NYSE:BHE Q2 2026 Earnings Call Transcript

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Piercy | Conference Operator:

Hello, everyone. Thank you for joining us and welcome to the Benchmark Electronics Q2 2026 earnings call. After today's prepared remarks, we will host a question and answer session. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, please press star one again. I will now hand the conference over to Paul Mansky, Benchmark Investor Relations. Please go ahead.

Paul Mansky | Benchmark Investor Relations:

Thank you, Piercy, and thanks, everyone, for joining us today for Benchmark's second quarter 2026 earnings call. With us today are David Moezidis, our president and CEO, and Bryan Schumaker, our CFO. After the market closed, we issued an earnings release pertaining to our financial performance for the second 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 GAAP to non-GAAP measures in the earnings release, as well as in 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 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 highlights from the quarter, followed by Bryan, with further detail on our results and guidance. We'll then turn the call back to David to share his perspective on sector trends and closing remarks. I'll now turn the call over to our CEO, David Moezidis, to discuss slides four and five.

David Moezidis | President and CEO:

Thank you, Paul. Good afternoon, and thank you for joining us today. I'm pleased to report that our second quarter results reflect strong execution and continued broadening of demand across the markets we serve. Revenue of $756 million was up 18% compared to last year, while EPS of 75 cents grew at more than twice that rate. Both were above the high end of our guidance from last April. We saw healthy double-digit growth in four of our five sectors with A&D undergoing previously discussed program transitions. I would note that with another strong quarter of bookings in Q2, A&D led the way, which speaks to our optimism around the sector in the coming quarters. At the same time, our focus on execution allowed us to deliver operating income and EPS growth of 30% and 36%, respectively, well within our objective to grow both at 1.5 to two times the pace of revenue throughout 2026. I'll let Bryan speak to our expectations for the September quarter in a moment, but relative to the full year, I would leave you with this. Demand in the majority of our markets continues to improve. We are winning. And while there's always room for improvement, we are executing well operationally. Combined, this gives us the confidence to increase our 2026 revenue outlook to $3 billion, representing approximately 13% growth and achieving a historical high for the company. With that, I'll turn the call over to Bryan to walk through the details for the quarter.

Bryan Schumaker | Chief Financial Officer:

Thank you, David, and good afternoon, everyone. Please turn to slide six. Revenue in the quarter was $756 million, up 18% year-over-year, and non-GAAP EPS was 75 cents, up 36% year-over-year. Both exceeded the high end of the guidance range from our last earnings call. As a reminder, our non-GAAP results exclude certain items as detailed in Appendix 1 of this presentation. For the second quarter, non-GAAP gross margin was 10.5%, improving 30 basis points year over year and 20 basis points sequentially, primarily due to volume. Non-GAAP operating margin of 5.2% was up 50 basis points year over year and 40 basis points sequentially, This improvement was driven by higher revenue, which was partially offset by increased variable compensation expense. Our second quarter non-GAAP effective tax rate was 26.6%. Please turn to slide seven for the second quarter 2026 revenue performance by sector. Semicap revenue grew 17% both year over year and sequentially as momentum strengthened throughout the quarter. Industrial revenue increased 13% year over year and 20% sequentially benefiting in part from revenue acceleration associated with the planned wind down of our Phoenix facility. Meanwhile, medical revenue once again delivered solid performance growing 22% year over year and 4% sequentially. Within ACNC, revenue grew considerably at 71% year over year and 21% sequentially driven by the AI related program wins David has spoken to over the last couple of quarters. Finally, A&D was down 12% year-over-year and 7% sequentially. Please turn to slide eight for our Trended Non-Gap Financials. In Q2, we delivered year-over-year and sequential improvement in revenue, profitability, and earnings, reflecting disciplined execution and favorable mix. This momentum is expected to continue throughout the balance of 2026, positioning us to drive operating income and earnings growth at 1.5 to 2 times the pace of revenue growth. Please refer to slides 9 and 10 for an update on our balance sheet, cash flow, and working capital performance. We continue to maintain a strong balance sheet, which gives us the flexibility to invest in growth, fund strategic priorities, and remain disciplined in our capital allocations. We ended the quarter with $315 million of cash and $134 million of cash net of debt while maintaining more than half a billion dollars of available borrowing capacity. In the second quarter, we generated $35 million in operating cash flow and $22 million in free cash flow while continuing to invest in inventory, capacity, and capabilities to support future growth. In line with our balanced capital allocation strategy, we also returned $6 million to shareholders through dividends during the quarter. Capital expenditures were approximately $13 million in Q2, primarily supporting growth initiatives across the business. For the full year, we still expect capital spending to be in the range of 2 to 2.5% of revenue. Our fourth PT facility in Penang remains on schedule and began ramping operations earlier this quarter. This third quarter. Additionally, in Q3 2026, we plan to break ground on our third building in Ayutthaya, Thailand campus. We expect construction to be completed in Q4 2027 to support the growth we're seeing in the region. Turning to working capital, our cash conversion cycle of 59 days improved 26 days year over year and eight days sequentially. Consistent with our operational discipline across the organization, the improvement in cash cycle days was broad-based among the major working capital categories. Inventory turns were within our target range of five, while payables versus receivables improved three days sequentially and 16 days year over year. These results demonstrated our ability to support growth while continuing to improve working capital efficiency and cash generations. Please turn to slide 11 for our third quarter guidance. For the third quarter of 2026, we are guiding revenue to a range of $755 million to $795 million, representing 14% year-over-year growth at the midpoint. We forecast non-GAAP diluted earnings per share in the range of 76 to 82 cents. We anticipate non-GAAP gross margin of 10.5 to 10.7% and non-GAAP operating margin of 5.3 to 5.5%. Gap expenses are projected to include approximately $8.4 million of stock-based compensation and $3.5 million to $4 million of non-operating expenses, including amortization, restructuring, and other charges. Interest and other expenses are assumed to be approximately $3 million We remain focused on initiatives to structurally lower our tax rate over time. However, for the third quarter, we anticipate our effective tax rate will be in the range of 26 to 27%. Finally, for the quarter, we project weighted average diluted shares outstanding of approximately 36.4 million. With that, I'd like to turn the call back over to David for outlook by market sector and closing remarks. David.

David Moezidis | President and CEO:

Thank you, Bryan. Turning to slide 12 for our outlook by sector. Within Semicap, we saw demand improve throughout the quarter, and that momentum has continued into Q3. This reflects both improving end market conditions and the benefits of program wins secured during the last downturn. We expect these conditions to continue throughout 2026 and are pleased to be ramping production in our fourth Penang PT facility to support customer demand. Looking ahead, we expect second half semi-cap revenue growth to accelerate versus both the first half and the prior year period. Turning to industrial, excluding the one-time event Bryan mentioned, revenue was slightly above expectations, delivering modest year-over-year growth. Our outlook for the sector remains unchanged. Looking further out, we continue to see significant opportunities in industrial reflected by very strong bookings in the quarter, which included a competitive takeaway. In aerospace and defense, following two years of approximately 20% growth, we entered 2026 expecting a transition year driven primarily by program timing within defense. While this impacted first half performance, we expect to improve in the second half over the first half. Meanwhile, we have continued to win new business. That momentum was evident in Q2, where A&D was the biggest contributor to our total bookings in the quarter. For 2026, we continue to expect revenue to be roughly consistent with the prior year. However, as new programs ramp, and given the multi-year nature of this market, we expect to return to growth in A&D in 2027. Moving to medical, we are pleased with our continued performance in the quarter, both in terms of revenue growth and new bookings. Q2 included a strong number of engineering wins across multiple customers. While engineering engagements typically are smaller than manufacturing awards, they are important indicators of future growth opportunities as they convert into broader program wins and production ramps. and finally turning to ACNC, we delivered outstanding results driven by the production ramp of one of the AI-related wins we have previously discussed. While still early in the ramp, our visibility continues to improve and we remain excited about the opportunities ahead. In summary, turning to slide 13, our performance in Q2 continues to validate our strategy. maintaining relentless focus on customer success while driving operational excellence across the enterprise. Done consistently, this amplifies the good times and helps insulate the business during the more challenging periods. For Benchmark and a growing number of our customers, demand conditions are improving. reflected in double digit growth across most of our sectors, record bookings, and a revised 2026 revenue outlook that represents a new high for the company. To fully realize this opportunity, we must continue to invest in the business, and we are. Not only in production capacity, including Penang and Thailand, but also in our people and processes. We will continue aligning our investments with customer demand and growth opportunities while maintaining a strong focus on return on investment. As a result, we believe we are well positioned to drive both growth and operating leverage over the long term. 2026 has been off to a strong start, but we still have work to do. We remain focused on execution and look forward to updating you on our progress throughout the year. With that, I would like to again thank our customers, shareholders, and the entire benchmark team around the world for their continued trust, dedication, and execution. Operator, we can now open for questions.

Piercy | Conference Operator:

We will now begin the question and answer session. Please limit yourself to one question and one follow up. If you would like to ask a question, please press star one to raise your hand. To withdraw your question, press star one again. We ask that you pick up your handset when asking a question to allow for optimum sound quality. If you are muted locally, please remember to unmute your device. Please stand by while we compile the Q&A roster. Your first question is from the line of Stephen Fox with Fox Advisors.

Stephen Fox | Analyst, Fox Advisors:

Hi, good afternoon. I had a few questions. I guess, first of all, on the aerospace business, can you give us a little more color into the new bookings that you're talking about, especially as it relates to maybe current events in Iran or government budgets changing, etc.? Like, what kind of trends do you think you're capitalizing there? And I need a couple of follow-ups.

David Moezidis | President and CEO:

Hi, Stephen. I think it's a similar question to last quarter, right? We see the defense environment remaining strong, and there's a combination of things that lead us to continue to believe that it's going to remain strong. I think I used the words replenishment in our last call, but Beyond that, we're actually winning. We're winning in the defense space and we continue to win in space, which is something that I highlighted in our previous calls as well. So we're really, really proud by the performance of the team. And as I mentioned, the team led the way in bookings this quarter.

Stephen Fox | Analyst, Fox Advisors:

Great, that's helpful. And then on the competitive takeaway you mentioned in the industrial market, can you give a little bit more color in terms of why you were able to have success with that customer and gain share there?

David Moezidis | President and CEO:

Yeah, absolutely. So, fundamentally, it comes down to execution. So a lot of credit to our operations team for executing with that customer and allowing us to work closely with the customer to bring forward new creative solutions that open the door for us to take the business away from one of our competitors and increase our share of wallet with this particular customer.

Stephen Fox | Analyst, Fox Advisors:

Got it. And then, David, just a bigger picture on what you're seeing. Obviously, there's a lot of current concerns over what may be around the corner that we're not seeing. What can you say about just sort of the shape of the orders or bookings or anything else that may be a nuance that gives you confidence that there's legs to the current upturn?

David Moezidis | President and CEO:

Yeah, look, we... We continue to remain optimistic on the year. And as you can see, if we didn't have that optimism, we wouldn't be signaling the 13% growth for the year. and a new revenue high for the company. So that in itself hopefully reflects our view. Now, I also want to share with you that it's not always smooth sailing, right? We've got to work the supply chain. We've got to execute operationally, which I have A lot of confidence we're going to be able to do that. The supply chain environment is tight. I signaled that a couple of quarters ago. We started seeing that tightness in memory. So we're working the supply chain proactively. We have an excellent supply chain team that is working day and night to make sure that we're able to execute and meet our customer orders. And thus far, Stephen, I'm really pleased to say we've been able to do that.

Stephen Fox | Analyst, Fox Advisors:

Great, thanks for all the color, appreciate it. My pleasure, thank you.

Piercy | Conference Operator:

Your next question is from the line of Max Michaelis with Lake Street Capital Markets.

Max Michaelis | Analyst, Lake Street Capital Markets:

Your line is- Yeah, hey guys, thanks. Hey Max. Hey, thanks for taking my question guys and congrats on the kind of the beaten guide up here in 3 billion milestone. First question for me is kind of around the advanced computing space. I mean, you're seeing a significant ramp in AI-related revenue. I mean, the clustered AI, the on-prem cloud programs you've kind of mentioned. Can you help size up sort of the next-gen HPC opportunities, how they're different, and then sort of, I mean, I would assume we expect to see accelerating growth in 2027 from that program starting to ramp here in Q4. But can you help size that program up versus the current ones you're currently kind of ramping here? Thanks.

David Moezidis | President and CEO:

Hi, Max. It's somewhat tough for us to size it, right? Because we typically don't go there. What I can tell you is you actually said it properly. We expect HPC to start picking up very late in Q4 and into 2027. So from that perspective, I think we could start seeing it contribute more in 27 than we will in 26. However, if you combine the activities that we have, just like you mentioned, in Clustered AI and the on-prem business, and then bolt on the HBC, we remain optimistic about the prospects of AC&C.

Patrick Muth | Analyst, Needham:

Okay.

Max Michaelis | Analyst, Lake Street Capital Markets:

Yep. No, that makes sense. And I kind of want to go back to supply chain. Is there any Any data you can give us around sort of lead times and kind of the difference of what those were 90 days ago, maybe?

David Moezidis | President and CEO:

It really depends on the component, right, that we're talking about. The more complex the component and it has reliance on fabs out there like a TSMC or some of the players in the space, those are the ones that you need to be a lot more thoughtful about lead times increasing. In some areas, we've seen lead times go from... and so on. We're working hard to make sure it doesn't repeat. Again, things like memory, it stands on its own, and we're managing that as well.

Max Michaelis | Analyst, Lake Street Capital Markets:

Alrighty, last one for me, and then I'll hang up the mic here. So we go back to kind of late 2025, early 2026. I mean, we're all kind of waiting for Semi to return, and I would say it has. As booking starts to pick up strength, and clearly shows it has as well. I mean, what are your thoughts going forward in 26 and 2027? Where do you think bookings in the semi-space sort of peaks? Do you expect this strength? What are your customers saying about kind of what order trends should look like going into the back after the year and into 2027 or does it continue to rise from here, you think?

David Moezidis | President and CEO:

Okay. Look, that's a really good question and it has... Several dimensions to it with regards to the response. There is a lot of bookings that we were very successful with in 23, 24, 25, and we're now seeing the fruits of that labor, if you will. So, you know, from a bookings today, New incremental bookings, I don't want you to think that those new incremental bookings are required for the performance that we've laid out in front of us in the next couple of quarters, which we're going to continue to see that strength accelerate into the second half here with our semi-group. Now, with regards to our ability to continue to be successful, what I can tell you is we've been able to increase share of wallets just in this quarter with three of our core customers. So we're pleased with that particular performance. So there was still bookings in the quarter with respect to Semi. So this is an area that we're really positive on.

Max Michaelis | Analyst, Lake Street Capital Markets:

All right. Thanks, guys.

David Moezidis | President and CEO:

Sure, Max.

Piercy | Conference Operator:

Your next question comes from Anya Sodostrom with Sedoti. Go ahead.

Anya Sodostrom | Analyst, Sedoti:

Hi, thank you for taking my questions and congrats on the great quarter here. So with expansions in Penang and Thailand, how much revenue is that expected to support and what's the margin profile there and what are you expected to support? What verticals are they supporting?

Bryan Schumaker | Chief Financial Officer:

Yeah, we don't give the individual revenue by factory, but it is contributing to what we're seeing over there. If you think about the Penang facility, we talked about it being PT. So if you think of the margin profile of that, semi-cap. And then the Thailand facility is more of an EMS facility. So they're complementary to other size of factories that we have already in our portfolio. So it's in line with those just to give you an idea from a revenue standpoint.

Anya Sodostrom | Analyst, Sedoti:

Okay. And how should I think about CapEx given those extensions?

Bryan Schumaker | Chief Financial Officer:

Yeah, so we talked about the two to two and a half for 2026. I see that probably continuing into next year as we're doing the same thing with a new factory with Thailand ramping up kind of the build out from Q3 to next year, Q4 timeframe, kind of getting that up and going. So I would think right now at this point, that's about what I align with is that two to 2.5 for next year too, because it will change depending on kind of where we see the growth and we continue to see growth and we're going to invest in that growth, just to be clear.

Anya Sodostrom | Analyst, Sedoti:

Okay, thank you. And then in terms of cash conversion-based, you had a really nice job there for the quarter. How should we think about that going forward?

Bryan Schumaker | Chief Financial Officer:

Look, we did have a great one, and we're very happy with that. The team's doing a great job to drive that on all factors. If I look at kind of where I – when I came in, it was the 90, and now we've gotten it down to the 59. So great momentum on that front. Yeah, we could as inventory grows, but we are looking at the turns and we got into the five turns and we're going to continue to drive that to the five to 5.5. So again, our focus is on this cash conversions title and we'll continue to drive it.

Anya Sodostrom | Analyst, Sedoti:

Okay, thank you. And then how should we think about the capital allocation priorities and the fact that you didn't do any buyback for the quarter?

Bryan Schumaker | Chief Financial Officer:

Yeah, that has not changed. I mean, we're still, again, the dividend is solid, not changing that thing. The dividend, we're going to continue to look at buybacks to offset dilution. That is not changing. Yeah, we took a pause this quarter, but it's definitely something we're still looking at for the full year to offset dilution.

Anya Sodostrom | Analyst, Sedoti:

Okay, thank you.

Piercy | Conference Operator:

That was all for me. Your next question is from Patrick Mouth with Needham.

Patrick Muth | Analyst, Needham:

All right, thank you for taking my call. This is Patrick Muth on for Jim Rusciutti over at Needham. I wanted to dive into a little bit about the medical side of the business. You guys mentioned signs of a turn in medical. Can you unpack what's driving that? Is it primarily from new program ramps, program ramps, excuse me, underlying demand improvement? Any color on that would be helpful. And then my second question is on the OpEx trajectory. How should we start to think about your expense levels going forward? And are there any step ups in OPEX plan to support growth or should we expect leverage from here? Thank you.

Bryan Schumaker | Chief Financial Officer:

So on the OpEx side, I'll take that first. Yeah, as we look at it, we're still going to drive leverage through that. I mean, we've talked about the initiatives, some of them that we have in place and looking at the top line, driving that, getting the utilization out of our factories and dropping it down. It was impacted this quarter with variable comp as we continue to overperform for the year. but we believe for the full year and going forward to leverage that OpEx. And that's why we talked about the 1.5 to 2X EPS growth compared to the top line. So that leverage will continue.

David Moezidis | President and CEO:

Okay, Patrick, I'll address your first question. If you go back to last January, actually it was this time exactly last year, we signaled on the call that We felt medical has bottom, has found the bottom, if you will. And fortunately, it proved to be accurate. And we've seen medical continue to perform really well since then. Your question is, what's driving the growth in medical? And I'd say there's three catalysts to it. One is the overall demand picking up. That was really a big element of it. The other thing is, while the medical space was going through its, if you will, channel inventory digestion period, we worked really hard to continue to drive bookings. and one of the bookings was also a very meaningful win for us which I've shared on these calls which was a competitive takeaway which actually was a lift and shift type of an engagement which means the time to revenue is much faster. So those are the dynamics that have helped contribute to the success of Medical over the course of exactly the last 12 months.

Patrick Muth | Analyst, Needham:

Okay, thank you. That helps. And congrats on the quarter.

David Moezidis | President and CEO:

Thank you, Patrick.

Piercy | Conference Operator:

There are no further questions at this time. I will now turn the call back to Paul Mansky for closing remarks.

Paul Mansky | Benchmark Investor Relations:

Thank you, Piercy. And thank you, everyone, for participating in Benchmark's second quarter 2026 earnings call. During Q3, we'll be participating in Needham's 15th Annual Virtual Industrial Tech Robotics and Power Conference on August 17th and Sedoti's Small Cap Conference on September 24th. For updates to these and other investor conferences and events, including a replay of today's call, please refer to the events section of our website at ir.bench.com. With that, thank you again for your support, and we look forward to speaking with you soon.

Piercy | Conference Operator:

Thank you for attending. You may now disconnect.