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# TTM Technologies, Inc. (TTMI)

Acquisition of Telephonics Corporation by TTM Technologies, Inc Call

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Welcome to the TTM Technologies Acquisition of Telephonics Corporation Conference Call. I would like to inform all participants, this call is being recorded. As a reminder, TTM has posted an accompanying slide presentation on the Investor Relations section of its website at [www.ttm.com](http://www.ttm.com).

I would like to turn the call over to Sameer Desai, Vice President of Corporate Development and Investor Relations.

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**Sameer Desai**

*Vice President-Corporate Development & Investor Relations, TTM Technologies, Inc.*

Thank you, Jenny, operator. Good afternoon, everyone. Before we get started, I would like to remind everyone that comments made on today's call may contain forward-looking statements. Any forward-looking information we provide is given in reliance upon the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. The comments we will make today are management's current beliefs, expectations and assumptions based on information currently available, and there'll be no assurances that the results contemplated in these statements will be realized or in TTM's ability to successfully receive regulatory approvals to complete the transaction on a timely basis.

Actual results could differ materially from any implied projections due to one or more factors explained in the annual report on Form 10-K and other documents that TTM files with the Securities and Exchange Commission. In addition, if the transaction is completed, the forward-looking statements made herein depend on TTM's ability to retain Telephonics' customers, employees, and to successfully integrate Telephonics' operations, product lines and technology into TTM operations, among other factors. TTM does not undertake any obligation to publicly

update or revise any forward-looking statements, whether as a result of new information, future events, or other circumstances, except as required by law.

In addition, please refer to legal disclaimers noted on slide 2 of the investor presentation, which includes disclosures regarding the risks that may affect TTM and the risks associated with the proposed transaction.

In addition to the financial measures prepared in accordance with GAAP, we will discuss on this call certain non-GAAP financial measures such as adjusted EBITDA, such measures should not be considered as a substitute for GAAP, and we direct you to the reconciliation to the most comparable GAAP financial measure included in the appendix of our previous investor presentations, which are available on TTM's website at [www.ttm.com](http://www.ttm.com).

During this call, we'll be discussing the acquisition of Telephonics, and we request that any questions regarding the first quarter results, second quarter guidance, or general business trends be postponed until our upcoming quarterly earnings call on May 4 that we announced earlier today. Today's call will be led by Chief Executive Officer of TTM Technologies, Tom Edman. Please go ahead, Tom.

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**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Thank you, Sameer, and thank you, everyone, for joining the call. We are excited to announce the signing of a definitive agreement to acquire Telephonics for \$330 million in cash. On the call with me today is our EVP and President of TTM's Aerospace and Defense Business Unit, Cathie Gridley, along with TTM's Chief Financial Officer, Todd Schull. Cathie has been with TTM since 2019 when she joined from Northrop Grumman and has been developing the vision and strategy of the A&D Business Unit, which has led to this acquisition announcement.

Over the past several years, TTM has consistently emphasized 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. In 2018, we closed the acquisition of Anaren, which broadened TTM's product portfolio into highly engineered RF components and subassemblies, as well as adding critical RF engineering capability and resources to TTM.

Telephonics builds on Anaren and TTM's customer-driven culture and disciplined approach to manufacturing by further broadening TTM's Aerospace and Defense product offering vertically into higher-level engineered systems solutions and horizontally into surveillance and communications markets, while strengthening our position in radar systems. Now, we will share some highlights of the transaction before moving to your questions.

So, please turn to slide 3 and I will provide an overview of this acquisition. Telephonics has minimal overlap with TTM's existing products and capabilities and offers a complementary product portfolio and capabilities that enhances TTM's strategic growth opportunities in Aerospace and Defense. We expect significant benefits to our customers, driven by accelerated innovation, new engineering capabilities and enhanced manufacturing discipline.

In addition, Telephonics builds upon the prior acquisition of Anaren, and expands our RF/microwave product strategy. We expect that Telephonics has significant value creation potential from revenue and cost synergies. We see strong revenue synergies from new business opportunities, particularly in defense communications, surveillance, radar, and electronic warfare. Additionally, we expect to achieve an estimated \$12 million in annual run rate cost synergies by the end of 2024, from organizational alignment, corporate and back office integration, manufacturing and supply chain, and product and technology alignment. We expect that Telephonics will be immediately accretive to non-GAAP EPS.

Please turn to slide 4. And I will briefly summarize the key highlights of this transaction. We are planning to acquire 100% of the equity in Telephonics on a cash-free, debt-free basis for \$330 million in cash subject to working capital adjustments at closing. We expect the transaction to be financed by cash on hand. This price represents a forward multiple of approximately 9 times adjusted EBITDA of Telephonics, including the full impact of cost synergies.

We project the transaction to be immediately accretive to non-GAAP EPS, and we expect to generate \$12 million of run rate cost savings by the end of 2024. We expect leverage, defined as net debt divided by last 12 months of adjusted EBITDA, to be approximately 2.5 times at closing. Rapid de-leveraging will remain a high priority for TTM as we drive to reduce our net leverage to our target of 2.0 times. Closing of the transaction is subject to Hart-Scott-Rodino approval. We currently expect to close the transaction by the end of the second quarter of 2022.

In the meantime, until receiving these approvals, we will continue to operate as independent companies focused on day-to-day execution on behalf of our global customer base. After the transaction closes, Telephonics will reside in TTM's Aerospace and Defense Business Unit. We are excited to join forces with the many highly talented and skilled employees at Telephonics.

I would now like to turn the call over to Cathie, to walk through the strategic rationale and provide more information about Telephonics.

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### Catherine Gridley

*Executive Vice President & President-Aerospace & Defense, TTM Technologies, Inc.*

Thank you, Tom. Please turn to slide 5. Tom and I are both excited about this transaction. And now, I'll highlight the strategic rationale. We expect Telephonics to be highly complementary and to provide meaningful synergies over the long term, where the whole is greater than the sum of the parts. Telephonics builds upon our long history of producing quality electronic products for US national security and the previous acquisition of Anaren, providing complementary capabilities and the addition of RF-based integrated systems for key defense mission areas.

Telephonics also broadens TTM's Aerospace and Defense product offering vertically into higher-level engineered system solutions and horizontally into surveillance and communications markets, while strengthening our position in radar systems. The addition of Telephonics continues TTM's journey to move higher up in the value chain and to become a larger provider of custom designed solutions of highly engineered products. Our A&D customers will be able to rely on TTM to deliver highly sophisticated system-level solutions with a vertical integration capability.

Telephonics is expected to increase TTM's A&D end-market exposure to approximately 40% of total combined company revenues or approximately \$1 billion compared to 32% in TTM's fiscal year 2021. Telephonics expands TTM's A&D customer base through international opportunities and establishes TTM as a Tier 1 supplier to the Department of Defense. Telephonics also provides us with additional engineers and managers with extensive experience in system integration and more than doubles A&D's design and development engineering organization.

Finally, we see compelling value creation in the transaction through cost and revenue synergies, with Telephonics expected to be immediately accretive to our non-GAAP EPS. To give you more background on Telephonics, please turn to slide 6. Telephonics is a leading designer and manufacturer of defense electronics for maritime surveillance and other critical missions. The company is recognized globally as a leading provider of highly sophisticated intelligence, surveillance and communication solutions that are deployed across a wide range of land, sea and air applications.

Telephonics has a strong installed base of integrated systems across a diverse range of platforms and customers which allow for follow-on opportunities as well as aftermarket services and spares. Their product and technology roadmaps focus on next-generation platforms as well as existing modernization programs.

Telephonics has approximately 625 employees, with 25% being engineers. This talented engineering team brings TTM additional engineering expertise in RF/microwave and adds valuable systems engineering capability. The company is on over 100 platforms, with the majority being sole sourced. 95% of the company's FY 2021 revenues were from the Aerospace and Defense end market, with approximately 25% of the A&D revenues from international sale.

Finally, on the right you can see that the business is organized into four primary business lines, with FY 2021 revenues split as shown. Radar Systems at 50%, Communication is 24%, Surveillance 21% and Telephonics' Large-Scale Integration, TLSI, at 5%.

Moving on to slide 7, you can see the various programs and customers both companies are engaged with. You will notice there is very little overlap in programs between TTM and Telephonics, offering opportunities for cross-program engagement. And while there is some overlap in a few key customers, TTM has a much broader Tier 1 OEM customer base, while Telephonics is more narrow with Tier 1. However, Telephonics' relationships with direct government agency customers such as the US Army, US Coast Guard, and Defense Logistics Agency will create new customer access for the broader TTM A&D offering.

Moving on to slide 8, we can see how Telephonics is complementary to the A&D Business' current capabilities. From a product standpoint, our main focus has been historically Tier 3 and 4 RF and microwave components and subassemblies, including printed circuit board and printed circuit board assemblies. Currently, printed circuit boards still make up over 50% of A&D's product revenues, with the remainder being value-added integration and RF/microwave subassemblies and components. Telephonics is strong in Tier 1 and 2 integrated RF and microwave systems, an area where TTM has historically had no presence.

In addition, Telephonics adds custom integrated circuit design, expanding TTM's microelectronics manufacturing and assembly capabilities, and strengthens our microelectronics product offering from design through manufacturing. Microelectronics is a strategic focus area for the Department of Defense, and this combination will enable TTM to expand our offering in this critical growth area. Telephonics also offers platform and systems level integration, as well as aftermarket support, whereas TTM does not have these capabilities today.

Finally, Telephonics will strengthen TTM's classified testing capability, with testing being another critical need for defense microelectronics and in high demand. The combined stronger classified test capability enhances TTM's overall value-added offering.

Following the acquisition of Telephonics, more than 55% of A&D revenues are expected to be generated from value-added integrated offerings and the addition of a new product category of integrated systems. Post-acquisition, TTM will also be able to offer our customers more competitive and comprehensive, vertically integrated solutions, from base PCB and RF components, through to a complete, highly engineered and tested solution, further moving TTM up the value chain.

I will now hand over to Todd to walk through the financial impact.

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**Todd Blake Schull***Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

Thanks, Cathie. Moving to slide 9, we see significant opportunities to create shareholder value to both revenue and cost synergies. We expect new business opportunities in RF and microwave integrated subsystems and complex assemblies to cross-program and cross-customer engagement. In addition, we expect growth in new submarkets such as electronic warfare, surveillance, communications, and space while strengthening our position in radar.

From a cost synergies standpoint, we expect \$12 million in run rate cost synergies by the end of 2024 through corporate and back office integration, organizational alignment, customer coordination, manufacturing and supply chain efficiencies, and product and technology strategies.

In terms of financial impact, we expect Telephonics to be approximately 10% of the combined company revenues. Further, we expect the transaction to be immediately accretive to non-GAAP EPS. We expect to pay for this transaction from cash on hand.

And now, I'll hand it back to Tom to wrap it up.

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**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Thanks, Todd. Finally, I'd like to close on slide 10 by summarizing the key takeaways from today. First, the acquisition of Telephonics further increases TTM's exposure and strengthens our differentiated position in the highly attractive A&D end market. This complements our existing RF and microwave business and enhances TTM's A&D product offering through highly engineered integration – integrated system solutions. We expect meaningful value creation from this opportunity driven by strategic fit and synergies. Finally, we expect the transaction to be immediately accretive to adjusted non-GAAP EPS. Telephonics represents a strategic acquisition that benefits all stakeholders.

Now, we will take your questions. Jenny?

## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] And we'll go to our first question from Jim Ricchiuti of Needham & Company.

**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Hi, good afternoon. Congratulations. This sounds like a nice announcement. I wonder if you could talk a little bit about customer overlap? It sounds like you guys have been working with them for a bit, I assume on the AESA program.

**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Hi, Jim. Thank you for the question. Yes, so there has been some work in the past. The companies – we see a real opportunity to deepen that engagement. And in terms of customers, you'll see there is some overlap certainly with the major customers. And as Cathie highlighted, also opens up some new opportunities for TTM overall directly with the government. Cathie, anything to add to that?

**Catherine Gridley**

*Executive Vice President & President-Aerospace & Defense, TTM Technologies, Inc.*

A

Yeah. I think that this is some overlap with the customers but not significant. We do share a couple of major customers but you make a good observation, Jim, on AESA. We have worked together a small amount historically, but not in a significant way and we've not competed with one another or found ourselves overlapping in AESA in any way yet.

**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Got it. Is there anything you can say about the margin profile of the business? And then also had a follow-up question just in terms of their backlog, which I guess they talked about their backlog at the end of September being around \$350 million. Is there any update at all that you can offer in terms of their business, their backlog at the end of December?

**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Go ahead, Todd.

**Todd Blake Schull**

*Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

Yeah. Hi, Jim. Todd, here. So, the first part of your question in terms of the margin profile so – or the size of the business. So, we're estimating that they'll represent about 10% of our combined business. So, they're in that \$250 million to \$260 million revenue range on an annual basis. From a margin standpoint, well, I should say, from an EPS standpoint, they will be accretive right out of the gate. But from a margin standpoint, they're slightly less than us at this point in time. They're probably in the mid-single digits, maybe a little bit higher on their operating margins. But we expect that over the next two years while we're implementing the synergies, which we hope to



complete by the end of 2024, that they would actually be above our average today. So, we think there's a lot of opportunity for us to improve the P&L profile of the business.

In regards to your backlog question, I'm trying to remember if it's \$346 million as of the end of December and 66% of that is actually shippable in the current year. So, they have a strong backlog position, not unlike our own A&D Business, and we're very excited about that. They've got good customer relationships and a strong pipeline.

**Jim Ricchiuti**

*Analyst, Needham & Co. LLC*

Q

Got it. I'll jump back in the queue. Thank you.

**Todd Blake Schull**

*Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

Thanks, Jim.

**Operator:** And we'll hear next from Srinu Pajjuri of SMBC Nikko Securities.

**Srinu Pajjuri**

*Analyst, SMBC Nikko Securities America, Inc.*

Q

Thank you. Let me echo my congrats, guys. I guess, Tom, first, I totally see the strategic rationale and also the sales synergies here. I'm just curious, given you're PCB manufacturing expertise, how do you kind of see the manufacturing synergies, if any? And then I have a couple of follow-ups.

**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Sure. Thanks. Thank you, Srinu. Yeah. No, you're hitting the nail on the head. We don't – historically, again, we've had relationships. Certainly, that's included printed circuit boards and some integration capabilities. But they haven't been substantial. And so, I absolutely, as part of that synergy number, we're going to be going after what the combined, the manufacturing capabilities, foundational capabilities of TTM can provide to Telephonics.

And I would say that that's two major areas. One is, absolutely, there could be opportunities for synergy attainment there in terms of lowering Telephonics' costs as a whole. But I'd say, even more importantly, this is going to be about time to market. And as [ph] we can (00:22:26) with our manufacturing infrastructure help to speed the delivery of product to customers, that's going to be a real win for the combination. And clearly, in these times when supply chain issues are top of mind, the ability of TTM to support Telephonics going forward is something we're really excited about.

**Srinu Pajjuri**

*Analyst, SMBC Nikko Securities America, Inc.*

Q

Okay. That makes sense. And then, just a follow-up to that, Tom. I think they did about \$270 million, just I'm looking at their annual report last year, and you're guiding to \$250 million to \$260 million. Can you talk about the long-term growth profile of the business? I know you talk about kind of low-single digits for your Defense Business in general. But longer term, how do you see this business? And then, are there any kind of legacy issues that we should be aware of in terms of some revenue going away? Or are there any new programs that might be kicking in the next couple of years that we should be aware of?



**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Yeah, let me address. I think, first, that – yeah, your number historically is a pretty good number, in that \$260 million, \$270 million neighborhood. The go-forward, how we do is, after we close, we are looking to grow that business. As you know, we've looked at Aerospace and Defense as being a 2% to 4% kind of growth rate. And we're acquiring a business here in Telephonics that has a real strength in radar and communication systems and opportunity to grow above that rate.

As we get to close, we'll provide more visibility into this and certainly address that other question you had about programs. But what I can tell you is, there are certainly some developments that Telephonics is involved in going forward. With the radar area in particular, we think we can again help speed the time to market there, and the combination, pulling together two companies with extensive RF knowledge and really combining our RF knowledge and their integrated system engineering capability. That could provide for some optimal solutions here for some critical programs. But what I can tell you, Srinu is that there is definitely, we believe, an opportunity to grow above that 2% to 4% range going forward.

**Srinu Pajjuri***Analyst, SMBC Nikko Securities America, Inc.*

Q

Okay. And then my last question. Tom, I think when you mentioned the valuation you said it's 9 times EBITDA. And then if I do the math, I'm getting close to 15% EBITDA margin. I just want to clarify something. Is this what you're expecting for the next 12 months or are you assuming, on a kind of a pro forma basis, that's what the target is for you longer term?

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Todd, do you want to cover that?

**Todd Blake Schull***Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

Sure. The 9 time forward earnings is really kind of our view and include synergies. So, obviously we're not going to have the full run rate synergies that will happen gradually here over the next two years. But when you factor that and then you back that out and come out with your adjusted EBITDA number, and that's the number that we predicated the pricing on which is what we are looking at more or less for the 12 months here that we're looking at on a forward basis.

So, it can move around, obviously, and it's adjusted. So if you're looking at numbers on a historical basis, they'll be different because there's issues there that won't occur and there's things that we expect to do. So, it all factors into what our assessment is with the earning potential of the business. And then, we did the 9 times multiple on that.

**Srinu Pajjuri***Analyst, SMBC Nikko Securities America, Inc.*

Q

Got it. Thanks, Todd, and congrats again.

**Operator:** And we'll go to our next question from William Stein of Truist Securities.

**William Stein***Analyst, Truist Securities, Inc.*

Q

Great. Thank you for taking my questions. First, congrats on announcing this deal. It sounds like a good continuation of expanding and vertically integrating. And that really relates to my first question. Is Telephonics a customer of either the heritage TTM PCB business or the [ph] interim (00:27:01) business?

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Yeah. So Will, it's a very, very small historical customer and – on both sides. So, it has been a relationship, but the actual business volumes have been limited. So that – and that again is really one of those opportunities that we see in terms of synergies and bringing the two together.

**William Stein***Analyst, Truist Securities, Inc.*

Q

Okay. And then following up on that, these look like, for those of us who are not super sophisticated in military projects, these look like full systems that Telephonics is selling. And it strikes me that perhaps Telephonics competes with some of your existing customers. Is that correct and how do you plan to manage that in the sales channel?

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

So, I'm going to let Cathie address that on the product side. Go ahead, Cathie.

**Catherine Gridley***Executive Vice President & President-Aerospace & Defense, TTM Technologies, Inc.*

A

Great. Thanks, Tom. So, in terms of the opportunity here, Telephonics really does compete at the Tier 1, Tier 2 level. And we really see the opportunity in the full vertical integration and the systems integration. And we don't anticipate that – in reality, our customer relationships are going to strengthen each other's. So, we have that strong Tier 1 OEM customer interface, and Telephonics has that direct DoD interface. And we actually see those complementing each other very well.

**Operator:** Mr. Stein, did you have anything further?

**William Stein***Analyst, Truist Securities, Inc.*

Q

Thank you.

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Thanks, Will.

**Operator:** [Operator Instructions] We'll go next to Matt Sheerin of Stifel.

**Matthew John Sheerin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Yes, thank you and thanks for the details so far. Yeah, I wanted to just ask a question regarding the competitive environment and it looks like this is a very sophisticated EMS business, right, where you're building full systems for customers. So, are you competing with other EMS companies with robust solutions in the defense and aerospace area? Who are the competitors out there?

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**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Yeah. So, I'll start this and, Cathie, I'll ask you to pile on here. But the – from the perspective of our majors – or the major primes, there's really not a competitive situation there. In fact, those primes are customers for both companies. So, they're customers for Telephonics as well. And you can think about – I think your characterization is actually a really good one, Matt, and yours as well, Will.

From a standpoint of what we're looking at here is further integration capabilities beyond what TTM had in the past and – but you're still looking at really, what I would call, parts of larger system [ph] matters (00:30:48). So, you're looking at communication systems that may be embedded in a larger platform. So, we're going to be selling to those major primes. So, from a competitive standpoint, it tends not to be the EMS providers that you would think of, mainly smaller, specialized defense primes that Telephonics would be competing with. But, Cathie, anything to add to that?

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**Catherine Gridley**

*Executive Vice President & President-Aerospace & Defense, TTM Technologies, Inc.*

A

Sure. Absolutely. When you think about where Telephonics' products are, they're higher in the value chain. Many of the customers are looking for more integrated, engineering-driven, value-added products. And when it comes to the Telephonics competitors, it includes other system-level providers of these types of defense electronics. I think some of the ones that come to mind, [ph] Salix, Consult, Tallis (00:31:49), those are sort of a few that you might think of that would be more in line with the Telephonics competitors.

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**Matthew John Sheerin**

*Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. Okay. Thank you. And just back to the margin profile, excluding the \$12 million of synergies, it looks like, as Todd said, you're looking at sort of a single-digit operating margin business and it would seem like the margin profile would be higher given the sophistication and given the vertical expertise. Is that just because as an EMS business, there's a lot of component pass-through and there's sort of a limit in terms of margins? Or is there more value-add where the margins can look better than the company as a whole than TTM?

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**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Todd?

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**Todd Blake Schull**

*Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

So, this is Todd. Two comments on that, I think. I would make a distinction between the Telephonics business and an EMS company an important element. EMS companies generally build products to a customer's designed. Telephonics is a product company, where they design solutions and build those solutions. The difference is in margin usually, so then that kind of gets to your margin question. Their margins at this point are in the mid, plus or minus, single digits, but we see an opportunity to improve on that. And that's really some synergy opportunities

that we see that are relatively, I think, near-term, one to two years, that we think we can implement that will then pull those margins up to where you would probably expect them to be.

That's the opportunity in this business, right? And it's also why we got a 9 times multiple as opposed to a more typical A&D multiple of 14 times. So, it gives us an opportunity to add some value to the business quickly and improve the margins, and they bring to us another avenue in terms of – and I think it's been well-discussed here in terms of vertical integration, as well as additional markets from a horizontal perspective. So, hopefully that sheds a little more light on it.

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**Matthew John Sheerin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. And then, Todd, just in terms of working capital requirements of a business like this, given the system integration, are you looking at higher levels of inventory, working capital days because of that? What does that do to the overall balance sheet, cash cycle, etcetera, for TTM?

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**Todd Blake Schull***Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

: Yeah, definitely. The business that we're acquiring has a cash cycle. They are a cash cycle, if you will, that is longer than TTM's traditional cycle. Typical in these businesses, you have longer investment cycles. There's the international sale component to it. There's a significant piece of the business that comes from that market. Those tend to have longer terms. So, there will be some increase. But again, this is not a huge percentage of our business. And you're talking 10% of our revenue, potentially near term. And so, it's not going to be dramatic in terms of its impact on our working capital.

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**Matthew John Sheerin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

Okay. And just lastly regarding with the slide says subject to customary regulatory reviews. Can you walk us through some of the barriers there in terms of regulatory reviews, given the defense perspective here?

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**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Okay. Yeah. So, really it's HSR, so the antitrust filing that we have to go through. And we'll do that in an expedited fashion. And the deal doesn't require shareholder approval on either side, so you're really looking at that being the major element. And again, with a lot of pre-work already done, we'll be moving forward with those filings as soon as we can, as soon as practical.

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**Matthew John Sheerin***Analyst, Stifel, Nicolaus & Co., Inc.*

Q

And the operating footprint of the company, of Telephonics, is that mostly North America?

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**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Yes. Yes. Yeah. No, exactly right. So, that's the reason why. And you're looking at an operating footprint that's really in Long Island and North Carolina. So, US operations and that's what we're acquiring. And therefore, you've got a pretty straightforward regulatory process.

**Matthew John Sheerin***Analyst, Stifel, Nicolaus & Co., Inc.*

Okay. Thank you.

Q

**Operator:** And we'll go to our next question from Mike Crawford of B. Riley Securities.**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Thank you. That's a good segue for my question regarding whether those manufacturing facilities in Long Island and North Carolina are owned or leased?

Q

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Yeah. So, mainly owned. One of the Long Island facilities will be leased from Griffon, but the balance of the facility there will be owned.

A

**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Any sense of the value of that property?

Q

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Yeah. So clearly, let me give you a higher level response, Mike. We are excited about – there was really – already Telephonics has relocated some production to North Carolina and that's a really interesting location, I think, proximity to some of the major customers is there and so really a smart move. We feel that the major Long Island facility for engineering and headquarters, if you will, is right near an airport location in Long Island. Again, very promising positive location from our standpoint. So, really we're less concerned about real estate value than the operational and engineering locations; and those are really positioned well with this acquisition.

A

**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Okay. Thank you. And then, just back to kind of the revenue and the backlog. So, what was it that drove the decline in revenue at Telephonics last year versus the prior two years, where it had been \$335 million to \$341 million. And even the funded backlog was down a little bit, maybe not that much, year-over-year?

Q

**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Well, I can give you a high level response and maybe Todd can – Todd, if you can address this as well. We've had been going through this little thing that you're probably familiar with called COVID. And that's put a crimp on all manufacturing in North America. We were not surprised to see a decline, therefore, as a result. You've got COVID. And then, of course, again, as all of us on this line have been experiencing, you have supply chain challenges that have loomed as we – as collectively as an economy, we tried to emerge from the COVID experience.

A

And so, they've been dealing with all of that, that's caused program timing delays certainly and that has shifted things to the right. So, that's really the major challenge for Telephonics and it's certainly a challenge that made – was very logical from our perspective given that their entire footprint is in the United States. Todd, anything else to add there?

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**Todd Blake Schull***Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

Well, I would just think that the only other point would be just the labor challenges both on production as well as with your customers. So, that's what's really driving a lot of the program timing delays. It's – all businesses have been impacted and programs are delayed as a result of that, both in approval and designs and just the process as people have been out of the office for COVID, for various issues.

So, it's kind of the normal stuff and you can see some of that in the public disclosures that Griffon's had about that business over the last two years, and we refer you to that. But as we think going forward, as COVID starts to stabilize off, if I dare use that word, with the latest variant rolling through, but as we see again a lot of opportunity to improve on that and to grow from here. So, we think the toughest part of that story is kind of behind us – or behind them.

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**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Q

Okay. So, it's not related to, say, secular decline and rotary platform volumes or anything more broad based...

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**Todd Blake Schull***Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.*

A

No, and Mike, you can see that reflected in the backlog, right? Strong backlog. It's the production execution challenge.

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**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Q

Okay and thank you. And then final question is just based on the numbers Todd gave earlier, with the December backlog numbers, that means that you're only expecting to book and ship \$20 million to \$30 million of revenue at Telephonics this year, is that less than normal or conservative?

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**Thomas T. Edman***President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Well, in terms of the – I mean, that's our snapshot today. As we know, the A&D Business in general, that marketplace over the last few years has been very robust and backlog has grown for many companies. Now, A&D goes through long cycles, and right now we're in a pretty strong cycle. So, in the near term, I think that's pretty representative, but it will ebb and flow over time with the overall cycle of the business, which is a much longer cycle than some of the consumer businesses we're involved with historically.

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**Mike Crawford***Analyst, B. Riley Securities, Inc.*

Q

Okay, great. Thank you very much.

**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Thank you.

**Operator:** And with no other questions in the queue, I will now turn the call back over to the presenters.

**Thomas T. Edman**

*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Okay. Well, thank you very much for joining us on short notice. Again, I'd just like to emphasize this is an exciting combination for TTM. We are really looking forward to welcoming the Telephonics employees to TTM and building a really robust growth story going forward in the defense space and taking care of our customers there as well as the warfighter. So, thank you for joining us. We look forward to talking to you all soon.

**Operator:** And so, this concludes today's call. Thank you for your participation. You may now disconnect.

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