

IQE plc
(“IQE” or the “Group”)
TRADING UPDATE

Cardiff, UK
24 March 2020

2019 Performance in line with November trading update

Q1 2020 Trading in line with prior expectations

IQE plc (AIM: IQE) the leading supplier of advanced wafer products and material solutions to the semiconductor industry, provides a trading update for the year ended 31 December 2019 and for the first quarter of the 2020 financial year.

2019 Financial Summary *

	FY 2019	FY 2018
	£'m	£'m
Revenue	140.0	156.3
Adjusted EBITDA **	16.2	26.4
Adjusted operating (loss)/profit **	(4.7)	16.0
Adjusted operating cashflow **	16.5	17.0
Capital investment (PP&E)	31.9	30.3
Net (debt)/funds***	(16.0)	20.8

* *This trading update represents a pre-announcement based on unaudited financial accounts. The Full Year Results for 2019 have been delayed due to advice from the FCA and FRC in the context of the evolving Coronavirus situation. A new reporting date will be determined based on future direction from the FCA and FRC.*

** *Adjusted Measures: The Directors believe that the adjusted measures provide a more useful comparison of business trends and performance. Adjusted measures exclude certain non-cash charges and one-off or non-operational items which will be fully disclosed in the Full Year Results at a later date. The following highlights of the full year results is based on these adjusted profit measures, unless otherwise stated.*

*** *Net (debt) / funds excludes IFRS16 lease liabilities.*

2019 Financial Highlights

- Revenue of £140.0m (FY 2018: £156.3m) in line with the November 2019 Trading Update guidance. 10% reduction year-on-year with Photonics growing by 4% and Wireless decreasing by 23%. The year on year reduction in revenue was primarily due to two customers, one in Wireless and one in Photonics.
- Adjusted operating loss of £4.7m (FY 2018: profit of £16.0m) in line with the November 2019 Trading Update guidance, reflecting negative operating leverage and an increase in depreciation and amortisation from targeted investments.
- Capital expenditure of £31.9m was incurred (FY 2018: £30.4m), as the Group completed the infrastructure phase of the capacity expansions at its Newport, Taiwan and Massachusetts sites.
- Adjusted operating cashflow of £16.5m (FY 2018: £17.0m) representing 100% Adjusted EBITDA to Adjusted Operating Cash conversion.
- Net Debt excluding lease liabilities of £16.0m as at 31st December 2019 near the lower end of £15-20m range highlighted in November 2019 Trading Update guidance, reflecting strong working capital management.

2019 Operational Highlights

- **Infrastructure phase of the capacity expansion programme completed:**
 - The Mega Foundry in Newport, South Wales entered production for 3D sensing products, in May 2019 following full and comprehensive end-to-end supply chain qualification with our lead VCSEL customer
 - Capacity in Taiwan has been increased by 40%, enabling growth in revenues within expanding Asian markets. Five tools now qualified for wireless products for a major Taiwanese Foundry, with four currently in production.
 - Consolidation and investment in GaN capacity in Massachusetts completed, to capitalise on forthcoming 5G infrastructure deployments.
- **Newport Mega-Foundry 3D Sensing Production and Qualification progress:**
 - Mass production for existing major supply chain on four tools at year end, with stable demand forecast through H1 2020. Currently five tools in production for this customer
 - Commencement of production in H2 2019 with a second major customer serving Android supply chains
 - Announcement in H2 2019, of device and module qualification with a third major customer related to Android supply chains and other Android qualifications are ongoing

- **Next Generation Product Development:**
 - Continued strong progress in the development of Filters (based on IQE's patented cREO technology) and Switches for 5G
 - Introduction of 10G and 25G Full Service Distributed Feedback (DFB) Laser for high-speed datacoms using Nano-Imprint Lithography, and 10G and 25G Avalanche Photodiodes (APDs), both device types for high speed datacoms serving the 5G infrastructure and datacentre markets
 - Continued Photonics roadmap progress including best in class results for Long Wavelength Vertical Cavity Surface Emitting Lasers (VCSELs) for future smartphone and LIDAR deployment plus lasers and sensors for environmental and health monitoring

- **Evolution of the Board and Executive Management to support growth ambitions and scalability of operations:**
 - Phil Smith CBE, appointed as Chairman
 - Carol Chesney, FCA, as Non-Executive Director and Chair of the Audit Committee
 - Tim Pullen, ACA, appointed as Chief Financial Officer (CFO)
 - Executive Management Board established and fully operational

- **Increase to credit facilities to support navigation of challenging market conditions:**
 - £30m asset financing facility put in place, increasing total available facilities to ~£57m (£25m drawn down at 31st December 2019)

Dr Drew Nelson, Chief Executive Officer of IQE, said:

"In 2019 IQE faced extremely challenging market conditions and our financial performance reflects the considerable disruption in global semiconductor markets and supply chains, caused by the geopolitical environment.

We remain confident in IQE's ability to adapt to changes in global technology markets as a result of our geographic and product diversity. We have also made significant strategic and operational progress in 2019, including the completion of the infrastructure phase of our global expansion projects.

The spread of coronavirus has introduced significant near-term uncertainty into global economies and markets. However, to date we have not experienced any significant disruption to our current production or order intake relating to coronavirus, but we have implemented appropriate business continuity measures and we are well placed to withstand the near-term market uncertainty. We continue to monitor this fast-moving situation very closely".

Q1 2020 Trading Update

IQE has been trading in line with expectations in the first quarter of 2020.

Forecasts from customers are relatively strong with high levels of production in March in particular, for Wireless products and 3D Sensing VCSELs. The revenue trajectory for March is currently on a weekly run rate significantly higher than average monthly revenue for 2019.

2020 Outlook

Concerns over the spread of Coronavirus (COVID-19) are currently creating significant near-term uncertainty across global markets. At the time of this announcement, IQE's production has not been affected by any disruption. All our sites continue to operate as normal and as stated above, IQE is trading in line with expectations.

There is a still-evolving risk to future production at IQE or at others within our supply chains. However, as a critical technology supplier, IQE is less likely to be affected by 'lockdown' scenarios than other businesses. This is evidenced by our classification as a *critical infrastructure provider* in both the States of Pennsylvania and Massachusetts where the Department of Homeland Security deems IQE to have a "*special responsibility to maintain (our) normal work schedule*".

The effects of Coronavirus on global economic output in 2020 and on semiconductor demand are as yet uncertain. Given the significant current levels of uncertainty, we are unable to provide more explicit guidance at this point in time.

The Group has access to material debt facilities should it be required in the event of a significant downturn. IQE has a long-standing and trusted relationship with our bankers HSBC who remain supportive. We are in close ongoing dialogue regarding the evolving effects of Coronavirus on supply chains and markets. In the event of a significant slowdown, we will work proactively with HSBC to ensure the ongoing liquidity of the Group.

We continue to monitor the Coronavirus situation very closely and will update the market as the situation evolves.

2020 Investment Guidance

With the infrastructure phase of the capital investment programme completed in 2019, the PPE cash capex guidance for 2020 is set at less than £10m. The Group will continue to invest in R&D programmes to underpin future growth opportunities, with intangibles capitalisation in 2020 expected to be less than £10m. Capital spend can be reduced further if conditions require additional cash preservation measures.

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ABOUT IQE

<http://igep.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. 650 employees across nine manufacturing locations in the UK, US, Taiwan and Singapore, and is listed on the AIM Stock Exchange in London.