NASDAQ:VECO Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the VECO First Quarter 2026 Earnings Call. At this time, all participants are in 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 Meller, VECO's Chief Executive Officer, and John Kiernan, our Chief Financial Officer. The 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 FEC filings. FECO 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. Please note that we will not be addressing questions related to our pending merger with Excellus. We urge you to read the joint proxy statement relating to the transaction 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 today. Ricoh executed well in the first quarter and believe we're strategically positioned to benefit from the evolving semiconductor landscape, driven by artificial intelligence and high-performance computing. Reviewing our first quarter results, revenue was $158 million, non-GAAP operating income was $9 million, and non-GAAP diluted earnings per share was 14 cents, all within our guidance ranges. Now let me take a moment to highlight our top five key takeaways for the quarter. First, we're poised to benefit from the significant industry inflection driven by the global build out of AI infrastructure. FICO is well positioned across our portfolio with highly differentiated process equipment aligned with high growth opportunities. Second, order activity that accelerated in the second half of 2025 continued into the first quarter of 2026, and our pipeline of new opportunities continues to expand. Third, as it pertains to the compound semiconductor market, a stronger than expected opportunity has emerged for VECO to capture multi-year revenue in the production of indium phosphide lasers. This is a result of the broader transition from copper to optics within data centers over the next few years for increased speed and bandwidth to meet the scale-up needs of the AI landscape. This opportunity for VECA spans across multiple products, particularly for epitaxy and laser facet coatings, which I will provide more details on later in the call. Fourth, from an operational standpoint, we're expanding our manufacturing footprint and capacity to support increasing customer demand and enable timely deliveries. Lastly, as a result of accelerated bookings activity and ongoing customer engagements, We've increased visibility with significant orders for delivery well into 2027. Overall, we believe VECO is well-positioned for durable, multi-year growth driven by AI infrastructure and high-performance computing, and we remain focused on disciplined execution to deliver long-term value.

Before I move to the next slide, as a brief reminder, we continue to make progress on our proposed merger with Excellus. The transaction has been approved by shareholders of both companies and all regulatory approvals have been received other than antitrust approval in China. We remain engaged with the authorities in China and continue to expect the transaction to close in the second half of 2026. Integration planning is progressing well and we remain excited about the strategic fit and long-term potential for value creation. Moving to the next slide, I'll discuss VECO's critical role in the semiconductor manufacturing landscape, which represents the majority of our revenue. Capital spending is being driven by AI investments and is becoming increasingly concentrated at the leading edge areas where VECO is differentiated in technology. In logic and foundry, VECO has a longstanding and trusted position supporting advanced annealing applications across leading nodes. Our LSA platform continues to be a production tool of record, at all three Tier 1 Logic customers, driving repeat business and strong customer engagement, pushing towards more complex device structures with low cost of ownership. At the same time, our next generation nanosecond annealing platform is progressing through evaluations at Tier 1 Logic customers, addressing critical low thermal budget applications such as contact annealing, materials modification, and 3D device integration. These evaluations are advancing well, and we're anticipating an additional evaluation tool shipment to a third Tier 1 logic customer in the coming months. Expanding our penetration within our memory customers within the semiconductor market remains one of our most important strategic priorities. The transition toward AI-centric architectures, high bandwidth memory, and increasingly complex stack devices is driving new thermal and materials requirements. where we believe VECO's technologies provide a clear advantage. During the first quarter, we continue to make solid progress with our top tier one memory customers. In addition to serving as the production tool of record at a leading HBM supplier, we're advancing our LSA evaluation system at a second tier one DRM manufacturer with the potential for initial pilot line and high volume manufacturing orders in 2027. We're also extending our memory opportunity through ion beam deposition. Multiple IBD300 systems remain under evaluation as leading DRAM customers, with activity extending throughout 2026. The systems enable low-resistance film deposition for advanced DRAM bit-line metallization, providing an additional pathway to expand our served available market. Beco remains a market leader in ion beam deposition for EUV mass clients, a critical enabling technology as logic and memory customers expand EUV adoption and prepare for high NA lithography. We also have broadened our exposure to EUV telophiles, which are increasingly required to protect these critical masks as EUV usage scales. Advanced packaging, supported by our wet processing and lithography tools, continues to be a significant revenue driver from AI-related demand. As we discussed last year, our advanced packaging business more than doubled year over year, reflecting strong customer adoption and accelerating capacity investments. During the first quarter, we secured major volume orders for our wet processing systems from leading OSEC customers, supporting high volume manufacturing of next generation AI accelerators built on 2.5D advanced packaging architectures. These systems are scheduled to ship throughout the remainder of 2026 and into the first half of 2027, providing strong revenue visibility. To support this growth, we're continuing to expand our manufacturing footprint and production capacity, positioning the business to meet sustained customer demand as advanced packaging plays an increasingly critical role in AI infrastructure. As we turn to the next slide, we outline our forecast served available market within our semiconductor segment through 2030. This outlook continues to be driven by sustained investment in AI and high-performance computing. In annealing, we project the SAM to be $1.3 billion by 2030 as devices continue to shrink and shallower and more precise anneals are required to improve performance. These trends support long-term opportunities for both LSA and next-generation NSA platforms. Next, In ion beam deposition, our IBD300 platform for low-resistance metals, together with our leadership position in IBD EUV mask lengths, as well as the emerging opportunity in pellicles, where we're a production tool of record at a leading customer, all represent meaningful market opportunity and total a SAM projection of $500 million by 2030. As devices become more power-constrained and EUV adoption broadens, the opportunities for our technologies continue to increase. Finally, in the back end semiconductor process, our advanced packaging business for our wet processing and lithography tools continues to expand rapidly and the SAM is projected to reach $1 billion by 2030. We continue to demonstrate our ability to support our customers high volume manufacturing ramps driven primarily by AI. Moving to the next slide, I want to spend time discussing our stronger than expected momentum in the compound semiconductor market. We're seeing a clear industry inflection point underscored by NVIDIA's

recent investments in optical networking leaders. In silicon photonics, the industry is transitioning from copper interconnects to co-packaged optics as AI data centers require higher speeds, greater bandwidth density, and improved power efficiency. Indium phosphide laser manufacturing is a critical component of this shift and a foundational technology for next-generation AI optical infrastructure. As the industry transitions towards future capacity requirements, we believe this represents a growth opportunity of approximately $2 billion over the next several years. NICO plays a critical role across multiple steps of the indium phosphide laser manufacturing process, and we're seeing rapidly accelerating order demand across several of our product lines. Beginning with Epitaxy, MOCVD is a critical step, and we're seeing increasing orders for our Lumina MOCVD Indium Phosphide platform as leading photonics customers expand capacity to support AI-driven data center growth. We also support downstream process steps with our wafer etch and wafer storm wet processing technologies for advanced etching and surface preparation. What I would like to highlight for investors is the laser facet coating and epitaxy opportunities are similar sized and significant for the manufacturing of indium phosphide lasers. Our SPECTR ion beam deposition system, designed for the critical laser facet coating step, is essential to the process. Beco is a market leader in ion beam deposition and is differentiated from traditional approaches such as e-beam evaporation, ion-assisted deposition, or PVD. Compared to other approaches, the SPECTR ion beam deposition tool delivers low-loss optical films with tight control of thickness, uniformity, and reflectivity, precision that is required for anti-reflective and highly reflective plastic coatings on indium phosphide lasers. We have engagements with industry leaders that will drive the growth of our SPECTR IBD business in 2027 and beyond. As announced in today's press release, we received over $250 million in orders from multiple customers for our MOCBD, wet processing, and ion beam deposition tools to support the manufacturing of indium phosphide lasers, with deliveries starting in 2026 and significantly accelerating in 2027. A large portion of these orders is for our Spectre IBD system from leading suppliers of next-generation 800 gig and 1.6 terabyte optical transceivers for hyperscale customers. This significant order activity underscores the long-term value of our ion beam deposition technology leadership and our expanding role in this rapidly growing market. We have longstanding partnerships with our customers, spanning more than two decades. and we are well positioned across our multiple differentiated products to meet their growing needs in silicon photonics. Our focus remains on supporting customer production ramps, executing early deployments, and expanding our footprint to meet customer demand. With that, I'll flip to the next slide to share our projected served available market within the compound semispace. In silicon photonics, specific to the manufacturing of indium phosphide lasers, We project our SAM to be $700 million in 2030. As we discussed on the previous slide, demand is accelerating across several of our products driven by AI data centers. Our Lumina MOCVD batch platform, WaferStorm and Etch, and our Spectre ion beam deposition for the laser facet coatings are gaining significant traction. Other photonics driving SAM growth include red micro LEDs, solar cells for low Earth orbit satellites, and ARVR applications. Additionally, a global optoelectronics solution provider accepted and qualified our Lumina Plus MOCBD system for high volume arsenide phosphide production, including for use in micro LEDs. We expect these other photonics applications, SAMP, to total $550 million by 2030. In GaN power, We project our same to be $250 million by 2030, as we continue to see strong long-term drivers tied to AI data center power efficiency, electrification, and high power density applications. Importantly, at a leading power IDM customer, we have an evaluation for our Propel 300 system in place, and we received the pilot line order for a multi-chamber system, which we previously announced at the end of 2025. This represents an important validation point as customers move from development to early production. Looking ahead, as this customer ramps and finalizes long-term capacity plans, there is potential for additional system orders in the second half of 2026 for delivery in 2027. In the next several years, we expect our compound semiconductor served available market opportunity to meaningfully grow as AI, power efficiency, and advanced connectivity continue to reshape the industry. I would now like to hand the call over to John to walk through the financials.

John Kiernan | Chief Financial Officer:

Thank you, Bill. Revenue came in at $158 million, slightly below the midpoint of our guidance in previous quarter. Our semiconductor business reported $109 million, with a decline of 1% and comprising 69% of revenue. Revenue in the semiconductor market was largely driven by laser annealing systems for leading boundary logic and memory customers and web processing systems for advanced packaging. Compound semiconductor revenue totaled $19 million, a 6% decline from the prior quarter, totaling 12% of revenue. Data storage revenue was $10 million, flat to the prior quarter, representing 6% of revenue. Scientific and other revenue declined 16% to $20 million, comprising 13% of revenue. Turning to the quarterly revenue by region, revenue from Asia Pacific region, excluding China, was 57%, no change from the prior quarter. Sales were driven by leading semiconductor customers in Taiwan for our laser kneeling systems and wet processing systems for advanced packaging. The U.S. accounted for 20% of revenue, an increase from the previous quarter, primarily from semiconductor customers. Our China portion was 13% of revenue, a decrease from the previous quarter. EMEA and the rest of the world accounted for 10% of revenue. Turning to the first quarter non-GAAP results. First quarter gross margin came in at 36%, and operating expenses totaled $49 million. Income tax expense was approximately $1 million, resulting in an effective tax rate of approximately 11%. That income was approximately $9 million, and diluted EPS was 14 cents on 62 million shares. Moving to the balance sheet and cash flow highlights. We ended the quarter with cash and short-term investments of $383 million, a decline of $7 million. From a working capital perspective, Our accounts receivable increased by $40 million to $151 million. Inventory increased by $7 million to $282 million. And accounts payable increased by $5 million to $60 million. Customer deposits included within contract liabilities on the balance sheet increased $19 million to $69 million. Cash flow from operations totaled $8 million. And CapEx totaled $5 million during the quarter. Next, I'll turn to our second quarter non-GAAP outlook. Second quarter revenue is expected to be between $170 and $190 million. Gross margin is expected to be between 38 and 40 percent. We expect OPEX between $52 and $55 million, net income between $12 and $21 million, and diluted EPS between 20 and 32 cents on 64 million shares. Based on our current visibility, we're reiterating our full-year 2026 revenue guidance between $740 and $800 million, with growth accelerating in the second half of the year, as well as reiterating our diluted non-GAAP EPS between $1.50 and $1.85. I'll now provide additional commentary for each of our markets. Beginning with the semiconductor market, in 2026, we expect strong growth from our Tier 1 customers driven by AI and high-performance computing, more than offsetting declines in the mature node China business. Additionally, our advanced packaging, web processing systems are forecasted to contribute to revenue growth as customers increase manufacturing capacity to support AI workloads. In the compound semiconductor market, we see strong growth in silicon photonics, particularly for Indian phosphide laser manufacturing driven by AI data center demand. We are also seeing emerging opportunities for low Earth orbit satellites, micro LEDs, AR, VR applications, and GaN power. We have received significant orders in the first quarter across this market, which is driving meaningful revenue growth into 2027. In data storage, we secured orders in the second half of 2025 and experience continued order activity in 2026 for our IMD equipment. We are seeing increase in AI-driven demand for higher capacity HDDs, supporting investments in capacity and new technologies such as Hammer. Customer engagement remains strong with our business fully booked in 2026 and extending into the first half of 2027. As we look ahead, we are seeing continued acceleration for several of our core markets supported by increased customer engagement, expanding pipelines, and strong order visibility. Our focus remains on disciplined execution as we support customer production ramps and deliver against the next phase of growth. I would now like to turn the call to the operator for Q&A.

Operator | Conference Operator:

Thank you. We will now be conducting a question and answer session. As a reminder, given the pending merger with Axalis, the VCO management will not be addressing questions related to the transaction. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the queue. You may press star 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. Let's wait for a moment while we pull for questions. Our first question comes from Dennis Hatchinan with Needham and Company. Please state your question.

Dennis Hatchinan | Analyst at Needham and Company:

I appreciate it. Thank you. So maybe we can start with this $250 million order with the orders beginning in 2026. Could you tell us maybe which quarter would you expect us to start, Q3 or Q4? And then at what point in 2027 do you think this will kind of hit its revenue quarterly peak?

Bill Miller | Chief Executive Officer:

Yeah, Dennis, I would say we'll start shipping against those $250 million plus of aggregate orders

Dennis Hatchinan | Analyst at Needham and Company:

in the third quarter uh but i would say uh probably the most significant ramp will probably start in q127 great and then um for these systems with the lumina for the spectra and for the wafer retro kind of what are your current lead times and what do you think your maximum capacity is to meet demand for these systems on an annual basis

Bill Miller | Chief Executive Officer:

We have plans to increase our Spectre IBD capacity about 10x from its kind of base level we're at today. It's starting to hit that kind of level in early 27, and we're looking at future capacity needs to potentially double that again. And in wet processing, We're looking to add some expansion capacity to our existing facility as well as looking to an outsourced partner contract manufacturer in Southeast Asia for further capacity expansion.

Dennis Hatchinan | Analyst at Needham and Company:

Great. Thank you. And then my final one is about gross margins. So it looks like we came down a little bit to 36.2 from 37.7. Is this predominantly due to mix, like heavier advanced packaging, or maybe were there some other variables contributing?

John Kiernan | Chief Financial Officer:

Yeah, I think as specifically to Q1, one of the factors that, you know, contributing is that we had, you know, one less system, LSA system to a China, you know, customer. We got recently informed by BIS that that customer would require a license to ship to certain fabs for that customer. So that had about an $8 million impact on the top line for Q1 and also put us outside, as you mentioned, the gross margin, you know, guidance range.

Dennis Hatchinan | Analyst at Needham and Company:

Well, great. That's it for me. Congratulations on that big order. Thank you, Dennis.

John Kiernan | Chief Financial Officer:

Thank you, Dennis.

Operator | Conference Operator:

Our next question comes from David Dooley with Steelhead Securities. Please state your question.

David Dooley | Analyst at Steelhead Securities:

Yeah. Excuse me. Thanks for taking my question. A few other questions on the significant order activity. I was wondering, you kind of addressed it, but it sounds like there are like three tools involved in the big order here. And are they equally split or, you know, could you just kind of talk about the volume of each tool of the $250 billion order? And then as far as uh the ramp up of this business is this uh did you take this business from another competitor and um you know so i'm kind of curious about the competitive dynamics of this and are you sole sourced or are you sharing the business yeah dave let me let me give you some color here because we don't really talk haven't really historically talked a lot about uh the indium phosphide solutions that we have so

Bill Miller | Chief Executive Officer:

If you think about there's really 3 pieces that Vico serves in Indian phosphide, many laser manufacturing 1st, is the step, which I think is pretty well known and discussed. So Vico and our competitor. Provide equipment to make the business end of the laser, the Indian phosphide at the taxi that makes the device. We also have. What process processing what? wet etch and wet clean steps as part of the formation of the laser. And then also a part that's probably not as well known by investors is Veco has an ion beam deposition product called the SPECTR that deposits the anti-reflective and highly reflective coatings to create the laser facet coatings. in the laser. And as you might guess, having followed the company, ion beam deposition can deposit films much better than PVD or e-beam deposition, et cetera. And so we can deposit films with much better optical properties, very similar to the fact that we can make better IBD-EUV films or better ion beam deposition films for low-resistance metal. So here's another example of kind of this ion beam core technology, where VECO sold over 100 tools during the dot-com boom, lighting up DWDM fiber, and then that business kind of went away for quite a long time. But during that time, VECO maintained these deep technical relationships with a number of key customers where we are kind of process tool of record in their laser facet coding business. And so I think it's probably worth noting that, you know, when you look at the size of the three opportunities in front of us, the epitaxy market and the laser facet coding market opportunities are of about the same size. They're pretty significant markets. And I would characterize our laser facet coding opportunity, where we have a very strong incumbent position, not everywhere, but at a number of key companies. Whereas in the epitaxy space, as I think you know, our competitor has a very good incumbent position, but Zico has, over the past number of years, developed some products to improve our competitiveness And in that group of 250 million plus of orders, we did receive a number of MOCBD orders as part of that ramp. So, I would say a large portion of that was for the IBD laser facet opportunity, but also includes some very important orders for wet processing, because that's a really critical step in the device manufacturing. as well as the epitaxy step.

David Dooley | Analyst at Steelhead Securities:

Okay, so the epi step is the one where you've gone head-to-head, I think, with like Axtron and you've- Correct. I guess one part of the business here. Would you say you're a second source or a primary source? And I'm sorry to dwell on this, but it's mentioned in the press release, I think multiple customers. Could you just elaborate a little bit more about your position in

Bill Miller | Chief Executive Officer:

Yeah, so I would say in laser facet coding, we have a very strong incumbent position. I would say in the epitaxy step, we are probably more the second provider there today as a second source. And I would say in the wet processing, we have a strong position there with the number of the leaders there.

David Dooley | Analyst at Steelhead Securities:

Okay, final question from me, and we'll turn it over to others, is the GAN opportunity, you know, I think you talked about it, and you've received an order in the past, I think, from a 300 millimeter GAN customer. How big of a market do you think that that could be if, you know, if you're able to penetrate and capture some of the business that I'm assuming all these things are All these GAN parts are going into the data center, but maybe I'm wrong. Maybe you could just elaborate a little bit about that. That's it for me. Thanks.

Bill Miller | Chief Executive Officer:

Yeah, Dave, you're right on there. I'd say the adoption of 300-millimeter GAN on silicon is squarely targeted at the AI data centers. I would say we've had, as you know, a tool out with a major IDM for some time. The performance of our tool set is doing quite well. We have a pilot line tool order from the customer, and we're in the process of manufacturing that and would expect to ship that at the end of the year kind of timeframe. So, yes, it's definitely squarely in the AI data center applications.

Operator | Conference Operator:

Thank you.

Dennis Hatchinan | Analyst at Needham and Company:

Thank you, Dave.

Operator | Conference Operator:

Our next question comes from Gus Richard with Northland Capital Markets. Please state your question.

Gus Richard | Analyst at Northland Capital Markets:

Yes, thanks for taking the question and congratulations on the huge water momentum. You know, to hit the high end of the range for the full year, you know, what are the levers to get there? Is it delivery times?

John Kiernan | Chief Financial Officer:

Yeah, so Thanks for the question, Gus. I think our opportunity to go to the higher end of the range right now primarily rests in the semiconductor piece of our business. And I would say in the areas of laser annealing and lithography are probably sort of the drivers there. If I look at the other markets, And I look at, like, for example, the, you know, data storage market, you know, given our lead times and how we work with our customers on, you know, sort of build to order, you know, there could be some upside in some service and aftermarket business, but the systems business is pretty much booked out for this year, and we're booking orders into next year. And in the compound, you know, semiconductor market, you know, we're able to get

some of this new business into the back half of the year, as Bill, you know, mentioned here in answering, you know, an earlier question about some tools coming into Q3 and Q4. And, you know, we were anticipating that as part of our view for the year already anyway. But the predominant, you know, increase in capacity and bringing on and meeting the customers, you know, shift dates principally happened in 2027.

Gus Richard | Analyst at Northland Capital Markets:

Got it. And, you know, sort of the underneath question is the spectra. Does that have a similar, you know, three-quarter lead time as ion beam depth for HDD?

John Kiernan | Chief Financial Officer:

You know, we'll work to on that, you know, sort of, you know, lead time. We've been, you know, in this business for, you know, a long period of time. You know, recent business is a few tools of, you know, a quarter. And, yeah, I think the lead times are more in that, you know, sort of nine-month, you know, lead time, you know, there. You know, as we look to, you know, ramp up, you know, this business here, we'll look to reduce lead and, you know, cycle times, you know, for that business in order to meet, you know, customer shipment requirements. But mainly we're going to see, you know, sort of a step up in the output for that business starting in Q1 of 2027.

Gus Richard | Analyst at Northland Capital Markets:

Okay, got it, got it. Makes complete sense. And then just in terms of some of the evals that are going on, the IMB debt for the memory market, you know, do you think you can reach conclusion on those evals, you know, in the next quarter or two? And, you know, sort of what are your prospects on getting over the finish line?

Bill Miller | Chief Executive Officer:

Yeah, we're, you know, the the feedback from our customers is, it's, it's not a matter of if it's a matter of when they're impressed with, very impressed with the film performance of the IBD, where we're working very closely with them is in areas such as particle performance, automation, reliability. And so They've extended their evals out through the end of 2026, and we're working on a few CIP improvements to the tool to address some of those shortcomings. So I would say it's really, the customer is really quite excited about the opportunity, but we do have some, I would call it engineering work left to do to demonstrate the the high volume requirements of front-end setting.

Gus Richard | Analyst at Northland Capital Markets:

Got it. All right. Thanks. That's it for me. Thank you, Gus. Thank you, Gus.

Operator | Conference Operator:

A reminder to all participants, to ask a question, please press star 1 on your telephone keypad. Our next question comes from David Dooley with Steelhead Securities. Please state your question.

David Dooley | Analyst at Steelhead Securities:

Yeah, again, thanks for taking my further questions. Could you talk a little bit more about the hard disk drive business? And, you know, what do you think that that will, what sort of second half growth profile should we expect versus the first half? And then you talked about obviously having the order book is full and manufacturing slots are full for 26. Are you expanding capacity for 2027 at this point? Or it would seem to me like the disk drive guys are going to add a lot of capacity given what they're seeing from the AI data centers, but maybe I'm wrong.

Bill Miller | Chief Executive Officer:

Yeah, I would say... Dave, we're looking to double that business in 26 over 25, and I would say the trajectory of it is more second half loaded. I think probably the first system shipment is planned to happen in Q2, not in Q1, and then ramping in Q3 and Q4. just based on lead times. As you know, we kind of do a build-to-order model. We're not a build-to-forecast model, and that kind of keeps us and the industry healthy, and that does seem to work for everybody. But what we are seeing, I would characterize year-to-date at this point, that both of our major customers are continuing to place orders not only for front end equipment to, you know, at the wafer level, but also the back end, what they call the slider fabs, which clearly means that the number, that they're increasing the number of heads that they're producing. So, I would guess, based on the order activity we're seeing here early in 26, that certainly the first half of 2027 will remain strong. And I would just characterize the commercial activity

John Kiernan | Chief Financial Officer:

uh still remains remains pretty positive from a from an order book standpoint john i don't know if you'd like to add yeah i think you covered that uh very very well bill i think that really sums up well where we are with uh 2026 and you know what disability we have into 2027 at this time and then final one for me is um what would you expect kind of you know a rough cut of what you expect your semi revenue to grow in 26 and

David Dooley | Analyst at Steelhead Securities:

I'm guessing it's probably going to grow higher in 27, but maybe you could elaborate a little bit on some of the puts and takes to growth in both 26 and 27. Yeah.

John Kiernan | Chief Financial Officer:

We see mostly, you know, sort of, you know, positive environment here in 2026 and, you know, estimates of a growing, you know, WFE environment in 26 and moving into 2027. pieces of the business, you know, attached to, you know, AI and high performance, you know, computing, expected to expected to grow. And so that's advanced foundry logics with our laser annealing product, high bandwidth memory for our customer that we've, you know, penetrated, you know, there and, you know, continued strength in in advanced packaging. I would say the, you know, the one, you know, headwind for us in the semi-business, but it's more than offset in the strength in the pieces of the business I just mentioned, is declining business in China for mature node. So we expect, you know, that business to have, you know, headwind in, you know, 2026. We've been foreshadowing this for the last, you know, two years or so right now that we saw the business um you're falling off in in 2025 as a reminder we have a narrow um you know base of business there in china it's really highly predominant for our lsa product for 40 and 28 nanometer um you know fabs and they just don't seem that same level of investment in new fabs that we saw a couple of a couple of years ago so Taking all that into consideration, we see, you know, sort of our semi-business growing this year over last year mid-teens.

David Dooley | Analyst at Steelhead Securities:

I was going to say, since you're taking the Chinese lumps this year, I would guess that, you know, your growth rate would probably accelerate next year.

John Kiernan | Chief Financial Officer:

You know, we're looking at a very positive, you know, WFE environment, and we have nice attachments to the areas that are expected to drive WFE. Yeah, I think as we have this early look at 2027, you know, 2027 looks positive. Bill did, you know, sort of mention earlier and had remarks that we are increasing, you know, our capacity for advanced packaging. We see opportunities, you know, for that to continue to grow into 2027. So, we're taking, you know, making some investments to increase capacity there as well.

Bill Miller | Chief Executive Officer:

It's probably also worth mentioning, Dave, that you know, a lot of the WFE estimates that you see include some pieces of the silicon photonics market. And so you'll see that show up in our compound semi. So when you look at semi alone, really some of the compound semi will probably be categorized as WFE by more generally. And so our compound semi business is probably going to grow 50%. So when you take You know the kind of mid teams that John spoke spoke about in the portion that's really significantly growing. We're probably growing much higher than that on a WFE basis.

Operator | Conference Operator:

Great point, thank you.

Bill Miller | Chief Executive Officer:

Thanks Dave.

Operator | Conference Operator:

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

Bill Miller | Chief Executive Officer:

Thank you. As we look ahead, we believe Zico is well-positioned to meet the evolving needs of our customers as the silicon photonics industry reaches an inflection point driven by AI and high-performance computing. Our technologies across logic, memory, advanced packaging, compound semi, and data storage are becoming increasingly critical as customers push for greater performance, scale, and efficiency. With strong customer demand, expanding served available markets, and disciplined execution, We see meaningful long-term growth and remain focused on delivering sustained value for our shareholders. I'd like to thank our employees for their hard work, as well as our customers, partners, and shareholders for their continued trust in Veco. Have a great evening.

Operator | Conference Operator:

Ladies and gentlemen, the conference call of Veco has now concluded. Thank you for your participation. You may now disconnect your lines.