

SkyWater Technology, Inc.

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Earnings Call

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Call Participants

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ATTENDEES

Claire E. McAdams
Headgate Partners LLC

Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the SkyWater Technology Fourth Quarter 2022 Financial Results Conference Call. At this time, all participants are in a listen-only mode, and please be advised that this call is being recorded. After the speakers' prepared remarks, there will be a question-and-answer session. [Operator Instructions]

And at this time, I'll turn things over to Ms. Claire McAdams, Head of Investor Relations. Ms. McAdams, please go ahead.

Claire E. McAdams
Headgate Partners LLC

Thank you, operator. Good afternoon, and welcome to SkyWater's Fourth Quarter Fiscal 2022 Conference Call. With me on the call today from SkyWater are Thomas Sonderman, President and Chief Executive Officer; and Steve Manko, Chief Financial Officer.

I'd like to remind you that our call is being webcast live on Skywater's Investor Relations website at ir.skywatertechnology.com. The webcast will be available for replay shortly after the call concludes. On our IR website, we have also posted an investor slide presentation to accompany today's call.

During the call, any statements made about our future financial results and business are forward-looking statements. These forward-looking statements are subject to risks and uncertainties that could cause our actual results to differ materially. For a discussion of these risks and uncertainties, please refer to our filings with the Securities and Exchange Commission, including our earnings release filed on Form 8-K today our fiscal 202110-K filed on March 10 of last year and subsequent 10-Q filings.

All forward-looking statements are made as of today, and we assume no obligation to update any such statements. During this call, we will discuss non-GAAP financial measures. You can find a reconciliation of these non-GAAP financial measures to GAAP financial measures in our earnings release as well as in our Q4 earnings presentation both of which are available on our Investor Relations website.

With that, I'll turn the call over to Tom.

Thomas J. Sonderman
President, CEO & Director

Thank you, Claire, and good afternoon to everyone on the call. We are pleased to report a strong finish to 2022 with new records achieved in quarterly revenues, gross profit and EBITDA. Q4 revenues exceeded our expectations and were a record $65.1 million, growing 24% higher than our previous record set in Q3. This revenue upside helped drive fiscal 2022 growth above our long-term target of 25% to $213 million for the year. The record revenue level, along with strong gross margin performance in the second half helped drive the significant improvement in our 2022 financial metrics, which included record EBITDA for Q4 and overall positive EBITDA generation for the full year.

Unique to the fourth quarter was a onetime revenue recognition event that was noncash and which increased total ATS revenues by $4.7 million. This occurs when the revenues for a particular program are fixed and the expected timing or duration of the program is pulled in. For example, we witnessed the opposite effect in 2021 when certain programs were delayed or elongated and with total program revenues fixed, this reduced the amount of revenue we could recognize each quarter.

In the fourth quarter of 2022, a successful multiyear government program came to completion earlier than originally scheduled and this required all the remaining revenue for the program to be recognized in the fourth quarter and without any associated costs. Absent this impact, our revenues for the quarter were still a bit stronger than forecast but the upside driven by increased productivity gains and our ability to increase the number of ATS activities in the fab. Unlike the $4.7 million revenue recognition event,

we expect the higher levels of revenues resulting from productivity gains to continue in the forthcoming quarters and therefore, we are pleased to report today that we see the $60 million level as our new expected partly baseline from which to grow.

Our gross margin performance in Q4 also demonstrated continued strong flow-through on the incremental revenue growth. We set new quarterly gross margin records well ahead of our gross margin expansion plans. The revenue recognition event in Q4, which had no associated costs benefited gross margin by approximately 600 basis points. As we enter another growth year for SkyWater, we expect gross margins to range between 15% and 20% as we anticipate quarterly revenues continuing at the $60 million-plus level.

As Steve will detail later, our quarterly revenue growth in 2023 and the resulting gross margin performance will depend on a number of factors, most notably on our mix of ATS programs, customers and tool derived revenues. Yet one aspect unique to SkyWater in a challenging macro environment is that our expected growth this year will be derived from established, funded and relatively secure ATS and Wafer Services programs. As a result, we expect to achieve revenue growth in 2023 that approaches our long-term objective of 25% annually.

Today, in my prepared remarks, I will focus on the high-level business drivers and financial improvements that comprise how we look at the progress made in 2022, then look ahead for 2023 and the longer-term objectives we are driving to further accelerate SkyWater's performance next year and into 2025.

Note that I will keep my comments relatively brief on today's call. In each of our 2022 earnings calls, we elaborated on the details and competitive advantages supporting several important and strategic growth areas for us, such as our RadHard platform, our RH90. We have also detailed the ways we believe we are uniquely positioned to benefit from all major components of CHIPS Act funding, not only for the Purdue fab, but also for our other growth projects in Minnesota and Florida.

We have discussed our strategic partnerships and collaborations with Google, the National Institute of Standards and Technology, QuickLogic, CAES, Trusted Semi, NanoDx, Weebit Nano, DECA, Adeia and more. All these discussions on our previous calls remain highly relevant and consistent with our story as we enter 2023.

Reflecting on the highlights from fiscal 2022, we believe it was an important year of progress towards our long-term financial and business objectives and importantly, a year of significantly improved execution as we built the foundation for continued strong growth and operating leverage in the years to come. These are the key takeaways we'd like to summarize from our financial results and business developments.

First, we executed well on our revenue growth objectives for the year. This included both the significantly improved pricing terms for our Wafer Services business and the nearly 50% year-over-year growth in our ATS business, net of tool sales. The strong growth in ATS reflected significant improvements in productivity as the team responded aggressively to customer demand, accelerating the velocity of R&D in our fabs. The growth in ATS also reflected the U.S. government's increased commitment to SkyWater with this strategic RadHard investments. This increased confidence from the U.S. government achieved during 2022 has set the stage for anticipated continued revenue growth on multiple mission-critical programs. We believe our success on these types of programs also positions us to be a major beneficiary of subsequent chips funding.

Next, in 2022, we executed on our commitments to deliver strong gross profit flow-through in excess of 50%. We are now generating positive EBITDA and strengthened our balance sheet through a combination of new equity raises and the refinancing of our debt. With each of these key takeaways from the year just ended, we demonstrated improved execution against a consistent backdrop of increasing customer demand. We trust that as a result, we have increased investor confidence in our ability to deliver continued progress towards our financial targets and business objectives.

As we look to our expectations for 2023, we intend to communicate a few important metrics and objectives that we believe are indicative of our performance, all of which we expect to play out quite favorably for SkyWater this year. First, we expect to see continued growth in Wafer Services, which we

anticipate will come as a result of further productivity gains, additional ATS customers transitioning to production later this year and ongoing improvements in pricing as we take advantage of our unique capabilities in the market.

We believe our ATS growth this year will be relatively decoupled from macro weakness in the semiconductor industry for several reasons. In our DoD and U.S. government programs RadHard and other strategic areas of investment, these programs are established and funding is secured. Provided we continue to execute on development milestones throughout the year.

In our commercial programs, our customers' R&D investments remain robust and well funded, even during this pause in industry growth. So while the overall semiconductor industry may be experiencing a downturn, it is important to recognize that the demand for innovation of arrest. Our Taas business model continues to attract innovators with long-tail applications addressing large TAM opportunities.

All this provides us with confidence that we expect to once again be able to deliver annual revenue growth in 2023 approaching our long-term goal of 25%. We also expect to achieve continued efficiency gains as a result of more automation and modernization. This includes the installation of a variety of new software capabilities and manufacturing tools that we are bringing online that will improve our capabilities, productivity and yields going forward.

Our 2023 objectives also include continued positive EBITDA growth and further strengthening of the balance sheet. We remain confident to carrying CHIPS funding to further expand the capabilities at our existing sites while transforming the industry with our unique Purdue partnership. Our team is preparing aggressively for their first round of funding submissions due later this month or in early March.

Furthermore, our pipeline of commercial ATS programs continues to grow aggressively, which we believe positions us well for next year and beyond. We believe the momentum we will build in 2023, along with our expected efficiency gains will position us for another strong year in 2024 as we continue to grow revenue and expand our gross margin profile. While we expect our growth in 2023 will be uniquely driven by strategic government programs, we believe 2024 will be a year when we see subsequent growth in multiple commercial programs that are ramping towards production this year. When coupled with increased absorption of our fixed cost of revenues from our new RadHard and Florida fab investments and more favorable contributions from our Wafer Services business due to improved mix, we anticipate continued gross margin acceleration positioning SkyWater consistently in the high 20s to low 30s level as we exit 2024.

And while it may seem a long time from now, 2025 is right around the corner, that is a year we believe our model really comes together. By that time, we expect SkyWater will be firmly established at the country's leading-edge pure-play foundry providing both highly differentiated front-end wafer fabrication solutions and the most advanced semiconductor packaging technologies. We anticipate an important driver of top line growth that year will be from the products manufactured on our RH90 platform, which will create significant tailwind for our gross margin profile.

We also expect to have a more diversified and profitable Wafer Services business as multiple ATS customers with their improved margin profile move to volume production. This will also be the year that we expect most of today's unabsorbed cost of revenue whether be absorbed are behind us. These include not only RH90 related depreciation and costs associated with the startup of our Florida operation but also the completion of the company's acquisition-related depreciation. All this means that we believe that we have a clear path to gross margins approaching our long-term target of 40% by the end of 2025.

And finally, as we look beyond 2025 to the second half of the decade, SkyWater expects our chips-enabled capabilities and other strategic initiatives to ignite accelerated growth in our company as we aggressively drive towards our long-term revenue objective to be $1 billion semiconductor foundry within this decade.

In summary, we believe the uniqueness of our business model and strong pipeline of customer demand positions SkyWater for several years of consistent growth despite the macro weakness currently facing the semiconductor industry. For 2023, specifically, multiple DoD programs are ramping and the funds are

committed, which we believe substantially derisked our revenue growth objectives during this otherwise soft year for semis.

We expect to further build our revenue funnel this year with multiple commercial ATS programs that are well funded and considered highly strategic R&D investments by our customers and partners. Each of these are expected to become meaningful growth drivers for us in 2024. We also expect to have several tailwinds driving improvement in our gross margin profile for multiple years, as I described earlier. But 2025 expected to be the first year we can see our target long-term financial model coming to fruition.

I want to close by conveying the strong confidence we have in our ability to execute successfully towards our long-term growth and profitability objectives. With our record of consistent execution in 2022, we expect to continue to build your confidence in our ability to execute as well.

I'll now turn the call over to Steve for more information on SkyWater's financial and operational performance in the fourth quarter as well as further details on our outlook. Steve?

Steve Manko
Chief Financial Officer

Thank you, Tom. Total revenue for the fourth quarter of 2022 was $65.1 million, which was 24% higher than Q3 and up 69% from the fourth quarter of last year. Wafer Services revenues were consistent with the prior 2 quarters at $17.2 million, which represented 21% growth year-over-year. Included in Q4 ATS revenues of $47.9 million was a $4.7 million nonrecurring and noncash revenue event that Tom described earlier. Given that the total project revenues were fixed and the program concluded earlier than originally expected, we recognized all deferred revenue remaining for the program in Q4, and there was no cost of revenue associated.

As a result, we exited 2022 with a new quarterly baseline revenue level of approximately $60 million, which was still modestly stronger than what we were expecting this time last quarter. The stronger revenue performance in ATS can be primarily attributed to productivity gains, which allowed us to execute on large ATS programs, such as Phase 2 of the RH90 program, leading us to exit 2022 with a higher baseline of revenues and gross profit from which to grow.

Importantly, these productivity gains enabled us to generate incremental and more profitable customer program revenue, which resulted in more favorable mix and significant flow-through to gross profit. GAAP gross profit increased significantly in Q4 to $16.6 million or 25.4% of revenues. On a non-GAAP basis, which adjusts for impact of episodic tool sales, equity-based compensation and Florida start-up costs, gross margin was 26.2%. And as Tom mentioned earlier, the revenue recognition event that was $4.7 million of 100% profit benefited gross margin by approximately 600 basis points.

We expect that our new baseline as we enter 2023 is now at the $60 million revenue level and roughly high-teens gross margins. The higher baseline for revenues and gross margin is the result of improved execution in our ability to increase overall ATS wafer moves along with the continued improvements in stabilizing fab operations. This includes reaching our target manufacturing headcount with reduced levels of attrition at the same time as we increase automation and tool productivity and availability. All of which enabled us to move ATS wafers through the fab faster, steadier and more profitably given our execution of our cost reduction plan.

To illustrate how our model reflects such high levels of operating leverage and flow through in each of our last 2 earnings calls, I detailed the various components of our cost of revenues. In order to keep my comments brief, I'll invite you to refer to those 2 calls for all of the details, but essentially, there are 3 components of our cost structure. Wafer Services driving our target fab utilization, ATS adding significant accretion to margin as we increase the volume of R&D wafers moving through the fab and $8 million to $9 million per quarter of costs that will either phase out or become absorbed as we grow the RadHard program and Florida operations in the next few years.

While the 20% gross margin level is certainly ahead of schedule from what we expected to drive with our various ATS programs and cost reduction efforts is indicative of how quickly we can ramp gross margins towards our long-term targets in favorable business conditions. As we look to the first quarter, with

revenues expected to be at or above the new baseline $60 million level we expect gross margins within the range of the 15% to 20%, similar to the normalized levels achieved in the second half of 2022. At this time, our expectation for the forthcoming quarters is that revenue mix will continue to vary, including from the increased level of tool revenue and pass-through subcontractor revenue we expect in 2023. This will result in varying gross profit contributions quarter-to-quarter, which we expect will result in gross margin continuing to range between 15% to 20% as we grow from the low $60 million level to potentially high $60 million level later in the year.

Moving now to the operating expenses. On a GAAP basis, operating expenses of $15.2 million were up about 14% from Q3. On a non-GAAP basis, which excludes equity-based compensation and Florida start-up costs, operating expenses were $14.1 million compared to $12.1 million in Q3.

Of the $2 million increase, R&D came in below expectations, while SG&A expenses were higher due primarily to an increase in variable compensation due to the favorable performance in Q4 and the write-off of $1.1 million of customer accounts receivable. Given the strong revenue growth and significant improvements in gross margin, adjusted EBITDA was a record $10.3 million. This record adjusted EBITDA includes $4.7 million of pure profit in the quarter from the revenue recognition event. We expect continued generation of positive adjusted EBITDA in 2023.

Interest expense was $2.9 million in the quarter, which included a charge for about $1 million on the debt refinance and with no tax benefit, the GAAP net loss was $0.07 per share and the non-GAAP net loss was $0.03 per share.

Now I'll turn to the balance sheet. We ended the quarter with $30 million in cash and cash equivalents after we completed the refinancing of our revolver, sending a new $100 million 3-year senior secured revolving credit facility that expands the company's available borrowing capacity. The new credit facility contains an accordion feature that allows the company to increase the size of the facility to as much as $130 million. We do not expect to maintain a similar amount of cash on the balance sheet at the end of first quarter '23 as we plan to use our working capital to pay down our revolver.

Total debt outstanding increased to $92.9 million and included $60.1 million on our revolver and $36.8 million for our variable interest entities, excluding unamortized debt issuance costs. Since August, we have put into place additional funding alternatives as we continue our plans for growth. This includes the universal shelf registration statement filed for up to $250 million from which we completed an at-the-market program for $3 million of equity proceeds in September as well as a larger equity financing in November with net proceeds of $16 million.

We believe these funding alternatives provide us with increased financial flexibility and liquidity that will help fund our expected growth and the new larger facility is a reflection of our success over the past year as we have turned EBITDA positive and strengthened our credit profile. As you update your SkyWater models, the following is some additional color for various components of our P&L for the year ahead.

Quarterly research and development expenses are anticipated in the $2.3 million to $2.5 million range, excluding stock-based compensation. Quarterly SG&A expenses are expected to be approximately $10.6 million to $11.1 million, excluding stock-based compensation. We anticipate stock-based compensation to range from approximately $1.9 million to $2.4 million per quarter. Total depreciation for 2022 was $28 million, of which $6 million was related to the RadHard program and approximately $15 million was associated with the acquisition purchase accounting. We expect a similar depreciation profile for 2023.

Total cost of revenue investments in Florida were $11 million in 2022, and we expect these will average approximately $3.2 million to $3.6 million per quarter in 2023. We expect neutral to no tax benefit from our tax assets in 2023.

With that, I'll turn the call back to Claire, and welcome your questions on SkyWater.

Claire E. McAdams
Headgate Partners LLC

Thank you, Steve. Our upcoming investor activities include the Susquehanna Technology Conference being held virtually on March 3. Please visit the Investor Relations section of our website for other upcoming presentations. And as always, please feel free to reach out to me directly to arrange a call or meeting. Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] We'll take our first question this afternoon from Krish Sankar at Cowen and Company.

Krish Sankar
Cowen and Company, LLC, Research Division

Tom and Steve, congrats on really good results. I have 2 questions. First one, on the roughly 25% or so growth this year you expect in revenue. How to think about Wafer Service and ATS? And how do you think about volume versus pricing?

Thomas J. Sonderman
President, CEO & Director

Yes. So Wafer Services and ATS, I would look at as having a fairly similar mix to what we exited Q4. We will obviously continue to grow both of these, but ATS will grow at a faster pace than Wafer Services, but we expect both those businesses to grow throughout 2023.

Krish Sankar
Cowen and Company, LLC, Research Division

Got it. Very helpful. And then as a follow-up, in the past, you mentioned with one of your largest historical customers, which I believe, Infineon, had some salable pricing terms. Is this because you're expanding your relationship with them? Or is this for the existing projects? And also to their exposure, are you more exposed to the industrial automotive side?

Thomas J. Sonderman
President, CEO & Director

Yes. Good question. So yes, the strategic relationship with Infineon obviously, is an integral part of not only better pricing, but also a stronger commitment from them to put more product in our fab here in Minnesota. I also think that the overall trajectory given their concentration in automotive and the industrial space is very much aligned to SkyWater. We are not very much exposed to the consumer sector. And because of a lot of the type of work we do, it's very much aligned with the needs of Infineon. And so we expect that relationship to be foundational.

But that said, we do have 50 active ATS programs that are also underway. And all those eventually, some percentage, I should say, will move into volume manufacturing and that will, over time, decrease the concentration and dependence on Infineon.

Krish Sankar
Cowen and Company, LLC, Research Division

Got it. Thanks a lot, Tom. And nice to see the really good execution. Thank you.

Operator

We go next now to Raji Gill at Needham & Company.

Rajvindra S. Gill
Needham & Company, LLC, Research Division

Yes. And I echo the congratulations on really solid results and gross margin improvement across all the metrics. That's good to see. Just, Steve, a question on the margins, if I can. So the 26% gross margin in Q4. If you back out the 600 basis point impact from that revenue recognition program related to that ATS, it's about 20% gross margin. You're kind of guiding to 15% to 20% on a quarterly basis in 2023. So just can you maybe walk me through again that kind of mid-teens gross margin when you kind of have 20%

in Q4 on an apple-to-apple basis, I would expect that the margins might tend to be higher as you know, a $60 million kind of run rate on a go-forward basis?

Steve Manko
Chief Financial Officer

Yes, good question. I think that we want to put that range out there for a couple of reasons. First off, like I talked about, we want to make sure that we have the opportunity to invest ahead of when revenue may be coming. So we talk a lot about what we're doing with advanced packaging and heterogeneous integration in Florida. Getting that fab up and running and started. So I want to make sure that we're not being held to a 20% margin expectation when we need to start investing ahead of -- revenue can come for a project that could go into Florida or really just growing our business here even in Minnesota going into 2024 as well.

Additionally, we expect to have some potential for customer tool revenue coming through in 2023. Probably not like what we saw in 2021, but likely more than what we saw in 2022. So again, that can be good revenue that comes through, but doesn't have the typical flow-through like we see from our other ATS revenues that flow through as well. So with that, I think your math is right. So you're at the right starting point, and it is a valid question of why we're not expecting 20% and growing from there. I think that's obtainable in 2023, but we also want the flexibility for the additional investing we'll do ahead as well as some pass-through revenue that comes through that doesn't carry the same margin as our core revenue as well.

Rajvindra S. Gill
Needham & Company, LLC, Research Division

Yes. I appreciate the transparency. Just on the question of the tool revenue potential. So the 15% to 20% gross margin range -- you talked about it contemplates some sort of tool revenue less than 2021, but more than 2022. So just to put a bracket on it, 2021 was $19 million of tool revenue. I believe 2022 was $1.5 million. That's a huge range. When do we think we'll get a sense of what the tool revenue will be. So we're -- can you model that in terms of the timing?

Steve Manko
Chief Financial Officer

Yes. I think that's a great question because just like we show in the tables that go along with our earnings release, we want to be transparent about not only the revenue that comes in from tools, but also what the cost of that tool revenue is. So we still had very minimal tool revenue coming in, in the first quarter. I think what we'll talk about is very likely in the second quarter, we'll have better transparency on what the range of revenue and costs will be from tools as well as some pass-through revenue coming through. I think it's fair to say that it will be announced a very large range, but somewhere between the range of what we saw in 2021 and 2022. And very likely we can give additional color to that in our next quarter earnings call.

Rajvindra S. Gill
Needham & Company, LLC, Research Division

Great. Appreciate that. So Tom, you very clearly outlined some of the growth drivers in this year, mostly the strategic government programs, and then 2024 more of the commercial programs. When we're thinking about the 2024 kind of outlook, can you talk about some of the types of commercial programs that you're looking at. What about in terms of the customer base? How much are you going to be increasing your -- and diversifying your customer base on the commercial side? Any potential end markets that are new that would be hitting the model in 2024 on the commercial side?

Thomas J. Sonderman
President, CEO & Director

Yes. Good question again and excited to talk about a lot of the development we've been doing and how it ultimately manifests itself in new products. One of the ones we talked about a lot last year was

biomedical. We have multiple programs that are moving through our pipeline that we expect to go into production later this year and into next year. Obviously, Photonics is an area of strength for us. We have multiple engagements in that space. These are targeted towards a data center as well as other applications. Applications in both the automotive and industrial space.

Of course, another area is just we'll call it, the ASIC-based arena of IoT given our CMOS foundation with 130-nanometer and 90-nanometer on our technology that we received from Cypress. There's a lot of different applications that are being configured. But for the most part, they will be going into the traditional verticals we've talked about, again, with a limited exposure to the commercial space.

Rajvindra S. Gill
Needham & Company, LLC, Research Division

Got it. Great. And just last question for me. In terms of the pricing versus volume question that Krish mentioned, can you talk about your ability to kind of raise pricing on the commercial contracts, maybe excluding Infineon? Are we still kind of in a favorable position with respect to capacity and the demand for those type of process nodes being imbalanced? Any thoughts in terms of the pricing over this year and over the course of maybe next year.

Thomas J. Sonderman
President, CEO & Director

Yes. Again, I think one of the unique things about SkyWater is that we are creating technologies here at SkyWater with our customers that will be single sourced. The technologies are being cocreated with our customers. And so by definition, we're going to get much more attractive pricing as they go to market. Part of the other thing that's going on is we're getting better pricing for our ATS programs as we've demonstrated our technical capabilities, our ability to execute, customers are willing to pay more to have access to our unique capabilities. And so we think not only as we enter an engagement that we have strength in our negotiation. But as we position the products as they ramp to volume, we obviously take advantage of the fact that these are going to be new technologies on products that haven't been in the market before. And we're the single source provider.

So by definition, again, we get to control the pricing. The nice thing about being the manufacturer is that you have a lot of influence over ultimately how the products get to market and the pricing profile that takes them to market. And as we have grown and matured as a company, we've been able to get a lot more proactive in terms of how we create those arrangements.

Rajvindra S. Gill
Needham & Company, LLC, Research Division

Thank you and congratulations again.

Operator

Thank you. We go next now to Natalia Winkler at Jefferies.

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

Congratulations on the strong results. One of the things I wanted to confirm was I think back in '21, you guys had this kind of longer-term CapEx program that was around $56 million, I believe. Can you help us figure out where you guys are with that program? And I appreciate it's probably running over multiple years, but just kind of how is that helping support your expansion and your [Indiscernible] growth?

Steve Manko
Chief Financial Officer

Yes. That's a continuing process and investment like we talked about previously. That was a combination of supporting our move into offering GaN technology just as well as further building out our capacity in SkyWater, Minnesota. So as you mentioned, we're moving along the way. A lot of the investment that you

saw coming through our balance sheet this year and cash flow statement on the investments we made from the CapEx side do go against that investment that we committed to back in 2021. So still will be a multiyear phase going through, and that will continue over the course of 2023 and in fact, even into 2024.

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

Understood. That's very helpful. And I guess, Steve, the other question is really also about this idea of your model being kind of CapEx light, right? And Tom has mentioned this goal of reaching $1 billion by kind of 2030. So I'm curious to kind of think like what's the right way for us to think about the capacity expansion, if any, you guys would kind of need to see in your model to really ramp up revenues to 2025 and really beyond that?

Steve Manko
Chief Financial Officer

Yes. So I'll talk about 2025, first because we'll focus on that in the near term. Really, our model with what we're currently doing with our CapEx plan that we have in place, which you alluded to a portion of it as well as the investments that we're getting from our customers. I think that will allow us to grow to those 2025 levels that we've been talking about.

Clearly, from there to go to what Tom alluded to by the end of the decade, would take additional investment coming through. And that's where we talk about some of the larger investments, partnering with various states on growing capacity would likely be needed to grow to those levels by the end of the decade. But focusing on what we can control, focusing on the near term over the next couple of years, we think our current model lends very well with what we've already invested in. But we haven't received a complete return on to really grow to our 2025 levels that we continue to communicate.

Thomas J. Sonderman
President, CEO & Director

And just to add, the CapEx-light model essentially means the capital is still required, but we partner with our customers to enable that investment to come into our facilities. So part of the way we will achieve that longer-term second half decade growth is through continued exploitation, frankly, of the model that we've created. We will be leveraging our customers' investments and our technical and manufacturing capabilities to bring that combination together to get our customer products to market.

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

That's very helpful. And Steve, I just wanted to clarify one little thing from the prepared remarks. I think you mentioned that you have the start-up costs, right, like still in the model at the moment, which are around $7 million to $9 million is up per quarter related to the ramp of Florida and the RadHard. Did I catch that right? And I think in the past, you also provided sort of a split between the different lines? Is there a way for us to kind of think about that number going forward?

Steve Manko
Chief Financial Officer

Yes. The $7.9 million would not be related to the start-up costs. I don't know exactly which one you're referring to. I know that we talked about there are about $8 million to $9 million of quarterly costs that are flowing through that will either fall off or be absorbed within the next couple of years.

But I did prepare in my comments, an expectation for some of the quarterly ranges on the various components of our operating expenses but it wasn't in relation to the $7.9 million. So that may be something that we can listen to the replay or cover at a different time.

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

Understood. Thank you very much and congrats again.

Operator

We go next now to Harsh Kumar at Piper Stanley.

Harsh V. Kumar
Piper Sandler & Co., Research Division

My congratulations as well. Excellent quarter and guide. So Tom, I wanted to understand where the majority of the upside might have come from. Even if I take out the $4.7 million that you got, that's nonrecurring onetime revenues, was it, I guess, more coloring -- was it more business as an existing customer? Or was it 1 or 2 customers stepping up? Or just any kind of color you can provide would be helpful.

Thomas J. Sonderman
President, CEO & Director

Yes. Overall, I think it was the RadHard program clearly was a big driver. We announced that program, the Phase 2 award and the team just stepped up and was able to execute at a very high level to hit the milestones that were needed to trigger the revenue back into the company. And so I think that was certainly a big component and driver in the second half of last year. And then also just our overall execution in the fab.

I've said before that we're running a very complicated model, doing volume manufacturing for a company like Infineon while running 50 development programs. And the team has really stepped up and done a great job of integrating and institutionalizing a lot of the behaviors that we want to be able to grow and scale the model that we've created. And I think we're seeing the efficiencies, the productivity, a lot of those capabilities, the investments that we have talked about in the automation side are beginning to pay dividends. And no one's ever really done this type of high-level R&D and a volume manufacturing facility before. And I think we're all very excited about the potential we're seeing from this model as we continue to grow and scale it.

Harsh V. Kumar
Piper Sandler & Co., Research Division

Fair enough. And then a very similar question for the $60 million base that you cited as a starting base going forward. And I think, Steve, you even went on the record in the guidance that it will start in the low 60s and kind of finish in the high 60s as the year goes on. Is that also being helped by the RadHard program? Or is that just kind of productivity and customers having confidence in stepping up and giving you more business. So I was just curious, and -- and then also, is that in backlog at this point in time? Or is that being driven by sort of conversations you're having?

Thomas J. Sonderman
President, CEO & Director

No, I mean, I think, again, RadHard will continue to play an important role this year and into '24, as we prepare to start actually making products in 2025. The other is just the continued ramp of other programs that we've talked before as programs go through various phases, various gates. The spending tends to increase and a lot of the programs we were talking back in 2021 now have gotten larger and continue to grow. And I think both of those components, plus just the productivity improvements I just discussed, give us confidence that where we exited Q4, we think will really become a baseline as we grow throughout this year.

The other thing is that we do have a lot of, I'll just call it, maturing of the business and how we not only predict revenue, but how we bring customers into the business, as I discussed earlier and then how we work with them to take advantage of the semi industry is in a correction right now. And there's a lot of customers that are really excited about getting their products to market for the next upturn. And so that is really taking advantage of our model in a unique way, and it allows us to show what our capabilities are

in a unique way. And I think that combination is what gives us confidence in 2023 that we can continue to grow at the 25% level or close to it.

Harsh V. Kumar
Piper Sandler & Co., Research Division

That's great, guys. Thank you so much. Congratulations again.

Operator

We'll take our next question now from Richard Shannon of Craig Hallum.

Richard Cutts Shannon
Craig-Hallum Capital Group LLC, Research Division

I'll echo my congratulations on some nice numbers end of the year here. Let's see here. Tom used the language here on some of your growth expectations for this year talking about funded programs. And I think it's fair to understand that with the U.S. government type programs and customers here. But what about the commercial programs? To what degree do you have confidence if the ones that you're expecting to grow nicely here are actually funded and they won't be pulled in any way? Just help us kind of put this together and give us a little more confidence on that, please.

Thomas J. Sonderman
President, CEO & Director

Yes. So I'll start and Steve can give any additional color. Obviously, one of the things that we have learned over our life as a company is not only who we want to engage with to take advantage of our model, but how do we make sure that they are able to deliver on the financial side as we deliver on the technology enablement side. And I think we feel very strongly and as I put in my prepared remarks that the engagements we have, the R&D investments our customers are making into our company are very much in a high confidence level not only because of the companies involved, but also the maturity of the technologies and the commitment of the investors in those technologies to get those products to market.

So we do a lot more vetting when we bring a customer into the business. We obviously have a couple of scars where we didn't do that as well as we should have in our earlier days. And so I think we feel like as we enter this year and go into next year and really bring some of these technologies to fruition that the partners that we're choosing are maybe in a better place than some of the ones that we've had before. Steve, anything to add?

Steve Manko
Chief Financial Officer

That's good. Thanks Tom.

Richard Cutts Shannon
Craig-Hallum Capital Group LLC, Research Division

Excellent. My next question is some language used to being, and I think maybe the last call and maybe in 2 calls here about stabilization of fab operations and productivity. In the context of one of the other questions in your prepared comments here about gross margins, where you just finished at 20%, excluding the big contract revenue recognition and you're expecting 15% to 20% seems like that's implicitly stating you're not expecting any more improvement or stabilization in productivity. To what degree does that [Indiscernible] that you're not expecting more versus that could happen and you potentially see upside throughout this year?

Thomas J. Sonderman
President, CEO & Director

Yes. I mean, clearly, we're going to continue to drive productivity improvement throughout the year. I think, if anything, it's what Steve said earlier, is that we also expect some tool revenue to come into the

mix this year. We have some subcontractors that are tied to the R&D program for RadHard that will come into play where the margins aren't the same level as ATS, so our traditional ATS.

So I think -- and frankly, we're in a very -- we'll call it cautionary environment at a macro level in terms of what's the overall economy going to do here in the U.S. And so I think all that is why we're cautiously optimistic about our ability to continue to grow and scale the business but recognizing that there are going to be some different factors that hit the revenue line and their margin profile will be somewhat different than what we had this year. Steve, anything to add?

Does that answer your question, Richard?

Richard Cutts Shannon
Craig-Hallum Capital Group LLC, Research Division

Yes, sorry, I was waiting for Steve to respond. If he did, I didn't hear anything. My last question...

Thomas J. Sonderman
President, CEO & Director

He just nodded his head.

Steve Manko
Chief Financial Officer

Yes. [Indiscernible]

Richard Cutts Shannon
Craig-Hallum Capital Group LLC, Research Division

He just nodded, all right. Last question, I'll jump out of line here. Just any info you can give us on the 10% customers, and they will see the 10-K, but I wonder if you can give it to us for the fourth quarter or for the year, please, Steve?

Steve Manko
Chief Financial Officer

Sorry. Can you repeat what was the question, 10% of what?

Thomas J. Sonderman
President, CEO & Director

10% customers.

Richard Cutts Shannon
Craig-Hallum Capital Group LLC, Research Division

What were the 10% customers either for the quarter or for the year?

Steve Manko
Chief Financial Officer

Yes. We'll just wait for the 10-K, and we'll list those out like we do consistently. Those will be in their customers, I believe, [A3], [A4] for the fourth quarter.

Operator
And ladies and gentlemen, that will conclude our question-and-answer session today. We'd like to thank you all so much for joining the SkyWater Technology Fourth Quarter and Financial Results call. Again, thank you so much for joining us, and we wish you all a great evening. Goodbye.

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