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# Advanced Energy Industries, Inc. (AEIS)

Q1 2026 Earnings Call

## CORPORATE PARTICIPANTS

### Edwin Mok

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Advanced Energy Industries, Inc.*

### Stephen Douglas Kelley

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

### Paul R. Oldham

*Chief Financial Officer & Executive Vice President, Advanced Energy  
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## OTHER PARTICIPANTS

### Jacob Moore

*Analyst, KeyBanc Capital Markets, Inc.*

### Mehdi Hosseini

*Analyst, Susquehanna International Group*

### Krish Sankar

*Analyst, TD Cowen*

### James Ricchiuti

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### Quinn T. Fredrickson

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings and welcome to the Advanced Energy First Quarter 2026 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce Edwin Mok, Senior Vice President of Strategic Marketing and Investor Relations. Please go ahead.

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### Edwin Mok

*Senior Vice President-Strategic Marketing and Investor Relations, Advanced Energy Industries, Inc.*

Thank you, operator. Good afternoon, everyone. Welcome to Advanced Energy first quarter 2026 earnings conference call. With me today are Steve Kelley, our President and CEO; and Paul Oldham, our Executive Vice President and CFO. You can find today's press release and presentation on our website at [ir.advancedenergy.com](http://ir.advancedenergy.com).

Before we begin, let me remind you that today's call contains forward-looking statements that are subject to risks and uncertainties that could cause actual results to differ materially and not guarantees of future performance. Information concerning these risks can be found in our SEC filings. All forward-looking statements are based on management's estimates as of today, May 4, 2026, and the company assumes no obligation to update them. Any targets beyond the current quarter present today should not be interpreted as guidance.

On today's call, our financial results are presented on a non-GAAP financial basis, unless otherwise specified. Detailed reconciliation between our GAAP and non-GAAP results can be found in today's press release.

With that, let me pass the call to our president and CEO, Steve Kelley.

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### Stephen Douglas Kelley

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

Thanks, Edwin. Good afternoon, everyone, and thanks for joining the call.

First quarter revenue came in above the midpoint of guidance driven by record data center revenue. Total revenue increased 26% year-on-year and gross margin exceeded 40%. In the second quarter, we expect to deliver record revenue largely due to strength in semiconductor. Looking into the second half of 2026, we see increased demand in all of our markets. We are particularly well-positioned to benefit from AI-related capacity investments in data centers and wafer fabs. We are also seeing steady improvement in the Industrial and Medical market, as evidenced by a 14% sequential increase in bookings and a growing backlog.

We delivered over 40% gross margin in the first quarter, the culmination of a multiyear effort to improve our manufacturing efficiency and product differentiation. Our investments in leadership technology and world-class manufacturing are paying off. Looking forward, we believe that we can further increase gross margin as high-value products ramp to volume and manufacturing efficiency continues to improve. Given our progress over the last few years, we are confident that we can achieve the longer-term goal of greater than 43% gross margin.

Given the strong demand environment, we are executing our capacity expansion plans in Malaysia, the Philippines, and Mexico. Moving forward, we will focus on building out capacity at our new 500,000 square foot facility in Thailand. Qualification builds for semiconductor and data center products are kicking off this quarter, with initial production slated for late 2026 or early 2027. Exiting the year, we expect to have over \$2.5 billion in revenue generating capacity. The addition of Thailand will bring total capacity to over \$3.5 billion once it is fully built out.

Now, let me provide some color on each of our markets. Semiconductor revenue increased quarter-over-quarter and was flattish year-on-year. In the first quarter, customer forecast strengthened considerably, which we believe will drive record performance in 2026 and continued growth in 2027. We are delighted by the widespread customer acceptance of our eVoS, eVerest and NavX plasma power technologies. These technologies enable significant improvements in throughput and yield at the leading edge, and are expected to drive market share gains into the next decade. In addition, we are seeing wider adoption of these technologies across multiple generations of processes and device types. We are also benefiting from an uptick in demand for our system power products, largely due to recent wins and test in wafer fab equipment applications.

In Data Center Computing, we delivered record revenue in the first quarter. Overall demand in the data center market remains very strong. Based on customer forecasts, we expect second half revenue to be stronger than first half. We continue to make solid progress developing next generation technology, including 800-volt solutions. We are working closely with multiple customers who view AE as a technology leader in this space. The attributes which have fueled our success in the data center market, power density, efficiency, reliability, and development speed, will be equally critical to our success in next generation platforms.

In the first quarter, leveraging our technology expertise and product portfolio, we secured multiple new wins with second wave data center customers. Factory qualifications should be completed this year ahead of production ramps in 2027.

Industrial and Medical revenue was up year-on-year, but down sequentially. Although demand is improving, factory priorities in the first quarter limited our output. We expect to increase our factory output in the short term, which should enable I&M revenue to track bookings moving forward.

In medical, we secured multiple wins in therapeutic, diagnostic and life science applications. In industrial, we won key designs in test and measurement, factory automation and battery backup applications. We secured many of these wins by adding custom features to best-in-class technology platforms, enabling us to meet customer's unique requirements.

We have won a number of opportunities with new customers, many of whom discovered AE products on our website. Some of these wins have been quite large, reinforcing our view that the new website is acting as a force multiplier in the I&M space.

Telecom and Networking revenue grew to its highest level since 2023, driven by the production ramp of several AI-related wins in the networking space.

Now, I'd like to provide an update to our 2026 view. Based on strengthening demand and new product momentum, we are now expecting year-on-year revenue growth in the low-to-mid 20% range. This outlook represents the second consecutive year of greater than 20% growth for Advanced Energy.

In Semiconductor, we expect demand to start accelerating in the second quarter, supporting a stronger outlook for 2026. With some of our new products moving into high-volume production later this year, we believe that we are well positioned to drive further growth in 2027 and beyond. In Data Center, based on strong customer adoption of our high-power AI solutions, we are raising our full year revenue growth expectation to the mid 30% range. In the Industrial and Medical market, we expect sequential revenue growth over the next few quarters, supported by improved market conditions and the production ramps of several key design wins.

Now for some closing thoughts. First, demand across all of our markets is strong. We are raising our growth target for the year. While supply and cost challenges have begun to surface, we are well prepared to navigate a dynamic environment. Second, we continue to see strong pull for our new products across all target markets. Our design win pipeline is growing and is expected to drive higher revenue and profits in the coming years. Third, we're proud to have achieved 40% gross margin in the first quarter, but we are not done. We have line of sight to 43% based on the success of our new products and efficiency gains.

Finally, we have a solid pipeline of potential acquisitions and we'll continue to actively pursue opportunities which make strategic and financial sense.

Paul will now provide more detailed financial information.

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## Paul R. Oldham

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

Thank you, Steve, and good afternoon, everyone.

Overall, we executed well in the first quarter. Revenue of \$511 million increased 26% year-over-year and was ahead of our guidance, driven by strong Data Center Computing revenue. Importantly, we achieved our initial milestone of gross margins of over 40% despite ongoing tariff expenses and less favorable market mix than we originally modeled. It is the highest level since the Artesyn acquisition in 2019, highlighting the structural improvements we've made in operational efficiency and our product portfolio.

With solid operating leverage, we delivered record operating income of \$98 million. As a result, first quarter earnings per share were \$2.09, exceeding our guidance and up 70% year-over-year.

Now, let's review our first quarter financial results in more detail. First quarter Semiconductor revenue of \$219 million grew 4% sequentially, finishing just below our mid-cycle peak last year. Looking forward, our outlook is increasing based on stronger customer demand. Data Center Computing revenue was another record at \$194 million, up 9% sequentially and 102% year-over-year. While demand remains high, we continue to experience frequent customer changes in demand mix due to various downstream constraints. While we expect this demand volatility to limit revenue in Q2, we anticipate the ramp of several programs to support a stronger second half.

Industrial and Medical market revenue was \$72 million, down 8% from last quarter, but up 12% from last year. We prioritized factory production to meet demand in other markets, impacting revenue for the quarter. On the other hand, demand is strengthening as bookings grew 14% sequentially, reaching the highest level since 2023. Distributor sell-through increased again and inventory levels further normalized. Telecom and Networking revenue increased 17% sequentially and 16% year-over-year to \$25 million, ahead of expectations due to strength in AI-related networking programs.

First quarter gross margin was 40.1%, up 40 basis points from last quarter and 220 basis points from last year. Gross margin was above our previous guidance, driven by better product mix and lower other cost of sales.

Looking ahead, we expect to further expand gross margins on ramp-up of higher-margin, new products, improved manufacturing efficiency, and higher volume.

Operating expenses of \$107 million were down slightly from last quarter, and at the low end of our target range. OpEx increased 9% year-over-year, well below half of our revenue growth rate of 26%. As a result, first quarter operating income reached \$98 million and operating margin was 19.1%, up 560 basis points from last year.

Depreciation was \$10.5 million and our adjusted EBITDA was \$108 million, up 66% year-over-year and also a record. Other income was roughly breakeven versus \$1 million in Q4, mainly due to higher realized FX losses. For Q1, our non-GAAP tax rate was 14.5%, below our target, mainly due to timing of discrete tax items. First quarter earnings were \$2.09 per share, compared to \$1.94 in the previous quarter and \$1.23 a year ago.

Turning now to the balance sheet. Total cash and cash equivalents at the end of the first quarter was \$700 million, with net cash of \$131 million. During the quarter, we increased inventory by \$48 million, mostly in critical piece parts to support growth and improve supply resiliency. As a result, inventory days increased 10 days to 135, with turns of about 2.7 times. Correspondingly, DPO increased from 68 days in Q4 to 80 in Q1. DSO increased 6 days to 66 days in Q1 on higher revenue.

As a result of the increased trade net working capital to support growth and the seasonal factors such as timing of incentive and tax payments, cash flow from continuing operations was an outflow of \$6 million. During the first quarter, we spent \$37 million in CapEx as we continued to invest in capacity and capability across our factory network. We paid \$3.8 million in dividends, and we repurchased \$300,000 of common stock at an average price of \$209.36 per share.

Turning now to our guidance. We are forecasting our second quarter revenue to be approximately \$540 million, plus or minus \$20 million. We expect the majority of the sequential growth to come from the Semiconductor and Industrial and Medical markets, while Data Center will moderate sequentially based on timing of customer deliveries. We expect Q2 gross margin to improve 20 basis points to 50 basis points sequentially, driven by higher volumes and more favorable mix. We expect Q2 operating expenses to increase to \$112 million to \$114 million, due primarily to investments in new products and annual merit increases. We expect other income to be approximately \$1 million, and the tax rate to remain within the 16% to 17% range. As a result, we expect Q2 non-GAAP earnings per share to be \$2.18 plus or minus \$0.25 on 40.6 million shares outstanding.

For the full year 2026, we are raising our revenue growth target from the high teens to the low to mid-20s. The increased growth outlook contemplates solid customer demand, as well as some tightening in supply and increasing input costs. In Semiconductor, we expect revenue to accelerate in the second half, with 2H revenues likely up over 30% from the prior year. In Data Center, despite a moderating Q2, we expect sequential growth in the second half and are raising our full year revenue growth outlook from over 30% to the mid-30s. In Industrial and Medical, we expect revenue growth throughout the year on higher demand and increased factory output. With continued improvement in gross margin and operating leverage in our model, we expect earnings to grow meaningfully faster than revenue for the year.

Finally, we expect our 2026 CapEx will be in the \$170 million to \$180 million range, up slightly from our previous outlook based on initial investments in the Thailand factory to support earlier customer qualifications. Despite higher capital spending, we are targeting 2026 free cash flow to be at or above 2025 levels.

Before opening it up for questions, I want to highlight a few points. Demand is strengthening across our markets. Our diversification strategy is paying dividends as we are benefiting from accelerating growth in semiconductor,

increasing investments in data center and AI infrastructure, and a recovering Industrial and Medical market. In addition to positive market trends, we expect our design win pipeline to contribute incremental revenue in 2026 and to support more meaningful growth in 2027 and beyond.

We are excited to have achieved gross margin of over 40% this quarter and expect to further improve our margins for the full year. Longer term, with higher-value new products, ongoing improvements in factory efficiency, and higher volumes, we remain confident in our ability to achieve our long-term goal of over 43%.

Finally, our balance sheet remains strong, enabling us to invest in capability and capacity to capture growth ahead while providing ample liquidity to pursue strategic acquisitions that create shareholder value.

With that, we'll now take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Steve Barger with KeyBanc Capital Markets.

**Jacob Moore**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hey, good afternoon. This is Jacob Moore on for Steve, actually. Thank you for taking our questions. First, I was hoping you could provide us some more detail on the uptake of the new semiconductor products. I mean, for leading edge, of course, but also for the opportunity at nodes larger than 2-nanometers that I think you were alluding to. How has qualification and uptake progressed since your last update? How do you expect it to progress through the rest of the year? And what milestones are you watching out for to determine different levels of success in that rollout?

**Stephen Douglas Kelley**

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

A

Yeah. Hi, Jacob, this is Steve. Yeah, we're seeing quite a bit of uptake on our leading edge technologies, namely eVerest, eVoS and NavX. And so what these technologies provide to fab operators are improved yield and improved throughput at the leading edge. So right now, that's where the battles are being fought at the leading edge. And we're winning every battle that we're engaged in. So we're in a very good spot. And so once these customers see the improvements we can bring at the leading edge, they want to see those same improvements at some of the other nodes they operate at. And we've also seen migration from one device type to other device types.

So we think this is a good thing for the company ultimately because it will allow us to basically ramp our new product revenue faster than we originally expected. We expect to see most of the new product revenue become meaningful starting late this year, but really into 2027 and 2028, as some of these node transitions occur.

**Jacob Moore**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

I appreciate that. That's helpful. And then second question from us, I actually wanted to focus on Industrial and Medical, which looks like it could represent either another leg of growth or help extend the growth profile beyond the next, call it, 12 to 18 months. So I guess, first, can you just speak to the split that you're seeing between

market growth and share gains? And then maybe you could touch on the status of potential M&A, rehash what you're targeting and how that landscape has changed since you first began the hunt to expand there?

**Stephen Douglas Kelley**

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

A

Sure. Yeah. So I think the good news regarding Industrial and Medical is the market has recovered. So we just went through a painful two-year inventory correction period after the COVID supply chain issues. So based on what we see today, as far as our increased bookings, increased backlog, we think we're in very good shape from a market standpoint. And we're seeing both the industrial and the medical markets pick up. And within those markets, test and measurement, aerospace and defense, factory automation, robotics and anything related to AI are leading the way.

We think that the market share gain that we expect over the next year and a half is coming from new products. We have a number of significant design wins in our target segments. They're going to help us pull ahead of the competition essentially. So I think we're in very good shape in I&M.

As far as M&A goes, I've said many times that our primary focus is to increase our breadth in Industrial and Medical. And so we think this is a pretty fragmented market where we can, in addition to our organic efforts, grow inorganically. So this will be an objective for us. And we think – I think some of the valuation mismatch we've had in past years, and those mismatches are starting to close. And that will allow us to make an acquisition sometime in the not too distant future.

**Jacob Moore**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Okay. Very helpful. Thank you.

**Operator:** Our next question is from Mehdi Hosseini with SIG. Hello, Mehdi, is your line on mute?

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Yes, it was on mute. Thank you. Thanks for taking my question. And Steve, just a clarification. You talked about a two capacity expansion and talked about incremental revenue. Can you just tell me what your revenue would be once you're done with these capacity expansion projects?

**Stephen Douglas Kelley**

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

A

Yes. So, in my prepared remarks, I referred to the investments we're currently making in the Philippines, Malaysia and in Mexico, and that we expect to be at a run rate or a capacity revenue run rate of over \$2.5 billion. So this is our potential essentially after the investments in the current factory network are done.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Yeah. Sure.

**Stephen Douglas Kelley**

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

A

Yeah, second remark I made was on Thailand. So we are going to bring up Thailand earlier than we expected based on the strength we're seeing in Data Center and Semiconductor. And so we think once Thailand is built out, that adds more than \$1 billion of revenue generating capacity. So in total, I think we'll be in a position to ship in excess of \$3.5 billion with our current factory network plus Thailand.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Got you. And these capacity expansion projects, when would it materialize? Would that be in the next one or two quarter, or would you need more time for the expansion?

**Stephen Douglas Kelley**

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

A

Yeah. So for the current factory network, the expansion effort is underway and we'll have that in place in the second half of this year. So that's a – right around the corner. For Thailand, we'll start the investments late this year. So we're pulling in some of these spending we had expected to make in 2027 into second half of 2026, so that we can start up production lines for Data Center as well as production lines for Semiconductor. And we're going to start that effort with large customers and with the higher-volume products.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

And the 43% margin target, is that inclusive of these capacity expansion projects?

**Stephen Douglas Kelley**

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

A

It is, yes. We comprehend the Thailand expansion in that number. And really, that number is going to be driven by increasing new product mix. So as we introduce new products, they typically carry better margins than the older products. And secondly, we think we get better from a manufacturing efficiency standpoint.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Sure. May I squeeze one more follow-up? And that actually as a follow-up to these capacity expansion projects. And just strategically, why not focus on executing on these expansion projects, executing on expanding TAM, especially on the Data Center, why dilute your effort by having M&A on the side or in parallel?

**Stephen Douglas Kelley**

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

A

Yeah. I think it's possible to do both. I think we spent the last three years basically streamlining our manufacturing capacity. And you remember we broke ground on Thailand in 2023. So this has been in the works for a while. I think at the same time, it's very difficult to reach our growth targets in I&M without acquisition. So this is why we think in I&M in particular, it makes sense to push forward organically and inorganically.

**Mehdi Hosseini**

*Analyst, Susquehanna International Group*

Q

Got it. Thank you.

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Yeah.

**Operator:** Our next question is from Krish Sankar with TD Cowen.

**Krish Sankar***Analyst, TD Cowen*

Q

Yeah. Hi. Thanks for taking my question. See, first question is in the Data Center. I understand there's like quarterly volatility in Data Center revenue. If I take your first quarter and analyze it, it's almost like low 30% growth. You're guiding to mid-30% plus. I'm just wondering if the Data Center growth this year inhibited due to the fact that components are constrained, or is there something else going on in terms of the build-outs or market share or something else?

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Yeah, I think that's a great question. And as we look forward into 2026, the unconstrained forecasts are quite strong, but our customers are dealing with downstream constraints. And so that's really tempering expectations for 2026. However, I think we think that some of these constraints will be addressed. And so that would allow us to increase our forecast. So I'd say in Data Center, there's definitely a bias to the upside in our 2026 forecast. But again some of these constraints need to be knocked down. And then we'll be able to take advantage of better short-term SAM.

I think you may have noticed that our inventory is going up and much of that increase is us preparing to take advantage of these upsides that appear as our customers knock down these short-term constraints. So, we are ready to respond if these constraints are addressed. And actually there's some of that in the first quarter. We're able to outperform in Data Center in the first quarter, largely because some of the constraints were addressed by our customers.

**Krish Sankar***Analyst, TD Cowen*

Q

Got you. Thanks for that, Steve. And then a similar question on the Semiconductor side. When I look at your full year revenue guide, let's say, mid-20% revenue growth, Data Center mid-30%, it looks like Semis is probably under-growing what your dep and etch customers are talking about for WFE growth in the high-20%, so I'm just curious like what's going on in the Semiconductor side? Are you just being conservative or do you think that Semi growth could be actually high-20s for you too?

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Yeah. I think if you look over time, we had a good year last year. It was our second largest revenue year in our history. And so we came into 2026 pretty hot. And as you look forward in 2026, actually, if you compare the second half of 2026 to the second half of 2025, our revenue in Semiconductor will be up more than 30%. And so we're going to be going very hot into 2027. And so, we are very happy with our backlog in Semiconductor. And that's one of the reasons we're going to be opening Thailand faster than we expected.

**Krish Sankar***Analyst, TD Cowen*

Thanks a lot, Steve. That makes sense. Yeah.

Q

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

Yeah.

A

**Operator:** Thank you. Our next question is from Jim Ricchiuti with Needham & Company.

**James Ricchiuti***Analyst, Needham & Co. LLC*

Hi, guys. Just wanted to go back to the Data Center Computing growth, the moderation you're anticipating in Q2. Was there any pull-in activity into Q1? And as you talk about growth accelerating again, is that something we should see as early as Q3, or do you – the constraints your customers, they're facing, that mean the growth pickup is more in Q4?

Q

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

Yeah, Jim. I wouldn't characterize the Q1 outperformance as a pull-in. I think it was us taking advantage of an opportunity that was created when our customers were able to address their supply constraints downstream. And so I think that's an indicator of what's going to happen in future quarters in 2026. Very difficult to predict, but we know that demand mix is quite dynamic. We're trying to stay in a position where we can respond quickly to changes in demand from our customers. So I think that, again, there's upside potential in Data Center this year, and we're positioning to take advantage of that.

A

**James Ricchiuti***Analyst, Needham & Co. LLC*

Okay. When you talk about the factory priorities limiting the I&M output in Q1, wondering if you could size that. And so maybe elaborate where these resources shifted to other verticals. Can you talk about that?

Q

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

Yeah. Yeah. So we build the I&M product in the same factories as we build the Data Center product. And so we had a surge in demand from Data Center in Q1, particularly in the last month of the quarter. And so our factories pivoted to Data Center. And unfortunately, we underperformed in Industrial and Medical. So, I'm giving my personal attention to make sure we catch up to that demand over the next two quarters. So I think we'll solve this problem. The good news is we know what to build. Our backlog is robust now. So we're not taking a guess. We know exactly what the customers need and we're going to build it.

A

**James Ricchiuti***Analyst, Needham & Co. LLC*

Okay. And do you expect to catch up in Q2 there?

Q

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Yeah. It'd be Q2 and into Q3, and I think it'll be caught up.

**James Ricchiuti***Analyst, Needham & Co. LLC*

Q

And maybe one final question just from me is, are there Semi device types in particular that you're gaining traction with the new products?

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

So, you're talking about Semiconductor processes and so forth...

**James Ricchiuti***Analyst, Needham & Co. LLC*

Q

Yeah.

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

...Jim? Yeah. Yeah, I think we've basically focused on the leading edge processes both in memory and in logic. And so we've been working with our customers very closely for the past three years, and also our customers' customers are also involved in the equation. So a lot of iteration going on, and what it's leading to is a realization that these technologies provide real benefits at the leading edge. And so that's why we're excited about the potential to grow share based on these new technologies. And we can grow share in both memory and then logic.

**James Ricchiuti***Analyst, Needham & Co. LLC*

Q

And you're willing to share any kind of revenue expectation for this year from the new products collectively?

**Paul R. Oldham***Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.*

A

Yeah. We haven't really guided to that, Jim. We said – we made our goals last year and we expected to increase that significantly this year. But based on the timing of when these nodes start to ramp, we said that it'd be more significant growth in 2027.

**James Ricchiuti***Analyst, Needham & Co. LLC*

Q

Thank you.

**Operator:** Our next question is from Scott Graham with Seaport Research Partners.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Hey. Good afternoon. Thanks for taking my question. I have a couple follow-ups on Data Centers, and maybe I'll just ask you all at the same time. So your sales in the first quarter were above your thinking, and it looks like that's

going to sort of stabilize kind of go a little bit the other way in the second quarter. And I understand it's a customer thing. But I guess my question is, why wouldn't customers – I mean, Data Center demand is so dynamic right now, as you guys know. And it seems like these same customers face some challenges yet we're able to kind of, for lack of a better term, fix them in the first quarter. Why won't that happen in the second quarter?

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**Stephen Douglas Kelley**

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

**A**

Yeah. It's possible, that happens. But I think we do tend to guide conservatively. We see what's in front of us. We take the forecast into account and we typically will not include the upside in our forecast. But, again, we're trying to stay as flexible as we can so we can respond quickly to our customers' changing forecasts. So, I think if there is an upside, we could take advantage of it.

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**Scott Graham**

*Analyst, Seaport Research Partners*

**Q**

And I also know that your guidance for the quarter and the year in Data Centers was not including new customers. So I'm wondering if you have a slack period in 2Q, does that enable some revenues harvested from new customers to backfill?

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**Stephen Douglas Kelley**

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

**A**

I don't think so. So the position we're in right now with the second wave customers is that we've completed a number of qualifications in the first quarter, and we're working on additional ones this quarter. And those second wave customers are now qualifying our factories to produce those products. That's typically a six to nine month process. So right now, we expect the second wave customers to begin contributing meaningfully on the revenue line in 2027. But there is some potential to pull some of that revenue into the fourth quarter of 2026.

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**Scott Graham**

*Analyst, Seaport Research Partners*

**Q**

Understood. And then I guess my last question is on the gross margin. So, I think we – in your conference call last quarter, you talked about, hey, we think we're going to hit a 40% gross margin this year implying one of the quarters. So now it looks like you're going to not only hit it in the first quarter, but now you can hit it again second quarter off of your guidance. So I'm just wondering, is now a 41% gross margin a point higher doable for one of the two quarters in the second half?

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**Paul R. Oldham**

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

**A**

Yeah. This is Paul. Yeah, I think you're right about that. Clearly, we were a little bit ahead in Q1. We think we can build on that going forward, because we are seeing traction on some of our new product mix. We're making progress in some of the factory optimization and other things. And in general, as we have higher volumes, we should get some benefits.

So when we look forward, we see that we should be able to improve gross margins modestly each quarter, which could definitely mean that we could get to 41% by the end of the year.

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**Scott Graham**

*Analyst, Seaport Research Partners*

**Q**

Thank you.

**Operator:** Our next question is from Elizabeth Sun with Citi.

**Yi Ling Sun**

*Analyst, Citigroup Global Markets, Inc.*

Q

Hi. Good afternoon. Thanks for taking my question. I guess my first question is on the 800-volt transition. Steve, you mentioned in your prepared remarks you are working with multiple customers, working on some solutions. So I was just wondering if you could double click into what kind of solutions you are working on and, I'd say, what kind of customers you are working with and the ramp-up? The timing of the ramp in 800-volt I think your competitors are talking about second half ramping actually. And also what will be the percentage for AE's demand when the transition happens?

**Stephen Douglas Kelley**

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

A

Yeah. Yeah, thanks, Elizabeth. So right now, we're sampling our solutions to key customers. And we have a number of different options. So we have developed some 800-volt to 50-volt modules that provide 4,000 watt power, 6,000 watt output power and 8,000 watt output power. So we have different options for our customers. But what differentiates us is very high efficiency, around 98% efficiency, high power density and high reliability. So these are very important to customers. And we've been told that we're leading from a technology standpoint.

So we've got a number of customers that are very interested in technology. We're sampling it. We expect the initial production revenue, most of that will start next year. I think you'll see some small amount of revenue this year. But really it starts in earnest in 2027 and becomes more meaningful in 2028. We think it's also good news for us because we think it increases our dollar content per rack.

And generally speaking, these types of changes in technology are good for AE because we have a lot of the knowledge already in house. So we're, I think, very well-positioned as some of these data centers transition to 800 volts.

**Yi Ling Sun**

*Analyst, Citigroup Global Markets, Inc.*

Q

Got it. And the follow-up would be second wave of customers in Data Center. First question is just a clarification, if the demand pulls in into latter half of this year, will that be incremental to the 35-ish percentage Data Center growth? And also like how should we think of the size of the ramp, or like the size of the volume potential? And also if it pulls in, do you have enough capacity to support the ramp if that pulls in early?

**Paul R. Oldham**

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

A

Yeah. Elizabeth, this is Paul. Yeah. So we don't have any forecast for our second wave customers in our guidance for 2026. So any of that that we're able to pull in would be upside to the 35% growth. And I think getting started on the – winning some of the designs and getting started on the actual manufacturing, line qualification on that, I think is pretty exciting for us because we're seeing in general that pull-in.

We haven't quantified what that is. These aren't going to be customers that are the same size as our kind of primary customers. But they could be meaningful and there's several of them. So on balance, we see this as a

pretty significant driver or supporter to growth in 2027 from Data Center as we essentially expand our penetration across a broader set of customers.

**Yi Ling Sun**

*Analyst, Citigroup Global Markets, Inc.*

Got it. Thanks, Paul. Thanks, Steve.

Q

**Operator:** Our next question is from Quinn Fredrickson with Baird.

**Quinn T. Fredrickson**

*Analyst, Robert W. Baird & Co., Inc.*

Yeah. Thank you for the question. Just as we think about the Data Center outlook that you've outlined for 2Q and the back half, how should we think about supply constraints playing out from here? Are you anticipating those sequentially ease at all or stay the same in order to hit the guide that you've discussed?

Q

**Stephen Douglas Kelley**

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

Yeah, Quinn, the supply constraints I've discussed so far have been downstream supply constraints. So they're really constraints our customers are dealing with. That's been the limiting factor, I think, in our forecast. So far I think we're doing a pretty good job of managing our supply chain. That's not to say we won't run into issues, but so far nothing has really stopped us from shipping product. So, yeah, I'm hopeful that our customers can knock down some of the supply chain issues later this year, and we can increase our forecast.

A

**Quinn T. Fredrickson**

*Analyst, Robert W. Baird & Co., Inc.*

That's helpful. Thank you. And then second, just on the new products, curious if there's been any move forward in the timing of your dielectric etch wins converting to revenue at all? I know one of your larger customers is recently discussing a pull-forward of NAND conversion spending. Is there a potential that could move up the timing of new equipment orders and your wins in dielectric etch at all?

Q

**Stephen Douglas Kelley**

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

Yeah. So on dielectric etch, we haven't been too specific about wins. But I'm very confident that we'll be able to communicate wins later this year. I think that what we're doing probably has little connection to the NAND upgrade exercise, has a lot to do with the next generation nodes in DRAM and logic.

A

**Quinn T. Fredrickson**

*Analyst, Robert W. Baird & Co., Inc.*

Great. Thank you.

Q

**Operator:** Our next question is from David Duley with Steelhead Securities.

**David A. Duley**

*Analyst, Steelhead Securities LLC*

Q

Oh, yes. Thank you very much for taking my questions. I guess the first off, as far as the improvement in gross margins in the March quarter, that was done with the Semi revenue being down. So I'm kind of curious if you could just elaborate on why the gross margin was better in Q1 given the Semi mix was down? And I guess a second question I have is regarding your new growth rate for Semi in the second half was accelerating, I think by 30%. Do you think that's more driven by your products actually starting to ramp up, or is it more driven by just 2-nanometer spending is broadening out definitely beyond TSMC as we've seen in the news lately with both Samsung and Intel kind of joining the party?

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**Paul R. Oldham**

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

A

Yeah. Good questions, Dave. I'll take the first one. Yeah, margins were up in Q1. And I think the thing that we saw that was pretty encouraging was that at the product level, the mix was better. We're seeing a little better traction on our new products, kind of across the portfolio, which carry better margins. And so even though as a proportion Data Center was higher and Semi was a little bit lower, at the product level, we saw improvement. I think that's encouraging because as you know, we're counting on that being a driver of gross margins as we move towards 43%. And frankly, we think that can carry on through the year and we should get some benefit given what we see accelerated growth in Semiconductor right now.

We also saw a little better what I'll call other cost of sales. Just a variety of things were a little bit better, including some cost of quality, made a little bit of progress on some of our ramp costs and efficiency, and we had a very modest pickup from tariffs.

So on balance, we had a few things kind of go the right way and that offset kind of more broadly our factory ramp costs and slightly higher material premiums. So on balance, we feel good about the progress we're seeing. We think that can carry forward, which is why we've, essentially, modeled up slightly our gross margin outlook for the year.

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**Stephen Douglas Kelley**

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

A

Maybe I'll make a few comments on the revenue increase. I think as you look at our forecast for second half and the growth that we're forecasting, it's primarily due to growth in our flagship product revenue. When I say flagship, I mean the older products that have been designed in for a while. We're also being helped by wins in the system power space with semiconductor testers as well as with wafer fab equipment. The new products become significant starting in Q4 this year, but they'd become a bigger factor in 2027.

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**David A. Duley**

*Analyst, Steelhead Securities LLC*

Q

So maybe you could comment a little bit on what your customers are saying about growth in 2027. And if the 2-nanometer kind of ramp is spilling over into 2027, I would think that your Semi business would perhaps grow faster in 2027 than it grows in 2026.

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**Stephen Douglas Kelley**

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

A

Yeah, yeah. Our customers in Semiconductor are very enthusiastic about 2027. And I think one of the key factors is at the leading edge, there's a lot of new clean room space coming online in 2027. And so they'll have a place to put all this new equipment. So again, if you combine that with the new product revenue becoming more significant

in 2027 due to the node transitions, I think it's going to be a very good year for Advanced Energy in the Semiconductor space.

**David A. Duley***Analyst, Steelhead Securities LLC*

Q

Okay. Final thing from me, and you've mentioned it twice in your prepared remarks and the Q&A here is the systems business for I think you said semiconductor testers and other wafer fab equipment. Can you just kind of help me understand how that's different than the boxes you provide for your big OEM customers at this point?

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Yeah, yeah. So let me just explain that. We divide it broadly into two categories. Plasma power is basically RF or pulsed DC power we provide that's injected into a plasma chamber. And that's been our traditional business. Now, when you talk about system power, we're talking about the power that the machine uses to operate. So this is – think of it as between the wall and the machine, that's system power. And so that could also be relatively sophisticated because these machines are very complex. And we've made a push into this area over the last few years, and it's starting to pay off for us.

**David A. Duley***Analyst, Steelhead Securities LLC*

Q

How big a TAM do you think this is?

**Edwin Mok***Senior Vice President-Strategic Marketing and Investor Relations, Advanced Energy Industries, Inc.*

A

Dave, what we have said is that in aggregate, our sales outside of plasma power is over a \$1 billion market opportunity for us. That's what we disclosed at our 2024 analyst event, and that's what we have said.

**David A. Duley***Analyst, Steelhead Securities LLC*

Q

Okay. Thank you.

**Operator:** Our next question is from Brian Chin with Stifel.

**Brian Chin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Hi, there. Good afternoon. Maybe two questions from us. First, on the Data Center, definitely, hear that the quarterly revenue progression in DC is more owed to timing and variability. But just thinking on a full year-on-year perspective, increasing power content per rack wasn't a major tailwind last year. It should still be a tailwind, but would you say it might be less pronounced this year relative to last year?

**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

I don't think so, because we continue to develop solutions for increased power. It's just a continuous exercise for us. And so I would say this is one of our advantages, because the basic challenge is to continue to increase the power density. At the same time, don't sacrifice reliability or efficiency. So basically you have the same amount of space, but you have to produce a lot more power. And to do that reliably and efficiently is a challenge from a

design standpoint. And so that's one reason we've been able to be successful with our hyperscale customers. And we've been successful now with the second wave customers because we had that combination of technical features as well as good speed of development. And then finally, we've got the factory network to produce these boxes in high volume.

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**Brian Chin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Thanks, Steve. And then second question on Semi cap, and answer this however you're comfortable addressing it, but in terms of that second half guide that you're providing, do you think you're shipping in sync with customers or perhaps a little ahead given that multiyear visibility and outlook? And then kind of second part of that is from a supply chain perspective, given the duration of visibility, certainly well into next year, is that giving you a lot of confidence to go out and maybe be really proactive sourcing some of those components, maybe call it chips, other materials that can be issues as you get through like a multi-quarter growth periods?

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**Stephen Douglas Kelley***President, Chief Executive Officer & Director, Advanced Energy Industries, Inc.*

A

Okay, Brian. So on the – customer demand being in sync with their requirements or are they putting in inventory essentially, our view is that we're more or less in sync. I think what we've seen is across the customer set, that we've received increased orders. And that's because of leading edge primarily. So we know the end market demand is there. I think the constraint right now in Semiconductor is really clean room space. And so if some of these clean rooms come on faster than expected, then that will increase demand. And if they come on slower than expected, then we may create a little bit of inventory. But I don't think it'd be much.

Now, as far as supply chain goes, it's a hot topic, right, especially after COVID when we had to deal with so many issues. So we have been leaning in to inventory, so that we are able to have some reserve in case things get tighter, lead times go out. So I think we spend quite a bit of time on the supply chain topic. And one of the things we did during the COVID supply chain shortages was to develop more second sources, which we've done. So that gives us more flexibility and where we couldn't develop a second source, then we put in extra inventory. So, I think we're going into this with our eyes wide open and pretty aggressive on the inventory front.

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**Brian Chin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Thanks. Appreciate it.

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**Operator:** Our next question is from Jim Ricchiuti with Needham & Company.

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**James Ricchiuti***Analyst, Needham & Co. LLC*

Q

Hi. Paul, you may have given this. I apologize, if you did. But any color on OpEx as we look out over the balance of the year beyond Q2? Anything we should be thinking about?

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**Paul R. Oldham***Chief Financial Officer & Executive Vice President, Advanced Energy Industries, Inc.*

A

Yeah, Jim, obviously, OpEx was down a little bit in the first quarter, so we've done a good job controlling spending there. But in the second quarter, we do have our annual salary or merit increases. So we've guided second quarter at \$5 million to \$7 million. We continue to expect that that run rate will increase, a little bit every quarter or

kind of what we said before, as we invest in these new programs, primarily in engineering as well as some variable costs with higher volumes.

So we would expect operating expenses to be in the \$460 million range for the year and kind of graduating up kind of sequentially to basically at that level.

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**James Ricchiuti**

*Analyst, Needham & Co. LLC*



Got it. Okay. Thanks a lot.

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**Operator:** Thank you. This concludes our question-and-answer session and our conference for today. We thank you again for your participation. You may disconnect your lines at this time.

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