D-Link Announced 4Q/2003 Results

Taipei, Taiwan, February 11, 2004 D-Link Corporation (“D-Link” or “the Company”) (TAIEX2332) announced its preliminary FY2003 financials: the preliminary FY2003 financials: parent revenue was NT$ 19.7bln, up 22% from Year 2002, after-tax income was NT$ 1,311mln, and EPS was NT$ 2.55, up 51% from last year. At the consolidated book, sales was NT$ 25.6bln, up 27% from the pervious year.

For the 4th quarter 2003, D-Link reported NT$ 6,025mln in sales for the parent book and NT$ 6,700mln for the consolidate book, representing 23% sequential growth and 5% QoQ decline respectively. Compared to the 4th quarter of 2002, the Company was able to report 35% growth for the parent, and 49% for the consolidate.

As it was the transition period of the carve-out project, D-Link absorbed all Alpha’s operating expenses at its own cost level, which dragged D-Link’s parent gross margin down to 6%. However, because D-Link now has a very slim operating expenses under the purely brand business model, and the Company reversed a NT$ 118mln of A/R allowance back, which was conservatively accrued as the Administrative expenses in 2002, the operating expense became a negative number of NT$ 32mln for 4th quarter, and the operating margin was 7%, up from 5%.

Despite that parent gross margin was temporary distorted, the Group has managed to further improve its consolidated gross margin to 33% in Q4. This showed that D-Link was able to not only grow the top line but also maintain its profitability even when SOHO/Home sales accounted for roughly 65% of total sales. The operating margin remained at 5% level for Q4, and 6% for 2002.

Despite major exchange rate fluctuations in the past two quarters, D-Link was able to report NT$ 122mln gain in F/X in Q4. The NT$ 461mln of profit before tax, was up 33% QoQ. Since a higher corporation tax rate of 15% for FY 2003 has been applied, D-Link accrued a higher-than-expected tax expense of NT$ 157mln in Q4. Because D-Link’s share price surged by 30% in Q4, most ECB holders converted their holdings into shares. Outstanding ECB was US$ 11.9mln at the end of 2003, down from US$24.5mln in Q3. The Company reported NT$ 304mln of after-tax profit, or NT$ 0.59 of EPS, up 26% over same period last year.

D-Link's balance sheet remained sound as of Dec. 2003. Inventory was healthy and at the turnover at the level of 31 days for parent, but lengthen a bit to 90 days on the consolidated level due to better business in 2003. Since D-Link has a more efficient vendor management, the Company now has better payment terms over its suppliers, which prolonged the Days A/P to 86, from 2002's 71 days, and shorten the cash cycle to 39 days from FY2002's 58 days on parent level. Along with the longer Days AP, the consol books' cash cycle also improved to 61 days in FY2003, from 71 days in last period. Debt level increased due to larger A/P on the parent book, but the adjusted D/E was improved to 63% at the consol book, after surging for 7 quarters.

By product categories, Wireless LAN ranked #1, accounting for 38% of Q4/03 revenue. Broadband CPE was 22%, and switch 22%, of the 4th quarter sales. Wireless LAN was not only up 26% in Q4 sequentially, but also marked the most aggressive full year growth of 104%, thanks to the successful debut of AirPlus and AirPlusXtremeG products. Digital Home, largely discussed during the CES, though was accounted for 10% of the revenue in FY2003, but already marked 73% sequential growth in Q4, and should be the main growth driver in FY2004. GigE, has continued to jump to 36% of Q4 switching sales, up from 12% in 1H and 25% in Q3.

By geographic regions, North America was 43% in Q4, followed by Asia 24% and Europe 23%. Sales to Europe, in particular, grew 51% sequentially, contributed by both the strong Brand sales to WLAN and Switch. USA was up 64% YoY, thanks to the strong Brand sales in SOHO/Home networking, and up tick of the ODM business.

Going forward, the Management expects FY2004 to be up by 25% in Brand sales globally, and 35% in ODM business. Though Q1 is a seasonal down quarter, the Management believes D-Link can manage to post a flat quarter at least. Gross margin should sustain at 30% for the consolidate book, while operating margin would stay at 8% for parent and 6% for consol for FY 2004. US will continue to lead the growing momentum riding on a strong SOHO/Home segment.

As the largest SOHO/Home network vender globally, the management believe D-Link will not only benefit from the fundamental improvement in corporate and consumer spending, but also demonstrate its capabilities through continued market share gains and better corporate earnings.

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