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# Test Rite Group (2908:TT) 3Q19 IR Presentation

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*December 2019*

# Legal Disclaimer

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- Actual results may differ materially from those expressed or implied in these forward-looking statements and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein, nor is the information intended to be a complete statement of the Company, markets or developments referred to in this presentation.
- Beginning on January 1, 2013, the Company adopted International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and endorsed by the ROC Financial Supervisory Commission (FSC). Reporting of our annual and interim consolidated financial statements follow Taiwan IFRS requirements. However, given that there exists material differences between Taiwan IFRS and the Republic of China’s generally accepted accounting principles (ROC GAAP), selected comparison of financial results for 2013 may have material differences versus previously released financial information under ROC GAAP.

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# Agenda

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# 3Q19 Snapshot

## 2018 GROUP OVERVIEW

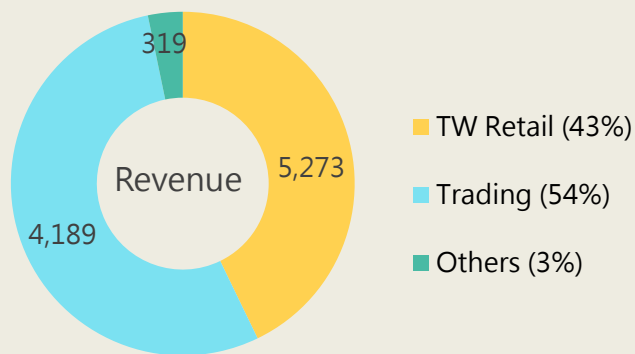
NT\$9,781 M  
Revenue

NT\$2,466 M  
Gross Profit

NT\$168M  
Operating Profit

NT\$166 M  
Net Profit

NT\$0.33  
EPS



TLW (TW)  
27 stores

Brand Agency  
21 brands

TLW Private Label  
21.8%

HOLA (TW)  
26 stores

hoi! 好好生活  
8 stores

HOLA (TW) Private Label  
32.8%

Total Retail Revenue  
NT 4,189 M

Total Trading Shipment  
NT\$ 8,749 M

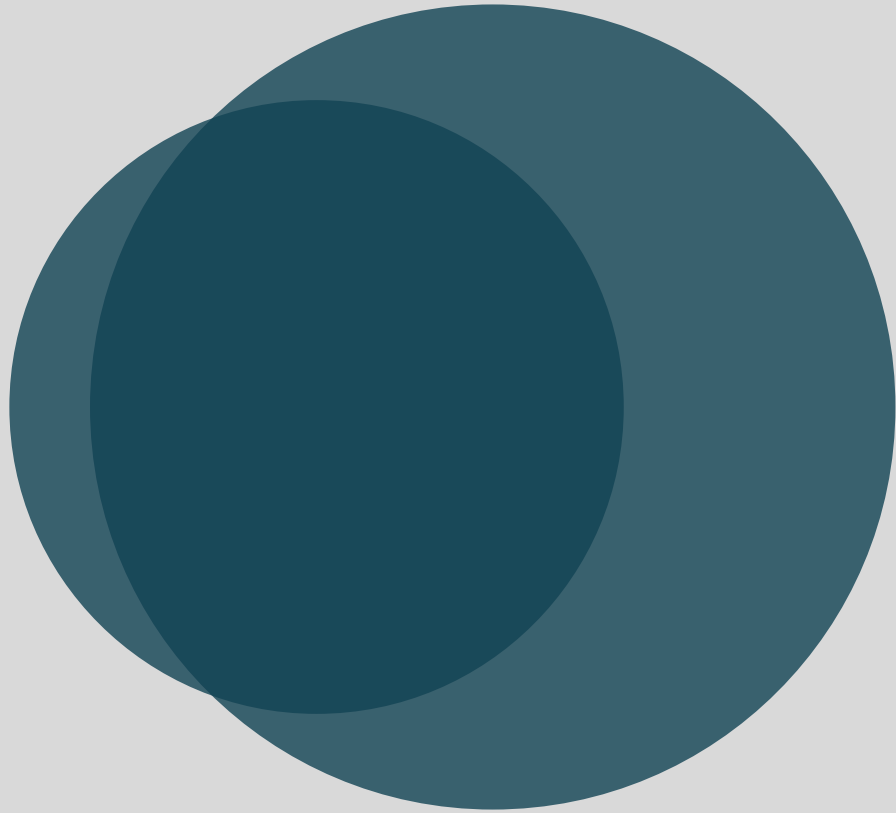
N. America Shipment  
98%

Global Presence  
8 countries / 11 offices

Global Employees  
4,937 staff

Europe Shipment  
1%

Warehouse  
4 countries



# Financial Highlights 3Q19

# Financial Highlights 3Q19

## Revenue (YoY)

3Q19: -0.6%

3Q18: 6.1%

## Gross Margin Rate

3Q19: 25.2%

3Q18: 25.8%

The gross margin reduced slightly by 0.5 percentage points from a year ago as shipment raised which was low gross margin categories.

## Operating Profit

3Q19: 1.7%

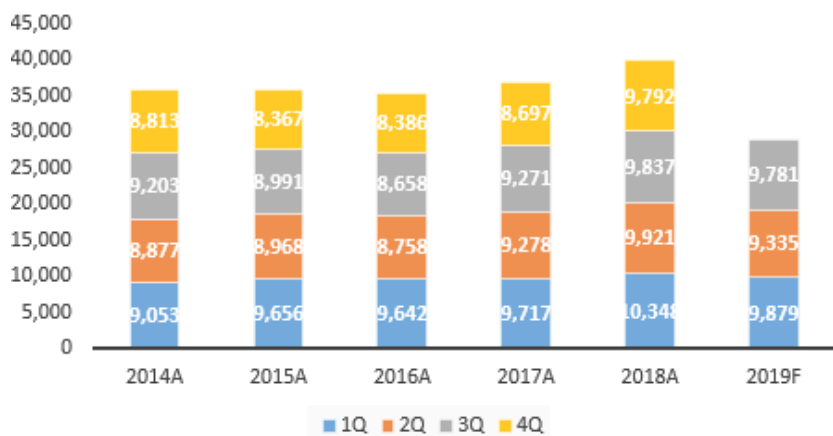
3Q18: 1.7%

The improvement in overall operating profit by 2.3% YoY was attributable to operational efficiencies and effective cost controls.

(NT\$ mn)	3Q19	3Q18	YoY% chg	2019YTD	2018YTD	YoY% chg
Revenue	9,781	9,837	-0.6%	28,994	30,106	-3.7%
COGS	(7,315)	(7,304)	0.1%	(21,135)	(22,288)	-5.2%
Gross profit	2,466	2,533	-2.7%	7,859	7,818	0.5%
Operating Expense	(2,298)	(2,369)	-3.0%	(7,227)	(7,235)	-0.1%
Operating profit	168	164	2.3%	632	583	8.4%
Non-operating income/loss	(46)	22	NA	(677)	23	NA
Pre-tax profit	122	186	-34.2%	(45)	606	-107.5%
Net profit	166	165	0.8%	(37)	609	-104.8%
Other net profit	(93)	(71)	31.0%	(106)	(47)	125.5%
Total net profit	73	94	-23.1%	(143)	562	-121.4%
Net profit attribute to TRIC shareholders	166	165	0.8%	(37)	609	-106.2%
(NT dollar) (After Tax)						
Basic EPS	0.33	0.32	3.1%	(0.07)	1.19	-106.2%
Diluted EPS	0.33	0.32	3.1%	(0.07)	1.19	-106.2%
Gross margin	25.2%	25.8%	-0.5%	27.1%	26.0%	1.1%
Operating margin	1.7%	1.7%	0.0%	2.2%	1.9%	0.2%
Pretax margin	1.3%	1.9%	-0.6%	-0.2%	2.0%	-2.2%
Net margin	1.7%	1.7%	0.0%	-0.1%	2.0%	-2.2%

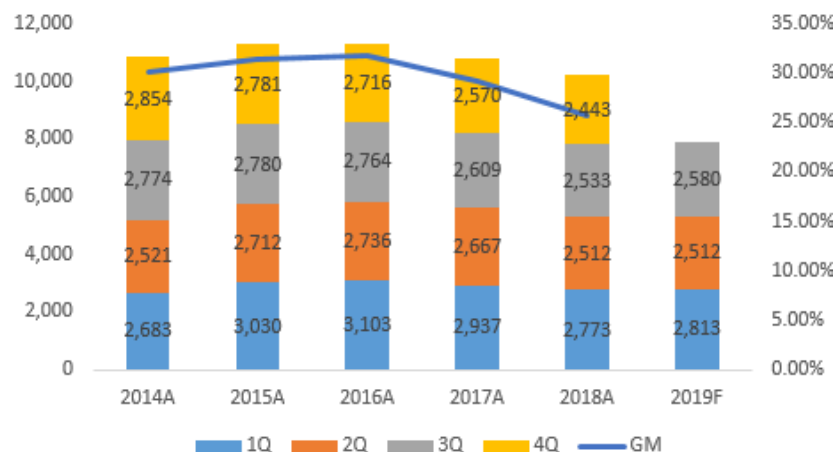
# Performance of Operation and Profit

## SALES

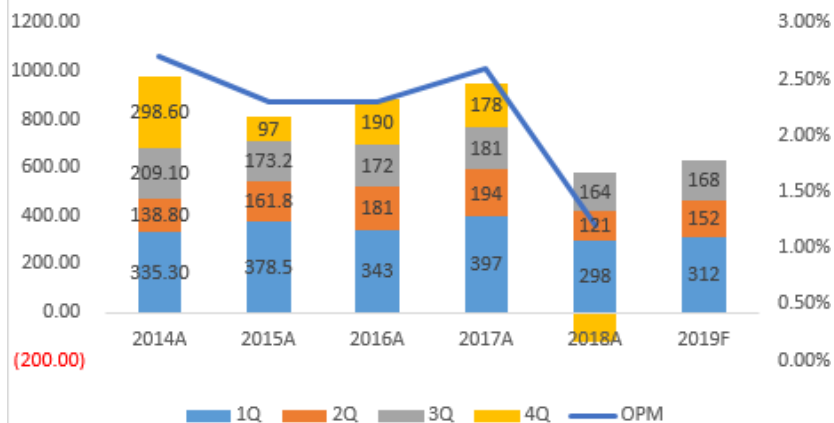


Unit: NTD million

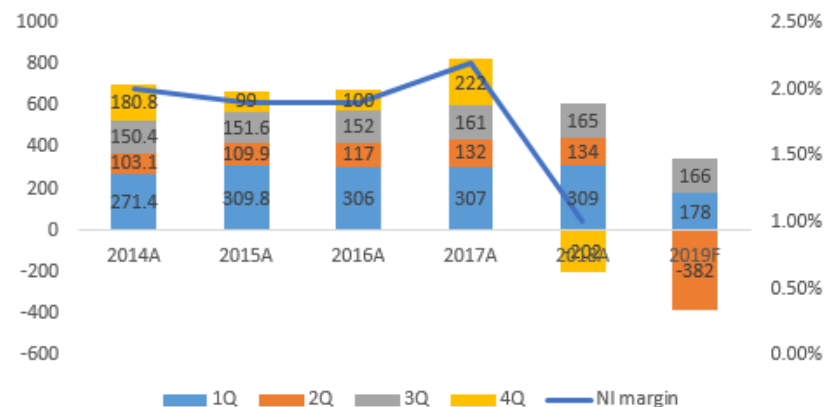
## GP



## OP



## NI

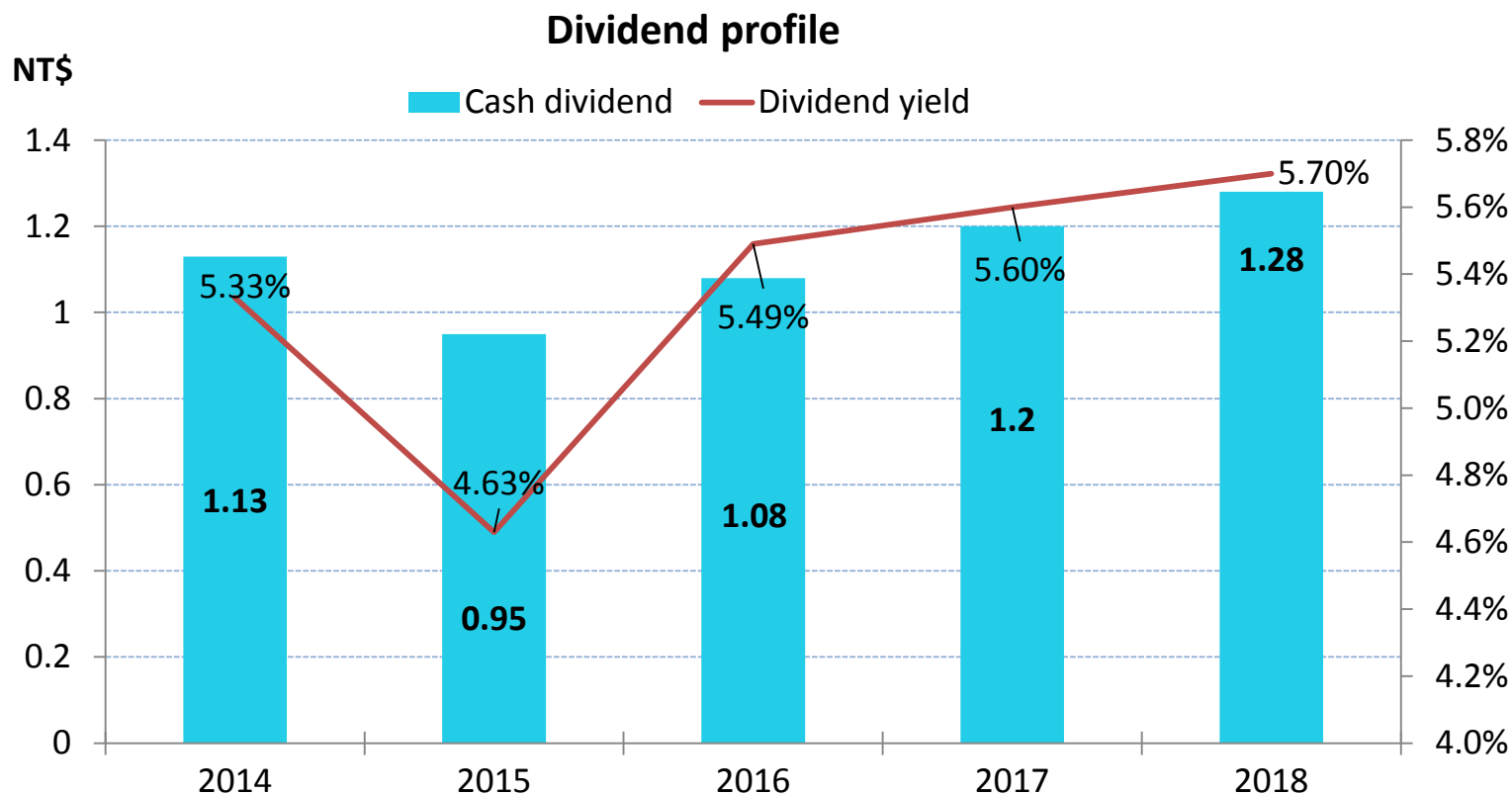


Note : One-time cost restructuring adjustment at HOLA China caused the substantial effect on operating profit in 4Q18 and 2Q19.

Note : One-time cost restructuring adjustment at HOLA China caused the substantial effect on net income 4Q18 and 2Q19.

# Stable Cash Div. and Div. Yield

NT\$	2014	2015	2016	2017	2018
Cash dividend	1.13	0.95	1.08	1.20	1.28
Dividend yield	5.33%	4.63%	5.49%	5.60%	5.7%





# Long-term Investment Value



Only 13 companies in the service industry have remained in the top 100 list for over 30 years.

Company Name	1986 Ranking	2016 Ranking	2017 Ranking	2018 Ranking
Chunghwa Telecom Co.	1	1	1	1
China Airlines Co	2	7	8	10
Evergreen Marine Co.	3	13	13	13
YangMing Marine Co.	4	14	14	14
Taiwan Railways Co.	7	16	15	16
Taiwan Water Co.	8	61	59	62
Far Eastern Department Stores Co.	13	54	53	56
Ho Tai Motor Co.	14	35	38	41
CTCI Construction	17	10	11	11
Wan Hai Lines Co.	33	24	25	28
Test-Rite	37	31	29	25
Taiwan Railways Co.		8		62

In a fast-changing market, most of the survivors are state-owned companies.

Our endurance is a reflection of our stability and sustainable corporate management. It also reflects our continuous efforts to **deliver long-term investment value to our investors.** Since 2016, Test-Rite's ranking continues to move forward year by year.

# Best Interests of Shareholders

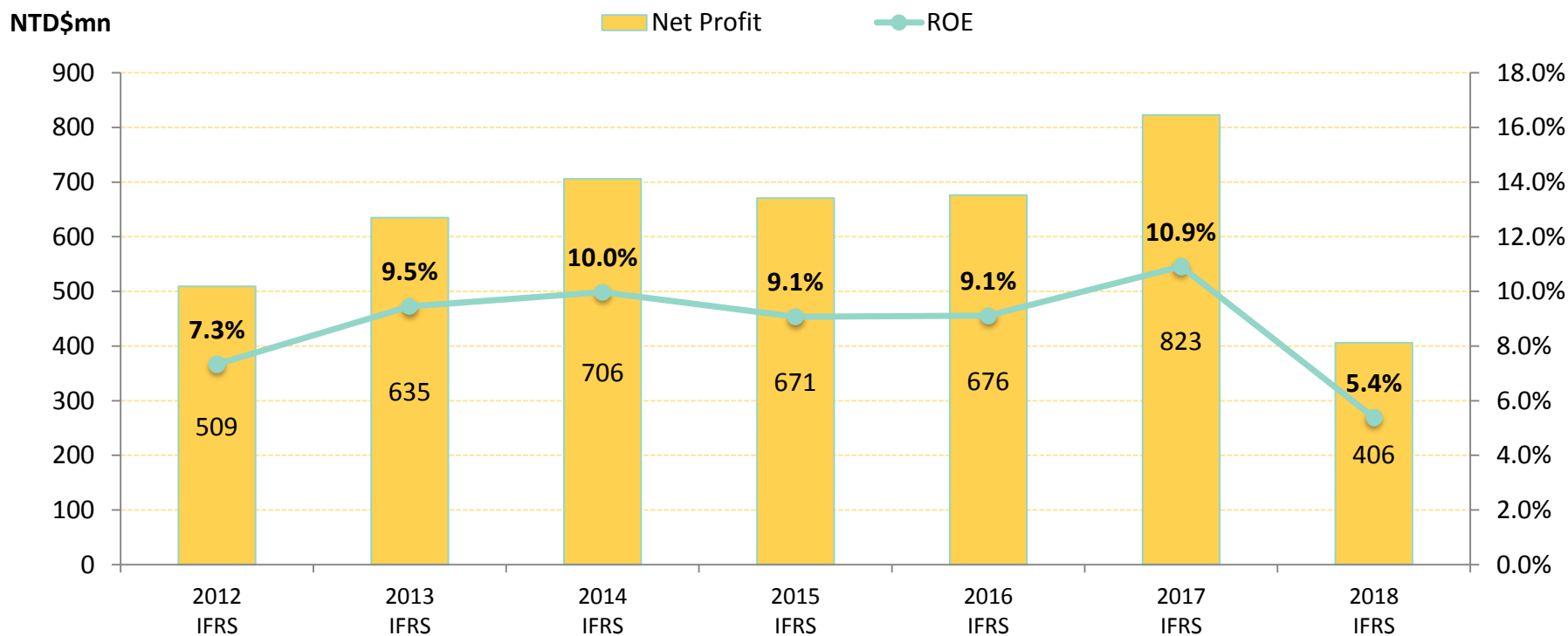
We are committed to the best interests of our shareholders

Stable ROE

Highly transparent

Test Rite is ranked by the TWSE in the top 6%-20% of public companies with best corporate governance practices.

## TR Group ROE & Net profit



# 2019 Outlook

## Trading Business

- 1) Reinforce our existing relationships with major clients such as Walmart, Hillman and Costco, among others, to increase shipment volumes.
- 2) Continue to leverage in-house design capabilities to provide differentiating products for both trading and retail businesses in order to transform Test-Rite to a products company.
- 3) Leverage product development, procurement, and supply chain management to offer best-in-class value-added products and services to our customers.
- 4) Strengthen the Global Sourcing ability, deepen the South Supply Chain, and implement the diversification of procurement areas.
- 5) QAQC service deepens internal and external customer service.

## Retail Business

- 1) Ramp up Private Label sales and differentiating products. In turn, optimizing supply chain and product costs.
- 2) Strengthen the integration of topical embedded goods, propose co-branding and exclusive product development, and follow the film's promotion
- 3) Expand cooperation and products development with the End maker.
- 4) Focus on expansion of existing brands on hand this year.
- 5) Maintain the growth momentum of our TLW Home Improvement Service Unit in providing value-added services to our customers.
- 6) Continue to evolve interacted service and increase customer's pleasure experience so that achieve optimal customer adhesion.
- 7) Continue to expand the multi-Channels, strengthen online and offline channels and expand sales levels.



# Introduction to Test Rite Group

# Management Team



## **Tony Ho**

Group Chairman; Co Founder of Test-Rite Group

Tony played a critical role in Test-Rite's expansion into retail business and was instrumental in leading the company's IPO efforts. Tony recently completed the two-year Joint Executive MBA Program between Taiwan University and Fudan University and completed his graduation thesis: "How to pursue further growth by organization transformation-take large retail group for example."



## **Judy Lee**

Chairwoman of Test-Rite Int'l (2908 TT/2908 TW); Co Founder of Test-Rite Group

Best known as the "Queen of Hardline", Judy is a seasoned veteran of the import/export trading business. With Judy at the helm, Test-Rite Trading consistently provides outstanding services to retail customers globally and has received multiple recognitions as "Best Partner/Supplier". Judy is also awarded by "EY Entrepreneur of the Year" in 2015.



## **Sophia Tong**

Group CEO

Sophia joined Test-Rite in March 2009 to lead both the Trading and Retail businesses. Prior to Test-Rite, Sophia was the General Manager of IBM and with IBM for over 27 years. She attended the Management of Development Program of Harvard.

# Milestones

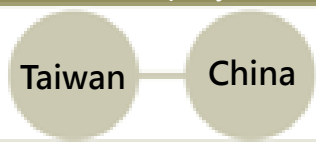
- 
- 2019 ● Hola China withdrew China, layout supply chain of South Asia
  - 2018 ● Launched new retail brand, hoi! good living
  - 2017 ● Launched TR Plus website, combining all our retail channels
  - 2016 ● TLW new concept store in XiTun Taichung
  - 2015 ● First Crate & Barrel store in Taiwan
  - 2014 ● Establish a Distribution Center in Shanghai Free Trading Zone; Acquired German operations
  - 2013 ● Acquired 100% shares of International Art
  - 2012 ● Sold 69% stake in Tong Lung Metal; Acquired 49% TRPC's shares
  - 2011 ● Décor House grand opening
  - 2010 ● Successfully integrated 4 retail channels in Taiwan
  - 2008 ● Acquired 50% of B&Q TW's shares from Kingfisher plc
  - 2004 ● Established HOLA China
  - 2001 ● Nominated "The Best 200 Small Companies" by Forbes
  - 1998 ● Established HOLA Taiwan – Home Decoration
  - 1995 ● Established B&Q Taiwan – Home Improvement
  - 1993 ● Listed on TWSE, became a listed company ( 2908TT )
  - 1978 ● Test Rite Group established as a trading company that specialized in tool products

# Group Structure

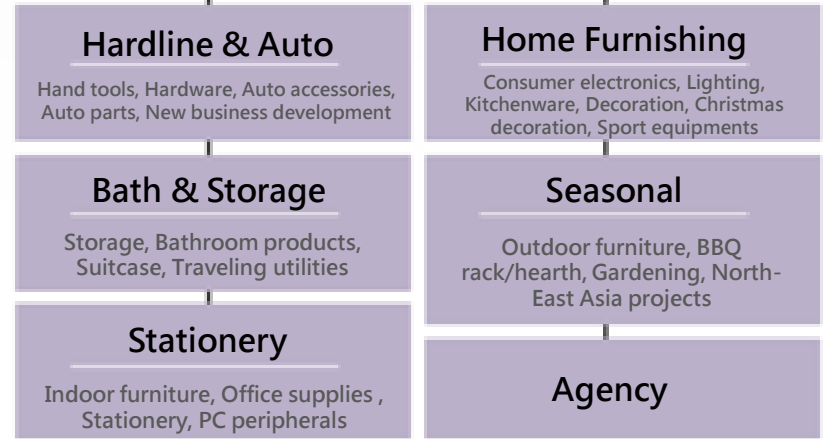
## Test Rite Retail Business Group (3Q19 Revenue: ~NTD\$ 4.19 billion)

<b>Home Decoration</b>	HOLA Taiwan (26)    Hoi! (8)
<b>Home Improvement</b>	TLW 特力屋 (30), TR HOME SERVICE (3), HISU(2)
<b>Mattresses &amp; Bedding</b>	HOLA CASA (28), HOLA Petite(7), WEDGWOOD(14), FRETTE(6), Zucchi (2)
<b>Comprehensive Home Integration Services</b>	DÉCOR House
<b>Brand Agency</b>	Crate & Barrel (3)

### Market Deployment



## Test Rite Trading Business Group (3Q19 Revenue: ~NT\$5.27 billion)



### Market deployment



## Other Investment Holdings

### Creative Design/ Product Development

Theme Trend & Product Concept; Product Design; VI & Graphic Design; Packaging & Purchasing

### Chung Cin Corp.

Shopping mall construction; Office building construction; Booth recruitment

### Logistics/ Warehousing Services

China    Taiwan  
USA    Europe

Note: store numbers updated as on September 30<sup>th</sup>, 2019

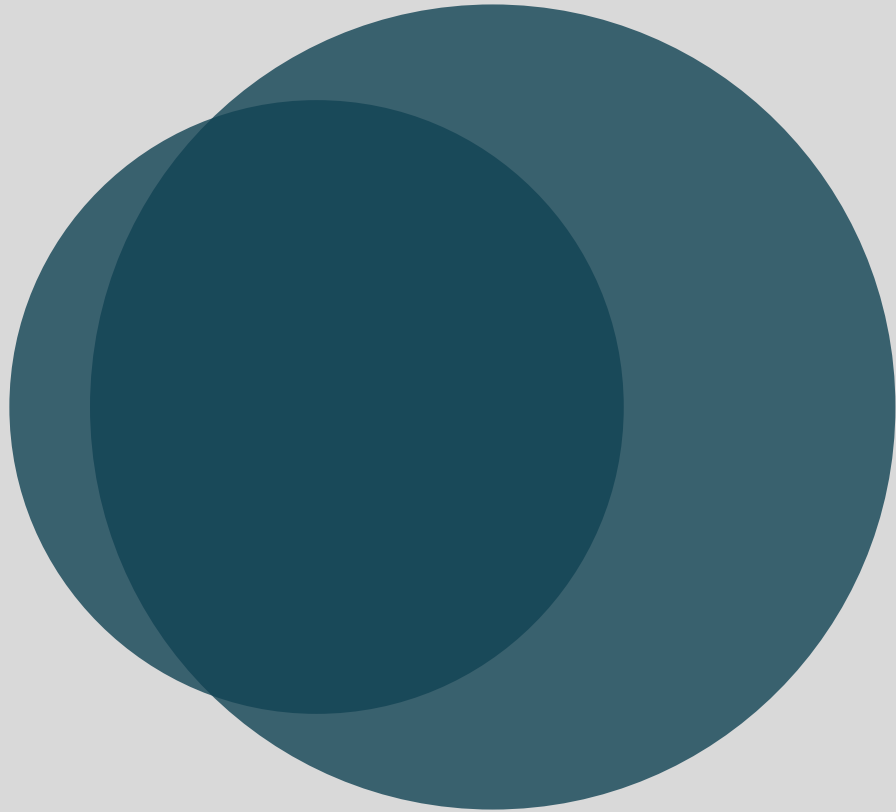
# Building the Best "Home-related" Channel

Store #	2013A	2014A	2015A	2016A	2017A	2018A	2019Q3
TLW	26	26	26	27	27	27	27
HOLA TW	22	23	24	25	25	26	26
TLW-commodity stores	-	-	-	-	-	-	3
Avg. selling space(m <sup>2</sup> )	2013A	2014A	2015A	2016A	2017A	2018A	2019Q3
TLW	92,060	92,072	92,072	95,435	95,435	98,109	97,228
HOLA TW	53,117	52,979	54,476	55,443	52,760	52,760	50,876

## Store Locations







# Retail Business

# Comprehensive home service

HOLA and DÉCOR HOUSE was awarded the top prize at the

“2019 Global Views Five-Star Service Award”.



## 居家生活 業態平均成績 **65.54**

調查標準 國內店數前7大，共7家

名次	企業名稱	得分	去年名次
1	HOLA特力和樂	84.15	1
2	特力屋	81.05	3
3	無印良品	65.83	5
4	台隆手創館	62.08	4
5	生活工場	60.00	2

## 百貨/購物中心 業態平均成績 **60.43**

調查標準 6000坪以上的百貨公司及購物中心，共27家

名次	企業名稱	得分	去年名次
1	特力家居	72.5	5
2	環球購物中心	70.42	未入榜
3	大江購物中心	70	未入榜
4	誠品生活	69.38	未入榜
5	比漾廣場	69.21	未入榜

# Margin Improvement through Private Label

2019YTD

- Sales Mix of PL Products**

TLW: 22.1%

HOLA : 33.4%

- Gross margin rate**

TLW: 50.6%

HOLA: 53.5%



**Long-term Goal**

TLW- 25%

HOLA-45%

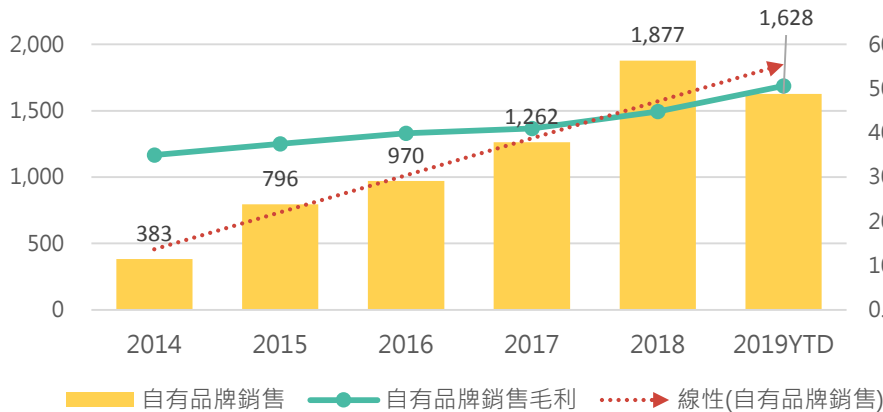
- Leading home décor trend by strengthening brand design ability



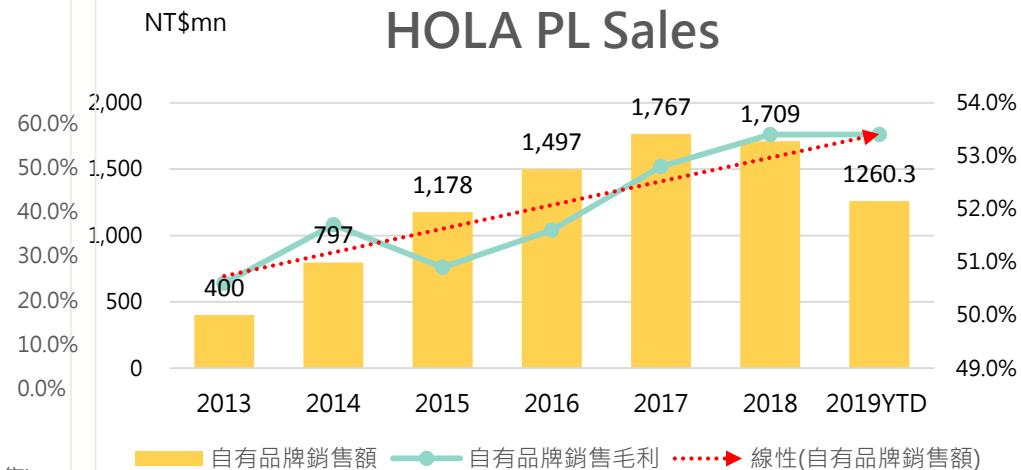
**HOLA**  
特力和樂



**TLW PL Sales**



**HOLA PL Sales**



# Private Label development



HOLA's casting iron pan won 2018 Red dot design award as it solved consumer's pain point and has the insight into the requirement from customers'.

TLW launched the private label "TLW SMART WASH TOILET SEAT" which appealed high price-performance ratio and help people to improve their quality of without the burden.

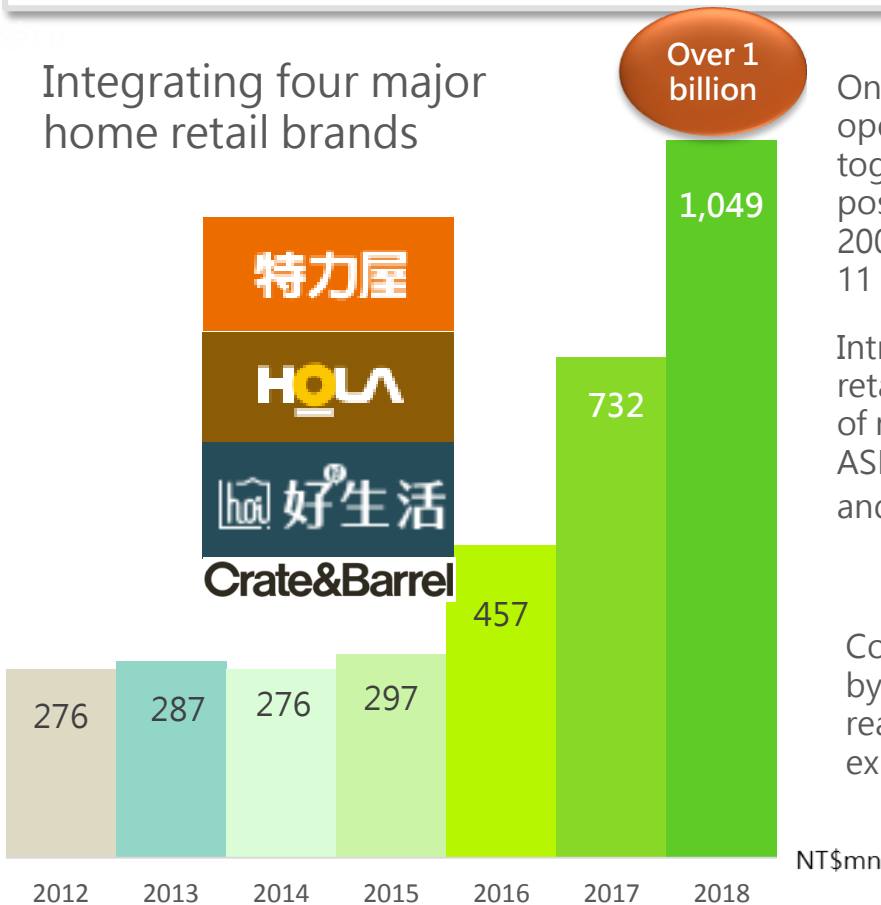




# Omni-Channel Strategy

Our retail business developed online marketing and offline experience full channel integration to expand on line sales vigorously and introduce the new retail technology in stores. After building the new retail model, sales of TR PLUS website continued to growth.

Integrating four major home retail brands



Online and offline operated marketing together, the sales met the positive momentum over 200 million on November 11 2018.

Introducing the new retail digital technologies of new retail including ASM, electronic price tag and digital shelves, etc.

Consumption is not limited by inventories items and reaches the new shopping experience.



# Omni-Channel Development

3Q2019

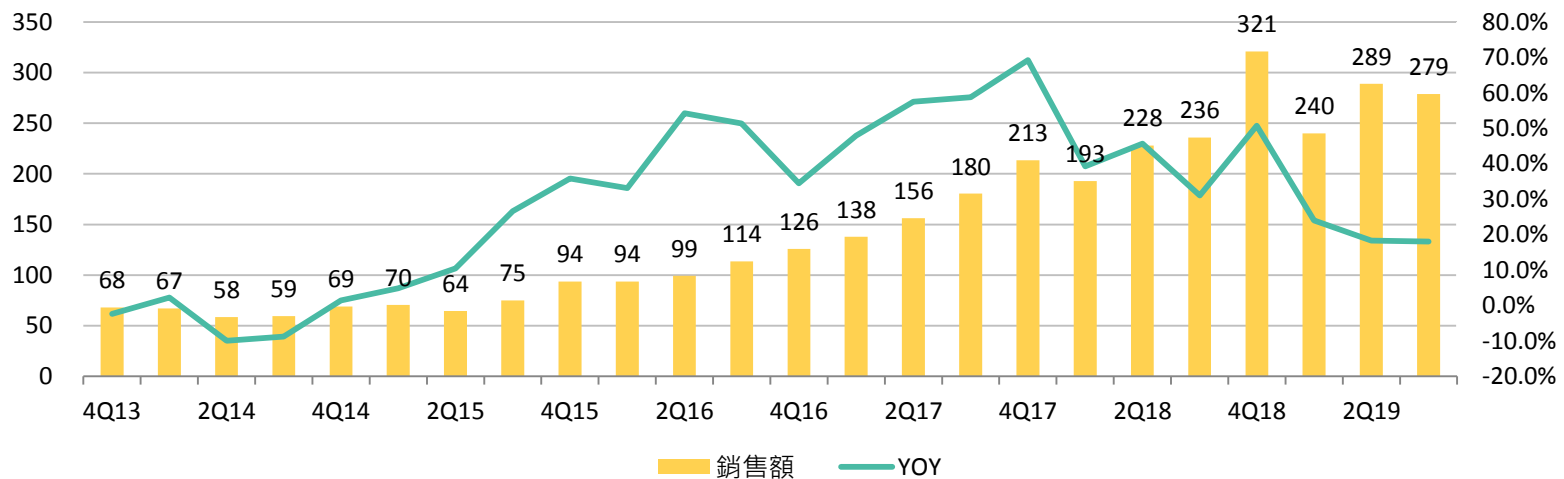
- TLW EC sales mix 7.6%  
Sales amount YoY +16.3%
- HOLA EC sales mix 7.4%  
Sales amount YoY +23.6%



2019 Goal

- Breaking the boundary between online & offline through the integration of POS systems.
- Improving the customer experience in physical stores and providing a unified solution for home improvement/renovation services.
- Putting the “New Retail” concept into action.

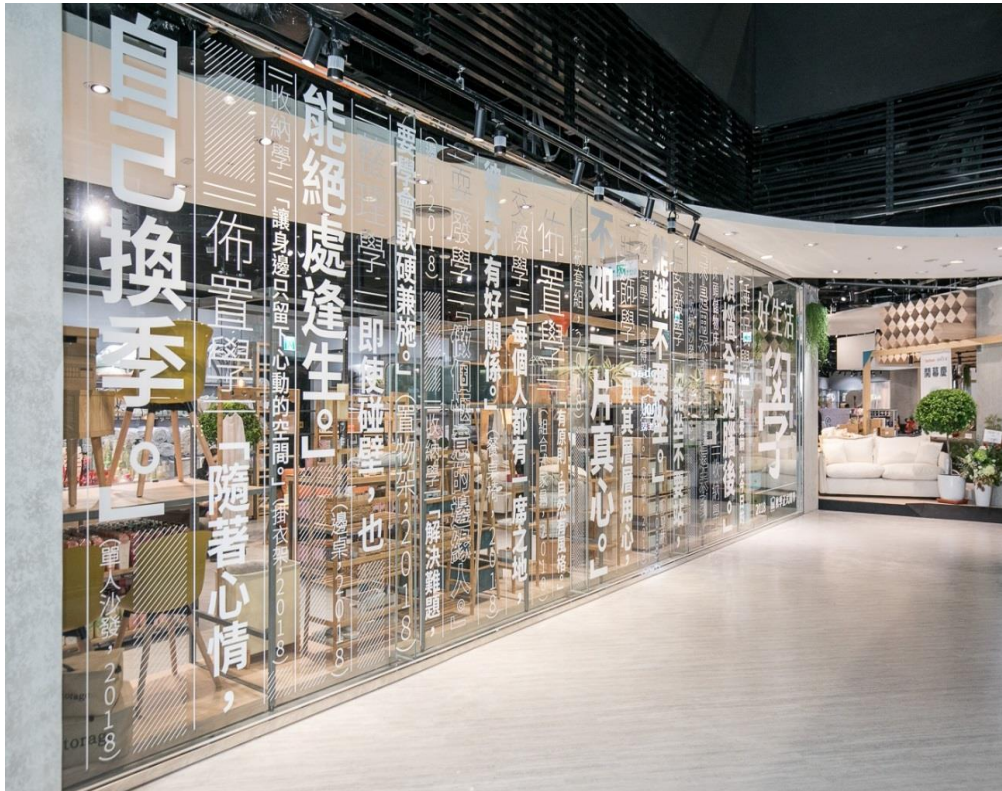
## EC Online Sales (Quarterly)



Note: Online sales do not include sales generated from gift vouchers that are sent from our website but used in physical stores.

# New Retail Experience: hoi! good living

Our new brand, “hoi! good living”, and a smart store was launched on September 17, 2018. The store is aimed at a younger generation of shoppers and provides high-quality and value-for-money products. New interactive technologies create an online-offline shopping experience that promotes new retail concepts in transforming the home-products industry.





# New retail technology experience-TLW and HOLA

TLW and HOLA made another milestone to create the first smart store " Dadun store" which increased the proportion of situational display in mere one thousands square meter and strengthened the product experience. Consumption is not limited by inventories items and reaches the new shopping experience.





# HOLA Physical Channels-customer's experience



HOLA physical store committed to experience. It launched HOLA kitchen and HOLA living space on 2018 which has the cooking and diversified hand-made courses.



# TLW Physical Channels-customer's experience



To meet consumer's requirement and create the good life , TLW opened the exclusive classroom "handcrafted space " on 2016. It has expanded more handcrafted classrooms outside Taipei City gradually.



# Growth Driver – Brand Agency

3Q2019

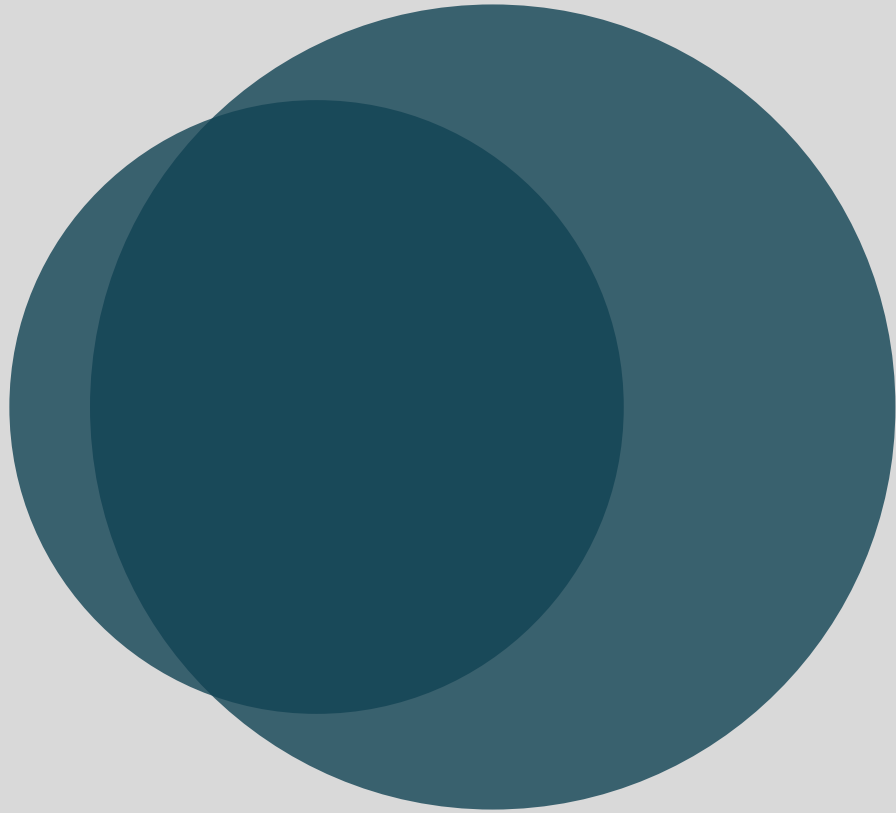
Total 21 brands in Agency Business



2019 Goal

- Increasing brand awareness in the market.
- Expanding sales channels.

	Appliance	Kitchen	Lighting	Décor/Textile
Product Brand	    	     	 	
Channel Brand (Franchising)		 		
Channel Brand (Licensing)		 		



# Trading Business

# Global Worldwide Network



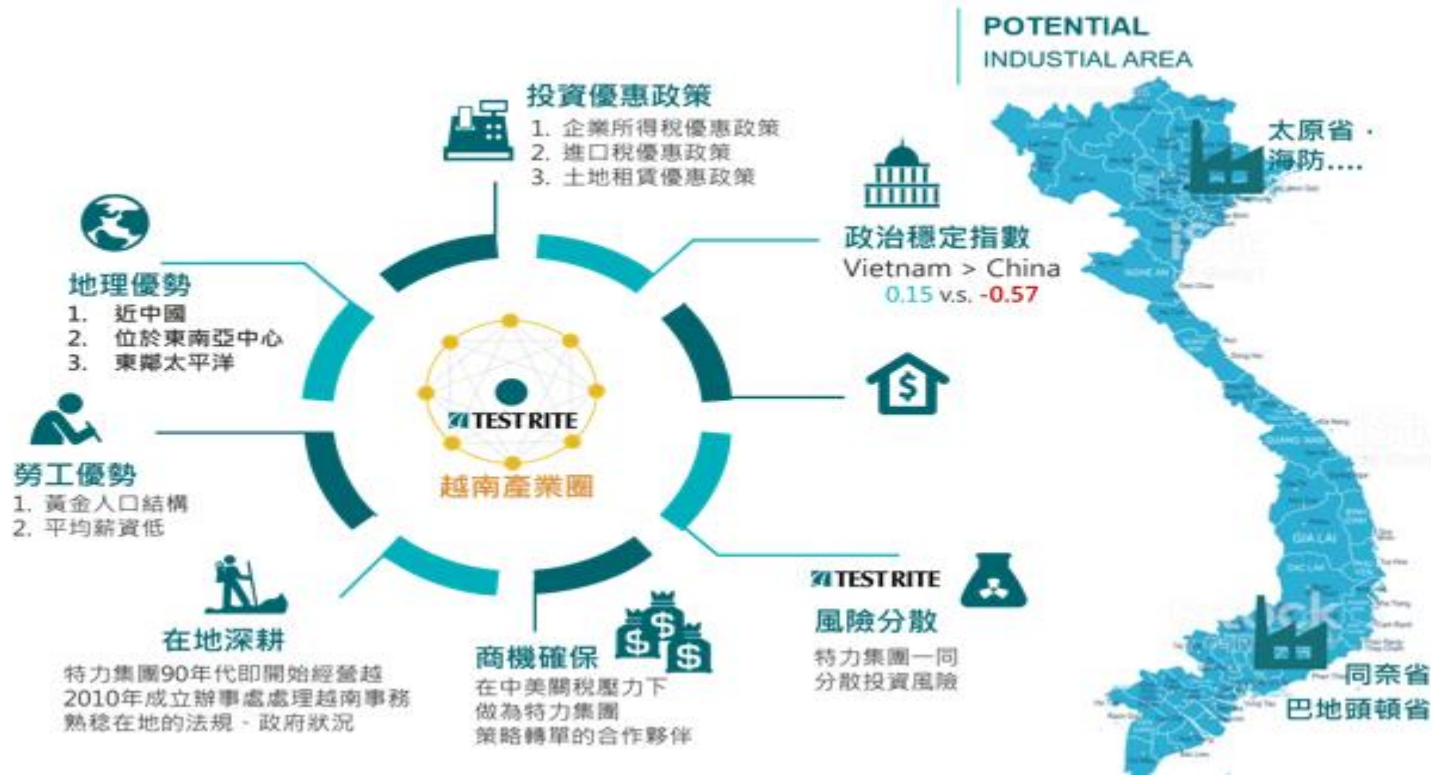
- 11 offices in 8 countries/regions, logistic centers in China, Taiwan, Germany, and the U.S.
- U.S. warehouse provides logistics and warehousing services to customers for principal trading.



# Supply chain head southward

In response to U.S.-China trade war, building the strategic alliance with vendors

- Besides Vietnam, continuing to evaluate and accelerate the allocation to Southeast Asia
- Vietnam and India provide service of QA/QC
- Vietnam plant area : 30,000 square meters , office area: 1200 square meters





# Partnerships with Global Retail Giants

Principal trading value-added services and supply chain management



Growth of Agency Trading



# Shipments Growing Rapidly

## 2019YTD

The Growth in trading business was driven mainly by sales in North America. Our trading shipment amount has an increase of 5.6% YoY and 1.3%YOY in 2019 Q3 and 2019 YTD.



## 2019年目標

- Principal Trading sustain momentum.
- Agency Business: double-digit growth in shipments.
- Order Management: push shipment growth to a new record high.

Shipment Volume (NT\$ '000)	2019	2018	年增(減)率%
Principal trading shipment – 3Q19	5,171,282	4,908,267	5.4%
Agency business shipment – 3Q19	3,577,651	3,379,408	5.9%
<b>Total Shipment – 3Q19</b>	<b>8,748,933</b>	<b>8,287,675</b>	<b>5.6%</b>
Principal trading shipment – Accumulated	14,731,199	14,735,807	0.0%
Agency business shipment – Accumulated	11,216,618	10,891,386	3.0%
<b>Total Shipment – Accumulated</b>	<b>25,947,817</b>	<b>25,627,193</b>	<b>1.3%</b>



# N. America Driving Growth

## 2019YTD

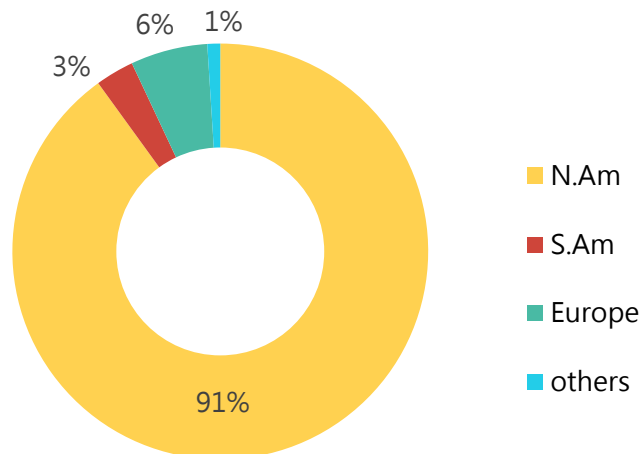
- N. America remained the fastest-growing market
- Hardline products outperformed



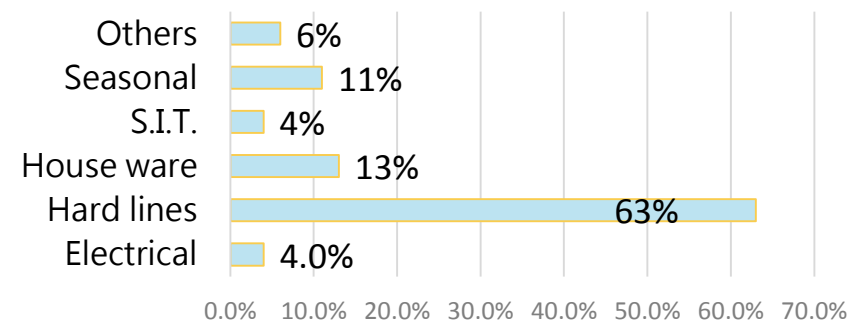
## 2019 Goal

- Maintain momentum in Hardline and House Ware.
- Work closely with strategic partner, Hillman, to increase traditional trading shipments.
- Strengthen self-development and design capabilities and transform into a product company.
- Agency new customer development.

## Trading by Region



## Trading by Category



# Product innovation and design won international recognition

2019   
reddot award 2019  
winner packaging design

Chinese Zodiac Phone Charging Line



2019   
reddot award 2019  
winner packaging design

Holiday Lights



2019   
reddot award 2019  
winner packaging design

Magic Harley Wire Screw Box



2019 

Portable LED Light

















2019 















Home Maintenance Toolbox



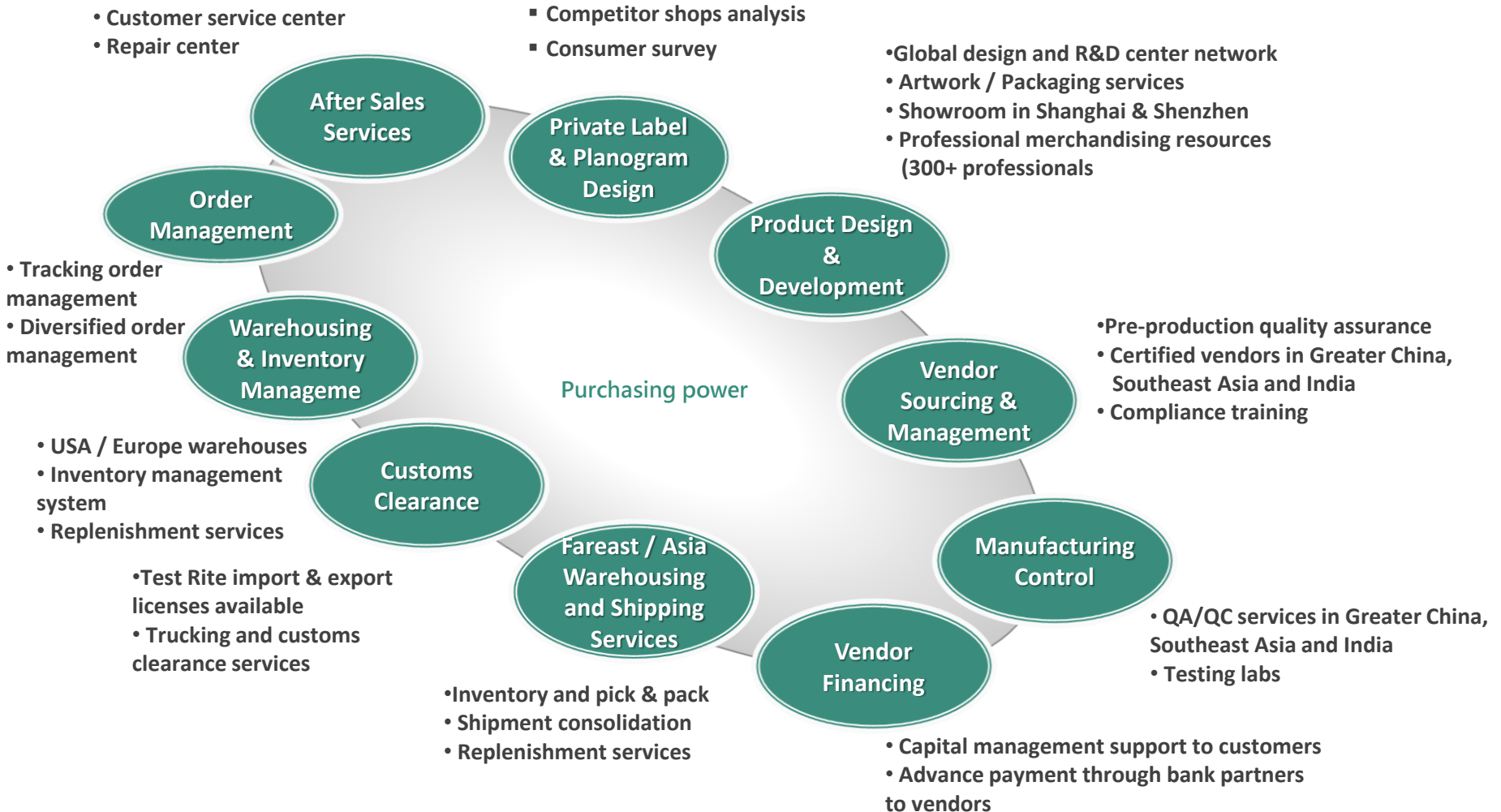
# Product innovation and design won international recognition

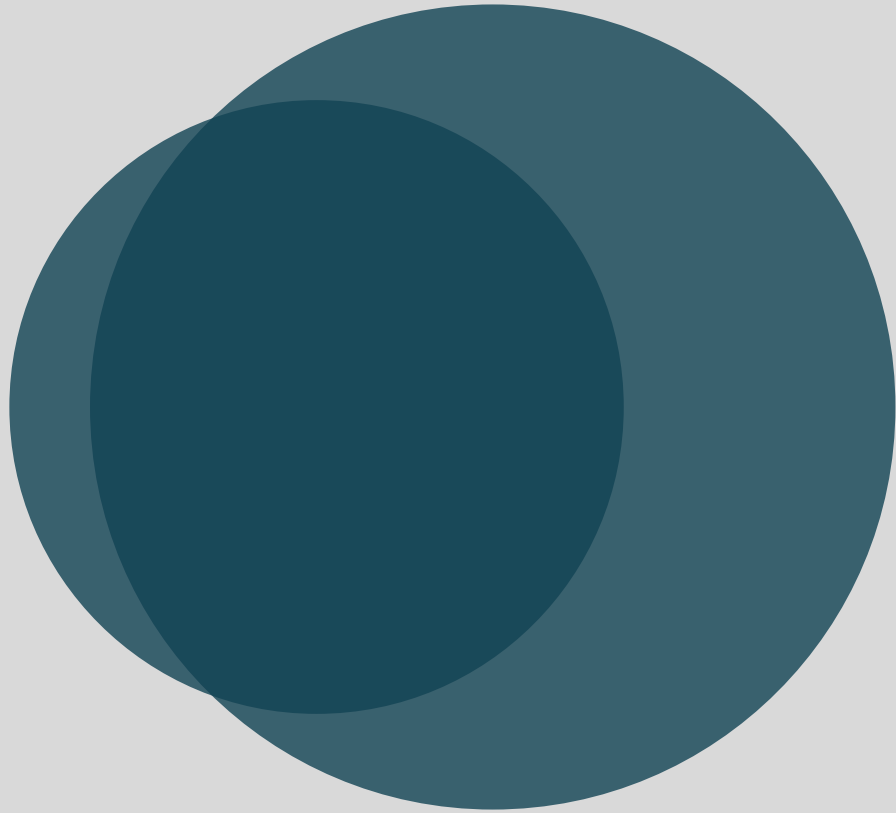
2018		reddot design award	Sunny Homey Solar Garden Light Package Design	
2018		reddot design award	EcoPro Hand Tools Package Design	
2018		reddot design award	Christmas Lights LED Light Package Design	
2018		DESIGN AWARD 2018	Lid-Lite Solar Light Bottle Lid	
2018		DESIGN AWARD 2018	Bubble Aroma Diffuser	
2018		DESIGN AWARD 2018	Cloudfall Aroma Diffuser	
2018		reddot design award product design	Lid-Lite Solar Light Bottle Lid Product Design	

# Product innovation and design won international recognition

2017		Omni-Lumi Portable Lighting System	
2017		Solar Crackle Glass Ball Package Design	
2016		Auto Lifting Tools All-in-One Trolley Jack	
2016		Garden Tools Garden Goody	
2016		Garden Tools One Thumb Spray Design	
2016		Solar Crackle Glass Ball Package Design	
2014		Lighting Solar Light Package Design	

# Repositioning-Total Solutions Provider





# Appendix

# 2019 Q3 Consolidated Balance Sheet

(NT\$ mn)	2019	2018		2019	2018
Cash and cash equivalents	1,786	2,003	Short-term borrowings	2,740	3,106
Financial assets at fair value through profit or loss - current	446	340	Short-term notes bills payable	50	80
Contract asset-current	148	410	Contract liability-current	66	255
Financial assets at amortized cost-current	42	71	Financial liabilities at fair value through profit or loss – current	-	
Accounts & notes receivable	5,050	4,650	Accounts and notes payable	6,919	6,052
Financing lease receivable-current	19		Dividends payable	0	612
Other receivable	159	113	Other payable	1,530	1,459
Inventories	5,971	5,444	Current tax liabilities	63	80
Prepayments	278	386	Financing lease payable	1,825	
Other current financial assets	99	15	Advance receipts	579	622
Other current assets	33	40	Current portion of long-term borrowings	346	1600
			Other Current liabilities	88	87
<b>Total current assets</b>	<b>14,031</b>	<b>13,472</b>	<b>Total current liabilities</b>	<b>14,206</b>	<b>13,341</b>

# 2019 Q2 Consolidated Balance Sheet

(NT\$ mn)	2019	2018		2019	2018
Financial assets measured at cost - non-current	58	58	Long-term borrowings	7,553	4,550
Financial assets at amortized cost-non-current	183	85	Deferred tax liabilities	11	15
Property, plant and equipment	6,399	7,059	Financing lease payable cost-non-current	7,655	-
right-of-use asset	10,078	-	Other non-current Liability	412	417
Goodwill and intangible assets	2,555	2,630	Total non-current liabilities	<b>15,631</b>	<b>4,982</b>
Financing lease receivable-non-current	118		Total-liabilities	<b>29,387</b>	<b>18,323</b>
Deferred tax assets	1,498	1,320			
Refundable Deposits	1,028	797	Share capital	5,099	5,099
Other non-current assets	283	515	Capital surplus	353	648
<b>Total non-current assets</b>	<b>22,200</b>	<b>12,464</b>	Retained earnings	1,451	2,060
			Other equity	(348)	(253)
			Treasury shares	(297)	
			Total equity attributable to owners of the Company	6,258	7,554
			Non-controlling interests	136	59
			Total equity	<b>6,394</b>	<b>7,613</b>
<b>Total assets</b>	<b>36,231</b>	<b>25,936</b>	Total liabilities & equity	<b>36,231</b>	<b>25,936</b>



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THANK YOU

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