



# FY 2020 Results

25 March 2020

**IQE plc**



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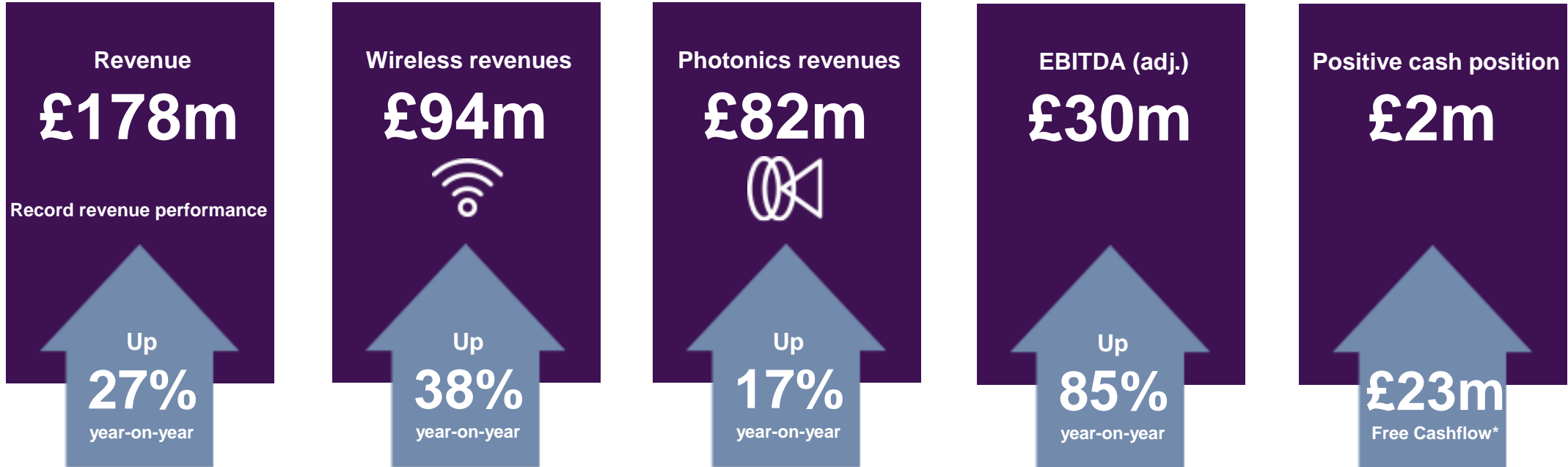
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# 2020 Business Performance

## Financial Highlights



- Strong growth experienced in primary business segments

- Increased demand for GaAs wafers for 5G and Wifi 6
- Large growth in GaN on SiC wafers for 5G infrastructure

- Continued growth in GaAs VCSELs for 3D Sensing
- Strong sales of GaSb wafers for Infrared applications

- Increased volumes
- Improved tool utilisation
- Operating leverage generating higher gross margins

- As at 31 Dec 2020 excluding lease liabilities
- Strong trading performance, capital spend controls and working capital management

# 2020 Strategic Progress



## Investing in the future of compound semis



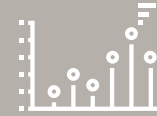
### Strategic Goal

- Leveraging and expanding the IP portfolio
- Developing and launching new products
- Targeting new market entry
- Innovation in integration and miniaturisation

### Progress

- **Full-service DFB lasers** for data comms using Nano-Imprint Lithography in qualification, revenues anticipated in H2 2021
- Successful development of IQGeVCSEL 150™ technology for **6" VCSELs on Germanium**, a critical step in the pathway to 8" VCSEL technology
- Successful development of IQepiMo™ template technology for **RF Filters** and applications requiring low resistance buried electrodes, built on the patented cREO® technology platform
- Strong development progress in **long wavelength VCSEL technology** (MBE platform) and lasers for **healthcare monitoring**

## Scaling up the business for growth



### Strategic Goal

- Expand Group capacity
- Qualify customers in strategic markets
- Enhance management controls, systems and processes to enable mass production

### Progress

- **Capex significantly reduced** in 2020 following completion of the infrastructure phase of the capacity expansion
- Future capex will be more **linear** with anticipated revenue growth
- **Closure of IQE's PA site** by 2024 and consolidation of US MBE development and production at the NC site announced
- **Systems transformation** programme launched to provide a consistent, agile and scalable platform for business growth
- **Three new Aixtron G4 tools** ordered in Q1 2021 to support volume growth for Wireless GaAs in Taiwan

## Expanding Margins and Cashflows

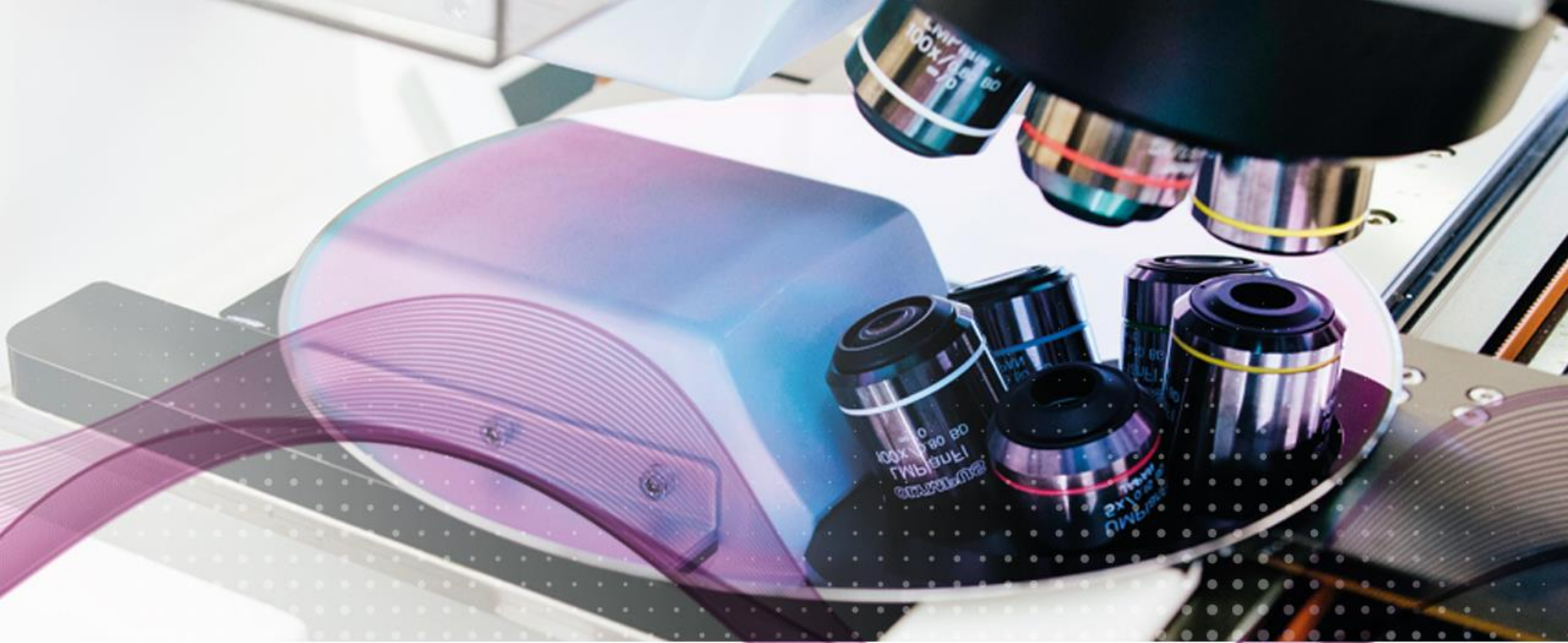


### Strategic Goal

- Superior unit economics from superior yields and economies of scale
- Customer and market diversification
- Intellectual property generation as a materials solutions provider

### Progress

- Site **utilisation significantly improved** vs FY19 levels
- **Return to profitability** as a result of additional volume and high operational gearing
- **Strong operating and free cashflow**
- **Strengthened balance sheet** with net cash of £2m as at 31 Dec 2020
- **Expanding IP portfolio** – over 30 patents registered in 2020
- IP portfolio successfully defended with a legal dispute resolved post year end including a **cash settlement of \$2.5m** in favour of IQE



# FY 2020 Financial Results

Tim Pullen, CFO

# Summary Financials



| £'million                               | FY 2020 | FY 2019 |
|---|---------|---------|
| Revenues                                | 178.0   | 140.0   |
| Adjusted EBITDA <sup>1</sup>            | 30.1    | 16.2    |
| Adjusted operating profit / (loss)      | 5.4     | (4.7)   |
| Reported operating profit / (loss)      | (5.5)   | (18.8)  |
| Reported PAT                            | (2.9)   | (35.1)  |
| Net Cashflow from Operations (Adjusted) | 36.3    | 16.5    |
| Net Cashflow from Operations (Reported) | 35.5    | 8.9     |
| Capital expenditure <sup>2</sup>        | 5.0     | 31.9    |
| Net cash / (debt) <sup>3</sup>          | 1.9     | (16.0)  |
| Cash and cash equivalents               | 24.7    | 8.8     |
| Adjusted fully diluted EPS              | 0.29p   | (2.46p) |

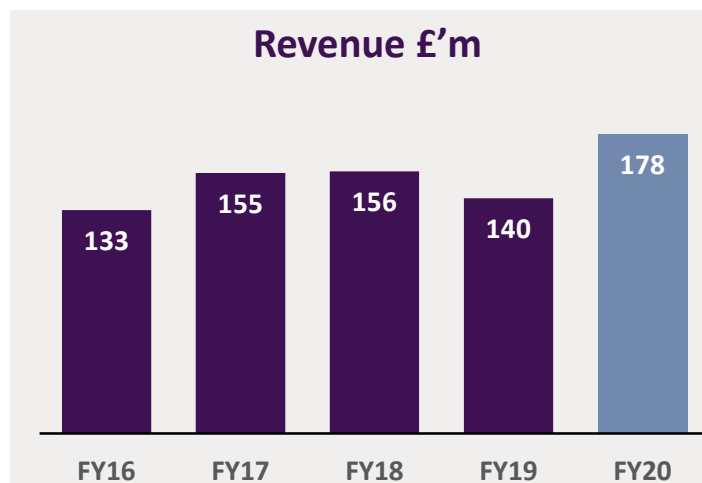
1 Adjusted performance measures exclude the impact of certain non-cash items, non-operational items and restructuring costs fully disclosed in the Accounts

2 Capex stated is Property Plant and Equipment cash capex

3 Net cash / (debt) is defined as borrowings less cash but excluding lease liabilities

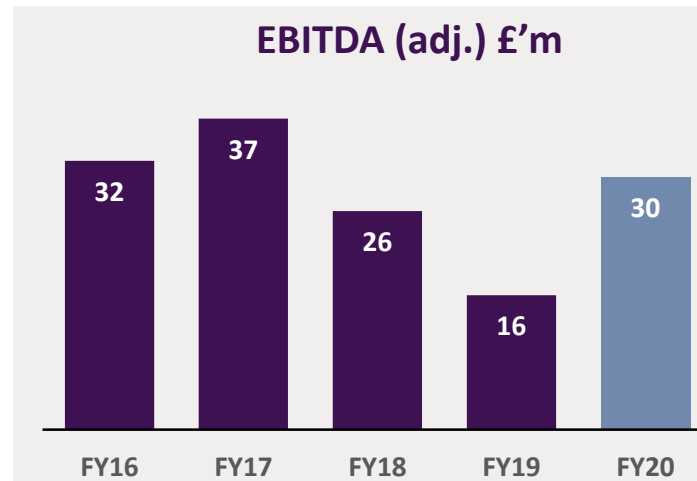
# Financial Performance

## Record revenue performance and return to profitability



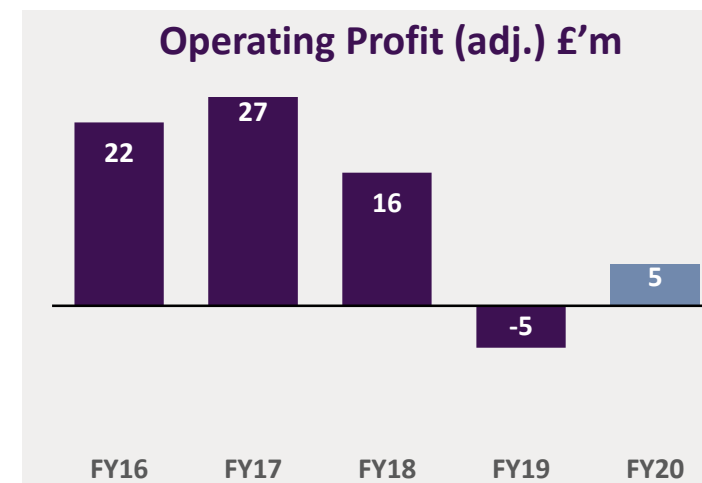
### Revenue up 27% YoY

- £178.0m revenue in line with January trading update
- 27.1% YoY growth as a result of strong Wireless and Photonics demand
- FX headwind of £0.5m (27.5% growth on a constant currency basis)



### Adjusted EBITDA increase as operating gearing kicks in to increase gross margins

- £30.1m adjusted EBITDA represents an 85% increase YoY
- Gross margin increase from 15.2% in FY19 to 18.6% in FY20
- Improved tool utilisation spreads foundry overheads over a larger volume of wafers and with a high proportion of fixed costs, margins increase



### Return to profitability

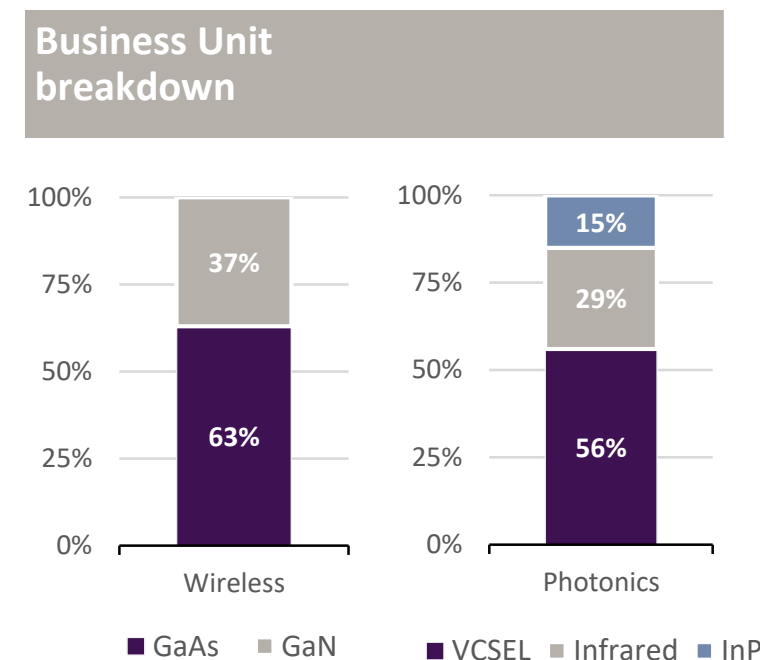
- £5.4m adjusted EBIT in line with November trading update guidance of 'mid-single digit £m'
- Increase in adjusted operating profit reflects increases in volume and increased utilisation of manufacturing capacity
- £4.3m adjusted EBIT reported for H1, £1.1m for H2
- FX movements from H1 to H2 reduced like-for-like profit in H2 by ~£2.5m on a reported basis

# Business Unit Segmentation



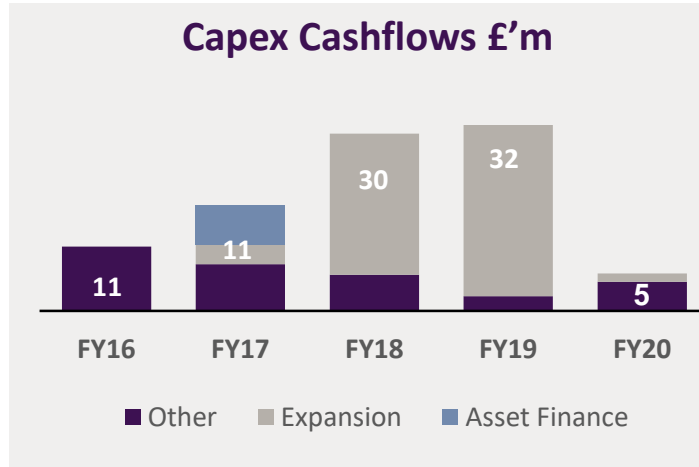
| Revenue segmentation<br>£'m | FY20         | FY19         |
|-----------------------------|--------------|--------------|
| Wireless Revenue            | 94.2         | 68.2         |
| Photonics Revenue           | 81.6         | 69.8         |
| CMOS++                      | 2.2          | 2.0          |
| <b>Total Revenue</b>        | <b>178.0</b> | <b>140.0</b> |

| Operating profit<br>segmentation<br>£'m | FY20       | FY19         |
|---|------------|--------------|
| Wireless Revenue                        | 11.4       | 6.6          |
| Photonics Revenue                       | 9.1        | 1.3          |
| CMOS++                                  | (0.7)      | (1.3)        |
| Corporate costs                         | (14.4)     | (11.3)       |
| <b>Total Adjusted Operating Profit</b>  | <b>5.4</b> | <b>(4.7)</b> |



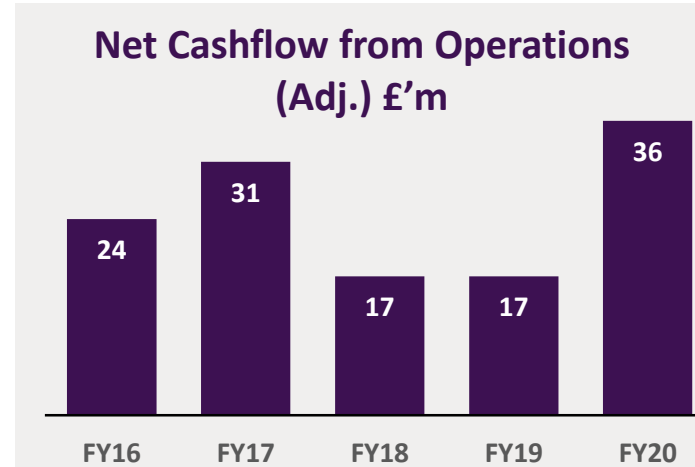


# Capex, Cashflow and Net Debt



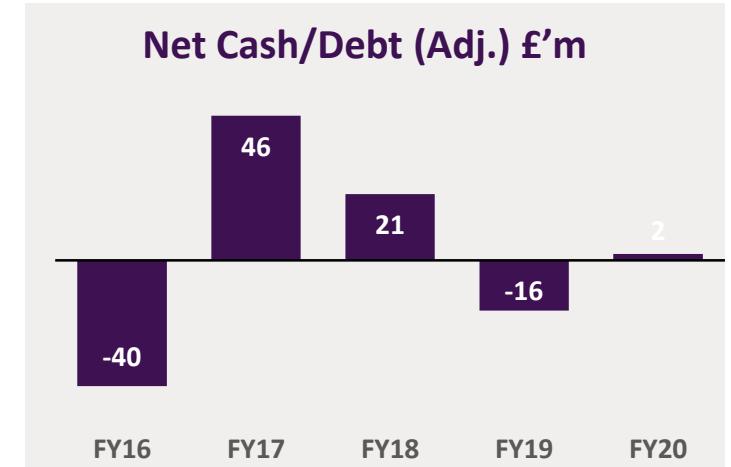
## Reduction in capital expenditure

- £5.0m cash capex represents a significant YoY reduction
- Lower spend in 2020 reflects completion of planned infrastructure investments at global sites across FY18 and FY19
- With the 'infrastructure phase' of the capacity expansion complete, future capex spend will be more linear with revenue opportunities



## Strong free cash flow

- £36.3m cash from operations before exceptional items
- 120% Adjusted EBITDA to Adjusted Operating Cash conversion



## Positive year end cash position

- Strong free cash flow resulted in a transition to net cash positive at year end
- Undrawn committed available financing facilities of US\$35m remain in place to enable near term investments
- Strengthening of balance sheet and resilience during the pandemic demonstrates a strong footing with which to move forward

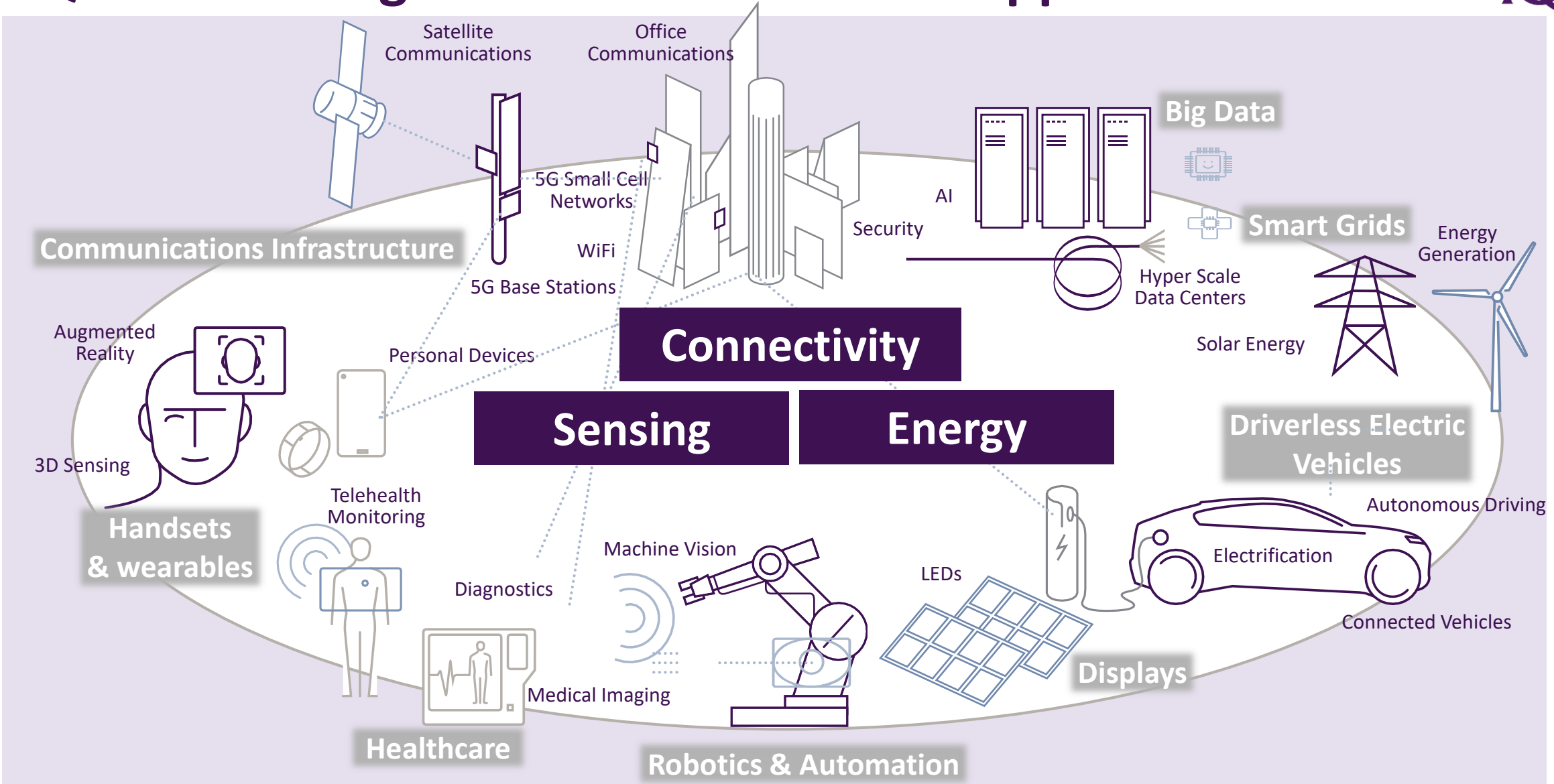
- Trading has continued positively into 2021. Revenues for **Wireless GaAs epiwafers** are strong in the context of **continued 5G handset market penetration** and demand for 3D sensing, advanced sensing applications, and communications products continues to remain positive.
- IQE is well positioned for further 5G related GaN on SiC growth over the multi-year replacement cycle. In the first half of FY21, revenues of GaN on SiC are expected to be lower than in H1 FY20 amid **lower market estimates for mMIMO** deployment in Asia. Beyond the near term, the opportunities for this and other GaN on Si technologies are very strong as global roll outs of 5G gather pace.
- The Group is experiencing a **foreign exchange headwind** in FY21 on a reported basis, as the Group's revenues are predominantly earned in USD but are reported in GBP.
- The Group expects revenue and Adjusted EBITDA in the first half of 2021 to be similar to H1 FY20 on a constant currency basis.
- Capital expenditure on PP&E for FY21 is expected to be in the range of £20m to £30m as the Group resumes **investment in capacity for specific growth platforms**, including the three new reactors for Taiwan to underpin further growth in FY22.
- Capitalisation of development costs are expected to be in the range of £7m to £10m for the full year as the Group continues to invest in **future products to meet anticipated growing demand** for compound semiconductors driven by the macro trends of 5G and connected devices.



# Technology Update

Drew Nelson, CEO

# IQE's technologies address three vital applications:

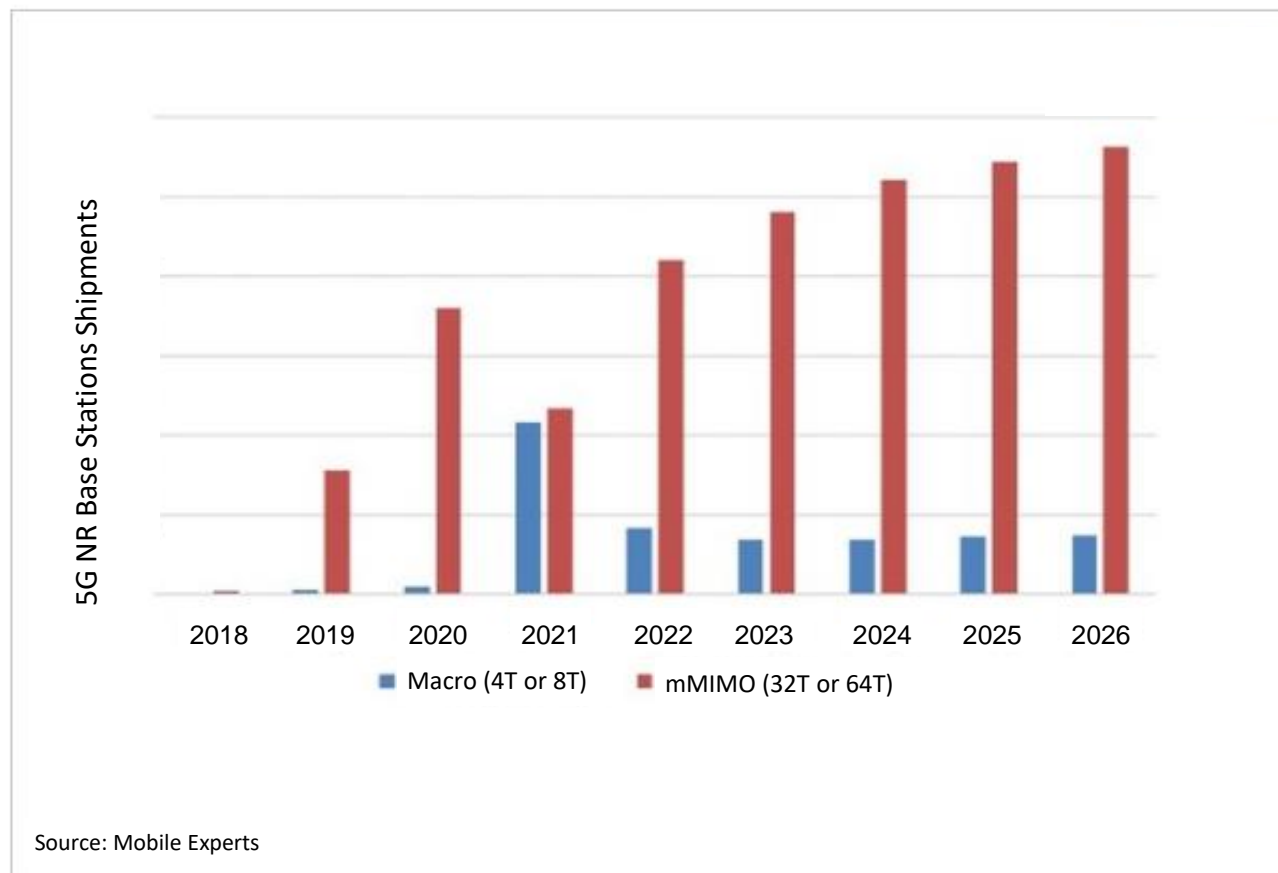
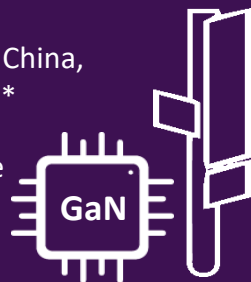


# IQE's technologies are critical for 5G infrastructure



## 5G Network Infrastructure

- IQE GaN technologies are a core component of the antenna elements of 5G mMIMO base stations and small cells with vastly superior performance and power efficiency as compared to silicon technologies in traditional macro cells
- IQE InP technologies enable high-speed (>25G), high-performance backhaul optical networks needed to meet the demands of 5G
- IQE's GaN business grew 59% in 2020 on a constant currency basis
- 580,000 5G base stations were installed in China in 2020\*
- Over 718,000 5G base stations are now built in China, accounting for c.70% of the world's 5G stations\*
- 5G networks are likely to cover one-third of the world's population by 2026\*\*



\*Source: Chinese Ministry of Industry and Information Technology (MIIT)

\*\* GSMA

# IQE Handset Content increases with 5G development

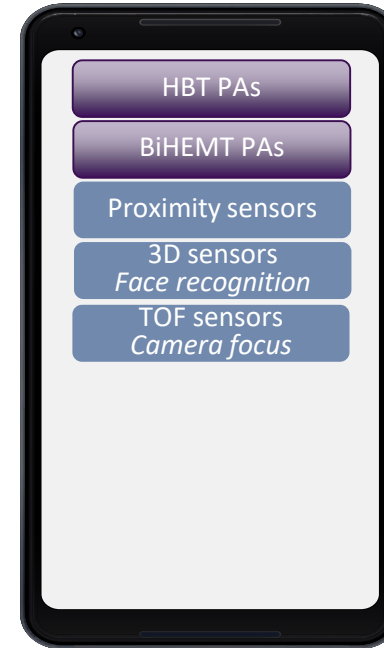


## 5G Handsets

- IQE's GaAs technologies are a critical element of the Front-End Module of handsets
- 5G handsets have more GaAs content than 4G, as the number of bands of operation increase and to enable efficient operational at higher frequencies
- 5G smartphones will total 539 million units worldwide in 2021, which will represent 35% of total smartphone sales in the year\*
- 5G smartphones will total 1.5 billion units worldwide in 2021, representing 11.4% YoY growth

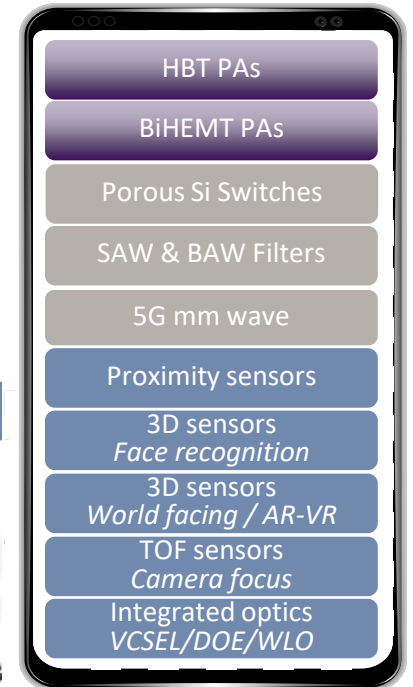


3G



4G

Accessory sensors

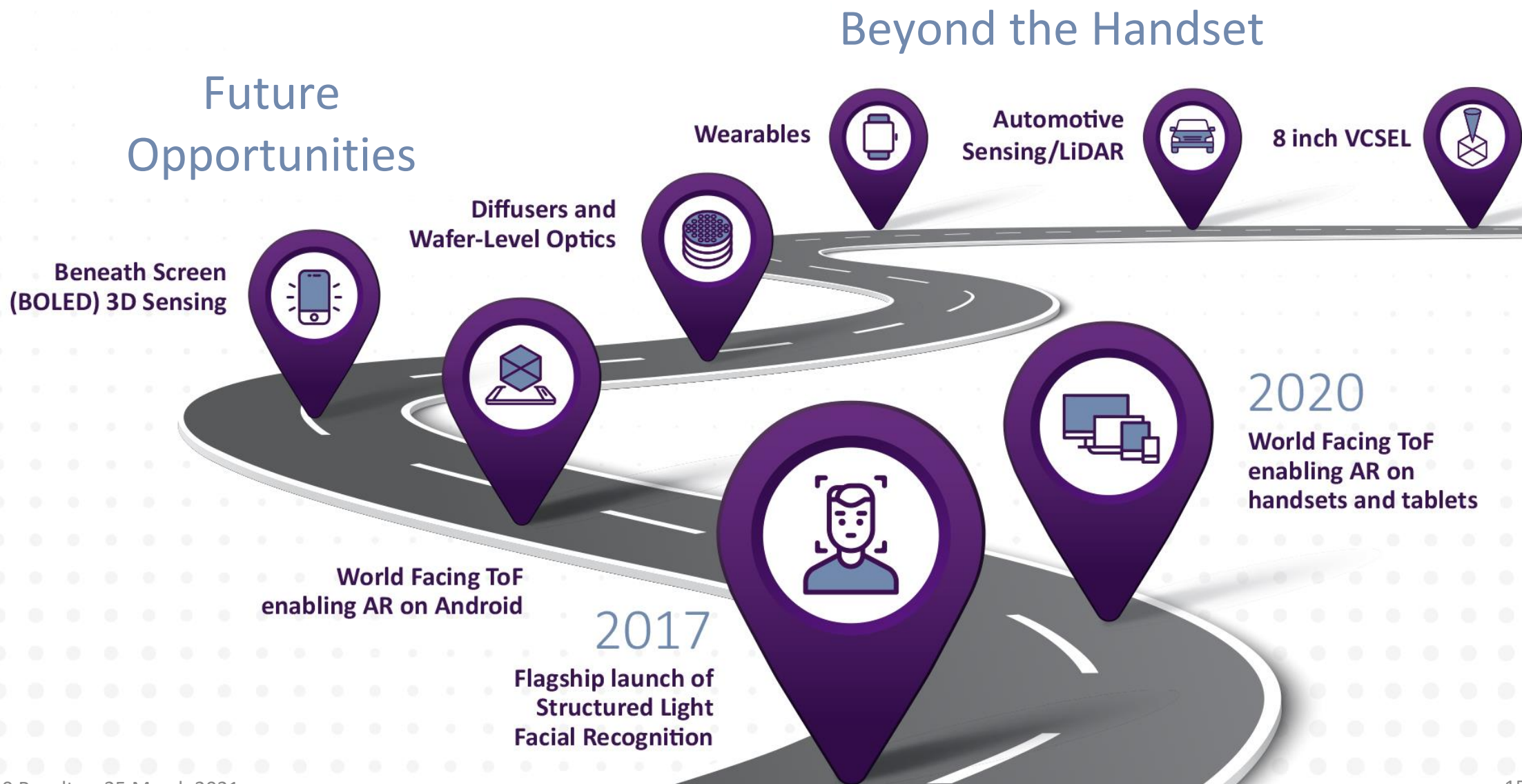


5G

5G handsets utilise at least 2x more Power Amplifier content than 4G handsets

\*Source: Gartner

# IQE is a pioneer of 3D Sensing Technology



# Technology Evolution



## Short Term

### 5G Infrastructure Rollout:

- GaN on SiC and PIN detectors for 5G Base Stations
- 10G & 25G DFBs and APDs for datacom and backhaul



### Advanced RF and Sensing:

- GaN on SiC for comms and radar
- Sb emitters and detectors for advanced infrared applications

### 5G Handsets:

- High Efficiency Power Amplifiers
- Integrated PA & Switch (BiHEMT)



### 3D Sensing Content Gain:

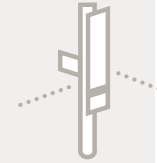
- World-facing camera (ToF / Lidar)
- DToF for Android market



## Medium Term

### Continued 5G Infrastructure Rollout:

- GaN for mm Wave / small cell networks
- GaN on SiC and GaN on Si
- High speed lasers & detectors for backhaul networks



### 5G Handsets:

- Broader Android adoption of 3DS driven by Augmented Reality applications
- Integrated Front-End Module powering mm Wave
- Switches and Filters
- Micro LEDs



### Advanced Sensing Applications:

- Consumer healthcare
- Quasi Photonic Crystal for diffusers and module integration



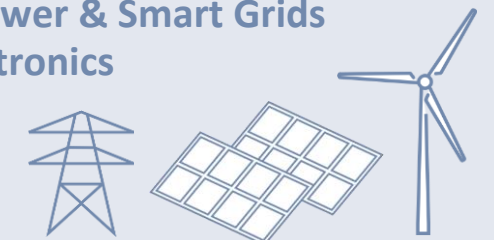
## Long Term

### Environmental Monitoring Commercial and industrial Sensing

### Automotive Power & LiDAR



### Efficient Power & Smart Grids Power Electronics





# Summary



- Record revenue performance in 2020 with 27% YoY growth and strong cash flow resulting in a net cash positive position of £2m
- Deployment of 5G technologies will be a multi-year, mega replacement cycle and we are at the beginning of this progression
- Our product portfolio positions IQE to capitalise on this growth and the associated proliferation in sensing technologies that are enabled by this macro trend
- IQE's unrivalled global manufacturing footprint and IP portfolio will enable strong execution as demand for advanced semiconductor materials grows