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EANS-Adhoc: ams AG / ams acquires high end optical packaging leader Heptagon to become clear worldwide leader in optical sensing; reports third quarter results around mid-point of expectations when excluding divestiture and exchange rate effects; sees mu

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Financial Figures/Balance Sheet/9-month report/Acquisition
24.10.2016

Transforming transaction to create end-to-end optical sensing and packaging leader and drive ams' global leadership in sensor solutions; key financial data for the third quarter 2016

Premstaetten, Austria (24 October 2016) - ams (SIX: AMS), a leading worldwide manufacturer of high performance sensor and analog solutions, has signed an agreement to acquire 100% of the shares in Heptagon, the worldwide leader in high performance optical packaging and micro-optics. With this transaction, ams becomes the clear global leader in optical sensing technologies anticipating industry and technology trends to drive growth in new applications. ams also reports third quarter 2016 revenues and operating profitability around the mid-point of expectations in a more positive consumer market when excluding divestiture and exchange rate effects. ams expects a muted fourth quarter 2016 due to customer-specific, product line yield and non-consumer end market effects with revenues of EUR 127-134 million at a sequentially lower operating margin.

Heptagon is a global leader in micro-optics and optical sensing solutions with particular expertise in high performance optical packaging where the company is positioned as innovation leader. Leveraging advanced optics capabilities in combination with a strong optical design team, Heptagon has built a leading market position as provider of world-class integration and high value packaging solutions in optical sensing.

Currently focused on the consumer market, Heptagon is a major supplier into applications for mobile devices requiring high volume optical packaging at very small form factors. Leveraging its advanced technology, Heptagon sees excellent growth opportunities with its current customer base which includes a key customer serving the smartphone and mobile device markets. Heptagon's headquarters and manufacturing are based in Singapore while its R&D center is in Rueschlikon, Switzerland. The company has over 830 employees including around 120 engineers and 500 manufacturing staff. Heptagon commands a very strong and protected IP portfolio, primarily in optical packaging, including more than 250 patent families.

Heptagon's current 12 month revenue run rate is around USD 90m at negative operating profitability due to current underutilization of production capacity. Heptagon expects substantial revenue growth over the coming years starting mid-year 2017, based on its existing revenue and capacity pipeline and customer commitments. To prepare for this expected growth, Heptagon has already embarked on a major expansion of its Singapore manufacturing capacity with a total capital investment of more than USD 250m in 2016/2017. The expansion is based on a confirmed customer commitment for usage of the additional capacity and is fully funded from existing cash in the business, requiring no funding by ams.

The transaction combines an upfront consideration in cash and shares with a substantial deferred earn-out consideration. The upfront consideration includes USD 64m in cash from available funds, a capital increase of 15% of outstanding shares from authorized capital (excluding subscription rights) and shares from currently held treasury shares for a total value of the upfront consideration of approx. USD 570m. The earn-out consideration will be contingent on future results of Heptagon's business over fiscal year 2017 with a potential maximum value of USD 285m. Following the upfront share transaction, current Heptagon shareholders which include financial investors, management, and employees are expected to hold around 20% in ams. The transaction is expected to close within the next three months subject to certain approvals and the occurrence of certain conditions defined in the agreements with the sellers. ams plans to integrate Heptagon into its organization following the closing.

The combination of ams and Heptagon forms the clear worldwide leader in end-to-end optical sensing solutions with global scale and the ability to define and drive technology trends and innovation. Given the increasing value-add of high end packaging technologies for upcoming optical sensor applications the transaction fully leverages ams' and Heptagon's outstanding know-how in optical design and manufacturing. ams is convinced that this end-to-end solution capability will allow it to better serve customers in high value optical applications. Adding Heptagon also accelerates the expansion of ams' capabilities in sensor fusion and sensor hubs. ams' market access in the consumer and smartphone space is expected to support Heptagon's customer relationships and broaden its customer base for the combined company's sensor solutions.

Through the addition of Heptagon ams expects to increase and accelerate its mid-term growth opportunities, particularly in consumer optical sensing. Including Heptagon, ams therefore targets 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 ams content increases in the smartphone and mobile device space will serve as important drivers of this expected growth.

Alexander Everke, CEO of ams, commented on the transaction, "Combining ams and Heptagon creates the clear #1 in optical sensing technologies and fast-tracks our innovation capabilities. As a result, we expect ams to drive the optical sensing agenda in the years to come and broaden its market reach. Together with our leadership position in our other sensing focus areas Environmental, Imaging, and Audio, this strategic transaction is going to transform ams into the global leader in sensor solutions."

For the third quarter 2016, reported group revenues were EUR 146.7 million (equivalent to around mid-point of previous 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.

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 previous 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.

ams' 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 the strong market position of ams in the consumer space and across its balanced portfolio of consumer and non-consumer businesses.

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

ams' 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 its differentiated sensor and sensor interface solutions ams holds a strong market position in industrial sensors enabling advanced applications for leading OEMs and their customers worldwide. ams' medical business continues to be driven by digital imaging sensor solutions for computed tomography (CT), digital X-ray, and mammography where ams is the technology leader. Production ramp for a new Asian medical imaging customer continued in the quarter. ams' automotive sensor and sensor interface technologies remain focused on safety, position and emerging sensing applications.

For the fourth quarter 2016, ams sees a muted development of its 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, ams expects fourth quarter revenues of EUR 127-134 million reflecting the impact of the customer-specific negative development, the industrial product line production yield issue which ams currently does 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. ams therefore expects 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%.

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

The quarterly report on the third quarter 2016 including additional financial information is available on the company website at www.ams.com/eng/Investor/Financial-Reports.

ams will hold a combined conference call on the acquisition and the third

quarter results tomorrow morning, 25 October 2016, at 9.00am CEST / 8.00 am GMT, replacing the conference call on the third quarter results planned for 10.00am CEST / 9.00am GMT. To dial into the conference call please use the following access numbers: +41 58 310 5000 (Switzerland), +44 20 3059 5862 (UK), +43 1 25 302 1402 (Austria), +49 69 505 0 0082 (Germany), +33 1 7091 8706 (France), +1 631 570 5613 (USA). A recording of the conference call will be available from tomorrow, 25 October 2016, noon via the following access numbers: +41 91 612 4330 (Switzerland), +44 20 7108 6233 (UK), +1 631 982 4566 (USA), +43 125 302 1403 (Austria), access code 15171#

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about ams

ams is a global leader in the design and manufacture of advanced sensor solutions and analog ICs. Our mission is to shape the world with sensor solutions by providing a seamless interface between humans and technology.

ams' high-performance analog products drive applications requiring extreme precision, dynamic range, sensitivity, and ultra-low power consumption. Products include sensors, sensor interfaces, power management, and wireless ICs for consumer, communications, industrial, medical, and automotive markets.

With headquarters in Austria, ams employs over 2,100 people globally and serves more than 8,000 customers worldwide. ams is listed on the SIX Swiss stock exchange (ticker symbol: AMS). More information about ams can be found at www.ams.com

Further inquiry note:

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