

【Samsung Electronics Q1 Earnings Call】

Welcome everyone, this is Ben Suh from investor relations.
Thank you for joining our first quarter 2022 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 today,
I am joined by the following representatives from each business unit
EVP 한진만 representing Memory
VP 한규한 for System LSI,
EVP 강문수 for Foundry,
EVP 최권영 for Samsung Display,
VP 김성구 for Mobile eXperience,
VP 김영무 for Visual Display.

I want 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.

Also, please note that last December, we merged the IM and CE Divisions to form the DX Division. However, the earnings call materials provided today are based on the business structure before the reorganization to prevent investor confusion regarding our results.

Before reviewing our quarterly results, I would like to address the first quarter dividend.

Today, the Board of Directors approved a quarterly dividend of 361 won per share for both common and preferred stock. Based on the annual dividend payout under the current dividend policy, the total payout for the first quarter is 2.45 trillion won, or one-fourth of the annual total for 2022. It will be paid in mid-May.

With that, I would like to present the results for the first quarter.

We once again delivered record results, despite a highly challenging external environment, thanks to the hard work and dedication of our employees and strong cooperation with our partners to deliver the products in demand by our customers.

Total revenue in the first quarter grew 1.6% sequentially to 77.8 trillion won, setting a new, all-time quarterly high for the third consecutive quarter. We raised the bar again by delivering solid growth across all our businesses, with the DX Division registering its highest revenue since 2013 thanks to our premium focused strategies; and the DS Division setting a historical high for quarterly revenue by actively meeting strong server memory demand.

On a year-on-year basis, revenue grew by 19% driven mainly by the Memory and Visual Display Businesses, and I would also like to highlight that there was at least 10% growth in all of our business units, except for large panels, in which we are ramping down LCDs.

Gross profit decreased by 0.9 trillion won sequentially to 30.7 trillion won mainly due to increased material and logistics costs affected by macro issues. Gross margin also declined slightly, compared to last quarter, falling 1.8 %pts to 39.5 %.

SG&A expenses were lower by 1.2 trillion won quarter-on-quarter to 16.6 trillion won, mainly due to a reduction in R&D, combined with more efficient advertising & promotional spending. As a percentage of sales, they declined 1.9%pts. Although R&D was down sequentially, this was due to the record level set in the previous quarter, and R&D spending reached an all-time high for a first quarter as we continue to invest in growth.

Both operating profit and operating margin increased quarter-on-quarter, with operating profit reaching 14.1 trillion won due to solid sales of S22, the new flagship smartphone, and premium TVs, despite a decline in memory ASP.

On a year-on-year basis, both operating profit and operating margin increased substantially, rising by 51% and 3.8%pt to 14.1 trillion won and 18.2%, respectively.

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

In Memory, we outperformed market expectations amid a milder-than-expected price decline. We also achieved record-high quarterly sales for server due to an active portfolio shift to meet solid demand from server and PC.

In System LSI, the results improved sequentially as positive impacts from favorable exchange rates and higher ASP outweighed the effects of a decline in SoC/CIS supply amid weak mobile seasonality.

In Foundry, demand was solid across all applications. Despite concerns around delivery issues, we increased our advanced process portion of production and were able align on a stable yield trajectory.

For the Display segment, the mobile panel business delivered historically high results for a first quarter, driven by strong sales at major smartphone customers and increased sales in new application areas such as gaming.

In the large panel business, the production yield of QD displays improved faster than projected, and monitors featuring QD display were released during the quarter.

For the MX Business, although we faced component shortages, geopolitical issues, and adverse currency effects, we delivered sequential increases in both revenue and profitability. This was mainly due to strong sales centered on S22 Ultra—which integrates specialties of the Note—positive responses to new mass-market 5G models that offer flagship experiences, and solid sales of Device Ecosystem products, such as premium tablets and watches.

The Network Business expanded its sales overseas while meeting domestic 5G expansion needs.

In VD, revenue and profit grew year-on-year even amid declining market demand, with increased sales of premium, high-value, strategic products, such as Neo QLED and Super Big TVs.

In Digital Appliances, we achieved record-high quarterly revenue based on growth trends across our entire premium lineup, centering on BESPOKE, despite an increased cost burden.

Regarding currency effects relative to the Korean Won, positives related to the strong dollar for the component businesses outweighed adverse impacts from

a strong dollar and weakness in some emerging currencies for the finished product businesses. All in all, the net result was positive, resulting in an approximately 300 billion won gain for operating profit, compared to the previous quarter.

Next, I want to share our business outlooks.

In the second quarter, we expect that macro uncertainties and logistics issues will persist.

For our company-wide business outlook, DS will work to meet expected solid demand; and DX will focus on securing profitability by expanding sales of new smartphone and TV products while strengthening its leadership position in premium segments.

Now for each business unit's outlook,

In Memory, we will focus on meeting expected solid demand centering on server, while maximizing the quality of our portfolio by expanding sales of high-value-added products, leveraging our market-leading technologies.

For System LSI, we will mainly focus on maximizing the supply of key components, such as SoCs and image sensors.

For Foundry, we will solidify our technology leadership position with the world's first mass production of the 3-nano GAA process; and prioritize increasing supply to our global customers. We also expect to continue to win new business opportunities and new customers.

For the Display segment, in the mobile panel business, despite macro uncertainties, we expect to maintain solid results compared to last year thanks to continued solid demand from major customers for their flagship smartphones, and demand for gaming and other applications.

In the large panel business, we expect revenue to increase with the release of TVs featuring QD display and losses to narrow. LCD production will be ramped down as planned.

In the MX Business, amid improved availability of key components, we expect solid sales of S22 and expanded sales of new 5G models for the mass market to

fuel significant year-on-year revenue growth; and we expect to achieve solid profitability, despite macro impacts, by utilizing our global SCM capabilities.

For Network, we will deliver a stable supply of products to our telecommunications customers and also work to win new business opportunities.

For VD, we will focus on selling new models, including Neo QLED and The Freestyle; and capture demand for premium products to help counter an expected market slowdown.

For Digital Appliances, we expect to increase revenue and profitability by improving the product mix with increased availability of BESPOKE premium products in the global market and by expanding sales of air conditioners amid strong seasonality.

Now let's move on to our outlook for the second half of the year.

For our company-wide business outlook, as we project uncertainties related to the macro environment and geopolitical issues to persist, our component businesses will prioritize increasing the portion of our advanced processes and expanding into new application areas. New products introduced in the market should help conditions to improve during this period.

In the DX Division, we will continue to strengthen our premium lineup leadership position, while working to enhance multi-device experiences via seamless connectivity between different products that encompass home—including TVs and digital appliances—mobile and automotive. We aim to create customer experiences on a level that only Samsung can provide.

Now for each business unit's outlook,

For the memory business, we expect server demand to remain solid, backed by an accelerating shift to high-core CPUs. We also anticipate a recovery in mobile demand on effects of new model launches later this year. Thus, we plan to extend our leadership position by increasing sales of next-generation interfaces, such as DDR5 and LPDDR5x, and by focusing on a high-value-added product portfolio.

System LSI will focus on reinforcing its lineup of SoC models targeting the volume zone.

For Foundry, we will push to outperform the market and also achieve meaningful profit by raising the yield and increasing the portion of our advanced processes. Meanwhile, we will adopt pricing strategies to enable continued investments, and solidify technology leadership in the GAA process.

For Display, in the Mobile panel business, we expect sales to increase, driven by expansion of foldable products and the accelerated adoption of OLED in new application areas, such as IT, gaming, and automotive. The large panel business will establish its leadership position in the premium segment and narrow losses with QD display.

The MX Business will target to maintain a solid level of profitability. First, we will expand our premium user base by improving flagship experiences. Second, we will maximize sales of new foldable products via strengthened cooperation with our partners and offer an undisrupted supply to meet the market demand. Lastly, we will increase sales of new Device Ecosystem products that will enhance customer experiences.

For Network, we intend to maintain our growth momentum by meeting domestic needs for 5G installations in a timely manner and actively expanding our business in overseas markets. We will also continue to reinforce our leadership position in vRAN (virtualized Radio Access Network) technology.

For VD, we will strengthen our premium market position by expanding sales of our differentiated strategic products, such as Neo QLED 8K/Lifestyle products during a seasonally strong period, and by sales of innovative products such as Micro LED and Odyssey Ark.

For Digital Appliances, as issues related to material costs and logistics are likely to persist, we will continue to focus on increasing sales of premium products and enhancing local production capabilities of our global manufacturing base.

Now turning to capital expenditures.

Capex in the first quarter was 7.9 trillion won, with 6.7 trillion won invested in semiconductor and 0.7 trillion won in display.

Memory investments concentrated on infrastructure at P3 and on process migrations at fabs in Hwaseong, Pyeongtaek, and Xi'an to address growing future demand; Foundry investments focused on developing and establishing the production capacity of advanced processes under 5-nano.

Next, I would like to share some of our key activities in sustainability management.

In the first quarter of this year, we released the Galaxy S22 Series, which features specific components made from high-quality, recycled plastic created from discarded fishing nets.

We are committed to preserving the environment: by 2025, all new Galaxy products will use recycled materials, and single-use plastics will no longer be used in packaging.

Meanwhile, the Memory Business's Portable SSD T7 acquired a low-carbon product certificate as it reduces carbon emissions. In particular, it uses eco-friendly pulp rather than plastic for the tray in the packaging material; and consumes less energy in the use stage.

We will strive to achieve low-carbon product certification in our subsequent products and add to our certified green, low-carbon products portfolio.

Next, in February, Samsung joined forces with the Ministry of SMEs and Startups to alleviate a domestic shortage of COVID-19 self-diagnostic testing kits by supporting a local kit manufacturer. Our collaboration helped improve production by early stabilization of new facilities and by supporting logistics firms and partners to improve the local response to COVID-19.

We are committed to finding new ways to strengthen ESG management and incorporating them into our business.

To learn more about our latest ESG initiatives and priorities, please visit our corporate sustainability website.

I will now turn the conference call over to the representatives from each business unit to present first 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 first quarter, price declines in memory were modest relative to market expectations thanks to solid demand mainly from server and PC. As a result, our performance exceeded market forecasts.

However, results declined slightly quarter-on-quarter due to a one-off special incentive and mild seasonality in some applications.

In DRAM, overall server demand continued to show a favorable trend thanks to increased DRAM content related to rising adoption of high-core CPUs alongside still-strong demand from datacenters.

Starting in the fourth quarter of last year, Set Build momentum for Enterprise PC has been recovering thanks to improvements in component shortages, and demand for high-end products has been solid, which have eased impacts of weak seasonality to a degree.

Mobile demand was somewhat tepid as launches of new models by major manufacturers were weighed on by effects of the crisis in Ukraine and China's lockdown in major cities amid weak seasonality .

We preemptively identified shifts in demand through our own machine-learning-based market-sensing system and actively responded to server demand. As a result, we exceeded our Bit Growth Guidance and achieved record high quarterly sales for server.

Next, I will talk about the NAND market.

Demand for server SSD from datacenters remained solid, thanks to pent-up demand from last quarter in which set build was partially influenced by disruptions in IC component shortages; while server OEMs contributed to strong demand for server SSD related to increased investments in new IT infrastructure.

The demand trend for Client SSD was solid backed by robust demand for enterprise PCs, as companies increasingly follow back-to-office trend and expand Hybrid-work models, and by increasing SSD penetration in conjunction with growing adoption of high-end PCs.

In mobile, despite ongoing partial improvements of supply for low- to mid-priced APs and events such as launches of Flagship models from major manufacturers, memory demand slowed somewhat due to weak seasonality and inventory adjustment by some customers.

Considering the limited inventory situation and future market conditions, we have maintained our business strategy, which is to refrain from excessive expansion of sales, and continued to increase our portion of high-density and high-value-added products as we remained focused on improving the quality of our business. Ultimately, we exceeded our Bit Growth Guidance, due to reasons above including the base effect from last quarter.

Now let's move on to the second quarter outlook.

In DRAM, for servers, set build will likely depend on the pace as to how quickly supply chain issues get resolved. Thus, we need to continue to monitor the situation meticulously. Meanwhile, we expect the server demand centering on high-density products to be relatively solid aided by continuous penetration of DDR4 8CH CPU.

As for PC, there are some demand uncertainties caused by inflation as well as economic slowdowns and reduced consumption influenced by the crisis in Ukraine. On the other hand, there is also potential for solid demand based on the continuing trend toward high density combined with a rising penetration of DDR5.

In mobile, a surge in raw material prices caused by the Russia-Ukraine war may add pressure to inflation and affect smartphone consumer sentiment, while supply chain issues also present risk factors. However, we see chances of a demand recovery, depending on the pace of re-opening in some countries, so we need to monitor the situation carefully.

Despite a variety of supply constraints, we will continue to pursue the highest-quality portfolio by expanding sales of high-value-added/high-density products while actively responding to demand for applications that show the most growth potential.

In NAND, amid shortage in chip production provoked by contamination issues, and impacts of short-supply of active/passive components, we expect server SSD demand, centering on high-density products, to grow, based on the

investment expansion mainly for datacenters. However, we should keep an eye on possible demand changes, considering uncertainties, including macro issues.

Meanwhile, due to various macro issues, we expect to see some effects on demand in consumer-oriented product lines. First, for Client SSD, consumer PC demand is likely to shrink amid global inflation and effects of the crisis in Ukraine, but enterprise PC demand is likely to be solid and the high density trend of SSDs backed by increased sales of high-end PCs will continue, which should ease some effects of weak demand.

For mobile, the short-term market environment is unfavorable, due to lockdowns in major Chinese cities amid slow seasonality, but consumer sentiment has potential to recover later in the quarter with the launch of new form factor models; with people spending more time outside following gradual easing of quarantine regulations in some countries; and with a resumption of investments in 5G infrastructure.

Amid impacts of shortages of active/passive components, we will maintain our efforts to promptly address customer demand, including strong SSD demand for enterprise sector, by our business competitiveness.

Turning to the full-year outlook.

We will share our prospects for each application for the year. However, the situation requires continuous monitoring as it is an immense challenge to predict the duration or market ripple effects of various macro issues, such as the Russia-Ukraine war and global inflation.

Server demand is expected to be relatively solid, compared to other applications, resulting from increased demand for DDR5 and high-density trend as high-core CPU transition grows, but the pace of improvement in component shortages, which can affect set build, needs attention.

For PCs, Demand for consumer-oriented products is projected to weaken somewhat due to macro issues and the base effect from last year, but enterprise demand should be relatively solid as companies normalize operations and expand hybrid working patterns.

Moreover, considering growth and changes in the utilization of PCs, a rising portion of high-end products and growing content-per-box should help partially offset weak consumer PC demand.

For mobile, It seems that the macro issues mentioned previously will have a greater impact on mobile than on other applications. However, as visibility clears on the recovery of the issues, there is potential for a sooner-than-expected demand recovery. In particular, as major manufacturers are scheduled to release new products in peak seasonality in the second half, we anticipate that Set Build will recover.

In addition, demand centered on high-density products and LPDDR5x, which is a cutting-edge interface, is forecast to increase, as manufacturers strengthen Flagship lineups.

Under the circumstances of extremely high uncertainties, We, continually upgrading our machine-learning-based market sensing system, are allocating more resources to improving the accuracy of our demand predictions in order to secure flexible supply capabilities linked to market conditions.

While maintaining a product mix orientated toward server and high-end PCs, we will respond to new demand in a timely manner by expanding supply of cutting-edge interfaces such as DDR5 and LPDDR5x.

In addition, while we closely observe changes in market demand, we will center our portfolios on high-value-added and high-density solutions while steadily realizing cost reductions based on our industry-leading technologies, thus strengthening our market leadership.

Thank you.

Good morning, this is Kenny Han from the System LSI Business.

In the first quarter of this year, the supply of major components, such as SoC and image sensors, decreased due to weak seasonality of the mobile industry and inventory adjustments at manufacturers in China. However, earnings improved quarter on quarter, lifted by benefits of foreign exchange movements and increases in ASP.

DDI sales increased by over 30% year-on-year for both large panel and mobile display. And despite a weak TV market, TV DDI demand has remained strong, keeping shipments at a steady level.

To secure second quarter earnings, we have started shipping SoCs for the volume zone, and commenced mass production of new 5G FR2 RFICs as well as 0.64 micro-meter 108 mega-pixel image sensors.

In the second quarter, we expect our SoC supply to grow significantly, backed by yield improvements for flagship SoCs and the addition of mid-range products to our line-up. Meanwhile, demand for high-resolution image sensors in both Korea and China is expected to stay steady. For DDIs, we expect the price to stay solid, given the still-tight Foundry supply and relatively low driver IC inventory at customers.

In the second half of this year, we plan to further expand our lineup of 5G SoCs and supply our cutting-edge, ultra-high 108 and 200 mega-pixel sensors as planned to meet our customers' requests. We expect to deliver higher growth than we have in previous years thanks to new-product launches and lineup expansions; and to achieve improvements in both profitability and sales.

Thank you

Good morning, this is Moonsoo Kang from the Foundry Business.

In the first quarter, we achieved our highest ever first quarter revenue as YoY 35% growth thanks to solid demand across all applications combined with improving yields and a gradually increasing portion of our advanced processes.

In particular, through close collaboration with R&D, we have stabilized the yield trajectory of advanced processes while continuously improving production capabilities by stabilizing new equipment.

In addition, we continued our efforts to diversify and secure future growth by adding new orders for applications such as HPC and consumers, increased YoY 75% and 57% respectively. We also kept working to improve our ability to respond to future demand with new investments in Taylor, USA, as well as in domestic fabs; and by optimizing our currently operating lines.

In the second quarter, we expect market conditions to remain tight, with demand exceeding supply across all processes. We will continue to improve yields of our advanced nodes to actively address demand from major customers while striving to expand supply and secure more new orders from global customers.

In addition, we plan to secure a technological edge and an industry first this quarter through verification and then mass production of first-generation GAA process, or 3GAE. Furthermore, development of the 3nm second-generation GAA process, or 3GAP, will continue as planned.

In the second half of the year, even though we expect uncertainties such as a slowdown in growth and continued geopolitical instability, we forecast foundry supply to stay short of demand due to rising penetration of 5G and strong demand for HPC.

We will continue to widen the gap in technology through yield improvements of the first-generation GAA process, and we aim to exceed market growth in the second half by raising the yield and increasing the portion of our advanced processes while adopting pricing strategies to ensure future investments.

Thank you

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

In the first quarter, although earnings of the Mobile Display business declined quarter-on-quarter, influenced by inflationary pressure and geopolitical issues, they improved year-on-year boosted by solid demand for premium products and effects of foreign exchange movements. In particular, the increasing adoption of OLED displays in the Notebook PC and Gaming-device segments contributed to the results.

In the Large Display business we recently rolled out QD monitors and TVs, and their outstanding picture quality and performance gained high praise from the market. Additionally, we are quickly improving and stabilizing yield of QD displays.

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

Despite risk factors such as prolonged geopolitical conflicts and lockdowns in some regions in the wake of a resurgence of COVID-19, we expect the performance of the Mobile Display business to remain strong, thanks to the continued demand for smartphones adopting OLED displays.

For the Large Display business, we expect earnings to improve as we ramp down LCD production, and expand shipments of QD products in earnest.

Next, let me turn to the outlook for the display market and our core strategies for 2022.

While we expect business risks to linger, due to growing uncertainties in the external environment, the overall size of the smartphone market is likely to stay at the 2021 level owing to an economic recovery led by advanced countries.

As the smartphone market continues to adopt new technologies such as Hole Display, UPC, and LTPO, Samsung Display will further widen the gap with competitors through development and early stabilization of such technologies.

Additionally, the overall size of the OLED display market is likely to expand continuously owing to the growing demand for OLED displays in markets ranging from IT to automotive and gaming.

This expectation is attributable to IT market that has grown by increased demand from non-face-to-face services since the outbreak of the Pandemic; the automotive market that has high demands for premium displays for EVs; and gaming market that gravitates toward portable gaming devices offering higher picture quality.

With the addition of large QD displays to our rigid and flexible mobile OLED displays that are already leading the premium display market, Samsung Display now has a full lineup of solutions with which we can deliver perfect self-luminous displays to wherever they are needed.

Moreover, capitalizing on our competitive edges that are no match for competitors, we will actively target new OLED display markets and secure mid- and long-term growth engines by satisfying both ever-growing expectations of consumers and diversifying market demands

Thank you for listening.

Good morning. This is Sung-Koo Kim from the MX Business.

I would like to share with you our Q1 2022 results and outlook for the MX Business.

In Q1 2022, the mobile market decreased QoQ and YoY due to seasonality and political instability in certain regions. At Samsung, the MX business delivered sequential revenue growth and profitability improvements despite supply shortage issues and a decline in demand in the mobile market.

The Galaxy S22 series, which we launched in Q1, generated strong sales, and in particular, the Galaxy S22 Ultra, the top of the series that features the S-Pen, has garnered great feedback from our loyal Galaxy Note customers. As a result, the Galaxy S22 Ultra accounted for a higher portion of sales than its predecessor did, helping drive revenue growth.

Furthermore, our mass-market 5G smartphones, including new A-series models that further strengthened premium experiences, saw sequential sales growth, with their improved profitability also contributing to the Q1 performance

We expanded sales of tablets and continued to generate solid sales of wearables through marketing that highlighted our Device Ecosystem products, which included our event where we Unpacked our new premium tablet, the Galaxy Tab S8, together with the Galaxy S22.

Next, I would like to discuss the outlook for Q2 2022.

We expect the smartphone market to decrease QoQ due to seasonality and a prolonging of the COVID-19 situation and geopolitical uncertainties.

For the MX Business, we will try to resolve supply shortage issues affecting key component by strengthening cooperation with partners and forming long-term agreements in order to achieve YoY revenue growth.

Specifically, for the Galaxy S22 series, we expect to resolve supply issues of key component, and we will closely monitor supply balance of other major parts as well in order to maintain strong sales of flagship smartphones.

In addition, our marketing centered on core experiences of the new 5G mass-market models that we released in Q1 led to positive feedback, so we will actively address demand in the mass market and expand sales of these models. Amid uncertainties related to COVID-19 and the macro environment, we will strive to minimize impacts on our business and secure solid double-digit profitability by stabilizing supply of flagship products and by enhancing the efficiency of our SCM capabilities.

Now, let me share the outlook for the second half of 2022.

While risks related to COVID-19 and parts supply are likely to persist, we expect the smartphone market in 2022 to continue to grow annually, and the wearable market is projected to post another year of high growth in the double-digits.

The MX Business will continue to offer customer-centric innovative experiences that increase customer satisfaction and loyalty, and thus expand our customer base in the flagship market.

For the new foldable models, we will thoroughly prepare to ensure seamless supply of key parts, so we can fully address market opportunities and maximize sales from the moment they hit the market. In addition, we will further-optimize experiences tailored to the form factor through collaboration with partners. With these efforts, we will strive to achieve significant growth of the foldable phones following its successful mainstreaming.

Also, for Device Ecosystem products, we will work to increase sales by leveraging enhanced customer value. And following the integration of the DX Division, we will cooperate intimately with the VD and DA businesses to further advance seamless, connected experiences across Samsung products, and ensure they add value to our customers' daily lives.

With these efforts, we aim to achieve sales growth in 2022 and also continue solid profitability with improved product mix and operational efficiency.

Thank you.

Good Morning. I'm Youngmoo Kim from the Sales and Marketing Team of Visual Display.

First, I would like to review the market conditions and our performances in the first quarter of 2022.

Market demand for TV contracted both year-on-year and quarter-on-quarter, the former is due to the base effect of last year's pent-up demand and the latter was caused by entering weak seasonality following year-end peak season and also by effects of geopolitical issues, including those involving Russia.

By closely cooperating with channel partners, we expanded revenue year-on-year by taking advantage of various sales promotion opportunities in each country and intensively targeting demand for high-value, premium products.

Furthermore, we improved our profit by enhancing the cost efficiency of sales activities. Next, I would like to talk about the second quarter and second half forecast of 2022. We expect TV demand in the second quarter to contract both quarter-on-quarter and year-on-year due to the acceleration of a trend in which demand shifts from home entertainment to outdoor activities and travel, led by easing restrictions mainly in advanced markets and also due to pressure from continued uncertainties spurred by geopolitical issues involving Russia.

Against this backdrop, Samsung plans to focus on capturing premium demand with new models. In particular, the Neo QLED for 2022 has garnered praise for providing an incredible immersive experience with a new level of picture quality and sound, and also for its minimal design.

And The Freestyle, praised for its innovation, is creating a significant buzz in market. We will achieve growth in revenue by continuously driving sales of these strategic products.

Moreover, we will further optimize our operations by establishing pre-emptive plans of sales and supply to address market risks such as raw material and logistics issues.

For TV market in the second half, Although there are opportunities for us to expand sales, including peak season and sporting events, macro risks are likely to continue to cast uncertainties on overall TV demand.

Samsung will closely observe the rapidly changing market conditions and take pre-emptive actions against uncertainties by capturing demand of peak season and sporting events while also expanding sales of our own differentiated strategic products such as Neo QLED and Lifestyle Screen.

At the same time, we will solidify our status as the market leader through innovative products like Micro LED and Odyssey Ark.

Thank you.

Thank you. 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. However, as our continuing practice, we will not be providing annual guidance, especially considering the persistently high macro and geopolitical uncertainties.

In the first quarter, for DRAM, our bit growth increased by a low-single-digit percentage; and ASP declined by a low-single-digit percentage compared to the prior quarter. For the second quarter, we expect market bit growth to be in the middle of the 10 to 20 percent range, and our bit growth should be similar.

For NAND, our bit growth increased sequentially by a percentage in the high-single-digits, while ASP declined by a mid-single-digit percentage. In the second quarter, we expect market bit growth of a high-single-digit percentage and we should be similar to market.

For Display in the first quarter, the mobile portion of revenue was in the mid 90 percent range; and sales volume declined sequentially by a percentage in the high teens.

In mobile in 1Q, shipments were approximately 74 million units for smartphones and 8 million units for tablets. Smartphone ASP was USD 278. For 2Q, we forecast that we will see a decline in sequential sales volume for both smartphones and tablets, but an increase in smartphone ASP.

For TVs, sales volume of LCD TVs in the first quarter declined by a mid-single-digit percentage compared to the previous quarter. For the second quarter, we expect sales volume to decline sequentially by a percentage in the low- to mid-teens.

Thank you. I will now move on to the Q&A Session.

Q&A

<Q – Nicolas Gaudois>:

Good morning, and thanks for taking my questions.

- The first one relates to memory and specifically, DRAM. There have been some recent discussions on Samsung possibly skipping 1-bit nanometer to go straight to 1 c-nanometer. Is that the case and if so, could you elaborate as to what is actually driving this? If not, could you recap for us where we actually are on the development of 1-bit nanometer and when is the intended timing for mass production?

- The second question is for MX. Obviously, the current geopolitical situation has direct impact in sales for smartphones, for instance, in Russia, but beyond this could you – how do you consider indirect impact by high inflation may have on smartphones self through as well as possibly product mix. And what is your current expectation for flagship smartphone units shipments from the second quarter onward and how can Samsung mitigate the impact? Thank you.

<A>:

- To answer your question, first of all, I can confirm that it is not true that we have any plans of skipping 1b that's 12 nano and our mass production schedule is on schedule without any disruptions.

Regarding the DRAM, as you know, the difficulty of process shrinkage does increase quite deeply and the adoption of EUV, which the rest of the memory industry has just started to adopt on a larger scale, is clearly the way to make a breakthrough for the difficulty of the process migration. That is why we have -- we were the first in the industry to adopt EUV on DRAM and we have already

proven the overwhelming technology competitiveness as well as cost competitiveness of DRAM with EUV. On the process of adopting new technology such as EUV, some changes to the original plan would be involved, but we think that part of being a leader in the industry is taking on these challenges of adopting new technology and to incorporate that into our technology roadmap.

I think what's also becoming quite important is that as IT infrastructure accounts for a larger share of memory demand versus the existing consumer applications, the importance of the ability to supply mature technology products at the right timing is becoming more critical than ever before. I think the process of optimizing the design rules considering yields, stability, cost and other factors overall is a natural part of developing the advanced nodes. Similar situations have existed before and right now we are going through this process of optimizing the design rules of this node considering various priorities.

So I think it's fair to say that our 12-nano development plan is being carried out stably and the subsequent nodes would also be developed according to our mid to long-term technology roadmap.

- To answer your second question, yes, as you mentioned, even during the first quarter, there were difficulties including the unstable geopolitical situation and also shortage of the key component for the S22 series, but actually, we were able to deliver very positive sales especially around the S22 Ultra, which incorporated the experience from our Galaxy Note series. With the increase of ultra within the S22 series, our product mix improved, our ASPs also went up,

and so overall in first quarter, our flagship revenue increased quarter over quarter.

You've asked about second quarter and onward and we also expect uncertainties including the SCM disruptions related with COVID-19 as well as the international political instability to continue and there is possibility that these factors may remain for the long term. We do expect, though, we will respond by strengthening our cooperation with partners and also by using long-term contracts to address the supply issues of key components. We do expect that from second quarter, our supply – parts supply difficulties would be resolved.

Also, we will try to minimize the impact of any market uncertainty by carefully monitoring the balance situation of the supply and demand balancing situation of our key components and also by focusing on stabilizing the supply of the S22 series. With these responses, despite the market uncertainties, we will focus on continuing the positive sales of our flagship smartphone so that we will be able to grow both top and bottom line again in the second quarter.

<Q- Peter Lee>:

I have two questions.

- The first question is about the memory. Actually, data center demand, which had been expected to be weak since end of last year has actually turned around and proven to be quite solid. Also, we're sensing that inventory at the OEM level has also increased since. Do you think that such a solid demand on the server's side may continue in the second half of this year or do you see a possibility of an

oversupply as the industry all focused on the server segment?

- Second question is a foundry question. There is some concern regarding your foundry orders. There is talk that your key customers are moving over to competitor foundries. And so in that context, I'm wondering if you can share your current status of new order wins on your advanced nodes for the foundry and what are your future outlook?

<A>:

- To answer your question, first of all, yes, it is true that there is a relatively strong demand on the server's side versus other applications and this strong server application demand is driven by multiple factors. One is that companies are also increasing their IT infrastructure investments but at the same time, many cloud service providers are also increasing their investments as they move into new growth areas such as AI and machine learning. At the same time, there is also an increase in memory content with the adoption of high-core CPUs. So given the fact that the strong server demand is backed up by fundamental demand drivers, I think that there isn't much of a high possibility of there being an extensive memory inventory buildup.

And so even in the second half, I think these fundamental drivers supporting the server demand will continue and so while the underlying server demand appears to be relatively more solid, how that will materialize in actual demand will be dependent on factors including the supply issues around certain components that have caused that build disruptions and that may have impact on second half server demand. Given that, we will continue to very carefully check the demand changing situation so that we're able to provide supply that is in line with market

demand.

You've also asked about our opinion about a possible oversupply towards server applications and our answer is that we see that the possibility of an oversupply to servers is low.

And the reason why we think that an oversupply towards server, the possibility is low, is the following: Number one is that server companies use very wide range of different CPUs and for each CPU, the memory product also has to go through qualification for each node. Also, in the process of switching across nodes or density or different applications, there are restrictions in how much supply can be increased when you consider issues such as material, capacity restrictions, and also the switching efficiency.

On top of that, you also have to think about the match of customer request and supply between DDR4 and DDR5, so considering all of these operational constraints, even though we will try to do our best to respond and meet the customer and market demand, there are some constraints into the increase of supply for servers.

- On your second question about foundry, even though you've mentioned there is some concern. Actually, the demand of our key customers are above our capacity. It's very solid and so we expect the tight supply situation to continue for some time. We have entered into long-term contracts, LTA's with our key customers and through this, we are able to gain comfort in terms of stable fab operation and supply stability.

Also, if you look at our order book for the next five-year period, that order book size is around eight times our previous year revenue and because we are also driving our promotions, especially around our advanced nodes, we expect our order book to continue to grow.

And to answer your question, we think that if there is any concern in the market, it is excessive and unfounded. We are actually establishing very solid partnership with our key customers. Key customers ranging not only in the mobile segment but also HPC network and automotive tier ones and so we're continuing to improve our customer portfolio and business structure and with very solid demand behind our advanced nodes, we are very confident that we will be able to continue sustainable and stable growth going forward.

<Q – Jeff Kim>:

I have two questions.

- The first question is a foundry question. As you would remember, there were a lot of concerns about your 4-nano yield since last quarter. In that context, can you share with us the current status of your yield for 5-nano, and 5-nano, respectively, which are your advanced nodes currently in mass production? Also, can you share with us the yield of 3-nano that you seeing under development and also the production timing, if you can please share?

- Second question is about the display, the OLED side. Recently, competitors have announced new investments into OLED capacity and so we're seeing more competitors entering the OLED market. Given that competitive situation, how do you plan to maintain your technology leadership and market share?

<A>:

- To answer your question first about our Foundry yield. This 5-nanonode is currently in mature yield stage. It is delivering stable yield and we are maximizing our supply to our key customers. In the case of 4-nano nodes, there was a bit of a delay in the initial yield ramp up, but currently, we are back on the expected yield improvement curve since we have been focusing on early stabilization.

You've also asked about our 3-nano nodes. Actually, we've improved the node development system from the third, from 3-nano, and so we actually now have a verification for each stage of development. This will help us reduce the yield ramp-up period later on, improve our profitability, and also ensure stable supply. Also, in order to accelerate our development process, we are preparing to secure a new R&D line.

- To answer your second question, which was about the OLED and how we plan to maintain our technology competitiveness and market share, to just describe the OLED market, OLED became the standard in high-end smartphones. Recently, it's been penetrating to mid and low-end products. And so overall, the OLED market size is continuing to grow, but on the other hand, as the market grew, as you mentioned, competitors have also been picking up their investments in OLED and so competitively speaking, the OLED competitive environment has all -- has become quite fierce.

Now, in order to maintain our gap against the competitors despite this fierce competition, we have shifted the competitive paradigm from quantitative competition towards a qualitative competition by continuing our technology

innovation on technologies such as under panel camera, UPC, full displays, embedded touch, and also LTPO.

Looking forward, the OLED market is expected to have a positive outlook as it expands beyond smartphones to other IT applications, automotive, as well as gaming and we will maintain our market leadership by continuing to develop innovative new technologies such as form factor innovations, ultra-high picture quality, and also low power technology such as Eco Square. Also, we will make timely investments to further widen the gap between us and the competitors so that we're able to maintain the status and position we have in the smartphone market on to these new applications.

Another focus that we will be placing is IP protection. As I mentioned during the last conference call, we will continue to bring in and implement various measures to protect our OLED technology-related IP and also to have it recognized its fair value.

<Q – J.J. Park>:

I have two questions.

- First question is about the MX. The foldable that you launched last year actually was sold more than originally expected. Also, this year competitors are also lining up foldable models for launch. Given all of that, what is your outlook for foldable market growth this year and with that market, what is your goal in terms of position?

- Second question is about the VD side. I think during your presentation, you

provided cautious guidance for second half market outlook. In that context, can you share with us your global TV demand outlook for the second half?

<A>:

- To answer your first question about foldable market growth, we expect this year, foldable market will grow around two times versus last year and that going forward, it will continue to grow at high levels.

Also regarding our goals and position, we are currently all hands on deck regarding preparing the new foldable model scheduled for launch in the second half. This involves not only making the supply and production, preparation so that there are no disruptions and there is new supply from the beginning of the launch, but also this involves maximizing the effect of a new model launch by finding ways of more effectively delivering the foldable experience to our customers.

Our goal in terms of foldable is to continue the increase of Z-Series sales so that Z-Series becomes another main pillar next to the S-series within our business. In addition to enhancing the completeness of the foldable product based on our technology leadership, another emphasis is to further widen the cooperation and collaboration programs that we have with partners so that the user experience becomes more optimized for the foldable form factor.

- To answer your question about second half global TV demand outlook, there are some upside factors in terms of demand increasing-- including the fact that second half is usually the strong season. Also there are some sports events in the second half that would be upside factors to TV demand but also it's more

difficult this year to forecast demand than usual years given that there are many variables, including the possible change in consumption patterns as some countries go back to reopen and ease their social distancing policies and also there are many variables in terms of macroeconomic side.

Now, despite that demand -- overall demand uncertainty, we expect that there will be solid demand still around the premium and ultra large-sized screen segments and that is why our plan is to continue to lead market demand in the second half around the premium product segments such as our Neo QLED 8K, ultra large size and also micro LEDs. Also, we would continue to strengthen our market sensing enhancing activities within the rapidly changing environment to able to pre-empt supply and sales side risks.

<Q – Doyeon Choi >:

- I have one question regarding the memory demand. Recently with so much macro uncertainty, I think there is increasing concern that there will be weak demand in second quarter for smartphone and PC semiconductor demand. In that context, can you share with us your outlook for PC and smartphone-related semiconductor demand for second and third quarter and also the reasons why?

<A>:

- To answer your question, well, I guess there were always uncertainties in the market, but the type of macro issues that we're currently experiencing, I think particularly more difficult for us to forecast in terms of its ramifications or how long it may last, especially the PC and mobile applications that you've mentioned. Consumer applications account for a large share of PC and mobile and therefore,

it's more directly affected by issues such as inflation or lockdown related with COVID-19.

Now to answer your question, first on the PC side. Within the PC, we think that the demand for high-spec PCs and commercial PC demand would remain solid. Now, the consumer PC application, we are expecting the demand to be somewhat weak or soft, given the impact of various macro issues we've been talking about, but even within the consumer PC segment, there is a drive towards higher-spec PCs from gaming or hybrid work needs. Also, there is this consistent trend of higher density in PCs which may partially offset the softness in consumer PC demand.

Regarding the mobile memory outlook, it is true due to the impact of various macro issues, mobile memory demand is somewhat soft. That is true. But looking towards the second half, there will be continued penetration of 5G and also the introduction and wider penetration of new form factors. And so given that, if economy recovers and consumer sentiment also improves, this may actually work together to drive rebound of mobile demand. Especially, what we're looking forward to in the second half is that adoption of LPDDR5x, which is the higher-spec product will become more large scale and, therefore, this will continue to drive the higher density trend on the mobile side. And so, considering that, we think that the basic needs towards mobile memory is sufficient there.

<Q – SK Kim >:

I have two questions.

- First question is about the memory side. We've -- you talked about the macro factors and the supply issues with certain parts impacting the demand side of the Memory business. We're also seeing that it's impacting the supply side of the Memory Business due to longer equipment lead times and also difficulties insourcing raw materials. I wonder if you can share with us the current situation that you're seeing of these supply chain issues on the supply side of your Memory Business and how you plan to respond to this going forward?

- Second question is about the displays. I think during the first half, we'll see many of your OEM customers launch products with the QD display incorporated in them. Can you share with us the initial customer response to the QD display? Also, can you share with us your latest yields on the QD display? Also, I have a question about the LCD large panel LCD business. I think, previously, you mentioned that the plan is to close that business down completely during the first half. Can you confirm and give us some details of that?

<A>:

- To answer your question of the supply side impact of these macro issues and raw material supply, first of all, yes, the instability on the supply side has been increasing in the case of raw materials. We are responding to this by further strengthening our existing supply chain management and also building up inventory while possibly looking into additional -- adding additional supply chains to our supply side so that there is minimum disruption in our production. And so, when it comes to impact due to the raw material side, I don't think there is need for you to be concerned.

You've also mentioned the impact of longer equipment lead time and yes, we

can confirm that equipment lead time, we're seeing longer lead times now. We're responding to this by actually widening, extending the horizon according to which we establish and execute our investments. Basically, our investments as we have described before is to make the appropriate level of infrastructure and advanced node technology investments in response to mid to long-term demand but keep our equipment investments flexibly in line with the industry situation.

- To answer your question about the QD display, the QD display, which is our next-generation large-sized display business was launched as a 34-inch monitor in March and also in the form of a 55-inch and 65-inch TV product in April.

We received very positive reviews and responses in terms of picture quality including color, luminescence, and wider viewing angle in the case of the TV. It also what we refer to as one of the most exciting products to look forward to this year.

Also, in the form of a monitor, the QD display delivers excellent picture quality and response speed and is considered as a new standard for gaming monitors. With such positive response, we were also able to quickly resolve the production yield issues and we're quickly removing the supply constraints that we were under, and we think that the QD display will become the game changer in the large-sized high-end segment.

Now, that said, there -- now that said, the QD display market and demand for it is also subject to various external factors and is also part of the overall supply chain management situation. And so while we are preparing the QD display

business, we're carefully watching the market environment.

You've also asked about the LCD large-sized LCD business and as we bring online the QD display business, we will be closing down the LCD business as originally scheduled. To just recap, it was in 2004 that we were the first to operate seven generation LCD line to open the era of large-sized flat panel displays. We continued with continuous technology innovation to deliver new consumer experience and also enhance the value add in the overall display industry.

Even though we will be closing down the LCD business, the business capabilities that we have built during that experience stays with us and we will leverage that to make the QD display another success story in the overall display industry. Also with the QD display, we will place emphasis on IP protection and technology differentiation.

Now, finally, we will answer questions that were submitted online in advance. We have been accepting questions via our webpage in advance of an earnings release as part of our efforts to strengthen communication with individual investors and to enhance understanding of the company.

A variety of questions were submitted this quarter as well. I believe a majority of these questions were sufficiently answered during the Q&A session. So we will answer two more questions on topics that garnered a high level of interest -- interest from our shareholders but were not addressed during the Q&A session.

<Q >:

Now, the first question is, Samsung Electronics is maintaining its leadership in Memory Technology, but there are opinions that the gap with other competitors in terms of technology and cost efficiency is narrowing. Now, against this backdrop, what kind of strategies does the company have to sustain its lead in Memory, and this will be answered by EVP, Jin-Man Han representing the Memory side.

<A>:

Well, first of all, thank you for that question. I would like to see that when the level of technology becomes more difficult and suppliers overall are converging towards a higher technology level, it's only natural that the gap in terms of us and the competitors in technology and cost appear to decrease. However, I can confirm that we are maintaining leadership as a leader in the industry despite this competitive environment.

A good example would be DRAM and our adoption of EUV. With EUV in DRAM, we were able to pre-empt the inflection point in technology. Of course, this preemptiveness in technology innovation does involve its set of challenges but we believe that this is the right approach to deliver us not only our own competitiveness but also to contribute to the development of the overall IT industry.

I would also like to share with you that we're also looking into developing new markets and also new business models. For example, for both DRAM and NAND, there is a greater market and customer demand for solution-based products and we are one of the leaders in providing DRAM and NAND-based solution products.

For example, in the case of DRAM, CXL is actually attracting quite a lot of attention as the next generation memory solution, especially with future AI-related needs, and we have introduced not only CXL memory hardware but also software solutions and we're also expanding the overall technology infrastructure in CXL through format such as the CXL consortium.

The same goes for NAND. For example, in the NAND, the solution product competitiveness is becoming quite critical. Examples of NAND-based solution product would be SSD which combines the controller and software as well as mobile storage and based on our overwhelming competitiveness, we have continued to supply high value-add products that meet the market needs. In addition to that, we will continue to focus on collaboration with a wide-ranging -- wide range of partner companies which will further strengthen our market leadership.

I appreciate your question and would also like to ask that you continue to give us your trust and also, frank feedback going forward.

<Q >:

The next question is the following: There are projections that the tablet market, which has been on a growth trajectory recently will be contracting this year. Does the company have any strategies to address the issue in terms of lineup or pricing? And this will be answered by VP, Sung-Koo Kim of Mobile Experience.

<A>:

Yes, to answer your question, as you've mentioned, the demand for tablets have grown quite a lot across 2020 and 2021 with COVID-19 and more people working

and studying from home. Also compared to the previous years, the overall tablet market is expected to slightly decrease, but given the fact that working or studying from home is becoming a part of our everyday lives, we think that even with the overall market's slight decrease, the demand for large-sized and premium tablets will maintain at high levels.

And so we launched the Galaxy Tab S8 Ultra, which was the first ultra model for the tablet and is quite in line with this trend of larger size even in the tablet market, overall strengthening our premium product lineup for tablets. We will continue to report positive sales for the Tab S8 series and grow the premium tablet revenue to contribute more to our overall business profits.

Also, during the most recent unpack, we actually unveiled the Tab S8 Ultra together with the S22 and that was very effective in attracting consumer attention. We will continue to place our marketing focus on highlighting the convenient connectivity experience across the overall Galaxy ecosystem that encompasses for example the Galaxy Tab, our smartphones, laptops, and (inaudible) in order to drive the momentum behind our tablet and Galaxy ecosystem business.

Due to time constraints, we are unfortunately unable to answer every question; however, I would like to thank everybody who shared their opinions, providing us with valuable information that we will 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 to stay strong and in good health. Thank you very much.