



Management Report for First Fiscal Quarter 2023

Hsinchu, Taiwan, May 10th, 2023 – eMemory Technology Inc. (TPE: 3529) reported financial results for its fiscal quarter, which ended 31st March, 2023.

Executive Summary

- Q1 2023 revenue was NT\$ 667.75 million, down 26% sequentially and down 8.2% year-over-year. Operating income decreased by 31.3% sequentially and decreased 11.2% year-over-year. EPS was NT\$ 4.2, and ROE was 38.9%.
- Licensing will significantly grow during the rest of the year, driven by PUF-based security solutions.
- With more than 1000 new products tape out in the pipeline, royalty will regain growth momentum as new tape outs move into production.

Financial Results

(Amounts in thousands of NT\$)

	Q1 2023	Q4 2022	Change (QoQ)	Q1 2022	Change (YoY)
Revenue	667,751	902,704	-26.0%	727,107	-8.2%
Gross Margin	100%	100%	-	100%	-
Operating Expenses	300,657	368,090	-18.3%	313,846	-4.2%
Operating Income	367,094	534,614	-31.3%	413,261	-11.2%
Operating Margin	55.0%	59.2%	-4.2 pts	56.8%	-1.8 pts
*Net Income	313,090	430,536	-27.3%	366,019	-14.5%
Net Margin	46.1%	47.6%	-1.5 pts	49.8%	-3.7 pts
EPS (NT\$)	4.20	5.77	-27.2%	4.91	-14.5%
ROE	38.9%	62.2%	-23.3 pts	55.0%	-16.1 pts

*Net income attributable to Shareholders of the Company

Revenue Analysis

(Amounts in thousands of NT\$)

	Q1 2023	Q4 2022	Change (QoQ)	Q1 2022	Change (YoY)
Licensing	143,049	205,104	-30.3%	191,608	-25.3%
Royalty	524,702	697,600	-24.8%	535,499	-2.0%
Total	667,751	902,704	-26.0%	727,107	-8.2%

(Amounts in thousands of US\$)

	Q1 2023	Q4 2022	Change (QoQ)	Q1 2022	Change (YoY)
Licensing	4,716	6,672	-29.3%	6,875	-31.4%
Royalty	17,360	22,028	-21.2%	19,384	-10.4%
Total	22,076	28,700	-23.1%	26,259	-15.9%

Revenue analysis by technology

Technology	Q1 2023								
	Total Revenue			Licensing Revenue			Royalty Revenue		
	% of Q1 Revenue	Change (QoQ)	Change (YoY)	% of Q1 Licensing	Change (QoQ)	Change (YoY)	% of Q1 Royalty	Change (QoQ)	Change (YoY)
NeoBit	28.2%	-30.0%	-22.7%	19.7%	-22.6%	-19.8%	30.5%	-31.1%	-23.2%
NeoFuse	63.9%	-22.4%	-0.8%	49.6%	-28.5%	-42.9%	67.8%	-21.0%	16.3%
PUF-Based	2.5%	-63.6%	126.6%	11.5%	-60.7%	138.2%	0.0%	-93.8%	-46.3%
MTP	5.4%	-5.6%	-21.7%	19.2%	0.0%	8.4%	1.7%	-19.8%	-58.2%

- NeoBit : OTP technology covers from 0.5um to 55nm.
- NeoFuse : OTP technology covers mainly from 0.18um to 3nm.
- PUF-Based : PUF technology covers mainly from 55nm to 5nm.
- MTP : MTP technology covers from 0.15um to 22nm, offering high-density memory and allowing up to 100K rewritable times with zero additional masking layers.

Royalty revenue analysis by wafer size (8-inch vs 12-inch)

Wafer Size	Q1 2023		
	% of Q1	Change (QoQ)	Change (YoY)
8-inch	47.0%	-25.5%	-9.2%
12-inch	53.0%	-24.1%	5.3%

Key Business Developments

Licensing

- Technology License
 - ✓ 9 licensing contracts were signed during this quarter.
 - ✓ As of March 31st, 2023, we have technologies under development for the adoption of 140 different process platforms, ranging from 0.25um to 3nm.



Development of Key Technologies

	3nm	4/5nm	6/7nm	12/16nm	22/28nm	40nm	55/65nm	80/90nm	0.11/ 0.13um	0.152/0.16/ 0.18um	0.25um	0.3/ 0.35um	0.4/ 0.5um	Total
Qualified	0	2	4	8	44	22	38	32	96	227	42	53	11	579
Developing	2	4	1	7	14	7	28	15	29	32	1	0	0	140

- Design License
 - ✓ A total of 137 product tape-outs occurred in the first quarter of 2023, remaining at a high level.
 - 1 tape-out at 6nm/7nm for MCU.
 - 2 tape-outs at 12nm/14nm/16nm for Sensor-related and Network IC.
 - 23 tape-outs at 22nm/28nm for Sensor-related, MCU, OLED Driver, Network IC, HDMI, Multimedia and others.
 - 13 tape-outs at 40nm for Sensor-related, MCU, OLED Driver, DRAM, AI SoC and others.
 - 20 tape-outs at 55nm/63nm/65nm for Sensor-related, LCD Driver, MCU, OLED Driver, TDDI, Audio, LED Driver and others.
 - 11 tape-outs at 80nm/90nm for PMIC, LCD Driver, OLED Driver and TDDI.
 - 14 tape-outs at 0.13um for PMIC, Sensor-related, LCD Driver, and MCU.
 - 51 tape-outs at 0.18um for PMIC, Sensor-related, Fingerprint, LCD Driver, MCU, Audio, Motor Driver and others.
 - 0 tape-out at 0.25um.
 - 2 tape-outs for DRAM.
 - ✓ As of March 31st, 2023, eMemory's cumulative number of design licenses has increased to 6,640—a direct result of our ongoing effort in expanding and diversifying our technologies for adoption in a wide range of applications.

Future Growth Drivers

License

- Licensing will significantly grow during the rest of the year, driven by PUF-based security solutions.

Royalty

- With more than 1000 new products tape out in the pipeline, royalty will regain growth momentum as new tape outs move into production.

New IP Technology and Business Development

- This year, PUF-based solutions will be adopted in 5/6/7nm CPU, DPU, AI and Automotive-related applications.

- Continue working with foundries to develop NeoFlash to increase the penetration rate of mature processes.
- Continue developing the most advanced processes with CPU partners.

Financial Review

Gross margin

The gross margin remained at 100%.

Operating expenses

- The total operating expenses in Q1 2023 were NT\$ 300.66 million and represented 45.03% of the total revenue. The operating expenses decreased 18.3% QoQ. The annual decrease was mainly attributable to the decrease in bonuses and rewards.

Non-operating items and income tax expense

- Non-operating income for the quarter was NT\$ 4.44 million, mainly due the bank interests earned this quarter.
- Q1 2023 effective tax rate was 17.2%.

Net Income and EPS

- Net income attributable to shareholders of the company for the quarter was NT\$ 313.09 million, a decrease of 27.3% sequentially and a decrease of 14.5% year-over-year.
- Earnings per share was NT\$ 4.2 in Q1 2023. ROE was 38.9%

Current assets and current liabilities

- As of March 31st, 2023, cash increased by NT\$ 559.97 million from March 31st, 2022, to NT\$ 3,436.18 million.
- Total current assets including cash totaled NT\$ 3,639.23 million, with an increase of NT\$ 567.19 million from March 31st, 2022. The increase was due to cash from revenue.
- Total current liabilities increased by NT\$ 73.07 million from March 31st, 2022, to NT\$ 792.86 million primarily as a result of growth in revenue resulting in increasing employee bonuses and compensations.
- The net working capital was NT\$ 2,846.37 million and the current ratio was 4.59x.

Cash flows

- As of March 31st, 2023, net cash generated from operating activities totaled NT\$ 407.46 million, including NT\$ 371.53 million from income before income tax, NT\$ 25.59 million from depreciation and amortization, and NT\$ 10.34 million generated from other operating activities, which included tax payment of NT\$ 19.70 million.
- Net cash used in investing activities was NT\$ 46.44 million from Q1 2023, primarily related to capital investment.
- Net cash generated from financing activities was NT\$ 12.24 million in Q1 2023 mainly attributable to an increase in non-controlling interests.



- As a result, total cash increased from NT\$ 3,066.27 million to NT\$ 3,436.18 million from December 31st, 2022 to March 31st, 2023.

Employee

- As of March 31st, 2023, eMemory has 287 full-time employees, including 200 R&D engineers. Our subsidiaries, PUFsecurity has 40 full-time employees, including 21 R&D engineers, and eMemory Japan has 7 full-time employees, including 4 R&D engineers.

Cautionary Statement

This report contains forward-looking statements, which are subject to risk factors associated with the semiconductor and intellectual property business. We believe that the expectations reflected in these statements are reasonable. However, they may be affected by a variety of variables, many of which are beyond our control. These variables could cause actual results or trends to differ materially which include, but are not limited to: wafer price fluctuation, actual demand, rapid technology change, delays or failures in customers' tape-outs into wafer production, our ability to negotiate, monitor and enforce agreements for the determination and payment of royalties, any bug or fault in our technology which leads to significant damage to our technology and reputation, actual or potential litigation, semiconductor industry cycle and general economic conditions. Unless as required by law, eMemory undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise.

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-Financial Statements to Follow-



eMemory Technology Inc. and Subsidiary
CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	March 31, 2023 (Reviewed)		December 31, 2022 (Audited)		March 31, 2022 (Reviewed)			March 31, 2023 (Reviewed)		December 31, 2022 (Audited)		March 31, 2022 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
ASSETS							LIABILITIES AND EQUITY						
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$ 3,436,178	81	\$ 3,066,268	79	\$ 2,876,212	79	Contract liabilities - current	\$ 99,440	3	\$ 67,508	2	\$ 95,801	3
Accounts receivable - net	181,385	4	239,381	6	131,380	4	Other payables	121,145	3	181,897	5	133,362	4
Accounts receivable - related parties	-	-	3,071	-	-	-	Other payables - related parties	25	-	10	-	15	-
Other receivables	1,629	-	1,018	-	5,277	-	Bonuses payable to employees and directors	374,060	9	384,981	10	290,660	8
Prepayments	14,976	1	20,014	1	51,691	2	Payables on equipment	9,823	-	7,478	-	6,698	-
Other current assets	5,066	-	4,157	-	7,489	-	Current tax liabilities	183,616	4	139,676	3	187,961	5
Total current assets	<u>3,639,234</u>	<u>86</u>	<u>3,333,909</u>	<u>86</u>	<u>3,072,049</u>	<u>85</u>	Lease liabilities - current	2,957	-	3,299	-	3,250	-
							Other current liabilities	1,796	-	1,979	-	2,046	-
							Total current liabilities	<u>792,862</u>	<u>19</u>	<u>786,828</u>	<u>20</u>	<u>719,793</u>	<u>20</u>
NON-CURRENT ASSETS							NON-CURRENT LIABILITIES						
Financial assets at fair value through other comprehensive income - noncurrent	4,976	-	4,914	-	13,779	-	Lease liabilities - noncurrent	1,760	-	2,237	-	4,717	-
Financial assets at amortized cost - noncurrent	116	-	116	-	116	-	Net defined benefit liabilities - noncurrent	15,552	-	15,712	1	18,999	-
Investment accounted for using the equity method	14,291	-	15,185	-	2,402	-	Guarantee deposits received	10	-	10	-	10	-
Property, plant and equipment	456,434	11	460,797	12	458,663	13	Total non-current liabilities	<u>17,322</u>	<u>-</u>	<u>17,959</u>	<u>1</u>	<u>23,726</u>	<u>-</u>
Right-of-use assets	4,624	-	5,438	-	7,879	-	Total liabilities	<u>810,184</u>	<u>19</u>	<u>804,787</u>	<u>21</u>	<u>743,519</u>	<u>20</u>
Intangible assets	101,086	3	74,187	2	69,810	2							
Deferred tax assets	1,757	-	2,743	-	2,454	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Prepayments for equipment	1,143	-	-	-	-	-	Ordinary shares	761,885	18	761,845	19	761,272	21
Refundable deposits	862	-	822	-	438	-	Capital surplus	211,939	5	210,522	5	312,530	9
Total non-current assets	<u>585,289</u>	<u>14</u>	<u>564,202</u>	<u>14</u>	<u>555,541</u>	<u>15</u>	Retained earnings						
							Legal reserve	635,956	15	635,956	16	526,270	14
							Special reserve	30,985	1	30,985	1	60,101	2
							Unappropriated earnings	2,143,204	51	1,830,114	47	1,625,832	45
							Total retained earnings	<u>2,810,145</u>	<u>67</u>	<u>2,497,055</u>	<u>64</u>	<u>2,212,203</u>	<u>61</u>
							Other equity						
							Exchange differences on the translation of the financial statements of foreign operations	669	-	706	-	(16)	-
							Unrealized gain (loss) on financial assets at fair value through other comprehensive income	(5,624)	-	(5,686)	-	(33,225)	(1)
							Total other equity	(4,955)	-	(4,980)	-	(33,241)	(1)
							Treasury shares	(404,238)	(10)	(404,238)	(10)	(404,238)	(11)
							Total equity attributable to shareholders of the Company	3,374,776	80	3,060,204	78	2,848,526	79
							NON-CONTROLLING INTERESTS	<u>39,563</u>	<u>1</u>	<u>33,120</u>	<u>1</u>	<u>35,545</u>	<u>1</u>
							Total equity	<u>3,414,339</u>	<u>81</u>	<u>3,093,324</u>	<u>79</u>	<u>2,884,071</u>	<u>80</u>
TOTAL	<u>\$4,224,523</u>	<u>100</u>	<u>\$3,898,111</u>	<u>100</u>	<u>\$3,627,590</u>	<u>100</u>	TOTAL	<u>\$4,224,523</u>	<u>100</u>	<u>\$3,898,111</u>	<u>100</u>	<u>\$3,627,590</u>	<u>100</u>



eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2023		2022	
	Amount	%	Amount	%
OPERATING REVENUE	\$ 667,751	100	\$ 727,107	100
OPERATING COSTS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
GROSS PROFIT	<u>667,751</u>	<u>100</u>	<u>727,107</u>	<u>100</u>
OPERATING EXPENSES				
Selling and marketing expenses	49,996	7	45,728	6
General and administrative expenses	64,562	10	71,335	10
Research and development expenses	186,163	28	197,917	27
Reversal of expected credit loss	(64)	-	(1,134)	-
Total operating expenses	<u>300,657</u>	<u>45</u>	<u>313,846</u>	<u>43</u>
OPERATING INCOME	<u>367,094</u>	<u>55</u>	<u>413,261</u>	<u>57</u>
NON-OPERATING INCOME AND EXPENSES				
Interest income	10,497	2	2,148	-
Other income	373	-	373	-
Other gains and losses	(5,505)	(1)	13,040	2
Finance costs	(26)	-	(42)	-
Share of loss of associates	(903)	-	(679)	-
Total non-operating income and expenses	<u>4,436</u>	<u>1</u>	<u>14,840</u>	<u>2</u>
PROFIT BEFORE INCOME TAX	371,530	56	428,101	59
INCOME TAX EXPENSE	<u>63,972</u>	<u>10</u>	<u>65,863</u>	<u>9</u>
NET PROFIT	<u>307,558</u>	<u>46</u>	<u>362,238</u>	<u>50</u>

(Continued)



eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2023		2022	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified subsequently to profit or loss:				
Unrealized gain (loss) on investments in equity instruments at fair value through other comprehensive income (loss)	\$ 62	-	(\$ 2,351)	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on the translation of the financial statements of foreign operations	(18)	-	122	-
Share of the other comprehensive income (loss) of associates accounted for using the equity method	7	-	(2)	-
Other comprehensive income (loss)	51	-	(2,231)	-
TOTAL COMPREHENSIVE INCOME	<u>\$ 307,609</u>	<u>46</u>	<u>\$ 360,007</u>	<u>50</u>
NET PROFIT (LOSS) ATTRIBUTABLE TO:				
Shareholders of the Company	\$ 313,090	47	\$ 366,019	50
Non-controlling interests	(5,532)	(1)	(3,781)	-
	<u>\$ 307,558</u>	<u>46</u>	<u>\$ 362,238</u>	<u>50</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:				
Shareholders of the Company	\$ 313,115	47	\$ 363,764	50
Non-controlling interests	(5,506)	(1)	(3,757)	-
	<u>\$ 307,609</u>	<u>46</u>	<u>\$ 360,007</u>	<u>50</u>
EARNINGS PER SHARE				
Basic	<u>\$ 4.20</u>		<u>\$ 4.91</u>	
Diluted	<u>\$ 4.18</u>		<u>\$ 4.89</u>	

(Concluded)



eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	Equity Attributable to Shareholders of the Company												
								Other Equity					
	Ordinary Shares		Capital Surplus	Retained Earnings				Exchange Differences on the Translation of the Financial Statements of Foreign Operations	Unrealized Gain (Loss) on Financial Assets at Fair Value Through Other Comprehensive Income	Treasury Shares	Total	Non-Controlling Interests	Total Equity
	Number of Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings	Total						
BALANCE, JANUARY 1, 2022	76,124	\$ 761,235	\$ 303,181	\$ 526,270	\$ 60,101	\$ 1,259,813	\$ 1,846,184	(\$ 112)	(\$ 30,874)	(\$ 404,238)	\$ 2,475,376	\$ 47,415	\$ 2,522,791
Changes in percentage of ownership interests in subsidiaries	-	-	8,192	-	-	-	-	-	-	-	8,192	(8,192)	-
Net profit (loss) for the three months ended March 31, 2022	-	-	-	-	-	366,019	366,019	-	-	-	366,019	(3,781)	362,238
Other comprehensive income (loss) for the three months ended March 31, 2022	-	-	-	-	-	-	-	96	(2,351)	-	(2,255)	24	(2,231)
Total comprehensive income (loss) for the three months ended March 31, 2022	-	-	-	-	-	366,019	366,019	96	(2,351)	-	363,764	(3,757)	360,007
Issuance of ordinary shares under employee share options	3	37	1,157	-	-	-	-	-	-	-	1,194	61	1,255
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	18	18
BALANCE, MARCH 31, 2022	76,127	\$ 761,272	\$ 312,530	\$ 526,270	\$ 60,101	\$ 1,625,832	\$ 2,212,203	(\$ 16)	(\$ 33,225)	(\$ 404,238)	\$ 2,848,526	\$ 35,545	\$ 2,884,071
BALANCE, JANUARY 1, 2023	76,185	\$ 761,845	\$ 210,522	\$ 635,956	\$ 30,985	\$ 1,830,114	\$ 2,497,055	\$ 706	(\$ 5,686)	(\$ 404,238)	\$ 3,060,204	\$ 33,120	\$ 3,093,324
Changes in percentage of ownership interests in subsidiaries	-	-	181	-	-	-	-	-	-	-	181	(181)	-
Change in capital surplus from investments in associates accounted for using the equity method	-	-	2	-	-	-	-	-	-	-	2	-	2
Net profit (loss) for the three months ended March 31, 2023	-	-	-	-	-	313,090	313,090	-	-	-	313,090	(5,532)	307,558
Other comprehensive income (loss) for the three months ended March 31, 2023	-	-	-	-	-	-	-	(37)	62	-	25	26	51
Total comprehensive income (loss) for the three months ended March 31, 2023	-	-	-	-	-	313,090	313,090	(37)	62	-	313,115	(5,506)	307,609
Issuance of ordinary shares under employee share options	4	40	1,234	-	-	-	-	-	-	-	1,274	-	1,274
Share-based payments	-	-	-	-	-	-	-	-	-	-	-	324	324
BALANCE, MARCH 31, 2023	76,189	\$ 761,885	\$ 211,939	\$ 635,956	\$ 30,985	\$ 2,143,204	\$ 2,810,145	\$ 669	(\$ 5,624)	(\$ 404,238)	\$ 3,374,776	\$ 39,563	\$ 3,414,339



eMemory Technology Inc. and Subsidiary
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Three Months Ended March 31	
	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	\$ 371,530	\$ 428,101
Adjustments for:		
Depreciation expenses	9,831	9,556
Amortization expenses	15,756	4,774
Reversal of expected credit loss	(64)	(1,134)
Finance costs	26	42
Interest income	(10,497)	(2,148)
Share-based payments	324	18
Share of loss of associates	903	679
Property, plant and equipment transferred to expenses	68	-
Net loss (gain) on foreign currency exchange	4,404	(9,523)
Intangible assets transferred to expenses	216	-
Changes in operating assets and liabilities		
Accounts receivable	57,018	(23,491)
Accounts receivable - related parties	3,038	-
Other receivables	(5)	-
Prepayments	5,689	(24,431)
Other current assets	(909)	(3,635)
Contract liabilities	31,932	18,858
Other payables	(60,749)	(19,033)
Other payables- related parties	15	15
Other current liabilities	(183)	118
Net defined benefit liabilities	(160)	(191)
Bonuses payable to employees and directors	(10,921)	35,671
Cash generated from operations	417,262	414,246
Interest received	9,891	2,142
Income tax paid	(19,697)	(16,760)
Net cash generated from operating activities	<u>407,456</u>	<u>399,628</u>

(Continued)



eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2023	2022
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property, plant and equipment	(\$ 2,384)	(\$ 10,160)
Increase in refundable deposits	(40)	-
Decrease in refundable deposits	-	33
Acquisition of intangible assets	(42,871)	(2,148)
Increase in prepayments for equipment	(1,143)	-
Net cash used in investing activities	(46,438)	(12,275)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of the principal portion of lease liabilities	(819)	(802)
Exercise of employee share options	1,274	1,255
Interest paid	(26)	(42)
Increase in non-controlling interests	11,806	-
Net cash generated from financing activities	12,235	411
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(3,343)	5,683
NET INCREASE IN CASH	369,910	393,447
CASH AT THE BEGINNING OF THE PERIOD	3,066,268	2,482,765
CASH AT THE END OF THE PERIOD	\$3,436,178	\$2,876,212

(Concluded)