CPS Technologies Q3 2026 Earnings Conference Call

November 4, 2026

09:00 AM ET

Operator

Good morning and welcome to the CPS Technologies earnings call. At this time, all participants are in a listen-only mode, and we will open up the floor for your questions after the presentation. If you do wish to join the queue to ask a question at any time, you can press star 1, and should you wish to remove yourself from the queue, press star 2.

It is now my pleasure to turn the floor over to your host, Chris Fraser, CFO for CPS. Chris, the floor is yours.

Chris Fraser

Thank you, Sylvie, and good morning, everyone. Today I'm joined by Brian Mackey, our President and CEO. We look forward to discussing our 3rd 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'll 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

Thank you, Chris. Good morning, everyone, and thanks for joining us today. I'm pleased to report that 3rd quarter revenue rose to $8.9 million this year, up sequentially as well as year over year. This sets a new quarterly record for the company for revenue as we continue to benefit from higher demand and increased production volumes. At the same time, gross margins rose significantly to 20.9% versus the 2nd quarter's 14.8% and last year's 17.1%.

We're very encouraged by the positive momentum we are generating in terms of our growth and overall performance, and by the fact that we're on track to move into our new facility during fiscal 2027. I'll come back to talk more about this in a moment, but first I'd like to turn the call over to Chris to provide further details about our financial results. Chris.

Chris Fraser

Thank you, Brian. As was just stated, CPS reported revenue of $8.9 million for the period compared with $8.9 million for the 3rd quarter of fiscal 2025. We anticipate shipments to continue at a similar pace going forward, given our strong book of

business and improved growth outlook, positioning us well for fiscal 2027 and beyond.

We reported gross profit of $1.9 million, or 20.9% of revenue, versus $1.5 million, or 17.1% of revenue, in fiscal 2025 3rd quarter, with this year-over-year increase driven by advanced enhanced economics and operational improvements. And our gross margin expanded over 600 basis points from Q2 to the best level in over 3 years.

Selling, general and administrative, or SG&A, expenses totaled $1.5 million in the 3rd quarter of fiscal 2026, including $88,000 of noncash charges relating to our new lease to make our lease costs consistent over its 12-year term, versus SG&A costs of $1.2 million last year. The company posted an operating profit of $357,000 in the current quarter compared with slightly less than $276,000 in 2025. Including other income and taxes, we reported net income of roughly $350,000 or $0.02 per share versus net income of around $200,000 or $0.01 per share in the fiscal 2025 3rd quarter.

We ended the period with $2.8 million of cash and $15.6 million in marketable securities, or $18.4 million combined. In addition, we also funded a security deposit on the new lease of $0.5 million that is shown as restricted cash in non-current assets on our balance sheet. This compares with $13.2 million at the beginning of 2026, which included $4.4 million in cash and $8.8 million in marketable securities.

Trade accounts receivable totaled $4.7 million as of September 26th, 2026 versus $5.2 million as of December 27th, 2025. Inventories increased to $10.3 million at the end of the 3rd quarter compared with $5.6 million at the start of the year, reflecting our preparation for the move to the new facility. Turning to the liability side, payables and accruals totaled $4.6 million at the end of the 3rd quarter, versus $4.3 million as of December 27th, 2025.

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

Brian Mackey

Thanks, Chris. Now I'd like to provide some additional insight around recent developments and upcoming priorities, starting with our move to a new expanded facility. As previously announced in August, we entered into a lease for 80,000 square feet of space in nearby Attleboro, Massachusetts, which is, which is just a 3-mile drive from our current facility here in Norton.

Detailed planning is well underway with the support of Dacon Corporation, our design-build construction management partner, as well as various engineers and contractors. Upcoming activities include finalizing our floor plan design specifications, including all relevant electrical, plumbing, and mechanical requirements, as well as obtaining appropriate permits from the town of Attleboro. Based on the amount of work required, which is substantial, it's plausible that the buildout will continue into 4th quarter of 2027. We will be working to accelerate this whenever possible as our construction plans evolve. In addition, we will naturally also be exploring partial occupancy to potentially initiate the move earlier next year.

Ultimately, we expect to relocate our corporate offices, manufacturing operations, and product development activities to Attleboro prior to the lease expiration here in Norton, which does not occur until the end of February of 2028. We wish to move quickly to our new space to benefit from the advantages it provides, but not at the expense of improper planning and design, which is crucial to our long-term success. The new site, which is double the square footage we occupy today, represents a major milestone in our history and reflects a significant investment that will enable us to capitalize on and support the company's continued growth strategy and expanding customer base while investing in innovative new technologies.

Now that we have increased clarity regarding the work necessary to outfit our new facility and design the intended layout, we're able to generate appropriate cost estimates. As you may recall, back in May of this year, we raised $9.6 million in a registered direct offering. Our current estimate is that the cost to CPS of the

buildout, as well as riggers and movers, will be within 10% plus or minus of the amount of capital that we netted from that raise, which was $9 million. This is independent of contributions to be made by our landlord for alterations, improvements, fixtures, and equipment that ultimately enhance the building per the terms of our lease.

Additionally, we continue to review our CapEx needs and lead times to ensure that those expenditures align the additional production capacity with the timing of occupancy of our new facility. It's also worth noting that during our relocation effort, we'll be able to draw from the inventory we've been building throughout the past several quarters. As Chris mentioned, we have used over $4.5 million of cash this year to build inventories in support of the upcoming move. We expect to convert much of that back to cash during the relocation, which, in addition to keeping product flowing to our customers, will partially offset the cash spend of the move.

The initial lease term for the new building started in August, 3 months ago, and runs for 12 years and 10 months. Based on the terms, there is currently no cash impact to CPS. We will begin paying certain charges such as utilities and taxes on June 1st of next year. We will not begin paying rent until December 1st, 2027. However, per Accounting Standard 842, we are now including a monthly lease cost in our non-cash expenditures, which Chris alluded to. This began in September and therefore had an $88,000 impact on our Q3 results.

Looking to the future, the lease also grants CPS 2 options to extend the term for 5 years each, generally at fair market prices. In addition, CPS secured a right of first offer to lease available adjacent space in the building, subject to the terms of the lease, as our current 80,000 square feet represent roughly half of the overall facility size.

Overall, we're very pleased with how well the space suits our needs, its close proximity to our current location, the lease terms, and the potential this facility provides to substantially grow the company going forward.

Now I'd like to move on to our current book of business. Typically around this time of year, we share news of an annual contract with a longstanding multinational semiconductor manufacturer. So I'm pleased to announce that once again, we have secured large orders for our high-performance products from this company which remains our largest customer. Demand levels represented by these contracts are consistent with what we've shipped to this client over the preceding 12-month period. Such components from CPS are integrated into systems supporting high-speed rail as well as energy and grid infrastructure. These latest awards underscore our continued confidence in the company's growth outlook, fueled by an ability to deliver next-generation technologies that serve a variety of markets experiencing strong demand.

Our hermetic packaging products are also seeing robust demand driven by the various markets they support, including aerospace and defense, as well as the buildout of AI-driven infrastructure. This demand was impactful on our Q3 revenue, and we expect this to continue as well.

The numerous opportunities we see across the various industries we serve, including defense, energy infrastructure, artificial intelligence, and others affirm our decision to double our available square footage once we have relocated. The larger facility will enable us to capitalize on increasing demand with our core metal matrix composite products and hermetic packages, as well as support and advance various growth initiatives including AlMax™ Materials, HybridTech Armor®, QuickSet™ Injection Molding, and others, in ways that we cannot in our current location.

Regarding QuickSet™ Injection Molding, or QIM, we recently announced our first order from a military contractor for tungsten alloy components manufactured using the company's proprietary process. We're on track to fulfill this defense-related contract before the end of the year. Our novel manufacturing process enables the production of net-shaped components with final dimensions and features incorporated directly into the molded product, eliminating the need for

extensive post-production machining. QuickSet™ Injection Molding also enables the efficient production of dramatically larger components, thereby demonstrating greater scalability than traditional metal injection molding.

Although we are unable to share the details of this latest order, it represents a prime example of where our novel manufacturing process is creating new revenue opportunities. Existing injection molding techniques are unable to make these components. As a result, they've typically been manufactured using traditional machining techniques, which are simply inefficient. We remain optimistic about the future commercialization opportunities that QIM will provide.

As a reminder, while we have used QIM for many years in the volume manufacture of certain products of ours, the continued advancement of this technology has been supported through funding from an ongoing Small Business Technology Transfer Award, or STTR, from the U.S. Army DEVCOM, or Army Combat Capabilities Development Command, which is valued at $1.15 million. The work on this program, which is targeting the scalable manufacture of a controlled fragmentation 40-millimeter tungsten warhead, continues to proceed on schedule, and it will run through September of next year.

Lastly, as previously mentioned, congressional funding was approved some time ago to add ballistic shielding using our HybridTech Armor® on a small number of Navy destroyer-class vessels. We and our partner, Kinetic Protection, remain hopeful that such contracts can be resolved in the coming months. Obviously, we'll keep our investors apprised of new developments going forward.

Along those lines, we also continue our research funded by the Navy targeting a reduction in the weight of the amphibious combat vehicle or ACV. Relevant technologies of ours include our HybridTech Armor®, which can replace the steel plates mounted to the ACV for ballistic protection, as well as our AlMax™ material, which offers weight reduction as well as improved corrosion resistance relative to steel components currently used on the ACV.

With increasing demand, new volume orders from our largest customer, an expanded facility in hand, various new product and business development initiatives underway, and ongoing federal review of various proposals for research funding across several agencies, we're very well positioned for continued strong results in the quarters to come.

We believe the company, with a solid balance sheet, including zero debt, an expanding portfolio of innovative applications and a clear strategy to accelerate growth and improve operating results, is poised for a future that benefits our customers, our employees, and our shareholders better than at any time in our history. We can now open up the call for questions. Sylvie?

Operator

Thank you. The floor is now open for questions. If you wish to join the queue to ask a question at this time, please press star 1. We do ask if listening on speakerphone today to please pick up your handset while asking your question to provide optimal sound quality. Once again, please press star 1 on your phone at this time to join the queue to ask a question. Please hold a moment while we poll for questions.

And your first question will be from Chip Moore at Roth Capital. Please go ahead.

Chip Moore

Good morning. Hey, thanks for taking the question, you guys. I wanted to maybe start with the profitability. Gross margins very, very strong. Nice to see. I guess I thought we might have even seen some higher input costs serving as headwinds or some inflationary impacts. Did you see any of that? And could they have been even higher? And what were the main drivers of that profitability?

Chris Fraser

So some of the input costs, such as gold, we pass on the exact increment to the customers. We have seen other material costs, but we've done a good job of improving pricing and also operational efficiencies, which have enabled that improvement in gross margin.

Chip Moore

Got it. That's helpful. And sort of a segue there into 3 miles down the road. You know, I assume we can see even more efficiencies when we get there. But talk about that move. It seems like you're planning appropriately. We can see the inventories building and you've got the cash unlocked there, down the road, but just, you know, any longer lead time items that you need to be thinking about? And then on the permitting side, you know, is that sort of the, the biggest hurdle here near term?

Brian Mackey

Yeah, the— let's start with the second part of your question, Chip. The permitting side is definitely a hurdle we need to get past. The large amount of effort is the amount of planning required. We have a finalized design for the layout, which we've resolved with Dacon, and now that is being gone over very carefully by the various contracting experts, plumbers, et cetera. So they're making their detailed plans to satisfy our needs, and that entire package will then be approved for permitting. So a number of steps here, and then, of course, all that work will need to be done, which will take a number of months.

So it stretches it out more than we'd like. We're, we're eager to get over there and make use of the better space, but it is going to take a number of months for all those things to play forward. We do expect some efficiencies over there. You know, you've been through our building here. Some others have as well. It's cramped and inefficient. So we're eager to get over there and experience the benefits that that will offer. It's just going to take us longer than we'd like.

Chip Moore

Yeah, understood. Yeah, do it right. And, and good to see you're thinking ahead to, to potentially expanding. Yeah.

Brian Mackey

So, yeah, I'm sorry, your first question, you know, we, we've got a number of CapEx items identified that will improve our capacity. So there's a, there's a spend there that we're earmarking and we're timing those lead times to match our move plan. So, as the move has moved a little bit to the right on the calendar, it's given us a little bit of a window to review those things before we place the actual purchase orders.

But we have a number of things that we plan to do so that that equipment is delivered to the new site. And we also have some things that we've earmarked space for, for potential future capacity adds that we'll keep in mind as once we occupy that facility, we're laying it out. So, we have both the near-term adds that we know we're going to spend on, as well as potential second round of things should the need require it.

Chip Moore

Perfect. Makes perfect sense. And Brian, your large semiconductor customer, you know, gave new annual visibility. I think that was $15 million last year. Is that right? And what are you seeing in that market more broadly, you know, beyond high-speed rail, but I think you talked about energy grid and not just with that customer, but potentially with others.

Brian Mackey

Yeah, the demand there remains consistent from last year. And we do see that entire market for our metal matrix composite products. I mean, that's the number one driver of our need for additional capacity. We're space constrained and capacity constrained here in this facility. And that list of CapEx that I mentioned is definitely a part of our plan for metal matrix composites.

We see that being strong across the board. We have strength in our metal matrix composite expectations as well as hermetic packaging as well as these new things. So it really is true across the board, but the primary one is metal matrix composites.

Chip Moore

Got it. And maybe if I could sneak one last one in, the commercialization efforts around tungsten alloy, great to see that. That win, you know, I know you can't speak about that contract specifically, but maybe just the broader opportunity for tungsten alloy components, you know, does that help open things up now that you've got that? And, you know, what's the potential of your QuickSet™ process there in that market?

Brian Mackey

Yeah, we're very enthusiastic about the opportunities for our QuickSet™ Injection Molding, starting with tungsten alloy, but there's other materials that we're looking at as well. And part of the nice thing about it is there's not a huge iteration cycle of testing. You know, there's not some multi-year requirement for third-party laboratories or things like that. Obviously, the customers want to see that the material is properly manufactured, the tungsten alloy is what we say it is, and then that the components are to the right dimensions.

But other than those 2 things, it enables really a, generally a rapid turnaround from interest by the customer to a potential PO to a potential shipment of product by us. And that's what we're seeing on the order that we're executing now. We expect that to continue. The ability to scale these components up to larger size, you know,

we're in discussions now with customers who see that, they see the benefit of it, and we're very interested to see how this plays out. But we think it's going to be a key part of our revenue growth going forward.

Chip Moore

Great. Appreciate it. Thanks, guys.

Operator

As a reminder, ladies and gentlemen, please press star 1 should you wish to join the queue. Thank you. Next question will be from Ronald Richards, investor. Please go ahead, Ronald.

Ronald Richards

Well, I was going to ask about the, the possibilities for the tungsten, the QIM tungsten. You already answered that, so I appreciate the information. Thank you.

Brian Mackey

You bet.

Thanks, Ronald.

Operator

Thank you. At this time, it appears we have no other questions registered. I would like to turn the conference over to Brian Mackey.

Brian Mackey

Okay, great. Thank you, Sylvie, and thanks everyone for joining us today and your ongoing interest in CPS. We look forward to speaking with you again at the end of our 4th quarter. If you have any questions in the interim, we hope you reach out to our investor relations advisor. Thanks and good morning.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.