

AIXTRON SE

Analyst Earnings Conference Call
Q3/2022 & 9M/2022 Results

October 27, 2022

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 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 Q3 and 9M/2022 results. I'd like to welcome our **CEO, Dr. Felix Grawert** and our **CFO, Dr. Christian Danninger**.

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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 – Q3/2022 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 of 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 and our guidance.

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

Demand for our equipment remains strong with an **order intake** of EUR 143 million, up 25% year-on-year, driven by the strength of the growth markets our customers are operating in.

The biggest demand drivers for the quarter are our systems for **SiC and GaN Power Electronics**. The single biggest contribution to orders in Q3/2022 already came from our newly introduced Silicon Carbide multiwafer system! This is very encouraging, as we have just recently launched our brand new, next generation SiC-system **G10-SiC** which our customers are already ordering in volume.

Orders for tools to produce **Optoelectronics** as well as tools to produce LEDs including Micro LEDs also remain strong.

As a result of all that, we can report a very strong **order backlog** of EUR 369 million, up 38% year-on-year.

Our quarterly **revenues** are affected by some temporary circumstances which are mainly due to a few customer-related delivery delays and the granting of export licenses, which were not yet available as of the reporting date.

As we have stated during our Q2 results call, we expected our product mix to improve for the remainder of the year compared to the first half of 2022. As a result of that, our **gross margin** improved to 44%.

Now, I will hand over to our CFO Christian Danninger. He will take you through the Q3/2022 financials. Christian?

Slides 3-5 – Q3/2022 Income Statement, Balance Sheet, Cash Flow Statement

Dr. Christian Danninger

Executive Board

Thanks, Felix, and hello to everyone.

Let me start with the financial highlights of our **income statement** on **slide 3**.

As Felix mentioned, **orders** in the quarter continued to be strong and our **backlog** was up, fueled by the mentioned strength in demand.

Revenues were at EUR 89 million, **gross profit** at EUR 39 million, **EBIT** at EUR 16 million and **net profit** was EUR 19 million for the quarter, which is below prior year's

quarter, mainly due to the mentioned temporary effects resulting in a shift of some tool deliveries to Q4.

Gross Margin improved to 44% from 43% as mentioned. **OPEX** in the quarter went up to EUR 23 million, predominantly driven by higher variable compensation elements combined with slightly higher R&D spending.

We again utilized tax loss carry forwards and capitalized some additional deferred tax assets in the amount of EUR 9.4 million due to expected future profits.

We expect to realize exceptionally high shipments in Q4, and therefore revenues, gross profit, EBIT and net profit at a corresponding high level, enabling us to reach our upgraded guidance for 2022.

Now to our balance sheet on **slide 4**

The previously mentioned shifted shipments and the **inventory** buildup to prepare for higher expected business volumes resulted in inventories at the end of September in the amount of EUR 209 million. The **advance payments received from customers** we had on the books at quarter end, were EUR 122 million, representing about 33% of order backlog. This led to **total cash** balance including other financial assets of EUR 339 million. Out of this, EUR 200 million were invested into funds following a very conservative diversification strategy.

Just a quick word on our Free cash flow on the **next slide** before I turn back to Felix.

Free cash flow in the third quarter was EUR -7 million, up 61% compared to last year's level.

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

Felix?

Slide 6 – 2022 Full Year Guidance

Dr. Felix Grawert

Executive Board

Thank you, Christian. Before giving you our updated view on the outlook for the remainder of the year, I would like to share some highlights on our market development.

The **order momentum** in most of our addressed end-markets **remains very healthy**. In the area of power electronics based on the material systems of Gallium Nitride and Silicon Carbide, the **momentum continues to be strong** — in particular for our SiC technology solutions.

Here, we can report very encouraging figures for this quarter, underlining that our strategy for our **SiC business is unfolding very well**. We believe that our recently launched **G10-SiC** is the right tool at the right time. This fully automated multiwafer batch tool can process nine six-inch wafers or six eight-inch wafers per process run, enabling our customers to produce their wafers at the lowest cost in the market. Today, most customers are still running the main volume of their production lines on 6" wafer size, but nearly all of them have a well-defined roadmap towards 8"

prepared. Our new tool **G10-SiC** addresses this market need, and we are more than happy with the customer feedback and the order we have received within the first quarter of the launch. At this point in time, we are demonstrating the new system to further customers to convince market participants, who are *not yet* using our system. The main driver for SiC Power Devices remains electromobility with use cases in the main inverter, in the on-board charger and in fast charging poles on the roadside. In addition, we see more and more customers investigate higher voltage SiC devices at 3kV or 10kV which go into the very high power applications in green electricity generation such as large wind and large solar power plants.

In the market of GaN power, we observe **continued strong momentum**. This segment was the second largest contributor to order intake in Q3/2022. We continue to see additional customers in the area of power electronics enhancing their portfolio by GaN Power Devices. This is driven to a large part by the tremendous potential of GaN Power Devices to increase the efficiency of energy conversion. The combination of rising energy prices and increasing awareness for energy savings and going to “net zero” continues to be the main driver here.

In the area of **Micro LEDs**, we see more and more players from the display industry, from the LED industry and also from Consumer Electronics starting projects. We expect to ship first volume orders in 2023 into one or two application segments, with other segments following at a later stage. Eventually we will see Micro LED displays penetrate the complete display space, ranging from TVs, notebooks or smartphones all the way to automotive and large signage displays.

Finally, I would like to give you an update on the portfolio renewal, that we have been working on for a while. The **G10-SiC** is the first member of the “**New Series**” **Family** that we are launching. Also, for GaN Power Electronics and for GaAs lasers and Micro LEDs we have new family members in the making. We are planning to launch both in the first half of 2023. Today, these products are in the validation at multiple Beta customers, and both deliver very promising results in all the target applications that we have in mind.

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

As indicated before, the shift of some tool shipments from Q3 to Q4/2022 will lead to exceptionally high shipments in the last quarter of this year, resulting in a record level of quarterly revenues.

Based on this and the strong customer demand, we **upgrade** our original **full year 2022 guidance**. **Orders** are now expected to come in between 540 to 600 million Euros from previously 520 to 580 million. We leave our **revenue** expectation unchanged at a range between 450 to 500 million Euros. The 2022 **gross margin**, we expect to be around 42 percent compared to 41 percent before. We expect our **EBIT margin** to now be between 22 and 24 percent from 21 to 23 percent before.

As before, these expectations for 2022 are subject to the provision that the challenges of the current environment 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.

Questions-and-Answers Session

Olivia Honychurch - Jefferies

Hi, thank you for taking the question. Two from me if that's okay, so firstly, on the silicon carbide side. It sounds like you're making a very good traction here. And that's obviously partly being led by your new tool. You said that a large part of your order intake is coming from this segment. And can I ask is that coming mostly from existing customers like Wolfspeed? And your second big customer here? Or have you been able to sign up new customers just for your silicon carbide tool in the quarter? And then I've got a follow up as well.

Felix Grawert - AIXTRON

Thank you very much. Very good question. Yes, for our new silicon carbide tools, we have been able to register orders both from existing customers and new customers. It's a good mix. And we can confirm that we continue to make inroads into the silicon carbide market by broadening and further expanding our customer base. This makes us positive also for further growth from this segment.

Olivia Honychurch - Jefferies

That's good to hear on the new customer side. Can you give us any color on who those customers might be in terms of geography or potential size or how they compare in terms of ordered tools and size versus your existing customers in silicon carbide?

Felix Grawert - AIXTRON

The new customers are very broadly spread in geography, some are in Europe, some in Korea, some in Taiwan, some in China, some is in the U.S. We are making good progress worldwide.

Olivia Honychurch - Jefferies

Okay, that's good to hear. Thank you. Finally, my second question was on the export licenses. You said that you didn't have these in time for the end of Q3. Have you received them since the end of the quarter? And if not, then when would you expect those to come through and separately as a follow on from that, what risk is there that these issues keep popping up in future quarters? You see further shipment delays coming through because of export license issues?

Felix Grawert - AIXTRON

Thank you, very good question. No, we have not yet received these particular export licenses that were the root cause for the delay of shipments from Q3 into Q4. However, we expect them to come in the next weeks. However, we don't know when exactly this is going to be. A potential risk of further delays is reflected in the lower end of our revenue guidance, which we have not increased. And yes, we see that export licenses these days take a bit longer. One of the root causes of that is that the authorities are very busy. They have been tasked with additional topics, such as distributing funding in the sector of green energy, and so on. In addition to these capacity issues, we sense that deeper scrutiny is being applied in some cases to individual customers. But overall, we don't see a general risk here. It's more a timing topic. We have taken that into account, and it's fully reflected in our numbers.

Olivia Honychurch - Jefferies

Great. That makes sense. Thank you.

Michael Kuhn – Deutsche Bank

Yes, good afternoon. So, as a follow-up on the export licenses. Do you expect those granting bottlenecks to soften at some point? So will there be more civil servants working on the topic? Or could that be something permanent? And also in that context, the U.S. is tightening rules of technology shipments to China. Do you see an impact on your business currently or in the medium term? So, do you see any pattern changes in that area?

And maybe on reasons for the delays? Were these technical reasons for that or what was the reason for those delays? Thank you.

Felix Grawert - AIXTRON

The first question is whether we expect the bottlenecks to soften at some point. As mentioned before, there are additional tasks that have been put on the authorities. I don't know what the plans of the government are to change that.

However, we are preparing for that to remain for a while.

So at some point in the near future, we believe that we will get the licenses that we have been waiting for but we will also wait for others, as new orders continue to come in. Overall, we think it is a manageable topic, as it is just a lead time topic that we will take into account. We don't expect that to be a fundamental issue.

Your second question related to the new U.S. regulation. We have of course looked into these new U.S. regulations in depth and detail. And we did that actually, with support of very experienced US subject matter experts to make sure that the

conclusions we are drawing were correct. These rules and regulations are targeting the areas of AI and supercomputing, not the segments we are in. Therefore, our market segment of MOCVD tools for Compound Semiconductors is not affected. Even if we were a U.S. based company, we would not be affected by these rules. We have also checked that none of our active customers are on the expanded entity list. Furthermore, we do not expect negative implications on our supply chain for U.S. based parts, some of which we are using in our tools. Overall, we do not expect that this has an impact on our business behavior.

Michael Kuhn – Deutsche Bank

And on the customer related push outs, can you address this as well, please?

Felix Grawert - AIXTRON

This customer related push out affected one particular market segment, the consumer driven segment of red, orange, yellow LEDs. We had some customers pushing out orders, which was of course, due to the overall weakening in this market segment. We do not expect that that's going to happen across the whole market.

Michael Kuhn – Deutsche Bank

All right, and then maybe one more question on the financials. You have built up quite a lot of inventory over the past nine-months. Can you quantify roughly what amount of working capital reliefs you expect for the fourth quarter?

Christian Danninger - AIXTRON

Yes, we can certainly expect our inventories to go back to the levels we had before, as a large part of the buildup of inventory in the quarter was driven by the shift of shipments from Q3 to Q4. And this is also correlating with the received down payments. We expect that will be basically resolved by the end of the year.

Felix Grawert - AIXTRON

And we are preparing as we said before, for record high shipments in the fourth quarter. So I think at the end of the fourth quarter, a tremendous amount of this inventory will have left our company and converted into revenues.

Michael Kuhn – Deutsche Bank

Thank you. Then a last question on the Micro LED side. If I understood you correctly, recent business was not just about your big launch customer, but also other customers but that are not yet in volume business. Is that correct?

Felix Grawert - AIXTRON

We see the market at large preparing for the Micro LED opportunity. We are currently working together with a large number of customers. We see interest coming from display makers, from people who were formerly engaged in LEDs, but also from very large consumer electronics players. They all are working on Micro LEDs. As you rightfully said, the majority of these players are still in the stage of development, some of them in pilot line production. And one of them already preparing now for a volume ramp next year. The others are in a slightly earlier stage.

Michael Kuhn – Deutsche Bank

Perfect. Many thanks.

David O'Connor – BNP Paribas

Good morning. Good afternoon. Thanks for taking my question. Maybe firstly, just a clarification on the license. Can you just confirm that it is the German Government that you're seeking this export license from and to which geography are you shipping these tools into?

Felix Grawert - AIXTRON

Okay, yes, let me clarify this. In fact, we need to apply for export licenses for all shipments from Germany, which are going outside of Europe, outside of the United States and outside of Japan. That means, in other words, we need to apply licenses for shipments into big semiconductor markets such as Taiwan, Korea, China, and so on. As a consequence, a very large part of our revenues requires export licenses.

This is also the reason why the delays we have experienced recently, had a visible effect in the P&L. However, we don't expect this to become an issue overall.

David O'Connor – BNP Paribas

Very clear. Thanks for that. And maybe as a follow up question, on the Micro LED Side, can you talk to the intensity of discussions with potential Micro LED customers? You have one that you've outlined before is preparing for volume production? What's kind of the Delta there in terms of timing, versus kind of the type of discussions you're having with other customers. That will be helpful. And also, if you could tell us the percentage of Micro LED orders? That'd be useful.

Felix Grawert - AIXTRON

With one customer we are preparing for a volume ramp with shipments of AIXTRON tools in the year 2023. This is also what we had indicated at an earlier point in time. With other customers we are working on different application segments, which may come at a later stage. We don't know exactly whether this is towards the end of '23 or '24, this depends largely on the technical progress that our customers are making. As a result, I cannot give you an exact timing at this stage.

The second part of your question was on the share of Micro LEDs of the AIXTRON revenue in 2022?

I think for the full year of 2022, Micro LEDs will be somewhere in a double-digit percentage range for us of our share of equipment revenues, maybe around 15%.

David O'Connor – BNP Paribas

Thank you, that's very helpful.

Jurgen Wagner – Stifel Europe

Yes, good afternoon. Thank you. Actually, on silicon carbide, two more questions. How should we model your equipment market share? Next year and longer term? I mean, silicon carbide and what can you say on Wolfspeed and their yield issues? Do you see any impact on your equipment rollout with them? And another one on your order backlog. You mentioned €369 million? How much of that would you consider as being exposed to cyclical risks or the push outs you refer to with your red, orange, yellow customers? And last one, the tax rate keeps falling or going down? What should we model for Q4? Thank you.

Felix Grawert - AIXTRON

Well, this is a number of questions. Let me take them one by one.

First, regarding the silicon carbide market share. Having looked at the most recent data, I believe we have a good chance next year of approaching somewhere around 50% market share in silicon carbide. It remains to be seen whether we are slightly below or slightly above this number. We clearly make very good progress in silicon carbide, to give you a rough indication.

Now, the second question you asked was relating to Wolfspeed who published their results yesterday. I cannot comment on issues Wolfspeed might be experiencing in their substrate production or wafer making, as your question is suggesting. This is a step which is not related to our equipment. So I don't have any

insight into that topic, and generally we do not comment on individual customers of AIXTRON.

In your next question, you were asking which part of our backlog is exposed to the traditional LED market segment, which was experiencing some disturbance. This is a very minor share. I don't have the exact numbers, but I would call it close to negligible in the grand scheme of things.

Jurgen Wagner – Stifel Europe

Okay, and the others you don't see any cyclical risks?

Felix Grawert - AIXTRON

No, we don't see cyclical risks at this point in time. In fact, this is a very good question. We do see that the customers on the power electronics side for both, gallium nitride and silicon carbide are continuing their investments, which is what we also hear from our customers. This is happening despite the overall economic situation, simply because there is such a high demand now driven by the electrification of everything. Silicon carbide is required for the electrification of mobility, in particular for e-vehicles. The main driving force behind gallium nitride power is the need for energy efficiency. Hence, we expect these trends to continue.

Jurgen Wagner – Stifel Europe

Okay, and the final one was on that the tax rate in Q4?

Christian Danninger - AIXTRON

That one I will take. As in the past, I would recommend utilizing a 15% tax rate that accounts for the utilization of tax loss carryforwards. It does not include changes in deferred tax assets. That's anyway very difficult to predict. So that's what I would recommend you use for your models.

Jurgen Wagner – Stifel Europe

Okay. Thanks a lot.

Martin Marandon – ODDO BHF

Yes, thank you for taking my question, just a clarification on the sales guidance. You said that the lower end of the range reflects the risk of not having the export licenses in time. And without that, you would probably have guided to what may be the high end of the range? That's my first question.

Felix Grawert - AIXTRON

Thank you. The high end of the range is achievable if none of the risks is materializing. And the lower end takes into account all potential risks that might be conceivable. One risk you just mentioned, this is the risk of export licenses being a timing delay topic. And the other risk, which we have taken into account for the lower end of the revenue guidance is the risk of customer push outs. Such risk, we consider for the area of power electronics as customers are building completely new fabs, with intense construction going on, where entire new steel structures or concrete structures are being erected, and then the complete fab infrastructure such as gas supplies, cooling water supplies and airconditioning need to be installed. Due to the overall global supply chain shortages, which might materialize

on the customer side, some of these constructions might be finished later causing some challenges with their project plans. But all of them continue to be built, as this has nothing to do with the economy or anything. But it could be that one or two of these fabs may experience a delay of one or two months and some tool shipments might therefore move from December to January or from December to February. And this risk, we also have included in the lower end of the guidance. Important to note is that this does not affect the overall trend. But it's something that we have taken into account. And therefore, at this point of the year, we have an unusually large range within our revenue guidance.

Martin Marandon – ODDO BHF

Okay, very clear. And on the topic, we saw Wolfspeed warned yesterday on supply chain issues, is that related to what you say on customer push outs and supply chain constraints?

Felix Grawert - AIXTRON

Well, I cannot comment on the details of Wolfspeed. The understanding I have, I got from reading the transcript myself, is that this has to do with technological topics in their production process. This would be a topic that is completely independent from AIXTRON, and we are not affected with that.

Martin Marandon – ODDO BHF

Okay. And just one last question. Silicon carbide was very strong this quarter, do you expect silicon carbide to be higher than gallium nitride orders in the next few quarters, in the next few years. So, the mix to evolve into it?

Felix Grawert - AIXTRON

Both of the materials will continue to be very strong. I don't have exact numbers ahead of me, that I could say the one is stronger than the other. That remains to be seen.

Martin Marandon – ODDO BHF

Thank you very much.

Lee Meyer – Lord Abbett

Hi, I have two questions. The first question is, when did you first become aware of the export license issue, which would possibly impair or delay your shipments in the quarter? And why did you choose to wait until now to sort of communicate this to the market? That's my first question. I have a follow on.

Felix Grawert - AIXTRON

As I mentioned before, we need export licenses for a large part of our business and it is not new, that there has been delays with some topics. If you have followed us for a while, you will have seen that over the last years, that this has happened once in a while.

And therefore, we have not seen any need to explicitly communicate this to the market especially as we are very confident that we will stay within our overall guidance which we have reconfirmed and even increased in most aspects.

Lee Meyer – Lord Abbett

Okay. All right. Understood. And then just in terms of these new responsibilities that you talked about, the authorities are being given. Additional tasks, as you

stated. Why do you think these additional tasks are arriving now? Is there a change in the overall climate that sort of sympathizes with what's coming out of the states? Why the additional tasks? Now?

Felix Grawert – AIXTRON

I think you need to ask the decision makers within the government who make their top-down allocations. This is beyond what we can say. We can only pass on here to this group what we have been told, by the counterparts with whom we are working closely together. They have signaled to us, that there is additional work within the relevant authorities, which is consuming bandwidth, and who have indicated to us, that they will have less bandwidth available for goods being exported out of Germany. So that means with more work to be done with the same team size, you may need to wait a little longer once in a while. That's all I can tell you based on the information I have.

Lee Meyer – Lord Abbett

Okay, understood. Thank you.

Olivia Honychurch - Jefferies

Hi, thanks for taking another question. Just on this new family of tools, the new portfolio that you mentioned, Felix. Can you give us an idea of what the impact will be there on the gross margins for the group? It sounds like it'll be incrementally positive. I am just wondering if you've previously said that you'd expect your group gross margins to get to about 45% in the medium term. Does that guidance already take this new portfolio of tools into account? Or would you look to upgrade that

outlook given the potentially incrementally positive impacts from the new portfolio? Thank you.

Felix Grawert - AIXTRON

Thank you very much. Very good question. We, in fact, expect that the gross margin of the group will gradually improve, as our new portfolio elements will take more and more share of our total revenues. This comes simply from the point that the new products for which we have invested a tremendous amount of time, effort, and R&D, come along with much higher productivity than the previous generations, with better uniformities and better performance of the individual product. And that, of course, will also be reflected in the gross margins of each of the individual products. Overall, the R&D investment needs to pay off at some point.

And then on the timing you're asking for. It largely depends on how fast the new portfolio elements will take a larger share of revenues, as we have seen in silicon carbide launched this quarter having had a very positive start. The other members of the family we will be launching in the first half of '23. And I think we can expect them to take a relevant share of the group revenues throughout '23 and then much more unfolding throughout 2024. And when that is coming, the gross margins will increase. Nevertheless, I would not want to quantify that effect today here in this call.

Olivia Honychurch - Jefferies

Okay, that's fair enough.

Guido Pickert - AIXTRON

Okay, thank you very much to all the listeners and participants who asked questions. So, with that, we will close today's call. Please contact us at IR, if you have any remaining questions. We're happy to discuss. You can find our contact data in the results slide deck.

Thank you very much. All stay safe. Bye-bye.