CPS Technologies Earnings Call

August 5, 2026

9 a.m. ET

Operator

Good day, ladies and gentlemen. And welcome to the CPS Technologies Corporation Earnings Call. At this time, all participants are placed on a listen-only mode, and the floor will be open for your questions and comments during the presentation.

It is now my pleasure to turn the floor over to your host, Mr. Chris Fraser, Chief Financial Officer with CPS Technologies. Sir, the floor is yours.

Chris Fraser

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

Chris Witty

Thanks, Chris, and good morning, everyone. Before we 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's operations and environment. These uncertainties include, but are not limited to, the ongoing conflicts in Ukraine and the Middle East, 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 statement. 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 quarter, after which Chris Fraser will review the financial results in greater detail. Brian?

Brian Mackey

Thanks, Chris. As a quick reminder, at the time of our previous quarterly earnings call on May 5th, it was only Chris Fraser's second day with the company. He officially assumed the role of CFO on May 18th, and our former CFO, Chuck Griffith, retired from CPS at the end of May, as expected. The transition has gone well, and we're very glad to have Chris on board.

Now, turning to our Q2 results. We posted sales of $8.3 million, up slightly year-over-year and with an increase over first quarter levels, reflecting overall robust demand. While pleased with this top-line improvement, we're also glad to note a substantial recovery in gross margins to 14.8% from 8.6% in Q1. Our outlook remains strong, and I'll come back in a moment to talk more about our commercial outlook as well as our plans for an improved manufacturing center.

But first, let me turn the call over to Chris to provide further details about our financial results. Chris?

Chris Fraser

Thank you, Brian. As just stated, CPS reported revenue of $8.3 million for the period, compared with $8.1 million in the second quarter of 2025. And we anticipate shipments to continue at a similar pace as the second quarter going forward, given our current order backlog and outlook. We're very focused on executing a plan to move to a new facility, which will position the company for better performance in 2027 and beyond.

Brian will speak more to this in a moment. And we reported gross profits of $1.2 million or 14.8% of revenue versus $1.3 million or 16.5% of revenue in the second quarter of last year, with the year-over-year decrease caused in part by higher material and plating costs, which was partially offset by improved labor and overhead efficiencies.

As Brian mentioned, our gross margin improved by 620 basis points relative to Q1 levels this year. SG&A, or selling, general, and administrative expenses, totaled $1.5 million in the second quarter of this year, up from $1.2 million last year, reflecting some one-time expenses, mainly non-cash stock options, which happened in the first quarter of last year and the second quarter this year. And the company posted an operating loss of about

$200,000 in the current quarter, compared with an operating profit of $100,000 in 2025. Including other income and tax benefits, we reported net income of roughly $40,000 or $0.00 per share this quarter, essentially break even, versus net income of around $100,000 or $0.01 per share in the second quarter of last year.

Before I turn to the balance sheet, I'd like to note that we successfully completed a secondary offering in May that raised proceeds of $9.6 million. Those are gross proceeds, providing additional capital to support our growth initiatives. With this in hand, we ended the quarter with $15.4 million of cash and $3.8 million in marketable securities, for $19.2 million combined versus a combined total of $13.2 million at the beginning of the year.

Last and at the beginning of the year, we had $4.4 million in cash and $8.8 million in marketable securities. We are currently very well-funded. Trade accounts receivable totaled $4.9 million at the end of June 2026 versus $5.2 million as of the end of Q2 last year. While inventories increased to $8.6 million at the end of the second quarter compared with $5.6 million at the start of the year, reflecting our preparation for a move to a new facility.

Turning to the liability side, payables and accruals totaled $4 million at the end of the second quarter versus $4.3 million as of December the 27th, 2025.

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

Brian Mackey

Great. Thanks, Chris. I want to first give an update about our plan to move to a larger improved manufacturing facility. I realize our investors are eager to hear an update on the status of this initiative to relocate to an improved space, something we consider fundamentally important to our go-forward growth strategy due to both strong demand for our existing products as well as the need for space to manufacture new products that we're bringing to market. It is clear now that our initial estimates were overly aggressive.

Today, however, we're very close to finalizing the lease terms for a new facility, and I expect we will soon be making a formal announcement regarding a facility that is twice the size of our current location. The specialized operating factors necessary to optimize our production, including power requirements, industrial gas provisions, the floor build-out, et cetera, and all within relatively close proximity to our current location to maintain our talented employee base, expanded the timeline for this effort.

So while this search and negotiation process has certainly taken longer than we expected, we believe our measured approach is ensuring the optimal selection for our needs. Although the lease document is not yet signature-ready, we are very close to resolution. Once this lease is executed, our design build partner, Dacon Corporation, will work to complete the detailed architectural and engineering design phase, which is already underway. We expect this process, including laying out the production flow of our various work centers to take approximately three to four months, culminating with permanent approval.

The subsequent seven to eight months will include construction and equipment installation. Following the phased relocation of our manufacturing operations, we will conduct the necessary equipment qualifications, process validations, and customer approvals to ensure a smooth transition while minimizing disruption to production and customer deliveries. As a reminder, our current lease runs through February of 2028. So we have sufficient flexibility to get this done. We believe this process, culminating with occupancy of the right location for our company, will enable us to capitalize on opportunities for expansion, increase efficiencies, and improve margins, leading to better overall long-term performance for the company.

Regarding the current state of our business, the company's backlog for its core products remains strong, supported by the various markets we support, and our optimism about our newer products continues to grow. We're experiencing increased interest from a number of industries that our investors are familiar with, including energy infrastructure, AI, defense, semiconductors, space, and other commercial applications.

Our markets are expanding as our technology offerings support and drive new applications across a wide range of existing and potential customers. We've completed two capital raises within the last 12 months, which provide us with sufficient resources to pursue relevant growth opportunities.

The first of these is obviously the cost of outfitting the new location to suit our needs for our production requirements, as well as the cost of physically relocating our company. In line with that will be some capital expenditures to improve and expand our production capacity, particularly for metal matrix composites. Also, we anticipate additional expenditure over time to support the scale-up of the capabilities we have for our newer offerings, such as ALMAX™ material, as well as tungsten alloys produced using our QuickSet Injection Molding process.

Regarding tungsten, funding from the U.S. Army supports our ongoing work on a controlled fragmentation 40-millimeter warhead, with that program continuing until the fall of 2027. We remain optimistic about the potential volume revenue opportunities that may ultimately come from that development work. In parallel, we are now seeing positive market feedback from our offerings of tungsten alloy components.

As I mentioned previously, we completed our first small commercial sale earlier this year. Now our business development team is actively quoting tungsten alloy parts, which we believe we can produce more cost effectively than competing manufacturing processes for potential commercial and defense applications. Additional CapEx may be necessary to support this product line as it grows over time.

In line with the indications of market interest that we're seeing for tungsten, ALMAX™ materials, and various other products, we're also working to expand our business development team. We need a larger team to respond to the potential sales opportunities that we have identified in various markets. And we anticipate near-term investment in this growth of customer-facing personnel.

As I mentioned before, congressional funding has already been approved to implement ballistic shields from CPS on a small number of destroyer-class vessels. Along with our partner, Kinetic Protection, we expect these contracts to be resolved and issued later this year. This represents a return to revenue for our HybridTech Armor® product, which we're excited about. With regard to our proprietary portfolio, our research and development work continues, often under externally funded initiatives with the government, such as SBIR programs.

These include the tungsten warheads for the Army, radiation shielding funded by the DOE, impact limiters for the DOE, thermal energy storage for the Navy, and lightweighting of the Amphibious Combat Vehicle for the Navy and Marine Corps.

For the ACV program I just mentioned, we're now in a six-month option period, which the Navy exercised in June. Once this concludes in December, we expect to have the opportunity for potential follow-on Phase II funding. This program enables us to offer lightweight benefits of two of our materials. First, our ALMAX™ material could potentially be used to replace certain steel components across the entire vehicle. Second, our HybridTech Armor® solution can provide ballistic protection in place of the steel plates currently used.

This represents the second volume opportunity for HybridTech Armor®, distinct from the destroyer vessels of the U.S. Navy. As mentioned previously, the SBIR and STTR programs have been fully reauthorized by Congress through fiscal 2031. However, while our phase of submitting proposals continues, there is a significant backlog still awaiting formal responses from the SBIR offices of the DoD and DoE.

A number of our Phase I and Phase II proposals, some going all the way back to August of last year, are awaiting funding decisions. While it's difficult for us to predict the timing of responses we'll see from the government, we see that these agencies are actively working through their proposal backlog. As a result, we expect to receive responses in the coming weeks and months.

Overall, given expanding demand for our innovative products and the applications they serve, we remain optimistic about the remainder of fiscal 2026, as well as the years ahead. In addition, working with Kinetic Protection, we're upbeat about potential new HybridTech Armor orders in the coming quarters. The outlook for such new awards has not looked this positive in several years, and we look forward to providing critical protection to U.S. Navy destroyers, just as we've done in recent history with aircraft carriers.

We'll keep our investors updated on these developments, along with any decision on our pending new facility transition. Once again, I'd like to thank our investors for their interest and enthusiasm as we continue to position the company for even better days ahead. We can now open the call up for questions. Ali?

Operator

Thank you. Ladies and gentlemen, the floor is now open for questions. [Operator Instructions]. Thank you. We have a question on the line from Steven Fosse, who is an Investor. Steven, your line is live.

Q: Thank you. Good morning, guys.

Brian Mackey

Good morning.

Q: You had posted something online recently, maybe on LinkedIn, comparing AlSiC versus copper tungsten from a sort of cost and price volatility standpoint. Can you comment on where that comparison stands and whether you're seeing any actual retaining of business you might otherwise lose or new business from it?

Brian Mackey

Yes, that's a technical post there that I'm a little hesitant to get too deep into the weeds on that, Steve. I know that that's a competitive area where we like what our offering represents, but specifically how we're seeing that manifest, I'd have to pull some other people into that conversation, and I'd be happy to send you something offline that speaks directly to that because I want to make sure I'm being factual.

[*The rising price of copper-tungsten is the primary driver of the increased demand for alternative solutions that CPS is seeing. These inquiries are typically specific to applications with high tungsten content, such as a copper:tungsten ratio of 85:15, due to the extreme volatility of the price of tungsten in recent months.*

The relevant article is available here: https://cpstechnologysolutions.com/rising-tungsten-thermal-management/]

Q: Yes, that would be great, because I think traditionally copper's been a pretty strong competitive to your materials. Anyway, I realize it's deep in the weeds. Thank you.

Brian Mackey

Yes, fair enough.

Operator

Thank you. [Operator Instructions]. Okay. As we have no further questions on the lines at this time, I would like to turn -- oh, apologies, we've had a late question come in from Greg Weaver with Invicta Capital. Greg, your line is live.

Q: Hi. Good morning. Sorry I was slow there. Could you give us a little more color maybe in terms of the move? It sounds like you're going to run both operations in parallel, is the thought, and then slowly move things over or buy new equipment for the new facility so you don't have to disassemble much and can kind of run in parallel?

Brian Mackey

Yes. Good morning, Greg. Let me talk through that a little bit. As I mentioned, there'll be a number of months to outfit the building, industrial gas and various work cells, some of which require fire containment, because we do deal with molten aluminum and things like that. So some of it is the build-out of that facility to meet our needs, which would then be followed by a staged move of our company, where at the end, we would be relocated.

So we are scheduling now which work cells will move at which time. But ultimately, the equipment that's currently here in the building that we occupy will be moved. We're working with our customers as well to talk through buffer inventory and things like that.

We do have some CapEx spending, some of which has already been initiated, and others is planned, which is primarily to expand our production capacity for metal matrix composites. So that equipment that we're ordering will be delivered to the new site, but that's additive to the equipment that we have to increase our production capacity.

So ultimately, everything that's here, plus the new stuff, will end up in the new building after a phased move of certain work cells. It might take a couple of weeks to move this work cell, and a couple of weeks to move these other ones, and sequentially do that and overlap that with that validation process where we make sure that equipment operates correctly, and we make sure the product meets the specifications and the customers are satisfied. But ultimately, everything from here will move over there.

Q: Okay. Thank you. Do you have any estimate at this point in terms of total dollars for the upfit as well as the new equipment? And I guess from an AlSiC perspective, you're not adding equipment there. I thought you were kind of tight on capacity for that.

Brian Mackey

That's right. That's why the new equipment will go to the new site. We simply don't have the room for it here. So the new facility provides the additional square footage where we can add equipment and lay it out thoughtfully, which is very difficult to do in our current facility. So it both allows more room and better flow.

The new equipment would not come here. It would only go over there for that reason. We're currently totaling up these various budgetary estimates for the rigging to move us over there, the CapEx that we're spending, the build-out, which is by itself millions of dollars. Those are numbers that we get in the original capital raise back in October was intended to cover the majority of that expense, if not all of it. But I'm not quite prepared to publish a tally. It's in the millions of dollars. It's adding up to get us from here to there and have a better layout once we're done.

Q: Got you. Okay. Thank you. And just lastly, any re-qualifications required for the new facility? Do you foresee any issues with when you move the equipment and you're stuck for some period of time where you can't make the product on it until it's re-qualified?

Brian Mackey

Those are the discussions that we're having on a case-by-case basis with each customer. In some cases, we're able to build inventory ahead because we know what the customer wants and when they want it, and that'll provide us with a bridge for that qualification period. But it more specifically depends on the depth of the qualification - how much is necessary.

I mean, the reality is it's the same equipment, it's the same personnel, it's the same process, but we are putting it on a truck and moving it and setting it back up. So, validation is necessary, and the details of that depend on the needs of each customer and our relationship with them and how we resolve that. So those are all the things that we're working through as part of our timeline and plan.

Q: Okay. Appreciate it, Brian. Thank you.

Brian Mackey

Sure.

Operator

Thank you. [Operator Instructions]. Okay. As we have no further questions, I'll turn the call back over to Mr. Mackey for any closing remarks.

Brian Mackey

Okay. Great. Thanks to everyone for joining us today for your ongoing interest in CPS. We look forward to speaking with you again after the end of the third quarter. If you have any questions in the interim, please reach out to our Investor Relations Advisor. Thank you.

Operator

Thank you. Ladies and gentlemen, this does conclude today's call. You may disconnect your lines at this time and have a wonderful day, and we thank you for your participation.