

TRANSCRIPT

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Investor Conference Call

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Precision

Investor Conference Call on FY23 Fourth Quarter Financial Results

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SET News — Reporter

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EBC Financial News — Reporter

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 2023 Investor Conference Call. Joining us today, are Chairman and CEO Young Liu and CFO David Huang. The conference call is scheduled for one hour, starting with our presentation, followed by Q&A session.

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

We will now proceed to the first session, the presentation, which will cover four topics, including performance review of the fourth quarter and full year of 2023, business outlook for the first quarter of 2024 as well as full year 2024, operational pillars for the year of 2024 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 whole year of 2023.

Firstly, please refer to page 5 of the presentation for the 2023 full year income statement. The revenue for 2023 was NT\$ 6.16 trillion, reaching its second-highest level in history. EPS NT\$10.25, a 16-year high. Compared to 2022, revenue decreased by 7% YoY, mainly due to ICT market demand weakening.

On gross margin, we saw a YoY growth of 0.26 %, mainly thanks to improved product mix and better inventory control, leading to better gross margin performance.

In addition, operating margin increased by 0.08% YoY, mainly due to an increase in gross margin. OPEX ratio increased due to a decline in revenue. However, due to better cost

control, the absolute figure decreased by just 2 % YoY. Overall, operating profit margin was 2.31%, an increase of 0.17 pts YoY.

Next, looking at the financial results for the fourth quarter of 2023. Please refer to page 6 of the presentation for the 2023 fourth quarter income statement.

The revenue for 4Q23 was NT\$1.85 trillion, a decrease of 6% YoY. The gross margin was 6.12%, an increase of 0.46 pts YoY, mainly thanks to better product mix and better inventory management.

Operating margin was 2.64 %, representing an increase of 0.39 % YoY, mainly due to an increase of gross margin. As the OPEX ratio increased due to a decrease in revenue, the absolute operating profit decreased by 4 %.

The net profit margin for the fourth quarter was 2.87%, an increase of 0.83 pts YoY.

On EPS, 4Q23 saw net profit attributable to the parent company was NT\$ 53.1 billion. This represented a YoY increase of 33%. The EPS of NT\$3.83 was an increase of NT\$0.95 YoY.

Next, looking at page 7 for the balance sheet. At the end of December 2023, the cash and cash equivalents were at NT\$1.198 trillion, maintaining previous levels. Net cash was NT\$ 424.9 billion, an increase of 207% YoY, mainly due to a 22% decrease in inventory compared to the year before, which positively contributed to cashflow performance.

Cash turnover days was 38 days, a YoY decrease of 7 days, mainly due to a decrease in inventory turnover days. Debt ratio was 57%, a decrease of 3% YoY, mainly due to increased repayment of long-term and short-term borrowings.

Finally, looking at the cashflow statement on page 8. In 2023, cash inflow from operating activities was NT\$ 445.6 billion. Free cash flow was positive by a margin of NT\$ 333.8 billion. These two figures both improved compared to 2023, mainly due to a decrease in inventory, which positively contributed to cashflow.

Moreover, in order to increase our execution of our cash strategy, there was an increase in capital expenditure on ICT and new business segments. Capex for 2023 reached NT\$ 111.7 billion, an increase of 14 % YoY.

Here, I conclude the summary of the financial statements for 2023 and 4Q23. 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. Operating results from the fourth quarter of last year have just been addressed.

In summary, QoQ, our overall performance was better than expected. From a YoY perspective, our four main product categories all performed better than expected. For Cloud and Networking Products, both QoQ and YoY saw better-than-expected performance. Looking at full year 2023, Group revenue reached NT\$ 6.16 trillion, reaching its second-highest level in history and largely in line with our expectations from our November 2023 earnings call.

In comparison to our expectations from our March 2023 earnings call, at the time, we expected performance to be flat, but we are slightly lower than those expectations. This is a rare situation in the past few years, which also reflects the overall weakness in the ICT market last year. Thus, throughout the year of 2023, we continued to adjust down our outlook for Cloud and Networking, Computing, as well as Components and Other major segments.

Facing a less-than-ideal environment and an asset impairment of NT\$ 17.3 billion recognized in the first quarter, at the time, we believed that we would not reach our annual target. However, our team worked tirelessly to cut costs and increase revenue in the final three quarters of the year. In the end, we reached a net profit of NT\$ 142.1 billion and an EPS of NT\$10.25, despite a lack of revenue growth. We also managed to keep our EPS above NT\$10 for three consecutive years.

Next, I will address the company's outlook for 2024. Last year, during our November earnings call, we were neutral on 2024 outlook. However, recently, due to an increase in application of generative AI, AI server visibility has become high. Thus, our outlook for 2024 was adjusted from our neutral outlook to a significantly positive growth outlook.

From our four major product segments, after a decline in Smart Consumer Electronics last year, demand will be relatively stable alongside a return in strength the macro-environment. Therefore, we forecast performance to be largely flat this year.

For Cloud and Networking products, due to particularly strong demand for AI servers, we believe that AI servers will be the main growth driver for this year. On customers, apart from CSP customers, our brand customers are also aggressively expanding on AI servers. In addition, general server is expected to have bottomed. This year, there should be a return to growth. Due to the above reasons, I believe that overall, the server segment will see strong growth. For Networking products, despite inventory digestion in 1H, it will not impact our outlook for this segment. Thus, for overall Cloud and Networking segment, we still expect strong growth.

For Computing products, alongside a rebound from the trough for the PC industry, we can hope for a return to stability in demand. However, due to new applications in generative AI and a new replacement cycle, there may be new demand. Hence, we believe this segment's performance will be approximately flat YoY.

Lastly, for Components and Other products, we will continue to increase our market share for ICT components. In addition, with the continued growth of the EV market, we forecast strong growth for key components and auto components.

Next, I will talk about our forecast for 1Q24. Overall, the first quarter is traditionally off-season, we foresee 1Q24 performance to be in line with performance from the past three years. However, due to Covid impact at the end of 2022, shipments were delayed into 1Q23, leading 1Q23 to have a higher base for comparison. Hence, we forecast that 1Q24 will see a slight decline YoY.

From our four main product segments, Smart Consumer Electronics at the Zhengzhou plant was impacted by Covid, leading to a higher 1Q23, we expect a decline YoY for 1Q24.

On Cloud and Networking products, due to strong demand for AI Servers, 1Q24 server demand will see strong YoY growth. Of particular, CSP customer AI server growth will be the fastest category. Hence, Cloud and Networking products performance will see significant YoY growth.

On Computing products, due to a lukewarm demand in the PC market, we expect this to be approximately flat YoY.

Lastly, on Components and Other products, due to increased shipment in key components and auto components in 1Q, we see significant growth YoY.

Next, I would like to address important business developments for Hon Hai in the coming year. During our last earnings call, I mentioned that Hon Hai is transforming from a manufacturing service company into a platform solutions company.

Last year, during Hon Hai Tech Day, we proposed our three major platforms: Smart City, Smart Manufacturing and Smart EVs. These three major platforms are our main areas for future development.

On our three major platforms, we see huge business opportunities due to the gradual maturation of generative AI. Hon Hai Group has accumulated 50 years of technology and experience on components, module, and system assembly. In addition, in the past 10 years, the Group has accumulated experience and technological competencies on IC and software developments. We believe we can sufficiently demonstrate our competitive advantage in these three platforms. On this strong foundation, we will continue to develop technological competencies and products relevant to our three major platforms.

Next, I will share with everyone our main technologies and products including major developments in EVs, AI, semiconductors and low-Earth-orbit (LEO) satellites for our three major platforms.

On EVs, thus far, MODEL C customer orders have exceeded 9,000 units. We have started delivery of our vehicles as of 1Q24 and continue to increase delivery volume. We believe that we will be able to complete delivery of all currently existing orders by 3Q24. We forecast that shipment will reach 10,000 units in 2024 and our revenue target is more than NT\$ 10 billion.

On MODEL T developments, production capacity can no longer satisfy customer demand. In order to increase production capacity, we have started construction on our Kaohsiung Qiaotou factory. We plan to start construction in 2Q24 and for production to begin in 3Q25.

Moreover, construction of our Kaohsiung HeFa battery center is underway as planned. We forecast that by 4Q24, our first power battery will enter mass production.

Next, I will talk about the AI servers that everyone is interested in. The CAGR forecast for AI servers for 2022-2032 is estimated to be 42%. We feel very strong demand from our customers and believe that AI servers will be one of our main growth drivers. AI server revenue is expected to grow by over 40% this year, and account for over 40% in our server product mix. Also, GPU module YoY growth will also more than double in growth. This kind

of growth momentum is mainly from five main competitive advantages in AI servers, including R&D capabilities in key technologies, high digitization of the manufacturing platform, complete vertical and system integration ability, as well as our strong collaborative relationships with customers. Lastly, Hon Hai's advantages in setting up its global footprint over the past fifty years with regional manufacturing centers in Asia, the Americas and Europe can meet the rigorous localization needs of customers. Combined, these advantages have enabled Hon Hai to become a leading supplier for AI servers. One of Hon Hai's main competitive advantages is vertical integration ability. On AI servers, we can provide from upstream key components, to modules, to downstream system assembly, all the way to AI data centers. This vertical integration ability enables us to provide a total AI solution to our customers, allowing us to be a one-stop solution for customers, decreasing their management burden from communicating with multiple suppliers.

On key components, including high performance computing servers, storage, switches, power supply solution, and advanced liquid cooling technology (heat dissipation), Foxconn is the only company that can provide a total solution for AI datacenters.

Here, I want to bring up two key components. In increasing GPU efficiency, high performance switching is very important. As we have key competitive competencies in switches, we can become a very important supplier for switches. Also, another key component is liquid cooling technology. We have been working on this for almost five years. In this segment, we can provide higher computing performance, optimized rack space designs, better PUE performance compared to industry average, better heat dissipation solutions to decrease operational costs for customers, and quieter machines.

AI server rack computing energy consumption is about to exceed 120kWh, leading to an increase in energy consumption of AI data centers. Hence, we provide customers a modular design and PUE liquid cooling solutions for customers to significantly decrease AI data center energy consumption. Due to possessing core competencies and close, long-lasting relationships with our customers, Foxconn develops new products to capture market opportunities alongside its customers.

On semiconductors, as I mentioned before, each country has been aggressively developing semiconductor wafer fabs. However, when the world has so many fabs, IC design will become increasingly important. On IC design, we will continue to be focused on chip designs for the three categories that constitute the highest cost proportion in EVs : assisted driving, electric powertrain, and automotive electronic platforms. These ICs will be delivered to our auto customers this year and will also be applied to Hon Hai's passenger

vehicles and electric buses.

On assisted driving chips, we have worked with auto players and multiple Tier-1 suppliers, to collaborate on developing SoCs. On electric drive application, we have a globally rare level of vertical integration capabilities for SiC semiconductors. The capabilities help our customers provide differentiated products with higher value and, at the same time, provide a strong cost competitiveness. We are currently talking to multiple Tier-1 suppliers about collaboration.

On the vertical integration of SiC semiconductors, apart from continued capacity expansion at our 6-inch SiC wafer plant at Hsinchu Science Park, our module and R&D center at Hsinchu Hukou has also broken ground. We expect test production in 3Q24, starting with lower volume of orders. This is also a direction for our efforts in vertical integration.

As for our strategy for a stable supply without product shortages, we continue to develop auto platform ICs such as for MCU and power chips and expect sampling to continue throughout this year. These ICs will begin to be supplied to customers and for use by our EV department.

Next, on LEO satellites. For the past two years, we have been working on this segment and we are starting to see results. Thus far, we expect to receive orders for key LEO satellite components from international customers. At the same time, we have continued to combine our capabilities in precision manufacturing in the ICT industry to secure ground equipment orders from major international satellite operators. This will bring new revenue contributions to the group.

Above is our new business development this year. Next, I will hand over the call to James. Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you. Recently, on the EV market, the listing of Foxtron Vehicle Technologies has been a key step. It has also demonstrated the market's recognition of Foxconn's CDMS and platform sharing model. Next, at our software development center in Kaohsiung, we have officially started to apply this. In the future, we will use our three main platforms as the foundation to collaborate with other players to help accelerate development of the software industry.

Our joint laboratory with NXP has enabled both parties to confer semiconductor advantages to drive innovations in the internet of vehicles space.

Our subsidiary Ingrasys Technology Inc. has also started to drive upgrades towards digitization, automation and power saving, becoming the first recognised AI server “Lighthouse” factory in the world. PowerX Semiconductor has received the highest safety certification from ISO to satisfy requirements for auto modules and vehicle safety.

For three consecutive years, we have received awards from IR magazine. The last two prizes include Best IR Event and Best Innovative Shareholder Communication.

Our Hon Hai Research Institute’s two pieces of quantum research have also been accepted. Their main contribution were on creating a coding model with optimized energy-frequency and local audit characteristics, propelling development for relevant areas.

Our Chairman has also received the Padma Bhushan Award from the government of India, which recognizes foreign individuals of excellence with industry achievements, and a testament to Hon Hai Group’s contribution to driving the local economy.

We have also entered the Top 100 Global Innovators’ list for 2024. We are the only Taiwanese company to achieve this for seven consecutive years. This year, it is our first time to be ranked, reaching No 27 globally, demonstrating our innovative prowess on the international stage.

In ESG, Hon Hai has issued sustainability bonds that are listed on the OTC. We have also become one of Taiwan’s first companies to purchase carbon credits.

Also, we announced the establishment of a joint venture in China to establish an ESG fund. Through direct investment in the green industry, we will support ourselves and our upstream suppliers to secure sources of renewable energy and achieve stable investment returns. Additionally, we have initiated Project Hatcher, alongside Google in Taiwan. Through our incubation program, we hope to become Taiwan’s innovator.

We have also hosted forums with the IR association to address topics and thoughts on ESG development.

Hon Hai's technology prize, established by Hon Hai Education Foundation, with its goal to cultivate talent, has also released its prize winners, hoping to bring the spotlight to rising stars on Taiwan's technology scene.

Moreover, our Hon Hai Foxconn ESG prize has also released its shortlist, and will have a prize ceremony on March 29 to encourage employees to reflect the Group's EPS and ESG sustainability values.

Last year, we also held multiple events circling the theme of ESG to expand ESG to each of the Group's global locations. This year's Hon Hai's annual company Carnival returned to being an in-person event, with Hon Hai's almost 30,000 employees and family in attendance. Chairman Liu also celebrated the 50th anniversary of the company and announced the future's plan for a care center to expand Hon Hai's circle of care to employees' families. This is a first in the industry.

We also hosted a Gala for our half centennial, with the theme surrounding gratitude, innovation and the future. We invited 500 guests to celebrate this milestone with us.

Lastly, in order to implement our CSR responsibilities, we also hosted Taiwan's women's pro-golf tournament in conjunction with the TLPGA, to encourage talented golfers in Taiwan stand on the international stage.

Questions and Answers

James Wu *Hon Hai Technology Group – Spokesperson*

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

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

Question 1: The first question is for the Chairman. On AI servers, due to the great performance of stock price recently, many investors believe that this is due to the impact of AI servers. Which segment do you believe foreign investors have their eyes on? Also, you mentioned that there will be strong growth in AI server demand this year. How do you look at AI servers' future growth and revenue contribution to Hon Hai in the future? Thank you.

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

Thank you. Actually, on AI servers, Hon Hai has actually been in AI servers for a while. That said, perhaps many had not noticed, and we did not specifically push it publicly. However, as the segment is in the spotlight now, our efforts have been seen by the market, including for now-popular liquid cooling segment. I remember that on liquid cooling, before I became Chairman, the company had brought up liquid cooling as a solution. Actually, there are many examples of early movements in new markets for Hon Hai, such as the now well-known 3+3.

Hon Hai Research Institute's technologies may currently seem unremarkable to the market, but in the next 5-10 years, there is a great possibility that some of these products will become mainstream drivers like AI servers are right now. Hon Hai continues to look into the future with innovative products quietly. This is one of Hon Hai's advantages, and we hope that in the future, the public will be able to see our outperformance.

As for AI server growth, a surveying institution has forecasted that from 2023 to 2025, the growth rate will be over 30% in each year. And Hon Hai's AI server growth will be in line with the market's expectations or even surpass it. On Tier-1 customer GPU modules, we are a major supplier. We are also continuing to expand capacity to increase our market share in baseboard.

At the same time, we will expand downstream for AI servers and complete machine orders, targeting 40% market share for AI servers. Recently, we have continued to receive orders

that are quite good.

For 2023, AI servers reached close to 30% of overall server revenue and we forecast that for 2024, this can reach 40+% of overall revenue for servers. In 2024, we forecast growth for AI servers and system to see over 40% growth YoY.

On CSP, brand customers and ODM, we have also made large gains. Especially for CSP customers, where we saw growth far in excess of branded customers. For 2024, we see CSP AI servers to grow by over 50%. Tier-1 brand customer AI server growth is also forecasted to reach more than 30%.

Everyone is very interested in Hon Hai's orders for modules, baseboards and server systems. However, in the AI industry, these are not our only competitive advantages. We believe that in the future, to increase AI efficiency, GPU integration will be a key technology. High performance switching and liquid cooling are also going to be key technologies in the future. We possess unique solutions for both of these segments. Hence, overall, Hon Hai's competitiveness on AI servers is across-the-board.

Kristen Fang *Hon Hai Technology Group – IR Manager*

Question 2: Thank you, Chairman. My second question is about EVs. We see that the EV market growth has slowed down and also that competition has been increasingly fierce. Does this mean that Hon Hai will be making adjustments to its strategy for this segment? Also, on the customer side, what is the progress on discussions with customers on assembly? Do you feel that customer willingness to collaborate has changed compared to 6 months ago? Thank you.

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

Thank you. Actually, competition in the EV market increasing is something that we expected early on. I had also mentioned earlier that the barrier to entry for the EV market is lower, which means that there will be more and more competitors, and hence, fiercer competition. This kind of competitiveness, after a while, will always enter a consolidation phase. This is what we are seeing on the global EV market right now.

However, the growth for EV trends is not changing. I have also mentioned that the growth driver for EVs is coming from climate change. If climate change does not alleviate, I believe this growth momentum in EVs will continue. Through the efforts exerted in the past four years on EV design and vertical integration of components, we are becoming more solid in

our foundational competencies. Moreover, we are becoming more confident in facing this increasingly competitive environment.

Your question is on whether we will have adjustments to our strategy. My answer is that our EV strategy will not change, but we will make adjustments to our tactics based on the current environment.

On auto assembly, our new CDMS business model has been recognized by more auto players throughout the years.

As the EV market continues to become increasingly competitive, more and more auto players are interested in our model.

From our previous experience in ICT, under our CDMS model, selecting customers carefully is key to our success. Hence, we will select our partners very prudently. EV production is much more complicated than smartphone production, and on top of that, there are safety considerations. Hence, collaboration discussions typically go on for longer periods of time. We will be reporting back on developments in a timely manner.

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

Question 3: Thank you. Next, I would like to ask about inventory and capex. We just saw from the financial statements that inventory digestion has been underway. Could you update us on the current inventory level? On capex, the company has increased capex for the past two years. We are also seeing expansion for 2023. What are your capex plans for 2024? Thank you.

David Huang *Hon Hai Technology Group – CFO*

After the past year of inventory adjustment, inventory levels have reached a low point at NT\$ 730.8 billion at the end of 2023, 22% less than the NT\$ 939.0 billion at the end of 2022.

Capex has obviously increased in the past two years. This is mainly due to demand for localized production in ICT and investment in automation and expansion into new businesses. This trend will continue into 2024. YoY Capex growth for 2024 will not be lower than for 2023.

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

Thank you. Next, I will ask my final question. For those who want to ask questions, you may now click the "raise hand" button. After the next question, we will open the floor for questions from investors and media. This is the fourth and final question.

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

Question 4: My final question is on semiconductor strategy. Thus far, we are undergoing R&D for products such as SiC, MCU and PMIC. Could you give us an update on this? Could you also share your outlook for revenue for semiconductors for 2024?

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

Our semiconductor strategy is to provide a one-stop solution for our customers, to allow them to stop worrying about supply chain shortages, including for IC products and required production capacities.

On IC products, we provide ICs for our system end customers, mainly hoping that our differentiation in IC products will help our customers create value. At the same time, we hope that through cost efficiencies, we can help increase competitiveness in our customers.

On production capacity, we will focus on capacity expansion for our IC product manufacturing. This includes wafer fabs, module plants and packaging and testing facilities. Thus far, progress is in line with expectations.

On SiC, we have already begun mass production. At the same time, we have also begun expanding capacity. The machinery equipment required for expansion are expected to arrive starting from 2Q24.

On auto electric drive inverter SiC modules, we have also finished R&D and are currently sampling for auto customers. Our SiC module production line and R&D center is also expected to officially start production in 3Q24. We will become the rare auto assembler that has EV electric drive key semiconductor and module capabilities.

On MCUs, our test boards completed tape out and certification last year. Our mass production board is expected to tape out next month, and will finish testing and certification by 2025.

On PMIC, in 4Q23, our PMIC IC shipped over 3 million units to PC, notebook and server customers. This year, we expect shipment will increase significantly in information and communication.

At the same time, we have designed-in with auto customers. On shipment to auto applications, we will also see growth.

Overall, semiconductor revenue for the Group is expected to exceed NT\$ 100 billion.

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you, CFO. Now, we will move to Q-and-A session for online investors as well as media. English questions are also welcome. Kylie from Daiwa, please.

Kylie Huang *Daiwa Securities – Research Analyst*

Question: I have two questions. My first question is about gross margin. Last year, we forecasted gross margin to be flat, but see that results have been good. On profit, in 1Q23, though the company recognized impairment losses, we saw some growth in overall profit for the year. I want to ask about the reasons for this as well as outlook on gross margin for this year.

My second question is also about AI. Everyone has been focused on AI lately and we are seeing increasing orders on system assembly on top of module business. Overall, on assembly, there may be some increased passthrough costs. Overall speaking, will AI servers still have positive impact on the company's gross margin? Thank you.

David Huang *Hon Hai Technology Group – CFO*

Earnings maximization is our top financial KPI. Gross margin improvement is of course one of our top goals. Our gross margin performance for 2023 saw obvious improvement from 2022, in line with our long-term strategy to improve gross margin.

In the beginning of last year, due to inflation, FX impact and geopolitical factors, we erred conservatively on the gross margin. After 1Q23, we continued to work hard to gain new orders and optimized product mix and costs to improve our margins. Hence, we ended the year with better-than-expected gross margin.

This year's gross margin will also be impacted by inflation, FX impact and depreciation costs generated by new business capex. Thus far, the market is expecting interest cuts in the US in 2H24. If the US dollar depreciates, it would have a negative impact on our gross margin. We will closely monitor potential impact and continue to improve our product mix and cost controls to improve our gross margins.

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

For AI overall, we have also mentioned that for AI servers, we have received new orders on system assembly. For Hon Hai, system assembly is key to us. More importantly, through system assembly, we can bring in more business opportunities from vertical integration. From a gross margin perspective, through our vertical integration, I believe this will be better than our current situation.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Gokul from JP Morgan, please.

Gokul Hariharan *JP Morgan - Head of Taiwan Research and Co-ahead of Asia Pacific TMT Research*

Question: Thank you for taking my question I just wanted to understand AI related server business. As we understand your market percent in the rack level assembly service is not that high right now. Chairman Liu I think you mentioned you want to get to 40% market share in rack levels or AI servers in the medium term. Could you talk a little about what are the market forces that are helping you get there given there is a lot of competition here. Do you feel that pricing starts to come under pressure for the AI server business as it becomes bigger. And secondly, from a vertical integration perspective, you talked a little about a few aspects of vertical integration of the AI server would you talk a little bit about the general areas where you are having quicker progress, including chassis, cooling solutions, etc. Could you talk a little bit about that of having earlier progress in terms of the AI servers. And also does AI server module or rack assembly is it similar to corporate average or lower than corporate average with the 40% market share.

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

For the AI server products, because there are many new products that will be out on the market very soon, I will hold onto the answer until after the GTC 2024 next week, you will know. I am giving you advanced notice that a lot of things will be announced at GTC.

In terms of making the rack and the server, whether the growth profit margin will be impacted, as I said, the vertical integration capability of ours is probably second to none. We have the most complete vertical integration capability in the server market and we believe, as I said, the gross profit margin will be better than our current level 10 of system assembly product.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Avery from SET News, please.

Avery Liu *SET News - Reporter*

Question: Recently, we have noticed that the company's share price has outperformed. The company's financial statement has also shown that EPS last year performed better than expected. I would like to know your dividend payout plan and whether there is a chance dividend payout ratio would be over 50% like previous years or even reach all time high? Also, you said you would be attending GTC next week. I would like to know if you will be going to support your good old friend Jensen?

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

I will answer your second question first, of course. I will be at GTC 2024. Not only to thank Jensen Huang's participation in HHTD, more importantly, our collaborative relationship has become closer. On our three major platforms, we will be utilizing NVIDIA's solution to develop this. Hence, I will definitely be there.

For your first question, Hon Hai is not an elephant. Reflecting Hon Hai's English name, we are a group of fast-reacting foxes. This Group of foxes, for the past few years, have been promoting our sharing, collaborating and thriving spirit internally and externally to allow us to exert our power as a Group. Our recent share price and EPS performance, I believe, has to do with our recently exerted power.

As for dividend payout, in 2019, we pledged we would not have a dividend payout ratio below 40% for cash dividends. Actually, since we made the announcement, our dividend payout ratio has not dipped below 50%.

Last year, our EPS was NT\$10.25. Hence, while discussing the dividend payout in the board meeting, we considered the 16-year high EPS since 2008. Hence, this year, it has been decided that the cash dividend will be NT\$5.4, a payout ratio of 53%, resulting in a consecutive 5-years of surpassing 50% dividend payout ratio. This kind of payout ratio is also a historical high since 1991, when we listed on the stock market. This is also why, for the past few years, even though we place emphasis on increasing gross margins, that we also focus on maximizing EPS. Higher EPS is the way to allow investors to get higher cash dividends. Therefore, NT\$5.4 cash dividend for this year.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Kechun Chang from EBC Financial News please.

Kechun Chang *EBC Financial News - Reporter*

Question: I would like to ask about your year end Carnival, where you allowed employee to enter a prize draw for the N7. There have also been positive feedback from the media. Would like to know about current order volume and order fulfilment progress for the N7? Will there be other plans for the MODEL C overseas? Secondly, on MODEL B, what are current mass production plans? Thank you.

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

Thank you. We will continue to develop our EVs based on our original plan. Thus far, we have received more than 9,000 orders for MODEL C. This year, there is a high chance the shipment will exceed 10,000 units. We forecast that we will digest all backlog orders by 3Q24. As for overseas customers, we have never stopped here. We continue to discuss different variations of MODEL C with customers. By the end of 2025 to beginning of 2026, there will be new variations for MODEL C released in the US and SE Asia.

As for MODEL B, we forecast we will be ready for mass production in 4Q24. We will be able to take orders by the end of this year. Please stay tune.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Sharon Shih from Morgan Stanley, please.

Sharon *Morgan Stanley - Title*

Question: I have two questions. Firstly, moving away from AI, I wanted to know about the AI-on-device, or edge AI. On smartphones and PC notebooks, you also have quite a large exposure. I would like to know how you view AI development on personal devices? With our current customers, what kind of killer app or timing do you expect for seeing more AI-on-device applications to drive a potential replacement cycle? That is my first question. Secondly, this time, we discussed more about the future development of LEOs. For LEO revenue, would you group it under Cloud and Computing? Or where would this revenue be booked? And for LEO-related growth drivers, how can we measure these?

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

On AI development on edge devices, here is my response. These edge devices will all have GenAI capabilities. This will definitely occur, including for PCs, NBs and smartphones. It is just about how high the AI capabilities will be.

We actually have invested in multiple AI Edge companies. We are all seeing very strong demand. This demand, in terms of a killer app, I do not see it clearly right now. That said, I believe that, perhaps, in the next six months, we may see which GenAI applications would warrant a killer app that is needed by everyone.

Recently, people have been discussing useful applications that I believe will improve our lives. Using it for karaoke, for example. Looking for songs right now presents a difficulty \. But through AI, one can hum a few lines of a song to search for a song. Don't you think it would be very useful? I believe this type of app would make good use of AI and will probably occur. I also expect there to be other similar apps to change our ways of living.

Secondly, on LEOs, we are seeing that due to EV demand and the fact that there are areas with no 5G access, that LEOs will be relied upon. This is why we wanted to enter the LEO satellite market initially. However, after we launched LEOs, we discovered that there were many business opportunities in this segment, including in manufacturing, platform, software, and space components. There are many opportunities here. The original industry did not have as many players involved, which led to slower development. I believe that, through EV demand and entering the 6G era from the 5G era, that there will be new growth drivers and development for LEOs. I am also aggressively planning for future LEO satellite developments.

As for how to measure this impact, I cannot tell you right now as it is a new market. However, I believe it will flourish. Lastly, we may not be booking this under our Cloud & Networking segment.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Angela from KGI, please.

Angela Hsiang *KGI Securities - Reporter*

Question: I have a few follow up questions. Firstly, to do with AI cloud. Last year's server revenue was NT\$1.35 trillion, partially due to Networking and Servers. I would like to know, that you previously mentioned AI server was 30% of server revenue, which I estimate to be NT\$ 200-300 billion. Could you share with us the rough mix between GPU-related and system rack? I am not sure if there is a large difference in gross margin between the two or if they would be similar. Would you be able to share that with us? Thus far, from my understanding, on system level, we do not include GPU pricing in revenue calculation. I am not sure if this type of pricing would see adjustments in the future? These are my questions on AI server.

My second question is on technological competencies. I would like to understand NVIDIA, on GB, is its own system's AI, and its design differences with H100. How large is the market opportunity that we can capture? Could you dissect that for us? We have also heard that power and heat dissipation will be integration targets. Is that going to be a major future direction?

Lastly, could you talk about 1Q24 gross margin trends?

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

I will try to answer such a complicated question.

I will start by addressing GB Nvidia solution. Currently, our orders are mainly from a singular customer. We do not comment on products for specific single customers.

On the system side that you mentioned, you wanted to know the difference between our previous business model and future business model. I can let you know that you should take note to GTC 2024. There, you will see some of our new collaborative models. Right now, it is not the right timing for me to disclose this publicly, but you will know by next week.

As for margins, AI servers are 30% of servers, GPU-related and rack product mix, are all similar to what we had previously mentioned. Thus far, as our customer base is too concentrated, these figures are considered to be confidential for our customer so I would not be able to answer these.

As for gross margin trends for 1Q24, I will ask our CFO to reply.

David Huang *Hon Hai Technology Group – CFO*

Thus far, we hope to increase components in our product mix. Thus, we hope we can maintain the same level YoY for 1Q24.

James Wu *Hon Hai Technology Group – Spokesperson*

Angela, has this answered your question? You mentioned a question about components and AI servers.

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

We provide a one-stop solution, and will also continue to support the component side.

James Wu *Hon Hai Technology Group – Spokesperson*

It is now 3:58pm. If there are no other questions, then this is where we will end our earnings call. Above is all of the content for our investor's conference this time. Thank you everyone, good bye.

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