

## DESK NOTE

29.04.2025

### **Cohu, Inc. (COHU US) – Weak Fundamentals and No Catalyst Make This a Stock to Avoid**

**Conclusive Summary:** We recommend **avoiding COHU at current levels** due to weak and deteriorating fundamentals, compounded by a lack of near-term catalysts.

The company is **heavily exposed to the automotive and industrial sectors, both of which are facing prolonged downturns**. While long-term opportunities in AI, high-bandwidth memory (HBM), and silicon carbide (SiC) could eventually support growth, they are not yet contributing meaningfully. **Financial performance has sharply declined since FY21**, with sales more than halving, operating margins falling from +15% to -19%, and free cash flow turning from 10% to negative. Inventory levels have more than doubled over the same period, signaling **weak demand and poor operational efficiency**. Combined with a persistently downward technical trend, the risk/reward profile remains unfavorable in the near term. Due to the persistently deteriorating fundamentals combined with the absence of reversal catalysts, we suggest avoiding COHU stock.

**Competitive Position:** operates in a competitive semiconductor equipment market, with varying positions across its product lines. It is a **niche player in Automated Test Equipment (ATE)**, competing with dominant providers Advantest and Teradyne, but has established strengths in RF and power management applications. Cohu holds a leading position in test handlers globally, supported by proprietary thermal technology, which enhances its ability to bundle solutions. In interface products, it is a top-tier supplier, with recent acquisitions bolstering its position in high-power applications. Its inspection and metrology systems offer differentiation through advanced 3D and crack detection capabilities, while its DI-Core software adds value through analytics and predictive maintenance.

**Valuation:** Using a combination of multiple and DCF valuations, **we reach a blended target price (TP) of \$20, representing a +20% upside** from current prices. COHU stock is trading at a 20-35% multiple discount to its 5-year averages on EV/Sales and P/BV metrics, while trading at about 2 standard deviations above its 5-year mean E/EBIT and EV/EBITDA multiples due to its deteriorating margins. As fundamentals do not show signs of improvement and the industrial/automotive sectors continue to lag the broader semiconductor market, **we suggest avoiding COHU at current levels and consider revisiting around \$12**.

**Ticker:** COHU US

Previous day close price: \$16.71

Price range (52w.): \$12.57 - \$36.60

Reason for note: Historically Depressed Valuation

Target price: \$20 (+20% Upside)

Recommendation: *Avoid*

**Description:** Cohu, Inc. (NASDAQ: COHU) is a global provider of equipment, software, and services used in semiconductor testing and inspection. Operating in a single segment—Semiconductor Test and Inspection—the company generates revenue through capital equipment sales and recurring products tied to its installed base.

**Capital Equipment Sales (51% of Revenue):** Cohu sells automated test equipment (ATE), semiconductor handlers, and inspection systems used to test chips at wafer and package levels. These sales are cyclical and driven by customer capex trends in the semiconductor industry.

**Recurring Revenue (49%):** This includes consumables like test contactors and spares, subscription-based software for analytics and process control, and services such as installation, maintenance, and training. Recurring revenue provides stability and is closely tied to system usage.

Cohu serves global customers including IDMs, fabless firms, and test subcontractors, with strong repeat business, including STMicroelectronics (12% of Revenue). Recent acquisitions expanded its recurring revenue capabilities, while divesting its PCB Test business sharpened its focus on semiconductor markets.

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Target Multiple Next 12 Months		Financial Metric	Target EV	Net Debt	Target MCap	Shares	Target Price
EV/Sales	1.5	402	688	-230	917	46.71	\$19.63
EV/EBITDA	12.5	46	577	-230	807	46.71	\$17.27
EV/EBIT	20.0	37	738	-230	967	46.71	\$20.71
Avg. Multiple Price							\$19.21
Avg. DCF Price							\$20.24
Avg. Multiple & DCF Price							<b>\$19.72</b>

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### Quarterly Earnings Preview:

COHU	Expected Report Date		Next FY End	Preview Date
COHU INC	5/1/2025	23:00	12/28/2025	4/29/2025
Targets	DPRG	20	Street	27.75
Current Price/ Upside	16.71	19.7%		66.1%
Quaterly Preview		Last Q Report		
Last Close	Estimate	2/13/2025		
16.81	Q1	2024 Q4		Year Ago
			% Surprise	
Sales, \$ mil.	97	94	-1.03%	108
growth	qoq	2.7%	yoy	-10.2%
EBITDA, \$ mil.	1	-9	-170.29%	2
growth	qoq	-105.9%	yoy	-75.6%
Net Income, \$ mil.	-8	-21	-34.27%	-12
growth	qoq	-62.1%	yoy	-34.0%
EPS, \$	-0.17	-0.45	-30.43%	-0.25
growth	qoq	-63.0%	yoy	-34.6%
EPS GAAP, \$	-0.48	-0.46	-18.86%	-0.31
growth	qoq	3.7%	yoy	53.9%
Valuation	Current	-1STD	Average 2Y	+1STD
EV to Forward 12M Sales	1.19	1.64	2.00	2.37
EV to Forward 12M EBITDA	11.72	9.98	15.78	21.58
Price to Forward 12M EPS	69.16	-6.39	41.06	88.50
EV/Sales	Underpriced			
EV/EBITDA	Slightly Underpriced			
PE	Slightly Overpriced			
Total Rating on Valuation	Slightly Underpriced			
Company Guidance	1Q25	4Q24	1Q24	Date of guidance
Sales	97	94	108	2/13/2025
	growth	3.1%	-9.9%	
Gross Margin	44.0%	41.5%	45.8%	

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