

IQE plc

Cardiff, UK
24 November 2021

Trading Update

- Emerging softness in smartphone-related demand
- Continued weakness in roll out of 5G infrastructure
- Ongoing foreign exchange headwinds on reported numbers
- Constant currency revenues now anticipated to be down by circa 8% year-on-year

IQE plc (AIM: IQE, "IQE" or the "Group"), the leading supplier of compound semiconductor wafer products and advanced material solutions to the global semiconductor industry, announces a trading update for the year ending 31 December 2021.

Wireless Update

Demand for Wireless GaAs epi-wafers has continued to grow in H2 2021, driven by 5G penetration of the smartphone handset market and WiFi 6. Whilst growing year-on-year, GaAs volumes are below management expectations in Q4, in the context of softening demand within the broader smartphone supply chain.

Despite the challenges of supply chain constraints within the broader semiconductor industry, the solid performance of GaAs throughout 2021 has resulted in high utilisation at the Group's Taiwan facility, where the Group is investing in eight new and refurbished tools. This includes three new Aixtron G4 reactors which are now on-site and being commissioned to support further growth in 2022.

Sales of Wireless GaN epi-wafers have continued to be weak due to end-market dynamics, including significantly lower levels of mMIMO base station deployments in Asia and the slow rate of deployments in Western markets. GaN remains an essential material for 5G infrastructure and demand is still expected to recover over the multi-year deployment cycle.

Photonics Update

Demand for VCSELs used in 3D sensing applications has remained solid throughout H2 2021 but is expected to tail off towards the end of the year in line with supply chain seasonality and general softening in smartphone supply chains.

Sales of other Photonics products are also below management expectations in Q4 due to the re-phasing of certain defence and security orders associated with large programmes into 2022 and the slower introduction of sales of new DFB products.

R&D Update

Strong progress continues to be made on research and development programmes, with significant milestones reached for long wavelength VCSELs, advanced healthcare sensing, Porous Silicon for front-end module switching and the commercialisation of GaN on Si technologies for infrastructure markets.

Operational progress

Operational progress has also been strong, with the closure of the Group's Pennsylvania facility and associated consolidation of MBE capacity in North Carolina which is on schedule for completion by 2024.

The recently announced closure of the Singapore facility is also on track and due to be completed by mid-2022. These closures are part of the Group's consolidation strategy and will improve production efficiency and margins in the medium to long term.

Outlook and Guidance

A significant foreign exchange headwind has been incurred in 2021 on a reported basis, caused by the relative strength of Sterling, versus the US Dollar in which the majority of IQE's revenues are denominated.

As a result of softening demand in Q4, IQE now expects full year reported revenues to be in the region of GBP £152m. This is equivalent to circa £164m at constant currency, representing circa 8% reduction in revenues year-on-year.

The resultant reported Adjusted EBITDA is expected to be in the region of GBP £18m. This is equivalent to circa £25m at constant currency, representing an EBITDA margin of circa 15% at constant currency (FY2020 17%).

Cash capex in the year is expected to be in the range of £14m to £17m compared to the previous guidance of £20m to £30m, due to the phasing of payments for certain tool purchases into 2022. Net debt is expected to be less than £10m.

Phil Smith, Interim Executive Chairman of IQE, commented:

"Whilst it is disappointing that 5G infrastructure deployments have remained weak all year, we still expect this macro trend to provide a multi-year growth cycle for IQE. In the immediate term, broader semiconductor market shortages have softened demand in some supply chains but we believe these effects to be temporary and remain excited by the opportunities ahead.

Meanwhile IQE has made significant strategic and operational progress in 2021. This has laid strong foundations, which newly announced CEO Americo Lemos will look to capitalise on as he sets out his strategy for the future direction of the business next year."

Contacts:

IQE plc

+44 (0) 29 2083 9400

Phil Smith

Tim Pullen

Amy Barlow

Peel Hunt LLP (Nomad and Joint Broker)

+44 (0) 20 7418 8900

Edward Knight

Paul Gillam

James Smith

Citigroup Global Markets Limited (Joint Broker)

+44 (0) 20 7986 4000

Christopher Wren

Peter Catterall

Headland Consultancy (Financial PR)

+ 44 (0) 20 38054822

Andy Rivett-Carnac: +44 (0) 7968 997 365

Chloe Francklin: +44 (0)78 3497 4624

This announcement contains inside information for the purposes of Article 7 of the UK version of the Market Abuse Regulation (Regulation (EU) No 596/2014). The person responsible for arranging and authorising the release of this announcement is Tim Pullen, Chief Financial Officer.

Glossary

GaAs	Gallium Arsenide
GaN	Gallium Nitride
mMIMO	Massive MIMO (Multiple-Input, Multiple Output)
VCSEL	Vertical Cavity Surface Emitting Laser
DFB	Distributed Feedback Laser

About IQE

<http://iqep.com>

IQE is the leading global supplier of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- handset devices
- global telecoms infrastructure
- connected devices
- 3D sensing

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in this market which has high barriers to entry. IQE supplies the whole market and is agnostic to the winners and losers at chip and OEM level. By leveraging the Group's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with c. 670 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.