BizLink 3Q 2023 Earnings Conference Call

3Q23 Prepared Remarks – November 10, 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 Third 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 just released and are available on the Company's Investor Relations website, where you can download the latest earnings release materials. This call will start with Roger providing the corporate highlights before switching to Charles to share the financial highlights, and then end with Felix to present the operational highlights before opening 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. Please refer to the Safe Harbor notice in our earnings deck for 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 will be uploaded onto our website. With that, I will turn the call over to our Chairman, Roger.

SECTION I. CORPORATE HIGHLIGHTS

Roger Liang – *Chairman*

Thank you, Mike.

General Overview

Prevalent supply chain issues from the past 2-3 years are quickly becoming a distant memory, but the post-COVID over-heating of our business resulted in some near-term challenges as the overall demand environment cooled. We implemented various new checks and balances over the past few quarters to address these, and we are selectively using technology to enhance their effectiveness sooner and ensure their staying power. The reorganization efforts that we announced in prior quarters have made it easier to rationalize operations. We expect to continue to see cost efficiencies as we progress with these initiatives, which will help to make us leaner and nimbler to help customers adapt to an increasingly volatile world. The result will be meaningful and sustainable structural improvements, leading to operational and financial efficiencies and the eventual smoothing out of our earnings.

Our global footprint remained a key competitive advantage as geo-political tensions flared, and as customers subsequently looked to us to reduce their supply chain risk and keep their business running. Diversification became our unique solution to get ahead of ongoing changes in supply and demand dynamics, leading to a more resilient performance given our more balanced business profile now. Major inventory adjustment issues are behind us, and our stronger cash flow position given this “new” profile allows us to deleverage faster than first planned as Charles will later highlight. Lagged effects from central bank rate hikes and quantitative tightening are causing demand to continue to slow down albeit we began to see some green shoots materialize in 3Q and continue into 4Q. The consumer-centric areas in our product segments, which tend to be cyclical, are gradually deteriorating after some of them saw a brief, albeit sizable 1-2 quarter order rebound.

Adding Value

IT DataComm sales continued to deviate from our original 2023 sales budget the most followed by Electrical Appliance, Industrial, and then by Automotive, and YoY comparisons in 2024 may favor them in that order. More and more customers are asking for cost downs, but we have thus far offset any pricing pressure by increasing our wins and deliveries of higher value-added projects that are less susceptible to this. The best example of this is our Electrical Appliance business unit, which has higher exposure to customized, system-level, assembly projects, allowing us to show our years' long progression of moving away from off-the-shelf products. The profitability of this business unit has substantially improved as a result of this transition. It is easy to resort to price cutting to win customer orders at the expense of margins, but our proven ability to move up our customer’s value chain makes us an invaluable development partner.

Product lifecycles are becoming shorter, necessitating quicker responses to and fulfillment of our customers' project requests via a "local for local" service model as their total solution provider. Competition has increased in some areas, which also helps to open these markets up for more potential growth as customer requirements evolve and become more comprehensive. Some areas are becoming very crowded as many new entrants seek to become suppliers in these higher volume, lower mix end-markets, requiring upgrades in our technical and practical know-how. Our intellectual property strategy stressed quantity in recent years, but is now focusing on quality by adding on top of the foundation that we have already built through targeted research and development efforts to dive deeper. BizLink's role is to enable our customers’ roadmaps, and we are realizing increasingly more opportunities to co-develop their next generation technologies and products with them. Our decades' long business relationship with many of these customers means a higher chance to be involved in such projects from an early stage and to support them for longer periods, which becomes fleeting when times are tough.

Charles will now provide updates on our latest quarterly financials.

SECTION II. FINANCIAL HIGHLIGHTS

Charles Tsai – *CFO*

Thank you, Roger.

3Q 2023 Results

3Q 2023 sales rose 1% QoQ, but declined 9% YoY to NT$13.1B, causing nine-month 2023 sales to be down 3% YoY, and therefore arriving below our original 2023 sales budget. Quarterly sales peaked back in 2Q 2022, and have been on a slow, general QoQ downtrend with a brief uptick in 2Q 2023 and continuing in 3Q 2023. Our 3Q 2023 gross margins improved to 26.69% as the result of our various ongoing initiatives, and our favorable product mix. We have been able to achieve relatively stable gross margins at an average of about 26% for six quarters now, excluding inventory adjustments. Nine-month 2023 gross margins, excluding inventory adjustments, are up YoY versus the comparable period last year.

We continued to tightly control our opex with our opex to sales ratio coming in at 15.94% during the quarter, bringing our operating margin back into double digit territory at 10.75%. Our nine-month 2023 opex is only up +2% YoY. We further deleveraged and incurred a one-time US$3.5M write-off of our syndication loan fee as we replaced that original loan with a new term loan. Our corporate tax rate was 32.65%, which fell QoQ, but stayed at elevated levels. Our net profit increased 68% QoQ and EPS significantly improved to NT$4.54.

Our nine-month 2023 operating cash flow reached record highs as our operating profits visibly improved and working capital remained positive, bucking our usual situation for negative working capital in the past few years. CapEx outlays stayed below plan as we delayed and/or restructured our spending, albeit our nine-month 2023 capital intensity is just marginally higher than 2022's levels. Finally, we remained free cash flow positive with nine-month 2023 levels reaching record highs as our business transformation progresses with much more room to improve in the coming years. This marks our 4th straight quarter of positive free cash flow.

Segment Sales Scorecard

Year-to-date, IT DataComm sales are down -28% YoY, EA sales are down -7% YoY, Industrial sales are down -3% YoY, and Automotive sales are up +7% YoY.

Bigger Picture

We are closely monitoring the financial health of our supply chain partners, and are selectively becoming more stringent in our payment terms to control our business risk as much as we can. We have kept our cash conversion cycle under control. Our inventories continued to slowly decline QoQ after they reached a peak in 2Q 2022, and are at healthier levels now. We will continue to replenish our working capital but keep it from becoming too big while driving lasting improvements in our operating cash flow with the "new" BizLink business profile. The ongoing initiatives we mentioned in the last few quarters have begun to boost efficiency. We have been conservative with our capex outlays year-to-date, leading to an average of well north of NT$1B of positive free cash flow per quarter from 4Q 2022 to 3Q 2023, and we will maintain this discipline in 4Q 2023.

Our cash levels stayed at over 20% of our market capitalization for the third straight quarter. For the first time since 4Q 2021, we ended up with more cash than total debt, which has just over half under short-term liabilities now. We continued to deleverage from 1Q 2023 with the amount of debt repaid accelerating QoQ in 2Q 2023 and in 3Q 2023 to help offset higher funding costs. Our new term loan has noticeably lower borrowing costs and has more flexible terms and debt covenants, allowing us the option to repay it sooner. We target to gradually bring our liability to asset ratio back down towards historical levels with our consistent positive free cash flow by the end of 2024, which will help shore up profitability and boost our free cash flow yield.

This will improve the durability and the quality of our dividends, but do realize that payout ratios will be lower for the time being as we focus on expanding our business. We will leave a cash buffer, which can gain interest income, to be ready for and to take advantage of suitable M&A targets as we see them, but none are expected so far. We aim to gradually fund both organic and inorganic growth through, first by achieving sustainable positive free cash flow, and second by growing this positive free cash flow over time. We are taking a conservative approach towards our corporate tax rate and are strategically working towards lowering it, as the past two quarters were higher than average, while being in full regulatory compliance. This will take time to realize.

It is encouraging to see this "new" BizLink begin to emerge since joining exactly a year and a half ago, and we continue to identify and to take advantage of new opportunities. Bumps in the road are expected as we move forward with our long-term strategies, and we thank those investors and analysts that have stuck with us in recent years to follow our journey.

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

SECTION III. OPERATIONAL HIGHLIGHTS

Felix Teng – *CEO*

Thank you, Charles.

General Overview

We remain optimistic about our long-term prospects but do acknowledge that there are near-term obstacles to overcome, including inventory adjustments, higher finance costs, and a slower demand environment. We are gradually addressing these issues and more with 3Q 2023 earnings results representative of where we are in our journey. We expect to see more gains in the end-markets that we are exposed to. We are preparing for tougher times ahead with an improved footing via a more robust operating and organizational structure, and are seeing some green shoots emerge as Roger noted earlier, including in Capital Equipment, Healthcare and related, and High-Performance Computing.

Near-term Outlook

Next, I will share our current near-term outlook for our four product segments in the order of their nine-month 2023 sales contribution.

Industrial Product Segment

Segment sales were 40% of the nine-month 2023 total versus 38% last year, and our outlook here remains at neutral. Year-to-date, Factory Automation sales were up +8% YoY, but with QoQ momentum slowing from 1Q 2023 and looks to remain slow for several more quarters as supply-demand conditions normalize. Year-to-date, Healthcare sales were up +3% YoY and is fairly in-line with the usual single-digit sales CAGR, but we are seeing momentum slowly building for robotics and treatment solutions. Year-to-date, Capital Equipment sales were down -33% YoY as the industry goes through its cyclical downturn, dropping -48% from its peak in 3Q 2022 to its trough in 2Q 2023 but with 3Q 2023 sales rising +12% QoQ. Our publicly listed customers have recently provided sales guidance for a QoQ increase in 4Q 2023 albeit visibility remains unclear. It is possible that our sales may stabilize early next year before rising again later in the year. Year-to-date, Energy sales, while still under 5% of segment sales, grew +45% YoY, and is already up YoY versus full year 2022 with expectations for strong growth in the coming quarters.

Automotive Product Segment

Segment sales were 24% of the nine-month 2023 total versus 22% last year, and our outlook here remains at conservative. We were very early to make this call, but it became quite clear in the past 2-3 weeks of quarterly results that our call was the right one to make. Year-to-date, Electric Vehicle sales were down -10% YoY given both market share loss for compact models and slower growth from this customer while others are still not as impactful yet. Year-to-date, Silicone sales were up +16% YoY on strong growth from traditional automotive customers looking to electrify their fleet but are now being impacted by macro forces causing total demand to slow. Year-to-date, non-EV sales are up +15% YoY mainly on the growth of two major customers for which momentum is on track so far. Year-to-date, Charging sales, while still under 5% of segment sales, rose +32% YoY, and are close to full year 2022 levels with expectations for some continued growth in the coming quarters.

IT DataComm Product Segment

Segment sales were 20% of the nine-month 2023 total versus 25% last year, and our outlook here is now at neutral. While we view the notebook industry as having bottomed, docking station demand, which briefly picked up in 2Q 2023, did not materialize as expected albeit dongle demand has stayed relatively stable since 1Q 2023. It is possible that dongles are temporarily being used as more price friendly, simplified docking stations given the large price differential between the two, and this may continue for some time. Year-to-date, Peripherals sales were down -45% YoY, and we are conservative on this category as there looks to still be some channel inventory and our major customer is looking for a weaker second half of this year as highlighted in its last results release. Year-to-date, High-Performance Computing sales were down -18% YoY as the majority of shipments are for existing projects within traditional computing, but we have begun showcasing and launching our new, higher specification products from last month. We recently attended OCP 2023, and we exhibited many of our latest HPC solutions to major supply chain companies, receiving lots of follow-up interest and potential sales opportunities.

Electrical Appliance Product Segment

Segment sales were 15% of the nine-month 2023 total versus 14% last year, and our outlook here is now at neutral. Segment sales fell -30% from its peak in 4Q 2021 to its trough in 1Q 2023 and then rose +22% QoQ in 2Q 2023 and +8% QoQ in 3Q 2023 as customers restocked and launched new products during the summer months. However, order momentum has since dried up after our sales reached just 8% shy of its recent peak in under two quarters. Near-term sales looks to be weaker as existing customer inventory needs to be digested in the coming holidays.

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 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.