AIXTRON SE

Annual General Meeting 2018

Hotel Pullman Aachen Quellenhof, Aachen

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Speech on item 1 of the agenda

Dr. Felix Grawert

President

Dr. Bernd Schulte

President

The spoken word applies.

Ladies and gentlemen,

Dear shareholders,

Welcome to the general shareholders' meeting of AIXTRON SE 2018.

Ladies and gentlemen,

In fact, a lot has happened at AIXTRON in the past 12 months. This is reflected not only in the results of our past year and the first quarter of this year, but also in the development of the share price.

But first things first...

As presented by Kim Schindelhauer at the last Annual General Meeting, we have worked very intensively and consistently on the **realignment of AIXTRON**.

We have frozen our activities in the areas of III-V-on-silicon (TFOS) and thin film encapsulation (TFE) and sold the product line for memory chips (ALD/CVD) to Eugene Technology. This has enabled us to bring research and development costs to a level that is in line with our sales revenue.

We have spun off our OLED technology into our newly founded subsidiary APEVA SE. On the one hand, this enables a better focus on the leap into the commercialization of our OLED technology. On the other hand, this structure also allows us to bring partners on board who complement our know-how in order to better tailor our offering to customer requirements.

Operationally, we have clearly focused on our **core business**.

But before we come to the **current structure** and our **technology portfolio**, I am pleased to hand the floor over to my **colleague on the Executive Board, Felix Grawert,** so he may personally introduce himself to you.

INTRODUCTION Felix Grawert

Good morning dear shareholders,

I too would like to welcome you very warmly to this - for me first – annual general meeting of AIXTRON SE.

Before we talk about our technology and product portfolio, I would like to introduce myself briefly to you.

I joined AIXTRON from Infineon in August 2017. There I headed the high-voltage power transistor business and was a customer of AIXTRON for GaN and SiC material systems. The potential of AIXTRON technology and addressable markets prompted me to make a change - we will discuss both in detail in a moment.

During the time before Infineon I gained experience...

- .... in semiconductor physics during my studies in electrical engineering in Karlsruhe,
- .... in optoelectronics during the subsequent doctorate in the USA at M.I.T.,
- .... and in the area of strategy development and implementation at McKinsey.

I am 43 years old, married and have one daughter.

The AIXTRON team welcomed and accepted me very openly, and together with my Executive Board colleague Bernd Schulte we are driving a variety of activities forward in order to optimally address our future markets.

As I said at the beginning, we want to concentrate on the areas of opto and power electronics with our core technology MOCVD in the next few years.

Together, we will now introduce you to the various technologies and applications.

Bernd Schulte

There is no doubt that deposition of complex materials is a key technology of the future and AIXTRON's position is unique!

We are the technology leader in the fields of optoelectronics and power electronics, which already contributed to around one third of our system sales in 2017. This proportion will be even higher in 2018.

Here we are benefiting from the technological requirements of progressive digitization, the future of communications, mobility and the increase in the efficiency of energy transformation, to name but a few megatrends.

These trends require countless sensors and semiconductor products, and in many cases new materials, in order to achieve the required performance increases compared to the established technology.

And this is where AIXTRON comes in. With our innovative technologies we enable a future for our customers' products.

With our technologies, which are all based on the principle of gas phase deposition, we address the fields of optoelectronics and power electronics for various material classes in our core market MOCVD. In addition, there are the markets for OLED and nanotechnology.

Felix Grawert

Let me first talk about power electronics. In the field of **power electronics**, gallium nitride (GaN) and silicon carbide (SiC) are becoming increasingly important.

GaN circuit-breakers are used in the low and medium power range. Among other things, they allow

- a significant reduction of power consumption in data center servers
- the energy-efficient operation of next-generation mobile networks

- significantly faster charging times and wireless charging of smartphones -

SiC components, on the other hand, are aimed at applications in the high-performance range, where they also enable a significantly more efficient conversion of energy. They are used

- for converters in the field of solar and wind energy
- in quick-charging stations for e-vehicles, i.e. in the infrastructure sector
- in the electric drive train of electric vehicles, as they make it possible to reduce expensive and heavy batteries in electric cars by reducing the vehicle's power consumption by approx. 5-10%.

GaN and SiC power devices are slowly beginning to replace silicon devices. With our AIX G5 series planetary systems, we are very well positioned to benefit from growth in power electronics. Therefore, we are currently developing a successor generation for each of these technologies. Our goal is to remain or become market leader.

But we also made important progress in the area of our deposition technology for **organic semiconductors** last year. Let me give you a brief overview of our OLED activities.

OLEDs are a growth market with great potential, as they are increasingly used in smartphones, tablets, televisions and other displays. Analysts estimate that the OLED display area produced per year will grow by a factor of 10 over the next 5 years. We want to address this market.

Our OLED manufacturing process is called OVPD - Organic Vapor Phase Deposition. According to consistent statements, it is currently the most efficient, well-known process for the production of OLED displays of various sizes. We expect several advantages from this:

- Significant cost advantages because OVPD uses the expensive OLED materials sparingly
- Brighter displays, i.e. more luminosity, because OVPD enables the installation of dopants
- Longer display life due to less material fatigue, because the material is separated in a gentle way

We are currently working closely with one of Asia's leading display manufacturers, with whom we are working to qualify our technology for mass production. This is done in several steps:

- Currently, an OVPD deposition plant of the size Gen2 (37 x 47cm), i.e. an R&D prototype, is located on an area rented from us in Asia. Our team works closely with our customer's engineers to adapt the plant to the customer's requirements.
- In the next step, this summer, the plant is to be transferred to the customer's factory. There the system will be used by the customer's development team to produce OLED displays in test operation.

- If the basic feasibility studies are successful, we can expect an order for a pilot plant in a real production size, Gen 6 (1.50 x 1.80 meters) or Gen 8 (2.20 x 1.50 meters). The customer will use this to carry out mass production tests on a large area. If these are also successful, we can expect orders for systems for volume production of OLED displays.

The qualification of our OVPD technology for mass production of OLED displays is highly complex and we have not yet reached our goal. At this point, however, we would like to stress the significant progress made over the past year:

- We have won one of Asia's leading display manufacturers as a customer, who is currently investing heavily in the qualification of the technology - both our own resources and financial resources.
- The technological requirements for the customer's OLED production could be fulfilled - as far as we can judge it today, this completely new technology delivers on its promises.

In addition to driving forward the OLED customer project, we have spun off our OLED business into an independent company called APEVA.

The aim is to win partners for APEVA who will contribute complementary elements of the value chain and contribute to financing in return for an equity investment. This is intended to strengthen the OLED business in total, both strategically and financially.

We are in intensive negotiations with partners, but unfortunately we cannot go into detail on the negotiations due to non-disclosure agreements. Negotiations are well underway but have not yet been concluded.

APEVA is now a wholly-owned subsidiary of AIXTRON and as such is included in the consolidated financial statements. The aim is to retain the majority stake in APEVA at AIXTRON in the future.

Bernd Schulte

The iPhone X is a pioneer for new applications in the field of optoelectronics. Maybe one or two of you already have one.

A surface emitter, VCSEL (vertical-cavity surface-emitting laser), is built into this device. These are semiconductor lasers for three-dimensional image acquisition.

With the help of this laser, face recognition by mobile devices is possible. Such 3D sensors are also developed for other applications - e.g. in safety-relevant areas, in mechanical vision or in automobiles to enable autonomous driving. In addition, there is a trend towards optical data transmission via fiber optic cables and again with the aid of lasers. As you can see, the market for optoelectronics has a great future ahead of it. An enormous potential for AIXTRON and our technology.

Of course, we are still very active in our traditional area of LED production equipment even though we have reduced our activities in the mass production of blue LEDs for lighting, which is mainly manufactured in China.

In 2017, a local Chinese competitor established itself in this market segment, which also serves the market with government support at prices that do not allow us to be profitable here. This is only possible if you have a local, Chinese cost structure.

The growth potential for AIXTRON therefore lies in special applications such as micro LEDs, LEDs for direct-emitting displays or ultraviolet LEDs.

Consolidated P&L

Felix Grawert

Let us now turn to the second major topic, the **financial and earnings situation** in fiscal 2017 and the **first quarter** of 2018.

Order intake in 2017 amounted to 263.8 million euros, also the highest value since 2011. This caused our **order backlog** to grow to 108.6 million euros at the end of 2017.

At 230.4 million euros, **revenues** were at the highest level since 2011. 19% of sales revenues or 42.4 million euros comprised spare parts and services.

Systems for LED manufacturing accounted for 42% of system sales, systems for optoelectronics 25% and systems for power electronics 11%.

In 2017, we achieved sales of around 35 million for systems for the production of memory chips, i.e. 19% of the system volume. We sold this business at the end of 2017.

As in previous years, we generated the largest share of sales with customers in Asia (172.3 million or 75%).

Gross profit rose to 74.0 million euros in 2017, while the **gross margin** improved further to 32%. This improvement was due to the improved product mix, especially in the second half of the year. In the first half of the year, LED systems with low margins and restructuring costs after the discontinuation of the TFOS and TFE activities burdened the gross margin.

Selling expenses in the 2017 financial year amounted to significantly less than in the previous year at 10.2 million mainly due to the closure of a demo lab in China which affected 2016 selling expenses. There were no significant changes in administrative expenses compared with the previous year.

Research & development expenses in the past financial year rose to 68.8 million euros due to restructuring costs of 10.6 million euros in the TFE and TFOS business units on the one hand and higher costs, particularly for the development of our OLED technology, on the other.

In 2017, **other operating income and expenses** totaled 27.0 million euros, of which 3.2 million euros were related to public subsidies for research and development and 23.8 million euros to the sale of the ALD/CVD business.

As a result, the **operating result (EBIT)** in fiscal 2017 improved to 4.9 million euros. The AIXTRON Group's **net result** for fiscal year 2017 was 6.5 million euros, mainly due to the positive effects of the aforementioned sale of our storage product line.

Consolidated Balance Sheet

AIXTRON remains debt-free and had a high level of cash and cash equivalents at the end of 2017. I would like to comment briefly on a few key aspects of the balance sheet:

The decrease in **inventories** to 43 million euros as of December 31, 2017 reflects both the successful sale of AIX R6 inventories in the first half of the year and the aforementioned sale of our product line.

Cash and cash equivalents including current financial assets amount to 246.5 million euros. The increase over the previous year is attributable to the positive business development and the successful sale of our product line for memory chips, which alone increased cash holdings by 60.7 million euros.

Other current liabilities rose to 39.7 million euros. This is mainly due to obligations assumed from the sale of the ALD/CVD product line for memory chips, such as obligations to suppliers. The majority of this was already paid in Q1/2018.

The other asset items changed only insignificantly compared to the previous year.

The **equity ratio** as of December 31, 2017 remained at a strong 81%.

AIXTRON's capital base remains strong and its financing position remains very solid.

Cash Flow Statement

Our **cash flow from operating activities** improved to 70.1 million euros in 2017. The improvement in operating cash flow in 2017 is mainly due to improved profitability, a reduction in current assets and the sale of the ALD/CVD product line for memory chips.

Total cash flow (excluding cash inflows or outflows from short-term financial assets) improved year-on-year to 86.4 million euros, due in particular to the factors mentioned above.

I would like to conclude my financial review of fiscal year 2017 with the parent company of the AIXTRON Group, AIXTRON SE.

Key Figures SE

The **revenue** of the parent company of the AIXTRON Group, AIXTRON SE, amounted to 177 million euros in fiscal year 2017, 25% above the same figure in 2016. Net income in 2017 was 7.2 million euros.

Taking into account the existing **loss carryforward** of 120.5 million euros, the **balance sheet loss** as of December 31, 2017 amounted to 113.3 million euros in accordance with the accounting provisions of the German Commercial Code (HGB).

We will carry forward the accumulated loss to new account. As already indicated, we will therefore not pay a dividend for the 2017 financial year either.

Let me now turn briefly to the developments in the current financial year. We presented the figures for the first quarter of 2018 on April 26.

Group income statement Q1/2018

Q1/2018 was AIXTRON's strongest first quarter since 2011.

The order volume rose to 78.6 million euros and our order backlog to 114.9 million euros. This forms a strong basis for business development in 2018.

The main reason for this positive development is the increased demand for systems for the production of lasers for sensor technology and optical data transmission.

Revenues rose to 62.4 million euros. The **gross margin** was 43%, reflecting a favorable product mix and a higher share of sales in Europe.

Selling and administrative expenses remained stable.

R&D expenses in Q1/2018 amounted to 13.7 million euros. This is now significantly below the level of the previous year, after the successful completion of the restructuring.

This led to a **positive EBIT** of 7.9 million euros and a net profit of 12.3 million euros in the quarter. Net income was higher than EBIT due to the capitalization of deferred taxes of 5 million euros. This resulted from the transition from the losses of previous years to expected profits in 2018.

Consolidated Balance Sheet Q1/2018

The balance sheet is very solid.

The main change to the December 2017 balance sheet is a reduction in liabilities resulting from the sale of the ALD/CVD business and thus an outflow of cash in the amount of 21 million euros of which 12 million were liabilities related to the ALD/CVD business.

Furthermore, inventories rose slightly to 46.2 million euros and receivables to 30.3 million euros, both due to the increased business volume.

The equity ratio was 84% as of March 31, 2018.

Cash Flow Statement Q1/2018

As expected, cash outflows from operating activities amounted to negative 21.1 million in the first quarter. This was mainly due to planned payments in connection with the sale of our storage business.

Our **cash and cash equivalents** therefore dropped to 223.2 million euros.

For 2018 as a whole, however, we expect to generate an overall **cash inflow** from operating activities.

Ladies and gentlemen,

AIXTRON shines again! I am fortunate to have joined the company in a phase of recovery and now have the opportunity to play an active role in shaping it. And I will do my best to ensure that we will contribute the optimal technologies and products for the technology trends of the future.

And with that I will hand over to my colleague Bernd Schulte for his closing remarks.

Guidance 2018

Bernd Schulte

AIXTRON began the current fiscal year with a very good first quarter. Thanks to higher margins and lower costs, the course is set for sustained profitability. And the continuing demand for MOCVD systems for the production of laser applications, special LEDs and power electronics support our sales targets.

We are therefore sticking to our forecast for the 2018 financial year - with expected sales and incoming orders between 230 million and 260 million euros and an EBIT of 5% to 10% of sales.

We are even aiming for the upper end of sales and operating profit.

Now something on my own behalf. We would like to ask for your support as part of our proposed resolutions.

Specifically, we are concerned with the anticipatory resolutions for the proposed capital measures. We do not have any concrete plans for takeovers at present. However, AIXTRON is addressing high technology markets that are changing very rapidly and where rapid action is a prerequisite for success. This could open up opportunities in the shortest possible time that we want to take advantage of in the interest of our shareholders.

Your consent to these approvals would enable us to act flexibly in the future and to react quickly in the international competition for talent and new interesting technologies.

Ladies and gentlemen,

On behalf of both of us, I would like to thank the members of the Supervisory Board for their active support of our work, especially Kim Schindelhauer, who stepped in as CEO for six months and shaped the realignment.

Our special thanks go to our employees and employee representatives, who are committed and enthusiastic about our company every day.

We would like to thank you, the shareholders and owners of our company, in particular for your loyalty and support.

I thank you for your attention and give the floor back to Mr. Schindelhauer.