



FY 2020 Results

25 March 2021

IQE plc



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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

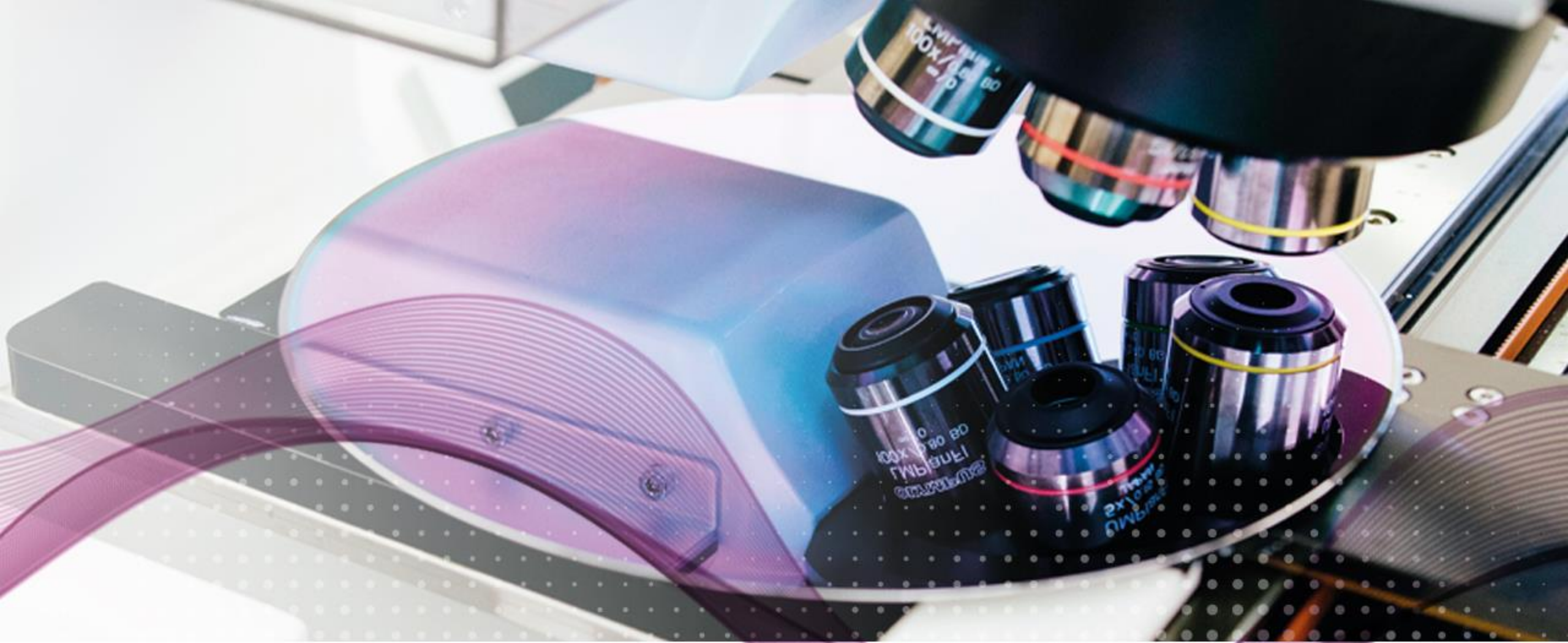


Strategic Goal

- 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 ¹	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 ²	5.0	31.9
Net cash / (debt) ³	1.9	(16.0)
Cash and cash equivalents	24.7	8.8
Adjusted fully diluted EPS	0.29p	(2.46p)

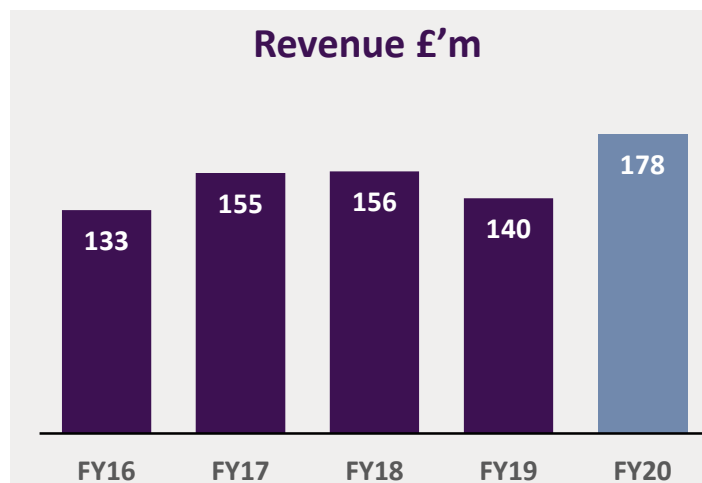
1 Adjusted performance measures exclude the impact of certain non-cash items, non-operational items and restructuring costs fully disclosed in the Accounts

2 Capex stated is Property Plant and Equipment cash capex

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

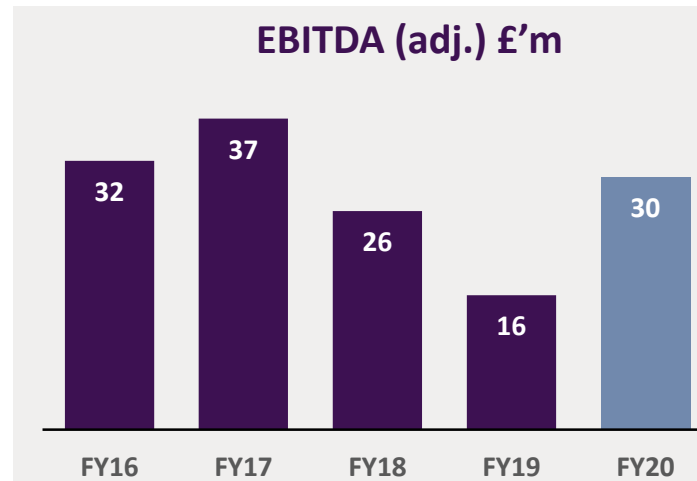
Financial Performance

Record revenue performance and return to profitability



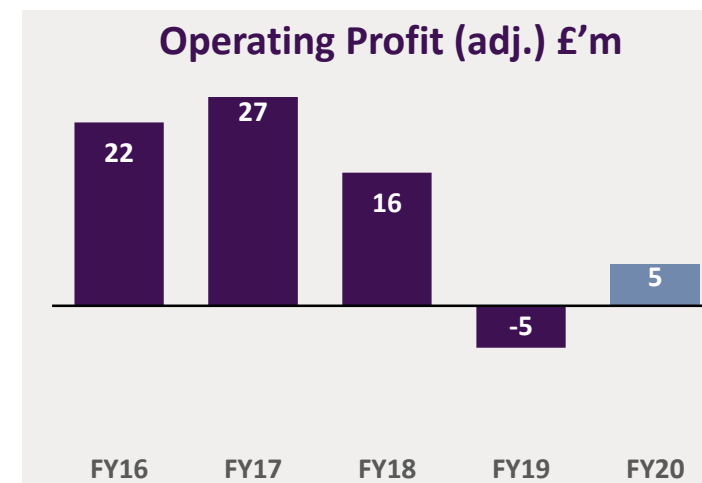
Revenue up 27% YoY

- £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

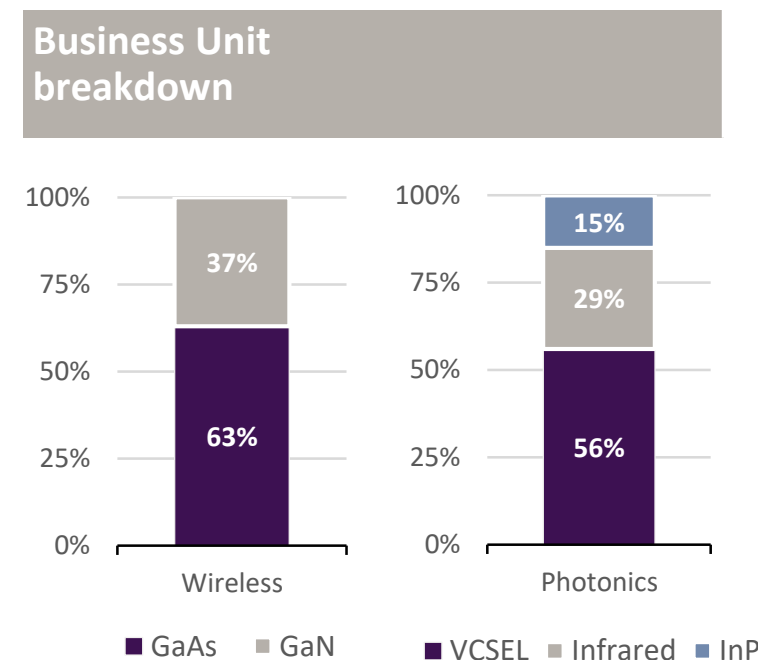
- £5.4m adjusted EBIT in line with November trading update guidance of 'mid-single digit £m'
- Increase in adjusted operating profit reflects increases in volume and increased utilisation of manufacturing capacity
- £4.3m adjusted EBIT reported for H1, £1.1m for H2
- FX movements from H1 to H2 reduced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

Business Unit Segmentation

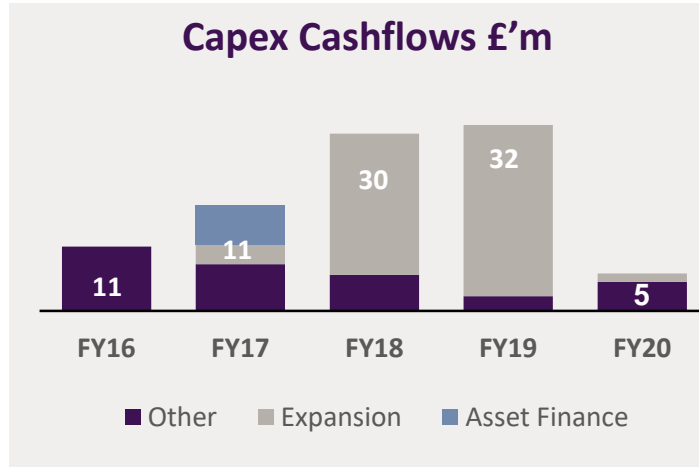


Revenue segmentation £'m	FY20	FY19
Wireless Revenue	94.2	68.2
Photonics Revenue	81.6	69.8
CMOS++	2.2	2.0
Total Revenue	178.0	140.0

Operating profit segmentation £'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)
Total Adjusted Operating Profit	5.4	(4.7)

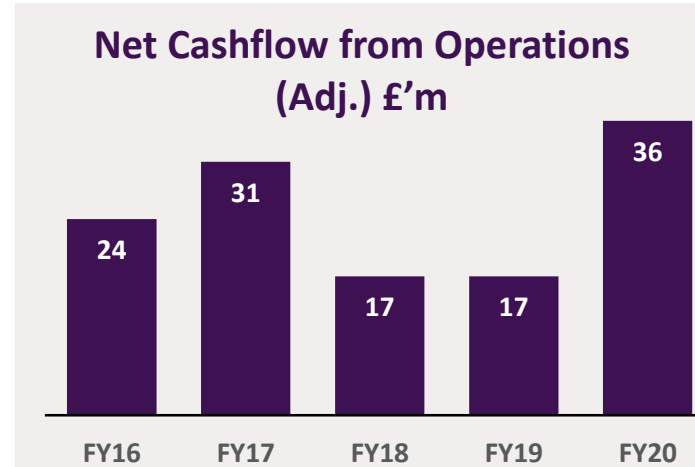


Capex, Cashflow and Net Debt



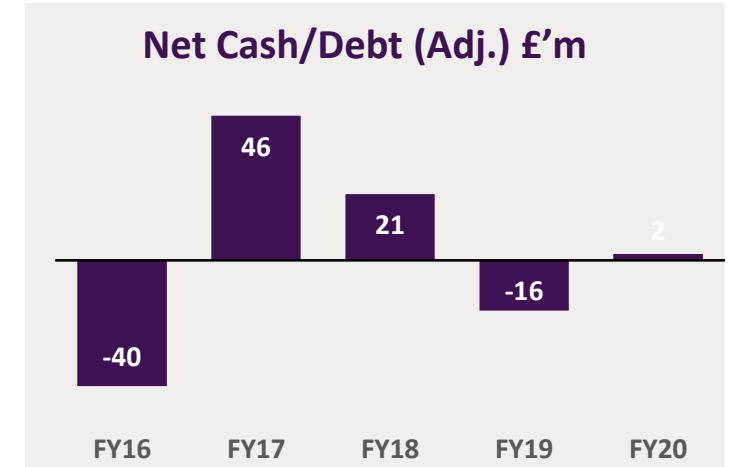
Reduction in capital expenditure

- £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

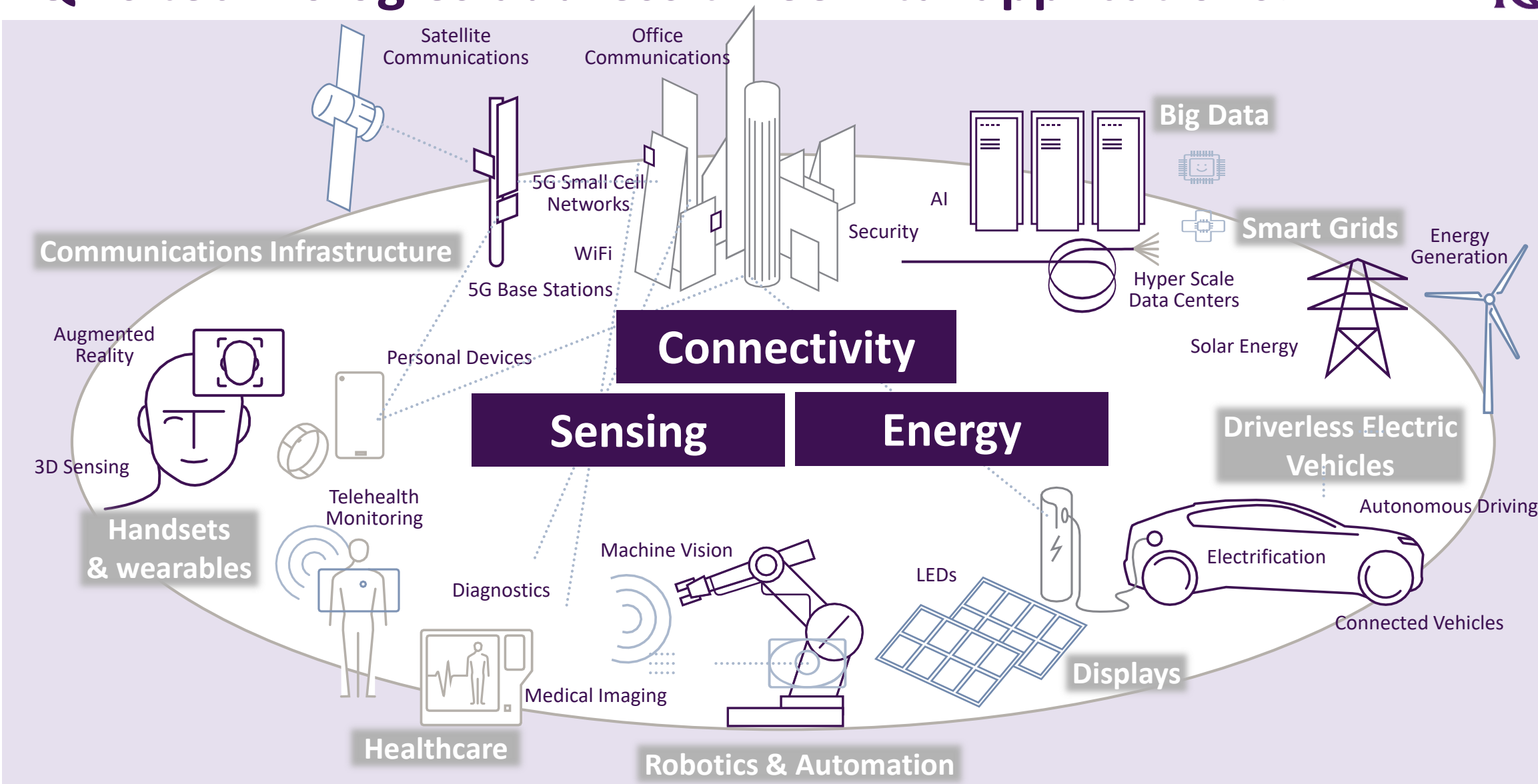
- Trading has continued positively into 2021. Revenues for **Wireless GaAs epiwafers** are strong in the context of **continued 5G handset market penetration** and demand for 3D sensing, advanced sensing applications, and communications products continues to remain positive.
- IQE is well positioned 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:

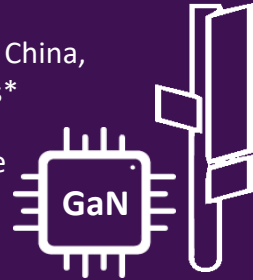


IQE's technologies are critical for 5G infrastructure



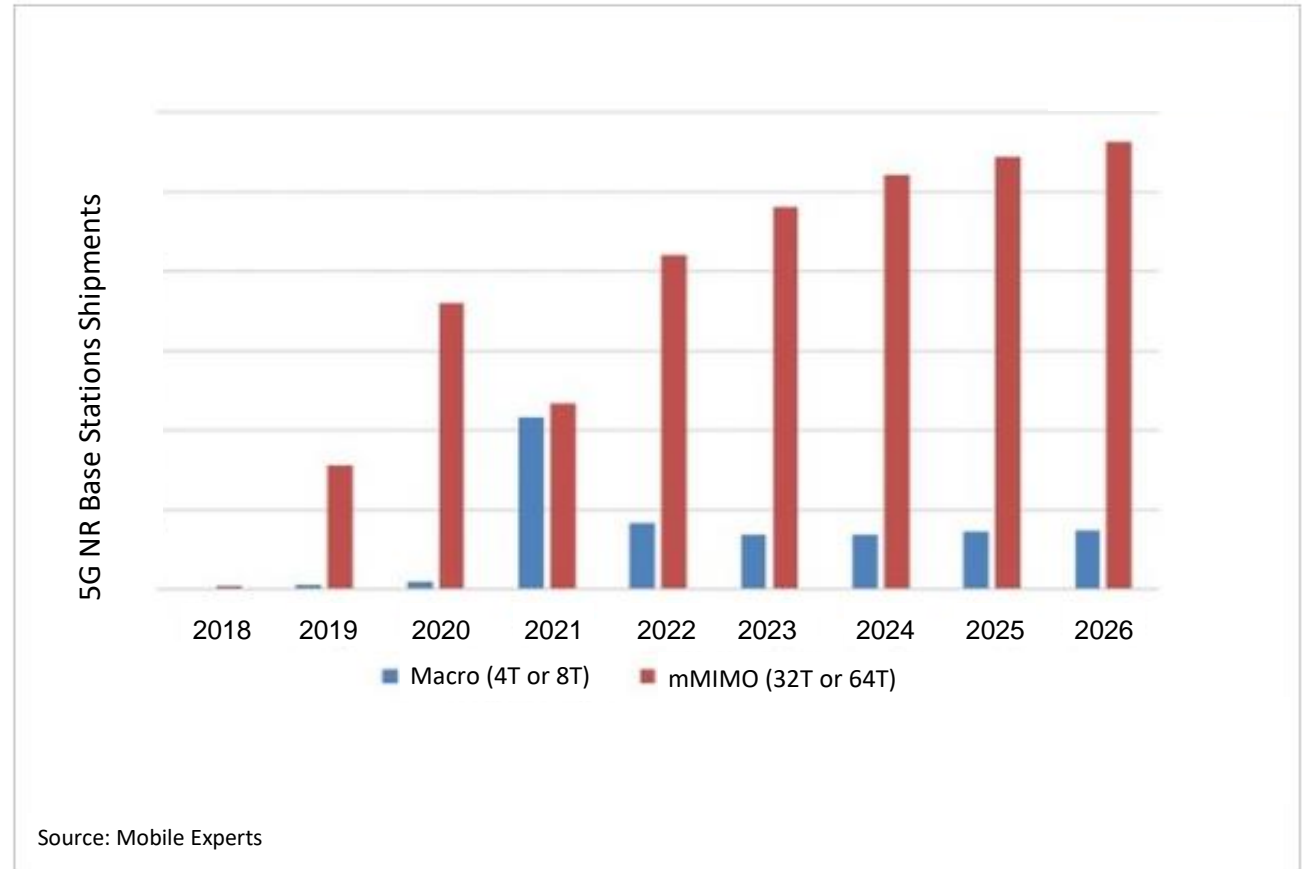
5G Network Infrastructure

- 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



Source: Mobile Experts

IQE Handset Content increases with 5G development

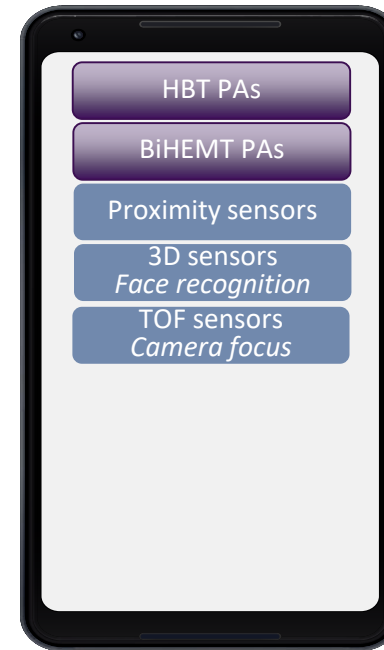


5G Handsets

- 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*
- Worldwide sales of smartphones will total 1.5 billion units in 2021, representing 11.4% YoY growth

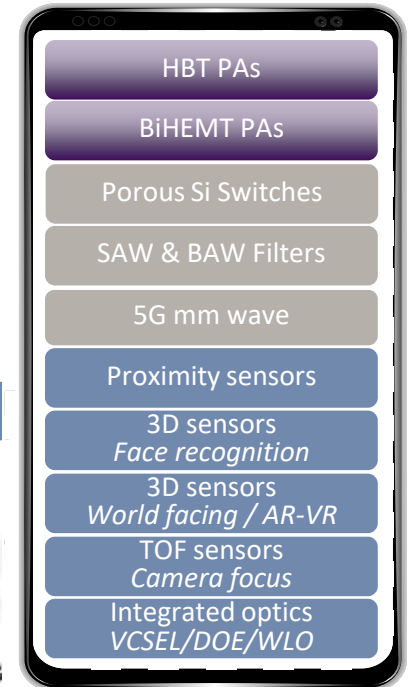


3G



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



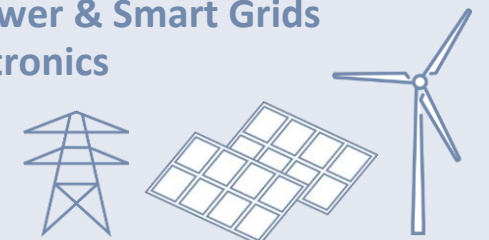
Long Term

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