NASDAQ:VECO Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Greetings, and welcome to the VECO fourth quarter and full year 2025 earnings call. At this time, all participants are in a listen-only mode. 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 the VECO 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. BCO 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. We will not be addressing questions related to our pending merger with Excellus. Please note that on February 6, 2026, our stockholders voted to approve all proposals related to our pending merger with Excellus. We urge you to read the joint proxy statement relating to the transactions with Excellus. With that, I would now like to hand the call over to our CEO, Bill Miller.

Bill Miller | Chief Executive Officer:

Thank you, Alex, and thank you everyone for joining us on our call today. Ricoh executed well in 2025 and accomplished important milestones setting the stage for future value creation. We grew our semiconductor business, experienced rapid expansion in our order activity for compound semiconductor, and data storage customers, supporting strong growth in 2026, and continue to invest strategically in next-generation technologies. Additionally, on October 1st, 2025, we announced an all-stock merger agreement with Excellus Technologies to create a leading semiconductor equipment company. Our new products are gaining powerful traction fueled by accelerating demand from AI and high-performance computing. as hyperscalers ramp their next generation infrastructure, we're seeing clear acceleration in order activity. This momentum drove a meaningful build in backlog at year end, supporting an increase in revenue for 2026. Later in the call, John will provide additional detail on our backlog. Revenue for our semiconductor business reached another record in 2025, which was primarily driven by laser annealing and wet processing and ion beam EUV technology. We shipped an LSA evaluation system to our second tier one DRAM customer, showing exciting progress for penetration with our memory customers. A key driver for the semiconductor market came from our advanced packaging business, which we doubled year over year. This was driven by wet processing and lithography tool shipments for 3D packaging. New products for the compound semiconductor market are gaining significant traction and driving market share gains. We received orders for our new Propel 300-millimeter Ganon silicon system for Gan power and micro-LEDs and Lumina Plus arsenide phosphide for photonics and solar end markets, which support revenue growth, primarily in the second half of 2026. Additionally, in the

data storage market, We see customers expanding capacity, increasing CapEx spend, and adopting heat-assisted magnetic recording, resulting in increased orders in the third and fourth quarter of 2025 for our ion beam and wet processing equipment. This is driving an increase to revenue, principally in the second half of 2026. We continue to invest in strategic opportunities for future growth with our next-generation technologies. We've extended our IBD 300 systems evaluations at two DRAM memory customers into 2026. Our customers are providing positive feedback with respect to the quality of film performance. We remain excited about the opportunity to introduce ion beam as the fourth deposition technology for the front end semiconductor space. Additionally, our customers are evaluating our next generation nanosecond annealing systems, which are progressing well. and we expect to expand the evaluation program to another customer in 2026. Let me take a moment to briefly update you on the progress of our proposed merger with Excelis. We're pleased that shareholders of both companies approved the merger at their respective special meetings held on February 6th. In addition, we've secured regulatory approvals in several key jurisdictions and remain actively engaged with the relevant authorities in China as we work toward the final clearance needed to close. Based on our continued progress, we anticipate completing the transaction in the second half of 2026. Furthermore, our integration work with Excellus continues to reflect our strategic alignment and confidence in the merger. We believe the combination will increase R&D scale, enable a broader complementary product platform, realize several growth synergies, and ultimately drive sustainable returns for all our stakeholders. Switching gears to financial highlights for the quarter and full year. Our fourth quarter revenue came in at $165 million and our EPS came in at 24 cents, both at the midpoint of guidance. Our semiconductor business accounted for 67% of revenue. The full year top line was $664 million and our EPS was $1.33, with our semiconductor business hitting a record year, accounting for 72% of total revenue. This performance demonstrates we're well aligned with ongoing investments in advanced semiconductor technologies and customers' roadmaps. Next, I'll review Veco's critical role in the semiconductor manufacturing space, where the majority of our revenue is generated and we continue to grow year over year. Ricoh has historically had a strong position with Foundry and Logic customers for annealing applications, and the foundation has provided a high level of trust and repeat business across advanced nodes. At the same time, expanding our presence into memory is one of the most important strategic priorities. The transition to AI-driven architectures, high bandwidth memory scaling, and 3D structures are driving new thermal processing and material requirements, where VECO has clear technical advantages. For our LSA tool, we're a production tool of record at all three Tier 1 Logic customers, demonstrating our strong competitive position. Our next generation NSA system has two evaluations at Tier 1 Logic customers, and we're planning to ship an evaluation system to the third Tier 1 Logic customer in 2026. These evaluations for our customers' low thermal budget applications such as contact annealing, 3D device stacking, and material modifications are progressing well. We're expecting sign off of two evaluations during 2026 with the potential for pilot line orders to shortly follow. On the memory side, we continue to make meaningful progress penetrating the space and are expanding our footprint with Tier 1 DRAM manufacturers. In addition to being the production tool of record at a leading HBM DRAM customer, we recently shipped an LSA evaluation system to a second DRAM manufacturer, an important milestone that reflects growing confidence in our laser annealing capabilities for memory applications. We also have two IBD 300 systems under evaluation at leading DRAM customers with evaluations extended into 2026. Our IBD 300 system enables deposition of low resistance films that are critical for advanced DRAM structures such as bit line. This provides VECO with another opportunity to expand our SAM with the next generation memory nodes. Further penetrating the memory space represents a significant long-term growth opportunity as DRAM requirements become increasingly complex with the transition to HVM, stacked architectures, and low-resistance metallization designs. Our recent wins in evaluation activity represents early but significant steps toward establishing meaningful long-term growth in the DRAM market as this segment accelerates within the industry. Vico is also the market leader for IBD EUV systems for the deposition of defect-free mass blanks, leading logic and memory device makers continue to expand adoption of EUV and future adoption of high NA EUV lithography, which our IBD technology is a key enabler. We're also expanding our business to include EUV pellicles, which are increasingly being used to protect the mask from particles. We're confident our product roadmap is well aligned with the industry and our customers' needs. Lastly, in advanced packaging, We've doubled our business from $75 million in 2024 to $150 million in 2025, driven by AI-related demand. We've won multiple orders for advanced wet processing and lithography systems from leading

foundries, and we continue to see strong demand driven by heterogeneous integration and 3D packaging. Looking ahead, we forecast semiconductor market growth at the leading edge driven by AI and high-performance computing. We expect our semiconductor served available market to continue to expand, driven by new nodes and AI-related demand, including investment in gate all around, high bandwidth memory, and 3D packaging. In annealing, we project our SAMs to be $1.3 billion by 2029, as devices continue to shrink And shallower and more precise anneals are required to improve performance. In 2026, we see our logic, foundry, and memory customers all increasing capacity for our annealing tools. Next, our IBD 300 platform for low-resistance metals, together with our ion beam deposition systems for EUV mask blanks and pellicles, represent a total SAM opportunity projected to reach $500 million by 2029. The need for low resistance metals deposited in a uniform manner is required for better device performance and to minimize power consumption. Lastly, in the backend semiconductor process, our advanced packaging business for our wet processing and lithography tools continues to expand and the SAM is projected to reach $650 million by 2029. Throughout the year, We've demonstrated the ability to respond successfully in meeting our customers extreme high volume manufacturing ramp of advanced packaging for AI. Based on the strong relationships we've developed with tier one foundry and memory customers, we're invited to engage with their R&D teams and becoming a critical partner in their future roadmaps. We continue to focus the organization on our key growth areas and remain excited about successfully positioning our business to align with industry advancements and meeting our customers' growing needs. I'll now hand the call over to John to walk through the financials and provide an outlook for 2026.

John Kiernan | Chief Financial Officer:

Thank you, Bill. To begin with revenue for the year, revenue came in at $664 million, declining 7% from the prior year. Our semiconductor business delivered $477 million in revenue, up 2% year over year, and comprising 72% of revenue. Revenue in the semiconductor market was driven largely by laser annealing, ion beam technology, and our advanced packaging, wet processing, and lithography products. As disclosed in January, two LSA tool shipments to customers in China were under customs review. These matters have since been resolved, and we recognize $15 million of revenue related to these systems in the fourth quarter of 2025. Compound semiconductor revenue totaled $60 million, a decline from the prior year representing 9% of revenue. Data storage revenue totaled $39 million, declining from the prior year and comprising 6% of revenue. Lastly, scientific and other revenue was $89 million, increasing from the prior year, making up 13% of revenue. Turning to revenue by region, the Asia-Pacific region was 50% of revenue, led by shipments to a leading Taiwanese semiconductor customers for multiple Beko products. Our China portion was 27% of revenue, with a decrease from the prior year in laser annealing systems. The U.S. accounted for 15% of revenue, and lastly, EMEA was 8% of revenue. Our order backlog ended the year at $555 million, a significant increase of $145 million from the prior year. This 35% growth in backlog reflects the strong acceleration in orders in the second half of 2025. This positions us well for revenue growth in 2026, principally in the second half. I will provide additional market segment commentary in the guidance section. Moving to our full year 2025 non-GAAP operating results, gross margin came in at 41 percent. Operating expenses totaled $188 million. Operating income was $84 million and net income was $80 million, with tax expense of $10 million yielding an effective tax rate of 11 percent. Diluted EPS was $1.33 for the year on approximately 61 million shares. I'll now provide selected GAAP full year data. Amortization expense was $3 million. Our equity compensation expense was $37 million. Depreciation, $17 million. And net interest income was $4 million. Turning to Q4 revenue by market and geography. Revenue came in at $165 million. flat from the prior quarter and at the midpoint of our guidance. Semiconductor revenue declined slightly, comprising 67% of revenue. In the compound semiconductor market, revenue increased from the prior quarter to $20 million, totaling 12% of revenue. Data storage revenue remained flat at $10 million, comprising 6% of revenue. Similarly, scientific and other revenue remained flat at $24 million, making up 15% of revenue during the quarter. Looking at revenue by region, the percentage of revenue from Asia Pacific increased to 54% due to an increase in semiconductor sales, mainly in Taiwan. Revenue from China was 23%, U.S. 18%, and EMEA was 5%. Now moving to our quarterly non-cost operating results, Gross margin totaled 38% at the midpoint of

our guidance. Operating expenses totaled $49 million, also in line with our guidance. Income tax expense was approximately $1 million, resulting in an effective tax rate of 4%. Net income came in at $15 million, and diluted EPS was 24 cents on 62 million shares. On the next slide, I will discuss our balance sheet and cash flow highlights. We ended the quarter with cash and short-term investments of $390 million, a sequential increase of $21 million. From a working capital perspective, our accounts receivable decreased by $6 million to $111 million. Inventory increased by $12 million to $275 million, and accounts payable increased by $12 million to $55 million. Customer deposits included within contract liabilities on the balance sheet increased by $14 million to $50 million. Cash flow from operations increased from the prior quarter to $25 million, bringing our total for the year to $69 million. And CapEx totaled $3 million during the quarter and $16 million for the year. I would now like to provide a non-GAAP outlook for Q1 and fiscal year 2026. Q1 revenue is forecasted between $150 and $170 million. We expect gross margin between 37 and 38 percent, OPEX between $48 and $50 million, net income between $9 and $15 million, and diluted EPS between 14 and 24 cents on 62 million shares. The momentum of orders secured in the back half of 2025 will contribute to meaningful revenue growth primarily in the second half of 2026, supporting a strong full-year outlook. Full-year 2026 revenue is forecast between $740 and $800 million. We expect gross margin between 41 and 43 percent, OPEX between $205 and $220 million, net income between $94 and $115 million, and diluted EPS between $1.50 and $1.85 on 63 million shares. Let me provide commentary for each of our market segments. Beginning with the semiconductor market, we expect strong growth from our Tier 1 customers driven by AI and high-performance computing, more than offsetting declines in mature node China business. We are seeing accelerating demand for our LSA tools at advanced nodes, along with growth in wet processing applications for advanced packaging as customers scale capacity driven by AI and HVM. In the compound semiconductor market, we see growth in 2026 weighted in the second half. We received several orders in 2025 for our new propelled 300 millimeter GAN on silicon system for GAN power and micro LED applications. as well as orders for our new Lumina Plus arsenide fosfide system supporting photonics and solar end markets. These new product wins are driving revenue in the second half of 2026. We're also seeing continued engagement from customers and are taking orders for deliveries into 2027. In the data storage market, we secured orders in the second half of 2025 for our ion beam and wet processing equipment. As we move into 2026, customers are signaling broader hammer adoption, increasing capex investments, and expanding capacity. These trends by our customers are driving momentum for our business as we are fully booked in 2026 and have multiple orders extending into 2027. Before I hand the call over to the operator for Q&A, I want to reinforce that AI is a critical driver of VECO's growth in semi, compound semi, and data storage markets, and we have a strong portfolio of enabling technologies that are increasingly critical to serve leading customers. From a semiconductor market perspective, analysts are projecting the industry to grow to over a trillion dollars in the near term, with AI accounting for more than half of sales. We are confident that Veco is well-positioned to create long-term value in an increasingly AI-driven semiconductor market. We are also excited about the pending Excellus merger, which we feel will enable us to better accelerate our investments in next generation technologies and offer an even better product portfolio to our customers. I would now like to turn the call over to the operator to open up for Q&A.

Operator | Conference Operator:

Thank you. We will now be conducting our question and answer session. As a reminder, given the pending merger with Excellus, VECO management will not be addressing questions related to the merger. If you would like to ask a question, please press star 1 on your telephone keypad and a confirmation tone will indicate your line is in the question queue. You may press star 2 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. And the first question comes from the line of Dave Dooley with Steelhead Securities. Please proceed.

Dave Dooley | Analyst, Steelhead Securities:

Yeah, thanks for taking my question. I was wondering for the outlook for 2026 if you could give us an idea of what you expect your semi-business to grow and your hard to strive business to grow. Actually, just all three segments to your best of your abilities would be awesome.

John Kiernan | Chief Financial Officer:

Yeah, I'll take that, Dave, and thanks for the question. So yeah, so we given a guide of 740 to $780 million of revenue for next year, 800, excuse me, thank you, Bill, 740 to $800 million, you know, next year. So if you pick the midpoint of the guide at 770, that's up 16%. And we do expect growth in the semiconductor piece of the business, the compound semiconductor and the data storage piece, the one area of the market that we expect to be down would be the scientific and other after a strong year in 2025. And we had some large quantum computing orders that we don't see at this point continuing into 2026. So we're going to see that business called about $60 million at the midpoint of our guide, down by about 33%. But let me come back to the semiconductor market first. It is our largest market. We expect growth around 15 percent at the midpoint of our guide, so about a $550 million revenue year in 2026 for the semiconductor piece of the business, and fairly, you know, in line with the range of estimates for WFE growth between 10 and 20 percent for next year. You know, on the compound semiconductor side, as Bill mentioned in the prepared remarks, We're really making traction with some of our new products and particularly for the GAN on silicon 300 millimeter for both GAN power and micro LED and our new large batch size arsenide phosphide tool for solar and other applications. And we expect that business to be up about a third next year to about 80 million. And then the data storage, we started signaling the data storage that customers were increasing the order activity in Q3. We expected that activity to continue in Q4. It has. And we're expecting that business to double to about $80 million in 2026. And we mentioned in our prepared remarks as well, that we're fully booked for system orders for 2026 at this point in time and even started booking orders into the beginning of 2027.

Dave Dooley | Analyst, Steelhead Securities:

And along that last point in the hard disk drive business, if you're fully booked this year and it's spilling over into next year, I would imagine your customer's CapEx is obviously going up. I would think this would be a multi-year increase in business in that sector. Maybe you could just help us understand what you think.

Bill Miller | Chief Executive Officer:

Yeah, we're definitely seeing with the adoption of hammer, the capital intensity is going up. Certainly their CapEx is increasing and we're seeing, you know, the first round of orders that we'll be shipping in 26 are really for the front end fabs. And now we're starting to see some orders not only continuing in the front end, but also the back end fabs that we call the slider fabs for shipment in 27. so it does seem that. The amount of heads that are being shipped is increasing because the slider fab is really just a function of the number of heads shipping. So that's that's a very positive sign actually. So, I think it's there's clearly legs into 27 and potentially.

Dave Dooley | Analyst, Steelhead Securities:

Great. Final question from me is, on the Propel, I was just wondering, you know, that's the GAN on silicon tool, I believe. You know, what do you think the opportunity for revenue production is in 26 and 27? And I would imagine the outlook there might be increasing, just given that there seems to be a lot of momentum to adopt GAN in the data centers.

Bill Miller | Chief Executive Officer:

Yeah, well, what we as you know, Dave, we've had an evaluation system at a leading power IDM for for some time, and that's going very well or at a very solid position there. And we I think about our last call announced that we actually received a pilot line order for. We received a pilot line order for a excuse me. a pilot line order for shipment in 2026. And so that's going to drive incremental business in probably approaching $15 million range. And I would expect there's a possibility just if they stick with their plans of continuing to ramp in 2027, we might receive orders in the second half of 2026 to be shipped in 2027 for that. That's the power opportunity. We also have a tool and backlog for 300 millimeter propel gain on silicon for a micro LED application. And we're actually doing demos with a few different customers for micro LEDs as well as other GAN power opportunities.

Operator | Conference Operator:

Thank you. The next question comes from the line of Dennis Payachanan with Needham. Please proceed.

Dennis Payachanan | Analyst, Needham:

Great. Thank you. I have a question about the gross margins. So it seems like we're taking a little bit of a dip here in Q4 and then in Q1. I think in Q4 it was because of some evaluation systems, and I think you're still guiding a little bit below where you were trending before that. Can you tell us about gross margins in Q1 and how you see them progressing through the rest of the year, given that you guided, I think, 41 to, was it 43% for 2026? Sure, Dennis.

John Kiernan | Chief Financial Officer:

Thanks for the question, and I'll be happy to. So, yes, we're guiding Q1 at a similar level to Q4, and we had highlighted coming into Q4 that we saw a change in our product mix And that product mix moved a little bit more to advance packaging as a bigger percentage of the overall business with a lower gross margin profile and also some impact from anticipated sign-offs from evaluation systems. And I would say that for Q1, we're seeing a similar revenue profile and a similar, you know, margin drivers there for Q1. As we look into the year, we do see gross margin accelerating, and accelerating particularly in the second half of the year next year. And that's driven by a couple of factors. You know, one, that we're seeing, you know, business from our new products, and the gross margins on those new products are higher than the most recent averages. Increase in the data storage business will help towards gross margin improvement. And significantly higher volumes in the second half of the year next year will also benefit the gross margin profile. And I would say as we exit the second half of the year, or we're in the second half of the year in 2026, we would expect to see, you know, gross margins at our 45%, you know, gross margin, you know, target.

Dennis Payachanan | Analyst, Needham:

That's some great detail. Thank you. So, just following up on that, is there currently any sort of tariff headwind that's factored into the guide, and could you quantify it if possible?

John Kiernan | Chief Financial Officer:

Yes. So, we started to see the impact, you know, principally in the second half of last year, and it was running about 100 basis points of gross margin headwind to tariff regime. And we're baking in slightly higher tariff regime in our forecast in 2026 compared to 2025. Great.

Dennis Payachanan | Analyst, Needham:

That's it from us. Thank you.

Operator | Conference Operator:

Thank you. Thank you. At this time, we have no further questions. I'd like to turn the call back over to Bill Miller for closing remarks.

Bill Miller | Chief Executive Officer:

Thank you. As we look ahead to 2026 and beyond, we remain confident in our ability to build momentum. We can continue to be excited about the pending merger with Excellus, which we believe together will enhance our ability to bring needed solutions to the rapidly evolving semiconductor industry and better serve our customers and shareholders. We look forward to keeping you updated on our progress. I would like to take a moment to thank our customers and shareholders for the continued support as well as recognizing our employees for their dedication. Have a great evening.

Operator | Conference Operator:

Thank you. This concludes today's conference. You may disconnect your lines at this time and we thank you for participating.