

環宇
芯系天下

**Q3 2019
Quarterly
Online Investor
Conference
(線上法說會)**

Nov 7, 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)

	3Q19	2Q19	3Q18	3Q19 Over 2Q19	3Q19 Over 3Q18
Net Operating Revenue	466,566	465,346	514,359	0.3%	-9.3%
Gross Profit	197,302	239,073	247,314	-17.5%	-20.2%
Gross Margin	42.3%	51.4%	48.1%		
Operating Expenses	(125,676)	(129,466)	(129,046)	-2.9%	-2.6%
Operating Expenses to Revenue %	26.9%	27.8%	25.1%		
Operating Income	71,626	109,607	118,268	-34.7%	-39.4%
Operating Margin	15.4%	23.6%	23.0%		
Non-operating Items	6,432	5,408	(335)	18.9%	-2020.0%
Income before Income Tax	78,058	115,015	117,933	-32.1%	-33.8%
Income Tax	(18,489)	(28,377)	(26,172)	-34.8%	-29.4%
Net Income	59,569	86,638	91,761	-31.2%	-35.1%
Net Income Attributable to owners of the Parent	60,540	88,189	91,761		-34.0%
Net Profit Margin	12.8%	18.6%	17.8%		
Basic EPS (NTD)	0.68	1.00	1.14		
Diluted EPS (NTD)	0.68	0.99	1.14		
R&D Expense % to Revenue	9.6%	9.8%	9.0%		

Note 1: 88,627 thousand shares and 89,373 thousand shares were used in basic EPS and diluted EPS calculation for 3Q19 respectively.

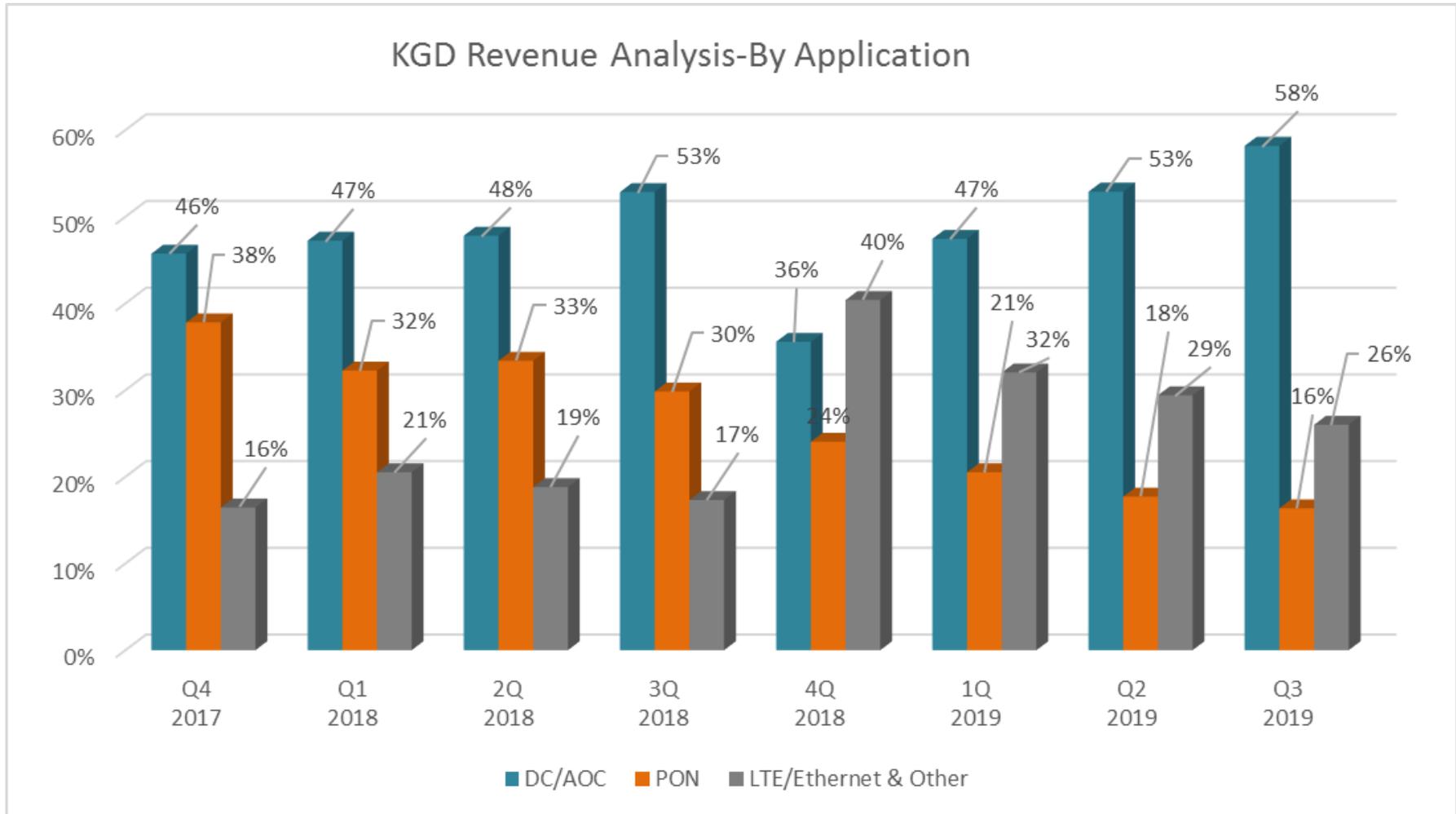
Note 2. Revenue supplemental information

	3Q19	2Q19	3Q18	3Q19 Over 2Q19	3Q19 Over 3Q18
Revenue in US\$ thousand	14,965	14,961	16,760	0.03%	-10.7%
Exchange Rate	31.05	30.98	29.92		

Revenue Mix % vs Gross Margin - QoQ



KGD Revenue Mix - QoQ



Statements of Comprehensive Income - YoY



(in NT\$ thousands except EPS)

	2019 Jan to Sep.	%	2018 Jan to Sep.	%	Change (%)
Net Operating Revenue	1,309,821	100.0%	1,516,044	100.0%	-13.6%
Operating Cost	(737,386)	-56.3%	(798,209)	-52.7%	-7.6%
Gross Profit	572,435	43.7%	717,835	47.3%	-20.3%
Operating Expenses	(377,622)	-28.8%	(388,927)	-25.7%	-2.9%
Operating Income	194,813	14.9%	328,908	21.7%	-40.8%
Non-operating items	15,553	1.2%	961	0.1%	1518.4%
Income before Income Tax	210,366	16.1%	329,869	21.8%	-36.2%
Income Tax	(51,166)	-3.9%	(61,971)	-4.1%	-17.4%
Net Income	159,200	12.2%	267,898	17.7%	-40.6%
Net Income Attributable to owners of the Parent	163,471	12.5%	267,898	17.7%	-39.0%
Basic EPS (NTD)	1.86		3.36		
Diluted EPS (NTD)	1.84		3.32		
Average Exchange Rate-USD/NTD	31.05		29.92		
R&D expense % to Revenue	10.3%		9.1%		
ROA (%)	5.83%		11.6%		
ROE (%)	6.49%		13.1%		

Note 1: 87,811 thousand shares and 88,814 thousand shares were used in basic EPS and diluted EPS calculation for Jan~Sep 2019, respectively.

Note 2. Revenue supplemental information

	Jan to Sep/2019	Jan to Sep/2018	Change (%)
Revenue in US\$ thousand	42,184	50,670	-16.7%
Exchange Rate	31.05	29.92	

Balance Sheet Highlight & Key Indices



Selected Items from Balance Sheet

(in NT\$ thousands)

	3Q19		2Q19		3Q18	
	Amount	%	Amount	%	Amount	%
Cash and Cash Equivalent	1,941,017	48%	1,771,104	45%	1,392,649	42%
Accounts Receivable and Notes Receivable	265,767	7%	291,301	7%	282,434	9%
Inventory	347,914	9%	368,755	9%	327,667	10%
Financial assets at fair value through other comprehensive income - non current	165,171	4%	165,278	4%	-	0%
Net Property, Plant and Equipment	720,514	18%	742,591	19%	711,777	22%
Intangible Assets	202,994	5%	204,745	5%	183,647	5%
Deferred Tax Assets	152,849	4%	170,893	5%	155,701	5%
Total Assets	4,019,261	100%	3,937,172	100%	3,277,729	100%
Short Term Loan	20,000	1%	20,000	1%	20,000	1%
Accounts Payable and Other Payables	278,610	7%	260,435	7%	157,234	5%
Long Term Bank Borrowings - Current Portion	23,576	1%	21,469	1%	20,479	1%
Long Term Bank Loans	49,455	1%	47,210	1%	62,314	2%
Deferred Tax Liabilities	75,699	2%	84,838	2%	55,393	2%
Total Liabilities	493,396	12%	483,593	12%	343,196	10%
Total Stockholders' Equity	3,525,865	88%	3,453,579	88%	2,934,533	90%

Key Indices

Current Ratio	774%	780%	954%
Debt Ratio	12%	12%	10%
AR Turnover Days	51	55	53
Inventory Turnover Days	150	161	140

Cash Flows



(in NT\$ thousands)

	3Q19	2Q19	3Q18
Beginning Balance	1,771,104	1,709,872	1,365,587
Cash from Operating Activities	181,651	89,146	131,052
Acquisition of property, plant and equipment	(10,216)	(28,682)	(48,089)
Acquisition of Subsidiaries	-	-	(2,442)
Acquisition of intangible assets	(13)	(3,573)	(1,466)
Principal elements of lease payments	(3,745)	(3,997)	-
Proceeds from Long-term Loan	10,000	-	-
Repayments of long-term loans	(6,048)	(4,829)	(5,007)
Employee Option Exercise	1,821	-	-
Cash Dividend Paid	-	-	(79,060)
Cash received through merger	-	-	27,263
The effect of exchange rate changes	(1,332)	13,523	4,728
Decrease(Increase) in other non-current assets	(2,204)	-	-
Others	(1)	(356)	83
Ending Balance	1,941,017	1,771,104	1,392,649
Increase (Decrease) in Cash	169,913	61,232	27,062
Free Cash Flow (Note)	171,435	60,464	82,963

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

Non-operating Income and Expenses- QoQ



(in NT\$ thousands)

	3Q19	2Q19	3Q18	3Q19 Over 2Q19	3Q19 Over 3Q18
Other Income	7,184	7,103	1,173	1.1%	512.4%
Other Gains and Losses					
Gain (loss) on disposal of property, plant & equipment	(2)	(637)	-	-99.7%	-
Net currency exchange gain or (loss)	483	757	290	-36.2%	66.6%
Others	(1)	(528)	48	-99.8%	-102.1%
Finance Cost					
Interest expense	(1,232)	(1,287)	(1,081)	-4.3%	14.0%
Share of profit (loss) of equity-accounted investees	-	-	(765)	-	-100.0%
Total Non-operating Income and Expenses	6,432	5,408	(335)	18.9%	-2020.0%

Non-operating Income and Expenses- YoY



(in NT\$ thousands)

	2019 Jan to Sep.	2018 Jan to Sep.	Change (%)
Other Income	19,491	4,929	295.4%
Other Gains and Losses			
Gain (loss) on disposal of property, plant & equipment	(639)	-	-
Net Gain or (losses) on financial liabilities at fair value through profit or loss	-	2,322	-100.0%
Net currency exchange gain or (loss)	1,131	(458)	-346.9%
Other loss	(529)	(950)	-44.3%
Finance Cost			
Interest expense for convertible bonds (Note)	-	(881)	-100.0%
Interest expense	(3,901)	(3,245)	20.2%
Share of profit (loss) of equity-accounted investees	-	(756)	-100.0%
Total Non-operating Income and Expenses	15,553	961	1518.4%

Note: Amortization of discount on convertible bonds

MARKET OVERVIEW

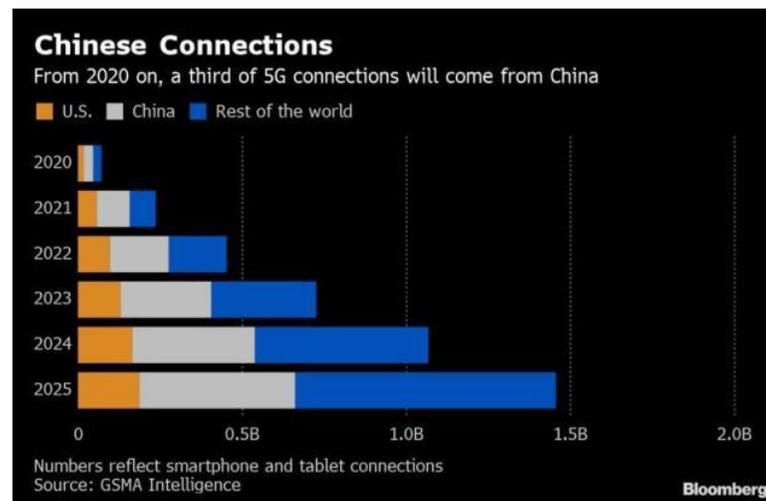
5G Networks Update



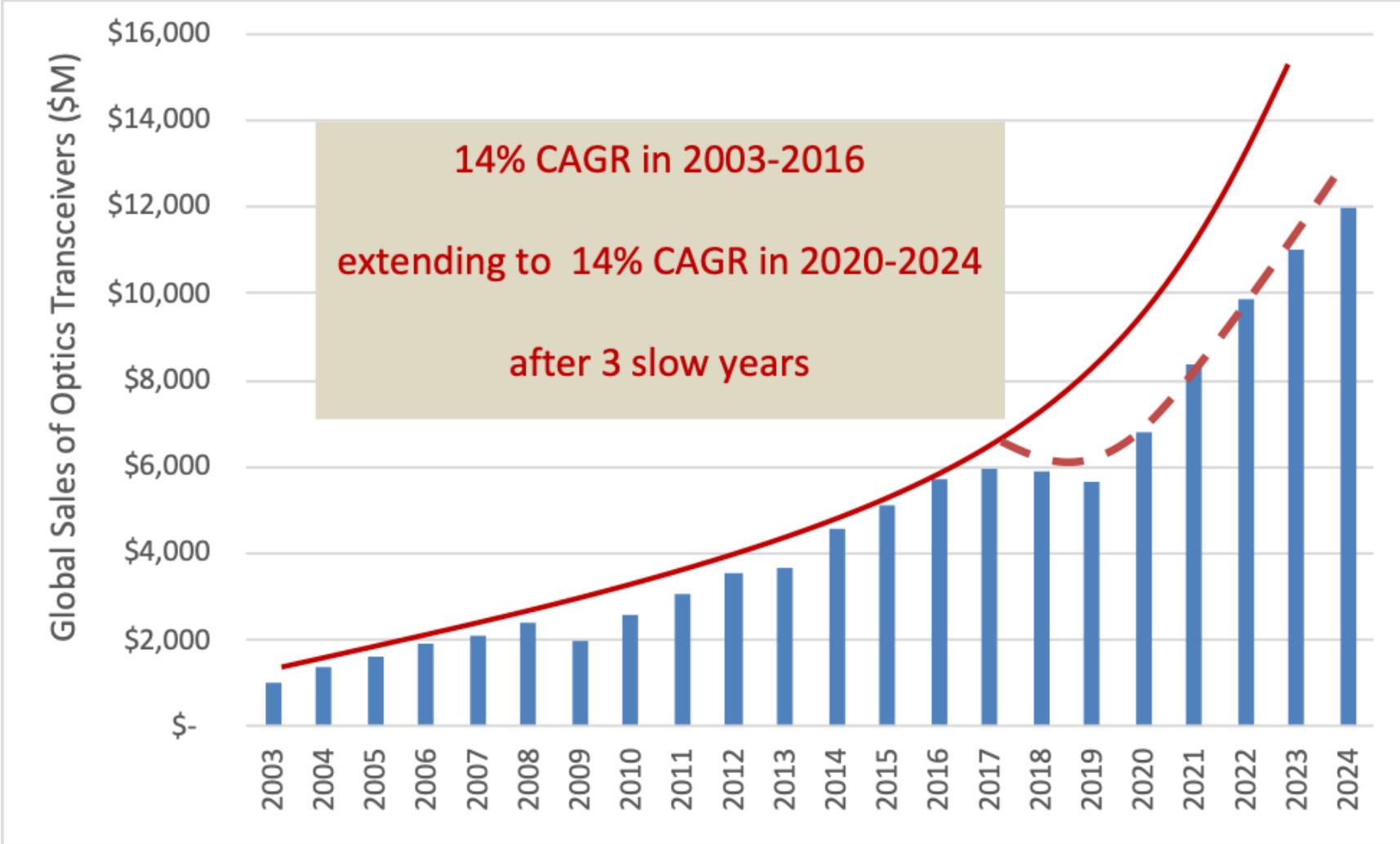
- ❖ Nov 1 – China's 5G Networks go Live!
三大運營商正式上線5G商用套餐

Users of China Mobile can enjoy 5G services in 50 cities in China, including four first-tier cities and many second and third-tier cities including Nanjing in East China's Jiangsu Province and Chengdu in Southwest China's Sichuan Province.

At present, more than 10 million people in China have booked the services, as the three carriers compete to win customers.



Global Optical Transceiver Market Forecast



Source: Lightcounting

- **Deployment of 5G networks**
- **2x200GbE and 400GbE**
- **Price reduction back to 15-20%/year
(35% price reduction in 2018)**

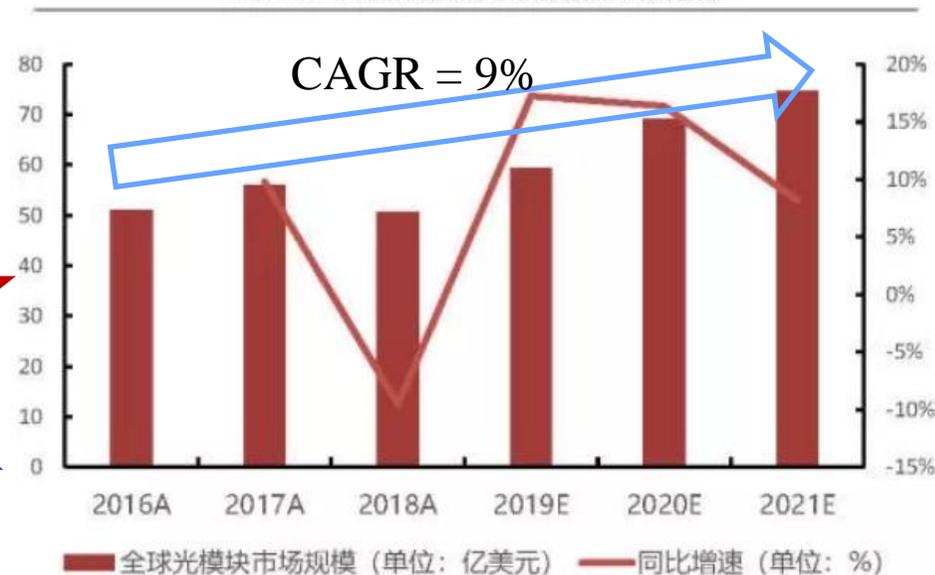
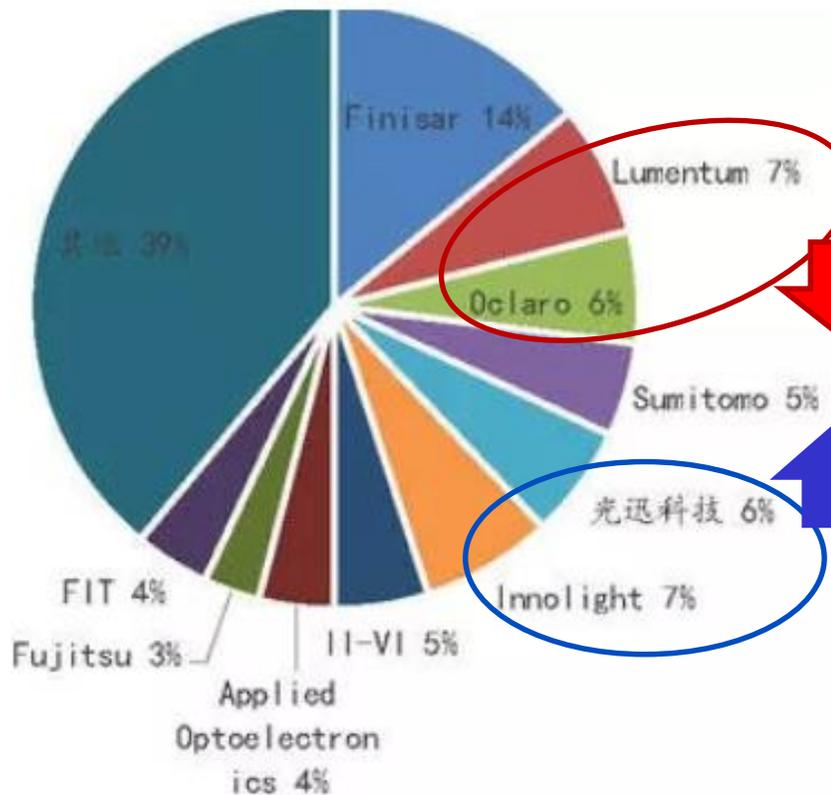


- ★ Gross margin continues eroding
- ★ Technical breakthrough becomes core trend
 - 400G starts production at GCS
 - 800G coming (GCS part)
- ★ Turing point coming for further growth
- ★ Consolidation of Global optical transceiver suppliers
 - Lumentum/Oclaro (2018), (II-VI/Finisar)
- ★ Innolight surpassed Oclaro and AAOI in packaging technologies and revenue
- ★ US suppliers gross margin < 35%:
 - 3 years average gross margin 30.4, 37.4, 33.1 (2018, 2017, 2016)
 - How long these suppliers can hold up?
- ★ Chinese suppliers gross margin: average <23%

Global Optical Transceiver Market - 2



图14: 全球光模块市场规模及增速



数据来源: LightCounting、财通证券研究所整理

智车行家

来源: OIDA Market Update October 2018 智车行家

Global Optical Transceiver Market:
USD\$15B by 2024 (Lightcounting)

Q & A



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**For further inquiry
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