



**Advanced Energy**

Nov 1, 2016

Q3 2016  
Earnings Call

# Safe Harbor

The company's guidance with respect to anticipated financial results for the fourth quarter ending December 31, 2016, expectations regarding future market trends and the company's future performance within specific markets (*e.g.*, statements regarding anticipated semiconductor and industrial market growth) 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 cyclical nature 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 to the company on the date of this presentation. 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 this presentation.

# Non-GAAP Measures

This presentation 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 fourth quarter ending December 31, 2016 guidance, the company expects stock based compensation of \$1.3 million and amortization of intangibles of \$1.0 million. The non-GAAP measures included in this presentation 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 and investors 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 for our latest earnings release filed with the Securities and Exchange Commission regarding this information.





**Advanced Energy**

Yuval Wasserman  
*President and CEO*

# Q3 2016 Highlights

- Revenue of \$126.6M +6.6% q/q
  - Highs in Semiconductor and Service and pick-up in Industrial
- Non-GAAP\* EPS from continuing ops \$0.77 up +5.5% q/q
- Generated \$34.8M cash
- Getting closer to near-term aspirational goals

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

# Semiconductor Highlights

- Semiconductor revenue of \$81.2M +3.3% q/q
- Robust demand especially at quarter end
- Strength from Korean OEMs
- Technology upgrades that began several quarters ago in full swing
  - Accelerating ramp of 3DNAND and 10nm Logic
  - Increasing spending for Logic, Foundry and multi-patterning
- Year of significant achievement in Semiconductor business

# Semiconductor Design Wins

- Predominantly from advanced memory applications
- Spanned geographies from China, to Korea, and the U.S
- Won important design in plasma-enhanced ALD applications and 3D packaging for advanced Logic devices
- Past design wins continued to materialize into revenue growth
  - Advanced plasma processes related to 3DNAND applications
  - Smaller, but important high voltage e-chuck application

# Semiconductor Outlook

- Strategy is working
  - Investment in enabling power solutions resulting in design wins, growing business and adding to position with existing and new applications
  - Received AMAT Supplier Innovation and Collaboration award in recognition of our industry leading support and responsiveness
- Q4 2016: Positioned to outpace broader WFE industry
  - Expect to benefit from virtually all market trends
  - Demand for deposition and etch strong, especially where AE well positioned in advanced patterning, 3D devices and packaging
  - Beginnings of DRAM recovery and development of 7nm



# Industrial Highlights

- Total Industrial revenue of \$26.5M, up 19.5% q/q
- Industrial Thin Films sizable increase q/q
  - Significant surge in OLED Flat Panel Display manufacturing
  - Strength in Solar PV applications
- Specialty Industrial Power declined slightly q/q
  - Power Control Modules rebounded
  - High voltage applications came off of Q2 highs

# Industrial Thin Films Design Wins

- Won designs ranging from glass coating, to Solar PV, to OLED displays
  - Glass win to fully populate new coating line with bi-polar DC products
    - Offering customers the ability to upgrade existing glass factories to extend lifespan and lower cost of ownership
  - Solar PV win in India
  - FPD wins for high-end sputtering applications

# Specialty Industrial Design Wins

- Thermal applications
  - Fluidized salt for solar energy storage, float glass, and Solar PV coating
- High Voltage
  - Primarily in 2 main target applications: mass spectrometry and x-ray
- Medical equipment
  - Diagnostic and therapeutic applications

# Industrial Outlook

- Aggregate of markets with different capital investment cycles
  - Variability and project-driven nature can impact results (i.e. surge in Q3)
- Q4 2016
  - Broader industrial markets continue recovery
  - Specialty power applications increase
  - Do not expect same level of OLED demand, impacting thin films and total industrial business
- Annual
  - Balance out capital investment cycles
  - Maintain target annual growth slightly above the GDP

# Service Highlights and Outlook

- Record Service revenue of \$18.9M, up 4.9% q/q
  - Demand for our highly engineer service products significant as customers focus on extending life of existing equipment
  - Gain share with semiconductor customers with expansion into Japan, EMEA, China
- Q4 2016
  - Roughly flat revenue, as offerings minimize typical Q4 industry seasonality
  - Service strategy effective
    - Strength across target regions
    - Replace incumbents
    - Capture 3<sup>rd</sup> party market share
    - Success through sales of engineered service products





**Advanced Energy**

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

# Q3 2016 Financial Highlights

- Total revenue of \$126.6M, up 6.6% q/q
  - Semiconductor and Service milestones, Industrial revenue grew 19.5%
- GAAP operating margin from continuing operations 27.2%
- GAAP EPS from continuing operations \$0.73
- Non-GAAP\* operating margin from continuing operations improved to 29.0%
- Non-GAAP\* EPS from continuing operations \$0.77

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

# Q3 2016 Revenue by Application

<i>(in thousands)</i>	Q3 2016		Q2 2016		Q3 2015	
	Actual	% of Sales	Actual	% of Sales	Actual	% of Sales
Semiconductors	\$ 81,157	64.1%	\$ 78,583	66.2%	\$ 72,859	66.4%
Industrial	26,493	20.9%	22,169	18.7%	21,378	19.5%
Service	18,902	15.0%	18,013	15.1%	15,519	14.1%
<b>Total AE</b>	<b>\$126,552</b>		<b>\$118,765</b>		<b>\$109,756</b>	

# Q3 2016 Income Statement Review

	Q3'16	Q2'16	Q3'15
<i>(\$ in Millions, except GM% &amp; EPS)</i>			
Revenue	\$126.6	\$118.8	\$109.8
Operating expenses	\$31.8	\$31.7	\$28.4
GAAP Operating margin from continuing ops %	27.2%	25.5%	27.5%
GAAP EPS from continuing ops	\$0.73	\$0.68	\$0.56
Non-GAAP* Operating margin from continuing ops %	29.0%	27.8%	29.4%
Non-GAAP* EPS from continuing ops	\$0.77	\$0.73	\$0.60

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

# Q3 2016 Balance Sheet

- Cash of \$249.8M +\$34.8M q/q
- YTD Cash of \$79.4M
- Net working capital +\$36.6M to support growing revenues
- Net working capital days decreased to 77 days vs. 82 in Q2
  - Lower receivables DSOs and improved inventory turns

<i>(\$ in Millions)</i>	<b>Q3'16</b>	<b>Q2'16</b>
Cash & Investments	\$249.8	\$215.1
Accounts Receivable	\$69.4	\$66.2
Inventory	\$56.0	\$57.2
Total Assets	\$538.7	\$505.0
Liabilities	\$183.9	\$183.2
Shareholders Equity	\$354.8	\$321.8



# Q4 2016 Guidance\*

	Q4 2016		
Revenue	\$124M	-	\$134M
GAAP operating margins from continuing operations	26%	-	29%
GAAP EPS from continuing operations	\$0.70	-	\$0.80
Non-GAAP** operating margins from continuing operations	28%	-	30%
Non-GAAP** EPS from continuing operations	\$0.75	-	\$0.85

\* Estimates as of Q316 earnings conference call. The company assumes no obligation to update guidance.

\*\* Q4 non-GAAP measures exclude the impact of stock based compensation of \$1.3M, amortization of intangibles of \$1.0M, restructuring costs, and significant non-recurring items.

# Reconciliation of Q4 2016 Guidance\*

	Low End		High End
<b>Revenues</b>	<b>\$124M</b>	-	<b>\$134M</b>
<b>Reconciliation of Non-GAAP operating margin**</b>			
GAAP operating margin	26%	-	29%
Stock-based compensation	1%	-	1%
Amortization of intangible assets	1%	-	-
<b>Non-GAAP operating margin**</b>	<b>28%</b>	-	<b>30%</b>
<b>Reconciliation of Non-GAAP earnings per share**</b>			
GAAP earnings per share	\$ 0.70	-	\$ 0.80
Stock-based compensation	0.04	-	0.04
Amortization of intangible assets	0.03	-	0.03
Tax effects of excluded items	(0.02)		(0.02)
<b>Non-GAAP earnings per share**</b>	<b>\$ 0.75</b>	-	<b>\$ 0.85</b>

\* Estimates as of Q316 earnings conference call. The company assumes no obligation to update guidance.

\*\* Q4 non-GAAP measures exclude the impact of stock based compensation of \$1.3M, amortization of intangibles of \$1.0M, restructuring costs, and significant non-recurring items.

THANK YOU

