NASDAQ:SKYT Q4 2025 Earnings Call Transcript

Generated on 11/25/2026

Aaron | Conference Operator:

Good morning. My name is Aaron, and I will be your conference operator for today. At this time, I would like to welcome everyone to the Skywater Technology fourth quarter 2024 financial results conference call. All lines have been placed on mute to prevent any background noise. After the speaker's remarks, there will be a question and answer session. And if you would like to ask a question during that time, simply press star, followed by the number one on your telephone keypad. If at any point you would like to withdraw your question, you can just press star followed by the number one again. And we do ask that you please limit yourself to an initial question and then a follow-up question when you are given the opportunity to speak. Thank you. With that, I'm pleased to turn the call over to Claire McAdams, Investor Relations for Skywater.

Claire McAdams | Investor Relations, Skywater:

Thank you, Operator. Good morning and welcome to Skywater's fourth quarter 2024 conference call. With me on the call today from Skywater are Thomas Sonderman, Chief Executive Officer, and Steve Manko, Chief Financial Officer. I'd like to remind you that our call is being webcast live on Skywater's Investor Relations website at ir.skywatertechnology.com. The webcast will be available for replay shortly after the call concludes. On the events page of our IR website, we have posted a slide presentation that directly accompanies today's call. Also posted is our financial supplement, which summarizes our quarterly and annual financial results for the last three years, including all non-GAAP adjustments and comparisons to our GAAP results, as well as the impact of tool sales on our gross margins. During the call, any statements made about our future financial results and business are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially. For a discussion of these risks and uncertainties, please refer to our filings with the Securities and Exchange Commission, including our earnings release filed on Form 8K today and our Fiscal 2023 Form 10K. All forward-looking statements are made as of today, and we assume no obligation to update any such statements. During this call, we will discuss non-GAAP financial measures. You can find a reconciliation of these non-GAAP financial measures to GAAP financial measures in our earnings release, our financial supplements, and in our Q4 earnings presentation, all three of which are posted on our IR website. Also on our IR website events page, you'll see that we plan to participate in the inaugural B. Reilly Quantum Computing Day, a virtual investor event taking place on March 7th. Please feel free to contact me directly for any investor follow-up requests. And with that, I'll turn the call over to Tom.

Thomas Sonderman | Chief Executive Officer:

Thank you, Claire, and good morning to everyone on the call. Turn to slide three. Along with our earnings release this morning, we announced our planned acquisition of Infineon's FAB25 in Austin. I'm incredibly excited to share that Skywater is expanding its domestic manufacturing capabilities through the acquisition of this high-volume 200-millimeter FAB, an essential part of our long-term strategy to become the leading pure-play domestic foundry service provider for foundational semiconductors by the end of the decade. Fab 25 has long been one of the largest 200-millimeter U.S. manufacturing sites, providing over 30,000 wafer starts per month of domestic supply of foundational semiconductor devices. This marks a significant milestone in our company's journey, one that will shape our future in a powerful way. Before I walk through the Fab 25 acquisition, I'll first provide a recap of our Q4 and fiscal 2024 results as well as our outlook for the year ahead. Turn to slide four. I'm pleased to announce strong financial results for the fourth quarter, which

exceeded our expectations for gross margin and profitability. Total revenue topped $75 million toward the upper end of guidance. With tools revenue of $12 million, our combined ATS and wafer services business generated $64 million of revenue, which was modestly stronger than expected. The upside reported today in earnings, both for Q4 and the full year, was largely driven by several gross margin tailwinds occurring late in the year. Reported gross margin of nearly 27% in Q4 exceeded the high end of our guidance range, driving 4 cents positive EPS for the quarter and contributing to full year positive earnings of 6 cents per share for fiscal 2024. Turn to slide 5. Full-year revenues totaled a record $342 million, up 19% from fiscal 2023. Consistent with our expectations throughout the year, our ATS business delivered strong 13% revenue growth compared to 2023, while our waiver services business declined significantly due to prolonged weakness in the automotive and industrial segments. The most significant in-market strength in 2024 was in the aerospace and defense sector, where we have established an essential trusted position to provide critical semiconductor capabilities domestically. During the year, we witnessed the expansion of multiple critical programs, which altogether drove the majority of our ATS revenue growth for the year. Our second largest end market in 2024 was Advanced Compute, where we are engaged with multiple well-funded customers, driving advancements in next-generation computing. Over 90% of our advanced computing revenues in 2024 were related to quantum computing technologies, with customers like Psi Quantum and D-Wave, among others. With the decline in wafer services, revenue from the automotive market was down for the year, while biohealth grew. In 2024, we saw an unprecedented level of customer-funded CapEx investments, resulting in a record $77 million in tools revenue recognized for the year. Turn to slide six. This level of CapEx co-investment is highly beneficial for our business. It not only reflects our customers' long-term commitment and partnership, but also significantly reduces our own capital funding requirements. This allows us to strategically align and expand our capabilities and capacity to support the programs, platforms, and products that we expect will drive future growth. Since last quarter, we also announced our preliminary CHIPS award for the modernization of our Minnesota FAB in conjunction with matching funding from the state of Minnesota. As we've consistently communicated since the CHIPS Act was announced, we see this funding as an accelerant of our growth plans, enabling us to pull in our planned investments and accelerate the revenue growth we can achieve here in Minnesota. We previously communicated a total of $320 million of outside co-investment planned for the period spanning 2020 to 2026, And this recent development now brings that total to over $350 million, which we believe is a greater amount of outside funding for a semiconductor business relative to our size witnessed in our industry today. I'll now review some of the other recent positive developments in our business and share our outlook for the year. Turn to slide seven. First, I'm very pleased to introduce the production launch of ThermaView Solutions, Skywater's first category-specific brand dedicated to readout IC and microblometer solutions for thermal imaging applications. We announced the launch in January with support from Raytheon Vision Systems, a key customer engaged with us to develop next-generation thermal imaging technologies. With the increasing demand for advanced infrared sensing, ThermaView positions Skywater as a key supplier in a rapidly growing $9 billion market. spanning defense, industrial, and medical applications. Our engagement with top-tier defense customers reinforces Skywater's role in delivering trusted U.S.-based semiconductor solutions for mission-critical applications. This initiative also strengthens our strategic focus on growth markets while driving opportunity for the long-term revenue expansion of our wafer services business. In 2024, we announced multiple conversions from ATS to wafer services. We expect 2025 will mark a significant milestone as wafer service revenue returns to growth, driven primarily by new products, including both additional ATS conversions and the ThermaView production platform. In 2024, wafer services revenue was composed roughly of 90% legacy products and 10% new products. In 2025, new products are expected to account for approximately 60% of wafer services revenue, with legacy products making up the remaining 40%. We anticipate that new products will continue to be the primary driver of wafer services growth moving forward here in Minnesota, and we expect this trend to accelerate over time. Turn to slide eight. Additionally, our advanced packaging business is expected to become another growth vector for Skywater in 2025. We expect revenue to grow throughout the year with a significant increase in the second half of 2025. As a reminder, we are executing a $120 million contract to develop a fan-out wafer-level packaging platform at our Florida facility. This funding is allocated to tool purchases, process development, and integration. We anticipate tool deliveries and installations will begin around mid-year, driving an initial ramp in tools revenues. As these tools are qualified and released to production, we expect ATS revenue to begin ramping in late 2025

and continue climbing through 2026. Turn to slide nine. Before discussing today's VAT 25 announcement, I will share our outlook for Skywater's standalone business for the year, independent of the addition of VAT 25, which we anticipate closing around mid-year. We are driving for a growth year for our combined ATS and wafer services business in 2025. With our current visibility, our revenue forecast for the year reflects modest year-over-year growth in both ATS and wafer services. We expect ATS growth this year will be supported by revenues from advanced packaging, strategic A&D programs, and quantum computing, while wafer services growth is anticipated to come from new ATS conversions as well as our ThermoView production platforms. With ongoing continuing resolutions, extended budget negotiations, and the expected timing of program allocations, we are taking a conservative view for the year. Our expectation today is for combined ATS and waiver services revenue growth of approximately 5% in 2025, plus or minus 2%, compared to $266 million of revenue in 2024. Our latest estimate for 2025 tools revenue currently indicates approximately $30 million this year, mostly centered around Florida and weighted to the second half of the year. We expect the most important aspect of our financial performance for the year ahead will be the expansion of our gross margin profile, as Steve will describe in a few moments. For Q1 specifically, with the U.S. federal government budget operating under a continuing resolution, we are likewise taking a conservative view to ATS revenues in the first quarter in advance of an expected rebound in Q2. With new products beginning to ramp, we forecast wafer services to improve to nearly $6 million in the first quarter. The expected ATS rebound in Q2 indicates at least 15% sequential growth from Q1, followed by a significantly stronger second half of 2025. We expect continued sequential growth in Q3 and Q4, and importantly, our advanced packaging business will begin to contribute to ATS growth late in the year, all of which supports our objective to return to profitable results in the second half and to report slightly EPS-positive results for the full year. Now turning to today's exciting news regarding our planned acquisition of Infineon SPAB 25 in Austin. Turn to slide 11. Since the formation of Skywater, we have successfully transformed foundational semiconductor IDM assets into a high-value foundry infrastructure, enabling custom technology development and high-margin wafer services. This acquisition represents a transformational milestone in that strategy. Turn to slide 12. FAB25 is a highly capable 200-millimeter FAB expected to contribute approximately $300 million of annual wafer services revenue to our revenue profile. Our revenue is secured by a four-year strategic supply agreement with Infineon. We believe our acquisition structure is capital efficient, consisting of an $80 million purchase price plus the assumption of working capital. Of the $80 million, we intend to pay a total of $55 million in cash at closing, funded by new senior secure debt financing, with the remaining $25 million deferred to year four. We expect this transaction to generate immediate incremental free cash flow and a strong adjusted EBITDA, further reinforcing Skywater's path to long-term profitability. Turn to slide 13. This combination is expected to strengthen our financial foundation, providing a meaningful and stable incremental free cash flow by expanding our technology portfolio with 65-man-meter production, high-volume copper interconnect, and process capabilities to support high-voltage products. Turn to slide 14. We will more than double our workforce in the U.S. with fabs located in three strategic manufacturing centers, Minnesota, Florida, and Texas. Strategically, this acquisition is expected to balance Skywater's revenue mix, moving towards a more evenly balanced ATS and wafer services business, while expanding our total addressable market by more than $3 billion. Turn to slide 15. The demand for U.S.-based 200-millimeter manufacturing remains strong, supported by industrial, automotive, and defense customers seeking secure domestic supply chains. There's no question that we are in the midst of a major reshoring effort for U.S. semiconductor production, providing additional tailwinds for this transformative business combination. Turn to slide 16. As we transition FAB25 from an IBM to a customer-driven foundry model, we will work closely with Infineon to ensure a seamless handoff while leveraging the FAB's highly skilled workforce to expand Skywater's service offerings. We expect this model will allow us to introduce new platforms that align with long-term industry trends while scaling both 200-millimeter and advanced packaging to capitalize on the next industry upcycle. Importantly, this business combination is expected to make Skywater one of the largest domestic providers of 200-millimeter wafer-founded capacity for foundational devices. Turn to slide 17. By transitioning FAB25 to a high-value foundry services model, optimizing capacity utilization, and integrating our technology-as-a-service approach, we expect to drive continued profitability improvements over time. In addition to a multitude of strategic benefits, we believe this acquisition solidly positions Skywater on a long-term path to exceeding 30% gross margin performance as a leading domestic foundry for foundational 200-millimeter devices. Furthermore, we

feel Skywater is uniquely positioned to lead this IBM to Foundry transition in the U.S. for other foundational semiconductor fabs. At this time, we anticipate 90 to 120 days until closing. We are planning a capital market stay for our analysts and investors subsequent to closing in order to provide more detail regarding the financial benefits of the acquisition, as well as our longer-term strategic vision for Fab 25. In the coming months and quarters, we will continue to provide more details on our integration roadmap and customer expansion plans. I will now turn the call over to Steve.

Steve Manko | Chief Financial Officer:

Thank you, Tom. I'll first review our resulting guidance before discussing the financial highlights of the FAB25 acquisition. Turn to slide 20. Fourth quarter total revenue of $75.5 million came in at the upper end of our guidance range. Combined ATS and wafer services revenue was $63.8 million, above the midpoint of expectations and up slightly from Q3. Tools revenue was $11.7 million. Turn to slide 21. For the full year, 13% revenue growth in another record year for our ATS business was primarily driven by strong A&D demand and our growing business serving multiple quantum computing customers. The decline in wafer services revenue was primarily due to continued weakness in the broader automotive and industrial markets, while record tools revenue marks an unprecedented period of customer-funded CapEx co-investment. Slide 22. Our Q4 gross margin exceeded our expectations at 26.6%. Our Q4 gross margin guidance of 21% at the midpoint equated to an effective 24% margin expected for our combined ATS and wafer services business in Q4, and we did quite a bit better than that. First, tools added more gross profit than usual and impacted gross margin by only 170 basis points in the quarter. The effective 28.3% gross margin for our combined ATS and wafer services business in Q4 was therefore about four percentage points higher than expectations, primarily due to roughly $2 million of cocktail wins, which we'll not repeat, as well as additional cost savings and cost referrals into 2025. Turn to slide 23. Turning to the full year summary, our 2024 gross margin was 21% compared to 22% in 2023. The record level of tools revenue in 2024 negatively impacted gross margin by 480 basis points compared to only 50 basis points in 2023. Therefore, the gross margin performance for a combined ACS and Wafer Services business increased over 300 basis points from 22.5% in 2023 to 25.8% in 2024. Turn to slide 24. Turning to adjusted EBITDA, the gross margin tailwinds that were unique in Q4 similarly resulted in adjusted EBITDA performance exceeding expectations at over $10 million in Q4. Q4 operating expenses were aligned with forecasts at $14.8 million. Also note that interest expense was lower than expected for Q4 as customer cash advances for tool purchases helped reduce in-record or borrowing levels on a revolver. Slide 25. Adjusted EBITDA for the whole year was $34.3 million, or 10% of total revenue. We closely managed operating expenses in 2024, which for the year were $56 million, up just 2% from 2023. Turn to slide 26. Turning to the longer-term trend for net income, T4 EPS was positive at $0.04 per share, exceeding our guidance range primarily due to the gross profit upside as well as a lower-than-expected interest expense. We were also slightly profitable for the full year with $0.06 positive EPS. Turn to slide 27. Now turning to the balance sheet, we ended 2024 with total cash of $19 million, up slightly from a year ago. 2024 was our second year of strong positive cash flow from operations at over $15 million in 2024, compared to $10 million in 2023. The P&L generated approximately $25 million of positive cash flow, roughly equal to adjusted EBITDA, less interest expense. And our net working capital investment was about $10 million. Our total debt balance was $67 million at year end, a net increase of approximately $5 million over the year. With the total sources of cash generated from operation and net draws on our revolver, we used $18 million for CapEx investments. We successfully amended our loan agreement in November, increasing the line to $130 million with an additional $30 million accordion feature and extending the term to year-end 2028. Our lenders have been strong financing partners for Skywater. and they are also working to commit the anticipated new $150 million credit facility that will fund the upfront cash payment to acquire FAB25, any ongoing working capital and maintenance cap-back needs related to FAB25, as well as the transaction fees and expenses. I'll turn to slide 28. Turning to our outlook. Based on full-year revenue expectations Tom discussed earlier, reflecting modest growth in combined ACS and wafer services revenue, and approximately $30 million in tools revenue, we expect significant expansion of our gross margin profile in 2025. As discussed earlier, our combined ATS and wafer services business generated nearly 26% gross profit margin in 2024. Our current

forecast reflects gross margins on the core ATS and wafer services business expanding into the 30s in the second half in order to result in high 20s gross margin for the full year. Again, this is the expected range for combined ACS and wafer services portion of our revenues. We expect little to no gross profit on tools revenue in 2025, which, as Tom mentioned, is also highly second-half weighted. We expect close to a 300 basis point negative impact of tools revenue on our gross margin for the full year. Therefore, our expectation for reported non-GAAP gross margin for the full year is in the mid-20s, or the 23% to 27% range. This is our forecast for non-GAAP gross margin for the full fiscal year of 2025 before any contribution from Fab 25. We expect the expansion of our gross margin profile as we move through 2025 will result in profitable results in the second half and for the full year, slightly positive non-GAAP EPS and strong adjusted EBITDA of at least 10% of total revenue. These expectations assume an increase in total non-GAAP operating expenses for the year, in the range of 10 to 15%. We expect a similar level of combined interest tax and VIE for 2025 as reported for 2024. Turning to Q1 guidance. Given the dynamics Tom discussed earlier, we are taking a conservative view to the quarter with an expected range of $59 to $63 million in total revenue, consisting of nearly $6 million in wafer services revenue, about $1 million in tool revenue, and a range of $52 to $56 million in ATS revenues in advance of a rebound in Q2. Given these assumptions, our gross margin guidance for Q1 is in a range of 19 to 23%, with a negligible impact from tools. We expect Q1 operating expenses of approximately $15.7 million, plus or minus $200,000, $2 to $2.5 million in interest expense, and $1 million in income from variable interest entities, or an expected EPS loss for the quarter in the range of $0.10 to $0.16 per share. Based on our outlook for the full year, we expect a strong rebound in financial results for Q2 and continued sequential improvement in both Q3 and Q4. Now turn to slide 29. Now turning to the financial implications of the BAP25 acquisitions. We've outlined here in our preliminary expectations for the full year, and next to that, the expected annual contribution from FAB25. As a reminder, the transaction includes a four-year supply agreement, and therefore, the annual contribution is expected to remain fairly similar to what we've outlined here throughout the duration of the four-year supply agreement. The near-term implications are strongly positive for our revenue, adjusted EBITDA, and free cash flow generation. The supply agreement is expected to generate approximately $40 million annually of cash gross profit dollars. We expect this amount will be more than sufficient to cover the additional op-ex and interest expense associated with the acquisition, as well as annual maintenance cap-ex for the FAB. This means that we expect the combination to be immediately accreted to adjusted EBITDA and to generate positive cash flow from operations and free cash flow from the outset. However, purchase accounting rules dictate that we must record depreciation expense for the fair market value of the FABs. Given our estimate of a fair market value of over $300 million, this equates to approximately $24 million annually in purchase accounting depreciation, which will continue to impact our reported financials much in the same way as our own purchase accounting depreciation did before it rolled off in Q1 2024. Turn to slide 30. As Tom mentioned, leveraging everything we've built as a technology foundry and now having the ability to significantly ramp and scale is essential to our long-term growth strategy. As you look at the implied diversification of our revenue mix through this combination, you will see both a more balanced mix of ATS and waiver services revenue going forward, as well as a much more balanced end market mix as we integrate FAB25 into our financial results. And with that, I'll turn the call over to Q&A. Operator, please open the line for questions.

Aaron | Conference Operator:

Thank you. Ladies and gentlemen, once again, if you would like to ask a question for today, remember to hit star followed by the number one on your telephone keypad. And if you wish to withdraw your question, it's simply to hit that star followed by the number one again. Our first question is from the line of Chris Sankar with TD Cohen. Your line is live.

Chris Sankar | Analyst, TD Cohen:

Yeah, hi, thanks for the good question. I feel the first one, Steve, just wanted to clarify something. You said that the FAP 25 would be $40 million in gross profit dollars from the vapor supply agreement. Is this fair to assume all of FAP 25 output is going to be through the vapor supply agreement? Because based on slide 29, it looks like gross margin percentage is going to come to mid-teens from the standalone sky water, which is in the mid-20s.

Thomas Sonderman | Chief Executive Officer:

Yeah, the initial supply agreement, of course, is to provide Infineon with the products that they're getting today. The goal, of course, is to diversify that over time as we bring in new ATS business, other transfers tied to repositioning business through dual sourcing strategies here in the U.S., and, of course, bringing new customers and new designs in based on the unique technologies we're going to offer. But the agreement is to provide Infineon with the output they're getting today, which is running essentially at what they would define as full capacity for the upcoming multi-year terms of the agreement.

Chris Sankar | Analyst, TD Cohen:

Gotcha. So is it fair to assume for the combined company or the fab, post-acquisition, the customer revenue profile, Infineon will become your largest customer again?

Thomas Sonderman | Chief Executive Officer:

Yeah, absolutely. And, you know, Infineon has been a strategic partner with RFAB in Minnesota, and now they will become a much bigger strategic partner. And our ability to quickly, you know, rebalance our ATS to wafer services business with a secure supply agreement over time allows us to not only drive diversification, but capture what we believe is a very strong tailwind to reposition our foundational devices here in the U.S.

Chris Sankar | Analyst, TD Cohen:

Got you. And then two other quick questions. For Fab25, where is the backend being done? Is it done with the OSAS, or do you think that's an opportunity for your Florida fab?

Thomas Sonderman | Chief Executive Officer:

Yeah, today Infineon uses the traditional OSAS and maybe internal capabilities to do backend assembly tests. Of course, by bringing up capabilities that we have in Florida, I wouldn't say a direct connect because of the products they make here aren't really using advanced packaging. But over time, and as AP and heterogeneous integration grow, chiplet technology evolves, there's certainly opportunities for us to fabricate ASICs that could go into AP, you know, fan-out-based solutions here in this fab in Texas.

Chris Sankar | Analyst, TD Cohen:

Gotcha. And then a quick housekeeping for Steve. You mentioned advanced computers are number two in markets. with over 90% earned by quantum, how much is quantum in either Q4 of all of calendar 24 as opposed to your revenues?

Steve Manko | Chief Financial Officer:

Yeah, it would fit that mix. So it was about 10% there. So we give the pie charts that you see in that slide presentation that give a pretty good indication of where we are. You know, that business has been strong for us in growing. We can only talk about the two customers that we have listed there. But, again, there's been a lot of development work in that space, and because of the customization that we offer, that's why Skywater is a good place to develop your quantum computing technology.

Chris Sankar | Analyst, TD Cohen:

Got it. Thanks, Tom. Thank you. Congrats on the acquisition.

Aaron | Conference Operator:

Yeah, thank you. Thanks for your questions. Ladies and gentlemen, once again, if you would like to ask a question for today, remember it is star followed by the number one in your telephone keypad. Our next question is from the line of Harsh Kumar with Piper Sandler. Your line is live. Thank you.

Harsh Kumar | Analyst, Piper Sandler:

Yeah. Hey, guys. Congratulations from my end as well on FAP25. Tom, I had a quick question. You gave us a little few specs about FAP25, 65 nanometer, 200 millimeter vapors. Could you tell us about What kind of products you could run for other people? Is it mostly industrial automotive or are there other applications that could be had for you from FAB25 down the line?

Thomas Sonderman | Chief Executive Officer:

Yeah, great question. And, you know, you just reiterated our strategy. You know, if you look at the FAB, it has today a 130 nanometer mixed signal HX technology with copper interconnect. what we call internally S8. We have a similar technology in Minnesota with aluminum back end. That technology is very much suited for ASIC designs, various types of applications that have been really manufactured in this facility and the one in Minnesota for many years. What we're going to be able to do is take the capabilities we created with our design enablement foundation and apply that to not only ASICs, but with the BCD capabilities the FAB has, also move into PMICs and other microcontroller opportunities will be out there. The FAB today makes NOR flash, so we have those capabilities. But what's really exciting is the 65 nanometer dimension that we can now bring to the 200 millimeter foundry space. Today, most 65 nanometers, if not all, certainly in the foundry space, is done on 300 millimeter. And we believe there's a real market at 65.

Steve Manko | Chief Financial Officer:

There's a little bit more detail on the technologies and end-user applications on slide 13. I know the information was coming out pretty fast and quick today. But if you want to refer to slide 13, there's more detail there on the technologies. And also, I want to make sure we highlight, we think through this acquisition. our SAM actually expands by $3 billion. So pretty exciting for the long-term growth of the company.

Harsh Kumar | Analyst, Piper Sandler:

No, absolutely. Thanks for that, Steve. And then quick follow-up there. You're ready for services, look like it's bottoming, and then you'll get this big boost from FAT25 as you go back to Infineon. If I had to put you in a spot and say, like, let's say that a year from now, what would be the mix between ATS and And waiver services, do you anticipate, Tom or Steve, that it will be 50-50? Or do you think maybe just give us some color on how you see this transitioning?

Thomas Sonderman | Chief Executive Officer:

Yes. So, again, great question. The growth that we anticipate in Minnesota, again, we think Q4 was the bottom. We'll see growth off of that, which we, you know, communicated in our prepared remarks. you're going to continue to see that occur to what we believe similar levels from a total revenue perspective compared to last year where we ended up. But the mix, again, is going to be much more towards new platforms, new customers with higher ASPs. So that number will be growing. And, of course, we'll be taking on the volume down here, which will obviously generate fairly predictable revenue, the $300 million a year revenue. that assumes just the Infineon revenue. As we integrate other capabilities over time, we expect that to also start expanding. But right now, just think of it as $300 million coming out of this FAB and then growth similar to last year. And then the growth we projected for overall wafer services and ATS without FAB 25, basically 5% plus or minus 2%.

Steve Manko | Chief Financial Officer:

I just want to summarize that. We will be more wafer services loaded, would be my expectation. We showed that in the slide presentation. Again, given the amount that's coming through with VAB 25, I don't want to lose focus on what was planned for 2025. 2025 was a critical year in Skywater, Minnesota as well with a lot of new technologies being qualified and moving into wafer services like we talked about. So it's a very transitional and transformative year for the Minnesota FAB as well with the new technologies moving into wafer services. So you won't see the biggest splash in numbers like we are with the wafer services in FAB 25, but you will see a better mix with wafer services in Minnesota would be our expectation for 2025.

Harsh Kumar | Analyst, Piper Sandler:

That's fair, guys. Thank you and congratulations again. Looks like a great deal for you guys. Thank you. Thank you.

Aaron | Conference Operator:

Thanks for your questions. Our next question is from the line of Quinn Bolton with Needham. Your line is live.

Nick (on behalf of Quinn Bolton) | Analyst, Needham:

Hey, guys. This is Nick on for Quinn. Congrats on the scale expansion. What kind of details can you give us on the supply agreement? Are there take-or-pay contracts built in, and how fungible is that capacity? If their demand is weaker than expected, are you able to start filling the FAB with potential ATS or wafer services at any point in those four years? Thanks.

Thomas Sonderman | Chief Executive Officer:

Yeah, again, great question. I appreciate that, you know, diving into the really important aspects of why this is a, you know, very important transaction for Skywater. The whole idea of doing this is to have not only a secure supply agreement, but parameters, as you said, like take or pay. Our goal is to run the FAB, you know, at full utilization, far and finian, through the multi-year period. Of course, as we drive efficiencies, there are going to be opportunities for us to leverage additional capacity within the FAB. We believe that is doable, and we plan to do that. But in terms of the ability, if Infineon, for some reason, was not wanting to run at the current levels they're running at, there would certainly be opportunity to backfill that. But we don't anticipate that happening. We expect to do what we're doing today, execute extremely well, far Infineon, while adapting businesses. And then as the the multi-year agreement begins to expand or expire, we'll certainly be bringing other customers to backfill and eventually we'll move to market pricing for not only Infineon when the agreement expires, but also for all those new customers. And that's where we really see the ASP expansion that we believe we can deliver because of the unique differentiated technologies as well as the fact that we'll have significant scale for domestic sourcing of foundational semiconductors.

Nick (on behalf of Quinn Bolton) | Analyst, Needham:

Thanks. And you had the really strong combined ATS and wait for services gross margin this quarter. And you talked about some cost savings, some were one time and it sounded like some were going into 2025. did the combined upside of gross margin at 28% come from the wafer services piece, and can that momentum continue in 2025?

Steve Manko | Chief Financial Officer:

Yeah, good question. So it was a combination of really the ATS mixed of the business as well as some of the cost deferrals and reductions that we talked about. So there will be a little bit of it that repeats. But again, with the guidance that we provided, we don't expect it to be at those same levels in the fourth quarter. And it really was not in the fourth quarter driven by the waiver services business.

Unidentified Speaker | Unidentified:

Understood. Thanks.

Aaron | Conference Operator:

Thanks for your questions. Our next question is from the line of Richard Shannon with Craig Hallam. Your line is live.

Richard Shannon | Analyst, Craig Hallam:

Well, hi, Tom, Steve. Thanks for taking my questions as well. I guess my first question is one of your prepared remarks about judging down your yearly outlook here based on, you know, Department of Defense program and budget cycles here. I guess I'd love to get a sense of two things. First of all, to what degree or any way you can characterize how much you've judged the year down And then maybe is there any inside baseball understanding, you know, the conservatism here? We obviously see some headlines. I think there's some questions about what the Trump administration is doing with the defense budget this year. Maybe you can kind of peel the layer back a little bit, please.

Thomas Sonderman | Chief Executive Officer:

Yeah. Hi, Richard. And I, again, think that we're all seeing, you know, the dynamics that are playing out as we move in with the new administration. You know, the first thing I'll say is the programs that we are involved with are not only critical to national security, but we believe that they are funded and will continue as we expect. There are just dynamics related to a change in administration and the timing of when we can actually move beyond continuing resolutions and get to actual budgets. Right now, everything's kind of frozen up. And so we just decided, given these dynamics and some lessons from the past that we were going to take a conservative approach as we looked into the year. Of course, as the year unfolds, we're seeing, you know, more and more momentum built, you know, building back into our ATS business. So it's really just, you know, making sure that we understand the dynamics we control, the things we don't control, and we're taking a conservative approach with the, you know, 5% overall growth for the ATS and waiver services business that we have, you know, currently in the business.

Richard Shannon | Analyst, Craig Hallam:

Okay, fair enough for that. Second question is related to the Infineon FAB purchase here and following up on one of the prior questions here. I think you said that you're running this FAB with full utilization now, but you're expecting to get some efficiencies. I guess maybe if you can describe what those inefficiencies were in the past, how are you going to prove them, and how much and how fast will this provide some excess capacity that you could run new revenues from?

Thomas Sonderman | Chief Executive Officer:

Yeah, again, there's many vectors. And as we get further down the road, I think we can provide those, you know, as we mentioned in our capital markets day. But the whole idea, of course, is we have built a very strong ATS business in Minnesota. We have an AP business that's emerging. And now we have the capability to bring scale, not only for existing ATS customers, future ATS customers, but customers that want to leverage the very unique capabilities we have in this fab. So, as we convert from an IDM to a foundry, and this is something I've been through multiple times in FABs, you get efficiencies because you bring in a multi-customer environment, and we believe having ATS as a starting point allows us to start engaging with customers really almost immediately as they begin to consider how they can leverage these assets that we've now expanded through FAB25 in a way that gives them differentiation. And the fact that there are a lot of companies out there wanting to re-look at U.S.-based supply chains and us having a foundry offering as opposed to today where FAT25 only serves Infineon, we believe is a great opportunity for us. So it's really just building off the model we've created. We now have a scale. We have the ability to drive efficiency synergies and bring leading-edge foundry capacity to the U.S., for CMOS, you know, related devices.

Unidentified Speaker | Unidentified:

Okay. Fair enough. Thank you, Tom.

Aaron | Conference Operator:

Thank you for your question. Ladies and gentlemen, last call. If you would like to ask a question today, remember it is star followed by the number one on your touchtone keypad. We'll give you just a couple seconds here if there is and are any further questions. And it looks like that is going to be it for today. So, ladies and gentlemen, that will conclude our Q&A session for today. And I would like to turn it back over to Mr. Sonderman for closing comments.

Thomas Sonderman | Chief Executive Officer:

Thank you, Operator. As we wrap up today's call, I want to express our unwavering confidence at Skywater and our ability to achieve long-term growth and profitability. We are committed to earning your trust through our executions. We look forward to sharing more updates during our Q1 earnings call in early May. Thank you, and this concludes today's call.