BizLink 1Q 2024 Earnings Conference Call

1Q24 Prepared Remarks – May 14, 2024

These prepared remarks should be viewed solely in conjunction with the related quarter's conference call's IR materials, which can be found here. The audio replay of the call includes the prepared remarks as well as a question-and-answer session.

CORPORATE PARTICIPANTS

Roger Liang – *Chairman*

Felix Teng – *CEO*

Charles Tsai – *CFO*

Moderator: **Mike Wang** – *IR Manager*

OPENING REMARKS

Mike Wang – *IR Manager*

Good afternoon, everyone. Welcome to BizLink's First Quarter 2024 Earnings Conference Call. This is Mike Wang, Investor Relations Manager. I am joined by Roger Liang, our Chairman, Felix Teng, our CEO, and Charles Tsai, our CFO. The Company's results were just released and are available on our Investor Relations website, where you can download the latest earnings release materials, as well as access them from MOPS. This one-hour call will start with Roger providing the corporate highlights before switching to Charles to share our latest financials, and then end with Felix giving our operational highlights. I will then open the floor for participant's Q&A.

Before we continue, please kindly be reminded that today's discussions may contain qualitative forward-looking statements based on our current expectations, which are subject to significant risks and uncertainties, and may cause actual results to differ materially from those contained in these qualitative forward-looking statements. We are not obligated to update these statements, which are to be used for information purposes only. We will not provide any quantitative forward-looking comments. Please refer to the Safe Harbor notice in our Earnings Deck for more details. Finally, I would like to remind everyone that today's call is being recorded, and it is intended only for institutional investors and sell-side analysts. The recording of this call and this Prepared Remarks will be uploaded onto our IR website within 24 hours after the conclusion of this call. We sincerely appreciate Fubon Securities for hosting today's call.

With that, I will turn the call over to our Chairman, Roger.

SECTION I. CORPORATE HIGHLIGHTS

Roger Liang – *Chairman*

Thank you, Mike.

Bigger Picture View

BizLink continues to move forward with an increasingly solid financial and operational foundation, despite the world moving toward greater economic, social, demographic, and political uncertainty. We are no longer the same BizLink that many of you remember. We are now a truly global interconnect supplier, with our largest exposure in Industrial, accounting for over 40% of total sales these past two years compared to under 20% in the three years prior. This structural shift exemplifies our successful diversification efforts, which have made us more agile and allowed us to reduce the negative impact of any single source of weakness. It also enables us to seize emerging opportunities and deepen customer relationships by providing them with leading-edge solutions.

We successfully addressed many legacy challenges through intensive productivity and efficiency initiatives while designing and producing new, high-value solution sets that align with market demands. A few of these innovative products are already in use, and many more will be integrated into customer offerings this year and next. Our first-quarter 2024 margins are starting to reflect these characteristics, and these improvements will continue despite our currently reduced scale. Our renewed focus on value-add and efficiency will eventually be reflected in our long-term performance.

Maintaining operational resilience across various businesses and regions ensures customers do not miss any sales opportunities. This is vital to building long-term trust, and we have demonstrated this many times over the past few years. Tighter cash control and management have further bolstered our financial strength. Customers have expressed concerns about geopolitical risks, and they look to us to mitigate these impacts while reducing costs. By providing peace of mind, we continue to win new and exciting projects, raising our role as a second source with new customers or growing our share of order allocations.

Looking Forward

We continue to view that the worst is behind us as the rolling slowdowns and destocking in Industrial, IT DataComm, and Electrical Appliance are nearing an end. Moving into the next growth phase, as evidenced by the quarter-on-quarter increase in NTD sales and profits for the first quarter of 2024, we are seeing a healthier rate of expansion and are aligned with ongoing market dynamics. Our higher proposed dividend payout for last year's earnings demonstrates our confidence in a gradual improvement in near-term performance.

We are proactively preparing for the next upcycle and recognize that the road ahead may be volatile and uneven, but progress remains achievable. Clear, long-term trends like digitalization, electrification, and corporate responsibility continue to shape the market landscape. Our exposure to these trends provides significant opportunities as automation, artificial intelligence, and cloud-based management reshape entire industries. Electrification requires robust infrastructure to meet the demands of data- and power-hungry ecosystems, which aligns with global supply chain reshuffling. BizLink is well positioned to support these transitions.

Our global footprint helps to reduce logistics related emissions, especially in emerging economies, which have been a stable to growing revenue contributor over the past year as Charles will later highlight. Many of our solutions go into end-products that promote a greener future. Some of our solutions are environmentally friendly, including being halogen free and/or using plant-based raw materials for the outer jacket of our cable solutions. These areas are growing year-on-year each year and are slowly taking up more of total sales. They are an important area for product and market development.

We recently joined the United Nations Global Compact effort as a member. We are collecting scope 3 emissions data with disclosure targeted for our 2024 CSR report. We joined the Science-Based Targets initiative last year, and we are now in the target validation procedure stage. We will soon be releasing our seventh annual 2023 CSR report and will update the Investor Relations ESG summary shortly thereafter. Finally, we have been ramping up our efforts in internal training and corporate communications, and we will soon be sharing our proud milestone in refining our corporate culture, examples for which can be found on LinkedIn as well as on YouTube.

Our consistently positive free cash flow, with the first quarter of 2024 being the sixth straight quarter, will fuel these ambitions. As Charles shares our latest quarterly financials next, we are showing that BizLink is focused on maintaining its strong cash position, maximizing operational efficiency, and rewarding stakeholders with consistent long-term returns. We aim to stay free cash flow positive in the foreseeable future, ensuring our ability to invest in opportunities and maintain a sustainable growth trajectory.

SECTION II. FINANCIAL HIGHLIGHTS

Charles Tsai – *CFO*

Thank you, Roger.

1Q 2024 Results

Our first quarter 2024 NTD sales recovered on a quarter-on-quarter basis, rising 2%, but was still down 2% year-on-year. Sales were below budget but better than our typical first quarter seasonality of a single digit quarter-on-quarter decline. Gross margins recovered to 26.34%, returning to back above 26%, which we view as being at relatively normal levels. This is despite our lower scale given our improving segment mix, our productivity and efficiency initiatives, and inventory write-backs. Operating expenses to sales ratio stayed high at 17.48% given seasonality and as operating expenses marginally rose 2% quarter-on-quarter and 3% year-on-year. However, they were still at the low NTD2.0B level that we have seen over the prior eight quarters. Operating margins improved to 8.86%, remaining below 10% as our scale needs to further improve before we see double-digit operating margins again.

Non-operating items were moderately up quarter-on-quarter mainly due to ECB valuation losses while we saw some modest gains from bank interest income due our active cash management. Finance costs were marginally down quarter-on-quarter and year-on-year and is the lowest it has been since 2022 as we continued to de-leverage. We will pay back more debt in the next three quarters to get our liabilities to assets ratio back to historical levels by the end of this year. Our tax rate was 37.73% given seasonality and given that we repatriated overseas profits, which added 460 basis points to our tax rate, resulting in a deduction of NTD0.26 to our EPS. We will repatriate some more in the coming quarters. This will help to lower open foreign exchange positions, resulting in lower hedging costs and lower earnings volatility from currency fluctuations. Net profits improved 14% quarter-on-quarter, but remained below one-year ago levels, falling 8%. Our EPS was NTD3.56, which was up 14% quarter-on-quarter but was down 10% year-on-year.

Briefly going into our balance sheet and cash flow statements last, both of which further improved despite well-headlined macro challenges, and sharing some top-level perspectives, our cash conversion cycle considerably improved quarter-on-quarter as did our return on invested capital, showing that our intrinsic value potential is currently being under-estimated. Operating cash flow dropped quarter-on-quarter as we began to prepare our working capital for better times ahead, which we alluded to last quarter.

Our cash balance reached new highs, and we are gradually deploying it to strategically grow our overall business as well as to reward our stakeholders. Our proposed cash dividend payout ratio is set to rise from 40% in 2022 to 63% in 2023. This proposed payout ratio, representing a dividend yield of nearly 4% versus recent share prices, is more in-line with our multi-year average of 65%, excluding 2022's level, and it can be fully supported with our persistently positive free cash flow.

Our raw materials have been on a general downtrend since the second quarter of 2022 as we reigned in our procurement, and slowly digested our inventories mixed with an optimal production utilization with both work-in-progress and finished goods falling during this time. We spent under a third of our 2024 capex budget during the recent quarter given the continued buildout of our two new facilities, one in Tainan and one in Batam, which will be done in the coming months, some spend in Xiamen, and to strategically grow select areas of our business.

Segment Sales

For the first quarter of 2024, Industrial sales accounted for 41% of total, while Electrical Appliance, Auto, and IT DataComm were 15%, 23%, and 20%, respectively. Industrial, EA, and Auto sales ended up being slightly better than expected on a quarter-on-quarter basis, but only EA is up on a year-on-year basis.

Looking at Industrial first, sales increased 2% quarter-on-quarter but decreased 6% year-on-year. Energy storage was flat quarter-on-quarter as was Capital Equipment, Healthcare fell 1% while Factory Automation fell 2%, and Tailor-Made Products was up 28% quarter-on-quarter. IT DataComm sales increased 4% quarter-on-quarter but decreased 6% year-on-year. HPC fell 9% quarter-on-quarter as data cable solutions fell while power connector solutions were flat after growing 5% quarter-on-quarter last quarter and power cable solutions grew 34% quarter-on-quarter after already growing 16% quarter-on-quarter last quarter. Peripherals fell 8% quarter-on-quarter with docking down 7% quarter-on-quarter and dongles down 12% quarter-on-quarter.

Moving onto Auto next, sales increased 1% quarter-on-quarter but decreased 16% year-on-year. EV and related were down 7% quarter-on-quarter while Silicone was up 11% quarter-on-quarter. Finally, Electrical Appliance was up 15% quarter-on-quarter and is up 9% year-on-year, which is in-line with the sales growth reported by publicly listed companies within this space, showing no loss in relative market share. Systems rose over 30% quarter-on-quarter while Power Cords were up by over 20% quarter-on-quarter.

Year-on-year-wise, Industrial sales looks to have bottomed, and we may soon see sales become positive. It will be driven by growth in Capital Equipment, Healthcare, and Energy and by a bottoming out in Factory Automation. IT DataComm sales are moving in the right direction, and there is a good chance that sales here will also become positive going forward, driven by HPC outgrowing a stabilization in Peripherals, where we have been slowly writing-back some finished goods inventory over the past few months. Auto trended lower and may be the only one that will fall this year. We stay conservative on this business given recent developments and headlines in the Auto space, and we do not expect to see a recovery this year. Silicone is the key highlight. Finally, EA is moving in the right direction as well albeit the trajectory of the recovery has been uneven thus far.

Looking at our sales in our four key regions next, sales in Europe were up quarter-on-quarter mainly due to Industrial and to a lesser extent EA. Sales in Southeast Asia were up quarter-on-quarter mainly due to Industrial, and were also boosted by reshoring trends within IT DataComm. In addition, quarter-on-quarter sales growth in Southeast Asia outpaced those of our other regions given continued growth in emerging markets' demand and in our overall exposure there. Sales in the US were up quarter-on-quarter mainly due to Auto, and were also boosted by reshoring trends in Industrial. Sales in China continued to decline quarter-on-quarter, but the pace of declines stayed similar to the prior two quarters despite the negative impacts from reshoring trends. Our global footprint and structural shift towards higher value-added areas helped to reduce the impacts from the rolling slowdowns post the COVID-19 over-heating of our growth as well as successfully managing through external risks, including supply chain disruptions and shortages.

Bigger Picture

Our management efficiency, favorable market position, and competitive advantages are slowly flowing through to our performance. Despite our quarterly sales being lower by roughly NTD1.0B than the three highs we saw in the past two years when we experienced gross margins over 26%, we still achieved a gross margin of 26.34%. Our product mix may become more favorable than last year's given the drivers that we see this year, which Felix will go over next. This will help to boost our profits as our sales growth picks up, cost controls persist, and as we further de-leverage. Tax issues will take longer to resolve to realize more of our sales as profits, but we anticipate gradual improvements here from as early as late this year.

Continued high levels of positive free cash flow, which has averaged well over NTD1.0B per quarter in the past six quarters, and active cash management meant being able to weather last year's downturn and to return to growth from the first quarter of 2024 onwards as well as getting back to preserving a stable to growing long-term cash dividend policy. We are gradually shifting gears from prioritizing de-leveraging and capex spending to building a strong cash balance for future suitable strategic opportunities, including engaging in tuck-in M&A's along our previously defined 3C's (capability, customer, capacity) and new product and/or market developments as well as enhancing long-term stakeholder value.

We are also actively looking at ways to disclose more meaningfully details about BizLink to investors and analysts through our Investor Relations team given the complexity of our business, which we chose to initially do through our quarterly results call and earnings material for over two years now. Our IR team started to go back on the road late last year, visiting New York in September, and we anticipate planning more overseas activities in the quarters to come, including potentially having site visits and arranging sessions during our exhibits for investors and analysts, which we have not done for some time now. We hope to increase the capital markets' understanding of BizLink's operations, strategies, and market opportunities so that everyone can achieve a greater appreciation of it.

Felix will now provide updates on our latest quarterly operational takeaways.

SECTION III. OPERATIONAL HIGHLIGHTS

Felix Teng – *CEO*

Thank you, Charles.

General Overview

While the overall interconnect industry continues to grow in TAM each year, the number of suppliers that are still growing and financially healthy are slowly declining. The reason behind this is due to the volatile nature of today's operating environment, from the emergence of trade tensions in 2018-2019, the pandemic in 2020-2021, the various supply chain challenges in 2021-2022, and then the geopolitical and economic tensions in 2023-2024. These have necessitated global brand name customers to reduce their total number of suppliers while requiring the remaining ones to do more things, from NPI to design to production, in more places, from Asia to the Americas to Europe, to reduce their risk and their costs.

A perfect example of this is the number one interconnect supplier in our industry, who engaged in an average of over 5 M&A deals from 2017-2023. Many of these same customers are also selectively increasingly directly dealing with their component suppliers instead of going through system assemblers, some of which are becoming their competitors, for greater flexibility and control, offering better pricing and margins to these suppliers. This is a drastic change in business models and there are opportunities as the landscape shuffles. The bigger will only become bigger, and BizLink aspires to be one of these suppliers.

Near-term Outlook

Our first quarter 2024 NTD sales saw a marginal quarter-on-quarter increase, our first in several quarters. We are entering into our next growth phase, and the drivers this time around will not be the same as our last one. However, our last growth cycle was dominated by our high volume, low mix areas whereas this time we have a much higher sales exposure to Industrial, so the road back up will not be the same as the prior one given the business nature of this segment.

Our structural shift towards premium value and ongoing efficiency measures means that there is room for more margin improvement. Our key segment highlights are still Industrial and IT DataComm with potential upside to both, and the key segment lowlight is still Auto with potential downside. Our higher gross margin areas are expected to outgrow the corporate average after being in a relatively weaker position last year. This page shows the respective highlights and lowlights within each segment as well as our general quarter-on-quarter view for the second quarter of 2024. We remain conservative on Auto.

Within our MegaTrends, we expect High-Performance Computing, Capital Equipment, Healthcare, Energy, Silicone, and Robotics to be the earnings catalysts this year, representing a total of 55% of first quarter 2024 sales. We have many exciting new innovations that will make it into a strong project pipeline, and these will gradually be reflected in our performance in the next few quarters. Market development efforts are also progressing along quite well. Most of our drivers this year will be growing above the corporate average, and a few of them also have above corporate average gross margins. Additionally, Peripherals and Automation and Drives, which collectively accounted for 14% of first quarter 2024 sales, will weigh less on total sales growth later in the year. EA will also be up this year, but we currently do not consider this to be a MegaTrend given its heavy consumer-centric nature.

Industrial Product Segment

Four out of the six catalysts come from this segment. Looking at capital equipment first, we already began to see increasing forecasts from the beginning of this year as sales from front-end semiconductor capital equipment makers began to recover not just for cables but for interconnect systems as well. The trend for cleaner solutions with less outgassing and particulation remains strong and boosts revenue in our high-end semiconductor product line.

In addition, we are also seeing a steadily rising mix of box build and system integration projects. We are freeing up floor space to accommodate the sustained increase in these kinds of high-value projects as we further build our track record here. Next to semiconductor, we seek to increase our exposure to HVAC's and are exploring high-complexity power distribution unit box builds. We have project visibility that extends into the second half of next year, and order visibility extending into the end of this year. Business development efforts are ongoing with non-US customers and for additional projects for production in the US. Our customers are preparing for the industry boom next year from the second half of this year.

Looking at medical specialties next, we are seeing the trend for even cleaner cable and system solutions in our inner-body and endoscopy market segment grow at double-digit multi-year CAGRs. These kinds of solutions need high degrees of in-house engineering and material competence for very stringent medical requirements.

Our major energy storage customer will continue to increase its production capacity in the US, and they have since begun construction of its new facility in China. Although the revenue contribution is still small now, the growth here is very high due to the lower base. Lead times are no longer visible for our customer's industrial-grade product for power grids from their website, suggesting that wait times should be much more than the year plus that it last showed.

Finally, there are three exciting milestones to share about Robotics. Our robotic cable management systems are gaining traction in non-Auto industries and our new LSH Delta product is helping to support this trend. We recently launched our innovative e-Learning platform. This online training portal stands out as a unique solution for automation technologies. It not only facilitates the retention of essential knowledge but also equips employees with the necessary skills to thrive in the world of automation. Finally, in modular medical robots, we secured a multi-year strategic contract with a large Chinese customer for our ORION patient positioning system. Additionally, our development efforts have led to the versatile PULSAR modular robot, tailored for para-medical applications, including in the fields of physiotherapy or skin treatment.

IT DataComm Product Segment

Looking at High-Performance Computing, the number of new projects that are expected to go into the start of production will more than double half-on-half from the second half of last year to the first half of this year, and then more than double half-on-half again in the second half of this year. This means that the number of new projects will be up nearly six-fold year-on-year in the second half of this year. Project visibility extends into the next few years.

This is not even considering potential new datacenters being built to fulfill data sovereignty requirements as most datacenters are in the US now, but there will need to be many new ones introduced in Southeast Asia, where we have local production for HPC, and in Europe in the years to come. In fact, two North American CSPs just announced multi-billion-dollar investments to build datacenters in the Southeast Asia region to support a growing population and their rising purchasing power.

Our external DAC and AEC and server high-speed interconnect solutions as well as our server and rack high-power cable and connector solutions are being sold to existing customers as well as new ones for the latest AI accelerating computing programs. We have been developing high-specification server and high-power cables for one of the industry's most advanced AI computing platforms. We expect that the program will go into mass production later this year or early next year. The revenue impact could be significant once it goes to mass production and represents a multi-year opportunity for us.

We are looking at selling more of our HPC solutions to major North American CSPs and server ODMs and aiming to raise our exposure to data center infrastructure service providers. We are exploring liquid-cooled interconnects and Silicone cable and assembly opportunities for cooling applications, which do not require a complete, capex-intensive overhaul of existing datacenter layouts and infrastructures. We are also upgrading our technologies here, moving to 16 lanes per cable and to 224 Gbps per lane for data and from 12 Vdc to 48 Vdc for power. Finally, our co-packaged optics R&D efforts continued.

<u>Auto Product Segment</u>

Looking at this segment, we are exploring and winning more battery-based EV high mix, low volume businesses, including for electric trucks, tractors, motorcycles, and ATVs, and looking into potential opportunities for battery supplement module assemblies. However, the highlight for this segment is Silicone. We are developing and pushing new, lower upper threshold temperature Silicone cables for the Auto market, which remains its bread and butter, and we are actively engaged in non-Auto projects as well, including for Power Distribution and Rolling Stock applications.

<u>Electrical Appliance Product Segment</u>

Looking at this segment last, the outlook here has visibly improved, and sales will be driven by the launch of new products. We are working to win more systems-level projects and are in the process of continuously adding new functionalities for the appliance into the power supply interface. We continue to be a key supplier for our major customers, and cross multiple product segments, often being the primary supplier for their flagship products. We have been gaining market share with many of them. Finally, we are seeing the first signs of new heat pump projects return.

Now let me turn the call over to Mike.

QUESTION & ANSWER SESSION

Mike Wang – *IR Manager*

Thank you, Roger, Felix, and Charles. This concludes our prepared statements section. Now let us begin the Q&A section. Please type in your questions, and then we will answer as many of them as possible in the time remaining.

CLOSING REMARKS

Mike Wang – *IR Manager*

Thank you, Roger, Felix, and Charles. This concludes our Q&A section. A replay of the conference call today will be available on our IR website within 24 hours from now. If you have any further questions, please feel free to reach out to the BizLink Investor Relations team. We thank you very much for joining today's call. You may now disconnect.