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# EDITED TRANSCRIPT

DIOD.OQ - Q3 2022 Diodes Inc Earnings Call

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## PRESENTATION

### Operator

Good afternoon, and welcome to Diodes Inc. Third Quarter 2022 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded today, Monday, November 7, 2022. I would now like to turn the conference over to Leanne Sievers of Shelton Group Investor Relations. Leanne, please go ahead.

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### Leanne K. Sievers - Shelton Group - President

Good afternoon, and welcome to Diodes' Third Quarter 2022 Financial Results Conference Call. I'm Leanne Sievers, President of Shelton Group, Diode's Investor Relations firm. Joining us today from Taiwan are Diodes' Chairman and President and CEO, Dr. Keh-Shew Lu; Chief Financial Officer, Brett Whitmire; Senior Vice President of Worldwide Sales and Marketing; Emily Yang, Senior Vice President of Business Group, Gary Yu and Director of Investor Relations; Gurmeet Dhaliwal. Before I turn the call over to Dr. Lu, I'd like to remind our listeners that the results announced today are preliminary as they are subject to the company finalizing its closing procedures and customary quarterly review by the company's independent registered public accounting firm. As such, these results are unaudited and subject to revision until the company files its Form 10-Q for its 2022 fiscal quarter ending September 30, 2022.

In addition, management's prepared remarks contain forward-looking statements, which are subject to risks and uncertainties, and management may make additional forward-looking statements in response to your questions. Therefore, the company claims the protection of the safe harbor for forward-looking statements that is contained in the Private Securities Litigation Reform Act of 1995. Actual results may differ from those discussed today, and therefore, we refer you to a more detailed discussion of the risks and uncertainties in the company's filings with the Securities and Exchange Commission, including Forms 10-K and 10-Q.

In addition, any projections as to the company's future performance represent management's estimates as of today, November 7, 2022. Do assumes no obligation to update these projections in the future as market conditions may or may not change, except to the extent required by applicable law.

Additionally, the company's press release and management statements during this conference call will include discussions of certain measures and financial information in GAAP and non-GAAP terms. Included in the company's press release are definitions and reconciliations of GAAP to non-GAAP items, which provide additional details. Also, throughout the company's press release and management statements during this conference call, we refer to net income attributable to common stockholders as GAAP net income.

For those of you unable to listen to the entire call at this time, a recording will be available via webcast for 90 days in the Investor Relations section of Diodes website at [www.diodes.com](http://www.diodes.com). And now I'll turn the call over to Diodes Chairman, President and CEO, Dr. Keh-Shew Lu. Dr. Lu, please go ahead.

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**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Thank you, Leanne. Welcome, everyone, and thank you for joining us today. I'm very pleased to be reporting today our fifth consecutive quarter of record gross margin and the seventh consecutive quarter of record adjusted earnings per share and the revenue. Our record results were driven by outstanding execution by the team, especially considering the COVID related lockdowns and a power outage in certain regions of China. For part of the quarter. Also contributing to our strong performance was the achievement of record revenue in our automotive and industrial end markets that together totaled 44% of product revenue, which is 4 percentage points above our 2025 target model and above 40% for the third consecutive quarters. Diode's automotive business represented 16% of product revenue for the first time, reflecting the ongoing success of our customer and content expansion initiatives as well as shareholder gain in this end market.

Over the past several quarters, Diode has consistently proved its ability to execute during one of the most challenging supply chain environment that the industry has experienced and we're still able to deliver multiple consecutive quarters of record results, expanding margin and increased profitability. When looking back over the past 2 years, our revenues have grown 68%, gross margin expanded 590 basis points and adjusted earnings per share increased over 220%. And those achievements truly set Diodes apart as a consistent operator through diverse, wide business and economic environment. We are well on our way toward our 2025 financial targets of \$2.5 billion in revenue and \$1 billion in gross profit.

With that, let me now turn the call over to Brett to discuss our third quarter financial results and our fourth quarter 2022 guidance in more detail.

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**Brett R. Whitmire** - *Diodes Incorporated - CFO*

Thanks, Dr. Lu, and good afternoon, everyone. As part of my financial review today, I will focus my comments on the sequential change for each of the line items and would refer you to our press release for a more detailed review of our results as well as the year-over-year comparisons.

Revenue for the third quarter 2022 was a record \$521.3 million, an increase of 4.1% from \$501 million in the second quarter of 2022.

Gross profit for the third quarter was also a record at \$217.8 million, representing a record 41.8% of revenue, increasing 5.5% or 60 basis points from \$206.5 million or 41.2% of revenue in the second quarter 2022.

The GAAP operating expenses for the third quarter of 2022 were \$105.4 million or 20.2% of revenue, and on a non-GAAP basis, were \$101.3 million or 19.4% of revenue, which excludes \$3.9 million of amortization of acquisition-related intangible asset expenses and \$0.1 million of acquisition-related costs.

This compares to non-GAAP operating expenses in the prior quarter of \$99.7 million or 19.9% of revenue. Total other expense amounted to approximately \$3.3 million for the quarter, consisting of \$2.6 million of unrealized loss on investments, \$2.7 million in interest expense and a \$1 million foreign currency loss, \$2.2 million of other income and \$862,000 of interest income.

Income before taxes and noncontrolling interest in the third quarter of 2022 was \$109.1 million compared to \$101.2 million in the previous quarter.

Turning to income taxes, our effective income tax rate for the third quarter was approximately 18.5%.

GAAP net income for the third quarter 2022 was a record \$86.4 million or \$1.88 per diluted share compared to GAAP net income of \$80.2 million or \$1.75 per diluted share in second quarter 2022. GAAP earnings per share in the quarter increased 25.3% year-over-year from \$1.50 per diluted share in the third quarter 2021. Share count used to compute GAAP diluted EPS for the third quarter 2022 was 46 million shares.

Non-GAAP adjusted net income in the third quarter was a record \$92.2 million or \$2 per diluted share, which excluded net of tax \$3.2 million of acquisition-related intangible asset costs, \$2.1 million in noncash mark-to-market investment adjustments, \$0.1 million of acquisition-related costs and a \$0.4 million gain on sale of investments. This represents a 5.3% improvement from last quarter of \$1.90 per diluted share or \$86.9 million and a 36.1% improvement from \$1.47 per diluted share or \$67.3 million in third quarter 2021.

Excluding noncash share-based compensation expense of \$8.1 million, net of tax for third quarter, both GAAP earnings per share and non-GAAP adjusted EPS would have increased by \$0.18 per diluted share for the third quarter.

EBITDA for the third quarter was a record \$141.9 million or 27.2% of revenue compared to \$130.6 million or 26% of revenue in the prior quarter.

On a year-over-year basis, EBITDA increased 23.9% from \$114.5 million in the third quarter 2021, highlighting our continued improvements over the past year.

We have included in our earnings release a reconciliation of GAAP net income to non-GAAP adjusted net income and GAAP net income to EBITDA, which provides additional details.

Cash flow generated from operations was \$132.2 million for the third quarter of 2022. Free cash flow was \$62.4 million, which included \$69.8 million for capital expenditures. Net cash flow was a positive \$78.3 million.

Turning to the balance sheet, at the end of third quarter, cash, cash equivalents, restricted cash plus short-term investments totaled approximately \$393 million. Working capital was \$765 million and total debt, including long term and short term was \$296 million.

In terms of inventory, at the end of third quarter, total inventory days were approximately 113 as compared to 115 last quarter.

Finished goods inventory days were 32%, which was flat to 32% last quarter. Total inventory dollars increased \$3.5 million from the prior quarter to approximately \$374.8 million. Total inventory in the quarter consisted of an \$8.3 million increase in finished goods, a \$6.7 million increase in raw materials and an \$11.5 million decrease in work in process.

Capital expenditures on a cash basis were \$69.8 million for the third quarter and for the first 9 months, approximately \$148 million or 9.8% of revenue. The year-to-date CapEx is higher than our target model due to our assembly test and wafer fab capacity expansions, but we still expect to be within our target model of 5% to 9% for the full year.

Now turning to our outlook. For the fourth quarter of 2022, we expect revenue to be approximately \$494 million, plus or minus 3%, in line with typical seasonality. We GAAP gross margin is expected to be 41.0%, plus or minus 1%. Non-GAAP operating expenses, which are GAAP operating expenses adjusted for amortization of acquisition-related intangible assets, are expected to be approximately 21.0% of revenue, plus or minus 1%. We expect net interest expense to be approximately \$4 million. Our income tax rate is expected to be 19%, plus or minus 3%, and shares used to calculate EPS for the fourth quarter are anticipated to be approximately \$46.5 million. Not included in these non-GAAP estimates is amortization of \$3.2 million after tax for previous acquisitions.

With that said, I will now turn the call over to Emily Yang.

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**Emily Yang** - Diodes Incorporated - SVP of Worldwide Sales & Marketing

Thank you, Brett, and good afternoon. In the third quarter, revenue increased 4.1% sequentially and reflecting our achievement of record revenue in the automotive and industrial end markets that also contributed to record revenue in North America and Europe.

Additionally, our PS revenue was a record. Distributor inventory in terms of weeks increased slightly quarter-over-quarter and is within our defined normal range of 11 to 14 weeks. Overall demand and backlog remains strong across all regions.

Looking at global sales in the third quarter. Asia represented 73% of revenue; Europe, 15%; and North America, 12%.

In terms of our end markets, industrial represented 28% of Diodes product revenue, computing, 23%; consumer, 18%; communication, 15% and our automotive end market reached a record 16% of product revenue. Our automotive and industrial end markets combined totaled 44% of product revenue, which is 4 percentage points above our 2025 target and about 40% for the third consecutive quarter.

Now let me review the end market in greater detail.

Beginning with Automotive. Revenue increased 48% year-over-year and 17% sequentially to set another quarterly record, which is the 9th consecutive quarter. Our consistent growth has been driven by our ongoing demand creation efforts as well as market share gains.

In Connected Driving, which consists of ADAS, telematics and infotainment systems. We continue to see increased interest for USB Type C Re-Drivers in rear entertainment and smart cockpit applications. Also, our video switches for MIPI, Display Port and USB 3.0 and our USB Signal and analog switches are also winning designs ADAS, infotainment and smart cockpit applications. Our DCDC buck converters, CMOS LDOs, switching diodes, power switches and diode controllers experienced strong demand as well.

For Comfort, Style and Safety, we secured increasing designs for our DC-DC buck converters, bipolar transistors and LED drivers for exterior LED lighting, along with our buck-booster controllers, linear LED drivers, and Zener diodes for interior and exterior lighting, electrification and mobility systems.

During the quarter, our gate driver ICs were designed into wireless chargers, while our low-voltage MOSFETs won designs for automotive USB car chargers and power source load-switch applications. In addition, our operational amplifiers were designed into onboard chargers, DCDC converters, battery management systems, pumps, airbags, position sensors and occupancy detection systems.

In Powertrain, which covers conventional hybrid electric vehicles, we secured increasing designs for automotive I/O expanders for EV center control units as well as design wins for our bipolar power transistors as Zener diodes in the power modules and electrification systems. Additionally, our TVS devices experienced strong demand for EV battery protection, DC fan motor controllers, generators and starter applications. We also saw solid demand in automatic transmission and powertrain applications as we added 7 new automotive-grade products to our protection portfolio.

In the Industrial end market, revenue reached other record and grew approximately 30% year-over-year and 6% sequentially, representing a sixth consecutive quarter of growth. Our PCI Express 2.0/3.0 packet switches and SBR product was designed into multi-Power-over-Ethernet adapters for security and surveillance applications, which is an area that our HDMI 6Gbps and 12Gbps ReDrivers are also being used as well.

We also saw healthy demand from our gate driver ICs, TVS diodes, Zener diodes, DC-DC buck converters, LED drivers, linear regulators and MOSFET products in various applications like energy storage, power distribution systems, DC fans, power supply, air conditioners and oil pump applications. Also, our wide Vin LDO product families continue to enjoy solid demand from power tools and e-meter applications. We also continued to see strong demand for our application-specific multi-chip circuits in industrial lighting and blood glucose monitoring system.

In the Computing market, although the PC and notebook and Chromebook markets were soft, we continue to focus on cloud, server storage and SSD applications. As I mentioned last quarter, our ability to quickly adjust our support from slowing markets to high-demand market segments is a strong testament to our team's execution and also has been a contributor to our consistent growth.

In terms of the design wins during the quarter, we continued to secure designs for our USB signal switches in the enterprise SSD applications as well as new wins for our SMBus/I2C level shifter family in cloud server products. Our customized Zener diode products are also being used in cloud computing platforms. We also remain well positioned to support cloud computing and data center customers with a complete timing offering, including crystal oscillators, PCI Express clock generators and PCI Express class buffers.

Also, during the quarter, we continue to see adoption of our embedded DisplayPort redrivers and embedded DisplayPort muxes in gaming notebook applications, and our newly released PCIe 5.0 clock buffer family are now able to support 4, 6, 8 and 12 outputs. Lastly, our current limit power switches continued to see solid uptake from USB-A and USB-C power source applications in notebook, desktop and docking stations.

In the Communication market, our SBR CSP products continue to gain traction in the Low Earth Orbit satellites and 5G applications, and our Schottky products are being designed into 5G WiFi applications. Several Diodes' switching and Zener diodes also continued to gain momentum in the mobile phone segment for various applications, including peripherals such as quick chargers.

And finally, in the Consumer market, we continue to drive increased adoption of our HDMI 6Gbps and 12Gbps ReDrivers and DisplayPort/HDMI switches in projectors and digital still camera applications, while our DC-DC buck converters and audio amplifiers also have solid demand from home appliance markets for monitors and interactive storytelling devices.

We also continued to gain traction for our current limit power switches and USB-C Power Delivery controllers from USB power applications in gaming consoles and smart speakers. And our LV-MOSFET CSP and LED drivers won several designs in wearables and portable devices, like health/sport watches, wireless earphones and keyboards.

In summary, with achievement of our seventh consecutive quarter of record results, Diodes continues to prove our ability to consistently execute and quickly adjust our support from slowing end markets to high-demand market segments. Additionally, the ongoing success of our customer and content expansion initiatives as well as share gains in both the automotive and industrial markets has greatly increased our revenue contribution and mix, which has also contributed to our consistent margin improvement. We believe we are well positioned to continue driving future growth and expansion towards our 2025 targets of \$2.5 billion in revenue and \$1 billion in gross profit.

With that, we now open the floor to questions. Operator...

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) And our first question will come from Matt Ramsay of Cowen.

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**Matthew D. Ramsay** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I wanted to ask a little bit about your end markets. I mean, we've seen all through this earnings season, consumer and computing from your peers has come in weaker, and there are some signs of industrial softening, but your results don't seem to indicate that on the industrial side. Can you just help us understand what you're seeing in industrial and in particular, how good you feel about visibility into that market in the next couple of quarters and what you're seeing in the channel?

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. Matt, -- for Industrial overall, the backlog and everything still sees a lot of strength overall. We do see some specific applications or specific end devices that adjusting a little bit forecast here and there. But if you take the overall picture, it's still strong. And from the visibility point of view, we still have pretty good backlog in place that we're not definitely seeing a significant change overall.

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**Matthew D. Ramsay** - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Understood. And I just wanted to ask about geopolitics a little bit. I know you guys have a pretty material footprint over in China and your products and your manufacturing shouldn't fall under any of the restrictions as they're written now. But I guess, are you anticipating any future potential

disruptions? Or I guess, how are you thinking about potential risk? Because we've seen some ancillary disruptions across the supply chain as there's been more of a crackdown in China and whatnot.

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**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Okay. Matt, actually, we have been doing well even during last this year, especially when China has different areas of the lockdowns -- and so we know how to handle it. And so far, you can see our operation second quarter in Shanghai area, they have lockdowns for 2 months and we're still okay. And even the third quarter, we had CAT Chengde have a power problem and we have, again, the COVID 19 shutdown problem, but we're still able to move some of the operation to Shanghai to support the CAT for almost 1 month of the shutdown. So, we are -- we know how to handle these different locations the operational shutdown. And we call closed loop operation, and we are able to move around our operation from Chengde to Shanghai or reverse it or even move to some other manufacturing area. So I really not put too much concern in this area.

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**Operator**

Next question comes from Gary Mobley of Wells Fargo Securities.

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**Gary Wade Mobley** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I wanted to double click on your response Dr. Lu related to how you're operating your business over in China amidst a backdrop of a bunch of COVID lockdowns. I understand that you're able to operate those facilities in Chengde and Shanghai using that closed-loop working environment, but seems to be from what we're hearing over here in the U.S. that there seems to be a bit of an employee backlash in at least in some parts of the country. So I'm curious to know how you're managing that. And well, let's just start with there.

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Well, maybe, Gary, let me make a comment first, right? So when and what's going to happen next is something hard to predict. The market overall, the situation in China is still pretty dynamic, right? I think Dr. Lu's point is with our experience in the expertise in the manufacturing side and how to operate during the crisis, I think definitely gives us confidence that no matter what's going to happen next, we'll be able to adjust our strategy and our solution to best support the customers. So I think that's pretty much -- we don't know what's going to happen next, but I think we're ready wherever it's going to happen.

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**Gary Wade Mobley** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

Okay. Just a couple of follow-up questions. Any notable change in customer order lead times, whether that be overall or by market, where they're still long -- and then as well, I wanted to ask how truly fungible is your manufacturing capacity, whereby you can reallocate manufacturing for end markets that still remain strong. Is that truly possible in end markets like automotive where you need automotive-grade qualification or whatnot? And that's it for me.

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. So I think let me answer the first question about lead time. Overall, there's really no significant changes of lead time. All along, even during the last 2 years, we've been focusing on understanding the true customers' demand and making adjustments. I think the second part of your question is really about our ability to quickly adjust our capacity and support from one market segment to the others, right? I think the Q3 result is a good testament of our ability. So we did actually quickly adjust it from the slow demand markets like the low MPC consumers or the smartphone and to the automotive and industrial customer base, right? So all our factories are automotive qualified. And so that gives us the capability to

quickly adjust. So not only the second -- the Q3 but also the second quarter, I think we talked about the same thing as well. So I hope that will give you guys the confidence that we do have the capability and the flexibility to quickly adjust our support.

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**Operator**

The next question comes from David Williams of Benchmark.

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**David Neil Williams** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Emily, just first, maybe you just kind of thinking about the automotive growth, you're clearly seeing a lot of traction, and you've had this initiative to really drive the content and the share gains there. I'm just kind of wondering, it seems like you've had really solid growth over the last four quarters and this quarter, particularly. But just are you seeing anything maybe being pulled in? Or is this really just because of the demand that you're seeing in the new design wins, is there anything there that we should be thinking about in terms of maybe slowing later on the automotive side?

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. So David, if we look at the result, right? So you're absolutely right. For Q3, we actually achieved 16%, which is definitely a record for automotive. If we compare year-over-year, that's 48% growth and even quarter-over-quarter, that's 17% growth. So -- but I want to also point attention not just for the third quarter. So, we've been openly talking about from 2013 to 2021, we actually have a compounded annual growth rate of 30%. So, this is not just a 1 quarter or few quarter, but consistently over many years. So, we established an automotive focus years back. What we're seeing is actually a significant change from the topology and design structure point of view.

So I've been talking about it. The excitement is we start seeing a lot of new proto costs expanded into different areas. So one good example is Pericom product family, right? We start seeing PCI Express gigabit Ethernet being adapted. And this adoption is the beginning of the adoption. So that gives us a lot of confidence about the growth in the future. We also look at our design pipeline. So, it continued to grow significantly. So that's the reason to support our ongoing growth quarter-over-quarter and year-over-year.

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**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Yes, Dave, we implement a policy like this. All the new products -- if possible, need to be automotive grade qualified, we call Q part. So most of our new products we focused on Q parts if possible. And therefore, we have a lot of design wins and you know the automotive business parts, they ramp up much slower consumer than consumer or other market segments. It takes almost 2 years for the parts to -- for the new product to be ramped up. Okay? And so, if you look at it, we have been consistently year-over-year, quarter-over-quarter to increase our percent of the revenue. And that's another key measurement we implement is automotive segment as a percent of the total revenue. And you can see now we are getting to 16% of our revenue is coming from automotive segment. So, this is not a very short term. This is the long-term driven. And so, I don't see that growth will be -- it might be tepid a little bit, but you won't go to the other direction, then we -- as a percent of the revenue will continue...

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**David Neil Williams** - *The Benchmark Company, LLC, Research Division - Senior Equity Analyst*

Okay. Fantastic. And then maybe last one for me, just a broader question. But was there anything maybe in the quarter that surprised you either from demand shifting or maybe things that are stronger than you would have anticipated. Anything that you should be or maybe we should think about in terms of the next few quarters where we could see some shifting around or any caution?



**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. So, I would say definitely the demand from automotive side is still very, very strong. So that's really a positive news, and it gives us an opportunity to balance with some of the other slow demand markets. I think the second surprise is really the power constraint in Chengdu. But again, we demonstrated our strong capability to manage through the crisis as well, right?

**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

And if you say you're asking for any surprise, you can see we still meet our guidance. And therefore, you know we can see much clearer, well, may not be 2, 3 quarters later, but at least in the third quarter when we make the third quarter guidance, we can see much clearer. And now here in the fourth quarter. And again, we can see much clearer in the fourth quarter business and market...

**Operator**

Next question comes from Tristan Gerra of Baird.

**Tristan Gerra** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Given the commentary about automotive upsetting pockets of weakness in some other end markets, which has been well advertised through this earnings season. How sustainable is the pricing environment? And also, would you expect there's been a lot of noncancelable orders to tests for the rest of this year for the second half of this year across your peers. Would you expect those noncancelable orders to be in place in the first half of next year? Or are we going to see kind of a normalization of how contracts are made with customers?

**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. Tristan, overall pricing trend is still stable. So we don't expect any significant change in the coming short term. And then from the NCNR non-cast non-returning policy, we're also not making significant change. We implement that a few quarters back. Again, we don't expect that to be significantly changed overall for first half or the second half of the year.

**Tristan Gerra** - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Great. And then as my follow-up question, so we know China is weak, but there were also some Q3 specific items in terms of the lockdown and the power constraints. So how we quantify the nonrecurring portion of that weakness that happened in Q3, even as China continues to be weak in Q4 and in outer quarters, how much of a potential recovery we get from assuming there is no additional lockdowns from versus what happened in Q3?

**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Well, I think, Tristan, overall, the market is still extremely dynamic. I think it's difficult for us to predict what exactly is going to happen or the recovery. But one thing we did is actually we look at all different factors, and we put the backlog information, the record POS resell by the end of the Q3, everything together, and we come out with the Q4 guidance, right? So, I would say we did our best based on best knowledge. We put everything into our estimated guidance already. It's a little bit difficult for us to really predict when the recovery is going to happen in China.

**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

But if you look at even in China situation that you mentioned, okay? We still we still model part of our revenue for seasonality, right? So typically, in the fourth quarter, we typically are down significantly seasonality-wise 5%-- and a good time, we may be a little bit better than 5% down. And

then even this year, we said we have a difficulty of, we said the market had the difficulty. We still guide our fourth quarter somewhere around 5%... Seasonality... 5%. I think we -- yes, the market is very dynamic, very unstable, but we're still able to guide and running our business very close to the seasonality type of models.

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Right. I think one more thing I want to add is the China local business from the consumer portion, it's actually a very small portion of the Diodes overall business.

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**Operator**

Once again, if you would like to ask a question. (Operator Instructions) And our next question will come from William Stein of Truist Securities.

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**William Stein** - *Truist Securities, Inc., Research Division - MD*

I think I want to sort of distill this to what I think is the big sort of point of contention between investors and many companies right now, we're seeing -- we've already seen some of these consumer end markets weaken pretty significantly. We're seeing that in your model for the last couple of quarters even. And I think the consensus among investors is, look, this is a downturn, and it's just rolling across end markets from one to the next. And when we think about industrial and automotive, it's just a matter of time. What we're hearing from some companies is that it's not really right that the downturn is really just in a couple of bad end markets and then you have automotive and industrial, which are holding up pretty well, and we don't think they're going to move. I wonder which of those scenarios Diodes sees as likely to play out in the next few quarters? Are you expecting automotive and industrial to sort of take their punishment just like the other end markets have? Or do you anticipate these are going to remain strong?

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**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Well, first of all, we don't really forecast more than a quarter and provide guidance. I think what -- maybe I'll just share my personal view over this. I think consumer computing and communication is definitely seeing a bigger adjustment. What I'm seeing is really more, I call it, inventory rebalancing, right? So, over the quarters, the buildup of certain inventory, they need to adjust it and reset it. So, with industrial and automotive, we've been seeing some adjustments already. It's not like we haven't seen it, but it's just the scale is a little bit different, right? So I would let Dr. Lu to make a few more comments. That's what I see...

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**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Actually, when you're running the business, long-term strategy is much more important than the short-term market reactions, okay? For example, in automotive, the electronic center of the automotive is increasing, it's not going down. And therefore, from the long-term point of the view, that TAM or SAT is continuing going up 1% over last quarter after quarter next. So, our strategy, is how we're going to participate in this market. And we expect like I mentioned, we we try to put all o our new products to be automotive qualified, and we spent a lot of time to sell as the total solutions. And this is the way how do we handle the market softness, we're still able to continue growth or strength in the market.

The industrial and even consumer communication, if we use a similar way. For example, we focus more from the computing, we focus more in the high-end PC, server, data center. If you start focus more in that area, then yes, PC area could be slow down, but the high-end PC server and data center, it could be picking up, okay? So that give you a balance of the market.. So that's the way, why we are able to continue growing, and we are able to meet our guidance because we are very confident on how we grow, in consumer, IoT and communication, 5G, high-end... those are the ones how we balance or how we improve our market softness, and how do we handle it.

**William Stein** - *Truist Securities, Inc., Research Division - MD*

I appreciate that. If I can ask one follow-up. I'm hoping you might give us an update on how the South Portland fab is progressing under your ownership? I forget if you're already manufacturing and selling product out of this facility or if that's more of a future plan? And any other update you can offer us would be helpful.

**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Well, SP Fab is we just acquired in June this year. And so, we are supporting or we have the contract to support their demand okay? And if we take that opportunity to develop our own process and qualify our own products, but it takes time, okay? So, for example, [it takes time](added by company after the call) to implement the BCD process in that fab more than 1 year, it probably will take 1 year to implement and then qualify the product. And then it probably takes a while to ramp it up. So yes, we might have a tough time. But virtually, we have been supporting our -- well, actually now they're our customers, to support them for the existing products for their needs for a while, okay? So...

**Emily Yang** - *Diodes Incorporated - SVP of Worldwide Sales & Marketing*

Yes. So I would say everything is on track based on our plan. It's progressing well.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Dr. Keh-Shew Lu for any closing remarks.

**Keh-Shew Lu** - *Diodes Incorporated - Chairman, CEO & President*

Thank you for your participation on today's call. Operator, you may now disconnect.

**Operator**

The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.

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