

Benchmark Electronics, Inc.

Q3 2018 Earnings

October 30, 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; projected annual revenues resulting from new program bookings; 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, 2017 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.

Implementation of ASC 606 – Revenue from Contracts with Customers

Effective January 1, 2018, the Company implemented ASC 606 the accounting standard governing “Revenue from Contracts with Customers” using the full retrospective transition method. Under ASC 606, revenue is recognized as or when the customer obtains control of the goods or services promised in a contract. Given the nature of the terms and conditions in substantially all of the Company’s customer contracts, the Company now recognizes revenue over time (beginning at work-in-process (“WIP”)) for the majority of its contracts. All historical financial information represented in this presentation has been adjusted to reflect the retrospective implementation of ASC 606.

As part of ASC 606, we are also required to reclassify finished goods and WIP meeting “the over time criteria” from inventory to a new line item called contract assets on the face of the balance sheet. Contract assets are defined as the Company’s right to consideration for work completed but not billed.

CEO Update

Third Quarter 2018 Summary

Operational performance

- ▶ Revenue and non-GAAP diluted EPS within Q3 guidance
- ▶ Year-over-year revenue growth of 5%
- ▶ Non-GAAP gross margins increased to 8.5%
- ▶ Delivered \$0.33 non-GAAP EPS for the quarter

Working capital

- ▶ Cash conversion cycle of 74 days ending Q3
- ▶ At the high end of the target range of 73 to 68 days from the linearity of shipments

Cash flow and improving ROIC

- ▶ Used \$1 million in operating cash flow in Q3; full year operating cash flow outlook of \$40-50M
- ▶ ROIC of 9.8%; down 10 bps year-over-year

Capital allocation

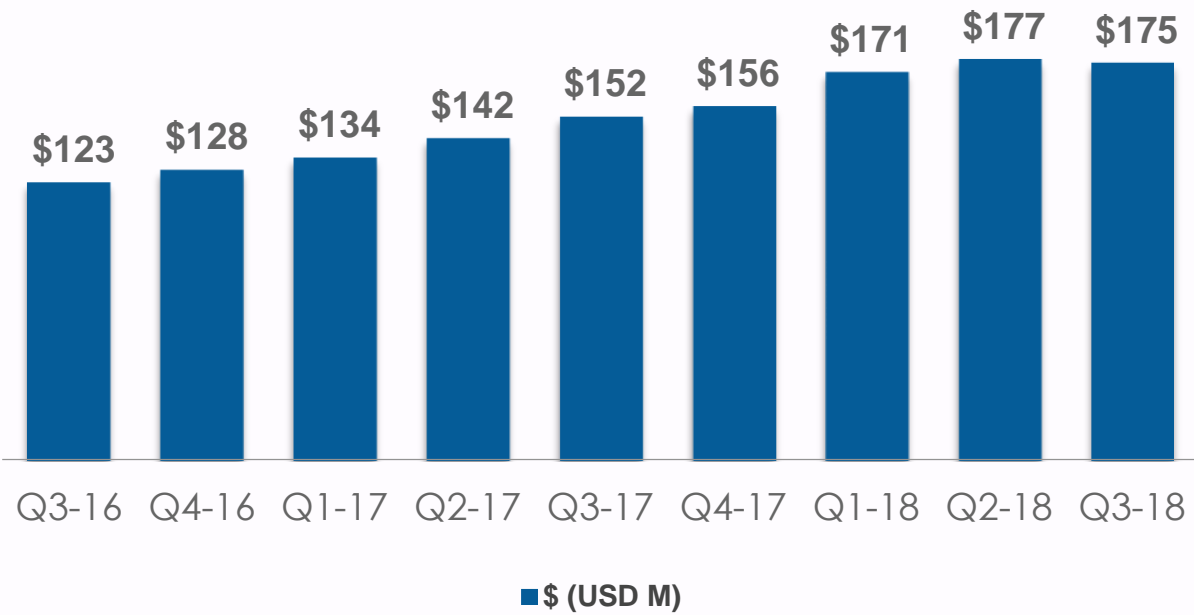
- ▶ Share repurchases of \$122M as of Sept. 30; \$152 million through Oct. 29
- ▶ Targeting \$200M exiting Q4, which is \$100M above target

New Business Wins with Focus on Market Sector Sales

Q3 2018 New Business Wins by Segment

Industrials	30%	<ul style="list-style-type: none">Advanced industrial robots (design support & mfg.)Transportation communication modules (mfg.)
Medical	11%	<ul style="list-style-type: none">Handheld ultrasound device (mfg.)Fetal monitoring device (design & mfg.)
T&I	5%	<ul style="list-style-type: none">Precision Technology components for front-end semi-capital equipment (mfg.)
A&D	4%	<ul style="list-style-type: none">Military aircraft electronics (mfg.)High reliability filter components (mfg.)
C&T	50%	<ul style="list-style-type: none">Next gen telco full system (design support & mfg.)Printer electronics (mfg.)

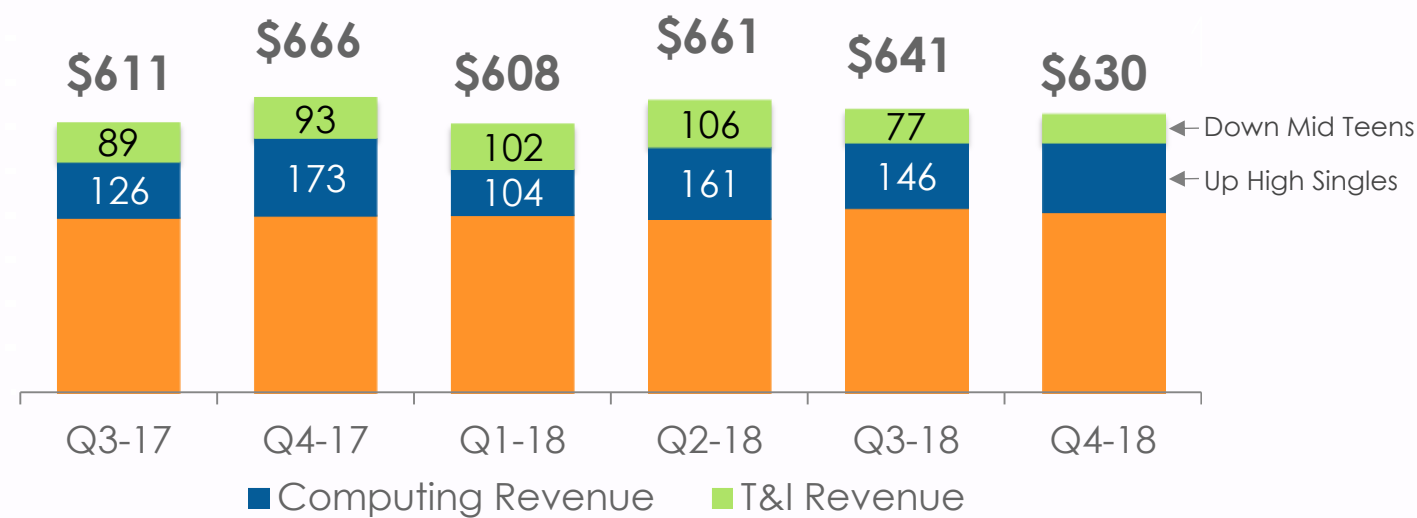
Estimated Annual Revenue from New Business Wins



Q3 New Business Wins Highlights:

- ▶ 31 manufacturing and 27 engineering project awards
- ▶ Estimated annual revenue run rate between \$162 – 182 million
- ▶ Estimated time to ramp between 12 to 24 months; medical up to 36 months

Q4 Guidance



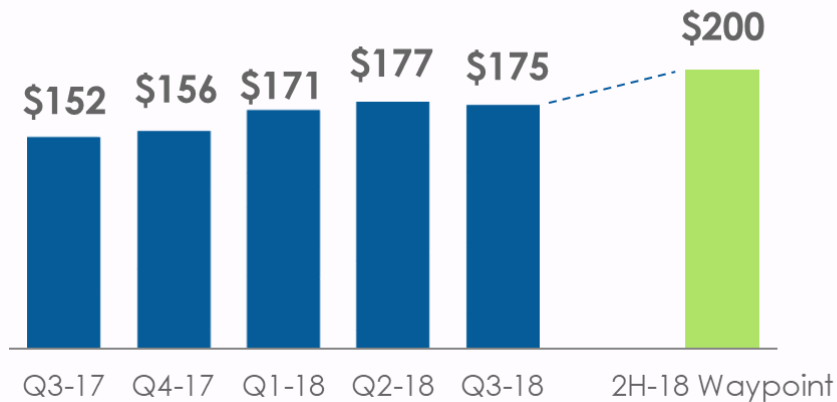
- ▶ Demand softness and mix shifts in Test & Instrumentation (primarily for semi-cap) and Computing growth impact margins
- ▶ Solid core business base
- ▶ Sustained and improved operational performance

Guidance	
Net Sales (in millions)	\$610 – \$650
Diluted EPS – non-GAAP*	\$0.32 – \$0.40

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

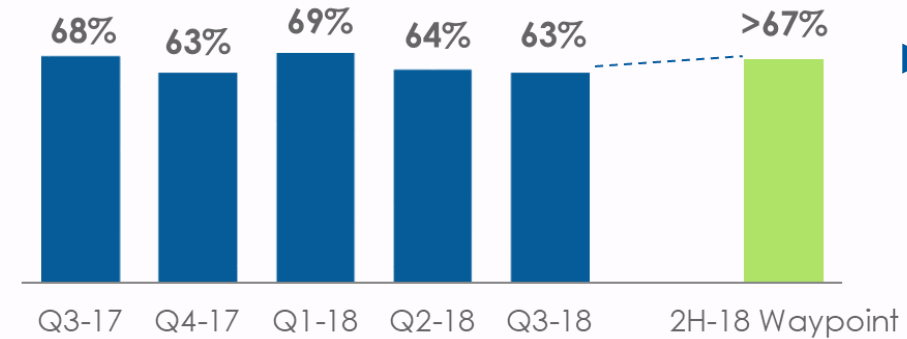
Progress Milestones 2H-18

Bookings (\$M)



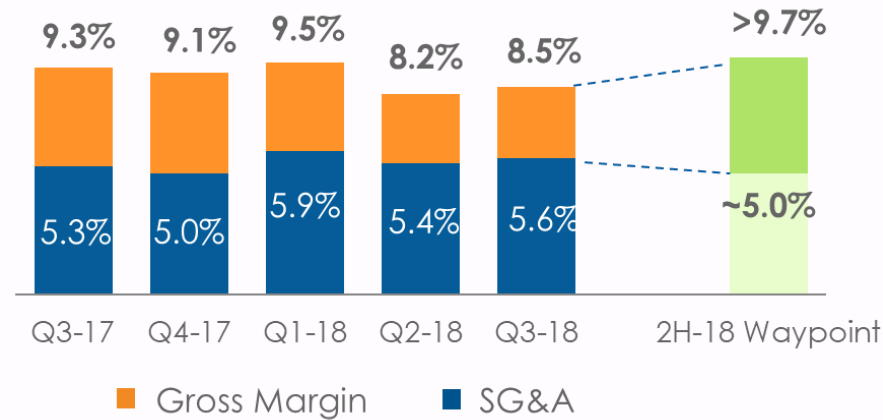
- Current funnel supports achieving target

Higher-Value Market Revenue Mix



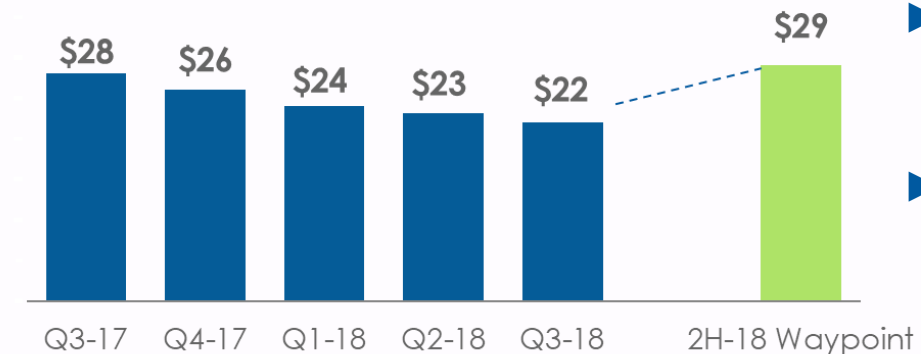
- Expect full year at 65% Higher-Value dependent on strength of computing in Q4

Gross Margin & SG&A (%)



- Higher mix of Computing and lower mix of T&I pressure margins
- Moderating SG&A expenses

LTM Profit per Square Foot (\$)



- Lower utilization from semi-cap softness
- Below target from increased capacity ahead of ramps

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

Preliminary 2019 Observations

Expect year-over-year revenue growth

- ▶ Revenue growth of 3-5%
- ▶ Assumes continued T&I (front-end semi-cap) softness in 1H-19 and ~10% year-over-year decline

Operating margins will expand from current levels

- ▶ Targeting gross margins to return to ~9.5% with semi-cap softness
 - Reducing cost and expense structure
 - Evaluating marginal or dilutive contracts
 - Returns from new RF and high-speed design center at higher margins
- ▶ Lowering SG&A expenses

Execute capital allocation strategy

- ▶ Board has further increased authorization for an additional \$100M
- ▶ Continue to repurchase shares on total remaining authorization of \$262M
- ▶ Continue quarterly dividend

Q3 2018

Financial Highlights

Third Quarter 2018 Financial Summary

For the Three Months Ended

(In millions, except EPS)

	Sep. 30, 2018	Jun. 30, 2018	Q/Q	Sep. 30, 2017	Y/Y
Net Sales	\$641	\$661	(3%)	\$611	5%
GAAP Operating Margin	1.7%	2.2%	(50 bps)	3.4%	(170 bps)
GAAP Diluted EPS	\$0.17	\$0.23	(26%)	\$0.35	(51%)
Non-GAAP Operating Margin	2.9%	2.7%	20 bps	4.0%	(110 bps)
Non-GAAP Diluted EPS	\$0.33	\$0.30	10%	\$0.40	(18%)
GAAP ROIC	7.0%	8.2%	(120 bps)	7.6%	(60 bps)
Non-GAAP ROIC	9.8%	10.5%	(70 bps)	9.9%	(10 bps)

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

Our Guidance for the Third Quarter:

- ▶ Revenue (in millions) \$610 – \$650
- ▶ Diluted EPS – non-GAAP \$0.28 – \$0.36

Revenue by Market Sector

For the Three Months Ended

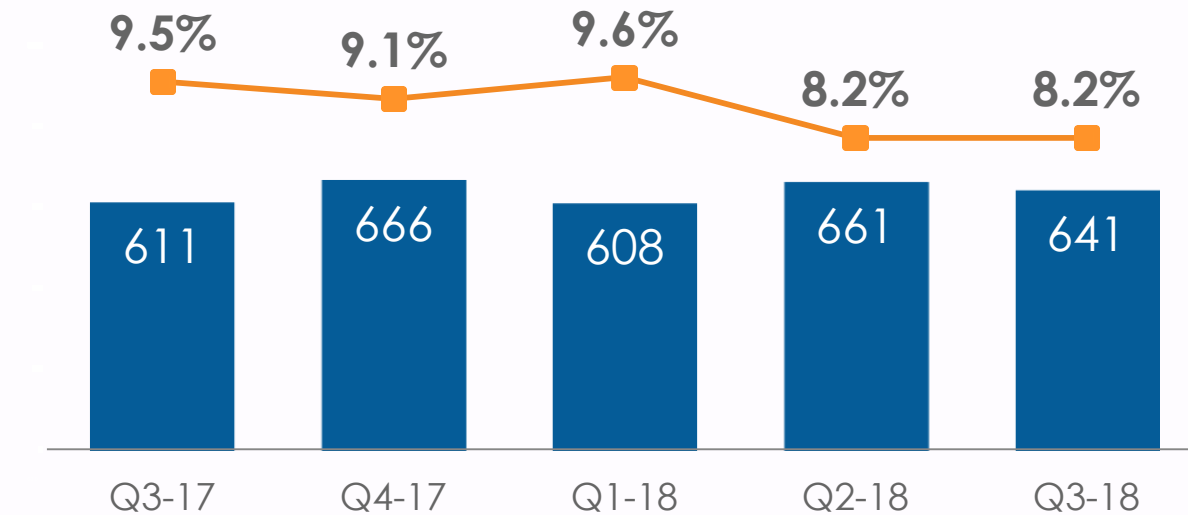
Higher-Value Markets	Sep. 30, 2018 ⁽¹⁾		Jun. 30, 2018 ⁽¹⁾		Q/Q	Sep. 30, 2017 ⁽¹⁾		Y/Y
Industrials	20%	\$128	18%	\$118	9%	21%	\$126	2%
Aerospace & Defense	16%	\$105	15%	\$100	5%	16%	\$96	9%
Medical	15%	\$96	15%	\$97	--	17%	\$102	(6%)
Test & Instrument.	12%	\$77	16%	\$106	(28%)	14%	\$89	(14%)
Total Revenue		\$406		\$421	(4%)		\$413	(2%)

Traditional Markets	Sep. 30, 2018 ⁽¹⁾		Jun. 30, 2018 ⁽¹⁾		Q/Q	Sep. 30, 2017 ⁽¹⁾		Y/Y
Computing	23%	\$146	24%	\$161	(9%)	20%	\$126	16%
Telecommunications	14%	\$89	12%	\$79	13%	12%	\$72	23%
Total Revenue		\$235		\$240	(2%)		\$198	19%

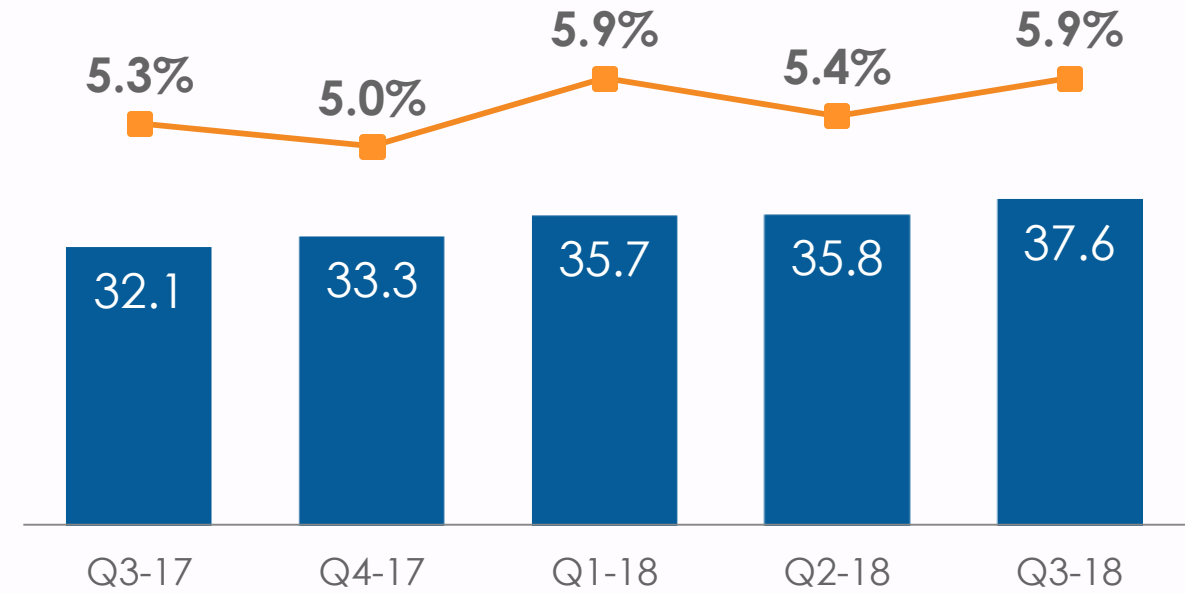
(1) In millions

GAAP Key Business Trends

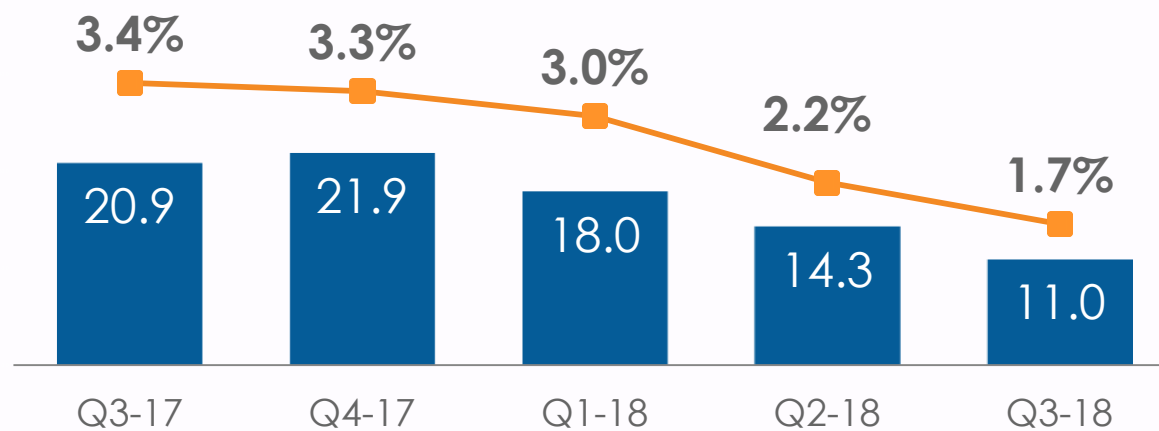
Revenue & Gross Margin (\$M)



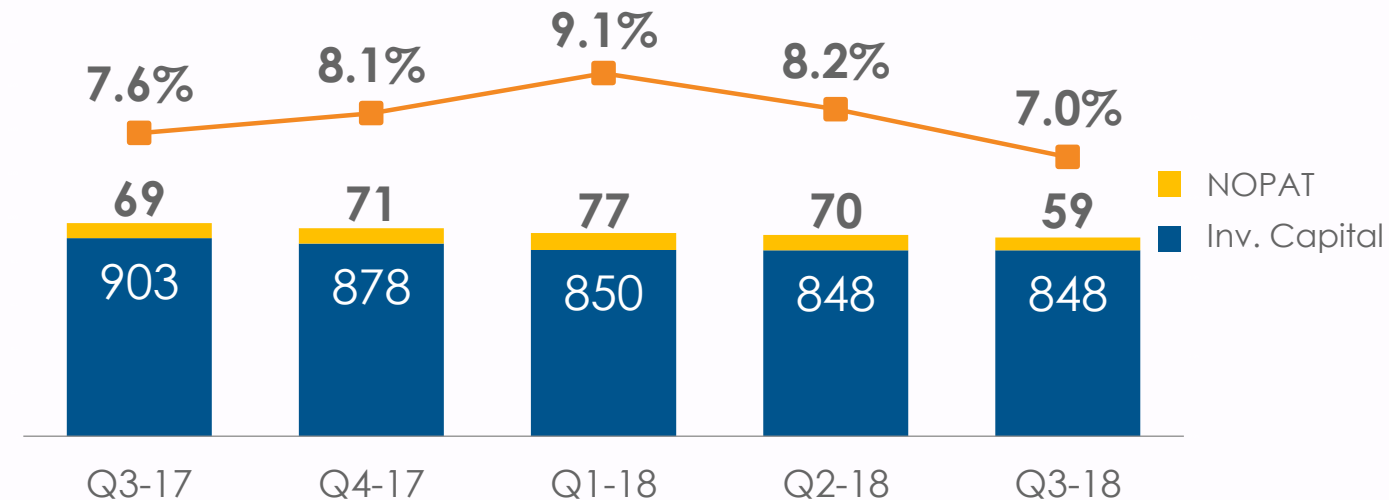
SG&A (\$M)



Operating Margin (\$M)



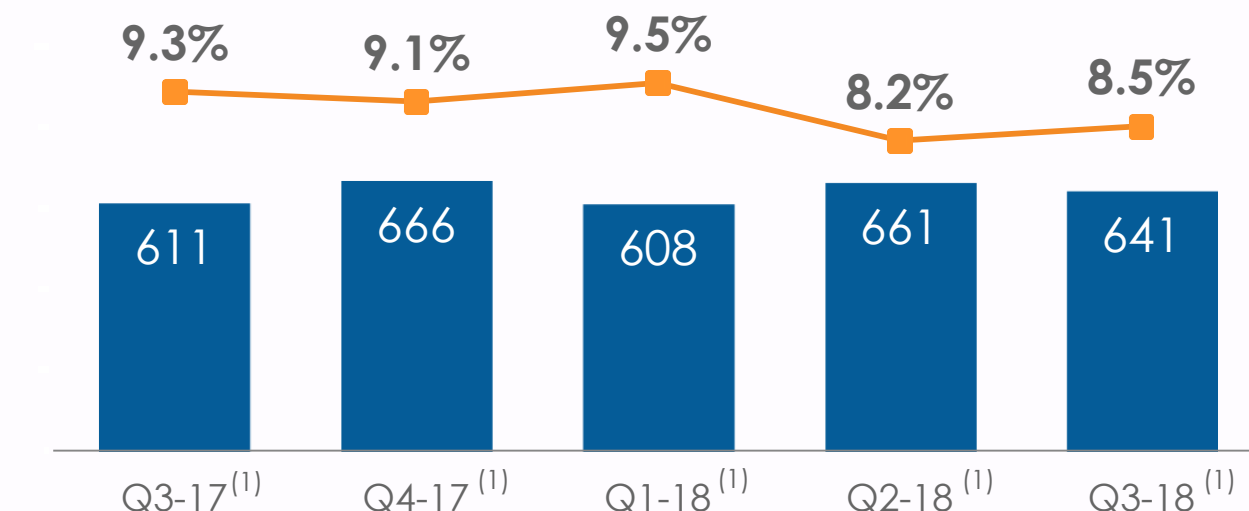
Return on Invested Capital (LTM)



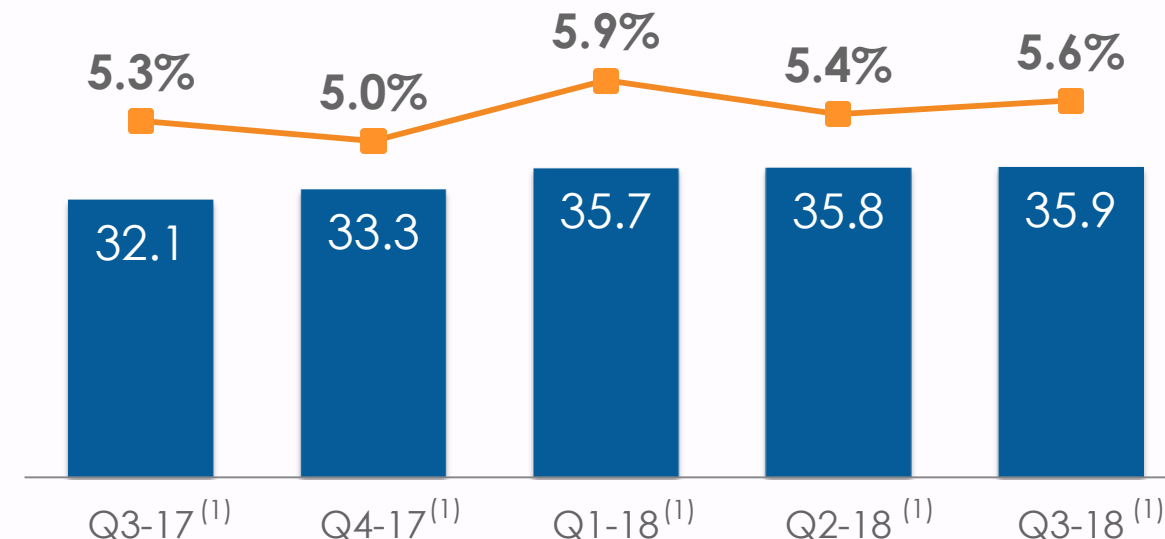
GAAP ROIC = (GAAP income from operations – GAAP Tax Impact) ÷ (Average Invested Capital for last 5 quarters)

Non-GAAP Key Business Trends

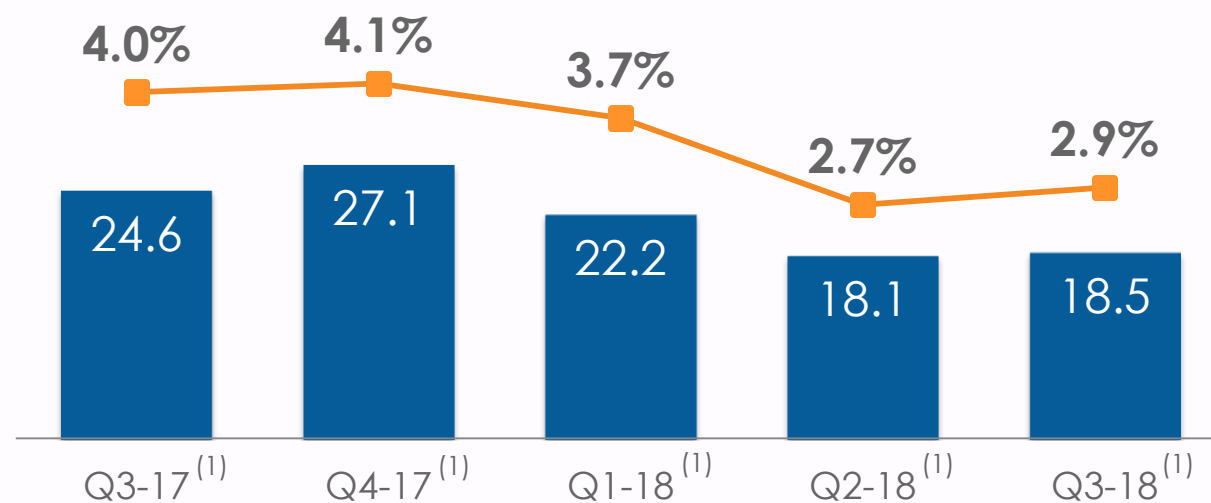
Revenue & Gross Margin (\$M)



SG&A (\$M)

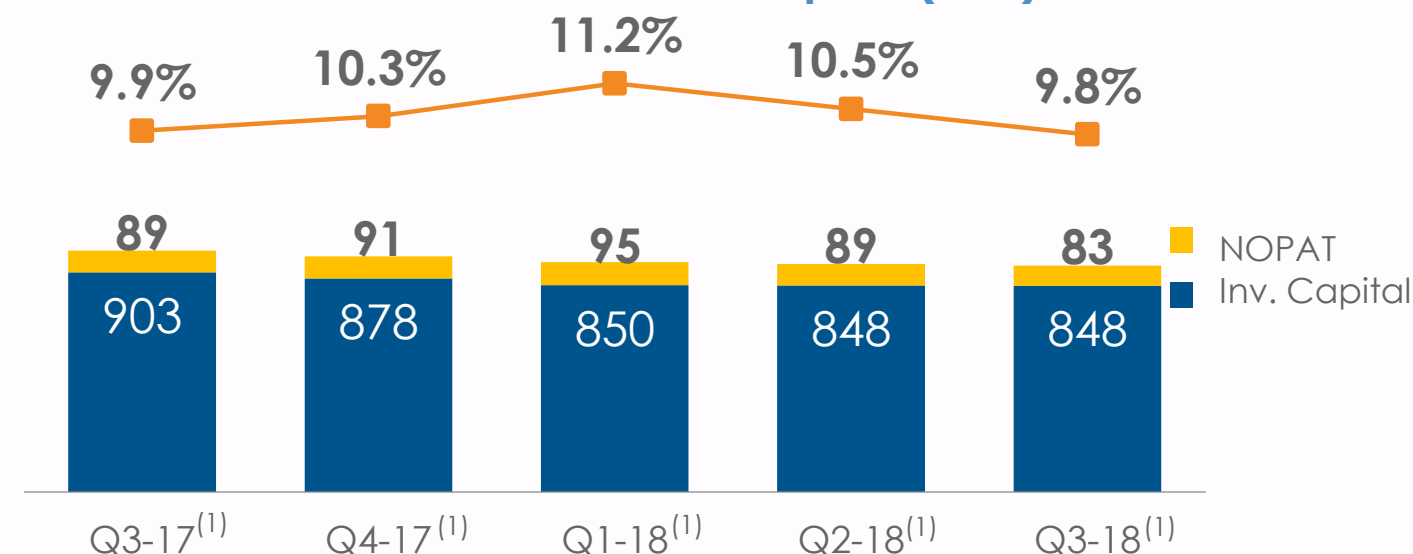


Operating Margin (\$M)



(1) Excludes the impact of customer insolvency.

Return on Invested Capital (LTM)



Non-GAAP ROIC = (Non-GAAP income from operations – Non-GAAP Tax Impact) ÷ [Average Invested Capital for last 5 quarters]

Cash Flow / Working Capital Highlights

For the Three Months Ended

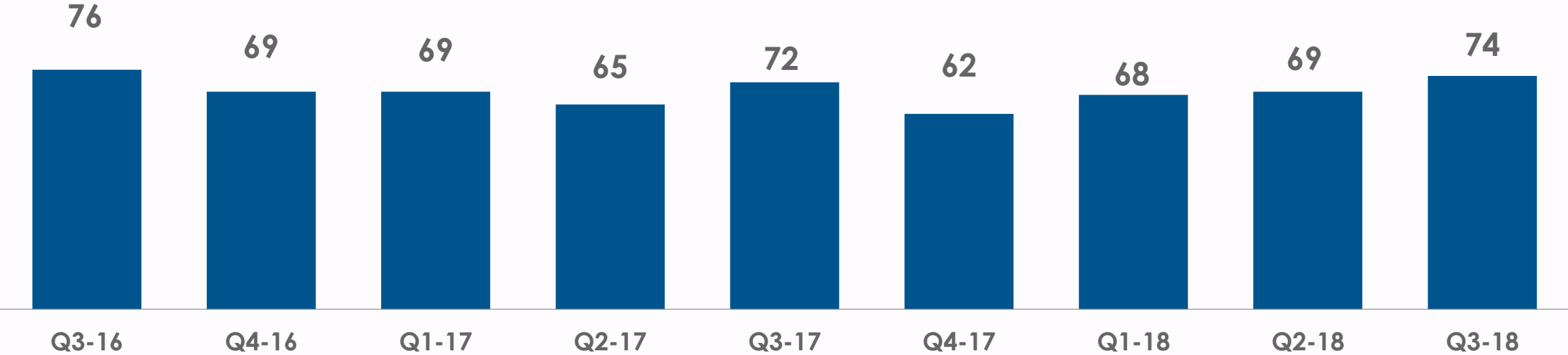
(In millions)

	Sep. 30, 2018	Jun. 30, 2018	Sep. 30, 2017
Cash Flows from (used in) Operations	(\$1)	(\$41)	(\$3)
FCF ¹	(\$16)	(\$58)	(\$14)
Cash	\$476	\$596	\$730
International	\$170	\$177	\$655
US	\$306	\$419	\$75
Inventory	\$321	\$319	\$281
Accounts Receivable	\$456	\$445	\$412
Contract Assets	\$156	\$148	\$162
Accounts Payable	\$374	\$384	\$335

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

Used \$1 million of Cash from Operations in Q3

Working Capital Update



	Q3-16	Q4-16	Q1-17	Q2-17	Q3-17	Q4-17	Q1-18	Q2-18	Q3-18
Accounts Receivable Days	64	63	62	57	61	59	59	61	64
Contract Asset Days	22	23	24	22	24	20	22	20	22
Inventory Days	45	39	48	45	46	40	50	47	49
Deposits	3	4	4	4	4	3	3	2	4
Accounts Payable Days	52	52	61	55	55	54	60	57	57
Cash Conversion Cycle	76	69	69	65	72	62	68	69	74

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

Capital Allocation Update

Stock repurchase authorizations in 2018

- ▶ **Q1-18:** Board approved stock repurchase of up to an additional \$250 million of common stock
- ▶ **Q4-18:** Board approved stock repurchase of up to an additional \$100 million of common stock

Accelerated Stock Repurchase (ASR)	\$50 million ASR Completed	Completed \$152 million year-to-date of \$100 million target for 2018 Expect to achieve \$200 million in 2018
Open Market Repurchase (OMR)	\$72 million OMR (Sept. 30) \$102 million OMR (Oct. 29)	

Recurring dividend initiated Q1-18

- ▶ Announced first quarterly cash dividend of \$0.15 per share to shareholders of record as of March 29, 2018; dividends were paid on April 11, 2018, July 12, 2018 and October 11, 2018

Fourth Quarter 2018 Guidance

	Guidance
Net Sales (in millions)	\$610 – \$650
Diluted EPS – non-GAAP*	\$0.32 – \$0.40

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

Sequential Modeling Information

Higher-Value Markets	Q4-18 Outlook (%)
Industrials	Down Mid Teens
Aerospace & Defense	Up Mid Singles
Medical	Up Low Singles
Test & Instrumentation	Down Mid Teens

Traditional Markets	Q4-18 Outlook (%)
Computing	Up High Singles
Telecommunications	Flat

	Q4-18 Guidance
Operating Margin - non-GAAP*	2.6% – 3.4%
Interest Expense (in millions)	\$1.9
Effective Tax Rate	18%
Weighted Average Shares (m)	43.5

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

Appendix

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

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

	Three Months Ended			Nine Months Ended	
	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017 (as adjusted)	Sep 30, 2018	Sep 30, 2017 (as adjusted)
Income from operations (GAAP)	\$ 10,957	\$ 14,349	\$ 20,903	\$ 43,273	\$ 54,916
Restructuring charges and other costs	1,845	1,758	2,511	5,838	5,566
Customer insolvency (recovery)	3,295	(330)	(1,514)	2,624	2,896
Amortization of intangible assets	2,368	2,367	2,736	7,101	7,698
Non-GAAP income from operations	<u>\$ 18,465</u>	<u>\$ 18,144</u>	<u>\$ 24,636</u>	<u>\$ 58,836</u>	<u>\$ 71,076</u>
Gross Profit (GAAP)	\$ 52,777	\$ 54,299	\$ 58,243	\$ 165,394	\$ 165,259
Customer insolvency (recovery)	1,581	(330)	(1,514)	910	1,199
Non-GAAP gross profit	<u>\$ 54,358</u>	<u>\$ 53,969</u>	<u>\$ 56,729</u>	<u>\$ 166,304</u>	<u>\$ 166,458</u>
Net income (loss) (GAAP)	\$ 7,799	\$ 10,943	\$ 17,831	\$ (4,899)	\$ 44,460
Restructuring charges and other costs	1,845	1,758	2,511	5,838	5,566
Customer insolvency (recovery)	3,295	(330)	(1,514)	2,624	2,896
Amortization of intangible assets	2,368	2,367	2,736	7,101	7,698
Refinancing of credit facilities	1,982	-	-	1,982	-
Income tax adjustments ⁽¹⁾	(1,914)	(811)	(1,674)	(3,542)	(4,519)
Tax Cuts and Jobs Act ⁽²⁾	-	423	-	40,537	-
Non-GAAP net income	<u>\$ 15,375</u>	<u>\$ 14,350</u>	<u>\$ 19,890</u>	<u>\$ 49,641</u>	<u>\$ 56,101</u>
Diluted Earnings (loss) per share:					
Diluted (GAAP)	\$ 0.17	\$ 0.23	\$ 0.35	\$ (0.10)	\$ 0.88
Diluted (Non-GAAP)	\$ 0.33	\$ 0.30	\$ 0.40	\$ 1.04	\$ 1.12

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

(2) This amount represents the impact of repatriating foreign earnings from our foreign jurisdictions to the U.S. For the three months ended June 30, 2018, this includes the applicable state tax impact of foreign cash distributions into the U.S.

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

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

	Three Months Ended			Nine Months Ended	
	Sep 30, 2018	Jun 30, 2018	Sep 30, 2017	Sep 30, 2018	Sep 30, 2017
GAAP gross profit	\$ 52,777	\$ 54,299	\$ 58,243	\$ 165,394	\$ 165,259
Customer Insolvency (recovery)	1,581	(330)	(1,514)	910	1,199
Non-GAAP gross profit	<u>\$ 54,358</u>	<u>\$ 53,969</u>	<u>\$ 56,729</u>	<u>\$ 166,304</u>	<u>\$ 166,458</u>
 GAAP SG&A Expenses	 \$ 37,607	 \$ 35,825	 \$ 32,093	 \$ 109,182	 \$ 97,079
Customer Insolvency (recovery)	1,714	-	-	1,714	1,697
Non-GAAP SG&A Expenses	<u>\$ 35,893</u>	<u>\$ 35,825</u>	<u>\$ 32,093</u>	<u>\$ 107,468</u>	<u>\$ 95,382</u>