

MediaTek 3Q24 Earnings Call

Wednesday, October 30, 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 third 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 third quarter financial results.

David Ku, Chief Financial Officer

Now let's start with the 2024 third quarter financial results. The currency used here is NT dollar. Revenue for the quarter was NT\$131.8 billion dollars, up 3.6% sequentially, and up 19.7% year-over-year.

Gross margin for the quarter was 48.8%, flat from the previous quarter, and up 1.4 percentage points from the year-ago quarter.

Operating expenses for the quarter were NT\$40.5 billion dollars, compared with NT\$37.2 billion dollars in the previous quarter and NT\$34.2 billion dollars in the year-ago quarter.

Operating income for the quarter was NT\$23.9 billion dollars, down 4.4% sequentially and up 33% year-over-year. Non-TIFRS operating income for the quarter was NT\$24.3 billion dollars.

Operating margin for the quarter was 18.1%, down 1.5 percentage points in the previous quarter and up 1.8 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 18.4%.

Net income for the quarter was NT\$25.6 billion, down 1.4% sequentially and up 37.8% year-over-year. Non-TIFRS net income for the quarter was NT\$25.9 billion dollars.

Net profit margin for the quarter was 19.4%, decreased 1 percentage points from the previous quarter and increased 2.5 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 19.7%.

EPS for the quarter was NT\$15.94 dollars, down from NT\$16.19 dollars in the previous quarter and up from NT\$11.64 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT\$16.15 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 third quarter results. Quarterly revenues were at the high-end of the guidance range, with all three revenue groups achieving both quarter-over-quarter and year-over-year growth. Quarterly gross margin exceeded guidance range due to a favorable product mix.

Before we dive into business updates for the three revenue groups, I'd like to share some of our recent developments. Earlier this month, we unveiled our first flagship 3nm SoC – Dimensity 9400, a powerful chip designed and optimized for edge-AI applications. Dimensity 9400 offers leading platform performance and outstanding power efficiency for premium user experiences. It continues the All-Big Core design built on Arm's latest v9.2 CPU to demonstrate strong computing capability. Combined with the most advanced GPU, Dimensity 9400 brings PC-level graphics and gaming experiences to mobile devices.

In addition, as an AI enabler, we integrate our 8th generation NPU into Dimensity 9400 to unleash more AI features. For example, Dimensity 9400 supports AI applications that are capable of providing intelligent recommendations for tasks such as hotel and flight scheduling or meal ordering by mimicking human behaviors. The AI first analyzes users' past preferences, calendar entries and other relevant information to come up with practical solutions. It then automatically completes the task based upon the users' final decisions. We refer to this capability as "Agentic AI," and our customers' flagship phones are leading the industry to bring Agentic AI applications to the market. To further accelerate the development of agentic AI applications, we work closely with Google and the ecosystem to create a unified interface that allows these applications to run more efficiently. We also optimize our SoC to support the latest large language models, such as Google's Gemini nano multimodal models and Meta's Llama 3.2 model. We believe these efforts will significantly reduce the development time of agentic AI applications and help foster the creation of potential killer applications.

With our leading products, close collaborations with the ecosystem, and the world's broadest edge device footprint, we believe that we are an ideal partner for edge computing players. We aim to empower a wide range of AI-capable edge computing devices, such as smartphone, laptop, tablet, automotive, and more, with our robust and efficient technologies.

On the cloud side, we remain fully committed to executing our enterprise ASIC strategies, aiming at the sizable US\$45 billion custom AI accelerator market projected for 2028. With our key capabilities in the leading 112G and 224G SerDes IPs, complex IC integration, advanced process nodes, and advanced packaging, we continue to actively engage with CSPs for more AI accelerator opportunities.

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

Mobile Phone accounted for 54% of total revenue in the third quarter, growing 33% year-over-year and growing 4% sequentially.

In the third quarter, demand for our 4G SoCs from emerging markets increased sequentially, while demand for 5G SoCs was flat.

For the fourth quarter, the strong ramp of Dimensity 9400 is expected to offset the lower seasonal demand for the mainstream and entry segments. Therefore, we expect Mobile Phone revenue to grow sequentially in the fourth quarter.

Our Dimensity 9400 has received high recognition from both customers and the market. Compared with Dimensity 9300 at the same stage, there are more models adopting Dimensity 9400, including flagship smartphones from Vivo, OPPO and Redmi. We have also observed strong sales momentum for smartphones powered by Dimensity 9400. For example, Vivo announced that the sales of its X200 series have reached 200% of the previous generation's sales during the same period, breaking Vivo's sales record for its new devices. With the encouraging development, we now expect flagship revenue to grow by more than 70% this year, exceeding our prior expectation of more than 50%.

Now let me move on to Smart Edge Platforms. This group grew 8% year over year and grew 3% sequentially in the third quarter, accounting for 40% of total revenue.

In the third quarter, both connectivity and computing devices grew above the company average. Broadband connectivity continues to enjoy a good momentum as the industry transitions to WiFi 7 and 10GPON. For computing devices, our tablet business has benefitted from the trend of higher generative AI adoptions. Almost all the Android tablet brands have chosen MediaTek's flagship SoCs for their premium AI tablets, including Samsung. There are numerous MediaTek-powered AI tablets in the market today and we believe there will be more to come. For automotive, we continue to secure new projects for auto cockpit solutions, especially with leading Chinese automakers, and we expect the share gains to continue. We believe they are all constructive mid-to-long term growth trends for our businesses.

However, for the near-term, we expect Smart Edge Platforms revenue to decline in the fourth quarter due to lower seasonal demand for consumer electronics.

Now moving on to Power IC, which accounted for 6% of total revenue in the third quarter, growing 3% year over year and growing 5% quarter-over-quarter.

For the fourth quarter, we expect Power IC revenue to be flattish sequentially. That said, we expect new applications, such as datacenter, automotive, and industrial to continue to grow faster than the others in the future.

For the fourth quarter, the strong revenue ramp of Dimensity 9400 is expected to partially offset the weak seasonal demand for consumer electronics.

We now expect our fourth quarter revenue to be in the range of NT\$126.5 billion dollars to NT\$134.5 billion dollars, decline 4% to up 2% sequentially, and decline 2% to up 4% year-over-year at a forecasted exchange rate of 31.7 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 32%, plus or minus 2 percentage points. With that, we are able to exceed our annual revenue growth target of mid-teens % in US dollars and achieve the gross margin target range of 46% to 48%.

In addition, we have completed our 4-year special cash dividend program. In the last 4 years, combining regular and special cash dividends, we returned NT\$385 billion to shareholders in total, demonstrating our commitment to reward long-term shareholders.

This morning, the Board has just approved our semi-annual cash dividend of NT\$29 per share, or NT\$46.4 billion in total for the first half of 2024, which is based a payout ratio of 80%. We remain committed to creating and delivering value to reward our long-term shareholders.

For the future, we're confident in our mid- to long-term strategy to capture the growing business opportunities, backed by our strong positions in technology roadmap and our broad scope of technology portfolio. This concludes my prepared remarks. Thank you.

[Q&A]

Q - Gokul Hariharan, JPMorgan

Hi, good afternoon. Congrats on the good results. Thanks for taking my question. First of all, on the flagship segment, I think the growth seems to be pretty strong this year, also around 70% growth. Could we talk a little bit about how do we see the growth over the next couple of years? How much more market share gain is still left in the Chinese OEMs for MTK? What are your prospects? How do you think about your prospects with some of the other leading global brands, especially the big Korean OEM that you've been targeting? You've had some success with the tablet products.

And also Rick, I think in the last call you had some updates on the flagship addressable market, the SAM size and how fast it is growing. Could we get a bit of an update on that flagship addressable market given feels like the growth in flagship segment itself seems to be faster than what we anticipated, maybe three months to six months back?

A - Dr. Rick Tsai, CEO

Okay, thank you for the question. Flagship SoC, well, I think first, I think its market share among all smartphone shipments continue to grow, I think globally and in China domestic market. The rate of which, of course, we still, we'll see fairly soon. We also forecast the global smartphone shipment for 2024 will grow by about, as we said before, 2% to 3% over 2023. That fundamental growth and then the smartphone, I'm sorry, the flagship smartphone market share among all smartphones is growing, so we certainly -- by the way, we also believe 2025 will see a similar pattern compared to 2024. So, for MediaTek, I think first we certainly expect that we will definitely gain from this secular growth of the flagship phones, especially in the China market. Secondly, we also strive to gain more market share in the China market.

If you look at our Dimensity 9400, its performance, capability, power consumption, every aspect, not to mention the edge AI capability and the ecosystem building, the momentum is definitely here, very good momentum. Our 9500 -- next year I guess we're going to call that Dimensity 9500. We have certainly a very strong, very good product in line. Of course, we'll talk a lot more sometime next year.

But we remain quite positive for our Flagship SoC outlook. Outside of China market, we certainly also strive to have market share penetration, but we will not make any prediction or forecast at this time. Thank you.

Q - Gokul Hariharan, JPMorgan

So, Rick, just to follow up. So do you think you can still maintain this kind of growth rate into next year for flagship? Like 70% is obviously an impressive growth rate. I think last year was also pretty strong. Do we think we can maintain this kind of growth rate or is it going to be a little bit slower given market share is already relatively high?

A - Dr. Rick Tsai, CEO

We don't think we will be able to have this 70% growth next year as we do in 2024. Well, number one, we certainly already in China market we have about 30% of market share already. The further gain will take certainly very, much more effort, which we will, we will achieve higher market share, but 70% is probably too high an expectation.

Q - Gokul Hariharan, JPMorgan

Fair enough. Thank you. My second question just broadly on overall China demand, not just smartphones but also some of the other market applications, given there's been some excitement about China demand in home appliances and stuff like that after the Golden Week and some of the stimulus programs. How does MediaTek think about overall China demand, given that you actually have a fairly good and broad representation of China demand? Are you starting to see some pick up in

pockets of demand in China digital consumer products or still you think that the demand is not that strong? Any expectations in terms of how you think about 2025 for the China market itself?

A - Dr. Rick Tsai, CEO

Well, it's still a bit early. After all, I think the government actions started to come out I think late September and continue to -- seems to come out kind of in a continuous manner. But whatever I say right now is preliminary.

What I believe we have seen, I would say is better than expected, compared to, let's say definitely a year ago, our view of the China market demand. I cannot really quantify very well how much better. But if we look at the smartphone, we look at the broadband connectivity, we look at TV, there was more uncertainty a year ago about China's economy.

Now we feel -- I cannot say we are optimistic, I cannot say that. But we certainly feel, how should I say, more comfortable with China's economy now and going forward. Thank you.

Q – Laura Chen, Citi

Hi. Good morning. Thank you very much for taking my questions. I have a question about the AI ASIC business. I recall Rick, you mentioned that the business model will be more flexible. So does that mean that MediaTek may only in charge with some of the design process and work with other design service peers or IP providers in the longer term?

And how should we think about your AI ASIC business potential in the longer term? I recall that, Rick, you mentioned about quite a few billions of market potential. So we also expect that probably we'll be able to see the contributions in late 2025 or 2026. So can you give us a more update on the ASIC side? That's my first question. Thank you.

A - Dr. Rick Tsai, CEO

Okay. We remain very excited and well, a bit more venturesome optimistic of our data center AI ASIC business. We are right in execution phase of our project. It is indeed, as you said, a strong function of the business model and the collaboration model. MediaTek, in addition to our very strong fundamental capabilities, as we described already in my opening remarks, the business model we have, first of all, flexible-- we work closely and collaboratively with our customers and potential customers.

We are definitely doing business for both very good revenue and also with operating margin strongly in mind. We certainly want to rate accretive operating margin compared to the company's overall operating margin.

This is really one of the Company's top priorities for our future business growth. And we are determined to make that happen. And I'm very sure it will happen. The timeline is indeed very late 2025 and sometime starting 2026. Thank you.

Q – Laura Chen, Citi

Yeah, thank you. And also following that, when you work on your AI ASIC project, any difficulty to secure sufficient advanced packaging capacity? Can you share with us how would you secure the capacities into the longer term?

A - Dr. Rick Tsai, CEO

Well, we all know who the major advanced packaging supplier, technology and capacity is. And we have also over the years not only managed, but also enhanced our collaborative relationship with TSMC. As you can at least, you can tell first of all, from our process node improvements every year. Every couple of years we move a node and with no slip, both from ramp and from yields point of view.

So the very strong collaborative relationship paves the way certainly for the advanced packaging collaboration and the technology readiness as well as the capacity requirements. We certainly still need some time for that very large capacity requirement, but we are already working very closely with TSMC. Thank you.

Q – Laura Chen, Citi

Thank you. So would you also consider to work with OSAT partner on advanced packaging if they are ready?

A - Dr. Rick Tsai, CEO

Yes. Depends on -- you see, advanced packaging can have a spectrum of definitions in terms of its capability. Actually, we do have products which we are already working with OSAT suppliers using, well, not the TSMC level CoWoS technology, but it's certainly much better and higher in capability than the kind of commodity processes.

As this trend continues to grow, we believe OSAT providers will pick up their capabilities and the whole industry will benefit from, I hope a very good ecosystem, certainly led by TSMC with the OSAT suppliers to provide very reasonable capability and supply and commercial. Thank you.

Q – Laura Chen, Citi

Thank you. And my second question is on the Arm-based AI PC. We see most of the issues nowadays at the software and the applications. So can you share with us MediaTek's approach and how can MediaTek avoid these kind of legacy applications and software compatible issues?

A - Dr. Rick Tsai, CEO

Well, Laura, I'm sorry that I have to say at this moment I cannot really comment very specifically, other than to say that we are following the progress and the difficulties that the Arm's computing AI PC is encountering. We will certainly provide you with more information sometime in the future. Thank you.

Q – Sunny Lin, UBS

Good afternoon. Thank you for taking my questions. Very good results and guidance. So my first question is on the flagship smartphone 5G SoCs. And so in the short-term with a strong demand of Dimensity 9400, are you seeing some supply tightness and therefore we should expect the strength to sustain to Q1? And then a bit longer term maybe in 12 months, now with Qualcomm having these

lawsuits with Arm, especially given the recent escalations, are you seeing any opportunities in terms of the client engagement or share gain opportunities?

A – David Ku, CFO

Sunny. I think Overall for the Dimensity 9400, the overall design in and design win situations are very good. For example, during our product announcement, I think pretty much all the tier one customers getting on stage talking about adopting our solution.

So for this quarter, fourth quarter, I think overall ramping up situation is actually pretty good. And also we are seeing the pipeline remains strong and both for the current generation and also we talked about N-1, basically the previous generation, which will continue to grow in the first quarter and by and large next year as well.

From a supply chain perspective, I think overall we're getting pretty much what we need for this quarter and actually for next quarter, I think we are pretty much getting what we need as well. So there should not be --

Q – Sunny Lin, UBS

Got it. Sorry David, a quick follow up. Did you mention that overall the flagship should continue to grow sequentially into Q1?

A – David Ku, CFO

No, this is not what we guide. I just said from the design in -- flagship design in perspective will continue but for the overall, we still need to see the Q1 seasonality which we'll provide later.

Q – Sunny Lin, UBS

Got it. So my second question is on the smartphone SoC growth margin. Obviously in Q3 and also Q4, overall the margin is better than expected. And so what's the reasons behind and how should we think about the trend for next few quarters?

I think on the cost side obviously TSMC is raising its cost for 5nm and 3 nm from early 2025. Arm is also raising a licensing fee. And so would you be able to pass through all of this cost increase?

A – David Ku, CFO

I think our goal, like we explained earlier this year, is trying to maintain the growth margin within the range, which is 46% to 48%. I think we just disclosed third quarter gross margin number and also give our guidance. Overall, I think we feel comfortable to basically aim for this range.

For next year, in general, I guess that's still going to be our range. And also, like we explained earlier in last quarter, we're trying to sell our value and pass down some of the costs to our customers. I think that still remains our strategy and goal.

Q – Bruce Lu, Goldman Sachs

Yeah, thank you for taking my question. My question is regarding to the edge AI replacement cycle. I mean from one hand, you guys are promoting the 9400 which has pretty good customers acceptance

and either for AI smartphone or AI PC, chip vendor are trying to promote using their flagship chip or the most advanced chip, which obviously has a lot of AI power.

But if you want to see a higher adoption for AI or a faster replacement, we expect -- when do we expect to see the mid-end range of the edge AI device can have like a meaningful AI function or can we expect certain shorter replacement cycle for AI for 2025?

A - Dr. Rick Tsai, CEO

This generative AI acceptance is the function of both hardware, software -- maybe not both -- hardware, software, and ecosystem. As I said in my opening remarks, one thing MediaTek is really working very hard, and I would say very well, is to develop ecosystem partnership to enable the edge AI applications among all OEMs.

Also we are in the process of expanding with the global players such as Google, together with their large language models or their smaller large language models like Gemini Nano or Llama 3.2. I truly believe our efforts in enabling the ecosystem will bear fruit in the next couple of years because that will, I believe, excite the many potential smaller third-party developers to come up with very useful or very interesting applications.

On the other hand, we also -- I have talked to high level people in the US. They are also working to make their models more efficient, smaller, and more efficient, so they can run on the edge devices. So my feeling is for the mid-end devices such as the smartphone to be useful for the generative AI application, that will take probably another three years, two to three years. That's my estimate.

Q – Bruce Lu, Goldman Sachs

Okay, thank you. So the next question is again for the ASIC business. You mentioned that the addressable market is about \$45 billion in 2028. Can you provide like the second level breakdown for this \$40 billion addressable market? What kind of ingredient inside for CPU or customer ASIC or GPU or any breakdown for that? Can you achieve like 10%, 20% market share by 2028? Can we have multiple customers roadmap in the pipeline?

A - Dr. Rick Tsai, CEO

Well, maybe still to course segmentation, \$5 billion out of that \$45 billion we believe will come from, more from the CPU type of AI accelerator regime. The other \$40 billion, I cannot tell exactly, but the customized ASIC as well as DPU or smart NIC type of business will constitute all the \$40 billion.

And when we look at -- we have looked, not just looked, we have really investigated in great details of those different segments and their technology requirements and the customer, potential customer list. And we do have a strategy and a plan to pursue the ones that will fit the best with our capability and our partnership relations -- it's Arm, it's Nvidia.

So that's why I said earlier that I'm excited and optimistic about our future in this very large segment. I believe we will do -- I certainly hesitate to give you a very specific percentage, but it's not going to be insignificant percentage. Otherwise, I wouldn't be that excited.

Q – Brad Lin, Bank of America

Thank you for taking my question. So first of all, congrats on the solid results. So I have two questions. So the first question is on the automotive, could the management elaborate strategic priorities of the auto business? Obviously, the auto semi quite big, right? And then what is the contribution currently for this year and what will be the trajectory of the automotive business over the next two years? Thank you. That would be my first question.

A - Dr. Rick Tsai, CEO

Okay, I give you first, automotive is a mid to long term investment. We are committed to that because we recognize this is a mid to long term, large, also stable market. MediaTek again has very good fundamental capabilities and strategic partnership, relationship with Nvidia that will enable us to pursue these long-term opportunities. And we have a 3nm product, actually which will be taped out soon, a very high-performance cockpit chip. And we will have – we have another one to follow.

We are putting very significant resources into this business. And we have, in addition, we are making real and strong progress in China market so far, which is, of course, the fastest growing market in the world now. So I'm very happy with the progress, although I also understand this is not a short term type of thing. But that's exactly our strategic intention. We want to build business that can give us long term, stable revenue and profitability, also.

Their current revenue, it's not big. It's about, probably low single digit of our total revenue range. But if you look at where we were just two years ago or something, I will say our people have done a very good job. Thank you.

Q – Brad Lin, Bank of America

So my second question will be on the well, geopolitical risk. So what are the key risks that MediaTek identifies due to the geopolitical tensions and what strategies are in place to manage this risk? Obviously, well, Trump talks about some kind of tariff, and potentially more restrictions on the technologies, and many of the areas can be impacted. I know we have not been impacted by that -- but does management see there is any potential risk upcoming? Thank you.

A - Dr. Rick Tsai, CEO

Well, this is a, of course, very big and very difficult subject. I don't think anybody, any company can really elaborate this risk very well. Not to mention there's a critical election coming in about one week. So I will not really comment on the specific risk.

However, I will say for MediaTek, we have a very structured and strong compliance program. We will comply with the rules, regulations from governments. We will not do, shall we say, strange things, period. We will protect our company and our shareholders vigorously. Thank you.

Q - Charlie Chan, Morgan Stanley

Thanks for taking my question. Good afternoon, Rick, David, and Jessie. So my first question is regarding your view about what China AI smartphones need to improve from you to see a real replacement cycle? Because I was there for your Dimensity 9400 product launch events, and visited

your booth after the product launch. And I would say those new features like edge training like Lora or AI agents, video generation, are pretty interesting. But after the events, do you receive any customers feedback that whether the smartphone sales is indeed improving?

And also I think Apple Intelligence is already rolled out, right? So if you kind of compare China's AI ecosystem or apps, how far do you think it is compared to Apple Intelligence? That's my first question and thank you.

A – David Ku, CFO

Okay, Charlie, David here. So maybe the second question first about the D9400. And also what's the market situation for the flagship and also how's the AI functions on the flagship. First of all, I think for the AI functions it's actually been well received and very popular and welcomed in the marketplace. Some of the customers even have one, sort of the hardware AI key. Okay, so not just a software, that's to connect the software function and the service with one hardware AI key.

So what you can do? Consider the smartphone camera become your eyes. You can just aim on whatever subject and click the AI key and use your natural voice, natural language to ask whatever question you like. Then the smartphone will provide you the service and answer and feedback.

So that's just one example. There are some other examples. So overall I guess in terms of landing the actual AI service on the phone versus like other operating system players, I think for our China customers, they are moving really, really fast. Okay, not just demo or talk about the idea. If you go to China right now, some of our customers already launched their D9400 product already. You can actually play around and use the AI function for the mass production phone. You don't need to wait for one quarter or two later to update your software. So that's first thing first. So speed of landing is actually very good.

In terms of the usage, I believe actually, so like our CEO explained earlier is still emerging and developing for the whole ecosystem. We do believe actually with the good hardware and computation capability plus very aggressive customer go-to market strategy, we will invite more players along the ecosystem to continue to improve and grow the AI ecosystem and service and features.

And so far, I guess again this is the first wave of the product launching -- overall the feedback we got specifically on the AI side, they all feel exciting because after all that's probably one of the new area people can continue to differentiate and provide true much better user experience on the smartphone side. I think that's actually, on the AI smartphone, also linked to the flagship.

On the overall market demand, again, like what we commented earlier, I think this year, for 2024, at least for the China demand is actually slightly better than our original expectation. If you recall earlier when we gave out the full year guidance, we're talking about in US dollar terms we probably will grow mid teens. Right now we are probably slightly exceeding that.

I think that's just one indicator, or evidence, or consequence of slightly better market demand. For next year, we still need some more time to finalize our view But at least actually what we see for fourth quarter and what we see some early signal for the first quarter, I think in general it's -- just

probably the better word to talk about, is just a stable and much more comforting. In terms of the overall trend, I guess we'll still need some more time.

Q - Charlie Chan, Morgan Stanley

Thanks, David. So a follow up to this is that, actually to Bruce's point, if the landing of those new features or local features in China AI is so fast, why not also enable your mainstream phones to have this kind of NPU or AI compute power?

A – David Ku, CFO

I think for the hardware AI function or NPU, I think we would definitely have plans to go beyond flagship. I think that's a positive answer.

Q - Charlie Chan, Morgan Stanley

Okay, thank you. And my second question is also on this, Qualcomm/Arm disputes, licensing. So yeah, we actually put our note by putting our Morgan Stanley coverage and thoughts together. So in general we think there should be a settlement. But in that case, do you think that is going to benefit MediaTek or not? Because the rationale here is that if there will be a settlement, Qualcomm probably need to pay up for the royalty. So there's going to be a level playing ground for you.

But my concern is also that Qualcomm probably can access or update to most powerful Arm's GPU or CPU cores. For example, this year your Dimensity 9400 mobile gaming is so powerful. So if Qualcomm were to update their kind of GPU to a similar level, whether you still have the similar advantage in the flagship market. So just a question about the potential impact. Thank you.

A - Dr. Rick Tsai, CEO

Well, about the dispute between our two industry peers, we cannot really comment, except to say MediaTek has been working very closely with Arm, again as evidenced by the tremendous capability demonstrated by our Dimensity 9400 SoC. And with what we can tell, we have access, or I would say the very earliest access to our partner, Arm, on the leading-edge core and also any of the features.

We have a relationship that it's not just kind of a hands off type of a relationship. It's a collaborative relationship. The working between two companies, R&D teams, is very close. The goal is to -- because it's truly a win-win type of relationship.

So I wouldn't be concerned about whether MediaTek will be at a disadvantage whatever the dispute will end. But our strategy and our action is to build this win-win strategy and relationship as we have and we will continue. Thank you.

Q -Brett Simpson, Arete

Yeah, thanks very much Rick. I had a question on the flagship smartphone business. You mentioned 30% share in China. Is that an achievement that you reached with the D9300 or is that a forward-looking statement looking at how you see your share developing within D9400?

You mentioned China in your prepared remarks lot but you didn't mention non-Chinese customers. And I guess -- if I look at players like Samsung, we know the Exynos product division is struggling to

kind of sustain their flagship position, and we look at Pixel and you know that chip doesn't seem like it's getting much scale. So when you look at the landscape for Android into non-Chinese customers, do you think the D9400 will start to see some meaningful penetration into these types of customers? Thank you.

A - Dr. Rick Tsai, CEO

Brett well, the market share I mentioned 30% about, applies to year 2024. Of course, as I said, we strive to increase our penetration as time goes on, certainly in 2025. As to the non-China players, I cannot, again, really common directory on them. So I suffice to say I think we have demonstrated capability of our 9400 SoC very well. The decision, of course, is not for us to make easily. I can assure you that we will spare no effort to try to gain as much market share as we can. Thank you.

Q -Brett Simpson, Arete

Yeah, thanks for that Rick. That's clear. And maybe just a follow up for yourself or for David. MediaTek's OpEx to sales is one of the highest in the industry. I think you're obviously in investment mode in areas like automotive and the ASICs, compute, et cetera. But how should we think about this trend, this OpEx to sales trend over the next year or two? Are we going to see some operating leverage from the business model or are we going to continue to see elevated spending relative to other players in the industry? Thank you.

A – David Ku, CFO

Okay, first of all I think if you look at the history of our OpEx it's really just on the different cycle. Like you said, sometimes we need to do investment first and after one to two years, when the revenue comes up. So when you look just on a longer term, I think overall using two or three years average on OpEx ratio, I think we're doing quite okay compared to the industry peer.

So overall, I guess, for going forward, because there are other new areas that we're still trying to invest in. So maybe from certain period, you're going to see some sort of frustration, but again once when the new revenue coming in, you're going to see a much better ratio.

If you look at overall headcount, we've been actually controlled the overall headcount very nicely. So the incremental spending is actually mainly on the engineering spending, for example the higher end, the mask and all related. And again, that should be considered as investment for the future revenue.

A - Dr. Rick Tsai, CEO

Well Brett, I have one comment. Your comment is very good, well received. It is management's, one of our, certainly one of our jobs to manage our OpEx ratio to the level that will benefit our shareholders more. And we understand that and we're working very hard on that. By the way, I will quote your question to my management team. Thank you.