MediaTek 1Q26 Earnings Call

Thursday, April 30, 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 first quarter results and then Dr. Tsai will provide our prepared remarks. After that, we will open for Q&A.

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

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

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

David Ku, Chief Financial Officer

Now let's start with the 2026 first quarter financial results. The currency used here is NT dollar and the average exchange rate for the first quarter was NT$31.62 to US$1.

Revenue for the quarter was NT$149.2 billion dollars, down 0.7% sequentially, and down 2.7% year-over-year.

Gross margin for the quarter was 46.3%, up 0.2 percentage points from the previous quarter, and down 1.8 percentage points from the year-ago quarter.

Operating expenses for the quarter were NT$46.2 billion dollars, compared with NT$47.4 billion dollars in the previous quarter and NT$43.8 billion dollars in the year-ago quarter.

Operating income for the quarter was NT$22.9 billion dollars, up 4.8% sequentially and down 23.8% year-over-year. Non-TIFRS operating income for the quarter was NT$23.6 billion dollars.

Operating margin for the quarter was 15.3%, up 0.8 percentage points in the previous quarter and down 4.3 percentage point year-over-year. Non-TIFRS operating margin for the quarter was 15.8%.

Net income for the quarter was NT$24.4 billion, up 5.6% sequentially and down 17.4% year-over-year. Non-TIFRS net income for the quarter was NT$25 billion dollars.

Net profit margin for the quarter was 16.3%, up 0.9 percentage points from the previous quarter and down 3 percentage points year-over-year. Non-TIFRS net profit margin for the quarter was 16.7%.

EPS for the quarter was NT$15.17 dollars, up from NT$14.39 dollars in the previous quarter and down from NT$18.43 dollars in the year-ago quarter. Non-TIFRS EPS for the quarter was NT$15.52 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 today. MediaTek first quarter revenue came in at the high end of our guidance range, thanks to the steady demand from our diversified platforms and a more favorable foreign exchange rate. First quarter gross margin was around the mid-point of our guidance range.

During the quarter, the rapid adoption of agentic AI use cases, such as OpenClaw AI agents and other compute-intensive workloads have marked the inflection point for the industry. The acceleration of computing requirements under the ubiquitous AI mega trend are not only broadening the addressable market for edge devices but further expanding AI infrastructure investments.

Our differentiated combination of technologies and products propels us to meaningfully benefit from structural growth in both the edge and the cloud. In edge devices, building on our strong positions across numerous markets, we continue to invest in and deliver advanced SoC and faster connectivity solutions spanning mobile, computing, automotive, IoT, and beyond. I will elaborate more in the business discussion sessions.

In data center, demand momentum is particularly strong. With our comprehensive and solid capabilities across design, integration, and supply chain execution, our first AI accelerator ASIC project for a US hyperscale customer is progressing very well. We are on schedule for production and now expect AI ASIC business to contribute around 2 billion US dollars in revenue in the fourth quarter of this year. For 2027, based on the capacity we have now secured, we are very confident that this project will scale to multiple billion US dollars. Meanwhile, design for the other AI accelerator ASIC project is currently underway in close collaboration with our customer and supply chain partners, with mass production targeted to start by the end of 2027. Furthermore, we are actively engaged in several new data center ASIC opportunities,

some of which are already in the final stages of discussion. We are confident that our proven capabilities can address the rapidly growing AI demands of the market and deliver strategic value to customers.

Meanwhile, we continue to invest significantly and have made tangible progress in building best-in-class system-level technology roadmap for future data center architectures.

On the optical front, to address the industry trend towards leveraging silicon photonics to achieve higher bandwidth density, we made a ninety-million US dollar investment this quarter in Ayar Labs, a leader in optical engines for CPO, as part of our co-packaged optics partnership. We also announced a successful design with Microsoft Research for the next-generation Active Optical Cable powered by MicroLED light sources which can significantly improve power efficiency in data centers.

Furthermore, we are making solid progress in the development of enabling technologies for future generations of data centers with successful test vehicles. We are very proud of our status in building next-generation 400G high-speed SerDes, 64G Die-to-Die interconnect, and advanced 3.5D platform, which covers IP, design enablement, and advanced packaging technology to realize designs with much larger reticle sizes. Additionally, our development in custom HBM solutions and integrated voltage regulators (IVR) are also advancing as planned. These ongoing investments will further improve performance per watt and power efficiency of multi-kilowatt XPUs in future data centers and further strengthen our long-term technology roadmap, positioning us to support the evolving requirements of next-generation data centers and AI workloads.

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

In the first quarter, our Mobile Phone revenue declined 17% quarter-over-quarter and 15% year-over-year, accounting for 49% of total revenue.

The current concentration of industry resources on data centers has led to elevated costs for smartphones. Our customers have raised retail prices and shifted their product mix toward higher-end models to manage that. Given such adjustment will inevitably lower the market demand for smartphones, we expect global smartphone shipment to decline by about 15% this year.

For the second quarter, as our customers stay cautious while pending further visibility into end-market demand, we expect Mobile Phone revenue to decline sequentially, and we will continue to work with our customers and navigate through this period together.

Nevertheless, the indispensable role that smartphones play in our daily life, coupled with accelerating agentic AI innovation, support our view that the smartphone replacement demand will recover when the supply conditions normalize.

Therefore, we continue to invest in and empower more advanced smartphones. We have already secured several design wins for our next generation flagship SoC which is our first 2nm product, featuring a meaningful step-up in user experience enabled by stronger computing and AI capabilities.

Smartphones powered by this 2nm flagship SoC are scheduled to hit the market by the end of the third quarter, and we anticipate our Mobile Phone revenue to improve in the second half of the year.

Moving on to Smart Edge Platforms. In the first quarter, this group grew 23% quarter-over-quarter and grew 13% year-over-year, accounting for 46% of total revenue. Our global market share gains were a key driver of both sequential and year-over-year growth. We also saw a sequential demand recovery as demand rebounded from a seasonally weak fourth quarter.

We are pleased that several new projects that we have cultivated over the past few years, in collaboration with top tier consumer brands, notebook makers, telecom operators, carmakers, and CSPs, have begun or are expected to start volume production in 2026. We expect Smart Edge Platforms revenue, excluding the contribution from the new data center ASIC project, to grow by double-digit percentage this year. This is mainly driven by our global share gains across connectivity, computing and automotive products, and to a lesser extent, higher blended ASP for certain TV SoCs to reflect the increasing DRAM costs.

As these drivers continue, we expect Smart Edge Platforms revenue to grow sequentially in the second quarter.

In the future, given our leading technology and product roadmap, together with the agentic AI trend discussed earlier, we are seeing structural growth opportunities for edge devices. The strong line-up of our advanced computing solutions allows us to expand in multiple areas such as high-end computing devices and automotive. Specifically, last week at Beijing Auto Show, we showcased our 3nm Dimensity Auto Agentic AI cockpit solution, which enables active and intuitive in-vehicle agent features for both drivers and passengers. We have received very positive feedback from customers. Moreover, we will be leading the automotive industry to migrate to 2nm process technology to enable more innovations.

In addition, building on our strong connectivity foundation—including Wi-Fi 7, 5G modem, and 10G PON—we continue to lead the market with next-generation Wi-Fi 8 and 5G NR‑NTN satellite solutions to achieve faster and more seamless connectivity. We believe the combination of strong computing and connectivity capabilities will make MediaTek a strong partner for agentic AI device makers.

Moving on to Power IC. This group accounted for 5% of total revenue in the first quarter, increasing 14% quarter-over-quarter and 11% year-over-year.

In the second quarter, we expect Power IC revenue to be flattish.

Moving to the guidance, in the second quarter of 2026, we expect the revenue growth from Smart Edge Platforms to partially offset the weakness in our smartphone business. Quarterly gross margin is expected to be stable within the current range.

We expect our second quarter revenue to be in the range of NT$140.2 billion dollars to NT$149.2 billion dollars, flat to decline 6% sequentially, and down 1% to 7% year-over-year at a forecasted exchange rate

of 31.5 NT dollars to 1 US dollar. Gross margin is forecasted at 46%, plus or minus 1.5 percentage points and operating expense ratio is forecasted at 31%, plus or minus 2 percentage points.

For the full year, we expect revenue to increase by mid- to high-single digit percentages in US dollar year-over-year. Meanwhile, through disciplined pricing strategy, we aim to sustain our full year gross margin within the current quarter guidance range. We will continue to build long-term growth both at the edge and in the cloud. We are highly focused on disciplined execution across our growth opportunities and expect these efforts to drive significant operating leverage over time.

This concludes my prepared remark. Thank you.

[Q&A]

Q – Bruce Lu, Goldman Sachs

Okay, thank you for taking my question. Congratulations for the recent progress for the ASIC project, but I want to ask more about your next project. So after you successfully demonstrate your SerDes I/O technology which is already proven at global tier one, can you do more? I mean, can you do compute die or other functional dies for your customer for the next project?

Also for the ASP, as you provide a lot more value for the -- comparing to the first gen. Our recent research suggests that the pricing is meaningfully higher than the first one. It seems to be too good to be -- or too meaningful to be true, but I want to get some color in case I made a mistake in my assumption.

Also lastly is for the gross margin and operating margin. As you provide a lot more value, can we assume like higher gross margin, operating margin comparing to the first project?

So in summary my question is like, can you do more than I/O die for your next project, and can you update the ASIC TAM in 2028?

A – Dr. Rick Tsai, CEO

Again, first, we cannot comment our customers' chip architecture, clearly. However, what we can comment is, we are adding more value in various ways, including silicon and packaging both. And of course, together with our IPs, SerDes, die-to-die, et cetera.

As you probably can imagine the second chip is -- well, first, it's the second chip and it's the next generation, and if you look at the track record of the previous generations, you can again, it is fair to view the second-generation chip to be a much stronger also bigger chip. So the value covers from both silicon and packaging. We are gaining values in both areas, and with the value going up, we certainly, I think, will have a higher pricing for such a -- much more powerful chip.

So, I think this is -- while, as I stressed before, we continue to work with our customers to also enhance their own capability. That's always at the heart of our business model with our customers. It's a win-win situation. We, together, add a lot of value to their chip, and the customer can utilize those powerful yet

power efficient chips to implement in their data centers and provide a lot more value for their -- to their customers. So I think that's basically how I would address your question. Thank you.

Q – Bruce Lu, Goldman Sachs

But do you have an updated number for the addressable market for ASIC? Because I think last time you were talking about like, I think it's $70 -- $60 billion/$70 billion in 2028. Do you have an updated number?

A – Dr. Rick Tsai, CEO

Yes, we have -- I mean, shall we say we have done kind of a first-order estimate. The market is changing so fast, as you can attest from just less than 24 hours ago, all the announcements from the four major CSPs. Everybody can see that the demand for the data center infrastructure, data center computing power continue to grow and, if anything, continue to accelerate.

So our estimate, in my mind, is first order in nature, and I don't know if it's conservative or not, but it's not really aggressive. We now view the market size to be about $70 billion to $80 billion in 2027. That's our view now. Thank you.

Q – Bruce Lu, Goldman Sachs

Thank you. Okay. My next question is for the packaging solutions for the ASIC business. It seems to me that MediaTek chose a different path for your next chip, which is not the mainstream solution, at least not for now. So can you provide some color that how you manage the execution risk? Do you have a backup plan if things are not moving in the right direction? Or you are comfortable with the recent technology progress at your partner? And I think this one is definitely one of the biggest concerns from the investors. Any color would be appreciated.

A – Dr. Rick Tsai, CEO

Again, we cannot comment specific technologies that we are doing together with our customers, but I think suffice to say that we are investing in two packaging solutions, packaging technology solutions. Because in the industry, the demand in the AI infrastructure being so demanding, packaging is now becoming a really, really critical part of the overall total solution. We need to invest in various technologies so that we can better prepare ourselves for various demand from various customers.

We understand your question. We believe a second approach of the packaging solution has merit, very good merit. Technology-wise, execution is getting quite good. Again, we are working closely with our partners for both packaging solutions, and we will provide good high-yield solutions to our customers. I have no doubt about that in my mind. Thank you.

Q – Sunny Lin, UBS

Thank you very much for taking my questions, and congrats on the very encouraging progress made for the cloud ASIC project. And so my first question is double check, Rick, did you just mention now you're expecting the addressable market for cloud ASIC to be $70 billion to $80 billion by 2027, not by 2028?

A – Dr. Rick Tsai, CEO

Correct. You are correct, yes.

Q – Sunny Lin, UBS
And you are still expecting share target to be 10% to 15%?

A – Dr. Rick Tsai, CEO
We keep that for now, yes.

Q – Sunny Lin, UBS
Right. Good to know. So my first question is, given what the CSP client released on the product last week, it seems like the project that you're working on should be for training. And I think that's a bit surprising and that should be a good setup in terms of the volume potential. And so now if your project is indeed for training, then how should we think about the fair split of your project in terms of the overall volume within the client portfolio in 2027 and 2028?

A – Dr. Rick Tsai, CEO
Sunny, number one is the architecture of the customer's data center, of course, it's their decision based on, as I mean to say, there are two chips. Both chips obviously can do the job. It's more, well, rack topology architecture decision. But we saw that. Again, the market, if you look at the total market size -- in our last meeting, we said $70 billion market size for 2028, and today, we said $70 billion to $80 billion in 2027. It's much more -- the first order effect is the total growth, the rapid growth of the market, of the demand. But we have a tremendous chip together with our customer, and it will be used extensively. I have no worry about it.

I think what we -- I wouldn't say what we worry, what we really focus on is execute to deliver the very strong demand from our customers, be they training or inferencing. So I think whether it's a T or I, to tell the truth, is the second order in nature. Thank you.

Q – Sunny Lin, UBS
No problem. Very clear. And my second question is if we think a bit beyond, and so you just guided up the expectation for 2027 and you just also mentioned that the next project, which should be ramped by late 2027, I believe, and so meaningful contribution going to 2028. So, how should we think about the trajectory of the growth beyond 2027? And so if you are able to provide more value and then the product itself, the value is also a lot higher, then should we expect the growth into 2028 to also be quite significant, like maybe you can double or even more than double?

A – David Ku, CFO
I think in general, based on the two project we are executing on, I think for the growth profile from this year to '27, '28, that's very clear. But in terms of magnitude, especially if you're asking for '28, I think right now, maybe a little too early, because that's a combination of what's the availability for the overall capacity and also what’s the customers actually demand profile.

But overall, when we think about the year-over-year growth, that one is certain. But in terms of magnitude, I guess, actually afterwards -- right now, it's only April '26, I think it will be a little bit too early to talk about that. But if you're judging from TAM and SAM perspective, I know overall we are positive about that.

Q – Laura Chen, Citi

Yes, hi, thank you very much for taking my questions and also congrats for the great outlook. My question is also similar to how should we think about that the Company's product mix profile in like a two, three years perspective? Like Rick just mentioned, if we're assuming like $2 billion contribution for this year and also assuming that the same like a run rate quarterly into next year or even based on like 10%, 15% market share in 2027, that means that the AI accelerator revenue contribution could be 50% and higher.

So I'm just wondering that in the longer term, how should we think about our product mix profile? The smartphone, of course, Rick also mentioned that will resume the growth momentum. But just for maybe a longer-term perspective, how should we think about the priorities and also business outlook for MediaTek? That's my first question.

A – Dr. Rick Tsai, CEO

Okay. It's again, the macro environment. Everyone, I think, has a pretty clear picture. I don't need to preach the choir. There's no question that the AI, quote-unquote AI megatrend continues, now that not only from the infrastructure computing power point of view but also from agentic AI point of views. So if anything, this thing is continuing to accelerate. But it's probably also right to say that for MediaTek, the data center AI business and the revenue will grow quite a bit faster than our more mature SoC business.

For the mobile business, of course, this year is facing a pretty strong headwind because of the DRAM supply and pricing. That being said, we view mobile to resume its replacement cycle in a year or a little more than a year. But the growth momentum for the mobile business, I think, overall is going to be lower than the data center AI business. We expect, however, the agentic AI disruption will bring in new revenues for the edge devices, including mobile phones. So on that front, we are quite optimistic and we will be aggressive in pursuing that new revenue.

Everything being said, I still feel data center AI revenue growth will have a higher rate compared to our other SoC business. Thank you.

Q – Laura Chen, Citi

Sure. Thank you very much. My second question is also about the business model. You work with your CSP customers. We know that seems like the trend of the COT, customer owned tools, is also kind of emerging. We understand that MediaTek can provide more value, maybe just not the SerDes going forward, and also more of the technology integrations, backend design, et cetera. But just wondering your view that how the COT business model could impact the MediaTek's profit margin or the value of your future design. Thank you.

A – Dr. Rick Tsai, CEO

Truthfully, I think this market is growing fast with size, with scale. So again, the first order issue for me or for us is to expand our presence, our penetration in this continuing accelerating large market. And we will -- I'm very confident we will also be getting more design-ins in this market. And overall, in different cases, I believe we will provide different, how should I say, various degree of values for different

customers, depending on customers, also. In general, overall, if we look at our revenue and the margin, both growth and operating, I think we will do very well. I don't really worry about that. Thank you.

Q – Charlie Chan, Morgan Stanley

Thanks for taking my question. Hi, Rick, David, and Jessie. Good afternoon. So just want to follow up on the ASIC related question. So I believe MediaTek can really continue to add value for next-generation 2 nanometer project. But just in terms of financial assumption, given a very large scale of revenue, are we going to see gross margin decline whereas the operating margin – net margin probably can keep at the same level? Just want to get a sense about the margin assumption. Thank you.

A – David Ku, CFO

Charlie, as we explained, actually quite a while ago, overall, all the data center projects are really operating margin attractive in a very positive way, and mainly due to the large-scale, large revenue size. For the gross margin, again, it will depend on case by case, based on different business model. So overall, if you think about two ways, the EPS earning accretion, I think that's certain, sizeable, and also operating margin accretion, that's also certain as well. Gross margin will depend because each project, different business model may be varied.

Q – Charlie Chan, Morgan Stanley

I see. Yeah. So can I follow up a little bit on this ASIC and move to my second question? So because your industry peer and also kind of end customer also talk about the full system support. Right? So I'm not sure if MediaTek also want to develop a similar kind of customer support for the full racks, and if that's the case, whether MediaTek's market share assumption, you just mentioned 10% to 15% can further go up.

A – David Ku, CFO

Well. I think for the -- I'm assuming you're talking about the rack solution, serving as a rack. I think that's actually part of the business scope as well. Yeah, that's something we are discussing with our customers as well.

Q – Charlie Chan, Morgan Stanley

Really? Okay. So yeah, because I was a little bit concerned, some end customers like Anthropic specifically require this kind of support. So I was really concerned if you can only supply the chip. They will constrain your market share upside. But just glad to hear that you're also working with customers for more value add for system level.

So switching gears to my second question. I also asked the same question last quarter to Rick, right? So last quarter I asked about agentic AI for China, and it was specific on Doubao. But recently, you also picked up a trend that Google is trying to offer AI agents on the phone and to link all the different kind of Android apps. So I'm not sure if, Rick, you would become more excited about the agentic AI becomes the killer apps or trigger for the smartphone replacement cycle. I want to get your thoughts about these Android agentic AI developments.

A – Dr. Rick Tsai, CEO

Thank you, Charlie. I mean, I strongly believe that agentic AI is creating and will be creating a lot more new value and new revenue. It is now, I think, in my mind, quite clear. It's a matter of -- and the different ecosystem companies, be they in China, ByteDance, Alibaba or in the US, Google, Meta, OpenAI, et cetera, will come out with their solutions for their own models and their own business models.

Our job is to -- I mean, you use a smartphone asking a question. So let me use an example. For smartphone, I mean, we are collaborating closely with Android to ensure the agentic AI applications will be incorporated in our SoC. And even beyond the smartphones, I think there is a spectrum of devices, from the wearables all the way to automotive, that will add a lot more value with agentic AI. So I'm very, very positive and excited about that.

Q – Charlie Chan, Morgan Stanley

Right. To realize that do you need more teraflops like your NPU capacity to become bigger or do you think your approach is to enable or empower your mainstream phone will have this kind of AI compute power? What would be your strategy, and when these concepts can become kind of concrete projects for MediaTek?

A – Dr. Rick Tsai, CEO

We don't view this as a mobile-only play. We do not. We view as a multiple platform play, all the way from wearables such as AI glasses to mobile, to IoT, to PC, to automotive, for instance. And of course, each -- automotive, you can -- obviously, shall we say, the power budget is much, much higher than the mobile. Mobile is, what, 8 watts? And theirs is about 40, 50, 80 watts. So in different type of quote-unquote devices, the computing power implement will be very different. As agentic AI comes up, CPU is coming -- is having a resurgence. So the architecture of the computing system for this agentic AI era within the multiple platforms is a challenge but also a major opportunity. Thank you.

Q – Arthur Lai, Macquarie

Hey, hi, Rick, David, and Jessie, thank you and congrats for the strong guidance by ASIC. I have two questions. First one actually is similar to what Laura just asked. When we think about this smartphone revenue make up 49% of the total, what's the implication to MediaTek's resource allocation, i.e., the 3-nanometer silicon allocation and also your IP acquisition strategy and your team? Thank you. This is my first question.

A – David Ku, CFO

I think, overall, when we look at the AI, we really think about from cloud to edge, they all have opportunity. Because when you think about the application side, agentic AI will happen on every knot, again, from cloud to edge. Currently, due to the overall supply chain situation, the smartphone, obviously, this year is having some hiccup. But doesn't mean that's due to the demand issue. It's mainly due to the supply issue or the memory supply issue, to be precise.

So when we think about two to three years of time frame, we still believe the whole AI demand, if you like, will be across the board, both from cloud to edge, okay? But by saying that, when you look at the addressable market and also from the growth rate perspective, the data center obviously will play a very important role, but doesn't mean that actually the edge device, including but not limited to smartphone,

don't forget that when we talk about the edge device, which also includes the computing device, the automotive, even for the IoT.

So that's how we see from a market perspective. With that, internally, how do we develop the technology, also develop the resources? The computing technology is the foundation. The process technology is also the foundation, and also the package as well. So we will invest all those foundation technologies and maybe at different times, we'll have different applications on different segments, okay? So it's not exclusive. But obviously, from last year to this year and also going for next year, the investment for data center, we actually almost doubled down -- almost doubled down.

Q – Arthur Lai, Macquarie

Thank you, David. And the second question actually also recall last time you guided and told us that you will disclose the ASIC revenue when visibility go higher, right? So I think that this time actually, we are prudent to revise up the guidance. And so, can you share with us what's the timing you decide to separate the ASIC revenue?

A – David Ku, CFO

I think we will consider probably starting from next year. Yeah.

Q – Robert Sanders, Deutsche Bank

Yeah, thanks for taking my question. I just had a question around ARM server CPU. I think you have a license -- you've licensed CSS. I was just wondering if you -- if there's an opportunity to not just sell ASICs for GPUs, but also to do CPUs for the head node, maybe do LPU equivalents, and I have a follow-up. Thanks.

A – David Ku, CFO

I think for the CPU and also for the edge server, I think that's definitely with the possibility. Now, currently, I think our focus will start to ramp our ASIC solution first, at the first stage. But internally, we also have a team to actively monitor and working on that. So far, at least for the next two to three years, I think the focus will be the ASIC opportunity because after all, the addressable market is huge, and that's something we would like to put as a top priority.

Q – Robert Sanders, Deutsche Bank

Got it. And just a quick follow up on co-packaged optics. How would you compare your capability today to sort of best-in-class? I mean, would you say you're six months behind, 12 months behind or on parity with best-in-class? Just so we understand a bit more about your capabilities in-house versus what's out there in the market. Thank you.

A – Dr. Rick Tsai, CEO

I would say we are a latecomer. I think there's no denial of that. However, I think, again, the technology now is a lot more mature compared to even a year ago or 18 months ago. And we now have a very strong partner Ayar Labs that we can -- I think we can catch up and accelerate our progress in the coming couple of years.

And if you look at the real needs, well, depending on who you talk to, of course. But I think it's probably more in the 2029 or after 2028-29 timeframe that the CPO will become a must. So we feel confident and comfortable that we will be there when the need is there. Thank you.

Q – Hass Liu, BoAML

I just wanted to ask about your rack. When you discuss that you are working with your customer on the potential rack solutions -- system level solutions, does that suggest that in addition to the core AI accelerator project, you are working with your customers, you are also engaged with your customers as a potential networking switch and also the related peripheral chipsets and the system level solutions? And if so, how should we size up that part of the opportunity? Is it part of the ASIC opportunity you mentioned earlier on this call? Thanks.

A – David Ku, CFO

Well, I think it's too early to comment all the details because that's something we're still developing and working with our customers because, after all, we need to start to ship our ASIC solution first, and the customers will turn on the ASIC actually into the rack. If we get into there, at least based on what the customers providing, is actually for the whole rack solution, technology wise, it will still -- because that will become the customers' product, so it will be provided by the customer. So we don't need to worry about all those details, but it's more the business model, okay? But again, it's too early to provide all the details. We will provide more detail when it becomes material.

Q – Hass Liu, BoAML

Got it. And just a very quick follow-up on this. If there is a business like this, should we consider more margin dilution from this kind of project, or not really? Thank you.

A – David Ku, CFO

Again, it will depend on the final business model. And it’s too early to comment right now. But for this year and next year, when we talk about the growth profile, we're not factoring in any rack business. Just for the record, it's purely ASIC business.

Q – Hass Liu, BoAML

That's very clear. And second question is just regarding the scarcity of the industry supply across memory and also logic wafers, and I would like to specifically focus on logic wafers. This year, because of the mobile demand is probably weaker that you could reallocate the capacity you got from your foundry partners converted more easily to your other ASIC projects. But in 2027, since the scarcity of the supply across the industry on the 2-nanometer, 3-nanometer wafers is still going to continue, I was just wondering how you are going to allocate the wafer supply you could get from your foundry partners between your ASIC project versus your own core merchant business. Thank you.

A – Dr. Rick Tsai, CEO

Well, of course, this question is not just for us. It's an industry-wide issue. I think, certainly, we're talking about advance process wafers so let's just say TSMC. TSMC's investment is increasing significantly, I forgot the number, $60 billion capex and they are certainly accelerating their capacity for the advanced technologies, 3-nanometer, 2-nanometer, and we work very closely with our partner.

And I cannot speak for TSMC, but I do believe when a customer like MediaTek provides tremendous value for the industry, for our customers, and our customers are really doing very well in their market, there will be supply from that point of view. So, but I cannot say exactly how much, percentage wise, but I think -- I believe as a long-term strategic partner with our supplier, we will get our fair share of the supply. Thank you.

Q – Hass Liu, BoAML

Got it. And I think just a very quick follow-up before I jump back to the queue is that in the extreme scenario, for example, you only get 80% of the allocation versus what you're demanding for those supply on a wafer level, I was just wondering how you are going to prioritize for your customers' ASIC projects versus your core business, because -- how are you going to manage it or balance it? Thanks.

A – David Ku, CFO

Well, again, just like our CEO talked about, that's a common question all industry players are facing. So we will probably not be able to disclose externally what's our rules and policy or strategy. But overall, I guess, we need to consider all different factors. But we will not be able to comment this publicly.

Q – Gokul Hariharan, JPMorgan

Hey, good afternoon and thanks for the opportunity to ask a question. So first of all, on the data center ASIC business, Rick, I think your bigger competitor has signed this long-term five-year deal with the customer. Now that you have kind of executed your milestone on taping out and potentially starting to ramp up this business with the customer, should we expect that MediaTek also kind of gets elevated to that kind of a strategic partner status, potentially look to sign some multi-year deals given that there's a lot of noise in this business, right? So if you can give some longer-term clarity to your investors, it probably helps you and also helps you to plan your business on a multi-year basis. Any thoughts around that, Rick, in terms of how you're thinking about it?

A – David Ku, CFO

Gokul, David here. I think first of all, we don't really have the detail about so-called all those partnership announcements or agreements. Sometimes actually, to be honest, nobody knows the detail. I think probably the best way to judge is really what's our guidance for the revenue guidance. This is what that matters, because we can sign, you can sign, anyone can sign whatever agreement you like. But by the end of the day, it's really whether or not we can deliver the target revenue or higher level with upside this time. I think this is what matters.

Q – Gokul Hariharan, JPMorgan

Got it. Understood. And secondly, for the second or the next generation project that you're working with this customer, I think Rick mentioned that you are working on two packaging solutions -- competing packaging solutions. So just wanted to understand, like how do you kind of manage that, like any risk of execution on this kind of project?

I think there is a view out there in the market that I think the packaging solution becomes a critical factor in terms of the success of the project. Could you comment about your perspective on that? Or is it like

the packaging solution is not really the critical part, it's more on the other areas of execution that basically drive the success of this second project?

A – David Ku, CFO

Yeah, Gokul, I think, first of all, we will not be able to comment on specific project, what technology, because after all, there's the confidentiality. But to answer your question, maybe let me try to answer from a different perspective.

Like our CEO said, we actually invest in two different packaging technologies. And probably it's a better way to say, actually, we are the frontrunner on both technologies, okay? So we're trying to do is actually, when customer or the industry needs for this technology, we want to make sure we are fully ready and we're the frontrunner for that. That's point number one.

Point number two, going back to TSMC CoWos specifically, I think we've been working with TSMC very closely on all the leading-edge packaging. For example, for N2-on-N2 SoC, I think we probably will be the first one to have a test chip out in September this year.

So again, I understand there's a lot of fuss and worry or concerns out there. But the better way to think about that is actually, we actually are the leading player for all different packaging technology. We are not override or underride any one of that. So it's a really balanced strategy and to provide the best solution to the customer.

Q – Gokul Hariharan, JPMorgan

Got it. Just one follow-up on CPO. I think based on your conversation with the customer, what is the timeline for your ASIC customers to potentially need CPO-related solutions? Is it in this generation, the second generation that you're working on or is it probably follow on after that?

A – David Ku, CFO

I think currently, I think like our CEO said, at least right now for all those projects we are working on, and some of them are bidding on, all the way to '28, '29, so far the CPO is actually not a hard requirement. So that's why we think most likely will be a '29 -- '28 and '29 and beyond. And that's why actually we said to have a jump start to prepare that. I think overall we don't think we are behind, especially if you're judging from when the industry requires CPO, because after all, you're not going to see anything come out until late '28, probably early '29. So, so far, looks actually we should be okay.

-End of Q&A session-