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PRESENTATION

Operator

Good day, and welcome to the Daqo New Energy Fourth Quarter and Fiscal Year 2019 Results Conference Call. (Operator Instructions)

Please note, this event is being recorded. I would now like to turn the conference over to Kevin He, Investor Relations. Please go ahead.

Kevin He - *Daqo New Energy Corp. - Head of IR*

Hello, everyone. I'm Kevin He, the Investor Relations of Daqo New Energy. Thank you for joining our conference call today. Daqo New Energy just issued its financial results for the fourth quarter and fiscal year of 2019, which can be found on our website at www.dqsolar.com. To facilitate today's conference call, we have also prepared a PPT presentation for your reference.

Today, attending the conference call, we have Mr. Longgen Zhang, our Chief Executive Officer; and Mr. Ming Yang, our Chief Financial Officer. The call today will feature an update from Mr. Zhang on market and operations, and then Mr. Yang will discuss the company's financial performance for the first -- for the fourth quarter and the fiscal year 2019. After that, we will open the floor to Q&A from the audience.

Before we begin the formal remarks, I would like to remind you that certain statements on today's call, including expected future operational and the financial performance and the industry growth are forward-looking statements that are made under the safe harbor provisions of the U.S. Private Securities and Litigation Reform Act of 1995. These statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement.

Further information regarding these and other risks is included in the reports or documents we have filed with or furnished to the Securities and Exchange Commission. These statements only reflect our current and the preliminary views as of today and may be subject to change. Our ability to achieve these projections is subject to risks and uncertainties. All information provided in today's call is as of today, and we undertake no duty to update such information, except as required under the applicable law.

Also during the call, we will occasionally reference monetary amounts in U.S. dollar terms. Please keep in mind that our functional currency is the Chinese RMB. We offer these translations into U.S. dollars solely for the convenience of the audience. Without further ado, I now turn the call over to our CEO, Mr. Zhang, please.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Thank you, Kevin. Hello, everyone. Thank you for joining our conference call today. We are pleased to report an outstanding quarter to close out the year in which we delivered strong operational and the financial results. Having completed the new 35,000 metric tons Phase 4A expansion project at the end of the third quarter, we quickly ramp-up our Phase 4A project in Q4 and hit full capacity in December 2019.

We completed the ramp-up progress months ahead of schedule, and we're able to generate outstanding operational results across all key metrics, including production volume, manufacturing costs and the product quality. I would like to thank our entire team for their hard work and dedication.

We produced 16,204 metric tons in Q4 2019, an increase of 72% compared to Q3. Furthermore, we successfully reduced our total production cost to $6.38 per kg during the quarter, a decrease of 8.5% sequentially and below our previous target of $6.50 per kg.

With our additional capacity fully ramped up, we saw significant benefits from economics of scale and manufacturing efficiency. For example, we reduced energy-related costs by more than 10% quarter-over-quarter, aided by significant reductions in per unit energy consumption. We also saw improved raw material utilization efficiency.

In terms of operational synergies, per unit labor cost reduced by more than 20% compared to Q3, and depreciation cost per unit also declined significantly.

In terms of production quality, approximately 81% of our production during the quarter were high-purity mono-grade polysilicon. This is exceptional since we're ramping up and optimizing Phase 4A production in Q4. And it is typical to have variability in quality during the equipment optimization process.

As a result of reduction in manufacturing costs, our gross margin for fourth quarter increased to 29.5%, an 800 basis points improvement over third quarter gross margin of 21.5%.

Our EBITDA improved to USD 45.4 million during the quarter, a sequential increase of 130%. Adjusted net income increased to USD 24.5 million up from USD 9.5 million in Q3. We are proud of our financial performance and believe it reflects the capability of our company now with Phase 4A at full production capacity.

Based on our current estimates, we expect to run our facilities at full utilization during the first quarter of 2020 and produce approximately 18,000 metric tons to 19,000 metric tons of polysilicon. We are also making progress in cost reduction by further improving operational efficiency and maximizing economics of scale.

As such, we expect our production costs to be continue reduced to approximately $6.10 per kg in the first quarter of 2020. At the same time, we will continue to improve product quality and expect mono-grade polysilicon products to account for approximately 90% of our sales volume during the first quarter of 2020.

2019 was a challenging year for China's domestic solar PV market. Due to the delayed announcement of the subsidy policy last year, newly added solar PV installations in China during the year came in at approximately 30 GW, significantly below the market and the government's original expectations of 40 to 50 gigawatts. However, a draft of subsidy policy for 2020 was released in later January this year and is expected to be finalized sometime March or April of 2020. When combined with some delayed projects from 2019, we expect newly added installations in China for 2020 to be approximately 40 gigawatts.

Demand from overseas markets is expected to grow healthily in 2020, as overall costs fall further and grid parity is reached in more and more countries and regions.

With China's domestic market expected to recover and overseas demand continuing to grow, we believe global solar PV demand will exceed 140 gigawatts in 2020, a significant increase from 2019.

Towards the end of 2019, we saw the market share for multigrade polysilicon products shift meaningfully towards mono-grade polysilicon products. While mono-grade polysilicon continues to be in high demand with stable pricing, demand for multigrade products wanes with prices dropping significantly, while we are ideally positioned to benefit from this shift towards mono-grade polysilicon.

This will adversely impact some of our competitors who produce mostly multigrade polysilicon products. At the same time, we are seeing a number of major competitors shutting down their operations, exiting the market and laying off employees due to significant financial losses and their uncompetitive cost structure. We believe this trend will continue going forward unless ASPs can recover to healthy level to -- for our competitors to continue production.

In order to limit and contain the spread of COVID-19, coronavirus disease in China, the government implemented strict controls and policies starting in later January this year. That had an adverse impact on the logistics and the supply chains of many companies in the manufacturing industry in China. We immediately set up a crisis response task force led by senior management team and quickly began rolling out initiatives to ensure business continuity, including a detailed assessment of our supply chain and the logistics and immediate procurement of critical raw materials and the plans to allow employees to return to work, which resulted in uninterrupted production and a full utilization during this challenging period.

We are pleased to report that with our team's dedication and the strong support we received from raw material suppliers and logistic partners, we were able to remediate any impact on production, sales and shipments resulting from the outbreak and related government control.

We believe mono-grade polysilicon supply and demand balance will improve meaningfully in 2020, driven by the aggressive capacity expansion of mono-wafer producers and limited new polysilicon production capacity coming online as well as our competitors shutting down capacity and reducing utilization. So far, during the first quarter, we are seeing robust demand for mono-grade poly from our key customers with improvements in ASPs every month which we believe is likely to continue going forward. Combined with our anticipated lower production costs, we believe 2020 Q1 gross margin can improve compared with Q4 2019. I'm confident that we will continue to benefit from the shift from multicrystalline to monocrystalline technology, resulting in robust demand and pricing for mono-grade polysilicon.

We expect to produce approximately 18,000 to 19,000 metric tons of polysilicon and sale approximately 17,500 metric tons to 18,000 metric tons of polysilicon to external customers during the first quarter of 2020. For the full year of 2020, the company expects to produce approximately 73,000 to 75,000 metric tons of polysilicon. Inclusive of the impact of the company's and its facility maintenance, this outlook reflects Daqo New Energy's current and preliminary view as of the date of this press release and may be subject to change. The company's ability to achieve these projections is subject to risks and uncertainties.

Now I will turn the call over to our CFO, Mr. Yang, who will discuss the company's financial performance for the fourth quarter and fiscal year 2019.

Ming Yang - *Daqo New Energy Corp. - CFO*

Thank you, Longgen, and good day, everyone. We appreciate you joining our conference call today. I will now discuss the financial performance of our fourth quarter and fiscal year 2019. Revenues were $118.9 million, an increase of 42% as compared to $83.9 million in the third quarter of 2019.

The increase in revenue was primarily due to higher polysilicon sales volume, which were partially offset by lower ASPs. The company produced 16,204 metric tons and sold 13,291 metric tons of polysilicon during the quarter. The difference between production volume and sales volume was primarily attributable to an increase in finished goods inventory associated with the doubling of our production capacity in December 2019 when compared to the third quarter of 2019, the majority of which were shipments in transit to customers.

There is also an increase in the amount of polysilicon utilized for the production of silicon seed rods, which is a raw material used in the polysilicon production process. Based on our current production capacity, we utilized approximately 500 tonnes of polysilicon for the production of silicon seed rods per quarter, which is reflected in our guidance for the first quarter of 2020.

Gross profit was $35.1 million, an increase of 94% compared to $18.1 million in the third quarter of 2019. Gross margin was 29.5%, an increase of 800 basis points compared to 21.5% in the third quarter of 2019. The increase in gross margin was primarily due to lower production costs.

Selling, general and administrative expenses were $9 million compared to $8.2 million in the third quarter of 2019. The increase was primarily due to higher shipping costs as a result of higher sales volume. SG&A expenses during the quarter included $4 million in noncash share-based compensation costs related to the company's share incentive plan.

Research and development expenses were $1.2 million compared to $1.2 million in the third quarter of 2019 and $1 million in the fourth quarter of 2018. R&D expenses can vary from period-to-period and reflect R&D activities that took place during the quarter.

Income from operations was $30.1 million, an increase of 240% compared to $8.8 million in the third quarter of 2019. Operating margin was 25.3%, a substantial increase compared to 10.4% in the third quarter of 2019.

Interest expense was $3.9 million compared to $2.6 million in the third quarter of 2019. The increase was primarily due to an increase in bank loans. New income attributable to Daqo New Energy shareholders was $20.1 million in the fourth quarter of 2019 compared to $5 million in the third quarter of 2019.

Now I would like to provide an update regarding our tax rate and tax expenses for the fourth quarter of 2019. Our Xinjiang Dago subsidiary is a high-end new technology enterprise, which is taxed at 15% tax rate at the local subsidiary level. For the quarter and related to the completion of our new Phase 4A project, we took advantage of a new tax policy in China, which allows for a onetime depreciation deduction for certain new capital investment items.

Under this new tax policy, we took a $20 million one-time deduction for tax purpose. This would reduce our 2019 local taxable income by $20 million and reduce $3 million in cash tax payments for the tax year of 2019. However, under GAAP accounting rules, we would require us to record an additional $1.86 million in tax expenses related to this onetime fixed asset deduction.

Excluding the impact from this accounting treatment, our GAAP net income for the quarter would have been $22 million. Earnings per basic ADS was $1.45 in the fourth quarter of 2019 compared to $0.37 in the third quarter of 2019.

Non-GAAP adjusted net income, which excludes noncash expenses related to share-based compensation, was $24.5 million in the fourth quarter of 2019 compared to $9.5 million in the third quarter of 2019. Non-GAAP adjusted basic EPS was $1.77 in the fourth quarter of 2019 compared to $0.69 in the third quarter of 2019.

EBITDA from continuing operations was $45.4 million compared to $19.7 million in the third quarter of 2019. EBITDA margin was 38.2% compared to 23.5% in the third quarter of 2019.

Now on the company's financial condition. As of December 31, 2019, the company had $114.4 million in cash and cash equivalents and restricted cash compared to $68.2 million as of September 30, 2019. As of December 31, 2019, the notes receivable balance was $5.6 million compared to $4.3 million as of September 30, 2019.

As of December 31, 2019, total bank borrowings were $280.1 million, of which $151.5 million were long-term borrowings compared to total borrowings of $248.8 million including $163.5 million of long-term borrowings as of September 30, 2019.

For the 12 months ended December 31, 2019, net cash provided by operating activities was $181 million compared to $95.6 million in the same period of 2018.

For the 12 months ended December 31, 2019, net cash used in investing activities was $261.8 million compared to $164.7 million in the same period of 2018. The net cash used in investing activities in 2019 and 2018 was primarily related to the capital expenditures on our Xinjiang Phase 3B and Phase 4A polysilicon projects.

For the 12 months ended December 31, 2019, net cash provided by financing activities was $102.3 million compared to net cash used in financing activities of $86.7 million in the same period of 2018.

That concludes our formal remarks. Operator, let's begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Philip Shen of Roth Capital Partners.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Congratulations on the strong execution. In your prepared remarks, you mentioned that pricing has improved each month this quarter. I was wondering if you could talk through how much things have improved, perhaps how -- what your expected ASP might be for Q1. And then what your expectations are for pricing for you specifically as we get through the year by quarter.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay, Philip. I think for the ASP in Q4, our ASP is around $8.77. I think, excluding the foreign exchange rate change, we see that January the ASP is a little deeper down and February dramatically increased 3% to 4%. Then March right now, the price is still not determined. But we believe we're in, I think, stable, maybe same as February. So we think the ASP for Q1 were slightly high or same as Q4 last year.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

And then as we get through 2020, how do you think about the ASP for Q2 and Q3?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay. I think, as I said, I think the supply side, I don't think any more new capacity will come in, in the meantime because of the selling price ASP is so lower. And a lot of -- you see our competitors, including the Chinese producer or even some foreign producer, they maybe shut down their capacity or factory. So we see the supply side is not to continue to increase.

On the demand side, I think for -- even though the coronavirus epidemic maybe will affect the demand side globally, but we believe, I think, the wafer capacity expansion in China is very quickly, also so big. And so I can tell you, Shen, right now, the downstream from wafer cell module, almost right now, 100% come back today.

So what I say is maybe I think at the price we will see slightly come back in Q2. But definitely in Q3, the price will come back, I think, maybe around 5% to 8%. Overall, this year, I think the ASP maybe will be around like what I think is $9 -- around $9.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Shifting to your cost structure, perhaps we could go through the same process for how you expect your cost structure to trend, I think you mentioned Q1 cost structure all-in is about $6.10 per kilogram. What do you see for Q2 and then Q3, maybe the average for the year?

Ming Yang - *Daqo New Energy Corp. - CFO*

Okay, so in terms of our cost, I think we're showing very good trends in economies of scale for our manufacturing, especially in energy reduction and also in, for example, labor cost savings, as we discussed. So for Q1, we are seeing costs about $6.10. I think for Q2, it could probably go down slightly lower too as well, probably in the $6 range. And currently, as of today, we think the second half could also be in the $6 range. So probably on average around $6 for this year.

That's our cost target.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Okay, great, Ming. Can you talk about what you need to see for Phase 4B? What -- I know that there's some uncertainty now with coronavirus outside of China and what that might do to demand even though the supply situation seems very healthy in China. So what do you -- what needs to be lined up for you guys to make the decision to do the expansion of 4B? And when do you think the timing of that decision could be?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay. Philip, I think, first of all, we still want to optimize our 4A production capacity running and to improve our balance sheet. So far, we haven't made any decision on when we're going to start a 4B. But definitely, I think we will reconsider maybe second half of this year.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

That's helpful, again. And one last one, and I'll pass it on. As it relates to the production or the -- sorry, the shipments that you expect for 2020 given all the contracts that you have, what percentage of the 2020 shipments have you already booked?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

I think, basically, right now, our long-term contracts right now, we already booked I think 72%. But we still have 3 customer right now, talking to us and wanting to sign the long-term contracts. So -- actually, all capacity right now is limited, yes.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

So if those 3 sign up, what is the timing of when those 3 could sign up? And also incrementally, how much of that remaining 28% capacity or shipments could be...

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Well, maybe -- we maybe didn't have the capacity to sign those rest of -- right now, the major 3 clients, I'm not going named, but one of them also is bigger. So we maybe just sign one or 2 out of those 3. So basically, we maybe signed around like 80% to 90% of capacity, whole capacity, still leave 10% for the market, sorry the clients.

Philip Shen - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Right. You want to have some exposure to the spot market.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Yes.

Operator

The next question comes from Gary Zhou of Crédit Suisse.

Gary Zhou - *Crédit Suisse AG, Research Division - Research Analyst*

Gary from Credit Suisse. I have 2 questions. So firstly, as mentioned and as I mentioned that this year, we may see a lot of capacity expansion from your downstream wafer customers. So do you think, let's say, by the end of this year, the poly industry would still have enough mono-grade poly to be supplied to those mono-wafer producers?

And secondly, regarding your -- just further cost reduction in first quarter this year, so I just want if the management can elaborate a little bit more, is it from lower energy cost or any other reasons?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay. Gary, thank you. I think for the first question, basically, if you look at China, last year, total silicon consumption on the poly side, I think, solar segment is around 460,000 tonnes, of which, I think, 140,000 tonnes is import from abroad, major from OCI and Wacker.

I think this year, I think the import, frankly speaking, import polysilicon maybe will be reduced dramatically. Then also, if you look at China, I think the major supply, we already see, I think, a top maybe 5 major supply, one is Daqo, one is TBEA, then Tongwei, then perhaps I think Chongqing and also New Hope.

So basically, the supply is there. Then also, your question is -- because we also see a lot of, I think, right now, the wafer capacity expansion declare the investment is around we already calculation, maybe right now, based on announcements by the end of this year, I think the mono-wafer capacity, maybe around reach to 150 gigawatts.

But whether they really can be their capacity, okay, achieved or not, we don't know. But temporary, in Q3, Q4, momentarily, I think the supply, maybe we should supply, supply compared with demand. So that's always a market mechanism.

If let's say, the demand is larger than supply, then the price go up, maybe some small producers will continue to come back. So it all depends on, I think, the demand and supply. But I believe, I think, in today, the situation, I think the ASP maybe will bounce back to $10 or even, let's say, $11. I don't think it will be above further.

So for this year, definitely, I think, Q3, Q4, the polysilicon price maybe come back. Second question is about our Q1 cost will continue to go down maybe to $6, around $6. I think a major thing, if you look at our Q4 is around $6.38. But only, I think, 1.5 months of full capacity running. So basically, I think Q1, we were full capacity running. I think scalability of the economics will be fully achieved. That's the first.

Secondly is also that we maximize our economics of scale. So that also will reduce a lot of variable cost per unit. The most important for 4A, 4A capacity running because the efficiency is thoroughly increased compared to all the existing production lines. For example, the consumed -- the

electricity, the utilities will go down. Then also the conversion ratio also is go down. So all these will improve and help us, I think, to achieve the targets. Gary, did that answer your question?

Gary Zhou - *Crédit Suisse AG, Research Division - Research Analyst*

Yes -- no, no, no that's very helpful.

Operator

The next question comes from Alan Wang of CICC.

Yang Wang;CICC;Analyst

We got one question on coronavirus impact and another one on capacity expansion. For the impact, as we know, the logistics maybe affected by some common control. So how is the inventory level of our company. And how do you think about the supply chain constraint of silicon products? Will the higher price of silicon products impact our cost level in this quarter? And then the second question, as you mentioned, maybe the company is considering about 4B project now. And maybe after 4B, which part do you think in China may provide lower electricity price for future polysilicon expansion? Maybe can share some ideas on this.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay, Alan Yang, thank you from CICC. I think first your question, I think, during this, I think, epidemic, I think the tough time basically we already passed. I think, in late January, it's very tough because the government put a lot of restrictions on the shipments. And the employee return back is not only for our company but also for a lot of shipping companies. So basically, you cannot find shipping facilities. Then also a lot of supply company now come back to work. They're not like chemical company.

So basically, we got a lot of challenge. But we -- the good thing is before Chinese New Year where inventory, I think, at least, I think, 20 to 25 days raw materials. For example, like MGSi, we inventory almost 20 days. So basically, then, I think good thing is we signed the long-term contract with at least 3 suppliers for each raw -- the major raw materials.

For example, MGSi, so we're working with [LONGi], that's one of Asia companies. So they are also located in Shihezi, local city. So they added 4 new production line, special for us, to provide every day around 210, I think, MGSi powder to supply us. Then also like the package, we -- one by one, we solved those issues. So basically, right now, today, almost right now, I think that's still governments now announced the news, asking for all the manufacturing, the company, they come back to work.

So basically, right now, I think everything is smooth. We already see a lot of supply come back. So I don't think in China, if you can see the cases we find right now every day, daily increase actually is lower. So in China, the situation actually is really, I think, improved.

I'm more worried about maybe in the future, the global situation maybe will hurt on the demand side. So I think from now, I don't think the coronavirus will be affecting too much our industry, maybe will affect some the downstream, like wafer cell module production capacity, but it's not too much. You can see LONGi announcements. I think that's the first question.

Second question to you, is about the 4B. I think I answered that, I think, to Gary. Basically, right now, we want to forecast our 4A, optimization of 4A capacity, we currently will not consider 4B. Of course, we already see, I think, one of our competitors, I think, expansion, 35,000 tonnes in Xinjiang province.

I think a major thing is to a new expansion on the polysilicon segments, one is the quality. We have advanced technology to keep, I think, high-quality products. Secondly is you have to run at lower cost. Of course, the energy is one of the key factors. So what I believe is, today, maybe only if you're not to sell I think it generate the power. I think today, maybe 2 area, one is Mongolia, one is Xinjiang is maybe a good place to continue to invest.

Secondly, that we also need an IR globally because not only China, but also globally, we think still have some places maybe can have lower utility price in the city for us. So we always keep an eye looking on that. For us, our strategy because we think our strong experts still on the polysilicon side. So we still think in the future, we will do still 4B. The only thing that when we're going to do, I think the most important is the place where we're going to select.

Operator

The next question comes from Alan Hon of JP Morgan.

W. L. Hon - *JP Morgan Chase & Co, Research Division - VP*

It's Alan from JP Morgan, and congratulations on excellent operation in fourth quarter. I have 2 questions. The first question is regarding our potential CapEx trend for this year, assuming we are not doing 4B yet, how much residual CapEx from 4A would be kind of focused in 2020? And also, at what point would management think about dividend, I mean, and stuff like that? And the second question I have is I want to ask management about like generally speaking, I mean, I know Daqo has an excellent record in achieving high mono-grade product. What about the other competitors in China? Are they at a similar level as Daqo? So these 2 are my questions.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

I think you want answer the question.

Ming Yang - *Daqo New Energy Corp. - CFO*

Yes, Alan. Thank you for your question. So regarding our plan for CapEx. So our total CapEx for this year is currently planned for approximately $100 million to $120 million and about $80 million to $90 million will be used for the remaining payments of our Phase 4A capacity expansion based on our payment plan and payment schedule. And then about $15 million is in the new R&D projects, which should help our manufacturing efficiency and also improve quality. And then about $10 million to $15 million is regular maintenance CapEx. That's the overall CapEx plan.

And then in terms of dividends or possibly share repurchased by the company. So this is something that we would look into, most likely in the second half of this year when we expect our cash flow and cash balance to improve materially compared to what it is today.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

For your second question about the product's quality, we believe, I think Daqo is the first one to produce anti-silicon, I think, approved by SunPower, then also right now approved by the major producer right now, LONGi, Jinko, I think other company. So if you look at our quality, we right now -- Q4 because of ramping up of 4A, so our monosilicon percentage is 81%. But we think first quarter, we will reach 90%. I think you can do -- I'm not going to comment on the other company, how much percentage is their mono capacity. It all depends on right now, also the downstream the wafer producer. Some wafer producer maybe buy our silicon then combine with other people's silicon. So basically, we definitely can be 100% replace the import polysilicon, and as the #1, I think the best silicon in China among the Chinese producers.

Operator

The next question comes from Colin Yang of Daiwa.

Colin Yang - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

Thank You, Mr. Zhang, Mr. Yang, it's Colin from Daiwa Securities. I got a few questions regarding our operations. So the first one will go for our -- the fourth quarter external shares, of course [13,200 tonnes] and our production was about [16,200 tonnes]. So the sale rate was only be around like 82%, which is much lower than the average of the first 3 quarters, which is all above 95%. So what is -- why is drop like over 10 to 15 percentage points?

The second question is regarding our average selling price. Based on my calculation, our -- the full year 2019 average selling price like around 9.1, 9.2 and it applies for like over 30% year-on-year drop. And as you can see, the market price for the mono-grade polysilicon was only dropped by like 9%, for multigrade polysilicon dropped by 27%. So my question is why our year-on-year drop on ASP is much more close to the multigrade market price drop because our mono-grade portion is like already over 80%?

Ming Yang - *Daqo New Energy Corp. - CFO*

Okay. Colin, thank you for your questions. So regarding our external sales volume relative to our production volume. So if you look at our production capacity or volume -- daily volume at the end of the third quarter, so as of September 30 was about 9,000 tonnes per quarter, right? And then at the end of December, with our full month December production, we're at, if you look at our current number, 19,000 -- 18,000 to 19,000 metric tons per quarter, right? So our production on a daily basis pretty much practically doubled, right?

So at the same time when you look at -- assuming the same numbers of days in inventory for finished goods and in terms of shipments in transit, so this would necessitate a doubling of finished goods inventory in that period. So the difference in -- or the difference in the sales volume that you're seeing in Q4 is reflective of what happened when you have such a significant jump in production volume in a short time period.

I think this -- actually, I would say, generally, it would be very abnormal for any other manufacturing company, okay? So that's the bulk of the impact. And then a smaller impact was from the polysilicon utilized for the production of silicon seed rod, right? So for example, in the third quarter and earlier, we were -- we would only need about half the amount of what we needed today based on capacity. And then in planning for the -- our production capacity increase, we actually think that it takes about a month or more, maybe up to 6 weeks to plan and produce silicon seed rod that we would need to be used. So we actually had to utilize more silicon -- polysilicon for the production of silicon seed rod during Q4 than the normal amount that we'd normally require. So the combination of these -- both of these effects is what caused the difference.

But if you move forward to Q1, right now, our production levels between end of 2019 versus end of Q1 2020 is very much similar, right? So then you're no longer seeing that difference in sales volume versus production volume. So that's basically the reason.

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Also, I think the second question for the ASP, right? I think for the ASP, should there be -- on the use of allowance, we say 81% is monosilicon, we say the production, the output, with total Q4 we manufacturing 13,148 tonnes. But for the sales side, we recognize the revenue. We're selling a total of 11,780 tonnes -- on the total -- no, I'm sorry. On the production side, total is 16,204 tonnes -- of 16,204 tonnes, of which 81% is monosilicon. That's the 13,147. But on the revenue recognized selling side is 13,291 tonnes, of which the monosilicon is 11,780 tonnes is around 89% on a revenue recognized side. And for the multi-silicon, it's priced at 11%. So the ASP is $8.77, excluding the adding value tax. So for the mono, ASP is around $8.99, for the multi-silicon is running like a $7.10.

Colin Yang - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

So my next question will be around our production cost. As you mentioned, we expected the full year production will be lower to $6 per kilogram, which is very, very low because it's going to be like 42 or 43 basically the lowest in China. So if we assume the power tariff recession [by the governments, the manufacturing that may either point at you], so would you mind elaborate more details about how can we achieve around 15% year-on-year drop to $6 production cost?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

I think that basically, the production cost of goods sold, I think, continue to go down, is favorable from the 4A project, the 4A capacity running, because of -- we reached the -- in Q1, we reached full capacity running to reach the scalability of economics. So I think a lot of cost per kg -- per unit, where we continue to go down. For example, like labor, without 4A, our people is around 1,200 people. But right now, with 4A, we're only 18 -- I think, 1,800 people, we just added 600 people.

Then also, you see the 4A, the new capacity, the efficiency is higher. For example, per kg consumption of the utility, the power also is lower. It's around like 63 to 65 kWh. But compared with existing plants, it's around like 68 kWh. So all these will help. Of course, because of we -- I think full capacity running the 4A, and we have attracted I think a power price from the -- based on the investment agreements with local, I think, the supplier electrical -- supplier companies. So I think all these act together, basically, one is the efficiency, one is the scalability. Then also the energy side, the price. I think this will help us to continue to improve our cost.

Colin Yang - *Daiwa Securities Co. Ltd., Research Division - Research Analyst*

Mr. Zhang, my last question, as you mentioned in the PPT slide, we expect 2020 China installation to be around 40 gigawatts, globally 140 gigawatts. So as you can see, the ongoing outbreak which is especially out of China is -- we don't know will it be out of control or not. So do you think there's going to be any downward revision because -- to lower our global installation target to below 140 gigawatts?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

I think for the whole industry, if you're talking about the final product, the module, I think China definitely will be -- I'm very though in optimism. That really is because for 2019, we still have like legacy projects, now 15 gigawatts plus the government right now is already starting to, I think, subsidize CNY 1.5 billion. I think scheduling to doing there. As you can see that the CNY 1 billion project is around 20 gigawatts and another CNY 0.5 billion is for the residential distributed in our products, 5 to 7 gigawatts. So basically, I think, for the module side, China, definitely, I think will reach 40 gigawatts, even let's say, you conservative to -- reduce to 75 gigawatts.

But also, let's say, for globally, because so lower module price today, for example, the module per watt right now selling globally right now, only like $0.20 but the U.S., because of tariffs may be selling $0.45, $0.48. But we see a lot it -- you see, about right now, about 1 gigawatt this year, maybe more than 15 countries. So I think because of -- to reaching grid parity such a lower, I think, a cost, I think, definitely, the global market demand is hot.

Of course, I think the global market maybe will be affected by the coronavirus epidemic to slow down a little. But I don't think that will be affect too much. That's first. Secondly, to us, we manufacture polysilicon, major clients -- our major clients is the wafer. So basically, if you look at today, China, the wafer capacity expansion is all online right now is a lot. I just mentioned that by the end of this year that we were only just as a wafer -- a mono-wafer capacity may be which to, I think, around 150 gigawatts.

So for this year, I'd say, in the short term, I think the demand for polysilicon is already light in there.

I don't think then there is a module, demand and supply maybe should a period in the factory be. But demand for polysilicon is strong.

Then the supply side, I don't think any much there. But on the cost, I think maybe other company right now will invest money and continuous expansion on the polysilicon side. But polysilicon is chemical in that rate. You have -- you need to put a lot of capital into it. Then the construction period, at least take 1 year.

So I think maybe by the middle of next year, maybe some new capacity will come in. So to me, I think, within 1.5 year, definitely the polysilicon price will slightly go up. But I do not hope the polysilicon price go back to more than, let's say, $12 per kg. That will be, I think, maybe stimulate some -- it's already closed down old capacity come back. So basically, to me, I'm very optimism on the price of the polysilicon, especially for the mono-quality polysilicon for this year.

Operator

The next question comes from Min Zhou of AllianceBernstein.

Min Zhou;AllianceBernstein;Analyst

This is Min Zhou from AllianceBernstein. So I have 3 questions. The first one is a very quick follow up on the point that you made that 90% of your order is already prebooked by the customer, and 10% is living to the spot price. And my question is for the 90%, the price has already been set or is also based on the, like, real-time market price. So that's the first one follow up. And the second one, I want to hear from your perspective about the supply side, as you have mentioned, that the overseas competitors there are accelerating the capacity exit. And we have seen like Korean makers, OCI and Hanwha, they have already announced that. And how about Wacker? And do you foresee them to like exit the market anytime soon? Or do you think they still need to wait and see? So this is number two. And number 3 is on your cost side. So can you give us some updates about the electricity cost arrangement with the local government and also with the local power suppliers?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay. I think for -- Min, for your first question, I think maybe you some misleading. We say we already signed long-term contract. Today is around 72% for this year. But we also have available a potential rate negotiation 3 clients, maybe we select one of them or 2 of them. So we will -- maybe we're assigned to 90% our full capacity, okay? Because also long-term contracts, not only this year, maybe next year, so also extending to next year. So we will leave 10% cushion there. So that's the first -- answer your first question. Second question about the supply side, yes, because of the ASP continue go down, and a lot of producers, both China and abroad, today, basically, if the production line, I think, a small production line capacity, a small capacity line today, the cost is higher. It's not efficiency plus it's actually the utility price. So basically, even China, last year, maybe around 25 polysilicon producer is there. They're now only maybe 13, but the major only 5 now producer is existing there.

So I'm not commenting about other companies, OCI already declared, I think they were shut down the Korea plants. But I'm not going to comment on Wacker because Wacker is a good company. It's very -- it's a very wonderful company. They have diversified business and definitely the major technology and the focus on the semiconductor. And for the solar silicon, I don't think -- maybe up to today, I don't think they have too much advantage on the cost and also the quantity side.

But I'm not going to forecast whether they're going to shut down or not, I don't know. I think for the third question, basically, on the cost side, as just I've been -- I think mentioned there, we signed a contract with local, I think, a Korean supplier, which is confidential. But if you want to know exactly price -- the utility price, you can see our announcements I think filing with the SEC, you can find out.

I'm not going have to say that in the conference. But definitely, I think the utility with our big investments and contribution, the tax employee to the local city. And definitely, I think, as a local grid supply -- power supply, gave us a very attractive, I think, the power price.

Operator

The next question comes from Robin Xiao of CMBI.

Robin Xiao;CMBI;Analyst

I have 2 questions. The first one is regarding the mono-grade polysilicon supply. So given that the Korean player is exiting this market, so where do you see the overall supply volume of mono-grade product in China? And given if the price would bounce at a very quick speed, say, for example, like Q3 it bounce back to $11 per kg, so do you think that Korean player will return to this business?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

I think Robin to answer your question, first, a question about the monosilicon, the -- I think of the quality. Basically, the most important silicon -- important polysilicon from abroad, major from OCI, Wacker in history majority of the, I think, 80% to 90% is the mono, I think used to mono-wafer manufacturing, okay? In China, I think I'm not -- I think, top 5, maybe the monosilicon percentage, around 60% to 90%, maybe New Hope is little lower. But anyway, I think still is a technology, know-how, the quality. Some company, maybe they can -- they still can increase the capacity of mono-polysilicon, but they cost a lot.

They need to consume more power. So basically, you have to, at a lower cost, produce the high-quality products. So I think that's very competitive. I think then for -- to answer your question, this year, if you look at the whole demand, I think the end product, the module, let's say, 140 gigawatts, so that's maybe around I think for the mono side -- I think mono may be more than 90%. So what I think for the monosilicon, maybe need at least 350,000 tonnes to maybe, I think, 380,000 tonnes there. Then between the monosilicon and multi-silicon, actually sometimes is low. The reason is because some company maybe -- will use our high good quality, I think monosilicon than mainly a small portion of multi-silicon, okay? We don't know the downstream, okay? So basically, what I think the demand is there, is around like 350,000 to 400,000 tonnes of monosilicon.

If you consider right now, if the OCI only Malaysia plants, 20,000 tonnes there, and I cannot project right now at such a price, $8.77, how much Wacker will supply. And definitely, I don't know.

But I think the demand and supply is there, okay? To answer your second question, whether the silicon prices were back to $11, I don't think so. The reason because I don't want do that. I think maybe momentarily, we go to $11, $12, but I still think that the price can little stable between, I think, $9 to -- $9.50 to $10.50. I think that's reasonable, I think, for the industry to healthy and encourage the industry to put more on the -- put more money into the improved technology, improve the quality, continue to expansion to meet the demand side.

So basically, I don't think even let's say back at $11, $12, some company will come back. Definitely, for the small capacity production line, definitely will shut down for longer -- forever. So only since this maybe encourage you, some company maybe to speed up expansion, okay. So that's why we also were to certain time in the second half of this year, we will weigh all the facts when and where we're going to invest in expansion to 4B. Thank you, Robin.

Robin Xiao;CMBI;Analyst

I still have one more question regarding about the pricing spread between mono and multigrade product. So where do you see the spread will enlarge further in 2020? And in the long run, if there is limited demand for multigrade product, so would that be a cost instead of product sales to your business?

Longgen Zhang - *Daqo New Energy Corp. - CEO & Director*

Okay. First of all, even like us, we, today -- Q1, maybe around 90% is mono. We still have some products as multi, okay? If you want to reach the 100% mono, your cost is a lot. It's not cost-effective. Let's say, even Wacker and higher with the most advanced technology, but they also have the

multi-silicon produced, okay? First, to answer you that question. Then as the industry continues to shift to mono, I think module, yes, definitely, I think, still like around 90% is mono. Still have 10% -- at least 10% on the multi side. That's why because the multi-silicon still -- supply is still there, the price is lower, such lower is around like $7, it's mostly a $2 difference there.

So maybe the lower cost, even though it's not efficiency, but still have the market there. The niche market, for example, the rooftop, okay? So basically, I'd say, you cannot emulate all the multi-silicon -- the multi-poly module market. So you still have to have some products still there. The only thing is if, let's say, like us, if you -- the monosilicon percentage, okay, if below, let's say, 60%, then if you look right now, the price difference is there. The ASP will dramatically go down. So how can you profit, right. So your gross margin will be terrible. So you is not competitive in the industry.

So if you -- in the top, you have to, I think, keep the higher percentage of mono-polysilicon at, I think, a reasonable cost-effective, lower cost level. Robin, does that answer your question?

Robin Xiao;CMBI;Analyst

Yes.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Kevin He for any closing remarks.

Kevin He - *Daqo New Energy Corp. - Head of IR*

Well, thank you, everyone, again for participating in today's conference call. Should you have any further quick questions, please don't hesitate to contact us. Thank you, and bye-bye.

Operator

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