



YFC-BonEagle

# YFC-Bon Eagle

## 6220 TT

### 3Q20 Results Presentation

#### December 2020



# Executive Summary

## Driving growth through Branded Product and Channel Innovation

### Culture



- Our company culture is rooted in the Taiwan manufacturing tradition. We compete through strict cost management and superior manufacturing engineering, while driving growth with an entrepreneurial spirit and a strong work ethic.

### Resources



- Yet, we are distinctly untraditional in our ability to acquire and retain top talent in overseas branded channel companies.

### Channels



- Our ambition is to become a globally branded, omni channel presence. That is, we will be as comfortable marketing through Ecommerce platforms as we are selling to traditional, brick-and-mortar retail players. We will sell products that are differentiated and achieve brand recognition, while providing our clients with end-to-end supply chain support.

### Goal



- Our goal is to sustain a minimum 15% ROE. 2017-2019 ROE averaged 13%.

# YFC-BonEagle at a Glance

## *Manufacturing & Wholesale*

***Business Unit:  
YFC-BonEagle***

YFC-BonEagle has 3 factories with a total of over 1.5mn square feet of manufacturing space.

## *E-Commerce & B2B Direct\**

***Business Units:  
Monoprice  
Bestlink***

Monoprice sells over 6,500 consumer electronics items via its E-commerce platform.

\*B2B offline sales to SMB, Installers and Enterprise.

## *B2B Retail Channels*

***Business Units:  
Prime  
Monoprice***

Prime is a leading US supplier of extension cords, surge protectors and power strips. Its top client is Lowe's.

YFC Group has a total of 475,000 square feet of scalable, E-commerce-capable warehouse and distribution space in the US.

# YFC-BonEagle Product Portfolio

## YFC Bon-Eagle

YFC-Bon-Eagle manufactures Power Cords and 3C Cables & Accessories, selling internally and externally.

### Power Cords



### 3C Cables & Accessories



### Heating Cable



### EV Cable Solutions



### Growth Products

## Monoprice

Our core product focus is Own-Brand Proprietary Products for Tech Enthusiasts. Our Retail prices are 30-70% lower than competitors.

### Cables



### Adapters



### Audio & Video



### Accelerator<sup>(1)</sup>



### Pro Audio



**DARK MATTER**



**MONOLITH**

CERTIFIED BY **THX** THXSELECT



### Future Growth

## Prime Wire and Cable

Prime is a branded B2B vendor selling to brick-and-mortar retailers.

### Power Cords



### Surge Protectors



### Timers



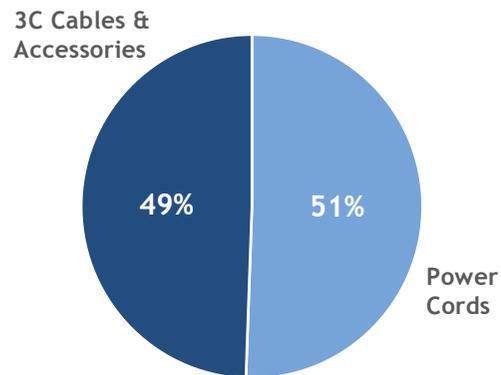
### Lighting



# Sales Breakdown for Key YFC-BonEagle Business Units

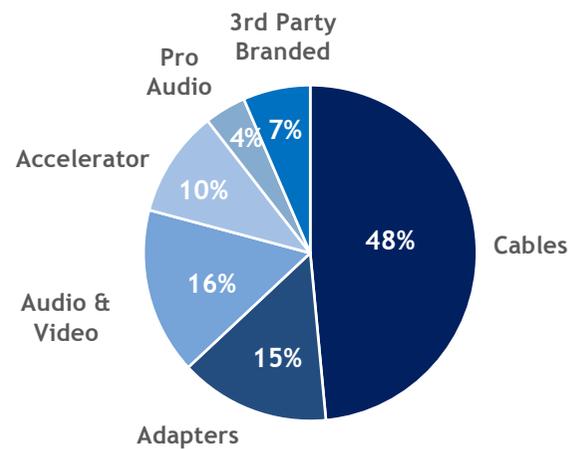
## YFC-BonEagle

% of 2019 Revenue



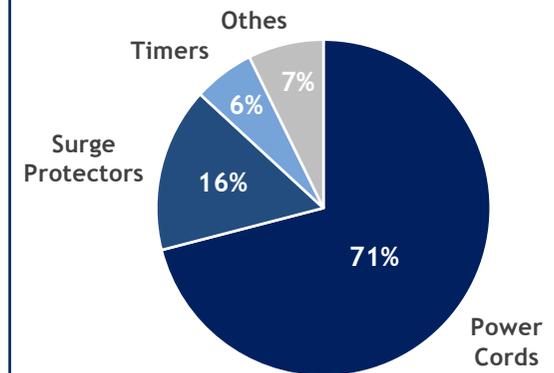
## Monoprice

% of 2019 Revenue



## Prime Wire and Cable

% of 2019 Revenue



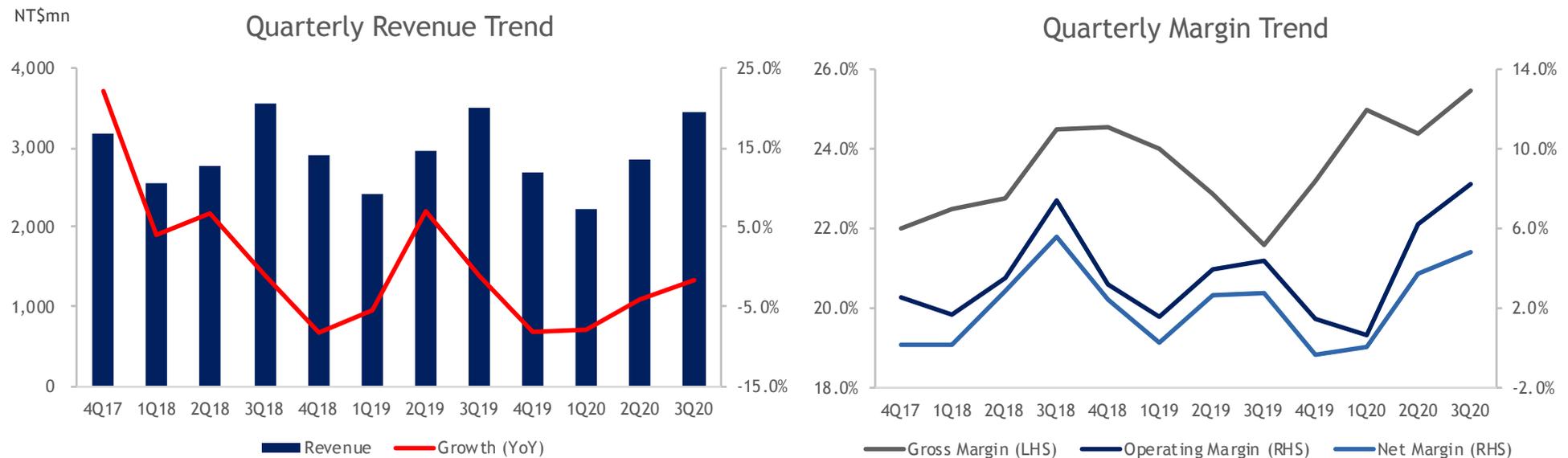


**1** 1-3Q20 Review

# Revenues and Margin Trend

## 3Q20 Revenues & Margins

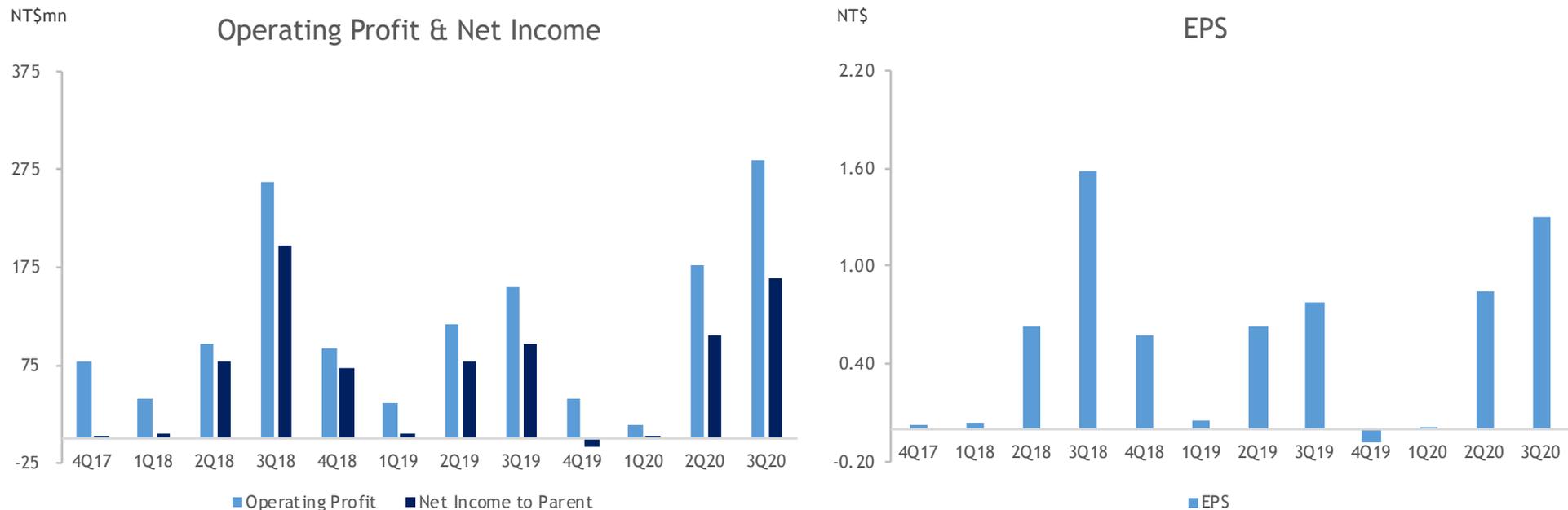
- 3Q20 Revenue was NT\$3.4bn, up 21% QoQ and down 2% YoY.
- Gross Margin was 25.5% versus 21.6% in 3Q19, and the highest level since 1Q17.
- 3Q20 Operating margin was 8.2% versus 4.4% in 3Q19, and the highest level since 3Q17.
- 3Q20 Net Margin was 4.8% versus 2.8% in 3Q19, and the highest level since 3Q18.



# Earnings and Growth Trend

## 3Q20 Performance

- 3Q20 net income was NT\$165m and EPS was NT\$1.30\*, increasing 70% YoY and 67% YoY, respectively.
- 1-3Q20 net income was NT\$273m and EPS was NT\$2.18\*, increasing by 50% YoY and 49% YoY, respectively.



## Update on YFC's 9<sup>th</sup> Convertible Bond

- To reduce funding costs, YFC bought back NT\$78.7mn of the bond at a discount in March when the market traded off due to COVID-19 fears.
- As of 10/21 October, NT\$166.2mn of the bond converted at NT\$25.6/share, creating 6.5mn new shares.
- YFC's current total shares O/S is 131.0mn.
- As of 11/30, NT\$153.4mn of the bond remains outstanding.

Issue Date	2020/2/18
Maturity Date	2023/2/18
Maturity Term	3 years
Coupon Rate	0.00%
Issue Amount	NT\$ 400,000,000
Issue Price	NT\$ 101.0
Conversion Premium At Issuance	114.29%
Latest Conversion Price	NT\$ 25.6
Latest Trading Price	112.25 (2020/11/30)

# Consolidated Income Statement - Quarterly

Unit: NTD million	3Q20	2Q20	3Q19	YoY	QoQ
<b>Net Revenue</b>	<b>3,445</b>	<b>2,854</b>	<b>3,506</b>	<b>-2%</b>	<b>21%</b>
Gross Profit	877	696	757	16%	26%
Gross Margin	25.5%	24.4%	21.6%		
Operating Expenses	594	518	602	-1%	15%
SG&A percent of Sales	17.2%	18.2%	17.2%		
<b>Operating Income</b>	<b>283</b>	<b>178</b>	<b>155</b>	<b>83%</b>	<b>59%</b>
Operating Margin	8.2%	6.2%	4.4%		
Net Non-Operating Income (Loss)	-47	-28	-24		
Pre-Tax Income	236	150	130	81%	58%
Income Tax Expense	71	43	33		
Minority Interest	0	0	1		
<b>Net Income to Parent</b>	<b>165</b>	<b>106</b>	<b>97</b>	<b>70%</b>	<b>55%</b>
Net Margin	4.8%	3.7%	2.8%		
<b>EPS (NT\$)</b>	<b>1.30</b>	<b>0.85</b>	<b>0.78</b>	<b>67%</b>	<b>53%</b>
ROE - not annualized	6.6%	4.4%	3.9%		
Depreciation	58	58	67		
CAPEX	68	23	27		

# 1-3Q20 Overview

- 1-3Q20 sales were NT\$8.5bn, down 4% YoY. This relative resilience in sales was despite the fact that over 80% of YFC's sales is in the US, which has been hard hit by COVID-19.
- YFC's Taiwan and China factories produced at near full operating rates in 2Q20 and 3Q20 as producers in other regions of the world faced COVID-19 related shutdowns. This resulted in improved pricing power for YFC and Prime.
- Additionally, Monoprice own website sales showed robust growth, which is positive for margins.
- As a result, 1-3Q20 gross margin was 25.0% vs 22.7% in 1-3Q19. We also reduced operating expenses by 3% YoY, leading to an expansion in 1-3Q20 operating margin to 5.6% from 3.5% in 1-3Q19.
- 1-3Q20 EPS was NT\$2.18, up 49% YoY.
- We paid an NT\$0.85 cash dividend on 2019 earnings, representing a 61% payout. The ex-dividend date was August 19<sup>th</sup>.

# Monoprice 1-3Q20 Performance

- Monoprice net sales in 1-3Q20 grew 2.3% YoY in US\$ terms and fell 1.6% in NT\$ terms.
- Monoprice was deemed an 'Essential Business' in the US, and was therefore allowed to continue normal warehouse, office and shipping operations. A surge in online business helped the top line, while the office closings of B2B customers resulted in a big drop in sales for this segment, which had been growing rapidly.
- B2B Direct sales were down 25% YoY in 1-3Q20. This factor and a COVID-19 induced shortage of cable & adaptor products, resulted in a 7% YoY drop in Monoprice's Cable and Adapter sales.
- Monoprice.com website sales - the core of its business - were up 25% YoY in 1-3Q20.
- Star products and segments were Audio & Video +31% YoY, Home & Office +178% YoY, Screen Mounts +37% YoY and Displays +144% YoY. These 4 product areas accounted for 29% of total Monoprice sales in 1-3Q20, and collectively grew 52% over last year.
- EU sales increased by 88% to US\$2.3m, allowing introduction of more SKUs.
- Price increases, sourcing outside of China, staff expense reduction and product mix improvements continued to help offset increased costs from the US tariffs.
- Operating profit reached NT\$127m, up 22% YoY.

# YFC BonEagle and Prime 1-3Q20 Performance

- Combined Prime Wire & Cable and YFC BonEagle Factory Direct 1-3Q20 sales were NT\$4.8bn, down 5% YoY.
- Prime's top clients, such as Lowe's and Menards, were deemed 'Essential Businesses' in the US, and were therefore allowed to remain open, though with reduced hours and lower foot traffic.
- The inability of non-Greater China wire and cable manufacturers to operate normally due to local COVID-19 restrictions resulted in a substantial shift in orders to Prime and YFC-BonEagle from 2Q20 onwards, helping to make up somewhat for YFC's COVID-19 related lost China factory production volume in 1Q20.
- YFC's ability to produce when others could not has provided pricing power to YFC direct factory sales and to Prime.
- Enhanced pricing power led to an improved gross margin vs 1-3Q19. This and a 2% reduction in operating expenses resulted in a 61% increase in operating profit for combined Prime + YFC BonEagle factory direct business segments in 1-3Q20.

# YFC Group 4Q20 Outlook

- Prospects for 4Q20 appear to be good for Monoprice, Prime & YFC Factory Direct sales. YFC Group October sales were NT\$972mn, up 9% YoY.
- Order visibility from Prime's top clients extends through January 2021. YFC's Wuxi, China plant has increased output by 30%, by adding shifts and more staff. The plant can continue at this level as needed.
- Pricing power remains strong for now.
- October Monoprice.com own-brand website sales increased 24% YoY, continuing the strong growth of 25% YoY in 3Q20.
- Monoprice's B2B monthly sales bottomed in 2Q at an average of US\$2.26mn per month. Jul-Oct average monthly sales, at US\$2.95mn, were 30% higher than the 2Q20 average, though still down versus last year.

# Opportunities & Challenges - Monoprice

## Opportunities

- New visitor traffic to Monoprice.com rose 41% YoY in 3Q20 and is up 35% YTD. The acceleration in growth in 3Q20 over 2Q20 levels indicates that business momentum is strong.
- The product shortage situation for cables and adapters improved in 3Q20 and seems likely to continue improving going forward.
- Gradual recovery in B2B Direct sales, which was 27% of total sales in 2019, seems likely to continue as economies reopen.
- Non-Amazon marketplace sales led by Target and Walmart are showing robust growth. Monoprice direct sales to Amazon retail are increasing.
- Monoprice opened a Philippines office in October. We expect it will allow us to expand our back office and ultimately lower OPEX per unit revenue.

## Challenges

- EU Monoprice experienced growing pains in 3Q20, mostly related to product distribution and merchandising issues. Changes have been made to the senior management team.
- All transportation modes inbound and outbound in the US are seeing a slow-down and a substantial increase in rates due to heightened demand and limited shipping capacity.
- Expenses related to collection and administration of state taxes and legal fees, as well as challenges associated with local, state, and federal privacy and compliance laws. These are unique to and common within growing e-commerce businesses.

# Opportunities & Challenges - Prime & YFC Factory Direct

## Opportunities

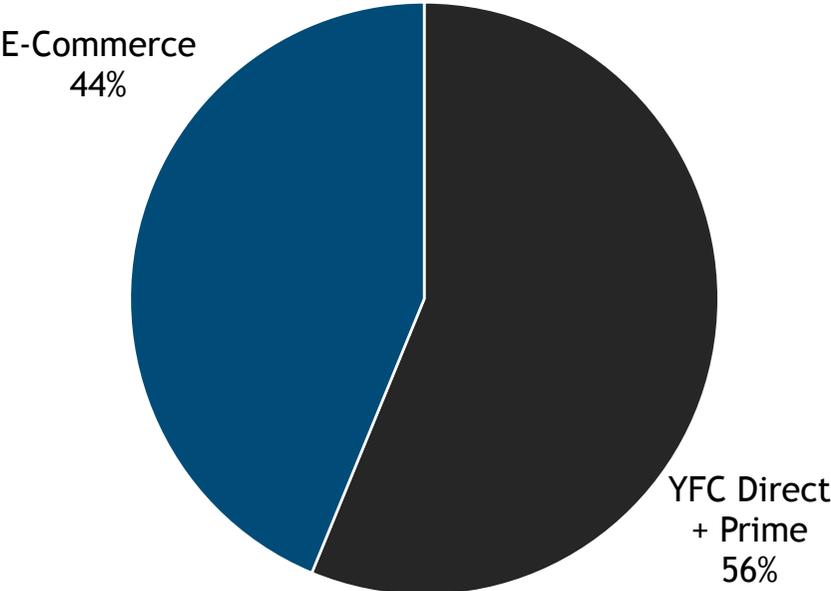
- Pricing remains firm. YFC's ability to produce from China and Taiwan in 2020 has helped win new clients. Though promising vaccines have been developed, the current wave of COVID-19 is still serious in many areas of the world, so having capacity in Greater China should continue to be an advantage for at least the next 3-6 months.
- The need for families to work and study from home has caused a boom in home building and home renovation demand in the US and has been a driver for our power cords business.
- YFC has rented a factory building in the Philippines and ordered production equipment. This is a potential source of more capacity in late 1H21, pending the lifting of COVID-19 restrictions.

## Challenges

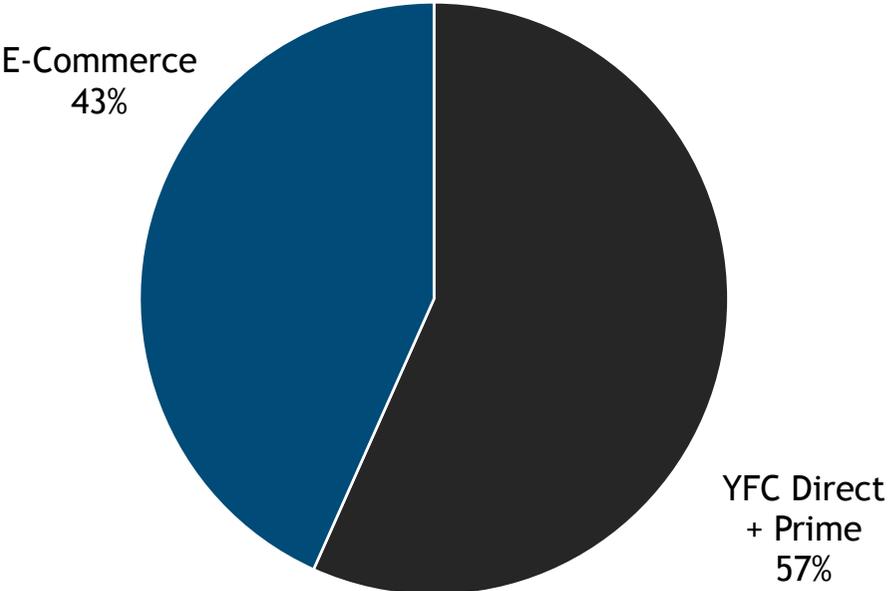
- Several major and mid-level clients are increasingly seeking to go factory direct, which reduces opportunities to sell products sourced from 3<sup>rd</sup> party vendors.
- Uncertainties in US tariff policy are complicating decision-making regarding capital expenditures and plant location.
- Major clients are increasingly requiring and/or asking for production from non-China based plants. When production in countries severely affected by COVID-19 resumes, these requests could become more pressing.

# Sales Breakdown by Channel

1-3Q20

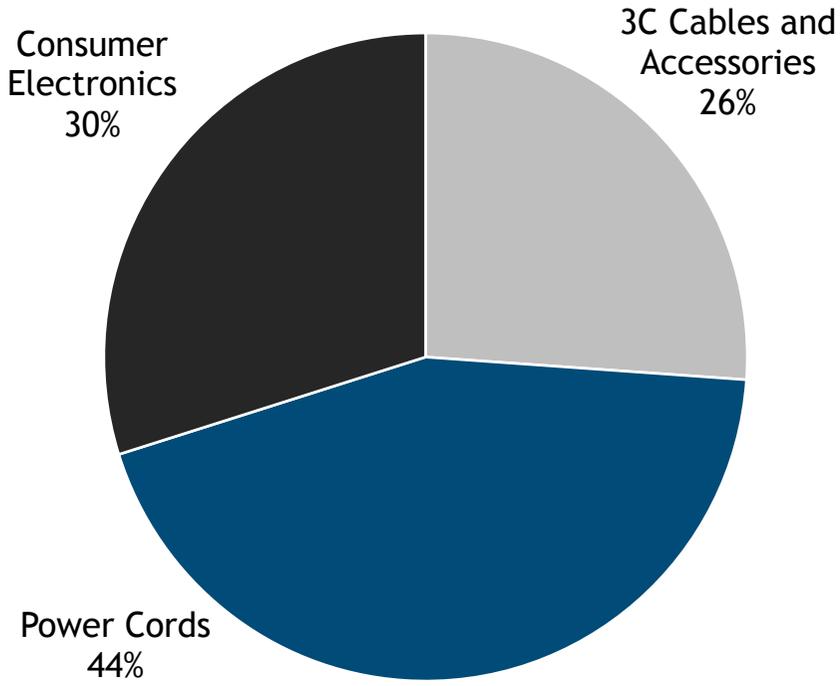


1-3Q19

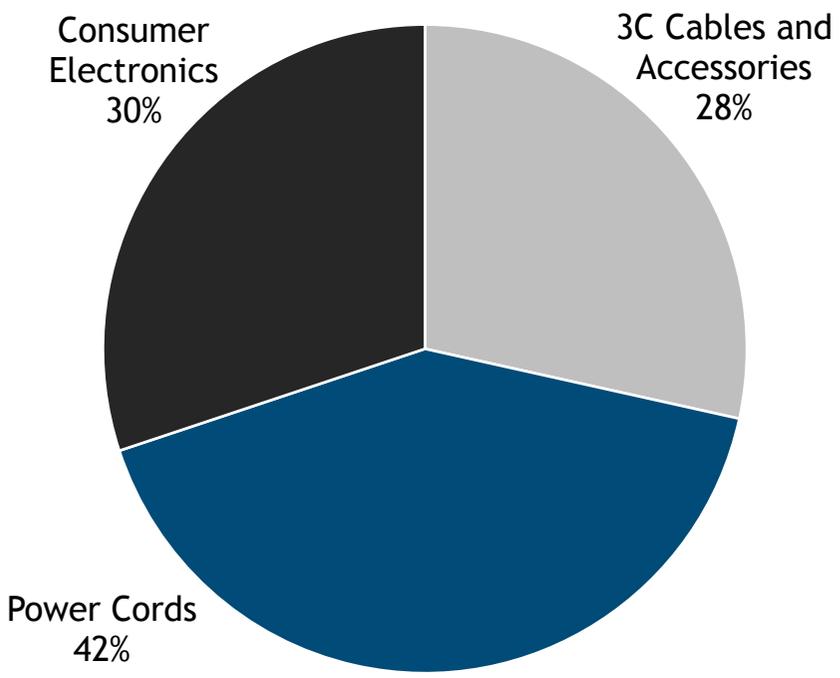


# Sales Breakdown by Product

1-3Q20



1-3Q19



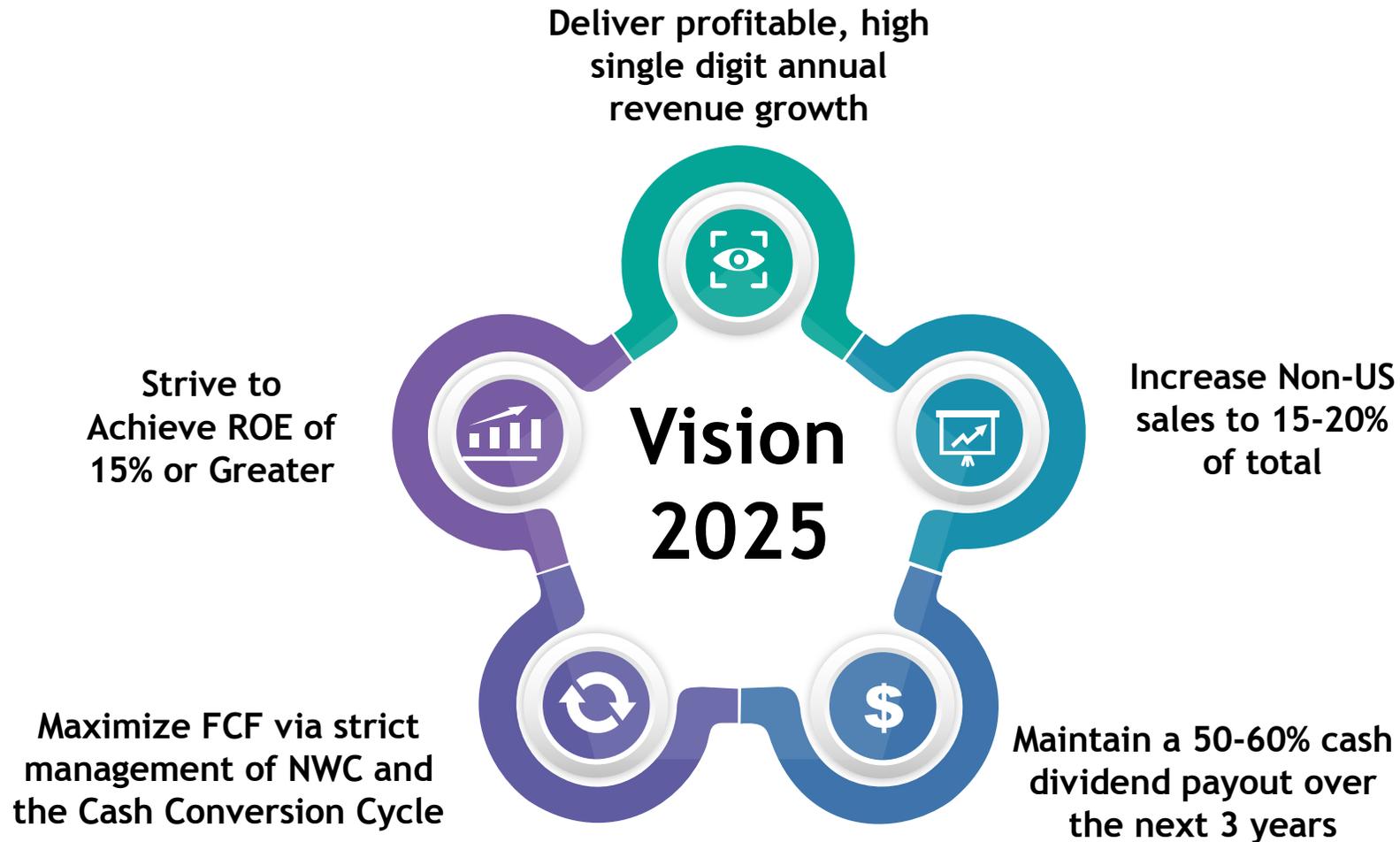
# Consolidated Income Statement 1-3Q20 vs 1-3Q19

Unit: NTD million	1-3Q20	1-3Q19	YoY
<b>Net Revenue</b>	<b>8,522</b>	<b>8,893</b>	<b>-4%</b>
Gross Profit	2,129	2,017	6%
Gross Margin	25.0%	22.7%	
Operating Expenses	1,653	1,708	-3%
SG&A percent of Sales	19.4%	19.2%	
<b>Operating Income</b>	<b>476</b>	<b>309</b>	<b>54%</b>
Operating Margin	5.6%	3.5%	
Net Non-Operating Income (Loss)	-82	-64	
Pre-Tax Income	393	245	61%
Income Tax Expense	121	62	
Minority Interest	0	1	
<b>Net Income to Parent</b>	<b>273</b>	<b>181</b>	<b>50%</b>
Net Margin	3.2%	2.0%	
<b>EPS (NT\$)</b>	<b>2.18</b>	<b>1.46</b>	<b>49%</b>
ROE - not annualized	10.9%	7.2%	
Depreciation	176	195	
CAPEX	101	194	

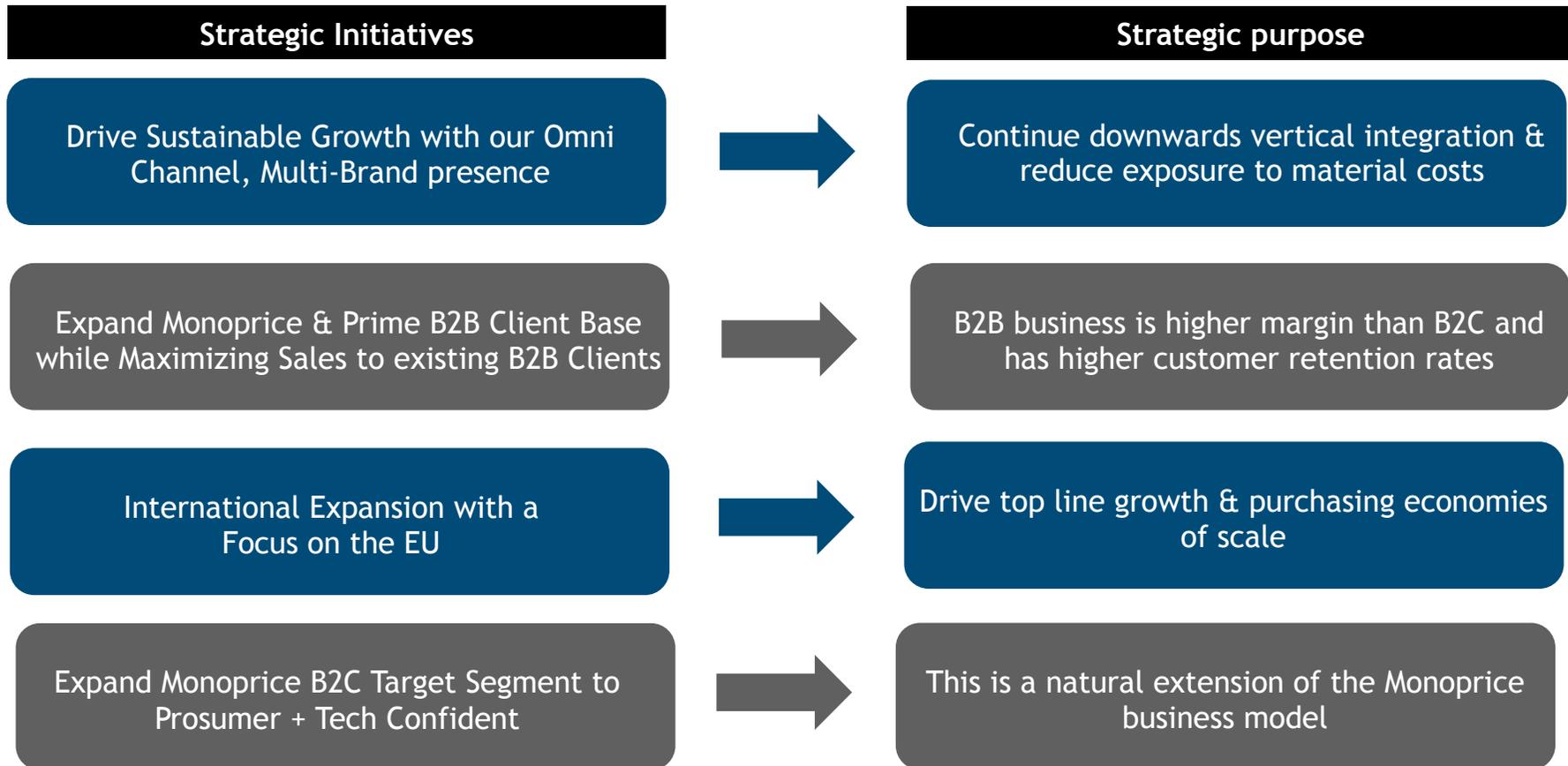
# Consolidated Balance Sheet - Quarterly

Unit: NT\$ million	2020/9/30		2020/6/30		2019/9/30	
Major Item	\$	%	\$	%	\$	%
Cash and Cash Equivalents	1,155	12%	1,702	19%	1,033	11%
Notes and Accounts Receivable, Net	2,854	31%	2,109	24%	2,801	31%
Inventories	2,290	25%	2,217	25%	2,432	27%
Other Current Assets	332	4%	361	4%	281	3%
Fixed Assets	1,356	15%	1,236	14%	1,327	14%
Other Long-term Assets	1,167	13%	1,255	14%	1,250	14%
<b>Total Assets</b>	<b>9,154</b>	<b>100%</b>	<b>8,880</b>	<b>100%</b>	<b>9,124</b>	<b>100%</b>
Current Liabilities	4,884	53%	4,909	55%	5,082	55%
Long-term Debt	1,183	13%	1,171	13%	997	11%
Other Non-Current Liabilities	450	5%	445	5%	534	6%
<b>Total Liabilities</b>	<b>6,516</b>	<b>71%</b>	<b>6,525</b>	<b>73%</b>	<b>6,613</b>	<b>72%</b>
Common Stock	1,246		1,246		1,246	
Certificate of Entitlement to New Shares	65		0		0	
<b>Total Equity</b>	<b>2,637</b>	<b>29%</b>	<b>2,355</b>	<b>27%</b>	<b>2,511</b>	<b>28%</b>
Book Value per Share (NT\$)	21.1		18.9		20.1	
<b>Key Indices</b>						
Current Ratio ( Current Assets / Current Liabilities)	136%		130%		129%	
Net Cash (Debt) to Equity	-118%		-114%		-130%	

# YFC-BonEagle Strategic Vision 2025



# Our Path to Higher Shareholder Returns



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*Thank you!*



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