



2Q 2022 Earnings Conference Call

2Q22 Prepared Remarks – August 26, 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 Second Quarter 2022 Earnings Conference Call. This is Mike Wang, Manager of Investor Relations. 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 also 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 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. We had a strong quarter, and I'm proud of how our global teams continued to build and deliver products in a difficult operating environment amid an increasingly uncertain global economic outlook while at the same time controlling costs when possible.

We continued to move forward with our long-term operational strategy to diversify our global business across regions, products, and customers in order to improve our long-term corporate resilience as well as to better support our customers, whom - amid continued supply chain disruptions - are becoming increasingly keen on their key suppliers - such as BizLink - to aid in their efforts to maintain business continuity. As a result, we have experienced some selective market share gains in a number of our product categories, and look forward to being able to continue to bring them closer to us. Many of them visited our sites during the second quarter, and there may be more in the coming months as supply chains slowly ease up.



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Our four product segments continued to perform admirably with overall 1H 2022 YoY sales growth marginally exceeding their full year budgets, and our post-merger integration efforts with INBG are ongoing. I am excited to see our latest family members closely collaborating with our global teams to see what kind of opportunities there are, and it is encouraging to see this cooperation between them. It will take time to realize synergies from this acquisition, but the complementary market presence is being leveraged so that we gradually raise our total exposure to areas that we have identified as being our addressable Mega-Trends to secure our long-term growth. Our technology and capability development efforts are ongoing across our various businesses, and we continue to innovate in many of our product categories in order to better take advantage of these Mega-Trend opportunities.

We have also moved further to improve our long-term corporate resilience through non-operational dimensions, including those along the Organizational, Financial, Technological, and the Branding and Reputational elements of our global enterprise, as BizLink continues to grow and to evolve. Corporate Sustainability remains one of our core values, and I sincerely appreciate the recognition that we have thus far received for our worldwide efforts. I look forward to seeing what we can do as one family to improve lives not just for current generations but for future ones as well. Finally, the well-being of our global teams continues to be a key priority.

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 record revenue of NT\$ 13.96B, an increase of 99.02% 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.

We adjusted our product segments and categories to reflect our latest long-term plans on what will drive the combined business going forward. Automation & Drives, Robotic Solutions, Healthcare, and Tailor-made Products will go into Industrial, Telecomm Systems will still be in IT DataComm, and Silicone will go into Automotive. Our sales mixes were relatively evenly distributed with Industrial higher and Electrical Appliances lower. Our secular drivers, which we now define to be Factory Automation, Capital Equipment, High Performance Computing, and Electric Vehicles continue to play an integral part in our long-term growth, taking up 35-40% of second quarter 2022 sales, which is versus 5-10% of first quarter 2019 sales, and there is room left to grow. 1H 2022 sales from our secular drivers are up by over 191% year-on-year, and is leading to a shift in our top-10 customer ranking to become more diversified and stickier to Mega-Trends. Our higher secular sales mix will help to lessen the impacts from a possible global slowdown.

Gross margins rose to 25.97%, an increase of up 216 basis points year-over-year, given a more favorable product mix. We continued to actively negotiate with our business partners to optimize our supply chains against the current cost environment with some impacts deferred from prior quarters.

Our OpEx ratio was 14.27%, and is back to levels seen in prior quarters as the one-time expenses related to our recent milestone acquisition had already been incurred in G&A during the first quarter. We have booked all known one-time integration costs. PPA depreciation and amortization began from the second quarter. Our operating margin improved to 11.70%, up 94 basis points compared to the second quarter of 2021, and is back in double digit territory.

Our tax rate was 27.60%, which is compared to 34.64% in the first quarter of 2022 when we saw some non tax deductible items, as we accrued some tax liabilities in China during the second quarter.



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Net profit was NT\$ 1.17B for the second quarter and the consolidated EPS was NT\$ 7.68, up 85.96% year-over-year.

Balance sheet inventories continued to increase due to our strategic building up of raw materials in order to cope with supply chain disruptions, which worsened during the second quarter. However, there is low write-off risk as much of these raw materials are pre-committed by our customers for active projects in which they have already placed orders for. We do not engage in risk buys. Our hubs also continued to hold onto some finished goods inventory. We will normalize our inventories as supply chains ease up, and bring levels back down in the coming months. Finally, overall debt levels may begin to moderate in the coming months as we expect ECB-3 will be mostly converted before we exercise our call, and as we are starting to see conversions for ECB-4.

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.

We continue to be cautiously optimistic about the picture for the second half of 2022, and we are seeing minor pockets of slowdown. Our primary focus is to secure the supply chain whenever possible and to improve lead times to deliver products to our customers.

The Covid lockdown in China affected our site in Kunshan, which was down for about three weeks in April, and impacted sales in IT DataComm and in Automotive; we actively ramped up production in May and June to compensate for this situation, and I commend our teams for their tremendous effort. The market has presented even more challenges in the last few months, from inflationary and recessionary fears to rising energy prices. However, BizLink's ability to address customer needs quickly was key to our performance in the second quarter. We also noticed the steep drop in copper prices from June; the effect on our EA and INBG businesses will not be seen immediately, but we may see its impact in the second half of the year if there is a consistent pattern in prices dropping.

Moving onto INBG next, we saw our first full quarter of consolidation, and all business units are exceeding their sales budgets. We have already seen orders booked in some business units for 2023, and our backlog continues to grow as we cannot meet all customer demand given INBG's current capacity and persistent supply chain issues. INBG's overall overhead is now lower as a part of BizLink.

Our Industrial segment grew the most as we continued to see orders rise from our four major capital equipment customers. We are selectively raising our capacity at 3 out of 4 of our production regions to better service these customers and others. We have not seen order cuts or postponements yet, and backlogs are still rising with some pulling-in of orders. We continue to suspect that some spending from our customers' end-market users to get pushed out to 2023 due to continued shortages as highlighted in their latest earnings results, and that any slots that do open up due to order adjustments are quickly taken up by others. We have even begun receiving orders for 2023 in the last two months. Overall, China's Covid lockdown worsened the tight supply chain in the second quarter, but conditions have improved, and we still have more demand than our capacity allows for. Margins also remained resilient.

Our IT DataComm segment grew on the back of continued strength in HPC, and we may see HPC sales sustainably surpass docking sales towards the end of this year. Despite Covid lockdowns in China, our shipments and revenue did not collapse as clients pulled from our hubs and as some sites in other regions continued to gradually contribute more to total sales. We have seen customer forecasts in peripherals move moderately lower, but we have not seen any major order cuts yet and are actively adjusting our related inventories. We were focused on ramping back up post the shutdowns in April as we continued to be unable to fully meet customer demand due to component shortages. We have recently launched new products within peripherals. From an HPC perspective, we have made good progress with our major customers as the demand for our products noticeably grew. We are confident that the sticky



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relationship with them has enabled us to gain new projects given our strong track record. Our multi-region strategy has helped us gain more traction with our HPC customers, and we are selectively raising our capacity at 2 out of 4 our production regions.

Our automotive segment grew by the second fastest as industry-wide shortages are slowly alleviated. Overall electric vehicle orders fell quarter-on-quarter due to the China lockdown in April, but have since fully recovered. Nevertheless, our diversification strategy benefited us in the move to supply chain regionalization/localization as we continued to ramp up production in both our US and Mexico sites. Orders from our smaller and/or early-stage EV customers noticeably rose as they are starting to be able to source more components and raw materials. Initial projects with new EV customers for delivery-related applications are ongoing. As many of our customers in Auto look to ramp up production in Mexico, we are working hard to optimize our operations there to support them.

Lastly, our Electrical Appliance business was the only segment to decrease. Customer forecasts here are also being adjusted lower given the unexpected prolonging of the ongoing Russia-Ukraine conflict. New projects are still happening albeit at a slower pace.

As we look into the latter half of the year, we are watchful of constant changes in the macro environment and are taking actions to reduce their impacts, but realize that some are beyond our control. We expect our capital intensity to fall this year as we strategically spend to grow our business both in footprint and in capabilities. We have been gradually shifting our focus to higher-margined more value-added projects, including box builds and system integration not just within capital equipment, which accounted for under 10% of organic sales within this product category, but in a few other categories as well to boost our in-house capabilities so that our customers do not need to go to multiple suppliers. Cleaning up our inventory and reducing exposure to low-margin projects and customers are also a strategic focus, and we are concentrating on future projects with the following characteristics: high voltage, ethernet (data-heavy), and active high-speed cables. We are optimistic about these Mega-Trends: Factory Automation, Capital Equipment, High-Performance Computing, and EV while Healthcare continues to be an area that we expect to see long-term growth.

And finally, we are honored to receive our inaugural award from Institutional Investor. We also ranked in the Top-5% of TWSE's Corporate Governance Evaluation for 2021. ESG plays an instrumental part in our long-term strategy, and we will continue to invest in our green processes as well as increasing our green revenues to help protect the planet for years to come.

I would like to sincerely thank our global teams for their continued efforts despite the various challenges we faced.

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.

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.