

ams OSRAM

Q2 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.

Welcome to today's call on second quarter results of fiscal year 2025.

Aldo, our CEO, will comment on business and strategy. Rainer, our CFO, will focus on financials.

We are referring to the earnings call presentation that you 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.

Another solid quarter. Profitability is improving. Re-Establish-the-base savings have already reached the 2025 year-end target. Our balance sheet deleveraging is progressing as planned.

And all this against the backdrop of high macroeconomic uncertainties despite some promising signs in Auto and Industrial markets.

We are on slide 3, looking at the financial performance of the group.

[Slide 3 – Q2 group performance]

Revenues came in at 775 million Euro, exactly at the mid-point of the guidance. We saw a single-digit percentage improvement in our semiconductor business. In the automotive lamps aftermarket business, we had a pretty steep inventory correction at our US retailers on top of normal seasonal decline. And the weaker US dollar cost us 35 million EUR topline compared to Q2.

Year-over-year revenues are down 5%. This is due to the cyclical inventory correction in automotive LEDs, the auto aftermarket lamps inventory correction, 'Re-establish the Base' portfolio effects and the weaker US dollar. If we look truly at a like-for-like comparison based on today's core portfolio at constant currencies, we have grown by about 2% year-over-year.

Profitability. Adjusted EBITDA margin improved quarter-over-quarter and year-over-year by more than 2 percentage points to 18.8%. Again, higher profitability with lower revenue clearly shows our improved earnings profile thanks to the Re-Establish-the-Base program. The continued non-refundable engineering payments also help.

Various other effects were supportive as well. Amongst those were building up inventory for the ramp up in Q3 and Q4 in sensor products and government funding catch-up payments.

Now quickly on the segments.

[Slide 4 – Lamps and Systems]

Slide 4 – a look at the traditional halogen lamps business.

Sometimes, one gets punished for good performance. The pretty steep, much more than normal seasonal step down compared to Q1 is due to an inventory reduction at our US retail chain customers – our delivery performance has just been so good that they told us that they can live with less inventory. Year-over-year you see this effect as well.

In line with normal seasonal development, we recorded approx. 40 million Euro of specialty lamps sales for industrial & entertainment applications. We just sold this business segment – we will come to that later.

Profitability suffered in line with revenue. We saw an adjusted EBITDA margin of 15% - actually in line with fall-through if you remember that we had positive one-off effects in Q1 that pushed EBITDA beyond the typical run-rate.

Compare the 29 million Euro with 39 million Euro a year ago, you see that we managed the fall-through pretty well – only 10 million Euro impact on EBITDA with approx. 30 million Euro less revenue.

Now, on semis. I am on slide 5, Business Unit OS.

[slide 5 - OS]

A small recovery in opto Semis with 2% revenue up quarter-over-quarter. 344 million Euro compared to 336 million Euro before. A moderate, more seasonal improvement in industrial – mainly driven by horticulture -, but also slightly improving auto business drove this development. It was more than balancing the negative impact from the weaker US dollar.

Adjusted EBITDA jumped by more than 60% quarter-over-quarter to 79 million Euro, coming in at 23%. If you back out some specific effects in Q1 and consider also the typical funding catch-up in Q2 – it is pretty much in line with improved factory loading and slightly higher revenue.

[Slide 6 - CSA]

Now, sensors and ASICs on slide 6.

A slight sequential increase of 1% against normal seasonal trends. The majority of CSA business is in consumer applications, i.e. smartphones and wearables. Pretty stable due to resilient demand for new products. But to our surprise already discontinued products still contributed. Slight improvement in demand for industrial and medical products.

Year-over-year, business grew by 7% mainly driven by the new sensor products, which are more than compensating for the revenue loss from the phased-out non-core portfolio.

Adjusted EBITDA increased to 43 million Euro, resulting in an 18% adjusted EBITDA margin. Pre-production of sensors for the ramp-up in Q3 and Q4 helped. EBITDA is now twice as high, as a year ago – showing the structural improvement in profitability thanks to 'Re-Establish-the-Base' and better factory loading.

[slide 7 – semiconductor end markets]

Now, looking at the semi end-markets in summary – we are on slide 7.

Sequentially 2% up and year-over-year 2% down. If we exclude the non-core portfolio that we discontinued last year – the semi core business – grew year-on-year by approx. 7% at constant currencies - well in line with our semi-conductor growth model.

First, Automotive

The LED inventory correction seems to be coming to an end. We saw a solid book-to-bill ratio above one throughout the quarter. Consequently, we saw a slight sequential increase in revenues.

However, there is still a lot of uncertainty in the supply chain – we still see a lot of short-term ordering, which is regularly below normal lead times. Fulfillment channel inventories are in check, actually a bit down compared to last quarter.

Year-over-year, you still see the impact of the LED inventory correction cycle with revenue down 9%.

Second, Industrial & Medical

Up sequentially by 21%. A lot of seasonality, but it also seems that the cycle is stabilizing. As always, the picture is much more granular in detail as the verticals we are serving are often completely uncorrelated.

Horticulture revenues went up seasonally. Professional lighting saw good traction. On top, we are winning share from competitors that are stepping out. A clear sign that consolidation in the LED market is gradually happening and we are benefitting from this trend. The demand in industrial automation is still muted – it takes some time in view of the inventories at our customers until the green shoots in end demand are reaching our orderbook. In medical, orders picked up.

When we look at the channel, Europe and US did better than before. China was rather muted.

Third, Consumer

The main business is sensors for smartphones and wearables. We saw the typical seasonal decline.

However, year-over-year, we saw a 15% increase in revenues. Again, our new sensor products more than compensated for the phase-out of the non-core portfolio, but we also had still noteworthy orders for discontinued legacy products.

[slide 8 – business traction – design-wins on track]

Now, let's talk about new business. I am on slide 8.

Winning new business is essential for underpinning our mid-term growth model in semis. I am actually very happy with the market traction during the first half of this year. We could win again designs with a cumulated life-time-value of 2.5 billion Euro – a similar run like in the past two years. This number is a cumulated figure of more than 2000 individual designs that our passionate teams have won.

Let me comment on a few ones.

In automotive, we strengthened our bread-and-butter business in classic forward lighting and signaling. The total value in the first half came in with more than 800 million Euro.

We landed further design-wins of our prized EVIYOS 25000 pixel forward light at Chinese and Korean car makers.

We also win continuously new in-cabin sensing designs.

Two examples from I&M.

Our image sensors will be deployed in night vision applications and we also won share in North America when it comes to professional lighting.

When it comes to consumer devices, I would like to mention a design-win for our extremely precise temperature sensors that will be used for Glucose monitoring.

[slide 9 – NIO ET9 with EVIYOS]

Let's flip to slide 9.

Isn't that a beautiful car? It is Nio's latest flagship model – the ET9.

It comes with all the bells and whistles you expect from a state-of-the-art Chinese premium EV.

But what distinguishes it even more is the integration of our 25 thousand pixel EVIYOS matrix headlamp as an active communication interface between vehicle, driver and surroundings. This advanced functionality was realized together with our partner Marelli.

The high beam extends the maximum projection distance by more than 100 meters to 500 meters.

But what impresses me most is the real-time adaptive beam shaping capabilities that are gradually emerging. It features a tracking light carpet that predicts the vehicle's trajectory or allows for customizable light signatures for branding or projection of symbols. And it is future-proof as a software-defined lighting system.

I believe the true potential of this technology is just emerging.

Now, on to consumer.

[slide 10 – business traction – Oppo supplier award]

I am on slide 10. Strong customer relationships are at the core of our business. As globally leading supplier of optical sensors, we are naturally supplying to all Chinese smart-phone vendors as well.

However, we feel very honored by the 'Best Delivery Award' that we received from Oppo for our exceptional product quality and impeccable delivery performance.

[slide 11 – LED market-shares]

Moving from sensors to LEDs – I am on slide 11.

It has taken us many years, but finally we closed in on our long-standing competitor Nichia and you can consider us a shared no. 1 in the LED market when looking at the market-share rankings from TrendForce.

Admittedly, the currency development helped a bit, but nevertheless it is a testimonial of our relentless efforts to bring new products to the market and expand our position with customers worldwide.

Our leading position in the most attractive part of the led market – automotive – is instrumental in driving our global share.

I am personally quite proud of this – especially because I had led Osram Opto Semiconductors for many years before it became part of ams OSRAM and we have been working towards the #1 goal ever since.

[slide 12 – L&S emergency light]

Switching to new products in our traditional business – let's look at slide 12.

As part of our last-man-standing strategy in the traditional automotive lamps business, we are also working on new products for the aftermarket channel.

In Spain, it will be legally required to have connected warning lights onboard every registered vehicle, starting 1st of January 2026. We are providing these emergency lights and will be capturing a sizable chunk of this emerging market through our product & brand strength.

In case of emergency, you no longer need a warning triangle and through its connectivity it automatically warns other traffic in the vicinity.

[slide 13 – progress in Re-Establish-the-base]

With this, let me give you an update of the 'Re-establish-the-Base' program which has been so instrumental in improving and structurally stabilizing our bottom line.

We are on slide 13.

The implementation works very well.

End-of-June, we already passed the mark that we had set ourselves for the end of 2025. We have approximately 160 million Euro of implemented run-rate savings by now. The effects are clearly visible in our bottom line. Latest until end of 2026, we want to reach 225 million Euro of run rate savings. All necessary measures and actions to realize that are identified.

Now it is time for more details on the financials.

Rainer, please tell us about the latest progress.

Rainer Irle (CFO)

[slide 14 – Status of the deleveraging plan]

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

We are on slide 14.

Last time, we shared our plan to de-leverage our balance sheet and get to a net debt / adj. EBITDA ratio below 2. We talked about the 5 steps you see on this slide. We are progressing well.

First, we are continuously improving our profitability and Free Cash Flow yield through Re-Establish-the-Base and growth in the core business. We are ahead of plan with our cost-savings – Aldo just explained it.

Profitability is improving as well, as you can see when you look at our Q3 guidance.

Second, no specific news yet, when it comes to selling the empty factory in Kulim. We continue to have strongly interested parties, but the process needs patience.

Third, as promised, we extended the Revolving 800m Euro Credit Facility with our banks for having a temporary financing means when large portions of the outstanding OSRAM minority shares might be tendered in conjunction with a final verdict in the appraisal proceeding. In the meantime we have also secured a long-term financing until 2029 with tapping into the High Yield Bonds – I will come to that in more detail later.

Fourth, just two days ago, we announced the sale of our Entertainment & Industrial lighting segment as the first element when it comes to divestments to generate well above 500 million Euro proceeds.

To re-emphasize, this is just the first step! The proceeds from this transaction are just a small portion of the entire amount of disposal proceeds that we are targeting. Without being able to go into further detail, the other processes are progressing as planned. After the first 4 steps are done, we will refinance the 2029 maturities at better conditions, bringing us to our goal of interest payments below 100 million Euro a year.

Now, I want to spend a few words on the business that we sold to Ushio. Take a look at slide 15.

[slide 15 – Sale of ENI to Ushio]

We sold our Entertainment and Industry Lamps Business to Ushio for 114 million Euro. The deal is expected to close in the first quarter 2026 – subject to the usual closing procedures.

We hold strong positions in this traditional business. The products range from specialty lamps for infrastructure and cinema applications to extremely sophisticated light sources for semiconductor wafer fabrication equipment. Last year, the business contributed approximately 170 million to the topline of Lamps & Systems. About 500 employees will transition to the new owner.

We are very glad that we have found such a good new home for our employees, as Ushio is a global leader in the field of optical technologies with a complementary portfolio and a long-term commitment to this business. Ushio is headquartered in Tokyo, Japan.

With this, it is the right moment to look at our maturity table on slide 16.

[Slide 16 – maturities / cash balance]

End of March, we had 511 million Euro cash on hand.

We had a slightly negative cash flow in Q2 due to inventory pre-production and regular pay-outs

such as the annual bonus to employees.

We had 57 million Euro minority shares tendered in the last 6 months. We drew 50 million Euro of the Revolver to cover this – more a ‘cosmetic’ measure to keep the cash-on-hand balance at around 500 million Euro. Technically, we could run the business with less cash.

By now, we already paid back the revolver with the proceeds of the tap.

Now, let me explain why we tapped in the 2029 high-yield bonds last week. Take a brief look at the maturity table on the right.

In 2026, we need to refinance the 2027 Convert in addition to the bulk of the outstanding OSRAM minority shares that will in all likelihood be tendered after the final verdict in the appraisal proceedings, which might happen later this year. Together, there are 1.3 to 1.4 billion Euro to be refinanced.

We plan to reap “well above 500 million Euro” of proceeds from the asset disposals, which will cover a bigger chunk of that refinancing need.

Nobody can give us a firm indication how the credit market will look in a year from now given the persisting uncertainties in the global economy. For this, we decided to use this exceptionally good market window and live with a temporarily higher interest burden as a kind of “insurance premium” for making good use of the current market conditions. About 150 million Euro from the tap is earmarked for re-purchasing 2027 converts – subject to market conditions.

You can call me conservative for that – this is exactly the way we want to approach our financials – proactive and conservative. By the way, we sold the 500 million EUR at 104% and we aim at buying back the Convertible Bond well below par.

The demand for our new paper was just over-whelming, which was the reason for upsizing the tap from 300 to 500 million Euro! It clearly shows the trust of the market in our conservative approach and our turn-around plan overall.

Again, we want to thank all investors who supported us so well!

So, this also means that we have the RCF even on top which should settle any liquidity concerns that may still persist in some corners of the market once and for all!

Moving further down in the maturity table to 2029, we have the USD and EUR high-yield-bonds.

Now, after the tap, we have 1 billion 25 million in the Euro bond and approx. 640 million Euro equivalent in the USD bond. The upsizing of the USD bond was particularly attractive, as it increases the liquidity in the bond and makes it a reasonably sized tranche for the bigger US market.

The value of the Malaysia Sale and Lease Back transaction stood at 420 million Euro end of Q2. This reduction of 9 million Euro compared to end of March is again due to a de-valuation of the Malaysian Ringgit during the quarter despite the regular quarterly accrual of part of the lease payment.

This brings us to a slightly increased net-debt position of just short of 2 billion Euro compared to end of March.

The outstanding minority put options amount stood at 528 million Euro or 12% of outstanding shares. Minority shares with a value of 42 million Euro were tendered during Q2.

Taking cash, RCF and bilateral lines into account, our available liquidity stood at approximately 1.1 billion Euro.

Now including the tap into the high-yield bonds, we look at a very comfortable overall liquidity of 1.6 billion Euro.

[Slide 17 – cash flows]

Switch to slide 17, cash flows.

Second quarter operating cash flow came in at 25 million Euro. Inventories went up due to pre-production for Q3 and Q4 project ramp-ups. We paid out annual bonuses in Q2 as every year. Just for the avoidance of doubt, net interest paid is always included in the definition of operating cash flow and FCF.

CAPEX went down again. Only 40 million Euro in the second quarter. Q3 and Q4 will each be a bit higher and for the full year, we will land maybe between 6% and 7% of revenues. Well below our long-term average ratio of 8%. The 6 to 7% exclude subsidy catch-up effects from previous years.

Summing it all up, we finished the quarter with minus 14 million Free-cash-flow.

Some of you might ask how we can stick to our full year FCF guidance of above 100 million Euro, especially with higher interest payments from the tap.

Firstly, we certainly had a reasonable buffer at the beginning of the year when we introduced the above 100m Euro guidance.

Secondly, as with all other semi-conductor companies – Chips Act funding is an important element of the FCF. We are still waiting on a significant cash in for the factory extension in Austria – we have received the notification from the EU already a while ago and the subsidies will be provided by the Austrian government. With those subsidies including catch-up, our Capex in 2025 will be more like 4% of revenue.

Thirdly, we had a kind of “windfall” from the closure of that decades long lawsuit regarding misappropriation of trade secrets by a counterparty – which will contribute about 37 million of cash in 25.

[slide 18 – net earnings and EPS]

We switch to slide 18 – net earnings and earnings per share.

On the left, you find adjusted figures.

The adjusted net result improved year-over-year from minus 1 million Euro to 18 million Euro. adjusted EPS developed accordingly.

The net financing result came in with 40 m EUR. Income tax stood at 10 million Euro.

As a rule of thumb, you can always take 50 to 60 million Euro adjustments per quarter due to transformation cost, depreciation of PPA and share-based compensation.

However, in the second quarter we had the 37 million windfall profit from the lawsuit, which reduced the adjustments. With that, the IFRS net result came in positive compared to a negative 41 million Euro a year ago. With that, diluted earnings per share came in with 1 Euro cent in the second quarter.

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

Aldo Kamper (CEO)

[Slide 19 – summary]

Let me summarize key developments of the second quarter FY25. I am on slide 19.

Looking at the business:

- In a difficult market, we delivered revenues and profitability at the mid-point of the guidance.
- We secured 2.5 bn Euro of future semiconductor business in H1
- Execution of the RtB program is 6 months ahead of plan with 160 million
- Euro run-rate savings implemented.

Looking at the deleveraging plan and refinancing:

- RCF was extended by another year to September 2027
- We sold our Entertainment and Industry Lamps business to Ushio as the first step of the asset disposals
- We also secured ahead of time the long-term financing of the outstanding OSRAM shares that might be tendered after the final verdict in the appraisal proceeding
- The tap into the high yield bond also enables a partial re-purchase of the 2027 convert.

[Slide 20 – Outlook]

With that, let us look at Q3 and fiscal year 25 outlook on slide 20.

Third quarter: We expect revenues to come in between 790 to 890 million Euro. This assumes a USD exchange rate of 1.16. Compared to the beginning of the year, the weak dollar costs us a mid-double digit million figure in the top-line and 15 million quarter-over-quarter.

Automotive lamps will be preparing for the annual lighting season, meaning that many auto lamps are replaced in the 'dark' months.

Automotive LED seem to be getting out of the inventory correction. Together with the scheduled project ramp-ups we expect a quarter-over-quarter improvement.

Industrial & medical is stabilizing.

Consumer with strong ramp into Q3 due to the 'smart-phone' season preparing for the X-mas sales and a wider use of our re-won socket that already ramped last year.

We expect adjusted EBITDA margin coming in 19.5% plus or minus 1.5 percentage points.

Fiscal year 2025:

Looking at revenues. Second half will be stronger than the first half although there are still uncertainties surrounding the fourth quarter when it comes to end-demand impacted from tariffs and headwinds from the weaker USD.

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.

Surprisingly so far, global car production seems to be unaffected. If we are to believe the latest IHS forecast – roughly on the same level as a year ago.

When it comes to smart-phone sales globally, so far they also seem not to be affected too much.

Looking at profitability.

We are 6 months ahead in realizing our run-rate savings from 'Re-establish-the-Base'. This will help stabilizing gross margin improvements and the bottom line.

The impact from tariffs has to be watched – especially indirect ones like the fact that volatility has driven gold prices to unprecedented highs.

In total, we continue to assume that we will end up better than last year.

Looking at cash flow. Rainer mentioned that we still expect significant inflows in H2 from subsidies under the Chips-Act. In conjunction with very disciplined CAPEX spending and stronger revenues in the second half, we continue to expect free cash flow to come in above 100 million Euro – of course including net interest paid.

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