Cognex Q1 2024 Financial Results

COGNEX
A COMPANY WITH VISION

May 2, 2024

Forward Looking Statements

Certain statements made in this presentation, as well as oral statements made by the Company from time to time, constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. Readers can identify these forward-looking statements by our use of the words “expects,” “anticipates,” “estimates,” "potential," “believes,” “projects,” “intends,” “plans,” “will,” “may,” “shall,” “could,” “should,” "opportunity," "goal" and similar words and other statements of a similar sense. These statements are based on our current estimates and expectations as to prospective events and circumstances, which may or may not be in our control and as to which there can be no firm assurances given. These forward-looking statements, which include statements regarding business and market trends, growth opportunities, future financial performance and financial targets, customer demand and order rates and timing of related revenue, managing supply challenges, delivery lead times, future product mix, research and development activities, sales and marketing activities (including our Emerging Customer Program), new product offerings and product development activities, customer acceptance of our products, the potential effects of emerging technologies, capital expenditures, cost management activities, investments, liquidity, dividends and stock repurchases, strategic and growth plans, our ability to maintain and grow key relationships, acquisitions, and estimated tax benefits and expenses and other tax matters, involve known and unknown risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include: (1) the technological obsolescence of current products and the inability to develop new products, particularly in connection with emerging artificial intelligence technologies; (2) the impact of competitive pressures; (3) the inability to attract and retain skilled employees and maintain our unique corporate culture; (4) the failure to properly manage the distribution of products and services; (5) economic, political, and other risks associated with international sales and operations, including the impact of trade disputes, the economic climate in China, and the wars in Ukraine and Israel; (6) the challenges in integrating and achieving expected results from acquired businesses, including our acquisition of Moritex Corporation; (7) information security breaches; (8) the failure to comply with laws or regulations relating to data privacy or data protection; (9) the inability to protect our proprietary technology and intellectual property; (10) the failure to manufacture and deliver products in a timely manner; (11) the inability to obtain, or the delay in obtaining, components for our products at reasonable prices; (12) the failure to effectively manage product transitions or accurately forecast customer demand; (13) the inability to manage disruptions to our distribution centers or to our key suppliers; (14) the inability to design and manufacture high-quality products; (15) the loss of, or curtailment of purchases by, large customers in the logistics, consumer electronics, or automotive industries; (16) potential impairment charges with respect to our investments or acquired intangible assets; (17) exposure to additional tax liabilities, increases and fluctuations in our effective tax rate, and other tax matters; (18) fluctuations in foreign currency exchange rates and the use of derivative instruments; (19) unfavorable global economic conditions, including high interest rates and fluctuating inflation rates; (20) business disruptions from natural or man-made disasters, such as fire, or public health issues; (21) exposure to potential liabilities, increased costs, reputational harm, and other adverse effects associated with expectations relating to environmental, social, and governance considerations; (22) stock price volatility; and (23) our involvement in time-consuming and costly litigation or activist shareholder activities. The foregoing list should not be construed as exhaustive and we encourage readers to refer to the detailed discussion of risk factors included in Part I - Item 1A of the Company's Annual Report on Form 10-K, and the other risks detailed in reports filed by the Company with the SEC. The Company cautions readers not to place undue reliance upon any such forward-looking statements, which speak only as of the date made. The Company disclaims any obligation to subsequently revise forward-looking statements to reflect the occurrence of anticipated or unanticipated events or circumstances after the date such statements are made.

Q1 2024 Overview

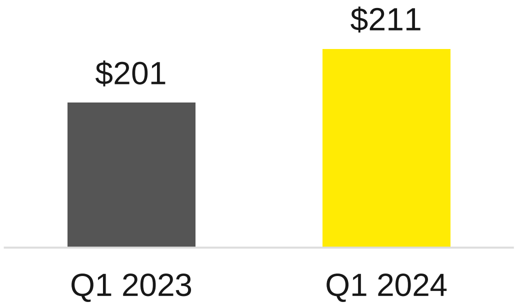
Continue to operate in a challenging, yet stable environment, while making progress on strategic initiatives.

- Reported revenue +5% Y/Y. Moritex (full quarter) added +8% Y/Y and +5% sequentially
- Ex. Moritex Y/Y: Logistics & Semi grew; Auto, Consumer Electronics, Packaging, & Medical-Related down
- Adjusted Gross Margin of 68.8% in line with expectations
  - Y/Y decline driven by a full quarter of Moritex as well as one-time events, including a large strategic logistics project with high-margin longer-term recurring revenue attached
  - Expect 1Q24 to be the low point for the year in Adjusted Gross Margin
- Adjusted EBITDA Margin of 11.9%; Y/Y decline in line with Adjusted Gross Margin decline and continued strategic investment in Emerging Customer initiative
- Expect 2Q24 revenue of $230-245 million (+10-15% sequentially), Adjusted Gross Margin of over 70%, and Adjusted Operating Expenses to increase low-to-mid-single-digits sequentially

Please see the appendix of this presentation for a description of certain Non-GAAP measures and a full GAAP to Non-GAAP reconciliation

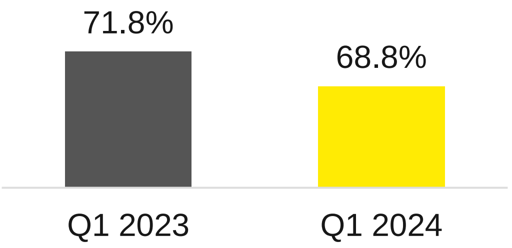
Q1 2024 Financial Highlights

Revenue (in $ million)



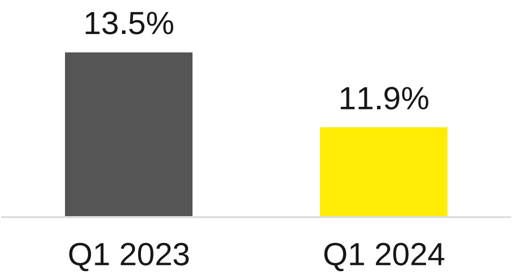
- Reported revenue +5%
  - F/X -1%
  - Moritex +8%
- Excluding Moritex, most factory automation markets declined; Logistics and Semi grew.

Adjusted Gross Margin (% of revenue)



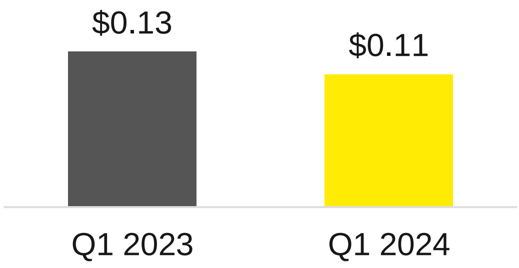
- Unfavorable
  - Full quarter of Moritex
  - One-time events in Q
- Expect 1Q24 to be the low point for the year in Adjusted Gross Margin

Adjusted EBITDA Margin (% of revenue)



- Strategic investment in Emerging Customer initiative
- Operating de-leverage

Adjusted Diluted EPS



- Decline driven by lower gross and operating margins

Please see the appendix of this presentation for a description of certain Non-GAAP measures and a full GAAP to Non-GAAP reconciliation

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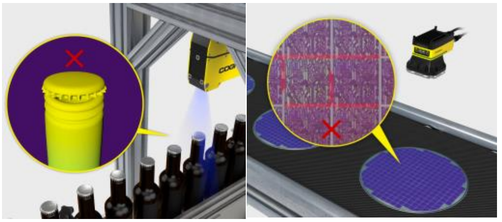
Q1 2024 End Market Results (Excluding Moritex)

	End Market	% of Revenue (as of FY2023)	Drivers
	**Automotive**	25%	⬇ Headwinds in both base Automotive and EV Battery
	**Logistics**	20%	⬆ Stable plus strong strategic project revenue
	**Consumer Electronics**	20%	⬇ Weakness in China ⬇ Slow end-user demand
	**Other**	35%	⬆ Semi ⬇ Medical-related ⬇ Other Packaging end markets[1]

1) Includes Consumer Products and Food & Beverage.

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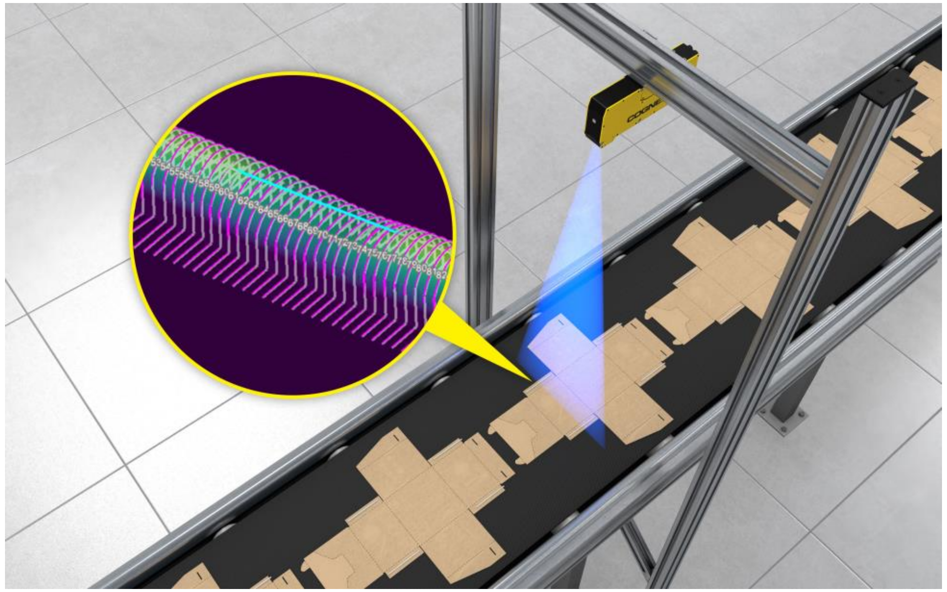
In-Sight L38 3D Vision Product Introduction

- World's First AI-Embedded 3D Industrial Vision System
  - Combines AI, 2D, and 3D vision technologies
  - Greatly simplifies the process of configuring 3D systems
  - Fast deployment, reliable performance, scalable software
  - Full press release

- Examples of Target Applications
  - Locate parts in variable positions and close proximity
  - Read imprinted text, even with minimal contrast
  - Find subtle defects on the surfaces of parts
  - Inspect for and classify multiple defects
  - Read text on low-contrast backgrounds
  - Measure glue on boxes to ensure consistent application (as shown below)



Emerging Customer Initiative Update

Program Highlights

- Expanding salesforce to reach underpenetrated customers
- Simplicity of new products driven by edge learning AI enables served market expansion
- Initiative is expected to be gross margin accretive immediately and in line with 30%+ adjusted operating margin target over long-term

2024 Expectations

- $50+ million revenue
  - Emerging Customer Salesnoid 2023 cohort is actively selling in the field and is expected to make 80,000+ customer visits in 2024
- ~$25 million Y/Y opex increase
  - Full-year of 2023 Emerging Customer Salesnoid cohort plus ramping of 2024 cohort
  - Partially offset by natural attrition and leverage of program initiation costs
- 2023 cohort expected to be accretive to FY2024 operating income $ on a stand-alone basis

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Outlook

Metric	Q2 2024
Revenue	$230 to $245 million
Adjusted Gross Margin	Slightly >70%
Adjusted Operating Expenses	Low- to mid-single-digit sequential increase
Adjusted Effective Tax Rate	16%

Full Year 2024 Expectations

- Continue to operate in a challenging, yet stable environment, but see early indications of recovery
- Logistics growth, but likely below long-term market growth
- Consumer Electronics revenue expected to be approximately in line with 2023, with continued uncertainty of project size and timing
- Semi market improving
- Moritex expected to contribute 6-8% of revenue
- Emerging Customers
  - >$50 million revenue
  - ~$25 million Y/Y increase in opex
- 1Q24 to be the low point for the year in adjusted gross margin
- Incentive compensation headwind of $15-20 million Y/Y

Non-GAAP Financial Measures

This presentation includes certain non-GAAP financial measures, including adjusted gross margin, adjusted operating expense, adjusted operating income, adjusted EBITDA, adjusted net income, adjusted earnings per share of common stock, diluted, adjusted effective tax rate, and free cash flow. Cognex defines its non-GAAP metrics as follows:

- *Adjusted gross margin*: Gross margin adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted operating expense*: Operating expense adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted operating income*: Operating income adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted EBITDA*: Operating income adjusted for amortization of acquisition-related intangible assets and depreciation, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire.
- *Adjusted net income:* Net income adjusted for amortization of acquisition-related intangible assets, as well as, if applicable, restructuring charges, acquisition and integration costs and other one-time discrete events, such as loss or recovery related to a fire or a foreign currency (gain) loss on a forward contract to hedge the Moritex purchase price.
- *Adjusted effective tax rate:* Effective tax rate adjusted for discrete tax items and the net impact of the other non-GAAP adjustments.
- *Free cash flow:* Cash provided by operating activities less cash for capital expenditures.

Beginning in the fourth quarter of 2023, we updated the calculation of our non-GAAP measures to exclude acquisition and integration costs and amortization of acquisition-related intangible assets. These changes have been applied retrospectively to the first quarter of 2023. Cognex also uses results on a constant-currency basis as one measure to evaluate its performance and compares results between periods as if the exchange rates had remained constant period-over-period.

Cognex believes these non-GAAP financial measures are helpful because they allow investors to more accurately compare results over multiple periods using the same methodology that management employs in its budgeting process, in its review of operating results, and for forecasting and planning for future periods. Cognex's definitions may differ from the definitions used by other companies and therefore comparability may be limited. In addition, other companies may not publish these or similar metrics. Furthermore, these measures have certain limitations in that they do not include the impact of certain non-recurring expenses that are reflected in our consolidated statement of operations that are necessary to run our business. Thus, our non-GAAP financial measures should be considered in addition to, not as substitutes for, or in isolation from, measures prepared in accordance with GAAP.

GAAP to Non-GAAP Tables

USD $ in 000s unless noted as per share

Reconciliation of Gross Margin to Adjusted Gross Margin

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Gross margin (GAAP)	$ 141,937	$ 135,044	$ 143,740
Acquisition and integration costs	1,568	2,882	-
Amortization of acquisition-related intangible assets	1,429	1,126	748
Adjusted gross margin	$ 144,934	$ 139,052	$ 144,488

Reconciliation of Operating Expense to Adjusted Operating Expense

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Operating Expense (GAAP)	$ 127,733	$ 122,315	$ 121,579
(Loss) recovery from fire	-	2,750	-
Acquisition and integration costs	(1,303)	(5,101)	(116)
Amortization of acquisition-related intangible assets	(1,384)	(1,053)	(194)
Adjusted Operating Expense	$ 125,046	$ 118,911	$ 121,269

Reconciliation of Operating Income to Adjusted Operating Income

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Operating Income (GAAP)	$ 14,204	$ 12,729	$ 22,161
Loss (recovery) from fire	-	(2,750)	-
Acquisition and integration costs	2,871	7,983	116
Amortization of acquisition-related intangible assets	2,813	2,179	942
Adjusted Operating Income	$ 19,888	$ 20,141	$ 23,219

Reconciliation of Operating Income to Adjusted EBITDA

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Operating Income (GAAP)	$ 14,204	$ 12,729	$ 22,161
Loss (recovery) from fire	-	(2,750)	-
Acquisition and integration costs	2,871	7,983	116
Amortization of acquisition-related intangible assets	2,813	2,179	942
Depreciation	5,279	4,713	3,986
Adjusted EBITDA	$ 25,167	$ 24,854	$ 27,205

USD $ in 000s unless noted as per share

Reconciliation of Net Income to Adjusted Net Income

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Net Income (GAAP)	$ 12,022	$ 11,229	$ 25,615
Loss (recovery) from fire	-	(2,750)	-
Acquisition and integration costs	2,871	7,983	116
Amortization of acquisition-related intangible assets	2,813	2,179	942
Discrete tax (benefit) expense	3,085	1,498	(3,594)
Tax impact of reconciling items	(1,354)	(1,134)	(184)
Adjusted Net Income	$ 19,437	$ 19,006	$ 22,895

Reconciliation of Earnings Per Share to Adjusted Earnings Per Share

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Earnings per share of common stock, diluted (GAAP)	$ 0.07	$ 0.07	$ 0.15
Loss (recovery) from fire	-	(0.02)	-
Acquisition and integration costs	0.02	0.05	-
Amortization of acquisition-related intangible assets	0.02	0.01	0.01
Discrete tax (benefit) expense	0.02	0.01	(0.02)
Tax impact of reconciling items	(0.01)	(0.01)	-
Adjusted earnings per share of common stock, diluted	$ 0.11	$ 0.11	$ 0.13

Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Effective tax rate (GAAP)	31.6%	21.8%	2.3%
Discrete tax benefit (expense)	-17.6%	-10.4%	13.7%
Net Impact of other reconciling items	2.4%	1.4%	0.1%
Adjusted effective tax rate	16.4%	12.7%	16.1%

Reconciliation of Cash Provided by Operating Activities to Free Cash Flow

	Three-months Ended		
	Mar. 31, 2024	Dec. 31, 2023	Apr. 2, 2023
Cash provided by operating activities (GAAP)	$ 13,643	$ 14,491	$ 27,553
Capital expenditures	(4,061)	(7,015)	(5,507)
Free cash flow	$ 9,582	$ 7,476	$ 22,046

Description of Certain Adjustments

Loss (recovery) from fire:

- On June 7, 2022, the Company's primary contract manufacturer experienced a fire at its plant in Indonesia. In the fourth quarter of 2023 the Company recorded a recovery of $2,750,000 for proceeds received as part of a financial settlement for lost inventory and other losses incurred as a result of the fire. Management does not anticipate additional recoveries.

Acquisition and integration costs:

- The Company has incurred charges related to the purchase and integration of acquired businesses. In the first quarter of 2024, these costs were primarily related to the ongoing integration of Moritex Corporation.

Amortization of acquisition-related intangible assets:

- The Company excludes the amortization of acquired intangible assets from non-GAAP expense and income measures. These items are inconsistent in amount and frequency and are significantly impacted by the timing and size of acquisitions, and include the amortization of customer relationships, completed technologies, and trademarks that originated from prior acquisitions. The largest driver of intangible asset amortization was the acquisition of Moritex Corporation.

Discrete tax (benefit) expense:

- Items unrelated to current period ordinary income or (loss) that generally relate to changes in tax laws, adjustments to prior period's actual liability determined upon filing tax returns, and adjustments to previously recorded reserves for uncertain tax positions, initially recording or fully reversing valuation allowances.

We estimate the tax effect of items identified in the reconciliation by applying the effective tax rate to the pre-tax amount. However, if a specific tax rate or tax treatment is required because of the nature of the item and/or the tax jurisdiction where the item was recorded, we estimate the tax effect by applying the relevant specific tax rate or tax treatment, rather than the effective tax rate.