NYSE:BHE Q3 2025 Earnings Call Transcript

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Ina | Conference Operator:

Ladies and gentlemen, and welcome to the Benchmark Third Quarter 2025 Earnings Call and Webcast. I'll give you some online certain lesson only mode. Following the presentation, we will conduct a question and answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on November 4th, 2025. And I would like to turn the conference over to Paul Manske. Thank you. Please go ahead.

Paul Manske | Vice President, Investor Relations:

Thank you, Ina, and thanks, everyone, for joining us today for Benchmark's third quarter 2025 earnings call. With us today are Jeff Bank, our CEO, David Moesides, our President and Chief Commercial Officer, and Brian Shoemaker, our CFO. After the market closed, we issued an earnings release pertaining to our financial performance for the third quarter ending September 2025, and we have prepared a presentation which we will reference on this call. Both the press release and presentation are available under the investor relations section of our website at bench.com. This call is being webcast live and a replay of which will be available on our website approximately one hour after we conclude. The company has provided a reconciliation of our GAAP to non-GAAP measures in the earnings release as well as the appendix to the presentation. Please take a moment to review the forward-looking statements disclosure on slide two of the presentation. During our call, we will discuss forward-looking information As a reminder, any of today's remarks, which are not statements of historical fact, are forward-looking statements, which include risks and uncertainties as described in our press releases and SEC filings. Actual results may differ materially from these statements. Benchmark undertakes no obligation to update any forward-looking statements. For today's call, Jeff will start with an overview, followed by Brian's detail of our Q3 results and forward guidance. We will then turn the call over to David to discuss demand trends by sector and some additional color on recent wins. Jeff will conclude with some final remarks before opening the call for Q&A. If you'll please turn to slide four, I'll turn the call over to our CEO, Jeff Bank.

Jeff Bank | Chief Executive Officer:

Thank you, Paul. Good afternoon, and thanks to everyone for joining today's call. Before I get started, I would like to remind everyone of a press release we issued in early September detailing our succession planning at Benchmark. in which we announced that David Moesides has been promoted to president and will be the next benchmark CEO, effective March 31st, 2026, upon my retirement. I'm confident in the board's decision and believe he's the right successor as we embark on the next phase of the company's growth. Congratulations again, David. Now, onto our third quarter 2025 results, which again demonstrated our consistent execution. Revenue of 681 million showed a return to year-over-year growth. With non-GAAP EPS of 62 cents, both revenue and earnings were at the high end of our prior guidance. Q3 represented the eighth consecutive quarter of 10 percent or greater gross margin. As we'll discuss momentarily, I was particularly encouraged by the broadening of sectors that contributed to our revenue growth. We expect this trend to continue in the fourth quarter, where we anticipate improving year-over-year growth. Turning to slide five for highlights in the quarter, mapped to our strategic objectives. During the quarter, we saw double-digit year-over-year growth in both medical and A&D, and sequential growth in four of our five sectors. Semicap was the exception, where we saw some softening in demand from our OEMs due to increased China restrictions and the evolving tariff environment. Meanwhile, we continue to book new program wins in the sector, which David will speak to later in the call. Our re-acceleration of revenue has been supported by solid momentum through the year and new bookings. The third quarter was a continuation of the same, including strategic customer wins in both engineering and manufacturing. Turning to financial discipline, the entire team remains focused on working capital management and approving our inventory terms, the result of which was a multi-year record cash cycle quarter. Coupled with our net income performance, we generated $25 million in free cash flow, which adds up to greater than $74 million generated over the last 12 months. We're doing this while continuing to invest in the business, including the construction of our new fourth PT building in Penang, Malaysia. I might add that while we're investing abroad, our America's manufacturing footprint is still approximately 50 percent of our total capacity, which is a key differentiator as more customers look to build domestically or at least increase their exposure to U.S. manufacturing production. I'll now turn the call over to Brian to discuss our third quarter results in more detail and provide our fourth quarter outlook. Brian, over to you.

Brian Shoemaker | Chief Financial Officer:

Thank you, Jeff, and good afternoon, everyone. Please turn to slide six. Revenue in the quarter of $681 million was up 6% sequentially and at the high end of prior guidance. Our non-GAAP EPS was 62 cents at the high point of prior guidance of 56 to 62 cents. As a reminder, our non-GAAP results exclude stock-based compensation, amortization of intangible assets, restructuring, and other expenses. For Q3, our non-GAAP gross margin was 10.1%, down 10 basis points sequentially, and year over year due to mix. Non-GAAP operating margin was 4.8%, up 10 basis points sequentially, driven by our ability to leverage our cost basis on higher revenue. Our third quarter non-GAAP effective tax rate was 24.5%. Please turn to slide seven for our third quarter 2025 revenue performance by sector. ACNC revenue was up 18% quarter over quarter while down year over year. In medical, revenue was up 15% versus the prior quarter and 18% year over year. Industrial revenue was up 8% quarter over quarter and 1% year over year. In A&D, revenue was up 2% quarter over quarter and 26% year over year. Finally, Semi-cap revenue decreased 3% quarter-over-quarter and 1% year-over-year. Please turn to slide 8 for trended non-GAAP financials. Q3 revenue was up compared to prior quarters, and we have consistently delivered non-GAAP gross margin of 10% or more. Please refer to slides 9 and 10 for discussion of our balance sheet, cash flow, and working capital trends. In Q3, we generated $37 million in operating cash flow and $25 million in free cash flow. Our cash balance on September 30th was $286 million, an increase of $21 million from Q2. As of September 30th, we had $149 million outstanding on our term loan and 70 million outstanding against our revolver, from which we have $476 million available to borrow. Our Q3 2025 liquidity ratio, as calculated by our debt covenant, was 0.2 down from 0.7 in the prior year period. We invested approximately $11 million in capital expenditures during the quarter, primarily to enhance capabilities and infrastructure at our Americas and Asia facilities, supporting long-term growth and operational efficiency. Demonstrating our ongoing commitment to return value to shareholders, we distributed cash dividends of $6 million and repurchased 10 million in stock during the quarter. At the end of the quarter, we had approximately 124 million remaining in our existing share repurchase authorization. Our cash conversion cycle in the quarter was 77 days, improving eight and 13 sequentially and year over year respectively. Inventory days were down eight sequentially as we continue to actually manage our inventory as we grew the top line. This focus translated into inventory turns of 4.8 in the quarter. Please advance to slide 11. Let me now turn to our guidance for our fourth quarter of 2025. We expect revenue to be within a range of $670 to $720 million, up mid-single digits year over year at the midpoint. We expect non-GAAP gross margin to be between 10.1 and 10.3%. With those assumptions, we would expect non-GAAP operating margin to be between 5 and 5.2%. On a GAAP basis, we expect expenses to include approximately $2.3 million of stock-based compensation and $4.9 to $5.3 million of non-operating expenses, including amortization, restructuring, and other charges. Our non-GAAP diluted earnings per share is expected to be in the range of $0.62 to $0.68. Interest and other expenses are expected to be approximately $4.3 million. We expect our Q3 effective tax rate will be between 24% and 25%. Our weighted average share count is expected to be approximately $36.2 million. With that, I would like to turn the call over to David to discuss market sector performance and outlook. David?

David Moesides | President and Chief Commercial Officer:

Thank you, Brian. And hello, everyone. Let's please turn to slide 12 for a discussion of our performance and outlook by sector. I'm pleased to share that we had another terrific quarter of meaningful bookings. Our go-to-market strategy and our breadth of capabilities in all geographies differentiate us well in the market. Let's turn to some of them. First, our AC&C revenue performed better than initially expected in the third quarter. While we were down year over year, we saw strong sequential growth aided by improvements in both advanced computing and communications. During the quarter, we had several bookings, one in engineering and in EMS, a notable award for a security appliance program. To summarize our outlook on AC&C, we have much improved visibility into a return to growth as a result of our AI wins that are starting to ramp in Q4 and into 2026. coupled with HBC builds over the coming quarters. Turning to medical. As I shared on our July call, we believe we've turned a corner in the first half of the year, as our customers' channel inventory normalized and end demand improved. At the same time, we have been ramping new products from prior bookings reported earlier in the year. In the quarter, this translated to a return to revenue growth in the team, both sequentially and year-over-year. These same dynamics lead us to expect sequential and year-over-year growth to continue in the fourth quarter. Longer term, I continue to be encouraged by our traction in the MedTech subsector, which has been growing for several quarters now. In fact, MedTech delivered a few large engineering wins in the quarter across more than just one customer. We view engineering as an excellent on-ramp to potential follow-on manufacturing wins. Our industrial sector revenue performance was up high single digits sequentially, but flat year over year. This was consistent with the expectations we provided on the last quarter's call, which called for strengthening throughout the balance of the year. We continue to see that being the case with a return to year-over-year growth expected in the December quarter. I was pleased by the industrial sector's bookings this past quarter, which included a number of manufacturing wins in the transportation subsector as well as design work in surveillance and detection. Looking forward, we view industrial as representing a substantial source of future upside for us, both as a function of expanding our base business, as well as adding new market-leading customers. Moving to A&D, we had another strong double-digit year-over-year revenue performance in the quarter, and expect solid year-over-year revenue growth in Q4. This is driven by stability in commercial air, while defense demand remains strong. Meanwhile, our satellite and space business continues its impressive ramp, which has seen bookings momentum steadily building throughout the year. In the third quarter, we saw a significant step up which I'm excited to say included a couple of very substantial manufacturing wins. Our broad exposure across growth subsectors in A&D, coupled with ongoing new business momentum, provides us with confidence in the sector. Finally, in SEMICAP, September quarter revenue was roughly flat, as expected. as new program ramps were offset by near-term industry challenges and cyclical recovery. Although semi-cap demand is taking longer to ramp than traditional cycles, the multi-year growth catalysts are evident everywhere, from incremental AI-related demand to increased silicon content in everyday products to daily announcements of new fabs being planned. Throughout, our commitment to this sector is unwavering, evidenced by our capacity expansion both domestically and in Malaysia. This commitment resonates with our customers, as every quarter we see program expansion winds spanning both across precision machining and engineering. Although near-term demand signals remain mixed, Looking a bit further out, our conversations with customers point to signs of strengthening in the second half of 2026 with the potential of acceleration as the year progresses. In summary, as you can tell, some very exciting things are going on across each of our market sectors. I look forward to updating you on our progress in the coming quarters. With that, I'd like to turn the call back over to Jeff for his closing remarks. Jeff?

Jeff Bank | Chief Executive Officer:

Thanks, David. Please turn to slide 13. I firmly believe Benchmark is at one of the most compelling points in the company's history. Over the last 90 days, I've traveled around the world visiting some of our top customers and am both impressed with and grateful for the depth and breadth of the strategic partnerships my team and I have established over the last seven years. At the same time, I visited many of our facilities in North America, Thailand, Malaysia, Romania, and the Netherlands, where our site teams are executing well and focused on customer satisfaction, driving further efficiencies and providing a safe work environment for our employees. We've also built a commercial organization designed to complement our site teams and accelerate our business development efforts. Our unique value proposition and customer-centric approach is clearly resonating and our bookings momentum with existing customers and new competitive takeaways is proving the point. Our diversified portfolio in five high value sectors better enables us to successfully navigate market fluctuations. As we progress through the first three quarters of 2025, we've achieved a return to sequential growth. And now with our three quarter results and 4Q guide, we return to year-over-year growth. As we've improved our business fundamentals, incremental growth in 2026 will enable us to demonstrate leverage in our model that will enable us to grow earnings faster than revenue. Throughout, we will continue to prudently manage our spending to balance growth, profitability, and cash generation, while at the same time returning capital to shareholders. With that, I'll now turn the call over to the operator to conduct our Q&A session.

Ina | Conference Operator:

Thank you. Ladies and gentlemen, we will now begin the question and answer session. Should you have a question, please press star four by the one on your telephone keypad. You will hear a prompt that your hand has been raised, and should you wish to cancel your request, please press star four by the two. If you're using a speakerphone, please lift the handset before pressing any keys. One moment, please, for your first question. Thank you. And your first question comes from the line of Steven Fox from Fox Advisors. Please go ahead.

Steven Fox | Analyst at Fox Advisors:

Hi. Good afternoon, everyone. A couple questions if I could. First of all, on the high performance compute comments, I know that those programs at times have been quite sizable. Can you maybe just sort of characterize them? And I guess we're talking about sometime mid to late 26 to see revenues from what you're talking about. Thanks.

Jeff Bank | Chief Executive Officer:

Yeah, I mean, I think we talked about on the script about a few things. We certainly have seen traditionally with our high performance computing, you know, working on three of the top five supercomputers in the world. Those are really large projects, and they can last for multi-quarters, but they tend to be, you know, they have a fixed duration that goes on and then ends. We are working on some new solutions that will go into some of the large government installations with our customers, and we expect that we'll start to see work on those in 26th. Some of that will even move into 27. But one of the things, Steve, we talked about as well on the call is that that capability for those large platforms and the water-cooled infrastructure that we have supporting that is also enabling us to play more directly in some of the AI opportunities. And so while we're not really looking at the... the cloud, you know, what you would say the model builders or necessarily the cloud infrastructure guys, we are looking at the sovereign AI and enterprise AI opportunities and see an opportunity to participate there, which is what we talked about, you know, starting from this quarter and, you know, ramping into 26.

Steven Fox | Analyst at Fox Advisors:

Great. That's super helpful. And then, Just on the semi-cap comments, I mean, we've heard from a number of companies that have been sort of talking about customers pointing to the second half of 26. I was wondering if you could sort of address sort of that, the probability, the timeline, why it can happen. And secondly, you did mention some of your advanced machining capabilities pulling down some wins. I wonder if that was more or less momentum or anything else you could say about what's going on with machining in terms of winning programs. Thanks.

David Moesides | President and Chief Commercial Officer:

Hi, Steven. I'll take that one. This is David. How are you? I'm good, David. Thanks. Let me start by our view of the second half. It really has a lot to do with the customer conversations that we've had. As you're probably aware, Semicon was here. The show was in Phoenix a few weeks ago, and we had the opportunity to sit down with pretty much all of our customers And then we had some follow-up sessions after that as well. And for the most part, there was a lot more optimism exuded in the conversations that I would say prior years. And there was more dialogue around what we're doing to position ourselves and prepare ourselves for the liftoff. So that's why we thought it's important to point out that there's indications, positive indications that this is going to pick up in the second half of 2026. For the second part of your question around precision machining and our continued wins in that space, I'd say the fact that we've made these significant investments, particularly in Penang, Malaysia, has really served us well. A lot of our customers are looking at their supply chain and looking to partners like us to provide them with alternate solutions, particularly in low-cost locations. We're in a terrific position to be able to do that. And as Jeff mentioned, we are investing in PT4, which further positions us to expand in this space.

Steven Fox | Analyst at Fox Advisors:

Great. That's all super helpful. And congrats, David, on your appointment as well. Thank you, Stu.

Ina | Conference Operator:

Thank you. And your next question comes from the line of Max Michalis from Lake Street Capital Market. Please go ahead.

Max Michalis | Analyst at Lake Street Capital Markets:

Hey, guys, thanks for taking my question. I want to go back to the A&D space. Looking at the space award, can you remind me, is this your second award? And then as well, maybe along with the A&D space, is there any other subsectors, niche areas of A&D that you're also seeing grain shoots from, kind of similar to space?

David Moesides | President and Chief Commercial Officer:

I'll address that. This is David. The one that we've been really bullish on and we've been calling out is it has been in the space and communication arena. And this is somewhat of a one-two combination. We won some business in the prior period and we won some more incremental business in the current period. So that's somewhat some of the elements we're talking about step up and our confidence and in this space.

Jeff Bank | Chief Executive Officer:

I also might just add that while space has been particularly stronger for us and our work there, we also just continue to see the defense side of the business do well. So obviously defense spending is increasing, particularly in Europe, as well as maintaining the level in the Americas. So that really is kind of underpin the strength. And then adding to that some of this new space is, you know, those two are probably outdriving growth over traditional commercial air for us.

Max Michalis | Analyst at Lake Street Capital Markets:

Perfect. All right. And then the last one for me, just around AI. I mean, have you guys thought about what sort of the enterprise AI and some of these large programs that you're ramping up next year, what AI could be as a percentage of revenue of the AC&C business?

Jeff Bank | Chief Executive Officer:

Yeah, we have talked about it, and certainly we're looking at forecasts. I think we just want to get a bit further into it before we really try to put an estimate on it, just because, you know, the timing is not always, you know, exactly defined in terms of the ramp. We know there's a lot of demand there. But because we're not really focused on the hyperscalers but supporting more of the commercial and enterprise markets, kind of opportunities. I think that that is staged a little bit later than, you know, some of these huge build-outs that we've seen right now. And then the sovereign AI, you know, you have seen governments say, look, we don't want to rely on everything just in the cloud, and we're excited about that opportunity as well. We're talking about it because it can be meaningful, but I think it's a little early. I'd like to see us ramp it a couple quarters and be able to give you more colors. So I would say, you know, hang tight, and as we get into 26, we'll try to give you a little more visibility.

Max Michalis | Analyst at Lake Street Capital Markets:

Awesome. Thanks, guys. No worries.

Ina | Conference Operator:

Thank you. Once again, should you have a question, that is star and 1 to ask a question. Your next question comes from the line of Jim Rusciutti from Needham. Please go ahead.

Jim Rusciutti | Analyst at Needham:

Hi. Thank you. Good afternoon. You may have touched on this. I apologize. I joined the call a little late. But I'm wondering if customers in any of your verticals that have exposure to the government have expressed any concerns for seeing any delays at all related to the government shutdown.

David Moesides | President and Chief Commercial Officer:

Hey, Jim. How are you? This is David. We've actually seen minimal impact uh, in, in the shutdown affecting our customers. Um, you know, we've got kind of long range contracts and, and as a result of that, um, it's, it's, it's really not being felt by us. So that's really the short answer.

Jeff Bank | Chief Executive Officer:

Although that being said, we would love to see it come to an end just because the knockout effects of going longer, you know, there's probably some inevitability that somewhere we may see something, but it's fortunate to, To this point, as David said, we really aren't seeing an impact yet.

Jim Rusciutti | Analyst at Needham:

Got it. And then maybe switching gears over to the medical. Some of the supply chain and industry players in this vertical, I think, have called out the fits and starts in the medical market over the past year. I'm just wondering how you're seeing demand as you look out into 2026. Have we seen the inventory levels get burned down? Are you just a little bit more confident about the momentum and the recovery in this part of the business?

David Moesides | President and Chief Commercial Officer:

Yeah, it's David again. Look, I think there's two parts to the answer. One is, and I mentioned this in the July call, and I perhaps exuded some bullishness as a result of it, where I mentioned that we feel that we've turned a corner as the inventory is starting to clear up in our customers' channels. And certainly, that's proving to be right. And we've seen pretty good growth in Q3, and we're projecting that growth to continue into Q4 and 2026. But let me talk about the other side of the equation. On our July call, I had also mentioned that we won a competitive takeaway, which was a lift and shift. And the reason why I emphasize the word lift and shift in medical, when you get a lift and shift when the time to revenue is certainly faster than when you win something ground up and the ground up opportunity could take 18 to 24 months or longer for it to hit volume. But when you do a lift and shift competitive takeaway, it moves a lot faster. And the compliment goes to our engineering and our operations team for coming up with a world-class automation solution in this particular award.

Jim Rusciutti | Analyst at Needham:

That's great. David, thanks for the reminder on that. And by the way, I wish you the best of luck. You as well, Jeff.

David Moesides | President and Chief Commercial Officer:

Yeah, thank you. Thanks, Jim. Thank you.

Ina | Conference Operator:

Thank you, and your next question comes from the line of Anja Soderstrom from CDOT. Please go ahead.

Anja Soderstrom | Analyst at CDOT:

Hi, thank you for taking my questions. A lot has been covered already, but nice work on the cash cycle. Is there more room for improvement there, or how should we think about the cash conversion?

Brian Shoemaker | Chief Financial Officer:

Yeah, you're right. I mean, we've made significant progress if you look over the last couple of quarters, especially in the inventory. It started off at 89 days in Q1. went down to 83 days in Q2, and now in Q3, hit 75. So yeah, we've had a lot of focus on that, working with advanced planning, global procurement excellence, working with customer engagement, supplier collaboration, lean manufacturing. So we feel good about where we're going with this. We may see some bumps depending on kind of the growth side of it, but as you saw this quarter, we've been able to manage through that and feel good about our position. So We're at 4.8 turns right now. Again, we've always talked about the 5.5 moving in that direction, so we feel good about the continued momentum there.

Anja Soderstrom | Analyst at CDOT:

Okay, thank you. And then how should we think about CAPEX spend for 2026? Do you expect that to accelerate over this year?

Brian Shoemaker | Chief Financial Officer:

Yeah, I mean, it's probably up some from this year. If you look at kind of finishing up PT4, continue to invest in our factories, both on kind of the automation front and some other things to continue to improve the performance out of the factories. And then also, as you think about some of the growth that David and Jeff have been talking about, we may experience some additional there. So it won't be significant, but it is moving towards that top end of 2% probably.

Jeff Bank | Chief Executive Officer:

Yeah, definitely growth-driven as we – have a number of large wins that, you know, won't be so much more facilities related other than the PT4 finish that Brian talked about. But just incremental equipment in the facilities to support some of the revenue growth I can anticipate seeing a tick up there.

Anja Soderstrom | Analyst at CDOT:

Okay, great. Thank you. That was all from me.

Jim Rusciutti | Analyst at Needham:

Thank you.

Paul Manske | Vice President, Investor Relations:

Operator, are there any other questions?

Ina | Conference Operator:

No further questions at this time. I will now hand the call back to Mr. Paul Manske for any closing remarks.

Paul Manske | Vice President, Investor Relations:

Thank you, Ina, and thank you, everyone, for participating in Benchmark's third quarter 2025 earnings call. For updates to upcoming investor conferences and events, including a replay of this call, please refer to the events section of the IR website at ir.bench.com. With that, we thank you again for your support and look forward to speaking with you soon. Have a good evening.

Ina | Conference Operator:

And this concludes today's call. Thank you for participating. You may all disconnect.