Mercuries Data Systems

2017 Investor Conference

(Code 2427)

AGENDA

- Company Profile
- Core Business
  - Banking automatic system
  - Public construction integration
- Introduction of Indicative Mega-size Public Construction Integration
- Revenue Proportion in Each Business
- Financials
  - Consolidated Balance sheet
  - Consolidated Income statement in last 3 years
- New Products

Company Profile

- A first tier system integrator in banking automatic system and public construction industries in Taiwan.
- Established in 1976.
- A subsidiary of Mercuries & Associates Holding Ltd. (2905), owning 52.59% of MDS's outstanding shares.
- Capital: 1.87 billion dollars（2016/12/31）
- The number of employees: 620（2017/02/28）
- Besides a headquarter in Taipei, there are 15 offices island-wide, with more than 220 engineers responsible for the maintenance.
- CMMI Level III qualification acquired .

Core Business

- **Banking automatic system**:

  Distribution, integration, and maintenance services in Banking automation and terminal system

- **Public construction integration :**
  - Hardware/ Software system integration and maintenance services for government sectors.
  - Software/ mobile app development for government and private sectors.
  - Distribution and Maintenance services of Oracle/HP DB/Server
  - Others.

Core Business

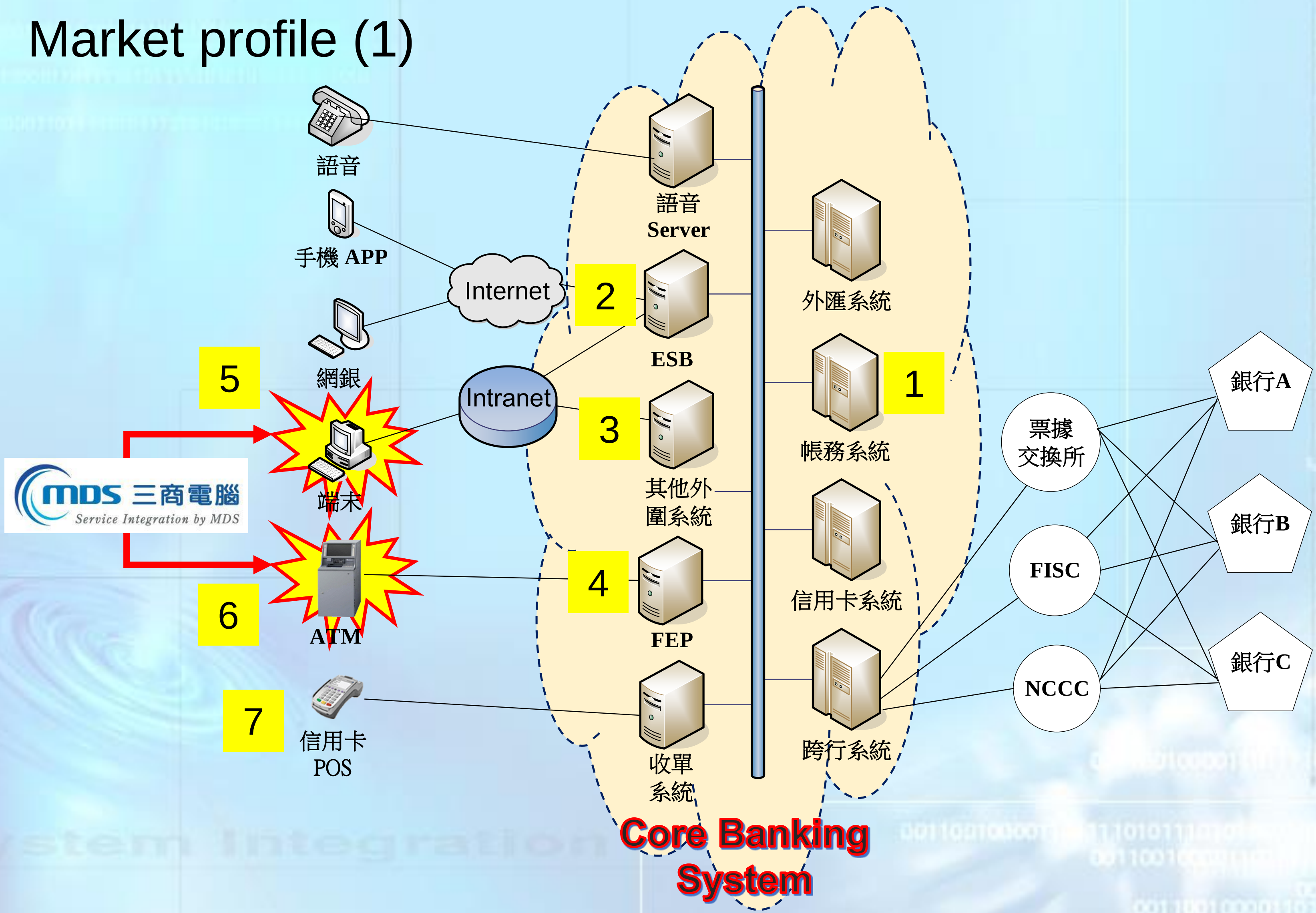
Banking automatic system

- Banking Products
  - ATM (Recycle ATM from HOTS, Cash Dispenser from MDS)
  - Passbook Entry Machine (PEM) (Hitachi, Shinko) and management system (eAPT®)
  - Cash deposit machine (CDM), Automatic payment machine, Automatic vending machine (AVM)
- Banking systems
  - Terminal System
  - Device management system (DMS)
  - Multimedia management system (MMS)

Core Business

Banking automatic system

Market profile (1)



Core Business

Banking automatic system

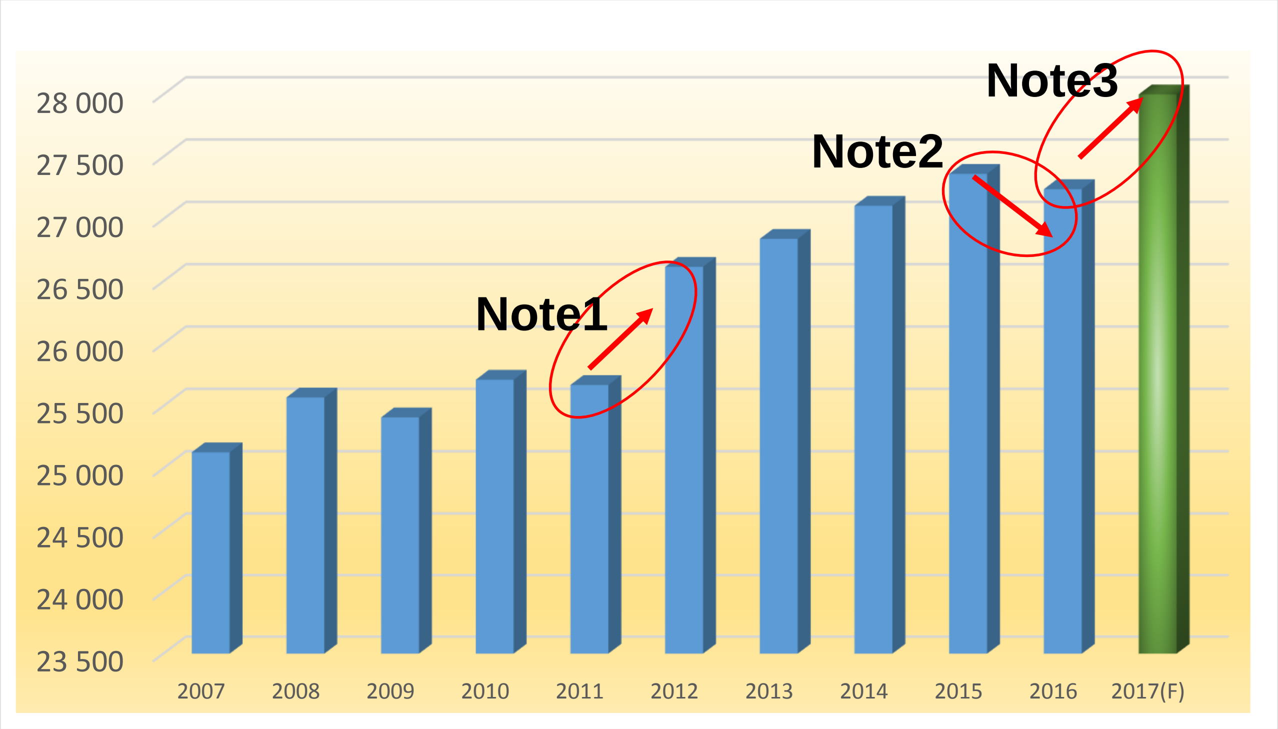
Market profile (2)

	System	Providers
1	帳務系統 (Core System)	IBM、Unisys、NEC、資拓宏宇 (IISI's Temenos)、 凌群 (Syscom's Tandem(HPE))
2	ESB系統 (Enterprise Service Bus)	慧訊國際 (Comwave's TIBCO)、資拓宏宇 (IISI)、神通 (Mitac)
3	其他系統 (Other Systems)	
	3-1 財富管理系統 (Wealth Mgnt Sys)	精誠 (Systex)、商智資訊 (BI)
	3-2 印鑑系統 (Signet ID System)	影像 (Newimage)、和訊 (Harmonation)、映像
	3-3 票據影像系統 (Check Img System)	和訊、影像、兆銀 (Mega Silver)
4	FEP系統 (Front End Process)	普鴻 (Provision)、慶熚 (Aitc)、凌群
5	端末系統 (Terminal System)	三商電腦 (MDS)、資拓宏宇、 精誠、凌群、北祥 (Pershing)、NEC、Unisys
6	ATM	三商電腦 (Hitachi)、Diebold-Nixdorf、NCR、國眾 (Leosys's OKI)
7	信用卡 (Credit Card) POS	瑞仕普 (SymLink)、微程式 (Microprogram)、 虹堡 (Castle Tech)、嘉利 (Nexsys)

Core Business

Banking automatic system

ATM market profile (1) : The number of ATM installment from 2007 to 2016 and 2017(F)



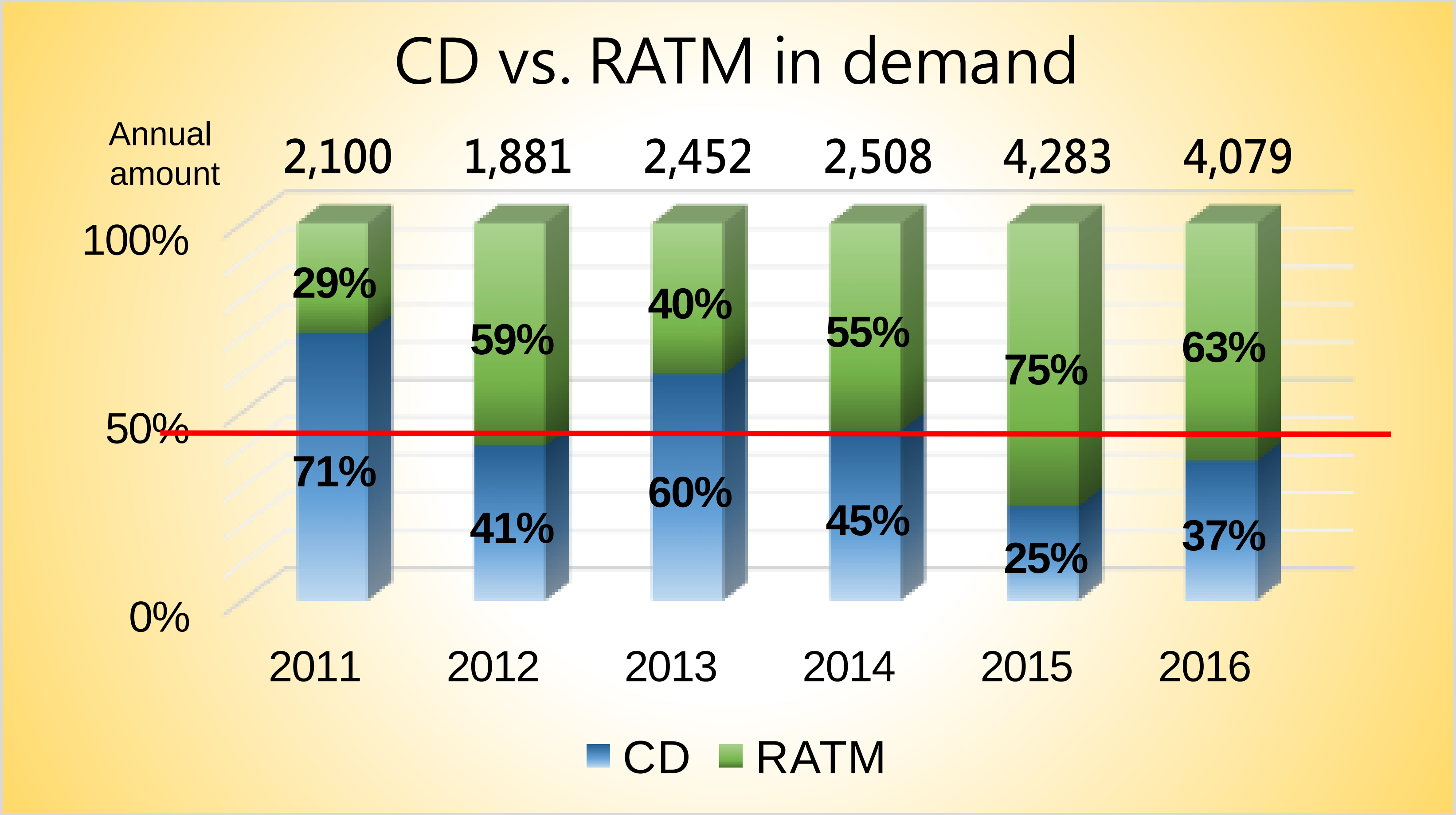
- The total amount of ATM in Taiwan is 27,000 units.
- Some banks aggressively explore new channels to install ATMs. We predict an 1,000 unit increase in 2017.

Source：Banking Bureau, FSC. 2016.12 and MDS predicts
Note 1：Union Bank, Sino Bank and CTBC installed 1,200 ATMs in CVSs
Note 2：First Commercial Bank suspended 300 ATMs
Note 3：One domestic super-market chain store will install 1,000 ATMs in 2017

Core Business

Banking automatic system

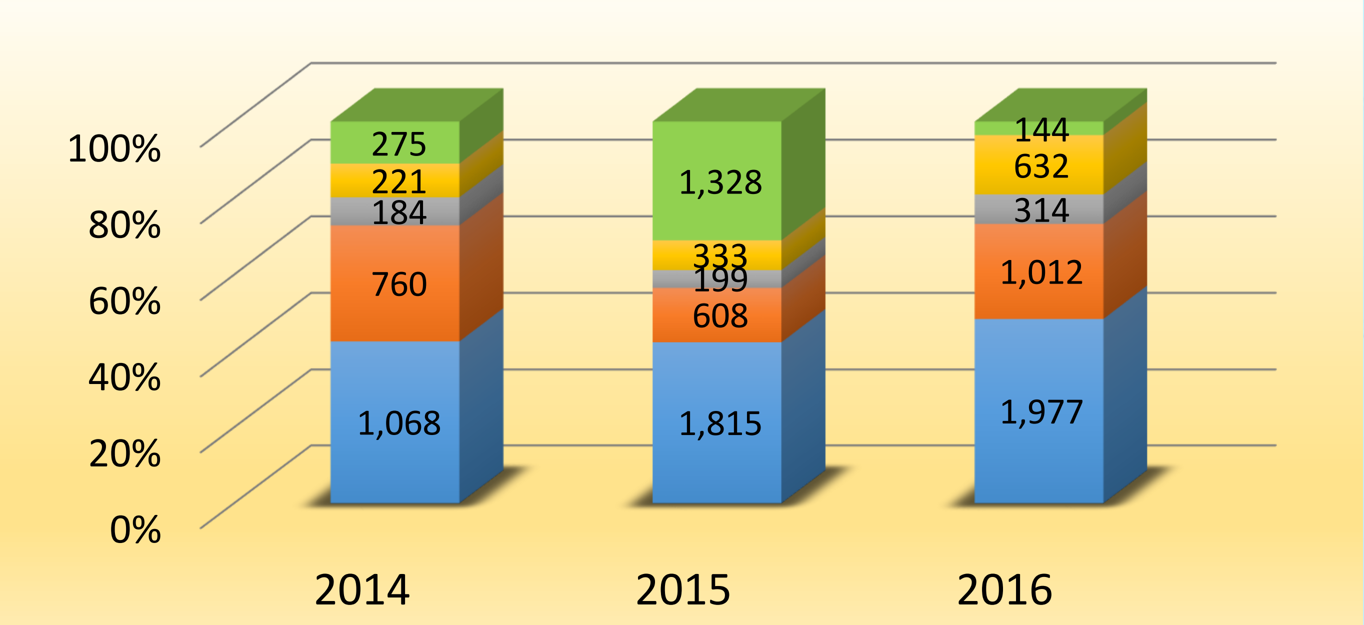
ATM market profile (2) : The demand of CD is decreasing while RATM is increasing



Core Business

Banking automatic system

ATM market profile (3) : 2014-16 ATM annual sales by vendors



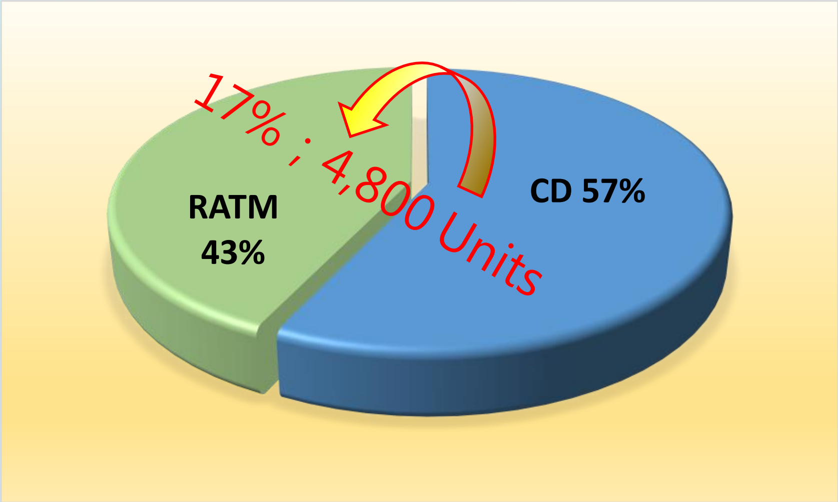
	2014	%	2015	%	2016	%
OKI	275	11%	1,328	31%	144	4%
NCR	221	9%	333	8%	632	15%
Diebold	184	7%	199	5%	314	8%
Wincor	760	30%	608	14%	1,012	25%
MDS	1,068	43%	1,815	42%	1,977	48%
TTL	2,508	100%	4,283	100%	4,079	100%

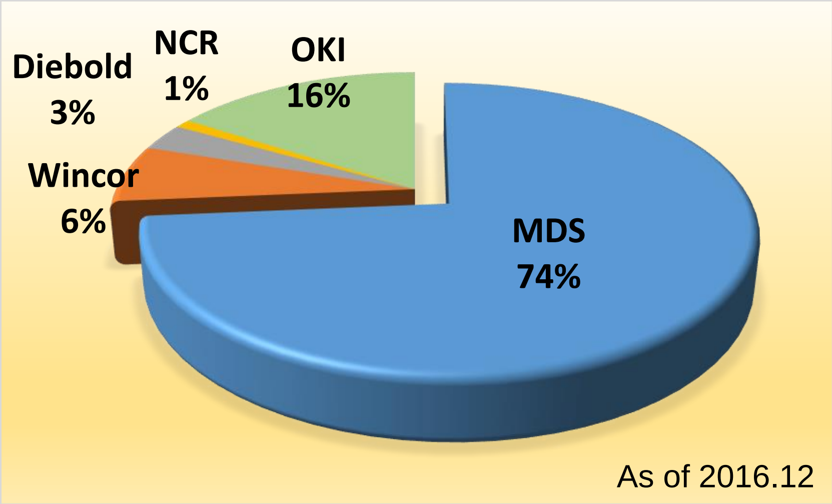
- MDS tops the market share in last 3 years.

Core Business

Banking automatic system

ATM market profile (4)





- If the proportion of CD vs. RATM reaches 4:6, that means there are 17%, equivalent to 4,800 RTAMs, of the amount of CDs will be replaced by RATM in the future (Assume the market size is 28,000).

- At present, the MDS's RATM market share is 74%, that means MDS has the competitive advantage in RATM market. MDS believes it can get the major orders while the conversion from CD to RATM.

Core Business

Banking automatic system

Other banking products/ solutions

- MDS owns two (Hitachi and Shinko) out of three PEM brands in Taiwan. As of 2016.12, the market share is 76% with 7,335 installments.
- One fourth of Taiwan banks uses MDS's DMS solution.
- CDM's market share is number one, 59% with around 470 installments (2016.12).

Core Business

Public construction integration

- To undertake large-scale public constructions and maintenance thereafter
  - TRA TETRA（Terrestrial Trunked Radio）system
  - TPC Billing system
  - CGA Coast Radar system
  - NPA P25 (Project 25) Digital Radio system
  - AFC (Automatic Fare Collection) system and AG (Automatic Gate) system
  - IC Card Clearance system

Core Business

Public construction integration

- To undertake government or private sectors' software developments and mobile applications
  - Oracle/HP hardware sales and maintenance
  - 119 system and emergency rescue system for city fire department
  - ERP system for retail business
  - BPM (Business Process Management) system
  - SKMS (Shareholders' Knowledge Management System)
  - CRM (Customer Relationship Management) system
  - VRS (Video Recording System)

Core Business

Public construction integration

- **Others: Intelligence Marketing Application**
  - IVA (Intelligence Video Analytics)
  - DS (Digital Signage)
  - KIOSK + Platform
  - iBeacon
- **Others: Cloud Services**
  - Mobile solutions for insurance companies
  - BPM, SKMS, CRM in Cloud

Introduction of Indicative Mega-size Public Construction Integration

MDS 三商電腦
Service Integration by MDS

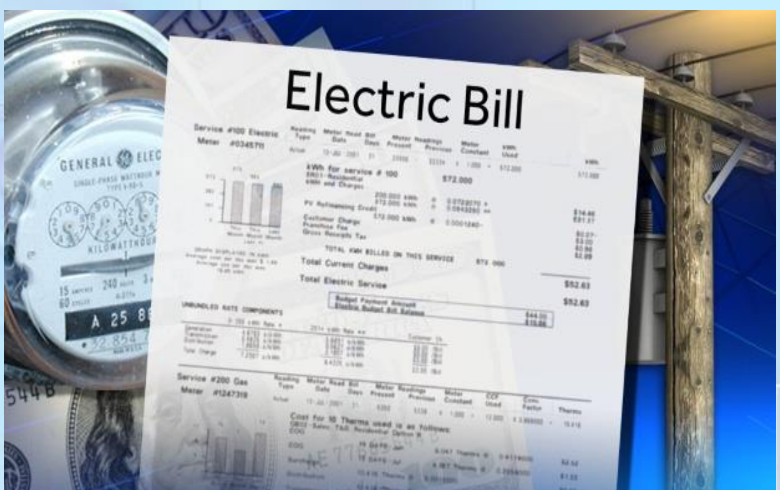
TETRA system

- The award price of the TRA TETRA system, finished on 2007/11, is NT1.79 billion dollars.
- The first 5 year maintenance contract, starting from 2009/11, is NT 354 million dollars. (5.9 million monthly)
- The second 5 year maintenance contract, starting from 2015, expands to 528 million (8.8 million monthly)

Introduction of Indicative Mega-size Public Construction Integration

MDS 三商電腦
Service Integration by MDS

Billing system



- The award price is NT 313 million dollars, including 2 year warranty. Project was finished on 2008/6.
- The maintenance contract, starting on 2010/7, is signed every 2 years. Now, the contract has been renewed 4 times due on 2018/7. The total maintenance revenue is up to 105 million dollars.

Introduction of Indicative Mega-size Public Construction Integration

MDS 三商電腦
Service Integration by MDS

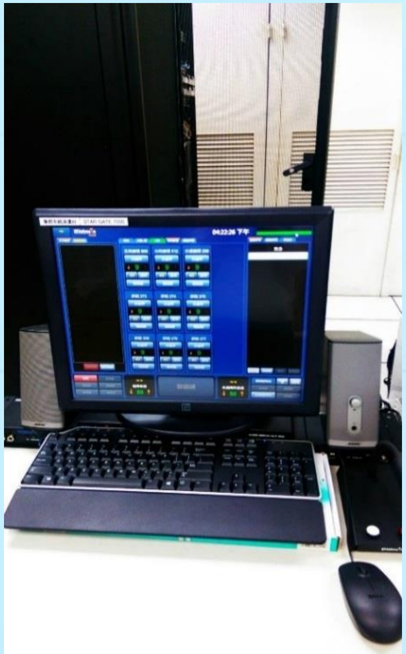
Coast radar system

- The contract is NT 742 million dollars, including 3 year construction, 2 year warranty and 5 year maintenance.
- 57 radar stations and peripheral hardware are located on northern, middle and southern Taiwan, not including eastern area.
- Last generation, built on 2003/12, will be run for 15 years.

- The current constructor has the advantage to compete against the other bidder in the eastern area (budget approx. 300 million dollars).

Introduction of Indicative Mega-size Public Construction Integration

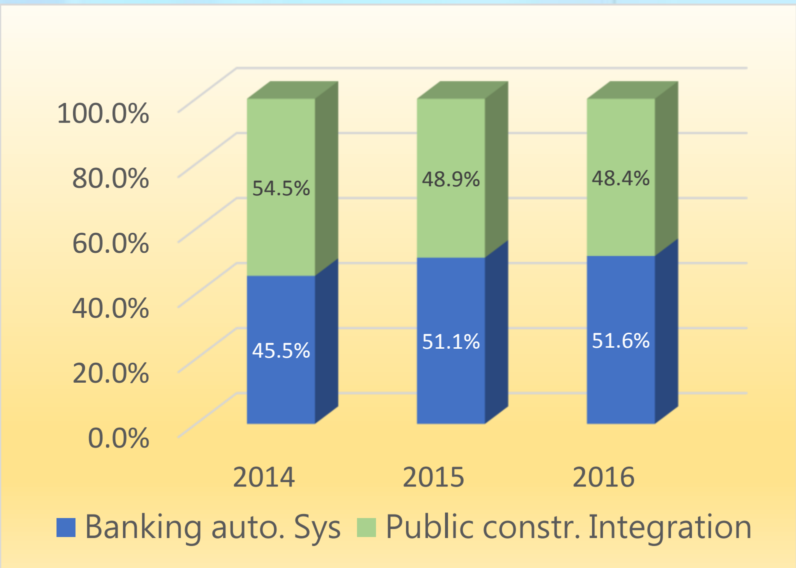
P25 digital radio system


- The contract is NT 550 million dollars, including 3 year construction, 1 year warranty and 6 year maintenance.
- Taipei City Police Dept. is the first one to migrate to the digital radio system. Therefore, the experience and reference from this case will be useful for MDS to compete for bids in other cities (approx. 2 billion).

Revenue Proportion in Each Business

- 2014 – 16 Revenue proportion from banking automatic system and public construction integration.



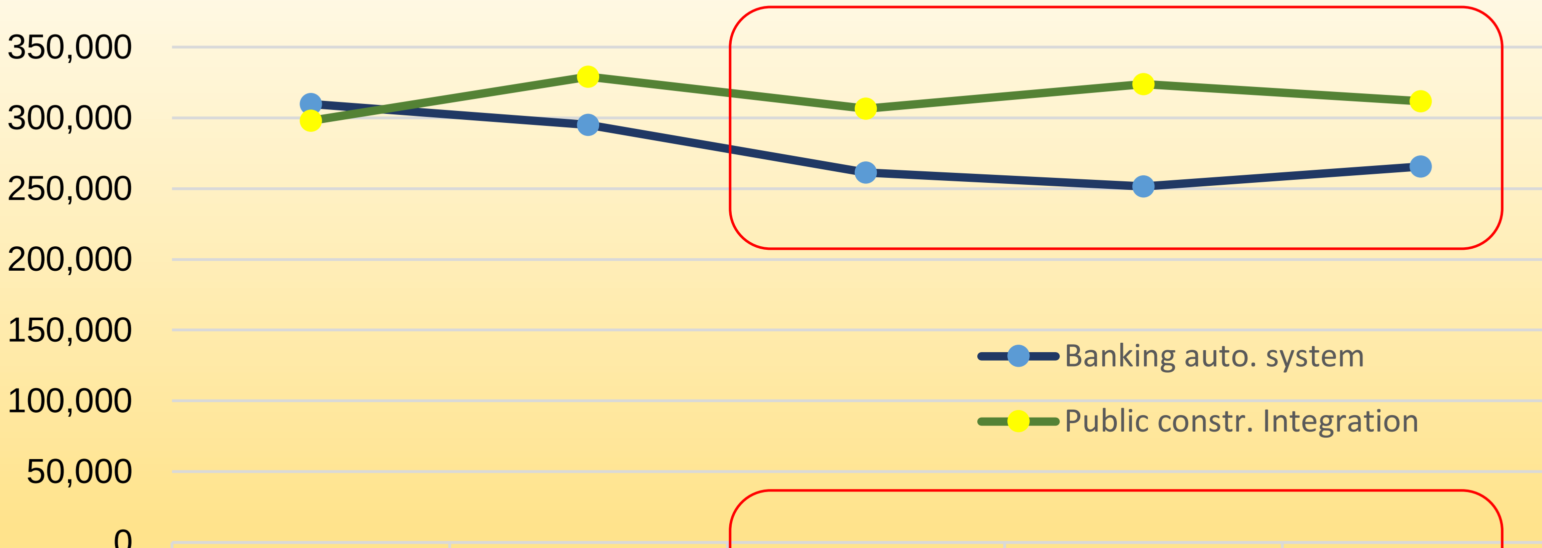
Unit：%, ,000

	2014	2015	2016
ATM Sales	20.9%	30.9%	34.5%
PEM Sales	4.9%	2.6%	2.9%
Maintenance	14.4%	11.2%	10.0%
Others	5.3%	6.4%	4.3%
Sub TTL	45.5%	51.1%	51.6%
TRA Sales	14.9%	11.1%	5.0%
TRA Maintenance	3.7%	4.3%	3.8%
TPC	4.3%	4.3%	5.7%
CGA	0.2%	3.8%	9.0%
NPA	0.0%	0.0%	5.0%
Sun/Oracle Sales	12.3%	4.6%	5.4%
Sun/Oracle Maintenance	7.4%	5.8%	4.2%
Others	11.6%	15.0%	10.2%
Sub TTL	54.5%	48.9%	48.4%
Total rev. from parient company	1,817,512	2,243,896	2,661,622

Revenue Proportion in Each Business

- 2014 – 16 Maintenance revenue from banking automatic system and public construction integration

Unit: ,000



	2012	2013	2014	2015	2016
Banking auto. system	309,825	295,251	261,335	251,472	265,537
Public constr. Integration	298,229	329,184	306,610	323,860	311,928

Financials

Consolidated Balance Sheet

Unit: ‘000

Assets	105/12/31	105/06/30	104/12/31
Current Assets			
Cash and cash equivalents	508,145	332,287	392,867
AR/NR and other receivables	719,184	493,680	665,164
Inventories	1,138,675	1,156,841	993,871
Prepayments	264,415	309,151	220,381
Other current assets	41,692	21,273	42,873
Total Current Assets (A)	2,672,111	2,313,232	2,315,156
Non-current Assets			
Available-for-sale financial assets-noncurrent	238,417	136,888	136,888
Held-to-maturity financial assets	0	200,000	200,000
Investments recognized under equity method	246,835	240,933	231,376
Property, plant and equipment	543,810	538,989	542,877
Intangible assets	17,619	20,164	20,389
Deferred assets	68,258	69,593	72,429
Other noncurrent assets	83,915	76,482	74,767
Total Noncurrent Assets (B)	1,198,854	1,283,049	1,278,726
Total Assets (A)+(B)	3,870,965	3,596,281	3,593,882

Liabilities	105/12/31	105/06/30	104/12/31
Current Liabilities			
Short-tern liabilities	710,000	800,000	607,000
AP/NP	327,653	192,335	267,964
Other accounts payable	126,498	89,534	111,870
Other current liabilities	460,268	295,957	363,138
Total Current Liabilities (C)	1,624,419	1,377,826	1,349,972
Total Non-current Liabilities (D)	136,998	125,805	150,832
Total Liabilities (C)+(D)	1,761,417	1,503,631	1,500,804
Owner's Equity			
Common Stocks	1,873,145	1,873,145	1,873,145
Additional paid-in capital	94,995	94,767	94,748
Retained Earnings	83,080	59,706	57,408
Other equity	71,284	77,855	80,568
Treasury stocks	(24,234)	(24,234)	(24,234)
Equity Attributable to Owners of the Parent (E)	2,098,270	2,081,239	2,081,635
Non-controlling Interests (F)	11,278	11,411	11,443
Total Equity (E)+(F)	2,109,548	2,092,650	2,093,078
Liabilities and Owner's Equity (C+D+E+F)	3,870,965	3,596,281	3,593,882

Financials

Consolidated Income Statement in last 3 years

Unit: '000

	2014	2015	YoY	2016	YoY
Revenue	1,926,598	2,263,048	17.5%	2,696,941	19.2%
Cost	(1,319,581)	(1,574,928)	19.4%	(1,957,430)	24.3%
Gross Margin	607,017	688,120	13.4%	739,511	7.5%
Gross margin rate %	31.5%	30.4%		27.4%	
Operation Expense	(611,172)	(664,815)	8.8%	(709,267)	6.7%
Operation Income	(4,155)	23,305	N/A	30,244	29.8%
Operation Income rate %	-0.2%	1.0%		1.1%	
Other Income	33,588	12,681	-62%	24,393	92.4%
Income Before Tax	29,433	35,986	22%	54,637	51.8%
Tax	(7,446)	(3,219)	-57%	(5,189)	61.2%
Net Income	21,987	32,767	49%	49,448	50.9%
EPS (dollar)	0.12	0.18		0.27	

New Products (1)

- ServiceJDC®

New Products (2)

MDS 三商電腦
Service Integration by MDS

- Finger Vein

- TCR (Teller Cash Recycler)

- VTM (Virtual Teller Machine)

- CDM (Coin/Cash Deposit Machine)

New Products (3)

- TRA TETRA’s expansion: budget approx. million dollars

Carriage Automatic Broadcasting System

Full function handset

Passenger Information System Controller

- TPC: approx. 1.8 billion
  - Billing system 2nd generation
  - MDM (Meter Database Mgnt.)

MDS 三商電腦
Service Integration by MDS