

First Quarter Report 2020

Key figures	Q1 2020	Q1 2019	Q4 2019
USD thousands (except earnings per share)			
Revenues	501,221	379,030	653,246
Gross margin in % (adjusted - see footnote 1)	39%	32%	45%
Result from operations (adjusted - see footnote 1)	101,044	22,831	183,751
Operating margin in % (adjusted - see footnote 1)	20%	6%	28%
Net result (adjusted - see footnote 3)	-16,442	-9,184	158,390
Basic / diluted earnings per share in CHF ²⁾ (adjusted - see footnote 3)	-0.20 / -0.05	-0.12 / -0.12	1.94 / 1.76
Basic / diluted earnings per share in USD (adjusted - see footnote 3)	-0.21 / -0.05	-0.11 / -0.11	1.95 / 1.78
Total backlog (excluding consignment stocks)	255,461	280,091	264,244

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 USD convertible bond.

First quarter revenues and adjusted operating (EBIT) margin in upper half of guidance range; Covid-19 effects within expectations, resilient profitability, strong cash flow generation; limited impact from Covid-19 expected in second quarter with expected revenues of USD 440-480 million and adjusted operating (EBIT) margin of 17-20%; OSRAM acquisition on track supported by successful equity raise

Report to shareholders on the first quarter of 2020

Ladies and Gentlemen

Our first quarter results demonstrate a resilient development of our business in light of the Covid-19 outbreak and its effects. Driven by our consumer solutions, we strongly grew revenues year-on-year as expected while our operating performance remained strong despite the demanding situation.

Financial results

First quarter group revenues were USD 501.2 million, above the mid-point of the expectation range, which is an increase of 32% from USD 379.0 million in the first quarter 2019 and a decrease of 23% sequentially compared to the fourth quarter 2019. Adjusted gross margin for the first quarter was 39% (excluding acquisition-related and share-based compensation costs) with IFRS reported gross margin at 37% (including acquisition-related and share-based compensation costs), up from 32% and 29% respectively in the same quarter 2019.

The adjusted result from operations (EBIT) for the first quarter was USD 101.0 million or 20% of revenues (excluding acquisition-related and share-based compensation costs), fully in line with expectations, while increasing strongly from USD 22.8 million in the same quarter 2019 (USD 59.8 million or 12% of revenues including acquisition-related and share-based compensation costs, up from USD -4.3 million in the same period 2019).

Adjusted net result for the first quarter was USD -16.4 million (excluding valuation effect of the option element of the foreign currency convertible bond) reflecting one-time expenses related to the recent capital increase and the acquisition of OSRAM Licht AG (OSRAM), compared to USD -9.2 million for the same period 2019 (first quarter 2020 including valuation effect: USD -16.4 million). Adjusted basic/diluted earnings per share for the first quarter were CHF -0.20/-0.05 or USD -0.21/-0.05 based on 82,689,261/89,625,077 shares (weighted average; first quarter 2020 including valuation effect: CHF -0.19/-0.04 or USD -0.20/-0.04; first quarter 2019: CHF -0.12/-0.12 or USD -0.11/-0.11 based on 80,235,377/81,864,338 shares, weighted average).

The operating cash flow for the first quarter reached USD 234.6 million, significantly up from USD 93.3 million in the same quarter last year. Total backlog on 31 March 2020 (excluding consignment stock agreements) stood at USD 255.5 million compared to USD 264.2 million at the end of 2019 and USD 280.1 million on 31 March 2019.

Business overview

Our business showed a very positive performance in the first quarter of 2020 with results fully in line with our guidance expectations. We were able to achieve this in spite of the different challenges posed by the evolving Covid-19 situation through the quarter, which we have been able to manage well for ams. The safety and well-being of our staff is our key priority while we work closely with suppliers, customers and partners to mitigate the effects of Covid-19 on our business. Importantly, we would like to thank our employees worldwide for their exemplary commitment and flexibility in this demanding situation. Our positive first quarter results were driven by demand and shipments of consumer solutions that developed along expectations whereas the expected subdued demand prevailed in our non-consumer markets.

Our consumer business again contributed the largest share to our overall revenues and results. Our industry-leading portfolio in optical sensing comprises high performance solutions for 3D sensing including VCSEL (Vertical Cavity Surface-Emitting Laser)-based illumination, high quality display management including behind-OLED sensing, micro-scale proximity sensing, bio- and spectral sensing, and other optical applications. As the leading provider of optical sensing solutions, our broad 3D sensing portfolio and system know-how covers all architectures, structured light (SL), time-of-flight (ToF), and active stereo vision (ASV), which enables us to fully support customers' technology choices and roadmaps.

Based on our advanced VCSEL portfolio and optics capabilities we serve the leading smartphone OEMs with a current main focus on 3D illumination for SL, ToF and ASV in front-side and world-facing systems. Expanding our position in the Android market, we are shipping significant volumes of 3D sensing into a range of high-end device platforms. Adoption of world-facing iToF 3D sensing continues as the camera enhancement features these systems enable allow OEMs to offer strongly improved picture quality. Driven by their market success, we supply different VCSEL 3D illumination solutions into a range of platforms. At the same time, we are successfully extending our system capabilities and widening the scope of our 3D offering through the integration of high quality NIR image sensing via the SmartSens partnership. We pursue NIR sensing solutions to support several 3D architectures and front-facing use cases as our technology can drive excellent application performance on multiple aspects including high quantum efficiency (QE).

In display management, we are seeing further adoption of our behind-OLED (BOLED) light sensing solutions in high volume Android smartphone and mobile device platforms including latest releases. This unmatched technology moves light and proximity sensing invisibly behind the OLED display allowing vendors to remove bezel-placed elements from the device front for maximized screen-to-body ratio. Our strong market success continues to be driven by leading Android OEMs while we move along a multi-generation roadmap for this technology. All in all, we are shipping significant volumes of our wide range of advanced display management solutions across the leading consumer OEMs.

We have also started shipping our innovative sensor for highly accurate camera automatic white balancing (AWB) into a newly launched high-end smartphone platform as a first design-win. Based on our spectral sensing technology, the solution performs detailed spectrum analysis of the light environment for precise smartphone camera white balancing that was previously impossible. Correct white balancing is a key photographic parameter driving picture quality and color expression and we enable significantly higher picture quality and vivid natural colors for mobile devices. Given outstanding camera performance with AWB sensing, we are already engaged in additional customer designs.

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Taken together, recent Android platform launches underline our strong market position in new optical sensing applications such as BOLED light sensing, world-facing 3D camera enhancement and novel AWB sensing for compelling photography.

We remain focused on strong R&D investments for further innovation in optical sensing. Leveraging our unmatched BOLED capabilities for 3D sensing, we are progressing with our development efforts to move front-facing 3D sensing for face authentication invisibly behind the display. Based on ASV technology, we continue to expect to demonstrate a BOLED 3D solution in the second half of the year. Here we work to combine ams VCSEL illumination, NIR sensing, software and algorithms from our unmatched portfolio to create a high performance 3D offering. As we address the key trend to reduce visible components on the device front we expect significant market interest for 3D BOLED technology in mobile devices. Generally, we see both ASV and SL technology able to support BOLED 3D sensing and expect to explore all paths for innovation in this area. In addition, we view dToF technology as an important upcoming element in 3D sensing that offers significant performance advantages for longer distances. As 3D applications continue to evolve and new use cases are being evaluated we see widening market interest for the demanding technology. On the basis of our illumination and sensing portfolio we are advancing roadmap-based developments in this attractive area to drive high quality dToF solutions for world-facing applications. In audio sensing we see attractive traction for our high performance noise cancelling technologies and solutions where we have built a strong market position. These include an innovative digital noise cancelling capability for loose-fitting wireless earbuds. Together with our other consumer product lines we continue to ship substantial volumes following the disposal of our microphone-related business at the end of 2019.

Our automotive, industrial and medical businesses recorded a subdued performance in the first quarter. In our automotive business we are experiencing negative order trends reflecting the current challenges to production in the automotive industry. Despite this current development, we are well positioned with our automotive sensing solutions focused on attractive markets in safety, driver assistance/autonomous driving, position sensing, and chassis control. Significant R&D activities and development efforts continue unchanged across these focus areas. This includes the previously announced LIDAR programs with different Tier 1 system suppliers where we offer leading VCSEL illumination for advanced LIDAR architectures such as addressable high power VCSEL arrays. The full automotive qualification of our internal VCSEL production line, where we are continuing a ramp-up through this year, provides a further competitive advantage in this area. Our developments and market traction for in-cabin optical monitoring applications continue against the backdrop of increasing OEM and Tier 1 supplier interest and first secured projects. This emerging market offers attractive future opportunities for our system capabilities as shown by our ASV-based full 3D system solution including NIR sensing and software which we showcased recently.

Our industrial business showed a muted performance in the first quarter given the challenges in industrial end markets worldwide. Nevertheless, our broad product and application spectrum and leadership in high performance solutions remain helpful in the current situation as we serve a wide range of customers in industrial and factory automation, HABA, imaging and other industrial sensing. Industrial imaging and machine vision developed in line with end market trends supported by our strong technology position in high quality global shutter technologies. Leveraging our technology base, we are strongly focusing on the development of NIR image sensing solutions for 3D sensing markets.

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Our medical business performed well in the first quarter. As a result of the Covid-19 crisis, we are fulfilling additional demand to support the accelerated deployment of computed tomography (CT) scanners worldwide which play a key role in clinical Covid-19 diagnostics. This development will also help further our market penetration across regions. Overall, our medical business benefits from our leading position in medical imaging for CT, digital X-ray, and mammography as well as miniature camera endoscopy. Our medical product lines including NanEye endoscopy therefore continued their attractive contributions. A further innovative use of our unmatched spectral sensing technology is analyzing the results of medical lateral flow testing (LFT) at very high accuracy via an optical readout. In light of the current pandemic, we are keen to exploit this medical sensing expertise to help support Covid-19 control efforts. Based on our current evaluation we see possibilities to accelerate advances in fast point-of-care diagnostics for Covid-19 and will continue to pursue this path. We have started early co-operation activities with industry partners in medical testing but remain highly interested and open for additional partnerships with medical testing suppliers.

In operations, we are taking all required and necessary measures to safeguard the health of our employees as well as our ability to manufacture in all locations. These measures have enabled us to stay aligned with customer requirements and to support customer demand in our end markets. Running volume production in all manufacturing locations, we work very closely with suppliers and authorities to maximize availability for our customers. We have also implemented a risk mitigation regime for employees worldwide and are confident these combined actions will allow us to continue to navigate this situation successfully. In parallel, we are taking a prudent approach to short-term capital expenditures and other costs without forfeiting our ability to support rebounding demand later.

The acquisition of OSRAM remains fully on track and we successfully completed the related equity raise at the beginning of April. We expect to use the gross proceeds of around EUR 1.65 billion to finance a major share of the tender offer consideration for OSRAM shareholders. We are in the process of attaining remaining required merger control clearances for the transaction and currently expect the transaction to close by the end of the quarter subject to receipt of these clearances. Including the shares we anticipate to receive at closing we expect to hold around 68.2% of shares in OSRAM at that point in time. Preparation activities for the expected integration of ams and OSRAM continue and we expect to start implementing the integration immediately following the closing.

Outlook

For the second quarter 2020, we anticipate our business to show a very solid performance in spite of the demanding Covid-19 situation and typical first half seasonality. Consumer solutions and programs remain drivers of demand with ongoing high volume shipments to a wide spectrum of OEMs and platforms including recent launches. Our non-consumer end markets are expected to be more strongly impacted by the current situation while certain areas such as medical imaging continue to provide positive effects.

On the basis of available information, we expect second quarter revenues of USD 440-480 million reflecting a limited impact from the Covid-19 situation and a significant year-on-year increase compared to last year's second quarter of 11% at the midpoint. The adjusted operating (EBIT) margin for the second quarter is expected at 17-20% despite anticipated Covid-19 effects on our business.

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The expectations above assume no further unforeseen negative consequences of the Covid-19 outbreak having a meaningful negative impact on our business for the second quarter 2020. For reference, the revenue expectation above excludes deconsolidated revenues of around USD 20-25 million per quarter which have been deconsolidated as of year-end 2019.

Consolidated Income Statement according to IFRS

(unaudited)

USD thousands (except earnings per share)	Q1 2020	Q1 2019
Revenues	501,221	379,030
Cost of sales	-315,329	-267,457
Gross profit	185,892	111,572
Gross margin in %	37%	29%
Research and development	-65,506	-76,756
Selling, general and administrative	-64,533	-42,994
Other operating income	3,875	4,030
Other operating expense	204	-43
Result from investments in associates	-144	-148
Result from operations	59,789	-4,339
Net financing result	-72,908	-2,741
Result before tax	-13,119	-7,080
Income tax result	-2,627	-2,114
Net result	-15,746	-9,194
Basic earnings per share in CHF ¹⁾	-0.19	-0.12
Diluted earnings per share in CHF ¹⁾	-0.04	-0.12
Basic earnings per share in USD	-0.20	-0.11
Diluted earnings per share in USD	-0.04	-0.11

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

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Consolidated Balance Sheet according to IFRS

(unaudited)

USD thousands	March 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	826,904	551,957
Trade receivables	142,459	222,687
Inventories	246,592	231,827
Other receivables and assets	386,201	143,054
Assets held for sale	0	94,965
Total current assets	1,602,155	1,244,490
Property, plant and equipment	1,233,507	1,246,476
Intangible assets	1,253,986	1,244,156
Rights of use	139,712	135,470
Investments in associates	54,431	30,749
Deferred tax assets	7,967	9,429
Other long term assets	8,927	1,988
Financial assets	834,828	977,295
Total non-current assets	3,533,357	3,645,563
Total assets	5,135,513	4,890,053
Liabilities and shareholders' equity		
Liabilities		
Interest-bearing loans and borrowings	1,003,490	862,098
Trade liabilities	159,371	149,414
Income tax liabilities	22,914	21,673
Provisions	132,586	124,320
Other liabilities	404,206	169,196
Liabilities in regard to assets held for sale	0	1,474
Total current liabilities	1,722,566	1,328,174
Interest-bearing loans and borrowings	1,375,900	1,434,559
Employee benefits	55,644	54,026
Deferred tax liabilities	68,361	69,061
Other long-term liabilities	138,170	140,530
Total non-current liabilities	1,638,075	1,698,176
Shareholders' equity		
Issued capital	93,115	93,115
Additional paid-in capital	812,001	793,119
Treasury shares	-223	-147,949
Other reserves	67,790	10,922
Retained earnings	802,189	1,114,496
Total shareholders' equity and reserves	1,774,871	1,863,703
Total liabilities and shareholders' equity	5,135,513	4,890,053

Consolidated Statement of Cash Flows according to IFRS

(unaudited)

USD thousands	Q1 2020	Q1 2019
Operating activities		
Result before tax	-13,119	-7,080
Depreciation (net of government grants)	83,633	74,312
Expense from stock option plan (acc. to IFRS 2)	12,278	8,554
Changes in other long-term liabilities	-141	1,209
Result from sale of plant and equipment	-13	0
Result from investments in associates	144	148
Net financing cost	72,908	2,741
Change in provisions and employee benefits	9,467	4,968
Changes in inventories	-12,516	21,685
Changes in trade and other receivables	48,909	2,532
Changes in trade and other payables	34,572	-14,528
Income taxes paid	-1,473	-1,218
Cash flows from operating activities	234,650	93,325
Investing activities		
Acquisition of intangibles, property, plant and equipment	-36,869	-85,366
Acquisition of subsidiary, net of cash acquired	0	-8,934
Acquisition of other financial investments	-172,227	0
Proceeds from sale of plant and equipment	2	1
Proceeds from the sale of discontinued business area	45,679	0
Interest received	2,259	1,598
Cash flows from investing activities	-161,156	-92,701
Financing activities		
Proceeds from borrowings	100,052	13,738
Repayment of borrowings	-33,508	-39,153
Repayment of finance lease liabilities	-4,427	-3,889
Acquisition of treasury shares	0	-30,481
Sale of treasury shares	154,680	1,179
Interest paid	-11,380	-6,174
Transaction costs from loans	-12,290	0
Cash flows from financing activities	193,127	-64,780
Change in cash and cash equivalents	266,621	-64,156
Effects of changes in foreign exchange rates on cash and cash equivalents	8,326	2,663
Cash and cash equivalents at begin of period	551,957	689,549
Cash and cash equivalents at end of period	826,904	628,056

Supplemental financial information

**Reconciliation from adjusted figures to reported figures
according to IFRS**

USD thousands	Q1 2020	Q1 2019
Gross profit – adjusted	197,115	122,552
Acquisition-related costs	-10,543	-10,233
Share-based compensation costs	-680	-747
Gross profit – IFRS reported	185,892	111,572
Gross margin in % – adjusted	39%	32%
Gross margin in % – IFRS reported	37%	29%
Operating expenses – adjusted	-96,071	-99,721
Acquisition-related costs	-18,421	-8,358
Share-based compensation costs	-11,611	-7,832
Operating expenses – IFRS reported	-126,103	-115,911
Result from operations – adjusted	101,044	22,831
Acquisition-related costs	-28,964	-18,591
Share-based compensation costs	-12,291	-8,579
Result from operations – IFRS reported	59,789	-4,339
Operating margin in % – adjusted	20%	6%
Operating margin in % – IFRS reported	12%	-1%

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Financial statements in EUR

Consolidated Income Statement according to IFRS

(unaudited)

EUR thousands (except earnings per share)	Q1 2020	Q1 2019
Revenues	454,416	343,635
Cost of sales	-285,883	-242,482
Gross profit	168,533	101,154
Gross margin in %	37%	29%
Research and development	-59,389	-69,588
Selling, general and administrative	-58,507	-38,979
Other operating income	3,513	3,654
Other operating expense	185	-39
Result from investments in associates	-130	-135
Result from operations	54,206	-3,934
Net financing result	-66,099	-2,485
Result before tax	-11,894	-6,419
Income tax result	-2,382	-1,917
Net result	-14,275	-8,336
Basic earnings per share in CHF ¹⁾	-0.19	-0.12
Diluted earnings per share in CHF ¹⁾	-0.04	-0.12
Basic earnings per share in EUR	-0.18	-0.10
Diluted earnings per share in EUR	-0.04	-0.10

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

Consolidated Balance Sheet according to IFRS

(unaudited)

EUR thousands	March 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	749,686	500,414
Trade receivables	129,156	201,892
Inventories	223,565	210,178
Other receivables and assets	350,137	129,695
Assets held for sale	0	86,097
Total current assets	1,452,543	1,128,277
Property, plant and equipment	1,118,320	1,130,078
Intangible assets	1,136,887	1,127,974
Rights of use	126,665	122,820
Investments in associates	49,348	27,878
Deferred tax assets	7,223	8,548
Other long term assets	8,093	1,803
Financial assets	756,871	886,033
Total non-current assets	3,203,407	3,305,134
Total assets	4,655,950	4,433,412
Liabilities and shareholders' equity		
Liabilities		
Interest-bearing loans and borrowings	909,783	781,594
Trade liabilities	144,488	135,461
Income tax liabilities	20,774	19,649
Provisions	120,205	112,711
Other liabilities	366,460	153,396
Liabilities in regard to assets held for sale	0	1,336
Total current liabilities	1,561,710	1,204,147
Interest-bearing loans and borrowings	1,247,416	1,300,597
Employee benefits	50,448	48,981
Deferred tax liabilities	61,977	62,612
Other long-term liabilities	125,268	127,407
Total non-current liabilities	1,485,109	1,539,598
Shareholders' equity		
Issued capital	84,420	84,420
Additional paid-in capital	736,175	719,056
Treasury shares	-202	-134,133
Other reserves	61,459	9,902
Retained earnings	727,279	1,010,423
Total shareholders' equity and reserves	1,609,131	1,689,667
Total liabilities and shareholders' equity	4,655,950	4,433,412

Consolidated Statement of Cash Flows according to IFRS

(unaudited)

EUR thousands	Q1 2020	Q1 2019
Operating activities		
Result before tax	-11,894	-6,419
Depreciation (net of government grants)	75,823	67,373
Expense from stock option plan (acc. to IFRS 2)	11,132	7,755
Changes in other long-term liabilities	-128	1,096
Result from sale of plant and equipment	-12	0
Result from investments in associates	130	135
Net financing cost	66,099	2,485
Change in provisions and employee benefits	8,583	4,504
Changes in inventories	-11,348	19,660
Changes in trade and other receivables	44,342	2,296
Changes in trade and other payables	31,344	-13,171
Income taxes paid	-1,336	-1,105
Cash flows from operating activities	212,738	84,610
Investing activities		
Acquisition of intangibles, property, plant and equipment	-33,426	-77,395
Acquisition of subsidiary, net of cash acquired	0	-8,099
Acquisition of other financial investments	-156,144	0
Proceeds from sale of plant and equipment	2	1
Proceeds from the sale of discontinued business area	41,414	0
Interest received	2,048	1,449
Cash flows from investing activities	-146,107	-84,045
Financing activities		
Proceeds from borrowings	90,709	12,455
Repayment of borrowings	-30,379	-35,497
Repayment of finance lease liabilities	-4,014	-3,526
Acquisition of treasury shares	0	-27,635
Sale of treasury shares	140,236	1,069
Interest paid	-10,317	-5,597
Transaction costs from loans	-11,143	0
Cash flows from financing activities	175,092	-58,731
Change in cash and cash equivalents	241,723	-58,165
Effects of changes in foreign exchange rates on cash and cash equivalents	7,549	2,415
Cash and cash equivalents at begin of period	500,414	625,158
Cash and cash equivalents at end of period	749,686	569,407

Supplemental financial information

Reconciliation from adjusted figures to reported figures according to IFRS

EUR thousands	Q1 2020	Q1 2019
Gross profit – adjusted	178,708	111,108
Acquisition-related costs	-9,558	-9,277
Share-based compensation costs	-616	-677
Gross profit – IFRS reported	168,533	101,154
Gross margin in % – adjusted	39%	32%
Gross margin in % – IFRS reported	37%	29%
Operating expenses – adjusted	-87,100	-90,409
Acquisition-related costs	-16,701	-7,577
Share-based compensation costs	-10,527	-7,101
Operating expenses – IFRS reported	-114,327	-105,087
Result from operations – adjusted	91,608	20,699
Acquisition-related costs	-26,259	-16,855
Share-based compensation costs	-11,143	-7,778
Result from operations – IFRS reported	54,206	-3,934
Operating margin in % – adjusted	20%	6%
Operating margin in % – IFRS reported	12%	-1%

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ams AG
Tobelbader Strasse 30
8141 Premstaetten, Austria
T +43 3136 500-0
investor@ams.com
www.ams.com

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