

NASDAQ:COHU Q2 2025 Earnings Call Transcript

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Jeff Jones | Chief Financial Officer:

raised to withdraw your question please press star 1 1 again please be advised that today's conference is being recorded I would now like to hand the conference over to Jeff Jones chief financial officer please go ahead good afternoon and welcome to our conference call to discuss co Hughes second quarter 2025 results and third quarter 2025 outlook I'm joined today by our president and CEO Louise Mueller If you need a copy of our earnings release, you may access it from our website at cohue.com or by contacting Cohue Investor Relations. There's also a slide presentation in conjunction with today's call that may be accessed on Cohue's website in the Investor Relations section. Replays of this call will be available via the same page after the call concludes. Now to the safe harbor. During today's call, we will make forward-looking statements reflecting management's current expectations concerning CoHUE's future business. These statements are based on current information that we have assessed, but which by its nature is subject to rapid and even abrupt changes. We encourage you to review the forward-looking statement section of the slide presentation and the earnings release, as well as CoHUE's filings with the SEC, including the most recently filed Form 10-K and Form 10-Q. Our comments speak only as of today, July 31st, 2025, and COHU assumes no obligation to update these statements for developments occurring after this call. Finally, during this call, we will discuss certain non-GAAP financial measures. Please refer to our earnings release and slide presentation for reconciliation to the most comparable GAAP measures. Now I'd like to turn the call over to Luis Mueller, COHU's President and CEO.

Luis Mueller | President and Chief Executive Officer:

Hello, everyone, and welcome to your quarterly earnings call. I'm excited to share our second quarter results and third quarter guidance with you. First off, let's talk about some highlights. Our estimated test cell utilization increased by three points quarter over quarter to 75%, which historically indicates the industry is entering a recovery cycle. Orders improved quarter over quarter, driven primarily by the mobile end market. This reflects the growing demand for innovative solutions and our ability to meet the evolving needs of our customers. We also secured our first system order from a customer in India for silicon carbide test, opening a new geographical opportunity for our products. Additionally, we have a revenue stream opportunity of approximately \$20 million in the precision analog market with the qualification of the Ultra-S contactor from a leading IDM customer. This qualification is a critical step in expanding our footprint in the precision analog space and underscores our commitment to delivering high-quality, reliable solutions. Moreover, we're introducing the new Eclipse Handler model, a configurable platform targeting share expansion at test subcontractors. The Eclipse Handler is designed to provide unparalleled flexibility and efficiency, making an ideal solution for a wide range of applications. Now, let's dive into the detailed results. Our revenue for the second quarter of 2025 was just under \$108 million, with a non-GAAP gross margin of 44.4%. The revenue split was 63% recurring and the balance for systems. We saw a sequential increase in CodeHue systems revenue across mobile, computing, and industrial segments. Utilization improved across all segments, ranging from two to four points increase in each of our end markets. Our Eclipse test handler has been upgraded to enhance versatility and configurability across various applications, including passive, HTC Mobile, computing, and automotive. During the second quarter, we secured a \$28 million design win order for our Eclipse handler from an existing customer for mobile and automotive end markets. This expands our presence at this customer to better cover their future test requirements. The order ships over multiple quarters this year, and we anticipate follow-on business in 2026, subject to this customer's growth in the market. Additionally, We landed \$3.5 million in new customer wins in Q2, spanning testers, handlers, and inspection systems. CoHeal is also enabling the future of display technology, from larger automotive screens

to ultra-bright mobile displays and lightweight wearable interfaces. Our advanced test solutions are critical for cutting-edge OLED displays in smartphones and emerging AR devices. We recently launched the PD3X instrument, the latest upgrade to our high density flat panel display solution on our Diamond X tester. The PD3X offers unmatched precision and scalability, capable of measuring ultra-low currents and voltages across 320 channels simultaneously. This instrument is already deployed by the two leading vendors in the display driver IC market, We have production at major OSATs in Korea, Taiwan, and China. We test display drivers that support a wide range of display formats, including foldable and automotive grade panels. As I previously mentioned, our interface business captured an important design win in the precision analog semiconductor test, with the qualification of our new Ultra S contactor. Ultra S was in development by the EQT team in Singapore when we completed the acquisition in late 2023, and now adding to Qohu's revenue and innovative reputation. This design win is a significant milestone that highlights our ability to innovate and deliver solutions that meet the stringent requirement of the precision analog market. Our software business booked \$360,000 in Q2 with annual recurring revenue opportunity, or ARR, of \$530,000. We continue to run evaluations and proof of concepts, demonstrating yield and overall equipment efficiency improvements with our software solutions. Although this is a long journey ahead, customers continue to show interest and explore the new value creation in manufacturing using fault detection and artificial intelligence-driven process control and optimization in semiconductor tests. Our software solutions include DI Core and Tignes PaceMonitor and Pacemaker. DI Core is designed to provide real-time data analytics and insights, enabling customers to make informed decisions and optimize their task processes. Tignes, on the other hand, leverages advanced machine learning algorithms to predict and prevent potential process deviations, ensuring the highest levels of reliability and performance. Looking ahead, we're optimistic about the prospects for 2026. We're focusing on capturing new customer opportunities and investing in new products and configurations to address future market needs. Our manufacturing team is in the final stretch of completing the transfer of the remaining product manufacturing from the U.S. and Europe to our Asian factories. which will help consolidate and drive further efficiencies in future quarters. We recognize the market recovery will not be linear, and we're likely to see some seasonal slowdown again in Q4 this year, but we're optimistic about our prospects. especially with our growing exposure in computing with service and data center processor tests and HBM inspection. Thank you for your attention. Let me now give it over to Jeff for further details on last quarter's results and next quarter's guidance. Jeff?

Jeff Jones | Chief Financial Officer:

Thanks, Luis. Before I walk through the Q2 results and Q3 guidance, please note that my comments that follow all refer to non-GAAP figures. Information about the non-GAAP financial measures, including the GAAP to non-GAAP reconciliations and other disclosures, are included in the accompanying earnings release and investor presentation, which are located on the investor page of our website. Now turning to the Q2 financial results. Revenue for the quarter was \$107.7 million and in line with guidance. Recurring revenue, which is largely consumable-driven, and more stable than systems revenue represented 63% of total revenue in Q2. During the second quarter, no customer accounted for more than 10% of sales. Q2 gross margin was 44.4% and in line with guidance. Operating expenses for Q2 were 47.7 million, also in line with guidance. Q2 interest income, net of interest expense, and a small foreign currency loss was approximately \$900,000. The Q2 tax provision was approximately \$300,000, and non-GAAP EPS for the second quarter was \$0.02. Moving to the balance sheet, overall cash and investments increased by \$8 million during Q2 to \$209 million due primarily to \$16 million of cash flow from operations. No stock repurchases were completed in Q2. From inception of our share repurchase plan through Q1 2025, we have repurchased approximately 4 million shares for \$117 million, leaving \$23 million available for us to repurchase additional shares in the future. Total debt of \$18 million is flat quarter over quarter. Q2 CapEx was \$2.7 million and consists primarily of facility improvements. We're maintaining an annual CapEx target of \$20 million, including the \$9 million Malacca facility purchase in Q1. Cohue's balance sheet continues to demonstrate strength overall, supporting our ability to invest in expanding served markets and enhancing our technology portfolio in line with our growth strategy. In addition, we remain committed to returning capital to shareholders via our share repurchase

program. Now moving to our Q3 outlook. Recent system orders for mobile and automotive tests are driving a 16% increase in revenue quarter over quarter. Total recurring revenue is expected to be flat quarter over quarter, and we're guiding Q3 revenue to be approximately \$125 million plus or minus \$7 million. The gross margin for the third quarter is projected to be approximately 44%. The Q3 revenue mix is expected to consist of approximately 47% from systems, mainly test automation systems for the mobile market, and about 53% from recurring revenue. Q3 operating expenses are projected to be about \$50 million, which includes around \$2 million for variable R&D product development prototype materials. Total operating expenses are in line with the restructuring plan targets that were implemented in late Q1 of this year. Once the full impact of the restructuring plan has taken effect in the beginning of 2026, we expect quarterly operating expenses to be approximately \$49 million per quarter when revenue is approximately \$130 million. We're projecting Q3 interest income, net of interest expense, and foreign currency impacts to be approximately \$900,000 at current interest rates. The recent enactment of the One Big Beautiful Bill introduces changes to capitalized R&D, resulting in a midyear adjustment to COHU's tax provision methodology. Consequently, a one-time, year-to-date true-up will be recorded in Q3. Including this true-up, we anticipate that our Q3 tax provision will be approximately \$15 million. For the full year 2025, the methodology change yields the same annual tax provision, but the quarterly amounts will differ. In Q4, we expect the effective tax rate to be in the 30 to 35 percent range. The basic share count for Q3 is expected to be approximately 46.8 million shares, and that concludes our prepared remarks, and now we'll open the call to questions.

Operator | Conference Operator:

As a reminder, if you'd like to ask a question at this time, please press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again.

Operator | Conference Operator:

Our first question will come from the line of Brian Chin with Stifel. Hi there. Can you hear me? Yes. Hey, Brian.

Brian Chin | Analyst, Stifel:

Hi. Sorry about that. Thanks for letting us ask a few questions. Good afternoon. Maybe first one, just to break down the \$28 million order, can you have a sense of sort of timing across 3Q, 4Q? How much of a contributor to the sequential increase in Q3 is that? And also, is that, in terms of the origin of that business? Is it sort of tied into the utilization rate increases? Is it maybe like a market share shift in favor of that particular customer? And maybe is this more like digital handling or is it kind of different products?

Jeff Jones | Chief Financial Officer:

Hey, Brian. So I'll handle the first part of that question. And in Q2, we shipped and recognized about 4 million of that order. We will ship and recognize about 12 million in each Q3 and Q4. Okay.

Luis Mueller | President and Chief Executive Officer:

And to follow on your second part of the question here, Brian, this is essentially digital in the mobile space, digital, and it's a business expansion. For us, it's a business expansion, which we classify as design win at an existing customer. Now, I believe that that customer is... doing well in the market. I think their business is good, but for us, this is a business expansion.

Brian Chin | Analyst, Stifel:

Okay. And then maybe to fan it out a little bit, I heard the discussion around maybe a seasonal down Q4 in the business, but kind of being encouraged by the trend on the utilization rates that you're seeing. Maybe building off that in particular. So Q3, it may be recurring up a little bit, It sounds like this new order, significant order, could be a good chunk of the system revenue increase. What else is giving you encouragement here that there'll be more breadth kind of beyond a customer to, obviously the utilization rate in itself is part of that, but what else can you sort of provide as backstory there in terms of why you think some of these trends can kick on here beyond second half?

Luis Mueller | President and Chief Executive Officer:

Yeah, we've seen orders sequentially improve across all segments. in Q2, Brian, except for computing, actually, as I look at the data here. Mobile, obviously, was up significantly, driven by this customer order, this design win. But we also had sort of a decent increase, actually, more than 100% in the automotive and industrial segments in Q2. I'm talking orders. A very small increase in the consumer space and a very small decrease or lower in the computing space. We're seeing not only utilization picking up across market segments, but we're also seeing orders starting to pick up. And I'm talking systems, predominantly systems here. We've seen some green shoot orders from customers that have been mostly dormant for the last two years in the automotive market. So overall, I think we are in a recovery trajectory cycle. But with that said, it's a little early to call, but we think that there will be that typical slowing down towards the end of the year in the fourth quarter before things continue on. So that's what I made the comment. Recovery seems to be forming. Very encouraged by utilization pickup and the pickup in order across markets. But as always, this is not a linear story, right? There will be two steps forward, one step back, and before taking another three steps forward. That's the nature of this industry.

Brian Chin | Analyst, Stifel:

Maybe one last thing for me. I think and prior calls you've talked about and referenced here some of the product expansions, new products, and customer wins that irrespective of cyclical conditions would drive 30, 35, maybe even 40 million of revenue this year. Are you still on track to achieve that within these numbers?

Luis Mueller | President and Chief Executive Officer:

Yeah, we're doing really well. We had a tester design win. I think it was at the end of last year, actually. that we've been in deployment stage throughout this year. We'll continue throughout the rest of this year. That is doing extremely well. Very, very happy with that story. We're getting qualified. Not qualified, but getting new products, applications, designed into the platform, into the DiamondX. We have had very good success in HBM, as I talked about earlier. We're projecting on the order of \$7 million of revenue this year. Could possibly be more, but it really depends on the timing of the next round of orders. Very excited here by this qualification and precision analog with contactors. So, yeah, really happy with the design win story. Counting on those customers being successful and, you know, driving increasing demand capacity needs for test and even inspection for our equipment going into next year.

Operator | Conference Operator:

Okay, great. Thanks, Luis.

Operator | Conference Operator:

Our next question comes from Charles Shi with Needham & Company.

Charles Shi | Analyst, Needham & Company:

Hi. Thanks for taking my question, Luis and Jeff. First off, I really want to congrats on the 28 million order from one particular customer and based on what you Just broke down for us a quarterly distribution. Looks like you're going to have a 10% customer for next two quarters. Really, I mean, almost 10%. I really congrats on that. So kind of want to circle back to this 28 million order. Given the size of this order, kind of curious. Why is it happening now? Is it the product cycle related? And the cycle of it, do you think there's any factors like a terrorist or the worry about terrorists? Because, well, we don't exactly know where you're shipping the 28 million orders from and to where. But would there be any terrorist-driven temporary factors that cause a little bit of pull-in? for this particular batch of shipments.

Luis Mueller | President and Chief Executive Officer:

Thanks. Hi. No, I don't think there is any tariff implications in this order, by the way. We know exactly where we're shipping our products, and in the process of installation, some of it was already installed in the second quarter towards the end of the second quarter. And we have a pretty decent idea where this customer is shipping their products that are running through our equipment as well. Don't see anything related with tariffs there. I see more things related with edge AI deployment in the mobile space for a good chunk of these orders. And I think, as I said in the remarks here, this is a mix of mobile and automotive. So it's not all mobile, but the majority of this is mobile. The automotive piece, I think, has more to do with continued expansion of ADAS and infotainment in the automotive space and our customers' success in that particular market.

Charles Shi | Analyst, Needham & Company:

Yeah, thanks for the color. Maybe I just want to Come back again on that Q4 color you just provided to Brian. I think you kind of were saying that maybe some typical seasonal slowdown in Q4. And I mean, let's back out to that 28 million order. That's a little bit idiosyncratic here. What kind of a season of slowdown you're expecting in Q4 for the rest of the business?

Luis Mueller | President and Chief Executive Officer:

Thanks. I think in this environment, it wouldn't be surprised to see something like mid-single digit pull down in the fourth quarter. We'll see how the quarter here evolves. A little too early to be providing full fourth quarter guidance, but that's our current view at the moment.

Operator | Conference Operator:

Thanks. I appreciate the callers.

Operator | Conference Operator:

Our next question comes from Craig Ellis with B. Reilly Securities.

Craig Ellis | Analyst, B. Riley Securities:

Yeah, thanks for taking the question, and congratulations on the nice revenue guide, guys, and the indications that we may be coming off a cyclical bottom. Luis, I wanted to follow up with that, but in a different way maybe than the prior two analysts approached it, and it's this. As you reflect on your conversations with your customers over the last three months since you last reported, how would you characterize the change in how they're looking at their business and what it means for you for 2026? So clearly we've got a nice pop in the business going into the third quarter, but what are your customers telling you about what you have to be ready for next year?

Luis Mueller | President and Chief Executive Officer:

So if you look at our largest customers, which are typically in the auto and industrial space, Craig, you can see from their earnings release and commentaries that they make that they've been basically rationalizing their inventory levels. Not dramatically, but inventory days are coming down sequentially quarter over quarter. Some of them have called a bottom in the automotive market in Q1 of this year. A couple of others, I think, called it in Q2. And one in particular, I think, guided sequentially up Q3 and indicated sequentially up in Q4. The consensus that I would say from these customers is that they view a steady, progressive recovery in the auto and industrial market. I don't think any of them is talking about a V-shaped recovery in the next two quarters, but they're all talking about going into next year progressively better, you know, sort of sequentially quarter over quarter better. I don't think anybody can give much of insight towards the summer or next year. I think that's way too far out to say exactly how that's going to shape. But like I said, they're generally talking about progressive improvements. Some of our customers in the space seem to have struck new deals even in China for supplying the automotive industry in China, which is kind of refreshing to see. When we look at computing, This is more of an area that we've been putting a lot of energy lately, and by lately I mean over the last year, to get design win. We have had some reasonable penetration in the server space, and we're trying to get more exposure into AI infrastructure at the moment, essentially GPUs, ASIC accelerators, and even networking. This is not an area that I can talk much about yet, and it really highly depends on us being able to get our products qualified. In the mobile space, as I've been saying for a couple quarters now, we were expecting the recovery. We had a pretty decent uptick in mobile recurring orders in the first quarter of this year, and as mentioned, we would expect that to be picking up steam and leading to gains in the equipment side, which we were foreseeing already in the first quarter, and as we talked here, materialized in the second quarter. I think mobile is going to have its typical seasonal puts and takes, accelerating here into Q3, a little bit into Q4, and then before it pauses and goes through the next round of product launches in 2026. So I think that's sort of the general perspective that I can give you from our customers across these various markets.

Craig Ellis | Analyst, B. Riley Securities:

Thanks, Luis. And the second question is a product question, and it relates to the opportunity you mentioned with GPUs and APUs. So you talked about the Eclipse Gen 2.5 new product release. What specifically does that enable your customers to do And where should we expect uptake there? And how material could that be as we look out at either the rest of this year or next year? Thank you.

Luis Mueller | President and Chief Executive Officer:

There are two main things that are different here in this release 2.5 of the Eclipse. One of them is the configurability. We have a platform now that in one single system, you can cover, let's say, what we call passive, meaning RF discrete type components analog ICs for mobile use applications to what we call ATC or active thermal control mobile power dissipation to tri-temp automotive to tri-temp ATC active thermal control again for ADAS processors or even to some degree compute applications. So we can do this in one system.

Historically This is the kind of stuff that when you buy, you have to buy three configurations or four different configurations of a product. We can now really span that whole application range with one platform with some field upgrades. So that's a big plus to certain customers. The second main factor is the power dissipation. As we put up here, we're now capable of dissipating up to 3,000 watts during tasks. This is not the kind of thing you see on a mobile device, frankly, not even in an automotive ADAS device, but it's the kind of thing you would see on a high-end compute requirement. So if you're talking the latest generation GPUs in the market, that's the kind of capability that is required to test those devices. So those are the two main performance factors that we are enabling customers to use and open up a spectrum of opportunities for us with the Eclipse. All these customers that I'm talking about here are essentially fabulous, so they end up hitting the OSATs in Taiwan, in Korea, or throughout Asia for outsource testing. And the OSATs, by the nature, they want to make the maximum possible use of the capital investment being done here. So they do look for this flexible capability on the product.

Craig Ellis | Analyst, B. Riley Securities:

Got it. Thank you, Luis.

Operator | Conference Operator:

Good luck, guys. Thank you.

Operator | Conference Operator:

Our next question comes from David Dooley with Steelhead Securities.

David Dooley | Analyst, Steelhead Securities:

Thanks for taking my question. My question is very similar to Craig's and involves the Eclipse. You know, I get the impression that there is an upgrade cycle going on for thermal controlled handlers, specifically in the GPU and ASIC space. I think Advantex has been talking about upgrading its products in this area. And I'm just curious, now that you've put out a really flexible tool geared at this market, do you have evaluation systems at the OSATs or, as you've talked about, who are handling a lot of the volumes for the GP guys and ASIC guys? Or when could we expect to hear some progress about you winning some business in this area?

Luis Mueller | President and Chief Executive Officer:

Dave, we have evaluations, frankly, mostly at Fabless right now that will then migrate to the OSATs. It's not to say that we don't have it at the OSATs. At the end of the day, in some cases, the OSAT is the one that has the tester that we're connecting to to run the program by the direction of the Fabless. To answer your point here, when do we expect to see some more traction on, let's say, the GPU space? I hope to be able to say something in a quarter or two, actually, that is more material on that front.

David Dooley | Analyst, Steelhead Securities:

So there appears to be an opening with thermal-controlled handlers. I think I heard this on your competitor's conference call. Correct me if I'm wrong, but I think they're going through an upgrade cycle. Also, you know, the big GPU guys looking to diversify its supply chain and not rely on single vendors. So is this opening, do you think this in general is opening up a door to perhaps knock off some business? You know, is your

competitor's product opening up a door for you? I guess it's really the question.

Luis Mueller | President and Chief Executive Officer:

Yeah, I don't know if it's our competitor that's opening up the door, but I think the customer is interested on more of a, you know, to use one of the customer's terms here, quote unquote, a future-proof platform, right? Something that can actually span not only the next 18 months, 12, 18 months requirements, but can be used over multiple years ahead and keep up with their power requirements and overall device test requirements at least for a couple cycles so they have better use of the capital investment.

David Dooley | Analyst, Steelhead Securities:

Okay. I guess I... Final question is, you know, you talked about your utilization rates increasing by 3%. Is that overall, or I guess I'm really interested in, you know, we've already, I think even in the past, you've talked about how utilization rates in, you know, China were probably, you know, pretty high, or Certain areas were higher than others. I'm just kind of wondering, are there certain geographic regions like Taiwan and Korea or Asia where you're starting to see those areas might have higher utilization rates than the average?

Luis Mueller | President and Chief Executive Officer:

Yeah, I don't have it at my fingertips by geography, Dave, but I can tell you this. So overall, yes, overall utilization is up three points to 75%. I'll give you another breakdown here. The IDMs increased five points sequentially, and the OSATs increased one point sequentially, quarter over quarter.

David Dooley | Analyst, Steelhead Securities:

Okay. Okay.

Operator | Conference Operator:

Thank you. You're welcome. That concludes today's question and answer session. I'd like to turn the call back to Jeff Jones for closing remarks.

Jeff Jones | Chief Financial Officer:

Thank you, and before we sign off today, I'd like to note that we'll be attending some investor conferences over the next two months, and we'll be attending the Needham Virtual Semiconductor and Semicap Conference on August 20th, the Jefferies Conference in Chicago on August 26th, the Evercore Conference also in Chicago on August 27th, the Citi TMT Conference on September 4th in New York City, and the CEO Summit Conference on October 7th in Phoenix. Now, if you're planning to attend any of these conferences, please reach out to your conference contacts or let me know and we'll arrange for one-on-one meetings. That's all for today. Thank you for joining the call and we look forward to speaking with you soon.

Operator | Conference Operator:

This concludes today's conference call. Thank you for participating. You may now disconnect.