BizLink 4Q 2022 Earnings Conference Call

4Q22 Prepared Remarks – March 30, 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 – *VP of Accounting & Controlling*

Special Guest: **Florian Hettich** – *CEO of INBG*

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

OPENING REMARKS

Mike Wang – *IR Manager*

Good afternoon, everyone. Welcome to BizLink's Fourth 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. We also have a special guest this time, Florian Hettich, our CEO of INBG, the Industrial Solutions Business Group. 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 to Felix to present the Company's operational highlights and key messages, and then finally end with Florian to share some specific insights on INBG 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.

GENERAL STATUS UPDATE

Roger Liang – *Chairman*

Thank you, Mike.

Looking Back at 2022

I am pleased to announce that 2022 was another record year as we continued to move forward in our long-term strategy, which we have outlined in more clarity in the new IR presentation. BizLink achieved many milestones last year, key among them was our acquisition of INBG, and we have invited the business group head, Florian, to share some updates later in this call. The ground-breaking of our new Tainan facility in Taiwan, our 33rd site, is part of this long-term strategy, and the construction of this new production site has already commenced. We continued to build-up our corporate functions given the scale and complexity of the new BizLink, and have achieved some initial minor albeit meaningful synergies with our INBG family. We pushed forward along our plans to enhance the long-term potential of our footprint in our four regions, which are benefiting from recent political and economic developments. Finally, corporate sustainability remained a priority, and various efforts gained ground or were kicked off last year to support related initiatives and to live our values as a BizLinker.

Looking into 2023

2023 has started off with many challenges, and just like in the past few years, we were able to gradually overcome them through our global teams' dedicated and coordinated efforts. Several of our product segments are continuing to weaken, both secular and cyclical, while others are remaining firm with our diversification helping to balance the overall business. We remain optimistic about the long-term prospects of our Strategic Industries, and will continue to grow these areas over the next few years with new capabilities and new customers. We have many new exciting products in development, and our strategic customers keep sharing new projects and ideas with us to position ourselves for long-term sustainable performance. Our mission is to be recognized as a world class company by 2027 with many business, operational, and financial targets that we aim to achieve in the coming years as we further evolve. While 2023 will undoubtedly be another year full of many obstacles, we are confident and excited about the future of BizLink, and urge everyone to stay tuned and watch our journey.

Charles will now provide updates on our latest quarterly financials.

FINANCIAL OVERVIEW

Charles Tsai – *VP of Accounting & Controlling*

Thank you, Roger.

4Q 2022 Recap

Zooming in on 4Q 2022 first, sales fell -6% QoQ to NT$ 13.6B while our gross margins rose QoQ to 26.27%, and I am proud to share that they are back to 3Q 2020 levels of exactly 26.27%. Our operating costs to sales ratio increased QoQ despite operating costs being flattish QoQ at NT$ 2.1B as our scale shrunk during the quarter, which was mainly driven by IT DataComm. This led operating margins to be flattish QoQ, and with the exception of 1Q 2022, which was impacted by a large one-time expense, the remaining quarters of 2022 were all double digits. Our tax rate marginally rose QoQ but managed to stay in the 25% percentile, leading to our 4Q 2022 net margins to fall QoQ, and given some dilution, our EPS fell QoQ to NT$ 5.89. Our balance sheet inventory (in US$) continued to slowly decline QoQ as we closely collaborated with our supply chain partners to gradually bring these levels down from 2Q 2022's high. The primary contributor to this decline has been in our raw materials as we minimized work-in-progress, and steadily pushed finished goods products further downstream to improve our cash flow. Finally, we were able to bring down our A/R levels as well.

Looking Back at 2022

Sales rose by +88% YoY to NT$ 53.7 billion in 2022 on the back of double-digit YoY sales growth in both the organic business as well as for INBG (in Euro). 2022 gross margins were 25.65% and have recovered back to 2020 levels of 25.34% despite higher direct costs given a higher resiliency sales mix, rising from 31% of sales in 2020 to 64% in 2022. Our operating costs to sales ratio rose as we spent money to push the business further with general and administrative costs rising the most followed by sales and marketing costs.

Operating margins therefore improved from 9.31% in 2021 to 10.32%, rising by 101 basis points, as we grew our resiliency sales and controlled costs as much as possible. Our tax rate visibly rose, increasing from 23.45% in 2021 to 27.62% in 2022, mainly due to a much higher sales exposure to the European region, which generally has higher tax rates. Our EPS added nearly NT$ 10, rising from NT$ 15.22 in 2021 to NT$ 25.02 in 2022, on the back of the global efforts of the new BizLink, and shows our combined results with more to come.

Looking into 2023

We remain cautious about the consumer-centric areas of our business, and while parts of our secular drivers are moving through their down-cycle, our industrial drivers remain firm to up. This will lead to our resiliency drivers to outgrow the corporate average, and help to lessen the burden from continued cost pressures as they have higher gross margins than other areas. Our resiliency drivers tend to be up in the longer-term regardless of the cycle, and there will be years with higher growth and we are positioning for this next leg up. We will actively review, monitor, and adjust capex and opex spending as our operating situation changes, and will lower our debt ratio as our cash flow improves in the coming quarters. Finally, we realize that the corporate tax rate will be higher than in prior years due to a higher sales exposure to the European continent, but this also opens up our addressable TAM.

We remain on alert regarding the challenging global macro environment that we are all in now, especially in those countries that the company does business in and strive for healthy growth this year. We have had our eyes on a variety of scenarios since mid-last year, and have been taking pre-emptive preparations so that we can quickly act. Our management teams have experienced prior down cycles before, and learned better than to make hasty guesses about the duration and depth of such down cycles. We are therefore making the choice to shore up our balance sheet by reducing the dividend payout ratio on last year's earnings as well as reigning in our capital expenditure plans for this year albeit they are budgeted to still be marginally up YoY. We will also continue to work down our inventory levels. Our upcoming capital increase will be used for debt repayment as noted in our recent filing. These will preserve our cash balance, and provide us with greater flexibility in the coming quarters given the uncertainty but also given potential opportunities.

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

OPERATIONAL HIGHLIGHTS & KEY MESSAGES

Felix Teng – *CEO*

Thank you, Charles.

Near- to Mid-Term Views

Persistent inflationary pressures are leading to adjustments in end-demand as central banks raise their interest rates and further tighten monetary conditions. Looking at the demand trends within our four segments, IT DataComm continues to be slow as the industry digests inventory on both the Peripherals and the High-Performance Computing sides. Business is slow in EA as our customers there also work down their inventories while Automotive remains strong with many new EV projects starting or growing in their contribution. Our Industrial segment, inclusive of INBG, will be the overall highlight this year, and is holding up relatively well, but is still being impacted by various component and cable shortages. We continue to work with our supply chain partners to reduce the impacts to our businesses with visible improvement in our IT DataComm, Electrical Appliance, and Automotive segments. However, our customers are beginning to push back on further pricing adjustments given end-demand continues to gradually deteriorate, and consumer and commercial sentiment further sours. This is leading to our overall direct costs to become toppish after having increased for the past two and a half years with some areas experiencing some declines in the past few months.

Mid- to Long-term Views

The world nowadays changes at a faster pace and sometimes in bigger ways than they used to twenty years ago, especially with emerging disruptive technologies shortening product life cycles. Impacts are always two sided, and while market mechanisms will balance things, we aim to actively position ourselves so that we benefit from such changes instead of being hurt by them. We continue to consistently add overall exposure in our Strategic Industries of the Future, which consists of New Energy Transportation, HPC, Industrial, and High-Value Added EA. Our resources are directed in these areas, some of which we deem to be our secular drivers, and there are various measures in place to maximize the impacts of our spending over time. We identify the technologies we need to execute our corporate strategies, and then decide the routes to fill these gaps, including engaging in IP partnership programs to catch up sooner. Various governments around the world have proposed fiscal policies to support some of these industries, and are also working to localize production to diversify their supply chains. Our 4 x 4 business model with our 4 regions addressing 4 segments will offer our global brand customers options to diversify against these operational risks and ensure business continuity. Finally, we are normalizing EHS and ESG practices across BizLink in order to ensure we are insulated from rising climate risks and emerging regulations, and benefit from this same Green Wave.

Florian will now share some comments on the INBG business.

INBG UPDATES

Florian Hettich – CEO of INBG

Thank you, Felix.

Looking Back at 2022

Overall, INBG had a very good year last year, and the business group already achieved its 2025 mid-term goals with all business units seeing double digit YoY sales growth (in Euro). Customer demand was strong throughout 2022 with some areas exceeding production capacity although supply chain issues made it even harder to fulfill customer requirements given shortages on the supply side. Rising raw material prices, wage and cost inflation, and energy prices pressured our gross margins, but cost reduction measures and pricing adjustments to selling prices helped to alleviate this pressure. Total sales last year were able to achieve high-teens YoY sales growth (in Euro) despite these challenges with sales in Factory Automation and in Silicone both outgrowing this average. We were able to successfully reduce our inventories in the second half of the year given intensive operating working capital management from 2Q 2022 onwards, and supply chains began easing up towards the year-end.

Looking into 2023

INBG has started off 2023 strong with Automation and Drives, Tailor-Made Products, and Silicone doing very well compared to the prior year. Healthcare and Robotics were also clearly ahead of last year's volume, whereas Telecomm Systems has been weaker due to slower High-Speed Interconnect demand and continued inventory digestion along the supply chain. The current order outlook seems robust, but we could see reduced growth rates in the next few months albeit it is challenging to confidently forecast into the second half of this year given so many uncertainties and as the situation remains fluid. Energy prices in Europe are now significantly lower than in the second half of last year and seem to have stabilized, but they are still significantly higher than two years ago given considerable increases after the start of the Russia-Ukraine conflict. Energy pricing expectations into 2024 and into 2025 are consecutively lower versus current levels. Current gas storage levels are deemed sufficient for the remaining winter season and efforts have been underway by various governments to secure supply for next winter.

Personal Note

BizLink's consolidation of INBG began on Jan 21, 2022, and the past 14 months as a part of the BizLink family has been a welcome change as my colleagues in the EA business can attest to. I am extremely proud of my teams around the world and of my senior management team, and of the numerous milestones that we have achieved together in the past few years before finally becoming a part of BizLink but also of those that we have achieved in the last year alone. Within the last year we have executed and achieved the majority of the integration milestones and topics, putting us into the position to refocus on the operational and strategic topics from the second half onwards. We clearly see that BizLink's strategic direction is aligned with ours, and their willingness to work with us and to provide us with various resources to grow together is quite amazing and encouraging for us. We have overcome many obstacles, and there will be more but the wide range and size of possibilities we can take on with our combined experience and capabilities means that we will have a good starting point for a successful future. It is still early innings for the new BizLink, but we are excited to be a part of the upcoming journey and look forward to developing new technologies and realizing new opportunities.

Now let me turn the call over to Mike.

QUESTION & ANSWER SESSION

Mike Wang – *IR Manager*

Thank you, Roger, Felix, Charles, and Florian. 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, Charles, and Florian. 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.