

## Advanced Energy (AEIS)

**\$79.89** (As of 08/10/20)

Price Target (6-12 Months): **\$92.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Outperform**

(Since: 08/10/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**1-Strong Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: A

### Summary

Advanced Energy reported impressive second quarter results wherein both earnings and revenues topped the estimates and grew year over year. Strong momentum across semiconductor equipment, data center and, industrial and medical contributed well. Rising investments in foundry/logic and NAND memory were major positives. Further, solid demand for critical care medical devices remained a tailwind. Also, strengthening momentum across hyperscale customers benefited the company. Further, Artesyn buyout benefits contributed well to the company's performance in the telecom and data center space. The company remains optimistic regarding its power supplies for medical applications and growth prospects in 5G. However, macro headwinds related to COVID-19 remain major concerns for the company. The stock has underperformed its industry on a year-to-date basis.

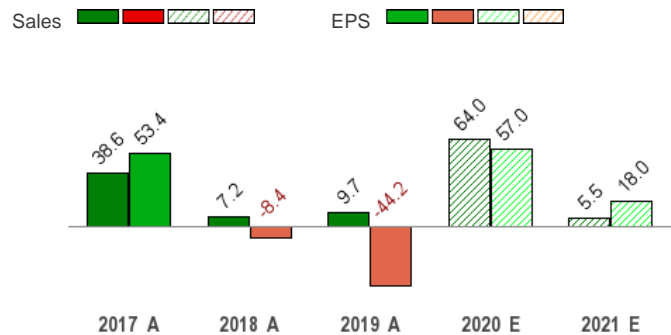
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	<b>\$80.27 - \$33.38</b>
20 Day Average Volume (sh)	<b>281,141</b>
Market Cap	<b>\$3.1 B</b>
YTD Price Change	<b>12.2%</b>
Beta	<b>1.58</b>
Dividend / Div Yld	<b>\$0.00 / 0.0%</b>
Industry	<b>Semiconductor Equipment - Wafer Fabrication</b>
Zacks Industry Rank	<b>Top 7% (18 out of 253)</b>

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>43.9%</b>
Last Sales Surprise	<b>8.1%</b>
EPS F1 Est- 4 week change	<b>26.6%</b>
Expected Report Date	<b>11/10/2020</b>
Earnings ESP	<b>6.7%</b>
P/E TTM	<b>22.8</b>
P/E F1	<b>20.9</b>
PEG F1	<b>2.1</b>
P/S TTM	<b>2.6</b>

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	318 E	333 E	343 E	366 E	1,365 E
2020	315 A	340 A	350 E	319 E	1,294 E
2019	141 A	135 A	175 A	338 A	789 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.00 E	\$1.14 E	\$1.18 E	\$1.18 E	\$4.52 E
2020	\$0.91 A	\$1.18 A	\$1.07 E	\$0.99 E	\$3.83 E
2019	\$0.58 A	\$0.45 A	\$0.54 A	\$0.87 A	\$2.44 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

## Overview

Based in Fort Collins, Colorado, Advanced Energy Industries is a power technology company. The company is one of the leading suppliers of power subsystems and process-control technologies to the semiconductor industry.

Advanced Energy had undergone a major restructuring in 2015, exiting the solar inverter business.

The company now focuses primarily on power-conversion solutions, including direct current, pulsed DC, low frequency, high voltage, and radio frequency (RF) power supplies, as well as matching networks and remote plasma sources for reactive gas applications and RF instrumentation to leverage the semiconductor, flat panel display, and industrial markets.

In 2019, the company generated \$788.9 million of revenues.

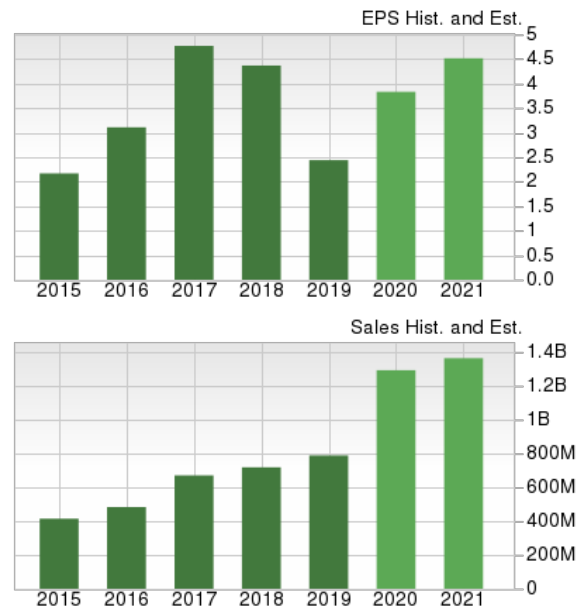
Sales Contribution by product line in 2019 was as follows—Semiconductor Equipment accounted for 51.1%, Industrial & Medical contributed 31.2%, Data Center Computing accounted for 11.6% and Telecom & Networking contributed the remaining 6.1%.

Customers in the semiconductor capital market incorporate products into equipment that make integrated circuits (ICs).

On the other hand, the industrial power capital market is comprised of products for Thin Films Industrial Power and Specialty Power applications.

Further, Advanced Energy made foray into two new growth markets – data center computing, and telecom and networking on the back of Artesyn Embedded Power acquisition.

Additionally, the company maintains its facilities throughout Asia, Europe and North America.



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## Reasons To Buy:

▲ A number of factors are expected to drive **Advanced Energy's semiconductor revenue** base. The most important factor is growing demand for the company's power solutions in advanced semiconductor applications. Increasing investments in complex 3D NAND devices, DRAM and logic are a big positive for the company. Moreover, NAND manufacturers focus on adding more layers. The additional layers should also drive demand for its power-control modules. Based on its portfolio strength, Advanced Energy is well positioned among the leading players, which should help the company generate strong revenues in the upcoming years.

Advanced Energy's leading market position, strong semi and industrial demand, strategic acquisitions and impressive balance sheet are major positives.

- ▲ Advanced Energy's **Industrial Revenues** should continue to grow in the near future. The increasing international customer base and new design wins in China and Korea, among others, present significant growth opportunity for Advanced Energy's Industrial business. Also, the acquisitions of Trek and Excelsys Holdings add to Advanced Energy's industrial portfolio, further expanding its opportunities in this market.
- ▲ Advanced Energy has been supplementing organizational growth with **strategic acquisitions**. When deciding on a target, management generally looks out for a particular niche expertise, which will complement one of its many product lines or round out its portfolio. Recently, the company completed the buyout of LumaSense Technologies. This has expanded the company's product portfolio with the addition of photonic-based measurement and monitoring solutions. Moreover, the deal provides a wider exposure to Advanced Energy in the power intensive industrial applications space. Further, the company's acquisition of Trek has added high voltage and electrostatic technology products to its specialty power products portfolio. In 2017, Advanced Energy acquired Excelsys Holdings, an electronics manufacturer in Ireland. In 2019, the company acquired Artesyn Embedded Power which helped it in making its foray into two new growth markets – data center computing, and telecom and networking. These deals are expected to continue aiding its top line growth in the near future.
- ▲ Advanced Energy has a solid balance sheet. As of Jun 30, 2020, the company's net cash amounted to \$50.1 million compared with \$17.6 million as of Mar 31, 2020. The strong net cash balance will not only help it pursue strategic acquisitions but will also enable it repurchase shares aggressively in the long haul. Further, debt-to-total capital was 38.1% as of Jun 30, 2020 which decreased from 39.5% as of Mar 31, 2020.
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## Risks

- **Customer concentration** of the company is significant. Advanced Energy's growth profile highly depends on its two large original equipment manufacturers (OEMs), Applied Materials and Lam Research. Advanced Energy generated approximately 51.1% of 2019 revenues from its top two customers. Hence, customer concentration seems to be a perennial problem related to the nature of technology it offers.
  - Advanced Energy is **exposed to fluctuations in foreign-currency rates** as international revenues account for a significant portion of its total revenues. The company generates a significant portion of sales internationally, and relies on international suppliers, manufacturing partners and distributors. Therefore, fluctuations in foreign-currency rates, changes in political or economic conditions and regulatory requirements, among others, could negatively impact the company's operations in the future.
  - Acquisitions are part of Advanced Energy's growth strategy to supplement the top line. However, the company's inability to identify suitable acquisition candidates, unsuccessful execution and integration of new acquisitions, as well as an increase in acquisition costs due to stiff competition could negatively impact sales/margin performance. Large number of acquisitions increases risks of **integration issues**.
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## Last Earnings Report

### Advanced Energy Beats on Q2 Earnings & Revenues

Advanced Energy Industries reported second-quarter 2020 non-GAAP earnings of \$1.18 per share, beating the Zacks Consensus Estimate by 43.9%. Further, the figure was higher than management's guided range of 50 cents to \$1.10 per share.

The bottom line also improved 162.2% on a year-over-year basis and 29.7% sequentially.

Revenues of \$339.9 million surpassed the Zacks Consensus Estimate of \$314 million and came within management's guided range of \$285-\$345 million. Notably, the top line soared 152.1% from the year-ago quarter and 7.7% from the prior quarter.

The year-over-year improvement in the top line can be attributed to growing demand across major end markets.

Moreover, strong momentum across semiconductor equipment, data center and, industrial and medical contributed to the performance. Additionally, positive contribution from Artesyn Embedded Power buyout was a catalyst.

Further, the company delivered strong performance in North America and Asia regions during the reported quarter, which remained a major positive.

However, coronavirus-induced supply chain constraints remained concerns. Macro headwinds related to COVID-19 continued to hurt the company's performance in the industrial market.

Nevertheless, the company remains optimistic regarding its power supplies for medical applications. Further, growth prospects related to 5G remain positives. Additionally, the strengthening momentum across data center market is a tailwind.

All these factors are likely to help the stock rebound in the near term.

### Top Line in Detail

Product revenues soared 193.6% year over year to \$311.8 million (91.7% of total revenues) in the second quarter.

Services revenues declined 1.8% from the prior-year quarter to \$28.1 million (8.3% of revenues). This was primarily due to sluggish semiconductor service business.

### Product Line in Detail

Semiconductor Equipment revenues improved 61.5% year over year to \$145.4 million (42.8% of total revenues). The company witnessed growing investments in foundry/logic, which acted as a tailwind. Also, strong NAND memory investments contributed significantly to the results. Moreover, year-over-year growth of 88% in the semiconductor product revenues remained positive.

However, COVID-19 induced capacity constraints in the company's service centres weighed on semiconductor service revenues.

Industrial & Medical revenues improved 58.4% year over year to \$70.9 million (20.9% of revenues). This can be attributed to increasing demand for critical care medical devices. Further, growth in thin film market was a tailwind.

Telecom & Networking revenues were \$40.2 million (11.8% of revenues). Increasing shipment of design wins contributed substantially to the performance. However, sluggish global telecom infrastructure investment owing to COVID-19 remained a concern.

Data Center Computing revenues were \$83.3 million (24.5% of revenues). Strengthening momentum across hyperscale customers benefited the company.

### Operating Results

In second quarter, non-GAAP gross profit was 38.7%, which contracted 900 basis points (bps) from the year-ago quarter.

Non-GAAP operating expenses were \$77.8 million, up 65.5% year over year. As a percentage of revenues, the figure contracted significantly from 34.9% in the year-ago quarter to 22.9% in the reported quarter.

Further, non-GAAP operating margin was 15.8%, expanding 300 bps from the prior-year quarter.

### Balance Sheet & Cash Flow

As of Jun 30, 2019, cash, cash equivalents and Marketable securities were \$383.4 million compared with \$355.03 million as of Mar 31, 2019.

Long-term debt stood at \$313.04 million at the end of second quarter, down from \$317.3 million at the end of first quarter.

During the second quarter, cash flow from operations was \$38.6 million compared with \$28.5 million in the first quarter.

Capital expenditure during the reported quarter was \$7.3 million, down from \$6.1 million in the prior quarter.

Quarter Ending 06/2020

Report Date	Aug 05, 2020
Sales Surprise	8.12%
EPS Surprise	43.90%
Quarterly EPS	1.18
Annual EPS (TTM)	3.50

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## Guidance

For third-quarter 2020, Advanced Energy expects non-GAAP earnings between 9 cents and \$1.40 per share.

Further, the company anticipates revenues in the range of \$325-\$375 million.

The company expects strong momentum across semiconductor equipment market. Further, it anticipates improvements in the industrial market.

Further, the company anticipates volatility in demand in data center computing, and telecom and networking markets.

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## Recent News

On **Aug 6, 2020**, Advanced Energy unveiled Ascent MS multi-output power supply system that supports up to five independent chambers of passivated emitter and rear contact processes in a single unit,

On **May 11, 2020**, Advanced Energy's Artesyn Embedded Power rolled out a new Open Compute Project Open Rack version 3 (OCP ORv3) power shelf which will be highly beneficial in the growing adoption of 48-volt rack power distribution in hyperscale data centers.

On **Jan 7, 2020**, Advanced Energy's Artesyn Embedded Power unveiled a new 1300-watt quarter-brick dc-dc converter, BDQ1300. The latest converter is likely to aid the company's momentum across 48-volt data center and communications network equipment as it is capable of accepting an input voltage range from 40 to 60 volts.

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## Valuation

Advanced Energy shares are up 12.2% in the year-to-date period and 65.4% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 20.5% and 19.9% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry is up 66% and the sector is up 36.7%.

The S&P 500 index is up 4.1% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 25.13X forward 12-month earnings, which compares to 24.06X for the Zacks sub-industry, 26.19X for the Zacks sector and 22.81X for the S&P 500 index.

Over the past five years, the stock has traded as high as 33.89X and as low as 8.04X, with a 5-year median of 17.57X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$92 price target reflects 28.9X forward 12-month earnings.

The table below shows summary valuation data for AEIS

Valuation Multiples - AEIS					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	25.13	24.06	26.19	22.81
	5-Year High	33.89	25.36	26.31	22.81
	5-Year Low	8.04	12.36	16.72	15.25
	5-Year Median	17.57	17.24	19.61	17.58
P/S F12M	Current	2.29	7.51	4.06	3.67
	5-Year High	5.58	7.56	4.06	3.67
	5-Year Low	1.03	3.63	2.32	2.53
	5-Year Median	3.16	4.97	3.14	3.05
EV/EBITDA TTM	Current	15.89	30.38	3.31	12.66
	5-Year High	32.12	31.29	13.51	12.84
	5-Year Low	3.75	9.4	7.59	8.24
	5-Year Median	13.65	20.01	10.9	10.9

As of 08/10/2020

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## Industry Analysis Zacks Industry Rank: Top 7% (18 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
ASML Holding N.V. (ASML)	Outperform	3
KLA Corporation (KLAC)	Outperform	2
Lam Research Corporation (LRCX)	Outperform	1
MKS Instruments, Inc. (MKS)	Outperform	2
Teradyne, Inc. (TER)	Outperform	1
Applied Materials, Inc. (AMAT)	Neutral	4
AMETEK, Inc. (AME)	Neutral	3
Bruker Corporation (BRKR)	Neutral	3

Industry Comparison Industry: Semiconductor Equipment - Wafer Fabrication				Industry Peers		
	AEIS	X Industry	S&P 500	KLAC	MKSI	TER
Zacks Recommendation (Long Term)	Outperform	-	-	Outperform	Outperform	Outperform
Zacks Rank (Short Term)	1	-	-	2	2	1
VGM Score	D	-	-	B	B	C
Market Cap	3.06 B	57.17 B	23.56 B	31.49 B	6.73 B	14.46 B
# of Analysts	5	6.5	14	7	5	8
Dividend Yield	0.00%	0.95%	1.71%	1.67%	0.66%	0.46%
Value Score	F	-	-	C	C	D
Cash/Price	0.13	0.11	0.07	0.06	0.09	0.07
EV/EBITDA	33.05	26.08	13.39	19.94	20.01	20.84
PEG Ratio	2.09	1.26	2.92	1.73	NA	1.34
Price/Book (P/B)	4.26	8.59	3.18	11.74	3.16	8.29
Price/Cash Flow (P/CF)	26.77	23.67	12.69	16.65	17.80	23.77
P/E (F1)	20.86	19.48	22.16	17.75	18.56	22.50
Price/Sales (P/S)	2.62	4.65	2.55	5.42	3.29	5.20
Earnings Yield	4.79%	5.16%	4.33%	5.63%	5.38%	4.44%
Debt/Equity	0.56	0.63	0.77	1.29	0.38	0.26
Cash Flow (\$/share)	2.98	5.81	6.94	12.20	6.86	3.66
Growth Score	D	-	-	B	B	B
Hist. EPS Growth (3-5 yrs)	8.99%	25.65%	10.41%	24.77%	26.99%	24.42%
Proj. EPS Growth (F1/F0)	57.13%	30.94%	-6.51%	10.54%	45.44%	35.36%
Curr. Cash Flow Growth	-35.66%	-19.95%	5.26%	21.16%	-27.42%	9.31%
Hist. Cash Flow Growth (3-5 yrs)	8.19%	14.24%	8.55%	27.19%	24.72%	3.50%
Current Ratio	2.71	2.81	1.34	2.78	4.46	2.87
Debt/Capital	36.09%	38.44%	44.59%	56.41%	27.79%	20.36%
Net Margin	5.57%	20.66%	10.13%	20.96%	11.41%	22.94%
Return on Equity	18.63%	30.17%	14.59%	63.04%	14.78%	43.96%
Sales/Assets	0.75	0.76	0.51	0.63	0.59	0.96
Proj. Sales Growth (F1/F0)	63.99%	19.20%	-1.54%	4.88%	14.87%	23.98%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	1.59%	1.24%	0.91%	0.12%	-0.89%	-0.54%
1 Week Price Chg	6.89%	1.16%	2.30%	1.51%	-3.40%	-1.56%
4 Week Price Chg	15.90%	8.76%	8.54%	1.76%	10.22%	0.29%
12 Week Price Chg	29.80%	24.91%	13.68%	17.86%	25.35%	43.61%
52 Week Price Chg	65.40%	67.90%	3.71%	51.33%	64.74%	66.70%
20 Day Average Volume	281,141	1,271,346	2,015,804	1,268,052	389,232	2,140,302
(F1) EPS Est 1 week change	26.64%	0.00%	0.00%	11.48%	0.00%	0.00%
(F1) EPS Est 4 week change	26.64%	17.52%	1.67%	16.60%	34.33%	25.74%
(F1) EPS Est 12 week change	42.28%	19.59%	2.27%	18.81%	34.33%	25.74%
(Q1) EPS Est Mthly Chg	66.15%	29.67%	0.67%	21.75%	46.67%	79.43%



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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	D
Momentum Score	A
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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