

MediaTek 3Q25 Earnings Call

Friday, October 31, 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 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 2025 third quarter financial results. The currency used here is NT dollar. The foreign exchange rate applied to the quarter was 30.0 NT dollar to 1 US dollar, representing a 2.8% of NT dollar appreciation compared with the foreign exchange rate of 30.8 in the second quarter. Every 1% of NT dollar appreciation against US dollar would reduce our NT dollar revenue by 1%.

With that, revenue for the third quarter was NT\$142.1 billion dollars, down 5.5% sequentially, and up 7.8% year-over-year. If we exclude the FX factor, in US dollar, third quarter revenue was down 2.6% sequentially, and up 16.2% year-over-year.

Gross margin for the quarter was 46.5%, down 2.6 percentage point from the previous quarter, and down 2.3 percentage points from the year-ago quarter. Please be reminded that gross margin in the second quarter benefited from a one-time item, which increased second quarter gross margin by 1.9 percentage points.

Operating expenses for the quarter were NT\$43.9 billion dollars, compared with NT\$44.5 billion dollars in the previous quarter and NT\$40.5 billion dollars in the year-ago quarter.

Operating income for the quarter was NT\$22.2 billion dollars, down 24.5% sequentially and down 7% year-over-year. Non-TIFRS operating income for the quarter was NT\$22.8 billion dollars.

Operating margin for the quarter was 15.6%, down 3.9 percentage points in the previous quarter and down 2.5 percentage points year-over-year. Non-TIFRS operating margin for the quarter was 16.1%.

Net income for the quarter was NT\$25.5 billion, down 9.3% sequentially and down 0.5% year-over-year. Non-TIFRS net income for the quarter was NT\$26 billion dollars.

Net profit margin for the quarter was 17.9%, down 0.8 percentage points from the previous quarter and down 1.5 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 18.3%.

EPS for the quarter was NT\$15.84 dollars, down from NT\$17.5 dollars in the previous quarter and down from NT\$15.94 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT\$16.18 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's third quarter revenue in US dollars came in at the high end of our guidance range, thanks to better-than-expected Dimensity 9500 demand. Quarterly revenue in NTD exceeded our guidance range mainly due to a more favorable foreign exchange rate of 1 US dollar to 30 NT dollars, compared to our assumption of 1 US dollar to 29 NT dollars.

During the quarter, we observed exciting developments in ubiquitous AI. Ongoing innovations in agentic AI and AI applications across industries are fueling demand for AI computation. As a result, several hyperscale companies have announced plans to significantly increase capital expenditure to build substantial AI computing power, which will be deployed through multiple years. We believe this drives a virtuous cycle for long-term AI growth and we are still at the very early stage of the AI mega trend.

Underpinned by our leading key technologies and strong execution capabilities, MediaTek stands firmly to capture growing opportunities brought by ubiquitous AI. Here are some recent progresses.

In the cloud, improving data center Total Cost of Ownership (TCO) has been crucial for hyperscale companies, so customized solutions that are optimized for CSPs' specific workloads are well suited to add values to data centers. Our first AI accelerator ASIC project is well executed. We are on track for our 1 billion US dollar cloud ASIC revenue in 2026, and expect multiple billions of revenue in 2027. The

achievement reflects our ability in integrating our world-class interconnect IP to custom designs and managing the advanced nodes and advanced packaging supply chain. Our solid execution, optimizing technology, and scale have gained increasing recognition in the market. Follow-on project that is more complex than previous designs is already underway with revenue expected in 2028 and beyond. Meanwhile, we continue to aggressively engage with a second hyperscale company for new data center ASIC projects with high confidence. We believe in our value propositions for cloud AI customers and expect rapid growth in the future.

At the edge, we build powerful edge AI chips to enable more on-device AI innovations across smartphones, tablets, PCs, automotive and more. In the third quarter, we launched our latest flagship mobile SoC Dimensity 9500. It features the industry-leading dual-core NPU architecture with one performance NPU to handle more complicated AI instructions and one efficient NPU to run light AI models for always-on AI experiences. Customers have utilized this powerful architecture to enhance user experience in applications such as photo shooting and AI assistant. On the other hand, GB10, the edge AI chip that we co-designed with NVIDIA has recently begun mass production. GB10 powers the world's smallest AI supercomputer DGX Spark, which can run inference on AI models with up to 200 billion parameters and fine-tune models of up to 70 billion parameters locally.

Looking ahead, we believe that advanced process technologies and packaging solutions will unleash more AI innovations and usage cases across multiple industries. And MediaTek is one of few companies capable of making continuous investments. We completed our first 2nm tape-out at TSMC in the third quarter, and we will be a front runner in launching 2nm chips starting in 2026 for customers across industries.

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

Mobile Phone accounted for 53% of total revenue in the third quarter and grew 4% year-over-year and declined 4% quarter-over-quarter. In US dollars, this revenue group grew 13% year-over-year and declined 1% sequentially.

Demand for our Dimensity 9500 has been stronger than expected. The first wave of customers has launched flagship smartphones such as the vivo X300 and OPPO X9 series in China and plans to expand into more regions, such as India, Southeast Asia, and Europe by the end of the year.

For the fourth quarter, thanks to the strong ramp of Dimensity 9500, we expect mobile revenue to grow strongly quarter-over-quarter. The flagship smartphone revenue for the year has been tracking above our expectations. We are confident of exceeding 3 billion US dollar of flagship smartphone revenue in 2025, representing more than 40% of year-over-year growth.

Now let me move on to Smart Edge Platforms. In the third quarter of 2025, this group grew 14% year-over-year and declined 6% sequentially, accounting for 42% of revenue. In US dollars, Smart Edge Platforms grew 23% year-over-year and declined 4% quarter-over-quarter.

The year-over-year growth was mainly driven by a better mix in tablet with strong AI adoptions and global share gains across connectivity products. The sequential decline was mainly due to certain demand being put forward to the first half of the year.

For the fourth quarter, we expect Smart Edge Platforms revenue to decline seasonally. However, we expect automotive to grow strongly in the quarter. Several of our e-cockpit customers in China will launch new car models across high end and mid-range segments, driving our auto revenue to more than double year-over-year in the fourth quarter. And we expect the strengths to extend into 2026. In addition, our premium Cockpit Solution CX-1 is also expected to begin volume production in late 2026, adding momentum for future growth.

Now moving on to Power IC, which accounted for 5% of total revenue in the third quarter, declined 4% year-over-year and declined 10% quarter-over-quarter. In US dollars, Power IC grew 3% year-over-year and declined 7% quarter-over-quarter. For the fourth quarter, Power IC revenue is expected to decline seasonally quarter-over-quarter.

Moving to the guidance, in the fourth quarter, we expect revenues from our flagship smartphone, GB10 project and automotive business to grow sequentially. These revenue strengths are expected to more than offset the seasonally weaker consumer electronics demand.

With that, we expect our fourth quarter revenue to be in the range of NT\$142.1 billion dollars to NT\$150.1 billion dollars, flat to up 6% sequentially, and up 3% to 9% year-over-year at a forecasted exchange rate of 30.6 NT dollars to 1 US dollar. Gross margin is forecasted at 46%, plus or minus 1.5 percentage points. Quarterly operating expense ratio to be at 31%, plus or minus 2 percentage points.

With the midpoint of our fourth quarter revenue guidance, 2025 is expected to be a record year of more than 19 billion US dollar of revenue. For 2026, we continue to see great growth opportunities. Amid a tight capacity environment, we will strategically adjust our pricing and allocate our capacity among different product lines to reflect the increasing manufacturing costs.

For the mid-to long-term, we're firmly on our growth journey. We're well-positioned with our leading key technologies and strong execution capabilities to capitalize on business opportunities brought by the ubiquitous AI. We believe our major growth drivers including flagship SoCs, automotive, computing, and data center will continue to bear fruit in the future.

This concludes my prepared remark. Thank you.

[Q&A]

Q – Sunny Lin, UBS

Hi Rick, David, Jessie, thank you for taking my questions. My first question is on Cloud ASICs. So obviously last few months stronger industry developments across the board. So what's your current

expectations on the addressable market compared with your prior \$40 billion expectations for accelerators by 2028? And how's your progress on expanding the client and project base? I know you mentioned you are engaging with the second project. How's the overall implications to your market share in the space?

A – Dr. Rick Tsai, CEO

Yes, we did talk about \$40 billion TAM for the data center ASIC revenue, I think about two years ago. With the current -- or actually starting from last year, the CapEx increase from the CSP companies, we now are looking at I believe at least \$50 billion TAM for the data center ASIC revenue. We certainly strive to gain a lot of new businesses, and I would say at least right now we strive for 10% to 15% plus market share going forward in next two years plus. Thank you.

Q – Sunny Lin, UBS

Thank you very much. So two years meaning by 2028. And so if we use \$50 billion total addressable market value, that would imply like over \$5 billion type of opportunities. So does that imply that you are on good track to expand your project base to more than one by 2028?

A – Dr. Rick Tsai, CEO

Yes, number one -- yes, we have projects on hand. We feel quite confident that we -- certainly we need to execute -- and we will execute, to get those products to our customers and to their data center. And in addition, we believe we will be able to gain some other projects from different CSP company. Thank you.

Q – Sunny Lin, UBS

Thank you very much. Sorry, maybe just a follow up. Given Rick, what you just shared seemed pretty encouraging. So for the new projects, because you talk about the first project going to mass production in 2026 and that's on track to 1 billion sales, how should we think about the other projects? What's the timing for revenue contribution? Will that be in 2027 or mostly from 2028?

A – Dr. Rick Tsai, CEO

As I said in the remarks, we believe the first project will generate multiple billions in 2027 and another project will start delivering revenue starting 2028 and beyond. Thank you.

Q – Sunny Lin, UBS

Thank you. Sorry. My second question if I may, will be on gross margin. So maybe for David, how should you think about the gross margin from here based on the guidance for Q4, seems like the midpoint is down a bit versus the prior 47% to 48% type of range. So why is the decline? And for 2026, how should we think about the puts and takes?

A – David Ku, CFO

I think for the fourth quarter gross margin movement is mainly driven or impact by the product mix or revenue mix in fourth quarter. For next year, I think we are still strategizing about our overall capacity allocation and pricing strategy.

I think given the overall semiconductors industry background, which I think everybody knows for the leading nodes, as you know, which is, A, it's actually somewhat limited capacity and because the demand is very strong and also B, the costs of those leading nodes are increasing. So with that industry background we need to allocate our capacity strategically to those higher value added segment. In the meantime, we're actually walking in the direction to basically passing on that increase of cost to our customer as well.

So for the growth margin next year, please give us some more time. We will update later. But for fourth quarter again that's actually mainly due to the product mix and industry mix.

Q – Laura Chen, Citi

Hello. Hi. Thank you. Good afternoon. Thank you for taking my questions. My first question is also on the ASIC business. Just wondering how would MediaTek manage your RD resource to work on the scalar AI growth. In particular, we have a great potential for the second customer -- will MediaTek to consider any potential joint venture or investment.

Also I'm just wondering we see that scale up and scale out are very important for AI data center buildup. What MediaTek can provide to gain more market shares going forward? Thank you.

A – Dr. Rick Tsai, CEO

From R&D point of view we are definitely -- not only we are, we have been moving our R&D budget, which certainly includes the people and the financial means into data center technologies, IPs and execution capabilities.

This has been going on for a while, but we continue to increase the investment. We have strengthened significantly our talent in the US, so that we can have also not only technical capability but also the efficiency of the communication directly in the US.

We are embarking on numerous IPs certainly in the high-speed interconnect area, either across the chip or from chip to the rack, but also we're including the silicon photonics. But we also certainly are working on the 2 nanometer process technologies, the 3.5D very large reticle size chips for the packaging.

The company is fully committed to building the technology and IP capability so that we can not only build the chips for our customers next year in 27 and 28, but also the capabilities that we can provide for 28 and beyond time frame.

Q – Laura Chen, Citi

Thank you, Rick. Yeah. Because it sounds quite encouraging for the next few years growth. So, just wondering, will those like new technology will be developed by MediaTek internally or are you also seeking for other partnerships outside the company?

A – Dr. Rick Tsai, CEO

We do both ways. Certainly, many of the IPs we develop internally. We also certainly in the photonics for instance area, we have strong partnership – building partnership with other major IP suppliers, not to mention TSMC on the packaging plus the process technology.

We are also certainly looking at opportunity acquiring talent outside of the company. If we do something, we'll let you know later. Thank you.

Q – Laura Chen, Citi

Sure. Thank you. My second question is about the smartphone demand into next year as we see that the resource in the tech supply chain has been moved to the AI data center, including foundry, memory, substrate, et cetera.

So do you see any impact on your customers' order pull-in momentum into next year or product portfolio planning? So would that also impact MediaTek indirectly given that inflationary environment? So how should we look at the smartphone shipments outlook and how would MediaTek help your customers mitigate the risk at the same time to maintain your gross margin and also shipment outlook?

A – Dr. Rick Tsai, CEO

I mean we've been maintaining our position about the smartphone shipment, unit shipment overall, about low single-digit growth and we have not changed that view. The changes of course happen mostly in the distribution of those shipment among -- from the flagship, premium to the mainstream, entry.

And as we have said before, there is no question about the -- a bit of the moving toward the both ends of the spectrum. And we have been very successful in building our position in the flagship and the premium, like I said. We will continue doing that, what we have seen so far is our OEM customers, they have been able to also still moving very good quantity in their sell-out, using our latest flagship SoC 9500. And they are also I think making adjustment in their pricing, and by that I mean moving up in their pricing.

So, we recognize also some of the challenges in the DRAM supplies and the other pricing environment. What we believe is with our value brought by the 9500 chips and our overall system advantages, we will get our value for our chips, as David just kind of outlined in his answers a few minutes ago. Thank you.

Q - Gokul Hariharan, JPMorgan

Yeah. Hi, good afternoon, Rick, David, and Jessie. My first question is on the data center ASIC as well. Recently there have been so many announcements coming through on data center ASIC project wins. But so far it feels like it's very much winner-take-all kind of market given one vendor seems to be getting pretty much all the newly announced project so far.

What are you observing here talking to some of these like I think you're already talking to a couple of CSPs if not more. What is the feedback you are getting from these companies that gives you the confidence to kind of have a more balanced kind of market share profile in this market?

Secondly also for this first project, could you update a little bit on what is the exact status given we've had a bit of delays it looks like, what is the exact status right now? Has chip already been kind of taped out?

And when we talk about \$1 billion of revenue next year, is that all turnkey related revenue or it also includes some of the NRE revenues that you would be booking? That's my first question. Thank you.

A – Dr. Rick Tsai, CEO

Let me try to answer your first question. I think there's, I mean we all have seen the announcements either from multiple CSP companies or plus OpenAI et cetera, et cetera. I certainly don't need to repeat. Simply because that scale of the CapEx I think it is pretty, I think natural for the CSP companies to look at their risk exposure plus the TCO requirements for their investment.

So the basic design, which can optimize their own workload plus the flexibility of the business model, that we provide to enable to gain our business and also enable their capabilities, I think it's also a very good business model and a business decision for them. So we feel comfortable. We understand this is a very difficult and challenging task, but we are confident that we can execute well.

A – David Ku, CFO

I think for the second question like our CEO said, we feel fairly comfortable. We passed the certain key milestone, basically we've been taping out successfully already. And the revenue we're talking about next year is not including NRE, it's purely the revenue for the shipment.

Q - Gokul Hariharan, JPMorgan

Understood, that is very clear and thank you very much. Second question is in terms of the business model, I think previously for data center ASIC you've outline you want to do back-end as well as GDS-tool-in kind of projects. Is there any thinking about potentially trying to move down the curve and also start thinking about taking some role in some pure back-end design projects to build up scale?

Given the number of projects available are probably still quite few in number. Is there any thinking strategically to kind of go down to those kinds of projects as well, even if margin threshold might be a little bit lower but still gives you a lot of dollar profit from those kind of engagements?

A – Dr. Rick Tsai, CEO

We understand the different business models, and I must say for now and the foreseeable future we will focus on our current business model, which we believe provides a really good balance between sometimes very high cost or technology provided or design provided business model, and very kind of a much lower value-added back-end turnkey service. I think we have the right balance that will benefit our customers and ourselves at MediaTek for quite a while.

Well of course there's some really special situation we can consider, but right now I must say we are pretty fully occupied to deliver what we are already awarded. Thank you.

Q - Gokul Hariharan, JPMorgan

Also just to follow up on that is do you think like let's say a customer goes to GDS-tool-in kind of project from currently they are basically full spec-in to the largest epic vendor out there, do you think the customer stops there? Or do they continue to insource more and more of the IP and basically convert that into a purely back-end service kind of model like one of the CSPs already doing?

A – Dr. Rick Tsai, CEO

Again this is a strong function of different companies, different companies' philosophy, and their design complexity. So I cannot give you a definitive answer as to which models each customer would like. I'm sure the customer would like to be able to contribute more values through their own means overall at the end of the day.

We understand that, but we also understand from a customer point of view there're certainly some pretty high still strong value-added area that they probably decide not to do it themselves because again you have to weigh the investment and the timing. The schedule at the end of the day also is not only critical but it's probably the most important factor. But I think again our model provides the balance of the capability, TCO, and the schedule. Thank you.

Q – Charlie Chan, Morgan Stanley

Hi, good afternoon, Rick, David and Jessie. So my first question is about your AI smartphone. It was great to hear that the sell-in was very strong. Actually I attended your product launch event in Shenzhen and your presentation and marketing was great. So I'm wondering what is the so called sell-through so far?

And you mentioned that you hope to gain some value from your customers, right? But we're also hearing some price competition from your US competitor into next year in the high-end segments. Can you help us to understand, one, you said whether AI smartphone really has that demand and two, is that whether they can really offset some sort of pricing pressure from your US competitor in the high end? Thank you.

A – David Ku, CFO

Charlie. I think from what we see the AI smartphone, especially for the flagship smartphone demand is very solid and I would say it's good. And especially with our new product launch, I think we are still seeing we continue to gain market share. Taking fourth quarter for example. Right now the fourth quarter guidance we give out is actually 0% to 6% growth. I think this anti-seasonal growth a big part of the reason is actually we see a fairly strong smartphone shipment starting in fourth quarter this year -- of course that actually lead to some of the gross margin movement due to the product mix.

I think as far as for the competition, you talked about, the competition's been there for actually forever. So, we've been dealing with that kind of competition for a long time. Especially given the overall the supply situation, we actually think this is an opportunity for us to manage the overall capacity allocation and also balancing the pricing going forward. It's challenging, it's not easy, but I think that's the direction we are driving so far.

Q – Charlie Chan, Morgan Stanley

So just a very quick follow up on your first question. And also I do have a second question. So you mentioned that flagship shipments are going well. So is that kind of dilutive to your corporate margin? Because your guidance for corporate margin is like size it down to 46%. You mentioned about a product mix. So, it's kind of -- the question number one is a follow-up.

And my second question maybe to Rick is that you mentioned about the second big customer in ASIC. Is it the project win confirmed or there is still some uncertainty? So the second project is more like your kind of hope or plan but it is not like a done deal yet? Thank you.

A – David Ku, CFO

Maybe answer the first question first. Yes, actually Charlie, I think like we explained, the gross margin movement in fourth quarter is partially due to the product mix, i.e, the smartphone.

A – Dr. Rick Tsai, CEO

I really cannot elaborate too much but as I said in my opening remarks, we are engaging with high confidence. Thank you.

Q – Charlie Chan, Morgan Stanley

So, Rick, So what would be MediaTek's a key differentiation besides the TCO? I think following Gokul's kind of question, it seems like there's a dominant player kind of win essentially almost all the kind of high-end projects. So can you elaborate the reason what gives you confidence and what is the MediaTek's key differentiation? Thank you.

A – Dr. Rick Tsai, CEO

I think I kind of articulate our business model and our capabilities. I probably don't want to spend too much time again but I really think the best evidence is what we are doing now, what we are executing. We are getting good projects and with really strong revenues to come. We have done that in, I would say a fairly short two years time. And I believe from that point of view we have gained a lot of credibility in the market among different customers. Thank you.

Q – Bruce Lu, Goldman Sachs

Hello. Thank you for taking my question. I'm happy to hear that you guys have pretty good progress on the GB10 project. Can you tell us a bit more about the business model you have with NVIDIA, the user case for GB10, and what kind of impact it's going to be when NVIDIA invested in Intel which theoretically they can do more in x86 architectures in this specific domain?

A – David Ku, CFO

Bruce, I think GB10 basically in the business model we provide the CPU and also the overall system integration and getting a GPU chiplet. But the final product go-to market will be managed by NVIDIA. So there's a long way to explain, this is actually NVIDIA's product and we are their design service ASIC partner.

And in terms of segmentation, I believe GB10 right now is being considered as the supercomputers. It can run on a single GB10, you can run more than 200 billion parameters. You can even stack it together

to run 400 billion parameters. Probably that's the best workstation-alike personal supercomputer you can get.

And also the market, the product is actually in the market up and running already. So I think both from the product segmentation perspective and also from time-to-market perspective, I think we actually have the advantage. And I think the second-generation product right now the partnership is also ongoing. So we do believe both from the technology perspective and also the speed, ie. the time-to-market perspective, we are actually very competitive as a partner with NVIDIA.

A – Dr. Rick Tsai, CEO

You also asked about the NVIDIA and Intel announcement. Well, number one, of course we cannot really answer such questions. We're not a party. But on the other hand, we read -- from what we understand -- you just heard from David, the chip that we collaborate with NVIDIA, the GB10 or there may be a different name for other different applications such as in the PC field, the segment is quite high. This is a really powerful chip. So we don't really believe the chips that we build together, the segment of which that we can pursue, will be impacted by the other announcement. Thank you.

Q – Bruce Lu, Goldman Sachs

A quick follow up. What is the addressable mark for this product in 26 and 27?

A – Dr. Rick Tsai, CEO

Professional to high-end. Very, very high-end.

Q – Bruce Lu, Goldman Sachs

Okay, my second question is going back to the profitability, right? If you exclude the one-off impact from third quarter, the company's gross margin has sequential decline for like five quarters already. And we understand all the puts and takes for the products. But if you look at your growth driver which is flagship models, auto, even for the ASIC, which might have a billion or multi-billion dollar revenue in 27 which are non margin accretive.

So when can we see the stabilization of gross margin given that the growth driver are all margin dilutive or we need to shift focus to focus on like operating margin in the future?

A – David Ku, CFO

Bruce, I think we kind of explained before especially for the ASIC business model. The key for the ASIC business model which is very operating margin attractive starting from day one, because of the business model natural and also sometimes actually different arrangement. So judging from the gross margin ratio is probably not the best way. It's really just the operating margin ratio or ROI is actually the enhancement once we start to ramp this, actually with the meaningful revenue, okay?

On the other product lines, on the other hand, we're just dealing with the increasing cost for the supply chain and also the limited capacity. But we just need to strategically allocate our capacity and also trying our best to passing on that increased cost to our customer. So we are working on this direction.

Q – Bruce Lu, Goldman Sachs

So for the modeling purpose wise, given that you have like multiple billion revenue coming from ASIC in 27, we should model like sequential model margin decline for the gross margin, but should be accretive for the operating margin. Is that right understanding?

A – David Ku, CFO

Yes. So, again I think the big revenue for 26 we're talking about \$1 billion from the ASIC. For 27, we just give out the guidance going to be multi-billion dollars. But for 27 because still have some time, so we will provide some guidance or heads up probably sometime in 2026. But in general that's the right direction.

Q – Hass Liu, BoAML

Hi, good afternoon. Rick, David, and Jessie. Thank you for taking my questions. My first question is regarding your profitability. For next year, with growing competition pressure in the mid- to low-end smartphones, I'm just wondering if you are able to fully pass on higher manufacturing costs to your customers? Or if you could just share your smartphone strategy, would you prioritize sales growth or margin stability when you face more pressure from both your suppliers and competitors? Thank you.

A – David Ku, CFO

Well, I think our overall strategy is actually trying to find the best value for our limited capacity. So again with your question, basically we're trying to prioritize the profitability over the market share. I think that's our goal.

Q – Hass Liu, BoAML

Okay, so then we could actually assume that your smartphone business on the profitability, on the margins next year would actually be more stabilized into 2026 versus what we have been seeing in the past few quarters for 2025, right?

A – David Ku, CFO

I think for next year's gross margin and also the pricing, right now we are still in a stage working with the market and the customer directly. So we will provide the guidance next quarter.

Q – Hass Liu, BoAML

Okay. And then just a quick follow-up on the margins questions. With much higher design and also manufacturing costs on the advanced nodes. So beyond 2 nanometer, will you still consider to migrate as aggressively as before or if you could assure your node migration strategy going forward? Thank you.

A – Dr. Rick Tsai, CEO

That's being looked at very, very closely and carefully. It is no secret that the Moore's law, at least from a two-dimensional point of view, it's slowing down. Each generation still provides values but it's not as strong as before. So I think 2 nanometer is certainly we believe the right thing to do. The next node, we're working closely with also our partner, foundry partner to see what is the best way for both parties. It's not fully decided yet. Thank you.

Q – Hass Liu, BoAML

But should we consider if your design service products or your own products will be the one migrating the earliest to the most advanced nodes? Would you give some indicator on that?

A – Dr. Rick Tsai, CEO

Up to 2 nanometer? Yes. Up to 2 nanometer, as I said, it's being looked at very closely and carefully. We cannot comment definitively yet.

Q – Hass Liu, BoAML

Okay. And then my second question is just regarding your long-term strategy. The traditional market demand growth could still be pretty mild in 2026 and ASIC could be the next key growth driver for the company. And I was just wondering if you could share your target for the next two to three years? How much of your revenue is going to come from the edge applications versus the cloud business?

A – David Ku, CFO

Yeah. I think for next year, 2026, I think we already give our guidance for the new revenue or should I say for the data center revenue, because next year will be the first year we start to ramp, so it will be a billion, so which means next year a big part of the revenue on the growth side, still be on other revenue as well.

But overall if you only see the incremental revenue, if I use this term, a big part of that will be data center and the rest of that will be the traditional or the existing business. I think that's the guidance. But once we get into 2027, most likely I think the data center will start to pick up, will become one of the major incremental revenue contributor.

Q – Hass Liu, BoAML

Yes. And then just a quick follow up to my second question is that if you could share your R&D intensity, which means your R&D expense as percentage of your sales to each of the business? For cloud versus Edge, I would assume probably in your cloud business the R&D intensity will be higher, right? So in the mid- to longer-term, two to three years view, do you think your R&D expense as a percentage of your sales will actually be higher than what we are seeing now?

A – David Ku, CFO

No, actually I think the R&D spending in terms of revenue ratio I think will stay, probably even will coming down a little bit mainly due to the revenue growth, sales growth.

Q – Brett Simpson, Arete

Yes, thanks very much. I have a two-part question on MediaTek's kind of structural profitability. First of all, in the near term, if I just look at the guidance for Q4, you have flagship smartphones rising in the mix. You have a solid premium automotive ramp up. I mean it feels like the mix within the business is getting richer in Q4 and you have an FX tailwind sequentially, yet you're guiding down gross margins.

So I just want to understand the dynamics as to why this is happening. Are you driving pricing aggressively in flagship? Is that why we're seeing profitability decline sequentially? Any help there would be useful.

And then the second part, looking more longer term at MediaTek's structural profitability. If I just step back, you have a relatively low gross margin at a high OpEx to sales versus your large fabless peers. If I look ahead, we have a structural wafer price hike coming from TSMC, you're moving flagship smartphones to 2 nanometer, you have rising ARM royalty rates. It feels like we're heading into a period of high inflation in a price sensitive smartphone market. Are you able to pass on these cost hikes and how should we think about structural profitability given all these dynamics that we see long-term? Thank you.

A – David Ku, CFO

Brett, I think for fourth quarter, like you said, both for smartphone and automotive, we see pretty strong growth. But just in terms of magnitude or contribution, the big part of that still belongs to the smartphone. So the gross margin movement is like I explained earlier, for fourth quarter specifically is mainly due to the mix, ie. actually the smartphones bring down the gross margin a little bit. I think that's actually for the fourth quarter.

For next year and ongoing, like I would say, we see the inflation on the semiconductor supply chain. And on the side of the inflation we also see some supply constraints, actually very tight supply along the whole supply chain. So we are in the process to decide about the capacity allocation and also passing on the inflation to our customer. We're in the process doing this right now.

Q – Brett Simpson, Arete

And sorry, David, just to clarify, when you say smartphones is lower gross margin than corporate average, is flagship lower than corporate average gross margins? Thank you.

A – David Ku, CFO

Yes, for the fourth quarter. Yes.

Q – Brett Simpson, Arete

Okay. And I had a second question for Rick. I think there's some confusion in the market about MediaTek's with the D9500, specifically whether or not MediaTek is a CSS licensee with ARM. And I ask because ARM is certainly signaling that you are a CSS licensee and that would imply a 10% royalty rate is being paid or something in that general vicinity, which is structured a lot higher than we've seen historically. So I'm just wondering if you can clarify this position because we're a little bit confused here? Thank you.

A – Dr. Rick Tsai, CEO

The confusion is not from us, Brett. It's from our supplier. As far as we understand, we are not a CSS licensee. We are not. I just want to be very clear. Thank you.

Q – Arthur Lai, Macquarie

Thank you, Rick, David, and Jessie. First, congrats on the big win in the ASIC tape-out. I sense that the investor actually underappreciate your company has a very unique position on number one, the strong partnership with NVIDIA, and also second is ASIC, XPU and scalability. So this question is to Rick. Can you share with us how you get a leverage between these two camps among NVIDIA and also the TPU. I

hope you can give us some real strategic thinking in the next two to three year time horizon. Thank you.

A – Dr. Rick Tsai, CEO

Of course, I'm sure you understand the nature of the relationship MediaTek has with NVIDIA, which focus on, actually both on the edge side, for one is the high-performance CPU/GPU chiplet design, and application in the computing and automotive side, they are in the edge side.

There is certainly now effort between the two companies to see whether NVIDIA's very strong networking IPs can be utilized in the ASIC business model. That work is ongoing, and we certainly cannot comment further. But again, from MediaTek point of view, the ASIC, data center ASIC, and the business model are ongoing. And we are reaping truth in the near future, as you said in your question. And that strategy was formulated in the last two, three years. And that strategy continues to progress, and we feel actually really much more confident now compared to before. Thank you.

-End of Q&A session-