CPS Technologies

May 1, 2025

9:00am ET

Operator

Good morning, and welcome to the CPS Technologies First Quarter 2025 Earnings Call. At this time, all participants have been placed on a listen-only mode. The floor will be opened for questions and comments following the presentation.

It is now my pleasure to turn the floor over to your host, Chuck Griffith, Chief Financial Officer at CPS Technologies. Chuck, the floor is yours.

Charles Griffith

Thank you, Tom, and good morning everyone. Today, I am joined by Brian Mackey, our President and CEO. We look forward to discussing our first quarter 2025 results with you. But first, Chris Witty, our Investor Relations Advisor, will provide a brief safe harbor statement. Chris?

Chris Witty

Thanks, Chuck and good morning, everyone. Before I begin the business portion of today's call, I would like to point out that statements in this conference call that are not strictly historical are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and should be considered as subject to the many uncertainties that exist in CPS' operations and environment.

These uncertainties include, but are not limited to, the ongoing conflicts in Ukraine and Israel, other geopolitical events, economic conditions, market demands and competitive factors. Such factors could cause actual results to differ materially from those in any forward-looking statements. Additional information can be found in our filings with the SEC.

Now I will turn the call over to Brian to offer his perspective on the first quarter, after which, Chuck will review the financial results in greater detail. Brian?

Brian Mackey

Thank you, Chris, and good morning, everyone. I'm very pleased to report that our revenue for first quarter established a new record for our company at $7.5 million. This is particularly noteworthy as our previous quarterly record of $7.4 million included $2.8 million in armor revenue, while the most recent quarter had no armor revenue. In summary, we have fully replaced the loss of armor revenue with growth in sales of our other products.

Additionally, we generated an operating profit for the quarter of approximately $130,000. While there's still room for improvement, this does put us back in the black. This affirms that our ongoing efforts are paying off and provides renewed encouragement to continue the work of improving our margins as the year progresses.

Sales rose year-over-year even without any sales of HybridTech Armor, primarily due to the strength of ongoing contracts, increased production output and recent and ongoing SBIR awards. This is compared to revenue in the first quarter of fiscal 2024 of $5.9 million. We are excited about the continued turnaround that is underway based on rising demand for our products and we are well on our way to a record year for revenue for CPS Technologies.

With a strong backlog, increased manufacturing capabilities and improving efficiencies, we anticipate that our efforts will lead to growth in both margins and profitability as the year plays out. I will now turn the call over to Chuck to provide further details about our financial results, after which I'll provide some additional perspective. Chuck?

Charles Griffith

Thanks, Brian. As we've just mentioned, we're very pleased with this quarter's performance, particularly on the revenue side. The company's revenue for the quarter totaled a record $7.5 million compared with $5.9 million in Q1 of fiscal 2024. In the year-over-year comparison, most of the change was due to continued robust customer demand, strong order backlog and our ability to increase manufacturing throughput through various measures, including the addition of a third shift of production. This all led to higher capacity utilization.

As Brian indicated, our strong first quarter had no revenue for HybridTech Armor versus last year, meaning that we're succeeding in broadening and growing the company's sales of core products to new and existing customers. We expect to see continued strong top line performance in the quarters to come.

We reported a gross profit in the first quarter of $1.2 million, or approximately 16.4% of sales, compared with $0.9 million, or 15.3% of sales last year. This increase was due to higher overall revenue and improvement in manufacturing efficiencies, along with the fact that last year's margin had been negatively impacted by quality control issues.

While we're pleased with the improvement in our margins, the entire CPS team remains committed to driving continued margin expansion as the year progresses. Selling, general and administrative expenses totaled $1.1 million in the first quarter versus $1.2 million in the prior year period. We continue to manage our costs even while ramping up production output and advancing a strategy of investing for future growth through continued product development initiatives in response to market demand.

The company posted an operating profit of about $130,000 in the first quarter compared with an operating loss of approximately $260,000 last year. We reported net income of just under $100,000 or $0.01 per share versus a net loss of around $140,000 or negative $0.01 per share in Q1 of fiscal 2024.

Turning to the balance sheet. We ended the quarter with $1.9 million of cash and $1 million in marketable securities versus $3.3 million in cash and $1 million in marketable securities at the start of 2025. Trade accounts receivable have grown as our revenue has increased, totaling $6.3 million as of March 29, 2025 versus $4.9 million as of December 28, 2024. Inventories also grew as revenue grew, totaling $4.8 million at the end of the first quarter compared with $4.3 million at the start of the fiscal year.

Turning to the liability side. Payables and accruals totaled $4.2 million at the end of the first quarter versus $4.0 million as of December 28, 2024.

Now Brian will provide a more in-depth discussion of the period.

Brian Mackey

Thanks, Chuck. As previously noted, our quarterly revenue set a new record for the company. It represented an increase of 27%, both year-over-year and sequentially from the fourth quarter of 2024. Demand remains strong for the company's AlSiC and hermetic packaging products and our order fulfillment has accelerated in response to customer demand.

Although our previous order for HybridTech Armor was completed in April of 2024, future orders for armor are possible given their real-world applications and the value to the U.S. Navy fleet. Our ballistic solutions address a large market across various types of ships as well as other military applications, and we believe they have gained significant support within the Navy as well as on Capitol Hill. Early indications of a strong defense budget next year could positively impact this side of the business.

While our revenue growth was impressive even without armor sales, we recognize there is still work to do to expand our margins and grow the bottom line. The priority of these efforts is well understood within our organization. We have a number of initiatives underway to enhance the company's profitability through higher asset utilization and improved operating efficiencies.

Regarding order volumes, since the end of the COVID pandemic, we have seen the demand for our MMC products, some of which are incorporated into the power modules for electric trains, return to strong volume levels. Additionally, we believe there are new opportunities emerging that may fuel significant future growth.

Historically, computer server farms are not good candidates for AlSiC products as their power demands are continuous, whereas an AlSiC baseplate is instrumental in addressing the challenges related to frequent temperature cycling. Now, however, we are seeing significant movement toward wind farms, both offshore and on land, such as in Europe, which can be used to address the dramatically increasing need for electric power driven by artificial intelligence. There is significant interest in IGBTs that use AlSiC materials for these high-voltage DC transmission applications, which would represent additional volume beyond our legacy traction business.

While we cannot influence the adoption of our customers' technologies in these applications, we believe that products using AlSiC materials offer competitive advantages, particularly when used in remote and offshore applications as these installations are difficult to service, and therefore, require the extended lifetimes associated with AlSiC products. These initiatives represent a key opportunity for continued CPS growth in the coming years, which would leverage our well-established product portfolio.

Turning now to product development, which continues to expand our growing number of solutions, including our family of Metal Matrix Composites products, which we collectively refer to as HybridTech. We now have six active externally-funded research programs, including five SBIRs, two of which are Phase 2 and three of which are Phase 1, as well as one contract from NAVAIR. We are also waiting for responses to other proposals, including an additional potential Phase 2 contract.

As a reminder, all three active Phase 1 awards began in the first quarter are funded by the U.S. Army and represent values of $250,000 each over a six-month period of performance. One of these is our first externally-funded program for fiber reinforced aluminum, or FRA, where we are leveraging its properties to improve the mileage and operational range of hybrid electric military ground vehicles which is part of the Army's Hybrid Electric Powertrain, Power, and Propulsion Systems initiative, or HEPPS. This is an encouraging early indicator of market interest in the advantages that FRA can provide.

FRA's light weight relative to competing materials as well as its higher strength at elevated operating temperatures make it an appealing alternative for a variety of applications, including aerospace. Several relevant applications of FRA each have market sizes above $1 billion, including aerospace bearings and liners and replacement of titanium structures. We expect to have material samples in the hands of potential customers later this year.

The other two active Phase 1s are both in support of U.S. Army artillery. One uses ultra-low temperature co-fired ceramics to provide electromagnetic protection for artillery shells, while the other is focused on using additively manufactured tungsten to replicate the shear properties of depleted uranium.

All of our funded SBIR initiatives, again, five in total, are exciting endorsements of our technology, which can lead to new growth opportunities going forward. Our product development team continues to address the challenging requirements of our customers in novel ways, and we are fully committed to expanding into new markets wherever and whenever we can.

Of course, the product development process sometimes involves challenges, of which we are well aware. For example, we previously announced that we had received our first commercial purchase order for HybridTech radiation shielding. Unfortunately, we recently received a stop work notification from our customer, which was followed promptly by a cancellation of the purchase order.

The entire program we were supporting was canceled due to reasons unrelated to CPS. Relevant subcontractors, including ourselves, will be paid for the work done prior to the cancellation. We will keep our investors informed if the contract is renewed in the future.

In the meantime, we continue with our Phase 2 DOE radiation shielding contract, which extends into late 2026. Although we are early in Phase 2, we continue to address early commercial interest in our radiation shielding offerings from customers with a variety of use cases. The market is affirming that our novel solution has real-world value.

Our HybridTech radiation shielding is targeting an estimated $4 billion market with multiple form factors, which include modular walls, cladding, glove boxes and truck shells. We continue our work to drive a broadening portfolio of products toward commercialization in 2025, particularly in the areas of HybridTech radiation shielding and fiber reinforced aluminum.

As we've said before, we believe CPS has unique technologies and capabilities to meet demanding requirements for a host of potential clients worldwide. We also remain on track to use our new internal 5-axis machining capability for our first customer shipments this summer.

This additional production enhancement for hermetic packaging is helping lay the foundation for addressing a broader array of market opportunities. Specifically, we estimate the available market for 5-axis machined hermetic package components to exceed $50 million, with gross margins in the low- to mid-30% range at high volumes and potentially higher on smaller orders.

We continue to leverage our proprietary know-how, including the design, manufacture and testing of aluminum infiltrated products under the HybridTech name to deliver unique material properties. We are identifying specific customer challenges where we believe we can bring value with novel solutions based on our core competencies in material science.

In closing, we are pleased with our ongoing successful turnaround and the outlook for 2025. Our production levels and shipments are at record levels, which we believe puts us in a position for our best year ever. We also anticipate, as production climbs and efficiencies increase, that our margins will continue to expand through the remainder of the year, leading to further improved bottom line results, strengthening our balance sheet in the process.

Given strong demand for our products, new market opportunities and the expanding portfolio of products under development, the coming quarters look bright. I'd like to thank our employees for their passion and dedication and our investors for their patience and interest in the future of CPS.

We now like to open up the call for questions. Tom?

Operator

Certainly. The floor is now open for questions. [Operator Instructions]. Thank you. Our first question this morning is coming from Kenneth Pounds. Kenneth, your line is live. Please go ahead.

Q: Good morning gentlemen. Excellent quarter. It seems like you're really advancing on several different product categories. So any potential to bring in other partners to help market your unique technologies?

Brian Mackey

Thank you, Kenneth for the question. And good morning. We have some partners that we utilize on a day-to-day basis in certain places. We have a long and established relationship with a partner in hermetic packaging as well as several sales reps in different geographies, and I think going forward, we'll continue to look at those opportunities as they emerge and we get closer to commercialization in a given area. For example, the fiber reinforced aluminum is very relevant to aircrafts and we have ongoing discussions with some of the participants in that market and are keeping our eyes open for opportunities that might be fruitful going forward.

Q: Great. You talked a lot about radioactive shielding. You said there was one contract was canceled, but there's other several important opportunities there.

Brian Mackey

Yes. What we're hearing from the market is interest in our solution. We were originally funded by the DOE to develop a solution to be used in trucking, a lightweight barrier to radiation, particularly neutron and gamma radiation, and under the simple concept that the lighter the truck is, the more cargo you can put on the truck, and targeting the transportation of NMRs, nuclear microreactors.

What we found as soon as we started sharing our results from the early development effort was other market players were intrigued by what we're offering, particularly places like facilities. So if you're able to use one of our designs for a modular wall, you don't need a much thicker, much heavier concrete wall or a lead wall or some of these other alternatives that are problematic for specific applications, like if you have a small glove box.

So we're getting a lot of interest, which is affirming that we have something that's unique and valuable, and we're exploring those even while we're still early in Phase 2.

Q: Great. Thank you.

Operator

Thank you. Your next question is coming from Ron Richards. Ron, your line is live. Please go ahead.

Q: Good morning guys. Congratulations on the record revenues. I just got a question. Do you have like any other potential armor opportunities in the pipeline besides the Navy contract?

Brian Mackey

Yes. The Navy contract is certainly #1. We do have other opportunities that we're pursuing. Most notably, I would point to the Phase 1 Army solution that we developed with SBIR Phase 1 funding, which was targeting flooring for military helicopters that have ballistic protection. So we used our method to develop a flooring. And during the Phase 1, we conducted a successful box drop test, which is literally, can you drop a heavy box on it? And it provides the structural support you need.

Unfortunately, the Army did not have any funding for Phase 2 for any applicant, so we didn't even make a proposal. But after the Phase 1, we conducted our own ballistic shoot of those panels that we had developed and had very nice ballistic results. So you really need to do two things, have the structural support that passes the box drop test, and #2, ballistically stop a projectile from a bad guy underneath. And we were able to demonstrate that.

So we're now sharing those results with people like helicopter OEMs and pursuing those conversations, and we're interested to see where that goes as well.

Q: Okay. Thank you.

Operator

[Operator Instructions]. Our next question this morning is coming from Stephen Fossey. Steven, your line is live. Please go ahead.

Q: Thank you. Good morning guys. Sorry, I missed the annual meeting the other day. I had more traffic, not than expected, but then was able to make it happen.

Anyway, my question is about the current tariff environment. I mean, it's hard to keep track of all these things, but it seems like there are tariffs on aluminum the last I heard, and of course, any overseas products might be subject to tariffs either way. And so how do you see that?

Charles Griffith

Yes, sure. So I guess the good news from our standpoint is that materials or raw materials don't make up a huge percentage of our finished products. So aluminum is probably a good example. The cost of aluminum in a baseplate is probably in the neighborhood of 5% to 10% depending on the size of that baseplate. And so an increase in the cost of aluminum while certainly is not something that we look forward to, it's also not something that's going to have a huge impact on the bottom line in terms of what those tariffs might bring.

And I guess it's sort of a two sided coin. We also know that somebody will get it domestically produced, but of course, the other side of that coin is that the domestic producers realize that they can raise their prices too, maybe not as high as the foreign the importers, but certainly, they're going to take advantage of that opportunity if they can. So I don't think it's going to be a major problem for us, but it's certainly not a good thing, let's put it that way.

Brian Mackey

Yes. On the import side, we're keeping an eye on the different supply chain items that are either coming directly to us from an oversea supplier or are sourced domestically, but maybe originate somewhere else, and adjusting our purchasing accordingly. Obviously, there's a lot of uncertainty today. On the sales side, we're monitoring that as well, because we do ship internationally. As of today, we have not seen any impact from retaliatory tariffs on the sales of our goods.

Charles Griffith

And I should also just mention that we're constantly reviewing our supply chain, our vendors, who is out there, and if there are opportunities for cost savings by going to a different source. So that's kind of an ongoing thing as well, which could potentially help us out if a vendor today gets hit particularly hard by tariffs, but there are other ones out there that won't.

Q: All right. Great. And I have one more kind of related question, if I might. So I haven't looked at the financials closely, but if you were going to tell me you had revenue of $7.5 million, I would have thought the profit margin might have been larger than that. Was it a product mix? Or am I just plain wrong about that?

Charles Griffith

I agree. I think that what we've talked about recently is the fact that when we added our third shift, which started late last summer, we had a big learning curve to go through. And if you were to look at our product yields going back a year ago, you would see that they were very good or reasonably good. Those yields came down, down, down. We had probably hit the trough or hit the bottom maybe October, November of last year, and they've now been coming back up again. They're still not to the level that we want them at, and they're still not to the level they were a year ago. So we're continuing to improve in those areas. But I think that's probably the major reason why we didn't see a higher margins than what we did see.

And as Brian mentioned during his talk earlier, it's something that we're very focused on to get that improvement so that, hopefully, if we do the same number in Q2, we'll see a much better bottom line.

Brian Mackey

Yes. And two things to add to that. The Armor revenue was beneficial to our gross margin percentages. So without that, there is an impact there. But we do have a number of initiatives underway, both for internal operations as well as supply chain, which we anticipate will continue to move that number in the right direction.

Q: Okay. Great. Thanks for your answer.

Brian Mackey

Sure.

Operator

Your next question is coming from Greg Weaver. Greg, your line is live. Please go ahead.

Q: Hi, good morning gentlemen. Nice to see you in the black here this quarter. Following on to the prior question, or that's where I was going with the similar vein. So Chuck, you mentioned about the yield issue. So as I recollect, there were two issues. You had a process issue and then a staffing issue with green staff that was causing yield fallout. I guess kind of where are you on both of those items as it relates to your ramp back?

Charles Griffith

Yes. So I think from a staffing standpoint, we're still working our way through that. I mean, certainly, we've got some folks now, in particular, on the third shift that have been here for a period of time and are getting it, but there's still turnover. I don't think that will probably ever go away completely, but we're basically just working our way through it. And the more stability we can get then, obviously, the better off we are.

So as I said before, we're not there yet, but we're continuing to improve. And I think, as I said before, we think that if we were to do the same top line numbers again this quarter, then I would anticipate and I would hope that we'll see some improvement in the bottom line.

Brian Mackey

And Greg, I think the other part of your question was going back several months to a quality issue. And the short answer is, we do believe we have that addressed and what we're seeing now is unrelated to that.

Q: All right. Good. Thanks, Brian. That's helpful. All right. So do you dare at this kind of run rate with this product mix care to share any kind of goal you might have to where you'd like to see gross margins get to if you could tighten up some of these things? I mean, you mentioned utilization, but you're on a third shift. So I mean you're running this thing pretty hard in terms of utilization.

Charles Griffith

Yes. I mean, I think we do have some internal initiatives for margin improvements. Well, I mean, obviously, you can look and you can see that we had margins in the neighborhood of 30% for a couple of quarters back, I want to say, in 2023. Certainly, if you want to talk about a goal, that would be a nice goal, or is a goal. I'm not sure that with the current product mix, we can get to that level.

But certainly, as we said before, we're doing everything we can to try. And obviously, 16.5% basically this past quarter. If we can get to 20% and get to 22%, to 25%, that kind of thing, that would be great.

Brian Mackey

Yes. And with the demand that we have, I mean, there's certainly an ROI on all of this work. So we have some initiatives that will bear fruit in the short term. Those will be relatively small due to the timeframe. Some of the larger initiatives we have will take more time to play out and potentially have a bigger impact on margins.

And the third shift is for our AlSiC or metal matrix composite products, whereas on the hermetic packaging side, we're really at two shifts or one plus. So there's also opportunity there. But I would agree with Chuck's numbers.

Q: Okay. Thanks Brian. So just last for me. I mean, given your top line run rate, and you mentioned how you're filling in the hole from the armor, I got to believe with this semi-backdrop here that you have to be taking share from your competitor, right, at your end customer? I mean, what do you attribute the strength to? I mean, his business got that much better?

Brian Mackey

I think it's a mixture of both. I think we're picking up market share. I think we're picking up some new customers, which is probably taking someone else's business. I think we're picking up additional products from existing customers such as in hermetic packaging. But I also think both of these product lines, being hermetic packaging and AlSiC, we're riding the growth of these markets as well. It's a combination of factors.

Q: Okay. Thank you.

Charles Griffith

Yes. I was just going to say what Brian had mentioned earlier just about the growth of the market due to the expansion of the electrical grid and the fact that, again, I know in the United States it's not as big a thing, but certainly we've seen overseas the desire for more and more wind farms. And those are areas that you need an AlSiC IGBT module with an AlSiC baseplate. And so we think that a lot of the growth is coming from the growth of the market.

Q: Okay. Well, thank you for answering the questions. And keep it going. Appreciate it. Thank you. Bye-bye.

Operator

Thank you. At this point, there appear to be no further questions in queue. So I'll turn the call back to Mr. Mackey for any closing remarks.

Brian Mackey

Great. Thanks, Tom. Thanks everyone for joining us today and your ongoing interest in CPS Technologies. We look forward to speaking with you again at the end of the second quarter. In the meantime, if you have any questions, please reach out to our Investor Relations Advisor. We will also be participating in the Sidoti Virtual Investor Conference later this month. Thank you.

Operator

Thank you. This does conclude today's conference call. You may disconnect your phone lines at this time, and have a wonderful day. Thank you once again for your participation.