

# **Benchmark Electronics**

## **Q2-21 Earnings Results**

July 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 third 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 the emergence and severity of its variants, the availability of vaccines and potential hesitancy to utilize them, 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 certain items (“non-GAAP”) is included in the following tables attached to this document. Management discloses non-GAAP information to provide investors with additional information to analyze the Company's performance and underlying trends. Management also uses non-GAAP measures in order to better assess operating performance and help investors compare results with our previous guidance. 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. 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.

# Q2-21 Overview

- Achieved revenue of \$545 million (11% year-over-year growth)
  - Strength from SemiCap, Industrials, and Telco sectors
- Realized Non-GAAP gross margin of 8.8% and Non-GAAP operating margin of 2.5%
- Overcame facility disruptions in Malaysia due to government restrictions related to COVID
- Non-GAAP earnings per share of \$0.27
- Cash conversion cycle of 64 days

# Q2-21 New Business Wins

<b>Medical</b>	<ul style="list-style-type: none"><li>• Cardiac monitoring (process design &amp; manufacturing)</li><li>• Blood transfusion (process design &amp; manufacturing)</li><li>• Invitro Diagnostics (design)</li></ul>
<b>Semi-Cap</b>	<ul style="list-style-type: none"><li>• Process controller for coating equipment (manufacturing)</li><li>• Work cell handler (design)</li><li>• Power rack electronics (manufacturing)</li></ul>
<b>Aerospace &amp; Defense</b>	<ul style="list-style-type: none"><li>• Electronic warfare assemblies (process design &amp; mfg)</li><li>• Satellite electronics (process design &amp; manufacturing)</li><li>• Land communication electronics (design)</li></ul>

<b>Industrials</b>	<ul style="list-style-type: none"><li>• Solar energy storage solutions (manufacturing)</li><li>• Ruggedized power electronics (manufacturing)</li><li>• Test &amp; measurement devices (manufacturing)</li></ul>
<b>Computing &amp; Telco</b>	<ul style="list-style-type: none"><li>• High performance computing (manufacturing)</li><li>• Control panel electronics (design)</li></ul>



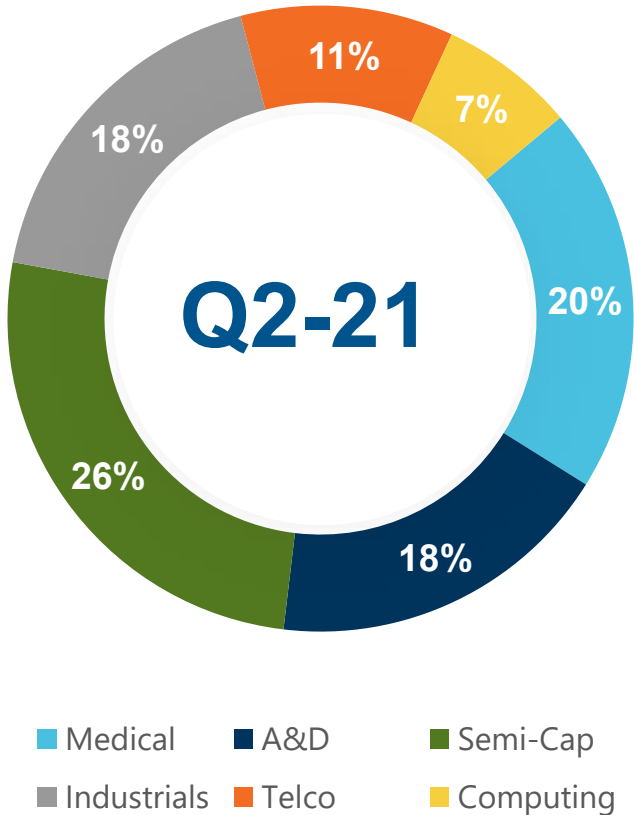


# Roop Lakkaraju

Chief Financial Officer



# Second Quarter Revenue by Market Sector



Revenue by Mix and Market Sector  
For the Three Months Ended

Dollars in Millions	June 30, 2021		Mar. 31, 2021			June 30, 2020		
	Mix %	Revenue	Mix %	Revenue	Q/Q	Mix %	Revenue	Y/Y
Higher-Value Markets								
Medical	20%	\$109	21%	\$109	-	27%	\$135	(19%)
Semi-Cap	26%	\$139	22%	\$113	23%	18%	\$87	60%
Aerospace & Defense	18%	\$97	18%	\$89	8%	18%	\$88	9%
Industrials	18%	\$100	19%	\$95	5%	18%	\$87	15%
Higher-Value Subtotal	82%	\$445	80%	\$406	9%	81%	\$397	12%
Traditional Markets								
Computing	7%	\$40	9%	\$44	(9%)	9%	\$44	(10%)
Telecommunications	11%	\$60	11%	\$56	8%	10%	\$50	21%
Traditional Subtotal	18%	\$100	20%	\$100	-	19%	\$94	7%
Total Revenue		\$545		\$506	8%		\$491	11%

# Second Quarter 2021 Financial Summary

(In millions, except EPS)	June 30, 2021	Mar. 31, 2021	Q/Q	June 30, 2020	Y/Y
Net Sales	\$545	\$506	8%	\$491	11%
GAAP Gross Margin	8.8%	8.3%	50 bps	7.1%	170 bps
GAAP SG&A	\$34.0	\$30.5	11%	\$28.5	19%
GAAP Operating Margin	2.0%	2.4%	(40 bps)	(0.4%)	240 bps
GAAP Diluted EPS	\$0.20	\$0.22	(9%)	(\$0.09)	322%
GAAP ROIC	4.6%	3.2%	140 bps	0.7%	390 bps
Net Sales	\$545	\$506	8%	\$491	11%
Non-GAAP Gross Margin	8.8%	8.3%	50 bps	7.0%	180 bps
Non-GAAP SG&A	\$34.0	\$30.5	11%	\$28.5	19%
Non-GAAP Operating Margin	2.5%	2.3%	20 bps	1.2%	130 bps
Non-GAAP Diluted EPS	\$0.27	\$0.21	29%	\$0.07	286%
Non-GAAP ROIC	7.5%	6.4%	110 bps	5.9%	160 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

	Q1-20	Q2-20	Q3-20	Q4-20	Q1-21	Q2-21
Accounts Receivable Days	56	55	52	53	49	48
Contract Asset Days	28	28	28	25	26	26
Inventory Days	65	72	66	63	69	75
Accounts Payable Days	(61)	(61)	(54)	(54)	(64)	(69)
Advance Payments from Customers Days	(7)	(10)	(11)	(16)	(15)	(16)
<b>Cash Conversion Cycle</b>	<b>81</b>	<b>84</b>	<b>81</b>	<b>71</b>	<b>65</b>	<b>64</b>



# Liquidity and Capital Resources

	For the Three Months Ended		
	June 30, 2021	Mar. 31, 2021	June 30, 2020
Cash (In millions)			
Cash Flows from (used in) Operations	\$4	\$37	\$23
FCF <sup>(1)</sup>	\$(9)	\$30	\$13
Cash	\$370	\$400	\$356
International	\$235	\$247	\$162
US	\$135	\$153	\$194

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

Debt Structure (In millions)	
Senior Secured Term Loan	\$133
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 April 2021
- Recurring quarterly dividend of \$0.165 per share paid to shareholders on July 14, 2021
- Recurring quarterly dividends to continue until further notice

## Share Repurchases

- Share repurchases of \$17 million completed in Q2 2021
- Share repurchase program remaining authorization of \$174 million at June 30, 2021
- Expect to continue share repurchases opportunistically in the quarter



# Third Quarter 2021 Guidance

	Q3-21 Guidance
Net Sales (in millions)	\$555 – \$595
Diluted EPS - GAAP	\$0.27 - \$0.35
Diluted EPS – non-GAAP*	\$0.33 – \$0.41

	Q3-21 Model Inputs
Operating Margin - non-GAAP*	3.1% – 3.4%
Other Expenses, Net (in millions)	\$2.1
Effective Tax Rate	19 – 21%
Weighted Average Shares (in millions)	~35.7

\* 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 and our operations due to COVID-19.



# 2021 Revenue Trends and Key Initiatives

Jeff Benck - CEO

# Trends by Market Sector

Sector	Q3-21 Revenue Guidance	CY2021 Revenue Outlook	Comments
Medical	➡	●	<ul style="list-style-type: none"> <li>Overall 2H-21 revenue greater than 1H-21 revenue</li> <li>Some new program ramps moving from 2021 into early next year</li> </ul>
Semi-Cap	➡	●	<ul style="list-style-type: none"> <li>Q3 revenue is limited due to constraints at mechanical sub-tiers</li> <li>Expect continued strong demand and &gt;30% full year revenue growth</li> </ul>
Aerospace & Defense	⬆	●	<ul style="list-style-type: none"> <li>Defense programs remain strong</li> <li>Lack of commercial aircraft recovery in 2021 offsets defense growth</li> </ul>
Industrial	➡	●	<ul style="list-style-type: none"> <li>Market demand improving in oil &amp; gas, and building and transportation infrastructure</li> </ul>
Computing	⬆	●	<ul style="list-style-type: none"> <li>High Performance Computing ramps strong in 2H-21</li> <li>Expecting stronger demand for the full year of 2021</li> </ul>
Telco	➡	●	<ul style="list-style-type: none"> <li>Overall telco demand is stable in 2H-21 from broadband infrastructure growth</li> </ul>



# 2021 Key Strategic Initiatives Update

## 01 Grow Revenue

- Strong bookings continue in all sectors
- Achieved >50% attach rate of engineering projects to manufacturing services bookings in Q2
- Continued strength in Semi-Cap through 2021 and 2022
- Will exceed >5% annual growth in 2021

## 02 Invest in a Sustainable Infrastructure and Talent

- Expanding and accelerating ESG/Sustainability initiatives
- Focusing on data collection for Global Reporting Initiative (GRI)
- Advancing Diversity and Inclusion initiatives
- Incremental capital investments aligned to our strategy
- Effective SG&A expense management in support of the mid-term model <6% for the full year

## 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 targeting 9% for the full year
- Anticipating inventory growth as we navigate component constraints
- Expect to continue share buybacks and dividends



# Highlights and 2H-21 Outlook

- Revising revenue outlook to high single digit growth in 2021
  - Strong SemiCap demand continues (expect >30% annual revenue growth)
  - Second half High Performance Computing program ramps
  - Improving demand and revenue in Industrials
  - In all sectors, demand outpacing component supply
- Sequential margin improvement throughout the second half of 2021
- Targeting 9% gross margins for the full year
- Expect operating cash flow between \$80-\$100 million in 2021
- Repurchased \$30M of stock year-to-date



# Appendix

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

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

	Three Months Ended		
	Jun 30, 2021	Mar 31, 2021	Jun 30, 2020
Income from operations (GAAP)	\$ 10,699	\$ 11,934	\$ (1,872)
Restructuring charges and other costs	1,581	1,591	5,657
Ransomware incident related costs (recovery), net	—	(3,444)	—
Customer insolvency (recovery)	(153)	(32)	(353)
Amortization of intangible assets	1,599	1,598	2,371
Non-GAAP income from operations	<u>\$ 13,726</u>	<u>\$ 11,647</u>	<u>\$ 5,803</u>
Gross Profit (GAAP)	\$ 47,913	\$ 42,227	\$ 34,672
Customer insolvency (recovery)	(153)	(32)	(353)
Non-GAAP gross profit	<u>\$ 47,760</u>	<u>\$ 42,195</u>	<u>\$ 34,319</u>
Selling, general and administrative expenses (GAAP)	\$ 34,034	\$ 30,548	\$ 28,516
Non-GAAP selling, general and administrative expenses	<u>\$ 34,034</u>	<u>\$ 30,548</u>	<u>\$ 28,516</u>
Net income (GAAP)	\$ 7,369	\$ 7,917	\$ (3,407)
Restructuring charges and other costs	1,581	1,591	5,657
Ransomware incident related costs (recovery), net	—	(3,444)	—
Customer insolvency (recovery)	(153)	(32)	(353)
Amortization of intangible assets	1,599	1,598	2,371
Income tax adjustments(1)	(633)	169	(1,584)
Non-GAAP net income	<u>\$ 9,763</u>	<u>\$ 7,799</u>	<u>\$ 2,684</u>
Diluted earnings per share:			
Diluted (GAAP)	\$ 0.20	\$ 0.22	\$ (0.09)
Diluted (Non-GAAP)	\$ 0.27	\$ 0.21	\$ 0.07
Weighted-average number of shares used in calculating diluted earnings per share:			
Diluted (GAAP)	36,061	36,711	36,439
Diluted (Non-GAAP)	36,061	36,711	36,689

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

# APPENDIX 2 - Reconciliation of Free Cash Flow

(Amounts in Thousands) – (UNAUDITED)

## Three Months Ended

	June 30, 2021	Mar. 31, 2021	June 30, 2020
Net Cash Provided by Operations	\$3,660	\$36,613	\$23,027
Additions to property, plant and equipment and software	(12,197)	(6,422)	(10,394)
Free Cash Flow (Free Cash Flow Used)	(\$8,537)	\$30,191	\$12,633