Q1F24 Earnings Call

Prepared Remarks | Feb 1, 2024

Joseph Elgindy | Senior Director, Investor Relations

Welcome everyone, to Kulicke & Soffa's fiscal first quarter 2024 conference call. Fusen Chen, President and Chief Executive Officer and Lester Wong, Chief Financial Officer are also joining on today's call.

Non-GAAP financial measures, referenced today, should be considered in addition to, not as a substitute for, or in isolation from, our GAAP financial information. GAAP to non-GAAP reconciliation tables are included within our latest earnings release, and earnings presentation. Both are available at investor.kns.com, along with prepared remarks for today's call.

In addition to historical statements, today's remarks will contain statements relating to future events and our future results. These statements are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to risks and uncertainties that may cause our actual results and financial condition to differ materially from the statements made today.

For a complete discussion of the risks associated with Kulicke & Soffa, that could affect our future results and financial condition, please refer to our recent and upcoming SEC filings, specifically our most recently filed Form 10-K, and the 8-K filed yesterday.

With that said, I will now turn the call over to Fusen Chen for the business overview. Please go ahead, Fusen.

Fusen Chen | President & Chief Executive Officer

Thank you, Joe.

Good morning, everyone. Looking ahead into fiscal 2024, we remain focused and optimistic. Our businesses remain on track to support new levels of value creation as our core market recovers. We continue to anticipate a return to an above average industry growth rate by the end of the fiscal year.

As the semiconductor industry returns to a more normal growth pattern through fiscal 2024, we remain in dominant leadership positions across core markets and will continue to aggressively drive key strategic initiatives providing additional paths to long-term value creation and profitability.

Specifically, these strategic initiatives are centered around three key businesses – Ball Bonding, Advanced Packaging, and Advanced Display.

I will provide additional details to each of these points shortly, but first I would like to summarize our financial performance, end market observations, and share an update on the Advanced Dispense business.

For the December quarter we delivered 171.2 million dollars of revenue, just above our guidance midpoint, with GAAP net income of 9.3 million dollars and non-GAAP earnings per share of 30 cents.

From a market standpoint, the fiscal first quarter was aligned with seasonal expectations. Based on external market forecasts, customer feedback and discussions, we continue to anticipate improvements over the course of 2024 with more significant demand in the second half of 2024. We anticipate overall industry conditions will remain favorable going into 2025 as we expand our market positions.

Over recent months, we have made significant progress with our Advanced Dispense business and are actively competing for several opportunities in parallel. We continue to target key opportunities across our served end markets which require high-precision dispense capabilities combined with world-class motion control capabilities, K&S is known for. Initial customer feedback has been strong, and we are increasingly confident we will leverage and grow these opportunities over the coming years.

Turning to the end-market review, we continue to see signs of broader cyclical improvement, and also anticipate gradual recovery through the fiscal year.

Seasonal dynamics impacted our December quarter results, as expected, this effect was most pronounced within General Semiconductor. Here, we experienced softer demand due to seasonal patterns which effected the ball bonding business and softer power semiconductor market conditions which effected our Wedge Bonding business.

The power semiconductor market is going through a period of inventory and capacity digestion causing a near-term headwind in Wedge Bonding. We continue to expect trends in power semiconductor to improve over the long-term and support growth of our Wedge Bonding business.

For Ball Bonding, we anticipate the demand environment to improve as semiconductor unit growth returns in fiscal 2024.

Next, LED has remained relatively soft with demand primarily attributable to general lighting. We remain focused on the existing qualification engagements for both LUMINEX™ and Project W and I will share an update to both opportunities shortly.

Within Automotive & Industrial, macro and industry factors have impacted the near-term demand for our Wedge solutions. Despite the well-known softness in Automotive near-term, we continue to anticipate specific opportunities for K&S in the battery assembly space later this year. This specific battery opportunity is unique to K&S and will help mitigate some of the existing demand softness affecting the broader automotive market.

Longer-term, as semiconductor content and complexity within vehicles advances, we remain strategically aligned with automotive trends. We will continue to provide leading-class equipment to support the transition to more advanced and sustainable vehicles, including efficient power delivery and storage applications.

Finally, within Memory we have seen demand improve significantly for our leading NAND solutions across multiple customers. Memory revenue in the first fiscal quarter exceeded revenue for the prior fiscal year.

This strong improvement provides further confidence that we are past trough in the memory market and we continue to actively pursue near and long-term strategies to expand share in high-volume and leading-edge DRAM applications. During the December quarter, we have also booked revenue for multiple systems capable of supporting vertical-fan-out applications in production and remain very positive on the long-term potential of this smart packaging approach.

We currently anticipate overall end market demand will return to a more normalized level by the end of fiscal 2024 and continue well into fiscal 2025.

As we prepare for this next period of demand recovery, we are extremely focused to execute key K&S opportunities which will further diversify revenue, expand market growth, and sustainably enhance earnings potential over the long-term.

I would like to provide a brief update on our unique positions within the Ball Bonding, Advanced Packaging, and Advanced Display opportunities.

The semiconductor assembly market continues to evolve and we are well positioned to add more industry value in the form of power efficiency, performance, package-level transistor density and cost. This technology-driven evolution within assembly is demanding more feature rich and capable assembly solutions which we are well prepared to deliver.

These semiconductor opportunities will continue to benefit our Ball Bonding and Advanced Packaging businesses over the long-term.

Within Ball Bonding, we continue to deliver new feature-rich solutions which will further extend our leadership positions, drive share gains and also help enhance and sustain long-term gross margins.

Our initial two systems, POWERCOMM™ and POWERNEXX™, were recently released and have been well received by customers. We are ramping the production of these initial systems during the March quarter.

As explained on previous calls, the Ball Bonding process remains the most dominant and cost-effective solution for both high-volume single and multi-die packages. As a pioneer in Ball Bonding with decades of industry leadership, we continue to maintain a dominant market share in these key growth areas.

Additionally, we continue to see many consumer, mobile and IOT-based applications in high-volume markets seeking new packaging approaches. These new approaches provide greater levels of transistor density at the package-level and provide K&S with opportunities to add additional value.

Within Ball bonding, these technology-driven changes are demanding more complex looping and higher wire-count per package. Our market leadership and persistent development efforts provide a unique position to drive industry-level changes.

Currently, we see new markets emerging in shielding and also within high-potential stacked-die applications, such as vertical-fan-out, which are providing specific, long-term and unique opportunities for the Company.

New shielding applications are being deployed for both long and short-distance wireless communications. As bandwidth increases and wireless communications become more engrained in consumer electronics, we expect ongoing growth in this new wire bonding market. This shielding approach was in development a few years ago and has now been broadly adopted by OSAT and IDMs and is utilized in high-volume production. We expect these shielding needs to continue supporting near-term recovery and long-term growth in the Ball Bonding market.

Similar to where shielding was a few years ago, there has recently been significant interest from customers for our vertical-fan-out, or VFO, solution. This new opportunity is anticipated to further extend our memory market access over the course of fiscal year 2024. Over the next few years, we anticipate similar vertical wire approaches will provide a cost-effective alternative to Through-Silicon-Vias, or TSVs, for high volume 3D applications beyond the initial adoption within the memory market.

The value of VFO stems from its ability to create a complex 3D structure which provides form-factor, power efficiency improvements and significant cost benefits over alternative advanced packaging solutions. One customer has reported a 27 percent improvement in form-factor and 5 percent improvement in power efficiency along with allowing higher I/O count and better heat dissipation.

During the December quarter we booked VFO system revenue of just over 500,000 dollars to a first moving customer as they refine their production approach. We are currently engaged with three leading memory customers who are seeking cost-effective 3D packaging approaches. Initially, we anticipate DRAM applications, such as Low Power DDR, LPDDR, to move into low volume production in calendar year 2024 and higher volume production in 2025. Based on initial customer feedback, there is also strong interest and potential that VFO can be deployed for high-bandwidth-memory applications in the next few years.

Shielding, VFO and the overall growth of high-volume multi-die applications, has increased the growth rate, technology needs and our competitive position within the sizeable Ball Bonding market. We believe we are best positioned to leverage these new market opportunities long-term.

Turning to Advanced Packaging, we continue to actively support several customer engagements in parallel and anticipate additional orders from OSAT, IDM and Foundry customers as we complete key evaluations and qualifications.

In addition to our incumbent position in high-volume semiconductor markets, our advanced packaging efforts allowed us to take share in new high-growth markets including leading-edge logic, mobility and co-packaged optics.

We are increasingly confident on the longevity and market potential of our TCB portfolio and expect to extend the technology well beyond the previously targeted 10 micron pitch.

Reaching below this 10 micron threshold will further unlock the flexibility and long-term potential of our TCB solutions. We increasingly anticipate TCB will be an essential component to leading-edge assembly for many years to come.

In addition to finer-pitch capabilities which extend bandwidth and transistor density, our TCB solutions also provide direct copper-to-copper interconnects. Direct copper-to-copper connections are best-in-class due to low resistance and high performance. Our Fluxless TCB solution is well positioned to enable this industry breakthrough across high-volume and leading-edge heterogeneous markets.

We are confident of our significant technology lead in Thermocompression which we intend to extend further. Demand for our solutions is rising and we are running several qualifications, with OSAT, IDM and Foundry customers, in parallel.

Over the coming weeks, we intend to ship several more qualification systems supporting Fluxless TCB. I look forward to sharing new product and customer milestones over the next few quarters as we drive broader market adoption.

Finally, within Advanced Display, we continue to expand access into the broadening mini and micro-LED markets. Our growing portfolio supports the evolving display market serving small-format, high-performance mobile displays as well as large-format high-volume and direct-emissive displays.

We expect to secure a qualification win for LUMINEX™ later this fiscal year. LUMINEX™ provides a dedicated mini-LED solution which will be increasingly necessary as mini-LED die size continues to shrink. At this year's Consumer Electronics Show, it has become clear that mini-LED technology is a significant performance enabler for the LCD market. Mini LED displays have improved over the past years delivering higher levels of brightness and quality and leveraging the large installed base of LCD capacity.

As die-size reduces, we are confident the industry will require a dedicated, high-throughput solution such as our LUMINEX™ system.

Our other key opportunity in display is Project W, and I am happy to report that we are reaching new milestones, expect to ship additional capacity during the March quarter, and recognize revenue during the upcoming June quarter.

As we work to successfully qualify a previously shipped system, we are beginning to ramp production in support of our customer's long-term capacity plan. Our global R&D, operations, facilities, and supply-chain teams have been working tirelessly to support this major initiative and we look forward to sharing more information over the coming quarters.

It remains a very dynamic and interesting time at the company. As our core market recovers, we are again transitioning into a more optimized and more diversified company. We are very excited to reach new milestones across our growing markets.

Looking through fiscal 2024, we continue to anticipate gradual unit demand recovery and also technology-driven growth as our core market evolves and we continue to extend our foothold in new markets.

Customer interest and momentum across our emerging portfolio remains strong. We look forward to releasing a steady pace of new systems, new features and also announcing new customer and technology wins as the core business returns to a more normalized growth rate.

With that said, I will now turn the call over to Lester who will discuss our financial performance and outlook, Lester?

Lester Wong | Chief Financial Officer

Thank you, Fusen. My remarks today will refer to GAAP results, unless noted. While there continues to be headwinds across specific end markets related to macroeconomic and industry conditions, it remains a very exciting time for the Company. Our core market has shown signs of improvement and we are reaching new milestones with key customer engagements which provide new market access and enhance our long-term financial potential.

During the December quarter, we generated 171.2 million dollars of revenue, 46.7 percent gross margin and 30 cents of non-GAAP EPS.

Gross margins were aligned with expectations and are anticipated to improve with volume and new product launches.

Non-GAAP operating expenses also met expectations, at 69.4 million.

Finally, tax came in just ahead of expectations at just below our longer-term, 20 percent effective tax rate.

Turning to the balance sheet, working capital days increase from 448 to 524 days in the December quarter. Over this period the absolute value of working capital decreased slightly.

Our repurchase program remains opportunistic, and we have increased our repurchase activity sequentially, to 26.8 million dollars during the December quarter, nearly three times the value repurchased in the prior quarter. Additionally, we recently raised our quarterly dividend to 20 cents per share. This has allowed us to maintain an industry-leading dividend yield – nearly 1.6 percent as of our most recent payable date on January 9th.

Looking out through fiscal 2024 we continue to invest in the future and are anticipating Capital Expenditures to be 23 to 27 million dollars. These investments will support growth over the coming years and will be deployed to enhance and expand operations, facilities, R&D and corporate systems.

Considering the ongoing softness in Automotive and Power semiconductor, which is affecting near-term demand for our wedge bonder solutions, we anticipate revenue of approximately 170 million dollars, plus or minus 10 million dollars with gross margins of 47percent in the March quarter.

Non-GAAP operating expenses are anticipated to increase slightly to 72.5 million, +/- 2 percent. We remain focused on controlling and limiting non-critical activities, although continue to ramp headcount, where necessary, to support our growing set of customer engagements.

Non-GAAP net income for the March quarter is expected to be approximately 14 million dollars with non-GAAP earnings per diluted share of approximately 25 cents.

In closing, over the long history of the company, we have never enjoyed so many different market and growth opportunities. The core semiconductor assembly market continues to evolve and is adding more value to the industry. New levels of capabilities are optimizing our high-volume business which will see demand recovery over the coming quarters.

As this core market recovery is underway, we are taking share and expanding our position in leading-edge logic applications, memory, automotive transitions, and high-potential display opportunities which will add diversification and meaningfully enhance free-cash-flow generation over the coming years. Finally, we are starting to see material opportunities in Advanced Dispense and continue to adopt an active, but cautious, posture in exploring future M&A opportunities.

Over the coming quarters, we look forward to sharing new milestones on our progress across this broad set of opportunities.

This concludes our prepared comments. Operator, please open the call for questions.