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Advanced Energy Industries, Inc. (AEIS)

Q2 2023 Earnings Call

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Quinn Bolton
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Pavel Molchanov
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Robert Mertens
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings. Welcome to Advanced Energy Second Quarter 2023 Earnings Conference Call.

At this time, all participants will be in listen-only mode. The question-and- answer session will follow the formal presentation. [Operator Instructions] . Please note, this conference is being recorded.

At this time, I'll turn the conference over to Edwin Mok, Vice President of Strategic Marketing and Investor Relations. Mr. Mok, you may begin.

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

Thank you, operator. Good afternoon, everyone. Welcome to Advanced Energy second quarter 2023 earnings conference call.

With me today are Steve Kelly, our President and CEO; and Paul Oldham, our Executive Vice President and CFO. Before I begin, I'd like to mention that we will be participating in several investor conferences in the coming months. If you have not seen our earnings press release and presentation, you can find them on our website at ir.advancedenergy.com.

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, 2023, and the company assumes no obligation to update them. Any targets beyond the current quarter presented today should not be interpreted as guidance.

On today's call, our financial results are presented on a non-GAAP financial basis unless otherwise specified, excluded from non-GAAP results, our stock compensation, amortization, acquisition related costs, facility expansion and related costs, restructuring charges, and unrealized foreign exchange gains or losses. A reconciliation between GAAP and non-GAAP measures 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, and thanks for joining the call today. Second quarter revenue and earnings per share exceeded guidance, with another record quarter in the industrial and medical market. We continue to experience robust design win activity across our product portfolio as customers shift their focus from solving supply chain issues to designing innovative new products. Over the past 12 months, we've launched multiple new differentiated platforms which will enable our customers to win in their end-markets. High interest in our new products and technologies is driving a deeper level of customer engagement, particularly in the semiconductor, industrial and medical markets. As a result, we expect to generate a record number of design wins in 2023 which we believe sets us up well for profitable revenue growth in the coming years.

We are also working on a number of fronts to improve our operational efficiency. While the full benefit of these efforts will take time to be realized, we believed that our action plan will facilitate gross margin expansion as revenues grow. Moving forward, we will concentrate our production in large factories where we could leverage economies of scale and common processes. In Asia, we will continue to reduce our factory footprint in China, while expanding our capabilities in Malaysia, in the Philippines.

In addition, we have made the decision to build a flagship factory in Thailand to accommodate future growth across our portfolio. We expect to start production at our Thailand facility in 2025. In North America, we are executing a plan to more than quadruple the output of our Mexicali factory over the next two years.

Moving to the supply chain. The good news is that the availability of most critical components has improved. However, we are still experiencing shortages of selected power MOSFET, power analog and microcontroller components. These shortages limit our ability to fully address our overdue backlog.

Now, I'll provide further color on each of our markets. In semiconductor, second quarter revenue was $173 million, a bit better than expected. We generated record revenue in the high voltage part of our semiconductor business, largely due to continued strong demand from ion implant OEMs. Our service business also recorded near record revenue, helped by high demand for value-added services. These pockets of strength together with gains from recent design wins are partially offsetting broader weakness in the semiconductor market.

At SEMICON West, last month, we officially launched two new plasma power technologies, the eVerest RF generator, and the eVoS asymmetric waveform generator. These two new technology platforms offer our customers a step function improvement in plasma control with dynamic, multi-level pulsing and microsecond response time. We believe that these new capabilities will enable our customers to expand process windows, improve process yield and increase wafer throughput. Customers are enthusiastic about the new platforms and we expect to secure multiple etch and deposition design wins over the next 18 months.

Last month, we also launched our new FluorOptic thermal sensor, which features an ultra-wide temperature range. We have already secured our first design win in a cryogenic etch application. These new products and technologies are critical enablers for next-generation sub-2 nanometer processes. Also in the second quarter, we expanded our already strong position in older node processes by securing additional wins in ion implant applications. These wins were directly tied to the surge in demand for silicon carbide-based power devices.

Moving to Industrial and Medical. Following a great first quarter, second quarter revenue grew sequentially to a record $128 million. During the quarter, we launched six new products into the Industrial and Medical market. We secured notable design wins in precision coating, industrial laser and 3D printing applications. In Medical, we won major designs in electro surgery, imaging and life science applications.

Our Industrial and Medical design win pipeline grew significantly in the quarter due to increased new product output, a more focused sales and applications effort and our ability to quickly customize standard products to meet customer needs. We expect that these efforts will allow us to drive sustainable growth in Industrial and Medical for years to come.

In Data Center Computing, second quarter revenue was flat sequentially at $59 million. Sales to several hyperscale customers grew sequentially, fueled by demand for AI processing capability. Sales to enterprise customers declined.

Telecom and Networking revenue was very strong at $56 million, largely due to improved component availability.

Now, I'd like to offer some closing thoughts. Our second quarter results continue to validate the benefits of our diversification strategy. Our total revenue declined only 2% sequentially. Despite the ongoing semiconductor market correction, we are on track to perform substantially better than in previous down-cycles. Overall, 2023 is unfolding as we have projected at the start of the year. In Semiconductor, we still believe that the second quarter will be our trough quarter and that the second half will be flat to up versus the first half. In our other markets, in aggregate, we now expect that full-year 2023 revenue will be up slightly year-on-year.

We believe that our diverse market exposure, our ability to work down the remaining overdue backlog in our strong design win pipeline will enable us to continue to deliver solid results in a challenging market environment.

Looking beyond this year, we are encouraged by the strong customer interest in our new products as well as the continuing growth of our design win pipeline. We believe that Advanced Energy is well-positioned for profitable growth in the coming years, leveraging our technology leadership, operational excellence and best-in-class customer service.

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. Q2 was another quarter of solid execution with revenue and earnings exceeding the midpoint of our guidance. Record sales in Industrial and Medical partially offset anticipated weakness in the Semiconductor market, resulting in revenue of $416 million. Actions we took to reduce spending offset lower gross margins, and enabled us to deliver earnings of a $1.11 per share. Finally, improved availability of critical components enabled us to shorten lead times to our customers and reduced backlog to $645 million. Overall, we believe the year is shaping up as expected. We are on track to perform better than the market and substantially better than previous market cycles.

Now, let's review our financial results in more detail. Overall revenue was $416 million, down 2% sequentially and 6% year-over-year. Backlog, exiting the quarter, was down over $100 million sequentially and in line with what we expected. As customers adjust their order patterns around shorter lead times, we continue to expect backlog to normalize to a level of $400 million to $500 million in the next two quarter to three quarters.

Revenue in the Semiconductor market was $173 million, down 11% sequentially and 24% year-over-year. The sequential decline was better than our guidance with strong revenue and high voltage for ion implant, initial ramp of new design wins and near-record service revenues partially offsetting weakness in the broader Semiconductor market.

Revenue in the Industrial and Medical market reached another record at $128 million, up 4% from last quarter and 22% from last year. The record quarter was driven by solid demand in several applications, such as automation, battery manufacturing and precision coating. In addition, improved parts availability helped us address part of the overdue backlog.

Data Center Computing revenue was flat sequentially and down 15% year-over-year at $59 million. Incremental demand softness in the enterprise server market was offset by higher hyperscale revenues on investments in AI applications by some customers. Supply constraints continue to prevent us from delivering our full demand.

Finally, Telecom and Networking revenue was up 16% sequentially and 46% year-over-year to $56 million, driven by substantially improved component supply, allowing us to largely fulfill overdue backlog.

Gross margin was 35.6%, approximately 50 basis points below our guidance, mainly due to unfavorable product mix. Premiums we paid for critical components improved again this quarter, but remained a meaningful headwind as costs from prior quarters rolled through inventory to the P&L.

Looking forward, we anticipate mix to normalize and premiums to continue to gradually abate, resulting in gross margin recovering to the low-to-mid 36% range in Q3. In addition, actions we are taking to optimize our operations footprint and improve manufacturing efficiency are on track and should contribute to higher margins over the next few quarters.

Finally, addition of a new manufacturing facility in Thailand in the next couple of years will position us for further growth and enable additional consolidation into larger scale, highly efficient factories. This investment and related consolidation are already contemplated within our objective of achieving gross margins of greater than 40%.

Operating expenses were $98.5 million, down from last quarter. Actions we took to manage our cost structure and control discretionary spending more than offset annual salary increases, which took effect during the quarter.

Operating margin for the quarter was 11.9%. Depreciation was $9.4 million and our adjusted EBITDA was $59 million. Non-GAAP other income was $200,000 due to higher net interest income, partially offset by foreign exchange losses. Going forward, we expect our non-GAAP other income to remain around breakeven given our levels of cash and current interest rates.

In the fourth quarter of 2022, we initiated a restructuring plan to optimize our manufacturing operations, consolidate some of our smaller sites into our large facilities, and achieve other targeted reductions consistent with lower volumes in 2023. We are on track to our plan and expect to see the full benefits of our actions translating to better margins over the course of 2024. Consistent with this plan, we recognized $3 million in restructuring costs in Q2, and expect to incur an additional $3 million to $5 million in the second half.

Our non-GAAP tax rate was 15.3% below our target of 18% to 19% due to several discrete items and favorable mix of earnings. For 2023, we are now modeling our GAAP and non-GAAP tax rate at about 17%. As a result, second quarter EPS was a $1.11 ahead of guidance, but down from a $1.44 a year ago and a $1.24 in the previous quarter. This level of quarterly earnings is approximately 2.5 times higher than trough earnings in the previous market cycle.

Turning now to the balance sheet. Total cash and marketable securities at the end of the second quarter were $455 million with net cash of $92 million. Cash flow from continuing operations was $24 million lower than last quarter, primarily on timing of tax payments. Inventory decreased $9 million or 2% sequentially as we continue to rationalize our raw material inventory. As a result, inventory days were 132 and turns remained flat at 2.7 from Q1 to Q2.

Days payable decreased from 62 days in Q1 to 50 days in Q2 on timing of purchases. DSO decreased from 62 days in Q1 to 56 days in Q2. As a result, net working capital was a 138 days (17:31). During the second quarter, we invested $17 million in CapEx in line with our 2023 CapEx plan of approximately 4% of sales. Looking forward, the majority of the spend related to the new Thailand factory is expected to occur in 2024 and to be largely funded within our CapEx run rate of 4% of sales. As a reminder, our factories are mainly final assembly and test oriented and are not capital intensive.

During the quarter, we also made debt principal payments of $5 million and paid $3.8 million in dividends.

Turning now to our guidance. The demand environment continues to be mixed with pockets of strength in some markets, offsetting cyclical weakness in others. Consistent with our commentary from last quarter, we expect Q2 Semiconductor revenue to be in the low point for the year, with Q3 revenue up sequentially and second half revenue being flat to up versus the first half. For our non-Semiconductor markets in aggregate, given our strong performance in the first half, we now project 2023 revenues to be up slightly for the year.

In total, we are forecasting our third quarter revenue to be approximately flat with Q2 at $415 million, plus or minus $15 million. This outlook implies that second half total revenue will be roughly flat with first half and Q4 greater than Q3.

We expect gross margin in the third quarter to improve to the low- to mid-36% range on better product mix and lower component premiums quarter-over-quarter. We expect operating expenses to be about flat to up slightly in both Q3 and Q4 on timing of project activity related to our new product launches. As a result, we expect Q3 non-GAAP earnings per share to be a $1.13, plus or minus $0.20.

Before I pass the call to the operator, let me make a few important points. Overall, 2023 is progressing as we expected coming into the year. Our diversification strategy is enabling us to deliver substantially better financial performance than in prior cycles with a more moderated impact to revenue, given our strength in Industrial and Medical and earnings levels substantially higher than prior troughs.

We continue to be focused on improving gross margins. We believe our efforts to streamline operations, secure critical parts, reduce material premiums and improve mix towards higher margin products, will enable us to deliver on our long-term gross margin target of over 40%. Combined with actions taken to manage our cost structure, we expect to drive meaningful operating leverage in our model in 2024 as volumes recover.

With that, let's take your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] . And our first question comes from the line of Steve Barger with KeyBanc Capital Markets. Please proceed with your question.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks. Good afternoon.

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

A

Hi, Steve.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

You talked about taking orders over the next 18 months for the eVerest and the eVoS products. How are you thinking about what that means for your ability to take market share in smaller geometry applications or 3D architectures over time?

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

A

Yeah. So what I said, Steve, was that I think with eVerest and eVoS, we have technology leadership products and we've sampled those products in all of our major customers over the last six months. And the feedback we're getting is extremely positive. So our customers have basically confirmed that these products are best-in-class. So what we're doing now is based on the beta units we deliver to these customers, we're working with each of our customers to customize those units for their end application, and that's typically a 12- to 18-month process. We go back and forth to our customer and they deal with their customer. So it's usually a three-way type of process.

But that's the runway we see. And basically, we see these eVoS and eVerest products setting us up very well from 2025 onward. And it will give us the ability to gain market share in that space, in the plasma chamber space.

Steve Barger
Analyst, KeyBanc Capital Markets, Inc.

Q

Got it. Thank you for that. And for the push into Industrial and Medical, I know one of the challenges has been how broad the market is. My question is, have you fully defined your channel strategy? Meaning, do you have X number of customers where you want to go direct and then thousands of customers that you want to serve through the distribution channel? Or how is that go-to-market strategy evolved?

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

A

Yeah. So why don't I just start a couple of years ago when we first started to focus on the Industrial and Medical market, we developed more new products, expanded the engineering teams, formed a couple of new business units. And then we basically focused our sales and apps teams on Industrial and Medical opportunities. What you're seeing this year are really the first fruits of that effort, as we continue to set records in the I&M space.

It's a very broad space. So we do have some direct accounts that are developing quite nicely, but we also recognize there is a number of smaller accounts that we don't call on directly and that we need to rely on our partners and distribution, our value-added resellers and other partners.

In addition to that, we're also going to be launching a new, more customer-friendly website later this quarter. It will be adding e-commerce capability in the first quarter of next year. So we think that is going to enable us to reach more customers more effectively and for us to respond immediately to their needs.

Steve Barger Q
Analyst, KeyBanc Capital Markets, Inc.

How are you going to let the world know or let customers know about the website? Are you going to advertise in trade publications? And will that website allow them to spec out products on their own to kind of facilitate the selling process?

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

Yeah. We have a pretty well-developed social media campaign with the usual outlets, and definitely this website is focused on making it easy to figure out what products you could be buying from Advanced Energy. So there's going to be a focus on a fairly simple selection guide with the inputs and outputs you're looking for, as well as a focus on applications. So if you're operating in the Medical market, we'll just be able to focus you on products we think are best suited for Medical applications.

Steve Barger Q
Analyst, KeyBanc Capital Markets, Inc.

Got it. Thanks. I'll pass it along.

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

Thank you, Steve.

Operator: Our next question is from the line of Quinn Bolton with Needham & Company. Please proceed with your question.

Quinn Bolton Q
Analyst, Needham & Co. LLC

Hey, guys, congratulations on the nice results. I guess, first of all, margins, kind of tick down again in the second quarter, kind of just wonder if you might be able to provide a little bit more color there or is that just kind of the impact of higher cost inventory flowing through? Is it a mix away from Semi? Kind of what were the contributing factors there?

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

Yeah. Thanks, Quinn. The biggest factor was mix. You can kind of look at the results and kind of see the impact of that. But even within some of our product categories, we saw a little less favorable mix than we've seen. We expect that to bounce back. I think it was a more a function of the products we shipped this quarter. The material premiums are being a little bit stickier than we thought. I think the good news is they're getting better, but that cost is beginning to roll through the inventory. And so that was a little bit of the headwind relative to our guide as well.

When we look forward, we feel pretty confident that Q2 was our trough quarter from a gross margin percent perspective. We think we'll see those margins back in the 36%, the low- to mid-36% range in Q3. And as we've talked about before, we have a number of activities in place that will allow those margins to continue to grow over time. I think one piece of good news is the material premiums. The intake of that is abating. And so that's getting better. And so that suggests to us it's just a matter of time as those costs roll through inventory for us to see some of the uplift related to that.

Quinn Bolton
Analyst, Needham & Co. LLC

Q

Is that cost headwind still sort of fall in the 200- to 250-basis-point range? And I would imagine that it's probably at most what, three to four quarters for that to kind of roll through?

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

A

Yeah. It's actually starting to come down probably a little bit lower than that this quarter. When you look at the net of kind of the intake being a little bit lower, certainly, and then as that's going through. But yeah, that's right. I think it's about three to four quarters. We said earlier that by the end of this year we think those are largely abated. And therefore you just kind of got some of that roll-through still together. But I think that's a reasonable time. But it certainly narrowed from where we were a year ago and we were well above 300 basis points of impact from material premiums.

Quinn Bolton
Analyst, Needham & Co. LLC

Q

Great. And then just quickly for Steve. The Industrial and Medical business obviously very strong first half record results I think in both Q1, Q2. How are you feeling about just general visibility there? I know the Semiconductor business is going through a pretty strong downturn and inventory correction. But do you have better visibility in some of those other markets in Industrial and Medical? I know they're pretty fragmented. Thanks.

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

A

Yeah. Yeah, that's a good point. The Industrial and Medical market is made up of a number of different submarkets or sub-segments. And we are gaining some pretty good insights into some of the segments where we're having success. So it's a conversation we have on a weekly basis at the company. And so I think the visibility is relatively good at the macro level. So if we look across all of these segments, some are down, some are up. But at the end of the day, the business is very stable. What gives me reason for optimism is just the sheer amount of design win activity we have going on at the company today in the Industrial and Medical space. So these investments, we made new products. And in our sales team, in our channel, in our website, they're paying off and I think the opportunity is just going to get bigger moving forward.

We bring some pretty strong competitive advantages to this market. I think first is staying power. We have a strong balance sheet. We've done the business for 40-plus years and we're going to be around for many years to come. Our manufacturing prowess is second to none. We have great technology-leading platforms and really good service. So we have a widely-dispersed sales and applications team. And so we're basically competing against smaller companies in this space. And I think with the focus we're bringing to it, we're going to grow much faster than the market moving forward.

Quinn Bolton
Analyst, Needham & Co. LLC

Q

Great. Thanks for that additional color.

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

A

Thanks Quinn.

Operator: Thank you. [Operator Instructions] . Thank you. Our next question is from the line of Pavel Molchanov with Raymond James. Please proceed with your question.

Pavel Molchanov
Analyst, Raymond James & Associates, Inc.

Q

Thanks for taking the question. I want to start by zooming in on the Medical slice of the mix. We've seen some of the kind of big med, big pharma players taking down guidance in the post-pandemic stage simply given the lower demand. I know that you have never had a lot of linkage traditionally to COVID specifically. But I am curious what your kind of adaptation has been into the post-pandemic environment.

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

A

Yeah, Pavel. I think the biggest move we made was buying SL Power last year that the deal closed in April of 2022. And that brought a pretty big chunk of medical business, which complemented our Medical business very well. And so, what we've been doing for the past year and a half is doing a lot of cross-selling to going to accounts where SL Power was strong and selling traditionally products and vice-versa. So what we're seeing here is a really significant uptick in design wins in the Medical space, because our value proposition, long-term player willing to invest focused on quality is very compelling to Medical customers. So I think medium to long-term, we're in great shape in Medical.

So our objective right now is to move from being the number two player in that space, to be number one and we see that in the near-term horizon. As far as what's going on right now, I think it's a mixed bag in the market today. If I was going to make one general statement, I would say that first, for smaller, less expensive medical equipment, the market's pretty healthy. And for some of the larger pieces of medical equipment, we're seeing some constraints there as the budgets are trimmed at some of the medical centers and hospitals.

Pavel Molchanov
Analyst, Raymond James & Associates, Inc.

Q

Okay. Interesting. Can we get a similar kind of update on what you're seeing with solar manufacturing, particularly given pretty extraordinary boom in CapEx – solar CapEx on both sides of the Atlantic as well as India?

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

A

Yeah. Solar has actually been pretty good for us, Pavel. As I mentioned in my prepared remarks, specialty deposition was an area of strength for us, and I think that goes to the solar market. So there has been investment there. That's one of the areas where we're seeing some strength within the Industrial market. Some of those deposition products aren't caught up directly in some of the export compliance rules. But there are some requirements we have to do to make sure that those products are going to the right applications. So I think, on balance, that's been a pretty good market for us.

Pavel Molchanov
Analyst, Raymond James & Associates, Inc.

Q

All right. Appreciate it, guys.

Operator: The next question is from the line of Krish Sankar with Cowen & Company. Please proceed with your question.

Robert Mertens
Analyst, Cowen & Co. LLC

Q

Hi, this is Robert Martins on for Chris. Thanks for taking my questions. Look, the last quarter you mentioned that you were actually experiencing a reduction in demand from hyperscalers, but this quarter it was driven by demand for GenAI and the need for power management there. I guess just looking at all the new product introductions and design wins within the Industrial and Medical markets and the focus there, would you all be considering putting more resources onto the hyperscalers side?

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

A

Yeah. So what we've done in hyperscale is really focus on opportunities where we add value and that we're not competing head-to-head with other power supply makers. And so we started that transition two years ago. And so what you're seeing now is some of those design wins are ramping to volume. And that's helping our business. And it will help maintain good profitability in the data center space. So we just changed our strategy there, which is really focused on making sure we take business that meets our bottom line guidelines. And the strategy is working pretty well, actually.

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

A

And Robert, just to add on, if you look at results, we are flat in arguably a pretty down market in Data Center. And that's driven because while, units of servers are lower, we are seeing wins in areas that play to our strengths like AI and some of the higher power requirement applications. And so, I think that goes to the strategy we've talked about is focusing on where we have capability and we're seeing success there.

Robert Mertens
Analyst, Cowen & Co. LLC

Q

Okay. Got you. And then just one follow-up. Have you quantified the pent-up demand which your supply constraints have prevented to be shift and do you see some of those – some of the tightness abating in the second half or is it a slow process?

[indiscernible] (36:29)

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

A

Yeah. I'll kind of talk about that and Steve can give you an update on the types of products that are still a problem. Certainly the overall kind of supply chains improve, but there are some challenging areas. In terms of quantifying that we haven't gone out and quantified it per se. But to give you a little color, our backlog is coming down. I think that's indicative of the environment getting better and us having shorter lead times, which is basically allowing our customers not to have to keep putting demand in at these longer lead times. I think that's a suggestion that that things are getting better.

We talked about in T&N. We've gotten quite a lot of parts the last couple of quarters. So that market has overperformed. I wouldn't necessarily expect that continue. We said that we've largely fulfilled the overdue backlog there. But we're still not able to shift all of our upside and in Data Center and clearly in Industrial and Medical, there is components we're not able to get and that's constraining us as well. So I think there's still opportunity as some of these parts come available for us to continue to outperform. But it's a more limited set of parts, I think, that are kind of becoming the most sticky challenges.

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

A

Yeah. Maybe just to add a few words. It is a much shorter list of problem products that we're chasing. But I think the biggest issue is still power MOSFETs by far and we're still encountering problems with power analog and microcontroller, but it's more isolated.

Robert Mertens
Analyst, Cowen & Co. LLC

Q

Okay. Got it. That's very helpful. Thanks. That's all for me.

Operator: Thank you. At this time this concludes today's Q&A session and today's conference. You may disconnect your lines at this time. We thank you for your participation.

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

Thanks, everyone.

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

Thank you.