NASDAQ:COHU Q4 2025 Earnings Call Transcript

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Operator | Conference Operator:

Good day and thank you for standing by. Welcome to Cohue's fourth quarter 2025 financial results conference call. At this time all participants are in a listen-only mode. After the speaker's presentation there will be a question and answer session. To ask a question during the session you will need to press star 1 1 on your telephone. You will then hear an automated message advising your hand is 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 your speaker today, Jeff Jones, Chief Financial Officer. Please go ahead.

Jeff Jones | Chief Financial Officer:

Good afternoon and welcome to our conference call discussing CoHUE's fourth quarter 2025 financial results and our outlook for the first quarter of 2026. I'm joined today by Luis Mueller, CoHUE's President and CEO. If you need a copy of our earnings release, it can be found on our website at cohue.com or by contacting Cohue Investor Relations. A slide presentation accompanying today's call is also available in the Investor Relations section of the website. Replays of this call will be accessible via the same page after the conclusion of the call. During this call, we will be making forward-looking statements that reflect management's current expectations concerning Cohue's future business. These statements are based on the information available to us at this time, but they are subject to rapid and sometimes abrupt changes. We encourage everyone to review the forward-looking statement section of our slide presentation and the earnings release, as well as COHU's filings with the SEC, including the most recently filed Form 10-K and Form 10-Q. Our comments are current as of today, February 12, 2026. And COHU does not assume any obligation to update these statements for events occurring after this call. Additionally, we will discuss certain non-GAAP financial measures during this call. 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?

Luis Mueller | President and Chief Executive Officer:

Good day, everyone. Thank you for joining our Q425 earnings call. I'm pleased to share our latest results as we close the year and highlight the continued momentum across the business. First off, let's talk about some highlights. Recurring business remained strong, representing about 60% of total revenue in the fourth quarter. Recurring bookings were up 34% sequentially, driven by stronger demand across service contracts, interface solutions, and handler-related spares business. Systems demand increased 47% quarter over quarter, driven by higher equipment orders from major global customers, specifically increased activity from a leading analog and mixed signal semiconductor customer, renewed investment from a top automotive and industrial semiconductor manufacturer, strength from RF and connectivity device customers, and stepped up spending from top-tier fabulous computing and mobile companies. The top 10 customers accounted for approximately 63% of Q4 bookings, a healthy level of diversification for this stage of the cycle. For the full year 2025, orders increased 29% year-over-year. Now let's dive into the detailed results. Fourth quarter revenue of $122 million is up 30% year-over-year and split 40% systems and 60% recurring. Recurring revenue grew 4% quarter-over-quarter and 25% year-over-year. We believe the strong recurring business reflects the value of our install base and customer reliance on Cohue across their production environment. Our recurring model continues to provide stable performance particularly over the past two years of soft equipment demand.

Full-year revenue of $453 million is up 13% year-over-year, confirming the trajectory of the market recovery and initial design win successes. We estimate higher test serialization trends from September through December among both OSAT and IDM customers, with revenue improvements most pronounced in markets tied to computing and automotive applications. Estimated test serialization is up a point to 76% at the end of December, with computing segment the strongest at 78% and automotive at 75%. We believe this improved utilization during an otherwise slow seasonal quarter underscores a broader positive market dynamic. While some long-standing customers strengthened their install-based support as utilization levels gradually improved, others have engaged with us on new programs. There's a clear change in customer engagement, reflecting both new program ramps and renewed investment in back-end test infrastructure. Design win activity was strong in Q4 with expansions across automotive ADAS, analog and power devices, compute-related applications, and predictive maintenance use cases. More specifically, we secured a key transition win for Cohue test interface products at a leading analog and mixed signal customer. We closed the first order for a high-performance thermal configuration of the Eclipse Handler supporting a customer's AI device roadmap. We booked a multi-unit order for a new handler still in development targeting automotive and physical AI device test. We'll be shipping an initial qualification system this summer and follow-on units later in the year. We received a new order for HBM inspection at a customer's engineering lab supporting development activity of next-generation memory devices. won the first mixed signal tester order at an analog and connectivity business unit of a large semiconductor manufacturer, broadening the Diamond X tester penetration beyond earlier wins. Wingui secured an order for Krypton Inspection Metrology System for production of automotive ADAS processors. This order continued to demonstrate the success of Krypton, and it included the subscription component for PACE inspection software that uses machine learning to improve yield. We secured booking for tri-temperature handlers across multiple customer sites to support growing power module test demand. Across markets, customers consistently emphasized quality, yield and productivity, and cost of test efficiency, areas where co-use solutions continue to be highly differentiated. As global trade dynamics remain fluid, our low direct exposure to China and strong customer diversification across North America, Europe, and the rest of Asia provide a solid risk balance profile. We remain confident in our ability to navigate regional shifts while staying aligned with customers investing in critical long-term technology transitions. To conclude, Q4 reflected continued market recovery across end markets. With a balanced mix of recurring and system revenue, improving customer engagement, increasing design win traction, expanding AI data center opportunities, and strengthening market signals across several strategic verticals, we entered 2026 with a solid foundation and positive momentum. Thank you for your continued support. I'll now turn the call over to Jeff for a deeper review of our financial results. Jeff?

Jeff Jones | Chief Financial Officer:

Thank you, Luis. Before reviewing the fourth quarter results and providing first quarter guidance, please note that my comments refer to non-GAAP figures. Details about non-GAAP financial measures, including GAAP to non-GAAP reconciliations and other disclosures, are included in the earnings release and investor presentation on our website. For Q4 2025, revenue was in line with guidance at $122.2 million. Recurring revenue, which is primarily driven by consumables and is more stable than systems revenue, accounted for 60% of total revenue for the quarter. Revenue for the full year 2025 was $453 million and 13% higher year over year. During the fourth quarter, two customers, one in the mobile segment and one in the automotive segment, each represented more than 10% of our total sales. For the full year 2025, no customer represented more than 10% of our total sales. The Q4 gross margin of 40.8% was lower than guidance due to one-time inventory charges resulting from discontinuing certain product lines and consolidating offerings which better align our engineering and support resources with customer requirements. By streamlining our offerings, we're better positioned to respond quickly to market changes and focusing our resources on high performance computing, HBM memory, and AI related high growth opportunities. Operating expenses for Q4 were in line with guidance at 49.8 million. Net interest income after accounting for interest expense and a small foreign currency loss was approximately 1.9 million for Q4. The Q4 tax provision was higher than guidance due to a $5 million increase in tax reserves against tax assets. The reserves have no impact on the

future benefit of the tax assets or cash taxes. Therefore, while the accounting rules require an increase in reserves, this does not change our expectation of using these assets in the future or affect our cash flow. Moving to the balance sheet, cash and investments increased by $286 million during Q4 to $484 million at year end. This was due to the net proceeds from the convertible debt and cash generated by operations. No stock repurchases were completed during Q4. Total debt is $305 million and includes $288 million from the Q4 convertible debt offering. Q4 capital expenditures were $3.4 million, mainly for facility improvements. Capital expenditures for full year 2025 were $21 million, including $9 million for the purchase of our Malaysia factory in Q1. In late Q3, we announced a strategic convertible notes offering. Early in Q4, we completed the upsized offering, raising gross proceeds of $287.5 million at attractive rates, including 1.5% interest rate, 32.5% conversion premium, and a five-year term. We purchased a 100% capped call to limit shareholder dilution until the stock price doubles and exceeds $41 per share. The repayment structure of the notes is net share settlement. meaning COHU will repay the principal of $287.5 million in cash. The banks cover the capped call up to $41 per share. And thereafter, COHU has the option to settle any in-the-money amounts in cash, shares, or a combination of both. This structure limits shareholder dilution. The net proceeds will provide additional liquidity to strengthen our balance sheet and support strategic initiatives. Looking ahead, we expect Q1 revenue to be seasonally flat with Q4. Our recurring revenue is forecasted to represent about 60% of total Q1 revenue, while systems offset the typical seasonality of the first quarter and account for 40% of total Q1 revenue. Our guidance for Q1 revenue is approximately $122 million plus or minus $7 million. The gross margin for Q1 is projected to return to corporate average at approximately 45%. The unique inventory charges that occurred in Q4 are not projected to continue in Q1. Operating expenses are expected to be flat compared to Q4 at about 50 million. Q1 interest income, net of interest expense, and foreign currency impacts is projected to be approximately 1.9 million at current interest rates. The Q1 tax provision is expected to be about 5.5 million, and the diluted share count for Q1 is projected to be approximately 48.5 million. We're targeting total capital expenditures to be about 2% of revenue in 2026. The company is well positioned now to support the business ramp, and we anticipate normal maintenance capex each quarter this year. Our focus for 2026 will be to support R&D investments that are enabling several design wins in the compute market, including AI data center infrastructure, HBM memory, and physical AI applications, along with progressively increasing our cash flow generation. This concludes our prepared remarks, and now we'll open the call to questions.

Operator | Conference Operator:

Thank you. As a reminder, to ask a question, please press star 11 on your telephone and wait for your name to be announced. To withdraw your question, please press star 11 again. Our first question comes from the line of Craig Ellis from B. Reilly Securities.

Craig Ellis | Analyst, B. Riley Securities:

Thanks for taking the question. Luis, I wanted to go back to the order activity in the fourth quarter. It looked very strong in both systems and recurring. Can you just talk about what you're seeing with those orders? How much of that converts in the first quarter versus being pipelined for later in the year? Appreciate any insight on that.

Luis Mueller | President and Chief Executive Officer:

Okay. Hi, Craig. Yeah, I can make some comments on the orders here. I'm probably going to need a little bit of help from Jeff on the timing of the conversion to revenue. So just to recap, right, we had systems orders were up 47% quarter on quarter. So that really sort of bucked the trend on the seasonality. That really affected primarily handlers, thermal subsystems, which we typically sell for mobile processor tests in SLT and some testers for mixed signal and RFM device. On the recurring side, orders were up 34% quarter over

quarter. There was actually a couple of large service contracts involved on that recurring business that renew annually. And so that obviously is going to spread out throughout 2026. But we also saw an increase in bookings on interface products and handler spares that typically go along with utilization improvement. And Jeff, I don't know if you have better comments on the timing.

Jeff Jones | Chief Financial Officer:

Yeah, I think you're absolutely right about the recurring orders, Luis, and the portion that's going to be longer term, multiple quarters. The systems, we have about 70% of are guided revenue in backlog coming into Q1 with a majority of the balance being shipped in Q2. So it's really the system shipments showing up in Q1 and Q2, Craig.

Craig Ellis | Analyst, B. Riley Securities:

Got it. Thanks for that, Jeff. And then the follow-up question is related to revenue and then with clarification on gross margin. Neon high bandwidth memory has been a sharp focus through the year in 2025. Louise, can you tell us where the business exited with revenue in that product group and remind us what your expectations are in 2026 and then the clarification is on your end, Jeff, and it relates to gross margin. Is it fair to say that that one time end of manufacturing charge in the fourth quarter was about 400 basis points the variance between guidance and what was reported or were there other things at play?

Jeff Jones | Chief Financial Officer:

That was the majority of it, Craig. I'd say about 350 of it was, 350 basis points was due to that one-time charge. There was some mix that accounted for the balance.

Luis Mueller | President and Chief Executive Officer:

And to your comment about the NEON revenue, we did exit 2025 at $11 million on the HBM market. We booked a system in Q4 We already booked three more systems here in January for Q1. Obviously, that's next quarter, but it's booked. And we're forecasting revenue this year in HBM between $15 and $20 million.

spk07:

That's helpful, guys. Thank you.

Operator | Conference Operator:

Next question. Our next question comes from the line of David Dooley from Steelhead Securities.

David Dooley | Analyst, Steelhead Securities:

Yeah, thanks for taking my question. I was wondering if you could just recap what you said about eclipse activity during the quarter. I think there was a couple of mentions of that. And then maybe help us understand how that product line should ramp throughout 2026. And do you have the capacity to meet demand?

Luis Mueller | President and Chief Executive Officer:

Hi, Dave. Yeah, so we booked a first configuration of a, I guess I can say super high power, but probably a year from now there's going to be another super high power. So let's just say an even higher power version of our T-Core thermal control on an Eclipse handler. We booked that system in Q4. It's a system that we have been working with a customer on qualification. We shipped a first unit, the real production unit here already in the late January timeframe. I don't think I can really sort of disclose what the volume projections are for the year for the Eclipse handler, but fair to say that we have you know, we have forecasts for ramping production and we do have the capacity. Yes, we do have the capacity to ship systems this year based on the forecast that we have received so far from more than one customer actually for that system.

David Dooley | Analyst, Steelhead Securities:

Okay. And then when you think about 2026 and just whatever revenue profile, you know, it's obviously going to grow. But I'm just kind of wondering how you might think about the first half versus the second half. And, you know, it seems like you have strong order momentum and, you know, you kind of buck seasonal trends in the first quarter here. And so I suspect that, you know, we're kind of starting our recovery period through the balance of the year. Maybe you could just make some comments on that.

Luis Mueller | President and Chief Executive Officer:

Yeah, we were certainly seeing an increase in order momentum across our traditional customers in auto and industrial space. With that said, I think we're a lot more excited really is about the high performance computing opportunities that we see with the Eclipse handler. We should be increasing shipment rate of Eclipse in the second quarter going into third quarter. A little too soon to talk about what it looks like in the fourth quarter, perhaps more of a typical seasonality, I don't know. But right now we're seeing sort of a ramp heading into the middle of the year.

spk07:

Okay. Excuse me.

David Dooley | Analyst, Steelhead Securities:

Jeff, if you could just comment on how the gross margin profile should look throughout the year with the higher revenues expected in Q2 and Q3.

spk01:

Yeah, absolutely, Dave. So I'll just go back to my model here. And

Jeff Jones | Chief Financial Officer:

kind of reference, maybe I'll just reference the analyst consensus as well, which let's just call it roughly 130 Q2 and Q3. So at that level of revenue, 130 million a quarter, gross margin should be sort of in the high 46% range, 46.7, 46.8, that range. And then as we get into, you know, a range of $150 million per quarter, that starts to breach the 48% gross margin number, so just under 48. And then when we get back to what we believe at the moment is sort of our normalized run rate, sort of normalized business conditions, would be about $160 million a quarter, and that would be 48% gross margin.

David Dooley | Analyst, Steelhead Securities:

Okay, and then final thing for me is if you could just comment, you know, I think many companies have seen an increase in customer activity and, you know, customer forecasts increasing. You know, maybe you could just describe how your customer activity has changed over the last month or so as we're moving into an upturn year.

Luis Mueller | President and Chief Executive Officer:

Well, I think it goes along with what I said initially here, Dave, that we are seeing an increase in demand for our systems from traditional KOHU customers, the traditional automotive industrial IDMs. But more importantly, we're seeing a strong pull, or I should say a forecast, for the Eclipse product line going into compute and mobile applications. So yeah, it is a situation that's improving. I think it's visible on the utilization rate that in a seasonal fourth quarter went up instead a point to 76%. So I think we're pretty excited about how we're entering 2026. It should be a good year. We're definitely projecting another growth year. We did have 13% revenue growth in 2025. And we are modeling another growth in 2026.

Jeff Jones | Chief Financial Officer:

Just to add to that, Dave, in terms of a market indicator, recurring revenue now has increased sequentially four quarters in a row. And so that, as you know, is a sign of market recovery. And so we couple that with utilization, and it looks like it's all headed in the right direction. All right, thank you.

Operator | Conference Operator:

Thank you. One moment for our next question. Our next question comes from the line of Robert Mertens from TD Cowan.

Robert Mertens | Analyst, TD Cowan:

Hi, this is Robert on behalf of Krish. Thanks for taking my questions. I just wanted to clarify in terms of the high bandwidth memory inspection, you secured a new when for that to use in the engineering lab. Is that working with the same customer or is that a new customer that you've worked with?

Luis Mueller | President and Chief Executive Officer:

That is, hi Robert, that's the same customer. Same customer but going into the lab for future HBM development.

Robert Mertens | Analyst, TD Cowan:

Okay, got it, thank you. And then just in terms of, just making sure I heard correctly, the multi-unit order for the new handler under development, with the qualification shipment later in the summer, is that revolving around your Eclipse handler and the GPU opportunity, or is that separate from that commentary?

Luis Mueller | President and Chief Executive Officer:

That's separate from that commentary. That is targeting primarily automotive ADAS and physical AI-type devices, so a different type of application, different product altogether.

spk07:

Okay. Got it. Thank you.

Operator | Conference Operator:

Thank you. One moment for our next question. Our next question comes from the line of Brian Chin from Stifel.

Daniella Talia | Analyst, Stifel (on behalf of Brian Chin):

Hi, this is Daniella Talia. I'm on for Brian Chin. Thank you for your questions. My first question is around HBM inspection, to continue on that. Is your customer, the same customer, doing 100% inspection with your NEON platform, and how does that inspection intensity for this step change moving to HBM4?

Luis Mueller | President and Chief Executive Officer:

Hi. Yes, the customer is doing 100% inspection with our platform. As new generation HBM devices come up, the requirement in terms of size, defects that you're looking, size of defects you're looking for, or ball pillar count that you have to measure, obviously increases. And with that, so does the time it takes to do the inspection. I don't have a number to give you right now and say what percentage increase in the time of inspection and therefore slow down of the process. But certainly those devices are getting larger and with a higher interconnect count as we move along here in newer generations.

Daniella Talia | Analyst, Stifel (on behalf of Brian Chin):

Okay, great. Thank you. And then also, I know you mentioned $15 to $20 million for that revenue base. Do you see the shipments more linear or weighted to the first half or the second half going into 2026?

Luis Mueller | President and Chief Executive Officer:

At this point, we're seeing this fairly linear through the year.

Operator | Conference Operator:

Okay, great. Thank you. Thank you. One moment for our next question. Our next question comes from the line of Mr. Dennis from Needham and Company.

Mr. Dennis | Analyst, Needham & Company:

Great. Thanks for taking our questions. My first one is about the IDM versus OSAT performance. Maybe you guys could provide some more color in what you saw in the fourth quarter for IDMs versus OSATs, and then maybe some segment color for what you're seeing in the first quarter. And I may be beyond that if you can.

Luis Mueller | President and Chief Executive Officer:

Hi, Dennis. What I can say is from a utilization standpoint, In the fourth quarter, IDMs were a little over 76%, and OSATs a little over 75%. As we look into the first quarter here, I'm starting to think that we don't typically forecast utilization, but starting to believe that that may flip. I think utilization may go up a bit, but I'm thinking the OSATs may be going up faster than the IDMs. at least as an early view of the first quarter. We'll see how that really ends up in March.

Mr. Dennis | Analyst, Needham & Company:

Great. And for the second part of that question about the segments, so maybe compute versus auto and industrial, how are they looking from a systems perspective into the first quarter?

Luis Mueller | President and Chief Executive Officer:

As we exit at Q4, compute was at 78%, auto 75%, industrial 77%. Mobile, 72%. Consumer, 76%. Going into first quarter, I'm seeing the biggest momentum around mobile, thinking utilization in mobile is going to potentially cross the 75% mark. Compute should continue to rise. And I don't know much about the others at this point.

Mr. Dennis | Analyst, Needham & Company:

Great. And then for my second question, regarding that analog and mixed signal, could you give us some more color on that?

Luis Mueller | President and Chief Executive Officer:

Sure. We have one customer a little over a year ago that is a large mixed signal supplier into the automotive market. They're one of the top six or seven automotive semiconductor manufacturers. We've been deploying that tester into, you know, more recently here, two out of their three major business units. And they also have been diversifying their product line. So we... We got an order qualification from that second business unit that I just referenced. We know that their products that are going through our testers now are some digital controllers and PMIC devices that are being used in data centers. They're actually shown in some news released there for data center racks and data center boards surrounding large GPUs. And we're expecting to see an acceleration, at least of one of these tester design wins, particularly in the digital controller side, coming up towards the middle of the year.

spk07:

Thank you for the call. That's it for me.

Operator | Conference Operator:

Thank you. At this time, I would now like to turn the conference back over to Jeff Jones for closing remarks.

spk01:

I'd just like to say thank you for joining today's call, and we look forward to speaking with you again soon.

Jeff Jones | Chief Financial Officer:

Have a good day.

Operator | Conference Operator:

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