

eMemory 3Q22 Earnings Call Transcript

November 9th, 2022, 16:00-17:00 Taiwan Time

FINANCIAL RESULTS

Michael Ho, President

Q3 2022 Financial Results

Good afternoon everyone. Now, let's begin with our 2022 third-quarter financial results. The third-quarter revenue was seven hundred and ninety-one million NT dollars (NT\$ 791 mil), down 0.7% sequentially but up 33% year-over-year.

Operating expenses were three hundred and forty-five million NT dollars (NT\$ 345 mil), up 2.7 % sequentially, and up 24.3% year-over-year, mainly attributable to the increase in salary and other related human resource expenses, such as the increase in bonuses and rewards.

Operating income was four hundred and forty-five million NT dollars (NT\$ 445 mil), with a decrease of 3.2% sequentially but an increase of 40.7% year-over-year. The operating margin decreased by 1.5 percentage points sequentially but increased by 3.0 percentage-points year-over-year to 56.3%.

EPS for the quarter was 5.45 NT dollars (NT\$ 5.45) and ROE was 63.7%.

Revenue across Different Streams

Next, let's move on to revenue contributions by licensing and royalty.

Licensing in the third-quarter accounted for 18.3% of the total revenue, down 27.9% sequentially and down 23.3% year-over-year. In US dollars, the licensing decreased 29.8% sequentially and decreased 28.8% year-over-year.

Royalties in the third-quarter contributed 81.7% of the total revenue, increasing 8.5% sequentially, and increasing 59.3% year-over-year, or up 5.8% sequentially, and up 48.2% year-over-year in US dollars.

Total revenue in the third-quarter of 2022, grew 33%, as compared to the previous year. In terms of US dollars, the total revenue increased 23.8% compared to the previous year.

Revenue by Technology

With that, I will comment on our revenue contribution by specific IPs.

NeoBit accounted for 26.2% of total licensing revenue in the third-quarter, decreasing 14.5% sequentially and decreasing 2.9% year-over-year. Its royalties accounted for 36.2% of total royalty, down 2% sequentially but up 21.9% year-over-year.

NeoFuse accounted for 46.5% of total licensing revenue in the third-quarter, down 28.6% sequentially and down 28.1% year-over-year. The main reason is because many of our NeoFuse customers have adopted PUF-based security solutions, such as Root of Trust, to upgrade their security functions. Since royalties for PUF-based solutions consist of both PUF-based and existing NeoFuse royalties, it will drive the growth of future royalties. In terms of total royalty revenue, NeoFuse royalties increased 15.8% sequentially and 92.6% year-over-year, accounting for 60.2% of total royalties.

PUF-Based Security IPs contributed to 13.7% of licensing revenue, decreasing 57.8% sequentially but increasing 611.7% (six hundred and eleven point seven percent) year-over-year. Its royalties accounted for 0.3% of total royalties which is up 209.5% (two hundred and nine point five percent) compared to the previous quarter, and up 23,456% (twenty-three thousand, four hundred and fifty-six percent) compared to the previous years as PUF-based solutions are adopted in IoT, Industrial IoT, WiFi, DPU, Video-ISP, STB, SSD Controller and automotive fields.

MTP technology accounted for 13.6% of total licensing revenue, increasing 28.1% sequentially but decreasing 63.1% year-over-year. Royalty from MTP increased 3.3% sequentially and 78% year-over-year.

From the first to third-quarter of 2022, the licensing and revenue are as follows:

NeoBit licensing revenue increased 0.7% year-over-year and royalty increased 17.7%, accounting for 34.5% of the total revenue.

NeoFuse licensing revenue decreased 0.3% but royalty increased 77.8% year-over-year, contributing to 56.9% of the total revenue.

PUF-based security IP licensing revenue increased 610.4% (six hundred ten point four percent) year-over-year, while royalty revenue increased 36,222% (thirty-six thousand, two hundred twenty-two percent), accounting for 3.3% of the total revenue.

MTP technology licensing revenue decreased 52.3% year-over-year but royalty revenue increased 80.7%, accounting for 5.3% of total revenue.

Royalty Revenue by Wafer Size

Now, let's look at royalties for 8-inch and 12-inch wafers.

8-inch wafers, which accounted for 46.7% of royalties, decreased 0.8% sequentially, but increased 42.3% year-over-year.

12-inch wafers contributed to 53.3% of royalties, increasing 18.1% sequentially, and 77.9% year-over-year.

In total, 149 product tape-outs were completed in the third-quarter, within that, tape-out for 6/7nm continue to contribute to revenue. We will provide more information in the management report.

FUTURE OUTLOOK

Michael Ho, President

In the next section, I will address our future outlook. We expect the growth of revenue to continue in the fourth-quarter.

For licensing revenues: Declined licensing this year was due to waiving technology license fees but increasing production royalties for several foundries to accelerate the development of licensed technology platforms, especially for MTP-related technologies. We expect license fees to grow significantly next year, driven by PUF-related solutions.

For the royalty revenues: The growth momentum of royalty will be driven by penetration rate increase from 28nm, 12/16nm, and 6/7nm.

Moving on to new IP technology and business development:

1. NeoFlash technology platforms are developed in several foundries, targeting the embedded flash market.
2. Our PUF-based Secure Crypto Coprocessor IP (PUFcc) is PSA Certified Level 2 Ready which will accelerate the adoptions on Arm's platform.
3. PUF-based IPs have completed N5 tape-out and is moving to N4/N3.

This concludes my comments. Next, we will enter the Q&A session.

CLOSING REMARKS

Michael Ho, President

For more information about our PUF-based security IPs, we encourage you to visit our PUFsecurity website at <https://www.pufsecurity.com/> and check out our articles and other materials.

Thank you once again for your patience and support for eMemory. We will continue to work hard on IP innovation and security solutions for our customers and bring higher returns for our shareholders. Thank you!