



DAQO NEW ENERGY CORP



# Daqo New Energy Corp. Q4 and Fiscal Year 2014 Financial Results Presentation

April 10, 2015

# Safe Harbor Statement

This announcement contains forward-looking statements. These statements are made under the “safe harbor” provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as “will”, “expects”, “anticipates”, “future”, “intends”, “plans”, “believes”, “estimates” and similar statements. The Company may also make written or oral for-ward-looking statements in its reports filed or furnished to the U.S. Securities and Exchange Commission, in its annual reports to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about the Company’s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: the demand for photovoltaic products and the development of photovoltaic technologies; global supply and demand for polysilicon; alternative technologies in cell manufacturing; our ability to significantly expand our polysilicon production capacity and output; the reduction in or elimination of government subsidies and economic incentives for solar energy applications; and our ability to lower our production cost. Further information regarding these and other risks is included in the reports or documents we have filed with, or furnished to, the Securities and Exchange Commission. Daqo New Energy does not undertake any obligation to update any forward-looking statement, except as required under applicable law. All information provided in this press release and in the attachments is as of the date of this press release, and Daqo New Energy undertakes no duty to update such information, except as required under applicable law.

# Agenda

- **Business Highlights and Summary**
- **Financial Results and Update**
- **Q&A**

# Business update and Q4 2014 highlights

- **Record-high polysilicon production volume of 1,791 MT** in Q4 2014, up from 1,748 MT in Q3 2014
- **Cost Structure** – total production cost (including depreciation) of \$13.23/kg and **cash cost of \$10.88/kg** in Q4 2014 compared to \$13.05/kg and \$10.72/kg, respectively in Q3 2014
- **Polysilicon shipments of 1,537 MT** in Q4 2014, compared to 1,598 MT in Q3 2014
- **Wafer shipments of 17.8 million pieces** in Q4 2014, compared to 18.5 million pieces in Q3 2014
- **Polysilicon ASP** was \$20.47/kg in Q4 2014, compared to \$21.50/kg in Q3 2014
- **EBITDA<sup>(1)</sup> of \$14.7 million** (EBITDA margin: 29.6%) in Q4 2014, compared to \$16.4 million (EBITDA margin: 34.7%) in Q3 2014
- **Non-GAAP gross margin<sup>(2)</sup> of 32.1%** in Q4 2014 compared to 31.7% in Q3 2014.
- **Cash provided by operating activities** of \$45.6 million for the 12 months ended Dec. 31, 2014
- **Xinjiang expansion project** progressing well and on schedule
  - Expect to fully ramp up capacity to 12,150MT by the end of Q2 2015

Note:  
(1)  
(2)

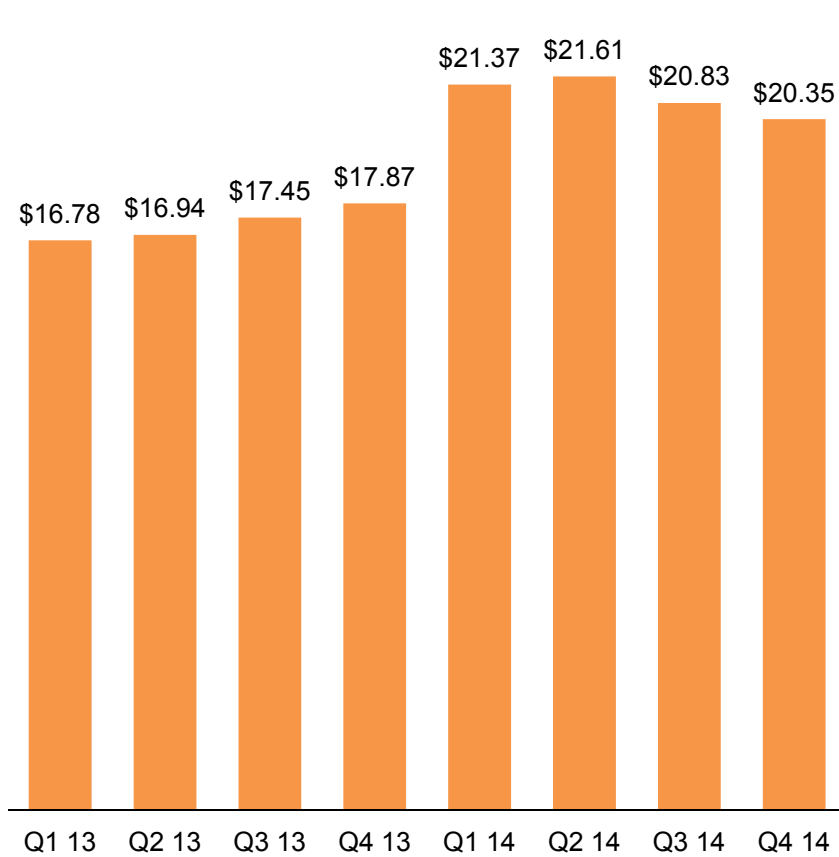
A non-GAAP measure which represents earnings before interest, taxes, depreciation and amortization  
Non-GAAP margin excluded costs of \$3.4 million related to polysilicon operations in Chongqing which halted production in September 2012

## Market update

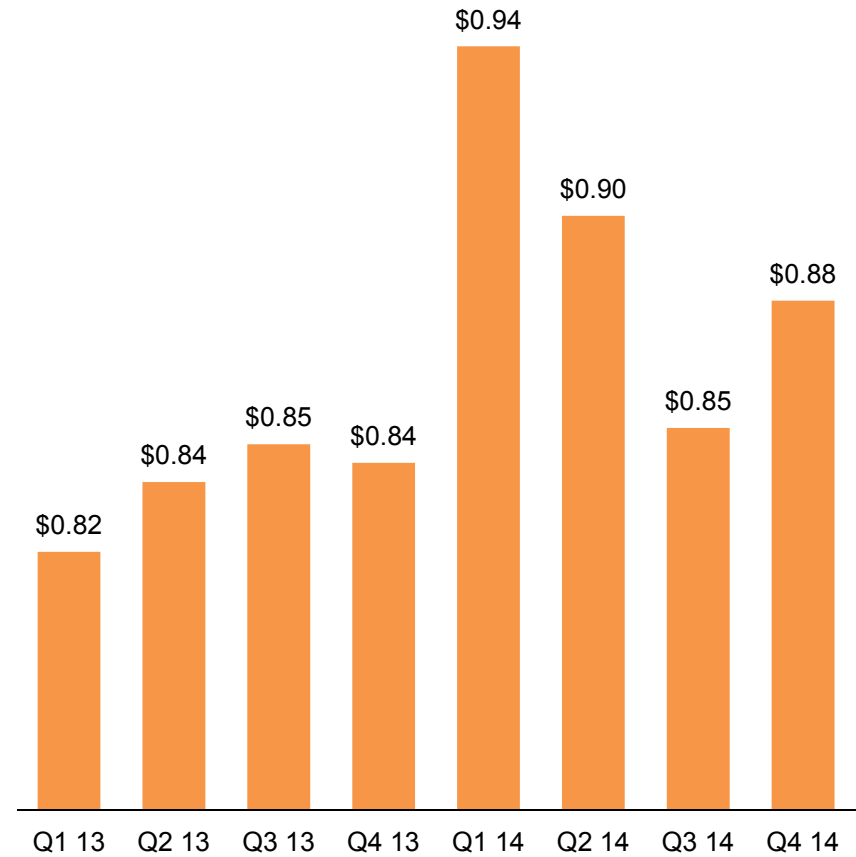
- Polysilicon ASP under pressure in Q4 2014 due to increased import from foreign polysilicon makers. As the existing processing trade agreements of some major foreign polysilicon makers will gradually become expired starting from Q2 2015, we don't expect the import volume to continue to increase in near future.
- Global solar PV installations in 2014 totaled around 45.0 GW, which represents a 23.2% increase compared to 36.5 GW in 2013. Currently most analyst reports forecast that global solar PV installations in 2015 will be in the range of 52~55 GW, which represents growth of 16%~22%.
- In March 2015, Chinese National Energy Administration released 2015's solar PV installation target of 17.8GW, which is 19% higher than the draft target of 15GW, and indicates almost 70% growth from 10.6 GW in 2014.
- Although some additional polysilicon supply may enter into the market mainly in the second half of 2015, we believe the supply and demand of polysilicon will remain in balance, on the premise that the global markets, including China market, will grow as expected.

# Market price trend (PV Insights)

## Polysilicon spot market price (\$/kg)



## Wafer ASP (\$ / piece)



# Xinjiang polysilicon facilities update

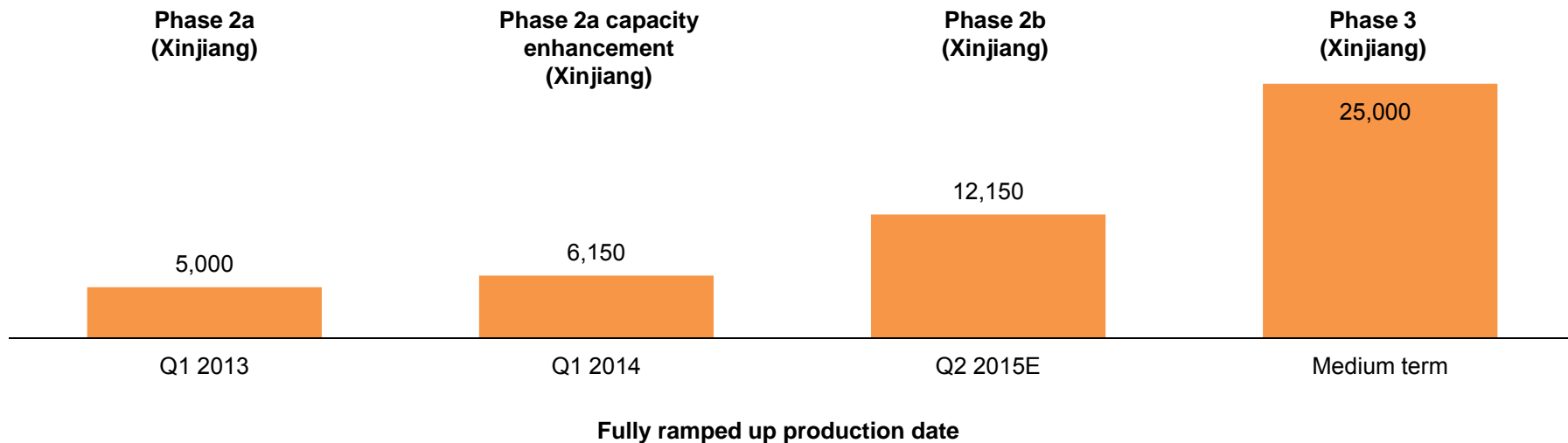
## Q4 2014 key facts

- 1,791 MT production
- 1,537 MT shipment to customers
- Solar Grade I: 100% in Q4 2014
- Q4 2014 production cost (incl. dep'n): \$13.23 / kg
- Q4 2014 cash cost: \$10.88 / kg
- 2014 annual average production cost: \$13.68 / kg

## Outlook

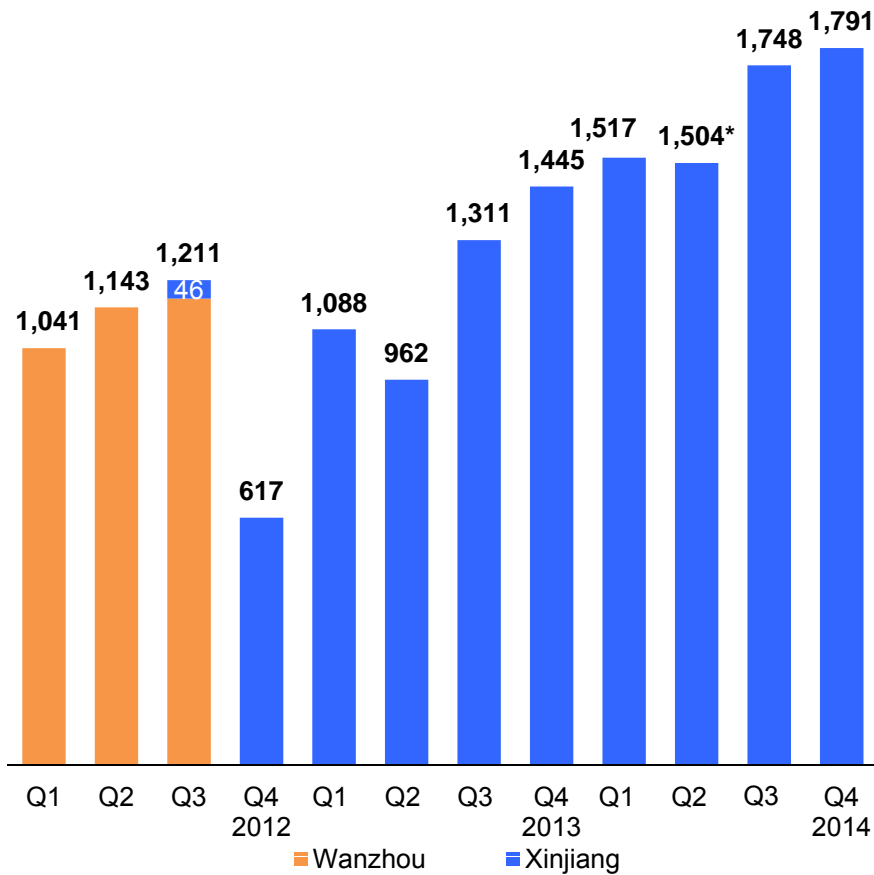
- Expected shipment in Q1 2015: 1,500 MT
- Capacity increase from 6,000 MT to 12,150 MT
  - Fully ramp up by the end of Q2 2015
  - Production cost (incl. dep'n) is expected to reduce to \$12.00/kg when fully ramp up

## Polysilicon historical and projected capacity <sup>(1)</sup> (MT)

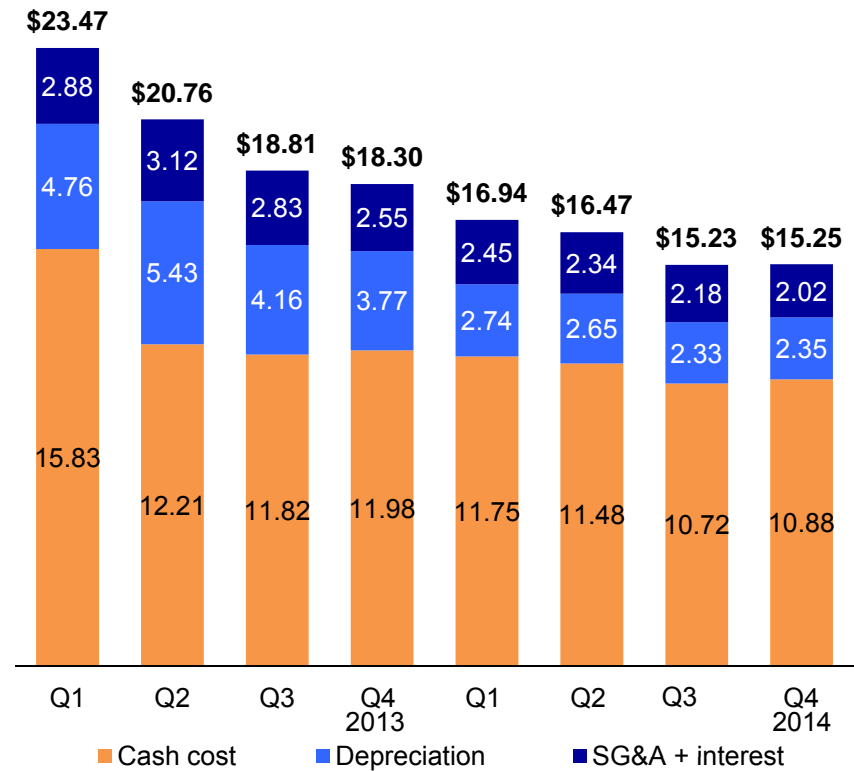


# Polysilicon manufacturing overview

Production Volume (MT)



Production cost, SG&A, interest (\$/kg)\*\*

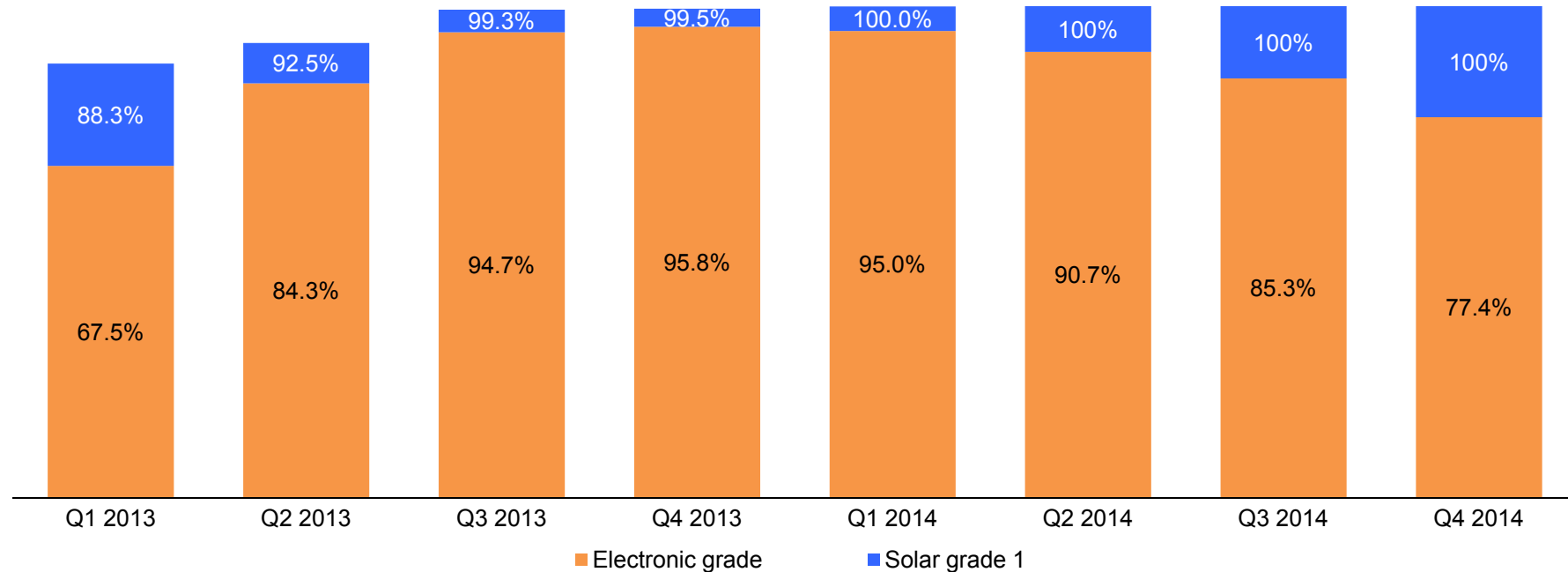


\* In April 2014, The Company conducted annual maintenance which affected production for 5 days.  
 \*\* The cost structures only refer to the production in Xinjiang facilities.



# Consistent first class quality -- 100% Solar Grade 1

Daqo New Energy polysilicon quarterly quality data <sup>(1)</sup>



- Rigorous quality control standards at various stages of manufacturing process
- Test inputs at each stage of manufacturing process to ensure that they meet all technical specifications
- Consistently producing high-quality polysilicon
- In Q4 2014, 100% of our polysilicon met the highest specification of the solar grade quality standard, and approximately 77.4% of our polysilicon met the electronic grade quality standard in China

# Wanzhou wafer facilities update

## Q4 2014 key facts

- 17.8 million pieces shipped to customers



## Outlook

- Q1 2015 wafer shipment expected to be 17.5 –18.0 million pieces



# Historical shipments and Q1 2015 outlook

Shipments	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015E guidance
Polysilicon (MT)	1,271	1,391	1,436	1,598	1,537	1,500
Wafer (million pieces)	16.7	16.8	17.6	18.5	17.8	17.5-18.0
Ingot & block (MT)		-	1.5	5.0	-	-

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- **Business Highlights and Summary**
- **Financial Results and Update  
(Mr. Bing Sun, CFO)**
- **Q&A**

## Q4 2014 financial highlights

- Revenues were \$49.5 million, an increase of 4.6% compared with \$47.3 million in Q3 2014
- Polysilicon production cost of \$13.23/kg in Q4 2014, compared to \$13.05/kg in Q3 2014; cash cost of \$10.88/kg in Q4 2014, compared to \$10.72/kg in Q3 2014
- Gross profit was \$12.6 million, compared with \$11.6 million in Q3 2014
- Non-GAAP gross margin <sup>(1)</sup> was 32.1%, compared with 31.7% in Q3 2014
- Operating income was \$7.6 million, compared with \$9.5 million in Q3 2014
- EBITDA <sup>(2)</sup> was \$14.7 million, compared with \$16.4 million in Q3 2014
- Net income attributable to Daqo New Energy shareholders was \$3.6 million, compared with \$5.9 million in Q3 2014
- Earnings per ADS (basic) were \$0.40, compared to \$0.66 in Q3 2014

Note:

- (1) Non-GAAP margin excluded costs related to polysilicon operations in Chongqing which halted production in September 2012
- (2) A non-GAAP measure which represents earnings before interest, taxes, depreciation and amortization



# P&L summary (Q4 2014 vs. Q3 2014)

US\$ in millions	Q4 2014	Q3 2014	Change	Analysis
<b>Revenues</b>	<b>49.5</b>	<b>47.3</b>	2.2	Polysilicon: Sales ↑, ASP↓ Wafer: Sales ↑,ASP flat
Cost of revenues	(36.9)	(35.7)	(1.2)	
Gross profit (loss)	12.6	11.6	1.0	
<b>Gross margin</b>	<b>25.4%</b>	<b>24.5%</b>	0.9%	
<b>Non-GAAP Gross margin <sup>(1)</sup></b>	<b>32.1%</b>	<b>31.7%</b>	0.4%	
SG&A and R&D expense	(4.9)	(2.7)	(2.2)	i) relocation expense; ii) less reversal of bad debt provision iii) provision of equipment prepayment in Q4.
Other operating income	(0.06)	0.6	(0.54)	
<b>Operating income (loss)</b>	<b>7.6</b>	<b>9.5</b>	(1.9)	
Net interest expense	(4.1)	(3.5)	(0.6)	Interest charge for discounting bank notes ↑
<b>Net income attributable to Daqo New Energy shareholders</b>	<b>3.6</b>	<b>5.9</b>	(1.7)	
Diluted earnings per ADS (US\$)	<b>0.40</b>	<b>0.66</b>	(0.26)	
<b>EBITDA <sup>(2)</sup></b>	<b>14.7</b>	<b>16.4</b>	(1.8)	SG&A ↑
<b>EBITDA margin <sup>(2)</sup></b>	<b>29.6%</b>	<b>34.7%</b>	(5.1%)	

Note:

(1) Non-GAAP margin excluded costs related to polysilicon operations in Chongqing which halted production in September 2012

(2) A non-GAAP measure which represents earnings before interest, taxes, depreciation and amortization



# Non-GAAP reconciliation – EBITDA and gross margin

US\$ in millions	Q4 2014	Q3 2014	Change
Net income (loss)	3.6	5.9	(2.3)
Income tax expenses	-	-	-
Interest Expense	4.0	3.6	0.4
Interest income	(0.03)	(0.16)	0.13
Depreciation	7.1	7.0	0.1
<b>EBITDA <sup>(1)</sup></b>	<b>14.7</b>	<b>16.4</b>	<b>(1.7)</b>
<b>EBITDA margin <sup>(1)</sup></b>	<b>29.6%</b>	<b>34.7%</b>	<b>(5.1%)</b>
<b>Gross profit / (loss)</b>	<b>12.6</b>	<b>11.6</b>	<b>1.0</b>
Costs related to Chongqing poly facilities	3.3	3.4	(0.1)
<b>Non-GAAP gross profit <sup>(2)</sup></b>	<b>15.9</b>	<b>15.0</b>	<b>0.9</b>
<b>Non-GAAP gross margin <sup>(2)</sup></b>	<b>32.1%</b>	<b>31.7%</b>	<b>0.4%</b>

Note:

(1) Non-GAAP margin excluded costs related to polysilicon operations in Chongqing which halted production in September 2012

(2) A non-GAAP measure which represents earnings before interest, taxes, depreciation and amortization



# Polysilicon Inventory

Inventory (MT)	Q4 2014
Beginning of the period	47
Production during the period	1,791
External shipments	(1,537)
Internal shipments (to internal wafer sector)	(279)
End of the period	22

Currently our average daily polysilicon output is around 18 to 20 MT.



## P&L Summary (FY2014 vs FY2013)

US\$ in millions	2014	2013	Change	Analysis
<b>Revenues</b>	<b>182.6</b>	<b>109.0</b>	<b>73.6</b>	Poly : Sales↑, ASP↑ Wafer: Sales↑, ASP↑
Cost of Revenues	139.3	135.1	4.2	
Gross profit (loss)	43.3	(26.1)	69.4	Poly : ASP↑, Cost ↓; Wafer: ASP↑, Cost ↓;
<b>Gross margin</b>	<b>23.7%</b>	<b>(23.9%)</b>	<b>47.6%</b>	
SG&A + R&D expenses	11.8	21.5	(9.7)	Reversal of Bad debt provision ↑
Fixed assets impairment loss	-	158.4	(158.4)	2013: Chongqing Poly facilities
Other operating income	0.6	5.4	(4.8)	Government subsidy↓;
<b>Operating income (loss)</b>	<b>32.0</b>	<b>(200.6)</b>	<b>232.6</b>	
Net interest expense	15.3	19.2	(3.9)	Loan balance↓
Net income (loss) attributable to non-controlling interest	-	(150.1)	150.1	VIE excluded in 2014
<b>Net income attributable to Daqo New Energy shareholders</b>	<b>16.7</b>	<b>(70.9)</b>	<b>87.6</b>	
Non-GAAP Operating income (loss) (Excluding fixed asset impairment losses)	32.0	(42.2)	74.2	
Diluted earning per ADS (US\$)	1.97	(10.25)	12.22	

Note:

\* A non-GAAP measure which represents earnings before interest, taxes, depreciation and amortization

## Balance sheet summary

US\$ in millions	12/31/2014	6/30/2014	Change (Q4 2014 vs Q3 2014)	12/31/2013
Cash and restricted Cash	29.2	30.0	(0.8)	16.7
Accounts receivable	8.7	6.8	1.9	9.9
Notes receivable	50.2	36.8	13.4	15.9
Inventories	9.6	11.3	(1.7)	10.5
Prepaid land use rights	29.0	29.5	(0.5)	30.4
Net PP&E	559.0	517.9	41.1	488.5
<b>Total assets</b>	<b>710.1</b>	<b>656.6</b>	<b>53.5</b>	<b>610.2</b>
Short-term Borrowings	159.8	129.9	29.9	118.9
Notes payable	48.9	28.7	20.2	1.6
Amt due to related party	89.7	74.7	15.0	88.5
Long-term Borrowings	77.3	116.6	(39.3)	134.9
<b>Total liabilities</b>	<b>503.4</b>	<b>451.4</b>	<b>52.0</b>	<b>472.9</b>
<b>Total equity</b>	<b>206.8</b>	<b>205.2</b>	<b>1.6</b>	<b>137.3</b>
<b>Total liabilities and equity</b>	<b>710.1</b>	<b>656.6</b>	<b>53.5</b>	<b>610.2</b>

# Cash flow summary

US\$ in millions	12 months ended Dec. 31, 2014	9 months ended Sep. 30, 2014	12 months ended Dec. 31, 2013
<b>Net cash provided by operating activities</b>	<b>45.6</b>	<b>47.7</b>	<b>(16.5)</b>
<b>Net cash used in investing activities</b>	<b>(90.6)</b>	<b>(81.0)</b>	<b>(30.7)</b>
<b>Net cash provided by financing activities</b>	<b>44.3</b>	<b>38.1</b>	<b>48.8</b>
Effect of exchange rate changes	(0.1)	(0.0)	(0.5)
Net increase in cash and cash equivalents	(0.7)	4.8	1.2
Cash and cash equivalents at the beginning of the period	7.8	7.8	6.6
Cash and cash equivalents at the end of the period	7.1	12.6	7.8

- As of Dec. 31, 2014, the company recorded capital expenditure of \$81.1 million on XJ Phase 2b, of which \$18.1 million incurred in Q4 2014. We expect to further spend \$56.4 million and \$14.4 million for Phase 2b in 2015 and 2016, respectively.
- As of 12/31/2014 and 9/30/2014, the unused line of credit were \$8.5 million and \$4.8 million, respectively.

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