



ENXTAM: ASM

Snapshot

NEGATIVE



14 DECEMBER 2011

ASM International N.V.

www.asm.com

Industry	Semiconductor Equipment
Price	EUR20.38 (12/13/11)
Market Cap	1.13 billion
Enterprise Value	1.21 billion
P-E Ratio	5.97
EV/Revenue	0.7
Debt/EBITDA	0.4

Considerations:

- 1 Total accruals reached their highest level in at least the last five years, as cash-flow trends diverged from reported net income.
- 2 Inventory levels have spiked, which is in contrast with revenue-growth trends. Inventory also appears out of line relative to historical trends and in peer comparisons.
- 3 Receivables also grew significantly relative to revenue and peer comparisons.
- 4 Trends in a number of other accounts, including a drawdown in backlog and relatively low cash taxes paid, increase our earnings quality concerns.

Company Description

- ASM International N.V. (ASMI) designs, manufactures, and sells equipment and services for the production of semiconductor devices, or integrated circuits. The company engages in the wafer processing and assembly and packaging market segments. The Front-End segment performs processes on 200 millimeters or 300 millimeters diameter slices of silicon wafers. The Back-End segment, which covers assembly and packaging, assembles and connects one or more dies in a single package, to form a semiconductor device that will perform calculations, store data, or interface with its environment.



Decline in Cash Flows Drives Build in Accruals

- During Q3 2011, quarterly net income rose 93.7% YOY to €138.8 million (up 22.1% excluding a €51.3 million gain on the purchase of Surface Mount Technology during the third quarter), while cash from operations fell 42.5% YOY to €54.8 million and free cash flow fell 46.7% YOY to €33.5 million.
- On a TTM basis, net income rose 92.8% YOY to €357.7 million (up 65.1% YOY excluding the gain on purchase), while cash from operations rose 14.1% YOY to €249.2 million and free cash flow fell 5.5% YOY to €140.0 million.
- As a result of the divergence between reported net income and cash-flow trends, total accruals rose to 15.5% of average total assets, compared to just 4.1% in the year-ago period.
- Total accruals are at the highest level in at least the last five years at 15.5%, compared to the next highest level of 9.3% set a quarter earlier and a five-year average of -1.4%.

(See table, Cash-Flow Trends and Accruals — Five-Quarter Average, next page)



Table 1. Cash-Flow Trends and Accruals – Five-Quarter Average
(€ in millions)

	09/30/11	06/30/11	03/31/11	12/31/10	09/30/10
3M net income	€138.8	€85.5	€70.2	€63.2	€71.6
3M CFOA	€54.8	€37.8	€84.0	€72.6	€95.2
3M FCF	€33.5	€12.2	€59.5	€34.8	€62.9
TTM net income	€357.7	€290.5	€288.1	€242.5	€185.5
TTM CFOA	€249.2	€289.7	€318.1	€259.9	€218.5
TTM FCF	€140.0	€169.4	€204.3	€159.4	€148.1
Accruals/ATA	15.5%	9.3%	7.1%	8.0%	4.1%
Change YOY:					
3M net income	93.7%	3.0%	184.7%	934.5%	3,142%
3M CFOA	-42.5%	-42.9%	225.9%	132.9%	269.2%
3M FCF	-46.7%	-74.1%	308.9%	48.2%	163.9%
TTM net income	92.8%	150.4%	-1,837.0%	-455.2%	-334.2%
TTM CFOA	14.1%	94.4%	285.7%	314.8%	265.9%
TTM FCF	-5.5%	55.4%	235.9%	239.6%	228.5%
Accruals/ATA	1,148	841	1,725	2,368	2,112

Table 2. Cash-Flow Trends and Accruals – Five-Year Average
(€ in millions)

	12/31/10	12/31/09	12/31/08	12/31/07	12/31/06
TTM net income	€242.5	-€68.3	€56.7	€116.3	€34.3
TTM CFOA	€259.9	€62.7	€137.4	€105.6	€143.8
TTM FCF	€159.4	€46.9	€105.9	€59.3	€106.3
Accruals/ATA	8.0%	-15.7%	-6.0%	6.7%	-8.7%
Change YOY:					
TTM net income	-455.2%	-220.4%	-51.2%	238.8%	-185.4%
TTM CFOA	314.8%	-54.4%	30.1%	-26.6%	183.5%
TTM FCF	239.6%	-55.7%	78.5%	-44.2%	4,622.4%
Accruals/ATA	2,368	-962	-1,279	1,543	-371

Spike in Inventory

- For the quarter ended 09/30/11, inventory grew 88.9% YOY to €407.6 million, compared to quarterly revenue growth of 7.7% YOY to €376.1 million.
 - Inventory to three-month revenue increased by 4,659 bps YOY to 108.4%. This was well above the five-year average of 90.0% and near the top of the five-year range of 61.8%–111.1%.
 - Three-month (TTM) days sales in inventory rose 48.2% (11.8%) YOY to 151 (122) days. This compared to the five-year average of 132 (135) days.
 - Inventory to forward three-month revenue increased from 61.3% a year



ago to 120.9% in the most recent period.

- Inventory to three-month revenue grew faster than that of any of the 10 peers listed in Table 4, below, and increased 3,275 basis points faster than the peer average of 1,385. Additionally, inventory to three-month revenue was the second highest of the peer group on an absolute basis.
- Although inventory reserve is only provided on an annual basis, the most recent disclosure indicates that as of 12/31/10 the allowance declined 12% YOY to €41.3 million despite inventory increasing 71.3% YOY over the same period.

Table 3. Five-Quarter Inventory Trends
(€ in millions)

	09/30/11	06/30/11	03/31/11	12/31/10	09/30/10
Inventory	€407.6	€407.3	€379.2	€258.1	€215.7
Inventory to 3M revenue	108.4%	85.9%	87.7%	73.3%	61.8%
Inventory to TTM revenue	24.9%	25.3%	26.4%	21.1%	20.1%
DSI	122	114	111	109	109
3M DSI	151	122	109	113	102
Inventory to fwd. revenue	120.9%	108.3%	80.0%	59.7%	61.3%
Change YOY:					
Inventory	88.9%	99.5%	113.7%	71.3%	42.6%
Inventory to 3M revenue	4,659	1,840	672	-134	2,216
Inventory to TTM revenue	482	274	178	-440	-791
DSI	11.8%	-2.6%	-15.4%	-28.9%	-35.2%
3M DSI	48.2%	18.4%	-7.8%	-3.1%	-17.2%
Inventory to fwd. revenue	5,961	4,981	2,131	-906	-1,366

Table 4. Peer Inventory Trends

Ticker	Inv./3M Revenue	Inv./3M Revenue Change YOY	Inv./TTM Revenue	Inv./TTM Revenue Change YOY	DSI	DSI Change YOY
ENXTAM: ASM	108.4%	4,659	24.9%	482	121.8	7.0%
TSE:6857	94.0%	1,645	31.6%	598	164.1	16.1%
ASML	99.8%	-2,347	24.4%	-1,622	163.9	-19.2%
TSE:7735	105.1%	86	23.0%	-671	116.2	-9.6%
TSE:6146	114.0%	3,904	28.3%	442	176.5	24.2%
TSE:7004	45.6%	-784	10.9%	-283	49.0	-23.1%
AMAT	78.0%	2,435	16.2%	-3	101.3	-6.0%
NVLS	70.7%	1,663	14.9%	-151	106.9	3.2%
KLIC	40.5%	1,202	8.8%	-89	64.5	29.6%
Average	84.0%	1,385	20.3%	-144	118.3	2.5%
ASM deviation from average	2,436	3,275	461	627	3.0%	457



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- Growth in Receivables**
- For the quarter ended 09/30/11, accounts receivable increased 34.8% YOY to €324.0 million, compared to revenue growth of 7.7% YOY.
 - Receivables to three-month revenue grew 1,731 bps YOY to 86.1%. Despite YOY growth, the ratio of receivables to three-month revenue is still in line with the five-year average of 86.8%.
 - Three-month (TTM) DSO rose 27.4% (1.1%) YOY to 81 (68) days.
 - Receivables to three-month revenue grew faster at ASM (1,731 basis points) than at all but two of 10 peers and increased 1,228 basis points faster than the peer average of 502 basis points. Additionally, only three of the 10 peers have a higher AR-to-three-month revenue ratio on an absolute basis.
 - As of 12/31/10, 21.5% of total receivables were considered past due (compared to 23.1% a year earlier), as total past-due receivables increased 51.8% YOY to €58.2 million.
 - ASM's allowance for doubtful accounts, which is only disclosed on an annual basis, grew 3.7% YOY to €9.3 million (or 3.3% of total receivables) during FY2010, while total AR (past-due AR) grew 63.7% (51.8%). As a result, we believe the firm may have been underaccrued for bad debts at 12/31/10.

Table 5. Five-Quarter Receivable Trends
(€ in millions)

	09/30/11	06/30/11	03/31/11	12/31/10	09/30/10
Accounts receivables	€324.0	€347.7	€334.2	€271.3	€240.4
AR to 3M revenue	86.1%	73.3%	77.3%	77.0%	68.8%
AR to TTM revenue	19.8%	21.6%	23.3%	22.2%	22.4%
DSO	68	66	65	66	67
3M DSO	81	66	64	66	64
AR less advances	€290.4	€314.9	€284.0	€243.0	€206.6
Change YOY:					
Accounts receivables	34.8%	39.5%	80.7%	63.7%	66.4%
AR to 3M revenue	1,731	-909	-711	-507	-1,134
AR to TTM revenue	-259	-596	-239	-588	-436
DSO	1.1%	-6.5%	-13.9%	-26.8%	35.1%
3M DSO	27.4%	0.2%	-12.5%	-5.5%	-5.4%
AR less advances	40.5%	50.6%	80.3%	62.7%	55.7%



Table 6. Peer Receivable Trends

Ticker	AR/3M Revenue	AR/3M Revenue Change YOY	AR/TTM Revenue	AR/TTM Revenue Change YOY	DSO	DSO Change YOY
ENXTAM: ASM	86.1%	1,731	19.8%	-259	67.8	1.1%
TSE:6857	65.1%	-2,265	21.9%	-709	79.8	12.0%
ASML	63.6%	-1,523	15.6%	-1,043	60.8	-6.9%
TSE:7735	105.6%	1,186	23.1%	-361	87.2	2.3%
TSE:6146	108.1%	583	26.8%	-574	106.9	20.1%
TSE:7004	112.0%	2,163	26.7%	354	101.1	7.1%
AMAT	70.2%	678	14.6%	-461	62.7	12.4%
NVLS	72.6%	1,843	15.3%	-115	59.9	29.2%
KLIC	76.9%	126	16.7%	-900	76.9	26.4%
Average	84.5%	503	20.2%	-452	78.1	11.5%
ASM deviation from average	168	1,228	-22	193	-13.3%	-1,041

Additional Earnings Quality Concerns

- Backlog fell 32.5% YOY to €396.5 million as new orders fell 28.3% YOY to €312.7 million and recognized revenue rose 7.7% YOY to €376.1 million. As a result, backlog to three-month revenue fell 6,274 basis points YOY to 105.4%. This compared to five-year range of 73.7% to 168.2% (average of 102.7%).
- Three-month capital expenditures fell 34.1% YOY after increasing 1,520.5% a year earlier. As a result, the ratio of three-month capital expenditures to depreciation fell from 423.4% a year ago, but it is still at 224.6%. On a TTM basis, capital expenditures increased 52.0% YOY to €109.0 million after increasing 511.9% a year ago. As a result, TTM capital expenditures to depreciation increased from 248.5% a year ago to 284.5%. Over time, we would expect capital expenditures to depreciation to average out to roughly 100%.
- Cash taxes have significantly lagged the provision for taxes for four out of the last five quarters. On a three-month (TTM) basis, cash taxes equaled 31.3% (48.5%) of the provision for taxes reported on the income statement.

(See table, Miscellaneous Earnings Quality Trends, next page)



Table 7. Miscellaneous Earnings Quality Trends
(€ in millions)

	09/30/11	06/30/11	03/31/11	12/31/10	09/30/10
New orders	€312.7	€340.1	€443.5	€587.2	€436.4
Backlog	€396.5	€436.3	€587.6	€499.8	€587.2
Backlog to 3M revenue	105.4%	92.0%	136.0%	141.9%	168.2%
3M CapEx	€22.0	€26.2	€21.5	€39.3	€33.3
TTM CapEx	€109.0	€120.3	€113.3	€103.0	€71.7
3M CapEx to depreciation	224.6%	274.4%	200.1%	477.8%	423.4%
TTM CapEx to depreciation	284.5%	330.6%	330.0%	336.2%	248.5%
3M cash taxes to provision	31.3%	108.0%	-2.3%	27.7%	-0.7%
TTM cash taxes to provision	48.5%	40.8%	11.3%	22.7%	42.9%
Change YOY:					
New orders	-28.3%	-46.1%	125.5%	132.9%	113.4%
Backlog	-32.5%	-21.6%	76.5%	154.1%	300.5%
Backlog to 3M revenue	-6,274	-9,202	-1,606	4,448	8,681
Backlog to TTM revenue	4,232	4,054	1,046	-465	-3,182
3M CapEx	-34.1%	36.4%	92.8%	388.1%	1,520.5%
TTM CapEx	52.0%	197.4%	411.5%	709.7%	511.9%
3M CapEx to depreciation	-19,882	1,849	4,145	35,303	39,766
TTM CapEx to depreciation	3,603	19,099	25,651	29,651	21,495
3M cash taxes to provision	3,204	8,905	-5,709	-17,056	-2,556
TTM cash taxes to provision	567	-2,143	-10,281	-53,577	129,025



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