



(Registration No. 199202071D)
(Incorporated in the Republic of Singapore on 22 April 1992)

3Q2020/9M2020 Performance and Update on Business and Operational Matters

The Board of Directors (“the Board”) of Serial System Ltd (“Serial System”, and together with its subsidiaries, the “Group”) wishes to provide an update of its July-September 2020 period (“3Q2020”) and January-September 2020 (“9M2020”) revenue performance and strategies to respond to changes in the operating environment. These include: (i) expansion of supplier base and product portfolio of electronic components for distribution; (ii) response to efforts by the Chinese Government and manufacturers of electronics products to improve domestic technological capabilities; (iii) Group-wide cost and operational restructuring following the COVID-19 pandemic; and (iv) expansion of activities of the consumer products distribution division.

Revenue for 3Q2020 and 9M2020

SGX Mainboard-listed Serial System is a distributor of electronic components and consumer products. Its principal markets for electronic components distribution are in North Asia, in particular Greater China, while most of its consumer products distribution are in Southeast Asia. It also offers Managed Print Services (“MPS”) in Southeast Asia.

For 3Q2020, Serial System’s revenue increased 10% to US\$203.5 million from US\$184.6 million in 3Q2019. The improvement in business momentum for the electronic components distribution was driven by: (i) recovery of manufacturing activity in China following business and economic disruptions in 1H2020 due to the pandemic; (ii) an increase in the product portfolio; and (iii) expansion of the supplier base of Serial System.

Despite better performance in 3Q2020, 9M2020 revenue declined 16% to US\$517.8 million from US\$615.9 million a year earlier. This reflected lower sales by the electronic components distribution in 1H2020 (compared to 1H2019) due to COVID-19 related disruptions.

This was partially offset by an increase in consumer products distribution and the Group’s other businesses segments. Revenue from consumer products distribution increased 38% to US\$37.4 million in 9M2020 compared to 9M2019. This was driven by increased demand for teleconferencing and computer accessories in Malaysia due to the Movement Control Order imposed by the Malaysian government to curb COVID-19 infection. The higher revenue also reflected new supplier relationships in Malaysia.

Revenue from other businesses in 9M2020 improved 87% to US\$6.5 million compared to 9M2019 due to higher contributions from two subsidiaries – SB Global Ventures Pte. Ltd. and URG Pte. Ltd. (both specialized service providers in the global fast-moving consumer goods industry).



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Strategy #1 - Expanded Product Portfolio and Supplier Relationships

Serial System ceased a long-standing distributor relationship with major supplier Texas Instruments on 31 December 2018. Since early 2019 it has embarked on a strategic shift to increase its portfolio of electronic components for distribution to reduce dependence on any single supplier.

Focus of Product Portfolio

The thrust of this strategy has been and continues to deepen penetration into electronic component distribution for emerging core technologies: 5G infrastructure; autonomous and electric vehicles and data centres. Serial System will focus efforts to expand its product portfolio in these emerging core technologies by working closely with its suppliers as well as customers.

New Supplier Relationships, Increased Partnerships

Since the start of 2019, Serial System has either signed on distributorships directly or formed joint venture partnerships to distribute products of Micron, ST Microelectronics, Renesas, Toshiba, Maxim and Allegro in China. These suppliers are among the top semiconductor companies in the world and leaders in various technologies. We have also strengthened our partnerships with existing suppliers like ONSEMI, OSRAM, TE Connectivity and Molex to grow revenue together.

Assessing global trends in technology and China's response

The U.S.-China trade war, U.S. sanctions and other restrictions such as those imposed on Huawei have galvanised China's central government, state-owned as well as private manufacturing enterprises to reduce dependence on U.S.-made electronic components and diversify to suppliers from other countries. At the same time, China is actively encouraging domestic R&D and even mergers and acquisitions by local corporations to bulk up technology and manufacturing capabilities, especially in semiconductors.

Serial System has been actively engaging China's leading domestic semiconductor companies and have managed to sign up with a few of the promising companies.

The transition of China's semiconductor sector to reduce reliance on Western technology will have major implications for the domestic market and possibly the global electronics industry in the coming years. While we do not see an immediate upside to the distribution business for Serial System, there is a clear trend of local manufacturers including locally made components into their Bill of Materials (BOM). Serial System is preparing itself to capitalise on opportunities arising from these trends.

Strategy #2 - Response to COVID-19 Impact

Serial System's operations were affected quite significantly in the early days of the pandemic in 1H2020. The main disruptions related to restrictions on travel, resulting in work-from-home practices, delays in orders and supply chain issues affecting delivery of products which in turn affected cash conversion cycles. Many of these issues were resolved by 3Q2020 and business volumes have improved since.



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Changing workflow practices, reduction of travel-related expenses

The crisis of the pandemic also offered an opportunity for Serial System to review operations, including work-from-home and rotating shifts in offices and warehouses to comply with various countries' regulations on infection prevention. With adoption of teleconferencing, travel and accommodation costs have reduced significantly.

The Singapore operations have also benefited from the Government's Jobs Support Scheme in recent months.

Review of back-end operations

During the pandemic, Serial System has undertaken a major assessment of its entire back-end operations. Many processes have been streamlined by new processes and adoption of technology while functions have been 'delayed'. As a result, Serial System has started to lower the cost structure across the entire Group. It is also assessing opportunities to outsource certain back-end functions with a view to further streamline operations.

Strategy #3 – Expansion of computer peripherals and print service businesses

Increased activities in Malaysia during pandemic

Serial System has recently signed on at least four new suppliers – Gigabyte, MSI, Philips and AOC – for its consumer products distribution division in Malaysia, where business momentum improved significantly during the pandemic. New product launches from Intel and AMD coincided with an increase in demand for desktop and portable computers as well as printers as more people worked from home in compliance with the Movement Control Order. Building on the momentum achieved in FY2020, Serial System intends to expand its distribution network for AMD beyond ASEAN into North Asia.

Expansion of Managed Print Services (“MPS”), foray into 3D printing

Serial System's MPS business unit has made significant forays despite the challenging environment. We have signed up an Asia-wide franchise with Utimaker, a leading 3D printing company based out of the Netherlands. Through this partnership, we are gaining access to one of the fastest-growing printing trends in the world.

As part of geographical expansion, Serial System has entered the Thailand MPS market, in addition to current activities in Singapore and Indonesia.

We have experienced good traction in both these print service categories and expect further growth in the coming years.

Outlook

Two years after the cessation of the Texas Instruments' relationship and nearly a year since COVID-19 started, Serial System has initiated strategies to increase its value propositions for both electronic components and consumer products businesses. While the Group remains cautious about economic uncertainties due to the pandemic, it



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believes that the strategies initiated have thus far helped Serial System to build a much stronger business foundation.

In view of the above, the Group expects:

- (i) 4Q2020 revenue to improve upon that of 4Q2019 in view of the ongoing business momentum as the Chinese economy continues to recover from the earlier disruptions caused by COVID-19;
- (ii) As a consequence, it also expects 2H2020 revenue to improve upon that of 1H2020;
- (iii) The new products and new suppliers for the electronic components distribution are expected to contribute more significantly to revenue from FY2021 when the COVID-19 situation is expected to ease with the increasing availability of vaccines;
- (iv) Consumer products distribution is expected to record stronger revenue from computer peripherals in 2H2020 compared to 1H2020 while MPS will expand in FY2021 compared to FY2020; and
- (v) Cost and operational efficiency measures implemented since FY2020 will contribute to better performance in FY2021.

The Group expects to release its unaudited results for FY2020 in the last week of February 2021.

BY ORDER OF THE BOARD

Dr. Derek Goh Bak Heng
Executive Chairman and Group CEO
21 December 2020