

3Q23 Consolidated Financial Report & October Revenue Announcement

Phison discloses Taiwan-International Financial Reporting Standards (TIFRS) financial measures and also provides Non-Taiwan-International Financial Reporting Standards (Non-TIFRS)^{Note1} financial measures as supplemental information. Non-TIFRS financial information should be considered in addition to, not as a substitute for, TIFRS financial information. Earnings distribution is made in accordance with financial statements based on TIFRS.

3Q23: Taiwan-International Financial Reporting Standards (TIFRS) Financial Measures

- ◆ **The consolidated operating revenue for this quarter was NT\$12.389 billion, an increase of 23.8% from the previous quarter and a decrease of 15% compared to the same period last year.**
- ◆ **The consolidated gross margin rate for this quarter was 32.2%, a decrease of 0.3% from the previous quarter and an increase of 7.8% compared to the same period last year.**
- ◆ **The consolidated operating income for this quarter was NT\$0.525 billion, a decrease of 26.8% from the previous quarter and a decrease of 57% compared to the same period last year.**
- ◆ **The consolidated net income for this quarter was NT\$0.86 billion, with earnings per share of NT\$4.32.**

Consolidated Revenue

Phison Electronics announced financial results of third-quarter ended September 30, 2023. The consolidated operating revenue for the third quarter of 2023 was NT\$12.389 billion, representing an increase of 23.8% compared to the previous quarter and a decrease of 15% compared to the same period last year.

Consolidated Gross Profit and Gross Margin

The consolidated gross profit for this quarter was NT\$3.989 billion, reflecting a 22.7% increase from the previous quarter and a 12.1% increase from the same period last year.

The consolidated gross margin for this quarter was 32.2%, marking a 0.3% decrease from the previous quarter and a 7.8% increase from the same period last year.

Consolidated Operating Expenses

The operating expenses for this quarter amounted to NT\$3.464 billion (28% of operating revenue), compared to NT\$2.533 billion (23.5% of operating revenue) in the previous quarter, and NT\$2.338 billion (16% of operating revenue) for the same period last year.

Operating expenses for the quarter included:

- ◆ R&D expenses totaled NT\$2.896 billion (23.4% of operating revenue), which is higher than the previous quarter's NT\$1.983 billion (19.8% of operating revenue) and higher than the same period last year's NT\$1.786 billion (12.3% of operating revenue).
- ◆ Marketing expenses amounted to NT\$0.325 billion (2.6% of operating revenue), higher than the previous quarter's NT\$0.3 billion (3% of operating revenue) and higher than the same period last year's NT\$0.322 billion (2.2% of operating revenue).
- ◆ General and administrative expenses amounted NT\$0.238 billion (1.9% of operating revenue), higher than the previous quarter's NT\$0.19 billion (1.9% of operating revenue) and higher than the same period last year's NT\$0.209 billion (1.4% of operating revenue).

Consolidated Operating Income and Operating Margin

The operating income for this quarter was NT\$0.525 billion, which was a decrease of 26.8% from the previous quarter and a decrease of 57% from the same period last year.

The operating profit margin for this quarter was 4.2%, lower than the previous quarter's 7.2% and also lower than the same period last year's 8.4%.

Consolidated Non-operating Income (loss) and Income Tax

The non-operating incomes for the quarter was NT\$0.427 billion, or 3.4% of revenue. This was mainly due to the net foreign exchange gains and gains on financial assets at fair value through profit or loss. The income tax expense for the quarter was NT\$0.094 billion.

Consolidated Net Income, Net Profit Margin and EPS

The net income for this quarter was NT\$0.858 billion, an increase of 94.7% from the previous quarter and a decrease of 28% from the same period last year.

The net profit margin for this quarter was 6.9%, higher than the previous quarter's 4.4% and lower than the same period last year's 8.2%.

Earnings per share (EPS) for this quarter was NT\$4.32, higher than the previous quarter's NT\$2.28, and lower than the same period last year's NT\$6.13.

Consolidated Cash and Financial Assets-Current

Cash and Financial assets at fair value-current at the end of the quarter was NT\$15.329 billion, which presents 25.4% of total assets. Cash and Financial assets at fair value-current was NT\$13.366 billion in the previous quarter and NT\$14.475 billion for the same period last year, respectively. Financial assets-current portfolio includes funds, domestic listed stocks and derivatives and so on.

Consolidated Accounts Receivable

The net accounts receivable for this quarter totaled NT\$8.599 billion, with an average accounts receivable turnover of 67 days (calculated based on the average net accounts receivable for this quarter and the annualized current sales revenue), which is higher than the 63 days of the previous quarter and also higher than the 50 days of the same period last year.

Consolidated Inventory

The net inventory for this quarter amounts to NT\$21.331 billion, with an average inventory turnover of 259 days (calculated based on the average net inventory for this quarter and the annualized cost of goods sold), which is lower than the 274 days of the previous quarter and higher than the 163 days of the same period last year.

Note1: Non-TIFRS financial information should be considered in addition to, not as a substitute for, TIFRS financial information. Reconciliations between TIFRS and Non-TIFRS results include share-based compensation, tax effect and other items. Further information is included in supplemental information.

Revenue and Shipments for October 2023

The consolidated revenue for October reached NT\$5.159 billion, a 3% MoM growth, making it the second highest in history for the same period. Accumulated revenue up to October reached NT\$37.633 billion, a 27% YoY decline compared to the same period last year.

Compared to the same period last year, total PCIe controller shipments in October increased 290% YoY. Among which, total PCIe SSD storage module shipments increased 110% YoY, reaching a new monthly record high. In addition, total bit shipments also increased 100% YoY, hitting a new monthly record.

Market Overview

As NAND suppliers started cutting production from Q4 2022 and further expanded reduction in production scale starting in Q2 2023, coupled with inventory digestion by system vendors over the past 3-4 quarters, the NAND storage market has gradually recovered with restocking demand, driving NAND pricing to stabilize and even increase. According to market research institutes, the global NAND storage market value will possibly exceed US\$85 billion in 2025 (compared to US\$35 billion in 2023 for the global NAND storage market). In other words, the NAND storage market may maintain relatively stable growth and demand in coming quarters.

Phison Proposed to Prepay to Secure NAND Supply

Due to NAND suppliers cutting production and capital expenditures (CAPEX), Phison has experienced some tightness in NAND raw material supply in Q4 2023. In addition, in preparation for the expected demand recovery in 2024 predicted by market research institutes, Phison plans to strengthen partnerships and ensure stable supply through prepayments to NAND suppliers, to fulfill global customer and partner demand for NAND storage products in future quarters.

Phison Proposed to Issue Second Domestic Unsecured Convertible Bonds for R&D Spending and Business Expansion

As NAND controllers migrate to advanced process nodes (e.g. Phison's flagship PCIe 5.0 SSD controller E26 uses 12nm process, and the new PCIe 5.0 DRAM-less SSD controller E31T uses 7nm process), coupled with the continuous evolution of NAND flash technology and various custom system value-add service collaborations with global customers, Phison plans to issue its second domestic unsecured convertible bonds of around NT\$6 billion. The funds are expected to be used for R&D spending and business expansion, to ensure Phison maintains its technology leadership. We believe this strategy, along with Phison's IC design-based system value-add service business model, will help Phison capture the next wave of growth opportunities.

【Supplemental Information】

Reconciliations of TIFRS Results to Non-TIFRS Results^{Note2}

NT\$/million		3Q23	2Q23	3Q22	Q/Q (%)	Y/Y (%)
TIFRS	Operating Profit	525	717	1,221	(26.8%)	(57.0%)
	Operating Profit Margin (%)	4.24%	7.17%	8.38%		
Reconciliations	Shares-based payment	342	66	85		
Non-TIFRS	Operating Profit	867	783	1,306	10.7%	(33.6%)
	Operating Profit Margin (%)	7.00%	7.82%	8.96%		

TIFRS	Net Income to Phison	858	441	1,192	94.6%	(28.0%)
	Net Income (%)	6.93%	4.40%	8.18%		
	Basic EPS (NT\$)	4.32	2.28	6.13		
Reconciliations	Shares-based payment	342	66	85		
	Tax effect	(72)	(19)	(18)		
Non-TIFRS	Net Income to Phison	1,128	488	1,259	131.1%	(10.4%)
	Net Income (%)	9.10%	4.88%	8.64%		
	Basic EPS (NT\$)	5.68	2.52	6.39		

Note1: Sums may not equal totals due to rounding.

Note2: Non-TIFRS financial information should be considered in addition to, not as a substitute for, TIFRS financial information. Reconciliations between TIFRS and Non-TIFRS results include share-based compensation, amortization of acquisition related assets, tax effect and other items. Earnings distribution is made in accordance with financial statements based on TIFRS.

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[PHISON's Quick Facts]

- Over 23 years experiences in NAND controller IC design and module integration.
- Over 3,800 employees globally, and more than 70% are engineers
- Nearly 2,000 memory-related patents globally.
- Target long-term revenue of NT\$100 billion through the 5+5 growth strategy
- The global market share of SSD controller exceeds 20%
- NT\$60.256B sales revenue in 2022.
- Confident that our [unique business model](#) can produce consistently strong cashflows and profits over the long-term amidst NAND memory market cycles.
- Strongly maintain long-term partnerships with our global NAND flash supply sources and with our downstream module customers.

[About PHISON]

Phison Electronics Corp. (TPEX:8299) is a global leader in NAND Flash controller IC and storage solutions. We provide a variety of services from controller design, system integration, IP licensing to total turnkey solutions, covering applications across SSD (PCIe/SATA/PATA), eMMC, UFS, SD and USB interfaces, reaching out to consumer, industrial and enterprise markets. As an active member of industry associations, Phison is on the Board of Directors for SDA, ONFI, UFSA and a contributor for JEDEC, PCI-SIG, MIPI, NVMe and IEEE-SA.

To know more about Phison, please visit [Phison Website](#) or [Phison Q&A](#) for details.

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[Forward-looking Statements]

Information included in this press release that are not historical in nature are "forward-looking statements". Phison cautions readers that forward-looking statements are based on Phison's reasonable knowledge and current expectations, and are subject to various risks and uncertainties. Actual results may differ materially from those contained in such forward-looking statements for a variety of reasons including without limitation, risks associated with demand and supply change, manufacturing and supply capacity, design-win, time to market, market competition, industrial cyclicality, customer's financial condition, exchange rate fluctuation, legal actions, amendments of the laws and regulations, global economy change, natural disasters, and other unexpected events which may disrupt Phison's business and operations. Accordingly, readers should not place reliance on any forward-looking statements. Except as required by law, Phison undertakes no obligation to update any forward-looking statement, whether as a result of new information, future events, or otherwise.