

# ANNUAL REPORT 2015

JYSKE BANK – APRIL 1<sup>ST</sup> 2016

# DISCLAIMER

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This presentation includes forward-looking statements reflecting management's current expectations for certain future events and financial performance. Forward-looking statements are inherently subject to uncertainties, and results may differ significant from expectations. Factors that may cause the actual results to differ from expectations includes, but are not limited to, developments in the economy and financial markets, changes in the silicon market, market acceptance of new products and the introduction of competing products. Topsil is only obliged to update and adjust the expectations if so required by Danish legislation and the Danish law on securities trading, etc.

# AGENDA

- 2015 Highlights
- Market update
- Strategy 2016-2020
- Financial performance 2015
- Outlook for 2016



Kalle Hvidt Nielsen  
CEO



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# 2015 HIGHLIGHTS

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- Revenue was DKK 287.3 million in 2015, up 5% from DKK 272.3 million in 2014.
- The contribution ratio was 47.6% in 2015, a year-on-year decline of half a percentage point. Adjusted for sales of remelt and 8" run-in cost margin increased vs. 2014.
- The efficiency measures implemented in 2014 and 2015 have successfully reduced the fixed cost base by DKK 7 million.
- EBITDA came to DKK 17.6 million, compared with a loss of DKK 9.4 million in 2014.
- Topsil generated a cash inflow from operating activities of DKK 7.0 million in 2015, compared with an outflow of DKK 6.3 million in 2014.
- Consolidated goodwill and assets in Polish subsidiary were written down by DKK 17 million and DKK 48 million, respectively, based on the new strategy for 2016-2020.

# 2015 HIGHLIGHTS

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- During the current 2016-2020 strategy period, activities will be further streamlined through the restructuring of loss-making operations and the formation of strategic partnerships. The target is to grow revenue by 5% p.a. during the strategy period and to increase the EBITDA margin from 6% in 2015 to 15-20% in 2020
- In 2016, revenue is expected to be in line with the 2015 level. EBITDA before strategy measures of DKK 15-25 million. After non recurring strategy-related costs of DKK 65 million, EBITDA is expected to amount to a loss of DKK 40-50 million.

# MARKET UPDATE

# MARKET UPDATE

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## GENERAL:

- The power market represented a value of just under USD 1 billion in 2015 equivalent to approximately 10% of the total silicon wafer market.

## 2015 (YOLE DEVELOPPEMENT):

- In value terms, the power market decreased by around 9% (+3% in 2014).
- The decline was most pronounced in the second half of the year
- Continued price pressure in the market in 2015

## OUTLOOK (YOLE DEVELOPPEMENT):

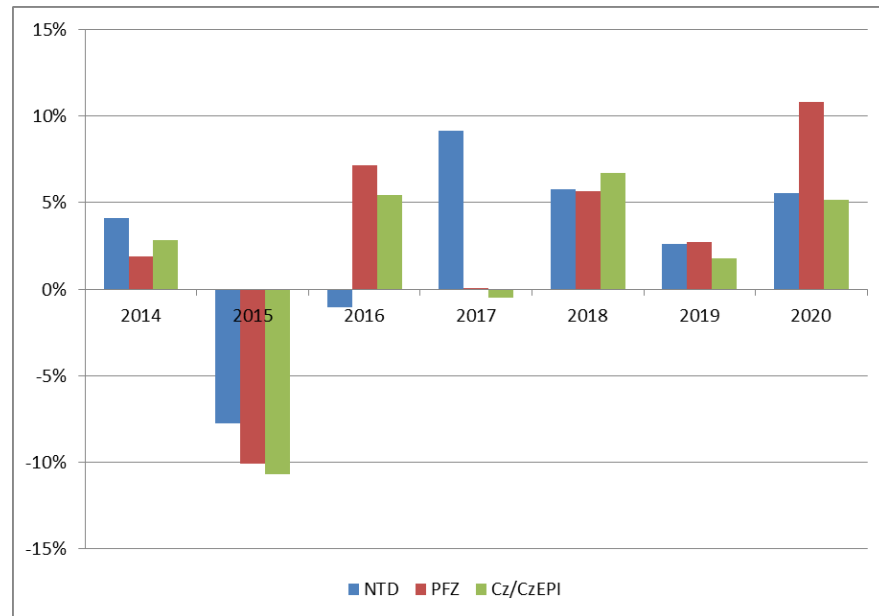
- In 2016 Yole expects the power market to grow by around 6%
- For the strategy period (2016-2020) Yole expects CAGR of 5%.

# POWER MARKET, BY PRODUCT TYPE

## SILICON MARKET

- Main substrates are NTD, PFZ and CZ/CZ-EPI
- In 2016 Yole expects a growth of more than 5% for CZ/EPI and PFZ and no growth for NTD.
- Growth in sales of medium-voltage (FZ-PFZ) and high-voltage (FZ-NTD) products is expected to be driven by 150 mm and 200 mm wafers, with the 200 mm wafer showing the highest growth rates.

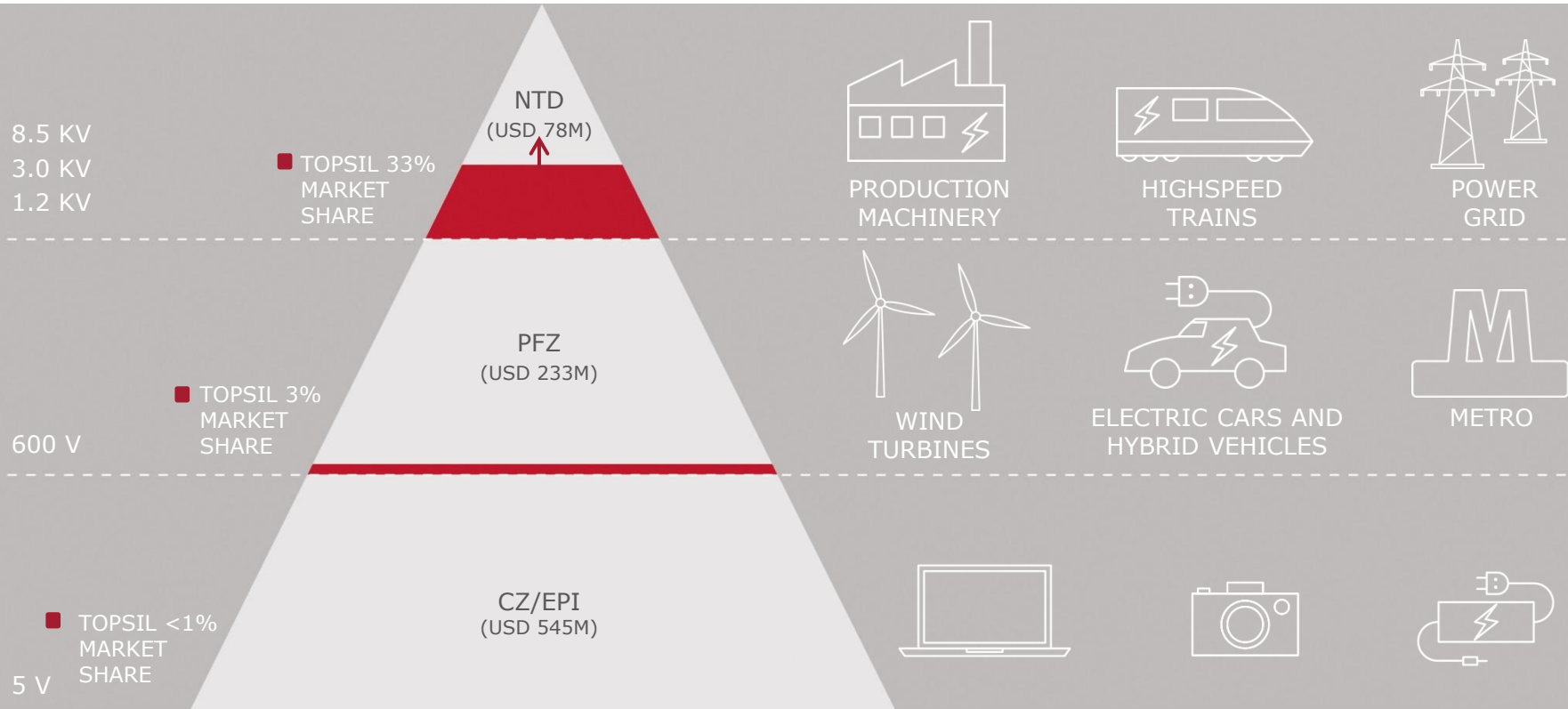
ESTIMATED MARKET GROWTH, POWER MARKET YOY,  
2014-2020





# STRATEGY UPDATE

# POSITIVE GROWTH EXPECTATIONS FOR THE SILICON MARKET



# THE 2013-2015 STRATEGY: "EXECUTING ON OPPORTUNITIES"

## IMPORTANT MILESTONES WERE REACHED

- Introduction of several new products, including next version 150 mm & 200 mm FZ wafers
- Positioning in the important Asian market
  - Japanese partnership and significant qualifications initiated
  - Important frame agreements with Chinese customers resulted in significant growth in China in 2015
  - On-going product qualifications at important clients
- Huge efficiency gains following the migration to the new factory and continues optimizations and efficiency improvements initiatives. Average variable wafer cost reduced by 21% (target 15%)
- Cost base and number of employees reduced
- Working capital reduced by DKK 24.9m (17%) in the strategy period, amongst other driven by faster collection, longer credit at suppliers and price reductions.

## FOUR KEY POINTS



# NEW STRATEGY FOR 2016-2020

## The main elements:

- Strengthening of the sales efforts with respect to FZ and EPI products for the high- and medium-voltage segments
- Measures to improve production efficiency, including strategic restructuring of loss-making operations
- New contracts with raw materials suppliers that offer higher prices and increased flexibility

## Financial targets 2016-2020

- Average annual revenue growth of 5% until 2020
- An EBITDA margin in the range of 15-20%, increasing over the strategy period
- By 2017, a reduction of funds tied up in inventories to a maximum of DKK 120 million from DKK 163.4 million at year-end 2015. The goal is to reduce inventories to less than DKK 100 million by the end of the strategy period

# STRENGTHENING OF THE SALES EFFORTS

## The main elements

- Already developed and qualified new products to meet demand going forward, including new generations of 6" and 200 mm FZ silicon wafers
- In process of developing new 200 mm FZ product with superior technical properties and performance of FZ silicon wafers
- Strategic sales and production partnership: Negotiations on-going with an industrial partner
- Europe: invests in climate solution and enhancing energy efficiency. We want to maintain our solid and strong position in Europe
- China: invests substantially in infrastructure projects. Further develop sales in this region together with our important customers
- Japan: We have built a strong pipeline and have 3 on-going 200 mm qualifications. Focus on translating the pipeline into higher sales
- USA: Further build on the strong sales growth in 2015 with focus on speciality products including HPS. Approximately half of our FZ-HPS is sold in USD

# MEASURES TO IMPROVE PRODUCTION EFFICIENCY

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## The main elements

- Continue to optimize production efficiency through automation, process improvements and simplifications
- Signed an agreement with a major industrial partner to strengthen the supply chain
- Streamline its business by restructuring loss-making operations
- When fully implemented, the restructuring of loss-making activities is expected to reduce operating expenses by DKK 10 million annually

# NEW CONTRACTS WITH RAW MATERIALS SUPPLIERS

## The main elements

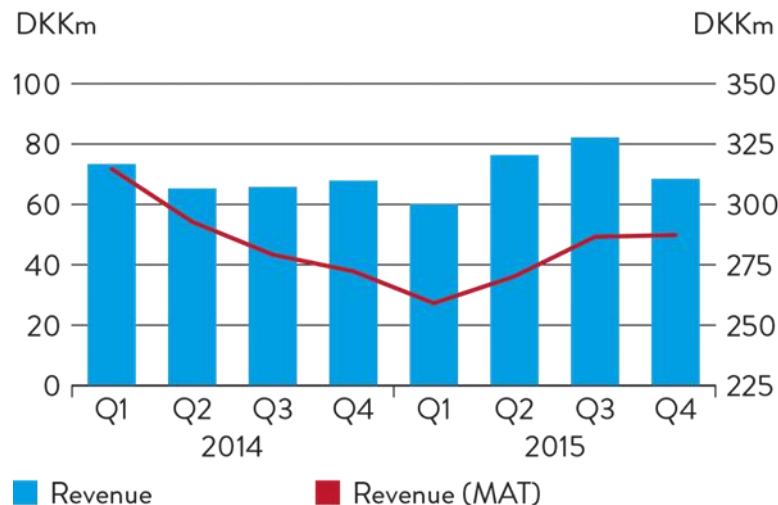
- During the past few years, Topsil has been adversely affected by two long-term raw materials contracts concluded in 2010
- Since these contracts were signed, market prices for both raw materials and Topsil's finished products have fallen steeply and Topsil's volume commitments have significantly exceeded its requirements
- In 2016, Topsil has signed an agreement with one of the two suppliers and is conducting negotiations with the other. These agreements are expected to result in substantially lower raw materials prices relative to 2015 as well as adjustments of purchasing commitments
- This will result in non-recurring costs related to being released from existing raw materials contracts and write-down of inventories to reflect the new sourcing prices

# FINANCIAL PERFORMANCE 2015



# REVENUE

## REVENUE

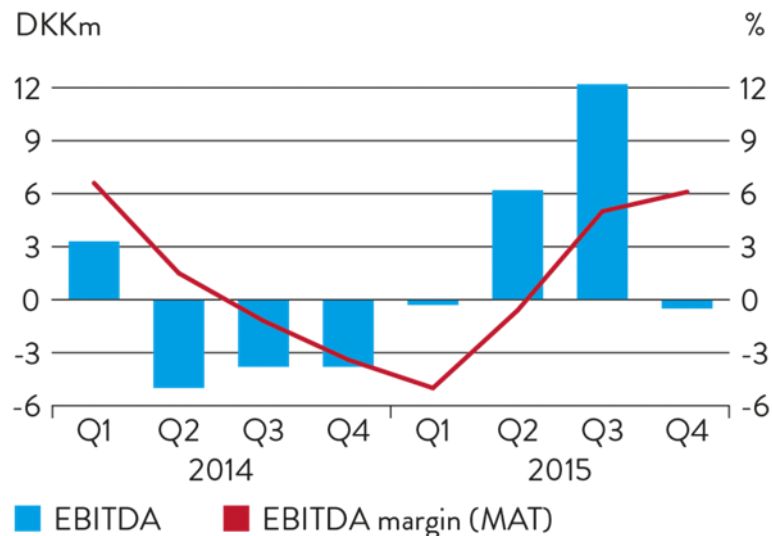


## REVENUE DEVELOPMENT

- Revenue ended at DKK 287.3m in 2015 (2014 DKK 272.3m), a growth of 5,5%
- Markets:
  - Europe down 3% to DKK 171.6m
  - Asia grew by 14% to DKK 74.7m
  - US grew 50% to DKK 32.5m
- Products:
  - 200 mm grew more than 500%, now accounting for over 10% of silicon revenue
  - FZ-HPS sales growth 16% to DKK 19.9m
  - FZ-NTD sales growth 8% to DKK 145.9m
  - FZ-PFZ in line with 2014 DKK 40.0m
- Prices were squeezed due to the continuing surplus capacity

# TOPSIL'S 2015 RESULT WERE NOT SATISFACTORY

## EBITDA

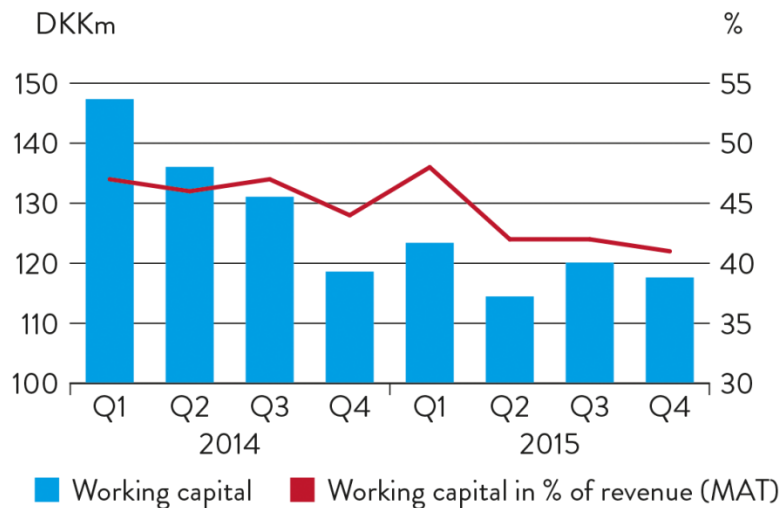


## EBITDA DEVELOPMENT

- Contribution margin 47.6% (2014: 48.1%)
  - Sales of remelt and 200 mm run-in cost effected margin negatively. Adjusted for this the margin improved vs. 2014.
  - Continuing price pressure
  - Production optimization and efficiency offsetting this
- Fixed costs decreased by DKK 21.3m in 2015. Adjusted for complaint case the cost reduction was DKK 7.0m
  - Reduction of 15 non-production employees in January 2015
  - FTE's in 2015 was 342 (2014: 356). At year end 2015 Topsil had 329 employees
- Impairments of MDKK 65.0m following new strategy

# NET WORKING CAPITAL

## NET WORKING CAPITAL

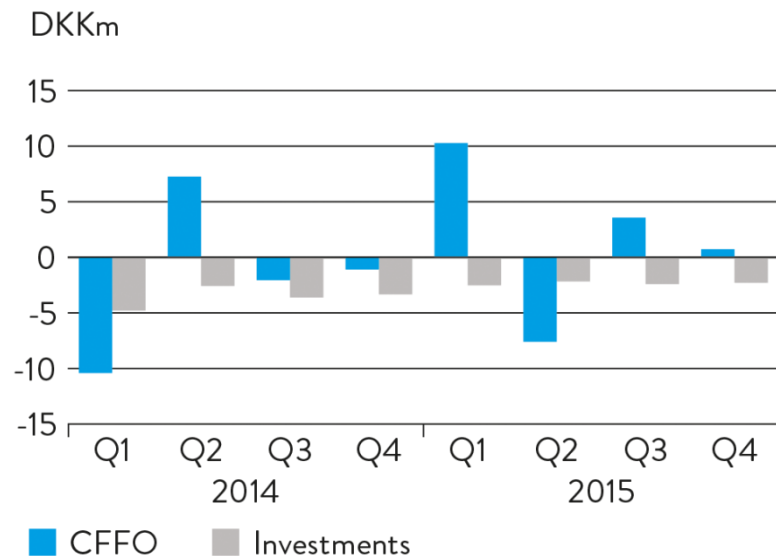


## COMMENTS

- Net working capital (NWC) DKK 117.6m, in line with 2014 level
- Inventories DKK 163.4m, up DKK 7.3m vs end of 2014, in line with expectations and as a result of purchase commitments
- Settlement of customer complaint with customer and supplier, resulting in reduction in both other receivables and payables. All outstanding is settled with both parties
- Prepayments from customers were DKK 17.2m higher than at end of 2014 due to extension of a long-term contract with one of Topsil's biggest customers

# CASH FLOW DEVELOPMENT

## CASH FLOW



## COMMENTS

- Cash flow from operations (CFFO) totalling an inflow of DKK 7.0m in 2015 (2014: outflow of DKK 6.3m)
- CAPEX driven by investments in production equipment DKK 3.7m and in development projects of DKK 5.9m (2014: DKK 14.3m)
- Net interest bearing debts up by DKK 1.8m in 2015 ending at DKK 182.5m
- Agreement with principal bankers renewed, existing facilities extended until 1 March 2017

# EXPECTATIONS FOR 2016

# EXPECTATIONS FOR 2016

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- In 2016, revenue is expected to be in line with the 2015 level. Prices will remain under pressure in 2016, but this will be compensated by volume growth, efficiency improvements and cost reductions.
- EBITDA before strategy initiatives of DKK 15-25 million. After non recurring cost related to strategic initiatives of DKK 65 million, EBITDA is expected to amount to a loss of DKK 40-50 million.
- The non-recurring costs mainly include costs relating to being released from existing raw materials contracts, a write-down of inventories to reflect the new sourcing prices and costs associated with the strategic restructuring of loss-making operations. Around one third of the non-recurring costs will have no cash effect.
- The guidance is based on exchange rates of DKK 650/USD 100 and DKK 180/PLN 100.

# Q&A-SESSION

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