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Advanced Energy Industries, Inc. (AEIS)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Energy Third Quarter 2025 Earnings Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

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

Edwin Mok

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

Thank you, operator. Good afternoon everyone. Welcome to the Advanced Energy third 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 of future performance. Information concerning these risks can be found in our SEC filings. All forward-looking statements are based on management's estimates as of today, November 4, 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, unrealized foreign exchange gain or loss, and the dilutive effect of convertible note due to the higher no-hedge strike price versus the initial conversion price. Detailed reconciliation between our GAAP and non-GAAP results can be found in today's press release. Please note that this quarter, we added a new reconciliation for non-GAAP income tax and tax rate.

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. Third quarter revenue and earnings exceeded the high end of guidance, largely due to record data center revenue, which more than doubled year-over-year. Total company revenue increased 24% from last year, our fourth consecutive quarter of year-over-year growth. Strong revenue, solid execution and cost savings from our China factory closure pushed gross margin higher. As a result, we delivered the second best quarterly EPS performance in our history.

This year's financial performance demonstrates the value of our market diversification strategy. By selling our industry-leading power technologies into a variety of high-end markets, we're able to generate more consistent profits and cash flow. Our markets don't generally move in sync so there's a good chance that one or more of our markets will be strong at any given point in time. This financial stability has allowed us to continuously increase our investments in new technology, products, infrastructure and production capacity. These are the key enablers of our future growth.

Sharing best-in-class technologies across our portfolio is accelerating our time-to-market. As an example, high efficiency, high density technology blocks created for data center applications have already been incorporated into several new semiconductor and industrial products. Another example is liquid cooling, a technology we perfected for plasma power applications. This knowhow gives us an advantage in the Data Center market, which will eventually shift to liquid-cooled solutions as power levels increase.

Our strong balance sheet allowed us to increase capital investment this year to capture upside demand. The payback on this incremental investment will be measured in months, not years. In addition, our new flagship factory in Thailand where we broke ground in 2023 is now ready to start production within months of a go signal. We believe that this factory will be able to deliver more than \$1 billion in incremental yearly revenue. On the new product front, we are seeing a high level of customer interest in our new technology platforms and in our ability to quickly develop custom products based on those platforms. Now, let me provide some color on each of our markets.

In Semiconductor, third quarter revenue was down sequentially but about flat year-over-year. Despite some near-term market choppiness, we expect 2025 to be our second best year ever in Semiconductor. Looking forward, we expect demand for both leading-edge logic and memory to accelerate in the second half of 2026 moving into 2027. The leading-edge is where our eVoS and eVerest technologies have taken root so we expect to see both revenue growth and share gain as the market strengthens.

Customers have validated the yield and throughput benefits of our eVoS and eVerest platforms and continue to incorporate them into next-generation equipment. At SEMICON West, we showcased multiple versions of our eVerest platform, each tailored to a customer-specific application. In addition to our success in plasma power, we

are also winning in system power applications, adapting our latest industrial power technologies to the needs of semiconductor equipment makers. Multiple wins have begun ramping to volume.

In Data Center Computing, revenue more than doubled year-on-year and reached another record. Our technology leadership, superior execution, and accelerated capital investment have enabled this increase in profitable revenue. We expect AI-driven demand to remain robust in the coming quarters and to drive year-on-year growth in 2026. New program wins secured over the past year are beginning to go into production later this quarter, with further high-volume ramps beginning in the first quarter of 2026. In addition, we are deeply engaged with our customers in the development of next-generation power solutions, including more efficient, high-voltage DC power architectures. We expect most of our current design engagements to ramp to volume in 2027 with more to come in 2028.

At the recent OCP Global Summit, we unveiled several new high-power platforms geared to meet the next-generation needs of our customers. In fact, several of our partners featured our products on the show floor. In addition, we are seeing strong interest from emerging cloud and enterprise customers seeking proven, reliable, efficient and compact solutions for their AI racks. Leveraging in-house technology blocks, we believe that we can quickly customize solutions for many of these customers.

In Industrial and Medical, revenue and backlog again grew sequentially in the third quarter as customer inventories continued to normalize. In the distribution channel, resales grew sequentially and inventories declined for the sixth consecutive quarter. Looking forward, we expect steady revenue improvement in the coming quarters. In Q3, we secured important design wins in aerospace and defense and in several medical applications. We are delighted with the customer enthusiasm for our new technology platforms, such as the high-power density Evergreen series and the NeoPower line of configurable power solutions. Acceptance of these and other new platforms will help to drive market share gains beginning next year.

In addition, our opportunity funnel continues to grow, benefiting from our strong digital marketing efforts, robust distribution partnerships, and a focused sales and applications team. In Telecom and Networking, revenue grew sequentially. We also expect sequential growth in the current quarter, driven by AI-related programs.

Now, for a few closing thoughts. Due to our technology leadership, development speed and operational execution, we now expect overall 2025 revenue to grow approximately 20%. Since our Analyst Day a year ago, infrastructure investments in artificial intelligence have increased substantially. These investments are driving increased demand for differentiated data center power solutions. In addition, high-performance AI systems are stimulating investments in leading-edge logic and memory processes, which in turn will drive demand for our latest plasma power technologies.

In Semiconductor, we believe the customer acceptance of our eVoS and eVerest technologies is laying the foundation for meaningful share gain. In Data Center, we now expect revenue to more than double in 2025, with further growth in 2026. And in I&M, we believe that our design win pipeline will drive market share gains in the coming quarters.

Our manufacturing strategy and execution have enabled us to consolidate our factory footprint and meet growing demand. Looking forward, we are taking additional actions to further improve manufacturing efficiency, enable scale, and achieve our long-term gross margin goals. In addition, we now have our 500,000 square foot Thailand factory available to ramp on short notice. Finally, with a strong balance sheet, we continue to pursue acquisitions, which meet our strategic and financial goals.

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. Third quarter revenue of \$463 million was above the high end of our guidance, as investments in operational capacity and flexibility enabled us to capture higher data center demand. Gross margin improved quarter-over-quarter and exceeded our target, driven by faster-than-expected benefits from our China factory closure and lower tariff costs. Operating margin improved 220 basis points sequentially and we delivered earnings per share of \$1.74, up 78% from last year and at the highest level since 2022. In addition, we more than doubled our operating and free cash flow over last year even as we increased capital investments to meet growing data center demand.

Now, let's review our financial results in more detail. Third quarter total revenue was \$463 million, up 5% sequentially and 24% year-over-year. Revenue in the Semiconductor market of \$197 million was about flat year-over-year, but down 6% sequentially, consistent with near-term market dynamics. Data Center Computing revenue was \$172 million, up 113% year-over-year and up 21% quarter-over-quarter.

We executed well to respond to changes in customer demand, enabling us to capture higher revenue in a dynamic supply chain environment. Industrial and Medical revenue of \$71 million was down 7% from last year, but increased sequentially again, up 4% from last quarter. Encouraging data points from our distributors include six consecutive quarters of decreasing inventories and continued improvement in bookings, backlog and sell-through.

Telecom and Networking revenue was \$24 million, up 24% from last year's low due to timing of some programs and up slightly quarter-over-quarter. Gross margin was 39.1%, up 280 basis points over last year and 100 basis points sequentially, driven by earlier than expected benefits of our China factory closure, better factory loading, and lower near-term tariff costs. We are pleased that we again improved gross margin despite a higher mix of data center revenue and related factory ramp costs.

Operating expenses were \$103 million flat from last quarter and slightly lower than expected due to the timing of SG&A spending. OpEx as a percentage of revenue decreased 360 basis points year-over-year, demonstrating the leverage in our model. Operating income for the quarter was \$78 million, with operating margins at 16.8% of sales, the highest level since 2022.

Depreciation was \$10 million and our adjusted EBITDA was \$87 million. Other income was down slightly at \$1.7 million on higher FX costs. For Q3, our non-GAAP tax rate was 16.6% on favorable mix of earnings and benefits of amortizing R&D in the US under the new tax law. Third quarter EPS was \$1.74 per share compared to \$1.50 in the previous quarter and \$0.98 a year ago.

Turning now to the balance sheet, total cash and cash equivalents at the end of the second quarter was \$759 million with net cash of \$192 million. Cash increased by \$45 million quarter-over-quarter. Cash flow from continuing operations was \$79 million and free cash flow was \$51 million, up 124% year-over-year. Inventory turns increased slightly quarter-over-quarter at 2.8 times on higher revenue. Receivables improved from 62 days to 58 days and DPO was about flat at 62 days.

During the third quarter, we paid \$4 million in dividends and invested \$28 million in capital equipment. We expect full-year 2025 capital investments to be at the high end of our range of 5% to 6% of sales and to remain elevated

for the next few quarters on investments in data center capacity, infrastructure capability, and our factory consolidation strategy.

Before moving onto guidance, let me provide some comments on the impact of tariffs. The environment continues to be dynamic, requiring us to implement additional actions to mitigate the impact of new tariffs. Although tariffs were lower in the third quarter on timing of recoveries, we expect tariffs to increase in the fourth quarter and continue to be in the 100-basis-point range.

Turning now to guidance, we expect Q4 total revenue to increase sequentially to approximately \$470 million, plus or minus \$20 million. Semiconductor revenue is expected to be down slightly, consistent with customer forecasts. We expect Data Center Computing revenue to increase modestly from the strong Q3 levels based on mix and timing of customer shipments. In Industrial and Medical, we expect sequential revenue growth over the next few quarters paced by uncertainty in the macro environment, and in Telecom and Networking, revenue is expected to be up slightly on demand for AI-related products.

We expect gross margin in the fourth quarter to be between 39% to 40%, with benefits of cost optimization partially offset by increased tariff costs. We continue to believe that excluding the impact of tariffs, Q4 gross margins would be at 40% or greater. We expect operating expenses to increase to approximately \$107 million on R&D program-related costs and higher variable costs given the stronger full-year performance. Other income should be \$1.5 million to \$2 million, and the tax rate is expected to be around 17%. As a result, we expect Q4 non-GAAP earnings per share to be \$1.75, plus or minus \$0.25.

Now for some closing comments, our solid performance this year confirms that AE's diversification strategy is working. By leveraging our broad portfolio of power technologies and our industry-leading engineering team, we are targeting to win in the Semiconductor, Data Center Computing, and Industrial and Medical markets. These three growth markets inherently come with different business cycles, mitigating industry risks while enabling more consistent revenue growth, profits and cash flow.

Driven by our success in capturing AI-related demand, we are raising our 2025 total revenue growth outlook from 17% to 20%, with Data Center Computing revenue growth increasing from up over 80% to now more than double 2024 levels. Based on the midpoint of our Q4 guidance, we expect 2025 gross margin to expand 240 basis points and operating margins to improve by 530 basis points, highlighting the progress we've made in improving margins and driving operating leverage.

Going into 2026, we are well-positioned to deliver growth in each of our targeted markets. In Semiconductor, we expect our new products and leading-edge investments to drive growth as the market accelerates in the second half. In Data Center Computing, next-generation designs secured this year are targeted to ramp in early 2026, resulting in projected growth of 25% to 30%. I&M is expected to benefit from our design win pipeline and ongoing market recovery to continue to grow sequentially each quarter.

With plans for further manufacturing efficiencies, product portfolio improvement and ongoing tariff mitigation efforts, we remain focused on delivering higher gross margins and believe that we will reach our initial goal of 40% in the near term despite the impact of tariffs and higher data center mix. Finally, with a solid balance sheet and demonstrated cash flow generation through peaks and troughs, 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: We'll now be conducting a question-and-answer session. [Operator Instructions] One moment, please, while we poll for questions. Our first question is from Brian Chin with Stifel.

Brian Chin

Analyst, Stifel Financial Corp.

Q

Hi there. Good afternoon. Thanks for letting us ask a few questions. Sorry, this first one might be multipart. So, I'm curious, what constraints were you able to alleviate, allowing you to more than double data center revenue growth this year? When do you plan to begin shipping product from your new Thailand facility and do you anticipate any efficiencies in the earlier stages of that ramp? And last part of that question, will you have the bandwidth to bring up new customers alongside your four existing cloud customers?

Stephen Douglas Kelley

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

A

Hey, Brian, I'll take those questions, this is Steve. Now the constraints that we removed in 2025 were largely capacity-oriented. So we upped our CapEx spending, which allowed us to meet upside forecast from our key customers. And so that was what allowed us to hit the doubling of data center revenue year-on-year.

In addition, I think we were able to gain some market share within the programs that we were engaged with at our key customers. So I think a lot of things went right for us in 2025. At the same time, we were engaged with those customers on designs for 2026, and we were successful and so we're anticipating that those ramps will start later this quarter and further ramps will commence in Q1.

I think your second question was on the new Thailand factory. So the status right now is that factory is fully facilitated and ready to go within months of a go signal. So our intent would be to put new customers in that factory, so the second wave customers that we were talking about. And right now, we think the timing of that is in the latter part of the year, but we could go ahead and – this is the latter part of 2027. We could go ahead and do some prequalification work and start to bring that factory up in the second half of 2026. Okay. And finally, your last question was do we have the bandwidth to bring on second wave customers, right?

Brian Chin

Analyst, Stifel Financial Corp.

Q

Yeah, just inefficiencies when you ramp?

Stephen Douglas Kelley

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

A

Yeah. I think that's a really important issue and we don't want to stretch ourselves too thin. And so with the second wave customers, we are focused on solutions that use technology blocks we've already developed so that the engineering, the incremental engineering work is not as significant – not nearly as significant as we've experienced with our hyperscale customers.

So we think we have the bandwidth to do it from an engineering standpoint, but we're going to be very careful. We're going to continue to focus on the needs of our primary hyperscale customers, first and foremost, and spin

off derivatives for the second wave customers. And we also have the ability to scale up further in our factories, whether it's Thailand or the Philippines or Mexicali.

Brian Chin

Analyst, Stifel Financial Corp.

Q

Great. And so, if it's like an open compute design, open rack design probably there, it's a lot of synergies there it sounds like in terms of new customers. And maybe for my follow-up question, when you think about the tailwinds to AI server power content and just aggregate demand that are likely to persist next year, can you – I know it's early, but can you put any parameters around the magnitude of growth you might anticipate in your data center business in 2026?

I know this is probably not the right way to do it, but if I just annualize the fourth quarter kind of embedded data center revenue for this year, this is the – annualizing that would probably be about 20% growth or more next year. So any sort of framework or thoughts you have around that would be helpful.

Paul R. Oldham

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

A

Yeah, Brian, I'll take a cut at that. So I think we've talked in our prepared comments that we would expect to see 25% to 30% growth. So, that means we can sustain these much higher levels and grow from here. I think this represents what we have good line of sight to at this point. Obviously, the market's dynamic. We think there's opportunities potentially to grow faster.

We also don't know exactly what the mix is as new designs kick in versus the existing design sort of phase out or phase down. So we're preparing to ensure that we have the capacity to capture upside with our existing customers, as Steve just mentioned, prepare for potential second wave of customers, and we'll see how it goes. So we've tried to give some direction that we feel comfortable with and we'll look to capture upside from there.

Brian Chin

Analyst, Stifel Financial Corp.

Q

Great. Sorry, I missed that. Yes. I appreciate the help. Thank you.

Paul R. Oldham

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

A

Yes.

Operator: Our next question is from Joe Quatrochi with Wells Fargo.

Joe Quatrochi

Analyst, Wells Fargo Securities LLC

Q

Yeah, thanks for taking the questions. I was curious on the data center side, I assume like the upside this quarter was a lot driven by just kind of catching up to some of the backlog you were unable to fulfill. I guess, how do we think about that contribution in 3Q and 4Q as we look into 2026?

Paul R. Oldham

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

A

Yeah, I think it's similar. As we talked about in our prepared comments, because of our good execution, because of flexibility in our factories, we were able to capture some of this higher demand and ship more this quarter. We do, as we mentioned in our prepared remarks, think we can continue to grow from here. So we do think this is kind of a new baseline for us where we can continue to grow. That growth will be impacted each quarter by what the mix of our customers are asking for and, frankly, that's been pretty dynamic.

I think within the current quarter, within the third quarter, I think that was one of the things we felt good about. We saw pretty meaningful shifts in mix amongst the different products that our customers wants based on the dynamic supply chains in this market today and we're able to respond to that. So our goal is to continue to be able to do that, be responsive, capture the needs of our customers on a real-time basis and grow from here.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Q

Thanks. And then on the Semiconductor side, I think 3Q came in maybe a little bit lower than we were anticipating. But I think – are you still kind of – it sounds like you're still kind of guiding for maybe on the lower end of the mid-single-digit growth for 2025. Curious, your customers or some of your customers are kind of thinking that first half 2026 is relatively flattish to second half 2025. Is that kind of what we should be thinking about for your business as well?

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

A

Yeah, I think I wouldn't read too much in the short-term choppiness. I think it's a normal ebb and flow of the market. But what we see moving into 2026 is – particularly over the past few months, we've seen more positive signals, so we're more optimistic about 2026 than we were during the last earnings call.

We think Q1's going to be similar to Q4, but from Q2 onwards, we think there's potential for significant upside. And that's going to be primarily due to our new products, also helped by, I think, positive movements in the leading-edge logic and memory markets as well. So I think we're pretty well positioned based on the new product design wins we've received as well as the surge in the leading edge next year.

Joe Quatrochi*Analyst, Wells Fargo Securities LLC*

Q

Thank you.

Operator: Our next question is from Steve Barger with KeyBanc Capital Markets.

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

Q

Hey, thanks. Good evening. Steve, I think you said customers that validated yield and throughput on eVoS and eVerest are leading edge. First, just as that evolved, did you have an early adopter customer and then follow-ons? And then longer term, can you talk about what this means for both leading edge and then for memory in terms of your ability to drive revenue and take share?

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

A

Yeah. Yeah, Steve, I would say we had multiple early adopters. I think we first launched these products back in mid-2023 at SEMICON West and almost all the customers were interested at that point. So we've had multiple parallel efforts, and so we're pretty far down the road as far as securing these design wins. And what we've said is the conductor etch and deposition wins will go to volume first next year, and then we anticipate the dielectric etch wins will start in 2027 from a revenue standpoint and we still are very confident in that.

So, looking forward, I think those products, whether it's eVerest, eVoS, NavX or other derivatives of those products, that's what's going to drive our market share moving forward. And so we think we have a chance to really run the table with eVerest and eVoS and NavX and win every opportunity we're competing for today, and that's going to drive meaningful market share gains for us.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

And I know it depends on how those markets evolve, but just from a TAM standpoint for the new products, is it bigger on leading edge or is it bigger on memory potentially?

Stephen Douglas Kelley

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

A

It's hard for me to say, Steve. From our perspective, what we see is our ability to gain incremental share in conductor etch where we're the leader already, but more importantly, to gain a strong foothold in dielectric etch where we have very little market share today. So, for us, the upside is quite substantial. I'm not exactly sure how it's going to divide between logic and memory though.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Q

Understood. And then for my follow-up, Paul, seems like 2026 is shaping up to be a solid growth year. Mix is probably going to be pretty positive. Is it reasonable to think about incremental margin for the year in line or better with what we're going to see in 2025 as you think about flow-through and how you manage the business?

Paul R. Oldham

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

A

Yeah, a couple of thoughts. I think, first of all, we've made a lot of progress in 2025, as you saw, over 200 basis points improvement in gross margins. Some of that's driven because we've made a big step forward in our cost down activities. I think the largest – the larger part of the 200 basis points to 250 basis points improvement in manufacturing cost we'll have realized exiting Q4, and so I think that's been very positive. We won't see necessarily that big step-down again, but in terms of an incremental perspective, we'd expect to continue to see, obviously, the benefits of volume go through.

We've talked about that being 100 basis points for every \$50 million of revenue. I'll just remind everybody that, that math, it changes as you scale, right, because you're contributing the same amount of income but it's on a higher level of revenue. So as that goes up, there is some there is some impact to that. I think starting at sort of this 450 to 500 basis points, the same math gets you something like 50 basis points to 70 basis points for every \$50 million of revenue.

So we would still expect to see that flow through. There will be some headwinds to that. Obviously, we had some tariff impact. We'll hopefully be hopefully able to mitigate that. On the data center mix, frankly, has been a little bit of a headwind, but we've been encouraged that we've still improved margins despite almost doubling the data

center revenue this year. We think that over time, we can continue to mitigate the impact of that mix, there'll be some minor impact.

But on balance, we feel very good about our ability to get to 40% still in the near term. And our long-term goal remains the same, to get to 43% as we approach that \$2.5 billion organic and \$3 billion inorganic number. I think if you took the tariffs out, we'd say we were on track or ahead of that target today. But the world's not static, there's things that – good news and bad news that comes all the time and we'll continue to manage to get to our goal. We feel very good about our ability to get to the goal in the long term.

Steve Barger

Analyst, KeyBanc Capital Markets, Inc.

Appreciate it. Thanks.

Q

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

Krish Sankar

Analyst, TD Cowen

Well, hi. Thank you for taking my question. I told them, Paul, thanks for the color on the 25% to 30% data center growth next year. I'm kind of curious, when you look at that, it looks like next year, data center revenues are going to be kind of like closing in on your semi revenues. Just as a follow-up to the previous question, how would that impact your gross margins in 2026? And then I had a follow-up.

Q

Paul R. Oldham

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

Yeah, obviously, that mix plays a factor. We've talked about seeing up to 50 basis points, plus or minus. I think as data center becomes a bigger factor, that could increase. But as I mentioned earlier, our goal is to work to offset that, and we've done a pretty good job of that so far. I would say certainly in the near term, our goal would be get margins over 40% and continue to implement them from there. But a little bit will be timing based on our relative markets. Over time, we certainly feel really good about getting to the 43% and certainly getting above 40% in the near term.

A

Krish Sankar

Analyst, TD Cowen

Got it. Very helpful, Paul. And then a follow-up for Steve, I'm curious, kind of where you stand on, the next generation of high-voltage DC, the 800-volt from Nvidia, 400-volt from OCP, and it seems like that's probably a 2027 event but at the same time there are some incremental costs associated with it because of higher voltage, safety, certification, et cetera. So I'm kind of curious, Steve, any thoughts on that 800-volt, 400-volt, how to think about opportunity for AEIS in that scenario? Thank you.

Q

Stephen Douglas Kelley

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

Yeah, yeah. Krish, I actually indirectly mentioned this in my script, but what I said was we're fully engaged with customers on high-voltage DC solutions, which include 800-volt, by the way. So we don't talk about it that much because we prefer to keep the specifics of our development efforts confidential out of respect for our customers, but we're closely engaged with our key customers to develop reliable, efficient and compact interval solutions.

A

These are not going to go to volume next year, but we think they will start to go to volume in 2027 and 2028, and I think we're very well positioned there. The other advantage we have with these customers is that we're already engaged with them on today's generation solution as well as the solutions coming out next year. So this is kind of a natural evolution for us as we move over time.

Krish Sankar

Analyst, TD Cowen

Got it. Thanks a lot, Steve. Appreciate it.

Q

Stephen Douglas Kelley

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

Thank you, Krish.

A

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

James Ricchiuti

Analyst, Needham & Co. LLC

Hi, thanks. Good afternoon. Yeah, I was just going back to the Analyst Day and some of the commentary that you had about the Data Center market and the in fact that you were targeting either being number two or potentially sole-source applications. I'm just wondering, in all of the demand that you're seeing in the market, can you give us a sense as to whether you've gained share among your leading customers?

Q

Stephen Douglas Kelley

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

I get that question a bit and I'll tell you, we don't measure share in data center, because ultimately, what we're trying to do in data center is to generate reasonable gross margins. And so at the same time, we're growing our business, we've doubled it year-on-year. So we focus on healthy gross margin, we selectively engage with customers, and we try to maximize our share in the programs we're engaged on. And so what that has resulted in is a portfolio that's generating gross margins that are just under corporate average but a lot better than they used to be. We're going to continue doing that moving forward.

A

So I think the way to think about our business is that we're creating high-value products for a limited set of customers. And that's our strategy with the hyperscalers and the first wave customers. As the second wave customers engage with us, we're trying to reuse what we've already developed, we have extensive technology blocks in the company. So, I think we can handle that without reducing our engagement with our key hyperscale customers.

James Ricchiuti

Analyst, Needham & Co. LLC

Thanks, Steve. And just with a follow-up question on the M&A pipeline, I'm wondering, with the strength in the data center business, have your priorities changed at all? I know initially, you have been talking mainly about looking at opportunities in the I&M area of the business, but I'm just wondering if the priorities have changed at all just given what you're seeing out in the market.

Q

Stephen Douglas Kelley

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

A

The short answer is no, the priorities haven't changed and let me just explain why. I think we've made substantial investments in the data center business on two axes. One is capital investment and we've invested in new infrastructure, we've upgraded factories, we've invested in capacity, and then we've invested in new development centers for data center. And it's actually quite expensive because we're handling very high power, very high voltage, and so that takes a lot of money, but we've invested a lot of money in data center over the last two years.

The other thing we're investing in data center is people. So we've got a pretty broad network of design sites around the world that are well coordinated. And so we've been bringing in additional engineering talent, which helps us with our customers, helps keep our development speed strong. I think moving forward on M&A, we're still focused on Industrial and Medical because that's an area where we think it's highly fragmented and we could do a partial roll-up and create a nice third leg of the stool, the Semiconductor, Data Center, and Industrial and Medical.

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

Scott Graham

Analyst, Seaport Global Securities LLC

Q

Hey, good evening. Thanks for taking the question. Congratulations on a good quarter and guide.

Stephen Douglas Kelley

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

A

Hi, Scott.

Scott Graham

Analyst, Seaport Global Securities LLC

Q

My question is also about, no surprise, data centers. And really in covering other industrials that serve this market, we have seen pretty much an acceleration in demand quotient each quarter in 2025. And, obviously, you guys saw that, you gave guidance after the first month of the quarter for the third quarter and you beat that number. So what happens if that happens again in the first half of next year, which if you're a betting person, you'd have to say if you'd bet on that? And are you prepared to take your billion-dollar facility here and kind of really get it going in the second half of next year to meet that demand? And if so, is there a cost to that and a margin impact?

Stephen Douglas Kelley

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

A

Why don't I take the first part of that and I'll turn over to Paul to talk about margins? But the answer is yes, we're ready to go. I think we're conscious of the timing. I actually think it's a fairly good situation though because if we went to volume in Thailand with data center, then you have a pretty high volume product to absorb our fixed cost. And so I think from a financial standpoint, it makes better sense to go to volume first with data center products than it does with semiconductor products.

Paul R. Oldham

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

A

Yeah, I think that's right. And I'll just say that we have always contemplated our Thailand facility in our gross margin goals. So, that's not a new or incremental thing. Obviously, part of that is supported by the volume. And I think on balance, if you look at where we're at as a company, we're ahead on volumes overall as a company versus we thought a year ago in our Analyst Day, and we're certainly ahead quite a lot in data center.

So we'll manage that based on, as Steve said, kind of as we see the volume materialize and the right amount of volume to utilize that factory. Our goal is to make sure that we're prepared and we can capture – as we win business or as our customers ramp, that we can capture that business, either with our primary customers or the second wave customers as we've talked to them.

Now, inevitably, I think there's some ramp-up costs that always happens. Frankly, we're seeing that today, I talked about that last quarter. We still have some of those lingering ramp costs from the faster pickup in data center in our existing factories. So there will be some of that. Hopefully, that's something that we can manage within our model. We've done that so far and our goal would be to continue to do that. And look, as data center grows as a percentage of our portfolio, then, as I mentioned, our goal would be to continue to achieve our margin goals and certainly to get above and sustain ourselves above 40% even on higher data center growth if that materialized.

Scott Graham

Analyst, Seaport Global Securities LLC

Q

Got it. Thank you. I guess my other question would be around Semiconductor. So, away from your eVoS and eVerest platforms, are you comfortable with your wins and product refreshes so that when WFE does kick back up, you're ready elsewhere in the portfolio?

Stephen Douglas Kelley

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

A

Yeah, I think your question's really about our mainstream products and our service business. And, yes, I'm pretty comfortable. I think that our factory in Malaysia where we produce most of these products is very capable, and we've maintained strong staffing and we have excess capacity there. So when things turn up, we're ready to go, and that's in addition to what we're doing on the new products.

Scott Graham

Analyst, Seaport Global Securities LLC

Q

Very helpful. Thank you.

Stephen Douglas Kelley

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

A

Thank you.

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

Dave A. Duley

Analyst, Steelhead Securities LLC

Q

Thanks for taking my questions, and congratulations on nice results. If WFE grows, let's say, in the 5% to 7% range in 2026, I'm wondering what your semi business can grow. And maybe as a follow-on to that, could you help us understand how many major wins you have ramping, new wins you have ramping in 2026 in semi?

Stephen Douglas Kelley

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

A

In semi. So we haven't really articulated a number of wins. What I've said is that we're engaged across a wide variety of customers and there's a good chance we could run the table, we can win everything where we're competing. So I think it's very positive for us, but we haven't gone into the detail there.

We're not very good at predicting WFE, but what we do know is that over time, we tend to grow faster in WFE. In any given quarter or year, you're going to have variation, but if you look over the past three, four or five years, we definitely are growing the market. I think we'll continue to do so.

Dave A. Duley

Analyst, Steelhead Securities LLC

Q

Okay. And is – how many 10% customers did you have in Q3? And I guess I'm trying to understand, will one of these hyperscaler customers become a 10% customer?

Paul R. Oldham

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

A

Yeah, Dave, we – that's an annual so we don't disclose that on a quarterly basis. I mean, we'll see at the end of the year, but given the growth we've seen in data center, it's certainly possible we could have a data center top 10 customer.

Dave A. Duley

Analyst, Steelhead Securities LLC

Q

Okay. And then a final question from me is you talked about this new factory in Thailand. You have a ton of capacity there that couldn't be used for future ramps. Does that imply that you might close other factories to do further consolidation or has that already been done?

Stephen Douglas Kelley

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

A

Yeah, that consolidation has largely been accomplished, and we mentioned the biggest move was closing our China factory, which was completed in Q2. So from this point forward, it's really a growth story. I think we've done a good job as a company reducing the number of factories, but at the same time increasing the capabilities of the remaining factories. So I'm very happy with where we're at, and we're continuing to expand our output in our existing factories, which are primarily in the Philippines, Malaysia and Mexico, and then we're ready to start filling our factory in Thailand.

Dave A. Duley

Analyst, Steelhead Securities LLC

Q

Thank you.

Operator: [Operator Instructions] Our next question is from Rob Mason from Baird.

Robert W. Mason

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

Q

Yes, good afternoon. Maybe this is just to get a clarification. We talked about ramping – when Thailand ramps, we would have some of the newer customers. But I thought I also caught you talking about some of the emerging customers, enterprise customers participating in 2026 in data center so I was just maybe trying to get a sense of what the – how you think the mix in data center in 2026 would look between those two.

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

A

I think in 2026, the mix will be heavily weighted towards our existing customers, the ones we have today that are driving our business. I think in the second half, you may see some contributions from new customers, but we think most of this is going to be weighted towards the second half, even as late as the fourth quarter. But yeah, I think it'd be good for the company to bring some additional customers on board in a controlled fashion, and we have the capacity to handle it.

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

Q

And should we think that the margin profile there would be similar to what we're seeing right now, gross margin profile?

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

A

Yes. Yes, it would be.

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

Q

Okay. Just as a follow-up, last question, the – with OpEx stepping up here a little bit in the fourth quarter, how should – Paul, should we think about maybe the run rate as you enter 2026? It sounds like you're comfortable with where your operating leverage should be, but I'm just seeing if you could put a finer point on OpEx trends.

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

A

Yeah. I think our model's pretty similar. We've talked about since the beginning of the year OpEx increasing \$2 million to \$2.5 million per quarter. That's kind of what we've done. Now, Q3 was flattish, that was mostly timing, so we kind of ended up making up for that in Q4 sort of at this \$107 million run rate. I think as you look into next year, you should expect that to continue kind of at that pace. It could ebb and flow a little bit, there could be some quarters where it's a little more flat, others where it's up more as we make some investments.

Our overall goal is to grow OpEx no more than 50% of revenue growth. Obviously, in 2025, we've been well below that, I think we've grown our OpEx like 6% on the 20% growth number. So we've kept it well in control, but you should certainly think about it continuing to increase in that sort of \$2.5 million-ish per quarter as we fight inflation, we have select merit increases, we have some select investments to capture some growth opportunities.

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

A

Very good. Thank you.

Operator: Thank you. There are no further questions at this time. This does conclude our conference call for today. Thank you again for your participation. You may disconnect your lines at this time.

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

Okay. Thank you.

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