

NASDAQ:VECO Q2 2025 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the VECO Q2 2025 earnings call. At this time, all participants are in a listen only mode. A brief question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star then zero on your telephone keypad. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Anthony Popone, Head of Invest Relations. Thank you, you may begin.

Anthony Popone | Head of Investor Relations:

Thank you and good afternoon everyone. Joining me on the call today are Bill Miller, VECO's Chief Executive Officer and John Curran, our Chief Financial Officer. Today's earnings release and slide presentation to accompany today's webcast is available on the VECO website. To the extent that this call discusses expectations for future revenues, future earnings, market conditions, or otherwise make statements about the future, these forward looking statements are based on management's current expectations and are subject to the risks and uncertainties that could cause actual results to differ materially from the statements made. These risks are discussed in detail in our form 10K annual report and other SEC filings. VECO does not undertake any obligation to update any forward looking statements, including those made on this call to reflect future events or circumstances after the date of such statements. Unless otherwise noted, management will address non-GAAP financial results. We encourage you to refer to our reconciliation between GAAP and non-GAAP results, which you can find in our press release and at the end of the earnings presentation. With that, I will turn the call over to our CEO, Bill

Bill Miller | Chief Executive Officer:

Miller. Thank you, Anthony. VECO delivered strong financial performance, exceeding the high end of our guidance, revenue totaled \$166 million, non-GAAP operating income of \$23 million, and non-GAAP EPS of \$0.36. Our semiconductor business posted another robust quarter highlighted by record revenue for our advanced packaging systems. This revenue was driven by growing demand from AI by a broad base of customers, including leading foundries and OSATs. Additionally, we had increased revenue for our ion beam deposition systems for EUV mask blanks and continued demand for our laser spike annealing systems with shipments to leading customers supporting GAAP all around and high bandwidth memory applications. I'll now provide an overview of our role in the semiconductor manufacturing process and an update on key technologies. VECO technologies remain critical for several leading edge semi-manufacturing process steps. VECO is a market leader in laser annealing with our laser spike annealing system qualified as production tool of record for leading logic customers and one tier one DRAM customer. Our next generation nanosecond annealing system expands our capabilities to enable new applications and we're pleased to report our evaluations that advanced logic customers are progressing well. Equally as important, interest from additional logic and memory customers to evaluate our NSA system remains high. VECO is also the market leader for deposition of defect free films for EUV mask blank production with our IBDEUV system. Our ion beam deposition technology is critical to the industry's roadmap and we're in a strong position to support demand for EUV lithography. We also see opportunities to expand our business into adjacent mask blank steps. Growth in AI is accelerating the adoption of new technologies and materials that enable continued device scanning and address the increasing demand for energy efficient compute performance. As device geometry shrink, traditional approaches are falling short of meeting resistivity requirements, prompting customers to

evaluate new solutions to tackle these high value challenges. VECO's IBDE300 system, which is currently being evaluated by two DRAM customers, differentiates itself from traditional technologies through its ability to achieve improved thin film properties with critical metals in memory and logic, which can directly impact device performance, speed and battery life. Looking ahead, we remain highly focused on working with our customers to integrate our technology into their manufacturing processes and evaluate new applications. In advanced packaging, our wet processing systems, our production tool of record, had a number of leading customers and we continue to expand with new application lens. Our system's unique capabilities have enabled our strong position in 3D packaging for AI, providing continued growth. And in advanced packaging lithography, we're experiencing recovery fueled by IDM and OSAT customers for several applications. This is expected to drive meaningful revenue growth in 2025. Demand for VECO technologies is being accelerated by leading edge inflections, such as gate all around, high bandwidth memory, EUV lithography and 3D packaging. Our exposure to each of these high growth areas offers opportunity to expand our served available market. In annealing, we project our SAM to grow to approximately 1.3 billion in 2029 as device geometries continue to shrink and new architectures emerge, customer roadmaps increasingly require precise annealing solutions with tighter thermal budgets. This is expanding the number of process steps where laser annealing is being adopted. In logic, gate all around architectures and innovations like backside power delivery are driving higher laser annealing intensity. In memory, the shift toward high bandwidth memory and 3D devices is prompting customers to adopt laser annealing to address new performance and integration challenges. In ion beam deposition for front end semi applications, we forecast growth in our SAM to approximately \$350 million for high value steps requiring critical film performance. In ion beam deposition for EUV mass blanks, we see our SAM growing to over \$120 million as the market expands adoption of EUV and high NA lithography. And customers continue evaluating our technologies for adjacent mass blank steps. And in advanced packaging, we see potential SAM growth for our enabling wet processing solutions for a growing number of applications supporting AI in high performance computing. As we look ahead, we believe our portfolio of enabling technologies for key inflections positions our semi business to outperform WFE growth over the long term. I'll now provide additional details on our evaluation program, which is core to our investment strategy and essential to capturing our largest opportunities. We're seeing strong customer engagement across multiple evaluations, which are targeting a range of high value applications. Each application win has the potential to generate 30 to \$60 million in follow on business, assuming 100,000 wafer starts per month. While adoption timing will vary by system, customer and market, customers are clearly excited about the value our technologies bring, and we remain sharply focused on execution. Our evaluations in the field are progressing well, and we're continuing to invest in additional systems to drive new business in both logic and memory. We expect to ship an LSA evaluation system to a second tier one DRAM customer later this year, along with an NSA evaluation system to a third logic customer. We also see potential for additional NSA and IBD 300 evaluation systems in 2026. Given our continued momentum in the semiconductor business, we remain confident in our ability to capitalize on our long-term growth trajectory. With that, I'll turn it over to John for a financial update.

John Curnan | Chief Financial Officer:

Thank you, Bill. Starting with revenue for the quarter, revenue came in at \$166 million above the high end of our guidance, slightly down sequentially, and down 6% from the prior year. In our guidance for the quarter, we took into consideration, but then imposed substantial import tariffs in China for goods manufactured in the United States. We reported certain China customers were delaying shipments due to the tariffs, and the midpoint of our guidance range assumed \$15 million of shipments would be delayed outside the quarter. During the second quarter, as the tariff rate was significantly reduced, customers accepted the majority of shipments that were previously delayed. Our semiconductor business had another strong quarter, with revenue flat sequentially and growing 13% year over year, representing 75% of total revenue. Year over year growth was led by strong performance for our ion beam systems for EUV mask blanks and wet processing and lithography systems for advanced packaging applications. In the compound semiconductor market, revenue was flat from the prior quarter at \$14 million, totaling 9% of revenue. Data storage revenue increased

to \$12 million, totaling 7% of revenue in line with our expectations. Also in line with our expectations, scientific and other revenue decreased to \$16 million, totaling 9% of revenue. Turning to quarterly revenue by region. Revenue from the Asia Pacific region, excluding China, was 59%, an increase from 36% in the prior quarter. This increase was led by sales in Taiwan and Southeast Asia for advanced packaging, as well as ion beam deposition for EUV mask blanks. Revenue from China customers decreasing Q2 from Q1, with the percentage of revenue decreasing to 17% from 42%. China was 30% of first half of the year revenue in line with our initial expectations coming into the year. The United States came in at 13%, and EMEA was 11%. Switching gears to our non-GAAP quarterly results. Gross margin totaled approximately 43%, above the high end of guidance. Gross margin was favorably impacted by higher volume and improved product mix. Operating expenses totaled approximately \$48 million in line with our guidance. Income tax expense was approximately \$3 million, resulting in an effective tax rate of approximately 11%. Net income came in at approximately \$22 million, and diluted EPS was 36 cents on 60 million shares. Now moving to the balance sheet and cash flow highlights. We ended the quarter with cash and short-term investments of \$355 million, a sequential increase from \$353 million. From a working capital perspective, our accounts receivable decreased by \$7 million to \$107 million. Inventory increased by \$5 million to \$259 million, and accounts payable decreased by \$8 million to \$50 million. Customer deposits included within contract liabilities on the balance sheet decreased by \$3 million to \$37 million. Cash flow from operations totaled \$9 million, and CapEx totaled \$3 million during the quarter. Further strengthening our balance sheet, we retired all \$25 million of our convertible senior notes due in 2027. In the transaction, we issued 1.6 million shares of common stock and \$5 million of cash. Also during the quarter, we entered into an amendment to our revolving credit facility, increasing the size to \$250 million from \$225 million, and extended the maturity to June, 2030. Both of these actions provide greater financial flexibility and liquidity as we focus on our key growth drivers for the business. Before turning to Q3 guidance, I'll address global trade dynamics, which continue to evolve. We remain closely engaged with regulatory developments and tariff policies across key regions. While the broader economic impact of global trade tensions remain difficult to predict, we've seen increased costs from tariffs on imported materials. That said, we're actively working with our global supply chain partners to mitigate these impacts. Our teams are focused on cost containment, source and flexibility, and operational efficiency to help offset potential headwinds. Now turning to our Q3 outlook. Q3 revenue is expected between \$150 and \$170 million. Gross margin is expected to be between 40 to 42%, which assumes 100 basis point impact from tariffs. We expect op-ex between 48 and \$49 million, net income between 12 and \$21 million, and diluted EPS between 20 and 35 cents on approximately 60 million shares. I'll now provide additional commentary for each of our markets. In the semiconductor market, we continue to see growth potential in 2025, particularly in leading edge investments driven by AI and high-performance computing. These trends are expected to support significant demand with growth in gate all around and advanced packaging technologies. Beyond 2025, our outlook remains strong, supported by our differentiated product portfolio across laser annealing, ion beam deposition, web processing, and lithography. While we expect revenue in the compound semiconductor market to decline in 2025 compared to 2024, we are seeing encouraging signs of growth for applications in GAN power, solar, and photonics. These emerging opportunities are expected to begin contributing to revenue growth in 2026. In the data storage market, system revenue is declining year over year. However, our service revenue has increased, reflecting higher customer utilization. While it is too early to predict customer capacity additions to 2026, we are encouraged by increased engagement and commercial discussions around future requirements. We continue to see strong demand in the scientific market for our research-driven applications, particularly in quantum computing. This segment is expected to deliver growth in 2025, supported by ongoing investment in advanced scientific innovation. With that, I'll now turn the call over to the operator to open up Q&A.

Operator | Conference Operator:

Thank you. We will now be conducting a question and answer session. If you'd like to ask a question, please press star and then one on your telephone keypad. The confirmation tone will indicate your line is in the question queue. You may press star and then two if you would 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. Once again, if you would like to ask a question, you may press star and then one. The first question we have is from Thomas O'Malley of Barclays, please go ahead.

Thomas O'Malley | Analyst, Barclays:

Hey guys, thanks for taking my questions. My first is just around the quarter. So you took out some impact from China, but it looks like you got that back in the numbers. When I look at the geographic exposure, China does come down and the rest of the world goes up pretty significantly. I think quarter over quarter was up 64%. So are you shipping these products to other locations and then they're making their way to China? Or are these different customers that are filling in the gap here? If you could just help put those together, I would appreciate it.

John Curnan | Chief Financial Officer:

Sure, so Tom, this is John. Thanks for the question. No, this is the delayed shipments that we expected at the beginning of the quarter that were being delayed because of the higher tariffs in China. Customers then when the tariffs got significantly reduced, rescheduled shipment during the quarter and accepted those shipments. So China was expected even with those shipments in it to be down in the second quarter compared to the first quarter and has come in rarely right where we expected coming into the year. So for the first half of the year, revenue to China customers was about 30% of revenue.

Thomas O'Malley | Analyst, Barclays:

Okay, so the two are unrelated. So I guess when you look at the back half of the year, you had previously kind of taken out 10 to 15 million or so of continued impact from products that you were unable to ship. Is your view now that you're able to ship those and that customers are gonna take those or are you still remaining cautious? Just you're obviously getting it back in June. Do you put it back in for the rest of the year as well?

John Curnan | Chief Financial Officer:

So I think Tom, for our view coming into the year, irrespective of tariffs, that China revenue is gonna be about 30% in the first half of the year and sort of lesser in the second half of the year and generally in the semiconductor piece of the business because less investments in new 28 and 40 nanometer fabs where that was really the sweet spot for where our equipment was going. I think the year is playing out as we expected it to play out there. And now we expect somewhere in the range of about 20% of revenue for the second half of the year, coming from China. So no change in expectations. The delay in tariffs, shipments was a one-time thing in Q2 that for right now has been totally resolved.

Operator | Conference Operator:

The next question we have is from Rich Schaeffer of Oppenheimer & Co. Please go ahead.

Rich Schaeffer | Analyst, Oppenheimer & Co.:

Thank you. I guess my first question, if I could, you guys, what are your largest US IDNs customers has become pretty publicly more cautious around spending on advanced nodes? And so it's sort of like no more, I guess, if you build it, they will come attitude there. So does that affect or how does that affect your TAM outlook for NSA and ion beam for metal rate resistivity? Both of those kind of come to mind and anything else you might highlight that might be impacted by that pivot? Yeah, Rick, I mean,

Bill Miller | Chief Executive Officer:

it's a great question. I would say, obviously this IDM is trying to transition into a foundry and using your baseball analogy, if you build it, they will come, doesn't really work in a foundry model. And I think that makes a lot of sense for them. That being said, we are working with all the leading logic players on their next nodes. And we're continuing to partner with that IDM on helping them develop their core building blocks and key technologies that they need to enable in R&D to enable their next nodes. So it's not really impacting our business in the short or midterm, we're continuing to work with them. And HVM for that is still a few years out. And of course is subject to risk as all R&D investments are.

Rich Schaeffer | Analyst, Oppenheimer & Co.:

Thanks, Russell. And if I could, maybe just a follow up. You mentioned, John, maybe you mentioned GAN Power kind of briefly in a list of drivers for the business. So you've had that MSCBD eval, I think going on for a few quarters now. I'm just as curious to give any more color on that eval, mostly around timing, like a sense of timing. Like, are you targeting revenues there because they hit this year? Is it really going to be a big hit? Is it really more of a 26 driver? And sorry if I missed that in what you said, John, but I just was kind of curious about where we are there.

Bill Miller | Chief Executive Officer:

Yeah, the 300 millimeter GAN on silicon evaluation system we have in the field is progressing well. We've received very positive feedback from our customer. You know, and we're pretty excited about it because this customer has kind of a long-term view of 300 millimeter GAN on silicon. And, you know, assuming success, the plan would be to have this drive pilot line business for us starting in 26. So kind of a bit of a step up and then ramping to high volume in 27 and beyond. So pretty exciting stuff for us.

Rich Schaeffer | Analyst, Oppenheimer & Co.:

Great, thanks, Bill.

Bill Miller | Chief Executive Officer:

Thank you, Rick.

Operator | Conference Operator:

The next question we have is from Chol Shih of Nidam and Company, please go ahead.

Chol Shih | Analyst, Needham & Company:

Thanks, Bill, John. Two questions here. Maybe I'll continue on that GAN on silicon. I want to dig a little bit more into the competitive dynamics here because we do recognize you have a European equipment competitor who has also historically been very strong in compound semi, especially when it comes to power. And how do you characterize why you are able to win and with the potential to win here and what differentiates you from your competitor? That's my first question, thank you.

Bill Miller | Chief Executive Officer:

Charles, I would say over the last few years in MOCBD in particular, we've had a concerted effort to upgrade our product lines, specifically in 300 millimeter GAN on silicon and in the batch arsenide phosphide tools. And what we're seeing is that as we're putting them out there that we are gaining subtraction in the marketplace relative to competition. So specifically in GAN on silicon at 300 millimeters, we see that we're competitive from a productivity and cost of ownership standpoint while maintaining excellent process performance, meeting the customer's specification. And in the arsenide phosphide tool set, we're working with a number of customers, for example, in low earth orbit solar activity, there's some opportunities there, micro LED and indium phosphide applications in the data center. So we're working with a number of customers and some of the feedback we're receiving is that we're really differentiated on a performance with a lower cost of ownership for our customers. So yeah, it seems that it's been a bit of a long road and we still have a ways to go, but early returns on the products seem to be going in the right direction. Thank you.

Chol Shih | Analyst, Needham & Company:

So the second question, maybe this is for John, I wanna ask you a little bit more on your China commentary. Sounds like you're kind of guiding to like 20% ish of the revenue in second half of the year will be coming from China, but that would imply pretty big stamp versus the first half. But on the other hand, we've been hearing from your peers, pretty meaningful China upside. So China WFP upside over the last two or three weeks. And so wonder you have embedded some of the upside in that the second half guidance already, or did your expectation for China come up over the last 90 ish days? And we want to know if you think there's more to the numbers, it's just that. Thank you.

John Curnan | Chief Financial Officer:

Sure, Charles. So again, a lot of the business that we drove the last couple of years in China was for laser kneeling equipment and principally in new greenfield fabs at 28 and 40 nanometer. We see continued investment and in that 20% revenue for the second half of the year, we're continuing to get business for LSA with existing customers. And we are seeing new customers come in here. I would say we really see that this playing out fairly the way we expected it to play out for the year. So we're having ongoing business just not at the pace of the last two years. Thanks. Thank you, Charles. Thank you, Charles.

Operator | Conference Operator:

The next question we have is from Mark Miller of Benchmark. Please go ahead.

Mark Miller | Analyst, Benchmark:

I'm just wondering if you're seeing any impact from the tariffs in terms of, from your component suppliers increasing costs or do you expect any?

John Curnan | Chief Financial Officer:

Yeah, so Mark, we have seen in terms of tariffs that we import ourselves from Europe and Southeast Asia, the principal areas that we import directly ourselves for our supply chain. And we are seeing tariffs there. And it's about a hundred basis point impact in our actual results for Q2 and we're forecasting a similar result in Q3. We are seeing potential for increases in price from domestic suppliers that also have an international supply chain there. And I would say we continue to work with those suppliers to try to mitigate the impact from those tariff increases or potential increases from our domestic suppliers.

Mark Miller | Analyst, Benchmark:

You mentioned an opportunity in quantum computing for what equipment is that for? IPD?

Bill Miller | Chief Executive Officer:

No, Mark. It's for our, mostly our molecular beam epitaxy equipment or MBE equipment, as well as some ALD equipment for researchers in the quantum computing space. So really MBE. Thank you.

John Curnan | Chief Financial Officer:

Thank

Bill Miller | Chief Executive Officer:

you, Mark. Thank you,

Operator | Conference Operator:

Mark. The next question we have is from Gus Richard of Northland Capital Markets. Please go ahead.

Gus Richard | Analyst, Northland Capital Markets:

Yes, thanks for taking the question. You guys have a sort of a unique visibility across the industry. You're involved with Litho, you're involved with backside power, you're involved with advanced packaging and even transistor structures like gate all around and CFET. So my question is, which technology are people hot to trot where are you seeing the most activity? Where are things getting pushed the hardest?

Bill Miller | Chief Executive Officer:

Gus, I would say it's really driven by AI, high performance computing and high bandwidth memory. And so our advanced packaging business is doubling in 25. Really seeing a lot of strength and a lot of pull in wet processing there. We're really engaged with leading foundry, HBM manufacturer as well as OSAT there. And we're really expanding that business very solidly. And likewise in Litho, our business is improving over 24. It

will be a driver of growth for us in applications like not only AI and high performance computing but also mobile in Litho. And then besides advanced packaging, I would say the second major area for growth for us kind of at the leading edge is in gate all around where we're seeing a fair amount of a lot of growth there year over year in 25. So I would say it's really kind of transistor, advanced transistor on the logic side and then wet processing on, excuse me, in advanced packaging type applications for AI, high bandwidth memory, et cetera.

Gus Richard | Analyst, Northland Capital Markets:

Got it, got it, that's helpful. And then my second one is, there's not a lot of hard to describe guys, so I'll say the customer's name. Seagate I believe doubled their cap X. You're already seeing an increase in spares and service. Is there more upside in spares and service and if you're starting commercial negotiations, as I recall the lead time is three quarters. Do you see potential of systems shipping for the HDD market in the second half of 20?

Bill Miller | Chief Executive Officer:

Yeah, I would say customers have continued to bring capacity online clearly. Their utilizations are increasing and we've seen that readout in our service numbers here throughout the first half of 25. I would say to your point there, we actually are quite encouraged by increased engagement with not only one but the other as well in terms of commercial discussions with our customers about their future requirements and you're right about the lead time. And so these are all very positive signs that they could be ordering some more equipment here. So it's positive, we don't have purchase orders in hand but these are the signs of positive signs I would say for the data storage industry and obviously you kind of quoted there increasing cap X percentage on increasing revenues. That's obviously a good sign.

Gus Richard | Analyst, Northland Capital Markets:

Great, thanks so much.

Bill Miller | Chief Executive Officer:

Thanks Gus. Thanks Gus.

Operator | Conference Operator:

At this time, we have no further questions and I would like to turn the call back over to Bill Miller for closing remarks.

Bill Miller | Chief Executive Officer:

Yeah, I'd like to thank our customers and shareholders along with the VECO team for their continued support and have a great evening. Thank you.

Operator | Conference Operator:

Ladies and gentlemen, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.