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Advanced Energy Industries, Inc. (AEIS)

Q4 2025 Earnings Call

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Krish Sankar
Analyst, TD Cowen

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings, and welcome to the Advanced Energy Fourth 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 Strategic Marketing and Investor Relations. Please go ahead.

Edwin Mok

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

Thank you, operator. Good afternoon, everyone. Welcome to the Advanced Energy Fourth 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 press release and earnings 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 guarantee 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, February 10, 2026, 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. Detailed reconciliation between our GAAP and non-GAAP results can be found in today's press release.

With that, let me pass the call to our President and CEO, Steve Kelley.

Stephen Douglas Kelley

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

Thanks, Edwin. Good afternoon, everyone, and thanks for joining the call. We finished a very successful 2025 with a strong fourth quarter. Revenue of nearly $490 million, was at the high-end of our guidance. Strengthening demand in the Semiconductor, Industrial and Medical markets drove the outperformance. As expected, we also had another record quarter in Data Center. Gross margin came in just shy of 40%. Our best performance in five years.

Earnings per share of nearly $2 also beat guidance. For 2025, we grew total revenue over 20%. Increased earnings per share by over 70% and significantly improved our gross and operating margins. We also delivered record operating cash flow. Our strong financial performance underscores the benefits of our diversification strategy, our focus on execution and the leverage in our model.

We deploy our best-in-class technologies across multiple high value markets, allowing us to deliver healthy revenue, profitability, and cash flow through market cycles. In 2025, we grew revenue in two of our three target markets. Data Center Computing revenue more than doubled year-on-year and increased sequentially in every quarter of 2025. Hyperscalers have adopted our customized power solutions in a variety of AI rack applications.

Semiconductor revenue grew 6% year-on-year to the second highest level in company history. New products began contributing incremental revenue in 2025, as some of our design wins moved into early production. Although industrial and Medical revenue declined year-on-year, we were encouraged by three quarters of sequential revenue growth after reaching a bottom in the first quarter. We expect growth to continue in 2026, as many customers and distributors have worked through excess inventories. We also think that our design win pipeline will drive share gain moving forward.

In 2025, we maintained a solid cadence of new product introductions with 26 new product launches across our markets. In addition, we spun off many custom products. In Semiconductor, we continue to receive very positive feedback on the best-in-class performance of our eVerest, eVoS, and NavX technologies. At the leading edge these technologies are delivering meaningful improvements in yield and throughput.

In addition to our many confirmed design wins, there are a number of development projects currently underway which should convert to wins in 2026. In addition to our success in plasma power, we have also made progress winning key system power slots for Semiconductor Equipment with multiple wins ramping to volume this year.

In Data Center, our 2025 wins are going into volume production this year. Working closely with key customers, we are developing new technologies and products for next-generation AI data centers. We are also engaging with a second wave of cloud and enterprise customers, largely with modified versions of our standard technology platforms. Through the prolonged inventory correction in the Industrial and Medical market, we continue to invest in new products, customization capabilities, digital marketing, and distributor partnerships. Now that the market is recovering, we could leverage those investments to gain share.

In operations, we expanded capacity in the Philippines and in Mexico, enabling us to support the continued growth in data center demand. We also completed the fit-up of our new Thailand factory, which is expected to deliver more than $1 billion in annual revenue generating capacity once it's fully built out. Through solid execution, including the closure of our last China factory, we expanded gross margin by 240 basis points. Despite ongoing tariff headwinds we are well-positioned to move gross margin above 40% in 2026.

Now, let me provide some fourth quarter commentary. In Semiconductor, fourth quarter revenue grew sequentially, well ahead of plan. In Data Center Computing, fourth quarter revenue increased sequentially to a new record driven by AI data center investment. And in Industrial and Medical, revenue grew 10% sequentially in return to year-over-year growth after multiple quarters of decline.

Bookings, backlog and resales were up. Channel inventory was down. We believe that the market environment for Advanced Energy has largely normalized. In Q4, we secured important design wins in factory automation, medical imaging and electrosurgery applications.

Now, I'd like to provide our view on 2026. Entering the year, we see positive demand trends across all of our target markets. In addition, we expect that multiple new wins will ramp to production in 2026, driving growth across the portfolio. In Semiconductor, stronger customer forecasts are increasing our confidence in a strong second half. In addition, we expect new product revenue to grow over the course of 2026. These forecasts are underpinned by downstream investments in advanced logic and memory capacity.

In Data Center, we now project full year revenue to grow more than 30%. Our modular technology blocks, strong design team and development speed are key enablers of growth in this market. In the Industrial and Medical market, we expect demand to continue to improve over the next few quarters. Production revenue from several wins in factory automation and defense should enable us to outgrow the market. In total, we projected our 2026 revenue will grow in the high teens, after 21% growth in 2025.

Let me finish with some closing thoughts. Advanced Energy designs and manufactures precision power solutions for demanding high value applications across multiple markets. Our market diversification strategy, coupled with aggressive investment, is enabling us to capture upsides across our markets and deliver more consistent financial results. We've steadily increased our R&D and marketing spending over the last few years, building a strong portfolio of new products, gaining new customers, and growing our design win pipeline. We have more than doubled the output of our Philippines and Mexico factories. In addition, we've built a new flagship factory in Thailand.

Finally, with a strong balance sheet, we will continue to pursue inorganic growth, to improve scale and to broaden our technology portfolio. With market tailwinds in 2026, strong demand for our new products, expanding margins and a solid balance sheet, we are confident that we can meet or exceed the long-term financial goals presented at our 2024 Analyst Day.

Paul will now provide detailed financial information.

Paul R. Oldham

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

Thank you, Steve. And good afternoon, everyone. 2025 was very successful for Advanced Energy. We delivered double-digit year-over-year growth for both revenue and earnings throughout the year, led by record Data Center revenue in every quarter. We executed on our gross margin improvement plan exiting the year, approaching our initial target of 40% despite the impact of tariffs. Disciplined spending help drive operating margin to its highest level since 2022. Cash flow from operations was a record $235 million.

The year finished on a high note with fourth quarter results beating our guidance. Fourth quarter revenue of $489 million increased 6% sequentially and 18% year-over-year. Semiconductor revenue was $212 million, up 8% from Q3, and ahead of our guidance as customer demand strengthened. Through solid execution, we were able to respond and capture upside.

Data Center Computing revenue was a record $178 million, up 4% sequentially and 101% year-over-year. Overall, demand remained very strong, and we were able to quickly adjust to meet changes in product mix within the quarter.

Industrial and Medical revenue increased 10% sequentially to $78 million and grew 2% year-over-year, the first increase in two years. I&M demand continues to trend positively, with total backlog and distribution metrics improving over the last several quarters.

Telecom and Networking revenue was $22 million, down slightly for the quarter and the year, mainly due to program timing. Fourth quarter gross margin was 39.7%, up 60 basis points sequentially, primarily due to higher volume and favorable product mix. We continue to deliver improved gross margin despite the impact of tariffs and factory ramp costs.

Operating expenses were $107 million, up 4% from last quarter, driven by higher sales and incentive related expenses. Operating margin for the quarter was 17.8%, up 100 basis points from last quarter and 430 basis points from last year, highlighting the leverage in our financial model.

Depreciation for the quarter was $10 million, and we achieved our second highest adjusted EBITDA of $97 million. Other income was $1.3 million, down slightly quarter-over-quarter. Our non-GAAP tax rate for Q4 was 14.7%, below our guidance of around 17% due to favorable mix of earnings and discrete items. Fourth quarter earnings were $1.94 per share, up from $1.74 in the previous quarter and $1.30 a year ago.

Turning now to the balance sheet. Total cash increased by $33 million to $791 million, with net cash of $224 million. In the fourth quarter, we delivered cash flow from continuing operations of $80 million. Inventory days came down by 3 days to 125 on higher sales, and inventory turns improved to 2.9 times. Looking ahead, we expect inventory to increase to support growth in the coming quarters and for strategic supply.

DSO increased to 60 days from 58 days, largely due to timing of revenue. DPO improved from 62 to 68 days. As a result, net working capital decreased sequentially from 124 to 117 days. During the quarter, we invested $38 million in CapEx and paid $4 million in dividends. Finally, we spent $6.7 million to repurchase 33,000 shares at $205.38 per share.

Now, let me review our full year 2025 results. In 2025, we delivered $1.8 billion of revenue, up 21% year-over-year. Growth was primarily driven by revenue in the Data Center Computing market, which increased 107% year-over-year to $587 million. Semiconductor revenue increased 6% to $840 million, which was our second strongest year following the peak in 2022. Industrial and Medical revenue decreased 11% for the full year. However, after a trough in Q1, revenue increased sequentially each quarter on improving supply demand dynamics and lower inventories.

In 2025, we optimized our manufacturing footprint by exiting our last manufacturing facility in China while adding new capacity in the Philippines and Mexico. In a dynamic environment, we managed the tariff impact on gross margin to less than 100 basis points. Combined with leverage on higher revenue, gross margin improved 240 basis points to 38.7%, the highest level since 2020.

Operating expenses increased 7%, well below our target of half the rate of revenue growth. Operating income increased 89%, and operating margin improved 560 basis points to 15.8%, the highest level in five years.

2025 non-GAAP earnings increased by 73% to $6.41 per share, while adjusted EBITDA increased by 68% to $324 million. Combined with improved days of net working capital, we achieved record operating cash flow. This cash flow funded investments in production capacity and capability to meet strong customer demand and growth ahead. As a result, 2025 CapEx was $107 million, or 6% of revenue.

Turning now to our first quarter guidance. We expect Q1 revenue to be approximately $500 million, plus or minus $20 million. The sequential growth is expected to come primarily from the semiconductor market. We expect gross margin to remain around Q4 levels in the 39.5% to 40% range on similar volume. We also expect Q1 operating expenses to be flattish quarter-over-quarter, with higher investments in R&D and lower SG&A.

We expect other income to be in the $1 million range and are now modeling our tax rate to be in the 16% to 17% range looking forward. As a result, we expect Q1 non-GAAP earnings to be about flat at $1.94 per share, plus or minus $0.25, on higher operating income, but a more normalized tax rate. Due to the strong performance of our common stock and the dilutive effect of our convertible note, our non-GAAP EPS guidance is based on 39.7 million shares.

Now, let me provide some concluding comments. First, we see strengthening demand across our markets in 2026. In Semiconductor, we are entering the year with increased customer demand, which we expect to further strengthen in the second half. For Data Center, we expect Q1 demand to be similar to Q4 based on timing of product transitions. However, we expect revenue to strengthen through the rest of the year on higher demand and production ramp of our new programs. Overall, we are raising our Data Center revenue growth outlook to more than 30%, up from 25% to 30%.

In Industrial and Medical, we expect continued growth over the next several quarters on a more normalized inventories and new product adoption paced by overall economic conditions. As a result, with improved industry conditions across our markets and growth from new products, we are currently modeling high teens revenue growth for 2026.

Second, exiting 2025, we increased gross margin by 450 basis points relative to first half of 2024 levels. Our initial target of 40% is within striking distance, and we expect to achieve this goal within 2026 with timing dependent on volume and product mix. Looking forward, we believe that improved manufacturing efficiency, a growing mix of new products and higher revenue will enable us to achieve our long-term gross margin goal of 43% despite the impact of tariffs and higher data center mix.

Third, increased capital investment enabled us to double the output in the Philippines, and Mexico and to complete initial fit-up of the Thailand factory. We expect 2026 CapEx will continue at or around Q4 levels, which will enable over $2.5 billion of revenue generating capacity within our existing footprint. The complete build out of Thailand should enable an additional $1 billion of capacity. Longer term, we expect CapEx to revert to historical levels of around 4% of sales once we complete these investments.

Lastly, our diversification strategy enables us to balance growth across our markets, generating more consistent cash flow that we can reinvest into our business. We will continue to develop power technologies that can be shared across our product portfolio and drive organic growth in each of our markets. In addition, we will continue to look for acquisition opportunities to further expand our scope, especially in Industrial and Medical, and leverage our scale to drive further growth in revenue and earnings.

With that, operator, we'll take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] Thank you. Our first question is from Brian Chin with Stifel.

Brian Chin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Hi, there. Good afternoon, and thanks for letting us ask a few questions. Maybe firstly, I was curious, how are you thinking about your semi cap growth this year in relation to the industry WFE that is expected to grow at least in the mid-teens year-over-year kind of growth rate? And also, did I hear you correctly that you do anticipate more acceleration in the back half of the year.

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

A

Yeah. Brian, this is Steve. Let me take your question. Maybe give you a more expansive answer. Maybe the first point I'd like to make is that I think we're better positioned now as a company than we have ever been in the history of Advanced Energy. And I say that largely because of the broad acceptance of eVoS, eVerest and NavX across a broad customer set. And so what that is doing is setting the company up for structural share gain over the next five years, in three areas; in conductor etch, in dielectric, and in deposition.

And the reason we're doing so well there is that customers are encountering problems as they go below 2-nanometer at these advanced nodes. And our technologies help solve those issues, particularly issues with throughput and yield. So if you take those design wins that we have achieved, couple that with increased etch and dep intensity at the leading edge, I think it sets up very nicely for share gains for Advanced Energy in the Semiconductor area.

But we have some other factors that are in our favor as well. One is, a larger installed base of AE boxes that are installed in fabs. And what we're seeing right now is a surge in demand for advanced logic capacity as well as DRAM capacity. And since we're strong in conductor etch, we expect to see a fair amount of business as those capacity build outs take place in the coming 12 to 24 months. So we think we're in good shape there.

Our service business continues to grow. We have a large number of boxes installed, throughout the world there that require service and other added value functions. A new area for us is system power, we had pretty much ignored this in the past, but over the past few years we have focused on system power solutions for Semi Equipment and semi tester companies, and we've achieved some success there. Those programs will ramp in 2026. So there's a lot of growth factors in play for us. We don't know exactly how much we're going to grow in 2026. But I think we'll be happy with the growth once the dust settles.

Brian Chin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Appreciate that. Sounds like some of those design wins maybe start to give you some visibility there in the second half. On the Data Center, maybe to switch over there. I guess can you discuss what you're embedding in your greater than 30% revised growth outlook in terms of new customers?

And then second part of that, for existing customers, are you pretty optimistic that volumes and activities should further strengthen as we go through the year here, given that the sheer magnitude of CapEx increase that big hyperscalers are guiding to, which I think is sort of like a 70% increase or so on average.

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

A

Yeah. So let me answer the question about the forecast. Our forecast of over 30% growth this year only comprehends our existing customer base. It does not comprehend any pull ins of demand from second wave customers. But what we're seeing right now in the market is pretty bullish. I think you've seen the announcements from the hyperscalers about their capital spending plans, which are up into the right. We've seen very bullish forecasts as well. So we're preparing for a strong year in 2026 to meet our existing customer demands.

To that end, we have spent a fair amount of money, as Paul described, on expanding capacity in the Philippines and in Mexico to support this growth in demand from the hyperscalers. In addition, we have brought Thailand to a place where we can we can basically start that factory up this year, if need be, and absorb any demand that we can absorb in the Mexicali or the Philippines. So I think we're in very good shape from a capacity standpoint.

I think the other positive is the activity on the development side. We're fully engaged with our customers, including on a number of 800-volt projects. And for us, rapid change is a good thing because we are technology leaders and it makes it harder for the other guys to catch up, essentially. So we're pretty excited about Data Center in 2026.

Brian Chin
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks, Steve.

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

Krish Sankar
Analyst, TD Cowen

Q

Yeah. Hi. Thanks for taking my question. Steve just to follow-up on the previous question on Data Center, I'm curious, what is your visibility into these projects? Because clearly at over 30% growth, it seems like that basically implies mid-single digit growth sequentially from Q2 onwards. But kind of like healthily overgrown that number over the last several quarters. I'm just kind of curious that greater than 30% is that conservatism baked in, or is it more lack of visibility into the projects? And then I had a follow-up.

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

A

I would say this, I think there'll be upside to our number. I think one of the issues we face, Krish, is on the supply side, and we've seen this play out in 2025 and we expect to see more of it in 2026. And I think what we've seen in 2025 are various constraints on processors, whether it's GPUs or ASICs or some other type of processor product. And that has dictated in some cases, the number of boxes that we need to deliver to our customers.

I think as we move into 2026 there's additional constraints, namely in memory, right. I think most of the memory makers have announced that they're sold out. And so you've got allocation situations in both processors and memory, which will limit some of the growth we believe in 2026. So that's why we're a little conservative.

That said, supply chain issues have not limited our ability to build products for the data center [audio gap] (00:29:22) and certainly not in the first quarter of 2026. We do anticipate that we'll see some supply chain issues moving forward. So, we're putting our thumb on the scale when it comes to building inventory. We're trying to put strategic inventory in place where we see weaknesses in the supply chain.

Krish Sankar
Analyst, TD Cowen

Q

Got it. Got it. Very helpful, Steve. And then just a quick follow-up on the Semi side. You mentioned the second half better. Is it just a more a revenue commentary for your Semiconductor sales or is it more of an inflection commentary? I'm just wondering because if you look at Ichor last night, they're beginning to see an inflection in their Semiconductor sales to the semi cap OEMs already happening. So I'm just wondering that, since you're a supplier of components, you should start seeing it either in the March or the June quarter. So I'm just wondering is the second half commentary for Semi is more just half-over-half revenue, or is it more of an inflection commentary?

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

A

Yeah. I think we saw a material change in customer outlooks in Q4, and that's what drove our Q4 outperformance. We saw that demand go up. Originally, we were concerned, there might be a pull in from Q1, but then we've discovered no, the Q1 demand also went up, as did Q2. Our customers have also told us to expect further increases for the second half. And so we're getting a lot of positive comments from our customers and improved forecasts, which lead us to believe that second half will be stronger in first half and that will lead into a pretty healthy 2027 as well.

Krish Sankar
Analyst, TD Cowen

Q

Great. Thanks a lot, Steve. Very helpful. Thank you.

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

A

Thank you, Krish.

Operator: Our next question is from Mehdi Hosseini with SIG.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP

Q

Yeah. Thanks for taking my question. I have two, the first one is for Steve. As you ramp the Thailand facility and get it to revenues of $3.5 billion. How should we think about that revenue mix between Semi, Data Center and the rest.

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

A

Yeah. So just to review what we said today was that we would have more than $2.5 billion in revenue generating capacity in our existing factory network. And then we brought on Thailand that would add another $1 billion or more so that by the end of next year, I think you're looking at $3.5 billion, assuming we build out Thailand. So it's more than enough capacity to achieve our goals over the next couple of years. So that's the important thing.

The exact mix, we haven't really gone into that. I think we're seeing growth in all of our markets. I think initially in Thailand we're looking at data center because it's a high volume, low mix type of product. It's probably the best way to start a factory. But I think we're also going to see our plasma power products being built in Thailand in the near future as well. And I think the third category of products that will go into Thailand will be the Industrial and Medical products. But this is our biggest factory. It's a 0.5 million square feet. And it was built to accommodate all of our products. So it's the first time we've had such a factory in our network.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP

Q

So should I assume if on the Semi side, the market were to exceed well over $150 billion, you have no constrained capacity, you can reallocate internal capacity to meet your OEM's demand above and beyond that $150 billion WFE.

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

A

Yes, definitely. In fact, that was the original impetus for us to build Thailand was as a business continuity factory for Semiconductor. And so our customers are fully bought into Thailand as a second factory to back up our operation in Malaysia.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP

Q

Great. Thank you. And my second question has to do with the Data Center and migration to 800-volt. I'm under the assumption that there would need to be redesigned. And what I wanted to better understand from you, would there be ASP uplift for premium associated with the redesign of these power sources, and you also are increasing your content? So I know some of my peers are fixated with Data Center CapEx, but I want to better understand the details. So that the question is, would there be a ASP uplift as you start supporting 800-volt AI data center rack?

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

A

Yeah. Interesting question. We've spent a fair amount of time looking into that and we're engaged with multiple, I would call them marquee customers on the 800-volt because we have some pretty interesting technology that makes 800-volt possible in a relatively small space. So I would say that based on our analysis of the market, our total dollar opportunity goes up with 800-volt solutions relative to what we're generating today. So in addition to having the right technology, I think it's also good for our business, to mix some of these newer technologies into the mix. It's very good for Advanced Energy.

Mehdi Hosseini
Analyst, Susquehanna Financial Group LLLP

Q

Got it. Thank you.

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

A

Yeah.

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

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning or sorry good evening. Steve for Data Center, your comments on processor and memory constraints makes sense. But if you grow in the 30% for existing customers and the second tier does come in, do you have capacity now to support upwards of 50% growth or what can your factory support if everyone else in the supply chain delivers?

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

A

Well, that'd be a great situation. Steve, I hope you're right. But that's the reason we built Thailand, right. So we will likely qualify our first products in Thailand this year. And so – and the purpose of that would be to be able to ramp those products as soon as Q4 this year. And that would likely be data center, whether existing hyperscale customers or some new second wave customers, that remains to be seen. But I don't see factory floor space or equipment being constraints for Advanced Energy. I think our attention is more focused on building materials and parts and ICs and discretes and those types of items. And so that's why you're seeing our inventory move up a little bit because we're trying to take some insurance. So that we don't get caught short on the parts.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Yeah. Understandable. In Semi Equipment and your comments on really strong customer forecasts and a strong back half. What are they saying about their desire to hold buffer inventory. Is there some restocking built into your expectation or are you just currently selling through to current demand?

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

A

It's a difficult question to answer precisely, Steve, but I could tell you, I think for much of the past two years, the demand has been pretty close to equilibrium. So they're ordering what they need, keeping reasonable inventories. It's been pretty stable, I would say. I think there's certainly a change as we move into 2026 and 2027, where our customers see more upside from their customers. And so yeah, I think that we'll see them holding more safety stock because we all have memories of what happened back in 2021 with some of the supply chain shortages. And we don't want that to happen again.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Thank you for the detail. Appreciate it.

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

A

Thank you, Steve.

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. Maybe just kind of in that line of questioning, I guess then as I think about or we think about just your Semiconductor Equipment growth kind of opportunity for 2026, and then, you layer on, on top of that, the new products. I mean, why are we not to consider that business could grow upwards of 20% this year?

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

Yeah, Joe, I think it could, I think there's an upside to what our forecast is in right now. But we're not ready to forecast that. We just want to see how the market develops. There's a lot of timing issues with wafer fabs. And exactly when the clean room space is available to accommodate new equipment. So I think that will become clear in the coming months.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC
Q

Okay. And then as a follow-up, I'm wondering if you just kind of give us some of the puts and takes of the gross margin guide. I guess I would have thought it maybe a little bit better just given it seems like mix be a little bit stronger in Semi, might have been a benefit for this quarter.

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

Yeah. So we did see gross margins increase this quarter from last quarter by 60 basis points or so. The one thing I would note that if you recall we had a tariff headwind. We had pretty favorable tariffs in Q3. So that was pretty significant that we overcame that. But you're right we had a little bit better mix certainly and a little bit better higher volume which we're able to absorb. So we were pleased with where we ended up. I would say if you excluded the impact of tariffs, we're clearly well over 40% gross margin, which was certainly a goal exiting this year.

I think if you look forward, we see gross margins flattish in Q1, largely on pretty similar mix, revenues up a little bit. But I think the opportunities for us in gross margin come to continuing to improve manufacturing efficiency. We are still carrying a fair amount of ramp costs as we ramped up Data Center, and the mix in that business continues to be pretty dynamic, including in the fourth quarter, and we expect some of that in Q1 as we go through some product transitions there. So we certainly see opportunities to improve gross margins. We're very comfortable or confident that we'll see over 40% in 2026.

And when we look forward and we have more tailwind from mix within the new products that we're bringing out, certainly Semi mix will help us. Even in Industrial and Medical, there's opportunities to see improvements as our new products play a bigger role to see gross margins continue to improve. And we said in our prepared remarks that we believe we still have line of sight to 43%, which is our long-term goal as volumes grow, as our mix improves, and as we continue to improve our manufacturing efficiency.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC
Q

Thank you.

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

Jim Ricchiuti
Analyst, Needham & Co. LLC

Q

Hi, Paul. Just to follow-up on the gross margin question, as you – with continued rapid growth in the Data Center business, I'm just wondering how we should be thinking about gross margins in that area of the business. And we see further improvement from here, or to what extent does mix play a factor in this?

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

A

Well, mix will play a factor, but it plays a less – a smaller factor than certainly it has historically. And I think if you look at 2025 in particular, we grew gross margins pretty significantly despite our Data Center mix growing from sort of the low-20s to close to 40% for by the time we exited the year. As Data Center continues to grow, there could be some headwind there, but the margins there continue to approach corporate average. And certainly as we bring out new products in Data Center and we become more efficient in manufacturing, we think we can largely offset the impact of that mix. So we're not backing off our goals overall based on what we see today. And we believe we can largely accommodate that within the sort of plus or minus 50 basis points, kind of net mix impact that we've discussed.

Jim Ricchiuti
Analyst, Needham & Co. LLC

Q

Got it. Did you say what the new products eVerest and eVoS and NavX contributed in 2025? And I'm just wondering, Steve, when you talk about potential upside in the Semi business in 2026, do you see the new products being a big driver of that or just strengthen the existing portfolio?

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

A

Yeah, Jim, I'll take a cut at that and then maybe I'll let Steve give some color. We did meet the goals that we laid out for those new products, seeing double-digit millions of revenue for those new products. Remember these are largely still in the qualification, and what I'll say early pilot or early production stage. And the ramp of these is largely tied to sub 2-nanometer process ramps. So we're excited because we're seeing a lot of qualifications. We're seeing pull for the products to get in those qualifications, and we would expect to see revenues in 2026 higher than 2025, certainly. And as we see production ramp of these next-generation nodes and those get on more and more process steps is when we'll see, really the pull through of these new products.

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

A

Yeah. Jim, let me just add a few comments. I think one of the interesting things that we're seeing is as customers realize the benefits of these new eVerest and eVoS and NavX products at the leading edge, they're starting to think about incorporating those products at non-leading edge processes. So once we get into a customer show what we're capable of with this technology, we're seeing a lot more opportunities beyond the initial opportunity. So I think what we're going to see in the coming years, maybe not in 2026, but in 2027, 2028, 2029, we're just going to see the usage of these products multiply. And it's going to be basically a share gain driver for the company.

Jim Ricchiuti
Analyst, Needham & Co. LLC

Q

Got it. And one final question. Didn't hear a whole lot about the M&A pipeline. I'm just wondering you guys got a lot of things going on. How active is the pipeline right now?

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

A

Yeah. We're still on the hunt. And I would characterize the pipeline as active. We did do an acquisition of Airity not so long ago that the technology from that company has played a critical role in some of our new products. So I characterize that as a success. But we also see opportunities on the Industrial and Medical front. And we think with the markets normalizing, it'll be easier to reach agreement with potential targets on the valuation of their assets. So we're optimistic.

Jim Ricchiuti
Analyst, Needham & Co. LLC

Q

Thank you.

Operator: Our next question is from Rob Mason with Baird.

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

Q

Yes. Good evening. Thanks for taking the question. I was curious, Steve, around. This second wave of data center customers is those customers begin to ramp how would – what would you view the gating factors around those ramps and maybe even the potential pull in, if that was to happen around that set of customers, what would be some of the major influences? Would some of the supply constraints you mentioned have an outsized impact on those customer's ability to ramp?

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

A

Yeah. Yeah. So one of the things we like about the second wave of customers is they don't require a lot of engineering work on our part. So the hyperscalers, requires a lot of work. So that's where we spend most of our time on the engineering front. I think you're correct. I think as the contention for processors and memories heats up, I think the hyperscalers have an advantage there. And so it may impact some of the ramps of the second wave customers. That said, I don't know that for a fact, but I would think it's going to be somewhat challenging this year to get as much memory and processors as you really want.

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

Q

Understood. Just as a follow-up, maybe a point of clarification. Paul, you talked about Industrial and Medical continuing to grow for the next couple of quarters. I just wanted to confirm that, that's off the fourth quarter as kind of a jumping off point. You were inferring growing sequentially.

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

A

Yeah. I think if you look at our guidance, on balance, we said the Q1 growth would be driven primarily by Semiconductor. So that infers kind of a flattish quarter generally for Industrial and Medical and Data Center, but for different reasons. In Industrial and Medical, we're seeing all the vectors point the right way. So we're encouraged about that. We also acknowledge there's typically a little bit of Q1 seasonality. So we think sort of flattish would actually be sort of improvement if you will, all things else being held equal.

And then certainly we would expect to see growth over the course of the year as those vectors continue to improve. The one thing that's the wild card there is just the broader macro economy. There's certainly some sectors in Industrial and Medical, they are doing better than others. I think if the economy stayed steady, and maybe some of the uncertainty comes out of it, we could see that growth accelerate. In Data Center, I think we talked about flattish in Q1, mainly on product transitions as new products come and get qualified, displace the older products, we expect to see a flattish quarter within solid demand and ramp after that in that market.

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

Q

Understood. Thank you.

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

Scott Graham
Analyst, Seaport Research Partners

Q

Hey. Good evening. Thanks for taking your question. And congratulations on your print and your high-teens sales thinking for 2026, that's pretty neat. I wanted to understand a little bit more about a comment you made, Steve about market growth in Industrial and Medical. You said you're positioned to outperform the market. What is the market growth in your definition in those businesses?

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

A

Yeah. So the reason I said that Advanced Energy is positioned to grow and to outgrow the market is the investments we've made over the past four years. And so despite the fact the market was down, we continue to pour money into new product development, into digital marketing and into channel development and all the areas that you need to invest in to grow your business. And so what that created was a very healthy design win pipeline. And it takes a few years on average for these design wins to go to revenue. And so I think based on the design win pipeline and what we're seeing right now, that we can grow faster than the I&M market in 2026 and in 2027 and 2028 too. But we're going to keep growing market share in that market because we have invested heavily and we've been successful in winning some pretty high volume designs.

Scott Graham
Analyst, Seaport Research Partners

Q

Understood. Thank you. Just follow-up question is, with Thailand coming up the capacity curve here and equipment being installed, curious that your gross margin aspirations don't appear to have changed. I'm wondering, though, if operating expenses, which where your goal is to increase those by half of sales or less? Is that still doable in 2026 with Thailand coming online?

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

A

Yeah. I think they're kind of separate, the vast majority of the costs for Thailand are going to be in cost of sales. Certainly there's going to be administration, we've accounting people there and other things that would fall into OpEx that is contemplated in our projected growth. And maybe just to clarify a couple of things. So, first of all, on the margins, the Thailand factory has always been contemplated in our 43% goal. So that's not new. Basically the question was when do we have the volume and the demand to support it. And with the growth in Data Center and now Semiconductor really heating up, that growth – that timeframe is pulling in. So we're really glad we made those investments and we're positioned to be able to fold that into the portfolio.

On the OpEx side, as we mentioned, we performed really well in 2025. I think we grew up OpEx only 7% and revenue over 20%. So that's well ahead of our model. If we look at 2026, we'd expect to continue to make investments, spending is about flat in Q1. But after that we'll have salary increases targeted investments that we're making, including in places like Thailand. There'll be variable costs that go with revenue growth. So we do project that we're probably going to see OpEx grow through the year, probably to an exit rate of around $120 million by the end of the quarter – by the fourth quarter, which probably puts OpEx in the $450 million to $460 million range. And we do think we can accommodate the outfit of Thailand in the operating expense envelope for what would be in there.

Scott Graham
Analyst, Seaport Research Partners Q

Very helpful. Thank you.

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

You bet.

Operator: [Operator Instructions] Our next question is from David Duley with Steelhead Securities.

Dave A. Duley
Analyst, Steelhead Securities LLC Q

Yeah. Thanks for squeezing me in. I was wondering, typically at the beginning of a Semi Equipment ramp, you would grow a little bit faster than your big customers just because they're going to replenish inventory. Do you think that's the case this time?

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

Well, I think if we look at 2025 we grew Semiconductor 6%. We had our second highest revenue year in our history. So I think our customers had a decent amount of inventory in place going into 2026. But I think what we've seen is an acceleration in demand. We saw that in Q4. We're seeing in Q1 and we'll see it throughout 2026. I think at the end of the year, we'll take a look and see if we've grown faster than the market. But it's pretty difficult to tell right now exactly what's going to happen from a demand standpoint.

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

I'll just add to that. I mean, it's just short memories. But if you recall, we expected Q4 to be a down quarter based on everything our customers were telling us at the end of Q3, expect to be down 2% or 3%. We actually ended up growing 8%. So that's a 10-point swing. So I think we're already seeing a little of that, David. And we'll see how that progresses through the year. As Steve said earlier, our confidence around a strong, very strong second half continues to grow based on the signals that we've seen from our customers. And we'llsee how the timing plays out.

Dave A. Duley
Analyst, Steelhead Securities LLC

Q

Yeah. I think in your previous slide decks, you've talked about being able to outgrow the WFE market, whatever the market growth is, you can grow it by I think by 30% more. And I guess whatever the WFE market growth rate or size tends to – is going to be in 2026 do you think you can outgrow that, the market growth?

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

A

Yeah. I think, there are a lot of issues that determine your growth from quarter-to-quarter, from year-to-year. So what we do is we take a look at a little bit longer timeframe. So in our case we look at three year and five year CAGR essentially. And when we look at that versus our peers, yeah, we're definitely growing significantly faster than WFE. But there are definitely variations from year-to-year where we're going to be either much better or a little bit worse than others, but that's due to tactical factors.

Dave A. Duley
Analyst, Steelhead Securities LLC

Q

Okay. And just a clarification from me, Paul, I think you mentioned in your prepared remarks that you were going to strategically increase inventory levels just to make sure that, you can meet future demand from your customers. What sort of increase in inventory should we expect over whatever timeframe that you're referring to?

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

A

Yeah. It depends on where revenues come out, David. But we exited the year around 2.9 turns. I think we'll probably see a little bit of a haircut on that at the beginning of the year, maybe down a 10th of a turn or two. But then recapturing that as time goes on and revenues grow. I think the key thing is we want to make sure we've got the strategic parts. So that's not buying everything, but it's making sure we're looking at items that have been problematic in the past, make sure we've got good strategic levels of inventory and we're positioning ourselves for, Steve commented on the ramp that our customers have talked about is coming.

Dave A. Duley
Analyst, Steelhead Securities LLC

Q

Okay. Yeah. So it sounds like and I think you already said this, but I just want to double check you're not going to be the gating factor in your customers' ramps.

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

A

That's right. That's our goal.

Dave A. Duley
Analyst, Steelhead Securities LLC

Q

Right. Okay.

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

A

No, no, we don't expect to be the gating factor. No.

Dave A. Duley
Analyst, Steelhead Securities LLC

Q

Okay. Great. Thank you.

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

A

Thanks a lot, David.

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