

Castles Technology 【5258】

Investor Conference

2023/11/21



Disclaimer

Certain information set forth in this presentation contains “forward-looking information”, including “future-oriented operation and financial information” and “business outlook” based on collections of current Company information and external economic development.

Actual future results in operation, financial and business performances may differ from those referred in the forward-looking statements due to a number of factors, including but not limited to: market demands, changes to laws and regulation, state of economy and other risks or uncertainties beyond the control of the Company.

The forward-looking statements contained in this presentation are based on the Company’s current expectations and beliefs concerning future developments and are not expressed explicitly or implicitly. The company does not guarantee its accuracy, completeness and reliance. Castles Technology does not undertake any commitment to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

Agenda

1. Company Introduction
2. Operation Overview
3. Financial Overview
4. Industry Overview
5. New Products and Applications
6. Operating Strategies & Forecast



1.

Company Introduction



About Castles Technology

❖ Operation

- ◆ Top domestic manufacturer and solution provider of IC card reader and POS
- ◆ Headquartered in Xindian District, New Taipei City, Castles Technology sells products in more than 50 countries.

❖ Expertise and Market

- ◆ World leader in payment system technology
- ◆ Provide user-friendly, seamless, and secured products to global market
- ◆ Products range over financial industry, retail, restaurant, health care, and public transportation, gas station, electric car charging, unattended retail, etc.

2.

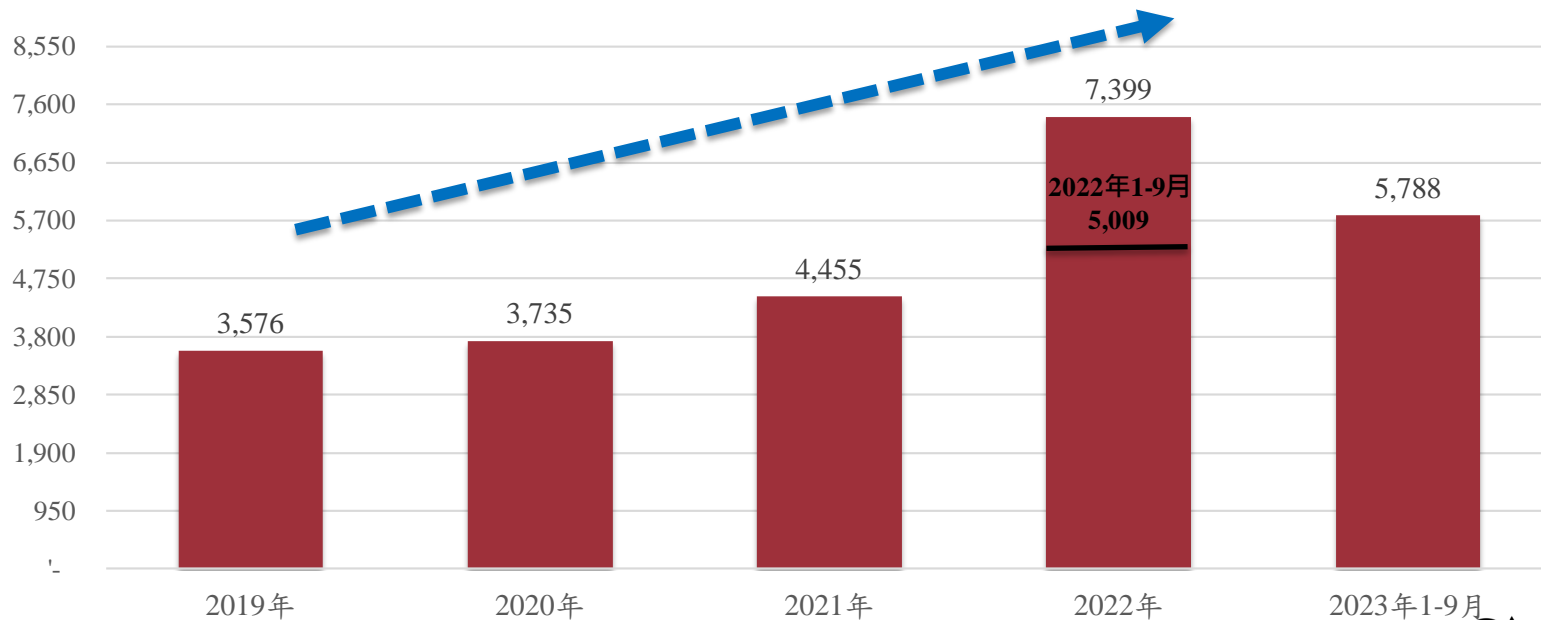
Operation Overview



Business Performance – Consolidated Revenue

- ❖ The consolidated revenue is NT\$ 5.788 billion for 2023 as of September 30th., increasing by 16% compared to fiscal year 2022.

Unit: NT\$ million



3.

Financial Overview



Consolidated Income Statements

Unit : NT\$ Million

Item	Jan – Sep 2023	%	Jan – Sep 2022	%	YoY
Revenue	5,788.40	100%	5,009.55	100%	16%
Gross profit	1,838.64	32%	1,529.21	31%	20%
Operating expenses					
Selling expenses	351.25	6%	262.45	5%	34%
Administrative expenses	277.30	5%	171.88	4%	61%
Research and development expenses	453.8	8%	401.87	8%	13%
Impairment loss (reversal of impairment loss)	18.35	0%	9.01	0%	104%
Total operating expenses	1,100.71	19%	845.22	17%	30%
Net operating income	737.93	13%	683.99	14%	
Profit before income tax	925.98	16%	700.91	14%	
Comprehensive income	689.21	12%	549.14	11%	
EPS (NTD)	6.43		5.49		

4.

Industry Overview



❖ Industry Overview

- Android smart POS terminal product market is becoming mature, and the market acceptance is higher than ever. In the meanwhile, several new tenders have specified to use Android solutions. The Android POS terminals will become the mainstream in the foreseeable future.
- With the impact of epidemic outbreak, rising wages, and the popularization of multi-payment methods, unattended payment terminals (UPT) become more widely applied. Without business hours limitation, unattended stores is the new type of retail industry and will become increasingly popular.
- In order to comply with regulations, the operator of EV charging piles in Europe and the USA will change from a closed system to an open charging model, therefore the POS terminals will become the necessary equipment. As the penetration rate of electric vehicles continues to increase, it will also drive market demand for terminals used in charging piles.
- With the rising of AI applications, self-service operators will also propose integrated solutions combining AI in the future, seeking ways to create higher business value at each point of interaction.

❖ Industry Competition

- To cope with the pressure of price competition, Castles not only continues to develop new product with highly-integrated technology, but also strengthens supply chain management. Through the separation of different product lines to meet price flexibility from customer needs.
- The gradual relief of component shortage and stabilization of global shipping cost, it is expected to improve cost structure and strengthen competitiveness.
- Regards to the demand of oversea customers, Castles can create Win-Win business and reach installation on field target via accumulated experiences of global security design and localized service and management from the overseas branches which are familiar to the local acquirers.
- The incorporation of ESG into corporate practices has become a trend, and Castle is currently actively proposing corresponding solutions to enable the company to continue growing while meeting the requirements of ESG.

❖ New Retail Industry and Service

- In post-epidemic era, merchants are conservative for equipment investment and manpower employment due to inflationary pressures and rising wages. The subscription model service that provides resource integration is favored by merchants. The smart POS terminal can meet the demand of this new retail trend. Castles, as the leading company, also provides cloud services, which can satisfy the new type of applications and drive the growth.
- The rise of generative AI will create a revolutionary change in retail services. The integration of AI services and smart POS terminals will possess rapid expansions of unattended market to change the retail industry. Grasping local needs and meeting the experience of local consumers are the keys to the success of unattended payment services. Therefore, the ability to cooperate with local service operators is the winning factor of the industry
- With the global channel resources and localized service, the Unattended products of Castles has been implemented by local and global customers and will seize the future growth opportunity.

❖ New demands for SMBs

- As the Android system equipment is becoming more popular, commercial software developers are also willing to invest more resources on the Android platform. In order to fulfill SMB (small and medium-sized business) demands, vertically integrated solutions require higher hardware specifications and performance. In order to cope with this trend, equipment suppliers must provide more customized services to fulfill customers who have high demands on hardware performance.

❖ SoftPOS

- With the formal announcement of the PCI MPOC standard, the rules and requirements in the market have become increasingly clear. As SoftPOS enables Android mobile PCs to support contactless payment, many device manufacturers are seeing the trend and are actively planning the design of next-generation products in response. It is believed that in the coming years we will witness the introduction of many new SoftPOS integrated payments in the market.

❖ EV Charging

- The era of electric vehicles has arrived. The sales of electric vehicles have surged in the past decade. By the way, the demand for the installation of EV charging station has also grown rapidly. For public charging devices with terminal payment, since European and American regulations require that EV charging station must support open system, the integration of EV charging and POS terminals become a necessary condition. Regards to the different acquiring modes in different countries, EV charging service operators must select terminal partners with the ability to handle cross-border acquiring, which is decisive to overseas business expansion.

5.

New Products & Applications



New Products - EFT POS

Android Saturn



S1F4 Pro



S1E2



S1U2

Linux Vega



V3CT3

UPT (Unattended Payment Terminal)



Cooler



Gas Station

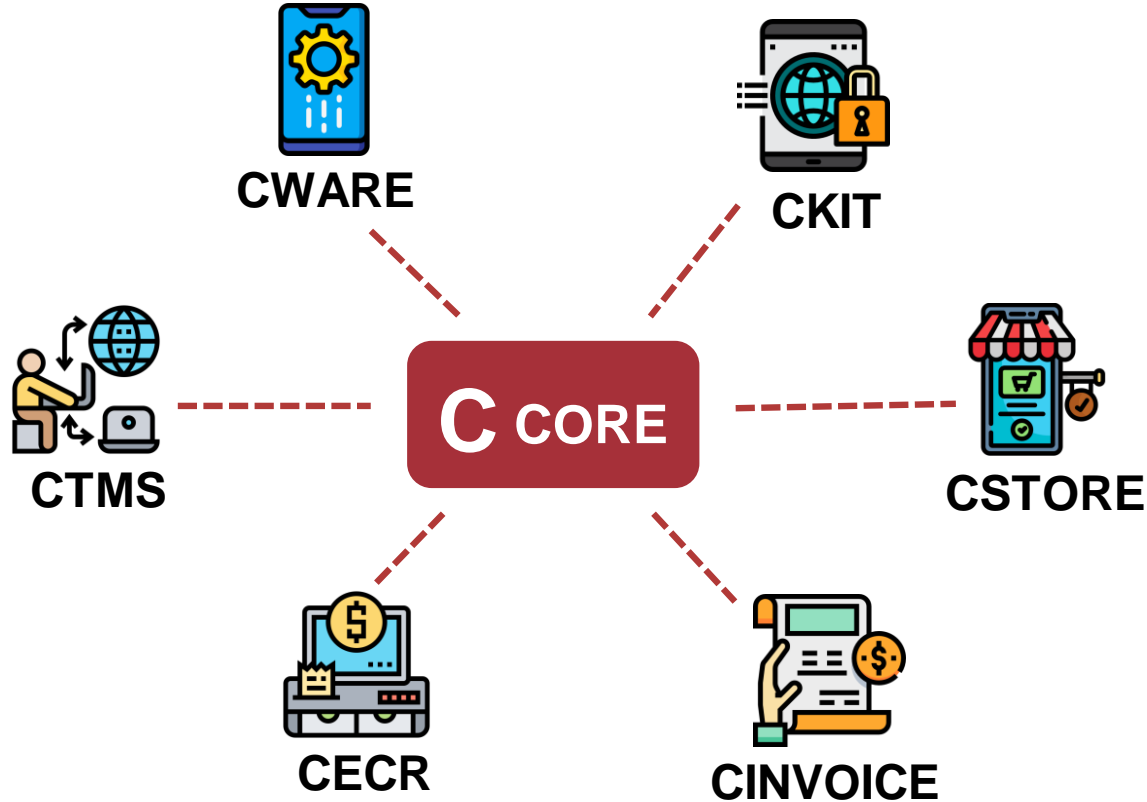


Coffee bar



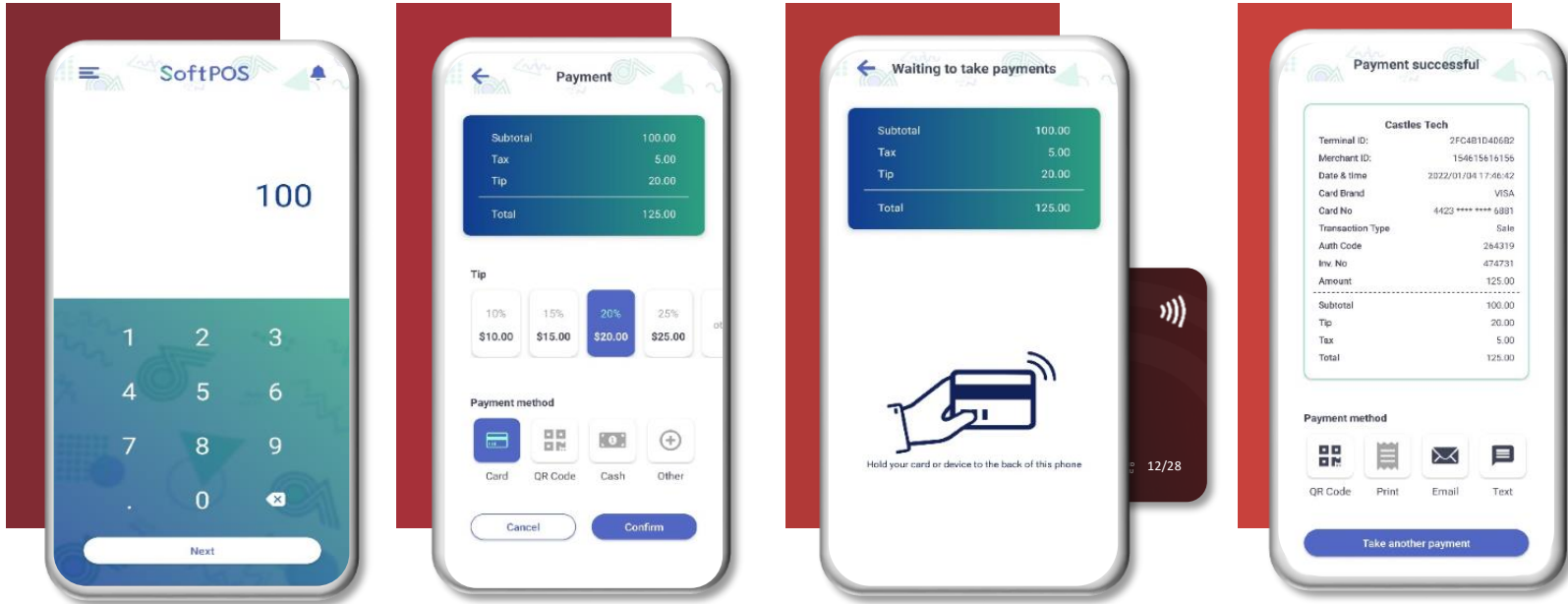
EV Charger

New Product Series – Cloud Services



New Product Series – SoftPOS

- ❖ Software and Cloud Services Transactions will be proceeded safely and fast by reading transaction cards through NFC on mobile phones, which will link transaction data to backend system to complete the transaction.



6.

Operating Strategies & Prospect



❖ Looking Forward to the Second Half of the Year.

- Because of the weak demand in the global consumer electronics market, high inventory levels, and the impact of inflation and interest rate rises, sales performance have been impacted.
- Due to high inventory in customer side, US sales has been slowed down, and the performance is expected to remain roughly the same compared to last year.
- The performance in Southeast Asia is expected to remain the same or decline slightly. Currently, some tenders are under active preparation. If successfully obtained, there is still a chance for a small growth.
- Japan, European and Latin American markets maintained growth, and we can look forward to the future.

Operating Forecast

- The major new customers in European and American have completed the development on the Castles equipment. They are currently in the certification stage, it is expected to drive sales in the second half of the year and boost company's revenue.
- With the launch of new Android products, it is expected to bring a business opportunities for device conversion. In addition, the application of EV charging piles will become more mature, which will drive the growth of sales. It is expected to welcome new growth from the third quarter.

❖ Supply Chain Management

- With the end of the global component shortage, the cost of parts is expected to be reduced. Through the optimization of supply chain management, increase in production capacity, and cooperation with strategic partners, it is expected to the further improvement on the cost structure in order to increase profits.

❖ Organizations Optimization

- With the growth of operation, the scale of Castles' enterprise organization is also rapidly expanding. We will actively establish standardized management system, implement the division of powers and responsibilities, optimize organizational efficiency and human development, effectively manage personnel management and sales expenses, and strengthen the corporate management.

❖ Continuous to Invest in R&D Resources

- R&D capabilities determine the product competitiveness. Castles will invest in R&D resources continuously to establish a superior R&D team, especially the development of software technology, in order to respond to future market trends.

❖ Cloud and Software Services

- In addition to hardware design and sales, cloud services and customized software development are also projects that the company has been intensively cultivated in recent years. We expect the proportion of revenue to increase year by year.

❖ Global Channel Deployment

- Branches in the United States, Europe, and Southeast Asia have all been established and have completed relevant certifications of local acquirers.
- In terms of revenue, the effect of the global layout has already been seen, and it can be expected that with the conversion of unattended self-service applications and Android POS terminals in the future. There will be more significant revenue growth.

❖ Vertical Integration of the Industrial Chain

- Through mergers and acquisitions and strategic cooperation to establish global channels to increase market share.
- Continue to expand operating bases, dedicate on localize services, combine hardware, software and cloud services. Committed to become a global POS solution provider.

❖ Improve the Competitiveness of Enterprises

- Accelerate the progress of product certification in various regions
- Continue to invest in R&D resources, especially the software part
- Plan for continuously increasing production capacity to meet customer delivery dates
- Cost reduction and capital expenditure savings
- Continue to pay attention to market changes and develop new solutions, such as: SoftPOS

❖ Opportunities and Challenges

- Unattended self-service business opportunities continue to ferment, and there is still a lot of room for growth in the future.
- Affected by interest rate rises, there are still uncertainties in the future, and close observation should be maintained

Thank you