MediaTek 4Q24 Earnings Call

Friday, February 7, 2025, 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 fourth 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 fourth quarter financial results.

David Ku, Chief Financial Officer

Now let's start with the 2024 fourth quarter financial results. The currency used here is NT dollar. Revenue for the quarter was NT$138 billion dollars, up 4.7% sequentially, and up 6.5% year-over-year. Full year 2024 revenue totaled NT$530.6 billion, up 22.4% from 2023.

Gross margin for the quarter was 48.5%, down 0.3 percentage points from the previous quarter, and up 0.2 percentage points from the year-ago quarter. Gross margin for 2024 was 49.6%, up 1.8 percentage points year-over-year.

Operating expenses for the quarter were NT$45.6 billion dollars, compared with NT$40.5 billion dollars in the previous quarter and NT$37.9 billion dollars in the year-ago quarter. Full year 2024 operating expenses was NT$161 billion, compared with NT$135.6 billion in 2023.

Operating income for the quarter was NT$21.4 billion dollars, down 10.3% sequentially and down 13.4% year-over-year. Non-TIFRS operating income for the quarter was NT$22 billion dollars. Full year 2024 operating income was NT$102.4 billion, up 42.6% year-over-year. Non-TIFRS operating income for the year was NT$104 billion dollars.

Operating margin for the quarter was 15.5%, down 2.6 percentage points in the previous quarter and down 3.6 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 16%. Operating margin for 2024 was 19.3%, up 2.7 percentage points year-over-year. Non-TIFRS operating margin for the year was 19.6%.

Net income for the quarter was NT$23.9 billion, down 6.4% sequentially and down 6.9% year-over-year. Non-TIFRS net income for the quarter was NT$24.5 billion dollars. Full year 2024 net income was NT$107.1 billion dollars, up 38.8% year-over-year. Non-TIFRS net income for the year was NT$108.5 billion dollars.

Net profit margin for the quarter was 17.3%, down 2.1 percentage points from the previous quarter and down 2.5 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 17.7%. Net profit margin for 2024 was 20.2%, up 2.4 percentage points year-over-year. Non-TIFRS net profit margin for the year was 20.5%.

EPS for the quarter was NT$14.95 dollars, down from NT$15.94 dollars in the previous quarter and down from NT$16.15 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$15.26 dollars. Full year 2024 EPS was NT$66.92, compared with NT$48.51 in 2023. Non-TIFRS EPS for the year was NT$67.75 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 and belated Happy Lunar New Year, everyone. MediaTek closed 2024 with a robust fourth quarter. Our quarterly revenue exceeded the high-end of our guidance, mainly driven by the strong ramp of our flagship SoC, Dimensity 9400. Gross margin for the quarter was above the midpoint of the guidance range.

For full year 2024, our revenue grew 19% in US dollars, exceeding our original target of a mid-teens percentage growth. Our net income and earnings per share in NT dollars increased 39% and 38% year-over-year, respectively. The solid results demonstrated our technology leadership and the strong execution of our market expansion strategies.

In 2024, our leading AI flagship SoCs continued to gain share in both smartphone and tablet markets. Particularly for smartphone, we doubled our flagship SoC revenue to approximately US$2bn. In addition, our strong connectivity product portfolio, including Wi-Fi 7, 5G thin modem, and 10GPON, has successfully expanded into several global telecom operators. Connectivity revenue for global operators grew strongly by 30% in 2024.

Moreover, for automotive, our Dimensity Auto platform, including cockpit, telematics and power management IC solutions, secured several major design-wins with leading Chinese and European car OEMs in 2024. The premium cockpit SoC that we co-design with NVIDIA has also received good customer traction and is on track for sampling in 2025. For enterprise ASIC, the demonstrations of our capabilities for the next-generation ASIC design such as CPO solutions and 224G SerDes technology attracted very positive attention at several global tradeshows. We believe these notable track records and milestones achieved in 2024 have laid a solid foundation for our future market expansions globally.

In the mid- to long-term, the trend of ubiquitous AI continues to unfold more market opportunities. For example, the recently released models, such as DeepSeek R1 and Qwen 2.5 Max, showcase different approaches and techniques for training AI models more efficiently, complementing the traditional Scaling Law. Together with Llama and other open-source models, we believe the trend will democratize AI and accelerate AI penetration. On the other hand, the industry's continuous pursuit of AI capabilities for AGI and super AI still requires higher computation for the world. We are positive on these developments and firmly believe MediaTek has the right technologies to benefit from the AI democratization trend, both at the edge and in the cloud.

At the edge, we are the powerhouse of edge AI computing. Building on the key technologies we have accumulated over the years, we offer a series of optimized edge AI SoCs integrating powerful CPU, GPU and NPU. We leverage our industry-leading roadmap and the trend of using simpler models, to proactively engage with global customers to enable more edge AI devices and grow our flagship smartphone, automotive, ARM computing, and IoT businesses. As we forecasted, some of the new projects will begin volume production by end of this year.

For example, at CES, we announced the collaboration with NVIDIA to empower the CPU of GB10 on the world's first personal AI supercomputer, which will be available in May. The supercomputer offers a petaflop of AI computing performance, capable of running large AI models with up to 200 billion parameters locally. In addition to CPU and SoC design, we bring our expertise in connectivity, multimedia, and power management technologies to GB10, once again showcasing our robust design capability to enable powerful edge AI devices and there will be more devices to come.

In the cloud, the trend of pursing more optimized data center AI computing remains strong. We are on track to execute our enterprise ASIC strategy by developing industry-leading solutions for data center AI accelerator. We have an exceptional SerDes IPs portfolio up to 224G to support the need for faster speed. Moreover, in addition to our outstanding design capability for complex SoC and chiplet architecture, we have built strong and strategic partnerships with tier-one suppliers to deliver 2nm and 3nm processes, as well as multiple CoWoS 2.5D and 3D advanced packaging technologies. These capabilities help us provide unique value to customers and scale up our business. We expect our AI accelerator ASIC business to have the potential to contribute a sizable annual revenue starting in 2026.

To address ubiquitous AI opportunities, the industry needs advanced solutions in wafer processing as well as packaging. And MediaTek is one of a very few fabless companies that have the capability to continuously invest in the advanced processes, such as 2nm and 3nm, advanced packaging, 448G SerDes, and CPO, for the advancement of our technology roadmap.

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

Mobile Phone accounted for 59% of total revenue in the fourth quarter and declined 1% year-over-year and grew 14% quarter-over-quarter. The strong sequential growth was attributed by the successful ramp of our flagship SoC, Dimensity 9400.

OPPO and Vivo's Dimensity 9400 AI smartphones have been highly recognized by the market, which has led us to double our total flagship SoC revenue in 2024, exceeding our prior expectation of more than 70% of growth. We expect to see more Dimensity 9400 and 9300 series models in 2025.

For 2025, global smartphone shipment is expected to increase at a similar pace as 2024 with 5G penetration rate increasing to high-60s% from mid-60s%.

The leading product portfolio empowers MediaTek to gain share and maintain the leading position. We expect our blended ASP to continue to benefit from the ongoing mix shift towards 5G and higher end AI-capable models.

For the first quarter of 2025, we see better-than-seasonal demand amid the smartphone stimulus program in China. We expect mobile revenue to grow moderately quarter-over-quarter.

Now let me move on to Smart Edge Platforms. In the fourth quarter of 2024, this group grew 24% year over year and declined 7% sequentially, accounting for 35% of total revenue. The strong year-over-year growth was mainly driven by both share gains and a better mix towards higher end products across connectivity and computing devices. The sequential decline in the fourth quarter was mainly due to seasonality.

We believe the trends of connectivity technology upgrade and higher AI adoption in computing devices will extend into 2025, which are expected to help enhance our product mix and blended ASP.

For example, we expect the Wi-Fi 7 adoption to accelerate in 2025 across broadband, notebook and router customers. Our Wi-Fi 7 revenue is estimated to more than double in 2025. We also see strong growth momentum in tablet, as we see almost all Android tablet brands introducing premium AI tablets powered by MediaTek.

In automotive, we continue to expand our business. With the current cockpit and telematics project pipeline, we expect our automotive revenue to grow quarter by quarter throughout this year.

For the first quarter of 2025, healthy demand and an enhanced product mix for both connectivity and computing devices are adding momentum to revenue. We expect Smart Edge Platforms revenue to grow sequentially.

Now moving on to Power IC, which accounted for 6% of total revenue in the fourth quarter and grew 1% year-over-year and declined 1% quarter-over-quarter. In the fourth quarter, the data center business in Power IC grew robustly, while revenue from broad-based consumer electronics remained flattish.

For 2025, in Power IC, we will continue to expand in new areas such as automotive and data center. In the first quarter of 2025, Power IC revenue is expected to seasonally decline.

Overall, for the first quarter of 2025, we see healthy smartphone demand thanks to China's stimulus program as well as some pull-in demand for products including TV, Wi-Fi, tablet, and Chromebook due to global tariff uncertainties. Therefore, we expect the first quarter revenue to grow sequentially, better than the normal seasonality. Corporate gross margin is expected to be stable in the current range.

With that, we expect our first quarter revenue to be in the range of NT$140.8 billion dollars to NT$151.8 billion dollars, up 2% to 10% sequentially, and up 6% to 14% year-over-year at a forecasted exchange rate of 32.5 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 29%, plus or minus 2 percentage points.

For 2025 and beyond, generative AI will continue to bring industry innovations and business opportunities both at the edge and in the cloud for MediaTek. Our leading product roadmap is well-suited to capture AI opportunities and drive revenue growth. The GB10 superchip is one of the growth projects that we have in the pipeline. There will be more to come in areas such as edge AI, enterprise ASIC, computing, and automotive.

As we said before, 2024 is the beginning of our next growth phase. We are solidly on track in our journey for 2025, and fully dedicated to executing our mid- to long-term growth strategies.

This concludes my prepared remark. Thank you.

[Q&A]

Q – Laura Chen, Citi

Thank you very much. Good afternoon, everyone. Appreciate. Rick, your highlight for the growth opportunity across the world, and particularly for the AI space. First of all, just wondering that we know MediaTek already working on the AI space from the edge and also at the cloud side.

Could you elaborate more on the current order visibility or what project you have right now for the growth outlook into the next few years? I recall previously, Rick, you mentioned about the market size could be $45 billion US Dollar, but since we see that AI still evolving, so do you have any more updates in terms of the market size or how big or what kind of the project we have now engaging with kinds to fuel our future growth opportunity? That's my first question. Thank you.

A - Dr. Rick Tsai, CEO

Laura, it's difficult to hear you clearly here. Somehow, it's somewhat scrambled. But I'll try to answer as I understand your part.

AI market, we remain very positive. With this recent DeepSeek phenomenon, we actually -- we are getting more optimistic because not only, I think basically as I said in the remarks, I think the trend is democratizing AI, and it will spread more for the more average users. And that's good from the edge devices point of view. And also it will, I think, will continue to enhance the need for the data center computing capabilities. So we are quite positive.

On the other hand, we have not updated our TAM estimate for the data center accelerator business. We remain right now about $45 billion. If anything, and also assume how we all have read from the news media and some of the discussion we had, we see the major CSPs or major user of the data centers, they are increasing their, well, I wouldn't say doubling down, but almost like that in their data center investment.

So what we are very positive about is the continuing increasing data center computing capability requirements, as well as the opportunities from the edge devices brought about even more so by the DeepSeek, for instance.

And if you notice, MediaTek as an edge -- we have been, of course, very, very strong in the edge devices. But then if you look at the spectrum of the edge devices, all the way from the flagship or premium SoC for the mobile phone to the most recently announced GB10, of course, announced by NVIDIA, where we contribute the CPU part, as well as the connectivity and the ISPs. The model size across the spectrum can range from easily 1.5 billion, 7 billion, up to 200 billion parameters. So, that, as you can imagine, provides a huge flexibility for the more -- not only the everyday users, but also for the professionals who work at home or for the small and medium enterprises.

So I hope I'm answering some of your questions. Thank you.

Q – Laura Chen, Citi

Yes, very clear. Thank you. Also, following on these questions, I was just wondering that, how should we look at the impact on our profitability, since these new opportunities, we may need to invest more in terms of the IPs or the R&D effort. So how should we look at our revenue profile, and also the margin profile, given the potential mixed change in the next two, three years?

A – David Ku, CFO

Laura, we're actually having problems hearing you. Not sure if it's our problem, so operator, maybe you can help.

A - Dr. Rick Tsai, CEO

Is that our problem, or? It’s scrambled. Can you hear us well?

Q – Laura Chen, Citi

Yes, I can hear you very clearly. So, yeah, my second question is about the profile of this ASIC business ramping up. How would that impact the profitability and also the revenue outlook? I believe we need to invest more in R&D and also some of the new areas like IT, or like networking, like CPO, Rick just mentioned. So I'm not sure if you hear me clearly, but that's my second question. Thank you.

A – David Ku, CFO

Laura, sorry, we cannot hear you. Can we move on to the next one and maybe we just get you back.

A - Dr. Rick Tsai, CEO

We promise you if it's our problem we can still definitely answer your question. Don't worry about it.

Q – Arthur Lai, Macquarie

Thanks for taking my question. First, congrats on the good results. I have a follow-up question on the cloud project. So recall last two quarters we actually asked the management team on the resource allocation to the cloud business.

And I think, after now, we got the better visibility on those opportunities. So Rick, can you share with us, did you put more resources on this business versus two quarters ago? And second question is when we think about your cloud business, will you include HBM revenue into the project operation as well as supply chain management type of challenge to us? Thank you.

A - Dr. Rick Tsai, CEO

The first question about resources, yes, we definitely are increasing through major hiring of key technical and business senior managers and executives. Number one, mostly almost all in the US. And number two, we are definitely moving our internal resources toward the ASIC project.

Now that we are now in the execution mode, we have organized, streamlined our organization, so that we can serve the enterprise ASIC for the data center AI, in such a way that we have a team just for that. Because the operations for data center ASIC can be quite different from that of the ASSPs. So from resources point of view, we are really on top of it. And the company has a focus certainly for such a big opportunity.

A – David Ku, CFO

For the revenue, HBM revenue. Currently actually, it's a most -- it really depends on case by case, but big part of that, actually is HBM is not being accounted for part of the revenue. But going forward, maybe new opportunity for the HBM base die, basic SS die. So that's still evolving. But currently we don't include HBM in our revenue.

Q – Arthur Lai, Macquarie

Thank you. So the small follow-up is, so how investors think about the OP margin going forward, if this business kicking in and in a meaningful contribution to our future revenue?

A – David Ku, CFO

I think overall we see this new business should be operating margin accretive.

Q – Jason Tsang, CLSA
Thank you for taking my questions. My first question is in terms of your yearly outlook, it seems like you have a very positive tone on your smartphone and on the smart edge side. Wondering if you can give a quantified yearly growth on your revenues for year ‘25, or can you also give us our revenue outlook for coming years? Thank you very much.

A – David Ku, CFO
I think for smartphone for 2025, I think overall, I think we are positive about the overall development, especially for Q1, we see some -- due to the China Stimulation Program, I think the overall demand is pretty healthy. So overall -- plus, I think we’re still continuing expanding our flagship market share. So overall, I think, we still think it will be a healthy growth year for smartphone business for 2025.

Q – Jason Tsang, CLSA
Okay, understood. So my second question is in terms of your bottom line. I think news suggests that TSMC probably wants to raise their wafer cost or wafer price. So then other news also suggests that ARM is trying to probably raise their IP fee. So wondering if those kind of increasing costs will impact our cost of good sold or probability or gross margins this year or next year, or your gross margin guide already includes those kind of impact already. Thank you.

A – David Ku, CFO
Well, I think for the gross margin, if you look at our history, in the last six to eight quarters, we've been pretty much stabilizing in our guidance range, which was 47% plus minus 1.5%. I think for this year, I think that's our goal as well, especially for the fact we just gave out the first quarter guidance. I think we will be working through with the supply chain, and more importantly, I think we're working along with the different product segmentation and product mix to stabilize the gross margin within this range.

A – Felix Pan, KGI
Hi good afternoon, Rick, David, and Jessie. Happy New Year. Thanks for taking my question. My first question regarding to the financial, for the fourth quarters, actually we see the surge for the sales expense and also R&D expense. So can you please provide some color about the R&D surge? If that relates to the AI project, how we think about the Opex going forward with the growing AI exposure? Thanks. I have a second question.

A – David Ku, CFO
I think for the fourth quarter R&D spending, it's really the combination of the project schedule and also normally, for the year end, the billing schedule. So if you take a look about the full year, I think there'll be, probably the better guidance for the -- last year, full year's ratio should be the full year for this year as well. For example, for Q1, the guidance is actually lower, much lower compared to the fourth quarter. I think for the full year, overall, I guess we're still looking for roughly 30% Opex ratio for 2025.

A – Felix Pan, KGI
Okay. So I can take the full year ‘24 as a benchmark for 2025 Opex.

A – David Ku, CFO
Yeah, in terms of ratio. Opex ratio.

A – Felix Pan, KGI
Okay. My second question regarding the guidance, first of all, congrats for your very strong guidance. And Rick also mentioned there's some pull in demand because of simulation and subsidies program in China. Actually, we see a very pretty strong sales -- sell out numbers, especially for the last week of January. So I just wonder, but the full year seems like still quite -- just low single digit growth, like for global smartphone. So are we expecting a very front-end loaded pattern for the smartphone this year? Or we see there's some organic revenue recovery in China? Can you just provide how you think about the seasonal pattern and also how much new demand generate from the subsidies? Thanks.

A - Dr. Rick Tsai, CEO
Well, the stimulus program, usually -- I may be a bit philosophical, but people are attracted to make their purchases -- pull in their purchases. So we're trying to be somewhat cautious maybe right now. I think after another month or two, we will have a better outlook. But suffice to say, we're -- as David just said just now, we feel actually good about our smartphone business in 2025, which of course is highly concentrated in China.

Saying all that, I think in a way, we believe with the stimulus program, with the market share gain at the high-end phones within China market, and our own SoCs, we remain fairly positive for the smartphone business in 2025. Thank you.

A – Felix Pan, KGI
Okay, thanks. Maybe just a quick follow-up, because you mentioned the market share expansion for the flagship model. Last year, we also gave the guidance for the full-year flagship model's revenue. So do we have the guidance for the flagship model revenue growth in 2025?

A – David Ku, CFO
Well, I think because this is the beginning of the year, I think the overall goal is actually to continue to increase the market share. So we'll probably need to wait for one more quarter to give out the full-year guidance for the flagship's market share. But for last year, I think for the full year, we already gave it out. It was a pretty good increase year-over-year.

Q – Sunny Lin, UBS
Thank you very much. Good afternoon. So my first question is on full-year 2025. Rick, would you have a target for growth in revenue that you could share with us? I also want to follow up on the seasonality question. So if we look at the last two years, seasonality for the industry has been quite different versus before, especially now for the company, flagship is becoming a larger portion of the business, and seasonality could be quite different. And so now with Q1 being such a strong quarter, should we expect some growth moderation into Q2, just like in 2024?

A - Dr. Rick Tsai, CEO

Actually, we look at this case quite, well, in some details ourselves. Of course, we have our numbers. But I would say right now, we will give quarterly guidance until next quarter. The reason being, I think it is probably a commonly accepted thing for everybody, that the uncertainty in the macro picture remains quite high for everybody, not just MediaTek, for just about everybody. And we all know why. So with that in mind, we also agree, despite quite good first quarter guidance -- we are not pessimistic, but I think it's just better right now for us to look at our data, to look at our sales input a bit more. Give us a couple of three months. Thank you.

Q – Sunny Lin, UBS
No problem. Thank you, Rick. I think that's totally understandable. But just in the short term, just initial view for Q2, any color would be greatly appreciated.

A – David Ku, CFO
I think for Q2, right now, we probably will be more cautious and conservative because we've seen Q1, like in Rick's opening remark, we will see that some of the pull-in orders due to the unstable global situation. So once we take that factor away, maybe you will have some consequences to Q2. So for Q2 so far, again, visibility is low, but overall, we will be more prudent and cautious for that.

Q – Sunny Lin, UBS
Got it. Thank you very much, David. My second question is on your collaboration with NVIDIA. So Jensen at CES, he talked about MediaTek now has this NV Link technology and could serve the market. And so I wanted to understand what's the background for this collaboration and how would that benefit MediaTek? Have you started to serve that technology to your own products like Cloud ASICs?

A - Dr. Rick Tsai, CEO
Okay. Well, basically, the partnership with NVIDIA is a fairly natural one, in my mind, because both companies, we are very much -- we're very complimentary to each other. If you look at their product roadmap and our product roadmap, both Jensen and I recognize that. We quickly arrived at the agreement that both companies should collaborate and work on the edge devices.

And the outcome for the GB10 is obvious. I think it serves not only -- it will serve definitely for now the AI, or should I say desktop AI applications, but I'm sure it will serve other applications also, as we move into 2025.

For MediaTek, of course, all the IPs and technology developed we can use ourselves for other applications. But for now, I think the collaboration with NVIDIA has gone really fairly well. Remember, we also have automotive collaboration, which also is moving well following similar technical models. So I'm quite positive about the relationship between our two companies, and we expect really, many good things to come in the short- and mid-term future. Thank you.

Q - Gokul Hariharan, JPMorgan
Yes, hi. Thanks for taking my question, and Happy New Year. First question, just on the overall revenue growth, I think you've seen some pull-in and good stimulus, but if I look at the midpoint of the guidance range, it's still growing at about 9% to 10% in Q1 on a year-on-year basis. Do we think we

accelerate from here? Do we think would be pretty much maintain this growth rate into the rest of the year?

I know that you don't have guidance, but your competitor seems to be saying that they'e going to decelerate from here in terms of their own core revenues in the next couple of quarters. Is that consistent with what you see in terms of the core business? That's my first question.

A – David Ku, CFO
Well, Gokul, like we explained, there are still lots of global unstable factors out there. So, so far, it's hard for us to give out a full year's guidance. Internally, we definitely have our view, but we'd rather probably just go quarter by quarter. But the good news is, at least so far, the first quarter looks pretty solid.

Q - Gokul Hariharan, JPMorgan
Okay, okay. So, you think you can maintain this -- is that kind of like the potential kind of expectation that you have? Or maybe ask it a different way. What needs to change, like, what are you watching really, to kind of become more bullish on the growth rate? Because last year you grew 19%. Q1, the growth is like 9%.

So, it's definitely a deceleration compared to last year's growth. So, what do you need to see for you to get more positive on overall growth for MediaTek in the next couple of quarters, given that you don't have a full year guidance?

A – David Ku, CFO
Well, I think probably two factors. The first one is still, by end of the day, should be just the market demand. So, that's the first one. The second one is actually, hopefully, there's some swing factor that will be removed or settled down.

Q - Gokul Hariharan, JPMorgan
So, what is the swing factor that settles down? David, I didn't catch that one.

A – David Ku, CFO
For example, the global tariff situation, the geopolitical situation, that's still a big factor, again to everyone, not just to us.

A - Dr. Rick Tsai, CEO
I just want to say one word. Saying all that, we are not pessimistic. We are being cautious, but not pessimistic. There's a difference. It can be a major. I just want to add color on that. Thank you. Please continue.

Q - Gokul Hariharan, JPMorgan
Yes. Definitely. Thanks, Rick. Just wanted to move to the enterprise ASIC, data center ASIC portion of the business. I think previously we had talked about potentially the data center ASIC business starting to contribute revenue in early 2026. Is that still our expectation?

And secondly, Rick, you mentioned sizable revenues from enterprise ASIC in 2026. Could you help us understand what sizable means for you from your definition? Is it like 10% of your total revenue is sizable? Reaching a billion dollar run rate is sizable? I just wanted to quantify it a little bit or understand a little bit from a quantification perspective.

A - Dr. Rick Tsai, CEO

Yes. The project is ongoing in full throttle open, of course. We expect the revenue to come in certainly in 2026, early to -- I would say first quarter, second quarter time. The size definitely should be exceeding billion-dollar size, yes.

Q – Charlie Chan, Morgan Stanley

Thanks for taking my question, and happy New Year. Gong Xi Fa Cai. So, sorry for the background sound about the lion dance. It's in our office right now. But anyway, my first question is really the DeepSeek impact, right? So, we know that the MediaTek chip can already support DeepSeek R1 1.5 billion model on the chipset. So, my question, maybe to management, is that whether and how that's going to change the user experience? What kind of killer apps that you have to have a small model on the edge side? That's my first question. Thank you.

A - Dr. Rick Tsai, CEO

Being not an AI expert myself, but I try to, of course, I ask my people quite a lot of questions. Number one, just talking about our own 9400 and beyond SoCs, we are more than capable of 7 billion to 13 billion parameters. And with the distillation capability from the DeepSeek, I mean, that would, if you interpolar it, that will include -- you probably by a factor of five of the capability.

So, that's why we are quite excited. And not to mention, if you look at the GB10 case, which can already manage 200 billion. If you utilize the DeepSeek techniques, I mean, the big, big model can be processed locally at a GB10 powered workstation, for instance.

My feeling is, and the reasoning capability, as far as I have read, I have read myself, it's pretty amazing. I think that it is opening up in China, probably more quickly. What we have learned from our customers directly, now the AI applications in China, for China's smartphone, sales have jumped up to the top three priorities for the users in China.

So from that point of view, I'm positive, we are positive. It just opens up -- reminds us of the internet days, after 2000s, things just broke loose. Well, I don't know exactly how, if I do, I probably will be somewhere else. But I'm very positive and confident, it's igniting new things soon. Thank you.

Q – Charlie Chan, Morgan Stanley

Thanks, Rick. Yes, so if I can think about some kind of application, maybe DeepSeek servers or service crash kind of time, so if you have some proper computer or LLM that can provide some generative AI service without the internet connection, maybe there's kind of one argument. But to link that to your business, I think you assume this year's smartphone growth rate would be similar to last year. I'm not sure if I got that wrong. But what would be your assumption about the so-called AI smartphone replacement cycle, the timing, and also what does it mean to the industry growth rate from this kind of AI replacement cycle?

A - Dr. Rick Tsai, CEO
I don't have very specific numbers. What I'm looking forward to is what you, of course, know that we're mostly in China. The Chinese consumers, I think they will move to higher-end phones more quickly and more so, just like -- I think just in the recent uptick from the stimulus program. I think the ASP for those new sales actually are more in the 3,500 RMB and above. That kind of range, that's very encouraging.

I think it is also very important to know or to understand, this is not just a smartphone thing. It goes to home -- I mean, we are talking to multiple key big customers, people are all working on that, this thing is moving into the home, not to mention to the automotive and to the desktop, supercomputers. We are talking about a range, a spectrum of AI devices at the edge.

MediaTek is fully equipped and with a really strong and great partners, I think we can do many great things for our investors. Thank you.

Q – Brad Lin, BoAML
Thank you for taking my question. Happy Lunar New Year, Rick and David. Congrats on the strong 1Q guidance and thank you for taking my question. I have two questions. The first question would be about the RedCap 5G modem, reduced capability of the 5G modem chip. Would you please share with us the breakthrough in this product and how large is the potential TAM and can this success open doors for MediaTek's broader product portfolio into those global key clients? Thank you.

A – David Ku, CFO
I think for the RedCap, which stands for reduced capability modem, it's been up and running. The first product will be on the wearable side and we see a very strong pipeline for the similar product. I think that's actually part of what we talked about earlier when the 5G product cycle started to run, we said actually the 5G has all different features and functions, and that's actually one of it.

We probably won't be able to give out the market size yet since it's actually just the beginning, but we do believe going forward, for all wearable, and a lot of IoT, will be equipped with the RedCap modems because they actually provide leverage the 5G benefit and also provide the power saving and still enjoy a decent transmission speed.

Q – Brad Lin, BoAML
Thank you very much. That's helpful. A follow-up is that, well, since we penetrated into some of the key clients with this kind of the modem chip, while MediaTek definitely has a lot of very good technology and IPs that some of the clients can make use of those. So, do we expect that we can do some kind of the bundle sales or leverage this kind of a relationship to, well, sell more chips like Wi-Fi or even multimedia IPs into those clients?

A – David Ku, CFO

We probably won't be able to comment due to speculation. But overall, I think the key issue is if you think about from a modern technology perspective, we are really the leading players, not just for the 5G, but for the RedCap as well. We do believe if we continue to invest on this ground, it will continue to give us more opportunity. I think another example is just the flagship. A few years ago, when we started from zero market share, now we have a very decent market share. I think the key is to continue to be the technology leaders and keep exploring new opportunities.

Q – Brad Lin, BoAML
That's quite clear and very helpful. And then my second question would like to follow up on the enterprise ASIC. We have learned that there is very good progress at the ASIC project, which is on track to contribute from 2026 in a sizable kind of a way. And then while most of the investors may be talking about just some specific clients. So would you please share that does Mediatek also receive more customer engagement or projects for the coming years beyond this 2026 one, especially given the proliferation of the ASIC demand? Thank you.

A - Dr. Rick Tsai, CEO
The answer is yes, we are. Just as I responded to the earlier question about resources. The company is investing in this area very heavily, moving resources, hiring key talent. And we certainly aim to -- it's very large, the $45 billion TAM, I think, I believe it's some kind of an underestimate. It's a very large market and we aim to gain a good share. We have made very good progress just during the 18 months. But again, our aim is to broaden our business scope – I think prospects, I should say. Thank you.

Q – Brett Simpson, Arete
Yes, thanks very much. Rick, I wanted to clarify that your relationship with Arm because on their earnings call they're claiming MediaTek is one of their strategic CSS licensees in smartphones and this implies that your royalty rates are pretty high. I think they've defined v9 at about 4% rates and CSS would be double that level. So I wanted to understand if that's really the case.

And I ask this because obviously the court case with Qualcomm and Arm has played out now and it looks like Qualcomm is paying v8 rates for their business going forward using the Orion core and that would imply a pretty big cost difference between yourself and your nearest competitor. So any thoughts, any perspective you could share would be very helpful.

A - Dr. Rick Tsai, CEO
Okay, yes, it's a complicated question. Number one, I firmly believe MediaTek and Arm are strong partners technology wise. And they provide really very good IPs for us as evidenced obviously from smartphone as flagship SoC all the way to GB10. So we are good, we are happy with this relationship.

I will not comment on the royalty rate in my response, but I also want to clarify something. We are using v9 as a CPU IP and we are doing very well with that. Again, we are happy about it. Our engineers, our technical people have done a tremendous job, tremendous job with v9. Again, as I said, all the way from the mobile to the GB10.

But we use v9. We are not using CSS. But it's our own -- I mean, I will not take anything away from our engineers who have worked so well internally and also with Arm. So I hope I'm answering your question clearly, correct?

Q – Brett Simpson, Arete

Yes, that's very clear. So it's v9 and obviously you're not CSS. Okay, that's clear. And my second question was really just trying to understand, I mean, theoretically, what impact tariffs might have on your business. So, if we saw a US Tariff applied to Taiwan, can you share the framework or anything in terms of how that might impact your business, if any? I think it'd be helpful just to put things in perspective. Thank you.

A - Dr. Rick Tsai, CEO

Well, there are two sides of it, two aspects. The first aspect is we don't know much about it. We know it's very unpredictable, and, well, really we don't know. But the second aspect is, of course, we're not just sitting here doing nothing. We are making our own assumptions, doing some simulations.

My quick -- but may not be precise enough estimate, at least for 2025, it's manageable. It's manageable. Well, you can define manageable by many different ways, but from my end, I think it's manageable for us for 2025.

We look at our revenue base from different regions, but there are so many variables, so it's very difficult to give an accurate estimate now. It's very complex. Well, all I can say, thank you.

Q – Laura Chen, Citi

I think some of my questions have been answered. So just wondering that for the AI arena, other than the accelerator, what kind of the ASICs we are working now? And also, I'm wondering since there are a lot of opportunities, are we looking for potential, like a joint venture, no matter it's like in the front end? I'm not sure if NVIDIA's case could be kind of ASIC, or are we looking for some of the partners on the backend, the CoWoS design, something like that? That's my final question. Thank you.

A - Dr. Rick Tsai, CEO

Okay, Laura. I think in some way, I commented, we are broadening our business prospects in the enterprise or --I'm sorry, in the data center AI area. Of course, we have to prioritize, each one of them takes quite a bit of resources from technology and business development point of view. Not to mention the fast-changing environment. Just look at what happened in two weeks after DeepSeek R1 came up. That changed the dynamics quite drastically.

We are definitely evaluating, for instance, the most current phenomenon, and prioritizing or reprioritizing our focus and resources. But, suffice to say, we are definitely working to broaden our prospects.

Joint Venture, I can say there's no plan for any of that. We welcome, certainly, collaboration and other partnerships. I believe, back last year in Computex, Jensen and I, we discussed certain potential collaborations, for instance, in the ASICs area also. That's a good example.

Thank you.

-End of Q&A session-