

# **Benchmark Electronics**

# **Third Quarter 2023 Earnings**

October 25, 2023

## Forward-Looking 2023 Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are identified as any statement that does not relate strictly to historical or current facts and may include words such as “anticipate,” “believe,” “intend,” “plan,” “project,” “forecast,” “strategy,” “position,” “continue,” “estimate,” “expect,” “may,” “will,” “could,” “predict,” and similar expressions of the negative or other variations thereof. In particular, statements, express or implied, concerning the Company’s outlook and guidance for fourth quarter 2023 results, future operating results or margins, the ability to generate sales and income or cash flow, expected revenue mix, the Company’s business strategy and strategic initiatives, the Company’s repurchases of shares of its common stock, the Company’s expectations regarding restructuring charges and amortization of intangibles, and the Company’s intentions concerning the payment of dividends, among others, are forward-looking statements. Although the Company believes these statements are based on and derived from reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond the Company’s ability to control or predict, relating to operations, markets and the business environment generally, including those discussed under Part I, Item 1A of the Company’s Annual Report on Form 10-K for the year ended December 31, 2022, and in any of the Company’s subsequent reports filed with the Securities and Exchange Commission. Events relating to the possibility of customer demand fluctuations, supply chain constraints, continuing inflationary pressures, the effects of foreign currency fluctuations and high interest rates, geopolitical uncertainties including trade restrictions, or the ability to utilize the Company’s manufacturing facilities at sufficient levels to cover its fixed operating costs, may have resulting impacts on the Company’s business, financial condition, results of operations, and the Company’s ability (or inability) to execute on its plans. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual outcomes, including the future results of our operations, may vary materially from those indicated. Undue reliance should not be placed on any forward-looking statements. Forward-looking statements are not guarantees of performance. All forward-looking statements included in this document are based upon information available to the Company as of the date of this document, and the Company assumes no obligation to update.

## Non-GAAP Financial Information

Management discloses non-GAAP information to provide investors with additional information to analyze the Company’s performance and underlying trends. A detailed reconciliation between GAAP results and results excluding certain items (“non-GAAP”) is included in the following tables attached to this document. In situations where a non-GAAP reconciliation has not been provided, the Company was unable to provide such a reconciliation without unreasonable effort due to the uncertainty and inherent difficulty predicting the occurrence, the financial impact and the periods in which the non-GAAP adjustments may be recognized. Management uses non-GAAP measures that exclude certain items in order to better assess operating performance and help investors compare results with our previous guidance. This document also references “free cash flow”, which the Company defines as cash flow from operations less additions to property, plant and equipment and purchased software. The Company’s non-GAAP information is not necessarily comparable to the non-GAAP information used by other companies. Non-GAAP information should not be viewed as a substitute for, or superior to, net income or other data prepared in accordance with GAAP as a measure of the Company’s profitability or liquidity. Readers should consider the types of events and transactions for which adjustments have been made.

# Third Quarter 2023 Results

- Revenue of \$720 million
  - Total revenue impacted by \$58 million reduction in supply chain premium (SCP)\*
  - Excluding SCP, year-over-year growth in 4 of 6 sectors
- GAAP and non-GAAP\*\* gross margin of 9.6%
  - Expansion of 90 and 100 basis points year-over-year, respectively
- GAAP operating income year-over-year growth of 20% and non-GAAP of 22%
- GAAP and non-GAAP\*\* EPS of \$0.57, above mid-point of guidance range
- Generated sequential increase in positive free cash flow

\* Component pass-through revenue for supply chain premiums (SCP) with no impact on non-GAAP operating income or EPS

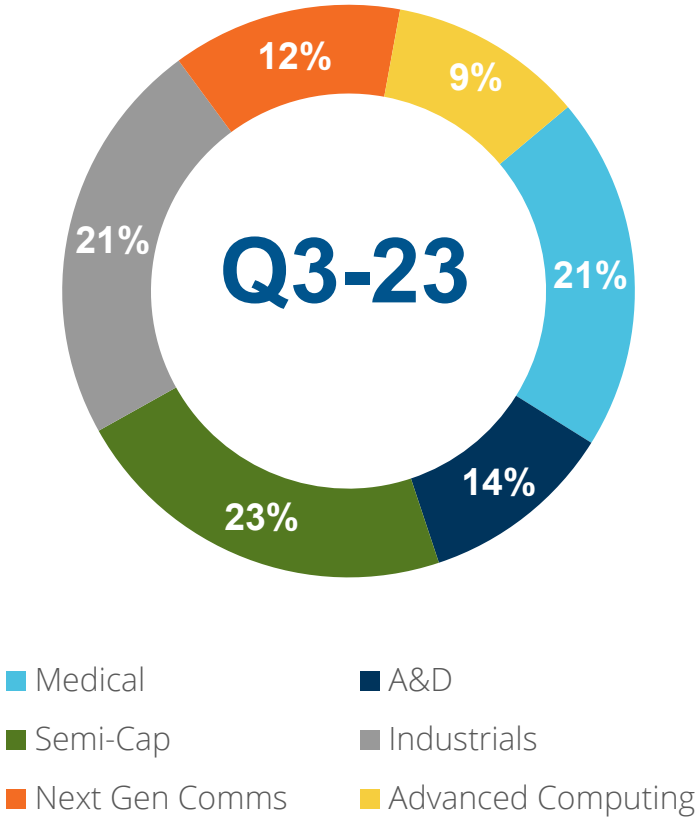
\*\* See APPENDIX 1 for a reconciliation of GAAP to non-GAAP Financial Results

# Roop Lakkaraju

Chief Financial Officer



# Third Quarter GAAP Revenue by Market Sector



Revenue by Mix and Market Sector  
For the Three Months Ended

Dollars in Millions		Sep 30, 2023			Jun 30, 2023			Sep 30, 2022		
Sector		Mix %	Revenue		Mix %	Revenue	Q/Q Growth	Mix %	Revenue	Y/Y Growth
Medical		21%	\$149		20%	\$145	3%	21%	\$166	(10%)
Semi-Cap		23%	\$165		22%	\$164	1%	24%	\$186	(11%)
Aerospace & Defense		14%	\$100		11%	\$80	24%	11%	\$86	16%
Industrials		21%	\$154		23%	\$167	(8%)	20%	\$155	(1%)
Advanced Computing		9%	\$66		11%	\$81	(19%)	13%	\$95	(30%)
Next Gen Comms		12%	\$86		13%	\$96	(10%)	11%	\$84	3%
Total Revenue		100%	\$720		100%	\$733	(2%)	100%	\$772	(7%)

# Sector Results Excluding Supply Chain Premium

Q3-23 Results (\$MM)				
	Total Revenue	Supply Chain Premiums (SCP)	Revenue adjusted for SCP	Year-over-Year growth adjusted for SCP
Medical	\$149	\$(2)	\$147	8%
Semi-Cap	\$165	\$(1)	\$164	(10%)
A&D	\$100	\$0	\$100	20%
Industrials	\$154	\$(11)	\$143	9%
Advanced Computing	\$66	\$0	\$66	(30%)
Next Gen Comms	\$86	\$(2)	\$84	20%

See APPENDIX 3 for a reconciliation of GAAP Sales to non-GAAP Sales Adjusted for Supply Chain Premiums



# Third Quarter 2023 Financial Summary

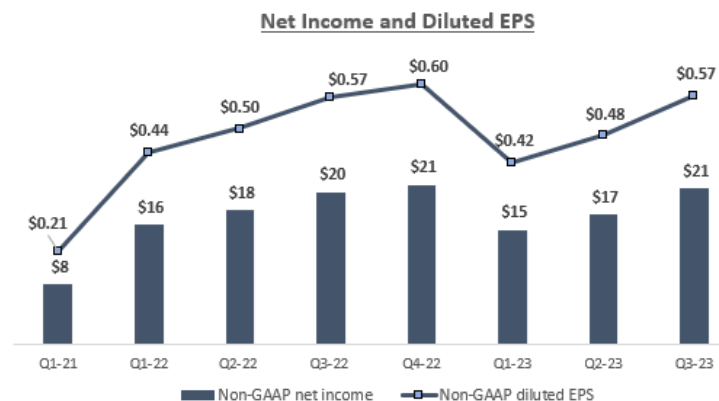
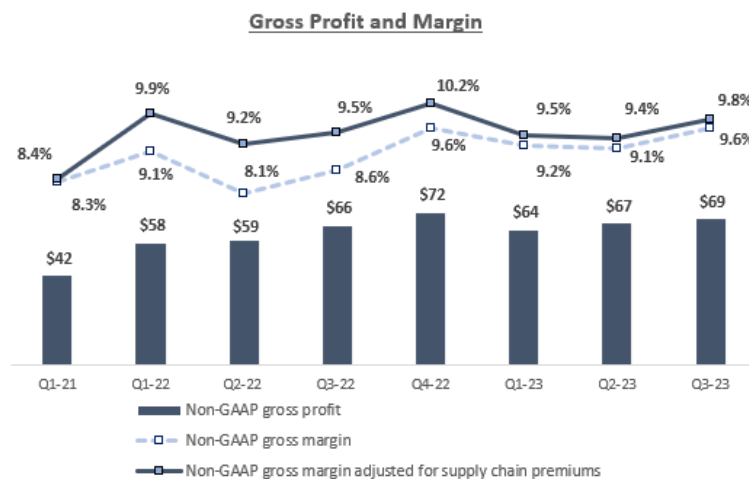
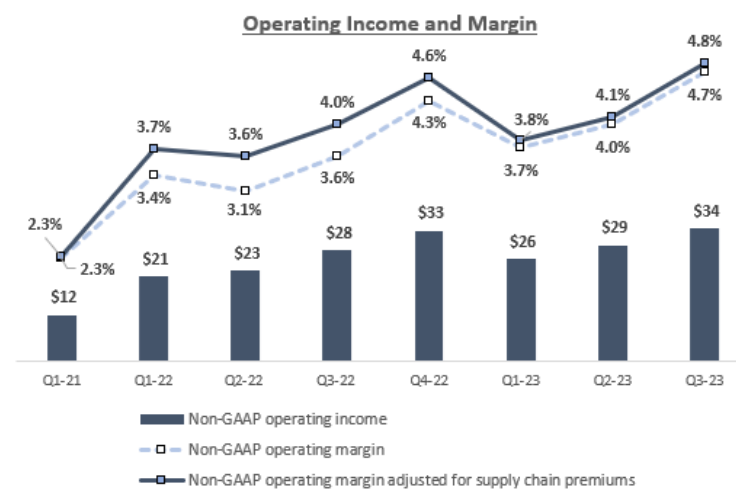
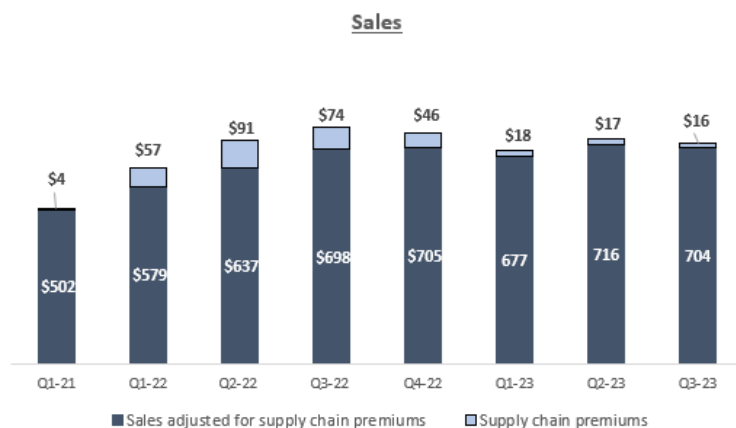
(Dollars in millions, except EPS)	Sep 30, 2023	Jun 30, 2023	Q/Q	Sep 30, 2022	Y/Y
Net Sales	\$720	\$733	(2%)	\$772	(7%)
GAAP Gross Margin	9.6%	9.1%	50 bps	8.7%	90 bps
GAAP SG&A	\$35.5	\$37.7	(6%)	\$38.5	(8%)
GAAP Operating Margin	4.2%	3.3%	90 bps	3.3%	90 bps
GAAP Diluted EPS	\$0.57	\$0.39	46%	\$0.53	8%
GAAP ROIC	7.1%	7.1%	0 bps	7.1%	0 bps
Net Sales	\$720	\$733	(2%)	\$772	(7%)
Non-GAAP Gross Margin	9.6%	9.1%	50 bps	8.6%	100 bps
Non-GAAP SG&A	\$35.5	\$37.7	(6%)	\$38.7	(8%)
Non-GAAP Operating Margin	4.7%	4.0%	70 bps	3.6%	110 bps
Non-GAAP Diluted EPS	\$0.57	\$0.48	19%	\$0.57	0%
Non-GAAP ROIC	9.4%	9.5%	(10) bps	9.8%	(40) bps

See APPENDIX 1 for a reconciliation of GAAP to non-GAAP Financial Results

GAAP ROIC = (GAAP TTM income from operations – GAAP Tax Impact) / (Average Invested Capital for last 5 quarters)  
 Non-GAAP ROIC = (non-GAAP TTM income from operations + Stock-based compensation – non-GAAP Tax Impact) ÷ [Average Invested Capital for last 5 quarters]

# Non-GAAP Financial Summary Excluding Supply Chain Premiums

(Dollars in millions, except EPS)



See APPENDIX 1 and APPENDIX 2 for reconciliations of GAAP to non-GAAP Financial Results



# Cash Conversion Cycle Update

	Q3-23	Q2-23	Q1-23	Q4-22	Q3-22
Accounts Receivable Days	60	59	60	59	56
Contract Asset Days	24	23	25	22	22
Inventory Days	100	102	111	97	95
Accounts Payable Days	(53)	(56)	(60)	(56)	(67)
Customer Days	(26)	(25)	(27)	(26)	(27)
Cash Conversion Cycle	105	103	109	96	79

# Liquidity and Capital Allocation

	For the Three Months Ended		
	Sep 30, 2023	Jun 30, 2023	Sep 30, 2022
Cash (In millions)			
Cash Flows from (used in) Operations	\$38	\$25	(\$31)
FCF <sup>(1)</sup>	\$18	\$16	(\$40)
Cash	\$261	\$245	\$249
International	\$238	\$236	\$189
U.S.	\$23	\$9	\$60

(1) Free cash flow (FCF) defined as net cash provided by (used in) operations less capex. See APPENDIX 1.

Debt Structure (In millions)	
Senior Secured Term Loan	\$129
Revolving Credit Facility Drawn Amount	\$305

- Recurring quarterly dividend of \$0.165 per share totaling \$5.9 million paid in July 2023
- No share repurchases in the quarter
- Remaining share repurchase authorization of \$155 million as of September 30, 2023

# Fourth Quarter 2023 Guidance

	Q4-2023
Net Sales*	\$675 - \$725 million
Diluted EPS – GAAP	\$0.49 - \$0.55
Diluted EPS – non-GAAP	\$0.54 - \$0.60
Operating Margin – non-GAAP	4.8% - 5.0%
Other Expenses, Net	~ \$9 million
Effective Tax Rate	19% - 21%
Weighted Average Shares	~ 35.9 million













\* Guidance does not include supply chain premium revenue

This guidance takes into consideration all known constraints for the quarter and assumes no further significant interruptions to our supply base, operations or customers.

# Business Trends

Jeff Benck - CEO

# Sector Outlook\*

	Q4-23 Q/Q	FY2023 Y/Y	Sector Commentary
<b>Medical</b>			<ul style="list-style-type: none"> <li>Improved supply enabled us to meet demand</li> <li>Demand adjusting amid dynamic macro environment</li> <li>Continuing to win new opportunities ramping in 2024-2025</li> </ul>
<b>Semi-Cap</b>			<ul style="list-style-type: none"> <li>Current market outlook points to a flat 2024</li> <li>New program wins helping to offset overall market softness</li> </ul>
<b>A&amp;D</b>			<ul style="list-style-type: none"> <li>New wins and program ramps to drive 2024 growth</li> <li>Commercial Aero remains strong</li> <li>Defense demand strengthening</li> </ul>
<b>Industrials</b>			<ul style="list-style-type: none"> <li>Some softening in international markets</li> <li>Domestic test, automation and energy more resilient</li> </ul>
<b>Adv. Computing</b>			<ul style="list-style-type: none"> <li>New HPC program build to commence in Q4</li> <li>Expecting HPC build to continue into early 2024</li> </ul>
<b>Next Gen Comms</b>			<ul style="list-style-type: none"> <li>Comms infrastructure capex is under pressure</li> <li>Expecting sector to be challenged in 2024</li> </ul>

\* Excludes supply chain premiums (SCP) revenue in forecast and comparable period(s)

See APPENDIX 3 for a reconciliation of GAAP to non-GAAP Financial Results

# Summary

- Exceeded mid-point of guidance for Q3 2023
- Delivered strong year-over-year growth in 4 of 6 sectors\*
- Expanded non-GAAP operating margin by >80 basis points year-over-year\*
- Grew non-GAAP operating income 22% year-over-year
- Increased free cash flow generation, annualized at >\$70 million
- Focused on delivering positive operating leverage
- Protecting investment in Semi-Cap to capitalize on the next upcycle

\* Excluding supply chain premium revenue in forecast and comparable period(s).

# Appendix



# APPENDIX 1 - Reconciliation of GAAP to non-GAAP Financial Results

(Dollars in Thousands, Except Per Share Data) – (UNAUDITED)

	Three Months Ended			Nine Months Ended	
	Sept. 30, 2023	June 30, 2023	Sept. 30, 2022	September 30, 2023	September 30, 2022
Income from operations (GAAP)	\$ 30,341	\$ 24,481	\$ 25,284	\$ 77,564	\$ 63,123
Amortization of intangible assets	1,592	1,591	1,591	4,775	4,792
Restructuring charges and other costs	1,437	2,364	1,331	5,227	4,911
Gain on assets held for sale	—	—	—	—	(393)
Asset impairment	198	923	—	1,121	—
Customer insolvency (recovery)	—	—	(599)	—	(599)
Non-GAAP income from operations	\$ 33,568	\$ 29,359	\$ 27,607	\$ 88,687	\$ 71,834
GAAP operating margin	4.2%	3.3%	3.3%	3.6%	3.0%
Non-GAAP operating margin	4.7%	4.0%	3.6%	4.1%	3.4%
Gross Profit (GAAP)	\$ 69,077	\$ 67,031	\$ 66,750	\$ 200,066	\$ 183,108
Customer insolvency (recovery)	—	—	(425)	—	(425)
Non-GAAP gross profit	\$ 69,077	\$ 67,031	\$ 66,325	\$ 200,066	\$ 182,683
GAAP gross margin	9.6%	9.1%	8.7%	9.3%	8.6%
Non-GAAP gross margin	9.6%	9.1%	8.6%	9.3%	8.6%
Selling, general and administrative expenses	\$ 35,509	\$ 37,672	\$ 38,544	\$ 111,379	\$ 110,675
Customer insolvency (recovery)	—	—	174	—	174
Non-GAAP selling, general and administrative expenses	\$ 35,509	\$ 37,672	\$ 38,718	\$ 111,379	\$ 110,849
Net income (GAAP)	\$ 20,412	\$ 13,991	\$ 18,829	\$ 46,763	\$ 47,010
Amortization of intangible assets	1,592	1,591	1,591	4,775	4,792
Restructuring charges and other costs	1,437	2,364	1,331	5,227	4,911
Gain on assets held for sale	—	—	—	—	(393)
Asset impairment	198	923	—	1,121	—
Settlement	(3,375)	(1,155)	(611)	(4,530)	(611)
Customer insolvency (recovery)	—	—	(599)	—	(599)
Income tax adjustments <sup>(1)</sup>	245	(670)	(351)	(941)	(1,639)
Non-GAAP net income	\$ 20,509	\$ 17,044	\$ 20,190	\$ 52,415	\$ 53,471
Diluted earnings per share:					
Diluted (GAAP)	\$ 0.57	\$ 0.39	\$ 0.53	\$ 1.30	\$ 1.32
Diluted (Non-GAAP)	\$ 0.57	\$ 0.48	\$ 0.57	\$ 1.46	\$ 1.50
Weighted-average number of shares used in calculating diluted earnings per share:					
Diluted (GAAP)	35,876	35,676	35,348	35,879	35,604
Diluted (Non-GAAP)	35,876	35,676	35,348	35,879	35,604
Net cash provided by (used in) operations	\$ 37,583	\$ 24,538	\$ (31,208)	\$ 37,214	\$ (124,717)
Additions to property, plant and equipment and software	(19,664)	(8,318)	(8,623)	(66,713)	(33,594)
Free cash flow (used)	\$ 17,919	\$ 16,220	\$ (39,831)	\$ (29,499)	\$ (158,311)

(1) This amount represents the tax impact of the non-GAAP adjustments using the applicable effective tax rates.

# APPENDIX 2 - Reconciliation of Supply Chain Premiums

(Dollars in Millions) – (UNAUDITED)

	Three Months Ended							
	Sep 30, 2023	Jun 30, 2023	Mar 31, 2023	Dec 31, 2022	Sep 30, 2022	Jun 30, 2022	Mar 31, 2022	Mar 31, 2021
Sales (GAAP)	\$ 720	\$ 733	\$ 695	\$ 751	\$ 772	\$ 728	\$ 636	\$ 506
Adjustment for supply chain premiums	(16)	(17)	(18)	(46)	(74)	(91)	(57)	(4)
Non-GAAP sales adjusted for supply chain premiums	\$ 704	\$ 716	\$ 677	\$ 705	\$ 698	\$ 637	\$ 579	\$ 502
GAAP and non-GAAP cost of sales	\$ 651	\$ 666	\$ 631	\$ 679	\$ 705	\$ 669	\$ 578	\$ 464
Adjustment for supply chain premiums	(16)	(17)	(18)	(46)	(74)	(91)	(57)	(4)
Non-GAAP cost of sales adjusted for supply chain premiums	\$ 635	\$ 649	\$ 613	\$ 633	\$ 631	\$ 578	\$ 521	\$ (460)
Non-GAAP gross margin	9.6%	9.1%	9.2%	9.6%	8.6%	8.1%	9.1%	8.3%
Non-GAAP gross margin adjusted for supply chain premiums	9.8%	9.4%	9.5%	10.2%	9.5%	9.2%	9.9%	8.4%
Non-GAAP operating margin	4.7%	4.0%	3.7%	4.3%	3.6%	3.1%	3.4%	2.3%
Non-GAAP operating margin adjusted for supply chain premiums	4.8%	4.1%	3.8%	4.6%	4.0%	3.6%	3.7%	2.3%

# APPENDIX 3 - Reconciliation of Supply Chain Premiums by Sector

(Dollars in Millions) – (UNAUDITED)

	Sep 30, 2023	Jun 30, 2023	Sep 30, 2022
<b>Sales (GAAP)</b>			
Medical	\$ 149	\$ 145	\$ 166
Semi-Cap	165	164	186
A&D	100	80	86
Industrials	154	167	155
Advanced Computing	66	81	95
Next Gen Comms	86	96	84
<b>Total Sales (GAAP)</b>	<b>\$ 720</b>	<b>\$ 733</b>	<b>\$ 772</b>
<b>Supply Chain Premiums</b>			
Medical	\$ 2	\$ 2	\$ 30
Semi-Cap	1	1	3
A&D	—	—	3
Industrials	11	9	24
Advanced Computing	—	—	—
Next Gen Comms	2	5	14
<b>Total Supply Chain Premiums</b>	<b>\$ 16</b>	<b>\$ 17</b>	<b>\$ 74</b>
<b>Sales Adjusted for Supply Chain Premiums</b>			
Medical	\$ 147	\$ 143	\$ 136
Semi-Cap	164	163	183
A&D	100	80	83
Industrials	143	158	131
Advanced Computing	66	81	95
Next Gen Comms	84	91	70
<b>Total Sales Adjusted for Supply Chain Premiums</b>	<b>\$ 704</b>	<b>\$ 716</b>	<b>\$ 698</b>