



Management Report for First Quarter FY2017

Hsinchu, Taiwan, 10 May, 2017 – eMemory Technology Inc. (TPE:3529) announced its results for the first quarter ended 31 March 2017.

Results Summary

(Amounts are in thousands of NT dollars, except margins and EPS)

	1Q 2017	4Q 2016	1Q 2016	Change (QoQ)	Change (YoY)
Net Revenue	337,249	306,227	319,846	10.1%	5.4%
Gross Margin	100%	100%	100%	-	-
Operating Expenses	193,603	171,681	177,088	12.8%	9.3%
Operating Margin	42.6%	43.9%	44.6%	-1.3ppts	-2.0ppts
Net Income	151,378	132,361	166,012	14.4%	-8.8%
Net Margin	44.9%	43.2%	51.9%	+1.7ppts	-7.0ppts
EPS (NT\$ per common share)	2.00	1.75	2.19	14.3%	-8.7%

Financial Highlights

- Net revenue rose 10.1% from the previous quarter, and up 5.4% from a year ago.
- Operating expenses were 12.8% higher than the previous quarter, and up 9.3% from a year ago, due to an increase in employee compensation and higher investment in design software and equipment.
- Net income rose 14.4% from last quarter, while down 8.8% from the same period last year, when eMemory posted higher non-operating income from a disposal of financial assets.
- Net margin rose to 44.9% from 43.2% in the previous quarter, and down from 51.9% a year ago.
- EPS increased to NT\$2 from NT\$1.75 last quarter, and down from NT\$2.19 in the same period last year.

Key Business Developments

Licensing

- Technology License
 - 5 licenses were signed with 5 customers on 3 products (NeoFuse : 2 ; NeoBit : 2 ; NeoMTP : 1).
 - Technologies for 111 process platforms, from 0.18um to 7nm, were under development, with 72 in legacy and 39 in advanced nodes.

eMemory's Coverage in Advanced Platforms

	7/10nm	12/14/16nm	28nm	40nm	55nm	90nm	Total
Qualified		2	6	6	14	6	34
Developing	3	3	10	5	11	5	39

- Design License
 - 96 product tape-outs in the first quarter. Among these, there were 27 tape-outs in LCD driver, 18 tape-outs in PMIC, 13 tape-outs in MCU, 7 tape-outs in sensor-related, 6 tape-outs in TDDI, 5 tape-outs in Fingerprint, 5 tape-outs in OLED driver, and 15 tape-outs in other applications.
 - These tape-outs are summarized as follows :
 - 1 taped-out in 28nm for the application of Multi-Media.
 - 2 taped-outs in 40nm for the applications of OLED driver.
 - 4 taped-outs in 55nm/65nm for the applications of LCD driver, TDDI.
 - 11 taped-outs in 80nm/90nm for the applications of LCD driver, TDDI, and OLED driver.
 - 20 taped-outs in 0.11um/0.13um for the applications of LCD driver, PMIC, TDDI, Audio, and sensor-related.
 - 52 taped-outs in 0.15um/0.18um mainly for the applications of Fingerprint, LCD driver, PMIC, sensor-related, MCU, and Network IC.
 - 6 taped-outs in 0.25um/0.35um for the application of Fingerprint, PMIC and Motor driver.

Royalty

- By expanding into a broad range of application markets, eMemory's cumulative number of design licenses has risen to 3,618 by the end of 1Q 2017.
- Major contributors to royalty revenues :
 - PMIC applications contributed 21.10% of total royalty revenues in 1Q 2017. Revenues of the segment fell by 25.49% YoY and down by 35.35% QoQ. The fall was mainly attributed to a 38% of drop (YoY) in the royalty from iOS-based application customers.
 - DDI applications contributed 50.63% of total royalty revenues in 1Q 2017. This market segment posted a YoY growth of 18.66%, and a QoQ growth of 82.30%. A 34.82% of drop (YoY) in the royalty from iOS-based application customers was largely offset by a 53.21% (YoY) of increase from Android-based customers. TDDI and OLED driver applications are major contributors to the DDI royalty.
 - Other applications, including Fingerprint, STB, MCU, Bluetooth, Network IC, STB and sensor-related, contributed 28.27% of total royalty revenues in 1Q. The revenues of those applications grew 58.21% on year and up 10.24% on quarter.
 - 66.08% of total royalty revenues came from 8-inch wafer production, and 33.92% from 12-inch. The 12-inch royalty grew 44.35%, and 8-inch grew 9.93%, both on a YoY basis.

Business Outlook

Based on our current visibility, we anticipate our revenue growth will accelerate in the second half of this year.



On licensing revenues

Our technology and design license revenues are expected to grow on the continuing expansion of our IP libraries, and on the demand for building advanced processes and MTP platforms among our worldwide foundry partners.

On royalty revenues

- Royalty from fingerprint sensors will grow significantly as more customers start volume production.
- PMIC related royalty will maintain the growth momentum with content increase on new smartphones and the ramp of new products by our largest US customer in second half of 2017.
- High-end DDI and TDDI applications will continue volume production in the second half of the year, which will contribute to our royalty growth.
- Royalty from 28nm is set to increase with more product tape-outs in 2017.

On technological developments

- Our client will have a new product tape-out at 12nm fab in August. The 7nm IP first taped out in March at one foundry, and one more tape-out expected in August at another foundry.
- Our new IP, NeoPUF is expected to be integrated to chip design by the end of this year.
- Automotive applications have been successfully built and customers have started volume production on a small scale.

Management Comments

Looking ahead, we expect our revenues will continue to grow in the next few years as our growth momentum remains strong on the solid IP portfolios we have built over the years, and more importantly on our capabilities of expanding into new areas of applications. The company will persistently increase values to our customers with continuing innovation.

Results Review

Revenue Breakdown (Unit: NT\$ thousands)	1Q 2017	4Q 2016	1Q 2016	Change (QoQ)	Change (YoY)
Licensing	74,146	79,684	85,976	-6.95%	-13.76%
Royalty	263,103	226,543	233,870	16.14%	12.50%
Total	337,249	306,227	319,846	10.13%	5.44%

Revenues

- Total revenues
 - Total revenues rose 5.44% to NT\$ 337.25 million in 1Q 2017 from a year ago, and increased 10.13% from the previous quarter.
 - Licensing contributed 21.99% of total revenues, while royalty contributed 78.01%.



- Licensing revenues
 - Licensing revenues were down 13.76% to NT\$ 74.15 million in 1Q 2017 from a year ago, and 6.95% lower than the previous quarter.
- Royalty revenues
 - Royalty revenues were up 12.50% to NT\$ 263.10 million in 1Q 2017 from a year ago, and 16.14% higher than the previous quarter.
 - 8-inch wafer production accounted for 66.08% of 1Q17 royalty revenues, while 12-inch contributed 33.92%.
 - Over 78% of 1Q17 royalty revenues come from DDI, PMIC and Fingerprint applications.

Gross margin

Gross margin remained unchanged at 100%.

Operating expenses and operating margin

- Operating expenses in 1Q 2017 increased 9.3% to NT\$193.60 million from a year ago, and 12.8% higher than the previous quarter.
- Around 2 percentage points of the operating expenses increase (YoY) is attributed to payout of the share-based employee compensation, 5 percentage points to new hires and annual salary adjustments, and 2 percentage points to higher investments on design software and equipment for advanced platforms.
- Operating margin in 1Q 2017 was down to 42.6% from 44.6% in 1Q 2016, and lower than 43.9% in the 4Q 2016.

Earnings and income tax expense

- Net income was down 8.8% to NT\$ 151.38 million in 1Q 2017 from a year ago, and 14.4% higher than the previous quarter.
- Income tax expense was NT\$ 19.42 million in 1Q 2017, 9.8% lower than 4Q 2016.
- Earnings per share was NT\$ 2.00 in 1Q 2017, 8.7% lower than a year ago, while 14.3% higher than the previous quarter.

Balance sheet

- At the end of 1Q 2017, cash increased NT\$ 76.91 million to NT\$ 1,611.55 million from the same quarter 2016.
- Total current liabilities were NT\$ 253.13 million in 1Q 2017, an increase of NT\$ 4.48 million from 1Q 2016. The increase was mainly due to higher bonus provisions.
- Net working capital was NT\$ 1,489.55 million, increased by NT\$ 77.68 million from 1Q 2016.

Cash flow and dividend

- Cash generated from operating activities was NT\$ 89.72 million at the end of 1Q 2017, a decrease of NT\$ 44.42 million from 1Q 2016. The main reason for the decrease is that employee stock options were recognized as compensation costs and a proportion of employee bonuses was paid out in 1Q 2017.



- Net cash generated from investing activities was NT\$ 23.56 million at the end of 1Q 2017, a decline of NT\$ 10.90 million compared to a year ago, when the company reported higher non-operating income on disposal of financial assets.
- At the end of 1Q 2017, eMemory's cash balance was NT\$ 1,611.55 million, an increased of NT\$ 76.91 million from the same period 2016.

Employees

At the end of 1Q 2017, eMemory had 233 full-time employees, an increase of 0.43% compared to 4Q 2016. Among them 162 are R&D engineers.

Cautionary Statement

This report contains forward-looking statements, which are subject to risk factors associated with semiconductor and intellectual property business. It is believed that the expectations reflected in these statements are 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 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.

Contacts

Heidi Chiu

Investor Relations

eMemory Technology Inc.

+886-3-5601168

ir@ememory.com.tw

-Financial Tables To Follow-

eMemory Technology Inc. and Subsidiary

CONSOLIDATED BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)			March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%		Amount	%	Amount	%	Amount	%
ASSETS							LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT ASSETS							CURRENT LIABILITIES						
Cash	\$1,611,553	68	\$1,501,611	68	\$1,534,646	68	Other payables	\$ 70,228	3	\$ 97,315	4	\$ 79,361	3
Accounts receivable - net	80,318	3	64,820	3	84,934	4	Bonuses payable to employees, directors and supervisors	118,591	5	109,974	5	114,508	5
Accounts receivable - related parties	11,228	1	1,681	-	676	-	Payables on equipment	5,663	-	6,335	-	1,794	-
Other receivables	284	-	256	-	656	-	Other payables - related parties	37	-	-	-	-	-
Other receivables - related parties	-	-	44	-	48	-	Current tax liabilities	34,212	2	17,064	1	36,494	2
Prepayments	37,383	2	13,712	1	30,074	1	Other current liabilities	24,399	1	23,920	1	16,496	1
Other current assets	1,918	-	1,485	-	9,496	-	Total current liabilities	253,130	11	254,608	11	248,653	11
Total current assets	1,742,684	74	1,583,609	72	1,660,530	73							
NON-CURRENT ASSETS							NON-CURRENT LIABILITIES						
Financial assets measured at cost - noncurrent	9,939	-	11,472	1	12,786	1	Net defined benefit liability - noncurrent	19,389	1	19,523	1	17,515	1
Investments in debt instrument without active market - noncurrent	33,610	2	33,610	2	33,609	2	Guarantee deposits received	405	-	415	-	840	-
Investment accounted for using equity method	4,936	-	6,888	-	11,596	-	Total non-current liabilities	19,794	1	19,938	1	18,355	1
Property, plant and equipment	501,099	21	503,249	23	489,057	22	Total liabilities	272,924	12	274,546	12	267,008	12
Intangible assets	57,626	3	54,796	2	44,190	2							
Deferred tax assets	2,833	-	4,748	-	7,426	-	EQUITY ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY						
Prepayments for equipment	1,525	-	-	-	-	-	Ordinary shares	757,823	32	757,823	35	757,823	33
Refundable deposits	300	-	300	-	265	-	Capital surplus	454,149	19	448,025	20	453,983	20
Total non-current assets	611,868	26	615,063	28	598,929	27	Retained earnings						
							Legal reserve	231,737	10	231,737	11	184,051	8
							Special reserve	926	-	926	-	926	-
							Unappropriated earnings	636,993	27	485,615	22	595,668	27
							Total retained earnings	869,656	37	718,278	33	780,645	35
							Total equity	2,081,628	88	1,924,126	88	1,992,451	88
TOTAL	\$2,354,552	100	\$2,198,672	100	\$2,259,459	100	TOTAL	\$2,354,552	100	\$2,198,672	100	\$2,259,459	100

eMemory Technology Inc. and Subsidiary

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

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
OPERATING REVENUE	\$337,249	100	\$319,846	100
OPERATING COSTS	-	-	-	-
GROSS PROFIT	<u>337,249</u>	<u>100</u>	<u>319,846</u>	<u>100</u>
OPERATING EXPENSES				
Selling and marketing expenses	27,638	8	31,392	10
General and administrative expenses	40,615	12	38,442	12
Research and development expenses	<u>125,350</u>	<u>37</u>	<u>107,254</u>	<u>33</u>
Total operating expenses	<u>193,603</u>	<u>57</u>	<u>177,088</u>	<u>55</u>
OPERATING INCOME	<u>143,646</u>	<u>43</u>	<u>142,758</u>	<u>45</u>
NON-OPERATING INCOME AND EXPENSES				
Other income	2,765	1	4,273	1
Other gains and losses	26,337	8	40,538	13
Share of loss of associates	(<u>1,955</u>)	(<u>1</u>)	(<u>1,974</u>)	(<u>1</u>)
Total non-operating income and expenses	<u>27,147</u>	<u>8</u>	<u>42,837</u>	<u>13</u>
PROFIT BEFORE INCOME TAX	170,793	51	185,595	58
INCOME TAX EXPENSE	<u>19,415</u>	<u>6</u>	<u>19,583</u>	<u>6</u>
NET PROFIT	<u>151,378</u>	<u>45</u>	<u>166,012</u>	<u>52</u>
TOTAL COMPREHENSIVE INCOME	<u>\$151,378</u>	<u>45</u>	<u>\$166,012</u>	<u>52</u>

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eMemory Technology Inc. and Subsidiary

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

	Three Months Ended March 31			
	2017		2016	
	Amount	%	Amount	%
NET PROFIT ATTRIBUTABLE TO:				
Owners of the Company	\$151,378	45	\$166,012	52
Non-controlling interests	-	-	-	-
	<u>\$151,378</u>	<u>45</u>	<u>\$166,012</u>	<u>52</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:				
Owners of the Company	\$151,378	45	\$166,012	52
Non-controlling interests	-	-	-	-
	<u>\$151,378</u>	<u>45</u>	<u>\$166,012</u>	<u>52</u>
EARNINGS PER SHARE				
Basic	<u>\$ 2.00</u>		<u>\$ 2.19</u>	
Diluted	<u>\$ 1.99</u>		<u>\$ 2.18</u>	

(Concluded)

eMemory Technology Inc. and Subsidiary

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

	Ordinary Shares		Capital Surplus	Retained Earnings			Treasury Shares	Total Equity	
	Shares (In Thousands)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings			Total Retained Earnings
BALANCE, JANUARY 1, 2016	76,833	\$ 768,323	\$ 455,370	\$ 184,051	\$ 926	\$ 476,861	\$ 661,838	(\$ 68,749)	\$ 1,816,782
Change in capital surplus from investments in associates accounted for by using equity method	-	-	6,925	-	-	-	-	-	6,925
Net profit for the three months ended March 31, 2016	-	-	-	-	-	166,012	166,012	-	166,012
Total comprehensive income for the three months ended March 31, 2016	-	-	-	-	-	166,012	166,012	-	166,012
Retirement of treasury share	(1,050)	(10,500)	(11,044)	-	-	(47,205)	(47,205)	68,749	-
Share-based payments	-	-	2,732	-	-	-	-	-	2,732
BALANCE, MARCH 31, 2016	<u>75,783</u>	<u>\$ 757,823</u>	<u>\$ 453,983</u>	<u>\$ 184,051</u>	<u>\$ 926</u>	<u>\$ 595,668</u>	<u>\$ 780,645</u>	<u>\$ -</u>	<u>\$ 1,992,451</u>
BALANCE, JANUARY 1, 2017	75,783	\$ 757,823	\$ 448,025	\$ 231,737	\$ 926	\$ 485,615	\$ 718,278	\$ -	\$ 1,924,126
Change in capital surplus from investments in associates accounted for by using equity method	-	-	3	-	-	-	-	-	3
Net profit for the three months ended March 31, 2017	-	-	-	-	-	151,378	151,378	-	151,378
Total comprehensive income for the three months ended March 31, 2017	-	-	-	-	-	151,378	151,378	-	151,378
Share-based payments	-	-	6,121	-	-	-	-	-	6,121
BALANCE, MARCH 31, 2017	<u>75,783</u>	<u>\$ 757,823</u>	<u>\$ 454,149</u>	<u>\$ 231,737</u>	<u>\$ 926</u>	<u>\$ 636,993</u>	<u>\$ 869,656</u>	<u>\$ -</u>	<u>\$ 2,081,628</u>

eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 170,793	\$ 185,595
Adjustments for:		
Depreciation expenses	7,715	6,748
Amortization expenses	2,597	2,270
Bad debt expense (reversal of bad debt expense) on accounts receivable	(14)	3,253
Interest income	(2,483)	(3,406)
Share-based payments	6,121	2,732
Share of loss of associates	1,955	1,974
Loss on disposal of property, plant and equipment	-	6
Gain on disposal of investments	(35,038)	(44,616)
Impairment losses on financial assets	-	794
Net loss on foreign currency exchange	7,354	2,577
Changes in operating assets and liabilities		
Accounts receivable	(19,594)	(34,227)
Accounts receivable - related parties	(9,686)	(695)
Other receivables	-	9
Other receivables - related parties	44	9
Prepayments	(19,678)	(15,336)
Other current assets	(433)	(5,124)
Other payables	(27,039)	(1,016)
Other payables - related parties	37	-
Other current liabilities	479	(4,210)
Net defined benefit liability	(134)	(76)
Bonuses payable to employees, directors and supervisors	8,617	36,609
Cash generated from operations	91,613	133,870
Interest received	2,455	3,372
Income tax paid	(4,345)	(3,103)
Net cash generated from operating activities	89,723	134,139

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eMemory Technology Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2017	2016
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of available-for-sale financial assets	(\$ 10,000)	(\$ 100,000)
Proceeds from disposal of available-for-sale financial assets	10,001	100,023
Proceeds from disposal of financial assets measured at cost	36,570	46,513
Acquisition of property, plant and equipment	(6,060)	(8,501)
Acquisition of intangible assets	(5,427)	(3,575)
Increase in prepayments for equipment	(1,525)	-
Net cash generated from investing activities	<u>23,559</u>	<u>34,460</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in guarantee deposits received	(10)	-
Net cash used in financing activities	<u>(10)</u>	<u>-</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES		
	(3,330)	(972)
NET INCREASE IN CASH	109,942	167,627
CASH AT THE BEGINNING OF THE PERIOD	<u>1,501,611</u>	<u>1,367,019</u>
CASH AT THE END OF THE PERIOD	<u>\$ 1,611,553</u>	<u>\$ 1,534,646</u>

(Concluded)

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>