Operating Result Report for Q1 2023

May 16, 2023

Dynamic Holding

Content

Disclaimer

- The forward-looking statements in this report contain unknown risks and uncertainties, which may cause actual operating results to be materially different from the forward-looking statements, the statements about historical events are excluded.

- The forward-looking statements in this report reflect the company’s view of the future so far, the company is not responsible for reminding or updating on any changes or adjustments in these views in the future at any time.

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Market Information

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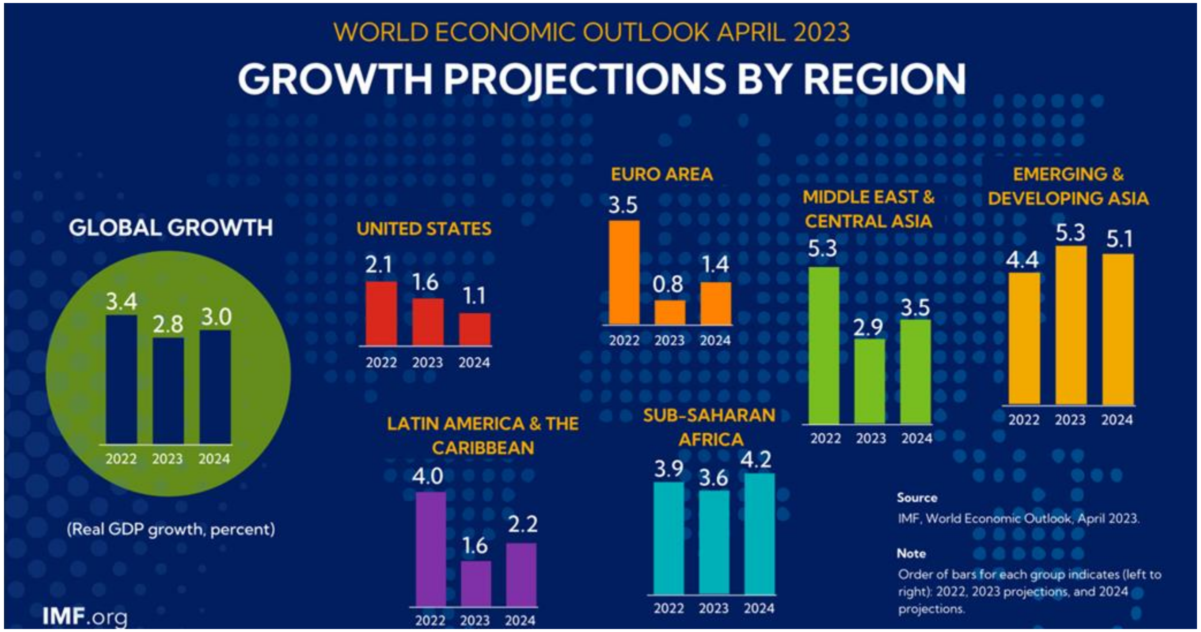
WORLD ECONOMIC OUTLOOK UPDATE

According to the IMF's April 2023 World Economic Outlook Update, the outlook is again uncertain due to financial sector turmoil, high inflation, the lingering fallout from the Russia-Ukraine war, and the three-year-long COVID-19 pandemic.

Global headline inflation in the baseline is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023, but underlying inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases.

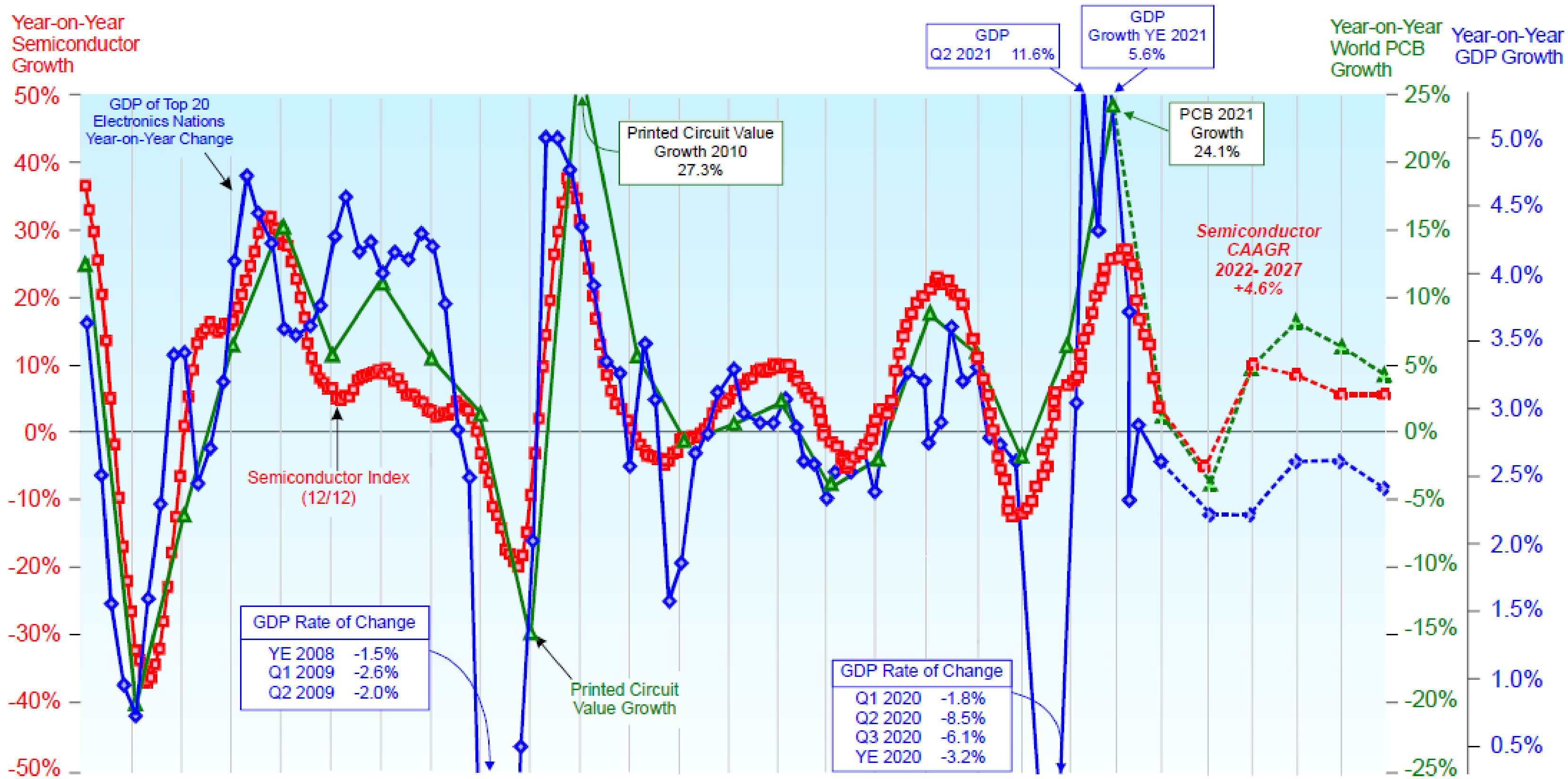
Risks: Decreased consumer purchasing power and confidence, leading to sluggish overall demand.



Source: INTERNATIONAL MONETARY FUND (2023/04)

WORLD SEMICONDUCTOR, PCB, AND GDP FORECAST

WORLD SEMICONDUCTOR, PCB, AND GDP FORECAST

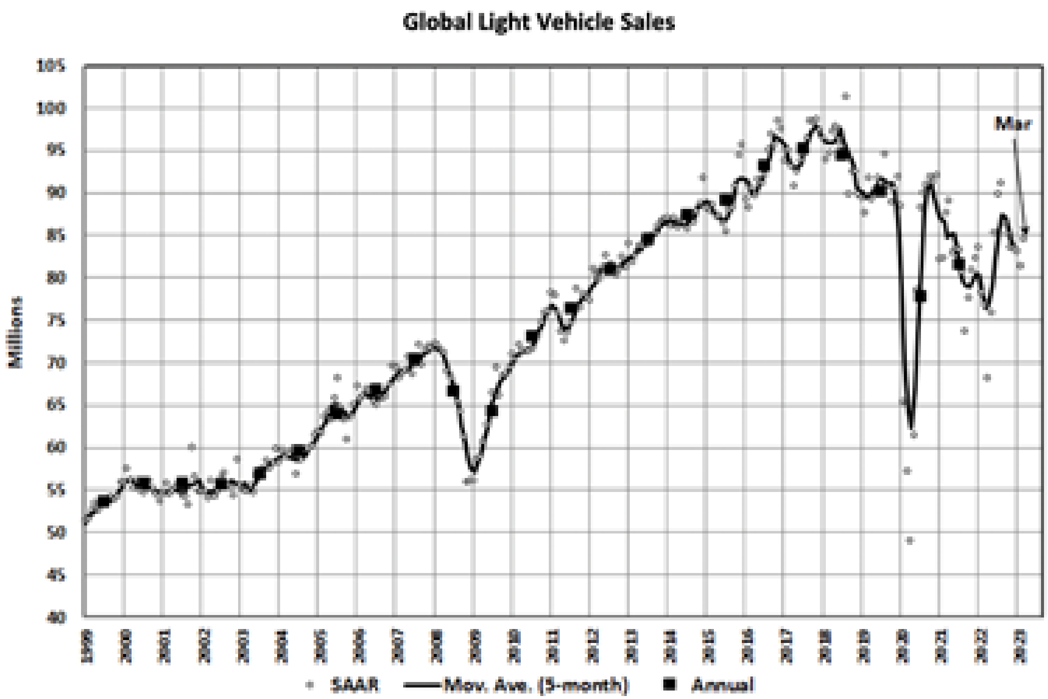


	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023F	2024F	2025F	2026F	2027F
Printed Circuit Value Growth	-20.0%	-6.0%	6.6%	15.3%	5.8%	11.1%	5.6%	1.4%	-14.8%	27.3%	5.6%	0.5%	0.9%	2.3%	-3.7%	-2.0%	8.6%	6.0%	-1.7%	6.4%	24.1	1.0%	-4.1%	4.6%	CAAGR 2022-2027 3.8%		

Source: Prismark (2023/03)

Global Light Vehicle Sales

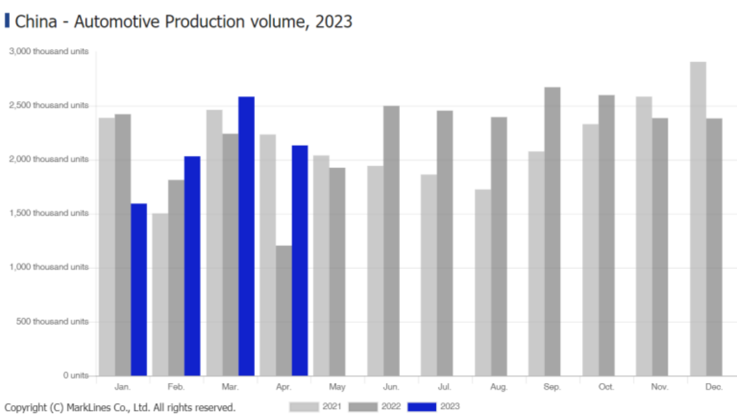
- Global light vehicle sales in 2022 is 81 million units, the same as in 2021.
- The Global Light Vehicle (LV) selling rate rose to 84 mn units/year in March, from February’s figure of 81 mn units/year. Many countries have reported an easing of supply shortages.
- The month-on-month (MoM) improvement in the SAAR performance is largely attributed to the rebounding of the China market as customers take advantage of tax incentives before April.

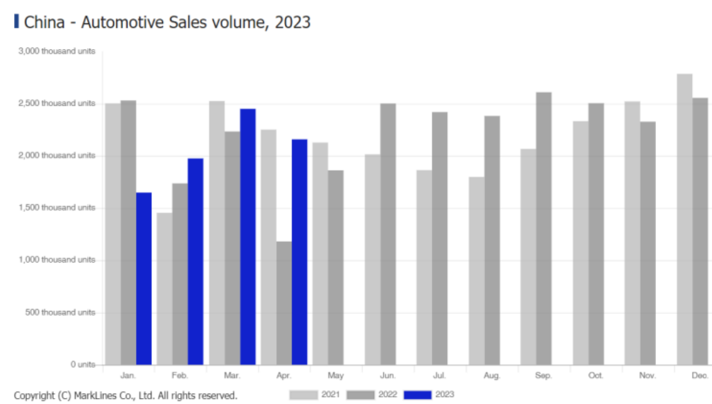


LMC Automotive (Mar. 2023)

China Light Vehicle Sales

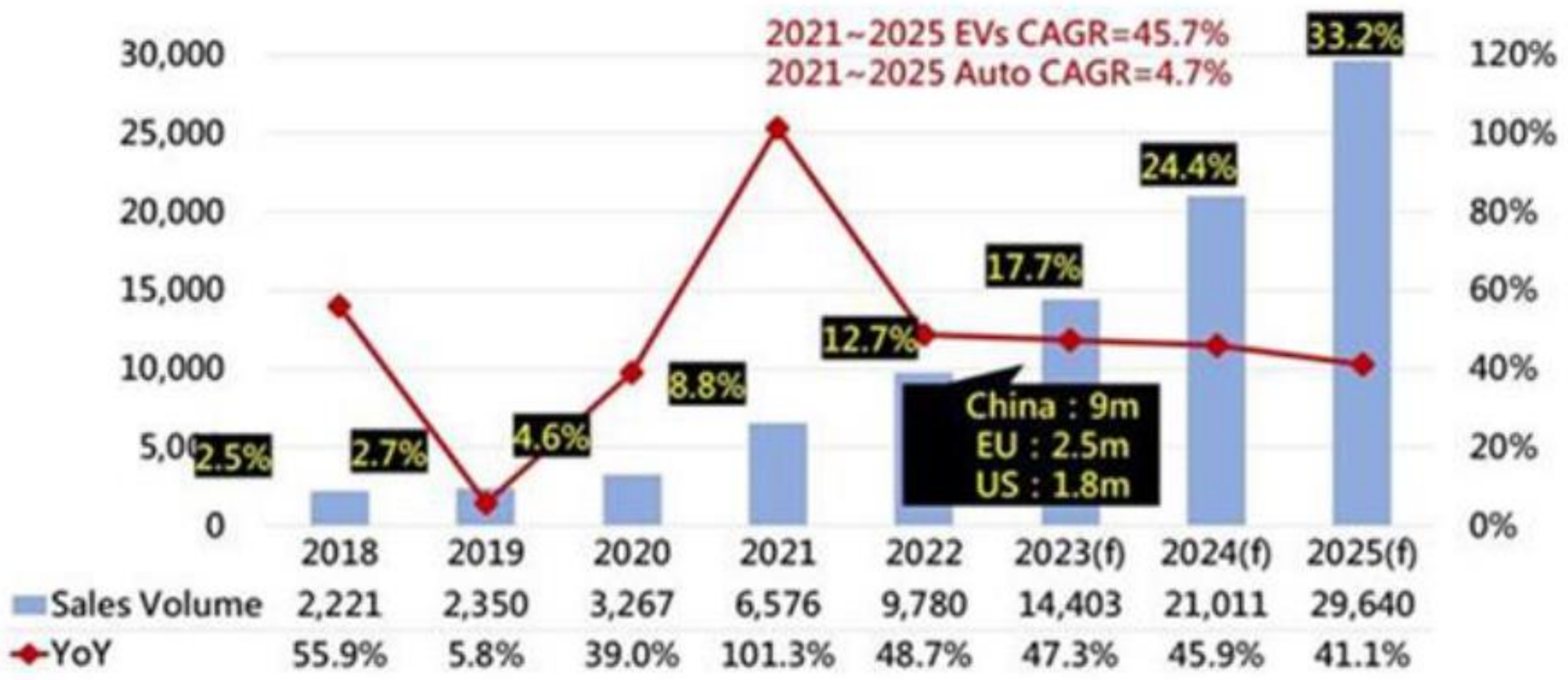
- After a sluggish January and February, the Chinese market rebounded in March. According to preliminary data, the March selling rate reached a 5-month high of 26.8 mn units/year, up 28% from an abnormally weak February. That, however, brought the YTD average selling rate to only 23.8 mn units/year. In YoY terms, sales increased by 12% in March, but declined by 5.6% in Q1. NEVs remained the key driver of the market, with their sales expanding by about 35% YoY.
- The challenge of China's new energy vehicles: On the one hand, start a price war, on the other hand, they must overcome the problem of new energy chips, and at the same time, solve the problems of fast charging and users' doubts about the safety of new energy vehicles. Among them, the price war will impact the sales of China's new energy vehicles, and also challenge the overall strength of China's major new energy car companies.





MarkLines (May 2023)

DIGITIMES's forecast of EV shipment to 2025



According to the report from NTI, if DIGITIMES' forecast of 30 million EVs in 2025 comes true, which is a reasonable prediction considering the current activities, PCB demand for EV may be $7.5 billion in 2025 if average PCB usage by an EV is $250.

NTI also reported research institute predicted a recovery of PCB business starting from 2023Q2. The current data shows otherwise.

Operating Overview for Q1 2023

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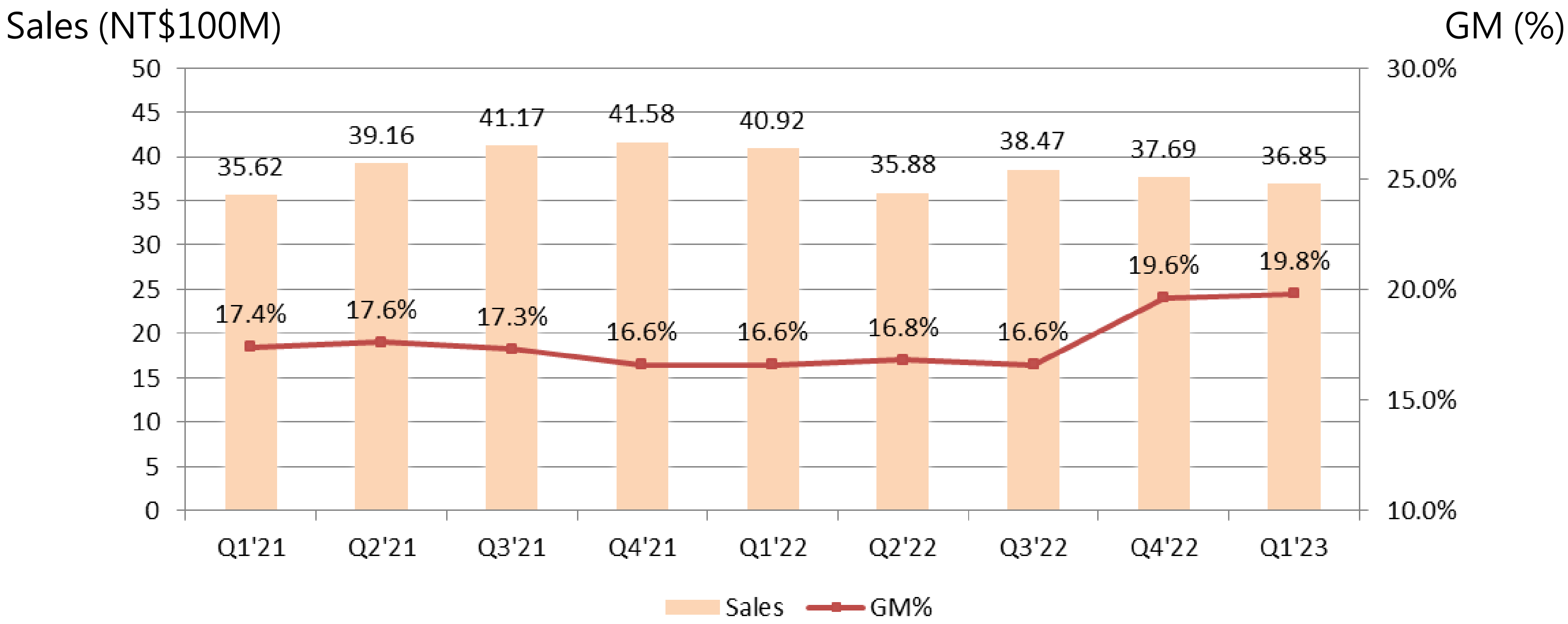
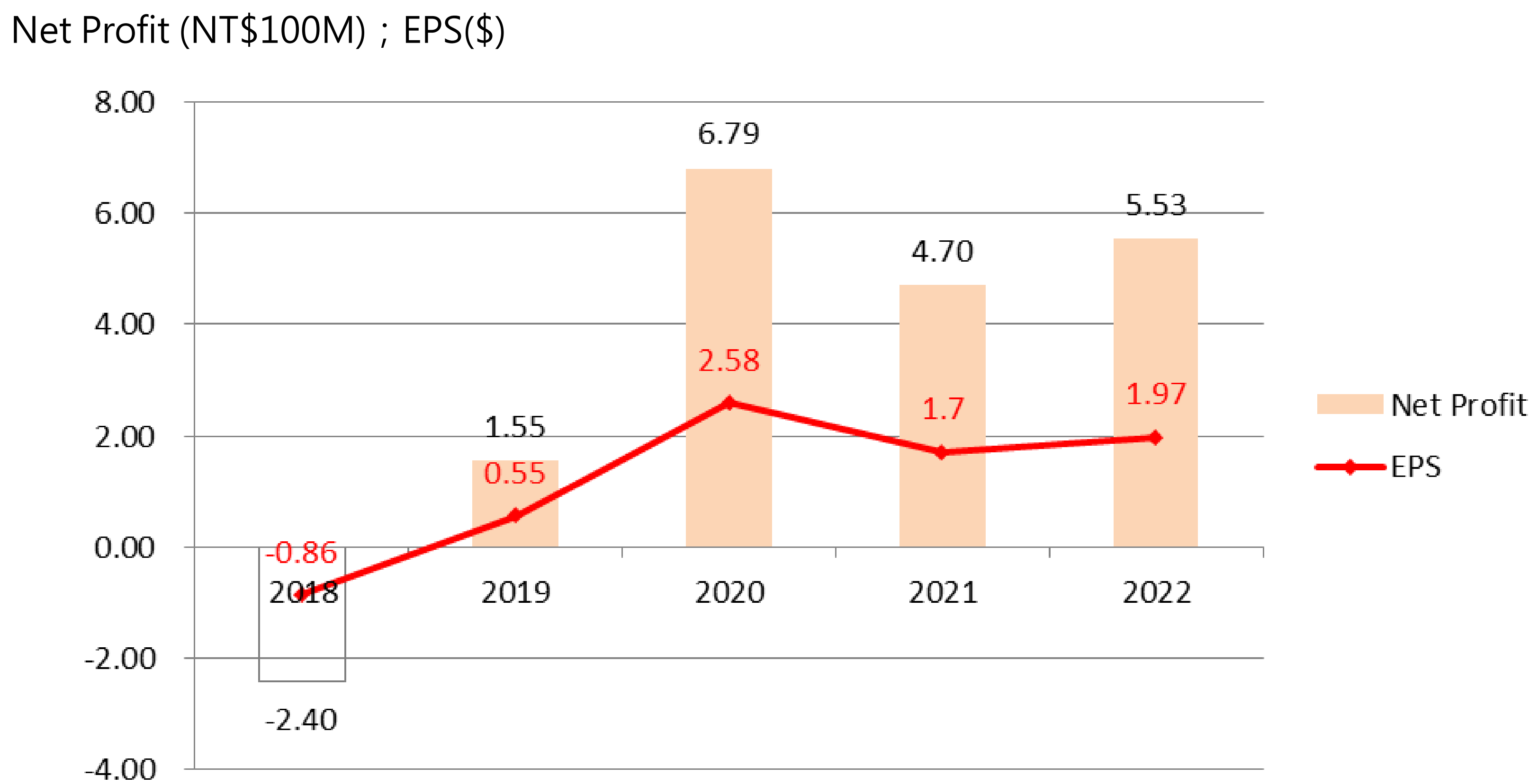
Consolidated Sales and GM Trends



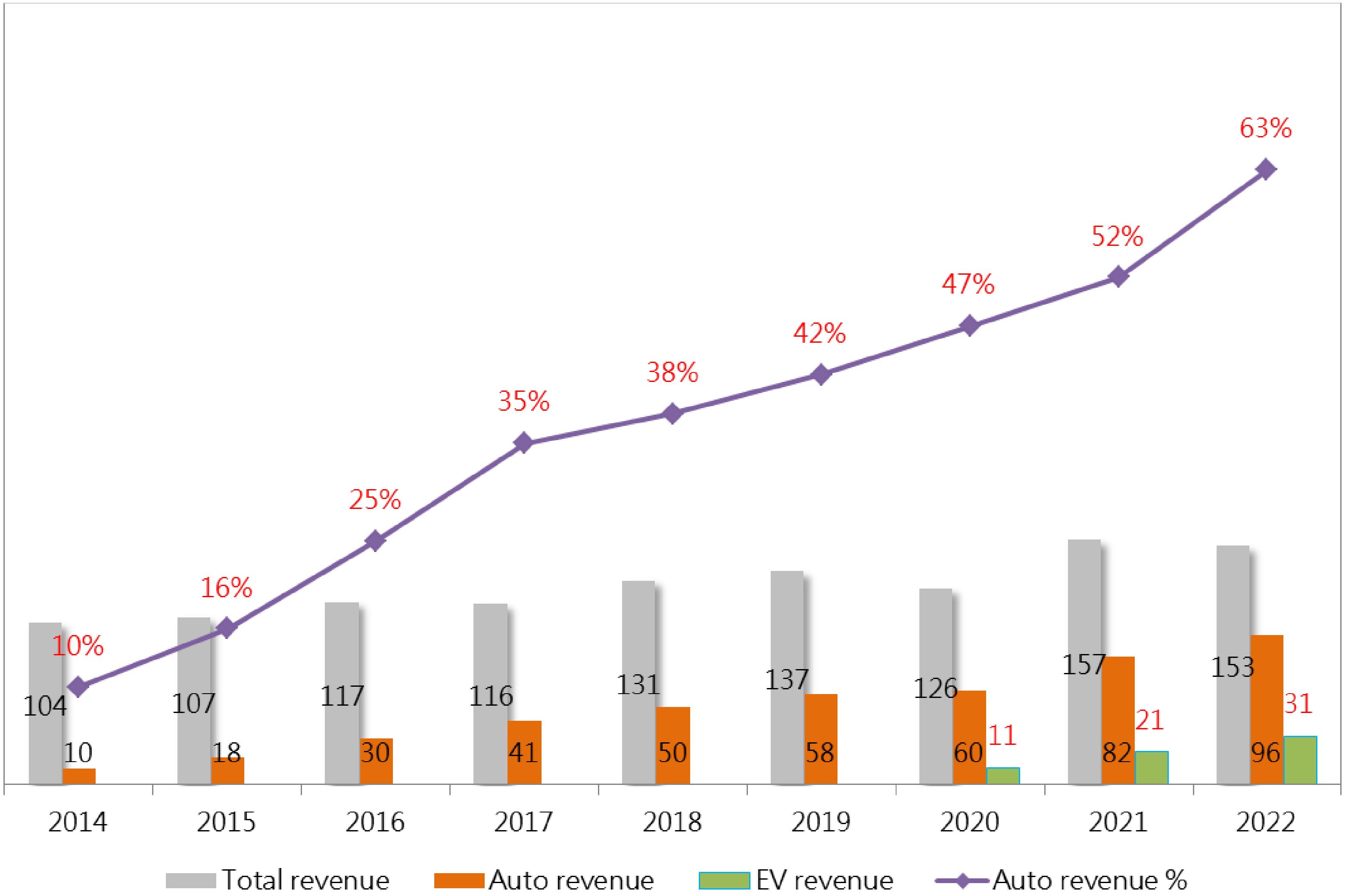
- The decline in revenue in 2022Q2 was mainly due to the closure of Shanghai and the impact on the logistics of the Kunshan factory; in the second half of the year, it was significantly affected by the sluggish consumer demand, and continued to decline all the way to 2023Q1.
- The GM declined from 2021Q4 to 2022Q3, mainly due to the increase in the price of raw materials, resulting in an increase in production costs.
- The GM increased from 2022Q4 to 2023Q1, mainly due to the improvement of the production cost of Huangshi Plant 2 and the optimization of product mix.

Consolidated Net Profit and EPS Trends

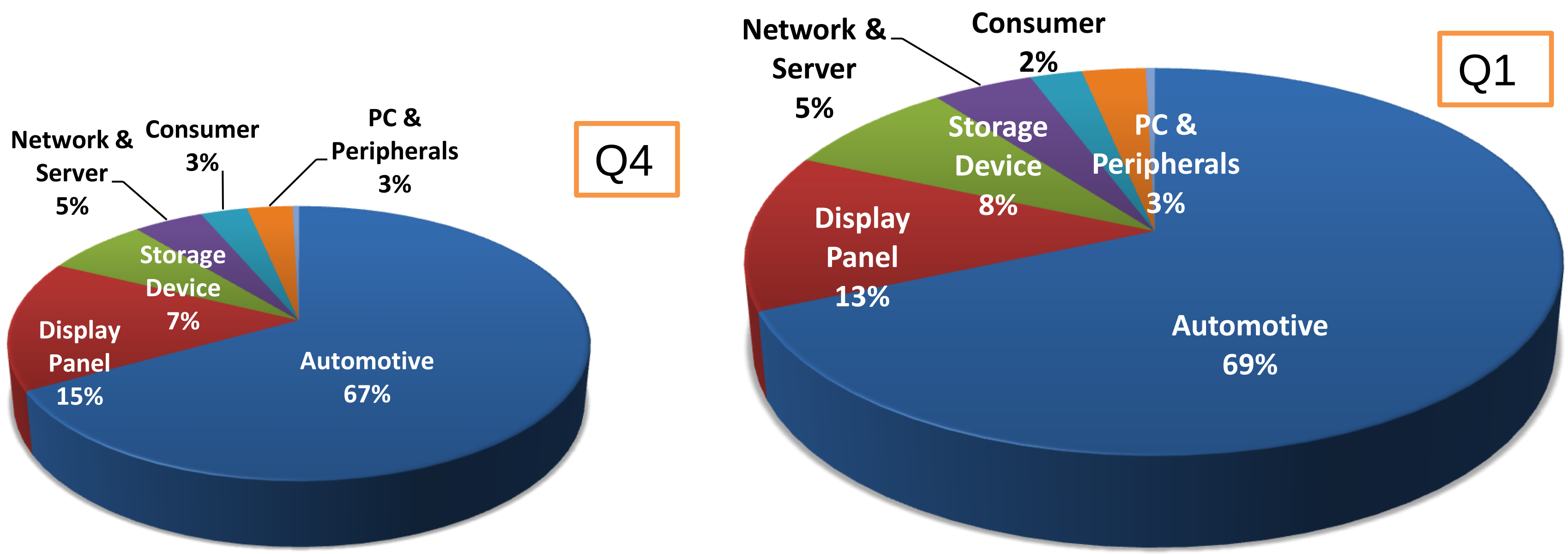


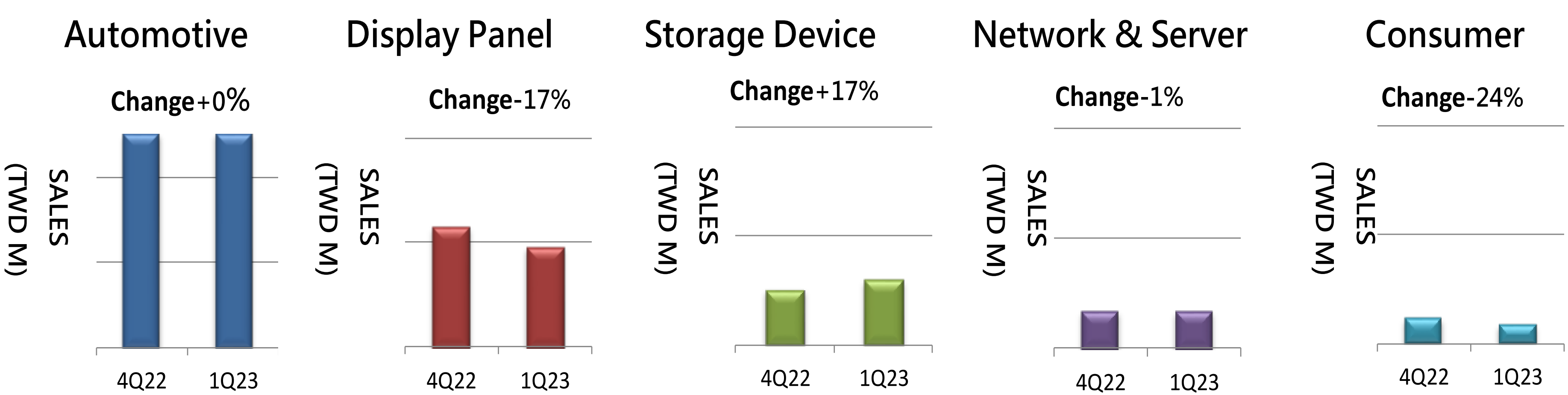
Note: The profit in 2020 is NT$679 million, including the sale of the Taoyuan factory building of NT$426 million, so the operational profit is NT$253 million.

Automotive Revenue Trends



2023Q1 Sales Analysis - Product





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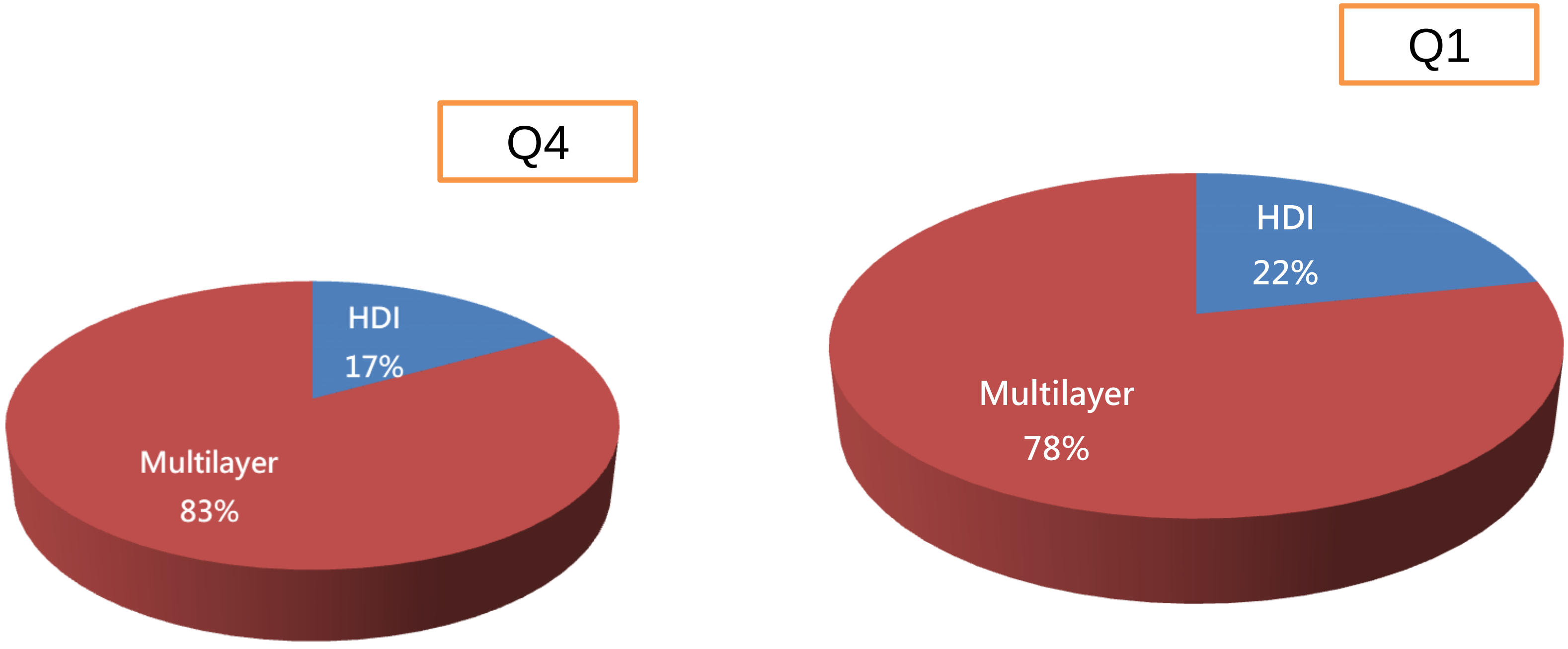
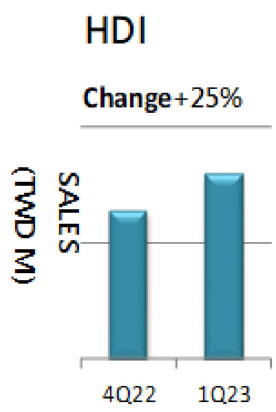
2023Q1 Sales Analysis - Technology





Consolidated Income Statement

Accounts (TWD 100M)	1Q23	4Q22	Q-o-Q Change%	1Q22	Y-o-Y Change%	Q1-Q1 2023	Q1-Q1 2022	Y-o-Y Change%
Sales Revenue	36.85	37.69	(2.2)%	40.92	(10.0)%	36.85	40.92	(10.0)%
Gross Profit %	**19.8 %**	**19.6 %**	**0.2 %**	**16.6 %**	**3.3 %**	**19.8 %**	**16.6 %**	**3.3 %** ppts
Operating expenses	5.05	4.87	3.7 %	4.35	16.1 %	5.05	4.35	16.1 %
Operating Income%	**6.1 %**	**6.7 %**	**(0.6)%**	**5.9 %**	**0.2 %**	**6.1 %**	**5.9 %**	**0.2 %** ppts
Non-operating income/expenses	(0.91)	(1.00)	8.3 %	(0.24)	(286.3)%	(0.91)	(0.24)	(286.3)%
Net Income (loss)	0.95	0.86	10.6 %	1.65	(42.2)%	0.95	1.65	(42.2)%
Net Income (loss)%	**2.6 %**	**2.3 %**	**0.3 %**	**4.0 %**	**(1.4)%**	**2.6 %**	**4.0 %**	**(1.4)%** ppts
EPS(NTD)	0.34	0.31	9.7 %	0.60	(43.3)%	0.34	0.60	(43.3)%
ROE (%)	6.3 %	5.6 %	0.7 %	11.6 %	(5.3)%	6.3 %	11.6 %	(5.3)% ppts
Average exchange	30.40	29.81	2.0 %	28.00	8.6 %	30.40	28.00	8.6 %

* The weighted average shares to 277,548,934of ordinary shares outstanding during the first quarter of 2023.
** The ROE is the annualized data calculated by the average equity of the parent company.

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Consolidated Balance Sheet & Important Financial Indicator

Accounts (TWD 100M)	1Q23		4Q22		1Q22	
	Amount	%	Amount	%	Amount	%
Cash and cash equivalents	30.85	14.9%	16.78	8.4%	27.99	14.3%
Accounts receivable	39.98	19.3%	43.65	21.8%	46.66	23.8%
Inventories	24.10	11.6%	27.07	13.5%	27.84	14.2%
Property, plant and equipment	99.43	47.9%	99.47	49.7%	70.73	36.0%
Total Assets	**207.45**	**100.0%**	**200.14**	**100.0%**	**196.30**	**100.0%**
Current liabilities	95.58	46.1%	101.78	50.9%	105.85	53.9%
Long-term loans	39.91	19.2%	26.08	13.0%	24.55	12.5%
Total liabilities	**146.90**	**70.8%**	**138.60**	**69.3%**	**139.22**	**70.9%**
Total equity	**60.55**	**29.2%**	**61.53**	**30.7%**	**57.07**	**29.1%**
Important Financial Indicator						
Average collection turnovers	105		109		105	
Average inventory turnover	84		87		83	
Current ratio (Times)	1.1		0.9		1.1	
Asset productivity(Times)	0.7		0.8		0.9	

Ps. Asset productivity= Sales Revenue/ Average total Assets.

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Consolidated Statements Of Cash Flows

(TWD 100M)	1Q23	4Q22	1Q22
Cash at beginning of period	**16.78**	**22.08**	**27.30**
Cash Flow from Operating	7.15	3.98	2.24
Capital Expenditure	(5.95)	(10.73)	(8.52)
Cash Dividends Paid	0.00	0.00	0.00
Cash Flow from Financing	13.36	(8.61)	17.43
Investment & Other	(0.12)	0.68	0.04
Cash at end of period	**30.85**	**16.78**	**27.99**
Free Cash Flow	1.20	(6.75)	(6.28)

Ps. Free Cash Flow=Cash Flow from Operating-Capital Expenditure

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2023Q1 Summary (I)

- In terms of products, the proportion of automotive increased from 67% in the fourth quarter to 69% in the first quarter, mainly due to the increase in customer demand; the display panel was decreased from 15% to 13% because the panel makers controlled capacity utilization rate caused by oversupply.
- In terms of technology, the proportion of HDI increased from 17% in the fourth quarter to 22% in the first quarter, mainly due to the increase in purchases of HDI products by automotive customers.
- Revenue in the first quarter decreased by 2.2% compared to the previous quarter, and decreased by 10% compared with the same period last year, but it was slightly better than the general market situation, mainly because our overall automobile proportion was relatively high, and the proportion of electric vehicles continued to increase.
- In the first quarter, the revenue in January and February fell to bottom, 1.1 billion, as expected. It reached 1.4 billion in March due to customers replenishing inventory, and due to the continuous holidays in early April, customers pulled goods in advance, so it exceeded expectations.

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2023Q1 Summary (II)

- Gross profit margin was 19.8%, a slight increase of 0.2 percentage points, mainly because the production cost of Huangshi Plant 2 continued to improve.
- Operating expenses increased from 487 million to 505 million, and the operating expense ratio also increased from 12.9% to 13.7%, which was due to the increase in management and R&D expenses. Management expenses such as: the amortization of supporting projects (road walls) around Huangshi Plant 2; R&D expenses such as: automotive certification fees, etc., and because of relatively low revenue, resulting in a high operating expense ratio.
- Non-operating income and expenses include: interest expenses about NT$98 million and exchange losses about NT$46 million due to the appreciation of the Taiwan dollar and the RMB.
- Net profit after tax was NT$95 million, EPS $0.34.

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Outlook for Dynamic

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2023Q2, H2 and full year operating outlook

- In the second quarter, we felt the order visibility is low, and the mode of short orders/urgent orders. In addition, the capacity utilization of display panel factories is expected to pick up. Our revenue target is to be the same as that in the first quarter; GM still can be continuously improved via the learning curve and optimization of the product mix; the operating expense ratio remained at 13-15%; the interest expense was comparable to the first quarter.
- In the second half of the year, we can expect a seasonal recovery in demand, but it will not be too strong, and it will not be a V-shaped recovery. Some customers expect the demand for new high-end HDI products around the fourth quarter. We will adopt a de-bottleneck method to increase the HDI production capacity of the Huangshi Plant to meet the needs of customers.
- In 2023, we maintain our goal of growing both revenue and profit.
- In response to the needs of customers, the construction of the production base in Thailand is under accelerated planning, and mass production is expected in the fourth quarter of 2024. The factory is designed as a highly intelligent and automated smart factory. The technology category is high-end multi-layer board and HDI, including high-frequency and high-speed material technology; products are used in servers, network communications, storage devices and automobiles. The source of funds will be supported by self-owned funds and bank loans.
- For Chinese auto brands, we have fully started the development and participated in the initial proofing of applications such as autopilot controllers and central domain controllers. It is expected that there will be revenue contributions in the H2 of 2024.

Dynamic Actions in ESG

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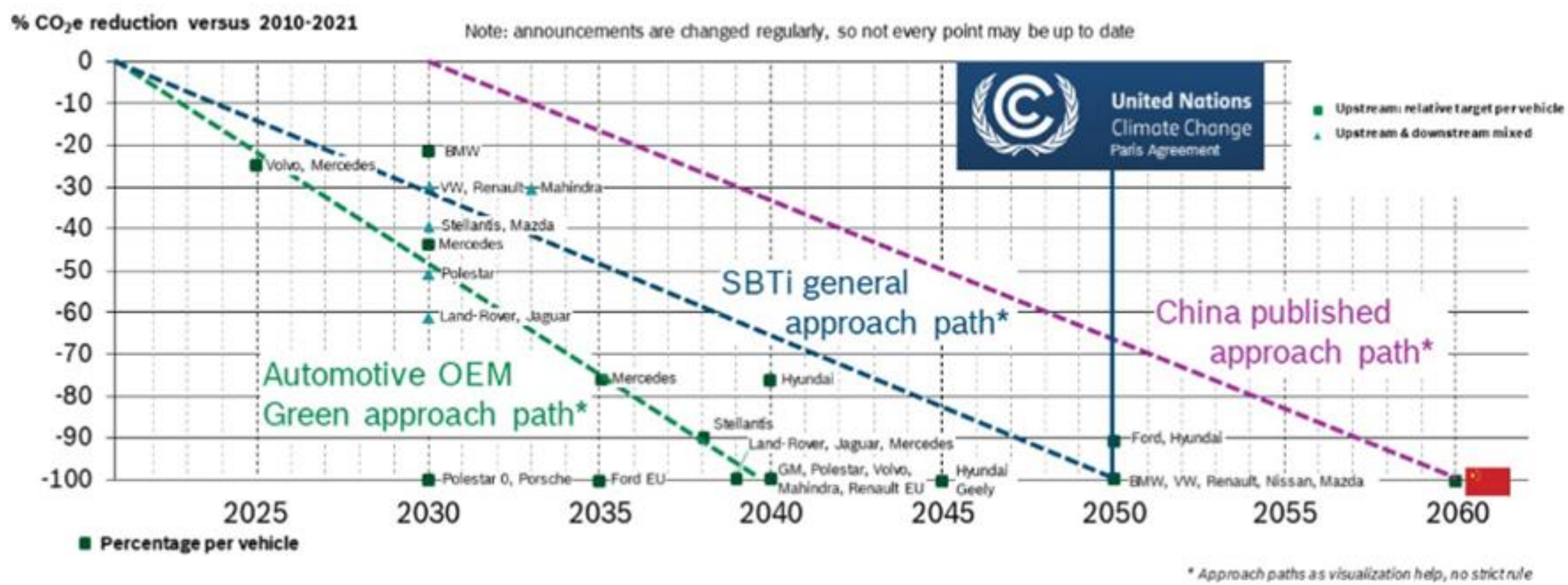
Automotive OEM Green Approach Path

CO_2 emission reduction targets publicly announced for the OEM supply chain



Many OEM are on a more demanding CO_2e reduction path than SBTi

OEM sourcing relevant KPIs: kg CO2e / kg raw material, % of recycled material, % of renewable energy

Increasing Requests for Product Carbon Footprints by OEMs

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Carbon reduction long-term target update

2022

officially released

2030

Carbon intensity reduction 50%

Carbon peak

2040

Carbon neutral

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2023 ESG Action Plan

- ISO14064 organization greenhouse gas inventory and verification (including scope 1, 2, 3) - completed before August each year.
- ISO14067 Product Carbon Footprint Inventory and Verification – It is expected to complete two part numbers in August: 1 multi-layer board and 1 HDI board, and will build a system model based on this.
- CDP (Climate Disclosure Project) – It is expected to complete the questionnaire on 7/26
- SBTi (Science Based Targets initiative) - Letter of commitment expected by September
- The expansion of solar photovoltaic power generation is expected to generate 700,000 kwh of electricity per year, reducing greenhouse gas emissions by about 368 tons per year.
- It is estimated that about 40 million kWh of green electricity will be purchased, so that the consumption of green electricity will reach 20% of the total electricity consumption of the factory, which can offset 28,616 tons of greenhouse gas emissions per year.
- Continuously carry out independent power saving and emission reduction of equipment and process.

Solar Power Kanban in Huangshi

At present, the first phase of photovoltaic power generation (the roof of B9 building) has been completed on June 23, 2022. The power generation data is shown in the figure below. It has been in operation for 315 days until May 3, 2023, with a total power generation of 173,351 kwh, reducing carbon emissions by about 91 tons, which is equivalent to the carbon dioxide absorbed by planting 50 trees.

Q&A