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Advanced Energy Industries, Inc. (AEIS)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Advanced Energy Second Quarter 2026 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 Markets 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 Advanced Energy's second quarter 2026 earnings conference call. With me today are Steve Kelley, our President and CEO; and Paul Oldham, our Executive Vice President and CFO. You can find today's earnings press release and presentation on our website at ir.advancedenergy.com.

Before we begin, let me remind you that today's call contains forward-looking statements. They are subject to risks and uncertainties that could cause actual results to differ materially and are not guarantees of future performance. Information concerning these risks can be found in our SEC filings. All forward-looking statements are based on management's estimates as of today, August 3, 2026, and the company assumes no obligation to update them. Any targets beyond current year 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. In the second quarter, we delivered record results, with revenue and earnings above the high end of our guidance. Demand strengthened in all of our target markets, and solid factory execution allowed us to capture upside within the quarter. Looking forward, we expect record revenue in both Q3 and Q4.

Our investments in capacity and piece part inventory are allowing us to keep pace with increasing customer demand. We continue to make progress improving gross margin. In addition to manufacturing efficiency improvements, we are benefiting from a richer product mix. The success of our new products, which deliver more value to the customer, is the key reason our mix is improving.

In addition, we have taken pricing actions in our mature product lines, primarily to offset the impact of increased input costs. We are increasing output in our factories in Malaysia. We are working closely with some of our largest data center and semiconductor customers to qualify our new Thailand factory, where we now expect first production revenue in the fourth quarter. When Thailand is fully built out, we expect to have roughly $5 billion of revenue-generating capacity across our factory network.

On the new product front, we continue to increase our investment in R&D, which is critical to maintaining our technology leadership and competitive edge. Our modular approach is driving technology reuse across the company, reducing development cycle time, and speeding time to market.

Now let me provide some color on each of our markets. In semiconductor, we delivered record revenue in the second quarter. The semiconductor equipment market is growing to record levels, driven by strong demand for leading-edge memory and logic, as well as increasing etch and depth intensity. We are executing well to meet this increased demand, delivering sequential revenue growth of over 27% in the second quarter.

In plasma power, we continue to work closely with customers to tailor the performance of our eVerest and eVoS platforms to the requirements of next-generation processes. Customers have validated meaningful yield and throughput performance at the leading edge, and we believe that adoption of these platforms will drive market share gains for AE in the coming years.

In system power, we secured design wins in test, ALD, and thermal sensing applications in the second quarter. Across both plasma and system power, we have several programs beginning to ramp to production. With additional design wins in the pipeline, we expect new product revenue to accelerate our revenue growth in 2027 and beyond.

In data center computing, we see robust demand in the second half and now expect full-year revenue growth of at least 50%. Our improved outlook is due to increased demand from hyperscalers. We continue to pursue multiple opportunities with second-wave data center customers, defined as customers outside of the top hyperscalers. We expect that these second-wave customers will accelerate our revenue growth in 2027 and beyond.

We have developed multiple products to address the power requirements of 800-volt data centers. Our low-profile, modular solutions feature industry-leading power density, efficiency, and reliability. By leveraging common modules, we are able to quickly develop customized products as this technology evolves. We have received positive feedback from a number of customers who have evaluated early production units of our 800-volt products, and based on customer road maps, we expect these products to go into high-volume production in 2028.

In industrial and medical, revenue increased sequentially and year-on-year. Key design wins are beginning to ramp to volume and we see much healthier demand in the overall I&M market. In the distribution channel, which accounts for roughly half of our I&M revenue, resales, orders, and inventory all improved this quarter. On the execution front, we are working down our overdue I&M backlog and expect to catch up to demand in the second half.

In medical, we secured multiple wins in therapeutic, imaging, and life science applications. Our momentum in electrosurgery is particularly strong, fueled by our highly differentiated pulsed power technology.

In industrial, we won key slots in test and measurement, factory automation, and robotics applications. We also recorded multiple wins in aerospace and defense with ruggedized versions of our leading-edge commercial products. We continue to leverage our digital marketing and channel strategies to broaden our I&M customer base. In the first half of 2026, design wins, which started as website inquiries, increased 40% year-on-year.

In telecom and networking, several customers are evaluating our rack power solutions for AI-related applications. We classify these as second-wave data center opportunities, where we could redeploy existing technology blocks into new applications.

Now, I'd like to update our view on 2026. Demand continues to strengthen, and we are executing to capture near-term revenue upside. As a result, we have increased our 2026 growth outlook to the low- to mid-30% range. In semiconductor, we expect second half revenue to grow nearly 50% year-on-year. With our new products just beginning to ramp into production and additional wins in the pipeline, we believe that AE is well-positioned to outgrow our market and gain share in the coming years.

In data center, we are on track to increase revenue more than 50% in 2026 after more than doubling in 2025. We continue to win new programs at our hyperscale customers and are engaged with multiple second-wave customers, setting us up for a strong 2027. In industrial and medical, we expect revenue to grow sequentially over the next few quarters. Market conditions have improved and a number of new product wins are ramping to volume.

Now for some closing thoughts. First, we are well-positioned to deliver strong revenue growth into 2027 and beyond. Our design win pipeline is impressive, and our new products continue to hit the mark. We are making the necessary investments in capacity and inventory to allow us to keep pace with strong customer demand across all of our markets. We are fortunate to be a leading player in two large and fast-growing markets: AI data center and semiconductor.

Second, we continue to improve gross margin and have line of sight to over 43%. Finally, we continue to actively pursue potential acquisitions that make strategic and financial sense. Paul will now provide more detailed financial information.

Paul R. Oldham

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

Thank you, Steve. And good afternoon, everyone. We delivered record financial results in the second quarter. Revenue of $574 million increased 30% year-over-year, and EPS of $2.74 was up 83%, both exceeding the high end of our guidance. Gross margin improved 380 basis points year-on-year to 41.9%, and we delivered record operating income. Operating margin was well over 20%, a level that we've not achieved in many years. Operating cash flow increased meaningfully to $86 million.

Now, let's review our second quarter financial results in more detail. Total revenue of $574 million was up 12% sequentially and 30% year-over-year. Solid execution allowed us to capture upside to our guidance. Semiconductor revenue was a record $278 million, up 27% quarter-over-quarter and 33% year-over-year. We believe that we are shipping in line with underlying demand.

Data Center Computing revenue was down 1% sequentially, as expected, but increased 35% over last year to $192 million. Demand progressively improved in the quarter as customers resolved downstream constraints, setting up a higher second half. Industrial and medical market revenue was $80 million, up 11% from last quarter and 17% from last year as we increased output to meet customer demand. Telecom and Networking revenue decreased 4% sequentially but grew 12% year-over-year to $24 million.

Gross margin in the second quarter was 41.9%. During the quarter, we received the large majority of our expected IEEPA tariff refunds. Excluding the benefit of these refunds, gross margin was above our guidance range at 40.7%, driven by higher volume and favorable mix of new products. Relative to Q2 earnings, the refunds benefited EPS by $0.04.

Operating expenses of $115 million were slightly above our guidance range due to timing of program spending and variable costs. OpEx increased 11% year-over-year, well less than half the rate of revenue growth. As a result, second quarter operating income was a record $125 million, and operating margin increased 730 basis points year-over-year to 21.9%.

Depreciation was $11.3 million, and our adjusted EBITDA was $137 million, up 84% year-over-year. Other income was roughly $5 million versus breakeven in Q1, mainly due to higher interest income and lower interest expense on the net proceeds of our convertible note offering in May.

For Q2, our GAAP tax rate was 18.2%, driven largely by the non-deductibility of certain costs to partially retire our 2028 convertible note and related bond hedge and warrant. Our non-GAAP tax rate was 14%, below our target of 16% to 17% due to favorable mix of earnings and certain discrete items. Second quarter earnings were $2.74 per share, up meaningfully from $2.09 per share in the previous quarter and $1.50 per share a year ago.

Turning now to the balance sheet. In May, we completed a $1.15 billion offering of 0% coupon convertible notes due in 2031 and redeemed $438 million of our 2.5% convertible notes due in 2028. As a result, total cash and equivalents increased to $1.4 billion. Net cash was $132 million at the end of Q2. We also announced our plan to redeem the remaining $136 million of the 2028 convertible notes in September. In Q2, net working capital was up 2 days to 123 days, driven by increased inventory, offset by improved DSO and DPO. We are investing in additional piece part inventory to support our customers' ramp plans, enable manufacturing flexibility, and capture upside opportunities. As a result, inventory increased 10 days to 145 days, with turns at about 2.5 times. Days sales outstanding decreased 3 days to 63 days, and days payable outstanding increased 5 days to 85 days.

Despite increased net working capital, cash flow from continuing operations was a record $86 million. During the second quarter, we invested $50 million in CapEx to expand capacity and capability across our factory network, including accelerated production investments in Thailand. Finally, we paid $4.1 million in quarterly dividends.

Turning now to our guidance, with strengthening demand across all of our markets, initial production ramp of several new product programs, and solid execution, we expect to deliver record financial results in both the third and fourth quarters. We are forecasting our third quarter revenue to be approximately $640 million, plus or minus $20 million. We expect Q3 gross margin to be in the 41% to 41.5% range, up from Q2, excluding the onetime benefit of tariff refunds. We expect Q3 operating expenses to increase to $120 million to $124 million due primarily to investments in new products.

We expect other income to be approximately $5 million on improved interest income. We expect our tax rate to be in the 16% range for the next several quarters. As a result, we expect Q3 non-GAAP earnings per share to be $3, plus or minus $0.25, on 41 million shares outstanding. For the full year 2026, we are raising our revenue growth target to the low to mid-30% range, up from the low to mid-20% range.

In Semiconductor, we expect second half revenue to be up almost 50% year-on-year. In Data Center, we are raising our full year revenue growth outlook from the mid-30% range to at least 50% on accelerated hyperscale investments and ramp of next-generation programs. In Industrial and Medical, we expect revenue will continue to grow sequentially on higher demand and better factory output. We expect gross margin to improve in the second half with Q4 in the 42% range. We expect full-year OpEx to be in the $470 million range. As a result, earnings per share is expected to grow meaningfully faster than revenue for the year.

Finally, we now project our 2026 CapEx will be in the $180 million to $195 million range, up slightly from our previous outlook based on accelerated investments to support growth ahead. Despite higher capital spending and investments in strategic inventory, we continue to target 2026 free cash flow to be at or above 2025.

Let me finish with some concluding comments. Advanced Energy is uniquely positioned to capture the strong market trends in both semiconductor and data center. We are investing aggressively in technology development, capacity, and inventory to support growth. We believe our wide range of best-in-class power technologies, global engineering teams, production capacity, and scale will enable us to grow share and capture upside. At the same time, with our strong balance sheet, we will continue to pursue inorganic growth opportunities to further diversify our scope. Finally, we expect to continue to improve our financial model by expanding gross margin, driving operating leverage, growing earnings, and delivering higher cash flow.

With that, we will now take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: We'll now be conducting a question-and-answer session. [Operator Instructions] Our first question is from Matthew Prisco with Cantor Fitzgerald.

Matthew Prisco
Analyst, Cantor Fitzgerald & Co.

Q

Hey, guys. Thanks for taking the questions. I just want to start on the Data Center side. Can you offer some more color on the increased positivity you're seeing versus three months ago, maybe how customer conversations developed? How are you thinking about the mix today? And you commented you see accelerating growth into 2027. What exactly does that mean? Thanks.

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

A

Yeah. Thanks for the question, Matthew. Yeah. What's changed in the past three months is that our customers have been successful in removing some of the supply chain issues that we faced three months ago. So, for us, that means we've been able to grow more bullish on our second half revenue and our 2027 revenue in data center. So this year, we've got good line of sight to increasing business in Data Center.

As we look into 2027, we see a couple of key vectors there. The hyperscale customers, who we've been engaged with for the last three years, we see a lot more wins ramping to volume there. We also are bringing on the second-wave customers. These are the wins that we've earned this year. They'll ramp to volume next year. And then, as a third vector, we think we'll see some business in 800-volt towards the end of next year, and we see that ramping to production in 2028.

Matthew Prisco
Analyst, Cantor Fitzgerald & Co.

Q

Thank you. And then maybe for the second question, on the Semiconductor side of the business, obviously, trends improving here as well. Just would love to hear your thoughts, outside of the 25% of your business linked to the third lithium-ion implant, how do you think about the ability for AE to outgrow WFE in 2026 and maybe in 2027? And how do we think about that kind of new product traction that you've been highlighting on the call? Thank you.

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

A

Yeah, yeah. I think right now, I think we're better positioned to gain share than at any other time in our history, and I say that because of the acceptance of our new technologies, both in plasma power, as well as system power. So, today, I think we're well ahead of the share gain targets we published at our 2024 Analyst Day about 18 months ago. So we're very happy with the progress.

We think we've laid the groundwork to gain share in conductor etch, in dielectric etch, and deposition, and we're working at the leading-edge nodes across all those categories of logic, NAND, and DRAM. The reason why we're preferred is that we're offering yield and throughput advantages to the customers as they move to these very challenging geometries. So, today, we see strong pull from all of our major customers. We're winning wherever we're engaged, and our modularity allows us to spin off derivatives relatively quickly.

On the system power side, we've gained some major wins in process tools and in tester applications. And system power differs from plasma power products in the development cycle time is much less. So we're basically gaining share on two fronts, in plasma power and system power, in the semiconductor area.

Matthew Prisco
Analyst, Cantor Fitzgerald & Co.

Q

Thanks, guys.

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

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Yeah. Thanks for taking the question. I was wondering if you could talk about your inventory situation and just – and you talked about buying more piece part inventory. How are you thinking about that in the forward demand? And coming back, if you go back to the last kind of cycle, especially in semis, component availability was a bit of an issue for you guys. Any sense of kind of where we sit today?

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

A

Yeah. I guess the first thing I'll say is we've learned a lot about our supply chain during COVID. So our team is battle-tested. And so what we did during the COVID shortage is we brought on second sources wherever possible, we built inventory where it was necessary. And for new designs, we stopped designing components from underperforming suppliers.

Our current situation is we don't want to constrain our customers, and we don't want to constrain our revenue due to shortages of piece parts. So we're leaning into strategic inventory as lead times extend for these components and the demand that we see continues to increase. We think the inventory we're building right now is healthy inventory, with very little obsolescence risk.

We're also maintaining high factory staffing at our factories in the Philippines, in Malaysia, and in Mexico, and that enables us to flex up when scarce parts arrive late in the quarter. So these actions that we're taking, both in inventory and factory staffing, are helping us stay ahead of our customer demand.

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

A

Yeah. Maybe I'll just add to that, Joe. We signaled, going into this ramp a quarter or so ago, that our intention was to lean into inventory because we fundamentally believe that would enable volume upsides and flexibility in manufacturing, and that's what we're doing.

A couple of comments on that. We said that would impact turns in the near term, and we've seen turns come down to about 2.5x, which is what we signaled. But I think it's worth noting that at the same time we've invested in inventory to give ourselves flexibility and stay ahead of the curve, both AP and AR have improved, which mitigated the impact on working capital. So, look, we have a strong balance sheet. We think it makes sense, at this point in the cycle, to invest in our own piece part inventory, as Steve said, to stay in front of customer needs and be able to deliver to upsides.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Thanks for that. And then maybe as a follow-up as you think about just the puts and takes in gross margin, you talked about some price actions that you're taking, any help on just quantifying how we think about that as part of the gross margin guidance?

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

A

Yeah. First of all, I'd like to say we're reluctant to raise pricing unless it's absolutely necessary. So we first try to mitigate the price increases from our suppliers through second sourcing and through negotiation. But where we can't mitigate, we pass that through to the customer to preserve our own gross margin. Longer term, our first priority is delivering more value through new products, which tends to drive higher pricing and better margins.

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

A

Yeah. Maybe I'll just add on that one too a little bit. If you think about that, our stated goal is to remain price cost-neutral. I think that that's working. Again, I think compared to a few years ago during the supply chain crisis, we're a little more in front of that and being proactive.

If you look at what really drives gross margin, going forward, it's a few things. Number one, in terms of future opportunity, is, in fact, better mix coming from new products, as Steve mentioned. The good news is we're already seeing some of that benefit come in, and there's more opportunity to run there. That's higher-priced products which have higher value to our customers and are tied to new products.

Second, obviously, volume makes a difference. We've seen some of that this last quarter. We'll continue to see that as revenues grow. And finally, we've been growing at quite a rapid clip. And so we've certainly seen some inefficiency in manufacturing as we grow. We have high confidence that, over time, we'll be able to wring those costs out as well. So pricing, certainly in the near term, intention is to keep neutral, but we believe we can continue to improve gross margins really on structural improvements in the business.

Joe Quatrochi
Analyst, Wells Fargo Securities LLC

Q

Thank you.

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

Krish Sankar
Analyst, TD Securities (USA) LLC

Q

Yeah. Hi. Thanks for taking my question. I had two of them. First and foremost, congrats on the great results. Steve, I'm just wondering, when I look at your semi revenue guide, it's about a little over 30% year-over-year. Some of your customers are guiding to almost 40% revenue growth. I'm just kind of curious, has there been better inventory management from your customers that you're not seeing a sharper growth, or is this the new normal where you kind of grow more in line or slightly better than WFE, not outperform WFE when the cycle turns?

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

A

Yeah. Krish, thanks for the question. The first thing I would say is, over time, over the last three to five years, we have outgrown the competition. And so you do see variations year to year based on changes in the market where one particular product may be up one year, another product the next year. So it's hard to follow WFE every single year. But over time, we've done better than WFE and better than our competitors.

But as I look forward, we see extremely strong second half in semiconductor. So we think, if you look at the second half of this year compared to the second half of last year, we'll be up almost 50% year-on-year. So no matter how you slice it, that's pretty good performance.

Krish Sankar
Analyst, TD Securities (USA) LLC

Q

Got it. Got it. Thanks for that, Steve. And then a follow-up on the data center side. You said that you're winning – continue to win at hyperscalers. I'm just wondering, how many hyperscaler customers do you have today on the data center power supply side? And along with that, the 800-volt DC, it seems like it's still, like, later next year into 2028 for your early revenue. Why is it late when some of your competitors who are shipping to ASIC hyperscalers are expecting early revenues in second half of this year?

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

A

Yeah. Krish, what we've said is that we have four hyperscale customers, some of those are bigger than others, and they tend to be very engineering-intensive, and we've been very successful with the hyperscalers where we've engaged.

As far as the second-wave customers go, we have engaged with them this year. But it typically takes nine months to a year to go from engagement to production. We saw that with the hyperscalers. We're seeing it with the second-wave customers. So we think we're in pretty good position to add significant revenue from second-wave customers in 2027. And ultimately, we think we can grow the aggregate second-wave revenue to the same level as our largest hyperscale customers. So it could become quite significant, and it could help us diversify our customer base a bit.

Krish Sankar
Analyst, TD Securities (USA) LLC

Q

And on the 800-volt?

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

A

Yeah. So, 800-volt, we've got some interesting products, and there's been a high level of interest in our solutions at multiple customers. We see this as an opportunity for AE to increase our content per rack. And so we brought a number of solutions to market. Some of those are DC-to-DC; some are AC-to-DC. They're all modular solutions, and they allow us to quickly customize, to mix and match, to meet customer requirements. And they're low profile, and they've received very positive feedback from the customers who have sampled these products.

The other feature is they're all focused on high efficiency, on the 98% range, high-power density and high reliability. So what we're doing is leveraging our technology leadership and our strong technical team to win in this market. We expect the initial production revenue in late 2027 and to see more meaningful ramp in 2028. And we believe, longer term, that 800-volt is going to coexist with both 12-volt and 48-volt data center architectures.

Krish Sankar
Analyst, TD Securities (USA) LLC

Q

Got it. Thank you very much, Steve. Very helpful. Thank you.

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

A

Thank you.

Operator: Our next question is from Shane Brett with Morgan Stanley.

Shane Brett
Analyst, Morgan Stanley & Co. LLC

Q

Thank you for letting me ask a question. So I actually wanted to follow up on your answer to Krish's question just now on second-wave customers growing to the same level as your largest hyperscale customers. Is that a revenue contribution comment? And just what is the timeframe you envision for those second-wave customers to get to the same level as your main hyperscaler customers? Thank you.

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

A

Yeah. Shane, thank you for the question. We haven't put a specific timeframe on that ramp for the second-wave customers. My expectation is it's going to take at least until 2028, perhaps 2029 to get there. We have a number of different wins, and we're working on more wins in our pipeline. So it's hard to really nail the timing down. But I feel very good about our ability to ramp these second-wave customers in our factory in the Philippines, as well as our new factory in Thailand.

Shane Brett
Analyst, Morgan Stanley & Co. LLC

Q

Understood. Thank you. And my next question is also on data center, but can you help quantify your current expectations and how much your content opportunity per gigawatt or rack steps up as you move through 400-volt to 800-volt conversion products? Should we think about a multiple of sort of revenue contribution per gigawatt or rack, or is it kind of more incremental, more smaller than that? Thank you.

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

A

Yeah. I think it's difficult, if you look at our business, to really find a metric where you could try to gauge our future revenue growth. I think what we've been doing is focusing on opportunities where we could be the sole source or one of two sources, and these are opportunities where the customer needs best-in-class performance. And so we're avoiding commodity spaces and trying to focus on high-end opportunities where the customer needs engineering input from Advanced Energy.

Shane Brett
Analyst, Morgan Stanley & Co. LLC

Q

Thank you very much.

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

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Thanks. Steve, can you compare current engagements to a couple of years ago, meaning how much earlier in the design cycle are customers talking to you on the data center side, and are those starting to extend to the broader architecture around rack and cluster designs, or just where do most of your products sit, and do you have opportunities to expand that?

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

A

Yeah. I think, today, most of our products sit in the rack, and I would say the defining feature of the AI data center is the very fast development cycle times. So I think what we've seen is that we've partnered closely with our key hyperscaler customers because there's very little time to perfect the solution. So what we've done is maximize reuse and work very closely with the customer to develop a solution that meets their next-generation needs.

And so, generally speaking, there's about a 9 to 12-month lag between the final design and the full ramp. And so this is a continuous cycle. Over time, what's changed is the number of projects per customer has gone up as they develop confidence in Advanced Energy, both in our development capability, as well as our ability to ramp to high volume.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

When you say projects per customer, do you mean inside the four walls of an existing facility or does that extend to – they're giving you more opportunities in other facilities as they grow?

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

A

Yeah. When I said that, I really meant the number of projects that we have with a particular customer and, in many cases, we've qualified more than one facility to build these power supplies. And so, really, we've got three choices now. One is the Philippines, one is in Mexico, and now we're bringing up Thailand. And so we'll basically build these products where it makes sense for the customer.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Got it. And then we talk a lot about increasing power density in the data center. But as you look at the leading-edge road maps in the semiconductor business, are you seeing power requirements per tool increase faster than unit volumes there as well?

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

Yeah. So I think your question is, are we seeing increasing stress on power density in semiconductor fabs in addition to what we see in data centers? Is that correct?

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Yeah, exactly, like are you getting more content, or is it a harder engineering problem at the leading edge as you look at the road maps going forward?

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

Yeah, yeah. That's a good question. It's definitely a harder problem for a couple of reasons. One is the voltages tend to go up over time, and we see this across the portfolio as we move into the leading-edge development. The second is we don't have more room to get the job done. So, typically, the space availability in a wafer fab is very constrained. And so our customers want us to accomplish the task in the smallest possible volume. And so we face significant challenges on power density, but we're able to basically use common technologies across our company. And so we apply learnings that we have made in data center to our semiconductor product development and vice versa.

So I think this is one of the strengths of Advanced Energy is we can apply learnings across all of our markets.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Right. So volume and content opportunities in both data center and semiconductor?

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

Yes.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.
Q

Perfect. Thanks.

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

Mehdi Hosseini
Analyst, Susquehanna International Group
Q

Yes. Thanks for taking my question. A couple of follow-ups. I want to focus on data center first. Steve, is there any way qualitatively or quantitatively you can help me understand the mix of different products embedded in the data center revenue? Specifically, I just want to see if most of your revenue is concentrated on the power solution or whether you have been able to diversify to include PDUs and more of a module or shelf solution?

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

A

Yeah. So, Mehdi, what we've said is, so far, all of our solutions have been rack-level solutions. We really haven't been any more specific than that, for competitive reasons. And I think, moving forward, we're looking at participating in all types of architectures. And so some of our participation may move out of rack, but I think our primary focus will be on rack power and some of the peripherals.

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

So does that mean as power densification increase, you should be able to generate more dollars of revenue per rack or per watt?

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

A

Yes. I mean, that's what it means because the challenges are greater, the higher the power levels, and that's what we've seen. Each generation brings us a bit more opportunity as the supplier of precision power.

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

Okay. No, because, obviously, it's outstanding to have doubled the revenue here last year, and now you're tracking to 50%. I'm just wondering if, looking forward, there is growth acceleration on a year-over-year basis.

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

A

Yeah, I think there is. I think, looking back, we've tripled the size of this business in two years, which is impressive. But looking forward, we think there are three growth vectors. Obviously, the first one is our business with the hyperscalers. We're well-embedded there and well-established with these customers, and there are plenty of opportunities for us.

The second one is the second wave I referred to earlier. These are customers that don't require a lot of engineering support. We could use existing technology blocks to quickly meet their needs. And again, over the next couple of years, I think we can grow them to a size which is similar to our largest hyperscale customer today.

And finally, since we're a technology company and really a technology leader, we see a lot of opportunity in 800 volts because this is a technology transition. And as this develops, I think it's a great opportunity for us to gain share and grow content.

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

Great. Okay. And then just one quick follow-up on the semi side. Your guided revenue in the second half would be up 50% year-over-year, and implied guide for Q3 suggests to me that there is a sizable de-acceleration from

Q3 to Q4, and I find that kind of surprising because looking into the projects that your customers are working on, I would imagine there is a higher growth into the first half of 2027, higher growth for your customers. So, how come they're not prepared for that by building inventory? Why should your revenue on the semi side de-accelerate into Q4 when your customers are facing a step-up in shipment into the first half?

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

A

Yeah. I think if you look at the numbers, Mehdi, it depends kind of how you attribute Q3 and Q4. I think we'll be – what we said in our call is that we're shipping in line to demand. So, that's how you should think about that.

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

Okay. So, your customers are still not building inventory well in advance of complete system shipment.

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

A

Yeah. It's hard for us to comment on our customers. But I think what we've said is that we believe we're shipping in line to their demand. We're not holding them up...

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

Got you. Yeah.

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

A

...and we're delivering what they're asking.

Mehdi Hosseini
Analyst, Susquehanna International Group

Q

Okay. Thanks for all the clarifications.

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

A

Yeah.

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

Jim Ricchiuti
Analyst, Needham & Co. LLC

Q

Thanks. A quick question just on Thailand. Did you say what kind of volume you anticipate in Q4? And as we think about the scale-up of the facility, I mean, just given the strength you're seeing in both semi and data center, how are you thinking about allocating resources there to those markets?

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

A

Yeah, good question, Jim. So, if you take our Q3 guidance of $640 million in revenue, that implies that we already have more than $2.6 billion in revenue-generating capacity in the company, and we continue to build capacity. So, we're investing in existing factory sites, including adding new buildings, and that's going to allow us to continue to grow in Q4 and into 2027. But all that's going to be augmented by our new Thailand factory, and there's a lot of activity in Thailand right now, and we'll be producing first revenue there in Q4 of this year, so next quarter.

And something notable is that we are qualifying big customers in Thailand, and these are big customers in the data center and the semiconductor markets. And so, we're leading with our premier customers, and I think that's a real positive for the company.

Jim Ricchiuti
Analyst, Needham & Co. LLC
Q

But, Steve, again, given what you're seeing in the market at this point, have you – are you allocating more of the production capacity as you look into 2027 to semi or to data center, or is that not changing versus your expectations when you started thinking about accelerating the capacity build?

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

Yeah. I think we're basically investing to meet the capacity needs of both markets, and in addition, we're investing to meet the needs of the industrial and medical market. So, I don't see any limitations in our capacity. We've invested heavily in CapEx for a number of years now, and we're using this capacity that we've built. And if you look at our investments, the bulk of the investment has been in data center the past couple of years. But the return on investment and the payback is very quick on this CapEx for data center. So, I think it's money well spent, and it's helping to fuel growth of the company.

Jim Ricchiuti
Analyst, Needham & Co. LLC
Q

Thank you.

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

Hey, Jim, one thing I'd just comment is I think we said in our prepared remarks, we expect to see revenue growth into 2027, and we believe that we've delivered two straight years of over 20% growth. We could see over 20% growth next year as well. So, some of that additional growth will come out of Thailand. We haven't quantified it specifically, and we haven't tied down how much in each market. As Steve said, you should think about both data center and semi large customers going in there. But Thailand will certainly help support another growth year of over 20% for AE.

Jim Ricchiuti
Analyst, Needham & Co. LLC
Q

Yeah. Thank you. I appreciate that, Paul. Thank you.

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

Scott Graham
Analyst, Seaport Research Partners
Q

Hey. Good afternoon. Congratulations on a great quarter. I wanted to maybe understand a little bit some of the dynamics within semiconductor that has you at a market pace, whereas I guess I thought with some of the wafer intensity improvements relative to your plasma power solutions that maybe you'd be a little higher than that. Is there any way of sizing – look, I know that quarter to quarter is not a measurement, but just sort of what I put out there to start the question, and that is would you guys be able to size for us the systems business versus the plasma power business right now and which one is growing faster?

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

Yeah, we haven't broken it out specifically, but I think a couple of things. We said we thought we could grow the system business by $40 million by 2030. I think we're well on track to do that. So, that gives you a little bit of a sense. It's obviously much smaller than the overall plasma business. But you also have the service business, which is circa high-teens or 20% of the plasma, which is growing much slower. That's right in our disclosures.

So, I think if you – you could take those couple of things and maybe you're looking at 25% or so of the semi business is maybe not equivalent to WFE. So, that could give you a little bit of a way to triangulate that growth relative to our numbers versus what you might hear in the market around system growth.

Scott Graham
Analyst, Seaport Research Partners
Q

That makes sense, Paul. Thank you.

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

Yeah.

Scott Graham
Analyst, Seaport Research Partners
Q

The other question I wanted to ask, as you know, I'm kind of a – one that has a lot of interest in the I&M side. And I was just wondering, one of the issues that the company was having until really the last several quarters was that you were – you had design wins, but they were in a lot of different markets, and you kind of – and you've been looking for an acquisition to kind of consolidate that business, give you some more critical mass.

But I'm wondering if – has any market maybe started to grow enough over the last several quarters where maybe there is some more critical mass that you're serving? I mean, within medical, is there a market there or is that just more customer-centric? In industrial, is it automation? I'm just trying to understand how the dynamics of that business is – looks going forward, even without an acquisition.

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

Yeah. Yeah. Thanks for the question. The I&M business has gotten a lot better in the past few quarters. So, if I take a look at the bookings, they're almost double. If I look at the bookings per quarter the last three quarters, they're almost double what they were the previous two years. And so, some of that is the general market recovery. This is the post-COVID hangover that the I&M market's been going through. But some of it is new product design wins ramping to volume. So, we've been very pleased that some of these wins are actually going to high volume now. And so, those two vectors are really helping push our I&M business upward.

If I look at some of the distributor metrics, our bookings are up 80% year-on-year. Resales are up 40%. Our sales into the channel are up 45%, and our inventory turns continue to improve. So, I'd say the industrial and medical market is definitely healthy for Advanced Energy right now, and we see strength in both industrial and in medical.

I think we're seeing greatest success in areas like test and measurement, aerospace and defense, factory automation, robotics, and anything else related to AI. We tend to play in the high end of the market, and there's a lot of activity there right now, and a lot of our wins in the past three years are starting to bear fruit.

Scott Graham
Analyst, Seaport Research Partners

Q

Thank you.

Operator: Our next question is from Elizabeth Sun with Citi.

Yi Ling Sun
Analyst, Citigroup Global Markets, Inc.

Q

Hi. Thanks for taking my question. I guess my first question is on the data center as well. Across all the hyperscaler customers, your position is very strong, like one of them, very – I mean, concentrated on one of the hyperscaler customers. So, I'm just wondering, is your position strengthening over the rest of the hyperscaler customers over the past for, like, say, one or two quarters? And how do you balance your resources to continue to support your biggest hyperscaler customer, grow your share in the others, and support the ramp of the second wave of customers?

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

A

Yeah. We have said, Elizabeth, that there – our resources are focused on a very select group of hyperscalers. And so, for us, it's very important to be successful at the customers we've selected. These hyperscalers are very engineering-intensive. They expect a lot from us, and they expect it quickly. And so we've been successful with that strategy, and we have to be careful not to dilute our resources. And so that's why, to augment our business with the selected hyperscalers, we've chosen to go with the second-wave approach because the second-wave customers aren't nearly as engineering-intensive as the hyperscalers are. So, we can spin off derivatives using our existing technology blocks relatively quickly, and it doesn't strain our engineering resources.

So, that's our strategy, not necessarily to go and broaden our hyperscale exposure, but to really take our technology and bring it to the second-wave customers.

Yi Ling Sun
Analyst, Citigroup Global Markets, Inc.

Q

Understood. That's very helpful. My second question is on the semi side. I think, if I remember correctly, you were expecting some share gains in semi from the new products in the – that logic etch in the second half this year. So, just wondering how did that share gain – how's the share gain progresses at this time right now.

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

A

Yeah, we haven't been specific about our share gains this year, but what we have said is that we're ahead of plan. If you take a look at what we discussed at our Investor Day in December of 2024, we're ahead of that plan as far as incremental revenue due to share gains. I think it's a combination of things. One is in our traditional areas of strength like plasma power. We're really focused on gaining share in conductor etch, dielectric, and in deposition.

And in the system power area, where we really haven't emphasized this area in the past, we've been successful getting some major wins, both for process equipment as well as test equipment, and these are meaningful wins, which taken together with what we're doing in plasma power, should power a fair amount of share growth over the next four to five years. A lot of what we're doing on the plasma power side is at the very leading edge, and that takes time to show up in our revenue, but it tends to be very robust and tends to last a long time. And so that's why, when I think about market share, I'm thinking about what are we going to do over the next three to five years.

Yi Ling Sun
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thanks, Steve.

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

A

You're welcome.

Operator: Our next question is from Duksan Jang with Bank of America.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Hi. Thank you for taking the question. Just a follow-up on the semis question, and you've been consistently talking about WFE outgrowth. Your customers have been pretty strong. You've been talking about your own product ramps, I think the market share gains that you just talked about.

Putting all of these together, what kind of visibility or how much confidence do you have in actually outgrowing WFE for the foreseeable future? And I'm asking this because, clearly, you've been gaining share relative to your competitor, but because deposition and etch haven't been really growing in line with WFE, I think you've undergrown the market the last couple of years. So, obviously, you're doing great with the results today, but I'd like to hear any more visibility color. Thank you.

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

A

Yeah, it's a good question, Duksan. I mean, our overall goal is to outgrow WFE. Obviously, the mix of WFE matters, which segments are growing at what pace and what our participation is in them. But as we look at the market, as Steve said earlier, we highlighted $140 million we felt of share gain that we could accomplish. This was from our 2018 Analyst Day – our 2024 Analyst Day. We think we're on track to beat that. Now, WFE's bigger, so we'll have to see what that pace of growth is. And certainly the – again, the mix of WFE growth over time will have an impact. But when we look at our fundamental systems business that's within our semi market, we still feel very good about our ability to outgrow WFE.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

Got it. And then one on more gross margin outlook. I think people have already asked around capacity adds and your product mix. But I think in the past, you've mentioned volume as also a pretty big driver. For your target model, I believe it was $3 billion sales and 53% – or 43%, sorry, gross margin. We're kind of getting in that range in a few years. So, as we expand further with the Thailand facility, and clearly the end markets are really going strong, what kind of gross margin, I guess, puts and takes and further opportunity do you have ahead?

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

A

Yeah, it's a good question. You're right about volume, and we certainly realized some of that benefit. We've also realized a lot of the benefit from our factory consolidations. The areas where there's more room to improve gross margins, if you will, relative to volume is in the areas of product mix and now a little bit of manufacturing efficiency.

When we talked about product mix, we talked about new products and they becoming a larger portion of the total over time. That takes a little bit of time. The fact is we're running way ahead of the revenue number based on volume. So, we think, from these levels, there's still a fair amount of improvement that we can gain from that mix of new product revenue. And like I said in our prepared comments, we're already seeing that start to happen. So, that would be the number one driver of, I'll say, faster margin improvement than just volume is from that going improvement from product mix.

And similarly, I think we can work out additional benefits from manufacturing efficiency. We are scaling rapidly. I think we're getting better at that over time, and we'll see those benefits fall through as well.

So, on balance, we're fortunate to be running quite a bit ahead of our 2024 model on revenue. That's contributing to higher gross margins in aggregate. But certainly, we think we can go beyond our model because, in fact, we're starting to exceed the revenue side. So, thinking forward, there's no reason we shouldn't be able to deliver more than 43% margin as margins improve or as volume increases and the new product mix continues to strengthen.

Duksan Jang
Analyst, BofA Securities, Inc.

Q

No, it's good. Thank you.

Operator: Our next question is from Quinn Fredrickson with Baird.

Quinn T. Fredrickson
Analyst, Robert W. Baird & Co., Inc.

Q

Hey. Good afternoon, guys. First question just on 800-volt, just wondering if you could talk about how you feel you're competitively positioned as the market makes the transition and why a hyperscaler might choose to buy your solution instead of an integrated sidecar that some of your competitors might make.

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

A

Yeah. Thank you for the question. Our positioning in 800 volts is very similar to our current positioning. We're a technology leader. And so what we've chosen to do at 800 volts is to create a number of different modular solutions, and this gives our customers a lot of flexibility on how they mix and match our technology, and this has been very well received, this approach.

And so I think we're competitively positioned pretty well, actually, based on the feedback we're getting from customers. They also know that we can ramp to volume. We've been doing it now for the last few years in data center very successfully. And so what we offer customers is a mix of technology leadership and manufacturing muscle. It's a good combination.

Quinn T. Fredrickson
Analyst, Robert W. Baird & Co., Inc.
Q

Okay. Thanks, Steve. And you discussed potentially north of 20% growth next year and talked about semi and data center side. What does your visibility to the industrial and medical side look like in the next year from a new design win standpoint and just underlying market?

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

We don't have the same visibility necessarily as we do in semiconductor and data center because those are markets where it's very large customers. There's just a few of them. But in I&M, really need to look at the trends, and what we see is a very positive trend in the past three quarters, and we think that trend will extend into 2027 and probably through the entire year. So, our expectation is that I&M is going to do very well in 2027. We're well-positioned to take advantage of that, given our design win pipeline and our capacity. So, I think we're looking at a very strong year in 2027, as Paul said, up at least 20%, and that'll be up in all of our markets.

Quinn T. Fredrickson
Analyst, Robert W. Baird & Co., Inc.
Q

Thank you.

Operator: Our last question will be from Daniela Talio with Stifel.

Daniela Talio
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Hi. This is Daniela. I'm on for Brian Chin from Stifel. My first question is on semi. I know you have touched on the second half 50% year-over-year growth. I was wondering if you could maybe tell us a little bit more if that's coming from your existing flagship products or your new products ramping faster than expected. Thank you.

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

Hey, Daniela. Most of that is from the existing products, but we also see contribution from the new products, but it's not as significant this year as it will be next year. We have good visibility into next year from our customer base in semiconductor. And so, we think it's going to be a very good year. And it's going to be a good year both in plasma power, where we see a number of our new products becoming more significant on the revenue line, as well as with our existing products. So, yeah, I think we're well-positioned to grow both in the second half of this year into 2027.

Daniela Talio
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Great. Thank you. And then if I could touch on gross margin a little bit more, also on semi cap, if you have a shift in mix towards semi, does that enhance your ability to drive gross margin leverage? And maybe to quantify that a little bit, for every 100 basis points, could you see that on a $50 million quarterly revenue increase?? Thank you.

Paul R. Oldham

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

A

Yeah. So, maybe two parts to that answer. We've commented before that semiconductors on balance have better margins than the rest of the company. So, yeah, if we had more mix shift towards semi, on balance, that would be positive. But I think as data centers improve, we've talked about that that's sort of closed the gap and is approaching corporate average. So it's not as big of a – as a gap as it's been historically.

The second thing is we do continue to get volume leverage. We said for every $50 million of quarterly revenue, if you go back to when we put the model out, that was worth 100 basis points. But as you know, as your revenue grows, it's the same dollar contribution but the percentage impact is smaller because the denominator is bigger. So, at this level of revenue, it's about 40 basis points for every $50 million of quarterly revenue. That's the same dollar contribution for that move. It's just a smaller percentage because the revenue is much higher.

Daniela Talio

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thank you.

Paul R. Oldham

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

A

Yeah.

Operator: Thank you. This concludes our conference call for today. You may disconnect your lines at this time. Thank you again for your participation.