

環宇
芯系天下

**Q1 2019
Quarterly
Online Investor
Conference
(線上法說會)**

May 10, 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

Realizing the Potential:

Brian Ann, CEO & President

Q&A: All

FINANCIAL SECTION

Statements of Comprehensive Income - QoQ



(in NT\$ thousands except EPS)

	1Q19	4Q18	1Q18	1Q19 Over 4Q18	1Q19 Over 1Q18
Net Operating Revenue	377,909	436,367	479,020	-13.4%	-21.1%
Gross Profit	136,060	179,877	214,304	-24.4%	-36.5%
Gross Margin	36.0%	41.2%	44.7%		
Operating Expenses	(122,480)	(121,545)	(124,401)	0.8%	-1.5%
Operating Expenses to Revenue %	32.4%	27.9%	26.0%		
Operating Income	13,580	58,332	89,903	-76.7%	-84.9%
Operating Margin	3.6%	13.4%	18.8%		
Non-operating Items	3,713	2,813	(1,758)	32.0%	-311.2%
Income before Income Tax	17,293	61,145	88,145	-71.7%	-80.4%
Income Tax	(4,300)	(11,454)	(4,490)	-62.5%	-4.2%
Net Income	12,993	49,691	83,655	-73.9%	-84.5%
Net Income Attributable to owners of the Parent	14,742	52,404	83,655		
Net Profit Margin	3.9%	12.0%	17.5%		
Basic EPS (NTD)	0.17	0.65	1.06		
Diluted EPS (NTD)	0.17	0.65	1.05		
R&D Expense % to Revenue	11.8%	11.8%	8.7%		
ROA (%)	1.6%	10.1%	11.4%		
ROE (%)	1.6%	11.4%	12.9%		

Note 1: 86,066,463 shares and 86,757,930 shares were used in basic EPS and diluted EPS calculation for 1Q19, respectively.

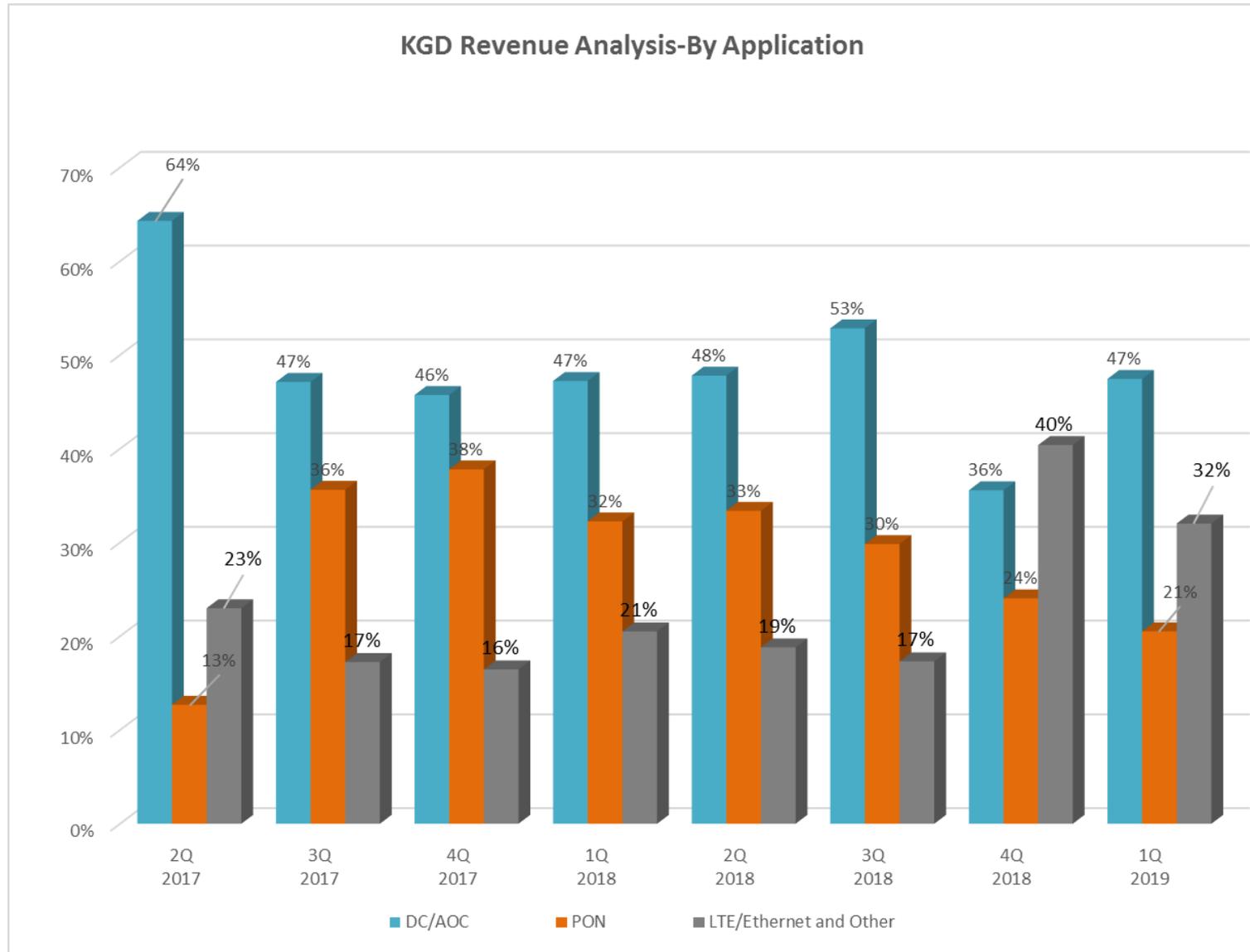
Note 2. Revenue supplemental information

	1Q19	4Q18	1Q18	1Q19 Over 4Q18	1Q19 Over 1Q18
Revenue in US\$ thousand	12,258	14,087	16,349	-12.98%	-25.0%
Exchange Rate	30.83	30.15	29.3		

Revenue Mix % vs Gross Margin - QoQ



KGD Revenue Mix - QoQ



Non-operating Income and Expenses- QoQ



(in NT\$ thousands)

	1Q19	4Q18	1Q18	1Q19 Over 4Q18	1Q19 Over 1Q18
Other Income	5,204	2,642	1,696	97.0%	206.8%
Other Gains and Losses					
Net Gain or (losses) on financial liabilities at fair value through profit or loss	-	-	2,322	-	-100.0%
Net currency exchange gain or (loss)	(109)	1,981	(2,581)	-105.5%	-95.8%
Others	-	(799)	(1,009)	-100.0%	-100.0%
Finance Cost					
Interest expense for convertible bonds (Note)	-	-	(746)	-	-100.0%
Other interest expense	(1,382)	(1,011)	(1,171)	36.7%	18.0%
Share of profit of equity-accounted investees	-	-	(269)	-	-100.0%
Total Non-operating Income and Expenses	3,713	2,813	(1,758)	32.0%	-311.2%

Note: Amortization of discount on convertible bonds

Balance Sheet Highlight & Key Indices



Selected Items from Balance Sheet

(in NT\$ thousands)

	1Q19		4Q18		1Q18	
	Amount	%	Amount	%	Amount	%
Cash and Cash Equivalent	1,709,872	45%	1,512,863	44%	1,215,937	40%
Accounts Receivable and Notes Receivable	272,740	7%	212,933	6%	267,580	9%
Inventory	340,801	9%	330,694	10%	331,345	11%
Non-current financial assets at fair value through other comprehensive income	164,000	4%	-	0%	-	0%
Investments accounted for under the Equity Method	-	0%	-	0%	14,459	1%
Net Property, Plant and Equipment	744,473	19%	723,641	21%	668,747	22%
Deferred Tax Assets	169,676	5%	171,323	5%	161,511	5%
Intangible Assets	187,268	5%	185,489	6%	176,343	6%
Total Assets	3,834,670	100%	3,402,284	100%	3,020,462	100%
Short Term Loan	20,000	1%	20,300	1%	20,000	1%
Accounts Payable and Other Payables	163,812	5%	183,703	5%	158,624	5%
Bond Payable - Current Portion	-	0%	-	0%	2,777	0%
Long Term Bank Borrowings - Current Portion	21,089	1%	20,818	1%	19,134	1%
Long Term Bank Loans	52,255	2%	57,424	2%	69,275	3%
Deferred Tax Liabilities	84,182	2%	84,451	2%	38,604	1%
Total Liabilities	401,404	10%	389,499	11%	359,435	12%
Total Stockholders' Equity	3,433,266	90%	3,012,785	89%	2,661,027	88%

Key Indices

Current Ratio	1033%	894%	756%
Debt Ratio	10%	11%	12%
AR Turnover Days	59	48	54
Inventory Turnover Days	152	140	140

Cash Flows



(in NT\$ thousands)

	1Q19	4Q18	1Q18
Beginning Balance	1,512,863	1,392,649	1,119,712
Cash from Operating Activities	(7,724)	161,850	149,134
Acquisition of financial assets at fair value through other comprehensive income	(164,000)	-	-
Acquisition of property, plant and equipment	(22,209)	(39,269)	(25,452)
Acquisition of intangible assets	(2,184)	(2,079)	(648)
Proceeds from short-term loan	20,000	-	-
Repayments of short-term loans	(20,300)	-	-
Principal elements of lease payments	(4,591)	-	-
Prepayments paid	-	(5,792)	-
Repayments of long-term loans	(5,154)	(5,085)	(4,707)
Employee option exercise	558	29	221
Cash capital increase- issuance of Global Depositary Shares	390,555	-	-
The effect of exchange rate changes	12,296	10,748	(22,323)
Others	(238)	(188)	-
Ending Balance	1,709,872	1,512,863	1,215,937
Increase (Decrease) in Cash	197,009	120,214	96,225
Free Cash Flow (Note)	(29,933)	122,581	123,682

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

MARKET OVERVIEW

- ❖ Slower than expected growth in 2017-2018
- ❖ CAGR of 14% from 2003-2016
- ❖ 2019 – still slow, but 2H is better than 1H
- ❖ What is the CAGR going forward to 2024?
- ❖ What it takes to drive growth:
 - Deployment of 400G (8x50, 2x200 or 4x100) Ethernet modules (need reliable supply chain)
 - Transceiver price decline slows down (5% to 38% in 2011-2018)
 - Roll out of 5G networks, especially in China (wireless back-haul and front-haul)
 - No more trade-war (Trump please)
 - Too many players, especially in China with small volume – driving price decline
 - Limit # of new generation products (too many form-factors: 100G, 200G, 400G...)

5G is coming sooner than expected?



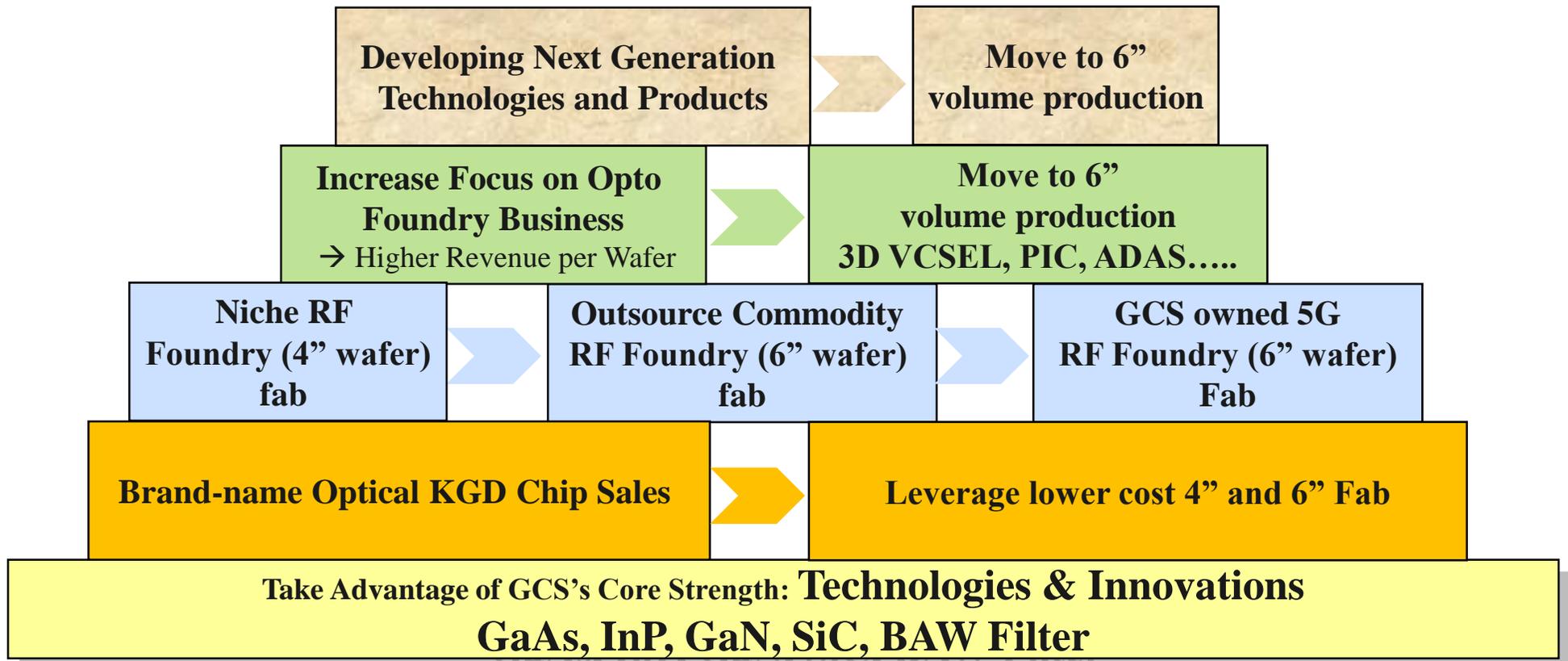
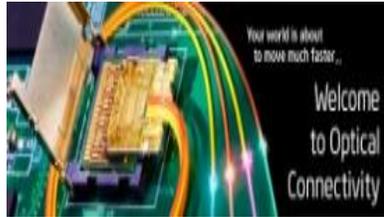
- ❖ Huawei – 40 5G network construction as of April 2019 (6 in Asia Pacific, 10 in Middle East, 23 in Europe)
- ❖ Verizon activated 5G fixed wireless mobile broadband network (Chicago and Minneapolis) – April 3, 2019
- ❖ Commercial launch of 5G mobile services by SK Telecom, KT and LG Uplus – April 7, 2019
- ❖ Samsung began sales of 5G-enabled Galaxy S10
- ❖ 5G – two worlds:
 - China: follow the same foot step as 4G LTE (abrupt market dislocation)
 - ROW (investment is driven by market force): slow-motion evolution - only deployed for distinctly different use cases

Customer and Technology Activities



- ❖ Data Center momentum continuing – 100G in volume and 200G/400G starts production
- ❖ Major customers evaluating GCS 25G VCSEL (for 100G/200G/400G)
- ❖ In discussion with major customers on GaN 6" production for base stations
- ❖ SMART BAW process in final development with strategic customers and move to 6" fab
- ❖ 3D sensing VCSELS qualified → move to 6" fab
- ❖ PIC customers in 6" production
- ❖ Several automotive Advanced Driver Assistance Systems (ADAS) customers in development phase

Growth Strategies



Realizing the Potential

Status of the Industry



- ❖ The compound semiconductor (CS) industry revenue is dominated by IDM's.
- ❖ The foundry is not yet an industry as WIN is the only game in town.
 - The foundry service option is limited
 - The fabless cannot grow to become giants like Qualcomm in the silicon world.
 - The IDM's has to bear the burden of their internal fabs.

Future Growth Opportunities



Smart Devices



3D Sensing,
Power Amplifiers,
Filters

Smarter and Greener Vehicles



Lasers, Detectors,
Power Converters
WiFi

5G Networks



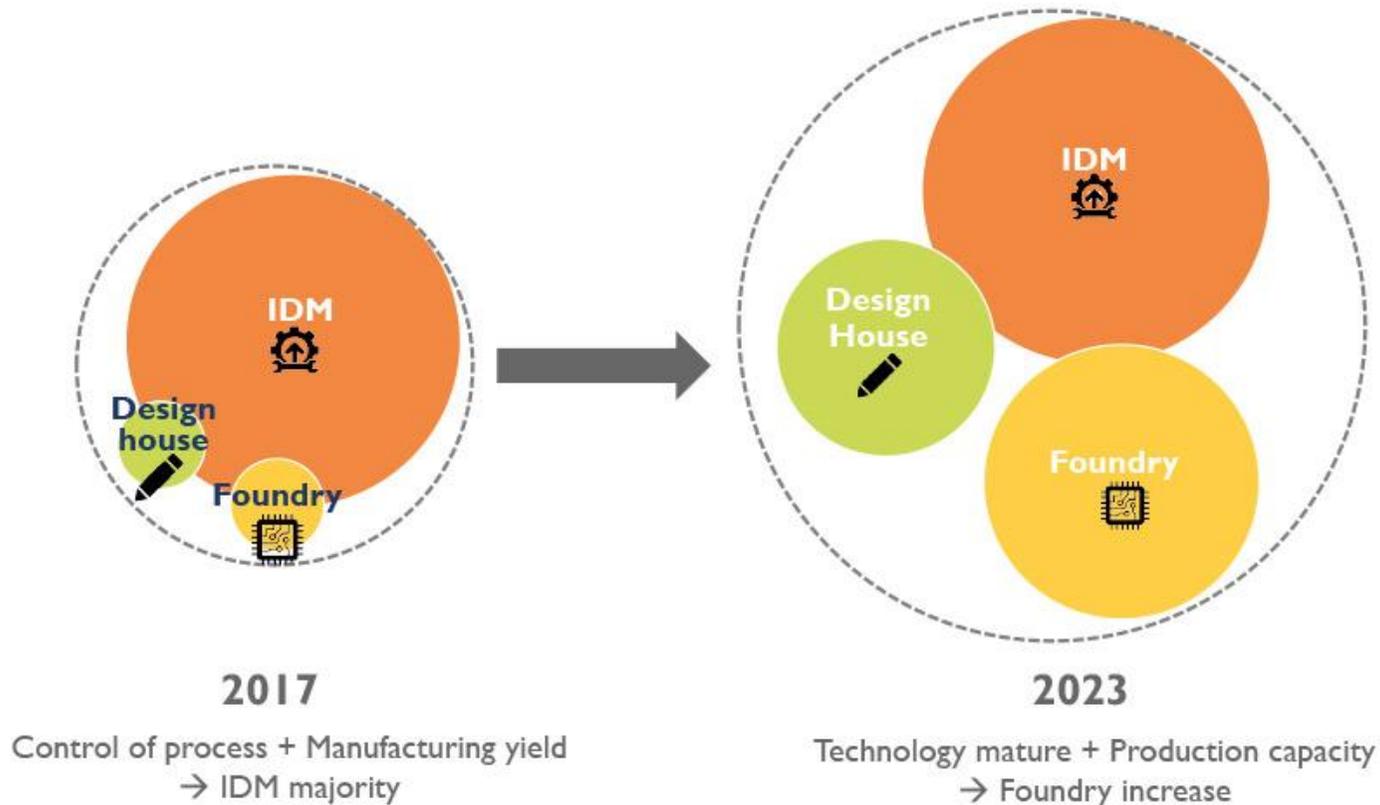
Power Amplifiers,
Filters, optical components,
Antenna Switches

The Business Model Must Evolve



Business model comparison: Integrated Device Manufacturer vs. foundry

(Source: RF GaN Market: Applications, Players, Technology, and Substrates 2018-2023,
Yole Développement, January 2018)



Evolving CS Foundry to Support Growth



- ❖ Offering all customers a viable second foundry option like the silicon foundry industry
 - Driving efficiency and cost
 - Driving technologies
- ❖ Growing foundry market size together by increasing IDMs' outsourcing
 - Creating the CS fabless giants like Qualcomm, Broadcom, nVidia in silicon
 - Releasing IDM's burden and inefficiency
- ❖ Why GCS?

	WIN	GCS
Brand Name	X	X
Technology	X	X
Customer base	X	X
Capacity	X	
Team	X	X



- ❖ Trade war will (continue to) be a fact of life.
- ❖ China will be driving the 5G.
- ❖ Self-driving car is not “if” but “when”.
- ❖ Removing the capacity constraints to capture the growth opportunities
 - Continue US HQ as the technology center and the base for low-volume, high ASP manufacturing.
 - Build capacities in Taiwan and China for high-volume manufacturing.
 - Offer GCS customers the flexibility to meet their end-customers’ supplier logistics requirements.
- ❖ Grow the CS foundry business with other players TOGETHER.

Q & A



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**For further inquiry
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