Delta Electronics 3Q26 Earnings Conference

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Management Representatives

Ping Cheng | Chairman and Chief Executive Officer
Lanford Liu | Vice President, Corporate Investment; Moderator
Beau Yu | Chief Financial Officer
Rodney Liu | Investor Relations Director

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1. Financial Highlights

1.1 3Q26 Financial Performance

Revenue & Gross Profit

- Revenue reached NT$197.1bn, up 8% QoQ and 31% YoY, slightly below expectations due to component shortages, supply chain mismatches, and delays in data center construction.
- Gross profit reached NT$67.2bn, up 28% YoY, while gross margin declined to 34.1%, down 1.5ppts QoQ and 0.8ppts YoY.
- The margin decline was mainly attributable to higher inventory write-downs amid rising inventory levels. Management emphasized that these were accounting charges rather than realized losses.

Operating Expenses & Operating Profit

- Opex declined 1% QoQ, with SG&A down 4% and R&D up 4%. Opex increased 25% YoY, although growth moderated compared with the previous two quarters.
- Operating leverage improved, with the opex ratio declining to 17.5%, compared with 18.9% in 2Q26 and 18.4% in 3Q25.
- Operating margin remained relatively stable at 16.6%, with operating profit up 7% QoQ and 31% YoY.

Business Segment Performance

- **Power Electronics & Infrastructure:** Remained the primary contributors to revenue growth and profitability, driven by AI data center demand.

- **Automation:** Revenue growth accelerated to 19% YoY, supported by improving Industrial Automation (IA) demand and easing component shortages in Building Automation (BA). BA returned to profitability.
- **Mobility:** Revenue returned to positive growth in 3Q26, while operating losses narrowed.

Non-operating Items & Net Profit

- Non-operating income declined QoQ, primarily due to lower mark-to-market investment gains and a small loss in other items.
- Pre-tax profit reached NT$33.7bn, down 4% QoQ but up 25% YoY. EBITDA was broadly flat QoQ and up 24% YoY.
- The effective tax rate remained stable at 22.6%, while non-controlling interests increased from an unusually low level in 2Q26.
- Net profit reached NT$23.5bn, down 7% QoQ but up 26% YoY, translating into EPS of NT$9.04.

1.2 YT3Q Financial Performance

Revenue & Gross Profit

- Revenue reached NT$539.7bn, up 37% YoY.
- Gross profit increased 43% YoY to NT$191.4bn, with gross margin reaching 35.5%.

Operating Expenses & Operating Profit

- Opex increased 30% YoY, below revenue growth of 37%, driving the opex ratio down to 18.5% from 19.5%.
- Operating margin improved to 17.0%, with operating profit up 59% YoY.

Business Segment Performance

- Power Electronics and Infrastructure remained the key profit contributors.
- Mobility was the only loss-making segment, although losses narrowed in 3Q26.

Non-operating Items & Net Profit

- Cumulative non-operating income increased significantly YoY.
- Pre-tax profit approached NT$100bn, up 60% YoY, with a pre-tax margin of 18.5%.
- EBITDA reached NT$127.2bn, representing nearly 50% YoY growth.
- The effective tax rate remained stable at 22.7%, while non-controlling interests increased YoY.
- Net profit reached NT$69.2bn, up 62% YoY, with cumulative EPS of NT$26.64.

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2. Management Opening Remarks

2.1 AI Demand Outlook

- AI data center investment remains the primary growth driver. Management highlighted the strong revenue growth and cash generation of leading AI companies, particularly Anthropic and OpenAI, as key indicators of sustainable AI demand.
- Anthropic's revenue increased from US$386mn in 2024 to US$4.59bn in 2025 and US$16.3bn in 1H26. Operating cash flow reached US$3.9bn, with free cash flow of approximately US$3.5bn, exceeding earlier expectations.
- Combined Capex among the four major CSPs is estimated at US$700–800bn in 2026 and expected to exceed US$1tn in 2027, while total global data center Capex could reach US$1.2–1.5tn in 2027.
- Management expects AI data center investment to remain robust through 2030, supported by the financial performance of leading AI companies and sustained investment from hyperscalers and neocloud providers.

2.2 AI Data Center Deployment Challenges

Despite strong underlying demand, management expects uneven data center construction progress and supply chain revenue growth due to four major constraints:

- **Component shortages:** Rapid capacity expansion is creating shortages of semiconductors and passive components, making procurement capabilities and supplier relationships increasingly important.
- **Power availability:** Data centers currently account for approximately 1.5% of global electricity consumption, with demand potentially doubling by 2030. Grid expansion, behind-the-meter generation, and energy efficiency solutions will be critical.
- **Skilled labor shortages:** A severe shortage of qualified electricians, particularly those supporting HVDC installations, is increasing labor costs and delaying construction schedules.
- **Political and regulatory factors:** Local opposition to data center projects and potential changes in state and local policies could complicate site selection and construction timelines, despite continued federal support.

2.3 Management Outlook

- Management remains confident in the long-term AI data center growth trajectory, although component availability, power constraints, labor shortages, and regulatory uncertainty could result in quarterly fluctuations.
- Delta will continue developing power infrastructure and energy efficiency solutions to address these challenges and capture related growth opportunities.

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3. Q&A Session

Q1. Inventory Write-downs and Shipment Delays

Q: Why did component shortages and shipment delays lead to higher inventory write-downs, particularly in the power business?

Chairman:

- Inventory accumulation was primarily driven by component mismatches, where shortages of certain parts prevented product completion or shipment despite sufficient inventory of other components.
- Customer requirement changes and internal operational factors also contributed to inventory accumulation.
- These are temporary rather than structural issues, with most excess inventory expected to be worked through in 4Q26.

Q2. Raw Material Cost Increases and Pricing Adjustments

Q: What is the progress of customer pricing negotiations, and when will higher raw material costs be reflected in selling prices?

Chairman:

- Material costs have increased by approximately 2% since the beginning of the year.
- Delta continues to negotiate pricing adjustments with customers, with some changes expected to take effect in 4Q26 or 1Q27.

Q3. Power Shortages and Data Center Capacity Planning

Q: How does Delta view increasing power shortages and manage related risks amid strong data center demand?

Chairman:

- Power shortages are expected to worsen and could delay data center construction, but are unlikely to derail long-term development.
- Solutions include grid expansion, SOFC, microgrids, and improved energy efficiency through fewer power conversion stages.
- Relevant products are expected to enter mass production in 2027, although no single solution can fully address the power shortage.

Investment Head:

- Power availability involves two distinct challenges: grid capacity and electricity generation capacity.
- While electricity demand could double over the coming years, generation capacity may not need to increase proportionately if power allocation and utilization improve.
- Distributed generation, flexible power management, and potentially faster adoption of small modular nuclear reactors could help address growing demand.

Q4. Gross Margin Outlook Excluding Inventory Write-downs

Q: Excluding inventory write-downs, what would be a reasonable gross margin level?

CFO:

- Inventory write-downs represented approximately 1.7% of 3Q26 revenue.
- Urgent customer orders, specification changes, and supply chain complexity contributed to higher inventory levels, with these issues expected to ease gradually.

Chairman:

- Order visibility has improved, but delivery schedules have become more volatile as component shortages and capacity constraints cause customers to accelerate or postpone orders.
- Production capacity is expected to remain tight, requiring Delta to maintain additional inventory buffers to support customer demand.

Q5. Data Center Construction Delays and Order Visibility

Q: How are data center construction delays affecting order visibility, and could similar disruptions become more frequent?

Investment Head:

- Construction and supply chain disruptions are likely to remain ongoing challenges, with fluctuations inevitable throughout different stages of industry growth.

Chairman:

- Delta may need to maintain larger operational and inventory buffers than in the past.
- Effective inventory and operational management will remain critical in managing demand volatility.

Q6. Supply Chain Conditions and Procurement Strategy

Q: How does Delta's component supply situation compare with competitors, and has its procurement strategy changed?

Chairman:

- Delta remains confident in its supply chain management capabilities relative to industry peers, although certain shortages still require case-by-case solutions and close supplier coordination.
- Supply allocation, pricing, and procurement commitments have become increasingly important under tight market conditions.
- An emerging challenge is suppliers' preference for higher-end products, leaving lower-end components underserved and making their procurement a greater priority.

Q7. Vicor Patent Litigation

Q: What is the latest development in the Vicor litigation in the US, and what is the potential impact on related products?

Investment Head:

- Vicor's litigation involves multiple companies across the industry. Delta will respond appropriately to the intellectual property claims, although specific legal details cannot be disclosed.
- The ITC investigation is part of the normal litigation process and is expected to take considerable time, with no near-term impact on customers or shipments anticipated.
- Delta remains confident in its intellectual property portfolio and will take appropriate action to protect its interests.

Q8. HVDC Adoption and Capacity Readiness

Q: Are there any updates on HVDC production capacity and customer adoption?

Investment Head:

- Progress remains broadly in line with expectations, with adoption of ±400V solutions advancing relatively quickly.
- Greater standardization should support broader adoption, although skilled labor shortages and implementation complexity could extend deployment timelines.

Q9. 4Q26 Revenue and Gross Margin Outlook

Q: Will revenue continue growing in 4Q26, and what is the gross margin outlook?

Chairman:

- 4Q26 revenue is expected to exceed 3Q26 levels.
- While firm gross margin guidance is difficult to provide, management does not expect gross margin to deteriorate from 3Q26, subject to year-end reviews and accounting adjustments.

Q10. Data Center Financing Risks and Construction Outlook

Q: How could financing constraints and other challenges affect data center construction over the next six months, and how does Delta mitigate these risks?

Chairman:

- The long-term data center investment trajectory remains intact.
- Delta's highly customized solutions and continuous customer engagement help manage order changes and mitigate operational risks. The company does not expect to face similar financing-related issues directly.

Investment Head:

- Inflation, interest rates, and financing conditions remain important factors to monitor, although various financing structures are available to support data center investments.
- Strong financial performance among leading technology companies continues to underpin investment demand.
- US federal government support is expected to remain favorable given the contribution of data

center investment to economic growth.

Q11. 2027 Growth Outlook and AI-Related Revenue Contribution

Q: What are the key growth drivers for 2027? Are the previously discussed AI-related revenue contribution of 25% and liquid cooling contribution of 12% still valid?

Chairman:

- Four major business units—PSBG, FMBG, CP, and ICTBG—are involved in AI-related businesses, collectively accounting for approximately 50% of total revenue.
- AI-related businesses and liquid cooling are expected to continue growing in absolute revenue terms in 2027.

CFO:

- Liquid cooling revenue reached approximately NT$25bn in 3Q26, representing around 13% of total revenue, with a similar contribution expected for the full year.
- The previously mentioned 25% figure refers specifically to power-related solutions, while total AI data center-related businesses collectively account for approximately 50% of Delta's revenue.

Q12. New Manufacturing Investment in Malaysia

Q: What are the key considerations behind the location selection, investment scale, and construction timeline for the new manufacturing facility?

Chairman:

- Delta plans to establish a large-scale manufacturing site in Penang, Malaysia, following an extensive evaluation of potential locations.
- Malaysia was selected for its relatively developed infrastructure and skilled talent availability, although labor shortages remain a potential challenge.
- Delta aims to expand its Malaysian manufacturing operations to a scale comparable to Thailand over the next five years. R&D diversification across Asia remains under consideration, with engineering talent availability an important factor.

Q13. SOFC Commercialization and Overseas Expansion

Q: What is the progress of overseas SOFC development, and how long does it take to establish additional production lines?

Chairman:

- SOFC products are expected to enter mass production in 2027. Samples were delivered to Taiwan Power Company and customers in southern Taiwan during 2026.
- Initial production capacity will be slightly over 100 MW, primarily supporting trials and qualification with approximately two to three major overseas customers.
- Following successful product validation, Delta plans to accelerate capacity expansion.

Equipment procurement typically takes 6–10 months, followed by commissioning, validation, and yield improvement before higher-volume production.