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# Advanced Energy Industries, Inc. (AEIS)

Q1 2025 Earnings Call

## CORPORATE PARTICIPANTS

### Stephen Douglas Kelley

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

### Paul R. Oldham

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

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## OTHER PARTICIPANTS

### Brian Chin

*Analyst, Stifel*

### Scott Graham

*Analyst, Seaport Research Partners*

### Robert Mertens

*Analyst, TD Cowen*

### Steve Barger

*Analyst, KeyBanc Capital Markets, Inc.*

### Mark Miller

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## MANAGEMENT DISCUSSION SECTION

### Stephen Douglas Kelley

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

In the first quarter, we delivered solid financial results with both revenue and earnings approaching the high end of our guidance.

Revenue increased 24% year-over-year, led by strength in Data Center Computing and Semiconductor. Industrial and Medical revenue declined in the first quarter, but we do expect to deliver sequential revenue growth in the second quarter. Across our markets, we continue to see solid traction with our new products, multiple design wins are going into production this year, driving revenue growth and share gain.

We are focused on delivering value to our customers through superior technology, in-house manufacturing and best-in-class service. To support these objectives, we continue to invest heavily in R&D, new product capabilities, factory consolidation and our digital platform. In addition, investments in modular design have reduced our development cycle times, enabling the rapid delivery of customized solutions to our customers.

Our improvements in operational efficiency drove better-than-expected gross margin in the first quarter, and the closure of our last China factory later this quarter, the culmination of a multiyear effort is expected to drive further gross margin improvement in the second half.

Now I'd like to say a few words about the current environment and how we are dealing with the new tariff regime. So far, we have seen no downward revisions in the demand forecast of our major customers in response to the new tariffs. As a result, our revenue outlook remains solid for the second quarter. Although macro visibility in the second half is limited, current customer forecasts support growth for the year, particularly in Data Center and Semiconductor.

Although we will not be able to fully mitigate the direct impact of tariffs, we believe that we are relatively well positioned. As I mentioned previously, our last China factory will close in June. In addition, our shipments from the US into China are low. Therefore, our direct exposure to the highest tariff rates is limited. Further, with major facilities in Malaysia, the Philippines and Mexico, our broad manufacturing footprint allows us to optimize production to meet customer needs.

Finally, most of the products we import from Mexico into the US are USMCA compliant, which under current rules means that they are exempt from reciprocal tariffs.

Now let me provide updates on each of our markets. In the first quarter, Semiconductor revenue decreased slightly from Q4, but was well ahead of plan. The better-than-expected results were due largely to strength at the leading edge for both logic and memory processors. We expect semiconductor demand to remain solid in the current quarter, supported by continuing investment at the leading edge. We continue to see strong customer pull for our next-generation eVoS, eVerest and NavX products, and have cumulatively shipped over 350 qualification units through the first quarter. This represents a five-fold increase from a year ago and a meaningful jump for more than 250 units shipped just a quarter ago.

Our customers are incorporating these products into their next generation platforms for both logic and memory processes. We expect initial production ramps to start in the second half of this year, followed by more significant growth in 2026. In Data Center Computing, we achieved record revenue, which more than doubled year-on-year. Multiple hyperscale design wins are ramping to volume in 2025. We expect Data Center revenue to grow in the second quarter and into the second half of the year.

Our new products, which feature high reliability, high efficiency and high power density, are a good fit for power-hungry AI data centers. Our focus on high-end opportunities has yielded deeper partnerships and closer relationships with our key customers. In addition to the products we are currently ramping to production, we have already won key slots in next-generation racks with expected ramps in late 2025, and early 2026.

Industrial and Medical revenue decreased sequentially more than we expected. Continuing inventory digestion coupled with weaker turns orders, were the primary headwinds we faced in Q1. However, late in the quarter, we saw a meaningful increase in distribution orders, which should drive sequential growth in the second quarter. We believe that Industrial and Medical revenue likely reached a bottom in Q1. However, the pace of recovery in this market could be impacted by the new tariff regime.

On the new product front, we continue to grow our design win pipeline. In the first quarter, we recorded major wins in industrial coating, robotics, therapeutic and life science applications. On past earnings calls, I've talked about the success of our new customer-friendly website.

In addition, we've been working closely with our key distributors to expand our presence on their website. Mouser Electronics, the first distributor to launch their enhanced AE microsite, reported a 60% increase in page views in the first quarter. We expect similar results when our other distributors launch their AE microsites later this year. These enhancements make it easier for engineers to quickly identify the right advanced energy product and find available inventory.

In the Telecom and Networking market, we experienced a modest sequential revenue decline in the first quarter, as anticipated. Going forward, we expect revenue in this market to remain within our target range.

Now, for some closing thoughts. First, we are off to a good start in 2025 thanks to strength in the Data Center and Semiconductor markets; the success of our new products; and continued improvements in our operational efficiency. For the remainder of the year, we will focus on maintaining our new product momentum, staying close to our customers and completing our factory consolidation plan.

Second, based on our understanding of the current tariff environment, we believe that we are relatively well-positioned and are taking the right actions to minimize our exposure. Third, demand for our new products is very strong. Our R&D investments are paying off as customers incorporate our new technology into their leading edge products. Finally, with a strong balance sheet, we continue to look for inorganic growth opportunities which make strategic and financial sense.

To summarize, our results and guidance show that Advanced Energy is executing well in a dynamic market environment. We are confident that we can grow revenue, gain market share and improve our margins in 2025. Paul will now provide more detailed financial information.

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## Paul R. Oldham

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

Thank you, Steve, and good afternoon, everyone. Let me start with the headlines. First, we executed well in a dynamic environment. First quarter revenue of \$405 million was ahead of our guidance with strength in Data Center Computing and Semiconductor more than offsetting weakness in Industrial and Medical. Gross margin of 37.9% was better than expected, and we managed spending to the low end of our projection. As a result, earnings per share was \$1.23, well above our guidance.

Second, looking into Q2 with near-term demand visibility in Data Center and Semiconductor and the ramp of new products, we expect revenue and earnings to grow sequentially and to be above our previous expectations. Finally, in April, we took advantage of market volatility and repurchased \$22.7 million worth of common stock at an average price of \$83.78 per share.

Now let's review our first quarter financial results in more detail. Total revenue of \$405 million decreased 3% sequentially, but increased 24% year-over-year. Semiconductor revenue was \$222 million, down 2% from Q4, but up 23% from last year. Strong demand in AI-related leading-edge foundry logic and memory drove the better-than-expected results. Data Center Computing revenue was a record \$96 million, up 9% sequentially and 130% year-over-year.

Multiple new hyperscale programs started to ramp this quarter and are expected to drive further growth in Q2. Revenue in the Industrial and Medical market was \$64 million, down 16% from Q4, and 23% from last year due to ongoing channel inventory destocking and lower turns revenue. However, orders rebounded during the quarter. Telecom and Networking revenue declined 5% sequentially and 2% year-over-year to \$22 million, in line with our expectations.

First quarter gross margin was 37.9%, down just 10 basis points from last quarter, but up 280 basis points from last year. Gross margin was above our previous guidance, even with the initial impact of tariffs that started in March, driven by favorable product mix and improved manufacturing costs. Operating expenses of \$98.6 million were down more than \$3 million from last quarter and at the low end of our target range. OpEx increased only modestly year-over-year, while revenue increased 24%, well ahead of our target of growing OpEx at half of revenue growth.

As a result, first quarter operating income was \$55 million and operating margin was 13.5%, up almost 700 basis points year-over-year. Depreciation was \$11 million and our adjusted EBITDA was \$65 million, which more than doubled year-over-year. Other income of \$1 million was lower sequentially, mainly due to the impact of investment returns on deferred compensation. For Q1, our non-GAAP tax rate was 15.8%, below our target mainly due to delayed implementation of the Pillar Two Global Minimum Tax regime in certain jurisdictions.

We continue to expect the tax rate to increase to approximately 19% for the balance of 2025 based on full adoption of the GMT. As a result, first quarter earnings were \$1.23 per share, compared to \$1.30 per share in the previous quarter and \$0.58 per share a year ago.

Turning now to the balance sheet, total cash and cash equivalents at the end of the first quarter was \$723 million, with net cash of \$158 million. Cash flow from continuing operations was \$29 million. Inventory increased \$8 million as we added critical piece-part inventories to support near-term growth. Inventory days increased from 126 in Q4 to 132 in Q1, and inventory turns were 2.7 times. DPO increased from 50 days in Q4 to 56 in Q1, and DSO increased from 57 days in Q4 to 62 in Q1.

During the first quarter, we invested \$13.9 million or 3.4% of revenue in CapEx. Finally, we paid \$3.8 million in dividends and repurchased \$908,000 of common stock at an average price of \$94.26 per share.

Before I talk about guidance, let me give you a little more color on the impact of tariffs and trade on AE. As the situation is very dynamic, potentially increasing macroeconomic risk and making longer term financial projections difficult and subject to change. However, we believe that AE is relatively well positioned. From a revenue perspective, our customers are still projecting continued investments in artificial intelligence and new technologies. In addition, incremental revenue from new products in Data Center and Semiconductor should position us to outgrow our markets and gain share.

From a cost perspective, while tariff expense will increase near-term, we are taking actions to mitigate the financial impact. As Steve noted, we are starting with a favorable geographic manufacturing footprint, giving us the flexibility to optimize production in lower tariff countries and utilize exemptions like USMCA wherever possible. We are working with our supply chain to limit imports from high-tariff locations, qualify alternate vendors or parts, and redirect goods flow where it makes sense.

Finally, we expect to make price adjustments to cover costs which cannot otherwise be mitigated. As a result, assuming no major change in the current environment, we expect to continue to be able to meet our gross and operating margin targets over time.

Turning now to our guidance. First, our outlook contemplates our assessment of the direct impact of tariffs. Based on solid customer demand, we expect revenue in the second quarter to grow sequentially and the second half to grow low single digits over the first half. In the data center computing market, we expect continued ramp of new

programs for customer AI investments to drive strong sequential growth in the current quarter and potentially beyond.

We expect Q2 Semiconductor revenue to moderate slightly from Q1. Based on the stronger-than-expected first half, we now project Semiconductor to grow around 10% for the year, partially due to initial production ramp of our new products. Within Industrial and Medical, we believe Q1 was the bottom and expect revenues to start recovering in Q2 on increased orders. However, we expect the rate of recovery to be tempered by economic uncertainty and at the cost of tariffs.

As a result, we are forecasting our second quarter revenue to be approximately \$420 million, plus or minus \$20 million. We expect Q2 gross margin to be around 38% on continued improvement in manufacturing and higher volumes offset by less favorable mix and the impact of the new tariffs. We expect Q2 operating expenses to increase to \$99 million to \$101 million due primarily to investments in new products and annual merit increases.

We expect other income to be approximately \$1 million per quarter and the tax rate to be in the 19% range. As a result, we expect Q2 non-GAAP earnings per share to be \$1.30 plus or minus \$0.25.

Finally, given our expected market share gains in data center and next generation semiconductor products, we have decided to increase our full-year 2025 CapEx guidance to 5% to 6% of revenue. While this is above our prior target of over 4%, our strong balance sheet enables us to make this investment in high volume capacity to capture revenue upside and support new product introduction capability.

Before opening it up for questions, I want to highlight a few points. Although the new tariff and trade policies are creating macro uncertainty, particularly in the second half, we believe we are relatively well positioned. We believe we are gaining share across our markets, supported by multiple generations of high-end data center solutions, leading-edge plasma-powered platforms, and a broad set of customized industrial and medical design wins. We're on track to complete our China factory closure this quarter, providing margin uplift in the second half.

As we demonstrated in Q1, we continue to improve our cost structure and are committed to find ways to offset the increased cost of tariffs and achieve our gross margin expansion goals over time. Finally, our strong balance sheet and net cash position enable us to fund investments in capability and capacity for growth, opportunistically repurchase our stock to offset dilution and maintain ample liquidity to pursue strategic acquisitions that create shareholder value.

With that, we'll now take your questions. Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. We will now be conducting a question and answer session. [Operator Instructions] . One moment please, while we poll for questions. And the first question comes from the line of Brian Chin with Stifel. Please proceed with your question.

**Brian Chin**

*Analyst, Stifel*

Q

Hi there. Good afternoon. Good work and thanks for letting us ask a few questions. Maybe firstly – and I apologize if I missed this, but are you – is your underlying view for the semi equipment market for kind of flattish WFE? And if that's the case, how would you contextualize your 10% growth outlook level of outperformance? I guess this will also imply second-half SEMICAP revenues roughly similar-ish to first half. I guess I'll stop there with that first question.

**Stephen Douglas Kelley**

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

A

Yeah. Thanks for the question, Brian. So as far as WFE goes, we don't try to take that or predict it, but we think it's somewhere in the zero to up 5% range this year. So our growth of 10%, which is what we're projecting year-on-year, is above market and we think that's due to a few factors. one is the increasing etch and dep intensity of these leading edge processes where we're very strong. Secondly, our new products are catching on. That's contributing to our outperformance. And third, most of the action is in leading edge logic and in DRAM. And those are two areas where we have good content.

**Brian Chin**

*Analyst, Stifel*

Q

Got it. Thanks, Steve. And then my follow-up. One, can you give us a sense of whether it's advanced logic or maybe NAND where you're starting to see that initial production ramp of the new plasma process power products in the second half of the year. And then, is it possible in any way to kind of bracket the potential tariffs headwind you could see in the back half of the year? I know it's sort of difficult at this stage, but just if you have any additional thoughts on that.

**Stephen Douglas Kelley**

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

A

Yeah. So maybe I think your second question was about tariffs and the impact on our business?

**Brian Chin**

*Analyst, Stifel*

Q

Yeah.

**Stephen Douglas Kelley**

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

A

So why don't I start there? I'll start there. So when you look at our business most of what we're selling this year goes to either semi equipment companies or to data center companies. And they're all big companies and they're

sophisticated and they handle the tariff issues themselves essentially, that's almost 80% of our business in 2025. So, for us, in our view, most of the tariff impact will probably fall on the Industrial Medical customers.

And so, most of those products are built in either Mexico or in the Philippines. So in Mexico, a little less than half or up goes into the United States and of that output, the vast majority of products are compliant to USMCA, which means there are no reciprocal tariffs. So, actually, our position in Mexico is an advantage for us relative to most of our competitors. As far as the Philippines go if the reciprocal tariffs are reimposed, the Philippines 17% tariff is less than almost any other company – or any other country in Asia. So I think we're pretty well positioned to limit the impact of tariffs on our business.

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**Brian Chin***Analyst, Stifel*

Q

Thanks. That's really good color. And then maybe the other part, the front end of that was just the what device end markets were you seeing probably contributing to that big step-up in Q1, 350 new shipments up from 250 in the prior quarter. Is it advanced logic? Is it the NAND flash or any color you can provide there?

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

A

It's across the board. But clearly the greater sense of urgency is in advanced logic and also in DRAM.

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**Brian Chin***Analyst, Stifel*

Q

Okay, great. Thank you.

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**Operator:** And the next question comes from the line of Scott Graham with Seaport Research. Please proceed with your question.

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**Scott Graham***Analyst, Seaport Research Partners*

Q

Hey, good afternoon and well done. Very nice quarter. I have a couple of questions, though. Certainly the one is a piggyback on to the prior question is you're gaining share against WFE in total, but do you think you're also gaining share within the power sleeve of WFE?

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

A

I've always hesitated to talk about market share because it goes up and down based on a variety of factors. But I think at this point, what I could say is, given the traction of our new products, of eVerest, of eVoS, of NavX in the derivatives, I think we're poised to gain share in the coming years. And I'm confident saying that these products allow us to basically expand our share in conductor etch, which is where we're strongest today, but they're also allowing us to participate in dielectric etch, which is a white space for us today. So, I think we'll see significant market share gains in semiconductor over the coming three to five years.

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**Scott Graham***Analyst, Seaport Research Partners*

Q

Okay. Thank you for that. Then just a quick on the I&M although – maybe not so quick, but that business has been really problematic for you guys now for a number of successive quarters and the industrial economy is

probably going to get a little weaker, as I think you've pointed out, with some caution there. I'm just wondering, what are the steps you need to take here? It seems like – I think we've talked about this before, you really need an acquisition there to gain some critical mass because it seems like you've got a lot of business, but in a lot of very small niche type of markets.

And just very – those are types of markets that can easily destock in time and they have been. So what's – what is the plan there to start to improve that business? I know your orders were better but is an acquisition really the key to getting that business, more plate appearances with customers? Is there something internal you need to do in I&M to kind of reverse the fortune there?

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**Stephen Douglas Kelley**

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

A

Yeah. So Scott, there's couple of ways to think about I&M. First is the long term and the second is short term, right? And I think on the short term it's been an extended correction period because the I&M customers were really the last customers to recover from the supply chain crisis associated with COVID. And so I think there's still many customers still working their way through excess inventories, and that's been complicated by lackluster demand, right? So the current state of the market is not great, but we think that will be able to show some improvement moving forward this year. But it's not going to be dramatic.

But as I think about I&M long term the same factors I think are going to work in our favor because this is largely a sole source business where we're at the high end of the Industrial Medical market. We're having great success winning new designs and we just set a record as far as our number of products and opportunities in our pipeline. So I think we're poised to gain meaningful share as the market recovers. And so that's a – it's going to be a process, but I think we have to kind of separate the long term and the short term when we think about Industrial Medical.

Now, as it comes to acquisitions we think I&M is a great place to make acquisitions because it's a highly fragmented market and we have a number of interesting competitors which also have a lot of sole-source position. And so we continue to work hard on our pipeline and if we make an acquisition, it's likely to be an I&M.

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**Scott Graham**

*Analyst, Seaport Research Partners*

Q

Right. Okay. Thanks a lot. Appreciate it.

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**Stephen Douglas Kelley**

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

A

Thanks, Scott.

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**Operator:** And the next question comes from the line of Krish Sankar with TD Cowen. Please proceed with your question.

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**Robert Mertens**

*Analyst, TD Cowen*

Q

Hi, this is Robert Mertens on the line on behalf of Krish. Thank you for taking my questions. Maybe just a quick follow-up in the Industrial and Medical markets. March seemed like a little bit weaker than maybe you expected exiting last year and I know that business can be a bit lumpy on a quarterly basis. But, looking into the second half of this year, are you seeing any sort of change in customer purchasing patterns within the market that give you

confidence in the second half recovery? Or is it really primarily based on seeing some of the inventory drawn down through your distributor network? Any color there would be helpful.

**Stephen Douglas Kelley**

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

A

Yeah I think it's primarily our view to distribution because in I&M, roughly half our sales go through the distributor channel. And so we've seen four straight quarters of reduction inventory in distribution. And so we're encouraged by that. We're also encouraged by some increased order activity in the latter part of Q1. And we analyzed that and we figured out it wasn't due to tariffs. It was really due to demand that the distributors are seeing from end customers.

So we think the orders are matching demand right now and our overall view of the Industrial Medical customer base is they're taking a wait and see approach particularly as these tariffs get rolled out or not, and they're proceeding cautiously.

**Robert Mertens**

*Analyst, TD Cowen*

Q

Okay, that's helpful. And then maybe just a quick follow up on questions around the Semi-cap business. Is there any sort of risk, given the current macro environment, that customers would be able to delay the rollout of some of these new systems that you're predicting to ramp pretty significantly in the second half? Or are those more strategic and sort of set in stone?

**Stephen Douglas Kelley**

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

A

Yeah I think the challenges our customers are facing are pretty significant, the technical challenges as we move to 2 nanometers and below. And so there's always going to be pushes and pulls of schedules, and we can't control that, but what I do know is there is a high degree of urgency on the part of our customers to incorporate these new solutions from Advanced Energy, because they run into issues with the older technology, just doesn't get the job done fast enough.

And so that's the big advantage that we have is our new technology provides our customers throughput and yield performance, which is as good as or better than the last generation technology.

**Robert Mertens**

*Analyst, TD Cowen*

Q

Got it. Thank you.

**Operator:** And the next question comes from the line of Steve Barger with KeyBanc Capital Markets. Please proceed with your question.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Hi, thanks. Really great to see the eVoS and eVerest performance and I'm just trying to think about what high volume production could look like. You said you've shipped 350 units cumulatively through 1Q. Maybe that ends up at 500 or 600 or whatever for this year, but does that double as you go into high volume production, or is it more than a double? How have programs like that worked in the past?

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

A

Yeah, when it goes into high volume production, it'd be much more than double. So, what we've done is we've seeded the market. So, all of the – all the customers have practically have received and purchased these qualification units. And so they're using these units both in their development labs, as well as at end customer wafer fabs. And so these are in various stages of qualification. In some cases, the products are already qualified, and we'll start to ramp in second half of this year. But in most cases, the qualification will continue through this year and the ramp will start next year.

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

Q

Right.

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

A

But I think – think of these units as selling in the tens of thousands of dollars. Our content is way up from last generation to this generation because we're delivering more value, and we're also operating at higher power levels. So, as we win these advanced node positions it's going to help increase not just our unit market share, but also our dollar market share.

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

Q

Yeah, that's excellent color. Thanks. Are those strictly for newly built tools or are there upgrade potential applications?

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

A

Yeah, the work we're doing today is strictly for newly built tools. However there were some customers who were looking at ways they could use some of the technology to upgrade older tools. But that's really a second priority today. Most of our customers are really focused on winning those new slots in the advanced processes.

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

Q

Understood. And then a quick one on data center. You talked about growth in 2Q and then again in the two half. I'm just curious about visibility of demand. Does that extend into 2026 with this kind of momentum? And is there an upside limit to capacity as you stand today? Or could you deliver \$125 million a quarter or \$150 million a quarter if demand was there?

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

A

Yeah. So, I would say on hyperscale, the inputs we're getting today are up into the right and our visibility for 2025 is pretty good. We have orders, we have we have solid forecasts that give us a lot of confidence, not just in Q2 but also in the second half growth in hyperscale. As far as going to 2026 we don't have any forecast. But what we do have are a lot of new wins. And so right now, the cadence of new products in data center is about one new one per year. So we're upgrading and trying to keep up with the introduction of GPUs. And each new generation of GPUs requires basically higher power.

And so this is a very rapid upgrade cycle. And so we're ramping to volume on many programs right now, but we also have one designs that will help us ramp in 2026. The absolute number is hard to say at this point. But I think we've done a pretty good job diversifying across multiple hyperscalers, multiple programs and in multiple generations of products. So I'm pretty happy with the direction of business. And what was second question?

**Paul R. Oldham**

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

A

Yeah, Steve, maybe I'll just follow up on the...

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Just capacity...

**Paul R. Oldham**

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

A

...on the capacity.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

Yeah.

**Paul R. Oldham**

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

A

Yeah, you heard in our comments that we're actually increasing our CapEx in the near term. This is to support really the capacity around these high-power power supplies and the infrastructure that goes behind it. So, we certainly have capacity to grow from where we are, but based on our visibility of the design wins we have and kind of the power requirements, we have increased our CapEx in the near term, to ensure we're in a position to capitalize and to take advantage of what we think is the higher volumes that are coming.

Now, I characterize a little bit of this CapEx as a pull-in from maybe a couple of years out and I think it just demonstrates that the market's moving much more quickly to these higher power requirements. And frankly, our win rate in terms of capturing this – the upside faster. So there is some investment we'll be making around our infrastructure and capacity around the high-power requirements for Data Center.

**Steve Barger**

*Analyst, KeyBanc Capital Markets, Inc.*

Q

That's great. Thanks very much.

**Operator:** And the next question comes from the line of Mark Miller with Benchmark. Please proceed with your question.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Thank you. Congrats on the quarter, and thank you for the question. I'm just wondering, in your backlog, what does the margin profile look like? You're kind of guiding to flat margins, but improvements in the second half. Is

that based on the backlog in the second question or part of the question is, in terms of the design wins, do these products have above corporate average margins?

**Paul R. Oldham**

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

A

Yeah, good question, Mark. So as you know, our backlog, in a normalized environment, isn't that meaningful because so much of it is in semi equipment or even equipment that's going to hubs for data center. So, our outlook is more based on our projections of what that product mix is going to be as we look forward. And in general, we do expect higher margins from our new products and from this new mix.

I'll say in Data Center, which is ramping, what we've talked about is that the product margins in those areas have improved. They're not at corporate average yet, but they're closer than they have been historically and we focused on more sole source opportunities or limited source opportunities. And we think that's really playing to our strengths and paying off for us right now.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

At one point, you were talking about maybe by the end of the year that we'd be in a trajectory towards 40% margins. Is that still possible or still – the visibility is still out there?

**Paul R. Oldham**

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

A

Yeah, we said on our call that despite the tariffs we're not changing our gross margin goals. So if you remember kind of the elements of that, we talked about three things. One is the factory consolidation improvement related to better cost. That's on track and we feel good of achieving that. We talked about new product mix, that starts to impact the second half and we think we're on track at that – with that as well have a bigger impact in 2026.

And the third one is volume. Certainly we're seeing volumes a little higher than we had projected. And I think that's a positive. So if we kind of stay on this rate in generally what we said before, we would we expect to approach 40% as we exited the year. And although we're not guiding to the year, I think if you look at the pieces behind that, then we said we're committed to achieve those same goals.

But one comment I'd make maybe to your earlier question is we do see some impact to mix particularly data center is more heavy. But we've also characterized that as kind of in the 50 basis points, you know, plus or minus 50 basis points in a quarter. So, there could be a little bit of challenge there, but we'll also have higher volume and overall it's not changing our model or our goal to achieve gross margins.

**Mark Miller**

*Analyst, The Benchmark Co. LLC*

Q

Thank you.

**Operator:** And the next question comes from the line of Jim Ricchiuti with Needham and Company. Please proceed with your question.

**Chris Grenga**

*Analyst, Needham & Co. LLC*

Q

Hi. Good afternoon. This is Chris Grenga on for Jim. With respect to the plans for the Thailand facility, have that – have the tariffs changed on the margin or incrementally anything with respect to those plans in either the timing or the capacity plan for that site?

**Stephen Douglas Kelley**

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

A

Yeah, I don't think so. We are still planning to open that sometime in 2026, but it's really tied to increase in demand that justifies us opening the factory. And our first products in Thailand will be plasma power products. And I think the plasma power part of our business is less sensitive to tariffs than Industrial Medical. So, I think things we are on track today. We'll have the building and the facilities completed by September of this year, and we could turn that factory on within six months of saying go. So I think we're well positioned in Thailand and we're ready to go when the demand justifies it.

**Chris Grenga**

*Analyst, Needham & Co. LLC*

Q

Great. And you'd mentioned the success you've seen, or early success you've seen with the microsite with Mouser. Do you see any incremental impact either on sell in or the amount of inventory held versus an arrangement where there is no microsite as more of these microsities are added in the future?

**Stephen Douglas Kelley**

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

A

Yeah. So I think the best benchmark for us is our own website, which we basically introduced in late 2023 and we had pretty good experience in 2024. So in 2024, we basically earned 160 design wins right off the website with very little participation from our sales force. And that was quite significant for us and we expect similar performance this year.

But at the end of the day, the reach of a company like Mouser or some of our other distributors is much larger than our reach. And so as we bring up these microsities we expect to convert many these opportunities into wins and we think it's going to turbocharge our Industrial Medical business.

**Chris Grenga**

*Analyst, Needham & Co. LLC*

Q

Thanks very much.

**Operator:** And the next question comes from the line of Duksan Jang with Bank of America. Please proceed with your question.

**Duksan Jang**

*Analyst, BofA Securities, Inc.*

Q

Hi. Good afternoon and thanks for taking the question. Going back to Semis, I know you said you don't see a lot of direct impact from tariffs, but are you seeing any indirect impact? I think a lot of your customers are – or they've expressed pull-ins from customers, particularly in China, in anticipation the tariffs. So, I'm curious if you're seeing any impact of that. Thank you.

**Stephen Douglas Kelley**

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

A

No, we have not really seen any indirect impacts. The forecast that we operate off of from our semiconductor customers, really haven't seen any downward revisions. So I think they're finding ways to deal with the tariffs, just like they did with the export control regulations, right. Obviously tariffs and export control don't help our customers to sell into China, but I think they're doing the best to work within the rules. And so far, we haven't seen any downward revisions in the forecast.

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**Duksan Jang***Analyst, BofA Securities, Inc.*

Q

Got it. And then one follow-up on gross margin as well. So, in the near term, for the rest of the year, I think the story is pretty clear. You have a lot of tailwinds, but looking into 2026, what would be some of the drivers that would lead us to think that there's still a lot of runway beyond the 40% mark?

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

A

Yeah, I think it's a couple of things. One is we should really be getting some traction on the new products in the mix going into 2026 and throughout 2026. As you recall, we said that was 200 to 300 basis points of opportunity and we're just sort of scratching the surface of that as we exit 2025. So I think that's a – becomes a more significant driver as time goes on.

I think the second thing is, as our markets sort of work their way through kind of the near term headwinds, certainly volume is important. And we believe that we will continue to earn 100 basis points of gross margin improvement for every \$50 million of quarterly revenue. So, we've seen that over the last year and we to continue to see that as we go forward.

Obviously, there's some near-term headwinds from tariffs. It's hard to gauge whether that accelerates or moderates over the longer term, but we think we can largely overcome those headwinds by actions we're taking internally, both to mitigate the impact as well to drive margins even better as we focus on cost, quality things that are in our control to continue to improve margins.

---

**Duksan Jang***Analyst, BofA Securities, Inc.*

Q

Understood. And then one last one, if I may. On the OpEx side in Q2, I think you said you're progressing much better than you're growing at half the rate of revenue target. But at the same time, I think you also mentioned last quarter that OpEx in general grows at half the rate of revenue. So should we expect the pace to pick up in the second half or how should we think about the full year OpEx?

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

A

Yeah, the way to think about it is similar to our guide last time we said that overall we would expect OpEx to increase \$1 million to \$2 million incrementally each quarter through 2025. That's a function of not only salary changes and some inflation, but also continued investments in R&D and some variable costs as revenue grows. So that's the way to think about it.

I think when you do the math around that first, I think we're entering the year in good shape because expenses are up only modestly from a year ago on significantly better revenue. So we're starting from a good place. But if you just kind of run the math out, we think we will actually grow spending better than that 50% of revenue over the course of 2025.

**Duksan Jang***Analyst, BofA Securities, Inc.*

Got it. Thank you.

Q

**Operator:** [Operator Instructions] . One moment while we poll for additional questions. And the next question comes from the line of Rob Mason with Baird. Please proceed with your question.

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

Yes, good evening and nice work on the quarter. Just wanted to circle back to the I&M segment real quick. Just make sure I have my arms around the step-down we saw there as well as maybe how that can start to recover. Steve, does – do you draw any distinction between the Industrial piece and the Medical piece just in terms of what you're seeing out of customer activity at this point?

Q

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

Yeah, we do see a bit of difference between the two markets. In Medical, we're seeing less enthusiasm from customers. I think there's some uncertainty about the tariffs. There's some uncertainty about federal funding. And we just see less optimism from medical customers over the past quarter. I think Industrial is kind of a mixed bag. There's some areas that are strong, like mil/aero, and for us, Industrial Coatings, which uses plasma technology, but most of the rest of the markets are a mixed bag or down a bit.

A

So, we do distinguish between the two. Obviously, this is an area where we spend a lot of time talking to targets for M&A pipeline. The issue for us right now is that there's a continuing evaluation gap between what we think the target is worth and what they think they're worth. And over the past year, we've seen valuations come down on many of the targets in our pipeline. So, we think this year we could see some of those gaps closing, especially if those businesses remain challenged. So we're continuing to stay in touch with the targets in our funnel and hopefully something breaks this year.

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

I see. Is there any dynamic happening in that I&M where products have end of life and the design wins – the next design win that you're on just hasn't ramped yet? Or is this solely a function – the step-down just solely a function of active product volumes being lower?

Q

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

Yeah, I think that's a big part of it actually. our design win pipeline is at all-time high. So I think we're doing very well in the market. But those design wins have not ramped to production for the most part. So, people are waiting. They're trying to exhaust their current inventory before they launch new products. And so, quite a bit of that going on across our I&M customer base.

A

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

I see. Very good. Thank you.

Q

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

A

Thank you.

**Operator:** And the next question comes from the line of Scott Graham with Seaport Research. Please proceed with your question.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Yeah. Hi. Thank you for taking the question. Just two follow-ups. The first is maybe on tariffs. You guys are always very transparent about what's going on, your operating expenses, what have you. Is there anything more you can give us on tariffs in terms of percent of cost of sales that are affected and then we can apply the tariffs from there. Could you – is it possible you could tell us the impact in the first quarter? We could extrapolate from there, but just maybe a little bit more to go on.

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

A

Yeah, we haven't broken it out specifically, Scott, frankly, because we don't think it's that big of an impact. As we talked about, we're pretty well positioned. There are some costs for sure and they're going to increase in the second quarter. What I can tell you is that we've contemplated that in our guidance, and so you can kind of look at our guidance and I'd say flattish up slightly from Q1 with a bigger headwind from tariffs. Maybe there's a lot more volume there and maybe you can kind of get a little bit of a sense from that.

But generally we haven't broken it out. It's sort of one of those things that at this point it's a little hard to call out exactly. But we believe that it's contemplated in our outlook in that as we look over the course of the year assuming the current tariff levels, we think that's manageable within the models that we've talked about from a gross margin perspective.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Okay. All right. Understood. And then the only other question I had is, again, on the I&M business. In the past, you've talked about the declines in sales and you've kind of sized what you thought was the approximate destocking impact. Could you do that again this quarter of the decline that we saw this quarter, how much of that would you say was the destocking?

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

A

Well, I can tell you that as far as the distributor inventories go, we saw a decline of about 14% in our overall distributor inventories from Q4 to Q1. That might give you some idea, but that's again, the latest decline. We've seen four straight quarters of decline in distributor inventories. And so we're getting to a point where we're normalizing, I believe. And I think set the table for some growth in Q2 and perhaps in the second half Industrial Medical.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Okay. You mean sequential growth?

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

A

Yes, sequential growth.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Very good. Thank you...

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

A

I think one comment – yeah, I think one comment we made on the call is that we had did see orders increase, quite a rebound late in the quarter. We're encouraged by that. And I think one of the characteristics there is that many of those orders were inside our lead time. That suggests to us the customers, they really need it now, it's not across the board, but there are pockets of that. And so it's another data point that suggests that maybe we're getting to that that point where we're coming to the end of the destocking.

I think the flip side of that is I think the change in tariff environment probably affects Industrial Medical the most. So all things being equal, we would expect to see things maybe continue to grow from this point, it's a little hard to handicap the environmental impact and how quickly customers will respond as they look at their demand rates.

**Scott Graham***Analyst, Seaport Research Partners*

Q

Very helpful. Thanks a lot. I appreciate it.

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

A

Thanks, Scott.

**Operator:** And thank you. Ladies and gentlemen, that does conclude the question and answer session, and that also concludes today's teleconference. We thank you for your participation. You may disconnect your lines at this time.

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