MediaTek 4Q25 Earnings Call

Wednesday, February 4, 2026, 3:00pm Taiwan Time

PREPARED REMARKS

Jessie Wang, IR Deputy Director

Good afternoon, everyone. Joining us today are Dr. Rick Tsai, MediaTek CEO and Mr. David Ku, MediaTek CFO. Mr. Ku will report our fourth quarter results and then Dr. Tsai will provide our prepared remarks. After that, we will open for Q&A.

As a reminder: Today's presentation will provide forward looking statements based on our current expectations. The statements are subject to various risks and factors which may cause actual results to be materially different from the statements. The presentation materials supplement Non-TIFRS financial measures. Earnings distribution will be made in accordance with financial statements based on TIFRS. For details, please refer to the safe harbor statement in our presentation slides.

In addition, all contents provided in this teleconference are for your reference only, not intended for investment advice. Neither MediaTek nor any of independent providers is responsible for any actions taken in reliance on contents provided in today's call.

Now I would like to turn the call to our CFO, Mr. David Ku, for the fourth quarter financial results.

David Ku, Chief Financial Officer

Now let's start with the 2025 fourth quarter financial results. The currency used here is NT dollar. The foreign exchange rate applied to the quarter was 31.1 NT dollar to 1 US dollar, compared with our fourth quarter guidance of 30.6 and the third quarter foreign exchange rate of 30. With that, revenue for the quarter was NT$150.2 billion dollars, up 5.7% sequentially, and up 8.8% year-over-year. Full year 2025 revenue totaled NT$596 billion, up 12.3% from the previous year.

Gross margin for the quarter was 46.1%, down 0.4 percentage points from the previous quarter, and down 2.4 percentage points from the year-ago quarter. Gross margin for 2025 was 47.5%, down 2.1 percentage points year-over-year.

Operating expenses for the quarter were NT$47.4 billion dollars, compared with NT$43.9 billion dollars in the previous quarter and NT$45.6 billion dollars in the year-ago quarter. Full year 2025 operating expenses was NT$179.6 billion, compared with NT$161 billion in 2024.

Operating income for the quarter was NT$21.9 billion dollars, down 1.5% sequentially and up 2% year-over-year. Non-TIFRS operating income for the quarter was NT$22.5 billion dollars. Full year 2025 operating income was NT$103.5 billion, up 1% year-over-year. Non-TIFRS operating income for the year was NT$106 billion dollars.

Operating margin for the quarter was 14.5%, down 1.1 percentage points in the previous quarter and down 1 percentage point year-over-year. Non-TIFRS operating margin for the quarter was 15%. Operating margin for 2025 was 17.4%, down 1.9 percentage points year-over-year. Non-TIFRS operating margin for the year was 17.8%.

Net income for the quarter was NT$23.1 billion, down 9.3% sequentially and down 3.6% year-over-year. Non-TIFRS net income for the quarter was NT$23.6 billion dollars. Full year 2025 net income was NT$106.1 billion dollars, down 1% year-over-year. Non-TIFRS net income for the year was NT$108.2 billion dollars.

Net profit margin for the quarter was 15.4%, down 2.5 percentage points from the previous quarter and down 1.9 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 15.7%. Net profit margin for 2025 was 17.8%, down 2.4 percentage points year-over-year. Non-TIFRS net profit margin for the year was 18.2%.

EPS for the quarter was NT$14.39 dollars, down from NT$15.84 dollars in the previous quarter and down from NT$14.95 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$14.71 dollars. Full year 2025 EPS was NT$66.16, compared with NT$66.92 in 2024. Non-TIFRS EPS for the year was NT$67.46 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. Thank you for joining us. I'm pleased to report that our fourth-quarter revenue reached 150.2 billion NT dollars, which came in at the high end of the guidance range, thanks to a more favorable foreign exchange rate and better demand for Smart Edge products. For full-year 2025, MediaTek revenue was 596 billion NT dollars, up 12.3% year-over-year, or 19.1 billion US dollars, up 15.6% year-over-year, registering another year of record revenue.

I believe this milestone underscores MediaTek's resilience in navigating a dynamic global economic environment, the strong support and confidence from our customers and partners, and the strength of our leading technology and IP roadmap that has laid the foundation for our growth.

MediaTek's 2025 revenue growth was mainly driven by global share gains of our flagship and premium edge AI Dimensity chips as well as our industry-leading connectivity solutions, including Wi-Fi 7, 5G modem, and 10GPON. We stand firmly as a market share leader across many categories such as smartphone, tablet, Chromebook, TV, and broadband connectivity. Meanwhile, we continued to make very solid progress in technology development and business expansions into new growth areas. For example, we were one of few companies completing 2nm tape-out at TSMC. We worked with partners to enable the world's first Release 19 5G-Advanced NR NTN connection over OneWeb LEO Satellites. We successfully expanded our project pipeline for data center ASIC and automotive platforms. We also started to register revenue for high performance computing products such as GB10 that we co-developed with NVIDIA for its DGX Spark AI supercomputers.

Looking ahead to 2026, as ubiquitous AI continues to push the boundary of more efficient computation and AI applications, we believe MediaTek will continue to thrive on those growth opportunities.

In data center, demand has been increasing rapidly. We are very confident in achieving data center ASIC revenue of more than 1 billion US dollars in 2026 and multiple billion US dollars in 2027. Furthermore, we're fully committed to executing a follow-on project in our pipeline with revenue starting in 2028.

For MediaTek, to strengthen our position as a trusted partner for data center customers, we are accelerating investments on several key fronts. Firstly, we have consolidated internal R&D resources and increased external hires for data-center AI system architecture, critical IP development, and advanced technologies. With these efforts, we have demonstrated strong capabilities in architecting high-performance heterogeneous compute systems on advanced process nodes, as well as in implementing advanced packaging technologies that deliver meaningful PPA improvements and enhance power density for custom data-center solutions. In addition, to support our long-term growth and capture emerging market opportunities, we continue to invest in several key technologies, including high-speed 400G SerDes, Co Packaged Optics solutions, 3.5D packaging, custom HBM, and Integrated voltage regulators (IVR). We believe these strategic investments will further enhance our technology roadmap to support customers' evolving requirements.

In automotive, our scalable Dimensity Auto Cockpit Platforms, telematics solutions and Power IC continue to gain share globally. In addition, we are making an inroad into ADAS by partnering with DENSO, one of the world's leading automotive technology providers, to co-develop custom ADAS chips. The solution will combine DENSO's automotive-grade safety expertise and deep vehicle integration, with MediaTek's power-efficient, high performance SoCs and AI capabilities, to offer a scalable platform for next-generation driver assistance. We expect significant revenue growth from our automotive solutions in 2026.

Our Computing solutions, which include tablet, Chromebook, and the GB10 project for DGX Spark that we collaborate with NVIDIA, grew more than 80% in 2025 to 1 billion US dollars, driven by strong AI adoptions and share gains. We have observed very positive feedback for NVIDIA's DGX Spark, and we expect its revenue growth to accelerate into 2026.

With AI serving as a catalyst for industry expansion and driving the surge in demand, the global supply chain is facing challenges in fully meeting the increasing needs in 2026, resulting in higher costs across the supply chain. We have secured the capacity required to support MediaTek's growth in data center

ASIC and other areas. We will also adjust our pricings to reflect the rising supply chain costs and allocate our supply across products based on the overall profitability.

We believe 2026 will continue to be a year where MediaTek's business growth is supported by the AI mega trend. Building on this solid foundation, we will continue to invest in critical technologies — including 5G satellite, 6G, advanced process nodes, and advanced packaging — for both edge AI and cloud AI solutions, to capture growth opportunities ahead.

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

Our fourth quarter Mobile Phone revenue grew 18% quarter-over-quarter and 8% year-over-year in NT dollar, achieving record-high quarterly revenue and accounting for 59% of total revenue. This was driven by the successful ramps of our flagship SoC, Dimensity 9500, as well as our premium SoC, Dimensity 8500.

For the year 2025, MediaTek's Mobile Phone business grew 8% year-over-year in US dollar, surpassing 10 billion US dollars in revenue and achieving a record high. Within this, flagship SoCs exhibited robust growth and contributed 3 billion US dollars in revenue. These results strongly demonstrate the widespread recognition and market position that MediaTek Dimensity platform has successfully established.

For 2026, under the pressure of increasing memory and BOM costs, we expect overall smartphone end demand to be negatively impacted. We will work closely with our customers to strategically adjust the product portfolio in order to mitigate the impact.

For the first quarter of 2026, we expect Mobile Phone revenue to decline significantly quarter-over-quarter.

Moving on to Smart Edge Platforms. In the fourth quarter, this group declined 8% quarter-over-quarter and grew 13% year-over-year in NT dollar, accounting for 37% of total revenue. The sequential decline was due to consumer electronics seasonality, whereas the year-over-year growth was mainly driven by share gains in high-end tablets powered by our Dimensity 8000 and 9000 series.

In 2025, Smart Edge Platforms grew 21% year-over-year in US dollar, benefitting from market's continuous adoption of AI and faster connectivity, as well as our global share gains. For example, our connectivity revenue grew strongly and exceeded 3 billion US dollars in 2025, with Wi-Fi 7 revenue tripling and 5G modem doubling. We anticipate these positive trends to extend into 2026. Even without factoring in the expected data center ASIC revenue, our Smart Edge Platforms revenue is still expected to grow healthily this year, demonstrating the structural strength across our business portfolio.

In 2026, in addition to the exciting growth opportunities from data center, auto and computing that I mentioned earlier, we also expect higher adoption of AI and faster connectivity to continue across applications. We are once again at the forefront of technology upgrades with our industry-leading Wi-Fi 8 solutions unveiled at CES this year, and we expect early customer adoptions toward the end of the year.

For the first quarter of 2026, we expect our Smart Edge products to grow sequentially and year over year as several products such as connectivity, TV and computing devices recover from the low seasonality.

Moving on to Power IC. This group accounted for 5% of total revenue in the fourth quarter and was down 8% quarter-over-quarter and 11% year-over-year. The sequential decline was due to consumer electronics seasonality, while automotive and industrial grew in the quarter.

In the first quarter of 2026, we expect Power IC revenue to be flattish.

Moving to the guidance, in the first quarter of 2026, we expect the recovery of Smart Edge Platforms will partially offset the sequential decline of Mobile Phone.

We further expect our first quarter revenue to be in the range of NT$141.2 billion dollars to NT$150.2 billion dollars, flat to decline 6% sequentially, and down 2% to 8% year-over-year at a forecasted exchange rate of 31.2 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.

In closing, we believe 2026 will be a year where MediaTek's business growth is supported by the AI mega trend. Meanwhile, we aim to protect our profitability through disciplined pricing and strategic capacity allocation. We will also remain fully focused on execution and collaborate closely with our global supply chain partners. With the vast opportunities brought by ubiquitous AI ahead, we firmly believe we are on the right track of our mid- to long-term growth journey.

This concludes my prepared remark. Thank you.

[Q&A]

Q – Sunny Lin, UBS

Good afternoon. Thank you very much for taking my questions. So to kick off first question on cloud ASIC, in recent few months cloud ASIC demand appeared to continue to strengthen. So with that should we expect upside for your total addressable market estimate of $50 billion by 2028 and your market share target of 10% to 15%?

A – Dr. Rick Tsai, CEO

I believe we shared about $50 billion SAM last time and 10% to 15% market share. We do not have a really formal estimate, re-estimate of this market size but I certainly believe it's safe to go up by $20 billion for instance, about $50 billion to $70 billion. I think that's without really a detailed analysis but that's my estimate. Thank you.

Q – Sunny Lin, UBS

Right well, sorry just to clarify given people really pay attention to your guidance and so let's say if addressable market is up to $70 billion in 2028 and you still aim for 10% to 15% type of market share or you think could be higher given the progress made in recent few months?

A – Dr. Rick Tsai, CEO

I think 2028, to tell the truth, is a bit farther. We have ideas but I think let me say 10% to 15% is rather safe estimate. We certainly strive to go higher.

Q – Sunny Lin, UBS

Got it. And then my second question is to follow up on the business model for cloud ASIC and so maybe one is David, if you could help us understand going to 2027 when you scale the ASIC shipment, how should we think about the incremental OpEx increase? And given now we are into the ramp, could you also give us an update on gross margin, also op margin profile for the project?

A – David Ku, CFO

I'll probably start with the OpEx. I think OpEx ratio, which is scaling to the revenue so far for the full year (corrected), I think we are looking for the flattish. Okay, the ratio should be similar.

But given the fact that revenue will grow, so the OpEx dollar will continue to increase, we will basically invest more. Like, I think Rick, our CEO, explained, we're going to invest more for all key technologies. Profitability-wise, I think that's the same approach. I think overall, due to the mix of different business model, and also accounting principle, the better way to think about that, especially for 2027 when we start to ramp, is we're going to see operating margin accretive. I think that's probably the best way to think about that.

Q – Sunny Lin, UBS

Thank you. Sorry, maybe one last follow-up. Since you mentioned you have already secured the next-generation cloud AC project, how should we think about your value-add, your content, and then also competition evolving into the next generation? Thank you very much.

A – Dr. Rick Tsai, CEO

Well, the next-generation product certainly is quite a bit more complex in just about every aspect. We have demonstrated our capability to elevate our technology and IP capabilities convincingly to our customers.

And also, on top of that, our execution capability, which we are already demonstrating right now in our first chip situation. I really believe that together with what we've been discussing before, our hybrid model with flexibility, with tremendous service to our customers, I think all these add up to a tremendous value-add to our customers for their build-up of their very massive compute power development. Thank you.

Q – Laura Chen, Citi

Yes, hi. Thank you very much for taking my questions. My question is also about ASIC. Thank you, Rick, for the update on the promising outlook. We are already working on the next generation project. Can you share with us, is there any change in terms of business model? Like we now mainly doing SerDes and also the turnkey service for our client. Since Rick, you just mentioned that the design is getting more complex, will the business model change involve more IPs that MediaTek will be able to provide?

And also, as we are targeting like 10%, 15% of the market share. So, can we kind of assume that this business will be able to achieve like 20% or higher of our total revenue in next year?

A – Dr. Rick Tsai, CEO

The business model, I think we remain, as I said, our hybrid business model. The value-add, of course, will vary from generation to generation. But I'd like to also say, given the high degree of complexity, which is added to the next generation chip, we are providing, I think, actually more value. If you look at the total, while our customer is also adding more value in their aspect.

So, that's why we have always said this is a win-win model. We get more value. They get more value. And together, they will certainly gain more market share in their end of the business. So, I'm very pleased with that development. As to the -- What was the question?

Q – Laura Chen, Citi

Yeah, like 20% or higher revenue contribution.

A – Dr. Rick Tsai, CEO

Well, of course, I think you're asking for really an advanced indication, I guess, for 2027 revenue. I think it's possible, certainly. I think 20% is something we believe we have a reasonable chance to get to, and we'll do our very best to achieve that.

Q – Laura Chen, Citi

Thank you. Maybe just a quick follow-up. I recall that we are also working with NVIDIA on NVLink Fusion. So are we also seeing any progress on the potential engagement with our ASIC business?

A – Dr. Rick Tsai, CEO

The model, the NVLink Fusion model, is being developed. This is, again, this model by itself is a complex model from a technical point of view and from a business development point of view. I would say we continue to have a very strong and close relationship with NVIDIA, and we both are building the model and the targeted potential customers, and I cannot really disclose too much more. It's ongoing. Thank you.

Q – Laura Chen, Citi

Yeah. Okay, sure. No problem. My next question is about the gross margin outlook. I recall last time, David, you mentioned that the gross margin for flagship smartphone SoC seems to be lower than corporate average. So I'm just wondering that, actually we see that the component price hike has more impact on the entry-level or low-end segmentation, and the portion of our flagship -- on the good side is that probably the revenue will be able to kind of support it to compensate the weakness in the low-end space, but how would the impact on the gross margin side, and how should we think about the gross margin trends this year?

A – David Ku, CFO

I think for full year 2026, our goal is actually to aim to sustain our gross margin at around 46% level, which is similar to the guidance we gave out starting from last quarter. When you look at our gross margin fourth quarter last year and also the guidance this year, I think you can consider that will be our goal to maintain at full year.

And how do we achieve that? I think, like what we planned during the opening remark, given the overall supply chain tightness right now, I think we've been going through a very rigid about the capacity allocation among the business growth rate and also the profitability. And that's point number one.

Point number two, given the overall cost increase in pressure, we are also in discussion with our customer, for certain products, I guess we have to pass on some of the cost increase. So combined of that I think will be reasonable, but the goal will be to maintain the gross margin around 46% for the full year.

Q – Gokul Hariharan, JPMorgan

Hi, thanks for taking my question. First off on the data center ASIC project, could you talk a little bit about your understanding of what you are facing from a competitive landscape perspective because this has been largely the domain of one vendor until very recently for this project.

And also, Rick, could you kind of help us understand a little bit on the technology preparation that you've done on high-speed SerDes including 400G plus, 3.5D and CPO? Could you give us a little bit more details on how we can look at MediaTek capabilities because that seems to be quite critical for the next generation, the follow-on project that you mentioned?

A – Dr. Rick Tsai, CEO

Yeah, Gokul, I mean, I guess your first part of the question, if you're asking how we view other suppliers, our policy is not to comment on competitors' situation. But on the other hand, for our own investment, the multiple technologies and IP areas I discussed during the remarks, we have staffed through internal resource consolidation. We have many very capable engineers. While we hire high-caliber technologies including architects, including a power expert, including optics experts. Yeah, those are very difficult technologies. We certainly know that because we're doing them.

But we also -- oh, by the way, we're also collaborating with some third-party, major third-party players. So, while they remain a challenge, very challenging for us, but if you look at the past two plus years, I think our track record has shown that we have been able to not only catch up, but also to provide level playing field capabilities for our next generation and we will continue to compete for future and broader range of business opportunities. Thank you.

Q – Gokul Hariharan, JPMorgan

And just to follow up, so this current project that is going into production pretty soon this year, do you think that the deployment model is going to be different compared to previously that you are working on some different workload compared to what your competitor is working on? I'm just asking because so far, if you look at data center AI, most of the demand has been largely at the very high end of the spectrum, whether it is for Nvidia GPUs or AI ASICs.

So, just want to understand, is there like a very big division of workload that is happening at the customer, which gives you this opportunity to kind of break in and kind of for the customer also to segment the demand more clearly?

<u>A – Dr. Rick Tsai, CEO</u>
Well, basically, this question, of course, needs to be answered by our customer. I'm sure you understand the pace of the ASIC chips of such complexity. You know, you have to go back certain amount of years when you started the design. And then you look at the progress or the status of the AI or generative AI at that time. And then during -- through that design process into the production, again, we're measuring in, I wouldn't say, I cannot say exactly how many years, but you know, things change.

But we believe the design of our customers' ASIC chips, they have taken into consideration of their own internal workload needs plus their external requirement workloads. I cannot say how they balance those workloads, but we have, as far as I understand, they really are, they are very high on this chip. thank you.

<u>Q – Gokul Hariharan, JPMorgan</u>
Thank you. Got it. Thank you. Thank you very much. Just one last question on flagship smartphone. Given we are expecting a tough market for smartphones, are we still expecting the flagship segment to grow this year, or we think we might have to give up some opportunities to protect the profitability?

<u>A – David Ku, CFO</u>
Gokul, I think from the market share perspective, flagship market share perspective, given our new product coming out every year, and also all new products are very competitive, I think we still feel comfortable the market share will continue to gain.

And likewise, actually, because right now there's more silicon content in there, we're also seeing generation after generation, the blended ASP generation after generation is higher. But the last variable, if you like, really the overall shipment, I have to say, given the overall, the memory situation, right now is still evolving or developing. Based on what we see, probably that will become somewhat year over year, having some pressure on the flagship over the market shipment, not the market share. But at least we can somehow balance that with our continued gain on market share, and also continue accretion on ASP.

<u>Q – Hass Liu, BoAML</u>
Yes, thanks Rick, David, and Jessie for taking my questions, and congrats on the solid results and guidance. So I want you to follow up on the smartphone business.

Would you provide more detail about the smartphone linearity for this year, affecting your guidance for a significant decline in first quarter? And from the full year perspective, it is going to see negative impacts from the other component supply shortage. Just wondering if you have any quantitative outlook for the overall market versus your own shipment. And then your overall situation across the mid-, high-, low-end smartphones, as you are reallocating or optimizing your product mix. Could you also just share your view on the market share gain or loss as the previous questions? Thank you.

<u>A – David Ku, CFO</u>

Okay, some of your questions involve a detailed resolution. Probably I won't be able to comment but let me probably start with our full year view for smartphone.

Very straightforward, I think given the overall memory situation, and we believe actually overall smartphone this year, year-over-year, maybe we're seeing a decline. I think that's on the top line. In terms of the detailed resolution for flagship, mainstream, entry-level, even including 4G, we probably won't be able to provide the detail.

But the key point is when you look at our overall business portfolio, our non-smartphone business, like we explained during the opening remark, will offset a big part of that, and will grow nicely. And plus, our data center new revenue coming in, which right now we guide is more than $1 billion. I think overall, we're still looking for the top-line year-over-year growth. I think that's probably just our feedback. But for the detailed segmentation resolution, in general, we don't comment on that.

Q – Hass Liu, BoAML

Okay, okay, yes, that's clear. And then I think just on ASIC TAM beyond hyperscaler accelerators, should we expect your ASIC business to grow beyond this part of the market? For example, like server CPUs and also networking chipsets?

And beyond cloud AI computing, could you also discuss more in detail about your potential in automotive ADAS partnership with Denso, because that is going to be a huge chunk of opportunity with higher-level ADAS being adopted across the vehicles?

And then I think, as part of my second question, is that you also mentioned about you are going to put more effort in 5G satellites. Could you discuss more in detail on what kind of chipsets you are working on with your customers? Or is it going to be part of your effort in low-earth orbit? Thank you.

A – Dr. Rick Tsai, CEO

Okay, about data center AI, of course, now our first priority and focus remain at what we are going to ship this year, next year, and also the next project following. But in the meantime, we are diligently working on the market. The AI market is just changing very, very fast every month, every quarter for sure. So we are rapidly adapting that dynamic. That's why we are investing in technology that is not just for one customer. We are developing technology which are generic, more generic also for other applications. Well, like inferencing is getting a lot more important as the gen AI development has gone. So the answer is we are, but I don't think we can share a lot more than that.

On other new business, you asked automotive and satellite. Automotive, certainly we are very excited to work with Denso. We all know it is one of the top automotive Tier-one players. Very, very deep technology capability and very, very strong business relations with multiple major car OEMs. So the combination between the two companies is just perfect. They provide a deep vehicle integration, understanding all the safety requirements. We provide low-power SoC, very high performance, plus a very high AI capability that the ADAS will need for the next four, five years. We're excited and I believe they are too. We look forward to major revenues for both.

For satellite, we work on the NTN from a modem point of view, we also actually have a Wi-Fi solution for some of the stations on earth for the satellite business. This is one area that we feel very good. We believe it's fast-growing. We cannot say how fast so far, but from whatever we are seeing, our connectivity solutions from both modem and Wi-Fi point of view, we have a very strong position already and we expect to grow on that basis.

Q – Hass Liu, BoAML
Yeah, thank you so much. That's very clear. Just one small follow-up and I will be back in the queue. For that NTN project or the satellite chipset that you have, is it going to be more on the edge side or more going to be on the infrastructure or base station side?

And then I think a couple of years ago, you provided a few CAGR for the next few years on the sales and also margins. I'm not sure if you are able to provide such guidance at this stage for 2026 and also 2027. Thank you.

A – David Ku, CFO
I think for the NTN, it's more on the edge side, not on the satellite side. I think just to be clear.

In terms of the guidance, we probably won't be able to provide guidance so far because there will still be a few years to come. It's growing, but still a few years to come.

Q – Charlie Chan, Morgan Stanley
Thanks for taking my question, and also congratulations for a very strong outlook, especially on the ASIC side. So, I do have two parts of questions. One is also about ASIC, and the second question will be on smartphone.

For the ASIC, I wanted to ask mgmt. whether you see strength over the past month, meaning there's upside to your forecast, especially next year. And if that's the case, you just mentioned you already assured the key components, but are you sure that your T-Class HBM can really support that so-called upside order?

And lastly, gross margin trend. I'm wondering for those kind of upside revenues, do you think the incremental gross margin would decline? And lastly, given the revenue size is so big, do you think the customer want to change to the COT model in the current generation or next generation? So that's my questions about the ASIC business.

A – Dr. Rick Tsai, CEO
As we said in our remarks, we are very confident for our fourth quarter revenue of more than $1 billion. We said for 2027, it's multiple billion dollars, that's the range certainly. I would say we believe if, and I believe we will, when we deliver, when we execute, we expect to see some upside.

And from supply point of view, and I also said earlier that we have secured supplies for data center ASIC needs and other areas. We have a good scale to work with the major suppliers, and we also have certain flexibility among our own different product portfolio. So we also have high confidence that we can manage, we can provide the supplies for the demand coming next year. We have been preparing for that for some time.

Lastly, again, that question is not really up to us, but again, as I said earlier, I really believe, I think all depends on overall objectives. The overall objectives, I believe our customers or actually for that matter, all the CSPs is really to provide timely and high-quality, low-power computing capability at a very good TCO to grow their business.

And the market is changing so fast, the technology pace is so fast. If you look at the history of our industry, usually you would take partners to work together to achieve that required growth target for everyone, unless you're in a very mature industry, you probably can go just by yourself. But we're not in that phase at all. There's a huge amount of growth ahead of us. So I fully believe the value-add we provide and we're also, as I said earlier, we are also working hard with our customers to enhance their value-add. It's not a zero-sum game, period. And we believe this will continue. Thank you.

Q – Charlie Chan, Morgan Stanley
Yeah, that makes a lot of sense. So just a small follow-up on ASIC side before I move to smartphone. So you mentioned about you feel like your 10%, 15% market share is pretty safe to achieve, right? And my understanding is that your customer's ASIC probably account for half or even more of the kind of a total ASIC TAM, right? So is that right way to think about your allocation from this key customer would be like 20% to 30%, or even higher? Yeah, based on the data points that I just described.

A – David Ku, CFO
Charlie, I think, again, the earlier question talked about target market share, or the market share goal is 2028. This is still a few years away, so there are so many moving targets. I think our focus right now -- I think we're executing well about the two projects on hand, and market share will become, hopefully, a happy consequence. So that's why we don't want to give out the detail, actually, we will not be able to give out the detailed guidance for the market share for 2028.

Q – Charlie Chan, Morgan Stanley
Got you. Thanks, David. So my second question on Smartphone will be relatively brief. I wanted to get mgmt.'s thoughts about the agentic AI in China's smartphone markets. What do you think about this Doubao phone kind of feedback? And are MediaTek's customers wanting to do a similar kind of application? When do you think that will become a killer app?

A – Dr. Rick Tsai, CEO
I think we've been dealing with this question for at least two years, if not longer. And I will not give you a kind of a boilerplate answer. It's not obvious, this quote-unquote killer app. But I don't think, I'm not sure that's the right thinking.

I think the agentic AI will just blend into your life with the smartphone. And that smartphone can be a very smart smartphone, or it may be just a mid-end because depending on what you need, you can access very sophisticated gen-AI models on your phone. But for even more bigger applications, you need to go to the cloud. So we provide a solution that will have more than sufficient compute power. But that compute power will be limited by the form factor of the phone itself. That's physics.

So the phone will provide ample AI, or gen-AI, or agentic AI capability by itself. And I believe the demand of the application will increase so much that phone certainly will play the other role of being just connecting to the cloud very effectively and efficiently. And that will fill both ends. I think it's part of life. And there may be other forms of devices that will enhance people's lives using agentic AI And we certainly, if there is opportunity or outlook, we are pursuing also. Thank you.

Q – Arthur Lai, Macquarie
Hi, thanks, Rick and David and Jessie for taking my question. So my first question is still on the cloud AI. Just want to follow up the Charlie's question. When you comment the scale and also flexibility, can you help investors understand, are you trying to allocate the scarcity resources to incubate your new cloud business? And what's the resources you refer to? Is the wafer allocation, or is the substrate, or your experienced engineer? Thank you. That's my first question.

A – David Ku, CFO
Arthur, David here. I think long story short, we will allocate amount or what do you say, internal R&D resource like during the opening remark. I think Rick talking about we've been investing size-fully R&D and plus we've been hiring aggressively external resource. So internal resource, I think we will definitely allocate to this fast-growing area, especially with a huge addressable market. For the overall manufacturing capacity, I think we will put a priority on that as well. So all of that, yeah.

Q – Arthur Lai, Macquarie
Oh, thank you. And the second question is more on the cycle and also history. This is actually not the first time we envisioned a substance of a smartphone compared to the last two cycles. Can mgmt. or Rick comment on what's the MediaTek strategy right now compared to the previous second down cycles? Thank you.

A – Dr. Rick Tsai, CEO
Okay, certainly 2026 is a tough year for a smartphone. I'm sure you guys have read about that, no need to further elaborate. But I also believe this is a cyclical year. The demand will remain solid next year, or maybe 1.5 years. I cannot say for sure, but I am quite sure that the demand will come back. And when it comes back, it will come back in force. And we need to be prepared for that, and we will be.

At MediaTek, during the past few years, we have developed, equipped ourselves to, I think, to live through the cycle is too weak, actually, I believe we will be stronger after the cycle. The capability we're building, the market position, I feel very confident.

The mobile business is now in the sixth year of the 5G generation, where suddenly the overall growth is saturating. We all know that. But the MediaTek's position, the capability, is much, much stronger compared to our last generation of modern technology. So, I don't like this down cycle, but that's life. We will be better after that. Thank you.

-End of Q&A session-