MediaTek 1Q25 Earnings Call

Wednesday, April 30, 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 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

Now let's start with the 2025 first quarter financial results. The currency used here is NT dollar. Revenue for the quarter was NT$153.3 billion dollars, up 11.1% sequentially, and up 14.9% year-over-year.

Gross margin for the quarter was 48.1%, down 0.4 percentage points from the previous quarter, and down 4.3 percentage points from the year-ago quarter.

Operating expenses for the quarter were NT$43.8 billion dollars, compared with NT$45.6 billion dollars in the previous quarter and NT$37.7 billion dollars in the year-ago quarter.

Operating income for the quarter was NT$30.1 billion dollars, up 40.4% sequentially and down 6.6% year-over-year. Non-TIFRS operating income for the quarter was NT$31 billion dollars.

Operating margin for the quarter was 19.6%, up 4.1 percentage points in the previous quarter and down 4.5 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 20%.

Net income for the quarter was NT$29.5 billion, up 23.3% sequentially and down 6.7% year-over-year. Non-TIFRS net income for the quarter was NT$30 billion dollars.

Net profit margin for the quarter was 19.3%, up 2 percentage points from the previous quarter and down 4.4 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 19.6%.

EPS for the quarter was NT$18.43 dollars, up from NT$14.95 dollars in the previous quarter and down from NT$19.85 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$18.74 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 solid first quarter results. Our first quarter revenues reflected the structural mix enhancements driven by increasing AI and Wi-Fi 7 adoptions as well as better-than-expected demand partially due to tariff uncertainties. Gross margin for the first quarter was above the midpoint of the guidance range.

Before we discuss our business, I would like to talk about the recent market environment.

The evolving tariff situation has created uncertainties to almost all markets around the world. For the short-term, as trade negotiations continue to unfold, we are closely observing their impact on global economies and working with our global supply chain partners and customers to navigate the uncertainties. In the meantime, we are carefully monitoring our inventories and managing our operations.

For the mid- to long-term, we believe the trend towards ubiquitous AI remains intact and our growth prospects remain solid. Supported by our robust balance sheet, we can continue focusing fully on the execution of new projects and investments in key technologies to further strengthen our competitive position.

With the strategic values we create for our customers, we've continued to gain traction in several new areas by taking advantage of the AI mega trend.

For enterprise ASIC, we are highly confident in our capabilities to design custom AI accelerators based on our key technologies and IPs, including the high-speed interconnect SerDes and others. Currently, we are engaging with more business opportunities, as the industry continues to pursue highly customized

solutions to enhance data center efficiency. Customers are reacting positively to our core value propositions, which include our capability to leverage the most advanced processing and packaging technologies to achieve the optimal Performance, Power, and Area (PPA) entitlement. In addition, our flexible business model allows our customers to combine various approaches, including spec-in design, RTL-in design, and GDS-in design, flexible HBM arrangements, and advanced packaging integration to optimize their Total Cost of Ownership (TCO). We are on track to register a sizable annual revenue starting in 2026 and aim to continue making progress in this fast-growing market.

Another example demonstrating our advanced technology capability is the collaboration with NVIDIA on GB10, which is designed to power NVIDIA's DGX Spark, a small, powerful AI supercomputer that is welcomed by AI researchers and developers. DGX Spark delivers 1000 AI TOPS of AI performance, allowing developers to prototype, fine-tune, and inference the latest generation of reasoning AI models with up to 200 billion parameters locally. With this proven record of our capability to design high-performance computing (HPC) chips, we're well positioned to explore various new applications in the future.

For automotive, recently on our Dimensity Auto platform, we announced the 3nm flagship cockpit solution C-X1 and our latest telematics solution at the Shanghai Auto Show. Our cockpit solutions offer scalable hardware and software platforms with advanced AI capabilities. In addition, we are one of the few companies that can bring 5G technologies to cars. By leveraging these essential technologies for future connected cars and strong customer support, we are making very good progress in the auto market. We have established business relationships with the majority of Chinese auto OEMs and expanded our engagements with more global carmakers. We continue to expect our auto revenue to grow quarter by quarter throughout 2025 with a growing number of product design-wins that contributes to future revenue.

Furthermore, as AI applications continue to advance, we work closely with ecosystem partners to accelerate the proliferation of AI applications. Especially for AI agents, the recently introduced standard protocols such as MCP, Model Context Protocol, and A2A, Agent2Agent, build seamless communications among AI agents, unleashing their potential. On top of that, with our recent upgrade of the GenAI tools, developers can more easily create AI applications for edge devices by simplifying development steps with easy-to-use interfaces. For example, edge AI agents, with better privacy and security, now can understand users' instant messages and automatically activate navigation service to direct users to their chosen destinations.

With MCP, A2A, and MediaTek's GenAI tools, we expect developers to create edge AI applications more efficiently for the market. We believe these AI innovations will enhance our product mix and shorten the smartphone replacement cycle.

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

Mobile Phone accounted for 56% of total revenue in the first quarter, growing 6% year-over-year and also 6% quarter-over-quarter. The sequential revenue increase was primarily driven by better demand in the mainstream and entry segments while flagship demand came off slightly.

Following the successful launch of our flagship SoC, Dimensity 9400, we recently added Dimensity 9400+ to the flagship portfolio with further strengthened AI performance. Dimensity 9400+ supports all the popular large language models and adopts the latest techniques for faster reasoning speeds. We expect several Dimensity 9400+ powered smartphones to hit the market in the second quarter. Moreover, in the second half of the year, we will launch our next generation flagship SoC, which has gained better traction with more customers than the previous ones. We expect our strong flagship product line-up to continue gaining shares and enhancing our blended ASP as AI becomes more pervasive.

For the second quarter, thanks to more adoptions of our AI SoCs, Dimensity 9400+ and Dimensity 8000 series, we will grow our business in the flagship and premium segments. However, as demand in mainstream and entry segments slow down after the strong first quarter, we expect Mobile revenue to be flat to down quarter-over-quarter.

Now let me move on to Smart Edge Platforms. In the first quarter of 2025, this group grew 32% year-over-year and grew 23% sequentially, accounting for 39% of total revenue. The sequential growth was mainly due to product mix enhancements in both connectivity and computing devices, as well as some pull-in demand.

For Smart Edge Platforms, the trends of connectivity technology upgrade and higher AI adoption continue to benefit our major platforms such as Wi-Fi and tablet. Our efforts in global market expansions are also gradually bearing fruit. As we move to the second quarter, we see revenue growth in premium AI tablets, consumer ASIC, and automotive, driven by share gains. These strengths help us offset the effect of certain consumer products being pulled into the previous quarter. We therefore expect Smart Edge Platforms revenue to increase quarter-over-quarter.

Now moving on to Power IC. This group accounted for 5% of total revenue in the first quarter, growing 7% year-over-year and declining 9% quarter-over-quarter due to seasonality.

For the second quarter, we expect power IC revenue to grow sequentially, mainly driven by share gains in certain consumer electronics, automotive, and datacenter.

For the second quarter of 2025, based on our current observations, overall supply chain inventory is still at a reasonably healthy level. Despite the market uncertainties, currently, there are no material order changes from customers, partly due to the long production cycle time. We expect our second quarter revenue to be flattish sequentially, and to grow strongly year-over-year driven by our structural mix enhancements across products. That said, uncertainty in the second half of the year remains high.

With that, we expect our second quarter revenue to be in the range of NT$147.2 billion dollars to NT$159.4 billion dollars, down 4% to up 4% sequentially, and up 16% to 25% 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.

Finally, I would like to reiterate that we remain very positive on our mid- to long-term growth opportunities despite the recent uncertainties. We believe the growth areas that we are investing in such as AI, datacenter, and automotive remain at their initial phases of market developments. The market potential could increase significantly with the ongoing innovations, and the growth potential will not be impacted by the near-term volatilities. Given our strong competitiveness and early-stage presence in those areas today, we believe there is ample room for us to grow and our strong balance sheet can support our dedication to new growth drivers during this uncertain time.

This concludes my prepared remark. Thank you.

[Q&A]

Q - Gokul Hariharan, JPMorgan

Thanks for taking my question. My first question, I just wanted to understand, usually you give us some idea about how you think about the full-year growth in the April call. I just wanted to understand how you think about full-year growth for the company right now. First half, looking at the guidance and Q1, seems pretty strong. Second half, do recognize some of the uncertainty, but just wanted to get your thoughts on how should we think about full-year growth.

And within that, if you see risks in the second half, is there any particular area where you see more risk? Is it more on the Smart Edge side of the business, which is more US-exposed? Or you also are a little bit more conservative on the smartphone side of the equation?

A – Dr. Rick Tsai, CEO

Okay, let me respond to the second question first. Our exposure in the US directly is around 10% of our revenue. So you can say that the direct impact from the US, potential US tariffs, is more limited.

However, of course, we are certainly watching very closely the potential impact to the overall economy of the other markets, such as China, Japan, Korea, etc. That's why we said, as many other CEOs have also, that we remain quite cautious about the second half of the year.

The risks for us, are that we rely more in the consumer electronics, such as TVs, or some of the home devices. Saying that, the first half is reasonably positive, as you know. The second half, again, because of uncertainty, we will not give, as we usually have, a full-year outlook this time. But what I can say is, well, how should I say, at least qualitatively, we're not overly pessimistic. We strive to achieve, I think, still a good positive 2025. Thank you.

Q - Gokul Hariharan, JPMorgan

Would you say double-digit is still kind of within the realm of your possibility? I know that you don't have a numerical guidance, but I think that seems to be where a lot of people are shooting for a couple of months before the liberation day tariffs were announced.

A – Dr. Rick Tsai, CEO

You're right. We will be a bit more positive before the liberation day. Now, I wouldn't use double-digits now, but I wouldn't definitely go down much either.

Q - Gokul Hariharan, JPMorgan

Understood. That is a good range that most of us can work with. Thank you very much, Rick.

My second question is, your longer-term ASIC preparation looks like you are getting more engagement. Could you talk a little bit about what are the nature of these engagements? I think you've talked about high-speed SerDes, your strong partnership with ARM, as a couple of the important building blocks. During GTC, you also kind of alluded to some partnership on the IP side with your core partner, NVIDIA, as well.

So could you talk a little bit about how these engagements are evolving right now? Are they mostly dealing with AI accelerator-related projects, or you also are expanding into other data center ASIC kind of opportunities also, if we think about the engagement level?

A – Dr. Rick Tsai, CEO

Okay. I would first say, again, your latter part of the question, we are definitely focused on the AI accelerators, or some other people call that XPUs, and customized AI accelerators. Saying that, the other, I think, concept, maybe a concept is the right word -- for this business, it is a very fluid business to be in. What do I mean by that? That means the major potential customers, the requirements for quote-unquote customized AI accelerators can vary quite a lot among different ones.

So the way -- I believe we are being quite, well I wouldn't say successful yet, that needs more data, but I believe we're being quite good in that we can combine our technology capability, our manufacturing capability -- by manufacturing, I mean the real advanced process packaging side, and our system architecture level of knowledge, and the capability to engage with customers directly. Plus, as I said in my remarks, a rather flexible business model approach.

So that makes us -- customized, by definition, you need to customize for different customers' specific requirements. I think we're doing that quite well from both technical and a business point of view.

Q - Gokul Hariharan, JPMorgan

Thank you. Got it. Just one follow-up, Rick. So you talked about spec-in, RTL-in, and GDS-in models as one of the flexible approaches. Is there any area which is more favorable to, like, are you seeing anything in terms of these designs happening in the ASIC world, which is kind of a more favorable trend to MediaTek? Or are there, like, it seems like the latter two are probably more favorable to MediaTek compared to, like, full spec-in, which used to be the kind of ASIC world for a long time?

A – Dr. Rick Tsai, CEO

I would say, I think you're quite right that the latter two, the RTL-in and the GDS-in, are probably more favorable to us from a business model point of view. However, again, it depends on the customer and the complexity of the chips they are pursuing. The first approach, we do have at least a discussion and engagement also. Thank you.

Q – Laura Chen, Citi

Thank you, Rick, for taking my questions. My question is also related to the AI-ASIC development, probably also following what Gokul just mentioned that we know that during GTC, we announced to cooperate with NVIDIA on the NVLink IP. So does that mean that going forward, our ASIC or AI accelerator can also, aside from our SerDes technology, we can also leverage NVLink to connect other GPUs or accelerators?

A – Dr. Rick Tsai, CEO

Yes, we do have a good discussion and engagement also with our partner, NVIDIA. The work is in its early stage, I would say. So I would prefer to defer further discussion probably in another time. We are still in the process of kind of getting to more execution details. Thank you.

Q – Laura Chen, Citi

Yes, certainly. And also following that, I'm just wondering, our current AI-ASIC or accelerator projects we're aiming for next year ramping up, it's only based on our own SerDes solution, is that correct?

A – Dr. Rick Tsai, CEO

It is correct, yes.

Q – Laura Chen, Citi

Yeah, can you give us some more updates about like the current progress, any difficulties we may have, or in terms of the progress and ramping up schedule, can you give us more color?

A – Dr. Rick Tsai, CEO

I would say in general, it's moving, progressing quite well. We're meeting all the milestones as required. In general, I foresee good progress also going forward.

But please also understand, we're -- basically these are very, these are very challenging, technical projects, and we certainly expect all kinds of challenges going forward. But we do have the confidence that our team and our customers, we are working really closely and really well together and will overcome any of them. I'm quite confident. Thank you.

Q – Laura Chen, Citi

Sure, certainly. My second question, if I may, is that, again, it's also related to the AI ASIC. As we know that when it moves to more advanced nodes, like N2, for example, in the next two or three years, our customers may also want to consider the silicon photonics or CPO solutions. So, from MediaTek's perspective, do we have any plan or what's our roadmap to consider that from?

A – Dr. Rick Tsai, CEO

You're absolutely correct. CPO is basically a co-packaged solution, first with the copper and then with optics on the roadmap. It is, again, technically very challenging. We are, again, there’re always two fronts. One is your customers, the other one being the partner from the technology suppliers. MediaTek, yes, we are investing. As I said in my remarks, we are continuing to invest, if anything, we are aggressively investing in those technology areas. And we have all the means to do that. Thank you.

Q – Brett Simpson, Arete

Thanks very much. I also had a question on the AI AISC developments, Rick. You mentioned in your prepared remarks that there's a sizable annual revenue opportunity in 2026. Can you maybe just elaborate what that means? Are we talking about kind of billion-dollar type levels? Have I got completely the wrong baseline? Any help there would be really, really helpful.

And then today, I mean, it sounds like you are building more customers. I think previously you've said you've got a customer that will land next year, but can you maybe update us on the customer win? What wins do you have today? Are you building off that single win that you've single win that you've talked about previously.

And then in terms of the business model, is this attractive enough from a margin perspective? Is it accretive to gross margins or operating margins? Any help would be great there. Thank you.

A – David Ku, CFO

First things first, I think right now, we kind of talked about for the next year, we're expecting billion-dollar revenue from the AI ASIC side. Right now, the target is not changed. So I think the first thing first.

The second part is actually talking about the customer. We probably won't be able to be commenting anything about customer, but we do actually have several design-in and design-win. It's actually an ongoing process. So that's my quick response.

I think margins overall, again, because we have a different business model, overall, probably the best way to think about that is actually on the operating margin side will be accretive, on the operating margin side.

Q – Brett Simpson, Arete

And maybe just to follow up on the ASIC side, I guess when you look at the next two or three years, the industry is going through tremendous changes. Most companies are not just developing ASICs, but they're building rack solutions. So including switching, I mean, I think there was a previous question on silicon photonics and optics, CPU as well as needed.

So to what extent is Mediatek planning to build system solutions? And if that is the case, I mean, your investments here must be pretty significant. So can you maybe just share with us what sort of portion of your OPEX might be going towards AI ASICs? Thank you.

A – Dr. Rick Tsai, CEO

Well, the investment certainly is now focused on the AI ASICs, AI accelerators, with associated IPs and the technologies. By IPs, what's most obvious one, of course, high-speed interconnect, including SerDes, and going forward, CPC and CPOs. And of course, all the DTCO capability using the N2 process node, we call that STCO, advanced packaging technology from, maybe from different kinds of packaging technologies.

The investment in those already certainly quite extensive, but I'm, again, very confident that we will achieve quite well in them. On top of that, I wouldn't say we will provide the system solutions. After all,

that is not in our business model. What we certainly can do and will do is to, already, that we have the system knowledge and understanding and the capability of system architecture. We have a strong team, and we can have in depth discussion with customer's team. That's very valuable because we can provide solutions -- chip solutions in order to meet their system requirements, such as PPA and TCO. That investment also is being carried out. I have no reservation about investing in those capabilities. But we do not plan on providing system solutions.

Q – Brett Simpson, Arete

Thank you, Rick, I just have one follow-up question on smartphones if I may. Some of your Chinese customers are adopting Arm's CSS platform for flagship devices, I think Xiaomi is one that's pretty well understood coming towards the end of this year. Can you talk a bit about how you see this trend evolving and what impact do you think it has on MediaTek's business? Do you still feel the flagship opportunities for share gains is as material as it has been? Thank you.

A – Dr. Rick Tsai, CEO

Yes, certainly. We've been working with our customers, in your example, to provide them so that they can have a system, they can make and sell. The world is always evolving and MediaTek must adapt to the changing world as certainly our customers' requirements. We adapt, we provide our values, and I'm totally confident. It's kind of similar to our ASIC discussion just now.

I have no question in my mind that we will provide invaluable values to our smartphone customers in China. And despite all the other people do different things but MediaTek, at the end of the day, because our focus, our resources, our talent, I think we will be successful in that particular segment, flagship SoC.

Q – Sunny Lin, UBS

Good afternoon. Thank you very much for taking my questions. So my first one, I'll start from the macro and also longer-term outlook. And so now with the escalating trade tensions, obviously between China and the US, I know things are maybe in early stage, but are you seeing any signs of Chinese OEMs potentially hoping to adjust the procurement strategy just to reduce the exposure to the US suppliers that may benefit MediaTek? Anything you could share at this point will be very helpful.

A – David Ku, CFO

Sunny, currently, I think we didn't really observe any of those, like you mentioned. I think for the formal year, they're still being purchased the chipsets, basically from globally, from US, from Taiwan. So there's nothing changed out there yet.

Q – Sunny Lin, UBS

Got it. And I have a question on the smartphone AI opportunity. Obviously, from 2024, you have been getting more mix from flagship and also higher silicon content. But Dimensity 9400, the price is up quite a bit, by 30% to 40%, according to my estimate, in late 2024. And I think you also get to pass through the TSMC cost inflation, maybe this quarter, by about mis-single digit. And so how should we think about the further upside for your Dimensity 9500?

And then I also wonder, for the sub-flagship, like D8000, would you expect maybe the silicon content to also go up any time soon?

A – David Ku, CFO

I think for the flagship segment, what we're seeing is right now, this year, we're talking about the fourth generation of the smartphone. ASP is still continuing going up, and that should really help the overall revenue growth and also the product mix growth.

Other than the flagship, we're talking about the mainstream, because the 8000 series, we see the ASP probably will be flattish year-over-year, maybe even down a little bit. So I think with the exception of the flagship, all other segment probably just maintain the flattish ASP rather than increase.

Q – Sunny Lin, UBS

Got it. If I could squeeze in one question on automotive. Would you be able to share a bit more updates on your engagement with the car makers? How many order back log that we have on hand, and what kind of addressable market that you are expecting in the coming say 4 years, and what kind of revenue contribution that we could expect maybe by 2026 or 2027, just like your disclosure for your cloud ASIC, which is ramping up to 1 billion in 2026.

A – David Ku, CFO

I think from the number of customers we're engaging or design in, design win, if you like, use this term, it's actually growing really well, specifically in China and also globally as well.

China currently is still the big part of our automotive business. From year-over-year growth perspective, we do expect a very strong percentage growth. But in terms of the absolute dollar, due to the SOP cycle on the automotive side, I think the revenue ramp will be much slower in terms of the absolute dollar compared to the ASIC side. But I think the revenue growth in terms of percentage we are looking for a very strong year-over-year growth for this year.

Q – Jason Tsang, CLSA

Thank you for taking my questions. My question in terms of your long-term goals in data center area, we found that you currently have AI ASIC or SerDes technology. I think Airoha also announced 400G DSP, and also Airoha has Ethernet switch or PHY product. So can we integrate those kind of, no matter it's AI ASIC or those kind of connectors or high-speed product to generate the higher contribution data center area?

And also we found that in data centers the major providers are all coming from US competitors. So can we get more opportunity to get higher gross margin in China data center market? How should we look at this kind of long-term opportunity in data center area?

A – David Ku, CFO

I think first things first, what Airoha offers right now is not really the data center hyperscaler standard. They are more on something we call actually personal to maybe enterprise but not data center scale. So for MediaTek AI ASIC, we are pretty much only focused on AI accelerators, so that's the focus.

And the second part, you mentioned about China as an opportunity, I think currently we are looking for a global opportunity, which is definitely including China as well.

Q – Jason Tsang, CLSA

Okay, got it, got it. And my second question is in terms of the market shares in high-end smartphones. So I think we already gain a lot of market shares in China brands, so I wonder if we can further gain some design wins in Korea brands in the future, especially in the high-end sectors. How should we look at this kind of opportunity, probably in the second half or in the next years?

A – David Ku, CFO

It's our policy, we won't comment on specific customer, so we will not be able to comment on this question.

Q – Brad Lin, BoAML

Thank you for taking the question. I have two questions. My first question will be also on the GB10. Versus three months ago, what is your expectation on the GB10 in terms of the demand and contribution, and what would be the revenue or gross margin implication for MediaTek if the project goes well? Thank you.

A – Dr. Rick Tsai, CEO

Well, GB10 is a collaborative product by NVIDIA and MediaTek. I think we have said before that NVIDIA is responsible for the product and the go-to-market. So from that point of view, what we can say is that demand is very good, quite strong with the targeted audience, but the detailed outlook is better to refer to NVIDIA to answer. Thank you.

Q – Brad Lin, BoAML

Got it. And then my second question would be on, well, an interesting product that introduced by MediaTek recently, which is the, well, Chromebook processor, which is based on 3nm. And then I can't help but thinking what's the market position of such a product. It's 3nm-based SoC but competing in a low-cost segment like Chromebook. Does that market, does that product potentially eye on the market share again, potentially from x86 camp or Qualcomm's current dominant ARM-based PC camp? Thank you.

A – David Ku, CFO

I think for the Chromebook, basically one of the big segments will be on the education sector. We are actually getting the input from the customer. They are still looking for the high-end Chromebook. So that's why we also have the 3nm process. Whether or not there's actually competing, I'm assuming you're assuming something called the Window on ARM. I don't think that's directly competing on that. It's more of an existing segment actually looking for product upgrade.

Q – Brad Lin, BoAML

Got it, got it. And then, so with this kind of similar trend and also a broader strategy to bring advanced nodes into the so-called relatively mainstream or low-cost kind of segment, could we expect a similar transition maybe also in other segments like IoT?

A – David Ku, CFO

As for IoT, I think it's the same trend as well. Normally, in terms of using a core AP-based IoT, application process-based IoT.

A – Dr. Rick Tsai, CEO

Yes, maybe I can add one word. I cannot say this is definitely a trend, but on the multiple fronts, by that I mean on the edge side, from a smartphone, we just discussed Chromebook, IoT, but also tablets. The requirement for the high-end kind of premium models in those different segments, it's quite clear compared to say, two years ago. And because of our very strong flagship SoC portfolio, we have been able to provide good solutions to those various high-end premium needs from various customers too. So we're quite happy about it. Thank you.

Q – Charlie Chan, Morgan Stanley

Hi, good afternoon, Rick. And also, David, I hope you can recover soon. So my first question is about the AI smartphone development. I think, Rick, you mentioned about MCP being introduced to accelerator and GenAI. So how soon do you think this MCP can be adopted in the China smartphone ecosystem? Because I think it's developed by Anthropic. Yeah, I just wanted to get a sense about how soon that can happen.

And also, I think privacy is also a very important factor for edge AI. So do you see any kind of killer apps or kind of privacy demand that is accelerating or, as you said, shorten the smartphone replacement cycle in China?

A – Dr. Rick Tsai, CEO

Well, I do not claim myself to be an expert in agentic AI, but what we do observe, pretty firsthand, it's China's ecosystem in the agentic AI is blossoming. Many startups, plus the big, huge super app companies are all in. So when things happen this way, usually it would take a while to kind of settle, to take some time to settle. But what we can tell from the previous other experiences, in China things will settle rather quickly. We have very strong and a good relationship with many of those ecosystem players and the applications developers. So we're providing the tools and environment that they can build upon.

So I cannot say for sure, but I'm sure you have observed China for a long time. We can all expect things will happen very quickly over there. And what we are doing is just to be there when they need it, to be actually ahead of them for all those tools, and we can then gain our share of the business. Thank you.

Q – Charlie Chan, Morgan Stanley

Yeah, thank you. We look forward to that development, and we believe MediaTek will play a very important role for this ecosystem. And my second question is really way back to your comment about ASIC. So you sort of re-focused me on the required milestones, but there are some interests kind of showing what we're saying, right? There are always some technical challenges to overcome.

So, Rick, are you still confident that first half you can still mass produce this major customer's project, or you will buffer some time given those technical challenges? And also, 2nm project, do you have any visibility for the potential win? Thank you.

A – Dr. Rick Tsai, CEO

Again, number one, I'm confident in getting the project accomplished next year. By that, I mean, so it's probably most practically to say we'll get those revenues late 2026. I think that's the most important thing at the end of the day. But I think it's from a technology capability and all those things, it's really very complicated. We are not only on the right track, I think we're ready for those challenges. Alright? Thank you.

Q – Charlie Chan, Morgan Stanley

Okay. So, the worst case is late 2026, but you're keeping your original target to see some mass production in the first half. Is that the right interpretation?

A – David Ku, CFO

Charlie, I think you're right, but we don't quite understand what you mean by the worst case.

Q – Bruce Lu, Goldman Sachs

Again, I'm sorry. My question is for the ASIC business. When we do the analysis for ASIC business, there are two things that always bother me because number one is that you're working with customers. What if the project delay is caused by your customer, i.e. your customer has failed to deliver the project they have to complete it on time, which cause the delay, cause your revenue projection fall behind.

So how can we be confident that your customer can deliver the stuff on time? The second thing will be more longer-term is that the ASIC chips, how does the competition with the merchant chip, how do you believe your customers are able to design a future chip, which is able to compete with the merchant chips, which merchant chip can have like multiple chips with networking, with accelerator, it can be a total system performance thing. Working with one customer with one ASIC project might not be competitive in the longer term. So how do you see these two factors in the ASIC business? How do you do the business plan in your ASIC business though?

A – Dr. Rick Tsai, CEO

Bruce, actually your question, in a way to us is a generic one. ASIC being a business model, but whether customers can, well, can deliver on time or, well, that's the same thing actually for other our ASSP customers too. But that's a reflection. But in our specific business currently, the thing to do that we are doing, just like other business, we work transparently, collaboratively, really closely with our customer. We know what they're doing, we know where they are, and in any of the large-sized project, I haven't seen anyone without glitches. So it is -- and there's -- this mutual understanding and the trust we have built. And then, glitches happen on both sides. And the thing I say, I said just now is that we are confident that we have the building capability to overcome those glitches and deliver.

Your number two question is --

A – David Ku, CFO
GPU versus ASIC.

A – Dr. Rick Tsai, CEO
Oh, again, this is more kind of a -- more really a data center, AI accelerator specific question. You -- I'm sure you guys all observe and understand what the large CSPs are doing, not just thinking, are doing. And there are obviously pros and cons for doing different kinds of models. I do not intend to jump into that debate myself, but suffice to say that both models will work.

I'm sure the merchant chips will continue to do well. But the important thing really is to have the data center capacity to grow based on the demand, and that growth will continue. And then it's a matter of proportion of that growth, where they come from. I don't think there's any doubt about the need, the demand from the ASIC type of accelerator. So I wouldn't say I worry. What we work on, we strive, is basically to deliver. And the business is there. Thank you.

Q – Bruce Lu, Goldman Sachs
Okay. Thank you. I just had a quick follow-up for the profitability, because a lot of investors do ask that. We have a lot of negative factors for the margins, such as wafer price increase, ARM architecture license increase, or you guys are adopting more CSS model from ARM, which all the negative factors for your gross margin. So are we still comfortable with our mid- to long-term gross margin guidance, even with all the negative factors?

A – Dr. Rick Tsai, CEO
Yes, we are confident. Number one, look, from the wafer price and all those things, there's an equal playing field. We are comfortable. I mean, I'm not saying I like the price increase, but we can comfortably deal with it.

Other ARM and all those things, we have our capabilities, and we have our service model. We have a huge track record. Again, we focus on delivering what we committed, and then we will win more and more projects going forward.

-End of Q&A session-