

Results Transcript: Third Quarter Results for Period Ended 30 September 2020 (3Q2020)

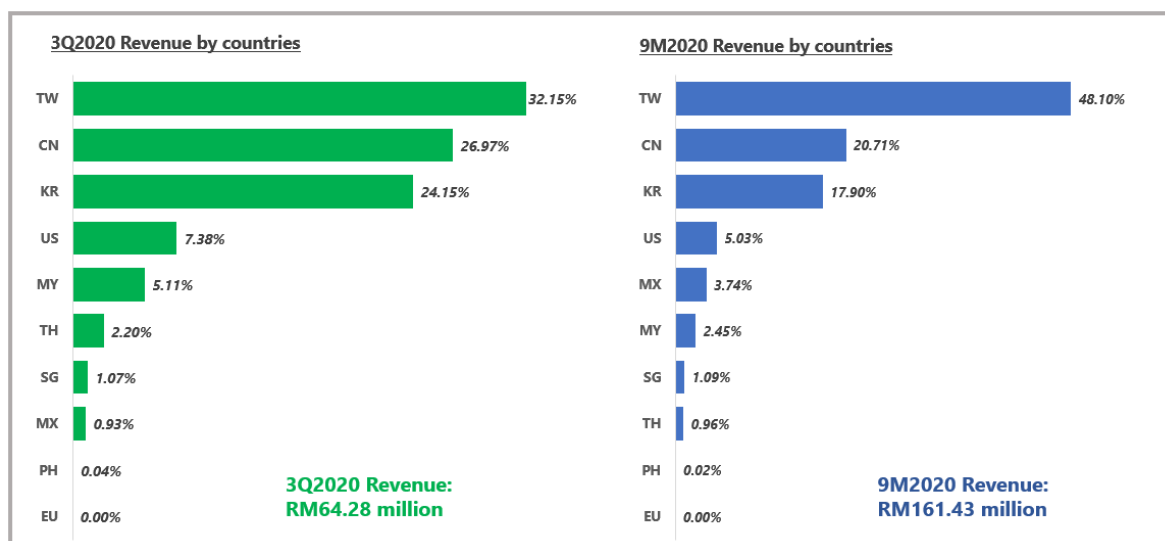
1.0) 3Q2020 Income statement review

	3Q2020 (RM '000)	2Q2020 (RM '000)	QoQ Variance (%)	3Q2019 (RM '000)	YoY Variance (%)
Revenue	64,276	61,916	+3.8%	47,303	+35.9%
Gross Profit	26,622	28,333	-6.0%	24,067	+10.6%
GP Margin	41.4%	45.8%		50.9%	
Profit before Tax	12,312	18,384	-33.0%	17,547	-29.8%
PBT Margin	19.2%	29.7%		37.1%	
Profit after tax	12,220	18,100	-32.5%	17,415	-29.8%

- a. In 3Q2020, the Mi Technovation Group recorded revenue of RM64.3 million which is a 3.8% improvement quarter-on-quarter (QoQ) and 35.9% higher year-on-year (YoY). The Group was able to deliver improvements in revenue this quarter mainly due to continuous high demand from customers, especially from Taiwan, China, and Korea. To date, we have not experienced significant order or raw materials disruptions caused by the pandemic or trade tensions.
- b. Gross profit (GP) of RM26.6 million was 6.0% lower compared to the preceding quarter which was RM28.3 million and 10.6% higher YoY. The lower GP was due to product mix change and higher material contents.
- c. Profit before tax (PBT) for the reporting quarter was RM12.3 million, which was a 33.0% decrease QoQ and a 29.8% decrease YoY. PBT would have been higher this quarter if not for the losses on foreign exchange of RM3.8 million this quarter. Aside from the forex losses and higher sales and marketing expenses incurred for the Taiwan Semicon exhibition held in September, we also incurred higher commission to agents in 3Q2020.
- d. The group is in the midst of executing its significant expansion plans locally and overseas which has increased expenses causing the PBT margin to decline to 19.2%. We are currently in gestation period as we move towards being a player with multiple products across multiple industries rather than a single product company. We expect our margins to improve after our plans are executed when the new products and overseas facilities start contributing in 2021.
- e. Our Group's effective tax rate for the quarter is 0.75%.
- f. As at the end of 3Q2020, we have 5 patents granted, 21 patents pending and 2 patents in drafting stage.

2.0) Review of revenue/business breakdown by countries

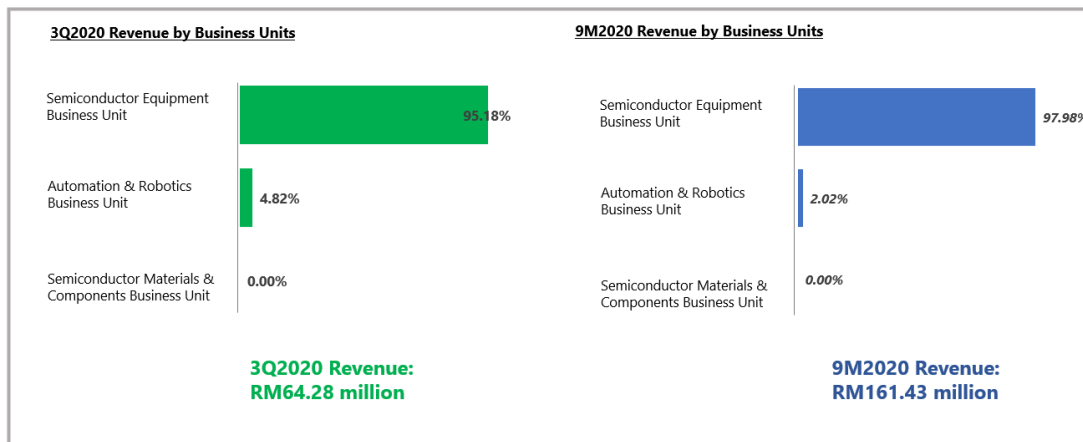
The contribution by countries breakdown on a consolidated basis is set out below:



- The chart above shows our consolidated revenue breakdown by countries for 3Q2020 and year to date 9M2020. Revenue in 3Q2020 was derived from 9 countries.
- For six consecutive quarters, Taiwan has been the largest contributor and accounted for 32.15% and 48.10% of revenue for 3Q2020 and 9M2020, respectively. We expect Taiwan to maintain as a top market for us this year. To better serve the customers in our top market, we have a technology centre and in the midst of setting up our first production facility outside Malaysia in Hsinchu, Taiwan, which is expected to be operational early next year.
- China took the second spot for both 3Q2020 and 9M2020 with contribution of 26.97% and 20.71% for the respective periods. Activities in China ramped-up in efforts to forge its own semiconductor supply chain from chip design to manufacturing. In the future, China will continue to be an important market for new equipment. We see China be another key market for us and we are in the midst of setting up both our technology centre and manufacturing facilities to serve this market.
- Korea came in third with 24.15% contribution in 3Q2020 and 17.90% year to date. Our Korean customers re-ignited their purchase cycle in 2Q2020 and this continued into 3Q2020. We expect Korea to be our top 3 markets this year and we are well positioned there with our technology centre operational.
- Taiwan, China and Korea made up 86.71% of our revenue year to date and these are also the top semiconductor manufacturing equipment markets in 2021 as forecasted by SEMI with total market size of US\$48.4 billion which makes up 68.7% of the global market. We are confident that our strategy of setting up technology centres and manufacturing facilities in these countries will lead us to the next phase of growth.
- USA took fourth position with sales of semiconductor equipment and the *OTO Series* from our Automation & Robotics Business Unit.
- Malaysia was the fifth largest contributor in 3Q2020 with sales of our new series, *Vi series* and *Li series* under the semiconductor equipment business unit.

3.0) Review of revenue/business breakdown by business units

The contribution by business units on a consolidated basis is set out below:



3.1) Semiconductor Equipment Business Unit (Mi Equipment Group)

a. Revenue and Sales Analysis

The semiconductor equipment business unit (SEBU) contributed 95.18% to group revenue in 3Q2020 compared to 97.98% in 9M2020. *Mi Series* from assembly and packaging product group remains the largest contributor to revenue.

Spare parts, accessories and upgrades for semiconductor equipment contributed 8.3% in 3Q2020 as compared to 8.1% in the preceding quarter. This segment typically contributes 12%-15% to the business unit revenue.

SEBU currently have 15 demonstration units in the market as of 30 September 2020. These demonstration units comprise *Mi Series* and *Vi Series*.

The current order visibility is around 8 weeks, which is considered healthy.

b. Market Analysis and Outlook

2020 has been a turbulent year with the pandemic and trade tensions. Although the market may be affected in the short term as some capex decisions are deferred, we have plans to fill up the capacity and the emergence of dual supply chain will benefit us eventually. We expect the market to remain robust for the rest of 2020 spilling over to 2021.

Most of the activities and inquiries have been from our North Asia market such as China, Taiwan and Korea. We believe that these markets will remain vibrant for the coming years and we have positioned our group to capture the market through our regional technology centres in Taiwan, Korea and China.

c. Upcoming Activities and Plans

Our focus in 2021 will be to expand our overseas technology centres to include manufacturing facilities. This is a step to realize our vision of establishing ourselves in key overseas markets which is a main differentiator compared to other local peers. We are well on track in setting up the Taiwan manufacturing centre which is targeting operations in early 2021. We have identified the location and are in the midst of finalizing plans for our technology centre and manufacturing facilities in Suzhou and target to commence operations by the first half of 2021.

3.2) Automation & Robotics Business Unit (Mi Autobotics Group)

a. Revenue and Sales Analysis

Mi Autobotics has geared up in 3Q2020 and automation & robotics products achieved revenue of RM3.1 million as compared to RM157k in 2Q2020. The revenue was contributed from the newly launched *KOBOT series* and *OTO series* products with customers from 5 of the world's top 10 OSAT companies (mainly for their sites in Taiwan and China) and a US based company. We continue to produce both the *KOBOT series* and *OTO series* for Q4 shipment as we build momentum for 2021.

b. Market Analysis and Outlook

We are planning to venture into new market segments beyond semiconductors, electronic and electrical in 2021. We are speeding up our expansion and preparing to reach 40% capacity of Home 2 by end of 2020, earlier than previously planned as we continue to see active enquiries from customers.

We see strong demand coming from automation projects as well as Industry 4.0 solutions from high labour cost regions and countries.

c. Upcoming Activities and Plans

Mi Autobotics will continue to expand their Batu Kawan operations workforce to reach 100 staff by end of this year.

3.3) Semiconductor Materials and Components Business Unit

a. Last quarter, we stated that the group is in the midst of restructuring this business unit. We have announced on 8 October 2020 that Mi Technovation has entered into a Memorandum Of Understanding (“MOU”) with Accurus Scientific Co. Ltd. (“Accurus”) and its shareholders with aggregate of 73.142% equity interest of all or part of the equity interests in Accurus.

b. We believe that this will provide an opportunity for our group and Accurus to establish business integration for wider product portfolio within the same distribution channel and value chain in anticipation of leveraging our combined strengths.

c. Both parties have agreed on an exclusivity period up to 31 January 2021 (or any other date to be mutually agreed upon) for Mi Technovation to undertake due diligence review and for the parties to negotiate terms of a Sales & Purchase Agreement (“S&P Agreement”). A detailed announcement will be released upon execution of the S&P Agreement.

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