NASDAQ:COHU Q2 2026 Earnings Call Transcript

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Operator | Conference Operator:

Please be advised that today's conference is being recorded. I'd now like to hand the conference over to Matt Hutton, Vice President of Strategy and Investor Relations. Please go ahead.

Matt Hutton | Vice President of Strategy and Investor Relations:

Thank you, Operator, and welcome to COHU's second quarter 2026 earnings call. Our agenda begins with Luis Müller, COHU's President and CEO, who will provide a business update, followed by a financial review and outlook from Jeff Jones, our Senior Vice President and Chief Financial Officer. Following our prepared remarks, we will open up the call for your questions. If you need a copy of our earnings release, it can be found on our website at kohu.com or by contacting Kohu 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 COHU'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 FCC, including the most recently filed Form 10-K and Form 10-Q. Our comments are current as of today, July 30th, 2026, and COHU does not assume any obligation to update these statements for events occurring after the 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 Müller, COHU's President and CEO.

Luis Müller | President and CEO:

Good afternoon and thank you for joining CoHue's second quarter 2026 earnings call. We delivered a strong quarter with sales of $149 million, up 38% year-over-year, and recurring revenue of approximately 53% of total. These results reflect solid execution across the company and continued customer adoption of our solutions. Our Q2 results show progress in areas where we have focused investments, advanced thermal test handlers for AI processors, HVM inspection, flexible ATE platforms for power and connectivity devices, and software analytics. Cohue is benefiting from durable demand drivers in AI infrastructure and edge computing, where customers are investing to address increasing power levels, production yield, and increased factory productivity. Estimated semiconductor test serialization improved sequentially to 80% at the end of the second quarter, typically a turning point for test capex by our core IDM customer base. The strongest segments were computing and industrial, with test serialization in the low 80s, followed by automotive and mobile in the high 70s. Bookings generally follow utilization trends. and in the second quarter, computing led with 46% of total system orders, representing an impressive 150% increase year over year, driven by eclipsed growth in high-performance computing. With utilization above 80%, industrial was the next largest growth area, with orders up 87% year over year. The balance included consumer up 29% year over year, mobile essentially flat, and automotive down 24% year-over-year in a segment that continues to struggle in this recovery cycle. Let me now review the quarter by product line, starting with the areas where we see the strongest customer traction. Starting with our test handlers. Building on the momentum from Q1, we continue to expand our position in high-performance computing through the adoption of our Eclipse handler, enabled by advanced The Eclipse delivers a configurable thermal handler that can be used across multiple device

generations, helping customers reduce capital risk, extend the value of their install bays, and support faster production ramps. Our high-power thermal control technology remains a key differentiator, improving task quality and first-pass yield. During Q2, high-performance computing customers also expanded adoption of co-used PACE prescriptive analytics software, reinforcing our strategy to improve equipment efficiency and customer value. Separately, we are increasing our presence and infrastructure at OSATs in Southeast Asia to support fabless and hyperscaler programs as they move from qualification to our production ramp. Overall, this momentum reinforces an expanding high-performance computing customer pipeline that we now estimate at approximately $850 million annually. This includes about $190 million in qualified annual opportunity across four customers, $250 million in active qualification across five customers, and approximately $445 million in early-stage engagement across 10 additional customers. Based on this progress, we are raising our fiscal 2026 high performance computing revenue estimate to between $100 million and $110 million. To support this demand, we are working with supply partners to increase capacity and we're expanding our internal manufacturing in Malaysia. We expect this expansion to double output by year end and support another step up in capacity by mid-2027. Now turning to our inspection and metrology. During Q2, we shipped additional final inspection systems for HBM3, HBM4, and HBM4e devices to a U.S.-based IDM with a strong forecast into the second half of 2026. HBM is the memory backbone of AI training and inference infrastructure, and we continue to invest to stay ahead of customer roadmaps into HBM5 and beyond. We recently qualified Neon at a Taiwan-based OSAT, establishing a strategic foothold in a high-volume outsourced assembly environment where we can pursue additional advanced package, mobile, and AI-adjacent inspection opportunities. We also released a new vision inspection sensor with shortwave infrared capability that detects inner cracks in complex silicon devices. This gives customers a step-changing improvement in outgoing quality for advanced packages and further reinforces Neon as a reference platform for silicon inspection applications. Moving to semiconductor tasks, demand is increasingly tied to two AI-enabling requirements, efficient power delivery and high-speed connectivity across edge devices, vehicles, industrial equipment, and connected infrastructures. These systems depend on precise power management to achieve peak performance while controlling energy consumption, heat and operating costs. Customers are increasingly adopting gallium nitride power devices for their efficiency and power density advantages. At the same time, AI-enabled devices require seamless connectivity. The industry is investing in both ground-based and non-terrestrial networks, including satellite constellations and high-altitude platforms that extend coverage globally. Together, GaN power and advanced connectivity represent an estimated $340 million annual addressable market opportunity over the midterm. During Q2, we continue to engage with leading power and RF customers on Diamond X configurations for GaN, Mobile Front End, and Advanced Connectivity Applications. Switching to software analytics, we built on last quarter's momentum and moved from early production wins toward a repeatable pattern, land a first deployment, prove measurable value, and expand within that account. This business delivered the first $1 million revenue quarter, and orders increased an impressive 140% year-over-year. First, land and expand is working. Last quarter, we noted that a leading high-performance computing chip maker had committed to deploying our predictive maintenance technology across its test handler fleet. We're now progressing toward what is expected to become our largest software deployment to a single customer, with expansion planned during the second half of the year. Second, we are deploying agentic AI where the data lives. Semiconductor manufacturers operate under strict data sovereignty requirements, and most cannot send process, yield, or equipment data to a public cloud. In Q2, we advanced our on-site AI appliance, which runs modern AI models and autonomous agents entirely inside the customer's network, with no data leaving the factory. These agents can conduct investigations across equipment, maintenance, and pass data more frequently and at a lower cost than manual analysis. These deployments are important because they convert Cohue's install base into a recurring software revenue opportunity while helping customers improve uptime, yield learning, and factory productivity. Moving to our interface solutions, this is a key element of our recurring revenue stream and about 19% of Cohue consolidated revenue in Q2. Our high-speed interface technologies continue to gain traction in silicon photonics tests. We booked $500,000 in interface solutions used in optical engine tests and are pursuing additional customer engagements due to emerging requirements for co-packaged optical devices. In parallel, we remain focused on increasing share of our core semiconductor customer base, where new applications and replacement of incumbent technologies create opportunities for additional cohort content. In summary,

Q2 demonstrated progress across the strategic priorities we outlined earlier this year, scaling high-performance computing handler adoption, advancing inspection solutions, expanding DiamondX into power and connectivity, converting software pilots into production deployments, and broadening interface solution adoption into optical and advanced semiconductor devices. I want to thank our customers for their partnership, our employees for their execution, and our shareholders and supply chain partners for their continued support. With that, I'll turn the call over to Jeff to review our financial results and outlook in more detail. Jeff?

Jeff Jones | Senior Vice President and Chief Financial Officer:

Thank you, Luis. Before reviewing the second quarter results and providing third 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 Q2 2026, revenue of $149 million exceeded the midpoint of guidance. Recurring revenue driven primarily by consumables represented 53% of total revenue. One industrial customer accounted for more than 10% of total sales during the quarter. Gross margin was 45.5% above guidance, primarily reflecting a more favorable product mix. Operating expenses were in line with guidance at $52.7 million, reflecting our decision to scale resources to support the rapid increase in high-performance compute opportunities. Net interest income after interest expense and a 600,000 foreign currency loss was approximately $1.7 million. The Q2 tax provision was lower than guidance at $2.7 million due to improved profitability in the U.S. Non-GAAP EPS for the second quarter was $0.26 and adjusted EBITDA was 12%. Moving to the balance sheet, cash and investments increased by approximately 9 million during Q2 to 498 million, and cash from operations was 10 million. No stock repurchases were completed during the quarter. Total debt is 304 million and includes 288 million from the Q4 2025 convertible debt offering. Capital expenditures were approximately 2 million mainly for manufacturing machinery and equipment, facility improvements, and IT equipment. We're targeting total capital expenditures to be about 2% of revenue in 2026, including the capital expansion of our Malaysia test handler manufacturing facility mentioned by Luis. Looking ahead, We expect Q3 revenue to increase 14% sequentially and 35% year-over-year to approximately $170 million plus or minus $7 million. The increase is driven by demand tied to the ramp in high-performance compute opportunities and continued recovery in our core business segments. We're increasing our full-year 2026 revenue outlook for growth over last year to approximately 35%. Q3 gross margin is projected to be approximately 45%, and for full year 2026, we continue to expect gross margin in the mid 40% range. The rapid expansion of high-performance computing opportunities has increased demand across our supply chain and production base, resulting in longer lead times and higher input costs for certain semiconductors and specialty components. We're taking proactive steps when available to secure critical components to minimize impacts on our lead times, profitability and customer pricing. Operating expenses are expected to be about $54 million. We intend to continue investing in resources to capitalize on the growing list of HPC opportunities and we expect quarterly operating expenses through the balance of the year to remain in the low $50 million range, consistent with our Q3 guidance. In light of expanded resources to support HPC-related growth, our operating model continues to demonstrate solid profitability leverage with approximately 40% of projected sequential revenue growth expected to convert to operating profits. Net interest income in Q3 after interest expense and foreign currency impacts is projected to be approximately $1.6 million at current interest rates. The Q3 tax provision is expected to be about $5.2 million, and diluted shares are projected to be approximately $55 million, including $5.8 million shares attributable to the convertible debt, and of that amount, $2.4 million shares will be fully offset by the capped call but are required for US GAAP diluted EPS calculations. In summary, our 2026 priorities remain focused on supporting the R&D investments and production ramp required to secure multiple design wins in the compute market, including AI data center infrastructure, HBM memory, and physical AI applications, while progressively increasing, even on margin, and Free Cash Flow. That concludes our prepared remarks and now we'll open the call to questions.

Operator | Conference Operator:

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. Please stand by while we compile the Q&A roster. Our first question comes from Krish Sankar with TD Cowan.

Krish Sankar | Analyst, TD Cowan:

Hi, thanks for taking my question and congrats on the solid results and guidance. Luis, I have two questions. The first one I just want to check. Off your pipeline of 850 million, you said you have four customers qualified. Are those three HPC and one HBM customer and the other five customers in qualification, are they all HPC for AI handlers? And when do you expect that to and many more.

Luis Müller | President and CEO:

So, we have three HPC, one HBM on the qualified, which we view about 190 million annual opportunity for revenue. And then we have close to 200 million in the near-term qualification here. So, your question on the timeline. It straddles over months, to be honest with you. We have one customer that is right on the edge of giving us the green light of being qualified. I think the data all supports it, but we don't have the official yet. We are already planning on shipping a production configuration for the actual production intercept device, which is a next generation. We typically qualify... on an existing generation device so it can do correlation to what they have with other systems out there. But we're shipping the production configuration here at the end of August to get it, I don't know if the right word is certified, so we can go on with the actual intercept. So we should get a qualification pretty soon, within a month, I would say. and then, you know, I think the fifth one on the list, we're looking at early next year systems that we're shipping late August and I think accounting for about a six-month qualification process. I think we'd put as sort of mid-Q1 for the last one on this bucket of in-qualification.

Krish Sankar | Analyst, TD Cowan:

Got it. Very helpful, Luis. And then as a quick follow-up, you mentioned about are getting traction in silicon photonics for the optical engine. Can you quantify how much that opportunity will be either this year, next year, or the next few years? And is this mainly an insertion one, or which insertion are you targeting?

Luis Müller | President and CEO:

Yeah, today we are shipping interface solutions, not handlers, not full handlers yet. We're shipping interface solutions for insertion 3D, which is the optical engine test. and that's what we commented here on prepared remarks that we booked in the second quarter. I think it was a half a million dollar order for Interface. And this is a continuation of a business we started in Q1. We are shipping or planning to ship a qualification unit for insertion three by the end of the year with a handler. We're also demonstrating an insertion four configuration We have a handler to certain customers that I don't really have a specific timeline for shipment yet. I don't know if it's going to be Q4 or Q1 next year. A little tricky now getting systems to go on qualification given the production orders that we're satisfying. I haven't quantified. We haven't quantified yet the total CPO revenue in 27, 28 because we view it as part of the evolution of HPC. So it's embedded in the $850 million pipeline at the moment. Thank you very much, Luis. Congrats again. Thank you.

Operator | Conference Operator:

Our next question comes from Brian Chin with Stiefel.

Brian Chin | Analyst, Stiefel:

Hi there. Good afternoon. Nice results and outlook, and thanks for letting us ask a few questions. Maybe the first question, looking at this The multi-stage pipeline graphic you have in the slides. I think last cut it was aggregating to $750 million. Now it's $850 million. Can you maybe break down what that $100 million increase is? And I think part of this maybe is that recurring portion. Can you also maybe explain and break down what you mean by recurring?

Luis Müller | President and CEO:

Okay. Yeah. Hi, Brian. Yeah, two separate things. On the totality of the pipeline increase to $100 million by $100 million, it's really getting better visibility in the forecast. And I think we added a couple of customers in the in-engagement phase as well. But we certainly have better visibility now on the customers that are in the in-qualified or qualified, I should say, the qualified portion of the pipeline. of the pipeline, and the numbers are bigger, what they're giving us for next year than what we had originally estimated. To your question on recurring, there are really three components to recurring. One of them is device application kits. You know, these device life cycles are typically 18 months in production, something else launches, and you've got to do a new device kit for that handler. The other component is thermal heads. You don't necessarily change the entire thermal head, but as devices grow in size, so does the required thermal head coverage over the die. It could be multi-dies. It could be actually even multi-skyline heights on dies. So that thermal head touchdown on the die has to evolve with the product evolution. So that's an upgrade element. of the system. It could also include a thermal head itself if the upgrade includes higher filing. And the third element is basically the maintenance of the equipment. You know, there are spares and consumables in the equipment. Part of that today, I guess a fourth element that is novelty here is the software sale. As I mentioned last quarter, we sold, I think it was about $330,000 a year subscription software into an HPC customer in conjunction with system orders. And that has a lifetime, you know, through the product lifecycle, I think we estimated a few million dollars lifecycle value, lifetime value of that software subscription. So that would be sort of the fourth component that I forgot to mention, but it's part of recurring.

Brian Chin | Analyst, Stiefel:

Okay, great. That's That's super helpful. Also, in terms of the full-year revenue guide increase going from 25% to 35% growth, I think that's something like $45 million on the math there. You want to increase your HPC forecast by maybe you call it $10 to $15 million. And so I guess the majority residual there is all the kind of like the core business. historical core business for Kogi. Can you maybe expand upon kind of what you're seeing there in terms of improvement? Industrial, obviously, is taking up.

Jeff Jones | Senior Vice President and Chief Financial Officer:

Yeah, that's right, Brian. Seeing industrial pick up, we're seeing the utilization rate overall pick up, and part of the growth there in the second half, or actually full year, is the growth in recurring revenue. So that's grown nicely. I think it's been a category of 5% here over the last – So it's really a nice increase. But you're right, it's the core business that's coming back led by industrial.

Brian Chin | Analyst, Stiefel:

Maybe if I could sneak in one last thing. And just from a supply standpoint, Jeff and Luis, I know that the in-qualification bucket is not banded within 2027 or a year interval even, but What do you start targeting to be able to get capacity to do in, you know, 12 months' time or whatever horizon in terms of the Malaysia expansion and kind of what that, given what the business looks like in terms of the following?

Luis Müller | President and CEO:

Yeah, Brian, frankly, that's a key question because as part of the, you know, 35% projected growth in fiscal 26 this year, I don't think we have much more room to grow on the HPC side this year. We are expanding capacity between end of Q2 and end of the year. The plan is to increase output by about 50% over the next six months, and that's for the HPC handlers specifically. The middle of next year, the intent is to increase output by a little more than 100%, so double, essentially, the output, or a little more than double between now and June, July next year. And we do see a path to triple that output between now and the end of next year if the market takes us there on the HPC side. So that's a That's essentially we are evolving that HPC production pipeline in Malaysia and our factory in Malaysia in line with the expansion of the business in this customer pipeline that yields $850 million here. That's the idea. It's a bit easier to do it in our own site. We are expanding the factory in Malaysia. We already started fitting out the production floor. We're looking at a new Thank you very much. and more suppliers to support the expansion plan that we have in plan and being presenting here. Great.

Brian Chin | Analyst, Stiefel:

I appreciate the update. Thank you.

Operator | Conference Operator:

Our next question comes from Kevin Gerrigan with Jefferies.

Kevin Gerrigan | Analyst, Jefferies:

Hey, guys. Congrats on the great results. Hey, your new customers and engagement, can you just talk a little bit more about how those opportunities developed? Are these customers that are, you know, using competing platforms and are looking to switch? And, you know, how much additional opportunity do you see beyond the current pipeline that you have? So, you mentioned $850 million. I mean, is it pretty much sky's the limit at this point?

Luis Müller | President and CEO:

Well, there is always a limit. There's a finite number of customers out there. We We're not really engaged with all of them yet. And I think we're quite honestly fairly busy here, Kevin, with some of the 20, sorry, the 19, 20 customers that we have on the list. There's a lot to do here. There's a lot of projects, a lot of applications and qualifications in work. Will we add more? Sure. You know, as these customers float, Down this pipeline, and it starts to get wider at the bottom, we'll start adding a few more at the top. But, you know, you can imagine who the names are, right? I'm not going to rattle them on the call. I shouldn't, but they're essentially the fabless and hyperscalers that are developing or have developed their own semiconductor GPUs or or CustomASIC devices, network processors, you know, in their variety of names there, including, you know, cancer processors and whatnot that they have their own names for their CustomASIC devices, right? So,

those are the constituents on this customer pipeline.

Kevin Gerrigan | Analyst, Jefferies:

Got it. Okay. Yeah, that makes a lot of sense. And then can you just talk about the, you mentioned higher input costs, any specific components that you can kind of call out? And, you know, are these components something that you expect to be, you know, a potential headwind for getting systems out the door at some point?

Jeff Jones | Senior Vice President and Chief Financial Officer:

Hey, Kevin, it's Jeff. At the moment, it's mainly memory. Memory is sort of leading in the higher costs and longer lead times and so forth. We've taken advantage of advanced purchases and looked out over multiple quarters and made buys based on the quantities that we need for that time frame. So it's not an issue for Q3, and our guidance has taken into consideration all of the risks and potential constraints. So at the moment, we're working through it. Like Luis said, though, it is probably the biggest challenge at the moment is ramping supply chain.

Kevin Gerrigan | Analyst, Jefferies:

Okay, perfect. Thanks, guys, and congrats. Thank you.

Operator | Conference Operator:

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

Craig Ellis | Analyst, B. Reilly Securities:

Yeah, thanks for taking the question and nice job on the execution, guys. I'll start with some things that are just near term. You mentioned that we're looking for third quarter growth at 14% quarter on quarter with HPC and some of the traditional businesses contributing to growth. Can you provide a little bit more detail on the relative contribution of each as we look at this quarter's growth?

Jeff Jones | Senior Vice President and Chief Financial Officer:

Yeah. Hey, Craig. It's roughly about 50% HPC driven and 50% core business. So about 10 million out of each.

Craig Ellis | Analyst, B. Reilly Securities:

Got it. Thanks for that, Jeff. And then as we look ahead to the fourth quarter, remind us what you would think the seasonality would be of 4Q. And then as we look ahead, are there any particular items we should be aware of as we think about more one-off things that could be impacting the business beyond the third quarter?

Jeff Jones | Senior Vice President and Chief Financial Officer:

To answer the first part of your question, we have stated that we now see revenue increasing about 35% year over year. So that puts us in a range of about $610 million to $615 million for the year. And to get there, that would basically be Q4, sort of flattish to Q3.

Luis Müller | President and CEO:

Yeah, as far as seasonality, Craig, with utilization now broadly hovering at 80%, right, and a couple markets here at 82, a couple markets at 77, 78%, we're right at that threshold that If we see a seasonality pull back, I think it would quickly accelerate again in Q1. But we're not really sure exactly how that's going to play in Q4. So at the moment, we're viewing this poor business kind of staying flattish going into Q4. As I mentioned before, I think we're kind of maxed out on output on HPC side in Q4 as well. We're still building that capacity through the end of this year. So That's the positive news. We did get here in early Q3 a single customer order for $26 million again for our Eclipse systems for the HPC market, and that's largely going to ship in Q4 as well. So that Eclipse output capacity is filling up quickly here in the fourth quarter already.

Craig Ellis | Analyst, B. Reilly Securities:

Yes, you've got really good visibility on the fourth quarter. And going back to the comment on capacity and being pretty high without relative to capacity, Luis, what are the levers that you have that can give you some wiggle room in the first half of next year before you get the big 100% increase around mid-year to the extent that you do have any?

Luis Müller | President and CEO:

Well, I don't know if it's wiggle room, Craig. It's really a lot of hard work from the supply chain side and operations side with the expansion of the factory in Malacca. We're also doing a small expansion in the Philippines because that's where we build the thermal heads. So, I wouldn't necessarily call it wiggle room, but I think we're on track right now to, like I said, to really double our output between the quarter just finished and beginning of next year, end of this year, beginning of next year. So really looking forward to being able to deliver a $250 million incremental HPC or $250 million HPC revenue next year or more. I mean, it depends. I think we have some wiggle room more into next year where we could potentially triple the output as the market takes us there.

Craig Ellis | Analyst, B. Reilly Securities:

Got it. Okay, so the step up is

Operator | Conference Operator:

Our next question comes from David Dooley with Steelhead Securities.

David Dooley | Analyst, Steelhead Securities:

Good afternoon. Thanks for taking my question. I'm sorry to kind of continue to all along the HPC questions. When I look at your funnel chart this quarter of qualified customers, you have four for $150 million, and last quarter it was three for $100 million. So there was one customer kind of adding to the qualified segment that added up to about $50 million. I'm kind of wondering when you look at the five other customers that are in

Qual, how should we think about the mix of those customers? Are they all, do I just take five and divide by the average there, or how should we think about it? how each customer adds to the qualified SAM.

Luis Müller | President and CEO:

Yeah. Hey, Dave. So we do have – no, there's a bit of a range here. You know, we have customers that we view as low $30 million annual opportunity. We have a couple customers that – are likely to be individually $60 million annual opportunity. And I'm looking at a table here. And that's about the range, actually. It's sort of $30 to $60 million on a per individual customer base.

David Dooley | Analyst, Steelhead Securities:

Okay. Thank you. And you just gave me one of my other questions, which is, The way your capacity expansion is unfolding, you will be able to double the revenue stream of your Eclipse high-performance computing segment in 2027.

Luis Müller | President and CEO:

Yes, into early 2027. And then from there, I think tying a little bit with Craig Ellis's question, we do have some wiggle room to expand further from there. and we'll see how this funnel develops and then we'll drive that expansion in 2027. But for now, just hang your hat on. We'll be able to double the output we just finished in Q2 of this year by the end of this year, meaning into early 2027. Now, remember, that's more than where we started in 2026. So the reality is if we're delivering 100 to 110 million this year, We should have the capacity to do more than $200 million, probably close to $250 million by the beginning of next year, all things being, you know, linear throughout the year. And from there, we can expand more in 27 to exit at a higher rate in 2027 again.

David Dooley | Analyst, Steelhead Securities:

Okay. And as far as just remind us who the key competition is for some of these slots and, you know, or are a lot of these brand new that you know where it's a jump ball or is there someone that is kind of the incumbent with a lot of these customers?

Luis Müller | President and CEO:

It's pretty much a single competitor, so to speak. I mean, you can claim there's a second one, a second competitor out there, but I would say there's primarily a single competitor, which has been the, you know, forever supplier at the Tesla contractors. It's Han Precision from Taiwan. has been the primary competitor in this space. And as power levels are increasing in these more complex processors, right, all sorts of classification of processors, the management of power dissipation is becoming much more prevalent and driving a much stronger interest by, like I said, the fabless and the hyperscalers into finding a solution to the problem. which Cohuse Thermotechnology is one big company here in the Bay Area said Cohuse Thermotechnology is sort of the best thermal in a market period in the story. Let's figure a way to make this happen.

David Dooley | Analyst, Steelhead Securities:

Okay. Well, that's great to hear. Now, just switching gears, final question for me is when you look at your core business, you know, kind of obviously you're guiding Flattish. That's, you know, seasonality is being overcome by, and the return of the cyclical business, so to speak. And I think when I listened to the big OSAT in Taiwan's conference call last night, they were basically, they upticked their growth rate for wire bonding core assembly business from 13% this year to 20% for calendar 26. And they expect that growth rate to continue. So I'm kind of wondering, and their utilization rates are also in the 80-85% and the quote was we can't keep up with purchasing equipment. So I'm wondering what your customer, your core customer behavior is. You know, there's a list of eight or ten of these guys and they're not all, some of them are automatically exposed and so I think probably that those guys aren't are coming in for the sort of traditional volume that we've seen in the past, where they're ordering, you know, somewhere between 10 and 20 systems in a

Luis Müller | President and CEO:

and N1PO. So that's sort of coming back to that original pattern that we're familiar with from the past, predominantly with the industrial-based customers. And I think you can see from the earnings release which ones are kind of spearheading the return to business.

David Dooley | Analyst, Steelhead Securities:

Thanks very much and congratulations on nice results. Thanks, Dave.

Operator | Conference Operator:

Our next question comes from Dennis Piacinan with Needham and Company.

Dennis Piacinan | Analyst, Needham & Company:

Great, thank you very much. So I have a question about the HPC rates. So I think previously it was about 90 million expected for calendar 26. Now I think it's about 105, so 15 million incrementally higher. Maybe you can tell us, is more of the upside coming from Eclipse handlers or the neon HPN inspection systems?

Luis Müller | President and CEO:

Hi, Dennis. Yeah, you're right. If you pick up the midpoint of the ranges we gave before and now, it is really a 15 million increase. Note that the new range is also tighter. You know, we originally had an 80 to 100 million range, and now we're calling 100 to 110. This whole increase is on the Eclipse HPC side, entirely there.

Dennis Piacinan | Analyst, Needham & Company:

Thank you. And then I have a question related to some of these challenges with components specifically related to memory. So do you think you'll be able to pass on some of these costs to your customers in the next, say, three or six months, or will you basically have to kind of eat that into your gross margin?

Jeff Jones | Senior Vice President and Chief Financial Officer:

Hey, Dennis, we've just started conversations with customers, so I would say stay tuned on that.

Dennis Piacinan | Analyst, Needham & Company:

Thank you. Well, that's it for me. Thanks a lot.

Operator | Conference Operator:

Our next question comes from Quinn Fredrickson with Baird.

Quinn Fredrickson | Analyst, Baird:

Hey. Afternoon, guys. Thanks for taking the question. Just on the cyclical piece, specifically on automotive, I think you mentioned your prepared remarks that orders were soft there. It sounds like one of the few areas that was the case. So, what's your visibility of the timing of a turn in that business?

Luis Müller | President and CEO:

Yeah, it's a good question. I think that is a market that has been a little bit more sporadic. We had, if I'm not mistaken here, we had a bit of a bump in the last two quarters in the automotive. And then in the last quarter, it kind of came back down a bit again. So I think it's been bouncing around. I would expect, frankly, that automotive would not be at 80% up until probably late Q1 or Q2 of next year. That would be my expectation. But like I said, it's been the one that's lagging a bit across the end markets on the core business side.

Quinn Fredrickson | Analyst, Baird:

Thanks. That's helpful. And then on OpEx, can you discuss just your ability to pursue the full $850 million HPC pipeline would you be able to pursue that full pipeline at this third quarter level of about 54 million of OPEX or would there be additional investment you'd have to make?

Jeff Jones | Senior Vice President and Chief Financial Officer:

That is the plan and the forecast at the moment is to stay at this and we think it's a bit elevated from a prior model but to continue to invest and have OPEX remain pretty constant at this level, about $54 million. So we think that's a good level that provides the resources necessary to capitalize on these opportunities.

Luis Müller | President and CEO:

And just to clarify as well, Quinn, for you and for others, when we talk about the $850 million, that's sort of an annual spend, right? That's what we see these customers spending annually on. on this class of equipment, which is largely Eclipse for HPC. So, if we were to capture the fatality of this opportunity, you know, now, immediately, we would see an $850 million revenue stream next year. That's not the case. You know, we're qualifying over time, and we'll see how this evolves. The market is also changing and growing, but that's just to clarify that it's not 850 over multiple years. It's 850 spend per year. are the customers that we're talking about here.

Craig Ellis | Analyst, B. Reilly Securities:

Right. That's helpful. Thanks.

Operator | Conference Operator:

Our next question comes from Vedvati Shrotra with Evercore ISI.

Vedvati Shrotra | Analyst, Evercore ISI:

Hi. Thanks for taking my question. The first one I have is, so with agentic AI, we are seeing the CPU to GPU ratios changing, right? We're seeing a higher CPU ratio versus CPU. How does this sort of play for you in the HPC opportunity? Like, where do you see, how do you see yourself participating in this kind of shift?

Luis Müller | President and CEO:

Hi, Vee. This is Luis. First of all, you're correct. We're seeing a much strong, a very strong demand on the CPU side. Traditionally, I would say that the CPUs would have been at slightly lower power levels than the GPU, but that's actually changing. And CPU power in task, I should say, is really approaching the GPU levels. How does it change? I don't know that it really changed. You know, the whole intention and purpose of our product configuration is to be flexible and be able to straddle across applications without having to change the capital equipment. but changing the configuration instead, perhaps upgrading thermal heads for different applications. So we do a pretty good job right now straddling both CPU and GPU and reusability of the equipment. So it doesn't quite matter to us where the market in that ratio goes because that's one of the fundamental value propositions of our Eclipse system. You can do... both the thermal management at the higher power levels, but you can also use the same equipment at straddling down to lower power levels and across different applications.

Vedvati Shrotra | Analyst, Evercore ISI:

Understand. So, how about the penetration? Like, there are three across the x86 and the ARM ecosystem. How are you thinking about the pipeline and the penetration of the customers at the CPU suppliers?

Luis Müller | President and CEO:

I would have to go count to tell you where we are today. I don't know at the top of my head, but I'm going to venture to say, well, I'm not going to venture to say.

Craig Ellis | Analyst, B. Reilly Securities:

I'm going to say I would have to go count.

Luis Müller | President and CEO:

But it is, again, not that relevant to us. We have probably strongest shipments in Q2 that were maybe by 86. or maybe that's going to be Q3 shipments. I would have to go look. But it straddles across both.

Vedvati Shrotra | Analyst, Evercore ISI:

I understand. Okay. And then one last question. So you talked about sort of the, you know, input costs and also alluded to your kind of the supply chain shortages. So maybe can you talk about how your lead times have changed in the last three months?

Jeff Jones | Senior Vice President and Chief Financial Officer:

Yeah, I mean, just for clarification, we haven't seen any shortages yet, and again, when we've got the opportunity to make some pre-buys, we're doing it, and that's worked for us pretty well. However, these pre-buys, particularly on, mainly on integrated circuits, are purchased at an increased cost, and so there's the higher input cost. Although we're securing the supply, it's coming at a little bit higher cost. And as I mentioned before, we're just initiating discussions now with customers about how we pass that on.

Luis Müller | President and CEO:

And Eclipse Hammer right now is, I think the lead time is just feeling check. We're holding well to 13, 14 weeks from receipt of PO. With that said, we have signals that The orders are coming. We have the customer forecast. And so we are getting ahead of it, so to speak, part of what Jeff just said. So when we get the PO itself, we can respond. Now, like I said earlier, a couple weeks ago, we got a $26 million single customer order, right? So as you can imagine, there are tens of systems. We're not going to ship all that quantity in 13 weeks lead time. We got a certain capacity per week. and that quantity is going to fill up multiple weeks of shipment. So 13 weeks to the first system shipment but straddles across multiple weeks from there and then gearing up for the subsequent order from another customer now that would ship in the latter part of Q4.

Vedvati Shrotra | Analyst, Evercore ISI:

I understand.

Operator | Conference Operator:

Thank you very much.

Luis Müller | President and CEO:

You're welcome. Thanks, Steve.

Operator | Conference Operator:

Our next question comes from Christian Schwab with Craig Callum.

Christian Schwab | Analyst, Craig Callum:

Great. Thanks for letting me speak in a question here. Great quartering guide. I just have one question. It's been quite some time since we've been operating in a core business with 80% plus utilization and customers ordering to add capacity. Can you remind us historically when capacity is added, when utilization rates, go above 80% and the demand environment works to be continued. How many quarters or how long does capacity typically get added? We talked about initial orders kind of being 10 to 20, which was in line with

historical norms for systems, but how long does that happen for?

Jeff Jones | Senior Vice President and Chief Financial Officer:

We would say about six quarters is probably the typical... Thank you very much.

Christian Schwab | Analyst, Craig Callum:

a few quarters ago talking a little bit more aggressively about M&A, but given the fact that the court business and, you know, the AI market growth is, well, you know, chasing extremely strong demand, you know, are you still looking at M&A or we don't want to get distracted with M&A when the court business is so strong?

Matt Hutton | Vice President of Strategy and Investor Relations:

Yeah, hi, this is Matt. Yeah, I think you're right, right? The number one priority is obviously execution. There definitely are opportunities to accelerate in some areas, our growth areas in HPC and in software, and we'll continue to look at build versus buy opportunities there. But yeah, I think you nailed it. It's execution and looking at other ways to and possibly accelerate some of our growth areas.

Christian Schwab | Analyst, Craig Callum:

Fantastic. Another question. Congrats on the strong results again. Thank you. Thanks, Christian.

Operator | Conference Operator:

That concludes today's question and answer session. I'd like to turn the call back to Matt Hutton for closing remarks.

Matt Hutton | Vice President of Strategy and Investor Relations:

Thanks, operator. Before we sign off, I'd like to note that we will be attending the following investor conferences over the next three months. The Needham Virtual Semiconductor Conference on August 19th, the Jeffrey Semiconductor Conference on August 24th in Chicago, and the CEO Summit on October 13th in San Francisco. If you plan on attending any of these conferences, please reach out to your conference contacts or let us know, and we'll arrange for a one-on-one meeting. I'm also pleased to announce that COHU will host an Investor Day on November 10th in New York City, where we will provide a deeper look at our strategy, strategies, and long-term financial framework. Additional event details will be shared closely to the date. Thank you for joining today's call. 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.