

# TRANSCRIPT

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Investor Conference Call

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Precision

# Investor Conference Call on FY23 Second Quarter Financial Results

## Corporate Participants

### **Young Liu**

*Hon Hai Technology Group – Chairman*

### **David Huang**

*Hon Hai Technology Group – CFO*

### **James Wu**

*Hon Hai Technology Group – Spokesperson*

### **Kristen Fang**

*Hon Hai Technology Group – Senior IR Manager*

## Conference Call Participants

### **Grace Chan**

*UBS Securities – Research Analyst*

### **Avery Liu**

*USTV – Reporter*

### **Julianna Liu**

*CNN – Reporter*

### **Sharon Shih**

*Morgan Stanley Securities – Research Analyst*

**Arthur Liao**

*Fubon Securities – Research Analyst*

**Gokul Hariharan**

*JPMorgan Chase & Co, Research Division -*

*Head of Taiwan Equity Research and Senior Tech Analyst*

**Lauly Li**

*Nikkei Asia – Reporter*

**Kylie Huang**

*Daiwa Securities – Research Analyst*

**Yasuo Nakane**

*Mizuho Securities – Research Analyst*

## Presentation

**James Wu** *Hon Hai Technology Group – Spokesperson*

Hello to all the investors and media. This is James. Welcome to Hon Hai's Second Quarter 2023 Investor Conference Call. Joining us today, are Chairman and CEO Young Liu and CFO David Huang. 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 six topics, including performance review of the second quarter, business outlook for the third quarter of 2023 as well as for full year 2023, new business developments, BOL developments, AI server developments and recent major events.

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

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**David Huang** *Hon Hai Technology Group – CFO*

Thank you, James. Hello to all investors and media. I am David Huang. I am going to start with some highlights on Hon Hai's financial results for the second quarter of 2023.

Firstly, please refer to page 5 of the presentation for the 2023 second quarter income statement. The revenue for 2Q23 was NT\$1.3045 trillion, a YoY decrease of 14%. Our performance on both gross margin and profit margin have seen YoY increases compared to same period last year. Gross margin was 6.41%, flat YoY. Operating profit margin was 2.37%, a decrease of 0.57ppts YoY, mainly due to a YoY revenue decline and continued investment in the 3+3 new business. Net profit margin was 2.53%, a YoY increase of 0.32ppts, mainly due to non-operating gains of NT\$14.2 billion YoY. Non-operating profit is mainly attributable to market value recoveries in investment portfolio, disposal gains, and real estate income. 2Q23 net profit attributable to the parent company was NT\$33 billion, a YoY decrease of 1%. The EPS of NT\$2.38 was a decrease of NT\$0.02 from same period last year.

Looking at page 6 for the balance sheet. In 2023, at the end of June, the cash and cash equivalents were at NT\$1.19 trillion, maintaining a steady level. Net cash was NT\$319.5 billion, a YoY increase of 56%, mainly due to the continued digestion of inventory. Cash turnover days was 58 days, a YoY increase of 8 days. The increase was mainly due to a decline in revenue, which has resulted in higher cash turnover days. Under active management, inventory for 1H23 was reduced by NT\$180.2 billion from NT\$939.0 billion at end of 2022 to NT\$758.8 billion. Even though we will be entering the new product preparation phase, we will continue to maintain disciplined inventory management.

Finally, looking at the cashflow statement on page 7, cash inflow from operating activities was NT\$220.1 billion and capital expenditure was NT\$47.6 billion, an increase of 5% YoY. Free cashflow was positive by a margin of NT\$172.5 billion, maintaining at a stable level.

Here I conclude the summary of the financial statements for Q2 2023. Now, I would like to turn the call over to Chairman Liu.

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**Young Liu** *Hon Hai Technology Group – Chairman and CEO*

Thank you, David. Good afternoon, everyone. This is Young Liu. Operating results from the second quarter of this year has just been addressed. In summary, overall revenue and performance of our four major products are largely in line with our previous expectations. Even though the second quarter is traditionally considered to be low season, profitability performed better than expected.

Next, I will address the company's outlook for 3Q23. Overall, the peak demand driven by the Covid-19 pandemic is over. Going forward, this is expected to return to pre-pandemic levels. Thus, even though the traditional peak season in the coming two quarters should expect to see increasing demand, the strength of the market's recovery still needs to be observed. We forecast the third quarter to see a QoQ increase but YoY decrease.

From the perspective of our four major products segments, on Smart Consumer Electronics, we are already preparing for our customers' new products in 2H23. We estimate that 3Q23 will see strong QoQ growth. However, YoY, this implies a small decline due to the higher base.

For Cloud and Networking Products, we see that CSP and AI server demand continues to grow. CSP for 3Q23 will maintain double digit growth QoQ. AI-server related products are also expected to see strong growth. However, demand for other products have yet to return. This means that overall, for Cloud and Networking Products, we expect QoQ growth to be flat but YoY, we expect a decline.

For Computing Products, even though we have attained higher market share this year, the PC industry has seen weakened demand that is expected to continue into 2H23. Therefore, Computing Product is expected to flat QoQ and decline YoY.

Lastly, for Components and Other products, in the third quarter, shipment is expected to increase for connectors, precision components, camera modules and acoustic products. Hence, we expect both QoQ and YoY growth.

Overall, for 2023 outlook, we have adjusted our view, based on market conditions, from a flat outlook to a slight decline. We have always based our forecast judgements on our key position in the supply chain and information from our customers and suppliers to make the best prediction. Currently, as many macroeconomic factors are involved, including global monetary tightening, geopolitical tensions, and inflation, among other uncertainties, we continue to observe both positive and negative changes to make ongoing adjustments to our forecasts.

For Smart Consumer Electronic Products, we maintain our full year 2023 outlook of a slight decline. Apart from a high base for last year, during the Covid-19 pandemic, high-end products were relatively limited in impact by inflation. Whether demand can continue into this year would require further observation. This is the reason for our caution.

Cloud and Networking Products are one segment where we are adjusting down our outlook. AI application is on the up and up, driving global demand and relevant infrastructure demand growth. Thus, we still retain our optimistic outlook on AI-related segment. CSP is expected to continue to grow, and AI servers especially, are expected to see strong growth. However, for other products, we are yet to see demand rebound. Hence, we forecast a slight decline for the Cloud and Networking Product.

For Computing Products, same as what we said earlier, PC demand weakening is expected to continue into 2H23. Thus, our overall outlook for 2023 has been adjusted down to a slight decline.

For Components and Other Products, we continue to expand our key component supply . Hence, we maintain our view of significant growth in this product segment.

Next, I would like to address new business developments.

On EVs, we continue to be on track for EV developments. Currently, the most important job for us is to expand our customer base. Thus far, we are in discussion for collaboration with over 10 customers for 20 EV projects. Two of these items are already under production. Five more items may see signed contracts. We will announce more pertinent details on Hon Hai Tech Day on October 18<sup>th</sup>.

On mass production progress, Model C will go into mass production as expected in 4Q23 in Taiwan. For other car models' mass production, we will keep everyone updated on Hon Hai Tech Day.

Hon Hai's EV strategy is to provide a one-stop service including platform, design, software, component and assembly manufacturing. This is how we innovate. Our collaboration with ZF Chassis allows us to penetrate into the traditional auto market's key component market and stably grow our auto segment to provide our vertical integration services for the chance to expand our traditional auto business. Through the stable axle business with growth potential, we are able to enhance our vertically integrated services. We can leverage this synergy to expand other business opportunities with traditional auto makers and to provide a more competitive manufacturing capabilities to our customers.

In June, I made a trip to the US to talk to customers, the government as well as employees. Our customers and the local government both highly recognized Hon Hai's CDMS business model. They have high expectations for Hon Hai's collaboration in the production of key components and whole-car assembly in the US.

Everyone can have a look at the photos on our presentation for our production plant in the Hofa Industrial Park in Kaohsiung. Construction is currently on track. We will be able to perform test runs on schedule in the fourth quarter.

On EV software developments, I mentioned at the Shareholders' Meeting back in May that we are working closely with Nvidia for EV autonomous driving. We are using Nvidia's autonomous driving platform combined with Hon Hai's proprietary sensor components to reach higher efficiencies and lower costs to quickly enter the autonomous driving market.

Apart from collaborations with our advanced partners, we also have our Hon Hai Research Institute, which has been conducting research and proposed an autonomous driving AI model, QCNet, based on AI and proprietary research on autonomous driving.

On the semiconductor front, our silicon carbide fab in Taiwan was put into production at the end of last year. More than 10 new products from customers have been put into tape out in the past six months, and products have been delivered to customers for verification. We see that our customers approve of our technology and speed. We also see demand for silicon carbide wafer production capacity expansion. In the automotive SoC segment, through the fourth largest global auto maker, Stellantis, and our joint venture company, we have been developing an automotive intelligent system chip that is forecasted to complete development plan by end of the third quarter this year. We also continue to launch solutions for small ICs for auto applications including self-design 1200V SiC power modules and new architecture automotive lighting IC solutions kicking off the design-in with passenger cars and E buses. We will gradually increase auto IC coverage and provide a stable supply without component shortages to our customers.

As for the low earth orbit (LEO) satellites that everyone is interested in, it is currently at the space center undergoing final testing for vibrations. After completion, it will be packaged and sent to its launch site. We will be launching it in 4Q23, as expected. Our outer space development, for LEO and future servers to be launched into space, has been challenging and are steps for readying the ecosystem. We have also established a global strategic partnership with Microsoft. Hon Hai's goal is to establish a solution for IoT in space, internet of vehicles, smart city and communication infrastructure by combining Hon Hai's CDMS business model and Azure space technology along with B2G foundation to promote space development with BOL countries.

On BOL development, we have been in Saudi Arabia for many years and continue to work on 3+3 and ICT industry, and will align with the country's goal of Vision 2030. Apart from our previously announced collaboration named Ceer, we will also continue to work with other ministries and PIF as well as NEOM on several flagship projects. Before the end of the year, we will announce the results of our collaboration publicly.

On the India front, Hon Hai entered India in 2005. Our revenue, number of employees and investment scale have all seen significant growth. So far, our main operations are for ICT assembly business. Going forward, we will be actively expand key components capacity to increase our competitiveness in India. Other than that, we will expand diversified strategy

including in the states of KA and TS aside from AP and TN states. On top of our ICT business, with our BOL business model, we are evaluating the potential to establish a plant for semiconductor and EVs in India. We hope that we can establish a local ecosystem through our competitive advantage of our technology and platform combined with capable local partners.

On employee development, Hon Hai has recently signed an MOU with a top scholar institution in India to develop talent required locally. On environmental optimization, we have worked closely with local and central governments on infrastructure laws to help establish multiple industrial parks to help SMEs from Taiwan to penetrate India.

On South East Asia, countries there have geographical advantages, an abundance of natural resources, land and labor advantages. It is the prime choice for our customer's future global development. Thailand, Vietnam and Indonesia are key countries that Hon Hai is focused on for future development. We will continue with our BOL strategy to help local partners to create a complete supply chain, to increase our local competitiveness. We will also eagerly share global resources with these partners to help expand the local market and share our results.

Next, on AI servers, as recently, many are turning their attention to generative AI, and believe that this will become the major definition of AI servers. From the generative AI supply chain. It can mainly be divided into GPU modules, GPU baseboard, AI server, rack, advanced heat dissipation solution, and AI datacenters. Hon Hai is the only company that can provide a total solution on the market. Also, we have a very high market share in the value chain for front end GPU modules and baseboard. These front-end products have both higher technological requirements and better profitability than the back end. At the same time, we are utilizing our global presence in Asia, Europe, and the Americas to develop regional production centers to coordinate with our customers' local inelastic demand. Hon Hai's ability to provide a total solution is a result of its investment in research in key technologies, especially in energy consumption and heat dissipation. The energy consumption of core computing per unit for generative AI servers is close to 1KWh, which means that AI server energy consumption is increasing rapidly. We are focusing on providing modularized designs and PUE heat dissipation solutions to significantly decrease energy consumption from heat dissipation in datacenters. Our advanced heat dissipation technologies including liquid cooling, advanced racks, and PUE performance, surpass those of our competitors. From the AI server supply chain perspective, Hon Hai not only has the aforementioned items, it also has GPU modules, baseboard, casing, smart NIC and key components to become a true total solution through vertical integration. Because of our

richness of knowledge, we are able to establish strong relationships with our customers to allow us to develop new products together and retain our important position in the market.

Above are my comments to address our new business, BOL and AI server developments. Next, I will hand over the call to James. Thank you.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Thank you. I will select a few key events to discuss today.

On EV software, Hon Hai Research Institute has collaborated with Hong Kong's City University for an autonomous driving deep learning model called QCNet, which can help us significantly increase timeliness and the safety of autonomous driving decision making.

Our first ADAS system has also undergone mass production and are being shipped by Mobile Drive. Our IC design company established alongside Stellantis, SiliconAuto, should provide the most up-to-date auto IC, focusing on MCU and modules for EV starting in 2026. We will also, through ADI, establish a new generation digital vehicle platform and high-efficiency battery management system.

Hon Hai has also been developing Smart City with the Kaohsiung Government and developing and recruiting talent for AI, Smart City, EVs and digital health in the hopes to help Kaohsiung develop its EV ecosystem, and to create a hub of talent in Southern part of Taiwan.

Additionally, Foxtron Vehicle Technologies has also passed its application for listing, which is expected to enlarge Taiwan's EV market.

At the same time, we have also established a joint venture company with one of the largest auto suppliers in the world, German company, ZF. In the future, we will fully leverage each other's advantages to expand both traditional auto and EV businesses.

Apart from EVs, we also have seen progress on 3+3. Hon Hai is the first company in the world to gain those two O-RAN certifications. This technology can be applied to AI, Smart City, and Smart Factory. We have also seen many potential customers in this segment.

Through industry collaborations, we hope to establish Smart Communities to combine Hon

Hai's high technology and cloud integration technology to help digitalize health services from the hospital to the home.

Hon Hai's Ingrasys Inc. is also working with Ramon.Space to provide revolutionary space computing products. This collaboration will help to quickly expand space development. To put it simple, in the future, we can send servers directly into outer space to allow space computing to become a reality.

For exhibitions, we have attended Goldman Sach's Asia Pacific Forum and Computex in Taipei. We hope that through exhibitions, we can showcase our technological capabilities in the EV and AI server segments.

At the end of July, we also attended Asia Pacific ESG Expo focused on smart green technology and the circular economy as its two major themes. We are investing in converting waste into resources that can be applied to marine ecosystems to improve biodiversity and showcased our efforts through interacting with attendees to allow them to experience our efforts.

At the end of June and July, we also released our sustainability report in Mandarin and English respectively, and released our TCFD Net-zero Vision Report. By end of this month, everyone can also see ESG Insight, a summary of our sustainability report to allow everyone to understand our ESG efforts.

Our care for our employees also reaches all corners of the globe, including in Vietnam, the Czech Republic, United States, mainland China and Taiwan. Through hosting competitions, concerts and refurbishment of employee dormitories etc., we allow employees to feel Hon Hai's love and care while working hard.

On honors, Hon Hai has received international and domestic awards for Digital Health, HR and High-speed Connectors. Additionally, we have also received Best Management Team of the Year Award from Institutional Investors. As we have also placed first in titles of Best CEO, Best CFO and Best IRO. We also placed second for the Board, ESG and Investor Relations Service award categories, all thanks to investors' support.

Chief Trade Compliance and Logistics Officer Kathy Yang was awarded Winner in Specialist category by diversity leader WeQual Awards 2023, representing that the diversity of Hon Hai Group and the professionalism of female senior executives has been

recognized. Our goal is that by 2025, the Board of Directors will have over 30% female members. For our management team, we continue to work on the importance of inclusivity.

Lastly, at the shareholders meeting this year, we have decided to issue NT\$73.74 billion in dividends, equivalent to a cash dividend of NT\$5.3 per share, a historical high since our listing in 1991. For four consecutive years, we have reached over 50% dividend payout ratio.

Hon Hai Precision

## Questions and Answers

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**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 – Senior IR Manager*

**Question 1:** First, we would like to ask the Chairman about what kind of EV cooperation opportunities will the company have with ZF Chassis' current traditional OEM clients in the future?

**Young Liu** *Hon Hai Technology Group – Chairman*

For ZF's automotive axle business, it is not only stable but has potential for growth. The trend in C.A.S.E. – connected, autonomous, shared, electric – means lots of capital is needed for R&D, resulting in a cash crunch problem for the entire automotive industry. As a result, we see an expansion for outsourcing. Foxconn's supply chain management and manufacturing technology capabilities will have greater competitive advantage in the outsourcing market.

Many are interested in our progress in collaborating with traditional auto OEMs. On the one hand, apart from continuing to discuss future collaborations, through the collaborations with ZF Chassis, we penetrate into traditional auto makers more quickly and directly enter the key component supply chain for Tier 1 players.

Through our collaboration, we can expand from auto electronics to power chassis to expand our vertical integration efforts to strengthen not only our CDMS business model and technology, but also allow us to operate under a stable environment while gaining more profitability. It can also increase our future potential collaborations with traditional car makers.

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

**Question 2:** Chairman had mentioned previously that to reach a gross margin of 6% like last year would be challenging. However, thus far, the gross margin for 1H is more than 6%. Do you still maintain your view on 2023 gross margin?

**Young Liu** *Hon Hai Technology Group – Chairman*

This year, for gross margin, we mentioned FX and depreciation & amortization costs as a result of capex spending on new business and global expansion impacting gross margins. To reach the same level as last year will be quite challenging. From an operations perspective in the second quarter, we are still making efforts by increasing component market share and improving product mix for ICT, which is why our gross margins have been outperforming our expectations to be close to 2022. You can see that there is still the chance for components to grow. I still believe that economic outlook and capex will still pose a challenge to our gross margin performance. Despite the fact that the product mix has been improving, we still cautious, however, slightly more optimistic than before.

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

**Question 3:** Thank you. The third question is for the CFO. Thus far, are there any products where there are higher inventory levels? How long would it take to digest this inventory?

**David Huang** *Hon Hai Technology Group – CFO*

During the Covid-19 pandemic, due to uncertainty about the supply chain, inventory levels were typically set to be higher. With the end of the pandemic, inventory has been digested. Up to the end of June, our inventory was NT\$758.8 billion, which is lower than the NT\$813.1 billion at the end of March, returning back to last year's levels. It is also a large improvement from last year's NT\$939.0 billion.

Due to weakening PC demand, inventory has been increasing for Computing Product. We will be making adjustments so that inventory levels can return to normal levels by the end of the year. With better demand for Cloud and Networking Product in 2H23 compared with 1H23, and if there is no significant component shortage, we do not expect large changes to inventory levels for this product segment. Overall, thus far, the market's view on inventory digestion has been delayed from the third quarter to the fourth quarter. However, the third quarter will see new products preparation begin. Hence, overall inventory should increase in 2H23.

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

Thank you, CFO. The following will be the 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. This is the fourth and final question.

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

Question 4: What are the major growth drivers for auto components in 1H23? And what are your targets for 2023?

**Young Liu** *Hon Hai Technology Group – Chairman*

Most growth for auto components is still coming from relevant charging components, auto structural parts, body, interior parts and cables. In EVs, key components are all main areas of R&D. In the future, we will improve our product mix toward higher margin products. As for visibility of the macro environment, it is still not clear. Overall, our goal for 2023 has become more challenging. From current forecasts, we believe there may be 30% growth for year 2023.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Thank you. Now, we will move to Q-and-A session for online investors as well as media. English questions are also welcome. For our first question, we will welcome UBS Grace. Grace from UBS, please.

**Grace Chen** *UBS Securities – Research Analyst*

Question: Hi everyone, I am Grace from UBS. I had a question for the Chairman about AI servers. What do you expect on AI server revenue for 2023? For AI servers in 2024-2025, what are your views on growth? Lastly, I would like to ask whether Hon Hai will have close R&D relationships with cloud customers? If so, could you share what kind of cloud customers?

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you, Grace. Many say that AI servers are looking strong as a segment. However, there is no consistent definition of what this entails in industry, which is why I had to explain this earlier. For Hon Hai, general server performance has been weaker. However, our servers' gross margin increased in 1H23 of over 1%, which implies that there is potential gains on AI servers and customers. On AI servers, the broad definition includes GPU,

FPGA and ASIC accelerators, with main functions in computing. We previously mentioned that AI servers, for 2022 revenue reached 20% of total servers, and this was based on the definition above.

However, generative AI applications have exploded in popularity recently with more investors paying attention to this segment. This includes model training and inference servers. This has become the overarching definition of AI Servers on the market today. Thus far, our market share in this segment may not be large but we are seeing rapid growth. For 1H23, this segment saw over 200% growth. For 2H23, we believe we will outperform the market's growth rate.

Based on the data from the brands, the generative AI market, including training and inference servers, will be US\$30 billion in 2023 and reach US\$150 billion 2027, with a CAGR of 50%. CSP customers are our major demand of AI server, with small portion coming from brand customers. As Hon Hai has now holds a key position in the supply chain as well as has long-term collaborations with US cloud players, established a plant in Wisconsin, and our competitive advantage, we believe that we can expand these collaborations with US hyperscalers in generative AI servers in the future.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Avery, please. Can you hear us?

**Avery Liu** *USTV - Reporter*

**Question:** I wanted to ask about Chairman's trip to Japan as a large shareholder of Sharp. Could you share with us whether you have plans to help Sharp with a turnaround?

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you. In the past two months, I have made two trips to Japan as a major shareholder and partner of Sharp. I have also spoken extensively with Sharp about its market positioning, operations, and future direction, as well as deep discussions with employees at Sharp.

By Sharp's third quarter, our fourth quarter, that there should be a clear mid to long term plan and strategy. Sharp has strong technology as well as strong branding, while Hon Hai has strong manufacturing capabilities, established supply chains, as well as strong relationships with overseas customers. Hence, I believe we will be able to expand our

original operations in collaboration with Sharp, and help Sharp to enter new business and new markets to reach win-win for both parties.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Julianna from CNN, please.

**Julianna Liu** *CNN Business-*

Question: Hello everyone, thank you for the sharing so far. My name is Julianna Liu. I am in Taipei right now, usually based in Hong Kong. Can you update us a bit more on your India expansion plan? Could you possibly confirm an intention to invest US\$2 billion in the country? What period of time that would be and what areas that would be? Thank you so much.

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you for the question, Julianna. I was just at Semicon India last month and I really enjoyed my time there. There was excitement among participants about what can be achieved and a determination to get there. In India, Foxconn presently operates around nine campuses with a total size of more than the equivalent of 500 football fields. We have over 30 factories in India that turns over roughly US\$10 billion annually. We have over 20 dormitories that are shelter & safety for tens of thousands of employees who work at Foxconn India. The Indian question has come up at the past two in quarterly investor calls, which tells me there is a positive energy for this market. As I said before, our capex this year will grow from last year. This outlook has not changed. And Foxconn's annual revenue was more than 200 billion USD. From the perspective of India's potential market size, and if we can fully implement our plans there, I think several billion dollars in investment is only the beginning.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Sharon from Morgan Stanley, please.

**Sharon Shih** *Morgan Stanley Securities – Research Analyst*

Question: I have one quick question to follow up on, on the outlook for 2023. It is more prominent that the downward revision has to do with Cloud and Networking Product as well as Computing. Chairman had also mentioned that the outlook for CSP and AI servers are

good for this year. This means that the segment that is in decline must be for brand customer side? For this year, CSP vs. brand customer, would the proportion of revenue be 50:50? Also, on servers, what is the revenue breakdown for AI vs. non-AI in 2023 in terms of revenue? For Computing Products, I remember chairman you mentioned that some projects are delayed until the end of the year. Does that mean there will be more pick up on computing products in the fourth quarter?

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you. About the proportion of servers, CSP vs. brand? What was the other proportion you wanted?

**Sharon Shih** *Morgan Stanley Securities – Research Analyst*

It was AI vs. non-AI.

**Young Liu** *Hon Hai Technology Group – Chairman*

The third question was about Computing revenue and whether there is an expected uptick in the fourth quarter. I will first answer the question about Computing. For the fourth quarter, we see a pickup, but are not sure when that would be and whether it would be an obvious pickup. We will continue to observe.

Going back to the first question on CSP vs. brand, it is a possibility that it will reach 50:50. That said, as for when this will occur will depend on two factors. Firstly, the speed of CSP picking up, and secondly, the speed of decline for our brand customers. As we all know, brand customers are in decline, but they are working hard. So, as for when this will happen, it is quite difficult to judge. Nevertheless, we will be moving toward 50:50.

As for AI vs. non-AI revenue, AI is still not huge in the mix. Currently, it is at around 20% or between 20-30%. That is the situation thus far. However, demand for AI continues to increase. As for how greatly this AI growth will impact the non-AI segment, and whether demand for the two are fully mutually exclusive, I am still not that sure. Thus far, we see AI to be between 20-30%.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Arthur from Fubon, please.

**Arthur Liao** *Fubon Securities – Research Analyst*

Question: Hello, I am Arthur from Fubon. I was looking at your guidance for 2023 revenue, that it would decline. You also mentioned that it was due to capex. Is it because that cloud customers capex will be mostly used on AI servers? My second question is that after carefully looking through the presentation, I was impressed, especially on AI servers. I wanted to ask whether aside from the focus on GPU modules and baseboard, is the company also engaging with assembly business?

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you. Firstly, to answer your second question on our business model on modules and whether we will be doing the server assembly. Largely speaking, the closer we are to the top of the supply chain, the higher our market share. This includes GPU module is the highest, with GPU baseboard second. We do serve the entire supply chain. However, the more downstream, such as for the server assembly, our market share is, approximate figures, less than 50%. When I say very high, I am talking about over 50%.

For overall servers, we would not be under 50%. That is for your second question.

As for your first question, the volume was a bit low. Could you repeat that?

**Arthur Liao** *Fubon Securities – Research Analyst*

I saw that the revenue forecast was flat last time and it is now down for Cloud and Networking. For cloud customers, is it that they decreased capex on general servers, even though they increased AI servers? Has this caused the revenue to decline overall for the company? You mentioned very clearly that AI servers were different from general servers. I was not sure if I am right in thinking this.

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you. There are three subcategories within our cloud segment: CSP, brand servers and networking products. Within these subcategories, CSP continues to grow with force, especially in AI servers. The other two subcategories are both seeing declines, including brand servers and networking products. For the coming 1-2 quarters, we see declines in these two sub categories. Hence, overall, we see that this Cloud and Networking Product segment to decline.

**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Gokul from JP Morgan, please.

**Gokul Hariharan** *JPMorgan Chase & Co, Research Division - Head of Taiwan Equity Research and Senior Tech Analyst*

Question: I wanted to ask about AI servers in the context of Hon Hai group's overall percent in the datacenter space. It looks like currently, AI servers is not really impacting the overall cloud business momentum to that extent, given that you have just revised down the numbers. What is your expectation on two-to-three years basis? Are we seeing indication that Hon Hai will again, emerge as the number 1 player in the AI server space similar to overall server space? Second is, do you think, pardon me if this has been asked, do you think the margin for AI-related servers is likely to stay higher on a longer-term basis compared to regular servers or is that something that will eventually converge toward the regular servers as the product becomes bigger in volume and becomes more commoditized.

**Young Liu** *Hon Hai Technology Group – Chairman*

Thank you, Gokul. To answer your question about AI servers, from Foxconn's point of view and whether we will become number one in the next 2-3 years. Our servers, from the very beginning, have been very strong in the upstream. And the downstream, as you are aware, there are a number of downstream players doing quite well. But we are doing very very good on the upstream. I think to answer your question, if we just look at the downstream, I would say, we hopefully maintain a similar market share that we did in the previous server market. But upstream, I think we are definitely the leader already. That is for your first question.

For your second question on margins for AI servers, the margins are likely to stay higher on a longer-term basis. I think that because of the expertise and the technology needed to do the AI server requires much more. And especially the AI servers that are growing. The technology is also improving as it is growing, so it needs more technology to keep up. Because of that technology, so the margin should be higher than the regular server.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Angela from KGI, please.

**James Wu** *Hon Hai Technology Group – Spokesperson*

Angela, can you hear us? If not, next question comes from Lori from Nikkei Asia, please.

**Lauly Li** *Nikkei Asia- Reporter*

Question: Thank you. About India, I also have a few questions to ask. You said that in the future, you will be working on making your key components more competitive in India. Are these key components to do with consumer electronics products? Will this happen before the end of the year? Apart from KA... did you mention TN? Will you invest in key components in both states or will it be one out of two?

**Young Liu** *Hon Hai Technology Group – Chairman*

Our key components in India will first and foremost, be to do with consumer electronics. However, next year, there will also be EV key components in India. As for whether key components will happen this year, I believe that shipments may have to wait until next year. Nevertheless, relevant construction has been ongoing this year. So this will be for next year.

Second question is about whether both KA and TS will see investments in key components. The answer is yes, we will have investments in key components in both states. This also includes Telangana, a third state, which will also have key components.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Kylie from Daiwa, please.

**Kylie Huang** *Daiwa Securities – Research Analyst*

Question: My first question, as everyone is asking about AI, is about AI. Previously, you mentioned that you have higher market share upstream for GPU. For downstream, you are still in the ramping up phase. In terms of technology and profitability, is there a difference in doing downstream compared to upstream? On profitability and profit, which area would be stronger? Thank you.

**Young Liu** *Hon Hai Technology Group – Chairman*

A higher market share upstream is referring to 70% and above, very high. As for downstream, we are not in the ramping up phase, we are already involved and have shipped products to relevant companies. However, there are many competitors for downstream. You can see that many Taiwanese companies also ship to downstream, but

upstream, we are the main player. Generally speaking, profitability is lower when there are more competitors. In terms of technology, also, if many players can make the product, then it would not be as difficult.

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**James Wu** *Hon Hai Technology Group – Spokesperson*

Next question comes from Nakane from Mizuno, please.

**Yasuo Nakane** *Mizuno Securities – Research Analyst*

Question: Hello, I am Nakane. I have two questions. First question is about the battery. After establishing production capacity of 1GWh in Kaohsiung, what are the plans for development? Will it be applied for IRA? Could you give me some hints? Secondly, on Sharp, your future mode of collaboration on semiconductors and camera modules etc., how much will you be involved in their operations and will that change? Thank you.

**Young Liu** *Hon Hai Technology Group – Chairman*

On batteries, we will be establishing our first small production line in Kaohsiung. At the same time, In the US, very likely in Wisconsin, we also have plans for larger mass production. Apart from the US, we are also looking at India and Indonesia's battery market and potential there. We also do not exclude the idea that in our next conference call, that these plans will be concrete. On batteries, these are the countries with mass production plans.

As for Sharp and their involvement in our operations, we do not expect any large changes. That said, through acting as a large shareholder of Sharp, we will impact Sharp's operational direction and help them establish their directions in relevant products and strategy. This will also help us with our global vertical integration, to work with Sharp.

As for areas of collaboration with Sharp, apart from working together on ICT, we will also consider working together on EVs. On ICTs in semiconductors, panels and white brand goods, we have potential collaborations planned. At the same time, we will assist Sharp to develop in India. Due to being a large shareholder, through our Board of Directors, we will participate in Sharp's operational activities. As for items for collaboration, it will involve ICT, as previously mentioned, EVs and on the market side, we will also work closely with Sharp on India.

**James Wu** *Hon Hai Technology Group – Spokesperson*

As the time is now 4:02pm, the conference has been going on for over an hour. We will end our conference here today. If investors or media have any further questions, please feel free to get in touch with our IR team and we will do our best to answer your questions. Thank you everyone, good bye.

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