GFS Earnings Call Transcript

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Operator: Thank you for standing by, and welcome to the GLOBALFOUNDRIES Inc. Third Quarter of Fiscal 2025 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during this session, you'll need to press 11 on your telephone. 11 again. As a reminder, today's program is being recorded. And now I'd like to introduce your host for today's program, Eric Chao, Investor Relations. Please go ahead, sir.

Eric Chao: Thank you, operator. Good morning, everyone. And welcome to GLOBALFOUNDRIES' Third Quarter 2025 Earnings Call. On the call with me today are Timothy Breen, CEO, Niels Anderskouv, President and Chief Operating Officer, and Sam Franklin, interim CFO. A short while ago, we released GF's third quarter financial results which are available on our website at investors.gf.com along with today's accompanying slide presentation. This call is being recorded and a replay will be made available on our Investor Relations webpage. During this call, we will present both IFRS and non-IFRS financial measures. The most directly comparable IFRS measures and reconciliations for non-IFRS measures are available in today's press release and accompanying slides. Please note that these financial results are unaudited and subject to change. Certain statements on today's call may be deemed to be forward-looking statements. Such statements can be identified by terms such as believe, expect, intend, anticipate, and may or by the use of future tense. You should not place undue reliance on forward-looking statements. Actual results may differ materially from these forward-looking statements, and we do not undertake any obligation to update any forward-looking statements we make today. For more information about factors that may cause actual results to differ materially from forward-looking statements, please refer to the press release we issued today as well as risks and uncertainties described in our SEC filings including in sections under the caption Risk Factors in our annual report on form 20-F and in any current reports on form 6-K furnished with the SEC. In terms of upcoming events, we will be participating in a fireside chat at the UBS Global Technology and AI Conference in Scottsdale on December 2. In addition, we are looking forward to hosting a public webcast investor webinar at 10 AM Eastern Time on December 3. technical, and strategy update on the opportunities for GF across the rapidly evolving physical AI market. We will begin today's call with Tim providing a summary update on the current business environment and technologies, Niels will then discuss our recent design wins, highlights, and traction across the end markets, after which Sam will provide details on our third quarter results and fourth quarter 2025 guidance. We will then open the call for questions with Tim, Niels, and Sam. We request that you please limit your questions to one with one follow-up. I'll now turn the call over to Tim.

Timothy Breen: Thank you, Eric, and welcome, everyone, to our third quarter 2025 earnings call. Before I begin, I wanted to express my sincere gratitude to John for his service and contributions to GF. We wish him the best. GF delivered a strong third quarter. With revenue, gross margin, operating margin, and earnings per share at the high end of the guidance ranges. For the fourth consecutive quarter, we saw strong double-digit percentage year-over-year revenue growth both in our automotive and communications, infrastructure, and data center end markets, which together represented 28% of our total third quarter revenue. We expanded third quarter gross margin both sequentially and year-over-year which is representative of our relentless drive to growing profitability. With the strength

of our differentiated product portfolio, which is highly suited to secular growth markets, the richer mix of high-growth businesses and the clear value proposition of our global footprint, GF is laying a strong foundation for a future of robust profitable growth. GF is truly a global company. I recently had the privilege of visiting customers and employees across The US, Asia, and Europe, including at our marquee global technology summits in all three continents. Having met with over 100 current and prospective customers, from across the end markets we serve, The feedback has been consistent, and unequivocal. GF brings a unique combination of differentiated technologies that meet the needs of today's secular trends including the scaling of AI in the data center, and the proliferation of AI into the physical world. As well as the need to deliver those technologies from a resilient global footprint. Let me address each of these exciting areas. Firstly, scaling AI in the data center with optical networking. After years of R&D;, capacity investments, and deep innovation with customers, GF is carving out a strong position in the optical market at exactly the right time. Recent commentary by hyperscalers, GPU makers, and other players in the data center ecosystem have emphasized the need for silicon photonics in scale-up, scale-out, and scale-across networking. The OCP Global Summit last month highlighted a growing shift towards pluggable silicon photonics and co-package optics as alternatives to traditional copper interconnects over the next several years where legacy technology is simply unable to meet the increasing demands in data transmission speed, bandwidth density, and power efficiency. Propelled by this expected transition, we estimate our serviceable addressable market for optical networking will grow by a CAGR of approximately 40% through 2030. We expect GF to be a key participant in this substantial growth and are highly encouraged by our early track record of success in many applications that support optical networking. Including our silicon photonics platform, as well as our high-performance silicon germanium, and FDX technologies. In Q3 alone, we won three optical networking designs with new customers worth over $150 million of projected lifetime revenue. With the first tape-out for one of these designs already completed in the quarter. Silicon photonics alone is on track to reach over $200 million of revenue in 2025, close to doubling year-over-year. As the market continues to require higher and higher performing pluggable optical transceivers, and its co-packaged optics adoption meaningfully ramps from 2027 we envision silicon photonics to become a billion-dollar plus run rate business for GF before the end of the decade. To support this growth, we will continue to partner with our customers and make the necessary investments to grow our scale as well as adding organically or inorganically new complementary capabilities. With gross margins significantly above our target model, we expect long-term growth in silicon photonics to provide a tailwind to GF for years to come. The second significant and rapidly evolving secular trend is the advent of AI capabilities being deployed across a broad range of applications in the physical world. Based on discussions with our customers, we believe the ongoing data center AI build-out is merely a prelude to the next step of the AI revolution. Real-world applications in the physical space. From autonomous vehicles and drones to next-generation medical devices, and ultimately humanoid robots, we expect the marriage of artificial intelligence with real-time sensing control, and compute capabilities to unlock new previously unthinkable applications accelerate demand for GF's essential technologies. The technical demands of this next phase of AI align with GF's deep technical strength in developing feature-rich technologies that play a critical role across multiple applications. Which is further complemented with our recent investment in MIPS which will accelerate the development of real-time processor IP. In the world of physical AI, the market will need vast amounts of feature-rich, low-power, connected chips that are secure and cost-effective. We believe everything that moves will become autonomous, Everything that senses will be intelligent, and many devices that think will also actuate in the real world. GF's product portfolio enables us to play a critical role in this coming revolution. For efficient power management, our FTX and FinFET platforms are specifically designed to support always-on, ultra-low leakage, edge devices can run longer and more reliably. For robotics and real-world object manipulation, our BCD and BCD HV platforms offer a power-efficient architecture that is ideal for motor and joint control as well as battery management. Lastly, for intelligence, sensing, detection. Our recently launched UX platform, as well as our established FDX and FinFET capabilities, enable accurate multimode sensors with capabilities across radar, ultra-wideband, imaging, and audio. By coupling all of these technologies with a range of embedded nonvolatile memory solutions, including ESF, MRAM, and RRAM, can go further to enable smart, secure processing in a range of physical applications. Across all of these GF served

applications, we believe the emerging physical AI opportunity will become more than an $18 billion SAM for GF by 2030. Our momentum with customers is accelerating in edge and physical AI applications. The proof points are already in motion. And in the third quarter, we secured several additional design wins across applications such as AI-enabled glasses, AI-enabled hearables, AI-enabled home appliances, and AI-enabled software-defined vehicles. The last theme that remains top of mind for our customers is the critical importance of geographically diversified semiconductor supply. Recent geopolitical conflicts, tariffs, and export controls are a consequence of an increasingly fractured and deglobalizing world. As a remedy, governments have sought to encourage industry players to reassure or onshore their sourcing of essential chips. It is now common for customers to require, not request, non-China, non-Taiwan supply chains. And is now also becoming increasingly common to specifically require US-based manufacturing. As many of our customers have now publicly stated, partnering with GF in reshoring technologies to The US has become core to their supply strategy. By aligning our investments to our customers' requirements, we are positioning GF to gain share from this secular trend. Given our unique and advantaged global footprint, across The US, Europe, and Asia. In June, with support from half a dozen leading customers, including Apple, AMD, SpaceX, Qualcomm, NXP, and several other leading technology companies we announced that we broadened the envelope of our investments to $16 billion in order to expand US manufacturing and advanced packaging capabilities in our facilities in New York and Vermont. With support from federal, state, and local governments, we have established a world-class semiconductor ecosystem in The US rich with employee talent, as well as diverse suppliers, customers, and OEMs. Notwithstanding the ongoing section 232 assessment in The US, the structural reshaping of global supply chains is well underway. And we believe that GF is at the forefront of supporting this transformation. As our customers increasingly seek to mitigate geopolitical risks, and enhance their supply chain resilience, GF is helping them navigate trade complexities and optimize their sourcing decisions. An excellent recent example of the progress we are making is our announcement with Silicon Labs to manufacture its wireless SoCs on GF's new ultra-low power platform out of our Malta New York fab. Beyond The US, we have also announced plans to invest an additional $1.1 billion in our Dresden fab. Supported by incentives from the German federal government and the state of Saxony, under the framework of the European Chips Act the investment will allow us to increase production capacity to more than 1 million wafers a year in Dresden by 2028. Making it the largest site of its kind in Europe, approaching Gigafab scale. Driven by the needs of key European customers such as NXP, Infineon, Ormovio, and Bosch, we are well placed to meet our customers' requirements of EU-based manufacturing from our world-class site. We believe we are only in the early stages of this opportunity. And see strong validation of our decade-long strategy to build and scale flexible manufacturing capabilities across our fabs, an area where GF has always been a leader for the industry and intends to continue to do so well into the future. In conclusion, at GF, we are committed to being a trusted partner to our customers utilizing our differentiated chip technologies and global manufacturing capacity. We believe we are well positioned to benefit from the long-term trends driving our industry. Years of work and preparation have established a solid foundation for us to capture these inflection point opportunities all made possible by the dedication of our global team. With that, over to you, Niels.

Niels Anderskouv: Thank you, Tim, and welcome to everyone on the call. GF's portfolio of diverse and differentiated solutions are enabling us to win more with our customers and serve the defining secular trends of our time. In the third quarter, we secured nearly 150 new design wins across our end markets. More than 50% growth from the same quarter a year ago. Over the last four quarters, over 90% of our design wins awarded on a sole source basis to GF, a consistent proof point of the depth of our customer partnerships and the value of our essential chip technologies. One example of our strong and expanding portfolio of solutions includes our recent technology agreement with TSMC, for 650-volt and 80-volt gallium nitride technology. This strategic move will accelerate GF's next generation of GaN products allowing us to serve an expanded set of customers across a broader range of power applications in markets such as data center, industrial and automotive. GF is well suited to capitalize on this opportunity and serve The U.S. Market. Given our existing 200-millimeter GaN capabilities in Burlington, Vermont. We plan to qualify the licensed GaN technology at our fab in Vermont with full production set to begin in 2026. We've made significant strides in our strategy to diversify the business

and accelerate the growth of our highest margin product platforms. I'm encouraged about the expansion in the number of end applications we serve including in exciting areas such as optical networking, satellite communications, quantum computing, software-defined vehicles, and smart glasses. Given the importance of differentiated technology, enhanced features, and the performance requirements from our customers, these fast-growing markets support accelerating growth and improvements to our product mix, supporting margin expansion. While we have more room to grow and diversify, our progress is already evident in our business results. We have organically grown our automotive end market more than tenfold in the last five years. It now comprises around a quarter of our wafer revenue and we expect automotive to approach $1.5 billion of annual revenue in 2025. We have line of sight for automotive to become a multibillion-dollar business for us through the end of the decade. We're very encouraged by the strength of our leading silicon photonics products, and see strong double-digit growth as it nearly doubles in revenue in 2025 compared to 2024. Application of our silicon photonics portfolio within our communications infrastructure and data center end market is not only margin accretive today, but accretive to our long-term gross margin objectives. As we expand our capacity to meet demand and as the demand for silicon photonics grows, we expect to benefit from additional mix tailwinds. Lastly, we've seen strong momentum for fast-growing satellite communications applications which we expect to contribute approximately $100 million of revenue in 2025 to our communications, infrastructure and data center edge market. Up from de minimis revenue in 2024. The portion of SATCOM served on our NXS platform is a margin accretive product thanks to its differentiated features cost profile and efficient scale, despite having an ASP per wafer lower than our corporate average. The semi launch is expected to grow 150%, and Satcom subscribers set to double in the next five years. We expect the semiconductor SAM for this opportunity to be over $1 billion through the end of the decade with GF as an anchor supplier. Within the end market we serve, GF is well positioned to capitalize on several key satellite inflections and we are making continued progress towards transforming the mix of our business towards the fastest growing and both profitable platforms. With that, let me walk you through the key highlights for the quarter, by end part. Automotive represented approximately 18% of the quarter's total revenue. In the third quarter, we continued our strong momentum in Automotive, winning new design wins for 12 unique customers. Highlighting the breadth and depth of our diverse product portfolio third quarter design wins and new tape outs included advanced image sensors, body and chassis NGUs, high-performance audio amplifiers, advanced tire monitoring sensors, Ethernet switches, and motor controllers on our FinFET FTX 40 ESF free and BCD high voltage platforms. Customers across the value chain continue to choose GF for our performance at the highest order grade standards and strong long-term partnerships. In Q3, we signed an MOU with Hyundai Motor Group that leverages GF's deep semiconductor expertise to equip next-generation vehicles with smarter assistance increase connectivity and enhanced power efficiency. Smart mobile devices represent approximate 45% of the quarter's total revenue. In Q3, we secured our first design win for the newly launched Civic platform, with strong engagement with multiple leading fabless art companies. Developed and manufactured in our Burlington, Vermont fab, Civec is our highest performing silicon germanium platform to date, and is capable of addressing several key markets, including smartphones, wireless infrastructure, optical networking, satellite communications, and industrial IoT. For smartphones, the platform enables low noise amplifiers that reduce power consumption by maintaining ultra-low noise and reducing battery drain. Also in the third quarter, we secured our first North flash memory design win for mobile with a leading Chinese fabless company to enable next-generation mobile and barebones. A decision driven specifically by GF's global footprint and the flexibility it provides to our customers. Lastly, build upon our momentum with a recent design win for micro LED display backplane at SAPIEN, for project with a leading provider of next-generation smart glasses. Home and industrial IoT represented approximately 15% of the quarter's total revenue. Announced at our Global Technology Summit in Asia, GF partnered with Aegis, leading player in smart sensors, to produce the latest generation of smart sensors on GF's VCD platform in Singapore. This will enable next-generation application optimized intelligent sensors with best-in-class size, weight, power and cost of cartridges. These direct time of flight sensors are used to gauge depth, a critical feature for next-generation home automation, robotics, and artificial AI applications. We also achieved a milestone with our long-time customer and partner Silicon Labs. Shipping more than 10 million Wi-Fi units built on

our 40 LP platform. This platform features low leakage in standby mode, to support power-efficient, always-on intelligent devices and is an integral part of GF's portfolio of advanced technology presenting at applications delivering exceptional signal to noise ratio performance to ensure accurate data capture. Communication infrastructure and data center represent approximately 10% of the quarter's total revenue. I'd like to highlight three new optical network design wins in the third quarter. These include a significant design win with Coherent, a new engagement with a top three US TIA driver supplier and a win with a leading China-based vendor to serve that fast. Growing market. Collectively, these programs deepen our position in next-generation optical interconnects that are critical to AI data center growth. In SATCOM, we continue to build on our success with new wins with global players. During the quarter, we added a digital beamforming win for a Japan-based satellite program as well as an additional ground terminal low noise firing. Overall, the progress we're making across optical networking, satellite communication and quantum computing reflect the strength of our product portfolio and the trust our customers place in us. With these partnerships and our expanding pipeline, I'm confident we are well positioned to capture the long-term growth opportunities ahead. I'll now pass the call over to Sam for a deeper dive on our financial results. And guidance.

Sam Franklin: Thank you, Niels. For the remainder of the call, including guidance, other than revenue, cash flow, net interest income, and third quarter CapEx, I will reference non-IFRS metrics. Are included in today's press release and accompanying slides. As Tim noted, our third quarter results came in at the high end of the guidance ranges we provided in our last quarterly update. We delivered third quarter revenue of $1.688 billion flat over the prior quarter and a 3% decrease year-over-year. We shipped approximately 602,100 millimeter equivalent wafers in the quarter, up 4% sequentially and up 10% from the prior year period. Wafer revenue from our end markets accounted for approximately 88% of total revenue. Non-wafer revenue, which includes revenue from reticles, nonrecurring 12% of the total revenue for the third quarter. Let me now provide an update on our revenue by end markets. Smart mobile devices revenue increased approximately 10% sequentially and decreased approximately 13% from the prior year period. The year-over-year change was principally driven by one-time pricing adjustments made in the prior quarter with a limited number of dual source customers. Going forward, we expect to gain a larger share of wallet with these customers. Automotive revenue decreased approximately 17% sequentially and increased 20% from the prior year period. The sequential change was the result of customer shipment timings consistent with the prior year period. Year-over-year revenue gains in our automotive end market were driven by share and content expansion. And we remain on track to grow automotive revenue in the mid-teens percentage range for 2025. Home and industrial IoT revenue decreased approximately 14% sequentially and 16% from the prior year period. This was principally driven by a year-over-year reduction in wafer revenue associated with aerospace and defense applications as certain products reach end of life, with new applications now taping out and expected to move into production in 2026. Finally, communications infrastructure and data center revenue increased approximately 2% sequentially and 32% over the prior year period. With improved visibility into our fast-ramping networking and SATCOM businesses, we now expect full-year 2025 revenue in this end market. To grow in the low twenties percentage range. Up from the high teens outlook indicated on prior earnings calls. For the third quarter, delivered gross profit of $439 million which was at the high end of our guided range and translates into approximately 26% gross margin. Notwithstanding flat sequential revenue, gross margin expanded sequentially and year-over-year approximately 80 and 130 basis points, respectively. Gross margin expansion remains a key focal area for GF. And we believe we're beginning to see the benefits associated with a shift towards a more accretive product mix and increased revenue from non-wafer technology services. R&D; for the quarter was $111 million and SG&A; was $68 million. Total operating expenses of $179 million were up marginally quarter over quarter and represented approximately 11% of total revenue. We delivered operating profit of $260 million for the quarter and an operating margin of 15.4%. Which is at the high end of our guided range and 180 basis points above the prior year period. Third quarter net interest income was $18 million and we incurred income tax expense of $46 million in the quarter. We reported third quarter net income of $232 million an increase of approximately 1% from the prior year period. As a result, based on a fully diluted share count of approximately 559 million shares, we reported diluted earnings of $0.41 per share for the third quarter. Which was at the high end of our guided range. Let me

now provide some key balance sheet and cash flow metrics. Cash flow from operations for the third quarter was $595 million. CapEx for the quarter was $189 million or roughly 11% of revenue. Adjusted free cash flow for the quarter was $451 million, which represented an adjusted free cash flow margin approximately 27% in the quarter. At the end of the third quarter, our balance sheet remained strong. With our combined total cash, cash equivalents, and marketable securities at approximately $4.2 billion. Our total debt was $1.2 billion and we also have a $1 billion revolving credit facility which remains undrawn. Next, let me provide you with our outlook for 2025. We expect total GF revenue to be $1.8 billion plus or minus $25 million. Of this, we expect non-wafer revenue to be approximately 13% of total revenue. We expect gross margin to be approximately 28.5% plus or minus 100 basis points which reflects the sequential and year-over-year growth in gross margin. Excluding share-based compensation, we expect total operating expenses to be $210 million plus or minus $10 million. We expect operating margin to be in the range of 16.8% plus or minus 170 basis points. At the midpoint of our guidance, we expect share-based compensation to be approximately $63 million of which roughly $16 million is related to cost of goods sold. We expect net interest other income for the quarter to be between $4 million and $12 million, and income tax expense to be between $40 million and $62 million. Which translates to an effective tax rate of approximately mid to high teens percentage for the full year 2025. Based on a fully diluted share count of approximately 559 million shares, we expect diluted earnings per share for the fourth quarter to be $0.47 plus or minus $0.05. Finally, a brief update on our capital allocation activities. GF continues to generate strong consistent adjusted free cash flow. While retaining healthy balance sheet fundamentals. In 2025 alone, we have significantly reduced our outstanding debt, continue to optimize our capacity footprint by technology transfers, and completed critical acquisitions to enable future growth. Such as the recently closed MIPS transaction. Looking ahead to 2026, we expect to continue with our objectives to reinvest in the business as well as planning for a systematic approach to returning an appropriate portion of free cash flow to shareholders. In closing, I want to express my appreciation to our employees worldwide for their dedication and execution that helped deliver this quarter's strong financial performance. Over the last few years, I've had the privilege of leading our business finance and operations functions. Working with exceptional team members from around the world. And I remain focused on executing a smooth transition for our finance and operations functions and partnering with Tim and Niels to advance our long-term strategic objectives. With that, let's open the call for Q&A.; Operator?

Operator: Certainly. And our first question for today comes from the line of Ross Seymore from Deutsche Bank. Your question please.

Ross Seymore: Hi guys, thanks for letting me ask a question. I wanted to ask one long-term one and a shorter-term one. On the long-term one, you went into great details about your silicon photonics business, but I just wanted to ask two follow-ups on that. First, what do you believe to be the core differentiation of what GF offers versus any other foundry peers? And second, what sort of capital and CapEx needs to be applied if you're going to quintuple that business over the next five years?

Timothy Breen: Very good. Thank you, Ross. So maybe start with the first one. I mean, just to recap, right? This is GF's core play in the data center. We've talked about two sets of data center priorities. One, of course, being power that we've spoken a bit about. In our GaN announcements, but then networking, optical networking specifically being the secular trend that we see the industry now fully adopting both the pluggable optical transceivers and the transition to co-packaged optics. In many ways, GF was early in developing silicon photonics We've been doing this for now more than a decade. As a result, we believe we have best-in-class device performance, really focusing around the electrical optical to electrical, excuse me, signal conversion. We do that through innovation around device structure, around material, increasingly around packaging and especially as we make the transition to co-package optics, some of the innovation we've been driving around how those packages get put together will play, I think, a critical role in that rollout and that adoption. I think the other aspect of differentiation is the ecosystem we have been building around it. To enable design support for our customers and also to enable critical components. For example, our announcement with Corning around the detachable fiber connector, a very important part of how can you make these devices both hyper-performing, but also serviceable, maintainable in those data center contexts. So I think we're very bullish about the adoption story. We're very bullish also about differentiation. I'm going to let Sam

comment about the CapEx.
Sam Franklin: Yeah. Hey, Ross. Just a quick follow-on there as far as the CapEx is concerned. Look, we've been on a bit of a journey as you know from a capacity and a CapEx point of view for really the last five years. We began that journey at roughly 2 million wafers of capacity a year and we set ourselves a near-term target to get to 3 million wafers of capacity. As we've gone through that, obviously the demand environment has changed slightly. And so over the course of the last couple of years, you've seen us moderate some of that CapEx in and around the 10% of revenue versus that sort of broader model target of roughly 20%. So looking out to 2026, obviously, it's a little bit too soon to guide CapEx specifically, but you can infer from what Tim's saying around the opportunity that we see within silicon photonics that we'd expect to see a pickup in CapEx going into next year, call it the midpoint of that range that we've trended in over the course of the last few years as well. So hopefully that helps. As we think about it beyond 2026, obviously, foundational principle of why we invest in our capacity is tied to customer demand. And so if it's to be seen around the ramp in demand for silicon photonics and the continuation of the customer partnerships that we've certainly seen during the course of this year. It would justify incremental CapEx. It is a highly value accretive end market for us.
Timothy Breen: And maybe, Ross, if I can just add a little bit more color on the nature of that CapEx for Photonics wafer production These are highly valuable wafers. So from a wafer volume point of view, it's relatively small from wafer value point of view, relatively high. And so very CapEx efficient when it comes to adding wafer capacity. Some of the CapEx that Sam alluded to will also be around packaging capacity because that goes alongside, especially the co-packaged optics transition. So that will be both of those will be featured in 2026. Great. Thank you for those, guys. I guess as my follow-up in the shorter term, question is just in the fourth quarter, just want to talk about the end market and what you're assuming sequentially in your revenue guide. You gave the full year guidance for automotive and comm data center, so those ones seem to be quite obvious. But I guess what I'm getting at is the smart mobile device side of things. How are you seeing that in the fourth quarter? How did the ASP cuts lead to any unit share gains? And when do you think that segment could return to year-over-year growth?
Sam Franklin: Sure, Ross. So I'll kick off there and then I'll let Tim and Neil add any other commentary in terms of the long-term opportunities that we're seeing in smart mobile more specifically. But you hit the nail on the head as it relates to some of those dynamics that we saw in the third quarter. And the way we think about our business, Ross, it's really on a year-over-year basis. And look, we've continued to see very strong year-over-year growth from an automotive point of view in the third quarter. Comms infrastructure and data center was up 32%, and we've also had a high contribution associated with wafer from non-wafer revenue services. So, you know, all said and done, we're seeing the right momentum in growth as it relates to the end markets where we see most of that accelerated opportunity. Now look, the balance on that and again, I'll talk more specifically around the fourth quarter, but in the context of the full year is that you can infer that from a mid-teens expected full-year growth in automotive that sequentially we'd expect quite a strong ramp going into 2024 excuse me, going into Q4. Which is quite consistent with the 2024 sequential ramp that we saw last year as well. Similarly, as it relates to comms infrastructure and data center, we provided that updated guidance now in the low 20s range, so you can infer what sequentially that looks like. Now the you like the offsets as it relates to smart mobile devices and IoT more specifically, For the full year IoT, we expect to be down about mid-single digits. That's really a function of some of that aerospace and defense revenue that we saw falling out and we commented in the prepared remarks. And then as it relates to smart mobile devices, clearly a function of some of those one-time pricing adjustments which are in the rearview mirror now. But that will contribute to quite a low double-digit percentage decline on a year-over-year basis. So that's how we think about it full year and you can infer from what that means, quarter to quarter dynamics. And then I'll let Tim and Neil's comment on the longer term where we see those opportunities.
Timothy Breen: Yes. Thank you, Sam. I think on the longer term, Ross, for Smart Mobile, we're very focused on where we can be the most differentiated. And so I'd say we see great traction in areas like audio, haptics, advanced display, advanced imaging areas where GF technologies play a key role, both by the way in the handsets of today but also engagements like we mentioned in areas like smart

glasses, that form factor becoming increasingly viable I think from a high volume perspective. And so we see longer-term good traction in Smart Mobile in those differentiated areas. And I think that's true also in the IoT space. Obviously, you've got a broad set of end markets contained with IoT, but you see good traction in medical. You see good traction in industrial. And even in consumer, some of the announcements we've made including companies like Silicon Labs, again, indicating good long-term growth in those markets as well.
Ross Seymore: Thank you.
Operator: Thank you. And our next question comes from the line of David O'Connor from BNP Paribas. Your question please.
David O'Connor: Great. Good morning and thanks for taking my question. Maybe a question on the onshoring side of things. So firstly, congrats on the expanded partnership there with Silicon Labs. After the Apple deal last quarter seems to be increasing demand and traction for The U.S. Onshore manufacturing that's starting to come true now. Maybe could you just talk about what that pipeline actually looks like? And then related to that, just your ability to support additional really high volume wins out of the, Altafab. Thanks.
Timothy Breen: No, thank you for that question. Obviously, it's a trend that we have been quite public about the engagement from customers over the last couple of quarters now. Just for those keeping score, we've had eight specific customer announcements regarding U.S. Onshoring. If you just do a rough cut of how much that customer set spends in terms of silicon in our addressable market, you're talking about between $15 billion and $20 billion of total spend. And so these are large representative customers that have significant opportunity to reassure capacity to The U.S. And from that point of view, we see a very strong share gain opportunity for GF. And they're coming for the footprint, but they're also coming for the differentiated technology. So we see that as very very strong. There's a significant pipeline on top of that to your question. A lot of other customers saying, look, what can we do? When can we do it? And that's again, match of capacity and footprint being very important. I think from a timing point of view, we're talking about ramps in 2027 largely and beyond. And this is a secular shift that's durable. And so obviously, we're going through those product design wins, product qualification cycles that are U.S. Is a large part of this and obviously very visible But actually the story is also replicating in areas outside The U.S. Think our announcements in Dresden a couple of weeks ago for our relatively smaller expansion investments we're making there are still backed by significant Europe for Europe, let's say, customer demand, key players like Infineon, like NX like Ormovio, like Bosch, all kind of publicly supporting the investments we're making there to build that fab to even further scale. And obviously, with that comes very accretive economics for that fab. And we're even seeing examples outside that in Singapore. And I think one that we mentioned in the prepared remarks even Chinese fabless companies looking to have their own version of a diversified supply chain. The NOR flash win that we had, we mentioned for Q3, is a good example of that moving to Singapore. So I think the story of supply diversification is just extraordinarily clear globally and only picking up in pace.
Sam Franklin: You have a follow-up, David?
David O'Connor: Yes, do. Thanks for that color, Tim. Maybe one on the technology side. On the gallium nitride on the GaN side of things. So you know, TSMC recently exited that GaN business. And at the time, citing kind of low profitability and just the competition there was quite intense. Can you maybe talk about your GaN strategy how that is kind of different? And how are you addressing these concerns? Thanks, guys. Yeah. No. Thank you for the question. Maybe I'll start, and then Niels can add a little bit of color as well. Look, we're very excited about GaN. From a simple technology point of view, this is a way of achieving significant improvement in power density, significantly reduced losses in switching and power conversion. If you think about where that matters, of course, of the areas that matters most is in the data center, right? When you're talking about enormous amounts of power consumption based on the build-out, GaN plays a critical role in that market. Of course, it also plays a broader role in critical infrastructure. It plays a role in automotive. And so it actually has plenty of uses. And even longer term plays a role in radio frequency and high-performance communication. From a secular trend point of view, it's a great technology fit. From a customer traction point of view, we also see customers very much focused on sourcing that technology in The U.S. Again, differentiation from GF. We're building that in Burlington, Vermont. A fab that is well track good track record in various complex technologies.

And one that customers trust to deliver in the future. So think our strategy is quite different than TSMC, and it's a case of us focusing on where we're a natural athlete and they're focusing on where they are. And I think this is a good win-win. For both of us.
Niels Anderskouv: Yes. Maybe just to add to that, and you may recall from of the previous earnings calls, our strategy on GaN is very focused around highly reliable safe, high-quality devices and obviously in data centers that crucial. To ensure there's no downtime In addition to that, we are actually focused on the technology in a very similar fashion to the PCD technologies, meaning we are not just going for the discrete device implementation, but we're adding technologies around the discrete devices that enable us to get more differentiated and higher performing and more reliable solutions to the market. So very, very very focused strategy from our side, lots of customer interest like like Tim said. And The U.S. Footprint is really just the cherry on the top.
Operator: And our next question comes from the line of Chris Caso from Wolfe Research. Your question please.
Chris Caso: Yes, thank you. Good morning. The first question would be on gross margins and utilization. And obviously, you haven't stepped up here in the fourth quarter. But how should we think about that as we go into the New Year that typically you see some seasonality as you go into the March. And it ultimately, you know, I think what drives the gross margins gonna be getting utilization rate up Could you give some common commentary on where you see that going as you go into next next year.
Sam Franklin: Yeah. Hey, Chris. Sam here. Happy to to give that. I'll probably start with the third quarter dynamics, and then I think that's a good layup into how we're thinking about the fourth quarter as well. So look, taking a step back, third quarter gross margin up 80 basis points quarter over quarter, up about 130 basis points year over year. Now that's on a declining revenue profile on a year-over-year basis flat revenue on a quarter-over-quarter basis. So we set out with a very clear mission at the start of this year, which was notwithstanding some of the consumer-driven environment, focusing on improving profitability, consistent free cash And that's really what you're seeing come through in the flow generation third quarter. Actually, all the more notable as well, Chris, given the fact that The 2024. Yeah. We still had about 40 million to $50 million of underutilization payments falling through at that point. So call that roughly two to three points of margin benefit in the third quarter of last year that we didn't get in the third quarter of this year. So it's very much a case of where we been focusing on opportunities to improve the profitability structure within the business and also continuing to mix into accretive end markets. And what you're seeing is is really a reflection of that starting to come through Obviously, we've increased and had some incremental benefit come through from our non-wafer technology services. That's also a strong leading indicator in terms of where we see future production ramp as well as we kind of develop those projects from a mask, a radical, non-recurring engineering perspective. As well and and really kind of embarking on those new projects with customers. Little bit of benefit came through, from D and A, which we talked about at the start of this year. And and utilization has has been probably the the lowest of the contributors towards that margin dynamic. You know, we started out this year in roughly the low 80s. We've been trending around the kind of mid-80s for the last couple of quarters, you know, possibly a minor pickup in the fourth quarter. But again, just switching to the fourth quarter, what you're seeing is roughly three points of incremental benefit on a year-over-year basis. At the midpoint of that guide. And actually from a guide to guide perspective, about three points as well. And again, that's really a confluence of those initiatives that we focused on from continuing to improve the mix dynamics, focusing on productivity, improving the cost structure of the business and obviously taking a modest benefit from a utilization D and A perspective. Did you have a follow-up, Chris?
Chris Caso: I did. And it's a question with regards to the mobile business. And, you know, obviously, we've seen at least the potential for, some consolidation in, in in that business on the RF side. Some of that consolidation would affect some of your customers. You know, what's your thoughts on that going forward of the potential effect of consolidation on among your customers in the mobile business.
Timothy Breen: Yeah. Thank you, Chris. And, you know, I I presume you're largely referring to the announcements by Skarworks and Cordova. Obviously, we're not to comment on that merger itself. But look, I'd say for both companies, we have a very long track record of serving both of them. And those

partnerships go back even before GF was GF. In some parts of our business. And it's partly because of technology leadership They're obviously, you know, leaders in the RF field and have been key partners for us in building and deploying our roadmaps. And so that's been a very tight collaboration in the case of both those companies. I think both of them also increasingly focused on supply security, U.S. Manufacturing and so on. So I think all the ingredients for strong relationships, strong future business are there with both companies. Don't think that will change whether they're one company or two companies going forward.
Operator: Thank you. And our next question comes from the line of Harlan Sur from JPMorgan. Your question please.
Harlan Sur: Yes, good morning. Thanks for taking my question. Many of your customers are coming off the bottom of the nearly two-year-long down cycle. Right? But not seeing that sort of early cycle kind of strong recovery trajectory profile, but instead, seeing a return to a more normal kind of seasonal profile in their businesses. You guys are already starting wafers for the March given your manufacturing lead times. I think normal seasonality is for the team is for revenues to be down about 10%, 12% sequentially. Is that how you are seeing the shipment profile early next year? Or maybe could it be down slightly more sequentially just given non-wafer revenues potentially kind of normalizing back to that sort of 10, 11% of the mix?
Sam Franklin: Yeah. Hey, Harlan. Sam here. Just have to take the, the first part of that question. And and look. I think one of the dynamics that you need to keep in mind, particularly when you look at our businesses the diversification that we have across the portfolio today. And actually increasing diversification. You take automotive, content for a data center, that continues to contribute a larger piece of the overall revenue stack. And so the point there being that there's no single cyclical trend that actually is the determining factor in terms of where we see the revenue profile in the business. Now it's a little bit too soon to go into guiding the 2026 at this point. I think you've heard from our customers that they're expecting, as you say, that kind of typical seasonal range, which which you outlined on the call. Maybe just to cover off a little piece your second part of your question, which is around the non-wafer revenues. Look, this has been a healthy tailwind as we've gone through this year. We signaled it on prior calls. Some of that really is a function of where we see customer dialogue and the timing of new engagements on new products for our customers, the timing of engineering services as well. And so that's what you're seeing starting to come through really in the third quarter. And obviously, we guided 13% expectation of revenue in the fourth quarter as well. So really a function of those activities. But more broadly, this plays very much to the increased suite of services that as GF we're able to offer our customers and clearly as we think about 2026 and beyond and continuing to integrate MIPS into the business and the offering that they have in terms of expanding suite of services for customers those non-wafer technology services become an increasingly important component of the business. Did you have a follow-up on Thanks for that.
Harlan Sur: Yeah. I did. So thanks for giving us an update on the diversification efforts. Obviously, geographical diversification, supply chain is extremely important for your customers. With that in mind, can you guys just give us an update on your TriNet for China strategy? I think you guys announced your partnership with Zen Semiconductor in China last quarter. The GF team, I think, has had very strong success within the domestic China automotive markets, for example, with your differentiated technology And for your non-China customers, obviously, they want local supply to ship to their China customers. Right? So what's the timeline for transferring, qualifying, ramping production? Of the manufacturing processes at DENSEMI And is the business model royalty based, or are you splitting profits Any any insights here would be very helpful.
Timothy Breen: Yeah. Thank you, Harlan. So, look, we've we've spoken, you know, on a few different calls about about China for China and how we've been addressing that. Again, as a recap, our strategy has been specific technologies where there is strong local manufacturing desire from our customers. To make those available locally. In in Guangzhou, as you as you mentioned. That technology is typically in the microcontroller space, automotive imaging, increasingly also technologies in the power space, relevant for that local automotive build-out and beyond. I'd say customer traction has been very, very strong. We spoke briefly in the prepared remarks about our Global Technology Summit. We do three the third of which was in Shanghai with very, very strong customer traction. Interestingly, not just

from those multinational companies serving the China market, which perhaps was where we started this engagement, but more and more from also local Chinese players who are looking for both manufacturing in China, but also that diversification for their global exports. Outside China. So if anything incrementally more bullish on the China story for us in terms of demand. Just as a level set, remember, our direct China business today is probably low in the nearly lowest amongst peers, for larger semiconductor companies. And so net net, we see China as especially quite a good upside for us over time. Obviously, led by saying these are automotive technologies, so they go through product development cycle, a qualification cycle, but customers are excited about that. And obviously, we're supplying them already out of our global footprint in the meantime while that ramp is still taking place.
Harlan Sur: Perfect. Thank you.
Operator: Thank you. And our next question comes from the line of C. J. Muse from Cantor Fitzgerald. Your question please.
C. J. Muse: Yes. Good morning. Thank you for taking the question. I guess first question on non-wafer revenues. Based on your guidance that business is going to grow 20% in 2025. Curious if you can give a little more color on what's driving that incremental growth And if you could kind of help us understand whether we should, assume similar type of growth into calendar '26?
Timothy Breen: Yes. Thank you, C. J. No, it's a great question. And Sam sort of touched briefly on this. And let's talk what is in non-wafer revenue so we're clear on what goes in there. That consists of reticles for masks, for tape-out and non-recurring engineering, increasingly other technology services licensing. It's starting to also be where you're seeing the IP revenue starting to layer in. Sam mentioned MIPS is a driver of that. So look, I think there are some good tailwinds leading to that generally growing. Part of that is higher number of design wins. We spoke about that leads to higher of tape-outs, which tends to positively improve our non-wafer revenue. And then, of course, acquisition of MIPS now starting, I'd say, starting to impact that as well. So I think that is a good trend, and we'll broaden that category going forward in years to come.
C. J. Muse: Great. Thank you. And then I guess maybe follow-up on Ross's question around smartphones or smart mobility, sorry. As you think about calendar twenty six and you reflect kind of the reset to pricing, but the hopeful gains in unit volumes. Is that a business that can turn and grow now in calendar twenty six? Or are there still kind of headwinds that we should be thinking about?
Timothy Breen: Yeah. No. No. It's a great question. I think let's let's let's break it down into those two pieces. Pieces. As we said on the pricing side, this is dual source business that we took proactive steps to reset pricing with customers in order to gain more share. The calculus there is that's more profitability for GF and it's a win-win us and our customers. So that reset is done and that reset is now in place for the duration of some of those contracts and those contracts now still extend out several years. So we don't expect another kind of step down on the pricing side. And you said, we do expect increased volumes relative to baseline for that. So I think on that dual source component, which is a limited part of that business, that dynamic is there. But then I think what you're seeing on the rest of mobile is, you know, two factors. Right? One is the ramp of more differentiated solutions, what we're doing in the RF front end, Neil talked about Cibic, right? Is an incredibly interesting and exciting silicon germanium technology. Strong customer traction, right? How do you improve performance of low noise amplifiers, power amplifiers in the future? Are the technologies that that, you know, are difficult to do but where GF has a strong track record, and that's just one of the several technologies we're bringing to the mobile market going forward. And of course, a lot of things have cellular connectivity and so the technologies have broader applications as well. So we're very much focused on that differentiation. That will be a mix tailwind over time in mobile. And those new form factors that I spoke about as well, things like smart glasses, increasingly good traction. Too early to call, 2026? But definitely, we think this market, you know, we have plenty of plenty of room to grow and plenty of areas to play within different differentiated technologies we have. Maybe the last comment, some of the customers we've talked about in the onshoring story are also significant players in the handset. And although those ramps largely kind of '27 and beyond as we've talked about, They're obviously, you know, based on diversifying their supply and building a more global sourcing strategy for them. So that'll also be a longer-term, I think, tailwind for our mobile business.
C. J. Muse: Thank you.

Operator: Thank you. And our next question comes from the line of Krish Sankar from T. B. Cowen. Your question, please.
Krish Sankar: Yes. Hi, thanks for taking my question and congrats on the silicon photonics win. Two questions. First one, wafer shipments are up 4% Q o Q despite revenues. And this is for the full year, they're still tracking around 13% shipment on flattish revenues. I'm just trying to figure out what does that imply for ASPs, both blended ASPs and ASP x mobile, and then I have a follow-up.
Timothy Breen: Yeah. So that's maybe, you know, a good build on what I just talked about in terms of the pricing dynamics. And so it is very much that story of very specific customers where we proactively chose to make price changes from a share of wallet perspective and increase overall profit dollars to GF and obviously in a way our customers are supportive. That is the vast majority of the dynamic on pricing affecting both the quarter and the full year. Trajectory Even within mobile outside those customers, actually we see mix being a tailwind. As we ramp additional high margin or higher margin differentiated technologies. And across all of the other end markets, that's where we have very much sole source business. And so pricing has been largely stable. And maybe also worth adding that this is the in-year pricing, but even the pricing that we're winning new designs on and as Niels mentioned year on year we're winning significantly more designs. Pricing is very stable. You know, customers are happy to pay for the value of what they're really looking for. Looking for differentiated technology. They're looking for time to market. They're looking for supply security. They're looking for capacity, and they're willing to put, you know, put put the right price on that So we feel the overall price environment remains actually very constructive. Constructive. And Krish, maybe just to add one point to that. I think, you know, critical dynamic you need to continue to focus on is the margin structure within the business. Actually, the correlation I think between where some of the pricing movements versus where the margin is, we sort of dispelled some of that focus around pure ASP. And so from our point of view, the fact that we've incurred some of those trends associated with a limited number of customers in Smart Mobile and still grown margin year over year quarter over quarter I think is a good proof point there to focus on.
Krish Sankar: Got it. Very helpful. Then a quick follow-up. On the Silicon Labs' expanded partnership. Is this a share gain thing where SLAB is moving more wafers to global foundries from another foundry, or is it more new chip designs? How to think about that?
Timothy Breen: Yeah. It it's it's absolutely a share gain. You know, Silicon Labs, you should ask them about their sourcing strategy. But what they've been clear about with us is that they are very keen to have strong U.S. Sourcing footprint for their business. Today, they do source from other foundries. I think over time, you'd expect that to diminish and given what we're offering them. And again, it's not just The US sourcing sourcing, it's also very strong focus on their technology platforms. Literally, everything they make is our technologies that we support and invest in. And I think it's not just a capacity partnership, it's also a technology partnership.
Krish Sankar: Thank you very much.
Operator: Thank you. And our next question comes from the line of Joseph Moore from Morgan Stanley. Your question please.
Joseph Moore: Great. Thank you. You've addressed a lot the opportunities geopolitically. And I know you have a lot of capacity headroom overall. Can you give us a sense for for that by region and to the extent that you get Silicon Lab type deals in The US or in Europe? Know, do you have capacity to continue to grow those businesses? Do you have space if you need to spend more money to to grow? I think Malta was space constrained at one point. Can you just give us an update on on how that utilization is is by region?
Timothy Breen: Yeah. Maybe I'll talk about, you know, how we think about capacity and then maybe Sam can talk a little bit more tactically about utilization. Joe, our footprint utilization, meaning our floor space utilization we still have significant upside or room to grow within our current four walls. In some of our sites, obviously, we're up against the headroom there like in Dresden where we start to make small investments to expand the footprint, converting in that case to our former test facility. Using that space and so on. Malta has significant floor space to grow. So I think we have very I'd say, short time to market for that growth because we're again, we're not building new fabs to get all of that growth started. And what you also have to bear in mind is that we have significant probably the highest we've ever had

in terms of level of government incentive programs to support that new CapEx. For sure, in The U.S, but also that's what we expect in Germany, and we will continue to have similar you know, positive support levels in Singapore as we have had in the past there as well. I think it's very, very capital efficient, very short time to market. And with that government support alongside. That said, we're tough on ourselves. We scrutinize every dollar of incremental CapEx. Heavily. Is it based on real demand that we have line of sight of? And is it in those areas that are highly kind of differentiated from a technology point of view. So silicon photonics will definitely prioritize those kind of areas when it comes to the investments overall, we're very disciplined in how we think about adding capacity.

Sam Franklin: Do have a follow-up, Joe?

Joseph Moore: Yeah. I do. Thank you for that. I I think, you mentioned, the sort of categories of non-wafer revenue. You talked about expedite fees. I'm curious, are you seeing a lot of that at this point? Are there any of the data center markets giving you expedites or just anything new that you see on that front.

Timothy Breen: Yeah. So no. Expedite is a is a portion of non-wafer revenue. I'd say, if anything, we do see a little bit more desire for expedites across different markets. I think we also see, you know, specific capacity corridors closer to utilization, which is a great sign of demand for those differentiated differentiated areas. Are we in an extraordinary kind of scarcity situation across every part of the business not yet. But I think you are seeing increasing tightening across those those very differentiated corridors.

Niels Anderskouv: If I may add just just on the design win side, talked about in in this quarter and the previous quarter, you know, up 100% in previous quarter, up 50% of the number of design wins. That directly translates into tape outs. You continue to see the number of tape outs coming up, meaning the radical revenue going into non-wafer revenue as well. We expect to continue to grow. This is obviously a good sign for future growth of revenue.

Joseph Moore: Great. Thank you very

Operator: Thank you. This does conclude the question and answer session of today's program. I'd like to hand the program back to Eric Chao for any further remarks.

Eric Chao: Thank you, Jonathan. Thank you for joining. Look forward to seeing you at the UBS Conference on December 2, and please do tune in to our investor webinar on December 3. Focusing on physical AI.

Operator: Thank you, ladies and gentlemen, for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.