



葡萄王生技
GRAPE KING BIO



Grape King Bio (1707 TT)
Investor Presentation (June 2019)



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Investment Highlights



**We are
industry leader**

- ✓ We are a leading health food manufacturer in Greater China, specializing in probiotics, mushroom and other herbal-based supplements.
- ✓ We operate the second largest direct-selling company – Pro-Partner in Taiwan (2016 market share: 9.8%).



**Strong R&D
capabilities**

- ✓ We are one of the few health food companies in Taiwan that possess the capability to produce our own raw materials, manufacture products and distribute through own brands and channels.
- ✓ Our expertise in raw materials allow us to develop health supplements serving different benefits. Therefore, many of our products are TFDA approved for different health benefits.
- ✓ We are also a frequent winner of major international conventions/competitions in respect to new product design/concept.



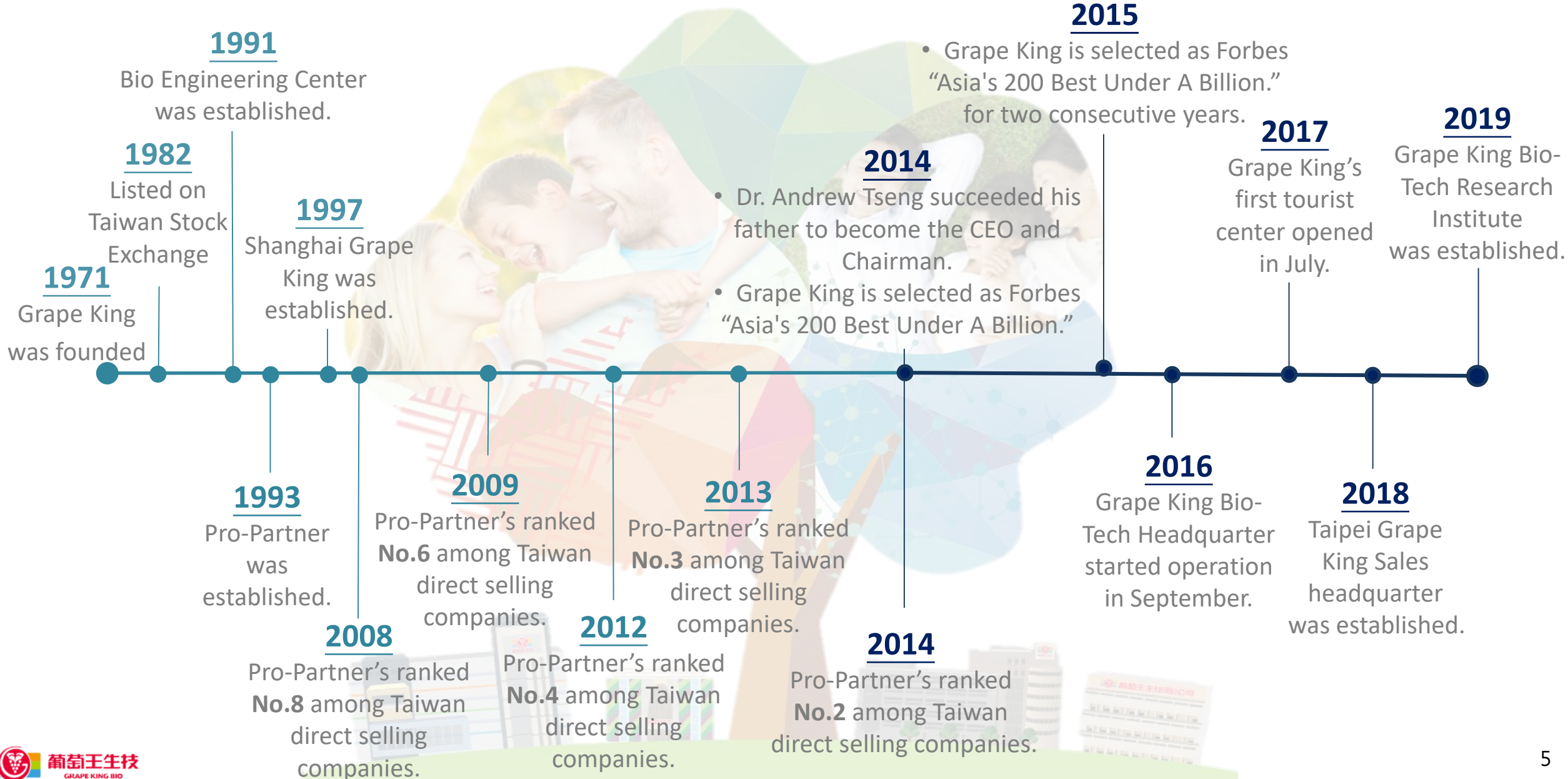
**Solid growth
with sustainable
payout ratio**

- ✓ We have delivered a solid earnings during 2008-2018 (CAGR of 23%/average ROE 21%).
- ✓ We have maintained more than 60% dividend payout in the past five years.
- ✓ On the back of a growing health and wellness market in Asia, we strive to deliver double digit topline growth through different growth catalysts from our individual business unit.



Company Background

Company Milestones



Company Overview : Three core business units



1. Grape King Taiwan

Taiwan own brand & global OEM & ODM

Locus of all key ingredient design, formulation, and production for the whole Group.



2. Pro-Partner

Taiwan direct selling distribution

A differentiated distribution channel with products sold through direct-selling by members under the Pro-Partner brand.

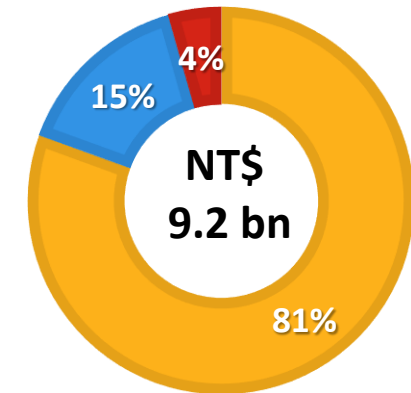


3. Grape King Shanghai

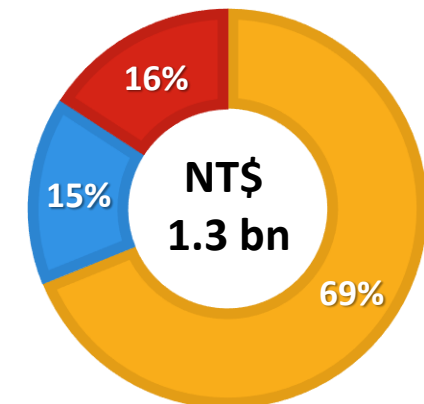
China OEM & ODM

Our manufacturing in China that focuses on OEM and ODM for domestic and global health food companies.

2018 Revenue



2018 Net profit



■ Pro-Partner
■ Grape King Shanghai
■ Grape King Taiwan

Notes: Net profit breakdown is based on our annual report.

Complete Product Range



Energy
drink



Feminine
beauty



Health
maintenance



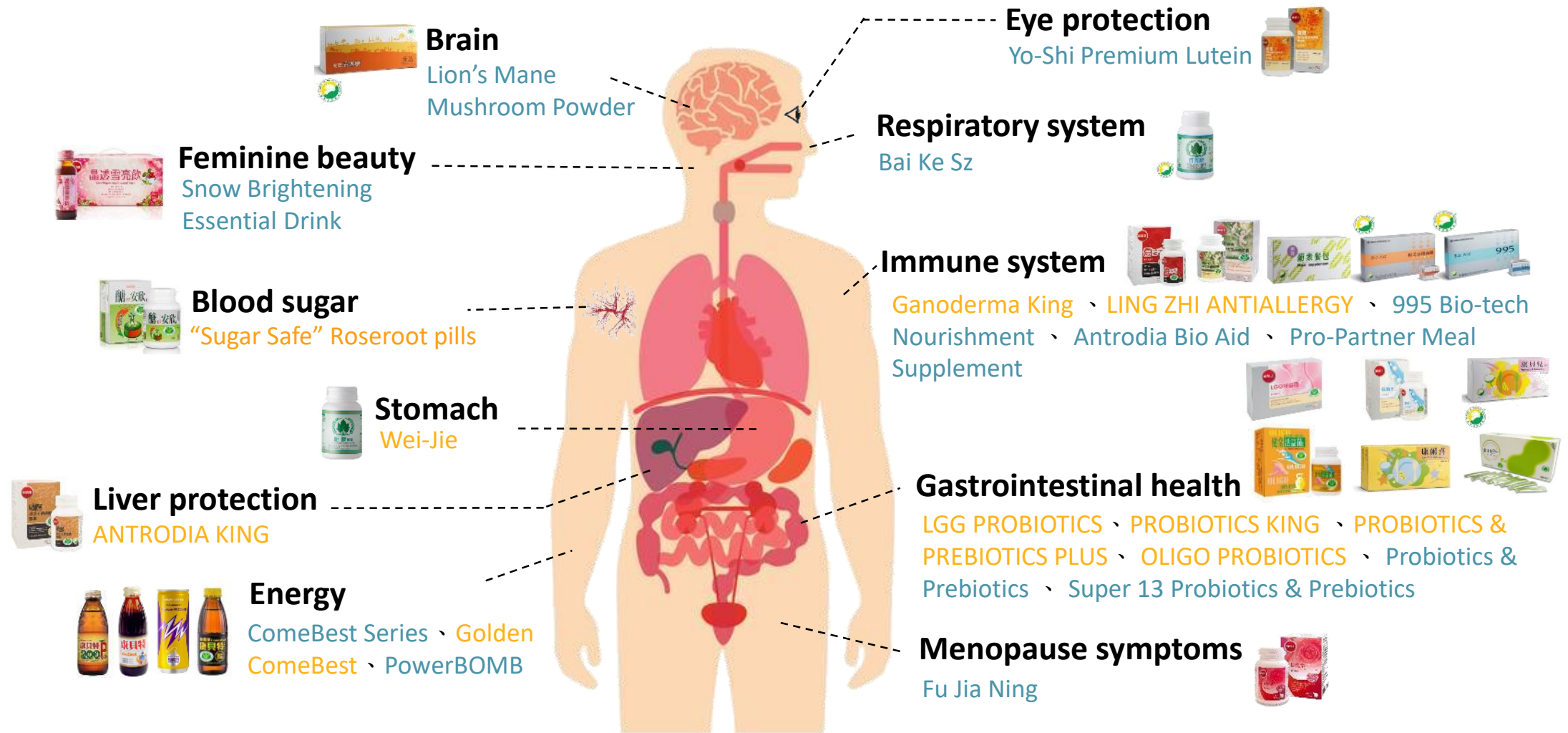
Chinese
herbal



Children
healthcare

Competitive Strengths- Strong Products Capabilities

We acquired more than 52 patents and published over 20 research papers.
Also, we acquired more than 10 TFDA Health Food certifications on our products.



— With TFDA Health Food certifications

2017-2019 : 8 countries, 61 awards
(2019/1-2019/5 : 19 awards)



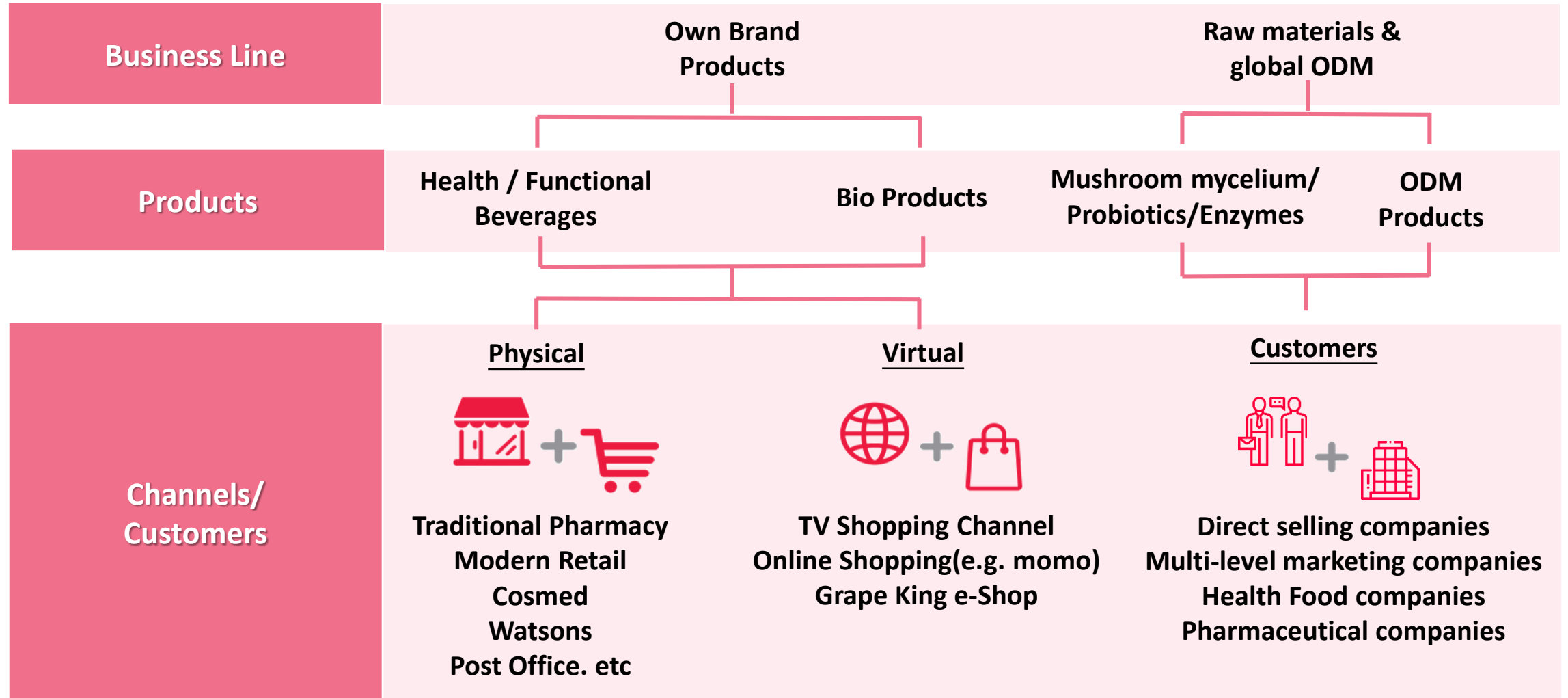
Competitive Strengths: State-of-the-Art Production Facilities





1. Grape King Taiwan

Taiwan-Grape King Brand Sales Channels



Our best seller – ComeBest Series

32.7% of 2018 revenue



Energy drinks that restore energy and provides necessary vitamins

Our second best seller – Antrodia King

9.9% of 2018 revenue



Liver protection and hangover prevention and alleviation



**Our third best seller –
Probiotics King**
9.7% of 2018 revenue

Improves digestion and defecation

**Our fourth best seller –
Ganoderma King**
9.2% of 2018 revenue



康健票選
連續**11**年
靈芝第一品牌

**免疫調節做得好
常保健康沒煩惱**
國家健康認證 具免疫調節功能



Strengthens the immune system and suppress allergic reactions



2. Pro-Partner

Pro-Partner Overview

4 key numbers of Pro-Partner

- 1
 - Largest domestic direct selling company in Taiwan based on revenue.
 - One of the fastest growing direct selling companies in Taiwan (20% sales CAGR from 2008 to 2018)

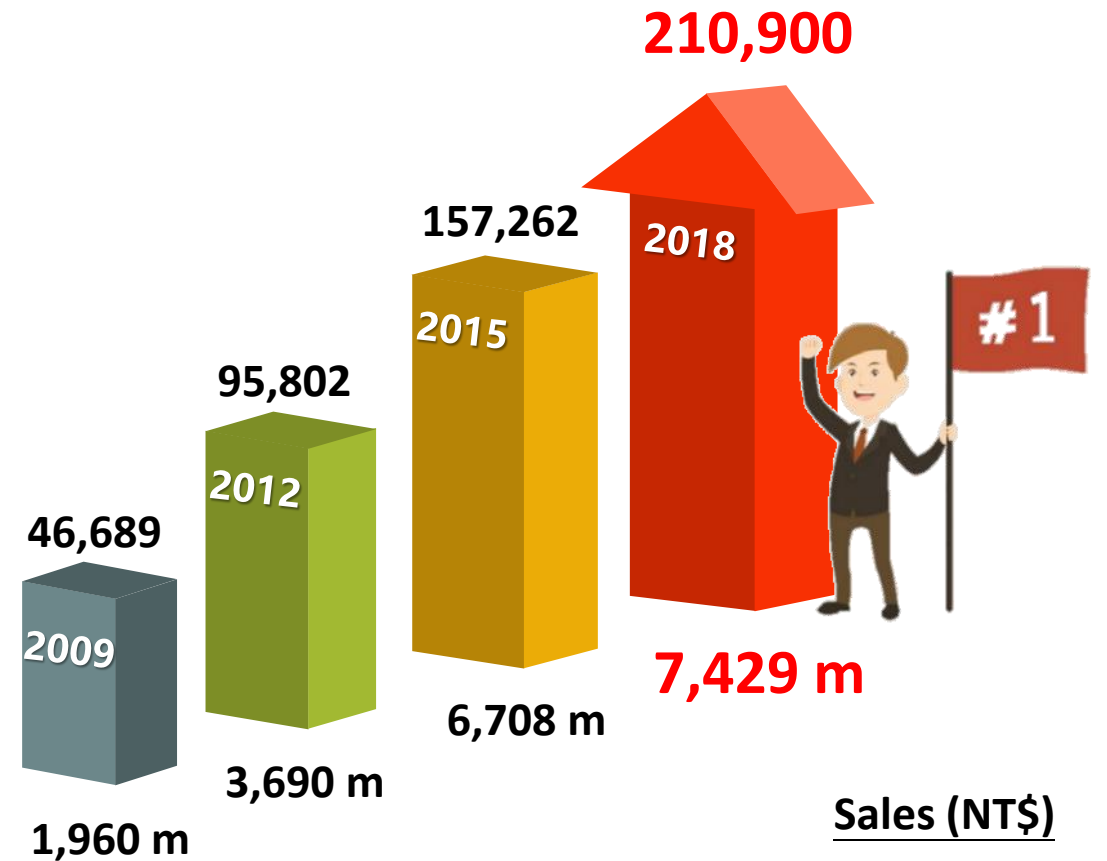
- 2
 - Second largest overall direct selling company in Taiwan. (2016 market share: 9.8%)

- 28
 - Smallest product range – 28 Health and Beauty products among the top 5

- 49
 - No. 49 in the worldwide direct selling company rankings for 2018
(Source: 2019 DSN Global 100- based on 2018 revenues)

Growing sales and members#

Members#



Our best seller – Probiotics & Prebiotics

30.6% of 2018 revenue



Promote healthy digestive system and suppress allergy

Our second best seller– Bio Aid 995

15.0% of 2018 revenue



Post operative convalescence



Daily Light
神纖潘朵拉

Daily Light

神纖潘朵拉

Our future star – Daily Light

Daily Light is our new product launched in 2018 which targets weight management and is popular among our female members.

How is Pro-Partner different from other direct selling companies?

Products purchase



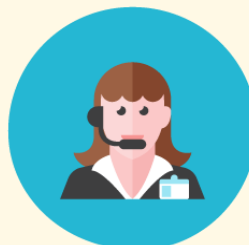
- ✓ No minimum purchase requirement.
- ✓ No inventory pressure. (Members buy products directly from the company)

Products' uniqueness



- ✓ Higher entry barrier for Products (bio-researched and engineered).
- ✓ Symbol of national certifications.
- ✓ Products are mostly manufactured in-house rather than outsourced.

Support



- ✓ Managed by Grape King, a well-respected health food company in Taiwan, so we can offer dedicated customer service and support.

Training



- ✓ All the trainings and venues are held by the company, so we can have consistent training quality.
- ✓ All the trainings are free to members.

Compensation

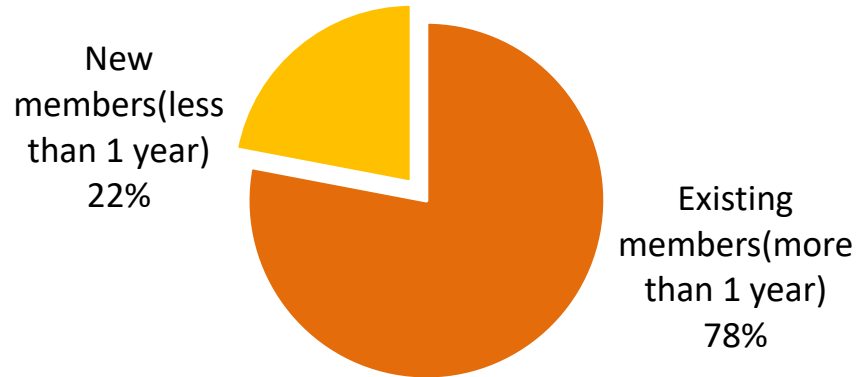


- ✓ Transparent compensation structure.
- ✓ All purchases can be accumulated.
- ✓ All compensation are paid to sales contribution and directly to the members by the company.

How is Pro-Partner different from other direct selling companies?

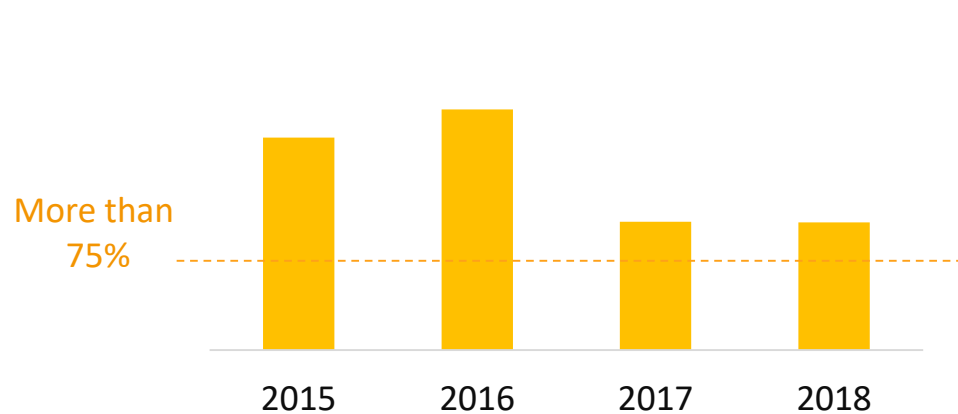
Nearly 78% of Pro-Partner's sales are contributed by old members

Pro-Partner sales contribution(2018)



Our member retention rate is remarkably high number among peers

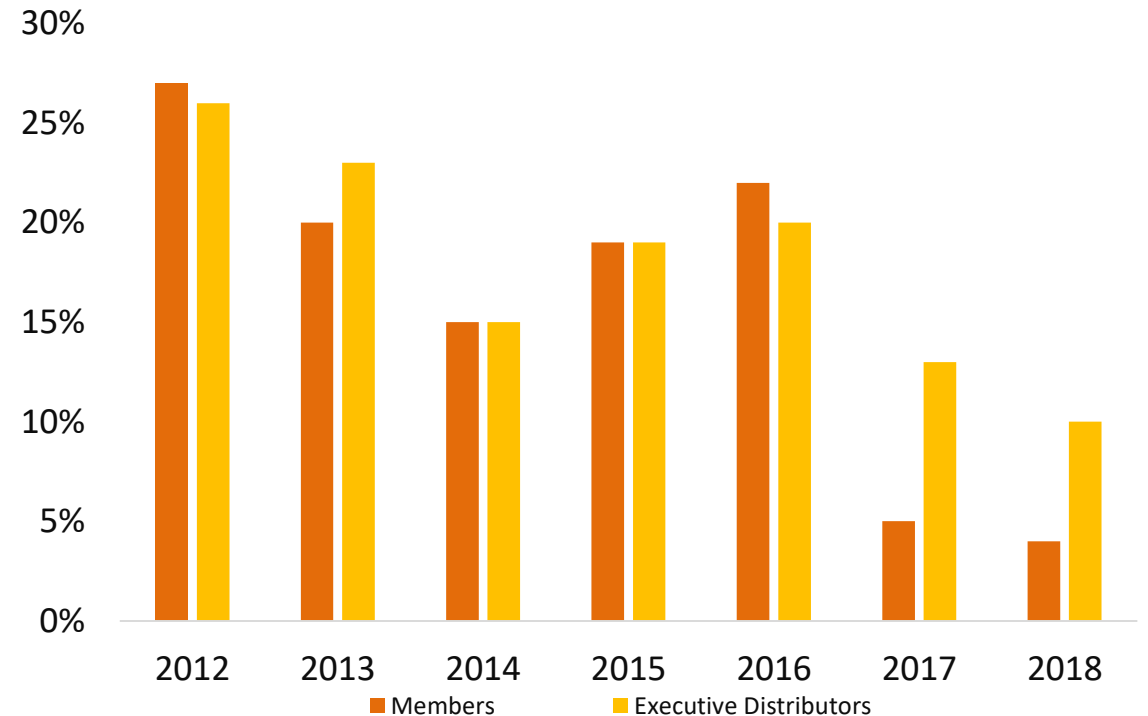
Member retention rate



Healthy membership growth

The growth rate of our executive distributors are similar to the growth rate of our members in the past years. This implies that our members are proportionally promoted each year based on their contribution to the group.

Pro-Partner member growth rate



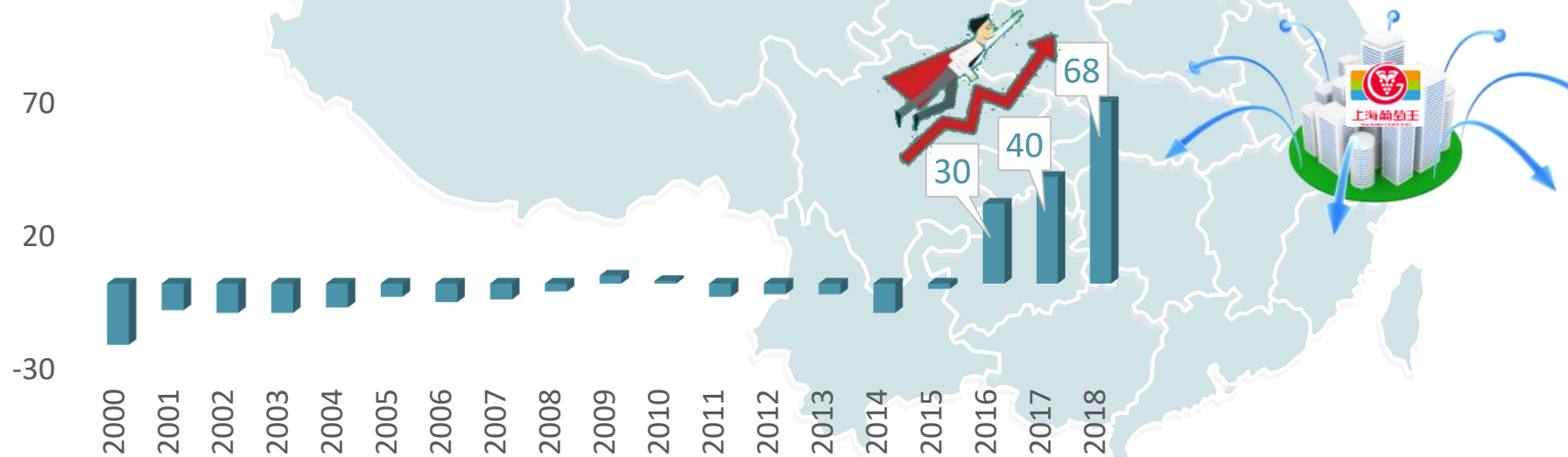


3. Grape King Shanghai

Grape King Shanghai Overview

- Established in 1993, Grape King Shanghai was initially targeted as the production base for Grape King's own brand products in China.
- A change in strategy steered by the new management to an OEM/ODM model has reversed several years of losses and turned the operation profitable.
- We see tremendous growth potential for Grape King Shanghai as it continues to acquire more ODM clients locally in China.

Grape King Shanghai operating profit (Rmb m)



Product series





Our Goals and Strategies

Our Group Goals



Long-term Goals

- Become a global leading herbal-and probiotics-based supplement supplier.
- Transform Grape King into a group enterprise.
- Grape King own brand, Pro-Partner, and Grape King Shanghai each to contribute 1/3 of consolidated revenue.

Mid-term Goals

- Become a major herbal- and probiotics-based supplement supplier in Asia.
- Establish retail channels in China.
- China business to continue delivering double-digit growth.

Near-term Goals

- Continue to improve brand equity.
- Continue to invest in food safety measures and protection.
- Smooth ramp-up for our capacity expansion.
- Consolidated revenue to resume to double-digit growth.

Our Growth Strategies

Key Objectives

Levers



**Sustainable
double-digit
topline growth**



Grape King Taiwan

- Brand expansion
- Market share gain
- Accelerate overseas ODM & raw materials supply businesses

- ✓ Brand expansion and new channels penetration (offline & online) under company's 50-Year anniversary marketing campaign.
- ✓ Continue to research and develop new products that are suitable for the market.
- ✓ Continue to participate in overseas exhibitions and competition to promote Grape King's raw material and R&D capabilities.



Pro-Partner

- Regain growth momentum
- Accurate time to market & improve demand forecast

- ✓ Accelerate new product launches from only 1-2 new products to 3-5 products per year.
- ✓ Improve supply chain management to ensure no supply disruption.
- ✓ KPIs implementation for timely product launches and accuracy in demand forecast.



Grape King Shanghai

- Clients diversification
- Prepping for the probiotics boom

- ✓ Cultivate 10 new customers with the potential of each contributing Rmb 10mn sales per annum
- ✓ Continue to promote Grape King's product expertise in probiotics

Growing our online sales channel



Besides our existing physical retail channels, we are increasing our virtual channel penetration.

Our Virtual channel

- ✓ Grape King online store
- ✓ Online B2C stores
- ✓ TV shopping channels
- ✓ Social Media

Creative Brand Building



Grape King Antrodia King (liver protection)
Stress causes high blood pressure but also harms liver

Creative Brand Building



Grape King Probiotics

Probiotics like a golden warrior who protects your digestion

New Products Pipeline



Weight management



Prostate protection



Liver protection drinks



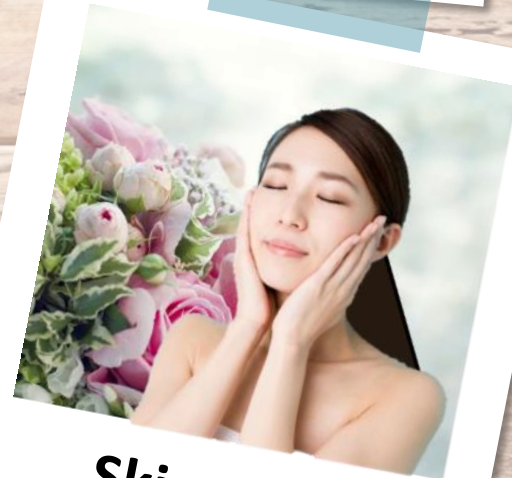
Pet health



Healthy snacks



Oral protection



Skin care and protection



Happiness booster

Our Capacity and Expansion Plan

Grape King Specialist Fermentation & Manufacturing Site



Manufacturing capacity

Production Line	Monthly Capacity	
	2018	2019
Capsules	7 M capsules	7 M capsules
Fine Granule	2 M pack	2 M pack
Liquids-Big CC	4.2 M bottles	4.2 M bottles
Liquids-Small CC	1 M bottles	1 M bottles
PKL	1.4 M bottles	1.4 M bottles
PIC/S	0.8 M packs	0.8 M packs

Fermentation capacity

Production Line	Capacity	
	2018	2019
Lactobacilli	25 tons	25 tons
Mushroom	161.5 tons	161.5 tons
PKL Liquids	80 tons	80 tons

Grape King Shanghai Headquarters



Manufacturing capacity

Production Line	Monthly Capacity		Start
	2018	2019	
Liquids(Glass)	15 M bottles	18 M bottles	4Q19
Liquids (Retort Pouch)	-	3 M packs	3Q19
Powder	8.2 M pack	15 M pack	3Q19
Capsules	-	7 M capsules	3Q19
Troches	23 M capsules	63 M capsules	3Q19

Grape King Bio-Tech Headquarter



Manufacturing capacity

Production Line	Monthly Capacity		Start
	2018	2019	
Capsules	8M capsules	13M capsules	4Q19
Fine Granule	15M pack	15M pack	-
Powder	1.8M packs	1.8M packs	-

Grape King Bio-Tech Research Institute



Fermentation capacity

Production Line	Capacity		Start
	2018	2019	
Lactobacilli	-	40 tons	3Q19
Mushroom	-	60 tons	3Q19



TQF



FSSC22000



HALAL



PIC/S GMP



HACCP



ISO22000



THIDA member



Testing Laboratory
3129

TAF



NSF GMP

Our Sustainability Initiatives

2018



296,450kg

Total CO2 emissions reduction

100%

Internal product traceability



+52% YoY

Employee training hours

94% → 97%

Training participation rate



+265% YoY

Volunteer service hours

(Including paid time off to volunteer)

+33% YoY

Invested in social & community engagement



100%

All employees have free health examinations

0

Major occupational accidents

TWSE corporate governance score (0-100)

2015

62.14

(Rank: 81%~100%)



2018

92.86

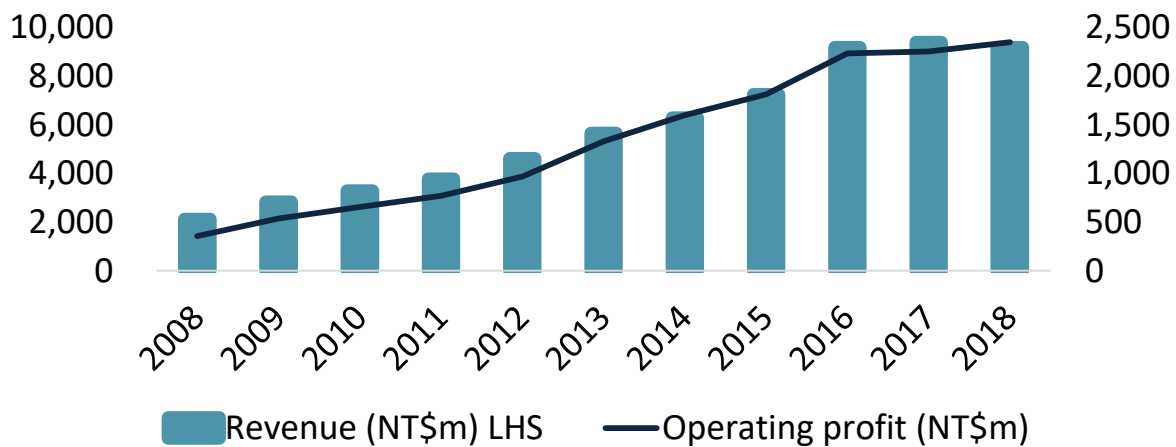
(Rank: 6%~20%)



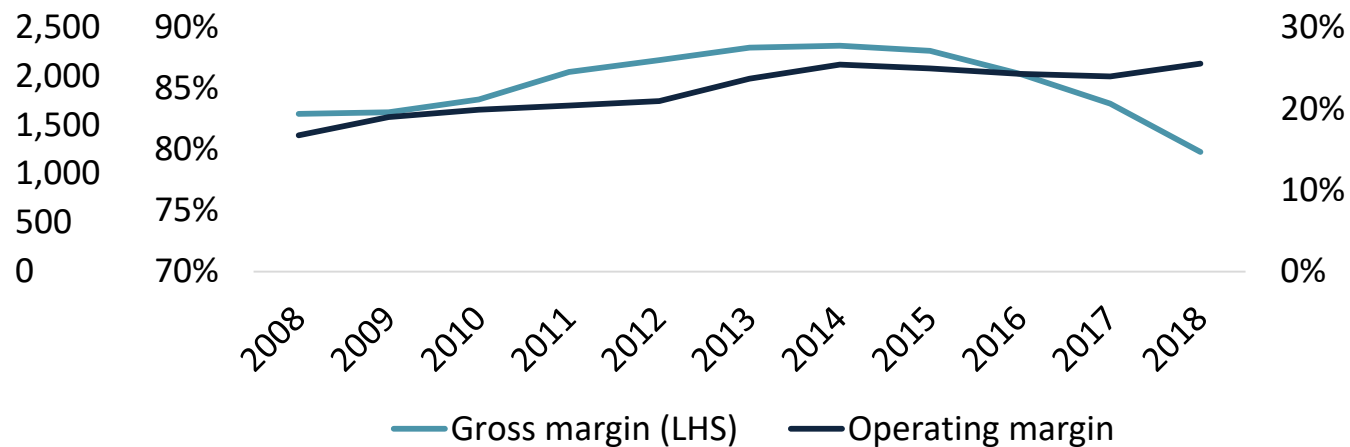
Financial Performance

Financial Highlights

Historical revenue vs. operating profit

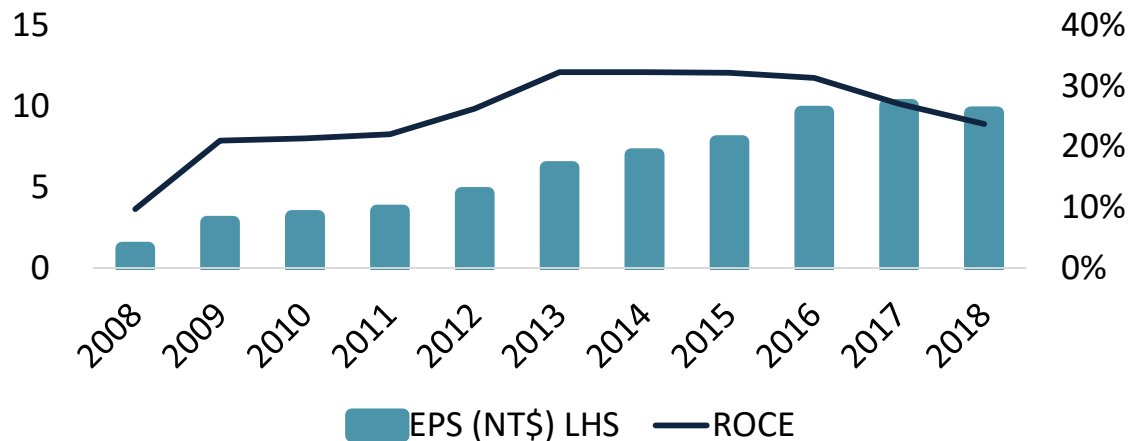


Historical gross margin vs. operating margin

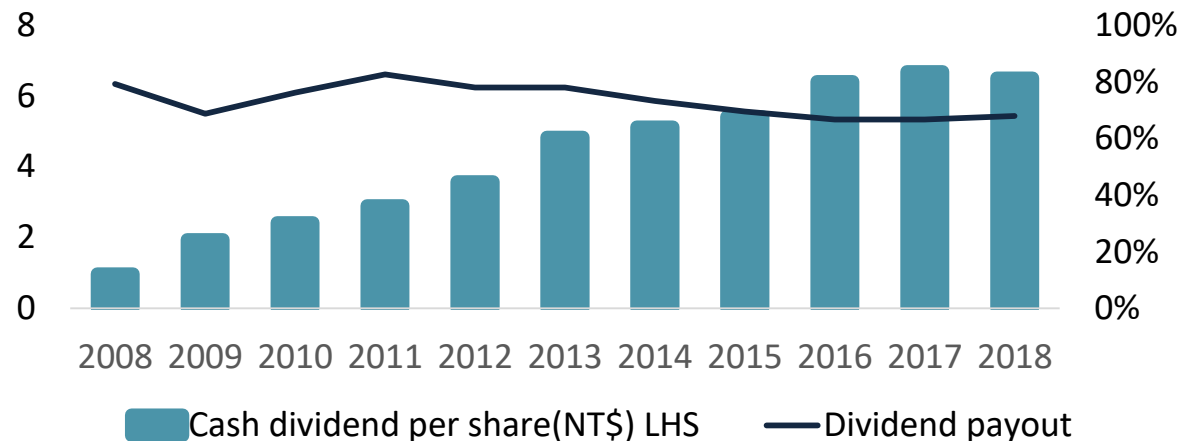


Note: The drop in gross margin is due to higher contribution from Shanghai Grape King with lower gross margin from ODM, but operating margin is around the same.

Historical EPS vs. ROCE



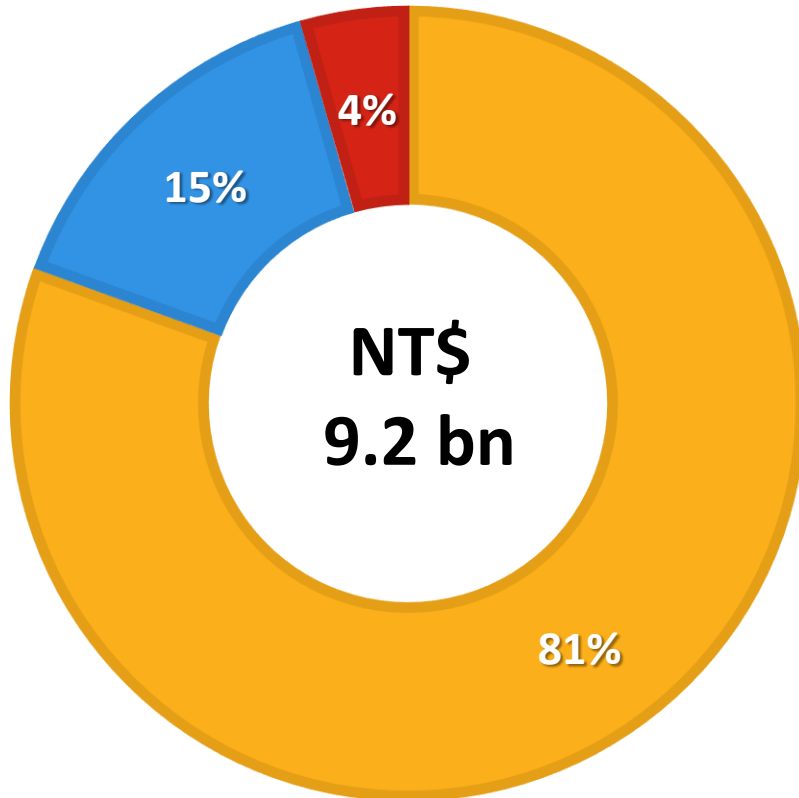
Historical cash dividend payout



Notes: The payout ratio declined in the past three years due to capacity expansion in Taiwan and Shanghai.

Revenue Breakdown (2018 v.s. 2017)

2018 Revenue



1. Grape King Taiwan

NT\$ 0.4 bn (+10% YoY)

Improved own brand sales in 2H18 owing to new products and our 50-year anniversary sales

2. Pro-Partner

NT\$ 7.4 bn (+2% YoY)

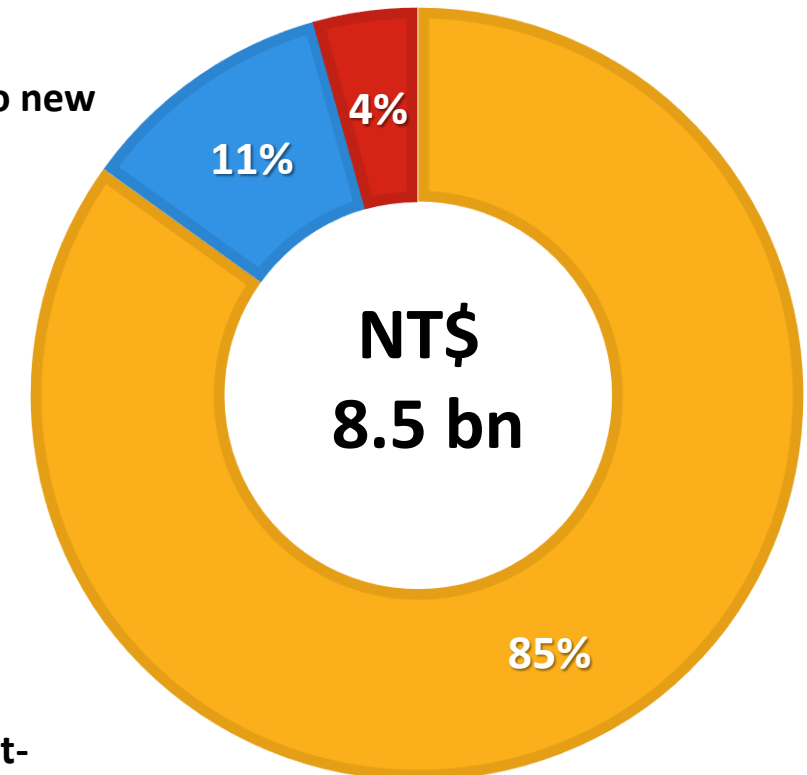
Slower membership growth as the business continues to recover

3. Grape King Shanghai

NT\$ 1.4 bn (+51% YoY)

Strong OEM/ODM demand from local direct-selling and Wechat customers

2017 Revenue



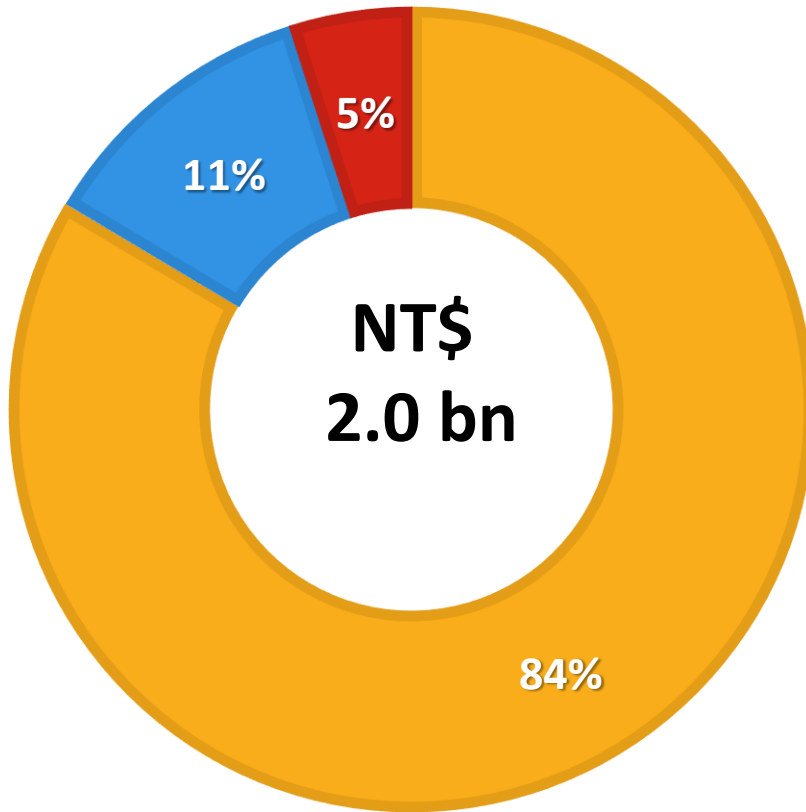
■ Pro-Partner

■ Grape King Shanghai

■ Grape King Taiwan

Revenue Breakdown (1Q19 v.s. 1Q18)

1Q19 Revenue



1. Grape King Taiwan

NT\$ 99 m (+22% YoY)

Strong sales through from our own brand products across offline and online channels

2. Pro-Partner

NT\$ 1.7 bn (+6% YoY)

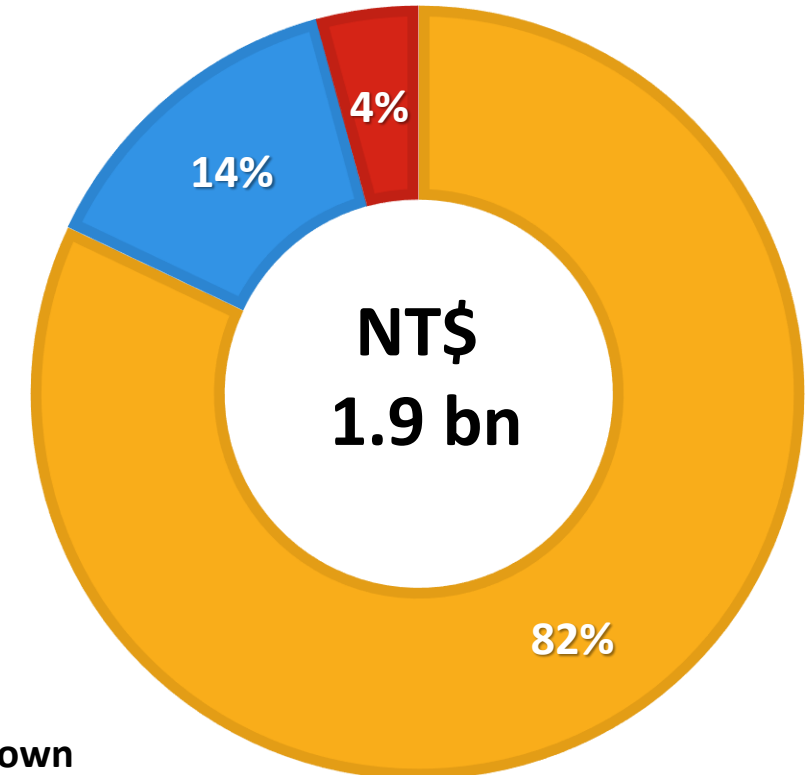
Sales momentum further improved on the back of membership growth and new product launches

3. Grape King Shanghai

NT\$ 232 m (-13% YoY)

Slower sales due to China's 100-day crack down campaign on irregularities in direct selling, which caused our ODM customers to hold back orders placing/shipment.

1Q18 Revenue



■ Pro-Partner ■ Grape King Shanghai ■ Grape King Taiwan

Five-Year Income Statement

(NT\$ m)	2014	2015	2016	2017	2018	1Q19	YoY (%)					
							2014	2015	2016	2017	2018	1Q19
Revenue	6,283	7,248	9,185	9,388	9,183	2,014	11.4	15.4	26.7	2.2	(2.2)	4.2
Gross Profit	5,561	6,385	7,919	7,865	7,329	1,638	11.6	14.8	24.0	(0.7)	(6.8)	6.4
Operating Expenses	(3,961)	(4,573)	(5,685)	(5,610)	(4,979)	(1,167)	8.4	15.4	24.3	(1.3)	(11.2)	8.0
Operating Profit	1,600	1,812	2,234	2,254	2,350	471	20.3	13.3	23.3	0.9	4.2	2.5
Non Operating Income/(Loss)	89	70	78	151	77	19	(8.1)	(21.5)	11.8	92.6	(49.2)	28.1
Pretax Income	1,689	1,883	2,312	2,405	2,427	490	18.4	11.4	22.8	4.0	0.9	3.3
Tax Expenses	(303)	(336)	(426)	(471)	(537)	(101)	23.1	10.9	26.8	10.6	14.0	2.6
Minority interest	(444)	(495)	(590)	(583)	(595)	(126)	28.4	11.5	19.2	(1.3)	2.1	9.4
Net Income to Parent	942	1,052	1,297	1,352	1,295	263	12.8	11.6	23.3	4.3	(4.2)	0.9
Basic EPS (NT\$)	7.24	8.07	9.82	10.03	9.57	1.93	12.8	11.5	21.7	2.1	(4.6)	0.0
Key Financial Ratios (%)												
Gross Margin	88.5	88.1	86.2	83.8	79.8	81.3						
Operating Expense Ratio	63.1	63.1	61.9	59.8	54.2	57.9						
Operating Margin	25.5	25.0	24.3	24.0	25.6	23.4						
Effect Tax Rate	17.9	17.8	18.4	19.6	22.1	20.7						
Net Margin	15.0	14.5	14.1	14.4	14.1	13.0						

Five-Year Balance Sheet

(NT\$ m)	2014	2015	2016	2017	2018	1Q19	YoY (%)					
							2014	2015	2016	2017	2018	1Q19
Total Assets	5,369	8,612	9,550	9,892	10,648	11,030	16.0	60.4	10.9	3.6	7.6	9.9
Cash	1,374	1,433	1,899	1,920	2,050	2,000	28.6	4.3	32.6	1.1	6.8	0.3
AR & NR	98	97	204	160	171	147	14.0	(1.9)	111.6	(21.5)	6.8	38.0
Inventories	268	359	435	492	563	552	14.1	34.0	21.0	13.1	14.4	24.5
Fixed Assets	2,068	5,597	6,084	6,355	5,927	6,225	13.6	170.6	8.7	4.5	(6.7)	(3.3)
Total Liabilities	1,652	4,393	3,767	3,564	3,715	3,686	17.3	165.9	(14.3)	(5.4)	4.2	12.6
AP & NP	128	153	198	323	262	177	45.9	19.2	29.6	63.2	(18.9)	4.3
Total Borrowing	0	2,439	1,206	1,022	1,119	1,304	-	-	(50.6)	(15.2)	9.5	17.9
Total Equity	3,717	4,220	5,783	6,328	6,933	7,343	15.4	13.5	37.1	9.4	9.6	8.6
Key Financial Ratios (%)												
A/R Turnover Days	5.3	4.8	5.9	7.0	6.5	5.7						
Inventory Turnover Days	125.6	131.0	113.0	109.5	102.4	119.1						
A/P Turnover Days	53.9	58.6	49.9	61.6	56.8	41.5						
Cash Conversion Days	77.0	77.2	69.0	54.9	52.1	83.3						
ROE (%)	32.3	32.1	31.3	27.0	23.7	18.2						
ROA (%)	18.9	15.0	14.3	13.9	12.6	10.0						
Net debt (cash)/Equity %	(37.0)	23.9	(12.0)	(14.2)	(13.4)	(9.5)						

Dividend Payout and Capex

(NT\$ m)	2012	2013	2014	2015	2016	2017	2018
Net profit	619	836	942	1,052	1,297	1,352	1,295
Cash dividend	482	651	690	730	862	903	883
DPS (NT\$)	3.7	5.0	5.3	5.59	6.4	6.68	6.5
Payout ratio	77.9%	77.9%	73.2%	69.4%	66.5%	66.8%	67.9%
Cash yield	3.1%	3.4%	2.4%	2.6%	3.2%	2.9%	3.1%
Capex	159	355	187	2,635	736	772	1,116

Notes:

1. Cash yield is calculated based on Grape King's closing share price on June 12, 2019
2. The big spike in capex in 2015-2017 is largely due to the investment of 1) Pro-Partner's new headquarter building, 2) the new factory and tourist factory in Pingzhen (Grape King Headquarter), 3) the new factory in Longtan (Grape King Bio-Tech Research Institute), and 4) additional production lines for Grape King Shanghai.
3. The estimated capex for 2019 will be used for 1) Grape King Bio-Tech Research Institute, and 2) various upgrade and new production lines projects.



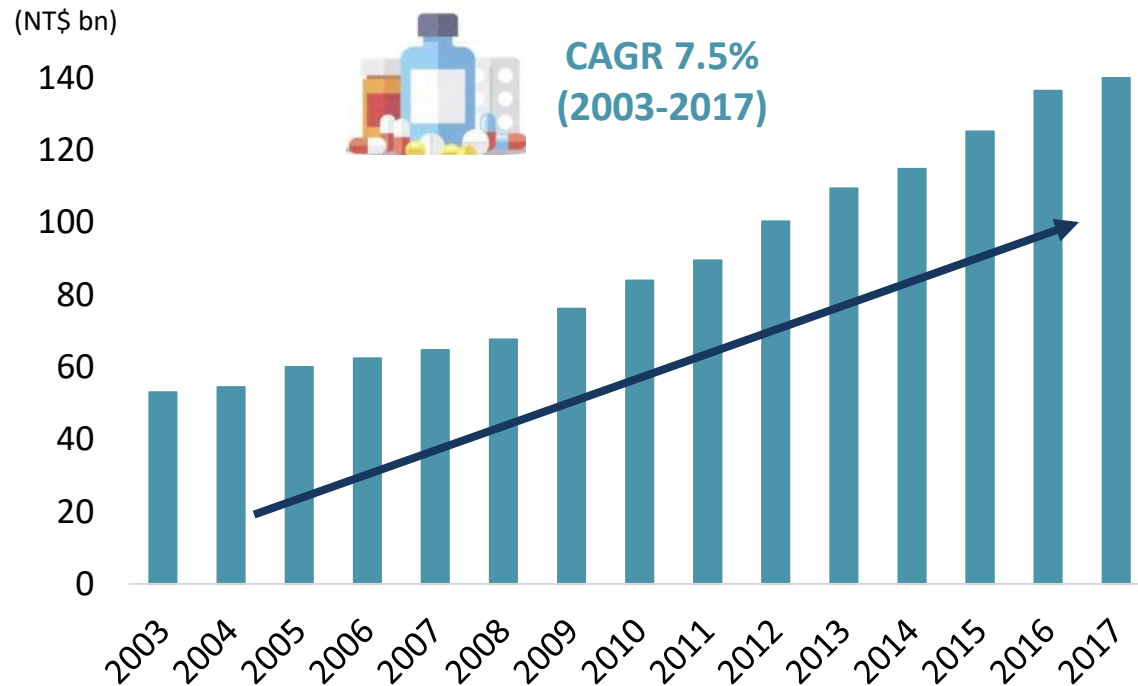
Appendix: Industry Trends

Taiwan health food industry

Taiwan's health food industry is growing

Taiwan health food industry continues to be driven by consumers' increasing interest in healthier lifestyles as a cost-effective way to combat ageing and prevent modern illness.

Taiwan health food industry (NT\$ bn)



Source: AC Nielsen

We keep gaining market share in Taiwan

We have been gaining market share in Taiwan's health food industry and we are also the industry leader in both mushroom-based supplements and probiotics.

Grape King's market share in Taiwan health food industry

	<u>2013</u>		<u>2017</u>
Taiwan health food	4.90%	➔	5.78%
Mushroom	32.06%	➔	38.54%
Probiotics	13.89%	➔	39.57%
Energy drink	12.23%	➔	13.71%

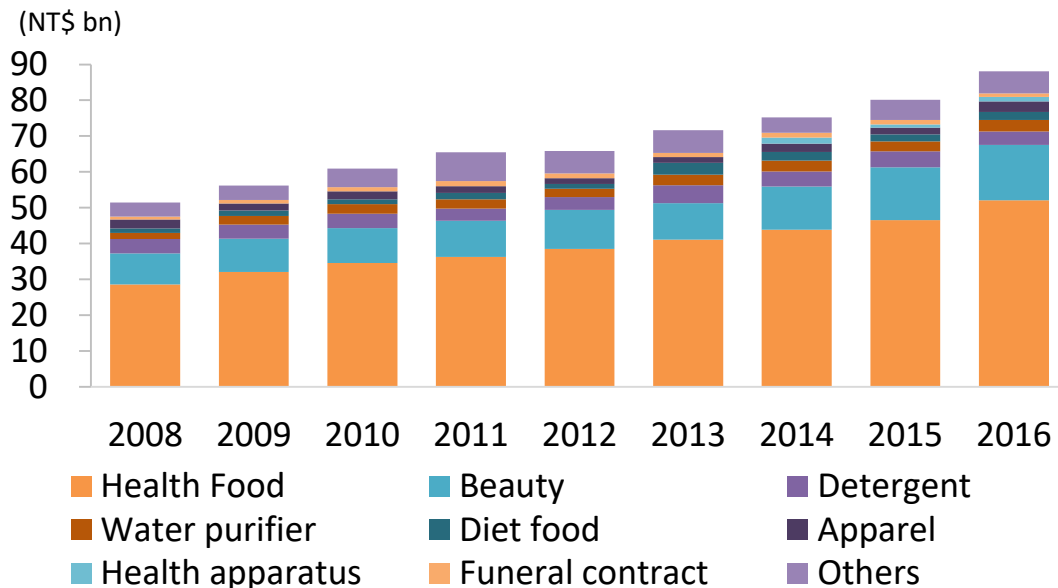
Source: AC Nielsen, Company data

Taiwan direct selling industry

Health food takes up ~60% of direct selling industry in Taiwan

According to Taiwan FTC, health food takes up 60% of the direct selling market share, which shows that direct selling is an important channel for health food products.

Taiwan Direct Selling Market Value Breakdown



Source: Taiwan FTC

2010-2016
CAGR

Taiwan market
6%

v.s.

Pro-Partner
22%

Taiwan direct selling industry is strictly regulated with entry barrier



Sales incentive system

- 1) Reasonable product price (mark-up on pricing);
- 2) Reasonable compensation structure (distribution of profit)

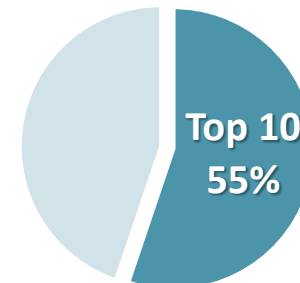


Member's system

According to Taiwan's regulation, it is illegal to produce earnings by simply introducing new participants instead of engaging in promotion & selling goods or services. Companies in violation may be subject to imprisonment and/or fines.

Pro-Partner is the only domestic direct selling company in Top 10

Top 10 players have high market concentration



Pro-Partner has highest sales per product among top 3 players

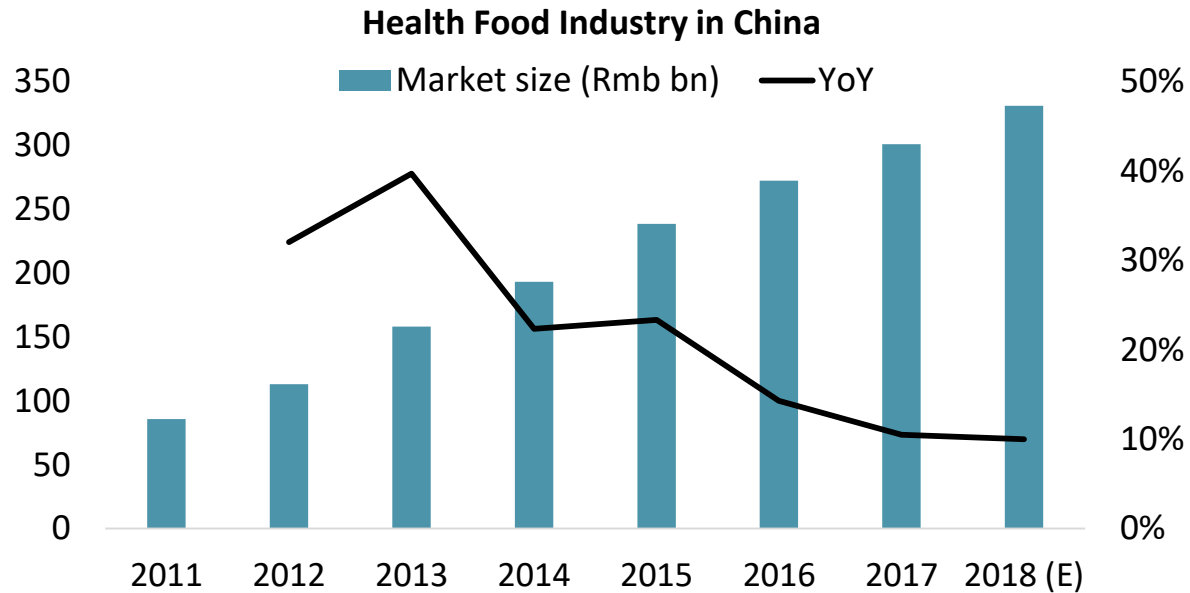
	Rank & Market shares (%)	Members ('000)	Sales contribution	
			Per member (NT\$)	Per product (NT\$m)
Pro-Partner	2 (9.8%)	200	43,300	288.7
Nu Skin	3 (5.5%)	120	40,000	21.9
Amway	1 (13.4%)	350	33,857	41.0

Source: Company data, FTC, Taiwan Association of Direct Selling

China health food industry

China's health food industry grew 23% CAGR between 2011-2017

China's health food industry mainly driven by economic growth, disposable income, and rising health awareness. The industry has been growing for the past 6 years.

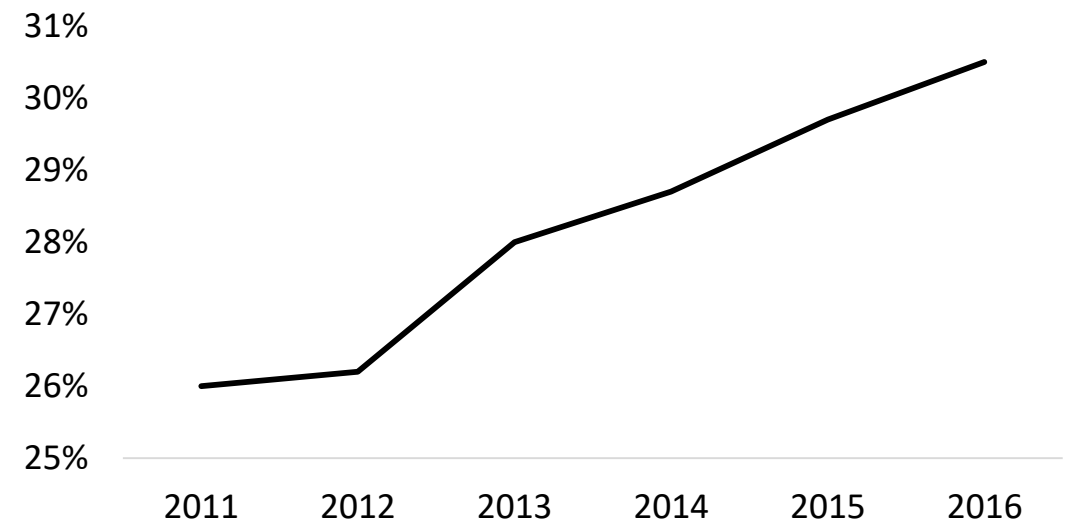


Source: Forward Business and Intelligence

China direct selling has significant growth from 2011-2016

Direct selling has become an important distribution channel as sales from direct selling has grown from 26% in 2011 to 30% in 2016.

Direct Selling as % of Total China Consumer Health Market



Source: Euromonitor

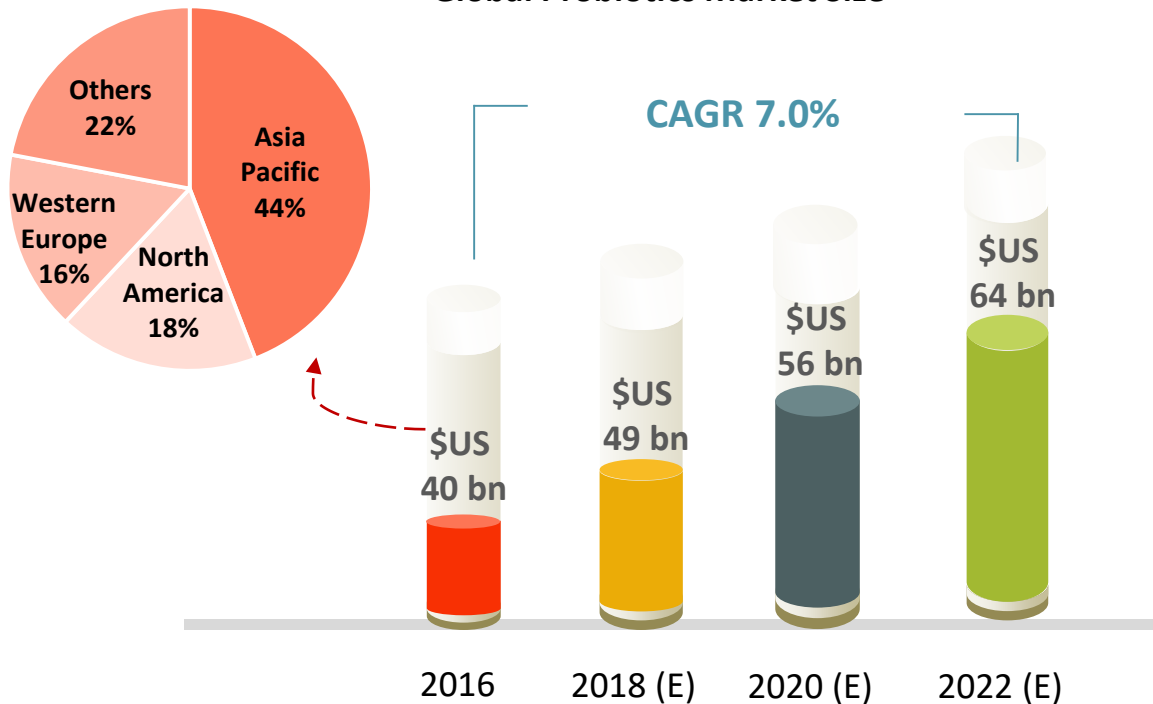
- Despite the latest Administrative Measure of Health Food Registration and Filing having streamlined the certification process for vitamins and minerals, other products still need to go through the “Blue Hat” certification process by the CFDA.

Global probiotics market

Global probiotics market is still growing

According to Statista, global probiotics market has reached US\$40 bn with Asia Pacific region being the largest of all. The market is still increasing and is estimated to grow 7.0% CAGR between 2016-2022.

Global Probiotics Market Size



Source: Statista *Notes: Global probiotics market includes probiotics supplement, probiotic yoghurt, and sour milk products.

Grape King is the 7th largest distributor globally

We are ranked as the 7th largest probiotics supplement company globally, this also makes us the largest player in Greater China. Grape King is known for its capability in developing different strains of probiotics that target different health benefits.

Rank	Company	Brand	Image
1	P&G	Align	
2	SANOFI	Enterogermina	
3	大正製薬 (Daiichi Sankyo)	Shin Biofermin S	
...			
7	葡萄王生技 (GRAPE KING BIO)	Probiotics & Prebiotics, Super 13 Probiotics & Prebiotics	

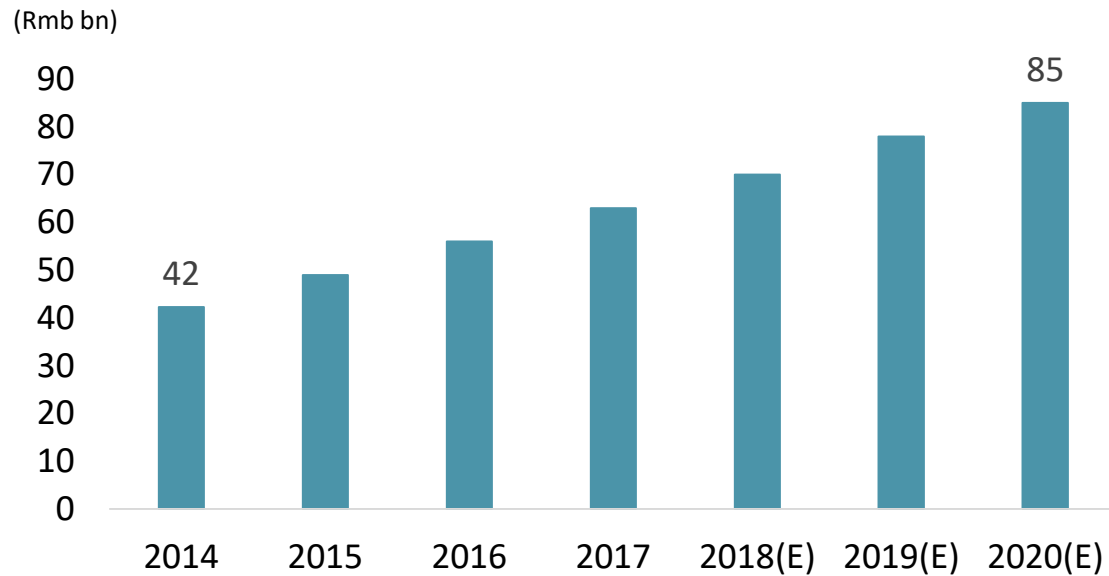
Source: Euromonitor

China probiotics market

China probiotics market is expected to reach Rmb 85 bn in 2020

China's probiotic consumption remains at a relatively early stage and the supply is mostly dependent on import. According to ASKCI, China probiotics market is forecasted to reach RMB 85 bn dollars by 2020.

China Probiotics Market (2014-2020)

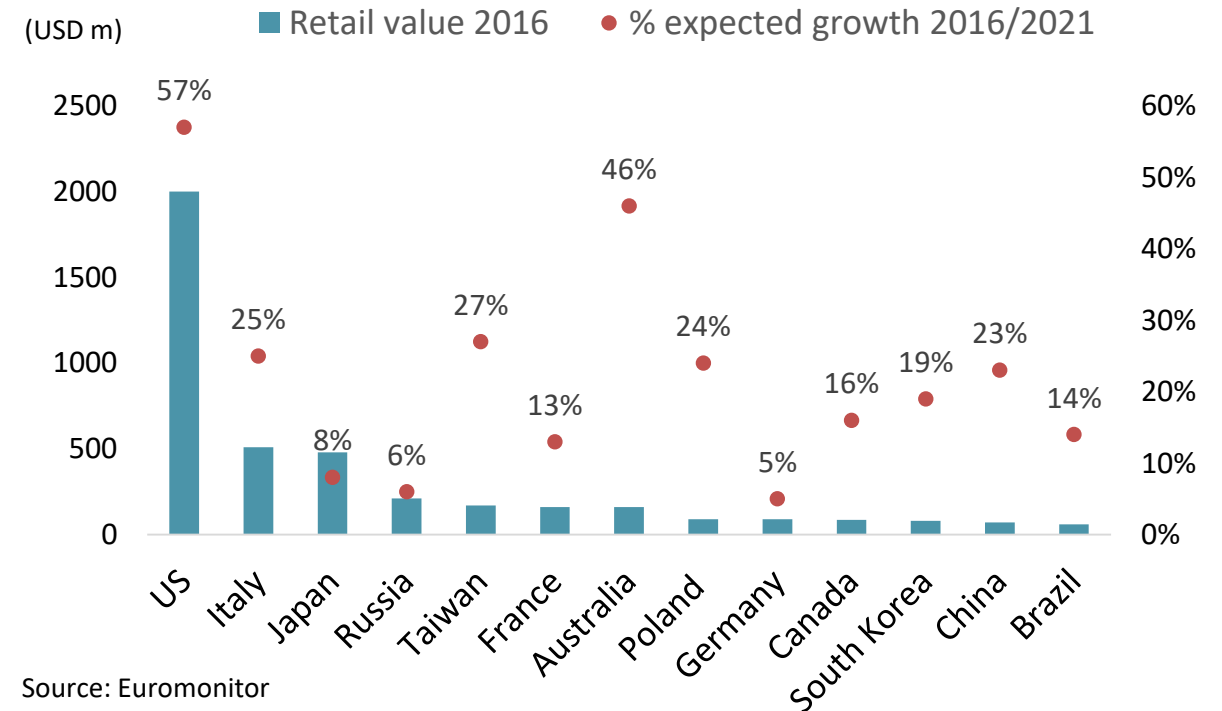


Source:ASKCI **Notes: China probiotics market includes probiotics supplement, probiotic yoghurt, and sour milk products.*

Taiwan and China probiotic supplement market are expected to deliver robust growth

According to Euromonitor, both Taiwan and China's probiotic supplement market are expected to deliver 27% and 23% of growth in 2016-2021, respectively.

Probiotics Supplements Retail Value (2016-2021)



Source: Euromonitor



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Thank You

For more information,
please visit our company website at
www.grapeking.com.tw

