TRANSCRIPT

2317.TW – Q1 2024 Hon Hai Precision Industry Co., Ltd
Investor Conference Call
EVENT DATE/TIME: May 14, 2024 Taipei time 3:00 P.M.
(New York: May 14, 3:00 A.M. / London: May 14, 8:00 A.M.)

Investor Conference Call on
FY24 First Quarter Financial Results

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Conference Call Questioners

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Presentation

James Wu *Hon Hai Technology Group – Spokesperson*

Hello to all the investors and media. This is James. Welcome to Hon Hai's First Quarter 2024 Investor Conference Call. As Chairman Young Liu is currently in Europe meeting with important clients, he is unable to attend our earnings call today. Hence, our CFO David Huang and I will be hosting the call today. The conference call is scheduled for one hour, starting with our presentation, followed by Q&A session.

As usual, please carefully read the safe harbor notice on the next page before we start the meeting.

We will now proceed to the first session, the presentation, which will cover four topics, including performance review of the first quarter of 2024, business outlook for the second quarter of 2024 as well as full year 2024, new business developments and recent major events and developments.

I will now hand over the floor to CFO David to begin the presentation.

David Huang *Hon Hai Technology Group – CFO*

Thank you, James. Hello everyone. I am David Huang, CFO of Hon Hai Technology Group. I am going to start with some highlights on Hon Hai's financial results for the first quarter of 2024.

Firstly, please refer to page 5 of the presentation for the 2024 first quarter income statement.

The revenue for 1Q24 was NT$1.32 trillion, a YoY decrease of 9%. In terms of margins, we have seen increases in all three margins. The gross margin was 6.32%, a YoY increase of 0.28%, mainly due to improved product mix and continued management of inventory. Operating margin was 2.78%, a YoY increase of 0.005%, mainly due to an increase in gross margin. Net profit margin was 1.66%, a YoY increase of 0.79%, mainly due to booking our investment in Sharp last year, resulting in a loss of NT$19.7 billion for Sharp last year and a loss of NT$10.5 billion this year. This is a YoY decrease. As the accounting year for Sharp is from April 1st to March 31st of the following year, the annual losses are typically reported in the January to March quarter, which is the first quarter for Foxconn.

On EPS, 1Q24, net profit attributable to the parent company was NT$22 billion, a 72% increase YoY. The EPS of NT$1.59 was a YoY increase of NT$0.66.
Next, looking at page 6 for the balance sheet. In 2024, at the end of March, the cash and cash equivalents were at NT$1.16 trillion, maintaining its previous level. Net cash was NT$439.7 billion, an increase of 62% YoY, mainly due to a continued decrease in inventory, lower than the previous year's inventory by 7%, to maintain previous cash levels seen at the end of last year. Cash turnover days was 51 days, a YoY decrease of 6 days, mainly thanks to a decrease in inventory turnover days. Debt ratio was 55%, a decrease of 1% YoY.

Finally, looking at the cashflow statement on page 7, cash inflow from operating activities for the first quarter of 2024 was NT$18.2 billion and free cash flow was a negative NT$14.9 billion, mainly due to the first quarter being light season leading to lower cashflow, combined with capital expenditures that saw a YoY increase of NT$8.1 billion.

Here I conclude the summary of the financial statements for Q1 2024. Now, I would like to turn the call over to James.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you, David. I will now summarize our operating results from the first quarter of this year. Revenue for 1Q24 totaled to NT$1.32 trillion. The performance of our four major product segments were largely in line with what we expected during our last earnings call.

On the Cloud and Networking Products segment, servers saw a slight miss compared to our expectation of strong growth YoY, mainly due to material shortages. Nevertheless, the segment still saw significant growth. Overall, in terms of operations, we managed to see improvements in all three margins, a solid performance.

On the non-operating side, due to Sharp's long-term development strategy and its move toward being asset light, it booked asset impairments. This, in turn, impacted Foxconn's 1Q24's non-operating and net income.

"The worst is behind Sharp. Its future only gets better from here!" Sharp's unique technologies and over 100 years of brand reputation is a rare combination to exist on the global market. Foxconn will continue to increase collaborations with Sharp on smart products for people, vehicles, home and office as part of the 3+3 strategy we have been

aggressively pursuing. At the same time, together we will seize new opportunities in the AI technology revolution.

Next, I will address the company's outlook for 2Q24. Though traditionally an off-peak season, the four product segments, apart from Smart Consumers Electronics, the other three segments are all expected to see strong growth. This reflects Foxconn's scale in the ICT industry and its vertical integration ability, that can continue to bring more new commercial opportunities. Overall, we are expecting to see significant growth in 2Q24 both QoQ and YoY, better than the average level of the past three years.

From the perspective of our four product segments, on Smart Consumer Electronics, we forecast starting in 2Q24, with the Covid-19 pandemic no longer a factor, this segment will return to a steadier performance. QoQ and YoY outlook are both flat.

On Cloud and Networking Products, we see that server demand continues to increase. In 1Q24, AI server revenue saw YoY growth of close to 200%. We also expect this growth to continue to improve quarter by quarter going forward. We also see general server demand rebounding. Overall, we expect server demand to continue to grow. On networking products, we also see demand starting to return.

On Computing Products, due to the launch of new products on the market as well as market demand stabilizing, we expect strong growth both QoQ and YoY.

Lastly, on Components and Other Products, major components including connectors, precision components, camera modules, automotive products, have all continued to ship and are expected to see strong growth.

In our last earnings call, we adjusted our outlook for 2024 from flat to significant growth. We maintain our stance on the significant growth this time, but in terms of visibility for 2024, we are seeing better performance than we expected in March. This is mainly due to strong AI Server demand. From our four major product segments, our outlook remains the same as during our last earnings call. AI will drive strong growth for Cloud and Networking Products. Components and Other Products are expected to see strong growth given our focus on product mix optimization.

Globally, the economy is expected to remain stable. Hence, for this year, we maintain our moderate outlook on ICT products. For Smart Consumer Electronics and Computing products, we maintain a flat outlook for this year.

Next, I would like to address new business developments for Foxconn over the past two months. Thus far, the market is focused on five main areas including AI, EVs, semiconductors, satellites and smart city.

Two months ago, customers showcased their latest generation of AI products. This product, in terms of architecture and computing power, have brought large scale changes. It will also bring a major breakthrough in the development of the AI market. We see different customers continuing to deploy this new product. At the same time, we expect AI server demand to remain strong and drive this new market.

During our last earnings call, our Chairman mentioned that due to our vertical integration competencies, we are able to provide a total solution for our customers for AI products. In order to satisfy our customers' demand for the highest quality products, we continue to optimize our products' system performance and have also established an AI Performance Lab. Through systematic analysis, we aim to achieve optimized integration of soft and hardware. This is also an area where Foxconn can provide value to customers.

Foxconn's deployment of comprehensive server production bases around the world not only meets customers' stringent requirement for localization, but also heightens our manufacturing competencies due to higher requirements for upgrading water, electricity and gas infrastructures during production and testing of AI servers.

This includes our Taoyuan Nanqing Factory, which obtained certification as the world's first AI server Lighthouse factory, demonstrating our leadership in AI hardware production and manufacturing.

On EVs, MODEL C deliveries have exceeded 1,500 vehicles within the first four months. In the future, we forecast delivery will be accelerated going forward. Before the third quarter of this year, all orders currently in hand can be completed. Annual shipments will exceed 10,000 units, and the revenue target will exceed NT$10 billion.

MODEL B has also entered mass production development and is expected to start undergoing mass production next year. On Model T, our electric bus, our production capacity can no longer keep up with demand from the market.

To increase production capacity, we broke ground on our new production facility in Qiaotou, Kaohsiung, last month. We expect production to start in 3Q25, with an expected production

volume of 500 vehicles per year, followed by a target for 1,000 vehicles by 2028. Apart from electric bus production lines, we have also plan for the new Qiaotou plant to have an experimental testing environment for commercial and passenger vehicles to further promote Taiwan's electric vehicle industry. In addition to the Taiwan market, we anticipate sales abroad for those three electric vehicles to expand into the markets of Southeast Asia, the United States and Europe.

On EV software development, we are working with internationally renowned players to develop important tools for designing and producing software and hardware for EVs. This not only will help us shorten our R&D times but can also help satisfy customer demand for shortening time-to-market, to strengthen our R&D ecosystem.

On autonomous driving, we continue to work with NVIDIA to improve self-driving software. Through NVIDIA's strong AI competencies, we are able to deploy the latest algorithm to help greatly accelerate R&D. We also pitched architecture that involves higher integration, continue to improve design for the four major components, to help customers shorten their times-to-market for vehicles.

On semiconductors for automotive applications, we have started to work with automotive players and Tier-1 companies through our virtual vehicle platform. Our SiC modules have also been introduced into Europe, China, and Taiwan EV automotive customers. Our SiC wafer plant's key production capacity has also passed certification and will be expanding production simultaneously. The module plant is also expected to begin production in 3Q24.

On our computing platform, our power management IC has received orders for graphics card design, expected to be shipped in 2Q24. Power semiconductors have also been designed for servers and power supplies, with expected deliveries to begin in 2H24. On satellites, we signed MOU with relevant players. In the future, we expect to integrate domestic and international resources for CDMS.

On Smart City development, we continue to develop our operations internationally, and are under discussion with Japan, Canada, the UK, and the US for potential collaborations in the future. Domestically, we are working with the Kaohsiung City government on increasing various AI applications.

Next, I will address recent major events and achievements. Apart from our Qiaotou plant, our CityGPT E-Bus Management Platform has created a more intuitive user interface.

Additionally, we have integrated various types of data analysis for developers to continue to optimize our AI model to increase operational efficiency. These innovations have earned us the 2024 Smart City Innovation Application Award.

At the Taipei AMPA, we showcased the MODEL B that will undergo mass production this year, electric logistics vehicles, electric drive systems combined with AI-assisted design, as well as complete electric vehicle ecosystem products such as batteries, charging piles, and electric controls.

At the beginning of this month, we completed our acquisition of 50% share of a chassis module company to establish ZF Foxconn Chassis Modules. Through the collaboration with ZF, Foxconn will drive growth for both companies and strengthen our vertical integration capabilities and increase our chances to become OEMs for traditional car players.

MIH, with more than 2,740 members globally, is a very important platform. It announced Jun Seki will take on the role of CEO, to help to innovate the industry and drive establishment of an industry standard and expand into more commercial opportunities to satisfy customer and member expectations.

At this year's GTC, we showcased our latest generation of AI server and liquid cooling technology in collaboration with NVIDIA, as well as our latest solution for smart driving controllers for EVs. Hon Hai Research Institute has also shared the latest generation of autonomous driving prediction model, QCNet. This exhibition allowed us to demonstrate Foxconn's innovations in high performance AI data centers and innovative hardware solutions for autonomous driving, demonstrating our competencies for integrating hardware and software as well as applications.

Our CPO high speed connection solution developed alongside MediaTek can not only provide computing performance for switches but can also decrease power transmission loss and signal delay, increasing connectivity for AI applications. On the digital health front, we were the first ICT company in Taiwan to join Taiwan Institute for Telecare .

On the ESG side, through our results from development of Smart City, we have managed to create some new commercial opportunities. On Foxconn's 50th anniversary year, we joined RE100 to protect the Earth. Our net-zero targets have been validated by the SBTi.

External stakeholders are often concerned with Foxconn's employee satisfaction. We conducted a large-scale Sustainable Engagement Survey with the help of a third party on

ESG. Over 17,000 employees participated. The results show that our ESG efforts have achieved a score of 82% overall, teamwork achieved a score of 81%, and employee potential realization and participation achieved a score that exceeded the global benchmark for the high-tech industry.

At the end of March, we hosted the first Hon Hai Foxconn Sustainability Awarding Ceremony. This event honored individuals and teams outperforming on the ESG front and involved discussion on Foxconn's ESG goals and innovative solutions between internal and external personnel. Our Foxconn Technology Prize that awards innovation of young talents is also open for registration. This year, we have invited 4,000 employees and their families to our Baseball Family Day. We have established April as Earth Month across our Group, where various geographic teams will commit to events in honor of the celebration. We have also engaged in discussion with Tzu Chi about how to better exert our efforts in the realm of international disaster relief and environmental sustainability.

In terms of awards, we were once again awarded Clarivate's Top 100 Global Innovators. We are the only enterprise in Taiwan that has received this honor for the past consecutive seven years.

We have also improved our CDP ratings in climate change, water security, and supplier engagement leadership. This is my report on the first quarter of 2024.

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Questions and Answers

James Wu *Hon Hai Technology Group – Spokesperson*

Next, we will move to the Q&A session. We'll go through questions that were raised in advance of today's call and answer those first. After that, we will open the floor to any questions.

Kristen Fang *Hon Hai Technology Group – IR Senior Manager*

Question 1: First, we would like to ask James. We saw that on the report, customers showcased their latest AI products. We would like to know the company's views on the new products' overall demand and how you will seize future opportunities for these products?

James Wu *Hon Hai Technology Group – Spokesperson*

NVIDIA's latest Blackwell GB200 product involves 72 GPUs with a 30-fold increase in inference performance, a 4-fold increase in training effectiveness, and a 25-fold increase in energy efficiency. Overall, the price effectiveness exceeds the performance of previous generations. As the product is more complex than prior generations, our role in this generation is even more important than before. We believe that in this AI race, this product will be widely used by CSP players, NCP players, and large enterprises. We believe the scale of this market is significant, with CSP players becoming the first wave of users. Foxconn's NVL72 customers include North American CSP players, NCP players and large brand players. Hence, visibility is higher.

Regarding the previous AI server's architecture, NVL72 server, including compute tray, NV switch tray, TOR switch, and cooling system, required more R&D and higher difficulty in design and integration. So, if you are asking about how we will take advantage of this market opportunity, I can say that Foxconn is almost the only one that can develop its own key components from module, baseboard, server, high-performance switch, liquid cooling, to data centers. We can provide a production scale and global coverage that satisfies our customers. This kind of vertical integration is one of our major advantages that is seen as important by our customers.

Kristen Fang *Hon Hai Technology Group – IR Senior Manager*

Question 2: Thank you, James. Secondly, on AI server contribution, could you let us know the revenue contribution from AI servers for 1Q24? Also, for 2024, do you maintain your goal of 40% of revenue? For the mid to long term, when do you estimate AI servers to

exceed Smart Consumer Electronics by revenue?

James Wu *Hon Hai Technology Group – Spokesperson*
Previously, I had mentioned that AI server revenue grew by over 200% YoY in the first quarter. It also saw close to double-digit growth QoQ compared to 4Q23. AI server revenue in 1Q24 is already close to 40% of overall server revenue. We also expect AI server revenue to continue to grow each quarter. Hence, we maintain our 40% target for overall server revenue for 2024.

In 1Q24, Cloud and Networking Products revenue contribution reached 28%. Compared to last year's 22%, it saw a 6% increase within a year, becoming the second largest product category. As you mentioned, we are about to launch our next AI server product. We expect that in 2025 we will see a more prominent increase in the overall server revenue.

At the same time, we are seeing growth opportunities for Smart Consumer Electronics. In 2025, Smart Consumer Electronics should still be larger in our product mix by revenue.

Currently, the scale of the ICT market is close to US$1 trillion. Some research institutions are forecasting that the AI industry will reach US$1 trillion in market size in the coming 7-8 years. Within that, hardware will take up close to 50% of market share. This is a segment where Taiwanese players or Foxconn can shine. Hence, in the coming few years, the AI industry can bring large contributions and also drive increases in Foxconn's Cloud and Networking Product revenue and contribution to the Group.

Kristen Fang *Hon Hai Technology Group – IR Senior Manager*
Question 3: Thank you, James. Next question is about gross margin. We would like for the CFO to answer. What is the outlook for the second quarter and whole year's gross margin? Which factors do we need to consider for the margin? You mentioned that AI servers revenue contribution will increase in the long term. Will this help the Group get closer to its gross margin target of 10%?

David Huang *Hon Hai Technology Group – CFO*
Yes, increasing the gross margin is one of our company's long-term goals. For the second quarter, we expect strong YoY growth for servers and components. This is the result of our continued efforts toward our product mix.

That said, at the same time, we need to consider the impact of three factors, including inflation, FX impacts and depreciation expenses incurred by growth driven capital expenditures, on the gross margin.

From a full-year perspective, the product mix will indeed benefit an increase in gross margin. However, we still need to closely monitor impacts from inflation and FX impacts.

AI server system assembly is very important to us and has helped us bring in more business from vertical integration. In addition to its leadership in the upstream segment of the market, Foxconn will also focus on providing key components in our customer's next generation AI server, including superchip board, high-performance speed switch, and liquid cooling systems. Through our vertical integration capabilities, these will help to increase Foxconn's profitability.

Whether AI servers can drive up the Group gross margins also depends on our business model. If customers ask for a buy-and-sell adoption, our profit per unit will increase, but gross margin will decrease. If customers wish to go for the consign model, our gross margin will increase, but profit per unit will be lower. As GPU prices are high, many customers wish to go for buy-and-sell, which can allow us to exercise our advantages of a solid balance sheet. This trend is also in line with our profit maximization target.

Kristen Fang *Hon Hai Technology Group – IR Senior Manager*
Thank you, David. This is the fourth and final question. For those who want to ask questions, you may now click the "raise hand" button. After the next question, we will open the floor for questions from investors and media.

Kristen Fang *Hon Hai Technology Group – IR Senior Manager*
Question 4: Lastly, on electric vehicles, we would like to ask James this question. Previously, you shared that Foxconn was under discussion with potential EV customers for several projects. Throughout the process, what are some difficulties Foxconn has encountered? From which region's customers are we most likely to see results in the near term?

James Wu *Hon Hai Technology Group – Spokesperson*
Indeed, there has been very fierce competition in the EV market. Many players have gone into a price war, with prices declining rapidly. This has also impacted consumers' desires to purchase EVs. EV sales growth rate has also declined as a result.

Nevertheless, looking at the 1990s, during which the ICT industry trended toward outsourcing production, this is to be expected. The fiercer the competition in the EV market, the more automotive players will be interested in our CDMS model. Previously, some EV customers were unsure of our competencies in producing EVs. However, many OEM customers, after test-riding our MODEL C and MODEL B, have been pleasantly surprised by our design, production and technology. Customers were impressed by our performance in vehicle production, which far-exceeded expectations.

Our MODEL C has successfully been mass produced and launched in Taiwan. In other areas, we will also aggressively talk to potential customers about collaborations, including in the US market, which may see our products in 2025 at the earliest. In Southeast Asia, we also expect to see progress very soon.

On EV development, Japan has always been considered slightly behind. That said, from 4Q23, we have observed fast progress from Japan, where the industry has seen much development. We currently have two CDMS customers and have three on-going CDMS projects in Japan. We have signed MOUs with our Japanese customers and expect to sign formal contracts in the third or fourth quarter of this year. We will be announcing details about these cases in the future. Apart from the above, we have also received keen requests from other players in the Japanese market. Japan has fast become one of Foxconn's most important EV markets. We will also further strengthen our development in this market.

James Wu *Hon Hai Technology Group – Spokesperson*
Now, we will move to Q-and-A session for online investors as well as media. English questions are also welcome. Grace from UBS, please.

Grace Chen *UBS - Analyst*
Question: Thank you for taking my question. My first question is on the GPU AI server: GB200. For GB200, on your server rack and liquid cooling, which components are produced in-house by Foxconn? And what are your plans for future in-house production of components to help increase margins for our GB200 AI server?

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you. I would just like to remind you that our Chairman is in Europe meeting with customers on important business. Today, our CFO and I, James, are here to answer everyone's questions. I am James.

So, I will answer this question. As I mentioned, our previous focus on AI servers was on the front-end module and baseboard. We have placed emphasis on module R&D. As for GB200, it is a rack level AI server product. It has competencies of a GPU, but also has four valuable parts including compute tray, NV switch tray, TOR switch and cooling system. As this product requires much power for data transmission and cooling, Foxconn's previous products and technologies in the ICT industry can also be applied in this new product. We have become the most vertically integrated supplier here. As such, we are also doing R&D and testing for the above components.

Cluster testing is highly important for AI servers. Hence, globally, we have established complete testing facilities and systems, enabling our products to be delivered globally, as our customers demand.

As for liquid cooling that many investors are interested in, we actually observed this trend around 5-6 years ago, and have been preparing ever since. System control components are also designed in-house. We have complete know-how of liquid cooling systems.

On liquid cooling components, including UQD, cold plate, Manifold and CDU products, we have been doing our own R&D. We provide these solutions to our customers to give them options, but still allow them to make their own final decisions. This mode of collaboration is quite common in the ICT industry.

We also believe that given the strong development of the AI server market, many players will benefit. Of course, given the requirements of increasingly complicated product design, players like Foxconn, with strong vertical integration competencies, will benefit more than others.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Sharon from Morgan Stanley please.

Sharon Shih *Morgan Stanley - Analyst*
Question: I have two questions. First question is a continuation of the server question. As we have been discussing AI servers, I would like to know, on general purpose servers, what is your revenue growth forecast for this year? Do you still expect double-digit growth, which is higher than industry average? Given current visibility, is it the same outlook? Why are we expecting a better-than average performance? Secondly, recently, it has been reported that there have been some innovative changes on the management team. There was an

announcement of a CEO rotation mechanism. Could you let us know the rationale behind this? If I am not mistaken, it seems that every six months is considered to be one term. Would this be effective, given the short nature of a six-month rotation? What kind of changes do you expect and how will this contribute to the operations of the company?

James Wu *Hon Hai Technology Group – Spokesperson*
I will first answer the question about general purpose servers. Indeed, as of December last year, we saw demand rebound from the trough for general purpose servers. This year, the trend is expected to continue.

External research institutions forecast that North American CSP players' capital expenditure will increase by 20%. CSP global procurement strength is high. CSP players who procure focused on AI servers will also be looking at general purpose server procurement. Moreover, brand customers' demand has also returned. We saw large CSPs announced their capital expenditures for 1Q24 and goals for 2024 in the past few weeks. Overall, we see quite good growth momentum. This has increased our confidence in Cloud and Networking Products for the whole year.

Back to general purpose servers, revenue growth for 1Q24 was double-digit YoY and was up QoQ. We maintain our double-digit growth outlook for 2024. This performance will be better than industry average. We attribute this to two reasons. Firstly, Tier-1 CSP players and large brand customers are all Foxconn's customers. Secondly, we have some new CSP customers. Hence, we expect general server demand to greatly increase. This is all based on our leading position in the server industry, enabling us to capture some business opportunities and also capture the growth demand from customers in the recovery stage. This is my answers on general purpose servers.

As for the rotating CEO, this topic should be addressed by our Chairman. However, as he is busy with business expansion right now, I will explain this. As you are all familiar, Foxconn's revenue reached NT$6 trillion, with six major business groups and more than 20 listed affiliates. Also, we have 205 campuses across 24 countries. With 3+3 new business expansion, on talent cultivation, we need to actively cultivate outstanding talents at all levels to pursue the everlasting foundation of the Group.

In the past few years, we have increased our numbers of independent directors as well as women directors as we pay attention to corporate governance. In order to help drive growth of top management, in April, we also started the CEO rotation mechanism, hoping to

cultivate future leaders for Foxconn Group, and to ensure longevity of our leadership team. In terms of rotation timelines, we continue to adjust dynamically.

We understand market concerns about CEO rotation impacting the continuity of our strategy. Here, I want to add that despite the changes in our CEO rotation plan, the Chairman still oversees all major decisions to help maintain continuity of our decisions.

Of course, we hope that our rotating CEOs will be able to learn from our highest-level of management, and enhance their capabilities, in depth and breadth, to manage such a large company. This will help us reach our development goals and establish a strong team that can help to deliver maximum value to serve our customers.

During Dr. Chiang's interviews, he had mentioned that Foxconn also has a special policy, wherein members of the upper management team take turns to train in the Chairman's office. I believe that these policies are a way for Foxconn to cultivate its future management team. I hope that these policies can be implemented and help us cultivate talent.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Dylan Hou from Commercial Times, please.

Dylan Hou *Commercial Times - Reporter*
Question: My question is about product diversity. As the Group's products are becoming more varied, I would like to understand your strategy for supply chain management and plans for having many production facilities globally.

James Wu *Hon Hai Technology Group – Spokesperson*
We are a technology manufacturing service company. Thus, we mainly base our development on customer requirements globally. This includes production capacity planning as well as product design. After discussion with customers, we select the optimal production locations for customers.

In terms of production locations, we will mainly focus on expanding production in China, India, Mexico, and Vietnam. In China, we will focus on automation and new business segments. In India, we will focus on Smart Consumer Products. In Vietnam, we will focus on Computing products. And in the Americas, we will focus on EVs, EV components, and AI components for Cloud Networking products.

We also mentioned our 205 sites globally, which can help provide geographically segmented production advantages to our customers, as well as provide more opportunities for growth for the Group. On capital expenditures, we saw a 14% growth YoY for 2023. We expect growth of capital expenditure for this year to be higher than 2023's 14% growth.

Overall supply chain management revolves around not just vertical integration, but also system production capacity, as well as component production capacity for both overseas and domestic markets. We hope to improve our product mix through these efforts.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Avery from SET News, please.

Avery Liu *SET News - Reporter*
Question: Hi, I am Avery. I would like to know about Sharp's plans to stop the panel business. As the major shareholder, what role will Foxconn play in Sharp's future? Thank you.

David Huang *Hon Hai Technology Group – CFO*
Thank you, Avery. As I mentioned earlier, Sharp holds a unique position due to its innovative competencies and over 100-year brand history. We believe that Sharp is a very valuable company. However, for the past few years, due to the difficulties in the panel industry, we believe this is a way for Sharp to aggressively adjust its strategy. As such, we believe the worst is over for Sharp. It will only improve from here.

As Sharp is a listed company, it will continue to operate independently. That said, Sharp is still a very important partner for Foxconn. Hence, we will help them search for opportunities to accelerate its recovery. Therefore, from last year, Foxconn, as a major shareholder, has consistently participated in discussions about Sharp's company transformation.

The 3+3 strategy that we continue to push for, including three major industries and three major core competencies, can be brought to Sharp. We hope that Sharp can integrate this strategy into their operations for smart products for people, vehicles, home and office, as well as take advantage of the on-going AI revolution.

From Sharp's CEO remarks that was announced an hour before our earnings call, we can see that in the future, new generation networking, AI and EVs are major pillars for

development. SDP will be aggressively transformed into an AI Datacenter, also allowing Sharp to move toward its goal of becoming asset light. This adjustment will not only allow Sharp to jump onto the AI train but will also leverage Foxconn's key position in AI server market.

We believe that in the future, if we can fully integrate Foxconn's three major platforms and Sharp's brand value, then we can establish a synergy where 1"+1 is greater than 2."

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Arthur from Fubon, please.

Arthur Liao *Fubon Securities - Analyst*
Question: I would like to pose a broader question. I know that you should be the main source for your designs for NVIDIA's GB200. I would like to know that, given that it seems suppliers will all be receiving GB200 motherboards from NVIDIA, will this have an impact on Foxconn's orders? Will there be differences between Foxconn and other competitors?

James Wu *Hon Hai Technology Group – Spokesperson*
The first part was addressed by David, our CFO, when he discussed the gross margin. We have two modes: buy-and-sell and consign. This is largely dependent on the customer. Of course, previously, Foxconn had been very focused on the front-end. As you mentioned, on GPU module and GPU baseboard, we have made large investments and hence, have a large advantage.

On the back-end, our servers have over 40% market share. Due to the new architecture and its requirements for switch, liquid cooling etc., the designs are more complicated. Therefore, many customers tend to try to decrease interface interference for AI servers. Therefore, this is more beneficial to the few suppliers who have better vertical integration competencies. Foxconn, under these conditions, would have a better grasp of the market. First, due to its R&D and design capabilities, as from 2016-2017, Foxconn has been collaborating with customers to conduct R&D on these products, including liquid cooling. Secondly, is our vertical integration ability. For the new product's architecture, there is a requirement for high-speed transmission. But this is already a competency that was very important for Foxconn's networking product segment. This time, we have applied it to AI servers, also including liquid cooling. Hence, second is our ability to vertically integrate.

Thirdly, is our global presence. Many customers take manufacturing location into consideration for different products. As I mentioned, we have numerous production facilities worldwide, enabling us to meet our customers' needs across different production locations globally.

Finally, in terms of order mode, this is largely up to the customers. That said, as GPUs have higher value, we can conclude that customers are likely to lean toward a buy-and-sell model. Typically, this buy-and-sell model requires companies with larger balance sheets, as those are the companies that will be able to withstand this mode of operation. This is why we are happy to see the buy-and-sell model, as apart from a sufficiently strong balance sheet, we can also create more value through this buy-and-sell model.

Arthur Liao *Fubon Securities - Analyst*
Question: Thank you, James. Going back to servers, I just did some quick calculations. You said that servers would be 28% for 1Q24. AI servers are almost 40% of that. If I am not wrong, it seems like AI servers will be more than 10% of the company's revenue mix for 2024. Would my calculations be correct?

James Wu *Hon Hai Technology Group – Spokesperson*
This product was just launched in March. We should start production this year. However, as for when customers choose to pull in will be up to them. We do indeed see that demand is very strong. However, timing still depends on customer pull in, which also impacts the figures you just mentioned. Nevertheless, whether it happens this year or next year, this new product is expected to generate a substantial amount of business in terms of scale.

Arthur Liao *Fubon Securities- Analyst*
Question: Thank you. My last question is more sensitive. I know that in June, a large smartphone customer will be releasing software. I was wondering if you expect there will be AI functions in the software. We have seen that other smartphone players, such as Samsung and Xiaomi, have AI functions. This smartphone product line, looking at Foxconn's figures, would be around 40%, while combining computing products, this large customer is around 50%. If the AI function is not released in June, would it have an impact on the company's performance for 2H24? That is my last question.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you. We typically refrain from commenting on customer developments. So, I will provide an explanation for consumer electronics overall. In this consumer electronic

segment, form factor changes typically create different demand. If there really is a form factor change, I believe it will benefit suppliers. Secondly, you also mentioned that AI demand is not just for server-side, but also for edge. Many analysts believe that on the PC side, in 2H24, we need to wait for new platforms to see more prominent growth for AI PCs. As for other consumer electronics, it is still dependent on each customer's independent developments. I will not comment further on this. However, overall, we are positive when customers upgrade in form factors as well as specifications.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Angela from KGI, please.

Angela Hsiang *KGI Securities - Analyst*
Question: I have three questions to ask. You mentioned earlier AI servers and servers. In the short-term, we are seeing the H series comprise the major products being shipped. As there is currently no buy-and-sell, can we assume that in 2Q24 or even 2H24, that we are more optimistic on server increasing in the mix, which means that we can anticipate a better gross margin? Otherwise, can we evaluate Foxconn's performance based on operating margin?

David Huang *Hon Hai Technology Group – CFO*
As James mentioned, our outlook is for 2Q24 revenue to increase significantly. Due to a change in product mix, our gross margins may deviate from 1Q24's. This is for your reference.

Even though AI servers should positively impact our gross margins, the changes in our four major product categories for our product mix in 2Q24 are expected to alter our gross margin structure. Historical data indicates that fluctuations in revenue, regardless of scale, have affected our gross margin. That said, our profitability will improve with increases in revenue. This is our goal in pursuing higher profitability.

Angela Hsiang *KGI Securities - Analyst*
Question: Thank you. Does this mean that the changes in product mix means that we should be more conservative with our gross margin expectations?

David Huang *Hon Hai Technology Group – CFO*
On specific products, yes. However, in terms of product mix, though we are expecting to

see strong growth in our four product segments, changes in the product mix may offset increases in gross margin from AI servers.

Angela Hsiang *KGI Securities - Analyst*
Question: Thank you. Lastly, for this buy-and-sell model, it sounds like both customers and Foxconn are leaning toward it. I am not sure what kind of timing would be a good check-in point to check on this? Also, for GB200, if the company's market share is lower than the 40% of general purpose servers, due to competitive advantages, on the market, racks priced at least US$3 million, is it possible that in 2025, GB racks may reach close to the US$1 trillion revenue that we see for servers? Is this kind of anticipation moderate, or would you say that it is too optimistic? Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*
Firstly, on timing, for this year, AI server's first wave will be mainly for CSP players. Most of the larger orders have almost been confirmed. I believe that the mode of orders will be quickly confirmed as well. As we mentioned, it appears that many customers are interested in using the buy-and-sell option, which is something we are pleased to observe. That addresses your first question.

Next, on the AI server market scale, as you mentioned, the market may have its own set of expectations. While not always precise, you can estimate the scale of the market. Many are saying that the scale will reach more than US$ 1 trillion in the coming 7-8 years, with close to 50% for the hardware relevant segment of the market. According to market expectations, this should happen around 2030, where the hardware segment of the market reaches US$500 billion. Of course, we would be happy to see this happen. That said, overall, we would like to go step by step. We are anticipating finishing hand off for this year's products and believe that we may see these positive results soon after.

Angela Hsiang *KGI Securities- Analyst*
Question: Thank you, James. For these internal vertical integration efforts, could you also remind us of which companies within the group will be in the AI supply chain? There is one more thing. On Sharp, we would like to know that given the smaller impact coming from Sharp going forward, how should we approach the noise that is out there? Will there be a solution this year?

James Wu *Hon Hai Technology Group – Spokesperson*
On servers, I was talking about large module. As for subsidiaries, I will let them provide their own explanations. Secondly, on Sharp's recently announcements, they are mainly

impaired assets for small to medium sized panels this year. Whereas last year, the asset impairment was for large-sized panels. Specific numbers and operational strategies will be explained by Sharp. However, as a major shareholder, we believe that through this asset impairment, Sharp will be able to move toward its desired asset-light model. This is the main reason we believe the worst is over for Sharp.

James Wu *Hon Hai Technology Group – Spokesperson*
As the time is now 4:00 pm, we have time for one final question. We will invite Robert from JP Morgan to ask his question.

Robert Hsu *JP Morgan - Analyst*
Question: First, on EVs, it sounds like there is some development. You mentioned that you will launch a US customer and have two Japanese customers in 2H24. Could you let us know if they are large OEMs or startups? You also mentioned development in Southeast Asia. When do you expect to be able to go and sign contracts with them?

James Wu *Hon Hai Technology Group – Spokesperson*
For the first question, as we have not signed official contracts and are still in the MOU stage, we will need to wait to announce customer names and details.

That said, we mentioned that we have engaged 20-30 customers for phase 2. This implies a deeper collaboration with these players. Within this list of customers, there are startups as well as existing OEMs. To answer your question, we are engaging both types of customers.

As for the US market, as I mentioned earlier, we anticipate launching in 2025. For Japanese customers, we expect to sign finalized contracts in 2H24. Overall, EV development looks to be more positive than we previously believed. Previously, we were working with more start-up players. Recently, we have been seeing more traditional OEMs join. Additionally, the EV market has seen very fierce competition, which has caused prices to decline significantly.

Reflecting on the 1990s, the entire ICT industry experienced rapid price declines, prompting many brand players to outsource production due to decreasing profitability. Hence, we believe the price declines in the EV market will drive brand players to look for external sources. We are looking to take advantage of this opportunity. We will continue to announce details going forward.

James Wu *Hon Hai Technology Group – Spokesperson*

As the time is now 4:03 pm, we will end our conference here. If you still have questions, we will have our Shareholders' Meeting on May 31st. Our Chairman will be there to give a complete view of overall business performance. We will also showcase our important products on site. We welcome all shareholders to attend. Above is all of the content for our investor's conference this time. If you have anything else you would like to understand, I welcome you to get in touch with our IR team. Thank you everyone. Goodbye.

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