Mi TECHNOVATION

Financial Results: First quarter results for 3 months ended 31 March 2019 (1Q2019)

1) 1Q2019 Income statement review

	1Q2019 (RM '000)	4Q2018 (RM '000)	QoQ Variance (%)	1Q2018 (RM '000)	YoY Variance (%)
Revenue	29,483	31,058	-5.1%	33,435	-11.8%
Gross Profit	14,063	13,846		15,558	
GP Margin	**47.7%**	**44.6%**		**46.5%**	
Profit before Tax	6,895	7,119	-3.1%	6,694	+3.0%
PBT Margin	**23.4%**	**22.9%**		**20.0%**	
Profit after tax	6,870	7,157		6,598	

- Revenue for 1Q2019 closed at RM29.5 million or 11.8% lower year-on year and 5.1% lower quarter-on-quarter. The decline in revenue was a result of continuing slowdown in the semiconductor industry in line with the report by Semiconductor Industry Association, stating that global semiconductor sales declined by 15.5% in the first quarter of 2019.

- Despite this, gross profit of RM14.1 million exceeded the preceding quarter which was RM13.8 million. For 1Q2019, our Group recorded gross profit margin of 47.7% which is on the high end of the range we have guided, from 40% to 50%. There was a 3.1 percentage point increase in gross profit margin as compared to 4Q2018, demonstrating that our manufacturing efficiency and cost control measures are taking effect. This was primarily from lower material cost content and lower subcontractor costs.

- Profit before tax (PBT) for the reporting quarter was RM6.9 million representing a decrease of 3.1% as compared to the preceding quarter but an increase of 3.0% to the similar quarter of the last financial year. The slight increase of 3.0% in PBT compared to 1Q2018 was mainly due to lesser foreign exchange losses recorded in the current quarter and some operations efficiencies. In 1Q2019, our losses on foreign exchange was RM1.01 million.

- The group recorded PBT margin of 23.4% which is again within our targeted range of 20% to 30%. PBT margin improved both QoQ and YoY despite trade tensions which started in 4Q2018. This indicates that the group's strong earning capabilities are intact despite the challenging macro environment.

- Our maintenance capex is expected to be approximately RM8 million per annum.

- Our Group's effective tax rate for the quarter is 0.4%.

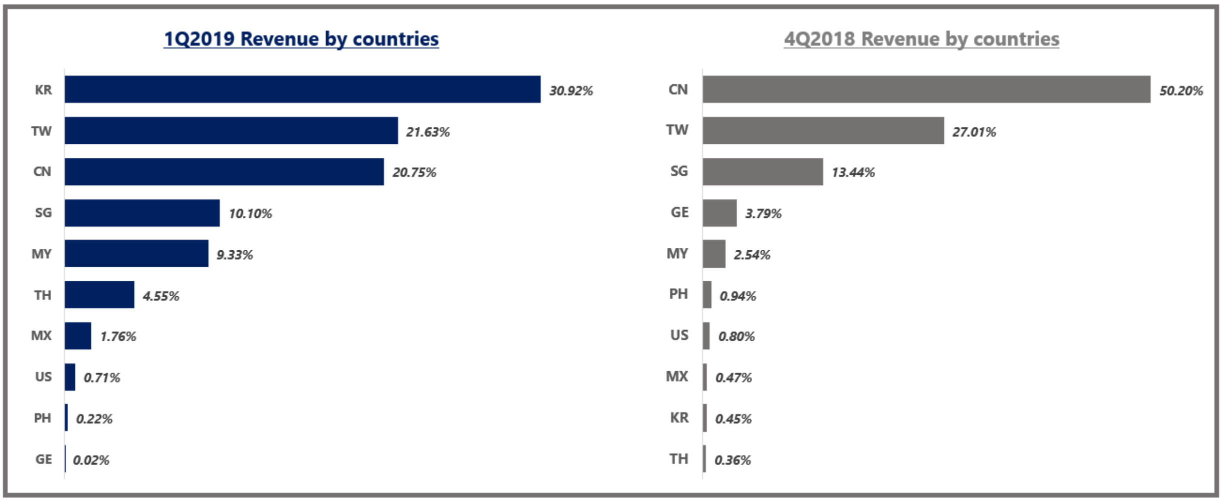
- Our subsidiary, Mi Equipment (M) Sdn Bhd is entitled to pioneer status incentives for the design, development and manufacturing of vision inspection and taping equipment and related components. The profit derived from these activities is exempted from tax for a total relief period of five (5) years from 18 January 2014 to 17 January 2019 subject to a further renewal of another five (5) years.

■ Application for pioneer status renewal and extension for a second 5-year period had been submitted to Malaysian Investment Development Authority ("MIDA") on 19 November 2018 and additional information has been furnished to MIDA in mid-May 2019.

■ Further, Mi Equipment has submitted application for pioneer status incentives for its new product series. Approval-in-principle has been granted by MIDA via its letter dated 21 September 2018 for the design, development and manufacturing of die bonding systems and related modules for semiconductor industry. We are currently preparing the submission for pioneer status certificate to MIDA.

■ In summary, despite headwinds in the semiconductor industry, the group has demonstrated commendable capability to remain profitable and perform healthily. We are fully committed to deliver performance within our guided GP and PBT margins. Our ability to deliver is a result of our stringent internal financial management which is important as the Mi Technovation group is on expansion mode. We are clear of our path and on-course to achieve our plans as we put in place our building blocks to deliver our 5-year roadmap.

2) Review of revenue breakdown by countries



■ The chart above shows our consolidated revenue breakdown by countries for 1Q2019 and 4Q2018.

■ For 1Q2019, revenue was derived from 10 countries, which was similar to 4Q2018.

■ Korea, which was a small contributor in 4Q2018 with 0.45% moved to be the largest contributor in 1Q2019. Although sales from Korea was low in 4Q2018, this country was the second largest contributor for financial year ended 2018 with contribution of 28.82%. We will tactically focus on the Korean market to shield from impact of further US-China trade tensions.

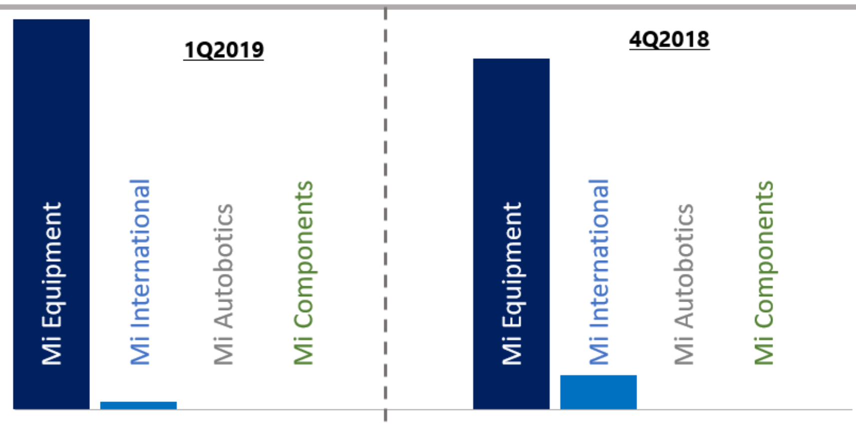
■ Taiwan remained as our second largest export destination in both 4Q2018 and 1Q2019 as Taiwan will be a beneficiary of the trade war. Our group will increase our work force in Taiwan by setting up our first overseas engineering centre in Hsinchu by 3Q2019.

- China contributed 50.2% to our 4Q2018 revenue which indicates that we have successfully shipped as much as possible before the trade tensions escalated. Looking at China's 20.75% contribution to 1Q2019 revenue, it demonstrates that demand was not as pessimistic as what was expected as a result of the trade war.

- Singapore and Malaysia will be another 2 countries which will contribute substantially to revenue, especially from IDM customers.

3) <u>Review of performance by subsidiaries</u>

The contribution of our subsidiaries on a consolidated group level is shown below:



Group level	1Q2019 Mi Equipment	1Q2019 Mi International	1Q2019 Mi Autobotics	1Q2019 Mi Components	4Q2018 Mi Equipment	4Q2018 Mi International	4Q2018 Mi Autobotics	4Q2018 Mi Components
Revenue contribution (Consolidated)	99.44%	0.56%	0%	0%	89.59%	10.41%	0%	0%
Revenue contribution (Consolidated) (RM mil)	29.32	0.16	0	0	27.83	3.23	0	0

- Mi Equipment contributed 99.4% of our group revenue in 1Q2019 with the sales of equipment, spare parts, accessories and upgrades.

- Mi International contributed 0.56% of our group revenue, which comprises mostly of spare parts sales.

- Mi Components (*formerly known as Mi Precision*) was only serving Mi Equipment's internal requirements in 1Q2019 and hence all its revenue and profits were eliminated on consolidation.

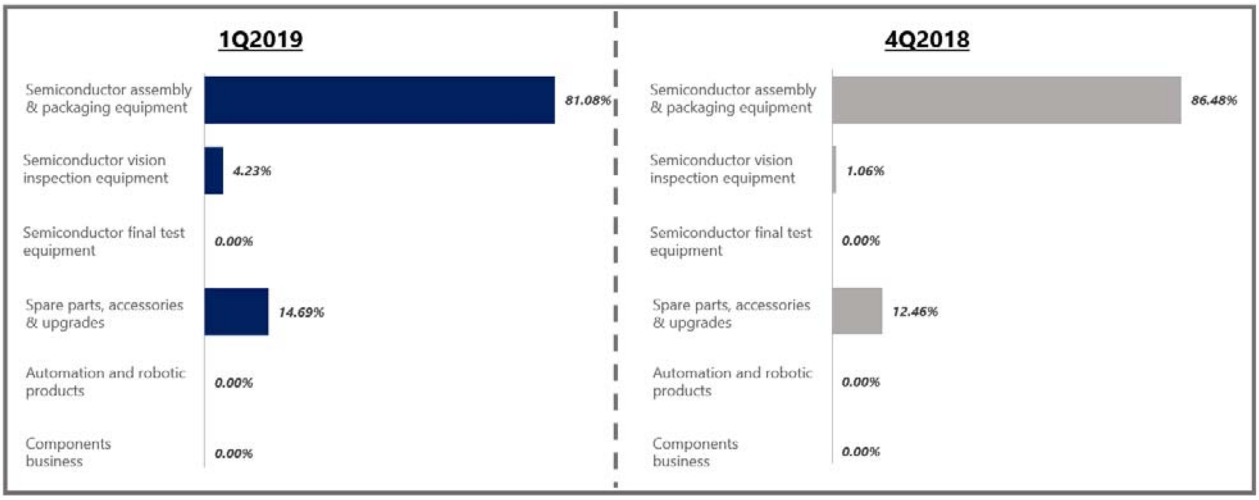
- Mi Autobotics was in pre-production stage and has not recorded revenue in 1Q2019. It recorded losses mainly due to headcount related and other set-up expenses.

- At company level, Mi Equipment registered revenue of RM30.95 million and profit after tax of RM9.52 million. However, as the other subsidiaries are not yet profitable and incurring start-up costs as explained above, this has offset a portion of Mi Equipment's profit and the Group as a whole recorded profit after tax of RM6.87 million.

- Moving forward, when Mi International, Mi Autobotics and Mi Components record external revenue and profit, the contribution from Mi Equipment will decrease. This is in line with our group's strategy to move into multiple products across multiple industries.

4) Review of product breakdown

The contribution by product breakdown on a consolidated basis is set out below:



4a) Semiconductor equipment

- Our assembly & packaging equipment contributed 81.08% to group revenue in 1Q2019 which was almost similar to the preceding quarter.
- In 1Q2019, our vision inspection equipment, Vi series, contributed 4.23% to revenue, an four-fold increase from 1.06% in 4Q2018.
- In 1Q2019, we sold 16 units of equipment, of which 6 are new equipment and 10 are conversions from demonstration units.
- We currently have 13 demonstration units in the market as of 31 March 2019.

4b) Spare parts, accessories & upgrades

- Spare parts, accessories and upgrades contributed 14.69% in 1Q2019 which is not significantly different from 12.46% in 4Q2018.

4c) Automation & robotic products

- Mi Autobotics has yet to generate revenue and in pre-production stage.

4d) Components business

- For 1Q2019, the components business was contributed from the trading of machinery piece parts, serving the internal demand from Mi Equipment for precision metal components.

5) Outlook & Prospects

- As the risk of a full-blown trade war has materially increased, the outlook for the global economy is clouded. Therefore, we foresee the sluggish market conditions will be prolonged and the entire semiconductor industry may experience free fall as the telecommunication, automotive and 5G infrastructure do not see strong momentum up to May 2019.

- The uncertainty of investment direction and timing of capex spending from our key customers are expected to continue and may adversely impact our Group's top and bottom-line as compared to first half of year 2018. We will endeavour to improve our performance in second half of year 2019, especially from new customers and for our new products.

- In summary, 2019 is seen to be a challenging year for the semiconductor industry which will not better than 2018. Mi Technovation is building efforts to widen our customer base and sector exposure beyond just the semiconductor industry. We are looking forward to contributions from Mi Autobotics which serves a wider industry range outside the semiconductor industry. We will continue to focus on technology development and product innovation, along with extensive market expansion activities to build stronger customer relationships to grow our business further.

5a) Mi Equipment

- **Expansion and Investment Plan**

(i) Completion of new plant (Home 1)
We completed the construction of our new plant in the first quarter of 2019. Our Semiconductor Equipment division (Mi Equipment) will occupy Home 1 which is expected be operational by June 2019. Home 1 comprises 90,000 square feet production floor space, a steep increase from the 17,000 square feet in our previous leased plant which was operating at full capacity. Production capacity will increase by more than four folds, from a maximum of 12 machines per month to a maximum of 45 machines per month. This is to cater for our expanding product series and it is essential that we increase capacity at this point to capture the next wave of demand as the market moves very swiftly.

(ii) Setting up Engineering Centre in Taiwan by 3Q2019 together with Mi International.

▪ **New product launch & technology**

(i) Mi Equipment launched the latest Mi40 assembly and packaging machine in the Semiconductor SEA 2019 Exhibition in May 2019. Incorporating features such as faster speed and enhanced performance, Mi40 builds on the success of our flagship Mi series. By 2Q2019, 1 demonstration unit and 1 sale unit of Mi40 will be delivered to our clients.

(ii) Mi Equipment also launched its first high-speed die attached machine, Ai7000 in 2Q2019 and the 1st machine will be delivered in the same quarter.

(iii) We are a technology company and protecting our proprietary intellectual property is important to us. As at the end of 1Q2019, we have 3 patents granted and 17 patents pending.

▪ **Outlook and prospects for the Equipment market**

In 2019, the equipment market for the semiconductor industry will face a consolidation year, compounded by the escalating trade war situation and softer demand for telecommunication products.

5G technology will be the much-needed catalyst for the semiconductor market and currently there are plenty or new technology being developed and qualified this year in anticipation of global 5G adoption. This will pave the way for a better year for the semiconductor equipment market to recover in 2020 with the possibility of positive momentum coming in as early as 4Q2019.

Despite a softer outlook for 2019, Mi Equipment remains in a favourable position. Our flagship Mi series is gaining market share and we have recently launched our new Mi40 model. We have also successfully commercialised 4 other series being our Ai, Li, Si and Vi series which have been commercialised and gained acceptance by our customers. We are now working to penetrate new markets and new customers with our series of products under Mi Equipment.

5b) Mi Autobotics

▪ **Expansion and Investment Plan**

(i) While the operations of Mi Equipment relocate to Home 1 in June 2019, Mi Autobotics will continue to occupy our existing leased Bayan Lepas factory. We are now planning for Home 2 which will be located in Batu Kawan and target for Home 2 to be completed by March 2020. Upon completion, Mi Autobotics will relocate to Home 2.

(ii) In our 2019 capex plans, approximately RM2 million will be invested in Mi Autobotics for research & development (R&D), production equipment, hardware and software.

- **New product launch & technology**

  Mi Autobotics is a new entity established to develop and build advance automation and robotic solutions with artificial intelligence for the manufacturing sector in Industry 4.0 era. We are currently conducting R&D in 2019 and working closely with our technology partners on such developments. We are poised to launch our products latest by 4Q2019.

- **Outlook and prospects for Mi Autobotics**

  Due to the recent US-China trade tensions, Industry 4.0 spending may be disrupted. Should there be an outflow of manufacturing companies from China in the short to middle term, it may drive higher demand for automation or robotics solutions in new manufacturing regions which is scarce on skilled workers or demands higher wages, particularly in the west. Artificial intelligence features which could provide lower cost solutions and less dependency on manpower would be sought after.

5c) Mi Components

- **Expansion and Investment Plan**

  (i) Mi Components is currently occupying a rented premise and will eventually be relocated to Home 2.

  (ii) In our 2019 capex plans, approximately RM2 million will be invested in Mi Components, mainly for production equipment. The first production line will be in place by 2Q2019.

- **New product launch & technology**

  (i) Mi Components will commence fabrication, assembly and testing of precision modules for pick and place machines that is produced by Mi Equipment or other external equipment makers by 3Q2019.

  (ii) We will engage into metal components manufacturing in significant volume for both internal and external designs and expand our capacity when we relocate to Batu Kawan Home 2 in 1Q2020.

- **Outlook and prospects for the components market**

  (i) When fully developed, our metal components manufacturing business will contribute higher revenue but with slimmer margins as compared to our equipment business. For 2019, Mi Components is still relatively new and will support internal and external requirements at 80:20 ratio.

5d) Mi International

- **Expansion and Investment Plan**
  Mi International will be having a new office in the central business district of Singapore which will serve as the headquarters for Mi International. This office will be completed in 2Q2019.

- **Outlook and prospects for Mi International**

  Being the marketing and overseas investment arm of the Mi Technovation group, Mi International's outlook and prospects would mirror those of each subsidiary elaborated above.

  As the group expands, Mi International will have a broader product base for more business opportunities rather than being dependent solely on the semiconductor equipment sector. Mi International will also start representing and distributing external brands of equipment as part of its trading business in 2019 through its strong sales networking.