

# NASDAQ:VECO Q3 2025 Earnings Call Transcript

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## Operator | Conference Operator:

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, Alex Delacroix, Head of Investor Relations. Thank you. You may begin.

## Alex Delacroix | 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 Kiernan, our Chief Financial Officer. Today's earnings release and slide presentation to accompany today's webcast is available on VECO's website. To the extent that this call discusses expectations for future revenues, future earnings, the timing and expected benefits of the proposed transaction with Excellus, 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 10-K 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. Given the pending merger with Excellus, We will not be addressing questions related to the transaction. Please note that today's call is neither an offering of securities nor solicitation of a proxy vote in connection with our previously announced transaction with Excellus. We urge you to read the joint proxy statement relating to the transaction with Excellus once it becomes available. With that, I would now like to hand the call over to our CEO, Bill Miller.

## Bill Miller | Chief Executive Officer:

Thank you, Alex. Good afternoon, and thanks for joining us. We entered the quarter focused on execution, and I'm pleased to report that VECO continues to perform well. Third quarter revenue was \$166 million, exceeding the midpoint of our prior guidance of \$160 million, and non-GAAP operating income was \$23 million. Non-GAAP diluted earnings per share was 36 cents, above the prior guidance midpoint of 28 cents, reflecting continued operational discipline and strong execution across the business. This performance underscores the sustained investment in leading-edge semiconductor technologies, particularly in AI and high-performance computing. These trends are driving healthy demand, especially in gate-all-around, high-bandwidth memory, and advanced packaging, where VECO's differentiated equipment enables customers to advance their most complex technology roadmaps. On October 1st, we announced that we entered into a definitive agreement to combine with Excellus Technologies in an all-stock transaction to create a leading semiconductor equipment company serving complementary, diversified, and expanding end markets. The completion of the merger is subject to, among other things, the approval of our stockholders and various regulatory approvals, which we are focusing on securing. We are hopeful that we will successfully bring this transaction to completion and strongly believe these two companies are optimal together and will drive sustainable value creation for all our stakeholders. We expect to see many growth synergies from the transaction that will be integral and driving success for the combined company. First,

expansion of our served available market, which combined was over \$5 billion on a pro forma 2024 basis. Second, we believe the transaction will enable a broader and complementary product portfolio and provide better solutions and services for the combined company's customers. A few items include adjacent technology steps with Excellus' ion implantation and our laser annealing, likely providing significant opportunities to enhance device performance and yield. Accelerated development of ion beam deposition technologies likely enabling greater market share gain from traditional deposition technologies. Third, we believe the transaction will provide expansion of the combined company's channel reach and regional leverage. Together, this will allow us to penetrate Tier 1 foundry, logic, memory, and IDM customers more effectively. Fourth, the combination will increase R&D scale and enhance capabilities, which we believe will accelerate benefits to the combined company's collective customers. And lastly, with over \$900 million in combined cash, we expect the combined company to benefit from a strong operating profile and the financial foundation to drive returns to shareholders. Now, I'll turn to our critical role in the semi-manufacturing process and provide updates on our evaluation programs for the quarter. We are the production tool of record for laser spike annealing for all Leading Logic customers and one Tier 1 DRAM customer. We expect to grow our penetration in Leading DRAM by shipping an LSA evaluation system to a second Tier 1 DRAM customer in the fourth quarter of this year. Additionally, our next-generation nanosecond annealing system expands our capabilities to the nanosecond regime, and our systems are being evaluated to advanced logic customers for advanced low-thermal budget applications. These evaluations are progressing well, and we plan to ship additional NSA evaluation systems during 2026 to Tier 1 customers. We're also the market leader for IBD EUV systems for the deposition of defect-free films. Our product roadmap is well aligned as the industry adopts next-generation high-NA EUV lithography, and we're expanding our EUV-related business to EUV pellicles, which are increasingly being used to improve the productivity of EUV steps. Our IBD EUV system is used to form the high transparency membrane used in pellicles. Demand tied to AI and high performance compute remains strong and is pulling innovation forward. Our next generation IBD 300 system is being evaluated by two DRAM customers. This technology differentiates itself from incumbent technologies through its ability to achieve superior thin film properties with lower resistance. which is essential for device scaling, performance, and power consumption. Additionally, advanced packaging for wet processing and lithography continues to grow from AI-related demand. Our wet processing system orders increase quarter over quarter, and we see continued order activity in our lithography system. Last month, we announced multiple orders for our advanced packaging wet processing and lithography systems from a leading foundry, supporting critical end markets through AI, automotive, aerospace, defense, and communications. Across our portfolio, we continue to focus on performance and yield advantages that matter most to our customers in advanced nodes. As we look ahead, we believe our portfolio enables technologies for key inflections supporting innovation in gate all around, high bandwidth memory, EUV lithography, and advanced packaging. These growth areas create significant opportunities in our served available markets. In annealing, we project our SAM to be approximately \$1.3 billion by 2029, as devices continue to shrink and shallower anneals are required to improve performance and adapt to changing structures. For ion beam deposition technology in SEMI, we project our SAM to be approximately \$500 million in 2029, as the market expands to adopt EUV and high NA lithography. This growth is also driven by the need for lower resistance metals deposition in a uniform manner required for improved device performance and power consumption. Lastly, in advanced packaging, we project SAM growth to be approximately \$650 million by 2029. with growth mainly driven by wet processing systems supporting AI and high performance computing. As we look across the business, we continue to invest in programs that position us for the next leg of growth and focus our R&D to advance the industry. I'll now turn the call over to John to walk through the financials for the quarter and provide our outlook for Q4 2025. Thank you, Bill.

### **John Kiernan | Chief Financial Officer:**

Revenue came in at \$166 million above the midpoint of our guidance, in line with the previous quarter. Our semiconductor business reported \$118 million, a decline of 5% quarter over quarter, and 71% of total revenue. Our performance was driven by LSA, IBD EUV for mass blanks, and our advanced packaging wet

processing systems. In the compound semiconductor market, Revenue was \$11 million, down from the prior quarter, totaling 7% of revenue. Data storage revenue was \$10 million, totaling 6% of revenue. And scientific and other revenue increased to \$27 million, totaling 16% of revenue, driven by an increase in optical deposition systems. Turning to the quarterly revenue by region. Revenue from the Asia Pacific region, excluding China, was 49%, a decrease from 59% in the prior quarter. Sales were driven by customers in Taiwan for LSA, IBD EUV masks, and advanced packaging. Revenue from China customers was 28%, an increase from 17% in Q2. Sales were driven primarily by LSA and optical deposition systems. The United States came in at 16%, and EMEA was 7%. Switching gears to our non-GAAP quarterly results. Gross margin totaled approximately 42 percent at the top end of our guidance. Gross margin was favorably impacted by higher volume and improved product mix. Operating expenses totaled approximately \$46 million, which came in favorably below our previously guided range. Income tax expense was approximately \$3 million, resulting in an effective tax rate of approximately 12 percent. Net income came in at approximately \$22 million, and diluted EPS was 36 cents on 61 million shares. Now, moving to the balance sheet and cash flow highlights. We ended the quarter with cash and short-term investments of \$369 million, a sequential increase of \$14 million. From a working capital perspective, our accounts receivable increased by \$10 million to \$116 million. Inventory increased by \$4 million to \$263 million. And accounts payable decreased by \$6 million to \$44 million. Customer deposits included within contract liabilities on the balance sheet remain relatively flat at \$36 million. Cash flow from operations totaled \$16 million, and CapEx totaled \$3 million during the quarter. Now, turning to our Q4 outlook. Q4 revenue is expected between \$155 and \$175 million. Gross margin for Q4 is expected to range between 37 and 39 percent, representing a decline from prior periods. This anticipated reduction is primarily driven by a shift in product mix with several discounted evaluation tool acceptances and a greater proportion of revenue from advanced packaging systems. We expect OPEX of approximately \$48 million, net income between \$10 and \$19 million, and diluted EPS between 16 and 32 cents on approximately 62 million shares. I'll now provide additional commentary for each of our markets. In the semiconductor market, we see growth for 2025 compared to 2024, driven by demand in gate all-around and advanced packaging. Additionally, we see continued momentum for our products into 2026, driven by leading-edge investments for AI and high-performance computing. In the compound semiconductor market, we have revenue growth opportunities in GaN power, photonics, and solar for 2026 after experiencing a down year in 2025. We are excited about the recent order activity and the acceptance of our new propelled 300-millimeter GaN and Lumina Plus arsine-phosphide platforms, which are tailwinds for next year. After an extensive successful evaluation period, today we announced that we received an order for our propelled 300 millimeter GAN on silicon MOCVD system from a leading power IDM for AI data centers. This order cements our position as a leader in 300 millimeter GAN technology, which is at an important inflection point transitioning from 200-millimeter wafer sizes. Additional recent announcements in this market include an order for multiple Lumina indium-phosphide MOCVD tools for data center optical communication solutions. We also received the first multi-tool order for our recently released new Lumina Plus platform for low Earth orbit space-grade solar cells. These orders support the revenue growth projected for the compound semiconductor market in 2026, with shipments principally in the second half. In the data storage market, system revenue declined in 2025 compared to 2024 as customers did not add new system capacity. However, our service revenue has increased, reflecting higher customer utilization, And we are excited to announce we recently received orders for our IMB and web processing equipment. We expect these orders to drive data storage revenue growth in 2026, principally in the second half. We continue to see strong demand in the scientific and other market for our research-driven applications. 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 would like to ask a question, please press star and then 1 on your telephone keypad. A confirmation turn 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. As a reminder, given the pending merger with Accelus, vehicle management will not be addressing questions related to the transaction. One moment please while we poll for questions. We have a question from David Daly of Steelhead Securities. Please go ahead.

**David Daly | Analyst, Steelhead Securities:**

Thanks for taking my question. My first question is on some of the 300-millimeter GAN order activity that you've seen. Is there all of a sudden new adoption in these markets that you're referring to? I think in the press release you talk about auto industrial and data center. I was just wondering if you might be able to address why GAN is being adopted in these particular segments at this point.

**Bill Miller | Chief Executive Officer:**

Yeah, we've had an evaluation with this leading power IDM for over a year, and it's been successful, and we just received a follow on multi-chamber order for a pilot line tool, likely for data center applications. And they're going to pilot production in 26, and their plan is to ramp to HVM in 27.

**Operator | Conference Operator:**

At 300 millimeters.

**David Daly | Analyst, Steelhead Securities:**

Sorry. Is there a specific reason now why GAN is being adopted in the data centers?

**Bill Miller | Chief Executive Officer:**

I think the efficiency of power conversion in the data center is a real limiting issue in the data center. And so any material that can be adopted to convert electricity more efficiently is pretty desirous.

**David Daly | Analyst, Steelhead Securities:**

Okay. And then, John, if you could just address the gross margin guidance. I think you mentioned increased evaluation activity as to why the gross margins would be down, but maybe just elaborate on that a little bit for me.

**John Kiernan | Chief Financial Officer:**

Sure, Dave. I'd be happy to. So, yeah, we just ended this quarter with gross margin in Q3 around 42% on the high end of our guided range. But we have guided for Q3 a less favorable, excuse me, for Q4 a less favorable gross margin in 37 to 39% range, which is lower than we have been experiencing. And we did indicate in our prepared remarks, driver being product mix there, And within the product mix, two items to highlight. One is, as you mentioned here, Dave, we're expecting some eval sign-offs this quarter at favorable pricing. Now, for clarity, those are not eval related to our NSA at LeadingLogic or eval for our IBD program. you know, 300 for the low-resistance metal. This is more a recurring sort of LSA type of eval, and as well as an eval that we have out for in-compound semiconductor for micro-LED. So that's the one area. The second area is that we have in our semiconductor business in our Q4 range revenue guide, increased amount of

business in advance, you know, packaging for an application where the gross margins for those tools aren't as high as the company average.

**David Daly | Analyst, Steelhead Securities:**

Okay. And then just final question from me is you went through the segments in pretty good detail. I was just wondering if you could elaborate a little bit more on what you would expect the trajectory of your advanced packaging business to be in 2026. I think it doubled this year. I don't imagine it's going to do that again, but what early indications do you have of growth there?

**Bill Miller | Chief Executive Officer:**

Yeah, the business has doubled, Dave, and it was not easy, and I have to give kudos to our operations team and in the business for ramping, doubling the business in a pretty short order there. We are actually running the business to a roadmap, and so we're working with, as you might imagine, industry leaders and helping them with their wet processing challenges, whether they're moving to under-bump metal etch, trying to solve some problems there, photo resist removal, and hybrid bonding. So we feel that we've got a number of projects and programs and demo activity to sustain our position. I think it's a bit early for us to comment on the direction of advanced packaging for 26 specifically, really because the business runs on a shorter backlog of shorter lead time. So that full year visibility, we just don't have it for that segment.

**Dennis Payachanin | Analyst, Needham & Co.:**

Thank you. Thanks, Dave.

**Operator | Conference Operator:**

The next question we have is from Dennis Payachanin of Needham & Co. Please go ahead.

**Dennis Payachanin | Analyst, Needham & Co.:**

Great. Thanks for taking our questions. I think you previously mentioned an uptick in HGD customer utilization. How are the ordering patterns near term? Is it only the demand right now for the second half of 26?

**Bill Miller | Chief Executive Officer:**

Dennis, our lead time, you know, this is a build-to-order business, and our lead times are, you know, approaching a year, maybe a little bit less, but in that range. And so, Our first orders we received in Q3 for ion beam and wet processing equipment, and we're negotiating orders in the fourth quarter. So just based on the timing of the receipt of the orders kind of dictates that those would be shipped in the second half of next year.

**Dennis Payachanin | Analyst, Needham & Co.:**

Great. Thank you for the detail. And on the strength and scientific, could you tell us more about that? Was that driven predominantly by Chinese customers this quarter?

**John Kiernan | Chief Financial Officer:**

There was some content for Chinese customers this quarter. Some of the strength in that segment this quarter also were for optical deposition tools or general industrial applications. there and there was China content with that.

**Dennis Payachanin | Analyst, Needham & Co.:**

Got it. And my last one is about NSA, maybe a little bit more high level. So I think you'd mentioned that it's being tested with Logic customers. Do you see NSA adoption as being possible for memory customers as well?

**Bill Miller | Chief Executive Officer:**

Yes, they're actually interested in adopting it, particularly, you know, because of the NSA can a needle of only very thin layers, so it's very conducive to material modification and 3D stacking, which is happening in memory applications. But yeah, the evals are going quite well, moving along with the two that we have. We have strong pull from the third logic customers, and as I just said, memory customers are interested Our plan would be to ship multiple nanosecond annealing tools in 2026 to a mix of logic and memory or memory.

**Dennis Payachanin | Analyst, Needham & Co.:**

Great. That's it from us. Thank you very much. Thank you, Dennis.

**Operator | Conference Operator:**

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

**Mark Miller | Analyst, Benchmark:**

Thank you for the question. Can you give us a little update on the thin metal films with IBD evals?

**Bill Miller | Chief Executive Officer:**

Yeah, we're making good progress in introducing the fourth deposition technology to front-end STEMI. It remains an exciting opportunity. Our customers are very much engaged, and we're working together to improve or work on bringing the maturity of the product up for high-volume manufacturing, as well as working with our customer to integrate the ion beam deposition technology into their existing production processes. So, you know, there's clearly still pull. We have two tools in DRAM, Mark, but there's definitely pull in logic processes, and potential for evals there in the future.

**Mark Miller | Analyst, Benchmark:**

Okay, so two evals with derail manufacturers with the IBD tools. Yes. In terms of your backlog, the visibility you have, margins are going to be down. You talked about that. Why? But going out in the future, does the backlog look like the margins will improve when you start shipping out of it in the future?

**John Kiernan | Chief Financial Officer:**

You want to take a chance? Yeah, so Mark, yeah, so we just said that we expect the gross margin in Q4 to be down for mixed reasons. As we look out into the future, past Q4, our expectation is that we could, see margin improvement in 26 over 2020, over 2025 gross margin, you know, improvement. As was mentioned on the call and our prepared remarks, we're getting good visibility. We're starting to get good visibility, you know, for data storage with orders starting to come in in Q3 and more orders being negotiated in Q4. for shipment in the second half of next year, as well as, you know, orders that we've been receiving for our new products for our MOCBD, which goes into the compound semiconductor market bucket. And, again, on the bill-to-order type of production there, and we see that, you know, in the second half of next year.

**Mark Miller | Analyst, Benchmark:**

Just one more question, if you permit me. Your data storage orders you received this quarter for IBD and web processing, was that from one customer or from multiple customers?

**Bill Miller | Chief Executive Officer:**

It was from multiple customers.

**David Daly | Analyst, Steelhead Securities:**

Thank you. Thanks, Mark.

**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:**

Thank you. Our results this quarter reflect strong execution and steady momentum across our business. We believe the pending merger with Excellus represents the next phase of that progress. It will broaden our technology portfolio, expand our market reach, and create multiple opportunities for revenue growth through cross-selling, integrated solutions, and accelerated innovation. We're confident in the path ahead, and we'll continue to update you as the process moves forward. Overall, we're delighted with the response from our stakeholders across the board, and are even more energized to deliver on the compelling merits of this strategic combination. Thank you to our employees for their hard work and dedication to Veco, And thank you to our customers and partners for their continued trust in VECO. Have a great evening.

**Operator | Conference Operator:**

This concludes today's conference. Thank you for joining us.