

Delta Electronics 1Q 2026 Results Meeting

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Disclaimer:

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Moderator (Senior Vice President of Corporate Investment):

Welcome, everyone, to our second earnings conference of the year.

Although it's raining a bit outside today, we're very grateful to see such a strong turnout—thank you all for coming.

However, precisely because of this great turnout, the venue is a bit overcrowded, and I imagine some of you may feel slightly uncomfortable. Therefore, we will be implementing some measures to address this situation.

Before we officially begin, let me first invite our IR Director to walk you through these arrangements.

IR Director:

Hello, everyone. Thank you again for attending today's earnings conference despite the weather.

As Lanford just mentioned, due to space limitations—and to avoid any potential fire safety concerns—we have introduced a registration system starting from this session.

If you did not notice it this time, please note that in future invitations, there will be a registration link included. We kindly ask that you make sure to complete the registration.

If you do not receive the invitation email, the registration form will also be available on our company website. So for those who wish to attend in person next time, please be sure to register in advance, as we need to control the number of attendees. Otherwise, if the number exceeds our capacity, we regret that some of you may not be able to enter the venue.

For those attending the online conference, starting from this session, the real-time translation will be AI-generated. We will review and correct the full transcript afterwards, but the live translation will be done by AI.

So please forgive us if there are any errors during the real-time translation—those are unfortunately unavoidable—but we will do our best to provide a fully corrected transcript for download after the analyst meeting.

Moderator (Senior Vice President of Corporate Investment):

We are now officially entering the AI era.

Let's now invite our IR Director to walk you through the first-quarter results, and we will open the

floor for Q&A afterward.

IR Director:

Alright, as usual, I'll first go through the numbers.

The first-quarter figures are relatively straightforward, as they cover only one quarter. All consolidated numbers have been reviewed by our auditors.

First-quarter revenue came in at NT\$159.4 billion, which is slightly down by 1% quarter-over-quarter, mainly due to seasonality. Year-over-year, revenue grew by 34%, which is broadly in line with last year's growth rate.

Gross profit reached NT\$59.0 billion, with a gross margin of 37%. The improvement in gross margin was mainly driven by product mix and economies of scale. Compared to the same period last year, there were still some one-off factors, which we can elaborate on later. In terms of absolute value, gross profit increased by 56% year-over-year and by 5% compared to the previous quarter.

Operating expenses also increased, rising by 29% year-over-year. However, due to economies of scale, the expense ratio declined from 20% in the first quarter of last year to 19.2%. Compared to the fourth quarter, it increased slightly.

With the stronger gross margin, operating margin reached a historical high of 17.8%. In terms of operating profit, it increased by approximately 102% year-over-year and by 8% quarter-over-quarter.

As for the revenue and operating income breakdown by business segments, as we show every quarter, it is clear that the main drivers of both revenue and profit growth come from Power Electronics and Infrastructure. This is primarily due to the current growth momentum from the data center business, which is mainly reflected in these two segments.

Other segments remain relatively under pressure, and the Mobility segment recorded a slight loss in the first quarter.

On the non-operating side, we recorded a gain of nearly NT\$2.7 billion in the first quarter, which is more than NT\$1 billion higher year-over-year. Compared to the fourth quarter—which was negative—this is a significant improvement.

As a result, pre-tax income reached NT\$31.1 billion, also a historical high. EBITDA for the first quarter was NT\$39.4 billion, with an EBITDA margin close to 25%. These figures represent increases of 99% and 71% year-over-year, respectively, and roughly 20% quarter-over-quarter.

The effective tax rate is similar to last year, currently around 23% to slightly above 23%.

Non-controlling interest mainly reflects the performance of Delta Thailand. Due to its strong growth, this figure has continued to rise, reaching approximately NT\$3.3 billion in the first quarter.

After deducting non-controlling interest, net income came to NT\$20.55 billion, representing a year-over-year increase of about 101% and a quarter-over-quarter increase of 19%. Net margin reached 12.9%, also a historical high.

Based on this, EPS for the first quarter was NT\$7.91.

Moderator (Senior Vice President of Corporate Investment):

Recently, the topic of AI data centers has remained very hot, and our growth momentum is also largely driven by this area.

Over the past few quarters, we have consistently discussed the need to observe how hyperscalers perform after making these investments—specifically, how their revenue is growing and whether they are generating profits.

Before we move into the Q&A session, I'd like to briefly provide some background.

Coincidentally, just in the past couple of days—actually, I believe it was yesterday—all of the hyperscalers have released their latest results. I'll briefly go over some key figures. I believe many of you are already familiar with them, but this context may help facilitate the Q&A discussion.

All major hyperscalers reported year-over-year revenue growth.

Meta grew by 33%, Amazon by 17%, Google by 22%, and Microsoft by 18%.

In addition, their cloud service segments are growing faster than their overall revenue. Within cloud services, their AI-related businesses are growing even faster.

Let me use Amazon as an example. Its overall revenue growth was 17%, while AWS grew by 28%. Within AWS, AI-related services grew by 170% quarter-over-quarter.

So, the overall growth in AI that we are seeing today is happening under this kind of backdrop. When discussing related questions, it may be helpful to keep this context in mind, as it provides a clearer picture of where Delta's growth momentum is coming from.

With that, we will now open the floor for Q&A.

Audience (Morgan Stanley – Sharon):

Chairman and management team, good afternoon. This is Sharon from Morgan Stanley. First of all, congratulations on the very strong results.

I have two questions.

For the first question, we noticed that both gross margin and operating margin in the first quarter were very strong. Rodney mentioned earlier that you could share more details—specifically, whether there were any one-off gains recognized in the first quarter that contributed to this performance, or whether this was mainly driven by product mix and economies of scale.

Looking ahead to the next few quarters, based on your historical trend, the first quarter is usually the lowest point of the year. Should we expect that the first quarter margin could again be the bottom this year, with potential further improvement in the coming quarters?

That's my first question.

Moderator (Senior Vice President of Corporate Investment):

So this is a compound question—actually two questions within one.

The first is about Q1 margin, and how much of it is attributable to one-off items. Perhaps we can ask our CFO to address this first, and then the Chairman may add further comments.

CFO:

In the first quarter, in addition to revenue growth reaching a scale that brings economies of scale, AI-related businesses also carry higher-than-average gross margins.

However, our gross margin in each quarter is often affected by certain one-off income or cost items. In the first quarter, we did receive some compensation from customers due to order cancellations. Since the related costs had already been incurred in the past, this resulted in a higher gross margin in this quarter.

This impact was approximately 0.7% of total revenue.

Moderator (Senior Vice President of Corporate Investment):

As for the second question—whether margins in the coming quarters will follow a similar seasonal trend—perhaps we can ask the Chairman to comment.

Chairman:

It still depends on the overall product mix. But based on what we see now, the proportion of AI-related products will continue to increase. Relatively speaking, I believe gross margin should be better than last year.

As for whether it can go even higher, I would say the current level is already quite high. So that's how we see it.

Audience:

For my second question, I'd like to ask about a longer-term strategy.

At GTC this year, you emphasized your modular data center solutions. We also saw your recent investment with CTCL in Taiwan on intelligent engineering solutions.

Could you share your thoughts on this business—specifically your strategy and development pace for modular data centers? And roughly when we might start to see meaningful revenue contribution?

Chairman:

Currently, most of our revenue still comes from large cloud data centers.

We see modular data centers as the next wave—initially for co-location customers, and later for enterprise customers.

The reason for this is that building AI data centers—whether in terms of power distribution or liquid cooling—is quite different from traditional data centers. Integrating these high-compute racks into

existing data centers has a significant impact.

Even for ourselves, when we started deploying this last year, it took quite a long time.

Also, these systems are expensive, but compared to traditional setups, they are more standardized, and each rack delivers very high computing power. That's why we started designing modular solutions.

At present, some co-location customers are adopting this, but volumes are still relatively small.

In the future, if enterprises want to adopt GPU-based computing, modular data centers will likely be more suitable. Otherwise, modifying their existing data centers would be quite difficult.

In practice, both will coexist—traditional CPU-based systems and future GPU-based AI systems.

For example, in our own case, our first generation system was installed inside our data center, and it was still liquid-to-air. For the second generation, which uses liquid-to-liquid cooling, we placed it in a container outside the data center. The two systems operate together quite well.

Moderator (Senior Vice President of Corporate Investment):

Let me provide some background on the deal with CTCL.

Historically, we have had strong capabilities at the server room level—we have many products there and a deep understanding of how to set up server rooms.

However, at the facility level, we have relatively less involvement. So we have been considering whether we should expand into this area—either through M&A or partnerships—to enhance our product and service offerings.

After evaluating various options, we found CTCL to be a very suitable partner. So we made a relatively small private placement investment.

CTCL is one of the leading EPC companies in Taiwan and already has substantial experience in data center projects. Through this partnership, we are beginning to extend our involvement into the facility side of data centers.

In addition, CTCL has strong expertise in the power grid. We also hope to further develop capabilities in microgrid solutions. So this is just the beginning.

Are there any more questions from the floor? Otherwise, we will move to online questions.

Audience (Macquarie – Nick):

Hello management team, this is Nick from Macquarie.

I have a question regarding HVDC. You mentioned there may be some shipments in the second half of this year. Before shipments begin, what kind of preparations are required—for example, on-site deployment personnel, additional inventory, or any key indicators we should monitor?

Also, for HVDC, are there differences in strategy or design between GPU customers and ASIC customers?

Chairman:

Customer progress on HVDC is generally on track. However, the timing of larger volume shipments will still depend on when customers decide to ramp up procurement.

Moderator (Senior Vice President of Corporate Investment):

Regarding differences between hyperscalers and chip design companies, I can take this question.

The most discussed topic is NVIDIA's 800V DC architecture, which will be introduced in its Kyber rack platform. Based on our understanding, large-scale deployment is expected around 2027, so meaningful volume shipments will likely come next year.

However, on the power side, we cannot wait until next year—we have already been working with customers well in advance.

There is also the $\pm 400\text{V}$ DC architecture, which some hyperscalers are adopting. This approach allows for earlier deployment, so we expect some production shipments of $\pm 400\text{V}$ DC solutions as early as this year, although volumes will not be large.

One reason $\pm 400\text{V}$ DC can be deployed earlier is that its installation structure is more similar to existing AC-to-DC systems—essentially using positive, negative, and ground lines. In contrast, 800V DC typically uses a two-line system, which requires a different installation approach.

We have also mentioned before that high-voltage technicians are not widely available, and this is not something we can directly control—we cannot train all of them ourselves. So there is still some time needed to prepare for 800V DC deployment.

In summary, we expect some shipments for $\pm 400\text{V}$ DC this year, while 800V DC will likely ramp up next year.

Audience:

I have a follow-up question. Recently, many CSPs have mentioned rising component costs. Are you seeing shortages in raw materials such as chips, copper foil, or other components?

Also, in response, are you planning to increase inventory levels, such as extending inventory coverage?

Moderator (Senior Vice President of Corporate Investment):

Perhaps we can ask our CFO to address the cost and materials situation.

CFO:

With rising oil prices and supply constraints, the overall supply chain situation remains uncertain. We expect costs may increase in the coming quarters.

As for inventory, it stood at NT\$119.1 billion in the first quarter. While the absolute amount has increased, inventory turnover days remain within our controllable range.

We typically manage inventory turnover within about a 10% range. Going forward, inventory levels may continue to increase.

Audience (J.P. Morgan – Anthony):

Hello management team, this is Anthony from J.P. Morgan.

I have a question on a more forward-looking technology—fuel cells.

Previously, management mentioned that pilot production might begin by the end of this year. Could you update us on the current progress, customer interest, and your capacity planning in response to that interest?

Also, could you share any outlook on potential revenue and margins from this business? And what types of customers are you targeting—CSPs or enterprises?

Chairman:

Fuel cell technology is still relatively new.

Most SOFC systems on the market operate at high temperatures—around 800°C. Our system operates at around 500–600°C, which we believe improves reliability and extends lifespan. It also offers slightly higher efficiency.

This technology is mainly used for distributed power generation.

This year, we have delivered some samples. Our first system was delivered to Taipower. Based on what I understand, they may begin continuous operation around May. Before delivery, we had already conducted extensive internal testing, and performance has been stable.

We have also delivered one or two units to enterprise customers, and they are currently testing them.

Mass production will not begin until next year. At present, some systems use racks sourced from the UK, while others are hand-built in our lab. Next year, production will shift to our own manufacturing lines, and formal deliveries will begin.

This year is mainly focused on sampling and testing.

There are also potential applications with gas companies, as this technology can expand gas utilization. The efficiency is quite high—around 60% for pure power generation, and up to 85% when combined with heat recovery systems.

Compared to traditional gas turbines, this is significantly more efficient. We believe this will have strong applications in islanded systems and microgrid-based distributed generation scenarios.

Audience:

Hello Chairman and management team. I'd like to follow up on margin.

Earlier, you mentioned that AI is driving the Company's growth, and that seasonality is basically no longer as apparent. So can we understand that Q2 should be better than Q1, particularly in terms of

power and cooling shipments?

My second question is a follow-up on the $\pm 400V$ architecture. Some peers have said that customer adoption of $\pm 400V$ does not seem to be as strong as 800V, partly because grounding issues are more complicated. What are you seeing in terms of customer adoption?

My third question is more near-term. I recall seeing in the Chairman's business report that Delta is developing multi-phase TLVR inductors. Could you explain how this differs from traditional VRM, and update us on the development progress?

Moderator (Senior Vice President of Corporate Investment):

The last question is too technical, so perhaps we can find another time to discuss the details with you.

Your first question is still about margin, correct? You are hoping we can break out AI-related margins. We do not specifically break out those figures, because we have never been entirely certain how to define which products are truly AI-related. Once the products reach customers, we do not necessarily know exactly how they are being used.

What we can discuss is the overall, general margin trend.

As the CFO mentioned earlier, our margin has improved partly because of product mix. We believe many of these products are shipped to hyperscalers and used in their data centers. These are relatively new products, and because they are new, their margins are higher. This situation should be sustainable for a period of time.

This is also related to the fact that the major hyperscalers are currently performing fairly well. As another data point, the four hyperscalers' full-year CapEx last year was around US\$410 billion, and this year their full-year CapEx is expected to be around US\$670 billion. That represents growth of more than 60%.

So this continues to drive growth in AI data center-related products, and margins in this area are currently relatively better.

Audience:

Earlier, you mentioned that customer cancellation compensation in the first quarter accounted for close to 1% of revenue. Could you share more about the customer background and the cancellation situation? Is it possible that some of this could carry into future quarters?

Second, yesterday you announced an investment of over NT\$10 billion in the Guanyin plant. This should be a new plant. Could you explain what the main investment items are?

Last time, the Chairman also mentioned that Delta would continue to consider its global footprint this year, either through new investment locations or expansion at existing sites. Are there any new developments in global capacity planning this year?

Finally, on CapEx, first-quarter CapEx was already around NT\$11 billion, while last year it was around NT\$46 billion. Do you have any guidance for full-year CapEx this year?

Moderator (Senior Vice President of Corporate Investment):

Let me first answer the first two questions, and then the CFO can add anything if needed. The CapEx question can also be addressed by the CFO. For the last question on global footprint, we will ask the Chairman to respond.

On your first question regarding the customer compensation, which was close to 1% of revenue, this was mainly related to EV customers.

In the EV segment, some models were delayed or cancelled. In our contracts with these customers, there are clear clauses stating that under certain circumstances, the customer may need to provide compensation. That is the situation here.

If the CFO has anything to add, please go ahead.

CFO:

Order cancellation compensation is something we discuss with customers on an ongoing basis, but the amounts are usually not very large.

For larger one-off cases like this, negotiations usually take a long time, and many costs have already been incurred.

Under conservative accounting principles, we cannot recognize these items before there is a clear outcome and supporting documentation. In this case, we did receive the payment.

As for whether this will continue into the next quarter, that is difficult to say.

Regarding CapEx, based on our current estimate, this year's CapEx will definitely be higher than last year's.

For production equipment, spending last year was around NT\$27.8 billion, and this year we expect it to grow by around 8% to 10%.

For plant construction, since these new plants follow project progress schedules, payments are not made all at once. Spending on plant construction will increase slightly.

Overall, total CapEx will be higher than last year's NT\$46.1 billion.

Chairman:

The Board has approved the construction of the Guanyin plant. It will be built in two phases, and this time we are starting with Phase 1.

The Phase 1 plant is mainly for fuel cells. Our pilot production line for fuel cells is in Tainan, so next year's production will come from the pilot line.

For production after the end of 2027 and into 2028, the production lines will be in Guanyin. That is why we need to build this plant quickly.

If the Guanyin plant is completed by 2028, we will have larger capacity there to add mass production lines.

There will also be another plant in Guanyin, which will be Phase 2. That will likely come after 2028, because of the overall schedule and internal workflow planning. So we will build part of it first.

On global capacity planning, our capacity is actually quite tight.

At the moment, India still has relatively more available space. The Chongqing plant has just been completed, and we are now moving some products from Central and South China to Chongqing, so that we can free up space in Central and South China to support customer demand.

As for new plants, we still have construction plans within our existing sites. This includes additional plants in South China, Suzhou, Wuhu, and Chenzhou, where one plant is already under construction. Basically, we are building in many locations.

However, capacity in these locations is already quite full. After adding one or two more plants, they will probably also be full.

Thailand will also continue to expand. In addition to the three plants to be accepted this year, there will be another three to four plants later on. The U.S. plant is also under construction.

At the same time, we are still looking for new regions. If AI continues to grow at this pace—as it grew by more than 30% last year, and this year looks unlikely to be much different—it will require significant capacity.

Customer demand is also quite variable. Some customers require production outside China, while others can use capacity in China. So we need to prepare capacity in different locations.

Our current thinking is that we may need to find some newer sites to accelerate expansion. If a factory is built but not yet operating, cash still needs to be spent, but the actual cost is not very high. The higher costs come later from equipment investment and operating expenses.

So we hope to prepare more empty factory space in advance to meet customer demand.

Audience:

Hello, I'd like to ask about fuel cells.

Bloom Energy has been very popular recently. What is the difference between Delta's fuel cells and Bloom Energy's fuel cells?

As I recall, Bloom Energy's operating temperature is higher, and its efficiency is also higher. Delta just mentioned that your operating temperature is lower.

Another question is that Bloom Energy is currently looking for customers in Taiwan. What are the differences between Delta and Bloom Energy?

Chairman:

Basically, the material characteristics are similar.

Bloom Energy operates at a higher temperature. With a higher operating temperature, the surrounding components and the overall system need to withstand higher heat, which becomes more critical.

Our materials are similar, but our operating temperature is about 200 degrees lower.

Another point is that Bloom Energy already has mass-produced products, and its business is doing very well now.

Bloom Energy's products are mainly ceramic-based, without metal support. Our products, in addition to ceramic, also have metal support, so the overall reliability should be better. Relatively speaking, our efficiency should also be slightly higher.

However, these results are based on our lab testing. The actual outcome will only become clear once we move into mass production.

Another important issue to consider in the future is cost. Fuel cell costs are still high, so supply chain development and the development of new suppliers will be very important topics.

Audience (Reuters – Li Wen):

Hello, I'm Li Wen from Reuters. I have two questions.

First, could you share the current gap between Delta's available capacity for AI power supply-related products and the current demand from CSP customers? How large is this gap?

Behind this gap, are there any particular raw materials where shortages are more severe?

Second, the CFO mentioned rising oil prices earlier. Are you seeing any raw materials in the supply chain that are more affected by issues in the Middle East?

Thank you.

Moderator (Senior Vice President of Corporate Investment):

Both questions are related to capacity and material prices.

Perhaps we can first ask the CFO to address the second question—specifically, where rising oil prices have the greatest impact on our raw materials.

CFO:

In fact, it affects quite a number of areas, and it is difficult to explain everything clearly here.

But for example, overall supply chain conditions and memory prices are both moving higher.

For our part, we will continue to collect this information and discuss it with customers.

Moderator (Senior Vice President of Corporate Investment):

Let me add a few comments.

Last quarter, there happened to be a question about the Middle East situation. At that time, I think our response was that people were mainly talking about Iran. Then, not long after that earnings conference, the conflict involving Iran actually broke out.

Perhaps after this question today, it may end immediately—we really do not know.

Right now, Donald Trump has come out and said that this blockade strategy may continue for some time. Of course, since he says different things every day, we have to pay attention every day.

As mentioned before, oil at US\$50 may have been too low, but if it goes above US\$100, that may be too high. Where is the right level? Perhaps US\$70–80 would be best. But whether and when it can return to US\$70–80 is difficult to say at this point, because the conflict is still ongoing.

Fortunately, over the past few days, it has not been a hot war; it is more in the form of a blockade. If oil from other regions, excluding Iran, can still be exported, perhaps oil prices may stabilize somewhat.

Another point is that the U.S. still has a lot of oil. If the U.S. increases production, because when oil was at US\$50, no one wanted to drill shale oil as it was not economical. But now, at US\$100, shale oil production may start to come back. If that happens, perhaps oil prices may return to US\$70–80, and raw material cost inflation may ease somewhat.

But another thing we need to watch is that with so many AI data centers being built at once, inflation driven by AI data center demand does seem to be happening. This may not be directly related to oil. It is simply because demand is very strong and supply may be somewhat insufficient, including memory and other components.

So the first question was about whether there is a gap between our own capacity for AI power, including raw materials, and hyperscaler demand. Perhaps we can ask the Chairman to respond.

Chairman:

When we talk about capacity, we are definitely not talking about today.

For power supply and cooling, our share at customers is very high. If our capacity today had a problem, all customers would be extremely concerned.

When we talk about capacity, we are usually talking about one year later, because customer growth is very fast. And to be honest, it is sometimes difficult for us to judge how much of the demand is real.

When overall demand is growing significantly, customers come to discuss next year's and the year after next's capacity, and the numbers they request are very, very large.

If we were to prepare capacity fully based on what they are asking for, our current capacity would definitely not be enough. So we need to build quickly, find locations quickly, and expand factories quickly. But this is not about today.

When it comes to capacity expansion, first, it takes time. Second, if we expand too much and demand later turns out to be lower, that is also a question. When there are shortages, or when growth is very fast, customers tend to provide very large forward-looking demand numbers.

So when we say capacity is tight, we are not referring to the present.

Audience:

I have several follow-up questions.

First, on capacity. Yesterday's announcement also mentioned the reconstruction of Taoyuan Plant 1. After the reconstruction, will it still produce the same products, or will you take this opportunity to produce different products?

Second, regarding 800V DC, I remember that at the previous earnings conference, you mentioned that shipments could begin around the end of this year, and that customer demand progress was moving quite fast. But earlier today, you mentioned that due to technician availability, installation safety, or other issues, the shipment progress for $\pm 400\text{V}$ HVDC now appears to be faster than 800V HVDC. Could you clarify the current situation?

Third, also from the previous earnings conference, Chairman, I recall you said that you were actively looking for new plant locations. You had just visited Mexico before the last earnings conference. How do you view Mexico now? Do you like it or not? Is there any progress?

Moderator (Senior Vice President of Corporate Investment):

Let me answer the HVDC question again.

I believe we have been quite consistent. The $\pm 400\text{V}$ DC architecture should come earlier. The main driving force behind 800V DC is NVIDIA, and NVIDIA has consistently indicated that it will start in 2027.

Of course, it is not possible for us to begin shipping the first batch only when they need it, because there is a very long validation period. So there will certainly be some small-volume shipments in advance.

But in terms of real deployment into data centers, it currently looks like $\pm 400\text{V}$ DC will come faster, because some hyperscalers have a more aggressive timeline for high-voltage DC than NVIDIA.

This has been fairly consistent with what we have seen since around last year, and it is also what we have been communicating to everyone.

The second question is about the reconstruction of Taoyuan Plant 1, and whether it will produce the same products after reconstruction.

Chairman:

Taoyuan Plant 1 is our oldest plant. I remember I worked there when I was in junior high school, as a summer job. It was built in 1977, so it is very old.

Aside from the leased factory on Min'an Road, it was the first factory that Delta actually built by itself.

The plant is very small. If you have been there, you would know it is a long rectangular piece of land. At the time, it looked like a large factory, but now it is very small. So it is actually not suitable to serve as a factory anymore.

Because Taoyuan Plant 1 is the address printed on our business cards and also the Company's registered address, we will rebuild it into an R&D center, purely for office and R&D use. That is the situation for Taoyuan Plant 1.

Regarding Mexico, I can only say that we are considering many locations. Each location has different conditions, and the factors we need to consider are very complex.

A decision will definitely be made this year, and there will definitely be a new location.

Audience:

Hello management team. I have one small question.

Regarding the global capacity distribution, as production continues to diversify, could you share a comparison of production efficiency and cost for AI power in Thailand, Taiwan, China, and India?

This would include raw materials, freight, automation, labor, depreciation, and so on. Overall, which location has the highest production efficiency and lower cost for AI-related production?

Also, in terms of capacity distribution, can you provide any reference on the mix across different locations in 2026, 2027, and 2028?

Chairman:

If you ask about individual products, it is difficult to answer, because some customers designate specific production locations.

For example, most AI-related products are currently produced in Thailand, because the main market at present is the U.S.

But if you ask about Delta's overall capacity distribution, China currently accounts for around 45%, Thailand around 30%, Taiwan around more than 10%, and the rest is in other regions, including India, Slovakia, the U.S., and South America.

As for cost, it depends on how you calculate it. If tariffs are included, the differences are not very large. But if you look purely at the factory level, China is still very competitive.

Work efficiency is strong, and many raw materials are still located in China. Supply there is very just-in-time, and there are many suppliers with intense competition. So in terms of price, supply, automation inside the factory, and work efficiency, China is still relatively better.

Moderator (Senior Vice President of Corporate Investment):

Regarding production efficiency, sometimes the production location is determined by customer requirements.

So we cannot really calculate and compare this product by product or production line by production line. We are not able to calculate it that way.

Audience:

Given the sharp rise in raw material prices, and considering our strong position in AI power and liquid cooling, have we reflected this in pricing discussions with customers?

Chairman:

Not at the moment. The situation needs to become clearer first.

Also, margins are relatively high. Unless there is a more significant impact, we would not discuss this with customers.

Moderator (Senior Vice President of Corporate Investment):

If there are still questions from the floor, we will take one last question before moving to online questions.

Any other questions from the floor?

Audience:

Hello management team. In the past few quarters, there has been more discussion on cooling, but less this time. Could you provide an update on the current progress of cooling, penetration rate, and related products?

Moderator (Senior Vice President of Corporate Investment):

For cooling, the main solution currently is still liquid-to-air, namely sidecars.

As we mentioned before, we started shipping sidecars in November 2024. For the full year 2024, that was effectively only two months of shipments, totaling around US\$40 million.

For the full year 2025, sidecar shipments reached around US\$1.6 billion, so the growth was very rapid.

This year, shipments will continue to grow, but I think the growth rate will not be as high.

We also mentioned before whether liquid-to-air would quickly shift to liquid-to-liquid. At this point, it does not appear so. Liquid-to-air should continue for some time.

Especially on the chip side, people are continuing to look at other approaches, such as microchannel solutions and even thermoelectric cooling directly at the chip level. If these technologies succeed, liquid-to-air solutions may be able to last even longer.

Also, do not forget that many data centers already exist. For these existing data centers, converting completely to liquid-to-liquid is quite difficult, because liquid-to-liquid data centers are generally new builds.

For existing data centers, if they need to upgrade, liquid-to-air remains the better solution. So this area should still continue to grow.

Audience:

I'd like to ask about BBU. What is the current attitude of AI customers toward BBU?

For the Company's current shipments, roughly what proportion of products use BBU, and what proportion do not? Going forward, how much of their products will use BBU?

Moderator (Senior Vice President of Corporate Investment):

For BBU, the basic architecture currently is that there may be more BBU deployment on the overall power rack.

Of course, each system architect may have a somewhat different view. BBU may also be used in other applications, but the larger volume should come after power racks are introduced, when BBU is placed on them.

Since we only have a few minutes left, we may only be able to answer one or two online questions.

IR Director:

Let me read one online question. Most of the online questions are actually quite similar to the questions from the floor.

One question asks: the first-quarter opex ratio was higher than the fourth quarter. Was there any specific reason? How should we view the opex ratio or opex trend this year?

Moderator (Senior Vice President of Corporate Investment):

Let's ask the CFO to respond.

CFO:

Compared with the fourth quarter of last year, the main reason is that we have continued to strengthen investment in R&D and sales.

As a result, R&D expenses and business development expenses have increased.

In the coming quarters, these expenses will still rise gradually. But if revenue can grow accordingly, the expense ratio should trend downward.

Moderator (Senior Vice President of Corporate Investment):

The next question should be the last one. Let's see if there is anything different.

If not, is there anyone on the floor who still wants to ask a question?

Alright, then we will take one from the floor.

Audience:

I'd like to follow up. I remember that last year, you mentioned AI-related revenue accounted for around 20% of total revenue. Is there a target for AI-related revenue this year?

Also, regarding CapEx, you mentioned that this year's CapEx will be higher than last year's NT\$46 billion. Is there a range we can expect?

Thank you.

Chairman:

In the first quarter, cooling systems were still around 9%. Components were a little over 1%. Server power was around 23–24% last year, and this year it is around 30%.

As for CapEx, as the CFO mentioned earlier, it will increase by roughly a little over 10%.

Moderator (Senior Vice President of Corporate Investment):

Let me make one final comment.

Earlier, we mentioned that the four hyperscalers' CapEx is growing by more than 60%. I think our CFO will not allow our CapEx to grow by 60%.

Thank you all for attending. Please remember to register in advance next time.

Have a pleasant long weekend, and we will see you next quarter. Thank you.