

IQE plc

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Cardiff, UK
12 February 2025

Convertible Loan Note Financing

IQE plc (AIM: IQE, "IQE" or the "Company"), one of the leading global suppliers of compound semiconductor wafer products and advanced material solutions, is pleased to announce that, further to the announcement of 18 November 2024, it has entered into subscription agreements with a consortium of existing investors and certain senior executives and Directors, led by its largest shareholder Lombard Odier^[1] (the "Noteholders").

Under the terms of the subscription agreements, the Noteholders have conditionally agreed to subscribe for, and IQE has conditionally agreed to issue, secured zero-coupon convertible loan notes with a conversion price of 15 pence per ordinary share in the Company pursuant to a convertible loan note instrument (the "CLN") (the "Loan Notes") at 85% of the Loan Notes' face value to raise aggregate subscription proceeds for IQE of £18 million (the "Proposed Transaction"). The initial term of the Loan Notes is 12 months, with an option to extend the Loan Notes for a further six months. Full details of the subscription agreements and CLN are set out below at **Appendix 1**.

The CLN will be secured against the Company's assets in the UK and subordinated to the Company's existing financing facility with HSBC UK Bank PLC ("HSBC") which will be amended and restated upon issuance of the Loan Notes. The directors do not expect the need to raise near term capital following the completion of the Proposed Transaction.

No offer or invitation is being made to shareholders more generally to purchase, acquire or subscribe for any of the Loan Notes (as defined below). No application will be made for the admission of the Loan Notes to trading on AIM or any recognised securities exchange.

General Meeting

The issuance of the Loan Notes, and therefore the Proposed Transaction is conditional, *inter alia*, on the passing of resolutions by shareholders (the "Resolutions") at a general meeting of IQE (the "General Meeting"). IQE will shortly send a circular (the "Circular") and a notice convening the General Meeting. The Circular includes, *inter alia*, details of the CLN and the Resolutions, which are being proposed (a) by way of ordinary resolution, to approve the directors' authority to allot ordinary shares with an aggregate nominal value of up to £1,538,823.53, being equal to 153,882,353 new ordinary shares over which rights to subscribe are being granted by the Company pursuant to the issuance of the Loan Notes and, in the event that the conversion of the principal amount of the Loan Notes into new ordinary shares (the "Conversion") does not take place, warrants to subscribe for ordinary shares (the "Warrants"); and (b) by way of special resolution, to empower the directors to allot and issue equity securities for cash on a non-pre-emptive basis with an aggregate nominal value of up to £1,538,823.53, being equal to 153,882,353 new ordinary shares over which rights to subscribe are being granted by the Company pursuant to the issuance of the Loan Notes and, in the event that Conversion does not take place, the Warrants.

As previously announced, the Company is undertaking a Strategic Review which the directors believe will unlock significant unrealised value within the IQE group. The Proposed Transaction is integral to the Strategic Review and the Company's ability to demonstrate financial resilience to both our customers and potential parties to the Strategic Review. Shareholders should be aware that if the Resolutions are not approved at the General Meeting, the Proposed Transaction cannot complete and IQE will not receive the net proceeds from the issuance of the Loan Notes. The directors of IQE independent of the Proposed Transaction, believe that successful completion of the Proposed Transaction is required to maintain sufficient short-term liquidity whilst the Company completes the ongoing strategic review.

The Noteholders who are currently holders of (or who control the exercise of voting rights attaching to) IQE's ordinary shares have each undertaken to vote their existing holdings of ordinary shares in favour of the Resolutions, as set out below.

Noteholder	Ordinary Shares Held	Percentage of Existing Ordinary Shares
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Lombard Odier	145,069,375	15.00%
Artisan Partners LP	32,236,066	3.33%
Killik & Co LLP	11,515,338	1.19%
Bami Bastani	171,000	0.02%
Rodney Pelzel	119,588	0.01%

The General Meeting will be held at the offices of White & Case LLP at 5 Old Broad St, London EC2N 1DW at 10:00 a.m. on Monday 10 March 2025. A copy of the Circular will shortly be available to download from the Company's website at: <https://www.iqep.com/investors/>.

Related Party Transaction

Lombard Odier owns c.15% of the Company and is represented on the Company's board (the "**Board**") by Harmesh Suniara. Accordingly, entry by Lombard Odier into a subscription agreement and the related issuance of Loan Notes to Lombard Odier constitutes a related party transaction under Rule 13 of the AIM Rules for Companies by virtue of Lombard Odier's position as a substantial shareholder in IQE and Harmesh Suniara's representation of Lombard Odier on the Board. As such, Harmesh Suniara has not been involved in the approval of the Proposed Transaction by the Board.

Entry by Mark Cubitt and Bami Bastani into subscription agreements and the related issuance of the Loan Notes to Mark Cubitt and Bami Bastani constitutes a related party transaction under Rule 13 of the AIM Rules for Companies by virtue of their positions as Directors of IQE. Accordingly, neither Mr Cubitt nor Mr Bastani voted on the board resolutions required to approve the Proposed Transaction.

Entry by Tom Dale into a subscription agreement and the related issuance of Loan Notes to Tom Dale constitutes a related party transaction under Rule 13 of the AIM Rules for Companies by virtue of his position as a director of certain subsidiaries of IQE.

The directors of the Company independent of the Proposed Transaction, having consulted with the Company's Nominated Adviser, Peel Hunt, consider the terms of the Proposed Transaction to be fair and reasonable insofar as the Company's shareholders are concerned.

Update on the Strategic Review

The Board believes there is a significant market opportunity in IQE's core operations and remains focused on reducing its cost structure for profitable growth, servicing its customers and maximising value for shareholders. IQE will provide a further update when appropriate. At this stage, there can be no certainty as to the outcome of the review.

The Board remains confident in IQE's long-term prospects because of the Company's leading position in providing advanced compound semiconductors to a base of global marquee customers across several market verticals and the alignment of IQE's core capabilities with broader semiconductor market growth vectors.

Use of proceeds

Following the ongoing strategic review and significant strategic progress detailed above, IQE is undertaking the Proposed Transaction to provide additional short-term liquidity whilst the Company completes its strategic review. The proceeds from the Proposed Transaction will be applied towards the Company's short-term working capital requirements.

Lombard Odier Nominee Director

As previously announced by IQE on 17 May 2023 as part of a previous placing fundraising, Lombard Odier (as a substantial shareholder in IQE participating in such fundraising) was granted the right to nominate a non-executive director to the Board as a representative of funds or accounts managed on a discretionary basis by Lombard Odier, subject to Lombard Odier continuing to exercise or control, directly or indirectly, 12% or more of IQE's ordinary shares. In recognition of the significant additional investment to be made in IQE by Lombard Odier pursuant to the Proposed Transaction, IQE has agreed to grant by Lombard Odier an additional non-executive director appointment right for so long as funds or accounts managed by Lombard Odier continue to hold any Loan Notes.

Mark Cubitt, Executive Chair of IQE, commented:

"We are pleased a consortium led by our largest shareholder is providing this Convertible Loan Note which demonstrates continued support for IQE and belief in its long-term strategy and significant market opportunity. In parallel, IQE continues to make progress on its comprehensive strategic review of its asset base to ensure that it has a strong capital position to further invest in its core operations, with a particular focus on its Taiwan operations, for which all options are being assessed, including a full sale and IPO. IQE will provide further updates as appropriate."

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ABOUT IQE

<http://iqep.com>

IQE is one of the leading global suppliers of advanced compound semiconductor wafers and materials solutions that enable a diverse range of applications across:

- Smart Connected Devices
- Communications Infrastructure
- Automotive and Industrial
- Aerospace and Security

As a scaled global epitaxy wafer manufacturer, IQE is uniquely positioned in this market which has high barriers to entry. IQE supplies the global market and is enabling customers to innovate at chip and OEM level. By leveraging the Company's intellectual property portfolio including know-how and patents, it produces epitaxy wafers of superior quality, yield and unit economics.

IQE is headquartered in Cardiff UK, with employees across eight manufacturing locations in the UK, US and Taiwan, and is listed on the AIM Stock Exchange in London.

IMPORTANT NOTICES

Lazard & Co., Limited ("**Lazard**"), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority, is acting exclusively as financial adviser to IQE and no one else in connection with the Strategic Review and will not be responsible to anyone other than IQE for providing the protections afforded to clients of Lazard & Co., Limited nor for providing advice in relation to the Strategic Review or any other matters referred to in this announcement. Neither Lazard & Co., Limited nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Lazard & Co., Limited in connection with this announcement, any statement contained herein or otherwise.

Peel Hunt LLP ("**Peel Hunt**"), which is authorised and regulated in the United Kingdom by the FCA and is a member of the London Stock Exchange, is acting for the Company in connection with the Proposed Transaction and will not be acting for any other person (including a recipient of this document) or otherwise be responsible to any person for providing the protections afforded to clients of Peel Hunt or for advising any other person in respect of the Proposed Transaction or any transaction, matter or arrangement referred to in this document. Peel Hunt's responsibilities as the Company's nominated adviser and broker under the AIM Rules for Nominated Advisers are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of the Proposed Transaction.

Numis Securities Limited (trading as "Deutsche Numis") ("**Deutsche Numis**"), which is authorised and regulated in the United Kingdom by the FCA, is acting as Joint Broker to the Company and will not be acting for any other person or otherwise be responsible to any person for providing the protections afforded to clients of Deutsche Numis or for advising any other person in respect of the Proposed Transaction or any transaction, matter or arrangement referred to herein. Neither Deutsche Numis nor any of its affiliates (nor any of their respective directors, officers, employees or agents), owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Deutsche Numis in connection with the Proposed Transaction or any statement contained herein or otherwise. No representation or warranty, express or implied, is made by Deutsche Numis as to the contents of this Announcement.

DISCLAIMER

Neither the information nor any opinion contained in this announcement constitutes an inducement or offer to purchase or sell or a solicitation of an offer to purchase or sell any securities or other investments in IQE or any other company by IQE or any of its affiliates in any jurisdiction. This announcement does not consider the investment objective, financial situation, suitability or the particular need or circumstances of any specific individual who may access or review this announcement and may not be taken as advice on the merits of any investment decision. This announcement is not intended to provide the sole basis for evaluation of, and does not purport to contain all information that may be required with respect to, any potential investment in IQE. Any person who is in any doubt about the matters to which this announcement relates should consult an authorised financial adviser or other person authorised under the UK Financial Services and Markets Act 2000.

FORWARD LOOKING STATEMENTS

This announcement contains certain forward-looking statements and information that are based on IQE's beliefs, as well as assumptions made by, and information currently available to, IQE. These statements include, but are not limited to, statements about strategies, plans, objectives, expectations, intentions, expenditures and assumptions and other statements that are not historical facts. When used herein, words such as "anticipate," "believe," "estimate," "expect," "intend," "plan" and "project" and similar expressions (or their negative) are intended to identify forward-looking statements. These statements reflect IQE's current views with respect to future events, are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. Further, certain forward-looking statements are based upon assumptions as to future events that may not prove to be accurate.

Actual results, performance or achievements may vary materially and adversely from those described herein. There is no assurance or guarantee with respect to the prices at which any securities of IQE or any other company will trade, and such securities may not trade at prices that may be implied herein. Any estimates, projections or potential impact of the opportunities identified by IQE herein are based on assumptions that IQE believes to be reasonable as of the date hereof, but there can be no assurance or guarantee that actual results or performance will not differ, and such differences may be material and adverse. No representation or warranty, express or implied, is given by IQE or any of its officers, employees or agents as to the achievement or reasonableness of, and no reliance should be placed on, any projections, estimates, forecasts, targets, prospects or returns contained herein. Neither IQE nor any of its directors, officers, employees, advisers or representatives shall have any liability whatsoever (for negligence or misrepresentation or in tort or under contract or otherwise) for any loss howsoever arising from any use of information presented in this announcement or otherwise arising in connection with this announcement. Any historical financial information, projections, estimates, forecasts, targets, prospects or returns contained herein are not necessarily a reliable indicator of future performance. Nothing in this announcement should be relied upon as a promise or representation as to the future. Nothing in this announcement should be considered as a profit forecast.

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Appendix 1

Subscription Agreements and Convertible Loan Note - Key Terms

Under the terms of the subscription agreements with each Noteholder and the CLN, the Company will issue and each Noteholder shall subscribe for nominal zero-coupon convertible loan notes in an aggregate principal amount of £21,176,470.59 at 85% of the face value, to raise aggregate subscription proceeds of £18 million.

This Appendix 1 summarises the principal terms of the subscription agreements and CLN.

Subscription Agreements

Conditions

The issuance of the Loan Notes by the Company, and subscription for the Loan Notes by the Noteholders, is, *inter alia*, conditional on the satisfaction or waiver of the following:

- the Company obtaining prior approval of shareholders of the Resolutions (the waiver of which can only occur with the consent of the Company) before the end of March 2025;
- amendment to the existing facility agreement with HSBC; and
- certain warranties to be given by the Company to the Noteholders (including power, authority, solvency and compliance warranties) being true and accurate,

and the Noteholders may terminate the Proposed Transaction in certain customary circumstances, including if the conditions set out above are not satisfied or waived, were there to be a market disruption, or were a material adverse change to affect the IQE group.

IQE undertakes to notify the Noteholders in writing as soon as reasonably practicable if it or any Director becomes aware of any matter in consequence of which (i) any of the conditions is not, or if it is reasonable to anticipate has become or will become incapable of being, fulfilled; or (ii) a material adverse change occurs, or any development reasonably likely to involve a material adverse change occurs, prior to issuance of the Loan Notes.

Voting undertaking

Each Noteholder has undertaken to vote their existing holdings of ordinary shares in favour of the Resolutions.

Warranties

Under the subscription agreements, IQE and each Noteholder have provided customary warranties to one another.

Lombard Odier Board Appointment Right

As previously announced by IQE on 17 May 2023 as part of a previous placing fundraising, Lombard Odier (as a substantial shareholder in IQE participating in such fundraising) was granted the right to nominate a non-executive director to the Board as a representative of funds or accounts managed on a discretionary basis by Lombard Odier, subject to Lombard Odier continuing to exercise or control, directly or indirectly, 12% or more of IQE's ordinary shares. In recognition of the significant additional investment to be made in IQE by funds or accounts managed by Lombard Odier pursuant to the Proposed Transaction, IQE has agreed to grant Lombard Odier an additional non-executive director appointment right for so long as funds or accounts managed by Lombard Odier continue to hold any Loan Notes.

CLN

Term

The initial term of the Loan Notes is 12 months. The Company may extend the initial term of the Loan Notes by a further 6 months by written notice to the Noteholders. If extended, on redemption, the Company shall pay the Noteholders the nominal value of the Loan Notes, plus a redemption premium of 9% on each Loan Note.

Transferability

The Loan Notes are not transferable other than by a Noteholder to their affiliates. No application will be made for the admission of the Loan Notes to trading on AIM or any recognised securities exchange.

Ranking

The Loan Notes when issued and outstanding shall rank *pari passu*, equally and rateably, without discrimination or preference among themselves and as secured obligations of the Company.

Security

The Loan Notes are to be secured against the Company's assets in the UK and subordinated to the Company's existing financing facility with HSBC.

Interest

The Loan Notes shall not be interest bearing, other than where there has been an event of default pursuant to the terms of the Loan Notes. The CLN provides for certain events of default including but not limited to suspension or cancellation of trading of IQE's ordinary shares on AIM, material breach of the terms of the CLN, a material adverse change, or change in control, at IQE. Where an event of default occurs pursuant to the terms of the CLN, default interest shall be payable on any outstanding Loan Notes at a rate of 18% per annum above SONIA (as published by the Bank of England).

Key Repayment Terms

Pursuant to the terms of the CLN, IQE is entitled to redeem and repay the Loan Notes at any time prior to their maturity. IQE is required to redeem and repay the Loan Notes following the occurrence of an event of default or other mandatory repayment event and on maturity. Upon service of a redemption notice by IQE, the Noteholders have the right, within 20 business days, to elect for the Conversion of their Loan Notes (rather than to be repaid). If the Noteholders do not serve a Conversion election on IQE during such period, IQE will repay and redeem the Loan Notes and issue the Warrants to the Noteholders, as set out in further detail below.

Conversion

The Noteholders shall have the right to convert some or all of the principal into ordinary shares at a conversion price of 15 pence per share (the "**Conversion Price**") at any time prior to maturity of the Loan Notes, and the Company will have the same right provided IQE's daily volume weighted average price of the ordinary shares over both (i) the period of three months; and (ii) the period of seven trading days prior to the date of service of notice of Conversion by the Company exceeds the daily VWAP on the date of issuance of the Loan Notes by more than 33%.

In addition if it is the Company serving notice of Conversion, the Noteholders may also elect not to proceed to Conversion for any or all of their Loan Notes and instead be cash-settled. In such circumstances, the Company shall pay the Noteholder:

- the nominal value of the Loan Notes, *plus*
- a redemption premium equal to the amount by which the Conversion Price is exceeded by the highest daily VWAP of the Company's ordinary shares over the period of seven trading days prior to the notice of Conversion, *multiplied by*
- the number of the Company's ordinary shares that the Noteholder would have received had it proceeded with Conversion.

In the event that the Company redeems the Loan Notes without the Noteholders electing for Conversion or for cash settlement as above, the Company shall issue the Warrants to the Noteholders. The Warrants will allow the Noteholders to subscribe at a price of 15 pence per ordinary share for such number of the Company's shares as would, based on a subscription price of 15 pence, be equal in value to the amount that the Noteholders would have received on redemption of the Loan Notes. The Warrants will lapse and cease to be exercisable if they are not exercised prior to the third anniversary of the date on which the Loan Notes are issued.

Adjustments

For so long as the Loan Notes remain in issue, the Loan Notes will be subject to adjustment should IQE undertake certain actions that would result in a dilution of the Loan Notes if no adjustment took place.

Such actions comprise (i) any allotment or issue of equity securities by IQE; (ii) any cancellation, purchase or redemption, reduction or repayment of equity securities by IQE; and (iii) any sub-division, consolidation or reclassification of IQE's ordinary shares by IQE.

The number of and / or the Conversion Price for IQE's ordinary shares to be converted as part of any such adjustment shall be determined and certified by IQE's professional advisors or auditors so that the Noteholders will be entitled to receive the same percentage of the issued share capital of IQE carrying the same proportion of votes exercisable at a general meeting of IQE shareholders and the same entitlement to participate in distributions of IQE, as would have been the case had the Loan Notes not been diluted.

^[1] Lombard Odier Asset Management (Europe) Ltd acting as discretionary investment manager or sub-adviser for and on behalf of certain funds and accounts managed by it and / or agent of Lombard Odier Asset Management (USA) Corp acting in its capacity as discretionary investment manager for and on behalf of certain funds and accounts managed by it.

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