

eMemory Q4 2018 Results – Earnings Call Transcript

February 15th, 2019 16:00-17:00

Good afternoon, everyone. Thank you all for attending eMemory's 2018 fourth quarter investor conference call. In today's presentation, we would like to report our operation result of 2018 Q4 and full year, followed by update the status of our technologies and our outlook of 2019.

First of all, I will take a few minutes to reiterate our optimism for our long term growth, especially when there has been a great concern about semiconductor industry and weakness of smartphone.

We launched our first IP technology NeoBit in 2002. Our NeoBit (OTP) works as programmable device to repair or trim analog function. Therefore, we have been very successful in mixed mode IC, such as (DDI, PMIC, fingerprint sensors, and other ICs contain analog functions). It took 15 years to reach 20% market share in 8" wafer fab in major foundry. In 2010, we started to develop NeoFuse (OTP) for advance node and MTP related technologies. Our IP was not only used for programmable purpose, but also used as storage of secret key for security function. In 2016 , we developed more advance security IP NeoPUF, which is the root of trust in hardware security. We are working with leading companies and believe NeoPUF will play an important role in AI, IOT and 5G security applications.

After 7 years of building technology platforms among foundry partners, followed by product customers design in, these new technologies started to contribute our revenue significantly since last year. Since increasing production record will speed up customers' adoption and more than 400 accumulated tape outs of these new technologies in past few years, we believe the growth momentum has only just begun.

Next, I would like to report our 2018 fourth quarter and full year results.

- 1) Our fourth quarter revenue was record high, up 3.4% compared to Q3 and 26.4% year over year. The growth is mainly from the contribution of NeoFuse technology. The growth of NeoFuse license fee and royalty in Q4 were up 57% and 69% sequentially, and increased 112% and 267% compared to Q4 2017. Apparently, the adoption rate of NeoFuse is increasing rapidly. As mentioned, we are confident that the revenue generated from NeoFuse will increase further in 2019 and future.
- 2) The operating expense of Q4 2018 increased 8.9% from the prior quarter. The increase of expense is due to one-time employee bonus as incentive for the breakthrough of first 7nm design case. The full year operating expenses of 2018 increased 4% compared to 2017.
- 3) As a result, Q4 operating income decreased 2.5% sequentially, but increased 35% year over year. The operating margin of Q4 was 45.3%, with NT\$ 2.2 EPS, and ROE was 34.5%.

4) For the full year comparison, the revenue of 2018 grew 7.3%, the expenses increased 4%, and the operating income increased 11.6%, EPS was up 2.9% to NT\$ 8.13 (as non-operating income from disposal of investments in 2017).

In the following, I will breakdown revenue contribution from licensing fee and royalty respectively.

In 2018, 70% of revenue was from royalty and 30% from license fee. As compared to 2017, royalty grew 4% and license fee grew 16%, the total revenue increased 7.3%.

In terms of technology breakdown, NeoBit declined 9.5% mainly due to wafer price erosion, and new tape outs not in mass production yet. NeoFuse grew 100%, particularly the royalty up 240% in 2018. NeoEE and NeoMTP grew 20%, and related royalty up 40%. The Q4 revenues of these new technologies accounts for 41% of our total revenue in Q4 2018 and the 2018 total revenue of them is 35% of the total revenue in 2018.

In terms of wafer size breakdown, 12 inch wafer revenue decreased 23% in Q4. This was because two 12" foundries royalty were recognized only in Q1 and Q3. But compared to previous Q4, the number was up 67%. In 2018, 12" wafer revenue was up 24% and represented 33% of total revenue.

After review our results of 2018, I would like to provide our outlook for 2019.

In terms of license fee, we expect the growth trend continue. For technology license, the license fee will continue to grow as we have more technologies to license, covering legacy to advance process nodes, and expanding our business into more foundries, IDMs and DRAM partners. Design license fee will be benefited from increasing IP number of our library, more applications customers design cases and higher ASP of NeoFuse design license fee.

In terms of royalty, we expect 8" wafer revenue pick up momentum and 12" wafer growth will continue in 2019 and beyond.

- 1) The 8" royalty will grow due to mass production of two largest US customers' PMIC related product and underglass fingerprint.
- 2) The momentum of 12 inch royalty will be from new applications; including Network IC, DTV, STB, SSD controller, Bluetooth, OLED driver, TDDI, Smart meters, Surveillance, and DRAM. As these product wafer price is higher than our average, we expect the increase of royalty of 12" wafer will be more significant.

With so many progress to expand our platforms for various applications, we are very optimistic for our growth in the next 5 years as catalyst for growth remain abundant. We will continue our new technology developments on

- 1) Continue developing 7nm and 5nm technology platforms.
- 2) Work with leading IDMs on emerging memory MRAM and ReRam.
- 3) Partnership with largest processor IP Company to embed NeoFuse and NeoPUF as root of trust into secure processor.
- 4) Establish NeoPUF based security IP platform.

eMemory will continue to innovate to create value for the industry as well as shareholders' values.

Thank you all for attending today's conference call.