Advanced Semiconductor Engineering, Inc.
4th Quarter 2015 Earnings Conference & Conference Call
January 29, 2016
3:00p.m. Taiwan Time

Kenneth Hsiang, Head of IR of ASE Group: Hello, I'm Ken Hsiang, the Head of Investor Relations for ASE. Welcome to the ASE Group, 2015 Q4 Earnings Release. All participants consent to having their voice and questions broadcast via participation of this event. If you do not consent, please hang up at this time.

Please refer to page 1 of our presentation which contains our Safe Harbor notice. I would like to remind everyone on this call that the presentation that follows may contain forward-looking statements.

These forward-looking statements are subject to high degree of risks and our actual results may differ materially from these forward-looking statements. For the purposes of this presentation, dollar figures are generally stated in New Taiwan Dollars unless otherwise indicated.

For this earnings release, our COO, Tien Wu will have some opening remarks. I will be going over the financial results, and then Joseph Tung, our CFO, and Tien Wu will have a Q&A session. Following the event, our VP in charge of public relations, Eddie Chang, will be addressing the media in Chinese. Our Chief Operating Officer Tien Wu.

Tien Wu, Chief Operating Officer of ASE Group: Good afternoon. Happy New Year. Thank you for joining the earnings announcement for 2015 Q4 and for the whole year. We have gone through a very challenging 2015. There has been market fluctuation as well as very aggressive inventory control. Here I'd like to give you some market highlight for 2016, and also some of the focus that ASE will engage in 2016. I will leave the earning details to Ken Hsiang. And later on, Joseph and myself will answer you in the Q&A.

To begin with, I would like to give you some highlight for our outlook to 2016. We believe the inventory control is over. Right now, because there is still economic uncertainties in the marketplace, we're not exactly sure about the end-market sell-through. However, even with our conservative estimate, ASE Group this year will go through mild growth, we believe we'll go through the seasonality in Q1, resumed by quarter-on-quarter growth for the remainder of the year.

Second, our growth engine remains to be SiP. In the past three years, we have gone through very rapid expansion. Right now, at group level, the SiP revenue is close to 2 billion US dollars. In the last three years, we have acquired and learned valuable lessons by working with multiple customers in the multiple market segments. Some of the findings are very useful for us in terms of resize and rebalance our portfolio going forward. For example, the first thing we learned is SiP is very good. We're very convinced that in the next five to ten years, SiP will remain to be one of our focuses for our growth engine. The market demand is tremendous. The pipeline is tremendous. Number two, not all SiP will be profitable. We learned this by the hard way. Some of the SiP, the value is not right. Some of the SiP, the market terms, the business framework is not correct. So going forward, we will rebalance our SiP portfolio. We'll try to be more selective in applying our critical resources in the SiP product and market segment that we want optimization of our profit and efficiency. Thirdly, we do have area of critical gap.

By working with multiple customers and multiple pipelines, we understand that in the sensor, in the optics, in the heterogeneous integration, in the fanout arena, we do have some gap that we need to fill out, especially the system design engineer as well as the firmware and software engineers.

So in 2016, for the SiP, we will rebalance our product portfolio. We'll focus on the profit and optimization. We'll also focus on the technology gap and the resource gap such that going forward, we can manage our pipeline and our customers. We believe this rebalance will see a great effect in 2017. Lastly, SPIL acquisition. SPIL acquisition is our answer to the OSATs industry for combining resources such that we can have a better differentiation, better products, better service to the market place. This is also in line with global semiconductor consolidation, which is ongoing today.

The only update we have right now is all regulatory approval matters are ongoing. We're optimistic about the outcome. Whenever we have update, we will give you the update as soon as possible. Thank you.

Kenneth Hsiang, Head of IR of ASE Group: So we have here an update on this SPIL transaction. I can read them to you.

Key facts relating to the current SPIL tender offer:
・ASE plans to acquire up to 770,000,000 common shares of SPIL (including common shares represented by ADSs), representing approximately 24.71% of the issued and outstanding share capital of SPIL.
・ Closing conditions to the tender offer: 1) a 5% minimum threshold (at least…you can read that number); 2) Taiwan FTC's approval.
・ The tender offer commenced on December 29, 2015 and will expire on February 16, 2016. If the FTC requires additional time to review this case, the tender offer period may be extended to March 17, 2016.
・ ASE is working on all regulatory approvals for the tender offer.
・ ASE plans to use its cash on hand and loans to fund the tender offer.
・ ASE currently holds 24.99% in SPIL. If the current tender offer is fully subscribed, ASE will become the owner of approximately 49.71% of SPIL.

The transaction is a two-step acquisition, with an ultimate goal of 100%.
・ASE intends to ultimately proceed with a 100% all cash acquisition of SPIL pursuant to the Taiwan Business Mergers And Acquisitions Act at NT$55 per common share and NT$275 per ADS, but subject to the condition that either SPIL shareholders do not approve a third party transaction announced by SPIL on December 11, 2015 at any shareholders' meeting or SPIL terminates or cancels the Third Party Deal in accordance with its terms.
・ If the above conditions are met, and the tender offer is consummated successfully, ASE would seek to discharge the SPIL Board and elect new nominees to the Board to implement the 100% cash acquisition.
・ASE remains open to a friendly resolution with SPIL.
・ ASE believes the SPIL transaction is EPS accretive and the combination of the two companies would be beneficial to Taiwan IC assembly and testing industry, both sides' shareholders and customers.

The quarter's performance was more volatile, relative to our expectations. Effectively, we saw manufacturing deceleration and then acceleration due to market sharing dynamics within our communication products. This resulted in below-expectation performance from our SiP products offset by stronger-than-expected performance within our IC ATM business unit. All in all, the end result for the fourth quarter was that our EMS business unit tracked below our expectations while our IC ATM business tracked on the higher end of our expectations. With that all said, we're not reading too much into the trend, as we're uncertain as to whether such products will eventually sell through.

On a fully consolidated basis for the fourth quarter, the company delivered fully-diluted EPS of 60 cents and basic EPS of 62 cents. Our direct materials and EMS businesses were up 5 and 9 percent respectively. Our packaging and testing businesses were down 2 and 1 percent respectively. Consolidated gross margins edged down 0.2 percentage points to 17.6%. Gross profit improved 2% from 13 billion to 13.3 billion. Operating expenses decreased by 0.2 billion. Operating expenses as a percentage of sales decreased by 0.6% to 8.5%. It's worth noting that we expect our operating expense percentage to increase temporarily during the first quarter, due to professional fees related to our ongoing tender offer.

Operating profit was 6.8 billion, up 7%, or 0.4 billion from 6.4 billion. Operating margins improved 0.2 percentage points to 9%. During the fourth quarter, we had a net non-operating loss of 0.5 billion versus a net non-operating gain of 1.4 billion in the third quarter.

Foreign exchange went from a loss of 2.5 billion in Q3 to a gain of 0.4 billion in Q4. Valuation of financial instrument including the ECB went from a gain of 4.5 billion to a loss of 0.7 billion. These two items accounted for the majority of change in our non-operating income.

Our estimation of SPIL's contribution to the current quarter was limited to 100 million dollars. Pre-tax profit for Q4 was 6.3 billion, down 1.5 billion. Income tax for Q4 was 1.3 billion, up 0.2 billion. Net income for Q4 was 4.7 billion, down 1.7 billion. Net margin was 6.2%, down from 8.7% in Q3. Using SPIL's reported but unaudited results, we should recognize a loss of 53 million instead of a gain of 100 million displayed here. We believe the variance from SPIL's results drops our EPS by 0…by 2 cents, for basic and diluted purposes, not an estimate at this time.

Here you can see the extent to which the excess inventory conditions have impacted our IC ATM business unit's fourth quarter performance. There were declines across our IC ATM business with packaging, testing and materials, declining 9, 5 and 7 percent respectively. Our EMS business was a highlight, growing 6%, making additional inroads with SiP offerings.

On the year-over-year basis, our consolidated net revenues declined by 1%. As a result of the softness and this product mix shift, gross profits were down 19% with gross margins down 3.8 percentage points to 17.6%. Operating profits were down 31% with operating margins down 3.8 percentage points. Net profits were down 40%, with net margins declining 4.1 percentage points.

Fully-diluted EPS for the year was $2.41. Basic EPS of $2.51. Again we estimated there should be a two cent differential between our estimate and the amount reported by SPIL. So…(I think you have to do the math. All of our pages are here.)

On a year-over-year basis, our consolidated net revenues improved by 10%. With a lackluster Android handset product cycle impacting our customers' sell-through, we saw our revenues for our packaging, testing and direct material businesses decline by 4, 3 and 8 percent respectively. During the year, we also saw our EMS business unit penetrated a core wearable product. As a result, our EMS businesses grew 31%. We have some start-up capacity alignment issues. However, we believe in the criticalness of wearables as a unit driver going forward.

Primarily because of this product mix shift, gross profits were down 6%, with gross margins down 3.2

percentage points to 17.7%. Operating profits were down 16% with operating margins down 2.8 percentage points. Non-operating income for the year was 0.1 billion composed of foreign exchange loss of 0.7 billion, gain on valuation of financial instruments including ECB of 2.5 billion, net interest expense of 2 billion, investment income and other non-operating income of 0.3 billion. Net profits were down 19% with net margins declining 2.4 percentage points. However, even with the fairly negative operating environment, we were able to keep EBITDA down just by 1%, with 57 billion versus 57.6 billion the previous year.

Please note the inter-company revenues including the SiP technology business performed by our IC packaging business unit on behalf of our EMS business unit are eliminated during consolidation.

Our IC ATM net revenues declined 1.5 billion or by 4% during the fourth quarter to 38.4 billion. Revenues for our IC packaging, testing and direct material businesses decreased 4, 1 and 2 percent respectively. NT dollar depreciation had a 1.62% favorable impact on revenue and 0.92 favorable impact to gross margins. Gross profit was up 0.7 billion to 10 billion dollars. Gross margin declined 0.7 percentage point. The gross margin decline was principally the results of softer loading. The composition of the margin decline principally was the result of lower revenues and the face of semi fixed cost.

In particular, relatively higher factory supply consumption as a result of product mix accounted for 0.5% of the margin decline. Operating expenses were down 0.4 billion to 4.7 billion. Operating expense percentage was down 0.5 percentage points to 12.1% from 12.6%. Again, we expect our OPEX percentage to increase during the first quarter with regards to professionals fees related to the ongoing tender offer. Operating margin was down 13.9 % from 14.2%. Operating profit down 0.3 billion to 5.3 billion.

Pages 8 and 9 are for your reference.

On a more detailed view of our packaging operation. In Q4, our packaging revenue declined 4.2% sequentially to 31.1 billion dollars. Our packaging gross margin decreased 1.2 percentage points to 23.6% sequentially. The margin decline was principally caused by a lower loading and relatively fixed labor and factory supply cost offset by lower off-peak utility cost. During the quarter, capital expenditures were US$ 64 million, composed of fanout wafer and flip chip investment (US $29 million) and common and IC ATM SiP at US$ 35 million.

Capacity overview. During the quarter we added one and retired 50 wire bonders. We exited the quarter with a total 15,568 wire bonders in operation. Eight inch and twelve inch capacity remained unchanged at 95,000 and 82,500 wafers per month respectively.

Within our packaging product breakdown, our advanced packaging within…including SiP, decreased to 33%. Our IC wire bonding business increased slightly to 58%. And our discrete and other segment decreased to 9%. This quarter’s performance is predominantly the result of moderating SiP-related services within IC ATM.

Test revenues of 6.4 billion were down 1.1% sequentially. Gross margin was sequentially up 1.5 percentage points to 37.6%. The changes in gross margins was principally the result of higher labor and machinery efficiency. Overall, cost of services per test decreased 0.1 billion to 4 billion dollars. Our testing utilization rate stayed in the high—mid-to-high 70 percentage, 70 percent. Capex for the test business was US$ 18 million. In Q4, we added 55 and retired 37 testers during the quarter. At the end of

Q4, our total tester count stood at 3,435.

Material business. Revenues for our material business was sequentially up 1.4% at $2 billion. 798 million was from sales to external customers. Our internal soft sufficiency rate increased to 25% from 23% by value. Gross margins were sequentially up by 1.9 percentage points to 13%. The gross margin increase was principally the result of a more favorable product mix as compared to Q3.

During the fourth quarter, our market segment share percentages did not appear to change significantly. However, it is worth noting that our computer segment did see a small but significant 1% increase in segment share for two consecutive quarters.

Revenues for our EMS business unit were sequentially up 8.8% to 39.3 billion from 36.2 billion. Revenues year-over-year are up 5.7% as compared to 37.2 billion in Q4 of 2014. Revenues within our EMS business unit increased primarily as a result of increased seasonal SiP related business, offset in part by declines in our wearable SiP business. Gross margins declined 1 percentage point to 7.3%. The margin decline was principally the result of product mix. Gross margins for our wearable SiP device continue to be adversely impacted. However, recently actions have made incremental improvement. We expect the current environment to persist through the first half of 2016. EMS gross profit decreased to 2.9 billion dollars. Capex for EMS business unit was 5 million US dollars during the fourth quarter.

During the fourth quarter, our communication product segment increased its segment share, in line with SiP seasonal patterns. We also saw our consumer segment continue to decline. Our computer segment also showed significant growth relative to new traditional EMS projects' ramping.

Looking out into Q1, we believe that we'll see a stronger than seasonal decline in our communication segment mix, driven by weaker than normal SiP demand. At the end of the quarter, we had cash and cash equivalents and current financial assets of 59.1 billion dollars, increasing from 45.6 billion dollars of the previous quarter. We also had our interest-bearing debt decrease to 120.4 billion from 124.5 billion in the prior quarter. As a reminder, our investment in SPIL is recorded in "investments - equity method."

We still have 159.3 billion in unused credit lines. EBITDA declined 14.2 billion dollars from 15.9 billion, principally as a result of lower non-operating income in Q4.

Capital expenditures for the fourth quarter totaled 90 million US dollars, of which, 64 million US dollars was used for packaging, 18 million US dollars for testing, 5 million US dollars for EMS, and 3 million US dollars for inter-connect materials. EBIDTA for the fourth quarter amounted to 437 million US dollars. We believe the disparity between the capex and EBIDTA bars on this chart generally demonstrate the cash flow-generating capability of the company.

From a total-year perspective, we do not see a particularly capital-intensive year, but should be a notch up from 2015. In addition, we look forward to record EPS achievement with the inclusion of incremental SPIL investment income.

Looking out into the first quarter, we see that there is a lot of market competition in the handset's base amongst our customers. Recent trends and developments would seem to indicate that our current portfolio SiP-related products for both IC ATM and EMS face some additional headwinds during the remainder of their individual product cycles. However, we do believe that the inventory situation that plagued us during 2015 has dissipated. And we do see some positive signs from our material business unit, which generally is a leading indicator. But at this time, we take these signs as inventory replenishing, and we prefer not to get overly exuberant in our outlook. So our guidance as it is:

IC ATM capacity should stay flat and blended utilization rate should be down high single digits sequentially. IC ATM gross margin should be approaching first quarter 2014 levels. EMS business should decline moderately on a year-over-year basis. EMS gross margin should decline slightly quarter-over-quarter.

Now, for Q&A.

Coordinator: We will now begin the question-and-answer session. If you would like to ask a question, please press Star followed by the number 1. Please unmute your phone and record your name clearly when prompted. Please also record your company name. You name is required to introduce your question. To withdraw your request, press Star followed by the number 2. One moment, please, for the first question.

Kenneth Hsiang: Randy, name and company please.

Randy Abrams of Credit Suisse: Okay. It's Randy Abrams, from Credit Suisse. First question, I'm sure you'd figured you'd be asked, the guidance where you talked about moderate declines. If you could kind of characterize what the range of that as moderate, it kind of implies - like double digit, year-over-year decline, and, for that business, is that more from just the seasonality we already saw with that product versus going through below seasonal? Or does it imply any shift in terms of market share or project change? Or, like, it's all just from the demand of the product or market share? And, how would it moderate?

Tien Wu: There is no...Not exactly sure which point you're referring to. Are you referring to the SiP product, or...

Randy Abrams of Credit Suisse: Yes. The guidance for EMS is down moderately. Does that imply the SiP product - anything on market share, just the seasonality in...

Tien Wu: Seasonality in product. Yeah, seasonality. Product cycles.

Randy Abrams of Credit Suisse: Okay.

Joseph Tung: I think it's a combination of seasonality as well as product transitions. They're also some result of, you know, some of the rebalancing that we're trying to do in terms of our overall business mix. I think this year's focus is really to realign our SiP business, both from an IC ATM perspective as well as EMS perspective. And there will be some pick and choose. There will be selective business that we want to expand, or to actually reduce. So it will be a combination of things.

Randy Abrams of Credit Suisse: Okay. The follow-up to that, in your remarks, Tien, in the beginning, you mentioned some investments in firmware capabilities to rebalance the business. And I'm curious how much OPEX you're thinking about, like, if we're gonna start to see faster increase in expense to kind of reinvest, or transform the business? And then the revenue implication, if you start picking and choosing, if you have any projection for SiP for 2016, like the type of growth would come up to very strong years?

Tien Wu: Alright. Our current outlook right now is relatively conservative, due to the product cycle and also the market uncertainty. So we're looking forward to flattish SiP revenue, or to a mild growth. At this point of time, it's very, very difficult to project to the year end.

In terms of the other SiPs in the pipeline, we have been engaging with multiple customers and multiple market segments for quite a few years. And we are slowly, slowly bringing all of this revenue and the products into the market. The characteristic of this SiP is you don't get huge revenue, huge volume, in any given time, unless you're very, very specific, tied to a particular customer segment. And we believe that in 2016 and 2017, we will start seeing the revenue become more meaningful. In terms of the OPEX, maybe within the normal range. We're not looking at any type of extreme expenditure in terms of building up that. But right now, we have a few selected segments, such as the embedded passives, such as the fanout, such as the sensors, such as the optics area. We have a clear gap that we need to backfill in order to entertain the broader market to a much, much more meaningful stage. That was the comment that I made.

Randy Abrams of Credit Suisse: Can you talk about...Capex was down a lot in the past year. It looks like about 600 million. But if you could give a view of 2016, it sounds like another lower-investment year, so you'll generate free cash flow again. Could you give a feel for capex?

Joseph Tung: I think, from the...although the visibility is not that great right now, but I think from an overall perspective, I think it'll be a notch higher than what we spent last year, given some of the new projects that we're gonna put in, and some of the new technology that we need to acquire.

Randy Abrams of Credit Suisse: And the last question, on gross margin, the EMS actually held up, it looked, a little better - I think based on the guidance, it was implied, to come back to 6 percent - 6 or 6.5 percent, and held above 7 percent? As you pick and choose projects, what do you think the outlook for the EMS gross margins, if, perhaps, that holds better where...middle of the year came down to 6.5? How you see that margin...

Joseph Tung: I think for this year, I think it will be..I think we already see, we saw some, as we continue to streamline some of our business, particularly in the SiP area. I think you all know that there’s one particular project that we’re actually not making money but are losing some money. On that, I think we've done a lot of, put a lot of efforts in terms of streamlining the operation itself, bringing up the yield, improving our process, and also better aligning the capacity. And also, I think one of the...I think over the past three years, we've gathered a lot more data points to come up with more accurate cost estimation. So, with all that, we can have a better space in terms of re-negotiating the business terms that we should have. So with all of that, I think we already see some improvement in the EMS margin in the fourth quarter. And I expect that we'll continue this more improvement in that area into 2016.

Randy Abrams of Credit Suisse: Thank you.

Roland Shu of Citigroup: Okay. Citigroup, Roland Shu. Good afternoon. For your guidance for IC ATM, you guided the utilization rate will be flat and also gross margin should be approaching 1Q14 levels. But how about the ASP, blended ASP for IC ATM business?

Joseph Tung: I think we've gone through quite a bit of price negotiations already at the later part of the year. So right now we're looking at 2016 a pretty stable ASP environment.

Roland Shu of Citigroup: Okay. This is for the whole year or for the first quarter?

Joseph Tung: For the first quarter, for now. And I think remaining year, you know, I think, gives us a better position. But I think overall we should see a pretty stable year.

Roland Shu of Citigroup: Okay. For IC ATM, last year, the overall revenue declined last year. How about your view for this year? Are you going to see the tension as last year, or you think it will be better this year?

Joseph Tung: Well I think, Tien has already mentioned that we are going through seasonality in the first quarter, and maybe in the first half, as we go through the product transition in terms of SiP, which is normally down two quarters. But we will continue, we will start to see some rebound in the traditional IC ATM business. And, for the whole year, we're cautiously optimistic.

Roland Shu of Citigroup: Optimistic.

Joseph Tung: We should see some growth.

Roland Shu of Citigroup: It's more cautious, or more optimistic?

Tien Wu: (Both?)

Joseph Tung: It's a very balanced statement.

Roland Shu of Citigroup: Okay. Thank you. And, also, Ken, you said about the first quarter OPEX will be higher? So what's the guideline? How much we should model the OPEX in the first quarter?

Joseph Tung: It'll be back to close to 10 percent.

(Kenneth Hsiang: 10 percent?)

Joseph Tung: On a group basis.

Roland Shu of Citigroup: Okay. Thanks. Last question, again, you mentioned about the...our gap to fill for certain segment. I think you mentioned about the fanout and also the InFO. So, since TSMC is going to mass production InFO from second quarter this year, so, how are you going to fill the gap with this inFO, and what's the impact to ASE, for this gap of the InFO? Thank you.

Tien Wu: Okay. I think the fanout is a technology, that I believe what TSMC has made a strong statement is that's one of the technology, in terms of, between wafer, between chip and packaging, that will become, or is becoming one of the important standard or benchmark for the industry. So, ASE also has fanout. What we need to do is, in line with what TSMC's working on, we have to identify the market segment, the cost model, and the technology statement. And I believe in the coming years you'll see more aggressive investment of ASE also in the fanout arena.

Now, there are many customers, and there are many different types of technology requirements. I believe the market is large enough to accommodate multiple types of cost models, multiple types of technology resolution in the fanout space.

Rick Hsu of Daiwa Capital Markets: Good afternoon, guys. My name is Rick Hsu, from Daiwa Securities. I got a few questions. The first one is a more house-keeping question. Can you run through your utilization rate for Q4 across the packaging, testing and bumping?

Joseph Tung: In terms of packaging, wire bonding-wise, we are at mid-seventies; advanced packaging, at high seventies; testing, at mid-seventies; substrate, at low-seventies. Going into quarter one, wire bond will be at low-seventies; advanced packaging, at mid-seventies or to high-seventies; testing, will be at low seventies; and substrate will be mid-seventies.

Rick Hsu of Daiwa Capital Markets: Thank you so much. That's very clear. What about your depreciation for this year?

Joseph Tung: This year, I think overall depreciation is close to a quarter, about 7 billion NT, including cost of goods sold, and also at the operating level. And I don't think - I think there's gonna be very little increase in 2016.

Rick Hsu of Daiwa Capital Markets: You said 7 billion a quarter?

Joseph Tung: 7 billion NT a quarter - 6.8, to be exact.

Rick Hsu of Daiwa Capital Markets: Alright. 6.8. Okay, great. If you look at the supply chain, outlook for Q1, right? I think TSMC reported, UMC reported as well, and Vanguard reported as well - if you roughly look at the picture, the front-end looks to be enjoying a pretty, pretty good quarter in Q1, at least it's above seasonality. What's the gap between you and the front-end foundries? Is there any indication of market share loss?

Tien Wu: Normally there’s time lapse. In other words, when the wafers fall, then two to three months later we'll fall, if that the question you're asking. I'm not exactly sure about the market share loss. I certainly don't believe so. What we have seen, starting December last year through January this year, we have many short orders. A few would just jump in and they ask you to ship. It's a clear indicator that the inventory control has come to an end, and people are basically...they ship to order.

We believe that this is an early indicator of people start coming back, and with the indication that TSMC, UMC... and our foundry partners are getting full. And we do believe that in Q2, if the market condition continues to improve, and we do believe that the wafer will be coming our way.

Now, let me make another statement. Given there are many economic uncertainties, which is really beyond the normal realm of our comprehension, We’re taking more of a conservative approach, in terms of estimating. I think all of the guidance that Joseph and I have been talking about - mild growth in the industry, mild growth for IC assembly intact, rebalance our product portfolio - we're taking more of a conservative approach.

Joseph Tung: I think another point I would like to make is the changes in our numbers. It's a bit exaggerated because of the larger movement in the SiP volume. If you take fourth quarter, you will see that the so-called traditional IC assembly and test, the decline was actually only 1.4%. If you look at testing, it's 1.1, so...Pretty much in the overall movement or the volatility is a bit exaggerated, because of SiP.

Rick Hsu of Daiwa Capital Markets: Thank you so much.

Joseph Tung: Thank you.

Joseph Tung: We're done?

Kenneth Hsiang: We're going to take a call. Jean-Louis from Haitong?

Coordinator: The next question comes from Mr. Jean-Louis Lafayeedney from Haitong. Mr. Lafayeedney, you may proceed.

Jean-Louis Lafayeedney of Haitong International: Hi, good afternoon. Thanks for taking my question. The SPIL call just now, just about an hour ago. The company talked about the expected loss of customers due to the merger between, or the prospective merger between, or due to a prospective merger between ASE and SPIL. And on the call, they were suggesting that something like 12 out of 15 biggest customers wouldn't want a concentration equating to approximately 50% of their allocation to one enlarged company. And therefore they thought, they were commenting on the call, that perhaps this might drop from 50 to somewhere like 30, or 40. Just wondering if you have any comments on this? How do you think about potential loss of customer base due to this kind of activity? Thank you.

Tien Wu: I think the best way to look at this is taking a rational approach. You look at the past 15 years, all of the merger or acquisition deals around the world, and quite often, there are large companies with very, very high concentration market share in all regional segments after the merger or acquisition, have they really lost market share?

More recently, specific example, we talk about the JCET acquiring STATS ChipPAC. If you go back to 2015, and it's as recent as you can get, ASE was down IC ATM 8%, Amkor was down 7%, SPIL was down 5%, JCET after acquisition was down 5%. In other words, the claim that after JCET bought STATS ChipPAC there has been a market share loss, at least the numbers didn't show. I'm pretty sure there is one customer, one product segment floats around, which happens daily.

Now, in terms of the Taiwan regional, there has been high concentration market share held by companies in different market segments. You go to the foundry, you go to the OSAT, you go to the EMS, it has occurred. In the IC design, we also have clear examples of high concentration market share, after merger and acquisition, and there's no apparent market loss. So all I can say is, I have not found one example to basically substantiate the claim, which is why we issue a statement "we do not know how to answer this claim". Thank you.

Jean-Louis Lafayeedney of Haitong International: That's very clear. That's kind of also the way I look at it. Thank you, thank you very much for that. That's it from me. Thank you.

Tien Wu: Thank you.

Joseph Tung: And they just had a 3.7% growth in the revenue, right?

Tien Wu: Yes.

Tien Wu: It's very difficult to counter all of those claims. We have to go one by one. And every time we have to really go back to all of the statistics. But I believe all of us have been in this industry for a long time, just, uh, make your own call. Make your own judgment.

Kenneth Hsiang: Our next caller, Patrick Liao from Macquarie.

Coordinator: The next question comes from Patrick Liao, from Macquarie. Mr. Macquarie, your line is now open.

Patrick Liao of Macquarie: Okay. Thanks for taking my question. My first question is about the incremental gain for your earnings once you complete merge SPIL. So I'm wondering that is there any agenda, if we can expect it could be accretive this year, or next year, that could be factored in our model or expectations from investors. Thank you.

Joseph Tung: I think the transaction will be done in cash. So it will definitely be an EPS accretive transaction for the year. But how much the accretion would be, it really depends on the respective performances of the two companies.

Patrick Liao of Macquarie: Right. Then the follow-up thing is about the...is there any intangible asset of goodwill amortization which are expected after the transactions?

Joseph Tung: We will go through the normal PPA analysis to decide what eventually the goodwill number will be, and we will go through the normal accounting treatment and do an evaluation of such goodwill on an annual basis to decide whether there will be any amortization that's needed. If we look at SPIL's past track record, it has always been a very, very stable and also very well-run operation, and that's actually one of the very reasons that we decided to become an investor of the company. So I think we are pretty confident that the so-called intangibles will not have too much of an effect on the overall.

Patrick Liao of Macquarie: Right. Thank you. So to get a kind of likely modeling, can I ask, is there any, say, how many years, if the amortization to happen - five years, six years, whatever, is there a sense or direction? We'll be appreciative for that.

Joseph Tung: You mean the goodwill?

Patrick Liao of Macquarie: Yes, yes, yes. Because...how the modeling, I know it's difficult to tell right now, but if you can give us a kind of color on that, how many years likely? Or whatever things. We would appreciate for that.

Joseph Tung: Well as I mentioned, the goodwill will be evaluated on an annual basis, and there is no fixed time period for us to amortize that. As long as the business or the operation remains stable, then there's no write-down, there's no scheduled amortization period.

Patrick Liao of Macquarie: Okay, thank you. Last question is about the 2016 or even longer terms, if you can give us a kind of feeling that, saying the longer term, or 2016's growth perspective, saying that semiconductor worldwide, TSMC is saying 2% growth. How is ASE's house view? And in terms of that, how much growth we'll be looking at for your EMS and IC ATM this year or the following years?

Tien Wu: If you look at the semiconductors, from 2000 all the way to 2015, the long term growth rate, the compound annual growth rate is 5%. We don't believe there's any reason why that 5% assumption should be altered. In other words, we might go through a negative growth in one year, but in the subsequent years, we will have more positive growth, go back to the long term growth rate of 5%. If you believe in that thesis, then we have just gone through a minus 2% growth; therefore, in 2016, or 2017, 2018, 2019, 2020, in the next five years, we ought to have 25% annual compound growth rate. How do you distribute that 25% down to the five years becomes an issue. Right now, because there are many economic uncertainties we do not understand, we try to take a conservative view; therefore, we believe there's 2% for this year. But for the longer term, we still believe that the industry, it continues to march on a 5% annual growth rate.

Patrick Liao of Macquarie: Okay, can I ask another way around that? if we look at ASE's market share’s growth, all the way from 1998, I believe, even from public information, we can easily find out ASE gaining market share all the way. So can we assume that ASE will continue to grow better than their peers, so can we assume like more than 2% or 5% growth? Not the numbers itself, but the direction, kind of...confidence. Can we have some color on that? Thank you.

Tien Wu: If you're looking at 1998, long-term average of ASE, we are growing at more than 2X of the market. In other words, the long-term is like, between 5 and 5.3 percent, ASE is growing between 11 to 12 percent. That is the long term. And we make that assumption, I believe directional-wise, yes, I believe ASE will outgrow the overall market due to a number of reasons. In terms of the absolute digitized number, I cannot give a comment.

Patrick Liao of Macquarie: Fair enough. Thank you, sir. That's all I have.

Kenneth Hsiang: Do we have any additional questions?

Sebastian Hou of Credit Agricole Securities (Taiwan): Thank you. This is Sebastian Hou from CLSA. My first question is SiP. Just to follow up on some details, earlier Tian Wu and Joseph talked about the re-balancing for this year, due to this product line. So I remember earlier, last year, you mentioned about the customer diversification this year. We wonder, we know that last year you have like, four projects, probably, and this year how many projects are you looking at? And also in terms of the customers, are we going to see new customers coming in?

Tien Wu: We do have new customers coming in. And we have a...quite a few numbers of projects, more than four that you just referred to. The issues right now is some of the projects are taking very, very high revenue in percentage. We're not exactly sure how to clearly model, make a statement of where the numbers are going to be for this year. However, in terms of the number of customers on SiP variety, we are actually broadened the portfolio, which is a great news; and you will see in 2016, in particular in 2017, we have more meaningful percentage of the SiP revenue being accounted for by those multiple projects.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay, thank you. So, in terms of - can I get a little bit more details - in terms of the numbers of the customers, is it more than, one finger? Five, or...?

Joseph Tung: You mean one hand?

Sebastian Hou of Credit Agricole Securities (Taiwan): Yeah. One hand, sorry.

Tien Wu: We do have more than ten customers, if that's what you're referring to when you said projects. But it takes a long time, and we realize that there are critical gaps and there are value, there are market segment readiness, we're clawing through all of this right now. So we do have many customers in the SiP project.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay, thank you.

Tien Wu: And some of them, we will start reporting meaningful revenue, hopefully soon. This year or later next year.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay, thank you. And considering your earlier comments on the re-balancing and being more selective on this SiP business, can we assume that the margin trend of business is going to trend up for second half this year into next year?

Joseph Tung: I want to think there will be changes between different projects. But I think, all in all, the overall direction is we're trying very hard to maintain, or to improve our margin as well as return on the SiP business. Like I said, in the past, we do have some of the projects that are very profitable, some are losing money, so we want to make it a more...and also all these projects, bear in mind, these consumes a lot of resources which are becoming limited today. So that's why we believe that we need to focus, better utilize such limited resources on some of the projects that can produce better returns or profitability. So I think the overall direction, yes, we will continue to improve the margin or the return of the SiP business. And that's what this so-called re-balancing is all about.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay, thank you. My second part of questions are on fanout. So when do you see revenue contribution from here?

Tien Wu: As I already stated, right now, the fanout revenue we start reporting this year, in 2016. The fanout has been invested by ASE for the last two and a half years, and we will report either one or two customers' revenue in the fanout, or so-called high resolution fanout. When we're referring to the SiP, it includes the high and mid and low resolutions, also, different cost models. Some were, in the middle of this year, we will start deploying the other type of fanout, and I will hold the announcement until later days. Right, but the fanout revenue we'll start reporting this year.

Sebastian Hou of Credit Agricole Securities (Taiwan): You mean that reporting, so that you recognize or are you going to report on the, when-

Tien Wu: We're going to report revenue actually in production. Now.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay, yeah. Thank you.

Tien Wu: The meaningful ramp-up will be some time this year.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay. And the third part of questions is on the acquisition of SPIL. So I'm wondering do you have any...since the ultimate goal is to 100% buyout SPIL, do you have any model in mind, target model in mind, that the combined revenue will combine profit by, say, 2018 or 2020?

Joseph Tung: No, we haven't done this far. We must take one step at a time.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay. But in terms of the cost synergy, how much can we see from there?

Joseph Tung: I think we can only say that there will be synergies that can be created. I think, the thing that's lacking in the Taiwan OSAT industry is really, the integration or better utilization of resources. And we believe that for the overall OSAT industry, the next big wave of growth, is really SiP. As I said, the resources is very consuming; therefore, I think the combined effort, with a lot of the players in the same filed in Taiwan put in together, will give us a better utilization of our resources so as to bring down the cost and to better secure this upcoming business. So that's the overall goal that we're aiming at.

Sebastian Hou of Credit Agricole Securities (Taiwan): Okay. And the last question from me is...so after the second tender offer, assuming it's going through, and the rest of the 50%, if you're going to acquire SPIL's stake, how are you going to finance that? Is it going to owe debt and internal cash? Or are you considering any new share issuance?

Joseph Tung: It depends on the timing and also the funding's availability in the market. But I think, in a nutshell, it will be very similar to this round of tender offer. So maybe one-third through our own internal cash flow, the other two-thirds from bank borrowing, or some other debt-owing.

Sebastian Hou of Credit Agricole Securities (Taiwan): Thank you.

Kenneth Hsiang: That's all we have time for today. Thank you very much for coming. Hope to see you next time.

Joseph Tung: Thank you.