



Advanced Energy Industries, Inc.

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Sagar Kapadia: Good afternoon, everyone. Thank you for joining us at JP Morgan's 52nd Annual Global Technology, Media, and Communications Conference. My name is Sagar Kapadia, and I'm an executive director in JP Morgan's technology investment banking team.

It's my pleasure to host the fireside chat with Advanced Energy, a leading supplier of power conversion systems for semiconductors, industrial and medical, data centers, and telecom and networking markets. With me today are Paul Oldham, EVP and CFO, and Edwin Mok, Vice President, Strategic Marketing and Investor Relations. We'll hand over the microphone to Paul to read out the Safe Harbor Statement.

Paul Oldham: Let me do that. Before we begin, I'd like to remind you that any forward-looking statements that we provide today are subject to risks and uncertainties, and you can find the detail of those risks at the SEC filings. Also, we just reported our Q1 2024 result on May 1st, so we are not providing any update to our guidance.

Sagar: Thank you, Edwin. Maybe to kick us off, there may be a few folks here who may not be fully across your story, can you start us off by providing high-level overview of the business?

Paul: Sure. Advanced Energy is a \$1.7 billion leader in precision power conversion and control. We, basically, make advanced power supplies that convert the electricity that comes from the grid into something that's usable, stable, clean for advanced high-end applications. Within the broader power market, our served addressable market is about \$10.5 billion.

We started the company. It's focused on something called semiconductor precision or process power, where we're a leader. Essentially, our products are essential to the semiconductor manufacturing process. You can't make today's semiconductors without them.

But since that time, we've expanded our addressable markets. We've taken our core capabilities in precision power control and conversion, and we've moved into the industrial market, medical markets, into data center, and into telecom and networking markets.

As you look across these markets, we're focused on applications that are highly engineered for advanced applications, and again, are focused on power and power-related technologies.

Today, about 70 percent of the products we sell are sole-sourced applications, and they have a very long life cycle and a long tail associated with them. That's a rough overview of the company and who we are and what we do.

Sagar: Thank you, Paul. You released your first-quarter earnings earlier this month. Can you give us a quick rundown on the results?

Paul: Sure. The first quarter was a bit of a tough quarter for...In fact, we're calling it our trough quarter through this latest cycle. In general, our semiconductor market performed a little better than expectations. It was down from Q4, but a little bit better. Across our other markets, we saw some meaningful declines.

On industrial and medical, we saw inventory destocking at both our customers and our distributors. In our telecom and networking markets, we saw the same factors. We also saw weaker results out of our customers for networking and for telecom applications.

In data center, we saw a little bit of a change in timing of expectations, where we saw one order that we expected in Q1 moved to the right in the year. It was a tough quarter. Directionally, we expected to see revenues lower, but they were a bit worse than we thought.

Sagar: Thank you for that. In your earnings presentation, you spoke about a rebound in Q2. Would you mind elaborating a bit on that?

Paul: We think that the first quarter was the trough quarter for the company. When we look across the markets, we do see signs of improvement. First, within the data center market, we're clearly seeing a recovery in that market driven by investments for AI.

Essentially, what's happening is a lot of the large investments that you've heard about from Internet companies and from enterprise companies are now starting to get into the supply chain. We're starting to see strong demand across multiple customers for power supplies that are going into AI applications.

We expect a strong rebound in the second quarter, driven primarily by the data center market.

Our other markets we think will be about flat in the second quarter as they trade kind of sideways. As you look through the balance of the year, we do see opportunities for those to improve over the course of the year.

Sagar: What are the early signs of improvements you are seeing in your respective markets?

Paul: There is a variety of things. The first is in the semiconductor market. We do expect to see revenues increase in the second half versus the first half. That's driven by some investments that start with high bandwidth memory and a little bit of memory investment that's coming. I think we're pretty much in line with what our customers are talking about.

Overall, 2024 will still be a transition year, but we are seeing improvements in the semi-market. We're also seeing a little bit of improved utilization. We saw quite a good quarter in the first quarter for our service business, and we expect that to increase again in the second quarter.

In the industrial and medical markets -- maybe I'll first start with medical -- we're beginning to see already some higher orders for medical that are starting to fill in some activity in the second half of the year.

Industrial is a little less clear. They were impacted pretty significantly by the recent supply chain shortages. They were the last industry to recover from that, and they took quite a lot of product last year.

Being the last to recover, they're also dealing with some pretty significant inventory destocking. As we look at that, we think that that largely recovers over about a four- to five-quarter timeframe. That started late last year, and so we think by late this year, we'll start to see those inventory destocking normalize and orders start to improve.

We're also seeing a number of design-win opportunities, which we think have opportunity to ship in the second half of the year as well.

Sagar: Maybe my natural next question is for each of your four markets you just discussed, can you provide outlook for the remaining of the year?

Paul: I generally covered it. Semi should be up slightly, second half to first half.

We think industrial and medical trades flat here for a couple of quarters. Towards the end of the

year, the inventory destocking should normalize, and we should see that market pick up towards the end of the year.

Medical, I think will recover a little bit faster. I think we'll see a half-on-half growth in medical based on our earlier comments.

The one area we don't expect much improvement is in the telecom and networking area. The combination of a much softer networking and telecom environments combined with the inventory destocking there, we think will stay around these levels for the balance of the year and perhaps next year start to see things improve.

As we look forward into 2025, however, we feel quite good about the status of the markets. The semiconductor market, we expect to see some recovery driven by adoption of 2-nanometer and other next-generation technologies, some recovery in memory, starting with DRAM, and continued solid spending in trailing-edge nodes.

Industrial and medical, as I mentioned, it's a matter of time. These are good markets. They're broad-based. We have a good position in the markets, and those should recover.

In addition, we have a number of new design wins and have put a lot of effort into the channel and expansion to increase our reach. We're seeing a good design-win pipeline there, which should also help our growth. Then finally, telecom and networking, we don't expect much.

Now, data center and computing. We talked about it recovering in the second quarter. We do see broad-based orders from multiple customers and applications across both hyperscale and enterprise.

We expect that the second half will be higher than the second quarter. While we're seeing a nice rebound in Q2, we expect that business to strengthen through the end of the year. We'd expect that investment trend to, historically, last four to five quarters.

We don't know with AI. Obviously, there's a lot of money going into AI right now. I don't know if we'll see a supercycle relative to AI here, but we're certainly seeing stronger orders throughout the year and probably into early next year.

Sagar: Let's talk about semiconductors. You did beat Q1 guidance. It was still lower than the prior quarter. Would you mind providing a little bit more context around that?

Paul: Edwin, maybe you want to talk a little bit more about the specific dynamics in semiconductor?

Edwin Mok: Sure. Yeah, I can. In semiconductor, the industry is actually going through a downturn. Now this is a milder downturn than what we have seen before, but it's going through a downturn.

In the first quarter, what we have guided coming in the quarter is that we saw some of our customers seeing slightly lower demand relative to the trailing-edge side of the market. That's played out the way that we thought it would happen in the first quarter.

However, incrementally, as Paul suggested, our services actually did better than we had expected. That provides some buffer to that weaker demand. That's what we saw in Q1.

Sagar: That's helpful. What are your views on AE outpacing WFE in 2024?

Paul: I'll start. Maybe you can give some more color.

Edwin: Yes. Could you?

Paul: There's a couple of things. One, we've historically outperformed WFE because where we play, which is in the chamber and with power, tends to have higher content. The investment in edge is a little bit higher. We expect that to continue.

If you look back over 10 years, we've significantly outgrown WFE. In the last two or three years, while the market's been in a downturn, we actually declined less. We've performed actually quite well.

We'd expect those trends to continue for a few reasons. One is we think we continue to play in the right spot of the market. Two, we have a significant number of new products and new platforms coming, which we think will allow us to grow share not only in the etch market, but in some other parts of the market where we play, including the remote plasma source and high voltage.

Those are the primary reasons why we think we can continue to grow faster than the market.

Sagar: Are you seeing any inventory rebalancing at your semiconductor customers?

Paul: In semiconductor, the inventories are relatively stable. Now, some customers are a little higher versus others, but in general, semiconductor were the first ones to get parts coming out of the supply downturn. The inventories are largely normalized.

Now, for us, the inventory normalization process was pretty mild this time compared to historical levels and compared to our peers. We substantially outperformed our peers last year because, for us, the inventory rebalancing was much less severe. In general, the semiconductor demand is pretty well aligned to the market demand.

Sagar: In your earnings call, you spoke about eVoS and eVerest design wins. Can you specify what type of applications that's related to?

Paul: This is a really exciting area for the company because it lays the foundation for the next half a decade. I'm going to ask Edwin to give a little more color on what these platforms are and what the new design wins we've seen. Not design wins yet, but the early qualification activity that we've seen.

Edwin: A little less than a year ago during Semicon in July last year, we announced two new plasma-generating platforms called eVoS and eVerest. These are a new approach into how to deliver plasma into a plasma chamber. We have seen very strong customer uptake for these platforms.

In the recent earnings call, we talked about securing the initial design wins for these, as well as having already shipped 50 units to our customers with the plans to ship another 150 towards the end of the year.

This is a very strong level of uptake relative to historically two to three more than what we typically see for a new platform launch at this point in the platform launch cycle. So why are we seeing such strong proof in our customer?

Number one, we believe we have a few technical advantages. Specifically, we have much higher efficiency. In some cases, we believe we consume as little as 50 percent lower energy than the current approach.

The second thing is we have the most advanced technologies needed to generate plasma

processes, specifically on pulsing as well as very fast RF response time. We believe these technical advantages allow our customer to develop process for the next generation 2-nanometer process or for the extremely deep NAND layer, the next generation NAND stack, or even next-generation DRAM.

Our product is seeing a strong pull because we believe our customers are getting ready to target for the next node ramp, which comes as early as 2025. We're seeing a strong demand for that. We feel pretty good about the progress we've made, and we feel confident that these products could enable us to gain share as we go for the next technology inflection in the industry.

Sagar: When do you expect to generate meaningful revenues from these systems?

Edwin: In terms of revenue, typically from launch to actual meaningful revenue is around a three-year cycle for us because we need to win at our OEM customer. They need to win at the FAB level. The FAB has to decide to ramp the next technology node.

Typically, that's around a three-year time cycle. As I said, we launched our product last July, and we felt that the proof is stronger than what we had historically seen. We still believe that by second half of 2025, we will start to see revenue ramp up on these products, setting us up for a very strong second half of the decade.

Paul: There's one other important factor with these products, which maybe is more of an internal factor. These products are built on a standard modular platform for software and for some hardware. What that allows us to do is to modify them much more quickly than we've been able to do historically.

In fact, we've said that the time to do modifications or derivatives for these products is three to five times faster than it would normally take. That means we're dramatically reducing the turnaround time as our customers go through qualification changes that they have to make or adaptations they're making to their specific process.

This means it's either much faster and/or we're able to deploy against many more applications simultaneously, which is one reason why we're seeing more pull is we're able to address a number of different applications at once because we're much more efficient in being able to tailor these products to the exact configurations or the process requirements as our customers go through these steps.

Sagar: Let's move on to your second-end market, industrial and medical. It seems that you did miss your Q1 expectations. Can you elaborate and provide a little bit more context around that?

Paul: The biggest factor impacting industrial and medical is that, as I said, it's more the macro factor of the recovery from the supply chain crisis. Historically, industrial and medical can have some cycles associated with them.

They're much more muted because it's a broader set of customers. They're across a different set of industries. Some are up a little or down a little. We don't see as wide as swings maybe 10 to 15 percent through a cycle. We saw much more than that this time.

As we've looked back at it, what we see is that lead times for industrial and medical products in 2022 and 2023 were upwards of 40 weeks or longer. People had orders on the books for a long period of time, and they didn't want to take those orders off the books as we were able to start to fill those orders largely over 2022.

It was the last market to get all those products because you can imagine if you're a relatively smaller player, you're going to get the parts we have when we have them, unlike a semiconductor who can actually move the industry to help them get the parts they need sooner.

We saw people take product pretty well through last year. We started to see some weakness in the third quarter, and we saw that being furthered in the fourth quarter, offset by some design wins we had, and we expected to be down in Q1.

As we exited the year, what we found is that customers kept taking all that product that they put on order, and then they just had enough. We saw a pretty big change in behavior to step back.

Now, at the same time, lead times went from 40 weeks to 8 weeks. You can imagine they don't have to order stuff anymore until they need it. There's a lot more window for them to absorb this product and utilize it.

That's the biggest thing that happened. It was bigger than we thought. The biggest miss we saw in the first quarter, though, was in telecom and networking, which had the same dynamics occur with it, only with a much softer market environment as a backdrop.

Sagar: Just an extension to those comments, what are you seeing in terms of demand and inventory levels at OEMs and distribution?

Paul: Do you want to take a cut at that one, Edwin?

Edwin: Sure. Yeah, no problem at all. In our industrial medical business, we have around 45 percent of them sell for distribution, 55 percent for direct to our customer. What we have seen, at least when we talked to our distributor, what we found is that they have more inventory than they need from us.

As a result, we have seen our sell-through dropping below there. Sorry. We have seen our sell-in to those distributors drop below the sell-through of those distributors. We have started to see that in the fourth quarter of last year.

As Paul suggests, we are seeing an inventory reduction at the distributor as well as at the OEM level. Result in further reduction in inventory by taking less from us and at a level that is below the sell-through.

That said, our conversation with our distributor as well as OEM would suggest the demand level is not dramatically falling off a cliff. In fact, the demand level is relatively stable. It's more because of the inventory level that they have on hand.

We are seeing similar trends at the OEM side as well. This is why we believe that it would take some time for them to work through the inventory. But given that it started as early as late Q3 and into Q4, it's been already two, three quarters into this process.

That gives us some confidence that that we will work through the process throughout the rest of the year. Sometime in the second half, we will start to have this balance between sell-in and sell-through, allow us to our business to start to recover.

Sagar: You previously mentioned about record design wins in this end market of I&M. Can you provide a little bit more details around that?

Paul: What we specifically said is we have record opportunities in our design funnel. I think we said it's up 50 percent from a year ago. That's a function of a few things. One, we've invested in new platforms. We've invested in new capability, or additional capability to do customizations, or quick turn changes for this wide set of customers.

We've also refocused our sales channel to be more focused on the industrial medical market, and

we've invested in our digital platform so that we have a much better ability to reach the vast array of customers who might want to design a new power supply.

All that is leading at more bites at the apple. A bigger funnel where we're actually working with customers on qualification or on these customizations.

We have said that we've seen an increase in our design win rate, and we've definitely seen a big uptick in the amount of customizations we're doing. To us, that's very encouraging because it says there is more activity happening out there, which gives us an opportunity, as the markets recover, to have a bigger footprint in this market.

Sagar: That's very helpful. Moving on to data center computing, you previously mentioned revenues to meaningfully rebound in the second quarter. What's driving this uptake? Is it primarily all hyperscalers?

Paul: Yeah, it's a combination of both hyperscalers and enterprise customers, but the common thread is we believe it's driven by AI investment. Maybe, Edwin, maybe you can talk a little bit about the dynamics of these new AI requirements as it relates to power and content.

Edwin: If you have paid attention to AI, you realize that there is a lot of investment from the large Internet companies to even enterprises investing in AI. The common thread is that these AI server infrastructure require a lot more GPU and memory, which typically comes with substantially higher power.

We believe in a standard server rack in which we supply the power supply or the power for the rack. We believe that, in general, AI server rack has around three to five times more power than a standard server rack. We are benefiting from this trend.

With the increase of power, what we have seen is customers care more about the efficiency of the power supply. They care about the reliability of the power supply. They also care about density because they want to pack more power in less room, because they want to save some room for these servers.

Those are the technical strength that we have in this space. That's the reason we believe we're able to win designs and secure these wins in this area.

Specifically, to answer your question related to Q2, we are seeing multiple hyperscale customers

coming back to us to start buying power supplies as they are ready to deploy the infrastructure.

As Paul suggested in an earlier comment, while you guys have seen all these CapEx number by the big Internet company, a lot of that investment has been going into building the data center, or building other infrastructure to supply the server, or buying the GPU.

What we believe is we're at a point where the customer is now wanting to buy the power part of it, and actually build it into the server. That's why we see this uptake. This is across multiple hyperscale customers.

In addition to that, our enterprise customers -- these are traditional server box maker -- they are also seeing a strong pull with their AI-based platform. Similar to the hyperscaler, this AI platform also come with substantially higher power levels.

We believe that, based on our best-in-class reliability and performance of our product as well as the high efficiency, we are able to gain share in this area. Those share gains, which we announced in our Q1 earnings call, are allowing us to capture incremental revenue that we expect to start in Q2 and to the rest of the year.

Sagar: You are seeing enterprise starting to recover?

Edwin: The recovering enterprise, what we have seen so far is mostly related to these AI-related servers. The traditional server market is still pretty muted frankly, but the AI-related part is where we see the strongest pull. That's where we see the demand from the enterprise customer.

Sagar: You mentioned about gaining share in the enterprise AI server business. Can you elaborate a little bit on that?

Edwin: Typically, these enterprise server makers will provide power supply that is integrated into the server box. The AI server requires a lot more GPU. Power level is typically somewhere between two to, in some cases, six times higher power.

However, the server size is only so big. To them, it's important to get a power supply that is small enough form factor that can fit into the server while they can still build up this server. One of our technical advantages is power density. We have one of the best-in-class power density.

We also know that reliability matters a lot. Obviously, reliability of our power supply ultimately

affects the reliability of the server, which ultimately affects our customer. We believe these are the factors that allow us to gain share.

Paul: I might just comment quickly. Over the course of last three years, we had a shift in strategy in this market where we wanted to focus on the applications that added more value, where we had more diversification. Many people know that this is a pretty big market, but a lot of it's quite commoditized. It's very cost- and volume-oriented.

Our goal was to focus on the higher end of that market where there was differentiation, and where we could either have a sole source position or be one of two sources and a leader in that space.

The whole requirements of AI play to our strengths and play to our strategy. It's good to see that playing out now. As we're seeing investments in AI, we're seeing that that market come towards us.

I'll also say, as we made the shift in strategy, our focus was to improve the profitability of this part of the market. The gross margins, when we're focused on the more differentiated part of the markets, are better than they were in the past. We expect this to be a good, healthy market for us with substantially better profitability than we've had historically.

Sagar: Related to growth in this data center computing market, how sustainable do you think is the growth rate here?

Paul: It's hard to handicap exactly what the growth rate is, because it is a cyclical market. At the end of the day, it still buys in chunks, they build stuff out, and then they digest.

Typically, that's a four- to five-quarter investment period followed by a two- to three-quarter digestion period. We're still going to see some cyclical here. The question is, how long does that cyclical last, and at what levels can it get to again?

We certainly believe we can reach our prior peaks in this market but with a healthier book of business, which suggests that the high-end part of this market is growing. How much that grows, we'll have to see. Certainly, when you look at the AI trends, it seems like there's opportunity in this market for growth.

Sagar: Moving to the fourth end market of yours, telecom and networking, what are you seeing

in this market? How does the rest of the year look like? I know you already previously commented a little bit on this, but if you mind elaborating a little bit.

Paul: Again, in this market, we tried to focus on the applications where we can add more value. About three years ago, we did some portfolio pruning in this area. Now, in the last couple of years, because of the supply chain shortages, we were quite behind. We had a terrific year in 2023. We saw customers pulling product clear through year end.

However, going into 2024, the end markets for those markets have gone from not great to worse. We've seen in those markets quite a recalibration from an inventory perspective. We expected this business to level out in the \$30 million range per quarter. In Q1, we actually were in the low 20s. We expect now to stay in that low \$20 millions per quarter.

It's not the biggest business for us, obviously. This business is very complimentary because it provides technology capability. We're able to resource investments we made here. We're able to reuse those in other parts of the business. We don't expect a lot of growth or investment in this area.

As we go into next year, the business could recover a bit. I don't think we have any expectations that it would be much more than an ongoing run rate in the \$30 million range.

Sagar: Before I move on to financials, I wanted to open up to see if anyone has any questions in the audience.

[background sounds only]

Sagar: Right there.

Audience Member: Hi. In the data center segment, you said that the traditional servers are still weak in the second quarter. Do you have any visibility into rebound in the second half for the traditional server segment in data center?

Edwin: I'll take that. We have seen the traditional server continue to be pretty relatively muted in terms of demand level. Part of it is you can see also from the enterprise customer that they are seeing stronger demand in AI and as a result, that's what we see the pull is. That's what we are seeing so far.

We don't really see a lot of change there. I think that the enterprise customers are growing because of the AI side and we see the benefit from the pull on that side, but not on the traditional side.

Audience Member: If I could ask one more on the semi side, which parts of semis are still soft and do you have visibility in the second half for the auto or other segments which have been weak?

Paul: Yeah, so in general, in semi, we sell to OEMs such as Applied Materials, LAM Research being our two largest customers, and they obviously sell to the fab. We don't have one-to-one direct visibility, but it's pretty clear that NAND demand or NAND investment remains relatively muted this year after a very sharp decline in 2023.

If you just even listen to our OEM customers' public commentary, it didn't sound like that there is a high expectation for it to recover until 2025. NAND is probably the weakest part in the semi-equipment spending at this juncture.

Sagar: Let's talk a bit about your gross margins. In the earnings call, you mentioned getting to 37.5 to 38 percent gross margin by end of the year, and 40 percent long-term margins. Can you remind us how you expect to get that?

Paul: Yeah. Our goal as a company is to have 40 percent or better gross margins in good times than bad. Now, obviously, we've underperformed that recently. In the '21-'22 range, it was because we had much higher material costs because of the supply chain shortages and the premiums that we were having to pay.

Last year, frankly, we saw material costs get better, but we saw our volumes go down. They offset each other. We've been stuck in this 35-36 percent range for the last two or three years. However, as we go forward, I think there's several opportunities. The first is that the last of those material cost premiums are going to work their way out.

That's 50 basis points plus of improvement. There may even be more opportunity from an overall material cost perspective. The second is we've used this time when the market's been down to our advantage to consolidate our factory footprint pretty significantly. We're in the middle of a fairly significant factory optimization plan.

Right now, we have both new factories we're investing in and old factories we haven't been able

to close yet. We're in this transition period, but that balance starts to tip as we go towards the end of this year. We expect to see 100-plus basis points of improvement because we'll have a better cost structure.

In addition, by the time you get to the middle of next year, we should see an additional 100 points of gross margin improvement or a little better just from our factory consolidation plans. The third factor that should help us over the next little bit is volumes will continue to improve. We think Q1 was the trough.

We think the second half will be better than the first half, as we've talked about earlier. If revenues can approach the \$400 million level again, which was our lowest point of last year, we think we can have gross margins in the 37.5 to 38 percent range, function of those three things, better material costs, lower factory costs, and slightly higher volumes.

If you project that forward and our markets continue to recover then we think we can add another 100 basis points or so from volumes as revenues re-approach \$450 million. And that would put us over 40 percent gross margin.

Sagar: That's helpful. By the way, great job on the OPEX. However, you did mention in your earnings call that it's going up a little bit like in Q2. My question is, why is that going up? Are these OPEX levels sustainable?

Paul: Yeah. We've reduced OPEX five quarters in a row despite an inflationary environment. I think we're down like six or seven percent from our exit rate of 2022, which was five quarters ago. We've done a good job managing it in a tough environment where there's been a lot of cost pressures, but we've also sustained our investments in R&D, which have increased since that time.

We've also continued to invest in the things that will help us scale the company. We've made priorities and tradeoffs. We've managed it quite well.

As we look forward, we do expect the OPEX will start to inch up a little bit. That's driven by a couple of factors. One is we have, as we talked about, a lot of these new products coming to market right now.

There's investments in qualification, evaluation, getting units in the field. That's the first thing. The second thing is that as revenues start to grow, we'll see a little bit of variable expense. We're not

adding a lot of people. Net headcount will stay relatively flat, but we'll see a little bit of upward pressure just driven by the new product activity and slightly higher variable costs as revenues grow.

To be specific, we said expenses would be up \$1 million to \$2 million in the Q2 versus Q1. That's in the one to two percent range, and about that same amount in each of the next two quarters based on our current view of the markets.

Sagar: Can you talk a bit about your capital allocation policy and just remind us on your M&A strategy in general?

Paul: Sure. Our capital allocation policy continues to be consistent, and that is we want to use the vast majority of our cash flow and other resources to grow the company through M&A. That M&A is going to be focused on our strategy, which is to invest in power and power-related solutions.

The vast majority of that practically will end up in the industrial and medical part of the market because it's the broadest, most fragmented part of the market. It's hard for us to do large M&A in semi because it's already a concentrated market and we're the largest power player in semi. We've talked about that as 75 percent or so of our resources.

Now, last year we did do a convert, put that in the market, and so today we have a very strong balance sheet. We have about a billion dollars or a little over a billion dollars in cash. We'd ideally like to do larger M&A versus little tuck-ins, but we'd certainly be open to tuck-ins for technology purposes, maybe primarily in semi.

We'd like to do larger M&A, again, focused in the industrial and medical area. It's important for us that it supports our model, so we're looking for things that are supportive of our 40 percent gross margin and solidly profitable companies that would add scope to our products or to our customer set against them, which we could leverage the scale of the company to improve the effectiveness and efficiency.

Sagar: Maybe just one last question, if I can squeeze in, more like a catch-all question.

Paul: Sure.

Sagar: Is there anything I should have asked that we didn't discuss here?

Paul: I think we've covered the bases. The thing I would just say is that, look, we're in the trough part of the market, but we see all of our markets starting to trend better over the course of the next 12 to 18 months. We have spent this time to improve the quality of the company through investing in new products and R&D and scaling through our factory optimization.

We're positioned to exit the downturn much stronger and should have much faster earnings growth and revenue as markets recover.

Sagar: Paul, Edwin, thank you so much. Thank you for joining us in this conference. It was a pleasure.

Edwin: Thank you.

Paul: Thank you very much for inviting us, and thanks, everybody, for joining today.



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