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**Second Quarter 2020
Conference Call Prepared Remarks**

Operator

Good morning, ladies and gentlemen, and welcome to the SMTC Second Quarter 2020 Earnings Call. (Operator Instructions) As a reminder, this conference call will be recorded.

I would now like to introduce your host for today's conference, Mr. Blair McInnis, Vice President of Finance. You may begin.

Blair McInnis

Thank you. Before we begin the call, I would like to remind everybody that the presentation will include statements about expected future events and financial results that are forward-looking in nature and subject to risks and uncertainties. The Company cautions that actual performance will be affected by a number of factors, many of which are beyond the Company's control, and that future events and results may vary substantially from what the Company currently foresees. Discussion of the various factors that may affect future results is contained in the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, and subsequent reports on Form 8-K and other filings with the Securities and Exchange Commission. All forward-looking statements are made as of the date of this call. And except as required by law, we do not intend to update this information.

During the call, we will also reference certain non-GAAP measures, including adjusted gross profit, adjusted net income, EBITDA and adjusted EBITDA. Please refer to the press release we issued yesterday for reconciliations between GAAP and adjusted results.

Management believes that these Non-GAAP Financial Measures, when used in conjunction with GAAP financial measures, provide useful information to investors about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to the key metrics SMTC uses in its financial and operational decision making. The Company's management believes that adjusting for the additional temporary costs attributable to the COVID-19 pandemic allows for a better comparison of the Company's performance to prior periods, which is consistent with the Company's recent amendments to the financial covenants in its financing agreements. These Non-GAAP Financial Measures are used by management to manage and monitor SMTC's performance, and also frequently used by analysts, investors and other interested parties to evaluate companies in SMTC's industry. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and should not be construed as an inference that SMTC's future results will be unaffected by any items adjusted for in these Non-GAAP Financial Measures.

Finally, this conference call will be available on the Investor Relations section of SMTC's website that includes the link to today's webcast at www.smtc.com. The Company has also posted a slide deck which interested parties can find next to the link today's webcast. We will be referring to these slides from time to time during our call this morning.

I will now pass the call over to Eddie Smith, SMTC's President and Chief Executive Officer.

Eddie Smith

Thank you, Blair. Welcome, and good morning.

Ladies and gentlemen, I'm Eddie Smith, SMTC's President and Chief Executive Officer. On this call with me today is Rich Fitzgerald, our Chief Operating Officer, and Steve Waszak, our Chief Financial Officer.

First, before discussing the quarter, I want to thank the entire SMTC team and our supply chain partners for their hard work and dedication as we continue to navigate through these unprecedented times to meet our customers' changing demand requirements. I would also like to thank our stockholders for their continued patience and support during these trying times.

As one can see on slide 3, Revenue for the second quarter was \$90.4 million, from \$90.9 million in the same quarter a year ago, and down 5% from the prior quarter and below our second quarter guidance of \$96 to \$99 million. While our customer demand during the first half of the second quarter of 2020 tracked to our internal plans, we experienced changes in demand requirements primarily from some of our retail payment systems and commercial avionics customers, and order rescheduling from other customers in the latter part of the quarter. We believe this resulted from our customers modifying their requirements in response to the shifting demand of their respective end customers.

By maintaining a strong and diverse customer base and carefully managing our expenses and business operations, we were able to generate improved bottom line results, including an adjusted EBITDA of \$6.4 million, or 7.1% of revenues, which was at the higher end of the guidance range, which enabled us to report an adjusted EPS of 8 cents per share.

Our supply chain did an outstanding job working around availability and the logistics issues resulting from the COVID-19 pandemic to ensure we could meet our customers' changing requirements. Drawing upon key supplier relationships that Phil Wehrli and his team have

developed over the years, our Supply Chain team continues to proactively work around many obstacles, instituting new processes, expediting materials, setting up new sources of supplies, and anticipating potential component shortages and changing lead times.

As I noted on slide 4, our business development teams continue to expand SMTC's market share and expand our sales funnel. Over the last three quarters, we saw strong traction securing in excess of \$130 million of new business, including \$26 million in the second quarter, primarily from new and existing customers in the Aerospace, Defense and Industrial IoT markets leveraging our RF and sensor manufacturing-test expertise. As we continue to navigate through the challenges presented by the COVID-19 pandemic, we have implemented innovative onboarding processes to overcome plant access and travel restrictions to win new business and launch new customer programs. We are encouraged by the positive responses we have seen from our customers and look forward to resuming our top line growth momentum beginning in the second of half of 2020 and continuing in 2021.

Barring any significant new impacts of the continuing COVID-19 pandemic on our business, we believe we are positioned for an improving financial performance in the second half of the year. As we look ahead, we expect to again stay on track, as we did in Q2, for achieving our long-term model with gross margins ranging between 12% to 14% and our adjusted EBITDA in the range of 7% to 9% of revenues.

As pleased as I am with our ability to adapt quickly to the current environment, I am especially proud that SMTC and our employees continue to demonstrate a commitment to our local communities through donations and support, including much needed PPE equipment.

Let me wrap up my introductory remarks by re-iterating that the health and safety of our employees remains a top priority for SMTC as we continue to meet our customers' requirements and ensure continuity of our supply chain with all of our facilities currently remaining open and operating in accordance with all applicable health and safety regulations.

Steve Waszak, our CFO, will now discuss our second quarter results in more detail and some of the steps we are taking to improve our results in the back half of the year. After Steve's remarks, I will return with some additional commentary on our progress in the second quarter and our goals going forward before we open the call to questions.

Steve Waszak

Thank you, Eddie, and I want to additionally express my thanks to all of SMTC's employees for their commitment and dedication as we work together through the challenges of the continuing COVID-19 pandemic. I am also grateful for the support of our customers and partners and patience of our shareholders.

Now let me discuss our financial results, which you can see, on slide 5. As Eddie commented, Revenue in the second quarter of 2020 was \$90.4 million, compared to \$95.1 million in the prior quarter, and \$90.9 million from the second quarter a year ago. During the second quarter of 2020, we had one 10%-plus customer.

Our gross profit for the second quarter of 2020 was \$10.7 million or 11.8% of revenues, up from \$9.6 million or 10.1% of revenues in prior quarter. The improvement in gross profit was primarily due to tight cost controls and product mix.

Our Q2 2020 adjusted gross profit was \$11.8 million or 13.0% of revenues excluding \$846 thousand for non-cash amortization of intangibles, recorded in connection with our acquisition of MC Assembly, \$1.2 million of COVID-19 related costs, and \$971 thousand of non-cash unrealized foreign exchange gain on unsettled forward exchange contracts. In comparison, our Q1 2020 adjusted gross profit was \$11.7 million or 12.3% of revenues.

Selling, general and administrative expense for second quarter of 2020 was \$7.1 million, essentially flat as compared to \$7.2 million reported in the first quarter of 2020. As a percent of revenues, SG&A expenses increased slightly to 7.9% of revenues in the second quarter of 2020, compared to 7.6% of revenues in the prior quarter. In comparison, SG&A was 7.2% of revenues in Q2 2019.

We reported net income of \$955 thousand in the second quarter of 2020, compared to \$775 thousand in the prior quarter and a net loss of \$2.5 million in the same quarter a year ago.

Adjusted net income in the second quarter of 2020 was \$2.4 million. In comparison, we reported adjusted net income of \$2.2 in the prior quarter and adjusted net income of \$1.1 million in the same period a year ago.

Adjusted EBITDA in the second quarter of 2020 was \$6.4 million, or 7.1% of revenues, which includes add-back of \$1.2 million of COVID-19 related costs, as compared to adjusted EBITDA of \$6.2 million or 6.5% of revenues in the prior quarter and \$6.1 million or 6.7% of revenues in the same quarter a year ago.

Now, I'd like to comment on the Balance Sheet and other key financial metrics that we reported for the second quarter. Our cash-to-cash cycle averaged 82 days, compared with 73 days during Q1 2020. The increase in our cash-to-cash cycle was attributable to shifting customer forecasts within the quarter that resulted in higher than anticipated inventory levels exiting Q2. Second quarter 2020 DSO was 64 days with DPO at 73 days. Inventory turns for Q2 2020 were 4.0 turns, compared to 4.5 turns in Q1 2020. Capital expenditures were approximately \$700 thousand Q2 2020.

Net debt at the end of the second quarter of 2020 was \$84.6 million compared to \$83.6 million in the prior quarter. Both periods include \$3.6 million for the extension of the Company's

Fremont, CA facility lease in February 2020. In comparison, net debt was \$95.9 million in the same quarter a year ago.

Net debt, excluding our finance and operating lease obligations, at the end of the second quarter was \$68.4 million, compared to \$68.3 million at the end of the prior quarter. Our debt-to-trailing-twelve-month adjusted EBITDA ratio, excluding leases was 2.66, which we have reduced since the MC Assembly acquisition from 4.67. Including capital leases, our debt-to-trailing-twelve-month adjusted EBITDA ratio was 3.15, which in-line with our public company peers. We remain focused on continuing to reduce our debt-to-EBITDA ratio by the end of this year.

As noted on slide 6, our financial priorities during this COVID-19 pandemic are squarely centered on tight control over expenses, carefully managing our working capital and maintaining strong relationships with our partners to ensure financial flexibility so we can adapt and support our operations through uncertainty.

At the end of the quarter, and subject to debt covenants, we had \$30.9 million available under our asset-based lending credit facility. To provide increased covenant flexibility, as we continue to navigate through the continuing COVID-19 pandemic, we have also amended our credit facilities.

Following up on the Q2 expense control initiatives that we announced in our last earnings call, in Q3 we implemented additional cost-cutting measures, including headcount reductions primarily at our Zacatecas, Mexico facility, and reduced capital expenditures benefiting from installation of machinery and equipment shipped from China manufacturing operations at our North American plants.

Concluding my comments, based on our current demand and known supply chain visibility, and assuming our facilities continue to remain open and operate at currently planned levels, we

expect revenues to range between \$190 million to \$205 million and adjusted EBITDA to range between \$13.7 million and \$15.0 million for the second-half of 2020.

With that said, here's Eddie for some additional comments on our business. Thank you.

Eddie Smith

Thank you, Steve.

Before we open the call up for questions, I would like to share with you a few of our accomplishments in the second quarter and then discuss our goals as we look ahead which are noted starting on slide 7.

The COVID-19 pandemic has not only impacted our second quarter results, but it has also clearly changed the way we work, live and play. On last quarter's earnings call, Rich outlined the numerous safety measures and health safeguards we implemented to protect our employees and their families. Those efforts remain in effect and we are continuing to invest in these and other health and safety initiatives. In fact, we invested approximately \$1.2 million in Q2, and plan to incur a similar level of costs in the second-half of 2020 to support those initiatives.

Now, let me recap a few of our second quarter accomplishments:

To enhance our North American plant capacity, we completed the installation of equipment we shipped back from our factory in China that we closed in December when the lease expired. This will enable us to support additional production at our North America facilities without the significant capital expenditures that we would have otherwise needed.

To overcome travel restrictions imposed by the COVID-19 pandemic, protect our employees and maintain operations at our facilities, we instituted virtual onboarding for new customer programs using GoPro cameras, Zoom and Microsoft Teams software.

To keep the flow of new products entering volume production in the second half of this year our engineering and production staff in Boston and Fremont successfully launched eight new product introductions, or NPI programs, in the second quarter. Both of these factories have been instrumental in our ability to secure new programs from our existing and new customers.

To grow our top line going forward, we added more than \$26 million in new multi-year customer orders in Q2 from four new customers and eight existing customers – bringing the total of new orders awarded to us over \$130 million over the past three quarters. I am gratified by the confidence and loyalty our customers have placed in us and pleased that our backlog remains strong as we enter the second half of 2020.

Let me switch gears and discuss our key initiatives and goals for the second half of this year. As I look ahead, our top four goals remain:

First, my priority is to launch the new programs awarded SMTC and continue to grow our market share in key markets that play to our strengths, including Industrial IoT, the highly complex and regulated markets of customers supporting the defense and aerospace industry which you can see on slide 8. These markets provide a stable and solid base to profitably grow our business in the second half of 2020 and beyond.

Second, to achieve and maintain our leadership position in terms of operational performance among our Tier III EMS peers, including revenue growth, gross margin, EBITDA margin and net margin percentage. We have included how we stack up favorable against on peers on slides 9 and 10.

Third, to keep our employees and their families healthy and safe and prudently manage the business through the ongoing COVID-19 pandemic. We will do this by maintaining the health and safety measures we have implemented. As Steve said, we are focused on tight control over

expenses, carefully managing our working capital and maintaining strong relationships with our partners to ensure financial flexibility so we can adapt and support our operations through uncertainty.

And finally, to remain very customer-focused by providing superior service that will, together with operational excellence, ultimately reward our stockholders with enhanced shareholder value.

With that, Steve, Rich and I will take questions from those on the call today.

Q&A

Eddie Smith

Thank you, operator.

In closing, I want to, once again, thank our employees, leadership team, business partners, distributors and our stockholders for their continued support and look forward to reporting our progress to our various stakeholders as we go forward. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.