CyberLink (5203.TW)

2018-H1 Results Update

The Innovative Experience Provider for CREATE & PLAY of Digital Media

July 25, 2018

Safe Harbor Notice

The following pages contain projections & estimates of financial information as well as market and product developments for future periods. These projections & estimates are based on information currently available which we believe to be reliable, but they involve risks & uncertainties. Our actual results of operations & financial condition may differ significantly from those contained in the projections & estimates. The projections & estimates should not be interpreted as legally binding commitments, but rather as flexible information subject to change occasionally.

Agenda

- 2018-H1 Financial Results
- Business & Products
- Q&A

Financial Results (Un-audited)

Financial Highlights

- **2018-H1**
  - Revenue NT$800.8M, -9.6% Y/Y. Gross Profit NT$709.5M, -8.1% Y/Y
    - In USD, Revenue $27.1M, -6.2% Y/Y. Gross Profit $24.0M, -4.5% Y/Y
  - Operating Income NT$232.2M, -26.2% Y/Y and operating margin was 29.0%
    - In USD, Operating Income $7.9M with -23.3% Y/Y
  - Net Income NT$180.5M with **+72.0% Y/Y**, basic EPS after tax hit **$2.13** with **83.6% Y/Y**

* 2018-H1 Average FX rate USD/TWD=**29.54**
* 2017-H1 Average FX rate USD/TWD=**30.68**

- **2018-Q2**
  - Revenue NT$420.5M, -4.9% Y/Y. Gross Profit NT$371.2M, -3.5% Y/Y
    - In USD, Revenue $14.1M, -3.2% Y/Y. Gross Profit $12.4M, -1.9% Y/Y
  - Operating Income NT$121.9M, -23.9% Y/Y and operating margin was 29.0%
    - In USD, Operating Income $4.1M with -22.6% Y/Y
  - Net Income NT$141.2M, **105.7% Y/Y**, basic EPS after tax reached **$1.67** with **116.9% Y/Y**

- **Balance Sheet**
  - Cash, cash equivalent & short-term investment at NT$3,026.1M as of end of 2018-H1, accounting for 58.2% of total asset. No debt.

Consolidated Income Statement 2018-H1

In NT$K	*2017H1*	*%*	*2018-H1*	*%*	*Y/Y*
Net sales	886,306	100.0%	800,794	100.0%	-9.6%
Cost of goods Sold	(114,470)	12.9%	(91,301)	11.4%	-20.2%
Gross Profit	771,836	87.1%	709,493	88.6%	-8.1%
Operating Expense	(457,219)	51.6%	(477,260)	59.6%	4.4%
R&D	(170,099)	19.2%	(170,209)	21.3%	0.1%
S&M	(230,475)	26.0%	(248,999)	31.1%	8.0%
G&A	(56,645)	6.4%	(58,052)	7.2%	2.5%
Operating Income	314,617	35.5%	232,233	29.0%	-26.2%
Non Operating Income (Loss)	(157,682)	-17.8%	3,099	0.4%	102.0%
Foreign Exchange Income (Loss)	(84,589)	-9.5%	24,771	3.1%	129.3%
Investment Income (Loss)	(118,842)	-13.4%	(70,407)	-8.8%	40.8%
Other Income (Loss)	45,749	5.2%	48,735	6.1%	6.5%
Income before Tax	156,935	17.7%	235,332	29.4%	50.0%
Income after Tax	104,952 66.9%	11.8%	180,486 76.7%	22.5%	72.0%
Basic EPS after Tax (in NT$)	1.16		**2.13**		83.6%

Investment on new business did not increase much expense

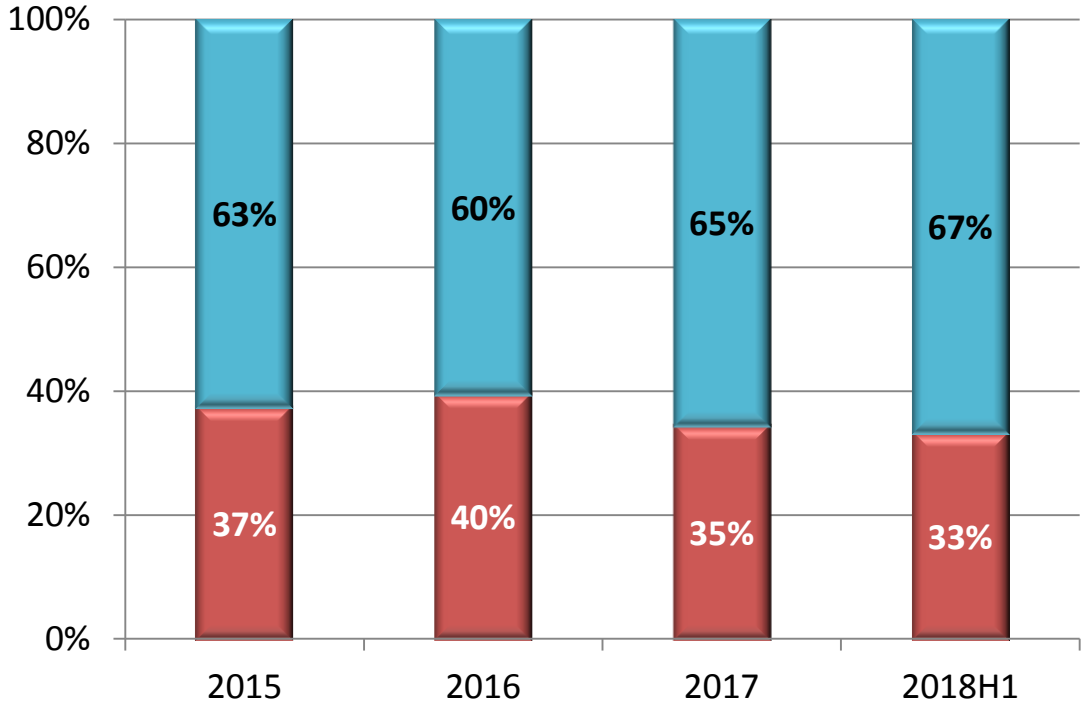
Consolidated Income Statement 2018-Q2

In NT$K	Q1-2017	%	Q2-2017	%	Q1-2018	%	Q2-2018	%	Q/Q	Y/Y
Net sales	444,291	100.0%	442,015	100.0%	380,315	100.0%	**420,479**	100.0%	10.6%	-4.9%
Cost of goods Sold	(57,254)	12.9%	(57,216)	12.9%	(42,024)	11.0%	**(49,277)**	11.7%	17.3%	-13.9%
Gross Profit	387,037	87.1%	384,799	87.1%	338,291	89.0%	**371,202**	88.3%	9.7%	-3.5%
Operating Expense	(232,647)	52.4%	(224,572)	50.9%	(227,931)	60.0%	**(249,329)**	59.3%	9.4%	11.0%
R&D	(89,183)	20.1%	(80,916)	18.3%	(87,031)	22.9%	**(83,178)**	19.8%	-4.4%	2.8%
S&M	(117,356)	26.4%	(113,119)	25.7%	(113,267)	29.8%	**(135,732)**	32.3%	19.8%	20.0%
G&A	(26,108)	5.9%	(30,537)	6.9%	(27,633)	7.3%	**(30,419)**	7.2%	10.1%	-0.4%
Operating Income	154,390	34.7%	160,227	36.2%	110,360	29.0%	**121,873**	29.0%	10.4%	-23.9%
Non Operating Income (Loss)	(104,465)	-23.5%	(53,217)	-12.0%	(55,343)	-14.6%	**58,442**	13.9%	205.6%	209.8%
Foreign Exchange Income (Loss)	(89,517)	-20.0%	4,928	1.1%	(35,855)	-9.4%	**60,626**	14.4%	269.1%	1130.2%
Investment Income (Loss)	(38,384)	-8.6%	(80,458)	-18.2%	(43,270)	-11.4%	**(27,137)**	-6.5%	37.3%	66.3%
Other Income (Loss)	23,436	5.3%	22,313	5.1%	23,782	6.3%	**24,953**	6.0%	4.9%	11.8%
Income before Tax	49,925	11.2%	107,010	24.2%	55,017	14.5%	**180,315**	42.9%	227.7%	68.5%
Income after Tax	36,293	8.2%	68,659	15.5%	39,257	10.3%	**141,229**	33.6%	259.8%	105.7%
Basic EPS after Tax (in NT$)	0.39		0.77		0.46		**1.67**		263.0%	116.9%

Gross Profit Breakdown

healthier combination to be less dependent on ODD-related products & B2B channel

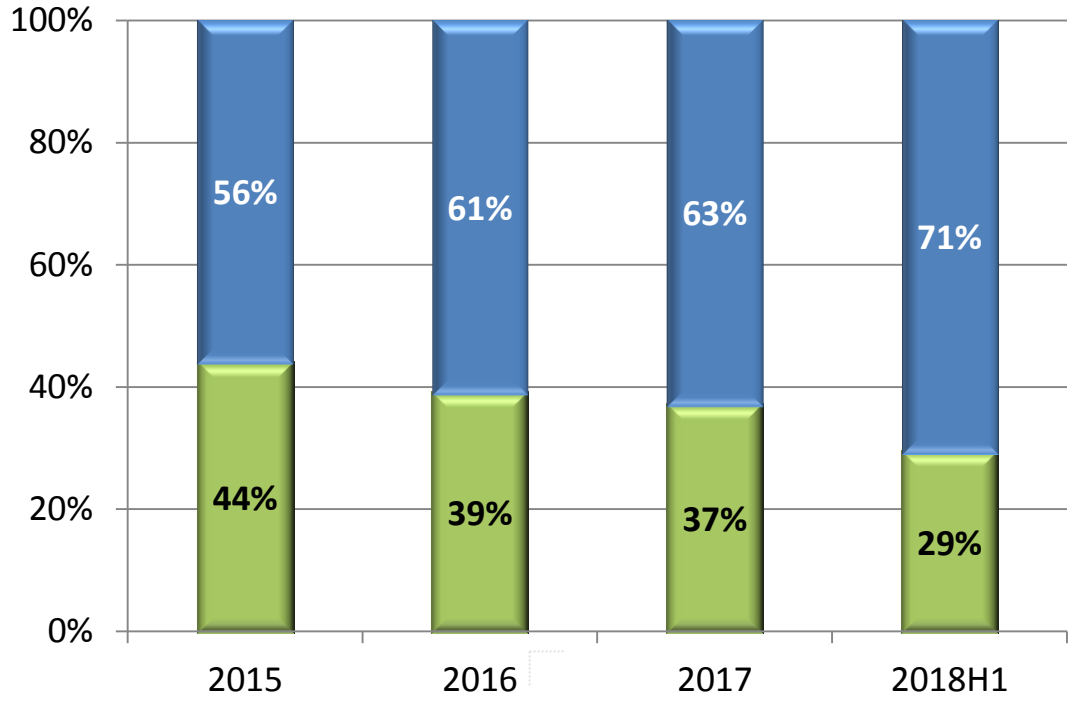
Create vs. Play



Play: Products of playback, media server/client, codec pack, etc.

Create: Products of Creativity, media management, etc.

B2B vs. B2C



B2B: Conventional hardware bundling.

B2C&Others: Direct sales to end users, site license, etc.

Business & Products

Business & Products

- Transformation of existing business model
  - **Subscription** Model on PC software (has executed on Android mobile apps successfully)
  - Expand customer group to include **Prosumer/Professional** users
- Success Stories on U Webinar/Meeting/Messenger (Work)
- Investment in Artificial Intelligence (AI)
  - Face-based AI Business Opportunities

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CyberLink Product Offering: CREATE, PLAY, WORK

- **CREATE** (Director Family)
  - Video Editing: **PowerDirector** & ActionDirector
  - Photo Editing: **PhotoDirector** & MakeupDirector
  - Audio Editing: AudioDirector
  - Color Grading: ColorDirector

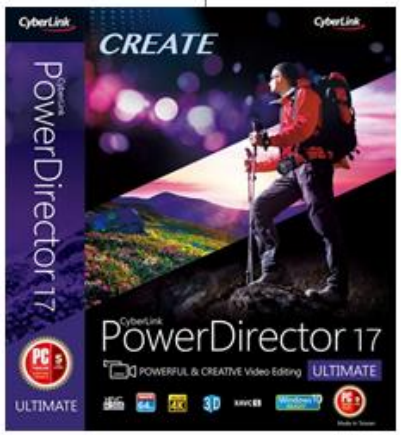
    (Annual new version will be released in September)

- **PLAY**
  - **PowerDVD**

- **WORK**
  - **U-Meetings, U-Webinars, U-Messenger**
    - for business collaboration & education webinars

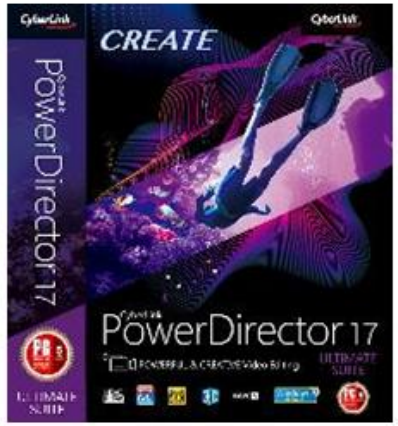
PowerDirector 17 & Director Suite will Go **Pro** & **Subscription** in September

CyberLink PROFESSIONAL

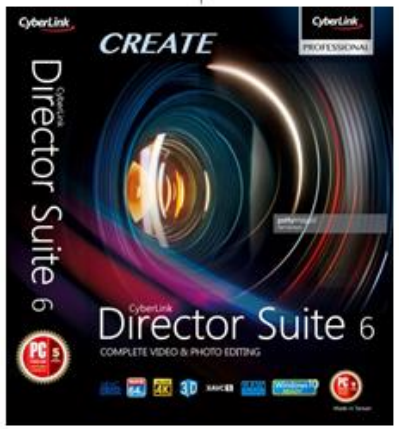


Ultimate

365

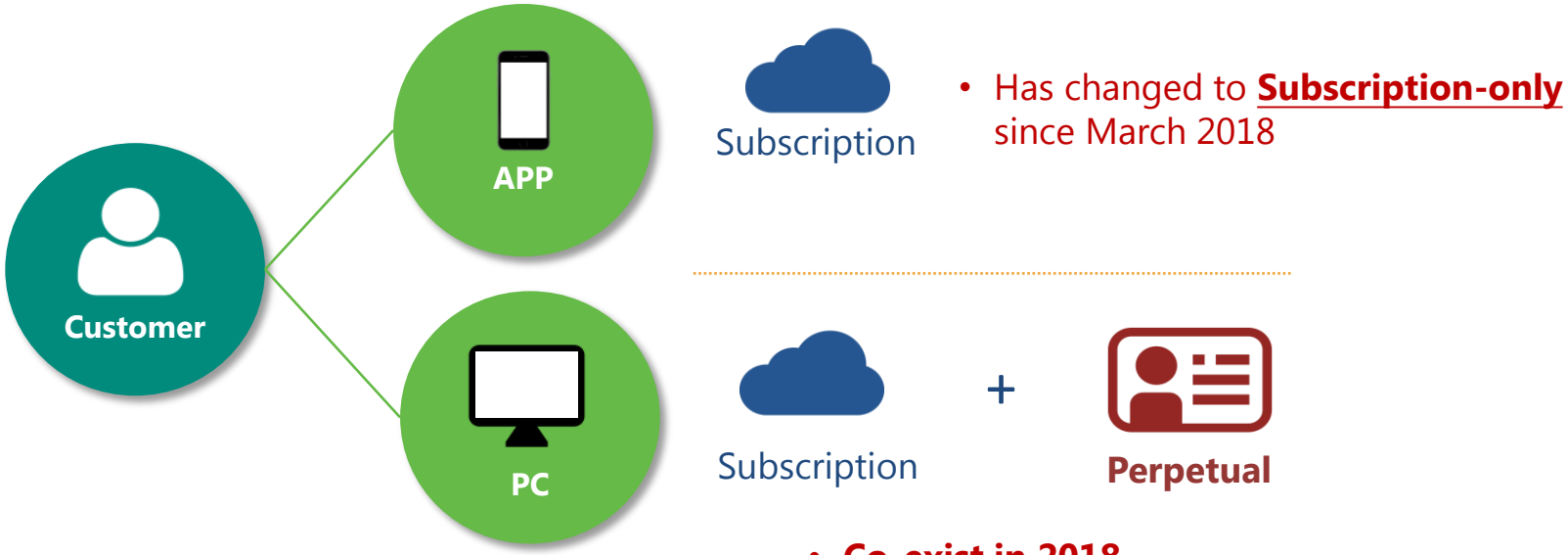


Ultimate Suite



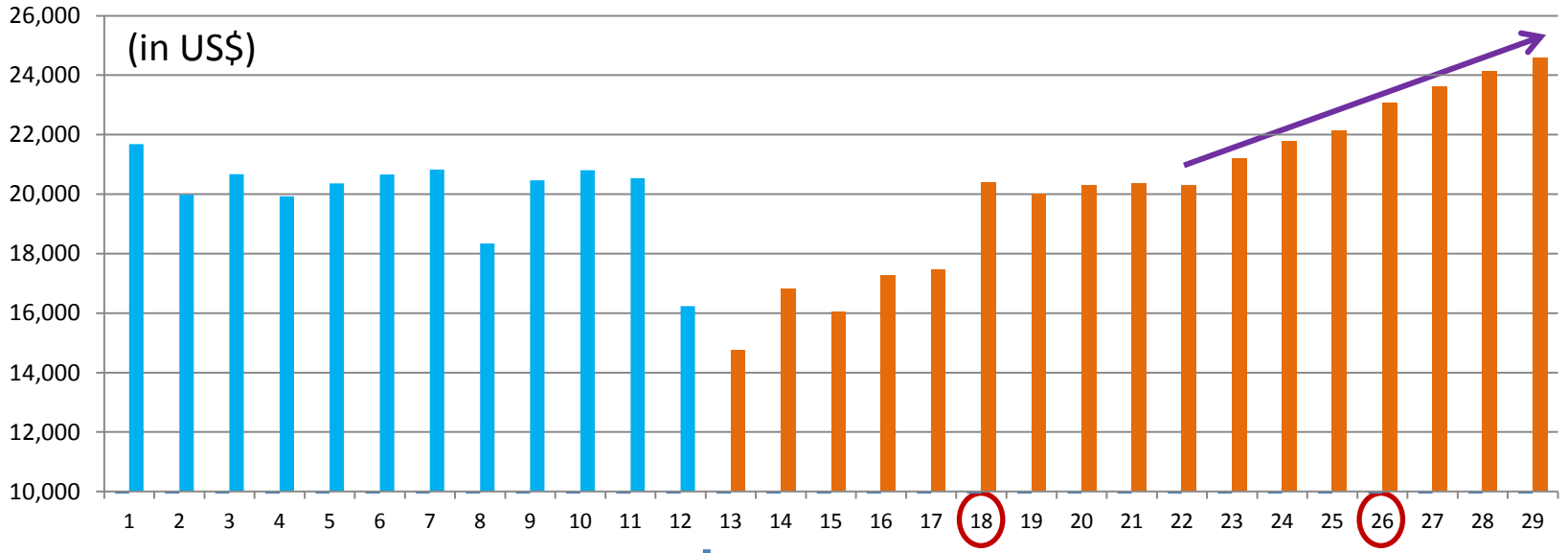
Director Suite 365

Continued Transformation on Existing Business Model



- Mobile Apps on Android has changed to Subscription very successfully.
- Will heavily promote Subscription-model on PC software starting from Q3.

PowerDirector Android Weekly **Subscription** Revenue



(Week1 to Week29, 2018)

→ Starts Subscription-only model (Monthly/Quarterly/Annual)

- Revenue first dipped, then a month later (wk18) the monthly subscribers start contributing recurring revenue.
- From wk26, quarterly subscribers also start contributing recurring revenue.
  - Starts seeing record breaking revenue.
- By March 2019, annual subscribers will add recurring revenue on top.
- We like to re-produce this success on our PC software.

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Success Stories on U Webinar/Meeting/Messenger

- More than 60 corporates or organizations are already using **U** solution
- Market reaction is very positive on the Ease-of-Use & Video Quality of **U** solution

中華民國對外貿易發展協會 Taiwan External Trade Development Council

財團法人資訊工業策進會 INSTITUTE FOR INFORMATION INDUSTRY

高雄市政府教育局 EDUCATION BUREAU, KAOHSIUNG CITY GOVERNMENT

工業技術研究院 Industrial Technology Research Institute

104人資學院 104 GROUP

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國立政治大學 NATIONAL CHENGCHI UNIVERSITY

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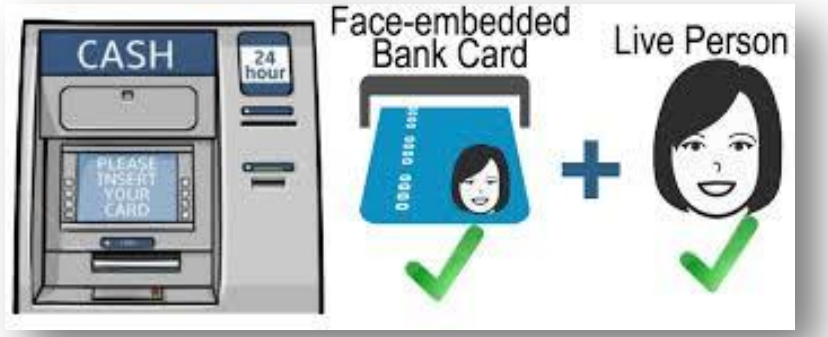
Potential AI Projects based on Facial Recognition

- Robot (2)

- Smart Retailer (3)

- Access Control & HR attendance system (3)

- Smart Banking (1)



New Business on **AI**

- **CL AI Day** on 9/5 (tentative date; 7 solutions on 4 different Operating Systems)
- Business model: Engine SDK licensing.
- AI will also be applied in CyberLink products as differentiating features
  - PowerDVD, PowerDirector, PhotoDirector, Power Media Player, PerfectCam, SmartRetail

	AI Engine	OS
1	**Facial Recognition (FaceME)**	Windows, Linux, Android, iOS
2	**Facial Attribute (Emotion/Age/Gender) Detection**	Windows, Linux, Android, iOS
3	**Facial Landmark (feature points) Detection**	Windows, Android, iOS
4	**Smart Retailer Solution**	Windows
5	**Video Background Blur**	Windows
6	**AI Style Transfer on Video**	Windows
7	**AI Style Transfer on Photo**	Windows

Summary

- **2018-H1 Net income reached NT$180.5M, basic EPS after tax at NT$2.13**
  - Investment loss from Perfect Corp has narrowed significantly in 2018-Q2
- **Transformation of existing business model continues**
  - Sales **Channel** – B2C percentage on gross profit has reached more than 70%
  - **Subscription** Model- has executed on Android apps successfully, will expand to PC software
- **Persistent investments in New Business**
  - **U** Webinar/Meeting/Messenger
  - **AI** technology & business – AI facial recognition, Age/Gender/Emotion detection, etc.

For more information about CyberLink:
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Thank You!