NASDAQ:VECO Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Greetings and welcome to the VECO Second Quarter 2026 Earnings Call. At this time, all participants are in a listen-only mode. It is now my pleasure to introduce your host, Alex de la Croix, Head of Investors Relations. Thank you. You may begin.

Alex de la Croix | 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. The earnings release and slide presentation to accompany today's webcast is available on the VECA 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. 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. We believe the industry is at an important inflection point where AI driven investments are accelerating demand for enabling semiconductor technologies at an unprecedented pace. Veco is uniquely positioned at the intersection of the fastest growing segments of WFE, high performance computing, Advanced Packaging, and Silicon Photonics, creating a significant opportunity for accelerated multi-year growth. Let me review our top four key takeaways from the quarter. First, we had strong quarterly performance, exceeding our guidance ranges and streets expectations. Revenue was $193 million, non-GAAP operating income was $23 million, and non-GAAP diluted EPS was 33 cents. Second, order momentum accelerated across all major end markets. During the second quarter, we secured $200 million in advanced packaging orders for wet processing and lithography systems, strengthening our visibility into 2027. Third, we're focused on executing our growth opportunities through a manufacturing expansion plan to meet customers' requirements. We're making deliberate investments ahead of revenue in the second half of 2026 to meet the demands of 2027. Lastly, Ricoh is achieving meaningful commercial validation with our next-generation nanosecond annealing system, hitting major milestones in our evaluation program and securing a follow-on order. We're excited about the compelling long-term growth runway supported by AI infrastructure and high-performance computing. We remain focused on executing our strategy and delivering sustained value for our shareholders. Before moving on, I'll briefly note that the merger with Excellus continues to progress as planned, with shareholder approval from both companies and all regulatory clearances secured other than China antitrust approval. We continue to target a second half 2026 closing. Interaction among integration teams remains on schedule and further supports our conviction in

the compelling strategic fit and potential long-term value creation of the combination. As we move to the next slide, I'll highlight Vico's role in our largest market, semiconductor manufacturing, and share our served available market opportunity through 2030. The accelerating investment in AI infrastructure and high performance computing is driving a fundamental shift in leading edge enabling technologies. This trend aligns well with Vico's differentiated portfolio and positions us to benefit from the industry's evolving growth opportunities. I'll begin with advanced packaging, which is rapidly becoming a larger and increasingly important part of our business through our web processing and lithography portfolio. The demand remains robust as AI-driven investments accelerate the adoption of heterogeneous integration and increasingly complex 2.5 and 3D architectures. Building on the strong momentum we experienced in the first quarter, activity among leading customers continues to strengthen and provides us with a unique level of visibility into customer expansion plans. As a result, we have significant backlog for 2027 and our customers' forecasted roadmaps reinforce our confidence in the long-term growth trajectory of the business. As one example, we are actively engaged with a Tier 1 foundry on a panel processing opportunity, and we're encouraged by the progress. Looking longer term, we expect advanced packaging to become an increasingly meaningful contributor to Veco's growth as we gain share in a growing market that we project will approach a billion dollars by 2030. To support this growth, we're expanding our manufacturing footprint in-house and with our outsourced partners in Southeast Asia. In the front end wafer manufacturing process, We serve both advanced Logic and Foundry as well as memory customers. In Logic and Foundry, we have long-standing and trusted customer relationships and remain the production tool of record at all three Tier 1 customers for our laser spike annealing system, driving repeat business. We're also pleased with our progress for our next-generation nanosecond annealing system and recently announced that a Tier 1 customer successfully completed their evaluation and placed a follow-on order for a second system to ship in the second half of 2026. We also announced that the third Tier 1 Logic customer received an NSA evaluation tool. Veco has now successfully engaged all three Tier 1 Logic customers with our NSA technology, and we continue working closely with them to support future roadmaps. Now, I'll discuss the memory semiconductor market, which represents a significant long-term growth opportunity as AI-driven compute architecture accelerates demand for DRAM and NAND technologies. These technology transitions are creating new thermal processing and material requirements that align well with Veco's differentiated annealing capabilities. The memory industry is at the early stages of adopting laser-based technologies for annealing applications. We continue to make solid progress with leading memory customers including serving as the production tool of record at a tier one high bandwidth memory manufacturer that is accelerating their investments in 2026. We're also advancing an LSA evaluation at a second tier one DRAM customer and are excited about the potential for additional follow-on orders in the 2027-28 timeframe. Customer engagement continues to expand with a third DRAM customer with potential to enter an evaluation agreement over the coming quarters. Furthermore, we're encouraged by strong engagement with several NAND customers who are exploring applications for our LSA and NSA platforms, which are continuing to advance well. Overall, our annealing platform continues to perform exceptionally well, and in the second quarter, we delivered record revenue across our LSA and NSA product lines. Looking ahead, We projected an E-Link SAN of approximately $1.3 billion by 2030 as advanced logic and memory devices become increasingly complex and require more precise thermal processing solutions. Our memory market opportunity continues to advance through our Ion Beam deposition technology with multiple IBD300 systems under evaluation for advanced DRAM applications, such as bit-line metallization. These evaluations continue to progress with high customer engagement. Collectively, these engagements strengthen our position in the memory market and provide additional avenues for future growth. Lastly, Beco continues to be a leader in ion beam deposition for EUV mask blanks and is well positioned as the industry advances towards high NA lithography. We have expanded the use of our ion beam technology for EUV pellicles, which protect defect-free masks and improve productivity as EUV utilization scales. We continue to win production business at a Tier 1 foundry and engage new customers for EUV pellicles. More broadly, we see an ion beam deposition SAM opportunity of approximately $500 million by 2030, driven by adoption of our IBD300 platform for low-resistance metals and our leadership position in deposition for EUV applications. On the next slide, I'll discuss our compound semiconductor market and the projected served available market opportunity through 2030. Our outlook remains supported by the secular growth of AI infrastructure in silicon photonics, optical connectivity and

power efficiency. We believe these trends are driving a significant inflection in compound semiconductors. where adoption is accelerating across both optical networking and power applications, which continues to create an increasingly attractive opportunity for VECA. In silicon photonics, we project a $700 million SAM by 2030 for our role in the manufacturing of indium phosphide lasers. The rapidly evolving landscape of AI data centers is driving demand across our SPECTRE IBD system WaferStorm and Etch for wet processing solutions, and Lumina MOCVD platform. We continue to see engagement with these customers as they move toward large-scale deployments. I'll provide greater detail in our role in silicon photonics on the next slide. In the other photonics category, we project $550 million in sand by 2030. This includes opportunities for red micro LEDs, Low Earth Orbit Satellites, and ARVR applications. In GaN power, we project $250 million in SAM by 2030, supported by long-term trends tied to AI data center power efficiency, electrification, and high power density applications. We remain encouraged by our progress with a leading power IDM customer, where our Propel 300 platform continues to advance towards production. Following the previously announced pilot line order, we believe we're well positioned to participate in future capacity expansions. VECO is also a critical member in the IMEC 300 millimeter GaN power consortium program to advance power electronics manufacturing alongside other industry leaders. On the next slide, I'll dive deeper into the role we play in silicon photonics. Within the compound semiconductor market, we continue to benefit from the growing demand tied to AI, particularly through our exposure to silicon photonics and the indium phosphide lasers used for optical connectivity applications. Industry investment remains focused on a hyperscalers need for a higher bandwidth and optical connectivity across increasingly large AI data clusters. As bandwidth requirements continue to accelerate, The industry is increasingly focused on overcoming the copper wall, where traditional electrical interconnects become less efficient at supporting higher-speed data transmission. At the same time, hyperscalers continue to advance optical networking architectures, including evolution of EML plugables, silicon photonics plugables, as well as the longer-term solutions of near-packaged and co-packaged optics. Collectively, These trends are driving broader adoption of optical connectivity throughout the AI infrastructure ecosystem. These architectures increasingly rely on indium phosphide laser technologies. Our portfolio spans multiple steps of the laser manufacturing process, including epitaxy, wet processing, and laser facet coating. Given our engagement with our customers, we continue to believe this opportunity represents at least $2 billion over the coming years. Let me briefly touch on each of our products in the laser manufacturing space. First, the MOCVD epitaxy steps play a crucial role and we're continuing to penetrate the market with our Lumina MOCVD Indium Phosphide platform as leading photonics customers expand capacity. As announced in today's press release, a global leader in optical and photonics technologies has selected our Lumina Plus MOCVD system to fabricate indium phosphide lasers in the datacom industry. This system offers the largest batch size in the MOCBD industry, best in class throughput, and lowest cost per wafer. Lumina Plus also has the ability to deposit high quality epitaxial layers on indium phosphide wafers of any size, bringing much needed scale to the optical transceiver industry. Additionally, We're a market leader with our wafer etch and wafer storm wet processing technologies for advanced etching and surface preparation. Lastly, we're a market leader with our SPECTR ion beam deposition tool for the critical laser facet coating step. From ongoing customer engagements, we believe our IBD technology remains differentiated from traditional approaches as the industry transitions to higher powered lasers which demands stricter film specifications. In order to capture this opportunity in silicon photonics, we're executing our product roadmaps to meet our customers' needs and are spending ahead of revenue. With that, I'll turn the call over to John to review the financial results.

John Kiernan | Chief Financial Officer:

Thank you, Bill. Revenue came in at $193 million above the midpoint of our guidance in previous quarter. For the second quarter, our semiconductor revenue was $131 million, an increase of 20% from the prior quarter and comprising 68% of revenue. It was largely driven by laser-needling systems to leading-edge Foundry Logic and memory customers and web processing systems for advanced packaging. For full year 2026, we expect semiconductor revenue to grow by more than 10% compared to the prior full year. This performance is driven primarily by additional sales to leading memory, Foundry Logic, and EUV customers serving AI and

high-performance computing applications. In 2027, building on this momentum, we expect revenue growth to meaningfully accelerate, particularly in advanced packaging. Compound semiconductor revenue for the second quarter totaled $21 million, a 9% increase from the prior quarter, totaling 11% of revenue. For full year 2026, we expect compound semiconductor revenue to approximately double versus full year 2025. Growth is primarily driven by our aluminum MOCVD and specter IBD systems for silicon photonics. Looking ahead in 2027, we expect revenue growth to accelerate, driven by backlog for these tools. Turning to data storage, revenue for the second quarter was $22 million, a 117% increase from the prior quarter representing 11% of revenue. We expect revenue to double year over year in 2026. Demand remains robust supported by customer investments in next generation storage technologies and capacity expansion initiatives. We are booked well into 2027 and continue to engage closely with customers on future technology inflections particularly hammer-based production roadmaps. The combination of strong backlog, favorable industry dynamics, and deep customer collaboration provides us with confidence and growth in this market as we move into 2027. Lastly, scientific and other quarterly revenue remain flat at $20 million, comprising 10% of revenue. Turning to quarterly revenue by region, Revenue from the U.S. accounted for 31% of revenue, an increase from the prior quarter primarily from advanced semiconductor customers. The Asia-Pacific region, excluding China, was 36%, a decrease from the previous quarter. Our China portion was 25% of revenue, an increase from the prior quarter. EMEA and the rest of the world accounted for 8% of revenue. Turning to the second quarter non-GAAP operating results, we had strong performance with our bottom line exceeding our previously provided guidance ranges and street expectations. Second quarter gross margin came in at 39.5% and operating expenses totaled $53.3 million. Income tax expense was approximately $3 million, resulting in an effective tax rate of approximately 12%. Net income was approximately $22 million and diluted EPS was 33 cents on 67 million shares. Now moving to the balance sheet and cash flow highlights. We ended the quarter with cash and short-term investments of $429 million, an increase of $46 million. From a working capital perspective, our accounts receivable decreased by $3 million to $148 million. Inventory increased by $10 million to $292 million, and accounts payable decreased by $3 million to $57 million. Customer deposits increased by $45 million to $114 million. Cash flow from operations totaled $51 million, and capex totaled $4 million during the quarter. Next, I'll turn to our third quarter and full year 2026 non-GAAP outlook. Third quarter revenue is expected to be between $200 and $220 million. Gross margin is expected to be between 41 and 42%. We expect OPEX between $57 and $58 million, net income between $23 and $33 million, and diluted EPS between 35 and 49 cents on 67 million shares. As discussed earlier, demand across our key markets remains exceptionally strong, with many customers providing forecasts that extend well into the future. This increasing visibility is translating into robust order momentum, and today a significant portion of our anticipated 2027 revenue is already represented in backlog. To capitalize on these opportunities, we remain intensely focused on executing our manufacturing ramp and investing ahead of expected revenue. During 2027, we plan to more than double capacity in advanced packaging and silicon photonics. These investments include expanding manufacturing capacity through a combination of internal production and strategic outsourcing partnerships, adding in training personnel, and expanding our supply chain to support customer demand. While we view these investments as critical to capturing significant long-term growth opportunity, they will have a near-term impact. On a full year 2026 basis, we expect approximately $10 million of incremental operating expenses and a gross margin impact of roughly 75 basis points associated with these growth initiatives. Given the strength of our order momentum, improved customer visibility, and actions we are taking to support future growth, we are updating our full year 2026 non-GAAP outlook. We now expect full-year revenue to be between 780 and 810 million dollars. Gross margin is expected to be between 40 and 42 percent. Operating expenses are expected to range from 215 to 225 million dollars. We expect non-GAAP diluted earnings per share of $1.36 to $1.61 based on approximately 67 million shares. Overall, we are entering this next phase of growth from a position of strength. The combination of increasing customer visibility, strong order momentum, and expanding opportunities tied to AI infrastructure gives us confidence in our long-term outlook. We believe EECO is uniquely positioned to capitalize on these opportunities, deliver sustainable profitable growth, and create a substantial value for shareholders. I would now like to turn the call over 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 Excellus, VECOM management will not be addressing questions related to the transaction. If you would like to ask a question, please press star 1 on your telephone keypad. 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 start keys. One moment, please, while we poll for questions. Our first question is from Dennis with Needham & Company, LLC. Please proceed with your question.

Dennis | Analyst, Needham & Company, LLC:

Great. Thank you for the opportunity. So it looks like your 2026 annual revenue guidance was lifted by about $25 million, but the non-gas EPS outlook was lowered. And from what looks like gross margin mix and higher OPEX, can we assume that the gross margin impact is from the $200 million order for the advanced packaging? And in terms of the OPEX increase, can you tell us more about what kind of investments you'll be making there?

John Kiernan | Chief Financial Officer:

Yeah, sure, Dennis. So the $200 million order in advance packaging is principally for delivery in 2027. So that's not having an impact on the gross margins for this year and the gross margin going forward for the rest of this year. So what we did highlight in our prepared remarks here is that we are investing ahead of that increased business that we're expecting in advanced packaging as well as increased business in the silicon photonics that we highlighted those orders earlier in the year. So we're adding costs and we're adding costs to be able to increase our manufacturing capacity that we highlighted in our prepared remarks is more than doubling the capacity. And that's both by increasing our internal manufacturing capability here on the East Coast where we manufacture some of those products as well as expanding partnerships with contract manufacturers in Southeast Asia. So the one time set up costs to get the capacity in place and to bring the contract manufacturers on board the hiring of additional and training of additional employees to meet those customer demands to build the tools, install the tools, and the like there. So that's on the one end. On the other end, we're also increasing our OpEx. We said it's about a $10 million increase over our planned OpEx in the second half of the year. to support those activities and about a 75 basis points impact on the full year gross margin. So that's really what the impact was to bringing down the gross margin percentage for the balance of the year compared to what was previously forecasted and increase our operating expenses compared to what was previously forecasted.

Dennis | Analyst, Needham & Company, LLC:

That's really helpful. Thank you. And then for my second question, Well, you know, with the industry in an upcycle, you have both these optical networking orders, shipping, the data storage-related revenue coming in, and now the advanced packaging systems as well. Could you maybe give us like a recap or an update on when these will begin shipping, like how their revenue ramp profile will look, and if there were any changes from prior expectations for some of these programs?

Bill Miller | Chief Executive Officer:

Yeah, Dennis, I would say most of this is really hitting really starting to ramp beginning a little bit in the end of the fourth quarter of 26 but hitting in starting in Q1 and then probably getting more up to speed in Q2 of 27 so it's really ramping the majority of it is in 27 for both for all those for silicon photonics ramp as well as

advanced packaging coming online in that time frame

Dennis | Analyst, Needham & Company, LLC:

Great. And one more, if I may. I think you mentioned that customers are providing notebooks well into the future. How far would you say, on average, they're giving you visibility right now? And has this visibility increased over the last three months?

Bill Miller | Chief Executive Officer:

I would say our visibility has been increasing. We have very strong, much stronger visibility, I would say, than historically we've had into 2027 at this point, midway through 2026. Customers are actually sharing forecasts out beyond 2027, kind of some long-range forecasts that they wouldn't normally be sharing.

Dennis | Analyst, Needham & Company, LLC:

That's it for me. Thank you very much.

John Kiernan | Chief Financial Officer:

Thanks, Dennis. Thank you, Dennis.

Operator | Conference Operator:

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

Bill Miller | Chief Executive Officer:

Thank you. Veco delivered another strong quarter, exceeding expectations and continuing to build momentum across the business. We remain well positioned to capitalize on AI investments, which are driving strong customer engagement and increased visibility into 2027. At the same time, we continue to make steady progress toward completing our merger with Excellus, reinforcing our confidence in the significant potential value creation. We remain focused on our execution and we're excited about the opportunities ahead. Thank you for our shareholders and our VICO United team for continued support and commitment. Have a great evening.

Operator | Conference Operator:

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.