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Advanced Energy Industries, Inc. (AEIS)

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CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Duksan Jang
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Duksan Jang
Analyst, BofA Securities, Inc.

...team. We have Steve Kelley, President and Chief Executive Officer; Paul Oldham, Executive Vice President and Chief Financial Officer. And then in the audience, we also have Edwin Mok, Senior Vice President of Strategic Marketing and Investor Relations. Before we begin, Paul has some couple comments to make.

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

Yeah, just a reminder that our comments today are subject to a number of different risk factors, and we encourage you to have a look at those in our filings.

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QUESTION AND ANSWER SECTION

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Awesome. Crazy week so far. I'm sure there's a lot going on at Advanced Energy as well. Steve, could you start us off maybe by giving us an overview of what you've been seeing in the first quarter and then into your second quarter outlook?

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

A

Yeah. So, first quarter was a good quarter for us. We came in above our midpoint guidance in both revenue and profitability. We also crossed the gross margin threshold of 40%. So, we've been trying to get above 40% for the five years I've been CEO. So, it was nice to finally make that move. And we think we can maintain the move above 40% and keep it there for the remainder of this year. And our ultimate goal is to get to 43%, and 40% was a big milestone.

We also announced that we saw a large increase in orders from our semiconductor customers in the first quarter. And so, we have a strong backlog now for the remainder of this year into 2027. And from what we hear that semiconductor strength should last into 2028. So, that was a good quarter for semiconductor orders. And data center, we were able to start sampling our 800-volt solutions. And today, we actually announced some more specifics on those solutions. And so, we've been sampling a number of customers over the past three months and getting really good feedback on our modular solutions, which feature very high-power density, best-in-class power density, and very high efficiency.

In industrial and medical, we talked about the health of that market. It had been in correction mode for the better part of two years. And we see industrial and medical normalizing now. Backlog is strengthening and we expect our revenue to increase every quarter this year. So bottom line, all three markets are looking very strong in 2026 and into 2027.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. We'll certainly get into each of those segments, for sure. But when we look at the high level and look at the full year, you've certainly also raised the guide for this year. Maybe walk us through which segments you're seeing the most strength in and then maybe perhaps some weaknesses in others.

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

A

Yeah. So, we don't see any weakness. So what we've said is in semiconductor, it's very strong and we're expecting greater than 20% growth this quarter year-on-year, and the second half is going to be more than 30% better than second half of 2025. In fact, the demand is so good in semi that we're going to open our Thailand factory a quarter early. So, we'll be able to start producing semiconductor products in Thailand in Q4 of this year.

In data center, demand is very strong. What we've seen is that there's been some movement in the forecast, and it really is tied to the availability of memory modules and logic silicon, basically. And so as we enter each quarter,

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there's a lot of uncertainty about the exact mix, but we know the overall demand is excellent. And so, what we see there is a very strong second half. And again, the other factor behind our Thailand factory opening is data center.

So in addition to the semiconductor products we're going to produce in Thailand, we're also producing data center products. And that's important because data center is high volume, low mix, and it's a great way to start a factory right, because you absorb some of those initial fixed cost that you have in any new factory startup. So demand in semis, data center, very strong.

In I&M, it's also looking good. We're seeing a lot of our design wins transition into production, and we're seeing the health of our distributor channel is much better than it was a year ago. So, we've seen our inventories in distribution go down six straight quarters in a row and it's pretty close to equilibrium levels. So, we're pretty optimistic about our I&M business moving forward.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Appreciate it. Going into semiconductors, as you say, we can probably talk about both demand and supply. But starting with the demand side, I think it's been pretty clear that a lot of the semi cap vendors have been raising their guide this year and next year. Clearly, a lot of demand signals here and there. I think consensus at this point is the WFE market rises maybe 30% this year, another 20% to 25% next year. First of all, is this similar to what you are seeing? And then secondly, clearly, you have a more exposed side to deposition and etch. So, how should we think about AE's growth in relation to the WFE market?

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

A

Yeah. So, I think we're going to have the best year we've ever had this year and we're seeing very strong growth. As I mentioned before, second half is going to be at least 30% better than last year's second half. And there's upside to that, and again, that's why we're opening our new production line in Thailand.

I think for us, the more important question is, are we positioned to gain market share over time? And we are. So, we had introduced our new products, eVerest, eVoS, the NavX back in mid-2023. So, we've been working closely with our customers over the past three years, getting these products designed into leading edge processes, and not just logic but also memory processes. And we've been successful. And so, we're starting to see some of that revenue appear in our revenue line, but we'll see more of that in 2027 and it's going to grow in 2028, 2029. So, we feel very good about our ability to grow market share in semiconductor.

In addition to that, referring to WFE, I think it's well-known that at these advanced nodes, there are many more etch and deposition steps, so the etch and deposition intensity goes up. That benefits our customers and it benefits us.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

On these new products, you've been mentioning them for quite some time, obviously. Is there any way to think about maybe units and content? How are they different from the prior products? Did they give you any advantages in certain areas?

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

A

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Yeah. That's a good question. So these new products are replacing, I would say, pretty mature products, introduced more than 10 years ago. And so, the value that we're providing is much greater than what's provided by the old products, which means it's a higher price. It's also higher margin. And so, that's an accelerator for us. As these leading edge processes ramp the volume in memory and in logic, we get the benefit of share gain, higher prices in etch and dep intensity.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Could you also maybe talk about the design wins that you might have had? And how long do these wins typically last for? Is it a two to three-year timeline or a three to four-year timeline?

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

A

Yeah. So I think on the design wins, it's a multi-year effort. So, the way it works is we introduce our platform, the customer evaluates the platform in their laboratories, comes back to us with request for changes. Then we create a derivative product and they work on it some more. We go back and forth, and then, our customer brings their customer into the mix. And so, that's where we're at with most of these products now, where our products are being tested in end customer wafer fabs, essentially.

This is a multi-year effort, but the good news is it's a sole source design win. There's no competition once we win the slot, and it lasts for years. So particularly, some of these nodes that will last for 5 or 10 years, they'll keep buying products from us. And after that, they'll continue to service products with us. So these are good revenue annuities for us, these design wins in semiconductor.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Is there any way to quantify the ramp? You said it starts in 2027 and then it runs through 2029-plus. Clearly, you're seeing semi strength beginning probably next quarter and then into second half. I'm sure all of this is incremental to what you're seeing today. So, maybe help us quantify this benefit over the medium to long term.

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

A

Yeah, what we said was in 2025, we had new product revenue in semiconductor of between $10 million and $20 million and that we would at least double that this year. We haven't quantified beyond that, but these ramps tend to ramp pretty steeply. So once the process is qualified, you see a pretty big increase in orders. So, we're expecting a significant ramp in 2027 and in 2028 for both conductor etch in 2027 and dielectric in 2028.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. Are these, in any ways, cannibalistic to your old products? I think you said these are very mature 10-year type products that you're replacing. But is it, you think, pretty much all majority incremental or any others?

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

A

I think it's all incremental. The good part here is that we are providing something that's very difficult for a competition to compete with. So, this is increasing our market share at the leading edge. And then what we're

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seeing is once we've won that leading edge node, in some cases, the customers are trying to basically back convert. So, they'll go a little bit nearer in time to see if they could use our technology for more mature processes. So there's also, I guess I characterize it as an upgrade opportunity in some cases that we haven't quantified yet but it could be substantial.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. One more on the semis market. So increasingly, obviously, the industry is very supply constrained today. We're seeing increasingly more fab upgrades, say, rather than greenfield sites. So, how does that have an impact, if it has any, on Advanced Energy's tools and services?

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

A

Yeah, I think we're – we've heard a lot of talk about upgrades in the NAND fab business, and really, it doesn't impact us very much because our penetration in NAND fabs is less than what we have in DRAM and in advanced logic. But I think we're – we'll be able to gain share in NAND and the greenfield fabs, where, I think, the end customer has an opportunity to upgrade to systems that use our latest solutions.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. And speaking of your customers, I guess is there any lag between when your customers start to ship orders? And then when you maybe recognize revenue, is it usually before your customers? How does that typically work?

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

A

Yeah, it's generally before our customers because we have a subsystem that they plug into the larger system. And the way we operate with our largest customers is in a just-in-time inventory mode. So, they'll have bins where they keep a certain inventory of our products and we'll ship to the bin level essentially. So, that prevents them from running out of product.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. Onto data center, clearly, one of the fastest growing segments for you. I think you've had eight record quarters of straight growth. This second quarter, I think you said the growth maybe moderating a little bit. Could you explain what that could mean and what you're seeing for the rest of the year as well?

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

A

Yeah. I think the second quarter forecast is really a short-term phenomena. It's not an indicator that demand is going down for us. It's just an indication that some of our customers were having difficulty securing some products. So, there's are downstream supply chain issues that our customers are dealing with. And I said on the call that I thought that our customers would be able to solve most of these issues over time, and we are seeing that. I also said there's upside bias to our numbers in data center. So, I think we guided to a relatively conservative number, number we knew we could hit, but we're certainly aiming for much better.

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Duksan Jang
Analyst, BofA Securities, Inc.

Q

I see. And I've been comparing semi market to the WFE market. I think a lot of investors probably compare your data center market to the cloud CapEx. I know it's not exactly one to one, but what's the relationship there? And perhaps, what could help you upside or downside the headline cloud CapEx number?

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

A

Yeah. I would say the relationship is loose at best. So if you take at our – if you take a look at our growth last year, it was 107%, I think, 2025 versus 2024. So, we outgrew the market by a wide margin. This year, our forecast shows that we're going to grow at least 35%. So, it's difficult to correlate with CapEx spend. But what we think, based on what we see in front of us is that we're gaining share with our customers. Our margins are getting better. And we're filling our factories with these products. And it's another reason we're opening Thailand in Q4 is because we've run out of capacity for data center in our existing factory network. So, the business is very healthy.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

I see. Then, are there any other metrics that investors should be aware of? I think some people are trying to track the gigawatts that are installed. Is it the power architecture type or what are some helpful metrics that we should be looking at then?

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

A

It's a tough one because our strategy in data center has always been to focus on the hard power problem, solve those problems and get paid for solving them. And so, we're not trying to address every opportunity out there. We're very selective. So, I think you're going to see years where we have outsized growth, other years where we have more modest growth, but it's kind of independent of the large metric.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. For 2026, specifically, you've said you have probably more upside than the 35% that you mentioned. Then would the gating factor be more supply or demand? Because the demand seems to be almost out of control. So, any thoughts around that?

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

A

Yeah, I think the gating factor is definitely supply. So, it's downstream supply chain constraints. And if our customers are successful in addressing those constraints, yeah, I mean, the demand is quite impressive.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. On your specific customers, I know you can't talk specific names, but you do have exposure at all four hyperscalers. Are there any differences in what you shipped to each of these customers? What's your general relationship there and your exposure?

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

A

Yeah, it's interesting because every customer wants something different. So, that's our kind of market. Our business is bringing best-in-class technology to our customers and then customizing that technology to their needs. And so, that's a characteristic of hyperscale business, is everybody wants something a little bit different and we're able to accommodate that for a limited number of hyperscalers.

As we look forward, we have a second wave of customers coming, basically non-hyperscale customers who want similar products, but they're not as engineering intensive. So, we take existing technology blocks that we've already developed for other purposes, put them together, add a few bells and whistles, and we've got a product for the second wave customers. And it doesn't drain resources from our main focus, which remains the hyperscale.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. When you say second wave, are these mostly neoclouds or enterprises? Help us understand that nomenclature. And I think you've also said that these are more for 2027 and beyond. Is that still the right outlook to have?

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

A

Yeah, we use the second wave nomenclature to refer to anybody who's not a hyperscale customer. So, it includes neoclouds, it includes enterprise customers. And we have none of that revenue in our forecast for 2026. So, we believe it begins in earnest next year, but there's a possibility we could start to ship to those customers in the last quarter of 2026, but it's not in our forecast yet.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. Your hyperscalers, you've been mentioning they are sole sourced. Is it also similar for these second wave customers?

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

A

It's a mix like it is with hyperscale, mostly sole sourced but also somewhere one or two sources.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. Does that have any impact to your margins or pricing, do you think?

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

A

No. No, we think the business for the second wave customers should come in with very similar margins to what we get for the hyperscale products.

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Duksan Jang
Analyst, BofA Securities, Inc.

Q

Understood. I do want to deep dig into the competitive landscape. So, people obviously talk a lot about the competition. Delta is also doing pretty well. So, could you talk about what makes you differentiated. Do you think you can gain further market share at existing customers on top of these new customers?

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

A

Yeah. So, I think our position in the market is we're the technology leader and I think we have one peer competitor. It's Delta. And so, our objective is to leverage our technology advantages. And together with that, we combine speed of development, as well as our ability to ramp to volume quickly. So, that combination has been a winning combination for us, to our willingness to invest a lot of money in our factories, our willingness to invest a lot of money in our engineering team, and our focus on highest power density, highest efficiency and highest reliability. That's a winner in the data center market.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Is there any way to think about the relative market share today?

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

A

We don't measure market share in data center. So, we're focused on a high-quality business that has good return on investment and good gross margins and less concerned about market share.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Understood. You've said the gating factor is probably going to be supplies. You've mentioned the Thailand factory. But when you add all of those together, I think at some point, you've said you can satisfy about $3.5 billion of sales. Well, here we are, the WFE market is exceptionally strong. Data center is exceptionally strong. Industrial is likely recovering. Is it going to be enough, and do you have any plans further out than the Thailand fab?

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

A

Yeah. So, I think what – those figures I discussed in the last call, the $3.5 billion in total, those are kind of our nameplate capacity, but we have the ability to stretch that capacity to probably $4.5 billion, $5 billion, if need be. So, I don't think capacity is going to be an issue for the company any time soon. The other thing to keep in mind is we'll likely do at least one acquisition which will come to the factories. So yeah, I think we're okay on capacity.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. More on the 800-volt. Clearly, a big tailwind for the industry. What's AE exactly doing in this architecture? How are you guys differentiated? Any implications to pricing margin, share? Any of that would be helpful?

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

A

Yeah. So for us, it's the next logical step. I think we've gone from 12 volts to 48 volts, and now, we're going to 800 volts. And the nice part about this is it leverages the same things we've done before. And so, this focus on high power density, high efficiency is the same thing we're bringing to 800 volts. We announced some new products this morning in a press release. And basically, we're claiming best-in-class power density and efficiency. And these aren't future products, these are today's products. So, we've been actually working with customers for months now with these modules and we're getting some very good feedback. And you'll note that it's a modular approach. And so, that allows the customer to customize to their needs. So we could build the modules, we can put the modules on a board for the customer, we could construct heat sinks, the whole thing. But it leaves the ultimate solution in the hands of the customer and they can work with us to arrange the parts.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Then, should we assume you're designed into each specific customer racks rather than maybe, say, NVIDIA or some specific accelerators?

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

A

Yeah, so we're focused just on the rack. So, this would be taking 800 volts in and then down converting it into whatever voltage the customer needs.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. When we think about the 800-volt architecture, are these usually greenfield data centers? Do – obviously, the hyperscalers, do they need to invest in completely new sites to support these or are there also upgrades type revenue as well?

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

A

No, to the best of my knowledge, it's mostly greenfield. There might be some upgrade plans out there, too, that I'm not aware of, but that's the reason why we don't really see meaningful revenue in 800 volts until second half next year. But really, in 2028, I think we'll see meaningful revenue.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. Any implications on content and margins from the 800-volt?

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

A

Yeah, we've taken a look at that and we think our content goes up with the 800-volt transition. We also think our margins get better. It's a different type of product, right? It's modules and boards, and not boxes. And so, it's easier to manufacture and I think we can drive better margins in that business. So, we're looking forward to becoming a major supplier to 800-volt data center solutions. I think we're in a good position from a technology standpoint, and we certainly know how to build these types of modules.

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Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. A little bit on the industrial and medical market as well. A lot of the at least in the semiconductor market, we've been seeing some recovery, particularly in the industrial side. So help us understand what you're seeing in the market and what kind of outlook you have for the foreseeable future?

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

A

Yeah. So maybe going back a couple of years, I think the industrial and medical market was the last market to catch up after the COVID supply chain shortages. And that catch-up occurred in 2023 in large part. And so after that, basically, industrial and medical distributors and customers had too much inventory. They were out of phase, the inventory and the demand. So, it took about two years to work through their inventory problems as a market. And now, we're in a situation where inventories are where they need to be, and the customers are ramping new designs because a lot of the customers are focusing on trying to consume the inventory and selling older products. Now, they're focused on the future, they're ramping up new products, and that's causing a lot of our design wins to ramp to production. And so in addition to a market recovery, we're also seeing our design wins kick in and that helps us outgrow the market and also helps our margins because the new products have better margins than the old products.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Just one actually quick question going back to data center, how should we think about your visibility? What gives you confidence maybe, say, each specific quarter and maybe the next couple quarters? Is that your customers really just giving you that visibility?

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

A

Yeah, our customers are giving us good visibility. I would say most customers, at least 12 months right now, and they're giving us a lot of positive signals for 2027 and 2028. So, the primary discussion point I have today with customers is our ability to ramp to their needs. And I think they've been satisfied with the answers. We have the factories that we can use to build their products. And also, I think we've got a good supply chain strategy where we're staying ahead of the demand. And we're putting in place more inventory, quite frankly. And this is allowing us to be more flexible as the demand and data center shifts, based on what our customers can procure in the way of memory and logic chips. And so, we've been able to keep up with their demand, and that's a big plus.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. And then I do want to leave some time for Paul as well. Gross margins, clearly, a very big achievement and milestone, as you said. What inning are we in at this point? You've come a long way. Your goal is 43%. Help us with any color.

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

A

Yeah, it's a good question. First, thanks for the comment because I think it is a big accomplishment what we've done to date, but we think we're still in kind of the middle innings here. As you mentioned, we crested 40% in Q1. We expect Q2 to be up again 20 to 50 basis points. And we said in our call that we expect to exit the year

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at around 41%. But our goal is 43%-plus, and we think we're well on our way to that. The biggest contributor to that will be as our new products start to layer in, they come with substantially better margins. That will add 200 to 300 basis points to the margin profile as those products become more substantial. The good news there is we're already seeing that start to have an effect. Even in Q1, we started to see that benefit. We'll get the benefit of additional volumes and there's still some opportunity to bring out some improvements in manufacturing.
So, we're pretty about the margin opportunity for the company looking forward.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. As data center continues to ramp, this segment, historically, has been slightly dilutive. How should we think about it going forward?

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

A

Yeah, I think a couple of things. One, we've made a lot of progress to bring gross margins up. As Steve commented, new products here can also help with the margin as the content and the complexity increases. In addition, as the volumes in these increase, we get some pretty significant manufacturing efficiency on those, which maybe doesn't contribute to the product margin but it does contribute to the overall company margins. So we think across our markets, we can continue to improve margins here and continue to make progress in data center as well.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Besides gross margin, how should we think about your OpEx trajectory? Clearly, a lot of investments do need to be made. When we think about the EPS leverage, what would be the biggest contributor?

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

A

Yeah, looking at OpEx, we actually hold up OpEx flat or a little bit down in Q1. I think that was timing with year-end. We do expect to see OpEx continue to grow throughout the year to get to about $460 million for the full year. But the thing to remember there is our goal for OpEx is to grow about half the rate of the revenue growth. And based on our guidance, we would be about on that track. Now last year, that was much less than half. And I think as revenue accelerates, we can repeat that performance again.

Bottom line is we don't have to make major incremental investments. We're going to continue to double down on R&D because that's important. It's the lifeblood of the company. We can continue to be more efficient and leverage fixed costs in our infrastructure and SG&A. And overall, that should allow us to continue to hit our leverage targets. Overall, for the company, we should be able to drop 35% to 45% of every incremental revenue dollar towards the operating income line.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Understood. Perhaps, the last one is when we think about cash returns, you've mentioned acquisitions. You've recently also had a convertible note offering. What would be the priorities in cash spending, and then perhaps, any of return projections as well?

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Paul R. Oldham

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

A

Sure. First, you're right, we did just raise additional money that was primarily to recapitalize or refinance our existing convertible notes. We got much better terms on this one. So, we've lowered our cost of capital in that regard.

From a cash perspective, we're clearly investing heavily internally in our data center and semiconductor markets, both in terms of engineering as well as in CapEx to grow the factory's capability and capacity. And with respect to external spending, we would allocate that towards smart M&A largely in industrial and medical market.

Duksan Jang

Analyst, BofA Securities, Inc.

Sounds good. Well, thank you so much, Steve and Paul.

Stephen Douglas Kelley

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

Thanks, Duksan.

Paul R. Oldham

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

Thank you very much.

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