

# **Sono-Tek Corporation (SOTK) Q4 2024 Earnings Call Transcript**

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**Body**

Sono-Tek Corporation (SOTK)

Q4 2024 Results Conference Call

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Company Participants

Kirin Smith - PCG Advisory

Dr. Chris Coccio - Chairman, Chief Executive Officer

Steve Harshbarger - President, Chief Operating Officer

Steve Bagley - Chief Financial Officer

Conference Call Participants

Bill Nicklin - Circle N Advisors

Dick Ryan - Oak Ridge Financial

Presentation

Operator

Good day, and welcome to the Sono-Tek Year-end Fiscal Year 2024 Earnings Conference Call. [Operator Instructions]. Please note this event is being recorded.

I would now like to turn the conference over to Mr. Kirin Smith with PCG Advisory. Please go ahead, sir.

Kirin Smith

Thank you, operator, and thank you, everyone, for joining us today. Sono-Tek released their fourth quarter and full year of fiscal 2024 results at 7:00 a.m. Eastern Time this morning. If you do not have a copy of the release, please go to the company's website at sono-tek.com and click the press release, news tab in the Investors section. The product to market and geography sales tables on the last page of the release will be part of today's discussion. With me on the call today are Dr. Chris Coccio, Sono-Tek's Executive Chairman; Steve Harshbarger, CEO and President; and Steve Bagley, Chief Financial Officer.

Before turning the call over to management, I would like to make the following remarks concerning forward-looking statements. Please note that various remarks that may be made on this conference call about future expectations, plans and prospects for the company constitute forward-looking statements for the purposes of safe harbor provisions under the Private Securities Litigation Reform Act of 1995. Actual results may vary materially from those indicated by these forward-looking statements as a result of various important factors, including those discussed in the company's filings with the SEC. The company assumes no obligation to update the information contained in this conference call.

I would now like to turn the call over to Dr. Chris Coccio, Executive Chairman of Sono-Tek. Chris, please go ahead.

Dr. Chris Coccio

Good morning, and thank you, Kirin, and thank you, everyone, for joining us. Today, we're going to discuss our fourth quarter and full year of fiscal year 2024 results that were released this morning before the market opened. I will begin with some opening remarks, and then Steve Bagley, our Chief Financial Officer, will provide a financial review. Steve Harshbarger, our new CEO and President, will then go through the business and operational results. Following his comments, we'll open the call for your questions. As a reminder, Sono-Tek currently holds 2 earnings calls per fiscal year. This is our full year call for the 12 months ended February 29, 2024. Our next earnings call will be for the 6 months of fiscal 2025, and that will be in October of 2024. As many of you already know, and for those that are new to Sono-Tek, the company developed a revolutionary method of applying precision thin film coating several decades ago. This proprietary technology involves the use of our advanced high-frequency ultrasonic muscles, and they are incorporated into specialty motion control systems.

They are able to achieve uniform micron and nano thin coatings onto our customers' products. Our solutions offer dramatic savings in the raw material, water and energy usage and they are environmentally friendly. The principal advantage though of our ultrasonic coating system is the ability to apply precision thin films and these are vitally important in today's world with thousands of products and micro components now requiring a functional or protective coating. The strategic shift that we made several years ago to offer more complete solutions has meaningfully broadened our addressable market, and that's resulted in significant growth in our average unit selling prices. Our larger machines now commonly sell for over $300,000 and system prices can reach over $1 million, and that can significantly impact quarterly revenue. This happened in the second quarter of this past year as supply chain constraints finally subsided, and the trend has continued through the end of our fiscal year.

I'm pleased to announce that this morning, we reported record-breaking revenue for the full year, over 30% higher than a year ago and record-breaking backlog for the year ahead. This past year, we also shipped 2 of our newly developed large platform sophisticated production lines that together valued nearly $1.9 million and sales reached $19.7 million up from $15.1 million or a 31% increase year-over-year. This is also our highest yield level ever. In addition to the record sales and backlog, backlog also increased to $9.1 million, a 7% increase compared to backlog on the previous year. This is in addition to last year's substantial backlog increase over its previous year, new platforms and also good to our focus on opening new markets for our unique technology. This includes 3 main areas that have very strong global growth we've talked about before. Microelectronics and semiconductors, medical devices and alternative or clean energy.

We serve these sectors for many years and are continuing to advance our products and system solutions in these areas for the latest generation technology. Now clean energy, including fuel cells, green hydrogen generation, carbon capture and advanced solar cells, our markets we've been providing R&D and pilot lines for close to a decade, we're now experiencing a significant success with these customers as they transition to production scale systems. As they have done prior R&D and process with us. And so that has allowed them to move up to scale now. Over the past year, we've announced over $2.1 million from large orders from repeat customers transition into high-volume production systems. This is primarily from the electronic, microelectronics alternative energy medical and industrial sectors.

Also in the first half of the year, we experienced our largest order valued at $2.19 million. And that is also the largest order from the clean energy sector to date. These orders are the first of our deliberate shift in strategy to large customized systems. Our proprietary ultrasonic atomization technology where Sono-Tek began more than 40 years ago remains the heart of all of our systems. We've been able to achieve this shift to our own R&D work, which we consider to be our lifeblood. We attribute the increase in sales, both on the past year and to come a direct result of our investments in R&D with a strong focus on product expansion. And to further support our growth and expansion for these large platform custom engineered systems, we've increased our head count by approximately 15% this year with a strong focus on personnel to enhance our IT department.

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We made continued investments into the front end of the organization to open new markets and applications. We want to ensure that we stay fully staffing in front of our needs. We're excited that these investments have begun to pay off. Our outlook for growth has been greatly enhanced by the early success of our strategy to shift to larger systems with multiple and repeat orders. Looking ahead to the remainder of this year, we're confident that shipments of new orders will continue to positively impact sales. We're guiding towards a strong first quarter fiscal year 2025 of revenue growth above 30%, and that's against a weaker first quarter last year. We're also guiding towards an 8% to 10% year-over-year revenue growth for fiscal year 2025 and ending February 28, 2025. Despite strong quarterly comparisons and record shipments in 2024. Thank you, and I'll now turn the call over to Steve Bagley who will provide additional details on our financial results. Steve?

Steve Bagley

Thank you, Chris, and good morning, everyone. For the full year of fiscal 2024, net sales increased 31% to $19.7 million from $15.1 million reported for the full year of fiscal 2023. The Steve Harshbarger will provide more detail with respect to sales. Geographically, in fiscal 2024, approximately 55% of our sales were to U.S. and Canadian customers. This is compared to 45% in fiscal 2023. We continue to record strong sales from the U.S. and Canada, growing 60% for fiscal 2024. This achievement can be attributed to various factors, including proactive government initiatives such as the CHIPS Act and the Inflation Reduction Act. Additionally, the ongoing trend of onshoring for high-technology products has significantly bolstered our sales performance in these regions.

Gross profit increased $2.2 million or 29% to $9.8 million for fiscal 2024 compared with $7.7 million in fiscal 2023. Gross profit margin decreased to 50% for fiscal 2024 compared to 50.8% for fiscal 2023. Overall, the gross profit margin on our products remained relatively consistent when compared to fiscal 2023. In fiscal 2024, the decrease in gross profit margin is due to increased indirect production salaries, an increase in transportation expenses, increased installation costs and increased warranty costs. In fiscal 2023, our warranty costs were lower than expected. Warranty costs will fluctuate year-to-year and our function of product mix. In addition, our gross profit margin decreased due to the reallocation and recharacterization of specific labor expenses from the engineering department to cost of goods sold. Operating expenses increased 24% to $8.7 million compared to $7 million in the prior year.

As Chris mentioned earlier, technical headcount increased approximately 15% across several areas. Research and product development costs increased 34% to $2.9 million primarily due to increased headcount, salaries and the higher costs of research and development, materials and supplies, all of which are used in the development of new products for new and existing markets. Marketing and selling expenses increased 17% to $3.7 million for the year. The increase was due to increased headcount, salaries, commissions, travel and trade show expenses and these were partially offset by a decrease in insurance expenses. General and administrative expenses increased 26% to $2.1 million primarily due to increased salaries and professional fees, partially offset by a decrease in stock-based compensation expense. In addition, in the fourth quarter of fiscal 2024 we were notified by the state of California that we were required to collect sales tax on our shipments to California.

We are in the process of reviewing our sales to California, and on a preliminary basis of our sales to California since April 2019, we have recorded an accrual of $138,000 for estimated sales tax, penalties and interest that we may be required to remit to the State of California. Our operating income increased $499,000 or 73% to $1.2 million in fiscal 2024 compared with $683,000 for the prior fiscal year. In fiscal 2024, the increase in operating income is a result of an increase in revenue and gross profit, offset by an increase in operating expenses. Operating margin for fiscal 2024 increased to 6% compared with 5% in the prior fiscal year. As a percentage of net sales, operating expenses decreased 200 basis points to 44% in fiscal 2024 and compared with 46% in fiscal 2023.

Interest and dividend income increased $390,000 to $530,000 for fiscal 2024 as compared with $140,000 for the prior fiscal year. The increase in interest and dividend income is due to the reallocation of our investments into U.S. treasury securities and certificates of deposit combined with the increase in current interest rates. Our present investment policy is to invest excess cash in a highly liquid low-risk U.S. treasury securities and certificates of deposit. At February 29, 2024, the majority of our holdings are rated at or above investment grade. We recorded an income tax expense of $303,000 for fiscal 2024 compared with $154,000 for the prior fiscal year. The increase in income tax expense in fiscal 2024 is due to the increase in income before income taxes offset by the application of available research and development tax credits.

Net income increased $805,000 or 127% to $1.4 million for fiscal 2024 compared with $636,000 for the prior fiscal year. The increase in net income in fiscal 2024 is a result of an increase in operating income and interest and dividend income, partially offset by an increase in operating expenses and an increase in income tax expense. We've continued to add to our cash holdings, cash, cash equivalents and marketable securities at February 29, 2024, were $12 million, over $400,000 higher than at the end of our last fiscal year and we continue to carry no debt on our balance sheet. CapEx for the full year was $800,000, approximately $350,000 of this total was allocated towards substantial enhancements in our IT infrastructure, focusing on network upgrades, cybersecurity fortification and expanding server capacity. Additionally, investments were made in the expansion of the Sono-Tek facility to support current and projected growth initiatives. We expect to invest approximately $450,000 in new equipment and facility upgrades in our current fiscal year.

And now I'll turn the call over to Steve Harshbarger, CEO and President for an operational review of the full year. Steve?

Steve Harshbarger

Thanks, Steve, and good morning, everybody. Thanks for joining us today. As many of you know, Sono-Tek breaks down sales in 3 ways: by markets, by products and by geography and my comments will flow in that order. Please see the short tables on the last page of our earnings press release for all those details. As Chris mentioned, for the full year, we reported net sales of $19.7 million, up 31% annually. This was ahead of our midyear expectations of a minimum of 25% annual revenue growth. Our growth strategies are gaining significant momentum as we guide our customers from our R&D and pilot line machines towards our complex and large-scale production systems with elevated average selling prices or ASPs ranging from $600,000 to well over $1 million. This represents an approximate fourfold ASP increase compared to our historical production and pilot volume systems.

In FY 2024, we achieved a milestone by successfully delivering and installing 2 high-volume high ASP production systems, the highest number in a single year in our company's history significantly bolstering our FY 2024 revenue. The record growth was also propelled by heightened demand of our multi-access coating systems, which are commonly used in the clean energy sector showing an increase of $3.3 million, which is a 48% increase totaling over $10 million for the year. Integrated coating system sales also accelerated by 159% or $1.8 million to $2.9 million due to continued success of our newly developed flow glass coating platform. In addition, integrated coating systems was positively impacted by the debut and delivery of our first PLC-based system, which was developed under an initiative that we call project Altair.

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This first machine delivered under project Altair was directed to a key strategic partner within the solar market and we could not have captured this order without the significant investments we made into expanding our programming and controls engineering capabilities. In FY 2024, we were finally able to break out of last year's supply chain issues and meaningfully increased shipments as a result of the intense efforts to broaden and deepen our supply chain including by increasing our own vertical integration with the introduction of NovoCoat, a multi-access product line. This is a process that's ongoing, and we continue to build and broaden our in-house manufacturing capabilities. Following uncharacteristically high revenue for printed circuit board or PCB flexing systems for fiscal year ended February 28, 2023. PCB flexing sales dipped by $455,000 for fiscal 2024.

Over the years, we've installed thousands of our spray fluxing machines and our customers continue to upgrade their equipment to their latest model spray fluxers as we advance the technology. So although there was a dip this year, we have a large customer base for these systems and our quoting activities remain strong. Also, sales to our OEM PCB customers that integrate our ultrasonic novels into their own spray fluxes declined, causing OEM sales to decrease by $611,000. We believe the PCB spray fluxer market has slowed and returned to what was closer to our historical norms. The dip in OEM sales was largely mitigated by a 17 annual percent increase of over $640,000 in spare parts and service-related revenue which is a growing revenue stream, and it's categorized in the other product category. Sales spare parts packages and other service-related contracts that support our large platform, highest ASP production lines are growing in importance as we place more and more machines in the field.

In fact, we believe these follow-on service-related packages could reach as much as 10% to 15% of the total order value on our high ASP production machines. Now we'll turn to the sales by market. Fiscal 2024 was highlighted by increasing sales to the alternative clean energy market, which grew by 96% and were positively impacted by the growing number of Sono-Tek customers transitioning from our R&D machines to production scale systems that carry much higher average selling prices or ASPs again. Many of our recent large contract announcements are from this area. And these systems are commonly used in the manufacturing of critical membranes for carbon capture, green hydrogen generation, fuel cells and advanced solar cell applications. Sales this year included shipment of a $1.1 million system delivered to a customer in the carbon capture arena and a $766,000 shipment of a production scale system to a customer in advanced solar market with 3 additional systems valued at 730,000 each to the same customer that are in the backlog and scheduled to ship in fiscal 2025.

Electronics market revenue experienced a modest uptick in FY 2024. This growth was primarily fueled by a notable $377,000 increase in the semiconductor market segment. However, this positive momentum was partially tempered by a $455,000 decrease in sales of our PCB spray fluxers, as I mentioned earlier. Medical sales rebounded strongly in the second half of FY 2024 and ended with 13% growth for fiscal 2024. This was driven by several large multinational companies taking delivery of specialty implantable medical device coating systems during the year. Industrial sales remained very strong, showing growth of 48% for fiscal 2024 and influenced by shipment of 2 next-gen flow glass coating systems totaling approximately $700,000, and the last 2 machines of a multisystem order to a U.S.-based customer for $432,000.

By geography, in fiscal 2024, approximately 55% of our sales were in U.S. and Canadian customers. This is compared to 45% in fiscal 2023. We continue to record strong sales from the U.S. and Canada, growing 60% for fiscal 2024. This achievement can be attributed to various factors, including proactive government initiatives such as the CHIPS Act and Inflation Reduction Act. Additionally, the ongoing trend of onshoring for high-technology products has significantly bolstered our sales performance in these regions. In fiscal 2024, EMEA sales experienced a notable surge marking a 20% increase equivalent to $885,000. This upward trajectory was positively influenced by robust sales to Ireland, where we secured and shipped 2 unique machines catering to separate customers within the medical sectors.

These systems are designed for specialized coatings of unique implantable devices, really reflecting our commitment to innovation in thin film coatings on next-gen health care devices. Furthermore, Germany had continued sales growth of our electrolysis membrane coating systems impacted by government initiatives aimed at fostering expansion of that clean energy sector. Asia sales remained flat for fiscal 2024. While robust sales from the clean energy sector were shown from India, South Korea and Singapore, this was offset by China sales continuing a downward trajectory in this uncertain economic landscape prevailing in the region. In Latin America, we encountered a discernible decline of 21%, representing a reduction of $325,000. This dip can be largely attributed to the sluggish performance in the spray fluxer segment and this market is commonly associated with customers in that region base.

Our backlog continued its over growth trend. And on February 29, it stood at $9.1 million this is in addition to last year's substantial backlog increase over the previous year and reflects the increasing order activity from the clean energy sector in particular. Customer deposits reached $3.4 million at February 29, reflecting the continued receipt of the large new orders in our backlog. We generally require deposits of 50% or greater on orders valued at several hundred thousand dollars. As we look forward, we're excited to reach another key milestone and record with 4 high-volume production, high ASP systems scheduled for delivery in fiscal year 2025 with expectations of continued acceleration for additional high ASP orders entering our FY 2025 backlog for delivery in both the current fiscal year and fiscal year 2026. In closing, our outlook is strong, and we are guiding to strong first quarter FY 2025 growth above 30% against, of course, a weaker first quarter last year.

Additionally, we're anticipating a good fiscal 2025 with 8% to 7% year-over-year growth projected for the full fiscal year ending February 28, 2025 and even with quarterly comparisons of record shipments for the year FY 2024. And we believe the investments we're making in our strategic growth initiatives will position us for higher revenue and increasing profits in the coming years. I'll now turn the call back over to the operator to open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions]. And our first question will come from Mr. Bill Nicklin with Circle N Advisors.

Bill Nicklin

I do have some broader questions about kind of the characteristics of your business that will likely shape the future outcomes for the company and for its shareholders. The first one deals with kind of your competitive position -- and I'm trying to get an understanding of what's been the trajectory of your competitive position over the last few years relative to who you're competing against the 5, et cetera.

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Steve Harshbarger

This is Steve here, Bill. Yes, it's an interesting question because it was just last week, we actually just finished a competitive analysis on the ultrasonic coating market. It takes us a while to do these because most of the companies that are our competitors, many of them are not public. So it's been about 4 years, I think, since we've done our last thorough analysis. And by the way, so this analysis will be part of the new company presentation that we're going to be posting on our website sometime next month. But I can give you kind of a quick snapshot of our findings, looking specifically at the ultrasonic coating marketplace today, the total pie is small, of course, right? It's a little over $40 million in revenue, up about 30% from where it was $30 million -- to $30 million from where it was 4 years ago.

And I should stress that, that $40 million is the existing total sales of ultrasonic coating machines, not the total addressable market for thin-film coating equipment where Sono-Tek is focused on capturing a larger chunk of the market, of course that's like an $8 billion market. What's very interesting is that 4 years ago, back in with COVID our most significant direct ultrasonic competitors were 2 decent-sized U.S. competitors, one European competitor. They were, I think, out of Spain followed by this large group of Sono-Tek copy companies from China and South Korea. Now that's all changed. We believe our 3 significant U.S. and European direct competitors have now all substantially shrunk in size or actually even going on the business in one case, while the China competitors have grown in size and numbers.

So one might ask, why did our U.S. competitors and European competitors shrink or close instead of growing like Sono-Tek did. Well, when you dive into it, it's actually very easy to see what has happened China got better at making very basic ultrasonic coating kits that were -- that while they are sophisticated in nature, are still relatively simple to cut and copy type of machines, I would describe it as. And while they're not worth the quality of the U.S. and European main competition, they're becoming close enough to maybe to be acceptable and this shouldn't be surprising. Making simple repeat vanilla products is what China has historically been good at. Our U.S. and European competitors continue to focus on making these relatively simple cut and copy machines. It's what worked for them historically, and they didn't recognize the urgency to change as the China gap closed in quality and they really crush them on price.

So they failed to adapt to what China was a good at, which in China is what they're not good at is highly complex, highly customized large systems with very sophisticated application engineering knowledge. And this is where Sono-Tek heavily invested with significant development on these advanced coating platforms that are -- I mean, they're really nearly impossible to copy. China can't keep up with us on these advanced machines. And even if they could, they'd have not near enough application knowledge to implement them. So that kind of gives you a little bit of the -- how it's migrated over time.

Bill Nicklin

Thanks. It's occurred to me watching you folks over the years that your customers share a lot of their process knowledge as you make machines to -- that will address those needs. It would seem to me that if I was out looking for a machine. The last thing I want to do is give my process knowledge to the Chinese. Do you have any thoughts on that? Or would you rather not comment.

Steve Harshbarger

I mean you're, of course, correct. If you're like an Apple or a Google or a Meta or a Tesla or some advanced technology company, do you really want to trust your thin-film coating IP to be developed and shared and collaborated with a China-based company. You might have -- if you are a China-based company or if maybe you won't care if you're a small university that plans to share everything, they learn anyway. But do you really want to risk that your development that you won't transfer those products to a product machine for China? And also, even if you do develop it on a production machine for China, they have no way to scale you to high-volume production at the same time in addition to that. So there's a lot of risk. These companies in China, they come and go also.

So the best case or are the worst case scenarios that you could fail to develop a thin coating process on a cheaply made China machine. That's -- they don't make it successful and you go work further. But the best case is that you develop a process, but you still can't scale it up. So for most of your larger multinational companies and institutes the risk, that goes, is really just too significant when you have to choose, are you going to go with Sono-Tek or are you going to go with this part of ever-evolving China-based companies that you are risking your IP with.

Bill Nicklin

All right. Thanks so much. Next question has to do more with kind of how the business is run, the shape of reviewing new business and then fulfilling these orders. So I guess the question is how far ahead decided that have to invest before expected revenue derived from the initiatives that you're investing in?

Steve Harshbarger

Yes. I think that's a good question from an investor standpoint. It's sometimes frustratingly long. It's not uncommon for us to spend 1 to 2 years to identify a market where we think we want to participate and then another year to prove feasibility that our technology does bring significant advantages in that area. And then following that, then there's the hardware and software development phase that can be any place from -- well, maybe it's sort of 6 months, but it can also go as long as 2 years. So really, I mean, the fastest possible cycle time with a simple product is maybe 18 months with maybe 6 years being on the total outer edge. But I would say the average you're looking more like about a 3-year, 4-year cycle, average cycle time for this to be completed.

Bill Nicklin

All right. If you're investing in R&D and so forth, mainly intangibles that will show per an expense early on and then turn into revenue down the road. Is that correct?

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Steve Harshbarger

Yes. Yes. This is primarily an investment in R&D and sales personnel. The early phases are sales and application engineers to improve market feasibility then followed after that by the engineering and programming development of the machinery. And then ultimately then, of course, it returns back to the sales force for market release and new product and develop of the new product and releasing to the customer base.

Bill Nicklin

All right. So the numbers show, I believe you've been hiring aggressively over the -- in recent years about what percent of those hires are placed in R&D, applications, engineering and then also sales and marketing as a whole.

Steve Harshbarger

Yes, let me just think about that. Over the, say, the past 2 years, in particular, we've invested very heavily in personnel to bolster our growth ability. It's a significant investment because you tend to have almost a full year of training before the newest personnel really becomes highly effective. So for example, this past year, we hired -- I think it was about 11 new people, of which 8 of those, I can think off the top of my head, we're directly connected to new product or market development. Only a small fraction was more directed to overhead and manufacturing.

Bill Nicklin

Okay. For one more if you don't mind. Can you kind of describe what I would call the durability of revenues, meaning in my mind, repeat business, multiple machines, recurring -- returning customers, new needs for coding from existing customers and then you started to mention, I think either you or Steve did, recurring revenues after or during and after the new builds.

Steve Harshbarger

Yes. Okay. Well, I guess, with the recent addition of our like larger platform systems, repeat and returning customers have really been a big positive shift in our strategy. In the past, successfully coding a substrate on an R&D machine really might be the end of the sales cycle. Well, that's not any longer for us. We now want to guide that customer to our pilot line machines, followed them by our high-volume production systems, which have, of course, those highest ASPs, the highest average selling prices. And once they've transitioned to those high-volume production systems, they should often need repeat machines. Unlike the R&D machines where one system might just be enough. So the other significant benefit when I think about it shall also now be – we just – we're really in the very beginning phases when I say this, of impacting our revenue stream in service contracts and spare parts packages.

On our high ASP production type of platforms, we're seeing a greater acceptance of a reoccurring service contracts that so far on the service look like they could add up to right around 10% annually on the machine. This is in the beginning phases, but it should gain momentum quickly because once you add a machine on this year, that machine should be every year, 10%, 10%, 10%. And then once you have 2 more machines that you add on to that, then you said that on 10%, 10%. And then, of course, you had 10 machines on. All of those are just sort of compounded quickly. So we're optimistically thinking that's going to be a more significant reoccurring revenue stream in the future.

Operator

Our next question will come from Dick Ryan with Oak Ridge Financial.

Dick Ryan

Say, Steve, how should we look at the backlog $9.1 million. Is that all anticipated to flow in this next or in fiscal '25. And then you indicated you had some larger ASP machines in there. Can you kind of give us a breakdown of that backlog, how much is concentrated in those larger machines versus maybe some more of the turns type of business?

Steve Harshbarger

Sure. In the existing backlog today, most of those orders came in mid last fiscal year. So everything in that existing backlog is scheduled for this current fiscal year delivery. And I can say that with pretty high confidence. There shouldn't -- there's nothing that's really in question on that one, but I don't believe we'll have no question marks really. There's enough time on those. And the reason I make that clear is that some of our machines can take up to a year, maybe even over a year to build for some of these large platforms. But all of these have been in and they're well underway. And in that backlog, I think right now, we have 3 -- we have 4 exactly. 4 high ASP machines. One is a machine that's about a $1.1 million machine and then there's 3 machines in there that are in the area of about $700,000, which are all for high-volume production applications.

And I guess what's significant for both of those 2 customers, that's going over 2 customers. These are customers that they are in their early phases of development. They have already announced long-term contracts that they've been putting out fairly publicly about where their production goals need to hit and where they're expanding to. So if they come anywhere close to what they're saying is some of these seem like they're pretty -- well, one of them in particular, always seems like they always hit the mark for what they commit to publicly. It should result in significant upside for Sono-Tek for future repeat machines of the same or very similar configurations. So we're optimistic about that, adding both into the second half of this year, maybe the fourth quarter revenue stream as well as and much more importantly, the revenue stream for next fiscal year.

Dick Ryan

Okay. So when you look at the order or your quotation level, you obviously have the repeat business and then you've got the lab activity. Can you give us a sense of what's going on in the labs and what's your batting average of turning that demonstration or engineering work into orders?

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Steve Harshbarger

Yes. That's an area we're working really hard on. We have -- our New York base lab is really we have some talented engineers here, and they're remarkably successful. When someone comes in here, there is about a 75% success rate where someone will buy a machine if they've come in here to work on developing their process. So it's really successful for us. This year, especially now that the COVID is way behind us, we're putting a very concerted effort to really accelerate the success rate of our overseas international apps that we have a person actually we have just focused just to that task here for us. We meet -- right now, their success rate, just to be clear, is not anywhere near 75%, but we need to get them up towards that area and be able to show that same success rate because that's just super direct correlation to growing our revenue stream.

And that's our goal for that area. There is another significant area as I kind of mentioned earlier, in the revenue stream that for a lot of this, we actually will have paid application development. Many of our customers, if not most, pay Sono-Tek to help them develop their applications and coatings need. And that's a very important because right now, we're capital equipment, right? And we know capital equipment can be somewhat lumpy, both the backlog and the revenue streams going out. So we really, really want to bolster our services-related aspects of the organization. And it's almost doubled this past year. It's still not really significant. I think combined services -- the services combined with application engineering, contract coating and things on those right now. I think we're just a little under $1 million, which is not much enough right now. But there's a very clear focus for us to enhance that and make that a more significant part of our revenue stream, which will kind of help the lumpiness of just selling capital equipment all the time.

Dick Ryan

Okay. One left for me. You specifically called out in the medical side, a couple of systems being sent to 2 customers over in Ireland. Can you give us a sense, are these new medical applications that are being coded? Are they existing customers that were using your coating systems on previous devices that have expanded? Or can you provide a little more color on those shipments.

Steve Harshbarger

Sure, yes. These are I believe in both cases, they were existing customers using our stent coating systems. That's an area of the stent coating that a huge chunk of the world uses Sono-Tek stent coating systems. We're kind of the industry standard there. But these are both customers fairly sure in both of them that they had our stent coating systems. But now in both of these cases, they are not coating stents. It is a new implantable device in both cases. I can't say what it is because that would kind of give away the customer in both cases. But there are a newly developed device. And the application engineering development process was not simpler for Sono-Tek, just to be clear. These people came to our labs, our engineers work with them to develop this new unique process for these new unique devices that you're getting implanted into the body.

This is, again, one of those talents that really only Sono-Tek can provide to our customers. And it's nice to see these customers that they've built their confidence in Sono-Tek to use our stent coating machines, but now they're saying, hey, why don't we use it for anything else that we're implanting in the bodies. And that's a very significant shift in our customer base to be able to say, hey, let's broaden it out. Sono-Tek don't look at them just as a stent coating customer for medical devices, look at them as a general coating of any device in the medical industry.

Dick Ryan

Did they run off your coating capabilities against somebody else in these new systems? Or did this just come to you kind of your sole source and your expertise with their previous efforts?

Steve Harshbarger

I think in both of these cases, the partnerships that we had built with these customers, and this again, this happens over time. They were just so confident that Sono-Tek that handle this. I think they right really just right off the bat came to us first. And that's something that wouldn't have happened in the past, to be honest. But once you have these long-term partnerships and that's how, in particular, in the medical device area, many of these guys are that we're not just really a vendor. We're a partner with them. They kind of come to us by default to start. And that's not to say we can do every single coating. But they know Sono-Tek well enough that if we can do what we'll tell them we can. And if we can't, we'll probably refer them to somebody of another technology that can. But that's the kind of partnerships that we have with those of these guys.

Dick Ryan

Congratulations on the strong performance.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Chris Coccio for any closing remarks. Please go ahead.

Dr. Chris Coccio

Thank you, Kirin, and thank you, everyone, for joining us today. Sono-Tek outlook is strong based on our ongoing success with our platform initiatives in the high-tech and clean energy markets. We look forward to our next call that we review our midyear fiscal 2025 results, and that will be in October. In the meantime, please contact us directly if you have any questions, wishing you a great rest of the day. Thank you very much.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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