

FOCUS
TMT CONFERENCE

18th March 2016

TMT

Bloomberg	SOI FP
Reuters	SOIT.PA
12-month High / Low (EUR)	0.9 / 0.5
Market capitalisation (EURm)	143
Enterprise Value (BG estimates EURm)	302
Avg. 6m daily volume ('000 shares)	1,293
Free Float	79.0%
3y EPS CAGR	NM
Gearing (03/15)	300%
Dividend yield (03/16e)	NM

YE March	03/15	03/16e	03/17e	03/18e
Revenue (EURm)	222.88	235.99	248.42	265.17
EBITA EURm)	-125.9	8.1	10.6	13.1
Op.Margin (%)	NM	3.4	4.3	5.0
Diluted EPS (EUR)	-0.51	-0.10	0.01	0.02
EV/Sales	1.32x	1.28x	0.86x	0.78x
EV/EBITDA	NS	7.5x	5.6x	4.9x
EV/EBITA	NS	37.1x	20.3x	15.7x
P/E	NS	NS	45.6x	36.7x
ROCE	-63.0	5.3	7.0	9.0



Soitec

Focus on the capital increases

Fair Value EUR0.5 (price EUR0.62)

NEUTRAL

In February 2016, Soitec proposed two successive capital increases for a total amount of between EUR130m and EUR180m. Our TMT conference was a good chance to come back on these operations. Obviously, investors' questions were not only about the use of the proceeds but also on the potential of FD-SOI, Soitec's growing technology. While we were already convinced that FD-SOI has real technological advantages, discussions at our TMT conference confirmed our thoughts. Nevertheless, the group must go through two capital increases and prove FD-SOI can be a commercial success with facts.

■ **200mm production sold-out until the end of 2016.** First, regarding the 200mm RF-SOI, the group confirmed that all its production capacity is sold-out until the end of 2016. We remind that the group holds a production capacity of about 820,000 wafers per year, yielding annual revenue close to EUR170m. Additional production capacities will be available from Soitec's Chinese partner Simgui, however, we don't expect to see material revenue from Simgui production over FY16 and FY17.

■ **China shows a strong interest in FD-SOI.** While the group partners with a Chinese company for RF-SOI, we note that China is also on the list of strategic partners to support Soitec's capital increases. We believe FD-SOI is being eyed up in the Chinese "More than Moore" plan to compete with Intel, Samsung and TSMC in the semiconductor battlefield. In our view, Chinese players could add to the list of semi players designing and producing in FD-SOI and strengthen the ecosystem on behalf of STMicroelectronics, GlobalFoundries and Samsung. Assuming a blue sky scenario, these three players ramp FD-SOI technologies by 2017 up to volumes of about 250,000 wafers, Soitec's 300mm sales could jump to ~EUR200m (up from EUR54m expected in FY16) and the FY18e net result would be more than 40% higher than our currently estimated FY18e net result.

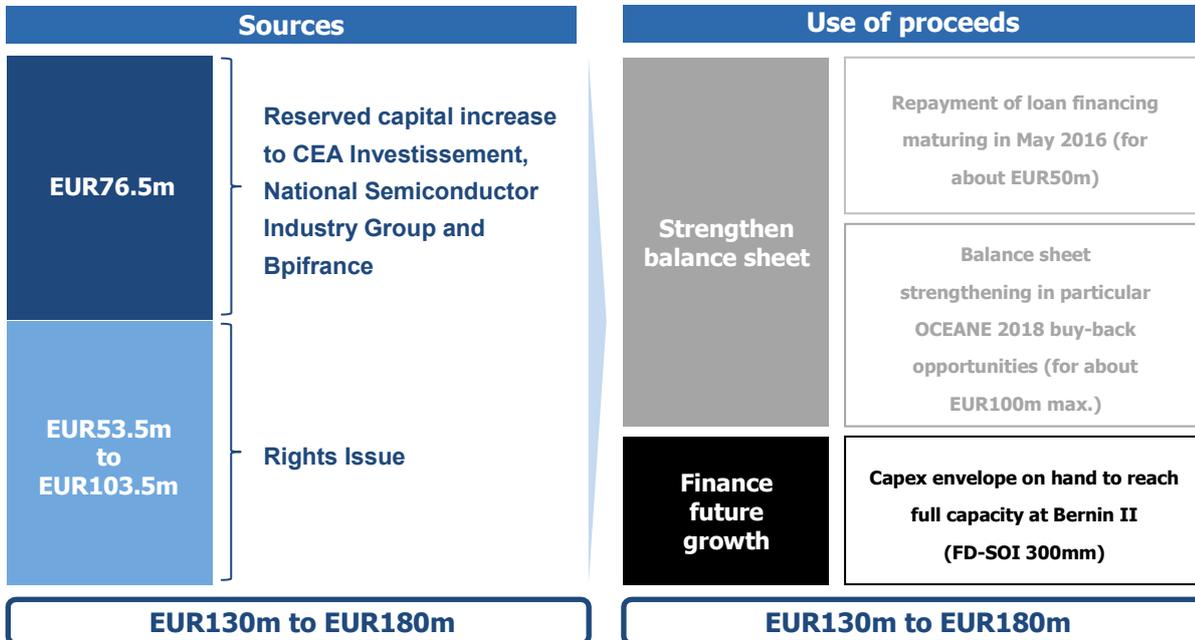
■ **No change in our scenario but increasingly positive view on FD-SOI.** While we do not apply any change to our scenario or our investment case, discussions with the management team at our TMT conference continue to strengthen our positive view on the FD-SOI technology and we are now waiting for material details to prove its commercial success.

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Soitec Major keys to Focus on from the BG TMT conference

1. One Chart

Strengthen balance sheet and finance future growth



Source: Company Data; Bryan, Garnier & Co ests.

Our conference has been a good chance to come back on the two capital increases that will be proposed at the coming Extraordinary General Meeting to be held on April 11th:

- **Step 1:** The **first capital increase** is reserved for three strategic partners of Soitec: CEA Investissement (technological partner), Bpifrance, and National Silicon Industry Group, a Chinese industrial investment group created in November 2015 (by investment from Sino IC Capital, Shanghai Guosheng Group, Summit View Capital, **SIMIT** and Jiading Industry Development Group with ~EUR270m capital registered). This Chinese holding company focuses on semiconductor material businesses and especially on differentiating technology. We note that **Dr WANG Xi, Director General of the Shanghai Institute of Microsystem and Information Technology** (or SIMIT, which founded NSIG) is **also Chairman of Simgui**, the Chinese partner of Soitec (production of 200mm RF-SOI in China). We believe RF-SOI and FD-SOI are being eyed up in the Chinese “More than Moore” plan: due to a considerable lag in the leading edge, China is looking for alternatives to traditional FinFET manufacturing technology used by Intel, Samsung and TSMC. In our view, Soitec will benefit from the support of Chinese fabless and industrial network to develop FD-SOI.
- **Step 2:** The **second capital increase** is **with preferential subscription rights**. Since the three strategic partners have already committed to exercising their rights, 43.5% of this second capital increase is already secured. At the current share price of EUR0.60, discounted by 30%, it means that these partners will participate in the capital increases with about EUR103m, covering the OCEANE 2018 buy-back. In addition to this, we understand that the group wants to invest about EUR40m in equipment for Bernin 2 (see details below) and repay its financing loan maturing in May 2016 for about EUR50m.

2. One Sentence

« *It is important that investors come back for good reasons.* »

- This was CEO Paul Boudre’s introductory sentence at one of the meetings at our TMT conference. Our feeling is that the new management team really pays attention to investors’ interests and opinions.

3. One Figure

400,000 FD-SOI wafers per year

■ 400,000 wafers per year is the targeted FD-SOI output at Soitec’s Bernin 2 plant. Given its size, this fab has a total output capacity of about 750,000 wafers per year and only part will be dedicated to FD-SOI. However, this plan is currently unequipped to produce FD-SOI wafers and hosts PD-SOI capable tools, mostly unused since PD-SOI wafers demand strongly decreased at historical major customers IBM and AMD. Soitec’s plan is to allocate about 300,000 wafers capacity to 300mm RF-SOI production (which can use the current PD-SOI dedicated tools), about 50,000 wafers to Photonic (we believe the main customer is Intel right now) and invest about EUR40m in new tools or upgrade to adapt the remaining production tools to FD-SOI production, i.e. a capacity of 400,000 wafers per year. With such an output, the group may supply current and mid-term needs of GlobalFoundries, Samsung and STMicroelectronics.

- Despite its size and the quality of production, GlobalFoundries (GF) has always been a “second choice” foundry for Tier 1 Fabless. While the foundry cannot compete on leading edge technology due to limited investment capabilities (compared to Samsung and TSMC), the company focused on RF in previous years and it is now looking for differentiation with FD-SOI which fits in perfectly with the coming “IoT wave”. In July 2015, the company announced its 22FDX process technology and we know that this production will take place at Fab 1 (Dresden, Germany). This fab is split into two modules (named 1 and 2), with a capacity of about 480,000 wafers per year (or 960,000 combined). In our view, the group has a long-term target to convert both of these modules to FD-SOI production but, as far as we know, only Module 1 is currently FD-SOI ready. This means that with only half of the production capacity, GF’s needs would be higher than Soitec’s production capacity. As a result, the success of 22FDX depends on customer (Fabless) demand. Our industry sources reported that the foundry could already be in talks with several dozen Fabless but volumes remains unknown. At this point, 22FDX remains in the qualification process at GF and we believe volumes will rise during 2017.
- Regarding STM and Samsung, the latter benefited from a transfer of technology from STMicroelectronics which developed the 28nm FD-SOI process for its own needs. Indeed, STM holds only one fab able to produce advanced nodes: Crolles 2. However, in order to reduce risks of unused capacities, the group split the fab into several production lines, each with one expertise. Crolles 2 has an output of less than 160,000 wafers per year. Assuming STM allocates a 1/5th of its fab to FD-SOI, the production at STM would be slightly above 30,000 wafers per year which is below its expected consumption. As a result, the group outsources some of its production to Samsung and is under obligation to pass all FD-SOI knowledge to Samsung – this is how Samsung became an FD-SOI capable foundry. Today, we believe FD-SOI capacities at Samsung are smaller than GF’s projected ones but still significant and the group holds a solid customer book (FD-SOI only) with names such as NXP (with Freescale) or Sony.
- **Assuming a blue sky scenario where GF, Samsung and STMicroelectronics ramp FD-SOI technologies by 2017 to volumes of about 250,000 wafers (30k @ ST, 80k @ Samsung and 140k @ GF, to be compared to 110,000 wafers in our base case scenario) at ~EUR475 per unit, 300mm Soitec’s FY18e sales would be close to EUR120m (with EUR/USD at 1.10). Including 150,000 wafers from 300mm RF-SOI, Bernin 2 would generate sales close to EUR200m (compared to 200mm Bernin 1 sales which are expected to be ~EUR170m in FY16). In this scenario, we believe the gross margin should be somewhere between 25% and 29% and the EBIT margin in the range of 11% to 14%. Other things being equal, our FY18e net result would be more than 40% higher in this scenario (BG ests. FY18e net result of EUR6.3).**

4. How does the Conference impact our Investment Case

- While we do not apply any change to our scenario (we already included the impacts of the reserved capital increase of EUR76.5m in our FV) or our investment case, discussions with the management team at our TMT conference **continued to strengthen our positive view on FD-SOI technology**. Indeed, it looks like many industry players are looking closer at this technology which is also confirmed by our talks at MWC2016. So far, while volumes remain uncertain, we are convinced that STM, NXP, Cisco, Ciena, and Sony are strongly involved in FD-SOI design but we believe there are many other players interested in this technology.

Price Chart and Rating History

Soitec

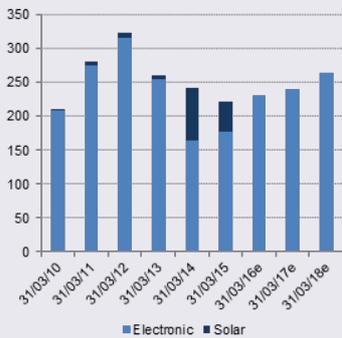


Ratings

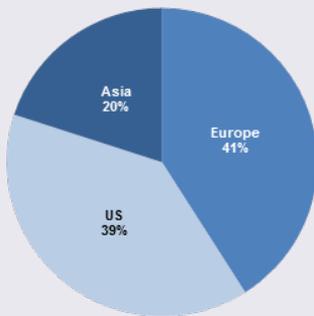
Date	Ratings	Price
23/12/14	NEUTRAL	EUR0.96
22/12/14	Under review	EUR2.11
12/11/14	BUY	EUR1.93

Target Price

Date	Target price
10/03/16	EUR0.5
11/02/16	EUR0.65
19/11/15	EUR0.8
06/08/15	EUR0.7
29/05/15	EUR0.75
24/03/15	EUR1.1
20/01/15	EUR0.95
23/12/14	EUR0.85
22/12/14	Under review
12/11/14	EUR2.6



Geographical breakdown of sales



Company description

Founded in 1992, and listed on Euronext Paris since 1999, Soitec is a specialist of high-performance semiconductor materials. The company develops proprietary technologies used to produce and sell wafers for the semiconductor industry, more particularly to produce Integrated Circuits. Following the exit of the Solar business in 2015, the group now only focuses on this activity and especially the ramp-up of FD-SOI technology.

Simplified Profit & Loss Account (EURm)	31/03/13	31/03/14	31/03/15	31/03/16e	31/03/17e	31/03/18e
Revenues	263	247	223	236	248	265
Change (%)	-18.7%	-6.0%	-9.8%	5.9%	5.3%	6.7%
Change LFL (%)	-24.4%	-5.0%	-%	-%	-%	-%
Adjusted EBITDA	(61.7)	(79.1)	(67.9)	40.5	38.1	41.9
Depreciation & amortisation	135	141	209	32.4	27.5	28.8
Adjusted EBIT	(123)	(137)	(126)	8.1	10.6	13.1
EBIT	(197)	(220)	(277)	2.8	10.6	13.1
Change (%)	-%	-%	-%	-%	271%	24.2%
Financial results	(11.8)	(16.7)	19.7	(30.5)	(6.1)	(6.5)
Pre-Tax profits	(209)	(236)	(258)	(27.7)	4.5	6.7
Tax	0.03	0.06	(0.22)	(0.37)	0.0	0.0
Profits from associates	(0.93)	(0.64)	(1.4)	(0.40)	(0.40)	(0.40)
Minority interests	0.19	0.33	0.0	0.0	0.0	0.0
Net profit	(209)	(237)	(258)	(52.3)	4.1	6.3
Restated net profit	(137)	(186)	(108)	(23.2)	4.1	6.3
Change (%)	-%	-%	-%	-%	-%	52.2%

Cash Flow Statement (EURm)

Operating cash flows	10.0	(39.1)	(0.05)	(23.2)	30.5	33.4
Change in working capital	22.7	(99.8)	67.9	(3.6)	(1.5)	(2.0)
Capex, net	(118)	(44.8)	(3.1)	14.8	(20.0)	(25.0)
Financial investments, net	10.7	(37.8)	(15.5)	0.0	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	0.0
Issuance of shares	0.89	67.9	83.7	0.0	76.5	0.0
Issuance of debt	30.9	131	23.7	64.7	0.0	0.0
Other	(8.1)	(21.4)	(102)	(37.8)	(54.0)	0.0
Net debt	66.5	212	150	158	71.4	63.0
Free Cash flow	(85.6)	(184)	(3.2)	(8.4)	10.5	8.4

Balance Sheet (€m)

Tangible fixed assets	341	281	157	110	102	98.3
Intangibles assets & goodwill	75.3	35.1	47.4	47.4	47.4	47.4
Investments	17.8	8.9	1.3	1.3	1.3	1.3
Deferred tax assets	0.0	0.0	0.0	0.0	0.0	0.0
Current assets	137	186	0.0	0.0	0.0	0.0
Cash & equivalents	130	44.7	22.9	41.4	74.4	82.9
Total assets	719	585	228	200	225	230
Shareholders' equity	391	221	50.0	(1.9)	79.1	85.7
Provisions	13.1	18.4	17.5	17.5	17.5	17.5
Deferred tax liabilities	0.0	0.0	0.0	0.0	0.0	0.0
L & ST Debt	197	257	173	200	146	143
Current liabilities	118	88.9	153	143	145	148
Total Liabilities	719	585	394	358	387	394
Capital employed	458	433	200	157	151	146

Ratios

Operating margin	NM	NM	NM	3.45	4.25	4.95
Tax rate	0.01	0.03	(0.08)	(1.34)	0.0	0.0
Net margin	NM	NM	NM	NM	1.41	2.36
ROE (after tax)	(53.58)	(107)	(516)	2,691	5.20	7.29
ROCE (after tax)	(26.88)	(31.71)	(62.97)	5.27	7.02	8.98
Gearing	17.02	96.21	300	NM	NM	73.51
Pay out ratio	NM	NM	NM	NM	0.0	NM
Number of shares, diluted	124	149	211	240	301	301

Data per Share (EUR)

EPS	(1.70)	(1.45)	(1.23)	(0.21)	0.02	0.03
Restated EPS	(1.11)	(1.25)	(0.51)	(0.10)	0.01	0.02
% change	112%	12.6%	-61.7%	-83.8%	-133%	23.7%
EPS bef. GDW	(1.11)	(1.25)	(0.51)	(0.10)	0.01	0.02
BVPS	3.16	1.48	0.24	(0.01)	0.26	0.28
Operating cash flows	0.08	(0.26)	(0.00)	(0.10)	0.10	0.11
FCF	(0.69)	(1.23)	(0.02)	(0.03)	0.04	0.03
Net dividend	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company Data; Bryan, Garnier & Co ests.

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Distribution of stock ratings

BUY ratings 72%

NEUTRAL ratings 0%

SELL ratings 28%

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