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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Advanced Energy Industries Q1 2019 Earnings Conference Call. (Operator Instruction] Also, as a reminder, this conference call is being recorded.

At this time, I'd like to turn the call over to your host, Edwin Mok, Vice President of Strategic Marketing and Investor Relations. Please go ahead.

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

Thank you, operator. Good morning, everyone. Welcome to Advance Energy's First Quarter 2019 Earnings Conference Call. With me today are Yuval Wasserman, our President and CEO; Paul Oldham, our Executive Vice President and CFO; and Brian Smith, our Director of Investor Relations.

Before we begin, I'd like to mention that our Annual Shareholder meeting will be held on Tuesday, June 4. In addition, during this quarter, Advanced Energy will be participating at investor conferences hosted by JPMorgan, Cowen & Company, Stifel, Citi and NASDAQ. As our events occur, we'll make additional announcements.

And now let me remind you that today's call contain forward-looking statements including Company's current views of the industry, performance, products, applications and business outlook. These statements 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 and uncertainties is contained in our filings with the SEC. All forward-looking statements are based on management's estimates, projections and assumptions as of today, May 7, 2019 and the Company assumes no obligation to update them.

Aspirational goals and targets discussed on this call or in the presentation material should not be interpreted in any respect as guidance. Today's call also includes non-GAAP adjusted financial measures which exclude the effect of discontinued operations, stock-based compensation expenses, amortization of intangibles, restructuring charges, acquisition related costs and other one-time items.

Reconciliations between GAAP and non-GAAP measures are contained in yesterday's earnings release which is available under Investor Relations page of our website. We will be referring to earnings slides posted on our website as well.

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

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

Thank you, Edwin. Good morning, everyone, and thank you for joining us on this call. Despite a challenging market environment in Q1, Advanced Energy delivered solid profitability while continuing to execute on our strategy and invest in critical parameters.

Industrial Technologies delivered solid results this quarter, overcoming slow demand related to consumer electronic markets and our service sales help up well in phase of low fab utilization and a seasonal slowdown in China. The semiconductor market remained challenging with our customers changing ordering patterns in the quarter. Through it all, we've continued to win in new designs this quarter, including several that we expect to drive improvement to our business in the second half of this year. The integration of our recently acquired businesses is progressing on track as we've reduced costs while developing new opportunities.

Finally, our team has made great progress in executing on our strategic initiatives. In semiconductors, the environment remain challenging in the first quarter, with incremental weakness in our sales into memory applications, especially in etch, partially offset by some pickup in applications for Foundry and Logic such as PVD. In addition, as wafer fab equipment manufacturers adjusted their production levels and reduced inventories to match the new demand environment, our business with some of them has started to recover, while business with others continue to decline.

For example, as reported in our 10-Q filing, sales to our largest customer declined meaningfully during Q1, while revenue from our second largest customer rebounded. As we look forward, we expect our sales into the semiconductor markets in Q2 to decline modestly due to further weakening in the DRAM market and continued inventory adjustment by our customers.

Having said that, we believe some improvements in demand are signals for the early stage of market stabilization and we expect revenues in the rest of the year to remain around the first half levels, setting up a potential recovery in 2020. As we said last quarter, our customers are aggressively developing new and enabling semiconductor processing technologies. As a leader in the industry, we have accelerated our R&D investment and have been successful in winning at new opportunities. This quarter, we secured a critical design win for RF Matching Networks at one of the market-leading companies, which adds tens of millions of dollars of incremental revenues in the next few years.

In addition, we won a PECVD hard mask application at a leading Korean OEM customer. We successfully completed 3 key RF technology evaluation programs that we reported in our last call and have already started to ship units to our customer's beta testing at several leading semi fabs. We anticipate to see more shipments in the coming months. We're actively engaged with all of our customers for many next-generation designs, reinforcing the importance of our technology in enabling next-generation semi manufacturing processes.

The demand for both atomic-scale precision and higher process throughput is driving the need for more sophisticated RF and DC power delivery systems. Although the semiconductor industry is inherently cyclical, I fully expect AE to come out of this downturn with a stronger position and solid growth.

In our Industrial Technologies market, revenues increased both sequentially and year-over-year in Q1. Demand for PV solar was particularly strong as we saw a sizeable increase from crystalline solar cell manufacturers and the large shipment for thin-film solar application. In addition, growth in the medical market and in high voltage applications remains solid.

On the other hand, we saw weakness in our industrial production and consumer electronics related markets, including both flat panel displays and hard coatings. Looking into the current quarter, we expect the weakness in the consumer electronics related markets to continue, particularly in flat panel display where we expect another quarter of sequential decline.

In addition, we do not anticipate the large thin-film solar shipping in Q1 to repeat in Q2, although demand for crystalline solar cell manufacturing will continue to improve and we see more PV production capacities coming online in the second half of 2019. As a result, we expect our industrial products to decline modestly in the second quarter and be roughly flat year-over-year.

During Q1, our industrial team secured many design wins. We expect some of these wins to start contributing to our business within 2019, giving us confidence that industrial revenue will grow in the second half of the year. Notably, we won new designs in the medical equipment market for atomic imaging and electro medicine applications, reaching to an important position as a leading glass manufacturer in China and we displaced a competitor in deposition equipment for foldable OLED screens. We also won several new designs for one of the largest solar cell manufacturers in China.

These new opportunities should also allow us to continue to gain share and expand our addressable market. Overall, we expect the second half to be stronger than the first half and we remain committed to our long-term growth of mid-teens CAGR for these markets. Our service business was down modestly in Q1, primarily as a result of seasonality, lower fab utilization in China, and timing of repair activities as OEMs shifted service business from the U.S. to a regional service centers.

Despite the sequential decline, service grew significantly year-over-year. We expect service to continue to achieve our target growth rate of over 10% in 2019. In Q1, we executed several of our strategic initiatives. This includes our efforts to add a second production site in a new location. We have now identified the location in Malaysia, and we expect to start initial production at this new site in the second half in precision over a few quarters.

We anticipate this move to substantially mitigate our exposure to regional risks, improve our business continuity profile, and ultimately lower our costs. Our acquisition and integration team has also done a great job integrating LumaSense, substantially consolidating in cost structure while pursuing new focused growth opportunities with an optimized distribution channel strategy. We expect to start seeing the initial benefit this quarter.

In summary, macro and market conditions were challenging in Q1 but our team executed to deliver solid profitability. While we are projecting our business to decline modestly in Q2 due to consumer electronic markets, timing of solar projects, and softening in the dealer market; we are confident our industrial market sales and our service business will see a stronger second half.

As we execute to deliver on a long-term growth strategy, we're developing new breakthrough technologies, solving our customers' critical technology challenges, consolidating and building a stronger reorganization and continuing to evaluate a healthy pipeline of acquisition targets.

I'd like to thank our customers, shareholders, partners and our valued employees for your support. I look forward to seeing many of you in the upcoming quarter.

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

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

Thank you, Yuval, and good morning, everyone. In the first quarter, we felt the continued impact of the semiconductor cycle, partially offset by solid results in industrial. Revenue was within our guidance range for the quarter, but below the midpoint, mostly due to incremental weakness in the semiconductor industry. Good operating expense control, largely offset softer revenues and enabled in line operating profitability. While a discrete tax benefit allowed us to deliver non-GAAP earnings above our guidance range. Total revenue was $140.7 million, down 8.7% from last quarter and down 28.1% from a year ago.

Looking at sales by market. Semiconductor revenue in the quarter was $67.5 million, down 19.1% from last quarter and 50.4% year-over-year. If you combine our semiconductor product and service related revenue, our total sales into the semiconductor market declined 15% sequentially and 42% compared to last year's peak. As Yuval mentioned, we continue to see the impact of inventory adjustments and lower equipment demand particularly at our largest customers, while visibility remains limited. We expect a modest sequential revenue decline in Q2 primarily related to DRAM and revenues for the rest of the year to be around the first half levels, setting up a potential recovery in 2020.

Industrial Technologies revenue increased 7.3% from the fourth quarter and 26.7% from last year to $44.6 million. The growth from the prior year was largely due to the addition of LumaSense, while the sequential increase was primarily a result of strength in solar, medical and high voltage, offsetting sequentially weaker sale in flat panel display and consumer electronics hard coating. In fact, Q1 represented our second highest quarterly revenue level ever for PV solar cell application.

In addition, for the quarter, LumaSense grew modestly sequentially and was accretive to earnings. Looking forward to the second quarter, we expect further weakness in consumer-related investments in flat panel display and hard coatings and our solar sales will not repeat at the same level due to project timing. Service revenue for the quarter was at 17.3% year-over-year, but down 1.7% from the fourth quarter. Seasonality, lower fab utilization in China, and timing of repair activities impact overall revenues. However, we believe these factors are temporary and expect our underlying service revenues to improve over the rest of the year.

Yesterday, we announced that we have signed agreement to divest our U.S. based grid-tied central inverter service business. This divestiture allows us to reduce our total warranty service obligation by approximately $33 million, focus our service operations on our core business and ensure the smooth transition of our solar service customers and employees. In Q1, this business contributed $1.9 million of revenue to our service sales and we expect approximately $600,000 of revenue in the current quarter.

We expect the non-cash GAAP gain, net of taxes, in Q2 of approximately $10 million in continuing operations and another $8 million in discontinued operations. Despite this headwind, we expect service revenue to be up modestly in Q2, driven by improvement in utilization and normalization of repair activity. Gross margin for the first quarter was 46.7%. On a non-GAAP basis, gross margin was 47% compared to 49.4% last quarter.

Gross margins declined sequentially largely due to lower volumes, unfavorable mix within our process power products and higher freight and tariff costs. Looking to Q2, we expect adjusted gross margins to be in the range of 45% to 46%, primarily due to lower volumes and factory transition expenses.

GAAP operating expenses in Q1 decreased sequentially to $53.9 million. Non-GAAP operating expenses came in at $45.8 million, which was down from $47.5 million in the prior quarter. The better than expected OpEx performance was due to ongoing temporary cost reduction actions, lower discretionary spending and timing of some expenses.

Looking forward, we expect adjusted operating expenses in Q2 and for the remainder of the year to remain at our target range of $47 million to 48 million as we continue to fund R&D investments and moderate temporary cost measures. We also continue to optimize our business associated with our manufacturing footprint, acquisition integration and organization efficiency. As a result, we incurred $1.7 million of restructuring expenses in Q1 and we expect to record an additional charge of $2.5 million to $3 million in Q2.

GAAP operating margin for the quarter was 8.4% compared to 12.7% last quarter. Non-GAAP operating margin was 14.5% compared to 18.6% in Q4. In Q1, we recorded a GAAP net tax benefit of $2.9 million, largely due to the resolution of an uncertain tax position. Looking forward, we expect our GAAP and non-GAAP tax rate to return to our normal range of around 15%.

GAAP earnings per diluted share from continuing operations for the first quarter were $0.40 compared to $0.50 last quarter and a $1.16 last year. Non-GAAP earnings per share for the quarter was $0.58 compared to $0.73 in the fourth quarter and $1.34 a year ago. On a normalized tax basis, our non-GAAP EPS would have been approximately $0.47.

Turning now to the balance sheet, operating cash flow from continuing operations was $6.9 million and our cash and marketable securities balance was $353.7 million. Overall, working capital is about flat. The seasonally higher tax and performance based compensation payments impacted cash flow for the quarter. Our receivable balances increased by about $2 million as DSO rose to 65 days. Days payable also rose to 53 days. Inventory increased by $1 million and turns were 3.0x.

Capital expenditures for the quarter were $2.4 million and depreciation was $2.2 million. During the quarter, we did not repurchase any shares given the large amount we purchased over the last year and our projections for seasonally lower cash flow in Q1.

Looking forward, we continue to operate in a challenging environment with limited visibility. For the second quarter, we expect our business to be modestly lower sequentially as a result of continued market weakness in semiconductor and solar projects that will not repeat at the same level in our industrial markets. For the second quarter, we expect revenues to be $130 million to $140 million and non-GAAP earnings per share between $0.25 and $0.40.

Longer-term, we anticipate second half revenues for the semi market will remain around first half levels, setting up a potential recovery in 2020. In our industrial products, we expect second half growth on improved solar market and design wins we have secured this quarter.

Overall, we believe the long-term demand drivers continue to be healthy in both our semi and industrial markets and we are well positioned for growth as we execute our strategy and the markets improve.

With that, we will open the call to your questions, operator.

QUESTIONS AND ANSWERS

Operator

[Operator Instruction] Our first question comes from Tom Diffely from D.A. Davidson.

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

My first question on just the semi market in general for you, with your new guidance for flattish in the second half, you're looking to be down you know not quite twice as much as your customers, your large customers but significantly more than your customers. Is that more of a mix related issue or is it the timing issue. Could you maybe expand how you think the differences between you and your customers are for that?

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

Hi, Tom. It's a combination of product mix, customer mix, inventory correction and timing, all of the above. We see that as basically market-driven and customer-driven and not anything to do with -- anything that has to do with share or major changes in our content or position within our customers.

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

So I would assume that when the memory market does recover, you would probably outperform for, like a period of a couple of quarters as that inventory and especially the working capital inventory starts to build back up?

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

Exactly right. As you know, we have high content especially in etch applications and as the memory market recovers, we expect to see strong recovery for us.

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

And maybe just a little bit on your longer term views of both the flat panel market and the solar market as a driver for the industrial piece.

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

So the industrial piece really is the key driver for our guidance for decline into Q2, driven mainly by flat panel display demand, hard coating for electronic consumer products and the fact that the big solar project that we had in Q1 will not repeat in Q2, although we expect solar to recover in the second half. In general, we expect to see recovery in industrial in the second half. This is basically a timing of projects and market conditions. And as you know both -- all these markets tend to be lumpy and investment cycle in these areas can occur in 1 quarter and nothing another quarter.

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

And then finally for Paul, when you look at the level of operating expenses right now, especially the R&D side; is that a long-term level of R&D spending do you believe or is it somewhat muted this year to respond to the slowdown in the business?

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

Well, certainly Tom. We have a target of operating expenses between 47 and $48 million . And embedded in there, you can see we've increased our R&D expenses and have held flat or reduced our SG&A expenses. That's fundamentally because we see significant opportunities to grow the business as we come out of this downturn. So at this point, we don't anticipate reducing that level and as the market grows, obviously we'll have a lot of leverage, because we don't think we need to increase it substantially as well. So that's our philosophy as we're trying to keep within that target range. It may bounce a little bit up and down quarter to quarter in Q1 of course. We were able to manage that a little bit better, and saw expenses a little lower. But that's our target, is to stay within that range for the foreseeable future.

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

If I may add, Tom, as we indicated in the past, we're invited to collaborate with key customers on next-generation technology development, and these are projects that we believe will transform the way semiconductor devices are been made. And for that reason, we continue to invest in critical R&D projects, even during this cycle. Our expectation is that, as we emerge from this cycle, we will have brought in semiconductor applications and new technology that will enable the industry to go to the next-generation devices.

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

Maybe just one more quick one, the new production site in Malaysia, is that really just to reduce the geographic or are there cost benefits to that facility?

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

It's all of the above. It's basically allowing us to have a location with less exposure to geopolitical challenges, a second hub to allow us to have better business continuity profile and cost reduction.

Operator

Our next question comes from Patrick Ho from Stifel.

J. Ho - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Technology Sector*

Maybe first off, in your prepared remarks, you mentioned that gross margins were affected by absorption as we look forward to the June quarter. Are there any mix issues, given that semis are down again or projected to be down and that typically tends to be your higher margin products?

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

Yes. Patrick, it's a good question. We're not projecting a large change in mix. And in general, our mix between semi and industrial isn't very different. Now with in each product area there can be pluses a minuses, so more highly configured tool could carry higher margins within a product family than a lower configured tool. So we don't anticipate that it's a lot of mix change across the different markets and we don't anticipate that there is a lot of mix change in Q1 to Q2. What we're seeing in the guidance really is the impact of lower volumes and the fact that we -- now that we've got a site in Malaysia, we've begun to invest in the transition related to that. As you've all mentioned there's 2 areas that we're investing during this downturn. One is in R&D where we continue to grow that and offset some of that in SG&A and keeping expenses in that $47 million to $48 million range; and the second is in broadening and strengthening our manufacturing profile that's the investment in Malaysia. Those are the 2 big things that are affecting the margins from Q1 to Q2.

J. Ho - *Stifel, Nicolaus & Company, Incorporated, Research Division - MD of Technology Sector*

Maybe Yuval, in terms of the semiconductor environmental, I don't think you're saying anything particularly new it's terms of the near-term environment, but given some of the comments you made in your prepared remarks regarding your customer mix and the changes there, how do you see the overall inventory levels from your customers, because it sounded like one is still working it off, while another it appears to stabilize, if anything. You said that business picked up with the second customer. Can you just give, maybe a qualitative -- your qualitative thoughts on the inventory environment with your customers?

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

Sure. As you can see from our filings, indeed we have different dynamic between our customers and obviously we did not mention anything that has to do with our Asian customers, but we do see different profiles of demand driven by different levels of inventories and different type of products going to either Memory or Logic devices. In general, the way we view that is that -- for me, it's an indicator that we're seeing stabilization, right. We're at the point right now that we see a mix in behavior of demand between different customers, some of them continue to decline; some of them are recovering. We believe that the rest of the year, we will see revenue at the semi fluctuating around the same level, through the year. More precisely, I think we're talking about timing of inventory drawdown and customer mix and product mix that are changing differently between our customers. One area we saw a decline driven by inventory correction are the Korean DRAM suppliers or equipment suppliers to DRAM. Obviously with what's happening right now in DRAM, we expect the Korean OEMs to see some challenges.

Operator

Our next question comes from Krish Sankar from Cowen.

Robert Bruce Mertens - *Cowen and Company, LLC, Research Division - Research Associate*

This is Robert Mertens on behalf of Krish. Let's say, you've mentioned that you're prioritizing investment in these new technologies and ramping the R&D to line with customer's next generation product roadmaps and capitalize when the semi market recovers. And if you look historically, you've done a lot of smaller M&A. Where would you rank a potential dividend initiation on the totem pole of uses of cash? Is that something that you would consider or farther down the totem pole?

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

Yes, that would be certainly further down the totem pole for us. We've said that in terms of use of cash, clearly our priority is to grow the business organically, kind of goes without saying. But from an excess cash perspective, we continue to be very active evaluating acquisitions, particularly those that might diversify our footprint and enable us to see accelerated earnings growth by having a broader, a larger addressable market. Secondly, we would do that through opportunistic share repurchase. We did repurchase a lot of shares last year. If you recall, we bought back about

$95 million worth of stock in the last year. We didn't buy back stock this quarter, just given kind of where we saw operating cash flow, in general, we decided to take a little bit of a breather. And then, we certainly evaluate with our Board, our capital allocation. But we don't anticipate any dividend certainly in the near future.

Robert Bruce Mertens - *Cowen and Company, LLC, Research Division - Research Associate*

And just one more question on the semi side, I've seen the softness in the mix of -- the product mix, customers and a bit of the inventory, but not seen any sort of change in the market share standpoint, could you just sort of quantify how you characterize you versus your competitors and the market share and sort of the product timelines of when you can win a socket versus potentially be designed out?

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

Sure. First of all, we are the undisputed market leader in the semiconductor, power delivery component for years and continue to maintain our market share leadership. On top of that, we're being, more recently than ever, we're continuing to be pulled into collaborative work with our customers to develop next-generation power delivery systems. We're at the point right now in the industry where atomic-level precision combined with the need for high throughput require totally new design of equipment, reactors and power delivery systems. As a leader in the business and the technology leader, we continue to get engaged in those areas. And a result of this engagement are design wins, which we continue to win the majority of the design wins we entertain, and that obviously will -- we expect to see expecting accelerated growth rate and addition of content of power capabilities, power suppliers and dollars into our customers' equipment.

Operator

Our next question comes from Mehdi Hosseini from SIG.

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

A couple of follow-ups, how should we think about OpEx in the second half? Did you say it is going to track flattish to your Q2 guide?

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

Yes, that's right. We would expect -- we've kind of set a target of $47 million to $48 million. We said that at the beginning of the year. Of course we beat that a little bit this quarter but that's the level we would expect to run in. And as I said earlier, we don't expect substantial increases from that even if revenues begin to recover. Obviously there is a little bit of variable cost that would come in, but fundamentally that's the target that we're shooting for the remainder of the year.

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

And then, same with the gross margin, as your volume shipment improves should we expect gross margins to track above the 45% 46% guidelines that you provided for Q2?

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

Yes, certainly, if we'll get leverage on the fixed cost in gross -- in gross margins then we'll see improvement there. I will just note that the investment in the transition of the factory, which last quarter we said we would expect to have the 50 basis point to 100 basis point impact to margins during the transition period, that'll continue for several quarters until both factories are operating and then we will obviously rationalize between the 2. We're not doubling capacity here. We're basically putting in place a strategy where we'll have the ability to move product from 1 factory to the other. And of course, we'll continue to have the headwinds from tariffs which had come in since late last year and are impacting us and we've said that's a 50 basis points to 75 basis points. So if you look down a year or so from now, when a couple of those, I'll say temporary items resolve themselves, our investment and hopefully the tariff environment; then we could see a little bit more improvement. But otherwise, we'll see the pickup from improved volumes as we go forward.

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

If I go back to 2017-'18, you semiconductor revenue was averaging $450 million a year and your gross margin was well above 50%. Is that the kind of leverage that we should expect as memory market for [one] turns or comes back, given your content to the memory market -- end-market is more than other areas?

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

Yes, we don't see any reasons why, in general, margins in the semi market are changed structurally. It's just the impact of volume right now.

Operator

(Operator Instructions) Our next question comes from Pavel Molchanov from Raymond James.

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

As the semi-cap down cycle persist longer than maybe a lot of people expected. I'm curious if this is creating any opportunities from an M&A perspective. And that the genesis of the question was, you've always said M&A will focus on industrials but are there perhaps any distressed M&A opportunities on the semi-cap side that you could take advantage of the down cycle for?

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

Pavel, thanks for the question. Obviously, we continue to evaluate our pipeline of target acquisitions both tuck-in but also bolt-on and bigger ones. The challenge about acquisition in the semi industry is twofold: number one; there is not many targets of credible, viable companies that are in our domain; number two, obviously with such an efficient and concentrated industry, we do not want to trigger any antitrust problem related to acquiring a similar company. So that limits the number of targets in semi in general. Now we continue to be a -- you know a basically power conversion focused company, which allows us to be the leader in technology, the leader in the market. We see ourselves continuing to leverage our core competencies in power electronics, and for that reason, unless something extraordinary happens with a target that will be an amazing; not in power and in semi, I think we'll be inclined to go into the industrial world. Also, right now, especially this year, we would rather focus on diversifying our portfolio and be less concentrated in semi than more.

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

You highlighted solar as area of strength within the Industrial segment. Geographically, where are you seeing those orders coming from? Is it kind of the traditional Asian PV manufacturing hubs or is it perhaps some of the areas outside of Asia that are benefiting from the tariff situation.

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

So Pavel, since we sell power supplies to companies that make solar cells, our customers are mainly the equipment makers, right, those who make equipment that has been used to manufacture solar cells. We became really the leader in power supplies that go to both the crystalline silicon cells but also thin films. Obviously as you know, these projects can be lumpy and investment can occur in one quarter and then no investment in another quarter, that's what happened to us now when we had a very strong delivery of the big project in Q1 and minimal revenue in solar in Q2. We expect the industry to continue to invest in capacity in the second half. And we expect (inaudible) as continues to grow as we are right now, the key supplier of power supplies that to go into these applications.

Operator

This concludes our Q&A session. At this time, I'd like to turn the call over to Yuval Wasserman, President and CEO, for closing remarks.

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

Thank you all for joining us today. Obviously, interesting times in the semiconductor industry. During this downturn, we continue to invest in the future of our Company, mainly in evolutionary and revolutionary products that were developed in conjunction with our key customers both semi and industrial that will allow us to get out of this downturn with a stronger portfolio of products, with higher dollar content and broader severed available market. I hope to see all of you sometimes in the next quarter. Thanks very much for your participation.

Operator

Thank you, ladies and gentlemen, for attending today's conference. This concludes the program. You may all disconnect. Good day.
