Taipei Exchange (TPEx) IR meeting _ TSC (TT 3611)

TSC AUTO ID TECHNOLOGY CO., LTD.

2019Q2 financial highlight

Speaker: TSC CFO & spokesman

vivian_chiu@tscprinters.com

Date: 2019-Aug-16

www.TSCprinters.com PrintronixAutoID.com

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Company Profile_ TSC (3611)

TSC Auto ID (TT 3611)	
Chairman	Arthur Wang
President	Sam wang
Capital size_Before ex-dividend	NT$ 385 Millions
Capital size_After ex-dividend (Applicable from 2019/Q2 audited report)	NT$ 424 Millions
2018 revenue (%)	Barcode printer 85.81% Parts and others 14.19%
2018 regional sales (%)	Taiwan 3.7%、Asia (including China) 41.5% EMEA31.8%、America 22.9%
2018 Product mix (%)	Desktop 62%、Industrial 33%、Portable 5%

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About TSC

https://www.tscprinters.com/

INDUSTRY LEADERSHIP

- 25 years of experience building rugged and reliable barcode printers
- More than 4 million barcode printers installed worldwide
- Acquired Printronix Thermal/AIDC Business in 2016
- Top-5 global barcode printer manufacturer
- Significant entry into consumables business after DLS acquisition in 2019/Jan

LOCALIZED SERVICE & SUPPORT

- Over 15 global locations
- 2 ISO-certified factories: Taiwan + Tianjin

Company Highlight

- Publically Listed on TPEx in 2008. Consecutive dividend payout of NT$ 10/per share (or above) since 2014, based on consistent business growth
- Winner of Forbes 200 Best Under a Billion Award in 2011
- Winner of Taiwan Excellence Awards
- Listed in TPEx 50 Index since 2019/July

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Global Manufacturing Sites

Li Ze Plant (TSC)

Country :
Taiwan

Employees :
297

Builds :
Thermal printers & accessories

Tianjin Plant (TTSC)

Location
China

Employees :
165

Builds :
Thermal printers

US Plant (DLS)

Location
China

Employees :
203

Builds :
Labels/ Ribbon

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TSC's History Milestones

1991

Parent company Taiwan Semiconductor (TT 5425) set up Printer Division, for OEM Partnership with Eltron. Plant located in I-lan

2007

Spin-off from parent company

ology Co., Ltd.

TSC Acquires Diversified Labeling Solutions, Inc. (DLS)

- **Taipei, Taiwan – January 10, 2019** – TSC Auto ID Technology (TWSE: 3611.TWO), a global leader in the AIDC barcode printer industry, is pleased to announce its acquisition of Diversified Labeling Solutions, Inc. (DLS), a Leading Labeling Solutions Provider

- Headquartered in Itasca, Ill., U.S., DLS was founded by Bob Hakman in 1985 and has since grown into one of the largest B2B label companies in the country. Today, DLS is a leading labeling solutions provider with over 200 team members; four locations: **Illinois, Georgia**, **Texas, and Nevada**; and over 320,000 square feet of production space.

- Under this acquisition, DLS will remain a separate entity, retain its name and brand, and maintain all of its current employees and executive leadership – including its current CEO, Jim Kersten. All four major locations will run and operate as usual serving distributors and value-added resellers. TSC's John Otott, the global general manager of the consumable products business unit, will oversee DLS operations from a TSC standpoint in partnership with Kersten.

- The DLS acquisition will greatly benefit both **TSC** and **Printronix Auto ID** value-added reseller partners in several ways. TSC now has the ability to offer truly competitive pricing on a huge variety of labels and other media distributed from four strategic locations throughout the U.S. Moreover, with this acquisition, TSC joins its largest competitors in the U.S. market as a company with its own printer manufacturing and labeling converting facilities.

About TSC:

TSC Auto ID Technology Co. Ltd. (TSC) is a global provider of quality Auto-ID solutions for transportation and logistics, manufacturing and healthcare, industry and retail, offering a diversified line of innovative and reliable products with excellent quality. TSC has over 25 years of experience dedicated to barcode and label printers, with more than 4 million installed in over 90 countries That puts the company, headquartered in Taiwan and producing in two own factories, into the top 5 manufacturers of thermal label printers in the world. TSC is traded on the Taiwanese stock exchange. For more information, visit www.tscprinters.com.

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TSC_ Being an Industry solution provider

Manufacturing

Transportation & Logistics

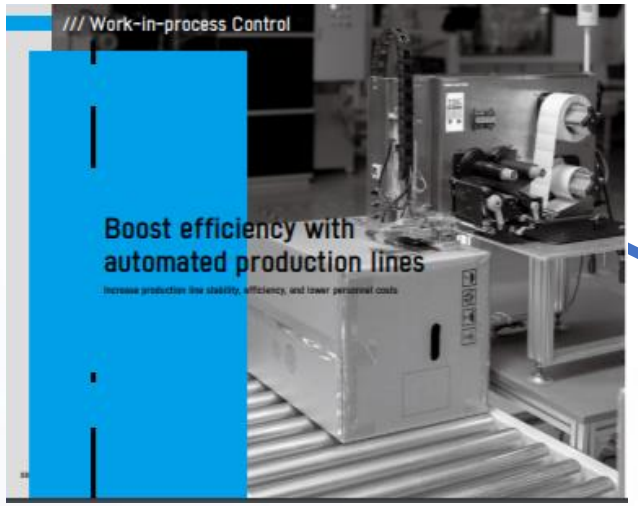
Retail

Healthcare

Hospitality & Service

RFID

TSC industry solution _ Manufacturing



Reduce human error, improve production line efficiency

From material tracking to production process management and inventory control, bar code management systems can accurately integrate all information, effectively reduce human error, and raise production capacity and product quality.

Application

Product marking, work-in-process control, carton/pallet labeling, shipping/receiving labeling, inventory control and document management

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TSC industry solution _ Warehouse and logistics

Improve logistics control procedures, improve operational performance

The barcode management system provides all-around goods management and tracking functions, reduces human error, and improves the efficiency of entry and shipping of warehousing goods, which helps control cost and improves operational performance.

Applications

Item marking, carton/pallet labeling, shipping/receiving, distribution, inventory control, freight tracking, passenger services, ticketing, receipt/coupon printing and document management

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TSC industry solution _ Retail

Improve work flow, increase operational efficiency

Whether it's tracking products, managing inventory, printing receipts, changing price tags, or affixing special labels, TSC's sleek line of retail systems is designed to meet every need a customer may have.

Applications

Point of sale, shelf labeling, product marking, price tag printing and receipt/coupon printing

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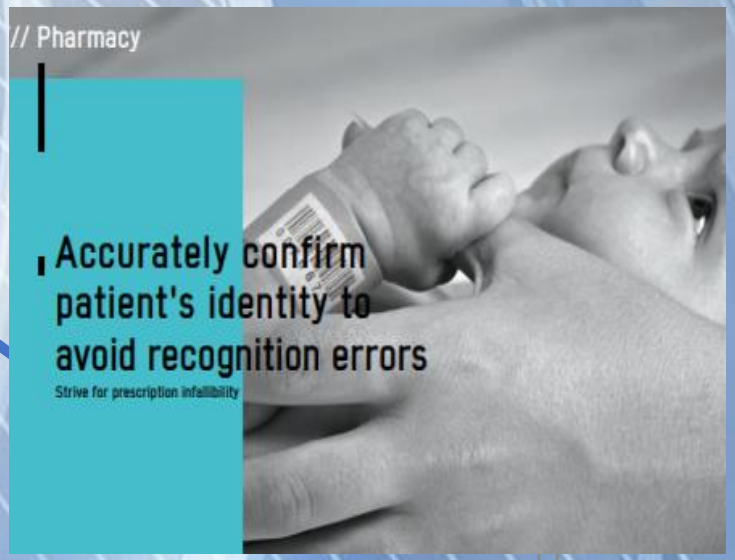
TSC industry solution _Healthcare

Greater medical safety through real-time access to correct case information

With the bar code identification system you can eliminate human identification errors, and ensure accurate tracking and management of patient medical records. This prevents misdiagnosis and misuse of medication and other issues, so that healthcare workers can focus on saving lives and improving the quality of life for patients.

Applications

Patient ID tracking, hospital admission, hospital nursery, specimen/blood labeling, medication tracking, staff ID & access control and healthcare materials management.



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TSC industry solution _Entertainment & Hospitality

Simple operation interface streamlines ticketing and order taking

TSC barcode label devices have a lightweight body and simple user interfaces, and can be used in any type of business environment. These support a variety of label styles, backgrounds and graphics to help create personalized tickets. They can also add confidential information to prevent double-issuing and forgery of tickets.

Applications

Amusement park/theater ticketing, wristband printing, event admission, access control, dining-order fulfillment, receipt/coupon printing, gaming, parking lot ticketing and multiple-up labels

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PRINTRONIX _Thermal and RFID Applications & Markets

Automotive

- Supports strict compliance Labeling requirements including AIAG labels
- Total quality control with ODV
- Data manager for traceability and record keeping

Retail Distribution

- Return labels
- Shelf tags
- Item labels
- Cross-shipping labels

Manufacturing

- “Work-in-Process” tracking
- Pallet Labels
- Compliance labels
- Local label printing

Food & Beverage

- Cold food printing
- Facilitates food traceability

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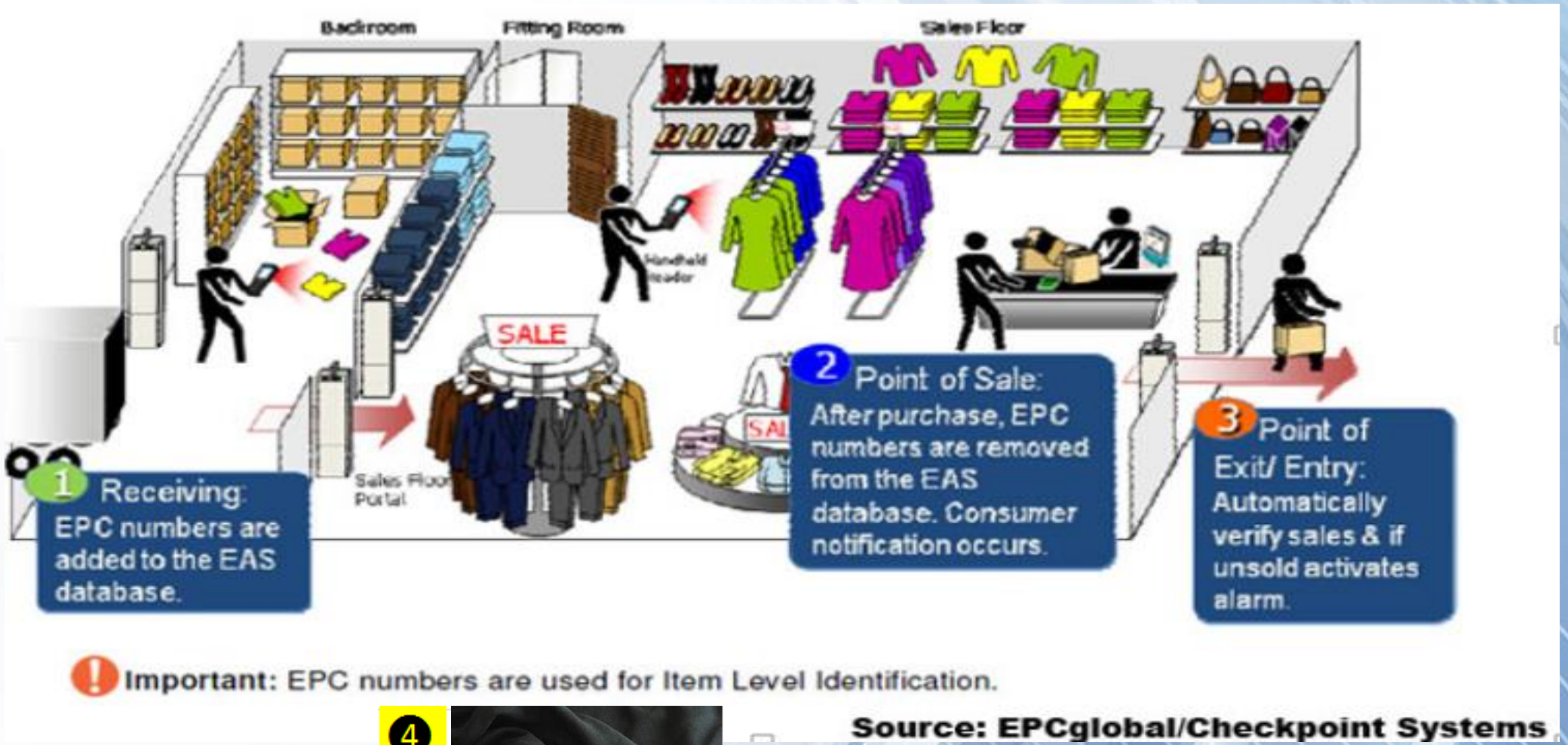
RFDI application_ Apparel retail



On-Pitch RFID

Except for plain/ pre-printed labels,
TSC & PTX also support textile/care Labels

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TSC AUTO ID (TT 3611)_ 2019Q2 Financial Highlight

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TSC Income statement _ (Y2015-Y2018; 2019/Q1 & Q2)

Unit: NT$ Millions

	2015	2016	2017	2018	2019/Q1	2019/Q2
Revenue	$2,659	$3,437	$3,706	$3,925	$1,291	$1,497
COGS	$1,417	$1,878	$2,032	$2,111	$794	$942
Gross Margin	$1,242	$1,559	$1,674	$1,814	$497	$556
Opex	$507	$868	$903	$944	$294	$307
Op. Income	$735	$691	$771	$870	$203	$248
Non-op. Income	$33	$18	$2	$51	-$3	$31
Profit before tax	$768	$709	$773	$922	$199	$279
Profit after tax	$577	$545	$618	$688	$166	$205
EPS	15.14	14.15	16.02	17.84	4.29	4.84
Gross margin (%)	46.7%	45.4%	45.2%	46.2%	38.5%	37.1%
Opex (%)	19.1%	25.3%	24.4%	24.0%	22.8%	20.5%
Op. Income (%)	27.6%	20.1%	20.8%	22.2%	15.7%	16.6%
PBT (%)	28.9%	20.6%	20.9%	23.5%	15.4%	18.6%

- **Revenue growth:**
  DLS revenue consolidated into TSC group since Feb. 1, 2019 (only 2 months P&L from DLS in Q1/2019)

- **Gross Margin change:**
  Mixed with DLS's GM% in Q1 & Q2. DLS still have contribution to TSC's H1/2019 operating income & EPS

- The Q2 audited EPS calculation is based on the **new capital base of NT$ 424M (ex-dividend)**, old capital base was NT$ 385M

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TSC quarterly income statement _ (2019/Q1 & Q2, Qoq; Yoy)

Unit: NT$ Millions

	2019/Q1	2019/Q2	QoQ	2018/Q2	YoY
Revenue	$1,291	$1,497	$206	$1,020	$477
COGS	$794	$942	$148	$557	$385
Gross Margin	$497	$556	$58	$463	$92
Opex	$294	$307	$13	$237	$70
Op. Income	$203	$248	$46	$226	$22
Non-op. Income	-$3	$31	$34	$42	-$11
Profit before tax	$199	$279	$80	$268	$11
Profit after tax	$166	$205	$40	$193	$12
EPS	4.29	4.84	0.55	4.55	0.29
			(Note 1)		(Note 2)
Gross margin (%)	38.5%	37.1%	-1.4%	45.4%	-8.3%
Opex (%)	22.8%	20.5%	-2.3%	23.3%	-2.7%
Op. Income (%)	15.7%	16.6%	0.9%	22.1%	-5.6%
PBT (%)	15.4%	18.6%	3.2%	26.2%	-7.6%

QoQ comparison (Note 1):

- The GM% QoQ changed due to DLS incorporation: (38.5% -> 37.1%) DLS was 100% incorporated into Q2 (vs. two-thirds recognized in Q1).
- Gross margin is slightly lower, but consolidated operating income still increases by NT$ 46m
- DLS acquisition cost was a one-time expense and fully reflected in Q1 Opex
- Q2 Non-op. income was mainly from dividend (NT$ 34M) distributed from share holdings of parent company (TT 5425)

Yoy comparison (Note 2):

- Q2 EPS Yoy growth by 0.29 (including DLS's profit contribution)

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TSC Opex comparison_ (2019/Q1 & Q2, Qoq)

Unit: USD Millions	2019/Q2 TSC + DLS (3month)	2019/Q1 TSC + DLS(2 months)	QoQ	QoQ %
Revenue	$1,497	$1,291	$206	*16.0%*
Gross Margin	$556	$497	$59	*11.8%*
- Sales	$163	$148	$15	
- G&A	$84	$96	-$12	
- R&D	$60	$50	$10	
Opex	$307	$294	$13	*4.3%*
Op. Income	$248	$203	$46	*22.6%*

2019/Q2 vs Q1 QoQ change analysis:

- One-time M&A expense in 2019/Q1: + NT$ 30M
- DLS's financial statement incorporated into TSC's group: Different base period in Q1 (2 months) & Q2 (3 months):
- TSC's Opex increase: Mainly from 1) TSC's Q2 marketing events and promotion
  2) RD investment in new product development & Product certification fee

=> Operating income increases by NT$ 46M, 22.6% (Qoq growth)

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TSC Opex comparison_ (2019/H1 & 2018/H1, Yoy)

Unit: USD Millions	2019/H1 TSC +DLS (5 months)	2018/H1 TSC Only	Yoy	Yoy %
Revenue	$2,787	$1,936	$851	*44.0%*
Gross Margin	$1,053	$860	$192	*22.3%*
- Sales	$312	$282	$29	
- G&A	$181	$85	$96	
- R&D	$109	$92	$17	
Opex	$602	$459	$142	*31.0%*
Op. Income	$451	$401	$50	*12.4%*

2019/H1 vs 2018/H1 Yoy change analysis:

- One-time M&A expense in 2019/Q1: + NT$ 30M
- DLS's Opex (2019/ Feb.-June) consolidated into TSC's F/S: +US$ 2.5M
- Amortization expense (+NT$ 9M) : Mainly from 1) the intangible asset from DLS acquisition
  2) TSC's ERP upgrade (Amortized since 2018/ June),
- Depreciation expense (+NT$ 21M) : Mainly from 1) DLS's operation asset acquisition
  2) New definition of "Right-of-use asset" on operating leasing
  (New IFRS 16 leasing adoption, effective from Jan.-2019 in Taiwan)
- RD expense: NT$ 17M

=> Operating income increases by NT$ 50M, 12.4% (Yoy growth)

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TSC statement of cash flows _(2019/H1, Yoy)

Unit: NT$ Millions

	2019/ H1	2018/ H1	Yoy comparison
Cash inflow from operation (including tax payment)	**526**	**435**	**$92**
-Cash outflow from acqusition	$1,115	$0	$1,115
-Asset purchase	$71	$4	$67
-Intangible asset purchase	$7	$2	$5
Cash outflow from investment	**($1,190)**	**($21)**	**($1,170)**
-CB repayment	($1,200)	$0	($1,200)
-Term loan financing	$1,960	$0	$1,960
-Term loan repayment	($245)	$0	-$245
Cash inflow/(outflow) from investment	**$476**	**($4)**	**$479**

- **Strong/ positive cash inflow from operation supports consistent dividend payout policy**
- **Term loan repayment of NT$ 245M in 2019/H1, for CB repayment and M&A demand in Q1**
- **Cash dividend payment of NT$385M on Aug-16, 2019 is recorded in Q2 B/S**

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Future strategic opportunities

Consumable (Ribbon/ Label)

- Less than 3% of sales before DLS acquisition took place in Jan/ 2019. Now, Consumable sales (from DLS) accounts for nearly 30% of TSC consolidated sales.
- Represents great source of recurring revenue
- Bundling program with Hardware & Service Contracts

Developing extended warranties and after service contract

Barcode Verification

- ODV-2D is the industry's first affordable, fully integrated solution with the ability to print and validate 1D and 2D barcodes
- Required for 100% error-proof labeling of products

RFID

- Increased adaption of RFID labels in APAC

Print Engine

- With increasing production line automation demands, new opportunities are emerging for Print Engine market

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Thank You

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