



# Kwong Lung Enterprise (8916 TT/TW)

Investor Presentation



2021



Enterprise Co., Ltd

# Disclaimer

- This document is provided by Kwong Lung Enterprise Co., Ltd. (the "Company"). Except for the numbers and information included in the Company's financial statements, the information contained in this document has not been audited or reviewed by any accountant or independent expert. The Company makes no express or implied representations or warranties as to the fairness, accuracy, completeness, or correctness of such information or opinions. This document is provided as of the date herein and will not be updated to reflect any changes hereafter. The Company, its affiliates and their representatives do not accept any responsibility or liability for any damage caused by their negligence or any other reasons, nor do they accept responsibility or liability for any loss or damages arising from the use of this document or the information contained herein or anything related to this document.
- This document may contain forward-looking statements, including but not limited to all statements that address activities, events or developments that the Company expects or anticipates to take place in the future based on the projections of the Company toward the future, and various factors and uncertainty beyond the Company's control. Therefore, the actual results may differ materially from those contained in the forward-looking statements.
- This document is not and cannot be construed as an offer to purchase or sell securities or other financial products or solicitation of an offer.
- This document may not be directly or indirectly reproduced, redistributed or forwarded to any other person and may not be published in whole or in part for any purpose.

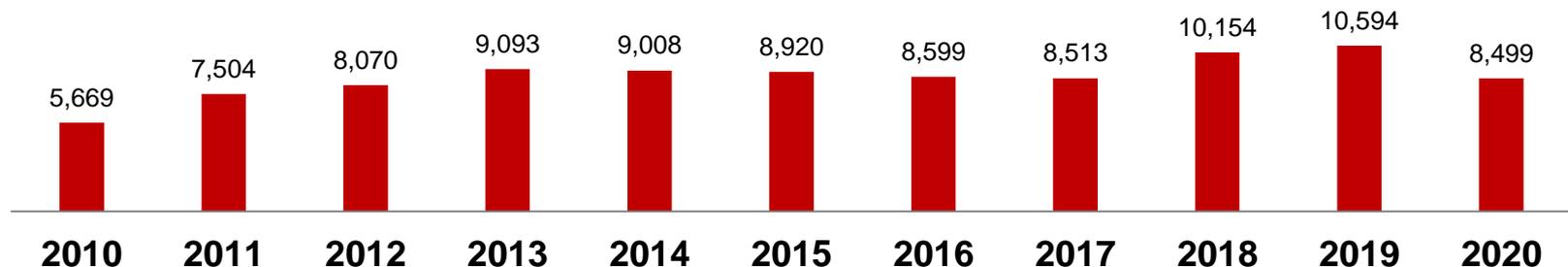
# Company Background



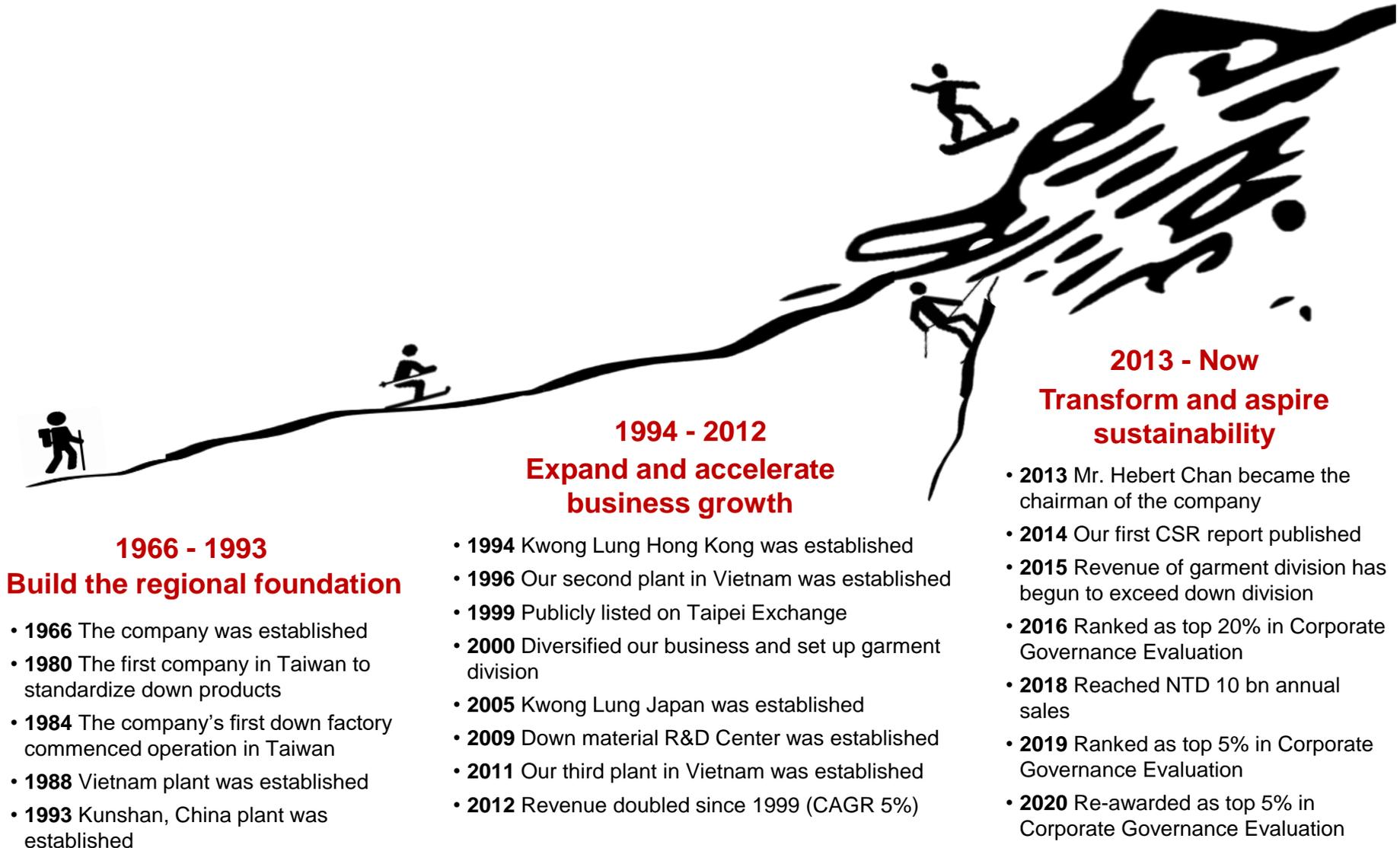
# Who we are and why invest in us?

- We are a global leading vertically-integrated textile producer focusing on outdoor/sports garment and home textiles.
- Our key strengths lie in our deep knowledge of sophisticated garment production and our strong R&D.
- Our ability to meet our customers' strict ESG and quality requirements has allowed us to establish a long-term partnership with many leading outdoor wear companies in the world.
- We see huge growth opportunities globally in outdoor/sports wear, thanks to growing popularity of outdoor activities and consumers demanding higher functional/performance apparel.
- We will continue to seek growth by expanding our production facilities in multiple countries and broaden our product offerings to better meet the needs of our existing and potential new customers.
- We are committed to return our earnings back to our shareholders. We paid out over 70% on avg. of our earnings in cash during the past five years.

**Kwong Lung consolidated revenue (NTD mn)**

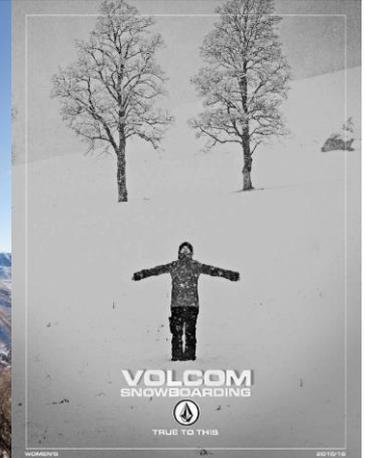


# Company milestone



# Our clients are international brands

**BURTON**  **Marmot** **mont-bell**  **Columbia** **VOLCOM**

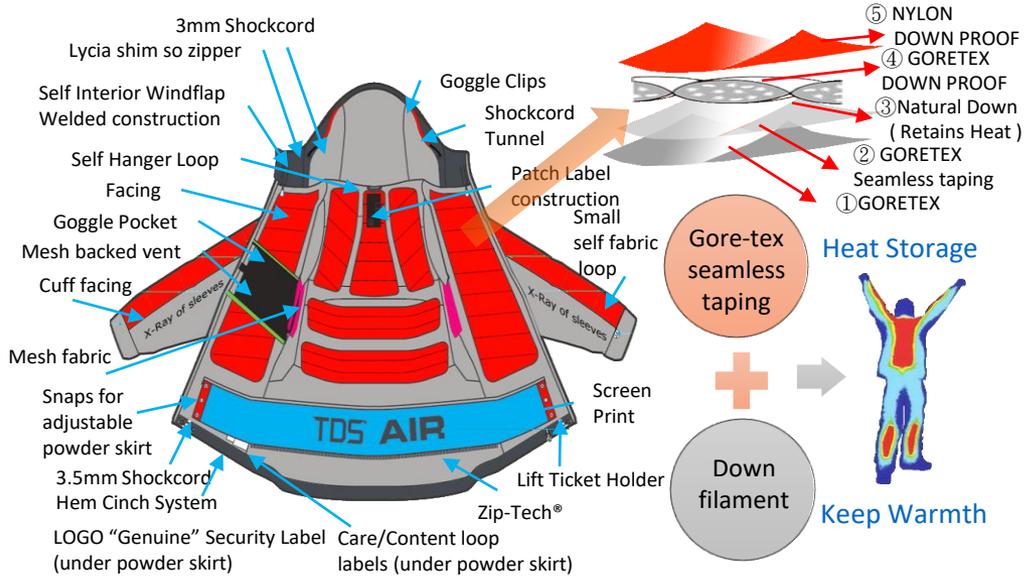


# Focus on functional wears with high entry barrier

## High-end outdoor GORE-TEX taping jacket



## High-end functional down jacket



### Highly functional 3D spacer structure

**3D spacer mesh fabric Down**  
Heat passing through

- Allows down material to expand, hence more warmth.
- Using mesh fabric as spacer allows heat passing through, creating a uniformed layer of warmth.

**Normal down jacket**  
The stiches are squeezed or sealed

- Down materials are not able to expand in a squeezed space.
- Hence, heat could not pass through,, creating cold spot.

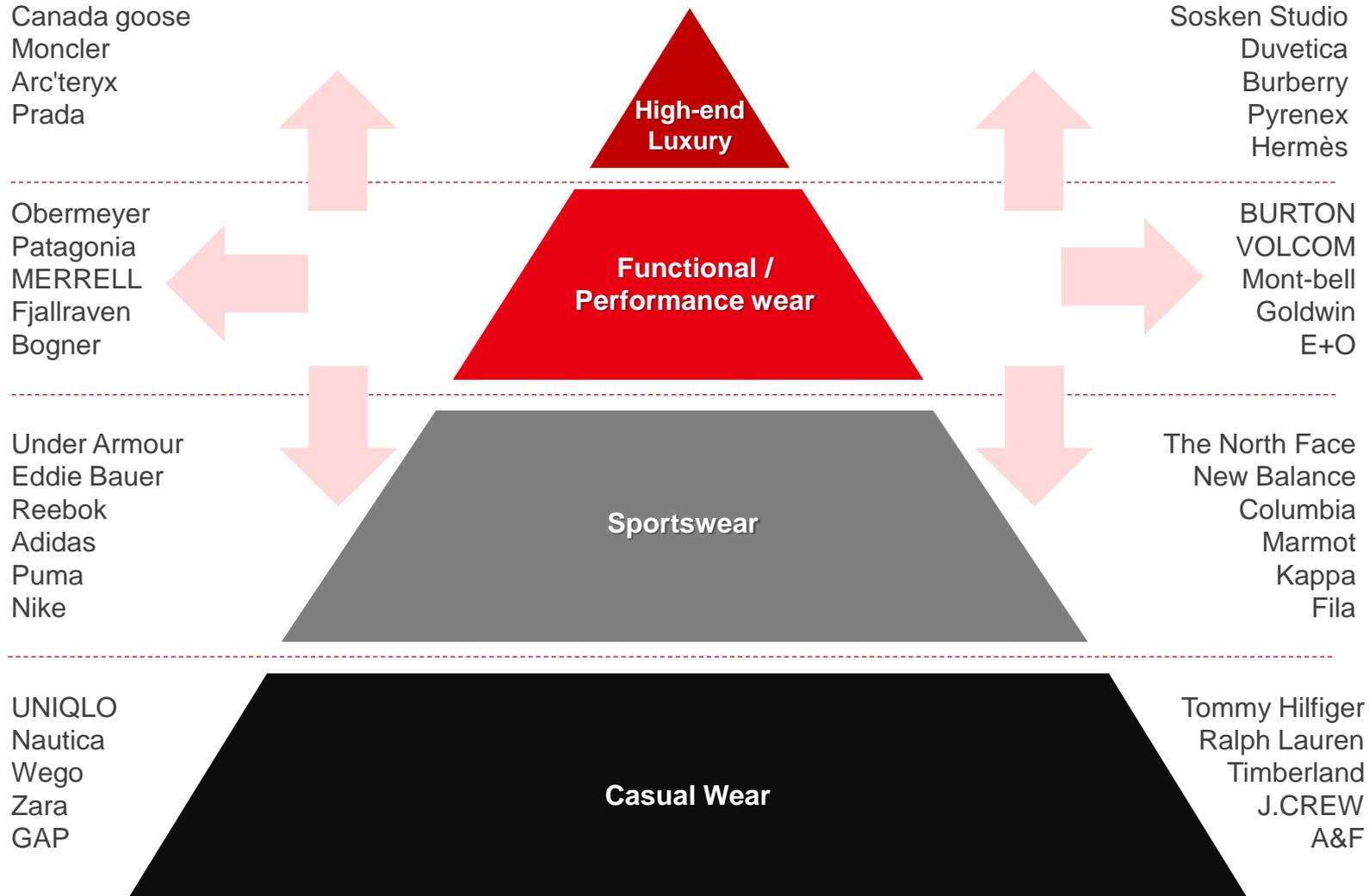
### 3D cutting on sleeve structure

- Ergonomic design
- Larger stretch
- More comfort during activities



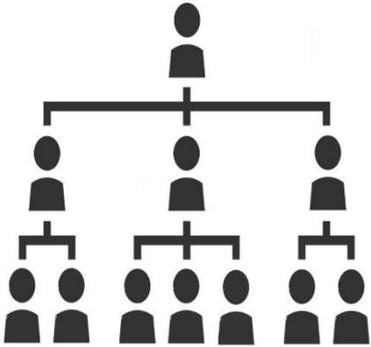
# Our Goals & Strategies

# A clear market penetration strategy



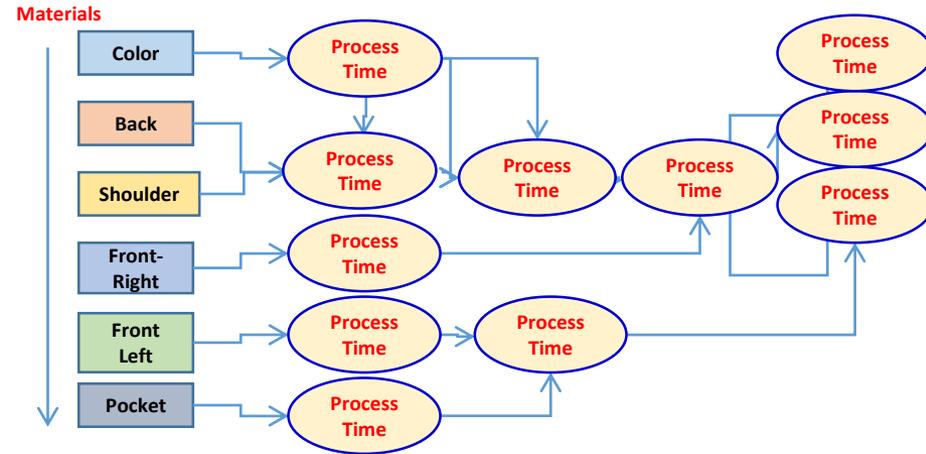
# Adopt Toyota Production Innovation since 2014

## 1 A Group-wide implementation

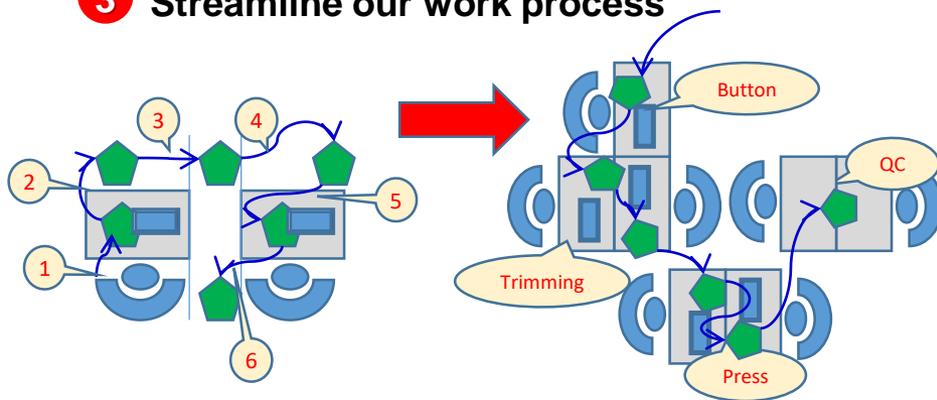


- It extends from Chairman to senior managements to plant managers to line operators.
- We create it from the bottom up, with comprehensive training for each new employee.
- All employees are assigned to innovate and improve upon current production techniques.
- Each employees is incentivized to meet the targets.

## 2 Manufacturing Process



## 3 Streamline our work process



- Minimum handling (getting rid off non-value-added procedures)
- Minimum time needed
- Allows defect feedback

## 4 Real-time monitoring and improvement

本日生産力

組別	客戶	訂單號	Style NO	IE值	投入工時	產出工時	產出件數	生產力%
FP2包裝組	ZNR	1810-0057	M194280	1.94	124.16	133.0	64	93

Two photographs showing real-time monitoring and improvement in a factory setting. The left photo shows a workstation with a computer monitor displaying data. The right photo shows a workstation with a large monitor displaying a detailed dashboard with various charts and data points, used for monitoring and improvement.

# Equip flexibility to take on smaller order

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
<b>Production Model</b>	Toyota Production System <i>U-shaped production line</i>	Hanger System
<b>Advantage</b>	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>
<b>Products</b>	All range of products (Outdoor garment as main product)	Mostly single item product
<b>Target customers</b>	Focus on Tier-2 brand customers	Focus on Tier-1 brand customers and some Tier-2 brand customers
<b>Business model</b>	Multiple items/ Smaller batch volume	Single item / large batch volume

# Provide all range of products



# Drive margin growth through technology application

How we improve operating efficiency and margin through new technology

## R&D



### Global Marking Center

- Expand R&D capability through our unique proofing cloud database, even less experienced pattern-makers can quickly perform proofing and remaking as masters with decades of experience.
- Realize robust growth of developing new and multiple items to meet our clients' needs as our database continually expanding.



## Purchasing/Sales



### Robotic Process Automation (RPA)

- Improve efficiency and accuracy through business process automation.

### Electronic Data Interchange (EDI)

- Respond our clients' needs immediately and shorten processing time through electronically communicating information.



### Our Clients



## Production

### Total Productive Innovation (TPI)

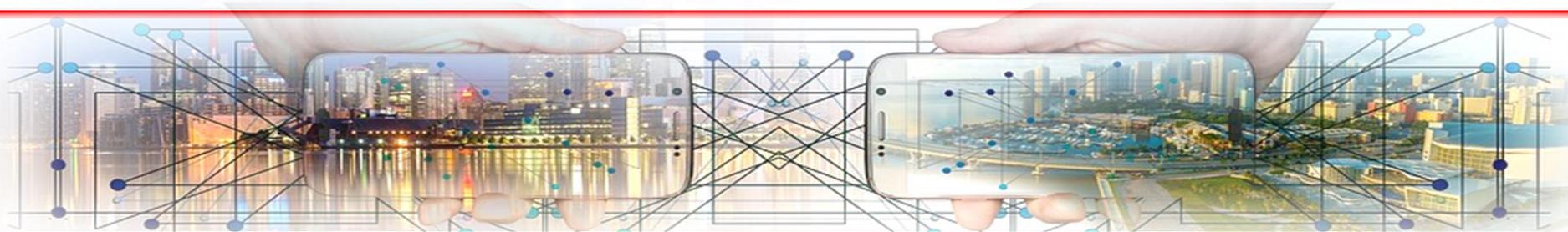
Improve production efficiency through breakdown, streamline work process and real-time monitoring.

### Intelligent Manufacturing Plan

Realize auto manufacturing, product traceability, order output schedule and quality prediction through intelligent manufacturing system.



# Intelligent Manufacturing Plan



**We initiated a 4-stage Intelligent Manufacturing Plan with target to finish implementation over next 3-5 years. The intelligent Manufacturing Plan is expected to significantly improve our operating margin.**

## 1<sup>st</sup> Stage



### MES System Implement

- Instant production reporting system
- Smart shipping



## 2<sup>nd</sup> Stage

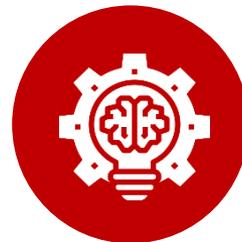


### MES System PLUS

- Process semi-automation
- Product traceability system
- Production equipment alarm traceability system



## 3<sup>rd</sup> Stage

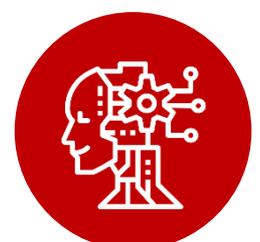


### Smart Manufacturing

- Equipment prediction & maintain system implement
- Consumables life prediction
- Factory power monitor system



## 4<sup>th</sup> Stage



### Intelligent Manufacturing

- Order output schedule and quality prediction system
- Complete the construction of the control center
- Green energy factory
- World Class Maker

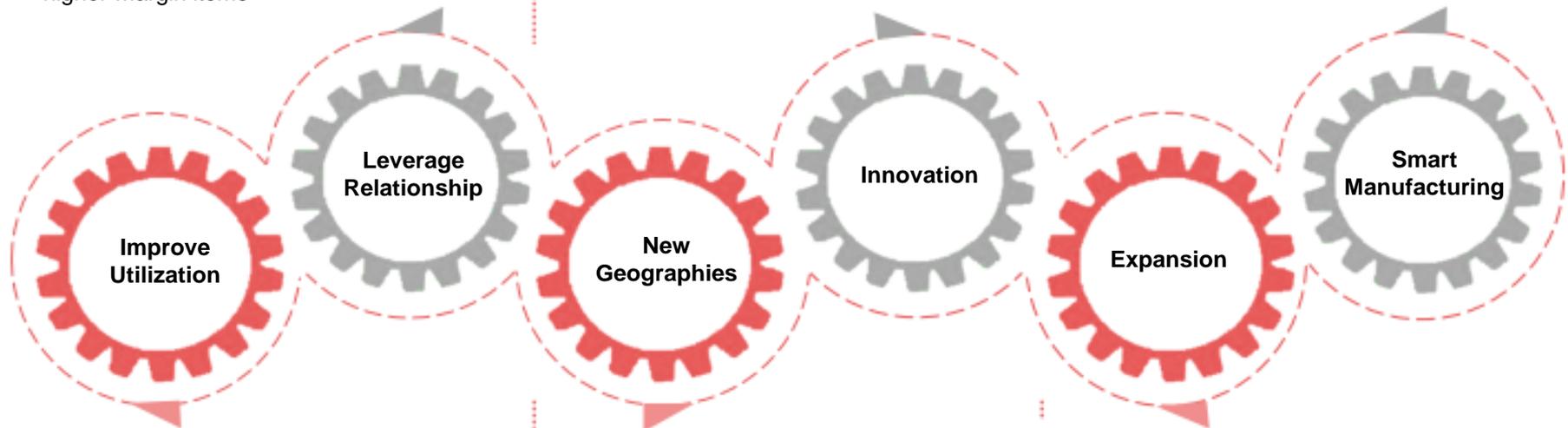
# Our Goal and Strategy

## Near-term

- Leverage existing customer relationship to further grow our wallet share
- Expand our portfolio of products to include higher-margin items

## Mid-to-long-term

- Asset optimization and disposal.
- Continue to focus on innovation and develop value-added products (i.e. high-end co-branding products)



- Standardize patterning procedures through new technology, improve product development efficiency, and optimize capacity utilization.
- Continue to improve operational efficiencies and minimize the production lead-time through TPI program.
- Promote the purchasing process and accuracy through AI intelligence.

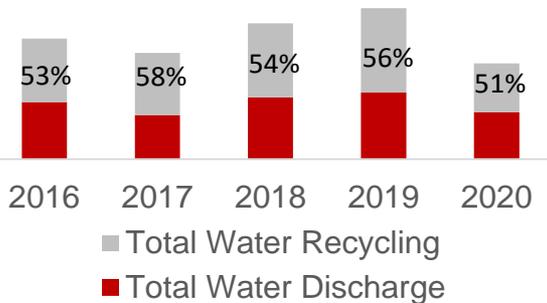
- Fully adopt smart manufacturing to enhance operation efficiency and embrace customization trend
- Consolidate our market position and target new markets to diversify customer base geographically to further expand our businesses
- Expand our business through organic growth and strategic inorganic opportunities

**Our goal is to emerge as a trusted partner to the top global apparel brands and fashion houses**

# CSR is an integral part of our operations

## Water Recycling

Water Consumption in Taiwan



## Waste Recycling

Category(T on)	Waste resources
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 and necessities.
- **Industry-Academy Cooperation :** Lead internship program to cultivate future employees.

## Corporate Governance

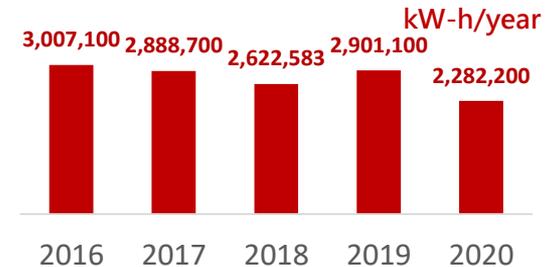
- 2019-2020 Ranked as top 5% in Corporate Governance Evaluation
- 2020 appointed CG Officer
- 2014 started to publish ESG report



## 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



## Total Carbon Emissions



## Green production



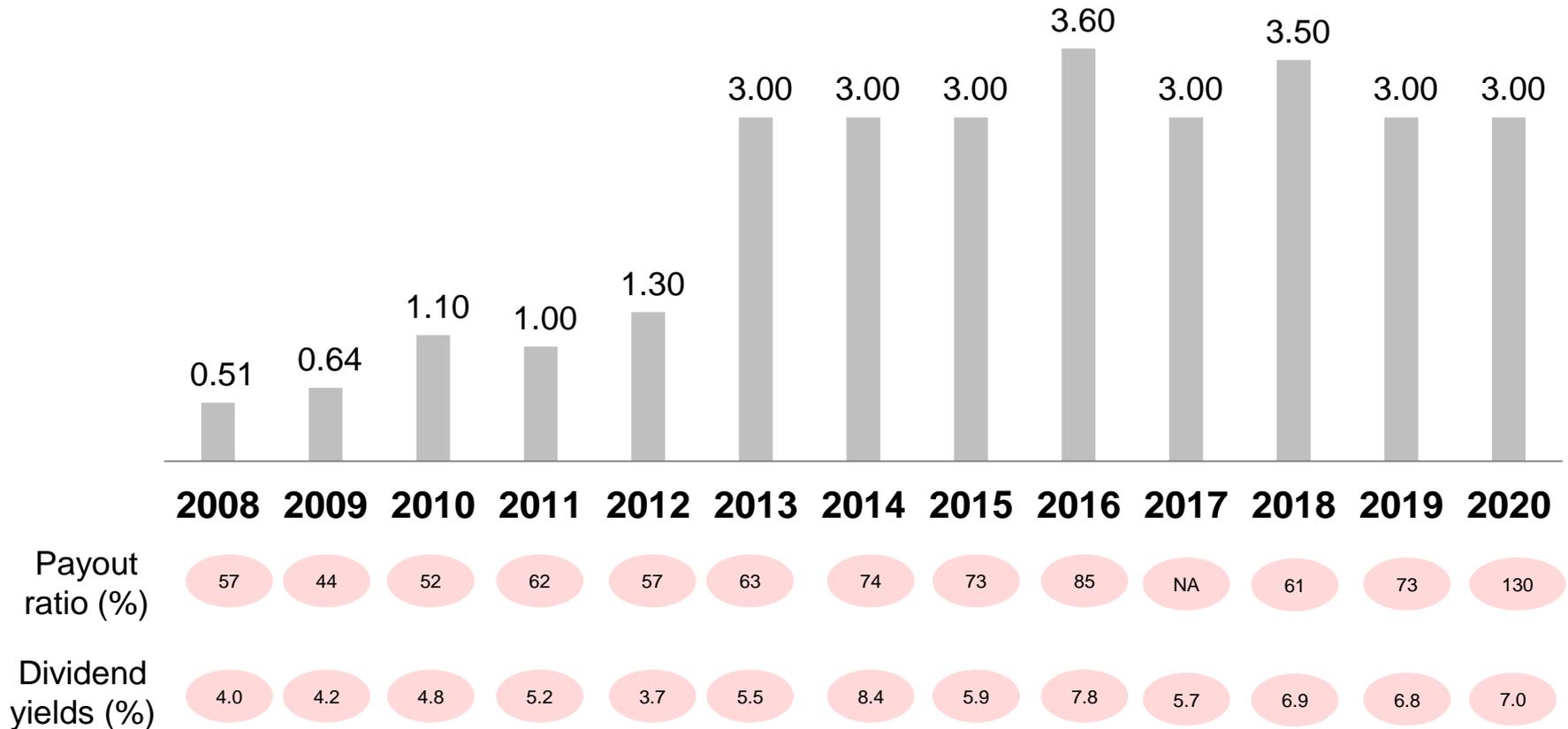
- Bluesign certificate
- Responsible Down Standard
- ISO50001 certificate
- Oeko-Tex Standard 100
- Higg Index
- Global Recycle Standard certificate



# Financial Performance

# Dividend Policy

## Cash Dividends, Payout Ratio and Dividend yields (2008-2020)



\*Note: Cash yield is calculated based on Kwong Lung's closing share price on the day before ex-dividends.

# Income Statement Highlights

NT\$m	2016	2017	2018	2019	2020	1H21	YoY(%)					
							2016	2017	2018	2019	2020	1H21
<b>Revenue</b>	<b>8,599</b>	<b>8,513</b>	<b>10,154</b>	<b>10,594</b>	<b>8,499</b>	<b>4,086</b>	<b>(3.6)</b>	<b>(1.0)</b>	<b>19.3</b>	<b>4.3</b>	<b>(19.8)</b>	<b>(3.6)</b>
Gross Profit	1,385	1,237	1,352	1,438	1,171	585	(1.4)	(10.7)	9.3	6.4	(18.6)	(6.6)
Operating Expenses	(886)	(879)	(1,003)	(843)	(791)	(422)	(3.9)	(0.7)	14.1	(15.9)	(6.1)	16.1
<b>Operating Profit</b>	<b>499</b>	<b>357</b>	<b>349</b>	<b>596</b>	<b>380</b>	<b>163</b>	<b>3.4</b>	<b>(28.4)</b>	<b>(2.2)</b>	<b>70.4</b>	<b>(36.1)</b>	<b>(38.0)</b>
Non Operating Income/(Loss)	12	(408)	379	15	37	131	(54.3)	(3,382.5)	-	(96.0)	146.7	2,071.0
Pretax Income	512	(51)	728	611	417	294	0.3	(109.9)	-	(16.1)	(31.7)	9.4
Tax Expenses	(66)	(59)	(96)	(112)	(103)	(60)	(17.9)	(10.5)	63.0	16.4	(8.0)	(0.5)
<b>Net Income to Parent</b>	<b>447</b>	<b>(118)</b>	<b>618</b>	<b>488</b>	<b>344</b>	<b>260</b>	<b>3.7</b>	<b>(126.5)</b>	-	<b>(21.1)</b>	<b>(29.4)</b>	<b>27.7</b>
<b>Basic EPS (NT\$)</b>	<b>4.2</b>	<b>(1.1)</b>	<b>5.7</b>	<b>4.1</b>	<b>2.3</b>	<b>2.0</b>	<b>2.4</b>	<b>(126.3)</b>	-	<b>(28.6)</b>	<b>(44.4)</b>	<b>63.6</b>
<b>Key Financial Ratios (%)</b>												
Gross Margin	16.1	14.5	13.3	13.6	13.8	14.3						
Operating Expense Ratio	10.3	10.3	9.9	8.0	9.3	10.3						
Operating Margin	5.8	4.2	3.4	5.6	4.5	4.0						
Effect Tax Rate	12.9	-	13.2	18.4	24.7	20.3						
Net Margin	5.2	(1.4)	6.1	4.6	4.1	6.4						

## Notes:

- In 2017, we suffered a fire accident at our Vietnam plant.
- In 2018, we have one-off non-operating income from insurance claim and one-off asset disposal. If we exclude the one-off non-operating income of NT\$310m in 2018 (insurance claim from our fire incidence in Vietnam and gain from asset disposal), our net profit in 2019 grew over 50% YoY. Our EPS growth for 2019 was mostly undermined by our CB conversion, and higher comp base from insurance claim and one-off asset disposal in 1H18, we will not have these impact going forward. (Dilution from the CB conversion is 15%)
- In 2020, the financial performance was affected under COVID-19
- In 2021, the major impacts of net income in the first half, included 1) NT\$ 66 million accounting recognition of bad debt from subsidiary, 2) NT\$ 157 million indirect valuation gain on Financial Investments of VIZIO.

# Balance Sheet Highlights

NT\$m	2016	2017	2018	2019	2020	1H21	YoY(%)					
							2016	2017	2018	2019	2020	1H21
<b>Total Assets</b>	<b>6,212</b>	<b>6,615</b>	<b>7,031</b>	<b>7,571</b>	<b>7,513</b>	<b>8,505</b>	<b>2.7</b>	<b>6.5</b>	<b>6.3</b>	<b>7.7</b>	<b>(0.77)</b>	<b>1.4</b>
Cash	797	510	794	881	1,070	709	62.9	(36.1)	55.8	11.0	21.5	(17.0)
AR & NR	952	1,033	1,048	981	924	1301	(0.3)	8.6	1.4	(6.4)	(5.8)	(9.1)
Inventories	2,249	2,251	2,619	2,373	1,725	2,317	(10.4)	0.1	16.3	(9.4)	(27.3)	(6.9)
Fixed Assets	1,254	1,589	1,574	1,505	1,877	1,852	(3.2)	26.7	(1.0)	(4.3)	24.7	21.1
<b>Total Liabilities</b>	<b>2,705</b>	<b>3,758</b>	<b>2,931</b>	<b>2,479</b>	<b>2,575</b>	<b>3,275</b>	<b>(1.5)</b>	<b>38.9</b>	<b>(22.0)</b>	<b>(15.4)</b>	<b>3.9</b>	<b>(8.2)</b>
AP & NP	583	798	788	548	693	1080	(17.8)	37.0	(1.3)	(30.5)	26.5	38.2
<b>Total Equity</b>	<b>3,507</b>	<b>2,857</b>	<b>4,100</b>	<b>5,092</b>	<b>4,938</b>	<b>5,230</b>	<b>6.2</b>	<b>(18.5)</b>	<b>43.5</b>	<b>24.2</b>	<b>(3.0)</b>	<b>8.6</b>
<b>Key Financial Ratios (%)</b>												
A/R Days	39.9	42.0	36.9	34.5	40.4	49.0						
Inventory Days	118.7	111.3	99.6	98.1	100.7	103.9						
A/P Days	32.2	34.2	32.4	26.3	30.5	45.59						
Cash Conversion Days	126.4	119.1	104.1	106.4	110.6	107.37						
ROE (%)	13.1	(3.7)	18.0	10.7	6.3	4.6						
ROA (%)	7.3	(1.8)	9.1	6.7	4.2	2.9						
Debt ratio (%)	43.5	56.8	41.7	32.7	34.3	38.5						

# Dividend Payout and Capex

(NT\$m)	2016	2017	2018	2019	2020	1H21
Net profit	447	(118)	618	488	344	260
Dividend paid	390	328	387	392		
DPS (NT\$)	3.6	3.0	3.5	3.0	3.0	
Payout ratio (%)	85.4	-	61.4	73.1	130	
Dividend yield (%)	7.8	5.7	6.9	6.8	7.0	
Capex	143	626	265	139	495	142

## Notes:

1. Cash yield is calculated based on Kwong Lung's closing share price on the day before ex-dividends.



# Industry Trends



# COVID-19 drives residential outdoor living demand

- According to CivicScience's survey, over 43% of US people over 13 years old said that in accordance with the social distancing concerned, they will tend to attend more outdoor activities afterwards.
- The pandemic has led to an explosion of interest in bikes and biking. New York City Department of Transportation mentioned that the rate of riding bicycles in the City has increased by 60%.
- Also the leading bicycle manufacturer such as Giant and Merida are optimistic for the business in the future with strong demand.



V.F. Corporation

" We believe people will place greater value on exploring the outdoors after spending so much time in their homes and there will be an increased commitment to personal well-being and active lifestyles with health becoming a major new priority. "



Columbia Sportswear

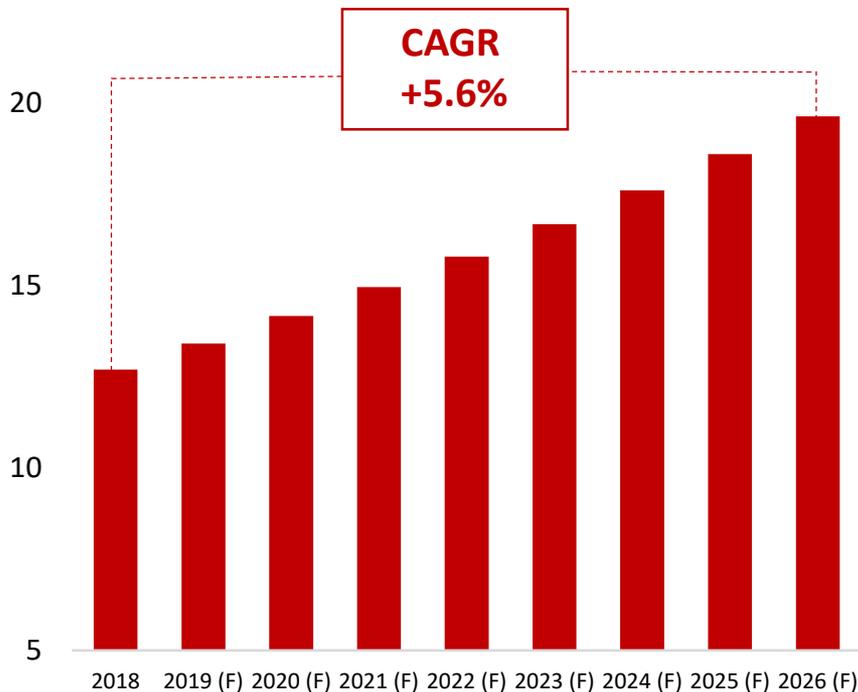
"It is clear that consumer interest in the outdoors has surged during the pandemic and we are well positioned to equip these adventurers with innovative products as they recreate responsibly."

- China, the first country who face the pandemic, started to see a recovery for outdoor activities and travel in April after lockdown
- According to Pinduoduo, a local ecommerce player who listed on NASDAQ, the sales of outdoor and tourism-related products on the platform have increased significantly across the board after April. The promotion in the platform (around 20-30% discount) also stimulated consumption.
  - ✓ Sales of sneakers and sportswear increased by more than three times, especially Nike, Adidas, and Li Ning.
  - ✓ Sales of disposable sheets, travelling bags increased by more than two times.
  - ✓ Sales of sports-related equipment increased by more than four times, especially Nike, Adidas, Anta, Li Ning.

# On-going trend of global apparel/sportswear brands entering into outerwear segment

Increasing participation in outdoor activities and generational shifts toward healthier lifestyles (especially for Millennials) are major drivers for the growth of global outerwear market. According to AOI, half of American attend at last one outdoor activity in 2018.

Outdoor clothing market value worldwide (USD bn)



Source: Statista

More and more global apparel/sportswear brands (such as Adidas, VF) are focusing more on outdoor/outerwear segment. More investments are also pouring into outdoor companies.



Adidas launched Adidas TERREX, an outdoor brand in 2017.



Walmart acquired Moosejaw in 2017 to expand product to active outdoor category.



V.F. Corporation (NYSE:VFC) announced acquisition of Icebreaker New Zealand, a retailer of Merino wool apparel for outdoor activities and sports in 2017.



“what we're also doing a much better job of now is actually continuing to build out our Fleece program, and adding on top of that, much better outerwear as we go into 2020.”-Patrik Frisk, CEO, 2020/2/11



“We continue to expand the key categories of bras and outerwear, with comps and outerwear being particularly strong.”-Calvin McDonald, CEO & Director, 2019/12/11



Goode Partners has made an investment in Marolina Outdoor, Inc., a manufacturer of fishing and hunting apparel in 2018.



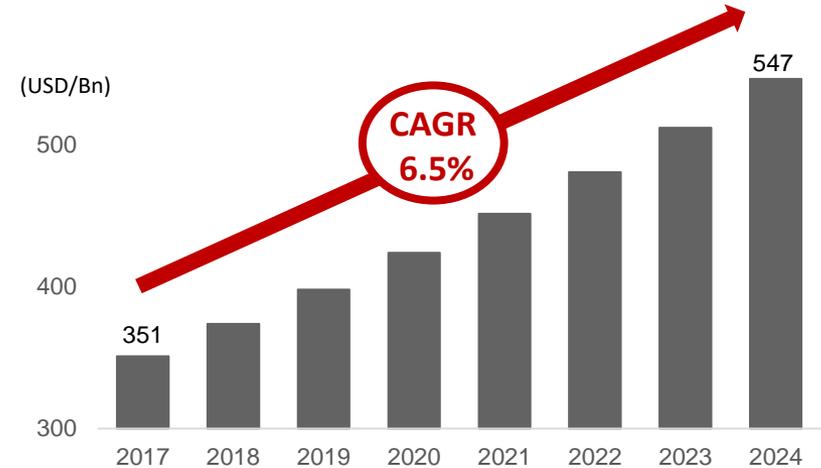
Kathmandu Holdings announced plans to acquire Oboz, an outdoor footwear and apparel manufacturer and retailer in 2018.

# Outdoor/snowboard jacket market industry overview

## We believe the outdoor/snowboard demand will remain strong

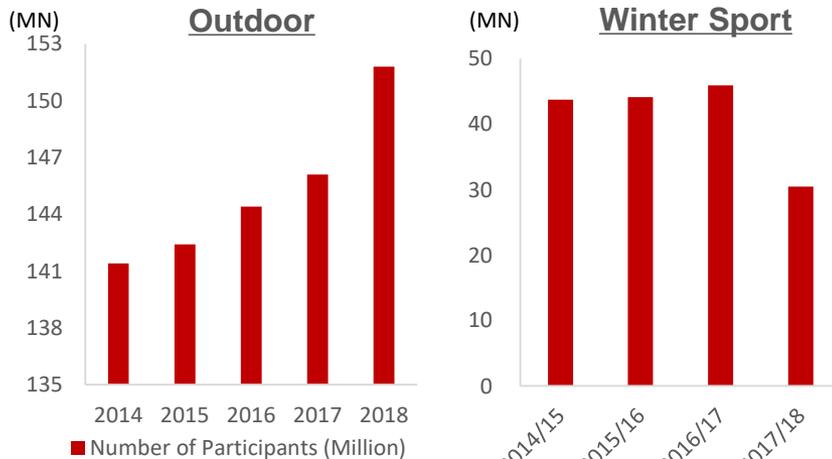
- Global Activewear Market is expected to deliver a 6.5% CAGR from 2017 to 2024.
- US is the largest market of sportswear sales market. As US outdoor and winter sport participation keeps going up, the market is expected to expand in next couple years.
- Besides US, Asia market will have a significant boost thanks to economic growth and demographic dividend.
- With outdoor and sportswear expected to continuously outgrow the casual/fashion segment, we believe the outerwear segment will maintain its stronger growth.

## Global Activewear Market



Source: businesswire

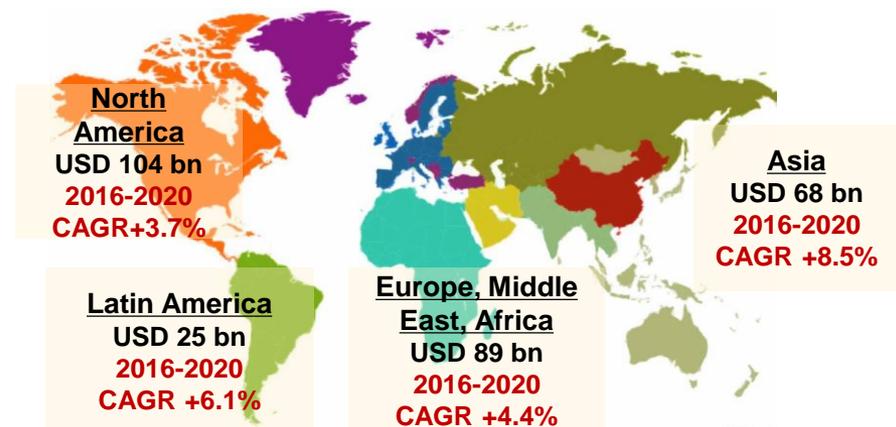
## US Outdoor and winter sport Participation Trends



Source: Outdoor Foundation

\*Note: 2014/15 means 2014/8-2015/3

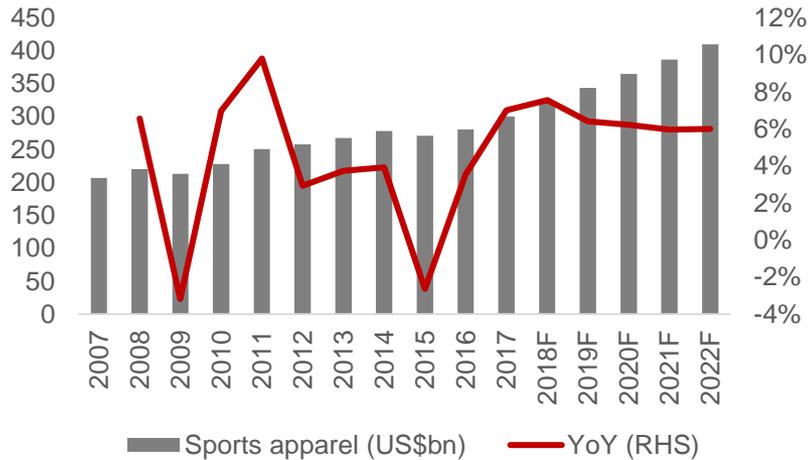
## Sales of Global Sportswear by Region (2016)



Source: Euromonitor

# Demand for outerwear jackets supported by industry growth

### Global sports apparel market size



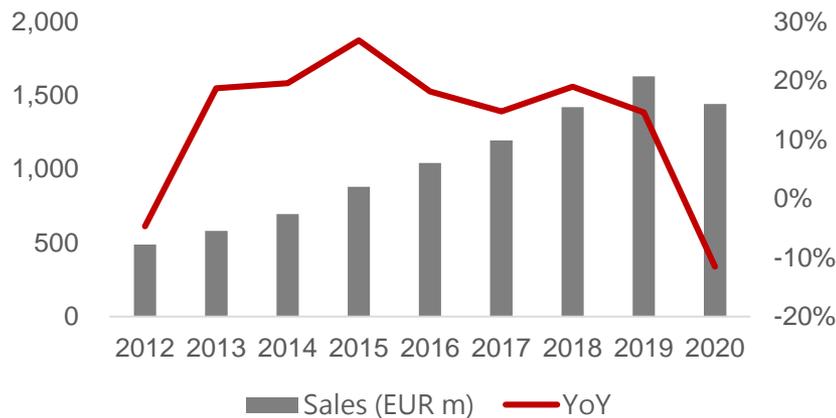
Source: Euromonitor

### Global casual / fashion apparel market size



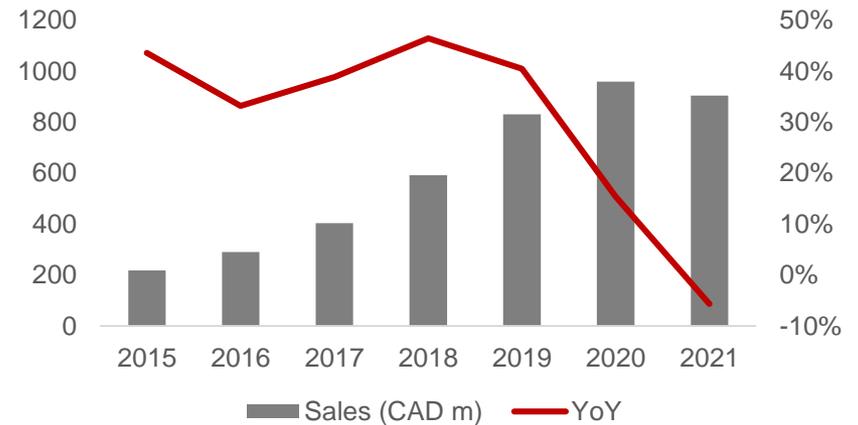
Source: Euromonitor

### Moncler sales and YoY growth



Source: Bloomberg, Company data

### Canada Goose sales and YoY growth



Source: Bloomberg, Company data