BizLink 1Q 2022 Earnings Conference Call

1Q22 Prepared Remarks – May 13, 2022

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 *BizLink Group – Chairman*

Felix Teng *BizLink Group – CEO*

Mike Wang *BizLink Group – IR Manager*

OPENING REMARKS

Mike Wang *BizLink Group – IR Manager*

Good afternoon, everyone. Welcome to BizLink's First Quarter 2022 Earnings Conference Call. This is Mike Wang, Manager of Investor Relations. I want to start by warmly welcoming everyone on participating in our inaugural earnings call as we aim to not only communicate more with the investment community, but to also become a truly global company across our business. I am joined by Roger Liang, our Chairman, and Felix Teng, our CEO. The Company's results were released earlier today, and are available on the Company's IR website, where you can also download the latest earnings release materials. Today's call will start with Roger providing the Company's financial overview, followed by Felix providing operational highlights and key messages as well as commentary on our INBG acquisition before opening the floor for Q&A.

Before we continue, please kindly be reminded that today's discussions may contain 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 the forward-looking statements. Please refer to the safe harbor notice in our press release and earnings deck. Finally, I would like to remind everyone that today's call is intended for institutional investors and sell-side analysts only. With that, I will now turn the call over to our Chairman, Roger.

FINANCIAL OVERVIEW

Roger Liang *BizLink Group – Chairman*

Thank you, Mike. I hope that you all are remaining safe and healthy despite the ongoing challenges brought on by the pandemic.

We are very proud that the strong first quarter performance reflects the diversity of our products and production footprint as well as the combined efforts of our global teams. It is also the first time in BizLink's history to reach a record quarterly sales of NT$ 11.6 billion.

Revenues in the first quarter were NT$ 11,667,198 thousand, an increase of 90.20% compared with the same period last year, and increased by 45.86% compared with the previous quarter. We began consolidating INBGs' financials starting from January 21 this year.

Let's move on to revenue by product segments. Industrial contributed 39% of revenue in the first quarter while IT DataComm contributed 27%. Automotive was 17%, and Electrical Appliance accounted for 16%. On a year-on-year basis, product revenue from Industrial grew 329%, IT DataComm grew 47%, Automotive grew 97%, and Electrical Appliance grew 5%. These sales mixes and revenue growth reflect the consolidation of INBG. I will comment on market trends further in these prepared remarks.

Gross margins increased to 24.42% as a result of the more favorable mix of sales from INBG, which was up 222 basis points year-over-year. We actively position ourselves for the future by investing more in higher-value, margin-accretive solutions for our customers.

Total operating expenses were NT$ 1,943,367 thousand. The operating margin for the first quarter was 7.76%, down 183 basis points from the prior quarter and increased by 120 basis points compared to the first quarter of 2021. The increase in operating expenses was mainly due to a one-time expense of $10.9M for M&A fees, financing fees, and ECB-4 and GDR-2 fund-raising fees.

The company's tax rate for the first quarter was 34.64%, compared to 28.66% in the first quarter of 2021. The higher tax rate in the quarter was due to two impacts. A portion of the aforementioned one-time expense was non tax deductible. In addition, the long CNY holidays during the first quarter usually means that a higher portion of overall shipments go to higher tax regions, such as the US and Europe.

Net profit was NT$ 558,944 thousand for the first quarter and the consolidated EPS was NT$ 3.74, up 59.15% year-over-year. The INBG acquisition is immediately accretive to EPS as we first disclosed last October.

Lastly, our dividend payout ratio will be at least over 50% this year; it was 59% last year. Our shareholders shall receive USD 0.32 per share cash dividend from 2021 earnings.

This concludes the financial summary portion of our earnings call. I will now handover the call to Felix for operational highlights.

OPERATIONAL HIGHLIGHTS & KEY MESSAGES

Felix Teng *BizLink Group – CEO*

Thank you, Roger.

After the solid results we delivered last year, the first quarter of 2022 has been a milestone for BizLink as we completed our landmark acquisition of INBG. The year started off with strong demand from customers and the continued success of our long-term transformation plan. While disruption of global supply chains is increasingly more common, starting from US-China trade tensions in 2019 to today's current environment, our global teams still managed to deliver stellar results as we remain committed to executing our long-term diversification goals, and focused on doing everything possible to meet our customers' needs.

We were also very pleased to announce on January 20, the completion of the acquisition of INBG for an enterprise value of €451 million. INBG is a technical standard-setter and is a market leader across a number of end-markets given their long-term focus on in-house capabilities and core competencies, including technology research and development, material processing, and cable production and assembly, to meet customer specifications for operating under extreme conditions and/or requirements such as for use in high-grade semiconductor clean rooms, high-speed data-centers, and in medical endoscopy and aesthetics as well as factory automation and industrial niches. The main contributor for this acquisition this year will be in accelerating our long-term diversification plans by adding to our Industrial business and by broadening our footprint in Europe.

The addition of INBG to BizLink has allowed us to expand our production footprint to a total of 32 sites, with 15 from INBG, which are located mostly in Europe. INBG's position as a market and technology leader of interconnect solutions for the Industrial segment is complementary to what BizLink has. BizLink has been known to many as an interconnect supplier for the IT segment for many years, however, this acquisition has enabled us to have a more balanced exposure to various end-markets, protecting us from our previously heavy exposure to more cyclical ones. We look forward to combining our highly interrelated capabilities and products to provide a more well-rounded portfolio of interconnect solutions.

Let me now provide the sales contribution of the 6 business units from INBG for the first quarter to give everyone a better idea of each ones' contribution: Healthcare was 16%, Telecommunication Systems was 9%, Robotic Solutions was 14%, Automation & Drives was 20%, Silicone was 24%, and Tailor-made Products was 17%. Among the 6 business units, we expect to see synergies realized quicker from "Healthcare" and "Telecommunication Systems" as they are quite similar to our existing business lines in "Medical" and in "Data-centers", which are under Industrial and IT DataComm, respectively. We will need to learn the ropes in "Robotic Solutions" and in "Automation & Drives" as factory automation is relatively new to us, however, we are excited about the outlook of this market as digitalization, Covid, and the rising costs of labor are driving the whole manufacturing industry to rethink how to ensure sustainable production levels regardless of the ever-changing external factors at play. "Silicone" is also new to us and we expect that more demand, especially from European brands' EVs, will be seen for this particular high-temperature resistant, flame retardant, and highly flexible material in the years to come. Last but not least, "Tailor-made Products'' encompasses customized solutions for a variety of applications across many end-markets, including but not limited to semiconductor manufacturing equipment, endoscopy, and rolling stock. I want to highlight the semiconductor portion of the Tailor-made Products business unit in particular as the solutions are different than the existing "Semi-cap" business we have. INBG's semiconductor solutions are focused on cable systems for equipment with extreme operating requirements.

We have started preliminary discussions with INBG on seeing how we can best collaborate with some efforts further along than others, and I have to say I am quite optimistic about it. INBG is known for their technology skillsets and we have begun co-development efforts in active high speed and fiber optic cables. Discussions with customers have begun as well. BizLink's customer base and INBG's are quite different, and our combined customers are eager to know how the broadened capabilities and footprint can enable us to deliver more for them. For example, BizLink's customers are interested in INBG's technologically advanced areas such as industrial robotics and endoscopy. Also, one of Silicone's applications is in whitegoods, and this may potentially create cross-selling opportunities for our Electrical Appliance segment. We believe this acquisition will add valuable industry expertise, enhance our innovation capabilities, and accelerate growth opportunities in both existing and potential new customers. I am feeling quite good about the whole integration progress here, but as you know, it has not even been three months yet, and I wish I could share more. However, I am confident that by bringing INBG into the equation, this will definitely make BizLink a stronger team.

In the meantime, I am glad to welcome INBG to the BizLink family, and our global teams will continue to work hard on the integration, and to maximize our combined potential in the longer-run. We look forward to the opportunity to deepen our interactions with INBG based on our expanded portfolio of technology and products. But rest assured, we will provide more color on our post-merger integration results throughout the upcoming earnings calls as they become available.

I want to now highlight our long-term diversification strategy that we have been communicating to the investment community for the past few years. It became clear to us in early 2017 that we needed to selectively diversify our business risk across customers, segments, and regions and so we announced our long-term vision then. We have grown our business organically following this vision and have also used acquisitions to complement this growth, and in some cases, to accelerate it. We are pleased with the Electrical Appliance acquisition in 2017 and with Speedy Industrial in 2020. This has allowed our stakeholders to witness our ability to identify potential growth opportunities, seize them, and to execute based on our long-term plan.

The production sites across our four main regions can now address almost all four segments, and we will continue to move toward a regional supply chain to support our partners. We will also continue to identify and enter into new markets, and we recategorized and renamed our product segments last March, and then detailed our investment story in our new IR presentation this past March to better communicate our progress 5 years into our long-term vision. This selective diversification has gone from a "nice-to-have" to a "must-have" in some cases as our global customers increasingly ask for business continuity planning. We hope that our efforts will gradually minimize single region, customer or segment impacts so that our overall business can still fully function, grow, and even gain market share.

Now turning to the organic business of BizLink. Our sales in the first quarter increased by 26% compared to the same period last year on an organic basis, driven in particular by robust growth within our secular drivers.

The Industrial segment grew 35% year-on-year this quarter with strong growth in our semiconductor equipment, including box-build and system integration, which took up around 60-65% of the segment. We are seeing more projects rolling in from major semi customers while we are also involved in NPI projects with customers; our sustainable track record and reliable delivery have enabled us to gain more projects and content with customers. For energy, we have begun working on energy storage connectors with new customers. Component shortages have had minimal direct impact on this segment. And from a margin perspective, due to the business nature of being a "high mix low volume" segment, it successfully acted as a booster for our corporate average gross margin.

Within IT DataComm, data-center continues to be the secular driver with strong demand from customers. The overall segment grew over 30% year-on-year this quarter, and with docking and dongles taking up just 65-70% as we announced a strategic move a couple of years back to lower our exposure as they have become commoditized with a less appealing margin profile. IC shortages have persisted, but conditions are no longer as bad as they were last year during the same period. However, we are still excited about the outlook of data-centers as we have seen an increase in the number of orders rolling in from major customers. We were able to win additional projects as well since other local suppliers were hit by Covid-19 shutdowns, serving as an indication that our long-term strategy to focus on various regional production sites has allowed us to be better prepared for macro uncertainties. We are also seeing orders from Chinese data-center players, though the volume is not significant yet.

For the automotive segment, the revenues grew 44% year-on-year this quarter. We continue to see robust growth from our major customers in this segment, and I am sure everyone has seen their latest earnings results and the numbers are strong. We are ramping up our sites in Texas and in Mexico to support increasing demand from our auto customers. We continue to work with other new EV players although their volume is still quite small compared to the biggest player in the market. Not only do we work with the US-based ones, we also started working with Asia-based EV customers. Negotiations with customers have ensued due to rising costs and shortages of labor and raw materials, and we continue to work with customers on updating pricing to reflect these costs.

Lastly, the electrical appliance segment grew just 5% year-on-year this quarter. All our key customers in the segment have agreed to price increases in the first quarter of 2022, and discussions with other customers are ongoing. The Ukraine/Russia war has caused raw material costs to further rise, but we have seen minimal direct impacts from the ongoing conflict. Our facility in Changzhou was shut down for a few days in March, which did impact sales for the segment. However, we have been taking pre-emptive measures to lower our risk from these macro headwinds. Aside from that, we remain optimistic on the outlook for the segment as new product developments have resumed.

If you take a step back and look across our four segments, then you would see that amid the rising costs, material shortages, lockdowns in China, the ongoing Ukraine/Russia war, our global teams have been taking various actions to offset and mitigate these issues, which also demonstrated the diversity of our products and footprint has empowered us to navigate much better within this complex macro-environment, along with strong operational efficiency and deep relationships with customers. We believe once we see the macro issues finally alleviate to a certain extent, it will potentially open the door to explore further opportunities.

As we reflect on the quarter and our long-term outlook, we expect to continue to see ongoing growth in semi and ethernet content across all our applications, from data-centers and electric vehicles to Industrial and smart-home appliances. In the 'AI era', almost every device and machine will be connected, where speed and stability of data transmission are of utmost importance. I believe that we are well-positioned to capture this shift in market paradigm and to leverage our proven in-house IT capabilities as well as emerging capabilities in the Industrial realm. And as we move forward, we are aware of the necessity to move up the value chain and to provide more higher value-added solutions to our customers. We look forward to our broad and differentiated portfolio providing sustainable growth momentum for years to come.

Let me now wrap things up. I would like to sincerely thank our global teams' efforts and our key stakeholders, including suppliers, customers, and shareholders, who have stayed to support us throughout the past few years, especially the last two years with Covid plaguing our daily lives and activities. I also want to point out that our corporate sustainability efforts have been increasingly tied into our business planning, and we have parts of our business that will be able to grow on the back of these efforts.

And as Mike mentioned in the very beginning, this is our very first earnings call. I heard that many of you have been wondering when we would start hosting these calls, and I hope we were not a disappointment today. We look forward to holding future calls with our institutional investors and sell-side analysts.

Now let me turn the call over to Mike.

QUESTION & ANSWER SESSION

Mike Wang *BizLink Group – IR Manager*

Thank you, Roger and Felix. This concludes our prepared statements section. Now let us begin the Q&A section.

CLOSING REMARKS

Mike Wang *BizLink Group – IR Manager*

Thank you, Roger and Felix. This concludes our Q&A section. A replay of the conference call today will be available on our IR website within 8 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.