

AIXTRON SE

Analyst Earnings Conference Call

**First Nine Months 2020 Results
October 29, 2020**

Edited Transcript including Q&A

Executive Board

Dr. Bernd Schulte, President

Dr. Felix Grawert, President

Finance & Administration

Charles Russell

The spoken word applies

Slide 1, 2 – Operator & Forward-Looking Statements

Operator

Good morning and good afternoon, ladies and gentlemen, and welcome to AIXTRON's third quarter 2020 results conference call. Please note that today's call is being recorded. Let me now hand you over to Mr. Guido Pickert, VP of IR & Corporate Communications at AIXTRON, for opening remarks and introductions.

Guido Pickert

Investor Relations & Corporate Communications

Thank you, operator. Let me start by welcoming you all to AIXTRON's presentation of our nine months and Q3/2020 results. I'd like to welcome the members of our Executive Board, Dr. Felix Grawert, Dr. Bernd Schulte and Dr. Jochen Linck who joined us early this month, as well as our VP of Finance and Administration, Charles Russell.

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Please take note of our Safe Harbor Statement which can be found on page 2 of our results presentation, as it applies throughout the conference call. You may also wish to have a look at our latest IR presentation with additional information on AIXTRON's markets and its technologies.

Both slide decks are available on our website.

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 Bernd Schulte for opening remarks. Bernd?

Slide 3 – Q3 2020 Highlights & Operational Performance

Dr. Bernd Schulte, AIXTRON

Executive Board

Many thanks Guido! Let me all welcome you to our results presentation of the First Nine Months of 2020 and I will start, as usual, with an overview of the key developments in the third quarter on **slide 3**, before handing over to Charles and Felix.

But before that, I would like to introduce you to our new colleague in the Executive Board, Dr. Jochen Linck. We are happy to welcome Jochen as our new Chief Operating Officer. Jochen is a mechanical engineer with a Ph.D. in Lean Production. Over the past 20 years he worked in various high-tech industries such as aerospace, automotive and IT in product development and operations. Jochen's passion and track record for R&D and operational efficiency will greatly help AIXTRON to enhance our operational excellence and prepare for the future business expectations and growth. We are very glad to have him on board!

Now back to our results. With orders slightly above 70 million Euro, we had a continued solid quarter for order intake driven mainly by demand for power electronics and laser applications. We finished the quarter with an order backlog of 164 million Euros which is 51% over the same period last year. As expected, revenues in Q3 came in at 64 million Euros, which was higher than the previous quarters and higher than the same quarter of the previous year. We achieved a 40% gross margin and a 13% EBIT margin in Q3. So overall, our results were very much in line with what we expected and revenues and results in Q4 of this year are expected to grow strongly over Q3.

Therefore we confirm our full year's guidance which we have held up and which Felix will explain to you later in some more detail.

Before handing over to Charles, let me say a few words to you on the situation in light of the corona pandemic. Unfortunately, the number of COVID-19 cases are dramatically rising in several regions of the world. We have increased our internal safety measures again to mitigate the risk of infection within our premises. Nevertheless, we have not recorded any significant effects related to COVID-19 on our operations and business. However, we will continue to watch the development of the global pandemic very carefully and we remain to be ready, to take measures if necessary.

At this point, let me now hand you over to Charles for a more detailed overview on the Q3 2020 numbers. Charles?

Slides 4-6 – Q3 2020 Income Statement, Balance Sheet, Cash Flow

Charles Russell, AIXTRON

VP Finance

Thanks, Bernd, and hello to everyone.

Starting on **slide 4**, our income statement. As expected, total revenues for the quarter at 64 million Euros were higher than in the 56 million Euros of the previous quarter, reflecting the shipment schedules of our customers.

Gross margin was 40% in Q3 compared with 41% in Q2 mainly because of a less favorable dollar exchange rate. Had the exchange rate been the same as in Q2, the Gross margin would have been 42%.

Just under 50% of sales were denominated in US dollars in the quarter, this is lower than the 70% of sales that we saw in the past because customers in China are less willing to use dollars.

Operating expenses in the quarter of 18 million Euros were lower than the 20 million Euros in Q2 2020.

Selling expenses were 0.9 million Euros less than in Q2 mainly because of lower external sales commission. R&D project costs were lower by 1.6 million Euros in Q3 than in Q2. These changes mainly related to projects which were completed or nearing completion. Other income was also 0.7 million Euros less in Q3 than Q2.

EBIT in Q3 was 8 million Euros compared to 3 million Euros in Q2.

The tax rate is very low cumulatively because the gain on reversal of impairment in the first quarter is not a taxable transaction.

Net profit in the quarter was 7 million Euros.

Turning to the balance sheet on the next slide.

Inventories of 101 million Euros are again higher than previous quarters in preparation for the scheduled high level of shipments in the fourth quarter of this year. With fourth quarter sales expected to be in the range of 100 to 120 million Euros, we expect inventories to fall substantially by the year end.

Receivables of 19 million Euros represent 24 DSO compared to 30 DSO at the end of Q2.

Cash and investments were 293 million Euros at the end of the quarter, similar to the 289 million at the end of Q2. The slide shows 263 million euros in short term assets, and also 30 million euros of cash on deposit within non-current assets.

Customer deposits of 63 million Euros at the end of Q3 represent 38% of the order backlog.

Moving to **slide 6**, our cash flow statement

Free cash flow, excluding the movements in and out of various investments, was 5 million Euros in the quarter.

Because a lot of the receivables we would have expected to receive in the early part of the year were collected in Q4 2019 and because of the inventory buildup ahead of Q4 shipments, cumulatively, free cash flow was minus 3 million Euros for the 9 months period.

And with that, let me hand you over to, Felix.

Slide 7 – 2020 Guidance & Update Portfolio

Dr. Felix Grawert, AIXTRON

Executive Board

Thank you, Charles and welcome to you all.

I will give you a short overview of the developments within our portfolio and of our outlook.

In Power Electronics, we see solid demand for tools to produce GaN power devices. Adoption of these devices is growing in more and more applications starting from mobile phone and laptop chargers. We also see applications in server and telecom power supplies as well as in automotive on board chargers. Furthermore, our customer base is growing as more and more players are entering the GaN power market. For example, we are now serving all of the tier-1 foundries with our GaN products. In addition, and despite the high market share AIXTRON has in GaN, we continue to convert customers from other vendors to our platform. In this quarter, we have been able to win SILTRONIC, one of the top 5 wafer makers, as a customer. In SiC, we see continuous demand from our existing customer and we are making good progress with our qualification programs at our other customers. We have achieved the first full customer acceptance and with this an additional customer in volume production on our SiC tool. Overall, power electronics made up about 50% of our Order Intake in the 3rd Quarter of this year.

In our MOCVD business, we also recorded continued good demand for our Laser solutions driven to a large degree by the need for optical data communications. For example, the laser specialist MODULIGHT from Finland has decided to scale up production of epi wafers with our G4 tool this quarter. This area of lasers was about 35% of our order intake in Q3.

We continue to see a healthy pipeline for our LED-equipment in particular for the production of LEDs for fine-pitch or mini LED displays and mini LED backlighting units.

Let me now come to our OLED business at APEVA. We are going through the qualification process with our Korean customer and are about to complete the qualification of the Gen2 deposition system. With this, we will successfully complete and close the Gen2 project. Once this milestone is achieved, we will continue the discussions with our customer on how and when to enter the final stage of qualification, namely the proof of the scalability of our technology to larger formats in typical production size.

Let me now give you some detailed information on our firmed up guidance for the year 2020 as illustrated on **slide 7**.

We now expect revenues to be in a range between 260 million and 280 million Euros which falls well within the range of the original guidance. We expect orders to be in a tightened range between 270 million and 300 million Euros which are also within our original guidance range. We continue to expect a gross margin of approximately 40% and an EBIT margin between 10% and 15% of revenues for the full year 2020. We have not amended our EBIT guidance as some upcoming external events such as US elections and BREXIT might lead to significant currency fluctuations with the respective influence on our margins. Nevertheless, we believe that the mid-point of the EBIT range can be seen as our base case.

Our expectations are based on our solid order book at the end of this quarter and an again healthy level of customer inquiries for our products serving different industries.

Our forecasted, US-Dollar denominated Orders and Revenues for the remainder of the year, are as always based on an exchange rate of US-Dollar 1.20 per Euro.

So overall, we confirm our guidance and can provide a positive outlook on the remainder of the year. In particular the share price drop of today does NOT reflect our own confident view of the business.

With that, I will pass, back to Guido, before we take questions.

Guido Pickert, AIXTRON

Thank you very much, Felix, Charles, Bernd. Operator, we will now take questions, please.

Question and Answer Session

Uwe Schupp, Deutsche Bank

Just two questions from me. Firstly, on the competition, and secondly then also on the Q4 guidance. Obviously, your competitor had a press release out earlier this week and they seem to have made some inroads with their new MOCVD system with OSRAM Opto Semiconductors, which we all realize that it hasn't been your core customer, because you traditionally focused more on the volume markets in certainly in Taiwan and also in China. But how disappointed are you that you yourself didn't get such an order? Can you just kind of frame that very press release for us? And then secondly, your guidance obviously implies a relatively hefty EUR100 million in revenues and I think that is maybe one of the reasons the market takes a bit of a more cautious view and maybe some of the participants have not realized that you actually did more than EUR200 million in revenues, only a few years ago in a given quarter. If you look out of the window, how busy is the parking lot and the lorries shipping systems to your customers? In other words, this EUR100 million - have you seen a fair amount of shipments already in October, or is it really more December loaded as far as you can tell? Thank you very much.

Dr. Bernd Schulte, AIXTRON

Thank you for your question. I will respond to the first part of your question Felix will take over for the guidance part of the questions.

As you know, the tool has been announced already two years ago, so the press release did not really come as a surprise to us. Important is that according to customer feedback, our existing tool, the G4, remains to be superior in performance. What is even more important, especially for all kind of LED applications, is that the G4 is significantly better in terms of cost of ownership. And also keep in mind that we are working very, very hard in development of our next generation arsenide-phosphide MOCVD tool. And with that tool, we target to implement new features, which customers need in the future for higher performance devices, such as full automation, but also an even lower cost of ownership. And we are still on track, that we come out with the tool to the first customers in the course of next year, probably even in the first half of next year. So, overall, it was not a surprise to us. We are collaborating with all kind of accounts for various applications and we are very confident, that we remain the dominant player in the field of arsenide-phosphide MOCVD.

Dr. Felix Grawert, AIXTRON

And with that, let me come to the second part of the question. We realized revenues in the first 9 months of roundabout 160 million Euros, with our annual guidance of 260 million to 280 million Euros, clearly implying that in Q4 we need to generate well over

100 million Euros of revenues. This is what we are planning for and we expect the shipments to be quite evenly split across the quarter, namely between October, November and December.

Because we currently see all kind of COVID-related lockdowns, I think also very important to assure that our supply chain remains to be stable, which it also was during the big heavy lockdown we had at the beginning of the year. So we remain confident to be able to execute on our plans.

Furthermore, all the parts and the components that are being needed to achieve these revenues, have already arrived on our shop floor and are in assembly, given that the systems undergo several months of testing before they are finally shipped.

So we are confident to make that revenue and you can be assured that we judge the risks including supply chain risks or whatever somebody might interpret into that, as minor.

Jürgen Wagner, MainFirst Bank

Yes, good afternoon. Thank you. On OLED, you said that you are about to enter the next stage of qualification. What business prospects do you see over the medium term and what are your running cost this year and then next year, when this phase will be concluded?

Dr. Felix Grawert, AIXTRON

First of all, we will conclude the current Gen2 project.

I think this is a very important milestone because that means that once the project is concluded the feasibility of the OLED technology is demonstrated. It took us longer than we had expected, but we believe that we are now very close to that milestone. So with the results from testing the product and more importantly also from producing OLEDs on the system, it can be checked what kind of performance of the OLED is achievable. And that then builds the foundation for the decision making together with the customer, for example what size or what specification the system should have. You can imagine that there are a number of technical discussions which then lead over to finally a commercial discussion and then a purchase order.

The next phase of our OLED program during the year 2021, would be the scale-up as we always have communicated to the market, meaning that we increase the size of the chamber to full production size. Initially, it would be a system with one chamber. Once that project is concluded successfully, we would be qualified for a full production system. Then systems consisting of multiple chambers might ship next. So there is these two phases to come.

In 2021 we would focus on scaling up to the larger size. This year we have already worked a lot on reducing the running cost of APEVA, because many aspects of the development are finished. We are now looking at running cost very well below the 20 million per year that we initially had. In the next phase of the project, we also expect gross profits from a system sale carrying a significant part of that running cost. This is a significant improvement compared to the initial phase where AIXTRON, being in the start-up phase of the technology, has financed all that. This way, the EBIT impact on our bottom line will be significantly reduced.

Jürgen Wagner, MainFirst Bank

How significant will that then be as a 50%, 30%, you can pass on?

Dr. Felix Grawert, AIXTRON

I'm targeting a high-single digit negative EBIT impact on the bottom line, but no longer a double-digit.

Olivia Honychurch, Liberum Capital

Two questions for me if that's ok. First of all, on the silicon carbide side. You've given us a bit of color in terms of qualifications. But I was wondering if you could go into a little bit more detail around that customer qualification. Is that for one of your larger customers, and when do you expect to start shipping to them in commercial volumes? And then in terms of other customers, are you any closer to moving beyond the qualification stage with those businesses? And when do expect those qualifications to conclude and lead to potential orders from these customers, once you've qualified?

And then just in terms of your gross margins, I know that you're introducing a handful of new platforms across your portfolio. What extent of an impact do you expect those introductions to have on gross margins, do you think there is a potential for those to rise above the current 40% guidance in the coming years? Thank you.

Dr. Felix Grawert, AIXTRON

Thank you very much on your two questions. So let me get started with silicon carbide. It's very well known to the market that we are in full production with our long-term existing lead customer. With this customer, we are in production ramp. This is a very major customer for the whole market. According to our own estimates for the year 2020, we will achieve about 40% market share of all silicon carbide tools being shipped. We have now achieved the qualification of our tool with a second customer. The second customer is targeting the automotive market, which we all know is the biggest volume market and expected also to ramp very fast. And in effect, we very shortly expect a repeat purchase order from this second customer because this customer is already now, as we speak, in full production with our tool and has just secured additional orders from its automotive customers. So, yes, there will be clear

follow-on orders and ramp. I could not comment on how many follow on tools that will be in '21 and '22 for this customer. But again, there is clearly a ramp planned based on our tool, as we are also the only vendor in this customer. And not to forget, as we have mentioned in previous calls, we have our tool in other customers, where the qualification is ongoing. We are expecting to complete those qualifications within the next one, two quarters, depending typically also on the technical requirements that the customer is putting on us and their process of qualification. But then, very clearly, we expect follow-on orders to come also from these other customers within the year 2021.

Dr. Bernd Schulte, AIXTRON

Sure. When we develop new products, we clearly target to offer higher performance and higher value to the customer than the current products. And with that, we also have the target to share such benefit with the customer. In other words, the gross margins are targeted to be higher than for the existing products, which went through a long life-cycle already, including certain natural price erosions. So we are clearly targeting higher gross margins. But please don't pencil it in for '21, as it will not really come into a big effect then. So, the effect should more been seen beyond '21.

Dr. Felix Grawert, AIXTRON

That is very important point. Our tools are real high-tech products that need to deliver the highest quality to our customers.

A qualification does not only mean that our tool needs to be up and running and working at the customer site. The customers have to adapt all their processes to the tool, so the tool also has to be fine-tuned to those on the technical level.

And then our customers, the semiconductor players, they have to send the chips produced on our new tool at their premises to their customers to get their qualification acceptances. That comprises a complex set of reliability tests. All these things can take several months to be done, simply due to the physics behind that. Only when that is completed, the tool and the devices made on the tool are end-customer qualified. Then the customer can place follow-on orders, the tool needs to be produced, be shipped, installed and then we'll see it in volume ramp. This is just to give you a bit of a background, why this is a process which is not completed within six to nine months, but which is rather taking about two years or so.

Olivia Honychurch, Liberum Capital

And just a follow-up from what you were saying earlier about the OLED situation. If next year is going to be the scale-up phase for that bigger system, at what point do you need to get the initial purchase order through from the customer? I'm just thinking

about how we should model that, could we expect it to come in at least by the end of Q1 '21 or do you think it will be beyond that?

Dr. Felix Grawert, AIXTRON

Well, let me clarify, just to avoid that there is a misunderstanding. With scale-up we mean scale-up of the technical size of the production chamber. It is not a scale up, which I think your question implies, in terms of volume, revenues and profitability. We speak here about one large size tool in 2021. You could say a pilot line tool with substrate of a larger size. Scale up in the commercial sense of volumes being visible in the financial statements and revenues, you could model in somewhere late 2022, or in 2023.

Dr. Bernd Schulte, AIXTRON

Okay, thank you everyone. Before we finish the Q&A, let me just make a comment on today's share price development. First of all, let me tell you that we are very surprised by this development, as we have confirmed exactly what we have said the quarters before. So, we are very well on track in terms of our guidance on revenues, orders, profits. Therefore, we do not understand the strong reaction, in particular with the narrowed guidance we have given, with revenues between 260 million and 280 million Euros, the midpoint of which is more or less what the market expected, namely around 270 million Euros. With that, I want to conclude that there is no change to the plan and we remain very positive and optimistic going forward. We are seeing, that all the developments we told you about in the past and today, are happening and there is no change to the Company's strategy or what so ever. We wanted to share our surprise with you, which we probably have in common.

Guido Pickert, AIXTRON

Thank you Bernd for this for this clarification and thank you very much to all of you. That concludes today's call. We are very happy to do follow-up calls - you know where to find us if you have any follow-up questions. Thank you.