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CORPORATE PARTICIPANTS

Paul R. Oldham *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yeuk-Fai Mok *Advanced Energy Industries, Inc. - VP of Strategic Marketing & IR*

Yuval Wasserman *Advanced Energy Industries, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Amanda Marie Scarnati *Citigroup Inc, Research Division - Semiconductor Consumable Analyst*

Franco Rafael Granda Penaherrera *D.A. Davidson & Co., Research Division - Research Associate*

Krish Sankar *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Mehdi Hosseini *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Pavel S. Molchanov *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Quinn Bolton *Needham & Company, LLC, Research Division - Senior Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by, and welcome to the Second Quarter 2019 Advanced Energy Industries Earnings Call. (Operator Instructions)

Now it's my pleasure to turn the call to Edwin Mok, Vice President of Strategic Marketing and Investor Relations. Please go ahead.

Yeuk-Fai Mok - *Advanced Energy Industries, Inc. - VP of Strategic Marketing & IR*

Thank you. Good morning, everyone. Welcome to Advanced Energy's Second Quarter 2019 Earnings Conference Call. With me today are Yuval Wasserman, our President and CEO; Paul Oldham, our Executive Vice President and CFO; and Brian Smith, our Director of Investor Relations. If you have not seen our earnings release, you can find on our website at ir.advanced-energy.com. There, you will also find a slide presentation to follow along our discussion today.

Before we begin, I'd like to mention that in the coming months, Advanced Energy will participate at investor conference hosted by KeyBanc, Needham & Company, Jefferies, D.A. Davidson and Citi. As our events occur, we will make additional announcements. And now let me remind you that today's call contains forward-looking statements, which are subject to risks and uncertainties that could cause actual results to differ materially and are not guarantees for future performance. Information containing these risks and uncertainties is in our filings with the SEC and can be found in today's press release as well as our presentation. All forward-looking statements are subject to management's estimates, projections and assumptions as of today, August 6, 2019, and this company assumes no obligation to update them. In addition, long-term targets or aspirational goals present today should not be interpreted as in any respect as guidance. Today's call also includes Advanced Energy non-GAAP financial measures, an explanation of these measures as well as reconciliations between GAAP and non-GAAP measures are contained in our press release and our presentation.

With that, let me pass the call to our President and CEO, Yuval Wasserman. Yuval?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Thank you, Edwin. Good morning, everyone, and thank you for joining us on this call. Our results in the second quarter reflect the solid operating performance with strong earnings, sequentially higher cash flow and revenues in line with our guidance range. We are executing effectively in an increasingly challenging market environment, optimizing our cost structure, while investing in strategic technologies and product development programs. The adoption of these technologies into our customers' next-generation products has already started to generate results, and I believe our pipeline of new technologies is positioning AE to deliver strong future revenue growth across our portfolio. Lastly, during the quarter, we announced the agreement to acquire Artesyn Embedded Power, which we believe, will provide larger, diversified platform for more balanced and steady earning growth going forward. Let me start with a quick update on the Artesyn acquisition. Teams at both AE and Artesyn have made great progress towards closing. We have secured all necessary regulatory approvals and the Artesyn team is on track in executing on the carve-out plan. Based on our current plan and progress, we are confident the acquisition will be closed at around the middle of the second half of 2019. As we indicated when we announced the deal, the addition of Artesyn Embedded Power will transform AE from a predominantly semiconductor power company into a highly diversified industrial technology powerhouse. Our addressable market will triple to about $7.5 billion and with the expanded capabilities across critical power technologies in telecom 5G, datacenter, hyperscale, industrial and medical markets, we expect to deliver significant value to all of our stakeholders. We are extremely excited about the opportunities for the combined company to create a platform for accelerated earnings growth.

Turning now to a summary of the second quarter. In semiconductor, our Q2 results and outlook reflect a further softening of demand from memory fabs as expected. With continued softness in memory prices and push-outs of capital investments by device makers, many of our OEM customers continue to work down the excess equipment inventory. That said, total sales from our 2 largest customers were sequentially stable in Q2. And in recent weeks, we have seen increased orders related to near-term investments in foundry/logic. We believe this is a further sign of our semi business reaching a more stabilized level. Despite the continuing expected decline in memory, we believe that our semi business in Q3 will be flat to the Q2 level, driven by our content in foundry/logic, and early revenues from recent share gain in RF.

Our continuing investment in Advanced Power Solutions is differentiating AE. As our customers develop next-generation manufacturing tools, processes and solutions, the adoption of our technologies is increasing across the industry. Using AE's technologies, our customers have started to ship next-generation beta equipment to semi fabs for qualification in advanced etch and deposition for leading-edge memory and logic processes. In last quarter call, we disclosed a critical design win for RF matching network. This win has already started to drive incremental revenue for AE, allowing us to grow our RF match sales to this leading customer by more than 30% from the second half of 2018 to the first half of 2019. In addition, we see expanded opportunities in RF as this win and other more advanced development with our customers confirm the increased importance of advanced power controls, such as dual frequency RF matching. More broadly, there is an increased focus on new memory device architectures and materials, including MRAM, phase change memory and ReRAM as the industry looks to these emerging technologies to address challenging requirements for AI and cloud applications. We see these technology inflection expanding AE's opportunities as our OEM customers create new deposition and etch processes that typically come with new and complex power delivery and control requirements.

For example, this quarter, we won a new power delivery solution for a next-generation tool designed for new memory technology development. Finally, we continue to gain momentum in Korea, securing 6 new design wins across multiple OEM customers, applications and device types during the quarter. Combined, we believe these wins clearly illustrate AE's technology leadership, particularly in next-generation application requiring advanced process power solution. Overall, these programs are already delivering early revenues and should enable AE to grow our market share and maintain our technology leadership for years to come.

Turning to our industrial business. While the second quarter came in largely as we had expected, it revealed our industrial business is not immune to the overall macro environment in the industrial sector. Consumer electronics related investment in flat panel displays and hard coating further weakened in Q2; and macro headwinds in certain geographies, most notably Europe, pressured demand for some of our products. Solar remains a bright spot in our industrial market as we saw some of our customers accelerate investment during the quarter. Looking forward, we now expect the industrial revenue in the second half of the year to be similar to the first half level and more Q4 weighted. Macroeconomic headwinds continue to limit growth in several of our industrial markets, partially offset by recovery in display investment and ramp-up of several new design wins later this year. Most notably, we secured a new project for smart safety security system that utilizes our unique, compact custom power supply. Our combined portfolio of high and low voltage offerings also enabled AE to win multiple designs across medical and industrial applications.

Moving on to service. Despite the divestiture of the central inverter service business in May, revenue was flat sequentially in Q2 and up year-over-year. However, growth was constrained by lower fab utilization, signs of delayed to upgrades and some memory fabs beginning to convert capacity to other device types. As a result, we expect service revenues to be down slightly for the second half; and excluding the solar inverter business, full year growth to be in the mid- to high-single digits. Long term, we continue to target greater than 10% annual growth, driven by our expanded global footprint, new service offerings and growing installed base.

In summary, we continue to operate in challenging market conditions and with low visibility. I'm pleased with our performance and believe that we are executing well in our core markets and that our strategy to expand into new power-related market and applications will pay significant dividends in the future. We believe our continuing focus R&D investments are delivering results as we enable our customers' technology road maps, while increasing our position as a critical technology partner. Lastly, I'm very pleased with our progress towards closing the acquisition of Artesyn Embedded Power, which will expand our addressable market, broaden our portfolio, penetrate new verticals and unlock significant shareholder value. I'd like to thank our customers, shareholders, partners and our valued employees for your support. I look forward to seeing many of you in the upcoming quarter.

With that, let me turn the call over to Paul. Paul?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Thank you, Yuval, and good morning, everyone. Before I begin, let me note that this quarter had a couple of special items in the financial results. The first is that we sold our U.S.-based central inverter service operation in exchange for assumption of our initial and long-term warranty obligations. The financial effect of this transaction on our GAAP results was a noncash gain of $11.5 million net of tax in continuing operations and another $8.6 million in discontinued operations. Second, we recognized $1.8 million in restructuring costs, consistent with our guidance last quarter and $1.5 million in costs related to the Artesyn acquisition. Excluding these items as well as stock compensation and amortization, our non-GAAP earnings were $0.45 per share. In addition, we recognized a discrete credit to tax expense this quarter, which contributed approximately $0.05 to our non-GAAP earnings. As a result, on a normalized basis, our non-GAAP earnings per share was at the high end of our guidance range, with revenues at the midpoint due to good expense control that favorably impacted both cost of goods sold and operating expenses.

Total revenue for the quarter was $134.8 million, down 4.2% from last quarter and 31.2% from our peak revenues a year ago. Product revenue fell 5% sequentially to $106.2 million, and service revenue was flat at $28.6 million.

Looking at product sales by market. Semiconductor revenue in the quarter was $65.1 million, down 3.6% from last quarter and 48.9% year-over-year. If you combine our semiconductor product and service revenue, our total sales into the semiconductor market declined 1.5% sequentially and 39.8% compared to last year, which was about as expected. Looking deeper into our quarter, product revenues at our 2 largest customers increased sequentially, offset by lower revenue from Korea and China.

Looking forward, we expect semi product revenue to be approximately flat in Q3 with further weakness in memory investments, largely offset by near-term demand for logic- and foundry-related investments and early benefit of recent RF share gains. In general, this dynamic supports our view that our semiconductor revenues will continue to fluctuate around these levels in the near term. However, based on industry forecasts, the timing of recovery in memory appears to be pushing out into the second half of next year, which could put additional pressure on demand over the next few quarters. Industrial Technologies revenue was $41.1 million, a decrease of 7.8% from the first quarter and down 2% from last year. Our sales into advanced materials processing applications were impacted by continued softness in flat panel display and consumer electronic coatings as well as a weakening overall industrial environment. This was partially offset by another solid quarter in solar.

Looking forward, we expect the ongoing macro headwinds to continue into the third quarter. As a result, we expect our Industrial business to be down sequentially, but improve in the fourth quarter on shipment of new design wins and timing of projects in solar. Service revenue for the quarter was flat sequentially and up 6.8% year-over-year. As we discussed early in the quarter, we divested our U.S. solar inverter service business, which contributed approximately $1.9 million of revenue in Q1 and approximately $600,000 in Q2. We also began to see the effects of lower fab utilization, the power outage at a leading Japanese NAND chip maker and capacity reductions or reallocations in the memory sector, which we

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expect to have an increasing effect over the balance of the year. As a result, we now project our service revenues to decline modestly in Q3 and remain at similar levels for the next couple of quarters as our programs to grow share and new service offerings partially offset the slower environment.

Gross margin for the first quarter was 47.6%. On a non-GAAP basis, gross margin was 47.7% compared to 47% last quarter. Gross margins increased sequentially largely due to our operations team driving efficiency in the face of lower volumes.

Looking to Q3. We expect adjusted gross margins to be in the 47% range. GAAP operating expenses in Q2 decreased sequentially to $53.1 million, largely due to lower stock compensation expense. In addition, as I mentioned, we incurred $1.5 million in acquisition-related costs and $1.8 million in restructuring costs, primarily related to the integration of previous acquisitions, including the consolidation of our LumaSense operation into existing facilities and ongoing efforts to improve efficiency.

Non-GAAP operating expenses came in at $47 million, which was up from $45.8 million last quarter, but at the low end of our quarterly target range of $47 million to $48 million as a result of our efforts to manage discretionary and other costs. Looking forward, we have lowered our non-GAAP operating expense target for the remainder of 2019 to be between $46 million and $47 million per quarter, while continuing to invest in strategic programs.

GAAP operating margin for the quarter was 8.2% compared to 8.4% last quarter. Non-GAAP operating margin was 12.8% compared to 14.5% in Q1. In Q2, we recorded GAAP net tax expense from continuing operations of $3.2 million, reflecting a 12% tax rate. On a non-GAAP basis, the effective tax rate was 5.8%, well below our model due to the credit I discussed previously. Longer term, we continue to expect our GAAP and non-GAAP tax rate to return to our normal range of around 15%.

On a GAAP basis, earnings per diluted share from continuing operations for the second quarter were $0.61 compared to earnings of $0.40 last quarter and $1.17 last year. The sequential increase was driven by the gain from the sale of the inverter service business. Non-GAAP EPS for the quarter was $0.45, above the high end of our guidance range due to better-than-expected gross margins, lower-than-expected operating expenses and the tax benefit. This compares to $0.58 in the first quarter and $1.25 a year ago.

Turning now to the balance sheet. Operating cash flow from continuing operations was $11.5 million and our cash and marketable securities balance rose to $360 million. Overall, net working capital was down for the quarter. Our receivable balance decreased by $9 million as DSO fell to 62 days. Inventory decreased by $6 million, which included approximately $4 million related to the sale of our service inverter business and turns were 2.9x.

Capital expenditures for the quarter were $6.4 million, and depreciation was $2.3 million. The higher capital spending was primarily related to our expanded footprint in Colorado, the new manufacturing facility in Malaysia, and our new service and engineering lab in Israel, which we opened this quarter. We expect full year 2019 CapEx to be within the range of [$15] million to $20 million. During the quarter, we did not repurchase any shares.

Now let me turn to guidance. For the third quarter, we expect revenues to be $128 million, plus or minus $5 million on relatively flat semi and sequentially lower industrial and service revenues. We project Q3 non-GAAP earnings at $0.33, plus or minus $0.05 per share.

In summary, our team executed effectively in a difficult environment, improving our cost structure, increasing cash flow and delivering non-GAAP earnings at the high end of our range. These improvements allow us to increase our near-term gross margin target by 100 to 150 basis points even with the lower volume and reduce our operating expenses target for the remainder of the year. Further, we have a rich set of opportunities, both in semi and industrial markets, and our pipeline of successful design wins gives us the confidence that we have the right products and technologies to compete and win.

Finally, the addition of Artesyn Embedded Power will diversify AE's end markets, expand our product portfolio and provide a platform to deliver accelerated earnings growth going forward.

With that, we will open the call to your questions. Operator?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Hello, operator. Hello, Carmen, are you there?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Amanda Scarnati from Citi.

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Amanda, are you there?

Amanda Marie Scarnati - *Citigroup Inc, Research Division - Semiconductor Consumable Analyst*

Can you hear me?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Now we can.

Amanda Marie Scarnati - *Citigroup Inc, Research Division - Semiconductor Consumable Analyst*

A quick question first on the non-semi side of the business. So you mentioned seeing somewhat of a macro pause or a concern via the macro environment. Do we need to see some sort of resolution on trade in order for that business to pick up? Or do you have enough insight into the December quarter to really be confident about that business picking back up again in December?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

So as you can -- you may observe what's happening right now globally, it's more than 1 driver that drives the behavior of our industrial business. It's -- first of all, very lumpy business. The combination of macro economical drivers, including trade wars, including tariffs, including various aspect of industries and regions like Europe and Asia that affected the mix of products and applications we serve. We -- as we said earlier, we expect the second half to be similar to the first half, which means in Q4, we expect to see an increase in our industrial business.

Amanda Marie Scarnati - *Citigroup Inc, Research Division - Semiconductor Consumable Analyst*

Okay. And then on the semiconductor side of the business, you mentioned that you were [talking] stability with your top 2 customers in semis, yet, you were still down a little bit. Is the expectation that we're still sort of bouncing around the bottom, but hope that what we're seeing in logic and foundry is going to help Advanced Energy against its peers in the space, just because you have a little bit more exposure on that end versus memory.

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

That is correct, Amanda. Our exposure is very diverse, and we have high content in foundry and logic as we have in memory, aided by recent market share gain in RF, that transition to significant revenue -- incremental revenue generation. All helped us in the revenue projection that we have talked about, especially in North America. Obviously, we see a difference in dynamic between North America and Asia, both in terms of projected revenue and in terms of the current level of inventories that the OEMs have.

Amanda Marie Scarnati - *Citigroup Inc, Research Division - Semiconductor Consumable Analyst*

So inventories are now a little bit more normalized on your end?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

I think the -- I can't analyze our customers' inventories. But I think the inventory levels are -- depends on mix. It's the mix of IC devices our customers serve and the mix of customers are served. For that reason, it's a non-uniform picture. We cannot make a comment that all the inventories level behave the same. They're strongly dependent on the device mix, end user mix and the level of finished goods inventory our customers have.

Operator

Our next question is from Mehdi Hosseini with SIG.

Mehdi Hosseini - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

A couple of follow-ups. I just want to reconcile your commentary about the memory market. I think you mentioned that you don't see a recovery until second half of next year. Is that your customers' shipment pickup that you're referring to? Or is that AE's expected rebound? I'm just trying to figure out...

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Mehdi, this is based on information we gather from various resources in the market. It's just general. I would say, general market consensus. We do not analyze our customers' business. We're not trying to be industry forecasters. What we say basically based on the common consensus in the market, this is what we observe.

Mehdi Hosseini - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

So if memory spending would pick up in the second half of next year, should we assume that your customer would start ramping building systems by, like, June of next year?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

If memory will start recovering the second half of next year, I assume that what you said is correct.

Mehdi Hosseini - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Okay. And then in terms of the lower OpEx that you guided to, I believe, you said $46 million to $47 million for the second half of '19, is that -- how should I put this in the context of cost synergies associated with Artesyn? Is a part of that? Or is that additional cost savings or the cost cuttings that you're pursuing?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, this is essentially efficiencies and improvements in the cost structure for AE prior to the Artesyn acquisition. So any Artesyn synergies would be in addition to those numbers. And we think, as you've all stated, we continue to accelerate the integration of our current acquisitions to work on efficiency. I think those actions are -- you're seeing the benefit of those. Despite our continued investment in new products and some capabilities, as you noticed, in getting closer to the customer, things that we think will drive growth in the long term. So we're actually offsetting some small increases in investment with these actions to deliver a better cost -- a little better cost structure in this environment.

Operator

Our next question is from Quinn Bolton with Needham & Company.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

The mix towards foundry/logic, many of the OEMs that have half or more of their business to foundry/logic have actually started to guide up for the September quarter. And knowing that you're skewed a little bit more to foundry/logic, I guess, I'm surprised you're not seeing better strength on that side of the business. I know it's helping you to offset continued weakness in memory, but, I guess, some of the OEMs have actually been able to guide up. I'm wondering if the reconciling factor is just continued inventory corrections at some of the OEMs, perhaps on the more memory-driven equipment. And then a related question. You've mentioned that your top 2 OEMs were up in the June quarter, but Korea and Chinese customers were down. Are the Korean and Chinese customers more memory-driven? And then I've got a couple of follow-ups.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, it's a really good question, Quinn. Memory is the larger part of our business. It's the larger part of our exposure. If you recall, we're about 1/3 and a 1/3 and a 1/3 exposed to NAND, DRAM and foundry/logic. So clearly, we're seeing some recent uptick in foundry/logic, but memory is weaker. I think that's consistent kind of broadly across the industry. And so it is having an offsetting effect rather than us guiding up. If we were 50-50 or even higher foundry/logic, then it could be up, but clearly, we're seeing that offset. And your commentary is right. The Asian competitors are essentially memory -- heavily memory concentrated. Our customers -- our customers are heavy memory concentrated, and that's why they're moving down, whereas we're seeing -- where we have more balanced exposure, more of an offset.

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

And within the memory landscape, Quinn, we see a different level of inventories among different OEMs.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. Okay. That makes sense. The second question about the industrial strength, just trying to put some rough numbers around September, if semi business is flat, the service business is down slightly. It looks like industrial is probably down 10% or more to get to the midpoint of the guided range. And so if I then look forward to the fourth quarter, where you're saying the industrial business will be flat half-over-half. If my numbers are right, it's implying about a 30% increase to the high $40 million range in the December quarter. And you talked about that business being affected by the macro, and clearly the macro, I think, with trade uncertainty is uncertain. And so it seems like you must have some design wins that are ramping to production to give you that confidence. I'm just wondering, one, if you could confirm that my math is in the right ballpark; and two, give us a little bit more color on some of those industrial programs that ramp for you in the fourth quarter?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, I think your math is broadly right. And obviously, it's directional. But we said in our prepared remarks that the business is lumpy, in particular, timing of solar projects will make a difference here and the timing of ramp of design wins, which -- that's the timing that we see that happening. So it's not so much conditioned on a recovery, if you will, to your question, and to Amanda's earlier question is more related to timing of projects as we see things right now, which could move a little bit, but that's how we see them today.

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Yes, Quinn, directionally you are correct. You're correct directionally. A lot of it has to do with timing of some significant projects that could materialize in Q4 and will drive the rate that you mentioned.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Did you say those were solar projects, mostly in Q4? Or is it much more diversified that just...

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Design wins and solar projects, not only solar projects.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Great. And then my last question -- sorry to be the pain, the guy who asks, but MKS on their call talked about winning a third design win in conductor etch for critical application. I know you guys have addressed some of these claims from your competitor in the past. Just wanted to give you the forum to address this latest design win claim, if you care to comment?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Yes, sure, why not. It's always fun to have this ping-pong game. We secured all meaningful design win positions in conductor etch. Our design wins are significant. And in general, if you look at our behavior right now in terms of revenue projections, into the future, you will notice that our revenue projection in semi is different than peer companies. The key drivers are 2. Our content in foundry/logic and the incremental revenue we generate from design wins in RF. And we have generated significant RF design wins, that are basically materialized to incremental revenue right now. So obviously, we operate in a business that is a design win business, and all players have design wins and design losses, right? We win all the significant important revenue-generating design wins.

Operator

Our next question is from Krish Sankar with Cowen and Company.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I have 2 of them. First one, there was no buyback in the quarter? Was it tied to more the pending Artesyn acquisition or something else going on?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, it's a good question, Krish. We have essentially paused our buyback program. It's an opportunistic program that we could turn off or on at any time, given the circumstances. But our view right now is we have a large acquisition pending and we'd like to see that through. It's also somewhat uncertain environment. So we'll be a little bit cautious, and we'll monitor the environment as we go forward. Certainly, we want to be opportunistic with that program, and we have the capacity and flexibility if needed to repurchase shares but for the quarter we put it on pause.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. Got it. And then, this was a follow-up. My understanding was that you guys -- relatively speaking, on the etch platform, you guys had more strength in conductor etch over dielectric etch, a, that is true; and b, if so, when foundry/logic comes back better than memory, would that benefit you? Or would it benefit dielectric etch power supply growth?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

So Krish, you're right. Historically, our content and leadership in conductor etch was really vast. And our position in the market was a strong leader in conductor etch. We have presence in dielectric etch in multiple locations, but the lion share of our etch revenue is related to conductor etch. We expect to benefit from the foundry/logic recovery, not only because of the fact that we have content in conductor etch, just because of the fact that we have content in foundry/logic across multiple, multiple applications, etch, deposition, ion implantation, inspection, metrology, et cetera. So our footprint in terms of application presence is very broad. And as you see, the recovery that we see right now in foundry/logic was one of the reason we project a much better profile into our semi revenue projection for the future.

Operator

Our next question is from Tom Diffely with D.A. Davidson.

Franco Rafael Granda Penaherrera - *D.A. Davidson & Co., Research Division - Research Associate*

This is actually Franco in for Tom. A little bit on the competitive environment, touching on Quinn's question earlier, you announced several design wins, especially on the semi side. Could you perhaps talk about what is enabling these wins? And are they displacements? Or simply new business for you guys?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Well, in general -- design wins in general happen when an opportunity occurs, when a socket is open at a customer new tool or an improved tool. And the design win usually is an effort to win against 1 or 2 competitors usually. So what happens in design wins, it's rarely that you have displacements of a supplier in a current product offering. Most likely the design win occurs when a socket opens in a new tool and application and you win the socket. That's basically dynamic. In our case, the recent incremental revenue growth that we saw in semi in North America with a projection continuing growth is a result of a design win in the RF match business, that obviously was won over a competitor, but will generate incremental revenue we did not have before. I hope that helps you.

Franco Rafael Granda Penaherrera - *D.A. Davidson & Co., Research Division - Research Associate*

Yes. And then secondly, on the Artesyn acquisition, you guys talked about the $40 million in synergies that you expect to realize over time, but are you seeing any revenue synergies that could come from this acquisition once it closes?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Absolutely. First of all, we need to close the (technical difficulty) the acquisition is right now between sign and close. But as we presented and talked about this opportunity publicly, we expect to see revenue synergies coming from 2 areas. One area is taking Artesyn products, which is auxiliary power suppliers into the semi industry, where we have great presence; and the other is developing new products, which is a combination of AE, RF technology and Artesyn low voltage technology to advanced medical applications. These are just 2 example. We're very excited about the opportunity. But right now, as we look at these opportunities, we did not include them in our model. When we talked about this business, we did not include any revenue synergies. This will be an upside, and it's going to be an exciting upside.

Franco Rafael Granda Penaherrera - *D.A. Davidson & Co., Research Division - Research Associate*

Exciting times. And then, could you perhaps talk to -- last question from me. Could you perhaps talk about the distribution agreement that you signed with Emtron in the quarter for Europe? And what sort of opportunities you're seeing from there?

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

I'm sorry, I didn't understand the question.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, we did sign a distribution agreement in Europe. These are for our -- some of the existing low voltage products that we have today. We have a very nice portfolio in some of the medical and other applications, and this supplements that channel. It's also very complementary as we look forward to the channel that Artesyn brings for similar types of products.

Operator

And our next question is from Pavel Molchanov with Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

At the time of the Artesyn announcement in May, you set out some expectations for what revenue would be and so on. Given the industrial headwinds that you've observed in your existing business since that time, I'm curious if your expectations for Artesyn have similarly diminished or moderated?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes, it's a good question, Pavel. In general, we're not updating any expectations relative to the Artesyn acquisition at this time. But if you look at the markets that Artesyn is exposed to datacenter, telecom, industrial and medical type markets, you can kind of look at the market data around those. And in some of those areas, we haven't seen meaningful deterioration. So we'll give an update as we get closer to the actual close. But at this point, we haven't given any update to the Artesyn outlook.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Okay. Any thoughts on, I guess, more granularly, when it's going to close? So I mean, you said second half of the year. Do you think it's going to be by the end of September?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. We said in our prepared remarks that we expect it around the midpoint of the second half. So I guess, if you just did pure math, that would be roughly the end of September or early October and we feel confident in that time frame.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Okay. And then just one last one. One of the previous questions about share buyback. Is there a target for deleveraging that you would want to see before reactivating or resuming the buyback effort?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

As we've said, our priorities for capital allocation continue to be the same. Number one is continue to grow the company through strategic M&A or acquisitions; and number two, then to opportunistically repurchase shares. Within that first one, we've also said that our near-term priority would be to focus on deleveraging. We haven't given any specific targets for that. But in general, I would say the answer is, yes, we would look to over time, deleverage more quickly than as a priority from a capital allocation perspective. It doesn't mean we wouldn't do opportunistic share repurchases if it made sense in a quarter. We've left ourself financial flexibility to do that. But those would be our priorities. First, deleveraging as part of kind of the big upfront investment in M&A, ongoing M&A and three, opportunistic share repurchase.

Operator

And this concludes the Q&A session for today. I would like to turn the call back to Yuval Wasserman, President and CEO, for his final remarks.

Yuval Wasserman - *Advanced Energy Industries, Inc. - President, CEO & Director*

Thanks, everybody, for joining us today. Interesting times for sure and exciting times for us as we look into the future. I'm looking forward to seeing many of you over the next few weeks. Thanks.

Operator

And with that, ladies and gentlemen, we thank you for participating in today's conference. This concludes the program. And you may all disconnect. Have a wonderful day.