BizLink **1Q 2023 Earnings Conference Call**

1Q23 Prepared Remarks – May 11, 2023

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 2023 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 released earlier today and are available on the Company's IR website, where you can download the latest earnings release materials.

This earnings call will start with Roger providing a general status update before switching to Charles to share the Company's financial results and finally to Felix to present the Company's operational highlights and key messages before opening the floor for 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. Please refer to the Safe Harbor notice in our results press release and earnings deck for details.

Finally, I would like to remind everyone that today's call is being recorded, and is intended only for institutional investors and sell-side analysts. The recording of this call will be uploaded onto our website. With that, I will turn the call over to our Chairman, Roger.

SECTION I. GENERAL STATUS UPDATE

Roger Liang – *Chairman*

Thank you, Mike.

Looking at 2023

BizLink has faced and overcome many challenges in recent years, delivering commendable results despite the operating environment. Key to this is our flexibility and adaptability with some product segments and categories exceeding expectations. I thank our global teams for their never-ending efforts, and look forward to seeing what new milestones we can achieve together. Our strategic investments have also yielded strong results, but the full potential of these opportunities have not yet been realized. Synergies will take time given the nature of the opportunity within Industrial as we noted in our last earnings call, but I think that the market is waking up to the new BizLink. BizLink is no longer a single-themed, one region-heavy company, but is now a well-diversified one.

Central to this is our 4 x 4 strategy in reducing risk while identifying areas for long-term growth. These are the areas that we will focus our efforts on in the coming years, some of which tend to be stable but lower growth while others tend to be cyclical but higher growth, which we have collectively labeled as our Resiliency Drivers and was first introduced last quarter. 2023 is undoubtedly a low business cycle period for BizLink, but business cycles also move up. We continue to be building our momentum for the next leg up.

We will also continue to build out our global footprint to better service our global customers for their regional or local demand. These customer-driven shifts in their supply chains give us the chance to become stickier, grow with their market share gains, and allow our strong track record to attract new customers. However, we do not anticipate a complete deleveraging as global supply chains have taken many decades to build and are too closely intertwined with each other for such a total decoupling to happen. This may open up chances for gains within certain regions, end-markets, and applications given that we are well ahead of the curve in these efforts.

Looking beyond 2023

BizLink continues to innovate and search for new business and strategic opportunities while at the same time continues to strengthen the organization, which now crosses many countries, time zones, and cultures as well as across multiple end-markets and applications. This is especially important as industry cycles are becoming shorter and more complicated as technology becomes a bigger part of all our lives. We actively seek out ways to increase communication, build rapport and trust, optimize operations, and set strategies and goals together to sustainably grow as one global team. Our newest family members have been a great inspiration. We expect to be able to achieve similar growth rates as in the past few years over the next few years as we maintain our strong execution.

ESG has become a "must have" for global corporations to not just survive but grow in the coming years, and our supply chain partners are increasingly stressing the importance of not just checking off boxes on an ever-growing list, but in seeing how to mutually benefit, from increasing sales to reducing costs, by actually incorporating our sustainability efforts into our corporate strategies globally. Our consecutive years of being a highly ranked company across many rating agencies is the result of our long-term commitment to being a positive and responsible influence wherever we are, but recognition is also important as a secondary motivator.

The TWSE 2022 Corporate Governance ranking results just recently came out, and we were once again placed within the Top-5% among those that are several times larger than we are. BizLink recently joined SBTI, and our 2022 CSR report will soon be released. We aim to reduce our GHG emissions intensity by -50% from 2022 to 2030 after reaching our -42% target from 2020 to 2030 last year, and to be Net Zero by 2050. We strive to create an optimal working environment for our global teams, and so we aim for a Zero Accidents workplace. Finally, we will continue to increase our on-site usage of renewables to complement our energy needs.

Charles will now provide updates on our latest quarterly financials.

SECTION II. FINANCIAL OVERVIEW

Charles Tsai – *CFO*

Thank you, Roger.

1Q 2023 Results

First quarter 2023 sales fell by -6.6% QoQ to NTD 12.7B, which is in-line with our usual first quarter seasonality for a similar magnitude in decline. Gross margins fell to 25.48% in 1Q 2023 due to a docking inventory write-off of USD2.3M, which had a negative 50 basis point impact to gross margins. We incurred a one-time fee of USD1.2M related to our ECB5 fund-raising in General and Administrative expenses, and given our lower scale, our operating expenditures to sales ratio increased to 16.52%, which is at a similar level as those seen in the prior three first quarters. Operating margins came in at 8.96%. We incurred foreign exchange losses mainly from unfavorable USD to RMB fluctuations during the quarter. Our tax rate came in at 28.12%. These led to our EPS to drop QoQ to NTD4.01, which is still up by over +7% YoY despite outstanding shares rising by nearly +5% YoY.

Looking deeper into the numbers, first quarter 2023 marks the fourth straight quarter with about 26% in gross margins, excluding inventory impacts. This shows BizLink's strong ability to stay competitive with our value proposition to customers and our well-balanced portfolio of solutions and global footprint, allowing us to maintain stable gross margins despite weakening macro.

The docking inventory write-off is mainly due to overstocking after the COVID-19 shutdowns in China early last year as well as the subsequent slowing of the NB industry. Fortunately, these are working finished goods that are not yet at their end-of-life. Our customer has consistently been pulling from our inventory, so there is a good chance that we may be able to write these back in the second half of this year. However, as inventory is only starting to slowly be pulled, we may see further adjustments till August. We are actively managing this situation, and anticipate a larger impact to be seen in the second quarter 2023 before moderating.

Our operating expenditures, if we exclude the one-time ECB5 fund-raising fee, have fallen by -3% QoQ each quarter since the third quarter of 2022 as we rein in costs. First quarter 2023 was the second straight quarter with positive free cash flow, averaging about NTD1.4B each quarter. First quarter 2023 was also the third straight quarter with balance sheet inventory down QoQ, and the second straight quarter with accounts receivables down QoQ.

I noted in our second quarter 2022 earnings call, which was my first time to participate, that we would gradually work down our inventories, which would subsequently lead to a decline in our accounts receivables. In principle, we do not engage in risk buys. Our inventory to sales ratio remains better than most regional peers despite our more global and diversified business nature. Our accounts payable to sales ratio also remains lower than our top strategic customers, which we will evaluate on how to adjust as this is putting pressure on our cash flow.

Industrial sales was 41% of total sales, and was the only product segment to see an increase, rising +6% QoQ (+18% YoY) during the quarter while the other three shrank. This was mainly driven by Factory Automation. IT DataComm sales was 21% of total sales, declining -7% QoQ (-19% YoY) due to continued softness in both Peripherals and HPC. Automotive sales was 24% of total sales, declining -5% QoQ (+13% YoY) due to production adjustments made by some customers. Finally, EA sales was 13% of total sales, declining -13% QoQ (-19% YoY).

Meanwhile, all six of INBG's business units were up QoQ and YoY, and accounted for 46% of consolidated sales. Factory Automation, which is Automation and Drives plus Robotic Solutions, remained the largest at 35% of INBG sales. Silicone was the second largest at 26% while Healthcare and Tailor-made Products came in tied at 3rd at 16% each. Telecom Systems was still the smallest at just 7%.

<u>Resiliency Drivers</u>

We continued to see a shift in our top customer sales ranking with those in our Resiliency Drivers outshining the others. Secular sales marginally fell by -1% QoQ (+20% YoY) as Capital Equipment and Electric Vehicle sales slowed while Factory Automation, Tailor-made Products, and High-Performance Computing sales grew. We define our secular sales as long-term, high growth, cyclical businesses. Industrial sales increased by +20% QoQ (+27% YoY) as Healthcare, Energy, Silicone, and Industrial "Others" all visibly grew. We define our industrial sales as long-term, stable growth, non-cyclical businesses with relatively higher gross margins. This led to Resiliency sales to grow by +5% QoQ (+22% YoY), and accounted for 72% of consolidated sales during 1Q 2023.

Our higher exposure to Peripherals in pre-2019 years often led to a volatile business performance and financial results. Our higher Resiliency sales mix is continuing to help stabilize the global business and reduce the impacts from a weaker macro. Several segments and categories are nearing or at cycle bottom now, and will add to our growth as they recover.

Resiliency Actions

We continued to work to bring our balance sheet inventories down from 2Q 2022. We strictly controlled raw materials procurement, gradually lowered work-in-progress, and continued to slowly move down our finished goods. We also further reined in accounts receivables, which was down YoY. We expect this trend to continue in the coming quarters before possibly reaching healthier levels given our diversified global footprint. Our more rationalized docking business is also helping to slowly improve our cash flow. We anticipate a larger contribution from INBG this year. These will help to improve our cash conversion cycle as well as our return on invested capital, both of which we are keenly monitoring now.

We are keeping tight controls over our global headcount. We are actively managing our talent base towards our shift to a healthier business portfolio. Capex plans are strictly evaluated before actual spending occurs, and we actively search for ways to optimize our operations, including using digital transformation and automation, progressing along our sustainability efforts, and more. We paid off some long-term debt during the quarter as expected and highlighted in our last earnings call, and anticipate doing so again in the coming quarters. We will also be more flexible with our cash balance to keep our interest expenses under control in this higher rate environment. Finally, we will continue to take advantage of strategic opportunities as they arise.

I will now hand over the call to Felix for operational highlights and key messages.

SECTION III. OPERATIONAL HIGHLIGHTS & KEY MESSAGES

Felix Teng – *CEO*

Thank you, Charles.

Industrial Product Segment

Capital Equipment

Our semi cap business has fallen by nearly -40% from its recent peak in 3Q 2022 to 1Q 2023, and is back to 3Q 2021 levels. Further sales declines are possible as various end-markets continue to be weak but with some that are nearing or are at their bottom. Order postponements and cancellations continue albeit seem to be past their peak with only so much that is left to cut.

Factory Automation

As global supply chains become regionalized and as populations age in developed areas, the need for factory automation will only grow. The emergence of AI will accelerate this process in the coming years. Our FA business continues to be the biggest among our five secular drivers, which has grown by +50% since 1Q 2022. Our FA business is well diversified with customers at various positions within the supply chain, covering many end-markets and regions.

The general Industrial capex outlook in Europe for 2023 seems to be gradually improving across many relevant end-markets in the past few months while Industrial Automation demand in China stayed stable during the quarter with some of our customers consolidating market share. Unclear near-term outlook and visibility within the traditional auto market is limiting upside, but the EV market remains very strong.

Energy: Storage and Solar

Higher-for-longer energy prices will quicken the move to renewables, which will require energy storage for a total solution. Our energy business substantially grew QoQ as energy storage and solar rose, representing over 10% of non-INBG Industrial. Energy storage installations have been picking up pace recently as industry supply of battery cells continues to grow. Our energy sales in 1Q 2023 was already 33% of last year's total, so there is a very good chance for YoY increase for 2023. Energy NPI demand is noticeably rising in Fremont, and we are considering adding this capability as an option for our footprint in Asia.

Automotive Product Segment

Electric Vehicle

Our EV business has more than tripled from 1Q 2019 to 1Q 2023 and has more than doubled from 1Q 2020 to 1Q 2023 as the TAM grew. While our major customer's compact models continue to take up the majority of our EV sales, their share of total has fallen. This is being driven by share loss for the compact models, but also by higher growth of new customers and of their luxury models. As new suppliers enter, this opens up the market even further as EV makers are increasingly no longer being supply constrained.

However, our EV opportunity is not limited to the non-INBG side as INBG has capabilities, solutions, and customers within this market. This is best represented by FA as well as Silicone, both of which grew by double digits in 2022 and may do the same this year. Overall progress with earlier stage EV customers continues to progress along very well, and we keep receiving new projects. Their contribution to total EV sales has grown from low-single digits in 2019 to mid-10%'s in 2022, and will head higher in the coming years.

Silicone

This business was the second-best top-performer last year within INBG, but was the one to most exceed the original sales budget forecast. The key driver to this growth has been the automotive end-market. A few weak months on the white-goods side is allowing a consolidation of our order backlog, which remains fairly high for the EV market. We continue to build-out this business with supply still being very tight, and is expected to remain tight in the foreseeable future.

IT DataComm Product Segment

Peripherals: Docking and Dongles

Our Peripherals business has fallen by nearly -57% from its recent peak in 1Q 2022 to 1Q 2023. We continue to selectively de-emphasize the most cash-hungry part of our global business, and it is no longer the biggest one. We have been able to grow our non-INBG segment sales by nearly 27% from 1Q 2019 to 1Q 2023 despite a near -58% decline in docking sales. Meanwhile, our dongle sales have only fallen 12% during this same period.

We experienced some rush orders for docking in prior weeks, and there are signs that Peripherals may be nearing a bottom. However, NB industry volume needs to bottom out and begin to recover before our Peripherals business can sustainably bottom as docking takes up the majority of the category and is usually a NB accessory. We are seeing docking demand starting to trickle in. Dongle demand may materialize later this quarter for new platforms, and continues to track closely with NB industry shipment volumes.

High-Performance Computing

HPC and Docking sales crossover finally occurred in 1Q 2023, excluding INBG's contribution, one quarter later than expected as originally communicated in early 2021. Our HPC business has fallen by just over -27% from its recent peak in 2Q 2022 to 1Q 2023, but remains at an elevated level. We will still be able to achieve YoY growth this year, but magnitudes will be relatively muted compared to the past few years. This will set up 2024 with easier YoY comparables.

HPC is near or at bottom now, and we are seeing order activity gradually picking up steam with visibility slowly improving. Major cloud service providers have recently reported their quarterly results, and their capex looks to be aimed at growing their AI capabilities and offerings. Our customers are starting to place orders for the next 2-3 quarters as AI-driven HPC demand recovery materializes and solidifies. We expect to see both volume and content gain in the quarters to come as the supply chain builds out its AI readiness.

Electrical Appliance Product Segment

Our EA business has fallen by nearly -30% from its peak in 4Q 2021 to 1Q 2023, and was the only one to fall YoY in 2022. Many customers became cautious from as early as 1Q 2022 but mainly by 2Q 2022 till 1Q 2023, and prioritized the digestion of their inventory. Fortunately, our EA business is seeing early signs of nearing a bottom as customers are bringing-in their product roadmaps and order volumes are slowly returning. We have won quite a few meaningful systems projects with sales contribution to begin from 2Q 2023 for more emerging applications. However, this is the most consumer-centric segment of our four, and is most easily influenced by macro conditions, which stays weak for the moment. Finally, we continue to fine-tune this business and expect to see further upside to gross margins over the longer-term.

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 kindly raise your hand if you have a question, so that we can unmute you.

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 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.