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SKYT.OQ - Q1 2023 Skywater Technology Inc Earnings Call

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CORPORATE PARTICIPANTS

Steve Manko *SkyWater Technology, Inc. - CFO*

Thomas J. Sonderman *SkyWater Technology, Inc. - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

Kinney Chin *TD Cowen, Research Division - VP*

Natalia Sukhotina Winkler *Jefferies LLC, Research Division - Equity Associate*

Rajvindra S. Gill *Needham & Company, LLC, Research Division - Senior Analyst*

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

Claire E. McAdams *Headgate Partners LLC - Managing Partner & IR Officer*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the SkyWater Technology First Quarter 2023 Financial Results Conference Call. (Operator Instructions) I'll turn things over to Ms. Claire McAdams, Investor Relations for SkyWater, Ms. McAdams, please go ahead.

Claire E. McAdams - *Headgate Partners LLC - Managing Partner & IR Officer*

Thank you, operator. Good afternoon, and welcome to SkyWater's First Quarter Fiscal 2023 Conference Call. With me on the call today from SkyWater are Thomas Sonderman, President and Chief Executive Officer; and Steve Manco, 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 and our fiscal 2022 10-K filed on March 15 of this year. 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 Q1 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 - *SkyWater Technology, Inc. - President, CEO & Director*

Thank you, Claire, and good afternoon to everyone on the call. We are pleased to report a strong start to 2023 as we set another record for quarterly revenues at $66.1 million. Q1 revenues exceeded our expectations going into the quarter, growing 2% from the previous record set in Q4 and representing 37% growth over the same period last year. The strong revenue growth in Q1 exceeded our forecast chiefly due to increased demand and urgency on multiple existing defense programs. We continue to demonstrate our ability to execute. In the previously completed quarter, we were awarded extensions and expansions of several existing contract awards. As a result, we have entered 2023 with an increased program scope on multiple defense initiatives. This accelerated demand as well as our strong execution in the quarter also provides us with greater clarity for the year and increased confidence that we can approach our long-term annual revenue growth objective of 25% in 2023, notwithstanding the overall macro concerns and softening semiconductor demand environment. Our gross margin performance in Q1 also demonstrated especially strong flow-through on our incremental revenue growth as we continue to deliver quarterly gross margin improvements well ahead of schedule.

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As Steve will detail later, our quarterly revenue and gross margin performance in 2023 will depend on a number of factors, most notably on our mix of ATS programs, customers and tool derived revenues. Yet, it's important to recognize SkyWater's unique positioning in the semiconductor ecosystem. Our company is growing through this period of challenging macro environment conditions due to our diversified portfolio, which includes a strong A&D component. This should allow us to deliver year-over-year increases in our gross margin and EBITDA performance, again, driven by top line revenue growth approaching 25%. Reflecting on the highlights from last quarter's earnings call, 2022 was a year of improved operational and financial execution. This allowed us to demonstrate important progress towards achieving the strong revenue growth and operational leverage objectives communicated since our IPO a little over 2 years ago. A vital component of the strong revenue growth achieved last year was U.S. government's increased commitment to SkyWater with its strategic RadHard investments.

The increased momentum achieved last year on this and other strategic government initiatives set the stage for 2023's revenue growth and helped drive another record revenue quarter in Q1. During the first quarter, we obtained scope increases on several of these key defense programs, indicating an increased sense of urgency and desire to accelerate the delivery of key development milestones. Our customers made these new commitments, specifically because of our ability to execute. Furthermore, we believe our successful partnership with the DoD uniquely positions us to be a major beneficiary of Chip's funding. Sky water's growth story remains consistent with our outlook as we entered the year, however, with greater clarity and an increased level of confidence in our ability to achieve our targeted financial objectives. We have all witnessed incremental softness in many segments of the semiconductor industry this year.

In SkyWater's case, these headwinds have been offset by the growing scale and scope in many of the key programs we have with our partners in the A&D and commercial space. We continue to expect modest growth in wafer services this year, which we anticipate will come from continued focus on improved productivity, 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 continue to believe our ATS growth story this year will be relatively decoupled from macro weakness in the semiconductor industry. Our DoD and U.S. government programs are established, funding is secured. And as mentioned, the scope and scale of these programs has only increased year-to-date. On RadHard, we continue to make progress on the productization and qualification of SkyWater's 90-nanometer RadHard platform to prepare for the planned production ramp in 2025.

In the commercial space, customer R&D investments continue through this period of overall industry tightening. We see this as a unique opportunity to review which customers are best positioned to succeed in the long run, allowing us to prioritize these specific programs accordingly. One example of this is our recently announced program expansion with our partner, PsiQuantum. This program demonstrates the value that our Technology as a Service model brings to the industry's rapidly evolving ecosystem. PsiQuantum is pursuing the bold vision to deliver a commercially viable air corrected general purpose quantum computer that scales beyond 1 million cubics using silicon photonics. Technologies incorporating quantum computing and Photonics are the building blocks for the future of artificial intelligence, our AI-enabled systems. PsiQuantum pursuit of their goals has and continues to demand innovation across a range of materials with unique process integrations to achieve the novel architectures, which enable their scalable technology.

SkyWater is supporting the state-of-the-art and rapid pace program in our 200-millimeter facility in Minnesota as we mature the technology and position PsiQuantum for their ultimate production ramp. The enablement of this critical emerging technology will support advances in various industries such as climate, energy, health care, finance, transportation and government. So, while we do observe some early-stage customers facing higher standards for raising capital, we also have observed that the strongest and best positioned customers are experiencing a surge in support as they redouble their efforts to accelerate the time to market for their solutions. This is an important proof point that the demand for innovation never rests. Our task model continues to attract innovators with long-tail applications addressing large TAM opportunities.

Today, we can stay with confidence that our visibility and customer demand pipeline has never been stronger. Of course, strong demand and expanding opportunities for growth requires ever-increasing efficiency gains, which we are driving aggressively through our automation and modernization efforts. This includes the installation of a variety of new software and metrology capabilities that we are bringing online in 2023 to accelerate improvements in the productivity and yields of our 2 fabs. The result of these and other operational excellence efforts gives us strong confidence in our ability to extract more margin from the business as we expect to continue to generate positive EBITDA and further strengthen the balance sheet. Looking forward, SkyWater continues to remain confident in our ability to secure chips funding to expand the capabilities at our existing sites in Minnesota and Florida while transforming the industry with our unique partnership with Purdue in the State of Indiana. We

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believe that the momentum we will build in 2023, including the expected efficiency gains we are now institutionalizing in our fabs 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 revenue growth in 2023 will be largely driven by strategic government programs, we believe 2024 will be a year when our growth will be more balanced between A&D and commercial customers. As previously mentioned, many of our partners are accelerating their R&D efforts to ensure proper product positioning and readiness in their targeted markets. SkyWater's unique task model allows for an efficient transition from development to volume manufacturing, a critical capability to maximize the potential of new product launches on highly differentiated platforms. Challenges in the current macro environment are providing clarity for both us and our partners as we work synergistically to ensure we are ready when the market is ready.

As for expectations for gross margin performance next year, we anticipate higher revenue levels will lead to increased absorption of our fixed costs from our rad hard and Florida fab investments and more favorable contributions from our wafer services business due to improved pricing and mix. Therefore, we anticipate gross margin acceleration to continue positioning SkyWater into the high 20s to low 30s gross margin level as we exit 2024. Further, just as communicated last quarter, we believe 2025 will be the year when all the components of our business model fully come together. By that time, we expect SkyWater to be firmly established as the country's leading next-wave pure-play foundry providing both highly differentiated front-end wafer fabrication solutions and the most advanced semiconductor integration and packaging technologies, and we expect to be nearing our target gross margin objective of 40%.

In summary, we believe the uniqueness of our business model and a strong customer pipeline positions SkyWater for several years of consistent growth. This belief is independent of the macro weakness currently facing the semiconductor industry. Also, to be clear, we do not require Chip's funding to achieve our long-term model. but we do intend to aggressively pursue it since we believe it could be an accelerant to our growth as the decade unfolds. For 2023, specifically, we have multiple DoD programs ramping with increased scale and scope and the funds are committed. We believe this derisks our revenue growth objectives during this otherwise soft year for semis. We also plan to continue to execute on high priority commercial ATS programs where the end markets are clear, customer funding to secure and the transition to volume production remains on schedule. Our efforts to scale existing A&D and commercial programs are expected to deliver continued growth for our company in 2024. We also expect to have several tailwinds driving improvement in our gross margin profile for multiple years, as described earlier, but 2025 expected to be the first year when we can see our target long-term financial model coming to fruition.

And finally, as we look beyond 2025 to the second half of the decade, we remain confident that the strategic investments being made to onshoring critical semiconductor device manufacturing, in part due to the CIPS will ignite accelerated growth in our company as we aggressively drive towards our long-term revenue objective to be a $1 billion pure-play semiconductor foundry within this decade. I want to close by conveying the strong confidence all of us at SkyWater have and our ability to execute successfully towards our long-term growth and profitability objectives. Our amazing employees have now delivered consistent execution for several quarters. We intend to continue to build your confidence in our ability to execute on our future growth and profitability objectives as well. I will now turn the call over to Steve for more information on SkyWater's financial and operational performance in the first quarter as well as further details on our outlook. Steve?

Steve Manko - *SkyWater Technology, Inc. - CFO*

Thank you, Tom. Total revenue for the first quarter of 2023 was a record $66.1 million, which was 2% higher than Q4's record and up 37% from the first quarter of last year. Wafer services revenue was $17.8 million, up 3% from Q4 and 17% lower than the first quarter of last year. As a reminder, the revised contract with our large historical customer closed in Q1 of last year and the improved revenue recognition terms resulted in a pull-in of over $8 million of wafer services revenues that quarter. Record Q1 ATS revenue of $48.3 million was slightly higher than the previous record set in Q4 and was up 82% compared to Q1 of last year. Q1 ATS revenue exceeded our expectations due to the acceleration of customer demand on certain aerospace and defense programs, which effectively pulled in a portion of the revenue expected later in the year, and we believe the expanded scope of certain of these programs also bolsters our confidence in the revenue growth forecast for the full year.

The team was able to quickly capture this revenue upside and with cost of revenues remaining fairly consistent with the prior quarter, the resulting non-GAAP gross margin of 25.8%, also was well above our expectations. As we enter 2023, our expectations was that our gross margins through this year would be in the range of 15% to 20% on a non-GAAP basis which was the range of our normalized gross margin performance in the second

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half of last year. The polling of customer demand that we achieved in the first quarter did enable us to deliver better gross margin performance than we would typically model at these revenue volumes. For example, our gross margin flow through above the $45 million revenue breakeven threshold was approximately 80%, which was well above our stated objective of 50% plus. We were able to achieve such high flow-through because the increase in cost of revenue was less than our forecast.

Our non-GAAP cost of revenues was expected to increase closer to the $50 million to $51 million level by Q1, but the actual increase in costs was lower due to our revenue growth coming from higher-margin ATS programs. As a reminder, when comparing our Q1 gross margin to the previous quarter, our Q4 gross margin of 26.2% had included a $4.7 million program completion revenue benefit with no associated costs, which lifted prior quarter margins by approximately 600 basis points. As we look ahead, while our performance in Q1 gives us increased confidence in being able to deliver 2023 gross margins at the upper end of our previous expectations, we do expect components of tool and pass-through revenue to kick in that will not carry the same level as these high-margin pull-ins of ATS revenue we saw in the first quarter. Our expectation for the forthcoming quarters is that revenue mix will continue to vary, which will result in varying gross profit contributions quarter-to-quarter. This, combined with a similar to slightly lower revenue expectation for Q2 as a result of the Q1 pull-ins brings us to raise the new gross margin baseline for 2023 to the high teens to low 20% level, up from the 15% to 20% expectation discussed last quarter.

Moving now to operating expenses. On a GAAP basis, operating expenses of $17.6 million were up about 15% from Q4. On a non-GAAP basis, which excludes equity-based compensation, operating expenses were $16.2 million compared to $14.1 million in Q4. The majority of the quarter-over-quarter increase was in SG&A, which came in above expectations due to the adoption of an accounting pronouncement that requires us to estimate our bad debt allowance on a prospective basis. Given the strong revenue and gross margin performance, adjusted EBITDA of $8.1 million represented 12.3% of revenues, -- as a reminder, last quarter's record $10.3 million of adjusted EBITDA included $4.7 million of pure profit in the quarter from the revenue recognition event. Interest expense was $2.5 million in the quarter, and with no tax benefit, the GAAP net loss was $0.10 per share and a non-GAAP net loss was $0.06 per share.

Now I'll turn to the balance sheet. We ended the quarter with $13.8 million in cash and cash equivalents, which declined from year-end as expected, given our plan to use working capital to pay down our revolver. Total debt outstanding declined to $96.1 million and included $56.1 million on our revolver, $36.6 million for our variable interest entity and $3.4 million from tool financing, excluding unamortized debt issuance costs. Since August, we have put into place additional funding alternatives as we continue our plans for growth. This includes our $250 million universal shelf registration filing from which we completed $3 million of at-the-market equity proceeds during Q1. We believe these funding alternatives provide us with increased financial flexibility and liquidity that will help fund our expected growth and the new larger debt facility announced last quarter 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 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 the stock-based compensation. Quarterly SG&A expenses are expected to be approximately $11 million to $11.5 million excluding stock-based compensation. We anticipate stock-based compensation to range from approximately $1.9 million to $2.4 million per quarter. We expect similar depreciation profile for full year 2023 as we reported for 2022, which was $28 million total. Within this amount, $6 million was related to the RadHard program and approximately $15 million was associated with acquisition purchase accounting. As a reminder, the $15 million of acquisition-related depreciation on an annual basis will phase out after Q1 of 2024, and we expect depreciation expense will go down by about half. Total cost of revenue investments in Florida were $3.1 million in Q1, and we expect these will arrangements between $3.2 million to $3.6 million per quarter through the remainder of 2023. The -- we expect neutral to no benefit from our tax assets in 2023. With that, I'll turn the call back to Clare.

Claire E. McAdams - *Headgate Partners LLC - Managing Partner & IR Officer*

Thank you, Steve. Our upcoming investor activities include the Craig-Hallum Annual Conference in Minneapolis on May 31, the Cowen Tech Conference in New York on June 1, the Stifel Cross Sector Conference in Boston on June 6 and the CEO Summit in San Francisco on July 12. 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.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Krish Sankar with TD Cowen.

Kinney Chin - *TD Cowen, Research Division - VP*

This is Steven in behalf of Krish. First question I had,(inaudible) for Tom, regarding your commercial customers in end markets. I just wanted to drill down a little bit on industrial and sort of automotive market customers. I think previously, you said that that was going fairly well based on some of your larger customer exposures. I was just curious like in Q1, how did your industrial and automotive customer exposure far throughout the quarter? And any signs of additional slowing or order adjustments? Any color in that sense, that would be helpful.

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes. Stephen. The way I look at automotive and industrial is that they continue to be robust. Any weakness that we've seen on the consumer side has been more than made up on the automotive industrial. So, it makes up about 20% of our overall revenue, and we continue to see robust healthy market in that space.

Kinney Chin - *TD Cowen, Research Division - VP*

Okay. Great. And for my follow-up, I wanted to ask a little more about the, I guess, updated gross margin range for the rest of this year, the high teens to low 20 range. Just curious, like, is that more a function of the higher cost coverage and the revenue levels in this year that will help you guys achieve that? Or I guess cost optimizations so a big portion of that? And if so, is it more focused on adding more, as I mentioned earlier, metrology and inspection tools that might be helping cycle time potentially? Or are there other types of investments and initiatives that you should think about for hitting the revised gross margin.

Steve Manko - *SkyWater Technology, Inc. - CFO*

Yes, sure. This is Steve here. I'll take that question upfront. A lot of what you mentioned there are things that are in the works. All those are elements that Tom talked about in his prepared remarks, what I'll focus on, though, is really you saw from this quarter, it was really an optimal quarter. If you look at the growth we had, especially after you remove the $4.7 million of the pure (inaudible)came through in the fourth quarter of last year, the ATS growth that we saw in the first quarter was above our expectations. And with the revenue mix like we had in the first quarter of this year was so much of it coming from ATS. That is why we can achieve the non-GAAP gross margin that we did this quarter. That was above our expectations as we communicated. Now that we've done that for a couple of quarters in a row. That's why we were comfortable to increase the range from what we've presented previously. What we have to be cautious of, though, is just like we've had the pull-in on the high-profit ETS revenues. We also have to watch for some of the tool revenue that could potentially come through. We didn't have a significant portion of that in the first quarter. Whenever that revenue and that similar pass-through revenue comes through, it carries little to no margin with it. And that's really why we were comfortable upping the range for the year, but don't have the full expectation that we'd be at the same level of what we saw in the first quarter of this year.

Kinney Chin - *TD Cowen, Research Division - VP*

Okay. But in terms of, I guess, metrology and inspection tools is -- is that an important element of, I guess, at fab level cost improvements? And then also so I guess what's the thought on to delivery times for metrology detection?

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Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes, that is an element. But again, I don't think there's anything that is a large driver. It's a bunch of little changes and a little small investments that have a big impact at the end of the day. So, like I said, Tom mentioned those because those are important drivers, but they don't carry the full weight of what's out there. Again, it's going to be the ATS revenue that really drives the good flow through, just like we saw in the first quarter. That's what we've been communicating, especially since the past year, and that's what we're evidencing. Anything we can do though to get more efficient, we believe we'll have a good flow-through as well, and we should see the benefits of that coming through the wafer services side, making wafer services more profitable than what they currently are today, and that's really where we're focusing on the optimization. But again, I can't stress enough that the ATS revenue will be the driver of flow-through and gross margin flow through.

Kinney Chin - *TD Cowen, Research Division - VP*

Okay. Got it. And congratulations on the strong results.

Operator

Your next question comes from the line of Raji Gill with Needham & Company.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And I echo my congratulations on really good results. Steve, just a question on the tool revenue. You mentioned that could create some volatility in the margins and the revenue because it's associated with no margins. Can you give us a sense in terms of the timing of that potential revenue? My understanding was that, that tool revenue related to the RadHard program was more of a 2024 story. So, I just want to get ahead of it and try to get a sense of how much tool revenue we're expecting this year so we can kind of model it accordingly?

Steve Manko - *SkyWater Technology, Inc. - CFO*

Yes, that's a good question. The way the tool revenue comes in, there's a little bit of uncertainty when it comes in. What I will say is we -- you saw in the release we had today that it wasn't a significant contributor in the first quarter, roughly around $500,000 with little margin coming through. tool revenue in 2022 was roughly around $1.5 million. What I would say is our expectation is that we will see higher tool revenue in 2023 than what we saw in 2022. It won't be -- my expectation is that it won't be to the levels that we saw in 2021, but probably in the latter half of this year, there will be some tool revenues and pass-through revenues coming through. when we get more clarity to that, we'll definitely try to give a better forecast of what our expectation would be on a quarterly basis of those revenues. But what we're seeing right now, there is an expectation that there should be some flow-through coming from that type of revenue in the second half of this year.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. Understood. And in terms of the commentary about gross margins accelerating to high 20s, low 30s exiting 2024 and the reasons were higher revenue levels are leading to better absorption of fixed costs, particularly on these long-term projects like RadHard and Florida and pricing and mix also helping as well. I'm just curious what revenue level are you kind of anticipating quarterly revenue level to get to that gross margin number? By that time, would have all the fixed costs been absorbed for those 2 programs and then it's just a straight immediate benefit and the variability then will be more about mix and pricing. Just curious on the -- how you substantiate that comment.

Steve Manko - *SkyWater Technology, Inc. - CFO*

Yes. I'm going to be careful to not give a revenue number because it's going to -- again, it's going to be very dependent on the mix. Just like we saw this quarter, if we would have modeled roughly mid-60s on the revenue level, we would expect a different cost flow to come through in a

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different gross profit. So, I'm going to be careful not to give a revenue number. What I'll say is I don't expect our fixed cost to be fully absorbed for the RadHard program until sometime in 2025, assuming at that point in time, it goes into production. It won't -- again, so production will be when that program will be fully absorbed on the fixed cost side. On the Florida cost, we said we had $3.1 million of costs come through with that. I do not expect those fixed costs to be fully absorbed over the course of 2024. Again, that would probably be more so at 2025 as we ramp in the scale of that business. Again, you have to remember that we had these pretty good gross profit margin in the first quarter while absorbing those start-up costs with both of those facilities. There's a bit of a clearer path to production in 2025 with the RadHard program, and we'll still be in the development phase for a number of our programs in the Florida facility. So that will take a little bit more time until those fixed costs are fully absorbed.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

Got it. I just guess -- I'm just asking kind of what's giving you confidence then of that low 30% -- high 20s, low 30s, if there's a lot of uncertainty in terms of still around the revenue levels and the fixed costs are not fully going to be absorbed until 2025.

Steve Manko - *SkyWater Technology, Inc. - CFO*

Yes. I would separate those 2 things. The fixed cost being fully absorbed is separate from the clarity of visibility on the revenue. So, the revenue visibility is what gives us confidence in those gross profit margins. So that's where we can make those statements, like Tom said earlier, on escaping the year at those margins, but that's a separate conversation and discussion from fully absorbing the fixed cost, which, again, would not be absorbed until the 2025 time frame.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

Okay. Understood. And just my last question. The really strong revenue number, some of that obviously was some pull-in -- but then you also mentioned, Tom, that the A&D programs are also kind of expanding in scope. And so, could you talk about that? Does that -- are you -- is the program -- the RadHard program expanding in dollar size greater than what you initially expected in the different phases? Because in the past, you kind of outlined the different phases and the different award programs, et cetera. Because it doesn't seem like it's been hired by the commercial, but it's more on the DoD and aerospace and defense programs. Can you just talk about that?

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes. So again, the RadHard program continues to be a healthy driver. That program did not expand beyond what we have talked about before. As we've mentioned, we have other programs that we do for the DoD, those did expand. And think of it as both expansion and then pull in due to an increased sense of urgency. So, we were able to capture that upside when the customer said we want you to move faster. We were able to put more resources very quickly on that program. But essentially, think of it as being independent of the RadHard program, but still an important DoD initiative that we've been working on for multiple years. The program has expanded and been brought in, in terms of time line, which is accelerating the deliverables.

Rajvindra S. Gill - *Needham & Company, LLC, Research Division - Senior Analyst*

And just remind me what your thoughts are for Q2 in terms of top line?

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

I think Steve said in his prepared remarks, slightly down from Q1 of this year. Still in the 60s.

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Operator

Your next question comes from the line of Natalia Winkler with Jefferies.

Natalia Sukhotina Winkler - *Jefferies LLC, Research Division - Equity Associate*

I had a couple here. So, my first one was just sort of an update on the kind of capacity split that we should think of. You mentioned the Florida. Could you kindly provide some more color on the Florida ramp? And then how should we think about your current capacity kind of split between the Minnesota and the Florida facility?

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes. So clearly, most of the capacity that we have still exist here in Minnesota. That's where we ramp up our wafer services and ATS business. and Florida, it's just ATS. These are all development programs, I would say, early-stage development programs. We do have the long-standing IBAS program, which is through the DoD. This was the program that we inherited when we took over the facility. That's the most mature activity that we have. Again, we've announced previously that we hit a major milestone for that, continue to make good progress. And then we have several other programs, both in the commercial space and in the A&D space that are also ramping up and beginning to be a contributor to our revenues. There is still a fair amount of cost that we're absorbing down there, as Steve talked about. But we feel really good about where we are with the 3 technologies. We've talked about our interposer technology from IMEC, fan-out technology from DeCA and our hybrid bonding technology from audio, which is the Experia old spintronic technology that we're also beginning to ramp up. So, all of those are moving per plan, and we'll continue to see those ATS programs ramp, and then we do have a targeted customer that we're expecting to start moving into production down in Florida as well as this year unfolds.

Natalia Sukhotina Winkler - *Jefferies LLC, Research Division - Equity Associate*

That's very helpful. And then I think, Steve, this one is probably kind of more focused on the model. So, you mentioned that the -- some of the start-up costs and depreciation specifically related to the to the previous acquisitions will be coming off at the end of '24. I'm just curious if from your standpoint, do you expect any additional depreciation layering in somewhere in the future coming from the Purdue program from the potential Purdue capacity.

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes. Clearly, if there would be something with Purdue, that would add to the depreciation expense potentially. Also, we are making some periodic acquisitions to machinery and equipment as time goes on. That's why we're pretty clear about stating the amount that would fall off. There's going to be always increases to the capital to increasing the baseline. But again, focusing on that significant portion that's been on a 7-year depreciation that all of a sudden falls off over the Q1 of '24. I want to make sure people clearly understand when that will be taking place. But again, you have to net that against some of the additional acquisitions on the M&E side that we'd be making between that time and now.

Operator

Your next question comes from the line of Richard Shannon with Craig-Hallum.

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

Tom, I guess, I want to clear something up here, maybe I got my signals crossed and just you're talking about trends in the commercial space. Your press release was indicating some weakness. And then I think one of the questions that you responded to said there was some strength there. So,

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I guess I wanted to understand that. And maybe if you can define what you mean by commercial customers. Is that the only within the wafer services back? Or are you also talking about commercial customers within ATS as well?

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

Yes. No. When we talk about commercial customers, we're talking about both wafer services and ATS. Obviously, we have a lot of customers in the ATS bucket that are going after the commercial space. When we talk about wafer services today, that's predominantly Infineon, and that's where we continue to see a robust demand signal from the SA and other programs that we make for Infineon and a handful of others that are kind of targeting that space, we continue to see robust demand. And so, while we saw a modest decline in overall wafer services, the increase we're seeing in industrial automotive is more than offsetting some of the weakness we've seen in the consumer side, which is, I think, what's driving a lot of the weakness in the overall semiconductor market.

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

Okay. Fair enough. That is helpful, Tom. Maybe just following up on the topic of CHIPS Act here. You sound like you're confident and still applying for those funds here. There's been kind of somewhat negative news flow about this over the last couple of months. I suspect is impacting your stock to a degree. I guess I want to get your sense of the regulations and requirements of that money? Are they becoming more onerous or uninteresting to you in any way? Or do you still just view this as a high priority funding mechanism for you?

Thomas J. Sonderman - *SkyWater Technology, Inc. - President, CEO & Director*

No. We obviously think differently than maybe others, we still see the CHIPS Act as being an accelerant to SkyWater's growth. We have a 3-stage strategy. Obviously, in Minnesota, looking at modernization, automation, very excited about what's happening in the state of Minnesota. They put $500 million into the state supplemental budget for CHIPS matching funds that is hopefully going to get signed into law very soon. So, we feel really good about what's happening in the state of Minnesota. Obviously, Florida, there's multiple entities that have come together, leveraging our existing partnership with Bridge and Asia County. As I've mentioned before, we were the recipient of the only award for a semiconductor company and to build back better regional challenge. We continue to execute that program well with the Department of Commerce. And then, of course, what we're doing in Purdue with Purdue in the state of Indiana continues to set the example for our how both universities and industry can come together in partnership with state governments to really transform not only how you do innovation, how you do secure manufacturing, but how you build a workforce of the future. So, we feel really strong on all 3 of those elements. But as we've said, we do not require CHIPS funding to hit our long-term model. But we believe all the things that we've been doing in the last couple of years preparing for this are coming to fruition. And frankly, some of the constraints that others get concerned about, we do not see it as an issue for us at all.

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

Okay. I appreciate all that detail, Tom. That is all for me.

Operator

This concludes today's question-and-answer session as well as our conference call. Thank you for attending. You may now disconnect.

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