AIXTRON SE

Analyst Earnings Conference Call

2018 Annual Results
February 2019

Prepared Remarks

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, ladies and gentlemen, and welcome to AIXTRON's 2018 annual 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 to the presentation of our 2018 results.

I'd also like to welcome our Executive Board represented by Dr. Felix Grawert and Dr. Bernd Schulte, as well as our VP of Finance and Administration Charles Russell.

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 of which contains the usual SafeHarbor statement. I would like to point out that it applies throughout this conference call.

You may also wish to have a look at our latest IR Master Presentation, which includes additional information on AIXTRON's markets and its technologies, and is 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 Dr. Bernd Schulte for opening remarks.

Slide 3-4 – FY 2018 & Q4/2018 Highlights & Operational Performance

Dr. Bernd Schulte

Executive Board

Many thanks Guido, and a warm welcome from my side as well.

As usual, I will give you an overview of AIXTRON's key developments in 2018 before handing over to Charles Russell, who will go through the financials in more detail. This will then be followed by Felix Grawert for market development. I will then come back to you to wrap up and to give you our 2019 guidance.

2018 has been a very successful year for AIXTRON in many aspects. Not only did we beat the original targets we set ourselves last year, but we also see that the business is in a much stronger position than it has been in many years. We ended this year with a strong order book, and we have an exciting diversified technology portfolio, which provides us with a solid medium to long-term outlook.

Let me remind us that in 2017, we decided to realign our company to focus on our core MOCVD as well as the OVPD technology. This led us to cancel or freeze certain product lines and the corresponding R&D expenses. We sold a product line that we considered outside of this core focus. This realignment is now completed with achieving the important milestone in October of last year, when our OLED deposition business APEVA signed a joint venture with the South Korean display industry supplier IRUJA. As a result, APEVA will become a full OLED deposition system provider and we are hopeful that we will see an order for a production size chamber later this year for this business.

The success of this strategy is already reflected in our 2018 revenue and earnings numbers which were largely driven by the sale of MOCVD equipment into optoelectronics, mainly for Lasers and LEDs. In these areas, customers use our systems to manufacture lasers for optical data transmission and 3D sensor technology, be that for facial recognition in smartphones or for the upcoming functionality of LIDAR. In the area of LEDs, there are applications including the manufacture of special LEDs, such as red, orange and yellow LEDs for display applications, high-performance LEDs for automotive lighting or UV LEDs for the environmentally friendly disinfection of water. We see strong growth potential in MicroLED displays for which we hear about progress in their manufacturability.

Let me now give you an overview of our key financial highlights for 2018 on slide 4.

In 2018, revenues reached 269 million Euros which was 40% higher than the comparable revenue in 2017. We also managed to increase our EBIT from 5 million in

2017 to 41 million Euros in 2018, driven by strong gross margins of 44%, which are up from 32% the year before. This was the result of a better product mix, product cost reduction measures and a stronger US Dollar. Order intake was also the strongest in many years. At 302 million Euros, it was 34% ahead of the comparable figure of the previous year and leaves us with an order book of 138 million Euros, 27% higher than the same time last year giving us good visibility into revenues for the first half of 2019.

In summary – not only have we achieved our guidance in all metrics – we have reached the upper ends of all our 2018 guidance items provided.

With that let me now hand you over to Charles for a more detailed overview of the 2018 financials.

Slides 5-8 – Key Financials Q4/2018, P&L, Cash Flow, Balance Sheet

Charles Russell

Finance and Administration

Thanks, Bernd, and hello to everyone.

Starting on Slide 5 we had a good fourth quarter with an order intake of 72 million Euros, similar to the levels in previous quarters and ended with an equipment backlog of 138 million Euros.

Revenues in 2018 were 17% ahead of 2017, which is 40% ahead on a like-for-like basis for the continuing business.

The improved product mix as well as a strong US Dollar - particularly in the second half of 2018 - produced a gross margin of 44%, 12 percentage points ahead of 2017's 32%.

2018 EBIT was 41 million Euros and net income 46 million Euros.

Net income was higher than EBIT because of deferred tax assets we have recognized in 2018.

Moving onto the slide 6. Let me go into more depth on the income statement.

Total revenues for 2018 were 269 million Euros, compared with 230 million Euros in the previous year. In the quarter, revenues were 88 million Euros.

Gross margin was 45% in the final quarter and 44% over the full year.

The strong dollar added 3.3 million Euros to sales and margins in the Quarter compared with our Q4 guidance, which was based on $1.20 to the Euro.

The margins also benefitted from increased sales volumes and better cost efficiencies.

Gross margins in the same period last year were considerably lower at 32%.

Operating expense in the quarter was just under 19 million Euros, more or less in line with the average.

Selling expenses of 9 million Euros in 2018 were slightly lower than the previous year and remain below 4% of revenues.

G&A expense was 5 million Euros in Q4, in line with the previous quarters, and was 18 million Euros for the full year, 8% above 2017.

Q4 R&D costs were more or less in line with previous quarter.

On an annual basis R&D expenses were 52 million Euros; 24% lower than the previous year. However, 2017 included discontinued product lines and restructuring expense.

The R&D expenses for the OLED activities in 2018 were 24 million Euros compared to 23 million Euros in 2017.

Overall, EBIT for 2018 was 41 million Euros and net income 46 million Euros, both substantial improvements over 2017.

Net income in Q4 was 18 million Euros, which was well ahead of the previous quarter and was a reflection of the product mix, high level of sales, and strong dollar in that quarter.

Turning to the balance sheet on the next slide, the main changes compared to a year ago are a reflection of the increased business volume.

- Inventories and Advance payments from customers have increased because of the increased backlog.
- Receivables have increased because of the higher sales, although they still represent only 36 Days Sales Outstanding

Moving to Slide 8, which shows our cash flow statement. Free cash flow was 4 million Euros for the year compared with 91 million Euros in 2017. The free cash flow in 2018 is after payment of 12 million Euros related to the previous year's disposal of ALD CVD.

The total cash flow includes 10.4 million Euros for shares issued from Apeva to Iruja, of which 5.4 million Euros was paid in 2018 and 5 million Euros is not payable until 2019.

We finished the year with 264 million Euros in cash, up from 246 million Euros.

With that let me hand you over to Felix.

Slide 9 – Technology Portfolio

Dr. Felix Grawert,

Executive Board

Thank you Charles.

Most important for 2018 were lasers for 3D sensors, which were integrated for the first time since 2017 in the smartphone of the leading provider Apple, the iPhone X. The view from market research firms such Yole Développement is that this market is likely to grow from 2.1 billion US Dollars to 18.5 billion US Dollars in 2023 and we believe we are very well positioned to provide the manufacturing solutions for that market. We all reading that the adoption of this functionality is currently accelerating to other cell phone products, which is the prerequisite for further growth in this space.

Beyond 3D Sensing, lasers are also core components for optical data transmission. With the move to 5G mobile networks and massive increases in the data being transmitted by fiber optic cables, we see increasing demand for our leading manufacturing solutions. And we see this market growing in size driven by end user demand for internet services, cloud computing, especially video-on-demand and by the communication of connected devices via the internet.

Another area of our focus are specialty LEDs of which we are concentrated on red, orange and yellow LEDs and the upcoming potential for MicroLEDs.

ROY LEDs are used in applications such as large-format displays for sports stadiums, airports and shopping centers but also increasingly for mini_LED Backlight Units in high performance LCD screens. According to LEDinside, this market is expected to grow to 5.4 billion US Dollars in size by 2023, up from 2.9 billion US Dollars in 2018. And again – our positioning in this market is very strong.

Another exciting technology, which is at an early stage of development are MicroLEDs which are already used in smaller applications such as head-mounted displays for Augmented and Virtual Reality. However, MicroLEDs could have wider applications in areas such as large TVs and smart watches. According to LEDinside, the market for MicroLEDs in 2018 was 0.6 million US Dollars in size and they expect it to grow to 3.2 billion US Dollars by 2022. The specifications for MOCVD performance to manufacture MicroLEDs are expected to be extremely challenging in terms of yields and also throughput at the same time. We believe that we are well suited to address these

challenges with our planetary reactor concept delivering the combined high uniformity with large batch size in the industry.

Starting with the second half of 2018 we are seeing increasing customer demand in the area of Power Semiconductors based on the Wide-Band-Gap materials GaN and SiC. These materials allow for a significant reduction of energy conversion losses, contributing to improved energy efficiency in applications ranging from smartphones to electric vehicles and solar power plants.

According to a study by the market research company IHS, the market for semiconductor-based SiC and GaN power devices was USD 604 million in 2018 and is expected to reach USD 2.1 billion by 2023.

These Wide-Band-Gap (WBG) materials such as Gallium nitride (GaN) and Silicon Carbide (SiC) are complex to produce and call for a good balance between Yield and Throughput. In GaN we are well positioned with our G5+ tool which is the tool of record for this material system today.

Our new, fully automated SiC tool is with selected customers for beta testing at the moment and we remain confident that we will secure additional SiC-Power customers and thus additional market share within the next 1-2 years.

Another focus area for AIXTRON is OLEDs for which our subsidiary APEVA is in the process of qualifying the OVPD Technology for OLED deposition with a major display producer.

To date, OLEDs have been mainly used in high-end mobile phones and high-end TVs. Going forward we expect OLEDs to be used be much more widely as production cost is reduced. According to research from the investment bank UBS the market for OLEDs for TVs, for instance, could grow from approximately USD 1.9 billion in 2018 to USD 20.5 billion in 2025.

This is a substantial opportunity and thanks to the formation of our OLED JV with IRUJA we believe that APEVA is well positioned to become the deposition equipment supplier of choice in this market. APEVA has made significant progress in recent months. Approval of the Joint Venture has been obtained by the authorities. The integration of the teams of former AIXTRON and IRUJA people is going well and joint processes and IT systems are being established.

The Gen2 OLED test system achieved positive results, so that our customer agreed to the installation of the test system in his production facility. This installation has been completed. In the next step, the system will produce layers of OLED stacks, which will be thoroughly investigated by the customer. When these tests are successfully concluded, we expect to receive a customer order for a large area deposition chamber in production format later in 2019.

In addition to these MOCVD and OVPD product lines, we are also focused on developing, for example, technologies to produce graphene, carbon nanotubes and carbon nanowires. These materials promise very interesting potential in a variety of applications, be they in battery or in display applications, and give us a solid long-term growth opportunity.

With this, I will pass you back to Bernd who will discuss our guidance for 2019. Bernd?

Dr. Bernd Schulte

Executive Board

Thank you Felix.

Slide 10 – 2019 Guidance

Looking at a shorter term to 2019 on slide 10, we have good visibility on revenues in particular for the first half of the year thanks to our strong backlog. However, on orders we have limited visibility, noting that there are headwinds around the general development of the global economy, and we are sensing some reluctance to invest by some of our customers.

Consequently, we expect orders for 2019 to be below the 2018 order levels and in a range between 220 and 260 million Euros.

We expect revenues to be in between 260 and 290 million Euros in 2019, which would be similar to or above 2018 levels.

These ranges consider both, the geopolitical and customer specific uncertainties as well as the still unclear magnitude of a possible order in the OLED segment.

We also expect to achieve gross margins for 2019 in between 35% and 40% with lower margins in the first half of 2019 due to shipments of lower margin LED products to China.

We expect to achieve an EBIT of between 8% and 13%. This is mainly due to a different product mix and the fact that this guidance is based on a USD/EUR exchange rate of 1.20 US Dollars to the Euro versus a stronger actual US Dollar since H2/2018.

In addition, we expect to generate free cash flow of between 15 and 25 million Euros in 2019.

Please note that these estimates also fully include the results and CAPEX of APEVA and is based on the previously mentioned budget rate of the US Dollar versus the Euro.

Let me say that after a successful 2018 and with a strong pipeline and good technology roadmap we are very much looking forward to gain from the growth opportunities we see in front of us.

Finally, we would like to thank you, our shareholders, for your trust in our company. We are convinced that AIXTRON has the necessary operational strength and the innovation power to remain a technology leader in the compound semiconductor industry in the future.

With that I'll pass you back to Guido before we take your questions.

Thank you, Bernd, Felix and Charles.

Operator, we'll now take the questions.