

MediaTek 2Q21 Earnings Call Transcript

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Jessie Wang, IR Deputy Director

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 second quarter financial results. The currency here is in NT dollar. Revenue for the quarter was NT\$125.7 billion dollars, up 16.3% sequentially, and up 85.9% year-over-year.

Gross margin for the quarter was 46.2%, up 1.3 percentage points sequentially, and up 2.7 percentage points year-over-year.

Operating expenses for the quarter were NT\$29.2 billion dollars, compared with NT\$28.3 billion dollars in the previous quarter and NT\$22 billion dollars in the same period last year.

Operating income for the quarter was NT\$28.8 billion dollars, up 42.8% sequentially and up 288.8% year over year. Non-TIFRS operating income for the quarter was NT\$29.1 billion dollars.

Operating margin for the quarter was 22.9%, increased 4.2 percentage points from the previous quarter and increased 11.9 percentage points from the year-ago quarter. Non-TIFRS operating margin for the quarter was 23.2%.

Net income for the quarter was NT\$27.6 billion, up 7% sequentially and up 277.4% year-over-year. Non-TIFRS net income for the quarter was NT\$27.8 billion dollars.

Net profit margin for the quarter was 22%, decreased 1.9 percentage points from the previous quarter and increased 11.2 percentage points from the year-ago quarter. Non-TIFRS net profit margin for the quarter was 22.1%.

EPS for the quarter was NT\$17.44 dollars, up from NT\$16.21dollars in the previous quarter and up from NT\$4.58 dollars in the same quarter last year. Non-TIFRS EPS for the quarter was NT\$17.57 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, IR Deputy Director

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

Dr. Rick Tsai, Chief Executive Officer

Thank you. Good afternoon, everyone. I am very pleased to report that MediaTek delivered another strong quarterly results. In the second quarter, we again set a new record of revenue achieving NT\$ 125.7billion, driven by growth in all four product groups. Second quarter gross margin was 46.2%, close to the high-end of our guidance. Operating income amount was almost quadrupled from last year and operating margin achieved 22.9%, benefitting from increasing gross margin and operating leverage.

I will now discuss our business by each product group.

First, Mobile phone. Mobile Phone accounted for 57% of second quarter revenue, growing very strongly at 143% year-over-year, mainly driven by the ramp of our 5G high-end products, known as Dimensity 1000 series.

We continue to see increasing adoption of our 5G high-end SoCs among our customer base. As a result, MediaTek market share in the high-end segment has been rising steadily since we first entered 5G high-end market at the end of 2019. We believe it was attributed to our competitive 5G offerings, successful product position and solid execution. With an aim to empower more differentiated high-end and flagship smartphones, we recently launched our 5G open resource architecture that provides a greater flexibility for customers to customize high-end features such as AI, multimedia and camera parameters. The first high-end model built on MediaTek 5G open resource architecture has already started shipping. More models from multiple customers will come in the next few months.

Our estimate for 2021 global 5G smartphone market remains unchanged at the level that exceeds 500 million units, which is more than double the amount of 2020. We expect 5G migration to accelerate and penetrate into more regions next year, bringing 5G smartphone market to a much

higher level. With solid share gains in high-end and a leading share in mainstream market this year, MediaTek continues to expand product portfolio into the flagship segment to drive future revenue growth.

We are on schedule to deliver our first 5G flagship SoC solution by the end of this year. Adopting ARM's latest flagship core and best-in-class TSMC 4nm process technology, MediaTek flagship solution offers industry-leading power consumption and premium performance. In addition, with advanced AI, multimedia IP and our proprietary open resource architecture to enable customer differentiation, we believe our flagship offering is superior to all products available in the market. The flagship product development has been progressing very well with multiple customers. First customer's model is scheduled to launch in the first quarter of 2022 and we expect more to come. We believe our entry into flagship segment and investments in advanced features would benefit our entire 5G product portfolio going forward.

With comprehensive and competitive product offering, we are confident that MediaTek can continue to expand our global presence in the smartphone market and enjoy a strong growth in the next few years.

Next, let me talk about our IoT, Computing and ASIC group. This group contributed 22% of revenues in the second quarter. It grew strongly at 59% year-over-year, reflecting continued strength in market demand and product upgrades.

For IoT and computing, we are seeing a better product mix driven by higher contributions from WiFi 6 upgrade and higher-end devices such as larger-sized tablets, smart displays and branded TWS Bluetooth headphones. As one of few leading players in WiFi 6, we expect WiFi 6 penetration to accelerate in the coming years and will continue to benefit MediaTek across multiple applications.

For ASIC, revenues grew steadily in the second quarter. A few new switch IC projects are about to start volume production in the second half of the year to contribute further growth.

Next, I will talk about the Smart Home product group. This group accounted for 14% of revenues in the second quarter and grew 62% year-over-year.

Global digital TV demand has been steady. We are seeing growing popularity in higher-end devices such as 4K models in the market due to global sports events, driving a better product mix for MediaTek. Together with robust demand in other TV-related products, we expect this group to grow throughout the year.

Last but not the least, let me talk about Power IC. This group accounted for 7% of the second quarter revenues, growing 43% from last year. We saw solid demand across the board for the quarter, especially with 5G smartphone ramp.

With technology becoming more complex for advanced products, the demand for efficient power management solutions has increased substantially. MediaTek has built a vast portfolio to support diversified applications and continues investing in solutions for new applications.

In addition to the robust growth coming from current major businesses such as computing and communication, we are also seeing increasing contributions from industrial and automotive which is expected to account for around 10% of Power IC revenues already this year. With our strong capability in design for power efficiency and product integration, we expect to grow this business strongly going forward.

That concludes my updates on the four product groups. Now I would like to talk about some exciting trends we are seeing to drive our mid-to-long term growth.

We believe digital transformation has become a new norm and is driving tremendous business opportunities. We are only at the first phase of the cycle, witnessing early infrastructure deployment for faster connections, such as 5G wireless base station, 10GPON fixed network and high-speed transmission equipment. These infrastructures will continue to nurture an enabling environment for various faster and more powerful connected devices in 5G, WiFi, AIoT, real-time computing, automotive and in many other scenarios. We believe continuous product upgrades and more innovative connected devices will surely arrive for people to enjoy faster and seamless connections.

MediaTek is equipped with a comprehensive and competitive solutions for wireless and wired connectivity, ARM-based computing, power management and high-speed data transmission Serdes IPs. We are also aggressively investing in next-generation connectivity technologies and more powerful processing. Equally important, we work very closely with global operators and major brands so that we are able to better capture the dynamic market trends.

We believe the trend of digital transformation will continue even in the post-pandemic era. We are very confident in our technology and product competitiveness, which will not only enable us to march into 5G smartphone flagship segment next year but also capture growth opportunities in areas including ARM-computing, AIoT, and power IC in the future.

With the promising long-term opportunities in mind, now let's take a closer look at near-term market situation.

Despite some recent short-term supply chain data points are interpreted as concerns of market outlook, we would like to reiterate that we are seeing healthy market demand across all of our product groups. It's mainly driven by our leading positions in 5G, WiFi 6, and ARM computing products, all of which are important ingredients for digital transformation.

For 2021, as we indicated earlier, the industry-wide supply constraint has shaped a rather different quarterly seasonality for the year but the different seasonality pattern should not be seen as concerns for our business outlook. In fact, based on the current forecast, we are confident to further raise annual revenue growth target from 40% plus provided last quarter to a level above 45%. We also believe our annual gross margin is able to reach the upper end of our target range of 44% to 46%. Furthermore, with our new dividend policy explained last quarter and solid growth potentials ahead, we aim to create attractive and sustainable total returns for our shareholders.

With that, we now provide our third quarter guidance as follows.

For the third quarter, we expect our third quarter revenue to be in the range of NT\$ 125.7 billion dollars to NT\$ 131.9 billion dollars, flat to up 5% sequentially, and up 29% to 36% year-over-year at a forecasted exchange rate of 28 NT dollars to 1 US dollar. Third quarter gross margin is forecasted at 46%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 24%, plus or minus 2 percentage points.

That concludes my prepared remarks, thank you.

[Q&A Session]

Q - Randy Abrams, Credit Suisse

OK, yes, thank you. Hey, I want to ask the first question on the flagship segment. When we're in the prepared remarks, you expressed optimism to target that. Could you give a view on the TAM, how much you see the market opportunity for that segment and an initial, based on design-in activity, market share expectation? And can you also mention, if any offsetting impact? There's been a market concern that your competitors back in the market with more supply, if you got any offsetting impact in some of the mainstream segments from competition, say less benign, a couple of quarters out.

A - Rick Tsai, CEO

OK, Randy. Rather than saying the TAM, I think it's better to just say the China market, we believe the market size will be of about 80 million units to 100 million units next year. Of course, we are at the beginning of our entry to this flagship market, of what I can say, with our chips, it has been performing very well. All our designs are really very exciting to ourselves and to our customers. We have worked quite some time with key customers in China. So we have good confidence that we will have, I would say a reasonable good entry to this indeed very challenging segment. We, of course, you know, we don't comment on our competitors. But I really believe if you look at all the when, of course, when it comes out, all the features, the power consumptions, capabilities, we surpass what the industry can get from the major IT suppliers and the major foundry supplier we are doing, we're doing well, thank you.

Q - Randy Abrams, Credit Suisse

OK, and the second question I wanted to ask on the outlook for third quarter. Could you discuss just firstly the impact from the Kinyuan where they had the COVID outbreak and how that affected timing of shipments, whether that pushed some shipments into third quarter and then for third quarter, how much are you limited on supply constraints? It looks like your balance sheet inventories are in reasonably good shape. But if you could talk about where the constraints are coming through and how much it might be limiting your shipments.

A - David Ku, CFO

Randy, I'm assuming what you're talking about, the COVID's impact and you're mainly referring to for the Q2 to KYEC, the back-end vendor's event. But a long story short, I guess the overall impact is minimal. I think you can observe that from our strong second quarter QoQ growth, which is at the mid to high end of our guidance range. So basically, you can consider that impact actually been passed already. And I think the third quarter's, I think it's like the CEO Dr. Tsai explained, this is actually other news when we're talking about the full year guidance, we're kind of indicating about the seasonality for the full year is actually very different. So probably the better way to look at it, check out the momentum this year. We understand that currently there's a lot of rumors. You know, one of the few small vendors, data point, maybe just suppressed the market confidence, but probably the best way to look at the market health is by looking at full year growth, like we explained earlier, we still see a pretty healthy market demands out there. And if there's no demand constrained, I guess overall speaking for Q3, we're looking for either high single digits on QoQ or maybe low double digits without supply constraints. So, now, actually, the quarterly seasonality is actually slightly different, but we did really see that there is a weakness in the end-market demand.

Q - Randy Abrams, Credit Suisse

OK, great. Thanks a lot, David, Rick.

Q - Roland Shu, Citi

Good afternoon. And congrats, for the very good results and also very positive to hear you further raise your whole year revenue target. For the whole year revenue point of view, it took MediaTek more than 20 years to reach a milestone, to achieve annual revenue to above \$10 billion, last year. So with this on your fast revenue growth, how long do you think that your revenue will break \$20 billion level? And what are the growth drivers for you to achieve this revenue milestone going forward, thanks.

A - Rick Tsai, CEO OK, Roland. Yes, indeed, it has taken quite a long time to break the \$10 billion revenue. I wouldn't call that barrier, \$10 billion revenue. If you look at our revenue back in 2017, 2018, 2019, after we were stagnant at about eight billion dollars per year. Last year, we did \$10.9 billion, almost \$11 billion, and this year, if you figure, you know, 45% growth and the only exchange rate we're talking about, \$17 billion dollars revenue or so. Well, of course, in 2019, in two years, we more than doubled our revenue, in two years... For \$20 billion, we believe it will be within two years.

Q - Roland Shu, Citi

Two years from now right? So it means from end of next year, we probably can see this level of revenue.

A - Rick Tsai, CEO Well, Roland, I'm not going to read into that specific, but the, you know, two years, within two years, shall we say. You asked about growth drivers, if you look at our report. What about our current four product groups, the TAM is about \$70 billion And I think for \$20 billion revenue, we now already have enough upside on our current product groups to achieve that. Thank you.

Q - Roland Shu, Citi

OK, thank you. My second question is for the gross margin. You also have very strong gross margin guidance in 3Q, 46% plus minus 1.5%. I compared to your last gross margin peak, it was about 49% back to second quarter or three quarter of 2014. So I would like to ask, you know, what has to be done to resume or recover this gross margin back to your last peak? And when would you expect to achieve the same level of gross margin as, you know, your last peak?

A - David Ku, CFO

Roland, David here. We probably will not be able to give out guidance to say when we're going to reach 49% because currently we can probably only provide reasonable guidance within a year, within a year, at least for this year. Like the CEO talk about earlier, originally the guidance we give out were 44 to 46%, now we feel fairly comfortable, now we're aiming for the better end of this range, I think that's mainly due to a very strong product mix and more importantly, mainly depends on very competitive product portfolio. I think some of you guys, including you were actually asking about the overall competition situation. I think from our perspectives, competition is always out here. But even with competition, we managed to grow our gross margins steadily and, you know, slowly but steadily. And I think it is our goal to continue to improve it through with a product mix. And also, I should say, the BG mix of the product mix. So that's why we spend so much resource and also so far in the overall progress looks very well for us to get into the flagship product. So I guess, give us more time, we should be able to continue to improve that. But unfortunately, we will not be able to give you a guidance about when or how soon can we can reach a higher margin.

Q - Roland Shu, Citi

Just a follow up on this gross margin. In your prepared remark presentation, you said your whole year gross margin will be at the high end of this 44 to 46%. However if you look at your

first half gross margin and 3Q gross margin guidance, does that mean that your 4Q gross margin probably will be declined from 3Q level, if you really would like to achieve these maybe 46% whole year gross margin this year.

A - David Ku, CFO

Probably that's not the precise way to explain what we're talking about here. It could be over the 46% limitation, I think probably that's the better way to interpret what we talked about.

Q - Roland Shu, Citi

Understood, OK, thank you. Yeah.

Q - Gokul Hariharan, JP Morgan

All right, thanks for taking my questions and congrats on the good results. First of all, could we talk a little bit more on this 5G open resource architecture that you're enabling for the Dimensity chips or some of your bigger customers? And could we talk a little bit more in terms of what level of customization can customers achieve? And could you also highlight how this is helping you in your flagship market share quest? Because this is obviously differentiated compared to what competitor is providing.

A - David Ku, CFO

I think basically the open architecture is really just a flexible infrastructure and a flexible system platform to enable customers to do customer differentiation and features on several fronts, for example, the camera function, for the multimedia function, and for other function, because our view is we can provide a very solid foundation on very good performance on the modems, on multimedia already. But once we get into the flagship product, different customer are truly looking for differentiation, so instead of we provide one solution for all and sometimes, probably not on differentiations, on top of our good performance flagship product, and also high end products as well, we provide tools and flexibility, it's actually a development platform enabling our customer to basically do whatever differentiation for them. We do believe actually that's probably the best combination about what we call a solid foundation of fundamental performance plus the differentiation for mid to high end smartphones. Currently, I think a few products out there, our customers, by adopting architectures in the market, we do believe once we get into a flagship product, we will see more and more customer differentiation and maybe even customer creativity, will be landing on our platform. I think that's the whole idea of open resource architecture.

Q - Gokul Hariharan, JP Morgan

Just to extend that a little bit more. Do you foresee that you would open it up into a bit more of a ASIC kind of model for some of your flagship customers, given every one of your flagship customers also want to try and design their own flagship chips?

A - Rick Tsai, CEO Indeed, for the customers with the flagship models, they strive for differentiation through different routes, sometimes. You really have to look at from the whole system architecture of the smartphone plus the ecosystem, third party ecosystem. Different customers I cannot give you the details, but we are working with all our key customers. Based on their requirements, their demands, we are, I would say quite flexible, in working with them, depending on their system architecture approach. At MediaTek we understand fully, well, to have good success in flagship segments, we really need to collaborate with our customers at a very early stage, understand their system requirements and provide our technology, platform, and business model. For them to win, and for us to win, we thank you.

Q - Gokul Hariharan, JP Morgan

Got it. Thank you very much. One of the questions I had was around when you commented on supply, demand, tightness. Could you talk a little bit in detail on how long you think the current supply demand tightness is likely to persist? Are you seeing this extending all the way into next year? What are the measures you're trying to put in place to mitigate some of these issues? And what are the areas where you're seeing the most constraints right now, all the way from foundry to OSAT to the substrate side?

A - David Ku, CFO

I think overall, we do believe that this tightness will probably last for quite some time, maybe at least for one to two years. I think if you piece everything together, as we've mentioned earlier, the acceleration of digital transformation is expected to create mid- to long-term strong demand, that's on the demand side. But on the supply side, it actually takes time for foundry, OSAT and even the other component suppliers to build additional capacity. So if you just add these 2 together, our view is the supply tightness will probably last at least 1 to 2 years. But in terms of area with the strongest tightness, I would say currently probably still on the foundry side.

Q - Gokul Hariharan, JP Morgan

Understood, Thank you.

Q - Charlie Chan, Morgan Stanley

Hi, good afternoon, Rick, David and Jesse, congratulations for great results again. So my first question is about, you know, your kind of the market share into second half, because you competitor, Qualcomm, keeps saying that they will retake some market share in the second half. So do you see some market share loss in the second half? And is that due to the supply constraint issue or are you trying to avoid pricing war? Not meaning your company doesn't do well. I know you can and have lots of market share in the first half. I just want to understand the trend into the second half. Thanks.

A - David Ku, CFO

Charlie, I think it's overall, we are seeing ,still not just maintaining but also gaining market share, especially for the mid to high end segmentation. So overall, we do believe if you, just by looking at second half of this year, we should be maintaining the market share as well. And on the supply situation is, I think overall we are doing a pretty good job fairly well. And, you know, just again, put into perspective, growth, right now we raised our growth target more than 45%year over year based on our record revenue last year, which is close to 11 billion. So if you just do the math, you see we are actually getting a lot of supplies this year. And more importantly, I think right now, as we are finalizing our capacity plan for next year as well, we even though the overall supply tightening situation still the industry norm, but we do believe we can get additional capacity next year to basically support our growth next year. So overall I think we feel comfortable about the competition. And from the result perspective, we do believe we do a fairly reasonable good job on that.

Q - Charlie Chan, Morgan Stanley

Thanks, David. My next question is about the markets, the demand for low price 5G phones, for example, those 1,500 RMB or 1,000 RMB smartphones. So does the company think that the smartphone market, emerging market need that low 5G phone to come back again? And if that's the case, and when is the best timing for the company to release those kind of low end 5G SoC? And since David keeps mentioning your full year target, upper 45 percent year on year. So we did some a back-of-the-envelope calculations. If we plug in, you know, two percent or three percent QoQ growth for 3Q, that implies the fourth quarter revenue to be down 18 percent quarter on quarter. You said that, right? The interpretation, because, you know, the company keeps saying that it's healthy, but now, you know, 18 percent QoQ in 4Q, seems a big drop.

A - David Ku, CFO

If you apply, say, the midpoint of guidance, we say zero to five percent QoQ growth. And again, you take a 45 percent plus. But if you only use 45 percent, I think what you get for using a 45

percent plus, you will see a reasonable 4Q, not like you described. I think that's the discrepancy over here.

A - Rick Tsai, CEO

Of the low-priced segment you asked earlier, yes, we do believe 5G phone, well, it's just like 4G before it will move down to, shall we say, 1,000 RMB segment. Timing of which remains to be seen. But we have talked to, especially operators for such need. MediaTek has always done very strong very strongly in such segments. We are, of course, preparing for that solution.. Thank you.

Q - Charlie Chan, Morgan Stanley

OK, great. Thanks, gentlemen.

Q - Brett Simpson, Arete

Rick, I wanted to just ask about the flagship momentum, I guess when we look at Qualcomm, they must be selling their Snapdragon 888 at about \$100 dollars per chip, excluding RF. Is that the pricing window that you see being achievable for your flagship chips coming out towards the end of this year? And can you talk about how many devices you've got designed into? Because you must know now, you know, given the lead times to launch what sort of win rates you're getting. And then just finally, the chip Release 16 compliant for 5G. Thanks.

A - Rick Tsai, CEO

I cannot give you the number of design-in that we have. But I can say, we're confident we have design-ins with major customers. The price of which, well this is a flagship market segment, so this is a flagship segment, I'm not sure the price you mentioned in your statement, indeed, something our flagship product, I think, should and will achieve. I don't know whether you have a third question or not.

Q - Brett Simpson, Arete

No, I was just asking. Yeah, that's very helpful. I guess it was just whether the platform supported Release 16 as we head into that next phase of 5G.

A - Rick Tsai, CEO

Oh, yes, yes. Yes. Well.

Q - Brett Simpson, Arete

OK, great. And then maybe just to follow up on millimeter wave, I think you recently announced a breakthrough on millimeter wave with Ericsson and you talked about shipping commercially, like the second half of 2022. Can you talk about how you're addressing the RFs in that platform? I think you've, you've talked about an AiP module, but is that full internalization? Are you doing everything with that module internally or are you using partners as well here? Thanks.

A - Rick Tsai, CEO

OK, first of all, the first SoC with the millimeter wave modem, it's doing well, it's doing well. We will continue to say that the second half of next year is the time for our product launch. We do have our in-house AiP modules for millimeter wave, but if you know, we do not ask our customers to have exclusive use of our front end components. Thank you.

Q - Brett Simpson, Arete

Great.

Q - Bruce Lu, Goldman Sachs

Thank you for taking my questions. I want to go back to the profitability. So we are seeing TSMC stays at firmly at 50% gross margin, 20% ROE, then on the other hand, you know, the bulk of the semiconductor company will raise the gross margin whenever they can. So what is the preferred gross margin profitability to lead tech innovation and technology in the long term? What should we expect, what should we expect, I mean, you know, which can do you say for your profitability and what is the comfortable operating margin at the same time?

A - David Ku, CFO

I think for this year, for the full year, we're looking for, again, 20% plus. But when I say that, because I got a few questions earlier, I just highlighted 20% plus doesn't mean 20%, it's actually 20% plus. I think this year we can go looking for 20% plus. And so that's a combination of gross margin improvement and also operating leverage. I think given, we kind of explained about the growth momentum will continue into next year. We do expect we can actually continue on both front, which means continue to improve the growth margin, in the meantime, continue to improve through the operating leverage. So hopefully we can just continue to improve our OPM margins for next year as well. But in terms of a goal, I think for this year, because right now is still only July, I think for this year, like what we talked about earlier this year, in the beginning of the year, we gave out a full year guidance, I think for next year guidance we'll give

out a new goal earlier next year. But at least for this year, the goal is 46% on the higher end, maybe even over than that, OPM margin is actually 20% plus.

Q - Bruce Lu, Goldman Sachs

I'm sorry, when you answered, you're answer was kind of breaking down. But my key question is that, you know, which can MediaTek stay? Do you prefer to a very stable gross margin, or would you prefer to raise your gross margin target, whenever you can, to reflect more innovation and technology?

A - David Ku, CFO

OK, I think this question is more from our perspective, it's really about pricing. I think like we explained last time, last quarter. I mean, MediaTek, we are not taking opportunistic pricing. So maybe some of the vendors or customers out there just taking this opportunity to increase the price substantially. From our perspective, we believe actually is, first of all, I guess we do firm up our pricing to reflect our values and our competitive support to our customers. But you have to understand, bear in mind that the pricing principle for us is very strategic and we need to balance among the supply tightness situation and mid- to long-term customer growth and overall value to our customer. So I guess to answer your question, we will not taking opportunistic pricing, but we're still firming up our pricing to reflect our value.

Q - Bruce Lu, Goldman Sachs

I understand. Thank you. So my next question is, again, for the flagship model for 2022. I know that for the shipment in 2019, it's highly, highly concentrated in the top three brands. I mean, the top three brands accounts for 90 percent plus of the total flagship shipment. So it really doesn't matter how many design-win you've got. You have to got THE most important design. And the problem for your customers are that, I should rephrase the question is that, how long do you think your customer need to bring out their brand image to allow the typical consumer to buy the expensive, flagship model for their brand. I think that's the key to enhance our confidence for your flagship shipment in 2022 and onwards.

A - Rick Tsai, CEO

Yes, I think our customers, they understand where they are. They also understand their market very well. I think it's important to understand, this market indeed is a very challenging market. But on the other hand, this is the market we believe we must move in. We view this as a long term investment, mid to long term investment, we are now speaking short term, well, you know, a disruptive increase. We think of that, we still need, with the combination and the

collaboration, accommodation design-in, collaboration with our customers, our shipment will be more than adequate. And I also believe that you will see the customers' products next year. They will also continue improving their product, brands, their capability and along with their market share. Thank you.

Q - Bruce Lu, Goldman Sachs

Thank you.

Q - Laura Chen, KGI

Thank you for taking my questions. I'd like to know MediaTek's view on capacity allocation, in particular that, David just mentioned, capacity constraints mainly on the foundry side. So given the limited supply and particularly at the foundry side, like in advanced node, would MediaTek more prioritize or put more resources on higher ASP or reserve more for that kind of high end product. And then similarly, on the matured node, we know there's a lot of shortage on the 4G LTE SoC, since many of the 4G SoC also based on 16 or 12 process, it may share the same process with 5G IoT transceiver. So how would we plan ahead or prioritize our resources? And I think that also links to your product mix strategy into the second half of next year. Thanks.

A - David Ku, CFO

I think, first of all. For the matured nodes versus the leading edge nodes, bear in mind that even for 5G products, we need both. We need the leading edge nodes, also, we need the matured nodes as well. So when we do internally capacity allocation, it's really just a complicated process. But to make a long story short, I guess we're not just gearing up for the maximum benefit for the revenue because we also need to consider about the balance of our customers' segmentation requirement and also the mid to long term growth. So, again, like I said, I explained about the pricing strategy, it's going to be a balance among the MediaTek interest and also the market growth, the customer growth and the overall supply situation. So it's really a balanced process. I get the results for this year, it's basically just our allocation decision. Again, I believe with more than 45% year over year growth on top of \$11 billion dollars of revenue, plus continuing improvements on the profitability and also taking care about the mid to long term growth on the customer side. So far, we find that is a good balance. We will continue that practice for next year as well.

Q - Laura Chen, KGI

OK, thank you. And also, just a follow up, since we just mentioned that about 80 to 100 million of flagship model market size in the Chinese smartphone market. If we translate into the street price, can you give us an idea? What's your view on that fashion model? It will be like 5,000 RMB above, or, what kind of pricing range are you aiming for?

A - David Ku, CFO

Well I think in general, we're talking about 4,000 RMB and above, we all consider as a flagship.

Q - Laura Chen, KGI

OK, thank you.

Q - Nicolas Gaudois, UBS

Good afternoon, I'm Nicolas from UBS, standing in for Sunny Lin. First question, going back to this shift to higher end portion of a smartphone SoC and system solution market, although it's early days, is there any way you could try to frame for us a little bit what it would mean for overall market share for you next year? Not in this segment specifically, but overall and also blended ASPs in terms of potential market share gains and ASP accretion as well.

A - David Ku, CFO

Maybe to answer your second question first. We do believe that our initiative into the flagship product and also consider the overall product migrations, the product mix should provide very good support for the blended ASP, which means we are seeing ASP, you know, being supported and maybe even increased next year. The first question, I guess, like our CEO explains, so far, we can only disclose about the design-in and design-win situations. The feedback we got out of the design-in situations, we got actually pretty well. First customer manufacturing day will be actually earlier next year. We probably will disclose more quantitative information later this year, rather than this quarter.

Q - Nicolas Gaudois, UBS

Just a clarification, when we talked about the term for high-end smartphones that was Chinese smartphone OEMs or China domestic markets?

A - David Ku, CFO

China's OEMs, not just the domestic market. Some of it actually is exporting as well.

Q - Nicolas Gaudois, UBS

Thank you very much.

Q - Gokul Hariharan, JP Morgan

Thanks for taking my question, last question from my side, there has been some market concern about 5G cycle peaking out by next year, in terms of growth, especially since a lot of

the last stages of revenue growth will come from more price sensitive segments. Could you talk a little bit about what are MediaTek's view on this? How do you think about the 5G revenue opportunity, as you look at the next couple of years, do you too see 5G revenues growing into 2023, 2024 when you think about scoping out the market, especially since you sounded quite confident on reaching \$20 billion in response to Roland's questing within the next couple of years.

A - David Ku, CFO

We're still confident to see 5G revenue continue growing next year, and for the following reason: First of all, we didn't really see the 5G is peaking out yet, especially when you think about the global 5G penetration. We do believe next year the penetration rate will continue to increase. And likewise, including you and other analysts are kind of talking about the 5G not just continue to increase, one of the area it coming out, is just the replacement of 4G, 5G is getting into the edge level, so the volume will continue to grow. Also, bear in mind we keep talking about, next year we are making really good inroad for the flagship product, from our perspective, that's a new addressable market. Based on the current design-in and design-win situation, we feel fairly comfortable we get certain market share on that. So if you combine all of this together, we do believe next year we'll still see another year of growth, not just for the whole company, but also for the 5G products.

Q - Gokul Hariharan, JP Morgan

Got it, so should we think next year is still a healthy, double-digit kind of growth year? Because there is concern about peaking out on the growth after a very strong year this year.

A - David Ku, CFO

For 5G, yes. For the whole company, we'll probably disclose more information later this year.

Q - Gokul Hariharan, JP Morgan

Got it, thank you.

-End of Q&A session-