

Q&A WITH ANTHONY AMBROSE

PRESIDENT AND CEO OF DATA I/O

LET'S START WITH A QUICK OVERVIEW OF THE BUSINESS.

Data I/O Corporation (NASDAQ: DAIO) is the leading global provider of advanced security and data deployment solutions for microcontrollers, security ICs and memory devices. We believe we've built a brand that positions the Company as the gold standard in high-speed, secure programming, with an impressive and expanding intellectual property (IP) portfolio.

The Company has developed innovative solutions to enable the design and manufacture of electronic products for automotive, Internet-of-Things, medical, wireless, consumer electronics, industrial controls, and other electronics devices. Today, our customers use Data I/O's data programming solutions and security deployment platform to secure the global electronics supply chain and protect IoT device intellectual property from point of inception to deployment in the field. OEMs of any size can program and securely provision devices from early samples all the way to high-volume production prior to shipping semiconductor devices to a manufacturing line.

Data I/O enables customers to reliably, securely, and cost-effectively bring innovative new products to life. These solutions are backed by a portfolio of patents and a global network of Data I/O support and service professionals, ensuring success for our customers.



REFLECTING ON 2022, HOW WOULD YOU DESCRIBE THE COMPANY'S PERFORMANCE IN THE PREVIOUS YEAR? DID THE COMPANY REACH THE MILESTONES AND GOALS THAT YOU SET FOR THE COMPANY?

Operationally, it was feast or famine in 2022. Our Shanghai facility was closed during the government mandated lockdowns in Q2, delaying several shipments and impacting the overall supply chain. We recovered from that,

into a very strong second half of 2022. Our financial and operating performance improved progressively throughout the year, although we've only reported results through the first three quarters.

Performance in the third quarter was outstanding as we delivered strong bookings, operating income, and cash generation. For the fourth consecutive quarter, we achieved bookings in excess of \$6.0 million, with third quarter 2022 bookings of \$7.1 million reaching the highest level in the past year, and the highest level for the third quarter in 5 years. Backlog at the end of the 2022 third quarter of \$4.9 million was at the highest level for any third quarter period in the past 10 years. With a strong sales funnel and high backlog and deferred revenue, we expect very solid fourth quarter results as well, and will report financial results on Feb. 23.

Our growth prospects are bolstered by a projected growth in the automotive electronics market of

10-15% per year for many years to come. We continue to gain share in automotive, which is our most prominent target market. Automotive electronics represented 70% of third quarter bookings, and 63% of bookings so far this year. We had 4 new customer wins in automotive and industrial.

From a product perspective, we had some exciting announcements. We announced VerifyBoost™ technology to support the automotive memory market. VerifyBoost is a patent pending technology that significantly improves UFS memory programming times by speeding up the verify portion of the programming cycle by 4.5x. This is game-changing for our automotive customers. This technology is available as a license for new and existing systems with our Lumen®X programmers.

As I've stated, it's an exciting time for Data I/O as we see our momentum carrying over into 2023.

ARE THERE ANY INDUSTRY TAILWINDS TO PUSH FORWARD SOME OF THE COMPANY'S GOALS AND OBJECTIVES?

The growth in the automotive electronics market continues to represent a key tailwind for us. Growth in data programming demand in the automotive sector is amplified by electrification (EV), where there is an estimated 2-3 times the amount of electronics content per vehicle as compared with traditional internal combustion engine (ICE) vehicles. Whether EV or ICE, the semiconductor content and the amount of bits to be programmed going into each vehicle is increasing and becoming more and more complex. Customers need a programming engine that can support these trends, and there is no better technology than what comes from Data I/O.

There also are increasing opportunities in the industrial market, and the broader silicon/board ecosystem including security measures to bridge the electronic and physical value chains. Beyond our core data programming solutions, we also developed our SentiX® Security Deployment Platform as a natural extension of our award-winning PSV family of data programming devices. The SentiX Security Deployment Platform enables Data I/O to expand into new markets by securely provisioning IoT devices during the pre-programming process.

With the SentiX Security Deployment Platform, we

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created new business models including introducing the Security Deployment as-a-Service, as well as moving forward with licensing and other recurring revenue opportunities associated with SentiX enabled systems, including leveraging over 440 PSV systems worldwide. Our focus here is the burgeoning market for next generation technologies for life cycle product protection, counterfeit defense, and securing of the supply chain.

Finally, there is the reorientation of global supply chains towards North America. Data I/O, as the global leader and domiciled in Washington State, enjoys a home field advantage as more businesses relocate back to the USA and Mexico. We see increasing opportunity here in automotive, industrial, and medical markets.

IN A NUMBER OF INTERVIEWS IN 2022, A LOT OF MANAGEMENT TEAMS SPOKE ABOUT HOW 2023 WAS THE "YEAR OF EXECUTION" - RANGING FROM EXECUTING THE BUSINESS MODEL TO SURPASSING INTERNALLY DERIVED GROWTH GOALS; WHAT DOES "EXECUTING" MEAN FOR YOU?

Execution in this context is doing what you say you are going to do.

For our customers, we continue to invest in our global support organization and our IP platform to make our solutions even stronger. The fact that we have taken market share while selling more systems for the past several years says to me that we are addressing their needs.

For our employees, we have a near 100% retention rate throughout the pandemic. As a company, we

have created a place where our global staff can prosper personally and professionally.

For our shareholders, we must deliver strong financial results and show improvement in many metrics with expectations for continued growth.

WHAT ARE SOME OF THE COMPANY'S VALUE CATALYSTS FOR 2023?

The rise of EVs – or electric vehicles -- continues to be a major catalyst. Lately there have been a few major OEMs taking the lead by reducing vehicle prices. This could stimulate automobile demand and, when coupled with easing of semiconductor supply chain disruption, these factors could be very favorable for overall production and the need for our equipment, services, and consumables.

Further progress on managing the cyclicity of the semiconductor sector continues to benefit our financial performance. The Company has been transitioning capital equipment sales into a recurring revenue model, highlighting the emergence of our SentiX® security deployment services.

On our SentiX platform, we have several use cases that are beginning to scale, including utilization for remote metering (electricity and water), smart locks, and electric vehicle charging networks.

Finally, there's the US dollar normalizing in 2023 after strengthening in 2021 and 2022. About 90% of our business comes from international markets, so a weakening dollar is favorable overall.

For more information about Data I/O Corporation, please visit: www.dataio.com

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