Q4F23 Earnings Call

Prepared Remarks | Nov 16, 2023

Joseph Elgindy | Senior Director, Investor Relations

Thank you.

Welcome everyone, to Kulicke & Soffa's fiscal fourth quarter 2023 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. Complete 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. 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 and upcoming SEC filings, specifically the 10-K for the year ended September 30, 2023, 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.

Before discussing our business performance, I want to first reference the humanitarian crisis in the middle east. Like many of our industry peers, we have had a long-term presence in Israel where we develop and produce our precision capillary products. Our teams based in our Haifa facility have delivered meaningful innovations and leading products over the years and we are pleased to report they are not in a high-risk area; however, we continue to hope for a quick and peaceful resolution.

As a global company with a diverse employee and customer base, we are committed to strengthening our diversity and inclusion initiatives to foster collaboration, mitigate inherent biases, and create growth opportunities. Earlier this week, we successfully hosted our inaugural Elevating Women in Engineering and Tech Summit in Philadelphia. This well attended event, featured several keynote speakers from K&S, as well as esteemed members from the external community. We're grateful to be able to host these types of events which stand as a testament to our dedication to enabling change and exercising leadership within our local communities.

Turning to the business, we have seen clear sequential improvements in key markets, although broader market recovery will be gradual. We anticipate the sequential change into the December quarter being largely seasonal, and in line with our long-term average.

Furthermore, based on discussions with customers, external forecasts and gradually improving utilization data, we anticipate a moderate demand improvement into the March Quarter and stronger second-half driven recovery.

Since our prior March quarter, we have seen significant improvements in the general semiconductor end market and some recovery within LED. At the same time, Automotive and Memory continue to be soft near-term. Regardless of near-term industry conditions we remain very aligned with major technology transitions and are actively and intensively engaged in qualifications for our Advanced Packaging, Automotive, Dispense, and Advanced Display solutions with multiple, industry-leading customers. Coupled with ongoing improvements in the ball bonding business, these focused engagements will create more traction and momentum in the second half which we anticipate will be sustained through 2025.

We have also increased our repurchase activity and remain optimistic as we execute on several key long-term projects. We recently announced our fourth consecutive annual dividend raise, and we continue to maintain the highest dividend yield relative to US industry peers.

For the September Quarter, we delivered 202.3 million dollars of revenue, 23.4 million dollars of net income and 51 cents of non-GAAP EPS.

We continued to see improvements in general semiconductor, which increased 50 percent sequentially, providing another clear indicator that we are well-beyond trough market conditions. This sequential improvement was primarily due to higher demand for our Rapid Series Ball Bonder platform which is best suited for the most complex wire bonding applications. We have also seen a pickup in demand for emerging vertical wire applications increasingly deployed in mobile and IOT based applications to mitigate RF interference between bands. We look forward to ongoing technology driven change and improving conditions within this key Ball bonding market.

Separately, we are well positioned to further optimize our high-volume business with the recently introduced POWERCOMMTM and POWERNEXXTM platforms. These new systems will provide additional value and margin opportunities as they ramp over the coming year.

Within LED, we have also seen sequential improvements in general lighting which we associate with the US incandescent ban that took place this past April. Within Advanced Display, we continue to make technical progress with the LUMINEXTM platform and are approaching five 9's yield and we also continue to execute towards Project W deliverables.

For Automotive and Industrial, macro dynamics including high interest rates have impacted end user demand and also near-term industry capex needs. Our automotive and industrial business remains a value-added enabler of battery assembly and power semiconductor applications which are supporting long-term electric vehicle and sustainable energy transitions globally. We have recently accepted an order of 120 battery assembly systems, which will be recognized primarily in the March and June quarters of 2024.

Finally, as indicated in recent weeks, the memory market remains challenging near-term. We currently see improving pricing dynamics as well as specific technology-driven opportunities within next-generation High-Bandwidth-Memory, an continue to execute on emerging Vertical Fan-Out, or VFO, applications.

As briefly discussed last quarter VFO is being deployed as an alternative to Through-Silicon-Vias, or TSVs, to assemble low-power dynamic RAM in a 3D format. This cost-effective and flexible VFO approach enables higher-density DDR which supports large and established markets such as power efficient mobile devices and other edge-based applications. We are currently engaged in evaluations with several memory leaders and are well positioned to support this emerging 3D-based memory architecture.

Both emerging HBM and VFO opportunities will add new layers of diversification to our memory portfolio over the long-term.

Next, I wanted to discuss our participation within broadening Artificial Intelligence applications and provide brief updates on Advanced Display and Dispense.

First on AI. Similar to how PCs, smartphones and connected devices have increased the capacity needs for the industry, Artificial Intelligence applications are directly creating both unit and technology-based growth opportunities for many of our businesses.

To be very clear, we have taken share with optical, with high-volume logic and also with leading-edge, heterogeneous devices. These new positions have all enhanced our ability to support long-term AI trends, which are very much centered on emerging assembly techniques.

Considering our growing alignment with key artificial intelligence trends, I would like to outline how we are specifically exposed to what we consider to be the three key building blocks of AI – machine learning, network infrastructure and devices on the edge.

First, machine learning has received most attention over the past few quarters. Here we see increasing multi-die applications such as high-bandwidth memory, multi-die GPU-based applications and emerging chiplet and heterogeneous-based CPUs. We continue to directly support leading heterogeneous applications with our Thermocompression portfolio and anticipate both high-bandwidth memory and multiple GPU-based applications will begin transitioning to finer and finer pitches increasing the need for our precision solutions. As both HBM and GPU-based applications continue to move to finer I/O pitches, we expect our solutions to be increasingly competitive.

As we work with several key customers, we continue to believe K&S is a significant enabler to the success of the most leading-edge applications supporting AI. Our tools in both qualification and production are extremely competitive and customer engagements have strengthened over the past 2 quarters.

We look forward to sharing more feedback on the current evaluation and qualification status of our key leading-edge logic opportunities over the coming months.

Next, as AI becomes more integrated with existing user applications deployed at work, at home, and through the cloud, there is a growing need for higher bandwidth, and more efficient, networking solutions. This need is being met with emerging Silicon Photonics technology deployed in Co-Packaged Optics devices, which are anticipated to grow at a 66% CAGR through 2033.

Currently, our Silicon Photonics systems are supporting a leading customer's Co-Packaged Optics production used to support network switching applications. These applications have unique assembly challenges which our competitive systems support well and have triggered the interest of multiple new customers.

Today, we are engaged with seven different customers who are critically supporting this emerging Silicon Photonics opportunity and remain well positioned for future growth. Yesterday evening, we announced winning the first in a series of expected orders to support a customer's aggressive Silicon Photonics capacity expansion. The momentum and interest for our current solution is very high. This recent win serves to highlight our incumbent position and technical leadership in this emerging Silicon Photonics and Co-Packaged Optics market.

In addition to machine learning and network infrastructure, the AI trend will continue demanding higher complexity and higher volume production of devices on the edge – such as cameras, sensing, connectivity, and logic-based applications – which are deployed in power efficient mobile, IOT and other client-facing applications. These applications will continue to leverage proven and cost-effective assembly approaches such as System-in-Package applications in which Ball and Wedge bonding play a dominant role, as well as emerging opportunities for standing wire applications used in both connectivity shielding and power-efficient stacked DRAM.

Over the coming years, Ball, Wedge and Thermocompression are positioned very well to directly support these three AI trends. More complex assembly requirements are increasing the value of our market leading Ball, Wedge and dedicated Advanced Packaging portfolio. Despite the gradual industry recovery, customer interest for qualification and evaluations remains quite strong.

In addition to AI, we continue to make progress on our Advanced Display opportunities supporting advanced backlighting and future direct-emissive displays.

As mini and micro LED wafer production costs improve and die size continues to shrink, end market use cases will grow and the efficiency and capabilities of assembly will also increase. Our dedicated, high-throughput, high-accuracy LUMINEX™ system is well positioned to support this upcoming market need. Additionally, we continue to execute on Project W, and expect to provide additional visibility into Project W's outlook over the coming quarters.

Finally, the integration of our new dispense business continues to proceed very well with key engagements across our extensive customer network. Market feedback on these new solutions - from multiple-leading customers - has been very promising. Our dispense solutions are extremely efficient, capable and accurate which adds significant value for critical applications supporting advanced display, battery, medical and sensing trends. The market opportunities for dispense are broad and I will provide more specifics on our targeted applications and evaluations over the coming quarters.

Looking into fiscal 2024, we continue to anticipate above-average semiconductor unit growth and also anticipate taking share in new markets. We have very strong customer interest and momentum across our emerging portfolio, have already seen clear cyclical improvements in our core market and look forward to releasing a steady pace of new systems, new features and also announcing new customer and technology wins 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. While the business environment remains challenging for the entire industry, it remains a very exciting time for the Company with clear signs of improvement within our core market and ongoing progress within our emerging opportunities supporting long-term technology transitions which address AI, Battery Assembly, Dispense and Advanced Display.

During the September quarter, we generated 202.3 million dollars of revenue, 47.4 percent gross margin and 51 cents of non-GAAP EPS.

Gross margins came in slightly softer than expectations, largely due to product mix.

Non-GAAP operating expenses came in just below 70 million dollars, in line with our prior expectations.

Finally, tax came in slightly better than expectations due to favorable jurisdictional mix and discrete items. We continue to target the long-term 20 percent effective tax rate, although anticipate coming in slightly above this level in December.

Turning to the balance sheet, working capital days decreased from 465 to 448 days in the September quarter, primarily due to the sequential revenue improvement.

Our repurchase program remains opportunistic, and we have increased our repurchase activity sequentially, to 9.2 million dollars during the September quarter. As Fusen mentioned, we have also increased our dividend payout, maintaining a very competitive dividend yield. This growing and consistent dividend commitment highlights the confidence in our long-term outlook. Combined with the ongoing reduction in share count due to our opportunistic repurchase program, our dividend program provides additional long-term value to shareholders.

Looking ahead to the December quarter we anticipate revenue of approximately 170 million dollars, +/- 10 million dollars with gross margins of 47 percent.

Non-GAAP operating expenses are anticipated to increase slightly to 71 million, +/- 2 percent. We remain focused on controlling and limiting non-critical activities, although continue to ramp headcount to support our growing set of customer engagements.

Non-GAAP net income for the December quarter is expected to be approximately 14.2 million dollars with non-GAAP earnings per diluted share of approximately 25 cents.

In closing, we are uniquely positioned to capitalize on the growing value of semiconductor and display assembly. Our market access is steadily expanding, and we are positioned well to support and enable major long-term technology trends for the industry. As our core business gradually improves and increases in complexity, we remain focused on expanding our access to positive long-term advanced packaging, advanced display, automotive, and dispense needs.

We look forward to sharing our progress over the coming quarters.

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