

**ADVANTECH**

*Enabling an Intelligent Planet*

# Advantech 1Q20 Result Earnings Call

May 2020



# Safe Harbor Notice

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- This presentation contains forward-looking statements and is subject to risks and uncertainties. Actual results may differ materially from those contained in the forward-looking statements.
- The projections should not be interpreted as legally binding commitments, but rather as flexible information subject to change occasionally.

# 1Q20 Financial Result

NT\$ mn	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b>Net Sales</b>	11,355	12,645	12,360	12,366	12,301	13,976	14,382	13,486	11,272
<b>QoQ%</b>	-3%	11%	-2%	0%	-1%	14%	3%	-6%	-16%
<b>YoY%</b>	13%	11%	10%	5%	8%	11%	16%	9%	-8%
<b>Gross Profit</b>	4,338	4,792	4,760	4,772	4,724	5,410	5,697	5,268	4,395
<b>Gross Margins%</b>	38.2%	37.9%	38.5%	38.6%	38.4%	38.7%	39.6%	39.1%	39.0%
Operating Expense	2,696	2,851	2,858	2,799	2,866	3,078	3,064	2,858	2,742
Operating Profit	1,643	1,941	1,902	1,974	1,858	2,333	2,633	2,410	1,654
<b>Operating Margin%</b>	14.5%	15.4%	15.4%	16.0%	15.1%	16.7%	18.3%	17.9%	14.7%
No-operating Income	99	87	265	76	196	89	86	-297	-39
Pretax Profit	1,741	2,029	2,167	2,050	2,055	2,422	2,718	2,113	1,621
Tax Expenses	374	434	458	412	432	513	561	409	340
<b>Effective Tax Rate</b>	21.5%	21.4%	21.1%	20.1%	21.0%	21.2%	20.6%	19.4%	21.0%
<b>Net Income</b>	1,363	1,584	1,710	1,633	1,617	1,894	2,140	1,700	1,295
<b>QoQ%</b>	-17%	16%	8%	-5%	-1%	17%	13%	-21%	-24%
<b>YoY%</b>	10%	10%	7%	0%	19%	20%	25%	4%	-20%
<b>EPS (NT\$)</b>	1.95	2.27	2.45	2.34	2.31	2.71	3.06	2.43	1.85

- In non-operating side, Advantech booked NT\$33mn investment loss in 1Q20, v.s. a fixed asset disposal gain and investment profit in 1Q19.

# 1Q20 Sales By Region

USD\$M	1Q20	1Q19	YoY %	Rev %
North America	113	118	-5%	30%
Europe	70	77	-10%	19%
China	68	84	-20%	18%
North Asia	41	40	+3%	11%
Taiwan	30	23	+32%	8%
Asia & Intercon	32	36	-10%	9%
Others	22	22	-2%	6%
<b>Total</b>	<b>375</b>	<b>400</b>	<b>-6%</b>	<b>100%</b>

## North America

- Industrial IoT, Healthcare and Logistic business performed resilient in 1Q20.
- Embedded Biz dropped single digit YoY in 1Q20.

## Europe

- The decline was across the board but logistic sector performed solid in 1Q20.

## China

- Most segments dropped significantly YoY, due to Factory shutdown and logistic constrain in 1Q20.
- Embedded IoT segment still reported YoY growth in 1Q20.

## North Asia

AJP:	\$8.3M	GR%:	-8.3%
ATJ*:	\$19.2M	GR%:	
AKR :	\$15.4M	GR%:	+2.4%

## Asia & InterCon

AAU/NZ:	\$3.2M	GR%:	-2.8%
ASEAN:	\$8.7M	GR%:	+10.3%
India	\$3.3M	GR%:	-26.7%
Russia	\$2.6M	GR%:	-38.0%
LATAM	\$2.9M	GR%:	+7.4%
ME&A	\$11.3M	GR%:	-10.3%

# 1Q20 Performance By SBG

US\$ mn		Revenues	YoY	Rev. %	Gross Margin Range	Operating Profit	OP Margin
Industrial IOT		115	-9%	31%	48~53%	21	18.3%
Embedded IOT		99	-2%	26%	33~38%	13	12.9%
Allied DMS	Applied Computing	52	-6%	14%	25~35%	6	11.3%
	*Cloud IOT	35	-17%	9%	38~42%	5	14.7%
Service IOT		33	-12%	9%	38~43%	2	6.3%
AGS & APS		41	-12%	11%	23~28%	5	12.2%
Other unallocated profit (expenses)						3	
<b>Total</b>		<b>375</b>	<b>-6%</b>	<b>100%</b>		<b>55</b>	<b>14.7%</b>

- \*Networks & Communications Group was renamed as Cloud IoT Group effectively in October 2019.
- Embedded IOT and Applied Computing segments performed relative stable.
- Other product segments experienced component shortage, including casing, power supply, cable and connectors in 1Q20. We expect the component supply situation should improve after mid of May.

# Working Capital and Balance Sheet

NT\$ mn	3Q17	4Q17	1Q18	2Q18	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20
<b><u>Cash Cycle</u></b>											
Inventory	6,587	6,242	6,818	7,174	7,600	7,558	8,179	8,446	8,089	7,783	9,093
Account receivable	7,534	7,866	7,797	8,358	8,346	8,351	8,683	9,209	9,526	8,832	8,012
Account payable	5,173	5,281	5,376	6,251	6,248	5,811	5,756	6,519	4,981	4,799	5,291
IN turnover	84	81	85	81	88	91	95	88	87	88	112
AR turnover	61	61	62	60	61	61	64	60	60	60	65
AP turnover	69	67	70	72	75	70	69	69	52	53	70
<b><u>CCC</u></b>	76	75	77	69	75	83	90	79	95	94	106
<b><u>BS</u></b>											
Cash & Cash Equivalents	6,967	8,541	8,829	10,456	7,178	8,884	9,304	11,446	7,103	10,061	11,021
Total asset	38,797	40,704	42,324	45,345	42,286	43,940	46,864	49,654	45,391	47,216	49,007
ST debt	257	8	36	25	18	97	633	524	502	458	487
LT debt	106	114	81	81	81	46	439	387	334	278	290
Total equity	26,171	27,760	29,411	26,475	28,108	29,543	31,642	28,994	30,971	32,731	28,640
<b><u>Capex</u></b>	(170)	(220)	(158)	(130)	(246)	(157)	(189)	(214)	(229)	(329)	(213)
D&A	196	162	187	177	203	148	274	254	287	167	265
Total Investment CF	3,064	1,337	(609)	(476)	(31)	(666)	(814)	(176)	(342)	(475)	(730)

- The factory shutdown in February and logistic control afterward led an increase of inventory days in 1Q20. Advantech expect the overall cash conversion cycle will go back to normal level in 2Q20

# Global WFH & RBU Operational Status Update-1/2

## Global WFH Status Update

Region	Great China	US	Europe	North Asia	ASEAN/Aintercon
Working Status	Normal	Partial WFH	Partial WFH	Partial WFH	Partial WFH
Special Remark	<ul style="list-style-type: none"><li>○ The offices in China, Taiwan and Korea stay at normal operation. Other regional offices keep work-from-homes.</li><li>○ Only few functionality operates upon special approvals, including <b>appeal essential services for warehouse, CTOS operations, customers services as well (FAE)</b></li></ul>				

# Global WFH & RBU Operational Status Update-2/2

## Regional Operation Status

Update: 4/28/2020

Region	Great China		US		Europe			Japan
Location	Kunshan	Taipei	Milpitas	Ottawa	Eindhoven	Warsaw	Munich	Fukuoka
Operation	Normal	Normal	Normal	Normal	Normal	Normal	Normal	Normal
Available Capacity Output %	100%	120%	75-85%	80%	95-110%	95-110%	95-110%	100%

- Shipping Status**
- Most region remains normal
  - **India** shipping closed due to lockdown policy until May 3<sup>rd</sup>

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- Globally, there are three Advantech employee confirmed positively of COVID-19 so far. Two are based in Brazil and One is based in UK. One is totally recovered and two are getting better now.

# 2Q20 Guidance

Based on the exchange rate assumption of US\$1 to NT\$30.0, managements expect the 2Q20 guidance as below

Items	2Q20 Estimation
<b>Consolidated Revenue</b>	<b>US\$ 450M ~ 470M</b>
<b>Gross Margin</b>	<b>37.0% ~ 39.0%</b>
<b>Operating Margin</b>	<b>16.5% ~ 18.5%</b>