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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to Advanced Energy's Second Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

I would now like to hand the conference over to one of your speakers today, Edwin Mok, Vice President of Strategic Marketing and Investor Relations. Sir, please go ahead.

Yeuk-Fai Mok - *Advanced Energy Industries, Inc. - VP of Strategic Marketing & IR*

Thank you, Michelle. Good morning, everyone. Welcome to Advanced Energy's Second Quarter 2020 Earnings Conference Call. With me today are Yuval Wasserman, our CEO; Paul Oldham, our CFO; and Brian Smith, our Director of Investor Relations. If you have not seen our earnings press release, you can find it on our website at ir.advanced-energy.com. There, you will also find a slide presentation to follow along the discussion today.

Before I begin, I'd like to mention that Advanced Energy will be participating at multiple investor conferences in the coming months. As the events occur, we will make the announcement.

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 and uncertainties is found in our filings with the SEC. All forward-looking statements are based on management's estimates, projections and assumptions as of today, August 5, 2020, and the company assumes no obligation to update them. Long-term targets presented today, which include our aspirational goals and the integration targets, should not be interpreted in any respect as guidance.

On today's call, our financial results will be presented on a non-GAAP financial basis, unless otherwise specified. Any explanation of our non-GAAP financial measures as well as reconciliation between GAAP and non-GAAP measures can be found in our press release today.

With that, let me pass the call to our CEO, Yuval Wasserman. Yuval?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Thank you, Edwin. Good morning, everyone, and thank you for joining us on this call. This was a good quarter for Advanced Energy with strong demand across several of our markets and solid execution, which enabled us to deliver financial results at or above the high end of our expectations in a continued challenging environment.

The strength in demand is fueled by multiple technology trends that are driving the data economy in the Fourth Industrial Revolution that result in an acceleration in adoption due to COVID 19. In line with our growth and diversification strategy, the acquisition of Artesyn has expanded our exposure to these trends and verticals, and we are ahead of plan in driving the integration of the combined company and achieving our synergy goals.

Our pure-play power strategy focus and our integrated functional organization provide us with the synergy, operational excellence and capabilities, which allowed us this quarter to deliver sequential growth in 3 of our 4 market verticals, resulting in revenue of \$340 million. We generated non-GAAP EPS of \$1.18, above our guided range, and our highest operating cash flow in 2 years.

In the midst of the current global pandemic, we continue to put the safety and health of our employees and our communities first. At the end of the second quarter, all of our major manufacturing sites had returned to near full capacity, operating with enhanced safety protocols and physical separation that are above and beyond local government requirements.

Our supply chain continues to improve, but we still see some bottlenecks that require for active action to manage shortages and on-time delivery of raw materials. With the increase in global cases of COVID-19, the environment is very dynamic and unpredictable, and our results may continue to be impacted more by operating conditions and capacity than by underlying demand.

Turning now to our markets and performance. Demand from the semiconductor market grew once again in the second quarter driven by continued strength in foundry/logic applications and improved demand for memory applications, particularly in NAND on the transition to higher layer accounts.

Since reaching the cyclical trough in the second quarter of 2019, our sales into the semiconductor market grew by 61% year-over-year, outpacing the WFE and our peers. This strong performance confirms our market share gains, the increased power content in leading-edge applications, our expanded product portfolio and the normalization of customers' inventories. With memory investment in this cycle remaining well below the last, we believe that we're well positioned to continue to outgrow the industry when memory investments resume.

Looking into the third quarter, we expect our sales into the semiconductor market to continue to grow. As a leading innovator in semi power solutions, we continue to deliver groundbreaking technologies and products to enable our customers' innovation. At the recent SEMICON West, we introduced 3 new process power products and a new configurable embedded power supply. The process for our products are being evaluated by multiple customers for ALD, ALE, advanced conductor etch and PECVD process for leading-edge logic and memory devices.

The embedded power supply, iHP, is the latest of our broad portfolio of configurable power supplies and is a high-power multi-output system that can be used for multiple auxiliary power applications in both front-end and back-end tools. We expect successful evaluation of this product to drive additional cross-selling revenue and expand our addressable market within semi.

Beyond new products, our leading technology continued to generate new design wins and market share gains. Design wins we announced previously have resulted in RF match revenue in Q2 that is almost double year-over-year. In addition, recently, we shipped several units of our most advanced triple-frequency Navigator RF matching network. Our focused effort to -- in remote plasma sources continue to drive growth each quarter as our superior process performance and long chamber lifetime resonate with customers. Finally, recent design wins in etch and dry clean applications continue to strengthen our position at Korean OEMs.

In our industrial and medical markets, revenue grew sequentially driven by strong demand in medical applications, improved ability to deliver products from our ramping factories and initial recovery from the product transition by a large customer we discussed in Q1. Although we grew sequentially, macro weakness exacerbated by COVID-19 continues to limit the overall industrial market. Within this environment, Q2 was one of

our strongest quarters for medical products as very strong demand for COVID-related critical care and medical applications more than offset weakened demand in elective and cosmetic procedures. In addition, we won multiple new designs for applications ranging from DNA sequencing and mobile X-ray to surgical microscopes. Looking forward to Q3, we expect revenue in the industrial and medical vertical to grow sequentially, supported by ongoing demand in medical and our improved production capacity.

Revenue in our data center computing market was down slightly from record levels last quarter with continued sequential growth in hyperscale, offset by lower enterprise computing revenue due to supply constraints. Overall, data center computing grew 89% year-over-year on a pro forma basis, and hyperscale was up more than 5x over last year's pro forma level due primarily to our market share gains. In addition, we began shipping production units to a third major hyperscale customer this year as we secured a leading position in its common data center platform. With the third major hyperscale customer, we remain confident and believe that the second half of 2020 revenue in data center computing will remain close to the robust levels seen in the first half, assuming our manufacturing capacity is not affected by future waves of COVID-19.

At the OCP Virtual Summit in May, we launched our next-generation power shelf, which is designed to support the data center infrastructure migration to 48 volts. We have seen increased interest in our power shelf solutions from a widening group of data center customers, ranging from gaming and retail to consumer Internet and international cloud service providers.

With growing demand for artificial intelligence applications, AI data center racks are projected to consume up to 7x more power than traditional data center racks. We believe our industry-leading power conversion efficiency and our continuing innovation in data center rack power architecture will both drive our growth and play a critical role in helping the industry reduce electricity consumption.

Beyond data centers, our industry-leading power efficiency and power density will be important enablers for improving energy sustainability across many industries. Recently at SEMICON West, our customers, Applied Materials, announced its SuCCESS2030 initiative. Advanced Energy is one of the 6 strategic partners working with Applied towards a more sustainable supply chain. By advancing our energy-efficient products and our environmentally efficient operations, we are adhering to our commitment to sustainability leadership.

Finally, demand from our telecom networking markets increased from the first quarter as these markets appeared to be reaching a bottom. In addition, revenues in the second quarter benefited from high volume of shipments of several prior design wins across multiple customers. While investment across global telecom infrastructure continued to be delayed by COVID-19 and geopolitical tension, strong demand for data center networking is generating increased sales for our products during the quarter with our next-generation interconnect router design due to our industry-leading power density.

Looking into the third quarter, we expect to see revenue maintained around these levels. Long term, global deployment of 5G infrastructure will drive new requirements for more advanced power systems.

To summarize, our operational excellence and execution allowed us to capitalize on strong demand from our customers and increased revenue. As a pure-play power leader, we grew our market leadership, introduced innovative new products and realized the synergistic benefits of the Artesyn acquisition. While COVID-19 is still affecting macroeconomic and operating conditions, this crisis is also accelerating the adoption of the technologies behind the Fourth Industrial Revolution, potentially increasing the long-term organic growth rate in our core markets.

Overall, we're executing our strategic plan to grow faster than our markets and to accelerate earnings growth. And we are making good progress towards achieving our long-term aspirational goals of over \$1.5 billion in revenue, over \$6.5 non-GAAP EPS and over 23% ROIC.

I'd like to thank our customers, shareholders, partners and our valued employees for your support, especially during these challenging times. I look forward to speaking with many of you in the upcoming quarter.

With that, let me turn the call over to Paul. Paul?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Thank you, Yuval, and good morning, everyone. Before I begin, please note that all financial measures presented today will be on a non-GAAP basis, unless otherwise stated. Excluded from non-GAAP results are amortization, stock compensation, integration and transition costs, unrealized foreign exchange gains and losses and restructuring items. This quarter, we recorded \$5.8 million in restructuring costs related to the transition of manufacturing from Shenzhen to Malaysia and other actions associated with synergies related to the Artesyn acquisition. We also recorded \$1.1 million in noncash, unrealized FX losses related to long-term lease and pension liabilities. A full reconciliation from GAAP to non-GAAP measures can be found in our press release issued earlier today.

In our second quarter, we delivered outstanding financial results, exceeding expectations and guidance for revenue, gross margin, operating margin and cash flow generation. Our team's strong execution in the challenging environment enabled our non-GAAP EPS to be above our widened range and our annualized return on invested capital to increase to over 20%. Cash increased by \$28 million, and we generated additional synergies from the integration of Artesyn.

Second quarter revenue was a record \$340 million, up 7.7% from \$315 million last quarter and up 152% from \$135 million a year ago. On a pro forma basis, including a full quarter of Artesyn revenue in prior periods, Q2 revenue grew 24% year-over-year with strong growth in semiconductor and data center computing markets, partially offset by declines in industrial and medical and telecom and networking. Excluding Artesyn, organic revenue grew 11.5% sequentially and 34% year-over-year to \$180 million.

Turning to revenue by market. Sales in semiconductor in Q2 were \$145 million, up nearly 9% from the strong first quarter and up 61% year-over-year. On an organic basis, semi revenue grew 60% year-over-year with strong demand from foundry/logic and higher investment in NAND memory. Semi product sales were up over 9% sequentially and 88% year-over-year. Semi service revenue also grew about 9% from last quarter but declined 8% from last year due to COVID-19-related capacity constraints in some of our service centers. Overall, our semiconductor revenues have grown faster than WFE and the vast majority of our peers, both year-to-date and year-over-year in Q2.

Revenue from our industrial and medical markets was \$71 million, up 14% sequentially as a result of growth related to critical care medical devices, increased thin film market demand and our improved ability to deliver products. On a pro forma basis, revenue declined 23% year-over-year driven by general macro weakness in several of our industrial sectors, exacerbated by the COVID-19 crisis.

Data center computing revenue was \$83 million, down 3% from the exceptionally strong first quarter but up 89% year-over-year on a pro forma basis. Hyperscale continued to grow, offset by lower enterprise revenues, mainly due to capacity constraints in our Philippines facility.

Telecom and networking revenue was \$40 million, up nearly 20% sequentially on solid shipments of our design wins. On a pro forma basis, revenues declined almost 14% year-over-year as the global telecom infrastructure investment continued to be impacted by the pandemic.

Non-GAAP gross margin for the quarter expanded almost 100 basis points sequentially to 38.7%. Margins benefited from substantially better-than-expected product mix and material cost and positive other cost of sale items, partially offset by increased costs related to COVID. In addition, we improved factory utilization overall and are beginning to see the impact of some of our synergy actions. Although we do not expect all of these favorable items to repeat next quarter, we continue to make steady progress on our goal to improve overall gross margins to greater than 40%.

Non-GAAP operating expenses were \$77.8 million, up \$3 million from last quarter, primarily related to increased R&D investments and variable expenses associated with the higher revenues. Expense as a percent of sales improved almost 100 basis points, demonstrating the synergy and leverage in our model and at under 23% of sales is in the top quartile of our competitors even as we continue to make critical investments to drive growth.

Non-GAAP operating income improved to \$53.8 million and 15.8% of revenue. Non-GAAP other expense was approximately \$500,000, down from \$3.5 million last quarter, primarily on the timing of an insurance claim and subsequent recovery and on lower net interest expense. We expect total other expense to be in the \$1 million to \$1.5 million range going forward.

Our non-GAAP tax expense was \$7.9 million or 14.7%, primarily as a result of integrating Artesyn into our structure and favorable mix of foreign earnings. Looking forward, we expect the GAAP and non-GAAP tax rate to remain around 15% to 17%.

Non-GAAP earnings for the quarter was \$1.18 per share, up 30% from \$0.91 last quarter on higher revenue and margins. EPS was up over 150% from \$0.45 a year ago. The Artesyn acquisition continues to contribute positively to our consolidated results. The acquisition was solidly accretive in Q2, adding over \$0.30 per share to non-GAAP earnings, including the interest expense of financing. And as of the end of Q2, realized synergies to date were over \$20 million.

As a result, we have largely achieved our Phase 1 synergy goals after the first 3 quarters, well ahead of our original plan of 18 to 24 months. As we integrate Artesyn, we have found new opportunities to further improve our costs, allowing us to reinvest part of the achieved synergies into R&D to drive faster long-term growth while keeping our long-term operating margin goal of over 20%. Based on the great progress we have made, we remain confident in meeting or exceeding our long-term targets of \$40 million of annualized synergies and \$1.50 per share in EPS accretion.

Turning now to the balance sheet. We ended the quarter with cash and marketable securities of \$383 million, up \$28 million from Q1. Operating cash flow from continuing operations was \$38.6 million, our highest level since Q2 of 2018. Receivables increased on higher sales, and DSO rose by 1 day to 62 days. Inventory increased by \$25 million. And turns were 3.2x, reflecting investments we made to manage risk in the COVID environment.

Payables were \$180 million, representing 77 days of DPO. Total days of net working capital were 97, up 6 days from last quarter. Capital expenditures for the quarter were \$7.3 million, and depreciation was \$6.6 million. During the quarter, we repaid \$4.4 million of debt and ended with total bank debt of \$331 million, resulting in gross debt leverage of 1.8x. We did not repurchase any shares during the quarter.

Now let me turn to guidance. In the near term, we continue to see strong demand in our semiconductor market and anticipate continued modest improvement in industrial and medical. We expect demand in the data center computing and telecom and networking markets to fluctuate at around the current levels. However, we continue to see changes in the environment related to COVID-19 as many governments reimplement certain levels of quarantine.

Factoring in the limited visibility and ongoing operating and macroeconomic risk related to COVID, we are guiding Q3 revenue to \$350 million, plus or minus \$25 million. Based on anticipated mix, volume and ongoing COVID-related costs, we expect non-GAAP gross margins to be in the 37% to 38% range, up 150 basis points from last quarter's guidance as we gain more traction on our synergy and structural improvements. Operating expenses are expected to be about flat, including increased engineering investments related to a new advanced dielectric etch evaluation program with a strategic OEM. As a result, we expect non-GAAP earnings at \$1.15 per share, plus or minus \$0.25.

To summarize, we delivered a great quarter operationally and financially with record revenues, improvement in gross margin and operating margins and almost 30% sequential increase to our non-GAAP earnings. Our pure-play power strategy is enabling us to capitalize on market and technology trends across many of our verticals, accelerate growth and realize synergy and operating benefits ahead of our plan. We are well on our way to building the business and financial model of a top-tier industrial technology company, and we are on track to meeting or exceeding our stated long-term aspirational goals.

With that, we will take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Tom Diffely with D.A. Davidson.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

So first, I'm curious, as we ramp up the semiconductor business right now, you mentioned that it's obviously a combination of markets and share gains. But I'm curious, are you seeing the beginnings of an inventory increase at your customers yet? Or is that still to come?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

I can't comment on that, Tom. I don't think we have enough visibility to report on our customers' inventory. We -- I'm sorry?

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

I was just going to say that, yes, through the cycle, typically, the inventory gets bled off when things slow down. But then you outgrow the market because both your end markets go up faster. And also, there's a build in the channel. So maybe not specifically for customers but just in general, are you seeing the build of your tools in the marketplace from an inventory point of view?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. Tom, as Yuval said, it's hard for us to have exact visibility to our customers. But I can say that we continue to see steady pull. Our bin sizes, our levels, aren't really changing. So we're not seeing increase in inventory in the bins. And our sense is our customers are consuming inventory at the rate we're shipping it.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Yes. We don't see any abnormal behavior, Tom. And our demand continued to be strong. And we're very constructive towards Q3 within semi.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Great. And then, Paul, when you look at the new products, what do you think the impact will be on margins over time as they start to become more accepted in the marketplace?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Well, generally, our new products, Tom, have more innovation, more capability in semi, more power or accuracy. And as a result, we expect to sustain or grow our margins with our new products, as we've done historically.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Another comment related to that, Tom. As we develop new products, we rely on a future combined operation organization and platform that is a combination of a traditional AE and the Artesyn very efficient operation. So we expect to benefit from a much more efficient manufacturing and lower cost manufacturing for our future products. Some of these products will be vertically integrated.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

And of course, as we transition the product portfolio and complete the synergy and activities with Artesyn, all of these things will contribute overall to our ability to continue to drive gross margins higher and above our goal of 40%.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Yes. And we're making great progress toward that.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Yes. Okay. And finally, Paul, you mentioned that there were some supply constraints. It seemed like that was more centered around the data center business. I was wondering if you could explain why it hit that segment of your market more than the rest.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. I think as you look at -- at this point, our factories are largely up and running. But we still have point issues with supply. You noticed our inventory was also up this quarter. Part of that was an effort to make sure we had adequate supply to meet our customer needs. But you still need a full kit to ship products. And then in this case, that particular market and a few products there were impacted the most by supply constraints in the factory and material.

Operator

And our next question comes from the line of Quinn Bolton with Needham & Company.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Paul, I guess I'm scratching my head a little bit on that gross margin guidance. I know you guys had a much stronger gross margin in the second quarter. But when I look at the revenue mix shift in Q3, it sounds like semiconductor, which is your highest gross margin business, is going to be growing the fastest. So -- and overall, revenue is up. So you should get better absorption in the factories. And I'm just trying to understand why margin could be down 120 basis points at the midpoint.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. It's a good question, Quinn. This quarter, as I explained, we had pretty much everything go right. Obviously, we had COVID costs, which were unfavorable, but we -- but that continues. So as we look forward, we just don't see all of those things continuing to fall to the right side. And although semi is up, our mix within our overall product portfolio in the different product categories has as much impact as just one market or another. And so on balance, when we look at the operating activities in the third quarter, we do see margins down a little bit.

I'll also note that while our factories are largely up and running, we are focused on reducing inventory. And we have inventory position in the hubs and other areas which we expect to draw down, which is part of the revenue increase in Q3, not necessarily all higher factory output.

Quinn Bolton - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. Understood. And then I guess, just looking toward -- with revenue guided to about \$1.4 billion on an annualized basis, it looks like you guys are well on your way to your aspirational 2022 goal. Just wondering if you had any updated thoughts. I mean, it certainly seems like you're tracking to that kind of target perhaps even before 2022. But just as you look out, WFE, I think, is expected to be up high single digits to 10% next year. In that kind of environment, how would you look at that aspirational goal? And how close do you think you can get next year?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Good question, Quinn. And as we do almost every year, our intent is to update our goals, long-term goals, as we complete our strategic planning process. And within the next few months, we will find the right platform to announce our updated goals.

Operator

And our next question comes from the line of Amanda Scarnati with Citi.

Amanda Marie Scarnati - *Citigroup Inc., Research Division - VP & Semiconductor Consumable Analyst*

First question I have is on the data center side of the business, and I just want to clarify that I heard a comment correctly. I think you mentioned that the data center business was down and partly due to capacity constraints. Can you just talk about how that business is doing and if you're seeing more of an impact from demand or more of an impact from capacity constraints? And if you expect that demand -- or the constraints to recover any time near term?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

So we -- more specifically about the demand part of -- the capacity part of the question, this specific revenue stream that goes into data centers, not the hyperscale, was more affected by capacity constraints related to COVID-19, mainly in the Philippine factories as, I think, Paul, you said. We continue to see the market continue long term to be strong. We said we expect, in general, to be at the same level going forward, while hyperscale will -- will grow at much faster rate for us because of our continuing market share gain and adding more customers of hyperscale giants to our list of customers. And that will take -- very similar to what we see in other capital equipment-related sales, it requires working closely with customers, with their engineers, going through the qualification and evaluation and certification. And at that point, we migrate into a ramp. And we are, right now, we believe that we are practically in the third inning of our journey into hyperscale.

So we expect long term to continue to benefit from our growing presence and to grow faster than the market. Long term, there's no doubt that the data center hyperscale world would grow as the use of data and the need for storage of data will continue to grow. Though the underlying demand is very strong, we may see fluctuations mainly affected by COVID-19, in general, digestion period of these very large data centers. But we are very excited about our future as a fast follower to the market from 2 years ago. We're getting tremendous momentum and continue to gain design wins primarily because of our very advanced power density and power conversion efficiency.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. That's right. And I'll just note, Amanda, as you've all said, quarter-to-quarter, we can see -- we'll see a little variation just because of some new customers, some of the supply issues. But as context, recall that this business is up 89%, almost 2x from where it was a year ago and from even late last year. So we're sustaining these much higher levels of business and expect that to continue.

Amanda Marie Scarnati - *Citigroup Inc., Research Division - VP & Semiconductor Consumable Analyst*

Okay. And then on the industrial and medical side of the business, are you seeing any sort of increase in or speeding up rather of qualification time due to COVID and needing to get new products to the market? Or was the increase that you saw in medical really due to existing things that you already had in the pipeline?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

I'm not sure if we see a dramatic change in the evaluation time of the -- of our products in medical. I think we -- obviously, we saw a very mixed picture recently due to the increase in demand for our products for solutions that are directly related to COVID-19, like respirators or gene sequencing tools. We continue to look at the medical application space as a growth engine for us. We are benefiting from the need, the current need for more capacity, but we also have new design wins that go into diagnostic and therapeutic applications that are not related to COVID-19.

To give you like a calibration, I think we grew our marketing -- our medical revenue from \$50 million to \$75 million.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. We're about \$75 million.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Yes. We're \$75 million right now. And last time we talked about it, we were 15 -- \$50 million.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. We said over \$50 million.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Over \$50 million. And we expect to continue to grow in this area. This is an area of investment, of interest. It has all the attributes that we like to see in a target market, customized solutions for critical applications, sticky relationship with a customer. And once you get designed in and qualified, it becomes a long-term annuity.

Operator

And our next question comes from the line of Mehdi Hosseini with Susquehanna.

Mehdi Hosseini - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I joined the call late, so I apologize if I'm asking a question that has already come up. A couple of big picture items. I go back to the targeted goals of more than \$1.5 billion of revenue and pro forma earning of \$650 million. So you -- on the revenue side, if I just look at your June quarter and annualize it, you're not that far from the targeted revenue. But on the EPS, perhaps there is some catching up, and that has to do with additional leverage that is realized due to a better cost structure. Is that the right way to think about what you did and how you're tracking against this long-term growth?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Let me talk about the revenue. Yes, let me talk about our revenue, Mehdi. As I said earlier, I think maybe you came late to the call, we anticipate to update our long-term aspirational goals within a few months after we finish our strategic planning process. And as we said earlier multiple times, in Q1 and this quarter, we were making progress, really great progress towards our long-term goals. And I think in some aspects of the plan, we are ahead of plan. We're ahead of plan in the integration of Artesyn. We're ahead of plan in our growth rate. So when it comes to updating the future projection of the company, we will provide that within a few months.

And about gross margin, do you want to maybe talk about that?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. Let me just talk about the rest of the model. Because you're right, we are approaching on the revenue side, we're getting closer. But recall that our model was a fully synergized model. And we're making great progress on synergies. As I said, we basically achieved our Phase 1 synergy goals within the first 3 quarters. We thought that would take us 18 to 24 months. But we need to achieve our Phase 2 goals to achieve that, the EPS, to your comments. So we feel like we're in good shape. We're actually tracking a little bit ahead of our plan. We're seeing the benefit from faster revenue growth as many of our markets have recovered and we've grown share in data centers. But we'll continue to work on executing that synergy plan and driving the leverage in the business over the next several quarters, driving towards those long-term goals.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

One more comment about this, Mehdi. I wouldn't expect our business evolution to be linear, right? We live in a dynamic environment. We live in a very -- especially now, very large fluctuations related to COVID-19. But the one thing we also need to note, as we note in our prepared comments today, we are selectively and purposefully investing more in R&D in some really, really important growth engines that in some time during the trajectory, in developing our long-term strategy, we make decisions that are related to future growth. As we made a comment today, we have increased our R&D spend going forward to address some really unique growth opportunities in the semiconductor etch that we're pursuing right now in collaboration with key OEMs. And we have decided to increase our spending in R&D. And as I said earlier, we're very bullish about our ability to meet our long-term goals, but it may not be linear.

Mehdi Hosseini - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Sure. It's just -- I think in how your list of problems have changed on a year-over-year basis, and now you have good problems, and that leads to my follow-up question. You're also showing a rebound in the net cash per share. And what are the plans for that, assuming that, that trend were to continue?

And then maybe I'll just add one more follow-up. How do you see semiconductor revenue into next year, assuming that memory mix would pick up and that's where your sweetest spot is? And I expect continued growth, but I just -- I would love to hear your view. So what to do with the cash? And...

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

So let me -- yes, let me start with capital deployment. We were very open and clear about our capital deployment strategy, and we will continue to focus on actively looking for additional acquisitions. We were, obviously, doing a great job deleveraging our debt, and we periodically review internally and with our Board whether or not we would like to execute on opportunistic shares buyback and other return to shareholders. We have a strong deleveraging power and cash generation power, and our intent is to deploy our capital.

When it comes to long-term semiconductor projections, listen to our customers. At SEMICON West and reading some of you guys' reports, we're very constructive about the future. And we believe that long term, 2021 is perceived and expected to be a strong year for semi. And obviously, we will be benefited from that, not only because of the fact that we will grow with the market. We continue to gain market share. We continue to cross-sell embedded power products into semi. We continue to increase our SAM. And for that reason, we continue to focus on our mission to grow faster than the market we serve.

Operator

And our next question comes from the line of Krish Sankar with Cowen and Company.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

I had a few of them. You were -- is there a way you can characterize or quantify what your market share on the semiconductor side is between NAND and DRAM?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

We never looked at that, that way, and we never dissected our market share between DRAM and NAND. Some of our products end up on our customers' machines that may end up to either/or, logic or memory or DRAM and NAND, not always we know exactly what the target application is within the fab. So I don't believe we have that.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Got it. Got it. No worries. And then on the data center side of your revenues, is there a way to characterize what percentage of your data center revenue is from hyperscale?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

I don't -- do we...

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

We haven't broken that out at this point, Krish.

Krish Sankar - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

All right. No worries. And then just a final question for Yuval. When you look at hyperscale and look at some of the telecom networking side, my understanding is that most of them are like kind of going towards like 48-volt on the equipment side. Do you actually see the products merging down the road between hyperscale and telecom? Or do you think there's still going to be a distinct difference between the 2?

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

We see some talks about cross-pollination. Right now, from our perspective, we are excited and focused on the migration to 48 volts in data center hyperscale. And we bring to the table unique technical advantage that came with the Artesyn innovation and engineering teams, more specifically related to power conversion efficiency and power density, which means basically you can increase the power without dramatically increase your footprint or your volume of the box, and that means power density.

Related to that, the ability to go to market quickly with innovative and leading solutions as a -- and time to market plays an important role here. And as we go from a fast follower into a leader and enable customers with time to market, we also believe that our margins will improve.

Operator

And our next question comes from the line of Pavel Molchanov with Raymond James.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Kind of a quirky regulatory issue. Now that Hong Kong is no longer kind of treated independently under U.S. law for trade purposes, I'm curious if you have any customers in Hong Kong or purchasing through Hong Kong that may be affected by the technology transfer restrictions.

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. We don't have any large customers that we service out of Hong Kong. Obviously, we have operations there. There are transactions that flow through there, but we don't see any change or impact to us as a result of the recent changes from a day-to-day or transaction activity.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Understood. Okay. That's good to hear. And then a balance sheet question. You're continuing to pay down pretty modest amounts, \$4.4 million of debt per quarter. But obviously, you have \$380 million of cash on the balance sheet. Is there any rationale for accelerating the debt paydown since that is one of your stated goals for capital allocation?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Yes. It's a really good question, Pavel. And as you've seen, we have brought the debt down modestly. Our view, as the environment has changed with the lower interest rates and, frankly, our ability to lock in extremely favorable financing, is that we don't anticipate bringing that debt down very quickly. We'll see how interest rates go. But as you recall, with the swap we put in place earlier in Q2, our net cost -- our total cost of debt is around 1.25% or lower. So that's -- in that rate environment, we don't see really an advantage to accelerating the debt payback beyond the modest amounts we've been doing.

Pavel S. Molchanov - *Raymond James & Associates, Inc., Research Division - Energy Analyst*

Okay. And then just a quick one on your geographic sales mix. Latin America right now stands out as the hardest hit global region from the pandemic. I'm curious, what exposure, if any, you have to customers kind of Mexico and South America regions?

Paul R. Oldham - *Advanced Energy Industries, Inc. - Executive VP & CFO*

Certainly, South America, I'd say, it's quite small. There is some, mostly from embedded power products. And Mexico, there is certainly some exposure because we have customers that have -- for embedded power that have operations in Mexico. But all in, it would be our smallest of our various regions.

Operator

And I'm showing no further questions. And I would like to turn the conference back over to Yuval Wasserman for any further remarks.

Yuval Wasserman - *Advanced Energy Industries, Inc. - CEO & Director*

Thanks, everybody, for joining us today. We had a great quarter despite of COVID-19. We continue to outperform and do better on the short-term and long-term plans. Excited about the projection of the company and the future of the company, and I'm looking forward to talking to many of you during the quarter. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Everyone, have a great day.

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