AIXTRON SE

Analyst Earnings Conference Call

Q2/2022 & H1/2022 Results

July 28, 2022

Edited Transcript incl. Q&As

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 second quarter and first half year 2022 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 Q2 and H1 2022 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 rebroadcast 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 our CEO for opening remarks. Felix?

Slide 2 – Q2/2022 Highlights & Operational Performance

Dr. Felix Grawert

Executive Board

Thank you, Guido! Let me also welcome you all to our 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 financial figures. Finally, I will give you an update on the development of our business.

Let me start by giving you an overview of the key business developments in Q2 on **slide 2**.

Demand for our equipment remains dynamic across the board, resulting in an **outstanding order situation** with an order intake of 153 million Euros for Q2. We have received our first order for the volume production of **Micro LEDs** which is very encouraging! In addition to that, demand for our equipment to produce **efficient power electronics** was again very strong this quarter with demand for **laser tools** remaining strong as well.

This leaves us with an **order backlog** of 314 million Euros of which the majority is due for delivery this year.

Revenues in the quarter increased by 51% year-on-year to 102 million Euros. **Gross margin** was slightly lower than normal at 37% in the quarter due to a high share of tool deliveries to make traditional red LEDs and some one-time project cost to further optimize our operations. **EBIT** more than tripled year-on-year to 17 million Euros resulting in a quarterly **net profit** of 17 million Euros or 0.16 **Euros per share** due to the further recognition of tax loss carryforwards.

Despite the challenging global environment, we can again confirm our original guidance for fiscal year 2022 which we have first given in February of this year as we are fully on track to achieve what we have guided for orders, revenues and Based on the strong demand for our products, we can again confirm our original guidance for fiscal year 2022 which we have first given in February of this year as we are fully on track to achieve what we have guided for orders, revenues and profit margins.

Orders will remain on high levels, while revenues and margins are expected to be higher in the second half of 2022 vs the first half of the year. In fact, we expect Q3 to be stronger than Q2 and Q4 to be stronger than Q3 in terms of revenues this year again.

I am glad that today's global crisis situations still do not have a significant impact on our business. Logistics and supply chains are still not back to normal – they remain tense but continue to be stable. We are in close exchange with our suppliers and support them wherever required.

Now, I will hand over to our CFO Christian Danninger. He will take you through the Q2 2022 financials. Christian?

Slides 3-5 – Q2 2022 P&L, Balance Sheet, Cash Flow

Dr. Christian Danninger

Executive Board

Thanks, Felix, and hello to everyone.

I am happy to share with you that we had a very strong quarter again – both from an operational aspect as well as from a financial perspective. Let me now start with our income statement on **Slide 3**.

Total revenues for the second quarter 2022 were close to 102 million Euros, 51% above the same quarter of last year.

Gross Profit went up by 36% year-on-year to 38 million Euros. The **gross margin** at 38% was influenced by a less favorable product mix and one-time costs for projects to further strengthen our production and supply chains. Both effects were only partially offset by a favorable USD/EUR exchange rate, which affected 36% of our revenues that were recorded in US-Dollars.

OPEX in the quarter decreased to 21 million Euros from 22 million Euros in the same quarter of 2021, mainly due to lower R&D spending resulting from the timing of projects.

Our **EBIT** in the quarter more than tripled year-on-year to 17 million Euros from 6 million the year before. The **EBIT margin** was 17%.

We again utilized tax loss carry forwards and capitalized additional deferred tax assets in the amount of 2.5million Euros due to expected future profits.

We can therefore report a quarterly **net profit** of 17 million Euros, which more than doubled compared to 8 million Euros, recorded in the same quarter of last year.

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

Inventories at the end of June 2022 have risen to 162 million Euros from 144 million Euros at the end of March in preparation for the higher expected business volume in the coming quarters. As part of our supply chain strategy, we also keep some strategic inventories of selected components to maintain our capability to timely deliver our tools to our customers.

Due to the high demand supporting our revenue guidance for the year, **advance payments received from customers** by the end of June 2022, increased to 104 million Euros from 81 million Euros at the end of March, representing about 33% of order backlog.

Trade receivables increased to 58 million Euros from 50 million Euros at the end of March due to a higher share of shipments at the end of the quarter.

Our **cash** balance including other financial assets decreased to 346 million Euros at the end of the quarter from 375 million Euros at the end of March. The reduction being mainly due to the dividend payment of 34 million in May.

Moving to our cash flow statement on **slide 5**.

In Q2 of 2022, **free cash flow** was at 4 million Euros compared to 18 million Euros in the same quarter of last year, mainly due mainly due to an increase in inventories and trade accounts receivable combined with a rise in advance payments received for customer orders.

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

Slide 6 –2022 Guidance

Dr. Felix Grawert

Executive Board

Thank you, Christian.

Before giving you our updated view on the outlook for the second half of the year, I would first like to give you a quick update on the key developments in some of our addressed markets.

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

As previously mentioned, have we shipped a sizeable number of tools to produce traditional red LEDs representing the largest share of Q2-revenues. The second largest contributor were tools shipped for Silicon Carbide power electronics. The next biggest contributor to Q2-Revenues were tools to make datacom lasers.

Energy efficient **power electronics** based on wide-band-gap materials continue to be broadly adopted in an increasing number of applications, replacing less efficient Silicon. We see that in the orders and revenues for our systems in these areas.

In **GaN Power**, the strong momentum continues going far beyond initial consumer applications such as chargers. Our customers are already addressing opportunities in applications with 24/7 operations such as data centers, base stations, or household appliances such as refrigerators - just to name a few. Market adoption of GaN in these applications is driven by energy savings offered by efficient GaN based power supplies compared to Silicon power electronics. In addition to these applications, we see our customers already looking further ahead for example toward motor drives or applications in battery electric vehicles.

Therefore, we believe that demand will continue driven by the structural demand drivers behind it.

In **Silicon Carbide Power**, we see our customers building up or expanding their capacities based on the fast-growing adoption within battery electric vehicles replacing Silicon as a material.

As we have said before – our new SiC tool for 6 and 8-Inch wafers, is showing very good performance. It offers a very high throughput due to its multi-wafer batch approach in combination with full cassette-to-cassette automation. At the same – as we have said before – our new SiC tool for 6 and 8-Inch wafers, is showing very good performance. It offers high throughput due to its multi wafer batch approach in combination with full cassette-to-cassette automation. At the same time, it offers individual wafer process control with a high-quality output. This makes us strongly believe that we have a highly attractive solution in our portfolio — particularly in comparison to single wafer solutions being offered by competition. The growing acceptance of our existing and our new customers confirms our view.

In the area of **Micro LEDs**, we are very happy to announce that we have received a first order for the volume production of red, green, and blue Micro LEDs from our customers. This is very encouraging as this is seen as clear evidence that preparations to develop and launch a first commercial product have started.

As we have stated before, this development makes us increasingly confident that we will see further commercial products with Micro LED displays such as TVs, notebooks or smartphones going forward.

With that, let me now give you an update on our **full year guidance for 2022** on **slide 6**.

Based on the strong business development in the first half and our positive view on the development of our business in the second half of the year, we **confirm our growth guidance for the full year 2022** originally issued in February.

Including the 283 million Euros of orders recorded in the first half, we continue to expect **total orders** for the year in a range **between 520 and 580 million Euros.**

We continue to expect our 2022 **revenues** to be in a range **between 450 and 500 million Euros**. This is based on the 191 million Euros of total revenues recorded in the first half and builds on our equipment order backlog of 314 million Euros of which a large part is due for delivery during 2022.

Based on the 39% gross margin and the 16% EBIT margin we achieved in the first half, we continue to expect a **gross margin** of **around 41%** and an **EBIT margin** in a range **of 21% to 23%** due to the stronger expected business volume for the second half of 2022.

As before, are these expectations for 2022 subject to the provision, that the current global crisis situations around us, will not have a significant impact on the development of our business.

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.

Question-and-Answer Session

Operator

The first question comes from Olivia Honychurch. Your line is open.

Olivia Honychurch - Jefferies

Hi, thank you for taking the question and congratulations on a good set of results. I have got two questions, if that's alright. The first is on Silicon Carbide and then I will follow up afterwards. We recently heard that ASM International had acquired LPE from Italy, who is another player in the Silicon Carbide epitaxy space. It seems they offer a tool that has single wafer capability, which obviously differs from your proposition, which offers batch. I believe that LPE has said that a large proportion of their future revenues are coming from China. So, I was just wondering what you think is driving those customers, whoever they are or wherever they are from, to choose a single wafer tool versus a batch. And as in other context, I think generally, the Chinese company's approach tends to be more around price sensitivity and focused on higher productivity. So, I suppose I am really asking in the context of whether this could impact the outlook of your Silicon Carbide business in China going forward?

Dr. Felix Grawert - AIXTRON

Thank you very much for the questions. We know LPE as a competitor in the market and especially in the China market. Also, we have followed this acquisition. In line with your observation, it is correct that LPE is deriving most of their revenues with their Silicon Carbide single wafer tools from China. I think the reason why China has adopted this tool quite well is that this tool can be operated in a semi-manual mode in contrast to our fully automated solution. And labor cost in China is still relatively low. So, their tool can be operated with a high manual effort with a lot of labor around it, which is cheaper in China. Therefore, it can be operated in a very cost-efficient way. I think that is the reason for why the LPE tool has a relatively good acceptance in the China market. This also is the principle that local Chinese competitors are focusing on.

Olivia Honychurch - Jefferies

Okay. That's helpful. Thank you. And then the second question was around the shape of orders for Micro LED. So obviously, you've had the first chunk of big orders in this quarter. How can we think about the shape, the momentum and the timeframe of the remainder of those orders coming from your first volume customer going forward over the next few quarters? Will it be that it's a similar level of orders in each quarter for the next three or four quarters, for example or will there be more of an upward ramp, or would it be less frequent than that? Just an idea on the timing would be very helpful?

Dr. Felix Grawert - AIXTRON

Well, Olivia, you ask a very detailed question. Let me answer from my memory. We have received, the first volume production order for Micro LEDs with shipments to start towards the end of this year. This is the beginning of the ramp, which will extend and continue throughout the year 2023. Therefore, you will continuously see Micro LED shipments as the customer is building up the capacity. Additional orders will be placed during the second half of the year, extending well into 2023.

These orders are from our customer building up a first RGB Micro LED production line, meaning for all three colors, Red, Green and Blue. They are really playing in one of those highly innovative fields with the target to launch a disruptive consumer electronics product with a Micro LED display.

Olivia Honychurch - Jefferies

Fantastic. Thank you. And sorry, if I can just go back to my first question quickly on LPE – given what you said about the semi-manual nature of the tool, can we infer from that, that their tool is perhaps slightly lower in ASP than yours given it's fully automated?

Dr. Felix Grawert - AIXTRON

Yes, absolutely. Our tool is producing 6 eight-inch or 9 six-inch Wafers per batch which are many more wafers than competition. And therefore, our tool is also higher priced given this much higher output of wafers.

Olivia Honychurch - Jefferies

Okay, fantastic. Thank you so much.

Operator

The next question comes from Charlotte Friedrichs from Berenberg. Your line is open.

Charlotte Friedrichs - Berenberg

Hello. Thank you for taking my questions. Two or three questions. The first one would be if you are generally seeing more competition in Silicon Carbide, if I didn't misunderstand, you did mention that you're seeing somewhat more competition in the Chinese local market here. And then on Micro LED, did Q2 already include a revenue contribution from Micro LED here? And thirdly, are you seeing any kind of impact from weaker consumer sentiment now on order intake demand or the conversations that you're having with customers in Micro LED or the laser area? Thank you.

Dr. Felix Grawert - AIXTRON

Okay. Yes, let me address your three questions. I mentioned in conjunction with the LPE acquisition, that there is local competition being built in China for Silicon Carbide. We have also added two new players to our competitive landscape slide to give you a fully accurate picture reflecting this. I think this is a very natural development. We all know that China has a big automotive industry. China is a leader in electrification. Now China is heavily switching to Silicon Carbide in the drivetrain and in the charging infrastructure as well. And with that, we observe the buildup of a complete local Silicon Carbide value chain in China, that ranges from the local production of substrate, i.e., wafers, to the epitaxial step producing the Silicon Carbide MOSFET. Lastly, Chinese players are also trying to enter the market with their own equipment.

With that, let me switch to your second question, on the revenue contribution from Micro LED in the quarter. Yes, we did have a reasonable share of Micro LED related revenues in the second quarter. Micro LED accounted for the fourth largest segment of revenues, contributing somewhere between 10% and 20% of equipment revenues already. However, these revenues were still generated by multiple customers more focused towards the development and qualification of this technology. This is why we think that the receipt of the volume production order, shipping later in the year is particularly remarkable.

With that, let me come to your third question about the weaker consumer sentiment. We observe trends, that vary highly by end market. And of course, we see inflation at a global scale and in the United States and Europe with numbers that we haven't seen for decades. As a result of that, our customers in the consumer electronics domain are more cautious about their investments. We see this both from the domain of televisions, but also from the domain of smartphones and handsets. These segments are currently realizing quite significant drops in demand. So as a result of that, we see a bit weaker demand from our customers for the products that we ship into those segments. However, this represents only a very small portion of our overall revenues. We estimate that approximately 20%, maybe 25% of our total revenues could be affected by that. On the other hand, we see that from the area of power electronics, both Gallium Nitride power, but also Silicon Carbide power, demand continues to be strong. We see that customers are pulling-in orders and compared to their original forecast, and some customers are even increasing their order volumes asking for more systems to be delivered.

So, we believe that the area of power electronics is at least offsetting the somewhat weaker trend that we see on the consumer electronics side. And last but not least, we all know Micro LEDs, of course, also go into television smartphones, smart watches, so into consumer electronic devices. But we get very clear signals from our customers in those end markets that their ramp plans, as well as their development activities for innovative products are continuing and are not getting put on shelf or getting delayed. I hope this gives you a complete picture around the end markets.

Operator

The next question comes from Martin Marandon from ODDO. Your line is open.

Martin Marandon - ODDO BHF

Yes. Good afternoon, everyone. Thanks for taking my question. My first question would be on Gallium Nitride and how much is the penetration of Gallium Nitride for fast charging at the moment? That's my first point. And how is the split between fast charging and new applications such as data centers, white goods for Gallium Nitride at the moment? Then I have a follow-up.

Dr. Felix Grawert - AIXTRON

I have to admit that I don't have hard data from industry analysts on the current penetration rate of Gallium Nitride in fast charging. But based on my own perceptionbuilt on my own observations and what I hear from customers, a very significant part of the consumer fast-charging market is clearly migrating towards GaN Technology. Take a look at all the GaN chargers that you can buy on Amazon today, everything in the size of like an iPhone charger, but now delivering 45 or 65 watts. You may have seen Infineon did a press announcement together with the provider of GaN chargers, Anker about an integrated charger architecture, not only involving the GaN device, but also including some driver electronics. Anker is a leading aftermarket player for these kinds of products. So, my impression is that for the fast charging of smartphones, GaN already has a leading share. Again, it's just an impression, and I don't have the correct data from analyst houses here. At the same time, I observed that there are still many laptops shipped with traditional Silicon-based power supplies, but I hope that will also change over the next years.

Then coming to the second part of your question, concerning GaN penetration in data centers. There, we also see the adoption growing very fast. I hear from customers that in particular western data center players, who are all subject to reporting the greenhouse gas emissions are adopting GaN increasingly. I'm thinking of large players like Google, Amazon, Facebook, Microsoft, who operate the big data centers in the Western Hemisphere. I hear that all new centers and their servers are completely based on Gallium Nitride power supplies, following the same logic that all of us follow these days, i.e., that new infrastructure buildups are made in a CO_2 friendly manner. And at the same time, I get the feedback from customers in China that this trend is also just starting there now. There we see an increased demand of GaN based power supplies due to higher electricity prices and efforts to reduce GHG emissions on a wider scale. So GaN has by far not reached full penetration yet.

Martin Marandon - ODDO BHF

Okay, thank you. Very helpful. And I have just a quick follow-up on coming back on LPE acquisition. They gave a revenue target for 2023 around €100 million. I think it surprised quite a lot of people. So does that mean that actually LPE has a bigger market share than you at the moment or is it the case number that we should expect also for you in 2022?

Dr. Felix Grawert - AIXTRON

I cannot comment on the €100 million revenue projection they have provided, as I don't know where this number is coming from. This is a competitor, and we don't look into their plans or their design-in pipeline. I can clearly say that their presence outside of China is very small. Nevertheless, inside of China, they have a fairly good presence. And for that number to come true, one or some of their customers would have to be planning a significant capacity buildup in the next year.

Martin Marandon - ODDO BHF

Okay, thank you. Very clear.

Operator

And the next question comes from Jürgen Wagner from Stifel. Your line is open.

Jürgen Wagner - Stifel Europe

Yes. Good afternoon. Thank you for taking my question. Actually, I have a follow-up on Micro LED, how sizable was the order from that volume customer in Q2 and what is left for Q3, Q4, Q1? And you mentioned you have some pilot line business. I mean, beyond the customer that is currently ramping production, how advanced are discussions with those other Micro LED customers on timing for their volume ramp? Thank you.

Dr. Felix Grawert - AIXTRON

Thank you. Two very good questions on Micro LEDs. The size of the first order that we've been announcing with our press release was roughly good handful of systems to give you an idea. This is a sizable first set towards the buildup of a line. The overall size of the line to be installed 2023 is much larger. The orders will be coming in step-by-step over the second half of this year and first half of '23, as I have indicated. Now I think the second part of your second question is also very interesting, how advanced the discussions or the qualifications are with other customers. And the answer to that varies a lot. I observed some of our Micro LED customers to be still in an early stage or a mid-level stage of maturity in their development. With other customers, we are discussing very concrete plans for a ramp. What does this mean for us? It means that during 2023, we will see a substantial portion of our revenue to come from Micro LEDs, both in the first half of the year, but also in the second half of the year.

And then, assuming that other customers we are engaged with today will concretize their ramp plans, this trend will clearly continue in 2024.

Jürgen Wagner - Stifel Europe

And are those Chinese and Taiwanese players?

Dr. Felix Grawert - AIXTRON

Customers from all over the globe.

Jürgen Wagner - Stifel Europe

Okay. Thank you.

Operator

There is another question from Charlotte Friedrichs. Your line is open.

Charlotte Friedrichs - Berenberg

Yes, a couple of more ones if you allow. Your services revenues were quite strong again in the second quarter. If I recall correctly, you said Q1 had some one-offs that were positively affecting that. Is that also the case now in the second quarter? Or is that sort of the new run rate that we should expect for your after sales business?

Dr. Felix Grawert - AIXTRON

I think we are approaching a new run rate. It may not always be 20 million plus, but it may on an around 20 million per quarter level. This means that in some quarters, the level could be also at let's say 17 or 18 million, but in general, I would say it's approaching about a 20ish million level. Perspectively, we could see the after-sales business volume increasing. One driver of that is that we are addressing more mature customers who like to enter into a service agreement with us to make sure that our tools are running very well, supported by our service engineers and technicians. Another reason is that the share of Gallium Nitride and Silicon Carbide equipment within our installed base is increasing. And the production of these two materials has a higher consumption of consumables in comparison to our established Gallium Arsenide G4 tools which drives the respective business within after sales.

Charlotte Friedrichs - Berenberg

Okay. Understood. And then on pricing. Are you planning any price increases this year? I know it's not always a like-for-like comparison. But is that a conversation that you're having with some of your customers to reflect potentially higher raw material and labor costs?

Dr. Felix Grawert - AIXTRON

Yes, definitely. We did increase our prices already at the beginning of this year. And we are constantly monitoring the cost of materials within the global supply chain. The trend points upwards – just look at the prices for steel and copper and electronic components like chips. And also, of electricity and labor. Based on all that, we will increase our prices again at the end of this year or beginning of next, to compensate for those inflationary effects that we see.

Charlotte Friedrichs - Berenberg

And can you give us an order of magnitude for that? a), how much you've already increased and also b), how much you're planning to increase roughly?

Dr. Felix Grawert - AIXTRON

Well, I think there are two things to mention. First of all, you need to take into account that after we announce an increase, it's valid for all orders which are placed after that point in time. And the shipments for that typically occur now 9 to 12 months after an order is placed. That's the current lead time we have due to the increased demand in combination with the tighter supply chains. So, all effects come into play with a bit of a delay. This is not a problem for us, because we order our materials at that point in time as well or we already have them in stock. So, the higher prices for materials very well match the effectiveness of our price increases then turning into revenues. However, from the point of announcing price increases there is a delay of 9 to 12 months for that to show in revenues in case you build a model for that. To quantify the price increase, we talk about a mid- to high single-digit percentage range.

Operator

The last question comes from Ms. Lucy Liu from BlackRock.

Lucy Liu - BlackRock

Thanks for taking my question. I have a similar question. I want to check on margin. So, I noticed we have very high backlog. So, I wonder is the pricing already fixed at the timing of booking, given you just mentioned, we have a long lead time. So, will the inflation environment build pressure on your margin? I want to have some more color on that. Thank you.

Dr. Christian Danninger - AIXTRON

I am happy to take your question. The logic that was just explained fully applies to our order backlog. Large parts of our order backlog already include higher prices, and we expect the increasing prices on the material side to go pretty much in line with the realization of the increased price levels, we have in our backlog. Therefore, we do not expect a negative impact on our gross margins from inflationary effects.

Lucy Liu - BlackRock

Got it. Thank you.

Guido Pickert - AIXTRON

Thank you very much. With that we conclude today's call. Please all stay safe, have a great summer, and please feel free to contact us if you have any additional questions. Thank you and bye-bye.