

Samsung Electronics Announces Third Quarter 2020 Results



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Samsung Electronics reported today KRW 66.96 trillion in consolidated revenue and KRW 12.35 trillion in operating profit for the third quarter ended September 30, 2020.

Even as the COVID-19 pandemic continues around the world, reopening of key economies led to significant increase in consumer demand. Samsung Electronics was able to respond aggressively through flexible global supply chain management (SCM), reporting its highest-ever quarterly revenue.

Quarterly operating profit rose 52 percent from the previous quarter, thanks to a boost in demand for smartphones and consumer electronics as well as efficient cost management. Third-quarter operating profit was also 59 percent higher year-on-year on stronger sales of memory chips and consumer products.

The Memory Business posted solid earnings as healthy demand for mobile and PC products led to higher-than-expected shipments, outweighing the impact of lower memory chip prices. The System LSI Business also saw profit rising over demand for mobile phone components, while the Foundry Business benefitted from increased orders for high-performance computing (HPC) chips and other applications.

The Display Panel Business reported higher profit quarter-on-quarter led by growing mobile display sales on customers' new product launches and improved supply-demand environment for large panels.

A near 50 percent jump in sales of smartphones including new flagship products, coupled with improved cost management, lifted earnings at the Mobile Communications Business from

the previous quarter. The Consumer Electronics Division also witnessed a sharp growth in sales of premium TVs and appliances, supported by flexible management of supply chain and sales channels.

Looking ahead, Samsung Electronics expects profit to decline in the fourth quarter amid weakening memory chip demand from server customers and intensifying competition in mobile phones and consumer electronics.

Soft prices in server memory due to customers' inventory adjustments will likely weigh down the Memory Business despite stable demand for mobile and laptop memory. The System LSI Business will begin supplying 5-nm 5G system-on-chips (SoCs) in earnest and the Foundry Business expects increased demand for HPC chips and mobile SoCs. In displays, mobile panel sales are set to rise significantly from the third quarter.

The Mobile Communications Business is likely to see smartphone sales decline and marketing costs increase due to competitive market environment. In Consumer Electronics, profitability is expected to weaken on growing competition and rising costs, despite solid demand.

For 2021, the Company expects a recovery in overall global demand but uncertainties will remain over the possibility of recurring epidemic waves of COVID-19.

Samsung aims to enhance its leadership in memory chips through expansion of next-generation process node, flexible production management to meet immediate demand and timely investment to address demand over the mid- to long-term.

The System LSI Business will focus on differentiated 5G SoCs and high-resolution sensors, while the Foundry Business seeks to accelerate growth by diversifying applications to HPC and securing new major customers.

As the Display Panel Business plans to launch new Quantum-Dot (QD) Displays in 2021, it will also focus on improving earnings by enhancing leadership in mobile displays.

The Mobile Communications Business plans to expand foldable and 5G model offerings globally, while the Networks Business will strengthen its global positioning on the back of growing commercial 5G services. The Consumer Electronics Division will strengthen its online and B2B presence and expand its premium product lineup.

The Company's capital expenditures in the third quarter stood at KRW 8.4 trillion, including KRW 6.6 trillion spent on semiconductors and KRW 1.5 trillion on displays.

The Semiconductor businesses posted KRW 18.8 trillion in consolidated revenue and KRW 5.54 trillion in operating profit in the third quarter.

Overall demand in the Memory Business was better than expected as demand for mobile applications began to recover, even as demand for servers was somewhat weaker than the first half.

For DRAM, mobile demand increased due to strong seasonality and higher sales of low- and mid-end smartphones, while it was also positively impacted by the expansion of 5G and inventory buildup from Huawei. Server demand was relatively soft due to inventory adjustment by major customers, while PC demand rose on stronger sales of laptops. In addition, graphic demand also increased with the production of new gaming consoles. The Company achieved a higher bit growth for DRAM in the quarter than its previous guidance.

For NAND, mobile demand was strong as major manufacturers launched new models along with orders from Huawei. For servers, demand declined due to inventory adjustment of major customers, while for client SSD, low- and mid-end laptop demand was robust and SSDs for new gaming consoles increased significantly. Overall NAND shipments rose across all applications, helping the Company surpass the market's bit growth in the quarter.

Looking to the fourth quarter for DRAM, mobile demand is expected to increase with new smartphone launches, while server demand is expected to remain weak as inventory adjustments continue. For PC, low- to mid-end laptop demand

is likely to remain solid, while for graphic, demand will continue to see growth with the launch of new GPUs and gaming consoles.

As for NAND, mobile demand is expected to rise on the back of improving consumer sentiment and demand from Chinese manufacturers. For server SSD, demand is likely to remain weak and prices are expected to decline as customers continue to adjust their inventory and manage their capex conservatively. However, demand for client SSD is expected to be robust as low- to mid-end laptop demand will remain solid.

For the outlook next year, while geopolitical issues and the possibility of a prolonged impact from COVID-19 remain, mobile demand is expected to show solid growth until the first half as 5G continues to expand to low- and mid-end models. For servers, it is highly likely that demand will turn around in the first half as inventory levels normalize and investments by customers recover.

The Company will continue to maintain product competitiveness by accelerating the conversion to 1z-nm DRAM and 6th-generation V-NAND, as well as developing next-generation products such as EUV-based 1a-nm DRAM and 7th-generation V-NAND.

Earnings for the System LSI Business improved on the back of a recovery in mobile components, including CIS and SoCs. Display-related products especially showed significant growth as demand for tablets and laptops increased.

In the fourth quarter, Samsung will focus on expanding the mobile SoC business as it begins to supply 5G 1-Chip SoCs, our first products to feature the 5-nm process technology. In 2021, as market demand for mobile components is expected to recover, the Company will focus on expanding shipments of 5G SoCs, high-resolution sensors and DDIs.

The Foundry Business achieved record quarterly revenue on the back of a recovery in mobile demand and increased demand for HPC chips. The Company has established a position for future growth by beginning the shipment of 5-nm mobile products and 2.5D packages.

In the fourth quarter, the business aims to achieve another record quarterly revenue by expanding mobile SoC and HPC chip shipments to major customers. In 2021, the Company expects growth in the Foundry Business to exceed the industry's growth significantly. It plans to diversify applications to HPC, consumer and network products, and secure additional major customers.

The Display Panel Business posted KRW 7.32 trillion in consolidated revenue and KRW 0.47 trillion in operating profit for the third quarter. Its earnings improved driven by increasing sales of smartphone, TV and monitor panels, despite the impact of COVID-19.

Mobile display earnings rose as recovering demand from major customers for smartphone screens lifted utilization rate. Losses from large displays narrowed slightly QoQ on increasing panel prices and higher sales of ultra-large TV and high-performance monitor panels.

Looking ahead to the fourth quarter, the Company expects solid demand for mobile displays led by new smartphone launches. It will actively respond to customer demand and enhance product mix to increase sales and profit. For large displays, the Company will continue to address existing LCD customer demand and accelerate the transition to new QD Display technology.

While uncertainties will likely continue in 2021 due to COVID-19 and global trade conflicts, the Company expects a gradual recovery in the smartphone market driven by 5G services and will focus on enhancing its leadership in OLED panels.

Samsung will also accelerate innovation to deliver new form factors and expand adoptions by new applications. For large displays, the Company plans to launch QD Displays in due time and build the foundation of new premium panel business.

The IT & Mobile Communications Division posted KRW 30.49 trillion in consolidated revenue and KRW 4.45 trillion in operating profit for the third quarter.

Overall market demand increased in the third quarter as

stimulus measures helped many economies recover following lockdowns during the second quarter. The Company's smartphone sales rose sharply from the previous quarter, with the launch of new flagship models such as the Galaxy Note20 and Galaxy Z Fold2, as well as stronger sales of mass-market models in key regions including India.

Efficient cost management through component standardization and reduction in marketing expenses led to a significant improvement in profitability. Sales increase in tablets and wearables including the Galaxy Tab S7, Galaxy Watch3 and Buds Live also contributed to the profit growth in the third quarter.

Looking ahead to the fourth quarter, the overall market demand is expected to increase QoQ due to strong year-end seasonality and continued recovery in the overall demand. However, smartphone sales are expected to decline QoQ due to subsiding effects from new flagship model launches. Higher marketing expenditure to respond to intensifying competition and year-end seasonality is also likely to weigh down profit.

In 2021, while mobile market demand is expected to increase YoY backed by continuous economic recovery and accelerating migration towards 5G networks, uncertainties persist over the COVID-19 pandemic. The Mobile Communications Business aims to expand its smartphone sales by strengthening lineup for foldable phones and mass-market 5G models.

For the Networks Business, the Company strengthened its foundation for 5G business by signing a large-scale supply contract with Verizon in the U.S. The Company will continue to expand its 5G coverage in South Korea and push to expand the business globally including North America and Japan.

The Consumer Electronics Division, comprised of the Visual Display and Digital Appliances businesses, recorded KRW 14.09 trillion in consolidated quarterly revenue and KRW 1.56 trillion in operating profit.

Demand for TVs surged both QoQ and YoY as the "At-home" trend buoyed sales of high-resolution home cinema. The Company responded to the strong demand in time with online

marketing and global SCM capabilities, increasing sales in QLED, super large screen TVs and Lifestyle TVs.

In the fourth quarter, uncertainties from COVID-19 will linger and rising costs during the year-end peak season remain a risk. The Company plans to continue to expand online sales and online-to-offline (O2O) special promotion to enhance premium lineup such as QLED and Lifestyle TVs.

For the outlook next year, the Company expects further changes to the TV market environment from the pandemic. It will continue to introduce premium models such as QLED, Micro LED for home, in order to lead the super large-screen TV segment.

The Digital Appliances Business saw growth in the third quarter from recovering sales of premium lineup including Bespoke refrigerator and Grande AI washer/dryer. Increased sales of dryers and Air Dressers (garment refreshers) also helped, as COVID-19 raised consumers' interest in better hygiene.

As a recovery in developed markets is expected to lead demand in the fourth quarter, Samsung will focus on flexible seasonal promotions and strengthen logistics and online marketing to improve profitability.

In 2021, gradual recovery is expected in the digital appliance market. The Company will strengthen premium lineup such as Bespoke for sustainable growth, as well as expanding online and B2B business.

In the third quarter, Samsung Electronics' capital expenditure reached KRW 8.4 trillion, including KRW 6.6 trillion spent on semiconductors and KRW 1.5 trillion on displays. The cumulative total for the January-September period is KRW 25.5 trillion, with KRW 21.3 trillion allocated to semiconductors and KRW 3.1 trillion to displays.

The full-year capital expenditure is expected at approximately KRW 35.2 trillion, including KRW 28.9 trillion allocated to semiconductors and KRW 4.3 trillion to displays.

This year's capital expenditures on the Memory Business will exceed last year's total due to migrations to advanced process nodes and capacity expansion to address future demand. Annual investment in the Foundry Business is also expected to increase as the Company expands production capacity, including the 5-nm EUV facility. Capital expenditures by the Display Panel Business is also set to rise on investment in new Quantum-Dot (QD) Displays and improved processes for mobile panels.

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