MediaTek 2Q24 Earnings Call

Wednesday, July 31, 2024, 3:00pm Taiwan Time

PREPARED REMARKS

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 second 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 second quarter financial results.

David Ku, Chief Financial Officer

Now let's start with the 2024 second quarter financial results. The currency used here is NT dollar. Revenue for the quarter was NT$127.3 billion dollars, down 4.6% sequentially, and up 29.7% year-over-year.

Gross margin for the quarter was 48.8%, down 3.6 percentage point from the previous quarter, and up 1.3 percentage point from the year-ago quarter. The quarter over quarter change in gross margin was mainly attributed to a one-time in the first quarter. Excluding the one-time item, our second quarter gross margin improved from 47.9% in the first quarter to 48.8% in the second quarter.

Operating expenses for the quarter were NT$37.2 billion dollars, compared with NT$37.7 billion dollars in the previous quarter and NT$31.9 billion dollars in the year-ago quarter.

Operating income for the quarter was NT$25 billion dollars, down 22.4% sequentially and up 69.2% year over year. Non-TIFRS operating income for the quarter was NT$25.3 billion dollars.

Operating margin for the quarter was 19.6%, down 4.5 percentage points in the previous quarter and up 4.6 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 19.9%.

Net income for the quarter was NT$26 billion, down 18% sequentially and up 62% year-over-year. Non-TIFRS net income for the quarter was NT$26.2 billion dollars.

Net profit margin for the quarter was 20.4%, decreased 3.3 percentage points from the previous quarter and increased 4.1 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 20.6%.

EPS for the quarter was NT$16.19 dollars, down from NT$19.85 dollars in the previous quarter and up from NT$10.07 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$16.36 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 has delivered solid second quarter results with revenue of NT$127.3 billion dollars coming in at around the mid-point of the guidance range and gross margin of 48.8% exceeding the high-end of the guidance range due to a better product mix.

For the first half of the year, our revenue registered NT$260.7 billion dollars, which grew 35% year-over-year, driven by increasing adoptions of 5G, WiFi 7 and AI across products. MediaTek's commitment to technology leadership and strong execution has strengthened our global position and facilitated our strategic expansions to capture opportunities for the mid- to long-term growth.

For example, numerous opportunities are fueled by the AI megatrend, which is unfolding rapidly both at the edge and in the cloud. For data center companies, there are strong needs to customize chips in order to minimize total cost of ownership. We are able to address their needs through our flexible ASIC business model by providing our leading 112G and 224G SerDes IPs, on top of our strong capabilities in complex IC integration, advanced process nodes and advanced packaging. Equipped with those key capabilities, we are actively in discussions for more AI accelerators and Arm-based CPUs opportunities.

At the edge, we also recognize industry's needs to lower inference cost and energy consumed to connect between cloud and edge, as well as users' needs for better privacy and improved latency. We believe these trends will support robust demand for a broad base of AI-capable edge computing devices such as smartphone, laptop, tablet, automotive, robot, etc.

MediaTek has the world's broadest footprint in edge devices, and coupled with our leading-edge computing SoCs, we are the perfect partner for edge computing players. Today, our advanced 3nm SoCs

can support applications across smartphone, tablet, automotive and more. Our SoCs all integrate MediaTek's powerful and power-efficient NPU – a processor dedicated for AI tasks at the edge. Furthermore, we closely work with all the popular large language model providers with easy-to-use toolkits, such as our NeuroPilot, to enable AI applications including AI agents and a variety of productivity enhancement tools. The demand for more powerful edge computing SoCs and a shortened replacement cycle certainly strengthen our business outlook.

We're excited about the growing business opportunities for the mid- to long-term and will continue to invest strategically and work with global partners to bring advanced and leading products to customers.

With that, now let me talk about the recent business performance of our three revenue groups.

Mobile Phone accounted for 54% of total revenue in the second quarter, growing 52% year-over-year and declining 15% sequentially.

In the third quarter, we see healthy demand for our 4G SoCs from emerging markets, offset by a decline in our 5G SoCs. We expect our mobile business to be sequentially flattish in the third quarter.

We continue to expect full-year smartphone market to grow low-single digit% in shipments while global 5G penetration rate is on track to reach low-60%.

MediaTek continues to lead smartphone market with leading products empowering smartphones across all segments. In the flagship segment, our Dimensity 9300 enabled several 5G AI smartphones this year. The highly anticipated Dimensity 9400, which will be our next flagship SoC, is expected to hit the market in October. Our Dimensity 9400 utilizes the industry's most advanced 3nm process and ARM's most powerful v9 core with MediaTek's proprietary All-Big-Core architecture, to deliver substantial enhancements in both performance and power efficiency. Moreover, Dimensity 9400 is further optimized for Gen AI functions. We see ecosystem players aggressively developing Gen AI features, which could be catalysts to shorten smartphone replacement cycle in the future.

We have received very positive customer feedback on Dimensity 9400. Compared with Dimensity 9300, there are more model adoptions in the first wave of Dimensity 9400 customers. We're confident to deliver flagship revenue growth of more than 50% in 2024.

Now let me move on to Smart Edge Platforms. This group grew 11% year-over-year and grew 12% sequentially in the second quarter, accounting for 40% of total revenue.

During the second quarter, our strategic wireless and wired connectivity solutions including WiFi 7 and 10GPON continued to secure more project awards among operators in Europe and the US. Besides, product mix of our computing devices such as tablet was further enhanced due to increasing adoptions of Gen AI SoCs.

For the third quarter, we expect Smart Edge Platforms revenue to remain flattish. Connectivity is expected to be flattish quarter-over-quarter. Computing and ASIC related applications are expected to

grow moderately, offset by a decline in TV following customers' pull-in for global sports events in the first half of the year.

With a broad base of product offerings in Smart Edge Platforms, we are confident that we will continue to elevate our overall value proposition to customers via continuous technology advancements and global market expansions.

Now moving on to Power IC. Power IC accounted for 6% of total revenue in the second quarter, growing 9% year-over-year and growing 12% quarter-over-quarter. The growth was mainly driven by seasonal demand for most of the major platforms in the second quarter. We expect a moderate growth for the business in the third quarter.

For the third quarter, we expect our revenue to be flattish across all three revenue groups to reflect a stable market demand.

With that, we expect our third quarter revenue to be in the range of NT$ 123.5 billion dollars to NT$132.4 billion dollars, down 3% to up 4% sequentially, and up 12% to 20% year-over-year at a forecasted exchange rate of 32.3 NT dollars to 1 US dollar. Gross margin is forecasted at 47%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 30%, plus or minus 2 percentage points.

For 2024 full year, our financial targets remain unchanged. Revenue in US dollar is expected to grow in mid-teens % and gross margin excluding one-time items to be between 46% and 48%. With that, we reiterate our confidence in our mid- to long-term strategy. We are well-positioned in the AI megatrend for both cloud and edge. Our new projects are tracking well to contribute revenue from the second half of 2025 with 2024 being the beginning of our next growth phase. Thank you.

[Q&A]

Q – Laura Chen, Citi

Thank you for taking my question. My first question is about demand outlook. We know that actually MediaTek delivered quite a decent result for the first half. And if you look at the first half and also considering that Q2, even like a moderate revenue growth, for the full year outlook, Rick, you just mentioned you still maintain the full year guidance, do you see that any uncertainties ahead into Q4, given the demand outlook and also since we are launching the most high end Dimensity 9400 series, the performance seems to be quite good, and also we know that definitely will get a lot of attraction.

So we're just wondering that for the second half, in terms of the product mix, how would that impact our revenue outlook? And also, since we already deliver -- even without the onetime effect for Q2, the gross margin is also quite decent, so just wondering in terms of the revenue outlook and also the margin trends, how would the product mix further impact our financial results? That's my first question. Thank you.

A - Dr. Rick Tsai, CEO

Okay. Thank you. Yes, I think basically the first half revenue is out and we just gave the third quarter guidance. For fourth quarter there's a thing I want to make clear is basically we believe now into the second half or maybe second quarter of this year, we're now moving into a more normal pattern in terms of the seasonality.

Pandemic during -- I mean we're going back quite a bit, but basicly pandemic really has caused major stir in the supply, demand, and the inventory situation, either inventory buildup, inventory depletion, or than the restocking. Even after about six quarters of the end of the pandemic, we went through those fairly abnormal patterns. And we believe now that now we're in the second half of 2024, the patterns really -- seasonal pattern is getting more like, shall we say, before the pandemic years.

So fourth quarter, basically as you know, represents -- mainly depending on most of the products in the consumer area, low quarter after usually a more robust third quarter. Most people have prepared for the holiday season in the US or in China, like double eleven festivals, have prepared their inventory back in second quarter and third quarter.

So the fourth quarter basically followed that pattern in general, other than the 4G -- I'm sorry, the 9400 flagship announcement which of course will bring up trend from that point of view. But overall, if you look at our total revenue and the total portfolio as in 4G -- I'm sorry again, fourth quarter, in our current forecast, represents a lower quarter, fourth quarter. And so we are now maintaining our outlook for the whole year as a result.

As to the gross margin -- we remain our forecast for quite a while, we expect to meet between 46% and 48%, going forward also. Thank you.

Q – Laura Chen, Citi

Okay, thank you very much. That's very clear. And also, can you give us more update about the current ASIC business progress? I recall that last time, Rick you mentioned we probably will see the contribution starting from the second half of 2025, it’s still the target? And other than the AI accelerators, do we also have other opportunities like a CPU or any other different type of ASIC business? Thank you.

A - Dr. Rick Tsai, CEO

Okay, ASIC business execution is going well, quite well, and our forecast remains on track for the second half of 2025 revenue, albeit, of course that will be at the beginning of that ASIC business.

And as I think stated back in early June during the Computex talk, we are definitely moving into AI accelerator and with the CPU when needed. I mean it's really, if you look at -- basically this business is very customer specific. Different customers have different kind of architecture, shall we say. So Mediatek, the important thing for us is we have the capability both in all the IPs, from computing, CPU, GPU, NPU, and the interconnect expertise, process and advanced packaging. And most importantly we have built strong relationship and partnership with the ecosystem players. So we are, in addition to the current ASIC business, which is in execution, we are working toward more opportunities which will

present itself, I hope in the next few years. I remain very optimistic, and we are investing also heavily and strategically in this area of the business opportunities. Thank you.

Q - Brett Simpson, Arete Research

Rick. I wanted to ask, on the smartphone business, it sounds like 5G sales are going to bottom out from MediaTek in Q3, which is unusual because normally seasonality is quite strong for MediaTek in Q3. So can you maybe just sort of frame this in terms of how much is Q3 being dampened by industry clearing inventory ahead of an AI product cycle?

And how should we think about Q4? Because you have obviously a big product cycle ramp with the 9400 coming, how should we anticipate Q4? Is it going to be a period where you see a big channel fill? Any color would be very helpful. Thank you.

A - Dr. Rick Tsai, CEO

Okay, Brett, as I said just now. Well first quarter -- 2024 first quarter represents the final quarter for the, so called restocking. That explains quite a bit of the fairly high revenue from quarter-over-quarter and a year-over-year point of view. After that, I think the customers are consuming some of those inventory. And basically the first order effect you see as we stated in our opening remarks is actually smartphone in 2024 is doing, in a relative sense, nicely. We expect low-single digit growth, and it is happening. And in China we are seeing also maybe about 3% growth year-over-year in 2024. We are seeing just, I think considering the smartphone overall market, we really believe this is a reasonably good year for smartphone.

The changes over the quarters are mostly from the inventory build, inventory digestion, and the flagship -- 5G flagship SoC launch cycle. If you put them all together, it's really not something we worry about, to put it frankly. We are seeing revenue being flattish in the third quarter because the customers feel -- consuming some of their inventory, but their inventory level at their hand and in the channel, their channel, I think remains fairly healthy. So that's what we're seeing. We feel reasonably good.

The thing for us is to really execute on our Dimensity 9400 launch and build a momentum to have a good growth. 2024, as I said also earlier in the flagship SoC revenue, we are very confident to exceed our 50% year-over-year growth in flagship revenue. We of course forecast higher. This momentum, we hope and expect to continue into 2025. I hope I'm answering your question, Brett. Thank you.

Q - Brett Simpson, Arete Research

Yeah, that's great perspective. Thanks Rick. And maybe just a follow on. I wanted to ask about the 9400 specifically. Can you maybe just talk about the content growth of the 9400 versus 9300? I mean, typically we would expect a 10% or 15% increase in price just given the feature sets of the 9400, particularly for AI, are quite a big jump on 9300. So what sort of content growth can we expect versus 9300?

And I wanted to ask about the non-China customer opportunity for next year. We know you've done well in China ramping flagship. Is 2025 a year where you can start to penetrate non-China customers, particularly in Korea? Thank you.

A - Dr. Rick Tsai, CEO

Okay, the content growth. Brett, I assume you first ask about the capability that we can deliver in 9400 compared to the previous generation. Basically, all the computing capabilities from CPU to GPU to, of course, especially NPUs, will increase quite a lot.

The CPU core we are using Arm's v9 core, which represents I think at least 15% and better performance jump. NPU, I think I said that, I hope I remember correctly, back in June, the NPU by itself in 9300 is delivering 48 TOPS, and for 9400, you can expect -- I don't want to steal the show in October totally, but I think you can expect, Brett, definitely 40% something increase in the NPU.

Nowadays, if you look at the trend in this AI world, NPU represents a huge element of the overall content. And MediaTek, I'm very proud and happy to say that I'm fairly sure we are leading in the NPU for the flagship SoC, both on the performance, from TOPS, and TOPS per watt point of view. This will give us really strong competitive edge, plus our effort to work with the ecosystem players in US and in China to build an ecosystem so that the GAI developers or application developers can much more easily use our capability. So Brett, I hope I answered your question.

In addition, certainly we expect ASP to increase from our previous generation. That goes without saying. As to the non-China customers, we are engaging. That's what I can say. We are having some good progress in certain devices, but I cannot really disclose more than that. We have strong confidence in our capability in our flagship SoCs.

By the way, the other thing, which is now widely publicized, is basically we are also being quite successful in expanding our flagship SoC into different segments, verticals, such as, for instance automotive and tablets and sometimes Chromebooks. And these although do not represent as high a volume as the smartphones, but they do represent very nice incremental revenue and profits. Thank you.

Q – Arthur Lai, Macquarie

Arthur Lai from Macquarie Equity Research. First, I would like to congratulate in Computex, you gave us a very great speech and my question is to follow up regarding your long-term planning. It's about MediaTek's cloud market ASIC service strategy and IP. So I recall you show a slide and talking about the service IP. Besides that, can you quantify how many important, so called essential IP we have on hand for the cloud CSP clients? That's my first question.

A - Dr. Rick Tsai, CEO

Okay, well, as I said, we in the data center AI accelerator segment, the major capabilities, the first being computing IPs, the second being the high-speed interconnect, the third and fourth are respectively leading-edge process node and really advanced, very large area packaging capabilities.

From computing, what we are seeing is through using Arm's v9 core -- and of course their following CPU cores, our capability not only to work with them and work in ourselves to build those cores into a data center specific CPU subsystem. I think we have that capability. We have done some -- we have actually, through other segments such as automotive, we have built really much higher number of core CPU subsystems.

GPUs, we have both Arm and we have partners in NVIDIA. NPU, again, as I said, we lead both in TOPS and TOPS per watt, which are the two critical factors. MediaTek has already put in seven years of investment and in each generation we have made major progress. The key of course is to scale it up to the level. And for that, our initiative in automotive aspect will actually enable us to build really high TOPS NPU capability because that's what ADAS will require.

High-speed interconnect SerDes is all homegrown, 112G, 224G. SerDes 224G is now being proven internally. We are also investing in the next generation SerDes technology capability, as well as the optical capabilities.

You know where we are pretty well as to the 3 nanometer, 2 nanometer. Of course, before we focus on mobile application, and now we are moving full speed to HPC through working – again, very, very closely with TSMC, and packaging -- also CoWoS and potentially other leading packaging capabilities. So I remain very confident and optimistic because we also are very flexible. We have advanced capabilities also with flexible business models. We want to work with our customers so they can get their more specific application, specific chips. Thank you.

Q – Arthur Lai, Macquarie

Thank you. Very clear. Can I follow up one question. On the resources part, you need a good team, right? So how many R&D engineers we are going to add globally? And roughly how much percent of team we need to -- we can internal transfer from other team? And also can we also give the global investor guidance of the R&D expense and opex trend followed by this long-term training. Thank you.

A - Dr. Rick Tsai, CEO

All right. Thank you. Good question. You sound like our board. The investment, I said we are investing strategically, heavily. There are two facets of investment from that point of view. One being, we put in definitely a new, not just headcounts, but really key talents. We're hiring and we have hired several key talents in the data center area, from architects all the way to packaging. We are certainly increasing our resources in the computing, in the computing area.

And MediaTek is very strong in executing our chips design integration. We are certainly reallocating those resources into -- which means prioritizing, into the AI related chip development. But I expect, I think our R&D now is about 22% of our revenue -- about. I expect this ratio, not to even -- as we continue to grow in our revenues, this R&D ratio will not go down. It may go up somewhat. That is kind of a dynamic as we move forward. Thank you.

Q - Gokul Hariharan, JPMorgan

Hi, good afternoon, Rick. Thanks for taking my questions. First of all, maybe ask a bit on the expanded partnership with Nvidia. Could you talk a little bit about the extent of the partnership now, especially in auto? I think we already start to see some of the signs. Also, in other areas of compute that you've talked about, that there is more coming in this area.

Related to that, could you also talk a little bit about the extent of design wins that you have secured in the automotive side, given that you have new Dimensity Auto and auto products that have launched over the last two to three months?

I think about four to five quarters ago we got an update of NT$200 million revenues from auto in 2023 and an NT$1 billion of backlog. David, any update on those numbers either on revenues for this year or for the updated backlog, given you seem to have a lot more progress on the auto side?

A - Dr. Rick Tsai, CEO

Okay, Gokul, it's a long question. Let me start with the partnership, NVIDIA partnership. Automotive partnership is executing. We are executing the first chip on track, right on track. We expect chips to be out early next year. This is a very good chip with all the computing power from NVIDIA's GPU and from our CPU and the ISPs. It's really, I would think, a very competitive chip.

In addition, we are also penetrating the automotive market with our, I said earlier, for instance, the flagship SoC or the premium SoC from our mobile business. We are making good inroads and also in China. I cannot really -- because design wins, we do have good design wins in execution. I cannot disclose them as of now. But when customers' automotive -- when they launch their cars, then we can share more, hopefully soon.

So, and again, automotive is a long-term business, takes time, we all know that. And we are -- as I said many times, we are committed, and we put in the resources, and we look forward to 2027/28 beyond time for the major fruits.

Collaboration with Nvidia, of course, goes beyond automotive -- in other areas, computing related. During the Computex time, I think I had an exchange with Jensen on the stage and we also agreed that both companies should also explore the opportunity in the data center area. And we certainly are working toward that.

A – David Ku, CFO

I can probably comment about our earlier comment both from the addressable market, the revenue target and also the backlog. I think first, for the revenue target for this year, I think we are fairly comfortable we can achieve that -- probably even with some upside, just like Rick talking about there's several new design-ins, design-wins, and also overall the shipment situation.

And due to the new design-ins, design-wins right now, I think the backlog compared to the last time is actually better. But we probably will not announce the backlog this quarter. What we're going to do actually is probably by end of this year, we're going to announce new backlog numbers. So please withhold that. And we're going to announce that next time.

Q - Gokul Hariharan, JPMorgan

Okay, that's very clear. So my second question is on the enterprise and data center ASIC. So MediaTek has been in this business for a while. I think you had some success but kind of did not come through the last time round. This time round, I think looks like better chances of success.

Rick, could you help us understand what is MediaTek's edge right now compared to the dominant market leader? It feels like that's a market leader that you are competing for many of these sockets. Just wanted to understand how is MediaTek kind of creating a niche for itself compared to this dominant player?

Also just wanted to understand, when you talked about flexibility in terms of the ASIC business, what does that actually mean? Do you mean that – is it a flexibility on profitability terms or is it a flexibility in terms of business model that you could potentially tackle different parts of the chip manufacturing and design process that the market leader may not be willing to tackle. Thank you.

A - Dr. Rick Tsai, CEO

Okay. Thank you. Yes, we've been in this market for a while, for several years. Right now, what we're seeing is a clear and large TAM going forward up to 2027/28 and beyond time. And I think everybody kind of followed a similar number, like NT$45 billion TAM in 2028, sooner maybe. And that TAM is very large. And what we are working towards -- I do not plan to repeat what I just said earlier about our capabilities to compete -- with our technical capabilities as well as our flexible business models, to grab a significant share of that TAM.

We understand the competition is strong, but this business, this TAM is big enough to have more than a couple of three major players as the customer request, basically. So I think opportunity is certainly there for us to grab. And MediaTek, as far as I can see, has one of the best -- is one of the best equipped companies to fight for that very large TAM.

Now, flexibility in terms of business model, we will not insist just only one way of doing things. It is built in our DNA that we can be -- we will be flexible while we deliver whatever we commit to deliver. And that's how we -- it's really no secret formula, I don't think. It's investment in technology capability, build partnership, provide value to our customer and execute. Thank you.

Q - Charlie Chan, Morgan Stanley

Thank you. Good afternoon, Rick, David, and Jessie. My first question is about the AI smartphone replacement cycle. Because we all see Apple introduced Apple Intelligence, looks like a great potential. So Rick, do you think your China smartphone partners can really deliver a similar level of user experience with acceptable efficiency? And when do you think they can get to that level?

Because my concern is that for China domestic, they may not be able to use Gemini nano, but if you look at Apple, they have their own foundation LLM integrated with their own iOS on processor. So I'm a little bit concerned that the integration of those stuff for China Android smartphone could be pretty challenging. Want to get your thoughts. Thank you.

A - Dr. Rick Tsai, CEO

Yes, I understand your concerns. I think your concerns, at least part of which is quite valid. However, certainly I think the China market, our customers are not sitting idle. You talk about model building, again the Llama 3 -- open-source Llama 3 is very, very good as far as we can tell, and our customers are really adopting that, of course very, very rapidly. And people -- I think in China there's no lack of model development startups and the large companies.

My view here is -- this is so new. And if you look at the offering of the applications by different -- including iOS, many of the applications are fairly similar between the different -- say AI smartphone suppliers. There may be some small differences but with our customers market share and the vast size of the China market, I remain very optimistic. I think the pie, the first thing is whether pie is big enough and there's no question that the pie is big enough. And as far as we can tell, our customers and our team are working very closely to build the ecosystem. And my feelings is that -- my understanding is that they are building applications that will not only be competitive on their own, but also very competitive in the China market. That's very large market.

Q - Charlie Chan, Morgan Stanley

Thank you. Yeah, look forward to seeing that. My second question is about your foundry costs because TSMC showed their intent probably to reflect some cost increase. And I think a couple of weeks ago, I think CC Wei said the negotiations so far so good. I'm not sure if that's really good news for your company. But first of all, do you expect the wafer price cost to go higher for next year? And secondly, how do you justify those cost increase by your foundry partner? And lastly, how would that impact to your gross margin in 2025? Can you really pass through those additional costs, if any?

A – David Ku, CFO

Charlie. David here, I think TSMC made it quite public that they're going to adjust their wafer pricing to everyone, to the industry. So you can consider that's price hike or inflation in the marketplace. So I think everyone in this industry all just having the same level. So I think that's the background. But with us, I think given this is the industry norm, so what we will do is we will definitely try to reflect the cost increase through our pricing especially with our new position to basically to the industry. So I think that's an ongoing process. But overall, I think we will reflect the industry-wide price increase back to the market. I think that's the goal.

Q - Charlie Chan, Morgan Stanley

You think 47% margin can sustain, in that case?

A – David Ku, CFO

I think for next year again, we haven't given 2025 guidance yet. But at least for this year, I think overall, 46%-48%, that was our earlier guidance, remained unchanged.

Q – Bruce Lu, Goldman Sachs

So Rick, when you talk about edge AI, you talk about NPU, a lot of IPs. But when you talk about current ASIC project, the key focus was SerDes. It seems to me that your value proposition for your edge AI and custom ASIC are a little bit different. Does that mean that your profitability is different or does that

mean that your current stage for the custom ASIC is only temporary and you're going to move into a more complimentary or is more completed solution for the custom ASIC in the future?

Or you talk about like NVIDIA collaboration, since NVIDIA doesn't want to do the custom ASIC, is it possible that you work with them for the custom ASIC for the data centers?

A - Dr. Rick Tsai, CEO

Indeed, that's why we talk not only our technical capabilities, but also our flexible business models. Again, you have to also -- of course, this data center ASIC business has been there for quite some time, but the Generative-AI-excited TAM is fairly, fairly new. And different customers, large and small, are having different needs from their own requirements or their own TCOs.

We, again, in some cases, as you said, we focus on providing leading-edge, interconnect capability together with customers' capability. But don't forget our way of working with TSMC on the leading-edge process and packaging is a very critical capability also.

But I would expect in some other cases there will be need for our other IPs. But that will be more kind of like a case-by-case basis.

Q – Bruce Lu, Goldman Sachs

But you should charge whatever you provided, right? So when you provide different service, the profitability will be different. What is your threshold for your business, though?

A - Dr. Rick Tsai, CEO

Well, what I can say is that right now we're seeing very good return for such business. Our ROI is good. I have no, really no major concern from that point of view. The improvement on our operating income will be, in my view, very good. And certainly, I mean, you mentioned also NVIDIA potential, yes that's certainly something we would like to explore.

Q – Bruce Lu, Goldman Sachs

Okay, thank you. So my second question is about the dollar content increase for the edge devices moving to AI. You have exposure to PC, Smartphones, a lot of consumer devices as well. So TSMC is talking about 5% to 10% increase in terms of die size. Do you see that as a general understanding for all the dollar content increase for the edge AI? You know when they adopt AI, we should expect to see 5% to 10% ASP expansion across the board? Or is that like different from -- is that very different from different devices?

A - Dr. Rick Tsai, CEO

I think for now, the smartphone, especially the high-end smartphone, is probably the best reference. It has high volume and certainly also longer history. I cannot give you a specific number, obviously, but what I can say is the blended ASP is definitely improving. Actually, there's some data, third party data, in China, but overall ASP for the smartphone is towards the high-end. And we are also enjoying part of that shift into the, I would say, significant shift toward the high-end which also shows up in our ASP, branded ASP. Thank you.

Q – Sunny Lin, UBS

Thank you very much for squeezing me in. Good afternoon. Also, my first question is on the cloud ASICs. Obviously the addressable market is large in terms of the revenue, but how should we think about the addressable market for profits? Where I'm coming from is some of the new projects from the hyperscalers appear to be low margin for CPU or for networking. And so I just wonder for MediaTek, given you may have a higher threshold for margin, will there be a good number of new projects with good profits?

A – David Ku, CFO

I think like Rick, our CEO explained, overall, the keywords is really ROI, because actually for the ASIC project, sometimes the accounting may be different, depends on how you recognize the revenue. The key is really whether or not, because this is case-by-case, whether or not that project has provided positive ROI, defines improving operating margin and enhanced EPS, I think that's the key. So we do that selectively and we feel confident actually for those project we pick, will provide very justified ROI which improves operating margin and enhances EPS, overall EPS.

Q – Sunny Lin, UBS

I see. A quick follow up is for CPU. Will the products mostly tied to ASIC efforts or would you also look to come up with your own server CPUs that you could sell to hyperscalers?

A - Dr. Rick Tsai, CEO

Right now, I would say as far as we can see, the requirements from customer, large or small, fairly custom -- at least semi-custom type of requirements. An ASSP type of offering is, I think -- I'm not saying it's not doable, but it's not easy. So right now, we are not, at least right now we are not planning on that business model. Thank you.

Q – Sunny Lin, UBS

Got it, thank you. My second question is on the foundry supply. Clearly TSMC's leading edge, including 5nm and 3nm, is in tight supply through second half and may continue to be the case through 2025. And so, would that be a potential bottleneck for you to grow significantly in 2025?

A – David Ku, CFO

I think so far, I think we've secured for 2025 capacity that we need. So there will not be a bottleneck for us.

-End of Q&A session-