Merry Electronics
2022 Third Quarter
Earnings Result Conference

Presented by : Allen Huang, CEO
Date: October. 28, 2022

Safe Harbor Notice

Except for historical information contained herein, the matters set forth in this presentation are forward looking statements subject to significant risks and uncertainties that could cause actual results to differ materially, including the impact of competitive products and pricing strategies, whether the design is accepted by our customers timely, the prompt introduction of new technologies, the capability for mass production of new products, the risk of excess capacity, the availability of production capacity, the financial stability in terminal markets or other risks, and so on.

2022Q3 Operating Results

Q3 Consolidated sales
NTD110.50 billion
QoQ 38%

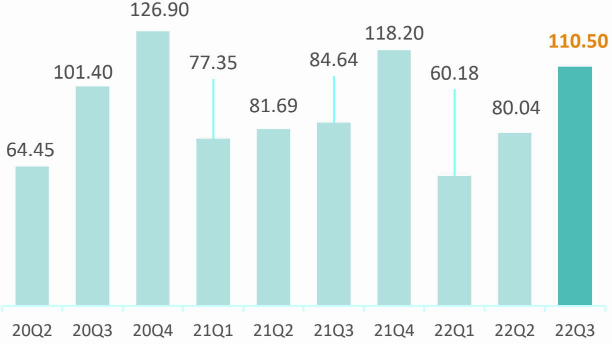
Q3 EPS NTD 2.74
QoQ 49%

Sales rose drastically due to relief of material shortage and shipment of new products

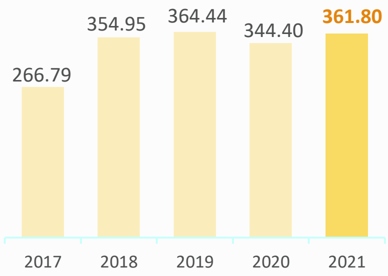
The growth driver (G driver) came from earphone (G rate on sales of headset = 33%

Mass production of new speakers for mobile phones and earphones (G rate on sales of speakers = 77%

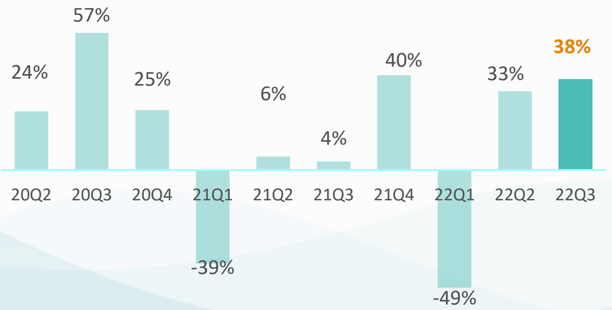
Sales by Quarter (in 100 Million)



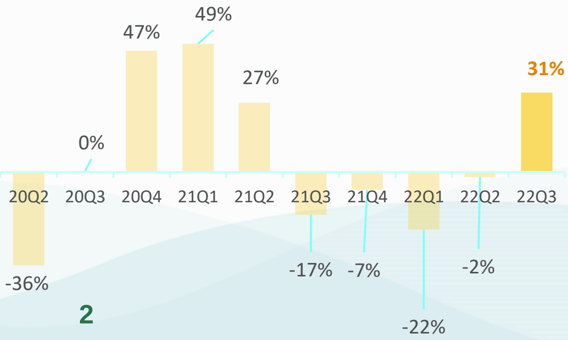
Sales by Year (in 100 million)



G rate (QoQ%) on quarterly sales



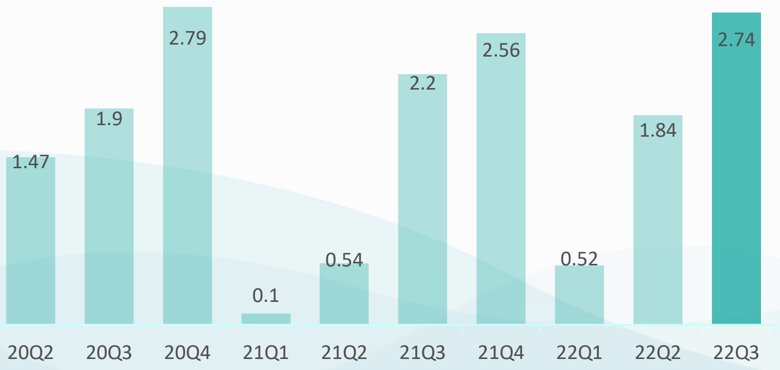
G rate (YoY%) on quarterly sales



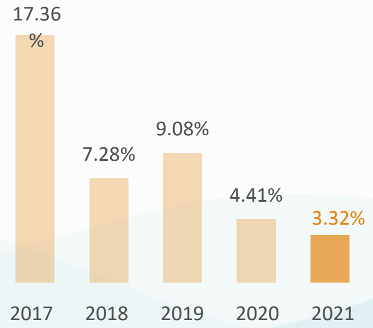
2022Q3 Financial Overview

Sales YoY	GPM YoY	OPM YoY	EBT YoY	Net margin YoY	EPS YoY
31.6%	2.2%	-17.7%	34.4%	29.8%	24.5%

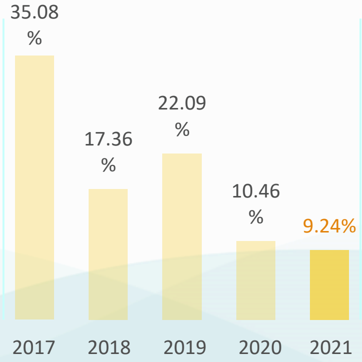
Quarterly EPS (in NT$)



R O E (%)

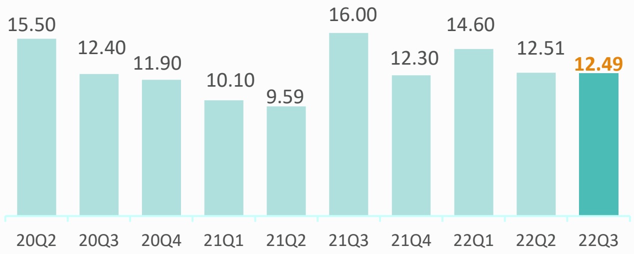


R O A (%)

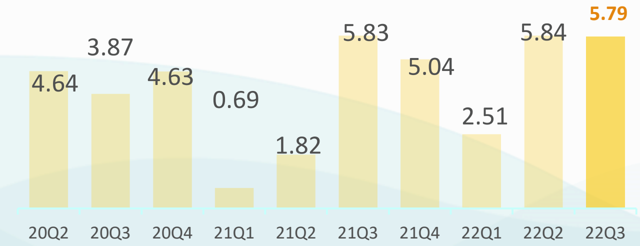


Statement of Comprehensive Income

Gross margin(%)



Net Profit Margin(%)

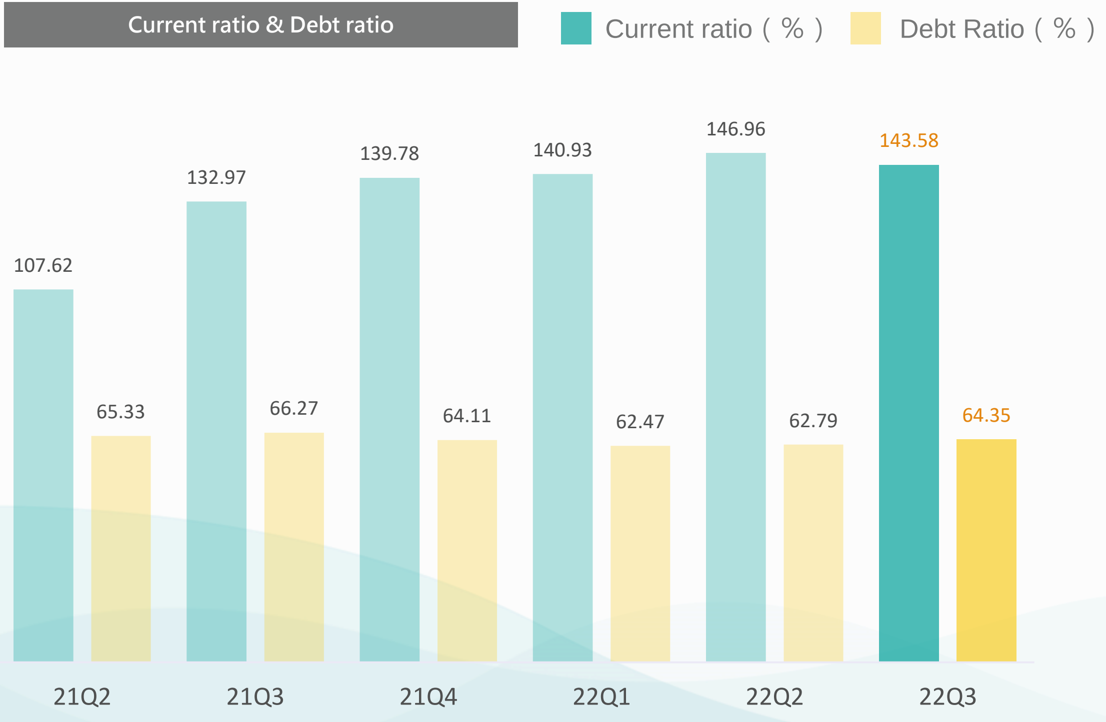


(NT$ Million)

Items	2021Q3	2022Q2	2022Q3	QoQ	YoY
Net Revenue	8,464	8,004	11,050	38%	31%
Gross Profit	16%	12%	12%	0pp	-4pp
Operating Expenses	857	725	974	34%	14%
Operating Margin	6%	3%	4%	1pp	-2pp
Non-Operating Income	140	283	445	57%	218%
Net Income	493	467	640	37%	30%
Net Profit Margin	6%	6%	6%	0pp	0pp
EPS(NT$)	2.20	1.84	2.74	0.90	0.54

Balance Sheet & Key Indices(CQ)

Current ratio & Debt ratio



Turnover ratio (in day)

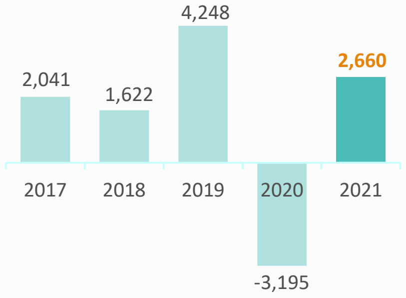
Balance Sheet & Key Indices(CQ)

(NT$ Million)

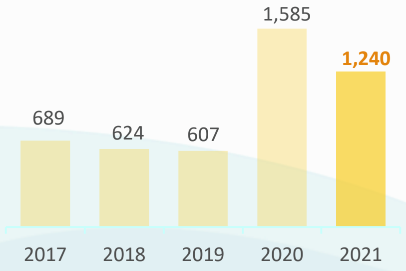
Item	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
Cash and Cash Equivalents	6,267	4,842	5,522	5,880	6,184
Account Receivable	7,859	9,403	5,745	6,384	9,530
Inventories	6,092	5,146	5,402	5,252	5,562
Other Current Assets	1,984	2,786	2,812	3,004	2,732
Investments	4,636	4,700	4,834	4,733	4,932
Property, plant and equipment	3,895	3,951	3,995	4,020	4,167
Other Non-current Assets	3,255	3,034	2,846	3,059	2,898
Total Assets	33,987	33,863	31,155	32,331	36,004
Current Liabilities	16,697	15,866	13,822	13,963	16,720
Non-current Liabilities	5,825	5,842	5,641	6,338	6,448
Total Liabilities	22,522	21,708	19,464	20,300	23,168
Total Shareholders' Equity	11,465	12,155	11,691	12,031	12,836

Cash Flow

OCF* (in NTD million)



CAPEX** (in NTD million)

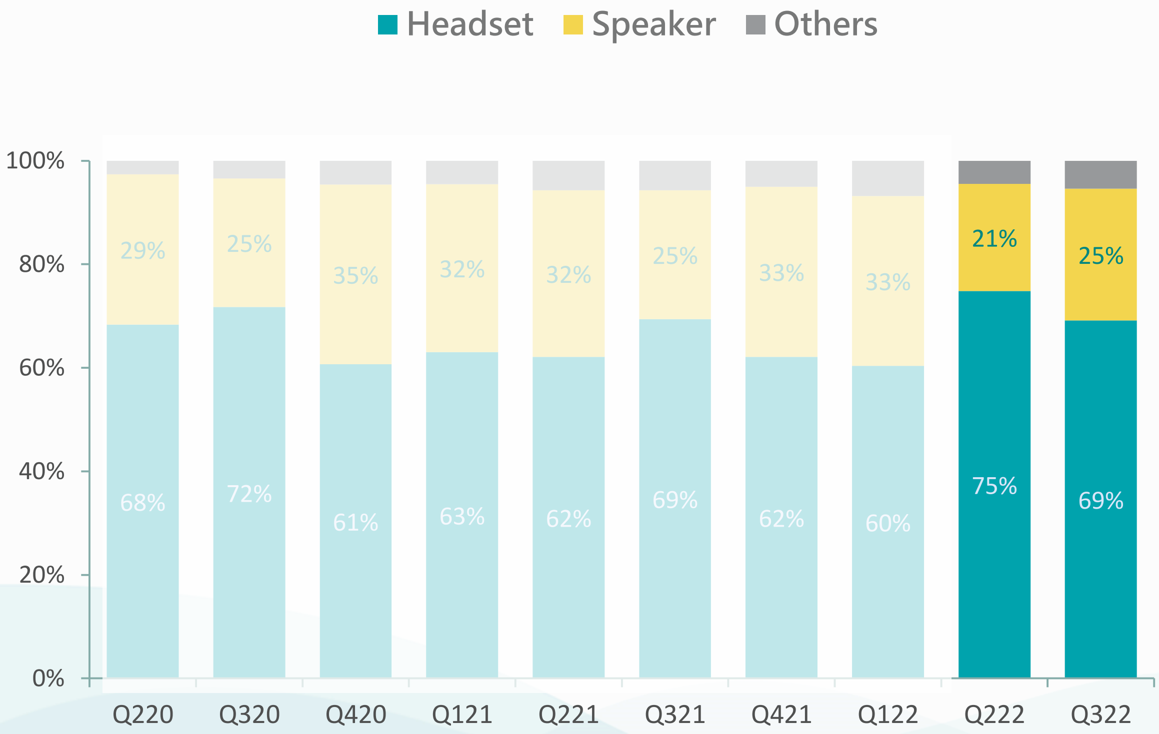


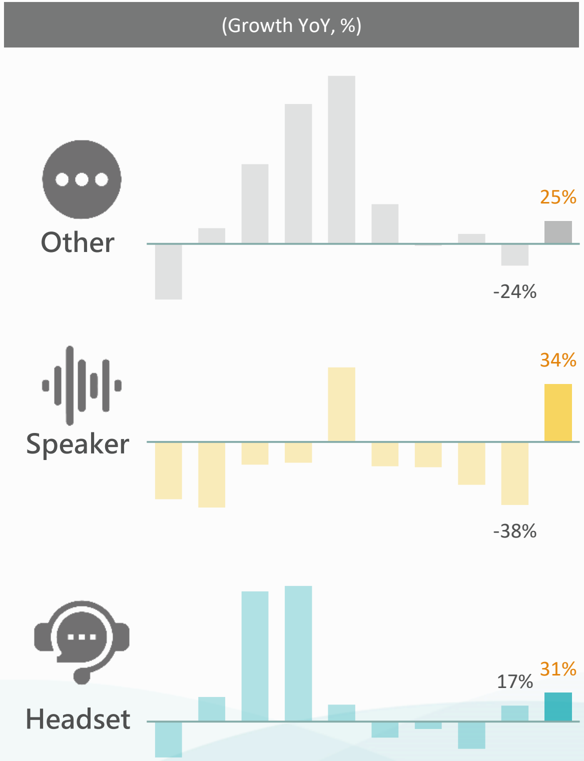
(NT$ Million)

Item	2021Q3	2021Q4	2022Q1	2022Q2	2022Q3
Beginning Balance	5,651	6,267	4,842	5,522	5,880
Cash from operating activities	1,009	400	1,114	760	1,367
Capital Expenditures	-417	-292	-135	-264	-33
Short-term Loans	-2,869	1,236	74	-158	-223
Long-term Loans	407	8	-159	-98	4
Issuance of corporate bonds	3,015	-2,232	-	-	-
Issuance of common stock for cash	-	432	-	-	-
Cash dividends	-1,068	-	-	-	-886
Investments and Others	538	-977	-214	118	75
Ending Balance	6,267	4,842	5,522	5,880	6,184
Free Cash Flow	592	108	979	496	1,334

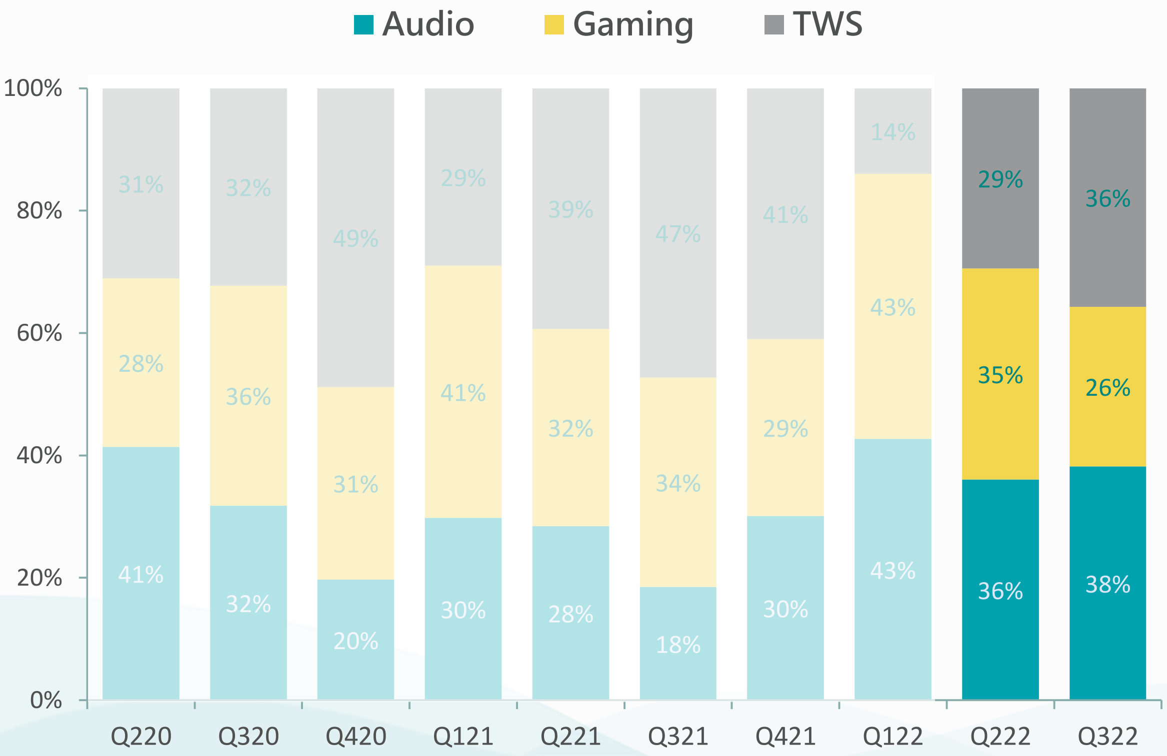
OCF= Operating Cash Flow **CAPEX=Capital Expenditure

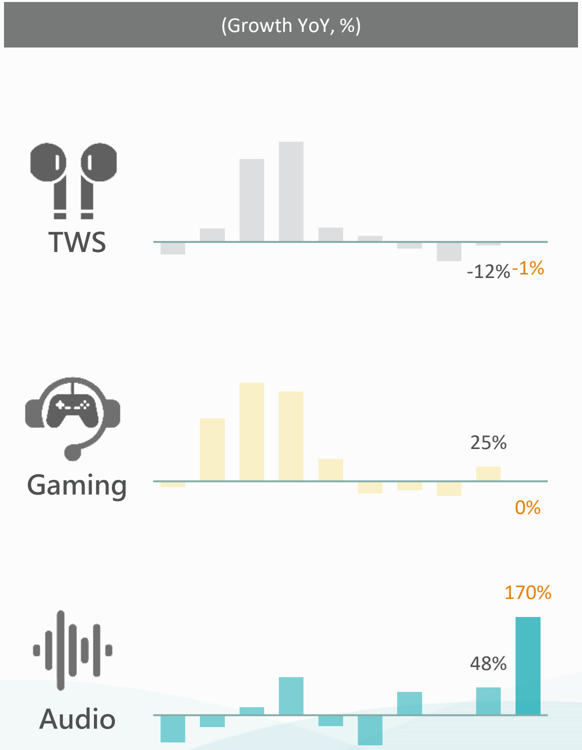
Product Mix by Quarterly



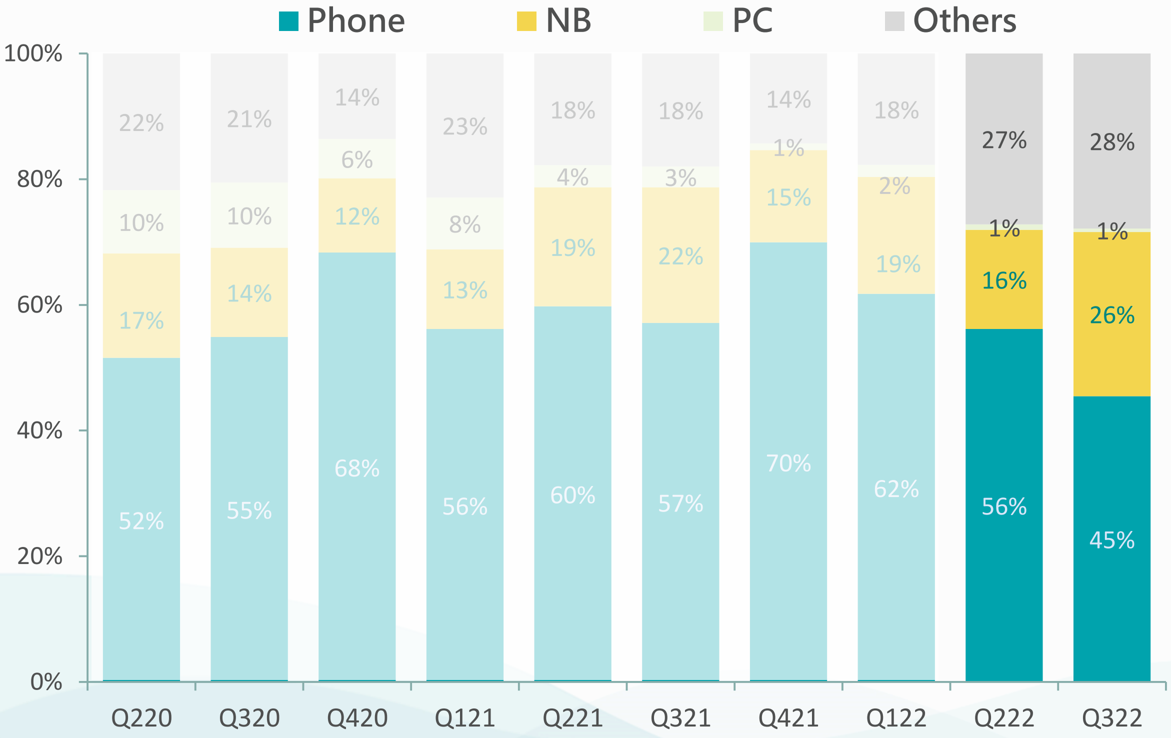


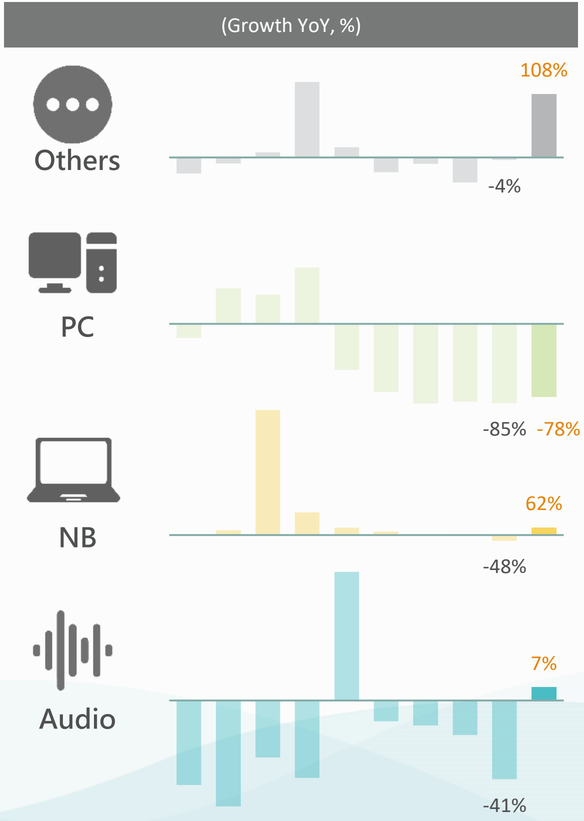
Headset Revenue Breakdown





Speaker Revenue Breakdown





Financial Reporting Schedule

Convene BOD Y2021 Financial Statement (F/S) Announcement (ANM)	Convene BOD 2022Q1 F/S ANM	AGM	Convene BOD 2022Q2 F/S ANM	Cash Dividend Payment	Convene BOD 2022Q3 F/S ANM	Expected convene BOD Y2022 F/S ANM
2/24	4/28	6/15	7/28	9/22	10/27	2023 2/23

Corporate Governance (CG) Achievement

- Excellence in Sustainable Corporate Social Responsibility Award in 2022
- Gold award of TCSA Sustainability Report in 2021
- Ranked as Top 6%~20% Corporation under CG evaluation in 2022
- ISO27001 ISMS Certification - Merry Taiwan

2022Q4 Business Outlook

Revenue Outlook	Profitability Outlook
• A 2-digit growth, QoQ and YoY. • Products launched in succession by customers during Q4 general peak season.	• A growth of profit margin, QoQ and YoY • Products launched in succession by customers during the Q4 peak season • Capacity increasing and labor cost declining
• A reduction QoQ , and similar as YoY. • TWS new products grow continuously, but gaming and headset decline due to inventory adjustment by customers.	• Reduction of gross margin, QoQ. • Negative impact of product portfolio
• NB's new speaker with stable supply makes a wide growth YoY and QoQ.	• A growth of profit margin, QoQ and YoY. • Due to capacity increasing and Q4 general peak season.
• A wide growth YoY and QoQ. • New wireless chargers and battery's package product launch out	• Due to capacity increasing and Q4 general peak season.
• A growth, QoQ and YoY due to relief of material shortage	• A growth of profit margin due to capacity increasing.

Growth Strategy

Long-term strategy

Explore technology for future business

■ Metaverse, XR headset and Controller accessories

Mid-term strategy

Scale up new core businesses

■ **New core business:** Car audio, Acoustic module, Video Conference product
■ **Sub New Core business** : Embedded software, light electric vehicle, MIC package product, Automation equipment service

Short-term strategy

Focus on increasing profit of core business

■ **Optimize Customer Base :** Increase percentage of customer with high added value by our core competencies.

■ **Spread product risk:** Increase percentage audio-video products & Non-consumable products.

■ **Spread production risk:** Increase output and purchasing's scope from manufacturing plants which are out of China.

■ **Develop core competencies:** Apart from enhancing acoustics' core capability, we'll speed up new product development time and production time by process improvement.

■ **Small and profitable operating model:** For niche market or regional market matter, we operate in suitable economics of scale for maximizing profit.

Comprehensive Acoustic Service Provider

Headphone’s Growth Trend

Generation Z stimulates headphone market

Rise of generation Z stimulates consumption of headphone.

53 percent of generation Z own 3 pairs of headphones, and using it 4 hours per day.

https://mochamanstyle.com/millennials-the-headphones-generation/

Ears and eyes are competing to attention of consumers.

Consumers have much more interest in audio while streaming service, podcasts are rising up.

https://www.bprworld.com/news/millennials-continue-to-dominate-the-audio-market/)

Headphone into wireless revolution

“The trend around removing jacks and earphones from devices and boxes is becoming a big driver for TWS segment growth”----------- said Counterpoint Research senior analyst Liz Lee.

https://www.counterpointresearch.com/tws-drives-2020-wearables-growth-smartwatches-add-momentum-2021/

Speaker’s Growth Trend

Streaming service

- Statista says, Netflix (OTT Service) subscribers grew to 195.15 million in 2020Q3.
- According to Recording Industry Association of America(RIAA), Streaming service grow 20% to US $8.8 billion in 2019, which occupied 79.5% of revenue in recording industry.

Distance learning and remote working

In social distancing, remote working period, speaker driver is expected increase by 31.1 billion to 2026 and the market’s growth momentum will accelerate a CAGR 7.

Wireless audio equipment

Wireless audio equipment such as Bluetooth, Wi-Fi speaker system, brings non-traditional consumer into audio market.

Battery’s Growth Trend

3C Power Accessories

Mobile device universalizing :

America Transparency Market Research(TMR) says, power bank market worth US$ 18.5 Billion by 2031, CAGR: 6.1%. The main reason is that consumer spend longer on social media by mobile device.

(https://www.globenewswire.com/en/news-release/2022/07/26/2485947/0/en/Power-Bank-Market-Size-worth-US-18-5-Billion-by-2031-CAGR-6-1-Notes-TMR-Study.html)

Wired to wireless:

Follow trend of APPLE’s MagSafe and USB Type-C

Non-3C Battery Pack ：

Follow trend of emerging markets development and rise of electric vehicle.

- Lightning electric market in developing country
- electric vehicle and battery packaging under eco-friendly trend.

Microphone’s Growth Trend

Stable growth of microphone

The MEMS microphone market is expected to increase by USD 773.73 million from 2020 to 2025, and the market’s growth momentum will accelerate at a CAGR of 8.07%.

Consumer electronics bring up demand of smarter audio experiences

Especially when voice became the next main HMI, NLP has been widely used in smart home, automobile and bank

Where to use MEMS microphone?
mobile phones, laptops, phablets, tablets, digital cameras and camcorders, smartphones, gaming consoles, portable media players, headsets, hands-free devices, and hearing aids.

Wellness's Growth Trend

Stable growth of hearing aids

According to the World Health Organization (WHO), about 15% of the world's population is affected by hearing loss. Over 5% of the world's population (~466 million people) has disabling hearing loss and this number is expected to be over 900 million by 2050 people

Over-the-counter (OTC) hearing aids are a new category of hearing aids that consumers can buy directly, which are regulated as medical devices by the U.S. Food and Drug Administration (FDA).

The position of OTC is between low-level regular hearing aids and high-level headphones, which gives opportunity for MERRY, high-level headphones supplier, to access hearing aids market.

1. https://www.nidcd.nih.gov/health/over-counter-hearing-aids
2. https://www.globenewswire.com/en/news-release/2022/08/23/2502983/0/en/Global-Hearing-Aids-Market-is-expected-to-witness-a-decent-growth-rate-of-5-by-2026-Growing-Adoption-of-Smart-Hearing-Aid-Devices-across-the-World.html

Promises of ESG

Governance

- Top 6–20% at the Corporate Governance Evaluation
- Ranked the 46th among the Top 50 in the large enterprise category, “Excellence in Corporate
- Social Responsibility,” CommonWealth Magazine.
- Gold Medal, TCSA – Corporate Sustainability Report Awards

Social Responsibility

- Promote the "Minimal Hearing Loss" initiative
- Electroacoustic education promotion
- Shaping a reading culture

Environment

- Joined the RE100 global renewables initiative as the 13th enterprise in Taiwan.
- The first electroacoustics manufacturer to undertake to use 100% renewables by 2050.
- To pledge to achieve net zero carbon emissions by 2050.

Sustainable policy and operation

Delivering Fidelity Sound

- Low emission design
- Recycled materials
- Green energy

Addressing climate change

- RE100
- Net zero emissions
- Enhancing energy efficiency
- Risk assessment
- Supplier management

3 Visions

4 Paths

5 Actions

6 Missions

Building a Friendly Workplace

- Be volunteers
- Love exercising
- Understand music
- Enjoy reading

Enriching Human Life

- Promote the "Minimal Hearing Loss" initiative
- Electroacoustic education promotion
- Shaping a reading culture
- Care for local Communities
- Enterprise Volunteers Serve
- Total participation

Environmental protection policy and commitment

2021

Renewable energy achieve 7%

- Joined RE100 and planned the annual increase in renewables use by 7% during 2021–2030 according to RE100.
- Implemented ISO 14064-1:2018 to monitor green gas.
- Passed ISO 50001 certification to enhance energy efficiency and reduce GHG emissions constantly.

2022

Renewable energy achieve 14%

- Introducing the internal carbon pricing system to the group to enforce carbon risk management creates the opportunity for business green transformation.
- Performing CFP inventory and assessing the carbon reduction potential of products to realize the DfS concept in all stages of the product life cycle.
- Enhancing supplier collaboration and effectively managing upstream carbon emissions of the supply chain

2025

Renewable energy achieve 35%

Net Zero emissions achieve 34%

- Enhancing the assessment of constructing self-produced solar PV equipment to promote renewables use.
- Introducing SBT to establish effective and practicable carbon reduction pathways.
- Constantly realizing the internal carbon pricing system
- Constantly promoting the organizational energy monitoring system to all plants to enhance energy efficiency within the group.

2030

Renewable energy achieve 60%

Net Zero emissions achieve 58%

Establishing the Merry carbon removal strategy and investing in carbon sink or other carbon negative technology.

2050

100% Renewable energy

Achieve net zero


傳遞美好聲音·豐富人類生活
-廖祿立,創辦人暨董事長

Q&A

Thank You

Delivering Fidelity Sound to Enrich Human's Life

MERRY