NYSE:BHE Q1 2026 Earnings Call Transcript

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Operator | Conference Operator:

Thank you for standing by. Welcome to the Benchmark Q1 fiscal year 2026 earnings call and webcast. All lines have been placed on mute to prevent any background noise. After this speaker Zoom works, there will be a question and answer session. If you'd like to ask a question during this time, simply press star followed by the number one on your telephone keypad. If you would like to withdraw your question, please press star one again. Thank you. I would now like to turn the conference over to Paul Manske, Benchmark Investor Relations. You may begin.

Paul Manske | Head of Investor Relations:

Thank you, Operator, and thanks, everyone, for joining us today for Benchmark's first quarter 2026 earnings call. With us today are David Moezidis, our President and CEO, and Brian Shoemaker, our CFO. After the market closed, we issued an earnings release pertaining to our financial performance for the first quarter of 2026, along with a presentation which we will reference on this call. Both are available under the investor relations section of our website. This call is being webcast live, a replay of which will be available approximately one hour after we conclude. The company has provided a reconciliation of our gap to non-gap 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 historical statements of fact, are forward-looking statements, which involve 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, David will start with an overview, followed by Brian's further detail of our Q1 results and guidance. We'll then turn the call back to David to share his perspective on sector trends and closing remarks. If you please turn to slide four, I'll turn the call over to our CEO, David Moesides.

David Moezidis | President and Chief Executive Officer:

Thank you, Paul. Good afternoon, and thank you for joining us today. In the first quarter, we delivered revenue of $677 million and EPS of 58 cents, both coming in towards the higher end of our expectations. Our first quarter performance reflects solid execution across the business and meaningful progress in our strategic priorities. As we look ahead, the combination of improving end market conditions and our momentum in SemiCap and ACNC and the operational discipline we've been emphasizing gives us greater confidence in our outlook for the year. We now expect full year revenue growth to be in the nine to 10% range up from our prior expectations of mid single digit growth. We also expect EPS growth to outpace revenue as we remain focused on execution and disciplined expense management. Turning to slide five. During the quarter, we saw evidence of improvement across a broad cross section of our end markets, reflecting the benefits of our well balanced portfolio. Medical revenue continued to accelerate year over year, and SemiCap returned to double-digit sequential growth. Within ACNC, the AI-related wins we've discussed on prior calls have begun to ramp, and our confidence continues to improve. Meanwhile, performance across the rest of the portfolio was in line with our expectations. These are early but clear signs that the customer-first initiatives we began implementing over the past two years are taking hold. That shows up in more disciplined customer engagements, clearer program prioritization, and more consistent execution across the portfolio. We also delivered another quarter of solid bookings performance. This consistency reinforces our confidence in both

the pacing of the year and the sustainability of our growth outlook. Operationally, we continue to drive leverage with both operating income and earnings growing faster than revenue year over year. At the same time, our sustained focus on working capital efficiency drove another quarter of strong free cash flow, despite stepped up investments to support future growth. While we remain mindful of the broader environment, Demand signals are stronger today than they were 90 days ago. Regardless, our priorities do not change. Stay close to our customers, execute with consistency, and continue to build a more resilient operating model. In short, we're encouraged by how the year has started and by the momentum we're seeing as we move forward. With that, I'll turn the call over to Brian to walk through the financial details for the quarter.

Brian Shoemaker | Chief Financial Officer:

Thank you, David, and good afternoon, everyone. Please turn to slide six. Revenue in the quarter was $677 million, up 7% year-over-year and above the midpoint of our prior guidance of $655 to $695 million. Non-GAAP EPS was 58 cents, which was at the higher end of our prior guidance range of 53 to 59 cents. As a reminder, our non-GAAP results exclude stock-based compensation, amortization of intangible assets, restructuring, impairment, and other items as detailed in Appendix 1 of this presentation. For the first quarter, non-GAAP gross margin was 10.3%, improving 20 basis points year-over-year and decreasing 30 basis points sequentially, primarily due to volume. Non-GAAP operating margin of 4.8%, was also up 20 basis points year over year, but down 70 basis points sequentially, driven by lower revenue and higher variable compensation. Our first quarter non-GAAP effective tax rate was 27.4%, slightly above our prior guidance range, driven by jurisdictional mix. Please turn to slide seven for the first quarter 2026 revenue performance by sector. Semi-GAAP revenue, while down slightly year over year, increased 12% sequentially, reflecting improved momentum as we progressed through the quarter. As expected, industrial and A&D moderated year over year, down 3% and 2% respectively. Meanwhile, medical revenue grew 24% and ACNC grew 41% year over year. Please turn to slide eight for our trended non-GAAP financials. Year over year, we saw consistent improvement across revenue, profitability, and earnings. This reflects continued discipline in execution and mix. Although these metrics were sequentially down this quarter due to seasonal volume and variable expenses, we expect both sequentially and year-over-year improvement for revenue, profitability, and earnings throughout the balance of 2026. Please refer to slides 9 and 10 for discussion of our balance sheet, cash flow, and working capital trends. In the first quarter, we generated $47 million in operating cash flow and $29 million in pre-cash flow, despite investing in both inventory and capital equipment to support our future growth. As of March 31st, we were $121 million net cash positive. Our cash balance was $325 million, representing a $3 million sequential increase. We had $145 million outstanding on our term loan and $60 million outstanding on our revolver, leaving $486 million in available borrowing capacity. We invested approximately $18 million in capital expenditures during the quarter. Our fourth PT building in Penang remains on track to begin operations in Q3. Based on the momentum we are seeing in the business, we expect full year 2026 capital spending to track to the higher end of the 2.0 to 2.5% range. Demonstrating our continued commitment to return value to shareholders, we distributed $6 million in cash dividends and repurchased $6 million in stock during the quarter. At quarter end, we had approximately $117 million remaining under our share repurchase authorization. Our cash conversion cycle for the quarter was 67 days, which is a 19-day improvement year over year and consistent with our strong fourth quarter performance. A key contributor to that progress was discipline inventory management. Inventory days declined 14 days year over year, even as we grew the top line over the same period. This discipline translated into an improvement in terms to 4.8 as compared to 4.0 in the prior year period. Please turn to slide 11 for our second quarter guidance. For the second quarter of 2026, we expect revenue to be within a range of $700 to $740 million, representing 12% year-over-year growth at the midpoint. We expect non-GAAP gross margin to be between 10.4 and 10.6%, and non-GAAP operating margin to be between 5.1 and 5.3%. We anticipate GAAP expenses will include approximately $6.1 million of stock-based compensation and 0.8 to 1.2 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 65 to 71 cents. Interest and other expenses are expected to be approximately $3.5 million. We continue to advance initiatives aimed at structurally improving our tax

rate over the long term. However, for the second quarter and full year, we expect our effective tax rate will be in the range of 26% to 27%. Finally, for the quarter, our weighted average share count is expected to be approximately $36.3 million. With that, I would like to turn the call back over to David for our outlook by market sector and closing remarks.

David Moezidis | President and Chief Executive Officer:

Thanks, Brian. Let's turn to slide 12 for our outlook by sector. Within SEMICAP, since late last year, we've been sharing our view that a potential recovery in 2026 was showing more promise. This became more evident in the first quarter as revenues were stronger than expected, increasing double digits sequentially. Over the past several years, we supported existing programs, secured new wins, and invested in capacity, including investments such as our Penang 4 facility in anticipation of an industry upturn. Looking ahead, we expect this to translate into both sequential and year-over-year growth throughout the year. Within industrial, revenue was in line with our expectations and we see modest growth in 2026. Within the sector, we're seeing good performance from transportation and agriculture, while automation and HVAC saw softer conditions. Overall, we remain positive on the outlook for the sector longer term. Turning to aerospace and defense, our commercial air business continues to perform well. After two years of double-digit growth, we expect A&D to moderate in 2026, driven primarily by program timing within defense. Importantly, bookings activity across defense and space remains strong. positioning the sector for a return to growth as these programs are expected to ramp later in the year and into 2027. Medical delivered another standout quarter in Q1, and we expect this performance to continue over the next several quarters, supporting our growth for the year. I am particularly encouraged by the breadth of the growth drivers in medical, which includes our competitive wins, strong end markets, and new program ramps. Lastly, in ACNC, we delivered exceptional year-over-year results in the quarter, driven by the initial ramp of AI-related wins we've discussed over the past several quarters. These wins were enabled in part by our liquid cooling capabilities, which supported our HPC programs and are now seeing traction in clustered AI solutions. While still early in the ramp, our visibility continues to improve, leading us to expect strong growth from this sector in 2026. As a validation that our customer-first initiatives are working, I'm pleased that we were recently named HB Enterprises 2026 Manufacturing Partner of the Year, a meaningful acknowledgement from a strategic customer. In summary, turning to slide 13, we are pleased with our first quarter performance and how 2026 is taking shape. The progress we're seeing did not start in Q1. It reflects the work we've put in over the past several years, which gives us the confidence to raise our full year revenue outlook to 9% to 10% with operating income and earnings growing faster than revenue, both sequentially and year over year throughout the remainder of the year. At the same time, we remain committed to investing in the business with customer satisfaction as our central focus. This includes continued capacity expansion around the world as well as ongoing investment in our leadership and capabilities. Whether capacity, talent, or manufacturing efficiency, these investments share a common objective to deepen customer engagement, accelerate innovation, and support the opportunities ahead of us. With that, I'd like to thank our customers, our shareholders, and the entire benchmark team around the world for their continued trust, dedication, and execution. Operator, we can now open for questions.

Operator | Conference Operator:

Thank you, ladies and gentlemen. We will now begin the question and answer session. If you have dialed in and would like to ask a question, please press the star one on your telephone keypad to raise your hand and join the queue. If you would like to withdraw your question, please press the star one again. And your first question comes from the lineup. Max Markelius with Lake Street Capital Markets. Please go ahead.

Max Markelius | Analyst, Lake Street Capital Markets:

Hey guys, thanks for taking my questions and congrats on the quarter as well as the guide. First one for me, kind of want to stick to semi here. With Penang 4 opening up in Q3, can you remind me how much capacity excess capacity that we'll bring online?

David Moezidis | President and Chief Executive Officer:

Max, we don't discuss kind of how the capacity online is, but what we can tell you is the additional capacity that is coming online is setting us up to serve our customers inside of 2026 and positioning us for further growth in 2027.

Max Markelius | Analyst, Lake Street Capital Markets:

Perfect. And then sticking with Semi, I mean, when we think about this strength here going throughout 2026, are you seeing this broad-based strength across your entire customer base, or is it kind of a onesie-twosie deal?

David Moezidis | President and Chief Executive Officer:

No, no, this is broad-based. This is definitely broad-based. And we started hearing the signals at SemiCon in October, and I shared that information in one of our earlier calls. And those signals started materializing into orders, and now we're up and running, as you can see, with our performance.

Max Markelius | Analyst, Lake Street Capital Markets:

And then last one, just with AC&C, you talked about strong momentum with enterprise AI clusters as well as on-prem cloud infrastructure. Any other use cases you can touch on or maybe potential visibility into future orders that you're in conversations with right now?

David Moezidis | President and Chief Executive Officer:

Well, what I can say is those are the two key drivers, but we're also anticipating as we exit the year and enter 2027, HVC is going to actually start picking up on its own and contributing nicely as well.

Max Markelius | Analyst, Lake Street Capital Markets:

All righty. Thanks, guys. Thanks, Max. You're welcome.

Operator | Conference Operator:

And the next question comes from the line of Steven Fox with Fox Advisors. Please go ahead.

Steven Fox | Analyst, Fox Advisors:

Hi. Good afternoon. I had a couple questions as well. I guess, first of all, I was wondering if you could dial in on the operating leverage you're seeing as per the guidance for Q2. I was wondering, first of all, if there's any sort of unusual headwinds, like, you know, as you ramp capacity that maybe is limiting that. And as your mix shifts, how do we think about operating leverage as you get into the second half of the year? And then I had a follow-up.

Brian Shoemaker | Chief Financial Officer:

Yeah, so if you look at our operating leverage, Stephen, thanks for the question. As we referenced, I mean, we expect kind of the bottom line to kind of grow at the 1.5 to 2.0 is what we're thinking on dropping to the EPS. So as you get throughout the year. Now, the current operating margin will be impacted a little bit as we've expanded kind of the overall growth by some variable compensation and a little bit of impact from just other corporate expenses due to some ramp and some other things. But overall, I mean, we feel good about the back half and being able to leverage up on the operating margin as we continue throughout the year. So you see some of that from Q1, our guiding Q2, and then kind of throughout the remainder of the year, you'll see that coming through.

Steven Fox | Analyst, Fox Advisors:

Great, that's helpful. And then just as a follow-up, David, I mean, you mentioned, you know, new programs that you've been working on for years, capabilities, et cetera, in the SEMICAP space. Can you give us a better sense of, like, what's coming to fruition now that maybe changes the mix or supports the growth? I'm just trying to get a sense for how some of those efforts are paying off maybe in the next six to 12 months.

David Moezidis | President and Chief Executive Officer:

Thanks. Yeah, I would frame it into... Two areas. One is we're increasing our share of wallet with our existing customers. And two, we're actually winning new share with some new customers. So newer brands, newer logos, if you will. So it's contributing from both fronts. And, you know, from our perspective, This is an area that we made investments in over the course of the last several years, and we're starting to see the fruits of those labors.

Steven Fox | Analyst, Fox Advisors:

And if I could just follow up on that real quick, when you talk about some of these wins, like does the products or the services you're providing in the future, is it similar mix to what you would say you've done over the last two to three years, or are there any changes on that front?

David Moezidis | President and Chief Executive Officer:

Yeah, Stephen, I would say... It's very similar for the most part. Now, you'll see products change with regards to the level of complexity, but how we serve our customers in the semiconductor capital equipment space is a combination of our precision technology solutions as it relates to machining and such, as well as electronic, mechatronics, system integration, and PCBA assembly. So it's really the total breadth of services that we're able to bring to bear for our customers.

Steven Fox | Analyst, Fox Advisors:

Great. That's super helpful. Thanks, and congratulations on the quarter. Thank you. Thank you, Stephen.

Operator | Conference Operator:

And the next question comes from the line of Angella Sauer-Glertstrom with Doty. Please go ahead.

Angella Sauer-Glertstrom | Analyst, Doty:

Hi, and thank you for taking my questions, and congrats on the quarter here. So I'm just curious. In the semi-cap, you say you expect sequential growth, expect the second half to be much stronger still?

David Moezidis | President and Chief Executive Officer:

Yeah. Hi, Ania. This is David. We do, and we're looking at, you know, we don't typically go out and start providing specific sector growth rates, but we decided that for this sector specifically, because there's been a lot of questions, for us to share with you that we'll be somewhere around the mid-teens from an overall growth in this space.

Angella Sauer-Glertstrom | Analyst, Doty:

Okay, and then also for ACNC, how should we think about that? That was very strong for the quarter, and do you expect that to step up, or is it going to be on the same sort of level as the first quarter?

David Moezidis | President and Chief Executive Officer:

Yeah, I would say, you know, as we continue our ramp we expect it to continue to improve. Now, to what extent, we'll report back on that next quarter.

Angella Sauer-Glertstrom | Analyst, Doty:

Okay. And then just remind me again for Penang, is that higher margin business or is it corporate average?

Brian Shoemaker | Chief Financial Officer:

Yeah, Anya, this is Brian. So, yes, it is higher margin. So, it's primarily focused on precision technology semi-cap. So that's why it is bringing the higher margins. So just to take that into consideration, and then you look at our overall portfolio, you have the growth that we're seeing in the semi-cap space, and you also have the AC&C, which is the lower end, so they kind of offset. But yes, as far as PT goes and that expansion, it is on the semi-cap, the higher end.

Angella Sauer-Glertstrom | Analyst, Doty:

Okay. Thank you. That was all for me.

Brian Shoemaker | Chief Financial Officer:

Okay. Thanks, Sonia.

Operator | Conference Operator:

And once again, if you would like to ask a question, please press the start one. And I'm sure... Oh, sorry. Your next question comes from the line of Angela Söderström with Sidovi. Please go ahead.

Angella Sauer-Glertstrom | Analyst, Doty:

Hi. Sorry. I just had one more I wanted to squeeze in. Do you see any sort of difficulty in the supply chain or component availability at all?

David Moezidis | President and Chief Executive Officer:

Yeah, Ania, we're starting to see select lead times increasing in pockets, and we're seeing the same challenges as pretty much everybody in the memory space. And really, we're doing our very best to get in front of it and make sure that we manage the supply chain properly.

Angella Sauer-Glertstrom | Analyst, Doty:

Okay, great.

Operator | Conference Operator:

Thank you. That was helpful for me.

Brian Shoemaker | Chief Financial Officer:

Thanks, Ania.

Operator | Conference Operator:

And we do have a follow-up question coming from the line of Stephen Fox with Fox Advisors.

Steven Fox | Analyst, Fox Advisors:

Please go ahead. Hi. Thanks for taking the follow-up. I was just curious, you know, maybe some of this takes a little time to matriculate, but how do you think the conflict in Iran is impacting, you know, defense program run rates, maybe not this quarter, but over the back half of the year? Is that something we should think about beyond just sort of the secular trends that you're riding? Thanks.

David Moezidis | President and Chief Executive Officer:

Yeah, Stephen. You know, our view on that is even if you have immediate resolution, defense is going to perhaps remain strong for the next 12, 18 to 24 months as those investments will need to really be there for replenishment purposes. That's probably, and that's my opinion on that. But from an order perspective and market share and bookings, we continue to see momentum there. We're winning defense programs, and as I shared in my script, we're also winning in space. So we remain very positive in this sector, and we see it picking back up in 2027. Great.

Steven Fox | Analyst, Fox Advisors:

Thanks again.

David Moezidis | President and Chief Executive Officer:

Sure, Steve.

Operator | Conference Operator:

I'm not sure we have any further questions at this time. I would like to turn it back to Paul Manske for closing remarks.

Paul Manske | Head of Investor Relations:

Thank you, Operator, and thank you, everyone, for participating in Benchmark's first quarter 2026 earnings call. For updates to upcoming investor conferences and events, including a replay of this call, please refer to the events section of our IR website at bench.com. With that, thank you again for your support, and we look forward to speaking with you soon.

Operator | Conference Operator:

And this concludes today's conference call. You may now disconnect.