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HON HAI TECHNOLOGY GROUP

TRANSCRIPT

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HON HAI TECHNOLOGY GROUP

Investor Conference Call on
FY24 Third Quarter Financial Results

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Presentation

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Hello to all the investors and media. I am Kristen. Welcome to Foxconn's Investor Conference. Today, we welcome our Chairman Young Liu, CFO David Huang, and Spokesperson James, who will provide you with an update.

The investors conference will last for approximately one hour. The first part will include our presentation, followed by a Q&A session in the second part. Before we begin, we kindly ask that you carefully review the disclaimer included in the presentation.

Now, let's move into the first part of the conference: the presentation. We will cover six key topics: a review of 3Q24 performance, 4Q24 outlook, and full-year outlook, 2025 outlook, key business developments, highlights from Hon Hai Tech Day, and recent major events. I will now hand it over to our CFO, David, to provide an overview of our financial performance for 3Q24.

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

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

The revenue for 3Q24 was NT$1.85 trillion, a YoY increase of 20%, reaching the highest figure for the same period on record.

In terms of profitability, we achieved gross profit of NT$114.7 billion, operating income of NT$54.8 billion, and net income of NT$49.3 billion. All of these also reached record highs for the same periods historically. Making YoY comparisons, these figures represent increases of 12%, 19%, and 14%, respectively, reflecting strong growth in profitability.

In terms of margins, our gross margin was 6.19%, a YoY decrease of 47 basis points, mainly due to a significant increase in revenue from AI Server in our product mix. Our operating margin and net margin were 2.95% and 2.66%, respectively, representing YoY declines of 4 and 14 basis points, mainly driven by the decline in gross margin.

On EPS, 3Q24 EPS was NT$3.55, a YoY increase of NT$0.44, also setting a new record for the same period on record.

Looking at page 6 for the balance sheet. As of the end of September 2024, we had cash on hand of NT$791.1 billion. Net cash stood at NT$249.1 billion, a decrease of NT$55.4 billion compared to the end of September 2023. This was mainly due to revenue growth, which increased working capital requirements, and higher capital expenditures.

Cash turnover days was 42 days, a YoY decrease of 5 days, mainly attributable to significant revenue growth and continued inventory management, which led to a decrease of 4 days in inventory days.

The debt ratio stood at 58%, on par when compared YoY.

Finally, looking at the cashflow statement on page 7. For the first three quarters of 2024, cashflow from operating activities saw a net outflow of NT$18.6 billion, compared to a net inflow in the same period last year, representing a YoY decreased of NT$304.8 billion. This was primarily due to increased inventory to meet higher customer demand, resulting in a cash outflow of NT$126.9 billion for this year, compared to a cash inflow of NT$175.9 billion for the same period last year.

Free cash flow for the first three quarters of 2024 was a net outflow of NT$114.7 billion, a YoY decrease of NT$329.3 billion. This was mainly due to the reduction in operating cash flow to NT$304.8 billion and an increase in capital expenditures to NT$24.5 billion.

Here I conclude the summary of the financial statements for Q3 2024. Now, I would like to turn the call over to Chairman Liu.

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

Thank you, David. Good afternoon, everyone. This is Young Liu. It has been a while. This is the final investors call of the year, so I would like to share some updates on Foxconn's recent developments and plans for next year.

Firstly, regarding our Q3 performance, we achieved revenue of NT$1.85 trillion, setting a new record for the third quarter. We saw strong growth both QoQ and YoY, outperforming

expectations.

Looking at product performance, both Cloud and Networking businesses as well as Computing products performed better than expected.

In terms of profitability, we saw double-digit growth in our gross profit, operating income, and net income, all of which reached record highs for the same period in history. Overall, our performance was better than initial expectations.

Looking at results year to date, despite facing several operational challenges, we managed to reach an accumulated revenue of NT$4.7 trillion, an increase of 10%. Gross profit, operating income, and net income grew by 8%, 16%, and 20%, respectively, all setting new records for the same period. This demonstrates the competitive advantage driven by Foxconn's scale, and, as I always emphasize, our goal is to maximize profitability and value for our shareholders.

Now, turning to 4Q24 outlook. As we enter the traditional peak season for the ICT industry in the second half of the year, we have already seen strong growth in Q3. We expect to continue to experience significant growth both QoQ and YoY in Q4.

Addressing each product category, in the Consumer Electronics segment, we expect to see a strong seasonal uplift in Q4 due to holiday sales and peak shipment season. However, due to rising geopolitical risks and the global economic uncertainty from the ongoing interest rate cuts, we expect Consumer Electronics to be flattish in Q4 compared to the same period last year.

For Cloud and Networking products, demand for AI servers remains very strong, with cumulative revenue from AI servers in the first three quarters more than doubling YoY. General server revenue grew by over 20%. Although Q3 was a higher base for comparison due to customers pulling through orders, we expect AI server demand to remain strong in Q4, with performance holding steady at Q3 level. Similarly, we expect general server performance to remain relatively stable in Q4. Demand for networking products started to stabilize in the second half of the year, and we expect Q4 performance to see significant growth compared to Q3. Overall, the Cloud and Networking segment is expected to grow strongly compared to last year, with Q4 performance roughly in line with Q3.

For Computing products, while new product launches and the holiday season will provide uplift in Q4, the high base from back-to-school demand in Q3 means that we are expecting

a decline in QoQ growth. Additionally, we expect slow recovery of the overall PC market to result in a slight YoY decline in this segment.

For Components and Other products, demand for components related to key businesses has increased, and we expect this segment to see significant QoQ growth. However, due to a decrease in non-core business revenue, we expect performance to be flattish YoY.

For our full year outlook, we maintain our expectation for significant growth with increased visibility compared to August. The growth momentum in Cloud and Networking products has become even stronger, and Components and Other products also have strong performance . For Computing products, the positive impact from new product launches has allowed us to raise our full-year outlook to significant growth. As mentioned earlier, due to the increasing uncertainties about the global economy and geopolitical risks, we are more cautious in our outlook for Consumer Electronics in Q4, for which we modestly adjust our full-year forecast.

As Hon Hai Tech Day has just concluded, I am sure many of you have seen the reports. Last year, during Hon Hai Tech Day, I introduced three smart platforms: Smart Manufacturing, Smart EV, and Smart City. We aimed to strengthen Foxconn's capabilities in four key areas, including Components, Modules, System, IC & Software, through AI-driven factories, which will drive future development of the smart platforms. Over the past year, Foxconn has transitioned from a manufacturing services company to a platform solutions provider. Later in this presentation, I will continue to share more on our progress in these areas.

Looking ahead to 2025, while inflation has moderated, I believe the current geopolitical and economic landscape, monetary policy, and the development of the AI industry will be the most significant factors influencing the coming year.

Among these, the rapid development of generative AI is accelerating global investment to meet the increasing demand for computing power. Looking ahead to next year, the growth of AI will be the primary driver of growth in the ICT industry. Foxconn, with its capabilities in system design, vertical integration, and global presence, will continue to maintain a leading edge in this field. Based on current trends, the AI server market is expected to continue its rapid expansion over the next few years. Therefore, we maintain an optimistic outlook for next year.

Earlier this year, I mentioned that Foxconn's growth would be centered around three smart

platforms. In 2025, we anticipate that this will be the "Year of AI." With new AI products set to launch, Foxconn will fully leverage this opportunity and enter a new era of growth. We are not only an AI supplier but also an AI user. With a significant boost in AI computing power, we are in the process of building a supercomputing center, positioning Foxconn to become a manufacturing powerhouse with AI supercomputing capabilities.

Previously, Foxconn's automation efforts led to an 80% increase in revenue per employee. Now, we are collaborating with several global leaders in the fields of AI, robotics, and automation. With the support of vast AI computing power, we expect future outcomes to be even more significant. By 2025, Foxconn will build upon its strong foundation in manufacturing services and its three platform solutions to become a technology manufacturing platform service company.

Next, I will talk about major business developments. These include five major areas: AI, our three smart platforms, and semiconductors.

Starting with AI, Foxconn, leveraging its competitive advantages in R&D, digital manufacturing platforms, vertical integration, customer relationships, and global presence, has seen strong customer demand driving significant growth. In the first three quarters, revenue from AI Servers more than doubled YoY. AI Servers now account for over 40% of total server revenue.

Looking to 2025, strong demand for AI servers will come from large CSP, NCP, and tier-1 brand customers. We expect to cover almost the entire spectrum of AI Server demand. We anticipate that AI Server shipments will continue to increase each quarter in 2025, with AI Servers reaching over 50% of total server revenue, becoming the key driver of our growth.

Next, I'd like to update you on the progress of our three smart platforms.

For our Smart Manufacturing Platform, we are working with our partners to introduce generative AI technology to improve factory automation and efficiency. First, we've partnered with BCG on the "Genesis Initiative" project. This is where we're applying generative AI to optimize production parameters, equipment management, product quality inspection, and more. We expect this initiative to generate several hundred million dollars in economic benefits.

For our AI Robotics Platform, we are collaborating with Intrinsic to develop an industry-leading robot application management platform. By leveraging generative AI, we can

enhance the level of automation and integration of our robotics, reduce adjustment times, and improve the performance of Foxconn's fully automated production lines and light house factories.

Additionally, we are collaborating with Nvidia and Siemens to integrate complex and large volumes of data from areas such as warehouse logistics, mechanical components, and assembly into a digital virtual twin of our factories. This initiative will significantly simplify factory management and improve operational efficiency.

For our Smart EV, we showcased the MODEL U, MODEL D, and MODEL A EVs this year at Hon Hai Tech Day, demonstrating that we have significantly expanded our product portfolio. By the end of this year, we also plan to finish preparation for mass production of MODEL B.

For battery and energy storage, we are nearing the completion of our manufacturing plant. However, due to several typhoons this year, we anticipate that the official mass production will be delayed until Q1 next year.

For our Smart EV Platform, we have already conducted extensive real-world testing on roads in Taiwan. Based on user feedback, we are continually enhancing and updating features to deliver superior riding experiences and build a leading platform in the automotive industry.

For our Smart City Platform, we are in discussions with customers in the North America and Japan about potential collaborations. At this year's Hon Hai Tech Day, we showcased CityGPT, an application that has garnered significant attention both domestically and internationally. We will continue to develop this application and expand its use in smart city projects.

Additionally, we have received support from Taiwan's Ministry of Economic Affairs, which will enable us to establish an experimental site for smart city in Kaohsiung. This site will also help drive development of the local AI software industry chain. To promote smart city, we've been conducting workshops in various counties and municipalities, helping them plan their AI-powered city blueprints.

In the semiconductor space, we are continuing to strengthen key capacity development. For SiC automotive products, we expect to finish customer validation this quarter and begin ramping up production. In advanced packaging, Glass Re-distribution Layer PCB are now

undergoing small-scale production, primarily for use in Edge AI GPUs. As for our design services, we are completing 5nm backend designs and setting up the process for CoWoS design services.

These recent business developments indicate significant progress across our three smart platforms and semiconductor business. We are excited about the direction we are headed and look forward to leveraging these technologies to continue to drive Foxconn's continued growth in the coming years.

On automotive power and analog ICs, we have completed the construction of a SiC module factory in Hsinchu, and have begun pilot production. Our self-designed and manufactured SiC modules have been sent to Foxtron as well as to Chinese and European EV motor customers. Several of our solutions are currently in the process of design integration.

Furthermore, we have integrated multiple automotive semiconductor modules with our own ICs, and have secured design contracts for several vehicle electronic subsystems in China, Taiwan, and other regions. Additionally, we have begun incorporating our in-house designed power ICs and power semiconductors into AI servers, which will help secure our position in the supply of critical components for AI servers.

Above are our new business developments. Next, I will hand over the call to James to talk about Hon Hai's 5th Tech Day that we held last month. Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you, Chairman. This year's Hon Hai Tech Day marked another significant milestone. Not only did we expand the scale of the event, but we also introduced a public open day for the first time, allowing external visitors to tour and experience the event.

The event kicked off with a speech by our Chairman, who shared our latest achievements and future outlook with the 2,000 guests in attendance. We also invited several global leaders, including companies like Nvidia and Siemens, to join discussions on key topics such as AI, EVs, automation, and energy storage. These collaborations highlight the strong partnerships we have built with these industry leaders.

One of the key highlights of this year's Hon Hai Tech Day was our EV showcase. Our MODEL C EV has become one of the best-selling EV models in Taiwan. We also presented

the US version of MODEL C along with MODEL A and the mass-production version of MODEL B.

Most importantly, this year, Foxconn partnered with Italian automotive designer Pininfarina to co-develop two new EV models: the MODEL D, a versatile vehicle combining the strengths of both SUVs and MPVs, and the MODEL U, a medium-sized electric bus. We are excited about these new models and look forward to launching them in the market in the near future.

The exhibition area at this year's Hon Hai Tech Day was divided into six major sections: Super Computing Center, Smart Manufacturing, Smart EV, Smart City, Semiconductor, and Advanced Technologies. These areas showcased Foxconn's developments across different fields and demonstrated our capabilities in design and R&D, vertical integration, and future growth potential.

Among these exhibitions, the Super Computing Center attracted the most attention, especially as we introduced the mass-production version of the Blackwell NVL 72 server for the first time. We also showcased our highly vertically integrated liquid-to-air and liquid-to-liquid cooling solutions.

During the forums, we invited many partners and industry experts to engage in in-depth discussions on topics ranging from business and science to sustainability in talent and the environment.

On the second day, our open day attracted up to 3,500 visitors, helping us connect with the public and showcase more of Foxconn's capabilities. We hope that through events like this, we can further increase awareness and understanding of Foxconn's business and innovations.

Now, I would like to highlight a few recent key events.

First, we supported off-road racing champion Chen Ho-Huang in the Asia Cross Country Rally. He successfully completed the race with a Luxgen N7, which was built on our MODELC platform. This marked the first time an EV participated in this competition.

Next, the World Economic Forum announced its latest batch of Light house Factory designations, and Foxconn added two more world-class Light house Factories to our

portfolio. With this addition, we now have a total of eight, making us the company with the most Light house Factories in the EMS industry.

In the EV sector, the ZF Foxconn Chassis Modules business continues to grow. Our new factory in Shenyang is set to be completed next year, and we anticipate establishing more production facilities in the future.
In the Digital Health sector, we participated in the Smart Medical Expo, focusing on digital health innovation and cross-industry collaboration. Our CoDoctor Pro's professional version also received certification as a Class II medical device.

Next, I would like to showcase the achievements of the Hon Hai Research Institute.

We have collaborated with Cambridge University in the UK and National Yang Ming Chiao Tung University in Taiwan on advanced research, and our results have been published in top-tier international journals in quantum computing and materials science.

Hon Hai Research Institute, in collaboration with SEMICON, hosted the NExT Forum this year. Additionally, the Institute introduced the new Lite-QCNet solution, which won first place in a world-class AI competition.

In terms of ESG initiatives, we have organized various sustainability activities, including bike-to-work campaigns at our European factories and animal rescue efforts. These activities reflect our commitment to creating a positive impact on the environment and society. On the Social and Governance fronts, we donated supplies to food banks and provided educational materials to support local communities as schools reopened. Through these events and initiatives, Foxconn demonstrates its strong global commitment to sustainability.

Our efforts in ESG have been widely recognized. Foxconn has earned prestigious accolades including 2nd place in the World Talent Sustainability Awards, 7th place in the Sustainable Citizen Award, and 1st place in the Corporate Commitment category for large manufacturers. We also received the IPC Outstanding Contribution Award in the Asian electronics industry, and the ESG Benchmark Enterprise Award. Furthermore, for four consecutive years, we have ranked first in Greater China in the Green Supply Chain indices. Our Hon Hai Sustainability Monitoring Platform, a digital innovation tool for promoting ESG, was recognized with the Red Dot Design Award.

Finally, we are proud to share that Foxconn won the Ragan Award in the ESG Campaign Category for our initiatives around diversity, equity, inclusion, and services for people with disabilities. In talent development, Foxconn also achieved One Gold and Three Silver awards at the Brandon Hall Excellence Awards!

That concludes my summary of our recent activities. Thank you.

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Questions and Answers

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, James. Next, we will enter the second part of our Investors' Conference: the Q&A. 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.

Question 1: First question is on the Chairman's outlook for 2025. What are the main products that will become growth drivers? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
On the global macroeconomy, the IMF forecasts that the global economy will grow by 3.2%, on par with 2024. Inflation's normalization and loosening monetary policies are moving developed economies toward a soft landing. Countries will use monetary policy to promote economic growth. We will continue to closely observe the impact of geopolitics on the economy. As for growth for the ICT industry for 2025, I believe we can be optimistic due to the AI industry entering a period of rapid development. Our main customers estimate that AI market will reach US$ 500 billion – US$1 trillion in scale within 5 years, which will be close to or even exceed the global semiconductor scale of US$600 billion this year.

From the perspective of our four major product segments, servers from our Cloud and Networking Products will become the main growth driver. Especially strong growth in demand for AI Server demand and rack solutions. Of course, with the increasing demand for AI Servers, Edge AI demand will also grow and may even drive growth for relevant devices. Of course, EVs are also an example of Edge AI devices. On EVs, we forecast that MODEL C and the electric bus will reach stable production levels following the mass production of MODEL B. These will contribute to continued growth in EV revenue.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Question 2: Thank you. For the second question, on the presentation, we also saw that AI Server's target is to reach 50% of overall servers for next year. I would like to know about next year's AI Servers, including high priced products like the GB line, and their demand, shipment plans, and market share goals. Thank you.

Young Liu *Hon Hai Technology Group – Chairman*

Thank you. Demand for GB products, as Jensen has said previously, is very crazy. We have also prepared sufficient production capacity in response to this demand. Our customers include large CSPs, NCP and tier 1 brand customers. Thus far, GB200 development and manufacturing are proceeding according to our plans. As we mentioned earlier, we see a smaller volume of shipments this quarter, and estimate mass shipment to be in the beginning of next year.

GB200 NVL is a system level AI server rack. In the coming quarters, alongside improvements in technological maturation and the supply chain's abilities for vertical integration, we forecast shipment to continue to increase, especially for large CSPs with their deployments and AI infrastructure demand. We forecast that product shipment for the GB line will see significant growth each quarter in 2025. Everyone knows that there are two specs for GB200, NVL36 and 72, mainly to accommodate different power specifications for various datacenters. NVL72 is better on both computing power and economies, which is why our major CSP customers lean toward choosing the NVL72 system. This is in line with our currently existing customer orders. We estimate that we will have at least 40% market share.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Question 3: Thank you. The next question is on the gross margin. Alongside AI Server's growth next year, how should we look at the impact of AI Servers on the gross margin and operating margin? Thank you.

David Huang *Hon Hai Technology Group – CFO*
As you can see from our numbers, this year, AI Servers have not only greatly contributed to our revenue, they have also impacted the structure of our balance sheet. At the end of September, inventory was NT$883.5 billion, representing a YoY increase of 14%. Accounts receivables NT$1.19 trillion, a YoY increase of 20%. These reflect that at the same time as receiving AI Server orders, a stable balance sheet is an important capability.

In the third quarter, our three margins, despite being impacted by product mix, Foxconn's operational scale advantages have enabled our gross profits, operating income, and net income to see YoY growth in absolute terms. As a technology manufacturing platform service company, Foxconn will continue to maximize profits through our operational scale and advantage of vertical integration.

In 2025, alongside an increase in shipment in high ASP AI Servers, our revenue scale will continue to expand. This will allow us to have a greater variety of business models for customers, and at the same time, would increase the need for a strong balance sheet. From a buy-and-sell perspective, this is expected to have impact on both gross margin and operating margin. Even though the actual impact will depend on the final contract conditions and shipment conditions, overall, AI Servers will drive profitability growth. At the same time, we will continue to increase AI Server vertical integration. Thus far, on key components, apart from higher supply ratios for Compute Board, NV Link Switches, SmartNIC, DPU etc., we also continue to supply liquid cooling, power connectors and other key components to increase profitability for AI Servers.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, David. 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 – Senior IR Manager*
Question 4: This is the fourth and final question. You mentioned that liquid cooling components would increase profitability for AI Servers. We would like to know if the Chairman can discuss current progress on liquid cooling for servers and liquid cooling components.

Young Liu *Hon Hai Technology Group – Chairman*
As David mentioned earlier, on AI Servers, Foxconn is the only player that can provide services to the entire supply chain. The GB200 rack liquid cooling system includes CDU equipment, UQD, Manifold, and Cold plate components. At Hon Hai Tech Day in early October, apart from showcasing complete liquid cooling racks including liquid-to-liquid and liquid-to-air technologies, we also showcased different UQDs. These UQD, Manifold and Cold plate key components' high yields and quality are achieved through our long-term accumulated experience in precision processing.

More importantly, we have very high market share for GB200 rack system. This gives us a better chance to integrate our liquid cooling components into our customers' products. We have already sent samples to customers and some of them have passed customer certifications. This has not been a problem. We forecast that these components will have significant contributions in 2025.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Now, we will move to Q&A session for online investors as well as media. English questions are also welcome.

James Wu *Hon Hai Technology Group – Spokesperson*
First question is from Sharon from Morgan Stanley, please.

Sharon *Morgan Stanley - Analyst*
Question: Thank you. Hello Young, David, James. I have two questions here. First question is about EV. I would still like to know your current progress on EV development. Recently, the EV market may be slightly less optimistic, but could you give us an update on your collaborations with the Japanese automakers? Also, you previously also had a goal of reaching global EV production of 5% for 2025. Do you have any updates on this goal? That is my first question.

My second question is a follow up on AI Servers. After more contribution by AI Servers, what would the impact be on margins? CFO mentioned earlier that if it is on a buy-and-sell basis, that the margin may see some dilution. I would like to understand how we should view the OPEX ratio. As we can see that in 2Q24 and 3Q24, the OPEX ratio has declined to below 3.5%, compared to previously 4%+ levels one year ago. Next year, if AI Servers revenue contribution increses, would there be higher OPEX percentage savings, and hence, lead to the benefits from economies of scale? Those are my two questions. Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
Thank you, Sharon. So far, our discussions with the two traditional Japanese car makers are going smoothly. They are highly satisfied with the progress and have both made visits to Taiwan to look at our products and are in talks with our engineers. Currently, we are discussing collaboration details and hoping that in the coming few months, we can complete contracts signing, and, at the same time, we hope to ensure that our mass production plans will not be delayed by contract signing to reach a double-win situation.

The EV market's 5% market share and trillion-dollar revenue have been our goals since the beginning of our operations in this segment. Thus far, it is looking like EV developments are going as we forecasted. Nevertheless, the automotive industry is a hundred years old. On new technology and business model adoption, the industry is still more wary. Though we do wish to reach our goals by 2025, due to the above factors, I think the goals may be pushed

back, though we maintain the same unchanged goals.

We also see that the EV market is becoming increasingly competitive, along with the localization of production, which has made our CDMS model more attractive. Therefore, we have seen increased interests from automotive players, and I believe that we may be able to establish new contracts soon. After confirmation of ongoing orders, we also expect more customers to be joining soon. So, for the medium to long term, I believe we will be able to reach our goals.

In the next two years, we have three major benchmark goals. Firstly, our first passenger EV model reached mass production. As everyone has heard, currently, our MODEL C has entered mass production in Taiwan. In terms of sales by EV model in Taiwan, it is also leading in the market. This benchmark has already been reached. Secondly, our goal is to receive orders from traditional automotive players. As I discussed earlier, we expect to also reach this goal in the near term. I believe that there will be more automotive players that follow suit in the future. Thirdly, our goal is to have traditional automotive players adopt our reference EV model. This is a goal I believe we can reach in the coming two years. Achieving these three goals will become significant milestones for Foxconn on EVs and give us more confidence to reach further goals.

On the OPEX, I will ask David to answer.

David Huang *Hon Hai Technology Group – CFO*
Okay. Thank you, Sharon. In the first three quarters of this year, accumulated operating expenses grew by 3%, mainly from R&D cost increases in support of business developments. That said, the growth rate in expenses was less than 10% of the growth in revenue. Hence, operating expense ratio declined from 3.64% in the first nine months of 2023 to 3.42% this year. Apart from reflecting our good cost control, it also reflects Foxconn's competitive advantage that stems from its large operating scale. When our revenue expands, our operational scale and vertical integration abilities will become more prominent to help us reach our goal of maximizing profitability.

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

Avery Liu *SET News - Reporter*

Question: Hello, I would like to know that after Trump's election win, would there be adjustments to your global development strategy? Mainly given that in the US, operations are mainly based in Ohio and Wisconsin. Will there be adjustments made there? We would also like to know that given Foxconn has increased AI Server production capacity in the US, Mexico and Taiwan. Could you analyze your current production capacity allocation and future plans? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*

Thank you, Avery. As Trump has only recently been elected and has not officially become the President of the United States, we are not clear yet on what his policies will be. That said, Foxconn's global developments are based on our customer's requirements as well as our own business development strategy.

Actually, from the 1980s, we entered the US market, followed by China in 1988, and Mexico in 2004, followed by other important locations such as India and Vietnam. In these countries, we continue to expand our operations and take strides to make contribution to local economic development and employment opportunities.

As a multinational corporation, we are less concerned with the election itself but more with local investment policies and environment, as well as business opportunities. We need to closely monitor the changes the new government brings once it comes into power. Our investment direction and roadmap will also adapt quickly based on these conditions. Overall, looking at the strong development of AI and rise in EV opportunities, demand for local production will increase. Thus, our investments in the above countries will also continue to increase.

Today, everyone is focusing on balanced regional development. This is something that Foxconn has been working on in the past for over 30-40 years. Thus far, we have operations in over 24 countries with more than 200 operation bases, which I believe is one of our major competitive advantages.

In the US, our operations span over 11 presidential terms and we continue to expand our operations up to today. I want to emphasize that Foxconn's presence in the US is based on our group's guiding principles of 'long-term value creation, business sustainability, evolution & improvement, innovation, and global perspective.' Therefore, Foxconn's expansion in the US is both long-term and stable.

We have been in the US for around 40 years, have over 50 campuses, with over 5,000 American employees, generating over US$25.6 billion in revenue. These results have only been made possible by our US colleagues' contributions.

As for our investment in Wisconsin, due to shifts in the overall market, we have quickly adjusted our investment plans in the hopes that we can continue to create new developments and employment opportunities locally. In 2021, we signed a new investment agreement with the government. We have continued to abide by the contract to this day.

In the past three years, our investment in Wisconsin has reached US$1 billion, and employment of local US employees has increased by at least 40%. Wisconsin's revenue has also seen a nearly 140% YoY increase. This year, Foxconn Group is the largest taxpayer in Racine County. And because of our investment in the local area, we have also seen other companies making investments in Wisconsin to help contribute to its economy and employment opportunities.

In the long-term, we benefit from our global development and new business developments. Our Wisconsin and Texas plants will both have significant growth in the AI and Server segments. Our Ohio EV plant will also continue to gain new customers. Because of these factors, we also announced new investments into the US a few months ago. Foxconn's outlook in the US is still very positive.

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

Dylan Hou *Commercial Times - Reporter*
Question: Hello Chairman. I wanted to ask about Sharp's Investors' Conference on Tuesday this week. As the results were quite good, I just wanted to ask what you, as the Chairman of Sharp, have done as part of Sharp's transformation? We are also interested in the transformation of SDP into a datacenter and progress on that front. Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
Sharp has demonstrated some initial results at its investor conference recently. That said, I believe we need to continue to work hard as those are merely initial results. We have seen some more positive developments after making some adjustments at Sharp.

Our adjustments include, firstly, allowing our Japanese management team to make more decisions and lead our Japanese colleagues. Secondly, on communications, we have adjusted our ways. Previously, we had used English to communicate. However, when neither party's first language is English, it makes communication less efficient. We have since changed to communicating through our own native tongues. For example, when I am communicating with the C-level team, I would use Mandarin while they would use Japanese. The only difference is that we now have added translators. The key is that this enables Sharp's Japanese leaders to better express what they are thinking in their heads and also allows me to better communicate with them. This is an adjustment we made on management.

On the product side, we have also made quite a significant change. Previously, Sharp's products can be divided into two major categories including branded products and component products. If you look at Sharp's historical financial reports, it is evident that branded products did quite well, generating 50 – 60 billion Japanese Yen in net profits for Sharp annually. However, the component products, including panels, camera modules, and semiconductors, require large investments and see fierce external competition, this has been leading to significant annual losses that cancel our profit from the branded products side. Hence, we have made adjustments by continuing to strengthen and operate the branded products segment, while deciding to stop production of components where possible and going asset-light on other components where otherwise possible. Through these adjustments, we have managed to turnaround to profitability as you have recently seen. Of course, there are a few more details, but I will not be addressing them here. These are the two main parts to it.

As for the progress of SDP transformation to datacenter, this is business as usual. This is similar to when Sharp explained to everyone that they have ongoing contractual discussions with Softbank and KDDI. We hope to finish up the contract details by the end of the year. Progress is still going according to plan.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Gokul from JP Morgan, please.

Gokul *JP Morgan - Analyst*
Question: My question is on AI Sever and Regular Servers. Could you talk a little about what the expectation is for non-AI and regular servers for next year? Do you think they will

keep growing in 2025 or not much growth? Secondly, within your AI Server business, does the growth pretty much all to come from GB200? Or do you see meaningful exposure to non-GB200? Lastly, on margins, do you expect AI Server margins to go up year on year next year as the rack server ramps up or could AI Server margin go down next year? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
Okay, let me answer this question. First, about where the growth comes from. AI Server growth mainly comes from GB200, from Nvidia's product line. Other suppliers' percentages are still pretty low. We expect to see this stay the same in the coming year. You won't see other competitors with significant growth in terms of market share.

On your first question on non-AI Server growth, I would say growth of general servers, revenue wise, would still be 20% for this year. By the end of this year, it would probably stay the same. For next year, we think it will grow, even though demand for GB200 is strong, you still need some AI infrastructure and AI ecosystem to improve how you handle data storage, processing, and transfer. So, those kinds of tasks can still be done by the general server. We see that even though the growth of the non-AI server is not as high as AI servers, it still will grow. The margin of AI Servers for next year or the year after the next, I think, will grow, because the first version of GB200 still has a lot of room to improve. You have probably heard that another new GB model is coming out. With the new GB model, it will be more efficient. Cost efficiency will improve. With that, it means that the cost of the overall AI Server will go down. If it goes down, then our margin will go higher. And that's what I expect.

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

Angela Hsiang *KGI -Analyst*
Question: Hello Young, David, and James. I have a follow up question on 2025. You mentioned that there are some key swing factors that you are observing. Could you share with us on your major four product areas and their growth drivers, like you have shared for Cloud and AI? Apart from that, could you share potential drivers for your other segments? For these segments, in terms of outlook for 2025, do you see any changes to gross margins?

Young Liu *Hon Hai Technology Group – Chairman*
I will answer this question. As for our four main product segments, my view is that they are all driven by AI. Our Smart Consumer Electronic Products, including smartphones and relevant devices, may see a new wave of demand due to AI. For Computing Products including notebooks and PCs, they may see a new product replacement cycle due to GenAI. Of course, for Cloud and Networking Products, growth has been rapid due to AI. As for our fourth segment of Components, we will also see growth due to AI. Hence, I believe the growth will be driven by AI.

As for gross margin changes, it will depend on the value that AI will bring to these products, how attractive these products are to customers and how much money they are willing to pay for these products. I believe this will be increasing as GenAI's new functions has the ability to help users achieve higher efficiency to help them do what they could not do before. Thus, I believe respective gross margins should be increasing for respective products.

Angela Hsiang *KGI - Analyst*
Question: Thank you. Could I add a follow up question? Will the Cloud business reach 40-50% of the revenue mix for next year?

Young Liu *Hon Hai Technology Group – Chairman*
The Cloud business will become a major product next year. Currently, our major product is mobile phones. I believe that next year, Cloud products will become our other major product and will reach around the same level in the product mix. This is the only forecast I can make. As for whether it will reach 30%, 40% or 50%, will depend on the products' growth. Though I believe mobile phones and cloud products will be similar.

James Wu *Hon Hai Technology Group – Spokesperson*
It is now 3.59pm. We will take one final question. Next question comes from Grace from UBS, please.

Grace *UBS - Analyst*
Question: Thank you for taking my question. I would like to ask about the gross margin for AI Servers. It looks like next year, the opportunity for in-house AI Server component production will exceed existing AI Server products for this year. Will the gross margin for AI

Servers improve next year due to increased proportion of in-house production for these AI Server components?

Young Liu *Hon Hai Technology Group – Chairman*
We'll have the CFO to respond.

David Huang *Hon Hai Technology Group – CFO*
Thank you, Grace. As I said previously, AI Server price will increase significantly in 2025. This will significantly improve Foxconn's revenue performance. At the same time, it will impact Foxconn's gross margin performance. Through vertical integration upstream and downstream for AI Servers, Foxconn will reach its goal of profit maximization through economies of scale. Also, on business models with customers, customers still have some choice in the matter. For example, it does not always have to be buy-and-sell. Customers may potentially accept consign models. The margin will be affected by the proportion of customers that choose each model. I believe that the company's steady balance sheet and cash management ability will be key competitive advantages for development of its AI server segment.

We have mentioned that from a systems player's perspective, the key to competition will be both scale and profitability. From a net profit standpoint, we will eagerly strive for products that can fulfil both our net profit requirement as well as requirements for return on investments. Under these conditions, though the gross margin may sometimes be impacted, our net profit will definitely benefit. Of course, this will also benefit shareholders. As we have emphasized, to maximize profitability growth is an unchanging goal.

James Wu *Hon Hai Technology Group – Spokesperson*
Above is all of the content for our investor's conference this time. As the time is now 4:01pm, we will end our conference here. If there is anything else you would like to know, please get in touch with our IR team. Thank you everyone, good bye.

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