



**Advanced Energy**

August 2, 2016

Q2 2016  
Earnings Call

# Safe Harbor

The company's guidance with respect to anticipated financial results for the third quarter ending September 30, 2016, expectations regarding future market trends and the company's future performance within specific markets and other statements that are not historical information are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to: (a) the effects of global macroeconomic conditions upon demand for our products and services; (b) the volatility and cyclicity of the industries the company serves, particularly the semiconductor industry; (c) delays in capital spending by end-users in our served markets; (d) the accuracy of the company's estimates related to fulfilling solar inverter product warranty and post-warranty obligations; (e) the company's ability to realize its plan to avoid additional costs after the solar inverter wind-down; (f) the accuracy of the company's assumptions on which its financial statement projections are based; (g) the impact of price changes, which may result from a variety of factors; (h) the timing of orders received from customers; (i) the company's ability to realize benefits from cost improvement efforts including avoided costs, restructuring plans and inorganic growth; (j) the company's ability to obtain in a timely manner the materials necessary to manufacture its products; and (k) unanticipated changes to management's estimates, reserves or allowances. These and other risks are described in Advanced Energy's Form 10-K, Forms 10-Q and other reports and statements filed with the Securities and Exchange Commission (the "SEC"). These reports and statements are available on the SEC's website at [www.sec.gov](http://www.sec.gov). Copies may also be obtained from Advanced Energy's investor relations page at <http://ir.advanced-energy.com> or by contacting Advanced Energy's investor relations at 970-407-6555. Forward-looking statements are made and based on information available on the date of the press release. Aspirational goals and targets discussed on the conference call or in the presentation materials should not be interpreted in any respect as guidance. The company assumes no obligation to update the information in the press release.

# Non-GAAP Measures

The release includes GAAP and non-GAAP income and per-share earnings data and other GAAP and non-GAAP financial information. Advanced Energy's non-GAAP measures exclude the impact of non-cash related charges such as stock based compensation, amortization of intangible assets and restructuring costs, as well as acquisition related costs and other non-recurring items. For the third quarter ending September 30, 2016 guidance, the company expects stock based compensation of \$1.2 million and amortization of intangibles of \$1.1 million. The non-GAAP measures included in the release are not in accordance with, or an alternative for, similar measures calculated under generally accepted accounting principles and may be different from non-GAAP measures used by other companies. In addition, these non-GAAP measures are not based on any comprehensive set of accounting rules or principles. Advanced Energy believes that these non-GAAP measures provide useful information to management to evaluate business performance without the impacts of certain non-cash charges and other charges which are not part of the company's usual operations. The company uses these non-GAAP measures to assess performance against business objectives, make business decisions, develop budgets, forecast future periods, assess trends and evaluate financial impacts of various scenarios. In addition, management's incentive plans include these non-GAAP measures as criteria for achievements. Additionally, the company believes that these non-GAAP measures, in combination with its financial results calculated in accordance with GAAP, provide investors with additional perspective. While some of the excluded items may be incurred and reflected in the company's GAAP financial results in the foreseeable future, the company believes that the items excluded from certain non-GAAP measures do not accurately reflect the underlying performance of its continuing operations for the period in which they are incurred. The use of non-GAAP measures has limitations in that such measures do not reflect all of the amounts associated with the company's results of operations as determined in accordance with GAAP, and these measures should only be used to evaluate the company's results of operations in conjunction with the corresponding GAAP measures. Please refer to the Form 8-K regarding the release furnished today to the Securities and Exchange Commission.



**Advanced Energy**

**Yuval Wasserman**  
*President and CEO*

# Q2 2016 Highlights

- Revenue of \$118.8M +15% q/q due to record Semiconductor and Service and Industrial rebound
- GAAP EPS from continuing ops \$0.68
- Non-GAAP\* EPS from continuing ops \$0.73 up +33% q/q
- Cash balance of \$215M; \$31M generated
- Progress towards 3 year aspirational goals
  - Revenue of \$600 to \$700M
  - Non-GAAP\* EPS \$3.00 to \$3.50
  - Cash generation of \$250M to \$300M

*\*Non-GAAP measures exclude the impact of stock based compensation, amortization of intangibles, restructuring costs, and significant non-recurring items.*

# Semiconductor Highlights

- Record Semiconductor revenue of \$78.6M, up 13% q/q
  - Results outperformed expectations and WFE market
  - Technology upgrades in DRAM, 3DNAND and capacity expansion led to renewed demand, order activity and pull-ins
- Growth driven by design wins realized during last 2 years
  - New power technology for advanced deposition and etch applications as industry transitions to high volume manufacturing

# Transitions Positively Impacting Semi Industry

- New fabs, next-gen capital equipment requiring new process power architectures
- Migration to advanced 3D technology driving more deposition and etch process steps, tools, chambers (etchers have 4-6 chambers per platform)
- Sophisticated device architectures require higher power content and more complex power supplies (pulsed RF, high speed dynamic tuning)
- Now have as many as 3-4 power systems (generator and matches) per chamber
- Complexity increasing AE content per plasma tool, expanding our SAM and solidifying AE as critical supplier

# Semiconductor Design Wins and Outlook

- Migration to advanced 3D devices continues
- AE winning design slots in atomic layer deposition (ALD) and etch and remote plasma source applications
- Expanding design wins to power supplies for electrostatic chucks
  - E-chucks power control becoming very important for process tools
- Slight pause after record quarter from demand surge by OEMs increasing components inventory in anticipation of future growth
- Market remains robust as ramp of 3DNAND accelerates, 10nm development picks up and foundry and logic increase

# Industrial Highlights

- Total Industrial revenue of \$22.2M, up 34% q/q
  - Every industrial market served rebounded from Q1, especially Thin Films

## INDUSTRIAL THIN FILMS

- Improvement in large area glass coating applications
  - Year of retrofits and upgrades vs. new coaters due to sluggish Chinese economy and overcapacity
- Automotive headlight coatings and Solar PV improved
  - Capital investments and Chinese incentives
- General industrial markets solidified after Q1 lows

# Industrial Highlights

## SPECIALTY INDUSTRIAL POWER

- Boost in orders in PCM and HV applications (x-ray, mass spectrometry, scanning electron microscope)
- Expansion into industrial pyrometry gaining momentum in solar processes
- Traction with industrial automation partners adding to penetration of key geographies and customers

# Industrial Design Wins

## INDUSTRIAL THIN FILMS

- OLED design wins as FPD industry retools for next wave of technology

## SPECIALTY INDUSTRIAL POWER

- Gained share in non-semiconductor High Voltage applications
  - Mass spectrometry
  - Life sciences: DNA sequencing

# Industrial Outlook

- Industrial advantage is diversification to balance out cycles
- Expect continuing growth in Q3
  - Substantial demand in FPD from OLED and LCD equipment
  - Glass, industrial coatings and High Voltage semiconductors to slow
  - High Voltage life sciences and x-ray winning share
  - Solar PV should increase as investment transitions
- Overall steady recovery of Industrial as WW trends turn positive

# Service Highlights

- Record Service revenue of \$18M, up 7.5%
  - Value proposition resonating with customers
  - Increases across geographies
  - Focus on superior repair quality and highly engineered aftermarket solutions lowering customers' total cost of ownership
  - Capturing 3<sup>rd</sup> party market share
  - Growing Industrial and Specialty Power aftermarket repair service
- Q3 Outlook
  - Expect normal growth rates
  - Demand in Taiwan, Korea, Japan driving expansion of WW service
  - Engaging with customers and investing resources to ensure responsiveness and reliability (i.e. local engineering teams)



**Advanced Energy**

**Tom Liguori**  
*Executive Vice President & CFO*

# Q2 2016 Financial Highlights

- Total revenue of \$118.8M, up 15.3% q/q
- Record Semiconductor and Service revenue, strong Industrial
- GAAP operating margin from continuing operations 25.5%
- GAAP EPS from continuing operations \$0.68
- Non-GAAP\* operating margin from continuing operations improved to 27.8%
- Non-GAAP\* EPS from continuing operations \$0.73

*\*Non-GAAP measures exclude the impact of stock based compensation, amortization of intangibles, restructuring costs, and significant non-recurring items.*

# Q2 2016 Revenue by Application

<i>(in thousands)</i>	Q2 2016		Q1 2016		Q2 2015	
	Actual	% of Sales	Actual	% of Sales	Actual	% of Sales
Semiconductors	\$ 78,583	66.2%	\$ 69,746	67.7%	\$ 70,167	64.6%
Industrial	22,169	18.7%	16,547	16.1%	21,257	19.6%
Service	18,013	15.1%	16,751	16.2%	17,230	15.8%
<b>Total AE</b>	<b>\$ 118,765</b>		<b>\$103,044</b>		<b>\$108,654</b>	

# Q2 2016 Income Statement Review

	Q2'16	Q1'16	Q2'15
<i>(\$ in Millions, except GM% &amp; EPS)</i>			
Revenue	\$118.8	\$103.0	\$108.7
Operating expenses	\$31.7	\$29.8	\$27.8
GAAP Operating margin from continuing ops %	25.5%	22.9%	26.5%
GAAP EPS from continuing ops	\$0.68	\$0.50	\$0.56
Non-GAAP* Operating margin from continuing ops %	27.8%	25.3%	28.1%
Non-GAAP* EPS from continuing ops	\$0.73	\$0.55	\$0.59

*\*Non-GAAP measures exclude the impact of stock based compensation, amortization of intangibles, restructuring costs, and significant non-recurring items.*

# Q2 2016 Balance Sheet

- \$215.1M cash; +\$31.1M from Q1 and \$44.6M YTD
- Net working capital grew \$28.7M to support growing revenues
- Net working capital improved by 16 days over Q1
  - Lower receivables DSOs and improved inventory turns

<i>(\$ in Millions)</i>	<b>Q2'16</b>	<b>Q1'16</b>
Cash & Investments	\$215.1	\$184.0
Accounts Receivable	\$66.2	\$67.1
Inventory	\$57.2	\$57.6
Total Assets	\$505.0	\$478.3
Liabilities	\$183.2	\$189.1
Shareholders Equity	\$321.8	\$289.2

# Q3 2016 Guidance\*

	Q3 2016		
Revenue	\$116M	-	\$126M
GAAP operating margins from continuing operations	25%	-	28%
GAAP EPS from continuing operations	\$0.65	-	\$0.76
Non-GAAP** operating margins from continuing operations	27%	-	30%
Non-GAAP** EPS from continuing operations	\$0.70	-	\$0.80

\* Estimates as of Q216 earnings conference call. The company assumes no obligation to update guidance.

\*\* Q3 non-GAAP measures exclude the impact of stock based compensation of \$1.2M, amortization of intangibles of \$1.1M, restructuring costs, and significant non-recurring items.

# Reconciliation of Q3 2016 Guidance\*

	Low End		High End
<b>Revenues</b>	<b>\$116M</b>	-	<b>\$126M</b>
<b>Reconciliation of Non-GAAP operating margin**</b>			
GAAP operating margin	25%	-	28%
Stock-based compensation	1%	-	1%
Amortization of intangible assets	1%	-	1%
<b>Non-GAAP operating margin**</b>	<b>27%</b>	-	<b>30%</b>
<b>Reconciliation of Non-GAAP earnings per share**</b>			
GAAP earnings per share	\$ 0.65	-	\$ 0.76
Stock-based compensation	0.03	-	0.03
Amortization of intangible assets	0.03	-	0.03
Tax effects of excluded items	(0.01)		(0.02)
<b>Non-GAAP earnings per share**</b>	<b>\$ 0.70</b>	-	<b>\$ 0.80</b>

\* Estimates as of Q216 earnings conference call. The company assumes no obligation to update guidance.

\*\* Q3 non-GAAP measures exclude the impact of stock based compensation of \$1.2M, amortization of intangibles of \$1.1M, restructuring costs, and significant non-recurring items.

THANK YOU

