

# Benchmark Electronics

Q4 and FY 2017 Earnings

February 7, 2018

## Forward-Looking Statements

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words “expect,” “estimate,” “anticipate,” “predict” and similar expressions, and the negatives thereof, often identify forward-looking statements, which are not limited to historical facts. Forward-looking statements include, among other things: guidance for 2018 results; statements, express or implied, concerning future operating results or margins, the ability to generate sales and income or cash flow; and Benchmark’s business and growth strategies and expected growth and performance. Although Benchmark believes these statements are based upon reasonable assumptions, they involve risks and uncertainties relating to operations, markets and the business environment generally. If one or more of these risks or uncertainties materializes, or underlying assumptions prove incorrect, actual outcomes may vary materially from those indicated. Readers are advised to consult further disclosures on these risks and uncertainties, particularly in Item 1A, “Risk Factors”, of the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 and in its subsequent filings with the Securities and Exchange Commission. All forward-looking statements included in this document are based upon information available to the Company as of the date of this document, and it assumes no obligation to update them.

## 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. 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.

# CEO Update

# Fourth Quarter and 2017 Summary

## Strong operational performance

- ▶ Revenue and non-GAAP operating margins exceeded the high end of Q4 guidance
- ▶ Year-over-year revenue growth of 7% driven by higher-value markets and Computing
- ▶ Gross margins expanded for the full year to 9.3%
- ▶ Delivered \$1.61 non-GAAP EPS for the full year with \$0.49 in Q4

## Working capital

- ▶ Cash conversion cycle of 60 days ending Q4 with an average of 66 days for the year
- ▶ Below target range of 73 to 68 days exiting 2017

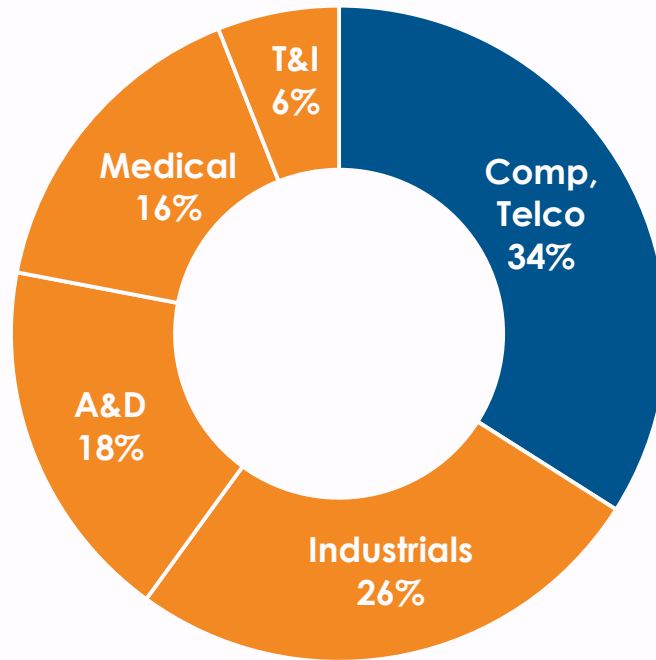
## Cash flow and improving ROIC

- ▶ Operating cash flow of \$56 million in the quarter and \$146 million for the year
- ▶ Cash from operations in the range of \$125-150 million as expected for 2017
- ▶ ROIC of 10.5%, up 60 bps quarter-over-quarter and 210 bps year-over-year



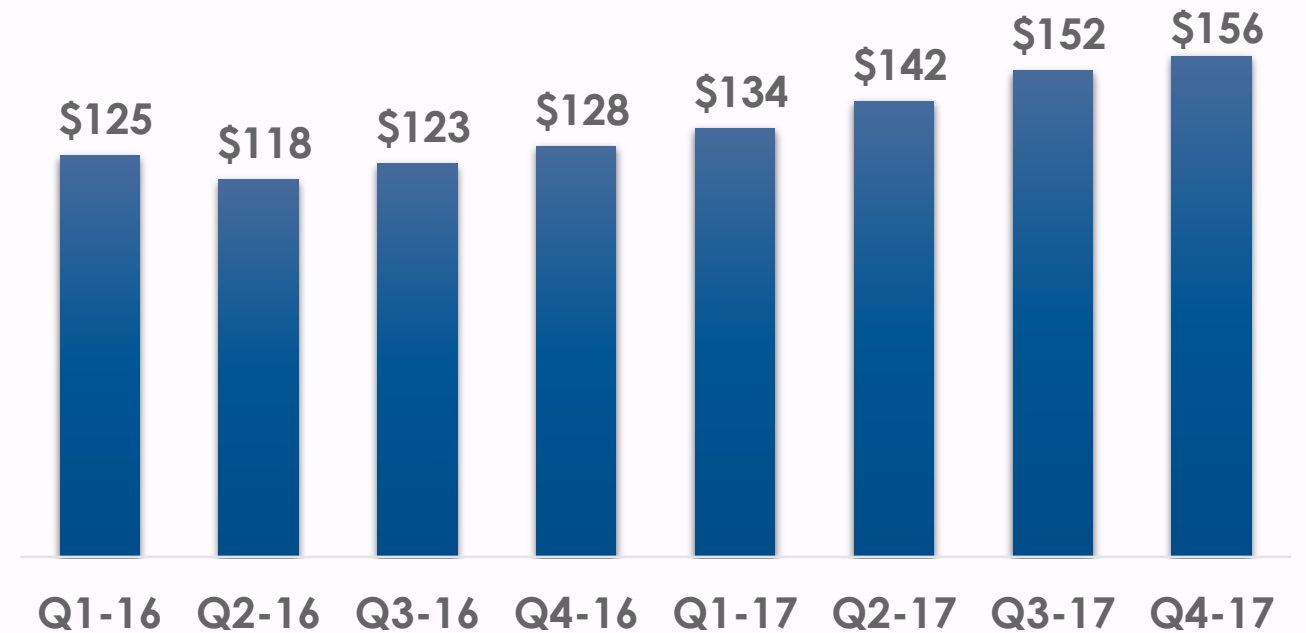
# New Business Wins with Focus on Market Sector Sales

2017 New Business Wins by Segment



■ Traditional Markets ■ Higher-Value Markets

Estimated Annual Revenue from New Business Wins



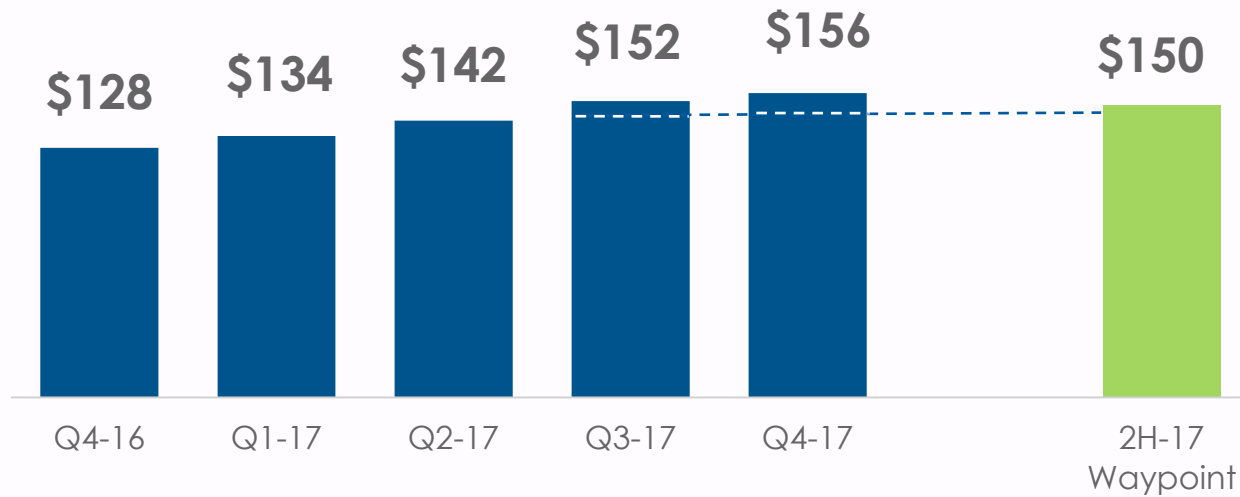
■ \$ (USD M)

## Q4 New Business Wins Highlights:

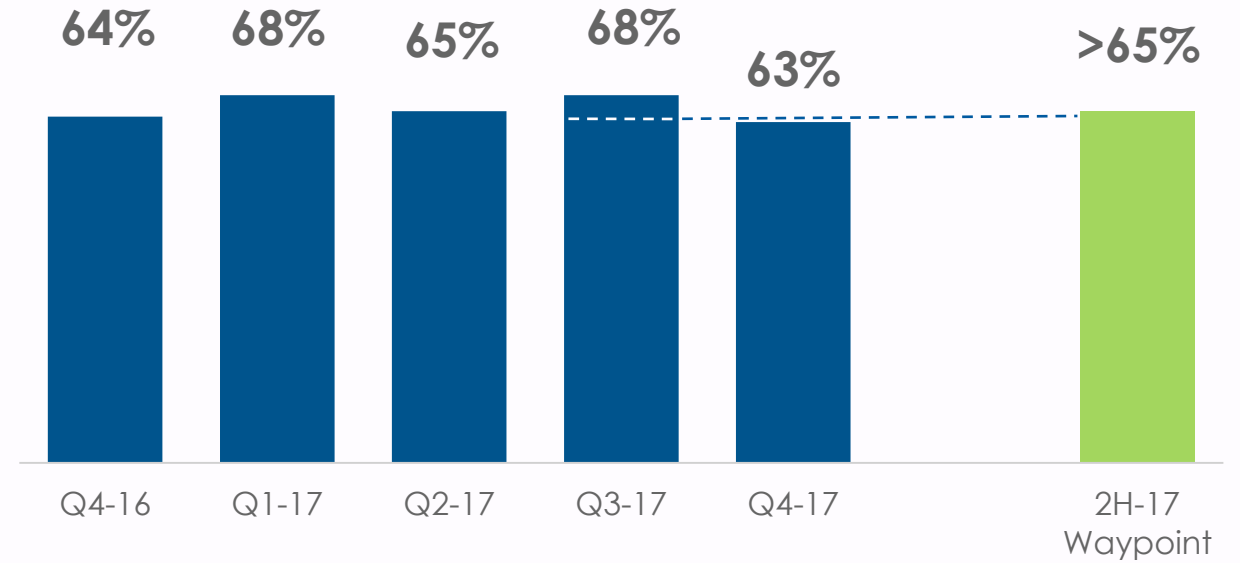
- ▶ 30 manufacturing and 13 engineering project awards
- ▶ Estimated annual revenue run rate between \$142 – 170 million
- ▶ Strong bookings in next generation Telco and Industrials

# Current Progress Milestones Exiting 2017

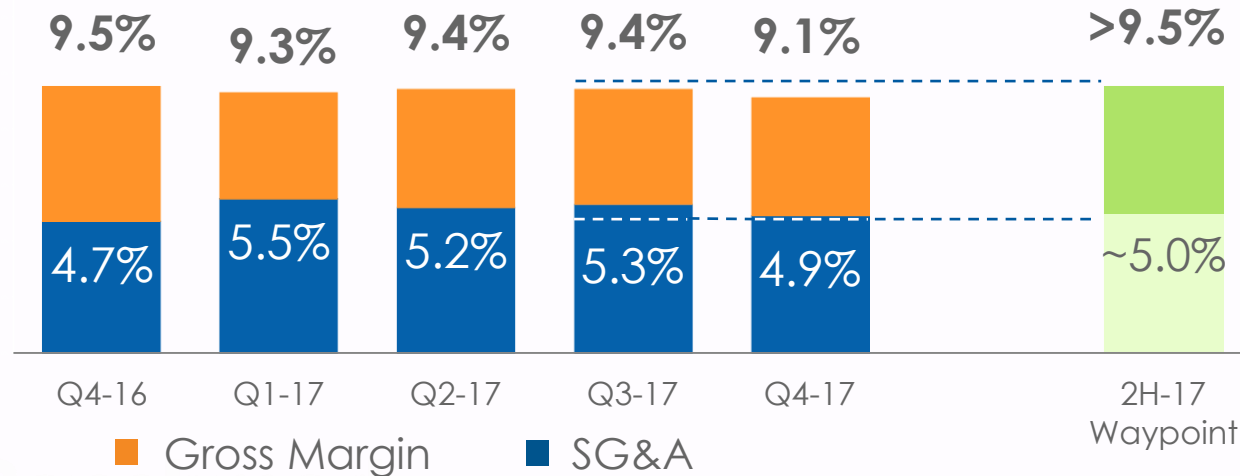
### Bookings (\$M)



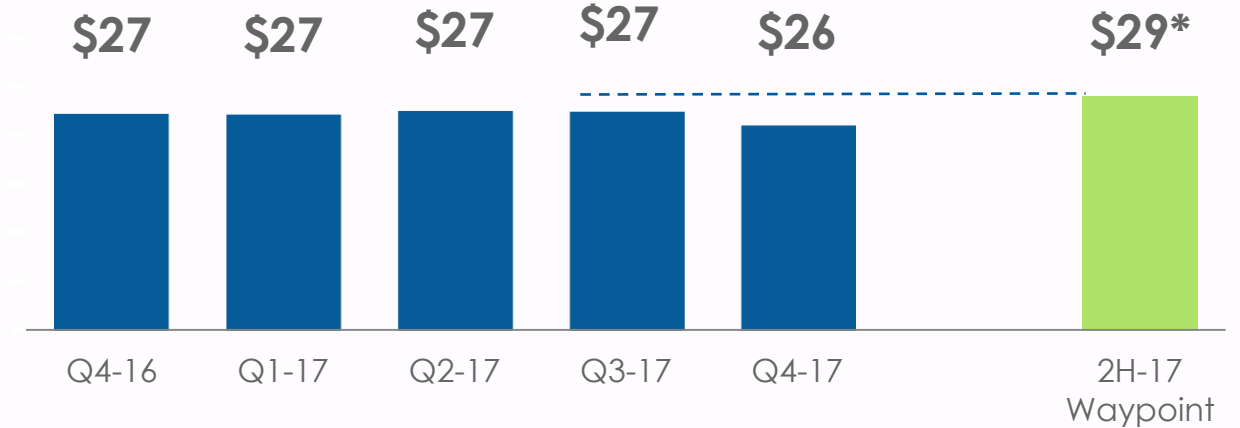
### Higher-Value Market Revenue Mix



### Gross Margin & SG&A (%)



### LTM Profit per Square Foot (\$)



\*Waypoint represents LTM target based on non-GAAP Operating Income

# Update on Priorities

## 2017 Transition Year: Repositioning and Realignment

- ▶ Optimize our network for elevated execution
- ▶ Implementation of market-sector sales organization
- ▶ Expansion of engineering solutions and capabilities

## 2018 Optimization Year: Leverage Investments

- ▶ Extend value proposition for customers
- ▶ Expand engineering and technology capabilities
- ▶ Elevate operational execution
- ▶ Progress made in 2018 will shape the trajectory for 2019 and beyond

# Market Trends Driving Opportunities for Benchmark

**Demand for Higher Quality but More Affordable Healthcare**

## **Aging Population & Increasing Healthcare Needs**

- ▶ Advanced treatment therapies
- ▶ Remote patient monitoring
- ▶ Effective pharmaceutical delivery
- ▶ Performance-based outcomes

**Deployment of 5G Wireless Technology**

## **Requirement for Higher Bandwidth and Speed**

- ▶ Application growth: Smart cities, IoT, asset tracking, autonomous driving
- ▶ Convergence of Defense and Telco process requirements
- ▶ Electronics value chain: higher chip demand and mixed SMT/microelectronics subassemblies

**Modernization and Refurbishment of the Military**

## **Increase in Defense Spending**

- ▶ Upgrade of land, air, and sea platforms
- ▶ Sufficiency and capability of munitions
- ▶ Advanced electronic warfare and secure communications
- ▶ Soldier mobility and lethality



# Aligning Benchmark to Take Advantage of Market Trends

## Investments in Differentiation

## 2017 Results\*

**Demand for Higher Quality but More Affordable Healthcare**

Turnkey Product Design  
 Qualcomm Partnership  
 Medical Platforms  
 FDA Regulatory Mgt.

**Medical  
 \$376M**

**Deployment of 5G Wireless Technology**

Engineering Services  
 IoT Front-End  
 RF & High Speed Design  
 Microelectronics

**Industrial \$497M    T&I \$347M    Telco \$308M**

**Modernization and Refurbishment of the Military**

Secure Defense Platforms  
 RF & High Speed Design  
 Microelectronics  
 Surveillance Systems

**A&D  
 \$398M**

\*Based on Company results as of 12/31/17; does not include Computing

# Our Financial Goals

## Target Business Model

Revenue

\$2.8 – \$3.2B

Gross Margin

9.8 – 10%

SG&A

4.8 – 4.5%

Non-GAAP Operating Income

>5.5%

ROIC

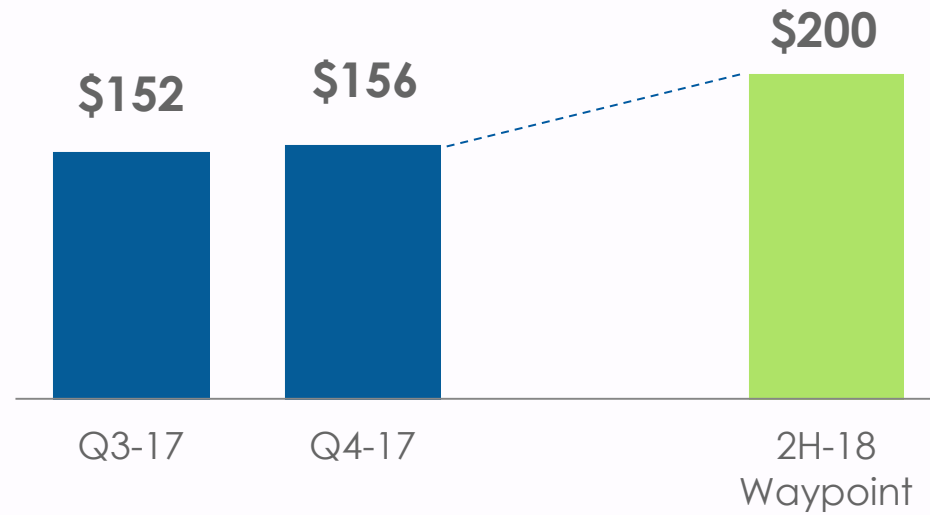
>12%

Cash Conversion Cycle

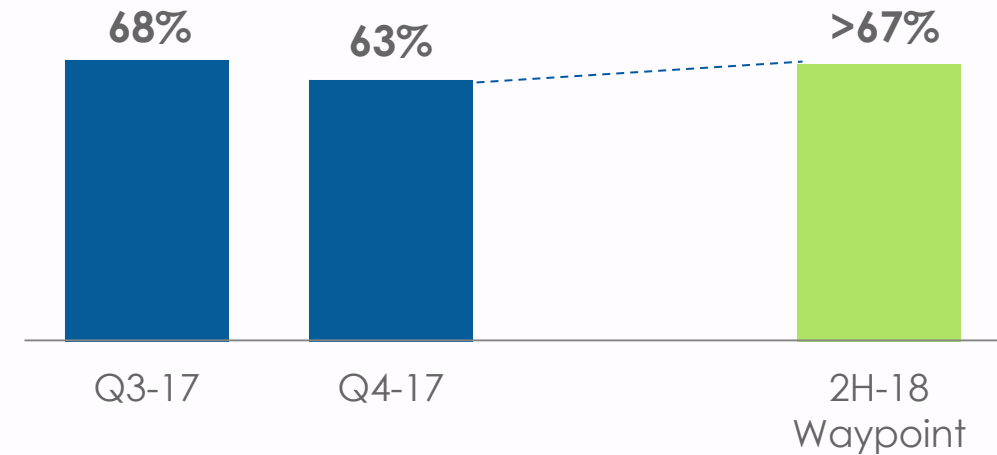
<70 Days

# Progress Milestones 2H-18

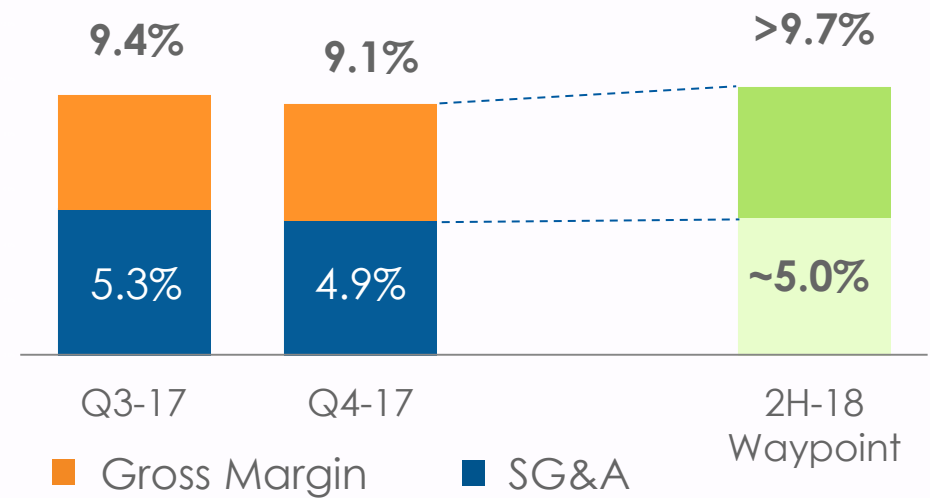
### Bookings (\$M)



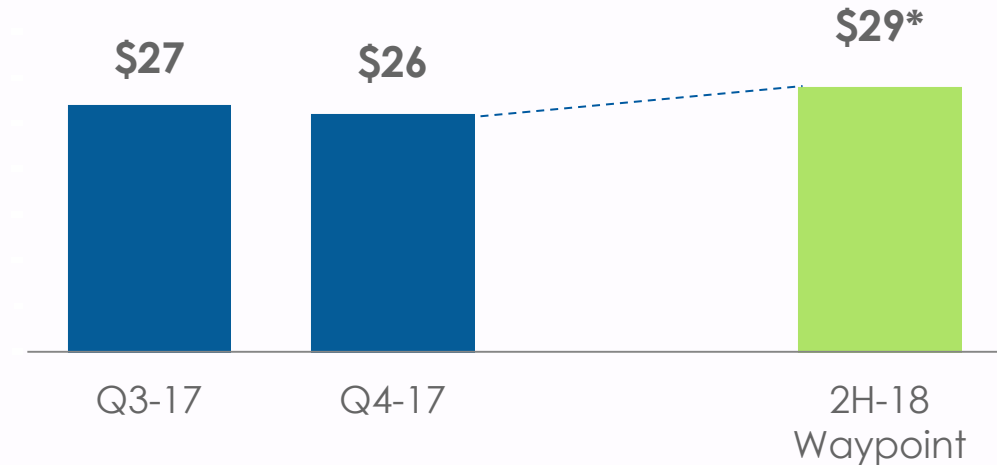
### Higher-Value Market Revenue Mix



### Gross Margin & SG&A (%)



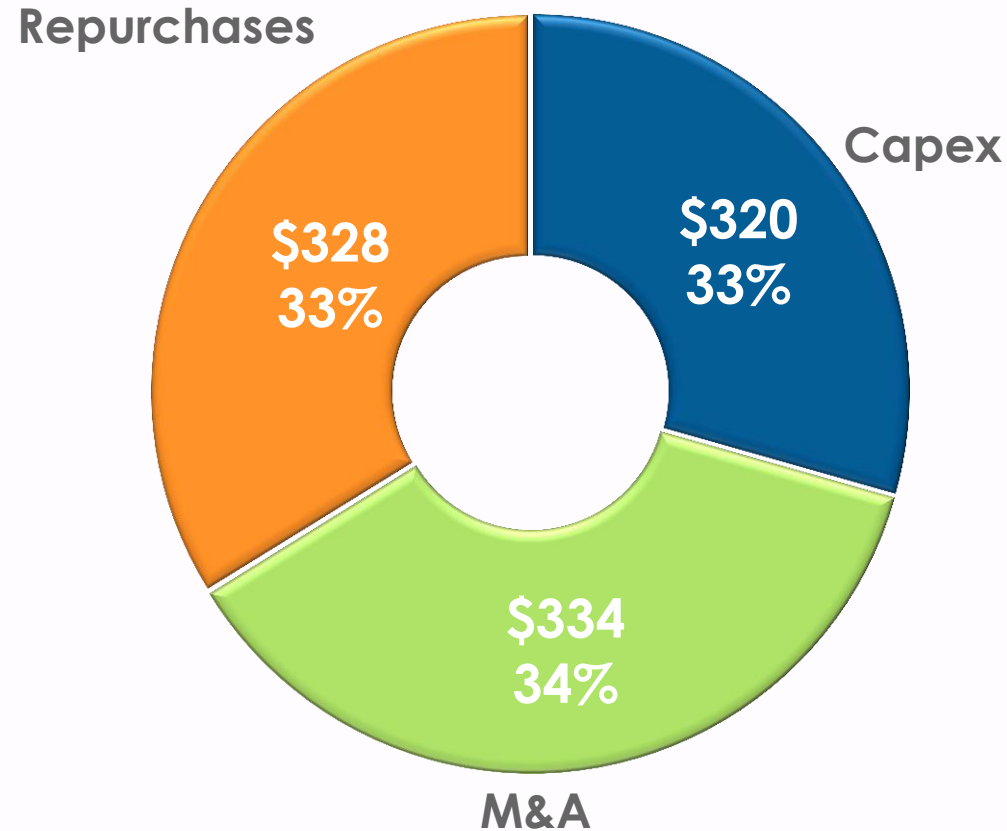
### LTM Profit per Square Foot (\$)



\*Waypoint represents LTM target based on non-GAAP Operating Income

# ROIC: Key Determinant of Capital Allocation Strategy

Cumulative Capital Allocation  
FY11-FY17



## Capex

- ▶ Organic growth through targeted investments to extend business model in attractive markets

## M&A

- ▶ Fund investments in close-to-core, bolt-on M&A to expand technical capabilities

## Share Repurchases

- ▶ Share repurchases optimized for returns
- ▶ \$23M repurchased in Q4-17
- ▶ 42nd consecutive quarter of share repurchases
- ▶ Cumulative \$328mm+ (48% of FCF<sup>1</sup>) spent

**Balanced approach to capital allocation**

<sup>1</sup> Free cash flow (FCF) defined as net cash provided by operations (GAAP) less capex

# Q4 & 2017 Financial Highlights

# Fourth Quarter 2017 Financial Summary

For the Three Months Ended

(In millions, except EPS)

	Dec. 31, 2017	Sep. 30, 2017	Q/Q	Dec. 31, 2016	Y/Y
<b>Net Sales</b>	\$680	\$604	13%	\$608	12%
<b>GAAP Operating Margin</b>	3.4%	3.4%	--	3.9%	(50 bps)
<b>GAAP Diluted EPS</b>	(\$1.54)	\$0.35	(540%)	\$0.37	(516%)
<b>Non-GAAP Operating Margin</b>	4.2%	4.1%	10 bps	4.8%	(60 bps)
<b>Non-GAAP Diluted EPS</b>	\$0.49	\$0.39	27%	\$0.45	10%
<b>GAAP ROIC</b>	8.2%	7.6%	60 bps	7.2%	100 bps
<b>Non-GAAP ROIC</b>	10.5%	9.9%	60 bps	8.4%	210 bps

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

## Our Guidance for the Fourth Quarter:

- ▶ Revenue (in millions) \$590 – \$610
- ▶ Diluted EPS – non-GAAP \$0.34 – \$0.38



# Revenue by Market Sector

For the Three Months Ended

Higher-Value Markets	Dec. 31, 2017 <sup>(1)</sup>		Sep. 30, 2017 <sup>(1)</sup>		Q/Q	Dec. 31, 2016 <sup>(1)</sup>		Y/Y
Industrials	19%	\$131	20%	\$124	6%	22%	\$137	(4%)
Aerospace & Defense	15%	\$98	16%	\$96	2%	17%	\$102	(4%)
Medical	15%	\$103	17%	\$101	3%	14%	\$86	20%
Test & Instrument.	14%	\$95	15%	\$88	8%	11%	\$65	46%
<b>Total Revenue</b>		<b>\$427</b>		<b>\$409</b>	<b>4%</b>		<b>\$390</b>	<b>10%</b>

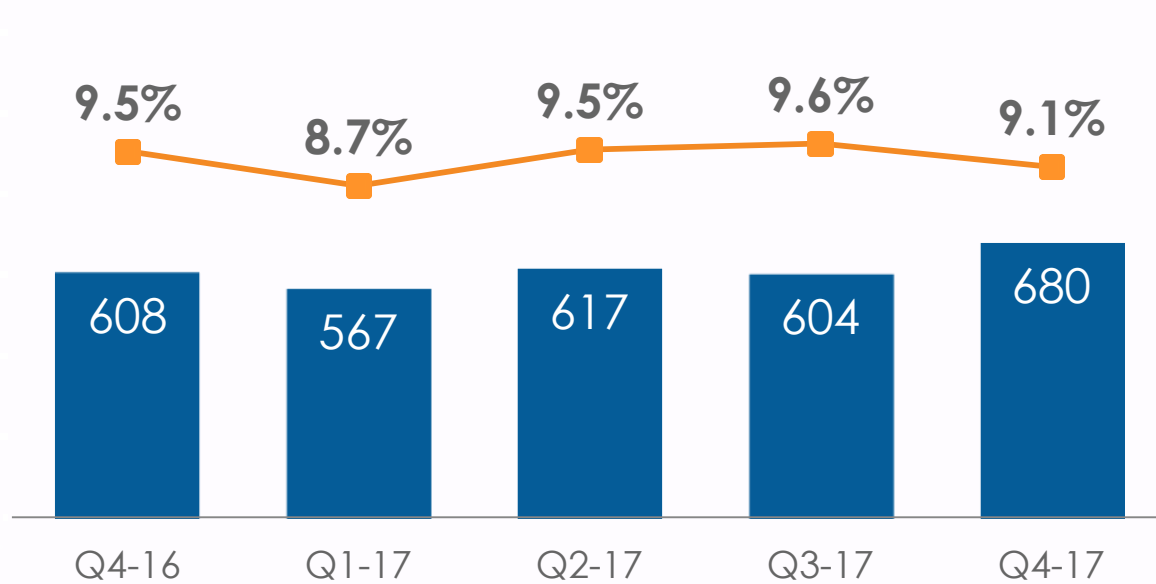
Traditional Markets	Dec. 31, 2017 <sup>(1)</sup>		Sep. 30, 2017 <sup>(1)</sup>		Q/Q	Dec. 31, 2016 <sup>(1)</sup>		Y/Y
Computing	26%	\$174	20%	\$124	40%	20%	\$119	46%
Telecommunications	11%	\$79	12%	\$71	11%	16%	\$99	(20%)
<b>Total Revenue</b>		<b>\$253</b>		<b>\$195</b>	<b>30%</b>		<b>\$218</b>	<b>16%</b>

(1) In millions

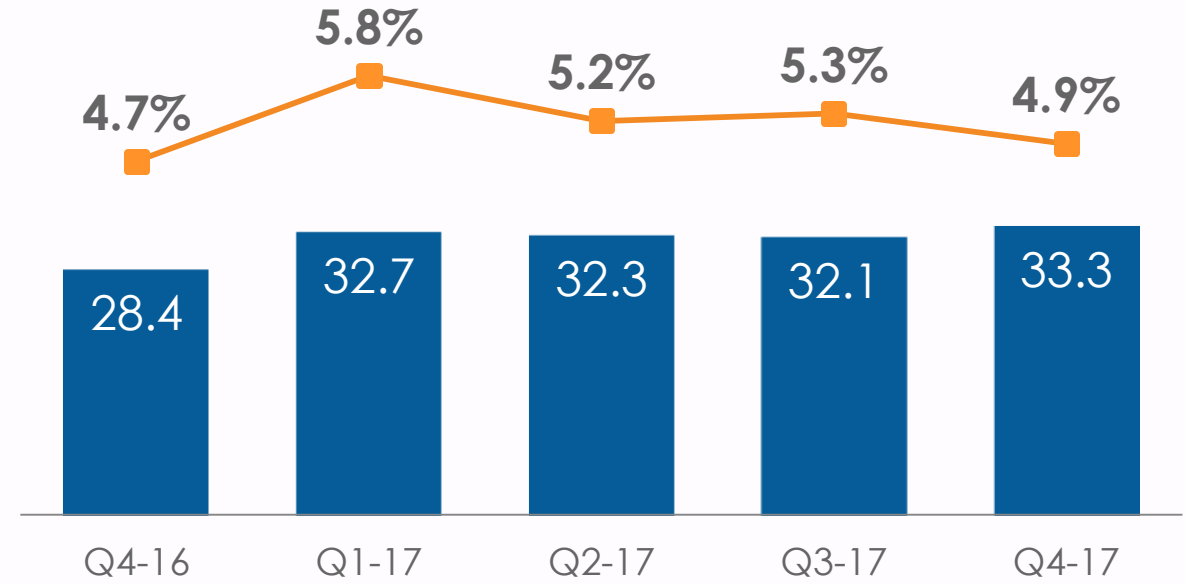
**Medical, Test & Instrument, and Computing up Year-over-Year in Q4-17**

# GAAP Key Business Trends

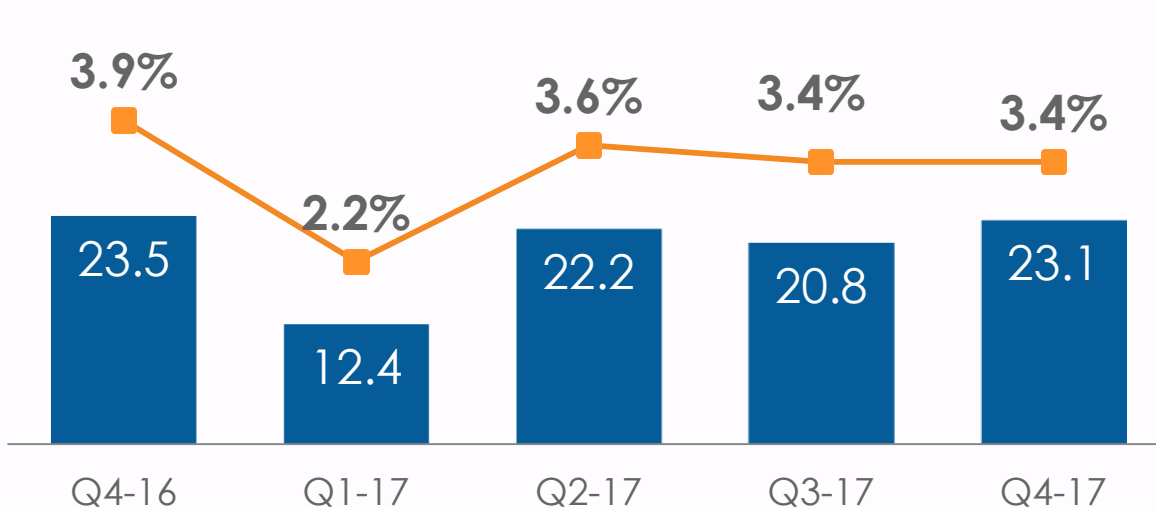
## Revenue & Gross Margin (\$M)



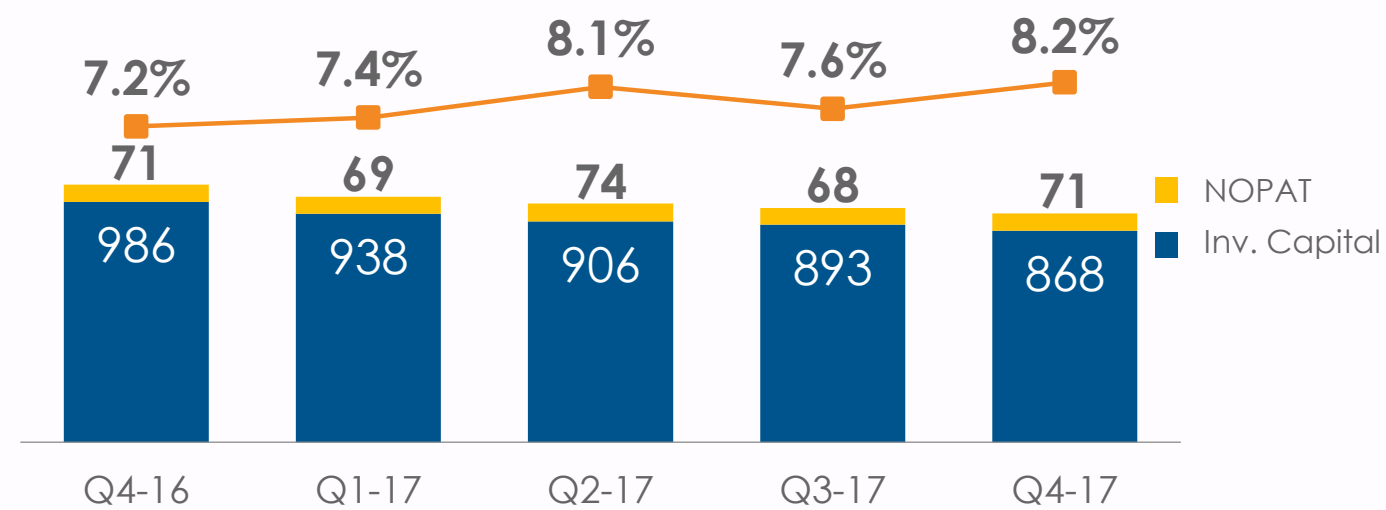
## SG&A (\$M)



## Operating Margin (\$M)



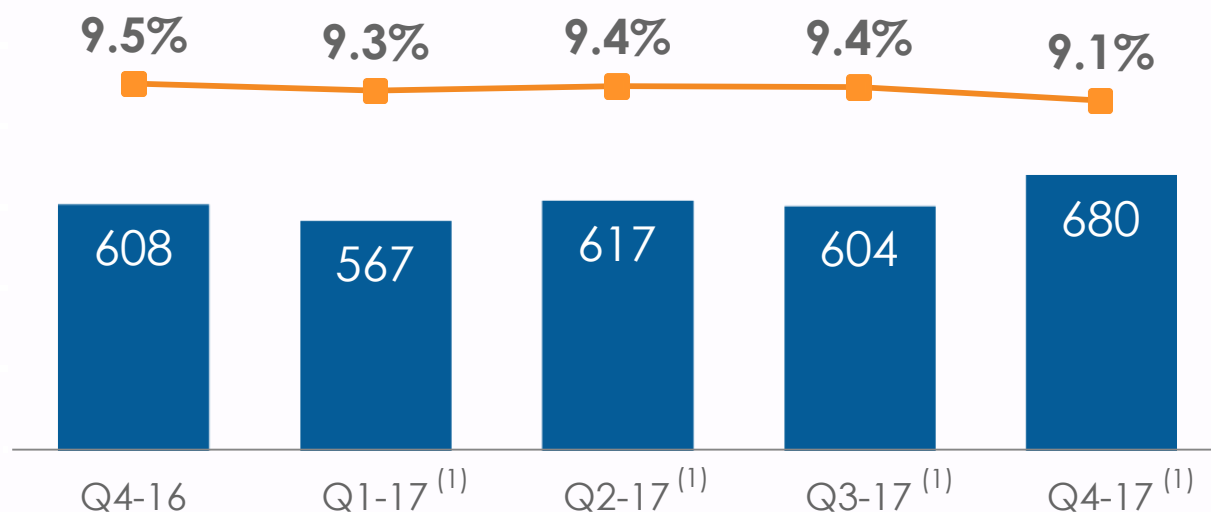
## Return on Invested Capital (LTM)



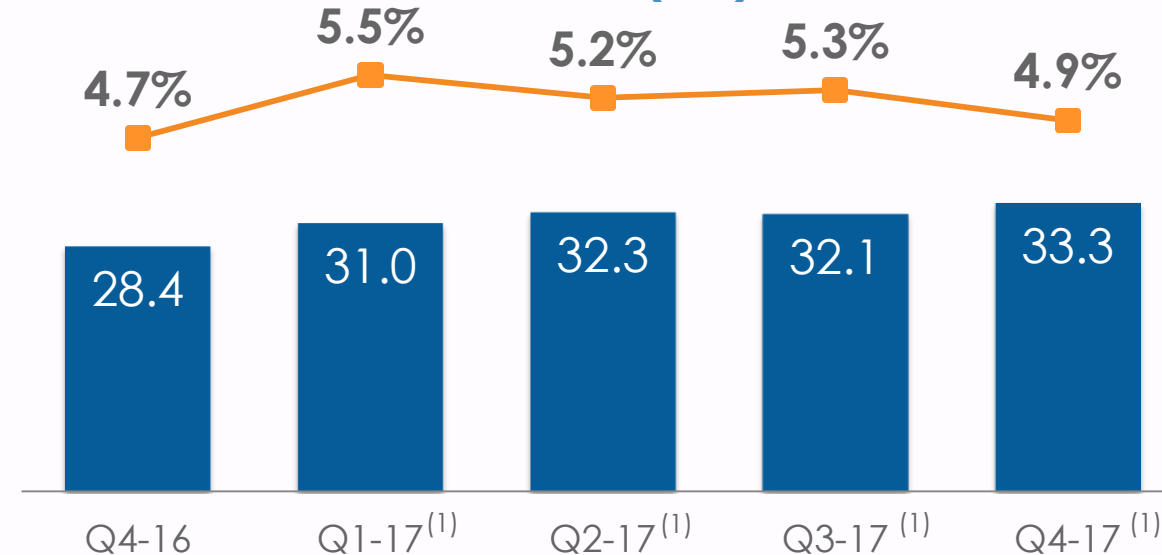
ROIC = [(GAAP income from operations)\*(1-Tax Rate)] ÷ [Average Invested Capital less Average Cash for last 5 quarters]

# Non-GAAP Key Business Trends

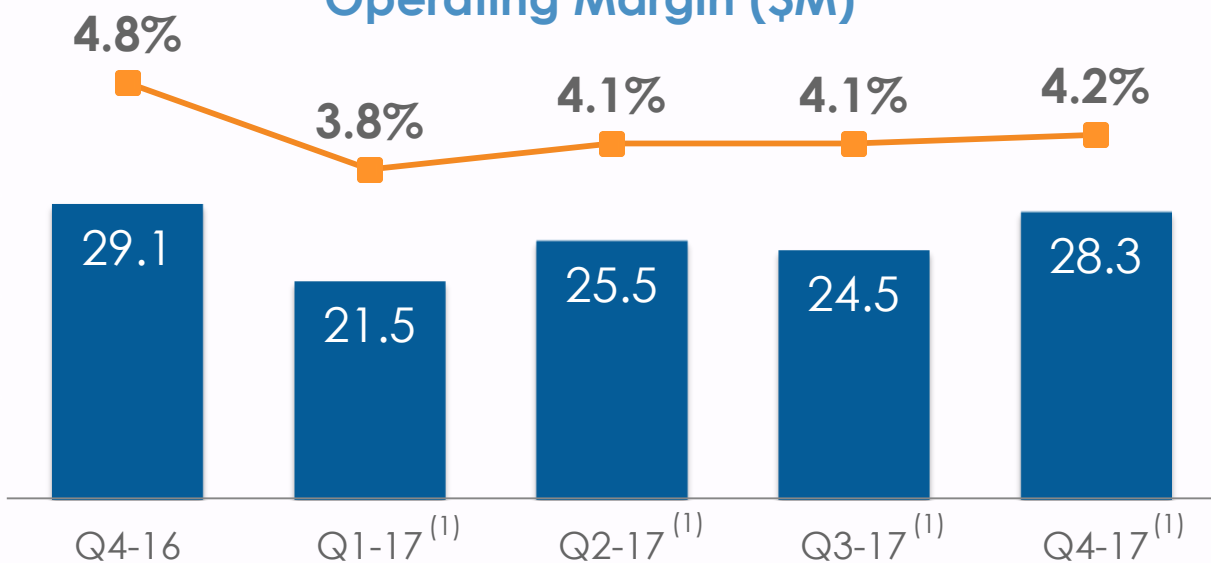
## Revenue & Gross Margin (\$M)



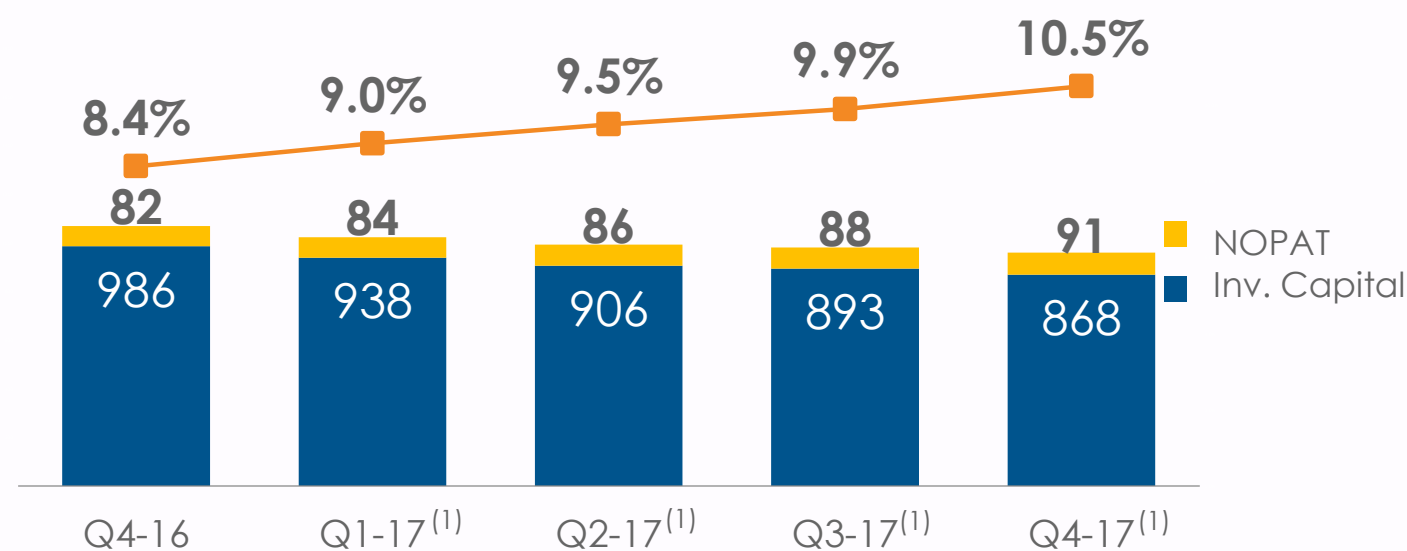
## SG&A (\$M)



## Operating Margin (\$M)



## Return on Invested Capital (LTM)

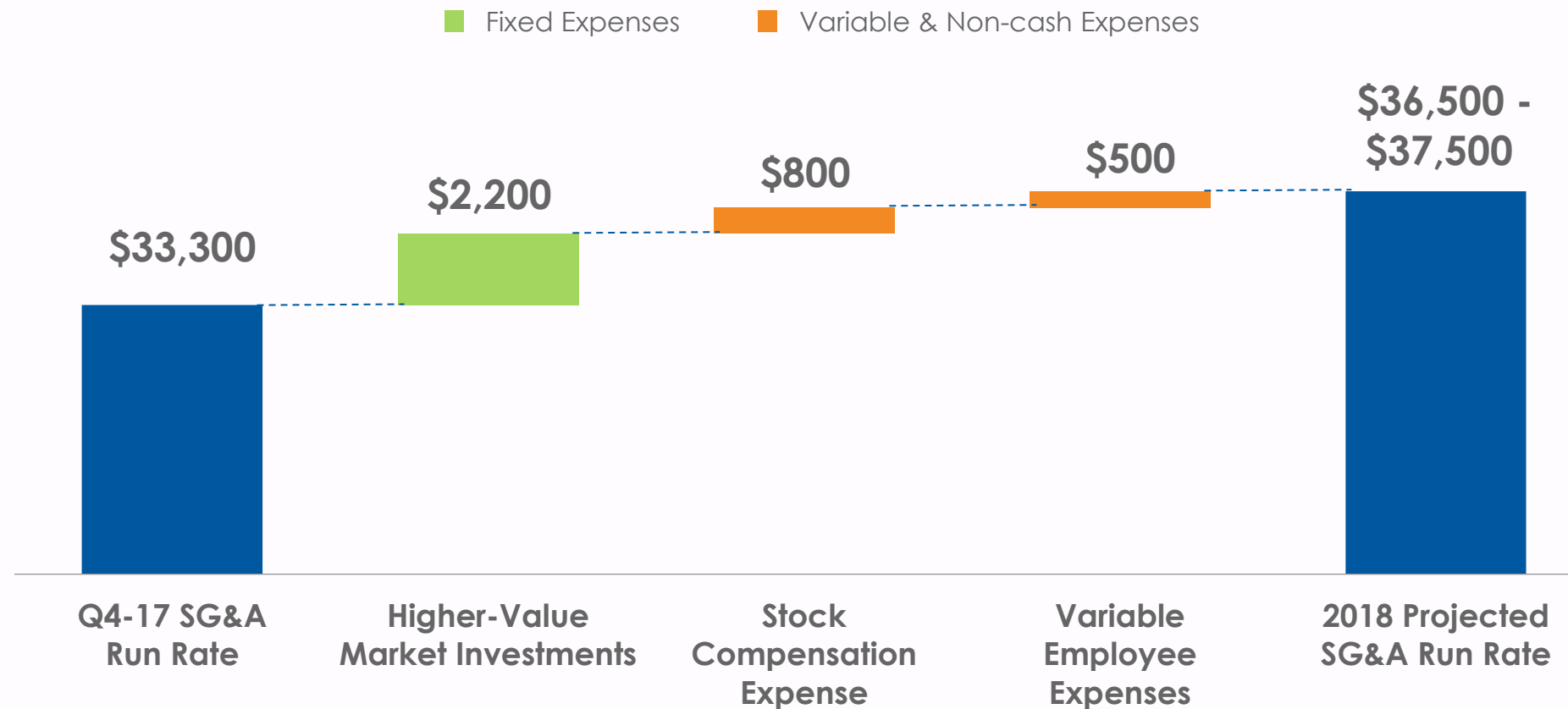


(1) Excludes the impact of customer insolvency.

ROIC = [(GAAP income from operations)\*(1-Tax Rate)] ÷ [Average Invested Capital less Average Cash for last 5 quarters]

# SG&A Investments

## Q4-17 SG&A Quarterly Run Rate to 2018 Projections



### Continued Investments for Future Growth

- ▶ Expand capabilities to increase customer value proposition
- ▶ Investments vary between fixed expenses and variable & non-cash expenses
- ▶ Benchmark includes stock compensation expense in SG&A

# 2017 Financial Summary

(In millions, except EPS)

For the Twelve Months Ended

	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>'16 to '17 Δ</b>	<b>Y/Y</b>
<b>Net Sales</b>	\$2,467	\$2,310	\$156	7%
<b>Non-GAAP Gross Margin</b>	\$229	\$213	\$15	7%
<i>Non-GAAP Gross Margin %</i>	<b>9.3%</b>	<b>9.2%</b>		<b>10 bps</b>
<b>Non-GAAP SG&amp;A</b>	\$129	\$113	\$15	13%
<i>Non-GAAP SG&amp;A %</i>	<b>5.2%</b>	<b>4.9%</b>		<b>30 bps</b>
<b>Non-GAAP Operating Income</b>	\$100	\$100	--	--
<i>Non-GAAP Operating Margin</i>	<b>4.1%</b>	<b>4.3%</b>		<b>(20 bps)</b>
<b>Non-GAAP Diluted EPS</b>	\$1.61	\$1.45	\$0.16	11%
<b>Non-GAAP ROIC</b>	10.5%	8.4%		210 bps

# 2017 Revenue Results by Market Sector

For the Twelve Months Ended

Higher-Value Markets	Dec. 31, 2017 <sup>(1)</sup>		Dec. 31, 2016 <sup>(1)</sup>		Y/Y
Industrials	20%	\$497	23%	\$543	(8%)
Aerospace & Defense	16%	\$398	16%	\$361	10%
Medical	15%	\$376	15%	\$346	9%
Test & Instrument.	14%	\$347	11%	\$244	42%
<b>Total Revenue</b>		<b>\$1,618</b>		<b>\$1,494</b>	<b>8%</b>

Traditional Markets	Dec. 31, 2017 <sup>(1)</sup>		Dec. 31, 2016 <sup>(1)</sup>		Y/Y
Computing	22%	\$541	19%	\$445	22%
Telecommunications	13%	\$308	16%	\$371	(17%)
<b>Total Revenue</b>		<b>\$849</b>		<b>\$816</b>	<b>4%</b>

(1) In millions

**Higher-Value Markets Up 8% YoY**



# Cash Flow / Working Capital Highlights

For the Twelve Months Ended

For the Three Months Ended

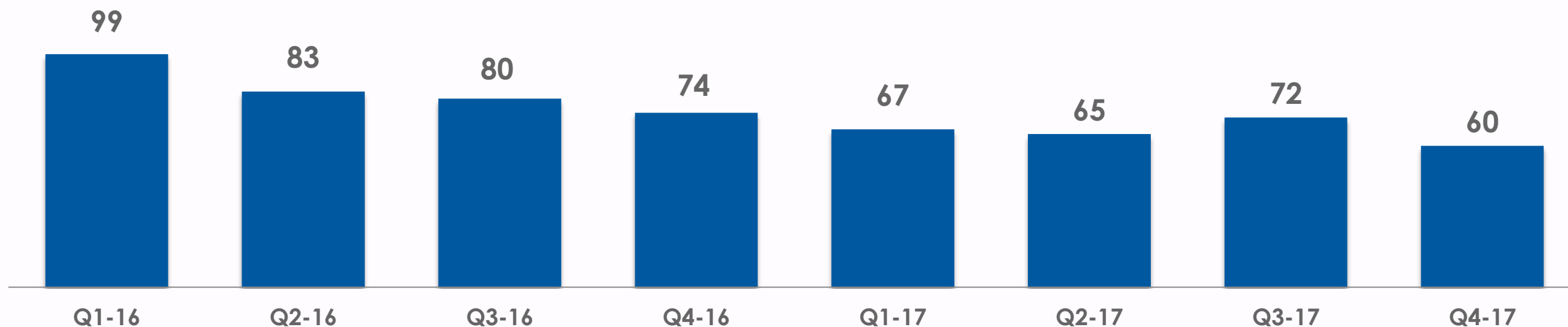
(In millions)

	<b>Dec. 31, 2017</b>	<b>Dec. 31, 2016</b>	<b>Dec. 31, 2017</b>	<b>Sep. 30, 2017</b>	<b>Dec. 31, 2016</b>
<b>Cash Flows from (used in) Operations</b>	\$146	\$273	\$56	(\$3)	\$45
<b>FCF<sup>1</sup></b>	\$91	\$241	\$39	(\$14)	\$38
<b>Cash</b>	\$743	\$681	\$743	\$730	\$681
International	\$674	\$626	\$674	\$655	\$626
US	\$69	\$55	\$69	\$75	\$55
<b>Inventory</b>	\$397	\$381	\$397	\$422	\$381
<b>Accounts Receivable</b>	\$437	\$441	\$437	\$412	\$441
<b>Accounts Payable</b>	\$363	\$326	\$363	\$335	\$326

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

**Generated \$146 million of Cash from Operations in 2017**

# Working Capital Update



	Q1-16	Q2-16	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17
Accounts Receivable Days	68	66	65	65	61	57	61	58
Inventory Days	70	64	68	62	70	67	70	58
Deposits	-	-	-	-	4	4	4	3
Accounts Payable Days	39	47	53	53	60	55	55	53
<b>Cash Conversion Cycle</b>	<b>99</b>	<b>83</b>	<b>80</b>	<b>74</b>	<b>67</b>	<b>65</b>	<b>72</b>	<b>60</b>

**Exceeded Target of 70 Days Exiting 2017**

**Ongoing Cash Conversion Cycle Days will Range between 73 and 68 Days**

# U.S. Tax Reform: Benchmark Impacts

## Q4-17 tax expense of \$98 million (\$1.95 GAAP loss per diluted share)

- ▶ Estimated \$102 million tax expense for mandatory repatriation of undistributed foreign earnings
- ▶ Estimated (\$4 million) tax credit for adjustments to our US deferred tax assets/liabilities

## Future repatriation and tax expenses

- ▶ Evaluating repatriation scenarios as a result of U.S. tax reform
- ▶ Applicable foreign withholding and U.S. state taxes will apply in the event of repatriation

## Effective Tax Rate for 2018

- ▶ Global Intangible Low-Taxed Income (GILTI) impacts tax rate by 3-4%
- ▶ Expected to range from 16-18%

# First Quarter 2018 Guidance

	Guidance
Net Sales (in millions)	\$585 – \$605
Operating Margin – non-GAAP*	3.6% – 3.9%
Diluted EPS – non-GAAP*	\$0.34 – \$0.38

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**\* The above guidance excludes the impact of amortization of intangible assets and estimated restructuring charges**

# Sequential Modeling Information

Higher-Value Markets	Q1-18 Outlook (%)
Industrials	Down 10%
Aerospace & Defense	Up Mid-Singles
Medical	Down Mid-Singles
Test & Instrumentation	Up Mid-Singles

Traditional Markets	Q1-18 Outlook (%)
Computing	Down >40%
Telecommunications	Down Low Singles

	Q1-18 Guidance
Interest Expense (in millions)	<b>\$2.5</b>
Effective Tax Rate	<b>18%</b>
Weighted Average Shares (m)	<b>49.3</b>

**Expected sequential growth in Aerospace & Defense and Test & Instrumentation**

# Appendix



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

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

	Three Months Ended			Year Ended	
	Dec 31, 2017	Sep 30, 2017	Dec 31, 2016	December 31, 2017	2016
Income from operations (GAAP)	\$ 23,144	\$ 20,815	\$ 23,548	\$ 78,603	\$ 75,638
Restructuring charges and other costs	3,062	2,511	2,663	8,628	12,539
Customer insolvency (recovery)	(239)	(1,514)	-	2,657	-
Amortization of intangible assets	2,367	2,736	2,893	10,065	11,838
Non-GAAP income from operations	<u>\$ 28,334</u>	<u>\$ 24,548</u>	<u>\$ 29,104</u>	<u>\$ 99,953</u>	<u>\$ 100,015</u>
Net income (loss) (GAAP)	\$ (76,340)	\$ 17,512	\$ 18,568	\$ (31,965)	\$ 64,047
Restructuring charges and other costs	3,062	2,511	2,663	8,628	12,539
Customer insolvency (recovery)	(239)	(1,514)	-	2,657	-
Amortization of intangible assets	2,367	2,736	2,893	10,065	11,838
Income tax adjustments <sup>(1)</sup>	(1,793)	(1,674)	(1,781)	(6,312)	(7,695)
Tax Cuts and Jobs Act <sup>(2)</sup>	97,633	-	-	97,633	-
Discrete tax benefits	-	-	-	-	(8,270)
Non-GAAP net income	<u>\$ 24,690</u>	<u>\$ 19,571</u>	<u>\$ 22,343</u>	<u>\$ 80,706</u>	<u>\$ 72,459</u>
Diluted Earnings (loss) per share:					
Diluted (GAAP)	\$ (1.54)	\$ 0.35	\$ 0.37	\$ (0.64)	\$ 1.29
Diluted (Non-GAAP)	\$ 0.49	\$ 0.39	\$ 0.45	\$ 1.61	\$ 1.45

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

(2) This amount represents the estimated impact of the U.S. Tax Reform and includes the impact of a one-time mandatory tax on the deemed repatriation of undistributed foreign earnings and the re-measurement of U.S. deferred tax assets and liabilities for the decrease in the U.S. federal tax rate from 35% to 21%.

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

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

	Three Months Ended	
	Dec 31, 2017	Dec 31, 2016
<b>GAAP gross profit</b>	\$ 61,895	\$ 57,470
Customer Insolvency (recovery)	(239)	-
<b>Non-GAAP gross profit</b>	<u>\$ 61,656</u>	<u>\$ 57,470</u>