands. Based on our strong roadmap and design-in pipeline, we believe we are able to grow this business further.

Moreover, with MediaTek's continuous advances in 5G, we are making significant progress in US and Europe markets with further share gains. In early second quarter, a global major Android brand launched MediaTek-powered 5G and 4G smartphones in US market. Together with other models, we expect our smartphone shipment in US and Europe markets to grow meaningfully in 2021.

Moving forward, we continue to launch new products to further capture market opportunities next year and beyond. One is to offer mmWave technology, in addition to our sub-6GHz 5G solutions. The other is to expand into the flagship

segment. By adopting leading advanced process nodes and high-performance designs, we believe our flagship solutions will be competitive in penetrating into flagship models. With these initiatives, we are confident that our Mobile Phone group will grow better than its industry for upcoming years.

For our **IoT, Computing and ASIC** group, it consists of several fast-growing markets such as WiFi, ARM-based computing and ASIC.

In the first quarter, this group accounted for 22% of revenue. It grew strongly at 60% year-over-year, thanks to growing demand in routers, broadband and Chromebook as well as strong WiFi 6 migration. The group declined 4% sequentially due to consumer electronics seasonality.

With comprehensive wireless and wired connectivity, ARM-based computing and high-speed data transmission Serdes IPs, MediaTek enjoys a highly-competitive position in these markets. We continue to gain great traction in Chromebook and notebook PC markets via our competitive WiFi 6, 5G thin modem and ARM-based computing SoCs. We also see spec migration continues. We forecast our WiFi 6 to account for around 15% of our total WiFi shipment this year, substantially increasing from low-single digit % last year.

For ASIC, we have seen very robust gaming console demand since product introduction last year. Our switch IC and AI accelerator ASIC projects are also ramping smoothly into rest of the year.

With more innovative connected products, we are able to increase our market shares in these product lines. We believe our IoT, Computing and ASIC group will be a major growth driver for the next few years.

Next, **Smart Home**. MediaTek has a strong leadership position in this market. This group accounted for 16% of revenue in the first quarter. Smart Home grew 42% year-over-year, driven by recovery of the global TV demand from a year ago and grew 5% sequentially as we see a better mix.

For coming quarters, we see healthy demand in anticipation of global sports events such as European Football Championship in June and Tokyo Olympic in July. Consumers are also more willing to upgrade TV spec as they now spend more time in home entertainment.

Now let me make a few comments on **Power IC**. In the first quarter, power IC accounted for 7% of revenue. It grew 47% from last year, mainly driven by higher

Power IC content from continuous consumer product upgrades as well as recovery of global market demand and grew 3% from last quarter, reflecting continuation of the market growth.

MediaTek provides comprehensive and reliable power IC solutions. Power ICs are widely adopted by majority of our business lines. Not only can it grow as a standalone business but also bring synergic benefits to our overall businesses. We expect Power IC business to exceed US\$1bn this year and to grow faster than the overall company in the next few years.

Now turn to **second quarter** guidance. Following a strong first quarter, we expect second quarter revenue to continue to increase for the four revenue groups, mainly led by 5G smartphone ramp.

We expect our second quarter revenue to be in the range of NT\$ 118.8 billion dollars to NT\$ 127.5 billion dollars, up 10% to 18% sequentially, and up 76% to 89% year-over-year at a forecasted exchange rate of 28.2 NT dollars to 1 US dollar. Second quarter gross margin is forecasted at 45%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 23%, plus or minus 2 percentage points.

For 2021 full year, compared with 3 months ago, we are seeing a stronger growth momentum based on healthy end market demand and strong key customer design-ins. Amid the industry-wide supply constraint, we expect our capacity to support a better-than 40% year-over-year revenue growth target. We also raise our full year gross margin target to 44% to 46%.

Now, I'd like to expound on major changes on dividend policy. Based upon the confidence of our business outlook underpinned by our competitive product portfolio and future cash generation ability, the Board approved a regular cash dividend payout ratio to 80%-85% as our dividend policy this morning.

In addition, the Board approved a 4-year special cash dividend program totaling NT\$100bn, to enhance our balance sheet efficiency and to reward long-term shareholders. Shareholders will receive a special cash dividend of NT\$16 dollars per share every year from 2021 to 2024, on top of a regular cash dividend.

For 2021, subject to shareholders' approval, total cash dividend to be paid is NT\$37 per share, including a regular cash dividend of NT\$21 per share and a special cash dividend of NT\$16 per share.

Despite the increases in cash dividend, we are confident that we can continue to invest aggressively in R&D and still possess the ability to pursue M&A opportunities should they arise in the future, as evidenced by our US\$3bn R&D investment budget this year. We are fully committed to future R&D investments to further strengthen our global competitive position and create higher values for our shareholders.

That concludes my prepared remarks, thank you.

[Q&A]