

TECO Electric & Machinery Co., Ltd.



2019 Q4 Investor Conference

Safe Harbor Statement

- ❑ This Presentation contains certain forward-looking statements that are based on current expectations and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.
- ❑ Except as required by law, we undertake no obligation to update any forward – looking statements, whether as a result of new information, future events or otherwise.

Agenda

I. 2019 Financials

II. Business Review

III. Future Strategy

2019 Income Statement - consolidated

(In NT Millions)	2019	2018	YoY
Operating Revenue	47,909	50,105	-4.4%
Recurring Operating Revenue	47,786	50,156	-4.7%
Gain (Loss) on Valuation of Financial Assets	123	(51)	-341.2%
Gross Profit, net*	11,481	12,053	-4.7%
Operating Profit	3,536	3,520	0.5%
Non-operating Income	903	766	17.9%
Income Before Tax	4,439	4,286	3.6%
Income Tax	(920)	(810)	13.6%
Net Income**	3,222	3,150	2.3%
EPS(NT\$)	1.65	1.59	3.8%

* Unrealized / realized gain on inter-affiliate accounts included

** Excluding non-controlling interest

2019 Financial Highlights - consolidated

(IN NT Millions)	2019	2018	YoY
Net Sales recurring*	47,786	50,156	-4.7%
Gross Margin - recurring*	23.8%	24.1%	-30bps
Operating Margin- recurring*	7.1%	7.1%	2bps
EPS (NT\$)	1.65	1.59	3.8%
ROE (%) **	5.8%	6.0%	-20bps
ROA (%) **	3.4%	3.4%	-5bps

* Excluding financial assets at fair value through profit or loss

** Annualized number and excluding non-controlling interests

Q4 2019 Income Statement - consolidated

(In NT Millions)	Q4 2019	Q3 2019	QoQ	Q4 2018	YoY
Operating Revenue	12,059	11,601	3.9%	12,995	-7.2%
Recurring Operating Revenue	12,032	11,606	3.7%	13,071	-7.9%
Gain (Loss) on Valuation of Financial Assets	27	(5)	-640.0%	(76)	-135.5%
Gross Profit, net*	2,485	2,990	-16.9%	3,107	-20.0%
Operating Profit	660	937	-29.6%	851	-22.4%
Non-operating Income	164	168	-2.4%	111	47.7%
Income Before Tax	825	1,05	-25.3%	961	-14.2%
Income Tax	(168)	(233)	-27.9%	(189)	-11.1%
Net Income**	635	785	-19.1%	689	-7.8%
EPS(NT\$)	0.32	0.40	-20.0%	0.35	-8.6%

* Unrealized / realized gain on inter-affiliate accounts included

** Excluding non-controlling interest

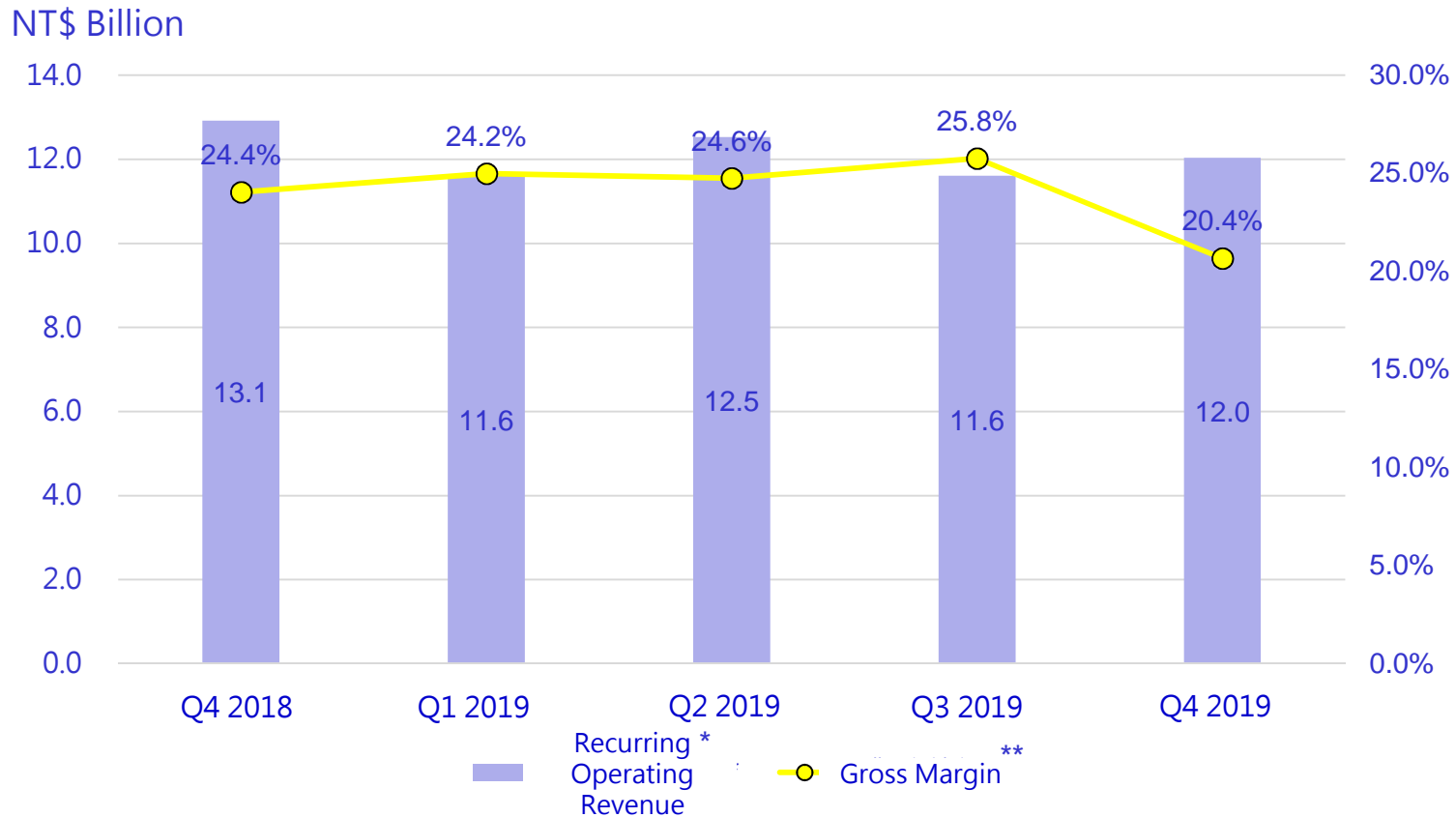
Q4 2019 Financial Highlights - consolidated

(In NT Millions)	Q4 2019	Q3 2019	QoQ	Q4 2018	YoY
Net Sales recurring*	12,032	11,606	3.7%	13,071	-7.9%
Gross Margin - recurring*	20.4%	25.8%	-540bps	24.4%	-400bps
Operating Margin-recurring*	5.3%	8.1%	-280bps	7.1%	-180bps
EPS (NT\$)	0.32	0.40	-20.0%	0.35	-8.6%
ROE (%) **	4.5%	5.5%	-100bps	5.2%	-70bps
ROA (%) **	2.6%	3.1%	-50bps	3.0%	-40bps

* Excluding financial assets at fair value through profit or loss

** Annualized number and excluding non-controlling interests

Recurring Operating Revenue vs. Gross Margin

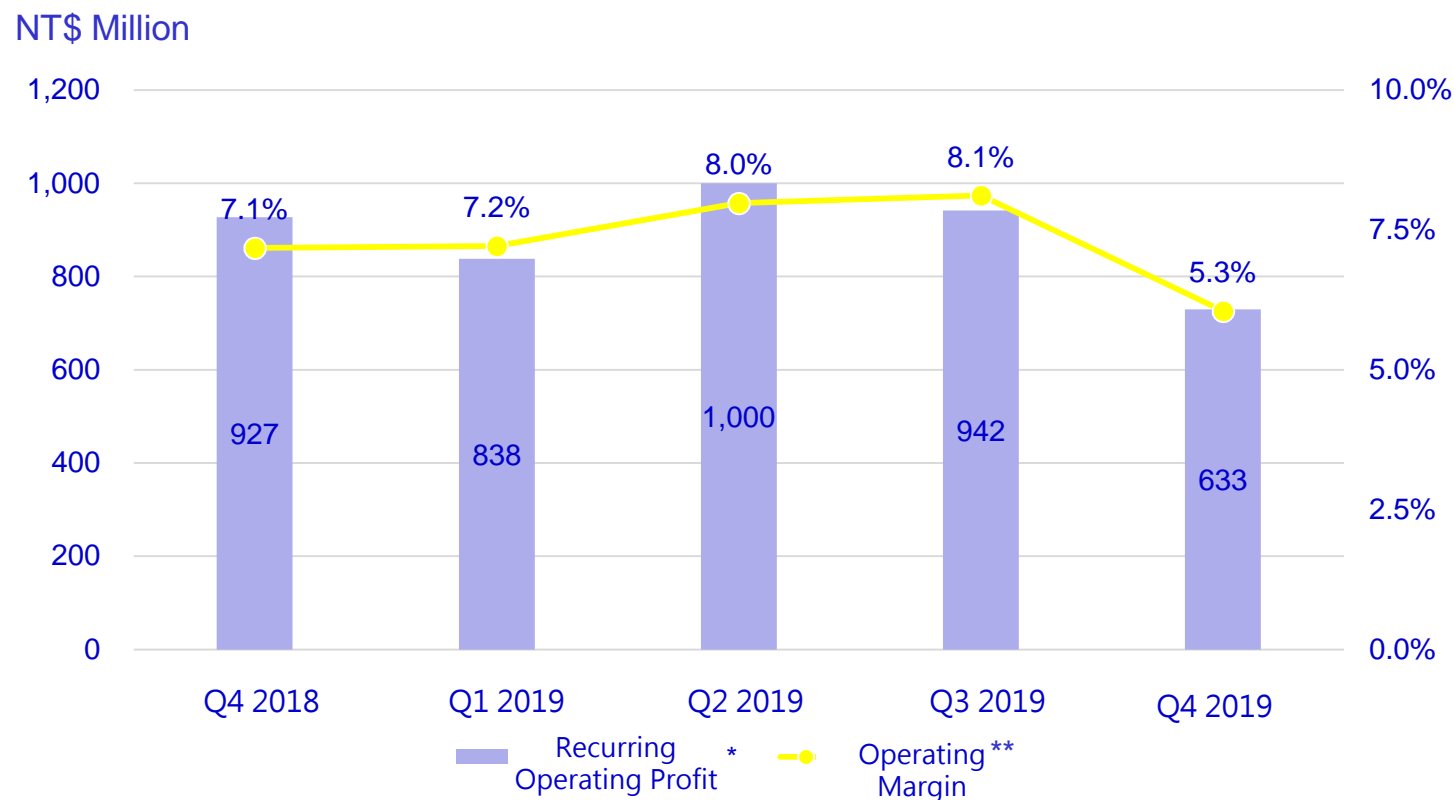


* Recurring Operating Revenue = Operating Revenue – financial assets at fair value through profit or loss

** Gross Margin = Recurring Gross Profit / Recurring Operating Revenue

*** Recurring Gross profit excludes financial assets at fair value through profit or loss

Recurring Operating Profit vs. Operating Margin

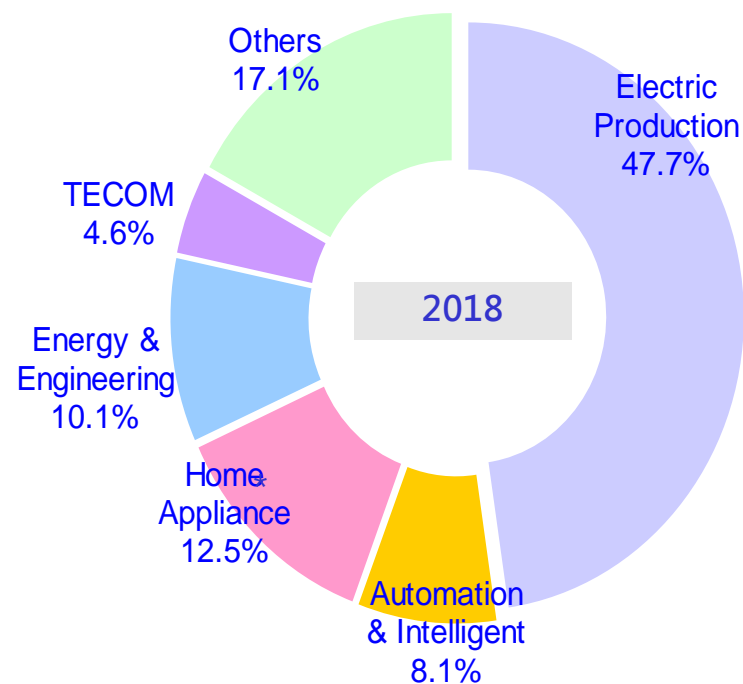
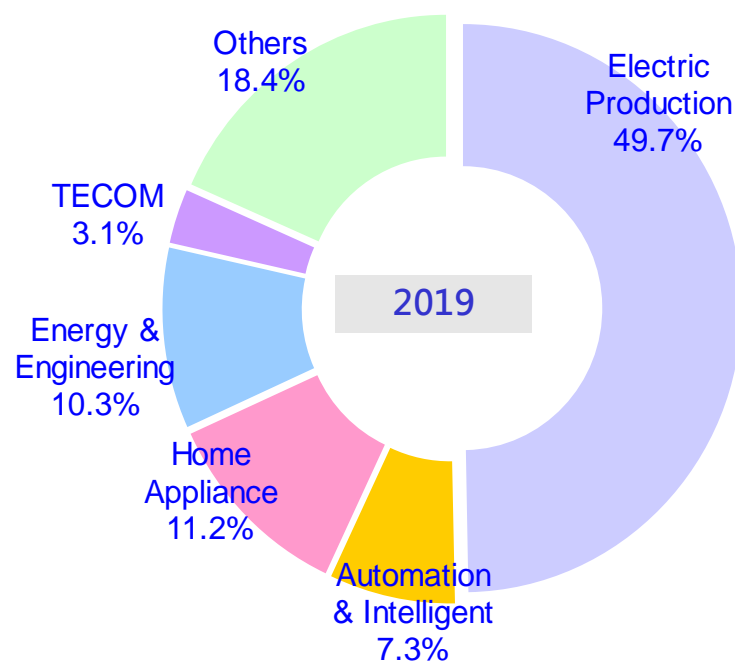


* Operating Margin = Recurring Operating Profit / Recurring Operating Revenue

** Recurring Operating Profit excludes financial assets at fair value through profit or loss

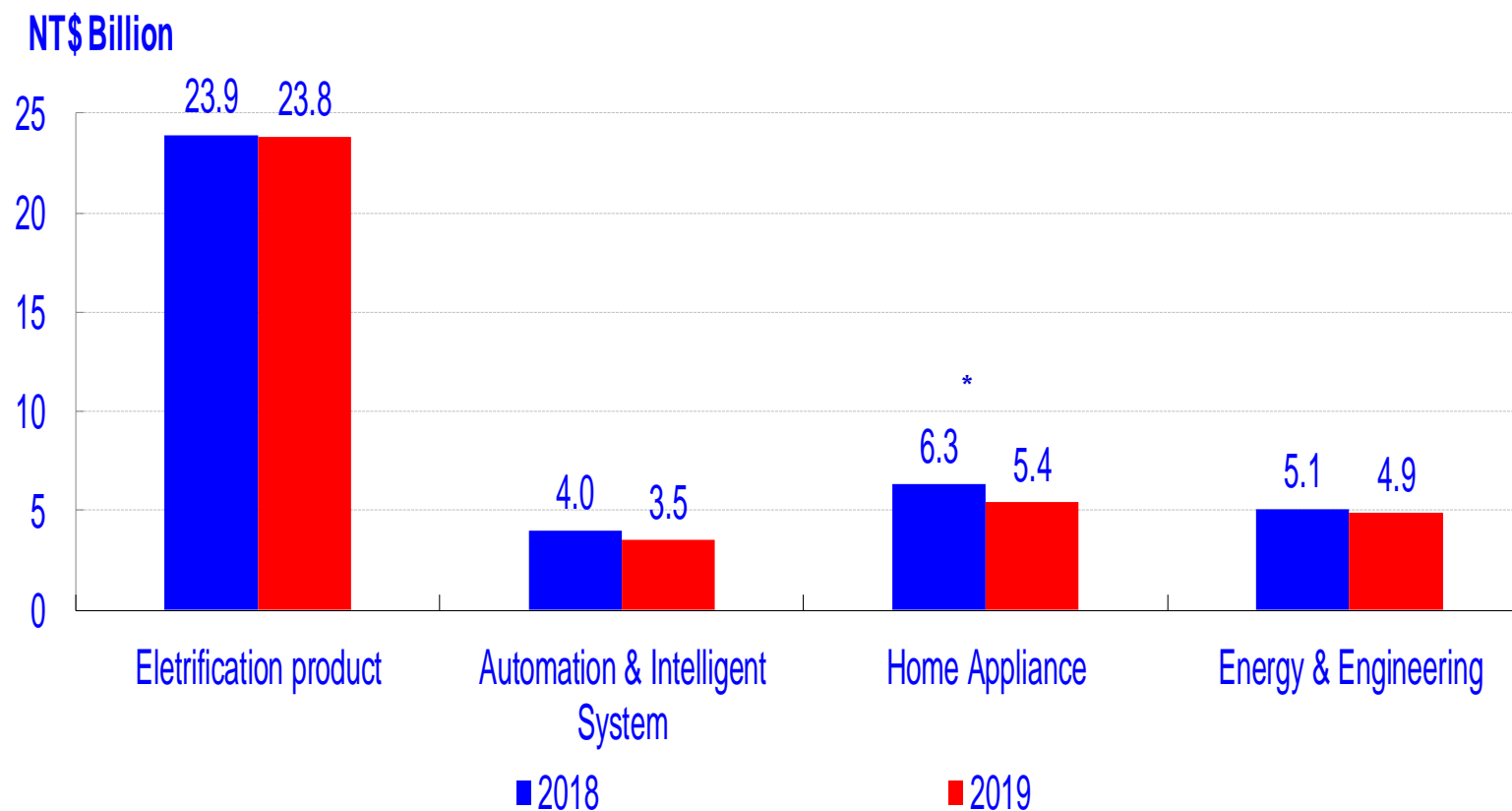
Revenue Breakdown

In 2019, total consolidated topline down 4.4% YoY



*: Including Kueiling's sales of NT\$1bn. It was removed from consolidated statement since June 2018.

Sales on Major Business Lines



*: Including Kueling's sales of NT\$1bn. It was removed from consolidated statement since June 2018.

2019 Balance Sheet - consolidated

(In NT\$ 1,000)	2019/12/31		2019/9/30		2018/12/31	
	Amount	%	Amount	%	Amount	%
Cash & Cash Equivalent	19,111,371	19%	18,616,097	19%	17,535,566	19%
Receivable	10,711,774	11%	11,095,563	11%	10,841,917	12%
Inventories	9,853,585	10%	10,307,603	11%	11,429,685	13%
Total Assets	99,094,404	100%	98,036,047	100%	91,981,286	100%
Short-term Borrowings	1,857,637	2%	2,026,526	2%	1,994,360	2%
Payable	11,954,866	12%	11,664,105	12%	12,538,210	14%
Long-term Borrowings	6,673,954	7%	6,434,536	7%	6,746,354	7%
Corporate Bond Payable	1,000,000	1%	1,000,000	1%	4,000,000	4%
Total Liabilities	37,389,614	38%	37,512,387	38%	33,490,371	36%
Equities	61,704,790	62%	60,523,660	62%	58,490,915	64%

Key Indices

AR Turnover (times)	4.59	4.49	4.64
Inventory Turnover (times)	3.21	3.07	3.11
Current Ratio	2.17	2.14	2.41
Quick Ratio	1.57	1.55	1.68
Net Debt to Equity	-10.0%	-8.8%	-6.7%

Financial strategy and shareholders' equity

A. Maintain sound financial strength

Year	Credit Rating	Net Income (NTmn)	Cash Flow Ratio	Current Ratio	Debt Ratio
2017	twA+(Stable)	35.44	31.43%	236.16	37.10
2018	twA+(Stable)	34.76	23.86%	241.22	36.41
2019	twA+(Stable)	35.18	29.21%	216.55	37.70

B. Create reasonable value for shareholders

- Due to compliance with IFRS9 in recent years, the valuation gain of unrealized financial assets has inflated the book value of shareholders' equity but return on equity still manages to stand at 6.3-7.4%.
- Based on calculation of consolidated other comprehensive income, return on equity hit 10% in 2019.

C. Support future business development with abundant cash position and solid capital structure

- With novel coronavirus (COVID-19) outbreak ravaging the world, it is critical to maintain sufficient cash position and a solid capital structure, so as to shield supply chain and provide working capital for distributed production.
- Support to developing the key business, including automated production and expansion, or attainment of market and technology via acquisition.
- Medium- and long-term fund is also needed for exploitation of the company's land asset.

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Business Review

A. Electrification Product

- Focus on high-efficiency IE3/IE4 motors
- Slight sales decline for small motors, except North America and Australia
- Step into the cutting-edge fields of ultra-high power smart motors, permanent-magnet motors, and electric-car motors, doubling sales of those products
- Provide package including medium- and high-voltage inverters to meet customers' need for energy conservation and one-stop shopping.
- Order intake for big motors for mining and power plants from Asia-Pacific jump by over 15%

Business Review

B. Automation & Intelligent System

- Sale growth slacken, due to decline of Chinese and Taiwanese market
- Sales of new inverter series and high-end server systems in the market of system integration of packaging/robotic arm/machine tool in mainland China expand by near 30%



- Thanks to inroads into new industries, such as mining and tire, sales of complete medium-voltage inverter series, high- and medium-end VersaBridge and MV510 leap by over 50%.



Business Review

C. Energy & Engineering

- Foray into green energy industry, including offshore wind power, PV power, and energy storage system
- Tap the business opportunities of smart building, smart city, and Internet datacenter
- Reception of over NT\$10 billion in orders in 2019



Onshore substations for offshore wind power



Internet Data Center



PV power generation and energy storage systems



Smart building (Power center of Taoyuan International Airport)

Business Review

D. Home Appliance

- Thanks to stable quality and price edge, sales of residential variable-frequency air conditioners grow by over 15%, with profits also scoring significant growth
- Sales of medium- and large-sized refrigerators, all series with variable-frequency function, and residential refrigerators, with automatic switch between freezing and preserving modes, grow by 25%.
- Rollout of the first indigenous variable-frequency 1,000L business refrigerator
- Application of big data and AI in energy conservation and preventive maintenance service



Deployment of SmartAuto Production

Wuxi precision stamping center (2017)



- Annual output of 600k iron-core sets of motor rotor
- Material-saving sheet punching technology, with saving rate reaching 6%
- Multitasking high-speed direct-drive notching press, with 30% higher productivity
- Automated continuous press, with 40% higher production efficiency

Chungli smart electric-engineering line (2016)



- Smart Industry 4.0 management system framework
- Pioneering high-performance automated electric-engineering (up to 25kW) production line
- Per capita output triples and 10% cut on cost
- Flexible adjustment of electric-engineering capacity

Vietnam Becamex Factory (2019)



- Annual output of 200,000 units for supply to markets in North America and Southeast Asia
- Cut process time, including dipping, by 75%
- Automated painting and paint-mixing system, cutting paint consumption by 30% and power consumption by 60%
- Cut VOC emission by 40-80%



Automatic Dipping System



Automated painting System

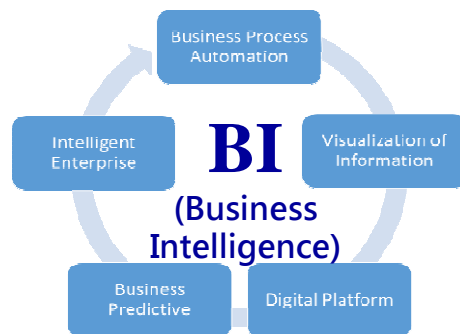


Production Management System
(War Room)

Automated Marketing & Sale

Carrying out digitalization and optimize marketing information platform, major affiliates of the group have installed CRM, TOS, and ERP, marching towards the establishment of comprehensive BI system.

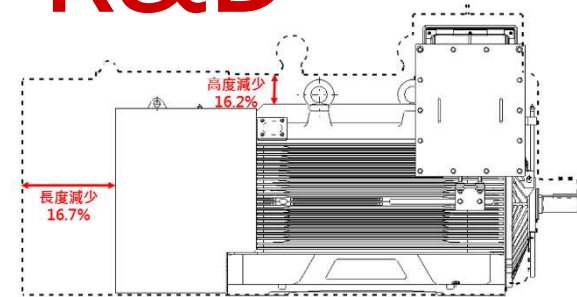
- Grasp business opportunities real time and respond in a matter of hours.
- Offer quotes within 72 hours (compared with seven days previously) after receiving inquiries from customers.
- Utilize cloud-end technology to enable overseas customers to check progress of delivery with mobile phones.
- Cut cost by over 10%



Business Review – R&D

A. Ultra-high power density motor

- for wind and hydraulic turbines



B. Smart motor (smart vibration sensing)

- Introduction ratio at 19.3%

C. Service robots

- Granted 2019 silver award of Taiwan Excellence Award
- Capable of controlling multiple AGV simultaneously via AIOT technology and visual recognition



D. E-house electric control/power integration program

- Preassembled PV power solution, integrating control panel, medium-voltage inverters, and energy storage cabinet



Business Review – CSR

- Selection as constituent stock of FTSE4Good TIP Taiwan ESG Index
- Inclusion in top 5% in corporate governance evaluation for fifth straight year, the only listed company in the electric machinery category
- Granted golden award of TOP50 CSR award in Taiwan for sixth straight year
- Granted corporate citizen award by Commonwealth Magazine for eighth straight year
- Pledge for 20% emission reduction in 10 years
- Rollout of employee public service account

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Organic Growth

A. Electrification Product

- Push new products: permanent-magnet motor, electric-car motor
- Intensify marketing for new and existing global key accounts
- Expand sales of anti-explosion motor and aluminum-case motor
- Tap motor maintenance/repair and spare parts market
- Expand sales of system solutions



B. Automation & Intelligent System

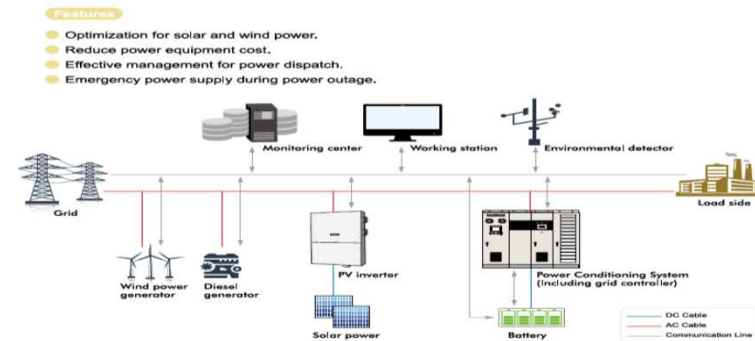
- Tap Inverter, MS/CB, and ODM/OEM markets
- Tap medium-voltage inverter markets in North America, Australia, and mainland China
- Push applications of servo control in a wide range of industries, including packaging, rubber/plastics, metal machining, electronic equipment, and PV power
- Intensify marketing of continuous process control systems among steel plants and paper-making plants in Southeast Asia



Organic Growth

C. Energy & Engineering

- Application of smart automatic control technology in wind and PV power generation systems, micro-grid, and energy management.



D. Home Appliance

- Increase margin of variable-frequency energy-saving products
- Rollout of variable-frequency electromagnetic-suspension centrifuge of business air conditioner for high-end energy-saving market and whole-series DC variable-frequency lightweight commercial air conditioners, one step ahead of peers
- High-end high-efficiency energy-saving commercial air conditioning and energy-management system



Strategic Growth Plan- SmartAuto

SmartAuto
Application



Production Automation
(YATEC)

Robot
Application

E-House
(TWMC)

SmartAuto
Module &
System



Robot Joints



AGV



智能 電力調節器 (PCS)



MHm 診斷系統
(TECOM)



運動控制系統
(FCR)

Automation
Control &
Industrial
Net



Motion Control



HMI



PLC



IPC
Controller



Industrial Ethernet

Automation
Products



LV & MV
Inverter



Servo Drive & Motor



MS/CB



LB Reducer

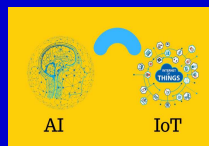


M+I Combo



HD Bearings
(IPI)

Smart Auto
Underlying
Tech



Smart IOT



IOT Sensing



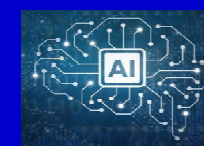
IOT Telecom



Industrial IOT



Big Data Analysis



AI Algorithm

Strategic Growth Plan- Smart Auto

Smart Logistics



台灣精品銀質獎



AGV (automated guided vehicle)

- * AGV-80 kg series
- * Sales of AGV system kits

- SI secondary development for application in lightweight transport for smart production lines and logistics
- Provision of AGV kits for other branded AGV manufacturers

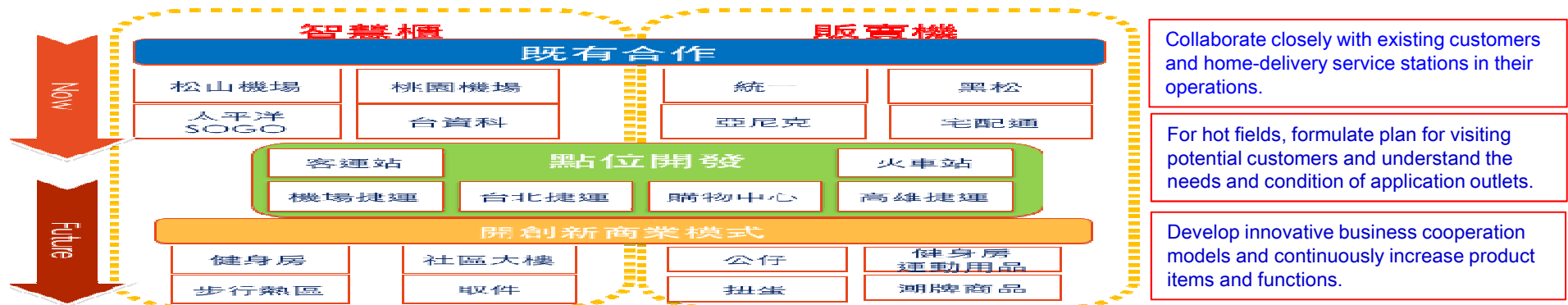


Service Robots

- Push meal delivery/dish collection robots for dining outlets, such as restaurants and food courts

Smart Retails

- Develop as strategic focus technology for automated services creating a convenient consumption scene.
- Resort to IoT technology to enhance service efficiency for products, thereby increasing customer satisfaction.



Focus of Long Term SmartAuto Production



Casting

High-precision, high-pressure automated casting system (2023) (IoT Ready)



Punching

Whole-series sheet-punching and die-casting center (2017)



Electric Wire

Automated electric-wire winding line (2016)



Production line for HairPin low-winding copper-saving electric wire for high power density motor (2022)

Unmanned automated production line for two-wheel car motor rotors (2022)

Fully automated axis processing center with high-precision visual-assisting measurement (2021)

Automated magnetization and magnet detecting system with magnet-identifying capacity (2021)

AI-assisting visual dynamic balancing production system (2020)

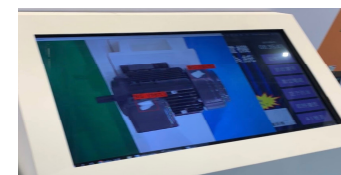
Machining



Rotor Dynamic Balance



Assembly



Quality Assurance



IT Management System

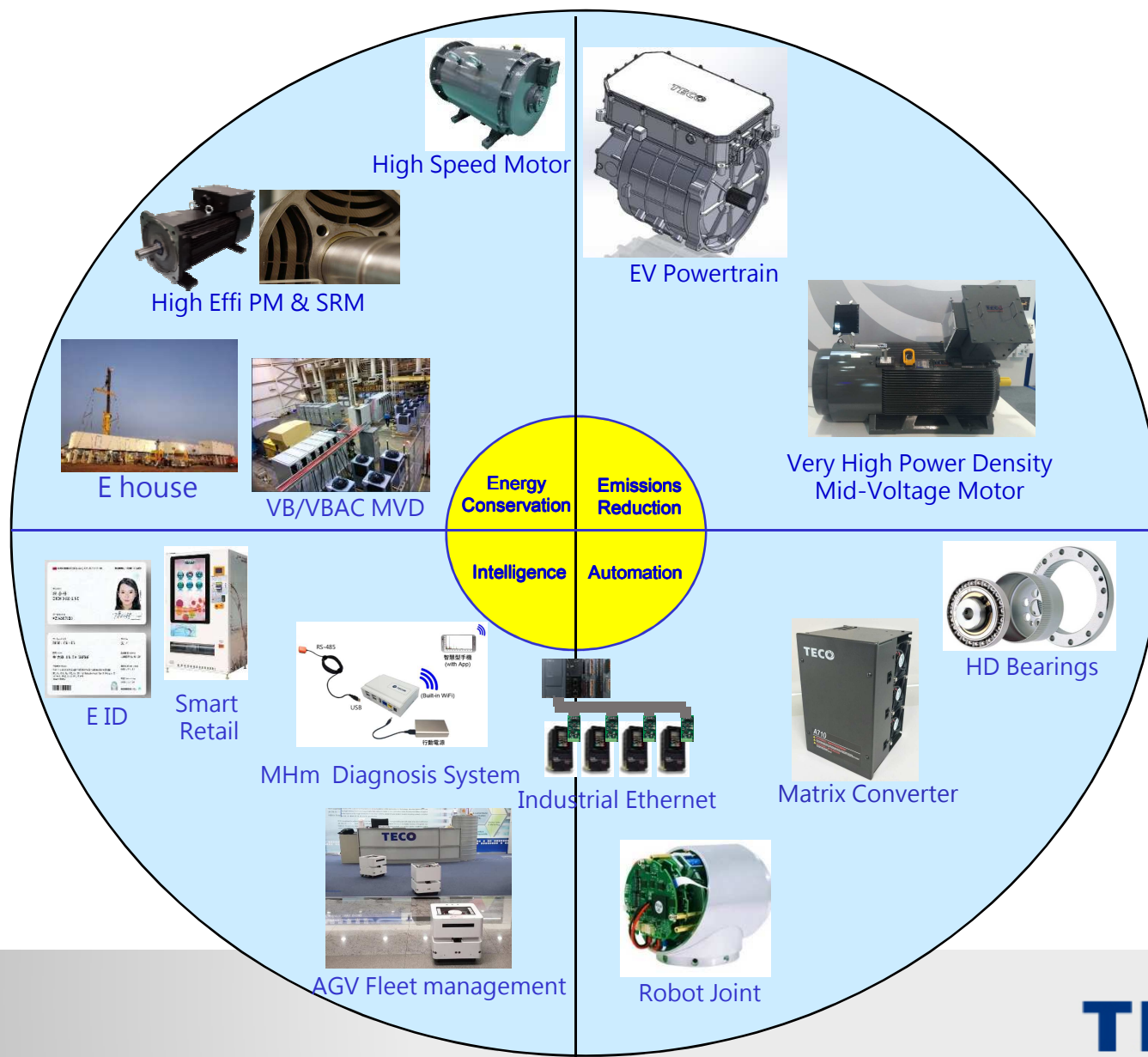
High-performance human-machine collaborating Cobot assembly line and robotic automated painting and paint-mixing system (2022)

Fully automated smart permanent-magnet auto motor assembly line (2022)

AI visual-identification digitalized detecting system (2022)

Digitalized supply-chain management and global production information monitoring system (2021)

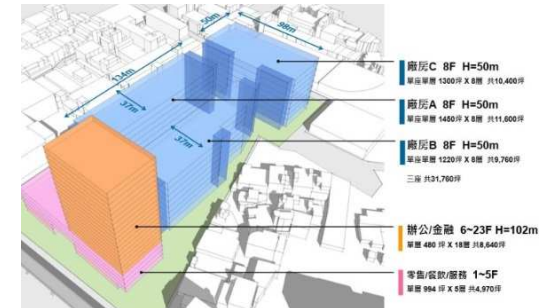
Strategic Growth Plan – R&D



Continuing exploitation of real estate to increase shareholders' equity

Xinzhuang plant

- Size of base: 37,236 m² (B-type industrial zone)
- Basis for development plan: Incentives for high industrial-zone buildings/urban renewal
- Contents of development plan:
70% hi-tech factory buildings, mainly for biotech and ICT, 30% AI commercial buildings
(six-story office-cum-factory building, one 23-story commercial building)



Songjiang Building

- Size of base: 827 m² business 3 special area (originally business 2 area)/57% owned by TECO
- Basis for development: project for condemned and old buildings
- Contents of development plan: 21-story office building



[Http//www.teco.com.tw](http://www.teco.com.tw)

ir@teco.com.tw