# Advanced Semiconductor Engineering, Inc.

# 1st Quarter 2017 Earnings Conference & Conference Call

# April 28, 2017

# 3:00p.m. Taiwan Time

**Kenneth Hsiang, Head of IR of ASE Group:** Hello. I am Ken Hsiang, the Head of Investor Relations for ASE. Welcome to ASE Group's first quarter 2017 earnings release. All participants consent to having their voices and questions broadcast via participation of this event.

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 a high degree of risk 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, I will be going over the financial results. Joseph Tung, our CFO, will be answering questions during our Q&A session. Following the event, our VP in charge of public relations, Eddie Chang, will be addressing the media in Mandarin Chinese.

The SPIL update.

ASE and SPIL submitted the required materials to the Taiwan Fair Trade Commission on July 29, 2016, and the TFTC issued a no-objection letter in respect of the transaction.

ASE and SPIL submitted the required materials to the Ministry of Commerce of the People's Republic of China on August 25, 2016. MOFCOM formally accepted the parties' notification materials on December 14, 2016. On April 12, 2017, ASE received MOFCOM's notice extending its review to Phase III review.

The parties are continuing to cooperate with the U.S. Federal Trade Commission's investigation, and are working toward a goal of successfully completing the investigation as soon as possible.

The first quarter of the year is typically our seasonally down quarter. The first quarter of 2017 was not an exception. As we believe our results would indicate, most of the business lined up well with our expectations. However, there was a notable unforeseen factor that impacted our numbers.

I'm sure you are all aware of recent strength in the NTD relative to the USD. Let me give you a quick summary of how foreign exchange is part of our business. Our customers generally place orders with us denominated in USD. Meanwhile, many of our costs, such as labor and utilities, are denominated in local currency. Even our machinery purchases, though denominated in USD, are translated into local currency upon delivery and generate local currency depreciation. What this means is that NTD appreciation will lower the value of USD-denominated sales while maintaining the costs to produce such.

Further, from a hedging perspective, we target to be foreign exchange-neutral at the balance sheet level. As such, we generally do not apply currency-hedging concepts for the P&L level. Foreign exchange movements, especially sudden ones like this one, have and will continue to have material impacts to our financial results.

During the first quarter, the NT Dollar was unusually strong, averaging 31.2 NTD per USD versus our expectation as of our fourth quarter earnings release of 32 NTD. This implies a fluctuation of greater than 2.5% from the time we issued our guidance. Please bear that in mind when reviewing our financial results.

For the first quarter, the foreign exchange rate negatively impacted our Group level and IC ATM sales, each by 1.2%. The foreign exchange rate fluctuation also negatively impacted our Group level and IC ATM-level gross margins by 0.4 and 0.6 percentage points, respectively. Looking forward, we are continuing to assume a stable but strong NTD environment.

With that said, let’s start the financial review.

Page 3, Group quarter-over-quarter consolidated P&L. This quarter-over-quarter slide shows a fairly typical decline during our seasonally soft quarter. It is also worth noting that our fourth quarter in 2016 was also somewhat overly strong. As such, we don’t believe comparisons between the quarters are particularly useful.

On a fully consolidated basis, for the first quarter, the company delivered fully-diluted EPS of $0.30 versus basic EPS of $0.33. Our packaging, testing and EMS businesses were down 11%, 13% and 15%, respectively, while our direct materials business was up 11%. Other revenues shown are related to real estate sales and were down to below 1% of Group sales. Total revenues for the consolidated Group declined 14% to 66.6 billion dollars. Gross profit decreased from 15.4 billion to 12 billion, with consolidated gross profit margin declining to 18%. And again, there was an approximate 0.4 percentage point decline in gross margin that was attributable to foreign exchange fluctuation.

Operating expenses edged down by 0.5 billion dollars to 6.8 billion dollars. Despite the absolute dollar value decline, our operating expenses, as a percentage of sales, increased from 9.4% to 10.1%. Operating profit for the first quarter was 5.2 billion dollars, down 2.9 billion from 8.1 billion in the fourth quarter. Our operating margin decreased 2.6 percentage points from 10.5% to 7.9%. During the first quarter, we had a net non-operating loss of 1.4 billion as versus a net non-operating gain of 1.5 billion the previous quarter. The current quarter’s non-operating loss includes the following:

ECB-related loss from our stock movement of 1.3 billion dollars, net gain related to foreign exchange and hedging activities of 0.2 billion dollars, and net interest expense of 0.4 billion dollars. Pretax profit for the first quarter was 3.9 billion dollars, down from 9.7 billion in the fourth quarter. Income tax expense was 0.9 billion in the first quarter. The relatively high implied tax rate is the result of the ECB loss being inapplicable for the calculation of taxable income purposes. It is important to note that in the second quarter, we will book our undistributed earnings tax expense of 0.8 billion. Net income for the first quarter was 2.6 billion dollars.

Page 3, Page 4, sorry. Group quarterly results on a year-over-year basis. Comparing the current quarter’s results versus the same quarter last year, our packaging, test and EMS businesses grew by 6%, 6%, and 19% while our direct materials business was flat. Other net revenues relating to real estate sales declined 0.6 billion. Our real estate revenue is irregular in timing and is not particularly seasonal. On a year-over-year basis, our consolidated net revenues increased by 7%. Our gross profit was up 5% to 12 billion dollars. Our gross profit margin declined 0.4 percentage points to 18% from the previous year, principally as a result of the decline in real estate revenue mix and NTD appreciation offset by higher loading across the majority of our business units.

Without real estate included, gross margin for the Group would have been 16.4% in the year-ago quarter. This would indicate a gross margin improvement of 1.6 percentage points year-over-year. Operating profit was flat with our operating margin declining 0.4 percentage points. This decline was caused primarily by revenue mix shift and NTD appreciation that flowed through from gross profit.

Page 5. 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 consolidations. We believe the quarter-over-quarter comparison primarily shows that the business is in its seasonally soft period. Our IC ATM group performed generally as expected this quarter. The quarterly decline is in line with typical first quarters and relatively good given the strong fourth quarter in 2016. With that said, our IC ATM net revenues declined by 12% during the first quarter to 38.4 billion dollars. Revenues for our IC packaging and testing businesses declined 12% and 13% while our direct materials business increased 4%. Again, NTD appreciation had a 1.2% unfavorable impact on revenues during the quarter.

Gross profit was down to 8.8 billion dollars with gross profit margin coming down to 23.0%. The gross profit margin decline was primarily the result of lower overall loading during the seasonally down quarter with semi-fixed labor and depreciation costs. In addition, foreign exchange fluctuation had a 0.6 percentage point impact on gross margins. Operating expenses decreased from 5.3 billion to 4.8 billion. Despite the absolute dollar value decline, operating expense percentage increased 0.5 percentage points to 12.6% from 12.1%. Operating profit was down to 4 billion dollars. Operating margin for the first quarter was down 4.3 percentage points to 10.4%.

Page 6, IC ATM year-over-year. Here you can see our year-over-year comparison for our IC ATM business. We believe that the year-over-year comparison places the seasonal decline in proper context. During the quarter, on a year-over-year basis, our packaging and testing businesses were up 9% and 6%, respectively, while our direct materials business was roughly flat. Our total IC ATM revenues improved 8% versus the same period last year. Gross profit was up 13% with our gross margin improving1 percentage point from 22% to 23%, despite a negative impact from NTD appreciation of 2.4 percentage points. Operating income was up 0.8 billion, or 24%, from 3.2 billion to 4.0 billion. Operating margin was up 1.3 percentage points from 9.1% to 10.4%.

Page 7, packaging operations. In seasonally down Q1, our packaging revenue declined 12% sequentially and increased 9% year-over-year to 31.1 billion. Our packaging gross margin of 20.7% declined 3.4 percentage points sequentially and increased 1.6 percentage points year-over-year.

As compared with the previous quarter, the sequential margin decline was primarily caused by lower seasonal loading, paired with stable semi-fixed costs such as labor and depreciation. Secondarily, the margin decline was driven by NTD appreciation. On a sequential basis, NTD appreciation impacted our packaging operation by 0.5 percentage points. The improvements in year-over-year margins are a result of relatively higher loading, paired with lower depreciation and raw material consumption. During the quarter, capital expenditures were 120 million USD, composed of: wafer bump, fanout, and copper pillar equipment at 78 million USD, and common, SiP and wirebond equipment at 42 million USD.

We exited the quarter with a total of 15,963 wirebonders in operation. Eight-inch bumping capacity remained unchanged at 95,000 wafers per month, and 12-inch bumping capacity, including fanout and copper pillar, remained unchanged at 116,000 wafers per month.

Page 8, test. Test revenues of 6.4 billion, were down 13% sequentially and up 6% year-over-year. Test gross profit margin of 33.4% was down 5 percentage points sequentially and up 0.5 percentage points year-over-year. The decline in gross margin was primarily due to lower seasonal revenues, paired with a semi-fixed cost environment and, secondarily, NTD appreciation. Overall, cost of services for test was 4.2 billion dollars, declining 0.3 billion sequentially, but up 0.2 billion year-over-year. Our test utilization rate on a percentage basis declined to the low 70s. Capital expenditures for the test business was 31 million USD in the first quarter.

Page 9, materials operation. Revenues were sequentially down 4% and down 8% year-over-year. During the quarter, 892 million was from sales to external customers. This amount is an 11% increase as compared to the fourth quarter. Our internal self-sufficiency rate increased slightly to 27% from 26%. Gross margins were sequentially down by 1.8 percentage points to 12%.

Page 10, IC ATM revenue by application or market segment. Here you can see the application shift during the seasonally down first quarter. During the first quarter, our communication segment declined in accordance with seasonal trends, and the other applications made up for that.

Page 11, EMS operations. Here you can see the results from our EMS business. During the first quarter, revenues for our EMS business unit was 29.4 billion sequentially, down 15%, but up 19% year-over-year. In the same time frame, our gross profit was 3.1 billion dollars, down 13% sequentially, but up 55% year-over-year. Despite the seasonal revenue decline, our EMS gross margin increased slightly to 10.6% from 10.4% sequentially and up 2.5 percentage points year-over-year. The sequential EMS gross margin increase was principally the result of a seasonal product mix shift away from lower-margin products and streamlined costs within our EMS operations.

We do believe that from a total business perspective, the financial results of our EMS business appear to be encouraging. Our rebalancing efforts appear to have a material impact as the business unit's contribution to the overall Group has been steadily improving.

Page 12, EMS business segment mix. During the first quarter, our communications product segment decreased their segment share by 4 percentage points, while our computing, consumer and automotive segments, in combination, increased their individual segment shares. These segment share moves are mostly in line with the seasonality of the underlying business products.

Page 13, ASE Group key balance sheet items. At the end of the quarter, we had cash, cash equivalents, and current financial assets of 46.2 billion dollars, increasing from 42.3 billion the previous quarter. Our interest-bearing debt decreased from 111.7 billion at the end of 2016 to 97.9 billion at the end of the first quarter, 2017. Total unused credit lines amounted to 183.0 billion dollars.

Page 14, capital expenditures. Machinery and equipment capital expenditures for the first quarter totaled 155 million USD, of which 120 million USD were used in our packaging operations, 31 million USD in our testing operations, 3 million USD in our EMS operations, and 1 million USD in our interconnect materials operations. EBITDA for the quarter was 377 million USD.

For the full year of 2017, we expect to spend capital expenditures in excess of 2016 levels, but below our depreciation and amortization levels. These expectations are subject to significant changes as business conditions are always dynamic.

Looking forward, there are a number of factors related to the overall communications market that are impacting our businesses. We believe that some of our customers are actively controlling component inventory related to smartphones in China. This seems to indicate that the China smartphone market is taking some time to digest inventory after showing surprising resilience during 2016.

Further, we also have noted that some end products have adjusted their launch timing not matching their previous generations' launch times. Some of these times are off by weeks, some by potentially months. We believe these product launch shifts have created timing shifts in various smartphone manufacturing cycles, making cyclical comparisons particularly troublesome. We also don't see the brisk upswing at the beginning of the second quarter, to which we are accustomed. The business environment appears to be stable with an upswing somewhat delayed.

This, paired with other impending major product launches further out this year, makes our second- and third-quarter outlooks stand in remarkable contrast. It is unclear to us at this time when the upswing will exactly start.

With that said, we believe that the business in the second quarter will run at a slightly more rapid pace than we did in the first quarter, but such pace increases may be offset at least in part by foreign exchange rate increases in the New Taiwan Dollar. And, at this time, we are conservatively assuming a NTD-USD exchange rate of 30.3 off of an average exchange rate of 31.2 in the first quarter. This foreign exchange fluctuation in itself implies almost a 3% impact to sales.

So with that said, our guidance, our second quarter 2017 IC ATM business and gross margin should be similar with the previous quarter. Our second quarter 2017 EMS business should be similar to the average of the second and third quarters' levels. And, our second quarter 2017 EMS gross margin should be similar with the previous quarter.

Do we have Q&A questions?

**Bill Lu of UBS Securities:** Hi there. Bill Lu, UBS. Just a clarification on the guidance, on what Ken said. It sounds like 2Q visibility maybe is a little bit weaker than it's been historically. I wasn't sure what Ken said about the third quarter. Is it also cloudy? Or it's different from 2Q?

**Kenneth Hsiang, Head of IR of ASE Group:** The third quarter's stands are remarkable contrast to the second quarter. There should be a very brisk uptick; we're just not exactly sure which month that uptick happens, but we're pretty optimistic on the third quarter. There's no exact number at this point.

**Bill Lu of UBS Securities:** Okay. But the timing versus your previous third quarters is a little bit uncertain right now. Is that the point?

**Kenneth Hsiang:** I think the third quarter, the third quarter number should be pretty reasonable. It's the second quarter that we're not exactly sure about. Things could, in all potential likelihood, pick up in June, but we don't know.

**Bill Lu of UBS Securities:** I see. Okay, thanks. Question on the gross margin. In the first quarter, I realize there is a currency impact, but it seems like margin is a little bit weaker. What are the factors here—obviously loading is one factor, anything else?

**Joseph Tung, CFO of ASE Group:** I think in terms of IC ATM gross profit margin, of course the softer demand, also the lower loading, of course, would have an impact, negative impact on the margin itself, but on top of that, we're also experiencing NT Dollar appreciation, which has about a 0.6% impact on margin. Also in the quarter, we did have some one-off expenses that we need to book, including the compensation expenses that we need to incur for the rights offering, with the portion of the employee's subscription. And also, we have, we went through an early retirement plan in Korea site, and that incurred some additional costs as well. There's also a one-off expense because of—I don't what's the translation is—Yi-Li-Yi-Xiu (*"one fixed day off and one flexible rest day policy"*), a lot of the unpaid annual leaves that we need to incur in expenses. So all those add up the additional expenses for the quarter, such as the one-off items. It's about 0.5% of total. And the additional overtime expenses that we need to pay for the Yi-Li-Yi-Xiu as well, is another 0.3%. So these are the items that have some negative impact on the margin as well, on top of the lower loading.

**Bill Lu of UBS Securities:** Continuing on gross margins, we've seen the improvements in EMS growth margins as you've rebalanced portfolio, but last couple of quarters have been the low seasons. So as we go into the second half of the year, into the strength of the EMS business, can you talk about how we should think about margins in terms of, maybe an absolute level that you want to achieve, or incremental margins going forward?

**Joseph Tung:** Well, I think there's no set target on the—let's say, 11%, 12%—I'm not saying that. We're saying that the main focus for this year is really to continue our rebalancing, particularly on the SiP business, and the main focus is really to continue to improve our margin on EMS side. And as the business progresses, I think there's still further room for improvement, although the NT, the currency movement does not have that much of an impact on the EMS business because most of the business is really in mainland China. We still have a small portion of business in Taiwan as well, so that may have some impact, but overall, I think there's still room for improvement, and we are optimistic that we will continue to make some improvement on the gross margin for the EMS business.

**Bill Lu of UBS Securities:** Can I just ask one last one, a clarification on the MOFCOM process? So we move to Phase III…April 12. Is my understanding correct that Phase III is one month? And…

**Joseph Tung:** No. Phase I is 30 days, and then Phase II 90, and then Phase III 60 days.

**Bill Lu of UBS Securities:** Sixty days. At the end of the 60 days, it's either yes or no, or there are other options?

**Joseph Tung:** We're actually quite comfortable with the progress that we are making now, and hopefully we can get everything carried away before the expiry, which is June 11.

**Bill Lu of UBS Securities:** But the government, the MOFCOM has to make a ruling by June 11, is that correct?

**Joseph Tung:** They can give a ruling, or they can ask you to withdraw the application and then refile it. There are different ways that they can handle this.

**Bill Lu of UBS Securities:** Great. Thank you.

**Ken Hsiang:** Name and company, please.

**Rick Hsu of Daiwa Securities:** Excuse me. Rick Hsu from Daiwa Securities. Good afternoon. I guess, two questions from me here. The first one is, as usual, some housekeeping numbers, including your…I know Ken talked about the utilization rate, I just, you know, I was too busy to copy everything. Can you run through the UT for your…

**Joseph Tung:** Okay. For assembly, it's around mid 70s for both wirebond and non-wirebond. For test, it's low 70s. For materials, it's low to mid 70s. And for the second quarter, it should remain very similar.

**Rick Hsu of Daiwa Securities:** Second quarter should be similar across the board? Right?

**Joseph Tung:** Right.

**Rick Hsu of Daiwa Securities:** Alright. And can you talk a little bit about your capacity build for second quarter? Is it going to be similar again, quarter-on-quarter? Or is it gonna be increasing in preparation for Q3?

**Joseph Tung:** You mean CAPEX?

**Rick Hsu of Daiwa Securities:** Your capacity across the board for the second quarter.

**Joseph Tung:** Well, in terms of CAPEX, I think in the first quarter, we have 155 million dollars. I think in the second quarter, it will be higher. It will be a higher number for that. And that's, as you said, is in preparation for the third quarter's onwards ramp-up.

**Rick Hsu of Daiwa Securities:** Okay. The second question is, if I exclude any exchange fluctuation for your second quarter, then I assume your IC ATM will likely grow by, maybe as Ken said, about 3% quarter-on-quarter. But if I look at one of your competitors—Amkor, they also release number today. I think they are looking at about 5%-13% quarter-on-quarter growth, if I remember it correctly. Can you explain why the difference is? Are you losing any market share? Or a different story?

**Joseph Tung:** Well, I can't exactly speak for Amkor, but I think the bulk of it is really because of different customer mix. I think they have a larger exposure in the Galaxy phones.

**Rick Hsu of Daiwa Securities:** Okay. Alright. Thank you so much.

**Kenneth Hsiang:** Do we have more questions locally?

**Kenneth Hsiang:** Yeah. Randy Abrams? Are you on the line?

**Randy Abrams of Credit Suisse:** Yes, I'm on the line. Hey, I wanted to ask a follow-up clarification on the – you mentioned uncertainty of your potential product pushouts. Were you referring more just to the Android over second quarter? It sounded like you're confident on third quarter ramping, but is there still uncertainty on the timeline, or is it more locked in for the second half? I guess we have the Apple's normally ramp, but for those component builds, is that still moving around and uncertain, or is that more locked in to drive the confidence on third quarter?

**Joseph Tung:** I don't think we can be very specific about customers per se. But I think, all in all, what we're looking at is...we are going through a bit softer, typical second quarter, because of the...there's some inventory that needs to be worked off. And also because of some delays in some of the product launch. All these we expect to be worked out by third quarter and that's the reason why we're having a much more optimistic third quarter, thinking that things will start to rebound from third quarter. Although the product launch still have some uncertainties involved, so we are not exactly sure, when exactly in third quarter, which month exactly, things will start to look up. I think that's what we're trying to say here.

**Randy Abrams of Credit Suisse:** Okay, okay, that's helpful. Second question, I wanna ask about the fanout packaging. More, further, the mobile market, if you're seeing some of those developments carry forward for next year, or still, two years away? But if you could talk about your opportunity for that market?

**Joseph Tung:** We continue to see fanout as a...growth driver for us going forward, I think the application of it will be expanding. So we'll continue to make our investment into fanout, and also we're expecting quite a substantial growth in our revenue, in fanout revenue this year.

**Randy Abrams of Credit Suisse:** Okay. And then, the last on SiP. It's been...I think a little while since you disclosed...but I'm curious, the level...like if you did percent of the EMS business now, and percent of IC ATM, maybe for...how it is now and...if you're still with the rebalancing, and also, moving out the loadings? If we should still expect that normal sharp second half for the SiP business?

**Joseph Tung:** I think the overall rebalancing involves a lot of things in our SiP business, including, we're trying very hard to linearize whatever business flow that we're getting from our customers, and that seems to be working out better for us now. So are you...Is your question about the percentage of business from SiP?

**Randy Abrams of Credit Suisse:** Yes, if you can, the percent of, like on the EMS, ATM and consolidated level? Like we're rough...rough area? Where is it now?

**Joseph Tung:** I think in first quarter, in terms of IC ATM, it’s about 4%.

**Randy Abrams of Credit Suisse:** Okay.

**Kenneth Hsiang:** Are you looking for EMS?

**Randy Abrams of Credit Suisse:** Oh yeah, if you have EMS and consolidated, how that profile?

**Kenneth Hsiang:** IC ATM is actually 3%. From the EMS perspective, it's about 40...forty-somewhat percent.

**Randy Abrams of Credit Suisse:** Okay. Okay, great. Thanks a lot.

**Kenneth Hsiang:** Next caller, Charlie Chan, Morgan Stanley.

**Charlie Chan of Morgan Stanley:** Hi Ken. Hi Joseph, good afternoon. So I actually want to follow up on the question regarding the fanout wafer-level package. So can you elaborate what kind of semiconductor chip will move to fanout if there seems to be a strong demand? Especially I'm curious about will that cost cross over versus substrate-based packaging? Thanks.

**Kenneth Hsiang**: So in general, fanout is more expensive than traditional packaging. You choose fanout when your I/O densities are denser than what can be provided by traditional forms of packaging. So most products at this point in time are able to be serviced by bumping or copper pillar. There is an extra potential factor in fanout: it provides a slightly thinner profile. I think it's about, maybe 10% thinner, or 15% thinner. But, that's it. But going forward, we believe that we can probably drive fanout costs down, and when fanout costs can actually be lower than their corresponding substrate costs, we can...fanout should actually grow significantly at that point in time.

**Charlie Chan of Morgan Stanley:** Okay. And my follow-up would be, you know, because the competition involves some foundry players, so...can you explain, you know, your key differentiation or advantage hanging out, you know, against the foundry competitors?

**Kenneth Hsiang:** We're a backend player, right? Fanout, fanout is a...is a backend service, so, we're basically running...we're basically running sewer pipes to and from the chip. So you don't need to spend a lot of money on packaging, you go for the lowest cost. So we believe we can deliver the lowest cost, we can...we believe we have the path to deliver the lowest cost fanout going forward.

**Charlie Chan of Morgan Stanley:** Okay. So so so...just to put into perspective, if we can time which quarter, or which year, do you think fanout can contribute to your revenue significantly? And if you can give us some capacity, even a schedule, that would be great.

**Kenneth Hsiang:** That's not really up to us. The demand in fanout is exactly correlated to the devices that need it. So maybe potentially, ten, seven, even sub-seven nanometers on the foundry front. When the I/O densities get beyond what traditional packaging needs, that's when...that's the "for sure" point at which fanout is needed as packaging. But at this point in time, there really isn't a lot of direct, obvious need for fanout. I mean, traditionally speaking, fanout is used for keeping a footprint of a particular die, when dies shrink. So, I mean, those are different types of purposes, but, um, we don't have a long-term time-price in terms of exact fanout expansion. We will expand as the market needs it.

**Charlie Chan of Morgan Stanley:** Okay. Okay, got it. Thank you very much.

**Kenneth Hsiang:** Next caller, Steven Pelayo, HSBC.

**Steven Pelayo of HSBC:** Great. I wonder if you could talk a bit about the second quarter? I understand you're getting, like, a couple of little bit but flattish, currency affected. You know, Amkor did talk about half of their growth coming from the communications side, the other half coming from, you know, automotive, industrial, consumer. So I guess as you look into the segment for the second half, is it comm, kinda down? Are other things offsetting it, or...?

**Kenneth Hsiang:** Can you repeat that question?

**Steven Pelayo of HSBC:** I'm just looking at the...what is your outlook for the second quarter revenues by segment? Is it equal across communications, consumer, computing? Because Amkor had actually said it was fairly half the growth for them was gonna come from communications, the other half would come from all the other things. I'm curious if you see a similar flattish environment for all end markets?

**Joseph Tung:** Well, as I mentioned earlier on, I think Amkor has a different customer exposure than ours, where they have more exposure in the Samsung Galaxy. So there's a bit of a difference in their...In terms of our own coverage, I think the...in second quarter, aside from computer— computing, other segments are kinda stable. Computing for us is gonna be a bit soft than the other segments. So the distribution would be slightly changed in second quarter.

**Steven Pelayo of HSBC:** Okay. And then when you look...last year for example, you had kinda a flattish quarter-on-quarter second quarter, which is somewhat similar, and then you ultimately had a 60% quarter-on-quarter third quarter. So if things are pushing out and other things are lining up, and as you look to the third quarter, you think it'll be even better than what you saw a year ago on a sequential growth?

**Kenneth Hsiang:** Joseph wants me to answer. So ah...Yeah, I'm actually really bullish on the third quarter. We don't really have a number at this point, right? It's tied to products. You have a number of products that are delaying at this point, that could actually also impact our flow into the third quarter, as well as traditional products that are normally launched near that time frame.

**Joseph Tung:** I think having said that, I think there's a little bit difference between this year and last, is that in last second quarter—or I should say—last first quarter and second quarter, our SiP business really...ah...decreased very, very significantly. Both in terms of unit volume, as well as pricing for those services. As I mentioned earlier on, this year on, we are making progress in terms of linearizing that part of business. So I think the changes between the quarters—second and third quarter, this year and last year, in terms of magnitude, will be a little bit different, because of that factor.

**Steven Pelayo of HSBC:** Okay, linearity would smooth things a bit. I understand. You think it also then, it could mean very well that fourth quarter is ah...seasonably stronger as well? I mean, I guess I'm trying to ask, maybe more of a full-year type outlook from you.

**Joseph Tung:** Well, as I said, we don't have any numbers right now, but we try to explain that the way we look at it is because in the second quarter, most of the inventory, particularly in China, market should be worked out. And there will be multiple product launches coming into third quarter. That gives us a bit more confidence on the third quarter's performance.

**Steven Pelayo of HSBC:** Okay, just one more question. I was reading the 20-F today from last year, and I was surprised to see your largest customer, I think, decreased by the...24% year-on-year? Your expectations for that this year? Do you see that that can relatively outperform the total company?

**Kenneth Hsiang:** We generally can't comment on customers. They sue us. So...Thank you.

**Steven Pelayo of HSBC:** Well, I'm not giving a name here, I'm just saying your largest customer...

**Kenneth Hsiang:** All of them will sue us.

**Steven Pelayo of HSBC:** Hahahahaha. Okay, fair enough. Thanks guys.

**Kenneth Hsiang:** Thank you. Any other questions? Name and company, please.

**Sebastian Hou of Credit Agricole Securities:** Hello, Sebastian from CLSA. So my first question is to follow on the product delayed launch from your customers, which you just mentioned. Does that impact more of your IC ATM business or EMS business in the second quarter?

**Kenneth Hsiang:** Product launches? Product launches are impacting our IC ATM business, at this point.

**Sebastian Hou of Credit Agricole Securities:** Okay. Okay, and this product launch delay is from several customers, or from your top five customers?

**Kenneth Hsiang**: The product launches that are delaying are more end-product launches, not necessarily our customers' product launches. So, there are particular manufacturing cycles, are pushing out, right? I mean, some of those numbers come in, some go out, right? So, that's what makes the quarter particularly difficult to analyze at this point.

**Sebastian Hou of Credit Agricole Securities:** Okay, got it. And on your system in packaging business, last quarter you talked about that the business pipeline pretty strong with many customers approaching ASE. But it's hard to forecast in terms of the timeline when these projects would take off in volume. And, how about now? Three months, right now. I mean, is there...Do you get any clear visibility, or still the same?

**Joseph Tung:** I think the situation remains the same. At this point, we still have multiple customers engaging us in their different phases and different devices. Exactly when and how these products will get into the market really depends on the customers, their own gameplay.

**Sebastian Hou of Credit Agricole Securities:** Okay. I remember that your SiP products, you used another way to describe them—used to be like security, wearable projects, interface, and subsystem-related… I remember there were four. And how many, are you still having these four this year, or how many do you have?

**Kenneth Hsiang:** We generally don't discuss customer-related information for the reason I mentioned to Steve.

**Sebastian Hou of Credit Agricole Securities:** Okay. How about, like, from the very top-down perspective? How do you see your SiP business in terms of the revenue? Is it going to be similar to last year? Or, up, or down?

**Joseph Tung:** There will be some, there will be some growth.

**Sebastian Hou of Credit Agricole Securities:** There'll be some growth.

**Joseph Tung:** Yeah, in terms of revenue.

**Sebastian Hou of Credit Agricole Securities:** Okay. Can you talk about your strategy on the very advanced packaging, by 2.5-D and 3-D packaging, particularly for the high-performance computing processors? I think two years ago you announced you had this project with AMD, and on GPU side. Any new progress and new design-in pipeline projects you're working on right now?

**Kenneth Hsiang:** Our product, service, packaging portfolio is always expanding. The one that you mentioned with AMD, unfortunately, it seems that there wasn't a lot of volume there. But I do understand that there will be more similar type of products. It's a very interesting product. You have stack memory with a CPU, with an interposer on it. Those are the next generation of packaging. So, from our perspective, exciting, very interesting, not a lot of revenue yet.

**Sebastian Hou of Credit Agricole Securities:** When you said exciting and interesting, are you saying from that you see this market is interesting, exciting, but you haven't got in yet, or you already have it, that's already in your design-in pipeline?

**Kenneth Hsiang:** That was our product. That was our co-worked product with AMD.

**Sebastian Hou of Credit Agricole Securities:** Okay. I mean, on top of AMD, besides AMD?

**Kenneth Hsiang:** We offer our packaging tech to all our customers, or most of our customers, or most of our tech, unless it's exclusive.

**Sebastian Hou of Credit Agricole Securities:** Okay. Can I ask where do you get your interposers? You manufacture it yourself, or you have partners? I remember you have announced a partnership with Inotera when Inotera was still listed, like two years ago or four to three years ago.

**Kenneth Hsiang:** Yes. We have them as a potential provider for interposers. There are others that can provide interposers.

**Sebastian Hou of Credit Agricole Securities:** So, basically you get interposers from your partners, but not doing that yourself?

**Kenneth Hsiang:** Correct.

**Sebastian Hou of Credit Agricole Securities:** And last one, just to clarify Randy's questions, I didn't hear it clearly because...You talked about the, um, SiP account for 3% revenue for IC ATM in the first quarter? And, how much percent for EMS?

**Kenneth Hsiang:** We have 40...

**Joseph Tung:** 42.

**Kenneth Hsiang:** Yes. We're on 40s, in the 40s.

**Sebastian Hou of Credit Agricole Securities:** 40s. Okay. And, in terms of the total company, then that's?

**Joseph Tung:** 26.

**Sebastian Hou of Credit Agricole Securities:** 26.

**Joseph Tung:** I'm sorry. Hold on. 18.

**Kenneth Hsiang:** 18. We have a lot of numbers. Sorry. 18.

**Sebastian Hou of Credit Agricole Securities:** Thank you.

**Kenneth Hsiang:** Any other questions? Bill, another one?

**Bill Lu of UBS Securities:** Just a quick one. I think a month ago, there was an announcement about some sort of JV between you guys, Qualcomm and the Brazilian government. Can you talk a little bit more about that, in terms of, you know, is that more in the IC ATM realm, or you know, SiP, EMS? And also, what is the financial arrangement?

**Joseph Tung:** Well, we just signed the MOU. I think there’s still a lot of details that need to be worked out, and there's still a lot of preconditions that needs to be met before the whole thing puts into play. I think this will be a 2018-and-beyond event. At this point, there’s really no set parameters around it in terms of financial arrangements and so on. It depends on how things progresses in the next 6 to 12 months. And I think the purpose of that JV is really to develop SiP product for the region, and it will be a combination of IC ATM as well as EMS, and we will make the decision when which unit, business unit, to take the lead on that.

**Kenneth Hsiang:** Any more questions on the floor? I have Steven Pelayo in the queue for a question. I'm not sure if it's...Steven, you have another question?

**Steven Pelayo of HSBC:** Yeah, can you hear me?

**Kenneth Hsiang:** Yes.

**Steven Pelayo of HSBC:** Okay, great. I talked to some of your customers here. It seems that they may be already viewing ASE and SPIL kind of as one, so I'm curious if that's true, or if it's competitive between you two as ever. Are pricing more stable? Any thoughts on kind of, now that we’re into this...I don't even know, a year now...what customer behaviors now have changed?

**Joseph Tung:** I don’t think the customers are taking us as one. I think we're still two separate companies running our own businesses. There's no any sorts of collaborations so far until the whole thing is cleared and approved and we finally make the combination.

**Steven Pelayo of HSBC:** I guess there were some concerns that by combining you two that'll open up second-sourcing opportunities for other players out there. As far as you're aware, you don't think that's negatively impacted you at this point?

**Joseph Tung:** So far we don’t sense any significant changes in our business.

**Steven Pelayo of HSBC:** Okay. Just a couple more of quick ones here. Your fingerprint sensors were very active of late. I wonder if you could just maybe give us some color? In 2016, how big a business was that for you, maybe just some qualitative comments on your outlook for 2017?

**Kenneth Hsiang:** We can't comment on customer devices, sorry.

**Steven Pelayo of HSBC:** What about just directionally then? Is it a growth market for you this year?

**Kenneth Hsiang:** We don't, we can’t comment on that. Sorry.

**Steven Pelayo of HSBC:** (Chuckles) Alright. One more quick one here. Kingboard's out there talking a lot about rising, you know, copper clad laminate cost, so I'm just curious on the material side. Are you seeing any potential impact? You know, we're seeing on the foundry side for example in raw wafer. Are you seeing any on the backend side?

**Kenneth Hsiang:** That hasn't crossed my desk yet, but I would, I guess I would look into that.

**Steven Pelayo of HSBC:** Okay. Actually I'm gonna sneak in a couple more. Properties like Teradyne and BE semiconductor were guiding their revenues up 50% quarter-on-quarter. Is that kind of what we should expect in your capital spending as well? Is that kind of the growth you're thinking of? How lumpy, I guess, is the linearity of your annual CAPEX plan?

**Kenneth Hsiang:** I’ve mentioned that our capital spending, it should be above last year's capital spending, but below our depreciation and amortization.

**Steven Pelayo of HSBC:** In terms of quarterly linearity, you've mentioned that the second quarter should go up. I'm trying to understand the magnitude. Is it a very large lump of the annual budget that gets spent in 2Q, or is it a fairly steady number?

**Joseph Tung:** Second quarter will be the highest in the quarterly spendings for the year.

**Steven Pelayo of HSBC:** Okay, and then lastly, maybe you can talk a little bit about China customers, your China operations. I know Chinese smartphones are going through these excess inventory correction, but I'm just curious about your thoughts on your positioning, the competitive landscape, the demand there, pricing, technology roadmap...even Amkor has a lot of capacity in China. So can you talk just little bit more about the market in China and your own operation strategy?

**Joseph Tung:** I think from a high-level point of view, China is becoming a rapidly expanding market. I think going forward, I think, it’s almost necessary for us to maybe expand our operation in China so as to meet the demand there. There's also a lot of new fab investments into China that will eventually need more backend support. So we're seeing China market has a very good potential, and we'll be putting more effort and investment into China, along with overall market growth in that area.

**Steven Pelayo of HSBC:** Can you remind me of the percentage of revenues from China-headquartered companies?

**Joseph Tung:** It's about 6%.

**Steven Pelayo of HSBC:** 6%, okay. And the last question. It's more from a financial perspective. I'm curious what the...exiting 2017, what's the balance sheet gonna look like? I'm a little unclear about the kind of capital structure eventually here.

**Joseph Tung:** Well. If the transactions go through, then there will be additional borrowing up to about 3.5 billion dollars, and at that point, I think the overall net debt to...(**Kenneth Hsiang:** equity?) Net debt-to-equity ratio will be sitting on about 90%, 95%, up from about 30-something at this point. So, we are...you know, there's gonna be quite a large funding needs and also our leverage will be significantly increased. That's part of the reason why this time around our dividend payout is a bit lower than previous year, to reserve some more cash for our funding needs.

**Steven Pelayo of HSBC:** Great, thanks. Thanks for patiently answering all my questions.

**Joseph Tung:** No problem.

**Kenneth Hsiang:** Thanks. We have one more from Sebastian. Just one, right?

**Sebastian Hou of Credit Agricole Securities:** Sorry, I need to come back to the product delay again. Ken, are you very positive on the third quarter? You said you are very bullish, and you talked about that end-product delay impacts your IC ATM business mainly in second quarter. So, which means that these would translate into third-quarter revenue? And you also have EMS, so which means that both IC ATM delay from 2Q to 3Q plus EMS in third quarter together will give you a very strong third-quarter revenue. And does that imply your expectation for that end-product delay won't postpone your EMS growth from third quarter to fourth quarter?

**Kenneth Hsiang:** Product delays are in general, but not referring to any particular customer. But if you just look at various products at this point in time, there were products that were launched now this time last year but aren't launched now this time this year. So, I don't think—I think you may be stretching that particular comment out a little bit too much there. But, in terms of what we see, the timing of end products are definitely impacting overall manufacturing cycles.

**Sebastian Hou of Credit Agricole Securities:** Alright. Second follow-up is, how do you see the pricing environment for this year? I remember in the first quarter last year there's a pricing reset, and that impact your margin and also SPIL's margin. How about the pricing realm for this year? Do we also have that kind of pricing reset for this year? Or the magnitude, compared to last year, is milder, smaller, or bigger, or...?

**Joseph Tung:** I think this year we're going through normal price talks typically on a quarterly basis. So, I think in terms of the overall pricing environment, I think this year is quite stable and normal.

**Sebastian Hou of Credit Agricole Securities:** So, better than last year, relatively. Okay. Last one, Joseph, you mentioned that computing in second quarter will be slower than the others, which means the other applications are actually still growing?

**Joseph Tung:** That's really based on our own portfolio, our forecast. Again, it's...you know, it's sometimes customer-specific because the customers give us a forecast, and each selective customers' up and down does have an impact on our overall portfolio performance. So, what we're saying is, looking at our own forecast, looking at those customers' forecast, there's ups and downs, and it seems that customers in the computing area, the forecast seems to be weaker than the others.

**Sebastian Hou of Credit Agricole Securities:** Okay. Thank you.

**Kenneth Hsiang:** Any other questions? No? Thank you for attending the first quarter 2017 earnings release.

**Joseph Tung:** Thank you very much.

**<End of Conference>**