

MediaTek 1Q24 Earnings Call

Wednesday, April 26, 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 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 2024 first quarter financial results. The currency used here is NT dollar. Revenue for the quarter was NT\$133.5 billion dollars, up 3% sequentially, and up 39.5% year-over-year.

Gross margin for the quarter was 52.4%, up 4.1 percentage points from the previous quarter, and up 4.4 percentage points from the year-ago quarter. This quarter's gross margin included a one-time cost reversal item mainly for securing capacity in the past, which increased gross margin by 4.5 percentage points in this quarter. Excluding this one-time adjustment, gross margin were to be 47.9%.

Operating expenses for the quarter were NT\$37.7 billion dollars, compared with NT\$37.9 billion dollars in the previous quarter and NT\$31.5 billion dollars in the year-ago quarter.

Operating income for the quarter was NT\$32.2 billion dollars, up 30.1% sequentially and up 124% year over year. Non-TIFRS operating income for the quarter was NT\$32.4 billion dollars.

Operating margin for the quarter was 24.1%, up 5 percentage points in the previous quarter and up 9.1 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 24.3%.

Net income for the quarter was NT\$31.7 billion, up 23.1% sequentially and up 87.4% year-over-year. Non-TIFRS net income for the quarter was NT\$31.9 billion dollars.

Net profit margin for the quarter was 23.7%, increased 3.9 percentage points from the previous quarter and increased 6 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 23.9%.

EPS for the quarter was NT\$19.85 dollars, up from NT\$16.15 dollars in the previous quarter and up from NT\$10.64 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT\$19.98 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 a solid first quarter. Revenue exceeded the high end of our guidance, mainly driven by better-than-expected restocking demand from smartphone, broadband and TV customers. Gross margin exceeded guidance due to a one-time item, excluding which, gross margin was 47.9%, above the mid-point of our guidance range.

In the last earnings call, we estimated overall consumer demand to improve moderately in 2024. Our view remains unchanged today. Given better visibility than in the last quarter, we now target our full-year revenue in U.S. dollar terms to grow by mid-teens % in 2024. As for full-year gross margin, excluding the first quarter one-time item, our target remains to be 47% plus or minus 1 percentage points. While all revenue groups are expected to grow year-over-year, smartphone growth is expected to be stronger compared to other revenue groups.

Specifically for smartphone, global shipment in 2024 is expected to increase by low single-digit % to 1.2 billion units. Our addressable market in dollar terms can grow higher at low-teens %, driven by continuous 4G to 5G migration and product mix shifting towards higher-end phones. Therefore, for MediaTek, coupled with our strong market share gain and higher blended ASP in the flagship segment, we're confident that we can grow our smartphone revenue by higher than mid-teens % in 2024. Flagship revenue is expected to grow more than 50%.

For the mid- to long-term, AI represents great business opportunities for MediaTek both in the cloud and at the edge.

In the cloud, with the proliferation of AI applications, we see increasing AI accelerator demand from cloud service providers to further strengthen their AI computing. MediaTek's strengths in computing technology, coupled with the leading 112G and 224G SerDes IPs are crucial for winning AI accelerator businesses. In addition, we're equipped with strong capabilities in complex IC integration, advanced process nodes, and advanced packaging, as well as a flexible ASIC business model to grasp future opportunities.

At the edge, in addition to our leading APU solutions, MediaTek's NeuroPilot platform provides comprehensive software tools supporting all the popular AI models. These include Meta's latest Llama 3, Google's Gemini Nano, Stable Diffusion models, and all mainland China's popular generative AI models. MediaTek's NeuroPilot is well-received by the developer community and creates a strong ecosystem to accelerate edge AI development.

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

Mobile Phone accounted for 61% of total revenue in the first quarter, growing 84% year-over-year and declining 2% sequentially.

As stated earlier, our mobile phone business will benefit from a better product mix this year, and we're excited about the opportunities generative AI will bring us.

Smartphones are viewed as the most imminent generative AI edge device for content creation and personal assistant related features. Our powerful Dimensity SoCs, together with our growing generative AI ecosystem including our NeuroPilot platform, are ideally suited to empower smartphones with richer AI functions. Today, global top 3 smartphones ranked by AI performance are all powered by Dimensity 9300. There will be more Dimensity 9300 and 8300 smartphones coming to the market in the second quarter. Our next generation flagship SoC, Dimensity 9400, is on track to launch in the second half of this year and has received a very positive feedback from customers.

Now let me move on to Smart Edge Platforms. This group grew 16% sequentially in the first quarter and accounted for 34% of total revenue, mainly driven by restocking demand from broadband and TV customers, as well as product mix enhancement in tablet.

We continue to see upgrade demand for connectivity and computing driving growth for this year.

For connectivity, in the first quarter, our wireless and wired solutions benefitted from operators' adoption of the latest technology such as WiFi 7 and 10GPON. In particular, our leading WiFi 7 solutions are tracking ahead of prior expectations and ramping robustly across broadband, routers and notebooks.

For computing, tablets powered by Dimensity 9300, which supports generative AI, began mass production in the first quarter, and we expect more adoptions to come.

For automotive, our Dimensity Auto Cockpit solutions continue to secure new design-wins with leading car makers for future revenues. We're also working with NVIDIA to bring powerful generative AI

capabilities to vehicles across premium and entry-level segments with our Dimensity Auto Cockpit chipsets.

Now moving on to Power IC, which accounted for 5% of total revenue in the first quarter and declined 13% sequentially, mainly due to seasonality and product transitions.

For the second quarter, we expect revenue to grow strongly year-over-year. On a sequential basis, revenue is expected to range between flat and 9% decline as smartphone shipment reaches a normal pattern in the second quarter. Meanwhile, TV and computing devices are expected to continue to grow sequentially, and power IC demand to recover across applications in the second quarter.

With that, we expect our second quarter revenue to be in the range of NT\$121.4 billion dollars to NT\$133.5 billion dollars, flat to decline 9% sequentially, and up 19% to 30% year-over-year at a forecasted exchange rate of 32 NT dollars to 1 US dollar. Gross margin is forecasted at 47%, plus or minus 1.5 percentage points, in line with the gross margins in the previous quarters. Quarterly operating expense ratio to be at 30%, plus or minus 2 percentage points.

With the first quarter results and the second quarter guidance, we are confident of achieving our annual revenue growth and gross margin targets. Our view for the mid- to long-term growth outlook remains intact. AI is driving huge business opportunities both in the cloud and at the edge for MediaTek. Our key design-wins and new project executions are progressing well to contribute revenues from the second half of 2025. We believe 2024 will be the beginning of our next growth phase. Thank you.

[Q&A]

Q – Laura Chen, Citi

Thank you for taking my question and appreciate Rick's very comprehensive description about MediaTek's outlook. I'm just curious about that when we move to the AI arenas like for the AI smartphone or edge AI, aside from the large size of the chip for neural engine, what's MediaTek's observation of the technology upgrade at the hardware architecture such as like thermal design, memory, etcetera? And also what MediaTek is currently doing for better power consumption or heat dissipation, et cetera? And for instance, do you think that current PoP type packaging needs to be upgraded or anything you are doing? Can you share with us? That's my first question. Thank you.

A - Dr. Rick Tsai, CEO

Well Laura, your question maybe can be divided into two areas, one is for the cloud and the other for the edge. For the cloud, it is obvious that the key, I think some of the key technology areas include of course the leading-edge process nodes -- today is 3 nm soon into 2 nm, advanced packaging technologies -- the 2.5D, maybe 3D, provided by mainly a key foundry supplier. Memory, the high bandwidth memory certainly is now getting to be a critical component and sometimes maybe a bottleneck component for the data center AI deployment, which is moving from HBM-3, HBM-3E and very fast into HBM-4.

And lastly, all the major high speed interconnect IPs such as high speed SerDes up to 224G is also key, because interconnect with all the computing that you need to put, you need to connect every socket, every server, every rack. The interconnect technology IP is becoming another bottleneck. So, with all these, and if we look at MediaTek's capabilities, we are well-suited to move into the AI accelerator mainly in the compute part, in the compute part. And we are now really -- also targeting and focusing in that area.

Well, the edge devices, I think as we stated in our opening remarks that our Dimensity 9300 and I am very confident about our 9400 to be a leading SoC solution for the edge generative AI applications. I think our AI capability within our SoC is at least, I think it's as good as any. Again, we believe this will continue to drive our smartphone business, together also into some other computing devices like automotive applications. Thank you.

Q – Laura Chen, Citi

Thank you very much, Rick. I'm just following that for the edge side, other than that neural engine becoming bigger and more advanced node, do you also see that on the packaging side there is a major change looking forward for the edge device?

A - Dr. Rick Tsai, CEO

Not particularly. I think we are moving -- no, I mean, I think depending on your definition of edge. For the smartphone, I think not too much difference. But as we also move into automotive applications in the cockpit and later on likely into the ADAS applications, the packaging technology will move into more advanced, sophisticated one, but -- more advanced than smartphone, but less compared to the data center AI processors. Thank you.

Q – Laura Chen, Citi

Thank you. A follow up question if I may on the gross margin impact, because we know our gross margins have been quite stable and with those new technology and probably the rising cost of the foundry and also moving to more advanced packaging potentially as well. So how should we look at our profitability in the longer term? Is that 47% or 48% gross margin may see further upside if we move to more advanced technology?

A - Dr. Rick Tsai, CEO

For now, as we again, stated earlier on, we are confident that we can achieve 47% plus minus going forward. We remain convinced of that. We understand your question. I think the key here is whether we can make products with more and higher value, more and higher technology content. I think that there will be some cost impact from the leading-edge process node and say 2.5D packaging.

But we are also making product using those technologies with much higher content, technology content and values. So if you look at the growth margin and the operating margin, I'm quite comfortable that we will maintain, manage our margins, hopefully better going forward. Thank you.

Q – Randy Abrams, UBS

I wanted to ask actually a question on the outlook. For second quarter, I think you referred to it as a normal decline. I'm curious if you think it's the new normal pattern, just given the flagship launches, traditionally you saw a rebound or a seasonal ramp in the second quarter. And just how you're viewing the broader Android smartphone cycle. If you're viewing some inventory adjustment after the strong restocking, and if you think it's a one quarter issue, that third quarter, we're back to growing in the smartphone business.

A - Dr. Rick Tsai, CEO

Well, Randy, I think if you look at the overall market, we said it's 1.2 billion units, which is about maybe 2% increase year over year. It's not really a major increase. And so at the end of the day, every quarter -- at the fourth quarter will balance out. But there's no question that the fourth quarter last year and first quarter this year represent pretty strong restocking demand and as a result, our sell-in to our OEM customers. But this trend, as I said, is now reaching a normal level. So that's why we're seeing some impact from a sequential point of view.

Saying all that, we also said in our remark that while the overall demand increase by low single digit in the unit, but the high-end segment -- by high-end we can broadly define as -- I'm going to use the RMB pricing, 4000 RMB and up models. I think the growth in that area, in that segment is much better compared to the other segments. And as we also are making progress in gaining shares in the flagship SoCs, our addressable market is quite a bit higher in the teens%. I think for the whole year, we gave you the outlook also for the mobile phone -- we are very confident in that.

Q – Randy Abrams, UBS

Thank you. I'll ask a follow up to that. There's been a lot of remarks this results even with relatively muted first half, but some are expecting we start to see a bit of pickup second half. I'm curious, when you look across your businesses, how you see smart edge and power management, how you're viewing kind of inventory levels, demand, like the initial cut, what you're seeing, if you're seeing improving prospects from those as we look on half on half?

A - Dr. Rick Tsai, CEO

I think, Randy, we have given an outlook in US dollar terms for our yearly revenue growth -- being a target of course. And you have now the first half numbers, with the guidance, I'm sure you all have the second half estimate. At the beginning of the year, we stated that the 2024 is a moderate growth year. Overall, we remain that view, and so the second half number is not surprising.

The restocking momentum actually demonstrates the most in the smartphone products. Other products, I think more stable -- there were some in the first quarter for the TV and the connectivity, but the magnitude of which is more moderate in nature. So again, we said what we said being a moderate year and I believe the number we gave -- the mid-teens growth for the whole year, it's a very, very achievable target. Thank you.

Q – Randy Abrams, UBS

Okay. Yeah. Thank you. The last question I wanted to ask on the flagship where you mentioned the over 50% growth. Is that mainly from the gains you see current cycle? I'm curious as you go into the

news cycle -- the early design activity and as you look at the different pieces -- Qualcomm will move to the Nuvia core, so they upgrade the CPU, but how are you looking? Are you viewing a system performance with more attention now on the AI engine in that software? How do you view your growth moving into the next cycle at this early stage? And also how do you view content where it sounds like you're going to upgrade the AI engine and also the higher cost from 3 nm, how do you see the content for the flagship category?

A - Dr. Rick Tsai, CEO

Okay for the flagship SoC, 9300 is our third generation SoC, 9400 of course is the fourth one. I think we started 9300 is kind of a, I wouldn't call that breakthrough but it's a major leap in our, not only the capability but also our penetration with the key customers and we're seeing very strong growth from 9300. And I have full confidence in our 9400 especially in our computing capabilities.

The CPU core that we were working with ARM, our partner, our close and deep partner, again, we have no issue with our performance and our power capability for our 9400 CPU cores. And for the APU modules (do we say our TOPS before? Okay I guess I'm not saying.) I'm not supposed to say it but I can guarantee you 9300 were about 37, 35 TOPS, with significant improvement for 9400.

And actually, I remember I talked to one key customer, and they are surprised to hear such data from our flagship SoC. With that and with our NeuroPilot platform, we are now also engaging with most of the developer communities and the ecosystem players. I think the key here is to enable all the applications with edge devices. So people can find not only edge AI being useful and productive, and I believe more importantly, fun, for their life. And there's a great future for this flagship SoC business for MediaTek. Thank you.

Q – Randy Abrams, UBS

I'll drop back in the queue, but could you say the content increase, factoring those enhancements and the node migration?

A - Dr. Rick Tsai, CEO

Yeah, I think I kind of said that it's mainly, especially in our computing, the CPU, the GPU and the APU and of course ISP. They are getting, we're looking up all the 3 nm. Well, of course, you know there's a limit to the size for the, for the SoC, for phone format, but the CPU contents, computing contents continue to increase and you have to also realize our computing contents increase while our power consumption capability improves. I think that's what we've been able to do and that's why we'll get ourselves more market share.

Q - Brett Simpson, Arete Research

Yeah, thanks very much. Rick, I wanted to ask about just the AI smartphone market and what portion of the overall smartphone market might be enabling Gen AI this year? And how do you see the adoption curve playing out into the second half and maybe into next year? And what sort of market share of the Android AI smartphone market does MediaTek hope to achieve over the medium to long term? Thank you.

A - Dr. Rick Tsai, CEO

Well, Brett, I think just your last question, I think we can achieve 30% with China, the Android smartphone, flagship smartphone market share, short term, hopefully. Of course, we aim higher.

I think many people ask a question about whether generative AI will accelerate the replacement cycle for instance. What I believe and I observe maybe can be set in two aspects. One, the applications from the Gen AI I think is now in the early stage of being deployed and maybe also spread into the user environment. The fact that the move toward the high end phone by the way, this movement is pretty fast. The high end phone segment is growing very fast. I think kind of exemplified that as the trend. As more people get more used to and maybe addicted to Gen AI applications, I think the trend can only accelerate, of course along with the much higher content, the technology, silicon content.

So again, for us, as I said just now, another critical thing is to accelerate the applications development and deployment together with our partners in the ecosystem and the developer community. Only in doing so can we together expand the market. Actually, consumers enjoy the benefits. Thank you.

Q - Brett Simpson, Arete Research

And Rick, just to follow up on that, you talked about the TOPS performance of the 9300. I think we're all expecting a big upgrade with the 9400 later this year. But can you maybe just talk a little bit about how this translates to content growth for MediaTek in smartphones or the die size that's allocated to the NPU? How it changes? I think most folks are expecting maybe about 60 TOPS in the next generation chip that are coming out for flagship later this year. But, you know, how does that, how do we think about the content translation for MediaTek? Thank you.

A - Dr. Rick Tsai, CEO

Actually, Brett, you certainly have done your homework. I'm not going to argue against your comments. I think 9400, our CPU core, I really feel very strongly, in a good way, the clock rate, the performance of the IPC, and not to mention our APU TOPS. I really feel 9400, will make 9300 -- well, really outshine 9300 by quite a bit, by quite a bit. I know I'm being kind of a qualitative, but I think, I'm conveying a very clear message in this way.

Die size, by the way, die size, no matter what technology we use, 3nm, we still have, you know, the die size, we use all the die size, period, and a lot of which goes to computing, as you can imagine.

Q - Brett Simpson, Arete Research

Yeah. For my second question, Rick, I wanted to ask about Wi-Fi 7, and just to understand the ASP change that we're seeing here. I think MediaTek is making a double shrink, I think you were on 22nm for the previous Wi-Fi generation, and you're moving to 6nm with Wi-Fi 7, and you're definitely viewed as among the tier ones in this transition. So can you maybe talk a little bit about your market share ambitions and what sort of ASP changes we see as Wi-Fi 7 becomes more mainstream? Thank you.

A - David Ku, CFO

David here. I think Wi-Fi 7 is overall, from the size of the market and also from technology segmentation perspective, we're actually one of the leaders in the market, and because of that, it

really just opens a lot of new opportunity for us. In terms of the absolute market share, we probably won't be able to disclose right now, but overall, we will say it's actually pretty meaningful market share for the Wi-Fi 7, given actually, our earliest access to the technology, and also, actually, the breadth of our product portfolio.

Q - Gokul Hariharan, JPMorgan

Thanks for taking my question. My first question is on the smartphone side of things. So last call, I think, Rick, you mentioned the flagship addressable market TAM is about \$4 billion. Could you talk a little bit about how quickly is the TAM growing, given that you highlighted the strong growth that we are seeing in the flagship segment? And could you also comment about any prospects to expand this TAM by kind of breaking into some newer, larger customers beyond the customers that you already shipped to? Can we expect something happening in that front in the next one year or one to two years or so?

A - Dr. Rick Tsai, CEO

We certainly, we cannot really discuss the specific customers per se, but we certainly, again, I think our product, in my firm belief, will sell itself because of our capability. And we also see the OEM customers are now, of course, using the last generation flagship for their kind of sub flagship phones, and all those increase the addressable market. So the driving force really, underlying driving force is the move toward the high end phone, be they be the flagship or what we call premium phones. The trend really provides the addressable market driving force for us. Thank you.

Q - Gokul Hariharan, JPMorgan

So any thoughts on how quickly this is growing? I think given that last quarter you offered a \$4 billion TAM number for your immediate flagship TAM.

A - Dr. Rick Tsai, CEO

Yeah, I think, we talk about \$4 billion being our SAM, MediaTek's SAM. Again, I think that addressable market as I said earlier, will see a mid-teens percent level of growth, and that's why we are stating, a part of the reason that we are stating our growth of 50% and better in the flagship SoC area.

Q - Gokul Hariharan, JPMorgan

My second question is on the data center ASIC. I just wanted to understand how MediaTek is positioning itself in the data center ASIC market with especially the CSP customer. I think some of your competitors. I think Broadcom obviously has talked about pretty high market share. Marvel, I think recently talked about having or targeting 25% market share in custom ASICs for accelerators and other products by 2028. So just wanted to understand, how is MediaTek positioning? When you do your business planning, what are the kind of targets that you are looking for? I think if I remember a few years back, Rick, you talked about potentially hitting a 1 billion run rate for the non-consumer ASIC business. How soon can we anticipate something like that happening for MediaTek?

A - Dr. Rick Tsai, CEO

Yeah, we definitely are on our way to an ARM computing revenue stream in the near future. But in addition, again, AI data center, what we call data center AI accelerator, mainly in the compute area,

represents a very large TAM, certainly for MediaTek also. We look at that TAM to be about \$40 billion by 2028. It's about \$12 billion in 2024. So it's a tremendous upside. And as I said earlier, the key component to get to this compute AI accelerator business, computing, obviously the leading-edge process node, advanced packaging technology, those foundation technology.

And please also remember, to connect the cloud and the edge, we have all the wireless and the wired connectivity technology. And also the way we are now working with ecosystem players, I really believe that will position MediaTek to be one of the major players in this -- by 2028 \$40 billion TAM business. We are the company certainly investing heavily in this. Thank you.

Q - Gokul Hariharan, JPMorgan

So Rick, maybe one follow up is of the \$40 billion TAM, what would you consider reasonable success? Is it like 10% market share by 2028 would be a reasonable success for MediaTek?

A - Dr. Rick Tsai, CEO

I don't think we will give this forecast yet, but I think that kind of number is certainly within our expectations. Thank you.

Q – Bruce Lu, Goldman Sachs

Okay. Thank you for taking my question. I want to follow up the Brett's question earlier. What is the AI smartphone penetration looks like for 2024 and 2025? And moving beyond the edge or inference, what is the latest strategy for MediaTek, what kind of business model and value proposition for your MediaTek DaVinci, what kind of business do you want to do for that product or what is your expectation for the AI edge?

A – David Ku, CFO

Maybe I comment on DaVinci first and also for the AI smartphone penetration probably Rick will talk about that. I think DaVinci is actually a platform. It's a co-work platform MediaTek uses internally. Basically, that's one of the effective tools for us, for all our engineers, just a tool using the GAI tool. Because it's actually very powerful and also very useful, a lot of external parties are trying to leverage that. So we do actually open up to other parts. But to be honest, this is actually not a business model. This is more for operation side. So I would say probably we don't need to mix that with our business outlook. It'll probably be easier. So that's about the DaVinci.

A - Dr. Rick Tsai, CEO

Actually, Bruce, the way to look at the, what you just said, AI smartphone penetration, I believe actually the best way right now is to look at the, again, the high end smartphone's volume and market share. How that has grown this year and how that will continue growing next year, it's very difficult to get a number say this is AI smartphone or AI PC for that matter. Because what we know and what we are working very hard on is to ensure that our chips can provide all the technology capability and to enable all the generative AI applications and future applications for our OEM customers. And we are fully confident in that.

For the Gen AI application to be developed and deployed takes of course, industry wide effort, ecosystem wide effort. MediaTek actually is taking pretty proactive attitude in that, and we will have some major, major event in the coming weeks from that point of view. Thank you.

Q – Bruce Lu, Goldman Sachs

But I thought you're going to proliferate into the mid end chips next year, so most of your mid range chips will have the AI function that could potentially be a big boost for the AI and AI smartphone penetration rate. Is that the right expectation?

A – David Ku, CFO

I think it's the right expectation. Currently for this year, so called APUs, already on 9000 series and also 8000 series as well. And so like Rick said, right now the key objective is really trying to proliferate about the AI ecosystem because from the hardware side we do have the leading APU there, but now actually we need more ecosystem partner to jump on the web and to basically develop more applications or service, both on edge or leverage edge device. But going forward we do have the plan to extend that APU capability even into the different segments, into different segments.

Q – Bruce Lu, Goldman Sachs

Okay, my next question is for the ASIC business. So do you want to do the pure design service business with lower gross margin but huge operating leverage or do we want to provide more IP value? For example, Rick just mentioned a lot about 224G SerDes, which is a key successful factor for AI accelerators. So what is our latest progress and how confident that we can be very competitive in this, in all those IP required for the ASIC business?

A - Dr. Rick Tsai, CEO

I want to say that we definitely will be and want to be an IP rich value, high value add supplier. Well, of course we always remain flexible in our business model. The thing really is, but the important thing is we invest in those high value add IPs. Well, SerDes has been a good example, not to mention the process node, the packaging and the, I think MediaTek is, I mean, we strive to be a tier one supplier. Maybe that's another way of saying it. Thank you.

Q – Brad Lin, Bank of America Merrill Lynch

Thank you management for taking my question. I have two questions. One is on the, well, regarding the ASIC, regarding this industry landscape, besides the current players, we also see many more so called established large fabless company began the investment. So would you mind elaborate the strength that MediaTek has compared to them and also what will be the key difference whether a firm joins the ARM Neoverse or not? Thank you, that's my first question.

A – David Ku, CFO

Okay, Brad, I think like Rick reiterated several times. I think first of all, the focus of what you are talking about on the cloud or on data center side is really just the AI accelerator. And especially for the compute part, especially on the computer, because actually there are other components out there as well, but compute is the key. And traditionally I think that's including CPU, GPU, and now we talk about xPU, most likely for TPU.

I think with our technology and also especially the foundation technology like SerDes, advanced SoC capability and also the leading-edge process node technology, I think we are actually one of the key players, an important player to compete effectively. Well, another part actually is the ecosystem partner and also our actually the operation scale. Because that all, by end of day, it's actually if we have the right cost structures, both from our operational side and also from the wafer side, I think that could be a very important element as well to stand us out among all competitors, especially for the leading those parts.

So I think all in all, I think the keyword which is the computing technology and very much MediaTek product is one of the leading companies to do so many connected computing devices every year. And we will just extend that technology and also advantage from the traditional edge device, now actually into the cloud computing element. Likewise, all the foundation technology, a lot of that will be leveraged and expand into the cloud space as well.

Q – Brad Lin, Bank of America Merrill Lynch

Got it. Thank you very much. So my second question will be on the well, PMIC. While we know MediaTek has done quite well at bundle selling our PMIC offerings, what will be the key growth drivers into the next two years? Thank you.

A - Dr. Rick Tsai, CEO

Okay. As the PMIC, the areas that we are really focusing in and investing in is the automotive and the data center areas. We actually form, we have formed R&D team in the US, in Japan, so that we can build, build those leading, well, I would say leading as PMIC. We also invest in the process capability with our foundry partners so that we can take advantage of the light power devices to gain advantages. So I think we have good effort and we expect good growth from our PMIC business. Thank you.

Q – Brad Lin, Bank of America Merrill Lynch

Thank you very much. So, lastly on dividend. MediaTek shareholders obviously have received special dividend in the past three years on top of the 80% to 85% payout. Should we expect MediaTek to start another round of special dividend or raise the payout ratio? Thank you.

A – David Ku, CFO

I think currently, there's two elements for our cash dividend. One is the payout, another one is the special dividend. I think for payout, basically, nothing's changed right now for the special dividend, we're still actually on the very last payment of the special dividend. For the new one, we will discuss with the board and also report everyone's when it's finalized.

Q - Charlie Chan, Morgan Stanley

Thanks for taking my question, Rick, David Jessie. So again, still congrats for a very good results on margin side, and also 2Q revenue, full year seems to be going well. So my first question is about Rick, you seemed to suggest that high end smartphone demand is doing well. I'm not sure if you relate it to the AI. I'm wondering whether MediaTek has any evidence or feedback that a high end smartphone

demand is related to the AI. And if there's a kind of, so called killer apps, what would that be? Thank you.

A - Dr. Rick Tsai, CEO

Again, Charlie. I think I said that earlier, it's in the very early stage for the generate AI applications on actually any devices. If you think about it, the people need, I believe, to get their devices which are capable of exercising those applications, when they become available and when they become also attractive. And that part, and I think that's why we are taking a very proactive stand in working with the ecosystem and the developer community so we can together enable new applications and hope -- and exciting applications.

So my view for this is, of course, it's also very, just like if you ask whether, how many people are buying the camera capability for their phone, very difficult to quantify. But the important thing for us is not to try to cherry pick. Here we provide the just a very powerful phone and very low power consumption to our consumers.

Q - Charlie Chan, Morgan Stanley

I see. Thanks for the feedback. Yes, because the company seems continues to enlarge the APU capability, so I thought you might have some, reason behind. Right. For example, you already see the killer apps for the next generation apps. Yeah.

A - Dr. Rick Tsai, CEO

Well, first thing first, we have to be able to for instance, run 7 billion parameter model or up to 13 billion model. And we need that kind of a computing power. Those are, I think again, are the must for our flagship chips.

Q - Charlie Chan, Morgan Stanley

Gotcha. So thank you. And my second question is about the smartphone cyclicality. So I understand that we are kind of in destocking mode for China's smartphone. First of all, how long do you think this destocking is going to last? I'm not sure your view about China economies recovery. And because the company gave the full year revenue guidance, I'm surprised that you already have visibility for the second half. Are you confident about the second half recovery?

A - David Ku, CFO

Well, Charlie David here. First of all, seasonality, if you look back in the last few years, including this year, the so called seasonality may be vary year over year. Taking last year for example, we ramping from first quarter to fourth quarter. You see very strong quarter over quarter growth. And that momentum last until first quarter this year. And but the second quarter for us that become, you know, mathematic, you know, we have a high first quarter, you know, second quarter coming down. But if you look, the key issue is looking for the full year.

That's why I think Rick actually spent some time in his opening remark talking about we always start with the year over year sell-out, which is low by the way, 2%. But you build up from that and that gives you the product migration, product segmentation, and that actually leads to our mid-teens. So to

answer to you directly, our confidence is not based on so-called the strong rebound. The confidence is really based on year over year, only 2% shipment growth, around the increase. And truly confidence is really just a product segmentation expansion and more importantly a very successful smartphone expansion and also growth.

And with that, smartphone, we try to know what's the design-in, design-win situation right now and also even for the fourth generation, 9400, we try to know the design-in, design-win situation already. So we feel fairly confident for our growth target. I think that's it. But anything else in between. It's really just a pattern. What really matters is full-year dollar growth. I think that's the key.

A - Dr. Rick Tsai, CEO

One more word, Charlie. The smartphone sales go out from China also to the overseas market. China market is a big part, but it's not the only part. And I understand your point about China maybe not growing much as a whole. Well, we certainly don't disagree. However, the China market, again, that movement toward the high end phone is significant. It is ongoing, and you will not -- we don't believe that will stop.

However, the market outside of China, it's probably compensating for some of China's not buying, for instance, the entry level phone as many as before. Other people, the 4G to 5G migration is continuing and actually finishing, is probably accelerating at the low end of 5G segment. All things together, as David just said, if you look at the whole year, I think we are, well, we cannot say we know exactly what will happen, but we're quite confident. Thank you.

-End of Q&A session-