BizLink **2Q 2023 Earnings Conference Call**

2Q23 Prepared Remarks – August 25, 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 Second 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 IR 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 end with Felix to present the operational highlights 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 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.

The second quarter of 2023 presented us with many challenges as rising interest rates across major economies led to subdued demand. However, we kept our pricing power, saw shipment volumes begin to recover, and we worked even closer with our supply chain partners. More and more of our customers visited our various sites across the globe as borders opened back up and they felt safe to travel again. Our higher mix of Resiliency sales, a concept we first introduced this March, smoothed out our sales and gross margin trend despite slower business momentum. BizLink has become much more cash generating, which will shore up our balance sheet amid this tougher operating environment. BizLink was able to achieve these results despite deteriorating macro conditions, and we are starting to show that our new business model works. We are not out of the woods yet, but we do see the light on the horizon. There are many things that we are doing now that will help to ensure our long-term success despite some near-term challenges.

Creating a More Focused Enterprise

Our sales have grown from USD 285M in 2016 to USD 1.8B in 2022 for a +30% CAGR through organic development as well as a number of strategic M&A. We have set ambitious targets ahead and are committed to build upon our success with changes to our organization. We are convinced that these organizational changes will make a major contribution to the future development of BizLink Group by allowing Top Management a heightened focus on developing strategy, aligning existing senior management talents and resources to maximize their impact on our growth trajectory, and bringing the entire organization closer to build a unique and unified corporate culture. These changes will allow BizLink to reach a new level of growth in the years to come.

We are also very excited with the recent appointment of our INBG head, Florian Hettich, to our Group COO to take charge of day-to-day operations of our product businesses. We first interacted with Florian in mid-2021, and then closely worked with him from late-2021 for pre-closing integration work. Florian was instrumental during post-merger integration activities last year, allowing BizLink to smoothly add INBG into our family of fellow BizLinkers. Florian demonstrated exceptional leadership by driving teams to thoroughly analyze a situation and identify key elements to collectively set up strategies before communicating clear action plans and ensuring project success. Please warmly welcome Florian as he takes a more direct and active role in BizLink's future. Meanwhile, the head of the Tailor-made Products Business Unit has been promoted to become the head of INBG.

Optimizing our Internal Processes

Part of our organizational change includes the creation of centralized service centers for Manufacturing as well as for Accounting. This allows for better resource integration, process optimization, cost control, scheduling control, and it also gives us an opportunity for continuous improvement. There are ongoing Group-wide Excellence Initiatives across our Sales, Operations, and Finance functions to boost their efficacy with multiple work-streams in progress now, and we expect that the fruits from these various labors will be born from next year onwards. Finally, we will further digitize our internal processes to allow for more automation for greater efficiency and precision, for faster and more accurate customer fulfillment and support, and to improve traceability and compliance.

Raising ESG Efforts for Long-term Benefits

Corporate sustainability remains a key part of our operational strategy. We continue to search for meaningful ways to contribute in making a better world for future generations and to improve our disclosure of these efforts as we further grow. Each of our global sites have their own action plans based on their situation and a set of milestones to achieve so that all BizLinkers can work together to reach Group-level targets. We add new sites to these efforts as we make acquisitions, and we included all 33 sites in our ESG indicators for our 2022 CSR report. We are releasing an ESG summary to highlight our journey, share key messages, goals and aspirations, and our progress so far. We appreciate the recognition that we have received for our efforts. This will be shared along with second quarter of 2023 earnings Investor Relations materials, but please refer to our CSR reports for the full details.

Charles will now provide updates on our latest quarterly financials.

SECTION II. FINANCIAL HIGHLIGHTS

Charles Tsai – *CFO*

Thank you, Roger.

2Q 2023 Results

Second quarter 2023 sales rose by +2.4% QoQ to NTD 13.0B, which is versus our usual second quarter seasonality for a low-10%'s QoQ increase. Gross margins fell from 25.48% last quarter to 21.92% this quarter due to further inventory adjustments as we alluded to in our last results call as well as due to an unfavorable product mix. If we exclude the inventory impact, then our “clean” gross margins would have been closer to the levels seen in the prior four quarters. Our opex ratio fell from 16.52% last quarter to 15.60% this quarter. Operating margins fell from 8.96% last quarter to 6.32% this quarter. Our Finance Costs within our non-operating items continued to rise, driven mainly by increases in the amortization of the discounts on our convertibles. Our tax rate rose from 28.12% to 39.63% given one-time losses in some of our legal entities. These led our EPS to drop QoQ from NTD 3.96 last quarter to NTD 2.75 this quarter. Finally, we have a leftover share count of 27.3M across ECB4 and ECB5 yet to be converted into our outstanding share count of 161.6M.

Segment Sales Scorecard

Sales in the first half of 2023 is progressing behind budget mainly due to the IT DataComm segment, which is down by -26% YoY, followed by Automotive, which is up by +10% YoY, and then by EA, which is down by -11% YoY. Our Industrial segment, which is up by +2% YoY, is roughly in-line with our budget. Directionally, all four segments are in-line with our expectations. Looking at our Resiliency Drivers next, our secular areas are flattish YoY as many of them are currently slower now, declining by -9% HoH in the first half of 2023. Sales in our industrial areas are up by +16% HoH and are up by +10% YoY as they are generally stable growth. Our Resiliency sales are down by only -2% HoH but are still up by +3% YoY, successfully shoring up our profitability. Our Resiliency sales mix rose from 63% in 1H 2022 to 69% of 1H 2023, acting as a strong stabilizing factor despite the downward pressure on near-term sales growth from a tighter spending environment. However, while industry cycles have moved down for some of our categories, they will also eventually move back up, and we are seeing these areas trying to bottom. Our consumer-centric areas have bottomed out, and they have since begun recovering albeit at a slow pace.

Resiliency Actions

Looking deeper into our numbers, our gross margins have currently stabilized at an average of around 26%, excluding inventory impacts, showing that our new business model is working. We are keeping strict control on our opex, and we have slowly reduced our spending from NTD 2.2B in the third quarter of 2022 to NTD 2.0B this quarter. G&A and R&D costs versus sales have both risen to build a stronger foundation to reach our aggressive targets and to develop new technologies, capabilities, and products to drive future growth, respectively, while S&M costs versus sales have fallen given our temporarily lower scale. Our average operating margin, assuming “clean” gross margins, is 11% for the past five quarters, which is versus an average of 9% for the preceding five quarters.

We have recently sustainably achieved much higher levels of operating cash flow compared to historical levels and given our continued strict control on capex, we have seen strong positive free cash flow. We will unlikely be spending our full budget this year. It has taken some time to get here, but this is the result of our long-term strategy beginning to play out. The last time we saw such a long streak was in 2021 despite supply chain shortages, but we need to go back to the second half of 2019 to see this elevated level of quarterly free cash flow despite ongoing US-China trade tensions at that time. This is helping to gradually build our cash balance. We are looking to maintain this going forward, exclusive of any M&A activity. Our cash balance is at a healthy level as we stabilized our profitability with a higher Resiliency sales mix. We currently do not have any fund-raising plans, and we aim to use our cash balance instead.

Our inventory turns fell for the first time since starting to increase in the third quarter of 2021, but it remains above pre-COVID-19 levels. We will work to reduce it further in the second half of this year. Higher cash balances give us the flexibility to allocate more capital sooner, and we look to visibly reduce our debt levels, which we began doing from last quarter. We currently do not estimate that there will be any abnormal levels of inventory adjustments in the third quarter of 2023 despite our prior expectations for there to still be some left. We currently anticipate only very minor levels of write backs later this year given the softer demand backdrop. Our inventory to sales ratio remains better than our regional peers despite our more global and diversified business nature. This shows our strong track record under more normal circumstances with only one other quarter with such inventory adjustments since 2019.

We are actively pursuing higher TAM growth potential and higher gross margin areas of our global business to further improve long-term profits, which Felix will offer some color on next.

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

SECTION III. OPERATIONAL HIGHLIGHTS

Felix Teng – *CEO*

Thank you, Charles.

Realizing our 4 x 4 Strategy

Our recent reorganization efforts will help to speed up expertise and resource transfer across Industrial, IT/DataCenter, New Energy Transportation, and High-Value EA, which are our Strategic Industries of the Future, in our four major production regions. It will also allow for crosstalk across our businesses to normalize so strategies can be collectively developed to react to market changes sooner.

Outlook Overview

An overall improvement in the business environment is still expected for the second half of 2023, but the pace of recovery has moved lower over the past few months. We are seeing overall shipment momentum improve as our customers restock, demand recovers, and as they launch new products. We will work through the issues that Charles mentioned earlier, but they will lead to some near-term earnings volatility. Finally, we are becoming incrementally more optimistic about our prospects for 2024, but we will not be providing any specific commentary on this now.

Industrial Product Segment

Our Factory Automation category has slowed as global PMI’s further move lower. Our Healthcare category continues to be a stable growth one. The Capital Equipment category has bottomed out, and demand and builds look to slowly rise in the second half of 2023 before potentially stabilizing in the first half of 2024. We may experience a pick-up in the second half of 2024. We are seeing notable progress with our box build and system integration efforts with some projects to be launched within the next year. We are receiving related demand for clean room-use applications, and we recently joined the AVL for a new customer to support such products. The Energy category has been a low impact business for the past few years, but growth accelerated in the first half of 2023, growing by over +40% HoH and is up by over +50% YoY but is still below 5% of total sales.

IT DataComm Product Segment

We experienced light restocking activities within our Peripherals category in the second quarter of 2023, but not to levels that suggest demand is rebounding. While the notebook industry has bottomed, we currently do not see a clear path to recovery. We may still see some light year-end holiday build-up. Our HPC category was slow in the first half of 2023 as existing customers continued to work down their inventories, but we expect orders to begin to pick up from the fourth quarter of this year. Many new HPC projects are slated to be launched, which will set the stage for a stronger 2024 as volumes build. We are pushing our higher data speed and higher power products to support the next generation of HPC applications, and we have received positive feedback.

Automotive Product Segment

Our major EV customer is currently upgrading its production lines as highlighted in their latest results call, which will mean lower near-term momentum. Many of our start-up EV customers have slowed recently, and we are closely monitoring their status. Silicone has been a significant driver over the past few quarters, but we have since seen activities slow from our automotive customers. Our non-EV customers continue to marginally, but consistently grow, and there is still plenty of untapped growth potential, especially for newer applications such as for supporting a higher energy cost environment. Our Charging category has been a nascent one for several years now, but we are seeing growth starting to accelerate, growing by over +30% HoH and is up by over +60% YoY but is still below 5% of total sales. There have been a lot of new industry developments lately, and there will be more to come.

Electrical Appliance Product Segment

Our customers restocked during the quarter, and we expect to end 2023 with strong upward momentum as their new products are launched. We are building our exposure to newer applications as well as to more complicated system-level projects to help secure our longer-term growth as well as to continue to further boost our gross margins. Our new Changzhou facility has since finished construction, and we expect to finish moving from our old, rented facility to this new one by the end of this year.

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.