

# **AIXTRON SE**

## **Annual General Meeting 2017**

Hotel Pullman Aachen Quellenhof, Aachen

May 9th, 2017

### **Statement on Agenda Item 1**

**Kim Schindelhauer**

CEO

**Dr. Bernd Schulte**

COO

Check against delivery / the spoken word prevails.

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Investor Relations

May 2017

**[Slide statements on TOP 1]**

Ladies and gentlemen,  
distinguished shareholders,

On behalf of Dr. Bernd Schulte and myself, I would like to welcome you to the 2017 General Meeting of AIXTRON SE.

After having served as Chairman of the Supervisory Board of AIXTRON for 15 years, I have temporarily switched functions at the bidding of the Supervisory Board and am happy to get to welcome you as CEO this year. It is a position that I have been familiar with in the past and in which I now - based on years of passion for the company and its employees - have the opportunity for a limited amount of time to set several future-oriented emphases, also operatively.

But before we turn to the future of AIXTRON, I would like to take a brief look at the past financial year with you.

As AIXTRON shareholders, you experienced a few turbulences in recent years. Though 2016 was especially striking. For what everyone involved initially saw and followed as a “normal” acquisition transaction by the Chinese investor, developed into a true economic thriller in the following months – concluding with the well-known end!

However, the events surrounding the planned transaction concealed the fact that we had made significant progress in the operative area:

The company rests on several pillars by now. In the past years, we not only continuously reduced the dependency on the LED market, but we simultaneously developed new business areas with great prospects for the future. Even if not all technology areas operate profitably yet, thanks to our continued strict cost management, we managed to reach our financial targets and to once again improve the earnings situation in 2016.

Distinguished shareholders,

Dr. Schulte and I will now inform you about our activities and progress in 2016 and the past months in two parts. These include:

1. The explanation of the financial and earnings situation of AIXTRON in 2016 and Q1, 2017 as well as a brief outlook on our expectations for the business year 2017.
2. In addition, we will provide an overview of the further development and commercialization of our technology and product portfolio.

That leads us to our first main topic, the **financial and earnings situation** of the financial year 2016 as well as the first quarter of 2017.

**[Slide key figures SE]**

The sales revenue of the AIXTRON's parent company, AIXTRON SE in the business year 2016 amounted to EUR 141.6 million. This resulted in EUR 7.7 million or 5% less than the previous business year 2015, in which a sales revenue of EUR 149.3 million were generated. The result after tax at EUR -32.8 million (2015: EUR -33.5 million) was virtually unchanged.

Based on the accounting requirements of the German Commercial Code (HGB), the company posted an accumulated loss carried forward of EUR -120.5 million for the 2015 fiscal year. In contrast to the group's net loss, the SE acquired participation profits from the national companies, that led to a positive variance.

Esteemed shareholders,

Based on the earnings situation, we will be carrying forward the net loss for the 2016 financial year onto new accounts this year as well and will not be distributing any dividends for the past fiscal year.

**[Slide – group financial figures 2012-2016]**

Ladies and gentlemen,

After a weak start, we managed to achieve a positive EBITDA, as planned, in the second half-year and even reach a net profit in the fourth quarter. We managed to once again maintain the self-defined target of EUR 80 million for our operating costs and reduced our losses further.

We thereby successfully continued the previous year's trends, by having continuously improved the important financial figures such as EBITDA (+93%), EBIT (+83%) and net result (+84%) with a revenue level of roughly EUR 200 million. With a continued positive business performance, our goal to return to profitability in the fiscal year 2018 thus appears to be feasible.

Now let us turn to the detailed figures of the 2016 fiscal year.

## [Slide group P&L]

The **sales revenue** at EUR 196.5 million remained nearly stable compared to the previous year's EUR 197.8 million. The revenue level has thereby stabilized at just below EUR 200 million over the past three years.

System sales accounted for 79% or EUR 155.7 million of the entire sales revenue, while the portion of the MOCVD systems for the production of opto- and power electronics makes up half of the system revenue in the meantime. In 2016, the revenue share of the silicon applications amounted to 13%, while the LED-production systems contributed 31% to the turnover.

One again, the main share of 65% of the total sales revenue was made up of the demand of Asian customers in 2016. It thereby amounted to five percentage points more than the previous year. At the same time, Europe' revenue share slightly decreased at 16%, while the sales revenue on the US markets dropped by 3 percent down to 19%.

In a year-on-year comparison, the **production costs** decreased by 5% to EUR 140.2 in the 2016 fiscal year (2015: EUR 147.9 million). This is due to increased efficiency in production and customer services, which also led to a lower amortization of inventory levels. In proportion to the revenue, the production costs decreased to 71% in the 2016 fiscal year (2015: 75%).

The **gross profit** increased by 13% to EUR 56.3 million in the 2016 fiscal year while the **gross margin** continued to improve up to 29%.

A contribution to this was also made by the efficiency and productivity improvements of the past years, that we implemented in the course of our projects to reduce the long-term product costs while including Development and Sales, to supplement our service business or to restructure the materials procurement.

As a consequence of the continued strict cost control and **other operative income**, the **operating costs** of the 2016 fiscal year at EUR 77.7 million matched the previous year's (2015: EUR 76.5 million) and thus once more within the self-determined cost target of EUR 80 million.

The **sales and administrative costs** exceeded the previous year's level by about 10% at EUR 30.9 million. This was primarily due to accelerated amortization of demonstration systems in China as well as increased costs connected to the planned acquisition transaction.

By contrast, the expenses in the field of Research & Development slightly decreased year-on-year by 3% to EUR 53.9 million. Decisive for this development was predominantly the completion of the AIX R6 project, while we further increased the activities in the areas power electronics, OLED and compound semi-conductor materials for processor technologies (III-V on silicon, TFOS).

In 2016, the **other operating income and costs** amounted to an operational income of EUR 7.2 million compared to an income of EUR 6.7 million the previous year. The public grants for R&D that are also indicated in this item and that AIXTRON received for its participation in subsidized research projects, amounted to 30% less than the previous year at EUR 2.1 million.

Against the backdrop of the described development of revenue and costs, while the earnings performance did improve, it still remained in a negative area. The **operating earnings (EBIT)** improved in the fiscal year 2016 from EUR -26.7 million up to EUR -21.4 million and the **earnings before tax** rose by EUR 5.0 million to EUR -21.0 million.

The **net results** of the AIXTRON group for the 2016 fiscal year thus amounted to EUR -24.0 million compared to EUR -29.2 million in 2015. While that was once again significantly better year-on-year, it of course was not satisfactory. Nevertheless, this repeated reduction in losses reflects the continuation of the intensive restructuring process that AIXTRON undertook in the past two years, the high expenditures for the future that were made as well as the ongoing subdued levels of investment demand in the important customer markets.

**[Slide - consolidated balance]**

Despite the losses in the 2016 fiscal year, AIXTRON is still debt-free and had **liquid funds** at the end of 2016, including short-term financial investments in the amount of EUR 160.1 million. That is 24% less than in the previous year. The most important factors for the difference were the negative annual result, the payment of the second installment of the agreed reimbursement for the prepayments to a Chinese customer in the amount of EUR 17.2 million as well as an agreed milestone payment of EUR 4.1 million in Q1/2016 connected to the PlasmaSi purchased in 2015.

However, these were supplemented by **receivables from services and deliveries** in the amount of EUR 60.2 million, which reflect the high level of shipments at the year's end and flowed into Q1/2017 to a large extent.

The **inventory level** that had dropped to EUR 54.2 million by December 31, 2016 reflects both the successful sale of AIX R6 stock as well as the achieved improvements in inventory management.

Other asset items showed only insignificant changes compared to the previous year.

Compared to the figure of 82% on December 31, 2015, the **equity ratio** increased to 85% by December 31, 2016. The other short-term liabilities decreased from EUR 25.0 million by December 31, 2015 down to EUR 2.4 million on 31.12.2016 due to the payment of the second part of the agreed reimbursement to San'an in Q1/2016 as well as the agreed milestone payment in connection with the acquisition of PlasmaSi.

Overall, AIXTRON still has a strong capital base and remains solidly positioned in terms of its financing.



**(Slide - cash flow statement)**

After the group reported a cash outflow of EUR 45.6 million in the previous year, in the 2016 fiscal year, AIXTRON reported a **cash outflow for ongoing operating activities** in the amount of EUR 37.7 million. This slight improvement of the operative cash flow was mainly affected by the loss through the payment of the second reimbursement of the prepayment to San'an in Q1/2016 as well as by the high amount of shipments at the end of 2016, which only led to incoming payments in Q1/2017.

The **investment expenditures** decreased in 2016 from EUR 19.3 million to EUR 9.4 million.

The **total cash flow** (no incoming or outgoing payments into short-term financial assets) improved year-on-year by 19% up to EUR -49.1 million, which is mainly attributed to the factors mentioned above.

Let me now conclude the financial analysis section by casting a brief glance at the current developments in the current financial year. We published our interim report for the first quarter of 2017 on April 25.

## **[Slide – milestones Q1/2017]**

We reached further interim targets and successfully completed important projects in the first three months of 2017:

- Gartner confirmed to us that we were the world market leader in 2016 for MOCVD systems - positive news both internally and externally!
- In financial terms, we noted a continued, robust increase in orders as well as a stable backlog of system orders in the first quarter, which led to the highest sales revenue at the beginning of the year since 2011. We could thereby confirm our revenue and incoming order forecast in 2017.
- In addition, the healthy cash flow of the first quarter significantly increased our liquidity again.
- Reduced inventory demonstrates that we have improved our inventory management.
- In operative matters, we reached a further important milestone in commercializing our OVPD technology through the order by an Asian OLED display manufacturer, which we communicated recently.
- We equally concluded the chapter of our listing on the American technology exchange NASDAQ as well as the connected deregistration from the supervisory authority Securities and Exchange Commission (SEC)
- The class action suit brought against AIXTRON in the USA has been rejected in all points.

## [Slide - group P&L Q1/2017]

The sales revenue developed as expected in the first quarter of 2017. As was the case in the preceding quarters, the drivers in the development of the revenue and incoming orders were the demand for production systems for special LEDs, telecommunication - and opto-electronics, as well as for storage applications, which is mainly based on the technology trends such as Big Data, Cloud computing, electromobility or the upcoming cellular standard 5G.

The first quarter of the current financial year developed significantly more dynamically than the previous year, based on the order backlog on December 31, 2016.

The **sales revenue** in Q1/2017 increased to EUR 53.6 million compared to last year. (Q1/2016: EUR 21.4 million; Q4/2016: EUR 89.8 million) and thereby the highest figure at the year's start since 2011.

The **production costs** in Q1/2017 increased year-on-year to EUR 40.0 million or 75% of revenue (Q1/2016: EUR 18.3 million or 85% of revenue; Q4/2016: EUR 60.5 million or 67%). This was due to the connected revenue level as well as the sale of AIX R6 systems with a low margin and extraordinary amortization in the amount of EUR 1 million, connected to the TFOS activities in Q1/2017.

In a quarter-on-quarter comparison, the **gross profit** and the **gross margin** Q1/2017 developed positively at EUR 13.6 million or 25% compared to the previous year, yet decreased versus the preceding quarter (Q1/2016: EUR 3.1 million, 15% gross margin; Q4/2016: EUR 29.4 million, 33% gross margin) predominantly due to the previously mentioned factors.

In Q1/2017, the **operating costs** increased to EUR 26.4 million (Q1/2016: EUR 17.8 million; Q4/2016: EUR 21.4 million). This was mainly attributed to the higher expenditures for R&D, which included extraordinary expenditures in Q1/2017 connected to the TFOS activities in the amount of EUR 5.6 million.

The **EBITDA** in Q1/2017 amounted to EUR -6.0 million and thus improved by 49% compared to the previous year (Q1/2016: EUR -11.7 million; Q4/2016: EUR 12.5 million).

The **EBIT** at EUR -12.7 million improved by 14% compared to the previous year (Q1/2016: EUR -14.7 million; Q4/2016: EUR 7.9 million). The **adjusted EBIT**, without the previously described TFOS amortizations, amounted to EUR -6.1 million.

In Q1/2017, the previously mentioned effects led to a **net result** of EUR -13.5 million which represents a 13% improvement year-on-year (Q1/2016: EUR -15.5 million; Q4/2016: EUR 6.4 million). The **net result** adjusted for the extraordinary TFOS amortization, was EUR -6.9 million.

**[Slide - consolidated balance sheet Q1/2017]**

Due to the settlement of receivables from shipments and services in Q1/2017, the stock of **liquid means** including short-term financial assets increased by March 31, 2017 to EUR 193.6 million. That represents more than 21% compared to the end of 2016.

The **inventory level** decreased by March 31, 2017 down to EUR 49.9 million compared to EUR 54.2 million by December 31, 2016 and thus reflects an improved inventory management as well as the shipment of AIX R6 systems from the stock.

Other asset items showed only insignificant changes compared with the previous year.

The **equity capital** decreased by March 31, 2017 compared to EUR 369.7 million on December 31, 2016 by EUR 13.0 million up to EUR 356.7 million, mainly due to the negative results of the period. On March 31, 2017, the **equity ratio** was at 83% (December 31, 2016: 85%).

The **prepayments received** from customers increased to EUR 30.5 million, which is attributed to the current positive order situation.

The **balance sheet total** of the group dropped to EUR 429.2 million.

**[Slide - cash flow statement Q1/2017]**

After the group reported a cash outflow of EUR 19.4 million in the same period of the previous year, in Q1 of 2017, AIXTRON posted a **cash outflow for ongoing operating activities** in the amount of EUR 34.6 million. This extraordinary increase of the operative cash flow was mainly based on the settlement of receivables for shipments and services.

The **investment expenditures** decreased in Q1/2017 to EUR 1.3 million compared to both Q1 and Q4/2016.

The **free cash flow** in Q1/2017 amounted to EUR 33.3 million and thus improved by EUR 53.6 million compared to the previous year. (Q1/2016: EUR -20.3 million; Q4/2016: EUR -4.9 million).

The **total cash flow** in Q1/2017 without incoming and outgoing payments into short-term financial assets increased to EUR 33.6 million, while considering the positive currency effect, which was mainly attributable to the decrease in current assets, including the settlement of accounts receivable from shipments and services.

At this point, with the described development of the cash flow, the circle therefore closes for the already mentioned increase in liquid assets.

**[Slide – strategy – first step of focusing completed]**

Dear shareholders,

In the past year, we reached numerous operative goals that we had set ourselves, especially our financial target. Nevertheless, our company's position continues to be unsatisfactory - the costs, in particular the expenditures for R&D, are still too high and the earnings, especially those coming from the future technologies are still too low.

In numerous areas of technology, AIXTRON is either the market leader or has taken a leading position. It is evident that the deposition of complex materials is a key technology for the future and that AIXTRON has, within its core competences, a unique expertise to support the respective customers with their specific demands. This opens up great opportunities for our company.

Yet the position as an innovator in a high-tech industry is associated with great expenditures for the future, which will continue to rise due to the increasingly shorter product cycles and increasing preliminary work. This is precisely where we have to and will act!

We will thoroughly inspect all development programs this year and make a selection, in order to focus our R&D expenses on the technologies that are most promising. We believe that this measure will equally ensure sustainable profitability as well future growth for the company.

In the regard, as a first step, we have conducted write-offs in the amount of EUR 6.6 million, which are the result of the termination of the system development activities for III-V materials of future process generations (TFOS). We will not make any further investments in this area, until it is clear at what point in time these materials will be introduced to the market and when we will have a partner who will bear these development costs. At that point, we will however support our customer in introducing the TFOS materials to the market with great dedication.

**[Slide – strategy – focusing the R&D applications]**

In order to more intensely focus our R&D applications on the development of future technologies, we will group our portfolio for future technologies and transfer these into clearly defined, independent units, so that these can be financed by corresponding technology partners.

Ladies and gentlemen,

We are currently working full speed at AIXTRON to reach the self-set goals of the near future:

In 2017, we are expecting incoming orders and a sales revenue totaling EUR 180 to 210 million. Moreover, we are still anticipating an improvement of the free cash flow compared to last year and want to achieve a positive EBIT for the overall year 2018.

I am optimistic that we will achieve this!

And with that I would like to hand the floor to Dr. Schulte, who will first bring you up to date with our technologies and products.

**[Slide - technology portfolio]**

Good morning distinguished shareholders,

I too would like to offer you a very warm welcome to the 2017 General Meeting of AIXTRON SE.

Allow me to provide you with an overview of our, as I believe, unique technology and product portfolio in the following part.

Working together with our customers, through our technology, we are pushing the development of larger, newer technology trends forward within the electronics industry. These tech trends include, among others, the efficient power transformation for renewable energies as well as the advancing electro-mobility or the increasingly faster telecommunications.

All of these trends require a large number of semi-conductor components and, in numerous cases, also new materials to reach the necessary performance increase versus the established technologies. When expanding the list to include the new cellular standard 5G, driver-less cars, laser scanners for 3D capturing for the Internet of Things, it becomes apparent that countless sensors and semi-conductor products will be required for these technologies. The more these technology trends approach a product launch, the bigger the necessary expenditure and the associated capital investment becomes for us.

For that reason, as Mr. Schindelhauer just explained, we will focus on our core competences in the future, namely the deposition of complex materials from gaseous states and at the same time purposefully search for partners for the development of individual technologies to increase their chances for success and to share the necessary investments. Wherever possible at the moment, we will freeze development projects, as in the case of our III-V on silicon (TFOS-) technology.



### **[Slide Development of incoming orders and order backlog]**

In the past 12-18 months, a steady increase in demand could be observed both for the opto- and power electronics as well as for storage chips. This has positively impacted our incoming orders as well as our order backlog. The drivers for this development have especially been the mentioned applications:

- electromobility or
- the upcoming cellular standard 5G and
- technology trends such as Cloud computing,
- Big Data or
- the Internet of Things.

### **[Slide world market leader in MOCVD]**

According to Gartner, this has led to us being world market leaders once again for MOCVD systems in 2016 with a 55% share,

### **[Slide AIXTRON competitors world-wide]**

An important success for us! Because the market for suppliers of the semi-conductor industry has become significantly narrower in recent years due to the increased amount of competitors. Apart from the familiar American, Japanese and Korean competition, now Chinese companies have been increasingly entering the scene. Domestic manufacturers such as AMEC and TOPEC are now appearing on the world's largest single market that is China, in particular in the case of systems for the production of blue LEDs. Gone are the days when we shared the market for LED production systems with our American competitors!

### **[Slide technology portfolio]**

#### **MOCVD - LED**

LED technology is increasingly dominating lighting applications - regardless whether in buildings, apartments or cars. However, the excess capacities for the production of simple lighting applications that have been generated especially in Asia in recent years, make this area into a low-margin market. The market entry of the Chinese systems manufacturers just mentioned does not make things any easier. Therefore, the growth potential for AIXTRON lies in special applications such as LEDs for directly emitting displays or ultra-violet LEDs.

The successful qualification of our planetary system for the production of high-quality blue and green LEDs by OSRAM needs to be seen in that context.

## **MOCVD - opto- and power electronics**

We achieved the largest share of the revenue through systems for opto- and power electronics. The surface emitters, so-called VCSEL (*vertical-cavity surface-emitting laser*) are currently providing rapid growth in the **opto-electronics**: These are semiconductor lasers for applications such as three-dimensional data capturing.

In the field of **power electronics**, materials with large band gaps such as gallium nitride (GaN) or silicon carbide (SiC) are continuously gaining in relevance. For they are starting to replace silicon components.

At the moment, the key applications can be found, for example, in

- converters for feeding in regenerative energies or
- in electric and hybrid vehicle technology.

Most recently, the number of applications have been increasing steadily, so that power modules are also utilized in

- wireless smartphone charging or
- in the energy-efficient management of dishwashers and air-conditioning facilities.

With our planetary systems of the AIX G5 series, we are currently the world market leader in power electronics.

## **MOCVD - Three-Five-On-Silicon (TFOS)**

In the future, our MOCVD technology should continue to be successfully used in the **silicon semiconductor industry** as well. By working with so-called III/V compound semiconductors based on elements in the chemical groups III and V, the performance capacity of processors can be increased many times over.

However, it is not clear at this point, when this technology will be utilized in large quantities. As we have not yet been able to acquire a processor manufacturer as a partner for the continuation of our R&D work, based on our new strategic approach, we have decided to freeze the further development of this technology for financial reasons. We are ready at any point, however, to continue this work if a suitable partner should be found.

## **Silicon - storage technologies**

In 2016, we again managed to assert ourselves as the sole supplier of systems for the separation of TiSiN and tungsten silicide layers for our biggest customer for the

production of storage chips. We address these with our ALD and CVD system technology, the latter had the biggest growth share in 2016.

In September of last year, we managed to report the successful qualification of our QXP system technology with a further storage chip manufacturer.

### **Organic - OLED & Thin Film Encapsulation (TFE)**

We recently made crucial progress in the field of deposition technology for use in the production of **organic semiconductors**.

Building on a successful demonstration program with a research system at a leading Asian OLED display manufacturer, we recently managed to announce an order and a further cooperation program for a larger system of this customer. This is the next step to qualify our new technology for the mass production of OLED displays.

This represents an important step for AIXTRON, as we have made significant investments in recent years in order to successfully commercialize our OVPD technology for the manufacture of organic light-emitting diodes (OLED).

OLEDs are a growth market with great potential, as they are increasingly used in smartphones, TVs and lamps. Working together with our customers has shown once again, that our OVPD technology is currently the most efficient known process for the production of OLED displays of different sizes.

In combination with our thin film encapsulation technology, which we acquired from PlasmaSi in April 2015, this technology is a key to producing higher-performing, more flexible OLEDs. This permits the construction of foldable displays, for example.

## **Carbon nanotechnology (CNT)**

Our technology that is used to manufacture carbon-based materials, such as **graphene, carbon nanotubes and nano wires** continues to be in an early development stage of commercialization. Nonetheless, it has the potential for future use in displays, batteries, semiconductors, and numerous other areas.

The stable demand for our plasma-supported CVD systems shows that our systems are an important key to our customers for the development of forward-looking materials. AIXTRON is a global market leader in equipping and supplying academic research.

## **Final slide**

AIXTRON is developing new, innovative technologies here and in all other application areas to enable a future for the customer's products.

Dear shareholders,

AIXTRON is on a good path financially, technologically as well as strategically. We laid the groundwork in the recent months to return your company to profitability in 2018.

Mr. Schindelhauer and I would like to thank the members of the Supervisory Board for their active support of our work.

At this point we also greatly thank our former chairman Martin Goetzeler, who, throughout the past years, laid the important foundation for the further development of AIXTRON.

We owe a special thank you to our employees and employee representatives, who work day in, day out with great dedication and enthusiasm to the benefit of our company.

Ladies and gentlemen,

We would especially like to thank you – the owners of our company – for your trust and your support. With a lot of hard work, we have managed to achieve some important interim goals for AIXTRON in the recent months. The goal to make AIXTRON profitable again is within our reach - and we will continue on this path!

With that I would like to thank you for your attention and will now hand over the floor to Prof. Blättchen!