

The background features a collage of images: a person in a surgical mask and cap, a microchip, and two telecommunications towers. The design is accented with blue, green, and orange geometric shapes.

# Q4 2019 Earnings Presentation

FEBRUARY 18, 2020

# SAFE HARBOR

The company's guidance with respect to anticipated financial results for future periods, potential future growth and profitability, future business mix, expectations regarding future market trends, future performance within specific markets and other statements herein or made on the conference call 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 risks and uncertainties related to the acquisition and integration of Artesyn Embedded Power including the optimization and reduction of our global manufacturing sites; (e) the recent outbreak of the 2019-Novel Coronavirus (2019-nCoV) and its potential adverse impact on our product manufacturing, supply chain and operations, (f) the accuracy of the company's estimates related to fulfilling solar inverter product warranty and post-warranty obligations; (g) the company's ability to realize its plan to avoid additional costs after the solar inverter wind-down; (h) the accuracy of the company's assumptions on which its financial statement projections are based; (i) the impact of product price changes, which may result from a variety of factors; (j) the timing of orders received from customers; (k) the company's ability to realize benefits from cost improvement efforts including avoided costs, restructuring plans and inorganic growth; (l) the company's ability to obtain in a timely manner the materials necessary to manufacture its products; (m) unanticipated changes to management's estimates, reserves or allowances; (n) changes and adjustments to the tax expense and benefits related to the U.S. tax reform that was enacted in late 2017; and (o) the effects of U.S. government trade and export restrictions, Chinese retaliatory trade actions, and other governmental action related to tariffs upon the demand for our, and our customers', products and services and the U.S. economy. 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 [ir.advanced-energy.com](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 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 this presentation..

# KEY MESSAGES

- **Strong fourth quarter to finish out a transformational year for AE**
  - Q4 revenue of \$338.3 million, above guidance range and up 17% sequentially on pro forma basis<sup>(1)</sup>
  - Q4 non-GAAP<sup>(2)</sup> earnings per share of \$0.87, well above high end of guidance range
  - Full year 2019 revenue was a record \$788.9 million, nearly 10% growth on 2018 revenue of \$718.9 million
- **Focus on enabling our customers' innovation is driving growing pipeline of design wins and contributing to revenue growth**
  - Our pure play power strategy is resonating with our customers
- **Integration of the Artesyn Embedded Power acquisition going well**
  - At the end of Q4, we have realized synergies equivalent to over \$10 million on an annualized basis
  - Combined sales organization and operation leadership team
  - Secured first bookings of cross-selling into WFE
- **Investing in R&D while driving accelerated earnings growth and improved ROIC**
- **Demand from our markets is strengthening driven by the growing need for solutions that enable the Fourth Industrial Revolution**
- **Taking actions to mitigate the risks and impact of the coronavirus**

# SEMICONDUCTOR EQUIPMENT

- **Strong sequential and year over year revenue growth**
  - Revenue of \$125 million, grew 30% sequentially and 16% year over year, driven by 41% sequential growth in semiconductor product revenue
  - Strengthening foundry/logic, increase in memory demand and an end to the inventory drawdown at key customers
  - Prior design wins contributed to Q4 incremental revenue
- **Solid progress on growth initiatives**
  - Our unique integrated RF solution won a design for a multi-wafer chamber deposition tool
  - Penetrated new customers with our RPS product due to superior performance and lower cost of ownership
  - Shipped multiple eval units of EVoS™ to three customers, validating our tunable ion energy technology
  - Good traction with our broad portfolio of semiconductor power solutions
  - First bookings for embedded power products in auxiliary power applications
- **Demand growth continue into 2020**
  - Strong bookings and pull rate quarter-to-date in Q1

# INDUSTRIAL & MEDICAL

- **Strong conversion of prior designs into revenue offsetting macro weakness**
  - Revenue of \$97 million, declined 0.7% sequentially on a pro forma basis<sup>(1)</sup>
  - Macro conditions remain challenging, particularly in solar, industrial production and automotive
  - New design wins across both advanced power and embedded power products
- **Solid momentum in medical and analytical instruments**
  - Designed into many medical applications, including diagnostic systems, surgical tools, medical and cosmetic lasers, and DNA sequencing
  - 2019 sales to one of our key medical device customers grew over 30%
  - Q4 revenue from another leading customer reached its highest level in the last 2 years
- **Expect seasonality and macro weakness to limit near-term demand**
  - Longer-term we expect solid growth in this market vertical

# DATA CENTER COMPUTING

- **Revenue growth in Q4 was stronger than expected**
  - Revenue of \$78 million represented 70% sequential growth on a pro-forma basis<sup>(1)</sup>
  - Hyperscale exceeded expectation on ramp of multiple design wins and market share gain
  - Market recovers after weak first half of 2019
- **Gaining market share with our industry-leading efficiency and power density, deep engineering capabilities, and strong application knowledge**
  - Won significant share at a Tier-1 hyperscale customer with our customized server power shelf solution
  - Gained market share at a key enterprise computing and storage customer on quality and ability to meet requirements
- **Strong growth expected in 2020**
  - Revenues may be lumpy quarter to quarter
  - Many new opportunities for further share gain

# TELECOM & NETWORKING

- **Q4 revenue declined as anticipated**
  - Revenue of \$39 million was down 20% sequentially on a pro-forma basis<sup>(1)</sup>
  - Market conditions remain sluggish, with slowdown in both telecom infrastructure and networking equipment
  - Telecom providers delaying investment in next-generation 5G technologies
  - Sales from design wins for next-generation networking applications partially offsetting market weakness
- **5G still represents opportunity for design wins and share gain**
  - Actively engaged on multiple 5G base station designs
- **Near-term pressure in this market**
  - Demand should approach a trough in next 1-2 quarters
  - Longer-term growth will be driven by 5G investments and enterprise refresh

# Q4 REVENUE BY MARKETS

(figures in \$thousands)	ACTUAL RESULTS GROWTH RATES					PRO FORMA GROWTH RATES <sup>(1)</sup>	
	Q4 2019	Q3 2019	Q4 2018	Q/Q	Y/Y	Q/Q	Y/Y
Semiconductor Equipment	\$125,108	\$96,426	\$107,393	30%	16%	27.6%	13.7%
Industrial & Medical	\$96,736	\$55,187	\$46,768	75%	107%	-0.7%	12.7%
Data Center Computing	\$77,940	\$13,498	\$0	477%		70.0%	27.4%
Telecom & Networking	\$38,484	\$10,016	\$0	284%		-20.1%	-29.6%
<b>Total Revenue</b>	<b>\$338,268</b>	<b>\$175,127</b>	<b>\$154,161</b>	<b>93%</b>	<b>119%</b>	<b>16.9%</b>	<b>8.5%</b>



# Q4 REVENUE BY MARKETS – ORGANIC<sup>(1)</sup>

(figures in \$thousands)	Q4 2019	Q3 2019	Q4 2018	Q/Q	Y/Y
Semiconductor Equipment	\$122,717	\$95,479	\$107,391	28.5%	14.3%
Industrial & Medical	\$36,158	\$38,740	\$46,770	-6.7%	-22.7%
<b>Total Revenue</b>	<b>\$158,875</b>	<b>\$134,219</b>	<b>\$154,161</b>	<b>18.4%</b>	<b>3.1%</b>

## REVENUE BY MARKETS – 2019 vs. 2018

(figures in \$thousands)	2019	2018	Y/Y
Semiconductor Equipment	\$403,018	\$533,770	-24.5%
Industrial & Medical	\$245,992	\$185,122	32.9%
Data Center Computing	\$91,438	\$0	
Telecom & Networking	\$48,500	\$0	
<b>Total Revenue</b>	<b>\$788,948</b>	<b>\$718,892</b>	<b>9.7%</b>

# Q4 2019 INCOME STATEMENT

(figures in \$millions, except percentage & EPS)	Q4 2019	Q3 2019	Q4 2018	Q/Q	Y/Y
Revenue	\$338.3	\$175.1	\$154.2	93.2%	119.4%
GAAP gross margin	33.2%	42.0%	48.8%		
GAAP operating expenses	\$90.1	\$64.1	\$55.6	40.5%	62.0%
GAAP operating margin from continuing ops	6.6%	5.4%	12.7%		
GAAP EPS from continuing ops	\$0.27	\$0.19	\$0.50	42.1%	-46.0%
Non-GAAP* gross margin	35.9%	43.6%	49.4%		
Non-GAAP* operating expenses	\$78.0	\$53.5	\$47.5	45.9%	64.4%
Non-GAAP* operating margin	12.8%	13.1%	18.6%		
Non-GAAP* EPS	\$0.87	\$0.54	\$0.73	61.1%	19.2%

# Q4 2019 BALANCE SHEET & CASH FLOW

- Cash and securities rose to \$349.1 million
- Operating cash flow from continuing operations was \$19.0 million
  - Excluding deal-related payments and inherited payables, OCF would have been over \$45 million\*
- Total debt at \$339.0 million
- Receivables decreased to \$246.6 million
  - DSO 66 days
- Inventory decreased to \$230.0 million
  - Turns increased to 3.9 times
- No share repurchase activity in Q4

(figures in \$millions)	Q4 2019	Q4 2018
Cash & Investments	\$349.1	\$351.8
Accounts Receivable	\$246.6	\$100.4
Inventory	\$230.0	\$98.0
Total Assets	\$1,532.4	\$816.5
Total Debt	\$339.0	\$0.0
Liabilities	\$855.1	\$209.2
Shareholders' Equity	\$677.3	\$607.3

# Q1 2020 GUIDANCE

	Q1 2020
Revenue	310M +/- 30M
GAAP EPS from continuing operations	\$0.36 +/- \$0.30
Non-GAAP* EPS	\$0.70 +/- \$0.30

# NON-GAAP MEASURES

- Advanced Energy's non-GAAP measures exclude the impact of non-cash related charges such as stock-based compensation and amortization of intangible assets, as well as discontinued operations, minority interest, and non-recurring items such as acquisition-related costs and restructuring expenses. The non-GAAP measures 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 regarding this presentation furnished today to the Securities and Exchange Commission.

# NON-GAAP RECONCILIATION

## Reconciliation of Non-GAAP measure - operating expenses and operating income, excluding certain items

	Three Months Ended			Year Ended	
	December 31,		September 30,	December 31,	
	2019	2018	2019	2019	2018
Gross profit from continuing operations, as reported	\$ 112,295	\$ 75,188	\$ 73,491	\$ 315,652	\$ 365,607
Adjustments to gross profit:					
Stock-based compensation	160	166	77	525	742
Facility expansion and relocation costs	2,229	354	1,342	3,891	1,328
Acquisition-related costs	6,784	411	1,506	8,290	569
Non-GAAP gross profit	121,468	76,119	76,416	328,358	368,246
Non-GAAP gross margin	35.9%	49.4%	43.6%	41.6%	51.2%
Operating expenses from continuing operations, as reported	90,093	55,618	64,101	261,264	194,054
Adjustments:					
Amortization of intangible assets	(5,319)	(1,816)	(3,002)	(12,168)	(5,774)
Stock-based compensation	(2,115)	(2,077)	(840)	(6,803)	(8,961)
Acquisition-related costs	(2,562)	(416)	(6,398)	(12,002)	(1,726)
Facility expansion and relocation costs	(651)	—	(223)	(948)	(518)
Restructuring charges	(1,418)	(3,836)	(152)	(5,038)	(4,239)
Non-GAAP operating expenses	78,028	47,473	53,486	224,305	172,836
Non-GAAP operating income	\$ 43,440	\$ 28,646	\$ 22,930	\$ 104,053	\$ 195,410
Non-GAAP operating margin	12.8%	18.6%	13.1%	13.2%	27.2%

## Reconciliation of Non-GAAP measure - income excluding certain items

	Three Months Ended			Year Ended	
	December 31,		September 30,	December 31,	
	2019	2018	2019	2019	2018
Income from continuing operations, less noncontrolling interest, net of income taxes	\$ 10,474	\$ 19,218	\$ 7,246	\$ 56,461	\$ 147,063
Adjustments:					
Amortization of intangible assets	5,319	1,816	2,973	12,168	5,774
Acquisition-related costs	9,346	827	7,904	20,292	2,295
Facility expansion and relocation costs	2,879	354	1,565	4,838	1,846
Restructuring charges	1,418	3,836	152	5,038	4,239
Tax Cuts and Jobs Act Impact	—	1,452	—	—	5,703
Central inverter services business sale	1,067	—	—	(13,737)	—
Tax effect of Non-GAAP adjustments	1,195	(1,198)	326	3,206	(2,344)
Non-GAAP income, net of income taxes, excluding stock-based compensation	31,698	26,305	20,166	88,237	164,576
Stock-based compensation, net of taxes	1,740	1,705	702	5,627	7,421
Non-GAAP income, net of income taxes	\$ 33,438	\$ 28,010	\$ 20,868	\$ 93,864	\$ 171,997

## Reconciliation of Non-GAAP measure - per share earnings excluding certain items

	Three Months Ended			Year Ended	
	December 31,		September 30,	December 31,	
	2019	2018	2019	2019	2018
Diluted earnings per share from continuing operations, as reported	\$ 0.28	\$ 0.50	\$ 0.19	\$ 1.48	\$ 3.74
Add back (subtract):					
per share impact of Non-GAAP adjustments, net of tax	0.59	0.23	0.35	0.96	0.63
Non-GAAP per share earnings	\$ 0.87	\$ 0.73	\$ 0.54	\$ 2.44	\$ 4.37

# RECONCILIATION OF Q1 2020 GUIDANCE

	Low End		High End
<b>Revenue</b>	<b>\$280M</b>	-	<b>\$340M</b>
<b>Reconciliation of non-GAAP** earnings per share</b>			
<b>GAAP earnings per share</b>	<b>\$0.06</b>	-	<b>\$0.66</b>
Stock-based compensation	\$0.09	-	\$0.09
Amortization of intangible assets	\$0.14	-	\$0.14
Amortization of inventory step-up	\$0.13	-	\$0.13
Restructuring and other	\$0.05	-	\$0.05
Tax effects of excluded items	-\$0.07	-	-\$0.07
<b>Non-GAAP** earnings per share</b>	<b>\$0.40</b>	-	<b>\$1.00</b>