

# **Benchmark Electronics**

## **Q1-21 Earnings Results**

April 28, 2021

## Forward-Looking 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 (Exchange Act). 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 or the negative or other variations thereof. In particular, statements, express or implied, concerning future operating results, our ability to generate sales, income or cash flow, the anticipated impact of the COVID-19 pandemic, the outlook and guidance for second quarter 2021 results, our anticipated plans and responses to the COVID-19 pandemic, our expected revenue mix, our business strategy and strategic initiatives, our repurchases of shares of our common stock and our intentions concerning the payment of dividends, among others, are forward-looking statements. Although we believe these statements are based upon reasonable assumptions, they involve risks, uncertainties and assumptions that are beyond our 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, 2020 and in any of our subsequent reports filed with the Securities and Exchange Commission (SEC). In particular, these statements also depend on the duration, severity and evolution of the COVID-19 pandemic and related risks, including government and other third-party responses to it and the consequences for the global economy, our business and the businesses of our suppliers and customers, as well as our ability (or inability) to execute on our plans to respond to the COVID-19 pandemic. 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 us as of the date of this document, and we assume no obligation to update.

## Non-GAAP Financial Information

This document includes certain financial measures that exclude items and therefore are not in accordance with U.S. generally accepted accounting principles (“GAAP”). A detailed reconciliation between GAAP results and results excluding special items (“non-GAAP”) is included in the Appendix of 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 discloses non-GAAP information to provide investors with additional information to analyze the Company's performance and underlying trends. 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.

# Q1-21 Overview

- Achieved revenue of \$506 million
- Realized Non-GAAP gross margin of 8.3% and Non-GAAP operating margin of 2.3%
- Overcame intermittent facility disruptions due to COVID through the quarter
- Non-GAAP earnings per share of \$0.21
- Operating and free cash flow of \$37 million and \$30 million respectively
- Cash conversion cycle of 65 days



# Q1-21 New Business Wins

<b>Medical</b>	<ul style="list-style-type: none"> <li>• Insulin infusion therapy device (process design &amp; mfg)</li> <li>• Bacterial diagnostic device (process design &amp; mfg)</li> <li>• Mobile MRI system (manufacturing)</li> </ul>
<b>Semi-Cap</b>	<ul style="list-style-type: none"> <li>• Mechanical rack system (design)</li> <li>• Control system electronics (manufacturing)</li> </ul>
<b>Aerospace &amp; Defense</b>	<ul style="list-style-type: none"> <li>• Satellite control modules (process design &amp; mfg)</li> <li>• Advanced digital optical sensors (process design &amp; mfg)</li> <li>• Electronics housings (manufacturing)</li> </ul>
<b>Industrials</b>	<ul style="list-style-type: none"> <li>• Environmental controls (mfg)</li> <li>• LiDAR control systems (design and mfg)</li> </ul>
<b>Computing &amp; Telco</b>	<ul style="list-style-type: none"> <li>• Cloud hyperscale computing (design)</li> <li>• Fixed wireless broadband (mfg)</li> <li>• Embedded computing (mfg)</li> </ul>



## **OUSTER AND STRATEGIC MANUFACTURING PARTNER BENCHMARK ELECTRONICS ACCELERATE CAPACITY EXPANSION**

- Awarded to Benchmark's manufacturing facility in Thailand after extensive certification audits
- Partnering with Ouster to provide custom microelectronics manufacturing, full assembly and testing for LiDAR applications



## **GEOPHYSICAL TECHNOLOGY SELECTS BENCHMARK FOR PRODUCTION OF SEISMIC SENSOR TECHNOLOGY**

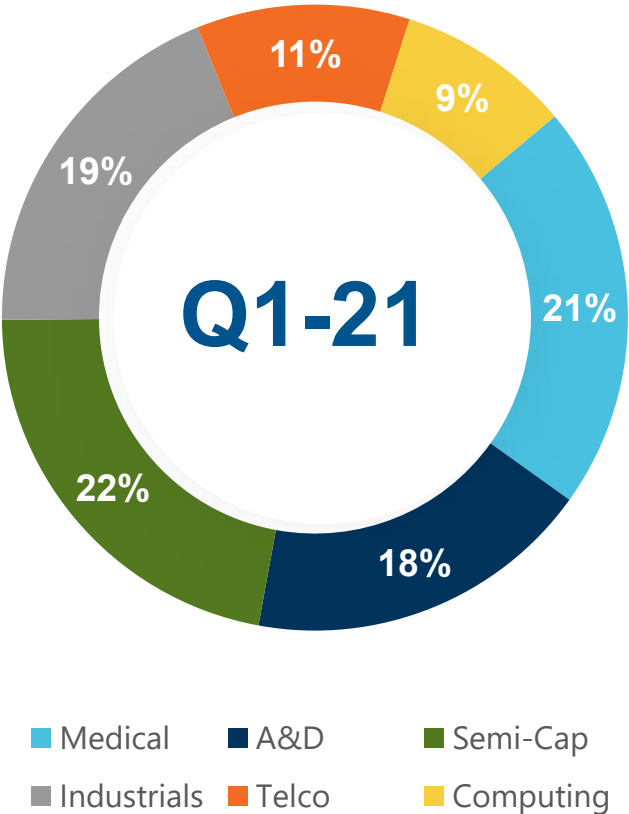
- Awarded manufacturing for next-generation sensor products
- Benchmark is assisting GTI relocate volume manufacturing operations to North America

# Roop Lakkaraju

Chief Financial Officer



# First Quarter Revenue by Market Sector



Revenue by Mix and Market Sector  
For the Three Months Ended

Dollars in Millions	Mar. 31, 2021		Dec. 31, 2020			Mar. 31, 2020		
	Mix %	Revenue	Mix %	Revenue	Q/Q	Mix %	Revenue	Y/Y
Higher-Value Markets								
Medical	21%	\$109	21%	\$111	(3%)	23%	\$118	(8%)
Semi-Cap	22%	\$113	20%	\$101	12%	16%	\$83	37%
Aerospace & Defense	18%	\$89	21%	\$111	(19%)	23%	\$119	(25%)
Industrials	19%	\$95	19%	\$97	(2%)	20%	\$103	(7%)
Higher-Value Subtotal	80%	\$406	81%	\$420	(3%)	82%	\$423	(4%)
Traditional Markets								
Computing	9%	\$44	9%	\$46	(6%)	7%	\$36	19%
Telecommunications	11%	\$56	10%	\$55	2%	11%	\$56	-
Traditional Subtotal	20%	\$100	19%	\$101	(1%)	18%	\$92	8%
Total Revenue		\$506		\$521	(3%)		\$515	(2%)



# First Quarter 2021 Financial Summary

(In millions, except EPS)	Mar. 31, 2021	Dec. 31, 2020	Q/Q	Mar. 31, 2020	Y/Y
Net Sales	\$506	\$521	(3%)	\$515	(2%)
GAAP Gross Margin	8.3%	9.7%	(140 bps)	8.4%	(10 bps)
GAAP SG&A	\$30.5	\$32.4	(6%)	\$31.6	(3%)
GAAP Operating Margin	2.4%	2.3%	10 bps	1.3%	110 bps
GAAP Diluted EPS	\$0.22	\$0.21	5%	\$0.10	120%
GAAP ROIC	3.2%	2.6%	60 bps	2.0%	120 bps
Net Sales	\$506	\$521	(3%)	\$515	(2%)
Non-GAAP Gross Margin	8.3%	9.6%	(130 bps)	8.4%	(10 bps)
Non-GAAP SG&A	\$30.5	\$32.4	(6%)	\$31.6	(3%)
Non-GAAP Operating Margin	2.3%	3.4%	(110 bps)	2.3%	-
Non-GAAP Diluted EPS	\$0.21	\$0.34	(38%)	\$0.22	(5%)
Non-GAAP ROIC	6.4%	6.2%	20 bps	7.1%	(70 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]

# Cash Conversion Cycle Update

	Q4-19	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21
Accounts Receivable Days	57	56	55	52	53	49
Contract Asset Days	29	28	28	28	25	26
Inventory Days	60	65	72	66	63	69
Accounts Payable Days	(58)	(61)	(61)	(54)	(54)	(64)
Advance Payments from Customers Days	(7)	(7)	(10)	(11)	(16)	(15)
<b>Cash Conversion Cycle</b>	<b>81</b>	<b>81</b>	<b>84</b>	<b>81</b>	<b>71</b>	<b>65</b>

The CCC target is 78 to 83 days



# Liquidity and Capital Resources

	For the Three Months Ended		
Cash (In millions)	Mar. 31, 2021	Dec. 30, 2020	Mar. 31, 2020
Cash Flows from (used in) Operations	\$37	\$95	\$(3)
FCF <sup>(1)</sup>	\$30	\$84	\$(16)
Cash	\$400	\$396	\$412
International	\$247	\$207	\$189
US	\$153	\$189	\$223

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

Debt Structure (In millions)	
Senior Secured Term Loan	\$135
Revolving Credit Facility Drawn Amount	\$0

\* Leverage ratio is Net debt/LTM adjusted EBITDA, as defined in the credit facility, which are non-GAAP measures

- Strong balance sheet and appropriate debt structure
- Credit facility matures July 2023
- Current leverage ratio\* in compliance with debt covenants
- Focused and prudent cash management

# Capital Allocation Update

## Dividends

- Quarterly dividend of \$0.16 per share totaling \$5.8 million paid in January 2021
- Recurring quarterly dividend of \$0.16 per share paid to shareholders as of March 31, 2021 on April 14, 2021
- Recurring quarterly dividends to continue until further notice

## Share Repurchases

- Share repurchases of \$13 million completed in Q1 2021
- Share repurchase program remaining authorization of \$191 million at March 31, 2021
- Expect to continue share repurchases opportunistically in the quarter



# Second Quarter 2021 Guidance

	Guidance
Net Sales (in millions)	<b>\$515 – \$555</b>
Diluted EPS - GAAP	<b>\$0.18 - \$0.24</b>
Diluted EPS – non-GAAP*	<b>\$0.23 – \$0.29</b>

	Q2-21 Model Inputs
Operating Margin - non-GAAP*	<b>2.5% – 2.9%</b>
Other Expenses, Net (in millions)	<b>\$2.5</b>
Effective Tax Rate	<b>19 – 21%</b>
Weighted Average Shares (in millions)	<b>~36.5</b>













\* This guidance takes into consideration all known constraints for the quarter and assumes no further significant interruptions to our supply base, operations or customers. Guidance also assumes no material changes to end market conditions due to COVID-19.



# 2021 Revenue Trends and Key Initiatives

Jeff Benck - CEO

# Trends by Market Sector

Sector	CY2021 Revenue Outlook	Q2-21 Revenue Guidance	Comments
Medical			<ul style="list-style-type: none"> <li>Steady medical demand through 1H-21; early indications of elective surgery recovery</li> <li>Still expect revenue from new program ramps in 2H-21</li> </ul>
Semi-Cap			<ul style="list-style-type: none"> <li>Demand outlook for Q2 is strengthening from Q1</li> <li>Expect continued strong demand and &gt;20% full year revenue growth</li> </ul>
Aerospace & Defense			<ul style="list-style-type: none"> <li>Growth in Q2 led by defense &amp; security</li> <li>Further decline in commercial aircraft related revenues in 1H-21; no recovery in 2021</li> </ul>
Industrial			<ul style="list-style-type: none"> <li>Experiencing some new program ramp delays</li> <li>Continued demand softness in oil &amp; gas and infrastructure (building and transportation)</li> </ul>
Computing			<ul style="list-style-type: none"> <li>Experiencing stronger demand in 2021</li> <li>High Performance Computing ramps in mid-year 2021 strengthening in 2H-21</li> </ul>
Telco			<ul style="list-style-type: none"> <li>Overall telco demand is stable in Q2 and improving through 2H-21 from broadband infrastructure growth</li> </ul>



# Benchmark's ESG / Sustainability Status

## Five Key Tenets of our Strategy

1. Environmental Responsibility
2. Our People
3. Our Community
4. Governance
5. Our COVID-19 Response



## Recent Status

- Released our SASB Matrix in March 2021 (located on the Sustainability page of [www.bench.com](http://www.bench.com))
- ESG updates in our 2020 Annual Report and 2021 Proxy
- Increased emphasis and advancement of Diversity, Equity, & Inclusion initiatives

## Recognition

- Recently awarded Silver Medal status from **ecovadis**
- Silver status puts Benchmark in the top 25% of companies rated
- Rigorous assessment of criteria including Environmental, Labor & Human Rights, Ethics, and Sustainable Procurement



## Future Work

- Initiated data collection efforts for reporting aligned with the Global Reporting Initiative (GRI)
- Plans in flight to expand racial diversity on Board
- Expect to release a stand-alone Sustainability Report in 2022

**ESG / SUSTAINABILITY IS A STRATEGIC IMPERATIVE FOR BENCHMARK**

# 2021 Key Strategic Initiatives Update

## 01 Grow Revenue

- Strong bookings continue in all sectors
- Achieved ~50% attach rate of engineering to manufacturing services in Q1
- Continued strength in Semi-Cap through 2021
- High performance computing programs ramping mid-year
- On track to mid-term target goal of >5% annual growth

## 02 Invest in a Sustainable Infrastructure and Talent

- Expanding and accelerating ESG/Sustainability initiatives
- Advancing Diversity and Inclusion initiatives
- Planning incremental capital investments aligned to our strategy
- Effective SG&A expense management in support of the mid-term model <6%

## 03 Grow Earnings Faster Than Revenue

- Drive growth that enables higher utilization and better leverage against fixed costs
- Anticipate gross margin improvements as revenues ramp – still on target for 9% for the full year
- Anticipating inventory growth as we navigate component constraints
- Expecting \$80-100 million operating cash flow in 2021
- Expect to continue share buybacks and dividends



# Appendix

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

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

	Three Months Ended		
	March 31, 2021	December 31, 2020	March 31, 2020
Income from operations (GAAP)	\$ 11,934	\$ 11,857	\$ 6,490
Restructuring charges and other costs	1,591	4,490	1,908
Ransomware incident related costs (recovery), net	(3,444)	(45)	—
Impairment	—	—	1,007
Customer insolvency (recovery)	(32)	(553)	—
Amortization of intangible assets	1,598	1,979	2,381
Non-GAAP income from operations	<u>\$ 11,647</u>	<u>\$ 17,728</u>	<u>\$ 11,786</u>
Gross Profit (GAAP)	\$ 42,227	\$ 50,661	\$ 43,361
Customer insolvency (recovery)	(32)	(553)	—
Non-GAAP gross profit	<u>\$ 42,195</u>	<u>\$ 50,108</u>	<u>\$ 43,361</u>
Net income (GAAP)	\$ 7,917	\$ 7,695	\$ 3,852
Restructuring charges and other costs	1,591	4,490	1,908
Ransomware incident related costs (recovery), net	(3,444)	(45)	—
Customer insolvency (recovery)	(32)	(553)	—
Amortization of intangible assets	1,598	1,979	2,381
Impairment	—	—	1,007
Income tax adjustments <sup>(1)</sup>	169	(1,006)	(1,078)
Non-GAAP net income	<u>\$ 7,799</u>	<u>\$ 12,560</u>	<u>\$ 8,070</u>
Diluted earnings per share:			
Diluted (GAAP)	\$ 0.22	\$ 0.21	\$ 0.10
Diluted (Non-GAAP)	\$ 0.21	\$ 0.34	\$ 0.22
Weighted-average number of shares used in calculating diluted earnings per share:			
Diluted (GAAP)	36,711	36,596	37,071
Diluted (Non-GAAP)	36,711	36,596	37,071

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

# APPENDIX 2 - Reconciliation of GAAP to Non-GAAP Financial Measures

(Amounts in Thousands) – (UNAUDITED)

## Three Months Ended

	Mar. 31, 2021	Dec. 31, 2020	Mar. 31, 2020
<b>GAAP Gross Profit</b>	\$42,227	\$50,661	\$43,361
<b>Settlement</b>	-	-	-
<b>Customer insolvency (recovery)</b>	(\$32)	(\$553)	-
<b>Non-GAAP Gross Profit</b>	\$42,195	\$50,108	\$43,361
<b>GAAP SG&amp;A Expenses</b>	\$30,548	\$32,380	\$31,575
<b>Customer Insolvency</b>	-	-	-
<b>Non-GAAP SG&amp;A Expenses</b>	\$30,548	\$32,380	\$31,575

# APPENDIX 3 - Reconciliation of Free Cash Flow

(Amounts in Thousands) – (UNAUDITED)

## Three Months Ended

	Mar. 31, 2021	Dec. 31, 2020	Mar. 31, 2020
Net Cash Provided by (Used in) Operations	\$36,613	\$94,823	\$(3,109)
Additions to property, plant and equipment and software	(\$6,422)	(\$10,417)	(12,896)
Free Cash Flow (Free Cash Flow Used)	\$30,191	\$84,406	\$(16,005)