eMemory Q2 2019 Results – Earnings Call Transcript

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

Good afternoon, everyone. Thank you for attending eMemory's 2019 second quarter investor conference call. In today's presentation, we would like to report our operation results of 2019 Q2 and first half of the year, followed by the status update of our technologies and outlook for the second half of 2019.

First, I would like to report our 2019 Q2 and first half results.

1) **Our Q2 revenue was NT$ 317 mil, a decrease of 19.9% sequentially and an increase of 4.8% year-over-year.**
2) **The operating expenses of Q2 was NT$ 188 mil, down 6.6% sequentially, and up 2.3% year-over-year.**
3) **As a result, Q2 operating income decreased 33.7% sequentially, and increased 8.7% year-over-year. The operating margin of Q2 was 40.6%, with EPS, NT$ 1.55 and ROE at 29.0%.**
4) **For the first half year comparison, the revenue of 2019 H1 grew 5.2%, the operating expenses increased 3.2%, and the operating income increased 7.7%. EPS up 6.2% to NT$ 3.94, and ROE gained 7.9 percentage points to 36.9%.**

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

1) **In Q2, 67% of revenue was from royalty and 33% from licensing fee.**
2) **Royalty decreased 26.8% sequentially, but increased 5.5% year-over-**

year.

3) **Licensing fee decreased 1.0% sequentially, but increased 3.5% year-over-year.**
4) **As compared to the first half of 2018, the licensing revenue dropped by 2.4%, while royalty revenue gained 8.7%, resulting in a gain of 5.2% in the total revenue of the first half.**

If we breakdown revenue by technologies:

1) **For NeoBit, the licensing revenue gained 38.6% compared to the previous quarter, but down 16.5% year-over-year. The reason is because NeoBit technologies had been deployed to many process nodes among foundries, therefore, less contribution to technology license fee. As most new product tape outs are using existing IP, the usage fee of design licenses still grow continuously, contributing to 26.5% of licensing fee. NeoBit is a very strong cash cow for us as very few RD resources (cost) incurred, and still contributed 72.2% of royalty for the quarter.**
2) **For NeoFuse, which accounted for 62.7% of total licensing revenue for the quarter, up 1.3% sequentially, and 53.1% year-over-year. The growth of licensing fee is mainly related to the continuous development of advanced processes. Furthermore, four licensing contracts were signed for NeoFuse in this quarter. Its royalty increased 40.3% sequentially, and 109.8% year-over-year. NeoFuse contributed to 22.6% of royalty revenue, which has the potential to drive the company's future revenue growth.**
3) **Our new technology, NeoPUF has not contributed to royalty revenue,**

but the cooperation with customers is on-going and continues to develop, contributing to 0.6% of licensing revenue.

4) **For NeoEE and NeoMTP, licensing revenue decreased 48.7% sequentially and 57.3% year-over-year. The decline was primary due to more NeoMTP license contracts signed in the previous quarter and in Q4 2018. These design projects are under development and will tape out soon. Their royalty revenue down 16.8% sequentially, and 47.8% year-over-year. The decrease is due to NeoEE's product transition of one of our fingerprint's customer.**

In the first half of 2019:

1) **For NeoBit, the licensing revenue decreased 31.5% year-over-year, but royalty increased 2.8%, accounting for 62.2% of the total revenue.**
2) **For NeoFuse, the licensing and royalty revenue gained 37.3% and 128.5% respectively, year-over-year, contributing to around 30% of the total revenue.**
3) **For NeoEE and NeoMTP, the licensing and royalty revenue declined 37.8% and 40.8% respectively, year-over-year, accounting for 7.8% of the total revenue.**

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

1) **Royalty from 12-inch wafer, which contributed to 24.3% of royalty revenue decreased 47.1% sequentially but increased 6.6% year-over-year primarily due to seasonal factor of DDI related products.**
2) **8-inch royalty which accounted for 75.7% of royalty revenue decreased 16.5% sequentially, but increased 5.1% year-over-year.**

3) **In H1 2019, 12 inch wafer contributed to 29.7% of royalty revenue increased 16.2% year-over-year. 8 inch wafer which contributed to 70.3% of royalty revenue increased 5.9% year-over-year.**

There were a total of 109 product tape-outs in Q2 2019. More specifically, there was a design finalization of 1 tape-out at 7nm for advanced SOC. In addition to mobile phone related applications, the tape-outs included STB, DTV, Network communication, IoT and the other related applications. A more detailed information will be provided in the management report released later today.

Next, I would like to address our future outlook.

Revenue of July has been reported last week, which recognized royalty revenue from the second quarter of major cooperated foundries. The weakness was mainly due to customers' inventory adjustments and production shift to different foundry which recognized royalty in the second month of the quarter.

Therefore, we expect royalty revenue growth over last year in August.

In addition, royalty revenue of major foundries is expected to grow sequentially in Q4 as new model and non-smart phone chips production will ramp up in Q3.

1) **For licensing fee, we have signed design license contracts with top tier IDMs and the largest Korean IDM this quarter, which will drive the growth of license fee and royalty in the future.**
2) **For royalty revenue, we expect US PMIC customers boost production further in the second half of 2019 and 2020 resulting higher royalty from 8-inch wafers. Royalty from 12-inch wafer will continue to grow as accumulated 244 tape-outs in the pipeline ready for mass production. Our first DRAM IDM licensee started mass production one quarter ahead of schedule and that customer is satisfied with the result. With a proven result, we will actively promote our technology to worldwide DRAM IDMs. Furthermore, our largest Chinese customer plan to start its mass production using 14nm process as soon as cooperated foundry is ready. In addition, production of Top-tier IDM, Korean IDM and 7nm FPGA customers will continue to drive our growth of royalty fee from advance nodes in the near future.**

And for the new technology development:

1) **The development of 5nm process platform went smoothly and we have completed the first IP tape-out recently.**
2) **Our emerging memory - ReRAM IP has completed preliminary verification.**
3) **There are two on-going Secured Processor projects referred from our partnership program with the largest processor IP company.**
4) **Our PUFtrng, true random number generator, is proved to be the fastest and lowest power solution.**

Our current royalty was the result of our past efforts, and our current efforts in innovative technologies and applications development will contribute to future royalty. New technologies and applications are moving towards 12-inch process development, and we are convinced that these will drive the company's growth.

We would like to apologize for our short term monthly revenue weakness caused by customers' production shift and inventory issues. We believe it is a short term phenomenon and expect that momentum will be back soon as advance and promising design cases are in the pipeline. We believe our constant development of new technologies and penetrating into more applications will keep our company growing in the long run.

Thank you for your patience and continuous support.