

# Third Quarter Report 2016

<b>Key figures</b> EUR thousands (except earnings per share)	<b>Q3 2016</b>	<b>Q3 2015</b>	<b>Q2 2016</b>	<b>9 months 2016</b>	<b>9 months 2015</b>
Revenues	146,705	153,046	132,405	416,327	475,937
Gross margin in % (adjusted – see footnote 1)	55%	56%	56%	56%	56%
Result from operations (adjusted – see footnotes)	28,041 <sup>2)</sup>	38,536 <sup>1)</sup>	24,429 <sup>1)</sup>	80,626 <sup>2)</sup>	130,524 <sup>1)</sup>
Operating margin in % (adjusted – see footnotes)	19% <sup>2)</sup>	25% <sup>1)</sup>	18% <sup>1)</sup>	19% <sup>2)</sup>	27% <sup>1)</sup>
Net result	55,937	34,017	19,644	89,176	118,024
Basic / diluted earnings per share in CHF <sup>3)</sup>	0.91 / 0.88	0.54 / 0.52	0.32 / 0.31	1.45 / 1.40	1.81 / 1.74
Basic / diluted earnings per share in EUR	0.84 / 0.81	0.49 / 0.47	0.29 / 0.28	1.32 / 1.28	1.71 / 1.65
Total backlog (excluding consignment stocks)	132,185	101,395	146,633	132,185	101,395

<sup>1)</sup> Excluding acquisition-related and share-based compensation costs

<sup>2)</sup> Excluding acquisition-related and share-based compensation costs and result from divestiture

<sup>3)</sup> Earnings per share in CHF were converted using the average currency exchange rate for the respective periods

**Third quarter revenues and operating profitability around mid-point of expectations when excluding divestiture and exchange rate effects; positive business development in line with expectations; expected muted fourth quarter due to negative customer-specific, product line yield and non-consumer end market effects**

Report to shareholders on the third quarter of 2016

**Ladies and Gentlemen**

Our third quarter results demonstrate a positive development of our differentiated sensor and analog solutions business driven by improved volumes and new device platforms in the consumer market.

Third quarter reported group revenues were EUR 146.7 million (around mid-point of expectations when excluding divestiture and exchange rate effects), up 11% sequentially compared to the second quarter and decreasing 4% from EUR 153.0 million in the same quarter 2015. On a constant currency basis, third quarter revenues were 4% lower compared to the third quarter last year.

In the third quarter, adjusted gross margin (excluding acquisition-related and share-based compensation costs) remained high at 55% with IFRS reported gross margin at 53%, compared to 56% and 54% respectively, in the same quarter 2015.

The adjusted result from operations (EBIT) (excluding acquisition-related and share-based compensation costs and result from divestiture) for the third quarter was EUR 28.0 million or 19% of revenues in line with expectations, decreasing from EUR 38.5 million in the same period 2015. The IFRS reported result from operations (EBIT) for the third quarter was EUR 49.7 million or 34% of revenues, up from EUR 35.1 million in the same period 2015. This IFRS reported result includes a result from divestiture of EUR 29.7 million from the divestiture of the wireless business in the quarter.

The net result for the third quarter was EUR 55.9 million compared to EUR 34.0 million in the same period last year. Basic and diluted earnings per share were CHF 0.91/0.88 or EUR 0.84/0.81 based on 66,860,524/69,171,109 shares (basic/diluted; weighted average) compared to CHF 0.54/0.52 or EUR 0.49/0.47 for the third quarter 2015 based on 68,935,827/71,718,080 shares (basic/diluted; weighted average). The net result and earnings per share include effects ensuing from the result from divestiture regarding the divestiture of the wireless business. Underlying basic and diluted earnings per share for the third quarter excluding these effects were CHF 0.42/0.41 or EUR 0.39/0.37.

Operating cash flow for the third quarter was EUR 45.2 million compared to EUR 36.2 million in the same quarter last year. Total backlog on September 30, 2016 (excluding consignment stock agreements) was EUR 132.2 million compared to EUR 146.6 million at the end of the second quarter and EUR 101.4 million on September 30, 2015.



Our business performed well in the third quarter of 2016 showing an attractive quarter-on-quarter increase in revenues and profitability driven by higher volume demand in the consumer and smartphone markets. These results demonstrate our strong market position in the consumer space and across our balanced portfolio of consumer and non-consumer businesses.

The consumer and communications business showed positive results in the third quarter with a meaningful sequential increase in total volumes. We benefited from the launch of new smartphone platforms in a more attractive market environment which drove higher run rates of our high performance light sensor solutions such as ambient light sensors, combination modules, and integrated multi-function modules for leading OEMs. Our other consumer product lines including audio solutions continued to ship to major device vendors in attractive volumes supporting the development of our consumer business. At the same time, we continued our extensive development and design-in activities for our strong consumer revenue and product pipeline which extends several years out and includes our next generation mobile device light sensors and True Color technology.

Our industrial, medical, and automotive businesses recorded results in line with expectations. Demand in these non-consumer end markets continues to develop in a pattern similar to the first half showing limited business momentum as certain end market and macroeconomic uncertainties appear to prevail. With our differentiated sensor and sensor interface solutions we hold a strong market position in industrial sensors enabling advanced applications for leading OEMs and their customers worldwide. Our medical business continues to be driven by digital imaging sensor solutions for computed tomography (CT), digital X-ray, and mammography where we are the technology leader. Production ramp for a new Asian medical imaging customer continued in the quarter. Our automotive sensor and sensor interface technologies remain focused on safety, position, and emerging sensing applications.

For the fourth quarter 2016, we see a muted development of our business in revenues and earnings, particularly due to a negative development at a specific customer in the consumer end market and a production yield issue in an industrial product line. Based on available information and a current USD/EUR exchange rate of 1.09, we expect fourth quarter revenues of EUR 127-134 million reflecting the impact of this customer-specific negative development, the industrial product line production yield issue which we currently do not expect to resolve before early 2017, product maturity and mix effects, and an unsupportive subdued demand momentum in non-consumer markets where uncertainties continue. The customer-specific development may also result in negative profitability effects due to depreciation of work-in-progress inventory. We therefore expect the adjusted operating margin for the fourth quarter (excluding acquisition-based and share-based compensation costs) to be impacted by revenue, gross margin and product mix effects resulting in a meaningfully lower level of 11-13%.

We have announced the acquisition of Heptagon, the worldwide leader in high performance optical packaging technologies and micro-optics, making ams the clear global leader in optical sensing technologies. Through this transforming transaction we expect to increase and accelerate our mid-term growth opportunities, particularly in consumer optical sensing. Including Heptagon, we therefore target business growth of 30% CAGR (compound annual growth rate) for the coming three years combined with a profitability target of 30% operating (EBIT) margin from 2019. Substantial expected content increases in the smartphone and mobile device space will serve as important drivers of this expected growth.

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Looking into 2017, the addition of Heptagon substantially expands our broad and confirmed revenue and development pipeline resulting in major expected revenue effects from mid-year 2017 onwards. Combining the growth potential from our pipeline with Heptagon's growth opportunities therefore strongly supports our increased growth targets for the coming years.

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## 2016



## Consolidated Income Statement

(unaudited)

EUR thousands (except earnings per share)	Q3 2016	9 months 2016	Q3 2015	9 months 2015
Revenue Products	131,721	379,710	142,428	442,847
Revenue Foundry & Other	14,984	36,617	10,618	33,090
<b>Total revenues</b>	<b>146,705</b>	<b>416,327</b>	<b>153,046</b>	<b>475,937</b>
Cost of sales	-68,981	-193,989	-69,934	-217,132
<b>Gross profit</b>	<b>77,723</b>	<b>222,338</b>	<b>83,113</b>	<b>258,806</b>
Gross margin in %	53%	53%	54%	54%
Research and development	-36,533	-101,761	-25,797	-76,141
Selling, general and administrative	-23,143	-71,936	-24,316	-72,111
Other operating income	31,856	36,279	2,272	5,706
Other operating expense	-263	-429	-115	-227
Result from investments in associates	98	1,646	-8	1,935
<b>Result from operations</b>	<b>49,739</b>	<b>86,137</b>	<b>35,148</b>	<b>117,967</b>
Net financing result	-1,631	-2,814	1,277	8,633
<b>Result before tax</b>	<b>48,108</b>	<b>83,323</b>	<b>36,426</b>	<b>126,599</b>
Income tax result	7,829	5,852	-2,408	-8,575
<b>Net result</b>	<b>55,937</b>	<b>89,176</b>	<b>34,017</b>	<b>118,024</b>
Basic / diluted earnings per share in CHF <sup>1)</sup>	0.91 / 0.88	1.45 / 1.40	0.54 / 0.52	1.81 / 1.74
Basic / diluted earnings per share in EUR	0.84 / 0.81	1.32 / 1.28	0.49 / 0.47	1.71 / 1.65

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

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## Consolidated Balance Sheet

(unaudited)

EUR thousands	September 30, 2016	December 31, 2015
<b>Assets</b>		
Cash and cash equivalents	163,311	103,579
Financial assets	36,198	40,321
Trade receivables	102,432	88,734
Inventories	87,788	79,752
Other receivables and assets	33,664	28,663
<b>Total current assets</b>	<b>423,393</b>	<b>341,049</b>
Property, plant and equipment	294,241	256,631
Intangible assets	595,008	582,022
Investments in associates	2,085	1,876
Deferred tax assets	34,847	34,824
Other long-term assets	23,340	6,979
Total non-current assets	949,521	882,332
<b>Total assets</b>	<b>1,372,915</b>	<b>1,223,381</b>
<b>Liabilities and shareholders' equity</b>		
<b>Liabilities</b>		
Interest-bearing loans and borrowings	75,269	74,961
Trade liabilities	46,892	58,590
Tax liabilities	35,386	46,333
Provisions	30,319	34,747
Other liabilities	38,463	30,972
<b>Total current liabilities</b>	<b>226,329</b>	<b>245,603</b>
Interest-bearing loans and borrowings	374,508	200,223
Employee benefits	34,368	32,449
Deferred tax liabilities	54,909	57,890
Other long-term liabilities	36,888	6,008
<b>Total non-current liabilities</b>	<b>500,673</b>	<b>296,569</b>
<b>Shareholders' equity</b>		
Issued capital	73,409	73,409
Additional paid-in capital	208,129	203,785
Treasury shares	-162,513	-77,612
Other reserves (translation adjustment)	50,099	60,288
Retained earnings	476,790	421,339
Total shareholders' equity and reserves	645,913	681,209
<b>Total liabilities and shareholders' equity</b>	<b>1,372,915</b>	<b>1,223,381</b>

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## 2016



## Consolidated Statement of Cash Flows

(unaudited)

EUR thousands	Q3 2016	9 months 2016	Q3 2015	9 months 2015
<b>Operating activities</b>				
Result before tax	48,108	83,323	36,426	126,599
Depreciation (net of government grants)	15,857	46,351	11,100	34,994
Expense from stock option plan (acc. to IFRS 2)	1,626	4,628	559	2,004
Changes in other long-term liabilities	-745	-905	-76	-1,685
Result from sale of plant and equipment	-75	-94	58	32
Result from sale of financial assets	0	0	0	-2,631
Result from investments in associates	-98	-1,646	8	696
Net financing result	1,631	2,816	-1,276	-8,631
Change in inventories	-4,320	-6,567	-3,512	-8,676
Change in trade and other receivables	3,473	-12,612	-1,674	-26,277
Change in trade and other payables	8,488	-13,444	-8,951	-5,597
Change in provisions and employee benefits	1,785	-3,203	4,593	7,924
Change in deferred income	453	2,266	574	-561
Result from sale of discontinued operation net of tax	-29,681	-29,681	0	0
Tax payments	-1,309	-11,208	-1,581	-9,674
<b>Cash flows from operating activities</b>	<b>45,193</b>	<b>60,025</b>	<b>36,249</b>	<b>108,518</b>
<b>Investing activities</b>				
Acquisition of intangibles, property, plant and equipment	-24,324	-69,162	-18,104	-63,786
Acquisition of subsidiaries, net of cash acquired	-8,686	-46,433	0	-4,538
Acquisition of other financial investments	0	-5,008	0	-15,023
Proceeds from sale of plant and equipment	530	562	25	88
Disposal of discontinued operations net of cash disposed of	62,154	62,154	0	0
Proceeds from the sale of financial assets	0	10,000	0	7,081
Interest received	272	917	262	876
<b>Cash flows from investing activities</b>	<b>29,946</b>	<b>-46,970</b>	<b>-17,818</b>	<b>-75,301</b>
<b>Financing activities</b>				
Proceeds from borrowings	181,894	257,206	1,067	65,135
Repayment of debt	-80,153	-85,115	-9,827	-104,745
Repayment of finance lease liabilities	-39	-119	-319	-950
Acquisition of treasury shares	-47,023	-94,088	-5,871	-28,162
Sale of treasury shares	5,010	9,187	2,899	13,252
Interest paid	-888	-2,771	-184	-933
Dividends paid	0	-34,575	0	-22,795
Changes resulting from capital increase	0	0	-14	918
<b>Cash flows from financing activities</b>	<b>58,800</b>	<b>49,725</b>	<b>-12,250</b>	<b>-78,280</b>
Change in cash and cash equivalents	133,940	62,779	6,181	-45,062
Effects of changes in foreign exchange rates on cash and cash equivalents	-301	-3,047	1,042	7,684
Cash and cash equivalents at begin of period	29,672	103,579	159,079	203,681
<b>Cash and cash equivalents at end of period</b>	<b>163,311</b>	<b>163,311</b>	<b>166,302</b>	<b>166,302</b>

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### Reconciliation from adjusted figures to IFRS reported figures

EUR thousands	Q3 2016	9 Months 2016	Q3 2015	9 Months 2015
<b>Gross profit – adjusted</b>	<b>81,292</b>	<b>233,562</b>	<b>85,722</b>	<b>266,670</b>
Acquisition-related costs	-3,440	-10,910	-2,547	-7,641
Share-based compensation costs	-128	-314	-62	-223
<b>Gross profit – IFRS reported</b>	<b>77,723</b>	<b>222,338</b>	<b>83,113</b>	<b>258,806</b>
Gross margin in % – adjusted	55.4 %	56.1 %	56.0 %	56.0 %
Gross margin in % – IFRS reported	53.0 %	53.4 %	54.3 %	54.4 %
<b>Operating expenses – adjusted</b>	<b>-53,251</b>	<b>-152,936</b>	<b>-47,185</b>	<b>-136,146</b>
Acquisition-related costs	-2,917	-8,632	-282	-2,912
Share-based compensation costs	-1,497	-4,314	-497	-1,781
Result from discontinued operation	29,681	29,681	0	0
<b>Operating expenses – IFRS reported</b>	<b>-27,984</b>	<b>-136,201</b>	<b>-47,964</b>	<b>-140,839</b>
<b>Result from operations – adjusted</b>	<b>28,041</b>	<b>80,626</b>	<b>38,536</b>	<b>130,524</b>
Acquisition-related costs	-6,358	-19,542	-2,829	-10,553
Share-based compensation costs	-1,626	-4,628	-559	-2,004
Result from discontinued operation	29,681	29,681	0	0
<b>Result from operations – IFRS reported</b>	<b>49,739</b>	<b>86,137</b>	<b>35,148</b>	<b>117,967</b>
Operating margin in % – adjusted	19.1 %	19.4 %	25.2 %	27.4 %
Operating margin in % – IFRS reported	33.9 %	20.7 %	23.0 %	24.8 %

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**ams AG**  
Tobelbader Strasse 30  
8141 Premstaetten, Austria  
T +43 3136 500-0  
[investor@ams.com](mailto:investor@ams.com)  
[www.ams.com](http://www.ams.com)

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