

# Full Year 2022 Unaudited Preliminary Results Presentation

May 2023



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of tomorrow**

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# Strategic update



**Americo Lemos**  
**Chief Executive Officer**



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# 2022 | A year in review

## Refreshed strategy announced in Nov-22

- Market-led and aligned to customer demand
- Maintain Connect and Sense markets
- Diversify into Power and Display markets

## Business transformation

- Strengthening of commercial engine
- Closure of Singapore site
- Closure of Pennsylvania site on track by 2024

## Customer engagement

- Move to strategic and long-term customer engagement models

## Solid trading performance in FY 2022

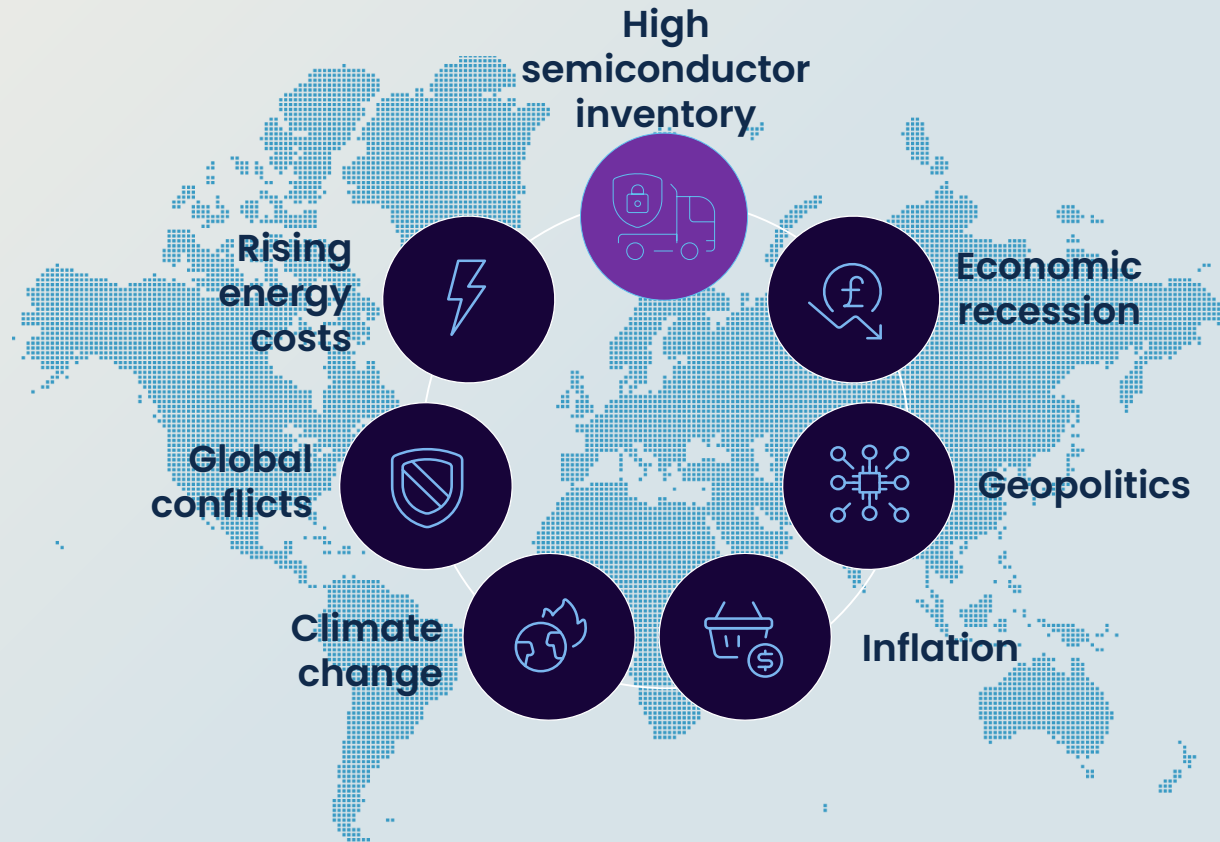
- Delivered a resilient performance despite a challenging macro environment
- Improved margin delivered

**The semiconductor industry  
is in a global downturn**

**Short term softness,  
demand expected to recover**

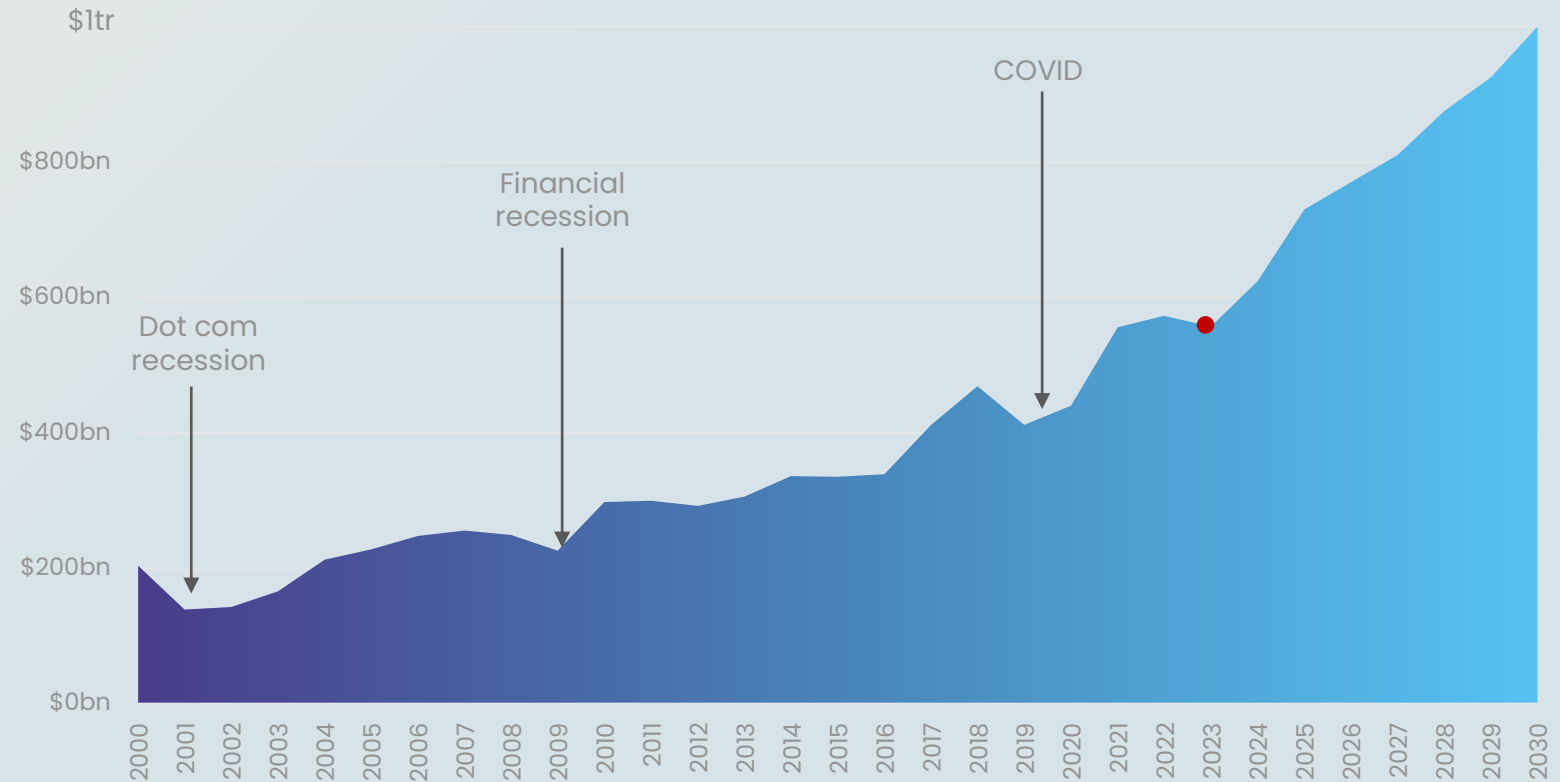
# Why is this happening?

## Challenging operating environment



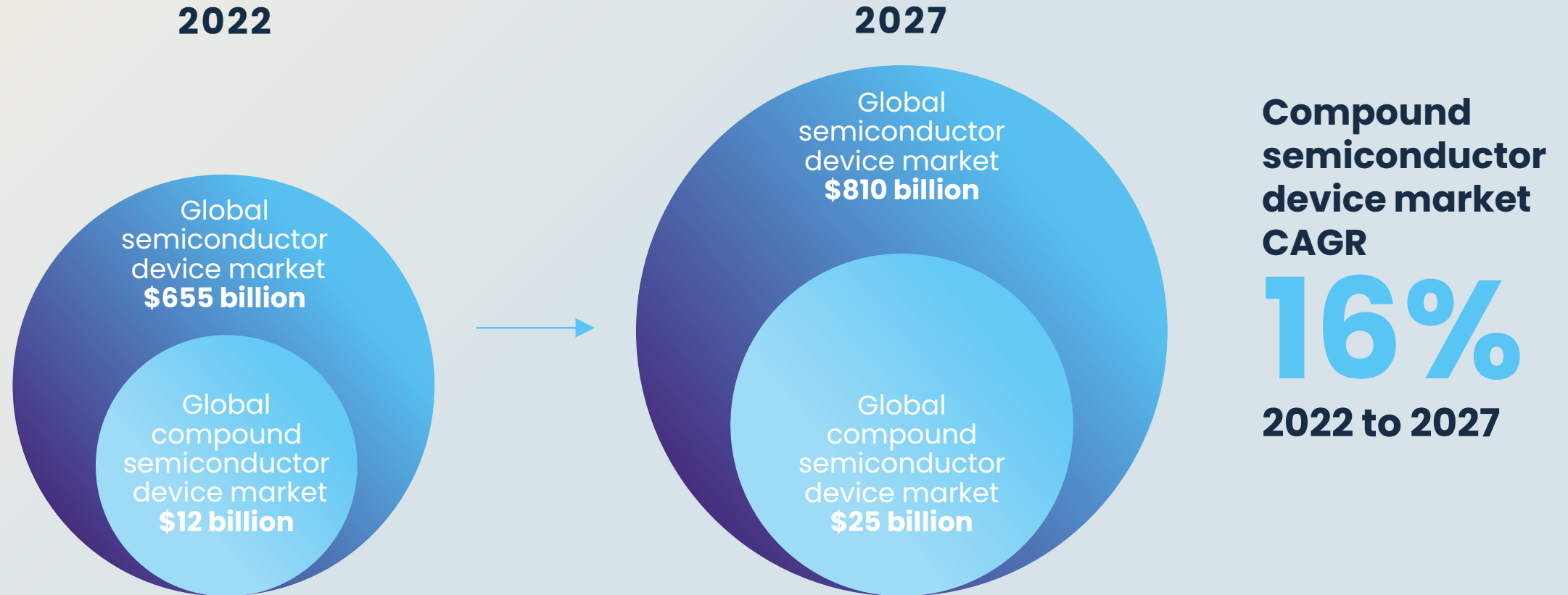
# We have the opportunity

## The long-term outlook is strong



Source: SIA, McKinsey 2022

# Compound semiconductor device market growth

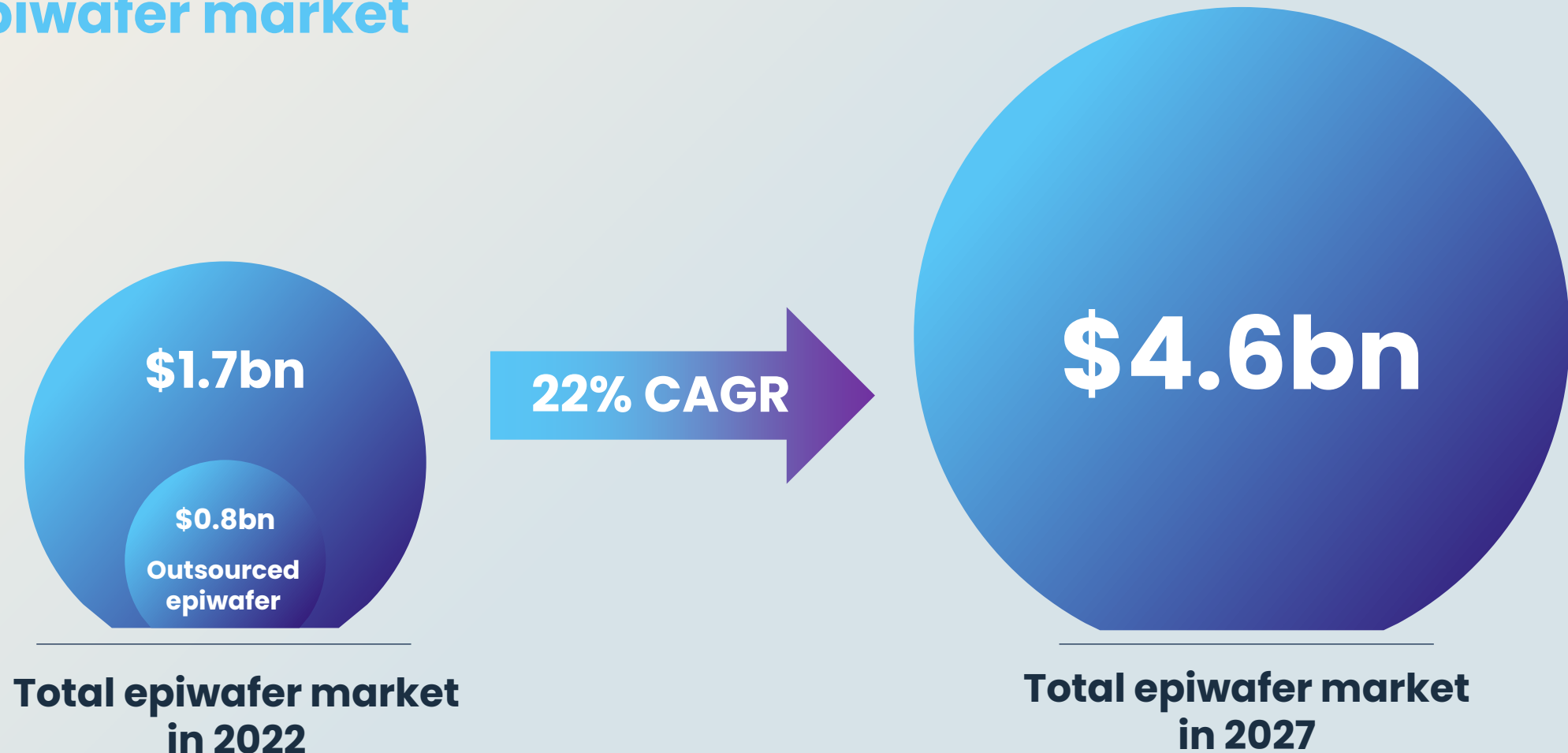


Source: Yole Intelligence Q4 2022



# Our addressable market

## The epiwafer market



Source: Yole Intelligence Q4 2022, IQE sources

# We have the right strategy

**Maintain**

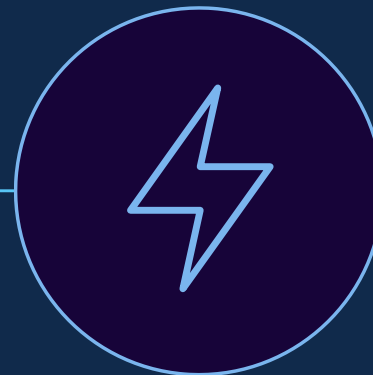
**Diversify**



**CONNECT**



**SENSE**



**POWER**



**DISPLAY**

# Successful equity raise

£30m placing to fund:

## Liquidity and deleveraging

### Near term liquidity requirement

- Additional liquidity required in H2 2023 for working capital purposes and to support growth
- Terms agreed on extension of the RCF with HSBC

### Delivering a sustainable balance sheet position going forward

- Sufficient headroom in the event macro headwinds persist through H2 2023

## Executing on the strategy

### Ensuring the Company can continue to invest to execute on its strategy

- Forecast capex investment of c.£15m p.a. in both FY 2023 and FY 2024
- Disciplined approach balancing cash preservation and maintaining the growth potential of the business

### Focusing on the most attractive growth areas and essential maintenance capex

- Growth capex prioritised on already committed acquisition of four new GaN tools (being delivered across 2023 and early 2024) and associated facilitation. Other growth capex will be discretionary upon commercial opportunity

# FY 2022 Unaudited Preliminary Financials



**Tim Pullen**  
**Chief Financial Officer**

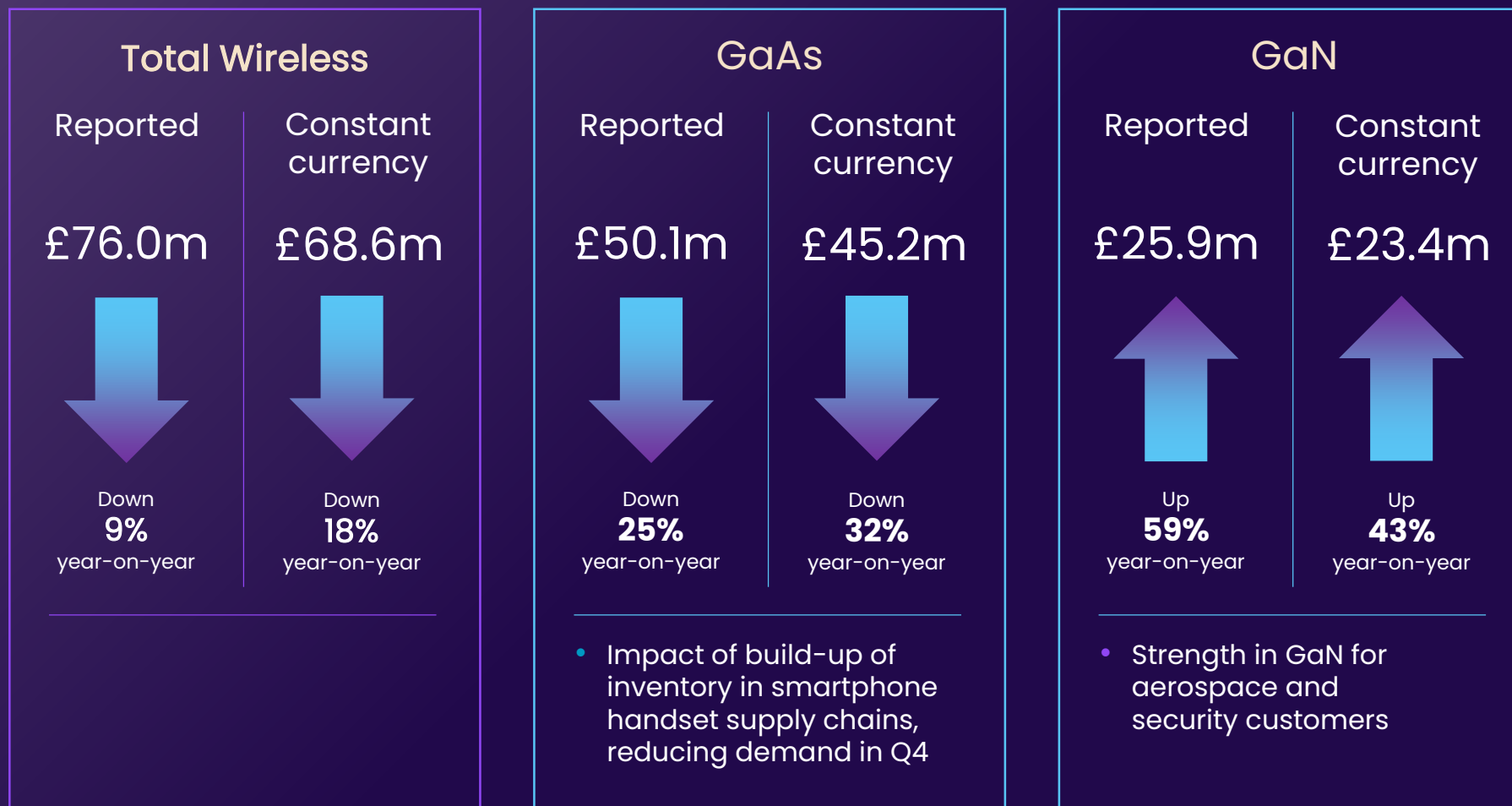


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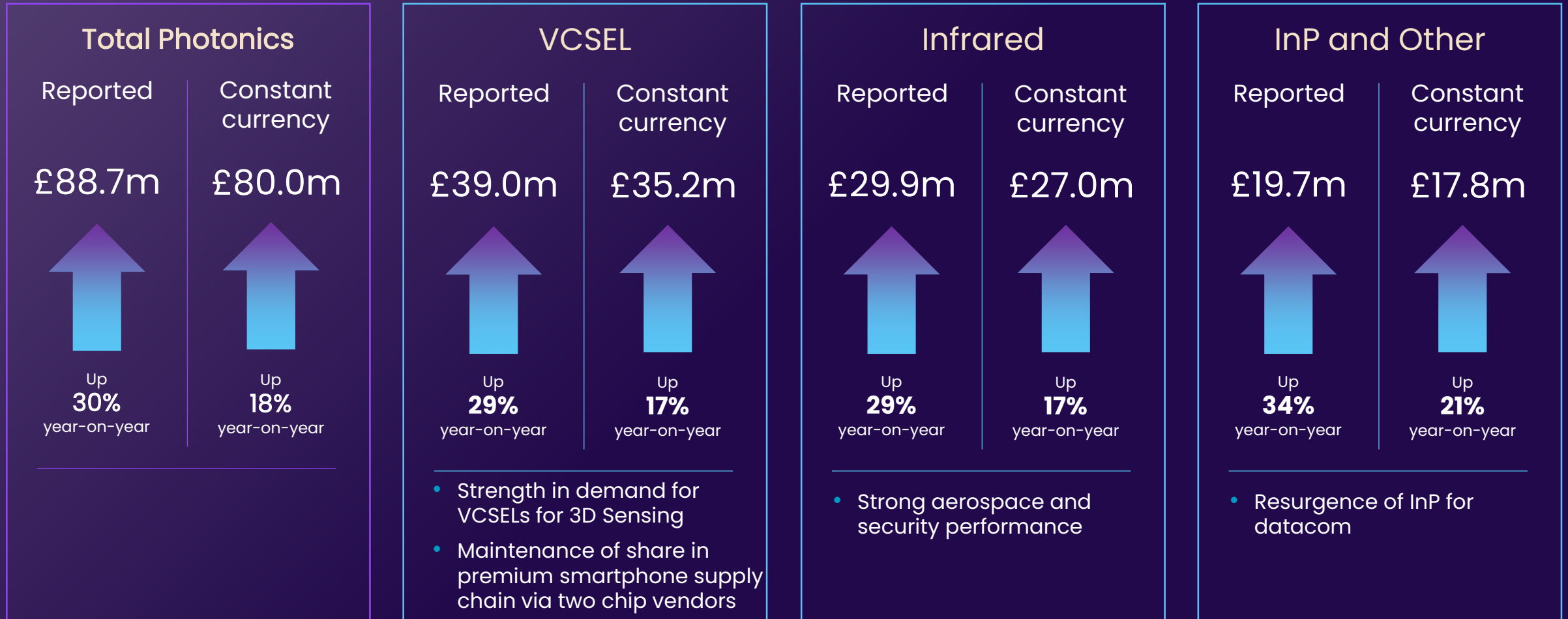
# FY 2022 unaudited financial highlights

	FY 22 Reported	FY 22 Adjusted <sup>2</sup>	FY 22 Adjusted at constant currency	Comments
<b>Revenue</b>	£167.5m	£167.5m	£151.2m	9% YoY reported growth in line with January Trading Update
<b>Adjusted EBITDA<sup>1</sup></b>	£23.4m	£23.4m	£18.4m	Reported Adj. EBITDA Margin of 14%
<b>EBIT<sup>1</sup></b>	£(73.0)m	£(3.6)m	£(7.3)m	Reported loss contains £63m goodwill impairment resulting from current trading conditions
<b>Operating cashflow</b>	£8.9m	£15.7m	N/A	

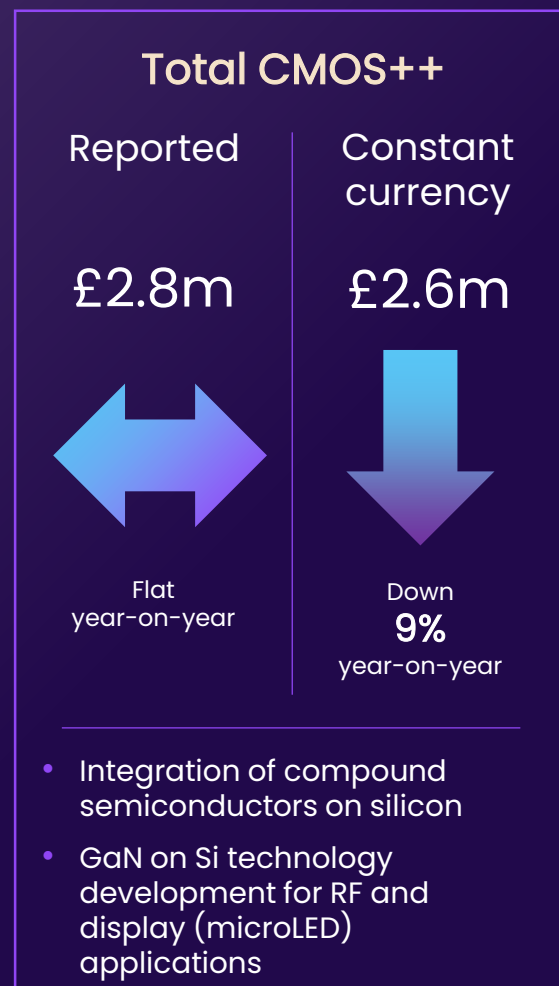
# Segmental revenue – Wireless



# Segmental revenue – Photonics



# Segmental revenue – CMOS++





# FY 2022 capex, cashflow and net debt

## PP&E capex cashflow

£9.4m



Down  
**37%**  
year-on-year

- Disciplined control over spend given market softening

## Capitalised technology development

£3.8m



Up  
**27%**  
year-on-year

- Continued investment in market-led R&D

## Investment in intangibles

£4.7m



Up  
**1,362%**  
year-on-year

- Investment in IT systems to scale for growth

## Cashflow

£15.7m

Adjusted net operating cashflow

£8.9m

Reported net operating cashflow

- Year end cash and cash equivalents of £11.6m

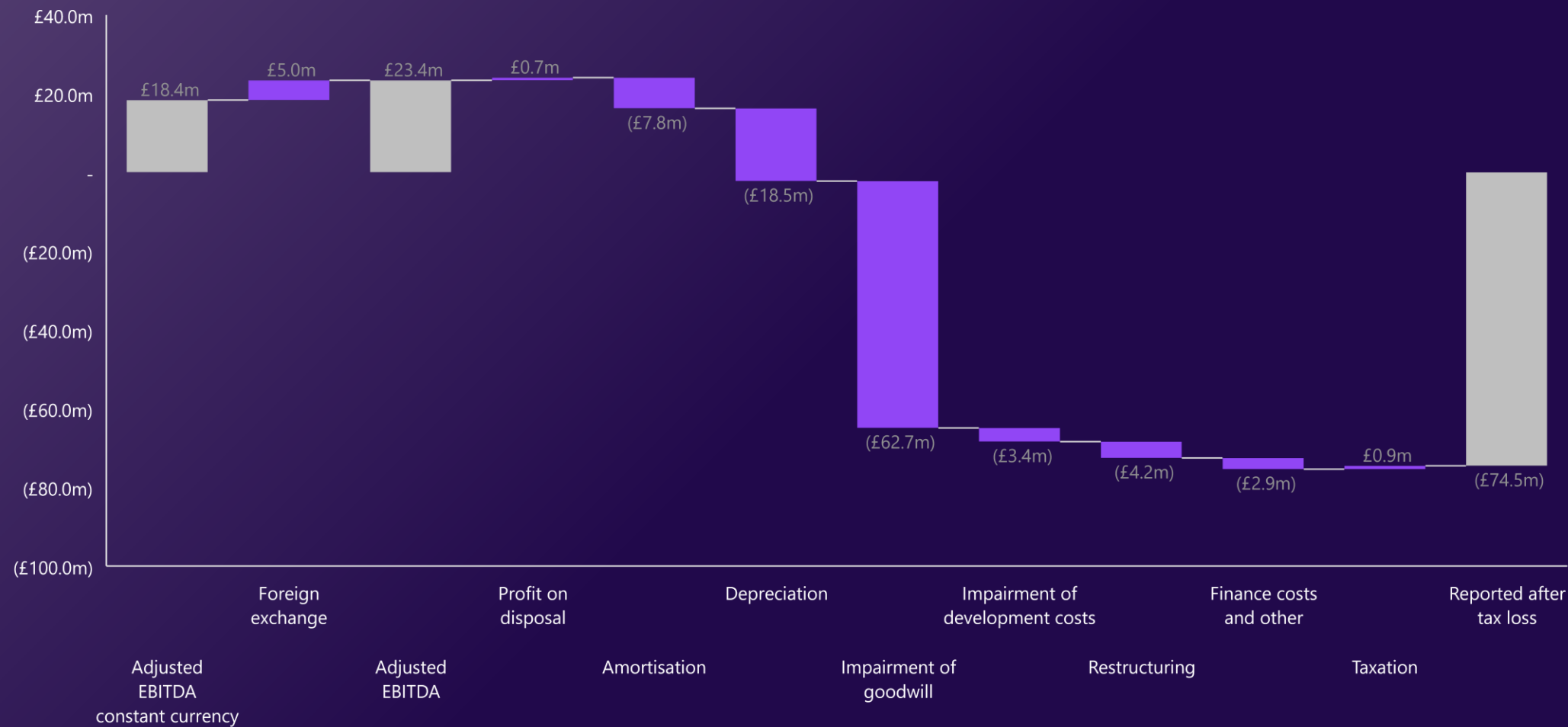
## Adjusted net debt

£(15.2)m

As at  
31 December 2022

- Credit facility extension with HSBC agreed

# EBITDA bridge



# Current trading and outlook

## Strengthening the balance sheet and positioning IQE for growth

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- H1 2023 revenue expected to be in the range of £50–56m due to the industry downturn
- FY23 revenue in line with management expectations set out in March 2023 which include a return to year-on-year growth during the second half of 2023
- Diversification into high-growth markets of power and display, targeting GaN growth opportunities in FY 2024 and beyond

# Actions taken to underpin liquidity

## Cost control and cash preservation measures

- Total labour costs reduced by 10% in FY 2023<sup>1</sup> while maintaining key skills and manufacturing capability
- Forecast reduction of total overheads by c.7% in FY 2023<sup>1</sup> despite inflationary pressures in several categories
- Reduction in travel costs and discretionary spend
- PPE capex minimised to Health and Safety and maintenance levels
- Re-phasing of IT transformation to preserve cash
- Obsolete tool sales to third parties
- Renegotiation of minimum royalty payments on a contract for which an onerous provision was made in a prior period

## Terms agreed with HSBC to renew US\$35m Revolving Credit Facility

- \$35m (c.£28.5m) Revolving Credit Facility extended out by an additional two years to May 2026
- Existing leverage covenant (3x) and interest cover covenant (4x) maintained
- Quarterly covenant testing starting December 2023
- Covenant compliance forecast in base case and downside case forecasts
- Forecast bank interest costs of c.£1.2m in 2023

## Equity Capital Raise

- £30m Placing
- Director participation of c.£2.5m out of £30.0m
- Additional up to £3m REX retail offering to existing shareholders in addition to £30.0m

# Final remarks

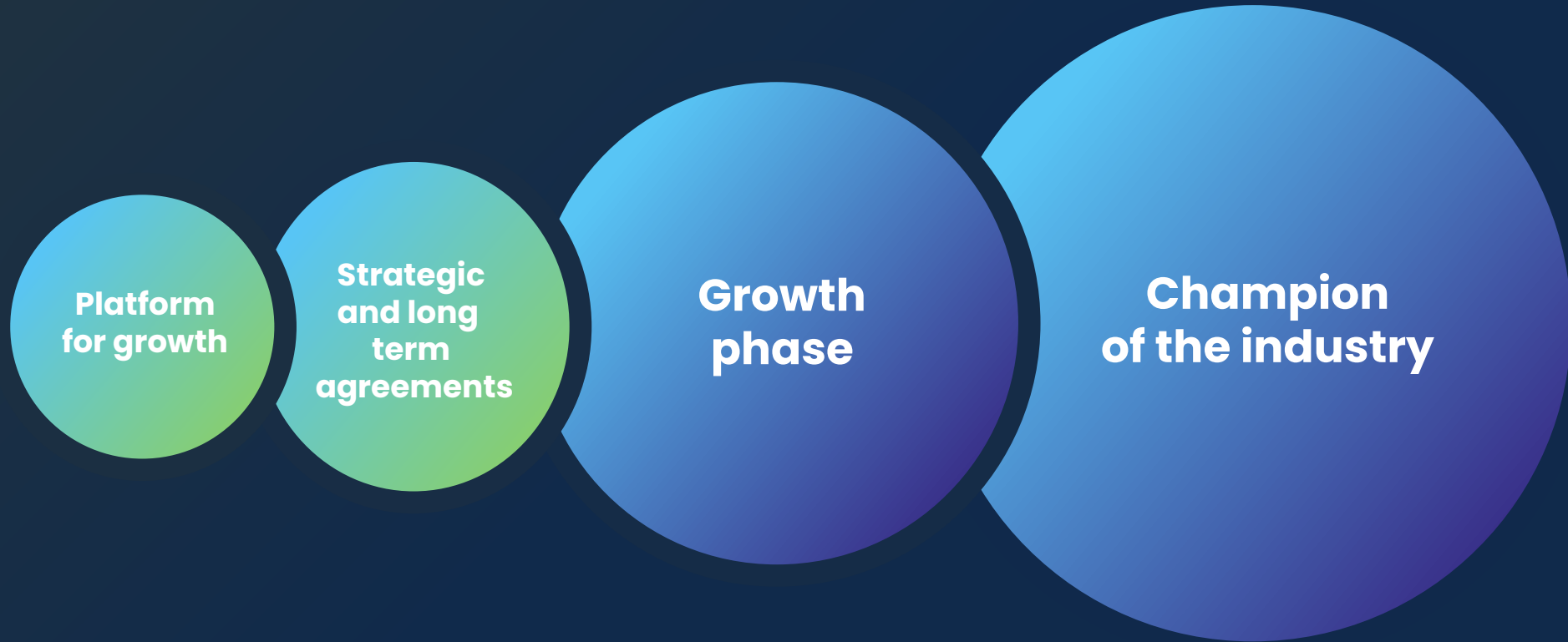


**Americo Lemos**  
**Chief Executive Officer**



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# We have started the journey





# GaN strategy appendix



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# GaN-led diversification strategy

- Advanced material essential for power electronic applications with potential for display applications (microLED)
- General lack of suppliers covering all GaN markets
- Compelling business case for establishing outsourced production
- IQE ideally placed to utilise expertise and track record to grow partnerships with key industry players
- IQE already has capabilities in Connect while Power and Display provide long-term opportunity

## Maintain

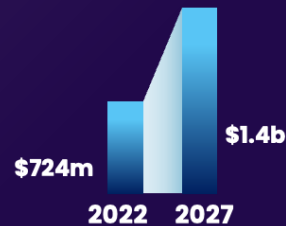
### Connect



Communications  
Infrastructure



Smart Connected  
Devices



**14%**

GaN device CAGR

## Diversify

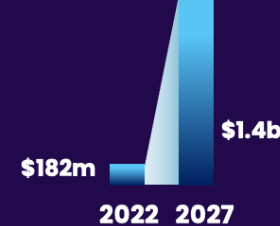
### Power



Smart Connected  
Devices



Automotive  
& Industrial



**50%**

GaN device CAGR

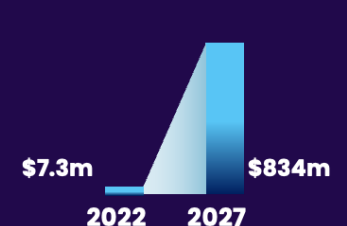
### Display



Smart Connected  
Devices



Automotive  
& Industrial



**158%**

GaN device CAGR

GaN is essential in the drive to Net Zero: enabling smaller, more efficient power devices

# Prioritising market-led growth opportunities

Refocusing capex budget on GaN to capitalise on significant opportunity

Compelling opportunity to gain scale in power electronics

- Overall forecast capex investment of £15m p.a. in FY23 and FY24 maintained
  - Maintain: Existing PP&E capex minimised
  - Diversify: Growth capex focused on GaN, particularly power electronics
- Total GaN programme commitment staggered over FY23–25 due to preferential terms for delivery and payment
  - Four Aixtron G5+ GaN Reactors ordered plus associated facilities investment
  - Provides capabilities for IQE to meet customer demand to develop and qualify products for the GaN power electronics market

Utilises IQE's existing infrastructure and expertise

- IQE is already an outsourced supplier of GaN epitaxy
- Capacity at our Massachusetts facility to mass produce GaN for US market
- Option to expand both in UK and US to meet the requirements of specific long-term agreements
- Utilises existing epitaxy expertise within the group
- The resultant capability and ability to scale will enable the closure of strategic long-term agreements with multi-year mass production revenues

Strategic investment rationale

- Initial deployment on customer funded R&D programmes
- Each reactor capable of generating strong revenues in mass production
- Incremental margin steps the Group towards the >30% EBITDA margin target set out at CMD
- Accelerates diversification of product and customer portfolio
- Builds the resilience of the Group and reduces customer concentration

# Financial results appendix



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# Summary financials

£'million	FY 2022 (£'m)	FY 2021 (£'m)
Revenue	167.5	154.1
Sales, general & administrative costs	(31.2)	(30.3)
Impairment loss on intangible assets <sup>1</sup>	(66.2)	(7.4)
Impairment loss on trade receivables and contract assets	(2.3)	–
Adjusted EBITDA <sup>2</sup>	23.4	18.7
Adjusted EBIT	(3.6)	(6.5)
Reported EBIT	(73.0)	(20.0)
Reported loss before tax	(75.4)	(22.2)
Reported loss after tax	(74.5)	(31.0)
Adjusted net cashflow from operations	15.7	17.9
Reported net cashflow from operations	8.9	18.9
Capital expenditure <sup>3</sup>	(9.4)	(15.1)
Adjusted net debt <sup>4</sup>	(15.2)	(5.8)
Reported net debt	(66.5)	(60.2)
Cash and cash equivalents	11.6	10.8
Reported Diluted EPS	(9.27p)	(3.87p)
Adjusted Diluted EPS	(0.74p)	(2.41p)

<sup>1</sup> Impairment loss on intangibles includes at least £62m of provisional goodwill impairment subject to external audit

<sup>2</sup> Adjustments include impairment of intangible assets, restructuring costs, CEO recruitment costs and share-based payment charges.

<sup>3</sup> Capex stated is Property, Plant and Equipment cash capex

<sup>4</sup> Adjusted net debt is calculated as cash less borrowings but excluding lease liabilities and fair value gains/losses on derivative instruments

# FY 2022 revenue versus prior year

	FY 22 Reported	FY 21 Reported	FY 22 Adjusted <sup>2</sup>	FY 21 Adjusted <sup>2</sup>
Revenue	£167.5m	£154.1m	£167.5m	£154.1m
Adjusted EBITDA <sup>1</sup>	£23.4m	£18.7m	£23.4m	£18.7m
EBIT <sup>1</sup>	£(73.0)m	£(20.0)m	£(3.6)m	£(6.5)m
Operating cashflow	£8.9m	£18.9m	£15.7m	£17.9m
Net debt <sup>3</sup>	£(66.5)m	£(60.2)m	£(15.2)m	£(5.8)m

Note: all financials are unaudited

<sup>1</sup> Adjusted EBITDA, EBIT and net debt adjustments are non-IFRS measures and may be calculated differently and therefore not directly comparable to other companies;

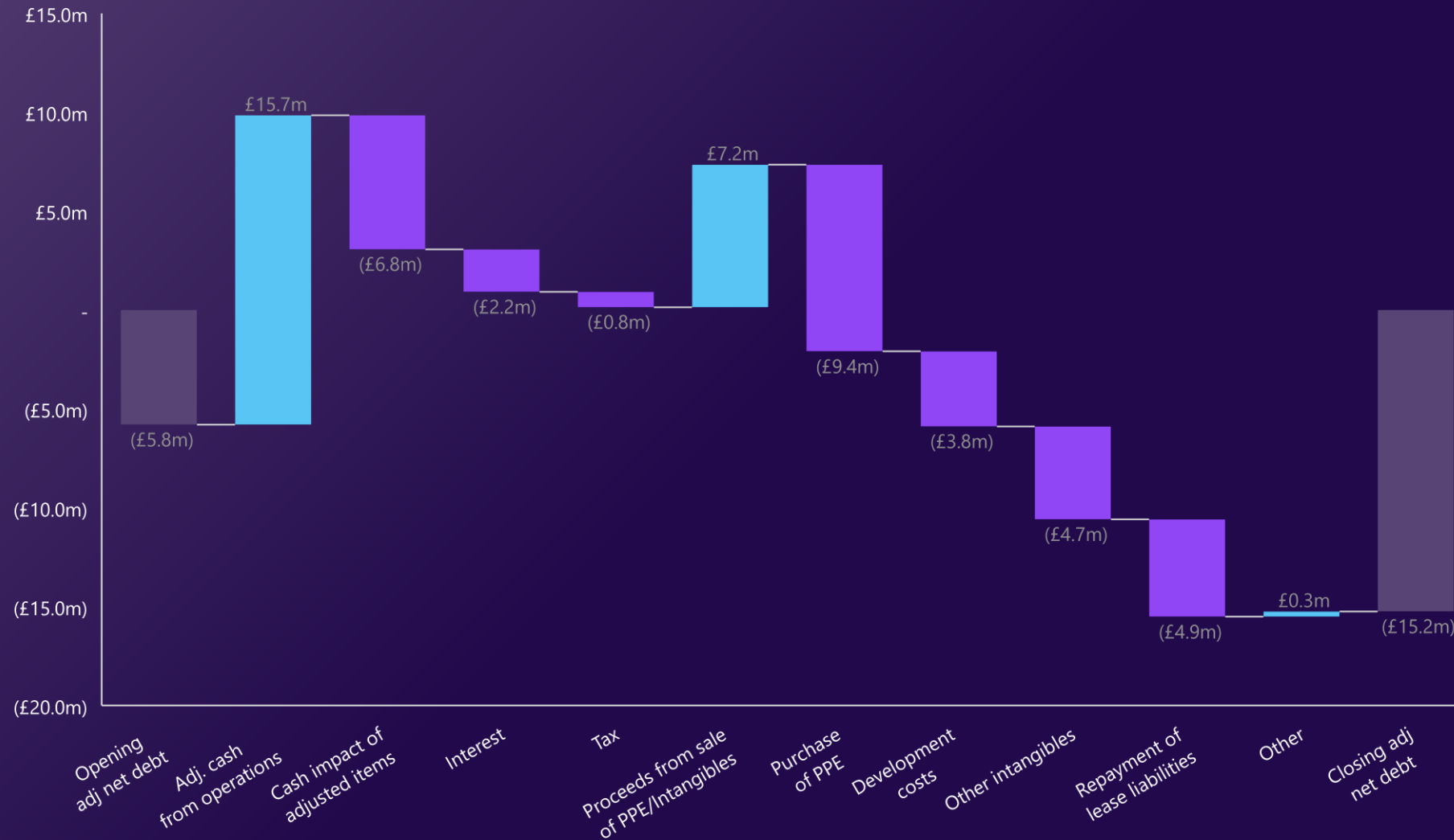
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<sup>3</sup> Adjusted net debt is calculated as cash less borrowings but excluding lease liabilities and fair value gains/losses on derivative instruments

# Adjusted income statement items

	2022	2021
Share based payments	£(0.2)m	£(1.7)m
Share based payments – CEO recruitment	£(0.1)m	–
CEO recruitment*	£(0.1)m	£(0.7)m
Impairment – goodwill	£(62.7)m	–
Impairment – other intangibles	£(3.4)m	£(7.4)m
Restructuring*	£(4.2)m	£(3.7)m
Restructuring – profit on disposal of PPE	£1.3m	–

# Net debt bridge



# Balance sheet

As at 31 December 2022

£'million	FY 2022	FY 2021
Intangible assets	37.0	95.9
Property, plant & equipment	127.1	129.7
Right of use assets	41.4	44.3
Deferred tax assets	-	-
Total current assets	90.6	81.4
Current liabilities*	(40.2)	(42.1)
Bank borrowings due within 1 year	(6.2)	(6.2)
Lease liabilities due within 1 year	(4.8)	(4.7)
Total non-current liabilities*	(3.1)	(3.5)
Bank borrowings due after 1 year	(20.6)	(10.4)
Lease liabilities due after 1 year	(46.0)	(49.7)
<b>Net Assets</b>	<b>175.1</b>	<b>234.6</b>

\* Excludes bank borrowings and lease liabilities highlighted separately



