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PRESENTATION

Operator

Ladies and gentlemen, welcome to AIXTRON's analyst conference call Q3 2025. Please note that today's call is being recorded. (Operator Instructions) Let me now hand you over to Mr. Christian Ludwig, Vice President, Investor Relations and Corporate Communications at AIXTRON for opening remarks and introductions.

Christian Ludwig - *Aixtron SE - Vice President Investor Relations and Corporate Communications*

Thank you very much, Gunner. A warm welcome also from my side to AIXTRON's Q3 2025 results call. My name is Christian Ludwig. I'm the Head of Investor Relations and Corporate Communications AIXTRON. With me in the room today are our CEO, Dr. Felix Grawert; and our CFO, Dr. Christian Danninger, who will guide you through today's presentation and then take your questions.

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Please take note of the disclaimer that you find on Page 1 of the presentation document as it applies throughout the conference call. This call is not being immediately presented via webcast or any other media. However, we will place a transcript on our website at some point after the call. I would now like to hand you over to our CEO for his opening remarks. Felix, the floor is yours.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Thank you, Christian. Let me also welcome you to our Q3 '25 results call. I will start with an overview of the highlights of the quarter and then hand over to our CFO, Christian, for more details on our financial figures. Finally, I will give you an update on the development of our business and our guidance. Let me start by giving you an update on the key business developments of the second quarter on Slide 2.

The important messages for Q3 '25 are our free cash flow in the quarter was EUR39 million, totaling EUR110 million in the first nine months '25, while inventories are down to EUR316 million, coming from EUR369 million at the year-end '24.

This shows we are well on track with our strategy to rebuild our cash position after we had depleted that with the construction of our 300-millimeter cleanroom, the innovation center in the years '23 and '24. In Q3, we recognized new orders of EUR124 million, which lead to an equipment order backlog of EUR287 million, where we have achieved a book-to-bill of 1.04. We concluded the quarter with revenues of EUR120 million. With that, we were in our guided range of EUR110 million to EUR140 million.

The gross margin reached 39% in Q3 and averaged 37% in the first nine months. This figure includes a one-off expense related to our implemented personnel reduction earlier in the year. Adjusted for this effect, the gross margin after nine months came out at 38%, slightly below previous year's 39%, mainly due to volume shifts and FX headwinds.

As the market remains soft, we had to adjust our fiscal '25 guidance two weeks ago. We are now expecting revenues in the range between EUR530 million and EUR565 million, which corresponds to the lower half of the initial guidance of EUR530 million to EUR600 million, and a gross margin of now 40% to 41%, down from previously 41% to 42%, and an EBIT margin of now around 17% to 19% from previously 18% to 22%.

AI continues to be the main end market driver, especially for our Optoelectronics segment. Automotive-driven power electronics demand, on the other hand, remains soft. Christian will now provide a detailed look into our financials on the following pages before I take over with an update. Christian?

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Thanks, Felix, and hello to everyone. Let me start with the key points of our revenue development on Slide 3. In a soft market environment, we achieved revenues of EUR120 million, down versus the EUR156 million last year, but well in the guided range of EUR110 million to EUR140 million. For the first nine months, revenues came in at EUR370 million, down about 9% year-over-year. A breakdown per application shows that 66% of equipment revenues after nine months come from GaN and SiC power, 14% from LED, 16% from Optoelectronics, and a 5% contribution from R&D tools.

The aftersales business contributed to total revenues with EUR80 million. The aftersales share of revenues after nine months was up by 2 percentage points year-over-year to about 22%. Now let's take a closer look at the financial KPIs of the income statement on Slide 4. I already talked about the revenue line. Gross profit decreased year over year in Q3 '25 to EUR246 million.

Gross profit in the quarter was negatively affected by approximately EUR8 million due to volume shifts from Q3 into Q4 and around EUR2 million due to FX effects. Subsequently, the gross margin in the quarter came in at 39%, down 4 percentage points versus the prior year.

After nine months, gross profit was at EUR136 million, 15% below last year's figure. At 37%, our gross margin after nine months was 2 percentage points lower than after the same period last year. But please recall, as stated in our Q1 release, this includes a one-off expense of a mid-single-digit million euro amount in connection with the implemented personnel reduction in the operations area.

Adjusted for these effects, the gross margin after nine months would be around -- at around 38%. For the remainder of the year, we calculate with an average US dollar-euro exchange rate of 1.15 and the continued weakness of the Japanese euro rate.

Due to high expected revenues in foreign currency in Q4, we expect an additional around EUR3 million negative impact in revenues and gross margin with the larger part resulting from the US dollar and the smaller part from the Japanese yen.

Together with the above-mentioned EUR2 million effect realized in Q3, this totals to approximately EUR5 million negative FX impact, which corresponds with the 1 percentage point gross margin adjustment of our guidance. OpEx in the quarter were slightly up by 4% year over year to EUR31 million, primarily driven by higher R&D spending compared to the previous year.

For the first nine months, OpEx came in at EUR94 million, a reduction of minus 6%, driven primarily by around 13% lower R&D expenses. R&D expenses were down mainly due to reduced external contract work and consumables costs. As stated before and visible in Q3 numbers, R&D costs in H2 will be higher than the H1 number.

So for the full year, we expect R&D costs to be slightly lower than in 2024. EBIT for the quarter is EUR15 million, a significant drop versus Q3 2024. The main drivers besides the already mentioned negative factors impacting gross profit is a negative operating leverage effect resulting from lower revenues. The weaker performance in Q3 led to an EBIT of EUR42 million for the first nine months, a decrease of 30% year over year. This translates into an EBIT margin of 11%.

Again, please record the one-off expense in connection with the personnel reduction I've mentioned before. Adjusted for this effect, the nine-month EBIT margin would be around -- at around 12%. Now to our key balance sheet indicators on Slide 5. On a more positive note, working capital has continued to come down -- has come down by around EUR100 million since end of fiscal year '24. Several balance sheet items contributed here.

We continued to decrease inventories to EUR316 million compared to EUR369 million at the end of 2024. Year-over-year, inventories have been reduced by EUR111 million as we continue to work through the surplus accumulated last year.

And as stated before, we expect further inventory reductions to materialize throughout 2025 and into 2026. Trade receivables at the end of September were at EUR129 million compared to EUR193 million at the end of 2024. The reduction versus year-end is mainly the result of the collection of the payments related to the large shipments end of 2024.

Advanced payments received from customers at quarter end were at EUR73 million, a nice recovery of about EUR20 million versus end of last quarter, but still down about EUR9 million from end of 2024. This is primarily driven by some cutoff date effects and some regional shifts in the order book.

Advanced payments now represent about 25% of order backlog. The fourth key element of working capital, trade payables, has now come down to EUR24 million from EUR34 million at the end of 2024. This reflects a now fully adjusted supply chain situation with significantly reduced purchasing levels.

Adding it all up, our operating cash flow after nine months improved to EUR128 million, a strong improvement of EUR100 million versus last year's EUR28 million. On the back of the improvement in operating cash flow, free cash flow improved even more. It came in at EUR110 million after three quarters compared to negative EUR58 million last year.

This was supported by a strong reduction in our CapEx. With EUR18 million after nine months, our CapEx was significantly lower than last year's number of EUR86 million.

This is primarily due to the now completed investment in the innovation center. As of September 2025, our cash balance, including other current financial assets improved to EUR153 million. This equals an increase of EUR88 million compared to EUR65 million at the end of fiscal year 2024, despite the dividend payment of about EUR17 million in Q2. As stated before, a key priority remains the rebuilding of a strong cash position. Our financial decisions continue to be guided by this objective to ensure a robust liquidity foundation for the future.

This has served us well in the past, and we see ourselves well on track towards this target. With that, let me hand you back over to Felix.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Thank you, Christian. Let me continue with an update on key trends in our different markets, starting with optoelectronics and lasers. In optoelectronics, AIXTRON has seen a continued recovery in demand for datacom applications, which began earlier this year and has been reaffirmed in Q3.

This trend is expected to continue into '26 and beyond. Our customers are increasingly transitioning to 150-millimeter indium phosphide substrates and photonic integrated devices, PIC devices requiring advanced epitaxial performance.

This segment is technology-wise very demanding. It requires excellence in the uniformity, doping control and defect management, areas where our G10-AsP platform excels. Historically, AIXTRON has held a market share of over 90% in this domain served by our G3 and G4 planetary reactors.

The G10-AsP is now establishing itself as the tool of record to the laser market, replacing legacy systems at leading customers. Q3 shipments and scheduled Q4 deliveries underscore our strong market position with repeat orders from key customers such as Nokia.

Additionally, VCSEL demand is recovering, driven by LiDAR modules and automotive applications. We, therefore, expect that tools for the various laser applications will contribute significantly to our full year order intake and also into next year '26. Now let me move on to our LED business.

We are seeing first encouraging signs of reinvestment in red, orange, yellow -- ROY LED applications. Utilization rates for red, orange, yellow LEDs have been high throughout the year with double-digit system shipments for mini LED applications driven by demand for RGB fine pitch displays.

Notably, some TV manufacturers such as Samsung are shifting to full RGB backlighting, boosting micro LED demand. While overall micro LED demand remains moderate, medium-term drivers are positive. We've received multiple orders for our G10-AsP platform, primarily for red pixel production in next-generation AR devices.

The recent announcement of Meta's AR glasses based on micro LED technology signals a broader trend with more OEM products expected in '27 and '28. Our G5+ and G10-AsP platforms are ideally suited for these applications, which require ultra small pixels and defect-free epitaxial die.

The launch of Garmin's first micro LED watch is likely to further stimulate demand across blue, green and red micro LED segments. In solar, after years of moderate investment, we are now seeing renewed interest, including multiple orders for low earth orbit -- LEO satellite applications in constellation projects.

LEO satellites are those that orbit the earth at altitudes of about 2,000 kilometers. They enable both fast communication as well as high-resolution earth observation by operating in a zone just above the earth's atmosphere, where they can maintain strong signal connections with ground stations. These satellites work in interconnected constellations of hundreds of thousands of satellites of hundreds or thousands of satellites to provide global coverage, examples are Starlink or OneWeb.

We anticipate this trend to continue in the years '26, '27, and '28. Let me now come to gallium nitride power. AIXTRON continues to lead GaN power segment with over 85% market share across all wafer sizes and power ranges. Although demand is softer compared to last year, we are seeing solid volume orders for both 150 and 200 millimeter solutions, particularly from Asian customers with ramp-up plans extending into '26 and '27. We've also strengthened our partnership with imec.

Together, we are accelerating innovation at both the architecture and device level. imec has been using both our G5+ as well as the G10-GaN platform for its 150 and 200 millimeter partner programs for quite a while. And we have now shipped a 300 millimeter gallium nitride platform to enable broader access to imec's recipes.

We see first power semiconductor manufacturers adopting 300-millimeter GaN technology such as Infineon Technologies. Regarding the overall GaN market, we are still dealing with a moderately oversaturated installed base, requiring some more time to absorb existing capacities.

This digestion phase is expected to continue for some quarters before a broader recovery sets in. With that, let me come to silicon carbide. While end-user demand remained soft, we observed moderately increased utilization rates at some of our customers. On the one hand, this is due to new EV models being launched, which drive demand. On the other hand, SiC is starting to enter the AI data center value chain, especially in voltage classes of 1,200 volts and above.

You have seen the new NVIDIA power architecture, which relies exclusively on wide band gap power devices. At the International Conference for Silicon Carbide and Related Materials -- in short, ICSCRM in Busan, Korea early in Q3, various industry players confirmed midterm adoption of super junction silicon carbide technology.

This technology basically means that instead of one thick silicon carbide epi layer deposited today, we will see in the future multiple thinner silicon carbide epi deposition steps. These thinner epitaxial layers require enhanced uniformity and shortened process time. Our G10 silicon carbide platform is well positioned to meet these needs, offering superior productivity due to the benefit of the batch concept, especially for thinner layers.

We are proud to have shipped our 100 G10-SiC CVD system, marking a major milestone and reinforcing our leadership in the silicon carbide power segment in this quarter. The silicon carbide market is still undergoing a longer digestion period, particularly in western-oriented regions.

As a result, there are no major decisions for new fab investments on the agenda these days. In summary, we can say that the soft market period still continues in almost all markets, apart from the laser market, driven by the hunger for data from AI applications. A demand pickup will not materialize in '25, and visibility in '26 is still limited.

With that, let me now move to our guidance. Due to the market situation just described, we had to adjust our guidance for 2025, two weeks ago. Based on the current soft market environment and assuming an exchange rate of USD1.15 per euro for the remainder of the year, we now expect the following outlook for '25.

We expect to generate revenues in the range between EUR530 million and EUR565 million, which corresponds to the lower half of the initial guidance, which was initially EUR530 million to EUR600 million. FX effects led to an approximately 1 percentage point reduction of gross margin and EBIT margin.

As a result, we expect now a gross margin of around 40% to 41% and an EBIT margin of around 17% to 19%. The guidance for the gross margin and EBIT margin includes a one-off expense of a mid-single-digit million euro amount in the relation to the implemented personnel reduction in the operations area earlier this year.

The measure will lead to annualized savings in the mid-single-digit million euro range in the future, which corresponds to an improvement in the gross margin and EBIT margin of around 1 percentage point. As previously stated, we expect our tools to remain exempt from US tariffs.

However, we continue to closely monitor the impact of US trade policies on the global economy and stand ready to implement any necessary measures to ensure the best possible outcomes for our customers and stakeholders. Let me, at this place, also give you a first outlook for the next year 2026.

We clearly see that the medium and long-term drivers for AIXTRON's growth such as demand for GaN and SiC power devices, LED and micro LED applications, lasers and LEO solar applications remain intact. However, visibility for the fiscal year '26 remains low.

And as of today, we do not see signs of a demand recovery yet. Therefore, our view today is that 2026 revenues are likely to be slightly below those of '25, maybe flat. Furthermore, assuming an exchange rate of USD1.15 per euro, we expect the EBIT margin not to come out below the range of the current year, maybe better. As always, we will give you a firm guidance with the release of our financial year results end of February 26. With that, I'll pass it back to Christian before we take questions.

Christian Ludwig - *Aixtron SE - Vice President Investor Relations and Corporate Communications*

Thank you very much, Felix. Thank you very much, Christian. Operator, we will now take the questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Janardan Menon, Jefferies.

Janardan Menon - *Jefferies LLC - Analyst*

I just wanted to touch upon your final comments on 2026 to start off with. You said that 2026 is likely to be flat or down, but it sounded like you expect Opto to be up, and your trend -- when I look at your Q3, GaN seems to be doing quite well, while SiC is down quite sharply. So would it be fair to say that at current visibility, you would expect Opto to be up, SiC to be down and GaN to be somewhat flattish. Is that a view that -- which would be sort of a preliminary view for next year?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

It's a good -- I think you got a perfect read on this one. Let me try even to quantify it for you. I think roughly in terms of percentage of revenues, we expect as a percentage of total revenues next year, we're expecting to gain about 10 percentage points for Opto, 10 percentage points gain for GaN and minus 20 percentage points in silicon carbide. So a pretty weak year for SiC, but very strong year for the Opto segment. It used to be a smaller segment.

So adding 10 percentage points of the total is quite a significant one. This also helps on the margin. You have seen my comment related to margin quality. And GaN also as a percentage gaining a bit.

Janardan Menon - *Jefferies LLC - Analyst*

Just a follow-up. On the SiC side, yes, I understand that demand is quite weak right now. There's quite a bit of supply out there and automotive is still sluggish. But listening to companies like STMicro and all who are under quite severe margin pressure on the silicon carbide side, they seem to be accelerating their 6 inch to 8 inch transition because they see that as a way to improve their profitability. And ST specifically said that they'll do it within -- through the course of '26 and by early '27.

I would assume that that would be true for other parts of the installed base as well given the price pressure on silicon carbide. Do you not see this as a driver at all for your silicon carbide revenue? And do you really need the end demand to recover before any improvement happens?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

I think you catch it very well. Yeah, the 6 to 8 inch transition is going very fast, especially at outside of China players. I think worldwide outside of China, we see the 6 to 8 inch transition progressing at rapid speed, as you have indicated with one company name, and we see the same in other players.

In fact, we do hear from some of our customers that while end customer revenue is flat or down, the unit numbers are going up and unit numbers is, of course, what we as an equipment maker like, because in the end, it's about wafers and increasing numbers of wafers. So in fact, we expect that by the end of '26, the transition in the Western world, as I may call it now, including Japan, is probably concluded '27, '28, I would expect the volume to be completely going on 8 inch.

We do see on 8 inch also much better quality wafers, which helps the customers in terms of yield. That's one of the cost reduction drivers. Also 8 inch substrates are getting good pricing now. Initially, they used to be very expensive. Now the pricing for 8 inch substrates is going well.

And that, at some point, means the excessive overcapacity that I was speaking about at some point will be digested. I would not dare at this point to give an exact prediction because there's multiple variables that we are just discussing. But I think we can clearly see at some point, the overcapacity will be digested and then there will be new demand.

Janardan Menon - *Jefferies LLC - Analyst*

But that transition doesn't mean buying new 8 inch machines from you, is it to generate revenue for you?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

At some point, it will mean buying new demand and new tools when the existing overcapacity is consumed. Right now, we talk about existing overcapacity, which is just being converted.

Operator

Martin Marandon-Carlhian, ODDO BHF.

Martin Marandon-Carlhian - *Oddo BHF SCA - Analyst*

The first one is on something that you put on the press release on gallium nitride. You talked about utilization rate rising in data center. And I was wondering what does it mean exactly? I mean, does it mean that you already anticipate orders in the near term linked to the new 800-volt architecture from NVIDIA? Does that mean something else?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Let me explain what we mean by that. Thanks for the question. What we have seen is we have seen in the years, especially '23 and '24, we have seen quite a number of gallium nitride orders, which were happening a bit ahead of the wave, such that, I would say, early '25 at the existing volume customers, we have seen quite a significant overcapacity of installed base also in gallium nitride.

That was the reason why in '25, compared to '24, our gallium nitride shipments have been slowed down quite a bit, because our existing and established volume customers literally had also in GaN, not only in SiC, but also in GaN, some overcapacity to be digested. So as we started into '25 at some of our customers, also in gallium nitride, we have seen installed base utilization to be quite low.

Now towards the end of '25 and looking into '26, we see that a much larger fraction of the installed capacity is being utilized at the existing GaN customers, while those who newly entered the GaN market in '24 and '25 in previous earnings calls, you may have recalled that we said -- well, there's still new players entering the market to gallium nitride.

And those new entrants at this point in time are still in the qualification or in the device and the sampling phase of their technologies to their end customers. You have seen the numbers that I was just commenting towards the question that Janardan was asking. We expect the GaN segment for us to be slightly up next year. Again, it's an indication, qualitative indication.

As we see that utilization is increasing, and we expect due to the increasing utilization, some expanding orders from some customers kicking in. The broad market recovery, as I've indicated, with the real volume pull, we don't expect in '26. We rather expect that in '27, '28, but some increasing orders in '26. Does that answer the question?

Martin Marandon-Carlhian - *Oddo BHF SCA - Analyst*

Yeah, that's very clear. But just a follow-up on this. I mean, why would you anticipate more of that volume in '27 and '28? Because we read that this new architecture from NVIDIA is supposed to be for Rubin Ultra, which is launched in H2 '27. So I was expecting capacity maybe to come a bit earlier than this.

So does this mean that maybe it will not be 100% GaN for some steps at the beginning, the 50 and 12-volt steps and it will go gradually. I mean just can you explain a bit why it should come more gradually, let's say?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

So this is based on our current view, what we have and the signals we get from our customers. I share the view that the new 800-volt architecture will lead to significant volumes around '27, '28. This is also our view, I share that. Now for us, it's always very difficult to predict the exact timing when customers will place the orders for new equipment because we do see certain trends, but we cannot look into the exact budgets and plans of our customers. Therefore, at this point in time, we can only comment on what we are currently seeing.

If later on in the year, volume kicks in and orders accelerate, we are very happy to it. We don't see signs to that yet.

Martin Marandon-Carlhian - *Oddo BHF SCA - Analyst*

Great. And maybe a last question on GaN. I mean, you all is saying that the GaN market will be close to $500 million this year with that data centers really being really a contributor. What would you guess would be the size of the data center market for GaN compared to the overall size of the market this year, like $500 million?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

So I do not have the exact timing for my message in mind. We have looked at a midterm perspective, I think somewhere triangulating '28, '29, '30, something a little further out. And in this triangulation that we've done, the data center opportunity with an upside of about 50% on top of the market without the data center opportunity. You may recall that we have a slide out there in the investor deck, which on the X-axis has three time horizons. I think '20 to '23, I think '24 to '26 and whatever '28 to '30, something like this.

And on the Y-axis, the different voltage levels, low voltage, medium voltage and then very high voltage. And there, we have put the AI data center opportunity, and this is the market that I'm referring to.

Martin Marandon-Carlhian - *Oddo BHF SCA - Analyst*

Maybe last question for me on the gross margin. I mean the current guidance implies record gross margin in Q4. Just can you help us maybe see the main drivers of this?

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Yeah. Martin, Christian here. I'll take that one. I mean, like in the last years, the Q4 will be the strongest quarter just by volume, purely shipments. Beyond that, we expect an improved product mix, especially a higher share of final acceptance revenues coming with high margins and also some fixed cost degression effects.

A little bit of color on the product mix. We expect a big share of G10 family products, around 50% of Q4 revenue so that you get an idea. So also looking at the -- comparing this with the last year, these margin ranges appear achievable for us.

Operator

Didier Scemama, Bank of America.

Didier Scemama - *Bank of America - Analyst*

I've got a couple of questions maybe clarification on the comments you made earlier on '26. And perhaps my math is not right, so please don't shout at me if I'm wrong. I think you said the SiC part of the business would be down 20 percentage points in terms of group sales. I mean, by my

calculation, that would imply a pretty minor revenue contribution in '26. So is that correct? And then equally, Optos up, I think you said 10 percentage points within the group, that's going to put it at something like EUR150 million next year. Is that the right ballpark?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

I would say right ballpark, right indications, Yes. As far as we can say. I mean, it's very early, but we really want to give you some --

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Didier Scemama - *Bank of America - Analyst*

Yeah, of course.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Yeah, exactly, yeh.

Didier Scemama - *Bank of America - Analyst*

No, that's incredibly helpful to me perfectly honest. So I guess the question, when I look at the comments you put on the nine month report, you said about 50% of the bookings came from power electronics. So I have to assume that the rest mostly come from Optos because LEDs, et cetera, is fairly de minimis, which if you compare to what you said last year, means that the bookings in Optos are probably up meaningfully, which is again consistent with what you said. So perhaps when you look at history, Optos, like all the other segments have tended to be incredibly cyclical. So would you think that there is duration in that growth in optoelectronics beyond '26?

Or do you think that the big CapEx cycle we see currently for silicon photonics and lasers is going to be as we've seen in the past, a big year and then it falls off a cliff.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

I think you asked the trillion, the multitrillion dollar question, how long the AI bubble will last. I do not have the crystal ball for you, right? If I would, I might not be sitting in this place right now.

Didier Scemama - *Bank of America - Analyst*

Okay. Well, yeah, I mean, honestly, I wish you good luck.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

I think it fully relates given the serious note, yes. Some joking aside, a big part of the laser part is, in fact, coming from the datacom, right? And the datacom, again, is driven by the AI and the AI data center build-out. So it's really hinges on that one, to a very big part, probably 50%, 60%. So it really depends on how exactly that's progressing.

But we can only see what we have now in our visibility. But a longer-term view two, three years out, I think it's as difficult as for everybody predicting the AI trend.

Didier Scemama - *Bank of America - Analyst*

No, for sure. And if I may, as a follow-up, I mean, you mentioned Nokia/Infinera as a customer for your G10 platform for their peak products. Can you give us a few more examples of key customers for that division so that we understand the underlying dynamics, please?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Unfortunately, I cannot, because we keep customer names always strictly -- very strictly confidential as under NDA. We stick to that. We are extremely sensitive to that. I can give you a qualitative indication. Imagine you think who may be the top 10 providers for data communications devices for AI, you can assume that at least 80%, 90%, maybe 100% of those guys are our customers currently placing order with us and 90% of those are placing orders for the G10-AsP. Maybe I can give you that indication. And I really mean it as I say it.

Operator

Madeleine Jenkins, UBS.

Madeleine Jenkins - *UBS AG - Analyst*

I just had one on utilization rates. You mentioned that the GaN power were increasing. Could you quantify that at all? And also, I guess, get a sense of what your silicon carbide utilization rates are at kind of Chinese and then Western customers?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

So I understand your question about detailed utilization rates. We don't have those. And we could also not share them if we would have them. But what we can say is that based on spare part orders, based on service orders, we see a trend here, which is a good utilization increase for the GaN power, which leads us to expect some volume expansion orders in '26 at a moderate level as we have indicated.

At the same time, in silicon carbide for the overall market, I think towards the beginning of the year, we have seen very low utilizations with very low -- I mean, clearly far below 50% means far more than 50% of the capacity installed in the market was standing idle early in the market.

And maybe we are now approaching a 50%, 60%, 70% utilization in silicon carbide. So we do see it increasing, but we are still far from a level on a market level where customers are really going into reorders and expansion orders. I think that's not yet on the agenda.

Madeleine Jenkins - *UBS AG - Analyst*

Then I guess all your kind of new orders in silicon carbide specifically, are those kind of new customers in China? Is that the right way to look at it?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Yeah. We did have significant orders and shipments in '25 in silicon carbide into China, quite a diverse set of customers, highlighting the success of our G10 silicon carbide platform. So I think we've managed to establish that platform very well in the China market. That was all relating to the earlier question by Janardan. That was all for 8 inch or having 8 inch in mind.

However, we are all aware of the large overcapacity in silicon carbide in China. Also the China silicon carbide business at this point in time has slowed down. I think the market overall is digesting the existing overcapacity. However, I think we all see the very nice success of Chinese electric vehicles. At some point, the overcapacity will be digested and there will also be new orders.

Madeleine Jenkins - *UBS AG - Analyst*

Then just a quick final question. Do you have a sense of kind of how much of your current gallium nitride revenues this year, let's say, are for data center applications?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

That's honestly very difficult to predict. Sorry for having only a vague answer, because our gallium nitride customers, I think we all have a couple of very big names, leading power electronics makers in mind, right? They use our platform essentially our tools, essentially for all the applications across the board.

On our tool in the same configuration, you can produce a 20-volt, 100 volt, a 650 volt and even if you want a 1,200-volt device without any change in configuration. And therefore, we, as a maker, just send the tool as it is and the customer can do whatever the customer wants with it without a modification in those power ranges.

Therefore, it's for us very difficult to predict. If there would be a different configuration by voltage range, then at least we would have an indication. But therefore, it's difficult for us to say. Sorry for that one. Silicon carbide is different, right?

6 to 8 inch, right? It's always the customer needs a configuration and we see spare parts orders or parts orders, and we can at least give you here in the call a qualitative indication for the GaN, it's really one size fits all. And yes, customer takes it and then we don't know.

Operator

Ruben Devos, Kepler Cheuvreux.

Ruben Devos - *Kepler Cheuvreux SA - Analyst*

I just had a follow-up on silicon carbide. I think you touched upon it already, but it was around your comments on benefiting over proportionally when the cycle would return. I think you talked about a more diverse set of customers. So that might be an explanation, right? But just curious around what degree of confidence you have, right, to make that statement of outgrowing the market.

And even outside like automotive, how does the pipeline shape up thinking about industrial as well in silicon carbide?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Thanks a lot. I think your question hints very well towards the future direction of silicon carbide. Let me go a little deeper to expand on it, maybe some of the backgrounds, the technical backgrounds are interesting. So the first generation of silicon carbide devices, which we have seen, I would say, in the last five years with a very simple MOSFET consisting essentially of just one thick layer, one thick epi layer. Now what I mentioned, the next generation of devices, which to the expectation of all market participants will be the main volume in the next wave.

Everybody expects the next wave of growth, '27, '28, exact timing to be TDD to be super junction MOSFETs. So this is a device where this thick layer is split into three or four thinner layers. So each of them about one-fifth or one-fourth thick of the initial one.

And it's not just one big epi, but the wafer would be put into a tool 4 times. So you make one thin layer, then you do some device processing and then the wafer returns to the silicon carbide epi tool comes the next thin layer and so on multiple times.

And this super junction technology shifts the operating point from one thick layer, which, let's say, has in the past been deposited, let's say, in about one hour to two hour processing time, now into multiple thinner layers and depending on which type of equipment, let's say, it now takes 15, 20, 30 minutes instead of one or two hours. So the wafer gets into the equipment multiple times.

And with that, the complete dynamics about the productivity of the tool, the key KPIs and so on is shifting because essentially, it's a very different operating point. You can buy -- in an analogy, you can buy a car which is perfect as a city car, small and nice and fits into parking lots, but doesn't drive very fast, you don't care. And a perfect travel car for long-distance travel or a nice sports car for going up the mountain pathways or driving races, right?

And each of the operating points has a different optimum. And this new operating point about thin layers to our calculations and also to the feedback we receive from customers is very beneficial for the batch tool which we are offering.

This is the reason why we've made these positive earlier statements. With that, let me come to the second part of your question. The other part of the market, which may provide further growth, I think it's still a little further out than '27, '28 is the market for industrial applications.

That market could probably towards the end of the decade grow very big. What we are talking here is about the following. Today, we use the silicon carbide devices mainly in switch mode power supplies or like power devices for the car in the main inverter and in voltages, 650 to 1,200 volts. We can also make silicon carbide devices, which have 3,000 volt or 6,000 volt or 10,000 volts, much, much higher voltage classes. And the industry is working on.

That was, for example, one of the elements in the NVIDIA power architecture. I think everybody here in this call has the chart of the architecture. If you look at the chart of NVIDIA, on the very front end, you come from the grid and you enter the grid into the data center at voltages around 14 kilovolts, and that's 14,000 volts.

And this down conversion from over 10,000 volts eventually down to 1,000, this is done by silicon carbide and then from 1,000 to 1 is done by gallium nitride. Now you cannot only use the silicon carbide in the data center for these high voltages, but in the entire grid.

And we all know as more and more renewables are being used worldwide, I think China leads the pack with driving down the cost of solar and wind, but the whole world is following. And we need much more active grid stabilization, load management, active management and so on and so forth.

So the grid, the worldwide power grid will experience over the next two decades, massive investments into switching infrastructure. Today, this is all being done by transformers. I think everybody knows next to the highway like these transformer stations standing.

In the future, many of those will be done by active switching, and this will all be done by silicon carbide power devices. So all the leading grid suppliers, whether this is Siemens and ABB, Schneider Electric, General Electric in the US are working on such devices. And it's a nice end segment for silicon carbide to come. However, I think this is a longer-term trend.

I would not put the years '27, '28 on it. I would rather put '29 onwards as a nice trend for the turning of the decades on this trend.

Ruben Devos - *Kepler Cheuvreux SA - Analyst*

Just my second question related to optoelectronics, basically. I think you've called co-packaged optics as a key driver for indium phosphide adoption. How quickly would you expect the market to move there from pilot into volume co-packaged optic deployment?

And you've very helpfully framed the tool market size for silicon carbide and gallium nitride in your slide deck. So may I opportunistically ask whether you've done a similar exercise for the G10 arsenide phosphide platform.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Thanks a lot. I take the suggestion. It's a good one. Let's take that on our action item list that he smiles around me here in the room, yes. It's a good one.

We don't have it yet for today, so I cannot give it to you maybe in the next earnings call. Now to your question about the sizing and what we see. For the optoelectronics market, unfortunately, it is much more difficult to predict than for the GaN and for the silicon carbide market. Let me try to illustrate to you why. In GaN and SiC, we talk at least for the low volume segment for pretty standardized segments and types of devices, right?

For GaN, we talk 20 volt, 100 volt, 650, and then exotic 1,200. Silicon carbide, 650, 1,200 and now I was talking a bit about the very high voltages. So you can put it into two or three classes. Unfortunately, the optoelectronic market is extremely fragmented. We both see that in the number of players.

I don't know there may be a couple of hundred optoelectronics producers and companies, while in power electronics, we talk probably about like maybe a dozen or two dozen, three dozen maybe at most, yeah. So it's extremely fragmented. And such are the different technologies, which is competing with each other. The good thing is this is physics. They all have in common.

As of today, they need a wide band gap semiconductor, gallium arsenide or indium phosphide for generating the light. But then the way the light is being processed, whether this is on an indium phosphide or gallium arsenide-based photonic integrated circuit or whether the light coming on is put into a silicon photonics. You can use silicon -- silicon dioxide waveguides and switching devices. This is extremely diverse and therefore, very difficult to predict. I wouldn't dare at this point to make a prediction where it goes.

We are aware that all the guys who are working on the leading-edge CMOS nodes and also doing heterogeneous integration, all of them work on multiple technologies because even for the big guys in the industry, things at TSMC, it's difficult to really say, well, this technology is winning out against the others.

Operator

Andrew Gardiner, Citi.

Andrew Gardiner - *Citi - Analyst*

I just had one on the margin outlook into next year that you provided us, Felix, saying that you thought EBIT margin next year would be in line, perhaps better year-on-year. Can you just sort of give us some of the drivers there in terms of gross margin? I mean, obviously, you've given us the mix in terms of Opto and GaN up and SiC down. How would you sort of quantify that in terms of magnitude of gross margin change next year? And also, you've done a sort of a workforce reduction earlier this year.

Given the still slow market in SiC, do you see any need to continue to reduce OpEx? Or are we far enough through this down cycle now where you just sort of have to -- you weather it because you can see the long-term opportunity. So really there's not much change -- incremental change in terms of OpEx into next year?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Yeah. Thanks a lot for the question. I think part of the answer you've given, let me try to give an end-to-end consistent picture. So we were referring to EBIT margins really to bottom line. I have not given indication on the gross margin, no quantitative, right?

So I was really mean EBIT margin. And I think there's three drivers behind our indication towards. So we wanted to give you a very clear indication that the margins is not getting worse despite the top line suffering probably a bit. And I think there's three drivers behind it. On the one hand, we see margin-wise, a bit stronger product mix.

I indicated the gain of Opto, that helps a lot. And secondly, we will see the full year effects of the headcount reduction, which we conducted early in '25. '25, there's also cost and restructuring costs. In '26, we get the benefits of that. And the third topic is we use the slow period of the cycle right now for some operational improvements, be it working on our storage topics, be it working on logistics topics, be it currently working on our operational efficiency.

So we have quite a bunch of these things ongoing, which are just making our operations more fluent, which reduce the external spend that's going out the door all the time. And we expect some of those effects to kick in.

And based on those three effects altogether, we expect, yeah, in terms of absolute terms and a stable bottom line or percentage-wise, stable or even improved bottom line despite the probably slightly weaker top line. But I think that's important in the end for you guys also then to everybody here in this call to give an indication where does it lead on the profitability.

Operator

Adithya Metuku, HSBC.

Adithya Metuku - *HSBC Securities (USA) Inc - Analyst*

Firstly, I just wondered if you could give us some clarity on what drove the push out this year, which end market drove the reduction in outlook for the year?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Sorry, the line was very bad. I didn't get the question. Could you repeat it, please?

Adithya Metuku - *HSBC Securities (USA) Inc - Analyst*

Sorry, apologies. I was just wondering if you could give us any color on what drove the reduction in guide in 2025? Where did you see this push out, which end market?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Okay. Sorry, I get it. Honestly, this was all across the board, except for the laser market. I think the laser market we've indicated is strong and continues to be strong and this is growing into next year, as we have just discussed. We have seen a weaker-than-expected GaN in silicon carbide.

Initially, as we started into the year, it's always very difficult, right, to predict the full range. And we have put the full guidance range accounting early in February '25. So looking now seven months back. In our full guidance range, we have accounted for both a slow market scenario, which now is unfolding. So therefore, we now look at the lower half of the guidance.

And early in '25 with the upper end of the guidance, we have also taken into account a more positive market environment. As we all see, the more positive market environment for power semis for electric vehicles is not yet unfolding. So the upper half, therefore, had to be corrected now down to the lower half. We are narrowing down at the lower half of the guidance.

Adithya Metuku - *HSBC Securities (USA) Inc - Analyst*

Then just on the LED and the micro LED market, you talked about seeing signals of improvement. I just wondered if you could give us a bit more color on what exactly you're seeing, especially on the LED side? Is it driven by China? Is it anything construction related? Just any color you can give us on these two end markets in terms of the signals of improvement.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Yeah. Thanks a lot. So on the LED market, this is typically almost exclusively China-only market. I think we can say, because of cost and volume effects. We all know, right, China is very, very strong these days on the display making.

It used to be, as you have indicated in your question, historically, there used to be a lot of the LEDs going into construction, right? In China, they put these big, big walls on the skyscrapers. But as we all know, the China housing bubble has collapsed, right? That was also the reason why the segment was bad for us for two years. Now we are seeing the classical LED market coming back with, we call it fine pitch displays means and especially display backlighting.

Local dimming, local backlighting of display, you can achieve magnificent effect by either having white LEDs behind your LED display, you can create a beautiful black or you can produce quite some nice bright colors on it with that one, and that's even going now into -- turning into RGB.

The good news is it is revenue already today. The bad news is it makes it much more difficult for micro LED to gain ground in the televisions because the normal displays are already getting much improved quality. So let's see what it means for the micro LEDs. The other point, which I was indicating, we still see that on micro LED, research work is ongoing.

We've seen some first devices. I was relating in my prepared notes to the Garmin watches, which is the first micro LED watch coming out at quite high prices and unfortunately, with low battery lifetime. So we are seeing that coming. And we see a lot of companies currently doing work on AR glasses and VR glasses. You may have seen the glasses launched by Meta.

There's much more stuff in the preparation. I think this is a new device category, which will really come into the market quite soon. And yes, we see some moderate demand for that also next year, as I've indicated in my prepared notes.

But again, it's far away, to be clear, it's far away from the micro LED massive investment wave that all of us two, three years we were expecting where we would expect that micro LEDs are penetrating everything from smart watches to notebook displays and televisions, right? That one we are not seeing yet. We still see the research ongoing. So some -- many companies are still working on it, but we don't have a clear in our view when exactly that's coming.

Adithya Metuku - *HSBC Securities (USA) Inc - Analyst*

Just one last question. With TSMC getting out of the GaN market, I just wondered, do you see a market for secondhand tools for your GaN epitaxy tools? And would that affect demand maybe next year or the year after? How do you see the implications of TSMC getting out of the GaN market?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Honestly, I see it as a bit of a reshuffle, which happens normally in all the markets where there's a bit of a slowdown in the market. I think we see the same in silicon carbide, some players are exiting, some others use the opportunity to buy some used tools to get a hold of in or to get used tool and then newly to enter the market, I think it's a normal play that happens in a softer market environment.

For the overall market and for us, this has essentially no implication because whether a used tool is installed or whether a tool is installed at company A or changes the ownership and is later on installed within the factory of company B, it doesn't change the overall installed capacity in the market or doesn't change the market dynamics. So for us as an equipment maker, we are -- we support customers when they need help in either way, sometimes for moving tools, for reinstalling tools, but it doesn't change or doesn't impact the market.

Operator

Michael Kuhn, Deutsche Bank.

Michael Kuhn - *Deutsche Bank AG - Analyst*

I'll start with, let's say, the usual update on 300-millimeter GaN. I think it's quite well known that Infineon is quite advanced in that context. And obviously, no big surprise there, cooperating closely with you in that regard. So when should we expect tool orders to arrive and, let's say, outside Infineon, what's your view? How many companies are currently working on the transition and preparing orders?

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

So I think with 300 millimeter GaN, the market unfolds pretty much as we have expected. If you recall, we stated earlier that we see the 300 millimeter GaN as a subsegment of the overall GaN market, initially targeting the lower voltage classes means 100 volt, 20 volt, maybe 200 volt. Maybe at a later time, also 650, but really starting at the lower voltage classes.

And we get confirmation from many customers what we had expected early on that customers are really targeting to switch and to reuse existing silicon MOSFET or silicon IGBT capacities and to rededicate existing fabs for gallium nitride. Of course, customers need to buy new epi tool because the silicon epi tool is a completely different tool from a gallium nitride epi tool.

So in any case, there's a new tool demand for gallium nitride tools. However, the market adoption and the customer decision to the largest part depends on the installed base of factories. So customers who have today their silicon MOSFETs running in a 200 millimeter silicon fab are likely to switch to a 200 millimeter GaN tool. Customers who today are running their silicon MOSFETs in a 300 millimeter fab will want to switch and rededicate their 300 millimeter fab to a 300 millimeter GaN fab. So that is the market dynamic.

And I think based on that dynamic, we never comment on customers unless we have a joint press release with customers. So allow me to describe the trend without names as we always try to do. So we really see customers who have installed 300 millimeter silicon capacity are switching now and starting to switch and have plans. There are many, many, many other customers who have 200 millimeter silicon fabs continue to work on gallium nitride 200 millimeter. And as a result of that, our strategy going forward is that we will support both groups of customers.

So GaN 300 is not displacing GaN 200. We have our GaN 300 millimeter road map. We are very happy with the results that the 300-millimeter tool is giving. But at the same time, we also maintain an active 200 millimeter GaN road map where we also work on improvements. We have multiple very close customer collaborations on 200 millimeter tool improvements or even next-generation tools for 200 millimeters.

Michael Kuhn - *Deutsche Bank AG - Analyst*

Then on cash flow and working capital, given that you don't expect top line growth next year, how much more would you think you can further optimize working capital? Because I think you mentioned you see further potential also into 2026.

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Let's focus maybe on the inventories because the rest of the working capital is always a little bit arbitrary, the receivables and the down payments. But on the inventories, our key ambition is to drive them down further. It's a little bit difficult yet to predict, not knowing the exact product mix and so on, but like at first, like high level expectation would be another 20% down.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

I would be more ambitious. Let's check. So I would say by the end of this year, I would expect inventory EUR275 million, plus/minus EUR15 million. To give you a number, let's see how close we come. Maybe next year, EUR200 million. Let's see, something like this.

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Let's see.

Michael Kuhn - *Deutsche Bank AG - Analyst*

Looking forward to it. Maybe you can do a little bet between the two of you who comes closer.

Operator

There are no further questions.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

Good. Perfect. And I think we had a lively discussion. We very much appreciate as you see. And yes, stay tuned. I think this is a good exchange. And I think we all see each other latest in the February call for the full year results.

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Exactly. We will be on the road at various conferences. So I guess a lot of you at one of the conferences. And for those we don't catch before end of the year already in Merry Christmas.

Felix Grawert - *Aixtron SE - Chairman of the Management Board, President, Chief Executive Officer*

In October. Okay. Cheers, guys.

Christian Danninger - *Aixtron SE - Chief Financial Officer, Member of the Executive Board*

Thank you. Bye-bye.