M31 Quarterly Management Report 2020 Q1

Stock Code 6643 TT
Quarterly Management Report
1st Quarter of 2020 (ended 3/31/2020)

A. Operation Highlights

1. The Q1 2020 revenue is NT$ 196.3 million, with a 15.4% increase YoY, hitting a record high in the same period of the years. The operating income is NT$ 59.6 million, with a 15.8% increases YoY. The EPS is NT$ 1.9.

2. M31 won the 1st 7nm NRE contract from the US leading manufacturer. In addition, a series of 7nm standard IPs are scheduled to be complete one after another, starting from Q2 2020.

3. M31 completed High-Speed Interface IP designs and silicon verifications for customers on SMIC 14nm node, which is the leading process technology for production in China.

4. The 3rd product line, Analog IP (ADC, PLL, LDO, PVT Sensor, etc.), has started contributing revenue from Q1 2020.

B. Financial Results

For detailed financial statements, please visit The Taiwan Stock Exchange Website at https://emops.twse.com.tw

1. A summary of Q1 income statement amounts in thousands of NTD.

<table>
<thead>
<tr>
<th>(Unit: K NTD)</th>
<th>Q1 2020</th>
<th>Q1 2019</th>
<th>change (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>196,285</td>
<td>170,141</td>
<td>15.4%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>100%</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Operating Expenses</td>
<td>136,714</td>
<td>118,688</td>
<td>15.2%</td>
</tr>
<tr>
<td>Operating Income</td>
<td>59,571</td>
<td>51,453</td>
<td>15.8%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td>30.3%</td>
<td>30%</td>
<td></td>
</tr>
<tr>
<td>Net Income</td>
<td>59,456</td>
<td>47,439</td>
<td>25.3%</td>
</tr>
<tr>
<td>EPS</td>
<td>1.9</td>
<td>1.54</td>
<td></td>
</tr>
</tbody>
</table>
2. Revenue analysis
   - By income source: license fee 87%, royalty 13%.

   ![License vs. Royalty Pie Chart](image)

   - By region: China 48%, USA 25%, Taiwan 12%, the others (Euro, Japan, Korea) 15%.

   ![Region Pie Chart](image)

   - By process technology: “40nm and above” 33%, “28nm and below” 67%.

   ![Process Technology Pie Chart](image)
- By related foundry: TSMC 59%, Foundries in China 36%, and other foundries 5%.

![BY RELATED FOUNDRY](chart.png)

C. Growth Momentums and Strategies

1. Increase product lines for market expansion
   
   Currently, Foundation IP and High-Speed Interface IP are M31’s two major product categories. Besides, a 3rd product category has gradually been formed and started contributing revenue. Meanwhile, more product plans are also in progress for new IPs, which will not only create additional revenue sources but also help to enhance product portfolios and promote sales.

2. Strengthen the existing products to improve market share
   
   - Developments on the latest versions, such as PCIe gen5, USB 4.0, MIPI M PHY 4.0, OnFi 4.1, eMMC 5.0…etc.
   
   - Developments on major foundries and a variety of technology platforms

   The market share is expected to be raised by the integrity and diversity (more options for versions and foundries) of IP products.

3. Deepen cutting-edge technologies of IP designs to increase the ASP

   The development of a new cutting-edge process node creates a new sub-market, thereby expands the whole semiconductor market. To enter the new Blue Ocean market, having IP techniques on leading-edge processes is crucial as the ASP continues to rise along with R&D progress. M31’s current research and development focus on TSMC’s 7nm/12nm/16nm/22nm technology and China foundries’ 14nm/28nm technology, which will also take a significant portion of
the future revenue.

Quantitative Indicators of item 1 to item 3
- The amount of Foundation IP increases to 270+ sets in 3/31/2020 from 230+ sets in 9/30/2019.
- The amount of Functional IP increases to 170+ sets in 3/31/2020 from 150 sets in 9/30/2019.

Amount of Foundation IP and Functional IP Statistics

Amount of Advanced Processes IPs (28nm and below) increases to 130+ sets in 3/31/2020 from 110+ sets in 9/30/2019.
- The revenue of advanced processes IPs increases to 67% in Q1 2020, from 60% in 2019 and 32% in 2018.

![Revenue Percentage Chart](chart1)

**Revenue Percentage Chart**  
**Advanced Processes vs Mature Processes**

- The ASP increases to USD 262 thousand from USD 256 thousand in 2018 and USD 247 thousand in 2017.

![Average Selling Price Trend Chart](chart2)

**Average Selling Price Trend Chart**

4. Offer Customized IP/Differentiated Service for market segmentation  
Besides offering standard products, M31 provides clients with customized IP design services, differentiating M31 from other competitors and develops different market demands.
5. Build a variety of platforms in response to industry trends

The popularity of the internet, portable devices, and the 5G wireless transmission, all lead to a growth in emerging applications of 5G-related technologies, AI, IoT, automotive, and high-performance computing. In response to industry trends, M31 has a long-term strategic goal of building various platforms for diverse applications.

- High-Speed platform for HPC, Cloud, 5G, and AI applications
- Low-Power platform for IoT, Mobile, and Wearable applications
- Robust-Design platform for Automotive, and Industrial applications

D. Guidance of Q2 2020

The guidance of Q2 2020 is a 10% to 15% increase YoY.
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Contact Information

Email ir@m31tech.com or website https://www.m31tech.com.

Corporate Headquarter
14F, No.1, Taiyuan 1st St., Zhubei City, Hsinchu County 30265, Taiwan
Tel: 886-3-560-1866
Fax: 886-3-560-1868