

Axcelis Technologies

SiC goodness offset by mature node, memory; reiterate Neutral

Reiterate Rating: NEUTRAL | PO: 135.00 USD | Price: 122.20 USD

NT environment challenging, all eyes on CY25E recovery

Q4 sales of \$310mn (+6% QoQ/+17% YoY) \$10mn above mgmt's positive pre-announcement (\$300mn) in January, but Q1 sales guide of \$242mn (down -22% QoQ and -5% YoY) well below consensus \$285mn. ACLS is feeling the same brunt as many of its industrial/automotive-exposed peers (AEIS, TXN) with general mature process node demand particularly weak (LRCX, GFS) into 1H. We also wonder if there were potential pull-forward of orders, particularly in memory given mgmt's implied CY24E memory guide is down YoY despite a strong anticipated DRAM ramp throughout the year (though implant cycle follows wafer start trends and typically trails the broader memory ASP cycle). While mgmt looks to 2H for a broad-based recovery (we model 2H sales up +27% HoH), company's new CY24E sales guide now points to flattish YoY sales vs. consensus +5% YoY on lower Q1 base. On the bright side, ACLS believes the all-important demand for power device market (SiC, Si) remains in-tact, with Chinese customers still keen on expanding capacity despite near-term utilization/demand concerns as they look to longer-term EV growth outlooks. On margins, CY24E represents a modest setback on lower sales run-rate, with CY25E now likely below mgmt's 45.0% target as well at 44.6%. Overall, we lower CY24/25E sales by -6%/-4% but pf-EPS by -13%/-9% on lower GMs. We lower PO to \$135 (on unchanged 15x CY25E P/E) from \$150 prior but reiterate Neutral on longer-term WFE outgrowth potentials (increasing power devices TAM, implant opportunities in leading-edge logic).

Likes: SiC visibility, 2H recovery, backlogs

1) SiC visibility remains relatively strong throughout CY24E, with strong backlog of \$1.2bn exiting Q4 showing no signs of slowing down despite concerns around EV unit weakness. 2) A broad-based recovery at mature node and memory customers should help drive >25% HoH growth in 2H, following a weak 1H.

Risks: Slowing mature node, memory, China exposure

1) We expect near-term softness in general mature node tools (~25% of system sales) through 1H24E, stemming from consumer/industrial applications. 2) ACLS continues to report weakness in memory and image sensor demand, despite better-than-expected results/outlooks at memory and smartphone vendors. 3) China exposure increased to 46% of sales in CY23 (vs. 41% in CY22) and is one of the highest amid semicaps.

| Estimates(Dec) (US\$) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------|-------|-------|-------|-------|-------|
| EPS | 5.45 | 7.43 | 7.15 | 8.22 | 9.06 |
| EPS Change (YoY) | 89.2% | 36.3% | -3.8% | 15.0% | 10.2% |
| Consensus EPS (Bloomberg) | 5.15 | 7.33 | 7.83 | 8.75 | NA |
| Valuation (Dec) | | | | | |
| P/E | 22.4x | 16.4x | 17.1x | 14.9x | 13.5x |
| EV / EBITDA* | 16.9x | 13.6x | 14.3x | 12.5x | 11.5x |
| Free Cash Flow Yield* | 5.12% | 3.40% | 5.46% | 7.51% | 7.21% |

* For full definitions of *IQmethod*SM measures, see page 12.

08 February 2024

Equity

Key Changes

| (US\$) | Previous | Current |
|---------------|----------|---------|
| Price Obj. | 150.00 | 135.00 |
| 2024E Rev (m) | 1,206.4 | 1,132.6 |
| 2025E Rev (m) | 1,285.9 | 1,230.9 |
| 2026E Rev (m) | 1,371.3 | 1,305.3 |
| 2024E EPS | 8.25 | 7.15 |
| 2025E EPS | 9.08 | 8.22 |
| 2026E EPS | 9.97 | 9.06 |

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Stock Data

| | |
|--------------------------------|-------------------------|
| Price | 122.20 USD |
| Price Objective | 135.00 USD |
| Date Established | 8-Feb-2024 |
| Investment Opinion | C-2-9 |
| 52-Week Range | 105.28 USD - 201.00 USD |
| Mkt Val (mn) / Shares Out (mn) | 4,002 USD / 32.7 |
| Free Float | 98.3% |
| Average Daily Value (mn) | 85.60 USD |
| BofA Ticker / Exchange | ACLS / NAS |
| Bloomberg / Reuters | ACLS US / ACLS.OQ |
| ROE (2024E) | 24.4% |
| Net Dbt to Eqty (Dec-2023A) | -14.3% |

See acronym definitions on p. 6

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Timestamp: 08 February 2024 03:46PM EST

iQprofileSM Axcelis Technologies

iQmethodSM – Bus Performance*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|----------------------------|-------|-------|-------|-------|-------|
| Return on Capital Employed | 28.3% | 28.5% | 20.7% | 19.9% | 18.4% |
| Return on Equity | 30.4% | 32.2% | 24.4% | 22.7% | 20.6% |
| Operating Margin | 23.1% | 23.5% | 22.3% | 23.5% | 24.1% |
| Free Cash Flow | 205 | 136 | 218 | 301 | 289 |

iQmethodSM – Quality of Earnings*

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--------------------------|--------|--------|--------|--------|--------|
| Cash Realization Ratio | 1.2x | 0.6x | 1.0x | 1.2x | 1.1x |
| Asset Replacement Ratio | 0.9x | 1.6x | 1.9x | 1.9x | 1.9x |
| Tax Rate | 10.6% | 11.6% | 10.8% | 10.7% | 10.7% |
| Net Debt-to-Equity Ratio | -21.0% | -14.3% | -28.6% | -44.1% | -53.5% |
| Interest Cover | 38.1x | 49.7x | NA | NA | NA |

Income Statement Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|------------------------------|--------------|--------------|--------------|--------------|-------------|
| Sales | 920 | 1,131 | 1,133 | 1,231 | 1,305 |
| % Change | 38.9% | 22.9% | 0.2% | 8.7% | 6.0% |
| Gross Profit | 402 | 491 | 496 | 549 | 589 |
| % Change | 40.3% | 22.3% | 1.0% | 10.7% | 7.2% |
| EBITDA | 224 | 279 | 265 | 303 | 329 |
| % Change | 62.1% | 24.4% | -4.9% | 14.2% | 8.6% |
| Net Interest & Other Income | (7) | 13 | 0 | 0 | 0 |
| Net Income (Adjusted) | 183 | 246 | 234 | 265 | 287 |
| % Change | 85.3% | 34.5% | -5.1% | 13.2% | 8.5% |

Free Cash Flow Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|--|--------------|---------------|--------------|--------------|--------------|
| Net Income from Cont Operations (GAAP) | 183 | 246 | 226 | 259 | 281 |
| Depreciation & Amortization | 12 | 13 | 12 | 13 | 14 |
| Change in Working Capital | (12) | (111) | (23) | 28 | (8) |
| Deferred Taxation Charge | NA | NA | NA | NA | NA |
| Other Adjustments, Net | 33 | 9 | 27 | 26 | 27 |
| Capital Expenditure | (11) | (21) | (23) | (25) | (26) |
| Free Cash Flow | 205 | 136 | 218 | 301 | 289 |
| % Change | 44.9% | -33.5% | 60.3% | 37.6% | -3.9% |
| Share / Issue Repurchase | (57) | (50) | (40) | (40) | (40) |
| Cost of Dividends Paid | 0 | 0 | 0 | 0 | 0 |
| Change in Debt | 0 | 0 | 0 | 0 | 0 |

Balance Sheet Data (Dec)

| (US\$ Millions) | 2022A | 2023A | 2024E | 2025E | 2026E |
|---------------------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash & Equivalents | 186 | 167 | 346 | 606 | 855 |
| Trade Receivables | 170 | 218 | 223 | 212 | 222 |
| Other Current Assets | 522 | 695 | 716 | 697 | 701 |
| Property, Plant & Equipment | 40 | 54 | 42 | 29 | 16 |
| Other Non-Current Assets | 96 | 148 | 148 | 148 | 148 |
| Total Assets | 1,014 | 1,282 | 1,476 | 1,692 | 1,942 |
| Short-Term Debt | 0 | 0 | 0 | 0 | 0 |
| Other Current Liabilities | 248 | 285 | 289 | 286 | 292 |
| Long-Term Debt | 45 | 44 | 44 | 44 | 44 |
| Other Non-Current Liabilities | 53 | 88 | 88 | 88 | 88 |
| Total Liabilities | 346 | 417 | 421 | 417 | 424 |
| Total Equity | 667 | 865 | 1,055 | 1,275 | 1,518 |
| Total Equity & Liabilities | 1,014 | 1,282 | 1,476 | 1,692 | 1,942 |

* For full definitions of iQmethodSM measures, see page 12.

Company Sector

Semiconductor Capital Equipment

Company Description

Axcelis Technologies is semiconductor capital equipment (semicap) vendor that designs, manufactures, and services tools into the front-end/wafer fab equipment market. ACLS specializes in ion implantation tools and supplies to semis manufacturers across logic and memory, leading-edge and trailing-edge. Majority of products sell under one unified platform "Purion", now with an installed base of 3,000 tools (incl. legacy tools). ACLS was founded in 1978 and is headquartered in Beverly, MA.

Investment Rationale

We rate Axcelis Neutral. Axcelis is well positioned to benefit from the growing secular demand of semiconductor chips, specifically power devices such as silicon carbide devices. However, concerns around demand in China and slowing EV demand could impact near-term performance.

Stock Data

Average Daily Volume 700,500

Quarterly Earnings Estimates

| | 2023 | 2024 |
|----|-------|-------|
| Q1 | 1.43A | 1.34E |
| Q2 | 1.86A | 1.44E |
| Q3 | 1.99A | 2.04E |
| Q4 | 2.15A | 2.33E |

Summary of model changes

Exhibit 1: Summary of model changes

We revise FY24E sales/EPS -6%/-13% to \$1.1bn/\$7.15

| | Sales (\$mn) | | | Non-GAAP EPS | | |
|--------------|----------------|----------------|---------------|---------------|---------------|-----------------|
| | Old | NEW | delta | Old | NEW | delta |
| Mar-23 | \$254 | \$254 | \$0 | \$1.43 | \$1.43 | \$0.00 |
| Jun-23 | \$274 | \$274 | \$0 | \$1.86 | \$1.86 | \$0.00 |
| Sep-23 | \$292 | \$292 | \$0 | \$1.99 | \$1.99 | \$0.00 |
| Dec-23 | \$296 | \$310 | \$14 | \$2.00 | \$2.15 | \$0.15 |
| FY23 | \$1,116 | \$1,131 | \$14 | \$7.27 | \$7.43 | \$0.15 |
| YoY% | 21.3% | 22.9% | 1.3% | 33.6% | 36.4% | 2.1% |
| Mar-24E | \$299 | \$242 | (\$57) | \$2.13 | \$1.34 | (\$0.79) |
| Jun-24E | \$300 | \$257 | (\$43) | \$2.03 | \$1.44 | (\$0.59) |
| Sep-24E | \$302 | \$302 | \$0 | \$2.08 | \$2.04 | (\$0.04) |
| Dec-24E | \$305 | \$331 | \$26 | \$2.01 | \$2.33 | \$0.32 |
| FY24E | \$1,206 | \$1,133 | (\$74) | \$8.25 | \$7.15 | (\$1.09) |
| YoY% | 8.1% | 0.2% | -6.1% | 13.4% | -3.7% | -13.3% |
| Mar-25E | \$312 | \$305 | (\$6) | \$2.18 | \$2.05 | (\$0.12) |
| Jun-25E | \$318 | \$299 | (\$19) | \$2.18 | \$1.89 | (\$0.29) |
| Sep-25E | \$325 | \$310 | (\$15) | \$2.35 | \$2.12 | (\$0.22) |
| Dec-25E | \$331 | \$316 | (\$15) | \$2.37 | \$2.15 | (\$0.22) |
| FY25E | \$1,286 | \$1,231 | (\$55) | \$9.08 | \$8.22 | (\$0.86) |
| YoY% | 6.6% | 8.7% | -4.3% | 10.0% | 14.8% | -9.5% |

Source: BofA Global Research estimates, company reports

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Q4 reported vs expectations

Exhibit 2: Summary of DecQ results

DecQ sales of \$310mn beat Consensus by +5%, with EPS of \$2.15 beating by 13c

| | Dec-22 | Sep-23 | Dec-23 | | | | | | |
|----------------------------------|----------------|----------------|----------------|---------------|----------------|----------------|----------------|-------------|--------------|
| | | | Guidance | Consensus | BofA | Reported | Delta vs. Cons | QoQ | YoY |
| Sales (\$mn) | \$266.1 | \$292.3 | \$284.9 | \$298 | \$296.0 | \$310.3 | 4.8% | 6.1% | 16.6% |
| QoQ% | 16.1% | 6.7% | -4.5% | 2.0% | 1.3% | 6.1% | | | |
| Systems | 203.8 | 231.5 | | | 230.3 | 241.8 | 5.0% | 4.4% | 18.6% |
| Aftermarket / CS&I | 62.2 | 60.9 | | | 65.7 | 68.5 | 4.3% | 12.6% | 10.1% |
| Gross Margin % (GAAP) | 41.2% | 44.4% | 44.2% | 44.9% | 45.0% | 44.4% | (52) | 8 | 328 |
| Gross Profit (GAAP) | 109.5 | 129.7 | | | 133.1 | 137.9 | 3.6% | 6.3% | 25.9% |
| R&D | 22.1 | 24.1 | | | 24.8 | 24.9 | 0.4% | 3.4% | 12.8% |
| S&M | 15.0 | 16.5 | | | 16.8 | 16.7 | (0.8%) | 1.2% | 10.8% |
| G&A | 16.3 | 17.4 | | | 17.8 | 17.3 | (2.9%) | (1.0%) | 5.9% |
| Opex Total (GAAP) | 53.4 | 58.0 | | | 59.4 | 58.8 | (0.9%) | 1.4% | 10.1% |
| Operating Income (GAAP) | 56.1 | 71.7 | 67.7 | 74.6 | 73.7 | 79.1 | 7.3% | 10.3% | 40.9% |
| Operating Margin % (GAAP) | 21.1% | 24.5% | | | 24.9% | 25.5% | 58 | 96 | 439 |
| Pretax Income (GAAP) | 65.8 | 73.7 | | | 73.7 | 87.4 | 111.1% | 111.1% | 85.6% |
| Tax Rate (GAAP) | 13.4% | 10.5% | | | 10.5% | 18.7% | 819 | 81947.8% | 532 |
| Tax expense (GAAP) | 8.8 | 7.7 | | | 7.7 | 16.4 | 7.6% | 8.2% | 26.6% |
| Net Income (GAAP) | 57.0 | 65.9 | | | 66.0 | 71.1 | 0.1% | (0.4%) | (1.5%) |
| Diluted EPS (GAAP) | \$1.70 | \$1.99 | \$1.83 | \$2.02 | \$2.00 | \$2.15 | 7.6% | 8.2% | 26.6% |
| Diluted Shares | 33.5 | 33.2 | | | 33.0 | 33.0 | 0.1% | (0.4%) | (1.5%) |

Source: BofA Global Research estimates, Bloomberg, company reports

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Q1 guidance vs expectations

Exhibit 3: Summary of Q1 guidance and outlook

ACLS guided MarQ sales to \$242mn, down -22% QoQ, \$43mn below Consensus

| | Dec-23 | Mar-24E | | | |
|----------------------------------|----------------|----------------|---------------|----------------|----------------|
| | Actual | BofA | Consensus | Guidance | New BofA |
| Sales (\$mn) | \$310.3 | \$299.0 | \$285 | \$242.0 | \$242.3 |
| QoQ% | | 1.0% | -4.5% | | -21.9% |
| Systems | 241.8 | 231.3 | | | 186.2 |
| Aftermarket / CS&I | 68.5 | 67.7 | | | 56.2 |
| 0.0 | | | | | |
| Gross Margin % (GAAP) | 44.4% | 44.8% | 44.2% | 43.5% | 43.5% |
| Gross Profit (GAAP) | 137.9 | 133.9 | | | 105.4 |
| R&D | 24.9 | 25.6 | | | 26.4 |
| S&M | 16.7 | 15.3 | | | 16.4 |
| G&A | 17.3 | 16.2 | | | 17.0 |
| Opex Total (GAAP) | 58.8 | 57.0 | | | 59.8 |
| Operating Income (GAAP) | 79.1 | 76.8 | 67.7 | 45.0 | 45.6 |
| Operating Margin % (GAAP) | 25.5% | 25.7% | | | 18.8% |
| Pretax Income (GAAP) | 87.4 | 78.3 | | | 49.3 |
| Tax Rate (GAAP) | 18.7% | 10.5% | | | 10.5% |
| Tax expense (GAAP) | 16.4 | 8.2 | | | 5.2 |
| Net Income (GAAP) | 71.1 | 70.1 | | | 44.1 |
| Diluted EPS (GAAP) | \$2.15 | \$2.13 | \$1.83 | \$1.22 | \$1.34 |
| Diluted Shares | 33.0 | 32.9 | | | 32.9 |

Source: BofA Global Research estimates, Bloomberg, company reports

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Balance sheet, cash flow snapshot

Exhibit 4: Summary of cash and inventory position

Net cash/share increased 10% QoQ to \$15.48/share in DecQ

| | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | QoQ | YoY |
|---------------------------------|----------------|----------------|----------------|----------------|----------------|---------------|---------------|
| Total cash | \$433 | \$451 | \$460 | \$468 | \$513 | 9.7% | 18.5% |
| ST debt | \$1 | 1 | 1 | 1 | \$2 | | |
| LT debt | \$0 | - | - | - | \$0 | | |
| Total debt | \$1 | 1 | 1 | 1 | 2 | | |
| Net cash | \$432 | 450 | 458 | 466 | 511 | 9.7% | 18.4% |
| Net cash / share | \$12.87 | \$13.52 | \$13.80 | \$14.06 | \$15.48 | 10.1% | 20.3% |
| Book value / share | \$19.89 | \$21.08 | \$22.42 | \$24.16 | \$26.18 | 8.4% | 31.6% |
| Days sales outstanding (DSO) | 58.2 | 68.1 | 53.0 | 60.0 | 64.1 | | |
| Days payables outstanding (DPO) | 36.3 | 36.8 | 35.8 | 33.7 | 28.8 | | |
| Inventory \$ | \$242 | \$262 | \$300 | \$312 | \$306 | -1.8% | 26.4% |
| Inventory turns | 2.6 | 2.3 | 2.1 | 2.1 | 2.2 | | |
| Inventory days | 141.3 | 159.4 | 177.4 | 175.2 | 162.2 | (12.9) | 20.9 |
| Cash conversion days | 163.2 | 190.7 | 194.6 | 201.5 | 197.5 | | |
| Cash flow from ops | \$122 | \$35 | \$33 | \$24 | \$65 | 172.5% | -46.5% |
| Capex | (\$4) | (\$2) | (\$3) | (\$5) | (\$10) | 88.6% | 162.7% |
| Free cash flow | \$119 | \$32 | \$30 | \$19 | \$55 | 196.2% | -53.2% |

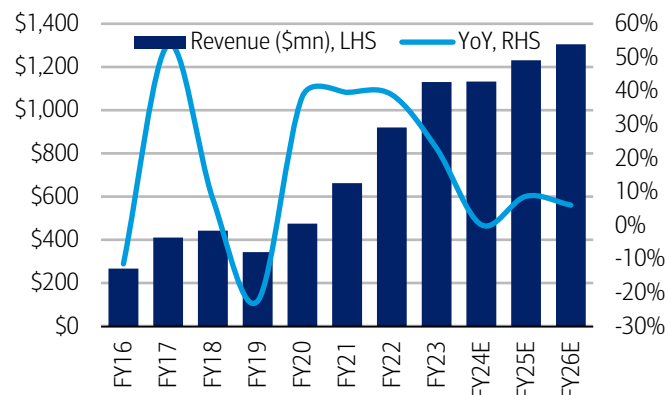
Source: BofA Global Research, Bloomberg, company reports

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Key charts

Exhibit 5: ACLS annual revenue and YoY growth

We see revenue to reach \$1.3bn by CY26E

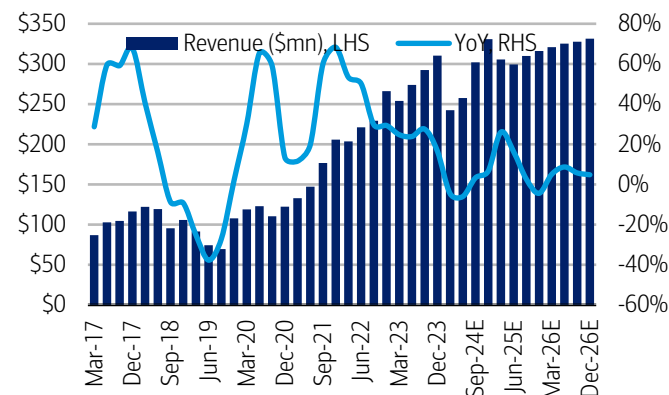


Source: BofA Global Research estimates, company reports

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Exhibit 6: ACLS quarterly revenue and YoY growth

Quarterly revenue should reach \$300mn+ levels

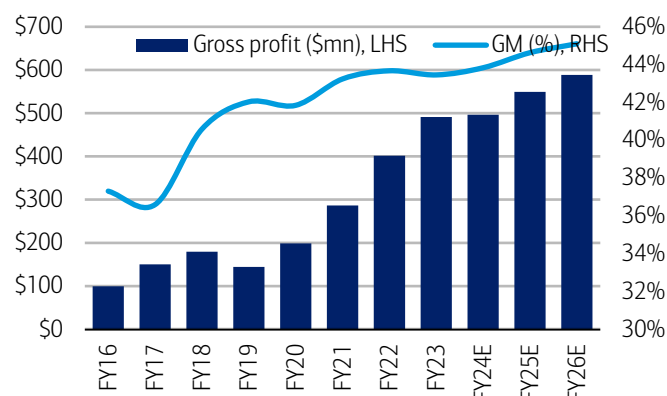


Source: BofA Global Research estimates, company reports

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Exhibit 7: ACLS quarterly gross profit and GM%

GM should remain above 40%

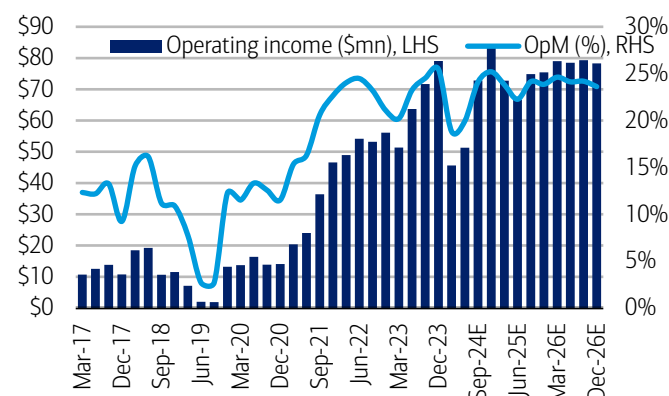


Source: BofA Global Research estimates, company reports

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Exhibit 8: ACLS quarterly operating income and OpM%

OpM should remain above 20%

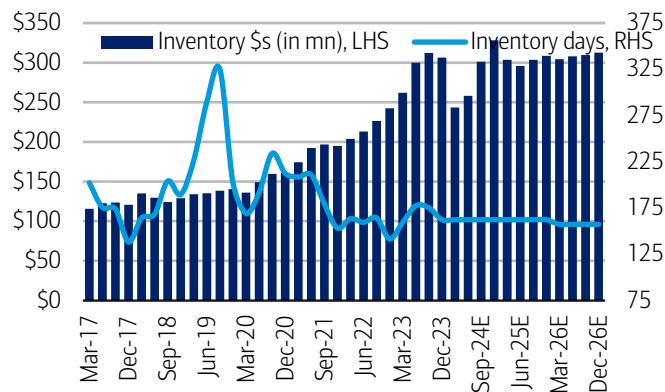


Source: BofA Global Research estimates, company reports

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Exhibit 9: ACLS quarterly inventory dollars and days

Inventory days should remain stable

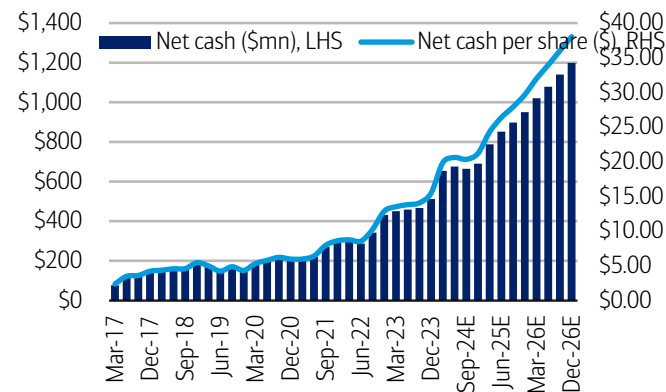


Source: BofA Global Research estimates, company reports

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Exhibit 10: ACLS quarterly net cash and net cash per share

Net cash should increase over time

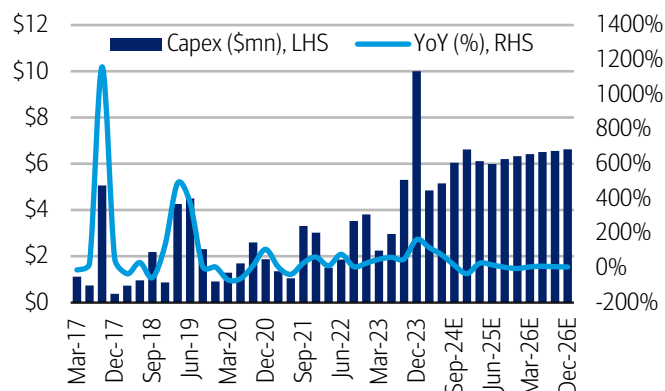


Source: BofA Global Research estimates, company reports

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Exhibit 11: ACLS quarterly capex and YoY growth

Capex as % of sales should remain stable

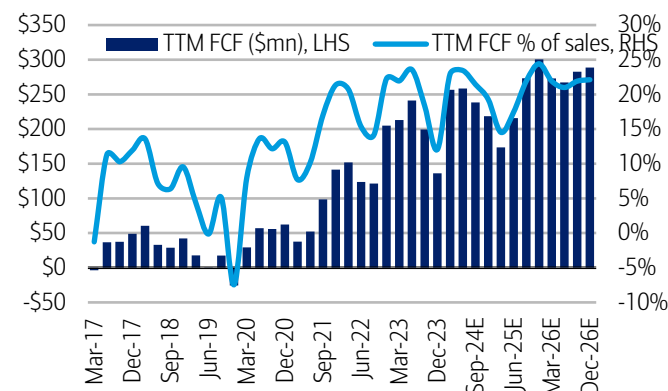


Source: BofA Global Research estimates, company reports

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Exhibit 12: ACLS quarterly TTM FCF and TTM FCF as a % of sales

FCF should grow over time



Source: BofA Global Research estimates, company reports

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WFE: Wafer Fab Equipment

AMAT: Applied Materials

ACLS: Axcelis

SMIC: Semiconductor Manufacturing International Corporation

CS&I: Customer Satisfaction and Innovation

TAM: Total Addressable Market

Si: Silicon

SiC: Silicon Carbide

ASP: Average Selling Price

EV: Electric Vehicle

LRCX: Lam Research

GFS: GlobalFoundries

TXN: Texas Instruments

AEIS: Advanced Energy

DRAM: Dynamic Random Access Memory

NAND: Not AND

**Exhibit 13: ACLS - Income Statement (\$mn)**

We see ACLS reaching \$1.1bn in revenue FY24E, +0% YoY

| | Q1 | Q2 | Q3 | Q4 | Q1E | Q2E | Q3E | Q4E | Q1E | Q2E | Q3E | Q4E | FY23 | FY24E | FY25E | FY26E |
|-------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|----------------|
| FY (March) | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24E | Jun-24E | Sep-24E | Dec-24E | Mar-25E | Jun-25E | Sep-25E | Dec-25E | Dec-23 | Dec-24 | Dec-25 | Dec-26 |
| Revenues | \$254 | \$274 | \$292 | \$310 | \$242 | \$257 | \$302 | \$331 | \$305 | \$299 | \$310 | \$316 | \$1,131 | \$1,133 | \$1,231 | \$1,305 |
| QoQ | -5% | 8% | 7% | 6% | -22% | 6% | 17% | 10% | -8% | -2% | 4% | 2% | | | | |
| YoY | 25% | 24% | 28% | 17% | -5% | -6% | 3% | 7% | 26% | 16% | 3% | -4% | 23% | 0% | 9% | 6% |
| Cost of Sales | 150 | 154 | 163 | 172 | 137 | 145 | 169 | 185 | 171 | 166 | 171 | 174 | 639 | 636 | 682 | 717 |
| Gross Profit (GAAP) | 104 | 120 | 130 | 138 | 105 | 112 | 133 | 146 | 135 | 133 | 139 | 143 | 491 | 496 | 549 | 589 |
| R&D Expense | 24 | 24 | 24 | 25 | 26 | 27 | 26 | 28 | 29 | 30 | 29 | 30 | 97 | 108 | 117 | 125 |
| SG&A Expense | 14 | 16 | 16 | 17 | 16 | 17 | 16 | 17 | 16 | 18 | 17 | 18 | 63 | 66 | 70 | 73 |
| Total Opex (GAAP) | 53 | 56 | 58 | 59 | 60 | 61 | 60 | 63 | 62 | 66 | 64 | 67 | 226 | 243 | 260 | 274 |
| Total Operating Income (GAAP) | 53 | 65 | 74 | 87 | 49 | 53 | 74 | 85 | 74 | 68 | 76 | 77 | 279 | 261 | 296 | 321 |
| Interest/other Income (GAAP) | 2 | 1 | 2 | 8 | 4 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 13 | 8 | 6 | 6 |
| Pretax Income (GAAP) | 53 | 65 | 74 | 87 | 49 | 53 | 74 | 85 | 74 | 68 | 76 | 77 | 279 | 261 | 296 | 321 |
| Net Income (GAAP) | 48 | 62 | 66 | 71 | 44 | 47 | 67 | 76 | 66 | 61 | 68 | 69 | 246 | 234 | 265 | 287 |
| Diluted EPS (GAAP) | \$1.43 | \$1.86 | \$1.99 | \$2.15 | \$1.34 | \$1.44 | \$2.04 | \$2.33 | \$2.05 | \$1.89 | \$2.12 | \$2.15 | \$7.43 | \$7.15 | \$8.22 | \$9.06 |
| Diluted Shares (GAAP) | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 33 | 32 | 32 | 32 | 32 | 33 | 33 | 32 | 32 |
| Margin Analysis (GAAP) | | | | | | | | | | | | | | | | |
| Gross Margin | 40.9% | 43.7% | 44.4% | 44.4% | 43.5% | 43.6% | 43.9% | 44.2% | 44.1% | 44.4% | 44.9% | 45.1% | 43.5% | 43.8% | 44.6% | 45.1% |
| R&D (GAAP) | 9.4% | 8.8% | 8.2% | 8.0% | 10.9% | 10.6% | 8.7% | 8.5% | 9.4% | 10.0% | 9.3% | 9.4% | 8.6% | 9.5% | 9.5% | 9.5% |
| SG&A (GAAP) | 5.6% | 5.7% | 5.6% | 5.4% | 6.8% | 6.4% | 5.4% | 5.2% | 5.3% | 6.0% | 5.6% | 5.8% | 5.6% | 5.9% | 5.7% | 5.6% |
| Opex | 20.7% | 20.4% | 19.8% | 19.0% | 24.7% | 23.7% | 19.8% | 19.0% | 20.3% | 22.1% | 20.8% | 21.2% | 19.9% | 21.5% | 21.1% | 21.0% |
| Operating Margin | 20.2% | 23.3% | 24.5% | 25.5% | 18.8% | 19.9% | 24.1% | 25.2% | 23.8% | 22.3% | 24.1% | 23.9% | 23.5% | 22.3% | 23.5% | 24.1% |
| Tax rate | 9.8% | 4.7% | 10.5% | 18.7% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 10.5% | 11.6% | 10.5% | 10.5% | 10.5% |
| Net Income | 18.8% | 22.5% | 22.6% | 22.9% | 18.2% | 18.4% | 22.0% | 23.0% | 21.8% | 20.4% | 22.0% | 21.8% | 21.8% | 20.6% | 21.5% | 22.0% |

Source: BofA Global Research estimates, Company report

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Exhibit 14: ACLS - Segment Model (\$mn)

We expect ACLS Systems sales to grow -1% in 2024

| FY (March) | Q1 Mar-23 | Q2 Jun-23 | Q3 Sep-23 | Q4 Dec-23 | Q1E Mar-24E | Q2E Jun-24E | Q3E Sep-24E | Q4E Dec-24E | Q1E Mar-25E | Q2E Jun-25E | Q3E Sep-25E | Q4E Dec-25E | FY23 Dec-23 | FY24E Dec-24 | FY25E Dec-25 | FY26E Dec-26 |
|----------------------|----------------------|----------------------|----------------------|----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| Systems | 195 | 215 | 231 | 242 | 186 | 197 | 233 | 256 | 236 | 231 | 240 | 245 | 884 | 872 | 952 | 1,011 |
| Aftermarket / CS&I | 59 | 59 | 61 | 69 | 56 | 60 | 69 | 75 | 70 | 68 | 70 | 71 | 247 | 260 | 279 | 294 |
| Total Revenue | 254 | 274 | 292 | 310 | 242 | 257 | 302 | 331 | 305 | 299 | 310 | 316 | 1,131 | 1,133 | 1,231 | 1,305 |
| QoQ Change % | | | | | | | | | | | | | | | | |
| Systems | -4% | 10% | 8% | 4% | -23% | 6% | 18% | 10% | -8% | -2% | 4% | 2% | | | | |
| Aftermarket / CS&I | -5% | 0% | 4% | 13% | -18% | 7% | 15% | 8% | -7% | -2% | 2% | 2% | | | | |
| Total Revenue | -5% | 8% | 7% | 6% | -22% | 6% | 17% | 10% | -8% | -2% | 4% | 2% | | | | |
| YoY Change % | | | | | | | | | | | | | | | | |
| Systems | 29% | 30% | 35% | 19% | -5% | -8% | 1% | 6% | 27% | 17% | 3% | -4% | 28% | -1% | 9% | 6% |
| Aftermarket / CS&I | 14% | 5% | 5% | 10% | -4% | 2% | 14% | 9% | 24% | 14% | 1% | -5% | 8% | 5% | 7% | 5% |
| Total Revenue | 25% | 24% | 28% | 17% | -5% | -6% | 3% | 7% | 26% | 16% | 3% | -4% | 23% | 0% | 9% | 6% |
| % of Sales | | | | | | | | | | | | | | | | |
| Systems | 77% | 79% | 79% | 78% | 77% | 77% | 77% | 77% | 77% | 77% | 77% | 77% | 78% | 77% | 77% | 77% |
| Aftermarket / CS&I | 23% | 21% | 21% | 22% | 23% | 23% | 23% | 23% | 23% | 23% | 23% | 23% | 22% | 23% | 23% | 23% |
| Total Revenue | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% | 100% |

Source: BofA Global Research estimates, Company report

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**Exhibit 15: ACLS - Balance Sheet (\$mn)**

ACLS net cash per share looks to increase in 2024

| FY (March) | Q1 Mar-23 | Q2 Jun-23 | Q3 Sep-23 | Q4 Dec-23 | Q1E Mar-24E | Q2E Jun-24E | Q3E Sep-24E | Q4E Dec-24E | Q1E Mar-25E | Q2E Jun-25E | Q3E Sep-25E | Q4E Dec-25E | FY23 Dec-23 | FY24E Dec-24 | FY25E Dec-25 | FY26E Dec-26 |
|---------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|
| Assets | | | | | | | | | | | | | | | | |
| Cash & Equivalents | 164 | 133 | 142 | 167 | 310 | 332 | 320 | 346 | 444 | 507 | 553 | 606 | 167 | 346 | 606 | 855 |
| Accounts receivable | 190 | 159 | 192 | 218 | 163 | 168 | 203 | 223 | 204 | 200 | 208 | 212 | 218 | 223 | 212 | 222 |
| Inventory | 262 | 300 | 312 | 306 | 243 | 258 | 301 | 328 | 304 | 296 | 304 | 309 | 306 | 328 | 309 | 313 |
| Total current assets | 934 | 950 | 1,015 | 1,080 | 1,105 | 1,146 | 1,212 | 1,285 | 1,340 | 1,391 | 1,453 | 1,515 | 1,080 | 1,285 | 1,515 | 1,778 |
| PP&E | 41 | 43 | 47 | 54 | 51 | 48 | 46 | 42 | 39 | 36 | 33 | 29 | 54 | 42 | 29 | 16 |
| Deferred income taxes | 35 | 39 | 44 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 | 53 |
| Total Assets | 1,080 | 1,122 | 1,202 | 1,282 | 1,303 | 1,342 | 1,406 | 1,476 | 1,527 | 1,575 | 1,634 | 1,692 | 1,282 | 1,476 | 1,692 | 1,942 |
| Liabilities & Equity | | | | | | | | | | | | | | | | |
| Accounts payable | 60 | 61 | 60 | 54 | 43 | 46 | 53 | 58 | 54 | 53 | 54 | 55 | 54 | 58 | 55 | 61 |
| Deferred Income | 157 | 139 | 148 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 | 165 |
| Current portion of l-t debt | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Total current liabilities | 268 | 248 | 261 | 285 | 274 | 277 | 284 | 289 | 285 | 283 | 285 | 286 | 285 | 289 | 286 | 292 |
| LT debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other long-term liabilities | 110 | 129 | 140 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 | 132 |
| Total shareholders' equity | 702 | 744 | 801 | 865 | 897 | 934 | 990 | 1,055 | 1,110 | 1,160 | 1,217 | 1,275 | 865 | 1,055 | 1,275 | 1,518 |
| Total Liab. & Stock Equity | 1,080 | 1,122 | 1,202 | 1,282 | 1,303 | 1,342 | 1,406 | 1,476 | 1,527 | 1,575 | 1,634 | 1,692 | 1,282 | 1,476 | 1,692 | 1,942 |
| Cash and Liquidity Ratios | | | | | | | | | | | | | | | | |
| Total Cash | 451 | 460 | 468 | 513 | 656 | 677 | 666 | 691 | 789 | 853 | 899 | 952 | 513 | 691 | 952 | 1,201 |
| Short-term debt | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Long-term debt | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total debt | 1 | 1 | 1 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Net Cash | 450 | 458 | 466 | 511 | 654 | 676 | 664 | 690 | 788 | 851 | 897 | 950 | 511 | 690 | 950 | 1,199 |
| Net Cash/dil. share | \$13.52 | \$13.80 | \$14.06 | \$15.48 | \$19.88 | \$20.61 | \$20.34 | \$21.20 | \$24.31 | \$26.38 | \$27.91 | \$29.67 | \$15.42 | \$21.08 | \$29.50 | \$37.80 |
| Cash conversion ratios | | | | | | | | | | | | | | | | |
| Days Sales Outstanding (DSO) | 68.1 | 53.0 | 60.0 | 64.1 | 61.3 | 59.6 | 61.3 | 61.6 | 60.9 | 60.9 | 61.2 | 61.1 | 64.1 | 61.6 | 61.1 | 61.1 |
| Payable Days (DPO) | 36.8 | 35.8 | 33.7 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 28.8 | 30.8 |
| Inventory Turns | 2.3 | 2.1 | 2.1 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.2 | 2.3 |
| Inventory Days (DIO) | 159.4 | 177.4 | 175.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 162.2 | 157.2 |
| Cash Conversion Days | 190.7 | 194.6 | 201.5 | 197.5 | 194.7 | 193.0 | 194.7 | 195.0 | 194.4 | 194.3 | 194.6 | 194.6 | 197.5 | 195.0 | 194.6 | 187.5 |

Source: BofA Global Research estimates, Company report

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Exhibit 16: ACLS - Cash Flow Statement (\$mn)

ACLS had \$4+ in FCF per share in CY23

| FY (March) | Q1 Mar-23 | Q2 Jun-23 | Q3 Sep-23 | Q4 Dec-23 | Q1E Mar-24E | Q2E Jun-24E | Q3E Sep-24E | Q4E Dec-24E | Q1E Mar-25E | Q2E Jun-25E | Q3E Sep-25E | Q4E Dec-25E | FY23 Dec-23 | FY24E Dec-24 | FY25E Dec-25 | FY26E Dec-26 |
|-----------------------------------|----------------------|----------------------|----------------------|----------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|-------------------------|-------------------------|-------------------------|
| Operating Activities | | | | | | | | | | | | | | | | |
| Net income | 48 | 62 | 66 | 71 | 44 | 47 | 67 | 76 | 66 | 61 | 68 | 69 | 246 | 234 | 265 | 287 |
| Depreciation and Amortization | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 3 | 13 | 12 | 13 | 14 |
| Stock Compensation Expenses | 3 | 5 | 5 | 5 | 4 | 4 | 5 | 5 | 5 | 5 | 5 | 5 | 18 | 19 | 20 | 21 |
| Change In: | | | | | | | | | | | | | | | | |
| Accounts receivable | (21) | 29 | (35) | (26) | 55 | (5) | (35) | (20) | 19 | 4 | (8) | (4) | (52) | (5) | 11 | (10) |
| Inventories | (21) | (42) | (16) | 6 | 63 | (15) | (43) | (27) | 25 | 8 | (8) | (5) | (74) | (22) | 20 | (4) |
| Accounts payable | (23) | 5 | 9 | (6) | (11) | 3 | 8 | 5 | (4) | (1) | 1 | 1 | (15) | 4 | (3) | 6 |
| Deferred Income | 47 | (19) | 20 | 16 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 64 | 0 | 0 | 0 |
| Cash From Operations | 35 | 33 | 24 | 65 | 158 | 37 | 5 | 42 | 114 | 80 | 62 | 69 | 157 | 241 | 325 | 315 |
| Investing Activities | | | | | | | | | | | | | | | | |
| PP&E Expenditures | (2) | (3) | (5) | (10) | (5) | (5) | (6) | (7) | (6) | (6) | (6) | (6) | (21) | (23) | (25) | (26) |
| Other | (31) | (37) | 4 | (18) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | (82) | 0 | 0 | 0 |
| Cash From Investing | (33) | (40) | (1) | (28) | (5) | (5) | (6) | (7) | (6) | (6) | (6) | (6) | (102) | (23) | (25) | (26) |
| Financing Activities | | | | | | | | | | | | | | | | |
| Stock Repurchases | (12) | (13) | (12) | (13) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (50) | (40) | (40) | (40) |
| Exercise of stock options | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Dividend Paid | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Issuance | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Debt Repayment | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Cash From Financing | (17) | (23) | (13) | (13) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (10) | (66) | (40) | (40) | (40) |
| Net Change in Cash/Eqv. | (21) | (32) | 10 | 25 | 143 | 22 | (11) | 26 | 98 | 64 | 46 | 53 | (18) | 178 | 261 | 249 |
| Cash/Eqv. at beginning of period | 186 | 164 | 133 | 142 | 167 | 310 | 332 | 320 | 346 | 444 | 507 | 553 | 186 | 167 | 346 | 606 |
| Cash/Eqv. at end of period | 164 | 133 | 142 | 167 | 310 | 332 | 320 | 346 | 444 | 507 | 553 | 606 | 167 | 346 | 606 | 855 |
| Free Cash Flow | 32 | 30 | 19 | 55 | 153 | 32 | (1) | 36 | 108 | 74 | 56 | 63 | 136 | 218 | 301 | 289 |
| FCF/share | \$0.97 | \$0.90 | \$0.56 | \$1.68 | \$4.64 | \$0.96 | (\$0.04) | \$1.09 | \$3.33 | \$2.28 | \$1.74 | \$1.96 | \$4.11 | \$6.68 | \$9.33 | \$9.10 |
| TTM FCF | 213 | 241 | 199 | 136 | 257 | 259 | 238 | 218 | 174 | 216 | 273 | 301 | | | | |
| TTM FCF/Dil Share | \$6.40 | \$7.27 | \$6.01 | \$4.12 | \$7.80 | \$7.89 | \$7.30 | \$6.72 | \$5.36 | \$6.69 | \$8.50 | \$9.38 | | | | |

Source: BofA Global Research estimates, Company reports

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Price objective basis & risk

Axcelis Technologies (ACLS)

We assign a \$135 PO, which is based on 15x our CY25E non-GAAP EPS, adjusted for net cash. This is toward the lower range of peers trading at 11x-26x and is justified, in our view, given concerns around near-term auto/EV demand.

Downside risks: 1) potential expansion of restrictions of tool shipments from US to China which would impact its trailing-edge portfolio, 2) strong competition from larger players such as AMAT, 3) historically cyclical nature of semiconductor capital spending.

Analyst Certification

I, Duksan Jang, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Semiconductors and Semiconductor Capital Equipment Coverage Cluster

| Investment rating | Company | BofA Ticker | Bloomberg symbol | Analyst |
|---------------------|-------------------------------|-------------|------------------|----------------|
| BUY | | | | |
| | Advanced Micro Devices, Inc | AMD | AMD US | Vivek Arya |
| | Analog Devices Inc. | ADI | ADI US | Vivek Arya |
| | Applied Materials, Inc. | AMAT | AMAT US | Vivek Arya |
| | Arm Holdings | ARM | ARM US | Vivek Arya |
| | Broadcom Inc | AVGO | AVGO US | Vivek Arya |
| | Cadence | CDNS | CDNS US | Vivek Arya |
| | Camtek | CAMT | CAMT US | Vivek Arya |
| | KLA Corporation | KLAC | KLAC US | Vivek Arya |
| | Lam Research Corp. | LRCX | LRCX US | Vivek Arya |
| | M/A-Com | MTSI | MTSI US | Vivek Arya |
| | Marvell Technology Group Ltd. | MRVL | MRVL US | Vivek Arya |
| | Microchip | MCHP | MCHP US | Vivek Arya |
| | Micron Technology, Inc | MU | MU US | Vivek Arya |
| | Nova | NVMI | NVMI US | Vivek Arya |
| | NVIDIA Corporation | NVDA | NVDA US | Vivek Arya |
| | NXP Semiconductors NV | NXPI | NXPI US | Vivek Arya |
| | onsemi | ON | ON US | Vivek Arya |
| | Synopsys | SNPS | SNPS US | Vivek Arya |
| NEUTRAL | | | | |
| | Advanced Energy Industries | AEIS | AEIS US | Duksan Jang |
| | Allegro MicroSystems | ALGM | ALGM US | Blake Friedman |
| | Axcelis Technologies | ACLS | ACLS US | Duksan Jang |
| | Coherent Corp | COHR | COHR US | Vivek Arya |
| | GlobalFoundries | GFS | GFS US | Vivek Arya |
| | Intel | INTC | INTC US | Vivek Arya |
| | Lattice Semiconductor | LSCC | LSCC US | Blake Friedman |
| | Texas Instruments Inc. | TXN | TXN US | Vivek Arya |
| UNDERPERFORM | | | | |
| | Ambarella | AMBA | AMBA US | Vivek Arya |
| | Credo Technology | CRDO | CRDO US | Vivek Arya |
| | Lumentum Holdings | LITE | LITE US | Vivek Arya |
| | Qorvo Inc. | QRVO | QRVO US | Vivek Arya |
| | Skyworks Solutions, Inc. | SKWS | SKWS US | Vivek Arya |
| | Teradyne | TER | TER US | Vivek Arya |
| | Wolfspeed Inc | WOLF | WOLF US | Vivek Arya |



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

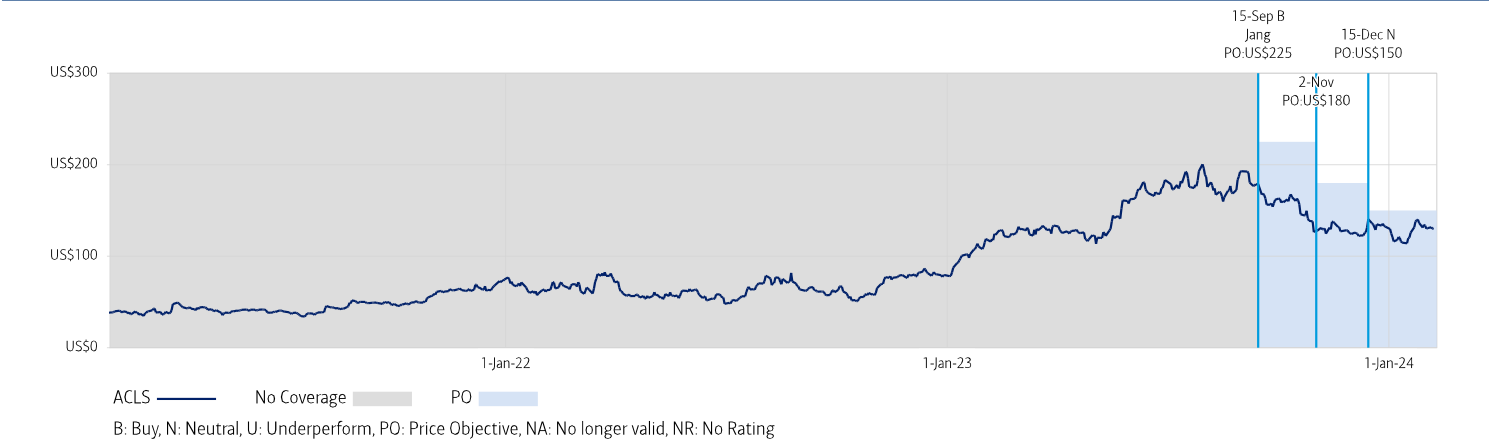
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Disclosures

Important Disclosures

Axcelis Technologies (ACLS) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 215 | 53.09% | Buy | 111 | 51.63% |
| Hold | 97 | 23.95% | Hold | 45 | 46.39% |
| Sell | 93 | 22.96% | Sell | 24 | 25.81% |

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

| Coverage Universe | Count | Percent | Inv. Banking Relationships ^{R1} | Count | Percent |
|-------------------|-------|---------|--|-------|---------|
| Buy | 1895 | 53.62% | Buy | 1083 | 57.15% |
| Hold | 832 | 23.54% | Hold | 454 | 54.57% |
| Sell | 807 | 22.84% | Sell | 383 | 47.46% |

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. VOLATILITY RISK RATINGS, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. INVESTMENT RATINGS reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

| Investment rating | Total return expectation (within 12-month period of date of initial rating) | Ratings dispersion guidelines for coverage cluster ^{R2} |
|-------------------|---|--|
| Buy | ≥ 10% | ≤ 70% |
| Neutral | ≥ 0% | ≤ 30% |
| Underperform | N/A | ≥ 20% |

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. Coverage Cluster is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

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