TRANSCRIPT

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Investor Conference Call on

FY24 Second Quarter Financial Results

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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 Second Quarter 2024 Investor Conference Call. As our Chairman and CEO Young Liu is overseas for business, and unable to join us today. CFO David Huang and I will be discussing our results with you. The conference call is scheduled for one hour, starting with our presentation, followed by Q&A session.

As usual, please carefully read the disclaimer As usual, please carefully read the disclaimer 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 second quarter of 2024, business outlook for the third quarter of 2024 as well as full year 2024, new business developments 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 second quarter of 2024.

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

The revenue for 2Q24 was NT$ 1.55 trillion, a YoY increase of 19%, a historical high for the second quarter. In terms of margins, for 2Q24 compared to previous second quarters, gross margin and operating margin both saw growth from last year.

The gross margin was 6.42%, a YoY increase of 0.01 ppts, mainly due to optimized product mix and revenue growth. Operating margin was 2.88%, a YoY increase of 0.51 ppts, mainly due to an increase in gross margin and better control in expenses. The operating profit of NT$44.6 billion reached a historical high for the second quarter.

Net profit margin was 2.26%, a YoY decrease of 0.27 ppts. This decline was mostly due to non-operating asset revitalization, including of disposal of real estate and investment gains realization that took place in the same period last year. This year, there were no such activities, which is the main reason for the reduction in non-operating profits. Despite the decline in net margin, our net income was NT$35.1 billion, a YoY increase of 6%, which was also a historical high for the second quarter.

Next, on EPS, the EPS of NT$2.53 was a YoY increase of NT$0.15.

Looking at page 6 for the balance sheet. In 2024, at the end of June, the cash and cash equivalents were at NT$1.05 trillion, maintaining our previous standards. Net cash was NT$408.6 billion, an increase of NT$89 billion from June 2023, mainly due to increased cash inflow from operating activities.

Cash turnover days. The cash conversion cycle was 46 days, a YoY decrease of 12 days, mainly attributed to strong revenue growth and better inventory management. Inventory days decreased by 10 days. Debt ratio was 57%, a decrease of 1% from the previous year.

Finally, looking at the cashflow statement on page 7, cash inflow from operating activities was NT$43.8 billion, a decrease of NT$176.9 billion, mainly due to customer demand for inventory restocking increasing, leading to a decline of NT$57.6 billion in cash. In contrast to 1H last year, where due to lower inventory levels, there was an increase of NT$169.8 billion cash.

Free cashflow was a net outflow of NT$19.3 billion, a YoY decrease of NT$191.8 billion, mainly due to a NT$176.3 billion decrease in cashflow from operating activities, and an increase in capex of NT$15.5 billion.

Here, I conclude the summary of the financial statements for Q2 2024. Now, I would like to turn the call over to James.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you, David. I will be addressing our 2Q operations today.

Our revenue in 2Q24 was NT$ 1.55 trillion, establishing a historical high for the second quarter. From the perspective of product lines, though our general stance is similar to our stance from our May earnings call, in reality, AI server performance has been stronger than we expected, resulting in both YoY and QoQ gains for the overall group.

On profitability, even though 2Q is traditionally a slow season, we managed to establish new historical highs for the second quarter. Overall, our performance was better than we expected. This is what our chairman emphasized - Foxconn working toward profit maximization as its main goal to generate the most shareholder value.

Next, looking at our outlook for the third quarter. As the third quarter is our peak season, we expect growth to accelerate in terms of both YoY and QoQ growth.

In terms of our four product lines, on Smart Consumer Electronics, we are already preparing for new products and expect strong QoQ growth in the third quarter. Compared to the same period last year, we maintain a neutral outlook, expecting performance to be flat. We will continue to closely monitor changes in market demand.

On Cloud and Networking products, 1H24 saw AI server revenue grow by over 2x YoY. We expect AI servers to be better each quarter for 2H24. Our general server also saw 16% growth in revenue for 1H24. Hence, we maintain our outlook of double-digit growth YoY. On networking products, we have also observed a recovery in demand. We believe that this segment will see significant QoQ growth from 2Q24 to 3Q24. Comparing to last year, YoY growth will be strong.

On Computing products, as there were new product launches in 2Q to drive sales, there has been strong performance in 2Q24. However, due to high base in 2Q, there will be a slight decline in the third quarter. Nevertheless, on YoY comparison with 3Q23, we believe there will still be significant growth.

Lastly, for Components and Other products, shipments for components increased, including for connectors, precision components, camera modules, and automotive products. This product segment is expected to see strong growth in both QoQ and YoY.

Overall, for 2024 outlook, we discussed our neutral stance in November 2023 for the first time. However, due to visibility increasing for AI, we adjusted our 2024 outlook to significant growth in March 2024. In May, we also mentioned that our visibility had increased from March. Thus far, although we maintain our outlook for significant growth for the full year of

2024, we believe visibility has become even better than in May.

As for our four major product segments, our outlook is similar to during our last earnings conference. AI will continue to drive strong Cloud and Networking product growth. Components and other products, under our product mix optimization strategy, are also expected to see strong growth. Demand for Smart Consumer Electronics and Computing products is expected to remain flat.

Next, I would like to address new business developments for Hon Hai over the past three months, including four major areas: AI, three smart platforms, EVs and semiconductors.

As I mentioned, AI servers saw better-than-expected performance for 2Q24. Driven by increased customer demand, the segment saw over 60% growth QoQ, and has reached more than 40% of revenue in terms of servers. We are the only player on the market to provide a totally vertically integrated solution for customers. We forecast that AI server demand will remain strong. We maintain our outlook that AI servers will contribute to 40% of overall server revenue for this year.

At Computex two months ago, we displayed our total solution for AI datacenters. The new generation of AI rack involves more intricate and difficult designs, which can allow Foxconn to exert its strengths as well as showcase its experience in cloud and networking. This is why we are able to collaborate from beginning to end with our customers for AI server development and be the first to pitch suitable complete design solutions.

In response to the large demand for AI computing, we also showcased our liquid cooling solutions, including liquid-to-air side-car air-cooled cabinets and liquid-to-liquid liquid carbon CDU liquid cooling cabinet to accommodate different required environments for liquid cooling. We have observed strong demand for the new generation of AI rack solutions from various types of customers. This will be a major contributor to server revenue in 2025 for Foxconn. We believe that AI servers will soon become the next product segment that could generate more than NT$1 trillion revenue.

We also continue to develop on our three main smart platforms. On smart manufacturing, we simultaneously work with multiple partners, including involving GenAI in manufacturing and production as well as establishing a robot and AI platform to increase automation capabilities to create digital manufacturing facilities.

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On Smart City, we continue to progress in this area. Thus far, we have been in discussion with Mexico about constructing a Smart City in one of their important cities with POC. On CityGPT platform solution, we have supported the platform and its application, helping the Kaohsiung City Government upgrade their bus service system.

On EVs, from April, MODEL C has been consistently shipping over 1,000 vehicles per month. Up to July this year, we have reached shipments of 5,400 vehicles. Last month, we signed a strategic partnership agreement with the Henan Provincial Government in China. This will include the creation of seven centers to further promote local industries in electric vehicle manufacturing, energy storage batteries, digital health, and robotics.

For our Kaohsiung battery and electric bus plant, construction has been going as planned. We forecast that mass production of battery cells will begin in 4Q24. This will first be used for electric buses.

On EV software development, we have already begun testing autonomous assisted navigation driving functions in 2Q24. This system uses the NVIDIA's self-driving platform combined with our in-house developed sensing components. We expect to integrate software and hardware efficiently. Thus far, the software model has been placed in a real environment for testing and hardware has now reached the prototype A stage.

We have also started to establish "software defines vehicles", for integration of ADAS, IVI, T-BOX and ZCU with the cloud. The goal is to complete development of basic functions by the end of the year. We will continue to design automotive processors and software to provide better solutions for our customers.

On semiconductors, we continue to enhance the capacity for production for SiC. We have entered mass production for products for multiple customers for 1200V MOSFET. At the same time, we have finished upstream epitaxy equipment installation, increasing our ability to control costs. As for downstream module factory, we have also started machinery installation, and we expect them to undergo mass production testing in the third quarter.

On ICs, thus far, we have completed specification development for our ADAS SoC chip. At the same time, the software platform has also started undergoing functional testing with the goal to move toward ADAS.

On packaging and testing, due to customer requirement increases, we have completed construction of an additional clean room to provide more production capacity. For panel, packaging and glass substrates, we have also established glass substrate with double sided threading competencies.

Next, I will discuss a few more important recent events.

First, on new business developments, in response to demand for high speed optical communication, FIT has obtained 70% of shares of China Cloud Electro Optics Technology to accelerate development of optical modules and silicon photonics technology.

On EVs, FIT has also established Hong Yi New Energy Company to grasp key technologies charging pile technologies and launch a range of DC and AC charging piles that meet various charging needs and scenarios.

Moreover, Chairman Young Liu also appeared at IMEC in Europe, an annual world technology forum to share Foxconn Group's research findings. Thus far, our group has accumulated more than 56,000 patents. Hon Hai Research Institute, since its establishment three years ago, has had research published in more than 180 journal publications.

Hon Hai Research Institute hosts a technology forum each quarter. This time, we focused on GenAI and future innovations, including AI 2.0 and the groundbreaking changes it will bring to industry. We have also repositioned our scale to center on computing power. During the forum, we shared our first-place-winning BehaviorGPT technology from this year's autonomous driving simulation competition. It was also the first time we revealed interim results for our three major platforms in AI application. On front-end technology development, Hon Hai Research Institute's new technology for quantum short-range scanning technology RGD algorithm and compound semiconductor was published in renowned international journals. The Hon Hai Research Institute will contribute to innovation to bring further results to the industry.

On ESG, we have also had significant progress. In July, we released our first Supplier Responsibility Report, on our efforts, investment, and results in sustainability. This is Hon Hai's ESG report card about its more than 10,000 suppliers. This is also the first time that a report has been published particularly about suppliers in Taiwan.

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On Earth Day this year, we vowed to become part of RE100. We have officially become a member as of July. In the future, we aim to use 100% green energy by 2040.
To strengthen our ESG management efforts, we actively announced results from our third-party audit, which included inspection of eight major plants including China and India, and covered over 200,000 employees. The findings showed that regarding employee interests, there weren't any serious hidden risk or forced labor. We have also begun planning for this year's survey, which will also include more overseas locations. Our ESG efforts have also reached further locations globally, including the US, Vietnam, Czech Republic and Taiwan etc. We hope that through these ESG events, our employees and families can feel Foxconn's effort in this front.

We have also received recognition for taking care of employees. This year, we have, once again, received an award for "Best Employer in Asia" from HR Magazine. Our Czech Republic plant has also received the "Best Employers" honor for the tenth consecutive year. Moreover, our Czech Republic plant has received the highest level of zero waste to landfill "Platinum Level Certification", UL2799. 91% of the waste in the factory can be recycled and reused. The remaining 9% can be transformed to thermal energy.

Our Chairman Young Liu has once again, been selected as one of the Top 100 Taiwan Business Leaders by Harvard Business Review. Each year, we share our operating results with shareholders. This year, during our shareholders meeting, we displayed ten major products including six EV models, a 50-year time corridor, and AI racks etc. We have also announced to distribute cash dividend of NT$5.4 per share, which is a historical high since our listing.

Lastly, I will give a small preview for HHTD 2024. Last year, it was our first time expanding the scale of the event, and we were honored to invite the CEOs of NVIDIA and ZF to give keynote speeches. This year, we will be extending our HHTD event to two days, from October 8th to October 9th. We will also expand our discussion forums. Similar to last year, we will be inviting keynote speakers as well as domestic and international guests. We will be showcasing six major product themes including our super computing center, three major smart platforms, and of course, our latest electric vehicle. The goal is to showcase Foxconn's total AI solution, AI's application for the three major platforms, and our technological edge on the market. The discussion will also involve AI technologies and three major platforms that everyone is interested in.

The above is the content for today's investor briefing.

Questions and Answers

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

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

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

Question 1: First, we would like to ask James further about operations. The company's performance for 2Q was better than expected. Will you be adjusting up your full year outlook? How do you look at 2H24 performance? Which products will perform better than seasonality expectations for the 2nd half of the year? Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*

2Q24 performance was better than expected due to strong demand for AI Server. At our current visibility, we maintain our stance for significant growth for 2024. But our visibility has become better than in May. Even though the base for 2Q24 is higher, we believe that in 3Q24, there will be both significant QoQ and YoY growth. As for 4Q24, we also expect to be upwards trend.

Looking at our four major product segments, we forecast that in 2H24, servers, which belongs in Cloud and Networking, as well as Components and Other Products, will see better-than-seasonality performance. These will also be the two major drivers for growth for this year. And for the other 2 product segments, we expect stable performance.

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

Question 2: Thank you, James. Second question is on the gross margin. For 2Q24, AI server revenue saw strong growth. Could you let us know what impact this has on the overall gross margin? Due to the expansion of revenue in this area, how will the company be managing cash levels?

David Huang *Hon Hai Technology Group – CFO*

Our 2Q24 gross margin is 6.42%, a QoQ and YoY increase of 0.1ppts from 1Q24 and 0.01 ppts from 2Q23. Many factors impact our gross margins, including product mix, transaction model, inflation, FX impact, and depreciation expense from ICT or new business development capex. Our 2Q24 AI server revenue saw almost 3x growth YoY. Due to partly

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using a buy-and-sell transaction model, we saw the impact on our gross margins. Overall, the consolidated gross margin was better than expected in 2Q24, mainly due to better product mix and better cost control, enabled our performance to be better than expected. On AI servers, through new AI rack releases, we have been increasing our vertical integration.

Apart from GPU modules, we also have high performance switches, liquid cooling systems, DPU and SmartNIC to improve gross margin performance.

For AI server orders, we will largely increase production capacity in the future, combined with the variety of transaction models with customers. Both of which will impact our gross margin in different ways. That said, we will continue to maximize our profitability to bring shareholders maximum value.

As for cash management, it has always been our focus and so far, we have sufficient cash levels. At the end of 2Q24, cash and cash equivalent levels were at NT$1.05 trillion, accounts receivable were NT$ 861.6 billion, combining to a total of NT$1.91 trillion. Additionally, with a debt ratio of 57%, giving us significant room for financing. Adjusted EBITDA for 2023 reached NT$250 billion, and NT$121.1 billion for 1H24, a YoY increase of 8%. These are all important competitive advantages for AI server development. We will also continue to observe our cash flow to ensure liquidity and financial stability to face the large increases in cash requirements from AI server growth in the future. For different customers and conditions, we also make use of different transaction models to balance our cash challenges from rapid development in this segment.

We believe that the company's stable balance sheet and cash management abilities will be important competitive advantages for developing our AI business.

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

Question 3: Thank you. The next question is about GB200 for James. Everyone is worried about the news that Blackwell chip delays will also push back the launch of GB200. What kind of impact do you believe this news will have? Will you start shipment in 4Q24?

James Wu *Hon Hai Technology Group – Spokesperson*

We know that this is what everyone is concerned about. Firstly, AI server products that are under development right now are all on track. As a major supplier of GPU modules, we are consistently in touch with upstream and downstream players. We also have good control of the latest developments. We will continue to observe the supply of GPU and other components. Regarding production and manufacturing, we have also prepared for mass production. As our supply chain structure does not change, we will be the first to ship our products, regardless of whether there is a delay in GB200. We expect small shipments of GB200 to begin in 4Q24, and mass production to be in 1Q25.

From our previous experience of launching new products, design and manufacturing will both become more complex. Hence, dynamic changes in timeline are very common. There is typically noise on the market for the short-term. That said, if we look at it from a longer-term perspective, we have always been able to come out on top with positive feedback. We are happy to see more complex products for each generation as it benefits Foxconn overall.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, James. For those who want to ask questions, you may now click the "raise hand" button. After the next question, we will open the floor for questions from investors and media. This is the fourth and final question.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Question 4: This question is about AI servers. You mentioned that AI servers would reach 40% of revenue for servers for 2024. Does this take into account the impact from a delay for GB200?

James Wu *Hon Hai Technology Group – Spokesperson*
Earlier, I mentioned our outlook for AI server revenue for 2024, to be 40% of overall server revenue. At the time, we were conservatively forecasting contributions from GB200. In 1H24, we have already seen AI servers reach over 40% of servers. Therefore, the delay in GB200 would not impact AI servers' 40% revenue contribution much. This year, our outlook for sequential QoQ growth for AI servers remains strong and unchanged. If GB200 racks follow the original timeline of launch in 4Q24, there is also the possibility that AI server performance will exceed our forecasts.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Thank you, James. Now, we will move to Q-and-A session for online investors as well as media. English questions are also welcome. Carrie from Citi, please.

Carrie Liu *Citi - Analyst*

Question: I would like to further ask about GB 200. If there is a delay, will there be demand increases for the other products like the H100 and H200?

James Wu *Hon Hai Technology Group – Spokesperson*

Thank you, Carrie. This year, the H series is the main driver for AI server revenue growth. Looking at 1H24, there has already been more than 2x YoY growth in AI servers thanks to strong demands in the H series. We also see that demand visibility for H series products has improved. Therefore without taking GB200 into consideration, we still see growth in servers.

Carrie Liu *Citi - Analyst*

Question: Thank you, James. I would also like to know if the company is worried about a delay in GB200 and, hence, see changes in the competitive landscape? E.g. in Compute Boards and Switch Tray, there may be other suppliers on the market. Will a delay give your competitors opportunities to gain market share?

James Wu *Hon Hai Technology Group – Spokesperson*

First, about the timeline of launch, as mentioned, we expect to start shipment in 4Q24, which means that a delay is not an issue.

You also mentioned the competitive landscape. There hasn't been much change in the overall supply chain structure. Order allocation has little changes. We will definitely be in the first wave of shipments for the launch.

Thirdly, from a more long-term perspective, we also mentioned reasons why we are able to do reference design for products with our major customers. I believe that this is due to our large competitive advantages in terms of technologies and production capacity. Hence there would not be any fundamental changes anytime soon.

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

Thank you, Next question comes from Dylan Ho from Commercial Times please.

Dylan Hou *Commercial Times - Reporter*
Question: Two questions here. First question is a follow up on GB200. You mentioned the design has become more complex and that Foxconn has a competitive advantage. Could you elaborate on what that is? Secondly, on the previously mentioned SDP transformation. Could you share the current situation with us?

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you for your question. I will answer your first question, and then David will answer your second question.

Our key competencies to maintain a leading position in the competitive landscape are four-fold: firstly, our abilities to develop new products, secondly, complete upstream and downstream vertical integration, thirdly, highly digital and smart manufacturing, and lastly, our diversified global footprint.

In terms of new product development, the more complex the product for AI servers, the more Foxconn is able to display its technological advantages to become the top choice for major customers. This is also why when we enter mass production, we can reach 40% market share, which is far beyond other competitors.

As the product cycle for AI products will shorten in the future, many of our customers have also expressed that on AI, there may be product renewals each year going forward, which will allow us to show our key technological competencies to help our customers develop leading products.

In terms of SHARP, I will ask David to answer.

David Huang *Hon Hai Technology Group – CFO*
Thank you, James. In terms of SHARP, when they invested in panels back in the day, they signed a long-term contract for electricity supply with Tokyo Electric Power Company. At the time, due to a slowdown in panels, it became a burden. That said, there is now great demand for data and high speed computations. The shift to an AI data center has helped us turn one of our disadvantages into an advantage.

We have also seen that in Japan, more and more corporates and CSP players are interested in developing AI. I remember that NVIDIA's CEO Jensen mentioned that due to national security, each country's government has started to realize the importance of establishing its own AI computing power. Japan also has the same requirements. In the future, we will continue to help SHARP seize this business opportunity by transforming its plant to produce AI servers.

Kristen Fang *Hon Hai Technology Group – IR Manager*
Thank you, Next question comes from Avery from SET News, please.

Avery Liu *SET News - Reporter*
Question: Previously, we saw Chairman Liu and Apple COO Jeff Williams filmed in an automation video. I would like to know if there have been any achievements on automation? Next, I would also like to ask about MODEL C, which has raced in Thailand's Asia Cross Country Rally. This is the first time an EV has participated in this race. Could you share some details about your collaboration with us? Lastly, we are less than two months away from Technology Day. Could you give us more of a preview on the new vehicle models and guests at the event? Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*
To answer your first question, as Foxconn is the largest electronic manufacturing services company, smart manufacturing is definitely one of our core competencies. Continuing to improve our capabilities in this area is the foundation of our smart manufacturing segment. Thus far, we have reached a certain level on automation that has been highly recognized by important customers. When faced with a less variety with huge volume products, or more variety but large volume products, we will continue to increase levels of automation, robot usage, and automation coverage in our production lines to increase smart manufacturing speed, precision and flexibility.

On automation, we are focused on four areas: platform, modularization, flexibility, intelligence. First, on automation, a platform is required. We have established a platform for both automation and robots that covers processes from design to usage and maintenance. Secondly, is modularization. Through modularization, we will reach standardization to reach higher levels of repeated usage for equipment and decrease time for production line adjustments.

Next is flexibility. For example, for composite robots, including AGV, robot arms, and humanoid robots, we have applied them to production lines to increase the ability of production lines to manufacture different products.

Lastly is intelligence. We have integrated GenAI abilities to merge automation and design efficiencies, and to increase independent decision-making ability during manufacturing and production.

I also mentioned that Foxconn will work with partners such as NVIDIA, Google and Siemens. We will be working on establishing a flagship "Foxconn Factory of The Future" to become an industry benchmark. These results will be showcased during Hon Hai Technology Day. So please stay tuned!

As for your question on MODEL C, Luxgen n7, appearing in the Asia Cross Country Rally in Thailand, we are very excited to have Mr. Chen Ho-Huang. This is the first time that an electric vehicle has joined a cross-country Asian rally like this. Not to mention it is a Taiwanese EV.

Mr. Chen Ho-Huang's team specifically used MODEL C Luxgen n7 to be his vehicle of choice to show his support for Taiwanese-produced vehicles. We have also provided relevant components, logistics, and technical manpower as support for Mr. Chen Ho-Huang to finish with the best possible results.

In terms of MODEL C, more than 40% of its components are from Taiwan. If the race can be completed successfully, it will increase the visibility of Taiwanese electric vehicle components.

We are excited to see results from Mr. Chen Ho-Huang to help bring Taiwan into the spotlight.

Kristen Fang *Hon Hai Technology Group – Senior IR Manager*
Next question comes from Angela from KGI, please.

Angela Hsiang *KGI - Analyst*
Question: I have two follow up questions. As the CFO also mentioned, the gross margin will fluctuate due to changes in AI server transaction models such as buy-and-sell. Is this something that is expected to start after the GB or B series? If so, from the FII report, they saw a decline in gross margin from 7.6% in 1Q24 to 6% 2Q24. Is this impacted by AI servers? If we remove FII's margin, would Foxconn's margins have seen growth from 5% to 6%+? I would also like to know the main reason for this and whether Foxconn's gross

margin has the chance to stay at such a high range as in 2Q24? Secondly, a question on OPEX, as AI Server revenue will increase, should I be looking at the 3.5% OPEX ratio or the absolute dollar of expenses for the future? Thank you.

David Huang *Hon Hai Technology Group – CFO*
FII's Gross margin in the second quarter declined. It could mainly be due to buy-and-sell impacts. On consolidated statements, we are pushing for CMM, which is driving growth for the component segments. Overall, we have not seen a significant gross margin decline due to FII.

As for AI servers, I believe we answered this part earlier as well. Due to different transaction models, customers may choose different ones for their own benefit. Most traditional brand customers still choose the buy-and-sell model for servers. As AI servers have higher ASP and different mix, we will adjust transaction models, payment methods and terms depending on different customers and requirements. This will have different impacts on our gross margin. For example, buy-and-sell may see lower gross margins, whereas for consignment, gross margin will actually increase. The final impact on gross margin would really depend on our front-end discussions and negotiations with our customers. That said, overall, this will still contribute directly to profitability as well as EPS growth. This is also why profit maximization and shareholder value are our major focus.

The second question OPEX, due to an increase in revenue, especially on AI servers, there will also be an increase in OPEX by a certain amount, especially in R&D. R&D expenses will increase alongside new product launches. That said, we are always stringently controlling for OPEX. Despite an increase in R&D expense, we will try to control other areas such as administration and marketing expenses. For both OPEX ratio and absolute dollar amount, we will be working on controlling both simultaneously, spending our money where it is most effective.

Kristen Fang *Hon Hai Technology Group –Senior IR Manager*
Next question comes from Yuzuha from NewsPicks, please.

Yuzuha *NewsPicks - Reporter*
Question: I wanted to ask you two quick questions about EV. First, in your previous briefing you mentioned you were negotiating with two potential customers in Japan. If you have any updates, I would like to ask about that. Second question is about your overall strategy to

acquire top customers in the EV market. I understand Hon Hai has been able to secure top customers like Apple and NVIDIA in other fields. In terms of acquiring top customers in the EV sector, what would you say are the different things, say compared to smartphones, in AI servers? What would be your approach? Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you, Yuzuha. In our last earnings call, we mentioned about progress in the traditional car OEM. In the last three months, the competition in the EV market is getting increasingly fierce. We have received growing interest from customers for our CDMS model. The Japanese market has positive potential. The discussion on 3 projects with the 2 Japanese auto makers are on track. Overall, we are very positive on the progress of these negotiations. Once the contracts are signed, which we expect to happen in the second half of this year, we will provide more details at that time and you won't miss it. That is my answer to your first question.

Regarding the second question, I would say that is a very good question. Let's start with safety and quality first. A malfunction in smartphone or AI server, may cause inconvenience but is rarely life threatening. However, any defect or failure in EV cars, can have serious consequences, potentially endangering lives. And we understand the unique challenges. We have debuted six reference models in the last three years. Our electric bus, won an fantastic design award in Japan when it debuted three years ago. Today, you can see them operating in any big city in Taiwan as reliable public transport.

Our family SUV has become a bestseller in the monthly EV delivery ranking in Taiwan, but we are not satisfied. This SUV, the MODEL C, which is under our customer's n7 Luxgen brand, is in Thailand right now. It is undergoing one of the most rigorous performance races, as the first EV to race at the Asia Cross Country Rally, which is more than 2,000km of rugged terrain over a week that you won' t find on any automotive test track. I would say ensuring safety and quality is priority number one for success on the EV market. We are doing it.
Speed is another key success factor. Operating under our CDMS model without our own brand or distribution channels, we are uniquely positioned to leverage our strength in time-to-market and time-to-cost. Six models in three years. And we anticipate to showcase another new model at Hon Hai Tech Day in October this year. Speed-to-market and cost competitiveness are distinct demands from the EV sector, and we are showing potential automotive OEMs that we have a solid understanding on how to support THEIR success. Currently, we feel very, very positive for us to secure traditional car OEMs. And we anticipate to see some progress in the second half. Again, you won't miss it. Thank you.

Kriste Fang *Hon Hai Technology Group – Senior IR Manager*
Next question comes from Grace from UBS, please.

Grace Chen *UBS - Analyst*
Question: My first question is on servers. You mentioned that AI servers, as of 2Q24, are now 40% of server revenue. This is better than we had previously expected. Is this due to being able to secure more supply of GPU than we expected or that AI orders from customers has increased? Moreover, you mentioned that in 4Q, server and components will see better-than-seasonality growth. Could you remind us of the seasonality growth percentages for these two segments?

My second question is on import tax and its potential to increase as discussed by everyone. Could you remind us of your diversified global production again? For example, in China, India, or future production goals?

My third question is about smartphones. You mentioned on the presentation that there would be high growth QoQ, but be flat YoY. If we look at 2H24 including the 4Q24, is there a chance that smartphones may see YoY growth and not just QoQ?

James Wu *Hon Hai Technology Group – Spokesperson*
I will answer the server question first. David will then answer your question on US import tax, and finally, I will answer your question on smartphones.

First, the reason why our servers business performed better than expectation in 1H24 was because that, in past years, we were more focused on the upstream supply chain for AI servers, especially for key components like GPU modules and baseboards. From this year, we have also seen larger growth for AI server demand. As such, we have become more focused on market share in the supply chain for AI servers. We can also see that AI server has reached more than 40% market share of servers, which means that over the past year, we have been able to gain market share.

As for seasonality and performance, this can be approached by several figures. I mentioned previously that in 1Q24 and 2023, the Cloud and Networking Product segment was at twenty-something percent of the Group's revenue. Thus far, it has reached 30% of overall Group revenue. Under the condition that our overall Group revenue is growing, and for this segment to grow from 20% to 30% in the product mix of our product portfolio, we can see the strong growth in this segment. I believe seasonality can be told from here, and that it is evident that there is strong growth in the segment.

For components, combined with the launch of smart consumer products in 2H24, it fits in well with our strategy to increase CMM in our product mix. Our focus on CMM is mainly to improve our vertical integration capability both upstream and downstream and enhance our gross margin as well. After new product launches in 2H24, Components and Other Products is expected to see strong growth. This would also be due to our increasing proportion of components offering.

As for the import tax question, I will ask David to answer.

David Huang *Hon Hai Technology Group – CFO*
As for the US presidential election, one of the issues may be linked to import tax increase. This is not an existing issue yet but just a risk. This risk actually gives us an opportunity to demonstrate our competitive advantage. In our previous reports, we have mentioned that we have the most comprehensive global capacity among the supply chain. Apart from China, we also have plants in Southeast Asia, South Asia, Europe, North America, South America. We span across 24 countries and 205 locations for production. If there is a risk from the US raising import tax after elections or even increasing tax from Mexico, we have server production capacity in both Wisconsin and Texas in the US to take care of customers' product sensitivity concern. This means that we have large flexibility in production allocation globally. Vietnam, is yet another location.

Under this situation, depending on customers' products and demand, we could satisfy them. This is actually a major competitive advantage for us.

Also, in 2022, our capex was only NT$90 billion and in 2023, this rose to NT$120 billion. This year, for 1H24, our capex reached levels of NT$63.1 billion, representing a YoY increase of 33%. This reflects our diversified production capabilities and investments into our future to respond to market changes and challenges. At the same time, we have stable and consistent cash flow, which can support our strategic deployment. I believe that our capital investments will transform into revenue in the future.

James Wu *Hon Hai Technology Group – Spokesperson*
Lastly, you mentioned smartphone performance in 2H24. First, I need to mention that we cannot give you any comments on specific customers. That said, based on our visibility so far, Smart Consumer Electronics should see flat YoY performance on the full year basis. Reflecting back to 1Q23, due to the pandemic in Zhengzhou, a lot of the demand for 4Q22 was pushed back into 1Q23. This led to a very high base for 1Q23. Hence, 1H24 seems to

be weaker compared to 1H23. That said, if we maintain our outlook for flat performance YoY for the full year, it means we believe 2H24 will outperform 2H23.

Foxconn still maintains its leading position in the industry. Of course, when looking at the industry business opportunities, we do not only focus on assembly. We also look at the component side. As we have mentioned, the entire Foxconn group is very focused on CMM. We see that through AI applications, from Cloud to Edge, AI will become increasingly important in the supply chain.

For example, for AI, power consumption and heat dissipation requirements will both increase, which means that customers will have high specification requirements for metallic materials. Foxconn is a long-term leader in this area, and maintains its expertise on key materials for components including their malleability, heat dissipation ability, tinting ability and lightness. Thus, apart from seeing a growth opportunity for the overall market, we also see an opportunity to penetrate into key components. These are all areas where we can bring value.

The time is now 4.00pm. There was one more question I did not answer on Hon Hai Tech Day, which will take place October 8 to October 9. This is the first time it will be on two consecutive days. On the first day, we will invite our shareholders. On the second day, we will open the event to everyone, hoping they can experience our latest technology firsthand.

Also, we moved the event forward due to another major reason. Our previous event in Nangang Exhibition Center 2 had lots of columns that blocked the view of our audience. We are moving to the 4th floor of the Nangang Exhibition Center 1, which does not have the columns that used to block your views. This will allow everyone to better see our products. Secondly, apart from product displays, we have also added forums. This time, our topics will include AI, smart manufacturing, supply chains, digital health, ESG etc.

Of course, we have also invited multiple overseas guests to share with us on specific themes. Please don't worry so much about who will attend for now. Please remember to register online as soon as possible as there are limited spaces available.

Above is all of the content for our investor conference this time. We will end our conference here. Thank you everyone, good bye.

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