Advanced Semiconductor Engineering, Inc.
1st Quarter 2015 Earnings Conference & Conference Call
April 30, 2015
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ASE Inc Q1 Earnings Release / Presented by: Chief Financial Officer, Mr. Joseph Tung

Opening: Head of Investor Relations, Mr. Kenneth Hsiang

Welcome to ASE Group's first quarter earnings release. All participants consent to having their voice or questions broadcast to be of participation in this event. Our CFO Joseph Tung will be going over the financial results followed by a Question and Answer Session. Following the event, our VP in charge of public relations, Eddie Chang, will be address the media in Chinese after the release. I would like to remind everyone on this call that the presentation that follows may contain forward-looking statements. These forward-looking statements may subject to high level of risks, and our actual results may differ materially from these forward-looking statements.

Joseph.

Presented by: Chief Financial Officer, Mr. Joseph Tung

OK, good afternoon, ladies and gentlemen. Thank you for coming to our meeting. And before I start my presentation, I would be very happy to report to you that on April 27th, we successfully sold roughly 5% of our stake in USI Shanghai through a block trade arrangement, and successfully raised US dollar 320 million dollars before tax. The capital gain from this transaction are over 200 million US dollars, which we fully recorded as additional paid-in capital under equity. And this additional paid-in capital can be distributed as dividend in the future as we did.

This is the second largest, in terms of amount, second largest block trade—non-financial institution block trade—that's ever happened in Asia market this year. It's also with the lowest discount to the 20-day average price among all the large ticket. By large ticket, I mean over 10 billion RMB. The lowest discount among all the large ticket transaction—similar transactions in the Asia market this year as well.

I'm very excited about this transaction because through this transaction, not only that it will improve substantially our cash position but it will improve our gearing. And also this transaction also demonstrate that we have opened up a new avenue for fund-raising, which is a very very effective and cost-effective fund-raising avenue for us to continue support of future growth in the future.

After the closing, our ownership of USI Shanghai would come down from 82% to 77.2%. And as of yesterday, the market cap of USI Shanghai was about 7 billion dollar—US dollar. As of yesterday as well, our 77% stake in this company, the value of such investment is roughly 48% of our overall ASE's market cap today.

So in the future, we'll continue to find suitable timing and also suitable methods to continue to monetize this, to continue to improve our funding capability and also our balance sheet, and also to use this as a very effective and efficient funding source to fund our future growth, although we will maintain our controlling interest in the company.

OK, let me come to the presentation of our first quarter results. Let's spend a few seconds on Safe Harbor Notice.

Ok, as expected, we went through a seasonal downturn in first quarter of this year. As we can see the consolidated revenue came down about 16%, of which the packaging revenue came down about 8%, test about 7%, and direct material sales stay relatively flat, at 861 million dollars, whereas our EMS businesses, because of the SiP and Wi-Fi seasonality downturn, it came down 24%. With the lower revenue, gross profit margin also came down, as expected, from 21.4% in the previous quarter to 19% this quarter. And operating expenses margin continue to stay at around 9%, and therefore our operating margin came down to 9.7%, comparing to 12.8% a quarter ago.

This quarter, our non-op loss is about over 750 million dollar NT, largely because of the ECB mark-to-market loss, about 936 million dollar that we incurred in the quarter, comparing to roughly 260 million in the previous quarter. After the non-op, our net income—our profit before tax—reached about 5.5 billion, which is 43% below last quarter, whereas after income tax and also the minority interest, our net income for the quarter reached close to 4.5 billion, with an EPS of—basic EPS of 58 cents a share. EBITDA for the quarter is close to 13.5 billion, comparing to 17.2 billion in the previous quarter.

On the year-on-year basis, our total revenue actually grew 18%, whereas in packaging it grew 10% from same period last year. Test 7%. Direct Material Sales, about 11%. And EMS had a stronger growth as well, 32% in the quarter. With the expanded operation, the margin also had some slight improvement. Gross margin improved from 18.9% to 19% this quarter. And operating margin improved from 9.3% to 9.7%. Net income also improved—increased by 30% to close to 4.5 billion, comparing to 3.5 billion previous year. And basic EPS grew from 45 cents NT to 58 cents.

Looking at IC ATM, please note that here the number in packaging number includes the SiP services that we provide for the SiP business, which was eliminated when we consolidated the statement. So here we see that the packaging revenue in the quarter reached 31.5 billion dollars and is down 13% from previous quarter. Of that 13% down, roughly in terms of organic packaging, it was down about 8% whereas the SiP business--SiP services that we provide in the packaging operation—is down about 50% in the quarter. Test, 7%. And as I mentioned on earlier, direct material sales stay flat. Therefore the overall revenue—ICATM revenue for the quarter came down about 12% in the quarter due to the seasonality factor. Gross profit margin came down from 31.4% to 25.9% largely because of the smaller sales that we had generated for the quarter. And therefore, all cost of goods sold items including material, labor, and also depreciation all went up as a percentage of sales. In fact raw material increased about 1.4%. Labor, another 1.4, and depreciation about 2.4% as a percentage of sales in the quarter, causing the gross profit margin to come down. Operating—Opex ratio came up slightly from 11% in the previous quarter to about 11.5. And therefore our operating margin came down from 20.4% to 14.4%, with the slightly larger gap than gross profit margin. OK?

On a year-on-year basis, the revenue grew to 38.6 billion, and is up 12% from the same period last year, of which packaging grew about 14%, test 7%, and direct material 11%. On the margin front, gross profit margin improved from 24% to 25.9% in the quarter, whereas operating margin also improved from 12.3% to 14.4%.

Looking at packaging operation, it came down 13% from the previous quarter, and therefore with the smaller sales and also increased cost result, the gross margin came down from 29.6 to 23.7 this quarter, although, comparing to the last year, revenue grow...revenue had a 14% growth in packaging. And margin also improved from 21.7% to 23.7 % in the quarter.

Looking at the revenue breakdown, we can see that advanced packaging including SiP, the percentage came down from 38% to 33 % largely because of the larger seasonality factor in the SiP business—SiP service that we provide, which I mentioned came down about 50% in the quarter, which is a typical quarter in terms of SiP business. In fact, in fourth quarter last year, we had an even-better-than-expected ramp-up in the SiP business. That actually—that same trend actually lasted into first quarter as well. So, although it dropped by 50%, but in terms of the overall momentum, it's still much stronger than what happened in previous year.

Although with that, the percentage of our advanced packaging actually came down from 38% to 33%, whereas in the wire bonding area, because of the more stable business with the IDM and also in the DRAM part of it, the wire bond business percentage—wire bond business had a smaller drop than the advanced packaging. And therefore its percentage came up from 53% in a quarter ago to 58% in this quarter whereas discrete and others remain pretty much stable at 9%.

Looking at test operations, on a quarterly basis: first quarter came down about 7.3%. Comparing to same period last year, it came up about 7% as well. With the smaller revenue, the gross profit margin—because of some are fixed cost structure with the higher operating leverage—the gross profit margin came down from 38.9% a quarter ago to 34.3% this quarter. Still about 2% improvement from same period last year.

Material Operation came down about 5% as a whole. In terms of direct material sales, which in quarter 1 represents about 40% of the overall substrate sales, stay pretty much flat because the IDM 's order as well as some of the demand from the DRAM vendor. Margin came down a little bit because of the different product mix, from 19.2 % to 17.1% this quarter while comparing to same period last year, it still has some improved from 16.7 to currently 17.1.

Looking at revenue by application, as we mentioned earlier on, the first quarter we're seeing SiP revenue because have a larger seasonality factor, therefore came down about 50%, which dragged the overall communication segment to percentage-wise to come down from 58% to 55% this quarter. Although in the quarter we're also seeing some slowdown in terms of demand, particularly in the communication segment. And also there are also some customer inventory correction coming, which should last into second quarter as well.

In terms of computing, remain at about 11%, although as a whole it also came down roughly 10% from the previous quarter—the overall revenue from the computing. Auto and consumer is relatively stronger than the other two segments. Therefore its percentage came up actually from 31% to 34% in the quarter. Going forward into the second quarter, we expect pretty much the situation remain pretty much similar to first quarter. And therefore the percentage may not have that much of a change.

EMS operation, we're seeing that on a quarterly basis the revenue came down about 24%. With margin—gross margin actually edged up a little bit from 7.9% to 8%, but in first quarter we actually have a one-time adjustment—inventory adjustment, which lifted the gross margin by about 1%. So if we normalize the first quarter gross margin at the EMS operation is about 7%. The reason for...although in the quarter we have lower SiP as well as Wi-Fi module revenue, but the margin still came down if we compare to the quarter 4 last year, largely because of the new SiP—EMS SiP project that was going through a ramp-up, and we have an early development cost that needs to be booked in the quarter. The new EMS SiP project only started to bombard production in March, in the late part of the quarter. And therefore the early stage cost needs to be born in the quarter and therefore drag the margin.

OK, EMS as we can see that the communication because of SiP and because of Wi-Fi module came down, therefore—you know in the range of 40% to 50% in the quarter—therefore communication segment, the percentage came down quite a bit from 67% a quarter ago to 47%. At the same time, you see that consumer-wise, it came up from 13 to 17—I'm sorry, from 7% to 18%. This is because of the new SiP project that we're undergoing at this point, and therefore, raise the consumer part of it to a new high of 18%.

Looking at our balance sheet, our cash and cash equivalent came down from about 59 billion to currently about 55 billion, whereas if we look at total interest-bearing debt also came down from 99.4 billion a quarter ago to currently about 93.6 billion NT dollars. Now with the block trade completed, which I mentioned earlier on, it will significantly improve or increase our cash balance by close to over 9 billion NT. And also it will improve our net worth. In fact, in terms of net worth, the capital gain from the transaction will increase our net worth by roughly NT 92 cents a share. So the overall gearing will also be improved from this transaction, and going forward we'll continue to sort of find suitable ways and timing to further monetize such investment, to continue to make further improvement in our overall not only cash flow, funding capability, but also our gearing in the balance sheet.

In the quarter, we spent CAPEX of US$138 million, of which about 67 million was spent for packaging and 52 million for test, about 16 million for EMS and then another 4 million for inter-connect, which is material. Of the 67 million dollar invested in packaging, roughly 31 million is for flip chip and bumping; 36 million for common equipment and also for some projects; roughly 0.2 million only for wire bonding. In terms of wire bond account, in the quarter we added 15 bonders and retired about 35. So all in, we have 15,000...let me get the numbers right...we have 15,722 bonders in operation, and of which 84% or 13,271 bonders are copper-capable. In the quarter, our copper wire bonding is about 64% of our overall wire bonding revenue—came down slightly from the previous quarter because of the product mix change in the quarter.

In terms of packaging utilization, it was around…low 70%. Mid 70% in the wire bonding area. About close to 80% in advanced packaging. In terms of test, tester account, in the quarter we spent 52 million dollars for CAPEX and added about 121 testers and retired 49. So the total tester in the quarter is 3,339. Utilization was maintained at about mid-70s (%).

OK, with that, let me share with you our second quarter outlook. I think in the later part of first quarter, we're starting to see some inventory correction happening. We're seeing weakening demand, or sell-through, particularly in the Android area. So we're starting to see—the latter part of the quarter, we're starting to see customer forecast being adjusted. So based on our current business outlook and also the exchange rate assumption, we're putting at 31.23 for the quarter, we project that overall performance of the second quarter of 2015 to be as follows:

In terms of IC ATM, production capacity will be up around 2%, and blended IC ATM utilization should be flat or up 2% in the quarter. Gross margin for IC ATM should stay relatively unchanged from the previous quarter. EMS business should reach a level between the results of the last two quarters, the last two quarters being the first quarter of this year, and fourth quarter of last year. The number will fall between that. Now, as I mentioned earlier on, we're still at the early stage of ramping up the new EMS SiPs product, so the EMS gross margin might be slightly lower than the normalized margin in the previous quarter, which I mentioned earlier on, the normalized margin in first quarter was about 7%, lower than the normalized margin in the previous quarter due to customer supply chain issues. Now, for the whole year, we still remain confident that we will continue to see quarter-on-quarter growth, and the softer-than-expected second quarter growth momentum is likely to be pushed out to second half of the year. In terms of CapEx, I think in second quarter, the amount that we spend will be similar to what we had incurred in first quarter. Ok, that concluded my presentation. I will open the floor for questions. Thank you.

Mr. Kenneth Hsiang: Bill?

Attendee from live audience - Mr. Bill Lu / Morgan Stanley
Question 1:
Hi Joseph. Couple of questions. One on SiP and one on the IC ATM. If you look at the EMS, you said that, ah, it's gonna be between the last two quarters. Specifically on SiP, what is the trend, quarter-on-quarter?

Answer 1 (by Mr. Joseph Tung):
I think in the...in first quarter, the overall SiP was about 15% of our overall revenue. And that should came down from about 18% in the previous quarter. I think going into second quarter and onwards, the second SiP project will be running into mass production for the whole quarter. Although, because of the value chain concern issues that our customers are experiencing, we're not yet up to the full capacity. And we're seeing that gradually being worked out, and hopefully, in the second half, we will start to see a larger pick up in this business.

Question 2:
Just wanna understand this last statement that there are customer supply chain issues. Is the correct interpretation that your overall run rate for this new EMS business in 2Q is higher than it was in 1Q because you've got a full quarter worth, but is not as high as it should have been and therefore to drag a margin, is that the right...

Answer 2 (by Mr. Joseph Tung): Yes.
Mr. Bill Lu: Okay.

Question 2:
What will it take to get that new EMS SiP business to get better margin? Is it purely volume-driven? Or do you need to make your improvements as well?

Answer 3 (by Mr. Joseph Tung):
Well, I think there are a lot of variables involved in here, because, you know, first of all, the volume is

one thing. And also that depends on, the volume really depends on the, you know, how quickly the component shortage situation can be corrected or improved. And of course, there's also yield, is also another...another variable involved. So right now, we're still at the early stages, and it's a completely new product, there are still a lot of uncertainties and variables, particularly in this first generation. But yes, I think the, by and large, the most critical component, or the variable there, in terms of margin, is really the volume. We need to yield all the utilization of our capacity.

Question 4:
Ok. And just going back to IC ATM. If you look at you and SPIL both up quarter-on-quarter in 2Q versus the foundries are flat to down. I guess, you know, we've seen over the last month or so, sort of this inventory correction, the main weakness across tech. Are you worried that they see a little bit earlier than you, and therefore your 2Q is better than the foundries, but, you know, the weakness is gonna sustain a bit longer into the second half, for the backend?

Answer 4 (by Mr. Joseph Tung):
Um...I think the visibility right now is not so clear at this point, and yes, we do...we do worry. But, you know, we still, we keep a very, very close contact with our customers, and we are running on the monthly volume forecast. And therefore right now, we're seeing our third quarter or second half of the year still, you know, we still have fairly good confidence on that. And also I think the growth drivers are not like-comparing to our competitors, our second half growth drive is largely the SiP business. And the SiP product is supplied to THE company that has the strongest performance at this point. Therefore I think the, you know, the overall situation in second half should have quite a bit of improvement.

Question 5:
Ok, just thinking one last question on that. So, if you look at SiP, you know about the current projects. What's the outlook for new projects in the second half of the year?

Mr. Joseph Tung: What's the outlook? Um...is...what do you mean by outlook?
Mr. Bill Lu: Well, you know, are you seeing that there's gonna be new projects that come in in the second half of the year?

Answer 5 (by Mr. Joseph Tung):
Oh, okay. I think overall SiP business, for us, I think this year is really multiple projects for us. I think, aside from this new project that we are launching practically in second quarter, I think going to third, fourth, we will see other projects coming in. In a smaller scale, but still good-size projects that we will be entertaining. Yeah.

Mr. Kenneth Hsiang: When you get the microphone, introduce your name and your company.

Attendee from live audience - Mr. Michael Chou/ Deutsche Bank (Securities)
Question 6:
Michael Chou, Deutsche Bank: Joseph, two questions. One is what is your guidance for NT dollar ASP for Q2? And the currency assumption for Q2? Because when-

Answer 6: (by Mr. Joseph Tung):
Q2 is 31.23.

Mr. Michael Chou: So, do you expect the NT dollars ASP to be flat quarter-on-quarter in Q2?
Mr. Joseph Tung: Yes.

Question 7:
The next is um...what would be the depreciation in Q2?

Answer 7 (by Mr. Joseph Tung):
In Q1, the IC ATM depreciation is about 6.5 billion, and we're expecting Q2 to be slightly lower, lower than that. But for the overall, it's about 7.1 billion. And that should remain pretty much the same in the second quarter.

Mr. Michael Chou: Thank you.

Mr. Kenneth Hsiang: Let's go to someone on the line. Um...let's go with Dan Heyler, BofA. (silence) Dan? (more silence) We having communication issues? (long silence) Daniel? You there? Dan?

Operator: Yes sir, the first question comes from Daniel from Merrill Lynch, thank you.
Mr. Daniel Heyler: Thank you. Can you hear me now?
Mr. Kenneth Hsiang: Yeah.

Online caller - Mr. Daniel Heyler/BOA Merrill Lynch
Question 8:
Excellent, thanks. There were little bit of some audio problems, a little bit of cutting out there, Joseph, so forgive me if you've answered these. So I wanted to ask first, when you talked about some worrying signs in terms of some of the end markets there, due to limited visibility, can you maybe elaborate a bit on that? Is, you know, is mobile one of the major areas? Or there's some broader kind of, you know, FX, emerging market thing, or what's your feeling as you talk to customers?

Answer 8 (by Mr. Joseph Tung):
We're seeing a bit of an inventory correction happening at this point. And I think most of them, at least from what we heard, I think people were expecting things to be worked out in the second half, maybe in, sorry, from third quarter. That's pretty much what we have so far. And we can only look at our own forecast, customer forecast to decide what kind of scenario we will be facing.

Question 9:
Okay great. And so on the SiP multi-projects that may be coming in, and this one, I get a feeling for the margin situation, because there is - as you have new projects, you know, this initial project has been a bit of a drag on margin. With all these projects, you know, can SiP overall, kind of get back to, say, the EMS average in second half? I know these are new projects, and I appreciate the fact that there's growth in 2016, so I get a feel for whether we should anticipate a lower average EMS margin in the second half due to the SiP drag.

Answer 9 (by Mr. Joseph Tung):
Well, as I mentioned, there's still a lot of variables involved, so I think our goal is really to bring the overall SiP business, in particular for EMS business, to be above its operating margin, what we having now. So that's really the goal. And we're working very hard on that.

Question 10:
Thanks, sounds great. And then on...as your...you know, there's two variables you talked about right now in existing projects, one being yield. I'm assuming yield is not about that...I assume you said there was a supply chain issue. And, you know, volume. So what kind of volume at current yield, you know, would you need to, you know, get back to the corporate average? What kind of volume are you looking at? At current yields or at projected yields?

Answer 10 (by Mr. Joseph Tung):
No, I cannot answer that question at this point.

Question 11:
Ok, gotcha. Then moving on to the...congratulations on successful USI sell-down. What's the tax treatment of that?

Answer 11 (by Mr. Joseph Tung):
The taxes that we need to pay...10% on the capital gain. If we call it the capital gain, it's the difference between the sales price and the original holding cost.

Question 12:
Ok. Do you have a number on when does that hit? I mean, when does hit your income statement?

Answer 12 (by Mr. Joseph Tung):
It's about 20...close to 24 million.

Mr. Daniel Heyler: In the first quarter? Or second quarter?
Mr. Joseph Tung: In the second quarter.

Question 13:
In the second quarter, ok. Excellent. And then, you kinda mentioned the three benefits of the sell-down, my last question. The excellent funding source, you know, going forward it also gives you an ability to potentially pay, pay a dividend. And you know, in terms of, gearing everything else that improves too. So how, um, what kind of metrics are you looking at there? Will you do, say, another one? Is it kinda more opportunist, driven by share price? Or the certain metrics, cash balances, target cash balances that you're looking for year end? What kind of dividend guidance and gearing ratio should we expect?

Answer 13 (by Mr. Joseph Tung):
You know, there are many restrictions, regulatory-wise, in the, um, in terms of monetizing this investment particularly in the Asian market. Therefore we are looking for suitable timing and also suitable methods to continue this effort. I think the bottom line is we will keep our controlling interest of the company. But in terms of when and how we're gonna monetize this, and in what speed, I think, or what pace, it really depends on the market situation, also our own funding situation.

Question 14:
Would...is there a payout ratio kind of guidance that you could give us on the dividend that, you know, ASE may think about going forward?

Answer 14 (by Mr. Joseph Tung):

I think we've already announced that the...for last year's we...our payout ratio is about 70%. And all in cash. So I think, you know, without, into next year, I think the, at this point, that's really the benchmark that we have.

Mr. Daniel Heyler: Ok, you'll keep that.
Mr. Joseph Tung: Yep.
Mr. Daniel Heyler: Excellent. Okay, thank you Joseph.

Operator: Thank you. Our next question comes from Randy from Credit Suisse in Taiwan. Thank you.

Online caller - Randy Abrams/Credit Suisse
Question 15:
Yes, thank you. I want to ask a couple of thoughts on SiP. Given some of the supply chain issues, I'm wondering, I think last conference, you had a stretch goal to approach 30% of sales by fourth quarter. If you could give an update on second half, what potential and full year contribution from the SiP? And if you could also talk if you expect how much from outside of your top customer, where, if most of this revenue will be projects...

Mr. Joseph Tung: Well I think - I'm sorry.
Mr. Randy Abrams: Go ahead.

Answer 15 (by Mr. Joseph Tung):
Percentage wise, it will continue to roll throughout the year, on second, third and...Actually second quarter, yes, second quarter will also grow. I think, well, we really said that in fourth quarter or end of the year we should be seeing, about closing to 30% of the overall. I think, by the way, it's going, because of a lot of the uncertainties involved, we're now being more confident to say that, you know, at this year the SiP revenue will at least double what we have achieved last year.

Question 16:
Okay. At least double and full year. And that's all, where virtually all with your large customer, or do you expect some diversification where there will be anything meaningful outside your top customer?

Answer 16 (by Mr. Joseph Tung):
Well, I think there will be a...there's a lot of engagement at this point, and for this year, we will probably add one or two in the smaller scale. But by and large I think the main businesses are still with this principal customer of ours.

Question 17:
Okay. Can could you talk little more about the types of additional projects that you would be doing? There's been talk on camera module or pressure sensor Could you talk about some other projects? And for SiP packaging, where Amkor and SPIL were talking about that, how do you feel your position on where the traditional assembly SiP packaging are contribution...I think SPIL gave a number about 1 to 2% of revenue in third quarter, but how much you are seeing from traditional SiP packaging?

Mr. Joseph Tung: I'm not sure if I got the second part of the question?
Mr. Randy Abrams: The SiP packaging and the way SPIL would talk about it more when you're taking an assembly of modules for IoT-like projects, some micro-controllers, connectivity, antenna power

management, like those type, traditionally more on the package side. Like if that's a, how meaningful that business is for you more on the traditional packaging?

Answer 17 (by Mr. Joseph Tung):
Well, I think the definition of SiP can be very broad-based. I think we can all have our own definitions. But by and large, I think the way we define it is first of all, it's EMS business. Because it's a EMS business model. And it requires the, all the expertise or technology from EMS and also assembly test, and a lot of it from substrate as well. So to be effective or efficient, you need to have a very good infrastructure, to entertain such kind of demand. It can be something that's small and easy to build using the existing technology, even EMS technology would be sufficient. Some of these do have a combination of two, so really varies.

Question 17:
Ok. I wanna ask one more, just on the backend business. Your first quarter was down, I'd say at the lower end, like the low teens, and seems to be rebounding, maybe in line with the group. But your mix…I guess if we take the whole first half, it looks a little bit weaker. Is it a subject of a certain customer mix that you have, or certain area you're seeing additional weakness? Restricted to the comm sector, how broad this weakness is for your business?

Answer 17:
I think the comm. – communication sector, is relatively weaker. I think the end market sell-through is not as strong as expected, although some of the new products that's being launched remain to be seen how it will eventually..how the sell-through will look like. But I think what happened in the fourth and the first quarter – fourth quarter of last year and first quarter, there seems to be quite a bit of pull-in, wherein people were expecting stronger performance and demand. Therefore that created some inventory correction and hopefully that can be quickly corrected going into third quarter.

Question 18:
Have you changed your full-year CapEx?

Answer 18:
No. I think we don't have a CapEx, announced CapEx budget. What we mentioned last time was that it shouldn't be lower than our depreciation for the whole year, which is about 800 million dollars.

Mr. Randy Abrams: Ok. Great. Thank you.

Mr. Kenneth Hsiang: Next, should be Roland, from CitiGroup. Roland?

Online caller: Roland Shu / CitiGroup
Question 19:
Yes. Thank you for taking my question. First question, talking about, for our second quarter outlook, for IC ATM, overall capacity increased about 2%, and the utilization increased about zero to two percent. So, Joseph, can you just break down the utilization for wire bond, flip chip, and testing, please?
Mr. Joseph Tung: The utilization?
Mr. Roland Shu: Yes.

Answer 19:

Hold on a sec. In terms of wire bond, I think it will remain at about mid-70s. Advanced packaging, I'm talking about the organic, flip chip bumping and so on, wafer-level, it should remain at about low-80s in the quarter. Test will be doing a little bit better. It should improve from around mid-70s to mid-to-high 70s in the quarter. That's the same with substrate. It will also improve a bit from mid-70s to high 70s.

Question 20:
OK. So, how about the overall ASP?

Answer 20:
I think we've done the, pretty much done the price negotiation in the first quarter, as we always. So, going into second quarter, I think the ASP should be stable.

Mr. Roland Shu: Ok, stable means, you know, probably flat, quarter-on-quarter?
Mr. Joseph Su: Ya.

Question 21:
Ok, just so you're doing some rough calculation. Your IC ATM business revenue probably will be increased slightly quarter-on-quarter in second quarter. That actually, compared to year-on-year basis, a bit decline. But when I look at your competitor, like SPIL and Amkor, actually they're all guiding their second-quarter revenue to increase year-on-year. So, does that mean we are losing shares to our competitors on the IC ATM side?

Answer 21:
Well, I think, first of all, basically, we came off with a much higher base. Second is that, you know, different players have different customers. I think some of their particular customers may have a more stable outlook than ours, and so on and so forth, or vice versa. So, it really depends on the different situation different customer makes.

Question 22:
OK. So, how about your outlook view for the IC ATM overall growth in 2015, the whole year growth?

Answer 22:
As I said, without giving out a precise number, I think we said we will continue to see quarter-on-quarter growth for the year.

Mr. Roland Shu: This includes IC ATM, right?
Mr. Joseph Tung: Yes.

Question 23:
Ok. Thank you. For the, switch to your EMS, or SiP business. How much you made on SiP, or how much was SiP account total, in dollar amount, you made last year? Since you said SiP revenue this year is expect to more than double, so I thought, would like to know how much we made last year.

Mr. Kenneth Hsiang: Can you repeat the question one more time?
Mr. Roland Shu: The revenue of the SiP last year.

Answer 23 (by Mr. Kenneth Hsiang):

I think we gave percentages, which was roughly around 11%.

Question 24:
11% of the total revenue, last year. Ok. And also, for this year, with the current CapEx spending plan you have, what's the maximum EMS and SiP revenue per quarter will be this year? Last year, the big quarter was in 4Q last year. It was about 37 billion NT dollars? How about the peak season this quarter? This year, sorry.

Mr. Kenneth Hsiang: Are you looking for total capacity, revenue?
Mr. Roland Shu: Ya. The run rate, in terms of the dollar amount.

Answer 24 (by Mr. Kenneth Hsiang):
We don't have, we don't release or talk about that.

Question 25:
Ok. But how about for the year-on-year EMS and also SiP business? I think, will it be growth at a similar magnitude as last year?

Answer 25(by Mr. Kenneth Hsiang):
So, for this year, we definitely believe... (Mr. Joseph Tung: We're not giving out the whole-year numbers). Ya, but SiP will outpace our other revenues.

Question 26:
Ok, I understand. Ok, I think the last question is, Amkor, and I think yesterday SPIL also talking about some SiP business. Amkor also said its recently new installed wafer-level, MEMS and even SiP capacities were utilized. Just try to understand how big overlap of your SiP business with Amkor's SiP business? Are you doing the similar project with same customer, or this is a total different category of business?

Answer 26 (by Mr. Joseph Tung):
Well, they didn't tell us.

Mr. Roland Shu: (Chuckles) So, what's your guess on, what does Amkor…
Mr. Joseph Tung: I don't know how to guess.
Mr. Roland Shu: Ok, ok, I think these are all my question. Thank you very much.
Mr. Joseph Tung: Thank you.

Attendee from live audience—Rick Hsu / Daiwa Securities
Question 27:
Hi Joseph. (Mr. Kenneth Hsiang: Name and company.) My name is Rick Hsu, from Daiwa Securities. Just a few questions on your USI holding, right? Can you share with us what's your minimum stake in order to justify your controlling stake?

Answer 27 (by Mr. Joseph Tung):
Well I think the minimum should be 51% and above.

Question 28:
Second question. If you look at your advanced packaging revenue contribution, I think it dropped last

quarter. Would that be just a seasonal dip? The long-term trend is still going up?

Mr. Joseph Tung: Yes.
Mr. Rick Hsu: Any target number by the end of this year?

Answer 28 (by Mr. Joseph Tung):
No I don't have a target number. But I think when we count the advanced packaging, first of all, in terms of bumping, flip-chip and also wafer-levels packaging, and also SiP, those are all being categorized as advanced. And I'm pretty sure that the percentage will continue to rise quarter-on-quarter.

Question 29:
Last question is, I think, on the TSMC's new wafer order for the 16nm – I'm talking about a big chunk of their 16nm wafer orders – that is going to deliver in second half, how do you see the possibility that you will do the packaging business for that chunk of the new 16nm wafers?

Answer 29 (by Mr. Joseph Tung):
Well. I think that's just one of the businesses that we'll be doing, and it really depends on how, you know, how the business eventually will be allocated. I don't really have the number now.

Mr. Rick Hsu: Thank you.

Mr. Kenneth Hsiang: So we'll go back online. We're going to Gokul, JP Morgan.

Online caller: Gokul Hariharan / JP Morgan
Question 30:
Hi, this is Gokul Hariharan from JP Morgan. Thanks for taking my question. Just on the IC ATM side, on the gross margins, should we see a similar type of growth margin trend this year, where second half gross margins will substantially higher than the first one? Just want to know how we should think of the gross margins as we go through the year, and have a follow-up on SiP as well.

Answer 30 (by Mr. Joseph Tung):
For IC ATM, yes, I think the margin should trend up on a quarterly basis as we grow the business.

Question 31:
OK. And on SiP, could you talk a little bit about how much CapEx you will be spending on the SiP projects this year, as well as, with the visibility that you have in terms of future projects, out of pretty much all of the projects that you have - EMS-heavy ones, or do you have some of them, like the fingerprints, and services that are more IC ATM-heavy coming up, in the pipeline that you got?

Answer 31:
Well, in terms of the, if we take the 800 million dollars CapEx, I think for the organic - if we call it maintenance CapEx - should be anywhere from five to six hundred million dollars, and the remaining of that will be for additional projects, or for some of the organic growth as well.

Question 32:
Ok, and how about the mix of the projects, in terms of whether they are IC ATM-heavy, or EMS-heavy, as you look at your pipeline right now?

Answer 32:
For this year, I think the upcoming projects are mostly EMS type of projects.

Mr. Gokul Hariharan: Ok ok, got it. Thanks.

Mr. Kenneth Hsiang: We're going with Szeho from BNP.

Online caller: Szeho Ng / BNP Hong Kong
Question 33:
Hi, good afternoon gentlemen. First question is house-keeping. Could you first just…copper wire bond revenue for Q1?

Answer 33 (by Mr. Kenneth Hsiang):
Szeho, we're roughly two-thirds, so we believe that it should stay around there.

Mr. Szeho Ng: I think the line is breaking up. What's the revenue amount?
Mr. Kenneth Hsiang: Two-thirds.
Mr. Szeho Ng: Two-third of the assembly revenue, you mean?
Mr. Joseph Tung: Of the wire bond revenue.
Mr. Szeho Ng: Ok. Thank you.

Question 34:
And then, for second one. Is it possible to give us some sort of sensitivity of your ECB, and mark-to-market relative to the share price because that has been a bit of figures [speaker's voice is garbled] non-op allies in the last two quarters.

Mr. Kenneth Hsiang: I didn't really get your question. Sorry.
Mr. Szeho Ng: Yes, the sensitivity of the ECB mark-to-market to share price.

Answer 34 (by Mr. Joseph Tung):
Oh. It's about, depends on different VOL, I guess, and VOL is a changing variable. But as, you know, for reference, I think for each dollar movement, roughly a hundred million NT.

Mr. Szeho Ng: I see. Alright. OK.

Question 35:
Last one. For Q2, again, for the tax rate, what would be the number for modeling purpose? Because for Q2 you also have to account for the undistributed earnings and rebated tax, and also the capital gain tax rate. So, any ballpark number you can share with us?

Answer 35 (by Mr. Joseph Tung):
Well I think for model-building purposes, as a whole year, the effective tax rate should still be maintained at about 17% and 18%. But for second quarter, because of the tax on undistributed earnings, I'm not sure the tax that we need to pay on the transaction is counted as income tax. But, excluding that, I think the, everything put together, should be about 30%.

Mr. Kenneth Hsiang: The transaction shouldn't flow through the P&L.
Mr. Szeho Ng: You mentioned 30%, right, for Q2?
Mr. Kenneth Hsiang: No.
[Long silence]
Mr. Szeho Ng: Hello?
Mr. Joseph Tung: Ya.
Mr. Szeho Ng: Ok, alright. Ok. That's fine. The line is really bad this time. That's alright. Anyway, thanks for your answer.

Mr. Kenneth Hsiang: OK. I think we have David Duley, Steelhead.

Online caller: David Duley / Steelhead Securities
Question 36:
Thanks for taking my questions. First question comes just a just clarification. Did you guide your CapEx for Q2 flat with the Q1 level?

Answer 36 (by Mr. Joseph Tung):
By the way it's going, I think it will be pretty much at the same level, if not a bit higher.

Mr. David Duley: That just seems substantially lower than you spent in the June quarter of the last 3 years. It's usually 250 or 375 million, not 140 or 250 million. It sounds like you have cut your CapEx back, so I'm kind of trying to figure out what you think that number's gonna be.

Mr. Joseph Tung: No that's not what we're saying. I think the CapEx is really a dynamic number that we need to look at the market situation at this point. So it's really not a guidance in terms of CapEx for second quarter. It's really just a rough estimate that we're looking at the situation.

Question 38:
Ok, whatever money you do spend this year, I expect to know as far as advanced packaging area, how much you think is gonna be allocated towards that in total? And then, inside of advanced packaging, where is ASE gonna make a big bet? Are you gonna be betting on, let's say, fan-out processes, or copper pillar, you know. What are some of the big spending buckets that you expect to spend money on?

Answer 38 (by Mr. Joseph Tung):
I think most of the CapEx will be spent on advanced, and also including the projects that we'll be undertaking. There will be very, very limited CapEx for wire bonding.

Mr. David Duley: And will you be making a big investment in fan-out?
Mr. Joseph Tung: Excuse me?
Mr. David Duley: Will you be making a big investment going forward in fan-out – however you wanna describe that type of package type, you know, for application processes or some of the high-end processes?

Answer 39:
That's really in the… being discussed. So far I don't have the number for you. But this is something we will be making some investments. Yes.
Mr. Kenneth Hsiang: Fan-out is included in our advanced packaging, so we may have invested some

previously too.

Question 40:
Great, and then just final clarification for me. There was some audio problems. Did you answer the question of what your SiP revenue would be as a percentage in Q2?

Answer 40 (by Mr. Joseph Tung):
No, I said, in this…I think in terms of…In Q1, SiP is about 15%, down from 18% a quarter ago.
Mr. Kenneth Hsiang: There's a lot of variables at play for Q2 at this point, especially for SiP. So I don't…
Mr. David Duley: And the biggest variable will be the ramp-up of your projects, which have some supply constraints to this ramp?
Mr. Joseph Tung: Yes. It will be higher.
Mr. David Duley: Ok. And thank you.

Mr. Kenneth Hsiang: We'll circle back with Dan. Dan has a follow-up question, from BOA.

Online caller: Daniel Heyler/ BOA Merrill Lynch
Question 41:
Thanks. Hi guys, can you hear me? Ok. Great. So, when we think about the yield curve, I just was wondering is this…you know, as you go into projects of this scale and volume…is there a kind of a steady curve of controllable yield, or are we still kind of somewhat on a random yield progression. I'm just wondering, obviously, within fabs and packaging, this kind of progression you can see a variance versus yield. I'm wondering if you can give us a sense of where we are – it's just too early. Are we still on a random yield-base of production, or are we moving into more of a controlled yield?

Answer 41(by Mr. Joseph Tung):
No, we're in the controlled mode of yield already. (Daniel: OK) So, when we say there's a component.. (Daniel: And then…Go ahead) When we mentioned there's a customer value chain issue, we were referring to some other component shortages.

Question 42:
Yes, I understand that. So sounds like you're very comfortable with the projections as you calculate future yields. Progression's doing pretty well there. It's what it sounds like, as you get into more of the sweet spot of the yield in the second half, on current progress.

Answer 42 (by Mr. Joseph Tung):
It is progressing.

Question 43:
Ok, got it. And then, the allocation you have mentioned about – allocation of 16 between the three suppliers. Has it already been decided yet? Are there any new suppliers entered the 16 project relative, say, the 20nm project, or still the same suppliers?

Answer 43:
I don't know the answer to that. I can't answer you.

Question 44:

Ok, got it. And then on the mobile phone SiP project, is it, has it been any change there in terms of suppliers, or is it still pretty much the same guys as you move into new projects in the second half of this year?

Mr. Joseph Tung: You mean customer, or you mean?
Mr. Daniel Heyler: Well, specifically fingerprint, there're a couple of suppliers there, into your major customers there. So, we're moving into a new generation of mobile phones. I'm just wondering if the fingerprint business kind of remains with the same supplier base? Or is there gonna be more diversification of the supplier base?

Answer 45:
I think eventually there's gonna be new players coming in as well, but when and how, I don't know.
Mr. Daniel Heyler: Ok, eventually, but not second half.
Mr. Joseph Tung: I can't answer that.
Mr. Kenneth Hsiang: You've gotta ask somebody else.
Mr. Joseph Tung: Ya. This really is the customer's decision. I can't answer for them.
Mr. Daniel Heyler: Got it.

Mr. Kenneth Hsiang: Ok. I think we can conclude it here. Thank you for attending.

Mr. Joseph Tung: Ok. I think we had an as-expected first quarter, and a little bit weaker-than-expected second quarter, but I think the growth momentum is pretty much pushed out to the second half of the year. And we're still very confident that we'll have a very fruitful year for the year and we'll see quarterly growth continuously. We're very excited about the new block trade that we did. I think if I have to make a complaint, I think the complaint is whatever we're still holding today is worth half, almost half of our market cap, so the other half must be very cheap. Thank you very much.

<End of Conference>