

TRANSCRIPT

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Investor Conference Call

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Precision

Investor Conference Call on FY22 Fourth Quarter Financial Results

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Hon Hai Technology Group – CFO

James Wu

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Presentation

James Wu *Hon Hai Technology Group – Spokesperson*

Hello to all the investors and media. This is James. Welcome to Hon Hai's Fourth Quarter 2022 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 four topics, including performance review of the fourth quarter and year 2022, business outlook for year 2023 and the first quarter, six key pillars for this year, and recent major events.

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

David Huang *Hon Hai Technology Group – CFO*

Thank you, James. Hello everyone. I am David Huang, CFO of Hon Hai Technology Group.

I am going to start with some highlights on Hon Hai's financial results for the full year of 2022.

Firstly, please refer to page 5 of the presentation for the 2022 full-year income statement. Full-year 2022 revenue reached a new high of NT\$6.627 trillion, with an EPS of NT\$10.21, the highest in 15 years. Compared to year 2021, revenue increased 11%, mainly driven by strong demand for smartphones and servers, and an increase in shipment of Components and Other product segment related to acoustics and components related to Smart Consumer Electronics product segment; in addition, easing component shortages boosted shipments for Computing Products. Gross profit grew 10% year-on-year. Gross margin was flattish for the full year, mainly due to increased costs as a result of the pandemic that led to gross margin decline in the fourth quarter. The operating margin increased by 0.14% YoY, as operating expenses were kept under control, resulting in a decrease in the operating expense ratio.

Next, let's look at the financial result for the fourth quarter of 2022. Firstly, please refer to page 6 for the income statement for the fourth quarter of 2022. Revenue stood at NT\$1.963 trillion, representing 4% YoY growth and the second highest for the same period. In terms of margins, gross margin decreased by 0.37ppts YoY to 5.66%, while operating margin was down by 0.54ppts YoY to 2.25%. The increase in cost and expenses were mainly due to the impact of the pandemic at the Zhengzhou campus, which led to a decrease in the utilization rate, an increase in pandemic prevention expenses, and implementation of employee incentive measures. Net margin was down 0.31ppts YoY to 2.04%, mainly because of the decline in gross margin and an increase in the expense ratio. On the bottom line, net profit attributed to the parent company in the fourth quarter was NT\$ 40 billion, down 10% YoY. EPS was NT\$2.88, decreasing by NT\$0.32 YoY.

Moving on to slide 7 for the balance sheet. As of the end of December 2022, cash and cash equivalents were maintaining at NT\$1.06 trillion. Net cash was NT\$138.6 billion, down by 42% YoY, mainly due to higher inventory levels, resulting in increased payments for goods and an increase in capex. However, the Company continues to follow the principle of prudent capital management. The cash turnover days were 45 days, increasing by 10 days YoY, because of an increase in inventory turnover days. The debt ratio was 60%, maintaining a stable level.

Finally, on page 8. Regarding cash flow, in 2022, operating cash inflow was NT\$109.7 billion and free cash flow was NT\$11.8 billion, maintaining stable levels. In addition, in order to accelerate our business strategy execution, capex was NT\$97.9 billion in 2022, up 6%

YoY. As mentioned in the previous investor conference call, due to the implementation of our 3+3 strategy, our capex will be higher in 2023 than in the past.

Here I conclude the summary of the financial statements for Q4 2022. 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.

Facing the challenge of the pandemic in the fourth quarter last year, safeguarding employees' health and ensuring safe production have always been our top priority. The epidemic situation has been brought under control and operations resumed to normal as quickly as possible. As a result, our revenue performance in the fourth quarter was better than our expectations. I would like to express my sincere thanks to all the employees who have been working with us during this difficult time.

Looking into our operation results, performance in Smart Consumer Electronics and Cloud and Networking products were better than expectations in the fourth quarter. Despite the impact of the pandemic, overall revenue in the fourth quarter 2022 still increased by 4% compared to the same period in 2021.

For full year 2022, revenue reached a historic high of NT\$6.6 trillion, up by more than 10% YoY. This is roughly in line with the outlook we guided at the earnings conference in November 2022. However, if compared to our flattish guidance shared at the beginning of last year, the final result significantly exceeded expectations. Last year's net profit reached NT\$141.5 billion, up 2% YoY. EPS, at NT\$10.21 is the highest since 2018.

This is why we have always emphasized Hon Hai targets maximizing EPS and creating the largest value for our shareholders.

Next, I will explain the outlook for year 2023. In the earnings result conference last November, I mentioned that we had a neutral view on the outlook for the ICT industry this year. Currently, this view remains largely unchanged. The high growth driven by the

pandemic has already passed. Also, with global central banks tightening monetary policy, global economic growth likely slowing down, the visibility is relatively conservative.

However, we will make best efforts to maintain stable operational performance and expect the business outlook for the whole year to be roughly flat.

Among four major product segments, we maintain a relatively conservative outlook for Smart Consumer Electronics products. We expect the possibility of slight decline due to the impact of inflation and economic slowdown, as well as a high base effect.

In terms of Cloud and Networking Products, despite some market concerns, we see strong demand for CSP and AI servers this year, which is expected to lead to significant growth in this Product category. On the one hand, the demand for computing power will increase significantly due to the application of general artificial intelligence and generative AI, bringing huge growth potential to the AI server market. Hon Hai will definitely benefit from that. On the other hand, because of our global footprint, R&D capabilities, and supply chain advantages, more customers choose to work with Hon Hai, leading to continuous expansion of our customer base and market share.

For Computing Products, although the overall PC industry is still at the bottom this year, our close partnership with customers and global footprint advantages help us gain market share. We expect significant growth in this product category.

Finally, for the Components and Others product segment, we continue to expand component supply into different categories and increase shipments. We expect stable growth in mechanical components, optical components, electronic components, and semiconductors. Acoustic products are expected to deliver some results as well. Overall, Components and Others product segment is expected to deliver significant growth for year 2023.

For the near-term outlook, let me explain the situation for the first quarter. Although the outlook for the first quarter is expected to show seasonal decline, the sequential decline should be smaller than usual, mainly because of the impact of the pandemic and lower base period in the fourth quarter last year, coupled with the resumption of normal production at our Zhengzhou campus and increased shipment momentum in January. On a year-on-year basis, the performance for the first quarter is expected to be roughly flat.

Next, let me walk you through the outlook of the four major products categories. Firstly, for Smart Consumer Electronic products, which were most affected by the pandemic at our Zhengzhou campus, we expect a significant growth in the first quarter compared to the

same period last year, with operations at the Zhengzhou campus returning to normal and shipments increasing.

As for Cloud and Networking Products, while there are market concerns about servers, as mentioned earlier, we remain positive about the growth potential of the CSP business this year, and expect year-on-year growth to be maintained in the first quarter. For the Cloud and Networking Products segment, we expect flattish performance compared to the same period last year.

In the field of Computing Products, as mentioned earlier, the high-growth phase driven by the pandemic is behind us, and this product category is expected to decline slightly compared to the same period last year in the first quarter.

Lastly, for Components and Others products, due to conservative pull-in from customers in the first quarter, it is expected to decline slightly YoY as well.

Next, let's move to six key pillars for this year.

First of all, Hon Hai will continue to strengthen innovation and connect with new businesses: The Group's business groups have gradually invested in EV-related fields. This year, in addition to making great progress in the field of acoustics, the Group will continue to develop the software and hardware application of XR, including AR/VR/MR.

Secondly, on back of rapid growth in market demand, the shipment of the Group's AI Server doubled last year. Revenue of these AI Server accounts for about 20% of our total server revenue. This year, we expect there will be more servers based on AI and HPC coming into market.

Additionally, inflation, exchange rates and pandemic-heightened labor costs early in the year, are all factors that will dilute our gross margins this year. Therefore, the goal of our operation is to maximize EPS. The market is quite challenging this year, but we still hope to create more profit.

In our EV business, this year, we will actively expand our EV layout in North America, and comprehensively cooperate with traditional and start-up auto manufacturers. Aside from adding new product lines for electronic control and sensors; testing and verification of battery cells and battery packs will also be carried out. Production of self-driving tractor

vehicle and battery swap module is about to start in this month. Based on client expansion and to advance the sound development trend of supply chain cooperation, this year, new components and vehicle assembly will contribute to EV revenue.

On the automotive component front, revenue of the Group's automotive component has already reached NT\$20 billion. In addition to increasing shipment from current clients, the past few years of our development in automotive components are now starting to bear fruit. We expect automotive components will have significant revenue contribution this year.

As for batteries, the battery center in Ho Fa Industrial Park in Kaohsiung is expected to conduct a test run on the first line in the fourth quarter of 2023; LFP electric bus battery cells are also expected to enter the mass production stage in the second quarter of 2024. These projects are currently all on track.

On semiconductors, we had quite good progress last year, including establishing an IC design house with EV partners, signing an MOU to develop semiconductor manufacturing. Moreover in our regional cooperation, we continue to received strong support from India's government. This year, we will continue to promote the progress of cooperation with strategic partners. In terms of SiC, the product and advanced packaging and testing layout are progressing smoothly. This year, the focus is on customer development, preparation for mass production, and cooperation in upstream and downstream supply chains.

Regarding automotive IC design, we expect that within two years, we will enter into the intensive product design cycle. We will finalize some product developments within this year. The second-generation 1200V/800A SiC power module used in EV inverters, the new architecture of the e-Bus lighting sub-system, and the integration solution of LED driver IC, these solutions will be gradually adopted by the clients.

The software/hardware platform for the development of automotive chips has been established and will be fully introduced into the ongoing development, design and verification of automotive MCU/SoC chips this year. It takes a longer time to establish semiconductor technology and capacity, we will be practical in every step of our progress.

Regarding software, starting from last year, our EV software has already started to generate revenue. This year, we will continue to develop smart cockpit, EEA architecture and various software solutions with partners, while strengthening the infrastructure of

Internet of Vehicles, continuing to invest in the development of vehicle platform HHEV.OS, to realize the goal of software-defined EV.

As well, Artificial general intelligence and generative AI will decrease the cost to develop the content of Metaverse, and increase the development of Metaverse, which will

accelerate clients to bring out more VR, MR and AR products. Therefore, this year, we will strengthen the layout of AR glasses content and applications, and grasp the growth opportunities from new applications and technologies.

Turning to the next topic, our global footprint is on the minds of everyone which everyone cares a lot recently. Based on current global dynamics, we will leverage the advantage of an extensive global footprint, and cooperate with customers to move towards the goal of "capacity optimization".

Additionally, we will continue to expand new markets based on the BOL model, and cooperate with different global partners to establish a supply chain with resiliency. Our goal is to help all the countries to create economic growth so that we may share the profits together.

Lastly, on our ESG front, this year, our management team's performance will start to have linkage with ESG results. We will continue to improve on labor regulations, including revising the Group's code of conduct and formulating responsibility standards; and publish a chapter on Hon Hai's labor rights, aiming to become a benchmark in the industry.

Last week, we also announced to establish a green energy investment platform with CDIB Capital Group. We will continue to expand domestic and overseas participation in renewable energy, energy storage and other related investments, and lead Hon Hai's supply chain in energy transformation and upgrading.

Above are the key pillars for this year. Next, I will have James recap our recent major events.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you Chairman Liu. Actually we have gone through plenty of major events since our last November investor conference. Here, I have selected some major events to share.

Last November, our EV manufacturing facility in Thailand started construction. We target to complete construction and ready for vehicle delivery by 2024. The initial capacity will be 50,000 EVs per year and gradually ramp up to 150,000 EVs per year by 2030.

Last year in November, Chairman Liu was invited to the B20 Conference and delivered a keynote speech – “Share. Collaborate. Thrive.”, sharing the content of our BOL model in anticipation of more collaboration with different countries.

In late February this year, our Chairman also inspected our very important operation facility – Zhengzhou campus. He met representatives of Henan provincial government, to express our gratitude for their assistance during the pandemic. We also emphasized that we will continue to root in Henan and develop new business locally.

Additionally, the Chairman held direct communication with our employees and inspected their living and working environment. He also conveyed his gratitude to all the employees for their perseverance during pandemic, which was the most important factor in stabilizing our operation.

Then later February, Chairman met Prime Minister Narendra Modi for the second time, sharing our plan in India. We have received quite a strong recognition from India’s government.

Other new business progress included, last December, we invested in leading automotive software company – Sonatus, to accelerate vehicle software innovation. Sonatus’s software solution has been adopted by several automakers.

Additionally, we support Google’s “Project Hatcher”. We will help start-up companies to increase their visibility, raising funds and helping start-up companies to thrive.

On the other hand, as a founding member of “Harmony in Medical and Technology, HiMEDt”, we will consolidate family, enterprise, local medical institution through cloud and digital, to provide a one stop shopping medical management solution.

As for Hon Hai Research Institute, last December, with the main topic of Quantum Computing, Quantum Computing to echo to Nobel Prize Entangled Photon Pair Theory.

Plenty of research achievements from Hon Hai Research Institute were adopted by leading global conferences. We will continue to invest in forward-looking – that is 3-7 years ahead – advanced technology to strengthen the innovation of our products and technology.

Recently, ChatGPT aroused a lot of discussion. Hon Hai Research Institute also held our first NExT Forum this year based on this topic. We look forward to establishing a local model, and help Taiwan industry to build up the foundation for the next 10 years in AI technology and application.

Moving to key recognition, Hon Hai's efforts in vertical integration of EV supply chain as well as XSEMI, which we established with Yageo, both won awards in 2022 MAPECT Taiwan M&A Awards

In the most recent Sustainalytics evaluation, Hon Hai maintained 10.5 low ESG risk and ranked in the Top 2% of global enterprises. We also received 2 recognitions for in Technology Hardware Industry Top-Rated and Asia / Pacific Region Top-Rated.

In area of patents, Hon Hai is the only private sector company in Taiwan to be selected as Clarivate Top 100 Global Innovators for 6 consecutive years, which is a very important recognition for our patent effort.

Finally, on ESG, our Chief Audit Executive and Chief Environment Officer were invited to global conferences, sharing our efforts and progress in sustainability development.

The Chairman mentioned the establishment of green energy and energy storage investment platform. Our goal is to lead capital into sustainability and green energy industry. This the first initiative of its kind in the industry, with the hope to provide sources of green energy, which our suppliers need, while at the same time create a relatively stable investment return.

Our ESG implementation spills over to where ever we are in the world, including in Indonesia, Taiwan, Mainland China, Vietnam and the United States. Through donations and providing scholarships, we help those in need and fulfill our social responsibility.

Next, we will enter into the second part of our call – overall Q-and-A Session. We will start by responding to questions we collected in advance. Then we will open for open Q-and-A Session.

Questions and Answers

James Wu *Hon Hai Technology Group – Spokesperson*

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

Harriet Chen *Hon Hai Technology Group – IR Manager*

Question 1: Competition: Can you share your view on the competitive landscape of the ICT industry in China and India, especially the impact on Hon Hai's market share in smartphones and PC?

Young Liu *Hon Hai Technology Group – Chairman*

There have always been new competitors joining or aiming to join in major industries. Having two or more suppliers in any sizable industry is quite normal. The market focus is usually on who wants to join, but paying little attention to the advantages of existing manufacturers. We believe scale management strength accumulated for almost fifty years now, is our greatest competitive advantage.

De-globalization will emphasize the global footprint of an enterprise, its supply chain management, and its vertical integration capabilities. Large-scale enterprises will become more competitive. In this regard, Hon Hai's early deployment in Mexico in 2004, India in 2006, and Vietnam in 2007 is ahead of the global curve.

In the long run, Hon Hai's stable and massive cash flow supports capex needs, enabling us to meet the diverse demands of customers. Our vertical integration and global footprint have created a different level of competitive landscape, which is also a key factor in maintaining our significant lead over the years. We have always been the most reliable and trustworthy support for our customers, and this is our most important value proposition to them.

Harriet Chen *Hon Hai Technology Group – IR Manager*

Question 2: Gross margin: What is the gross margin outlook for year 2023? Does the Company maintain its target of 10% gross margin in 2025?

David Huang *Hon Hai Technology Group – CFO*

Earlier, the Chairman mentioned that the ICT industry's outlook for this year would be neutral. The high-growth period driven by the pandemic has behind us. Plus, global economic growth has slowed down, monetary policy continues to tighten, and inflation has fallen but remains higher than before. We will make our best efforts to maintain stable operations, and we expect flattish business outlook for this year.

In the previous investor conference, we also mentioned that the Company has a neutral view on gross margin for this year and needs to closely monitor four factors that might affect gross margin performance, including (1) product mix, (2) exchange rates, (3) inflation, and (4) depreciation expenses resulting from 3+3 investments. Currently, US dollar depreciation and additional cost due to the pandemic are expected to affect the performance of gross margin.

We need to work very hard this year. Our current view on gross margin is still relatively neutral. We will continue to gain more orders and explore new business opportunities to maximize EPS performance. Our long-term gross margin target of 10% in 2025 remains unchanged.

Harriet Chen *Hon Hai Technology Group – IR Manager*

Question 3: What is the Company's current confidence level regarding the vision of NT\$1 trillion EV revenue to be achieved by 2025?

Young Liu *Hon Hai Technology Group – Chairman*

Our goal in the EV business is to become a world-class service provider for EV design and manufacturing, and we are pretty much on schedule moving towards the goal. The target of generating NT\$1 trillion EV revenue by 2025 remains unchanged.

As for assembly business, we have been continuously expanding production capacity and customer base – investors care about this. Mass production for Monarch at our Ohio facilities is expected to begin this month. Model C is also expected to begin delivery in the fourth quarter of this year. Our EV factory in Thailand is currently under construction. Additionally, we are actively in discussion with traditional automakers, which is now the top focus of everyone.

Components will be an important revenue driver this year, with our component factories in Mexico continuing to expand production, and battery factories in Taiwan already under construction. We are also actively researching and developing battery, motors and electric control. We expect to share our achievements in self-developed battery and motor by 2024.

What I want to emphasize here is that Foxconn has a long-term goal in its EV development strategy. We need to assist those who are passionate about pursuing clean and innovative mobility solutions, and work together to achieve net zero emission goals.

With this in mind, we actively seek all possible opportunities and partners for EV development through the BOL and CDMS models. Twenty years ago, the disruptive innovation in the ICT industry led to our current extraordinary and affordable lifestyles.

We are just at the start of such disruptive innovation in the EV industry.

We understand everyone is concerned about the operating conditions of start-up automakers. In fact, the pursuit of speed and cost is the challenge the EV market is facing now and going forward. This means vertical division of labor is an inevitable trend.

Brand names pursue light assets. They then hand over manufacturing to professional experts like Foxconn. Through a diverse customer base, we can establish relatively large economies of scale and assist customers in reducing risks and costs. This is our niche.

The conclusion is, that the more complex and difficult the operation and manufacturing are, the more competitive the industry is, then the more beneficial it is for Foxconn's development.

Harriet Chen *Hon Hai Technology Group – IR Manager*

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.

Harriet Chen *Hon Hai Technology Group – IR Manager*

Question 4: Does the Company foresee any new growth opportunities in the ICT industry, such as MR or VR? Has the company made any deployments in those areas?

Young Liu *Hon Hai Technology Group – Chairman*

The ICT industry is relatively mature. However, we see new product and application services opportunities from recent popular trends such as AI service ChatGPT. These breakthroughs in generative AI technology will create many applications that will drive the demand for cloud servers and reduce the cost of generating content for the metaverse, accelerating its development. Trends such as EV and autonomous driving also bring opportunities for data storage, which is positive for our development.

We will leverage our comprehensive ICT industry layout, vertical integration, as well as innovation capability, to help our customers realize their product expectations and seize growth opportunities brought by new applications and technologies.

In the field of metaverse, in addition to assisting customers in product development, we also have gradually completed our initial layout in the metaverse, including investments in application software companies for the metaverse such as XRSPACE, high-end VR and MR company Varjo from Finland, and Taiwan-based company Jorjin, which focuses on AR glasses. Meanwhile, in our manufacturing factories, we also use metaverse and AR applications to improve work efficiency.

Therefore, we believe Cloud and Networking Products and Components and Others products have clear long-term growth trends in the field of metaverse, which will also enhance our gross margin performance.

James Wu *Hon Hai Technology Group – Spokesperson*

Now we will move to Q-and-A time. English questions are also welcome.

Gokul from JP Morgan, please.

Gokul Hariharan *JPMorgan Chase & Co, Research Division - Head of Taiwan Research and Co-ahead of Asia Pacific TMT Research*

Question:

Since Chairman Liu talked about a lot of capacity coming in different locations, especially for new business, like EV, a lot of capacity lies in SEA and the US. Could you talk a little bit about what's the implication? Maybe first, how do you think capacity would look like in terms of the mix of capacity for Hon Hai? Today I think it's still about 70% in China. How would that look like let's say 3-5 years from now? Also, what's the implication to the cost given you are going from a few big sites in one geography to many smaller sites in many geographies. How do you think about the implication on the cost?

Young Liu *Hon Hai Technology Group – Chairman*

This is a very complicated question. I would say it is Customer demand that guides Foxconn's considerations on how we deploy our production capacity in the ICT field. Looking at 2023 capex, while already factoring in normal maintenance and automation spending, China will still account for the largest proportion of the total. This is capex in terms of new business expansion needs. Expansion will also be needed in Vietnam, India, the United States and Mexico in response to customers and supply chain adjustments.

In terms of revenue, the current ratio between China and overseas regions is about 7-to-3. Going forward, the proportion of overseas regions will continue to increase. This strengthens supply chain resiliency. At the same time, the proportion in products will increase in overseas region, as a function of the BOL model. The build, operate, localize model being deployed in overseas regions will result in regional-specific development of products.

The upgrading and transfer of industries is a natural occurrence. It is a basic truth that labor-intensive industries transfer to low-GDP countries. In turn, as the labor-intensive industries develop the low-GDP countries, the accumulation of wealth gradually raises the GDP. That in turn, causes another round of transfers.

It is just like when we saw transfers move from the United States to Japan, then to Taiwan, and then to China. These high-GDP countries must upgrade their industries in order to support the sustainable development of a high-GDP society.

We stated in the previous investor call that capex in 2023 would be up from a year earlier. This is being driven by expansion in our various regions and investments to grow new business under our 3+3 strategy. It is through these efforts that we will win more orders and more profits.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question goes to Angela from KGI Securities. Angela, please.

Angela Hsiang *KGI Securities – Research Analyst*

Question: The demand outlook for PC industry this year still looks uncertain. Earlier the management team mentioned inflation and high-base created by the pandemic. Currently, most research institute and brand customers remain conservative on the outlook for this year, with high single-digit to double digit decline in shipments. I'm wondering which indicators we should look after to have more confidence in the market demand recovery? What is rationale behind the company's growth expectation in Computing Products category this year? Given the relative low margin for this product category, is there any room to improve going forward, for example, increasing the scale?

Young Liu *Hon Hai Technology Group – Chairman*

The annual shipment of PCs maintained at 270-280 million units before the pandemic. During the pandemic, PC annual shipments exceeded 300 million units for two consecutive years driven by WFH and replacement demand after the pandemic. PC inventory adjustments started from the second half of last year, and this year is expected to be the trough of PC industry. After nearly a year of inventory adjustment, the trend is expected to reverse from the second half of this year and return to a growth trajectory next year.

We have been striving to increase the contribution from high-end models. Also, with long-term cooperation relationships with customers, our visibility is relatively long. Therefore, several main products within this category in aggregate is expected to deliver double-digit growth.

In addition, our new business in printers has grown rapidly since its launch last year. With our manufacturing experience, vertical integration, and supply chain management advantages, we expect strong growth to be maintained this year. These are the reasons why we believe that Computing Products will grow this year. Because of the product mix, we expect some upside on the margin.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Jacky with SET, please.

Jacky Fang *SET iNEWS – Reporter*

Question: Hon Hai recently recruited Dr. Chiang and Mr. Seki San as the strategy officer for the Group's semiconductor and EV businesses, respectively. Chairman, what are your expectations for the two strategy executives? Also, has there been any change in the Group's strategy for these two major businesses?

Young Liu *Hon Hai Technology Group – Chairman*

This is something that everyone cares a lot about. We are very pleased to have these two industry experts join Foxconn, which to a certain extent, represents some significance.

Dr. Chiang was an important promoter of Taiwan's semiconductor industry development and continuous improvement of Taiwan's semiconductor competitiveness. We are grateful for Dr. Chiang's recognition of Foxconn's semiconductor industry development. At a critical moment when we are fully developing the semiconductor industry, he is willing to join Foxconn. With him on board, we believe that he will make significant contributions to Foxconn's global expansion strategy and technological development.

Mr. Seki San has more than 35 years of experience in the Japanese automotive industry. From the first day he joined Foxconn, he has had very close interaction and communication with our EV team across the entire Group. Through Mr. Seki San's deep professional foundation in the automotive field, we believe that he can improve our EV design and manufacturing capabilities, optimize the development progress and direction of our key components, and expand our customer base in the EV field to help the Group achieve its overall goals in EVs.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Avery with USTV, please.

Avery Liu *USTV - Reporter*

Question: In light of the recent collapse of Silicon Valley Bank, I would like to understand if there are any systemic risks within the Company's investment portfolio. Additionally, since Foxconn has many startup EV clients, if any of these clients primarily have their transactions with Silicon Valley Bank? Would there be any concerns about liquidity risk resulting in bad debt for the Company?

Young Liu *Hon Hai Technology Group – Chairman*

The collapse of Silicon Valley Bank has been the main focus in recent days, and we are also closely monitoring the situation.

As far as direct impact is concerned, the Group does not have any direct dealings or deposits with SVB. However, some of the funds we have invested in, as well as the startups in which they have invested, have dealings with SVB. The good news is that the US government has provided full protection for deposits held with the bank. We believe the potential impact would be minimized. We are currently reviewing the situation, and based on our assessment, the exposures are expected to be around US\$100 million, which should be mitigated by government protection. We don't expect systematic risk to happen. As far as bad debt is concerned, the impact seems to be minimal and manageable for us at this point.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Kylie with Daiwa Securities, please.

Kylie Huang *Daiwa Securities - Analyst*

Question: Is there a greater opportunity for Foxconn to do assembly or supply components for traditional automakers this year? Will the contribution start from this year or next year? What is the biggest attractiveness for traditional automakers to work with Foxconn? Can you also provide an update on Lordstown's situation?

Regarding gross margin, we would like to know the impact of pandemic control measures in Q4 last year. If this cost impact won't continue into Q1, can we expect gross margin to improve?

Young Liu *Hon Hai Technology Group – Chairman*

We were aware of Lordstown's situation beforehand. Our focus is not on its product but their development and design capabilities to assist Foxconn's CDMS business model. That was the main focus when we initially engaged with Lordstown.

As for Lordstown's vehicle, creating a four-wheel car with hub motors on each wheel is an innovation that requires more time to integrate with the software. Actually this is not major hardware issue, the main challenge lies in fine-tuning the software.

We believe we have business opportunities in both assembly and components with traditional auto makers. We have already established business relationships with traditional automakers in components. Auto components generated NT\$20 billion revenue last year. We will continue to develop business in components with traditional car manufacturers this year. In addition to existing electronic and mechanical components, we also have new battery collaboration projects in battery cells and battery packs. For traditional automakers, besides assembly business, there are also component opportunities.

We are continuing to grow and moving towards our goal of NT\$1 trillion revenue by 2025. We are in discussion with different customers, with some coming to us and others we actively approach. I cannot confirm which one at this time, but we see opportunities there.

David Huang *Hon Hai Technology Group – CFO*

The gross margin in the fourth quarter was affected by costs related to pandemic control, which accounted for less than 1% of the gross margin. However, some of the cost was shared with customers. The impact to us is estimated to be around 0.3-0.5%. This is a special case as it also takes into consideration coordination with customers and employee incentives. We expect some of the costs will carry into January, so there may be some impact on 1Q23.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Pei-Yu with Eastern Broadcasting, please.

Pei-Yu Hung *Eastern Broadcasting Co., Ltd - Reporter*

Question: Considering that Hon Hai achieved a record high in EPS last year after 14 years, what's the Company's plan for dividend payout this year? Is there any chance that the payout ratio will exceed 50%, or even reach a new high?

My second question is the launch of Hon Hai's first self-developed low-orbit satellite, "Project PEARL" this year is highly anticipated. Could the Chairman elaborate more on low-orbit satellites development, and why was it named "Project PEARL"?

Young Liu *Hon Hai Technology Group – Chairman*

In our November 2019 investor conference, we committed to a minimum cash dividend payout ratio of 40% as a policy. Since then, our actual dividend payout ratio has been over 50% for the past three years.

Our EPS was NT\$10.05 in 2021, with a dividend payout of NT\$5.2 per share. Considering a record high EPS achieved in 2022, the highest since [after the NT\$7.44 in] 2008, the board resolved today to distribute a cash dividend of NT\$5.3 per share this year, implying a payout ratio of 52%, exceeding 50% for the fourth consecutive year.

NT\$5.3 cash dividend per share is also a new high since our listing in 1991. In the past few years, while we attach great importance to the improvement of gross profit margin, we pay more attention to the maximization of EPS because only with a higher EPS can more cash dividends be distributed to investors.

Regarding your second question, Low Earth Orbit (LEO) satellites play a crucial role in our next-generation communications strategy, which aims to drive the advancement of Beyond 5G (B5G) technology. Hon Hai continues to focus on and develop both ground- and space-based communications solutions. We officially showcased our first self-made LEO satellite, which we named "Project PEARL," at Hon Hai Technology Day last year. The satellite is expected to launch this year, and its progress is currently on track. We look forward to sharing more details with everyone when the time comes.

We know that many people are curious about the name of our LEO satellite. We'll keep you guessing for now, and provide more information when we officially introduce it.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Patrick with CLSA, please.

Patrick Chen *CLSA Securities – Head of Research*

Question: My first question is regarding optimization of the EV manufacturing cost. Aside from battery, what component or process that we may continue to put effort and decrease

the overall manufacturing cost? Compared with the peers, what are the advantages Hon Hai has?

Secondly, regarding IRA, what's your viewpoint on Hon Hai gaining more EV orders?

Young Liu *Hon Hai Technology Group – Chairman*

In manufacturing cost, it is all about all kinds of vertical integration, especially when it's a new stage for new business. It will be having new application as a major development direction. When developing new application, it is not necessary to be the lowest cost structure. Hon Hai has always been focusing on how to decrease the cost and shorten the time to market. Therefore, I propose to have an open platform, standardization and modularization. In standardizing and modularizing, some company will say how to make mechanical parts, battery, EEA, cable harness and motor like this? Modulization should partner with standardization. How to make a product or component to be significantly adopted? If we use one component for developing one model, the development cost will be shared in a very small amount of units. That's the reason why we want to decrease the sharing cost through standardization and modulization. This is where we may have opportunity.

Hon Hai expanded into the United States well before the Inflation Reduction Act was introduced. We developed in the United States is not because of IRA, but due to the trend of regionalized manufacturing. After we deployed into the United States and Mexico, here comes IRA. To us, the timing is pretty good. Aside from developing EV assembly locally, we will have battery cell, battery pack and EEA structure. These are all our development direction. We see these development direction as very helpful for local industry. The US government is also very supportive. IRA is very beneficial to us.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Lauly with Nikkei Asia, please.

Lauly Li *Nikkei Asia – Reporter*

Question: Chairman you mentioned auto components in 2022 has reached to NT\$20 billion. Could you please share with us the outlook for auto components for 2023? And will Wisconsin or Ohio have auto related capacity?

The Company mentioned CAPEX in 2023 will be higher than 2022, could you please share where are these CAPEX will focus on? Does it include Mexico, the United State, India, Vietnam and Mainland China?

Young Liu *Hon Hai Technology Group – Chairman*

You think pretty logically. We will develop new energy industry in Wisconsin, including battery cell, battery pack. Because Ohio is an assembly plant, there will be battery pack as well. Ohio will mainly be EV battery pack, while Wisconsin will mainly have new energy, ESS and battery cell.

CAPEX in 2023 will be higher than last year, it will continue to grow in following years, while we will have more revenue as well. This year, we will have CAPEX mainly in Mexico, the United States, India, Vietnam, China and Thailand.

This year, auto component is expected to grow from NT\$20 billion last year to the range of NT\$50 billion to NT\$100 billion for this year.

James Wu *Hon Hai Technology Group – Spokesperson*

We now open for the final question. Next question goes to Grace from UBS, please.

Grace Chen *UBS Securities – Research Analyst*

Question: Chairman you mentioned this year AI Server accounted for 20% of total Server revenue, and this revenue has doubled in 2022. May we know what's the growth momentum in 2023? Everyone cares a lot regarding GPU Servers, GPU accelerators. Hon Hai accounts for a huge market share in Servers, could you please share with us what is Hon Hai's market share in AI-related market and the future growth momentum for this market?

Could you please share with us the revenue percentage of for 2023 full year components and this year's growth momentum?

Young Liu *Hon Hai Technology Group – Chairman*

Our CMM revenue is approximately NT\$1 trillion, which is covered in the Components and Others product segment. In aggregate at over NT\$1 trillion, this accounts for about 15% of revenue. For this year's growth momentum, the first one will be acoustic. Then, in new areas, both semiconductor and software will grow as well. Mechanical parts, camera

modules will grow along with the market. To sum up, our main growing momentum will mainly come from acoustic, semiconductor and software.

Due to ChatGPT's growth, everyone can feel the demand from AI Server. The demand for AI Server is also very strong. But to be a real stable business takes some more time to be more solid. Our total server revenue has already reached NT\$1 trillion level. Our AI Server revenue accounts for about 20%, which is more than NT\$200 billion. How to calculate the whole AI Server or GPU related market, the analysts' community is still figuring out. It probably will take one to two quarters before it becomes clear. It is a bit early to talk about it now.

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