

April 28, 2014

1Q2014 Management Report

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Outlines

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(Amounts are on consolidated basis and are in NT\$ thousands unless otherwise noted)

	<u>1Q14</u>	<u>4Q13</u>	<u>1Q13</u>	<u>QoQ</u>	<u>YoY</u>
EPS(NT\$ per common share)	1.46	1.21	0.7	20.66%	108.57%
Net Revenue	246,060	230,554	164,912	6.73%	49.21%
Gross Profit	246,060	230,554	164,912	6.73%	49.21%
<i>Gross Margin</i>	100.0%	100.0%	100.0%		
Operating Expenses	126,719	124,761	107,823	1.57%	17.53%
Operating Income	119,341	105,793	57,089	12.81%	109.04%
<i>Operating Margin</i>	48.5%	45.9%	34.6%		
Non-Operating Income and Expenses	6,169	1,820	407	238.96%	1415.72%
Net Income	110,936	91,268	52,108	21.55%	112.90%
<i>Net Profit Margin</i>	45.1%	39.6%	31.6%		

Financial Highlights:

1Q 2014

- Net revenues were NT\$246.06 million, representing a 6.73% increase from NT\$230.55 million in 4Q2013 and a 49.21% increase from NT\$164.91 million in 1Q2013.
- Gross margin was 100.0% equal to 4Q2013 and 1Q2013.
- Operating margin was 48.5%, up 2.6 percentage points from 4Q2013 and up 13.9 percentage points from 1Q2013.
- Net income was NT\$110.94 million, up 21.55% from 4Q2013 and up 112.90% from 1Q2013.
- Net profit margin was 45.1%. EPS was NT\$1.46.

I. Revenue Analysis

I. Revenue Analysis

(NT\$ thousands)	1Q2014	4Q2013	1Q2013
Licensing	75,045	56,933	50,752
Royalty	171,015	173,621	114,160
Total	246,060	230,554	164,912

Revenue Analysis:

The revenues for 1Q2014 totaled NT\$246.06 million, representing an increase of 6.73% compared to 4Q2013 and an increase of 49.21% over the same period of last year. The growth was primarily contributed by the strong demands of LCD driver ICs and power management ICs for smart phones and tablets.

The Licensing revenues this quarter were NT\$75.05 million, representing a 31.81% increase compared to 4Q2013 and an increase of 47.87% over the same period of last year. The increase was mainly contributed by new licensing contracts.

The Royalty revenues in 1Q2014 totaled NT\$171.02 million, representing a slight decrease of 1.50% compared to 4Q2013, and an increase of 49.80% over the same period of last year. For Royalty, the income was contributed primarily by the rising demand of LCD driver ICs, power management ICs, microcontrollers and sensor ICs.

As foundries have turned more positive on wafer shipment in near future, eMemory expects a continuous growth trend for both revenue and earnings.

II. Liquidity Analysis

II - Liquidity Analysis (Balance Sheet Items)			
(In NT\$ thousands)	1Q2014	4Q2013	1Q2013
Cash & Marketable Securities	1,280,822	1,208,387	996,581
Accounts Receivable	67,394	36,551	42,602
Inventories	0	0	0
Other Current Assets	16,617	8,651	16,161
Total Current Assets	1,364,833	1,253,589	1,055,344
Short-term Loans	0	0	0
Accounts Payable	0	0	0
Accrued Liabilities and Others	175,582	149,355	100,637
Total Current Liabilities	175,582	149,355	100,637
Current Ratio (x)	7.8	8.4	10.5
Net Working Capital	1,189,251	1,104,234	954,707

Liquidity Analysis:

At the end of 1Q2014, cash and marketable securities totaled NT\$1,280.82 million, increased by NT\$72.44 million from 4Q2013.

Total current liabilities was NT\$175.58 million, increased by NT\$26.23 million from 4Q2013.

Net working capital was NT\$1,189.25 million and current ratio was 7.8.

III. Cash Flow Analysis

III. Cash Flow Analysis			
(In NT\$ thousands)	1Q2014	4Q2013	1Q2013
Income before Income Tax	125,510	107,613	57,496
Depreciation & Amortization	9,698	10,328	9,815
Other Operating Sources/(Uses)	(27,485)	49,114	(18,201)
Total Operating Sources/(Uses)	<u>107,723</u>	<u>167,055</u>	<u>49,110</u>
Capital Expenditure	(7,704)	(3,013)	(6,608)
Marketable Financial Instruments	(33,503)	(3)	19
Other Investing Sources/(Uses)	5,753	0	0
Net Investing Sources/(Uses)	<u>(35,454)</u>	<u>(3,016)</u>	<u>(6,589)</u>
Short-term Loans	0	0	0
Cash Dividends	0	0	0
Other Financing Sources/(Uses)	18	0	(31,074)
Net Financing Sources/(Uses)	<u>18</u>	<u>0</u>	<u>(31,074)</u>
Exchange Rate Changes	<u>148</u>	<u>1,218</u>	<u>267</u>
Net Cash Position Changes	72,435	165,257	11,714
Ending Cash Balance	1,280,822	1,208,387	996,581

Cash Flow Analysis:

Cash generated from operating activities totaled NT\$107.72 during this quarter, representing a decrease of NT\$59.33 million from Q42013.

Net cash used in investing activities was NT\$35.45 million, NT\$32.44 million higher than that in Q42013.

Net cash generated from financing activities totaled NT\$0.02 million during this quarter, representing an increase of NT\$0.02 million from Q42013.

At the end of 1Q2014, eMemory's cash balance was NT\$1,280.82 million, NT\$72.44 million higher than that of 4Q2013.

Consolidated Statements of Comprehensive Income:

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(In NT\$ thousands, except EPS in NT\$)	<u>1Q2014</u>	<u>1Q2013</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net revenue	246,060	164,912	808,258	611,235	644,071	843,167
Gross profit	246,060	164,912	808,258	610,540	520,496	628,099
Operating expenses	126,719	107,823	(468,574)	(397,084)	(357,302)	(391,146)
Operating income	119,341	57,089	339,684	213,456	163,194	236,953
Non-operating income and expenses	6,169	407	2,474	(19,386)	17,636	2,284
Net income from continuing operations before tax	125,510	57,496	342,158	194,070	180,830	239,237
Tax expense	14,574	5,388	51,518	31,147	27,701	12,709
Net income	110,936	52,108	290,640	162,923	153,129	226,528
Comprehensive income	110,936	52,108	292,536	167,567	N/A	N/A
Net income (loss), attributable to owners of parent	110,936	52,108	290,640	162,923	153,129	226,528
Net income (loss), attributable to non-controlling interests	0	0	0	0	0	0
Comprehensive income, attributable to owners of parent	110,936	52,108	292,536	167,567	N/A	N/A
Comprehensive income, attributable to non-controlling interests	0	0	0	0	0	0
Basic earnings per share	1.46	0.7	3.87	2.15	2.03	3.48

* Note 1. After adopting IFRSs: 2013, 2012

* Note 2. Before adopting IFRSs: 2011, 2010

* Note 3. Since August 2011, eMemory has been focused on embedded non-volatile memory (eNVM) silicon intellectual property (SIP) license business. From 2013, eMemory sales activities do not consist of turnkey service.