

TRANSCRIPT

2317.TW – Q3 2023 Hon Hai Precision Industry Co., Ltd

Investor Conference Call

EVENT DATE/TIME: November 14, 2023 Taipei time 3:00 P.M.

(New York: November 14, 2:00 A.M. / London: November 14, 7:00 A.M.)

Precision

Investor Conference Call on FY23 Third 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 – IR Senior Manager

Conference Call Participants

Carrie Liu

Citi Securities - Analyst

Lauly Li

Nikkei Asia- Reporter

Grace Chen

UBS Securities – Analyst

Dylan Hou

Yahoo News – Reporter

Angela Hsiang

KGI Securities – Analyst

Jane Lee

Bloomberg – Reporter

Kylie Huang

Daiwa Securities – Analyst

Michael Tsai

Capital Investment Management – Analyst

Ben Blanchard

Reuters – Reporter

Presentation

James Wu *Hon Hai Technology Group – Spokesperson*

Hello to all the investors and media. This is James. Welcome to Hon Hai's Third 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. This time, we will cover six topics, including performance review of the third quarter, business outlook for the fourth quarter of 2023, business outlook for the full year 2023 and 2024, new business developments, highlights for the Hon Hai Tech Day, and recent major events.

I will now hand over the floor to CFO David.

David Huang *Hon Hai Technology Group – CFO*

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

Firstly, please refer to page 5 of the presentation for the 2023 third quarter income statement. The revenue for 3Q23 was NT\$1.5432 trillion, a YoY decrease of 12%. In terms of margins, the gross margin was 6.66%, a YoY increase of 0.5 pts, mainly due to improved product mix. The operating margin was 2.99%, a YoY increase of 0.21 pts, mainly due to the impact of the increased gross margin. Net profit margin was 2.79%, a YoY increase of 0.58 pts. Apart from the increase in gross margin, non-operating income also increased by NT\$8.4 billion YoY, mainly due to increases in our investment and interest income. On EPS, for 3Q23, net profit attributable to the parent company was NT\$43.1 billion, representing a YoY increase of 11%. The EPS of NT\$3.11 was a YoY increase of NT\$0.31.

Looking at page 6 for the balance sheet. In 2023, at the end of September, the cash and cash equivalents were at NT\$1.21 trillion, maintaining our typical standard. Net cash was NT\$304.5 billion, an increase of 120% YoY, mainly due to continued digestion of inventory. Cash turnover days was 48 days, on par with 47 days for the same period last year. The third quarter is typically the preparation period for new products. Under our aggressive inventory management, inventory was at NT\$772.3 billion, a YoY decrease of 12%. Debt ratio was 58%, a decrease of 4 pts from last year, mainly due to paying back loans.

Finally, looking at the cashflow statement on page 7, cash inflow from operating activities for the first three quarters of 2023 was NT\$286.2 billion. Capital expenditure was NT\$71.6 billion, a YoY increase of 5%. Free cashflow was positive by a margin of NT\$214.6 billion. All the above mentioned figures in the cashflow statement maintained a stable level.

Here, I conclude the summary of the financial statements for 3Q23. Now, I would like to turn the call over to Chairman Liu.

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

Thank you, David. Hello everyone. This is Young Liu. I will now summarize the operating results from the third quarter. The overall revenue for the third quarter was largely in line with what was expected during our last earnings call. From a product perspective, Computing products performed better than expected.

Profitability wise, even though revenue was down year on year, due to optimized product mix, better cost control, better non-operating profit, and positive FX impacts among other factors, our gross profit margin, operating income margin, and net income margin improved both QoQ and YoY. Especially on the gross margin, we managed a 0.5 ppts gain YoY. Looking at the first nine months of this year, we faced many challenges, but managed to reach NT\$4.3 trillion in cumulative revenue. Even though this was a decline, our gross margin improved to 6.37%, compared to last year's 6.2%, there was prominent growth. This is a result that I pay close attention to.

In the first quarter, due to large scale asset impairments, we faced great challenges in profitability. However, we have worked hard on profitability in the past two quarters. Hence, for the third quarter, profitability saw significant increases both QoQ and YoY, which was better than expected in 1H23.

On the outlook for 4Q23, the second half of the year is peak season for the ICT industry, which means that we expect things to pick up. We have already seen significant growth for 3Q23, but continue to expect sequential growth for 4Q23. However, due to the unfavorable market environment this year, demand for many industries is weaker than last year. Therefore, we still expect a YoY decline.

From the perspective of our four major products segments, on Smart Consumer

Electronics, due to the peak season in the fourth quarter, we estimate strong revenue growth QoQ compared to 3Q23. For a YoY comparison, due to a slowdown in non-smartphone products, we expect a slight decline in this segment.

For Cloud and Networking products, demand for CSP in 4Q23 will remain stable. We also see that brand servers, after one year of inventory adjustments, will maintain stable growth. However, demand for networking products has yet to return. Overall, for the Cloud and Networking products segment, we expect QoQ to be flat but a YoY decline.

For Computing products, despite the new product launches and holiday season driving demand, due to the high base from back-to-school demand in 3Q23, we believe that QoQ performance will be flat. Due to the slowdown in demand of PCs, we see a YoY decline in this segment.

Lastly, for Components and Others products, 4Q23 component shipments will continue to increase, so we expect both QoQ and YoY growth.

Overall, for 2023 outlook, we continue to make dynamic forecasts and adjustments. According to current visibility, we adjust our outlook for 2023 to flat for the Components and Others products segment, due to impact from non-core operations. We maintain our views on the rest of the products. Even though we maintain our view of a slight decline for 2023, judging from October revenue, the ultimate performance of 4Q23 should be better than we originally expected.

In the beginning of the year, or the 4Q22 conference, we mentioned six main themes for strategy and development. Now is a great time to evaluate our ability of execution. From ICT, to new business developments, global expansion to ESG implementations, we have faced multiple challenges throughout the year. Nevertheless, we have been implementing our strategies one by one.

Looking to 2024, after the pandemic ends, I believe the factors that should be observed the most closely are monetary policies, inflation and the geopolitical/macroeconomic conditions. Combined with the forecast for a growth slowdown in the global economy, we maintain a relatively neutral outlook for ICT for next year.

Hon Hai has transformed from a manufacturing services company to a platform solution provider company. On Hon Hai Tech Day, we presented three main platforms: smart city, smart manufacturing and smart EVs. These covered many of the projects we had been

working toward previously and our future directions for development. Speaking of smart, we must also talk about AI, especially GenAI. For these platforms, future development will be powered by AI factories. Specifically, AI factories will analyze large volumes of data, and through self-learning, generate new application content or solutions. Taking EVs as an example, data collected from autonomous driving platforms can be optimized for better models or solutions through AI factory processing. Through a continued optimization cycle, Hon Hai's EVs can become even smarter. A similar concept can be used for robotic platforms and product development. Using digital twins to model large automation processes and manufacturing process optimizations, when applied, will enable the processes to become even more efficient. To us, these AI factory applications will drive the smart development of our three large platforms.

Next, I would like to address new business developments for Hon Hai. On EVs, most are focused on our progress with projects and customers. On Hon Hai Tech Day, our CSO shared our 5 EV project management stages. Currently, we have three items that are in phase 5. Looking at the 5 phases, we have 51 EV plans that are ongoing, with 23 above stage 2, the "engaged under study" stage, and 14 potential customers that we are in contact with. Continuing to establish and expand our strong customer base is a continued effort for us. At the same time, we also feel that interest in the CDMS model from our customers is on the rise. We believe that we will have good news to share soon.

For EVs and other developments, Model C is already under mass production in Taiwan. It will be one of our major revenue drivers for the EV segment in 2024. Foxtron Vehicle Technologies, the company responsible for developing Model C, will be listed on the Taiwan Innovation Board (TIB) next Monday November 20th. Through this listing, we can bring awareness of this EV company that has a unique CDMS business model to even more potential customers and investors.

Apart from that, MIH showcased its three-passenger concept vehicle for Project X for the first time at the Japan Mobility Show, demonstrating the results of its smart mobile solution. Project X has been designed in a modular way. More importantly, its battery combines modular charging with battery exchange. In the future, there will be more models released to help B2B players to smoothly transition to EVs. On EV software, our ADAS products have received functional safety certification, confirming the quality and safety of our self-driving products and affirming our preparations in the software segment. We have also invested in NVIDIA Drive Hyperion 9's platform research, combined with the latest sensor architecture, to achieve the highest level of efficacy and optimized costs.

Construction of infrastructure for the internet of vehicles (IoV) has also continued. We will be collaborating with a large international cloud player. Through the cloud, we will provide more precise data analytics and data collection services to customers.

For semiconductors, our foundry has received multiple certifications including automotive manufacturing, greenhouse gas reporting certification and other key certifications. Moreover, our driver IC products at our packaging facilities have also started undergoing mass production. Our packaging facilities have fully developed cutting capabilities. On automotive chips, we released our first self-developed universal MCU test chip for vehicle body control including headlights, direction lights, rear mirror motors, etc. Furthermore, combining virtual automotive MCU with physical ADAS computing, we have released a simulation development platform, mainly for calculating the direction of traffic to increase safety of vehicles. On automotive low power ICs, we have released a full series of 1200V Silicon Carbide (SiC) modules for passenger vehicles, commercial vehicles, and electric buses. In the future, we will also establish SiC power module plants and R&D centers to become a rare global EV player with SiC components and modularized designs. We can provide a better solution and stable supply for customers with no component shortages through component optimization and architecture design. Finally, our automotive ICs have received safety certification.

Today, I am also happy to share that, two days ago, we successfully launched two satellites, PEARL-1H and PEARL-1C, into orbit. We have also just rewatched footage of the precious moment of the satellite launch and have confirmed that they started to transmit signals back to our teams. In the coming year, these two satellites will undergo broadband communication testing and space environment detection testing. If all goes well, in the future, we will further explore the intersection between semiconductors, AI and EV applications. We also continue to work on B5G and aerospace research through partnering with multiple cloud platform and space computing players to industrialize LEOs.

On Smart City development, we utilize the open platform of CityGPT to make use of Deep AI technology to provide various voice services and automation processes. We are driving traffic, port, tourism and healthcare solutions with our partners.

Above is our new business development. Next, I will hand over the call to James to discuss our Hon Hai Tech Day. Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you. This year's Hon Hai Tech Day saw more than 1,000 attendees, a record breaking attendance. Our exhibition area was also larger than previous years. The exhibition space increased by 50% and the number of exhibitions was also more than three times that of last year.

On EVs, we released our electric logistics vehicle – Model N – and the mass production model of the SUV – Model B. This demonstrated Hon Hai's speed and ability to bring EVs to market.

At the same time, through presentations by our CSOs of semiconductors and EVs, respectively, and on-stage dialogues with our partners, the CEOs for NVIDIA and ZF Group, we explained the development strategy of these two main areas and demonstrated our close working relationship with our partners.

We divided our exhibition into four areas, including smart EVs, smart manufacturing, smart city, and Hon Hai Research Institute. For Smart EVs, we demonstrated our EVs and three major components including EV chargers and smart cockpit.

For EV Semis, we showcased SiC, MCU and packaging as key products. This demonstrated the reason that Foxconn has become the most fully prepared company in the EV and IC testing space.

For smart manufacturing, we displayed our AI Server's full R&D process for the supply chain and manufacturing capabilities.

This year, we also combined our exhibition with a partner in the Smart City League, including CityGPT applications and ecosystem. Digital Healthcare products were also included in the Smart City exhibition.

Hon Hai Research Institute showed its latest developments.

Next, I will provide a recap of a few recent major events. On our new business progress, Hon Hai Research Institute hosted a Next Forum on discussion of trends and applications of compound automotive semiconductors, hoping to further establish Taiwan's industry capabilities. Mobile Drive has also released a new level 2.9 ADAS product, continuing to

increase vehicle safety. We will continue to use the computing power of AI and technology trends to provide better smart vehicle solutions.

On ESG, we hosted a Supply Chain Transformation with over 30 suppliers in the process of green transformation to work toward our mutual goal of decreasing emissions. On Ocean Restoration, we worked with National Taiwan Ocean University to host an event. We have also attained SLB qualification to show our commitment to ESG. On external activities, we have worked with the UN's COP 28 representatives to drive our ESG efforts toward international standards. I have also presented a keynote speech at E.Sun's ESG summit to discuss how Foxconn can work with supply chain partners to drive ESG efforts. We are also involved in the Ministry of Economic Affairs' project to work with domestic and international supply chain players to establish a sustainable supply chain.

Next, on domestic and international employees. In the US, we have hosted roadside cleaning events at least three times. Through our efforts, we have helped to maintain roadside cleanliness and safety. Our US employees and their family members were also involved in a fundraising event in collaboration with the Breast Cancer Foundation. This year, our employees in the Czech Republic have also started serving the community, including helping the elderly. Volunteering at our Czech Republic plant has become a very important part of our company culture.

In Taiwan, we also hosted beach cleanups, with volunteers and their families picking up trash. This kind of family activity allows us to help restore the ecosystem while helping to educate and entertain. Our employees have also been involved in world cleanup day, volunteering for one day to help clean parks in our environment.

On awards, Hon Hai's Foxconn University participated in an award akin to the Oscar award for Human Resources, we received 3 gold, 1 silver and 1 bronze awards.

To aggressively tackle gender equality, we have also hosted a MeToo educational class.

Finally, our interns that were part of the Summer Internship Program in the Office of the Chairman have successfully completed their internships. Also, we created Taiwan's Startup Reality Show alongside Google, which will premiere on November 18th.

Questions and Answers

James Wu *Hon Hai Technology Group – Spokesperson*

Next, we will move to the second part of the conference, 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: The first question is for the chairman. On the company's outlook for 2024, could you share more of your observations and insights with us, and give us more information about products that will be the main growth drivers?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you. Going into the post-pandemic era, the key focus of the market is on the strength of demand recovery in 2024. From current visibility, we maintain a more neutral outlook for 2024. At the same time, we continue to observe monetary policies, inflation and the geopolitical/macroeconomic conditions. We try our best to prioritize operational stability and customer needs. From our four major product segments, we expect that servers within Cloud and Networking Products to be the main growth driver, especially as demand from CSP continues to grow and as we continue to see strong demand for AI Servers. On EVs, our Electric Bus continues its stable production. As Model C is entering mass production and has started shipment, this has now started contributing to revenue. On EV Components, we are also continuing to expand our product offerings and scale. For 2024, revenue will continue to grow.

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

Question 2: Thank you. Secondly, we would like to ask about AI servers. Last time, during the conference, you mentioned that the target market share for AI servers is to reach the same level as general servers. How will you achieve this? How are the backlog for AI servers looking so far?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you. From the supply chain for AI servers, Hon Hai is a company that can provide a total solution to customers from the upstream module, baseboard to downstream servers and rack, including advanced heat dissipation. Moreover, due to our deep technological

know-how, we have the ability to co-develop products with our customers. Currently, we have a key position in this market. I believe that in the value chain for Generative AI, the upstream GPU module and baseboard have very high technological requirements and have the capability for higher profitability contributions. Hence, upstream GPU business is our focus. Based on long term close working relationships with customers to develop products with them, and our ability for high levels of automation, for next year, we see that the GPU segment can increase market share in a stable manner.

As for downstream servers assembly business, currently, there are more players in this market. At the same time as expanding our upstream market share, we will also focus on the downstream server segment. On GPU modules, we currently have high market share and were originally the largest server player. Therefore, as for AI's market share goal of reaching the same level of market share as our overall servers, we retain this target.

Last month, I believe media and investors who attended our Hon Hai Tech Day will have had a deep impression of our efforts in AI servers. On AI servers, we have a strong foundation. Along with the fast-paced growth of the market, I believe that complete server and system services revenue contribution will also increase.

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

Question 3: Thank you. The next question is about gross margins, for the CFO. The company mentioned that you remain cautious about the gross margin for this year, but also slightly more optimistic. Do you still maintain this view? Last year, the pandemic also impacted gross margins for 4Q22. Is there a chance that gross margin for this year will be better than last year's?

David Huang *Hon Hai Technology Group – CFO*

Thank you. In the beginning of the year, we mentioned that that four major factors impacting gross margin this year include: product mix, inflation, FX and depreciation expenses generated by new business development capital expenditures. At the time, we took a more conservative stance on the gross margin, that it would be on par with last year's 6.04%. However, improving the gross margin has always been our goal. Hence, this year, through increasing Component market share to optimize product mix, cost control, and more favorable FX conditions, our 3Q23 gross margin reached 6.66%, a QoQ increase of 0.25 ppts and YoY increase of 0.5 ppts. This is the highest gross margin for the third quarter since 2017. For 1Q23-3Q23, gross margin reached 6.37%, also higher than last

year. Thus far, gross margin performance has already exceeded our expectations. In the final two months of the year, without any significant changes, we expect gross margin to exceed last year's gross margins.

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

Thank you. This is 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.

Question 4: The final and fourth question is related to the global expansion. Could you share with us your plans for production capacities for different products for next year and whether geopolitical risks have caused you to accelerate investments production capacity and planning in non-China areas such as India, Vietnam, Mexico and the US?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you. Previously, I shared with everyone that industry migration and transition change is natural. Low GDP countries, during development, will accumulate wealth to increase GDP, which will also naturally lead to the next transition. For high GDP countries, they experience industry updates to continue to support a high GDP society. For Hon Hai, it considers investing in countries with ICT operations, including China, India, Vietnam, USA, and Mexico, due to its customer demand. For different products, we select the most suitable production sites.

For next year, apart from capex for automation, the Chinese production plant will also require investment and will remain the largest capex item. For the overseas market, India's Smart Consumer Electronics Product capacity will increase. In Vietnam, we will focus on increasing Computing Product capacity. In the US, we will focus on Cloud and Networking Product. For Mexico, we will expand on EV components. In China and Taiwan, we will continue to push for transformation. For example, in Taiwan, we will drive new business developments in EVs and semiconductors. In 1H23, we established a new business development HQ in Henan for China. Two weeks ago, we also announced an investment of 200 million Euros for 50% stake in ZF China. These all require using Hon Hai's strength of selecting suitable geographies for investment to drive a new wave of growth and local economic developments in these locations.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you. Now, we will move to Q-and-A session for investors as well as media. English questions are also welcome. First, let's welcome Carrie from Citi, please.

Carrie Liu *Citi Securities - Analyst*

Question: Thank you. You mentioned that you were currently in touch with 14 potential clients, but in the US, there are currently strikes from unions and there is news that more EV plants are in the process of becoming unionized. Would this impact your future EV rollout?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you, Carrie. Facing pay increase requests and union strikes in the US, thus far, auto players are all evaluating solutions that may include laying off workers. The union has reached an agreement with the three largest car players in Detroit. Their manufacturing costs are facing great challenges. At the same time, we observe that large auto players continue to cut their prices. Price competition and increased labor costs will also contribute to an increase in outsourcing to maintain competitiveness in the market. I forecast that this will bode well for our EV outsourcing business. Hon Hai's EV CDMS business model can help auto players achieve time-to-market and time-to-cost. I believe this will become an important opportunity for Hon Hai. We also believe that through this model of collaboration, we can help customers complete 80% of their work, so that customers can just work on marketing, new technology development, and services. Both sides can reach the optimal model of collaboration for the greatest added value. As such, we also mentioned our 14 potential customers that we are in talks with.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Lauly from Nikkei Asia, please.

Lauly Li *Nikkei Asia - Reporter*

Question: Hello, thank you for taking my question. If that is okay, I will ask my question in English this time. First of all, I would like to ask: Foxconn was inspected by the Chinese authority in recent months. Could you please give us an update on the current situation? Has the inspection concluded and will this impact your operation for the fourth quarter?

Secondly, I would also love to learn your semiconductor strategy in India, following the departure from the collaboration a few months ago. Are we still sticking with the BOL model in India? Are we expecting to hear any progress from the end of this year or early next year? Thank you very much.

David Huang *Hon Hai Technology Group – CFO*

The company has always operated legally globally. Thus far, all of our operations are normal. We will collaborate with relevant authorities to quickly complete what is necessary and to help alleviate everyone's concerns. Recently, the media has also caused fear to everyone. We have also clarified our stance. For the media, we will also ask them for clarifications. I understand everyone's concern and we are aggressively following up to achieve the best result possible. We currently do not have any results but we will make sure to update everyone. I would like to remind everyone to follow the official company releases for their information.

Young Liu *Hon Hai Technology Group – Chairman*

I will answer the question about India. On India, we are continuing to push our semiconductors. Relevant developments will be released to you as soon as we have news. We continue to use the BOL model, which has been very popular. So, we are still in the process of discussing potential collaborations with local companies in India. To answer your question, this project is ongoing and will continue to use the BOL model.

James Wu *Hon Hai Technology Group – Spokesperson*

We will move on to the next question from Grace from UBS, please.

Grace Chan *UBS Securities - Analyst*

Question: I would like to ask two questions about servers. Firstly, my question is on general servers. You mentioned that you have seen some server brands recovery. We know that generally, server demand has been weak this year. Does this mean that you see a positive inflection point? Can you share your view on general servers for next year? My second question is on AI servers. Could you share with us about its current proportion in the revenue mix and your forecast for next year's revenue mix?

Young Liu *Hon Hai Technology Group – Chairman*

Thank you, Grace. For general servers, previously, the weakness was due to ongoing inventory digestions. However, as the majority of inventory has now been digested, we believe that demand will be better next year. We are starting to see signs of this.

For AI servers versus overall server in the revenue mix, I can't remember specifically currently, but it is single digit and not very large. For next year, demand will be strong. So, I continue to believe that AI server growth will continue to be strong.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Dylan from Yahoo News, please.

Dylan Hou *Yahoo News - Reporter*

Question: I would like to ask about the three platforms that you mentioned in the presentation. The three platforms will be part of AI factory. Could you elaborate further on what the concept is behind the AI factory collaboration between Hon Hai and NVIDIA? Which platform do you expect to see the most growth from next year?

Young Liu *Hon Hai Technology Group – Chairman*

The relationship between the platforms is as follows. The three platforms need to provide relevant services to its stakeholders. Previously, these services were not “smart”, and included things like regular data or information. That said, the services that Gen AI can provide are vast. It could involve relevant data and making predictions on correlation between data.

All three platforms are expected to produce large amounts of data. Through the AI factory, this data can be converted to knowledge that is saved in the model and provide data or tokens to enable users or data providing systems to become more intelligent. So, AI factory is processing data day and night, 24-7, all day from smart factory to smart EV to smart city. This data provided will become knowledge for AI factory or new solutions. These solutions, through relevant users, can ask the AI factory. Through asking, the knowledge and new solutions can be used for systems that are coming up with these questions.

This atmosphere, if everyone remembers, is similar to the earlier days when we were talking about the CPU era. CPUs were mostly involved in number crunching. We then moved onto GPUs. You can think of this as GPUs as processing information triangles. Now, moving onto AI, AIs process tokens. So, we have moved from number crunching to token

crunching. The machines that perform token crunching are deemed to be AI factories. This is how you can think about this.

As for where growth drivers will come from in terms of the three platforms next year, these platforms may only generate revenue in the coming 1-2 years. Perhaps the year after next year or the year after that. The revenue driving force behind AI factories will not be big next year.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Angela from KGI, please.

Angela Hsiang *KGI Securities - Analyst*

Question: I would like to follow up on server and AI servers. You mentioned that from upstream baseboard to downstream server rack are all part of your operations. We all know that the gross margin of these products all vary considerably. If we take into account the individual growth forecasts and changes in prices, also R&D costs and other sampling costs, what do you expect for gross margin and operating margin for servers in 2024?

Young Liu *Hon Hai Technology Group – Chairman*

On AI servers, in the entire supply chain, the higher upstream, the higher the gross margin and the lower downstream, the lower the gross margin. That said, if everyone thinks back to the smile curve, even lower downstream, where it is the services, gross margins start increasing again. Thus, it depends on where we are on the curve.

Only looking at manufacturing without services, upstream margins will be higher than downstream margins. As for gross margin performance for 2024, we see that upstream, gross margin will continue to increase, and for downstream, the gross margin may maintain its current level.

Angela Hsiang *KGI Securities - Analyst*

Question: Can I ask one more follow up question? On AI, it is also divided into GPU or ASICs solutions. I would like to ask what you see in terms of growth rates for these two solutions and what roles you will play on the market?

Young Liu *Hon Hai Technology Group – Chairman*

We also see many GPU and ASICs players. We believe that in 2024, GPU will continue to

be mainstream. As for ASICs, this may be starting the year after next year or after. I believe that GPGPUs will still be mainstream on the market. On ASICs, for edge, it would be the year after the next when it has a better change to grow. And for ASIC on the server or datacenter side, it may be even more difficult to compete with GPGPU.

As for our role, we will work with all players on the GPGPU and ASICs market. Similar to our high market share for modules, we will have high market share, mainly due to its high technical requirements. Thus far, to make a module would require a certain level of technical abilities. Whether it is new ASIC or GPGPU players, they will need a strong supplier to help them quickly penetrate the Gen AI market. Hence, we will continue to be a strong supplier on the module side. As for the baseboard and servers that we mentioned earlier, we will also continue to be a stable supplier. On servers, we are globally the largest supplier and do not plan to change.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Jane from Bloomberg, please.

Jane Lee *Bloomberg - Reporter*

Question: I just have a question about some of the numbers in the consolidated statements. For the third quarter, there is a line of total non-operating income and expenses that makes up about a quarter of the profit for this quarter. Could you tell us a bit more about this? I see that it is a regulatory item but I am a bit new to this, so thank you for helping.

David Huang *Hon Hai Technology Group – CFO*

About the non-operating income, it includes three parts. One is profit from our investment in subsidiaries. Another is from interest revenue. And the third one is from currency exchange. All three parts contributed to the non-operating income. This is very regular in our statements if you look at the past years. The structures do not change and the numbers are changed between these three areas.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Kylie from Daiwa, please.

Kylie Huang *Daiwa Securities - Analyst*

Question: I have two questions to ask. Firstly, we see that in the past few years, we have seen good growth on Components. For next year, do we expect this segment to continue to grow? This is my first question. My second question is on the geographical capex distribution for 2024. I want to know your take on capex for the coming two years. Will it be flat or see increases?

Young Liu *Hon Hai Technology Group – Chairman*

Firstly, for new components, it is mostly expanding the quantity of existing components and increasing unit prices. As for new components, including semiconductor components, will also increase. This is mainly from increases in quantity and prices. As for comparing the capex for the coming two years to this year, I will let David answer.

David Huang *Hon Hai Technology Group – CFO*

The capex from 1Q23-3Q23 NT\$77.6 billion. By the end of the year, we estimate the amount to exceed NT\$90 billion. This includes our developments in ICT and 3+3.

For 2024- 2025, our outlook is that for next year, we should maintain a similar capex level to this year. For 2025, it is dependent on the market situation, but we forecast that 2025 will see slightly lower capex compared to 2024. This is because we expect the ICT segment to stabilize, but 3+3 to still continue to require investment.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Michael, please.

Michael Tsai *Capital Investment Management–Analyst*

Question: Thank you for taking my question. Recently, relevant supply chain and research institutes have indicated that PC and servers could return to growth next year. However, you mentioned that you remain neutral on server growth. Could you give us your initial thoughts on each product line's growth forecast compared to market growth? Also, on operations, you mentioned that the goal for gross margin in 2025 was 10%. Thus far, do you have any visibility on how high the gross margin can increase for 2024? Secondly, on AI PCs, will you participate in the design & development of these products? And what will be the difference in the design & development process of AI PCs compared to traditional PCs?

Young Liu *Hon Hai Technology Group – Chairman*

Let me answer the first question about the target of 10% gross margin for 2025. This remains the same. However, 2024 will be a very important inflection point. I also mentioned that on Model C, Model T, and some EV-related components will start to see growth. Thus far, it looks like the 10% gross margin target is viable.

As for our outlook on 2024, we are more conservative in being neutral. This is mainly due to two reasons. Firstly, we see that the market, if there are no large macroeconomic changes, the market should increase slightly and grow by approximately 5%. However, this 5% growth could very easily be offset by geopolitical conditions. This is why we have a neutral stance.

As for AI PC and whether Foxconn will contribute to design & development, we will, of course, be joining in alongside our customers. However, as for how to realize what our customers want from AI PC, we cannot disclose that right now.

James Wu *Hon Hai Technology Group – Spokesperson*

I think we will take the final question. From Ben from Reuters, please.

Ben Blanchard *Reuters - Reporter*

Question: Terry Gou is running for president. Does this not pose a risk on Foxconn if he does become president meaning that China will be able to put pressure on Foxconn to force Terry Gou to make decisions? If there are concerns about this political risk, have you asked Terry Gou to reduce his stake holding in Foxconn? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*

This is a question that none of us can tell you what is going to happen, except for Terry. He will make his own decisions. I think he has the right to do it at his will and I don't have any crystal ball at this time. From the management team's point of view, we will have to be prepared for all the possible cases. We have done a number of preparations, similar to the ones that BCM mentioned. So, I wish him the best. That is all I can say.

James Wu *Hon Hai Technology Group – Spokesperson*

As the time is now exactly 4:00pm. Our conference today has been going for 1 hour. We will end our conference here. Thank you for your attendance, and if anyone has any questions, please feel free to get in touch with the IR team at any time. Thank you everyone, good bye.

Disclaimer

This English version is a non-verbatim translation of Mandarin transcript for reference only.

Hon Hai Precision Industry Co., Ltd. (the “Company”) reserves the right to make changes to content, or other information in this document without obligation to notify any person of such changes.

In the conference call upon which this transcript is based, the Company may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks. Although the Company may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN THIS TRANSCRIPT IS A TEXTUAL REPRESENTATION OF THE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED IN ANY TRANSCRIPT.