

環宇
芯系天下

**Q3 2020
Quarterly
Online Investor
Conference
(線上法說會)**

Nov 09, 2020



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, Senior Director & Special Assistant to
CEO

Market Overview:

Simon Yu, Senior VP and Spokesperson

Q&A: All



FINANCIAL SECTION

Statements of Comprehensive Income - QoQ



(in NT\$ thousands except EPS)

	3Q20	2Q20	3Q19	3Q20 Over 2Q20	3Q20 Over 3Q19
Net Operating Revenue	358,437	412,013	466,566	-13.0%	-23.2%
Gross Profit	146,995	187,826	197,302	-21.7%	-25.5%
Gross Margin	41.0%	45.6%	42.3%		
Operating Expenses	(107,418)	(101,990)	(125,676)	5.3%	-14.5%
Operating Expenses to Revenue %	30.0%	24.8%	26.9%		
Operating Income	39,577	85,836	71,626	-53.9%	-44.7%
Operating Margin	11.0%	20.8%	15.4%		
Non-operating Items	(65,119)	(60,495)	6,432	7.6%	-1112.4%
Income (Loss) before Income Tax	(25,542)	25,341	78,058	-200.8%	-132.7%
Income Tax	(8,833)	(19,391)	(18,489)	-54.4%	-52.2%
Net Income (Loss)	(34,375)	5,950	59,569	-677.7%	-157.7%
Net Income (Loss) Attributable to owners of the Parent	(34,375)	5,950	60,540		
Net Profit Margin	-9.6%	1.4%	12.8%		
Basic EPS (NTD)	(0.39)	0.07	0.68		
Diluted EPS (NTD)	(0.39)	0.07	0.68		
R&D Expense % to Revenue	14.2%	10.2%	9.6%		

Note 1: 89,183 thousand shares and 89,183 thousand shares were used in basic EPS and diluted EPS calculation for 3Q20, respectively.

Note 2. Revenue supplemental information

	3Q20	2Q20	3Q19	3Q20 Over 2Q20	3Q20 Over 3Q19
Revenue in US\$ thousand	12,179	13,779	14,965	-11.61%	-18.6%
Exchange Rate	29.82	30.00	31.05		

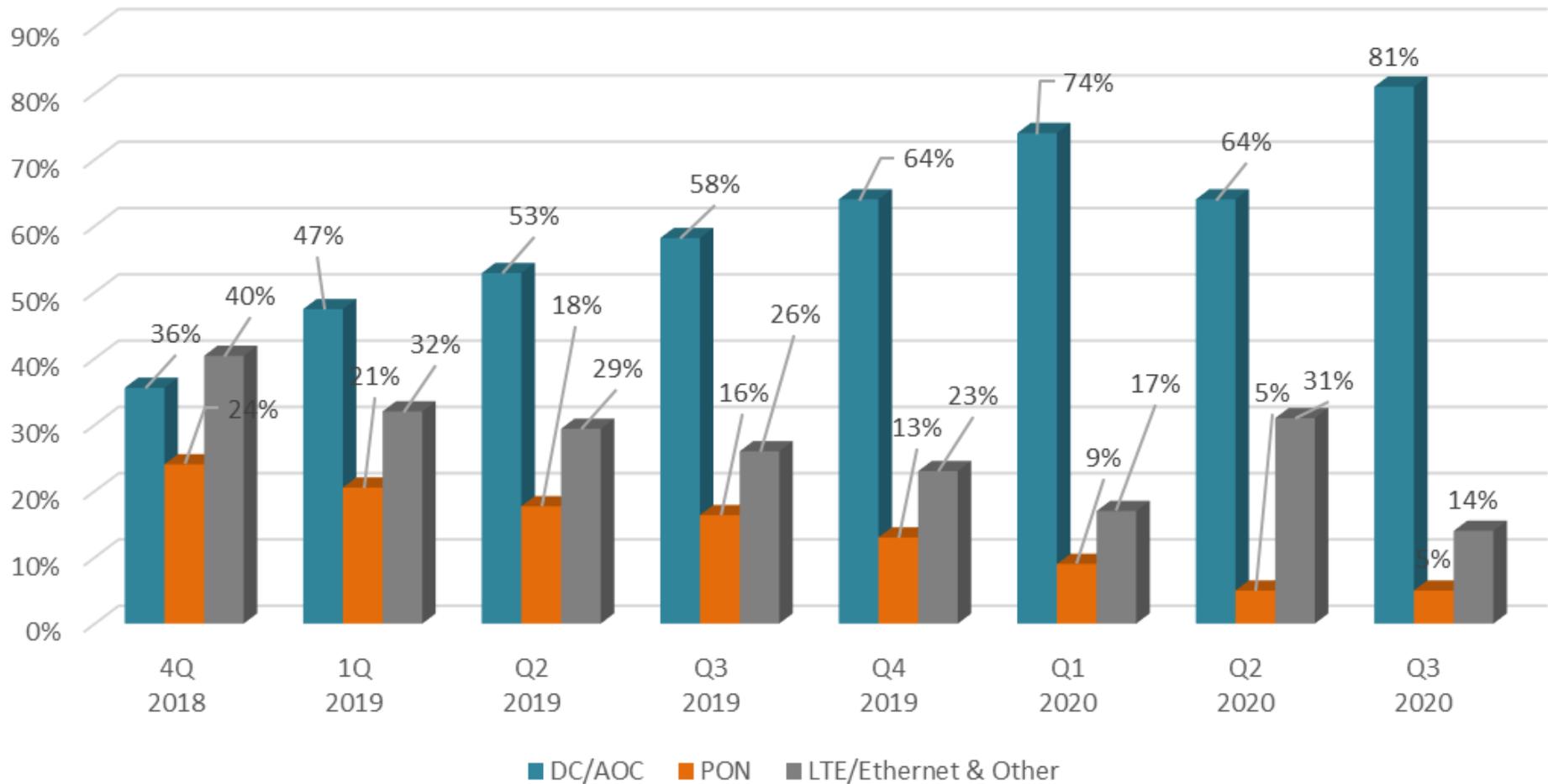
Revenue Mix % vs Gross Margin - QoQ



KGD Revenue Mix - QoQ



KGD Revenue Analysis-By Application



Non-operating Income and Expenses- QoQ



(in NT\$ thousands)

	3Q20	2Q20	3Q19	3Q20 Over 2Q20	3Q20 Over 3Q19
Other Income	2,142	3,123	7,184	-31.4%	-70.2%
Other Gains and Losses					
Net currency exchange gain or (loss)	(2,519)	(650)	483	287.5%	-621.5%
Gain (loss) on disposal of property, plant and equipment	(2)	-	(2)	-	0.0%
Liquidation losses on disposal of a subsidiary	-	(188)	-	-100.0%	-
Gain (loss) on disposal of investments	1,967	-	-	-	-
Others	(778)	(1,873)	(1)	-58.5%	77700%
Finance Cost					
Interest expense	(778)	(855)	(1,232)	-9.0%	-36.9%
Share of profit (loss) of equity-accounted investees	(65,151)	(60,052)	-	8.5%	-
Total Non-operating Income and Expenses	(65,119)	(60,495)	6,432	7.6%	-1112.4%

Statements of Comprehensive Income - YoY



(in NT\$ thousands except EPS)

	2020 Jan to Sep.	%	2019 Jan to Sep.	%	Change (%)
Net Operating Revenue	1,137,802	100.0%	1,309,821	100.0%	-13.1%
Operating Cost	(643,083)	-56.5%	(737,386)	-56.3%	-12.8%
Gross Profit	494,719	43.5%	572,435	43.7%	-13.6%
Operating Expenses	(319,102)	-28.0%	(377,622)	-28.8%	-15.5%
Operating Income	175,617	15.4%	194,813	14.9%	-9.9%
Non-operating items	(161,054)	-14.2%	15,553	1.2%	-1135.5%
Income before Income Tax	14,563	1.3%	210,366	16.1%	-93.1%
Income Tax	(40,433)	-3.6%	(51,166)	-3.9%	-21.0%
Net Income (Loss)	(25,870)	-2.3%	159,200	12.2%	-116.3%
Net Income (Loss) Attributable to Owners of the Parent	(25,948)	-2.3%	163,471	12.5%	-115.9%
Basic EPS (NTD)	(0.29)		1.86		
Diluted EPS (NTD)	(0.29)		1.84		
Average Exchange Rate-USD/NTD	29.82		31.05		
R&D expense % to Revenue	12.1%		10.3%		
ROA (%)	-0.80%		5.98%		
ROE (%)	-0.97%		6.68%		

Note 1: 89,052 thousand shares and 89,052 thousand shares were used in basic EPS and diluted EPS calculation for Jan~Sep 2020, respectively.

Note 2. Revenue supplemental information

	Jan to Sep/2020	Jan to Sep/2019	Change (%)
Revenue in US\$ thousand	38,156	42,184	-9.5%
Exchange Rate	29.82	31.05	

Non-operating Income and Expenses- YoY



(in NT\$ thousands)

	2020 Jan to Sep.	2019 Jan to Sep.	Change (%)
Other Income	11,513	19,491	-40.9%
Other Gains and Losses			
Net currency exchange gain or (loss)	(2,708)	1,131	-339.4%
Gain (loss) on disposal of property, plant and equipment	211	(639)	-133.0%
Liquidation losses on disposal of a subsidiary	(188)	-	-
Gain (loss) on disposal of investments	1,967	-	-
Other loss	(2,738)	(529)	417.6%
Finance Cost			
Interest expense	(2,627)	(3,901)	-32.7%
Share of profit (loss) of equity-accounted investees	(166,484)	-	-
Total Non-operating Income and Expenses	(161,054)	15,553	-1135.5%

Balance Sheet Highlight & Key Indices



Selected Items from Balance Sheet

(in NT\$ thousands)

	3Q20		2Q20		3Q19	
	Amount	%	Amount	%	Amount	%
Cash and Cash Equivalent	1,146,721	28%	1,113,221	27%	1,941,017	48%
Accounts Receivable and Notes Receivable	190,908	5%	218,338	5%	265,767	7%
Inventory	365,119	9%	368,263	9%	347,914	9%
Financial assets at fair value through other comprehensive income - non current	-	0%	-	0%	165,171	4%
Other current assets	176,520	4%	179,531	4%	94,125	2%
Investments accounted for under the Equity Method	1,088,059	27%	1,133,230	27%	-	0%
Net Property, Plant and Equipment	730,225	18%	768,824	19%	720,514	18%
Intangible Assets	187,197	4%	192,172	5%	202,994	5%
Deferred Tax Assets	117,134	3%	119,150	3%	152,849	4%
Total Assets	4,084,299	100%	4,148,480	100%	4,019,261	100%
Short Term Loan	20,000	1%	20,000	1%	20,000	1%
Accounts Payable and Other Payables	181,921	4%	190,813	4%	278,610	7%
Long Term Bank Borrowings - Current Portion	23,066	1%	23,233	1%	23,576	1%
Long Term Bank Loans	115,114	3%	123,053	3%	49,455	1%
Deferred Tax Liabilities	69,898	2%	71,171	2%	75,699	2%
Total Liabilities	438,791	11%	459,471	11%	493,396	12%
Total Stockholders' Equity	3,645,508	89%	3,689,009	89%	3,525,865	88%

Key Indices

Current Ratio	781%	740%	774%
Debt Ratio	11%	11%	12%
AR Turnover Days	62	64	51
Inventory Turnover Days	177	177	150

Cash Flows



(in NT\$ thousands)

	<u>3Q20</u>	<u>2Q20</u>	<u>3Q19</u>
Beginning Balance	1,113,221	1,448,840	1,771,104
Cash from Operating Activities	56,678	92,138	181,651
Acquisition of investments accounted for under the equity method	-	(464,693)	-
Acquisition of property, plant and equipment	(2,724)	(35,267)	(10,216)
Decrease (Increase) in other current assets	905	553	-
Decrease(Increase) in other non-current assets	(165)	5,843	(2,204)
Acquisition of intangible assets	(79)	(720)	(13)
Refund of investment from the liquidation of a subsidiary	-	5,924	-
Proceed from long-term loan	-	94,159	10,000
Repayments of long-term loans	(5,700)	(5,725)	(6,048)
Principal elements of lease payments	(1,446)	(1,714)	(3,745)
Employee Option Exercise	5,325	-	1,821
The effect of exchange rate changes	(19,373)	(26,117)	(1,332)
Others	79	-	(1)
Ending Balance	1,146,721	1,113,221	1,941,017
Increase (Decrease) in Cash	33,500	(335,619)	169,913
Free Cash Flow (Note)	53,954	56,871	171,435

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

MARKET OVERVIEW

2020 Optical Communication Market



- ❖ 5G deployment, COVID-19 boosted network bandwidth demand
- ❖ BUT Businesses and Consumers: no extra money to buy more bandwidth
- ❖ Service providers revenue deteriorate starting mid 2020 → curb spending
- ❖ Ciena, Cisco, Intel sharply lower outlook
- ❖ When solid economic recovery? 2021?
- ❖ All market segments down except optical interconnects (AOC) – 13% CAGR 2020-2025
- ❖ 400G and higher speed modules will take a bit longer
- ❖ FTTx, Wireless fronthaul and backhaul also forecasted lower by LC – delay of 5G deployment in US and Europe, China becomes conservative in upgrading network to 10G PON due to US sanction on Huawei

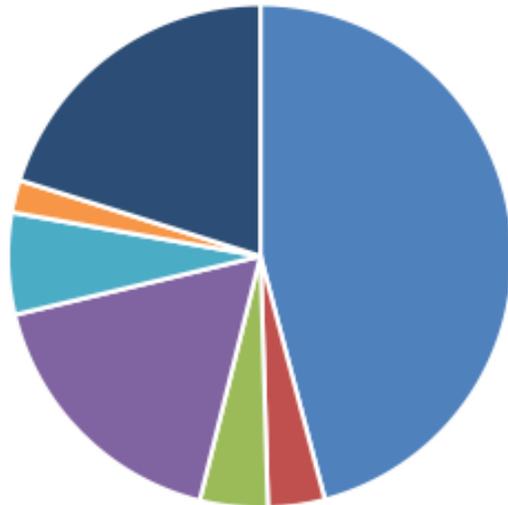
Optical Communication Market: 2016 vs 2025



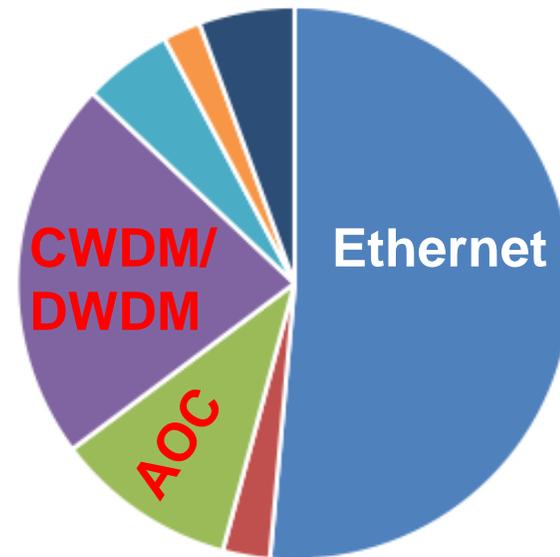
2016: \$5.7 Billion



2025: 11.3 Billion



- Ethernet
- Fibre Channel
- Optical Interconnects
- CWDM / DWDM
- Wireless Fronthaul
- Wireless Backhaul
- FTTx

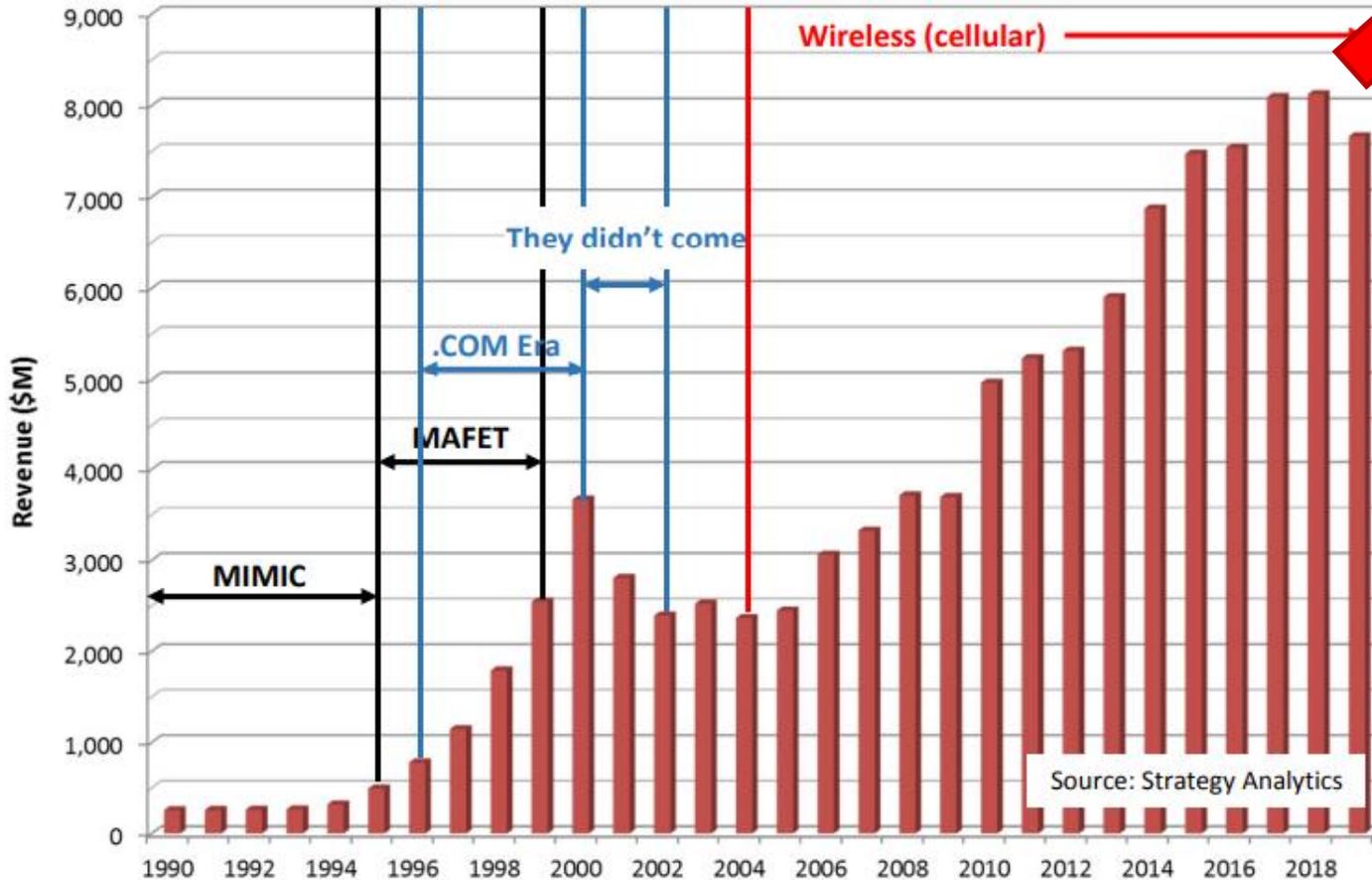


RF GaAs Market



STRATEGYANALYTICS

How Did We Get Here (in the GaAs Market)?



Strategic Component Applications Group

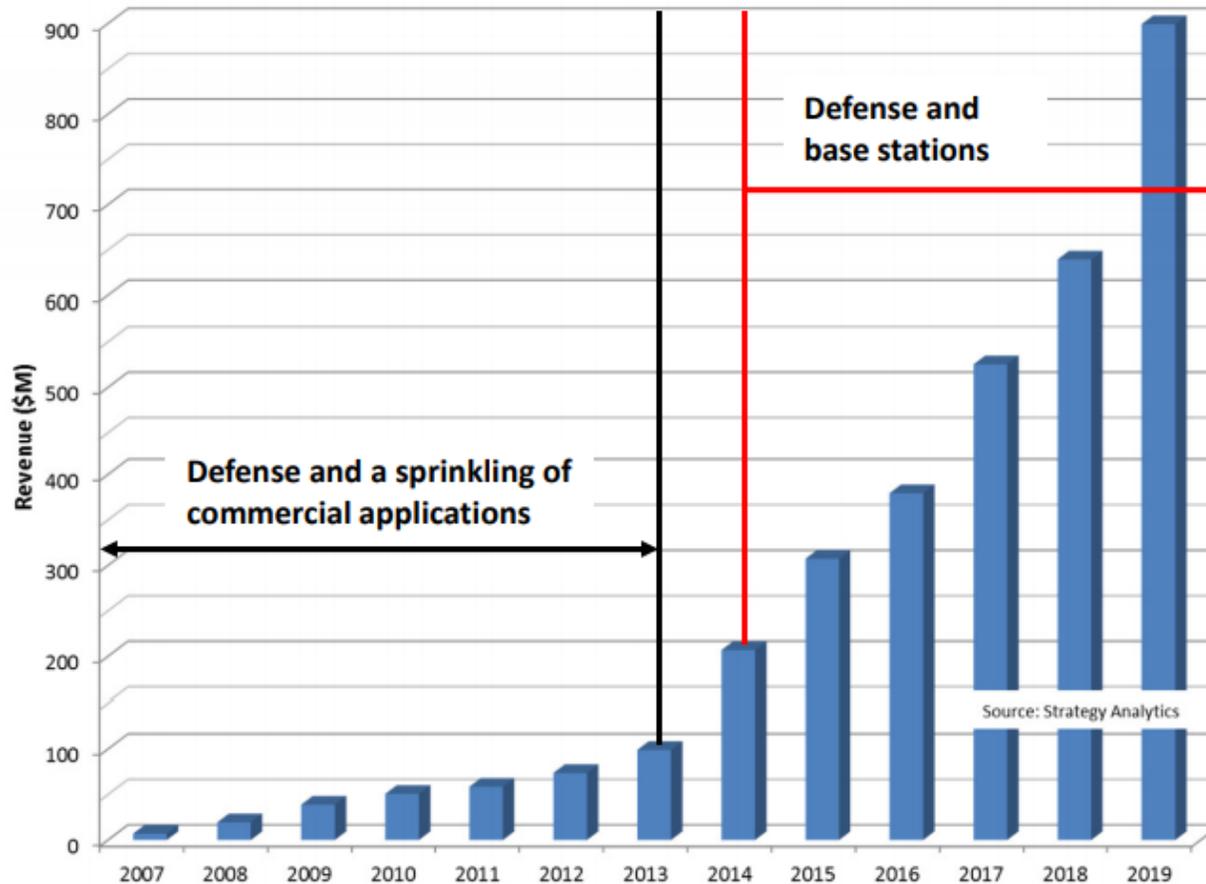
RF GaN Market



STRATEGYANALYTICS



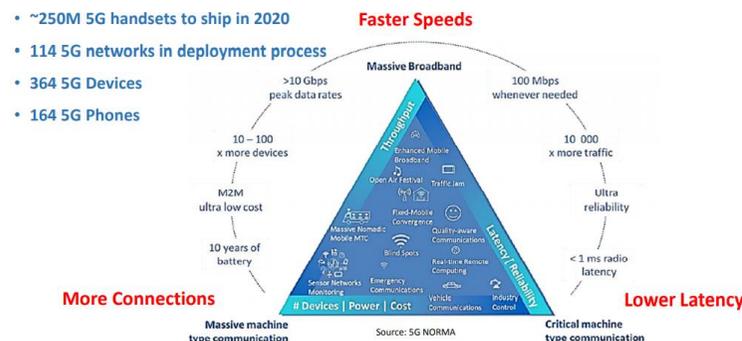
How Did We Get Here (in the GaN Market)?



RF Market Outlook



- Global RF front end module market: CAGR 12% 2014-2019.
- Cellular will continue dominate GaAs market
Base station and defense applications dominate GaN (GaN/Si or GaN/SiC)
- 5G and post-COVID life → drive data traffic growth (both optical and wireless)
IP data CAGR: 30% total, 80% mobile
- Post COVID-19 → whole world deploy infrastructure investment to drive economy?
- GaAs market will bounce back strongly due to 5G handset deployments
- GaN market will grown quickly due to 5G base station deployments



Q & A



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**For further inquiry
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