

# Management Report 1<sup>st</sup> Half-Year 2019

## Dear Shareholders

The solar sector was marked by weak demand in China, the largest end customer market, during the first half of 2019. A global surplus in production capacity for multi-crystalline wafers, cells and modules was accompanied by supply bottlenecks for high-efficiency mono-products. Although investments in standard PV increased because of declining prices for PERC equipment, cell and module manufacturers often postponed major investment decisions in new technologies.

Against the backdrop of this slump in the market, we focused on implementing our strategic priorities: further developing our leading production solutions for heterojunction (HJT) and SmartWire Cell connection (SWCT™), as well as partnerships and investments aimed at commercialising next-generation cell and module technologies.

There is a great deal of market interest in HJT technology, and our project pipeline is promising. We achieved a breakthrough in late 2018 with a CHF 74 million order from REC for our heterojunction and SmartWire Connection technologies. The Intersolar Europe trade fair in May 2019 proved to be an important milestone with the unveiling of REC's first HJT module (based on 120 half-cells) with a market-leading output of up to 380 Wp.

This module was manufactured using our technologies and produced at very competitive prices. REC's first manufacturing line will begin series production soon, and there is already strong demand for these new modules in the high-end segment today. We believe this market interest will translate into real orders as soon as REC has demonstrated successful mass production of their new solar modules.

In March, we entered into a strategic partnership with the United Kingdom's Oxford PV, the technology leader for high-efficiency crystalline silicon/perovskite tandem solar cells. Perovskite/silicon-based tandem solar cells are a new generation of solar cells that promises a significant increase in efficiency while noticeably reducing solar power costs. Oxford PV holds the world record with 28% efficiency for its perovskite tandem solar cells (good commercial PERC cells have 22% efficiency; our HJT cells achieve 24%). Our investment guarantees us access to this new technology. In close cooperation with Oxford PV, we are driving the industrialisation of perovskite solar cell production forward by combining our leading heterojunction cell and SmartWire Connection technologies with Oxford PV's perovskite solar cell technology. Our cooperation involves Meyer Burger selling a HJT production line to Oxford PV, including an upgrade for perovskite tandem cell production for pilot production at its German facility in Brandenburg an der Havel.

PERC has replaced Al-BSF as the new standard technology for solar cells. The PERC market segment is increasingly dominated by Chinese manufacturers. Their cut-throat competition has led to significantly lower equipment prices. While most manufacturers are reducing their production equipment prices as far as possible, Meyer Burger is developing equipment that, according to customers, have the lowest total cost of ownership, although they require a higher initial investment. As a result, our margins have come under pressure and we have lost market share in the standard segment. TOPCon cell technology can be implemented by upgrading a PERC line, which improves efficiency (by 1 to 1.5 percentage points). Using our new CAiA<sup>®</sup> production solution for TOPCon, we have produced solar cells that enabled us to manufacture a TÜV-certified 347 W solar module (based on 120 half-cells). Comparable commercial PERC modules achieve 330 W. The market for upgrading existing PERC lines to TOPCon has not begun to fully take off. However, the unattractive margins in standard PV business have prompted us to review the originally planned relocation of some of our production to China and to adapt our sales focus. We intend to concentrate our future PV business activities mainly at our largest location, Hohenstein-Ernstthal (Germany).

As part of our focusing and restructuring, we successfully completed the sale of our wafering business to Precision Surfacing Solutions (PSS) in late April 2019. This secured the production facility and over 70 jobs in Thun. The sale underscores our strategic focus on PV cell coating and connection technologies for solar modules.

### Net sales

Business remained below our expectations overall. In a difficult market environment dominated by the US-China trade dispute and the Chinese government's unclear solar funding policy, Meyer Burger achieved incoming orders of CHF 94.0 million (CHF 137.9 million in H1 2018). Adjusted for the sale of the wafering business, incoming orders remained stable (–0.6%). Orders on hand as at 30 June 2019 amounted to CHF 166 million (31.12.2018 CHF 241 million). The book-to-bill ratio was 0.77 for the first half of 2019 (0.59 in H1 2018).

Net sales dropped to CHF 122.6 million compared to the previous year (CHF 232.3 million in H1 2018, adjusted by CHF 193.4 million for the sale of the wafering business). Negative currency effects accounted for around CHF –3.5 million or –2.8%. Adjusted for currency effects and the sale of the wafering business, the organic decline in sales for continuing business was 36.8%. The regional sales mix has changed slightly from the previous year, although Asia remains the most important sales region for Meyer Burger: Asia accounted for 73% of net sales during the first half of 2019 (68% in H1 2018), while Europe accounted for 21% (28% in H1 2018) and the Americas provided approx. 6% (3% in H1 2018).

Operating income after costs of products and services was CHF 63.1 million (CHF 120.1 million in H1 2018), with a margin of 51.5% during the first half of 2019 (51.7% in H1 2018).

### EBITDA and EBIT

Personnel expenses dropped by CHF 6.9 million or 10.7% compared to the previous year, to CHF 57.4 million (CHF 64.2 million in H1 2018). These costs fell because we managed to organise the company even more flexibly and because we sold the wafering business in late April 2019. Other operating expenses stood at CHF 18.9 million (–28.9% compared to H1 2018).

Due to the decline in sales, EBITDA was below the level achieved during the same period in the previous year. The figure was CHF –13.2 million in the first half of 2019 (CHF +29.2 million in H1 2018).

Write-offs totalled CHF 8.0 million (CHF 14.4 million in H1 2018). This decline can be attributed to the fact that we finished amortising key technology during the previous year. The result at the EBIT level amounted to CHF –21.1 million (CHF +14.9 million in H1 2018).

## Group result

The net financial result in the first half of 2019 amounted to CHF –3.9 million (CHF –4.0 million in H1 2018). The proportionate result from investments in associates due to the acquired investment in Oxford PV amounted to CHF –0.7 million in the first half-year.

The extraordinary result in the first half of 2019 amounted to CHF +27.7 million (CHF +0.8 million in H1 2018). This increase is mainly due to the sale of the wafering business to Precision Surfacing Solutions (PSS).

Tax expenses in the first half of 2019 stood at CHF 0.3 million (CHF 3.4 million in H1 2018).

Meyer Burger generated a group result of CHF +1.8 million in the first half of 2019 (CHF +8.3 million in H1 2018).

## Balance sheet as at 30 June 2019

The balance sheet total stood at CHF 350.3 million (31.12.2018 CHF 349.2 million). Cash and cash equivalents stood at CHF 31.7 million, inventories at CHF 66.2 million, property, plant and equipment at CHF 76.4 million, intangible assets at CHF 8.9 million and deferred tax assets at CHF 20.7 million. Total liabilities came to CHF 130.3 million, primarily comprising trade payables of CHF 27.3 million, customer prepayments of CHF 14.7 million, provisions of CHF 7.1 million and financial liabilities of CHF 39.4 million. Equity stood at CHF 220.0 million (31.12.2018 CHF 181.7). The equity ratio was 62.8% as at 30 June 2019 (31.12.2018 52.0%).

## Cash flow

In the first half of 2019, the company had negative cash flow from operations of CHF –57.6 million (CHF –16.4 million in H1 2018). This negative cash flow from operations is mainly attributable to an increase in net working capital. Cash flow from investing activities was CHF +17.7 million as a result of the sale of the wafering business with security in cash deposited at the same time (CHF –1.9 million in H1 2018). This caused free cash flow to reach CHF –39.9 million (CHF –18.3 million in H1 2018). Cash flow from financing activities stood at CHF –18.1 million (CHF –4.2 million in H1 2018), comprising the repayment of financial liabilities.

## Changes to the Board of Directors and Executive Board

The changes to the Board of Directors and Executive Board that were announced with the publication of the transformation programme on 16 October 2018 were concluded during the first half of 2019. At the general meeting on 2 May 2019, Dr Remo Lütolf was elected Chairman of the Board of Directors and Andreas R. Herzog was elected Member of the Board of Directors. In addition, the meeting resolved to reduce the Board of Directors to four people. The Executive Board was also reduced – from five members to three (Dr Hans Brändle, CEO; Manfred Häner, CFO; Dr Gunter Erfurt, CTO).

## Outlook for 2019

The medium- and long-term growth outlook for the solar industry has continued to improve against the backdrop of current concerns over climate change. Solar power is already the most affordable technology in many regions today, offering a uniquely wide range of applications and the greatest potential for cost reduction among relevant electricity generation technologies. After a lull in growth during the last 12 months due to restructuring of funding for China's solar market, significant double-digit expansion in global installed solar power output is now forecast to return. We believe that more than half of this solar power capacity will be installed outside China. The growth forecast for the coming years in new and established western markets will also result to new local PV production capacities.

As a high-tech company, we will continue to make substantial investments in research and development in order to remain a market leader in the premium segment. With our focus on developing high-efficiency industrial HJT production solutions, we have achieved record cell efficiency of over 24.7% in commercialized HJT systems. We are already working on a roadmap for HJT cells with even higher levels of efficiency. The collaboration with REC will lead to a quantum lead in the manufacture of HJT/SmartWire modules. The strategic partnership with Oxford PV enables us to further develop and secure our technological leadership even beyond HJT.

Meyer Burger is well positioned in terms of technology. Yet business development during the first half of 2019 underscores the need to review our business model and strategy. We will examine every strategic option in order to create sustainable added value. We will release the findings of our strategic review in due time. Simultaneously, we are moving forward with focusing our activities and simplifying our organisational structure worldwide.

Thank you for your continued trust in Meyer Burger.

Sincerely,



Dr Remo Lütolf  
Chairman of the Board



Dr Hans Brändle  
Chief Executive Officer