AIXTRON SE

Analyst Earnings Conference Call

Third Quarter 2016 Results

November 2016

Prepared Remarks

Martin Goetzeler, President & CEO

The spoken word applies

November 2016

AIXTRON

Slide 1, 2, 3 – Operator & Forward-Looking Statements

Operator

Good morning, ladies and gentlemen, and welcome to AIXTRON's Third Quarter 2016 results conference call. Please note that today's call is being recorded. Let me now hand you over to Mr. Guido Pickert, Director of Investor Relations at AIXTRON, for opening remarks and introductions.

Guido Pickert

Director of Investor Relations

Thank you, operator. Let me start by welcoming you all to the AIXTRON's Third Quarter 2016 results of AIXTRON SE. Thank you for attending today's call.

My name is Guido Pickert, and I'd like to welcome our President & CEO Martin Goetzeler. Our COO Dr. Bernd Schulte cannot participate on this call as he is on a business trip currently.

As the operator indicated, this call is being recorded by AIXTRON and is considered copyright material. As such, it cannot be recorded or re-broadcast without express permission. Your participation in this call implies your consent to this recording.

As with previous results conference calls, I trust that all participants have our results presentation slides, page 2 and 3 of which contains the SafeHarbor statement and additional Information. I will therefore not read it out loud, but would like to point out that it applies throughout this conference call.

You may also wish to have a look at our latest IR presentation, which includes additional information on AIXTRON's markets and its technologies, and is available on our website.

Please note that due to EU-wide regulatory changes having abolished the requirement of issuing quarterly reports for the first and third quarter, we have decided to streamline our quarterly statement in accordance with the new guidelines issued by the Frankfurt Stock Exchange.

This call is not being immediately presented via webcast or any other medium. However, we will place an audio file of the recording or a transcript on our website at some point after the call.

I would now like to hand you over to Martin Goetzeler, AIXTRON's President and CEO for opening remarks. Martin?

Slide 4, 5 – Operational Updates, Key Financials Q3/2016

Martin Goetzeler

President & CEO

Thank you Guido, and thank you all for joining the AIXTRON Q3 2016 conference call.

Let me start by making some general comments about Q3 and how we see current developments in the market. I will then go into more depth around the numbers. In terms of the ongoing takeover offer by Grand Chip Investment we are in contact with the relevant authorities to support their review processes. Therefore, we ask for your understanding that currently we cannot comment any further on the transaction.

This year is developing as we expected it would at the start of the year. Our anticipation was that 2016 would have lower revenues in the first half of the year, but with the prospect of a significantly better second half. Before I go into depth on the numbers let me give you a quick view on our business developments in Q3 as covered on slide 4.

We sold the majority of AIX R6 inventories in Q3 and the tool shipments are planned in the coming months. This sale of equipment on stock, although being at low margins, is reflected in our Q3 order intake.

Our Planetary Reactor platform continues to see strong shipments in Q3 in particular for Red Orange Yellow-LED, Optoelectronic and Power Electronic applications. Therefore, we continue to see AIXTRON in a solid position in MOCVD outside GaN LED.

In Silicon, as discussed in Q2, we announced our qualification with a major customer of our ALD tool for high-k oxide films. In Q3/2016, Silicon including spares contributed 25% to our total revenues.

For our Organic Deposition technology, our intensified collaboration with a major customer focusing on technical qualification now is in process validation. As mentioned last time, depending on achieving the necessary milestones during this year we target to enter into a production qualification at a customer's site next year.

Let's now turn to the Q3/2016 results starting with slide 5 of our presentation.

Q3 revenues were up to EUR 51.2m, compared to the EUR 34.1m achieved in Q2 2016, driven by higher scheduled shipments of systems, primarily for the telecommunication and the silicon industry. The order intake increased sequentially to EUR 69.0m, mainly attributable to previously mentioned sale of AIX R6 stock tools.

On a nine month basis, revenues came in at EUR 106.6m which was considerably lower than the EUR 135.3m we generated in same period last year which is mainly due to the weak first half we have had this year. However, the higher order backlog of EUR 104.0m, gives us the confidence that we will meet our full year targets.

Slide 6, 7, 8 – P&L, Cash Flow, Balance Sheet

Turning to slide 6.

Compared to Q2/2016 we had an increase in gross margin to 33% in Q3 thanks to a better product mix and higher sales volumes allowing for better utilization of our production. For the first 9 months of the year, gross margin was 25% which was 3 percentage points higher than the same period last year, resulting from a better product mix and the significant reduction of AIX R6 qualification costs that occurred in 2015.

The increase in OPEX in Q3/2016 compared to Q2/2016 was mainly due to lower other operating income primarily from currency impacts as well as increased R&D spending. In terms of earnings in Q3 we generated an EBIT loss of EUR 3.4m which was lower than the previous quarter, thanks to the stronger revenues in the quarter and the resulting higher gross profit contribution. For the first nine months of the year EBIT loss came in at EUR 29.3 which is 16% lower than the same period last year, and in line with our expectations.

In EBITDA terms, we generated a loss of EUR 0.4m in Q3 and EUR 20.4m for the year to date.

The overall net income loss was EUR 3.8m in Q3 and EUR 30.4m for the first nine months.

Let's now have a look at our cash flow statement on slide 7.

The free cash flow in the first nine months of this year was minus EUR 38m which was a reflection of the weak first half year, noting that Q3 was improved as we generated a positive EUR 3.0m in Free Cash Flow. Reduced losses and higher advance payments from customers contributed to these improvements compared to Q2.

Let's now move to slide 8.

We have no financial debt. Cash and cash equivalents at the end of the third quarter was EUR 163.5m. It slightly increased from the EUR 161.3m at the end of the second quarter, as we generated a small positive free cash flow.

Slide 9 – Outlook

Moving to slide 9 and our outlook for 2016.

In short, we reiterate the full year 2016 guidance as previously communicated in prior earning calls with small updates to order intake and revenues.

Based on the assessment of our current order situation including risks and opportunities as well as on our internal budget rate of USD/EUR 1.10 we are narrowing our revenue guidance from between EUR 170m and EUR 200m for 2016 to now EUR 180m to EUR 200m. In addition, we believe that order intake for this year will be in between EUR 200m to EUR 220m. Compared to the previous guidance of between EUR 180m and EUR 200m, the increase is primarily due to the sale of AIX R6 equipment from stock with low margins.

Based on the internal budget rate of USD/EUR 1.10 and depending on the successful completion of qualification processes, market entry efforts as well as the achievement of revenues at the high end of the guidance range, we expect to achieve another improvement of results in 2016. Before transaction related impacts, EBITDA, EBIT, net result and free cash flow are expected to improve slightly compared to 2015 but to remain negative for the full year 2016.

Ladies and Gentlemen,

Despite the ongoing transaction our team continues to be fully focused on our customers. Moreover, we continue to invest into our technology portfolio along our roadmaps. Though we cannot be satisfied with the overall financial performance in 2016 we expect to deliver on our committed guidance requiring a strong finish with all related challenges in terms of execution and focus.

And with that, I'll pass you back to Guido before we take some questions.

Guido Pickert

Director of Investor Relations

Thank you, Martin.

Operator, we'll now take the questions.

This concludes our Q3/2016 conference call. Our fully year 2016 results will be published in February of next year.

Thank you and bye bye.

Q&A

Operator

(Operator Instructions) David Mulholland, UBS.

Q- David Mulholland - UBS Securities - Analyst

Firstly, obviously you're seeing a solid improvement in bookings in the quarter, but the commentary around 2017 remains quite uncertain in your words. I wonder if you can just give us some color as to whether that's because your conscious this could be something that's a short-term benefit and could go away or I guess how should we think about 2017 given you are starting to see an improvement in the booking trends today?

And then secondly on OLED, obviously you're talking about some intensified customer collaboration there, but could you just give us some color as to whether that's still towards a large screen application such as TVs or whether you could start seeing use within smartphone screen size applications? It will be really helpful. Thanks.

A-Martin Goetzeler

For 2017, I just wanted to discuss a little bit what we wrote and said. There are uncertainties and that's a reason why the Board will review this guidance for next year. We have three topics. One is due to this fast changing market and customer requirements as well as due to potential customer qualifications. For example, you mentioned OLED and III-V on silicon. Because of changing specification requirements of our MOCVD customers, it is currently difficult to predict for us the level of R&D as well as the level of upfront investments which we might need. Should we have to streamline our portfolio as we discussed in our last call, we would also have to review our overall organization, the related corporate structure; in this case additional restructuring charges could follow. With the new investor, and this is the third point here. We would also explore potential additional investment areas, so we could even expect additional R&D activities instead of restructuring.

There are many different options which we are looking currently into and we will keep you informed.

Regarding your second question on organic, as I mentioned in the talk, we now have this tool implemented and are running tests. It’s important to see that the deposition on large–size substrates is targeted. We could also see potentially smaller substrate sizes below Gen 8 for which our tool and our technology is considered. So, it could also be mobile applications which it could be used for.

Q- David Mulholland - UBS Securities - Analyst

Just following up on that because there's obviously a lot of investment going on currently into building capacity for OLED. So are you too late for that and you're looking for the early adoption applications or how do you see the market evolving?

A-Martin Goetzeler

For the investments which are currently being made, orders are already placed. This investment wave is therefore too early for us. But we have a clear view on what the future investments will be and that's what we are looking into as a timeline for this qualification currently.

Q- Chetan Udeshi - JPMorgan - Analyst

Firstly, can you just comment around your guidance for orders? Especially as it does imply a downtick in Q4 versus Q3. Whether the Q3 strength was driven by maybe one or two customers wanting products in a very short period of time or was it driven by your move to sort of reducing R6 tools inventory?

And maybe second question following that would be on R6 qualification. Do you think you need to spend more money next year on developing next generation of R6 given that you've had issues qualifying R6 with maybe one or two customers? And maybe last question would be on your silicon. So, is high-k oxide film deposition qualification with the existing customer that you had on ALD or is it with new customers? Thank you.

A-Martin Goetzeler

First of all, the impact in Q3 was related to the sale of AIX R6, which we don't expect at that level again in Q4. And that's the primary reason for the guidance of order intake we have for Q4. Definitely we are looking into different options for next gen tools in MOCVD. That's something which is ongoing. I think I mentioned during our conference calls regularly about our diversification efforts. So, we are also looking into the different applications for the MOCVD tools. That's a key basis for a decision for a next gen tool which we have to consider.

At this point of time, it's too early to say in which areas, besides our continuous improvement efforts, will be the key focus for the next gen product. We will look into all applications for MOCVD, not only on the GaN-LED technology. We have to consider our entire portfolio. We have Planetary technology and we also have the Showerhead technology.

On the question of the high-k application, that was not the same customer. Our key customer is a different one. So, this is also for a different application. We have to see how this can turn over time into sales.

Q- Chetan Udeshi - JPMorgan - Analyst

And this silicon customer, is this the memory customer that you've had? I think you've had exposure only on the memory customer. So, is high-k now giving you a role in logic foundry market or is this still with some memory customers?

A-Martin Goetzeler

This is still in the area of memory.

Q- Gunther Hollfelder - Baader-Helvea Equity Research - Analyst

I think you said that the order intake in the third quarter was driven by the R6 system. So, will you recognize sales in the fourth quarter and potentially first quarter? And could you also provide some color on the gross margin to expect in the fourth quarter?

A-Martin Goetzeler

We expect AIX R6 shipments and therefore also sales in Q4 and Q1, from these activities. On the other side, we mentioned that this has a lower margin. So it's currently a little bit difficult for us to predict the exact development of the gross margin. What I would like to say is that we confirm the guidance on the improvement on our profitability. So for Q4, we expect, if you consider that, a positive operating income.

Q- Malte Schaumann - Warburg Research - Analyst

A short question on power electronics. That market was considerably down in the first nine months in comparison to the previous year. For the strong uptake in sales expected for the fourth quarter, do you see a catch-up effect on the power electronics market or will that be mostly driven by other applications such as LED or optoelectronics?

A-Martin Goetzeler

There can be changes from quarter to quarter in order intake and also in sales. In last quarter we informed you that we had a couple of repeat orders from customers and you know that in the fourth quarter we will have a significant revenue level. We will also see a good development in power electronics. Nevertheless, it can always fluctuate from one quarter to the other.

Q- Malte Schaumann - Warburg Research - Analyst

Okay. But then maybe an early indication to full year. Chances might be limited that you see growth in the full year for the power electronics business?

A-Martin Goetzeler

I think in this detail, we don't guide here. Let's wait for our call on Q4.

Guido Pickert

This concludes our Q3/2016 conference call. Our full year 2016 results will be published in February of next year. Thank you and bye-bye.