

Financial Results: Third quarter results for period ended 30 September 2019 (3Q2019)

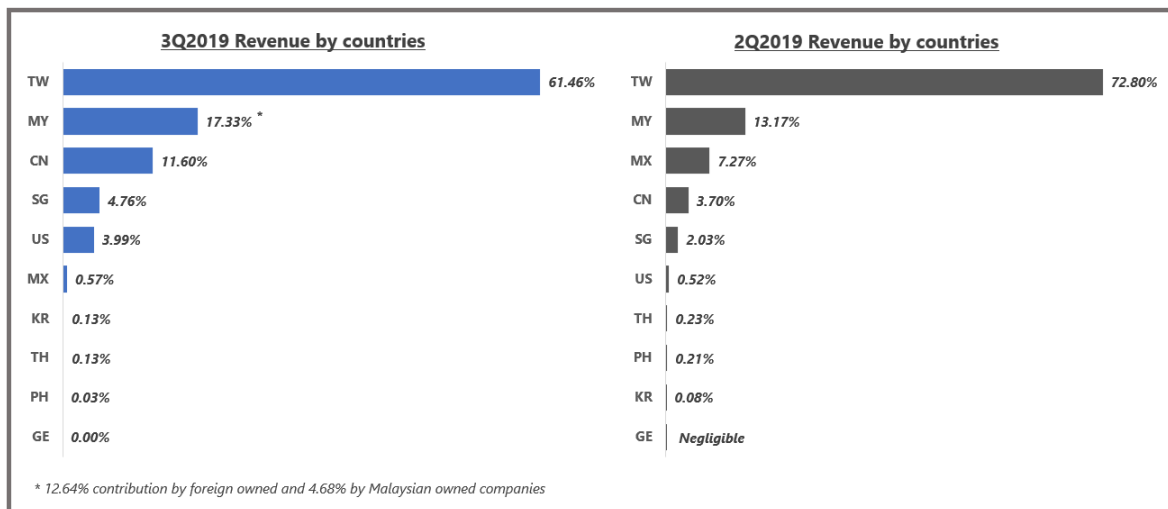
1) 3Q2019 Income statement review

	3Q2019 (RM '000)	2Q2019 (RM '000)	QoQ Variance (%)	3Q2018 (RM '000)	YoY Variance (%)
Revenue	47,303	46,134	+2.5%	41,563	+13.8%
Gross Profit	24,067	23,693		19,792	
GP Margin	50.9%	51.4%			
Profit before Tax	17,547	17,384	+0.9%	14,047	+24.9%
PBT Margin	37.1%	37.7%			
Profit after tax	17,415	17,376		13,994	

- In 3Q2019, Mi Technovation group recorded revenue of RM47.3 million which is 2.5% higher quarter-on-quarter and 13.8% higher year-on-year. The improvement in revenue as compared to the similar quarter of the preceding year was due to stronger demand from Taiwan and China as a result of the growth in capital investments in advanced / wafer level chip scale packaging.
- Gross profit of RM24.1 million was slightly higher compared to the preceding quarter which was RM23.7 million. For 3Q2019, our Group again recorded commendable gross profit margin of 50.9% which is slightly above the range we have guided, from 40% to 50% attributable to our continuous operational efficiency efforts.
- Profit before tax (PBT) for the reporting quarter was RM17.5 million, which is comparable to RM17.4 million in the last quarter and 24.9% higher compared to the similar quarter of the last financial year. The significant increase year-on-year was attributable to the change in geographical sales mix resulting in lower commissions payable to external sales agents.
- The group recorded PBT margin of 37.1% which is once again over and above our targeted range of 20% to 30%. Our healthy performance and two continuous quarters of exceptional margins are results of our stringent internal financial management. We continue to prudently manage our resources and are committed to deliver results to our stakeholders despite being in expansion phase. Since our inception, we have always planned ahead for our corporate journey including expansion, corporate exercises and resource management to effectively and efficiently meet our objectives while staying healthily profitable.
- Our maintenance capex is expected to be approximately RM8 million per annum for 2019. For 2020, we expect the capex to double as we set out to grow all our business units.
- Our Group's effective tax rate for the quarter is 0.75%.
- 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. While awaiting MIDA’s approval for the second 5-year period, we will ensure the pioneer conditions are strictly complied with so as not to jeopardise the renewal.
- 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.

2) Review of revenue breakdown by countries

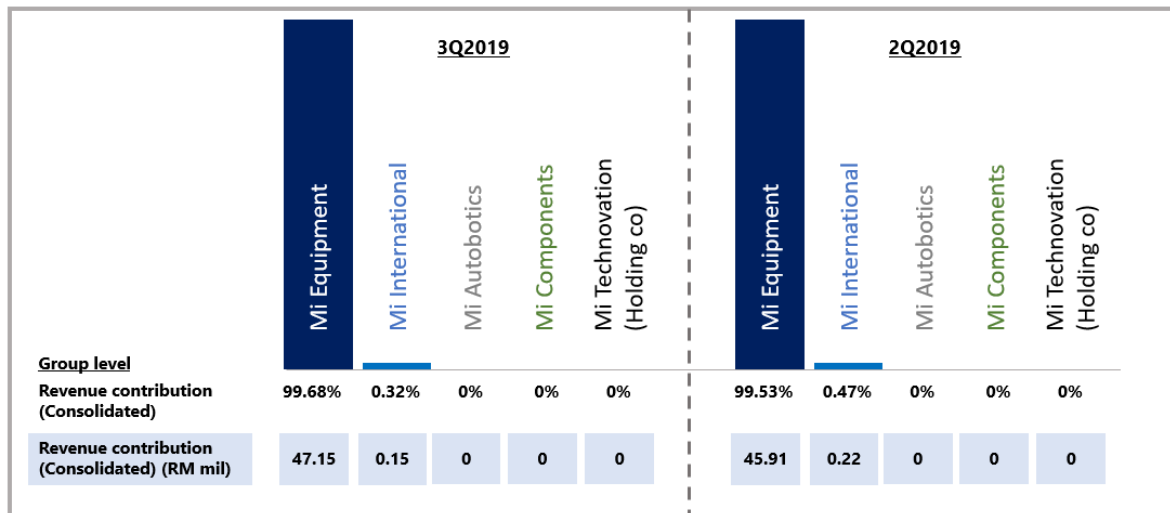


- The chart above shows our consolidated revenue breakdown by countries for 3Q2019 and 2Q2019. Revenue in 3Q2019 was derived from 9 countries.
- Taiwan continues to be the single largest contributor in 3Q2019 amounting to 61.46% of revenue albeit lower than last quarter which was 72.80%. Taiwan is emerging as a strategic territory and beneficiary in the decoupling of supply chains.
- Malaysia maintained its spot as the second largest contributor in 3Q2019 with 17.33%, an increase from 13.17% in 2Q2019. Customers in Malaysia comprised foreign-owned and local-owned. Foreign-owned customers contributed 12.64% while local-owned companies contributed 4.68%.
- Sales to China picked-up to 11.60% in 3Q2019 as compared to 3.70% in 2Q2019. Activities in China is increasing as it ramps up effort to forge its own semiconductor supply chain from chip design to manufacturing.
- With our engineering centre in Hsinchu, Taiwan commencing in 3Q2019, we are able to support our customers in Taiwan and China which are expected to be our key markets for 2020. SEMI forecasts that China, South Korea, and Taiwan will be the top-three markets for chip equipment next year. In 2020, the China market is expected to soar 24% from 2019 to USD14 billion while South Korea is expected to be the second-largest market at USD11.7 billion, followed by Taiwan at USD11.5 billion.

- Sales to both Singapore and USA increased to 4.76% and 3.99% respectively in 3Q2019 from increased machine sales to these countries as compared to last quarter when sales to Singapore and USA were derived from spare parts, accessories and upgrades.

3) Review of performance by subsidiaries

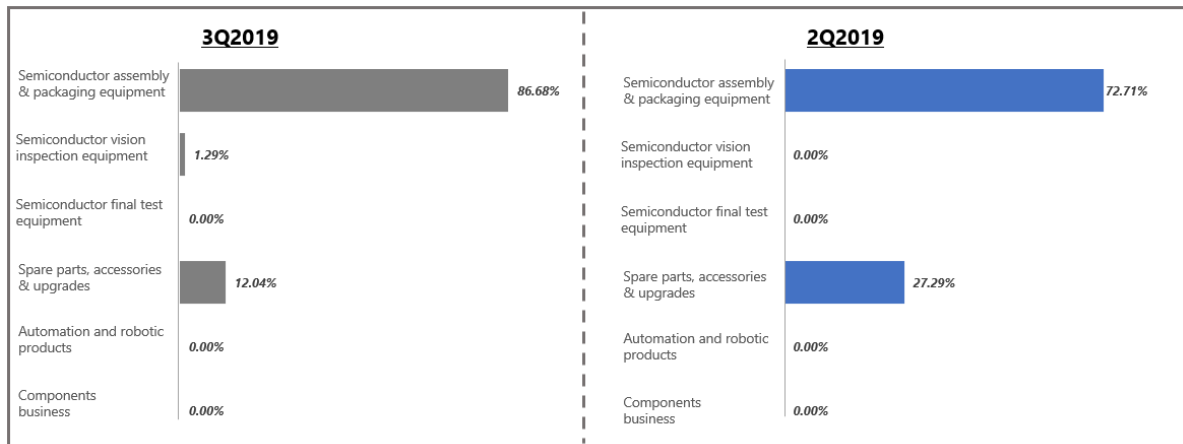
The contribution of our subsidiaries on a consolidated group level is shown below:



- Mi Equipment contributed 99.7% of our group revenue in 3Q2019 with the sales of equipment, spare parts, accessories and upgrades.
- Mi International contributed 0.32% of our group revenue, which comprises spare parts sales.
- Mi Components (*formerly known as Mi Precision*) was only serving Mi Equipment's internal requirements in 3Q2019 and hence all its revenue and profits were eliminated on consolidation.
- Mi Autobotics was in pre-production stage and has not recorded revenue in 3Q2019. It recorded losses mainly due to headcount related and other set-up expenses.
- Having laid the groundwork in 2019, we are expecting Mi Autobotics and Mi Components to launch its first products in 4Q2019 and to contribute to revenue and profits in 2020.
- Moving forward, when Mi International, Mi Autobotics and Mi Components record external revenue and profit, the percentage 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 86.68% to group revenue in 3Q2019 as compared to 72.71% in 2Q2019. *Mi Series* remains the largest contributor to revenue.
- Our new Bayan Lepas plant for Mi Equipment has capacity of 45 machines per month and is currently operating at 35%-50% capacity as activities increased in 2H2019. Previously, the average was 8-10 machines per month in our rented premises.
- We currently have 13 demonstration units in the market as of 30 September 2019. These demonstration units comprise *Mi Series*, *Li Series*, *Ai Series* and *Vi Series*.
- We are currently undertaking the relocation of the development centre for the *Si*, *Vi* and *Ai Series* from Malaysia to overseas and as such, the progress and information of these 3 series will be updated in future announcement(s).
- Our order visibility is currently around 2 months, which is considered healthy.

4b) Spare parts, accessories & upgrades

- Spare parts, accessories and upgrades contributed 12.04% in 3Q2019 as compared to 27.29% in 2Q2019. This product segment typically contributes 12%-15% to revenue.

4c) Automation & robotic products

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

4d) Components business

- For 3Q2019, 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

- Activities have improved in 2H2019, led by new players and products in the advance packaging such segment such as WLP. Although it is widely reported that the semiconductor industry in general is experiencing slowdown in 2019, capital investment from certain OSATs in the advanced /wafer level packaging segment is still growing, and this augurs well for us.
- We will see momentum increase when 5G is being rolled-out and this will be the game changer which requires new assembly and packaging processes, leading to better prospects for semiconductor equipment makers. Ultimately, higher performance gadgets will require more advanced technology and higher density of semiconductor content, which is supported by advanced level packaging equipment manufacturers such Mi Equipment.
- For our semiconductor equipment business unit under Mi Equipment, we are also continuously adding new clients and introducing our new models to existing clients. With Mi Autobotics, we can now widen our client base to other sectors such as manufacturing which requires Industrial 4.0 enabled automation or robotics solutions. These solutions will be much needed in regions where skilled labour is scarce or demands higher wages. Furthermore, Mi Components will produce products targeting the consumer market directly, further broadening our customer base beyond the semiconductor industry.
- Moving forward, we believe that staying in the forefront of technology is paramount. RM45 million from our IPO proceeds will be deployed as a start to build Engineering Centres in Taiwan, China and Korea to undertake R&D which will enable us to keep abreast with evolving technology trends. This amount includes set-up costs and the first phase recruitment of manpower. Presence in these countries will give us direct exposure to top technology players and access to a deeper pool of talents to develop our products and know-how. Further information is set out in the sections below.

6) Mi Equipment: Semiconductor Equipment Business Unit

6a) Assembly & Packaging Equipment

- Our Penang Technology Centre will focus on die sorting equipment for WLCSP and FOWLP applications namely the *Mi* and *Li Series*.
- The high precision die bonding/attaching as well as the LAB equipment which is grouped under the *Ai Series* will commence development at our Korea Engineering Centre in 1Q2020.
- The existing *Ai* platform in Penang will be transferred to Korea in 2020.

6b) Final Test Equipment

- The China Technology Centre will focus on fine pitch test equipment for WLCSP, substrate and BGA, namely the *Si Series*.
- Existing platforms and resources in Penang will be transferred to China in 2020.

6c) Vision Inspection Equipment

- The Taiwan Technology Centre will focus on Vision inspection equipment, namely the *Vi Series*.
- Existing platforms and resources will be relocated to Taiwan in 2020.

6d) Intellectual Properties and Patents

- We are a technology company and protecting our proprietary intellectual property is important to us. As at the end of 3Q2019, we have 3 patents granted, 19 patents pending and 3 patents in drafting stage.
- We are also in the midst of acquiring a patent from a third party for our new product development.

6e) Outlook and prospects for the Semiconductor Equipment market

We observed improvements in the capex investment quantum of our key customers in 2H2019 which will give us the opportunity to register better performance in 2H2019 or otherwise early 2020, depending on revenue recognition due to timing of billing and shipment. Moving into 2020, we see that our key markets will be Taiwan, Korea, China and Singapore. We set up our engineering centres overseas which is in closer proximity to our customers and be in touch with the latest technology developments.

7) Mi Autobotics: Automation, Robotics & AI Business Unit

7a) Expansion and Investment Plan

- Mi Autobotics will be moving to Home 2 in January 2020 which is currently 85% completed. As disclosed in our earlier announcement, Home 2 will have floor space of 100,000 square feet comprising manufacturing area, R&D and offices. We will spend RM30 million from our IPO proceeds to fund the construction of Home 2.
- Budgeted capex for 2019 is approximately RM2.0 million for research & development (R&D), production equipment, hardware and software. For 2020, we believe that we will continue investing the same quantum for this business unit.

7b) New product launch & technology

Mi Autobotics is on track to launch its *Oto* and *Kobot Series* products by 4Q2019 and have received positive feedback from the market. The first order has been received for the *Oto Series* and more potential customers are being approached for this new product. The *Kobot Series* is undergoing some final touch-ups ahead of its launch.

The development of the *Engeye Series* (artificial intelligent products) is also gaining traction. This product is used to perform data mining, artificial intelligence analysis and decision making to assist engineers and operations to respond to and prevent the possible excursions. The *Engeye Series* is expected to be launched in mid-2020.

7c) Outlook and prospects for Mi Autobotics

While the US-China trade tension eases, the industry geography has changed with remapping of production locations. The OEM, ODM, OSAT, EMS and CM are adapting to the new business environment with many challenges which also presents new opportunities. This will create higher demand for Industry 4.0 solutions which calls for greater customization, shorter-time-to market as well as better returns for manufacturers. Mi Autobotics is in a good position to offer Industry 4.0 solutions which are much needed in the regions where skilled labour is scarce or demands higher wages. Mi Autobotics is expected to catch this wave with some potential customers in 4Q2019 and geared for growth in 2020.

8) Mi Components: Modules and Components Business Unit

8a) Expansion and Investment Plan

Mi Components will be moving to Home 2 in January 2020 which is currently 85% completed. Mi Components' 2019 capex investment plan of approximately RM 2.0 million has completed with the skilled workers on board. For 2020, we believe that we will increase capex significantly, once our products are accepted in the market.

8b) Industrial Module Products

The first product, being the *PH Series*, is our in-house designed pick & place precision module that is compatible for the majority of rotary based pick & place machines. The model for Mi Equipment has been fabricated, assembled, tested and currently undergoing reliability check ahead of its launch in 4Q2019.

Other models for external customers are in the discussion stage and we expect to see outcome in 2020. We will engage into manufacturing in significant volume for both internal and external designs and expand our capacity when we relocate to Home 2.

8c) Commercial Products

The *Clinais* being our first product under *MT Series* has completed the prototype stage. We are working towards the manufacturing process, equipment as well as technical specifications for this product. We expect the first batch of *Clinais* to be ready in mid-2020.

8d) Outlook and prospects for the components market

When fully developed, our precision components business unit will contribute higher revenue but with slimmer margins as compared to our semiconductor equipment business.