TRANSCRIPT

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Investor Conference Call
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Investor Conference Call on

FY23 First 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 First 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 first quarter, the business outlook for the second quarter as well as for full year 2023, 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 first quarter of 2023.

Firstly, please refer to page 5 of the presentation for the 2023 first quarter income statement.

In the first quarter, revenue was NT$ 1.462 trillion, a YoY growth of 4% and a record high revenue for the first quarter. In terms of the margins, gross profit and operating profit margins for 1Q23 both saw increases YoY. The gross margin was 6.04%, a YoY increase of 0.02ppts, mainly due to a decrease in inventory level this quarter, reversing some of the provisions incurred by valuation of inventory previously. Operating margin at 2.77%, a YoY increase of 0.17ppts, mainly attributable to the increase in gross margin as well as improved cost control and management, which led to a decrease in operating expense ratio. Net profit margin was 0.88%, a YoY decrease of 1.22ppts, mainly due to non-operating recognition of a loss resulting from investment in SHARP of NT$19.7 billion, leading to negative impact on the performance of the net profit margin. On EPS, 1Q23, net profit attributable to the parent company was NT$12.8 billion. Due to impact from non-operating items, this was a YoY decline of 56%. The EPS of NT$0.93 was a YoY decline of NT$1.19.

Looking at page 6 for the balance sheet. In 2023, at the end of March, the cash and cash equivalents were at NT$1.12 trillion, maintaining previous levels. Net cash was NT$272.1 billion, an increase of 96% from the end of 2022, and returning to NT$270 billion levels similar to 1Q22. This is mainly due to digestion of inventory in this quarter as well as a decrease in cash outflow. Cash turnover days was 57 days, a YoY increase of 9 days, mainly due to inventory days increasing. From 1Q22, inventory has been increasing by double digit percentages YoY. However, after aggressive adjustment measures taken, this quarter's inventory increase was limited to 8% YoY. That said, inventory days calculations are impacted by remnant inventory from previous periods. End of last year's inventory levels were the peak for Hon Hai, which led to higher inventory days for 1Q23. Debt ratio was 56%, better than 4Q22 and 1Q22, mainly due to a decrease in accounts payable as well as an increase in loans repaid, causing total debt to decrease.

Finally, looking at the cashflow statement on page 7, cash inflow from operating activities was NT$140.3 billion, and capital expenditure was NT$25.1 billion, an increase of 43% YoY. Free cashflow was positive by a margin of NT$115.2 billion, maintaining stable level.

Here I conclude a summary of the company's performance for 1Q23. 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 first quarter of this year has just been addressed. In summary, the revenue from 1Q23 reached a historical high for the same quarter, with sequential decline better than seasonality. YoY performance is also about flat. Performance of our four major products were largely in line with what we expected from the last earnings conference. On profitability, we saw growth in our core business. However, due to asset impairment losses reported in non-operating segments, net profit declined. We will address this in the future by investment business management.

Next, I will address the company's outlook for 2Q23. As the high-growth phase created by the pandemic has ended, thus far, the industry is also in an inventory adjustment period, combined with weaker seasonality typical for the second quarter, we do expect declines both YoY and QoQ.

From the perspective of our four major products segments, on Smart Consumer Electronics, the segment has entered a product replacement cycle, combined with a stronger force of inventory pulling in January, the launch of new products in 1Q22 and other factors, these will result in an expectation of declines both QoQ and YoY.

For Cloud and Networking products, we saw that CSP and AI server demand have both continued to grow. We expect CSP growth to remain strong for 2Q23, which is one of the major growth drivers we expect for 2023. Overall, for Cloud and Networking, QoQ, the expectation is that it should remain flat. However, YoY, a decline is expected.

For Computing products, as previously mentioned, the high-growth phase driven by the pandemic has now passed. Hence, performance is flat compared to last quarter, and YoY, it slightly declined. This year, we may be able to gain market share, although the impact may only be evident in the second half of this year.

Lastly, for Components and Other products, we continue to expand our component supply and increase shipments. Hence, 2Q23 performance should see growth QoQ and be flat YoY.

Overall, for 2023 outlook, there is a lot of noise on the market. Hence, many investors are interested in our outlook for the full year of 2023. Overall, we largely maintain the same view as we expressed in March during the earnings conference, with an expectation of performance remaining flat. Due to global monetary tightening, geopolitical tensions, inflation and other uncertainties, economic outlook has been negatively impacted and visibility remains low. Hence, we continue to hold a conservative outlook.

For Smart Consumer Electronics, thus far, we maintain our outlook of a slight decline, on back of better-than-expected performance for 2022 and a potential global economic growth slowdown. We also slightly adjust down our growth outlook for Cloud and Networking products as even though CSP and AI Server demand have been quite healthy, some products are still in the inventory adjustment phase. Hence, we adjust our outlook to flattish.

Despite this, we believe that Computing products and Components and Other products should see significant growth this year. This is on the back of the market view that the PC market has bottomed out, combined with an increase in market share, we believe that Computing products will see stronger growth momentum in 2H23 compared to 1H23. For Components and Other products, we expect that mechanical parts, optical components, electrical components and semiconductors will all see stable growth.

Next, I would like to address new business developments for Hon Hai over past two months.

On the EV side, our plant in Ohio in the US completed its first batch of mass production for autonomous agricultural tractors. We will continue to optimize the manufacturing process as well as the preparation of components. Going forward, we will continue to increase production to prepare to ramp up production to full speed in 2024/2025 at our Ohio plant.

In Taiwan, our collaboration with Kaohsiung City for a Smart City Total Solution will be mainly based on platform and software development, and make use of EVs as vehicles for mobile internet. Under integration of software and hardware, we hope to establish a strong foundation to provide city smartening and digitization services.

This year, in Kaohsiung Qiaotou, we will also establish our own E- Bus factory, with forecasted mass production to be in 2025. Initial production capacity is 500 units for supply to the Taiwanese market and based on future market demand, to expand to 1,000 units per annum. The overseas market and production capacity expansion are all in our plans. If we make progress on this front, we will announce it to everyone.

Moreover, for our Model C that most investors are interested in, we are continuing with our original plans for mass production in 4Q23 and to deliver products in a timely manner. This year, we will also continue to launch reference prototype vehicles to satisfy customer demand.

On batteries, we have two plans in Kaohsiung. The first one will be in the Hofa Industrial Park in Kaohsiung, where we plan to develop LFP batteries and energy storage batteries. Our battery cell plant is also under construction. We expect that in 3Q24, it can reach 1.2GWh of production scale. The second plan is that in Qiaotou Science Park, where our battery factory is expected to break ground in 2024 for construction, and by the end of 2025, annual production capacity is expected to reach 3.0GWh. As for LFP battery cells used for electric buses, currently, development is complete and they have now entered the testing phase, with expected mass production in 2024.

For EV software, we have three major directions for development. First, the company has long-term investment in automobile software and middleware development. HHEV.OS software is an important part of this and was launched at last year's HHTD. This year, the focus will be on including HHEV.OS in applications. Secondly, on EEA and the software platform, the R&D directions, including EEA, smart cockpit, smart gateway, and autonomous driving platform, are on track. Relevant cases have already started generating revenue as of 2022. In 2023, we expect these segments to continue to develop and contribute to revenue.

Thirdly, for relevant software platforms, we continue to expand our service coverage from software used within automobiles to external internet of vehicles services. From system, to software and hardware, and to internet of vehicles, we hope to establish a complete ecosystem with multiple layers. Platform as well as software ecosystems are both of utmost important to the Hon Hai EV development. In addition, we also provide hardware. This integration of both hardware and software can provide a one-stop solution to our customers. Looking at future trends of specialization and division in the EV industry, we will be able to provide even more value to our customers.

On semiconductors, I will also divide this into three parts. First, on key components, we have gained 5 customers to start pilot run in our SiC wafer fab . Our wafers' performance rivals that of large international players. Our packaging & testing have already received certification from 16949 Automotive Industry Quality Control System. We have also delivered samples to Fan-Out Wafer Level Packaging customers. Secondly, automotive SoC, for our automobile virtual platform development platform went online in 1Q23. It has now been used for a first model of MCU automobile chip, designed for software and hardware certification. Afterwards, we will expand to EV SoC system chip development. In the future, this platform will strengthen EV EEA architecture capabilities as well as integration of vehicle system simulation environment to speed up development of automobile application chips. Thirdly, on small ICs for automobiles, we have designed a self-designed, local manufacturing single-phase 1200V/700A silicon carbide power module. Currently, we are kicking off SiC power module design-in with EV powertrain supplier and OEMs.

Other new business segments include low-Earth-orbit (LEO) satellites are also expected to finish final testing this year, with satellite launch expected to be in 4Q23. Through LEO services, internet of vehicles, smart city and Beyond 5G (B5G) as our three main application axes, we hope to establish a high resiliency network infrastructure for the internet.

On the metaverse front, we are also focused on three major areas. First, apart from helping customers develop products, we have also invested in software company XRSPACE, investing in Finnish company involved development of high-end AR and MR hardware company Varjo. Recently, we have also invested in a Taiwanese company focused on AR glasses, Jorjin. Secondly, the group is also looking to apply AR and metaverse technology within its plants to increase our operational efficiency. Thirdly, along with the development of smart city, we will also be exploring tourism applications of AR glasses.

As for China, at the end of April, we established a new business R&D and NPI center in Zhengzhou, China. In the future, coupled with ICT R&D and NPI center in Shenzhen to form an ICT and 3+3 dual centers in China. We will be integrating our operational advantage, sufficient talent pool, as well as favorable policies to grasp these two major development opportunities.

Globally, Hon Hai Group has over 173 campuses and offices covering over 24 countries/regions. This year, we have expanded in areas including Taiwan, mainland China, India, Vietnam and Germany. Under the localization of production trend in the EV industry, we will continue to expand our capacity in preparation to satisfy our customer demand and stand out with our global advantage. We will also optimize our production capacity based on the demands of our customers.

Above is our new business development and global footprint. Next, I will hand over the call to James. Thank you.

James Wu *Hon Hai Technology Group – Spokesperson*
Thank you. Even though it has only been two months since our last conference, there has been a lot happening. I will select a few key events to discuss today.

First, Mobile Drive announced a collaborative effort with Siemens for development of ADAS, hoping to reach its target of time-to-market while satisfying customer demand. It also aims to maintain development process meeting a globally renowned safety standards. The 0.12 inch Micro LED Micro-Display product we are working on in collaboration with Ennostar is a key component for AR, VR and MR metaverse products. Hon Hai has grasped relevant technologies and hopes to gain the ability to vertically integrate in the metaverse industry in the future.

We have also signed a strategic collaboration MOU with globally leader in automotive semiconductors, Infineon, to establish a laboratory to develop EV platform and EEA infrastructure systems. Initially, we will start with Hon Hai's existing EV models. At the same time, on silicon carbide, we will also collaborate on developing new product designs, process development, and capacity supply for automobile semiconductor applications.

On the ESG front, we have been working on 0 to 6 years childcare subsidy program for employees for three years. From crude birth rate, percentage of our female employees, as well as postpartum retention rates, we have seen prominent increases. Under our childcare allowance policy, both male and female employees have benefitted, which has also contributed to the birth rate. This will continue to the competitiveness of both our company and society in the future.

This year, we have also initiated an internship program with interviews for the Chairman's Office. From 500 candidates, we selected 12 interns to enter Hon Hai to understand the operations of Hon Hai's headquarters.

At the end of April, we also had our Hon Hai Baseball Family Day, through traditional Dragon and Elephant team's competition, we invited 2,700 employees and their family members to enjoy a lively time.

Our Chief Audit Executive also delivered a speech at Women in Business Forum: Climate Action Taiwan hosted by British Chamber of Commerce in Taipei, sharing ESG sustainability target and implementation.

Our carbon reduction targets have also received validation from SBTi, meaning that Hon Hai has upheld its promises to fight climate change on the international stage. In the future, we will move toward these plans to realize our net zero carbon emission targets by 2050.

Within the next three years, Hon Hai will also invest NT$25 million to turn waste building materials into algae reefs by utilizing 3D printing production, converting land waste into resources that can be applied to marine ecosystems and to improve biodiversity. This will also help innovate Taiwan's ecosystem restoration efforts.

Globally, Hon Hai continues with ESG implementation in countries such as Taiwan, mainland China, the Czech Republic, Vietnam and the US. Through our charitable activities and missions, as well as cleaning and environmental protection, we continue to provide help to those in need as well as efforts to help the world become greener. We continue to take social responsibility on a global scale.

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Questions and Answers

James Wu *Hon Hai Technology Group – Spokesperson*
Next, we will move onto the second portion of this conference, Q&A. We'll go through questions that were raised in advance of today's call and answer those first. After that, we will open the floor to any questions.

Harriet Chen *Hon Hai Technology Group – IR Manager*
Question 1: We want to understand how the company views the impact of ChatGPT and OpenAI on high performance GPU demand? Will Hon Hai benefit from relevant infrastructure demand? How does Hon Hai view AI server revenue contributions and growth for 2023? Could the Chairman answer our first question? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
Thank you. Recently, due to the rise of application in AI, there is indeed a wave of AI adoption, which has also driven demand for AI. In the future, demand for servers with GPU AI will continue to increase. Last year alone, Hon Hai's server revenue reached NT$1.1 trillion. As a leading supplier in server manufacturing, of course, we will benefit from the increase in demand.

From an AI server growth perspective, last year, our AI servers was 20% of the company's total server revenue. This year, we expect to see pretty good growth in AI server, and hence, a higher revenue mix from AI server is expected to increase in 2023.

However, last time, during the earnings conference in March, I mentioned that demand driven by ChatGPT may be large, but it will require some time to precipitate before it becomes a major stable segment for the company. AI applications will become more and more mature and we do remain optimistic on long-term development for these products. We aggressively look for ways to collaborate with not only large customers but also platforms as well for development.

Harriet Chen *Hon Hai Technology Group – IR Manager*
Question 2: The second question is related to inventory levels. How is the current inventory digestion going? Are there any products where inventory is especially high? How should we view future inventory levels? Would the CFO please answer the second question, thank you.

David Huang *Hon Hai Technology Group – CFO*
Last year, in the fourth quarter, due to the pandemic, we prepared a higher level of inventory. At the end of the year, inventory reached a peak of NT$939 billion. However, we have aggressively been adjusting inventory this year. By the end of March this year, we have reached an inventory level of NT$813.2 billion.

Inventory levels have seen substantial improvement compared to the last quarter. Overall, inventory is higher than previous levels, but will be determined based on customer demand. However, under stringent inventory management policies, inventory risk remains at a controllable level for the company.

Overall, the market's view on inventory levels returning to normal has been pushed back from the second quarter to the third quarter. Thus far, from our current inventory levels, we maintain our view that this will occur at the end of the second quarter. In May or June, we expect that inventory levels will return to a relatively low level. However, along with new products entering mass production in 2H23, we forecast that inventory level may slowly increase again.

Harriet Chen *Hon Hai Technology Group – IR Manager*
Question 3: We would like to ask the Chairman this question. Thus far, how is the collaboration between Hon Hai and traditional auto OEMs? Has the IRA changed the clients' attitude to adopt Hon Hai's EV services? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
I believe that many investors are worried, or interested, in progress on this front. Thus far, we are indeed talking to various auto players for collaborations. We have also, at the same time, seen that traditional auto players have been producing their own vehicles. To change to OEM production will require overcoming large internal resistance within companies. This is similar to what we saw in the PC industry 20 to 30 years ago. This would require some time for adjustment. However, we believe that in the future, much of the EV industry will be moving toward professional OEMs. This, is our opportunity.

Other than this, the EV industry is facing fiercer and fiercer price competition. This situation means that in the future, the EV industry will also have to face time-to-market and time-to-cost challenges. Hence, we believe that facing both internal and external pressure, auto players will become increasingly accepting of the new OEM model.

For our Ohio plant that we acquired last year, apart from possessing important US production capacity, another key point is that we also acquired a team of experienced auto manufacturing talents. In the past, many have been worried that Taiwan lacks talent in auto manufacturing, but in reality, we have a Foxtron team in Taiwan as well as hundreds of talents in the US for car manufacturing. This is something that is highly important to the company as well as something that our clients value.

The IRA in the US and our collaboration with auto players is also another point of interest. The previously announced EV incentives have established the barrier to entry for automobile manufacturing and assembly in the US. The proportion of US-manufactured vehicles demanded will also increase year on year. In order to capture this opportunity, large auto players are all searching for manufacturing capability within the US. Hon Hai's car manufacturing capacity in the US has become even more precious as a result. Of course, apart from aggressively pursuing relationships with traditional auto makers, we are also receiving requests from traditional auto players.

At this time, it is not a time to rush, but a time to carefully select our clients. We are Game Changers. Our goal is to look for the next potential leader and use more innovative and efficiency processes to manufacture cars, to provide the most competitive production capabilities for our customers and allow our potential leading customers to also become Game Changer in the auto industry.

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. This is the fourth and final question before we open the floor to questions from investors and media.

Harriet Chen *Hon Hai Technology Group – IR Manager*
Question 4: This is the last question. Just now, SHARP has also announced its earnings and at the same time, they announced material asset impairment. We also see that Hon Hai has larger non-operating expenses in 1Q23. We would like to know if this is because of SHARP, as well as the scale of impact? What is the main reason for this and what is Hon Hai's improvement plan to prevent this in the future? Thank you.

David Huang *Hon Hai Technology Group – CFO*
SHARP's March 2023 annual financial figures had large material asset impairments of JPY 219.7 bilion, approximately NT$50.5 billion. Due to Hon Hai's shareholding ratio, it has to recognize NT$17.3 billion of investment losses. Thus, even though on gross margins and operating profit, we saw increases YoY, this non-operating loss has caused our net profit to decline.

Hon Hai only has 34% stake in SHARP, and is the largest shareholder. However, Hon Hai does not have the majority share or the deciding vote on SHARP's actions. SHARP also has its own operating and management team that is supervised under Japanese laws. Therefore, Hon Hai does not have direct control over SHARP.

After Hon Hai invested in SHARP in 2016, it turned profitable in 2017, and in the same year have returned to Tokyo Stock Exchange First Section from Second Section. This caused an accumulated investment interest of NT$40 billion from SHARP to be recognized by Hon Hai. In terms of operating efficiency, Hon Hai has always respected SHARP as an independent entity as well as its management team.

However, as SHARP's material asset impairmant losses are quite significant and has impacted Hon Hai's shareholders, Hon Hai has, as a large shareholder, officially asked SHARP to explain the large material losses as well as provide provisions going forward for improvement. If necessary, we will also ask for an adjustment management team to improve operations of SHARP.

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 Securities, please.

Kylie Huang *Daiwa Securities – Research Analyst*
Question: First, I would like to congratulate you on 1Q23 on operating performance despite the larger non-operating loss. Here, I would like to ask about the gross margin. Firstly, what do you see for 2023's gross margin and what is the difference in your outlook from before? Is there a possibility of an increase QoQ? I would also like to discuss the 10% gross margin target for 2025. Is this target maintained? If so, what are the major growth drivers? Thank you.

Young Liu *Hon Hai Technology Group – Chairman*

Thank you, Kylie. In terms of gross margin outlook for this year, I mentioned previously that USD FX rates as well as expenses incurred by the impact of the pandemic would impact the gross margin. As this year, we are investing in our new business as well as expanding our global footprint, CAPEX will increase and impact D&A costs as a result. Therefore, to maintain the same gross margin level as 2022 would be a great challenge.

Long-term, on one hand, we hope to drive revenue and profitability through new business. On the other hand, we also hope to increase component market share through ICT products to optimize our product mix. Regardless of revenue or profitability, any percentage increase will have palpable contribution to the Group's profitability and shareholder benefits.

Therefore, we believe that our 2025 target for gross margin and for new business can both help drive Hon Hai. This will point the Group in the right direction and allow us to continue to see results from our efforts.

I understand that investors have great interest in gross margin improvements. This is something I am also on board with. However, short-term, when having to choose between revenue versus profitability, we will prioritize gaining more orders from customers and maximizing EPS is our goal. More net profit will also allow us to bring in more cash flow. This is beneficial for long-term investment as well as the implementation of our payout ratio policy.

Long-term, the gross margin target of 10% for 2025 will be maintained. I believe that we will have a clearer direction for the gross margin by the end of 2023. Thus far, it looks like we are moving in the right direction. Hence, we maintain our goal of 10% gross margin for 2025.

James Wu *Hon Hai Technology Group – Spokesperson*

Next question comes from Jacky with SET, please.

Jacky Fang *SET iNEWS – Reporter*

Question: This year, we have seen quite a large change in your large customer in its supply chain, especially in India. Could you update us on your moves in India and your differentiation with competitors?

Young Liu *Hon Hai Technology Group – Chairman*
Thank you for your question. Hon Hai actually has a holistic development of its supply chain and not just in India. From Taiwan, mainland China, SE Asia, South Asia, Middle East, Europe to the US, and industries spanning from ICT to EV to semiconductors and to software.
To invest in a new region or country, challenges would include not just the language, but also culture and manufacturing capabilities, as well as supply chain completeness. Thus far, many players are still in the learning phase as well.

From 2006, Hon Hai entered India, ahead of competitors and at a larger scale. During this time period, we have accumulated much experience in managing local employees, supply chain and logistics, which are all important competitive advantages that have allowed us to move at a pace that is faster than the market. It has also allowed us to expand quickly. Apart from continuing this momentum, we will also be increasing production yield locally.

India has now reached a population of 1.4 billion people, translating to a large potential market for mid-to-high-end products which our clients are focusing on. Hence, it is necessary for us to continue to expand assembly and component operations in India. We see that more and more suppliers are investing in establishing plants in India and believe that this will become more prominent as time goes on.

As for labor costs, India also has its advantages. Hon Hai will also continue to apply for government incentives, to increase its competitiveness.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Reed with Bloomberg, please.

Reed Stevenson *Bloomberg – Reporter*
Question: My question is about the recent issue with Lordstown Motors. How confident are you that you will be able to resolve this? And if you are unable to resolve it, what is your concept of capacity being used up by other potential clients?

Young Liu *Hon Hai Technology Group – Chairman*
Thank you for the question. I think we have seen this past month how tough the Disruption is for the EV industry. I would prefer to talk less in public and, instead, do more to come up with solutions with our stakeholders where we can. What I can say regarding our

investment in LMC is that we remain open to continued dialogue to find the best solution for each other. The LMC investment issue does not impact the operation of our Ohio manufacturing. Our approach to the production capacity we have in Ohio is comprehensive. We are being prudent about how to optimize that capacity with the best customers.

I'd say that in the last couple of years, Foxconn has been proactively seeking customers. However, now the interest is two-way – we are also being approached by potential customers as well. I'm talking about traditional auto OEMs. The IRA has made our Ohio capacity attractive.
We are taking a multi-customer approach to optimize and allocate this capacity we have in Ohio. This is in line with Foxconn's risk management and controls. Having multiple customers means no concentration in a single risk. So, I'm not looking at capacity utilization percentages when a customer comes or goes in this Disruptive era.

Foxconn has set a target for its EV business of 5% of the global market share in 2025. In the run up to that, this year and the next two years are a period of active courtship for new customers. It is also about acquiring the skills and technologies to gradually ramp up to mass production.

We are mission-minded about our focus for Ohio. As game changers, Foxconn and our customers, together, can accelerate the trend toward electromobility.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Grace with UBS Securities, please.

Grace Chen *UBS Securities - Analyst*
Question: Thank you for accepting my question. I have two questions. First question is about server guidance adjustments. Previously, it was for growth but now it has been adjusted down. Is the change mainly due to enterprise server or have we also seen CSP customers make adjustments? This is my first question. My second question is on EVs. We have been anticipating receiving orders for OEMs from traditional auto players, do you see this opportunity this year?

Young Liu *Hon Hai Technology Group – Chairman*
I will first answer your second question on EVs. Traditional player OEM orders. We have been in the talks with them. As I have explained, traditional car players have traditional force. This traditional force translates to, what I believe, is what we see is continued price

competition in downward price adjustments for car models causing fierce competition. This kind of condition, I believe, will help traditional car players shift to the OEM model, perhaps within the next year. However, as for when this will occur, we will continue to try our best to approach our traditional auto customers. As soon as there are any developments, we will let everyone know.

As for servers, on the enterprise side, and at the same time, some other products, are undergoing inventory adjustments. Hence, we have adjusted our outlook down to be flat. CSP and AI server demand is quite good, in line with what we expect. However, due to enterprise demand and inventory adjustments, we have adjusted it down to be flat.

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

Angela Hsiang *KGI Securities - Analyst*
Question: For servers, can I say that for Hon Hai, this year's CSP segment will maintain your previously expected double digit growth but enterprise will see larger declines, causing the overall server segment to be flat? Is this the right expectation?

Young Liu *Hon Hai Technology Group – Chairman*
Yes, that is correct.

Angela Hsiang *KGI Securities - Analyst*
Question: You also mentioned inventory adjustments in enterprise. Could I ask about inventory levels, how long will inventory adjustments will continue for? On the PC-side, has inventory adjustments leveled off?

Young Liu *Hon Hai Technology Group – Chairman*
PC inventory adjustments will reach its trough at the end of 2Q23. As for servers, it may be between 2Q23 and 3Q23. This is what we see thus far.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Kevin with Fubon Life, please.

Kevin Huang *Fubon Life – Analyst*
Question: I have two follow up questions. Firstly, for the EV segment, as your EV revenue is

already quite significant and includes relevant operations as well as subsidiaries, I am interested in whether the company has plans to independently list your EV segment? Secondly, I wish to understand how you view your end customers in the AI server. Is this still large CSP customers or is there more variety of customers?

Young Liu *Hon Hai Technology Group – Chairman*
As for the EV segment and whether we have plans to independently list the EV segment, I believe that in due time, we will be separately disclosure on our financial statements. As for independently listing, we have yet to consider this option thus far.

On AI server end customers, we see different customer groups including some gaming industry players that are also using AI servers as well as other applications that have started to see demand.

James Wu *Hon Hai Technology Group – Spokesperson*
Next question comes from Sharon with Morgan Stanley Securities, please.

Sharon Shih *Morgan Stanley Securities – Research Analyst*
Question: Hello, I also have two questions. First, on the component side, it is smaller in the revenue mix, but it looks like this will be a better performing segment for this year. In mechanical components, optical components, electronic components, and semiconductors, where do you expect greater-than-expected revenue growth and what are you expecting? How likely will the greater-than expected growth last? Secondly, I would like to follow up on what the chairman said about the global capacity expansion. How do you plan to increase competitiveness overall? Would it be through labor cost savings or how do you plan to increase the use of automation or other smart functions? Could you let us know what you see here and if you would be able to quantify some of the figures, it would be great. Thank you.

Young Liu *Hon Hai Technology Group – Chairman*
In terms of global capacity expansion, labor costs of course, will be a factor. But also, increasing automation and smart manufacturing are important methods to increase profitability in comparison to our competitors. As for increasing automation and smart manufacturing, as most regions globally are still in the initial stages of automation, in addition, these emerging markets, on automation, still have a way to go for establishing automation services. So far, the use of automation on our operational efficiency is limited.

However, once we reach a certain level of automation in the supply chain, we believe that operational efficiency will be significantly raised by automation.

Back to your question about component revenue for the first quarter, we see two segments including optical components (including both front and back camera modules), as well as market share increases that have allowed the optical component segment to see better than expected growth. As for audio, we expect more growth for next year. And finally, we expect to see more growth in semiconductors in 2025.

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

Avery Liu *USTV – Reporter*
Question: We see that on April 9, you have, in collaboration with the Kaohsiung government, signed a Smart City development contract to develop CityGPT. Could you share with us the applications of CityGPT and how this development is going?

Young Liu *Hon Hai Technology Group – Chairman*
From our observations of the market, we see that the north of Taiwan is already quite strong in hardware technology. However, we see that Kaohsiung is a good target for developing software industry. Hence, Hon Hai will serve as an integrator, starting from Smart City.

First, we would like to establish Kaohsiung as a site for software research & development revolving around EVs and smart cities. CityGPT is a core software platform by Hon Hai. In the future, we will establish an alliance for CityGPT to provide services to personal, family as well as enterprise customers. This will serve a function similar to an app store. We will serve as an integrator in this app store and work to integrate and standardize the landscape.

Why is this required by smart cities? Smart cities have already been a hot topic for multiple years now. However, we see that players in the market operate independently and that no player has played the role of integrator yet. To integrate, would require a vast amount of resources and abilities. Therefore, Hon Hai hopes to serve as a system integrator in the market to help Taiwan develop its smart city software capabilities.

Simultaneously, we will also establish headquarters for the southern part of Taiwan in Kaohsiung and are planning to invest NT$25 billion. As for the plan for battery and E-bus, I have shared details during the presentation. In Kaohsiung, we will establish a complete hardware environment for the development of smart city and EV software.

James Wu *Hon Hai Technology Group – Spokesperson*
As the time is now 3:56pm, we have time for one final question. We will invite Chris from Inside to ask his question.

Chris Chung *Inside – Reporter*
Question: This is Inside. Firstly, I would like to ask some questions about the EV market in Taiwan. Chairman you mentioned that in the fourth quarter that there will be mass production and product delivery. I would like to ask for the fourth quarter, what is the expected volume of deliveries for Model C? Also, previously when speaking about Project X that was announced last year, there was mention that it may use a battery exchange system akin to Gogoro's. How is Project X's concept prototype going so far? Is it possible that consumers can see more of Project X this year?

Young Liu *Hon Hai Technology Group – Chairman*
Project X is a project by MIH. You may need to talk to MIH to get a more precise answer. However, I can share what I know with you. In the fourth quarter of this year, I expect Project X to be able to display a prototype. This is for Project X.

On Model C, cars that are manufactured in Taiwan total around 200,000 units per annum. Using 10% market share, it would equate to 20,000 units, which will be our first target for planning. Thus far, we see that there are already 15,000 to 20,000 pre-ordered units for Model C and this is very close to our target. Nevertheless, after product delivery, we may get more feedback from customers on Model C. Thus far, our target for Model C is to reach 10% market share in Taiwan.

James Wu *Hon Hai Technology Group – Spokesperson*
Above is all of the content for our investor's conference this time. As the time is now 4:00pm, we will end our conference here. Thank you everyone, good bye.

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