

AIXTRON SE
Analyst Earnings Conference Call

Q3 and 9M/2021 Quarterly Results

November 4, 2021

Prepared Remarks

Executive Board

Dr. Felix Grawert, CEO & President

Dr. Christian Danninger, CFO

The spoken word applies

Slide 1 – Operator & Forward-Looking Statements

Operator

Ladies and gentlemen, welcome to AIXTRON’s third quarter and first nine months 21 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. Welcome to AIXTRON’s presentation of our Q3 and 9M 2021 results. I’d like to welcome our CEO, Dr. Felix Grawert and our CFO, Dr. Christian Danninger.

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

Please take note of our Safe Harbor Statement which can be found on page 2 of our results presentation slide deck, as it applies throughout the conference call.

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 Felix Grawert for opening remarks. Felix?

Slide 2 – Q3/2021 Highlights & Operational Performance

Dr. Felix Grawert

Executive Board

Thank you, Guido! Let me welcome you all to our third quarter 2021 results presentation. I will start with an overview of the highlights in the quarter and then hand over to Christian for more details on our Q3/2021 figures. Finally, I will give you an update on the development of our business as well as our guidance for the year.

Let me start by giving you an overview of the key developments in Q3 on **slide 2**.

During Q3/2021, we saw another quarter of strong order momentum throughout all our businesses, well balanced across applications. GaN Power was the strongest contributor, but also wireless & optical data communications, LEDs and lasers had sizeable contributions. Overall, orders in Q3 came in at 114 million Euros.

Revenues developed as expected. At 131 million Euros, they were almost twice the figure we have recorded in Q2. We expect the revenue figures in Q4 to again be higher than the revenues we have recorded in Q3, and we are on track with respect to that value for Q4.

Q3 Gross margin at 43% and Q3 EBIT margin at 28% are also developing as expected.

So overall, we are on track to deliver the full year orders, revenues and margins as we have guided them to the market.

Now, let me give you a quick update on the COVID-19 situation at AIXTRON. Within AIXTRON we have had no serious COVID cases which is very good news! As more and more people have been vaccinated and continue to take advantage of our offer to get tested, we continue to see no disruptions in any of the functions of our business.

Now, I will be handing over to our CFO Christian Danninger. He will take you through the financials of Q3 and the nine months period.

Christian?

Slides 3-5 – Q3 and 9M/2021 P&L, Balance Sheet, Cash Flow**Dr. Christian Danninger***Executive Board*

Thanks, Felix, and hello to everyone.

Starting on **Slide 3**, our income statement. As expected, total revenue for the nine-month period was 248 million Euros compared with 161 million Euros in 9M/2021. In a sequential quarterly comparison, revenues in Q3/2021 almost doubled compared to the previous quarter.

Year-over-Year, gross margin of 41% in the first nine months was 2 percentage points higher. In Q3/2021, gross margin was 43% compared to 41% in the previous quarter. The difference is mainly due to a higher share of products shipped with better margins in Q3 versus Q2 of 2021.

Operating Expenses in the quarter increased from 53 million Euros in 9M/2020 to 60 million in 9M/2021. This difference primarily comes from 2 special effects: First, in H1/2021 we incurred restructuring costs for APEVA in the amount of approximately 3 million Euros while in the previous year a change of use for a production facility led to other operating income of 3 million Euros. Furthermore, we incurred higher variable compensation and R&D spending primarily for the development of our next generation MOCVD tools.

S, G & A expenses of 25 million Euros in 9M/ 2021 were 4 million Euros higher year-on-year, influenced by higher variable compensation and APEVA related restructuring costs.

R&D expenses in 9M/2021 remained roughly stable at 40 million compared to the same period of 2020. This reflects on one hand lower running costs for the OLED technology, which were on the other hand offset by increased expenses for next-generation MOCVD equipment.

During the first nine months of 2021, we recorded a net other operating income of 6 million Euros which was below the 9 million recorded a year before. This difference

was to a large degree due to the already mentioned change of use for a production facility resulting in other operating income of almost 3 million Euros in 2020.

In 9M/2021, EBIT was 41 million Euros at a margin of 17% versus an EBIT of 10 million Euros at a 6% margin in 2020. This was mainly due to the year-on-year increase in revenues and the corresponding gross profit. In Q3/2021 we had an EBIT of 36 million Euros at an EBIT margin of 28% for the quarter compared to 6 million Euros in Q2/2021. This shows the strong leverage effect we have on revenue volumes translating into bottom line earnings.

Primarily thanks to the aforementioned volume and margin effects, we generated a net profit of 43 million Euros in the first nine months of 2021, compared with 10 million Euros in the same period of 2020. This development was also influenced by the capitalization of deferred tax assets on loss carryforwards in the first half of 2021 in the amount of 8 million Euros. In Q3/2021, a tax expense of almost 5 million Euros was incurred and no change in deferred tax assets was recorded.

Turning to the balance sheet **on the next slide.**

In line with the expected output, inventories have risen to 137 million Euros from 79 million Euros at the end of 2020.

Advance payments received from customers increased to 86 million Euros from 51 million Euros at the end of 2020. This represents about 32% of backlog.

Our cash balance including other financial assets and post our 12 million Euros dividend payment in May, increased to 330 million Euros at the end of the quarter from 310 million at the end of 2020.

Please note that we have shifted financial assets in the amount of 60 million Euros from non-current assets to current assets as per June 30, 2021 due to a shorter remaining maturity of the respective financial instruments.

Moving to **slide 5**, which shows our cash flow statement.

Mainly due to the buildup of inventories in line with our planned output as well as due to higher CAPEX into next generation MOCVD tools for our laboratories, free cash flow in the third quarter was -19 million Euros. Mainly due to the positive result, free cash flow for the nine months of 2021 was 27 million Euros.

With that, let me hand you back over to Felix.

Slide 6 –2021 Guidance

Dr. Felix Grawert

Executive Board

Thank you, Christian.

before concluding with the outlook for the rest of the year, I would now like to give you a quick update on the key developments in our addressed markets.

In all our addressed end-markets, we continue to see strong momentum.

In the market for Gallium Nitride (GaN) Power Electronics our customers are adding production capacities to expand into more and more areas of power electronics which are today still dominated by silicon. We currently see an expansion of the well-established 650 Volt devices into additional applications, such as highly efficient power supplies for datacenters and telecom base stations. In addition, we see that GaN is making inroads into the automotive market – which is quite a milestone considering the high reliability requirements – with the first 650 Volt GaN devices being used in the onboard charger for EVs. Beyond this, lower voltage devices of GaN are about to be introduced in the market covering applications such as low speed electric vehicles and some motor drive applications. Overall, we can state that we are at the beginning of a broadening GaN adoption. This makes us confident, that with GaN power we are at the start of a multiyear growth cycle. How exactly this growth will unfold is difficult to forecast in detail though.

In Silicon Carbide we see the market growing rapidly driven by the fast adoption of Electric Vehicles: all major car makers have plans to go fully electric with large shares of their fleet and it has become industry consensus that the MOSFETs in the inverter of these cars will be made of silicon carbide. As a result, all players in the industry are expanding capacity, so far on 6” wafers. The industry is looking towards the usage of 8” wafers, once available at required volumes and reasonable cost.

On our side, we are in close contact with all industry players. We continue to win additional customers and are in follow-on discussions with those who still use tools of other vendors today.

Looking beyond power electronics, we see continued strong demand from customers addressing the communications market, both from wireless and from optical data communications driven by the 5G buildout. For the whole year this might roughly constitute one quarter of our order intake. And we see the momentum continuing.

Finally, also the momentum for LED applications remains strong. As for order intake and revenue this is in 2021 mostly driven by the traditional red-orange-yellow LEDs which are used in fine pitch but also in horticulture applications, such as indoor farming. At the same time, we are in close collaboration with a number of customers in the area of Micro LED development, and we see ourselves very well positioned to benefit from the commercialization of Micro LED displays. However, we see this application still a bit further away from volume ramp, which might happen from 2023 onwards.

You can see that we enjoy a very positive demand momentum from our addressed markets.

Worldwide we observe significant strain on supply chains and delivery times, as evidenced by the current news flow. At AIXTRON, the situation of the supply chain is tense but stable. We have had no major supply chain issues, unlike other industries which even had to reduce shipment volumes. The tense supply situation has rather resulted in individual short-term issues here or there, when parts from a single supplier arrived a few weeks later than desired, for example because a sub-supplier had to wait longer for sub-assemblies. Such “hick-ups” have resulted in slight delays in individual cases but have not affected our overall shipment situation.

We continue to watch the development of the global supply situation very carefully and we remain to be ready to take measures if necessary.

With that, let me move to our guidance on **slide 6**.

We confirm our guidance as we are on track to produce and deliver the required number of tools during the final quarter of the year. This means that we confirm the numbers communicated earlier:

We had guided for orders to be between 440 and 480 million Euros. Revenues are expected in a range of 400 to 440 million Euros with an EBIT Margin between 20 and 22% of Revenues. We expect our Gross Margin to be around 40% of Revenues.

In summary – we are looking forward to conclude a growth year 2021. Overall, we are on a path of strong momentum driven by multiple end markets, and we see the trends fully intact as of now and beyond 2021.

With that, I'll pass it back to Guido before we take questions.

Guido Pickert

Investor Relations & Corporate Communications

Thank you very much, Felix and Christian. Operator, we will now take questions, please.

Uwe Schupp, Deutsche Bank

Three questions, if I may. The first two for Felix and last one for Christian, Felix, just firstly, on the Q4 order outlook. Now obviously, if we take the midpoint, it would imply a fairly steep decline in Q4. We know you're cautious, but the markets are developing in the right direction and quote inquiries look still rather healthy. So is the +/- €80 million quarterly bookings rate for Q4, something that you would like to imply or is it also possible that we are seeing rather the upper end of the annual guidance based on what you're seeing today? Then secondly, somewhat related to that on the longer-term order outlook. You joined AIXTRON a little over 4 years ago. And during most of that period, I remember us talking in those calls whether orders will be €50 million, €60 million or €70 million, in other words, mid to higher double-digits, maybe. I was just wondering whether structurally see that this number has increased, and the water got deeper underneath you because of that sheer breadth of applications that you're seeing going forward? And then the last question, just on the housekeeping front, Christian, can you give us an idea about the tax rate? You mentioned your deferred tax assets that you are using this year and possibly also next year? Thank you.

Dr. Felix Grawert

Yes. Thank you very much for the three questions. Let me get started with the first two. The first question was whether we can imagine an order intake leading us to be on the upper end of the OI guidance in 2021. This is clearly possible. We very much see that there is strong momentum and we clearly see that this order momentum, which we have seen in the first three quarters of 2021, continues on a high level also in the fourth quarter of 2021. This gets us to the upper end of the order intake guidance.

To your second question, whether the level of our order intake has structurally improved compared to the past. I can confirm that "the water has gotten deeper" as you also imply in your question. The demand from the optoelectronics market continues to be strong on the levels we have seen in the past years. For example,

we continue to have strong demand for communications lasers and also for red-orange-yellow LEDs.

On top of that we now see a continued momentum for gallium nitride power devices. This lifts us structurally to a higher level of orders and revenues: GaN-power has started with one application and is now broadening to multiple other applications as the adoption in the market continues. This gives us the confidence that the GaN momentum will not just be there for two or three quarters and then disappear again. With that Christian, can you take the third question of Uwe?

Dr. Christian Danninger

As indicated in the past, I would recommend to model with a 15% tax rate going forward, taking into account the consumption of our tax loss carryforwards. And there is not much more to say, it's pretty consistent as we have indicated in the past.

Uwe Schupp, Deutsche Bank

That's very clear. Thank you.

Operator

We have couple of more questions. And the next question comes from Mr. Johannes Ries of Apus Capital. Please, go ahead.

Johannes Ries, Apus Capital

Maybe a follow-on question to Uwe. In GaN Power, you see some deceleration of order intake in Q3 and Q4, which was on the other hand quite strong in the first two quarters. Was there maybe a big push and now some of your customers first have to install their machines and do not need new ones in the coming quarters? We know that the gallium nitride market is growing, but it's still quite small. I think it has a market value of below €100 million or so, much smaller than the SiC market. Therefore, how do you see the development in gallium nitride? Is there may be a dip of demand before it picks up again? Or do you think it will be steadily developing?

Dr. Felix Grawert

I think GaN power will be steadily developing. I would not speak about a deceleration. I would rather call it a normal demand volatility that we always see in our business. 10%, 15%, 20% quarter-on-quarter ups and downs are always possible, like waves on the ocean. I currently do not see any signs of deceleration

or digestion or decline. In contrast, I think we are in a good trend, which will continue and last.

Johannes Ries, Apus Capital

And you are clear by far the leading supplier of the machines for the gallium nitride market?

Dr. Felix Grawert

Yes, very clear.

Johannes Ries, Apus Capital

OK, thanks. On the other hand, you are a follower in the silicon carbide market. Can you give us some more maybe information about your progress in gaining market share. You mentioned you have some orders and are in contact with all major customers. When could we see more traction of you really catching up to your major competitors, especially Tokyo Electron?

Dr. Felix Grawert

Silicon carbide is a very interesting growth market for us. Here, we see that the market is massively expanding. This is driven by the adoption of electric vehicles, which is now heavily happening. As we remember, two years ago, an electric vehicle was considered exotic by the German car industry and now many car makers have indicated that there will be a clear end of the combustion engines, and everything will go electric. There is industry consensus that the main inverter in BEVs will be made out of silicon carbide. As a consequence, a lot of new players are entering that market. These new entrants do not have any legacy that they build upon. Instead, they are openly screening the market for the best available technology. Here, we have successfully won new market entrants in the last couple of months. In addition to that, the 8-inch transition is coming in the next 1-3 years. Some players are faster, some slower. This transition is opening up windows of opportunities to win additional customers for AIXTRONs SiC epi tools. We are in contact with all players who are not yet our customers and focus on the window of opportunity given by the upcoming wafer size change.

Johannes Ries, Apus Capital

Remind us very quickly, what is the advantage of your machine compared to the established?

Dr. Felix Grawert

Lower cost of ownership and higher productivity in terms of wafer output.

Johannes Ries, Apus Capital

Okay. And that's definitely the thing which counts in the semi industry. Thanks a lot.

Operator

We have a couple of more questions. And the next questioner is Mr. Malte Schaumann of Warburg Research.

Malte Schaumann, Warburg Research

Good afternoon. First one to follow-up on the order level. The implied guidance at the low end calls for something like €60 million, €65 million, which is more or less half of what you posted last quarter. So, where does this really come from, or why did you not increase the guidance? You really see the risk that orders could come in so low or is that rather a reflection of your original guidance and thus remained stable. So, what are your thoughts around that?

Dr. Felix Grawert

That lower end of the order intake guidance is out of range. So, as I indicated, we clearly see full year orders towards the upper end of the range. The trends at work continue also in the fourth quarter and beyond.

Malte Schaumann, Warburg Research

Okay. Good. Then on the G&A level. It was mentioned that a lot of variable costs were driving G&A higher this year. Is that level kind of sustainable into 2022, and how much of that is linked to the share price and would be a fixed position going into next year?

Dr. Felix Grawert

Did I get your question about the SG&A level?

Malte Schaumann, Warburg Research

G&A costs that increased quite strongly this year. How much of that is sustainable going into 2022, or how much of that might relate to the share price increase?

Dr. Felix Grawert

I think we are overall in a very low level, right, Christian? Would you have a number to add?

Dr. Christian Danninger

No, Felix. I think we are relatively consistent. We had some restructuring expenses and some variable compensation being higher. But overall, I don't see a strong increase going forward.

Dr. Felix Grawert

We are on a relatively stable level there. Despite the significant increase in revenue volumes compared to a few years back or compared to the 2020 level, we are on a relatively stable level here. So, there is no reason for concern.

Malte Schaumann, Warburg Research

Okay. Good. Last question is regarding the timeframe/timing for customer adoption of your tool for silicon carbide. What are your thoughts about the upcoming perfect timeframes when your tool might be adopted by customers, new clients?

Dr. Felix Grawert

Typically, after we receive an order, it takes between six and nine months until the shipment of the tool. Then it takes roughly another two months for the tool to be installed. As I just mentioned, we have been winning a number of new customers. These new customers either have placed orders or they are about to place an order. That means the tool to these customers will be shipped in Q2 of next year 2022. The customers then will be working with our tools, developing something on the tool, qualifying that with their customers. Then our customers can make a decision towards the second half of 2022, that the development and qualification of their product is completed. This is the point in time when our customers could go into volume production. That is, we could see first capacity expansion orders from our new customers at the end of '22, which then translate into revenues in 2023. This gives you an indication how the timing sequence might come together.

Malte Schaumann, Warburg Research

Yes. It makes sense. Thanks.

Operator

Mr. Hourri wants to raise his question. The floor is yours Mr. Hourri. Thanks a lot.

Stéphane Hourri, ODDO BHF

Yes, I had a quick question about 2022. I wanted to have your view on what we can expect for next year. I know you are not guiding for the moment. Of course, it's too early, but can we expect a year of growth? And if yes, what can you share with us as a trigger for growth next year? That would be my first question. Thank you.

Dr. Felix Grawert

Good question at this point in time of the year. You can see that the strong order backlog will give us a good start into 2022. It indicates a good first half year in '22. In addition, we see ourselves remaining at a high level of order intake, similar to what we have seen in the last quarters. And if you add these things up, then you will see that '22 will be a very strong year for us again.

Stéphane Hourri, ODDO BHF

Okay. Thank you for that. And when you talk about GaN, I heard you said on another occasion that GaN has multiple applications and notably the fast-charging application. But that fast-charging application for which you were about to deliver was kind of completed as an opportunity and that you had to wait for the next opportunities to gain traction, i.e. servers, telecom, etcetera. So, do you think there will be a kind of linearity and that the next opportunities will start very soon? Because otherwise, you may have a kind of an air pocket in GaN applications? Thank you.

Dr. Felix Grawert

The broadening of GaN applications is definitely happening today: The first application that went into revenue was fast charging. This is a consumer electronics application that goes into volume very fast, where the new trend is there. At the same time, we see that GaN is currently being adopted in high-power applications such as servers, data centers and telecom-base stations. In addition, it starts to get adopted in automotive – you may have seen BMW making a press announcement related to gallium nitride devices in the onboard chargers. All these additional applications are all happening right now and translating into revenues both at our customers and also at AIXTRON.

Stéphane Houri, ODDO BHF

Okay. Thank you very much.

Operator

Next, we have Mr. Jürgen Wagner of Stifel. Please go ahead.

Jürgen Wagner, Stifel Europe

Yes. Good afternoon. As a follow-up to the GaN question so far. You mentioned the broadening of the market and that you receive follow-up orders. What is your assumption on how many deposition tools for GaN production are needed, let's say, until 2025? Why '25? Because Infineon at their Capital Markets Day last month gave us a market forecast of \$800 million in 2025. So, the question basically is how many machines would be needed to serve this market, if you take that as a base case? Thank you.

Dr. Felix Grawert

We expect something between 40 and 70 GaN epi tools per year for the power market. This number is based on the applications that are visible today. And we see our customers being very creative and opening up new applications. So, it could very well be that in 1 or 2 years, we talk about an even broader base depending on the success of these innovation projects. For example, several customers look beyond today's voltage class of up to 600 volts, and even to go all the way to 1,200 volts or even to 1,700 volts. The vision of this idea is to attack silicon carbide with gallium nitride from the low end. Who knows what the battle of material systems will lead to.

Jürgen Wagner, Stifel Europe

And who would be a competitor for those tools for you?

Dr. Felix Grawert

Today, we are in a unique situation that there is no real competitor. However, a market that's developing fast and that is big and growing, will attract competition. So, we stay tuned and we see who is coming and who potentially might have a good tool. We are very much watching that and at the same time continue innovation on our end at full steam.

Jürgen Wagner, Stifel Europe

Okay. Thank you. And second question would be on silicon carbide. How many tools are in your order intake in Q3 and your order backlog end of Q3? Thank you.

Dr. Felix Grawert

I don't have the exact number. It will be a mid-single digit number of tools in Q3 for Order Intake and also for backlog, I would assume.

Jürgen Wagner, Stifel Europe

Okay. You haven't mentioned it in your prepared remarks, but there are some orders, right?

Dr. Felix Grawert

Yes.

Jürgen Wagner, Stifel Europe

Yes. Okay. Thank you.

Guido Pickert

Investor Relations & Corporate Communications

Thank you very much. With this, I would like to conclude today's call. Thanks to all of you for attending.

Please note that our next earnings call for our full year 2021 results including our 2022 guidance will be on February 24, 2022. Thank you. And bye-bye.