



Zyxel Group Corporation(3704)

2023 Fourth Quarter Earnings Conference

March 15, 2024

Safe Harbor Notice

- **The statements contains historical information and forward-looking statements.**
- **Such forward-looking statements involve unknown risks and uncertainties, which may cause the actual performance, financial condition or results of forecast of Unizyx Holding Corporation to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements.**

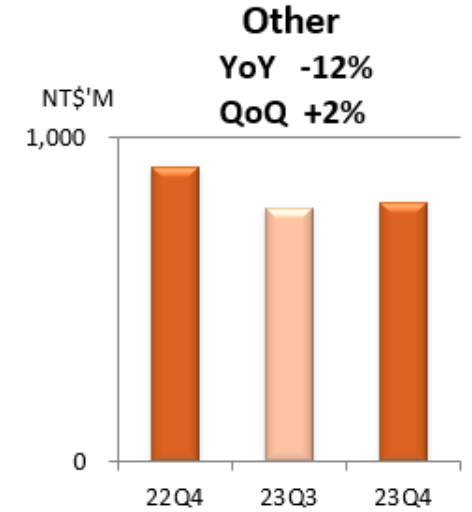
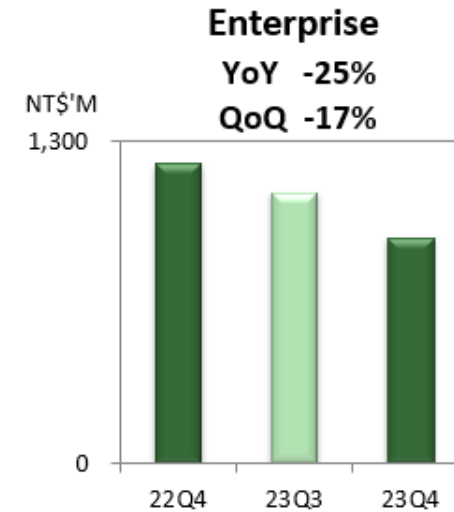
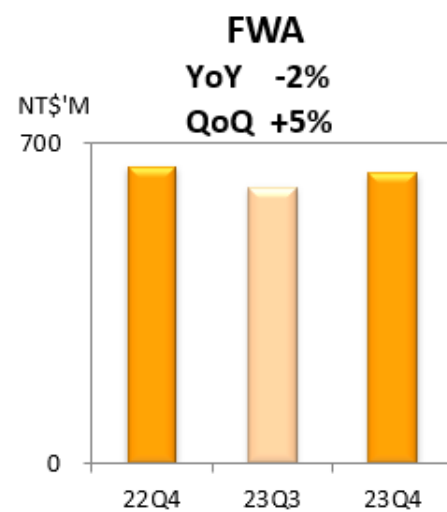
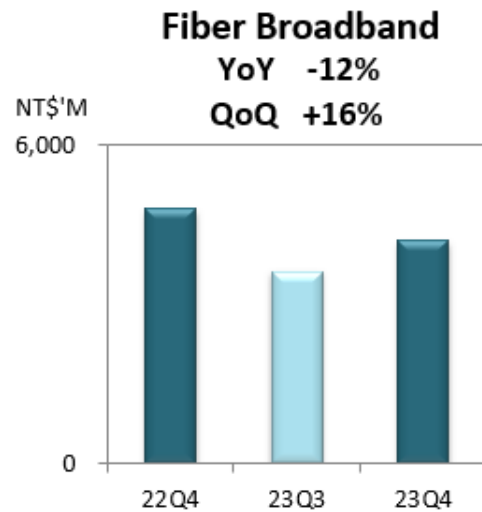
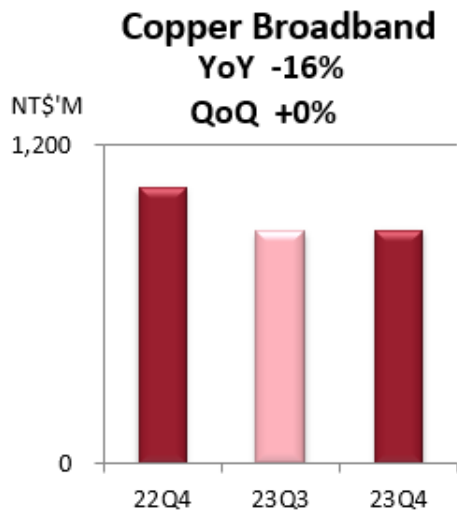
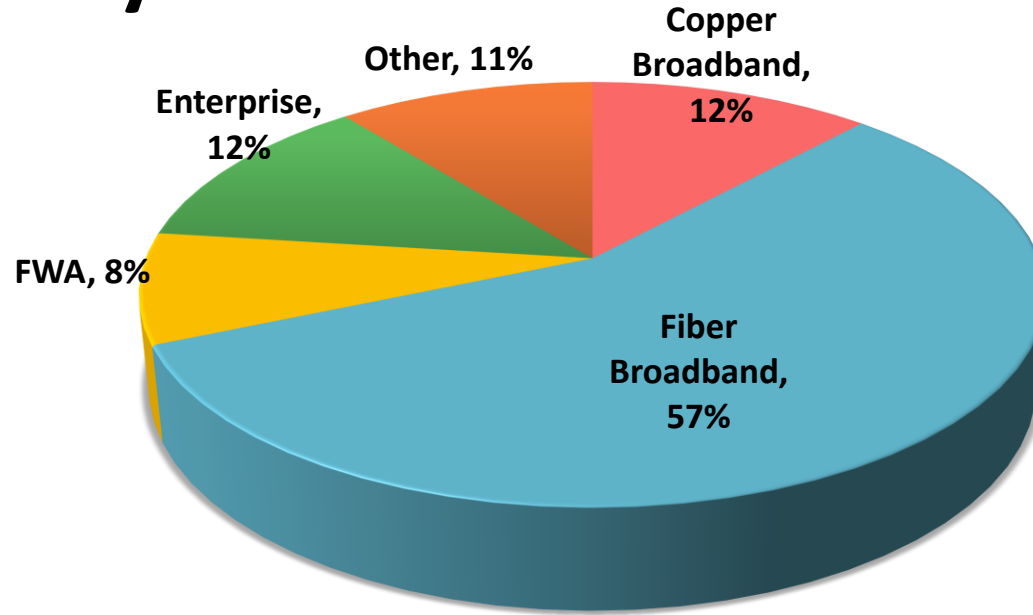
23Q4 Statements of Comprehensive Income

Unit: NT\$ Million	<u>23Q4</u>	<u>%</u>	<u>23Q3</u>	<u>%</u>	<u>22Q4</u>	<u>%</u>	<u>QoQ%</u>	<u>YoY%</u>
Net Sales	7,429	100.0%	6,974	100.0%	8,597	100.0%	6.5%	-13.6%
Cost of Goods Sold	5,722	77.0%	5,418	77.7%	6,427	74.8%	5.6%	-11.0%
Gross Profit	1,707	23.0%	1,556	22.3%	2,170	25.2%	9.7%	-21.3%
Operating Expenses	1,431	19.3%	1,347	19.3%	1,488	17.3%	6.2%	-3.8%
Operating Income	276	3.7%	209	3.0%	682	7.9%		
Non-Operating Income (Loss)	(80)	-1.1%	159	2.3%	(185)	-2.1%		
Income before Tax	196	2.6%	368	5.3%	497	5.8%		
Income Tax (Gain)	(96)	-1.3%	72	1.1%	41	0.5%		
Net Income	292	3.9%	296	4.2%	456	5.3%		
Net Income to Shareholders of the Parent Company	286	3.8%	290	4.2%	456	5.3%		
EPS (NT Dollar)	0.71		0.73		1.15			

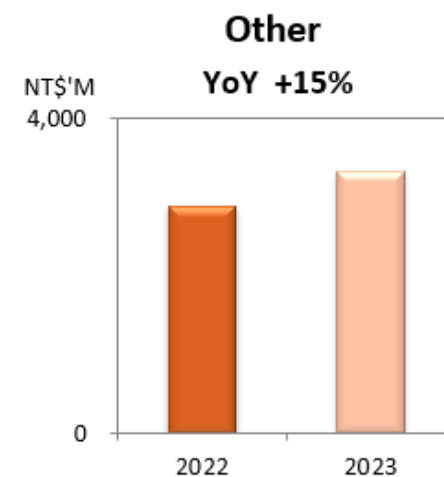
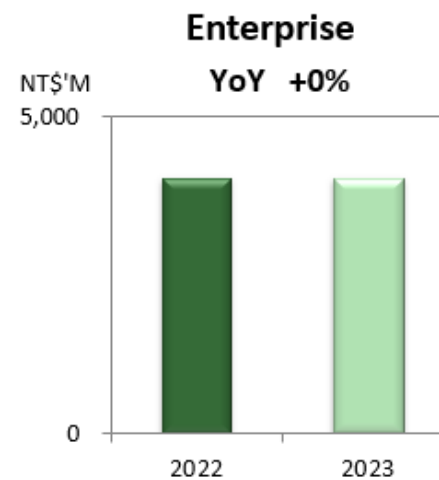
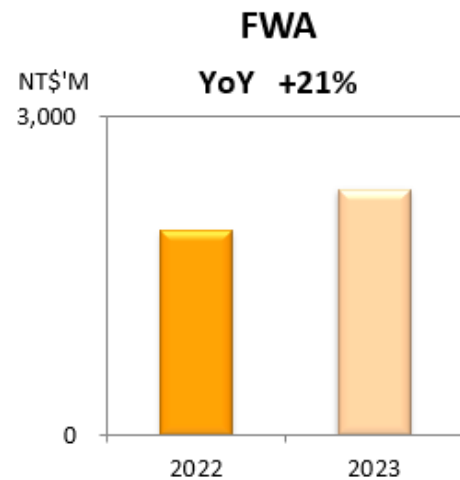
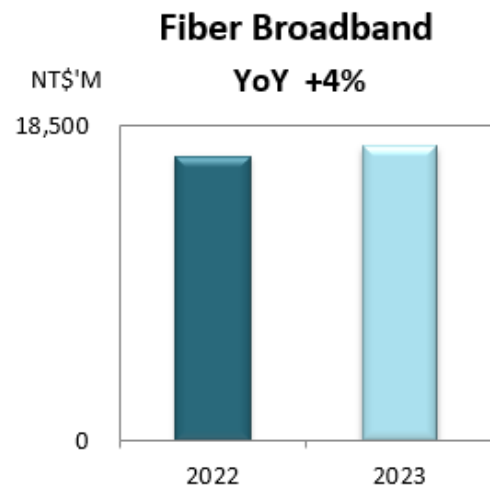
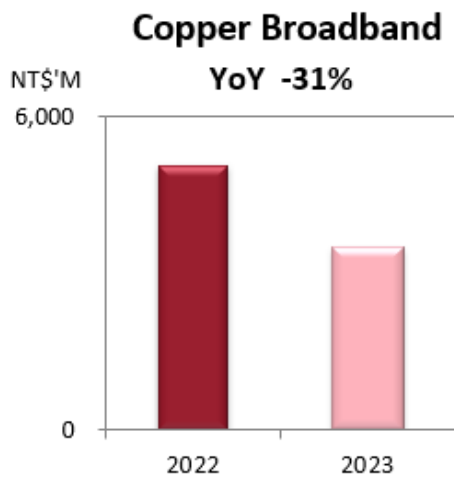
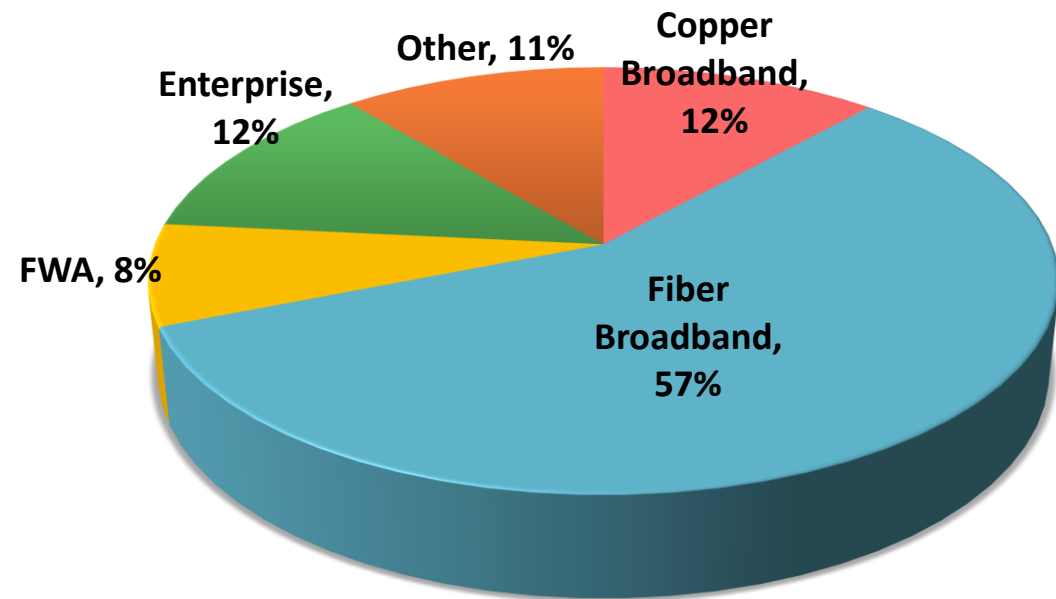
2023 Statements of Comprehensive Income

Unit: NT\$ Million	<u>2023</u>	<u>%</u>	<u>2022</u>	<u>%</u>	<u>YoY%</u>
Net Sales	30,380	100.0%	30,516	100.0%	-0.4%
Cost of Goods Sold	23,701	78.0%	23,528	77.1%	0.7%
Gross Profit	6,679	22.0%	6,988	22.9%	-4.4%
Operating Expenses	5,390	17.8%	5,141	16.8%	4.8%
Operating Income	1,289	4.2%	1,847	6.1%	-30.2%
Non-Operating Income (Loss)	267	0.9%	145	0.4%	84.1%
Income before Tax	1,557	5.1%	1,992	6.5%	-21.8%
Income Tax (Gain)	201	0.6%	365	1.2%	-44.9%
Net Income	1,356	4.5%	1,627	5.3%	-16.7%
Net Income to Shareholders of the Parent Company	1,341	4.4%	1,618	5.3%	-17.1%
EPS (NT Dollar)	3.38		3.87		

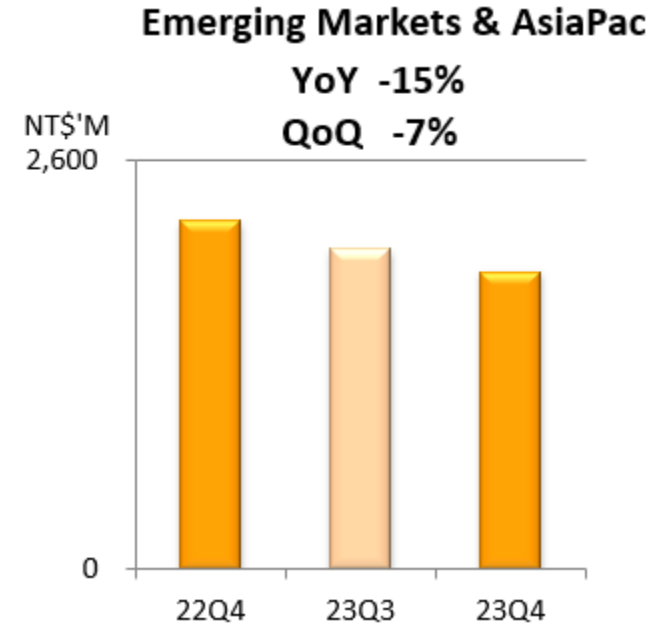
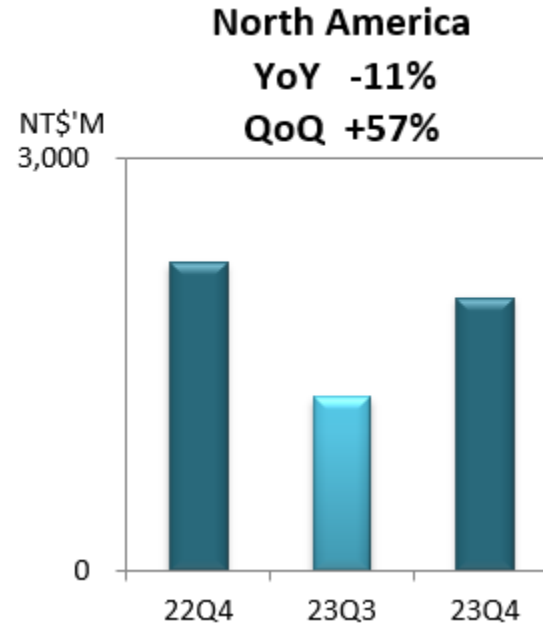
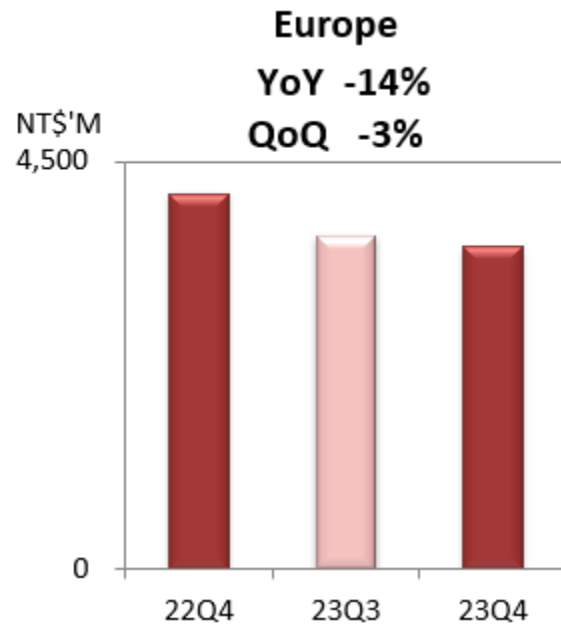
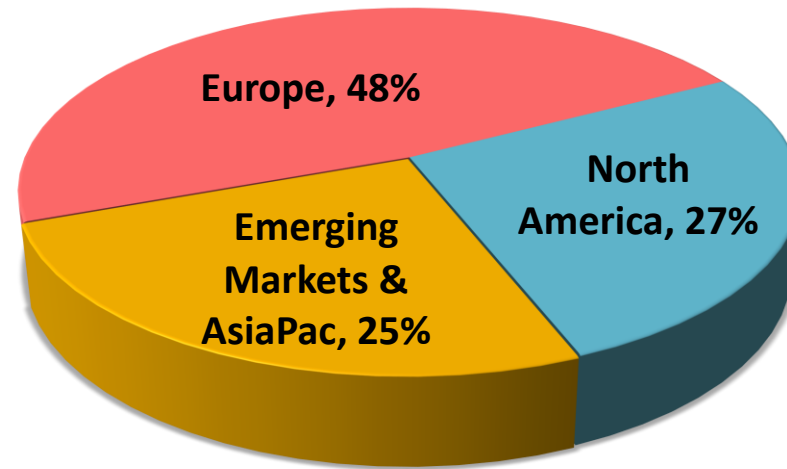
23Q4 Revenue by Product



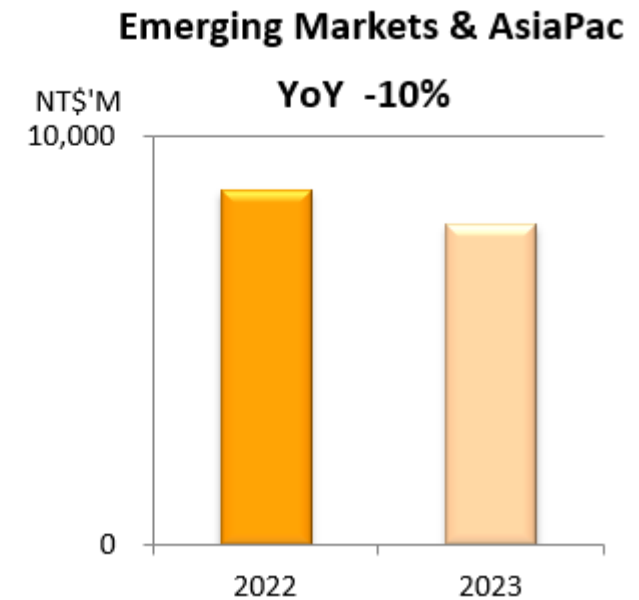
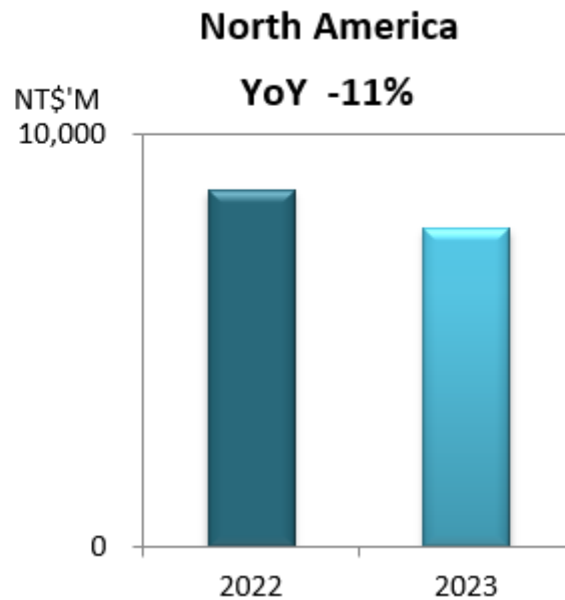
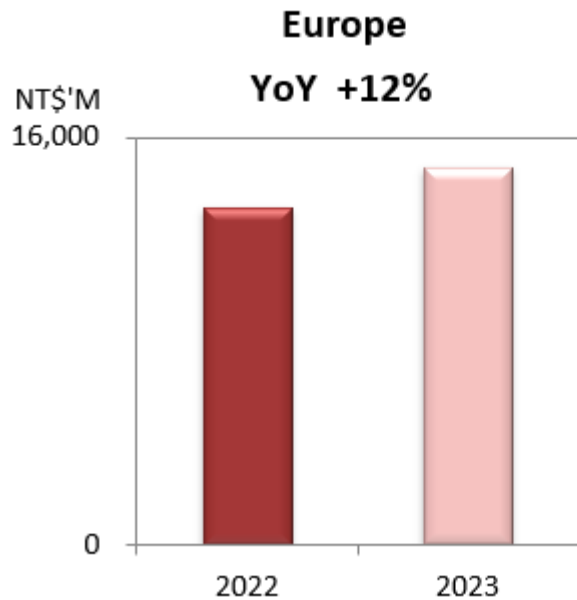
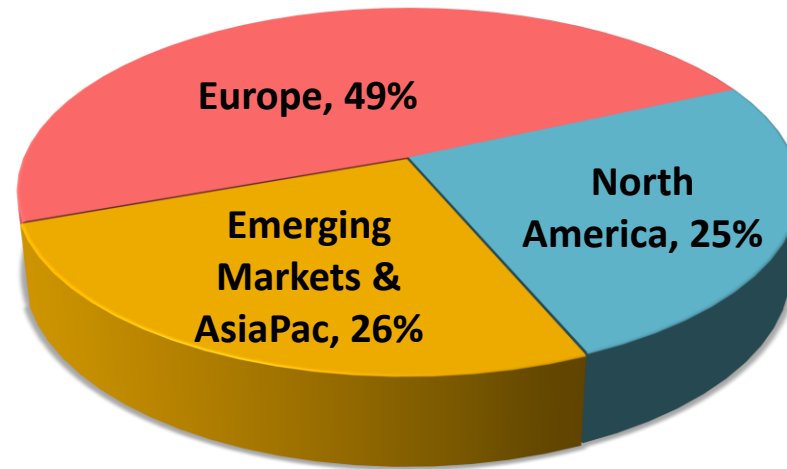
2023 Revenue by Product



23Q4 Revenue by Region



2023 Revenue by Region



Balance Sheets & Key Indices

Unit: NT\$ Million	<u>2023.12.31</u>	<u>%</u>	<u>2023.9.30</u>	<u>%</u>	<u>2022.12.31</u>	<u>%</u>
Cash and Cash Equivalents	6,546	30%	5,967	26%	6,040	22%
Accounts Receivable	6,952	32%	6,520	29%	8,449	31%
Inventories	3,616	17%	5,633	25%	8,001	30%
Long-term Investments	270	1%	273	1%	171	1%
Property, Plant and Equipment	1,824	8%	1,781	8%	1,891	7%
Other Assets	2,645	12%	2,557	11%	2,511	9%
Total Assets	21,853	100%	22,731	100%	27,063	100%
Current Liabilities	8,130	37%	9,342	41%	14,402	53%
Non-Current Liabilities	2,607	12%	2,617	12%	2,647	10%
Total Liabilities	10,737	49%	11,959	53%	17,049	63%
Total Equity	11,116	51%	10,771	47%	10,014	37%
Book Value per Share	27		26		25	
Key Indices						
AR Turnover Days	83		86		85	
Inventory Turnover Days	74		97		112	
Current Ration (X)	2.2		2.0		1.6	

SP Technology Trends - Combining 10G PON & Wi-Fi 7 technology Through GAI Achieve Immersive Experiences - Digital Acceleration

- Achieving GAI for immersive experiences, needs multi Gbps & 10ms level latency Network



BCG - DAI benefit (Digital Acceleration Index)
10% upward in revenue growth (67% 领先公司)
10% upward in total enterprise value (66% 领先公司)

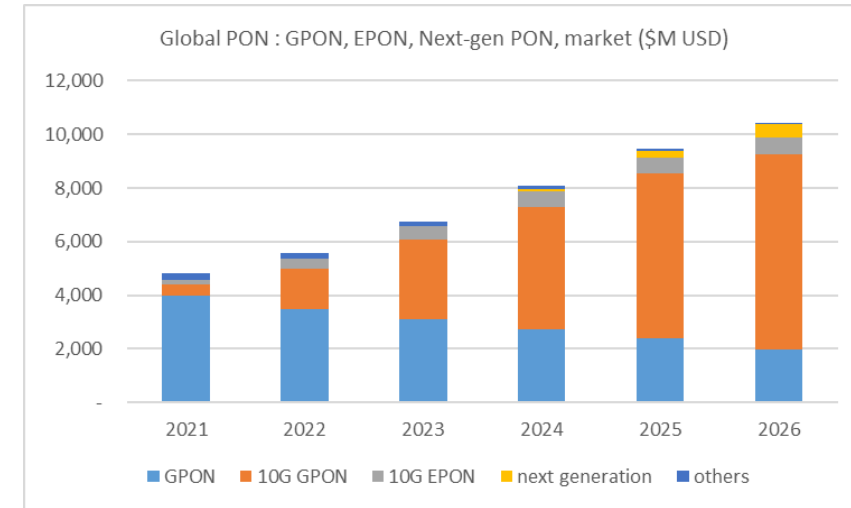
10G PON and 2.5G PON alternation occurs in 2024 (CAGR: 77%).
 10G PON optical device BOSA's price will be below \$10 USD in 2024.
 WiFi 7 provides 5msec latency, estimate 10M units shipped WW in 2024.

- Zyxel SP group : 10G PON and WiFi 7 technology

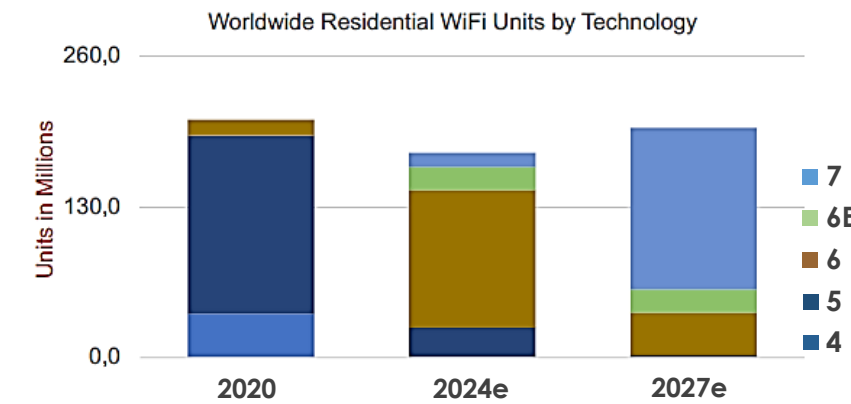
WiFi 7 Tri-Band BE19000 received WFA WiFi 7 certification.
 Integrating 10G PON and WiFi 7 HGU.
 Provide E2E PON solutions, SP upgrade path from 2.5G to 10G PON.

- Zyxel SP group : 10G PON & WiFi 7 business development

10G PON products, cumulatively shipped over 1M units by 2023e
 Shipment in NA, Northern Europe, Germany, France, Netherland.



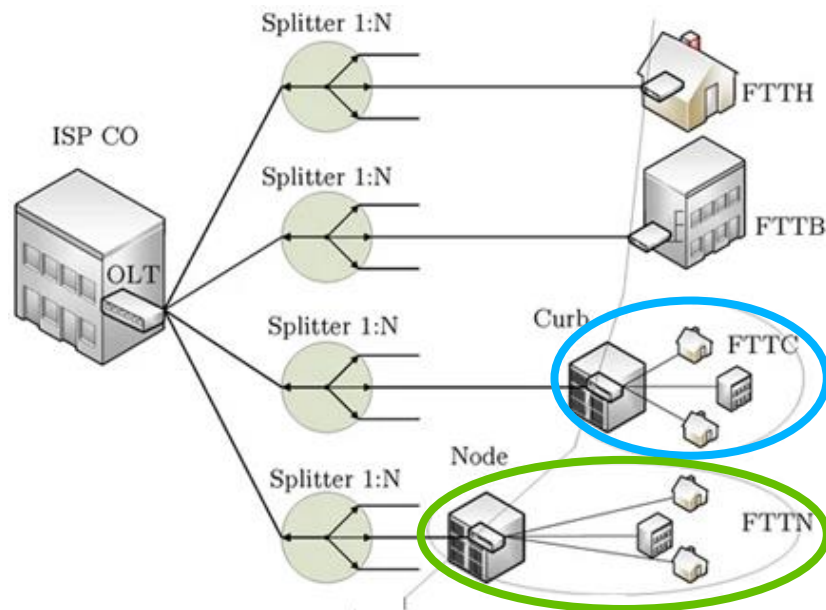
Omdia



Dell'Oro Group

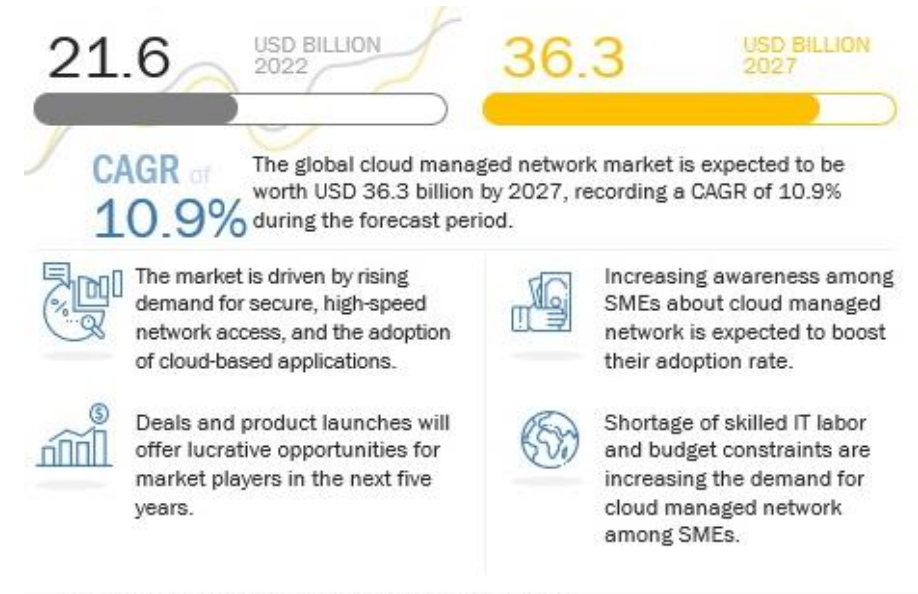
Service Provider Service Trends – Deploying Remote OLT

- ❑ Traditional OLT deployment mainly adopts centralized deployment in local exchange office rooms.
- ❑ Increasing number of applications & devices that require sharing of fiber resources (e.g., 5G base stations, WiFi APs, corporate P2P line applications) led to a shortage of fiber resource.
- ❑ Service Providers are beginning to try deploying more Remote OLT in building basements or remote sites to handle the shortage of fiber resources situations.



Technology and Service Trends : Commercial Networking

- CAGR for cloud-managed network market exceeds 10% by 2027. Additionally, the demand for small to medium-sized enterprises (SME) constitutes approximately 30%, and expected higher growth. The primary reasons for this trend include:
 - ✓ Cloud-managed network solutions offer SMBs more flexible and cost-effective alternatives to centrally manage and protect their network infrastructure. This eases the impact of inflation & IT labor constraint.
 - ✓ Cloud network management solutions creates opportunities for typical network solution vendors to explore software licensing as a new revenue stream. Furthermore, it facilitates the transformation of traditional distribution channels and system integrators into Managed Service Providers (MSPs), expanding their business opportunities.



Source: MarketsandMarkets Analysis



Technology and Service Trends : Commercial Networking

- Zyxel Nebula is the leading cloud-managed network solution tailor designed for SMBs, integrating cybersecurity firewalls, network switches, and WiFi APs.
 - ✓ Number of devices managed through the Nebula solution grew by 20%, and Nebula software license subscription service revenue grew 80% in 2023.
 - ✓ In 2023, we enabled the AI assistance feature, allowing users to get configuration assistance through natural language queries, further enhancing the user experience. Next step will focus on intelligent management, utilizing AI, ML, and analytical technologies to provide more precise monitoring, and predictive maintenance.

- With the demand growth and new product introduction, the cybersecurity product line grew by 20% in 2023.
 - ✓ The most significant growth is in cybersecurity software license subscription service, reaching 400M NTD, accounts for 30% of the cybersecurity business. Double digit growth anticipated in 2024.
 - ✓ Future product development will focus on the innovative application of AI, to enhance the resiliency to against cybersecurity impact.

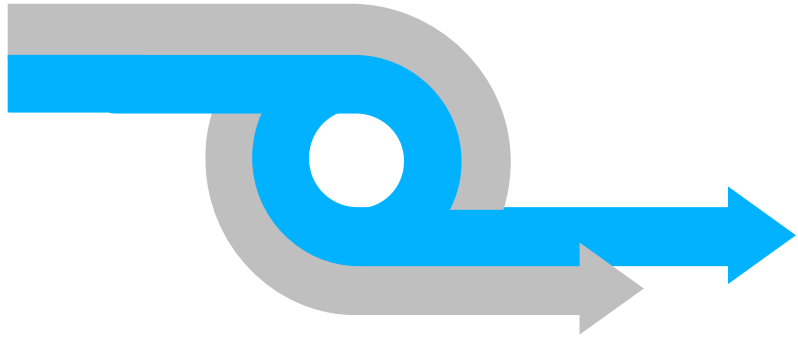


Technology and Service Trends : Commercial Networking

- ❑ Zyxel Networks took lead in introducing WiFi 7 into SMB market. In Oct 2023, a WiFi 7 flagship business wireless AP was introduced, and in Mar 2024, another entry level WiFi 7 AP was released. With the 6GHz support by most new phones & notebooks, WiFi 7 adoption rate will boost from this year.
- ❑ In 2023, a lineup of Multi-G Switch products was completed. In 2024, the primary focus will be developing 100G network switches for the SMB and specific vertical markets. Besides, WiFi 7 AP will further boost the market demand for high-power Multi-G PoE switches.
- ❑ In Feb 2024, Zyxel Network become the world's only networking brand recognized at the elite Provider Acceptance Level by the U.S. government's National Vulnerability Database (NVD). This indicates Zyxel a trustworthy brand in cybersecurity.



The challenge of carbon competitiveness



- ESG performance are listed as key items in telecom customer bidding projects
- Joining the SBTi is a basic requirement for cooperation with key customers
- CBAM becomes one of the factors of cost competition
- Taiwan government imposes carbon fee

Sustainable management Strategy and action

Goals and Commitments

carbon reduction target

Participate in international initiatives

- 50% carbon reduction in 2030, 2050 net zero
- Carbon reduction by 4.2% per year
- Join the SBTi
- Annual response to CDP

Digital transition

Digitizing carbon management

Smart energy management

- Greenhouse gas inventory management platform
- Product carbon footprint management platform
- Energy management platform

Low carbon transition

Production carbon reduction

Energy transition

- Replace energy-consuming equipment
- Solar energy construction plan

Product carbon reduction

Product low carbon design

- Product energy-saving design
- Product carbon footprint inventory

Corporate Governance

Risk Management

- BCM risk assessment and management
- TCFD for climate scenario analysis and financial impact

Human Rights and Community

Human rights and biodiversity

- Human rights due diligence plan
- Support biodiversity

Reduce carbon emissions together with suppliers

- Government subsidy project: [Leading supply chain low-carbon transformation plan](#)
- Hold [a supplier conference](#) and work with suppliers to reduce carbon emissions
- Hosted the [Supplier Zero Carbon Academy](#), with an estimated 4,000 participants
- Support the suppliers to conduct [greenhouse gas and product carbon footprint inventory](#)

ESG Investment Indicators: Rating of the Three Major International Sustainability Indexes



Dow Jones
Sustainability Indexes

Communication equipment
industry

Ranked No. 2

Listed in

**S&P Global's
Sustainability Yearbook
2024**

MSCI
ESG Index

ESG rating

A

FTSE
ESG Index

Telecommunications
Equipment Industry

4

(Full score: 5 points)

Sustainability awards recognition



CDP
Climate Change Rating

B

Management level



Ecovadis
ESG Rating

Sliver Award



臺灣證券交易所
TWSE

Corporate Governance
Assessment

Top 20%

(among 997 companies)



Corporate Sustainability
Reporting Award

Gold Award

Sustainability Report



Corporate Sustainability
Award

**Leadership
Award**

Information Security



Business Weekly

Top 100

Carbon
competitiveness

Outlook



Q&A



ZYXEL
GROUP