

First Quarter Report 2018

Key figures USD thousands (except earnings per share)	Q1 2018	Q1 2017	Q4 2017
Revenues	452,676	183,537	578,109
Gross margin in % (adjusted – see footnote 1)	36%	46%	44%
Result from operations (adjusted – see footnote 1)	77,269	5,037	157,894
Operating margin in % (adjusted – see footnote 1)	17%	3%	27%
Net result (adjusted – see footnote 3)	99,931	-19,940	173,755
Basic / diluted earnings per share in CHF ²⁾ (adjusted – see footnote 3)	1.20 / 1.12	-0.23 / -0.23	2.00 / 1.87
Basic / diluted earnings per share in USD ³⁾ (adjusted – see footnote 3)	1.25 / 1.17	-0.27 / -0.26	2.11 / 1.97
Total backlog (excluding consignment stocks)	345,940	240,413	666,068

¹⁾ Excluding acquisition-related and share-based compensation costs.

²⁾ Earnings per share in CHF were converted using the average currency exchange rate for the respective periods.

³⁾ Net result and earnings per share excluding valuation effect of the option element of the convertible bond.

First quarter results in guidance range reflecting customer volume effects, revenues up 147% year-on-year; expected second quarter revenues strongly impacted by accelerated customer product transition; significant second quarter capacity under-utilization as product changes in major consumer program prevent pre-production; on track for expected major second half ramp-ups

Report to shareholders on the first quarter of 2018

Ladies and Gentlemen

Our first quarter results reflect an overall attractive start into the year based on the strength of our differentiated sensor solution portfolio while we continue to pursue our focused strategy to capture long-term growth opportunities.

First quarter group revenues were USD 452.7 million, in the lower half of our previous guidance, up 147% from USD 183.5 million in the same quarter 2017 and 22% lower sequentially compared to the previous quarter. Adjusted gross margin for the first quarter 2018 was 36% (excluding acquisition-related and share-based compensation costs), compared to 44% in the same quarter 2017 (33% including acquisition-related and share-based compensation costs, compared to 40% in the same period 2017).

The adjusted result from operations (EBIT) for the first quarter 2018 was USD 77.3 million or 17% of revenues (excluding acquisition-related and share-based compensation costs), up strongly from USD 5.0 million or 3% of revenues in the first quarter 2017 (USD 46.5 million or 10% of revenues including acquisition-related and share-based compensation costs, compared to USD -16.9 million or -9% of revenues in the first quarter 2017). Adjusted net income for the first quarter was USD 99.9 million (excluding valuation effect of option element of foreign currency convertible bond), compared to USD -19.9 million for the same period 2017 (first quarter 2018: USD 77.1 million including valuation effect). Adjusted basic/diluted earnings per share for the first quarter were CHF 1.20/1.12 or USD 1.25/1.17 based on 80,064,021/83,082,083 shares (weighted average; CHF 0.92/0.86 or USD 0.96/0.89 including valuation effect; first quarter 2017: CHF -0.23/-0.23 or USD -0.27/-0.26 based on 74,496,209/76,213,409 shares, weighted average).

Cash flow from operations for the first quarter was USD 56.3 million compared to USD 32.0 million in the same quarter last year. Total backlog on 31 March 2018, excluding consignment stock agreements and including certain forecasted commitments, was USD 345.9 million (USD 666.1 million on 31 December 2017 and USD 240.4 million on 31 March 2017).

Our business showed a solid performance in the first quarter with strong year-on-year growth despite customer volume effects in our consumer business. Our first quarter results thus confirm our strong market position in high performance sensor solutions across consumer and non-consumer businesses.



The consumer and communications business started into the year on a positive but more balanced note as the market success of our solutions was moderated by noticeable customer volume effects in the smartphone market. Leading in optical sensing, we provide high performance optical sensing solutions including 3D sensing optical systems, TrueColor display management, proximity sensing and other optical applications to many of the world's largest smartphone and consumer OEMs. With a focus on emerging applications we drive innovation around optical technologies for long-term growth markets. Our optical sensing portfolio spans a wide array of hardware and software where we recently added leading software IP for 3D facial recognition through the acquisition of KeyLemon which closed in the quarter.

While we are experiencing a more difficult short-term demand environment in the smartphone market, we see consumer OEMs actively engaging with us on 3D sensing and other new upcoming sensing functionalities, all driven by the need for differentiation. We pursue our comprehensive multi-generation roadmap in 3D sensing and prepare for significantly broader adoption of 3D sensing in the consumer market. Our VCSEL and VCSEL driver capabilities are a key element of our 3D sensing portfolio with strong market traction and create clear competitive advantages for our 3D sensing strategy. Given the complexity of 3D sensing, our broad solution expertise is of particular value as we build a leading position in this market. We also work on extensive product development in further areas of optical sensing, including spectral sensing, and other multi-sensor solutions for consumer applications which enable access new growth opportunities in the next years. Our other consumer product lines including audio solutions saw continued attractive run rates at a range of device vendors and contributed positively to our first quarter.

Our industrial, medical, and automotive businesses had a good start into the year in the first quarter, performing in line with to slightly ahead of expectations. In industrial markets, the overall demand situation remains attractive across product lines for automation, building control, HABA and emerging industrial IoT. Our strong position in industrial sensing is built around innovation and the ability to support challenging applications for major OEMs and their customers. In imaging, we recently received an important industry award for a new highly innovative industrial imaging solution. Our medical business recorded attractive results as we extend our medical imaging portfolio for computed tomography (CT), digital X-ray, and mammography and advance miniature camera technology. Our automotive business also continued to perform well with its broad range of solutions for safety, driver assistance, position, and chassis control. We are encouraged by the early large program win for VCSEL illumination in automotive 3D LIDAR which has increased further in projected life-time program value. This success confirms the key relevance of solid state LIDAR technology for autonomous driving. Our unmatched ability to combine very high power VCSELs and advanced driver circuits into highly differentiated illumination solutions creates significant competitive advantages in this long-term market as market interest continues to grow. In addition, we are seeing increasing traction for innovative in-cabin 3D sensing opportunities.

The investment into our internal VCSEL manufacturing capacity in Singapore is progressing to plan and we are confident about our ability to support large scale internal production of differentiated high power VCSELs in 2019.

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For the second quarter 2018, we expect a significant short-term impact in our consumer business from strongly accelerated customer-driven product transitions related to large smartphone programs. Our non-consumer businesses are expected to continue their solid development in the second quarter. As a result we expect second quarter revenues of USD 220-250 million, up 10-25% year-on-year and leading to expected first half revenues growing 87-96% compared to the first half of last year, based on available information.

As previously mentioned, we are preparing for major second half 2018 ramp-ups of high volume optical solutions for consumer 3D sensing applications, among others. To this end, we focus on ensuring full availability of resources for these substantial ramp-ups we see coming up. Consequently and to avoid unwanted risks, we do not pursue short-term reductions of our trained workforce in our Asian manufacturing locations despite an impending significant underutilization of capacity. This underutilization is due to the mentioned product transitions as well as product changes in a major consumer program which prevent a potential pre-production of parts.

The adjusted operating margin for the second quarter (excluding acquisition-based and share-based compensation costs) is therefore expected to be negative at around -20 to -25% driven by the underutilization of production capacity in our Singapore facilities. Looking forward, we do not expect a recurrence of short-term transition effects on a similar scale in future years. We assume intra-year ramp-up seasonality to be more balanced from 2019 onwards as we expect to broaden our consumer OEM base in optical sensing.

Despite this short-term volume effect our strong position and growth potential in several of the most exciting growth areas in sensing is underscored by the excellent market traction we see with OEMs across end markets. Our mid-term growth and profitability targets for, respectively, the 2016-2019 period and onwards remain unchanged.

Consolidated Income Statement

(unaudited)

USD thousands (except earnings per share)	Q1 2018	Q1 2017
Revenue Products	440,838	168,140
Revenue Foundry & Other	11,839	15,397
Total revenues	452,676	183,537
Cost of sales	-304,788	-110,644
Gross profit	147,888	72,893
Gross margin in %	33%	40%
Research and development	-61,484	-57,180
Selling, general and administrative	-43,719	-36,831
Other operating income	4,030	4,389
Other operating expense	-115	-35
Result from investments in associates	-90	-158
Result from operations	46,511	-16,921
Net financing result	32,121	-3,223
Result before tax	78,632	-20,144
Income tax result	-1,574	204
Net result	77,058	-19,940
Basic / diluted earnings per share in CHF ¹⁾	0.92 / 0.86	-0.23 / -0.23
Basic / diluted earnings per share in USD	0.96 / 0.89	-0.27 / -0.26

¹⁾ Earnings per share in CHF were converted using the average currency exchange rate for the respective periods.

Consolidated Balance Sheet

(unaudited)

USD thousands	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	496,408	354,447
Financial assets	28,979	127,846
Trade receivables	315,452	350,075
Inventories	300,721	312,111
Other receivables and assets	52,681	94,775
Total current assets	1,194,242	1,239,254
Property, plant and equipment	1,256,806	1,225,360
Intangible assets	1,453,345	1,453,068
Investments in associates	4,025	2,331
Deferred tax assets	31,955	32,032
Other long-term assets	78,336	56,763
Total non-current assets	2,824,468	2,769,555
Total assets	4,018,710	4,008,809
Liabilities and shareholders' equity		
Liabilities		
Interest-bearing loans and borrowings	428,154	720,823
Trade liabilities	244,575	379,075
Tax liabilities	33,256	34,562
Provisions	34,845	54,569
Other liabilities	82,593	672,205
Total current liabilities	823,423	1,861,236
Interest-bearing loans and borrowings	1,380,000	825,761
Employee benefits	50,470	49,432
Deferred tax liabilities	82,278	82,461
Other long-term liabilities	192,122	171,364
Total non-current liabilities	1,704,871	1,129,018
Shareholders' equity		
Issued capital	103,769	103,769
Additional paid-in capital	799,202	709,976
Treasury shares	-10,599	-234,547
Other reserves	-177,100	-259,851
Retained earnings	775,144	699,208
Total shareholders' equity and reserves	1,490,416	1,018,555
Total liabilities and shareholders' equity	4,018,710	4,008,809

Consolidated Statement of Cash Flows

(unaudited)

USD thousands	Q1 2018	Q1 2017
Operating activities		
Result before tax	78,632	-20,144
Depreciation (net of government grants)	59,157	36,164
Expense from stock option plan (acc. to IFRS 2)	5,834	3,979
Changes in other long-term liabilities	-1,427	599
Result from sale of plant and equipment	-21	20
Result from investments in associates	90	158
Net financing cost	-32,121	3,223
Change in inventories	4,552	-17,032
Change in trade and other receivables	29,500	15,944
Change in trade and other payables	-59,119	18,808
Change in provisions and employee benefits	-18,492	-2,433
Change in deferred income	-4,352	-1,723
Tax Payments	-5,907	-5,517
Cash flows from operating activities	56,325	32,044
Investing activities		
Acquisition of intangibles, property, plant and equipment	-173,945	-115,565
Acquisition of subsidiaries net of cash acquired	-27,937	102,253
Acquisition of other financial investments	-2,964	0
Proceeds from sale of plant and equipment	21	25
Interest received	758	770
Cash flows from investing activities	-204,066	-12,517
Financing activities		
Proceeds from borrowings	0	124,093
Repayment of debt	-371,401	-3,016
Repayment of finance lease liabilities	-23	-48
Proceeds from issue of convertible notes	751,963	0
Acquisition of treasury shares	-132,543	-390
Sale of treasury shares	12,526	10,140
Interest paid	-4,976	-2,102
Cash flows from financing activities	255,544	128,677
Net increase in cash and cash equivalents	107,804	148,204
Effects of changes in foreign exchange rates on cash and cash equivalents	-5,146	769
Cash and cash equivalents pledged as security	39,304	-45,716
Cash and cash equivalents at begin of period	354,447	220,733
Cash and cash equivalents at end of period	496,408	323,990

Reconciliation from adjusted figures to IFRS reported figures

USD thousands	Q1 2018	Q1 2017
Gross profit – adjusted	162,311	84,672
Acquisition-related costs	-13,819	-11,398
Share-based compensation costs	-604	-382
Gross profit – IFRS reported	147,888	72,893
Gross margin in % – adjusted	36%	46%
Gross margin in % – IFRS reported	33%	40%
Operating expenses – adjusted	-85,042	-79,636
Acquisition-related costs	-8,589	-6,582
Share-based compensation costs	-7,747	-3,597
Operating expenses – IFRS reported	-101,377	-89,814
Result from operations – adjusted	77,269	5,037
Acquisition-related costs	-22,408	-17,979
Share-based compensation costs	-8,351	-3,979
Result from operations – IFRS reported	46,511	-16,921
Operating margin in % – adjusted	17%	3%
Operating margin in % – IFRS reported	10%	-9%



Financial statements in EUR

Consolidated Income Statement

(unaudited)

EUR thousands (except earnings per share)	Q1 2018	Q1 2017
Revenue Products	358,638	136,788
Revenue Foundry & Other	9,631	12,526
Total revenues	368,269	149,314
Cost of sales	-247,957	-90,013
Gross profit	120,312	59,301
Gross margin in %	33%	40%
Research and development	-50,020	-46,518
Selling, general and administrative	-35,567	-29,963
Other operating income	3,278	3,571
Other operating expense	-93	-28
Result from investments in associates	-73	-128
Result from operations	37,838	-13,766
Net financing result	26,132	-2,622
Result before tax	63,970	-16,388
Income tax result	-1,280	166
Net result	62,690	-16,222
Basic / diluted earnings per share in CHF ¹⁾	0.92 / 0.86	-0.23 / -0.23
Basic / diluted earnings per share in EUR	0.78 / 0.73	-0.22 / -0.21

¹⁾ Earnings per share in CHF were converted using the average currency exchange rate for the respective periods.

Consolidated Balance Sheet

(unaudited)

EUR thousands	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	403,847	288,356
Financial assets	23,576	104,007
Trade receivables	256,632	284,799
Inventories	244,647	253,914
Other receivables and assets	42,858	77,103
Total current assets	971,560	1,008,179
Property, plant and equipment	1,022,459	996,876
Intangible assets	1,182,351	1,182,125
Investments in associates	3,275	1,896
Deferred tax assets	25,997	26,060
Other long-term assets	63,729	46,179
Total non-current assets	2,297,810	2,253,136
Total assets	3,269,370	3,261,315
Liabilities and shareholders' equity		
Liabilities		
Interest-bearing loans and borrowings	348,319	586,417
Trade liabilities	198,971	308,392
Tax liabilities	27,055	28,118
Provisions	28,347	44,394
Other liabilities	67,192	546,864
Total current liabilities	669,885	1,514,185
Interest-bearing loans and borrowings	1,122,681	671,787
Employee benefits	41,059	40,215
Deferred tax liabilities	66,936	67,085
Other long-term liabilities	156,299	139,411
Total non-current liabilities	1,386,976	918,498
Shareholders' equity		
Issued capital	84,420	84,420
Additional paid-in capital	650,181	577,592
Treasury shares	-8,623	-190,812
Other reserves	-144,078	-211,399
Retained earnings	630,609	568,831
Total shareholders' equity and reserves	1,212,509	828,632
Total liabilities and shareholders' equity	3,269,370	3,261,315

Consolidated Statement of Cash Flows

(unaudited)

EUR thousands	Q1 2018	Q1 2017
Operating activities		
Result before tax	63,970	-16,388
Depreciation (net of government grants)	48,127	29,421
Expense from stock option plan (acc. to IFRS 2)	4,746	3,237
Changes in other long-term liabilities	-1,161	487
Result from sale of plant and equipment	-17	17
Result from investments in associates	73	128
Net financing cost	-26,132	2,622
Change in inventories	3,703	-13,856
Change in trade and other receivables	24,000	12,971
Change in trade and other payables	-48,095	15,301
Change in provisions and employee benefits	-15,044	-1,980
Change in deferred income	-3,541	-1,402
Tax Payments	-4,806	-4,488
Cash flows from operating activities	45,823	26,069
Investing activities		
Acquisition of intangibles, property, plant and equipment	-141,511	-94,016
Acquisition of subsidiaries net of cash acquired	-22,728	83,186
Acquisition of other financial investments	-2,411	0
Proceeds from sale of plant and equipment	17	20
Interest received	617	627
Cash flows from investing activities	-166,015	-10,183
Financing activities		
Proceeds from borrowings	0	100,954
Repayment of debt	-302,149	-2,453
Repayment of finance lease liabilities	-19	-39
Proceeds from issue of convertible notes	611,750	0
Acquisition of treasury shares	-107,829	-317
Sale of treasury shares	10,190	8,249
Interest paid	-4,048	-1,710
Cash flows from financing activities	207,895	104,683
Net increase in cash and cash equivalents	87,702	120,569
Effects of changes in foreign exchange rates on cash and cash equivalents	-4,186	626
Cash and cash equivalents pledged as security	31,975	-37,192
Cash and cash equivalents at begin of period	288,356	179,575
Cash and cash equivalents at end of period	403,847	263,578

Reconciliation from adjusted figures to IFRS reported figures

EUR thousands	Q1 2018	Q1 2017
Gross profit – adjusted	132,046	68,884
Acquisition-related costs	-11,242	-9,272
Share-based compensation costs	-491	-310
Gross profit – IFRS reported	120,312	59,301
Gross margin in % – adjusted	36%	46%
Gross margin in % – IFRS reported	33%	40%
Operating expenses – adjusted	-69,184	-64,786
Acquisition-related costs	-6,987	-5,354
Share-based compensation costs	-6,303	-2,926
Operating expenses – IFRS reported	-82,474	-73,067
Result from operations – adjusted	62,861	4,098
Acquisition-related costs	-18,230	-14,627
Share-based compensation costs	-6,794	-3,237
Result from operations – IFRS reported	37,838	-13,766
Operating margin in % – adjusted	17%	3%
Operating margin in % – IFRS reported	10%	-9%

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This report is also available in German. All figures are unaudited.