



Leading  
Global Communications  
**SEMICONDUCTORS**



# **WIN** Semiconductors

*Wireless • Information • Networking*

Company Presentation

September 2014



# Safe Harbor Notice

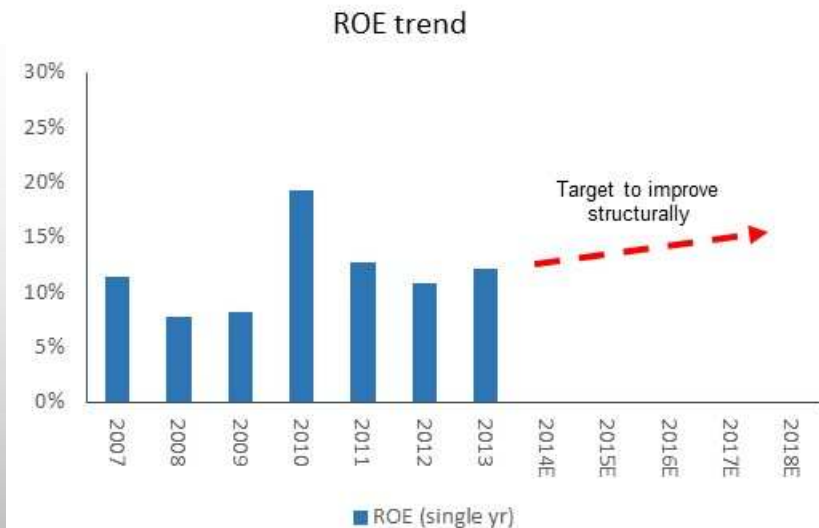


- *This presentation contains certain forward-looking statements that are based on current business expectations and are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements.*
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# A WINer on the Big Data Trend



- **Our goal.** We see the global mobile data demand as rising structurally to spur demand for GaAs content per box. Growing with this Big Data trend, we aim to achieve over 15% earnings CAGR in the next 3-5 years with a structural ROE improvement.
- **How to get there?**
  - **Demand growth.** We expect the GaAs semiconductor foundry market to enjoy a solid growth in the next 3-5 years, driven by: mobile data, 4G/LTE, IoT and IDM outsourcing.
  - **Margin expansion.** We expect profit margins to expand structurally on the back of manufacture efficiency and product mix improvement, helping lift our structural ROE.



# Our Vision



- At WIN, we believe industry leadership is achieved by applying management best practice on a daily basis over the course of several industry cycles. Only through consistent adherence to management discipline can industry dominance be won.
- We continually strive to diversify our revenue base, develop new technologies and improve manufacturing efficiency & cost competitiveness.
- We believe that balance sheet strength is a powerful tool that aids us in increasing market share through the highs and lows of industry cycles.
- We seek to use all tools at our disposal to enhance shareholder returns, including share buyback, cashflow maximization and cash dividend payouts.

# Outline

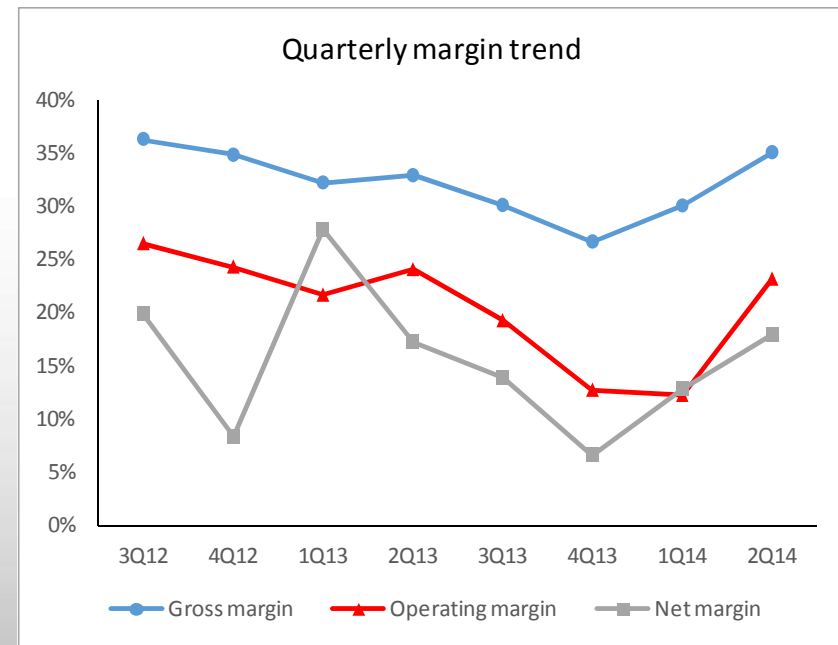
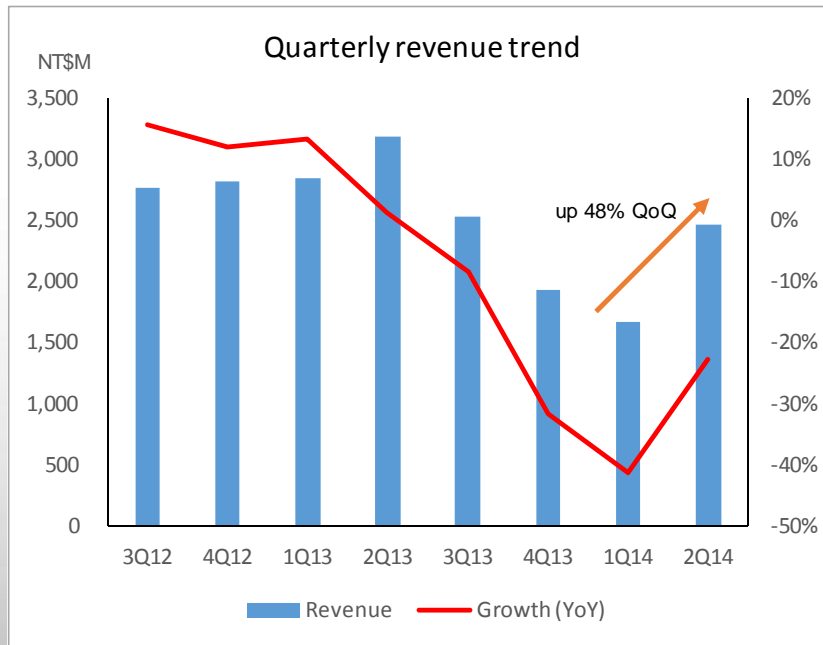
- ✓ **2014 Review & Guidance**
- ✓ **Market Outlook**
- ✓ **The WIN Strategy**
- ✓ **Appendix - Financial Performance**
- ✓ **Q&A**

# 2014 Review & Guidance

# 2Q14 Results Review



- 2Q14 revenue jumped a strong 48% QoQ. We believe WIN has walked out of the tunnel and is heading for a recovery.
- GM/OPM improved 5pp/10.9pp to 35%/23% in 2Q14 on the back of strong top-line recovery. EPS finished at NT\$0.59, up 106% QoQ.



Source: company.

# 3Q14 Outlook & Guidance



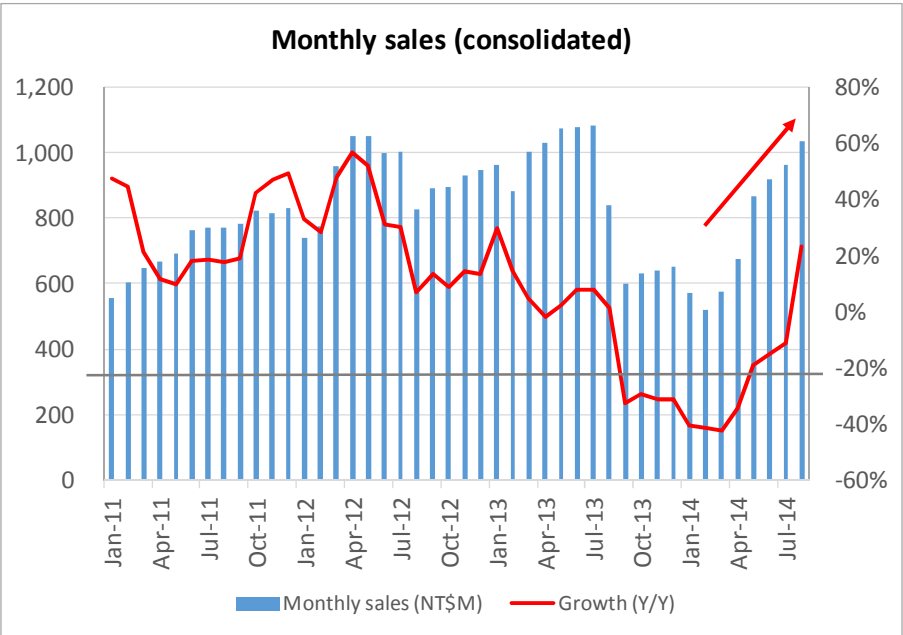
- We expect 3Q14 revenues to grow sequentially over 2Q14.
- Margins at gross level are expected to sustain sequentially.
- Revenue on monthly basis jumped strongly in May and has continued its growth pattern. We view this a good starter to our 3Q14.

**3Q14 demand driver**



**Seasonal inventory build**

**New product launch**



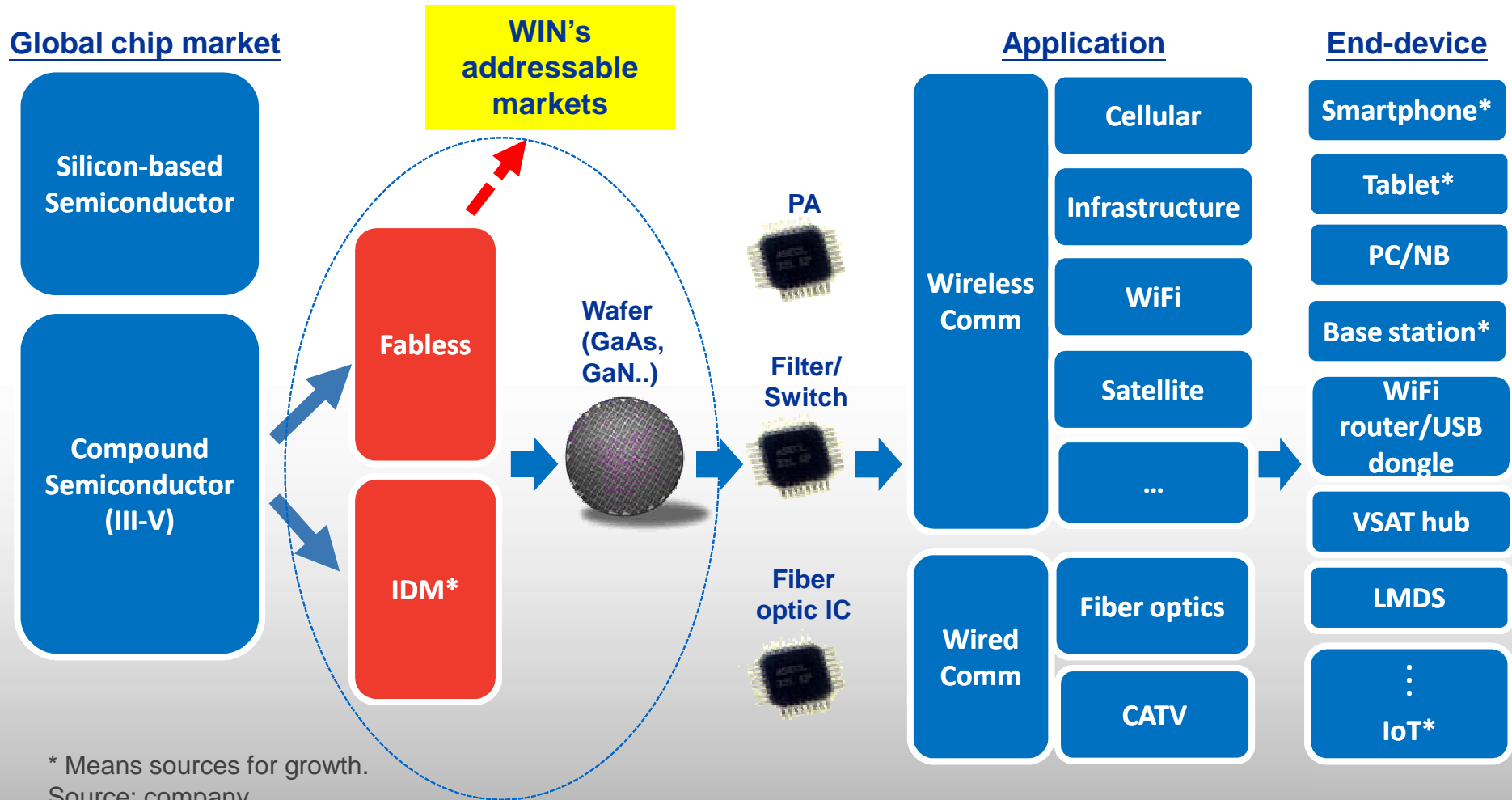


# Market Outlook

# WIN's Market Positioning



- WIN positions itself as a dedicated compound semiconductor wafer foundry offering foundry works to fabless and IDM customers who target in communication applications.



\* Means sources for growth.  
Source: company.

**(1) Rising demand for mobile data**

**(2) 4G/LTE lifting band count per device**

**(3) IoT further driving demand potential**

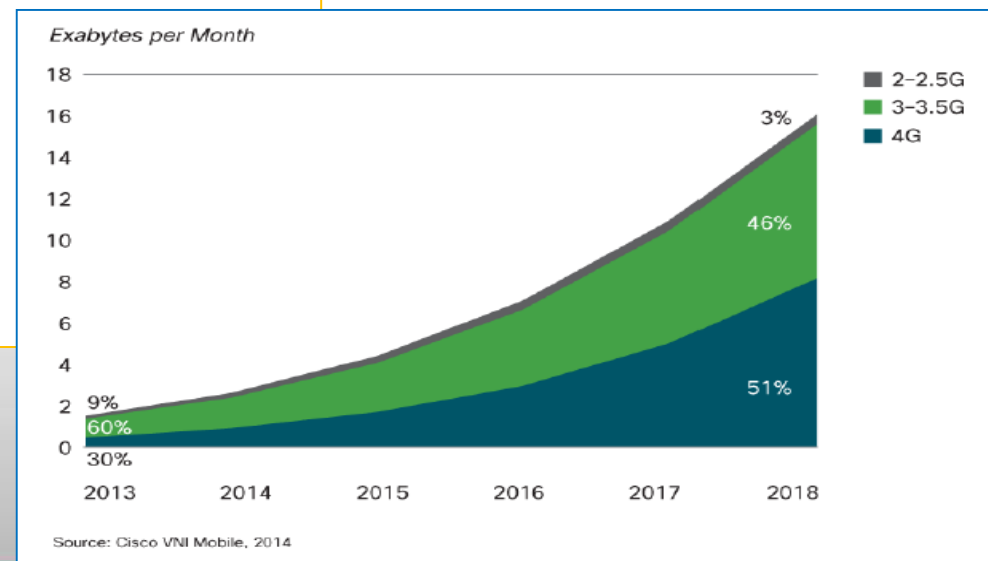
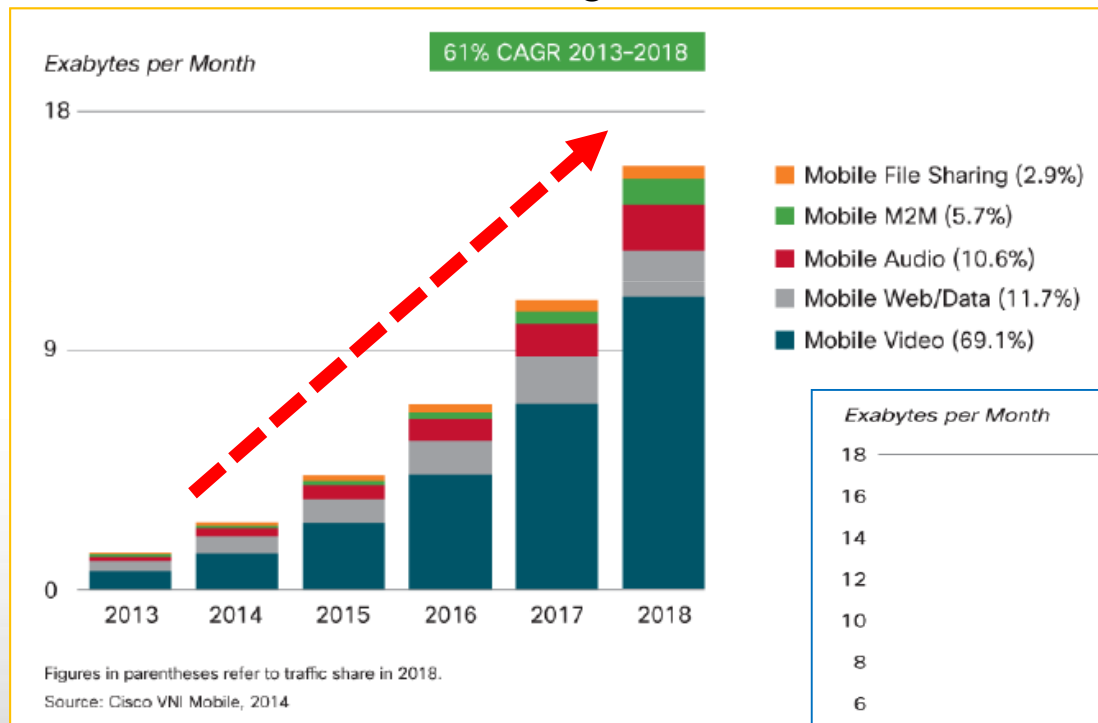
**(4) IDM outsourcing adding to growth upside**

Source: company.

# Rising Demand for Mobile Data



- Thanks to the constant bandwidth upgrades driven by mobile devices and 4G/LTE, demand for mobile data is rising rapidly where mobile video consumes the most bandwidth and grows the fastest for mobile data (the Big Data trend).

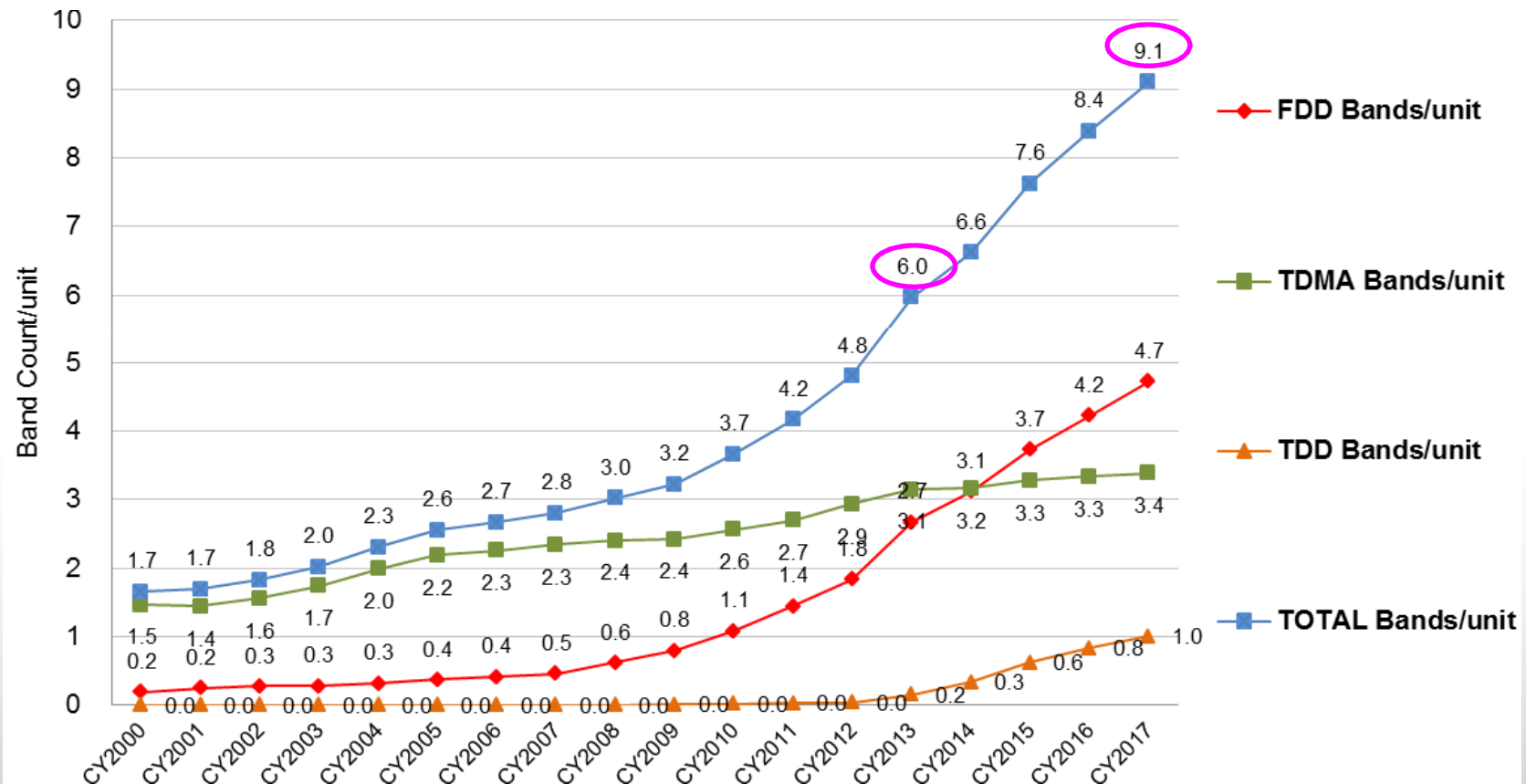


Source: Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2013-2018  
Feb 2014

# 4G/LTE Lifting Band Count per Device



- Frequency bands per mobile handset device are rising rapidly due to 4G/LTE.



Note: TDD and FDD are two competing LTE data transmission standards

Source : Navian, Oct 2013

# Example of Band-count Rise Driven by LTE



iPhone 4S: No LTE bands



iPhone 5: LTE bands 1, 3, 4, 5, 13, 17, 25 (7 bands)



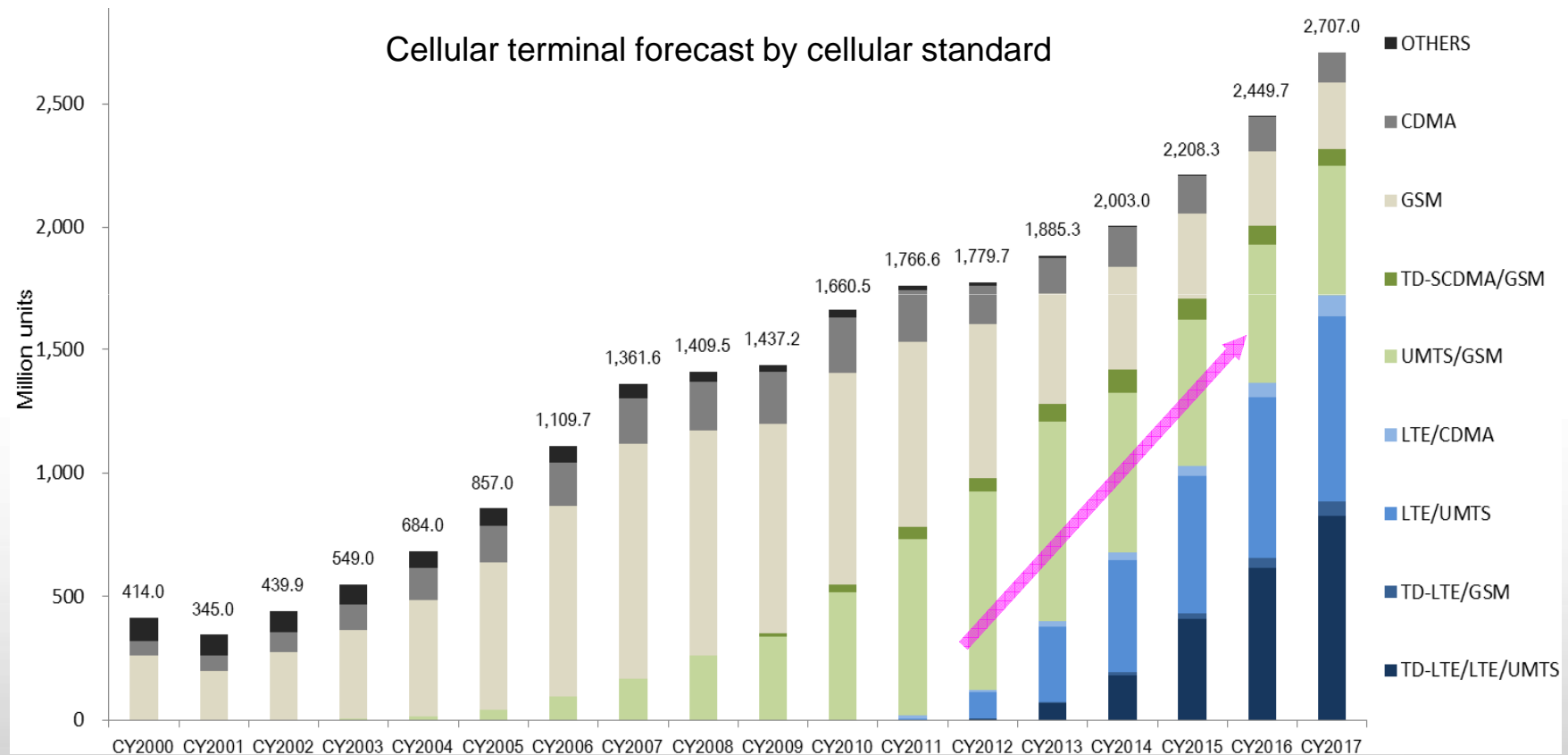
iPhone 5s/5c: LTE bands 1, 2, 3, 4, 5, 7, 8, 13, 17, 18, 19, 20, 25, 26  
(14 bands)  
TD-LTE bands 38, 39, 40 (3 bands)

Source: company.

# LTE Penetration on Track to Rise



- The 4G/LTE penetration is projected to reach 64% in 2017, from 21% in 2013, representing a strong 44% CAGR over 2013-17 (c.-10% CAGR for 2G+3G).

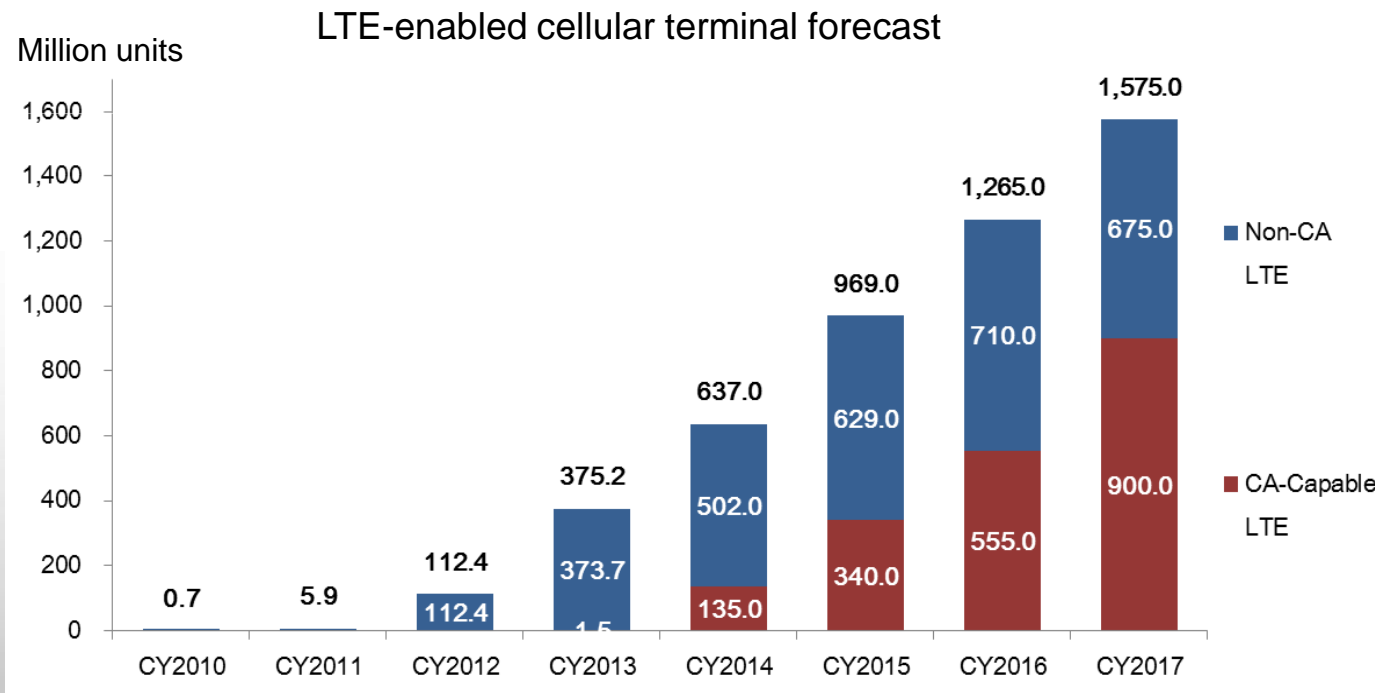


Source : Navian , Oct 2013

# CA guarding demand for GaAs



- Carrier aggregation (CA) driven by LTE-A should guard the need for GaAs PAs rather than any silicon-based solutions, since GaAs PAs have unparalleled advantages on linearity and efficiency.
- Devices that support CA are expected to grow to 900M units in 2017 from 1.5M in 2013, representing the key driver to the overall LTE device growth.



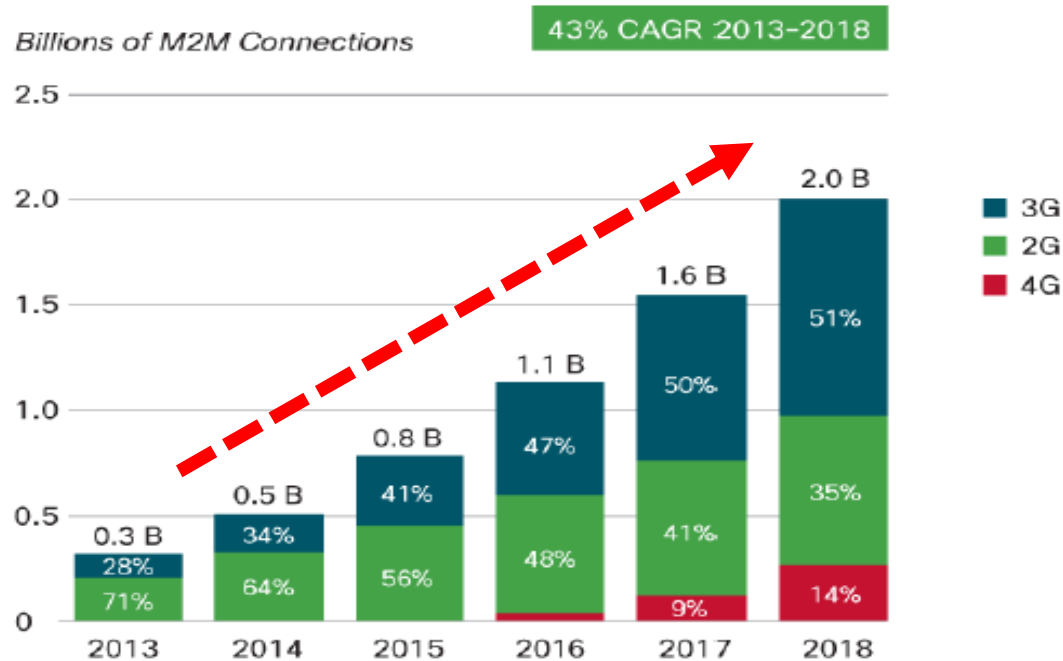
Source : Navian, Oct 2013



# IoT Further Driving Demand Potential



- The internet of things (IoT) is made up of machine-to-machine (M2M) connections that occur over the internet.
- In 2013, there were only 300M such M2M connections which are projected to grow to 2B units by 2018, or a high 43% CAGR.
- One intriguing IoT application is wearable devices with embedded WiFi connectivity.



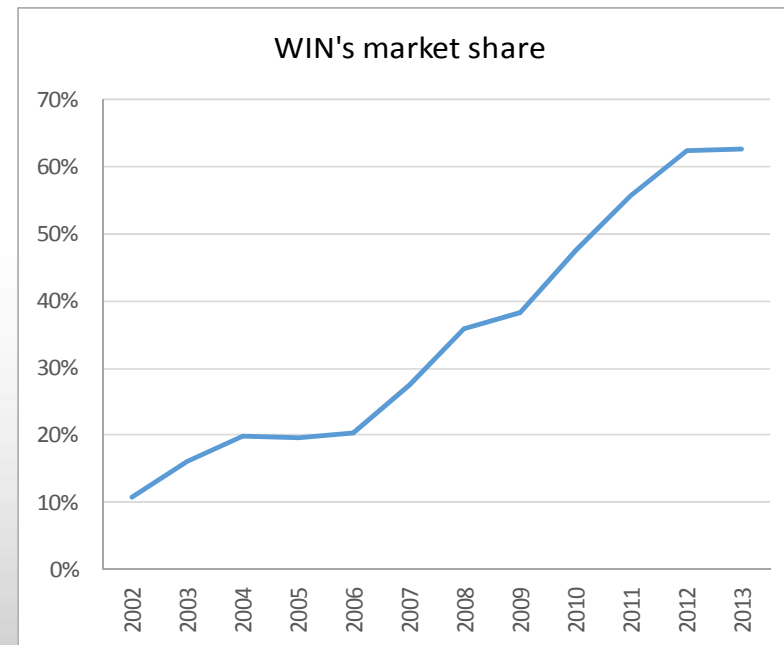
In 2013, 4G accounted for 0.43 percent of global mobile M2M connections. By 2014, it will reach 1.5 percent of connections, by 2015, 3 percent of connections, and by 2016, 5.6 percent of connections will be 4G.

Source: Cisco VNI Mobile, 2014

# IDM Outsourcing Adding to Upside



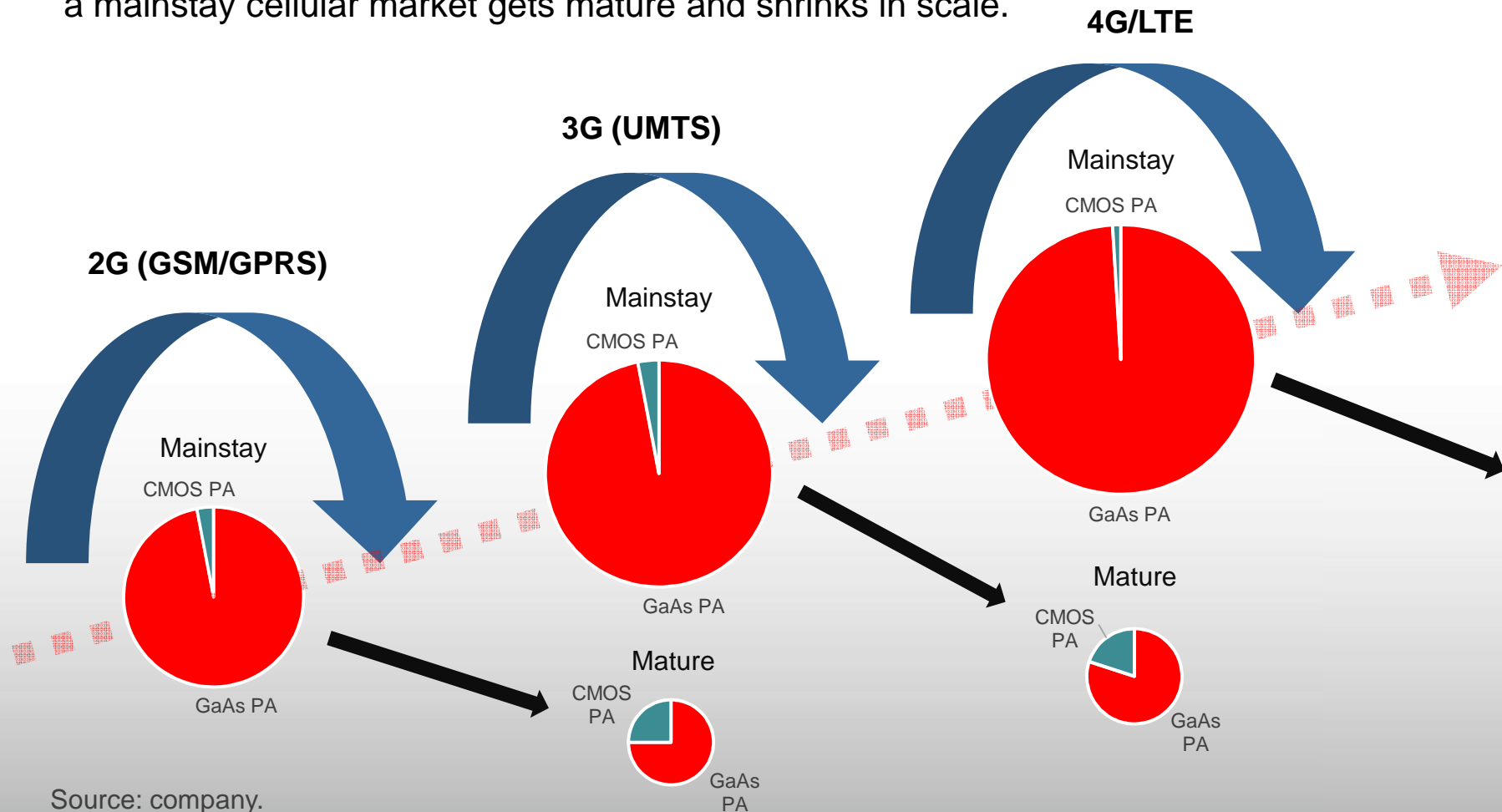
- Similar to the trend in the silicon-based foundry market, the global GaAs semiconductor IDMs have strategically transformed their business models into fab-lite or fabless, evidenced by the rising trend in the GaAs foundry market share in 2000s.
- The GaAs foundry share in the GaAs semiconductor device market hovered around the 30% level in recent years, indicating room for non-organic demand potential from IDM outsourcing.



\* Market share is calculated by multiplying the GaAs foundry revenue by a 3x markup (from die to device).  
Source: Strategy Analytics, company.

# RF CMOS – Substitute or Coexist?

- We don't see the silicon-based RF CMOS as a threat of substitution to GaAs PA. Instead, we see CMOS PA as a coexisting alternative and growing its impact to GaAs PA only when a mainstay cellular market gets mature and shrinks in scale.



Source: company.

# The WIN Strategy



Invest in capacity to capture demand growth and improve margins through product remix

**Scale & Remix**

**Technology Leadership**

Invest in technologies to maintain competitive edge and sustain leadership

**Cost & Efficiency**

**Customer Diversification**

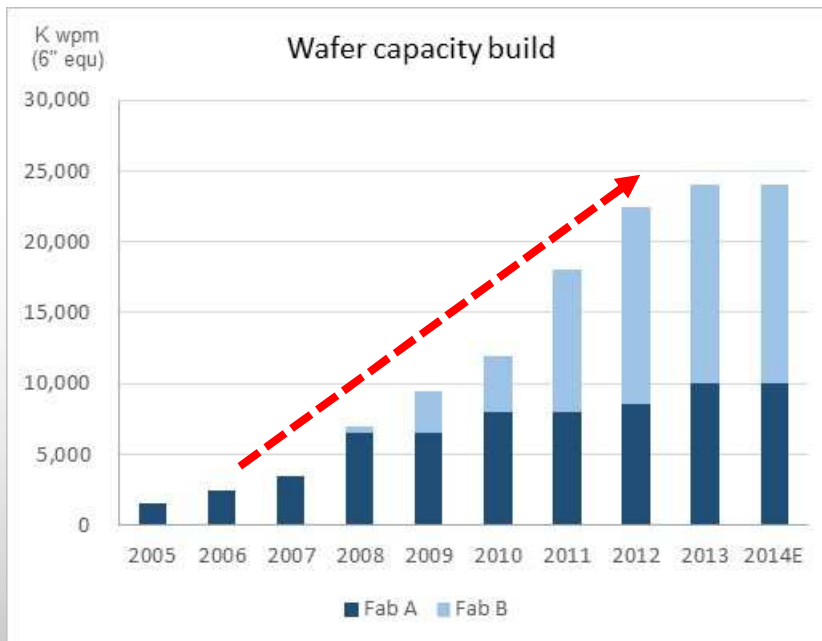
Leverage on technology and manufacture expertise to lift efficiency and drive cost down

Grow and acquire new customers in existing and new markets to diversify customer base

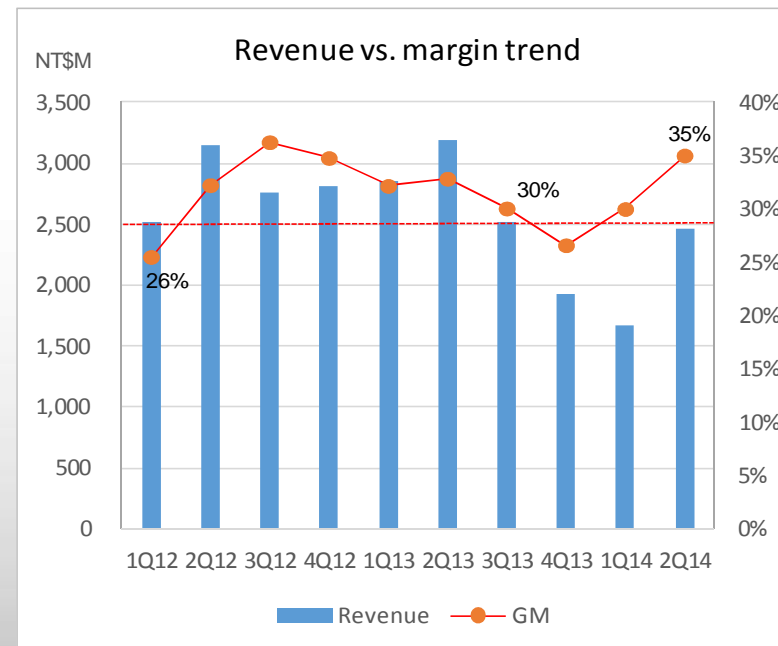
# Scale & Remix



- Despite a slowdown in 2014, our long-term expansion remains intact to capture the fast-growing demand market. Our new fab is currently under construction.
- Our strategy of structurally enhancing margins through efficiency improvement and product remix is bearing fruits, evidenced by our GM trend, which has risen to the 2H12 high levels despite top-line remaining below.



Source: company.

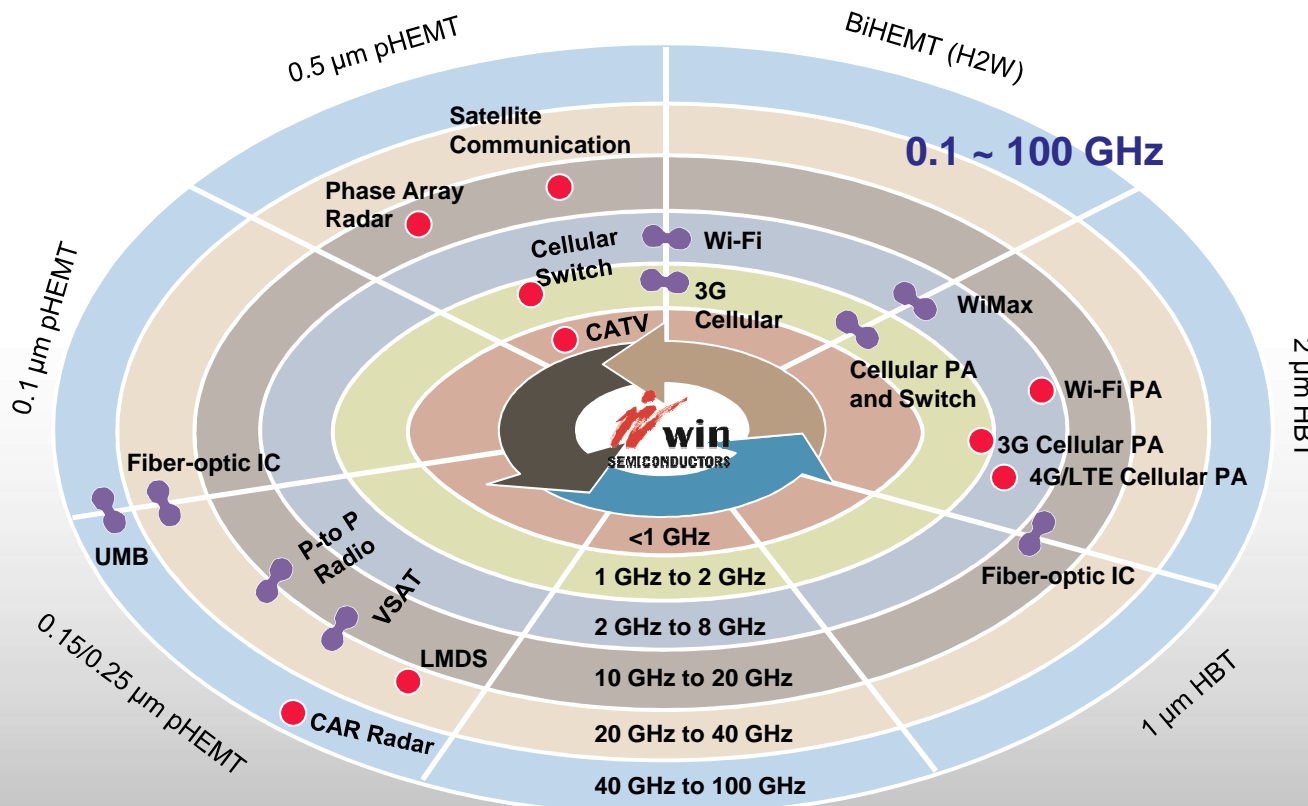


# Technology Leadership



- We offer the most comprehensive technology portfolio in the industry to enable our customers developing optimized products for a wide range of applications.

- Dominant market share for high-performance HBT used in LTE PAs
- First and only foundry worldwide to commercially develop 0.1µm pHEMT on 6" GaAs wafer
- Industry leading 0.15–0.25µm pHEMT technology
- Leading BiHEMT technology for advanced integrated PA/switch chips
- Supports broad range of products such as PAs (from 0.1–100GHz), switches, and fiber optic IC
- Developing GaN for high power devices (4G base station)

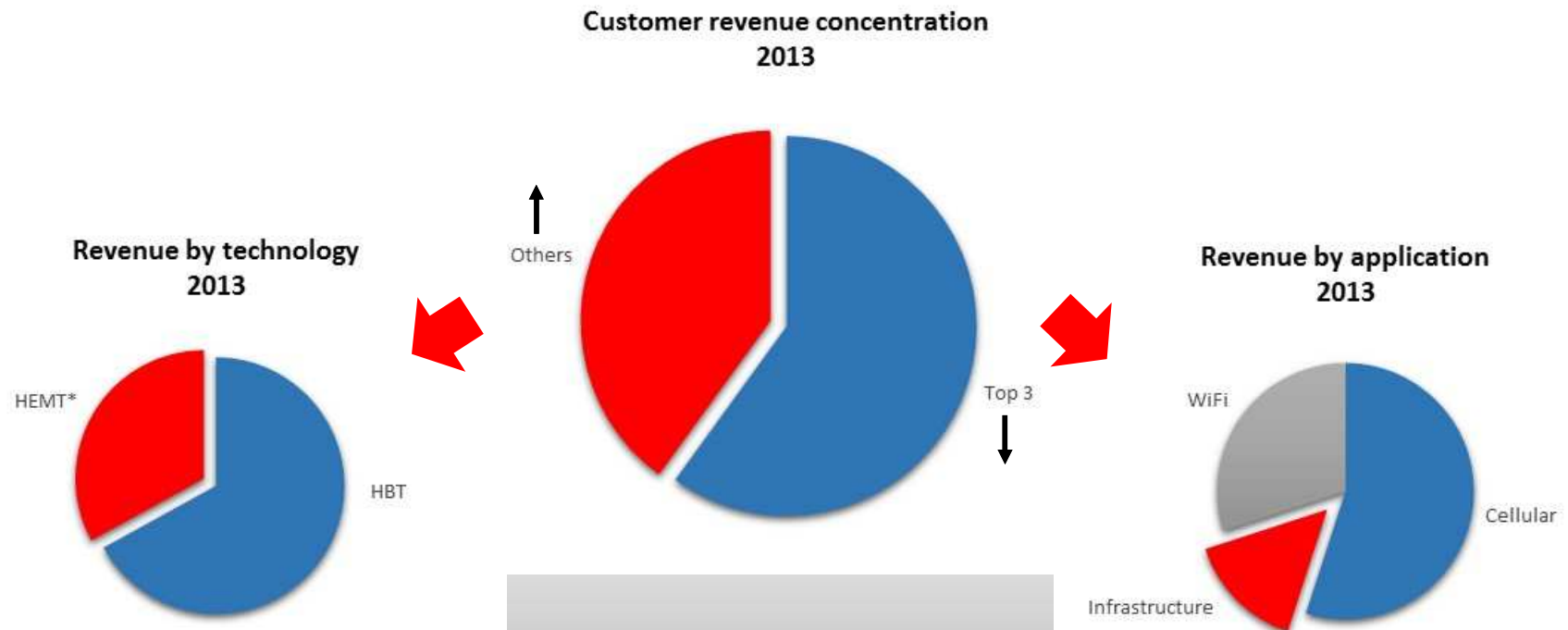


Source: company.

# Customer Diversification



- Top 3 customers contribute over 1/2 of WIN Semi's revenues with major technology focus on HBT and application focus on cellular and WiFi.
- We aim to diversify into the higher-margin pHEMT with focused applications of infrastructure including base stations.

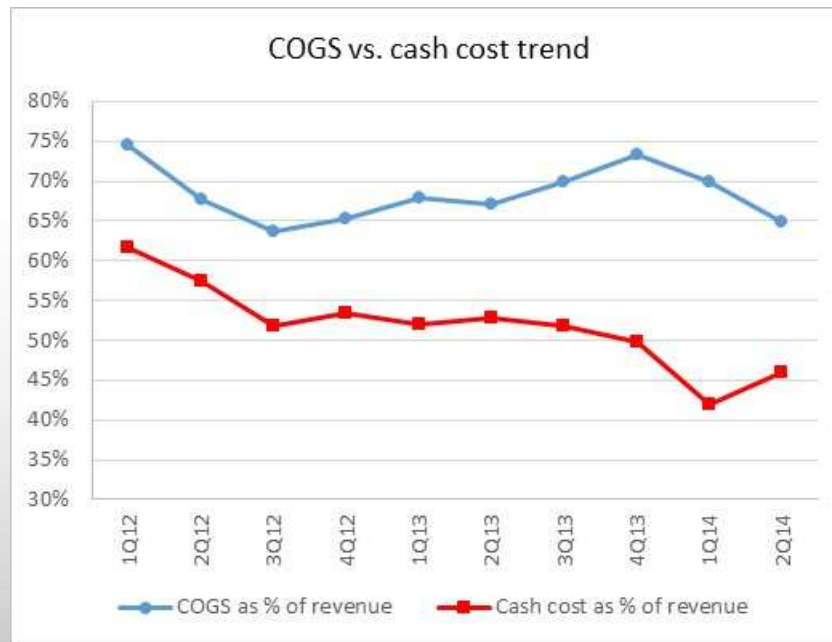


\* HEMT includes pHEMT and BiHEMT  
Source: company.

# Cost & Efficiency



- COGS as a % of revenue rose from 3Q12 due to increased depreciation on capacity build, yet our cash costs (COGS ex-D&A) as a % of revenues have continued falling despite 1Q14 volatility due to low revenue-base effect.
- This highlights our efforts on constantly improving manufacture efficiencies to lower cash costs per unit, on top of the operational-leverage swing-effect.



Source: company.

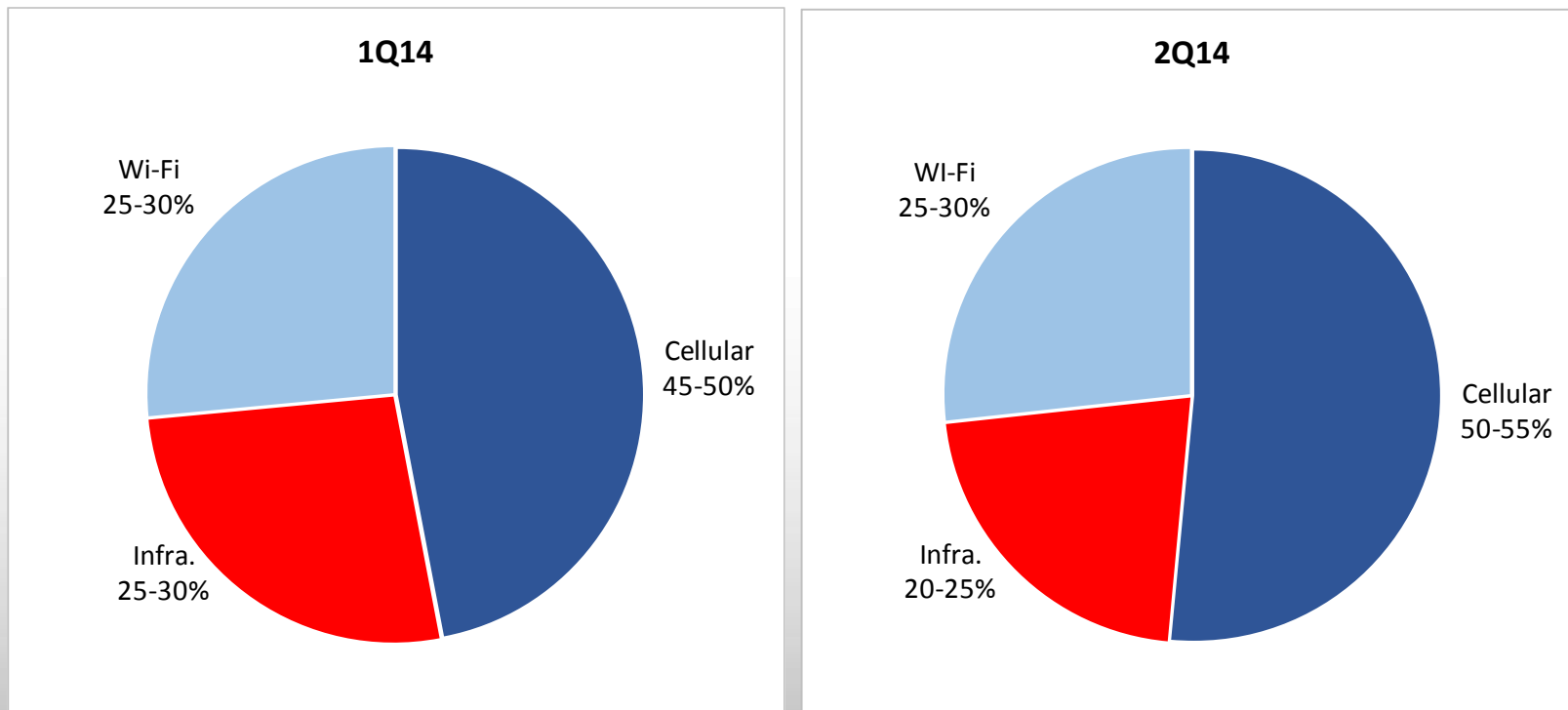


# Appendix - Financial Performance

# Product Mix Trend



- Sales contribution from cellular related applications rose to 50-55% in 2Q14, representing the key demand driver.
- Despite some contraction in sales contribution, infrastructure-related sales in 2Q14 indeed grew over 20% QoQ.

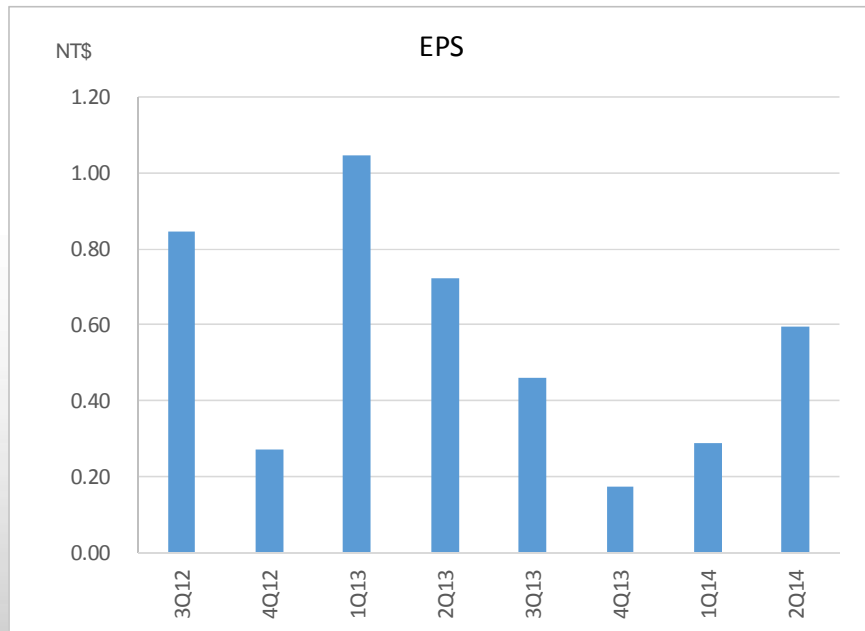
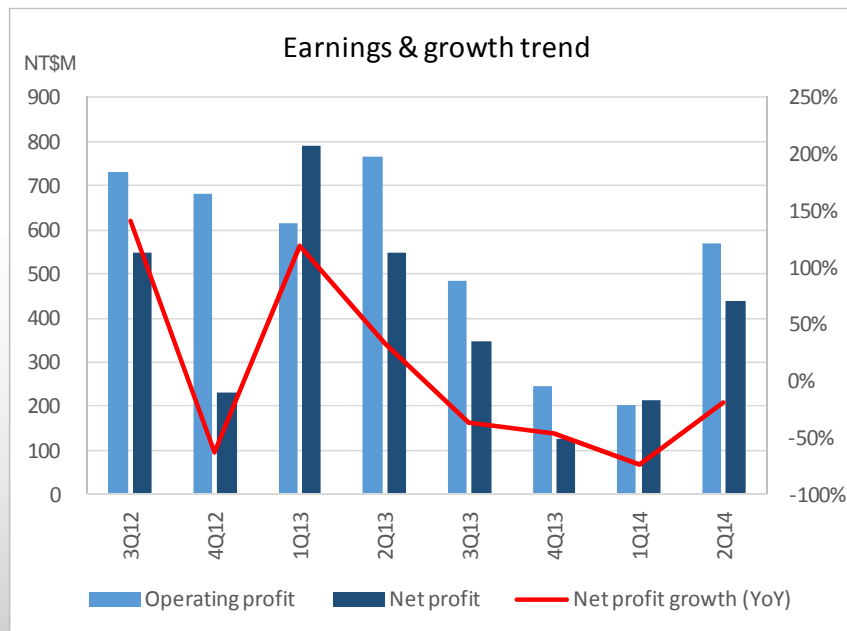


Source: company.

# Earnings & Growth Trend



- 2Q14 net profit rose 106% QoQ to NT\$440 million, with YoY growth trend bottoming in 1Q14.
- EPS on weighted average basis finished at NT\$0.59, up 103% from NT\$0.29 in 1Q14 on the back of our strong top-line recovery and margin expansion.

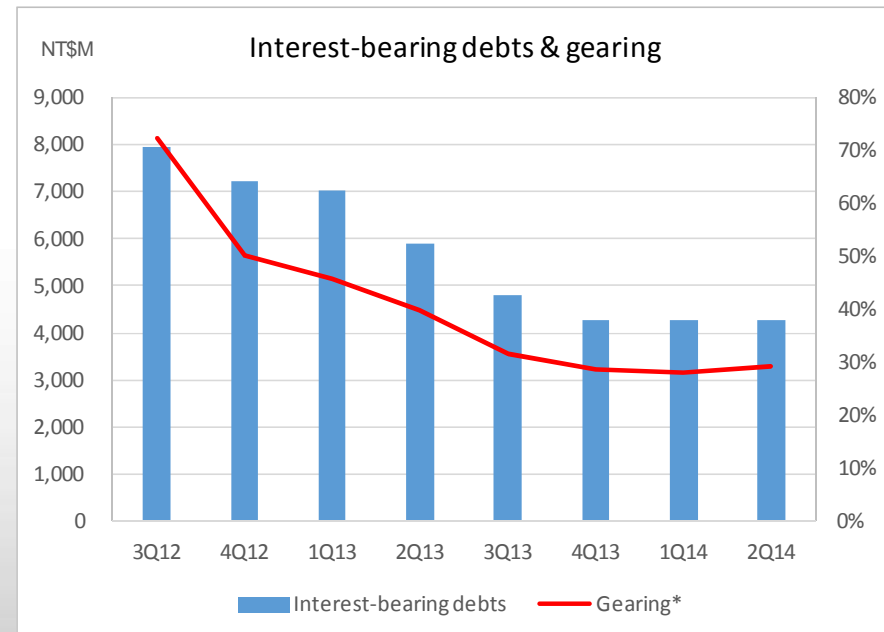
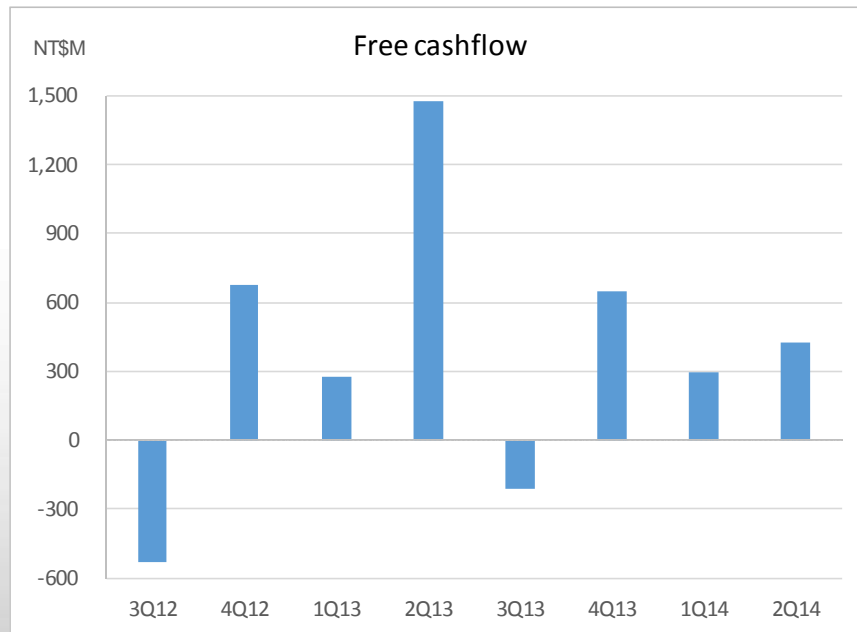


Source: company.

# FCF & Gearing Trend



- Free cashflow (FCF) turned positive for 3 quarters in a row, as a result of our frugal control on capex on the back of the corrections.
- Interest-bearing debts and gearings continued to fall as a result of our debts payback, indicating our solid balance sheet position.



\* Gearing = interest-bearing debts / equity  
Source: company.

# Consolidated Income Statement



(NTD M\$)	Selected Items	2Q'13	1Q'14	2Q'14	QoQ	YoY
<b>Net revenue</b>		<b>3,184</b>	<b>1,667</b>	<b>2,461</b>	<b>+48%</b>	<b>-23%</b>
Gross profit		1,045	500	862	+72%	-18%
<i>Gross margin (%)</i>		32.8%	30.0%	35.0%		
Operating expenses		(281)	(297)	(293)	-1%	+4%
<i>Operating expenses rate (%)</i>		-9%	-18%	-12%		
<b>Operating income</b>		<b>764</b>	<b>204</b>	<b>569</b>	<b>+180%</b>	<b>-26%</b>
<i>Operating margin (%)</i>		24.0%	12.2%	23.1%		
Non-operating incomes (expenses), net		(97)	46	6		
Income before income tax		667	250	575	+130%	-14%
Income tax expense		(120)	(37)	(135)		
<b>Net income</b>		<b>547</b>	<b>213</b>	<b>440</b>	<b>+106%</b>	<b>-20%</b>
<i>Net margin (%)</i>		17.2%	12.8%	17.9%		
<b>EPS (NT\$)</b>		<b>0.72</b>	<b>0.29</b>	<b>0.59</b>	<b>+103%</b>	<b>-18%</b>
Other comprehensive income (net of tax)		62	121	(4)		
<b>Comprehensive income</b>		<b>608</b>	<b>334</b>	<b>436</b>	<b>+30%</b>	<b>-28%</b>
Annualized ROE(%)		15%	6%	12%		
Approx. Utilization (%)		90%	45%	70%		
Depreciation		446	459	462		
CAPEX		301	232	131		

# Consolidated Income Statement (YTD)



(NTD M\$)	Selected Items	1H'2013	1H'2014	YoY
<b>Net revenue</b>		<b>6,032</b>	<b>4,128</b>	<b>-32%</b>
Gross profit		1,961	1,362	-31%
	<i>Gross margin (%)</i>	32.5%	33.0%	
Operating expenses		(581)	(589)	+1%
	<i>Operating expenses rate (%)</i>	-10%	-14%	
<b>Operating income</b>		<b>1,380</b>	<b>773</b>	<b>-44%</b>
	<i>Operating margin (%)</i>	22.9%	18.7%	
Non-operating incomes (expenses), net		272	53	
Income before income tax		1,652	825	-50%
Income tax expense		(315)	(172)	
<b>Net income</b>		<b>1,337</b>	<b>653</b>	<b>-51%</b>
	<i>Net margin (%)</i>	22.2%	15.8%	
<b>EPS (NT\$)</b>		<b>1.77</b>	<b>0.88</b>	<b>-50%</b>
Other comprehensive income (net of tax)		178	116	
<b>Comprehensive income</b>		<b>1,514</b>	<b>770</b>	<b>-49%</b>
Annualized ROE(%)		18%	9%	
Approx. Utilization (%)		87%	60%	
Depreciation		888	921	
CAPEX		1,076	363	

# Non-operating Items



(NTD M\$)	Selected Items	2Q'13	2Q'14	1H'2013	1H'2014
	Foreign exchange gains	20	(4)	116	1
	Gains (losses) on disposals of property, plant and equipment	-	(0)	307	(0)
	Gains (losses) on disposals of investments	(70)	1	(404)	(53)
	Gains on financial assets (liabilities) at fair value through profit or loss, net	53	12	385	133
	Share of loss of associates and joint ventures accounted for using equity method	(30)	4	(48)	(2)
	Others	(69)	(7)	(84)	(27)
	<b>Total</b>	<b>(97)</b>	<b>6</b>	<b>272</b>	<b>53</b>

# Consolidated Balance Sheet



(NTD M\$)	Selected Items	2013/6/30		2014/3/31		2014/6/30	
		Amount	%	Amount	%	Amount	%
	Cash and cash equivalents	3,793	15%	1,694	8%	1,842	8%
	Current financial assets at fair value through profit or loss	2,175	9%	1,772	8%	2,142	10%
	Current available-for-sale financial assets	665	3%	668	3%	704	3%
	Notes and accounts receivable, net	1,037	4%	617	3%	856	4%
	Inventories	2,069	8%	1,047	5%	1,563	7%
	Long-term investments	957	4%	1,126	6%	1,179	5%
	Net property, plant and equipment	13,185	54%	13,828	65%	13,462	60%
	<b>Total Assets</b>	<b>24,560</b>	<b>100%</b>	<b>21,281</b>	<b>100%</b>	<b>22,287</b>	<b>100%</b>
	Current liabilities	4,860		2,141		3,796	
	Long-term borrowings	4,699		3,724		3,724	
	<b>Total Liabilities</b>	<b>9,744</b>	<b>40%</b>	<b>6,036</b>	<b>28%</b>	<b>7,705</b>	<b>35%</b>
	Common stock	7,579		7,402		7,406	
	<b>Total Equity</b>	<b>14,816</b>	<b>60%</b>	<b>15,245</b>	<b>72%</b>	<b>14,581</b>	<b>65%</b>
	Book value per share (NT\$)	19.55		20.60		19.69	
	<b>Key Indices</b>						
	Current ratio ( <i>Current assets / Current liabilities</i> )	208%		285%		197%	
	Debt ratio ( <i>Total liabilities / Total assets</i> )	40%		28%		35%	



# Q & A

For more information regarding WIN  
[www.winfoudry.com](http://www.winfoudry.com)

For all inquiries, suggestions, and comments  
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