

# MediaTek 1Q22 Earnings Call

Wednesday, Apr 27, 2022, 3:00pm Taiwan Time

## PREPARED REMARKS

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### Jessie Wang, IR Deputy Director

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

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

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

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

### David Ku, Chief Financial Officer

Good afternoon, everyone. Now let's start with the 2022 first quarter financial results. The currency here is all in NT dollar. Revenue for the quarter was NT\$142.7 billion dollars, up 10.9% sequentially, and up 32.1% year-over-year.

Gross margin for the quarter was 50.3%, up 0.7 percentage point sequentially, and up 5.4 percentage points year-over-year.

Operating expenses for the quarter were NT\$35.3 billion dollars, compared with NT\$34.1 billion dollars in the previous quarter and NT\$28.3 billion dollars in the same period last year.

Operating income for the quarter was NT\$36.5 billion dollars, up 22.7% sequentially and up 80.5% year over year. Non-TIFRS operating income for the quarter was NT\$37.8 billion dollars.

Operating margin for the quarter was 25.6%, increased 2.5 percentage points from the previous quarter and increased 6.9 percentage points from the year-ago quarter. Non-TIFRS operating margin for the quarter was 26.5%.

Net income for the quarter was NT\$33.4 billion, up 10.8% sequentially and up 29.6% year-over-year. Non-TIFRS net income for the quarter was NT\$34.5 billion dollars.

Net profit margin for the quarter was 23.4%, same as the previous quarter and slightly decreased 0.5 percentage point from the year-ago quarter. Non-TIFRS net profit margin for the quarter was 24.2%.

EPS for the quarter was NT\$21.02 dollars, up from NT\$18.99 dollars in the previous quarter and up from NT\$16.21 dollars in the same quarter last year. Non-TIFRS EPS for the quarter was NT\$21.71 dollars.

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

That concludes my comments. Thank you.

**Jessie Wang, IR Deputy Director**

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

**Dr. Rick Tsai, Chief Executive Officer**

Good afternoon, everyone. MediaTek delivered very solid first quarter results. Quarterly revenues exceeded guidance range at 142.7 billion NT dollars, growing 10.9% sequentially and 32.1% year over year with growth coming from all three major revenue groups.

Now let me share our views for market demand and then comment on our three revenue groups businesses.

In recent months, we have seen global macro-economic challenges including inflation and geopolitical conflicts. These challenges inevitably impact the supply and demand of our industry. However, MediaTek is expected to grow in this environment with our leading product portfolios, technology migrations and market expansions across products.

With that, let me comment more specifically on our three revenue groups for this year.

First, Mobile Phone accounts for 53% of total revenue in the first quarter. It grew 28% year-over-year and 13% quarter-over-quarter, mainly driven by higher 5G shipments and our flagship entry.

With some softening of demand for global smartphone shipments, we now believe 2022 global smartphone unit growth to be flattish year-over-year at approximately 1.35bn units, compared with our prior view of low single digit percentage increase. However, our view of 50% global 5G smartphone penetration for this year remains unchanged, which now represents approximately 660 to 680 million units, a bit lower than our prior estimate of 700 million units. Nevertheless, it still represents approximately 30% increase from last year. For MediaTek, we expect our 5G shipments to regions

outside Mainland China to double from last year driven by new 5G model launches and share gains in the global market.

Our flagship and high-end products including Dimensity 9000, 8100 and 8000 demonstrate industry-leading performance in computing, multimedia and power consumption. Numerous smartphones using Dimensity 9000, 8100 and 8000 hit the market in the first quarter which were highly recognized by consumers and some of the models are among the best-selling products.

There will be more Dimensity 9000 flagship models coming in the second quarter and available in more regions starting second half of this year. Furthermore, we expect more models adopting high-end Dimensity 8000 series to ship in regions including Mainland China, Europe, India and Southeastern Asia in the second quarter and beyond. In addition, our mmWave SoC is on schedule to ship in the second half of 2022 and pave the way for MediaTek's further expansions in the global market.

As for 4G market, we have expanded market share in the global higher-end models, which enables us to further expand market share globally and 4G revenue.

Thanks to our 5G and 4G global share gains, we are quite confident in continuing to grow our mobile revenue this year.

Now let me comment on revenue group of Smart Edge Platforms, which accounted for 39% of revenue in the first quarter. It grew 35% from last year and 7% from last quarter, mainly driven by WiFi 6 migration and mix shifting towards higher-end solutions across products such as TV and tablets.

We see similar technology migration trends in Smart Edge Platforms revenue group which lead to higher blended ASP and revenue growth in spite of the recent market softening. We expect revenues from WiFi 6, 5G thin modem, 5G tablet, 10GPON and 4K smart TV to grow strongly in 2022.

Moreover, we continue to expand market shares globally through global telecom operators, PC OEMs, automotive and ASIC customers this year.

With technology migrations and market share expansions, we expect Smart Edge Platforms to grow strongly and contribute the largest revenue growth for us this year.

Now moving on to Power IC, it accounted for 8% of total revenue in the first quarter and grew 52% from last year and 21% sequentially. Revenue grew across multiple usages in the first quarter.

For this year, we expect demand for power IC solutions from 5G and WiFi 6 migrations as well as our growing businesses in fast charging, automotive and industrial related applications to keep our business robust.

Looking into the second quarter, we expect all three revenue groups to grow sequentially with mobile phone growing the strongest, thanks to the ramp of our flagship and high-end Dimensity 9000, 8100 and 8000 products. Robust 4G demand and growing WiFi business also support company growth.

We expect our second quarter revenue to be in the range of NT\$ 147 billion dollars to NT\$ 157 billion dollars, up 3% to 10% sequentially, and up 17% to 25% year-over-year at a forecasted exchange rate of 28.5 NT dollars to 1 US dollar. Gross margin is forecasted at 49%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 24%, plus or minus 2 percentage points.

In summary, MediaTek is now in a very strong global market position backed by our leading and broad product portfolio, which enables us to better deal with competition and market uncertainties. Our strategies of 5G, WiFi 6, 10GPON and 4K smart TV product migrations, geographic expansion with global customers and penetration into high-end and flagship segments lead us to ample growth opportunities. We believe we are on the right track towards our 2022 revenue growth target of 20%, gross margin target of 48% to 50% and 3-year revenue CAGR target of mid-teens%.

Finally, let me add a comment on our cash dividend. Our Board has approved a proposal for cash dividend of NT\$73 per share, which represents a total amount of NT\$117bn returned to shareholders. With our solid business outlook and cash dividend program, we remain committed to create value to shareholders.

This concludes my prepared comments, thank you.

### *[Q&A]*

#### **Q - Randy Abrams, Credit Suisse**

Thank you. A good result showing good resilience as well. My first question I wanted to ask on the outlook. First on the gross margin where you reported above 50%, so congratulations. For the guidance back to 49% at the midpoint, is that just to reflect conservatism to keep it back to the range we've targeted for the year or do you see a little bit of sequential margin coming down?

#### **A - Dr. Rick Tsai, CEO**

Randy, I think that actually is mainly reflective of the fact, as you know, last year, especially starting from fourth quarter, a lot of vendors started increasing their price basically increased the cost to us. And on average side, I think gradually those higher cost inventory will blend in into our inventory. So you're going to see on cost side will slightly increase basically is due to the cost increase.

#### **Q - Randy Abrams, Credit Suisse**

Okay, but it sounds like still confident on 48% to 50% for the year. So a little bit of a cost impact. I wanted to ask on the pricing given you factored a slower market demand for units. I think two sides to it. The inventory balance moved up again, just how you're feeling on your inventory levels? And in a slower market, what's the expectation for pricing? Do you still see with the flagship and improvement on different tiers, the ASPs on a blended holding up? And then how do you see like-for-like pricing over the next few quarters?

#### **A – David Ku, CFO**

Randy, why don't I commenting about the inventory first and I'll have Dr. Tsai to talk about the competition. I think long story short, I guess right now due to the disturbance and also a lot of moving factors, for example, the COVID situation still somehow impact the supply chain. So overall, I think from our customer side, we do see actually, they're trying to keep certain inventory reserve.

And move back to our own end, on the MediaTek side, I think if you're judging from the DoI, days of inventory, we do believe actually the normal days, okay, "normal days" may be in the range of 90 days plus-minus. But consider the current supply chain situation, including COVID disruption I talked about earlier, and also the overall, the foundry/OSAT capacity and also the cost consideration, I think strategically, starting from fourth quarter last year, we do build a little bit inventory. So now you see our days of inventories around 100 days.

But we do see actually that will gradually coming down slightly starting from Q2. So we see the inventory level on hand and overall is healthy. So I think that's on the inventory side. And I probably should hand to Dr. Tsai for the second part of the question.

**A - Dr. Rick Tsai, CEO**

Randy, I think the pricing, especially associated with competition, has been raised as a question for us. So I'd like to make a few comments on that front. I have a few points to make. Number one, in principle, we do not believe a race to the bottom is a good or effective strategy. We do not believe race to a bottom is a good or effective strategy. I think that's our principal. And then our target, the management's target, is to manage our profitability so that we can continue to invest heavily for our future growth. So the management's job is to maintain our profitability, hopefully in turn to continue to invest. We will not kind of pull back from investing for the future. And number three, I think the pricing strategy, well, in this market environment, does not really generate much incremental demand. It is the, I think that's usually the case. And given, as David just mentioned, given the current semiconductor supply chain situation, we, if anything, we will be more disciplined in product mix management and our pricing strategy, to leverage our valuable capacity.

So we believe in, I guess, in conclusion, we believe strongly that MediaTek now is in a very different global market position, especially compared to the past cycles against our competition. We will manage our profitability, as I said, so that we can continue investing. We will protect our company's values. Thank you.

**Q - Sunny Lin, UBS**

Hi, thank you for taking my questions. Congrats on the strong results and good guidance. My first question is on your market share for 5G. If we recall back in 4G, MediaTek had a 40% market share in your addressable market when the technology became more mature in later years. Now any views on how much shares you'll be able to get in 5G as your competitor supply starts to normalize into second half of the year and 2023? Thank you.

**A – David Ku, CFO**

I think overall the market share, as you guys can see from a lot of public information, especially from the volume share perspective, I think we're doing pretty good both in China and also in the global

market. Based on our strong market position, and more importantly with our very strong product portfolio across all sectors, which including entry level, mainstream also the, and also right now the flagship, we do have strong confidence to maintain the current market share, and maybe even to manage to increase market share for the flagship. Because in the past we were in the very low market share situation.

**Q - Sunny Lin, UBS**

Got it. And so my second question is also on the pricing side. So now looking at 5G SoC pricing, although it's already in the third year of introduction, is still at a meaningful premium over 4G and so that's probably being supported by the supply chain tightness. And so now as the supply gradually improves, what's your expectation on how that price premium may evolve next two to three years?

**A – David Ku, CFO**

Well, first of all, I probably need to clarify that 5G carry much higher ASP is actually mainly due to the technology migration, not due to the supply chain tightness. Because you can judge from the gross margin, if it is due to the supply chain tightness, maybe you will see the gross margins increase substantially, but in the last few year, we gradually increased our gross margin, mainly due to the product mix increase rather than the supply tightness.

And also I think in the last few quarters, we kind of talking about our pricing, in general is strategic rather than is opportunistic. So we didn't really just increase price spontaneously due to the supply chain situation. So I want to clarify that. So again, because of that, I think 5G ASP versus 4G ASP is still a huge difference. I won't say premium, because after all we're using more wafer, because the circuit and also the technology is just very different. So we do believe the gap between, the ASP gap between 5G and 4G is probably going to stay there, unless someone can have come out totally different design. But in the near term, I guess, no one can get the thesis.

**Q - Sunny Lin, UBS**

Got it. Thank you. That's very helpful. Maybe a quick follow-up. So in terms of supply, are you seeing any improvement on the foundry side for next couple of quarters and any expectation for the foundry cost increase?

**A - Dr. Rick Tsai, CEO**

We believe foundry, especially leading-edge process foundry capacity remains tight, especially our, or actually our only major foundry source. But as they reported, they are also facing supply chain constraints. Saying all that, but it's also important to point out that despite the tightness of the leading-edge process capacity, we are getting I think I would say a right amount of supply that we can meet our customer requirements in general. As to the matured technology capacity, I think situation is probably somewhat different from the leading-edge. We feel also rather, reasonably comfortable with the matured technology supply also. Thank you.

**Q - Laura Chen, KGI**

Hi, thank you for taking my question. My first question is about that we've seen that MediaTek already have a very great progress not only in 5G but also in the non-smartphone businesses such as

networking and the connectivity. So I'm just wondering that if there is any plan for MediaTek in computing or PC business or even like PC peripheral like interface. Can you help us to have more color on MediaTek's plan in the PC or peripheral space? That's my first question. Thanks.

**A - Dr. Rick Tsai, CEO**

Okay. First, MediaTek is now in the PC business, mostly through the Chromebook sector. We do have, we believe, very strong technology capabilities from CPU, GPU as well as multimedia, et cetera, to play a significant role in the computing area. Saying all that, we are not a big player right now in that space. It is our intention to move into that space as we have greatly improved, enhanced our computing capability over the past several years. So yes, indeed we are progressing into that space. As to the peripherals, we are still looking at it. The size of the market is quite different from the mainstream PC so we are first looking at the sizable market first. Thank you.

**Q - Laura Chen, KGI**

So what kind of the products we may expect to come out from MediaTek in the following like one or two years, just like from those application processors for Chromebook? I'm also wondering that if we're planning have like combo solution for like WiFi plus some interface connectivity for PC peripheral? Or can you give us some more color on what kind of products we are aiming for?

**A – David Ku, CFO**

Laura, I think, first of all, I think, in addition to what you're talking about, I think for the peripheral, I think right now at least for WiFi, those for WiFi 5 and WiFi 6 and also for PMIC, already, actually have quite a good exposure on the PC side already. If your question is specifically talking about, say high speed interface, right now it's actually not our focus yet.

**Q - Laura Chen, KGI**

Okay, very clear. And actually my second question is also about the power management IC. I think Rick already mentioned that we see very strong 22% year-on-year growth in Q1. So I'm just wondering that could you give us more details on the application breakdown? And given what we see recent some macro uncertainties, do you also see more softness in the power management IC order flow? Thanks.

**A - Dr. Rick Tsai, CEO**

Well, Laura, our power IC business actually covers, as you can imagine, covers a really wide range of applications. The base of course, with the, yes in the area of PC, in the displays, monitor displays, and also smartphones, those are our obviously largest area. But as time goes on, I think as we reported before, last time and this time also, we are also moving into automotive and industrial applications, which already comprise about 10% of power IC's revenue. And going forward, the objective is to move upward into higher compute-intensive applications so that we can have even better growth and better margin. I think you also asked demand, demand, it is, we are seeing also some impact. But I think given the last 2 years, our power IC business has done a very good job in upgrading their capability and their customer mix, so we are seeing the first quarter results demonstrate the progress they have made, and we believe this progress will continue throughout the year in 2022. Thank you.

**Q - Charlie Chan, Morgan Stanley**

Thanks. Hi, Rick, David and also Jessie. Good afternoon. So my first question is also about the pricing strategy. So I understand company's strategy, totally makes sense, right? But even you want to keep that discipline, but if your competitor is not, what would you react? So for example if your competitor starts to compromise and what would be your reaction? And also, I mean now your customers could be suffering, I don't know, but for your customers come to you that we have a big pressure in terms of margin and profitability, et cetera, how are you going to communicate with your customers in this situation? Thank you.

**A – David Ku, CFO**

Charlie, I think for pricing, we will not be able to comment about any move from our competitors because after all that's their strategy. But I think from our perspective, even though we center round about the pricing, to be honest, I think people kind of try to understand how do we respond on the competition. And from our perspective, most important part in the competition is really starting from our technology and product portfolio, and overall, the relative market position.

Like our CEO talking about earlier, this time around compared to the previous few cycle, I understand when talked to some analysts, some investors, people kind of have a sour taste from in the past for the cycle, or downcycle to be precise. But this time around, when you think about MediaTek, the product portfolio, the revenue, the size of the revenue, the timing of our launch of our product, taking 5G for example, taking WiFi 6 for example, even we announced about WiFi 7 for example, I think overall we have a lot of tools in the competition. Pricing is still part of that, arguably not going to be a major part of that, so we want to make sure we fully leverage our advantage, which is product and technology and product portfolio, really not the only thing focusing on one single tool. I think that's probably the better way to look at this.

**Q - Charlie Chan, Morgan Stanley**

I see. Thank you. Yeah, so I think the product portfolio, I think that is also very important. So instead of cutting the price, why not just introduce kind of a lower cost new 5G entry products? So that your customers and probably the Company can also both benefit from this introduction. Any plan for the like a low-end or new entry 5G SoC?

**A - Dr. Rick Tsai, CEO**

That's a very good point. We do have, as we said earlier and many times, we are, we have a complete portfolio for 5G SoC which covers from, all the way from flagship/high-end/mid-end/entry, and we are going to have also, I would say, well, entry level SoC as we believe the penetration of the 5G into the smartphone will continue to increase and, for different market, different region, different segment or product, and MediaTek is there, and will be there to support all those different demand. So we are working on that and we will announce that in right time.

**Q - Charlie Chan, Morgan Stanley**

Okay. Rick did you say at the end of the year?

**A - Dr. Rick Tsai, CEO**

No, I said at the right time.

**Q - Charlie Chan, Morgan Stanley**

Okay, so just at the right time. So one way I kind of think about these questions is really 5G SoC in terms of BOM cost, right? For example, I think \$100 5G SoC is probably good for \$500 5G phones, right? So if the price points need to go to like \$200 or even \$150 so maybe this time you have to do this. So do you have any kind of plan that the price point of 5G, like when will that gets to like, for example, \$150? And what kind of chip price will be required to address the demand of the \$150 5G smartphone?

**A - Dr. Rick Tsai, CEO**

I think Charlie, you're trying to pin down smartphone price solely on the SoC chip cost. I would agree it is mainly, even a significant factor, but definitely not the only factor. There are many factors, if you look at the bottom of the phone, or the display, or the memory, all those things. So what I can say is, we are working on, I just don't remember the date, but I don't think, we're not talking about very far away in the future, we are talking about something that we can announce not in too far future. We will be able to provide a good quality, good performance but reasonably priced SoC to our customers. And it's really up to them to put together cost effective and be beneficial to, maybe a certain market segment and certain users. So I really cannot answer your question about what price point, because it is not in our control.

**Q - Charlie Chan, Morgan Stanley**

I see. So just one clarification. It's not a full question just a clarification. So you mentioned about the 20% revenue target. Last time you talked about more than 20%. Is there any tone change or just getting into too much detail?

**A – David Ku, CFO**

Well, I think Charlie, last time and this time around, I think we talk about the same. We said 20% plus, I think that's the same. We didn't really change. But we're also kind of talking about the overall uncertainties out there, we understand that too.

**Q - Gokul Hariharan, JPMorgan**

Yeah, hi, thanks for taking my question. I want to first start with the Smart Edge area and WiFi 6, seems to be the primary growth driver in the last 12 to 18 months. Could you talk a little bit about what you see on WiFi replacement cycles? Because historically if you think about past WiFi replacement cycles, we've seen about 4 to 5 years before a new WiFi generation kind of comes online and becomes mainstream. Obviously, WiFi 6 has been a pretty quick adoption curve, but we are also, I think industry is also talking about WiFi 7, MediaTek also start to talk about it. So could you talk a little bit about when do you, what do you think about WiFi replacement cycle? Is it the once in 5 to 6 years kind of cycle or do you think that this is accelerating that to the extent that we get consistent product upgrade and ASP upgrade every 2, 3 years for your WiFi product portfolio?

**A - Dr. Rick Tsai, CEO**

We are also watching this trend. I think, qualitatively, at least we believe the cycle, I should say, the cycle actually lasts now shorter than the previous generations of WiFi, that is for WiFi 4 to 5, 5 to 6.

And 6 to 7, probably, it's getting sooner for the, for people, for the users to move to the next generation WiFi. We cannot say, I think you mentioned 2 to 3 years, I think that's probably too short. But it is, we are seeing the migration to WiFi 6 from WiFi 5 is definitely sooner than what we have seen from 4 to 5.

And the way we are, as you know, we have announced our WiFi 7 capability back in early this year. We have the response, we have received from the customers and the different applications, frankly it's stronger than we expected. Of course, in many ways, it also reflects MediaTek's progress, the effort in upgrading our WiFi technology capability at a much faster rate compared to our, a few years ago. And we also move into almost all applications from higher-end to notebook, to our traditional routers and consumer devices. So for, at least for MediaTek, what I can say is, yes, the cycle moves faster from 4 to 5, 5 to 6, hopefully to 7 also. Thank you.

**Q - Gokul Hariharan, JPMorgan**

Understood. Thank you very much. And second question is on the 5G. I think thanks to Dr. Tsai for outlining your pricing approach, pricing strategy. But could you talk a little bit about, I think your competitor has talked about gaining share over the next three years in the android addressable market, which is essentially the market that you both compete it. And if they become more aggressive, do you plan on responding on price or you're happy to cede some share to keep margins intact given as you mentioned, there is not much incremental demand enough to drop prices? And I think previously, I think couple of quarters back we had indicated that 5G ASP in 2022 will be largely flattish compared to 2021. Is that the statement that still holds given the current market environment?

**A – David Ku, CFO**

Well, Gokul, first of all, I think for the 5G pricing, I think the statement still holds, at least for 2022 based on what we see. I think that's still in line. When you're talking about, again I think earlier there were several questions asking the same question. I think people still were kind of worried or concerned or try to wondering how to respond to the competition. It just come out maybe from different format, I mean you come off from the way, say, a competitor may be more aggressive, some others may be talking about now they don't have like the supply constraint situation. But overall, regardless of what's the rationale, basically you guys are all talking about competition. But we're also trying to highlight that in the last product cycle, which is the 4G, there is no constraint on the supply, there is no short of aggressiveness, but we still managed to do a pretty good job on the 4G gaining market share, and more importantly growing the profitability. So we know how to compete basically. And we don't have a crystal ball to tell you in three years, what happens from now. But we can reassure you the portfolio we have right now is actually much, much better and stronger compared to our last 4G cycle.

Again, every one of you or some of you, actually many of you, 2 years ago still worried about whether or not we will be behind on the 5G product portfolio, if you still recall in the last 2 years' question. But after 2 years, we not just didn't behind, we're actually in the first wave of 5G. We gained a pretty good market share of all product segments. And right now, once we get into the flagship, that's the Holy Grail of the 5G smartphone, we actually, even though market share wise actually we are still small, but the market perception and also market feedback, is all public information you can get on the Internet

to check the comparison for the Dimensity 9000, they are all very positive. So again, when we are facing competition, the bottom line is for the technology and product portfolio, and we have certain confidence, very strong confidence, I should say.

**Q - Gokul Hariharan, JPMorgan**

Got it, thanks. Thanks very much David. One last question is, if any impact to your Q2 guidance due to the China lockdowns and factory and logistics issues like, is there any, anything that you had to discount in your Q2 guidance because of that?

**A - Dr. Rick Tsai, CEO**

I think the, you all know our exposure like the smartphone, and we have taken into account China market, domestic market I should say, China domestic market to the mobile phone 4G and 5G impact. So we, on the other hand, we believe outside of the China market will grow quite well this year in 5G and we are, I think our product portfolio works really well with every major Android phone makers, every major Android phone makers. And you can see it, for instance, our market expansion results in, for instance, North America that demonstrates our capability, our product portfolio's capability.

**Q - Bruce Lu, Goldman Sachs**

Okay, thank you for taking my question. I think the investors' concern is definitely for the China smartphone end demand given the recent lockdown and deterioration and demand. So what is the, what is your assumption for the overall China smartphone shipment? And also, what, we also understand that you have a very good progress outside of China, can you share your revenue exposure from China within the smartphone business? Also do you expect the US smartphone shipment to grow in 2022? Will your 5G smartphone shipment more than 4G anytime any quarter in this year? Something like that will be very helpful to relieve or to ease investors' concern. Thank you.

**A – David Ku, CFO**

Bruce, why don't I start with our view about the China smartphone market. I think our view remain the same. Earlier this year when we giving out the 20% growth target, we kind of expect China will be either flattish or maybe even coming down a little bit, we were talking about the China domestic smartphone market. Right now, we share the same view. But maybe the decline trend is slightly larger than our earlier expectation. I think that's assumption.

And also this time around, we also revised our assumption of global smartphone shipment, like the CEO explained earlier. Earlier our assumption would be, global would be flattish to up a little bit, now actually it's flattish or down a little bit. But something we didn't change is our view about the 5G penetration rate ratio. I think this year we believe it's still going to be 50%. So if you do the math, basically the overall 5G addressable market coming down slightly. Originally, we were looking for globally 700 million smartphone, 5G smartphones, but now we're talking about maybe 660, 680. And if you apply to our market share, which is in line with what we talked about earlier, actually, the impact is actually manageable and plus very mildly.

We also, in our earlier statement, we were also talking about one very important message. I think for the smart edge platform is, also has very strong growth and we're even talking about we, in the

statement earlier, say, smart edge platform provides the strongest growth among all other sectors. I think this is actually, if you piece these altogether, that should give you why we still feel comfortable about our growth target right now.

For the 5G/4G breakdown, I think 5G right now, it's actually is, definitely is the largest, basically, especially from the revenue contribution perspective compared to 4G.

**Q - Bruce Lu, Goldman Sachs**

How about the shipment wise, can you separate the 5/4G shipment anytime, in this year?

**A – David Ku, CFO**

We didn't really disclose specific 4/5G shipment, unfortunately.

**Q - Bruce Lu, Goldman Sachs**

I see. But I tried to dig in a little bit for your China overall smartphone shipment. You said that maybe the smartphone in China will decline more than low single-digit. I would say that I think the investor expectation now is a lot bigger than that, maybe that's the discrepancy between investors' expectation and the Company's guidance. Do you, can you share a little bit more color that, how can you have this, how can you so confident that the smartphone shipment in China will only declined by mid to high single digit?

**A – David Ku, CFO**

First of all, of course we didn't talk about China will decline only mid to high single, that is not what we said, okay.

**Q - Bruce Lu, Goldman Sachs**

I see. Understand okay. Then, let me move on for a longer-term question. I mean can you share more color about the multi-year revenue growth outlook especially coming from the smartphone business? 5G smartphone penetration rate will reach 50% based on company's guidance. It looks like the device penetration rate outgrows the infrastructure investment. Do we expect the 5G smartphone growth, 5G penetration rate will slow down meaningfully moving forward? What is the assumption when you provide the teens revenue growth for the next 2, 3 years?

**A - Dr. Rick Tsai, CEO**

I think 5G growth in the coming to 2 years, I don't know, I cannot say for sure, or 3 years, will remain as we projected. By now it's about 50% penetration, I think, we believe a 70% penetration of 5G is what we're looking at. And we just had a review, for instance, the other day, of different markets. We understand China domestic market very well, we know how they're doing, what they're doing. We also understand the difficulty the China domestic market is going through. However, we have to look at the Indian market. And if you look at the Indian market, 5G conversion rate is quite impressive. So we just, we fully understand the saturation of the 5G market in China domestically. We also, and that's why we are also, we're working very closely, very well with all Android phone makers, so that we have the largest market share not only in China, but also in the global market outside of China. Thank you.

**Q - Bruce Lu, Goldman Sachs**

Can I double check that you just mentioned that the penetration rate for 5G will reach like 70% in two years? Based on this assumption you can achieve teens growth in the coming two years. Is that the right assumption?

**A - Dr. Rick Tsai, CEO**

I think Bruce, our growth going forward, of course, cannot be dependent on 5G only. That's why I think we have said many times, for instance, today also, smartphone occupies, mobile occupies about 53% of our revenue, which brings 47% revenue coming from a very different segment. And our 47% revenue comes from basically not relating to mobile phone revenue, not related. So this 47% of the revenue, as we have also invested, WiFi is just a good example, will also provide our growth momentum going forward. And that's why we, we also work on many different new segments that we need to go in, so that we can generate the mid-teens CAGR for the next 3 to 5 years growth. Thank you.

**Q - Brett Simpson, Arete Research**

Yeah, thanks very much. Rick, I wanted to maybe just dig in a little more on the China smartphone setup that you see in Q2 and particularly into the second half of this year. I guess we can all see there has been softness and domestically with Chinese smartphone vendors. I think also the export business has been impacted because of their quarantining policies et cetera and it lost share to Apple and particularly Samsung so far. So I'm just, given that backdrop, what makes you so confident that you'll sort of playing out as you expected that there's nothing really changing? And do you think Chinese smartphone vendors are kind of building inventory, so they are not really cutting back, but they want to have supply so they can react to any recovery post lockdown? Just any perspective you can share with us on how you see that side of the business, particularly into the second half. Thank you.

**A - Dr. Rick Tsai, CEO**

Alright Brett, I guess I want to make sure I can clarify a few points. Number one, we recognize that the smartphone shipment is down compared to what we believed a quarter ago. We said that clearly in our opening statement. And of course, along with the 5G shipment, especially in China, but we didn't say specifically how much China domestic market demand is going down. Number two, but we also said 5G shipment in 2022 should be, will be about 30% higher compared to 2021, 5G smartphone shipment. So I guess, you guys have a lot of data, just like we do, you can figure out how much from China domestic market, how much from overseas market, well, I shouldn't say overseas market, the global market outside of China.

You also mentioned, I think the third point, you're dividing the suppliers, smartphone suppliers into 3 categories: China suppliers, Apple and Samsung. I think you also understand well, the market positioning of the iPhones. They are very much into high-end to very high-end. And you can also, I'm sure, calculate their penetration in different developed economies and in the developing economies. As I cannot comment specifically on the other 2 categories you mentioned, but I did say, we did say, we are expanding in our market share across the global markets, different regions. And we are working closely, and we are working well with all Android phone makers. We can say that very clearly, and I

think, I'm sure you can induce from those statements, why we are saying what we are saying. Thank you.

**Q - Brett Simpson, Arete Research**

Rick, that's very helpful. Maybe just a sort of a macro question, just to get your perspective on the squeeze that sort of underway in consumer disposable income. I mean, I guess with rate rises and food inflation, energy prices all going up, many investors are now talking about downturn in consumer semis ahead, maybe it's 2023, I don't know. But what's your perspective? I mean, particularly given your high exposure, MediaTek's higher exposure to consumer and all the cycles you've been through in your career, how do you assess the landscape at the moment and the sort of cyclical risks around the businesses or semis more broadly?

**A - Dr. Rick Tsai, CEO**

You certainly are right, Brett, that the macro environment being, I would say, yes, severe. We recognize that fully. And when you run a business, you have to run on certain assumptions, and you try to read as much as you can about what the economists forecast about whether there will be a hard landing, soft landing, et cetera. And we're basing our current forecast on, I think, basically, there is no, at least no imminent recession in 2022. I am not an economist, not to mention a macroeconomist. But going forward, whether there is a risk of recession, your guess is good as mine. But you're also right, we have, at least I have gone through several cycles, especially in the semiconductor business. We do know how to manage the cycles as much as painful as it can be. But running a business, you have always absolute measure and a relative measure. In the very down cycle, yes it happens, I stress, yes it happens, the relative performance is critical. And I can assure you, MediaTek will be a resilient performer. Despite you're saying that, we have high consumer exposure, yes, we do, but the other lesson we have learned over the years, nobody can escape from a major cycle, nobody. No matter which area you're in, in this industry. So it's important, the important thing is to be, to stay resilient to manage the cycle. I hope that's useful. Thank you.

**-End of Q&A session-**