eMemory 2Q25 Earnings Call Q&A Transcript

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Q&A Transcript

1. **Your company's operating performance has lagged behind TSMC's. Why is that? Given your 3nm verification is complete, can we expect growth to catch up—or even surpass—TSMC in the future?**
   >> Our business model naturally involves a long lead time from technology development to royalty contribution. From initial development to process verification takes about two years, followed by another two years from customer adoption to mass production and royalty generation. It can take several more years to build a meaningful revenue base—but once adopted, a process node can generate royalties for over 20 years.
   We've followed closely with the leading foundry, starting from 16nm in 2014 through 7/6/5/4nm to 3nm with customer's design-in. Royalties from sub-16nm nodes are only now becoming more significant. Over both the past 10 and 5 years, our wafer shipment growth has exceeded the leading foundry by 10%. The gap in performance has mainly been due to slower ASP growth, especially in recent years, as the leading foundry's strong growth was driven by much higher-priced leading-edge nodes.
   Historically, our IP enters the market after advanced nodes stabilize and complete roughly two years of foundry verification, capturing second- or third-generation products. With customer demand for security rising sharply, adoption is accelerating. Since advanced-node royalties are several times our historical average, plus incremental PUF-related IP royalties, our growth will be driven by both more wafer volumes and higher royalties per wafer going forward.

2. **With the NT dollar stabilizing, the company recorded FX losses in Q2. Could we see a reversal in Q3?**
   >> Exchange rates will still have an impact in Q3. For example, in July, revenue grew 19% in U.S. dollar terms but only 7.3% in NT dollar terms.
   Our FX gains and losses mainly come from:
   1. Converting USD-denominated revenue into NT dollars upon invoicing.
   2. Exchange rate movements between revenue recognition and actual cash collection.
   3. Mark-to-market revaluation of USD assets at period-end.

   Most of our operating expenses are in NT dollars, with only some R&D tools and equipment paid in USD, so we have no USD debt exposure. We currently hold about US$14 million in USD assets, and the actual FX impact will depend on exchange rate movements through quarter-end.

3. **The tape-out volume declined for the second consecutive quarter compared to the same period last year. Is there any specific reason behind this? Which applications and process nodes are affected?**
   >>In the second quarter, we had 11 fewer NTOs compared to the same period last year, mainly from consumer products such as DDI, PMIC, MCU, and sensors. The number of tape-outs for these product categories does not follow a consistent pattern — in some cases, a single tape-out from a major customer can contribute more royalty revenue than dozens of tape-outs from smaller customers. This is also closely linked to broader industry trends.
   From a process node perspective, we have seen a higher proportion of NTOs at more advanced nodes below 28nm. This is related to our progress in completing development and qualification at these advanced process nodes, which supports a long-term upward trend in royalty ASP. As foundries continue to develop more process nodes and expand into a wider range of application chip categories, we expect the long-term trend for tape-out volume to remain upward.

4. **When will we start seeing royalty contributions from your company's accumulated PUF-related tape-outs?**
   >> Over the past few years, we have accumulated more than 110 tape-outs related to PUF technology, spanning a wide range of applications—from leading-edge processors, automotive ADAS, and networking, to general consumer products—covering a very diverse set of customers and process platforms.
   Because security IP typically requires a longer verification and integration cycle, the time from adoption to mass-production royalties is generally longer than for OTP. However, the stickiness of such IP is also higher. Based on our July royalty report, we have already begun to see some customer applications enter mass production. Past design wins are now converting into more stable and long-term royalty streams. Coupled with the current strong demand for security IP, we expect both license fees and royalties to enter a period of rapid growth.

5. **There have been market rumors suggesting that recent workforce adjustments and salary changes have caused concern, and questions have been raised about whether our operations are facing challenges. Additionally, some have noted that several members of our management team left in prior years and wondered if they have joined competitors?**
   >> To clarify—three vice presidents voluntarily retired one to two years ago. They remain retired today and have not joined competitors. Our business operations remain strong. In fact, customer demand for our IP continues to far exceed our current R&D capacity.
   The recent organizational optimization was undertaken to improve operational efficiency and strengthen our technical R&D capabilities. From the end of last year to the end of August, our total headcount was adjusted from 360 to 346, a net reduction of 14 employees. Within that, R&D headcount increased by 6, while non-R&D headcount decreased by 20. We continue to expand our R&D team to meet very strong customer demand, and we are also bringing in AI algorithm talent to integrate AI into our design processes and management systems. These initiatives are expected to enhance productivity and result in higher average employee compensation over time.

6. **Now that Caliptra is in place, has your company noticed any demand coming in?**
   >> Caliptra Root of Trust is an OCP (Open Compute Project) specification for a hardware-based Root of Trust architecture, originally designed to address the security requirements of data center platforms. Caliptra 1.0 was announced on March 1 last year, and we have seen a number of customers begin adopting our IP as a result of the specification. Based on customer feedback, mass production could start as early as next year, generating royalty contributions. Caliptra 2.0, announced on March 1 this year, incorporates Post-Quantum Cryptography (PQC). Our IP has already passed NIST CAVP certification and is now being integrated into customer chip designs.

7. **What is the current status of the collaboration with Arm?**
   >> We have joined the Arm Total Design (ATD) program, leveraging our security IPs to support the security of Arm Compute Subsystems (CSS), as in last year's N3P project. We expect more 3nm chip adoptions in the second half of this year, with the collaboration extending into the 2nm process node.

8. **President Trump announced a 100% tariff on chips and semiconductors imported into the U.S., with exemptions for companies that have committed to or are in the process of building plants in the U.S. What is the impact on your company?**
   >> Our IP is licensed to virtually all foundries worldwide, from the most mature to the most advanced process nodes. Since our licensing fees and royalties are paid directly by chipmakers or foundries and do not involve the physical movement of goods, tariffs do not apply to us directly. Where customers choose to manufacture to avoid tariffs, or any cost or price increases from tariffs, is beyond our control. However, if tariffs lead to

changes in foundry pricing, we could be indirectly affected—positively or negatively—since our royalties are calculated as a percentage of foundry prices.

9. Does the company collaborate with the four major U.S. CSPs?

>> Yes. For their in-house designed chips, these major CSPs are already our customers. Their engagement with us began with the adoption of OTP technology in earlier projects and has more recently expanded to include PUF-based security IP, with the scope of applications continuing to grow.

10. Will the push for China's domestic chip self-sufficiency lead to competition from Chinese IP vendors that could impact the company?

>>China has been rapidly expanding foundry capacity and driving domestic production. While this led to a drop in foundry prices—particularly last year—our penetration rate has continued to rise. The increase in wafer shipments using our IP more than offset the decline in foundry prices, allowing our overall royalties to keep growing. Because IP adoption requires a long lead time and has high switching costs—directly impacting the reliability of end systems—even when smaller companies in China develop similar IP and some customers try them, the results typically lead customers to switch back to our solution.

11. Referring back to the earlier point that our R&D bandwidth is under pressure, does this impact our capacity to take on new customer projects? What measures are being considered to address this?

>> The current shortage in R&D capacity primarily concerns the design and development of OTP and security IP for the most leading-edge process nodes. Demand in this area is very strong. As customers using mature process nodes can often adopt existing library IPs, reducing the need for customized IP development. To address this capacity constraint, we have already reallocated internal R&D resources—for instance, assigning engineers from MTP and mature-node OTP teams to support the effort. In parallel, we are actively recruiting new R&Ds to further expand our capacity, while also improving our design workflows, including the adoption of AI-driven methodologies.