BizLink **4Q 2023 Earnings Conference Call**

4Q23 Prepared Remarks – March 8, 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*

Charles Tsai – *CFO*

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

OPENING REMARKS

Mike Wang – *IR Manager*

We appreciate KGI Securities for hosting today's call, and we thank Jennifer Liang for that opening.

Good afternoon, everyone. Welcome to BizLink's Fourth Quarter 2023 Earnings Conference Call. This is Mike Wang, Investor Relations Manager. I am joined by Roger Liang, our Chairman, 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 on MOPS. This one-hour call will start with Roger providing the corporate highlights before switching to Charles to share the financial and 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. 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 will be uploaded onto our IR website.

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

SECTION I. CORPORATE HIGHLIGHTS

Roger Liang – *Chairman*

Thank you, Mike.

2023: Looking Back

BizLink achieved significant progress last year, moving from integrating our acquisition of INBG from early 2022 to optimizing our global operations, encompassing 34 production sites in 14 countries. We have shared most of these efforts throughout the past two years in our results calls and related IR materials. We wanted to offer everyone a glimpse into what BizLink was doing to strengthen our foundation to prepare ourselves for an evolving business landscape. We identified key hot spots in future demand and selected our targets. We then repositioned our global resources to go after these higher value-added areas in our continual move forward with our long-term strategy, which we have outlined in the Appendix section of this Earnings Deck.

Globally-renowned customers are increasingly moving away from relying on many smaller and less financially sound single-capability suppliers to collaborating with fewer more capable global ones with a sustainable ability to internally generate cash to invest in for growing together. Customers are no longer just looking for a supplier to manufacture their products, but also for a design partner that can solve their problems. They must be proficient enough in supply chain management to sail smoothly through an increasingly volatile environment, especially given the troubled waters we all faced over the past few years.

Our diversified nature has given us a rare perspective. We are better able to see realizable opportunities for product and/or market development. Our higher power, higher speed cables, harnesses, as well as connectors, plus more complex module assemblies and box builds are enabling the ongoing transition for an increasingly connected world. This higher level of in-house capability across our key regions increases the scope of possibilities with our customers across multiple end-markets. It also allows us to better adjust and allocate resources across our sites. This makes them more flexible as operating conditions and demand changes. This value expansion proposition means we move up and become stickier in our customers' supply chain.

Today's BizLink is not the same one from a few years ago. This road has not been smooth, and our quarterly earnings reflect this, but we have become much more flexible now. We have maintained positive free cash flow for the past five quarters, and we have prioritized the repayment of our debt, which has fallen quite considerably. We are nearing more comfortable liability to asset levels. We can deleverage further, but we must also continue to invest in growing BizLink. Our balance sheet is also much stronger than where it was two years ago. Charles will go into the specifics later in this call.

2024: Looking Forward

We are seeing parts of our business continue to recover while others are looking to bottom out and start to grow again. Our High-Performance Computing business recorded its first sequential sales increase since reaching its peak during the second quarter of 2022. Our Capital Equipment business recorded its second straight sequential sales increase since reaching its peak during the third quarter of 2022. Both require us to use more of our in-house capabilities. Our combined Energy business has been on a general uptrend for the past two years albeit it is still below 5% of total sales. If the future is green, then our combined Energy business has the potential to become much larger and give BizLink a chance to make its positive impact for upcoming generations.

While most view healthcare as a stable mid-single digit growth end-market, treatment and robotics applications tends to be significantly higher growth, and require ultra precise accuracy, special materials and components, unique specifications, controlled production environments and potentially new manufacturing techniques and tools, stringent testing, and long qualification times, making these applications ideal areas for us to further expand into. We already have a product portfolio that gives us the chance to benefit from a potentially very large TAM and profitable market. Many of these solutions are being used by our customers today.

Our footprint efforts will continue as we seek to increase our capacity or enhance our capability in certain regions to boost sales as well as profits with the construction of our new production facility in Batam, Indonesia and in Tainan, Taiwan expected to be done later this year. They may begin to contribute to sales this year but will supplement our earnings next year. Our new facility in Changzhou, China has been up and running for a few months now with plenty of room for expansion. It will become the blueprint for future footprint projects given its efficient layout and its high use of automation. These and more will allow us to become closer to our customers to win more new opportunities while reducing our cost and making BizLink their preferred partner. Finally, we continue to look for ways to meaningfully improve our global operations, but only anticipate seeing relatively minor and targeted adjustments going forward. We are excited about our prospects over the next few years and anticipate returning to growth again from this year.

Charles will now provide updates on our latest quarterly financials and operational takeaways.

SECTION II. FINANCIAL HIGHLIGHTS

Charles Tsai – *CFO*

Thank you, Roger.

4Q 2023 Results

Sales fell by -8% quarter-on-quarter. Gross margins fell by -216 basis points to 24.52%. Inventory adjustments this quarter were back to historical levels as demand in some areas improved. Opex moderately rose quarter-on-quarter, leading to operating margins falling by -365 basis points to 7.09%. Margins saw some minor impacts from one-time restructuring expenses. Non-operating losses significantly fell quarter-on-quarter given the absence of a one-time charge we incurred last quarter and a further repayment of debt, resulting in Finance Costs being the lowest for 2023. Our tax rate moderated a bit, falling -54 basis points to 32.12%. Net profits fell by -32% quarter-on-quarter, resulting in an EPS of NTD3.11.

2023 Results

Sales fell by -5% year-on-year. Gross margins fell by -99 basis points to 24.66% mainly due to inventory adjustments as our segment supply chains normalized after a period of over-heating. Our opex to sales ratio rose by +103 basis points to 16.36%, leading to operating margins to fall by -202 basis points to 8.30%. Opex rose by under +2% year-on-year despite the big jump in our opex to sales ratio. Non-operating losses tripled due to higher Finance Costs, which more than doubled, from a higher interest rate environment. Our tax rates ballooned, rising by +524 basis points to 32.86%. Net profits fell by -40% year-on-year, leading to an EPS of NTD14.37.

We have kept our quarterly cash balance at an elevated level and substantially lowered our inventories and accounts receivables. Our long-term debt is less than half of what it used to be last year with a similar amount leftover in short-term debt. This will bring our total debt related costs substantially lower. The result of our various efforts is that our operations are more efficient and we have tighter supply chain management now, leading to our operating cash flow to reach new highs last year. We spent record capex last year to invest in product and market development to realize new opportunities and to expand and/or enhance existing businesses. Finally, our free cash flow yield is also nearing recent highs.

Segment Sales

During the fourth quarter of 2023, Industrial sales fell by -1% quarter-on-quarter, IT DataComm sales fell by -6% quarter-on-quarter, Automotive sales fell by -9% quarter-on-quarter, and Electrical Appliance sales fell by -28% quarter-on-quarter. The Industrial and Automotive segments performed in-line directionally, whereas the IT DataComm and Electrical Appliance segments performed worse than expected. All four segments remained down year-on-year during the fourth quarter of 2023.

During 2023, Industrial sales fell by -3% year-on-year, IT DataComm sales fell by -27% year-on-year, Automotive sales rose by +1% year-on-year, and Electrical Appliance sales fell by -9% year-on-year. Looking at the year-on-year trend for our four product segments, Industrial and IT DataComm look to be improving and may see year-on-year sales increases soon. Automotive sales look to be deteriorating while Electrical Appliance sales have been relatively volatile.

Bigger Picture

2023 sales were only the second time in our twelve-year history as a public company with a year-on-year decline in annual sales, and so this is very rare. The first time was in 2020 during the worst of COVID-19. We have been laser focused on strengthening our financial base while still moving forward with our long-term strategy. Our free cash flow levels last year rose to a new record despite lower profitability. We managed well through a bad environment, showing the strength of the business during bad times.

Our productivity has greatly improved with year-to-date sales achieved per headcount considerably rising year-on-year. Our energy and related costs in 2023 fell much more than our year-on-year sales decline. Higher efficiency has led to much higher operating cash flow. Our promotion of Florian to COO last year has been the right choice given his in-depth industry experience and proven leadership as he has worked to apply his stream-lining learnings at BizLink with the full support of executive management. We anticipate experiencing even more benefits over time. Our inventories are much cleaner, and our gearing is nearing more historical levels. We are seeing lead times gradually improve as we work off all remaining backlog and as customers deplete their inventories in selective areas. Order visibility is also increasing for some of our businesses with a few extending well into next year. New projects continue to come in, and have never stopped these past two years, keeping us on our toes and preparing to take advantage of the next upturn with our stronger cash flow. Recent manufacturing PMI's in our key regions show some promise, and are not falling anymore albeit a few are still below 50.

We bolstered our cash buffer to support INBG's working capital and initial capex needs in 2022. We further helped to realize the opportunities that INBG identified before they became BizLinkers as well as those that we previously identified to attempt to purposefully match our spending with market and customer demand last year. Quite a few of our businesses have double-digit CAGRs ahead of them. Capacity constraints should not be the limiting factor for our ability to meet this demand. We are seeing business units from across business groups collaborate on developing new technology, winning new business, and launching new products across all four of our segments. We are adapting to rising ESG standards and look for ways to boost our "Green Revenues", which have risen from 8% of 2019 sales to 16% of 2023 sales for a CAGR of +25%. Finally, we are keen on pushing forward our Digital Transformation projects, including for cyber-security and RPA.

An improvement in business conditions means an increase in our profitability as we see sales grow and see higher utilization levels, write back more inventory, continue to control costs, and potentially deleverage further. Our cash conversion cycle will also improve. We aim to keep our free cash flow positive, giving us the option to spend to grow organically as well as inorganically and potentially even raise cash dividends for our shareholders. The longer we can maintain positive free cash flow, the more flexible we can become with our capital allocation. This solid financial structure will enable us to achieve a steadier rate of growth and profitability as our long-term strategy unfolds.

SECTION III. OPERATIONAL HIGHLIGHTS

Charles Tsai – *CFO*

General Overview

The near- to mid-term global operating environment remains challenging but the green shoots that we saw last quarter have become more abundant with some becoming more evident than last time. Roger noted earlier a few key areas that we expect to see the most growth from this year, but these will be partially offset by the sustained weakness in our Peripherals, Electric Vehicle and related, and Factory Automation businesses. These latter businesses may eventually bottom out later this year but will unlikely be up YoY given their higher bases last year. However, EV's and FA are very important businesses to us, and we continue to develop them with YoY growth to possibly return next year and persistent growth in our HPC, Capital Equipment, and our Energy businesses.

Near-term Outlook

Our monthly sales have been on a general down-trend for the past year and a half, but we have since seen it rebound year-to-date. We feel that the worst is over now, and we expect to be back on the path towards growth this year. However, we currently only see moderate levels of growth for the reasons just explained. Our Industrial, IT DataComm, and Electrical Appliances segments may see similar levels of growth while our Automotive segment will noticeably slow. Inventory adjustments and interest expenses should become less of an issue this year, and we will continue to tightly control costs. We anticipate continuing to use our internally generated cash for our expansion activities this year, but as I noted in the last section, actual outlays will depend on our prevailing business conditions and their outlook. Lastly, we are always on the lookout for our next M&A target.

Industrial Product Segment

Our Industrial segment peaked during the third quarter of 2022 and has declined sequentially in the past four quarters out of the past five, falling a total of over -13%. Our higher Industrial sales exposure has been the key to being able to achieve positive free cash flow with our optimization efforts being the key to sustaining it. An improving business environment may mean there is upside to our positive free cash flow levels. Our Capital Equipment business bottomed in the second quarter of last year and has since increased by +18% as it recovers. We have seen some minor inventory write-backs here. 2025 looks to be a very strong year for this business, and our outlook here remains unchanged from last time with the first half of this year to be flattish and with the second half to visibly begin picking up again. Our Energy business is a higher growth one but is still moving up from a smaller base.

Our Healthcare business tends to have a stabilizing impact on total segment sales given its usual mid-single digit YoY growth. Finally, our Factory Automation business peaked during the third quarter of 2022, and has declined sequentially in the past four quarters out of the past five. This business is not out of the woods yet, but we are seeing declines noticeably slow and may soon bottom. The robotics and treatment applications mentioned earlier crosses multiple areas within this segment. Therefore, we are relatively more neutral on this segment, and it will remain the largest one for the foreseeable future.

IT DataComm Product Segment

Our IT DataComm segment peaked during the third quarter of 2022, and has declined sequentially in the past five quarters, falling a total of about -37%, making this segment the worst performing one. We have de-emphasized the Peripherals business for the past few years now, but the decline last year was worse than we expected and contributed to most of our inventory adjustments. It became smaller than our High-Performance Computing business, and its impact to the segment will lessen even more. This business will continue to decline this year, and it is possible that we will see more inventory write-backs as the PC industry bottoms and begins to recover during the second half of this year. The market is currently looking for a low single digit YoY increase in PC shipments. We have been repurposing our resources here as well as reallocating some of our production to lower cost regions. We are looking to apply our PCBA assets for modules and sub-systems within High-Performance Computing, Electric Vehicles, Capital Equipment, and within Healthcare. Our expertise here will be seen in product launches for smart homes in the Electrical Appliance segment later this year.

Our High-Performance Computing business bottomed in the third quarter of last year as end-customer server workload optimization efforts at our two main US-based hyperscaler customers slowed to a trickle. We saw this business significantly rebound, increasing by +29% quarter-on-quarter last quarter as volume shipments of our new higher-valued products began as expected, and these will slowly ramp as 2024 progresses. We are seeing very active project engagements here with current and future customers. Some are in later stages and will contribute to sales later this year while others will gradually roll out over the course of next year. This supply chain is only just getting started for downstream suppliers, and BizLink will benefit from this with our high-speed and high-power products. More-broad based adoption of AI across industry verticals and data sovereignty concerns means that our HPC business is poised to see further gains in the years to come and may also benefit our Capital Equipment and Energy businesses. Therefore, we are relatively more optimistic on this segment.

Automotive Product Segment

Our Automotive segment peaked during the second quarter of last year, nearly a year after our Industrial and IT DataComm segments peaked. However, sales have already fallen by -19% mainly due to our Electric Vehicles and related businesses given the current downcycle occurring in Auto and our market share loss at a specific customer. Our bread and butter have been power and signal solutions for EV's, but we are currently working on data solutions as the amount of data generated will multiply several times as EV's become more automated and have more onboard electronics. These can be simple cables and harnesses or more complex PCBAs and box builds. We are also working on several other non-cable related projects as well. Our EV and related businesses may not bottom out until much later this year.

Whereas our Industrial segment has the Energy generation and storage sides for renewables, our Automotive segment has EV Charging albeit it is still comparatively small. We expect to see continued growth as the EV infrastructure really needs to be built out to support further growth in EV volumes. This is to avoid running into excessively long wait times at charging stations, which may contribute to range anxiety concerns for potential EV buyers. The timing is perfect though as this buildout will not coincide with a large increase in EV volume, meaning a more logical expansion. Our solutions here encompass portable and wall mounted EVSE, charging guns with liquid cooling, CCS1/2 and NACS connectors, all three regions, and even cables within the charging unit itself. We are also seeing similar strength within the Silicone business. Our solutions here encompass high-temperature resistant and extremely flexible and very smooth cabling for power distribution applications. On the other hand, auto demand for the Silicone business seems to have stabilized albeit at low levels. Therefore, we are relatively more cautious on this segment.

Electrical Appliance Product Segment

Our Electrical Appliance segment peaked in the fourth quarter of 2021 and was the first segment to do so. However, normalization of supply chains here has been uneven with a few down quarters followed by a few up quarters before going back down again. This segment has thus far seen the lowest sales last quarter, dropping by about -33% from peak to trough so far, but is probably the "cleanest" out of our cyclical businesses given this two-year duration. Many of our customers will be launching new products later this year, including one that uses our PCBA capability to develop advanced PRCD plugs. The profitability of this business has gone a long way since we first acquired it in 2017 with gross margins near the corporate average now. Therefore, we are relatively more neutral on this segment.

Now let me turn the call over to Mike.

QUESTION & ANSWER SESSION

Mike Wang – *IR Manager*

Thank you, Roger, 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, 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.