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TTMI.OQ - Q4 2023 TTM Technologies Inc Earnings Call

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## PRESENTATION

### Operator

Good morning. Thank you for standing by, and welcome to the TTM Technologies Fourth Quarter and Full Year 2023 financial results conference call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. If you would like to ask a question, please press star one on your telephone. You will then hear an automated message advising that your hand has been rate. If you would like to remove yourself from the queue, press star one.

Again.

As a reminder, this conference is being recorded today, February seventh, 2024. Sameer Desai, TTM's Vice President of Corporate Development and Investor Relations, will now we view TTM's disclosure statement.

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### Sameer Desai - TTM Technologies Inc - Analyst

Thank you. Before we get started I would like to remind everyone that today's call contains forward-looking statements, including statements related to TTM's future business outlook. Actual results could differ materially from these forward-looking statements due to one or more risks and uncertainties, including the risk factors who provide in our filings with the Securities Exchange Commission, which we encourage you to review. These forward-looking statements represent management's expectations and assumptions based on currently available information. Ttm does not undertake any obligation to publicly update or revise any of these forward-looking statements, whether as a result of new information, future events or other circumstances, except as required by law.

We will also discuss on this call certain non-GAAP financial measures such as adjusted EBITDA. Such measures should not be considered as a substitute for measures prepared and presented in accordance with GAAP. And we direct you to the reconciliations between GAAP and non-GAAP measures included in the Company's earnings release, which was which is available on the Investor Relations section of TTM's website at investors dot TTM.com. We also have posted on that website, a slide deck, which we will refer to during our call. I will now turn the call over to Tom Edman, TTM's Chief Executive Officer. Please go ahead, Tom.

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### Tom Edman - TTM Technologies Inc - President and CEO

Thank you, Sameer. Good morning and thank you for joining us for our fourth quarter and full year 2023 conference call.

I'll begin with a review of our business highlights from the quarter and a discussion of our fourth quarter results, followed by a summary of our business strategy. Dan Bailey, our CFO, will follow with an overview of our Q4 2023 financial performance and our Q1 2024 guidance. We will then open the call to your questions.

The quarter's results are also shown on slide 4 of the investor presentation posted on TTM's website. We delivered a strong finish to the year despite the current uncertain macroeconomic environment, and I would like to thank our employees for their hard work and contribution to generating these results.

In the fourth quarter of 2023, non-GAAP earnings per share were above the high end of the guided range due to excellent operating performance and favorable product mix. Revenues were within the previously guided range due to better than expected results from our aerospace and defense and data center computing end markets, which was offset by lower than expected results from our medical, industrial and instrumentation and automotive end markets. Demand in our aerospace and defense market, which was 46% of revenues for the quarter, continues to be solid, with continued strong backlog, offset by weaker demand in some of our commercial end markets. For the full year 2023, revenues declined 11%, driven by the downturn in commercial end markets, offset by growth in the aerospace and defense end markets. While full year. Non-gaap operating margins were down year on year, driven by the revenue decline. Q4 operating margins were actually up year on year despite the revenue headwinds. Full year cash flow from operations was \$187.3 million, enabling us to strengthen our balance sheet while returning some of the capital to shareholders. In addition, we refinanced our term loan, an asset-based loan, improving the tenor with the first maturity date out to 2028.

I would now like to provide a strategic update. Ttm is on a journey to transform our business to be less cyclical and more differentiated over the past several years. Ttm has consistently emphasize that a key part of our strategy is to add value to the product solutions that we deliver to our customers, particularly in the aerospace and defense market. As a result of strategic moves with the A. and D. acquisitions of andarine and Telephonics since 2018, over 50% of our A&D revenues are now being generated from engineered and integrated electronic products with PCBs being less than 50% of the overall contribution.

Another important element of our differentiation strategy is our investment in a new state-of-the-art, highly automated PCB manufacturing facility in Penang, Malaysia. The decision to build this new factory is a direct response to our customers' increasing concerns about supply chain resiliency and regional diversification, and in particular, the need for advanced multilayer PCB manufacturing options in locations outside the Greater China region. The new facility in Malaysia will support customers in our commercial markets such as networking, data center computing and medical, industrial and instrumentation. We continue to make progress on the Malaysian facility with all major processes now running, and we are currently sampling product to customers for qualification.

I'd also like to update you on the consolidation of our manufacturing footprint. We previously announced our plan to close three small manufacturing facilities in order to improve total plant utilization, operational performance, customer focus and profitability during the course of 2023, PCB manufacturing operations in Anaheim and Santa Clara, California and Hong Kong were closed and consolidated into TTM. remaining facilities. We ceased production at our Hong Kong manufacturing facility during the second quarter. Anaheim in the third quarter and Santa Clara at the end of 2023, we are presently ramping production for the transferred parts and receiving facilities throughout our North America footprint.

Finally, I would like to update you on the previous announcement of our intent to expand our advanced technology capability for the aerospace and defense market through the construction of a new facility immediately adjacent to our Syracuse New York campus. Our proposed new facility will bring disruptive domestic production of high technology, Ultra HDIPCV.s in support of national security requirements. This new facility is expected to focus on high-technology PCB production in North America, providing customers with reduced lead times and a significant increase in domestic capacity for Ultra HDIPCV. provided, we are able to complete discussions with various stakeholders regarding their support for this facility. We anticipate that we will be prepared to break ground in the first half of 2024 with initial production within 18 months after groundbreaking Phase one of the proposed project, including capital for campus-wide improvements, is estimated to be 100 to 130 million and is anticipated to run through 2026 with TTM's final capital investment commitments determined after finalizing terms with various stakeholders.

Now I'd like to review our end markets, which are referenced on page 4 of the earnings presentation on our website.

The aerospace and defense end market represented 46% of total fourth quarter sales compared to 40% of Q4 2022 sales and 45% of sales in Q3 2023. The solid demand in the defense market is a result of a positive tailwind in previous defense budgets, our strong strategic program alignment and key bookings for ongoing franchise programs. At the end of the fourth quarter, our A&D program backlog was 1.3 billion during the quarter, we saw significant bookings for a key restricted program. We expect sales in Q1 from this end market to also represent about 46% of our total sales coming off a seasonally high Q4 for the full year.

Aerospace and defense revenues grew 17%, primarily due to a full year of Telephonics in 2023 compared to six months in 2022. Excluding that impact, organic growth was 6%. In 2024, we expect end market growth to be above longer-term market projections of 3% to 5%. Sales in the data center computing end market represented 17% of total sales in the fourth quarter compared to 14% in Q4 of 2022 and 17% in the third quarter of 2023. This end market performed better than we expected and saw 15% year-on-year growth due to strength in our data center customers. Building products for regenerative AI applications. We expect revenues in this end market to represent approximately 17% of first quarter sales. For the full year, data center computing declined 16% due to inventory corrections for semiconductor and data center customers early in the year, following 17% growth in 2020 to 25% growth in 2021 and 9% in 2020 and 2024, we expect to be above the longer-term end market growth of 4% to 7%, driven primarily by generative AI applications. The medical industrial instrumentation end market contributed 16% of our total sales in the fourth quarter compared to 17% in the year ago quarter and 16% in the third quarter of 2023. The year-over-year decline was caused primarily by inventory reductions at a number of our customers, particularly in the industrial and instrumentation areas. For the first quarter, we expect MINI to be 16% of revenues. For the full year, MINI declined 25% due to the inventory correction at many customers and weak demand from semiconductor test companies following 16.7% growth in 2020 to 11.5% growth in 2021 and 12.4% growth in 2020, well above industry forecasts, three years in a row as we took advantage of megatrends and faster faster-growing subsegments of this end market in 2024, we expect growth to be in line with the 2% to 4% longer term industry forecast for this end market. Automotive sales represented 15% of total sales during the fourth quarter of 2023 compared to 16% in the year ago quarter and 15% during the third quarter of 2023. Year over year decline for automotive was due primarily to continued inventory adjustments at several customers. We expect our automotive business to contribute 14% of total sales in Q1 due to typical seasonality in the first quarter from the lunar new Year and ongoing demand softness for the full year, automotive decreased 16% due to the inventory correction that automotive customers in 2023 advanced technology was 36% of our automotive end market compared to 31% in 2022 due to strong growth in our HDI. and RADAR product areas. In 2023, we won new designs with a lifetime value of 608 million compared to 530 million in 2022. Designs that we are winning this year will contribute to revenues in future years. We expect this market in 2024 to be below longer-term forecasts of 3% to 5% as customers continue to adjust inventories in light of ongoing demand softness, networking accounted for 6% of revenue during the fourth quarter of 2023. This compares to 13% in the fourth quarter of 2022 and 7% of revenue in the third quarter of 2023. Demand was softer as customers continue to focus on inventory digestion as well as weak end market demand. As a reminder, the Shanghai backplane business, which we sold in our second quarter contributed approximately 12 million sales in this segment in the fourth quarter of 2022. In Q1, we expect this end market to be 7% of revenues. For the full year, networking declined 46% due to inventory correction at both networking and telecom customers as well as weak demand at telecom customers. In addition, we sold the Shanghai BPA facility in Q2 of 2023 that had 45 million revenues in 2022 compared to 8 million in 2023. We expect this market to be below longer-term forecast of 2% to 5% growth in 2024 due to the softer start of the year.

And next, I'll cover some details from the fourth quarter. This information is also available on Page 5 of our earnings presentation. During the quarter, our advanced technology and engineered products business, which includes HDI, rigid-flex, RF subsystems and components and Engineered Systems accounted for approximately 47% of our revenue. This compares to approximately 39% in the year-ago quarter and 47% in Q3. We are continuing to pursue new business opportunities and increase customer design engagement activities that will leverage our advanced technology and engineered products capabilities in new programs and new markets.

Pcb capacity utilization in Asia Pacific was 51% in Q4 compared to 69% in the year-ago quarter and 46% in Q. three. Our overall PCB capacity utilization in North America was 35% in Q4 compared to 41% in the year ago quarter and 38% in Q. three. The lower year-over-year rate in Asia Pacific was caused by a decline in production volumes, while the lower year-over-year rate in North America was due to additional plating capacity added as well as a greater mix of higher technology product that requires less finished plating. As a reminder, North America utilization figures are not as meaningful as Asia Pacific, because bottlenecks in these volume facilities tend to occur in areas outside of plating, which is the core process that we use in calculating utilization rates. Our top five customers contributed 44% of total sales in the fourth quarter of 2023 compared to 43% in the third quarter of 2023. We had two customers over 10% of our total sales in the quarter. At the end of Q4, our 90 day backlog, which is subject

to cancellations, was 575.9 million compared to 603.1 million at the end of four of the fourth quarter last year. Our book-to-bill ratio was 0.88 for the three months ended January first.

Now Dan will review our financial performance for the fourth quarter. Dan?

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**Dan Weber** - TTM Technologies Inc - EVP, CFO

Thanks Tom, and good morning, everyone. I will review our financial results for the fourth quarter that were included in the press release distributed today as well as on Slide 6 of the earnings presentation posted on our website.

For the fourth quarter, net sales were \$569 million compared to 617.2 million in the fourth quarter of 2022. The year-over-year decrease was due to declines in our automotive, medical, industrial and instrumentation and networking end markets, partially offset by growth in our data center computing and aerospace and defense end markets. The sale of our BPA facility in Q2 2023, as well as the previously announced PCB plant consolidation also contributed to the decline in net sales. For the full year, net sales were \$2.2 billion compared to \$2.5 billion in 2022. The 11% decline was driven by declines in our commercial markets, partially offset by growth in our aerospace and defense end market and a full year of the Telephonics acquisition. The sale of the WPA. facility in Q2 2023, as well as the previously announced PCB plant consolidations also contributed to the decline in net sales.

Gaap operating income for the fourth quarter of 2023 was \$34.6 million. Gaap operating income for the fourth quarter of 2022 was \$97.6 million and included a gain of \$51.8 million in December 2022 from the sale of the property occupied for us from our former Shanghai EMS entity.

On a GAAP basis, net income in the fourth quarter of 2023 was \$17.3 million, or \$0.17 per diluted share. This compares to GAAP net income of \$6 million or 6% to two per diluted share in the fourth quarter of last year. The remainder of my comments will focus on our non-GAAP financial performance. Our non-GAAP performance excludes M&A related costs, restructuring costs, certain noncash expense items such as amortization of intangibles, impairment of goodwill and stock compensation gains on the sale of property and other unusual or infrequent items. We present non-GAAP financial information to enable investors to see the company through the eyes of management to facilitate comparisons with expectations and prior periods.

Gross margin in the fourth quarter was 21.3% and compares to 19.8% in the fourth quarter of 2022. The year-on-year increase was due to a more favorable product mix and improved execution in the North America region, partially offset by lower sales volumes and less premium in our commercial markets.

Selling and marketing expense in the fourth quarter were 3.1% of net sales versus \$18.8 million or 3.0% of net sales a year ago. Fourth quarter G&A expense was \$34.9 million or 6.1% of net sales compared to \$37.4 million or 6.1% of net sales in the same quarter a year ago. In Q4 2023, research and development was \$7.3 million or 1.3% of net sales compared to 6.4 million and 1% in a year ago quarter. Our operating margin in Q4 was 10.7%, which compares to 9.7% in the same quarter last year. Interest expense was \$12.9 million in the fourth quarter compared to 12.0 million in the same quarter last year. During the quarter, there was a negative 7.0 million foreign exchange impact below the operating income line, government incentives and interest income of \$3.6 million resulted in a net 3.4 million loss were a \$0.03 negative impact to EPS. This compares to a net loss of 2.0 million or a \$0.02 impact on EPS in Q4 last year. Our effective tax rate was 4.1% in the fourth quarter, resulting in tax expense of \$1.9 million, which compares to a tax rate of 6.5% for tax expense of 2.9 million in the prior year. Fourth quarter net income was \$43.0 million or \$0.41 per diluted share. This compares to fourth quarter 2022 net income of \$42.7 million or \$0.41 per diluted share. Adjusted EBITDA for the fourth quarter was 80.9 million of 14.27% of net sales compared with Q4 2022 adjusted EBITDA of \$81.6 million or 13.2% of net sales.

Depreciation for the fourth quarter was \$25.1 million. Net capital spending for the quarter was 46.0 million. Cash flow from operations in the fourth quarter of 2023 was \$47.5 million. We repurchased 784,000 shares of common stock for \$9.8 million at an average price of \$12.52 per share. Cash and cash equivalents at the end of 2023 totaled \$450 million. Our net debt divided by last 12 months EBITDA was 1.6 times at the low end of our targeted range of 1.5 to 2 times. For the full year, cash flow from operations was \$187.3 million or 8.4% of net sales. Free cash flow for the full year was \$27.5 million or 1.2% of net sales as we invested in our main facility.

Now I will turn to our guidance for the first quarter of 2024. We project net sales for the first quarter of 2024 to be in the range of \$530 to \$570 million and non-GAAP earnings to be in the range of \$0.24 to \$0.3 per diluted share, which is inclusive of costs associated with starting up our funding facility. The EPS forecast is based on diluted share count of approximately 104 million shares, which includes the dilutive effect of outstanding stock options and other stock awards. We expect SG&A expense to be about 9.9% of net sales in the first quarter and R&D to be about 1.2% of net sales. We expect interest expense of approximately \$12.3 million and interest income of approximately \$2 million. Finally, we estimate our effective tax rate to be between 12% and 16%. Further, we expect to record depreciation of approximately \$25 million, amortization of approximately 14 million, stock-based compensation expense of approximately \$5 million and non-cash interest expense of approximately \$0.5 million.

And finally, I'd like to announce that we were participating in the Cowen Aerospace and Defense Conference in Washington, D.C. on February 13th, the JPMorgan Global High Yield and Leveraged Finance Conference in Miami on February 27th, and the JPMorgan Industrials Conference in New York on March 12th.

That concludes our prepared remarks. Now we'd like to open the line for questions.

Operator?

## QUESTIONS AND ANSWERS

### Operator

Thank you. As a reminder, if you would like to ask a question, please press star one on your telephone as well. Please wait for your name to be announced before you proceed with your questions.

One moment while we compile the Q&A roster. Our first question for today will come from Jim Ricchiuti of Needham & Company. Your line is open.

### Jim Ricchiuti - Needham & Company LLC - Analyst

I think you have good the good morning. I was on the automotive side, Tom, any sense as to the duration of this inventory drawdown that you're seeing with the Tier ones? And to what extent are you seeing some weakness also just on some of the softness on the EV side in the US in Europe. Are you seeing any signs of that?

### Tom Edman - TTM Technologies Inc - President and CEO

Yes.

Thanks, Joe. So overall, on automotive, this is one of the markets that I think is relatively soft. We are seeing year-on-year declines in all three major regions, particularly in Asia. And just as a reminder, we tend to in China our volume tends to go to joint ventures that are that are joint ventures of Tier ones, Western World Tier ones, if you will, in China. So I think they are feeling the impact there on EVs. And if you look into the Americas and Europe, less. So I think we're still seeing a better demand climate there, though it is still down year on year. So certainly a combination of ongoing demand, some demand softness and ongoing inventory controls as customers adjust their forecasts. So hopefully that gives you it gives you an answer there, Jim?

### Jim Ricchiuti - Needham & Company LLC - Analyst

Yes, that's helpful. And Dan, maybe a question for use as my follow up, Tom, and I apologize, you may have referenced it, but can you as we think about the scale up in Penang, how much of a headwind is that in Q1 to gross margins? And maybe how does that how do you see that easing as we go through the year?

**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

Sure.

Thanks for the question.

We did see.

So historically, we were in 2023, you mentioned about 30 to 50 basis points headwind on M&A and that is pretty much what we experienced through the end of the year going into the new year in 2024.

It's got a little bit higher than that.

Probably going to be about 50 to 75 basis points for the first half of the year and then easing towards the end, we think will breakeven towards Q4, although that might slip into Q1 of next year. But we do see them headwinds for 50 to 70 basis points for the first half of the year and an easing in the second half.

**Jim Ricchiuti** - *Needham & Company LLC - Analyst*

Got it.

Thank you. I'll get back in the queue.

**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

Canadian.

**Operator**

Thank you, McLaren. Next question and our next question will be coming from Mike Crawford of B. Riley Securities.

**Mike Crawford** - *B Riley Securities Inc - Analyst*

Your line is open, but do you in your data center end market, how much of that vertical revenue would you attribute to generative AI and who are your customers there?

**Tom Edman** - *TTM Technologies Inc - President and CEO*

Yes. So we don't we don't talk about specific customers, but let me answer your general question there. The generative AI continues to be to grow as a portion of the data center computing end market. So you can probably remember that that traditionally we've looked at this end market as being Yes, slightly over 50% data center, slightly less than 50% semiconductor today with the semiconductor softness, combined with the strength we're seeing in data center, you're looking at really close to 75% data center demand, 25% semiconductor and of that data center. We're well over now 50% of that data center being generative AI driven, and that's, I think, a function of really strong demand for generative AI as well as perhaps some shift in cap capital expenditures away from traditional data center to two more generative AI. So I so we're just seeing a combination there but certainly our terrific guys strength, ongoing strength in that generated a high portion of the data center computing end market for us.



**Mike Crawford** - *B Riley Securities Inc - Analyst*

Okay. Thanks, Tom. And then shifting gears and I know you don't like to talk about customers by name, but in a recent blog posts, you referenced a radar screen emulator that that's a product of Keysight Technologies that you worked with them to design and supply. And I'm just wondering how many other types of engagements like that where you're really getting in early with the customer to help not only win business, but design product before you win that business?

**Tom Edman** - *TTM Technologies Inc - President and CEO*

Yes. Thank you, Mike. As you know, it's really it is absolutely a critical part of our strategy. And if you look at how we've deliberately built our defense portfolio product portfolio. It really is all about that early engagement and working with our customers on the defense side of our business, which now of course, is close to 50% of the business, working very closely with the customers as they start to develop specifications for programs and that that involvement some critical to us as we look at radar systems for sure. But as we've gotten more involved with customers at the engineering level, as they look at specifications, that engagement, of course, crosses into other programs as well. So I'm really pleased with how that strategy is developing on the aerospace and defense side of the business on the commercial side of the business, as you as you highlighted, they're also really critical as a differentiator for TTM. We like to engage with the engineers engaged with the engineers as they're developing their requirements, and that's becoming more and more critical, right as they as they start to drive speeds right there, they're driving higher and higher speeds that is intended. And they're also looking at shrinking real estate right in terms of number of lines and spacing density and becoming critical to them in order to populate more and more components onto the printed circuit board. And they as they as they drive those elements of the technology. They're also starting to see that there that there are potential limitations on the printed circuit board side that they need to work very closely with a supplier such as TTM around that combination of lines and spacing, material choices that they make and then the ability to provide the kind of durability in product architecture that most of our applications require. And so that combination requires intimacy right from a customer standpoint. So we are very involved now with the as with the engineers at our customers. That's a critical part of our commercial strategy as well.

**Mike Crawford** - *B Riley Securities Inc - Analyst*

Okay, thank you. And then as a final question, I know you've just provided 1Q guidance, but that is for the year, CTSI grows the top line low single digits. And I know there's a lot of moving parts with Penang and Syracuse, but who would you expect working capital to be it drives free cash flow or to what extent.

**Tom Edman** - *TTM Technologies Inc - President and CEO*

So I'll have Dan answer the specific working capital question.

I just wanted to highlight if you looked at if you look at revenues. And starting with Q4, remember that we were we were closed. We've been closing plants and shifting production freight and also that we sold our Shanghai BPA assembly facility. So if you look at the combined impact of the closed plants and the BPA facility in the fourth quarter, that was about 25 million, right in the first quarter. We're looking at a combined impact of about 27 million. So if you look at our at our guidance, pick the midpoint, you would see that that we're growing about 5% year on year if you exclude those factors. And so that that's really at a critical point here now we are in the process of ramping the receiving plants, but that takes time as we finish qualifications and begin ramp. So in the meantime, there's a little bit of trough on revenue there. And then through the course of the year, where as we have moved equipment and are ramping at the receiving facilities will be really removing that, that slight revenue drag.

So I just wanted to highlight that on the revenue side, Dan, that working capital and.

**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

Sure.



Thank you.

You know, obviously with revenue increasing, yes, you will you should have a relative increase in working capital.

And Howard, right. We have challenged ourselves a bit to reduce our overall working capital as we go into the next year as we budgeted this current year.

And BCAR. kind of went up quite a bit at year end. Some of that was some deliveries in our IE. area and A. and D., so some So if they are not quite up quite a bit. So we meet monthly to kind of manage that. And we're really pushing hard to reduce where we can our AR balance. We manage our inventory appropriately and then push out our average payable days to the extent we can as well. So we're really working that down hard this year, I believe, like I said, it'll Yes, normally, we'll go off with revenue increases but I think we're a little high now and we're going to challenge ourselves to bring working capital down a bit and increase our cash flow to get back to that target of 10% cash on 10% of revenues in our cash.

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**Mike Crawford** - *B Riley Securities Inc - Analyst*

Great.

Thank you very much.

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**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

Thank you.

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

Thank you.

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**Operator**

Thank you. One moment for our next question and our next question will be coming from William Stein of Truist Securities. Your line is open.

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**William Stein** - *Truist Securities Inc - Analyst*

Great.

Thanks for taking my questions. First, I just want to recognize you already answered the question on inventory where I mistaken, we had too high in inventory days calculation of my note, apologies for that. The question, the questions relate to two areas. First, you're guiding overall revenue for the business, both you now and you gave the details by end market, but it's still fairly remarkable to me considering what everyone else in the tech supply chain, especially in semis is doing now and any insight as to how you're able to be guiding like this given the way everyone else is still seeing a pretty some significant correction.

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

Survey Thank you for the question.

Well, the of So I think first of all, recognizing that that of course, A. and D. is roughly 46%, 47% of revenue and so there, if you're you know, if you're looking sequential, we're down slightly and that's mainly just as we yes, Q4 tends to be a seasonally high quarter for us in that in that A. and D. market. So that let's just say that that deal there that was set that one aside. So now we're really talking about the commercial market. And certainly with TTM is as we look at a data center, that continues to be a big driver that that generated a high demand. So that that is that's very helpful. We do have Chinese New Year, as you know. And so sequentially, we're always going to be down in commercial Q4 to Q1 as plants as we shut down plants and Chinese New Year. And in that general semi area, of course, we're trying to operate as much as we can during Chinese New Year. So that that accounts for a little bit, certainly from a TTM perspective of why that drop might not be as great a Q4 to Q1 from automotive. I think you're seeing that and with others as well is down sequentially a little bit more than just the Chinese New Year factor. And then if you look at medical industrial instrumentation, we're just seeing medical holding up pretty well in Q1 and into portions of instrumentation getting a bit better as well. So that's how and remember there that our North America footprint does play an important role. So And so while we're shutting down in China, we are operating in our North America facilities. And so able to mitigate that again, a little bit of that, that sequential decline.

And then finally, in the networking area, we're relatively flattish. I'm glad to see that. I think that for us, that's a function of some of our networking customers now still dealing with inventories. We expect that to continue through the first half, but at least they sort of hit bottom and starting to see a little bit better demand there. So again, hard for me to comment on others will. But hopefully that gives you a flavor of what of what we're seeing.

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**William Stein** - *Truist Securities Inc - Analyst*

And then my follow-up, I'd like to ask about the margin improvement that we're seeing. You beat in Q4, you're guiding nicely, but consensus in Q1. Can you talk about margin improvement? If I'm if I were to split it bluntly into two categories. One is sort of the product mix and the growth in non AI applications, which I'm sure is helping, but I know there's a lot of self-help going on as well restructuring and such. Can you potentially divide it into those two buckets, which one is having a greater impact on your business.

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**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

So between the data center generator of AI improvements versus closure of last year's closure of the facilities. Is that where you where you're at?

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**William Stein** - *Truist Securities Inc - Analyst*

Yes.

And any other changes that are more company specific or operations specific as opposed to me?

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**Dan Weber** - *TTM Technologies Inc - EVP, CFO*

Well, I think well, in North America A. and D., the integrated electronics business has expanded their margins quite a bit. This is the first full year that we've had Telephonics in our business. We've worked hard on the supply chain there. And we've also increased and improved our pricing on those products to run to get much better margins on the integrated electronics business. And that's obviously, a strategic focus to us, as Tom mentioned, and the earlier, we can get involved and engaged in engineering and helping our customers that's more value value-added work, right? So that's been strong. I'd say we had across North America and our PCB business also just very good productivity this year on better productivity than we had last year. So keeping good flow through the factories and getting good at getting efficiencies that way. And then on we probably had. So those are probably the two largest drivers. So it's more operational and we did have a DB accretion, as you mentioned, good, some good improvement from the generative, a commodity mix, but that you have in that more than offset some of the softness in those commercial markets, the other commercial markets. But I'd say net-net, you know, that wasn't the largest driver, but certainly that continued strength going forward. And then probably in the last bit of that was just yet the drag that we had from the three plants that we closed down that did improve this year. You have in Q1, Q1 go into Q1 versus last year, probably about 5 million of improvement just from that.

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**William Stein** - *Truist Securities Inc - Analyst*

Thank you.

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

And just one additional highlight a number that Dan, earlier answer to Jim's question regarding Penang. So that so we are seeing those improvements in it as we ramp Penang and take on additional headwinds.

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**William Stein** - *Truist Securities Inc - Analyst*

Great.

Thank you.

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**Operator**

Thank you. One moment for the next question. And our next question will be coming from Matt Sheerin of Stifel. Your line is open.

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**Matt Sheerin** - *Stifel Nicolaus & Company Inc - Analyst*

Yes, thank you. A question regarding the expansion in Malaysia. Could you remind us what the revenue capacity will be as you ramp in and what would look like fully ramped? And is that how much of that is incremental revenue versus some production shifting from China or other areas?

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

Sure. So we're looking at full capacity, which we won't reach until next year, we're looking at it somewhere between 180,000,200 million dollars. And that depends on product mix, of course, in the facility. So that you think about, you know, roughly 15, that percent or so being at least as we plan this coming from a shift out of China into Penang. I would like to highlight that our China facilities where we do the most advanced technology work. So the sooner we can get Penang up and running and shift that production, the better it is for us from a standpoint of serving that that generates a high demand. And so we certainly are driving to get Penang up as soon as we can. But we have to make sure that ensure that we have the right kind of quality performance and the right quality systems in place as a as we go through that ramp. But that's roughly the order of magnitude, Matt. And again, hitting full capacity, we're going to be continuing that ramp as we go through the course of next year, but hitting that full capacity level by the end of next year.

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**Matt Sheerin** - *Stifel Nicolaus & Company Inc - Analyst*

Okay.

I'm sorry.

Was that was that one 5% or 5%?

**Tom Edman** - *TTM Technologies Inc - President and CEO*

One five.

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**Matt Sheerin** - *Stifel Nicolaus & Company Inc - Analyst*

One five.

So the rest would be new program wins?

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

That's correct.

Yes. So remember, the facility is that as designed is targeted at 16 to 18 layers. And that layer count is what we think of as standard technology. We don't do all that much standard technology now and in our China plant. So that's what we're opening up as a supply chain resiliency opportunity for our customers to move that product from other suppliers to our Penang facility. That's the major goal.

Now how to help with startup? That's where that 15% boost confidence that we are there. They're allowing us to move some product out of out of China into Penang. But it's the bulk of this is a combination of new programs and existing programs that may be that our customers are looking to move out of China into a non-China production facility.

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**Matt Sheerin** - *Stifel Nicolaus & Company Inc - Analyst*

Got it. Okay.

Thank you for that. And then regarding the plans to expand in Syracuse. You said that some of the expansion plans is contingent on stakeholders sort of buying in and I'm not sure exactly what you mean by that. Does that mean that you need to have certain purchasing commitments or any co-investments on what do you mean by that?

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

So really, we're looking primarily for us the customer, very the customers very supportive based on long-term agreements when we're in good shape there. We just as we look at that, that CapEx requirements, particularly as we look at potential government funding, we need to make sure that that our time line is in sync with the potential for ag for government funding, I and that and also that we make sure that we're in sync with customer requirements in terms of ramp schedule. So that's really what we're talking about now.

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**Matt Sheerin** - *Stifel Nicolaus & Company Inc - Analyst*

Got it. Okay.

All right.

Thanks very much.

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**Tom Edman** - TTM Technologies Inc - President and CEO

Thank you.

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**Operator**

Thank you.

And we have a follow-up question coming in.

There will be a follow-up question from Jim Ricchiuti of Needham & Company. Your line is open.

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**Jim Ricchiuti** - Needham & Company LLC - Analyst

John, you referenced I think a sizable booking on the defense side, and I think you said it was related to a restricted program, but I'm wondering, can you say or did you say whether that relates to the legacy and the TTM defense business or was that in relation to the Telephonics business?

Can you say that.

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**Tom Edman** - TTM Technologies Inc - President and CEO

I really can't Jevic.

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**Jim Ricchiuti** - Needham & Company LLC - Analyst

Okay.

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**Tom Edman** - TTM Technologies Inc - President and CEO

You're correct. I did not say that, but yes, as a large booking, unfortunately, we just we just can't disclose the product type or the exact program that we're involved in there.

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**Jim Ricchiuti** - Needham & Company LLC - Analyst

Got it.

Understand up moving to the MI business.

Follow-up question is yes, you're clearly seeing some weakness. You've been seeing weakness in the instrumentation side of that business related to semi. Is that this is kind of at a trough level, do you think? Because we are I think many of us are anticipating an upturn in the semi cap side of the business over the next couple of quarters, but I'm wondering what your take is on that.

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**Tom Edman** - TTM Technologies Inc - President and CEO

Yes, sure. And I did want to just to complete the thought on A. And B, I just did want to highlight we are down slightly on program backlog. So we're at 1.33 billion to be exact in terms of program backlog, that's down from 1.35 billion at the end of last quarter. So it's still holding up very

well. And we're looking at what should be a pretty a pretty strong first half year as we look at program booking opportunities in A. and D. on the MI side?

Yes. So what I'm saying, Jim and remember, we're looking at test and burn-in board requirements. So slightly different in a different cycle than the traditional large, you know, large semiconductor capital equipment requirements. Of course, we service those equipment companies as well. But it's a smaller portion of that instrumentation piece and so we tend to be a little bit up front end there as customers start to invest in new generation of capability. They need that test and burn-in board base to for their for their equipment.

So what I can tell you, Jim, is certainly I think we we've hit trough there. We're again seeing some activity there that are good that are good indicators and I agree with how you characterized it. I expect that there would be more momentum towards the back half of the year. And certainly as we look at the larger process equipment requirements and which right now are in that trough. I wouldn't expect to see that until that kind of demand until Q4 ish. But in the meantime, tests and burn-in board requirements, which go into the test and measurement area 10 tend at least for us to come in a bit earlier than that. So yes, I think, again, the trough for sure, starting to see a bit of activity that are good indicators that the back in the back half should that improve.

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**Jim Ricchiuti** - *Needham & Company LLC - Analyst*

Got it.

And if I could slip one quick one in you been providing last couple of quarters, some breakdown on the B&E business, commercial, aerospace and defense, which I think we all appreciate. I was curious on commercial air, it looked like it was down sequentially. Is that just kind of a lumpy business or is there anything that we should be paying attention to in that part of that A. and D. business.

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

Actually commercial air for us is still strong.

And I and if you know, if we so roughly three up about seven percentage, seven percentage points year on year, and that's a year on year and also up slightly quarter on quarter in commercial aerospace. So we so we've so yes, the growth rate, which was remarkable, right, as commercial aerospace recovered. That growth rate has slowed down, but we did still see growth in the quarter. It still as a percentage of A&D, revenue remains about five percentage points. It's so not a large part, but nice to see ongoing growth there.

And just a reminder for everyone, our largest content here, it tends to be on the seven 87 and so that's where we see the largest content, of course, were across platforms, but that's the big the major content for us.

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**Jim Ricchiuti** - *Needham & Company LLC - Analyst*

Got it.

Thanks for clarifying and congrats on the quarter.

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**Tom Edman** - *TTM Technologies Inc - President and CEO*

Thanks, Jim.

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**Operator**

Thank you. That concludes our Q&A session for today. And I would now like to turn the call over to Tom Edman for closing remarks.

Please go ahead.

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**Tom Edman - TTM Technologies Inc - President and CEO**

Thank you, Ed. I'll just close by summarizing some of the points I made earlier. First, we delivered non-GAAP EPS that was above the high end of the guided range with revenues in line with the guided range, really excellent operational performance and favorable product mix.

Second, we generated a healthy cash flow from operations at 8.3% of revenue that did allow us to repurchase stock, maintain a solid balance sheet.

And finally, in closing, I would like to thank our employees again for their efforts in this past year. Our customers as well, and certainly you our investors for your continued support. Thank you very much.

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**Operator**

This concludes today's conference call. You may all disconnect.

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