NASDAQ:COHU Q3 2026 Earnings Call Transcript

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Conference Operator | Operator:

Good day and thank you for standing by. Welcome to COEU's third quarter 2026 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'll 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. I'd now like to hand the conference over to your speaker today, Matt Hutton, Vice President, Strategy and Investor Relations. Please go ahead.

Matt Hutton | Vice President, Strategy and Investor Relations:

Good afternoon and welcome to our conference call discussing COHU's third quarter 2026 financial results and our outlook for the fourth quarter of 2026. I'm joined today by Luis Muller, COHU's president and CEO, and Jeff Jones, COHU's senior vice president of finance and CFO. If you need a copy of our earnings release, it can be found on our website at coho.com or by contacting Coho 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 reflects 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 SEC. including the most recently filed Form 10-K and Form 10-Q. Our comments are current as of today, October 28th, 2026, and COHU does not assume any obligations to update these statements for events occurring after this call. Additionally, we will discuss certain non-GAAP 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 over the call to Luis Muller, Cohu's president and CEO. Luis?

Luis Muller | President and Chief Executive Officer:

Good afternoon, and thank you for joining Cohu's third quarter 2026 earnings call. We delivered solid third quarter progress as high-performance computing adoption accelerated and recurring revenue growth strengthened. Revenue increased 37% year-over-year to $173 million. Bulk-to-bill was solidly above 1%, In total, bookings grew 126% year-over-year, driven by a 318% increase in systems bookings and 36% growth in recurring bookings. Systems represented 59% of third-quarter bookings, and recurring business represented 41%. These results reflect broad-based portfolio improvement, growing adoption of our Eclipse thermal solutions for high-performance computing, and accelerating demand for services, consumables, and software that provide a stable foundation for long-term value creation. Our annual high-performance computing opportunity pipeline expanded to approximately $1 billion and continues to mature as more customer programs advance through qualification and into production. We're raising our fiscal year 2026 high-performance computing revenue outlook to approximately $120 million. To support growing customer interest and an expanding opportunity funnel, we're scaling manufacturing capacity and working closely with supply partners with the goal of delivering approximately three times as many Eclipse handlers in 2027 as in 2026. Estimated semiconductor test capitalization improved to 82% at the end of the third quarter, up 2 percentage points sequentially and 7.5 points year-over-year. Computing customers drove system demand, with bookings increasing 81% sequentially, driven by rapid adoption of our Eclipse thermal handler for testing

processors used in data centers. We also delivered continued improvement in interface solutions, strong momentum in inspection, and a record quarter for software analytics bookings and revenue. Let me now review the quarter by product line. Starting with high-performance computing, this remains one of our most important growth areas for the company. During the quarter, the annual opportunity associated with our Eclipse platform expanded by about 18% to approximately $1 billion. The funnel now includes 13 ranked customer programs, plus additional early stage engagements spanning server and data center processors, CPUs, GPUs, networking devices, custom accelerators, silicon photonics, HBM inspection, and related services. This breadth diversifies the business opportunity across device architectures, customers, and revenue streams. The traction is visible in both the scale and the maturity of the funnel. We now have programs representing $230 million in qualified annual revenue potential and another $440 million in active qualifications. Additional systems and application hardware are being shipped for engineering evaluations, production device qualification, and capacity planning, while the funnel continues to expand across more programs and strategic accounts. At a major networking customer, the initial device has qualified on Eclipse in the third quarter and we are preparing to ship a production configuration thermal head for a higher power device validation during the fourth quarter. Looking at the next wave, five additional customer programs are scheduled to reach major qualification milestones between late November and first quarter of next year, with two more targeted to start in the same period. Together, these seven programs represent approximately $340 million of annual systems revenue based on current customer planning. We remain on track with our internal production expansion, and we're working closely with supply partners to ensure they ramp in tandem with our manufacturing capacity. This coordinated execution is important to support customer schedules and expand Cohu's business in 2027 and beyond. Customers are evaluating Eclipse because it combines precise thermal control of high power and power density devices during tests, scalable automation, and an architecture that can support multiple device generations, including future rollout of optical interfaces. These capabilities are increasingly important as AI processes become larger, hotter, and more complex, and as customers seek standardized platforms that can improve utilization and reduce time to yield. Now turning to high bandwidth memory and inspection. We continue to ship final inspection systems for HBM-3 and HBM-4 to a U.S.-based customer during the third quarter. The customer has designated Cohue as a strategic supplier and is working with us to plan for potentially steeper ramp scenarios. Neon inspection systems also shipped in volume to integrated device manufacturers in the third quarter. Backlog is growing and we're booked deep into the first quarter of 2027. We also progress towards an advanced package inspection qualification with the NEON platform. to prove our vision technology's ability to detect both visible and subsurface microcracks. We expect to soon complete an agreement with a large US-based integrated device manufacturer supporting shipment of demonstration systems in the first quarter of 2027. We're poised to grow our advanced packaging and HBM inspection business meaningfully in 2027 by pursuing large customers that can benefit from the NEON platform's differentiated vision technology. These applications support expanding AI and high-performance computing ecosystem and represent a $330 million addressable market opportunity for Cohume. Moving to interface solutions, we delivered another quarter of sequential growth with increasing momentum in computing test interface applications. During the quarter, We secured first interface orders with two leading hyperscale customers for processor tests. These wins establish new positions in final tests and system-level test applications and create pathways to broader production adoption. In Copackage Optics, We won additional interface applications that combine high-speed electrical contact with precise optical alignment for simultaneous electrical and optical testing. We also delivered our first interface production solution for a major HPC customer and are progressing to follow-on opportunities for devices with substantially higher pin counts and data rates. Together, these design wins position us to participate in an estimated $200 million annual market for computing final test and system-level test interface solutions. Our focus is converting current hyperscaler processor networking co-package optics engagements into production revenue. Turning next to AI power and semiconductor test. AI infrastructure is driving a major transition in power architecture. as RAC power moves from traditional levels of 10 to 30 kilowatts to well above 100 kilowatts, data centers are adopting higher voltage distribution and more efficient power conversion to address thermal reliability and operating cost challenges. These technologies are expected to extend beyond hyperscale data centers into industrial automation, automotive electrification, edge AI, and physical applications. This broadens demand for power devices that operate at higher voltages and currents, increasing the need for scalable and accurate

semiconductor test solutions. In semiconductor tests, We continue to advance DiamondX in AI power management applications. A leading customer is ramping production with our platform for testing power management ICs used in server boards. We also remain on track to release new high current and high voltage capabilities in December ahead of anticipated production ramps in the first half of 2027. These power management applications represent an approximately $290 million serviceable addressable market opportunity for Cohue. Switching to software analytics, annual recurring revenue in software analytics increased 85% sequentially, contributing to record bookings and revenue for the business. Growth was led by expanding production deployments, including a large repeat order for a leading high-performance computing customer and an expanded AI-based HBM inspection software deployment at a leading memory manufacturer. We also booked our first volume license for prescriptive maintenance software on earlier generation Cohue handlers, creating a meaningful attach opportunity across our install base. Our next release for high-power thermal handlers is designed to reduce troubleshooting from upwards of five days to less than one hour, while keeping customers' data inside the factory through our on-site AI appliance. Beyond Cohue equipment, Pay proofs of concept and evaluations are expanding our platform into specialty gas and chemical delivery systems, front-end wafer fabrication equipment, test operations, and wire bonding. Let me conclude with our priorities and outlook. Looking ahead, our priorities are clear. Convert the high-performance computing funnel into production revenue, Thank you for joining us today. For 2027, we expect revenue growth of approximately 30% to 40%, driven primarily by conversion of our high-performance computing opportunity funnel. The high end of the range would depend on the timing of customer qualifications and production ramps, provided market conditions remain strong. This outlook is supported more by rising power and test intensity than by processor unit volume growth. Thank you to our employees around the world for their continued dedication and execution, and thank you to our customers and shareholders for their continued support. With that, I'll turn the call over to Jeff to review your financial results and outlook in more detail. Jeff?

Jeff Jones | Senior Vice President of Finance and Chief Financial Officer:

Thank you, Luis. Before reviewing the third quarter results and providing fourth 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. Q3 2026 revenue was $173 million above the midpoint of guidance. Recurring revenue driven primarily by consumables represented 48% of total revenue, providing a meaningful contribution to the quarter. One compute customer accounted for more than 10% of total sales during the quarter. Gross margin was 45.7% above guidance, reflecting improved cost leverage in the manufacturing of our interface products. Operating expenses were in line with guidance at $53.5 million. Net interest income was approximately $1.5 million after interest expense and a $500,000 foreign currency loss. The Q3 tax provision was $3.7 million lower than guidance due to improved profitability in the U.S. Non-GAAP EPS for the third quarter was $0.43 and adjusted EBITDA margin was 16.6%. Moving to the balance sheet, we ended the quarter with increased liquidity and positive cash generation. Cash and investments increased by approximately 10 million during Q3 to 508 million, and cash from operations was approximately 6 million. Total debt is 310 million and includes 288 million from the Q4 2025 convertible debt offering. Capital expenditures were approximately $3 million, mainly for manufacturing machinery and equipment, facility improvements, and IT equipment. We continue to target 2026 total capital expenditures of approximately 2% of revenue. This includes capacity expansion of our Malaysia and Philippines manufacturing facilities to support growing customer demand for our Eclipse thermal handler in the high performance computing market. Looking ahead, we're expecting Q4 revenue of approximately $178 million plus or minus $7 million, representing year-over-year growth of 46%. This outlook reflects the ramp of high performance computing opportunities and continued recovery in our core business segments. We're raising our full-year 2026 revenue growth outlook to approximately 38% over 2025. Q4 gross margin is projected to be approximately 44%, and we expect full-year 2026 gross margin of approximately 45%. In the near term, the rapid increase in high performance computing demand is creating longer lead times and higher input costs for certain

semiconductors and specialty components. We're taking proactive steps to secure critical components and minimize the impact on lead times, profitability, and customer pricing. We're also working closely with our supply chain partners to expand manufacturing capacity, improve availability, and reduce these incremental costs over time. Operating expenses are expected to be approximately $57 million, reflecting continued investment in resources and product development materials to capitalize on the growing pipeline of high performance computing opportunities. We believe this is the time to invest behind our differentiated thermal technology Secure Customer Wins, and Scale Cohuse Business. These targeted investments are expected to support near-term Eclipse system sales and build a growing base of recurring revenue from the consumables and services associated with these highly complex thermal solutions. Net interest income in Q4 after interest expense and foreign currency impacts is projected to be approximately $1.4 million at current interest rates. The Q4 tax provision is expected to be about 3.3 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 U.S. 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. As we execute on these opportunities, we remain focused on progressively increasing EBITDA margin and free cash flow. Turning to 2027, our preliminary view, based on our high-performance computing opportunity funnel and the continued recovery of our core business, is for revenue growth of 30% to 40% over 2026. At that revenue range, we expect gross margin of 46% to 48%. We expect quarterly operating expenses to remain in the $54 million to $56 million range similar to 2026 as we realign costs from our core business toward high performance computing products and customers. This disciplined cost approach combined with revenue growth is expected to produce significant operating leverage with approximately 50% of incremental revenue falling to operating income. And that concludes our prepared remarks and now we'll open the call to questions.

Conference Operator | 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. Our first question comes from David Dooley with Steelhead Securities. Hello.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

Thanks for taking my question. Luis, you mentioned something about a couple of interspace wins with hyperscale customers that I guess could lead to a final test in SLT system sales. Could you just elaborate on that particular topic a little bit more?

Luis Muller | President and Chief Executive Officer:

Yeah. Hi, Dave. Well, I think it's a little too soon to be talking about SLT, to be honest with you. We talk about having hyperscale customers in the funnel, and this is specific to our final test business. We have them qualifying the Eclipse Handler, a couple of them actually in late-stage qualification. So we'll describe more of that business when it starts translating into sort of volume revenue here in the coming quarters.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

Okay, and as far as the Eclipse revenue, next year you talked about shipping several hundred Eclipse systems, and I'm just wondering, when you think about the output for the calendar year, is it going to be second-half weighted, or what does the shape of Eclipse system shipments look like?

Luis Muller | President and Chief Executive Officer:

Yeah, good question. I think it's actually going to be a ramping through the year, Dave. We should see a pretty decent volume in the second and the third quarter. There will be volume in Q1 as well. We don't have a good view on the fourth quarter at this point, but I would say sort of increasing from Q1 into the summer months, potentially a peak through Q2, Q3, or possibly even ramping further Q3 to Q4, but We don't know much about Q4. The bottom line is we're looking at putting enough capacity in place to ship three times more Eclipse systems next year than we're shipping this year in 2026.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

And so the overall capacity is, you mentioned, I guess, shipping three times more. What is the capacity plan for The balance of this year and into next year as far as, I mean, I imagine you're tripling or quadrupling or something like that. I think you talked about 2Xing it a couple different times, so maybe just elaborate a little bit more on the capacity plan.

Luis Muller | President and Chief Executive Officer:

Yeah, we're increasing the capacity this year, exiting the year twice the year. Output per week rate, then we exit at the end of the first half of the year, then we exit at June. And that continues to increase through June of next year. So, obviously, it's a ramp. In totality, if you kind of look at in totality, is that it is to be able to output three times more Eclipse systems next year, but still ramping between January and June next year.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

Okay, thank you.

Conference Operator | Operator:

The next question comes from Quinn Fredrickson with Baird.

Quinn Fredrickson | Analyst, Baird:

Hey, good afternoon. Can you discuss in that 30 to 40 percent growth for 27, how much is HPC versus just continued market recovery in the rest of the business? I think you had sized HPC as maybe 200 to 250 million previously. I'm just wondering if that's changed it all with the incremental qualified revenue and just the overall expanded pipeline.

Jeff Jones | Senior Vice President of Finance and Chief Financial Officer:

No, Quinn, I would say that it's probably at the higher end of that range would be our estimate at the moment. As Luis said, we're looking to triple our capacity and output on Eclipse systems, and so that would put us at least at the high end of that range.

Quinn Fredrickson | Analyst, Baird:

Got it. Okay. And then could you discuss test cell utilization amongst each of your key markets and just wondering how we should be thinking about that progression over the next several quarters, whether this couple hundred bits of improvement you saw this quarter is sustainable or whether any markets get a little choppier outside of compute?

Luis Muller | President and Chief Executive Officer:

Well, like we said here, we got about 82% test cell utilization at the end of the third quarter. The compute business is actually leading the pack. We have, I think it's 84% utilization in the compute sector. We got 83% utilization industrial, about 80% utilization in automotive. We don't really forecast utilization for the coming quarters, Quinn. Never done that before. We do know that the core business tends to have a seasonality. I don't think Our next question comes from Krish Sankar with TD Cowen.

Robert Mertens | Analyst, TD Cowen:

Hi, this is Robert Mertens on the line for Chris. Thanks for taking my question. I guess the first one just around the new high-performance compute pipeline estimate. It looks like for the year you raised revenues, maybe like 120 million from 105 and brought up the full pipeline. Was that more of just giving more clarity from your customers and their grant plans, or was it an additional customer qualification or additional engagement that you didn't have last quarter?

Luis Muller | President and Chief Executive Officer:

Well, actually, we're gaining more clarity on the customer forecast for 2027, Robert. So a couple of our customers have come in with specific requirements need dates for system throughout next year. And generally speaking, they are growing, their business is growing. So the funnel, the total opportunity funnel size is getting larger. The customers that were qualifying or have completed a qualification and now moving to a production device are also giving us a little bit more clarity now on what they need for 2027. In aggregate, these numbers are getting a little bigger than what we had before. So the funnel is getting bigger. It's not like we're necessarily adding a lot more customers in the funnel. It's really getting more clarity from those customers and what they need in 27, either from the ones, you know, both from the ones that we have qualified and the ones that were in late stage qualification at the time, at this time.

Robert Mertens | Analyst, TD Cowen:

Great. Thank you. That's very helpful. And then just, I guess, a broader one in terms of as you're adding capacity and ramping up with customers, we've definitely heard a lot of pain points throughout the supply chain in terms of component tightness. Have you seen that crop up anywhere for your own business or for your customers? Or is it more really just around higher component costs and more on the memory side?

Luis Muller | President and Chief Executive Officer:

No, we see some tightness on specialty components that we use in our systems. We have been working with the suppliers. We have been looking at alternative suppliers and alternative solutions as well to augment what we currently use. I think at this point we're doing okay. Don't see it necessarily as a constraint to business today. But obviously with the intent of tripling The output, the system output next year, we need to be cognizant that so do our suppliers. They need to ramp up their capacity or alternative suppliers have to come

in and augment that.

Robert Mertens | Analyst, TD Cowen:

Great. Thank you. That's helpful. And congrats. Thanks.

Conference Operator | Operator:

Our next question comes from Craig Ellis with B Reilly.

Craig Ellis | Analyst, B. Riley:

Yeah, thanks for taking the question, guys. I apologize. I'm getting into The Q late, so you may have touched on this already. It looks like from the investor presentation, we're doing a nice job of raising our computing pipeline by around 13% to a billion. Can you just talk a little bit about what's driving that strength and how you're feeling about the way you're converting from engagement through qualification and then down to what gets qualified?

Luis Muller | President and Chief Executive Officer:

Hi, Craig. Yeah, we were just talking a minute ago about this. We have better visibility now from both customers that are in the qualified bucket and the customers that are in late-stage qualification now that are opening up and describing more of their capacity needs in 2027 and the timeline of when they need that capacity. So it's just, you know, the numbers are growing, basically. There are elements in the funnel that we don't have any better visibility than we did a couple months ago. But several of these customers we have better forecast now into 2027. And the demand is larger than we had originally anticipated. So in aggregate, the funnel is a billion dollars, potentially a billion plus, as we see today for 2027. Qualification is going well. made a comment here during the prepared remarks that we had a network processing customer that qualified the initial device in Q3. We're moving now to ship a new thermal head to that customer pretty much now so we can do a final qualification on the actual production device that we should be ramping in 2027. We got a few other customers that have moved down the funnel. a couple of hyperscaler customers that are now providing some visibility and engaging on discussions on needs and volume needs for 27.

Craig Ellis | Analyst, B. Riley:

Got it. And Luis, as you think about the breadth of customers that are unqualified and I take it the ones you mentioned are contributing to revenue this year, can you just talk a little bit further about How broad are reaches today in terms of the customers that we're engaged with versus those that are revenue generative? And what are you learning about the cycle time from engagement to revenue generation?

Luis Muller | President and Chief Executive Officer:

The breadth is pretty much how we described it earlier, Craig. We have customers here that are CPU. There's been a lot of CPU business in 2026. We're seeing quite a bit of custom ASIC business opportunities to augment into 2027, network processors as well into 2027, some GPU business into 2027. So it cuts across a variety of products and a multitude of customers, actually, pretty broad, from hyperscalers to phablets to, I guess, one IDM in the mix. So, feeling very happy, very good about the opportunity. This is tremendous, actually. So, I don't know, what was the second part of your question again?

Craig Ellis | Analyst, B. Riley:

Oh, I think it was just about the cycle time that you're learning from initial engagement to revenue generation.

Luis Muller | President and Chief Executive Officer:

Yeah, it's about, as we described before, we have usually a first device to qualify on that is what is currently in production, generally a lower power device. Once that is used to qualify the system, then it comes a second pass for typically a next generation device, thermal head, that needs to be delivered on an existing system. Once that gets to be installed, we're looking at about six to eight weeks to qualify that thermal head, and then production follows that. If you put it all together in a timeline, approximately 9 to 12 months has been the cycle that we observed for some of these qualifications all the way to being actively in production. So a lot of these things are going to be converting here between kind of late November into the end of Q1. We should be seeing quite a few of these customers converting into business.

Craig Ellis | Analyst, B. Riley:

Good for you. And then if I could just flip to an area that we haven't been talking about as much lately. The mobile business, I think it's showing at about 10% of system revenue in the third quarter. A large entity has changed the way they're releasing products and is going to much more balanced 4Q, late 3Q, 4Q, 1Q releases. What implication is there for the seasonality of your business based on what's happening with that large smartphone OEM?

Luis Muller | President and Chief Executive Officer:

So the mobile business is, like you can see here on the graph, it's sort of the smallest of our business segments at the moment. Orders have increased quarter and quarter in the third quarter, but still, If you look forward here, it's likely to be the smallest or second smallest of our business in terms of revenue over the next one to two quarters. I don't expect a lot of change necessarily in the mobile business in the near term. Seasonality-wise, it depends. As usual, we have one major customer in the space here that tends to place orders late in the year, beginning of the year. It's a product line, thermal subsystems that we sell that tend to have a little bit longer lead times. We have another customer that typically comes in second into early part of third quarter. So that is sort of entering a seasonally slow part of the year right now and then picks up again second quarter coming up 2027. I don't expect a dramatic change given the size of the business today.

Conference Operator | Operator:

Our next question comes from Kevin Gerrigan with Jefferies.

Kevin Gerrigan | Analyst, Jefferies:

Hey guys, congrats on the great results. Once Malaysia is operational, how much additional capacity will you have above the 3x eclipsed shipments if Customer Forecasts, where to increase again, and what would be the bottleneck there if you wanted to increase capacity again?

Luis Muller | President and Chief Executive Officer:

So just remember when we talked about the increase in 3X, that specific true eclipse, right? So we still have the capacity in Malaysia to do the core business. You know, same capacity we had back in 2021, 2022. We obviously have flexed direct labor down during the down cycle of the market. We can flex it back up. Supply chain, same story, flex down, flex back up. But that capacity is generally the same subject to flexing the supply chain and the demand power. With that said, if you put it all together, we'll be in a position to I think ship over 2,000 systems next year if we were to utilize the entire capacity for handlers, right? Eclipse specifically is the one that we've been commenting that is expanding here to 3X of 2026 because that relates to the high performance computing market.

Kevin Gerrigan | Analyst, Jefferies:

Got it. Got it. Okay. That makes sense. And then as a follow-up, on the power management IC program that's ramping for server boards, can you just describe how that opportunity developed? Was DiamondX replacing some of your competition, or was this a new test requirement?

Luis Muller | President and Chief Executive Officer:

No, DiamondX is replacing an incumbent supplier. Obviously, there aren't that many options for names here in the market to look into, right? It is replacing one of those incumbent names that you're familiar with. It's our focus in the analog market, particularly now high current, high voltage instrumentation and intercepting the deployment of gallium nitride technology that is being used in power management devices going into servers, server boards.

Kevin Gerrigan | Analyst, Jefferies:

Okay, perfect. Thank you, and congrats again on the great results.

Luis Muller | President and Chief Executive Officer:

Yep, thanks. Thanks, Kevin.

Conference Operator | Operator:

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

Dennis Piacinin | Analyst, Needham & Company:

Thank you very much. My first question is about your in-qualification system customers. So we saw a $165 million increase in that number versus last quarter. Can we assume that this is predominantly for Eclipse? And maybe you can perhaps discuss which products or customer groups are driving this growth.

Luis Muller | President and Chief Executive Officer:

It is exclusively Eclipse, actually, Dennis. This is all Eclipse related. I mean, obviously, I'm not going to disclose customer names, but we have, let me look here specifically, we have a couple of hyperscalers in that bucket. We have a number of fabulous companies in that qualification bucket as well, including fabulous that

are partnering with and supporting hyperscalers in the process. So there's both a hyperscaler direct business and a hyperscaler through a fabulous business in the mix here. So I'm not gonna obviously disclose the names, but it's a pretty rich pool of, customers on the in-qualification bucket right now.

Dennis Piacinin | Analyst, Needham & Company:

Maybe as a direct follow-up to that, some of these fabulous companies supporting the hyperscalers, this is related to networking and data center?

Luis Muller | President and Chief Executive Officer:

They are related to data center, indeed. They are related to some custom ASIC-type devices as well.

Dennis Piacinin | Analyst, Needham & Company:

Thank you. And then for my second question, I think you spoke about some additional business for the Neon system for advanced packaging. Was this for a new customer or a new application at an old customer?

Luis Muller | President and Chief Executive Officer:

For Neon, this would be a new customer. Not a new customer for Kohu. It is a computing customer of Kohu today. but we don't sell any inspection systems to this customer. So it would be a new customer out using Neon into their product lines, into what they're doing with advanced packaging technology right now. So it would be dye level inspection for advanced packaging. And we don't sell any inspection systems today at the moment.

Dennis Piacinin | Analyst, Needham & Company:

Great. Thank you very much.

Danielle Italio | Analyst, Stifel:

You're welcome.

Conference Operator | Operator:

Our next question comes from Danielle Italio with Stiefel.

Danielle Italio | Analyst, Stifel:

Hi, this is Danielle Italio on for Brian Chin at Stiefel. My first question is more on the recurring revenue side. As you're having conversations with customers and you're going through the upgrade process, are you seeing a larger opportunity from the actual dollar content being higher per upgrade or more frequent upgrades just due to device complexity?

Luis Muller | President and Chief Executive Officer:

So the upgrade cycle, when we talk about computing in particular, right, the upgrade cycle is about to start to some of the systems we have shipped over a year ago where new devices are getting launched and new thermal hands are being purchased for Eclipse systems that have been installed. We don't know exactly how this is all going to take shape in years to come. What we know today is many of these devices have about a year and a half life cycle, two years life cycle. And at the end of that, there's a new product that comes out. We typically sell device application kits to those new products. But now in the high-performance computing side, a lot of times we also have to replace the thermal head. The die size has increased. The power management requirement has increased. So a new thermal head entirely needs to be replaced or a new thermal module has to be replaced going along with device kits. I would expect, I would hope, that we will see an increase in recurring revenue associated with Eclipse because of those thermal heads. We've seen this in the past when Koyu had a strong business in the computing market, and I expect that to be the case here going forward. But quite honestly, we are new. Thank you for joining us.

Danielle Italio | Analyst, Stifel:

Okay, thank you. Yeah, that makes sense. And then for my follow-up, when you're having conversations with customers, specifically looking into next year, 2027, do you get the sense that they are looking for more than one supplier? Do they prefer to have two vendors? What are the conversations that you're having around this type of topic?

Luis Muller | President and Chief Executive Officer:

We have seen a mix of both, to be honest with you. We have seen customers putting an entire product line on our system once we break into the device market. We haven't quite seen a lot of split business by device family. So I think the experience here is too early on for us. But as I said, what we see to date is, let's say we get the entirety of a data center device market while Our competitor has the entirety of a different device family. But again, we're coming into the market. So a little early to say when we're still coming up to $120 million revenue this year. It's a good question to re-ask about a year from now and see how that really has evolved. But up to this point, yeah, it seems like when we take a device family, we take the entirety of that device family. That's the limited experience we have, but the experience we have thus far.

Danielle Italio | Analyst, Stifel:

Okay, thank you and congrats.

Luis Muller | President and Chief Executive Officer:

Thank you.

Conference Operator | Operator:

Our next question comes from Christian Schwab with Craig Hallam.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

Hey guys, this is Ben Paxson for Christian here. Great quarter. I just had one question, you know, as, you know, visibility improved with the customers in the 1 billion pipeline, you know, customers moving from, you know, engagement to qualification. Do you guys still think there's a large opportunity for new customers? Or is this, you know, you're kind of maxed here? I mean, I'm just trying to think of, you know, as... in engagement. Is there an opportunity to take that even higher going forward?

Luis Muller | President and Chief Executive Officer:

So with Final Cast, Ben, what we're seeing is about a billion dollars of opportunity pipeline, as we put in our deck here, and about a billion and a half in sort of addressable market. What we're working towards is actually potentially tapping into another vertical in the test phase that would create, let's say, another opportunity pipeline on top of a final test. We're not there yet, but we're looking more into sort of broadening what we supply, broadening our service in our products so that we can add another Sam or another Tim in total to our business. That would be something we would talk more into, you know, deeper into 2027. But for now, looking at final tasks, like I said, Opportunity Pipeline of a billion, SAM of about a billion and a half.

David Dooley / Ben Paxson | Analyst, Steelhead Securities / Analyst, Craig-Hallum:

Great. Really helpful. A lot of my other questions were asked. Great quarter. Thanks, guys. Thank you. Thank you, Ben.

Conference Operator | Operator:

Our next question comes from the line of Dennis Piacinini with Niedermann Company.

Dennis Piacinin | Analyst, Needham & Company:

Great. Thanks for letting me read to you. Just one question about automotive and industrial, since it doesn't seem like anyone is interested in these. Systems are up slightly this quarter. Utilization continues to pick up. What are your key customers in this space telling you about the next several quarters? Are you seeing bookings pick up at all?

Luis Muller | President and Chief Executive Officer:

We're seeing bookings. You know, you ask automotive and industrial. We're seeing bookings pick up in industrial in particular. I mean, we've seen a pickup in automotive as well, but predominantly in industrial. I'll give you a sense. Quarter over quarter, industrial system orders have increased 52%. Automotive has increased 23%. So, you know, sure, a good improvement in auto, but if you look at both side by side, we're now at a point that the industrial market from a booking perspective is almost the same size as automotive. Historically, automotive being twice the size of industrial, we're approaching parity now and I would expect in the coming quarters that industrial will surpass automotive. It's just the trend today is That's really helpful. Thank you.

Conference Operator | 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, Strategy and Investor Relations:

You will see that we filed a preliminary proxy statement today for a special meeting of stockholders later this year to ratify certain actions previously approved by the Board and our stockholders. The ratification is intended to address a technical issue relating to the record dates for the prior meeting and provide certainty regarding the validity of those actions. Please see the preliminary proxy statement for further information. Before we sign off, I'd like to note that we will be hosting our Investor Day on November 10th in New York City, where we will provide a deeper look at our strategy, growth opportunities, and new midterm financial model. Please visit ir.cohu.com for additional details, including registration information. I'd also like to note we will be attending the following investor conferences over the next three months. Baird's Global Industrial Conference on November 12th in Chicago, the CEO Summit on December 15th in New York City, and the Needham Growth Conference on January 14th virtually. Thank you for joining today's call. We look forward to speaking with you soon.