

Delta Electronics 2Q 2026 Results Meeting

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Disclaimer:

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[00:00] Lanford Liu | Vice President, Corporate Investment; Moderator

Good afternoon, everyone, and thank you for joining Delta Electronics' second-quarter earnings conference. The results were released yesterday. As usual, I will first invite Rodney to walk everyone through the second-quarter and first-half figures. We will then open the floor for questions. If time remains after the in-person Q&A concludes, we will take questions submitted online.

[00:27] Rodney Liu | Investor Relations Director

Thank you, everyone, for attending our earnings conference. Today, we will review our financial results for the second quarter and the first half of the year. Let me begin by explaining the figures. Just another reminder: if you would like to attend our earnings conferences in person in the future, please remember to register. Seating is limited, and it would be unfortunate if you arrived but could not enter the venue.

[00:55] Rodney Liu | Investor Relations Director

For the second quarter, revenue was NT\$183.2 billion, a record high for a single quarter. Revenue increased 48% year over year and 15% from the first quarter. This was broadly in line with normal seasonality. Of course, the first-quarter comparison base was already quite high and close to the previous record, so growth accelerated somewhat further in the second quarter. The comparison base in the second quarter of last year was not particularly high because of the U.S. tariff issue at the time.

The main source of growth continues to be AI data center-related demand, which we will explain later. Gross profit was NT\$65.3 billion, with a gross margin of 35.6%. This was slightly lower than the previous quarter, but apart from the previous quarter, it was our best-ever quarterly result. Gross profit increased 48% year over year and 11% quarter over quarter.

[02:11] Rodney Liu | Investor Relations Director

Expenses grew somewhat faster. R&D expenses increased 33%, while selling, general and administrative expenses increased 40%. Total operating expenses in the second quarter increased 34% year over year and 14% from the first quarter. As revenue grew much faster, the expense ratio declined significantly from a year earlier, although it was only slightly lower than in the previous quarter.

Operating profit in the second quarter was NT\$30.6 billion, representing an operating margin, or OP margin, of 16.7%. Again, apart from the previous quarter, this was our best-ever quarterly result. In absolute terms, operating profit reached a record high for a single quarter. It increased 64% year over year and 8% quarter over quarter.

[03:06] Rodney Liu | Investor Relations Director

I will leave the revenue and operating profit figures for each business segment on the screen for your reference. As in the past several quarters, the main sources of revenue and profit growth were Power Electronics and Infrastructure. The strongest demand growth came from data center-related applications, which are primarily reported under these two segments.

Revenue from Power Electronics grew 50%, led by particularly rapid growth in power products and certain liquid-cooling components. In Infrastructure, we offer a wide range of data center infrastructure solutions, including liquid cooling, which also grew rapidly in the first half. This drove profit growth in both segments.

Mobility declined, while Automation recorded a loss. Automation experienced component shortages during the first half, which prevented some products from being shipped. Nevertheless, Automation revenue still grew 15%.

[04:16] Rodney Liu | Investor Relations Director

Non-operating income was a brighter spot in the second quarter, reaching NT\$4.4 billion. Part of this was a paper gain resulting from mark-to-market investment gains. Interest income, foreign-exchange gains and losses, and other items were all within a relatively normal range.

[04:40] Rodney Liu | Investor Relations Director

Pre-tax profit was therefore NT\$35.0 billion, with a pre-tax margin of 19.1%. Apart from the previous quarter, this was also our best-ever quarterly result. EBITDA reached NT\$44.1 billion, an all-time high, with an EBITDA margin of 24%. Pre-tax profit and EBITDA increased by nearly 80% and 64%, respectively, from a year earlier.

[05:08] Rodney Liu | Investor Relations Director

The effective tax rate has remained broadly stable over the past several quarters and is unlikely to change significantly in the near term. It is approximately 22%. Non-controlling interests were lower two quarters ago, mainly because profit in Thailand was lower, so this item can fluctuate more significantly.

After deducting the smaller amount attributable to non-controlling interests, second-quarter net profit was approximately NT\$25.1 billion, up 80% year over year and 22% quarter over quarter. This was also a record high in absolute terms.

[05:58] Rodney Liu | Investor Relations Director

This translated into second-quarter EPS of NT\$9.68, also an all-time high.

[06:07] Rodney Liu | Investor Relations Director

For the first half as a whole, revenue was NT\$342.6 billion, up 41% year over year, representing a slight acceleration from last year. This was because data centers are contributing an increasing share of the company's revenue, and the growth rate remains very strong. In the first half, data center-related business accounted for more than half of our consolidated revenue.

Gross profit reached NT\$124.3 billion, with a gross margin of 36.3%, representing a 52% increase from a year earlier.

[06:43] Rodney Liu | Investor Relations Director

Expense growth accelerated somewhat in the first half, reaching 33% year over year. The OPEX ratio therefore edged down from 20.2% last year to 19.1%. The first-half operating margin was 17.2%, while operating profit increased 80% from the first half of last year.

[07:09] Rodney Liu | Investor Relations Director

The revenue and profit figures for each segment are shown here for reference. Profit was primarily generated by Power Electronics and Infrastructure, while Mobility and Automation recorded modest losses.

[07:24] Rodney Liu | Investor Relations Director

First-half non-operating income was significantly higher than last year, mainly due to a notable increase in investment gains. Foreign-exchange income was also somewhat higher this year, and there was additional income from other items.

[07:40] Rodney Liu | Investor Relations Director

First-half pre-tax profit increased 88% year over year to NT\$66.1 billion. EBITDA reached NT\$83.4 billion, also representing a substantial year-over-year increase.

[08:03] Rodney Liu | Investor Relations Director

The effective tax rate remained stable, as it has over the past several quarters, at approximately 22% to 23%. Non-controlling interests accounted for a smaller proportion in the first half, mainly due to the second-quarter result. First-half net profit was therefore approximately NT\$45.7 billion, representing year-over-year growth of nearly 90%.

[08:26] Rodney Liu | Investor Relations Director

Our first-half EPS reached NT\$17.59. In fact, this already exceeded our full-year EPS in any previous year. The year-over-year increase was 89%.

[08:39] Rodney Liu | Investor Relations Director

That concludes my review of the financial figures.

Question-and-Answer Session

[09:01] Lanford Liu | Vice President, Corporate Investment; Moderator

We will now begin the in-person Q&A session.

[09:12] Questioner — Albert, J.P. Morgan

Good afternoon, management team. This is Albert from J.P. Morgan. Thank you for taking my questions. My first question concerns gross margin. Our first-quarter gross margin reached a record high, and despite some operating challenges in the second quarter, it remained the second-highest on record. What measures will management take in the second half to address challenges such as component shortages and rising raw-material costs?

As a follow-up, if we implement these operating measures in the second half, could gross margin

challenge a new record? Thank you.

[09:48] Beau Yu | Chief Financial Officer

Let me begin. The higher gross margin in the first quarter was attributable to two factors. First, we recorded one-time income from an order cancellation. Second, certain liquid-cooling products were more significant in the first quarter, and some were sold under DDP terms—Delivered Duty Paid. This raised the reported gross margin but had no impact on net profit.

[10:27] Ping Cheng | Chairman and Chief Executive Officer

We believe a gross margin of around 35% is reasonable. Of course, it also depends on our overall product mix. Delta has a very broad product portfolio, and the mix affects gross margin. Even if revenue increases, I think gross margin will probably remain at roughly this level.

There are many variables in the market, including new product platforms, deployment delays, and component shortages. These issues may become somewhat more serious in the second half of this year, but they are all relatively normal. We will do our utmost to respond. Our overall cooperation with customers remains quite normal. New-product development, capacity expansion, and our visibility into component availability are all progressing reasonably well. Unless there is a major market change, I do not foresee any significant problems in the second half.

[11:49] Questioner — Albert, J.P. Morgan

My second question concerns the new products that were just mentioned as beginning to ramp in the second half. We are closely watching the GPU server market, where the second half is expected to be an exciting product cycle. From the company's perspective, could you share when you expect these new products to ramp and what the rollout pattern may look like?

Also, how willing are customers to adopt high-voltage direct current, or HVDC, in these new products? HVDC may involve different raw materials, so how might this affect average selling prices or profitability? Thank you.

[12:40] Ping Cheng | Chairman and Chief Executive Officer

For HVDC, we expect to begin mass production of both $\pm 400V$ and 800V products in the third quarter. However, I believe shipments will still be limited in the fourth quarter—and, in fact, throughout this year. We probably will not see meaningful volume until next year.

[13:06] Lanford Liu | Vice President, Corporate Investment; Moderator

Let me add that what we are seeing in the market is broadly consistent with what we discussed previously. The rollout of $\pm 400V$ will be more aggressive. As for 800V, Nvidia is the primary driver, and its adoption will depend on when end customers decide to use that power architecture in their data centers.

Based on current market indications, there should be more $\pm 400V$ shipments this year. However, as the Chairman just mentioned, overall HVDC volume will still not be very large this year. If you look at Nvidia's own shipment mix, Blackwell shipments should still substantially exceed Rubin shipments.

[14:02] Questioner — Albert, J.P. Morgan

Understood. That is very clear. My final question concerns the competitive landscape. The company

previously mentioned that customers want to diversify their supply chains. We are also seeing Chinese competitors such as Megmeet and Shenzhen Honor Electronic becoming more aggressive, while U.S. competitors include Vertiv and Flex.

At the same time, the power industry's technology upgrade is accelerating, which should benefit industry leaders such as Delta. From the company's perspective, as we enter the new product cycle—whether for $\pm 400\text{V}$, 800V , or standard 110kW power shelves—has there been any change in the competitive landscape? Thank you.

[14:41] Lanford Liu | Vice President, Corporate Investment; Moderator

We continuously monitor the competitive situation in the market. The products you mentioned are still relatively new within their respective product cycles. Because we entered these markets early, we believe our market share remains relatively high.

As we have mentioned before, other competitors will enter certain product categories where the technology content is not as high. However, our market share still appears quite solid at present. Another possible reason is that AI architectures are changing very rapidly, with each generation evolving quickly. This benefits us because we have substantial engineering resources and close relationships with customers. Of course, it also places considerable pressure on our engineers because the architecture is changing constantly.

[16:28] Questioner

Good afternoon, management team. I have two questions about components. Delta works with a number of international suppliers. Is there scope to expand the range of supply-chain options now or in the future? Are there plans to expand the use of local Taiwanese suppliers?

Second, the market has recently focused on supply-chain positioning for silicon carbide, or SiC. Is Delta currently working with any major suppliers in this area?

[17:14] Lanford Liu | Vice President, Corporate Investment; Moderator

Let me answer both questions. We will, of course, continue developing new sources of supply. You specifically asked whether Taiwanese suppliers could be included, and the answer is certainly yes.

Your second question is more specific and concerns silicon carbide. I assume you may have seen recent external reports about steps we are taking in silicon carbide. For key components—particularly semiconductors—the industry is cyclical because it takes a long time for an investment to translate into actual production. Supply can therefore fluctuate considerably, and we naturally prefer a more stable supply base.

We work with major suppliers on technology and generally engage with them at an early stage, allowing us to be among the first to use certain new products. AI data centers are now being built very rapidly. Everyone has seen the current situation in memory, and the question is whether other semiconductors could face similar conditions. The situation in power semiconductors is not comparable to memory; the two are quite different.

However, for newer wide-bandgap technologies such as silicon carbide and gallium nitride, we remain in close and ongoing discussions with several key suppliers. We cannot disclose the detailed terms of any specific arrangements.

[19:34] Questioner

Good afternoon, management team. I have two operating questions and one technical question. First, second-quarter revenue and profit both reached record highs, breaking the historical pattern in which the first half was seasonally weaker. As the second half is normally the peak season, could the company discuss its outlook for the third and fourth quarters and identify the main product lines that will drive growth?

Second, at the previous earnings conference, the company said margins from major CSP customers were relatively strong. Several major customers and new platforms will ramp in the second half. How should we think about third-quarter margin?

Third, from a technical perspective, a major U.S. customer's Rubin platform is expected to ramp in the fourth quarter. The market had originally expected 800V HVDC to be deployed at scale alongside Kyber. If Rubin Ultra adopts an upgraded Oberon design, do we still expect 800V HVDC to be introduced with Kyber, or could part of the deployment occur with Oberon? Thank you.

[21:03] Lanford Liu | Vice President, Corporate Investment; Moderator

I will answer the third question first. The first two concern margin, so we will ask the CFO to respond first and then invite the Chairman to add his comments.

Regarding your third question, we touched on how the high-voltage DC market may develop. We currently expect slightly more adoption of $\pm 400\text{V}$, although the volume will still not be very large. Some Rubin products can continue to use low-voltage solutions. Jensen also said at the time that he wanted to ship more this year. Based on what we currently see, there will probably be more $\pm 400\text{V}$ shipments. There will also be some 800V shipments this year, but actual volume will ultimately depend on whether data center operators choose to adopt this architecture.

[22:03] Ping Cheng | Chairman and Chief Executive Officer

The next question concerns third- and fourth-quarter margin and the sources of growth. I expect the second half to be better than the first half. As for whether margin will improve, these CSPs are already our customers. I would not set expectations for margin too high; I think the current level is quite reasonable. The second half is normally stronger, and conditions currently appear normal.

[22:58] Questioner

I have an operating question. Losses in Mobility appear to be increasing, and IA has also moved into a loss. What caused this? How should we view these two segments in the second half? Will their losses continue to expand, or will they remain around the current level?

Also, the Chairman just said repeatedly that expectations for margin should not be too high. Is that related to the fact that these two business groups may still not reach break-even in the second half? Thank you.

[23:59] Ping Cheng | Chairman and Chief Executive Officer

As I just mentioned, the electric-vehicle business will remain weak this year. We are doing our best to control the losses, and they will not be very large. Nevertheless, electrification is unquestionably a long-term trend, and the electric-vehicle market will return. The barriers to entry are very high. We are already in the market and value this business area, so we will continue maintaining our

engineering capabilities and customer relationships. At present, however, we do not expect the market to recover rapidly within the next year or two.

For Automation, the main issues are higher material costs and product mix. Memory has had the greatest impact: we could not secure the originally planned volumes, while prices rose sharply. This resulted in a modest loss. However, we have redesigned the products and introduced second-source memory components. Shipments should normalize in the second half, allowing us to catch up on the backlog. Automation should therefore perform better in the second half than in the first half and should not remain loss-making.

[26:04] Questioner

Chairman, I think the market has very few doubts about Delta's technology and industry position. The larger concern is that several CSPs have recently released financial results, and investors are beginning to question their cash flow and returns on investment.

The pace of upgrades in power infrastructure is unlikely to change, but Delta also supplies components used inside data centers. Have you observed anything in this area that investors should pay attention to? Alternatively, do you believe the market is overly concerned and that the current wave of AI infrastructure deployment is unlikely to stop in the near term?

[27:08] Lanford Liu | Vice President, Corporate Investment

There has certainly been a great deal of noise surrounding AI data centers recently. Several hyperscalers have released their results over the past two days. Some of the figures may not have been as strong as the market expected, while one company substantially exceeded expectations.

What we should focus on is these companies' capital spending. The market is asking: if you spend this much money, when will you generate returns? Investors use many measures to assess this, including sales-to-CapEx and cash-flow-to-CapEx ratios. However, these four companies remain the industry leaders, and their spending drives the overall market.

For two of them, both cash flow and revenue were more or less in line with expectations. A third company met expectations for both revenue and cash flow. Most importantly, every company has said that it will at least maintain—and potentially increase—capital spending this year. They have not yet provided clear 2027 figures, but it appears that capital spending could increase again in 2027. From this perspective, AI data center construction is unlikely to stop in the near term.

As the Chairman mentioned, there may be delays. We have discussed some of these issues previously, including construction delays and problems involving certain key components. A third issue worth monitoring is how the American public views AI data centers. Two years ago, sentiment toward AI was generally positive. Recent surveys now clearly show that people who are concerned about AI outnumber those who view it favorably. Approximately 55% to 56% of respondents express significant concern about AI.

One issue is even more one-sided: people do not want AI data centers built near their homes. Surveys show that more than 70% of respondents are strongly opposed to having an AI data center nearby. More than ten U.S. states are considering legislation that could slow data center construction. In New York, for example, the governor signed an executive order temporarily halting projects above 50 megawatts. To be fair, New York does not have that many data centers, so the practical market impact is limited, although the symbolic impact is more significant.

At the same time, hyperscalers still need to spend this money because the benefits are increasingly visible. Public figures show that Copilot subscribers increased from approximately 20 million in the previous quarter to about 30 million this quarter, exceeding analysts' forecasts. Many people are beginning to see the benefits.

Another major recent topic is Moonshot's release of Kimi K3 in China and the broader discussion surrounding open-weight models. Many companies have issued open letters in support. Anthropic appears to be the only major company that has not been particularly supportive, although it has also clarified that it is not opposed.

One of the most interesting contributions, in my view, was an op-ed written by Meta's Mark Zuckerberg in *The Wall Street Journal* over the past couple of days. If you have time, I recommend reading it. Even the title is excellent: "The AI Future Is for Everyone." One sentence is particularly important: "Invention, not automation, will be the greatest contribution of superintelligence."

What does that mean? Many people assume AI is primarily about automation and replacing human work. He argues that it is not; the greater contribution will be invention. The question is how people will use the creative capabilities of superintelligence, or AI, to generate further development. From the perspective of these companies, I do not believe they will stop investing in the near term.

[34:09] Ping Cheng | Chairman and Chief Executive Officer

Let me add one point. We have not seen any indication that AI development will stop, and we believe usage will continue to increase. Once people begin using it, they are unlikely to go back. No one wants a data center built next door, just as no one wants a power plant next door, but everyone's electricity consumption continues to rise.

There are also several operating considerations. First, we have to build factories because construction takes a long time. If we wait until orders are visible, it will be too late. Overseas factories have long depreciation periods and therefore affect cash flow, although that impact does not arise immediately and has to be planned over the long term.

For equipment, given the risks associated with the current AI cycle, we reached an agreement with our auditors to shorten the depreciation period to three years. Much of this equipment was previously depreciated over five years. We now apply the three-year period as a matter of prudence. If any project encounters a problem, we will quickly recognize the necessary provision. These practices allow us to respond more conservatively from an operating perspective.

[35:43] Questioner

I would like to ask about capacity expansion and whether there have been any new developments for the second half. The company previously discussed its capacity plans and mentioned that it was looking for a new site or additional capacity in the United States. Could you share any updates?

My second question concerns capital expenditure. At the previous conference, the company said CapEx might reach a new high, but it did not provide a precise figure. Could you share the current investment scale? Thank you.

[36:23] Beau Yu | Chief Financial Officer

We have already spent NT\$27.5 billion in the first half, of which approximately 60% to 70% was for equipment. As we continue expanding factories in the second half, payments tied to construction

milestones will increase. Equipment investment will also rise. We therefore expect second-half capital expenditure to exceed NT\$40 billion.

[36:53] Ping Cheng | Chairman and Chief Executive Officer

Capacity is currently being built out everywhere. As you may have seen, we demolished and are rebuilding our original Plant 1 in Thailand. The new plant will have several times the capacity of the original facility. Three more plants in Thailand will be completed this year and next year, including three scheduled for completion next year.

We are also expanding in China, Taiwan, and the United States. In other words, construction is taking place everywhere. We also plan to add another overseas operating location, which is still under negotiation. We recently purchased a building in the United States for R&D, and we will expand in other locations as well. Capacity investment must continue, and because these projects take a long time, we have to plan well in advance.

[38:16] Questioner

Good afternoon, management team. I have three questions. First, regarding component shortages, June revenue increased noticeably from April and May. What shortages did you encounter in the second quarter? Apart from the memory issue in Automation, are there any components for which the shortage is particularly serious? How are you addressing these shortages, and what progress have you made?

As a follow-up, suppliers are raising raw-material prices in the second half. What measures can you take in response?

My second question concerns an expected credit-impairment loss recorded among second-quarter expenses. Could you explain the details and whether any further credit impairment may be recognized?

Finally, could you update us on the progress of SST and fuel cells, including the expected ramp-up schedule and potential demand? Thank you.

[40:02] Beau Yu | Chief Financial Officer

This involved a power-generation equipment project in Taiwan. There was a difference in the customer's and our interpretation of the acceptance criteria. The matter is now in court-mediated settlement proceedings. Under our accounting policy, we are required to recognize a 100% provision for doubtful accounts. We remain very confident in this case and do not expect it to result in a significant loss.

[40:48] Ping Cheng | Chairman and Chief Executive Officer

Component supply is generally quite tight, and lead times have lengthened. MOSFETs are probably among the components experiencing shortages. Given Delta's purchasing scale and supplier relationships, we will do our utmost to fulfill demand, although supply will remain tight.

As for price increases, when components are in short supply, we have to negotiate pricing with suppliers. Whether the increase can be passed on to customers depends on the particular business model, and there will be a time lag. We can discuss that later; for now, the priority is securing the components we need.

[41:51] Lanford Liu | Vice President, Corporate Investment

Let me answer the question about SST. As we have mentioned, a customer has already begun adopting SST in a relatively small data center. Data centers are indeed the initial application for our SST solution. We are at the forefront of this technology, and the current customers are still using it on a trial basis. It will therefore take some time before shipments reach significant volume because this is a relatively new technology.

When evaluating SST, it is important not to assume that, simply because it is called a solid-state transformer, it directly replaces a conventional transformer on a one-for-one basis. It does not. It is fundamentally an energy gateway, which requires a different overall design and power architecture. Adoption will therefore take time.

For fuel cells, we expect a small production line to begin operating toward the end of this year.

[43:31] Ping Cheng | Chairman and Chief Executive Officer

The fuel-cell line will initially be very small. Next year, we expect to establish our first mass-production line. The system is currently being validated by Taiwan Power Company and at another test site, and the results so far have been quite positive.

[43:52] Questioner

Chairman, I apologize for following up, but the market is very curious about capital expenditure. You mentioned that the company is building a number of factories in China, Thailand, and the United States. What demand are you seeing that gives you enough confidence to expand so aggressively?

Apart from CSPs continuing to increase their capital expenditure, what other demand gives Delta the confidence to undertake this major capacity expansion? Thank you.

[44:39] Ping Cheng | Chairman and Chief Executive Officer

I must emphasize that capacity expansion is a medium- to long-term preparation. Major customers are already reserving overall volume for next year, and the demand indications they provide are quite substantial. Nevertheless, we do not assume that every indication is guaranteed.

Outside data centers, Delta's market share in several markets remains relatively low. Our five- and ten-year plans already include growth targets. Once we identify a site and begin construction, a new factory will not become available for two to two and a half years. A completely new geographic location takes even longer. Capacity planning therefore cannot be based solely on confirmed orders; by then, it would be too late.

Revenue grew 31% last year and should grow even faster this year. If growth next year remains at a comparable rate, we must prepare the required capacity in advance.

[46:23] Questioner

Could you elaborate on the industries driving that expectation? Apart from AI, are you seeing any new sources of demand?

[46:32] Ping Cheng | Chairman and Chief Executive Officer

AI alone already represents a very large volume. When a customer completes a design-in with us, we

cannot later say that we are unable to ship or can accept only a limited portion of its orders. That would completely undermine the customer's trust. Once we accept a project, we must build sufficient capacity to support it. AI demand alone requires substantial capacity.

Beyond AI, the next area should be energy infrastructure. Microgrids are facing power shortages everywhere. The issues include grid capacity, on-site power generation, and access to renewable energy. Although this business does not have the same unit volume as CSP-related business, an individual project can be worth several hundred million.

Our products and overall system assembly require significant space. The factories we plan to build will have high ceilings of more than eight meters, which differs from our traditional facilities. Much of the product and system development for both data centers and energy infrastructure requires this kind of large space.

[48:45] Questioner — Terry, KGI

Good afternoon, management team. This is Terry from KGI. My first question follows up on CapEx. If I heard correctly, second-half capital expenditure will be close to NT\$40 billion, implying full-year CapEx of more than NT\$60 billion. Revenue is growing considerably this year, but CapEx is also increasing substantially.

If, as the Chairman said, the company continues growing over the next several years, should we expect CapEx to continue increasing at a similar rate? What kind of growth pattern should we expect? Alternatively, could this year represent a peak, followed by some moderation?

My second question concerns the energy business mentioned by the Chairman. Delta has existing product lines in this area, but infrastructure businesses such as SST and data center solutions are areas in which the company historically had less involvement. As you strengthen this business, how will you build the necessary capabilities—for example, service capabilities and the recruitment of additional talent?

[50:15] Ping Cheng | Chairman and Chief Executive Officer

Let me address CapEx. Last year, it was NT\$46.6 billion, and this year it will probably reach NT\$70 billion, so it will increase. Whether it remains at that level will depend on overall market conditions. As I have said, factory investments are intended to support demand two years from now. If growth remains high next year, CapEx could stay at NT\$70 billion or rise further. If growth slows next year, we would adjust subsequent spending downward. It will depend on the market.

Infrastructure products are large-scale systems, and their production model is very different. We are changing many of our manufacturing capabilities. Production-line design and even factory design continue to evolve, and we are investing heavily in these areas. Our entire manufacturing organization is undergoing reform, organizational restructuring, and technology development.

At the customer-facing end, our investment in GSA is strengthening service and technical capabilities. When you sell systems or solutions, service is delivered by the front-end organization rather than by the individual BU or BG. We therefore have to build teams, recruit people, develop capabilities, and provide ongoing service. This differs substantially from our traditional model.

Although revenue in these regions is growing, expenses are also rising rapidly. If we continue shifting toward system solutions and their contribution increases, we will need to invest further in the United

States, Europe, and Southeast Asia to build teams and strengthen capabilities.

[53:06] Questioner

I would like to follow up on raw materials. How much inventory do we currently hold for key materials such as memory and MOSFETs? Regarding supplier price increases, which of our four business groups can more easily pass those costs on to customers, and which groups may have to absorb them? Thank you.

[53:43] Lanford Liu | Vice President, Corporate Investment; Moderator

I apologize, but we cannot answer those questions in great detail. Our controls over raw-material inventory are not information that we can disclose publicly.

Negotiating price increases with customers is necessary, particularly given the current rise in raw-material costs. There is usually a timing effect, so adjustments take time. However, we will implement the price increases that are required. As both the CFO and Chairman mentioned, we expect to maintain our margin in the second half.

[54:52] Questioner

I would like to follow up on AI-related revenue. At the previous conference, the company appeared to target AI-related products at 20% of revenue. Is that target still on track, or could the proportion be higher this year?

The company also previously said that Liquid-to-Air products contributed approximately US\$1.6 billion last year. How much did they contribute in the first half of this year? The market generally expects Liquid-to-Liquid technology to be fully adopted only in 2028. How do you view the pace of this transition? Thank you.

[55:45] Beau Yu | Chief Financial Officer

AI-related products will definitely account for more than 25% of total revenue this year. Liquid-cooling products accounted for approximately 10% of total revenue last year and will definitely exceed 12% this year.

[56:19] Lanford Liu | Vice President, Corporate Investment

We are, of course, monitoring Liquid-to-Liquid. However, based on current market conditions, Liquid-to-Air will remain in use for some time—probably considerably longer than the market originally expected.

[56:37] Lanford Liu | Vice President, Corporate Investment; Moderator

Are there any other questions? If not, we probably have time to answer only one question submitted online.

[56:52] Rodney Liu | Investor Relations Director

There are several online questions. One asks: When did the company begin shortening its depreciation periods? Does the company have depreciation-expense guidance for this year and next year?

[57:08] Beau Yu | Chief Financial Officer

As the Chairman explained, almost all of our equipment now incorporates AI, together with our broader smart-manufacturing initiatives. Our machinery was previously depreciated over three to five years. Of course, we cannot retroactively change the depreciation period for assets that are already being depreciated.

We began discussing a shift to three years with our auditors last year. Starting around April this year, all newly acquired AI-related equipment has been depreciated over three years. Most of our equipment is now highly intelligent and AI-enabled, so the average depreciation period is approximately three years.

[58:02] Rodney Liu | Investor Relations Director

For the 110kW PSU supporting Nvidia Rubin, what market share does the company expect to achieve, and what are the respective shares of its major competitors?

[58:14] Lanford Liu | Vice President, Corporate Investment; Moderator

Rodney, you can answer this question.

[58:16] Rodney Liu | Investor Relations Director

We generally do not comment on market share because there is no objective third party producing this type of market-share data. However, we are confident that we hold a leading position in this market.

[58:34] Lanford Liu | Vice President, Corporate Investment; Moderator

Thank you, everyone, for attending our second earnings conference of the year. We will see you again next quarter. We also hope that those joining online will register earlier next time so that we have an opportunity to answer your questions.