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Advanced Energy Industries, Inc. (AEIS)

Q2 2025 Earnings Call

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Jim Ricchiuti

Analyst, Needham & Co. LLC

Steve Barger

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Advance Energy's Second Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] Please note that this conference is being recorded.

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

Edwin Mok

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

Thank you, operator. Good afternoon, everyone. Welcome to Advanced Energy second quarter 2025 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 earnings press release and presentation on our website at 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 are not guarantees for 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, August 5, 2025, 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 compensation, amortization, acquisition-related costs, facility, infrastructure, and other transition costs, restructuring and asset impairment charges and unrealized foreign exchange gain or loss. 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.

Stephen Douglas Kelley

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

Thanks, Edwin. Good afternoon, everyone, and thanks for joining the call. Second quarter revenue exceeded the high end of our guidance range, driven by strong demand for Advanced Energy's data center power solutions. We also benefited from increased demand in Industrial & Medical, posting our first sequential growth in that market since 2023. On a year-over-year basis, second quarter revenue grew 21%, our third consecutive quarter of year-over-year growth. Earnings per share also came in at the higher end of guidance.

Our business diversification strategy, which is focused on three distinct target markets, is driving more consistent profitability and cash flow. We have been mitigating cycle risk by participating in multiple growth markets, each with its own characteristics. The strategy is playing out nicely this year with our success in Data Center, compensating for softness in Industrial & Medical.

Semiconductor has performed well for AE, with mid-single digit growth expected this year after a growth year in 2024. Our improved profitability and cash flow are allowing us to make the technology and capacity investments necessary to fuel long-term profitable growth. These investments give confidence to our customers that Advanced Energy has the technology roadmap and manufacturing expertise necessary to support their long-term success.

In Data Center, our high efficiency, high power density products have proven ideal for AI applications. This year, we have won a number of next generation programs which are expected to support further growth in 2026. In Semiconductor, customer interest in our eVoS, eVerest and NavX platforms is very strong. We expect to more than double revenue from these platforms in 2025 as initial wins go into early stages of production. We believe that these wins will drive revenue growth in 2026 and beyond as leading edge fab processes ramp to volume.

In Industrial & Medical, we've invested heavily in new products, a new website and a robust sales and channel effort. The result is that we have secured a record number of design wins, some of which are turning into revenue this year. Looking forward, we expect that these wins will accelerate our growth in I&M, allowing us to gain market share. In addition, with the closure of our last China factory in June, we are making good progress on our gross margin improvement program. We continue to expect gross margin to approach 40% exiting 2025.

Now, let me provide some comments on tariffs. The tariff environment continues to be very dynamic. Actions we are taking to mitigate the impact of tariffs include qualifying products in our Mexicali facility under USMCA, leveraging our geographic footprint, and finally optimizing our supply chain and logistics. We will continue to work with our customers to mitigate costs as the environment evolves.

Now, let me provide some color on each of our markets. Second quarter Semiconductor revenue was solid. Although revenue was down sequentially, it grew double digits year-on-year. On the new product front, we had another quarter of robust eVoS and eVerest shipments as some early design wins begin the transition to low

volume production. These transitions are important milestones, validating the progress our customers are making with their end customers.

During the second quarter, we also secured two new significant edge and deposition wins for leading edge processes. Customers value the capabilities of our new technologies, as well as our ability to quickly tailor solutions to meet their process requirements.

In Data Center Computing, revenue jumped nearly 50% sequentially and almost doubled year-on-year as we ramped hyperscale design wins and captured increased demand. We believe this new level of demand will continue for several quarters to come. In addition, we have already won a number of next generation designs, which are scheduled to ramp in 2026.

Our primary focus in this market continues to be serving our key hyperscale customers with leading edge solutions. We also see an expanding set of AI related opportunities at enterprise and other customers where we can leverage existing technology blocks to quickly deliver solutions. We expect these new opportunities to drive incremental growth in 2026 and beyond.

In Industrial & Medical, second quarter revenue grew sequentially, but was down year-on-year. I&M total backlog grew this quarter for the first time since the beginning of 2023. In distribution, which accounts for roughly half of our I&M revenue, sell-in and resales increased quarter-over-quarter. Channel inventories decreased for the fifth quarter in a row. These encouraging data points support our view that AE's I&M revenue will continue to improve from this point forward. On the design win front, we secured wins in medical imaging, robotics, process control, and mil/aero.

Our digital marketing investments are also yielding results. Since launching our new website in late 2023, we have secured over 300 I&M design wins, which originated as website inquiries. Our partnership with key distributors is also expanding our ability to reach a broad set of small and medium sized I&M customers.

Telecom & Networking revenue was flat sequentially. During the quarter, we won a next generation telecom design that leveraged our leading position in this market. In addition, we see AI driving new opportunities for us in networking.

Now for some closing thoughts. We are capturing opportunities in a dynamic market environment and are delivering upside to our expectations for the year. Following the strong second quarter, we expect to operate around this new higher level of revenue in the second half, resulting an overall 2025 revenue growth of approximately 17%. In Data Center, based on higher demand levels and the success of our new products, we now expect to grow revenue over 80% in 2025. Semiconductor revenue is now projected to grow mid-single digits in 2025, with revenue from our next generation Plasma Power Products expected to double.

In the I&M, after an extended correction period, demand is recovering with a stronger order book driving higher sequential revenue in the second half. Looking beyond the near-term, we are very excited about our growth prospects. With strong customer pull for our new products, we are well-positioned to gain share. Our efforts to structurally improve manufacturing cost are yielding tangible results. We remain confident in our ability to achieve our gross margin goals despite added tariff costs. Finally, we continue to actively pursue our acquisition strategy and have a solid pipeline of potential opportunities.

Paul will now provide more detailed financial information.

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

Thank you, Steve, and good afternoon, everyone. Second quarter revenue of \$442 million was just above the high end of our guidance, driven by upside in the Data Center Computing market. Gross margin improved slightly quarter-over-quarter and was in line with our target despite several headwinds. Operating margin increased to 110 basis points sequentially as we grew revenue faster than operating expenses. As a result, we delivered earnings per share of \$1.50, up 76% from last year and at the highest level since 2022. During the quarter, we continued to execute our new product strategies, added capacity to meet growing Data Center demand, completed final production in our China factory, and strengthened our capital structure.

Now let's review our financial results in more detail. Second quarter total revenue was \$442 million, up 9% sequentially, and 21% year-over-year. Revenue in the Semiconductor market of \$210 million was up 11% over last year, but down 6% sequentially. Q2 Semiconductor sales declined slightly more than anticipated, as we saw customers shift delivery schedules to mitigate the near-term impact of tariffs, partially offset by higher service revenue. Data Center Computing revenue was \$142 million, up 47% quarter-over-quarter and 94% year-over-year. During the quarter, we captured upside demand for our new data center power solutions.

Industrial & Medical revenue of \$69 million increased 7% sequentially, but was still 13% below last year. We believe this market has passed the bottom given increased backlog, improved customer inventory and encouraging data points from our distributors. Telecom & Networking revenue was \$22 million flat quarter-over-quarter as anticipated.

Gross margin was 38.1%, up 20 basis points sequentially, despite increased tariff expenses and production ramp costs. We were able to partially offset these headwinds by taking actions to manage our manufacturing costs on higher volumes. We're encouraged by the progress we're making on gross margin improvement as excluding the impact of tariffs, gross margin would have been over 39%.

Operating expenses were \$104 million, up \$5 million from last quarter on higher spending on new product activities and annual salary increases. However, OpEx as a percent of revenue declined almost 100 basis points sequentially and 260 basis points year-over-year, demonstrating the leverage in our model.

Operating income for the quarter was \$65 million, depreciation was \$10 million, and our adjusted EBITDA was \$74 million. Other income increased sequentially to \$2 million, primarily due to higher investment income in our deferred compensation plan. For Q2, our non-GAAP tax rate was 15.3%, below our estimate of 19% on favorable mix of earnings, better visibility for optimizing the impact of the global minimum tax and favorable discrete items. As a result, second quarter EPS was \$1.50 per share compared to \$1.23 in the previous quarter and \$0.85 a year ago.

Turning now to the balance sheet. Total cash and cash equivalents at the end of the second quarter was \$714 million with net cash of \$147 million. Cash decreased \$10 million sequentially as we took advantage of market volatility and repurchased \$23 million of our common stock at an average price of \$83.83 per share. Cash flow from continuing operations was \$47 million. Inventory turns were flat sequentially at 2.7 times, but total inventory of \$398 million was up 8% sequentially driven by the strong increase in demand. This increase was more than offset by higher payables with DPO at 63 days. Receivables increased about 10% or \$27 million on higher revenue. DSO was flat at 62 days.

During the second quarter, we paid \$4 million in dividends and invested \$28 million in CapEx. The higher capital spending is consistent with our expectation of increased investments over the next several quarters to support

growth in the Data Center market, infrastructure capability and our factory consolidation strategies. Despite increased working capital and CapEx, free cash flow in Q2 grew 21% sequentially. In addition, during the quarter, we extended the maturity date of our undrawn credit facility of \$600 million from September 2026 to May 2030, while maintaining substantially the same favorable terms as our 2019 agreement.

Before moving on to guidance, let me provide more color on the impact of tariffs on AE. The tariff environment continues to be very dynamic, making the overall impact difficult to predict. For Q2, tariff costs were higher than we initially expected. However, we are implementing multiple mitigation strategies with our customers that should help reduce the tariff impact. Combined with other operational actions, we continue to believe that we are on track to achieve our long-term margin and operating goals. Looking forward, the expected impact of tariffs, as we understand them today is incorporated in our guidance.

Turning now to our guidance. Following our very strong Q2 results, we expect Q3 revenue to be similar to Q2 and for Q4 to grow sequentially. This outlook would translate to approximately 17% growth for the year. We expect Q3 Semiconductor revenue to be down slightly versus Q2 based on customer forecasts. Given first half results and our updated outlook, we now project Semiconductor revenue to grow mid-single digits in 2025. For Data Center Computing, we expect demand to remain at or above Q2 levels in the second half. As a result, we've increased our 2025 annual growth projection for Data Center from 50% to more than 80%. We believe the Industrial & Medical market has passed the bottom and expect modest sequential growth in both Q3 and Q4, paced by the impact of tariffs on the broader economy. Telecom & Networking revenue should remain in the low \$20 million level.

As a result, we're forecasting our third quarter revenue to be approximately \$440 million, plus or minus \$20 million. We expect gross margins in the third quarter to improve to around 38.5%, mainly driven by the initial benefits of the closure of our final China factory. As we realize the full benefit of the factory closure and improved factory efficiency, we expect gross margins to be between 39% and 40% exiting the year, including the impact of tariffs. We expect the operating expenses to be up slightly on higher variable costs, giving the stronger full year performance. And the other income should return to the \$1 million range. The tax rate is expected to be 17% to 18% on optimization of our model going forward. As a result, we expect Q3 non-GAAP earnings per share to be a \$1.45 plus or minus \$0.25.

Before opening up for questions, I want to highlight a few important points. We participate in solid growth markets that can operate on different cycles, which should enable us to deliver more robust and consistent financial results over time. We believe increasing demand in Data Center, technology investments in Semiconductor and market recovery in Industrial & Medical will drive overall revenue growth for AE in 2025 and 2026. In addition, we continue to have strong design win momentum driven by our leading edge products, which we expect to enable us to outgrow our markets.

From a profitability perspective, we grew revenue second quarter 21% year-over-year, but we grew EPS 76% driven by gross margin expansion of 280 basis points and the overall leverage in our model. This performance demonstrates the opportunity for AE to accelerate earnings growth as we improve margins and increase revenue going forward.

Beyond the benefits of exiting China for manufacturing that will fully kick in by Q4, we believe further production efficiency and new product mix will enable us to continue to achieve our long-term margin and financial goals despite the higher cost of tariffs. Lastly, with a solid balance sheet and strong cash flow generation, we will continue to look for strategic acquisitions to add scope and leverage our scale.

With that, we'll 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] One moment please while we poll for our first question. The first question is from the line of Krish Sankar with TD Cowen. Please proceed with your questions.

Krish Sankar

Analyst, TD Cowen

Q

Yeah. Hi. Thanks for taking my question and congrats on the great results. Steve, I just had one question. You kind of mentioned about sustainability of the Data Center demand and if I flatlining here \$142 million in Q2 through the rest of the year, obviously you're going to grow over 80%. I'm just kind of curious how sustainable is this run rate because historically, Data Center used to be very lumpy. So I understand AI has changed things. Is this more a structural change? Is there any market share gain? How to think about the sustainability of Data Center revenues going forward? Thank you.

Stephen Douglas Kelley

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

A

Yeah. Thanks for the question, Krish. Yeah. Looking forward, we think these revenues are sustainable into 2026 and the reason is the hyperscalers are continuing to invest at a very high rate. So we've seen what they spent this year and what they intend to spend next year, and that's supported by the forecast that we're receiving from our customers. Particularly the AE, you see a high frequency of change in this market because each of the GPUs that comes out typically on a yearly basis usually requires more power and so that means each power solution is probably a little bit more expensive. And you have to work very closely with the customer, which is what we're doing. So our win rate is quite high.

We're also seeing some ancillary opportunities appear that complement what we're doing with our large hyperscale customers. So we think some of those opportunities may kick in in 2026. And I think probably one of the more important aspects of this business is the willingness to invest not just in development, but also in factory capacity. So we continue to spend to expand our capacity to serve the market.

Krish Sankar

Analyst, TD Cowen

Q

Thanks a lot, Steve. I appreciate it.

Stephen Douglas Kelley

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

A

Thanks, Krish.

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

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, thanks. Good afternoon. Steve...

Stephen Douglas Kelley

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

A

Hi, Steve.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

...could you talk about content per server or content per rack for an AI data center versus a traditional DC? And are you modeling the business based on where you see that hyperscaler CapEx going? Or how do you put together a forecast with demand like this?

Stephen Douglas Kelley

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

A

Yeah, Steve. The content of any AI data center for us is much higher because the power consumption is much higher. So typically you're looking at 5x to 10x the power consumption of a non-AI data center. So that's all good news for us.

Now, the way we model our future revenue is based on customer forecast. And so we have a select group of customers that we work closely with, and they give us forecasts which are updated every quarter, if not more frequently, quite frankly. So we take that as our base level, and then we add in a few other opportunities where we can reuse our technology blocks which we developed for our large hyperscale customers, and that's how we come up with the forecast.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Is that 5x to 10x power consumption translating into 5x to 10x revenue for you? Is that a linear relationship? Or how does that scale as the power demand goes up?

Stephen Douglas Kelley

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

A

Yeah. Unfortunately, it doesn't scale on a linear basis. It's definitely higher. I don't have a figure of merit for you, but we noticed that each successive generation ends up costing a bit more and leads to better ASPs for Advanced Energy.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. And then just a quick follow up. You talked about low volume production for some of the new products on slide 5, which is great to see. Do you expect that to turn into a stronger program next year? And are these design wins for your normal customers or are you finding new customers who are also embracing the technology?

Stephen Douglas Kelley

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

A

Yeah. I think what you're referring to are wins in the Semiconductor process area?

Steve Barger*Analyst, KeyBanc Capital Markets, Inc.*

Yeah.

Q

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

Yeah. Yeah. So I think that the significance of the fact that we're going into low rate initial production on some of those wins is it confirms that our customers have been successful at their customers who are the fab operators. And so what we see this year is more than doubling of the new product revenue in Semiconductor and that's into the ten million range. And then we see that really catalyzing significant growth starting next year as these new leading edge processors go to volume both on the logic part of the equation as well as the memory side.

A

Steve Barger*Analyst, KeyBanc Capital Markets, Inc.*

Thanks very much.

Q

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

Thank you, Steve.

A

Operator: The next question is from the line of Joe Quatrochi with Wells Fargo. Please proceed with your questions.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Yeah. Thanks for taking the questions. On the Semiconductor business, I think you talked about mid-single digit growth now for 2025 and last quarter, you're talking about 10%. So wondering if you could help us understand like what's changed there or expand upon what's changed there? And then, relative to that, I think one of your customers talking about second half or first half being flattish, it looks like you're going to be down 6%, 7%.

Q

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

Yeah. Yeah. I think we were a little bit optimistic coming out of Q1. We've just come off a very strong quarter. What we've seen is I think the tariffs are starting to influence some of the ordering behavior from our customers as they eat into their own inventory and they move things around, right, to optimize versus the tariff regimes.

A

The second is based on what we've heard from our customers and also reading other earnings call transcripts, China seems to be slowing down, and I think trailing edge logic in general, across China as well as non-China geographies is slowing. And finally, there's been a little bit of concern on the DRAM side. The growth seems to have slowed a bit. But looking at our revenue levels that we're generating in 2025 for Semiconductor, we're actually quite pleased with the revenue level. And if you take out 2022, which was the COVID recovery year, these are the highest levels we've ever had in Semiconductor. So, we're operating above \$200 million a quarter, which is quite healthy for us.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Q

Got it. And as a follow up on the tariff front, I think you quantified over 100 basis points of gross margin headwind this quarter. I guess what's the expectation, and I can understand – appreciate that the tariffs are moving around quite frequently, but what's the expectation embedded within the guidance for that impact this quarter? And what's the right, I guess, revenue level to think about being at 40% now?

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

A

Yeah. Thanks. Thanks for the question, Joe. So we're projecting the tariffs level will stay at this level or a little higher as we look into Q3 and probably through Q4. That means that we had some mitigation actions that were kicking in over the course of Q2 that largely offset the increased rates that we've seen announced in last week. As we look forward, we think there's further opportunity to mitigate that going forward as we work with our customer on optimizing supply channels and chains and those types of things.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Q

And in terms of how the tariffs impact the revenue levels you need to get to 40% gross margin?

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

A

Yeah. I think I'll start with we're close to that \$450 million mark as it is today. And certainly, at that level, if you excluded tariffs, we're very comfortable that we'd be over 40%. So it's probably trending up another \$20 million or so on top of that that offsets that roughly 100 basis points of tariff impact.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

Operator: Our next question is from the line of Brian Chin with Stifel. Please proceed with your questions. Mr. Chin, you are live for question, perhaps your line is unmute.

Brian Chin*Analyst, Stifel*

Q

Hi. Can you hear me okay? Sorry about that.

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

A

Yes, we can hear you.

Brian Chin*Analyst, Stifel*

Q

Great. Thanks for letting us ask a few questions. What is the accurate belief that what you shipped today and Data Center is more in support of "legacy" H200 H100 computing racks where looking forward GB200, GB300, there's obviously a multiplier effect in terms of power per rack. So even off of a very strong 2025 revenue in Data Center, whether that give you a lot of confidence just in terms of directional growth, maybe even magnitude next year.

Stephen Douglas Kelley

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

A

Yeah. So Brian, I don't have a specifics as far as where all of our power supplies are going and to what GPUs they're tied to, but what I can say is that we have won a number of new designs this year that will ramp to volume next year and we're actually working now on designs that will ramp to volume in 2027. So, I think we're keeping up. It's basically a very rapid design cycle now where we have to work closely with the customer so that they can hit their design windows based on these new GPUs. So it's a very dynamic environment, but we're winning at a very high rate.

Brian Chin

Analyst, Stifel

Q

Got it. And it's fair to just characterize it that you may not be adding many new customers, but you [indiscernible] (00:32:22)

Stephen Douglas Kelley

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

A

Yeah. I think I wouldn't say we're adding many new customers, Brian, but I would say within the customer base that we address, we're adding more and more projects. So, our risk is somewhat mitigated by the number of projects we're engaged in. And we're also able to reuse a lot of technology from generation to generation, which allows us to turn these new designs quickly.

I think moving forward, we will be able to engage in some ancillary opportunities where we could reuse technology blocks we've developed for other customers. But at the end of the day, the limiting factor for many of these customers is going to be engineering bandwidth. So we have to make sure we don't overextend ourselves and that we service our main customers to the best of our abilities.

Operator: Thank you. The next question is from the line of Jim Ricchiuti with Needham & Company. Please proceed with your questions.

Jim Ricchiuti

Analyst, Needham & Co. LLC

Q

Hi. Thanks. Good afternoon. Is there any way to characterize the margin profile of the new design wins in Data Center relative to some of the legacy Data Center products you've sold into this market?

Paul R. Oldham

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

A

Yeah. I think the best way to think about that, Jim, if you go back two or three years ago, we talked about this market being highly dilutive. And if you go back a year or two before that, you could see the numbers from what we acquired Artesyn at which had margins overall in the low-20s and it had – that included I&M, which was above our corporate model. So it's been historically quite dilutive. As we've talked about over time, we've been able to

rationalize the portfolio and our new products are much closer to the corporate average. So on balance, we're not at the corporate average at this point, but the dilutive impact is much less. In fact, we said that as the mix shifts around, we kind of expect that to live within a band of plus or minus 50 basis points. And of course, this quarter, our percentage of Data Center revenue was up I think 8 points or something, quite a lot. And we were able to basically to stay on our margin targets. So we absorbed, if you will, the kind of the dilutive effect within our model, really without any problems. And so I think that that demonstrates that we're approaching the corporate average there.

Jim Ricchiuti*Analyst, Needham & Co. LLC*

Q

That's helpful, Paul. And Steve, you talk about these ancillary opportunities looking out to 2026. Is there any way of sizing that? I mean, these – I would think these have been enterprise customers you've been selling to, but this is now being driven by AI demand. Is that a fair way to characterize it?

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

A

Yeah. That's a good way to characterize it, Jim. There's enterprise customers and some other new customers that have appeared and generally we'll entertain those opportunities where we could do so without stretching our engineers too far. So we try to reuse as much as possible and execute. We're also installing a lot of new capacity in our factories in the Philippines and Mexico to support these opportunities, not just for our biggest customers, but also some of the smaller ones.

Jim Ricchiuti*Analyst, Needham & Co. LLC*

Q

Got it. Thanks. And just one other quick question, just maybe switch over to I&M. Has there been or is there any impact from the recent design wins in I&M on the growth that you're expecting in the second half or is that what you're seeing? Is that mainly the market recovery and these design wins are more of a 2026 story?

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

A

So I think it's a bit of both. Obviously, the market's gone through an extended correction period, and we're starting to see stocking orders. We're starting to see orders from customers we haven't seen orders from in quite some time. So that's more due to the market. But in addition, we're seeing some of these wins that we've recorded over the past, say, two years, start to contribute to our revenue growth in the second half of this year. I think you'll see that accelerate next year because we have quite a backlog of design wins. And the dynamic is that most customers, they're working through their inventory and they're waiting for that inventory to clear before they ramp their new products. So we think 2026 is going to be a good year for Industrial & Medical and we think we're going to gain share next year and into 2027.

Jim Ricchiuti*Analyst, Needham & Co. LLC*

Q

Great. Thank you.

Operator: Our next question is from the line of Mark Miller with The Benchmark. Please proceed with your question.

Mark Miller*Analyst, The Benchmark Co. LLC*

Q

I'm just wondering if you can give us some feeling if you're seeing any pull-ins from Data Center customers or any double ordering or if inventory levels or if they're overstocking inventory in anticipation of demand.

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

A

Yeah, Mark. We don't see that, quite frankly, and Data Center would certainly be an expedited but that's because the demand continues to increase. In Industrial & Medical, what we see right now is that most customers are still recovering from the supply chain shock associated with the COVID supply chain issues. And so there's a reluctance to put in place inventory as insurance. I also think there's a lot of uncertainty about the tariffs themselves. And so I think people are taking a wait and see attitude and they're trying to match their orders to real demand.

Mark Miller*Analyst, The Benchmark Co. LLC*

Q

We're starting to see after some time of depressed pricing, NAND pricing starting to improve. Any feeling about in terms of NAND improvements next year, if that would be an opportunity for you?

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

A

For us, we're less exposed to NAND than to the other parts of semiconductor. So where we're most excited is for leading edge logic as well as DRAM because that's where our products are being evaluated and that's where they're going to go into production next year. I think we're also participating in NAND, but there's really less activity there as far as capacity additions. There's some upgrade activity going on, but that's not a big area for us at this point in time.

Mark Miller*Analyst, The Benchmark Co. LLC*

Q

Thank you.

Operator: Thank you. [Operator Instructions] The next question is from the line of Scott Graham with Seaport Research Partners. Please proceed with your questions.

Scott Graham*Analyst, Seaport Global Securities LLC*

Q

Hey, good evening and congratulations on a good quarter.

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

A

Thanks, Scott.

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

A

Thanks, Scott.

Scott Graham*Analyst, Seaport Global Securities LLC*

Q

I was hoping that you would at this point be able to with your eVoS, eVerest and NavX maybe be able to quantify a little bit what that meaning to semi? Was that maybe half of the growth year-over-year in that segment? Is that something you can tell us?

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

A

Yeah. It's good questions, Scott. It's difficult for us to quantify that for a number of reasons competitively. But what we said is we expect that number to double from last year what we call revenue from those three products. And Steve just commented that it's in the double-digit millions of revenue this year. So, we always expected it to be a slow start because the way these products ramp and that it would contribute a little bit to growth in the second half. I think separately, we've said, think in the 1% range or 1% to 2%, but we expect that to pick up next year as these products move out of this early production phase and into more of a ramp phase. So we're encouraged by the progress we're seeing in that regard. I think it's following that normal process. And the good news, we continue to have a lot of irons in the fire on a number of applications and a number of our customers who are still working through that qualification process.

Scott Graham*Analyst, Seaport Global Securities LLC*

Q

Thank you. Industrial & Medical, I was hoping that certainly with 50% of sales through distributors, I assume that they're showing you POS data and I was hoping you'd be able to share that with us.

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

A

Yeah. What we've shared is that for five quarters now, our sales into the channel have been less than the sales out of the retail data, right? So that's led to a decrease in inventory and I think an increased willingness from distribution to stock products, particularly new products. So, I think that the trend is favorable. It's just – it's obviously taking some time for the distributors to work down their inventories and also for the end customers to work through their inventories. But what we see now is that some end customers have worked through them, others have not and so that's why we think the recovery in I&M is going to be gradual. The other issue there in I&M is the tariff impact, and so [ph] one of the (00:42:10) Industrial & Medical customers tend to be small or medium sized and they're not in a great position to mitigate some of the tariffs.

Scott Graham*Analyst, Seaport Global Securities LLC*

Q

Got it. Thank you.

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

A

Thanks, Scott.

Operator: Thank you. At this time, this will conclude our question-and-answer session and will also conclude today's conference. Ladies and gentlemen, we do thank you for your participation. This concludes today's conference. You may now disconnect your lines and have a wonderful day.

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