# Q3 2019
# Earnings Presentation

Advanced Energy

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# Safe Harbor Statement

The company’s guidance with respect to anticipated financial results for the fourth quarter ending December 31, 2019, potential future growth and profitability, our future business mix, expectations regarding future market trends and the company’s future performance within specific markets, the anticipated closing of the acquisition of Artesyn Embedded Power and other statements herein or made on the above-announced 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 cyclicality 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; (e) the accuracy of the company’s estimates related to fulfilling solar inverter product warranty and post-warranty obligations; (f) the company’s ability to realize its plan to avoid additional costs after the solar inverter wind-down; (g) the accuracy of the company’s assumptions on which its financial statement projections are based; (h) the impact of product price changes, which may result from a variety of factors; (i) the timing of orders received from customers; (j) the company’s ability to realize benefits from cost improvement efforts including avoided costs, restructuring plans and inorganic growth; (k) the company’s ability to obtain in a timely manner the materials necessary to manufacture its products; (l) unanticipated changes to management’s estimates, reserves or allowances; (m) changes and adjustments to the tax expense and benefits related to the U.S. tax reform that was enacted in late 2017; and (n) 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. Copies may also be obtained from Advanced Energy’s investor relations page at 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 press release.

# Key Messages

- Revenue and earnings exceeded high-end of guidance range
  - Revenue of $175.1 million. Organic revenue of $134.2 million was above guidance range
  - Non-GAAP* EPS of $0.54. Organic Non-GAAP EPS of $0.47 was also above guidance range
  - Improved market conditions in Semiconductor Equipment
  - Successful ramp of designs, introduction of new technologies & strong operational execution

- Artesyn acquisition closed on September 10
  - Delivered $41 million in revenue and was accretive to Q3 earnings
  - Acquisition enables AE to enter Data Center and Telecom equipment markets
  - Integration progressing well

- Performed well despite mixed market conditions
  - Semi Equipment improved on foundry/logic and China investments, and new design contribution
  - Organic industrial markets revenue met target in face of macro weakness in China & Europe
  - Service limited by lower fab utilization

*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, and non-recurring items such as acquisition-related costs and restructuring expenses.

# Semiconductor Equipment

- Semiconductor revenue of $96.4 million, up 7% q/q
  - Organic revenue at $95.5 million, up 6% sequentially, down 20% y/y.
  - Sequentially, organic product revenue grew 9.4% q/q, while service declined 2.9% q/q
  - Artesyn added just under $1.0 million of Semi revenue in Q3
- Demand strengthened over the course of the quarter
  - Demand increase centered on foundry/logic applications and investments in China
  - Beginning to see investment in memory
  - New design wins also contributed to sequential growth
- Our innovations and deep customer collaboration are producing results
  - Received Lam Research's Supplier Excellence award
  - Advanced RF Matches are replacing competitors' simple solution, enabling share gains
  - Increased adoption of our differentiated RPS products, which offers new growth opportunities
  - Our industry-first, big data analytics solution, PowerInsight is a game-changer

# Industrial & Medical

- Industrial and Medical revenue of $55.2 million, up 23.3% q/q
  - Organic revenue was $38.7 million, including service, down 13% sequentially, but met our target
  - Macro environment continued to weaken, particularly in Europe and China, where demand in automotive and industrial applications further declined
  - Pushouts of several projects and delays, particularly in solar
  - Good progress in design wins across flat panel display, auto emission and medical
  - Organic industrial revenues should improve sequentially in Q4 on several new designs, but 2H 2019 now expected to fall below 1H level
- Artesyn broadens our Industrial and Medical market exposure
  - Contributed $16.4 million of I&M revenue in Q3
  - Strong performance on large motor drive design win and in the medical technologies market
  - Going forward, I&M should represent our second largest market

# Data Center Computing and Telecom & Networking

- Data Center Computing revenue of $13.5 million in Q3
  - Market starting to recover after a period of inventory digestion
  - New design wins at major hyperscale and enterprise customers expected to contribute to a strong Q4

- Telecom & Networking revenue of $10.0 million in Q3
  - 5G becoming an important secular growth driver
  - We are well positioned with design wins across multiple 5G platforms
  - Near term moderation of telecom investments partially due to trade dispute

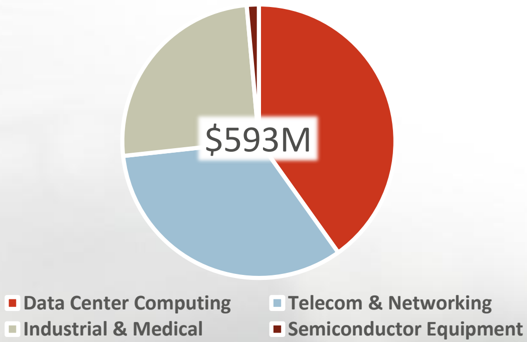
# Q3 Revenue by Markets

| (figures in $thousands) | Q3 2019 | Q2 2019 | Q3 2018 | Q/Q | Y/Y |
|---|---|---|---|---|---|
| Semiconductor Equipment | $96,426 | $90,058 | $119,969 | 7% | -20% |
| Telecom & Networking | $10,016 | $0 | $0 | | |
| Data Center Computing | $13,498 | $0 | $0 | | |
| Industrial & Medical | $55,187 | $44,752 | $53,113 | 23% | 4% |
| **Total Revenue** | **$175,127** | **$134,810** | **$173,082** | **30%** | **1%** |

# Historical Revenue by Markets and Q3 Revenue Bridge

| Figures in thousands | Q1 2018 | Q2 2018 | Q3 2018 | Q4 2018 | Q1 2019 | Q2 2019 | Q3 2019 |
|---|---|---|---|---|---|---|---|
| AE Semiconductor Product Revenue | $136,010 | $127,291 | $96,360 | $83,480 | $67,514 | $65,086 | $71,222 |
| AE Semiconductor Service Revenue | $20,682 | $22,428 | $23,609 | $23,911 | $23,913 | $24,972 | $24,257 |
| Total AE Semiconductor Revenue | $156,692 | $149,719 | $119,969 | $107,391 | $91,427 | $90,058 | $95,479 |
| | | | | | | | |
| AE Industrial Product Revenue | $35,199 | $41,944 | $48,483 | $41,559 | $44,598 | $41,107 | $36,008 |
| AE Industrial Service Revenue | $3,726 | $4,369 | $4,630 | $5,211 | $4,718 | $3,645 | $2,732 |
| Total AE Industrial Revenue | $38,925 | $46,313 | $53,113 | $46,770 | $49,316 | $44,752 | $38,740 |
| | | | | | | | |
| Artesyn Revenue | $0 | $0 | $0 | $0 | $0 | $0 | $40,908 |
| | | | | | | | |
| **Total Revenue** | **$195,617** | **$196,032** | **$173,082** | **$154,161** | **$140,743** | **$134,810** | **$175,127** |

## Artesyn 2018 Sales by Market*




## Q3 2019 Revenue Bridge

| Figures in thousands | AE Products | AE Service | Artesyn | Total |
|---|---|---|---|---|
| Semiconductor Equipment | $71,222 | $24,257 | $947 | **$96,426** |
| Telecom & Networking | $0 | $0 | $10,016 | **$10,016** |
| Data Center Computing | $0 | $0 | $13,498 | **$13,498** |
| Industrial & Medical | $36,008 | $2,732 | $16,447 | **$55,187** |
| **Total** | **$107,230** | **$26,989** | **$40,908** | **$175,127** |

**Artesyn's 2018 revenue of $593 million is a pro forma historical figure before the acquisition.*

# Q3 2019 Income Statement

| (figures in $millions, except percentage & EPS) | Q3 2019 | Q2 2019 | Q3 2018 | Q/Q | Y/Y |
|---|---|---|---|---|---|
| Revenue | $175.1 | $134.8 | $173.1 | 29.9% | 1.2% |
| GAAP gross margin | 42.0% | 47.6% | 49.4 | | |
| GAAP operating expenses | $64.1 | $53.1 | $45.7 | 20.7% | 40.3% |
| GAAP operating margin from continuing ops | 5.4% | 8.2% | 23.0% | | |
| GAAP EPS from continuing ops | $0.19 | $0.61 | $0.90 | -68.9% | -78.9% |
| Non-GAAP* gross margin | 43.6% | 47.7% | 50.0% | | |
| Non-GAAP* operating expenses | $53.5 | $47.0 | $42.2 | 13.7% | 26.9% |
| Non-GAAP* operating margin | 13.1% | 12.8% | 25.6% | | |
| Non-GAAP* EPS | $0.54 | $0.45 | $1.05 | 20.0% | -48.6% |

**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, and non-recurring items such as acquisition-related costs and restructuring expenses.*

# Q3 2019 Balance Sheet and Cash Flow

- Generated $10.5 million in cash flow from continuing operations in Q3
- Cash and Investments balance at $341 million
- Total Debt at $343 million
- Artesyn acquisition added $772 million to Total Assets and $380 million to Liabilities
- Inventories, Receivables and Payables all increased due to addition of Artesyn
  - AE Inventory increased $6.3 million from Q2
  - Artesyn added $142 million of inventory, $156 million of receivables, and $165 million of payables
- No share repurchase in Q3

| (figures in $millions) | Q3 2019 | Q4 2018 |
|---|---|---|
| Cash & Investments | $341.1 | $351.8 |
| Accounts Receivable | $250.2 | $100.4 |
| Inventory | $240.7 | $98.0 |
| Total Assets | $1,595.4 | $816.5 |
| Total Debt | $343.3 | $0.0 |
| Liabilities | $935.3 | $209.2 |
| Shareholders' Equity | $660.2 | $607.3 |

# Q4 2019 Guidance*

| | Q4 2019 |
|---|---|
| Revenue | 310M +/- 15M |
| GAAP EPS from continuing operations | $0.31 +/- $0.12 |
| Non-GAAP** EPS | $0.68 +/- $0.12 |

*Estimates as of Q3 2019 earnings conference call. The company assumes no obligation to update guidance.
**Q4 2019 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 and non-recurring items such as acquisition-related costs and restructuring expenses.

# 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.

# Reconciliation of GAAP to non-GAAP* Measures

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

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2019 | 2018 | 2019 | 2019 | 2018 |
| Gross profit from continuing operations, as reported | $ 73,491 | $ 85,539 | $ 64,126 | $ 203,357 | $ 290,419 |
| Adjustments to gross profit: | | | | | |
| Stock-based compensation | 77 | 76 | 55 | 365 | 576 |
| Facility expansion and relocation costs | 1,342 | 725 | 150 | 1,662 | 974 |
| Acquisition-related costs | 1,506 | 158 | — | 1,506 | 158 |
| Non-GAAP gross profit | 76,416 | 86,498 | 64,331 | 206,890 | 292,127 |
| Operating expenses from continuing operations, as reported | 64,101 | 45,677 | 53,121 | 171,171 | 138,436 |
| Adjustments: | | | | | |
| Amortization of intangible assets | (3,002) | (1,437) | (1,874) | (6,849) | (3,958) |
| Stock-based compensation | (840) | (948) | (883) | (4,688) | (6,885) |
| Acquisition-related costs | (6,398) | (705) | (1,531) | (9,440) | (1,310) |
| Facility expansion and relocation costs | (223) | (29) | — | (297) | (518) |
| Restructuring charges | (152) | (403) | (1,795) | (3,620) | (403) |
| Non-GAAP operating expenses | 53,486 | 42,155 | 47,038 | 146,277 | 125,362 |
| Non-GAAP operating income | $ 22,930 | $ 44,343 | $ 17,293 | $ 60,613 | $ 166,765 |

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

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2019 | 2018 | 2019 | 2019 | 2018 |
| Gross profit from continuing operations, as reported | 42.0 % | 49.4 % | 47.6 % | 45.1 % | 51.4 % |
| Adjustments to gross profit: | | | | | |
| Stock-based compensation | — | — | — | 0.1 | 0.1 |
| Facility expansion and relocation costs | 0.8 | 0.5 | 0.1 | 0.4 | 0.2 |
| Acquisition-related costs | 0.8 | 0.1 | — | 0.3 | — |
| Non-GAAP gross profit | 43.6 | 50.0 | 47.7 | 45.9 | 51.7 |
| Operating expenses from continuing operations, as reported | 36.6 | 26.4 | 39.4 | 38.0 | 24.5 |
| Adjustments: | | | | | |
| Amortization of intangible assets | (1.7) | (0.8) | (1.4) | (1.5) | (0.7) |
| Stock-based compensation | (0.5) | (0.6) | (0.7) | (1.0) | (1.2) |
| Acquisition-related costs | (3.7) | (0.4) | (1.1) | (2.1) | (0.2) |
| Facility expansion and relocation costs | (0.1) | — | — | (0.1) | (0.1) |
| Restructuring charges | (0.1) | (0.2) | (1.3) | (0.8) | (0.1) |
| Non-GAAP operating expenses | 30.5 | 24.4 | 34.9 | 32.5 | 22.2 |
| Non-GAAP operating income | 13.1 % | 25.6 % | 12.8 % | 13.4 % | 29.5 % |

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

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2019 | 2018 | 2019 | 2019 | 2018 |
| Income from continuing operations, less noncontrolling interest, net of income taxes | $ 7,246 | $ 35,150 | $ 23,362 | $ 45,987 | $ 127,845 |
| Adjustments: | | | | | |
| Amortization of intangible assets | 3,002 | 1,437 | 1,874 | 6,849 | 3,958 |
| Acquisition-related costs | 7,904 | 863 | 1,531 | 10,946 | 1,468 |
| Facility expansion and relocation costs | 1,565 | 754 | 150 | 1,959 | 1,492 |
| Restructuring charges | 152 | 403 | 1,795 | 3,620 | 403 |
| Tax Cuts and Jobs Act Impact | — | 2,398 | — | — | 4,251 |
| Central inverter services business sale | — | — | (14,804) | (14,804) | — |
| Acquisition transition services | (29) | — | — | (29) | — |
| Tax effect of Non-GAAP adjustments | 326 | (598) | 2,536 | 2,011 | (1,145) |
| Non-GAAP income, net of income taxes, excluding stock-based compensation | 20,166 | 40,407 | 16,444 | 56,539 | 138,272 |
| Stock-based compensation, net of taxes | 702 | 779 | 722 | 3,887 | 5,716 |
| Non-GAAP income, net of income taxes | $ 20,868 | $ 41,186 | $ 17,166 | $ 60,426 | $ 143,988 |

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

| | Three Months Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2019 | 2018 | 2019 | 2019 | 2018 |
| Diluted earnings per share from continuing operations, as reported | $ 0.19 | $ 0.90 | $ 0.61 | $ 1.20 | $ 3.23 |
| Add back (subtract): | | | | | |
| per share impact of Non-GAAP adjustments, net of tax | 0.35 | 0.15 | (0.16) | 0.37 | 0.41 |
| Non-GAAP per share earnings | $ 0.54 | $ 1.05 | $ 0.45 | $ 1.57 | $ 3.64 |

*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, and non-recurring items such as acquisition-related costs and restructuring expenses.

# Reconciliation of Q4 2019 Guidance*

| | Low End | | High End |
|---|---|---|---|
| **Revenue** | **$295M** | **-** | **$325M** |
| **Reconciliation of non-GAAP** earnings per share** | | | |
| **GAAP earnings per share** | **$0.19** | **-** | **$0.43** |
| Stock-based compensation | $0.06 | - | $0.05 |
| Amortization of intangible assets | $0.14 | - | $0.14 |
| Amortization of inventory step-up | $0.10 | - | $0.13 |
| Restructuring and other | $0.11 | - | $0.08 |
| Tax effects of excluded items | -$0.04 | - | -$0.03 |
| **Non-GAAP** earnings per share** | **$0.56** | **-** | **$0.80** |

**Estimates as of Q3 2019 earnings conference call. The company assumes no obligation to update guidance.*
***Q4 2019 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 and non-recurring items such as acquisition-related costs and restructuring expenses.*