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Q1 2025 Earnings Call Introduction Script

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Aldo Kamper (CEO), Rainer Irle (CFO), Dr. Jürgen Rebel (Head of IR)

Juergen Rebel (Head of IR)

Good morning, Juergen speaking.

We welcome you to our financial & business update on the first quarter of fiscal year 2025.

Aldo, our CEO, will comment on business and strategy.

Rainer, our CFO, will focus on financials.

During the call, we are referring to the earnings call presentation that you can find on our website.

We also provide a comprehensive, full IR presentation on our website for further details.

Aldo, please walk us through the latest results!

Aldo Kamper (CEO)

Thank you Juergen and good Morning to everyone.

We are staying on course in uncertain times. Our turnaround continues. 'Re-establish the Base' is ahead of plan – more savings realized in the last quarter. A key driver for noticeably higher profitability in a difficult quarter compared to a year ago.

Let us look at the financial performance of the group on slide 2.

[Slide 2 – Q1 group performance]

Revenues came in at 820 million Euro, above the mid-point of the guidance. A sequential decline of 7%, pretty much in line with the usual seasonality across the board despite the underlying cyclical weakness. Seasonality was the clear driver in the auto lamps aftermarket business, whereas in semis we saw more complex dynamics.

Year-over-year we are only down 3%, which is primarily due to the cyclical inventory correction in auto semis and the cyclical bottom in Industry & Medical. Also the non-refundable engineering payments for the development of novel LED technologies contributed positively.

At constant currencies and excluding the divested passive optical components business, the decline would have been 4%.

Profitability. Adjusted EBITDA margin improved year-over-year by almost 2 percentage points to 16.4%.

2% more EBITDA with 3% lower revenue. This shows the improvement in our earnings profile due to the 'Re-establish the Base' program and the non-refundable engineering payments that we keep receiving.

Why only down 15 million Euro quarter-over-quarter – less than the typical fall-through?

Remember, in Q4 we reduced inventories, which lowered EBITDA.

Year-over-year, we see a 9% improvement, coming in 11 million Euro higher at 135 million Euro. And this on a lower revenue base.

Now quickly on the segments.

[Slide 3 – Lamps and Systems]

Page 3 – a look at the traditional halogen lamps business.

Revenues came down 9% quarter-over-quarter. The aftermarket continues to be good and is going through its usual seasonal cycle, with the lows coming in Q2 and Q3.

A bit of a decline year-over-year, as we had still some legacy OEM module business running a year ago and more OEM lamps business that is transitioning towards LED. We continue to win share at our top OEMs, as is visible in our annual VPA negotiations.

Together with our strong performance in the Aftermarket channel, it continues to show the strength of our "last man standing" play.

Within the 249 million Euro, again around 45 million Euro of specialty lamps sales for industrial & entertainment applications – pretty much flat sequentially.

A very favorable product mix, a one-time effect and good plant utilization pushed adjusted EBITDA margin to almost 25%.

61 million Euro compared to 50 million Euro in the December quarter.

Now it's time to look at the semiconductor business.

I am on slide 4, OS first.

[slide 4 - OS]

Opto Semis came down 4% quarter over quarter. Revenues stood at 336 million Euro after 350 million Euro last quarter. Actually, a bit better than expected.

In short, non-refundable engineering payments for our novel LED technology and support from the EUR/USD exchange rate helped balancing the negative effects of the typical January 1st VPA price down in Auto semis and the revenue tailwind in Q4 from delivering on order backlog.

When it comes to this novel LED technology, I am very pleased that we continue to be on track in terms of the engineering milestones for this technologically demanding project.

Adjusted EBITDA stayed almost flat at 49 million Euro, coming in at 15%.

Remember, in Q4 last year we reduced wafer-starts to bring down inventories which impacted EBITDA, hence a kind of artificially lowered baseline.

[Slide 5 - CSA]

Now, sensors and ASICs on slide 5. Majority of the business is in consumer which saw only a very small seasonality due to strength in old and new products. Most of the quarter-over-quarter decline was due to an end-of-life of a custom product in industrial. Revenues down 9 percent to 236 million Euro. If we back out the sold business of passive optical components that still contributed a year ago, revenues grew more than 6% year-over-year.

Adjusted EBITDA dropped stronger than the typical fall-through would suggest, down to 32 million Euro at a 14% adjusted EBITDA margin. However, more than 5 times higher than a year ago – showing the structural improvement in profitability thanks to 'Re-establish the Base'.

Why down so much stronger than fall-through quarter-over-quarter?

Q4 was elevated above the normal trendline due to a one-off accrual effect and strong USD. Q1 however, saw the typical seasonal factory underutilization and some negative mix-effects, as a customer kept ordering an already phased out low-margin end-of-life product.

[slide 6 – semiconductor end markets]

We move on to slide 6 on end-market dynamics.

Semis in total came in essentially flat with minus 1% year-over-year. A 6% quarter-over-quarter decline is rather typical.

This can be explained by looking at the main verticals.

First, Automotive – our biggest exposure. Revenues came in 6% down compared to the previous quarter. Currency helped, but also our new sensor projects ramped well. The LED inventory correction cycle developed as per playbook during the quarter. Demand was still a bit depressed, whilst we saw a book-to-bill of around 0.5 at the beginning of the quarter, it improved steeply to slightly above one over the course of the 3-months period. There is certainly a lot of uncertainty persisting in the supply chain – you can see this at the short-term ordering behavior, which is regularly below normal lead times.

Year-over-year, you see clearly the LED inventory correction cycle taking its toll with an 11% down in auto revenues. We see this particularly at the very short-term ordering of the OEMs, as the fulfillment inventories at channel partners are in normal range.

Second, Industrial & Medical –Horticulture revenues are at their seasonal low, the green shoots in terms of demand improvement at our bigger direct industrial customers are just noticeable in revenues.

Streetlighting is an important, normally very stable application within professional lighting. However, last quarter, we saw the first project push outs in the US due to federal budget cuts.

The distribution channel did a bit better in Europe and the US, China was weak. It still feels the cyclical low is reached with another quarter-over-quarter and year-over-year decline of around 10% each, but we must await any impact of the new tariff regime ahead of us. As mentioned before, a key driver for the reduction in Q1 was the end-of-life of a specific product.

Third, consumer, where we are mainly supplying sensors to smartphones and wearables. Typical quarter-over-quarter demand reduction.

Year-over-year, we could even compensate the exit of the non-core portfolio by new products and ended up with a significant growth of 21%. The new products clearly kicked-in, but we also enjoyed some more orders for legacy products. For this, the typical seasonal reduction compared to the December quarter was hardly visible.

[slide 7 – business traction – EVIYOS in Opel Grandland]

Now, let’s talk about our products. I am on slide 7. We are very proud that further car models featuring our prized EVIYOS product are hitting the streets.

The new Opel Grandland from Stellantis, a mid-size SUV, comes with the 25.000 pixel forward lighting. It shows again the attractiveness of this solution, not only for the high end of the market.

On top, one of the leading, innovative Chinese EV makers has decided to launch the 25.000 pixel forward lighting in its latest flagship model – I will tell you more about it next quarter…

… and this is just the beginning, further models form various car makers will launch with EVIYOS on board in the quarters to come – gradually turning the significant design-win basis of around 500 million Euro into revenues.

[slide 8 – business traction – other notable design-wins/product launches]

Q1 saw not only EVIYOS making it more and more to the market, but also other great developments. Let us take a look at slide no. 8.

Continuing with automotive. We are proud of a design-win for hands-on detection with a major Chinese EV maker. It was chosen by a leading OEM as a key element for its intelligent driving system.

Next, I mentioned a couple of quarters ago that we see opportunities in leveraging our ASIC capabilities into our automotive customer base. Now, we are making the first inroads. We are providing an Open System Protocol LED driver chip to a customer that OS has been working with for many years on LEDs.

Switching gears to I&M. We could land a big design-win in the X-ray sensor space for computer tomography at an Asian customer.

Lastly to Consumer. We developed a unique optical heart-rate sensor that features in a wearable device that allows for unprecedented precision – especially when you are performing sports.

Unfortunately, we cannot go into more detail for confidentiality reasons, but we are extremely proud of this achievement.

Moving on from the top-line to the bottom-line.

[slide 9 – progress in 'Re-establish the Base']

The 'Re-establish the Base' program has been pivotal in improving and structurally stabilizing our bottom line.

I am on slide 9.

End-of-December, our realized run-rate savings stood at 110 million Euro.

Implementation is pushed ahead without pause.

As such, we can report about 135 million Euro of implemented run-rate savings end of the first quarter.

You will see the effect when we come to guidance for the next quarter.

Just for completeness, we upsized the program to 225 million Euro run-rate savings by the end of 2026 in Q3 last year. All necessary measures and actions to realize that are identified.

With that, it is time for financials.

Rainer, please tell us what happened during first quarter.

Rainer Irle (CFO)

[slide 10 – Q1 Cash Flows]

Thank you, Aldo, hello everyone from my side as well.

We are on slide 10.

First quarter operating cash flow came in at just 10 million Euro, compared to 79 million Euro in the December quarter. Several effects that are sometimes positive and sometimes negative all happened to be negative in Q1. Inventories went up and accounts payable went down. Some customer payments came a day or 2 late, because the 31st of March was a bank holiday in Singapore. And we saw some negative effects from FX swaps. And finally, Q1 and Q3 have the big coupon payments. To compensate, we increased factoring while reducing reverse factoring.

Just for the avoidance of doubt, net interest paid is always included in the definition of operating cash flow and FCF.

Now on CAPEX. Just 52 million Euro in the first quarter. That means a ratio of 6% Capex to Sales – well below our average target ratio of 8%.

Looking at inflows from divestments. We recorded 14 million Euro in Q1 from selling unused land and equipment.

Free-cash-flow. Reported FCF ended up with minus 28 million Euro. However, without that bank holiday – we would be looking at a neutral or slightly positive Free Cash Flow in Q1, which was my internal guidance.

[slide 11 – net earnings and EPS]

We switch to slide 11 – net earnings and earnings per share.

On the left, you find the adjusted figures.

The adjusted net result improved year-over-year from minus 35 million Euro to a still negative 23 million Euro. However, the underlying improvement in profitability thanks to 'Re-establish the Base' is evident.

Quarter-over-quarter adjusted EPS turned slightly negative. From 3 Euro cents in Q4 to minus 23 Euro cents in Q1.

The net financing result was 65 m EUR. Income tax about 16 million Euro. For the full year 2025, we expect tax expense in the order of 60 million Euro.

Now, the IFRS net result improved by 639 million Euro to a negative 82 million Euro in Q1 compared to a year ago. Last year, in February we had the cancellation of the microLED cornerstone project that had led to significant write-offs.

With that, diluted earnings per share came in with minus 83 Euro cents in the first quarter.

Now, switching gears from P&L to the balance sheet.

[Slide 12 – maturities / cash balance]

You find the latest update on debt, liquidity and maturities on slide 12.

End of December, we had 1.1 billion Euro cash on hand.

On March 7th, we paid back 447 million Euro to the holders of the 2025 convertible at maturity with cash on hand.

Consequently, our cash on hand position reduced by that amount to 573 million Euro by end of March. Cash is also down 20 million Euro due to FX effects, 15 million Euro minority shares and because of the 28 million negative CF.

In 2026, bilateral facilities of around 110 million Euro will become due.

Next in line is the 2027 Convert in late 2027.

In 2029, we have the USD and EUR high-yield-bonds.

The value of the Malaysia Sale and Lease Back transaction stood at 429 million Euro end of Q1. This compares to 441 million Euro end of December due to a heavy de-valuation of the Malaysian Ringgit during the first quarter despite the regular quarterly accrual of part of the lease payment.

This brings us to a slightly increased net-debt position of 1.9 billion Euro compared to end of December.

The outstanding minority put options amount stood at 570 million Euro or 13% of outstanding shares end of March. Minority shares with a value of 15 million Euro were tendered in Q1.

Our Revolving Credit Facility could in principle fully cover an exercise of all outstanding OSRAM Licht AG minority put options.

Taking cash, RCF and bilateral lines into account, our available liquidity remains very strong at around 1.2 billion Euro.

On the right, you find the maturity table of our out-standing debt.

[Slide 13 - comprehensive deleveraging plan]

Now, let me explain our strategy for deleveraging on the next slide – no. 13.

We talked about this before, however, now we are getting serious.

We want to get below 2 times net debt / adj. EBITDA as we have said before. To expedite this process in view of the increasing uncertainties in the economic boundary conditions, we now have defined a 5-pronged approach.

First, we will continuously improve profitability and Free Cash Flow yield through 'Re-establish the Base' and growth in the core business. Also, as we already said, we will restrict capex to below 8%. By all of this, we will accumulate net-cash over time.

Second, we continue to expect selling the empty factory in Kulim and getting rid of the SLB. This is still an active process but is taking some time given the volatile environment.

Third, we are currently working with our banks on extending the RCF by one year to be on the safe side in case a large portion of the outstanding minority shares would be tendered after the final verdict in the appraisal's case at the appeal's court.

Fourth, we are considering various strategic options for certain assets to generate cash well above 500 million Euro to speed up the deleveraging.

This will allow us to cover a large part of the 2027 Convertible Bond and the amount of the minority shares potentially covered by the RCF.

For the remaining low triple-digit million amount, we will find an adequate instrument.

Fifth, on the back of positive free-cash-flow, higher profitability, growth and net-debt below 2, we will have a much improved implicit rating, which will allow re-financing the maturities at much better conditions.

Ultimately, our goal is to bring interest payments below 100 million a year.

With that, let me hand back to Aldo for the summary and outlook.

Aldo Kamper (CEO)

[Slide 14 – summary]

Let me summarize key developments of the first quarter FY25.

I am on slide 14.

- We delivered revenues and profitability above the mid-point of the guidance.
- Book-to-bill improved across all business lines to above 1.0
- Execution of the RtB program progresses very well – ahead of plan
- We paid back the 2025 convertible note and maintain a strong cash position
- We continue to win new business at a rapid pace and our technologies ramp in the market
- And Rainer just explained our deleveraging plan.

[Slide 15 – Outlook]

With that, let us look at Q2 and fiscal year 25 outlook on slide 15.

Second quarter:

We expect revenues to come in between 725 to 825 million Euro.

Guidance is based on an USD exchange rate of 1.13 while the average in Q1 was at 1.05. This FX effect will have a negative revenue impact of approximately 35m in Q2.

Other than that, very well in line with normal seasonal pattern.

Automotive lamps aftermarket going into its annual soft demand phase.

Automotive semis slightly improving quarter-over-quarter.

Industrial & medical still weak, but with signs of life.

Consumer continues to go down seasonally.

Altogether, semis revenues should come a bit lower quarter-over-quarter due to the weaker USD in contrast to a year ago.

In line with fall-through, but with RtB savings making a difference, adjusted EBITDA margin should come in 18.5% plus or minus 1.5 percentage points.

Fiscal year 2025:

Looking at revenues.

We continue to believe that the second half will be stronger than the first half.

Scheduled project ramps are mostly unchanged, although some push outs do happen. Seasonality will also help.

However, obviously, the previously assumed market normalization is less predictable in view of the new US tariff regime.

In terms of tariffs, we are mitigating most of the primary impact by re-negotiating terms with customers such that they pay the additional levies. If we decide to re-route production flows where possible and sensible, we may incur some transfer costs, but this will not have a major impact on the P&L.

The real question is, to what extent will global car production be negatively affected or will fewer smart phones be sold. We will all need to see how the situation develops as it continues to be highly volatile on an almost day-to-day basis.

Looking at profitability.

We continue to be ahead of realizing our run-rate savings from ‘Re-establish the Base’. This will help stabilizing gross margin improvements and the bottom line as long as the more severe impacts from the tariff war do not become too big.

Looking at cash flow.

We continue to be very strict on Capex investments and plan for less than 8% of sales – lower than our target operating model – Q1 came in at 6% as we mentioned earlier.

Despite the lower predictability for the second half, we continue to expect free cash flow to come in above 100 million Euro – of course including net interest paid.

This includes currently known impacts of tariffs and still has wiggle room for some further uncertainties in terms of topline.

This concludes our remarks. We are ready for your questions.