TTM Technologies, Inc. (TTMI) Q1 2024 Earnings Call Transcript

May 01, 2024 4:54 PM ETTTM Technologies, Inc. (TTMI) Stock

Q1: 2024-05-01 Earnings Summary

EPS of $0.31 beats by $0.04 | Revenue of $570.11M (4.72% Y/Y) beats by $18.30M

TTM Technologies, Inc. (NASDAQ:TTMI) Q1 2024 Earnings Conference Call May 1, 2024 1:00 PM ET

Company Participants

Sameer Desai - VP, Corporate Development and Investor Relations
Thomas Edman - President, CEO & Director
Daniel Boehle - CFO & EVP

Conference Call Participants

Matt Sheerin - Stifel
Jim Ricchiuti - Needham & Company
William Stein - Truist Securities
Mike Crawford - B. Riley Financial

Operator

Thank you for standing by, and welcome to the TTM Technologies First Quarter 2024 Financial Results Conference Call. During today's presentation, all parties will be in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]. Please be advised that today's conference is being recorded on May 1, 2024.

I would now like to turn the conference over to your host, Mr. Sameer Desai, TTM's Vice President of Corporate Development and Investor Relations who'll now review TTM's disclosure statement.

Sameer Desai

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 risk and uncertainties, including the risk factors we provide in our filings with the Securities and 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 reconciliation between GAAP and non-GAAP measures included in the company's earnings release, which is available on the Investor Relations section of TTM's website at investors.ttm.com. We've also posted on that website a slide deck that 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.

Thomas Edman

Thank you, Sameer. Good afternoon, and thank you for joining us for our first quarter 2024 conference call. I'll begin with a review of our business highlights from the quarter and a discussion of our first quarter results, followed by a summary of our business strategy. Dan Bailey, our CFO, will follow with an overview of our Q1 2024 financial performance and our Q2 2024 guidance. We will then open the call to your questions.

Highlight to the quarter's financial results are summarized on Slide 3 of the earnings presentation posted on TTM's website. We delivered a solid quarter, and I would like to thank our employees for their hard work and contributions in support of these results.

In the first quarter of 2024, non-GAAP earnings per share were above the high end of the guided range and demonstrated solid year-on-year growth due to improved operating performance and favorable product mix. Revenues were at the high end of the previously guided range and returned to year-on-year growth due to demand strength from our aerospace and defense and data center computing end markets, which was partially 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 as we registered a positive book-to-bill in the quarter and now have a program backlog of approximately $1.38 billion.

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 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.

As a result of strategic transactions in the aerospace and defense end market through the acquisitions of Anaren and Telephonics, over 50% of our revenues in aerospace and defense are now generated from engineered and integrated electronic products with PCBs contributing less than 50% overall.

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, to service our customers in our commercial end markets. 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 ongoing customer audits and qualification sampling occurring, and with our test panel yields climbing.

I was thrilled to welcome customers, vendors and government officials to our grand opening event in Penang, which was held on April 25. We expect our Penang facility to register limited revenues in the second quarter and ramp further in the second half with investments in phase two expansion of the facility starting towards the end of the year.

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's remaining facilities. We are presently on track and are ramping production for the transferred parts and receiving facilities throughout North America and Asia Pacific.

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 existing Syracuse, New York campus. This new facility will focus on specialized high-technology PCB production, providing customers with reduced lead times and a significant increase in domestic capacity for Ultra-HDI PCBs in support of increasing national security requirements for high technology PCBs.

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 low-rate production expected to follow within 18 months after groundbreaking.

As previously announced, we expect the investment for phase one of the proposed project, including capital for campus-wide improvements to be in the range of between $100 million to $130 million and is anticipated to run through 2026 with TTM's capital investment commitments determined after finalizing terms with various stakeholders. To date, we have secured the land for this facility and applied for various government incentive packages in support of future equipment purchases.

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 first quarter sales compared to 43% of Q1 2023 sales and 46% of sales in Q4 2023.

Th solid demand in the defense market is a result of a positive tailwinds in previous defense budgets, our strong program alignment, and key bookings for ongoing franchise programs. We had a strong bookings quarter with a book-to-bill ratio of 1.2, leading to an A&D program backlog of approximately $1.38 billion at the end of the first quarter.

During the quarter, we saw significant bookings for the F-16 scalable, agile, beam radar or SABR program. Javelin missile program and a key restricted program. We expect sales in Q2 from this end market to represent about 44% of our total sales. Bookings in the aerospace and defense market ship over a longer period of time than in our commercial markets and provide good visibility into future revenue growth.

Sales in the data center computing end market represented 21% of total sales in the first quarter compared to 10% in Q1 of 2023 and 17% in the fourth quarter of 2023. This end market performed better than expected and saw 106% year on year growth due to strength in our data center customers building products for generative AI applications. We expect revenues in this end market to represent 20% of second quarter sales.

The medical industrial instrumentation end market contributed 14% of our total sales in the first quarter compared to 19% in the year ago quarter and 16% in the fourth 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. However, we are beginning to see generative AI driving growth in the DRAM market, which is leading to increased purchases of automated test equipment.

For the second quarter, we expect the medical, industrial, instrumentation end market to be 15% of revenues. Automotive sales represented 13% of total sales during the first quarter of 2024 compared to 17% in the year ago quarter and 15% during the fourth quarter of 2023. The year-over-year decline for automotive was due primarily to continued inventory adjustments and soft demand at several customers. We expect our automotive business to contribute 14% of total sales in Q2.

Networking accounted for 6% of revenue during the first quarter of 2024. This compares to 11% in the first quarter of 2023 and 6% of revenue in the fourth quarter of 2023. Demand was softer as customers continue to focus on inventory digestion and experienced weak end market demand. As a reminder, the Shanghai Backplane business, which we sold in our first quarter of 2023, contributed approximately $8 million in sales to this segment in the first quarter of 2023. In Q2, we expect this end market to be 7% of revenue.

Next, I'll cover some details from the first 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 48% of our revenue. This compares to approximately 41% in the year ago quarter and 47% in Q4.

We are continuing to pursue new business opportunities and increase customer design engagement activities that will leverage our advance technology and engineered product capabilities in new programs and new markets.

PCB capacity utilization in Asia Pacific was 52% in Q1 compared to 52% in the year ago quarter and 51% in Q4. Utilization rates were suppressed due to weak demand in several of our commercial markets. Our overall PCB capacity utilization in North America was 38% in Q1, compared to 39% in the year ago quarter and 35% in Q4.

As a reminder, North America utilization figures are not as meaningful as Asia-Pacific because bottlenecks in these high mix, low volume facilities tend to occur in areas outside of plating, which is the core process that we use for calculating utilization rates.

Our top five customers contributed 42% of total sales in the first quarter of 2024, compared to 44% in the fourth quarter of 2023. We had two customers over 10% of our total sales in the quarter. At the end of Q1, our 90-day backlog, which is subject to cancellations, was $592.6 million compared to $482.2 million at the end of the first quarter last year. Our book-to-bill ratio was 1.15 for the three months ended April 1.

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

Daniel Boehle

Thanks, Tom, and good afternoon, everyone. I will review our financial results for the first quarter that were included in the press release distributed today and are summarized on Slide 6 of the earnings presentation posted on our website. For the first quarter, net sales were $570.1 million, compared to $544.4 million in the first quarter of 2023. The year-over-year increase was due to growth in our data center computing and aerospace and defense end markets, partially offset by declines in our automotive, medical, industrial and instrumentation, and networking end markets.

GAAP operating income for the first quarter of 2024 was $17.1 million as compared with a GAAP operating loss of $3.5 million for the first quarter of 2023. On a GAAP basis, net income in the first quarter of 2024 was $10.5 million, or $0.10 per diluted share. This compares to GAAP net loss of $5.8 million or $0.06 per diluted share in the first 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 in prior periods.

Gross margin in the third quarter was 18.8% and compares to 17.1% in the first quarter of 2023. 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 volume and less premium sales in some commercial markets.

Selling and marketing expense was $19.4 million in the first quarter or 3.4% of net sales versus $20.6 million or 3.8% of net sales a year ago. First quarter G&A expense was $40 million for 7% of net sales, compared to $32.1 million or 5.9% of net sales in the same quarter a year ago.

In the first quarter of 2024, research and development was $7 million or 1.2% of net sales, compared with $6.8 million or 1.3% of net sales in the same quarter last year. Our operating margin in the first quarter of 2024 was 7.1%, a 100 basis points increase from 6.1% in the same quarter last year.

Interest expense was $11.8 million in the first quarter of 2024, compared to $12.1 million in the same quarter last year. During the current year quarter, there was a positive $4.4 million foreign exchange impact below the operating income line. Government incentives and interest income totaling $4.8 million, resulting in a net $9.2 million gain for an $0.08 positive impact to EPS. This compares to a net gain of $1.2 million or a $0.01 impact to EPS in the same quarter of last year.

Our effective tax rate was 14% in the first quarter, resulting in tax expense of $5.3 million. This compares to a rate of 17% for a tax expense of $3.8 million in the same quarter last year. First quarter 2024 net income was $32.8 million or $0.31 per diluted share. This compares to first quarter 2023 net income of $18.6 million or $0.18 per diluted share.

Adjusted EBITDA for the first quarter of 2024 was $74.8 million or 13.1% of net sales, compared to the first quarter 2023 adjusted EBITDA of $58.5 million or 10.7% of net sales. Depreciation for the quarter was $24.7 million. Net capital spending for the quarter was $49.3 million, which is inclusive of the remaining fit-out costs for our Penang facility.

Cash flow from operations in the first quarter of 2024 was $43.9 million. We purchased 600,000 shares of common stock for $9.3 million at an average price of $15.56 per share. Cash and cash equivalents at the end of the first quarter of 2024 totaled $440.4 million. Our net debt divided by last 12 months EBITDA was 1.5 times at the low end of our targeted range of 1.5 times to 2 times.

Now I will turn to our guidance for the second quarter. We project net sales for the second quarter of 2024 to be in the range of $560 million to $600 million and non-GAAP earnings to be in the range of $0.32 to $0.38 per diluted share, which is inclusive of operating costs associated with starting up our Penang facility.

The EPS forecast is based on a diluted share count of approximately 105 million shares, which includes the dilutive impact of outstanding stock options and other stock awards. We expect SG&A expense to be about 9.9% of net sales in the second quarter and R&D to be about 1.3% of net sales. We expect interest expense of approximately $12.2 million and interest income of approximately $2 million. We estimate our effective tax rate would be between 12% and 16%.

Further, we expect to record depreciation of approximately $26.5 million, amortization of approximately $12.6 million, stock-based compensation expense of approximately $5.6 million, and non-cash interest expense of approximately $0.5 million.

Finally, I'd like to announce that we will be participating in the Barclays Leveraged Finance Conference in Austin on May 21, the B. Riley Institutional Investor Conference in Los Angeles on May 22, and the Stifel Cross Sector Insight Conference in Boston on June 4.

That concludes our prepared remarks. Now, open the line for questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question will come from the line of Matt Sheerin with Stifel.

Matt Sheerin

Just -- first question, just regarding your guidance, it implies that gross margin will be up over 19% sequentially. So good sequential growth there off of a this modest revenue growth. So I'm wondering if -- is that related to mix at all? Or are you also seeing some benefits from the closures of the -- of some of those facilities in the US and in Hong Kong?

Daniel Boehle

Thanks for your question. I would say, it's a combination of a few things. So there's a little bit of mix. We are seeing some -- you mentioned, we are seeing some benefits of the closures of the , the three plants from last year. We are also -- we are just -- between Q1 and Q2, we got more efficiencies in the factory. Q1 has the impact of the Chinese New Year. And so with lower volume in AP, we tend to get lower efficiencies, obviously in the factories there just with the covering the overhead -- the operating leverage. So that is a natural improvement from Q1 to Q2, which is another part of that.

Matt Sheerin

Are you still -- and does that also factor in the headwinds that you're seeing from the factory expansion in Penang and is that kay? And what's the headwind there?

Daniel Boehle

Yeah. There's significant headwind there of about 180 basis points for the first half of the year, and then we'll come back to -- in the second half of the year, we'll ramp pretty quickly in the second half of the year to get to about 100 basis points impact on the full year from the Penang headwind, which is kind of what we've expected.

Matt Sheerin

Okay, helpful. And then regarding some of the end markets. Tom, could you elaborate more on the significant growth you're seeing in the datacom area with hyperscale customers? Could you talk about customer concentration, where you're seeing that in your visibility? It looks like you're going to be down a little bit sequentially. But could you talk about the visibility that you're seeing for the rest of the year?

Thomas Edman

Yeah. So sure. In terms of sequential, it's really flat sequentially in data center computing. And what we're seeing, absolutely, as you pointed out, is strength in generative AI continues to, at this point, be about 50% of that data center demand. A little bit higher than that actually. And it still remains relatively concentrated, but certainly better than where we were last year when the growth started.

So high level of growth, I think as we start to look at the second half of the year, we're going to continue to look at adding incremental capacity there, both in our major facility that services that area as well as another facility that we're qualifying for some more AI and hyperscale work. So we'll look to meet what we expect to be scaling demand there in the second half of the year.

So really strong environment there. I also expect that we're going to see semiconductors or the computing part of that data center computing end market start to improve here as we go forward through the course of the year as well.

Matt Sheerin

And is there an OEM server market that you also serve as well, where you talked about like enterprise adoption and that sort of thing that will maybe come at some point?

Thomas Edman

Yeah. So that's also a part of the market that we serve there. We put that broadly into that data center area. But yeah, that is an area that we serve as well.

Operator

Our next question will come from the line of Jim Ricchiuti with Needham & Co.

Jim Ricchiuti

Maybe just following up on the last question. If I look at the midpoint of your revenue guidance and the way you're characterizing the vertical market contributions, it seems like you're assuming a nice sequential step up in a couple of markets that were down sequentially in Q1, notably auto and MII. And maybe, Dan, you may have touched on this, is auto seasonality coming out of the Q1 Chinese New Year and -- or are you seeing some improvement in the outlook there? Same question on MII. Tom, you alluded to semi testing of potential bright spots, but what are you seeing in those markets?

Thomas Edman

Yeah. So Jim, yeah, a couple of things going on there. You're absolutely right. In terms of Chinese New Year impact, there is a positive. So think about it as a little bit more than a week of production that we bring back in the Q2 that helps with those end markets. Of course, you have to see the demand to absorb that production capacity. In auto, we are looking at being sequentially up.

I'm not going to read too much into that at this point. I think it's certainly encouraging to see some of the booking trends improve there as well as the overall -- if you look at the overall commercial market to have a solid positive book-to-bill.

In the medical, industrial, instrumentation area, you pointed out the area where we are seeing now some incremental return of growth, which is in that instrumentation category, that's primarily semiconductor, capital equipment. We're seeing some demand particularly in the test side of that come back. And so that is helping on the sequential demand side.

Expecting that kind of momentum to continue as we go into the back half of the year. And I would add networking as well. We're finally seeing customers work through inventory. Several customers have worked through their inventory challenges, and we're starting to see some incremental improvement in that end market.

Jim Ricchiuti

Got it. That's helpful. That actually brings me to the next question to round out that discussion around the verticals. It looks like you're, again, at the midpoint, assuming -- anticipating a sequential decline in A&D. And I'm wondering if you could provide some color on that, just given the backlog, given the growth you're seeing? How are you thinking about the A&D business looking out over the remainder of the year?

Thomas Edman

Yeah, I would not read too much into that. The Q1 A&D end market outperformed our expectations. That was mainly the fact that -- as you remember, Q4, generally the strongest quarter that we have in A&D as we finish out the year. Q1, usually we have a drop-off. We really didn't have a significant drop off here and that was just because we actually, I would say -- I wouldn't say, overproduce, but we certainly were able to maximize production in the A&D. area.

As we look at Q2, we're sort of expecting more of a normal quarter there in A&D. And then as we look towards the -- again, Q3, Q4, we're expecting that Clover -- what we call, Project Clover, the facilities that we shut down, we're expecting that the tailwind there as we bring up the receiving facilities to help to improve the A&D revenues as we go into Q3 and Q4.

So again, Q2, you're absolutely right, sort of flattish to slightly down. But expecting Q3, Q4, that capacity to kick in with the receiving facilities.

Operator

Our next question will come from the line of William Stein with Truist Securities.

William Stein

I wanted to actually hit on some overlapping topics for the last question and that was, your guidance in aerospace defense through this sub-seasonal. I think you sort of just explained it, but I just -- I am reminded what has happened historically when we see book-to-bill very strong in aerospace and defense and the backlog go up, but we know it's sort of long duration backlog. And there are quarters when you have the lack of growth where we anticipate more growth because of the good bookings. In the past, it's been related to labor shortages and I wonder if that's still dogging the company in any way or if this is something different.

Thomas Edman

And so labor is always a factor. We're -- that is certainly an area of focus in several of our facilities. I would say that the headwind we have in A&D continues to be concentrated in supply chain. We're still looking at a headwind of about $8 million quarterly. That's about -- that's less than half of where we were a year ago. But we still do have that headwind to overcome each quarter.

But really, with our businesses as we stand today, it's about production volumes, how we can get those out. And then as you remember, with the addition of Telephonics, we have a percent complete accounting recognition there with mission systems. So that can get a little bit lumpy depending on where we are in the percent complete process.

So those are factors that go beyond sort of where we were traditionally in that business. And so from a labor perspective, absolutely ongoing challenge, but really it's much more of that supply chain situation. And then just a little bit of lumpiness as we ship out on particular programs.

William Stein

Tom, the book to bill in the commercial markets was really stronger than it's been in many quarters by my math, but I think you just -- you answered that. It sounds like you're expecting revenue to continue to accelerate there in the back half. So let me instead focus on OpEx. This is an area -- I guess, I was a little surprised that OpEx is up year over year, and I wonder what we should expect going forward? Is there any activity to kind of constrain that going forward? Or are there any unusual things that drove the increase year over year? Thank you.

Daniel Boehle

Thank you for the question. Well, there were a few one-off items in Q1. There were some personnel related and healthcare related to true-ups in Q1 that were year end accruals that -- our estimates, we had a little bit higher Q1 true ups than we had expected.

And then with regards to the Syracuse expansion, we had about $1.5 million application fees that we paid in Q1 that were budgeted for later in the year. And so the conglomerate of those in the first quarter was about $8.5 million of additional OpEx expense that were -- will not recur. Those are one-offs. But even with that headwind from Penang, we're still up 100 basis points operating margin year over year. We're forecasting increasing that up to other another almost 190 basis points in the Q2. So yes, you'll see that come back in the second half of the year, continue to grow.

Operator

Our next question will come from the line of Mike Crawford with B. Riley Securities.

Mike Crawford

Could you provide the lifetime value of the automotive program wins you secured in the quarter?

Thomas Edman

Sure. So not a great quarter in regards to automotive. We had about $20 million in wins in terms of program wins in Q1. If you look a year ago, we were at $267 million. So that's quite a difference, Mike. And as we look at what to attribute that to, it appears that our customers -- and remember, most of our customers are the Tier 1 parts suppliers that -- they're dealing with market turbulence as they look at program shifts with EV coming on, with some of the changes in terms of their global marketplace.

And for the second quarter in a row, they're withholding packages as they try to get more certainty about production starts. And again, they're trying to anticipate production starts that would begin a year from now. So you can imagine how challenging it is in the environment out there to anticipate those production starts. So we're just not seeing the volume of package opportunities that we saw last year -- this year. So that's what appears to be going in auto.

Mike Crawford

Okay. Thank you. And then just regarding the new facility in Syracuse, it looks like you've already received some $60 million in local tax breaks, but you're hoping to get some federal equipment purchase breaks as well. And did I hear you say you're still hoping to break down within the next two months?

Thomas Edman

So you're right, the state has been very forthcoming and really thrilled with that. And we're just -- yeah, we're just looking to finalize the federal side and that takes a bit more time. So we're working our way through that. And I'd also say that in the quarter, we were able to firm up our agreements with customers as well. So hasn't changed our overall schedule in terms of breaking ground in the first half of the year, but just working through sort of the final stages here of preparation as we as we get ready to break ground.

Mike Crawford

Okay. Thank you. I'll just end just with a kind of a minor question. But with the buyback, again, was active in Q1 and your relative reverse stock-based comp, I was a little surprised that you're guiding to higher diluted share count in 2Q. Is that just being conservative or is there something else happening?

Daniel Boehle

Yeah, I would say, it's a bit conservative with the shares that will be issued in Q2 that -- from vesting of our stock plan. There will be some more buyback probably -- that will likely bring that down a little bit more than the 105 million that we've got there. But that's what we used for the guidance.

Operator

[Operator Instructions]. I am showing no further question in the queue at this time, I would like to turn the call back over to Mr. Tom Edman for closing remarks.

Thomas Edman

Thank you. Yeah. I'd just like to close by summarizing a few of the points that I made earlier. First, we delivered non-GAAP EPS above the high end of guided range. Revenues at the high end of the guided range with improved operational performance and favorable product mix on a year-on-year basis.

Second, we generated a healthy cash flow from operations at 7.7% of revenues that did enable us to repurchase stock and maintain a solid balance sheet with a net EBITDA leverage of about 1.5x at the low end of our target range.

And in closing, I would just like to thank our employees, our customers and you, our investors, for your continued support. Thank you very much.

Operator

This concludes today's program. Thank you for participating disconnect.