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EANS-Adhoc: ams AG / ams reports second quarter revenues in upper half of guidance range with profitability above expectations; positive momentum for optical and 3D sensing technologies in Android market; ...

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Selected financial information for the second quarter and first half 2019

Mergers - Acquisitions - Takeovers/Mid Year Results/Mid Year Financial Report/Quarterly Report
23.07.2019

Premstaetten - (PR title cont'd) ... strong third quarter expected with revenues of USD 600-640 million, up 49% quarter-on-quarter, based on consumer ramps; operational improvements drive significant increase in expected third quarter adjusted EBIT margin to above 25%; update on strategic transaction opportunity

Premstaetten, Austria (23 July 2019) -- ams (SIX: AMS), a leading worldwide supplier of high performance sensor solutions, reports second quarter results with revenues in the upper half of the guidance range and operating profitability above expectations. Driven by ams' consumer business, the results reflect the strength of ams' portfolio and more supportive demand trends in the consumer market. ams expects strong revenue and profit growth for the third quarter based on high volume ramps in the consumer market and significantly improved operational performance with expected revenues of USD 600-640 million and a strongly higher adjusted operating margin of above 25%.

Second quarter group revenues were USD 415.2 million, up 8% sequentially compared to the first quarter and up 72% from USD 241.6 million in the same quarter 2018. Group revenues for the first half of 2019 were USD 801.2 million, up 22% compared to USD 655.2 million recorded in the first half of 2018. Adjusted gross margin for the second quarter was 37% (excluding acquisition-related and share-based compensation costs) with IFRS reported gross margin at 35% (including acquisition-related and share-based compensation costs), compared to 15% and 9% respectively in the same quarter 2018. For the first half of 2019, adjusted gross margin stood at 35% (excluding acquisition-related and share-based compensation costs) and IFRS reported gross margin at 32% (including acquisition-related and share-based compensation costs), compared to 28% and 24% respectively in the first half of 2018.

The adjusted result from operations (EBIT) for the second quarter was USD 50.0 million or 12% of revenues (excluding acquisition-related and share-based compensation costs), strongly increasing from a loss of USD 46.4 million in the same period 2018 (USD 21.9 million or 5% of revenues including acquisition-related and share-based compensation costs, up from a loss of USD 72.8 million in the same period 2018). For the first half of 2019, the adjusted EBIT was USD 73.2 million (excluding acquisition-related and share-based compensation costs), up from USD 24.2 million in the same period 2018 (USD 17.5 million including acquisition-related and share-based compensation costs, up from a loss of USD 30.3 million in the first half year 2018).

Adjusted net income for the second quarter was USD 25.2 million (excluding valuation effect of option element of foreign currency convertible bond), compared to a loss of USD 99.0 million for the same period 2018 (second quarter

2019: USD 25.1 million including valuation effect). Adjusted basic/diluted earnings per share for the second quarter were CHF 0.31/0.28 or USD 0.31/0.28 based on 80,773,555/86,504,145 shares (weighted average; second quarter 2019: CHF 0.31/0.28 or USD 0.31/0.28 including valuation effect; second quarter 2018: CHF -1.24/-1.19 or USD -1.19/-1.15 based on 83,377,425/86,388,635 shares, weighted average). Adjusted net income for the first half year 2019 was USD 15.8 million (excluding valuation effect of option element of foreign currency convertible bond), compared to a loss of USD 7.7 million for the same period 2018 (first half 2019: USD 15.8 million including valuation effect). Adjusted basic/diluted earnings per share for the first half were CHF 0.20/0.19 or USD 0.20/0.19 per share based on 80,504,466/81,864,338 shares (weighted average; first half 2019: CHF 0.19/0.19 or USD 0.20/0.19 including valuation effect; first half 2018: CHF -0.10/-0.10 or USD -0.10/-0.10 based on 77,344,938/80,159,144 shares, weighted average).

Operating cash flow for the second quarter was USD 50.7 million compared to USD -69.1 million in the same quarter last year, while operating cash flow for the first half was USD 145.7 million compared to USD -17.6 million in the first half year 2018. Total backlog on 30 June 2019 (excluding consignment stock agreements) was USD 304.2 million compared to USD 285.2 million at the end of the first quarter and USD 525.6 million on 30 June 2018.

ams' business performed well in the second quarter and first half of 2019 with second quarter results in the upper half or above the published expectation range. This strong development was again driven predominantly by ams' consumer business where the demand environment turned more supportive compared to the previous quarter.

ams' consumer business once more provided the largest contribution to its overall results. ams holds a leading market position in optical sensing where its extensive portfolio comprises advanced solutions for 3D sensing including VCSEL (Vertical Cavity Surface-Emitting Laser)-based illumination, high quality display management including behind-OLED and TrueColor technologies, micro-scale proximity sensing, bio- and spectral sensing, and other optical applications. ams is a leader in 3D sensing technologies and an important supplier of high volume 3D sensing solutions. ams' extensive 3D sensing portfolio and system know-how covers all three technologies structured light (SL), time-of-flight (ToF), and active stereo vision (ASV) for both front-facing and world-facing 3D systems with a current focus on 3D illumination.

The anticipated positive momentum in 3D sensing adoption shows as ams moves through the current year and looks at market developments going forward. ams is shipping 3D sensing solutions to the world's top smartphone OEMs in volume while ams added an expanding volume base in the Android market in the first half. As ams moves along a multi-year adoption timeline for front-facing 3D sensing and is in the very early stages of a comparable multi-year timeline for world-facing applications ams is able to serve different customer needs across all three technologies. Offering projection, illumination and distance measurement solutions in ams' extensive 3D portfolio for SL, ToF and ASV, ams continues to strengthen its market position in 3D illumination and sees further device launches in the second half of this year. ams' advanced VCSEL technology offers advantages in 3D sensing illumination for all 3D technologies which makes its high power VCSEL portfolio a key driver of the ongoing success of ams in 3D sensing. ams is able to provide full 3D illumination solutions to OEMs which incorporate VCSELs, VCSEL drivers, optics, module design and/or manufacturing. Given their high differentiation and optimized performance the solutions create a competitive advantage compared to VCSEL-focused vendors.

Following platform launches in the first half, ams has already shipped high volumes of illumination products for first world-facing iToF 3D sensing systems at two leading Android OEMs as ams' business with major Asian OEMs is not facing any noticeable constraint due to the current trade-related uncertainties. ams is supplying increasing volumes in this area as it enters the second half supporting camera enhancing features and sees a positive momentum for this business in the coming year. Other 3D sensing solutions continued to ship in substantial volumes through the second quarter as anticipated. ams recently announced another partnership in 3D sensing with leading Chinese software expert MEGVII to accelerate market availability of ASV designs for consumer-oriented 3D

authentication outside smartphones. The reference designs will target applications such as access control/locks and point-of-sale payment systems. The partnership confirms the growing market interest in expanding 3D authentication to additional areas as well as the leading position of ams in 3D sensing which makes ams a preferred partner in 3D sensing development. ams is also seeing very good market traction for its long-distance 1D ToF solution for precise distance measurement up to around 2.5 meters. Here ams has won a first design for laser detect autofocus (LDAF) for backside cameras and sees further opportunities in the smartphone market as well as in IoT.

ams has recently also entered into an important partnership with China-based leading image sensor vendor SmartSens in the field of illumination and Near Infrared (NIR) image sensing for 2D and 3D solutions and applications requiring high quantum efficiency (QE) in the NIR range. Together, the partners will first advance an ASV reference design for consumer 3D applications based on the latest near-infrared (NIR) image sensor with state-of-the-art QE of up to 40% and ams' illumination system capabilities. ams is excited about this partnership for faster time to market which leverages its 3D illumination offering and core IP in global shutter technology to enable high performance depth maps for payment, face recognition and AR/VR at competitive system cost. Importantly, this partnership extends into the sizeable automotive market where it will help enable innovative applications for 2D and 3D in-cabin optical sensing such as driver monitoring and identification, and accelerate time to market. The co-operation will also advance industrial opportunities, here ams is already engaging with a large OEM for an ASV application for a consumer-oriented household device. Together with the co-operation with MEGVII, the partnerships underscore the attractiveness of ASV for a broad spectrum of cost-efficient 3D solutions with wide-ranging appeal in diverse markets.

Leveraging its different 3D technology partnerships, ams is strengthening its leadership position in 3D sensing which is built around hardware and software IP and its industry-leading portfolio and system expertise. ams sees positive momentum for this market as application areas for 3D technologies continue to broaden, opening up new opportunities for the future.

In display management, ams is recording high shipment volumes of its new solutions for high performance behind-OLED-display proximity and light sensing which demonstrate the excellent success of this innovation shortly after market introduction. ams' behind-OLED sensing enables OEMs to place light and proximity sensing invisibly behind the OLED display in order to pursue maximized screen-to-body ratio and bezel-less phone designs. ams is already supplying several major Asian OEMs for a range of recently launched high volume smartphone platforms which are successful in the market. Supporting the trend to remove bezel-placed elements from the front side of smartphones, this unmatched technology is showing very good traction at consumer OEMs with behind-OLED sensing adoption expected to expand meaningfully into the next year. Significant shipments of customized TrueColor sensing solutions for advanced display management continued in the quarter, while ams is shipping high volumes of new flicker detection light sensors, which improve picture quality by detecting artificial light flicker, to several Asian smartphone OEMs.

ams' development focus on new optical sensing technologies and applications is unchanged including biosensing and under-display optical technologies with a roadmap for 3D. As mentioned, ams' biosensing solution offers high quality blood pressure measurement providing valuable personal health data which ams augments by further health-related information. ams is actively engaging with OEMs for future devices and pursues medical grade certification for blood pressure measurement in the United States which is expected by year-end, to be followed by China. ams' audio sensing business performed well in the first half while ams' other consumer product lines saw attractive volumes at a range of OEMs. Leading in audio and active noise cancellation, ams has launched an innovative solution for high quality noise cancellation in loose-fitting true wireless earbuds and is seeing strong interest from consumer OEMs. Additionally, ams' exclusive augmented hearing technology allows relevant audio information such as speech to selectively by-pass noise cancellation.

ams' automotive, industrial, and medical businesses showed an overall good

performance in the second quarter and first half that tracked expectations. ams' automotive business recorded a second quarter in line with expectations, successfully navigating through a more challenging market environment with continuing mixed end demand across regions. Based on a diversified solution and customer portfolio, ams' main focus are applications for safety, driver assistance/autonomous driving, position sensing, and chassis control. While automotive sensing content continues to expand, ams' portfolio focus areas are not not propulsion technology-specific allowing ams to benefit irrespective of propulsion technology market shares. In the quarter, ams announced details around the previously reported large program for VCSEL illumination in solid-state 3D LIDAR where ams works with tier 1 system supplier ZF and technology partner IBEO. Strong development activities continue for this program where ams is able to combine the advantages of non-scanning and scanning approaches into a true solid-state scanning architecture based on addressable VCSEL arrays. Given ams' strong automotive VCSEL capabilities ams is actively engaged with additional tier 1 system vendors in multiple regions for LIDAR illumination. As mentioned above, ams is also addressing sizeable opportunities in other new automotive optical and 2D/3D sensing such as in-cabin monitoring. ams is moving ahead in development of 3D illumination for an in-cabin ToF sensing solution for a tier 1 supplier while ams is able to address several content opportunities in different system designs for this market. Additionally, ams sees attractive momentum in automotive projected lighting where applications for miniaturized projector solutions are bound to expand from today's focus on comfort to innovative safety and differentiated lighting features.

ams' industrial business recorded attractive results in the second quarter and first half despite an overall less favorable demand environment for industrial applications. ams serves the industrial and factory automation, HABA, other industrial sensing, and industrial imaging markets as a leading provider of industrial sensing solutions and continued to see broad-based contributions from a wide range of applications. ams' imaging business is seeing ongoing positive momentum reflecting ams' leadership in global shutter technology while the above mentioned partnership with SmartSens for high performance NIR sensors leverages the combined IP in this area. ams' medical business was again successful in the second quarter with digital imaging for computed tomography (CT), digital X-ray, mammography, and miniature camera applications contributing positively to ams' results. In the growth region Asia/Pacific ams sees ongoing positive traction for its medical imaging portfolio enabling ams to strengthen its market position. Market momentum for ams' leading micro camera solutions continues to increase as application opportunities expand into multiple end markets.

In manufacturing operations, ams has been able to significantly improve the efficiency of production processes in Singapore resulting in more efficient staffing and materials usage. These advances are driving clear benefits for ams' operational performance as capacity utilization increases with expected higher production volumes in the third quarter and second half. The strongly higher VCSEL volumes ams is shipping this year compared to 2018 are supported by its expanded outsourced supply chain comprising several partners. ams' internal VCSEL production line is moving towards the expected start of its multi-quarter production ramp around year-end as previously mentioned. In line with previous expectations, ams sees significantly lower capital expenditures for 2019 compared to last year with the dominant share of expenditures completed in the first half of 2019.

ams recently confirmed that it has been engaged in discussions with OSRAM Licht AG regarding a potential transaction. ams requires M&A opportunities to be strategically compelling and demonstrably value enhancing, and for larger transactions, financially accretive, achievable with a sustainable capital structure and fitting ams' financial model. Against this background and under the circumstances at the time, ams did last week not see a sufficient basis for continuing the discussions with OSRAM Licht AG. However, as part of its technology-led M&A strategy ams continues to evaluate all opportunities with the objective to create value for its shareholders while satisfying the criteria above, and has today decided to re-evaluate a potential transaction with OSRAM Licht AG. In addition, ams was recently approached by potential financial partners and has exchanged views which confirm its belief that ams can arrange prudent and committed financing for this potential transaction.

For the third quarter 2019, ams expects strong sequential and year-on-year growth driven by high volume ramps for smartphone sensing solutions while its other end markets continue their contribution to ams' overall results. Based on available information, ams expects third quarter revenues of USD 600-640 million, up 49% sequentially and 29% year-on-year at the midpoint, which reflect the strength of ams' portfolio in high performance consumer applications such as 3D and light sensing. On the basis of current information, ams expects the third and fourth quarter to show a comparable revenue scale.

Benefitting from higher capacity utilization and positive effects from the significant improvements in operational and manufacturing performance, ams expects the adjusted operating (EBIT) margin for the third quarter to increase strongly to above 25%, more than doubling quarter-on quarter and up more than 90% year-on-year. Based on its positive outlook, ams currently targets leverage in terms of net debt / EBITDA to decrease significantly to a level of below 2 at year-end 2019.

The half year report 2019 including additional financial information is available on the company website at <https://ams.com/financial-reports> [<https://ams.com/financial-reports>].

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About ams

ams is a global leader in the design and manufacture of advanced sensor solutions. Our mission is to shape the world with sensor solutions by providing a seamless interface between humans and technology. ams' high-performance sensor solutions drive applications requiring small form factor, low power, highest sensitivity and multi-sensor integration. Products include sensor solutions, sensor ICs, interfaces and related software for consumer, communications, industrial, medical, and automotive markets. With headquarters in Austria, ams employs about 9,000 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 <https://ams.com> [<https://ams.com>]

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