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Advanced Energy Industries, Inc. (AEIS)

NASDAQ Investor Conference

CORPORATE PARTICIPANTS

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

OTHER PARTICIPANTS

Shane Brett

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Shane Brett

Analyst, Morgan Stanley & Co. LLC

I guess we can get started. Hi. I'm Shane Brett, US semiconductor and equipment analyst. Joining me today from Advanced Energy are Steve Kelley, President and CEO; and Paul Oldham, EVP and CFO.

Before I start my questions, I'm going to hand it over to Paul for a quick Reg FD disclosure, and for Steve, if you want to give kind of an elevator pitch of what Advanced Energy does after that. Thanks.

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

Yeah. Thanks a lot, Shane. Thanks for joining us today. Just a reminder that any comments we make today may be subject to certain risk factors. You can find a better discussion of those in our SEC filings. Also, a reminder that we are not providing any update to guidance today. Our earnings release was on November 4, so please refer to that as our latest guidance.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

Okay. Maybe a quick overview of Advanced Energy. We're headquartered in Denver, Colorado. We're about a 45-year-old company. We've got our start providing power solutions for etch chamber makers, so for Applied Materials, Lam and others in that business. So, about half our business today is in semiconductor equipment. We provide these critical subsystems. The other half is what we call system power. So, most of that business is for AI data center, but we're also a significant player in Industrial and Medical products. And in all the markets, we play in the high end. Over 70% of our revenue comes from sole-sourced products. So, we're on a journey to get that above 80%. And our goal over the next years is articulated in our Investor Day last November, is to double the size of the company to \$3 billion in revenue and about \$15 in earnings per share.

QUESTION AND ANSWER SECTION

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Great. As a semiconductor and equipment analyst, I've always thought of you guys as a semiconductor equipment company, but I think, you're probably a data center company now. Or I just want to talk about the Data Center business as you've on track to double it this year. Just what's driven this growth? Can you give us kind of a bit of color? And what's the drivers and what's kind of the visibility into 2026 on Data Center?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, when we bought Artesyn back in 2019, they were in the Data Center business, but they were supplying commodity solutions. So, we faced the decision roughly three years or four years ago about whether to exit the business because of the low margins or to reorient the business. So, we chose to stay in the business and focused our engineering team on higher-end solutions. So, trying to tackle the most difficult problems. And so, that strategy has worked out well for us. Today, the margins we generate in the Data Center business are just below corporate average, which is a huge increase over what we used to be able to generate.

We're engaged with a select group of hyperscale customers. We're going to grow over 100% this year relative to revenue in 2024. And we forecasted to grow 25% to 30% in 2026. And this is solely with our first wave customers, the select group of hyperscalers that we've engaged with. We're also starting discussions with second wave customers, which don't require the same level of engineering intensity. We can modify basically standard solutions to meet their needs. So, there's some upside looking forward. We think most of that upside occurs in 2027.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

I'd say, 100% growth is probably a little bit better than going well. But yes, it is going well.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

We're pleased.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Yeah. So, I guess there's just so many data center projects going on right now. And I think just within Morgan Stanley, researchers seem to consistently be raising numbers. But where are you guys in terms of meeting this data center demand? And how big of a challenge has it been to sort of expand capacity to meet this demand?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, there's basically two areas where we need to invest, one is in development and the second is in production capacity. So, development is largely a function of our engineering team. It's also a function of our investment, because these higher power products require more expensive labs and development equipment. So,

we've invested a lot. We've invested much more than we normally do in a year. Actually, the last couple of years, we've overinvested in CapEx. But – and most of that's gone for Data Center capacity and development products. So, we have kept up with demand. We have expanded capacity in the Philippines and Mexico, and we have a third factory will likely ramp next year for Data Center in Thailand.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

But in terms of this new capacity, though, like the payback period isn't a matter of years. It's almost a month.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, typically, our payback on this new investment is nine months or shorter. So, it's quick payback. And the equipment is fungible, which means we could use it for other products such as Semiconductor, Industrial and Medical.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. I just want to kind of follow up on that 25% to 30% growth you kind of talked about for 2026. Granted you are a sole-sourced business, I think the hyperscalers would probably give you a certain amount of visibility. How much does that – how much of does your visibility from these customers extend? And maybe how early are you kind of brought into new projects with these hyperscalers?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, our visibility, I would say, is roughly nine months. We get a forecast and sometimes a PO for nine months. So, the visibility is good. We need to be involved with our customers on these designs very early, because what we're seeing now is a yearly cadence of new products and a lot of it's tied into the introduction of new GPUs. And so, for every new GPU, you typically need a new power solution, because each GPU typically uses more power. And so, today, we have secured the design wins necessary to support our forecast for 2026. So, what we're actually working on with customers today are our designs for 2027 and 2028. And so, that's really the cadence we're looking at, not N+1, but N+2 and beyond with our customers.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. And I guess a little bit more of a longer-term question, which may be interpreted as a short-term question, but how would you think about the longer-term growth prospects of this business? And is there sort of any way you've thought about your attach rate sort of revenue opportunity per gigawatt or like dollar of hyperscaler CapEx that you've sort of thought about?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Yeah. It's difficult to identify an attach rate or some growth with the industry, because if you think about it, our whole strategy is to be a specialty player. It's to focus where there is unique opportunities for customization, where we can bring great technology to market. I think what we could say, though, is that as the data center

market evolves and continues to require more power and more capability, that our content at each of those levels should continue to increase.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And would there be a bit of a content story with these kind of second wave of customers that you've identified?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Yes, absolutely. If you take a look at what we've done is we've developed the core technology building blocks, if you will, to serve our primary hyperscale customers. Now, we're seeing the second wave of customers come in, the so-called neoclouds, CSPs, or even enterprise customers who are looking now for more rack-level solutions. We can repurpose those technology blocks to their needs with just a little bit of customization. And so we get good leverage, we think, on the engineering investment that we've made. We don't have to create all new solutions. And we can bring very good products to market that are proven, reliable and leading-edge to this next wave of customers.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Got it. Now, I'm going to move over to semi, which I'm probably a little bit more comfortable with. So, you've had a nice year in semi, Q4 guidance implies about low-teens growth for the full year. Can you talk about what kind of – what's driven that? And your customers have talked about a really big – well, not really big, but a good second half 2026 ramp. Just what are you doing in terms of preparing for what the customers have kind of talked about publicly?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. I think the real story in Semiconductor is our success with the new products, because that's laying the groundwork for sustained share gain moving forward. So, in 2023, we introduced two new platforms called eVerest and eVoS, together with an accompanying product called NavX. And we've had great success on the conductor etch side of the business. So, you're going to start seeing that in the form of significant revenue next year. We're also having success in the dielectric etch part of the business, and that's a new area for us, actually. And so, we anticipate significant revenue starting in 2027 in that area.

So, we're expanding our TAM and we're going to grow our market share over the next five years based on the success of our new products. I think short term, all of our customers are saying similar things about second half strengthening next year and 2027 being a really good year. And I think that's based on a number of factors, including when new fabs are coming online.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Yeah. So, as we kind of think about we're headed hopefully towards a pretty good 2026 and 2027 for WFE. You guys have laid out a goal where I think it was 20% or 1.2x, 1.3x above WFE. How much of that can we kind of attribute to these new products? And how much of that can do you think we should think about in terms of just etch/dep intensity increasing within WFE?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. It's a little bit of both. I think our customers have been vocal about the fact that etch and dep intensity is going up and that's a nature of these new processes. Just a lot more steps, a lot more etch and deposition going on. So, that's good. It's good for our customers. It's good for us. In addition, we think we get a bump from our success with the new products. So, you're going to see eVerest and eVoS in many of these new processes that are ramping over the next two years or three years. And that's both in logic and memory applications.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And I guess, between logic and memory, how would you sort of characterize your exposure? Would you characterize – how would you characterize sort of your excitement levels for the two end markets into 2026?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

I think at the leading-edge, it's pretty exciting across the board. I think, certainly, for leading-edge logic, the AI demand is driving these new process developments. It's driving volume. And obviously, the leader there is TSMC and they're doing quite well. On the memory side, very exciting as well with high bandwidth memory, DRAM and NAND. Also, I think all three of those markets will be strong next year probably into 2027. So, I think we've turned the corner on leading-edge in Semiconductor. We're pretty excited about our ability to grow share in all these segments.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

And I want to go back to eVerest and eVoS, but as some of your main customers come over to you, what are they – how much – how demanding are these customers in terms of asking you for R&D, getting you to sort of kind of enable the next wave of leading-edge semiconductors?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. I think semiconductor customers are among the most demanding, right? They're very focused on developing solutions that meet the needs of their customers, the fab operators. And so, it's an intense process. I said we launched the platforms back in 2023. It typically takes two – maybe two-and-a-half years to customize the product. And it's a three-party development. It's us, it's our customers and it's their customers. And so, we basically tune our subsystems to their chambers and then work with them to tune it further to the end customer processes.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And just last, a little bit more shorter-term question, how would you characterize sort of the inventory situation at your customers or just given the customer concentration for semis? Is that not something we probably need to think about too much?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. I think the inventory situation is healthy. I wouldn't say there's too little or too much. It's about where it should be. So, we deal with our major semiconductor customers on a JIT basis. So, we basically fill the bins to wherever they need them fill to. And that's going to vary depending on their view of the market. But we're keeping up with demand. And we have upside capacity at our factory in Malaysia. And ultimately, we're going to qualify the semi products in both Malaysia and Thailand, so we'll have two factories.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

And you're speaking with these customers every week, so you're on top of it?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yes.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. So, I want to move over to Industrial and Medical. And I guess to be a little bit critical, Data Center has absolutely exploded. Industrial and Medical has been a little bit lackluster. But could you talk about what you're seeing in that and what you're seeing in that end market? What you're seeing in that business segment, and how you're kind of thinking about the 2026 setup for here?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. I think Industrial and Medical has been in a correction mode for almost two years. And so, I think the Industrial and Medical customers, many of them suffered with the COVID supply chain shortages, and it's taken them a while to work through their inventories. I think, today, most customers have worked through the inventory. The rest of them should be finished in the next three months to six months.

So, we're seeing incrementally improving business in 2025. We hit bottom in Q1 of 2025. And each quarter since we've been a little bit higher in that business, a little higher revenue. We see some good trends in distribution where the inventories have declined seven quarters in a row. And we're at equilibrium now in distribution.

So, we think in Industrial and Medical, 2026 will be a growth year. It's not going to be a V-shaped recovery. We think it's going to be gradual. But we have a very solid design win pipeline and we think we could start showing outsized revenue growth in 2026 and 2027.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

I guess to ask a deeper question. So I feel like in semiconductors, when we're in an upcycle, we call it secular; when we're in a downcycle, we call Semiconductor is cyclical. But just how does this Industrial and Medical portfolio play a part within the Advanced Energy portfolio, just given how cyclical in hindsight, Semiconductors and Data Center maybe?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. I think Industrial and Medical plays an important part. So, the way we think about the business, we have three pillars. We have Semiconductor, we have Data Center, we have Industrial and Medical. And at any one point in time, at least, one of those markets will be up. And so, we can sustain our R&D spending or capacity investments, because under any condition, we're generating good cash flow as a company. So, we think it strengthens us as a company, enables us to create some space between us and our competitors. That's the overall view.

Industrial and Medical is the weakest of the three pillars. So, part of that's market based, part of it's our starting position. So, moving forward, our primary focus for M&A will be adding more to our I&M portfolio. In addition, we've been investing for the last three years in strengthening our channel and strengthening our direct sales force, calling on Industrial and Medical accounts. So, we think the organic efforts, together with some inorganic efforts, will boost us to a number one position, Industrial and Medical.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. I want to move over to some financial questions and I'll open it up to the audience. But so you're on track to have, I think, low- to mid-\$6 of EPS this year in line with your sort of \$1.75 billion revenue model. Assuming we get a good year in Semi and Data Center, it doesn't feel like we're too far away from you guys' \$2.5 billion target you laid out for 2030. But it feels like it's not too far away. Just not asking you to update your guidance. But just relative to when you kind of put out this 2030 model, how different is the operating environment been for you guys?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Yeah. I think the biggest change that we've talked about it is really the explosion of the Data Center market. And that's really come on seeing as you've seen all of AI explode, combined with our change in strategy, Steve mentioned earlier, about targeting specific areas which we've been able to win.

So, that market is running well ahead of what we thought. And in fact, we'll probably achieve our 2030 target that we said a year ago in Data Center either this year or early next year. So, we're well on track there, a little bit ahead. And as we said, as we look forward, we think that's sustainable at these levels or higher, at least, over the next year or so, with reason to believe with the second wave of customers that we can sustain that, even grow that beyond that point.

Semiconductor is – this – 2025 was a good year for us. We'll grow and it will be our second best Semiconductor year ever. Having said that, if you go back a year ago, the WFE projections for growth sound a lot like they sound now. I think the difference is, now I think there's a lot more end market data points to corroborate the 2026 second half, we'll see growth. So, I think we're generally on track there, if you looked at a post-2026, early 2027 level.

Industrial and Medical, as you pointed out, frankly, was a little softer. Our trough level in Q1 of this year was lower than we expected, but we're slowly building out of it. So, we feel confident in the model that we are on track from a revenue perspective to achieve \$3 billion and we could achieve it early. I think it's very possible depending on how the markets go. I'll also just add that we feel like we're well on track from a gross margin perspective.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

I guess I want to touch on that margin portion, because I guess the next step for you guys, if you did \$2.25 billion level, which is 30% growth from here. But when I think about that, your growth – gross profit margin should be 42%, operating profit margin 20%. I feel like you've also been spending a lot more on CapEx just given where end demand is. Can you kind of talk about how that sort of increased CapEx or sort of a changing end market mix per se may sort of impact that financial model that you were envisioning?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Yeah. It's a really good question. When we look at gross margins, we have improved them almost 400 basis points over the last five quarters and to 280 basis points just last quarter alone, year-over-year. So, we think we're on track. We delivered about half the gross margin improvement to get to the 43% that we talked about earlier. From a CapEx perspective and the additional headwind that goes with that, I'm not too worried about that, because that CapEx was contemplated in our model. Bringing on Thailand was always contemplated. It was contemplated at certain revenue levels. We're achieving those revenue levels earlier. So, I think that works well within the model.

Frankly, what wasn't contemplated was the tariff environment, which has been about 100 basis points of headwind for us and wasn't – what wasn't contemplated was the high level of mix of Data Center at this point. Now, Semi will recover, and I think that mix will normalize a little bit over the next couple of years. Having said that, we believe we can still achieve the 43%. There's other levers we can pull operationally to help offset the tariff impact, if those don't get mitigated, hopefully, on their own. And we see opportunities, frankly, to continue to improve overall margins and absorb the Data Center mix. Frankly, we think it's pretty positive that we've absorbed a roughly doubling of our Data Center business, and we're still on track to get close to 40% exiting this year or early next year.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. So, can I – so, when I think about the three drivers of gross margin improvement, which is manufacturing and cost improvements, just product mix and volume leverage, would you say that kind of the contribution from them has been a little bit more skewed towards the volume leverage over the last year or so?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Well, I think the first thing is we've executed on our factory consolidation plan.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Yeah.

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

So, we talked about 200 basis points to 250 basis points of improvement on that. We've largely achieved that, not completely, but largely. And like I said, I think we can actually do more there. So, over time, we'll get a little bit more. We've been right on track with volume. So, certainly, volume's up. That's fit right with our model of how we would expect that to occur.

The third leg of margin improvement that we haven't realized as much yet is the portfolio mix. And portfolio mix has mostly to do with as our new products take hold in the market and become a bigger portion of our revenue, those come with higher margins, and we think there's 200 basis points to 300 basis points of improvement that relate to that. Now, that won't happen immediately, because products have to get in the market, they have to ramp to scale. But we feel very good about that aspect that, that will occur over time. So, on balance, we feel good about the strategy and the execution that we've had and think we'll still be able to get to the 43% ultimately and overcoming some of the headwinds we have.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And just one more question for me and then I'll pass it over to the audience. But just I&M and sort of how M&A sort of kind of plays into the growth strategy there?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, if you look at I&M, Industrial and Medical, it's a highly fragmented market. So, we think there's an opportunity to do a partial rollup. We play in the high end of the I&M market. Let's say the top third of the market is where we play. So, we're looking for similar companies that are out there who provide these Industrial and Medical products, which are sticky, right? Once they're designed in, they stay designed in for very long time. And they tend to be long life cycle, 10 years, 15 years, 20 years, and they tend to be very profitable. So, that's our kind of business. And it's hard to displace existing competitors. So, you have to go out and do some M&A to really increase market share over the short to medium term.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

With that, I'd like to open up to the audience if there's any questions. If not, I'll have plenty of questions about semiconductors, but – great. Actually, I want to ask about Data Center there. So, this 25% to 30% growth for next year, how would you sort of characterize the risks to the upside just given 100% was probably maybe a little bit higher than what you guys are envisioning this year, just how would you characterize that risk to the upside?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

So, risk to the upside, does that mean is there an upside?

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Yes.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Okay. I think there are opportunities. We chartered out 2026 based on the design wins we have with our Tier 1 customers. We have not included Tier 2 customer opportunities in 2026. We have those penciled in for 2027 revenue. But is there a potential to pull it into 2026? Yes. But we're not at that point where we could confirm it's going to happen. So, I think the bias is probably towards the upside in 2026 for Data Center.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

But I guess, would that be an Advanced Energy capacity issue or Advanced Energy just being a little bit more selective on, okay, these are the projects that we'd want to go after and kind of prioritize?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yes, definitely not a capacity issue. We've invested a lot. So, we have sufficient capacity in the Philippines and in Mexicali today. We can also ramp up Thailand next year. And so, that factory is completed. And from about six months from a go signal, we could start to produce product in that factory. So, we've got substantial upside, I think, in the second half of next year, if we need it.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. And oh, gentleman?

Q

What's the risk of double ordering?

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

So, just to repeat, the risk of double ordering – in Data Center?

Q

Yeah.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

In Data Center.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. The risk of double ordering seems to be minimal. In fact, as a company, we really haven't experienced double ordering, I think, over the last five years. Most of our products are sole-sourced. And so, customers order them when they need the products. And so, whether it's Data Center, Semiconductor, Industrial and Medical, we haven't seen double ordering. So, it's not a risk for us that I'm aware of.

Q

What's the lifetime of your products, especially in Data Center?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, the question is, what's the lifetime of our products, particularly in Data Center? The lifetime is quite long. We build highly reliable products. So, I would say, typically, they're going to last for 7 years to 10 years. So, it depends on the price of the product. Ultimately, the customer can choose to replace our product with a new box. But in the Semiconductor market, the pricing is so high that we have a pretty thriving service business where periodically we bring the boxes back into our shop and calibrate them, repair them, upgrade them. And that's a – it's a very good business for the company, that's – but that's primarily Semiconductor.

Q

How much part of the Semi business is the service part?

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

A

Service overall is about 10% of total revenues. And so, within Semiconductor, you could think of it in the mid- to high-teens as a percentage of revenue. So, it's healthy and it's been growing.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

And a lot less volatile.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Much more stable. Yeah. Absolutely.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

I guess, going back to that sort of Data Center product lifetime question. But I would say, your kind of customers are constantly asking for new products and innovation there?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. So, basically, it's a continuous process. We're innovating every year. So, the customers are trying to keep pace with the introduction of new GPUs and equivalents. And so, they bring us in early in the design process so that our power solution is ready and it's an integral part of their rack design.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

So, the hyperscalers are demanding customers?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yes. So, we have a lot of demanding customers, semiconductor and hyperscalers top the list.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

Got it. Still have 30 seconds left, but if there are no questions, I think we can wrap that up for today. Oh, I'm sorry.

Q

I can see the next two years, Data Center could be stronger. I mean, no one expects the amount of CapEx to be the same in five years' time, right?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Q

So, I guess, where's the big change to kind of make up for that, maybe drop at some point or, I mean, how's that going to?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. That goes back to our...

Q

I mean, which are do you think has got a biggest recovery sort of cycle there?

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

A

Yeah. That goes back to our business strategy. So, we realized that Semiconductor and Data Center are cyclical businesses. So, at any given point in time, we think the Industrial and Medical, Semiconductor or Data Center will be up. And so, all these businesses go through ups and downs, but because we're diversified and we play in the high end and multiple markets, we think it makes it much easier for us to thrive during the cyclical downturns of these various markets.

We've kind of proven that out over the last few years, because 2023 was a down year in Semiconductor. We continued to increase our R&D spending and capacity spending. 2024, we had some issues in some markets. And so, every year, we've had the ability to continue to increase R&D spending and increase capacity spending despite downturns in certain of our markets.

Shane Brett

Analyst, Morgan Stanley & Co. LLC

Great. That brings us to time. Thank you, Steve. Thank you, Paul.

Stephen Douglas Kelley

President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.

Thanks a lot.

Paul R. Oldham

Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.

Thank you, Shane. Thanks, everybody.

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