



IQE plc Interim Results Presentation

8 September 2020



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Introduction and Business Update

Drew Nelson, CEO

Introduction

Record revenue performance and strong cash conversion



Financial Highlights

Revenue

£89.9m

In line with June Trading Update;
+35% year-on-year

Adjusted Operating Profit

£4.3m

Return to profitability

Adjusted Cashflow from Operations

£16.2m

c.100% Adjusted
EBITDA conversion

Net debt

(£7.4)m

£8.6m reduction since FY19 due to strong
cash generation from operations and
reduced capex

Business Performance

Record trading despite a challenging global context

Resilience

Continuous production and no disruption incurred during COVID period

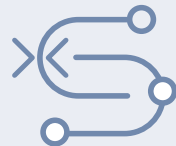
Strong underlying market demand with focus on telecommunications and connectivity during a period of social distancing and remote working



Operational Progress

Continued improvement in utilisation and productivity across Group manufacturing sites

Consolidation of US MBE activities in the North Carolina site by 2024



Wireless Growth

Over 50% year-on-year growth in H1

Strength in sales of wafers for Power Amplifiers driven by 5G handset launches

Significant growth in GaN on SiC wafers for antenna elements deployed in 5G infrastructure roll-outs



Photonics Demand

Over 20% year-on-year growth in H1

Continued growth in existing major supply chain for 3D sensing driven by content gains

Strong laser demand for communications, aerospace and military applications

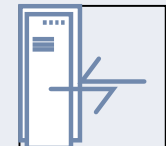


Macro Trends

IQE continues to be well placed to execute opportunities in 5G and connected devices

5G will be a multi-year replacement cycle and transformation in how we live and work

We are just at the start and the path will not be linear





Interim Financial Results

Tim Pullen, CFO

Summary Financials



£'million	H1 2020	H1 2019
Revenues	89.9	66.7
Adjusted EBITDA¹	16.3	7.4
Adjusted operating profit / (loss)	4.3	(1.9)
Reported LBT	(6.2)	(3.7)
Reported LAT	(5.0)	(10.7)
Net Cashflow from Operations (Adjusted)	16.2	6.7
Net Cashflow from Operations (Reported)	15.1	4.0
Capital expenditure²	1.1	19.1
Net debt³	(7.4)	(0.8)
Adjusted fully diluted EPS	0.28p	(1.29p)

1 Adjusted performance measures exclude the impact of certain non-cash charges and one-off or non-operational items fully disclosed in the interim statement

2 Capex stated is Property Plant and Equipment cash capex

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

Record first half revenues, return to profitability and reduction in net debt

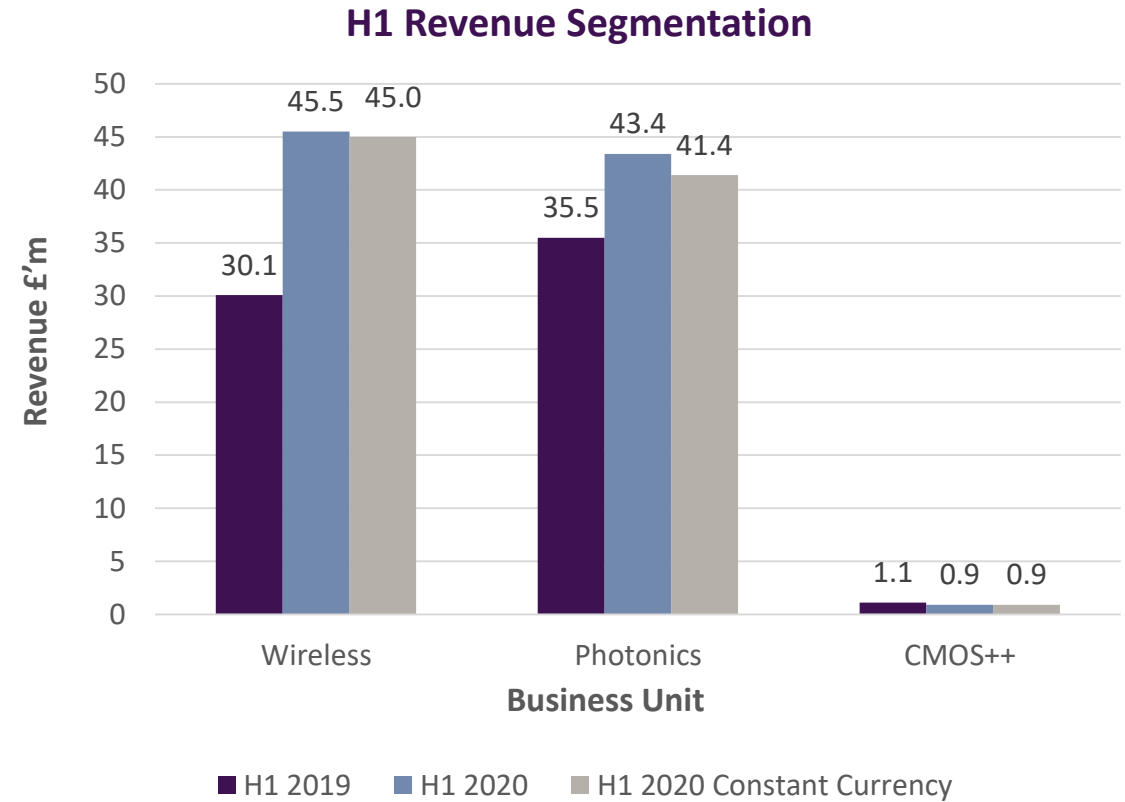
- Revenue of £89.9m representing 35% year-on-year growth and a record first half revenue performance for the Group
- Adjusted operating profit of £4.3m representing a return to profitability driven by additional volume against the Group's high operational gearing
- Reported operating loss of £5.0m primarily as a result of the non-cash write down of certain development intangibles, patents and recognition of an onerous contract provision, related to cREO technologies
- Decision to focus cREO development on filters and pause other cREO development due to re-assessed timing of anticipated revenue streams for the technology
- Adjusted cash inflow from operations of £16.2m representing c.100% Adj EBITDA conversion
- Strong liquidity with a net debt of £7.4m, which has reduced by almost £9m since year end FY19 as a result of strong operating cash generation and lower levels of capital investment

Revenue Segmentation

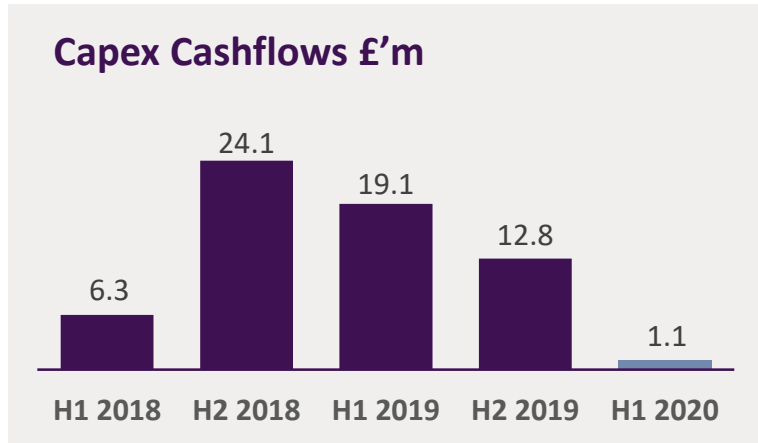


Segmental P&Ls

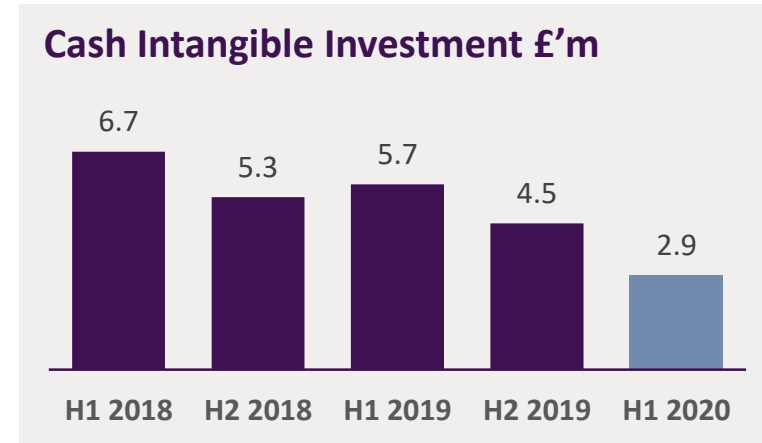
Revenue £'m	H1 2019 (6 mths)	H1 2020 (6 mths)	YoY Change (%)
Wireless Revenue	30.1	45.5	+51%
Photonics Revenue	35.5	43.4	+22%
CMOS++	1.1	0.9	-12%
Total Revenue	66.7	89.9	+35%



Capital Expenditure



- Cash capex of £1.1 million
- Reduction in capex due to the completion of the infrastructure phase of the Group's expansion in Massachusetts USA, Hsinchu Taiwan and Newport Wales
- FY 2020 PP&E capex of no more than £10m
- Any tool investment will be linked to anticipated future demand for specific products

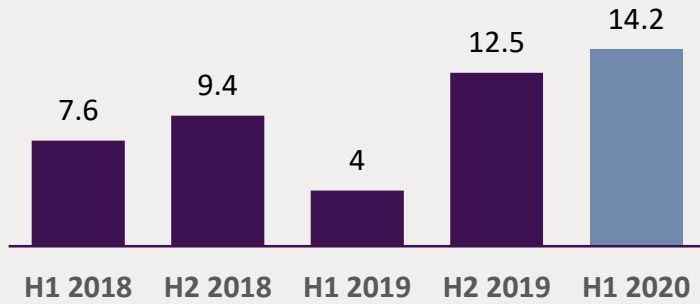


- Purchase of intangibles (primarily patents) and technology development costs
- Continued investment in R&D to support technology roadmap

Cashflow and Net Debt

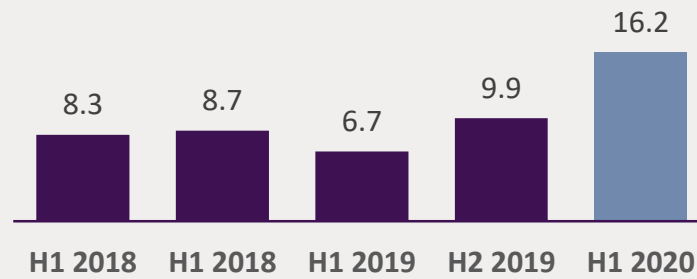


Cash generated from operations £'m



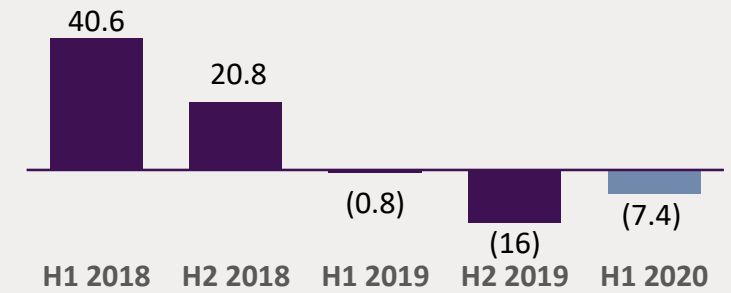
- £14.2m cash from operations before exceptional items
- c.100% Adj EBITDA cash conversion

Adjusted cash flow from operations £'m



- c.100% Adjusted EBITDA conversion

Net Debt £'m



- Net debt reduced by £9m as a result of strong operating cash generation and reduced capex
- Liquidity remains strong and IQE has access to material debt facilities totalling c£57m

Balance Sheet

As at 30 June 2020



£'million	H1 2020	H1 2019
Intangible Assets	114.6	123.3
Property Plant & Equipment	135.2	136.6
Other non-current Assets	46.6	58.2
Current Assets	92.3	85.8
Current Liabilities*	(38.0)	(44.3)
Bank Borrowings	(24.8)	(12.0)
Lease Liabilities	(48.1)	(49.3)
Other non-current liabilities	(3.7)	-
Net Assets	274.1	298.3

* Excludes bank borrowings and lease liabilities highlighted separately



Business Outlook and Guidance

Tim Pullen, CFO

Financial Outlook



- To date the Group has not provided full year guidance due to the uncertainty of the global pandemic and anticipated global recession. Despite this environment, performance to date has been strong and IQE's customers have recently reported positive trading updates and outlooks, underlining the resilience of the sector.
- In this context, the Group now provides full year FY20 revenue guidance of at least £165m equating to full year revenue growth of at least 18%.
- The Group expects to deliver at least a mid-single digit adjusted operating profit for FY20.
- The Group reiterates PP&E cash capital expenditure guidance of no more than £10m. Any investment in additional tools will be linked to future revenue opportunities.
- The rate of growth into 2021 will be affected by prevailing macro economic conditions.



Strategic Update

Drew Nelson, CEO

H1 2020 Progress on Strategy



Investing in the future of compound semis



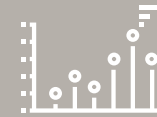
Strategic Goal

- Leveraging and expanding the IP Portfolio
- Developing new products
- Targeting new market entry
- Innovation in integration and miniaturization

Progress

- Full-service DFB lasers for data comms using Nano-Imprint Lithography
- Quasi-Photonic Crystal for VCSEL module integration
- Infra red lasers for environmental and health monitoring
- 5G Front End Module integration – opportunities in Switches and Filters
- Focusing cREO development on Filters with ongoing partner engagement

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

- Capital expenditure significantly reduced following completion of the infrastructure phase of the capacity expansion
- Closure of IQE's Pennsylvania US site by 2024 and consolidation of MBE development and production at the North Carolina US site announced to staff and customers in August

Expanding Margins and Cashflows



Strategic Goal

- Superior unit economics from superior yields and economies of scale
- Customer and market diversification
- Shift to Materials Solution Provider

Progress

- Site utilisation significantly improved vs FY19 levels
- Return to profitability as a result of additional volume and high operational gearing
- Strong operating cashflow reported for H1 2020 with a reduction in net debt strengthening liquidity

IQE Technology Roadmap



Short Term

5G Infrastructure Rollout:

- 5G Base Stations
- GaN on SiC



High Speed Datacoms:

- 10G & 25G DFBs (Distributed Feedback Lasers)
- 10G & 25G APDs (Avalanche Photo Diodes)
- PIN detectors



5G Handsets:

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



3D Sensing Content Gain:

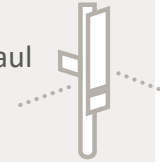
- World-facing camera (ToF / Lidar)
- Premium Android market



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



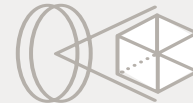
5G Handsets:

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



Advanced Sensing Applications:

- Wearables / consumer devices
- Commercial and industrial applications
- Quasi Photonic Crystal for module integration



Long Term

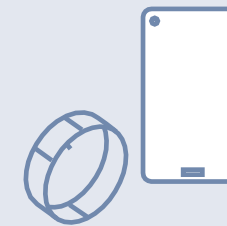
Environmental & Health Monitoring



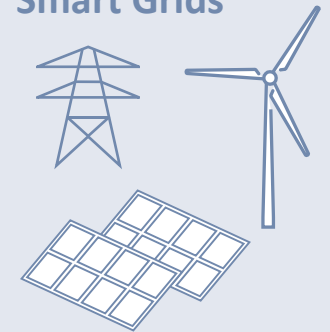
LiDAR



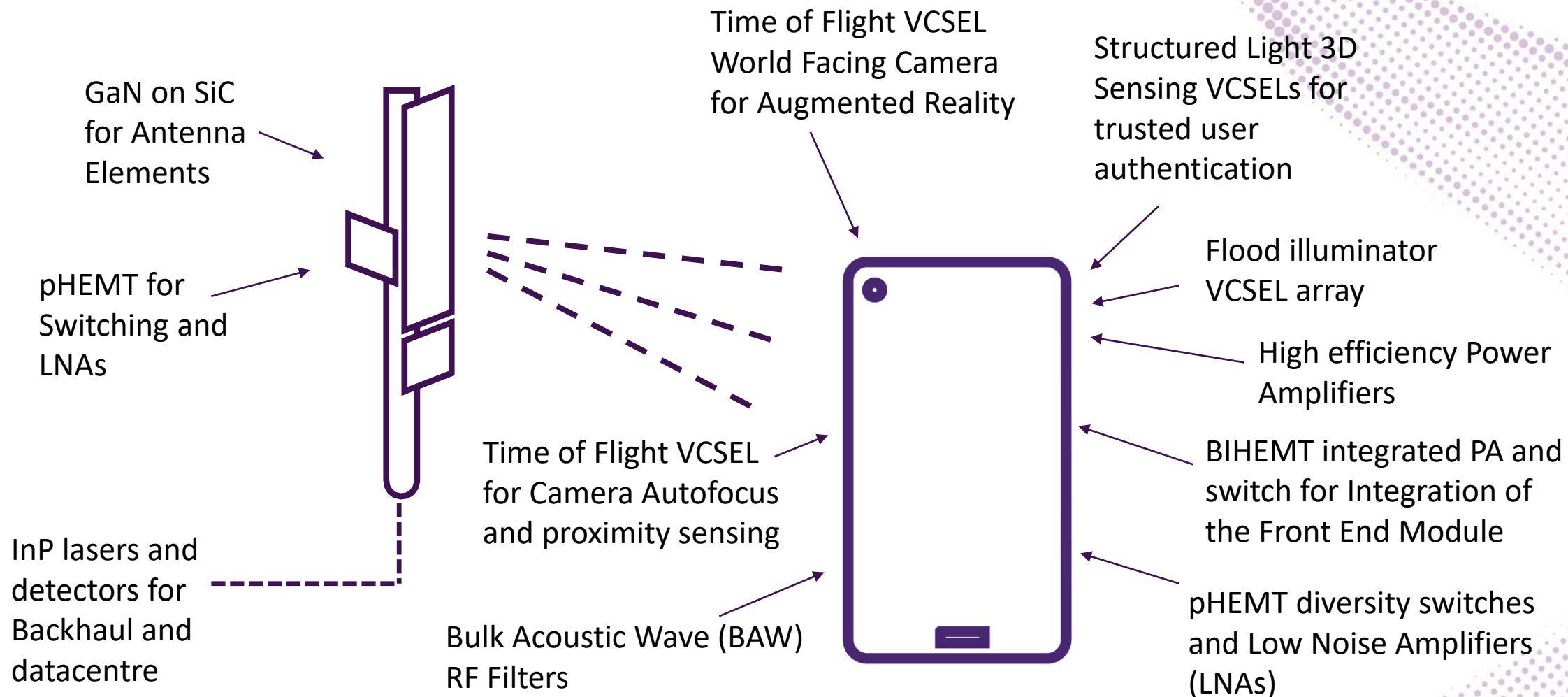
Connected Devices



Efficient Power & Smart Grids



5G is enabled by the performance of compound semiconductors



Summary



- Record Revenue performance in H1 2020, despite an unprecedented and uncertain environment
- Return to profitability with strong cash generation and liquidity
- Continued progress in technology development
- Some risk of delay to 5G deployments due to global market factors
- Multi-year 5G mega replacement cycle may not be linear but it will transform the way we live and work
- IQE's technologies will be at the heart of this transformation