

eMemory Q3 2019 Results – Earnings Call Transcript

November 13th, 2019 16:00-17:00

Good afternoon, at the beginning, I would like to recap our current status. Although reporting financial result was not as expected as our original forecast, impacted by DDI inventory correction. 2019 was a very good year in terms of technology development and customer engagement, evidence by our technology adopted by DRAM maker and two very leading IDMs. The worst situation was over and we are seeing momentum picking up on a sequential basis. Thanks to 5G, our core royalty contributors - OLED and PMIC will see strong growth next year, plus multiple growth drivers, ie. ISP, DRAM, networking already in the pipeline.

Next, I will invite our President to report our operation results of Q3 and the outlook for the future.

Good afternoon, Thank you for attending eMemory's 2019 third quarter investor conference call. In today's presentation, we would like to report our operation results of Q3 and the first three quarters of 2019, followed by the status update of our technologies and future outlook.

First, I would like to report our 2019 Q3 results.

- 1) Our Q3 revenue was NT\$ 337 mil, an increase of 6.3% sequentially and a decrease of 14.4% year-over-year.**
- 2) The operating expenses of Q3 was NT\$ 197 mil, up 5.1% sequentially, and down 3.4% year-over-year.**
- 3) Q3 operating income increased 8.2% sequentially, and decreased by 26.3% year-over-year. The operating margin of Q3 was 41.4%, with EPS, NT\$ 1.62 and ROE at 29.1%.**

The revenue of the first three quarters of 2019 was NT\$ 1,048 mil, a decline of 2% year-over-year. The operating expenses increased slightly by 0.9%, while the operating margin decreased by 1.6 percent points. EPS decreased by 6.2% to NT\$ 5.56, and ROE up 2.4% to 33.3%.

In the following section, I will break down the revenue contribution by licensing and royalty.

- 1) Licensing from Q3 accounted for 30.8% of the revenue, down 1.1% sequentially, and 5.1% year-over-year.**
- 2) Royalty contributed 69.2% of the total revenue, increased by 10% sequentially, but decreased by 18% year-over-year.**
- 3) Revenue of the first three quarters of 2019 declined 2% year-over-year, with both licensing and royalty decreasing by 3.3% and 1.5% respectively.**

If we breakdown revenue by technologies, the results are as follows:

1) For NeoBit, the license revenue of NeoBit is accounted for 35% of total licensing revenue for the quarter, increased 30.9% compared to the previous quarter, but down 1.1% year-over-year. Its royalty, accounted for 76.6% of total royalty, increased 16.6% sequentially, but down 21.6% year-over-year.

2) For NeoFuse, the license fee of NeoFuse is accounted for 46.4% of total licensing revenue for the quarter, down 26.9% sequentially, but up 25.8% year-over-year. The decline was affected by some contracts postponed to Q4. Its royalty decreased by 2.2% sequentially, but increased 31.4% year-over-year. The royalty of NeoFuse contributed to 20.1% of total royalty.

3) Our new technology, NeoPUF has not contributed to royalty yet, but there are on going engagement with leading customers. We expect more significant contributions from NeoPUF next year.

4) For NeoEE and NeoMTP, licensing revenue increased 80% sequentially but decreased 43.7% year-over-year. Royalty from MTP was down 28.7% sequentially, and 62.9% year-over-year. The decrease is due to the product transition of one of our fingerprint customers.

If we breakdown royalty by 8-inch and 12-inch wafers,

1) 8-inch wafers, which accounted for 66.9% of royalty, decreased 2.7% sequentially, and 6.6% year-over-year.

2) Royalty for 12-inch wafers contributed to 33.1% of royalty, increased 49.5% sequentially but decreased 34.2% year-over-year. The sequential growth is due to two foundries' semiannual royalty payment in January and July. The decline compared to last Q3 was mainly due to DDI customers' inventory adjustment.

3) For the first three quarters of 2019, the contribution of royalty from the 12-inch wafer was 30.8%, a decrease of 7.9% year-over-year. 8-inch wafer contributed to 69.2% of the royalty, an increase of 1.7% year-over-year. There was a total of 124 product tape-outs in Q3 2019. The number of tape out from 28nm and below was record high. Our management report release later today will provide more information.

Next, I would like to address our future outlook.

The revenue of October has been reported, which recognized royalty revenue from the third quarter of major foundries. The royalty of October from leading foundry partner increased 27% sequentially, which shows our momentum is picking up along with our foundry partners. We expect revenue to grow on a sequential basis and return to growth in 2020.

1) For licensing revenue, we expect NeoFuse and NeoPUF to continue to grow as increasing advanced technology platforms and more comprehensive PUF related IP portfolios.

2) For royalty revenues, we expect OLED and PMIC to have strong growth next year. OLED is mainly due to higher asp and our market share gain into largest Korea panel supply chain. PMIC will grow due to content increase in 5G smartphone and more our market share gain into IDMs. New applications like multimedia related products (such as DTV, STB, surveillance, ISP), networking and DRAM will continue to grow our royalty revenue in the coming years.

For new application development:

1) NeoPUF has made a distinctive progress in the most advanced process SoC, ultra-low power processor, IoT related chip and embedded flash platform.

2) In addition to ISP, NeoFuse will also be used in CIS process to provide highly intelligent image recognition applications.

Contribution by the two developments mentioned above will be seen next year.

Lastly, for new technology developments:

1) In addition to the 5nm technology platform, ReRAM, and the largest IP company cooperation project which we mentioned in the previous quarter, we kicked off 6nm and 5nm plus (N5P) technology development, at the same pace with our leading foundry partner.

2) For security IP , our PUFtrng, True Random Number Generator can provide the fastest and lowest power-consumption random number generator in the industry, which will play a very important role in security related application.

Our current royalty is the result of our past efforts with our customers. Our temporary decline is due to the industry wide inventory adjustments. We believe our constant development of new technologies and our ability to breakthrough into more applications will keep our company growing in the long run.

Thank you for your patience and continuous support.

As a company with a wide range of technology platforms, we are confident that our continuous development of technology platforms and innovations in silicon IP, will continue to bring more value to customers and industries in various applications. We have built up high barriers for newcomers and competitors, and we have great confidence in the continued growth of the future. Once again, thank you for supporting eMemory.