NASDAQ:AEHR Q2 2025 Earnings Call Transcript

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Operator | Operator:

Greetings. Welcome to the Aehr Test System's fiscal 2025 second quarter financial results call. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. Please note, this conference is being recorded. I will now turn the conference over to your host, Jim Byers of Pondell Wilkinson Investor Relations. You may begin.

Jim Byers | Pondell Wilkinson Investor Relations:

Thank you, operator. Good afternoon, and welcome to Aehr Test Systems' second quarter fiscal 2025 financial results conference call. With me on today's call are Aehr Test Systems President and Chief Executive Officer, Gane Erickson, and CFO, Chris Hsu. Before I turn the call over to Gane and Chris, I'd like to cover a few items. This afternoon after market close, Aehr Test issued a press release announcing its second quarter fiscal 2025 results. That release is available on the company's website at aehr.com. This call is being broadcast live over the internet for all interested parties and the webcast will be archived in the investor relations page of the Aehr Test website. I'd like to remind everyone that on today's call, management will be making forward-looking statements today that are based on current information and estimates and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. These factors that may cause results to differ materially from those in the forward-looking statements are discussed in the company's most recent periodic and current reports filed with the SEC. These forward-looking statements, including guidance provided during today's call, are only valid as of this date, and Aehr Test Systems undertakes no obligation to update the forward-looking statements. Now, with that, I'd like to turn the conference call over to Gane Erickson, President and CEO.

Gayn Erickson | President and CEO:

Thanks, Jim. Good afternoon, everyone, and welcome to our second quarter fiscal 25 earnings conference call. Thanks for joining us today. I actually have a number of topics that I'm going to go through. I'll try and get through them quickly. We've had a lot of inbound requests for information and to clarify all the different markets that we have been expanding into, particularly a lot of questions around the AI side. So I thought I would spend a little bit of time just making sure to bring everybody up to speed and kind of normalize what everybody understands about that. So bear with me as I go through this. Chris will then cover some details related to our financials, a little bit shorter than normal to make up for my longer portion of this thing, and then we'll open up for questions. I'll start with a brief overview of the quarter's key highlights and share updates on the key markets we're targeting. for our semiconductor test in Vernon, including notable progress in those new markets. We're excited to share the significant progress we've made on the key objectives we outlined at the start of the fiscal year, particularly expanding our product reach into additional large and fast-growing markets. Our market diversification into sectors such as artificial intelligence processors, gallon nitride-powered semiconductors, data storage devices, silicon photonics integrated circuits, and flash memory is driving new opportunities to attract customers and drive revenue growth. This progress includes our wafer-level burn-in solutions and also the success we're achieving with the new semiconductor package part test and burn-in product lines we acquired through our acquisition of Intel Technology that we closed last August. This acquisition has led to the acceleration of our market diversification, with particular success and leverage expanding our total available market in AI processors. We're pleased to report meaningful progress

in our efforts to penetrate the high-power processors market, including artificial intelligence, or AI processors, graphics processor units, or GPUs, and application-specific integrated circuits, or ASICs, AI processors and accelerators. These advancements include wins in both wafer-level burn-in and packaged part burn-in applications. Let me start with our new success with the AI processors for wafer-level test and burn-in. Last month, we were thrilled to announce a major milestone for us, securing our first AI processor customer for wafer-level burn-in. After successfully demonstrating the performance and throughput of our systems at our headquarters here in California, this innovative AI customer selected our new high-power Fox XP solution for production wafer-level test and burn-in of their AI processors. This includes initial volume production orders for multiple high-power Fox XP systems and our proprietary wafer pack contactors, which enable full wafer contact for testing and burning in of AI processors in wafer form before system integration. This achievement represents a significant technological and commercial breakthrough for Aehr, significantly expanding the market potential for our Fox XP wafer-level test and burning systems. AI processor burn-in is a significant opportunity rare. AI processors have tens of billions to even greater than 200 billion transistors on a single semiconductor die. Transistors act as the fundamental building block functioning as an electronic switch to control the flow of electrical current, essentially representing the on and off states necessary for processing information on digital circuits. allowing for the creation of complex logic operations within the single chip by combining numerous transistors together. Large complex processors have always been subject to the challenge of early failure rates that are higher than the application requires. Companies like Intel, AMD, and Nvidia have always had many of their products, and for some companies, all of their processors require a production burn-in for screening out early failures. This is also the case for AI processors and ASICs. Companies use test and burn-in systems to qualify a new process and AI processor design to determine the device's early failure rates, intrinsic and steady state failure rate over time, and also how long the devices will last before they begin to fail due to the end-of-life wearouts. This is really where our acquisition of NCAL plays a huge role in our strategy for AI processors, as the Sonoma ultra-high power package per test and burn-in system is extremely good for this qualification application. I'll also talk about Sonoma in more detail later. During the semiconductor qualification process, customers characterize the failure rates over time for a given device and then implement a production burn-in to effectively accelerate and induce the early failures so that these devices can be screened out and not shipped to customers. In the case of wafer-level burn-in and screening, they can remove the devices before they're packaged with other processors and high bandwidth DRAM memory or HBM into very expensive packages using substrates like co-op packaging from TSMC. Once you understand that AI processors need production burn-in and then you look at devices such as Hopper or Blackwell from NVIDIA or the AMD Instinct MI325X GPU accelerator, it becomes intuitively obvious why customers would like to move this production burn-in step to wafer level if they can to avoid throwing away very expensive packages and the remaining good processors in HBM. With Aehr providing the first-ever solution for wafer-level burn-in in an AI processor in partnership with this customer and their outsourced assembly and test or OSAT partner, we have shown that our high-power Fox XP multi-wafer systems and proprietary wafer pack contactors can be a viable solution for testing and burn-in of AI processors in wafer form to avoid having to burn-in these devices in package or system form where the cost of test and the cost of yield loss due to failing devices during burn-in is much more expensive and impactful to overall manufacturing yield. We've already shown the solution working at our facility in California and will begin shipping the production systems and wafer packs already this month. The systems will have a very visible footprint at the OSAP they will be installed and used at, and we're working together on marketing this wafer-level production burn-in capability to other AI processor suppliers in partnership with this OSAP as they speak. Now let me turn to the package part test and burn-in level of AI processors using our new Sonoma system. During the second quarter, we secured our first production AI processor customer for package part burn-in receiving initial volume production orders for multiple Sonoma ultra-high power systems. This customer is a large-scale data center hyperscaler, providing computing power and storage capacity to millions of individuals and organizations worldwide. System shipments have already commenced to their OSAT contract manufacturer, doing test and burn-in for them in Asia. Again, this is for production burden screening of all devices shipped to screen out early failures. This customer was and continues to use the Sonoma system for process and device qualification as I detailed a few minutes ago. The Sonoma system is a system that combines high parallelism of ultra-high power devices under tests or DUTs with very high

current, high performance power supplies that allow many voltage zones ranging from multiple core power zones to many other lower power zones on the same device. Very flexible digital test resources for device. Individually controlled liquid cooling of each device under test. And what we feel is the world's best software and user interface for device testing and debug for device qualification and reliability testing and bringer. I have personally heard from multiple customers that they often use the Sonoma system to debug the test patterns of their devices and use this data to feed back to their multi-million dollar ATE systems from the likes of Advantest and Teradyne. We have a large and growing installed base of Sonoma systems around the world at test labs, OSATs, and IDMs used for this qualification and reliability testing of new devices and semiconductor process nodes. What is new is this is the first customer, and it's a large one, that is purchasing Sonoma for their volume production needs for test and burn-in of their AI processors. This is an area where the combination of NCAL and Aehr was very well received by customers, as NCAL simply did not have the support infrastructure worldwide as Aehr does to support the needs of production customers. nor did they have the manufacturing capacity that we do to build a large number of systems for production customers. We see significant potential to expand our package part test and burn-in business in the rapidly growing AI semiconductor market with the ultra-high power Sonoma product line, and already have a team working on multiple enhancements to address both qualification and production test and burn-in needs of a wide range of AI processors, suppliers, test labs, and OSAPs. Aehr is now able to offer our customers both the ability to do production wafer-level burn-in of their AI processors and accelerators, as well as reliability qualification and production burn-in at the package part level with our Sonoma system. Aehr Test Systems is the only company in the world offering the flexibility to customers of both wafer-level and package-level test and burn-in solutions for AI processors. We estimate that the combined market for wafer level and package part reliability testing production burden of AI processors will surpass $100 million annually in the future. The AI semiconductor processor market is growing very fast. According to the SNS Insider, the AI chip market size was valued at over $60 billion in 2023 and is expected to grow to over $600 billion by 2032. a 10x increase and a CAGR of almost 30% over that period. The types of processors and applications for AI processors or processors with AI focus is also expanding rapidly from the historical general-purpose GPU-based processors used for LLM generation and inference to application-specific integrated circuits aimed at specific accelerator functions in data centers and hyperscalers and edge AI processor used in autonomous vehicles robotics, and security. These devices and their applications demand extremely high quality, reliability, and security. With our comprehensive product portfolio for reliability, test, and burn-in of AI semiconductors, we feel Aehr is poised to capture a meaningful share of this market. Now let me talk about the expansion into our gallium nitride market. Last week, we're excited to announce another exciting milestone with our first gallium nitride or GaN semiconductor production order. This customer is a leading automotive semiconductor supplier and a key player in the gallium nitride power semiconductor market. We're thrilled to have received their initial production purchase order, marking their commitment to advancing volume production, wafer-level burn, and other GaN devices using our Fox XP platform. This achievement expands our production wafer-level burden market for power semiconductors beyond silicon carbide applications used in electric vehicles, data center power conversion, and solar to now include GaN, a high-performance compound semiconductor optimized for mid-power applications such as data centers, solar energy, automotive systems, and consumer electronics and PCs. Over the past 12 months, we've collaborated with this lead customer using our Fox NT system, leading to their purchase of multiple wafer pack reference designs on a diverse set of GaN applications. GaN offers a much broader application range than silicon carbide and is poised for significant growth in the coming decade. While the largest market segment for silicon carbide, about 70%, is for the electric vehicle and EV charging infrastructure markets, GAN is very diversified and is not dominated by EVs or autos. With many more end-use applications, there are many more customers and broader market for GAN semiconductor suppliers than for SICK, where there are fewer EV and charging customers, but are at higher volume per customer than the average customer for GAN suppliers. With an expected compound annual growth rate, CAGR exceeding 40%, The GaN market is projected to surpass $2 billion in annual device sales by 2029, according to Yole Group. Additionally, Frost & Sullivan estimates GaN semiconductors will account for over 10% of the worldwide power semiconductor as soon as 2028. This transformative technology represents a significant growth opportunity for AERS wafer-level test systems and wafer-packed full wafer contactor, positioning us to capitalize in the expansion

of the GaN market. My next topic is silicon photonics, which continues to show signs of market adoption for chip-to-chip communication and for optical networking switching. We remain very enthusiastic about the silicon photonics market, particularly for the new application of silicon photonics integrated circuits for use in optical chip-to-chip communication that we see as a significant market opportunity for our products. Last year, we shipped a new high-power configuration of our Fox XP system to our lead customer for a new family of silicon-photonous integrated circuits aimed at optical chip-to-chip communication. This system with our proprietary wafer-packed full wafer contactors allows for testing over 8,000 high-power optical devices in parallel on each of nine wafers before they're singulated and placed into a fiber optic transceiver for data center and telecommunications infrastructure or for placement and co-package optics for optical chip-to-chip communication. Multiple companies, including AMD, NVIDIA, Intel, TSMC, and Global Foundries have announced product roadmaps for devices using optical chip-to-chip communication, with new announcements in just the last week coming out of Taiwan on new silicon photonics-based ICs by TSMC and NVIDIA. The new Fox XP system configuration with higher power wafer packs enables production test of up to 3,500 watts of power per wafer and up to nine full wafers in parallel. It also includes AehrTest's latest chamber configuration, which has a smaller overall footprint and is compatible with Aehr's new wafer pack auto aligner that provides Aehr customers with fully automated material handling, enhanced re-operation of 6 to 12-inch wafers using industry standard wafer cassettes and foobs. and can also support mobile robot and overhead transfers of wafers in those foobs. This is a system that we leverage for the production system for wafer-level burn-in of AI processors as well. We've designed a number of new wafer packs for engineering and initial samples for this lead customer of our high-power silicon photonic solution this fiscal year. These are very impressive devices with significant improvements in size, power, and data rates that we feel are likely to rev to production in time to address the chip-to-chip optical communications market opportunity. The hard disk drive market is another opportunity for Aehr's wafer-level test and burn-in systems, and we're excited about our opportunity for production burn-in and stabilization of devices used in hard disk drives using our Fox CP systems and wafer pack contactors. Excuse me. Our lead customer for this application is ramping this year and has told us they will purchase multiple production systems from us over the next few quarters to support their planned production rollout and ramp. This customer, first announced back in 2019 prior to the COVID-19 pandemic, initially purchased our Fox CP single waiver test and burden solution to support the qualification and early test stages of this new product aimed at the enterprise and data center markets. We view the data storage market both for hard disk drives and flash-based semiconductor solid-state disk drives as significant growth opportunities for our systems. These markets have applications with devices made up of multiple die in complex structures or in multiple die stacked on top of each other before they are put into higher-level packages or systems. These devices require exceptionally high levels of quality and long-term reliability of the die before they are put into the packages or systems. which aligns perfectly with the capabilities of our wafer-level test and burn-in systems. And speaking of solid-state disk drives and NAND flash memory, we're making steady progress on our ongoing benchmarking project with a major flash memory supplier to evaluate the benefits of using our Fox XP solution for wafer-level test and burn-in other flash memory devices. This application is for 100% test and burn-in of devices to be used in mission-critical applications such as enterprise storage. As part of this evaluation, we're advancing the development of a low-cost, high pin-down, fine-pitched MEMS-based wafer pack for full wafer contact of all NAND devices on a 300-millimeter wafer, including support for high-density 3D NAND technology supporting up to greater than 200 layers. One of the key challenges with addressing the new devices on customers' NAND roadmap is that not only is there a significantly higher number of dyes per wafer, but the power per die and therefore power per wafer to test these wafers has increased significantly. Support for high-power wafer testing is something that Aehr is particularly good at with our Fox XP multi-wafer test and burn-in systems and wafer packs. This new wafer pack design is also capable to support DRAM testing should customers choose to pursue DRAM burn-in in the future. We aim to complete the proof-of-concept phase in a few months, enabling us to advance this benchmark to either a production solution evaluation or secure a commitment from the customer to develop a production test cell. This would position us to generate our first revenue from this NAND opportunity as early as our next fiscal year. We believe this represents the leading edge of a significant opportunity for our solutions for semiconductor memories, with the NAND flash market being the key initial focus. Looking ahead, we see long-term potential to expand the DRAM wafer-level test in

Burnin further broadening our market reach. So you'll notice that I led with the new market opportunities, but will now provide an update on silicon carbide wafer-level test and burn-in, a market that in fact was almost 90% of Aehr's revenue last year. Aehr also continues to expand its presence in silicon carbide power semiconductor market, a critical sector for power conversion for electric vehicle traction inverters, charging infrastructure, and a range of industrial data center and infrastructure applications. Based on recent market forecasts and large suppliers of silicon carbide semiconductors, growth in silicon carbide sales outside of China should remain challenging before recovering in calendar 2026. We believe we're well positioned in this market as we have a large customer base and are currently engaged in benchmarking efforts with multiple potential new silicon carbide customers around the globe, including in China. While we remain cautiously optimistic about the opportunities in China, we also recognize the geopolitical, trade, and intellectual property risks associated with this market. Recently, we filed a lawsuit in China against a local supplier for intellectual property infringement. This action relates to features of products by that company targeted at wafer-level burn and silicon carbide devices that we believe infringe on Aehr's intellectual property and patents granted to Aehr by the Chinese Patent Office. Our current fiscal year forecast includes contemplated orders and revenue yet to be booked for silicon carbide wafer-level burning systems and wafer packs destined for silicon carbide manufacturers in China. It is important to bring this to our shareholders' attention as recent trade-related developments in the U.S. and the emergence of competitive offerings in China that we believe infringe on our intellectual property have heightened the risk associated with bookings and revenue from Chinese customers. As we look at the composition of our total revenue for this fiscal year, silicon carbide is expected to account for less than half of our total revenue as we've seen our expansion into additional other markets capture real market share gains. AI processors, including wafer-level and packaged parts, could comprise as much as 40% of our total revenue this fiscal year, up from effectively zero revenue last year. GaN, hard disk drives, silicon photonics integrated circuits, and other semiconductor package part revenues will comprise about another 20% of revenue. We're not pivoting away from silicon carbide, but rather are generating what we see are the growth in the other market opportunities while not seeing the growth in silicon carbide this year like we saw last year. According to recent market research from companies such as YOL, the estimated revenue for silicon carbide semiconductors in 2024 was around $2.5 billion and expected to reach $10 billion by the end of the decade, a 4x increase. To put this into perspective, the semiconductor market is projected to grow from about $600 billion overall in 2024 to over $1 trillion by the end of this decade. So silicon carbide will be about 1% of the overall semiconductor market by 2030. Aehr's innovative solutions are poised to capitalize on this growth in the overall semiconductor market by addressing the critical reliability needs of next-generation applications and leveraging key megatrends shaping the semiconductor industry. Reliability has become a critical priority across a wide range of industries, including combustion and electric vehicles, data centers, electrification of the world's infrastructure, and a wide range of artificial intelligence applications. Factors such as smaller semiconductor geometries, the increase in adoption of compound and optical semiconductors, and the complexities of ensuring semiconductor reliability on ever-increasing power and performance of semiconductors and advanced packaging are driving the demand for wafer-level and package-part testing burn-in systems. Aehr solutions are instrumental in reducing early operational failures and ensuring long-term device performance in these rapidly advancing markets. With strong customer engagements, expanding market opportunities and innovative products designed to meet evolving demands, we're optimistic as we move into the second half of our fiscal year and maintain our previously stated financial guidance for the fiscal year. As we've stated before, Though given the nature of our business with our high average selling prices of a single production system and a set of wafer packs, our quarterly revenue can experience significant variability if system orders anticipated by the quarter end are delayed by even a few days. This was the case in last quarter. And one of the key reasons we do not provide quarterly guidance. In the case of both our new GAN and wafer level AI customers, Both requested us to pre-build systems that we fully expected to ship to them within the quarter. However, the purchase orders were not finalized until after the quarter ended. Looking ahead and above the quarter-to-quarter variations, we're excited about the current and emerging market opportunities for our products, which not only position us for a successful fiscal year, but also lay a solid foundation for long-term sustainable growth in years ahead. Lastly, and before I turn it over to Chris, it's with great sadness that we acknowledge the passing of Ovi Rechudri, our EVP of Research and Development, who lost his battle with cancer last month. On behalf

of everyone at Aehr Test, we extend our deepest sympathies to his family. Ovi's friendship, leadership, and the tremendous contribution to Aehr Test will always be remembered and cherished. It was an honor to work alongside Ovi, and he'll be deeply missed. In the interim, Don Richmond, our CTO who previously held this role before Obi joined us a year and a half ago, had stepped in and assumed Obi's responsibilities at Aehr and would continue in this capacity until further notice. With that, let me turn it over to Chris, and then we'll open up the lines for questions.

Chris Hsu | CFO:

Thank you, Gang. Good afternoon, everyone. The company recognized bookings of $9.2 million in the second quarter of fiscal 2025. compared to $16.7 million in the first quarter of fiscal 2025. At the end of the quarter, our backlog was $12.4 million. In the first six weeks of the third quarter of fiscal 2025, we received $14.2 million in additional bookings. This growth was driven primarily by the first AI processor customer, utilizing our high-power Fox XP solution for wafer-level production tests and burning of AI processors, which we announced in December. With this recent bookings, our effective backlog has now reached 26.6 million. Turning to our Q2 performance, which included a full quarter of the financial results from the in-cal acquisition, we face a challenging environment due to overall softness in the Zircon Carbide Power Semiconductor market. Second quarter revenue totaled 13.5 million, a 37% decline compared to 21.4 million in Q2 last year. A significant portion of this revenue was driven by demand for our wafer packs and Sonoma Ultra high-power systems acquired from the In-Cal acquisition, which support high-volume production tests and burning of AI processors. Wafer pack revenues came in at $8.6 million, accounting for 64% of our total revenue in the second quarter, an increase from 43% in the same period last year. This highlights the important role of our wafer packs as a key source of recurring revenue for our business. Additionally, system sales from our Sonoma and Tahoe package part burn-in products made a substantial contribution to our second quarter revenue. We are excited to see the significant progress we made to incorporate the in-cow products into our product portfolio to address the AI market opportunities. We believe our strategy to expand Aehr's product offerings to diversify into sectors beyond silicon carbide applications such as AI, gallium nitride power conversion, and other sectors will drive revenue growth in the future. Non-GAAP growth margin for the second quarter was 45.3% compared to 51.6% in the same period last year. The decline was primarily due to a lower overall revenue level compared to Q2 last year. partially offset by a favorable product mix of higher margin wafer packs. Non-GAAP operating expenses in the second quarter were $5.9 million, a 19% increase from $5 million in Q2 last year. The year-over-year increase is primarily due to incorporating a full quarter of in-cows operating expenses into our financial results, as well as higher legal and professional services fees. We expect to incur higher legal fees in the next few quarters, as we vigorously protect our intellectual property rights in China and defend class action and derivative complaints in the United States. In Q2, we recorded income tax benefits, totaling $217,000. Non-get net income for the second quarter, which excludes the impact of stock-based compensation, acquisition-related cost, the acquisition-related fair value adjustment to inventory, and the amortization of intangible assets was zero or 2 cents per diluted share for the second quarter. This compares to non-GAAP net income of 6.7 million, or 23 cents per diluted share in second quarter fiscal 2024. Now turning to the balance sheet. At the end of Q2, our cash, cash equivalents, and restricted cash totaled 35.2 million, down from $40.8 million at the end of Q1. During the quarter, we used $5.9 million in operating cash flows, primarily to pay our suppliers and service providers. With a strong balance sheet, we continued to invest in scaling our business and pursuing new market opportunities. We have no debt and continue to allocate excess cash to money market funds. In the second quarter, we earned $228,000 in interest income. On October 15, 2024, We filed a new S3 registration statement with the Securities and Exchange Commission to support potential future financing needs. The new S3 shelf filing for $100 million was approved by the SEC on October 25th and is good for three years. Looking ahead to the remainder of fiscal 2025, which ends on May 30th, 2025, we are reaffirming our previously provided guidance. As Gay noted, we expect total revenue of at least $70 million with a non-GAAP net profit before taxes of no less than 10% of revenue. Lastly, looking at the investor relations calendar, Aehr Test will be participating virtually in the Needham Growth Conference on Thursday, January 16, 2025. We look forward to

connecting with many of you during this event. This concludes our prepared remarks. We now ready to take your questions. Operator, please go ahead.

Operator | Operator:

Thank you. At this time, we will be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions. Once again, please press star one if you have a question or a comment. And the first question comes from Christian Schwab with Greg Hallam. Please proceed.

Christian Schwab | Greg Hallam:

Hey, good afternoon, guys. So, Gabe, thank you for all the detail on all the different market opportunities. I guess the question – we only have one question. It's a question we get all the time, you know, is we've been at, you know, $65 million, $70 million here for three years now. And, you know, what year is kind of the inflection point of long-term sustainable growth? You kind of ended with a summary of all that. You felt confident, long-term sustainable growth. I'm just wondering, you know, do we start seeing strong top-lying growth rate next fiscal year, fiscal year 26 and beyond? And if we do, what does that top-lying, you know, growth rate look like? That's it. Thank you, Gaynes.

Gayn Erickson | President and CEO:

All right, Kristen. Well, as you know, and maybe not everyone else knows as well or understand, we have yet to give multi-year forecasts, which is kind of going to feel a little less than what you were asking for. But let me at least try and put it in perspective as well. We had been, if you go back and look at multiple quarters, we've been talking about some of these other markets. and alluding or being very direct about some of the expansion, whether it be us talking about the investments in the silicon photonics, our initial engagement with customers in GAN a year and a half ago that said we were evaluating them for production use in hopes that it would prove out that they need production burning, which we've now determined have. engagements with the flash memory. And we even, we were a little more guarded about it, but about a year ago, if you look at the notes, I was referring to another exciting application for a high power application for way below burning we were engaged in, which was actually the leading edge of the AI stuff. Those were markets that we saw driving our revenue, but candidly, most of the energy was, of course, about the silicon carbide and EV. We saw those markets easily driving for, you know, as we talked about AI, you know, these could be $100 million a year numbers. And flash memory is probably the largest among it, and DRAM larger than that. There are enormous opportunities in the space kind of as a whole in semiconductors. But, of course, we were seeing this year-over-year growth of, you know, 40%, 50% for silicon carbide, and that seemed to be where the focus was. So I've always tried to balance, particularly with our customers that still really need us for their silicon carbide ramps and their fabs they're putting in. We're not a banning in the silicon carbide. I think we have the most competitive solution, the best roadmap as well to continue to meet customers' needs. And we'll see that growth. We think that silicon carbide still has a lot of legs on it as we still anticipate 30% electric vehicles by the end of decade, of total vehicles being electric vehicles. It's just by contrast to all the craziness that was going on a year and a half ago, it seems quite more disappointing. So I think silicon carbide has a chance to grow next year from this year. I think the other markets for sure have a chance to grow year over year. We're still getting our arms around it and doing some introductions as we're taking the NCAL package for our burn-in production system and marketing around the world, and at the same time having conversations with customers about the wafer level. And we'll hopefully be able to give you more insight as to what that looks like. And, of course, we'll provide our annual guidance in our July release, which will

summarize the fiscal year as we head into fiscal year 26.

Christian Schwab | Greg Hallam:

Great. Thank you for that, Gane. No other questions. Thank you. Thanks, Christian.

Operator | Operator:

Up next, we have Jed Dorsheimer with William Blair. Please proceed.

Jed Dorsheimer | William Blair:

Hi. Yeah, thanks for taking my questions. Gane, despite the mess, backlog looks pretty strong. So I'm just wondering, you know, were there any tools on the shipping dock? Is this more of a timing issue? I'm guessing that it is, but I'm just curious if you could add any more color, and then I have some follow-up questions.

Don Richmond | CTO:

Yeah, they were on the shipping dock, very much so.

Gayn Erickson | President and CEO:

Yeah, we were quite frustrated. I don't want to get into it. This isn't the first nor the last time we had... I'll just say one or more customers because kind of narrowed down the two, asking for some concessions and things that just seemed quite unreasonable, recognizing it was the end of our fiscal quarter and we dug our feet in at the same time. But it's very interesting that, you know, here, you know, several weeks after the quarter or even right afterwards and now it's like, hey, I need you to ship ASAP. So We're still working on that expectation management with our customers around that. But yeah, these are, they're both orders for immediate shipments because we had pre-built them into it. And had we, you know, had we had either one of those orders ahead of time, you know, our quarterly number would have been significantly higher.

Don Richmond | CTO:

But it just moved into this quarter.

Jed Dorsheimer | William Blair:

Got it. And thanks for the color. Maybe to Christian's previous question, just but framed a little bit differently, if I kind of read the tea leaves in terms of all of the market details that you provided at the beginning, it sounds like the hard disk drive, I think for the hammer process product or platform, that's the biggest near-term driver of the business beyond, you know, X silicon carbide and that, but you've got a lot of different irons in the fire around AI and even HBM. So in my misunderstanding, I'm just trying to understand sort of near-term drivers that then potentially lead to, you know, inflection on future growth.

Gayn Erickson | President and CEO:

So we've never given, a lot of clarity on what the hard disk drive application is. I'll just leave it at that. No confirming or denying, okay? But realistically, if you look at our, so if you go through the numbers of our, just by the numbers, we did what, 26 something? We have 26 something in backlog. We have 75% almost to the dime of revenue scored and or backlog of the $70 million. So we have like 16, 17 million to go, I think, whatever the math is. We've identified what those customer opportunities are. There's upside and downside to kind of each one of those, like some of them could push out, et cetera. So it's always a challenge to try and put a number around it. You guys think this is easy, it's not with the granularity of our stuff. But near term, we've got some silicon carbide orders in our expectation for Q4. with some new customers. We've got more AI production, both in package part and wafer-level burn-in. I think both of those, all three of those, are probably bigger than the hard disk drive one in the near term. Over the next several years as they ramp out, the hard disk drive business looks to be really attractive, and there's some variation on some of the stuff we can't get into with respect to their forecast, but we're pretty happy with that, and they're very happy with us about that. application. You know, Flash, for sure, is kind of bigger than everything, although maybe the AI stuff will end up being bigger than Flash. We'll see how it plays out, but that's a year out, and we're not alluding to a timing of when the DRAM stuff comes, but... You know, it's pretty full plate. You guys, we're still, you know, you hear it all the time. We're still doing benchmarks. I mean, you know, Vernon and I will tell you, we've won customers that haven't placed orders yet for silicon carbide. It's a very interesting market and all the dynamics that are going on in there. You know, winners and losers and market share shifts between customers, between the customer's customers, different model years that we have a lot of insight into. and the implications of both China and also just cars going to modules versus discrete devices. There's just a lot of moving parts. But I try and use this 80-20 rule. Vern and I talk about Vern's our VP of sales for people that don't know. We try to talk about this all the time. We can't wake up every day and spend 80% of our time on silicon carbide. We've spent a ton of energy. We've got these great solutions. We've won these benchmarks. The customers need us to be there. But most of the days we wake up, we're focusing on these other market opportunities where we can really have an impact. And we'll let Adel, our VP of operations or COO, deal with manufacturing capacity. Just take the orders and ship them because we certainly bought the inventory against what we really believed a forecast was going to be there last year. bought the inventory against those forecasts from verbal forecasts from customers that have pushed out, we still think are going to come.

Jed Dorsheimer | William Blair:

Got it. One last question for me, and then I'll jump back in the queue, and maybe it's for Chris here. Just margins, gross margin took a steep decline. I'm assuming that that's mixed shift from the wafer packs to the In-Cal systems, Sonoma, but I'm just curious, do you expect Do you expect to be at these levels? You mentioned in backlog that you have some silicon carbide. I'm assuming some wafer packs there. How should we think about the normal margin levels? Certainly, to achieve your $70 million would imply

Chris Hsu | CFO:

uh you know getting a pretty big bump in uh in revenues how should we think about that for the rest yeah so you're correct yet so so as we talked about it before the incal products the gross margins is it's a little bit lower than what we have um in legacy air test systems and wafer packs so so the order you can think about it is the waiver packs always has the best and then the air test systems, and then would be the in-cow system. So it really depends on the product mix, even within in-cow, because, you know... And the in-cow consumables have... Yeah, consumables have lowered, too.

Gayn Erickson | President and CEO:

The other piece we haven't given a ton of... I think we may have said in early discussions around the in-cow acquisition. So we're at a good point right now. We, of course, do all these live, and you don't hear the construction in the background, but we're doing our remodel here. adding a huge amount of capacity capability out on the floor, clean room space, et cetera, before we move the in-cal products over. They're only a few miles down the road. But that whole team and the manufacturing will be in here, we think, completed by the end of our fiscal year. So it's only a few months out. That facility is also burdening our cost of sales, too. So that comes off our books by a year and a half. That's about a half a million dollars a year or something like that, too. So we'll get some goodness out of this thing. We don't really focus our energy on the goodness of the in-cow merger. Mostly it's the revenue opportunities and the customers, but there will be some operational efficiencies as well.

Jed Dorsheimer | William Blair:

Great. Thanks for the caller. I'll jump back in the queue. Thanks, guys. Thank you, Jed.

Operator | Operator:

Once again, if you have a question or a comment, please indicate so by pressing star 1 on your touchtone phone. The next question comes from Tom DeFilly with DA Davidson. Please proceed. Yeah, good afternoon, and thanks for the question.

Tom DeFilly | DA Davidson:

Again, curious what your view is of the Chinese market for silicon carbide if you are not successful in your pet infringement case. Is there still a market there for you?

Gayn Erickson | President and CEO:

That's a good question. Yes, I guess. I mean, there's kind of two things. One of them is the patent infringement case against these guys, and the other one is, you know, our competitiveness. And obviously, the trade-related things between the U.S. and China, particularly kind of recently, those are harder to get your finger on. The system, and you know, I want to be careful too much. That system that we've named in our 10Q, et cetera, it's not very good. I know that's pretty directed. We've had feedback from customers that it's not working very well. It has repeatability issues. It can't really do what we do, we have parallel advantage, we have number wafers, we have automation, we have a lot of capability. But nevertheless, we're not just going to put up with people trying to encroach on us and step on patents that we have in China, provided by the Chinese Patent Office, and so we're not going to put up with it. You know, there's two things. There's a legal aspect of this thing, and then there's just the flat-out competitiveness. And, you know, we have a team of people in China I think we've already talked about. I think we had 14 customers in China over time. One of them is waiting for the rest of their package part from air test. So we've done business in China for a long time. It's not our plan to change. It's just some of the uncertainties related to how to just trade things that make it a little harder to put your finger on, and we're just trying to be open with that with people.

Tom DeFilly | DA Davidson:

Okay. So, so maybe to summarize, if, uh, you know, worst case scenario, they're able to get away with whatever they've copied on their tool. Uh, you feel like you still have a pretty strong competitive advantage, uh, for both reliability and productivity versus their system as it is.

Gayn Erickson | President and CEO:

Um, we, we do, we do, you always have to be careful because people have roadmaps and we have roadmaps too. I don't want to get too carried away with that, but, uh, Yeah, that is the case. And again, it's very focused on silicon carbide. It has issues even testing gallium nitride. It doesn't do power semiconductors. So it's kind of a specific niche target at something. But nevertheless, we're taking it seriously, at least in China.

Tom DeFilly | DA Davidson:

Okay. And then your concern over the orders this year is the concern that you lose them competitively or that they get pushed out?

Gayn Erickson | President and CEO:

Well, there's always, you know, I worry about a lot of stuff, Tom. But in general, when we were trying to describe China, you know, we have some, you know, we have a production system in our plans, at least in those numbers. We also have other opportunities and things like that, too. But, you know, an ASP of our wafer low burn systems, which sets away from taxes, you know, several million dollars. And so if, you know, something happens and, you know, there's some regulatory thing that slows us down or precludes us or something. I don't know really how to handicap that. That's a new one for me. There's always the, they still buy us, but they don't take it by May. That's kind of the normal thing we've been dealing with. I mean, I think a lot of people understand. I mean, a lot of our shareholders are experts in semiconductor, semiconductor tap. I mean, semiconductors are in a downturn right now. I mean, outside of AI, there's a lot of – it's tough out there in automotive customers, et cetera. And so, you know, as those of us that have been here for a long time, this too shall pass. And, you know, if you look at it in the scheme of a couple-few-year window, you know, it always gets better. So, you know, sometimes we wake up and things have been pushed out. You know, you get a couple – you know, call from your customer and say, oh, can you help us with pricing, you know, because we're struggling and you're like, you are 50 times larger than I am. I'm not sure I can help you with your numbers, but we're here for you, you know, kind of thing. So there's just some of that in the background.

Tom DeFilly | DA Davidson:

Yeah. Okay. And maybe one last question on the flash market. When you look at the opportunity for you specifically, is that going to be driven by a technology change you in the chip or the package or What do you think really starts that market for you?

Gayn Erickson | President and CEO:

Yeah, I mean, flash memory, as actually, Tom, as you know from my history in HP Agile at Verigy, running the memory business there for many, many years, people refer to it as a treadmill. You get on it and you always have to keep going because the customers every two, three years are shipping more bits at the same price, so they have to always look at ways to be more and more cost-effective. That's true in their process

equipment, their front-end equipment, and their back-end equipment and test equipment. So there are things specifically on the NAND flash roadmap that in addition to just cost disconnects, meaning I've got to ship way more flash memory in four years than I am today, and my revenue is not going to be up 4x. How do I do it more cost-effectively? So that's sort of a commercial approach. There's also technical issues, and I was pretty specific in there to be clear. You know, these NAND devices are 3D stacked. They're not actually stacked. They're just printed, you know, several... I mean, NAND guys are out there, but they're all talking about 200-layer NAND. What that ends up being is you end up having way more power per device to think of, like, a 200-story building, and the amount of light... You know, when you light up the light on the first floor, that takes certain power. But when you have light on 200 floors, you have 200 floors of lights on. When you go to test, there are some test methodologies whereby you can do things by testing multiple floors at a time. But when you do that, all the energy is used as if you're lighting up all those floors. Whereas in normal application, you're reading and writing data only on one floor at a time. So the actual device in its application is using 1 200th of the power, but you could do test methodologies to test 20 floors at a time, but then you need 20 times the power. That's a thermal problem. That's a tester resource problem. Those are things we're really good at. So I'm trying to give you some hints there as to what's going on. So there's some technical disconnects that we are looking to address as well as the commercial side on the man side. And by the way, DRAM, I'll go into that too, just the whole HBM is super dynamic, and there's so many things going on with Spectre, because DRAM also needs to be burnt in. So how are you doing that again before you put it into an HBM stack onto a co-op package along with an AI processor? So I like where we're at right now. There's a lot of vectors pointing towards us right now.

Tom DeFilly | DA Davidson:

Great.

Operator | Operator:

Appreciate the color. Thanks, Ken.

Gayn Erickson | President and CEO:

Thanks, Tom.

Operator | Operator:

Once again, if there are any remaining questions, please press star 1 on your touchtone phone. The next question comes from Larry Shlebina with Shlebina Capital. Please proceed.

Larry Shlebina | Shlebina Capital:

Hi, Gane. I got a question on your recent $10 million win on the GPUs for the accelerator. I know you said that the potential market with the package part would be over $100 million a year down the road, but I'm looking at the wafer level portion of it if if i you said that that customer was not nvidia not the big guy it has over 90 percent market share so assuming it's the second largest which is i think around five percent and uh the 10 million represented two machines that would be like 30 possibly 40 um xps or just doing the gpus um is that the right way to look at that

Gayn Erickson | President and CEO:

Okay, so I don't want to help you with who that customer might be, so anyone listening, I'm ignoring you on that one, Larry. Yeah, the numbers are really big. You don't have to try very hard to fall out of bed and hit a $100 million number, and we're not trying to poo-poo that, but, you know, this gets into available, addressable timing of this. You know, it could be a lot bigger than that.

Larry Shlebina | Shlebina Capital:

Right. That's not really what I'm getting at. I'm actually getting at the next component on the accelerator, the HBM, high bandwidth memory. The current 12 stack, eight 12 stacks, if you do the math on the silicon involved, it's about six times the silicon in the GPUs currently. And they're talking about going to 16 high stacks later this year. with a roadmap to get to 24 high stacks next year, which would be 12 times the silicon. My point is, with your fine pitch wafer pack, it just seems like you ought to have a ready, very interested bunch of potential customers wanting to see if you could help them on their yield issues, that as they stack higher and higher, you could address that.

Gayn Erickson | President and CEO:

help them out when we talked a couple years ago and you know imagine DRAM and what was going on I would have and certainly did say that we thought that was something probably more towards the end of the decade because companies just weren't that motivated to try and figure out how to do you know DRAM wafer level burning compared to what they were doing and it's you know maybe it would take something else and you now you look at AI, which, you know, most of us weren't even talking about two years ago, right? And you look at these and it's like, wow, are you motivated now? So I agree with you in terms of the motivation to put in the DMT and local contest modes and to try and address this issue.

Larry Shlebina | Shlebina Capital:

I think part of the reason why HBM is more expensive than the GPUs is probably their terrible yields that they're experiencing, and hopefully you can help them out on that.

Gayn Erickson | President and CEO:

Well, on each stack, if you will, or each individual die, and then just, you know, I always have to remind people, the reason you do production burn-in is because things fail. It's not to make you feel good. As soon as they stop failing, you would stop doing it. So when I state, oh, people are doing a production burn-in of these devices, you have to recognize that means there is a non- There's a material number of failures that they do not want to ship to their customer. Every one of those takes out all those HBM stacks in the co-op subsidy, plus the package. So it's, you know, our whole premise about things moving to multi-tip modules that we've been touting for the last, you know, five, six, seven years with, you know, kind of the leading edge of what's going on with waiver level. At that time, we were struggling. You know, people were like, okay, which devices is that going to look like? And we kept saying they're coming. And because of Moore's Law is failing, failed or has fallen down, you now need to put multiple devices together and stack them up and put them side by side in order to get the functionality that used to just be done with a shrink of a wafer. So, yeah, more vectors heading our way there.

Larry Shlebina | Shlebina Capital:

Assuming this comes to pass, would you be able to handle all that demand through the capacity of potential capacity in Fremont? Is that even possible?

Gayn Erickson | President and CEO:

Well, for those that haven't attended us, especially with our new facility upgrades that we're doing right here, you know, we have, I mean, the manufacturing capacity I have here is bigger than I had at, you know, Verigy. So people might be shocked at that. So, you know, There's always ways of doing it. Keep in mind, we use subcontract manufacturers. In most cases, we have multiple suppliers of every subsystem. In many cases, one of the hard things is your printed circuit boards and your assemblies. That could be increased 100-fold if you need it without actually impacting our resources. So even though we do assembly tests here, What we do is just a small piece to control the final assembly and quality before it ships and we have some other tricks up our sleeves. So right now I have more capacity than demand. uh by a lot and we could increase our capacity significantly if we needed to for different market opportunities and and and when we bring customers through by the way that is very obvious when they walk when they come in and look at our facility they kind of go wow okay this is not you know this is not your typical derail burning company in terms of the capacity we have

Larry Shlebina | Shlebina Capital:

Well, you've got great opportunities. I'll be looking forward to seeing you accomplish them. Good luck.

Christian Schwab | Greg Hallam:

Thank you, Larry. Thank you.

Larry Shlebina | Shlebina Capital:

Thank you.

Operator | Operator:

Okay, I'm showing no further questions in the queue. I'd like to turn it back to management for any closing remarks.

Gayn Erickson | President and CEO:

Okay. Thank you, operator. Everyone, I appreciate your time here. I know we tried to cover a lot of detail. I hope to see you at one of the investor conferences, or if you want, please get in contact with our folks so we can set up a follow-on meeting to discuss your questions further. Until then, we'll see you next time.

Operator | Operator:

This concludes today's conference, and you may disconnect your lines at this time. Thank you for your participation.