3Q 2022 Earnings Conference Call

3Q22 Prepared Remarks – November 10, 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*

Charles Tsai *BizLink Group – VP of Accounting & Controlling*

Mike Wang *BizLink Group – IR Manager*

OPENING REMARKS

Mike Wang *BizLink Group – IR Manager*

Good afternoon, everyone. Welcome to BizLink's Third Quarter 2022 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 VP of Accounting & Controlling. 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. Today's earnings call will start with Roger providing a general status update before switching to Charles to share the Company's financial results, and will then end with Felix to present the Company's operational highlights and key messages before opening the floor for Q&A.

Before we continue, please 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 for details. Finally, I would like to remind everyone that today's call is intended only for institutional investors and sell-side analysts. With that, I will turn the call over to our Chairman, Roger.

GENERAL STATUS UPDATE

Roger Liang *BizLink Group – Chairman*

Thank you, Mike.

Hello everyone, and thank you for joining us today. Our third quarter performance represents the combined efforts of our global teams amid an increasingly challenging operating environment. They all did an excellent job, and I look forward to all of us continuing to execute well. We continued to strategically invest across our business to ensure that we remained on course to progress along our long-term trajectory, where we have made great progress in, but with a particular eye now on a variety of possible scenarios that may happen next year as well as taking the pre-emptive preparation needed in order to be able to quickly act in those instances. Many of my senior management colleagues and fellow co-founders have successfully navigated through prior downcycles (2000, 2008) as well as through the many challenges that we encountered together in the past few years (2019-2022). We fully realize that there are macro issues beyond our control, but we aim to limit their near-term impacts as much as possible by being as ready as we can earlier.

The way you emerge from a downturn is with stronger technology and capabilities than when you entered one, and one of the keys to that is to nurture strong in-house engineering and project management teams. The sales from our long-term drivers have grown from under 10% of total in 2019 to under 40% of total sales in the first three quarters of 2022, and we expect this to continue to increase as we further grow out the individual categories despite various near-term headwinds. If we then expand our sales footprint to cover the areas that we currently believe to be more resilient to include the rest of Industrial, then our total sales exposure has risen from 20% of 2019 sales to over 50% of total sales in the first three quarters of 2022 with most of these being customized solutions for our customers and designed to their unique specifications for a particular application, which then tends to be stickier as they require an in-depth understanding of our customer and their needs as well as their trust in order to add value. This means that our customers tend to come back to us again and again, initially perhaps due to high switching costs but eventually more so due to our strong track record.

Many long-term opportunities are surfacing with a narrow window of time, especially in light of recent events, with various transitions taking place as we speak, both later stage ones (for example, moving away from globalization) that have accelerated and new ones (for example, the merging of multiple end-markets into one device) that are only in their earlier stages now. Local/regional supply chains will become increasingly mature over time as more and more upstream and downstream companies move to cut their macro risk by diversifying, resulting in lower supply chain costs and risks in the long-run. A lot of these moves only periodically make it into the headlines, but they are there. We have seen many of our global brand name customers across our four segments becoming serious about business continuity, which means being able to operate and service them with relatively low interruption, and this has become our competitive advantage and some companies, including BizLink, will gain market share due to this. We are now actively looking for ways to build on top of the efforts that we have made over the past five years by gradually shifting our resources to identify and then target key areas where we can add value by developing products tailored to those specific markets, customers or applications.

Our efforts to consolidate and optimize Group management and operations persisted with ramped up efforts to promote increased and open communication between our four regions and our production and office sites in order to foster greater cross-departmental, cross-functional cooperation for the sharing of best practices, changes in the operating environment, and market information and industry trends, and for general brain-storming as well as for building relationships. We are working towards a greater dispersion and appreciation of our culture across the Group. Finally, we also continue to bring onboard various talents across our business.

Charles will now provide updates on our latest quarterly financials.

FINANCIAL OVERVIEW

Charles Tsai *BizLink Group – VP of Accounting & Controlling*

Thank you, Roger.

We reported revenue of NT$ 14.5B, an increase of 96% compared with the same period last year. I would like to remind everyone that we began consolidating INBGs' financials starting from January 21 this year, and so the third quarter represents our second full quarter of consolidation. Gross margins were nearly flat sequentially at 25.75% as a more favorable product mix was overshadowed by an inventory aging loss of Euro 2M as we applied more stringent IFRS aging rules on INBG, leading to a one-time negative impact of 40 bps to corporate average gross margins. Our OpEx ratio rose sequentially to 15.03%, mainly as G&A increased from salary adjustments and the hiring of new talent, but is still within our historical and expected levels. We have booked all known one-time INBG-related integration costs with major portions of the post-merger integration action items recently completed. Remaining open topics and/or projects will be routinely taken care of as a part of everyday operations.

Our operating margin fell sequentially to 10.73%, but when compared to the third quarter of last year it is up 87 basis points, and stayed in double digit territory. Our tax rate was 25.23%, which is down versus the 27.60% in the second quarter of 2022 when we accrued some tax liabilities in China, and due to lower exposure to Europe on seasonal impacts from summer holidays. Net profit was NT$ 1.2B for the third quarter and the consolidated EPS was NT$ 7.64, up 68% year-over-year. This puts our year-to-date EPS at NT$ 19.14 or up 74% year-over-year, driven by both an increase in scale as well as margin improvement.

We continue to work very closely with supply chain partners to weather these increasingly challenging times together so that we collectively emerge stronger and ready to charge ahead of the competition. We are still receiving many new project requests from customers and our NPI pipeline remains robust. We are actively expanding and optimizing our supplier base while maintaining strict discipline and control, strategically widening our new customer pool, and working to cross- and/or up-sale our technology and capabilities to customers from different segments and/or categories to become not just our customers' approved solutions provider but their preferred global partner. We gradually turned our raw materials into sales with inventories falling sequentially in US$ terms as we expected and as communicated in our second quarter 2022 earnings call back in late August. We are now taking additional actions with supply chain partners to continue to reduce our inventories (in US$ terms) in the coming months to further improve our free cash flow while minimizing the negative impacts to profitability and to our long-term relationships. Meanwhile, we will continue to actively monitor changes in our business through increased and open communication as Roger noted earlier.

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

OPERATIONAL HIGHLIGHTS & KEY MESSAGES

Felix Teng *BizLink Group – CEO*

Thank you, Charles.

The organic sales growth for Industrial, IT DataComm, and for Automotive in the first three quarters of 2022 are all above our sales growth budget expectations on better-than-expected volume growth and supply chain enhancements. Industrial is the only remaining segment where we have not yet seen material improvements in supply chain issues. We saw Peripherals and EA weaken on the whole, but did not see a complete slow down yet given new model launches and the premium segment holding up relatively well, respectively. INBG saw strong demand across almost all areas given its higher mix of capex- and/or anti-cyclical projects with supply chain issues easing a bit. However, overall material costs and lead times remained high in Europe, but have since eased in Asia.

Looking at the individual categories within our secular drivers, our Capital Equipment business is seeing rising demand for more in-house development and manufacturing of more complex, value-added box builds and system integration with initial orders placed at non-Speedy sites. The sales contribution from these kinds of projects are just over 1.0% of total sales in the first three quarters of 2022, and we expect this to grow over time as we develop and solidify our track record. Factory Automation stayed strong, being only one of two areas that grew QoQ (in Euro terms) despite the summer holidays in large parts of Europe, and was driven by the EV market.

Moving onto HPC next, our technology and capability enhancement efforts with INBG continued. We exhibited our lineup of new HPC power solutions at the 2022 OCP Global Summit, and customer interest has been strong. The automotive supply chain continues to slowly improve, and we are ramping our research and development, sales and marketing, and production efforts within high-voltage and high-speed interconnects. Finally, INBG's Tailor-Made Products business unit will increase our total addressable market within Health-care as well as in Capital Equipment with a number of new projects starting to be ramped up now, especially those with very strict operating requirements. Finally, we continue to grow our connectors business, which accounted for just over 0.5% of total sales in the first three quarters of 2022, and this is another area that we will be investing in in order to provide more holistic solutions to our customers and to support our Business Groups' and/or Business Units' competitive advantages.

We are still working against an order backlog for some of these categories, which will help to hold up our near-term sales as we expect to see the negative impacts from slower Peripherals and Electrical Appliance to pick up their pace. We are seeing some moderation in near-term order growth forecasts as a result of political developments (Capital Equipment), ahead of major server CPU product launches (High-Performance Computing), and sustained supply chain issues (Electric Vehicle). Our combined Industrial, HPC, and EV sales have been the most stable growing one from 2019 till the first three quarters of 2022, and there is still plenty of room to grow over the next few years as our plans are realized through our investments into our future. The order intake ratio has dipped lower at INBG, but most customers are not expecting any changes to their projected plans. Higher energy costs are disrupting upstream raw material production in Europe. Business units with a greater mix of high customization have their capacities for 2023 fully booked.

Let me share an early initial look into next year. A period of normalization is possible after three years of strong growth, particularly for many end-device related industries. However, infrastructure-related spending will likely continue to a large degree in order to bolster productivity, efficiency, and redundancy, which we view as being solid long-term demand drivers but with potential near-term risk as wallets are squeezed. It is possible that spending will then focus on extending the utilization of higher ticket assets instead, many of which we have sizable exposure to. This means prolonging the lifecycle or expanding the applicable scope of these kinds of assets to maximize the impacts of available capital spend. It is possible that Industrial may turn out to be the segment that once again outperforms.

The Company is building a more comprehensive and sustainable in-house portfolio of resources so that we can better service and add value for our global customers across our footprint and segments. We still see numerous tailwinds in large parts of our business, including some from those that are only beginning to move up the S-curve, where we plan to continue to focus our investments in. We will be much more prudent than we are historically in our spending to ensure that we maximize our long-term gains from these investments while minimizing their near-term risks, which we have done year-to-date. Future opportunities may surface for us to deploy our capital that we have yet to see as our operating environment stays fluid. The BizLink of yesteryear, the BizLink of 2022, and the BizLink of tomorrow will be very different, and we encourage everyone to continue to observe this evolution.

Now let me turn the call over to Mike.

QUESTION & ANSWER SESSION

Mike Wang *BizLink Group – 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 *BizLink Group – 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.