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Q4 / FY24 Earnings Call Introduction Script

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Aldo Kamper (CEO), Rainer Irle (CFO), Dr. Jürgen Rebel (Head of IR)

Juergen Rebel (Head of IR)

Good morning. We welcome you to our latest business and financial update on fourth quarter and fiscal year 2024.

Our CEO Aldo will comment on business and strategy.

Our CFO Rainer will focus on financials.

During the call, we are referring to the earnings call presentation on the web.

First, we look at the fourth quarter. Second, we look at the full year.

Please note, we always provide an extensive, full IR presentation on our website for further details.

Aldo, the stage is yours.

Aldo Kamper (CEO)

Thank you Juergen and good morning, everyone, from my side as well.

We are on track. We generate cash. Our turnaround is in full swing. 'Re-establish the Base' is ahead of plan. The savings are showing its effects more and more in our profitability – despite heavy headwinds during the year and the quarter.

Let us look at the financial performance of the group on slide 2.

[Slide 2 – Q4 group performance]

Revenues came in flat quarter-over-quarter at 882 million Euro, above the mid-point of the guidance. Tailwind from the stronger USD helped a bit.

In brief, the strong seasonal aftermarket auto-lamps business compensated a small seasonal and cyclical quarter-over-quarter decline in semis.

Year-over-year we are only down 3%, despite the weaker I&M and auto semi markets and the phase out of an OEM lamps module business.

Now on profitability. Adjusted EBITDA margin improved year-over-year by 50 basis-points to 17%, thanks to 'Re-establish the Base' and the non-refundable engineering payments that we keep receiving.

Why down 16 million Euro quarter-over-quarter?

We reduced wafer starts in Q4 to reduce inventories.

We had customer engineering payments in both quarters, but Q3 was higher due to some catch-up payments. But with 150 million Euro the same absolute number as a year ago on a lower revenue base.

Now quickly on the segments.

[slide 3 – Lamps and Systems]

Page 3 – a look at the traditional halogen lamps business.

Revenues were 18% up quarter-over-quarter. The seasonal halogen lamp aftermarket business came in strong as every year – you can almost set your watch by it.

A year ago, we still had some legacy OEM module business running, which explains the slight year-over-year decrease.

Within the 275 million Euro, we had around 45 million Euro of specialty lamps sales for industrial and entertainment applications. A bit up compared to last quarter, but no real change to the relatively low market dynamics. Though, we are convinced that we are starting to see the bottom of the cycle in this area.

The strong auto lamps aftermarket season drove adjusted EBITDA up by 35%. We recorded 50 million Euro or 18.2% after 37 million Euro in third quarter.

Now it's time to look at the semiconductor business.

I am on slide 4, OS first.

[slide 4 – OS]

Opto Semis came down 8% quarter over quarter. A bit seasonal, a bit cyclical, we come to that. Revenues at 350 million Euro after 381 million Euro last quarter.

Again, we booked non-refundable engineering payments for a LED technology project on which we cannot share any more details.

But as I said: in Q3 we got even more of those engineering payments. They will recur every quarter for the time being. And one day, if successful, this project will turn into a whole suite of new products.

Adjusted EBITDA came down to 51 million Euro.

Three main reasons.

First, in Q3 we had roughly double the normal, quarterly non-refundable engineering payments due to a catch up.

Second, fall-through in line with the lower revenues.

Third, we reduced wafer starts to reduce inventories.

[Slide 5 – CSA]

Now on slide 5, the results for our sensors and ASICs business. They did well in Q4. Revenues down just 3 percent in line with seasonality in smartphones and wearables, coming in at 258 million Euro.

Adjusted EBITDA even went up by 15% to 55 million Euro compared to the third quarter, despite the lower revenue base.

'Re-establish the Base' brings an improved cost position, but we also benefitted from a one-off accrual effect as well. On top, the stronger USD proved a bit helpful.

[slide 6 – semiconductor end markets]

We move on to slide 6 on end-market dynamics.

Semis in total came down 3% year-over-year and 6% quarter-over-quarter.

This can be explained by looking at the main verticals.

First Automotive – our biggest exposure. Revenues came in even a bit better than we thought, 3%

up, where we had guided flattish quarter-over quarter.

Sequential demand was indeed down with the ongoing uncertainty in the supply chain. However, we succeeded in reducing the order backlog for some scarce parts. In addition, new position sensor projects ramped up and revenues there grew noticeably. The 14% decline year-over-year both due to the inventory correction and as well as the high basis of comparison. Q4 2023 has been our record quarter for auto semi revenues so far.

Second, Industrial and Medical – this is still the weakest of all. Horticulture revenues declined as the peak installation months are during the third quarter of each year, when new greenhouse lighting fixtures are installed for the winter season. The professional lighting segment actually is still OK.

Mass market and medical – no news, but it feels like we have reached the bottom.

Third, consumer, where we are mainly supplying sensors to smartphones and wearables. A strong quarter with 210 million Euro sales. The seasonal decline of 9% comes after the typical peak Q3 quarter, when large new mobile phone platforms ramp. Demand from the Android space remained very healthy, some parts were even becoming short in supply.

The next slide is for you, Rainer – we are talking about your favorite subject – cash flow.

Rainer Irle (CFO)

[slide 7 – Q4 Cash Flows]

Thank you, Aldo, and hello everyone from my side as well.

When we tapped into the EUR bond, we said that we wanted to use the proceeds to reduce supply chain financing. Which we did.

In Q3, we benefitted from a 250 million Dollar customer prepayment that boosted operating cash flow. We did not get such a prepayment in Q4, but another tranche of non-refundable engineering payments.

As such, fourth quarter operating cash flow came in strong with 79 million Euro, as you see in the table at the bottom of the slide. We actually reduced factoring in Q4 by around 100m EUR, and you can image how strong it would have been without that effect.

You can also see the improvements from ‘Re-Establish the Base’ kicking in.

Inventories went down a bit in Q4 due to reduced wafer starts.

Just for the avoidance of doubt, net interest paid is always included in the definition of operating cash flow and FCF.

Now on CAPEX. Basically, flat with 104 million Euro in Q4, but almost half of that number – more than 45 million – were still payments from the microLED equipment overhang.

Q4 was the last quarter with a significant burden from microLED. Without that, we would have already been below our 8% Capex to Sales target.

Looking at inflows from divestments at the bottom of the table. The 27 million Euro are almost entirely from microLED equipment that we were able to re-sell.

All-in-all, this led to positive Free Cash Flow in the fourth quarter.

Now, we are obviously proud of the chart on the right side. We turned a heavily negative Free Cash Flow into a positive one within one year. From minus 332 million Euro to positive 12 million Euro.

We could reign in Capex significantly.

We implemented ‘Re-Establish the Base’ faster.

We could leverage our leading technology position to receive significant upfront payments by customers, which in the end made this success possible ahead of time.

A clear indication that the company is back on track.

And now, back to Aldo for the full fiscal 2024 strategy and business summary.

Aldo Kamper (CEO)

[slide 8 – FY24 achievements]

Thank you, Rainer. And I'm now on slide 8.

2024 presented some surprising challenges.

The biggest headwind was certainly the cancellation of the microLED cornerstone project.

Later in the year, the weaker auto demand came on top.

We reacted fast and decisive and I am pleased with what we achieved in these circumstances.

Before we touch upon some of the points in more detail, let me share the major achievements from my perspective:

- The focus on the core-portfolio in the semiconductor business has proven itself right. We showed a solid 7% revenue growth when you correct the reported revenues in semis for the contribution from the exited non-core business.
- The savings from our 'Re-establish the Base' strategic efficiency program are exceeding the FY24 targets and starting to show effect. It will be much more visible in 2025 with improving profitability.
- The non-core semiconductor portfolio is almost entirely out of the door. Customers might still place some very last orders.
- Technology leadership is at the heart of our strategy and structural growth ambition. As you know, we won the 'German Future Award' for our latest automotive forward lighting solutions and customers entrusted us with cutting-edge technology developments that they are paying for.
- New business was won almost at the same pace as in 2023. Close to 5 billion Euro of design-wins stand on the tally.
- We stabilized and improved company profitability despite the hit from the discontinued large microLED program.
- And above all – most importantly – we finished the 2024 with a positive Free Cash Flow including net-interest. Customer prepayments were pivotal for this achievement.

With that, let's take a look at the business - slide 9.

[slide 9 – FY24 revenue comparison]

In 2023, we divested about 124 million Euro of revenues in the lamps segment.

At constant currencies and same portfolio, revenues would have stayed almost flat with just 1% down year-over-year in a like for like comparison.

For fiscal year 2024, we recorded in total 3.43 billion Euro, with a small currency headwind of 9 million Euro.

Now considering 'Re-establish the Base' and ignoring the non-core portfolio revenues, we grew 4% year-over-year on group level.

Lamps business declined year-over-year by 14%.

Like-for-like the decline was minus 4%. I just mentioned that we had sold a number of unprofitable businesses in 2023. The 4% decline was essentially because of exiting some OEM module businesses.

Looking at semis – reported revenues stayed flat.

But, if we look at the core-portfolio only, we've seen an increase of approximately 7% year-over-year.

Very nicely in line with the mid-term trendline growth ambition for our semi-conductor business.

If we look one level deeper, it is certainly evident that the growth in the core comes from the re-bound of the Consumer business, driven by launching of new products – including the regained ALS socket we had spoken about earlier. We grew by almost 90 million Euro year-over-year in consumer applications to 769 million Euro.

Automotive was just slightly down despite the inventory correction that hit the second half of 2024. Approximately, 980 million Euro vs. 1 bn a year ago. Industrial and medical was also down in 2024, reaching a low of around 680 million Euro, which looks to be the bottom of the cycle.

With that, back to Rainer for more details on the financials.

Rainer Irle (CFO)

[slide 10 – FY24 financials]

Yes, thank you, Aldo. And we are now on slide 10.

With reported revenues and absolute EBITDA down, EBITDA margin stayed flat at 16.8%. Supported by 'Re-establish the base', we were on track to improve the margin, but then the auto market slowdown in H2 spoiled the party.

We often get asked, where we see the great progress of 'Re-establish the Base' in the numbers.

Now, you see it in the EBIT number on the right-hand side. A lower cost base and the gradual phase out of non-profitable products led to an improved adjusted EBIT margin by 50 basis points. But you can also see it if you look a bit deeper into lower R&D spending and lower SG&A. Again, once markets improve, it will certainly become more visible.

[slide 11 – net earnings and EPS]

We switch to slide 11 – net earnings and earnings per share.

On the left, you find the adjusted figures.

While adjusted EBIT was up a little, adjusted net result declined year-over-year by 47 million Euro. The higher interest cost after placing the 10 and 12.5 percent notes in 2023 took their toll. On top, the income tax cost went back to normal after we had a positive one-off effect of about 20 million Euro deferred taxes in 2023.

Consequently, adjusted earnings per share also declined steeply. From 1.61 Euro to just 0.03 Euro cents. Please note the different share counts in FY23 and FY24.

Now, the IFRS net result improved by 828 million Euro to a negative 785 million Euro in 2024. Much improved but still a light-year away from where it needs to be and where we want it to be.

It must become positive as quickly as possible and we are working on it.

Looking a bit deeper, we had to write off 1.3 bn goodwill in June 2023.

Last year, we had to bear more than half a billion of microLED strategy adaption expenses and also other transformation cost including 'Re-establish the Base' amounted to 100 million Euro on top.

As a result, the earnings per share are still negative in 2024 minus 7.94 Euro.

[slide 12 – Status 'Re-Establish the Base']

Now, on to page 12. I just mentioned the important contributions from 'Re-Establish the Base' to the bottom line already in 2024.

Let us take a closer look. End of third quarter, our realized run-rate savings stood at 85 million Euro as we reported last quarter. Our progress in implementing the program continues. End of December, we can report 110 million Euro of implemented run-rate savings – well ahead of the 75 million Euro end-of-2024 target.

Last time, we upsized the program to 225 million Euro run-rate savings by the end of 2026. We have already identified and planned all necessary measures and actions to realize that.

When it comes to the old, non-performing non-core portfolio, we can report that the accelerated end-of-life is basically done, as Aldo mentioned. Some final orders might still come in though this year.

[slide 13 – Gross Profit and OPEX comparison]

We just talked about the positive contributions of 'Re-Establish the Base' to the bottom line.

Look at slide 13. Gross margin stayed around 29%. However, during the year, we rationalized quite a number of production lines, the full effect of which will be seen in 2025.

You can observe the implemented savings best in the OPEX. Both adjusted R&D expenses and adjusted SG&A came down by 9% and 8% respectively.

Now, switching gears from the P&L to the balance sheet.

[Slide 14 – maturities / cash balance]

You find the latest update on debt, liquidity and maturities on slide 14.

Our cash balance remained unchanged. We had 1.1 billion Euro cash on hand end of the year.

By the end of December 2024, we paid back the short term bi-lateral facilities, however, we also received 140 million Euro in new bilateral loans – exactly, as we told you we would.

Next in line is the 2025 Convert. We are going to pay it back at maturity in March from cash on hand.

The value of the Malaysia Sale and Lease Back transaction remained stable at 441 million Euro as interest accrual was offset by FX effects.

This brings us to a pretty much unchanged net-debt position of 1.85 billion Euro compared to the previous quarter.

The outstanding minority put options amount stood at 585 million Euro or 14% of outstanding shares end of December. So, at the end of 2024, we only saw a small amount of shares tendered.

Our Revolving Credit Facility could in principle fully cover an exercise of all outstanding minority put options.

Taking cash, RCF and bilateral lines into account, our available liquidity remains strong at around 1.76 billion Euro.

The factoring lines that we reduced in Q3 and Q4 are still available but not shown here and would add to that.

On the right, you find the maturity table of our out-standing debt.

And with that, Aldo, please tell us the latest update on new business and technology.

Aldo Kamper (CEO)

[Slide 15 – new business wins in 2024]

Thank you, Rainer, and let's please switch to slide 15.

Winning new business is essential for our structural growth model in semis.

Fiscal year 2024 was again a very successful year in this respect.

We could book well over 1 billion Euro of new wins in the fourth quarter despite the slowdown in autos and the weak industrial and medical market.

This brings the full year tally close to the 5 billion Euro mark again. The new wins in the fourth quarter were very well distributed with many smaller projects reflecting the broad business traction that we are enjoying. Still a few wins stand out.

We made especially good progress in China with our automotive products. Our products convinced another leading Chinese OEM and we landed multiple design-wins with a broad portfolio at that OEM that will feature in many new models.

But the momentum also continued in many other applications – nice wins in professional lighting, and new sockets for our spectral and TOF sensors in Android smartphones as well.

In a full year or to-date view, the new business won accumulates to remarkable numbers.

[Slide 16 – sensors for robotics]

Now, let's take a look at slide 16.

You hear and read so much about the wonderful new world of AI driven robots and robotics in general.

This is an interesting application for sensor suppliers like us. All these robots require advanced human-machine interfaces. Many of our sensors are perfectly suited for this application. Be it lasers for lidar, time-of-flight, spectral sensors – we offer a broad range of essential sensors that are highly reliable and have superior features.

Momentarily, our traction in this field is just starting and it is a very granular business. Many of those robots are just built in the thousands. But we are working on it and want to provide critical components for the field.

[Slide 17 – Innovation]

Innovation and technology leadership is at the heart of our business, as you know. And we are on slide 17.

In December, the Federal President of Germany awarded one of our technology teams with the German Future Award 2024.

I am very proud of the team, who has advanced the boundaries of technology in microscopic LEDs, interconnect layers, the associated drivers, and super-thin conversion layers.

But we don't do innovation for the sake of innovation – we want to make money with it.

And this technology has led to our feature product in automotive – EVIYOS, the 25000 pixels matrix headlight. We secured hundreds of millions of design wins, already.

But from an application perspective, this is just the beginning.

One can think of micro-projectors, transparent displays, optical data communication links and even more advanced ideas.

While we keep our R&D spendings in check, we will continue to invest in key technologies to secure future growth.

Wherever possible, we will invite customers to co-fund such developments, as we are doing with the project where we are receiving non-refundable engineering payments that we spoke earlier.

[Slide 18 – summary]

So, let me summarize key developments of Q4 and fiscal year 24 – slide 18.

In the December quarter,

- We delivered revenues in a difficult environment above the mid-point of the guidance.
- We delivered profitability above the mid-point of the guidance and
- We came in Free Cash Flow positive.

For the full fiscal year 2024,

- We finished with positive 12 million Euro free cash flow
- The core semi-portfolio grew approximately 7% - clearly driven by the ramp of new sensor products
- Reported revenue was a bit down due to de-consolidation of lamps and systems business and the steep decline in the old, non-core semi businesses
- ‘Re-Establish the Base’ implementation is progressing really well with already 110 million Euro run-rate savings implemented.
- The semi non-core portfolio is mostly history
- Customers continue to love our products and innovation – close to 5 billion Euro new business won in 2024 showed us.

[Slide 19 – Outlook]

Now, let us look at Q1 and fiscal year 25 outlook on slide 19.

In the first quarter:

We expect revenues to land between 750 to 850 million Euro.

Automotive aftermarket lamps will be seasonally lower.

Automotive semis should see their low point in view of the persisting uncertainties and corrections while the order intake has improved recently a bit. Industrial and medical continue to be weak. Consumer continues to go down seasonally – Christmas season is over.

In line with fall through, but with ‘Re-establish the Base’ savings making a difference, adjusted EBITDA margin will be between 16% plus or minus 1.5% at a EUR / USD exchange rate of 1.05.

For the fiscal year 2025:

Looking at revenues.

We think, we will have a pronounced 1st half / 2nd half seasonality in our business. We have it every year – but we think of the seasonal cycle in the automotive lamps aftermarket business, or in horticulture, products for consumer handhelds, automotive semis.

This year, the seasonality will be even more pronounced with the cyclical low in automotive semis in the first half and the persistent weakness in industrial automation and medical.

Why are we optimistic that H2 will be better than the first half?

Principal drivers are scheduled project ramps in automotive, industrial and in smart phones.

Cyclical recovery we also start to see a little bit in higher order intake that will come now on top.

A word on the new tariff war. We assessed the situation to the extent new tariffs are known or expected. In detail, the trade flows are complicated. We do currently not see a meaningful impact to our cost base.

A noticeable impact on our business would come along when global car production, for example, is negatively affected or when people start to buy fewer smart phones because of the trade tensions. All in all, we have to see how the situation develops.

Looking at profitability.

Obviously, we are ahead of realizing our run-rate savings from ‘Re-establish the Base’. This will lead to improved gross margin and bottom line even with moderate revenue development compared to 2024.

Looking at cash flow.

We will be very strict on Capex investments and plan for less than 8% of sales – lower than our target operating model.

Finally, we expect free cash flow to come in exceeding 100 million Euro for 2025 – for the avoidance of doubt, of course including net interest paid.

This concludes our prepared remarks and Rainer and I are happy to take your questions now.