Q2F24 Earnings Call

Prepared Remarks | May 2, 2024

Joseph Elgindy | Senior Director, Investor Relations

Thank you.

Welcome everyone, to Kulicke & Soffa's fiscal second 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

Good morning, everyone.

While certain markets including LED, Automotive and Industrial continue to be a challenge near-term, we remain focused on expanding our market positions and driving new and successful customer qualifications over the coming quarters in Thermocompression, VFO and Advanced Dispense. These expected successes combined with a recovering core market and significant focus on operational efficiency, will be beneficial to customers, employees and investors over the coming years.

Before discussing this quarter's results and outlook, I wanted to briefly discuss Project W and our overriding customer engagement strategy.

Since 2017 K&S has evolved by growing intimate customer engagements. This customer-focused growth strategy has been successful and has allowed us to take share in new markets as we expand our competencies. A few recent examples of this engagement approach include our efforts to enter the advanced display market, enter the co-packaged optics market, expand our share in leading-edge logic, and actively enable the next-high volume packaging format for DRAM. Our Advanced dispense business is taking a similar customer focused approach which I will explain shortly.

While our intimate engagement strategy has provided new market access, share gains and profitability, there will always be a potential risk that a project may be canceled by the end customer, which unfortunately was the case for Project W. Industry challenges combined with macro factors likely played a role in our customer's decision to discontinue this program with its supply chain partners, including K&S.

Project-related assets and tools, raw and finished goods inventory, as well as open purchase orders with our vendors were accounted for in the second quarter's impairment charges, which have affected both GAAP and non-GAAP earnings.

Largely related to the cancellation of Project W, we have restructured to remain lean, and have reallocated resources to accelerate other critical business initiatives, including fulfilling a sizeable purchase order, and broadening customer demand for Memory, Advanced Dispense and Advanced Packaging solutions. Restructuring and reallocation decisions are never taken lightly, although these actions were necessary to maintain a focused operational model.

We continue to expect gradual market recovery through fiscal 2024 with greater technology and capacity opportunities in fiscal 2025.

Near-term, we continue to anticipate demand improvements led by General Semiconductor combined with more resilient memory demand.

For General Semiconductor, Ball Bonder order activity is improving and supported by utilization trends; also customer momentum continues as we broaden Advanced Packaging engagements.

Since our second fiscal quarter 2023, we have already experienced an over 50 percent increase in Ball Bonder revenue despite ongoing headwinds within Automotive, Industrial and LED markets. We continue to prepare for more robust demand in General Semiconductor applications as order activity with high-volume customers gradually accelerates.

After market close yesterday, we announced a sizeable purchase order of 1,000 RAPID Pro systems, from a fast-growing Assembly & Test Company, which were upgraded with our ProSuite response-based bonding and looping capabilities. Improving utilization rates combined with high-volume orders, provide us with optimism on near-term General Semiconductor recovery.

Next, demand for LED systems has remained limited due to lower utilization rates across our customer base.

The Automotive and Industrial market continues to face near-term headwinds, although based on utilization rates and customer feedback, we anticipate demand to stabilize with broader recovery to begin over the coming quarters. Despite the current softness, our current quarterly automotive revenue run-rate, fiscal year 2024 to date, is 33 percent above our most recent automotive and industrial trough run rate experienced throughout fiscal year 2020.

This fairly rapid increase in trough-to-trough performance is largely driven by broad and secular trends we are enabling. These trends are driven by global electric vehicle, sustainable energy and smart power distribution needs, which provide ongoing growth opportunities.

Finally, Memory has sequentially reduced from a very strong quarter, largely due to customer mix changes. Demand for our Memory solutions has expanded significantly from the trough level we experienced last fiscal year. During the first fiscal half of 2024, our Memory revenues have nearly doubled from our entire Memory revenue in fiscal year 2023. We expect demand across Memory applications to continue to recover over the coming quarters.

Looking ahead, our core business is anticipated to strengthen as general semiconductor continues to improve, and we remain very focused on near-term execution - new technology wins in Memory, share gains in Advanced Dispense, and the broadening of our Thermocompression customer base. I would like to take a few minutes to explain each.

First within Memory, we continue to actively qualify and develop Vertical-Fan-Out, or VFO, solutions utilizing our wafer-level-packaging system, which is expected to expand our memory market access over the coming years. While VFO memory solutions are still emerging, customer momentum is strong and we expect they will transition into higher-volume production next year.

In addition to leading memory customers, we continue to actively support key vertical wire development with leading IDM and Fabless companies who are demanding these new solutions. The benefits of our unique vertical wire solution extend well beyond the memory market. Vertical wire is currently moving into high-volume production for shielding requirements and is well positioned to provide a new cost-effective packaging solution for future high-volume system-in-package applications. Our VFO team is currently supporting development of a future stacked connectivity application which can drive high-volume adoption.

Next, our Advanced Dispense business continues to gain momentum and we are aggressively penetrating high-precision dispense opportunities in Advanced Packaging, battery assembly, and display markets. Broadening customer interest and ongoing evaluation progress are driving momentum and we expect to begin growing our market share in the near-term.

Our Advanced Dispense solutions are highly competitive due to their micro-dispensing capabilities being equipped with self-compensation, in-line inspection, and excellent repeatability.

Qualifications wins over the coming quarters will secure a foundation of Advanced Dispense customers which will support revenue growth in fiscal 2025 and beyond.

Finally, we continue to gain momentum in Thermocompression bonding, or TCB, which has expanded in revenue by nearly four times comparing the trailing four quarters of demand over our fiscal 2021 results. As customer momentum continues to build, it is becoming clear that our TCB solutions can broadly support and scale chiplet and heterogeneous integration. Furthermore, we continue to expect demand for our leading Fluxless TCB solution to increase significantly in the future.

We have already built a baseline of approximately 60 million dollars of sales during fiscal year 2023, and currently have active new engagements with over 10 separate Fluxless TCB opportunities supporting key IDM, OSAT and Foundry customers. We continue to receive multiple inquiries for additional TCB opportunities with other customers. This funnel of growing demand across a wide customer base serves as a testament that we are in the early stages of TCB growth.

The need to efficiently create more transistor-dense packages will only accelerate this market momentum; our Fluxless TCB solutions are extremely well positioned for the next wave of demand and we remain committed to near-term execution.

Upon near-term customer qualification success and healthy customer demand trajectory, we anticipate our dedicated Advanced Packaging solutions, which include flip-chip mass reflow, TCB and wafer-level-packaging systems, to approach 200 million dollars in annual revenue by fiscal year 2025. Contingent upon near-term qualification and business execution, growth across advanced packaging applications is anticipated to further accelerate.

Looking more near-term, new engagements for next-generation high-bandwidth-memory, or HBM, can potentially begin shipping as early as this calendar year. Also, our unique copper-to-copper capability has very strong customer momentum and could potentially delay higher-volume adoption of hybrid bonding due to a more competitive cost of ownership.

Currently, our Advanced Solutions team remains very focused on near-term customer engagements with leading IDM, OSAT and Foundry customers. This broad group of customers requires a cost-effective process that supports high-bandwidth, fine-pitch interconnects, and stacked-die capabilities. Our leading Fluxless TCB solutions are well positioned to support high-volume, copper-to-copper interconnects with pitch from 35 to 5 microns. Our capability to pick from tray, tape and reel, or wafer and bond to substrate, chip or wafer is robust and expected to support the broad future market of Thermocompression bonding.

Today, our Fluxless TCB solutions are best in class, and have allowed us to be first to mass production through our engagement with a leading IDM. In parallel, we have also continued to take share with leading OSATs as they begin to ramp 3D assembly for high-growth and high-volume markets, such as mobile, sensing, and co-packaged optics.

We made significant progress over recent years to expand our TCB share across this initial base of IDM and OSAT customers, who we have built long-term relationships. Over the past few quarters, we have continued to allocate additional R&D resources towards specific Foundry opportunities, which we anticipate can represent a sizeable portion of the future TCB marketplace.

Today, our global TCB team is actively engaged to support the future interconnect needs throughout all of our customer engagements. We look forward to announcing additional qualification wins and new partnerships over the coming quarters.

In closing, we continue to look forward to a brighter 2025. We have an intense focus on enhancing operational efficiencies, are preparing for a core-market recovery and continuing to support key technology transitions with our growing Memory, Advanced Dispense and Advanced Packaging opportunities. We look forward to sharing our near-term progress which will solidify our foundation for future growth.

I will now turn the call over the Lester for the financial review update.

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 continues to remain an exciting time for the Company. As Fusen mentioned, we are pleased to see improving order activity with higher-volume customers and anticipate additional groups of customers to begin ramping for both capacity and technology needs over the near-term.

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During the March quarter, we generated 172.1 million dollars of revenue, and a 9.6 percent gross margin. Without this quarter's unique charges, gross margin would have been similar to the prior quarter.

During this recent quarter, we booked pre-tax charges, including impairments, in the amount of 105.5 million dollars. As you recall, we announced on March 11th that the Company had anticipated pre-tax charges, including impairments, relating to the cancellation of Project W to be between the low estimate of 110 million dollars and a high estimate of 130 million dollars. By the end of fiscal year 2024, we expect our total charges to come in below our high estimate of 130 million dollars.

In addition to reallocating key R&D members to in-demand projects, we prudently reduced resources which have directly and indirectly supported Project W.

We booked GAAP tax expenses of 6.4 million for the March Quarter, which included tax items related to unique events during the quarter. We continue to anticipate an effective tax rate above 20 percent through the remainder of fiscal year 2024.

Our repurchase program remains opportunistic, and we have again increased our repurchase activity sequentially. During the March quarter we booked 37.3 million dollars of open market repurchase activity, which represents a sequential increase of nearly 40 percent, over the December quarter.

Although gradual, recent order activity increases expectations of broader general semiconductor end-market growth. We continue to anticipate near-term headwinds within the Automotive and Power Semiconductor end markets, and also anticipate approximately 15 million of lost revenue relating to the cancellation of Project W in the second fiscal half.

Looking into the June quarter, we expect revenue of approximately 180 million dollars, plus or minus 10 million dollars with gross margins of 47 percent.

Non-GAAP operating expenses are anticipated to be 72 million dollars, +/- 2 percent, which includes additional wind down expenses of approximately 2.5 million dollars.

Collectively, for the June quarter, we expect GAAP EPS of 17 cents per share and non-GAAP EPS of 30 cents per share.

Over the coming quarters, we look forward to providing additional updates as we reach new milestones which will help to build a foundation in Memory, Dispense and Thermocompression opportunities over the coming years.

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