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Earnings Call

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Call Participants

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Presentation

Operator

Good afternoon, ladies and gentlemen. Welcome to the SkyWater Technology Second Quarter 2023 Financial Results Conference Call.

[Operator Instructions] Please be advised that this call is being recorded. [Operator Instructions] At this time, I'll turn things over to Ms. Claire McAdams, Investor Relations of SkyWater. Ms. McAdams. Please go ahead.

Claire McAdams

Thank you, operator. Good afternoon and welcome to SkyWater's Second Quarter Fiscal 2023 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 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 Q2 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 strong second quarter financial results as we set another record for quarterly revenues at $69.8 million. Q2 revenues exceeded our expectations going into the quarter and marked an unprecedented fourth straight quarter of sequential quarterly growth.

Revenues were 6% higher than the previous record set in Q1 and grew 47% from Q2 of last year. The strong revenue performance in Q2 exceeded our forecast chiefly due to the restructuring of an existing contract with one of our commercial ATS customers. We concluded certain aspects of our development work with this customer and entered into new terms going forward. This resulted in a pull-in of $3.6 million of revenue that previously was expected to be recognized over time. Even absent this pull-in, Q2 revenues were at the upper end of our forecast due to continued strong momentum on multiple ATS programs, where we continue to demonstrate our ability to execute on the rapidly growing demand from our customers.

Q2 marked our fourth straight quarter of strong gross margin performance and positive adjusted EBITDA generation. Our trailing 12-month revenue of $253 million demonstrates growth of 50% over the prior 12-month period. We are achieving gross margin flow through well above 50% on these incremental revenues and are making solid progress towards our target financial model.

We have generated $29 million of adjusted EBITDA over the last 4 quarters equal to 11% of total revenues. Our strong performance year-to-date also provides us with greater clarity for the whole year

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and increased confidence that our long-term annual growth objective of 25% is achievable in 2023 despite the overall macro concerns and softening and worldwide semiconductor demand.

Underlying SkyWater's strong growth profile this year is our unique positioning within the semiconductor ecosystem. Our company is growing rapidly through this challenging macro environment due to our differentiated business model and diversified customer and end market portfolio. This includes a strong A&D component as well as a number of commercial R&D programs that continue to drive forward with the funding in place to support critical innovation, particularly for new technology advancements within the biohealth and advanced computing markets.

Reflecting on the significant improvements in SkyWater's operational execution and financial performance over the past 4 quarters, we are demonstrating important progress towards achieving the strong revenue growth and operational leverage objectives communicated since our IPO a little over 2 years ago. Now a little more than halfway through this year, it is evident that our ATS revenue growth is proving itself to be relatively decoupled from the macro weakness affecting the overall semiconductor industry. A vital component of our strong revenue growth trajectory is the U.S. government's continued commitment to SkyWater with its strategic RadHard investments.

In Q2, we made additional progress on the productization and qualification of SkyWater's 90-nanometer RadHard platform to prepare for the planned production ramp in 2025. The increased momentum we are achieving on this and other strategic government initiatives helped drive another record revenue quarter in Q2.

Last quarter, we announced an increased sense of urgency and desire to accelerate the delivery of key development milestones, not only for RadHard, but on multiple defense programs. Our A&D customers increased the scope of multiple key programs in Q1. And with these trends continuing through the second quarter, we again have greater clarity and increased confidence in our overall revenue growth objectives.

Furthermore, we believe our successful partnership with the DoD positions us to be a major beneficiary of impending federal government funding akin to the 2022 Economic Development Administration Build Back Better Award to accelerate the growth of the specialized semiconductor cluster at NeoCity, Florida.

In the commercial space, customer R&D investments continued through this period of overall industry tightening. We believe this is an opportunity for us to partner with the customers that are best positioned to succeed in the long run, allowing us to prioritize these specific programs accordingly. Two commercial end-markets where we are seeing particularly strong investment and urgency are the biohealth and advanced computing markets.

We have multiple ATS programs underway, addressing multiple applications and device technologies in each of these areas. In biohealth, we have several customers that could each contribute millions of dollars of revenue in 2023. These programs are pursuing emerging and large market opportunities in the areas of rapid diagnostics, genetic sequencing and health wearable devices. These exciting fields are demonstrating a strong demand for innovation services where there is a growing need for micro-fabrication to enable technologies that have a strong value proposition for enhancing health care services and outcomes. While small today, these applications have a path towards high-volume production as early as next year.

SkyWater's leadership supporting superconducting and photonics technology flows in a 200-millimeter production fab remains a strong value proposition for the nascent and accelerating quantum computing industry. Numerous existing programs in these categories continue to expand and additional programs are expected to kick off in the next 2 quarters. We are seeing increased interest in funding for advanced computing technologies, such as those incorporating superconducting films, silicon photonics and quantum bits or cubits, which are the building box for the future of artificial intelligence, our AI-enabled systems. Some of these advanced computing programs could exceed multimillions of dollars in revenue for us this year.

In response to those who have expressed concern over the early-stage and venture-backed profile that reflects the majority of our commercial ATS customers, it's important to remind everyone that this is the very nature of SkyWater's business model. Our TaaS business model, our Technology-as-a-Service

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continues to attract innovators with long-tail applications addressing large TAM opportunities. We are a technology foundry and not a conventional or specialty foundry. This means our business is about developing next-generation technologies that are high value and relatively low volume.

We are not chasing the high-volume, low-mix foundry business from large fabless chip companies. That's a conventional foundry model, not SkyWater's. As these commercial ATS programs continue to gain momentum and has the strongest and best positioned customers redouble their efforts to accelerate the time to market for their solutions, we believe the uniqueness and strength of our business model will play out through our ability to achieve revenue growth outpacing the overall foundry market and strong operational leverage, chiefly driven by gross margin flow-through exceeding 50%.

We believe that our differentiated approach, which sets us up to potentially outgrow the industry and deliver a near doubling of gross margins over the next 2 to 3 years, truly set SkyWater apart as an investable option within the foundry space with particularly high earnings growth potential. Of course, expectations of strong demand and expanding opportunities for growth require 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 to accelerate improvements in the productivity and yields of our 2 fabs.

We are getting the support from third-party resources to help drive efficiency gains, which is the key investment we are making today with the expectation of significant long-term gains in the future. SkyWater has engaged outside consultants to help craft our operational execution to further optimize our TaaS business model. By selectively applying industry-best practices, we expect to build the operational foundation that will drive future revenue growth and margin expansion. 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 start to turn the corner to profitability.

As Steve will also detail in his remarks, our adjusted EBITDA generation and cash flow profile means that we are generating positive free cash flow above the mid-$60 million revenue level, excluding investments in working capital, and thus, our growth objectives do not require any significant new influx of capital. We intend to further strengthening the balance sheet through strong operational execution.

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 and the State of Indiana.

We believe the momentum we built 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. We anticipate that several ATS programs will transition to production in 2024. And we expect our active initiatives focusing on enhancing productivity and ongoing improvements in pricing will also drive the Wafer Services business next year. Furthermore, we will continue to emphasize our differentiated capabilities in the market and expect to secure new and improved long-term contracts to further strengthen our Wafer Services business.

We anticipate gross margin acceleration to continue as a result of higher revenue volumes driving greater absorption of our fixed cost, positioning SkyWater in the high 20s to low 30s gross margin level in 2024. And we expect to be nearing our target gross margin objective of 40% by 2025.

In summary, we believe the distinction of our business model and a strong customer pipeline positions SkyWater for several years of above-industry growth and strong operating leverage. This belief is independent of the macro weakness currently facing the semiconductor industry. We remain confident that the strategic investments being made towards the onshoring of critical semiconductor device manufacturing, in part due to the CHIPS Act 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 technology foundry within a decade. To be clear, we do not require CHIPS funding to achieve our long-term model. But we do intend to aggressively pursue it since we believe it will be an accelerant to our growth as the decade unfolds.

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I will now turn the call over to Steve.

Steve Manko
Chief Financial Officer

Thank you, Tom. Revenues for the second quarter of 2023 achieved another record for us, exceeding our expectations to total $69.8 million, which was 6% higher than Q1 and up 47% in the second quarter of last year. With the upside, primarily driven by a $3.6 million pull-in of revenue due to the restructuring of a commercial ATS contract, we also saw stronger demand from our strategic aerospace and defense ATS programs. These resulted in record Q2 ATS revenue of $53 million, up 10% from Q1 and up 78% compared to Q2 last year.

Wafer Services revenue was $16.8 million, down 6% sequentially and 4% year-over-year. Non-GAAP gross margin for the quarter was 24.7%. Given that the $3.6 million revenue pull-in had no associated costs, this revenue recognition event benefited gross margin by approximately 400 basis points. Therefore, our gross margin performance was consistent with our model of strong flow-through exceeding 50% as well as our expectations shared last quarter that we will expect gross margins in the high teens to low 20s as we progress through 2023.

As a reminder, we do expect a component of tool and pass-through revenue to occur in the second half of the year, which will have a lower contribution margin compared to our core ATS revenues received for services.

Moving now to operating expenses. On a GAAP basis, operating expenses were $20.2 million. However, these included several costs that are either noncash, nonrecurring or not reflective of our underlying cost structure. Our non-GAAP operating expenses of $18.4 million exclude $1.7 million of equity-based compensation and a small portion of our management transition expense as we implemented changes to our technology and manufacturing leadership during the quarter. However, included in our non-GAAP operating expenses are over $5 million of additional expenses incurred in Q2, which are not reflective of our underlying cost structure. Similar to Q1, the recent accounting change related to accruing bad debt on a prospective basis added an additional $1.4 million of expense in the quarter and we do not expect this to repeat going forward.

The other significant factor that drove operating expenses above forecast was $3.8 million of third-party consulting fees in support of longer-term growth initiatives. As Tom mentioned earlier, we are continuing a transformation program and making increased investments related to long-term improvements in automation and operational efficiency to enable quicker execution on our ATS programs and also expand our fab throughput and capacity.

In Q2, these management consulting fees were $2.5 million and we expect to incur additional fees at a similar level in Q3. Ultimately, we believe these investments will have a significant impact on our revenue growth and we may begin to see the impact as early as Q4. We expect the funding of this transformation program will be fully accretive to 2024 earnings. We have multiple high-growth ATS programs in the pipeline and our entire transformation will optimize our ability to execute on ATS at scale and pace while also positioning the Wafer Services business for greater revenue volumes. Additionally, we incurred $1.3 million of project-based consulting fees related to the specialists we have engaged to support the CHIPS Act application process. While we do not expect these fees to continue in the third quarter, there could be additional payments made in the future, leading to securing CHIPS Act funding.

So just to summarize, our operating expense profile for the second quarter, we believe the underlying expense structure of the business was reflected by the net amount of $13.2 million of operating expenses, excluding these additional items. Adjusted EBITDA for the quarter was $6.5 million or 9.3% of revenues. The benefit of the $3.6 million revenue pull-in was more than offset by the additional $5.2 million of operating expenses, which resulted in a net negative impact on EBITDA margin of approximately 200 basis points. Interest expense was $3 million in the quarter and with nominal tax, the GAAP net loss was $0.19 per share and the non-GAAP net loss was $0.14 per share. As we begin to approach non-GAAP breakeven, last quarter, we added another metric to our presentation related to free cash flow.

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We'd like to emphasize to those listening to our call today that our operations are generating cash from the P&L above the mid-$60 million revenue level. And any declines in cash quarter-to-quarter are typically the result of either changes in working capital or pay downs on our revolving credit line. The simplest way to view the ongoing cash flow generation of the business is to take adjusted EBITDA and then subtract interest expense and CapEx. In Q2, our adjusted EBITDA less interest expense and CapEx grew to $3.2 million compared to $2.6 million in Q1. In both cases, this calculation reflects the positive free cash flow being generated by the business prior to changes in working capital and debt repayments, which brings us to the balance sheet.

We ended the quarter with $16.2 million in cash and cash equivalents, up about $2.3 million from Q1. The higher cash balance compared to Q1 reflects just over $3 million of positive cash flow generated by the P&L, $9 million in proceeds from our ongoing ATM equity program, plus a net additional draw on a revolver of $1.5 million, which were mostly offset by a small amount of CapEx and a net investment in working capital of approximately $11 million as a result of increases in accounts receivable.

Total debt outstanding increased slightly to $91 million and included $54 million on our revolver, $34 million on our variable interest entity and $3 million for tool financing. As you update your SkyWater models, the following is some additional color for various components of our P&L for the forthcoming quarters. We expect Q3 revenues to be similar to Q2 after excluding the $3.6 million pull-in or roughly the mid to upper $60 million level. Within this outlook, we expect the tool revenue components to increase to approximately 5% to 10% of revenues.

As tool revenues carry a little to no margin, we expect gross margins for the third quarter to be in the high teens to 20% range, which is about a 100-basis point impact compared to the normalized Q2 level. We expect sequential revenue growth in the tool component continuing as we look ahead to Q4.

Quarterly research and development expenses are anticipated to remain in the $2.2 million to $2.5 million range, excluding stock-based compensation. Ongoing quarterly SG&A expenses are expected to remain in the range of $11 million to $12 million, excluding stock-based compensation. That being said, for Q3 specifically, we expect to incur third-party consulting fees in the range of $2.5 million to $4 million. We anticipate stock-based compensation to range from approximately $1.9 million to $2.4 million per quarter. We expect our quarterly depreciation and the amortization expense to continue to range between $7.2 million and $7.5 million through the first quarter of 2024. Of this amount, approximately $1.4 million is related to the RadHard program.

After Q1 of 2024, approximately $3.7 million of quarterly depreciation from purchase accounting will phase out of our cost of revenue, reducing our total depreciation expense by about half. Total cost of revenue investments in the quarter were $3.2 million in Q2. And we expect that these will range between $3.2 million to $3.6 million per quarter through the remainder of 2023. We continue to expect a neutral to no benefit from our tax assets in 2023.

With that, I'll turn the call back to Claire.

Claire McAdams

Thank you, Steve. Our upcoming investor activities include the Jefferies Semiconductor Summit in Chicago on August 30. Please visit the Investor Relations section of our website for other upcoming presentation. 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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Question and Answer

Operator

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

Unknown Analyst

This is Steven calling on behalf of Krish. Tom, maybe a first question for you. In terms of the ATS customer design win pipeline, I was wondering about how the cross-selling opportunities with your Florida advanced packaging operations are currently? Please talk to any metrics that you might have regarding existing penetration rates or maybe future expectations for kind of the cross-selling of the advanced packaging services to current ATS customers, that would be helpful.

Thomas J. Sonderman
President, CEO & Director

Yes, Steven, great question, and I think very astute in recognizing why exactly we have the Florida facility. There are a lot of customers that are very interested in consolidating their supply chains around SkyWater. Of course, having wafer fabrication and advanced packaging capabilities within the same company is allowing us to pursue that, not only with existing customers, but as we secure future engagements. So I would say today, we have multiple of these kind of cross site interactions underway. And you should expect to see many more to come as this year and next year unfolds. But a lot of customers are coming to us with that intent.

Unknown Analyst

That's helpful. And the follow-up question is in regards to your compound semis manufacturing processes, just given some of the recent headlines regarding China kind of shifting policy towards gallium and also germanium exports in the future, I was wondering if you could talk about how your gallium and germanium supply is currently and what if any long-term impact there might be on the business from China's future policy changes?

Steve Manko
Chief Financial Officer

Steven, its Steve Manko here. Yes, we've done an analysis from our procurement on that. Obviously, that was a big concern that was coming out a month or so ago when it was announced for a lot of the industry. Now, based upon what we're currently doing, we think we have a handle on our supply coming through. We're continuing to watch that closely, just like we would with all of our chemicals and materials coming from various components in the world. I would not see a significant impact on SkyWater in the near term based upon that.

Thomas J. Sonderman
President, CEO & Director

Yes. And I'll just add that our germanium and gallium levels are probably lower than other companies, so not a big impact on us at this time.

Operator

Your next question comes from the line of Nick Doyle with Needham.

Nick Doyle

Just piggybacking a little bit off of Steven's question, just curious about the advanced packaging, the Interposer program. I think in the past, you've talked about 3 new technologies stemming from that. Could you just expand on what those are and any update in the quarter?

Thomas J. Sonderman

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President, CEO & Director

Yes. Good question, Nick. Thanks for joining the call. Yes, the way we're positioning Florida is really with 3 different AP platforms. One is Interposer. That's the technology that came to the facility via IMEC. We also have a wafer bonding technology, hybrid wafer bonding coming from Adeia. And then we have a third wafer fan-out technology coming from DECA, all those are being implemented. I would say Interposer is the furthest along the hybrid bonding technology. We're actively engaged with a couple of customers on that. And so that is moving on at a fairly good pace. And then we've been putting enabling capability in the Florida fab for our fan-out technology. And we expect to be talking more about that as the year unfolds. This clearly is targeted towards the high-performance compute- market would allow us to have a fan-out technology that does not currently exist in the U.S. So we're very excited about getting the DECA platform up and running. And not only the one that exists today, let's call Gen1 but also moving it to Gen2 and beyond, all here based in the U.S.

Nick Doyle

And then you really -- you called out advanced computing in the opening remarks. I was just curious, if anything, any -- a lot of headlines about this LK-99. Anything related to superconducting driving any sort of interest from customers?

Thomas J. Sonderman
President, CEO & Director

Yes. So clearly, it was a very exciting opportunity, we'll call it, with LK-99. But having been in this industry for many years, I think it's going to take a lot of work to turn that initial discovery into something that will be hitting the market, so to speak. I think if you look at other superconducting photonics platforms geared towards AI and quantum computing, a lot of momentum is being made every day. So we're going to pay attention, of course, to all elements. There are many different avenues to reaching a quantum computing capability. And SkyWater feels like we're uniquely positioned to help our customers enable that. And AI really is about quantum. That's where you begin to really see the benefits. And we're very excited to be right at the heart of that.

Operator

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

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

I wanted to follow up on the consulting fees. Steve, would you mind kind of explaining a little bit more on those? And how should we think about them going forward as well, I mean, maybe beyond this year?

Steve Manko
Chief Financial Officer

Yes, sure. Like I mentioned in the call earlier, we had $2.5 million of fees that came through this quarter, which Tom had been talking about over the course of the year, looking at our business model, trying to ramp our model in the mix that we have with high volume as well as ATS. We've been focusing on bringing a more perfected mix and model to the market. So $2.5 million of fees of transformation fees were incurred during this quarter. As I also mentioned, I would expect that we would incur similar fees in the third quarter as we keep progressing with this transformation for the company leading into 2024 to taking full advantage of the opportunities that are before us. There was another component separate from that where we incurred $1.3 million of fees. Those fees were going towards. But I'll generalize as CHIPS application processing. We don't expect that $1.3 million to occur again in the third quarter. However, the CHIPS application process is a new process for all of us as we get more information coming through with the various applications that are potentially out there as well as follow-up questions coming through. We may incur additional fees in the future. But we do not expect that to be recurring in the third quarter of '23.

Thomas J. Sonderman

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President, CEO & Director

Yes. Let me just add just one comment. I think again, having spent a lot of time in the industry, if you look at Steve's comment, we're looking at about $2.2 million to $2.5 million in CapEx. If you add that another $2.5 million for this business transformation that is underway, that's $5 million, that's 7% of our overall quarterly revenue. And when you look at other semiconductor companies to have that level of investments, especially given our strong ATS component, I think we are in a very nice position to not only transform the business, but continue to exploit this model, this CapEx-light model by leveraging the investments we're getting from our ATS customers. So relatively speaking, spending $5 million to create the capability that we have to really differentiate in the industry, continue to outgrow the industry and really capture the irreversible momentum we believe we have at SkyWater, I think it's something that certainly at SkyWater, we're very proud of.

Natalia Sukhotina Winkler
Jefferies LLC, Research Division

That is very helpful, Tom. And then just as a follow-up, I wanted to ask one more question on the advanced computing. If you could possibly help us understand what would be -- like what would be the competition if some -- if your customers are not using yours, if somebody is not using SkyWater, like what are the options for those customers? Would that be developed in-house? Or would the larger foundries also be pursuing this market given kind of the lucrative nature of the opportunities related to AI?

Thomas J. Sonderman
President, CEO & Director

Yes. I mean I think you're going to see there's certainly a lot of internal activity going on in the quantum space. I'll call it a lab level where SkyWater really comes in at the lab to fab concept and that's what we're doing. The competition -- it's -- there are companies out there doing it. I'm not going to rattle off the smaller ones. But there are certainly companies out there doing different types of quantum solutions. Again, there's, various forms that are coming together. What makes us unique is that we have a very solid CMOS 90 and 130-nanometer platform that we can then build these quantum and photonic solutions on top of. That gives us a real value proposition because we're not just again doing lab level development. We're turning these into viable commercial platforms. And if you look at D-Wave as an example, again, they've been working with us for many years. These platforms are being put in systems and they're selling that solution as Quantum-as-a-Service. So there's, many different types of avenues that people are going to pursue. We believe we have a differentiated capability and multiple years of experience running these types of platforms. And I think that's what makes SkyWater clearly a leader, certainly a center of excellence for quantum-based solutions in the photonics and the superconducting space.

Operator

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

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

My first one is on the topic of efficiency and, I guess, possibly transformation as well. This quarter and the past couple, you've talked about focus on efficiency gains. We've certainly seen some great progress here in both sales and I think gross margins as well. And then you've talked today about these consulting fees are helping a business transformation. What -- to what degree are these business transformation goals you have are related to efficiency? And then also if you can characterize how like in terms of a baseball analogy, how far down the road here we are getting the benefits of these efficiency gains you're hoping for?

Thomas J. Sonderman
President, CEO & Director

Yes. So I would say, clearly, the efficiencies and we've been talking about them from multiple quarters now that we are bringing in not only modernized capabilities in terms of automation, software, new metrology

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capabilities, but also just the way we run our business. I've talked before about the relative percent of ATS activities, compared to the overall is small. And it's an opportunity for us to extract more value, not only out of the business, but more value for our customers if we can increase the percent of ATS that we do as a whole and in terms of the number of activities we run inside our fab. We're also, of course, preparing to have the customers that are in ATS today move to volume manufacturing as this year and next year unfolds. And so we want to be able to serve all their needs. We're running multiple programs in parallel being able to not only capture the efficiencies with how we run the task model, but institutionalizing a lot of the business processes and the associated dynamics in terms of how we just manage this complicated manufacturing model on a day-by-day basis is what this is all about. It goes back to what I was speaking to Natalia about. We have something unique here. So we are investing, think of it as steroids we're putting into the business to accelerate our growth. But long term, we don't expect to always be on steroids. We are using this as an injection into the business to capture, again, the irreversible momentum that I believe we have. Certainly, as you think about injecting CHIPS funding other opportunities, we want to be able to capture all that. And the business demand is very strong. And we want to certainly position ourselves for the next up cycle in semis, which we all know is coming. And all this is really about just getting there as fast as possible. So again, think of it as an accelerant into the business.

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

Okay. Fair enough. Thanks for all that detail there, Tom. My second question, just looking at the Wafer Services business here specifically, seemed kind of flattish over the last few quarters, if I'm looking at my numbers correctly here. And I think your biggest customer, maybe perhaps seeing some impact of the traditional semi after cycle. And maybe if you can characterize what you're seeing in Wafer Services the rest of the year, not only the business that exists today, but any contributions you may see from ATS customers that could transition Wafer Services later this year.

Thomas J. Sonderman
President, CEO & Director

Yes. So again, very astute, Richard, we've been running somewhat flat on Wafer Services. We have been prioritizing ATS. Obviously, within ATS, we have our DoD programs, which I alluded to. There's a lot of desire to move quickly as possible on those. And of course, we're dealing in a macro environment where semis are soft. And so we believe we've been able to maintain a consistent level of Wafer Services output, plus or minus $1 million call it on a quarter-by-quarter basis. But what we're doing in the meantime is accelerating the growth in ATS. And so -- and it really goes back to your prior question, our ability to link all that together. So that when the demand does come across the board with the recovery that we can take advantage of that and grow and scale the volume portion of the business, but do it in a way where it's complementary to our ATS business, which isn't slowing down at all. The demand for our ATS services has never been higher. And so the ability to do both of those is exactly why we're investing with some outside help to ensure that we can take advantage of the capabilities and the opportunities that we have before us.

Operator

There are no further questions at this time. I will turn the call to Thomas Sonderman.

Thomas J. Sonderman
President, CEO & Director

Thank you, operator. I want to close today's call 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 as well and look forward to talking with you again on our Q3 call in early November. And with that, I'll conclude our Q2 2023 earnings call.

Operator
This concludes today's conference call. We thank you for joining. You may now disconnect your lines.

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