

2015

eMemory Technology Inc. Reports Results for the Third Quarter 2015



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Hsinchu, Taiwan, 13 November 2015 – eMemory Technology Inc. (Stock code: 3529) announces financial results for the third quarter of 2015, ended 30 September.

Q3 2015 - Financial Summary (Unit: NT\$ thousands)	Q3 2015	Q2 2015	% change	Q3 2014	% change
Net revenue	251,815	280,325	-10.17%	274,829	-8.37%
Gross margin	100%	100%	-	100%	-
Operating expenses	143,776	141,435	1.66%	135,695	5.96%
Operating margin	42.9%	49.5%	-6.6ppts	50.6%	-7.7ppts
Net income	106,301	130,297	-18.42%	124,352	-14.52%
Net margin	42.2%	46.5%	-4.3ppts	45.2%	-3.0ppts
EPS (NT\$ per common share)	1.40	1.72	-18.60%	1.64	-14.63%

Q3 2015 Financial Summary

- Net revenue was down 8.37% as compared to Q3 2014
- Operating expenses were up 5.96% year-on-year
- Net income was down 14.52% from Q3 2014
- Net margin was down 3.0ppts year-on-year
- EPS was down 14.63% year-on-year

Progress on key growth drivers in Q3 2015

- Growth in technology licensing
 - 4 technology licenses signed with 2 customers in Q3 2015. Currently developing 83 process platforms covering technologies from 0.25um to 16/14nm
- Growth in design licensing
 - 86 design licenses were signed in Q3 2015 for a diverse range of applications, including DDI, PMIC, MCU, and sensor-related products
 - By the end of Q3 2015, the number of design licenses signed totaled 3,048

Outlook

As stated in Q3 this year, we have successfully demonstrated our technology in advanced processes and eMemory IPs are deployed in diverse range of markets and products. Looking forward to the fourth quarter and beyond, our outlooks for the future including:

- Several licensing agreements are in final negotiations, and will make a significant contribution to revenue growth.
- Production of PMIC for multiple American and Chinese handset applications continues to expand, and penetrate into other non-handset related applications.
- Advanced 55nm DDI production continues to expand, and new products development begin in 40nm.

- (28nm set-top box processors have successfully entered volume production. We are also seeing other customers starting to engage with this technology.
- Customers for fingerprint and CIS continue to tape out. We expect production royalties to grow next year as our customers release upgraded product lines.
- 16nm FF⁺ qualification has been successful, and we are in the stages of reliability qualification. We expect customers to tape-out in the first half of 2016.
- European automotive electronics-related products have already taped-out. We are also engaging with Japanese automotive electronics leaders.

With the broadening adoption of eMemory's IPs, we will continue to see growth momentum from the new technology licenses development, the increasing royalty contribution in advanced nodes, and the higher penetration rate in smartphone applications.

Management remarks

As the deployments in advanced nodes, we are pleased to see continuing contributions from 12-inch royalty revenues. For licensing fees, the licensing opportunities will remain healthy for the rest of the year owing to over 83 ongoing projects and the proliferation of new technology platforms. Given the increasing penetration of 12-inch wafer technology and the adoption of NeoFuse in 16nm and below for security and the replacement of e-fuse applications, we believe that eMemory can remain in multi-year growth trend.

Financial review

Q3 2015 – Revenue Breakdown (Unit: NT\$ thousands)	Q3 2015	Q2 2015	% Change	Q3 2014	% Change
Licensing	38,167	95,982	-60.24%	61,981	-38.42%
Royalty	213,648	184,343	15.90%	212,848	0.38%
Total	251,815	280,325	-10.17%	274,829	-8.37%

Total revenues

Total revenues in Q3 2015 were NT\$ 251.82 million, down 8.37% versus Q3 2014.

Licensing revenues

Licensing revenues in Q3 2015 decreased by 38.42% year-on-year to NT\$38.17 million, representing 15.16% of Q3 revenue. Accounting to the license revenue has declined in Q3 as compare to Q2 is because the fact that there was a large package license contract signed in Q2 while other license are still under negotiation in Q3.

Royalty revenues

Royalty revenues in Q3 2015 were up 0.38% year-on-year to NT\$213.65 million, representing 84.84% of Q3 revenue. The royalty revenue growth 15.90% Quarter-on-Quarter mainly comes from the growth of the production of PMIC, DDI and consumer related applications.

Gross margin

Gross margin in Q3 2015 was 100%, equal to that of Q3 2014.

Operating expenses and operating margin

Operating expenses in Q3 2015 increased by 5.96% year-on-year to NT\$143.78 million. The increase in Q3 operating expenses was primarily due to additional employees and annual salary adjustment.

The operating margin in Q3 2015 was 42.9%, down 7.7ppts on Q3 2014.

Earnings and income tax expenses

Net income in Q3 2015 decreased by 14.52% year-on-year to NT\$106.30 million.

Income tax expenses in Q3 2015 were NT\$ 15.08 million, down 9.37% from Q3 2014.

In Q3 2015, earnings per share were NT\$1.40, down 14.63% from Q3 2014.

Balance sheet

At the end of Q3 2015, cash and marketable securities totaled NT\$1,192.05 million, an increase of NT\$26.49 million from Q3 2014.

Total current liabilities were NT\$183.26 million, an increase of NT\$22.95 million from Q3 2014. This increase was mainly due to bonus provisions and current tax liabilities.

Net working capital was NT\$1,115.00 million, an increase of NT\$13.14 million from Q3 2014.

Cash flow

Cash generated from operating activities in Q3 2015 increased by NT\$21.78 million from Q3 2014 to NT\$333.99 million.

Net cash used in investment activities in Q3 2015 was NT\$12.79 million, decreasing by NT\$39.39 million from Q3 2014. The decrease was mainly due to the investment in time deposits with original maturity more than 1 year.

At the end of Q3 2015, eMemory's cash balance was NT\$1,192.05million, an increase of NT\$26.49 million on Q3 2014.

Licensing

In Q3 2015, 4 technology licenses were signed with 2 customers. Currently, 83 process platforms are under development spanning from 0.25um to 16/14nm, reflecting the ongoing demand for eMemory's technology. These technology licenses are summarized below.

- Progress in advanced nodes:
 - 28 process platforms were ready for production in 5 major foundries
 - 33 process platforms were under development, including 16nm FFC, 28nm HPC⁺ and 40nm HV processes
- Progress in legacy nodes:
 - 50 process platforms were under development

We supported 86 customer product tape-outs for design licensing in Q3 2015. These tape-outs are summarized below.

- 6 tape-outs in 55nm for LCD driver applications
- 6 tape-outs in 80nm for LCD driver applications
- 14 tape-outs in 0.11/0.13um for Network IC, Audio, Motor Driver, LCD driver, MCU, and PMIC applications
- 57 tape-outs in 0.152/0.16/0.18um for PMIC, Sensors and MCU applications
- 3 tape-outs in 0.25/0.35um for Sensors, Controller and MCU applications

Royalties

Royalties among are generated from 3,048 design licenses and 940 verified NVM IPs. As the growth of the application in 8-inch technology technologies and the applications in 12-inch are also increasing. We believe royalty revenue will continue to grow. The following are the main contributors to growth of royalty revenue:

- Applications used by major smartphone customers to maintain their momentum
- Production of PMIC for multiple American and Chinese handset applications continues to expand
- Advanced DDI production continues to expand; revenue expected to in compliance with the growth trend in the second half of 2015 owing to mass production of 55nm drivers
- 28nm set-top box processors have successfully entered volume production.
- Royalty from fingerprint recognition ICs and CIS has started to kick in from Q3. The contribution will be visible in 2016.

Employees

At the end of September 30, 2015, eMemory has 224 full-time employees, including 153 R&D engineers.

Cautionary Statement

This report contains forward-looking statements, which are subject to risk factors associated with semiconductor and intellectual property business. The expectations reflected in these statements are believed to be reasonable, but 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 of 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

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industry cycle and general economic conditions. Except 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 Tables to Follow-

eMemory Technology Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2015 (Reviewed)		December 31, 2014 (Restatement and Audited)		September 30, 2014 (Restatement and Reviewed)			September 30, 2015 (Reviewed)		December 31, 2014 (Restatement and Audited)		September 30, 2014 (Restatement and Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
ASSETS							LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$1,192,047	63	\$1,323,163	67	\$1,165,554	63	Other payables	\$ 56,444	3	\$ 82,006	4	\$ 55,683	3
Accounts receivable - net	38,828	2	49,019	3	46,889	3	Bonuses payable to employees, directors and supervisors	57,203	3	64,207	3	48,796	3
Accounts receivable - related parties	-	-	1,325	-	319	-	Payables on equipment	217	-	8,021	-	671	-
Other receivables	946	-	508	-	471	-	Current tax liabilities	48,078	3	19,792	1	44,038	2
Other receivables - related parties	141	-	105	-	111	-	Other current liabilities	21,316	1	8,147	1	11,117	-
Prepayments	60,290	3	7,363	-	44,666	2	Total current liabilities	183,258	10	182,173	9	160,305	8
Other current assets	6,008	-	748	-	4,157	-	NON-CURRENT LIABILITIES						
Total current assets	1,298,260	68	1,382,231	70	1,262,167	68	Net defined benefit liability - noncurrent	14,669	1	14,669	1	15,721	1
NON-CURRENT ASSETS							Guarantee deposits received	840	-	415	-	433	-
Financial assets measured at cost - noncurrent	15,917	1	16,675	1	17,755	1	Total non-current liabilities	15,509	1	15,084	1	16,154	1
Investments in debt instrument without active market - noncurrent	33,608	2	33,608	2	33,606	2	Total liabilities	198,767	11	197,257	10	176,459	9
Investment accounted for using equity method	8,431	1	3,981	-	6,508	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Property, plant and equipment	489,847	26	503,671	25	500,312	27	Ordinary shares	768,323	41	768,323	39	768,323	42
Intangible assets	39,926	2	37,763	2	34,724	2	Capital surplus	455,370	24	521,569	26	521,562	28
Deferred tax assets	3,996	-	3,135	-	3,176	-	Retained earnings						
Refundable deposits	357	-	1,857	-	1,857	-	Legal reserve	184,051	10	142,194	7	142,194	8
Total non-current assets	592,082	32	600,690	30	597,938	32	Special reserve	926	-	926	-	926	-
							Unappropriated earnings	351,654	18	421,401	21	319,390	17
							Total retained earnings	536,631	28	564,521	28	462,510	25
							Treasury shares	(68,749)	(4)	(68,749)	(3)	(68,749)	(4)
							Total equity	1,691,575	89	1,785,664	90	1,683,646	91
TOTAL	\$1,890,342	100	\$1,982,921	100	\$1,860,105	100	TOTAL	\$1,890,342	100	\$1,982,921	100	\$1,860,105	100

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	For the Three Months Ended				For the Nine Months Ended			
	September 30				September 30			
	2015		2014		2015		2014	
	Amount	%	Amount	%	Amount	%	Amount	%
OPERATING REVENUE	\$251,815	100	\$274,829	100	\$790,742	100	\$745,818	100
OPERATING COSTS	-	-	-	-	-	-	-	-
GROSS PROFIT	<u>251,815</u>	<u>100</u>	<u>274,829</u>	<u>100</u>	<u>790,742</u>	<u>100</u>	<u>745,818</u>	<u>100</u>
OPERATING EXPENSES								
Selling and marketing expenses	26,110	10	19,245	7	69,208	9	63,241	8
General and administrative expenses	32,686	13	33,034	12	98,782	12	94,425	13
Research and development expenses	<u>84,980</u>	<u>34</u>	<u>83,416</u>	<u>31</u>	<u>246,197</u>	<u>31</u>	<u>234,154</u>	<u>31</u>
Total operating expenses	<u>143,776</u>	<u>57</u>	<u>135,695</u>	<u>50</u>	<u>414,187</u>	<u>52</u>	<u>391,820</u>	<u>52</u>
OPERATING REVENUE	<u>108,039</u>	<u>43</u>	<u>139,134</u>	<u>50</u>	<u>376,555</u>	<u>48</u>	<u>353,998</u>	<u>48</u>
NON-OPERATING INCOME AND EXPENSES								
Other income	3,810	2	3,352	1	20,836	2	16,657	2
Other gains and losses	11,014	4	(202)	-	5,993	1	(2,625)	-
Share of loss of associates	(1,487)	(1)	(1,298)	-	(5,133)	(1)	(7,089)	(1)
Total non-operating income and expenses	<u>13,337</u>	<u>5</u>	<u>1,852</u>	<u>1</u>	<u>21,696</u>	<u>2</u>	<u>6,943</u>	<u>1</u>
PROFIT BEFORE INCOME TAX	121,376	48	140,986	51	398,251	50	360,941	49
INCOME TAX EXPENSE	<u>15,075</u>	<u>6</u>	<u>16,634</u>	<u>6</u>	<u>47,230</u>	<u>6</u>	<u>43,268</u>	<u>6</u>
NET PROFIT	<u>106,301</u>	<u>42</u>	<u>124,352</u>	<u>45</u>	<u>351,021</u>	<u>44</u>	<u>317,673</u>	<u>43</u>
OTHER COMPREHENSIVE INCOME								
Components of other comprehensive income that will be reclassified to profit or loss								
Unrealized gain from available-for-sale financial assets	-	-	(7)	-	-	-	-	-
Other comprehensive income for the period	-	-	(7)	-	-	-	-	-
TOTAL COMPREHENSIVE INCOME	<u>\$106,301</u>	<u>42</u>	<u>\$124,345</u>	<u>45</u>	<u>\$351,021</u>	<u>44</u>	<u>\$317,673</u>	<u>43</u>
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Company	\$106,301	42	\$124,352	45	\$351,021	44	\$317,673	43
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$106,301</u>	<u>42</u>	<u>\$124,352</u>	<u>45</u>	<u>\$351,021</u>	<u>44</u>	<u>\$317,673</u>	<u>43</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Company	\$106,301	42	\$124,345	45	\$351,021	44	\$317,673	43
Non-controlling interests	-	-	-	-	-	-	-	-
	<u>\$106,301</u>	<u>42</u>	<u>\$124,345</u>	<u>45</u>	<u>\$351,021</u>	<u>44</u>	<u>\$317,673</u>	<u>43</u>
EARNINGS PER SHARE								
Basic	<u>\$ 1.40</u>		<u>\$ 1.64</u>		<u>\$ 4.63</u>		<u>\$ 4.19</u>	
Diluted	<u>\$ 1.40</u>		<u>\$ 1.64</u>		<u>\$ 4.62</u>		<u>\$ 4.18</u>	

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	Ordinary Shares		Capital Surplus	Legal Reserve	Retained Earnings			Treasury Shares	Total Equity
	Shares (In Thousands)	Amount			Special Reserve	Unappropriated Earnings	Total Retained Earnings		
BALANCE, JANUARY 1, 2014	76,833	\$ 768,323	\$ 556,787	\$ 113,130	\$ 926	\$ 292,536	\$ 406,592	(\$ 68,749)	\$ 1,662,953
Effects of retrospective application and retrospective restatement	-	-	-	-	-	(179)	(179)	-	(179)
Equity at beginning of period after adjustments	76,833	768,323	556,787	113,130	926	292,357	406,413	(68,749)	1,662,774
Appropriations of 2013 earnings									
Legal reserve	-	-	-	29,064	-	(29,064)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(261,576)	(261,576)	-	(261,576)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	6,328	-	-	-	-	-	6,328
Issue of cash dividends from capital surplus	-	-	(41,553)	-	-	-	-	-	(41,553)
Net profit for the nine months ended September 30, 2014	-	-	-	-	-	317,673	317,673	-	317,673
Other comprehensive income for the nine months ended September 30, 2014	-	-	-	-	-	-	-	-	-
Total comprehensive income for the nine months ended September 30, 2014	-	-	-	-	-	317,673	317,673	-	317,673
BALANCE, SEPTEMBER 30, 2014	76,833	\$ 768,323	\$ 521,562	\$ 142,194	\$ 926	\$ 319,390	\$ 462,510	(\$ 68,749)	\$ 1,683,646
BALANCE, JANUARY 1, 2015	76,833	\$ 768,323	\$ 521,569	\$ 142,194	\$ 926	\$ 421,545	\$ 564,665	(\$ 68,749)	\$ 1,785,808
Effects of retrospective application and retrospective restatement	-	-	-	-	-	(144)	(144)	-	(144)
Equity at beginning of period after adjustments	76,833	768,323	521,569	142,194	926	421,401	564,521	(68,749)	1,785,664
Appropriations of 2014 earnings									
Legal reserve	-	-	-	41,857	-	(41,857)	-	-	-
Cash dividends distributed by the Group	-	-	-	-	-	(378,911)	(378,911)	-	(378,911)
Change in capital surplus from investments in associates accounted for by using equity method	-	-	9,583	-	-	-	-	-	9,583
Issue of cash dividends from capital surplus	-	-	(75,782)	-	-	-	-	-	(75,782)
Net profit for the nine months ended September 30, 2015	-	-	-	-	-	351,021	351,021	-	351,021
Other comprehensive income for the nine months ended September 30, 2015	-	-	-	-	-	-	-	-	-
Total comprehensive income for the nine months ended September 30, 2015	-	-	-	-	-	351,021	351,021	-	351,021
BALANCE, SEPTEMBER 30, 2015	76,833	\$ 768,323	\$ 455,370	\$ 184,051	\$ 926	\$ 351,654	\$ 536,631	(\$ 68,749)	\$ 1,691,575

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 398,251	\$ 360,941
Adjustments for:		
Depreciation expenses	20,444	21,361
Amortization expenses	6,354	6,847
Reversal of bad debt expense on accounts receivable	(466)	(481)
Interest income	(10,394)	(9,564)
Dividend income	(8,629)	(5,753)
Share of loss of associates	5,133	7,089
Loss on disposal of property, plant and equipment	95	-
Gain on disposal of investments	(113)	(447)
Impairment losses on financial assets	758	4,182
Net gain on foreign currency exchange	(3,162)	(1,339)
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	11,890	(9,068)
Decrease (increase) in accounts receivable - related parties	1,299	(6)
Increase in other receivables	(502)	(19)
Increase in other receivables - related parties	(36)	(4)
Increase in prepayments	(6,352)	(4,841)
Increase in other current assets	(5,260)	(3,368)
Decrease in other payables	(25,562)	(5,096)
Increase (decrease) in other current liabilities	13,169	(178)
(Decrease) increase in bonuses payable to employees, directors and supervisors	(7,004)	4,331
Cash generated from operations	389,913	364,587
Interest received	10,438	9,590
Income tax paid	(66,360)	(61,967)
Net cash generated from operating activities	<u>333,991</u>	<u>312,210</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(427,000)	(305,644)
Proceeds from disposal of available-for-sale financial assets	427,113	306,091
Acquisition of investments in debt instrument without active market	-	(32,066)
Acquisition of property, plant and equipment	(14,519)	(17,217)
Increase in refundable deposits	-	(27)
Decrease in refundable deposits	1,500	-
Acquisition of intangible assets	(8,517)	(9,070)
Dividend received	8,629	5,753
Net cash used in investing activities	<u>(12,794)</u>	<u>(52,180)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(454,693)	(303,129)
Increase in guarantee deposits received	425	28
Net cash used in financing activities	<u>(454,268)</u>	<u>(303,101)</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	<u>1,955</u>	<u>238</u>
NET DECREASE IN CASH	(131,116)	(42,833)
CASH AT THE BEGINNING OF THE PERIOD	<u>1,323,163</u>	<u>1,208,387</u>
CASH AT THE END OF THE PERIOD	<u>\$ 1,192,047</u>	<u>\$ 1,165,554</u>

Notice to Readers

The above consolidated financial statements are intended only to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to review such consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the previously mentioned consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and consolidated financial statements shall prevail. For the complete consolidated financial statements in Chinese version, please refer to MOPS: <http://mops.twse.com.tw/mops/web/index>