



Kwong Lung Enterprise (8916 TT/TW) 1Q22 Earnings Call



May, 2022



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AGENDA

- 1** **1Q22 Financial Results**
Norman Chang, CFO
- 2** **Road to Garment ODM Business**
Hebert Chan, Chairman / CEO
- 3** **Industry & Company Outlook /
Future Strategy**
Hebert Chan, Chairman / CEO
Demi Hsu, CSO / VP of ODM Service

1Q22 Financial Results

Norman Chang, CFO

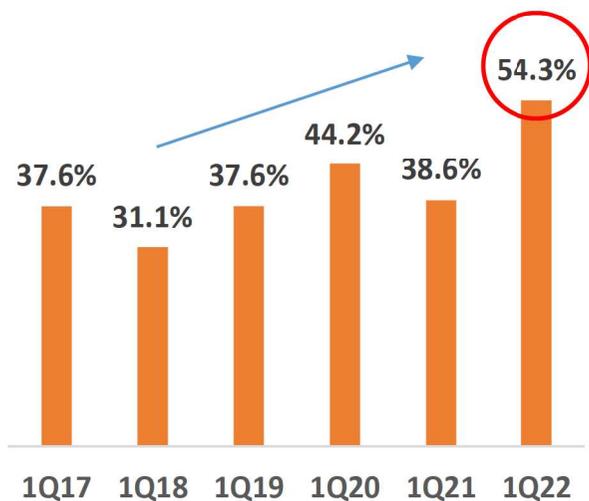
Consolidated Income Statement

Unit : NT\$ million

	1Q22	1Q21	YoY (%)
Revenue	2,110	1,690	24.9
Gross Profit	280	208	34.6
Gross Margin (%)	13.3	12.3	+1.0 pts
Operating Expenses	(164)	(171)	(4.1)
Operating Income	116	36	222.2
Operating Margin (%)	5.5	2.2	+3.3 pts
Non-Operating Income (Loss)	57	126	(54.8)
Net Income	145	134	8.2
Net Income to Parent	145	128	13.3
Net Margin (%)	6.9	7.9	-1.0 pts
EPS (NT\$)	1.1	1.0	10.0

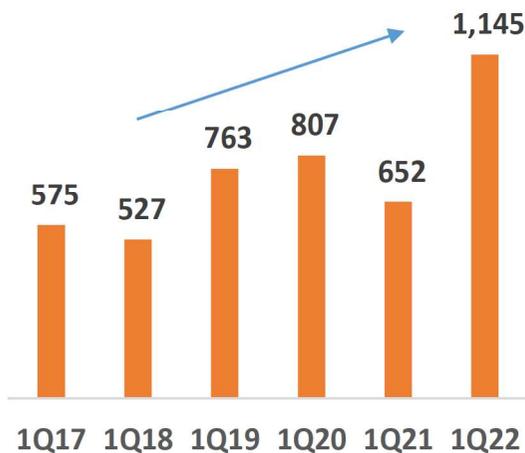
Robust top line growth driven by functional outerwear ODM service in the past 5 years

Revenue Share of Garment ODM Business



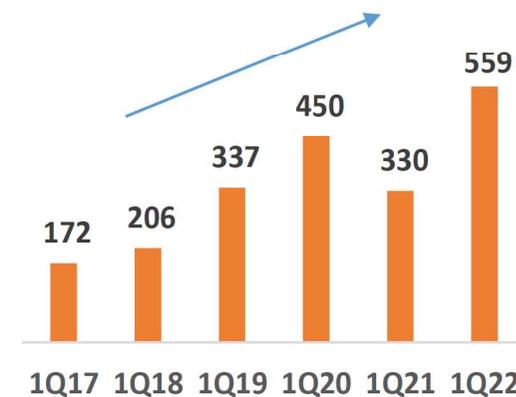
- 2022 Q1: Revenue share exceeds 50%

Revenue, Garment ODM Business (NT\$ million)



- 2017 – 2022 CAGR = 14.8%
- 1Q22 Revenue Growth = 75.7% YoY

Revenue, Functional Outerwear ODM (NT\$ million)



- 2017 – 2022 CAGR = 26.5%
- 1Q22 Revenue Growth = 69.5% YoY

Consolidated Balance Sheet

Unit : NT\$ million

	2022-3-31		2021-12-31		2021-3-31	
	Amount	%	Amount	%	Amount	%
Cash and Cash Equivalents	1,390	15.6	1,311	15.8	785	9.8
Notes & Accounts Receivable	1,069	12.0	957	11.5	752	9.4
Inventories	2,664	29.9	2,396	28.9	2,114	26.9
PP&E	1,556	17.5	1,557	18.8	1,845	23.1
Total Assets	8,907	100.0	8,294	100.0	7,983	100.0
Current Liabilities	2,823	31.7	2,495	30.1	2,544	31.9
Interest-bearing Liabilities	1,859	20.9	1,720	20.7	1,026	12.9
Total Liabilities	3,709	41.6	3,312	39.9	2,804	35.1
Total Equity	5,198	58.4	4,982	60.1	5,178	64.9

Key Financial Ratios

A/R Days	43	35	45
Inventory Days	124	103	117
A/P Days	48	44	54
Cash Conversion Days	119	94	108
Net Debt / Equity (%)	9.0	8.2	4.6
Debt Ratio (%)	41.6	39.9	35.1

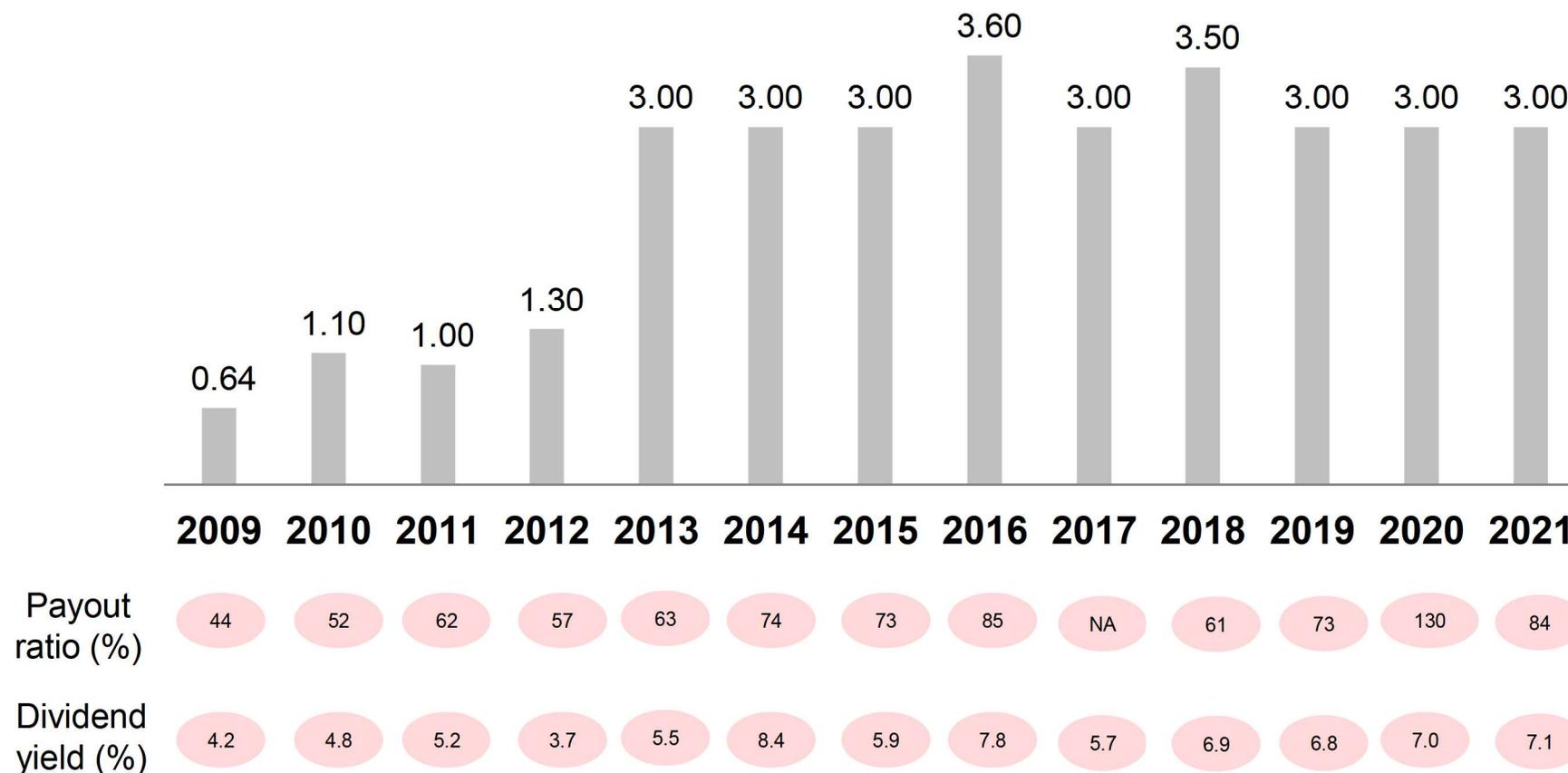
Consolidated Cash Flow Statement

Unit : NT\$ million

	1Q22	4Q21	1Q21
Beginning Balance	1,311	730	1,070
Operating Cash Flow	(149)	16	68
Capital Expenditures	(38)	(77)	(93)
Investments and Others	98	907	(124)
Cash Dividend Paid	-	-	-
Financing Cash Flow	108	(259)	(134)
Ending Balance	1,390	1,311	785

Dividend Policy

Cash Dividend, Payout Ratio and Dividend yield (2008-2021)

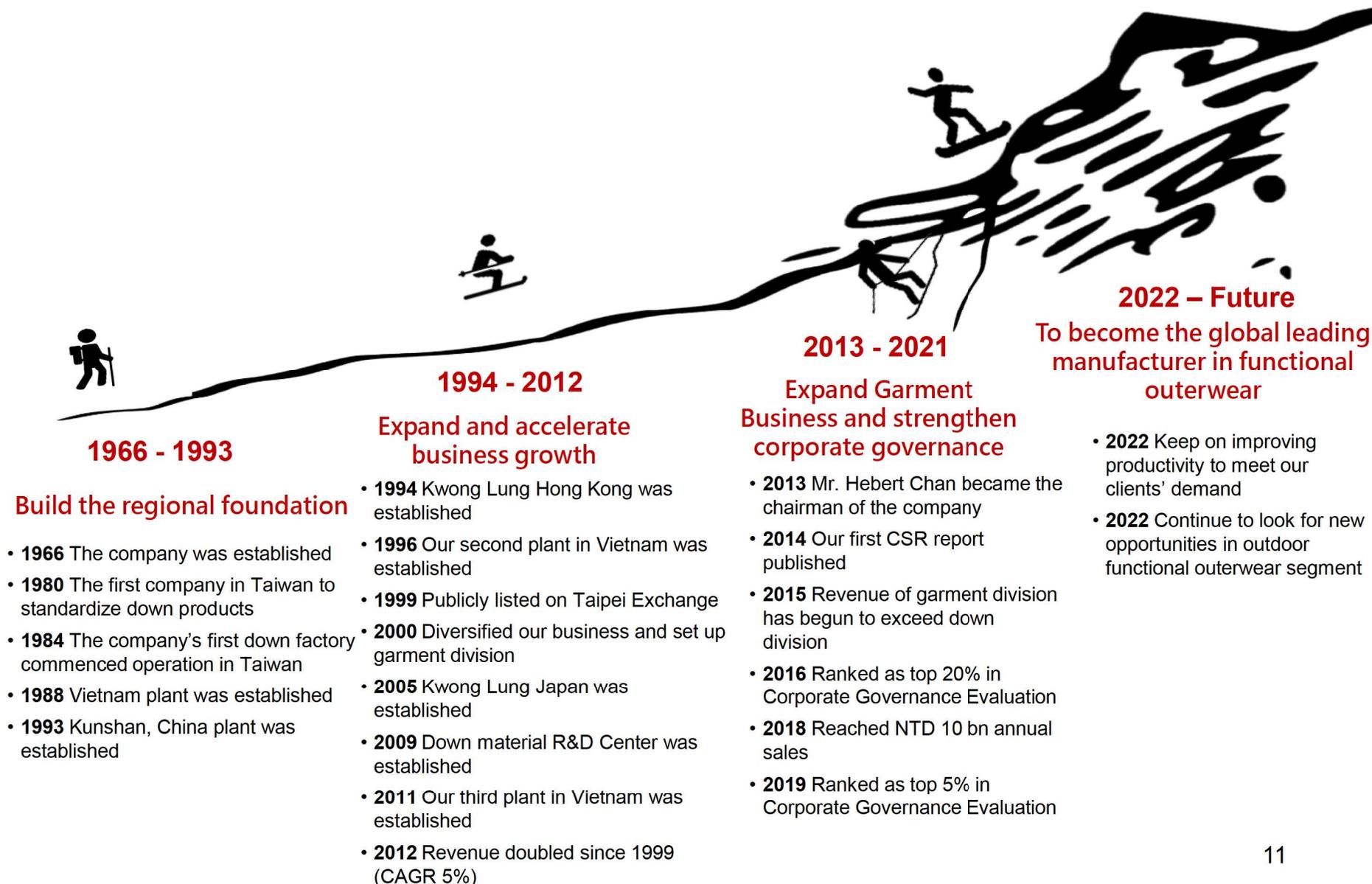


*Note: Cash yield is calculated based on Kwong Lung’s closing price on the day before ex-dividend.

Road to Garment ODM Business

Hebert Chan, Chairman / CEO

Kwong Lung has successfully transformed into a functional outerwear manufacturer



Technology mindset is what differentiates Kwong Lung and other textile manufacturers

How Kwong Lung tackles inefficient productivity in functional outerwear production

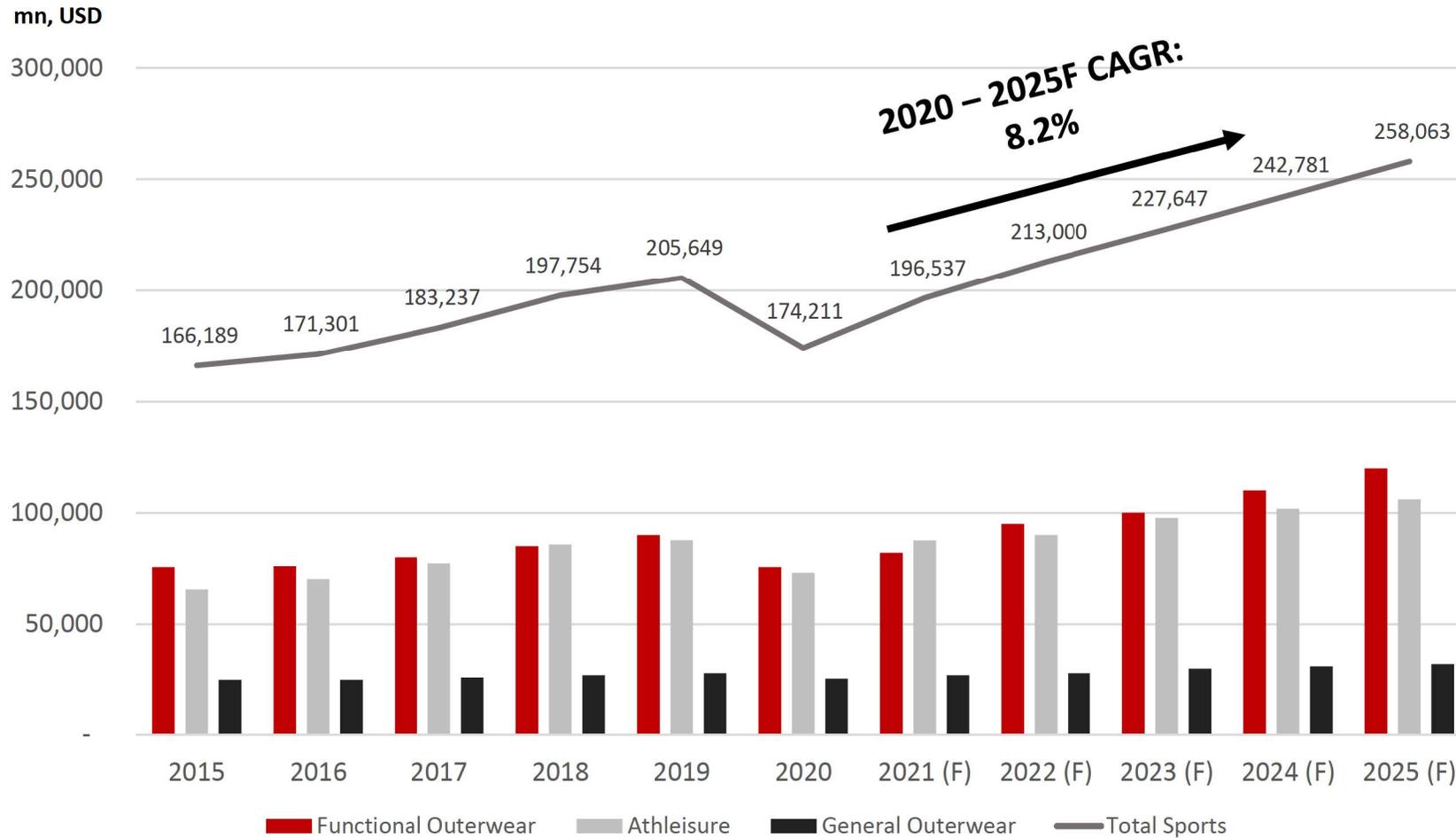
	Kwong Lung	Other outerwear manufacturers
Mindset	Improves productivity by restructuring the way we operate our production lines	Invest in new production lines
Cost	Low	Much higher
Efficiency	<ul style="list-style-type: none"> • Need more time but productivity improvement can be accumulated • Seasonality can be reduced 	Fast but barely improves existing productivity
Annual Productivity	Reaches 70% and aiming for 80-85%	40% - 50% on average
Talent Development	<ul style="list-style-type: none"> • Attract talents from diverse backgrounds • Employees are hard to be replaced 	<ul style="list-style-type: none"> • Recruit people from the same background or industry • Employees are easy to be replaced

Industry & Company Outlook / Future Strategy

Hebert Chan, Chairman / CEO
Demi Hsu, CSO / VP of ODM Service

Global demand of functional outerwear have recovered in the post-pandemic era

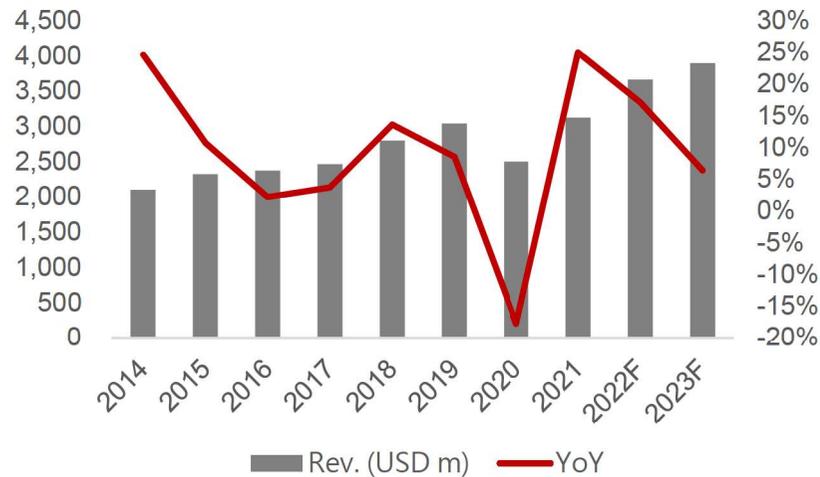
Global market size for sports apparel (2015 – 2025E)



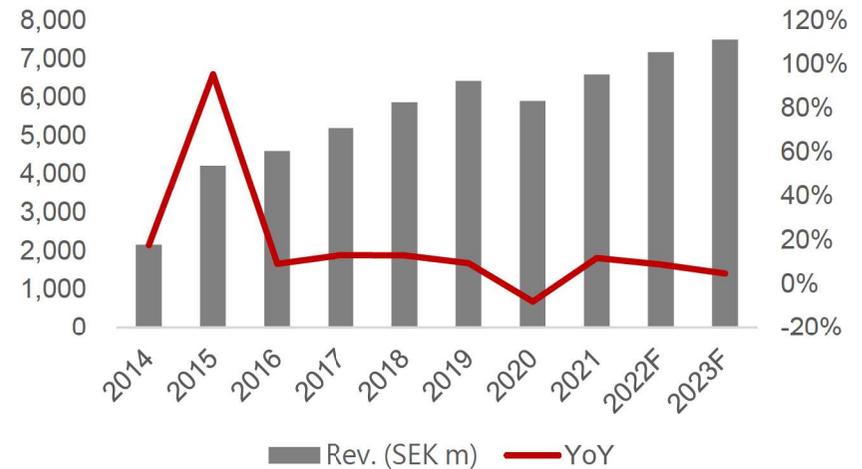
Source: Euromonitor (2021/01)

As most of the countries reopen, the growth in functional outerwear market is expected to resume in the coming years

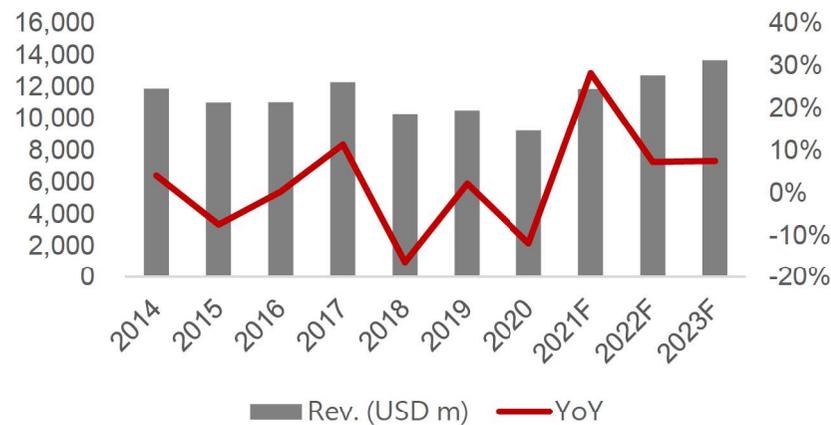
Columbia Sportswear Revenue & Growth



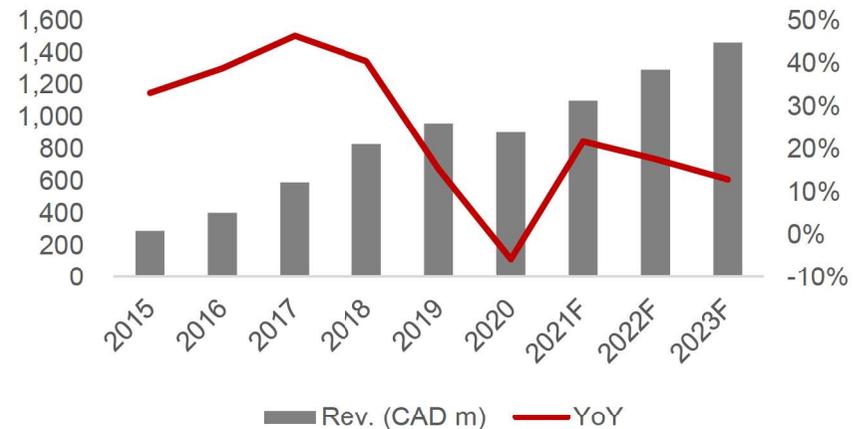
Fenix Outdoor Revenue & Growth



VF Corp Revenue & Growth



Canada Goose Revenue & Growth



Global garment supply chain continues to reshape, which benefits Kwong Lung

2 major changes in supply chain during the past 5 years:

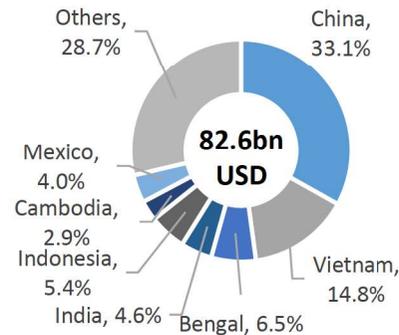
- 2018: Orders have moved from China to Vietnam due to the trade war between China and the US
- 2020-2021: Pandemic caused smaller ODM manufacturers to shut down or restructure, where Kwong Lung benefited from this trend and received more orders.



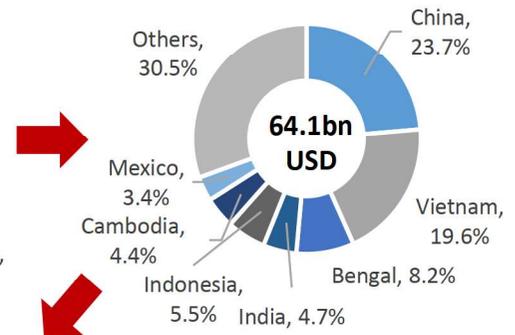
Future Strategies:

- Increase the capacity and productivity in Vietnam plant
- Collaborate with more outsourcing partners in Vietnam
- Seek appropriate timing to deploy production lines in Indonesia
- Reasons for not choosing Bengal and Cambodia

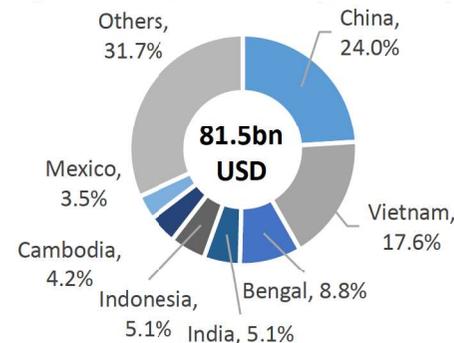
2018 US imported textile products, shares by country



2020 US imported textile products, shares by country



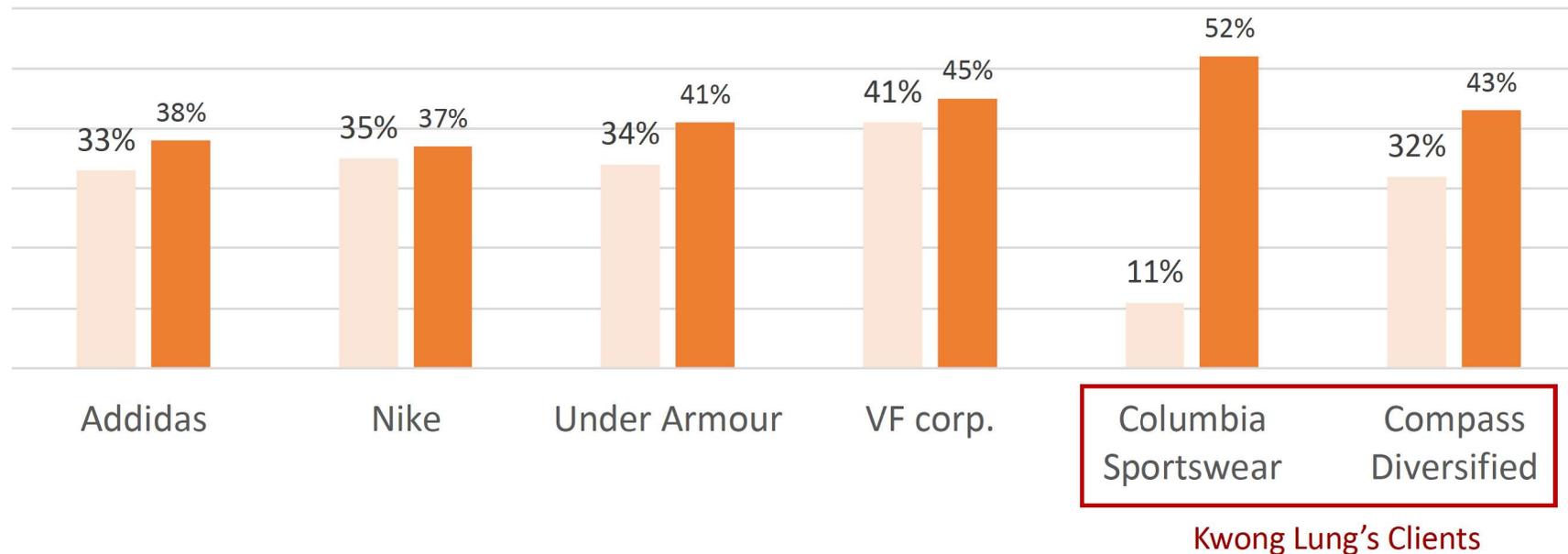
2021 US imported textile products, shares by country



Source: OTEXA, Company data

Kwong Lung also benefits from Brands' DTC trends

Revenue share from DTC, Major Brands (2019 – 2021)



DTC's impacts on Kwong Lung

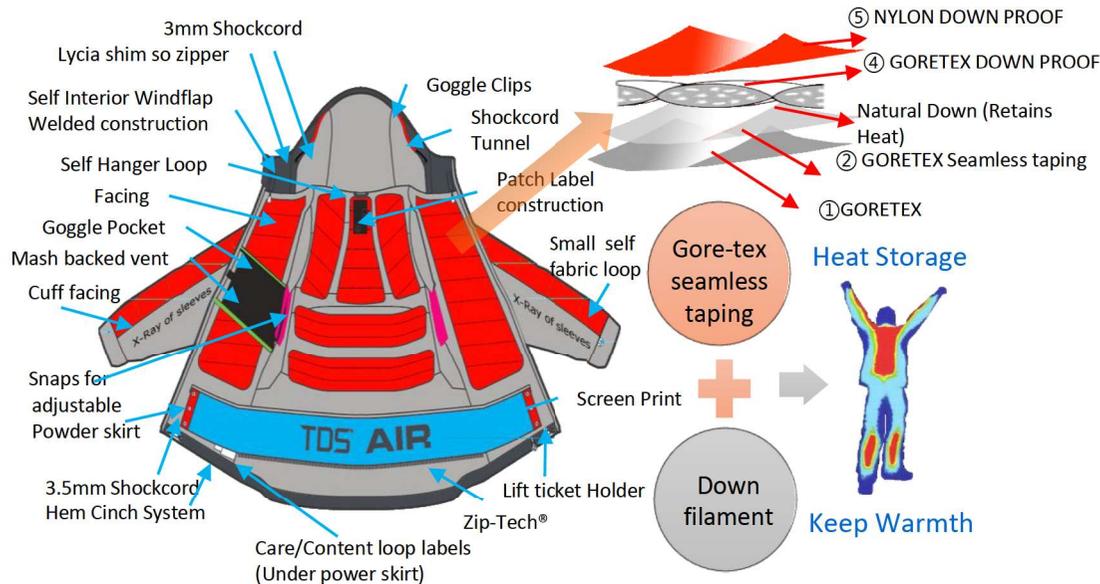


Our R&D expertise in sophisticated products can help us penetrate deeper into other functional outerwear

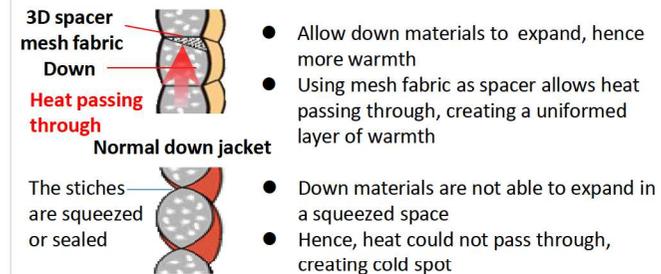
High-end outdoor GORE-TEX jacket



High-end functional down jacket



Highly functional 3D spacer structure



3D cutting on sleeve structure

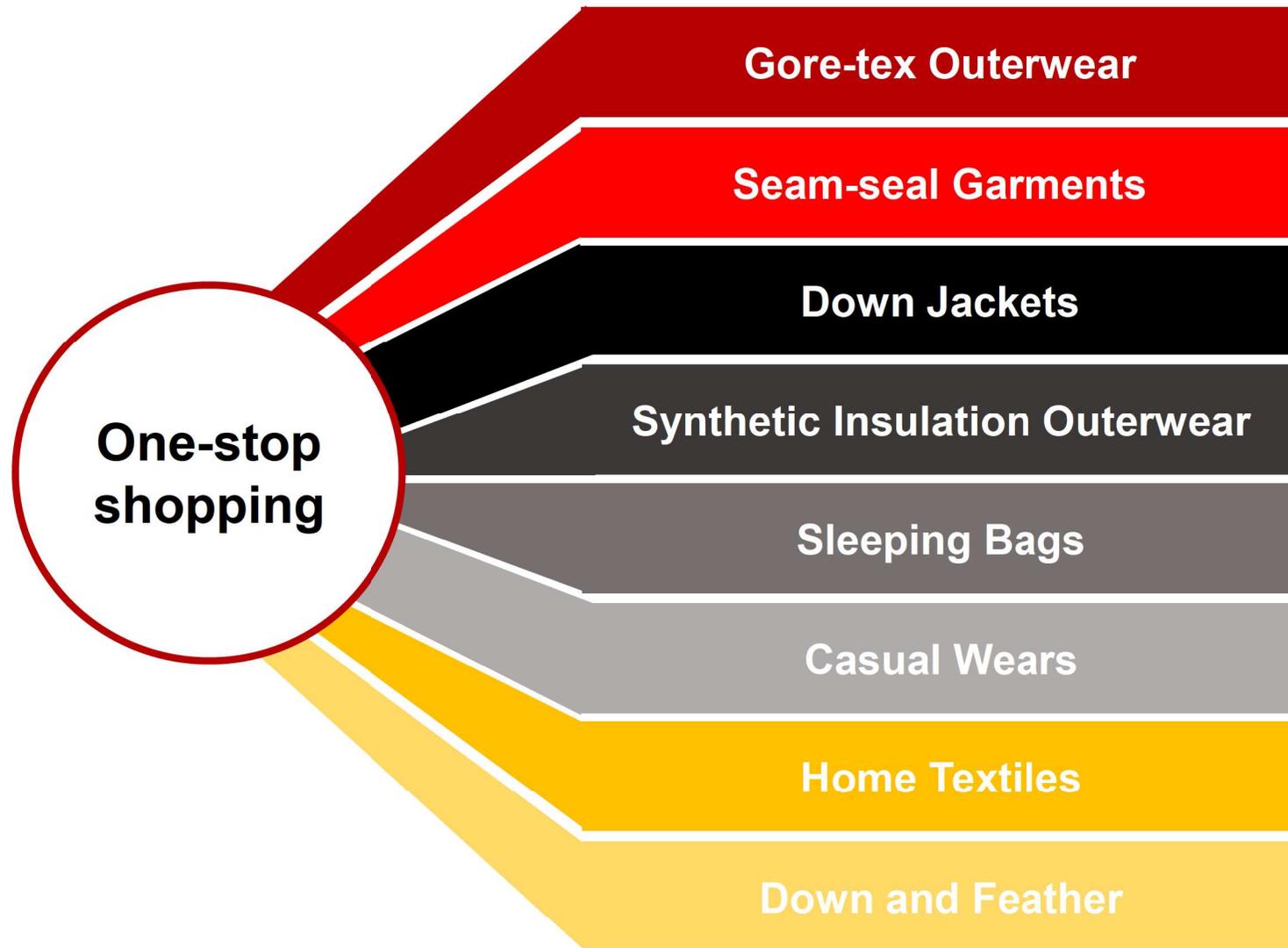


Our production model has the flexibility to take on smaller order vs. most other outerwear manufacturers

We adopted Toyota Production System (U-shaped production line) in our garment production, which equips us with high production flexibility to take on smaller volume order. On average, we can reach economies of scale with single order size over 1,600-1,800 pieces.

	Kwong Lung	Other outerwear manufacturers
Production Model	Toyota Production System <i>U-shaped production line</i>	Hanger System
Advantage	With more production flexibility <i>Able to reach economies of scale even with small order volume</i>	With less production flexibility <i>Requires higher order volume to reach economies of scale</i>
Products	All range of products <i>Down jackets, snowboard jackets, sleeping bags, seamless taped jackets (mainly for outdoor)</i>	Mostly single item product
Target customers	Focus on Tier-2 brand customers	Focus on Tier-1 brand customers and some Tier-2 brand customers
Business model	Multiple items/ Smaller batch volume	Single item / large batch volume

Provide all range of products and services



Continue to grow clients from Tier 2 – 3 brands in functional outerwear segment

North America outerwear brands market share (%)

Tier 1 Brands

CAGR +3%

Market Shares: 41%

Tier 2 Brands

CAGR + 6%

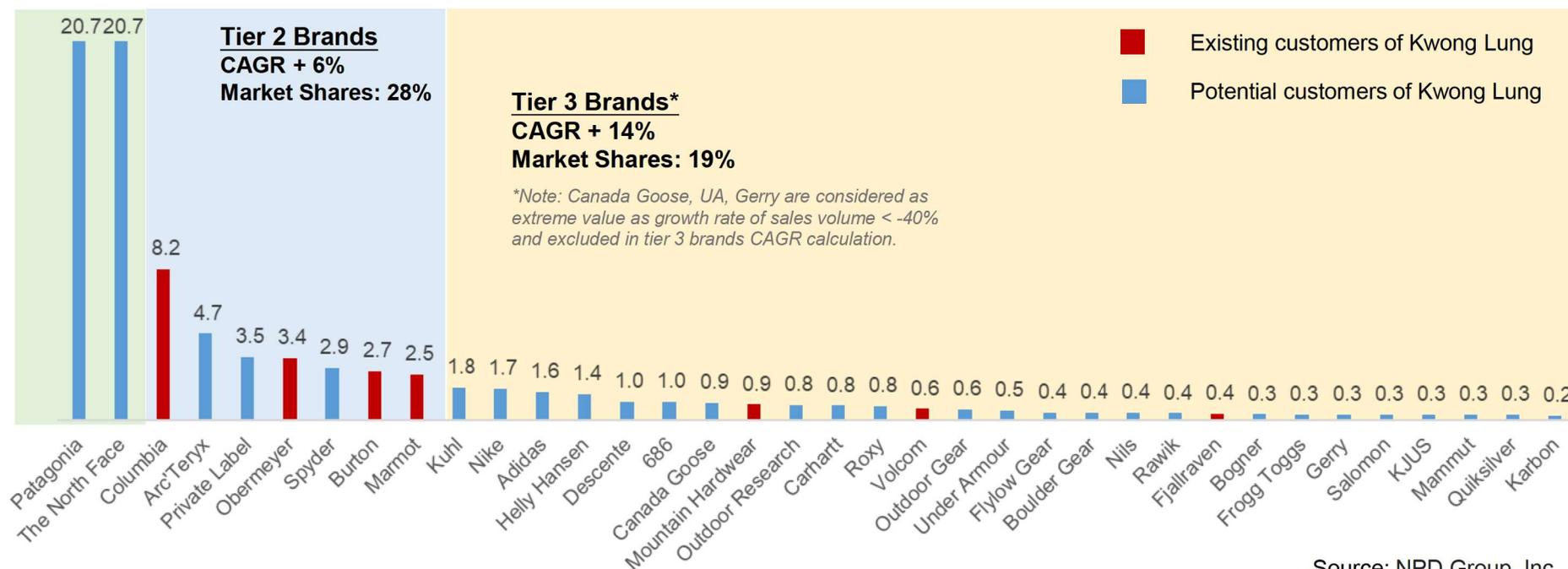
Market Shares: 28%

Tier 3 Brands*

CAGR + 14%

Market Shares: 19%

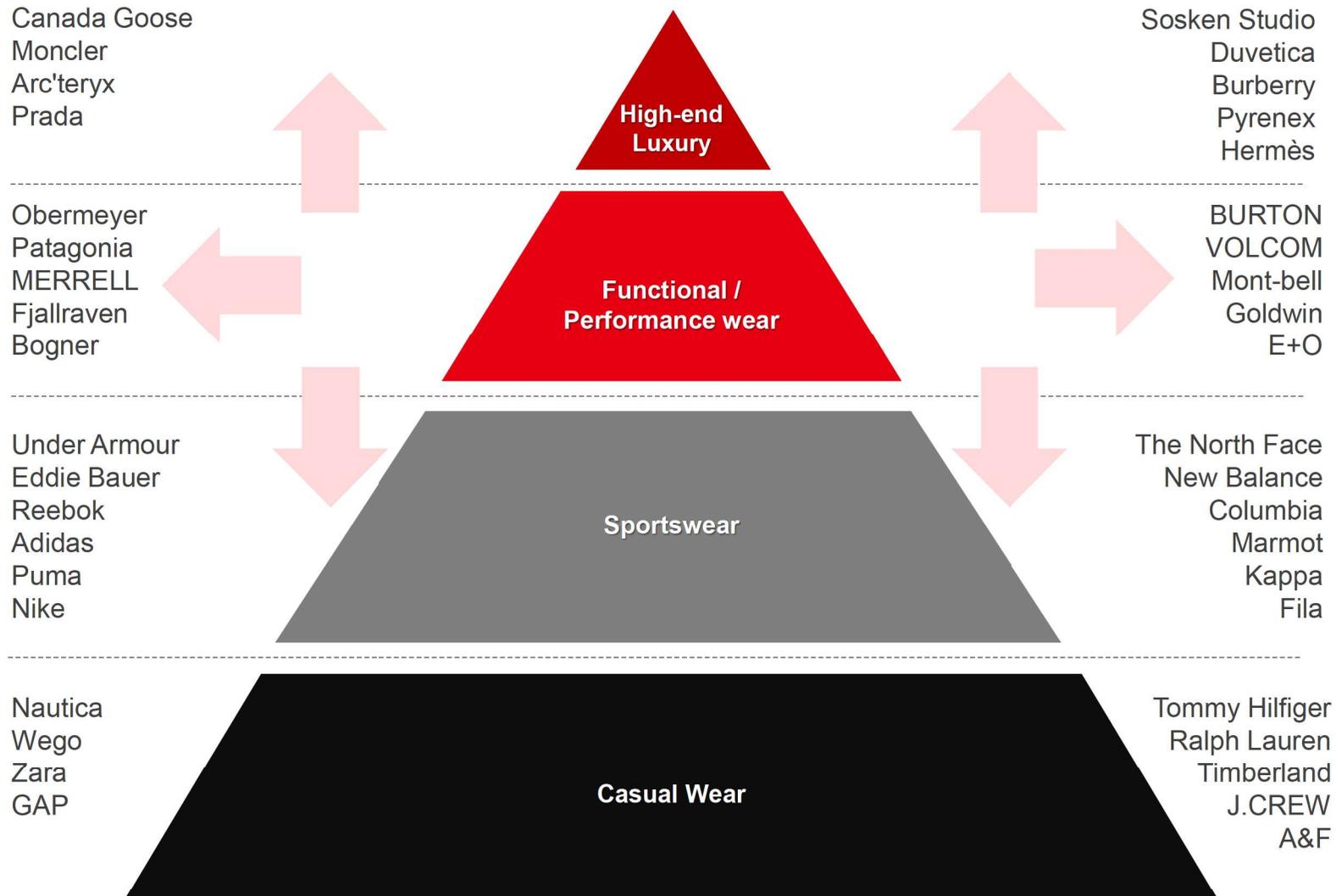
**Note: Canada Goose, UA, Gerry are considered as extreme value as growth rate of sales volume < -40% and excluded in tier 3 brands CAGR calculation.*



Source: NPD Group, Inc.

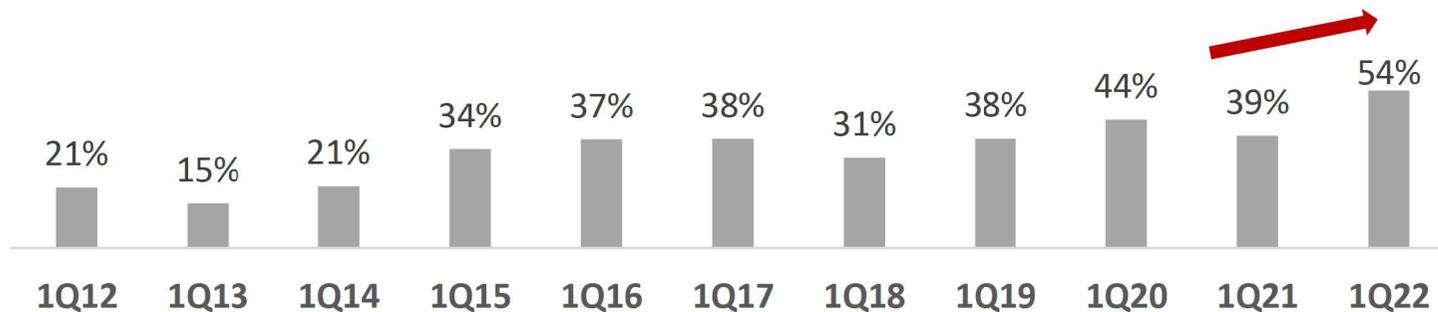
- The long tail theory applies to the functional outerwear industry as newly emerged or boutique brands tend to have higher growth, yet their small share of the market would mean higher number of SKUs but lower volume. Large garment ODM companies tend not to take on order from these brands.
- Kwong Lung is a perfect fit to these tier-2 and -3 brands as we the model we operate could take on smaller volume yet diversified products.

A clear market penetration strategy

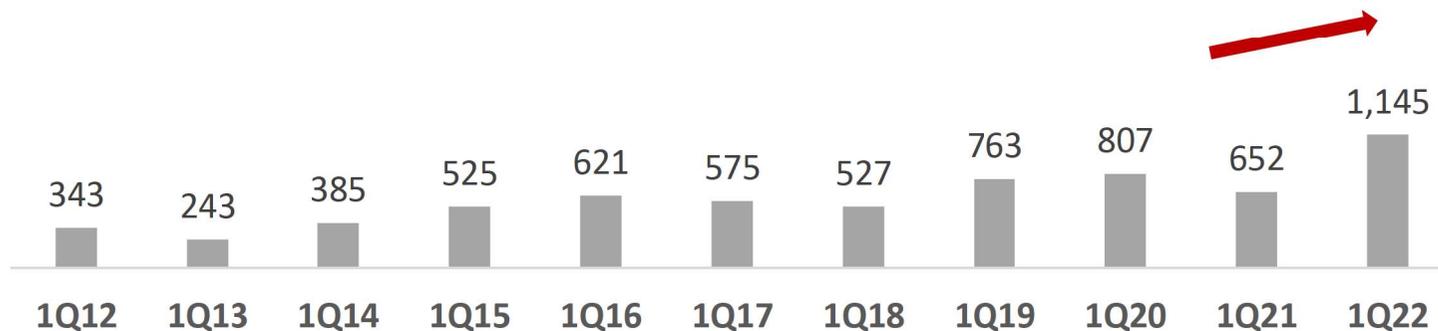


Seasonality impact has reduced significantly as the revenue share of Garment ODM Business increases

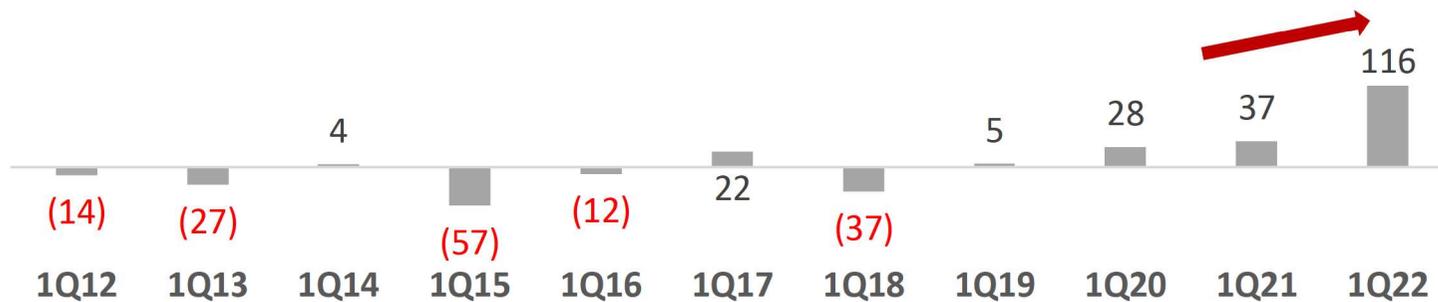
Garment Share (%)



Garment Revenue (NT\$ mn)

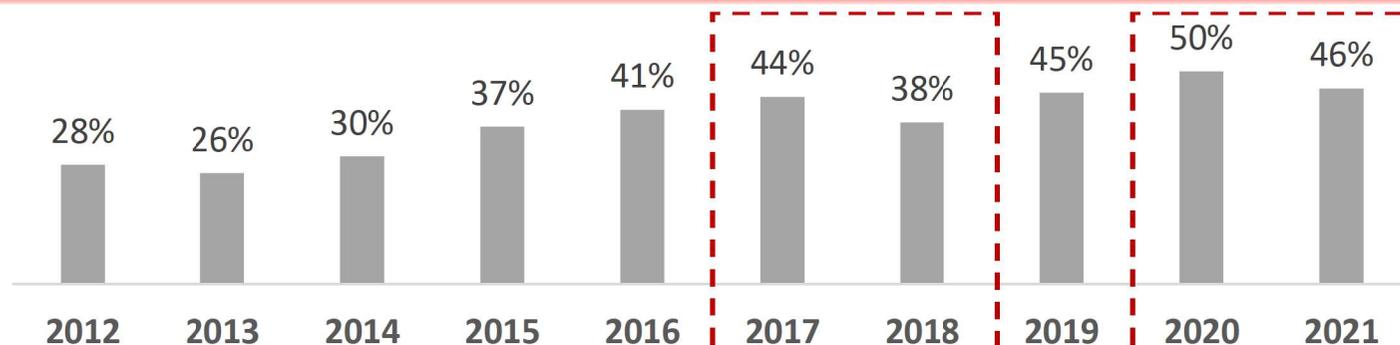


Op. profit (NT\$ mn)

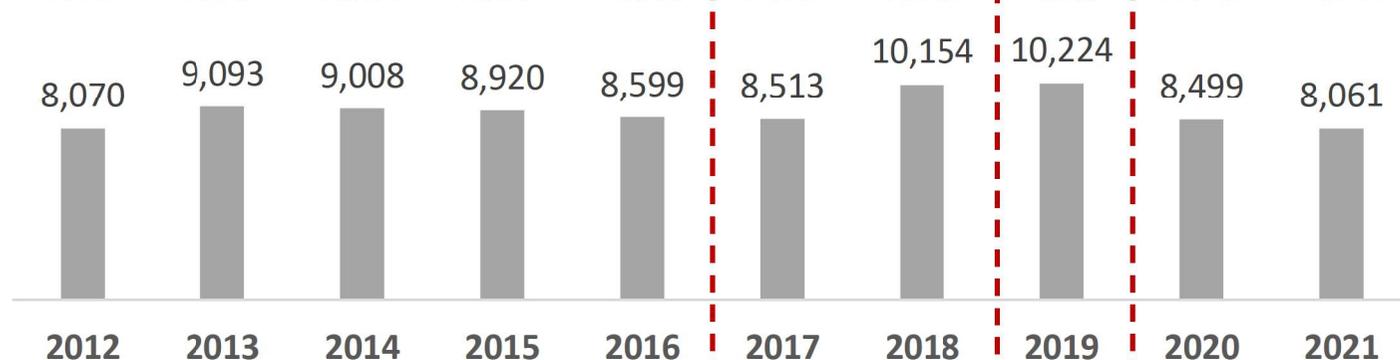


Robust bottom line growth driven by increasing revenue share of Garment ODM Business

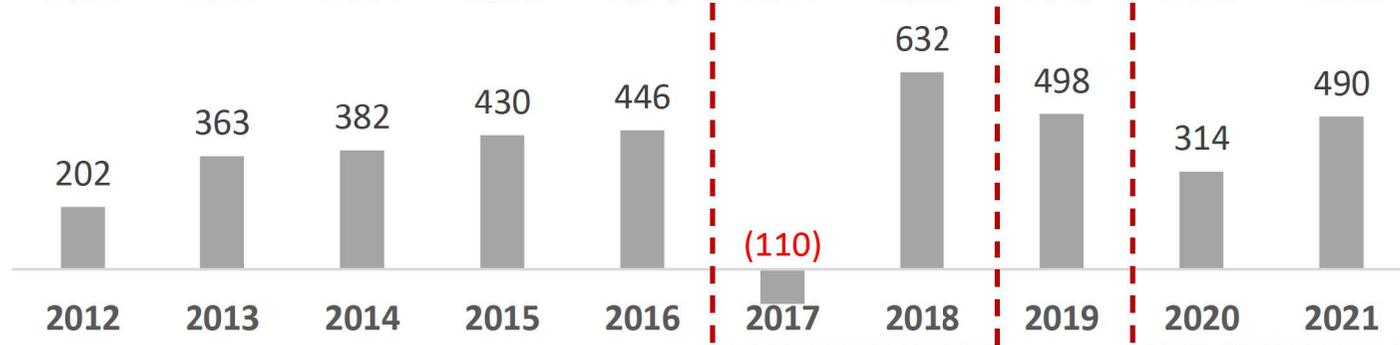
Garment Share (%)



Revenue (NT\$ mn)



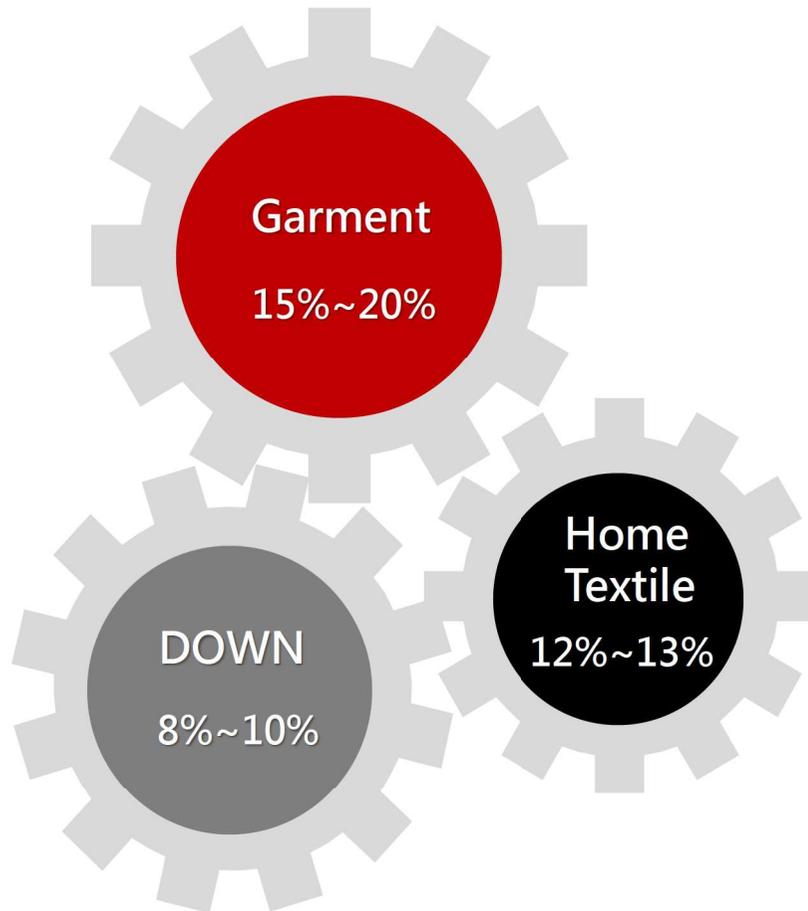
Net Profit (NT\$ mn)



- Note: 1. In 2017, we suffered from a fire accident at our Vietnam plant
 2. In 2018, we have one-off non operating income from insurance claim and one-off asset disposal. Excluding those one-off effects, the net profit in 2019 grew over 50%

Our revenue and profitability will continue to be driven by our growth target in garment business

Gross Margin



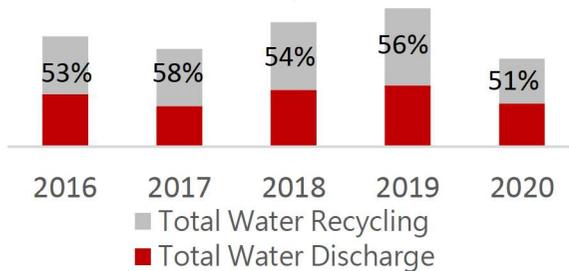
Target Share in 5 years



CSR is an integral part of our operations

Water Recycling

Water Consumption in Taiwan



Waste Recycling

Year	Amount (Ton)
2017	151.47
2018	193.48
2019	202.45
2020	136.03

Social Services

- **Winter Warm Wear Program :**
Provide care to vulnerable populations
- **Vietnam Child Care Program :**
Provide school lunch to necessities
- **Industry-Academy Cooperation :**
Lead internship program to cultivate employees

Corporate Governance

- 2019-2020 Ranked as top 5% in Corporate Governance Evaluation
- 2020 appointed CG Officer
- 2014 started to publish ESG report

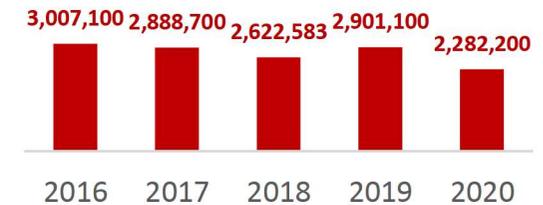


Employee Care

- We have 34% turnover rate in main production region Vietnam, lower than industry average (40%)
- In 2020, hold annual labor health education and service, 3 batch in Taiwan, 2 in Vietnam

Total Electricity Consumption

kWh/year



Total Carbon Emissions

(Ton CO2e/年)



Green Production



- Bluesign certificate
- Responsible Down Standard (RDS)
- ISO50001 certificate
- OEKO-TEX Standard 100
- High Index
- Global Recycle Standard Certificate (GRS)

Group operation targets

Our targets:

- 2022 Revenue & Net profit : Double-digit growth
- Specifically, revenue growth in functional outerwear: Exceed 30%
- Revenue share of Garment ODM Business: Exceed 50% in 2022 and reach ~70% in 5 years, with double-digit YoY growth for the upcoming 5 years
- Stable and disciplined cash dividend payout

Q & A

Thank you!

For more information, please to refer to our website:

http://klf-group.com/index_tw.php

Or contact our spokesperson, Jack Lee
(02) 2709-2550 jack.lee@klf-group.com