2017 fiscal Q2 Ad-hoc Notice
Intro Statement for Analyst Call
Reinhard Ploss

Reinhard Ploss:

Good afternoon everyone and welcome to this short-notice telephone conference on our increased outlook for the second quarter and full fiscal year 2017. I will begin today's call with a few brief remarks on the market and business development in each division. Then, I will walk you through our updated outlook. Thereafter, we are happy to take your questions.

Group

Now let me share a few comments on the order entry during the quarter.

In January, we still saw a normal rate of orders coming in. In February and March, the order entry increased strongly. For the fiscal second quarter-to-date, we now stand at a book-to-bill ratio of around 1.2. This has been driven by ATV, IPC and PMM.

Across these three divisions, we are seeing a strong acceleration in order entry and revenue traction mainly from distributors. We have strong indications that we are in a tight supply situation in the market at the moment. Due to our large share of in-house manufacturing, we are in a position to satisfy these demands on short notice. Therefore, we harvest a higher share of this additional demand.

Now let me give you some color on the business traction in each division.

Automotive

The excellent momentum we had seen in the December quarter for automotive continues even stronger into the second quarter.

During the quarter, we have seen a surprisingly strong increase in demand from China, especially through the distribution channel.

Besides, demand for electric drivetrain solutions and components for ADAS systems continues to be very strong with year-over-year growth rates of around sixty percent. We also see very strong demand across the board for all classic product groups.

Industrial Power Control

Let us now take a quick look at Industrial Power Control. A lot of people asked us whether we are not seeing the broad-based industrial upswing as other companies. In actual fact, we do see a boom in small- and medium power applications. The demand for discrete components, drivers, molded modules and low and medium power standard modules is extraordinarily high. Again, we see a particular pull from the distribution channel. These products go into applications like Major Home Appliances, small solar power installations, but also simple automation tasks. Applications where high power modules are required, such as high speed trains, are rather muted as before. Overall, this is still leading to a stronger revenue upswing as anticipated before.

Power Management & Multimarket

Let us now come to Power Management & Multimarket.

The momentum that we saw in the power business during the last quarter, has been accelerating through-out the quarter. Again, strong pull from distributors is seen. Products from our 300mm factory are in increasingly high demand and we have to work very hard to grow our 300mm capacities in line with demand.

However, the smartphone component business is seeing its seasonal low, as anticipated. RF power components business for base-stations visibility still shows low visibility.

Chip Card & Security

Let us move on to Chip Card & Security.

The payment segment is somewhat stabilizing but not yet growing again. Government ID is seeing good demand and we are seeing a very nice momentum in embedded SIM applications. The key driver here is automotive, but also wearables are gaining traction.

In total, we keep our outlook from beginning of the quarter and expect revenues flat to slightly down compared to the December quarter.

Outlook for Q2

After this brief update on the business momentum in each division, let me now come to the **outlook** for the fiscal second quarter. We now expect **revenues** improving approximately 8 percent sequentially. This outlook is based on a rate of about 1.07 for the Euro against the US Dollar. We expect revenues to increase sharply in ATV. IPC and PMM will come in better than anticipated. For CCS we continue to see a flat to slightly down development. All compared to the December quarter.

At the midpoint of the revenue guidance, the **Segment Result Margin** should come in with 17 percent.

The significantly better outlook for the Segment Result Margin is based on higher revenues and a better mix due to the strong pick up of the distribution business.

Outlook for fiscal year 2017

For the full 2017 fiscal year, we now expect revenues to grow between 8 and 11 percent, assuming a rate of 1.10 for the US Dollar against the Euro.

The Segment Result Margin should come in at 17 percent of sales for the full 2017 fiscal year at the midpoint of that range. This is a consequence of the higher revenues expected for the full fiscal year.

Investments

Let me also comment on investments.

We define investments as the sum of outlays for property, plant and equipment, as well as intangibles and capitalization of certain R&D expenses. At 8 percent growth, we typically need 13 percent investment-to-sales, which includes about 2 percent capitalized R&D. If we grow less, we need less investments into manufacturing tools, if we grow more, we need more investments into manufacturing tools.

As we now plan to grow between 8 and 11 percent year-on-year, we expect a budget of about 1 billion and 50 million Euros for this fiscal year. This figure compares to 950 million Euros before. This budget includes about 35 million Euros for a new office building here at our headquarters.

More importantly, it also contains some additional investments for accelerating our Silicon Carbide roadmap as we are seeing excellent progress in our program.

Closing words

Ladies and gentlemen, the second quarter of the 2017 fiscal year is coming in much stronger than anticipated on the back of unabated strong secular growth drivers and a very strong distribution business. We see a very strong momentum in Automotive, particularly driven out of China, but also continued strength in the secular trends electric drivetrain and ADAS. We see also very good demand in low- and medium power applications in IPC and a strong MOSFET power business in PMM, driven by distribution.

This also leads to increasing momentum for our unique 300 mm thin-wafer power products. For this, we are even more confident that the ramp-up cost that still impact our Segment Result negatively are digested with increased loading by the end of this calendar year.

Not only the revenue outlook is very promising, but due to the higher revenues we believe to reach our new through-cycle Segment Result Margin target of 17 percent already this year.

Let me also spend a few words on the failed acquisition of Wolfspeed.

We are very sad that we had to call off the transaction. However, we have made tremendous progress with our own Silicon Carbide MOSFET development since we had announced the intended deal last summer. As you might recall, our Silicon Carbide MOSFET is based on the more robust trench technology. It is ideally suited for heavy inductive loads – such as in the main inverter of an electric car – but, certainly also for steady loads like in solar inverters. We were able to successfully lock-in various design-wins at solar inverter makers immediately with bringing the first samples to the market. These design-wins will already turn into revenues with silicon carbide MOSFETs in the current fiscal year. This corroborates our conviction that a broad deployment of silicon carbide MOSFETs will happen first in photovoltaics, as the right cost-performance point is reached in this market already. This is point is very important for a market as a whole and not only for high end niches.

Opening of Q&A

Ladies and gentlemen, this concludes our introductory remarks and we want to open the call for your questions.