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PRESENTATION

Jeff Su - *Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations*

(spoken in foreign language) Good afternoon, everyone and welcome to TSMC's fourth quarter 2025 earnings conference and conference call. My name is Jeff Su, 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, Mr. Wendell Huang, will summarize our operations in the fourth quarter 2025, followed by our guidance for the first quarter 2026. Afterwards Mr. Huang and TSMC's chairman and CEO; Dr. C.C. 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 would cause actual results to differ materially from those contained in the forward-looking statements. 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's CFO, Mr. Wendell Huang, for the summary of operations and the current quarter guidance.

Wendell Huang - *Taiwan Semiconductor Manufacturing Co Ltd - Senior Vice President, Finance and Chief Financial Officer / Spokesperson*

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 terms, revenue increased 1.9% sequentially to USD33.7 billion, slightly ahead of our fourth quarter guidance.

Growth margin increased by 2.8 percentage points sequentially to 62.3%, primarily due to cost improvement efforts, favorable foreign exchange rate, and a higher capacity utilization rate. The operating expenses accounted for 8.4% of net revenue, compared to 8.9% in third quarter of 2025, 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. Three-nanometer process technology contributed 28% of wafer revenue in the fourth quarter, while five-nanometer and seven-nanometer accounted for 35% and 14% respectively. Advanced technologies, defined as seven-nanometer and below, accounted for 77% of wafer revenue. On a full-year basis, three-nanometer revenue contribution came in at 24% of 2025 wafer revenue, five-nanometer 36% and seven-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 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%, while 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 remained 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 USD98 billion. On the liabilities side, current liabilities increased by TWD182 billion quarter-over-quarter, mainly due to the increase of TWD95 billion in accrued liabilities and others, and the increase of TWD61 billion from the reclassification of bonds payable to current portion.

In terms of financial ratios, accounts receivable days increased by 1 day to 26 days. Inventory days remained 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 TWD130 billion for first quarter 2025 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 totaled USD11.5 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 continued to outperform the foundry industry in 2025. Our revenue increased 35.9% in US dollar terms to USD122 billion or increased 31.6% into 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 points to 50.8%. Overall, full-year EPS increased 46.4% to TWD66.25, and ROE increased 5.1 percentage points to 35.4%. In 2025, we generated TWD2.3 trillion in operating cash flow, spent TWD1.3 trillion or USD40.9 billion on capital expenditures. As a result, free cash flow amounted to TWD1 trillion, up 15.2% from 2024.

Meanwhile, we paid 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 received 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 USD34.6 billion and USD35.8 billion, which represents a 4% sequential increase, or a 38% year-over-year increase, at the midpoint.

Based on the exchange rate assumption of USD1 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 messages. I will start by talking about our Q4 2025 and Q1 2026 profitability. Compared to Q3, our Q4 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 Q4 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 Q4 exchange rate was USD1 to TWD31.01, as compared to our guidance of USD1 to TWD30.6.

We have just guided our Q1 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 fabs.

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 cross-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 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 two-nanometer technology will start to dilute our gross margin in the second half of the year, and we expect between 2% to 3% 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 structural demand from the industry megatrends of 5G, AI and HPC (added by company after the call). In 2025, we spent USD40.9 billion, as compared to USD29.8 billion in 2024, as we began 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 USD52 billion and USD56 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 percent will be spent for specialty technologies, and about 10 to 20 percent will be spent for advanced packaging, testing, mask making and others (added by company after the call). Our depreciation expense is expected to increase by a high-teens percentage year-over-year in 2026, mainly as we ramp up our two-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 USD167 billion, while our R&D investments totaled USD30 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 cost 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 (added by company after the call). 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 spending. As a result, in the last three years our CapEx dollars amounted to a total of USD101 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-twenties percent 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 dividend per share on both an annual and quarterly basis.

Let me turn the microphone over to C.C.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

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

Concluding 2025, the foundry 2.0 industry, which we define as all logic wafer manufacturing, packaging, testing, mask-making and others, increased 16% year over year. Supported by our strong technology differentiation and broad customer base, TSMC's revenue increased 35.9% year over year in US dollar terms, outperforming the foundry 2.0 industry growth.

Entering 2026, we understand there are uncertainties and risk from the potential impact of tariff policies and rising component prices, especially in consumer related and price sensitive end market segments. As such, we will be prudent in our business planning, while focusing on the fundamentals of our business to further strengthen our competitive position.

We forecast the foundry 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 the AI demand and TSMC's long-term growth outlook. Recent developments in the AI market continue to be very positive. Revenue from AI accelerators accounted for high-teens percent of our total revenue in 2025.

Looking ahead, we observe increasing AI model adoption across consumer, enterprise and sovereign AI segment. 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' customer, who are mainly the cloud service providers, are also providing strong signals and reaching out directly to request the capacity to support their business. Thus, our conviction in the multi-year AI megatrend remains strong, and we believe the demand for semiconductor will continue to be very fundamental.

As a foundry, our first responsibility is to fully support our customer with the most advanced technology and necessary capacity to unleash their 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 lead 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 a 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 out our CapEx investment to support our customers' future growth.

We are also pulling forward the existing fab schedules 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 the 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 Accelerators to approach a mid-to-high-fifties % CAGR for the (added by company after the call) five-year period from 2024 to 2029. Underpinned by our technology differentiation 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 accelerators to be the largest contributor in terms of our incremental revenue growth, our overall revenue growth will be fueled by all four of our course platform, 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 the TSMC's global manufacturing footprint update. All our overseas decisions are based on our customers' needs, as they value some geographic flexibility, and a necessary level of government support. This is also to maximize the value for our shareholders.

With a strong collaboration and support from our leading US customers and the US federal, state, and city governments, 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 flab is already complete and tool move-in and installation is planned in 2026. Due to the strong demand from our customers, we are also pulling 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 first 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 the HPC applications.

Next, in Japan, thanks to the strong support from the Japan 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 technology fab in Dresden, Germany is progressing to our plan. The ramp schedule will be based on our customers' needs in the market conditions.

In Taiwan, with support from Taiwan government, we are preparing multiple phases of two-nanometers fabs in both Hsinchu and Kaohsiung Science Parks. 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 logic IC industry for years to come.

Last, let me talk about N2 and A16 status. Our two-nanometer and A16 technologies lead the industry in addressing the ~~insensible~~ ^{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 sides with good yield. We are seeing strong demand from smartphone and HPC/AI applications and expect a faster ramp in 2026.

With our strategy of continuous enhancements, we also introduced N2P as an extension of our 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 superpower rail, or SPR. A16 is best suitable for specific HPC products with complex signal routes and dense power delivery networks. Volume production is on track for second half 2026.

We believe N2, N2P, A16 and its derivatives will propel 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 conclude our key message, and thank you for your attention.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Thank you, Wendell. Thank you, CC. (Event instructions) Now questions will be taken in the order they were received. If at any time you would like to remove yourself from the questioning queue, please press 2.

QUESTIONS AND ANSWERS

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

(Event Instructions) Gokul Hariharan, JPMorgan.

Gokul Hariharan - JPMorgan Chase & Co - Analyst

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 are 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 was putting up all the capital in this industry, so you have definitely considered this very carefully as well.

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

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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 C.C.'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, what is the feedback? Any color we can share about what type of discussions and feedback we're getting from both customers and the customers' customers that C.C. mentioned, and how long do we think this cycle can last? (added by company after the call)

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Okay, Gokul, you essentially try to ask whether the AI demand is real or not. I'm also very nervous about it. Yeah, you bet, because we have to invest about USD52 billion to USD56 billion for the CapEx, right? If we did not do it carefully, that will be a big disaster to TSMC for sure. So, of course, I spent a lot of time in the last three-four months talking to my customers and then customers' customers. I want to make sure that my customers' demands are real. So, I talked to those, cloud service providers, all of them.

Their answer is that - I'm quite satisfied with the answer. Actually, they showed me the evidence that the AI really help their business. So they grow their business successfully and healthy, and in their financial return. So, I also double check their financial status - they are very rich.

That's sounds much better than TSMC. So, no doubt, I also asked specifically that what's the application, right? I mean, that's, from one of the hyperscalers, they told me that helped 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 at one time, say that 1% or 2% of productivity improvement, that is free to TSMC and that's why also our gross margin is a little bit satisfied, even in this 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, we call it AI megatrend. We certainly believe that. So, your another question is, can the semiconducting industry to be good for three four five years in a row?

I will tell you the truth - I do not know. But I look at the AI, it looks like, it is going to be, like, endless. I mean, that's for many years to come. No matter what, TSMC sticks on the fundamental technology leadership, manufacturing excellence, and we work with customers to get their trust. And I think that fundamental thing is what position TSMC to be very good future growth, let me say that. 25% CAGR, as we projected, and we used to be conservative, you know that.

Gokul Hariharan - JPMorgan Chase & Co - Analyst

Thanks, CC. My second question is on the US expansion. You are pulling in some of the capacity in response to customers. You are already starting, plans for the phase 4. There's a lot of media reports about TSMC. You might have to build more Fabs in the US. How should we think about, US expansion in principle over the next few years?

I think previously you had talked about reaching 20%. Or even 30% of two-nanometer capacity in the US eventually, the total capacity could be in the US. Could you give us a little bit more detail about how that is progressing and when could we get there, in terms of the 30% or even 20% capacity?

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so Gokul's second question is about our overseas expansion, particularly in the US. He notes that CC said we are pulling in the schedule for the FAB 2, earlier, we're starting the application for the fourth fab. And so, his question is partly around recent reports that we intend to build more fabs in Arizona.

So, his question is how should we or how is TSMC thinking about the future expansion in Arizona? And we have said in the past that, around 30% of our two-nanometer and more advanced capacity would be based in Arizona once we complete scaling out to this independent GIGAFAB cluster. So what is the time frame or timetable for that? How quickly can we get there?

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

That's a long question. We built a fab in Arizona, and we worked hard, so today, everything, even the yield or defect density is almost equal to Taiwan. And due to the strong demand, as I just answered from the AI, stronger, that's a mega trend, all my customers in the AI customer you see 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 most adjacent one we can progress very well. In 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, requirement for the permits or, for those kinds of things.

And so, both in Taiwan and in Arizona, we speeded 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. Okay. 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 the 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.

Okay.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, thank you, Gokul.

Laura Chen - Citigroup Inc. - Analyst

Thank you. Thank you, C.C. and Wendell, for very comprehensive outlook briefing and also congratulate for the great result. Of course, we see that the AI (added by company after the call) semiconductor 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 center. So other than that, the chips. And discuss with our customers.

I think for the overall infrastructure buildup for data centers, a lot of factors are also very important. Just want to understand more how the TSMC evaluate those key factors for the AI infrastructure buildup. That's my first question.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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, and customers, customers' customers, and 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 and electricity grid availability to basically, assess, is this part of our included as part of our planning process? Do we factor such things in?

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

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 to build a lot of AI data center all over the world, I use one of my customers' customers' answer. I asked the same question. They told me that they planned this one, 5-6 years ago already. So, as I said, those cloud service providers are smart, very smart. If I knew that, I would anyway --.

So, they say that they work on the power supply 5-6 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 do get the power supply, all over the world, especially in the US.

Not only that, but we also look at, who support those kind of a power supply, like a turbine, like, what, nuclear power plant, the plan or those kinds of things. We also look at the supply of the rack. We also look at the supply of the cooling system. Everything, 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?

Laura Chen - Citigroup Inc. - Analyst

That's great to know that it's, would not be the constraints for the further AI developments. Yeah, thank you. And my second question is on the leading-edge advanced packaging. Can you remind us that what would be the revenue contribution last year for the advanced packaging overall? First of all, we see that that's, I recall that in the past that the CapEx for leading edge of advanced packaging roughly about 10%. Yeah. And now it could be up to like a 20%. 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 3DIC, SoIC, or are you also start to work on more advanced like a panel base, in the longer-term?

I also think that before we talk about that, we'll work more closely with OSAT partners on the leading edge advanced packaging. So, just wondering what kind of the process will be, the key expansion plan in the space. Thank you.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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, Wendell, 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 3DIC? Is it on SoIC packaging solutions? Is it on panel level? Sort of what is the key areas we're focusing on relative to the CapEx?

Wendell Huang - Taiwan Semiconductor Manufacturing Co Ltd - Senior Vice President, Finance and Chief Financial Officer / Spokesperson

Okay, Laura, the revenue contribution last year from advanced packaging is slightly over 10% (corrected by company after the call). It's about 8% in 2024. We expect it to grow faster than the corporate average, and account for low-teens % in 2026. (corrected by company after the call)

And the CapEx, yes, you are right, in the past, it's about 10%, lower than 10%. Now we're saying advanced packaging together with mask-making and others, accounted for between 10% to 20%. So you can see that, the investment, amount is higher.

And we are investing in areas in advanced packaging where our customers need. So the areas that you mentioned, basically, we continue to invest.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Charlie, Chan, Morgan Stanley.

Charlie Chan - Morgan Stanley - Analyst

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, other AI. What do you see, for those marks, right? We, you talk about the memory cost, etc.

So, can you give us some, of, your underlying assumption for PC shipments, smartphone shipments, etc. And also, in your HPC there are some, other business like networking and a general servers. Can you come about the growth potential for those segments? Thank you.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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 these different segments.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Well, Charlie. Those, although we say is called non-AI, but actually they're related to AI. You know that, right? Because of networking processor, you still need to have AI data to scale up or scale out. Those are the networking switches or those kinds of things. It still grow, very strong.

As for PC or the smartphone, to tell 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 use one sentence I'd like to say, we still try very hard to narrow the gap. We had to supply a lot of wafers to them also.

Charlie Chan - Morgan Stanley - Analyst

Since CC, 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 US President seems to be very happy with Intel's recent progress and, even mentioned, two of your key customers, right? Nvidia, Apple may have some partnership with Intel Foundry. Should we 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 that I just mentioned. Thank you.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so Charlie's second question is on the foundry competition and, competition from a US IDM. He notes the US Presidents, 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?

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Well, kind of a 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 or 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 that to keep our business grow as we estimated.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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

Arthur Lai, Macquarie.

Arthur Lai - Macquarie Research Ltd - Analyst

Hi, first, congrats, very strong performance. Thank you, C.C., Wendell, and Jeff for taking my question. My first question is about the global capacity plan. Recently, Taiwan local news report that TSMC could exit 8-inch business and the mature node at 12 inch to convert into the advanced packaging, and the investor is keen to know if this is true and the decision is based on what kinds of key factor, i.e., CC just mentioned about the power tightness or it's ROI concern? Thank you.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so, Arthur's first question is about, basically mature node, our strategy on mature node, he notes a lot of local news has been reporting that TSMC is exiting eight-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, power constraints, ROI, etc. Etc.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Good question. Indeed, we reduce our eight inch wafers capacity and six 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 flexible and, more, what is the word that we say, optimize, that's 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 that even in the eight-inch wafers of business.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, Arthur, do you have a second question?

Arthur Lai - Macquarie Research Ltd - Analyst

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

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

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 sensitive to the component price. So they continue to give us a very healthy forecast, this year and next year.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, thank you, CC. All right, let's operator, let's move on to the next, participant from the line, please.

Operator

[Brett Simpson. Arete.]

Brett Simpson - Arete Research Sevices - Analyst

Yeah, 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 for this year, ~~TWD~~52 billion to ~~TWD~~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 are thinking about that capacity plan and does it does it alleviate the supply bottlenecks that we see today and as part of this from a supply perspective, we hear TSMC is finding it quite challenging to develop enough engineering talent quick 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.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so Brett's first question is related around AI and our capacity. So 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 ~~TWD~~52 billion to ~~TWD~~56 billion, do we expect the supply 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.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Okay. Let me answer this question first. If you build a new fab, it takes two and three year, two to three years to build a new fab. So even we start to spend ~~TWD~~52 billion to ~~TWD~~56 billion, the contribution to this year is almost none, and 2027, a little bit. So we actually, we are looking for 2028-2029 supply, and we hope it's a time that the gap will be narrow.

For 2026 and 2027, we are focused on the short-term, more output. Actually, our productivity continues to increase. Our people has an incentive because of, one of the TSMC's incentive is to satisfy customer. It's not because of our financial results are good, but we want to let customer 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 have done quite a good result because Wendell just mentioned that we can have a good financial result is because of that. But that's not our, that's our incentive, but that's not our purpose.

Our purpose is to support our customers. So 2026-2027 for the short-term, we are looking to improve our productivity. 2028 to 2029, yes, we start to increase our capacity (corrected by company after the call) significantly. And it will continue this way if the AI demand megatrend as we expected.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, Brett, thank you, C.C. Brett, do you have a second question?

Brett Simpson - Arete Research Sevices - Analyst

Yeah, I do, and thanks, that was very clear. I guess, my second questions about pricing, and if I look at 2025, this was the second consecutive year where TSMC's wafer ASPs were up around 20%, 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.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so Brett's question, is on pricing. He notes that, our, 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.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

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

Wendell Huang - Taiwan Semiconductor Manufacturing Co Ltd - Senior Vice President, Finance and Chief Financial Officer / Spokesperson

Okay, every new node, we have a price, the price will increase. The blended ASP will increase. I think they continued this way in the past and will continue with the way in, going forward. But 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 rate supports our high profitability.

The other one will be manufacturing excellence. As C.C. 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 are able to maintain a good, healthy, sustainable return, profitability so that we can continue to invest to support our customers' growth.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, thank you, Wendell. In the interest of time, we will take two more questions from the floor and one more from the line. So, we will go here, Sunny Lin, UBS, and then.

Sunny Lin - UBS AG - Analyst

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 the financial implications? And then, what, does that imply, for you to operate or even compete differently versus in the past?

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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.

C.C. Wei - *Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer*

If I can answer, say we are lucky. Actually, if you look at the semiconductors, 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 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 customers, the first wave, the second wave, the third wave continue to come, and so that sustain the demand for a 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 an N2, N2P and then you won't be surprised, and the third one will be N2 something and continuously. And so that one give us the benefit and to support our customers that 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.

Sunny Lin - *UBS AG - Analyst*

Thank you very much C.C. And then maybe a question on two-nanometer, which you see, meaningful revenue coming through, in 2026. And so, in the past you guide like how much a new node will contribute to sales for the year, and so any expectations on the revenue contribution from two-nanometer in 2026?

And then I recall, in terms of process migration a few years ago, there were lots of concerns that increasing cost per transistor. And that obviously is not declining from five-nanometer. But then now looking at two-nanometer, I think process migration seems to be re-accelerating even for smartphone and PC and then with larger demand coming from high performance compute. So maybe based on your feedback from clients, maybe for smartphone and PC clients, why are they accelerating process migration into two nanometer?

Jeff Su - *Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations*

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

Wendell Huang - *Taiwan Semiconductor Manufacturing Co Ltd - Senior Vice President, Finance and Chief Financial Officer / Spokesperson*

Yeah, Sunny, the two-nanometer will be a bigger node than three 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, yeah, revenue dollar, it's a bigger note, but percentage-wise, less meaningful.

Jeff Su - *Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations*

And then the second part of Sunny's question from a technology perspective, as she noted increasing cost per transistor, as we say, 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?

C.C. Wei - *Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer*

I already answered the question, right, because of, 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 products continue to improve. So that provides the value. If you say that the cost per transistor is increased, I saw the cost per transistor, the performance compared to the cost, that called the C/P value is increased. It's much better, so customers stick with TSMC. Our, headache right now, if I can call it headache, is the demand and supply gap we need to work hard to narrow the gap.

Sunny Lin - UBS AG - Analyst

Very clear. Thank you.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Thank you, operator, can we take the last call from the line, and we will take one last one from the floor.

Operator

Krish Sankar, TD Cowen.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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

Bruce Lu - Goldman Sachs Group Inc - Analyst

Thank you for thanking you, thank you for letting me to ask the last question. Hopefully, it's not that difficult. So, I think the one of the key, I understand that TSMC is trying very hard to increase the capacity. 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 50% plus AI revenue growth, what kind of token consumption you can support and how many gigawatts of power in terms of the chips you can support in your in your assumption when you provide this kind of five years revenue guidance for AI?

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Okay, so 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.

C.C. Wei - Taiwan Semiconductor Manufacturing Co Ltd - Chairman & Chief Executive Officer

Bruce, you got me. I mean, that's, I also try to understand what is tokens' growth. But my customers, there's a product is improvement continue to increase. So from, it's a well-known from Harper to Blackwell to Ruben, that almost double, triple their performance. So the one they can support. The tokens of course 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's wafer supply, not the power consumption. Not yet. So, we also look at carefully, to answer your question, say that the TSMC's wafer can support how much of the gigawatt? Still not enough. They still have abundant of power supply in the US.

Bruce Lu - Goldman Sachs Group Inc - Analyst

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, the CapEx will be more for the productivity improvement when '28, '29 may be meaningfully higher.

So I do recall that in 2021, TSMC provided three years for a \$100 billion CapEx to support that structural growth. Now the demand is even stronger. Based on that, can we do three years, \$200 billion for CapEx for next three years. You know, the math sounds doable.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

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

Wendell Huang - Taiwan Semiconductor Manufacturing Co Ltd - Senior Vice President, Finance and Chief Financial Officer / Spokesperson

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's dollar amount, as I said, In the last three years, \$101 billion. In the next three years, significantly higher. I'm not going to share with you the number, but significantly higher.

Jeff Su - Taiwan Semiconductor Manufacturing Co Ltd - Director, Investor Relations

Yeah. So, I think Wendell has addressed at least, both parts of Bruce's question, okay? 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.

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