

Y 2025 Earnings Call

Company Participants

- CC Wei, Chairman and Chief Executive Officer
- Jeff Sul, Director of Investor Relations
- Wendell Huang, Senior Vice President, Finance and Chief Financial Officer Spokesperson

Other Participants

- Arthur Lai, Macquarie
- Brett Simpson, Arite
- Bruce Lu, Goldman Sachs
- Charlie Chan, Morgan Stanley
- Gokul Hariharan, JP Morgan
- Laura Chen, Citigroup Inc
- Sunny Lin, UBS

Presentation

Jeff Sul {BIO 17275177 <GO>}

(Foreign-Language) Good afternoon, everyone, and welcome to TSMC's Fourth Quarter 2025 Earnings Conference and Conference Call. My name is Jeff Sul, TSMC's Director of Investor Relations and your host for today. Today's event is being webcast live through TSMC's website at www.tsmc.com, where you can also download the earnings release materials. If you are joining us through the conference call, your dial in lines are in listen only mode.

The format for today's event will be as follows. First, TSMC's Senior Vice President and CFO, mister Wendell Huang, will summarize our operations in the fourth quarter 2025 followed by our guidance for the first quarter 2026. Afterwards, mister Huang and TSMC's Chairman and CEO, Dr.CC Wei, will jointly provide the company's key messages. Then we will open both the floor and the line for the question and answer session.

As usual, I would like to remind everybody that today's discussions may contain forward looking statements that are subject to significant risks and uncertainties, which could cause actual results to differ materially from those contained in the forward looking statements. Please refer to the please refer to the safe harbor notice that appears in our press release. And now I would like to turn the microphone over to TSMC CFO, Mr.Wendell Huang, for the summary of operations and the current quarter guidance.

Wendell Huang {BIO 18242139 <GO>}

Thank you, Jeff.

Good afternoon, everyone. Thank you for joining us today. My presentation will start with financial highlights for the fourth quarter of 2025 and a recap of full year 2025. After that, I will provide the guidance for the first quarter of 2026.

Fourth quarter revenue increased 5.7% sequentially in NT, supported by strong demand for our leading edge process technologies. In US Dollar term, revenue increased 1.9% sequentially to \$33.7 billion, slightly ahead of our fourth quarter guidance. Gross margin increased by 2.8 percentage points sequentially to 62.3%, primarily due to cost improvement efforts, favorable

foreign exchange rate, and the high capacity utilization rate. The operating expenses accounted for 8.4% of net revenue, compared to 8.9% in third quarter of '25, due to operating leverage.

Thus, operating margin increased sequentially by 3.4 percentage points to 54%. Overall, our fourth quarter EPS was TWD19.5, and ROE was 38.8%. Now let's move on to revenue by technology. 3-nanometer process technology contributed 28% of wafer revenue in the fourth quarter, while 5-nanometer and 7-nanometer accounted for 35% and 14% respectively.

Advanced technologies, defined as 7-nanometer and below, accounted for 77% of wafer revenue. On a full year basis, 3-nanometer revenue contribution came in at 24% of 2025 wafer revenue. 5-nanometer 36% and 7-nanometer 14%. Advanced technologies accounted for 74% of total wafer revenue, up from 69% in 2024.

Moving on to revenue contribution by platform. HPC increased 4% quarter-over-quarter. over-quarter to account for 55% of our fourth quarter revenue. Smartphone increased 11% to account for 32%.

IoT increased 3% to account for 5%. Automotive decreased 1% to account for 5%. DCE decreased 22% to account for 1%. On a full year basis, HPC increased 48% year-over-year.

Smartphone, IoT, and automotive increased by 11%, 15%, and 34% respectively in 2025, while DCE remains flat. Overall, HPC accounted for 58% of our 2025 revenue. Smartphone accounted for 29%. IoT accounted for 5%.

Automotive accounted for 5%. And DCE accounted for 1%. Moving on to the balance sheet, we ended the fourth quarter with cash and marketable securities of TWD3.1 trillion, or \$98 billion. On the liability side, current liabilities increased by TWD182 billion, quarter-over-quarter, mainly due to the increase of \$95 billion in accrued liabilities and others, and the increase of \$61 billion from the reclassification of bonds payable to current portion.

In terms of financial ratios, accounts receivable days increased by one day to 26 days. Inventory days remain steady at 74 days. Regarding cash flow and CapEx, during the fourth quarter, we generated about TWD726 billion in cash from operations, spent TWD357 billion in CapEx, and distributed CapEx130 billion for first quarter '25 cash dividend. Overall, our cash balance increased TWD297 billion to TWD2.8 trillion at the end of the quarter.

In US Dollar terms, our fourth quarter capital expenditures total TWD11.5 billion. Now let's look at the recap of our performance in 2025. Thanks to the strong demand for our leading-edge process technologies, we continue to outperform the foundry industry in 2025. Our revenue increased 35.9% in US Dollar terms to \$122 billion, or increased 31.6% 31.6% in dollar term to TWD3.8 trillion.

Gross margin increased 3.8 percentage points to 59.9%, mainly reflecting a higher capacity utilization rate and cost improvement efforts, partially offset by an unfavorable foreign exchange rate and margin dilution from our overseas FABs. With operating leverage, our operating margin increased 5.1 percentage point to 50.8%. Overall, full-year EPS increased 46.4% to TWD66.25, and ROE increased 5.1 percentage point to 35.4%. In 2025, we generated TWD2.3 trillion in operating cash flow, spent TWD1.3 trillion, or \$40.9 billion on capital expenditures.

As a result, free cash flow amounted to TWD1 trillion, up 15.2% from 2024. Meanwhile, we pay TWD467 billion in cash dividends in 2025, up 28.6% year-over-year, as we continue to increase our cash dividend per share. TSMC shareholders receive a total of TWD18 cash dividend per

share in 2025, up from TWD14 in 2024, and they will receive at least TWD23 per share in 2026. I have finished my financial summary.

Now, let's turn to our current quarter guidance. We expect our business to be supported by continuous strong demand for our leading-edge process technologies. Based on the current business outlook, we expect our first quarter revenue to be between \$34.6 billion and \$35.8 billion, which represents a 4% sequential increase, or a 38% year-over-year increase at the midpoint. Based on the exchange rate assumption of \$1 to TWD31.6, gross margin is expected to be between 63% and 65%, operating margin between 54% and 56%.

Lastly, our effective tax rate was 16% in 2025. For 2026, we expect our effective tax rate to be between 17% and 18%. This concludes my financial presentation. Now, let me turn to our key message.

are key messages. I will start by talking about our fourth quarter '25 and first quarter '26 profitability. Compared to third quarter, our fourth quarter gross margin increased by 280 basis points sequentially to 62.3%, primarily due to cost improvement efforts, a more favorable foreign exchange rate, and a higher overall capacity utilization rate. Compared to our fourth quarter guidance, our actual gross margin exceeded the high end of the range provided three months ago by 130 basis points, mainly as we delivered better than expected cost improvement efforts.

In addition, the actual fourth quarter exchange rate was \$1 to TWD31.01, as compared to our guidance of \$1 to TWD30.6. We have just guided our first quarter gross margin to increase by 170 basis points to 64% at the midpoint, primarily driven by continued cost improvement efforts, including productivity gains and a higher overall capacity utilization rate, partially offset by continued dilution from our overseas FAB. Looking at full year 2026, given the six factors, there are a few puts and takes I would like to share. On the one hand, we expect our overall utilization rate to moderately increase in 2026. The N3 gross margin is expected to cross over to the corporate average sometime in 2026, and we continue to work hard to earn our value.

In addition, we are leveraging our manufacturing excellence to drive greater productivity in our FABs to generate more wafer output. We are also increasing across node capacity optimization, which includes flexible capacity support among N7, N5, and N3 nodes to support our profitability. On the other hand, as the scale of our overseas expansion grows, we continue to forecast the gross margin dilution from the ramp-up of overseas FABs in the next several years to be between 2% to 3% in the early stages and widen to 3% to 4% in the latter stages. Furthermore, the initial ramp-up of our 2-nanometer technology will start to dilute our gross margin in the second half of the year, and we expect between 2% to 3%, 1% dilution dilution for the full year of 2026.

Finally, we have no control over the foreign exchange rate, but that may be another factor in 2026. Next, let me talk about our 2026 capital budget and depreciation. At TSMC, a higher level of capital expenditures is always correlated to the high growth opportunities in the following years. With our strong technology leadership and differentiation, we are well positioned to capture the multi-year structure demand from the industry megatrends of 5G, AI, and HPC. In 2025, we spend \$40.9 billion, as compared to \$29.8 billion in 2024.

As we begin to raise our level of capital spending in anticipation of the growth that will follow in the future years. In 2026, we expect our capital budget to be between \$52 billion and \$56 billion as we continue to invest to support our customers' growth. About 70% to 80% of the 2026 capital budget will be allocated to advanced process technologies. About 10% will be spent for

specialty technologies, and about 10% to 20% will be spent for advanced packaging, testing, mask making, and others.

Our depreciation expense is expected to increase by a high teen percentage year-over-year in 2026, mainly as we ramp up our 2-nanometer technologies. Even as we invest in future growth with this level of CapEx spending in 2026, we remain committed to delivering profitable growth to our shareholders. Finally, let me talk about TSMC's long-term profitability outlook. As a foundry, our biggest responsibility is to support our customers' growth, and we always view them as partners.

Having said that, we are in a very capital-intensive business. In the last five years alone, our CapEx totaled \$167 billion, our R&D investments totaled \$30 billion. Therefore, it is important for TSMC to earn a sustainable and healthy return as we continue to invest in leading-edge specialty and advanced packaging technologies to support our customers' growth. Today, we face increasing manufacturing cost challenges due to the rising costs of leading nodes, for example, the cost of tools are becoming more expensive and process complexity is increasing.

As a result, the CapEx dollar required to build 1k wafer per month capacity of N2 is substantially higher than 1k wafer per month capacity for N3. The CapEx per K cost for A14 will be even higher. We also face additional cost challenges from expansion of our global manufacturing footprint, new investments in specialty technologies, and inflationary costs. These all lead to a higher level of CapEx standing.

As a result, in the last three years, our CapEx dollars amount total \$101 billion, but is expected to be significantly higher in the next three years. Having said that, we continue to work closely with our customers to plan our capacity while sticking to our disciplines to ensure a healthy overall capacity utilization rate through the cycle. Our pricing will remain strategic, not opportunistic to earn our value. We will work diligently with our suppliers to drive greater cost improvements.

We will also leverage our manufacturing excellence to generate more wafer output and drive greater across-node capacity optimization in our FAB operations to support our profitability. By taking such actions, we believe a long-term gross margin of 56% and higher through the cycle is achievable, and we can earn an ROE of high 20% through the cycle. By earning a sustainable and healthy return, even as we shoulder a greater burden of CapEx investment for our customers, we can continue to invest in technology and capacity to support their growth while delivering long-term profitable growth to our shareholders. We also remain committed to a sustainable and steadily increasing cash dividends per share on both an annual and quarterly basis.

Now let me turn the microphone over to CC

CC Wei

Thank you, Wendell. Good afternoon, everybody. First, let me start with our 2026 outlook. In 2025, we observe robust AI-related demand throughout the whole year, while non-AI end-market segments bottom out and so admire the recovery.

Concluding 2025, the 1G 2.0 industry industry, which we define as all logic wafer manufacturing, packaging, testing, mastermaking, and others, increased 16% year-over-year. Supported by our strong technology differentiation and broader customer base, TSMC's revenue increased 35.9% year-over-year in US Dollar terms, outperforming the fundry 2.0 industry growth. Entering 2026, we understand there are uncertainties and risks from the potential impact of tariff policies and rising component prices, especially in consumer-related and price-sensitive market segments. As

such, we will be prudent in our business planning while focusing on the fundamentals of our business to further strengthen our competition position.

We forecast the funtry 2.0 industry to grow 14% year-over-year in 2026, supported by robust AI-related demand. Underpinned by strong demand for our leading-edge specialty and advanced packaging technologies, we are confident we can continue to outperform the industry growth. We expect 2026 to be another strong growth year for TSMC and forecast our full-year revenue to increase by close to 30% in US Dollar terms. Next, let me talk about AI demand and TSMC's long-term growth outlook.

Recent development in the AI market continues to be very positive. Revenue from AI accelerator accounted for a high teens percent of our total revenue in 2025. Looking ahead, we observe increasing AI model adoption across consumer, enterprise, and sovereign AI segments. This is driving need for more and more computation, which supports the robust demand for leading-edge silicon.

Our customers continue to provide us with their positive outlook. In addition, our customers are customers who are many in the cloud service providers, also providing strong signals and reaching out directly to request the capacity to support their business. There's conviction in the multi-year AI megatrend AI megatrend remains strong, and we believe the demand for semiconductors will continue to be very fundamental. As a foundry, our first responsibility is to fully support our customers with the most advanced technology and necessary capacity to unleash AI innovations.

To address the structural increase in the long-term market demand profile, TSMC works closely with our customers and our customers' customers to plan our capacity. This process is continuous and ongoing. In addition, as process technology complexity increases, the engagement time with customers is now at least two to three years in advance. Internally, as we have said before, TSMC employs a disciplined capacity planning system to assess the market demand from both top-down and bottom-up approaches.

We focus on the overall addressable megatrend to determine the appropriate capacity to build. Based on our assessment, we are preparing to increase our capacity and stepping up our CapEx investment to support our customers' future growth. We are also putting forward an existing FAB schedule to the extent possible, both in Taiwan and in Arizona. We are also leveraging our manufacturing excellence to drive greater productivity in our FABs, to generate more output, convert N5 capacity to support N3 wherever necessary, and focus on capacity optimization across nodes to maximize the support to our customers.

Based on our planning framework, we raise our forecast for the revenue growth from AI Accelerator to approach a mid-to-high 50% taker for the five-year period from 2024 to 2029. Underpinned by our technology efficiency and broad customer base, we now expect our overall long-term revenue growth to approach a 25% CAGR in US Dollar terms for the five-year period starting from 2024. While we expect AI Accelerator to be the largest contributor in terms of our incremental revenue growth, our overall revenue growth will be fueled by all of by all four of our growth platforms, which are Smartphone, HPC, IoT, and Automotive in the next several years. As the world's most reliable and effective capacity provider, we will continue to work closely with our customers to invest in leading-edge, specialty, and advanced packaging technologies to support their growth.

We will also remain disciplined in our capacity planning approach to ensure we deliver profitable growth for our shareholders. Now let me talk about TSMC's global manufacturing footprint

update. All our overseas decisions are based on our customers' needs. As they value some geographic profitability and a necessary level of government support, this is also to maximize the value for our shareholders.

With strong collaboration and support from our leading US Customers and the US Federal, state, and city government, we are speeding up our capacity expansion in Arizona and executing well to our plan. Our first FAB has already successfully entered high-volume production in 4Q '24. Construction of our second FAB is already complete, and tool moving and installation is planned in 2026. Due to the strong demand from our customers, we are also putting forward the production schedule and now expect to enter high-volume manufacturing in the second half of 2027.

Construction of our third FAB has already started, and we are in the process of applying for permits to begin the construction of our fourth FAB, and fourth advanced packaging FAB. Furthermore, we have just completed the purchase of a second large piece of land nearby to support our current expansion plan and provide more flexibility in response to the very strong multi-year AI-related demand. Our plan will enable TSMC to scale up an independent GIGAFAB cluster in Arizona to support the needs of our leading-edge customers in smartphone, AI, and HPC applications. Next, in Japan, thanks to the strong support from the Japan Central central, prefecture, and the local government, our first specialty fab in Kumamoto has already started volume production in late 2024 with very good yield. The construction of our second fab has started, and the technologies and ramp schedule will be based on our customers' need and market conditions.

In Europe, we have received strong commitment from the European Commission and the German federal, state and city governments. Construction of our specialty fab in Dresden, Germany, is progressing in our plan. The ramp schedule will be based on our customers' need and market conditions. In Taiwan, with support from the Taiwan government, we are preparing multiple phases of 2-nanometers of fabs in both Hsinchu and Kaohsiung Science Park.

We will continue to invest in leading-edge and advanced packaging facilities in Taiwan over the next few years. By expanding our global footprint while continuing to invest in Taiwan, TSMC can continue to be the trusted technology and capacity provider of the global logical industry for years to come. Last, let me talk about N2 and S16 status. Our 2-nanometer and S16 technologies lead the industry in addressing the insatiable demand for energy-efficient computing, and almost all the innovators are working with TSMC N2 successfully entered high-volume manufacturing in 4Q, 2025 at both our Hsinchu and Kaohsiung sites with good yield.

We are seeing strong demand from smartphone and HPC AI applications and expect a fast ramp in 2026. With our strategy of continuous enhancement, we also introduced N2P as an extension of N2 family. N2P features further performance and power benefit on top of N2, and volume production is scheduled for the second half of this year. We also introduced A16, featuring our best-in-class super power rail, or SPR A16 is best suitable for specific HPC products with complex signal route and the Gens power delivery network.

Volume production is on track for second half 2026. We believe N2, N2P, A16 and its derivatives will prepare our N2 family to be another large and long-lasting node for TSMC while further extending our technology leadership position well into the future. This concludes our key message and thank you for your attention.

Questions And Answers

Operator

Question And Answer

A - Jeff Sul {BIO 17275177 <GO>}

Thank you Wendell.

Thank you CC This does conclude our prepared statements. (Operator Instructions) So now let's begin the question and answer session. I think we'll take the first few questions from the floor here. So why don't we start over here with Gokul Hariharan from JPMorgan.

Thank you.

Q - Gokul Hariharan {BIO 6332238 <GO>}

Thank you and happy new year. So CC., it definitely feels like you've heard what your customers have said to you over the last three, four months.

Could you give us a little bit more color on what you're hearing from your customers, customers on demand? Because this is a very big step up in the capacity commitment. There is definitely a lot of concern in the financial market, especially about whether we are in a bit of a bubble. And obviously, you are the one who is putting up all the capital in this industry. So you've definitely considered this very carefully as well.

So give us a little bit more detail in terms of what you're hearing from the customers and your views on the cycle given if we think about typical semiconductor cycle, we've already probably lasted a little bit longer than usual cycles. But this definitely doesn't feel like a typical semiconductor cycle.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, Gokul, let me summarize your question for the benefit of those online and those in person. So again, Gokul's question is really he would like to hear CC's views about the overall AI-related demand and the semiconductor cycle.

So again, Gokul notes that as Wendell and you said, we are substantially stepping up our CapEx to support the customers. But he does say, there is concerns about an AI bubble and risk. So part of Gokul's question is how, what is the feedback, any color we any color we can share about what type of discussions and feedback we're getting from both customers and the customers customers that CC Mentioned and how long do we think this cycle can last.

A - CC Wei

Okay, Gokul you essentially try to ask us whether the AI demand is real or not.

I'm also very nervous about it, you bet. Because we have to invest about \$52 billion to \$56 billion for the CapEx right. If we didn't do it carefully and, that would be a big disaster to TSMC for sure. So of course, I spent a lot of time in the last three four, three four months talking to my customer and then customers that customer.

I want to make sure that my customers that demand are real so I talked to those -- cloud service providers over them the answer is, I'm quite satisfied with the answer actually they show me the evidence that the AI really help their business so they grow their business successfully and heresy in their financial return. So I also double check their financial status they are very rich. That sounds much better than TSMC so. so no doubt.

I also ask specifically that what's the application, right. I mean that's for one of the hyperscaler they told me that, that help their social media software and so the customer continue to increase. So I believe that and with our own experience in the AI application we also help to our own fab to improve the productivity as I mentioned one time say that 1% or 2% productivity improvement that is free to TSMC and that's why also our gross-margin is a little bit satisfied even in this a very high cost period of time. And so all in all I believe in my point of view the AI is real not only real it's starting to grow into our daily life and we believe that is kind of a we call it AI make a trend we certainly would believe that AI customers in the US So they ask a lot of support from the US FAB So because of that, we have to speed up our fab expansion in Arizona.

In Taiwan also, actually, we increased most of the capacity in Taiwan. No doubt about it, because this is the most adjacent one we can progress very well. In the US., we try to speed it up, and progress is very good.

We got the help from the government. Still, we have to meet all the requirements for the permit or those kind of things. So both in Taiwan and in Arizona, we speed up our capacity expansion to meet the AI demand. I can always say one word.

The capacity is very tight. We work very hard to narrow the gap so far. Probably this year, next year, we have to work extremely hard to narrow the gap. We just bought a second land in Arizona.

Let's give you a hint. That's what we plan to do, because we need it. We are going to expand many fabs over there, and this GIGAFAB cluster can help us to improve the productivity, to lower down the cost, and to serve our customers in the US Better.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, thank you, Gokul.

Let's move over here next to Laura Chen from Citi Bank, please.

Q - Laura Chen {BIO 22083033 <GO>}

Thank you. Thank you, CC And Wendell, for a very comprehensive outlook briefing, and also congratulate for the great result. Of course, we see that the AI and conductor growth has seen very strong growth, and I believe all of your customers and customers' customers are very desperate to ask more capacity support from TSMC But I'm just wondering, how does TSMC evaluate the potential power electricity supply for data centers? Other than the chips we can discuss with our customers, I think for the overall infrastructure buildup for data centers, a lot of factors are also very important.

I just want to understand more how does TSMC evaluate those key factors for the AI infrastructure buildup? That's my first question.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Laura's first question is around the AI demand. She notes again, as we said, AI mega trend and the growth is very strong in strong, and customers, customers' customers, ourselves are strong believers, but when we do our planning, how do we, balance this against the other considerations? Do we look at things, for example, I think Laura's question is power, electricity, grid availability, to basically assess, is this part of our, included as part of our planning process? Do we factor such things in?

A - CC Wei

Well, Laura, let me tell you first, I worry about the electricity in Taiwan first. I need to have a lot of, enough electricity so I can start to expand the capacity without any limitation, but talking about, build a lot of AI data center all over the world, I use one of my customers' customers, I answer, because I ask the same question.

They told me that they planned this one five, six years ago already. So as I said, those cloud service provider are smart, very smart. If I knew that, I would, anyway. So they say that they work on the power supply five, six years ago.

So today, their message to me is silicon from TSMC is a bottleneck, and asked me not to pay attention to all others, because they have to solve the silicon bottleneck first. But indeed, we look at the power supply all over the world, especially in the US Not only that, we also look at who support those kind of power supply, like a turbine, like a nuclear power plant, the plant, all those kind of thing. We also look at the supply of the rack, we also look at the supply of the cooling system, the cooling system, so far, so good. So we have to work hard to narrow the gap between the demand and supply from TSMC Did that answer your question?

Q - Laura Chen {BIO 22083033 <GO>}

That's great to know that it would not be the constraints for the further AI developments.

Thank you. And my second question is on the leading edge advanced packaging. Wendell, can you remind us what would be the revenue contribution last year for the advanced packaging overall? First of all, we see that, I recall that in the past, that the CapEx for leading edge advanced packaging was roughly about 10%, but now it could be up to like 20%. So I'm just so, I'm just wondering that for the expansion, can you give us more detail about what kind of the plans you are looking for? Will you focus more on like a 3D IC, ISO IC, or you also start to work on more advance like a panel base in the long term? I also think that before we talk about that we'll work more closely with OSET's partner on the leading-edge advanced packaging.

So, just wondering what kind of the process will be the key expansion plan in this space? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Laura's second question is more related to advanced packaging. What was the revenue contribution of what we call the back end, which is advanced packaging testing as a whole in 2025? And then she notes the CapEx, actually, this year I believe WINDOW we guided 10 to 20% of CapEx, which is the same as last year, but anyways, she wants to know what is the focus of this CapEx? Is it on 3D IC? Is it on SOIC packaging solutions, on panel level? Sort of what is the key areas we're focusing on relative to the CapEx?

A - Wendell Huang {BIO 18242139 <GO>}

Okay, Laura, the revenue contribution last year from advanced packaging is close to 10%. It's about 8%.

For this year, we expect it to be slightly over 10%. We expect it to grow in the next five years higher or faster than the corporate. And the CapEx, yes, you're right, in the past is about 10%, lower than 10%. Now we're saying advanced packaging together with mass making and others accounted for between 10% to 20%.

So you can see that the investment amount is higher. We're investing in areas in advanced packaging where our customers need. So the areas that you mentioned, basically, we continue to invest.

A - Jeff Sul {BIO 17275177 <GO>}

Thank you, Wendell.

Okay, let's move on to Charlie Chan from Morgan Stanley here.

Q - Charlie Chan {BIO 19217292 <GO>}

Thanks, Jeff. Happy New Year, CC and Wendell. So first of all, amazing results and guidance.

Congratulations to the management team. So my first question is about outside of AI, what do you see for those A markets? You talk about the memory cost, et cetera. So can you give us some kind of your underlying assumption for PC shipments, smartphone shipments, et cetera. And also in your HPC, there are some other pieces like networking and the general service.

Can you comment about the growth potential for those segments? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, Charlie's first question is very specific. Well, generally, he wants to know about how do we see the non-AI demand, especially in the context where certain component costs, such as memory costs, are rising? So he wants to know, what do we see the impact on the PC and smartphone markets in terms of shipments? He's also asking very specifically, what about networking? What about general server, each of these different segments?

A - CC Wei

Well, Charlie, those, although we say it's called a non-AI, but actually, they're related to AI. You know that, right? Because a networking processor, you still need to have AI data to scale up or scale out. Those are the networking switches, all those kind of things.

It's still growing, very strong. As for PC or the smartphone, to tell you the truth, we expect a higher memory price. So we expect the unit growth will be very minimal. But for TSMC, we did not feel our customers changed their behavior.

And we look at it, and then we find out that we supply most of the high-end smartphones. The high-end smartphone is less sensitive to the memory price. So the demand is still strong. I'll use one sentence I'd like to say.

We still try very hard to narrow the gap. We have to supply a lot of wafers to them also.

Q - Charlie Chan {BIO 19217292 <GO>}

I think that's very consistent with your five-year CAGR outlook for all the four segments. And my second question is about the Intel's Foundry competition.

I think the US President seems to be very happy with Intel's recent progress. And you even mentioned two of your key customers, NVIDIA Apple may have some partnership with Intel Foundry. Should we be concerned about this so-called competition and what TSMC can really do to mitigate or avoid a potential market share loss at those key US Customers, not limited to the two customers I just mentioned? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Charlie's second question is on the Foundry competition and competition from a US IDM. He knows the US President is very happy with the progress.

A couple, two of our key customers, he also was mentioned. So his question is fundamentally, is there a concern or risk going forward of market share loss for TSMC to our Foundry competition?

A - CC Wei

Well, kind of a simple question simple question, I should say no. Let me explain a little bit. Because in these days, it's not money to help you to compete, right? I also like whoever you just mentioned to invest on Intel, I'd like them to invest on TSMC also.

But the most fundamental thing is, let me share with you, today's technology is so complicated. So once you want to design a very complete or advanced technology, it takes two to three years to fully utilize that technology. That's today's situation. And so after two to three years of preparation, you can design your product.

Once you get your product being approved, it takes another one to two years to ramp it up. So we have a competitor, no doubt about it. That's formidable competitor. But first, it takes time.

Two, we don't underestimate their progress. But are we afraid of it? For 30-some years, we're always in a competition with our competitor. So no, we have confidence to keep our business grow as we estimated.

A - Jeff Sul {BIO 17275177 <GO>}

Thank you, CC All right, let's take the next two questions online in the interest of time.

Operator, can we take the first call from the line, please?

Operator

First question Arthur Lai , Macquarie. Go ahead, please.

Q - Arthur Lai {BIO 17190358 <GO>}

Hi. First, congrats.

Very strong performance. Thank you, CC., Wendell, and Jeff for taking my question. My first question is about the global capacity plan.

The reason that the Taiwan local news report that TSMC put added eight-inch business and matured now 12-inch to convert into the advanced packaging. And investors came to know if this is true. And the decision is based on what kinds of key factors, i.e., CC Just mentioned about the power tightness or it's an online concern. Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Arthur's first question is about basically mature note, our strategy on mature note. He knows a lot of local news has been reporting that TSMC is exiting 8-inch and 12-inch businesses and converting the capacity to advanced packaging. So he wants to know if this is true. And if so, what are the reasons behind it the reasons behind your power constraints, ROI, et cetera, et cetera?

A - CC Wei

Good question.

Indeed, we reduce our 8-inch wafers capacity than 16-inch, but let me assure you that we support all our customers. We discuss with our customers, and to do this kind of resources more flexibly and more, what is the word we say, optimize, which I should optimize the resources to support our customers. But let me assure you, also to my customers, that we continue to support them. We will not let them down.

If they have a good business, we continue to support, even in the 8-inch wafers of business.

A - Jeff Sul {BIO 17275177 <GO>}

Okay. Arthur, do you have a second question?

Q - Arthur Lai {BIO 17190358 <GO>}

Yes. Thank you.

My second question is regarding the consumer and demand outlook. So the CEO also mentioned that the main price is actually inflation, and you're also pushing up the cost of the consumer electronics. So investors actually are concerned about the further demand softness in this year and next year, or particularly next year. So, can management comment about what your client or your client's client, how to resolve this memory tightness, or we call a memory urgency issue? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay. So Arthur's second question is on the impact from the memory price increase and the demand softness. I believe his question really because CC Already shared the impact this year, he wants to know what is the impact for 2027?

A - CC Wei

For TSMC, no impact. As I just mentioned, most of my customers now focus on high-end smartphone or PCs.

So those kind of demand has less sensitivity to the components of price. So they continue to give us a very healthy forecast this year and next year.

A - Jeff Sul {BIO 17275177 <GO>}

Okay. Thank you, CC All right.

Operator, let's move on to the next participant from the line, please.

Operator

Next one, Brett Simpson, Arite. Go ahead, please.

Q - Brett Simpson {BIO 3279126 <GO>}

Yes, thanks very much.

My question is really on AI I mean, TSMC has been supply-constrained for your AI customers, I think, since 2024, and it sounds like 2026 is another year where we're going to see challenges. Do you think the CapEx you've laid out you've laid out for this year, \$52 billion to \$56 billion, could that mean that we start to see supply and demand more in balance in 2027? Any thoughts there just in terms of how you're thinking about that capacity plan and does it alleviate the supply bottlenecks that we see today? As part of this, from a supply perspective, we hear that TSMC is finding it quite challenging to develop enough engineering talent, big enough both in the US And in Taiwan. Can you talk more about this trend and what's the scale of the labor shortage of foundry engineers at the moment? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay.

So Brett's first question is related around AI and our capacity. He notes the supply looks to continue to be tight in 2026, but with these significant step up in our CapEx to support the customers, \$52 billion to \$56 billion, do we expect supply and demand, or the gap so to speak, to be more balanced in 2027? And then, is engineering resources, fab engineers, a constraint or a bottleneck for us in making these expansions, whether in Taiwan or the US.?

A - CC Wei

Okay, let me answer this question first. If you build a new fab, it takes two and a half, two to three years to build a new fab.

So even we start to spend \$52 billion to \$56 billion, the contribution to this year is almost none, and to 2027, a little bit. So we actually we are looking for 2028, 2029 supply, and we hope at that time that the gap will be narrowed. For 2026 and 2027, we are focused on the short-term more output. Actually our productivity continue to increase.

Our people has an incentive because of one of the TSMC's incentive is to satisfy customers. It's not because of our financial result are good, but we want to let customers feel that TSMC is trusted, that whenever they have a good opportunity to grow, we will support it. So in 2026, 2027, for the short-term, we focus on the productivity improvement, which we've done quite a good result because of what Wendell just mentioned, that we can have a good financial result because of that. But that's not our incentive -- that's our incentive, but that's not our purpose.

Our purpose is to support our customers. So 2026 2026, 2027, for the short term, we are looking to improve our productivity. 2028 and 2029, yes, we start to increase our CapEx significantly. And it will continue this way if the AI demand make a trend as we expected.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, Brett. Thank you, CC Brett, do you have a second question?

Q - Brett Simpson {BIO 3279126 <GO>}

Yes, I do. And thanks, that was very clear. I guess my second question is about pricing.

And if I look at 2025, this was the second consecutive year where TSMC's wafer ASPs were up around 20%. And as leading edge becomes a bigger portion of the mix, and also you feed through price increases, when we factor in the ramp of more expensive overseas fabs, is 20% ASP, wafer ASP increases the new normal for TSMC? Typically, you have an annual price

negotiation about this time of the year. And so I'm trying to understand how you project ASPs in '26. And is your March quarter guidance factoring in price increases at leading edge? Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Brett's question is on pricing. He notes that, which he's looking at the blended wafer price is increasing at close to 20%, according to his estimates. Of course, that's blended both on price and mix, but it's a leading edge. And also we have mentioned earning our value.

So he wants to know, is this the new normal going forward?

A - CC Wei

Well, this is a tough question I let the CFO to answer.

A - Wendell Huang {BIO 18242139 <GO>}

Okay, every new note, we have a price, the price will increase, the blended ASP will increase. I think they continue this way in the past and will continue the way in going forward. But Brett, I think you're asking about the contribution from pricing to the profitability.

Now, as we mentioned before, the profitability, there are six factors affecting the profitability, and price is just one of them. And of course, we continue trying to earn our value. But in fact, in the last few years, the pricing benefits to the profitability was just enough to cover the inflation cost from tools, equipment, materials, labor, etc. There are other factors contributing to the higher profitability.

The first one will be a high utilization rate as the demand is so high. And as our disciplined approach to capacity planning, the utilization the utilization rate supports our high profitability. The other one will be our manufacturing excellence. As CC said, we continue to drive increasing productivity to generate more wafer output.

Also, we continue to drive optimization capacity among nodes, which includes converting part of the N5 to N3. It also involves cross-support from different nodes, from the mature nodes to the more advanced nodes. That is a very important advantage of TSMC So with all these efforts, we're able to maintain a good, healthy, sustainable return, profitability, so that we can continue to invest to support our customers' growth.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, thank you Wendell.

In the interest of time, we'll take two more questions from the floor and one more from the line. So we'll go here, Sunny Lin, UBS

Q - Sunny Lin {BIO 22583442 <GO>}

Thank you. Good afternoon. Very strong results, congratulations.

So number one, if we look at the company, very different versus in the past from many angles. But if we look at the ramp from new node, now you can generate actually higher revenue from new node in year four or even year five of mass production, versus in the past, new node like peak revenue in the second or even third year of mass production. And so, could you help us understand with this new trend, what's the financial implications? And then, what does that imply for you to operate or even compete differently versus in the past?

A - Jeff Sul {BIO 17275177 <GO>}

So Sunny's first question, I think maybe is related, well, to our technology differentiation, but she knows that when we ramp a new, in the past when we have a new node, after a few years, sort of, the revenue or, comes down a bit, but she notes that nowadays, we can still enjoy very high revenue from a node even after in its fourth or fifth year. So her question is, what are the financial implications from this? And also from a, I believe, competitive dynamics?

A - CC Wei

If I can answer, say, we are lucky.

Actually, if you look at the semiconductor product, right now, the trend is you need to have a low power consumption, always, and then high-speed performance. And for TSMC, our technology differentiation becomes appreciation become more and more clear, we have both benefit. We have a high speed and we have a low power consumption. And so our leading-edge customer, the first wave, the second wave, third wave continue to come.

And so that sustain the demand for a long, long time. That's a difference. Of course, this one, you need to have technology leadership, and which the technology leadership much easier to say, but every year you have to improve. As we said, we have N2, N2P, and then you won't be surprised on the third one will be N2 something, and continuously.

And so that one give us the benefit and to support our customers continuous innovation. And so they continue to stay with TSMC, and so their product can be very competitive in the market. So that answers the question, say that, once we got the peak revenue and did not decrease, it's continuous, because second wave, third wave, customer continue to join.

Q - Sunny Lin {BIO 22583442 <GO>}

Thank you very much, CC And then maybe a question on 2-nanometer, which was CC.

, meaningful revenue coming through in 2026. And so in the past, you guide like how much a new node contribute to sales for the year. And so any expectations on the revenue contribution from 2-nanometer in 2026? And then I recall, in terms of process migration, a few years ago, there were lots of concerns on increasing cost per transistor. But that obviously is not declining from 5-nanometer.

But then now looking at 2-nanometer, I think process migration seems to be re-accelerating even for a smartphone and PC And then with larger demand coming from headphones compute. And so maybe based on your feedback from clients, maybe for a smartphone and PC clients, why are they re-accelerating process migration into 2-nanometer?

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Sunny's second question, very quickly in two parts, 2-nanometer, as we said, is a fast ramp in 2026, very strong customer interest and demand. So what do we have any revenue percentage to guide for in 2026?

A - Wendell Huang {BIO 18242139 <GO>}

Yes, Sunny, the 2-nanometer will be a bigger node than 3-nanometer from the start. But it's less meaningful nowadays to talk about the percentage of revenue contribution when the new node starts.

Because the corporate, as a whole, the revenue has become much bigger than before. So yes, revenue dollar, it's a bigger node. nodes, but percentage-wise, less meaningful. And then the second part of Sonny's question, from a technology perspective, as you know, she noted increasing cost per transistor, as we said, CapEx per K going higher, so her question very simply, what's the value? What's driving smartphone, HPC customers actually to see, we're seeing a widening out of the adoption of N2, so what is the value that it's providing that the customers are willing to adopt N2?

A - CC Wei

I already answered the question, right, because now the whole product is looking for low power consumption and high-speed performance, and our technology can provide that value.

I also say that every year we improve, so every year they adopt the same, even the same name of the same node, their product continue to improve. So that provides a value. If you say that the cost per transistor is increased, I saw the cost per transistor, the performance compared, not called the CP value, is increased, it's much better. So that customer stick with the TSMC Our headache right now, if I can call it a headache, is a demand and a supply gap.

We need to work hard to narrow the gap.

Q - Sunny Lin {BIO 22583442 <GO>}

Very good, thank you.

A - Jeff Sul {BIO 17275177 <GO>}

Thank you. Operator, can we take the last call from the line, and we'll take one last one from the floor.

Operator

Next one, Krish Sankar, TD Cowen, go ahead, please.

A - Jeff Sul {BIO 17275177 <GO>}

Hello? Okay. Krish, are you there? I guess not. Then let's just take the last call, sorry, the last question from Bruce Lu from Goldman Sachs.

Thank you.

Q - Bruce Lu {BIO 20933876 <GO>}

Thank you for letting me to ask the last question. Hopefully it's not that difficult. So I think one of the key, I understand that TSMC is trying very hard to increase the capacity.

You know, AI revenue is growing like 15% a year, 15% plus a year. But token consumption for the last few quarters is 15% a quarter. So the gap is still there, right? I mean, that's why Elon Musk was talking about the chip wall. So, can you share with us that, in your assumption, when you provide the 15% plus AI revenue growth, what kind of token consumption you can support? And how many gigawatts power in terms of the chips you can support in your assumption when you provide this kind of five-year revenue guidance for AI?

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so Bruce's first question Bruce's first question is on our AI CAGR Actually, to be correct, we have guided for the AI CAGR to grow mid to high 50s CAGR in the five-year period from 2024 to 2029.

So that is the official guidance we have provided just today. Bruce's question is, in this guidance, what is our assumption, basically, assuming about the token growth behind this type of CAGR? What is our assumption in terms of translating to how much gigawatts of data center can we support and other specific assumptions behind our guidance?

A - CC Wei

Bruce, you got me. I mean, I also try to understand what is the tokens of growth, but my customers, their product is improvement, continue to increase. So from, it's well-known from Harper to Blackwell to Rubin, they almost double, triple their performance.

So the one they can support the tokens of growth or the one they can continue to support the compute power is enormous. And so I lost the track to be frank with you. And for gigawatt, I want to see that how much of TSMC can make the money from the gigawatt, rather than say that, how much we can support. Today, from my point of view, still the bottleneck is TSMC is a wafer supply, not the power consumption, not yet.

So we also look at carefully, to answer your question, say that the TSMC is a wafer, can support how much of the gigawatt, still not enough. They still have abundant of power supply in the US

Q - Bruce Lu {BIO 20933876 <GO>}

Okay, my next question is for the CapEx, right? I want to double check with what I just heard that CC Was talking about like 2027, that CapEx will be more for the productivity improvement when 2028, 2029, maybe meaningfully higher. So I do recall that in 2021, TSMC provided three years for \$100 billion CapEx to support that structural growth. Now the demand is even stronger.

On base of that, can we do three years, \$200 billion for CapEx for next three years? You know, the math sounds doable.

A - Jeff Sul {BIO 17275177 <GO>}

Okay, so well, first a slight clarification because CC Was talking about this year, we have substantially, stepping up our CapEx investment, but CC Also mentioned it takes two to three it takes two to three years to build capacity. So, in terms of Bruce's question, do we say 2027 cinema step up in Canada? I think we're saying it takes time for that capacity to come out. So that's the first part.

A - Wendell Huang {BIO 18242139 <GO>}

Yeah, I think Bruce, what CC said was the productivity was our main focus in '26 and '27. Because when we start to invest, the fab, the volume production will not come out until '28 and '29. So the dollar amount invested today is for two years or even in the future. And CapEx dollar amount, as I said, in the last three years, TWD101 billion.

In the next three years, significantly higher. I'm not going to share with you the number, but significantly higher.

A - Jeff Sul {BIO 17275177 <GO>}

Yeah, so I think Wendell has addressed at least both parts of Bruce's question. Okay,

Q - Bruce Lu {BIO 20933876 <GO>}

Thank you.

A - Jeff Sul {BIO 17275177 <GO>}

So again, thank you. So again, thank you, everyone. This does conclude our Q&A session. Before we conclude today's conference, please be advised that the replay of the conference will be accessible within 30 minutes from now.

The transcript will become available 24 hours from now, and both are available or will be available through our TSMC's website at www.tsmc.com. So again, thank you, everyone, for taking the time to join us today. We certainly would like to wish everyone a happy New Year. We hope everyone continues to stay well, and you will join us again next quarter.

Thank you, goodbye and have a good day. The Event has Ended

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