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TEXT version of Transcript

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Presentation

Operator [1]

Good afternoon. Thank you for standing by, and welcome to the Wolfspeed, Inc. Q4 Full Year 2022 Earnings Call. [Operator Instructions] Please note today's call is being recorded.

I would now like to hand the conference over to your first speaker today, Tyler Gronbach, Vice President of Investor Relations. Please go ahead.

Tyler D. Gronbach, Wolfspeed, Inc. - Vice President of Investor Relations [2]

Thank you, operator, and good afternoon, everyone. Welcome to Wolfspeed's Fourth Quarter and Full Year Fiscal 2022 Conference Call. Today, Wolfspeed's CEO, Gregg Lowe; and Wolfspeed's CFO, Neill Reynolds, will report on the results for the fourth quarter and full year of fiscal 2022.

Please note that we will be presenting non-GAAP financial results during today's call, which is consistent with how management measures Wolfspeed's results internally. Non-GAAP results are not in accordance with GAAP and may not be comparable to non-GAAP information provided by other companies. Non-GAAP information should be considered a supplement to and not a substitute for financial statements prepared in accordance with GAAP. A reconciliation to the most directly comparable GAAP measures is in our press release and posted in the Investor Relations section of our website, along with a historical summary of other key metrics.

Today's discussion includes forward-looking statements about our business outlook, and we may make other forward-looking statements during the call. Such forward-looking statements are subject to numerous risks and uncertainties. Our press release today and the SEC filings noted in the release mention important factors that could cause actual results to differ materially, including risks related to the impact of the COVID-19 pandemic. [Operator Instructions] If you have any additional questions, please feel free to contact us after the call.

And now I'd like to turn the call over to Gregg.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [3]

Well, thanks, Tyler, and good afternoon, everyone. I'm pleased to share Wolfspeed's fourth quarter and full year 2022 results today. This year was a pivotal one for our company. We have achieved key milestones and made formidable progress in several areas.

First, we made strides in adding to Wolfspeed's footprint and capacity when we opened our Mohawk Valley fab in Marcy, New York in April of this year and continued with the expansion of our materials factories in North Carolina. The Mohawk Valley fab is the world's first fully automated 200-millimeter silicon carbide fab. This was a major accomplishment, and I'd like to especially thank the entire team at Mohawk Valley for their exceptional work leading to the construction and operations of this wafer fab.

Since the opening, we've continued to run initial lots through the fab and remain on track to complete initial qualifications and ship products by the end of this fiscal year. We've also had several large customers visit the site prior to signing agreements with us, which is translating into stronger demand than we originally anticipated. As a result, we now have initiated work to tool out the remaining portion of the fab. We are also expanding the materials capacity to support the increased production planned in Mohawk Valley. We believe this is the best course of action to stay ahead of what we see as a steepening demand for silicon carbide.

Second, our hard work that continues in devices and materials led to a strong full year 2022 results. Annual revenues grew 42% year-over-year to $746 million, a significant acceleration of our growth compared to 2021. We also made progress in improving our gross margin, with full year non-GAAP gross margin coming in at 35.6%, a 140 basis point improvement over the previous year.

Lastly, we continue to see a clear path for Wolfspeed to play an even bigger role as the world moves to greener energy sources and more efficient use of that energy. High-voltage applications continue to migrate from traditional silicon to silicon carbide, and our device opportunity pipeline is evidence of this transition. The opportunity pipeline for silicon carbide has more than doubled to $35 billion in a single year.

Our fiscal '22 design-ins totaled $6.4 billion, representing a 3x increase from our fiscal 2020 design-in total and a 119% increase compared to the prior year. We had another record-setting design-in performance of $2.6 billion in fiscal Q4. This included design-ins across automotive OEMs, auto Tier 1 suppliers and industrial and energy customers, and we are looking forward to working with our new and existing customers in these markets.

We now have secured approximately $11 billion of design-ins in just the last 12 quarters. As the market leader in silicon carbide technology, we are encouraged and excited by the growth in this market.

I'll now turn it over to Neill, who will provide an overview of our financial results and our outlook for the first quarter of fiscal 2023. Neill?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [4]

Thanks, Gregg. Good afternoon, everyone. I'll start by providing an overview of the fourth quarter. We closed the year on a strong note, having generated revenue of $229 million in the fiscal fourth quarter of 2022, which represent a 22% sequential improvement when compared to the $188 million in the third quarter of this year and growth of 57% from the prior year period. This is well above our midpoint guidance for the quarter and was driven by continued improvement in the Durham device staff and back-end operations.

The expected multimillion dollar impact of the COVID-19 shutdowns in China ease and were more than offset by the improvements in the fab and back-end operations, and we expect this improved operating execution from a device perspective to continue moving forward.

Moving to the P&L. Non-GAAP gross margin in the fourth quarter was 36.5% compared to 36.3% last quarter and 32.2% in the prior year period, representing a 430 basis point improvement year-over-year. This performance improvement was driven by progress in the Durham fab yields and cycle times. While there is still more work to be done, our operations team is encouraged by the progress they've seen so far. This also resulted in better revenue output and profitability in power devices, which was partially offset by product mix shifts between devices and materials.

We expect to continue to ramp our gross margin over time as a shift of device production from Durham to Mohawk Valley accelerates, and we start to realize the benefits of our automated 200-millimeter wafer fab. From a revenue perspective, we continue to see strong demand across the business and the opportunity to grow revenue going forward is directly linked to available capacity. We exited fiscal year 2022 with more than $100 million of unfulfilled demand for power devices and expect this number to increase moving forward as we anticipate being capacity constrained for the foreseeable future.

Similarly, from a materials perspective, we remain capacity constrained as demand for our 150-millimeter silicon carbide substrates continued to be very strong, resulting in meaningful year-over-year and quarter-over-quarter growth. In addition, RF resulted year-over-year in line with our expectations. All of these dynamics led to much improved profitability. And as a result, we generated adjusted earnings per share of negative $0.02 in the fiscal fourth quarter compared to negative $0.12 a quarter ago and negative $0.23 and in the same period last year. Notably, adjusted EPS this quarter was favorably impacted by approximately $0.04 of non-repeatable events on the other income and tax lines. Excluding these non-repeatable items from our earnings, our earnings per share would have been at approximately $0.06 loss per share during the quarter.

For fiscal 2022, revenue was $746 million, representing a 42% increase when compared to fiscal 2021 due to strong growth in our device businesses. Non-GAAP net loss was $59.6 million or $0.50 per diluted share. Non-GAAP loss excludes $58.9 million of adjustments net of tax or $0.48 per diluted share.

Now before I discuss our guidance, let me provide a quick overview of our balance sheet position. We ended the quarter with approximately $1.2 billion of cash and liquidity on our balance sheet to support our growth plans. DSO was 50 days, while inventory days on hand was 137 days, which is 22 days lower than Q3, a direct result of less within the fab thanks to better yields and improved cycle times.

Free cash flow during the quarter was negative $86 million comprised of negative $31 million of operating cash flow and $55 million of capital expenditures. During the quarter, we incurred start-up costs primarily related to Mohawk Valley, totaling approximately $30 million, in line with expectations communicated last quarter. We expect $35 million of start-up costs in the first quarter of fiscal 2023 as we continue to ramp the fab. We expect start-up costs to modulate in the subsequent quarters as we shift to commercial production in the second half of fiscal 2023. There is a non-GAAP adjustment for these start-up costs and a reconciliation table in our earnings release.

Now moving on to our fiscal first quarter outlook. We are targeting revenue in the range of $232.5 million to $247.5 million. We expect revenue growth to be driven by continued improvement in our power device execution and strong demand in our Materials business for our 150-millimeter silicon carbide substrates, where we also remain capacity constrained. Our Q1 non-GAAP gross margin is expected to be in the range of 35.5% to 37.5% as we expect continued improvements in power device execution to be offset by product mix.

We are also targeting non-GAAP operating expenses of between $93 million to $95 million for the first quarter of fiscal year 2023. We expect Q1 non-GAAP operating loss to be between $10 million and $2 million and nonoperating net loss to be approximately $1 million. We also expect approximately $0.5 million of non-GAAP tax benefit. We're targeting Q1 non-GAAP net loss to be between $10 million and $3 million or a loss of $0.08 to $0.02 per diluted share. Our non-GAAP EPS target excludes acquired intangibles amortization, noncash stock-based compensation, project transformation and transaction costs, factory start-up costs, gain from arbitration proceedings and other items as outlined in our press release today. Our Q1 targets are based on several factors that could vary greatly, including the situation with COVID-19, overall demand, product mix, factory productivity and the competitive environment.

Given the positive momentum we're seeing and the progress that we've made from all the accomplishments Gregg spoke about earlier, we expect to exit this calendar year on a $1 billion revenue run rate and expect to generate more than $1 billion in revenue in fiscal 2023. This is a direct result of the upward pressure at revenue that we're continuing to see in the market and the current pace of design-ins we have secured in the last several quarters.

As a result, we now believe that the long-term revenue outlook for 2026 is between 30% to 40% higher for the $2.1 billion we shared with you at our Investor Day back in November of 2021, primarily due to the increased demand for power devices. To meet this growing demand from a capacity standpoint, we are planning to tool out the rest of Mohawk Valley earlier than expected and continue to expand our materials footprint on the Durham campus. This expansion will require approximately $550 million of net capital expenditures in fiscal 2023. In addition, we are also planning further expansion of our materials and device capacity, and we are evaluating multiple avenues to finance these capital investments, including through upfront customer payments, capital markets, debt, government project funding, subsidies and others, all while keeping a keen eye on our cost of capital and dilution for our current stockholders.

The $550 million of net CapEx in 2023 is not inclusive of these additional items, and we will give further updates on both our CapEx investment and financing plans when we have more visibility to the nature and timing of these expansions.

With that, I'll pass it back to Gregg.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [5]

Well, thanks, Neill. When I reflect on all we've accomplished at Wolfspeed this year, not only am I extremely proud of what our team has accomplished, I'm also very excited about how well positioned we are to capture a larger portion of the growing silicon carbide marketplace.

Wolfspeed is leading the change in the high-power semiconductor market from silicon to silicon carbide as the world continues to push towards electrification. Electric vehicles opened up the doors to broad adoption of silicon carbide, and this will be our anchor market for decades to come.

Now that being said, it's an important reminder that EVs are only a portion of the total applications and end users for silicon carbide. Silicon carbide is a game-changing technology for renewable energy, rail, appliances and heavy-duty equipment among many other industrial uses. And as a matter of fact, in the last 3 years, we've generated more than 2,300 power device design-ins across a diverse nonautomotive set of end equipments, including design-ins for medical imaging device, an air taxi and an electric static filtering device.

Additionally, we have more than 6,100 nonautomotive power device projects in our opportunity pipeline, and we're only scratching the surface in the diverse range of these applications and our team continues to find ways in which silicon carbide can help the world conserve more energy.

While there's been some discussion across the industry of the semiconductor slowdown, we see some strong secular trends that will directly benefit Wolfspeed. These include the movement to green energy sources and increased urgency on using those energy sources more efficiently. The rapid growth of electric vehicles, the build-out and expansion in the corresponding grid and charging support infrastructure for those vehicles. And finally, the growing customer viewpoint that silicon carbide is the right technology to drive all of these initiatives forward.

Collectively, all of this provides a strong tailwind for silicon carbide through this decade and presents a great opportunity for Wolfspeed. A recent yield report supports this trend as they expect silicon carbide to reach 20% of the power market by 2027, up from now of only 5%. To put that in perspective, that's a 4x increase in just 5 years. The growth opportunity is immense, and we have great confidence that as more customers realize the benefits of silicon carbide over legacy silicon chips, silicon carbide share of the power market will only grow larger.

We continue to see this sentiment being echoed and amplified, not only by businesses, but also on the world stage. Just last week, I was at the White House with other semiconductor leaders to see the President sign into the law, The CHIPS Act and believe that this could provide some possible funding for the next phase of our expansion plans. We are working closely with local officials and multiple state on site selection on finalizing plans for a new materials factory and hope to have more details to share very soon.

We're also seeing some strong support from current and prospective customers outside the U.S. We have recently spent a great deal of time talking to our European customers, and they are extremely bullish on our offerings in all potential applications. The opportunities available for Wolfspeed at new and burgeoning geographies are exciting, and we are planning to be ready to capitalize on these in the coming years.

All of these dynamics make us very confident and Wolfspeed's future prospects. We are building a powerful model with an excellent return on invested capital and are well positioned to capture a greater share of the $35 billion opportunity pipeline.

For the last 5 years, we've been committed to transforming the company into a global semiconductor powerhouse. We are still in the early stages of a robust and growing opportunity as customers, the industry and the world continue to embrace more energy-efficient technologies. We have a special opportunity to drive consistent growth and compelling investor returns for many years to come.

In closing, I'd like to thank all of our stakeholders for your continued support. Before turning it back over to the operator for questions, I'd also like to announce that we will be hosting an Investor Day later this year. I hope to see many of you there. And with that, operator, we'd be happy to take any questions.

Question And Answer

Operator [1]

[Operator Instructions] The first question is from the line of Harsh Kumar with Piper Sandler.

Harsh V. Kumar, Piper Sandler & Co., Research Division - MD & Senior Research Analyst [2]

First of all, strong congratulations on the kind of numbers you guys are putting up on the guidance. Gregg, I apologize if I missed this. I missed about 3 minutes of your call earlier, but I was curious if you could tell us that Mohawk Valley is up and running and if you're actually producing anything there? Or maybe you could just enlighten us on the time line for when we can expect commercial product to come out of there? And then I had a quick follow-up.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [3]

Yes. Thanks a lot, Harsh. We are running material in the fab. We are progressing through each of the various different stages of manufacturing right now. We're not quite entirely through the fab, but we're pretty close at this point. We anticipate that full flow material will be coming out of the fab by the end of this calendar -- or this quarter that we're in right now.

And as -- I know you missed it at the beginning, but as we mentioned in some of our earlier statements, we are still planning to -- we are still on track to be qualifying material out of that factory in this fiscal year, the end of the fiscal year and shipping product -- initial product out of the factory this fiscal year as well.

Harsh V. Kumar, Piper Sandler & Co., Research Division - MD & Senior Research Analyst [4]

Fantastic, Gregg. And then I wanted to ask something you mentioned on the commentary about your plans for CapEx and the kind of money that you have on cash sitting on the balance sheet. It looks like you got $1.2 billion, maybe a question for you, Neill, a $1.2 billion on the books in cash. But the way I understand you guys want to build in the future as you want government funding. My understanding is anything you do will be a replication of Mohawk in terms of financing options. So I'd be curious why would the need for maybe additional financing come up? And if so, maybe some color around that topic.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [5]

Yes. No. Sure, Harsh, I'm happy to kind of give an update on that. So look, as we talked about in the prepared remarks, we see demand for the products just in the 2026 period being 3% to 4% higher. That's versus the $2.1 billion we projected just at Investor Day last year. So obviously, that's going to require pretty significant capacity increase to match that.

If you look across the market for silicon carbide, you see that market expanding and you also see the industry overall need more capacity. And certainly, we're going to need to participate in that. So when you look at that increase in capacity, including we talked about potentially an additional fab after Mohawk Valley, we talked about more materials -- a second materials facility that we might need as well. When you think about all of those things, that would be required and we have talked about this before, at roughly kind of 2:1 kind of CapEx to revenue ratio. And that would include all types of CapEx, both materials, fab and also in terms of the back end.

So -- and if you look at that kind of 2:1 ratio, we believe that's a pretty good combination for growing the company, but also creating strong returns. So to transition that to more of a kind of funding and financing thinking and in order to support that increased investment, obviously, we'll have to do that in a number of ways, and we talked about that just during the prepared remarks. We'll obviously apply for government funding. We're looking at various options in terms of how we can fund that. And even from a government perspective, we have quite a bit to go in terms of Mohawk Valley in terms of receiving reimbursements from the State of New York as it relates to our partnership with them. I think we have a little bit more than $350 million remaining.

So we're looking at a lot of different vectors and financing, and we'll give you guys an update on that as we get out into the fall. But I think one thing I do want to say, Harsh, and just step back on that, if you just give me a second here is from a financing perspective, I just wanted to make sure we're all clear. I mean as you said, we've got $1.2 billion of cash on the balance sheet. You've seen the CapEx kind of step down the last couple of quarters in line with our initial plan as we were going to ramp the company.

So as you think about that, any new facility or fab wouldn't really require additional fab -- sorry, CapEx for the back half of kind of the fiscal year. So I think we're well ahead of this. We're going to be very thoughtful in terms of how we think about financing any the remainder of this. We'll keep dilution right on top of our mind as it's related to investors and returns. And we'll put that into our plans as we move forward. And again, we'll give you an update on this as we move forward and we have an investor update later in the call.

Operator [6]

Our next question is from the line of Samik Chatterjee with JPMorgan.

Joseph Lima Cardoso, JPMorgan Chase & Co, Research Division - Analyst [7]

This is Joe Cardoso on for Samik. My first one here, you raised your expectation for fiscal '26 revenue from roughly 2.1 to a range of 2.7 to 2.9. Just curious to understand, is that a function of demand trends over the past like 90 to 180 days? Or did you already have line of sight on that demand? And is it more about solidifying CapEx planned over the past 90 days? And then just to clarify, the 2.7 to 2.9 doesn't embed a new fab, correct?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [8]

Yes. So let me take the first part of that. So thanks a lot for the question. Since the last -- since our Investor Day, we basically had 3 quarters in a row of record design-ins. We have $1.6 billion followed by a little bit higher than $1.6 billion, but another $1.6 billion. That $1.6 billion of record design-in at that time represented a 60% increase over the previous record. So there was a whole lot of giddyup going on with that $1.6 billion worth of design-in.

So we had 2 quarters of $1.6 billion, followed by this quarter of $2.6 billion. almost double the previous record. So nearly $6 billion of design-ins have happened since our last Investor Day. We've been talking about upward pressure. And just at this point, it's just gone to the point of -- we just need to let everybody know what that's looking like. So 30%, 40% increase in the fiscal '26 number largely driven by that tremendous growth of design-ins.

And what I would say is happening, and then I'll turn it over to Neill on the fab side of it. What I think is happening is: number one, the electrification of the automobile is happening at an earlier and steeper pace than we originally anticipated; two, the usage of silicon carbide both in the auto and in the non-auto space, is increasing and the adoption of silicon carbide is happening at a pace that is significantly more rapid than we originally had anticipated as well; and then number three, our design win rate is higher than we originally anticipated as well.

So all of that combined is driving an increase in our revenue outlook for fiscal '26, and that has us looking at expanding capacity, as you had mentioned. I'll turn it over to Neill for a little bit additional color.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [9]

Yes. As it relates to capacity, one of the things to think about here, pretty much entirely the change in the revenue out in '26 that upward change in revenue is related to power devices. So we're seeing that just a lot higher. So that would really be revenue that would flow through the fab. And if you think about Mohawk Valley, we've talked about the Mohawk Valley being able to provide revenue between $1.5 billion and $2 billion roughly.

So even at the higher end of that range with this type of revenue profile for power devices, you're starting to get pretty heavy utilization of fab, maybe not the whole thing, depending on how much revenue we can push through it in that range. But what it says is a heavier levels of utilization out in kind of that '26 time frame, you really need to be thinking at that point of bringing something in behind it. Obviously, with the design-in numbers that we've seen, we're making a lot of commitments to our customers. I think having capacity for both the fab and then, of course, materials and substrates that support that fab is important. And I think that's well what's driving the -- not only the revenue growth, but the -- but also the requirement for the additional capacity to come online with that.

Joseph Lima Cardoso, JPMorgan Chase & Co, Research Division - Analyst [10]

Got it. Make sense, guys. And then just a quick follow-up. On the design-in that you've mentioned in the $2.6 billion this quarter, I was just curious if you could provide any more color around those numbers? How much of that was auto versus the non-auto markets in the fourth quarter? And then I was curious if you could provide any color between -- like what are you guys seeing between average deal sizes versus the volume of deals that are coming through? Is there a particular trend there that's driving these larger numbers each and every quarter? Just curious to see if you could provide any color on that.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [11]

Yes. Thanks a lot. So I'll take that one. The $2.6 billion is obviously a huge number. We're super excited about it. Somewhere on the order of around 70%, 75% of that was automotive across a wide variety of different customers. The one thing that I would note though is on the nonautomotive side of it, the design-in number that we just printed for the quarter is actually a record for nonautomotive design-ins. And it's actually 2x where we were just in the first quarter of this year for nonautomotive design-ins in our power business as an example. So pretty good from that perspective.

On the design-ins that we've had over the last couple of years, I mentioned that over the last 3 years, we've had 2,300 design-ins were nonautomotive. So quite a few design-ins. What's actually quite astounding to me is of those design-ins, about 47% of those design-ins have transitioned from design-in to design win. And just to kind of put things in perspective, we bucket things into 3 or we categorize things into 3 different buckets. You start with the opportunity pipeline, and that's when we have an opportunity where customers say, "Hey, here's something do you want to bid on it?" It transitioned into a design-in when the customer says, we've made a decision, and we're selecting you, Wolfspeed, that typically comes in the form of a letter of award, an award letter or an MOU or something like that. And then when we transition from design-in to design win, that's when the official spec is we book as revenue 20% of the first year's estimated volume. So it's kind of a -- it's a good indication that you've transitioned from the R&D area at the customer into initial production. So the fact that 47% of those 2,300 design-ins have transitioned into production is actually really good.

And then, by the way, I just add one last piece. The opportunity pipeline, as we mentioned in our prepared remarks, is now $35 billion. I believe when we started looking at the opportunity pipeline a number of years ago, I believe it was in the $5 billion range, something like that. So we're talking about a 7x increase in the opportunity pipeline and then you heard a substantial increase in the amount of design-ins we've got, 2,300 nonautomotive design-ins. We're feeling like this storyline of there's an increasing adoption of -- with electrification and increasing adoption of silicon carbide and an increasing design-in percent for us in terms of share of market seems to be supported by the numbers we're talking about.

Operator [12]

The next question is from the line of Brian Lee with Goldman Sachs.

Brian K. Lee, Goldman Sachs Group, Inc., Research Division - VP & Senior Clean Energy Analyst [13]

Kudos on the nice execution here. A couple of questions from my end. I guess, it seems pretty evident, but I'll ask the question anyway. With the design-in activity over the past year and now the increase in fiscal '26 targets, does this imply Mohawk Valley as fully sold out, including the additional capacity for fitting out the entire factory? And then are there any implications for the fiscal '24 targets? Any upside exists to those as well?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [14]

Well, I'll take a first crack at that and then turn it over to Neill for a little bit more detail. Obviously, we made the decision to build this factory over 2.5 years ago. Actually, we made a decision about 3 years ago when we put a shovel in the ground in March of 2020. And I would say thank goodness, we stuck to our knitting on that thing and continue to process to fight the fact that we had a global pandemic happening because we were able to open that fab in April of this year, and now we've got material flowing. We'll have full flow material going through that fab by the end of this calendar quarter and then ramping initial production by the end of this fiscal year. So that all looks pretty good.

I would say the fact that we're talking about additional wafer fab capacity being required is obviously a sign that Mohawk Valley isn't going to be enough in the out years. I think we have time now still today to begin construction of a new fab, go through the normal cycle of building and ramping it and so forth and bringing it on before we get sold out of that factory. But I think the time to be making those decisions is kind of right upon us.

With that, maybe I'll give -- hand it over to Neill for a little bit more color.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [15]

Yes, I think that's absolutely right, Gregg. I think if you look at the capacity required with the change of the 2026 revenue, again, that's all power device for the most part, increase. It's going to have to run through the fab. And if you look at the capacity in the factory and like I said before, we're talking about $1.5 billion to $2 billion of revenue potentially out of Mohawk Valley even at the high end of that range, we'd be running up against some pretty heavy utilization numbers at that point.

In addition, we have seen some improvement in the Durham fab. I think that can help, as you've seen from an execution standpoint, yields and cycle times are improving. So I think that can play a role in helping us manage through that. But I think to Gregg's point, I mean, as you're looking out in time, if you think the growth rate out to the end of the decade is going to continue out beyond 2026, clearly you have to have something out beyond 2026 that need to come online or in that time frame. And that's really what we're looking at.

So I think Mohawk Valley, clearly we're seeing, as we tool the whole factory out, we kind of push it to the edges in terms of bringing tools into the factory. We'll leverage that as much as we can. But I think what that spells is we're going to need additional fab capacity even beyond Mohawk Valley and Durham. And then secondly, we're going to need additional materials factory and likely somewhere outside of our current Durham side right now, we're going to need additional capacity for a second material site. So putting all that together, that's really what we need to start coming online out in that time frame.

Brian K. Lee, Goldman Sachs Group, Inc., Research Division - VP & Senior Clean Energy Analyst [16]

Yes. Okay. That's great. And then just my second question, as you think about rolling out some new capacity expansion, the materials side, obviously, is going to be involved here. Can you speak to the LTAs on the materials here, just how they're performing? And then I know you don't have the capacity outlined here today to speak to, but do you anticipate seeing growth on long-term targets there as you roll out new capacity plans at some point? Or is this all going to be kind of vertically integrated? Just trying to get a sense for -- I know on the fiscal '26 target increase here, it's mostly device, but do you anticipate kind of seeing continued demand on the LTAs for the wafers and could that also drive some upside in the out years as you get new capacity online?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [17]

Yes, Brian. I'll take a crack at that. And then Neill, if you have any additional color, feel free to jump in. Basically, we've got very good long-term relationships and agreements with a number of different suppliers with -- or customers. We've announced those previously. And what I would say is in terms of the LTAs, we're about 50% through in terms of delivering to those LTAs. So we've got another 50% still to go in terms of volume commitments and rough value of the agreement. So there's still quite a ways to go.

The way these agreements have kind of gone is customers come in and they put a capacity request in, we make an agreement with them. And what I think has happened in nearly all of them is that the eventual demand for what they're looking for, it tends to be nicely higher than what they originally go in with. And so we've been kind of subsequently extending and expanding these agreements and adding to them and on a quarterly basis, looking at various different things. And we work with all of them very carefully to do that.

So we stay very close with them in terms of their requirements and so forth. And so I think that's kind of the way that we like work in these -- our Materials business. We're not really in the spot market side of things. We really like to have long-term agreements with them. And I think to the extent that silicon carbide continues to eat into the silicon space in the power electronics market. And as also says it goes from 5% to 20% of the power market, the demand is probably going to continue to increase. And so to that -- to the extent that, that provides an upside for us, I think that would be fantastic.

Neill, I don't know if you have any additional comments or I think we're pretty good there.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [18]

Nothing else. That's great, Gregg.

Operator [19]

The next question comes from the line of Matt Ramsay with Cowen.

Matthew D. Ramsay, Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst [20]

Neill, I wanted to start with the raise of the 2026 revenue targets. You got -- maybe you could give us a little bit of color on how you see fiscal '24 or '25 on that ramp is? What's the shape of the curve there as you guys see it? And you had laid out at the Analyst Day some gross and operating margin targets around that 2.1, how do you think about leverage into that higher number?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [21]

Thanks, Matt. So I think if you look at the model as we look out in time, one of the things you have to be aware of is, obviously, we're seeing upward pressure. We currently have over $100 million of unfulfilled demand. We're seeing improved execution in the Durham fabs or seeing better execution in our back end, you can see that in the Q1 results. And I think all of that gives us good confidence between the demand and the supply improvement as well as what we're seeing that will ship out of Mohawk Valley and some good confidence in terms of executing revenue to the kind of $1.5 billion 2024 target.

The one thing that we've got to remember here is that we're still ramping the revenue in Mohawk Valley. So I think I just want to be a little cautious in changing any of those kind of earlier period outlook at this point. But clearly, we're seeing the upswing in demand there. And as we bring on more capacity outside of '24, I think we could start to see some potential upside there as we get into '25, '26 and beyond. So I think that's more or less the trajectory that we're looking at.

Secondly, if you look at the -- and again, we'll give you more detail around this at the investor update that we do. If you look at the gross margins out in time, I think we talked about 50% gross margin out in that 2026 time frame, we're north of 50% margin. I think that looks pretty solid. I think the blueprint we have for the combination of a 200-millimeter silicon carbide wafer running through a highly automated modern Mohawk Valley fab is a really great combination for us.

And I think if you -- as we're starting to see Mohawk Valley come together, we're starting to see the cost profile and the execution on 200-millimeter. I think that looks pretty solid and we feel good about the cost capability for the business out in time. And after that, it's just really about managing OpEx trajectory to basically meet the run rate. So I think that kind of mid-20s kind of OpEx rate, maybe a little bit better than that out in time is still pretty solid. So I think overall, from a profitability standpoint, you start to see this model coming in the shape and certainly getting solid leverage out in time as you look at the model.

So I think we've got the blueprint for how all this comes together in terms of not just the trajectory of the revenue but how it needs to come together in terms of the top line and the margins. But in the meantime, we've got a lot of wood to chop. We've got a lot of work to do to bring a lot of this capacity online and meet those -- meet that steeper run rate we're seeing and kind of meet the moment in terms of the demand, so to speak.

Matthew D. Ramsay, Cowen and Company, LLC, Research Division - MD & Senior Technology Analyst [22]

Got it. As my follow-up, Gregg, I wanted to ask about sort of the industry. You're seeing a lot of your peers in silicon carbide raised their outlook and revenue forecast and whatnot along the lines of what you guys are doing. You may be a bit steeper than some of the raises out there, but everyone's kind of doing. And the one question that I get from investors as you look and you raised the 2026 revenue target today, what -- how firm are the programs? How firm are the commitments? Are there sort of LTAs in place with customers that give you firm backing on that revenue? I'm just trying to get an idea from -- just some perspective on sort of the hard visibility on order commitments from the customers to back up those numbers because that's the question that I get from sort of investors and your shareholders pretty often.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [23]

Yes. Well, let me kind of frame up first just from an industry perspective. I think the adoption of silicon carbide is happening in a substantially steeper rate than anyone would have anticipated. So one of the questions we get a lot is, what is your share? And it's almost impossible to calculate because the denominator or the TAM keeps changing rapidly because more and more customers are moving from silicon-based systems to silicon carbide-based systems predominantly driven by this need to conserve energy, to use energy more efficiently and so forth.

And across a wide range of applications you're just seeing customers say, I've got to make my product more efficient. This has been amplified by the fact that there's been a silicon shortage for the last 2 years. So we have a lot of customers that have said, I can't get silicon. So why don't I take the opportunity to have our designers redesign the systems and move to a more efficient silicon carbide-based system, where you've got a company out there that has stuck a shovel in the ground 2.5 years ago and is now bringing our capacity today. So I think all of that is kind of the backdrop to that.

The second thing that I would say is I've been in this industry for a long time, and it works kind of the same way across the industry over these years. You start with opportunity pipelines. Customers are looking at doing various different things, and they put out bids and so forth, then they make a decision as to who they're going to use. That, in our vernacular turns into a design-in and the customer says, we've awarded Wolfspeed, a design-in and you're going to be the supplier of choice for this application and then it moves from design-in to design win.

The fact that we've had 2,300 design-ins convert to design win gives me a lot of confidence of that order book, so to speak. Now we've layered on top of that some assurance of supply programs that we've announced with a number of different companies. This is where customers put some upfront money that -- in kind of simple terms, kind of guarantees them the capacity corridor for that upfront payment. We've nailed -- we've got a number of those that we've signed as well with customers.

So I feel pretty good about it. I think the -- all of those things combined, whether it's the opportunity pipeline going up 7x over the last number of years to $35 billion, the 2,300 nonautomotive design-ins that we've had, 47% of those going from design-in into design win, the Wolfspeed assurance of supply program, which adds upfront money kind of put your money where your mouth is from a customer perspective gives me very good confidence that we feel very good about our ability to increase this number.

And I would just want to amplify one last thing. The fact that a number of different companies are increasing their outlook for silicon carbide, I think is -- it's kind of a repeat of what I just said, but I think I want to amplify it is really a sign of the adoption of silicon carbide and the increasing TAM versus a share take or what have you. I think we are so early in the conversion from silicon to silicon carbide that the denominator is growing at such a rapid rate, but it's almost impossible for anybody to do a calculation of what their share of market is. Does that help?

Operator [24]

Our next question is from the line of Colin Rusch with Oppenheimer.

Colin William Rusch, Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst [25]

Given the landscape that you're talking about, can you talk a little bit about the optimal customer base and composition of that customer base as well as your pricing strategy as you think about addressing some more diverse needs that potentially would carry a little bit higher ASP?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [26]

Yes. So we've had -- obviously, the fact that we had record design-ins last quarter in the nonautomotive more diversified customer base is really good. Those tend to be smaller individual projects and price elasticity being what it is. Smaller projects tend to have higher ASPs.

Here, I just have another nod to Arrow, who's been a super partner of ours over the last 5 years or so where they've done a phenomenal job of really evangelizing the market for silicon carbide and to a large extent, that 2,300 design-ins we have are largely at the best of the partnership that we have with Arrow. So thanks again for the Arrow team for doing a fantastic job there. I think that partnership is here to stay and is going to last a long time. So I would say that that's pretty strong.

The one thing that I would say is we've been pretty direct with our customers, especially on large opportunities where if they've made a choice to go with somebody else as a primary source, we'd love to be that primary source and that's an area that we're obviously focused on, but we basically don't have the bandwidth right now to be an alternative source for any of these opportunities.

So basically, what we're telling our customers is, we really want to focus on being the primary source. We've got capacity that's in limited supply, and we want to focus our capacity where customers have kind of gone and put a lot of the chips on the table on our side of things and chasing something down as an alternate source, whether that's through pricing or what have you is something that's not really in our quiver right now.

Colin William Rusch, Oppenheimer & Co. Inc., Research Division - MD & Senior Analyst [27]

And then just around the equipment ordering and lead time deposits things like that, can you just give us a sense of the cadence of that through the balance of this year as you build out the incremental capacity?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [28]

Yes. So we've been -- as you know, we started the fab in New York a couple of years ago -- over 2 years ago, and we were able to get orders in very early, long lead time type equipment and things like that. And we've been continuing to get ahead of this. I talked about it earlier, the thinking about additional capacity and they continue to stay as far ahead of this as we can and manage the lead times. I think clearly, equipment lead times continue to be extended, but that's all kind of baked into the kind of plans that we have and we've been managing that pretty effectively.

Operator [29]

The next question is from the line of Ashley McCurry with Wells Fargo.

Ashley McCurry, Wells Fargo Securities, LLC, Research Division - Associate Equity Analyst [30]

This is Ashley McCurry on for Gary Mobley. Curious what the pricing environment has been like your Materials business, given the shortage of supply? And are any of the long-term supply agreements with customers sticking with the prenegotiated pricing terms? Or is there additional pricing power there in your Materials business?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [31]

Well, we've had a very consistent strategy on our long-term agreements where we don't really want to play in the spot market, so to speak. So we sit down with customers on those long-term agreements. We look at what their demand is going to be over the next, call it, half a decade or so. We look at what kind of capacity they would like to secure from us, there's kind of an upfront capacity reservation sort of fee associated with that and then we have negotiated pricing with them over the volume that they have.

We stick with that pricing. We've stuck with that pricing through the entire period here. So we committed to something, and we stuck with it. And that's been our policy through this through this entire time that I've been at the company. So in terms of pricing power per se, we stick with the long-term agreement pricing that we've got in place. And to the extent that the customers continue buying and doing more long-term agreements, we would have, again, new long-term agreements that we put in place that would have pricing associated with it, and we'd stick with that pricing as well.

Operator [32]

The next question is from the line of Ben Harwood with New Street Research.

Benjamin Harwood, New Street Research LLP - Research Analyst [33]

So you mentioned that your capacity constrained on your Materials business today. What gives you the confidence that you can ramp the supply of your substrate to meet the 30% to 40% incremental demand just given the inherent complexities with ramping up substrate capacity? And then do you think you'll still be constrained on the 2026 time frame, just given how much demand is accelerating?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [34]

Well, Ben, it's a great question because ramping capacity and materials is not for the faint of heart. It is a -- silicon carbide is a very tricky material. It's something that is very finicky, so to speak. But the good news is we've got 35 years of experience in doing just that, and we've also got 5 years of substantial expansion that we've just delivered on.

So we feel very good about it. We don't look at it and say, hey, this is a short cut and don't worry, everything is easy because it's not. But what I would tell you, Ben, is that with the scientists we have in place, the engineering teams that we've got place to manufacturing folks and so forth. When we run into the normal sets of challenges that you have when you ramp capacity, we've got a team that knows how to blow through those challenges and deliver a good result.

So with that, we've got a lot of high confidence that capacity ramp will be something that we can handle. Like I said, it's definitely not for the faint of heart. It comes with a lot of challenges. I think I asked one of our manufacturing guys and materials what keeps them up at night, and I think his answer was yes. It's just -- there's just a lot of challenges when you're ramping materials, but the team has 35 years of experience. We've got a ton of people that we can call on when we meet those different challenges. And I think the team has done a pretty good job of doing that to date.

So I guess, longer term, we know that we need to expand our Materials business. We've already been doing that here on campus in the Durham facility. We're looking at a new facility that we hope we can make some decision on kind of post-haste here. We've got a lot of discussions going on with a number of different states and local authorities in terms of what that could look like from an incentive perspective. We're super excited that The CHIPS Act was passed the last week or so because materials is definitely in that Act as well.

So all of those things put together, what I would say is the combination of years of experience, the fact that we've demonstrated substantial capacity ramp already to date and the fact that there looks to be some pretty good government incentives to help us do that gives us confidence in that, Ben.

Operator [35]

Next question comes from the line of Edward Snyder with Charter Equity Research.

Edward Francis Snyder, Charter Equity Research - Managing Director and Principal Analyst [36]

I was hoping maybe, Neill, you could provide some color on how the shake down the Mohawk Valley preceding? Is it at below or in line with your expectations for this point? And I know you're running 8-inch through there, which is a first. And I know it's not a high volume yet, but any issues with handling those wafers, given how brittle they are the much larger diameters, much more sense, I'm sure and all trouble you've had with breakage in Durham. I was just wondering what your first experience with 8-inch in Mohawk and then I had a follow-up.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [37]

With the automated factory, we're seeing better results in handling and those types of things. Although we're still working through a lot of, I think, what you call the kind of early kind of setup phases in the factory. So there are still some annual processes as we kind of manage through that right now. But I would say things are kind of moving along more or less as you would expect with a new fab. I mean, we're running our first lots to the fab right now. We're learning. We're tweaking the process, and we take it through each step. And as we work through those steps, we'll continue to manage through that until we get kind of the capacity up and running fully and gets through qualification.

But I think it's kind of the normal 2 steps forward 1 step back as you kind of worked through the factory. I'd expect some ups and downs here between now and kind of when we ramp the factory at the end of the year, but kind of in line with what I just said. So I don't think there's any expectations, as Gregg said, we want to hit a bump in the road here or there, but I do think we're still on track for ramping revenue and having that revenue ramp in the back half of the fiscal year.

Edward Francis Snyder, Charter Equity Research - Managing Director and Principal Analyst [38]

And then what quarter could we expect the material for Mohawk -- the revenue from Mohawk to be material? And then also, you mentioned a new material factory with a ground up, a new ground-up material factory in Durham have a significantly different margin or throughput profile than your existing facility.

And if I could squeeze one more in for Gregg. You put out a good revenue number today. Maybe give us a glimpse. I know you said 70%, 75% of design-ins are automotive. Generally, what's the breakdown in your current revenue number between automotive and nonautomotive, if you could?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [39]

I'll take the first part, maybe there, and then, Gregg, if you want to maybe follow up on the other piece there. So in terms of the revenue ramp timing, I think it's consistent with what we said kind of back half of the year, we'll start to see the revenue ramp. Obviously, as kind of goes on from 3Q to 4Q into '24, we'll see that kind of ramp more rapidly as we bring the fab up, but kind of in line what we've been expecting in line with kind of some of the numbers we talked about recently.

As it relates to new materials, it's probably too early to be talking in detail about that. We've been able to give you some update in November. But clearly, with the scale advantage that we get up a potential new facility and really primarily being used for 200-millimeter wafers for Mohawk Valley and for potentially a new fab, we feel good about what that would translate into from a cost perspective.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [40]

And then, Ed, from a revenue perspective, and Neill touch me if I got that wrong, definitely from a device perspective, greater than half of our revenue is nonautomotive and it's probably more like on the 75% area. Neill, is that about, right?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [41]

That's about right. Yes.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [42]

Yes. So that's about -- so we have a substantial nonautomotive business right now. And if you look at -- Neill talked about, we've got $100 million worth of unfulfilled demand. A lot of that is that nonautomotive base. So it's kind of the typical nature of the nonautomotive folks tend to design-in go from opportunity pipeline to design-in and design win at a pretty fast pace. And as I mentioned, the 2,300 nonautomotive design-in, 47% of them have already gone into initial volume production. So that's kind of normal. I think over the next couple of years, you'll see automotive step up as various different customers start ramping. And so we'll obviously go higher than that from an automotive perspective over the next couple of years. But right now, it's more like 75%, if I got the number right, is nonautomotive.

Operator [43]

Our next question comes from the line of Vivek Arya with Bank of America.

Vivek Arya, BofA Securities, Research Division - MD in Equity Research & Research Analyst [44]

Gregg, you mentioned some industry analysts projecting demand to grow 4x or so over the next several years. I'm curious, what's your sense of industry capacity growth in the same time frame? Because we hear of a lot of incremental capacity coming online from several U.S. and Korean and Japanese and Chinese competitors. How do you think that supply-demand balance works out, not this year or next year, but in the outer years?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [45]

I can -- my viewpoint is that the growth of this market for silicon carbide is probably going to outstrip the demand for some time to come. And I've actually seen that echoed in the market -- in some analyst reports as well. And that's just simply because the ability to bring on capacity and ramp, for instance, as I was talking about the materials capacity. And it's a tough thing to ramp.

I will tell you that when we talk to customers, it's one of the things that's definitely on their mind. And what they look at when they come and see us, they see a brand-new factory that we made a decision almost 3 years ago to build, and we started building it 2.5 years ago and it's coming online now. If you drive on our campus right now, you'll see construction and repurposing of office space and various different other spaces on campus to materials, factories and crystal growth and epi and wafering and all of that kind of stuff. They see that and they go, okay, you guys are putting kind of your money where your mouth is. And as I mentioned in the prepared remarks, a lot of times, that's the last thing that happens prior to a customer signing a contract with us or doing a deal with us. They come and visit and they go, Okay, I want to make sure you guys are actually doing what you say you're doing in terms of capacity expansion. And as we get a little bit closer to announcing a new materials factory and we start nailing that down, I think that will also give customers sort of a breadth of fresh air as well.

And again, I'd just emphasize, this materials factory capacity expansion, not for the faint of heart. I think customers see that we kind of know what we're doing in terms of solving those problems. And I think they feel pretty good about that.

Vivek Arya, BofA Securities, Research Division - MD in Equity Research & Research Analyst [46]

And so my follow-up, Neill, on gross margin. So as you start selling product from Mohawk Valley, I believe you said in the first half of next calendar year, what happens to gross margins? Do they continue to move up or do you think that they could perhaps take a step down first, given that maybe depreciation or other things? Just what are kind of the puts and takes of gross margins as you head into the first half of next year?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [47]

Yes. I think it's pretty consistent with what -- kind of how we've laid it out, Vivek. I think if you look at the back half of this year, we have revenue coming out of Mohawk Valley, we will see kind of modest improvement in the margins maybe in the back half or further back half of this kind of calendar year. As you get into next year, we start writing revenue to Mohawk Valley. We'd see the margins start to pick up and you just kind of see that in the back half of the year.

We've obviously -- we have some start-up costs that we pulled out of the non-GAAP numbers, you see that start to decline over time as we start to ramp it fast. So I think those are the dynamics. So the fab just has more wafer starts to let more capacity, we see the margins go up and we also see those start-up costs start to shrink over time.

Operator [48]

Our next question is from the line of Amanda Scarnati with Citi.

Amanda Marie Scarnati, Citigroup Inc., Research Division - VP & Semiconductor Consumable Analyst [49]

Quickly on customers for the year, any 10% customers? Any shift in how your customers have been ordering or ability to meet customer demand in the fiscal year?

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [50]

I'll maybe kick it off and then Neill, if you want to give a little bit more color. Basically, customer shipments right now are really dependent on improvement out of our Durham manufacturing facilities. And our team has done a really good job of kind of really looking at Durham in a completely different way in terms of a manufacturing facility. [Missy] and Rex and the team have done a fantastic job there. And we've now seen kind of a turning of the corner in terms of yields starting to move in the right direction. Cycle time is coming into the right -- starting to come down pretty nicely, I might add.

We still have a long ways to go, and there's still a pretty huge opportunity there. But I would say that things are starting to feel a little bit better from a near-term perspective. That doesn't mean -- we still have long lead times. We still have customers that want more than we can deliver, as Neill mentioned, about the $100 million of unfulfilled demand. But definitely, our ability to be more predictable in terms of shipping product to customers improves when cycle times come down, our ability to ship better on-time improves when our yields are starting to improve and we've seen some nice turn in that activity. And I really give a lot of credit to the manufacturing organization, Rex, [Missy] the whole team that are associated with that.

And I add to that, our back-end activity and what's been happening with our assembly test partners and so forth. We've got some new folks in there, Joe, and Jeff and the team doing a really nice job of improving that whole execution as well. So I think for the near term, it's really going to be a story of improving that. I think we have fabs that are not perfect, but the teams are doing a good job of getting more out of them. Still a lot to do here and a lot more to come, but nice to see some improvement there.

And then Neill, in terms of 10% customers, maybe I can turn it over to you on that.

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [51]

Yes, not so much of the 10% customers. But I think one thing to be aware of, we're still seeing, I think, pretty strong demand across the business. People look at the channel, the inventory numbers remained low. The turns remain higher than the model that we'd like to see. We're managing through that. And then I think over time, what you'll see as more and more automotive customers come online, but as Gregg mentioned earlier, we'll start to see that transition.

So I don't think there's really a let up in the -- just in that kind of demand and supply disconnect we're going to see over time. Some of that could shift a little bit. We'll see more automotive customers, obviously come on over time as we manage through that. But I guess, I think the demand continues to be relatively broad-based as it relates to some of the supply challenges we're having.

Amanda Marie Scarnati, Citigroup Inc., Research Division - VP & Semiconductor Consumable Analyst [52]

And then just a quick follow-up on this. When you look at the upside that we saw in the June quarter and the guidance September versus where The Street was looking, can you talk about where that upside came from? Was it just a matter of being able to squeeze more out of Durham or within a greater demand profile that you saw?

Neill P. Reynolds, Wolfspeed, Inc. - Executive VP & CFO [53]

It's really about -- I guess, our revenue is really a function of supply more than with demand. So in powered devices, I think we talked about materials and capacity constraint, but primarily powered devices that was really driving that, and that's, I think, directly related to better execution in the Durham fab and better execution in the back-end operations and with the team we've got there and that will be kind of how it kind of plays out, I think, going forward.

Operator [54]

Thank you. That concludes the question-and-answer session. I will now hand the call over to Gregg Lowe for closing remarks.

Gregg A. Lowe, Wolfspeed, Inc. - President, CEO & Director [55]

Well, thanks a lot, everybody, for participating today and being with us. We look forward to visiting you next quarter at our next earnings release and then later on in the year at our next Investor Day. Thank you very much, and have a great evening.

Operator [56]

That concludes today's call. Thank you for your participation. You may now disconnect your lines.