

【Samsung Electronics Q3 Earnings Call】

Welcome everyone, this is Ben Suh from investor relations.
Thank you for joining our third quarter 2021 earnings call.

For additional details regarding our quarterly results, please refer to our earnings presentation, which is available on our IR website at www.samsung.com/global/ir.

On the call with me today,
representing each of the business units, are

EVP 한진만 representing Memory

VP 조장호 for System LSI,

SVP 한승훈 for Foundry,

SVP 최권영 for Samsung Display,

VP 김성구 for IT and Mobile, and

VP 송원준 for Visual Display.

In addition, VP 강태규 from Investor Relations is present on this call as well.

I would like to remind you that some of the statements we will be making today are forward-looking, based on the environment as we currently see it, and all such statements are subject to certain risks and uncertainties that may cause our actual results to be materially different from those expressed in today's discussion.

Before we present our quarterly results, let me first address the third quarter dividend.

Today, the Board of Directors approved a quarterly dividend of 361 won per share for both common and preferred stock. The total payout for the third quarter is the same as it was for the first and second quarters, which is 2.45 trillion won, or one-fourth of the 2021 annual total of 9.8 trillion won in accordance with the shareholder return policy we announced in January. The dividend will be paid in mid-November.

Now, I would like to present the results for the third quarter.

Despite numerous macro uncertainties in the third quarter, such as global supply chain issues and persistent effects of COVID-19, by actively leveraging our leading technology, outstanding product competitiveness, and differentiated global SCM capabilities, we once again delivered record results. Total revenue for the quarter was 74 trillion won, up 16.2% sequentially, with all of our major businesses seeing revenue growth, highlighted by solid sales of foldables and other smartphones, as well as increases in both memory shipments and OLED sales. We have set new records for total revenue in a respective quarter for three quarters in a row, and we expect that annual revenue will be well above the previous all-time mark set in 2018. Compared to last year's result, which was our previous all-time high for any quarter, revenue grew 10.5%, driven mainly by memory and OLED. Gross profit increased by 4.5 trillion won sequentially to 31.1 trillion won on the back of cost reductions in memory, mainly from advanced process migrations. There was also a slight rise in gross margin.

SG&A expenses came in at 15.3 trillion won, up 1.2 trillion won quarter-on-quarter, primarily due to an increase in advertising and promotional costs. As a percentage of sales, however, they declined by 1.4%pts as sales significantly outgrew the SG&A increase.

Operating profit increased by 3.3 trillion won quarter-on-quarter to 15.8 trillion won—our second highest total ever—as the component businesses improved significantly, backed by continued favorable conditions in the memory market and robust sales in the Foundry and DP businesses. Our finished product businesses also delivered solid results. Operating margin improved by 1.6%pts. On a year-on-year basis, both operating profit and operating margin increased substantially, propelled by our component businesses.

I will now briefly review the results of each business unit.

For Memory, results improved significantly as we actively addressed customer demand—which led to record quarterly bit shipment, as well as the second-highest ever revenue, for DRAM—and reduced costs by expanding sales of 15-nano DRAM and 128-layer V-NAND.

In Foundry, results improved backed by strong sales to global customers.

In Display, Mobile panel earnings improved sequentially on effects of product launches by major smartphone customers. However, the large panel business continued to post losses mainly due to declines in LCD ASP.

For the mobile business, results improved sequentially thanks to expanded sales of our new foldable models and low- to mid-range smartphones along with sales growth of products in the Device Ecosystem lineup.

For Network, we expanded our business overseas, including in North America and Japan, as we continued to address 5G network demand in the domestic market.

In the CE Division, despite the strong expansion of our premium TV and Bespoke lineups, profitability declined due to rising material and logistics costs.

Regarding currency effects, strength in most major currencies against the Korean won, especially the US dollar, had a positive effect on the component business in particular, with a combined impact of approximately 800 billion won on operating profit compared to the previous quarter.

Next, I would like to share our business outlook.

In the fourth quarter, we will focus on actively meeting demand for memory and System semiconductors although component shortages at some customers may affect demand. We will also maintain solid profitability in our finished product businesses by strengthening our leadership and lineups in the premium segment.

For Memory, there may be increased demand risk due to the longer-than-expected component supply issues, but we will actively address strong fundamental demand for server resulting from increased investments by major IT companies.

For system semiconductors, we expect to increase supply of SoCs and related products for mobile phones slated for launch in 2022; and for foundry, we expect results to improve considerably as we aggressively address demand for advanced processes.

For Display, we expect the mobile panel business to achieve solid results backed by steady demand for smartphones and expanded sales in new applications. In the large panel business, we are on track to begin mass production of QD display as planned, but we expect losses to continue due to price declines in LCD panels.

In the Mobile business, we aim to secure robust profitability by expanding sales of premium products such as foldables, actively targeting replacement demand with expanded sales of low-end to mid-range 5G smartphones, and increasing sales of tablets and wearables.

In the CE Division, we will endeavor to expand sales with a focus on promotion of premium products amid seasonally strong year-end demand.

Now let's move on to our outlook for 2022.

Amid anticipation that global IT demand will recover, the component business will focus on expanding the advanced node portion of production and enhancing our leadership in next-generation products and technology. In the finished product business, we will prioritize achieving solid profitability by continuing to strengthen our leadership and lineups in the premium segment. However, there likely will be uncertainties related to component supply disruptions and the "living-with-COVID-19" transition as more people are vaccinated.

For the memory business, we will strive to boost cost competitiveness with volume production of 14-nano DRAM and 7th generation V-NAND, and also enhance market leadership by expanding mass production of next-generation products based on our industry-leading EUV technology.

System LSI will expand its business by reinforcing its lineup of SoCs, including for models in the volume zone; and we expect Foundry to continue to deliver strong improvement in results, by addressing growing customer demand through active investments, and by technology leadership such as bringing to production the industry's first 3nm GAA process.

For Display, in the Mobile panel business, we expect the OLED portion of the market to increase with the rising penetration of 5G amid a recovery of smartphone demand, and we will closely monitor the supply of some components, such as DDIs. The large panel business will strive to secure a position in the premium TV segment with QD display.

The mobile business will pursue sales growth and profitability improvements by strengthening its presence in the premium market with expanded sales of our flagship lineup and our increasingly popular foldables as well as via an enhanced lineup of 5G smartphones for the mass market. At the same time, we

will keep fostering the tablet and wearables businesses while also continuing to develop industry-leading technologies.

For Network, we will continue to enhance our hardware with custom 5G chips and strengthen software based virtualization solutions for future growth; all as we pursue continued expansion overseas.

For CE, overall demand is likely to soften as the world transitions to “living with COVID-19”, but we will focus on proactively capturing growing demand for premium TVs and increasing global sales of Bespoke products.

Let me now move on to capital expenditures.

Capex in the third quarter was 10.2 trillion won, with 9.1 trillion won invested in semiconductor and 0.7 trillion won in display.

The cumulative total as of the end of the third quarter is 33.5 trillion won, with 30 trillion won in semiconductor and 2.1 trillion won in display.

Looking at each business up to the end of 3Q, memory concentrated its investments on expected '22 demand growth and readiness for next gen products such as DDR5 with capacity expansions and process migrations at fabs in Pyeongtaek and Xi'an; and it also invested in longer-term readiness such as infrastructure at P3.

For foundry, investments focused on capacity expansions for advanced EUV nodes in Pyeongtaek.

Display investments centered on accelerating the transition to new technology through expanding capacity for QD display as well as mobile modules.

We are maintaining our policy to invest flexibly in line with market conditions, and given growing uncertainties, including those over component supply, we are carefully reviewing Q4 capex and as such we will not be providing a forecast for annual capex for 2021 at this earnings call.

Finally, I would like to share some of our key activities and achievements in sustainability management.

On October 20, the leading brand consultant Interbrand announced its list of the 100 Best Global Brands, and our Company ranked fifth for the second consecutive year.

Our brand was valued at 74.6 billion dollars, a 20% increase compared to last year. We ranked the highest and saw the biggest growth among non-US companies, and we also far surpassed the list's average growth rate. Our reorganization to a customer-centric management system, sustainability activities, and releases of innovative products were highly valued as we reaffirmed our position as a global top-five brand.

On October 12, Forbes released its annual list of World's Best Employers, and our Company took the top position for a second consecutive year. We believe this achievement recognizes our numerous positives, including the Company's prioritization of employees' health and safety in our COVID-19 response, outstanding performance, strengthened ESG activities, healthy corporate culture and professional development opportunities.

In August, we unveiled "Galaxy for the Planet", the Mobile business's sustainability vision for the Galaxy Ecosystem. The vision outlines a set of initial goals that we aim to reach by 2025, including incorporating recycled materials into all of our new Galaxy products, and also achieving zero waste to landfill at our mobile worksites around the world.

"Galaxy for the Planet" is a continuation of our efforts to create a sustainable future across the lifespan of our products—from production to usage to disposal—as well as throughout our overall business operations to tackle climate change. Moreover, we aim to spearhead the transition to a circular economy through the reuse and recycling of resources.

In August of 2021, the Ministry of Environment gave us and cooperating companies final approval for a new process to be defined as recycling technology under domestic law. This new technology involves the reuse of wastewater sludge generated during semiconductor manufacturing to produce supplementary material in the steelmaking process. Cooperative efforts between SEC, Hyundai Steel, and Pos Ceramics began in August 2020 with the signing of a technology agreement; and resulted in the successful production of steel in April 2021 at Hyundai Steel's Dangjin site by using 30 tons of fluorite alternative products.

This new technology was approved after it was reviewed by the National Institute of Environmental Research, and because the technology enables replacing a mineral that cannot be sourced domestically, it is recognized as the most exemplary case of ESG commitment towards resource circulation since

the Ministry of Environment established its recycling environmental assessment system in 2016.

In September, Samsung received product carbon footprint label certification for four of our new flagship System LSI products, joining previously certified memory chips, from the UK's Carbon Trust. We now have certifications for fourteen semiconductor products.

Semiconductor manufacturing has a particularly challenging road to certification due to its numerous complex processes and need for large quantities of various types of raw materials. However, we passed the strict international assessment standards, backed by results of our various efforts to reduce carbon emissions.

We will continue to strive to minimize carbon emissions with initiatives such as reducing the amount of gas required in semiconductor manufacturing process, enhancing the efficiency of GHG treatment equipment, and applying solutions to reduce energy consumption throughout the manufacturing process.

I will now turn the conference call over to the gentlemen from each business unit to present third quarter performances and outlooks for their corresponding business segment. We will start with the Memory Business. Thank you.

Good morning,
This is Han Jinman from the
Memory Global Sales & Marketing Office.

In the third quarter, the price situation remained favorable and demand, centering on server, stayed strong. We improved our performance significantly compared to the previous quarter by actively addressing customer demand and reducing costs by expanding the portion of production using cutting-edge processes.

In the case of DRAM, for server, demand continued to grow as adoption of a new, high-core CPU that was released in the first half of the year expanded, demand from set builds stayed solid, and content-per-box increased.

For mobile, despite effects on set builds related to supply issues of some components, such as APs, a demand recovery has become more visible thanks to releases of new products by major manufacturers and the base effect of the second quarter, which was affected by somewhat weak demand.

For PC, demand from end-users has also been robust due to changes such as workplaces opting for hybrid work patterns alongside strong seasonal effects. However, set build growth has been limited by supply constraints and logistics issues for some components.

In Graphics, memory demand expanded on a rise in demand for graphics cards due to a revitalization of crypto mining, and the continuing strong demand from game console, which is in peak season.

Despite a resurgence of COVID-19 in major production countries and component supply issues that led to disruptions in Set builds, along with weakening demand from Consumer PCs, we actively responded to demand by flexibly operating our product mix. We set a new record for quarterly DRAM shipments, backed in particular by significant growth in server sales, and we met our original guidance, not to mention the enhancements we made to cost competitiveness by increasing the 15-nano portion of production.

Next, I will talk about the NAND market.

For Server SSDs, along with increased investments by major server customers,

enterprise demand recovered. And based on the high-capacity trend spurred by new CPU adoptions, demand was strong from datacenters for high-capacity products.

In the case of mobile, demand has been solid due to the launch of new models and increases in content-per-box by major customers, as we entered strong seasonality.

For Client SSD, end demand was strong due to a resumption of office work, but memory demand was weak due to a disruption in set builds caused by component supply issues and inventory adjustment by some customers.

In response to growing demand for server SSDs, we expanded sales of high-capacity products of 8TB and up, and increased our production portion of 128-layer products, which led to another quarter of growth.

Next, let me tell you about our fourth quarter outlook.

In the case of DRAM, we expect fundamental demand for server to stay strong thanks to the new CPU adoption and expansion of datacenter investments. However, we need to keep monitoring impacts of the longer-than-expected component supply issues on set builds.

For Mobile, manufacturers are likely to continue to launch new 5G models but there are chances that growth of purchasing demand could be limited due to inventory adjustments at some customers along with impacts of supply chain issues.

For PCs, we expect Set build growth to stay similar compared to the last quarter, given ongoing uncertainties over the supply of some components and impacts of weakening demand from Consumer PCs.

We will actively address fundamental demand from major server customers and aim for full-fledged sales to PCs adopting new CPUs and lead the formation of a market ecosystem that is based on mass production of DDR5 for high-end gaming. In addition, we will continue to strengthen our cost competitiveness by maximizing the portion of production using cutting-edge technologies, such as 15-nano processes.

In the case of NAND, For server SSD, as business activities normalize alongside increasing vaccination rates and continued growth in enterprise IT budgets, we expect the high-capacity trend for server SSDs to continue and demand to be robust. However, we should keep an eye on the component supply issues.

For Mobile, demand is likely to be solid based on 5G market expansions and a high-capacity trend with the spread of new models, but we need to monitor impacts of supply chain disruptions on Set builds

In the PC market, More and more companies are expected to resume office work in the second half, so we expect replacement demand for enterprise PCs to pick up, but demand for memory purchases may slow slightly due to the impact of inventory adjustments at some customers.

We will secure a stable supply chain based on our strong SCM management system and maintain our differentiation strategy by continuously expanding our portion of high-value products, while actively responding to overall server demand and also expanding our line-up of Mobile products.

Now let's move on to the outlook for next year.

First, considering macro uncertainties such as the timing of mitigating component supply issues, influences of living-with-COVID policies amid increasing vaccination rates, and raw material pricing issues, we ask for your understanding in that it is difficult to provide specific prospects or guidance.

Therefore, I'd like to provide a rough outline of the market based on our present forecasts.

Although the mentioned uncertainties may impact demand in the memory market next year, the pandemic led global consumers to experience more online-based social activities and lifestyles, which has been called a 'New Normal', and we think most of the demand in the 'New Normal' will persist as a part of our lives.

For server and PC under these social shifts, we expect fundamental demand to be robust with the trend toward high-capacity following the expanding new CPU adoption and continued growth of enterprise IT investments.

For Mobile, We expect shipment growth and the high capacity trend to continue with the increase in low to mid-priced 5G models, and also as manufacturers launch products with new form factors.

However, since almost all applications are feeling effects of the longer-than-expected component supply issue the timing of resolving such issue is the key to increasing visibility of fundamental demand in each application. Furthermore, we expect demand for consumer and graphic segments also to be robust as the Beijing Winter Olympics have potential to spur increased penetration of premium TVs and the move to high capacity, while demand is likely to be strong for VGA in high-end PCs and rise for AI accelerators in the HBM market.

While we continue to expand the portion of 15-nano DRAM and 128 layer V-NAND, based on product mix in advance which is correlated with market situation, We will proactively address the server market where demand is likely to grow thanks to new adoptions of DDR5 with rising penetration of a high core CPU; and we will also preemptively secure demand for NAND solution products.

Moreover, while expanding mass production of 14-nano DRAM and 176 layer V-NAND, we will continue to strengthen our market competitiveness based on stable cost reductions through next-generation processes and products
Thank you

Good morning, this is Harry Cho from the System LSI Business.

In the third quarter, earnings improved due to increased demand for SoCs/DDIs as major mobile customers launched new products.

In particular, the strong demand amid continued short supply of DDIs contributed greatly to earnings improvements via efficient execution of pricing strategies.

We launched a new product in the third quarter, the industry's first 200-megapixel image sensor for mobile phones, to allow high-pixel shooting with a combination of pixels optimized for the shooting environment, and we also released ISOCELL GN5, the industry's smallest dual pixel image sensor, featuring a fast and accurate auto-focus function as well as high quality shooting in low light condition.

In the fourth quarter, we expect earnings to continue to increase due to our higher mass production of mobile SoCs and related products for launches of new 5G smartphone products in 2022 by major smartphone companies.

The Company aims to achieve even higher double-digit annual sales growth by maximizing its chip supply capabilities via strengthening foundry cooperation and flexibly adjusting product mix.

In 2022, We plan to improve our performance through meaningful gains in the SoC business, such as by expanding supply of 5G SoC products for the volume zone as well as for new flagship products that feature enhanced GPU performance. In addition to that, we also aim to pursue stable growth by addressing strong demand for Mobile DDIs and high resolution image sensors.

Thank you

Good morning, this is Shawn Han from the Foundry Business.

In the third quarter, we improved our earnings sequentially and set a new high for 3Q as we significantly increased supply of key products, such as advanced process SoCs and GPUs, to our global customers with the expansion of mass production at the Pyeongtaek S5-Line.

In addition, we secured a stable sales base by winning new orders for advanced processes from global customers; and we continued our technological leadership by completing the development of the first-generation GAA process/design infrastructure for early mass production of 3-nano in 2022.

In the fourth quarter, demand for advanced and mature processes are likely to stay strong, and we expect to set new records for results by maximizing supply, with revenue growing by more than 10%.

On top of that, the Company plans to continue its technological leadership by completing design of first-generation GAA 3-nano products and developing second-generation GAA process/design infrastructure for 3-nano.

In the foundry market in 2022, we expect supply to remain tight due to increased silicon consumption for 5G mobile, strong GPU-centered demand for HPCs, and solid demand for 8-inch legacy products and consumer applications.

We aim to continue to grow by actively investing to expand supply of advanced processes of 5 nano and below, and we also plan to pursue qualitative growth by expanding global customer sales and normalizing prices for sustainable future investments.

Thank you

Good Morning, I'm Kwonyong Choi from the business planning department at Samsung Display.

In the third quarter, the Mobile Display business recorded sequential growth in sales and profits as smartphone sales remained brisk owing to launches of new flagship phones by major customers.

In particular, profitability improved with the sales expansion of high-end products, such as foldable phones, leading us to achieve our highest ever 3Q profit.

Meanwhile, the Large Display business has been affected by LCD panel price declines, and its loss increased to some extent quarter-on-quarter.

However, the loss narrowed year-on-year as we started phasing out sales of LCD panels from this year in line with the transition of production lines to QD display.

Next, let me share the outlook for the fourth quarter.

For the Mobile Display business, we expect demand for major customers' new products to stay solid, and, at the same time, sales of laptops and gaming devices will grow amid effects of peak seasonality.

As a result, we expect the Mobile Display business to achieve solid revenue and profits in the fourth quarter.

For the Large Display business, given our plan to start mass-production and supply of QD products, we will channel all our efforts to ensure the successful debut of our QD displays.

Finally, I will share our outlook for the display market and the Display business's core strategies for 2022.

For the Mobile Display business, we expect the environment for the OLED business to remain favorable, fueled by a recovery in smartphone demand thanks to an accelerating return to daily lives and wider availability of 5G networks.

Moreover, we expect sales of OLED panels in applications other than smartphones, including laptops and tablets, to start in earnest in 2022.

We at Samsung Display will do our best to capitalize on such trends as a new growth engine.

However, there are still concerns stemming from a supply crunch of components, such as DDIs, so we will thoroughly monitor supply chains and take preemptive measures against potential risks in order to provide products to our customers as scheduled.

For the Large Display business, we will finalize the reorganization of the business from LCD to QD display as planned, and focus on securing leadership in the premium TV segment with QD display.

Thank you for listening.

Good morning, This is Sung-Koo Kim from the Mobile Communications Business.

I would like to discuss the IM Division's Q3 results and the outlook for Q4 and 2022.

In Q3 2021, market demand is expected to have increased quarter on quarter due to alleviating influences of COVID-19.

For our Mobile Business, revenue increased compared to the previous quarter, despite supply constraints in the overall industry. Smartphone sales have increased quarter on quarter led by strong sales of Z Fold3 and Z Flip3, which are being very well received in the market with their distinct experiences, including sophisticated designs, under display camera, S-Pen, and water resistance, to name a few. Sales of our enhanced mass-market lineup also contributed to the performance.

In addition, Device Ecosystem products, such as wearables, have continued their strong growth. We maintained a solid double-digit operating profit margin, while increased marketing investments aimed at mainstreaming the foldable category had some effect on profitability.

For the Network Business, we have enhanced our foundation for growth in 5G by expanding our business overseas, including in North America and Japan, and by actively responding to domestic demand for 5G network deployments.

Now let me move on to the Q4 outlook. We expect market demand to increase

quarter on quarter / as a result of year-end seasonality, although uncertainties over component supply constraints are likely to linger.

In our Mobile Business, we will continue to strive to further expand premium smartphone sales with BESPOKE Edition to focus consumers' aspirations on our foldable Z-Series, while also maintaining sales momentum of Galaxy S series. At the same time, we will pro-actively target replacement demand and the growing 5G market with our competitive 5G line-up for the mass market. In addition, we will increase sales of Device Ecosystem products, including wearables, PCs, and tablets, by promoting easier, more convenient connected experiences. By doing so, we expect to maintain our double-digits operating margin.

For the Network Business, we will push for business growth in global market like North America and Southwest Asia.

Now, let me share our outlook for the next year. Although risk of continuing COVID-19 are likely to persist, we expect the smartphone market to continue growing, and the market for wearable devices, which provide consumers with new experiences and values, to maintain growth in the double digits.

For our mobile business, we will strive to strengthen our leadership in the premium market by further enhancing products' attractiveness and differentiated experiences / of our flagship products. As for our foldable Z-Series, we will continue to further the distinct competitive advantage based on our unmatched innovative technologies and outstanding user experiences / and also provide Samsung's unique differentiation, such as Bespoke Edition.

We will drive mainstreaming of the foldable category and establish it as a very important category within premium market. Regarding our mass-market smartphones, we will continue to extend convenient and unique premium experiences to our users and also actively address diverse regional demands with optimized products such as mass-market 5G smartphones.

Furthermore, we will strive to maximize customer retention and enhance customer trust and aspiration on our products to solidify our position as a premium brand by providing Samsung's unique value with consistent and convenient / connected experiences across our Device Ecosystem products. With these efforts, we will try to achieve solid performance growth in 2022. Also, for our foundation for growth in longer term, we will persistently work on not only developing advanced technologies but also collaborating openly and inclusively with global leading companies.

For the Network Business, we will continue to address expansion of the domestic 5G network and continue to seek opportunities to grow in overseas markets including North America, Japan, South West Asia and Europe. In addition, we will pro-actively prepare for the future by strengthening product competitiveness based on our own 5G chipsets and further advancing 5G virtualization solutions.

Thank you.

Good morning, everyone. I'm Wonjun Song from Sales and Marketing team of Visual Display.

I'd like to review the market conditions and our performance of CE business in the 3rd quarter of 2021.

In Q3, ahead of peak seasonality, the TV market demand increased quarter-on-quarter, but decreased compared to last year when affected by strong pent-up demand.

With a focus on mix improvements, Samsung expanded sales of premium products, such as Neo QLED and Lifestyle products. In particular, newly launched Neo QLED has received good reviews from major magazines and consumers, and we are seeing strong sales amid the related such positive responses. Also, Lifestyle products are being recognized for their differentiated value in the market, which have also helped boost sales.

Against this backdrop, Samsung focused on profitability by actively improving product mix and cost efficiency. However, because of the increase in cost due to material prices and global logistics issues, profit decreased both quarter-on-quarter and year-on-year.

For Digital Appliances in the 3rd quarter, Market demand increased slightly year-on-year thanks to the expansion of demand for New Home Appliances, led by changes in consumer lifestyles. However, market growth slowed down quarter-on-quarter as effects of pent-up demand declined with the increase in vaccine supply. External environment also deteriorated because material prices and logistics costs raised. We responded to various consumer needs by expanding BESPOKE lineup and launching it in even more countries, while also introducing new home appliances.

Through this, we improved sales both quarter-on-quarter and year-on-year, despite a slowdown of market growth. Even so, profitability inched down due to impacts of raw material price and logistics costs.

Now, Let us look at the outlook for 4th quarter and for 2022.

We expect demand in Q4 to rise quarter-on-quarter thanks to effects of strong end-year seasonality. However, reduced effects of pent-up demand along with

an increase in out-of-home activities are likely to cause TV demand to fall year-on-year.

The market outlook for the Q4 is very different from what it was pre-Covid-19. While sales in offline stores are expanding again with a move to a living-with-Covid policy, mainly in advanced markets, demand in the year-end shopping season may be dispersed throughout the quarter due to a reluctance by customers to gather in large numbers, and strength in the online and non-contact sales trend is expected to continue.

Based on close cooperation with channel partners, we are establishing a sales strategy that can preemptively respond to such changes in the market. We will optimize promotion periods to align with dispersed demand at offline stores and will induce up-selling with premium-focused promotions, thereby expanding sales of strategic products such as QLED and Lifestyle products. Furthermore, by improving Samsung's online sales infrastructure, we will provide consumers with a more convenient and easier-to-use online purchase platform and expand non-contact sales opportunities through online promotions tailored to each country. Moreover, based on Samsung's Global SCM capabilities, we will minimize logistics risks and focus on securing profitability through optimized operations and efficient cost management.

For Digital Appliances in the 4th quarter, We expect the increase in demand for home appliances to slow as more regions transited to a living-with-Covid policy, which has continued from the third quarter. Also, raw material prices and logistics costs are likely to continue to rise.

We plan to accelerate the global expansion of BESPOKE and continue its growth by bolstering year-end promotions and online marketing. In addition, we will optimize supply efficiency by region by responding to risks in the external environment, and pursue profitability improvements by expanding sales with a focus on premium products.

Regarding demand for the TV market in 2022, The growth trend, which continued until the end of the first half of 2021, is expected to reverse, and social and economic uncertainties related to COVID-19 as well as supply and logistics issues are likely to increase continually.

However, we expect demand for premium products, such as super big TVs and QLED products, to keep growing. In 2022, we will focus on improving our mix of

high-value-added products by targeting the rising demand via technological innovations in premium products, including Neo QLED, 8K, and Micro LED. Furthermore, we will continue to add to growth momentum by creating sales opportunities with our differentiated lifestyle products to actively address consumers' growing interest in diverse lifestyle values that emerged during COVID-19.

In the Digital Appliances market in 2022, The market is expected to continue to slowdown in growth following the second half of 2021, as consumers spend less time at home.

However, we expect that market demand stays at a similar level of 2021 because of an increase in the penetration rate of new home appliances.

We will solidify brand image of providing customized products that meet the needs of consumers by introducing a new lineup and expanding global sales of our differentiated BESPOKE products. In addition, we will enhance our supply competitiveness by improving productivity and strengthening our SCM competitiveness so that we can respond flexibly to external changes, such as increases in logistics costs.

Based on this, we will continue to grow and lead the home appliance industry.

Thank you.

Thank you for the presentation. That sums up the first quarter results presentations. Before we move on to the Q&A session, I would like to share several data points in key business areas.

For DRAM in the third quarter, our bit growth was a percentage in the low single digits, and ASP increased by a high single digit percentage. For the fourth quarter, we expect market bit growth to be flat and ours to be around the market level. For the full year, we maintain our forecast of market growth in the mid-20% range and that our bit growth should be similar.

For NAND in 3Q, our bit growth was a mid-single-digit, and ASP increased by around 10%. For 4Q, we expect market bit growth of a mid-single-digit percentage and our bit growth should be slightly higher than market. For 2021 as a whole, we still expect market bit growth percentage to be in the low 40s, but now believe our bit growth will slightly outperform market.

In the Display Panel business in the third quarter, our OLED portion of sales was in the mid-90-percent range; and OLED sales volume growth was a percentage in the low 20s.

In the mobile business in 3Q, sales volume was approximately 72 million units for handsets and 7 million units for tablets. The blended ASP, including tablets, was around USD 250; and the smartphone portion of handset shipments was in the mid 90% range. For the fourth quarter, on a sequential basis, we project that handset shipments will decline, and that tablet shipments and blended ASP will increase. The smartphone portion of handset shipments is likely to be in the mid- to high-90% range.

In the TV business, sales volume in the third quarter increased by a mid-single-digit percentage. For the fourth quarter, we expect growth to be in the low 20% range. For the full year, we forecast that sales volume will decline in the low 10% range.

With that, let's now move on to the Q&A session.

Q&A

<Q – Soonhak Lee >:

I have two questions.

- So first question is about your CapEx. I think YTD third quarter, your CapEx this year has increased versus last year. Can you give us a detailed breakdown of that CapEx by each of the business divisions? You said that you are not able to provide a full-year guidance on your CapEx, but still can you give us some color as to your CapEx this year and what you expect to see next year?

- Second question is about the display business. First of all, the LCD is going through a down-cycle, ASPs are falling. Would that mean that you may actually stop your LCD production faster than originally-scheduled? And if so, when do you plan to stop your LCD production? Fourth quarter would also be the start of your QD display mass production. Can you give us some updates on how that is going?

<A>:

- Yes. To answer your first question, our YTD third quarter CapEx is currently at KRW33.5 trillion. This is mainly attributed to the increase in semiconductor-related investments. Both our memory as well as foundry investments have increased versus last year.

To give you some details of the investments, in the case of memory, our investment or CapEx policy remains the same. And that we do focus on being able to respond to mid- to long-term demand, but also, in terms of executing equipment investments, to make that flexible, depending on the market situation. And so, yes, we will continue to maintain flexibility as we execute our investments during the fourth quarter.

Given the remaining uncertainties, we're not able to provide you a full-year guidance on our CapEx. But overall, when we look at the investments for this year, there are several areas where these investments are being used. There are definitely investments that we're making in order to increase our capacity to respond to the expected increase in demand next year. But also, some of the investments are being made in order to offset some of the decrease in supply that happens as we move up to more advanced nodes and also the die size penalty that happens with next-generation products such as DDR5.

At the same time, another piece of that investment is being made, to continue to maintain our technology competitiveness, and as investments for the future, in order to, for example, make successful process migrations, to gain greater cost competitiveness, as well as, for example, the infrastructure investments we're making in P3 in order to have the capabilities to capture demand in the future.

Some of the detail investments that we made on the foundry side, includes investments necessary to increase the production scale of our new Pyeongtaek S5 Line, given the fact that we do see increased demand especially for the advanced nodes. Also we're making future investments to maintain our technology leadership; also, the equipment investments to respond to future demand, as well as, some pre-emptive preparations of essential clean room facilities. You have also asked for some color for next year, but we're still actually working on our business plan for next year. So we are not able to provide you with greater details about next year's CapEx expectations.

- To answer your first question, yes, we are continuing to produce LCD panels, that is, at the request of our customers. We are planning to, at least, continue our production until end of this year. The question is, whether to continue

production even next year? Currently, we're reviewing that. And we will actually exercise quite a lot of flexibility as we make that decision, considering both the market situation, where as you mentioned the LCD panel ASP is rapidly-falling, but also the demand from our customers.

As you mentioned, also, we are on track to mass production and shipment of our QD displays this fourth quarter. We are on track to with our original schedules. And according to this TVs featuring QD displays may be unveiled in the market next year. Our QD displays has many advantages versus existing displays such as in terms of color reproduction, viewing angle and brightness. And therefore, we're quite confident that it would set the new standard, especially in the premium TV market.

Our current focus is on the successful unveiling of the QD display in the market, and also to make this as the start of a smooth transition of our large-sized business towards the QD display.

<Q – Peter lee >:

- My first question is about your NAND. Your NAND shipment was slightly below your original guidance. Can you give us some details of, why?

- The second question is about the foldable, the successful launch of Galaxy Z Fold3 and Z Flip3, has shown the growth potential of the foldable form factors. In that context, can you give us some your guidance for this year, as well as, next year of your foldable phone sales?

<A>:

- To answer your first question, yes, as you mentioned, our third quarter NAND shipments came in slightly lower than the guidance that we had provided last quarter, which is explained by several reasons. Number one, on the client SSD

side, while the PC demand actually remained solid throughout third quarter, there were some supply chain issues with other components that disrupted build production. Also, some customers went through inventory adjustments. And so there was a soft demand for client SSDs, especially around the low-end PCs.

Also on the mobile side, even though, due to seasonality, the mobile demand itself was also solid, there were some AP-related component supply issues in the mid-end levels. And so there were also some impact due to delay of our MCP supply.

Well, actually, so while this was happening in the market, we had actually ended the second quarter came into the third quarter with extremely low inventories. And so we thought that the best way to manage this situation was to focus during third quarter on increasing building in flexibility for the future by using third quarter to normalize our inventory levels, especially around the high-end solution products such as servers and e-storage.

- As you know, our focused strategy for foldable has been to enhance the user experience and also to lead the market in foldables. And based on the strategy by introducing eye-catching designs and also optimizing the foldable usage experience, we have been able to bring up a very positive response from the customers. We think that we have succeeded in actually starting and leading this mainstreaming of foldables in the market. On top of that, with the bespoke edition, the Z Flip 3's innovative user experience is combined with a wide range of customizing and personalization options. And this has generated quite strong responses from the younger customer segments, for example, Generation MZ. You've asked about our sales this year and next year. This year, our foldable sales is expected to increase by several times versus what we had last year. And we expect to continue significant growth of our foldable sales even next year. So

while we continue to focus on further enhancing our technology and user experience, we will also work on creating stronger partnerships and ecosystem, so that the foldable becomes a very important category within the flagship.

<Q – Ricky Seo >:

- My first question is about the memory. It seems that the prices are falling faster than what the market is expecting. Can you share with us, therefore, the short-term market outlook for DRAM and NAND? As well as, what you expect to see next year in terms of demand? There are some upside potential next year, as well as, downside risk. Can you give us some details of how you perceive these upsides and downsides for next year?

- Second question is about the network business. During the presentation, you mentioned some of the achievements you're making in North America and Japanese network markets. I'm wondering if there are any updates on Indian market where there are LTE and 5G auctions going on, are being discussed. Can you share us share with us some details about what you're planning or doing in India?

<A>:

- To answer your question, I agree that there is quite a lot of uncertainty, especially around various macro issues, such as how the back-to-normal will pan out, also the component and supply chain issues and the raw material prices increasing.

However, even though there are these headwinds factors, we also need to think about some of the upside potentials that can come next year as we prepare for next year's business. Currently, one of the key issues is the supply chain, the component shortage issue, which has disrupted all various application sectors.

But when we look at the current component shortage or the supply chain issues, we think that it's not an issue of just absolute shortage of production output of all components, but rather more of a mismatch of the supply chain. And so compared to a case where the problem is caused by an absolute shortage of capacity, things could actually start to improve earlier-than-expected, even though it's just difficult to say definitively. We're carefully hoping that perhaps the situation may start to somewhat ease from second half of next year.

Another factor that may impact demand would be, how the post-COVID-19 or what COVID situation will unfold in various countries? With more vaccinations happening, many countries are now moving on to what could be referred as back-to-normal or living with COVID-19 policies. This would probably increase the amount of activities that people do face-to-face or in person, but probably, we will not be able to go back to the way we did business or lived before the pandemic. Because during the past two years, consumers have experienced the convenience and efficiency that comes with a digital-based new normal society and lifestyle. And I think that even after the pandemic ends, this will be part of our everyday lives, and actually move up to the next level of digital transformation. So given this social trend and also increased investments in new CPUs and major data centers, it is expected that the fundamental demand, especially around servers will continue to remain solid.

You have mentioned the software pricing, and there is definitely various uncertainties in the market. And when we talk to customers, we do notice that there is a gap between how we expect the market to unfold versus what the customers are expecting, which also makes our pricing negotiations that much more difficult than before. But given the fact that the memory industry cycle is actually getting weaker in terms of magnitude and also shorter in terms of cycle duration, and also the fact that we're currently running at relatively low

inventory levels, we do not think that the current price situation calls for concern.

- To answer your question about our network business, we have definitely been working in India. The Indian market just went through an auction of 4G frequencies; seven bands of 4G frequencies were auctioned off during the first half of this year. And so in India, in order to increase the 4G network capacity, there are new projects coming up. And so we are creating business opportunities by proposing new base station equipment and network optimization solutions to Indian carriers.

We also have in mind the 5G opportunities in India. So leveraging the 4G large-scale commercial network track record that we would have, we are aiming to also expand this to a continuous expansion of our 5G business in India. So with that in mind, we are building very strong partnerships with local carriers. The Indian 5G frequency auction is scheduled for first half of next year, and so once that is done, there will be demand specific demand for 5G networks. And so currently, we're doing the groundwork of our 5G business, so that we would be able to supply the necessary products in a timely manner.

<Q – S. K. Kim >:

- My first question is about the recent media report that the company is planning to mass produce its 3-nano GAA process earlier than competitors. According to the report, you're planning to build mass production in the first half of next year. Does the company have any comments? Or can you offer some details about the technology roadmap for your foundry business? Also in that context, can you share with us some comments or plans regarding your mid to long-term capacity expansion for the foundries?

- Second question is about the IM side. It seems that the supply chain, the component supply issues did have an impact on your third quarter business. Can

you quantify that impact? And also, do you think that this will continue in your fourth quarter? When do you think the situation would ease? And how is the company coping with the component shortage?

<A>:

- To answer your first question, we are currently on track with target of mass production of our 3-nano GAA process during the first half of next year. And also by further enhancing and innovating not only our process development but also manufacturing, infrastructure capabilities, we want to prove once again Samsung's leadership in GAA process technology by further enhancing our power performance area in the GAA process as we prepare for the second generation 3-nano.

Well, in terms of our capacity plans, currently we are going through unprecedented investments in both infrastructure and equipment with the aim of securing a sufficient mass production capacity to satisfy the customers' needs as much as possible in the EUV process, by expanding our Pyeongtaek capacity, but also studying the construction of a new fab in the U.S.

But if you compare some of our capacity numbers, our capacity as of 2021 and has increased by around 1.8x versus the capacity in 2017. Going forward, we're planning even steeper capacity increases by around 3x of our capacity by year 2026. And so we are focused on securing as much as maximum mass production capacity to satisfy customer needs.

- Regarding the impact of the component, the chip shortage on the IM production in third quarter, there was definitely a considerable impact on our third quarter sales volume. The situation does not appear to be easing. So it seems that even the fourth quarter will also have to bear with the part or component supply issues. It's difficult at this point to predict when situation

would improve, but we have optimized our supply lead time by strategic partnerships with our partners, so that we are able to at least optimize the part of the lead time or supply chain that comes within our control, such as receiving the components, using that to produce the product, and also shipping the finished products to the channels. At the same time, we're also focusing on minimizing the impact by diversifying our sources and also going through rebalancing of our component supply.

And not just as a temporary response, even after the situation stabilizes, we will actually strengthen our proactive response system to market changes through strategic partnerships and collaboration with the key vendors on an ongoing basis.

<Q – Jeff Kim >:

- My first question is about the Memory business. You mentioned that the memory down-cycle is expected to be less in terms of magnitude and also shorter than before. Can you give us some of the reasons why you expect that?

- Second question is about the TV business. Even though, there was this pent-up demand after COVID-19, at the tail of that, it seems that there is a softness in consumer durable demand, and overall, TV demand outlooks are being downward adjusted. Of course, despite that overall TV market trend, the premium segment continues to do very well. So given that market situation, can you share with us your strategy for the VD business?

<A>:

- The reason why we think that the down-cycle will be less in magnitude and shorter is threefold. One is the fact that the applications have become much more diverse than before. Previously, the main source of memory demand was

the PC, but now memory is being used in a far wider range of applications. It's similar to how our portfolio volatility decreases if it's well-diversified. I think a similar situation is happening in the memory market.

Another reason for the change in the down-cycle is, because we're now working with cutting-edge very difficult memory processes. Because of the difficulty of the technology, it's not as easy to maintain the same level of bit growth as before, and there are restrictions and limitations in rapidly-increasing memory output. I think, we are currently experiencing a part of that impact. For example, our inventory continues to remain at a very lean levels past quarter, as well as, this quarter. So I think the type of the difficulty of a memory process technology will also be a reason why we the possibility of an extreme down-cycle as what we saw in 2018 is low.

And the third reason is that basically, both the vendors and the customers have learned their lesson during the past extreme shortage and also oversupply, that it's best for the entire market to maintain a level of rationality and soundness. And that has also improved the SEM and crisis management capabilities of participants in the memory market, and I think that would also contribute to improving the down-cycle.

- To answer your question about the TV market outlook, as you mentioned, yes, there was that pent-up demand in the TV market that continued until around first half of this year. Some of that is leveling off, and we expect that TV demand in Q4 will decrease slightly on a year-over-year basis.

Another factor we have to expect is the impact the living with corona policies may have on the TV demand with higher vaccination rates, especially around developed markets, there are easing of social distancing, people will spend more time outside, and this may have an impact on TV demand. But also, looking towards next year, there are some positive factors. For example, there is the

global sports events happening in the second half of next year, which will drive the consumer needs for large size and high-quality TVs that gives that immersive experience. And this will be a great opportunity for us to expand our sales, especially in key markets such as Europe and Latin America.

Despite the stagnation of the TV market, the premium TV demand is expected to continue to grow even next year. And so therefore, our strategy is to focus on Neo QLED 8K and the strategic products to target the high-end segment of the market to overcome the softer market demand. Also, our Neo QLED is already showing very positive sales performance, but we think that, that will continue on next year, because Neo QLED is a product that offers the market's best picture quality and design, and thus provide a differentiated in-home activity value to consumers who're now doing various activities at home, in addition to gaming, they're working and also doing home fitness at home. And Neo QLED is the has been providing that value, especially to consumers in the premium segment. In addition to this, the lifestyle TV product groups would also be a major focus for us next year. It provides various values that are not provided by existing TVs. And so the lifestyle product would be another way we plan to create new demand among a stagnated TV market and deliver continued growth.

<Q – Nicolas Gaudois >:

- Good morning. Thanks for taking my question. So I guess considering the recent trend in memory pricing, are you at this stage reconsidering your investment plans for 2022 for both DRAM and NAND flash in terms of, number one, the amount of new capacity you plan to roll out? And number two, the timing of the equipment delivery? Thank you.

<A>:

- To answer your question, given the large number of uncertainties that remain at this point, we are currently continuing to discuss our detailed investment plans. These are discussions for both in terms of the size of our investment, as well as, the detailed direction. And so we are practicing particularly high-level of care and caution, as we try to work out next year's investment plans.

And so our basic approach to investments remain the same. You have heard before, that our focus is to continue to maintain the investments in infrastructure at the right levels, so that we are prepared to meet mid- to long-term demand. But in terms of equipment investment execution, to do that flexibly, tied with the market situation, that approach still applies. And our basic goal is to increase the foundation that we have for sustainable profit generation. And so our investments, as well as, capacity operation will be adjusted according to that goal.

<Q – Won Sik Lee >:

- My first question is about the concern of the 1A-nano, the 14-nano production yields that is in the market. Can you give us some updates of where your yields currently stands?

- Second question is about the display. The OLEDs, it seems that your rigid and flexible OLED is running at almost full capacity. Do you what can you give us some details about your capacity expansion plans for the mid- to small-size, and also how you plan to expand to new applications?

<A>:

- You've mentioned that market is very worried about our 14-nano production yield. But actually, internally, we're pleasantly being surprised by the fast speed

of ramp-up that we're seeing on our 14-nano, at least versus the previous generation. So I don't think there is any reason to be concerned.

As we've mentioned during previous conference call, the rationale behind our 14-nano process is that it leverages our EUV knowhow, but also uses the ecosystem that we have developed in order to give us stronger cost-competitiveness. And as we've just mentioned, we are ramping up quite fast, we are there. And so we are confident that with our 14-nano technology, we will be able to maintain our technology leadership.

To answer your question about our OLED displays, as you mentioned, our OLED utilization is very good. But also given the fact that the customer demand is expected to remain strong next year, probably this high-level of utilization will go on until next year. However, we have seen some areas for improvement in terms of our efficiency, especially around the flexible OLED. For example, we were not able to use some of the capacity when we have to add in high performances such as whole displays or touch features. And so in order to improve that, we have continued to make supplemental investments to optimize our line. And if necessary, we are considering the use of some of our idle LCD lines.

Another area where we want to make capacity investments would be in the module lines for to capture the foldable demand. Foldable demand is rapidly growing. It is expected to continue to grow. So we are planning to make investments to expand our module line in a timely manner. This will enable us to supply to not only existing customers, but also diversify our customers globally.

- You've all asked about how we're diversifying the OLED applications. And as and fortunately, as you mentioned, the OLED panels have recently been used not only in smartphones, but in other devices such as laptops and game devices.

We're currently trying to work out our output for each of these applications. We are still planning that. But roughly, we think that our OLED displays for laptops or tablet products would probably increase around twofold, 2x, in terms of sales versus this year. And so we are going to focus on capturing and maintaining OLED leadership in other high-growth applications in addition to smartphones. And this diversification of the product mix will also help us better cope with the repeated seasonality that we have gone through in the mid- to small-sized panel business. Also, I think it's meaningful to share the fact that this year, we've also had some wins in the auto market, which is also rapidly growing with the adoption of EVs and autonomous driving. So going forward, our OLED business will focus on supplying to various applications, including smartphones, and also to winning the leadership in the auto market.

<Q>:

Finally, we will answer questions that were submitted online in advance. As you know, starting from last earnings conference call, we've accepted questions via our web page in advance. And this was part of our efforts to strengthen communication, especially with our retail investors and enhance the understanding of the company. A variety of questions were submitted this quarter as well. I believe, the majority of the submitted questions were sufficiently answered during the Q&A session. So we will answer two more questions on topics that actually received a high-level of interest from our shareholders, but were not addressed during the Q&A.

So the first question goes to the Foundry business. The question is, recently global big tech companies have jumped into the development of their own semiconductors. Against this backdrop, I would like to know, in which area

Samsung has an advantage over the leading competitors. And whether it has a separate vision to gain long-term technology leadership? This will be answered by Mr.Shawn Han of the Foundry business.

<A>:

Yes, as you mentioned, in this age of the fourth Industrial Revolution, the importance of foundries has actually increased, because it is the foundry that implements the ideas from the fab companies into silicon. So in order to meet the demand for especially the cutting-edge chips, such as AI, autonomous driving, 5G and mobile SoCs, it's critical for foundries to gain the cutting-edge leading process technology through intensive R&D.

In order to grow the foundry business, we think that there's three critical elements that need to be addressed One is, as I just mentioned, to have that advanced cutting-edge process technology. Number two would also be providing the design solutions for different applications. Number three is, of course, to support that with sufficient capacity. And in order to provide the optimized process solutions for our fabless customers, we, for example, are planning to apply first-in-the-industry, a new architecture GAA in the cutting-edge process of 3-nano, starting mass production next year. Also, we have been providing the design platform to support the customers' design efforts, and our design platform is supported by not only core IP for each of the applications, but also a packaging technology that strengthens or strengthened packaging technology based on a heterogeneous integration. Of course, to satisfy, the third, sufficient capacity, we have been making large-scale investments and also optimizing our line operation. And we think that, the results of these endeavors will become visible gradually. By continuing to focus on these three key success factors, we will deliver stronger competitiveness of Samsung Foundry.

<Q >:

And the second question that we got from online was about the dividend. The question is, Samsung gave a special dividend in the fourth quarter of last year, are you planning to give out a special dividend this fourth quarter as well? And is there a possibility of using that for a buyback rather than a pay-out?

<A>:

In January, we announced our three-year shareholder policy covering the period of 2021 through 2023, and we remain unchanged, that starting with this year's fourth quarter results, we will announce our annual free cash flow and seriously consider a partial pay-out if there is a sufficient surplus beyond the annual dividend.

So therefore, we will share our free cash flow and whether we will execute such early pay-out once the 2021 results are confirmed. However, we have not finalized the method of early returns, whether it will be through dividends or buyback or cancellation. But we plan to fulfill the policy in a way that provides the most benefit to our shareholders, stakeholders and the company, considering overall environment, including the market conditions and outlook by business, macro factors, and the stock market trend.

Due to the limited time, we're unfortunately unable to answer every question that was submitted. But I would like to thank everybody, who shared their opinion, providing us with valuable information to refer to in our decision-making process. And that completes our conference call for this quarter. We wish all of you and those close to you, stay strong and in good health.

Thank you.