

環宇  
芯系天下

**Q2 2019  
Quarterly  
Online Investor  
Conference  
(線上法說會)**

**Aug 14, 2019**



環宇通訊半導體  
Global Communication Semiconductors, LLC



“Enabling Today’s Global  
Communications  
and Beyond”

# Disclaimer Statement



This presentation includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that GCS Holdings, Inc. expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements.

GCS's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, market share, competition, environmental risks, change in legal, financial and regulatory frameworks, government policies, international economic and financial market conditions, political risks, cost estimates and other risks and factors beyond our control.

GCS does not undertake any obligation to publicly update any forward-looking statement to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

# Agenda



Opening:

Brian Ann, CEO & President

Financial Section:

Grace Li, Director & Special Assistant to CEO

Market Overview:

Simon Yu, Senior VP and General Manager,  
Worldwide Sales & Marketing and Component  
Business

Q&A: All

# FINANCIAL SECTION

# Statements of Comprehensive Income - QoQ



(in NT\$ thousands except EPS)

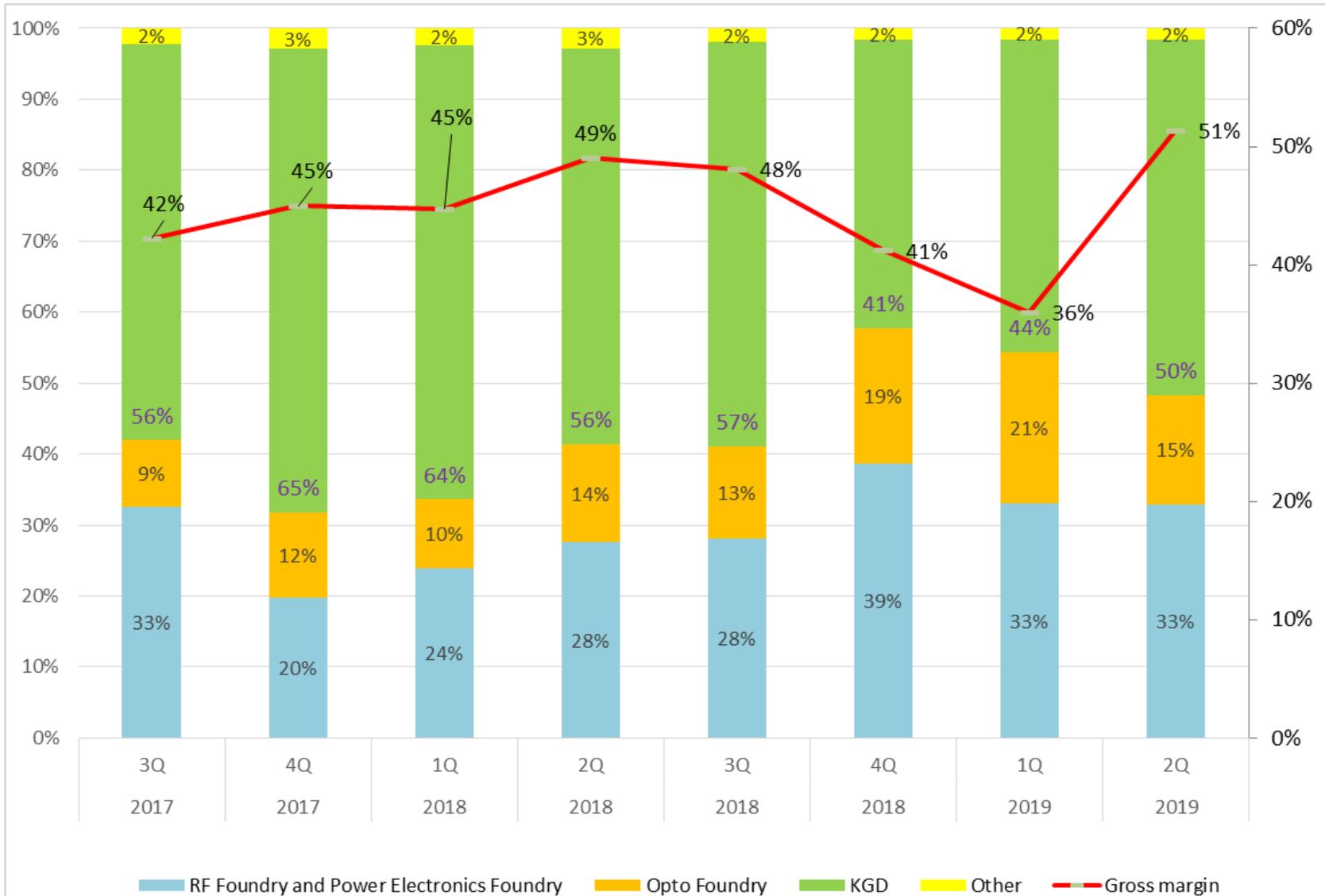
	2Q19	1Q19	2Q18	2Q19 Over 1Q19	2Q19 Over 2Q18
Net Operating Revenue	465,346	377,909	522,665	23.1%	-11.0%
Gross Profit	239,073	136,060	256,217	75.7%	-6.7%
Gross Margin	51.4%	36.0%	49.0%		
Operating Expenses	(129,466)	(122,480)	(135,480)	5.7%	-4.4%
Operating Expenses to Revenue %	27.8%	32.4%	25.9%		
Operating Income	109,607	13,580	120,737	707.1%	-9.2%
Operating Margin	23.6%	3.6%	23.1%		
Non-operating Items	5,408	3,713	3,054	45.7%	77.1%
Income before Income Tax	115,015	17,293	123,791	565.1%	-7.1%
Income Tax	(28,377)	(4,300)	(31,309)	559.9%	-9.4%
Net Income	86,638	12,993	92,482	566.8%	-6.3%
Net Income Attributable to owners of the Parent	88,189	14,742	92,482		
Net Profit Margin	18.6%	3.9%	17.7%		
Basic EPS (NTD)	1.00	0.17	1.16		
Diluted EPS (NTD)	0.99	0.17	1.15		
R&D Expense % to Revenue	9.8%	11.8%	9.4%		

Note 1: 88,501 thousand shares and 89,169 thousand shares were used in basic EPS and diluted EPS calculation for 2Q19 respectively.

Note 2. Revenue supplemental information

	2Q19	1Q19	2Q18	2Q19 Over 1Q19	2Q19 Over 2Q18
Revenue in US\$ thousand	14,961	12,258	17,561	22.05%	-14.8%
Exchange Rate	30.98	30.83	29.54		

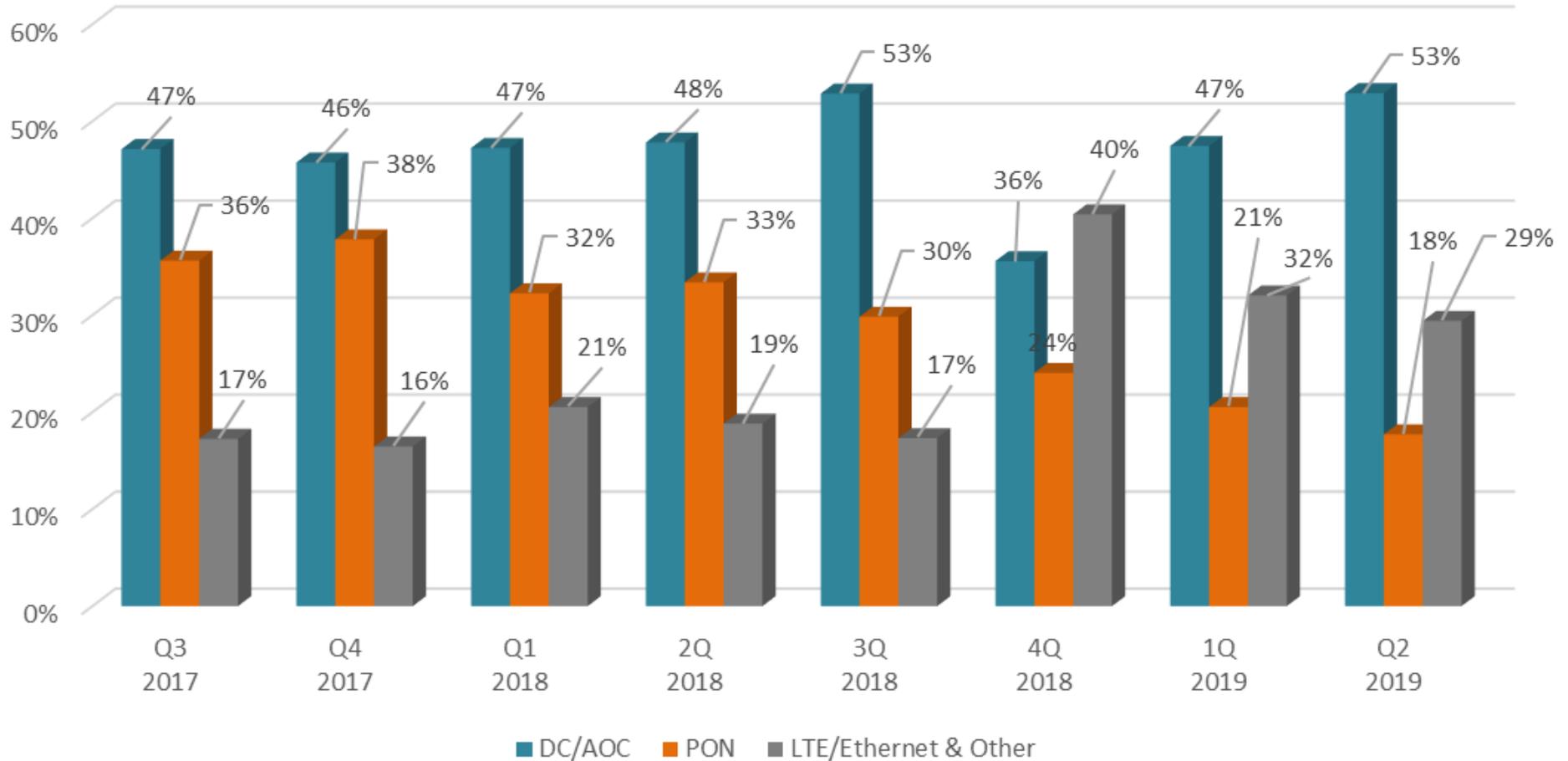
# Revenue Mix % vs Gross Margin - QoQ



# KGD Revenue Mix - QoQ



## KGD Revenue Analysis-By Application



# Non-operating Income and Expenses- QoQ



(in NT\$ thousands)

	2Q19	1Q19	2Q18	2Q19 Over 1Q19	2Q19 Over 2Q18
Other Income	7,103	5,204	2,060	36.5%	244.8%
Other Gains and Losses					
Gain (loss) on disposal of property, plant & equipment	(637)	-	-	-	-
Net currency exchange gain or (loss)	757	(109)	1,833	-794.5%	-58.7%
Others	(528)	-	11	-	-4900.0%
Finance Cost					
Interest expense for convertible bonds (Note)	-	-	(124)	-	-100.0%
Other interest expense	(1,287)	(1,382)	(1,004)	-6.9%	28.2%
Share of profit (loss) of equity-accounted investees	-	-	278	-	-100.0%
<b>Total Non-operating Income and Expenses</b>	<b>5,408</b>	<b>3,713</b>	<b>3,054</b>	<b>45.7%</b>	<b>77.1%</b>

Note: Amortization of discount on convertible bonds

# Statements of Comprehensive Income - YoY



(in NT\$ thousands except EPS)

	2019 Jan to June	%	2018 Jan to June	%	Change (%)
Net Operating Revenue	843,255	100.0%	1,001,685	100.0%	-15.8%
Operating Cost	(468,122)	-55.5%	(531,164)	-53.0%	-11.9%
Gross Profit	375,133	44.5%	470,521	47.0%	-20.3%
Operating Expenses	(251,946)	-29.9%	(259,881)	-25.9%	-3.1%
Operating Income	123,187	14.6%	210,640	21.0%	-41.5%
Non-operating items	9,121	1.1%	1,296	0.1%	603.8%
Income before Income Tax	132,308	15.7%	211,936	21.2%	-37.6%
Income Tax	(32,677)	-3.9%	(35,799)	-3.6%	-8.7%
Net Income	99,631	11.8%	176,137	17.6%	-43.4%
Net Income Attributable to owners of the Parent	102,931	12.2%	176,137	17.6%	-41.6%
Basic EPS (NTD)	1.18		2.22		
Diluted EPS (NTD)	1.17		2.20		
Average Exchange Rate-USD/NTD	30.98		29.54		
R&D expense % to Revenue	10.67%		9.08%		
ROA (%)	5.54%		11.49%		
ROE (%)	6.16%		13.17%		

Note 1: 87,295 thousand shares and 88,113 thousand shares were used in basic EPS and diluted EPS calculation for 1H19, respectively.

Note 2. Revenue supplemental information

	Jan to Jun/2019	Jan to Jun/2018	Change (%)
Revenue in US\$ thousand	27,219	33,909	-19.7%
Exchange Rate	30.98	29.54	

# Non-operating Income and Expenses- YoY



(in NT\$ thousands)

	2019 Jan to June	2018 Jan to June	Change (%)
Other Income	12,307	3,756	227.7%
Other Gains and Losses			
Gain (loss) on disposal of property, plant & equipment	(637)	-	-
Net Gain or (losses) on financial liabilities at fair value through profit or loss	-	2,322	-100.0%
Net currency exchange gain or (loss)	648	(748)	-186.6%
Other loss	(528)	(998)	-47.1%
Finance Cost			
Interest expense for convertible bonds (Note)	-	(870)	-100.0%
Other interest expense	(2,669)	(2,175)	22.7%
Share of profit (loss) of equity-accounted investees	-	9	-100.0%
<b>Total Non-operating Income and Expenses</b>	<b>9,121</b>	<b>1,296</b>	<b>603.8%</b>

Note: Amortization of discount on convertible bonds

# Balance Sheet Highlight & Key Indices



## *Selected Items from Balance Sheet*

(in NT\$ thousands)

	2Q19		1Q19		2Q18	
	Amount	%	Amount	%	Amount	%
Cash and Cash Equivalent	1,771,104	45%	1,709,872	45%	1,365,587	42%
Accounts Receivable and Notes Receivable	291,301	8%	272,740	7%	256,702	8%
Inventory	368,755	9%	340,801	9%	350,986	11%
Financial assets at fair value through other comprehensive income - non current	165,278	4%	164,000	4%	-	0%
Investments accounted for under the Equity Method	-	0%	-	0%	14,620	0%
Net Property, Plant and Equipment	742,591	19%	744,473	19%	688,444	21%
Intangible Assets	204,745	5%	187,268	5%	183,026	6%
Deferred Tax Assets	170,893	5%	169,676	5%	146,946	5%
<b>Total Assets</b>	<b>3,937,172</b>	<b>100%</b>	<b>3,834,670</b>	<b>100%</b>	<b>3,240,866</b>	<b>100%</b>
Short Term Loan	20,000	1%	20,000	1%	20,000	1%
Accounts Payable and Other Payables	260,435	7%	163,812	5%	250,158	8%
Long Term Bank Borrowings - Current Portion	21,469	1%	21,089	1%	20,224	1%
Long Term Bank Loans	47,210	1%	52,255	2%	67,352	2%
Deferred Tax Liabilities	84,838	2%	84,182	2%	37,929	1%
<b>Total Liabilities</b>	<b>483,593</b>	<b>12%</b>	<b>401,404</b>	<b>10%</b>	<b>428,416</b>	<b>13%</b>
<b>Total Stockholders' Equity</b>	<b>3,453,579</b>	<b>88%</b>	<b>3,433,266</b>	<b>90%</b>	<b>2,812,450</b>	<b>87%</b>

## *Key Indices*

Current Ratio	780%	1033%	660%
Debt Ratio	12%	10%	13%
AR Turnover Days	55	59	51
Inventory Turnover Days	161	152	144

# Cash Flows



(in NT\$ thousands)

	2Q19	1Q19	2Q18
<b>Beginning Balance</b>	1,709,872	1,512,863	1,215,937
Cash from Operating Activities	89,146	(7,724)	141,563
Acquisition of financial assets at fair value through other comprehensive income	-	(164,000)	-
Acquisition of property, plant and equipment	(28,682)	(22,209)	(43,185)
Acquisition of intangible assets	(3,573)	(2,184)	(1,004)
Proceeds from Short-term Loan	-	20,000	-
Repayments of Short-term loans	-	(20,300)	-
Principal elements of lease payments	(3,997)	(4,591)	-
Repayments of long-term loans	(4,829)	(5,154)	(4,822)
Repayments of Convertible Bonds	-	-	(2,800)
Employee Option Exercise	-	558	5,670
Cash capital increase- issuance of Global Depository Shares	-	390,555	-
The effect of exchange rate changes	13,523	12,296	54,098
Others	(356)	(238)	130
<b>Ending Balance</b>	1,771,104	1,709,872	1,365,587
<b>Increase (Decrease) in Cash</b>	61,232	197,009	149,650
<b>Free Cash Flow (Note)</b>	60,464	(29,933)	98,378

**Note: Free Cash Flow = Cash from Operating Activities - Capital Expenditures**

# MARKET OVERVIEW

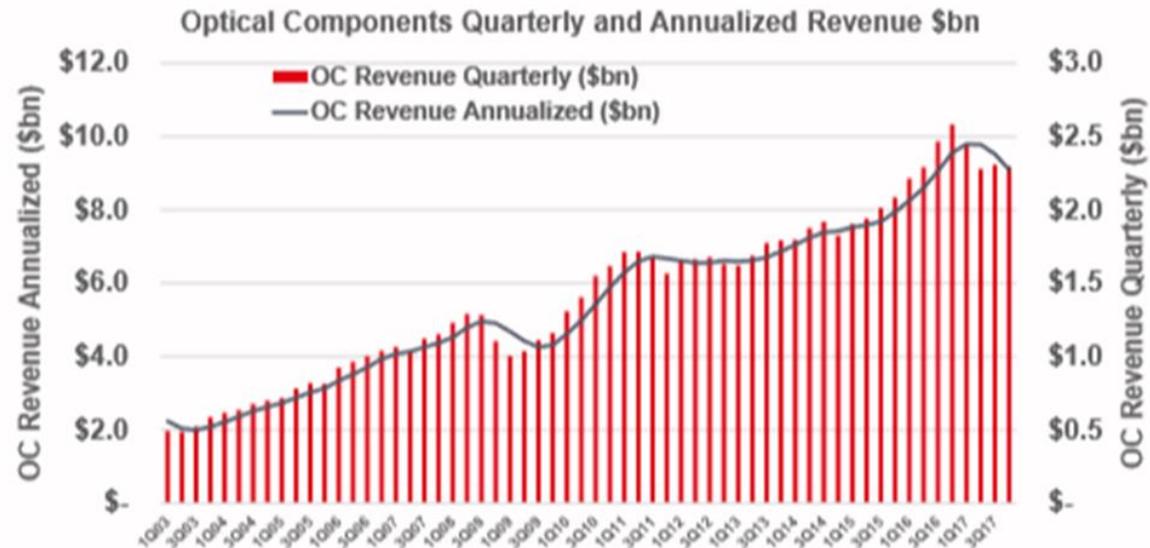
- ❖ 2019 wired broadband users - 1.1B
- ❖ 2019 LTE Mobile broadband users – 4.7B
- ❖ March 2019, 85 countries 204 operators will invest 5G network
- ❖ March 2019, 36 operators have installed 3GPP 5G technologies
- ❖ 100GbE continues to grow with 400GbE initial volume deployment
- ❖ OFC2019 – 400G (DR1, DR4, FR4) (→ 600G) and 5G
- ❖ Consolidation continues (who is next target?)
- ❖ Operators CAPEX is expected to rebound with 3 in China grow by 5.58% (compared to 2018)

# Optical Components Market



Optical Components from the long view perspective: a good run

- Components has doubled since the 2008-09 dip
- 9 year CAGR is 9.0%
- Outpacing:
  - SPSR systems 4.1%
  - ON systems 0.6%
- More to come from the data center construction efforts
- 5G is next in due course



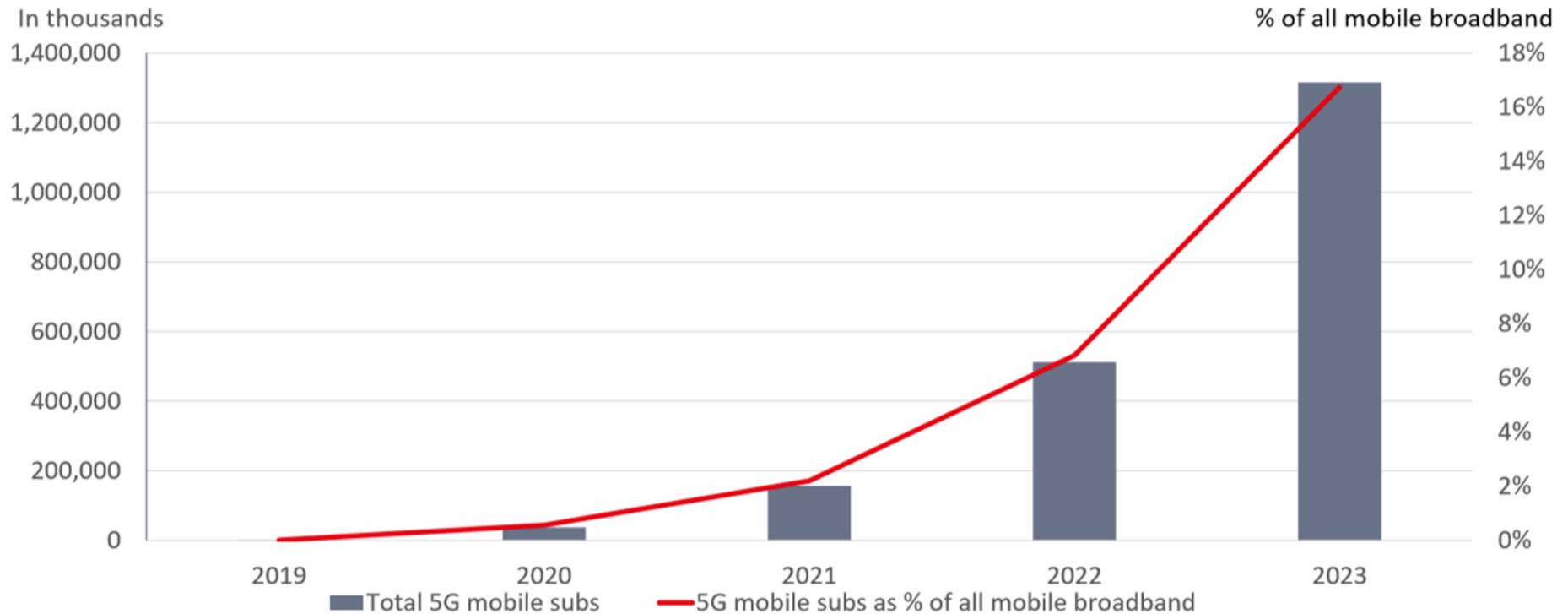
**Optical components: 15 year growth run – CAGR +10% and more to come**



# 5G Mobile



5G mobile subs will surpass a billion in 2023, but still remain a small percent of all mobile broadband subs



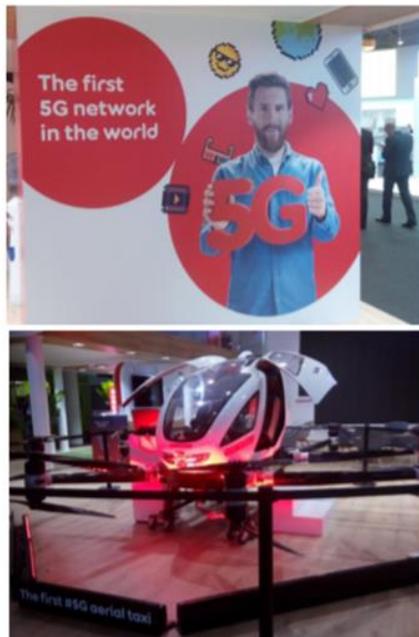
Source Ovum



產業科技國際策略發展所

## Ooredoo展示5G無人空中計程車

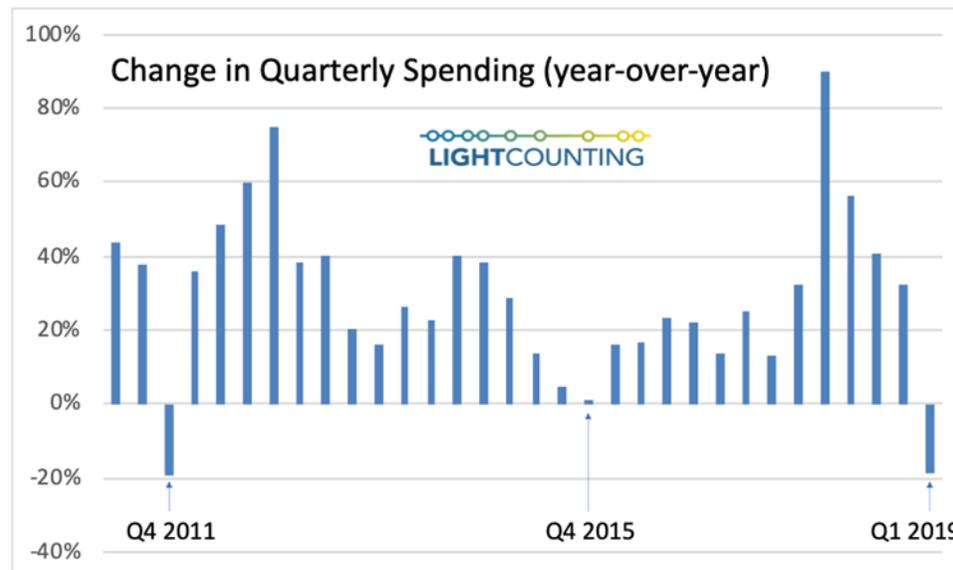
- 卡達的Ooredoo電信於2018年率先在全球推出第一個5G商用網路，用於家用CPE，使用3.5GHz頻段，並於2018.9展示無人空中計程車(使用700MHz)
- 5G網路可避免密集無人計程車發生碰撞，可運用在貨物運送與緊急醫療救護
- 卡達的電信商不須支付頻譜費用，但是必須保證網路覆蓋率，部署成本降低



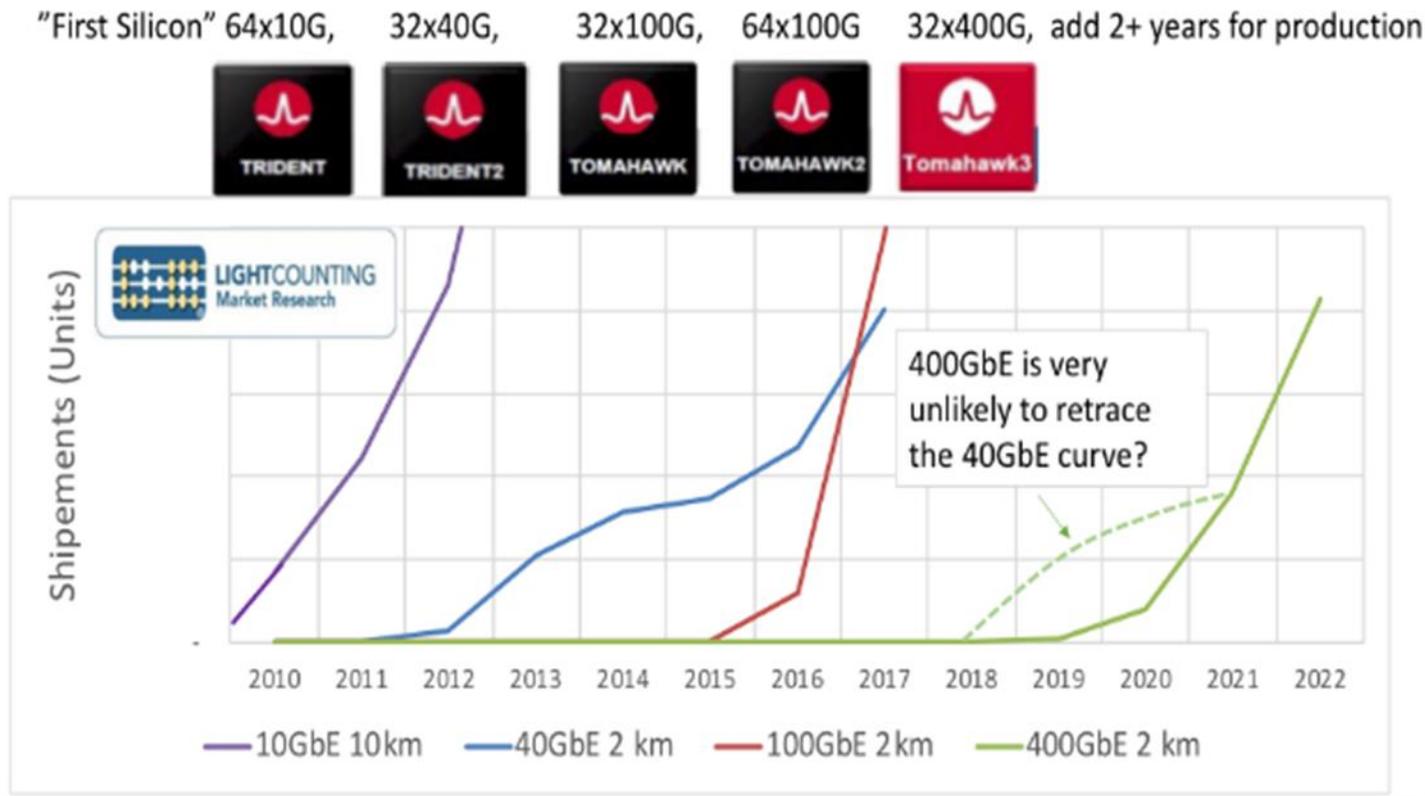
# Data Center



- Combined spending of the top 15 Cloud vendors set a new record of close to \$100 billion in 2018, but a sharp decline in spending reported in Q1 2019.
- Drop in Q4 2011 and Q4 2015 was due to Google spending cut.
- Drop in Q1 2019 – much broad based, Out of the top 15 Cloud companies 9 reported declines in spending including Alibaba, Apple, Microsoft and Tencent.
- The Cloud companies accounted for more than 30% of the global optical transceiver market in 2018



# 400G



LightCounting认为，应用于数据中心的400GbE出货走势将重复100GbE的走势（100GbE在博通首款32\*100G Tomahawk交换芯片出样后的两年即2016年开始攀升）2017年12月，32\*400G Tomahawk ASIC开始出样，因此LightCounting预计400GbE的批量出货将始于2019年12月，并在2020年需求大增。

# Q & A



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