Q2F23 Earnings Call

Prepared Remarks | May 4, 2023

Joseph Elgindy | Senior Director, Investor Relations

Welcome everyone, to Kulicke & Soffa's fiscal second quarter 2023 conference call. Fusen Chen, President and Chief Executive Officer and Lester Wong, Chief Financial Officer are both also joining 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. Complete GAAP to non-GAAP reconciliation tables are available within our recently filed earnings release, as well as our earnings presentation. This information, in addition to our prepared remarks for today's call, are available at investor.kns.com.

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. Our actual results and financial condition may differ materially from what is indicated in those forward-looking statements.

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 SEC filings, specifically the 10-K for the year ended October 1, 2022, and the 8-K filed yesterday.

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

Fusen Chen | President & Chief Executive Officer

Thank you Joe.

We continue to operate in a very dynamic global environment and remain focused on expanding served markets through close customer engagements, prudent acquisitions, and ongoing development activities.

Macro factors such as global banking issues, inflation and downstream inventory digestion are all contributing to a slow, but still gradual, rate of demand improvement over the coming quarters.

While the pace of macro-driven recovery remains gradual, we see strengthening demand in our high-volume markets and broadening customer adoption and interest of our latest advanced packaging systems.

At this point, our delivery schedule for higher-volume systems provides confidence we are past trough. We now see an uptick in quote activities which supports further improvements over the coming quarters.

Overall, our longer-term industry outlook remains fairly consistent and aligned with third-party market forecasts. We continue to anticipate positive semiconductor unit growth in fiscal year 2023 and higher levels of capacity and technology related demand through fiscal year 2024.

In addition to improving levels of demand, our end-market opportunities have expanded significantly over the prior years due to more complex assembly needs including heterogeneous integration, electric vehicle and infrastructure adoption, new display innovations and broadening connected electronics and power-semiconductor needs.

As disclosed in late February, we have completed the dispense acquisition, and we welcome AJA to the K&S team. As a reminder, this new market provides access to adjacent-dispense opportunities in both semiconductor and electronics assembly, collectively representing a 2 billion dollar addressable market and providing a new set of long-term opportunities.

Our integration priorities ensure the AJA team can efficiently leverage K&S resources including -- our flexible and efficient manufacturing capabilities, our direct sales and distribution network and our broad portfolio of system and sub-system architectures.

We have identified several target market areas for AJA which we anticipate will ramp in later fiscal 2024.

Turning to the March quarters result, we generated 173 million dollars of revenue, and 38 cents of non-GAAP EPS, significantly above our prior expectations due to better gross margin and operating expense performance.

Our total capital equipment revenue was 133.7 million dollars in the March quarter, with a similar composition across end markets as last quarter.

Within General Semiconductor, we continue to see technology related demand for IoT applications, high-performance compute, and growth in emerging applications such as artificial intelligence and co-packaged optics. These trends, which are occurring both in leading-edge and high-volume markets, are enabling share gain and higher margin opportunities.

Regarding TCB, we generated record quarterly revenue during the March quarter in support of IDM demand for higher-volume mobility production, and High-Performance Computing. During the March quarter we also shipped several fluxless TCB solutions and are preparing to ship our largest number of quarterly fluxless TCB systems, to leading OSAT, foundry and IDM customers during the June quarter.

In addition to heterogeneous, assembly complexity trends are also increasing technology-driven replacement for our feature-rich, high-volume systems which will continue to enhance corporate-level gross margins. We remain on track to introduce several new wire bonding systems through the first half of 2024.

Over the near-term, we expect customer demand to continue improving due to seasonal strengths and ongoing inventory digestion.

Moving to LED, we are beginning to see gradual improvements within lighting opportunities and remain engaged with industry leaders for both backlighting and direct-emissive applications. In addition to supporting ongoing capacity additions with PIXALUX, we are progressing LUMINEX engagements and final qualifications in support of large-format, direct-emissive applications and also emerging automotive display opportunities. Lastly, we are preparing to ramp production related to Project W, so that we are ready to move into higher production upon receiving the customer's next phase demand.

Within Automotive and Industrial, we continue to participate in power storage and power semiconductor growth which supports transitions to electric vehicles and sustainable energy. We are currently preparing to launch our next battery bonder for larger-form factors using both ultrasonics and laser-interconnect solutions in addition to supporting the production ramp for consumer and commercial vehicles.

Within power storage, our base of engaged battery customers continues to grow steadily, with renewed interest from our largest EV customer. Due to safety and reliability needs, we are also beginning to see high-volume applications, such as E-Bikes, transitioning to higher-reliability Ultrasonic Bonding. Finally, we have also engaged in a promising new opportunity supporting the emerging eVTOL market.

Within power semiconductor, we continue to see strong ongoing demand driven by charging and inverter applications, which are directly supporting these industry transitions.

Like many other areas of semiconductor assembly, we see stronger growth in the highest-value, and most advanced applications, such as power-modules. Compound semiconductors, such as Gallium Nitride and Silicon Carbide, are accelerating this growth, and are directly supported by our market-leading portfolio of Wedge Bonder systems.

Next, while memory remains sluggish near-term, we are also anticipating improvements toward the end of fiscal 2023.

Finally, our Aftermarket Products and Solutions segment generated 39.3 million dollars of revenue, fairly consistent with last quarter.

Before handing it to Lester for the financial review, I wanted to summarize a few key points.

First, we are actively participating in several fundamental and long-term transitions across our served markets. These transitions are providing both market expansion and profitability opportunities.

Next, we remain in a very strong financial position, which has allowed us to invest through this recent period of market softness.

Over the past year we aggressively deployed resources towards organic development, internal capacity expansion, new inorganic opportunities, and returned value to shareholders through a competitive dividend and an aggressive pace of open market and accelerated share repurchases.

Finally, quote activity for our high-volume business has recently improved, which provides additional optimism we are past trough. This trend is anticipated to continue improving through fiscal 2023 and 2024.

Despite macro and industry headwinds, it remains a very exciting, transformational time for the company as we are on the verge of several new product ramps which can further enhance our long-term revenue composition and through-cycle profitability. I look forward to demonstrating our efforts over the coming quarters.

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.

As Fusen mentioned, it is a very exciting time for the company as our core market is showing clear signs of improvement, and our new technology solutions are reaching final stages of development and customer acceptance.

Additionally, our prior market expansion efforts have directly contributed to a much stronger trough-to-trough performance level. Over the trailing twelve months, our net revenue has increased by nearly 40 percent, while operating profit increased by nearly two times, verses the similar trough period in fiscal 19.

We expect our relative fiscal year 23 financial performance to also significantly exceed our fiscal year 19 results.

Despite this material progress, macro dynamics will largely determine the trajectory of near-term growth and we remain extremely vigilant to conduct our operations and development efforts in the most efficient and cost-effective manner.

Additionally, we are actively building out our Kranji facility, here in Singapore. This site increases our capital equipment production footprint by 44 percent in support of these meaningful new opportunities.

During the March quarter, we generated 173 million dollars of revenue, 48.6 percent gross margin and 38 cents of non-GAAP EPS.

Gross margins came in above our guidance midpoint at 48.6 percent, due to product mix throughout capital equipment, and Project W related accounting.

Non-GAAP operating expenses came in at 64 million dollars, below our prior expectations, due to the capitalization of specific expenses associated with Project W and ongoing cost-control activities.

Finally, tax expense for the quarter was 5.6 million dollars.

Turning to the balance sheet, working capital days decreased to 517 days in the March quarter, primarily due to a sequential reduction in accounts receivable.

Our repurchase program remains opportunistic, and price dependent. Activity has slowed through the March quarter and we anticipate increasing the cadence through fiscal year end.

Looking ahead to the June quarter we anticipate revenue of approximately 190 million dollars, + or - 20 million dollars with gross margins of 48 percent.

Non-GAAP operating expenses are anticipated to be approximately 73 million, +/- 2 percent, due to additional R&D investments, largely associated with our set of emerging opportunities as well as the inclusion of the new Dispense business. We remain focused on controlling and limiting any non-critical activities and have maintained our hiring freeze. Our collective cost control efforts have reduced our June quarter operating expenses by over 5 million dollars from our original budget.

Non-GAAP net income for the June quarter is expected to be approximately 18 million with non-GAAP earnings per share of approximately 32 cents. We are anticipating an additional increase in tax expense during the June quarter.

Looking into September, we currently anticipate seeing sequential revenue growth of approximately 10 percent over our June quarter's expectations.

As we see gradual improvements in our high-volume business and participate in several long-term transitions affecting the semiconductor, advanced display, electronics assembly, and automotive markets, we remain excited for the future.

Looking into 2024 we remain optimistic on broader macro demand trends and remain extremely focused to support the technology needs of our customers.

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