

31-Oct-2023

# Advanced Energy Industries, Inc. (AEIS)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Y. Edwin Mok

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### Paul R. Oldham

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### Stephen Douglas Kelley

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## OTHER PARTICIPANTS

### Jim Ricchiuti

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### Mehdi Hosseini

*Analyst, Susquehanna Financial Group LLLP*

### Krish Sankar

*Analyst, TD Cowen*

### Mark Miller

*Analyst, The Benchmark Co. LLC*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. Welcome to Advanced Energy's Third Quarter 2023 Earnings Call. At this time, all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] . Please note, this conference is being recorded.

At this time, I'll turn the conference over to Edwin Mok, Marketing and Investor Relations. Mr. Mok, you may now begin.

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### Y. Edwin Mok

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

Thank you, operator. Good afternoon, everyone. Welcome to Advanced Energy third quarter 2023 earnings conference call. With me today are Steve Kelley, our President and CEO; and Paul Oldham, our Executive Vice President and CFO.

Before I begin, I'd like to mention that we will be participating in several investor conferences. If you have not seen our earnings press release and presentation, you can find them on our website at [ir.advancedenergy.com](http://ir.advancedenergy.com). 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 are 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, October 31, 2023, and the company assumes no obligation to update them. Any targets beyond the current quarter presented 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. Excluded from our non-GAAP results are stock-based compensation, amortization, acquisition-related costs, facility expansion and related costs, restructuring charges, and unrealized foreign exchange gains or losses. A detailed reconciliation between GAAP and non-GAAP measures 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.*

Thank you, Edwin, and thanks to everyone for joining the call today. We delivered solid results in the third quarter, with earnings at the high end of our guidance range on slightly lower revenue. We delivered record operating cash flow of \$73 million, benefiting from improved operating margin, effective inventory control measures, and executions of our cost control initiatives.

In a more challenging demand environment, we continue to deliver solid profitability and cash flows. Our strong financial performance through the business cycle gives us the freedom to invest in new products and technologies as well as improvements in manufacturing efficiency. We expect that these investments will drive future revenue growth and market share gains.

We continue to make great progress on the new product front. Year-to-date, we have launched 19 new products across our market. In addition, we have expanded our quick-turn customization activity, which enables us to quickly adapt our products to the particular needs of our customers. In our targeted markets, we are experiencing strong design win momentum in a variety of high value applications.

We continue to expect a record number of design wins in 2023, building the solid foundation for growth. To improve our operational efficiency, we are working to optimize our factory footprint with the goal of consolidating nearly all of our manufacturing into highly-efficient, large-scale factories.

As part of that ongoing effort, we are closing two smaller factories in the current quarter. This is in addition to the Shenzhen factory closure we completed last December. Last month, we broke ground for our new flagship factory in Thailand. Construction will start next year, and we expect the facility to ramp in 2025. This new Thailand factory, together with our large factories in the Philippines, Malaysia and Mexico, will provide the capacity to meet our future needs. Supply chain issues continue to abate and are no longer a significant constraint on revenue. There are still components with very long lead times such as power MOSFETs. But we think that supply will catch up with demand in the coming months.

Now I'll provide further color on each of our markets. In semiconductor, third quarter revenue increased sequentially to \$185 million. We saw increased demand for RF products used in etch and deposition applications. In addition, we achieved record revenue for our high-voltage products, which are used primarily in ion implanters.

Service revenue decreased sequentially due to lower fab utilization. For the year 2023, however, we expect to set a service revenue record based on our larger installed base and a richer menu of value-added services. We continue to work closely with our key customers to design in our next-generation eVerest and eVoS platforms. We have received numerous orders for these recently launched platforms and are working hard to satisfy the near-term demands of our customers. We believe that eVerest and eVoS will enable our customers to more effectively overcome the technical challenges of sub-2 nanometer processes. These new technology platforms have the potential to drive meaningful revenue growth for many years to come.

Moving to industrial and medical. Third quarter revenue was \$115 million, down sequentially following several record quarters. Revenue came in slightly below our plan due primarily to softer market conditions late in the quarter. We launched five new products into the industrial, medical market, including the iHP Liquid, a fully-sealed liquid-cooled power supply designed to operate in harsh manufacturing environments. In the industrial market, we secured notable design wins across robotics, factory automation and thin film manufacturing application.

Our medical design and activity was particularly strong in the third quarter, with significant wins in diagnostic and therapeutic application. In August, we launched the new Advanced Energy website. Creating the content for this website was a company-wide effort and we are pleased with the quality and ease of use of our new site. We expect the new website will enable us to reach a much wider cross-section of industrial and medical customers.

In early 2024, we will add e-commerce capability to the website, providing another way for our customers to order and rapidly evaluate our products. Overall, we believe that our design win pipeline and improved go-to-market strategy should partially offset the potential impact of macroeconomics softening.

In data center computing, third quarter revenue increased sequentially to \$68 million as expected. Strong revenue from the ramp of a hyperscale design win for AI applications offset lower sales to enterprise customers. Telecom and networking revenue decreased sequentially to \$41 million, in line with our expectation.

Now let me share a few closing thoughts. At the beginning of 2023, we expected that semiconductor revenues will be down year-on-year, and that the rest of our business will be flat to up. We also said that our semiconductor business would drop in the second quarter, largely how things have played out in 2023, despite a softer macroeconomic environment in the second half of the year. Looking forward, we will continue to move full speed ahead, executing the strategy we first articulated two years ago. New products and technologies, more aggressive go-to-market strategy and improved manufacturing efficiency will remain our primary areas of focus.

With our recently completed convertible note offering, we have secured low-cost financing, which can potentially accelerate our growth. We continue to look for M&A opportunities, which make strategic and financial sense for the company. Leveraging a broad offering of highly-differentiated products, a record number of design wins, improved manufacturing efficiency, and a strong balance sheet, we believe that Advanced Energy is well-positioned to grow faster than our markets.

Paul will now provide detailed financial information.

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## Paul R. Oldham

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

Thank you, Steve, and good afternoon everyone. Q3 was a quarter of solid execution, with earnings that came in at the high end of our guidance on slightly lower revenue. We saw some demand softening late in the quarter, largely due to macroeconomic factors. However, actions we took to improve our operations and control discretionary spending enabled us to deliver sequentially higher gross and operating margins. Together with higher interest income and lower taxes, earnings increased 16% sequentially on 1% lower revenue. Importantly, operating cash flow was at the highest level ever for the company.

Finally, with shortened lead times, customers are adjusting their order patterns, and our backlog came down to \$514 million. We continue to expect our backlog will settle to a level of \$400 million to \$500 million by the end of the current quarter. Overall, despite a softer demand environment, we believe the year is shaping up as we had expected. We are focused on driving new product activity and improving our cost structure while preparing for the next upturn.

Now let's review our financial results in more detail. Total revenue was \$410 million, down 1% sequentially and 21% from our peak quarter a year ago. Revenue in the semiconductor market was \$185 million, up 7% quarter-over-quarter, consistent with our view that Q2 was a near-term bottom. Revenue in the industrial and medical market was \$115 million, down 10% from last quarter and 4% year-over-year. Following several quarters of record results, industrial and medical saw some softening in demand late in the quarter. Looking forward, we expect incremental revenues from prior design wins to largely offset the impact of a sluggish macroeconomic environment in Q4. Data center computing revenue was up 16% sequentially to \$68 million, due to the ramp of a hyperscale customer for AI applications. Sales declined 22% year-over-year due to the cyclical downturn in the enterprise server market. Telecom and networking revenue at \$41 million was down 26% sequentially and 3% year-over-year as we fulfilled overdue backlog.

Q3 gross margin was 36.1%, up 50 basis points from Q2 on lower volume, as we benefited from improved mix and lower material costs. Premiums we paid for critical components continued to taper, as costs from prior quarters roll through inventory to the P&L, we expect to see the full benefits of lower premiums in the first half of 2024. We also continue to take actions to optimize our operations footprint and manufacturing efficiency. Consolidating capacity into larger, more efficient factories should contribute to higher gross margins over the course of 2024.

Operating expenses were \$97.3 million, down from last quarter. OpEx was below our guidance as we managed our cost structure and controlled discretionary spending. Q3 operating margin was 12.4%, up 50 basis points sequentially. Depreciation was \$9.7 million and our adjusted EBITDA was \$61 million. Non-GAAP other income was \$1.3 million, due to higher net interest income, partially offset by foreign exchange losses. Looking forward, we expect our non-GAAP other income to be in the range of \$3 million to \$3.5 million for the next few quarters, given our level of cash and current interest rates.

As a reminder, in the fourth quarter of 2022, we initiated a restructuring plan to optimize our manufacturing operations. We are on track to our plan and expect to see the benefits of our action translating to better margins over the course of 2024. Consistent with this plan, we recognized \$5 million in restructuring cost in Q3 and expect to incur an additional \$5 million to \$8 million in the fourth quarter.

Our non-GAAP tax rate was 7.2%, below our Q3 target of 17% due to discrete benefits related to tax strategies we implemented this quarter to lower our tax rate. As a result of these strategies, we are now modeling our Q4 and 2024 GAAP and non-GAAP tax rate at around 16%. Third quarter EPS of \$1.28 was at the high end of our guidance of \$1.13 and above Q2 of \$1.11, but down from \$2.12 a year ago. If you apply our prior target tax rate of 17%, Q3 EPS would have been \$1.15.

Turning now to the balance sheet, total cash and marketable securities at the end of the third quarter were \$986 million, and included approximately \$482 million in net proceeds from transactions associated with our 2.5% convertible senior notes offering that we completed in September. Operating cash flow from continuing operations was a record \$72.7 million. Excluding the convertible offering and related transactions, cash increased from \$455 million to \$504 million. Net cash at the end of third quarter was \$66 million. Inventory decreased \$28 million, down 7% sequentially and 11% year-over-year, as actions to monetize on-hand inventories started to contribute to cash flow. As a result, inventory days decreased from 132 in Q2 to 125 in Q3, and terms improved from 2.7 to 2.9 times. Days payable decreased 2 days sequentially to 48 days and DSO increased 3 days to 59 days. Net working capital was 136 days.

CapEx was \$13 million or 3.2% of sales and below our near-term target of approximately 4%. We continue to expect our CapEx for this quarter and the next year to remain around 4% of sales, which includes the cost of our manufacturing consolidation plan and the investment in the new Thailand factory. During the quarter, we made debt principal payments of \$5 million and paid \$3.8 million in dividends. Finally, as part of the convertible note offering, we used \$40 million to repurchase 370,000 shares of our common stock.

Now let's turn to our guidance. Consistent with our commentary from last quarter, we expect that second half semiconductor revenue will be flat to up versus the first half. For our non-semiconductor markets, in aggregate, we continue to expect 2023 revenue to grow slightly from last year, with low double-digit growth in industrial and medical and telecom and networking, offset by cyclical weakness in data center. However, looking forward, we expect telecom and networking revenues to continue to normalize towards \$30 million a quarter over the next couple of quarters.

As a result, we are forecasting our Q4 revenue at \$405 million, plus or minus \$15 million. We expect Q4 gross margin to be similar to Q3 on slightly lower volume. We expect Q4 operating expenses be about flat with Q3, with timing of investments and new products offset by other cost reduction. Based on a tax rate of 16%, we expect Q4 non-GAAP earnings per share to be a \$1.15, plus or minus \$0.20.

Let me make a few concluding comments. Overall, we are executing our plans for 2023. Our diversification strategy is enabling us to mitigate the impact of a sluggish macroeconomic environment and ongoing corrections in some of our markets. We continue to expect to perform better than our markets and significantly better than in previous semiconductor cycles.

Looking forward to 2024, we expect semiconductor revenues to continue to bounce around these levels for the next few quarters, but are prepared for upside if the market recovers sooner. We expect performance in our other markets to be paced by macroeconomic factors, timing of customer orders and hyperscale, and normalization of revenue levels in telecom and networking, all partially offset by opportunities for growth from new products and channel investments.

In the meantime, we are focused on improving growth and operating margins, while investing in critical programs to prepare for the next cyclical upturn. We believe our actions to control cost, improve operational efficiency and shift mix towards higher-margin products, position the company to reach our long-term gross margin target of over 40%. Finally, with solid operating cash flow and a strong cash position, we have financial flexibility and multiple paths to create value for our shareholders.

With that, let's take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] Thank you. And our first question today comes from the line of Jim Ricchiuti with Needham & Company. Please proceed with your question.

**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Hi. Good afternoon. I wanted to pursue the areas of the I&M business where you've seen some softness. I wonder if you could just maybe expand on that. And then conversely, just as you talk about some of the recent design win activity you've had there, where you see some pick-up potentially offsetting some of this weakness?

**Stephen Douglas Kelley**

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

A

Yeah, Jim. This is Steve. Yeah, we saw a little bit of weakness in I&M towards the end of the quarter. We actually had orders to fulfill our forecast, but we weren't able to get the kits together in time to ship in Q3. And so, what we're at now is a more of a short lead time environment, so we don't have a long-term backlog like we did for much of the past year. And so, it's really on us to try to scramble and meet the needs of our customers in the short-term.

That said, looking at Q4, it'll be about the same as Q3 for industrial and medical. As we look forward into 2024, again, it's a short lead time environment. So, our visibility is somewhat more limited as we look into next year. And I think one of the nice things about I&M or industrial and medical is that there are many different submarkets, each with their own dynamics, and some are up and others are down. What we see right now is probably the strongest verticals in I&M include the factory automation, the mil/aero segment, solar and thin film, and on the medical side, therapeutic and diagnostic type applications.

I think the weakest areas right now are probably test and measurement, because that's tied into semiconductor and probably some of the horticulture applications have slowed down as well. Maybe just a little more color on our industrial and medical. This is the one area where we sell a fair amount of product through distribution. So roughly 45% of our I&M business goes through distributors. And so we track that inventory and the resale information pretty closely. And I could tell you, as we exited Q3, we had a little less than three months of inventory in the channel, and that's a very comfortable place for us. And the resales have actually increased each quarter in 2023. So we think we're in pretty good shape in the distribution channel.

The other thing I'd just like to notice is, industrial and medical is a fairly new area for us, a new area to focus on at least. And we've been doing it for the last two years. And I think it's making a difference. We're seeing some of the effort we put into are turning into wins and some of those wins are turning to revenue. And the other positive data point is on the customization side, which I mentioned during the call, we're seeing record turnover in the customization area. And so, those two aspects where we put more focus on I&M and also doing more customization work, work to counteract any macroeconomic issues we face in the general market.

**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Got it. That's helpful color, Steve. My follow-up question, and I realize you're not going to be able to be very specific. But with respect to the M&A pipeline, how much activity are you seeing in the I&M area of the business? And if you were to maybe be a little bit more specific as to whether you see more opportunities or would prefer one area versus the other in terms of where you'd like to [ph] focus all the (24:41) resources?

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**Stephen Douglas Kelley**

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

A

Yeah. So first, let me just start with the general approach to M&A that we have and then I'll zero in on industrial & medical. So I think first of all, we're fortunate that we're a consistent cash generator. Even in down-cycles, we generate a lot of cash. So it gives us the ability to make strategic investments to go on the hunt for acquisitions.

So, the types of targets we're looking for are going to be primarily in the industrial & medical space. We're looking for targets that are a good strategic fit, that are clearly accretive from a financial standpoint and have a reasonable payback period. We look for companies with strong technology and/or solid product portfolio, preferably with a significant percentage of revenue comes from sole sourced products similar to our portfolio. And we look for a long life cycle products and technologies.

So within industrial & medical, we are looking for larger acquisitions if possible, and we intend to integrate those acquisitions quickly, like we did last year with SL Power. I think that acquisition worked out pretty well for us, very complementary portfolios, and it helped us a lot in the medical area in particular.

I think the biggest hurdles we're looking at now in M&A are just valuations, because valuations are in flux. And so it'd probably take longer than we would expect to get a deal done. But I think the important thing to realize is we're not in a rush to make a deal, so we're going to maintain financial discipline. But we have nearly \$1 billion sitting on our balance sheet. So we have a lot of dry powder, and I think we're an attractive acquirer.

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**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Okay. Thanks. Thanks very much. I'll jump back in the queue. Thank you.

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**Stephen Douglas Kelley**

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

A

Thank you, Jim.

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**Operator:** Our next question is from the line of Krish Sankar with TD Cowen. Please proceed with your questions.

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**Krish Sankar**

*Analyst, TD Cowen*

Q

Yeah. Hi. Thanks for taking my question. I have two of them. First one, maybe a two-part question on semi. Paul or Steve, you said semi revenues bounce around these levels, so does that assume flattish sequentially for December. And then along the same path, Steve, you mentioned that the semi revenue grew strong in ion implant, not dep and etch. And it seems like ion implant is more levered to mature technologies than silicon carbide. If that's true, can you help us understand how much of your semi revenues or even ion implant came from mature versus compound semi? And then I have a follow-up.

**Stephen Douglas Kelley**

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

A

Sure. I'll start and you can finish, Paul.

**Paul R. Oldham**

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

A

Sure.

**Stephen Douglas Kelley**

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

A

So basically what we've seen the entire year, Krish, is there has been weakness in the etch and dep market, the overall volume has been weak, and that's well known. We've been able to offset some of that weakness in three ways. One was with our service business, which has been very robust this year. The second is with design wins, which have been ramping. And the third is in the high voltage area. And your specific question about high voltage and where it's used, it is primarily ion planters, and to the best of my knowledge, the vast majority of that is going for mature technologies, silicon carbide as well as silicon technologies, you know, there to meet the surge for high-voltage technologies or [ph] for EDs (28:15) and other types of applications. So, that's about where we stand with high voltage.

**Paul R. Oldham**

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

A

Yeah. I guess more broadly, what we said is that we still expected that semiconductor would be flat to up a little for the second half versus the first half. So you can kind of take a look at the math there. But, yeah, I think bouncing around these levels I think is accurate. If you look at that math, you're probably flat or up a little bit in Q4. And look, as we've talked with our customers, I think they've generally said they expect business to be about flat as we look into 2024. But at the same time, we've worked hard to be, I'll say, financially prudent in terms of how we planned our business, but also be operationally prepared, because we realized that when the semiconductor starts to turn, it can turn quickly. And so we're prepared if we see the business start to rebound more quickly over the course of next year.

**Krish Sankar**

*Analyst, TD Cowen*

Q

Got it. Got it. That's very helpful. And then a follow-up on data center, obviously the data center revenues grew nicely like 15% Q-on-Q, but it's still down 22% on a year-over-year basis. And I think, Steve, you mentioned there's one hyperscaler customer who's ramping for AI. So I'm just kind of curious, was the incremental \$10 million revenue largely driven by that one customer? Are you sole sourced or is it still like multi-sourced? And kind of like what is your strategy on a go-forward basis, because a year ago, if I'm correct, or maybe the terminology is too exaggerated, but you kind of deemphasized hyperscalers and focused on I&M, so is there a new renewed focus on data centers? Thank you.

**Stephen Douglas Kelley**

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

A

Yeah. That's a good question. It's a multipart question, so I'll you give a multipart answer. So, first of all, yes, it's a soft environment today from a demand standpoint and data center. But we do have this sole source design win, which we touched on last call as well as this call. And that's been ramping, and has acted as a shock absorber,

basically. So, we're not seeing the degree of correction that some others may be, because of this ramping design win.

I think this is a cyclical market. We don't know exactly when the demand is going to snap back. But if history is any guide, could snap back as soon as first half 2024. Because the last time we went through this inventory digestion, it took us about three quarters to get through it. So, we're ready for a snapback in the data center market. We think the fundamentals are great. Still a lot of data being generated and transmitted and stored. So the long-term story is very strong. We think there are a couple accelerators next year. One is AI, of course. The second is the transition to 48 volts. So, we think there's some positives on the horizon for data center, but our strategy remains unchanged. We're still going after opportunities where we can get paid for the engineering value that we provide. And so, again, we're trying to keep our margins going up into the right and we're not as concerned about revenue growth and data center.

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**Krish Sankar**

*Analyst, TD Cowen*

**Q**

All right. Thanks a lot, Steve, really appreciate it.

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**Stephen Douglas Kelley**

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

**A**

Yeah.

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**Operator:** Our next question is from the line of Steve Barger with KeyBanc Capital Markets. Please proceed with your questions.

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**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

**Q**

Thanks. You talked about inventory being in good shape in the channel. But can you expand on your comment about having a more aggressive go-to-market strategy and tie that into the efforts to cultivate distribution and VAR relationships. It seems like that will be an important force multiplier if end markets do get a little bit weaker going forward?

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**Stephen Douglas Kelley**

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

**A**

Yeah, Steve. I think we've done a lot on the go-to-market strategy. Let me just list some of the things that we're doing that are I think most important. The first is probably our website. We launched a new website in August, and it's been a big hit with our customers and our distributors. If we take a look at some of the statistics, today we're seeing roughly double number of hits on a daily basis on our website. And we've tripled the number of customers who are downloading and interacting with the website, typically downloading data sheets or application notes. So, we're very happy with that. And then, when we add the e-commerce capability next quarter, that's going to help us as a company. It's also going to help our distributors as well. And so that's a big plus.

The second big thing we did was on the sales side, where we basically split our sales force into two parts. And one of those parts is focused exclusively on industrial and medical. So those people, [ph] the APT (33:03) engineers and the sales engineers only get paid on industrial, medical design wins and revenue. And so that's been – it's brought a tremendous amount of focus to our effort, not just through distributors, but also directly with customers. So that's been a big plus for the company.

And thirdly, I think we raised our gain in the marketing and communications area, and our ability to train our distributors and sales force on how to sell our product and how they fit from a customer standpoint. So I think we're in much better shape that were two years ago.

**Paul R. Oldham**

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

A

Yeah. I'll just add to that, Steve. I think our prepared comments were such that we think that the inventory and the distribution channel is about right. But we've actually seen more sell-through. And you're right, as market forces potentially weaken, getting broader reach is one of our primary strategies, and the distribution channel is certainly a key part of that. And there's even potential for us to expand further from a distribution channel perspective as we focused on that.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Thanks. And Paul, backlog was down about 50% year-over-year to \$540 million, which I think is at the high end of what you consider a more normal range. Can you talk through segment exposure in backlog, timing of delivery, and maybe talk to book to bill for semiconductor and industrial medical?

**Paul R. Oldham**

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

A

Yeah. So you're right, the backlog is down. Frankly, the backlog we had a year ago is extremely unusual. If you go back historically before the parts shortages we saw roughly 24 to 30 months ago, we would typically carry backlog that was 60% of quarterly revenue. And that's because a lot of our products are relatively short lead times and we had many customers who don't technically give us orders. So there's not really a book to bill, because we fill revenue through [indiscernible] (35:02) and we'd expect to move back towards that situation and that's exactly what's happening.

I think by the end of this Q4, we'll be back well within that \$400 million to \$500 million range, about \$400 million is about a quarter's worth of backlog. That's probably a quarter or a quarter plus is kind of probably where things will run, probably a little more than they did historically. So we think the contraction in backlog is pretty natural, and it mainly just reflects those shortened lead times and people returning to their normal ordering patterns.

From that perspective, if you look at what's in backlog, the majority of it is relatively short orders now, I'd say, within a quarter and a half or less. It's also still heavily weighted towards industrial and medical and semiconductor. And as we look forward, again, it's hard to say a particular book to bill because many of our customers don't order that way.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Got it. Appreciate the detail. Thanks.

**Stephen Douglas Kelley**

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

A

Yes.

**Operator:** Our next question is from the line of Mehdi Hosseini with SIG. Please proceed with your question.

**Mehdi Hosseini**

*Analyst, Susquehanna Financial Group LLLP*

Q

Yes. Thanks for taking my question. Paul, just want to go back to the backlog. When I look at commentary by some of your customers in industrial and semi, it seems like they don't really have whole lot of visibility looking into calendar year 2024. And as such, could there be a scenario where your backlog would actually move towards the low end of that \$400 million to \$500 million band?

**Paul R. Oldham**

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

A

Yeah. I think it could. Again, our estimate there is a little bit of a – based on market factors and where things could end up. Historically, we've run under that level, and that would be normal. So, I think as customers move back to more normalized patterns, we could certainly move towards the low end of that. That wouldn't be a surprise. Again, that would still be about a quarter's worth of backlog which should be higher than the historical norm.

**Mehdi Hosseini**

*Analyst, Susquehanna Financial Group LLLP*

Q

Okay. And then just double-clicking on your semi business, if your customers are right now – think – or elaborate – or talking about 2024 as flat in terms of the system shipment or system revenue compared to 2023, does that imply that just some inventory refresh of components would lead to some growth in Advanced Energy semiconductor business unit?

**Stephen Douglas Kelley**

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

A

Yeah, I think that's a fair scenario, Mehdi. But like you said, the customer consensus seems to be that their end-customer shipments will be roughly flat year-on-year.

**Mehdi Hosseini**

*Analyst, Susquehanna Financial Group LLLP*

Q

Right.

**Stephen Douglas Kelley**

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

A

But we do see some room for growth in the [indiscernible] (38:09) and we see some room for growth in our new products as well. And that should push us into slight growth year-on-year.

**Mehdi Hosseini**

*Analyst, Susquehanna Financial Group LLLP*

Q

Yeah. Got it. Thank you.

**Operator:** Thank you. [Operator Instructions] The next question is from the line of Mark Miller with Benchmark. Please proceed with your question.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Thank you for the question. You talked about the implant was driving your high voltage opportunity. In the last couple of weeks, so there's been concern about slowing in the EV market. EV sales in China this past quarter were down 27% sequentially. Are you seeing any slowing of quoting activity or orders as a result of this? Ford also delayed its capacity additions because of slowness.

**Stephen Douglas Kelley**

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

A

Yeah, Mark, the short answer is, no, we have not seen that. So, right now, our backlog is still very robust, very strong. And we're not getting any signals yet from our customers that they're going to turn the forecast downward.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Next question, telecom area. Are any of your customers dealing with an inventory digestion situation?

**Stephen Douglas Kelley**

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

A

And your question was specific to telecom...

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Correct.

**Stephen Douglas Kelley**

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

A

...or just in general?

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Just telecom.

**Stephen Douglas Kelley**

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

A

Just telecom.

**Paul R. Oldham**

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

A

I'm not aware that they're dealing with a lot of inventory, but it's also clear if you look at the telecom manufacturers, they're in a pretty severe down-cycle right now. So I don't think there's a lot of inventory overhang there, but also there's not a lot of orders. So one of the reasons I talked in our prepared remarks about that we would anticipate that our telecom and network business is continuing to trend back towards \$30 million run rate versus where it's around the most of the last year.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Thank you.

**Operator:** Thank you. The next question is from the line of Pavel Molchanov with Raymond James. Please proceed with your question.

**Pavel Molchanov**

*Analyst, Raymond James & Associates, Inc.*

Q

Yeah. Thanks for taking the question. We're talking about all of the macroeconomic headwinds in a lot of the verticals, but you also said that, valuation perspective M&A are too expensive. From the perspective of the sellers who are insisting on these high deal multiples, what are they looking at?

**Stephen Douglas Kelley**

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

A

I can only comment for Advanced Energy and I think valuations have adjusted over the past year and a half. And I think different parties adjust to new valuations different rates. And I think that's going to – I think the answer to your question is going to vary depending on which target we're talking about. But we think, over the next 6 to 12 months, we'll probably be able to come to a deal, with one or more of these targets. But again, it's going to depend on if it makes financial sense for advanced energy and strategic sense for the company.

**Pavel Molchanov**

*Analyst, Raymond James & Associates, Inc.*

Q

Right. You also mentioned that for M&A, you're looking for kind of chunkier deal sizes versus maybe what you would consider historically. If Artesyn was the largest M&A deal in the company's history, compared to that, are you looking to do something even larger?

**Stephen Douglas Kelley**

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

A

[indiscernible] (42:08) goalposts, I would say, SL Power would be the smallest kind of deal we would like to do in I&M, and Artesyn would be the largest type of deal. So it's going to be somewhere in between those two goalposts.

**Pavel Molchanov**

*Analyst, Raymond James & Associates, Inc.*

Q

Okay. That's interesting. And lastly, within industrial, medical, I periodically ask this question, more and more headlines about new solar manufacturing, not just in the United States, but more broadly outside of China. Can you talk about your opportunities in that infrastructure buildout?

**Stephen Douglas Kelley**

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

A

I think, in solar, our primary opportunity is probably in the plasma space, where many of these solar cells, solar panels need extremely precise thin layers of various things deposited on a flat surface. And this is an ideal type of application for plasma. And so we provide basically RF solutions for [indiscernible] (43:17), which includes solar.

**Y. Edwin Mok**

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

All right. Thanks very much.

## Stephen Douglas Kelley

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

Thank you.

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**Operator:** Thank you. Ladies and gentlemen, this will conclude today's [audio gap] (43:31). You may disconnect your lines at this time and thank you for your participation.

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