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<<Unidentified Analyst>>

But with that, I want to introduce SMTC Corporation, SMTX. We have the CEO, Eddie Smith here; and the CFO, Steve Waszak. With that, I'll turn it over to Eddie and he'll tell you all about his great story there and have some time for questions at the end. Thanks for coming Eddie, Steve. We appreciate you guys being here.

<<Edward Smith, President and Chief Executive Officer>>

Thank you. Thanks for the introduction. And thanks for all of you to take your time out of your day.

It's funny with the Weinberg thing up here. It brings back one funny story, I'll tell just real quickly, funny story. I was presenting to the BAE Corporation to their whole supply chain aspect, presented a supply chain. I got up here to the podium and the guy hit the first slide and an insurance company came up. And so I figured I'd just present the insurance guys thing. I went through like three or four slides before they realized that it was the wrong presentation. So it kind of reminds me of that too.

SMTC is a great story. Actually things have been going extremely well for us. If you think back two years ago was when I started with the company, I just had my anniversary, company that sales were declining, losing money. It was in tough shape and no doubt about it. First year out of the gate, so the first 12 months we turned it around. Sales grew about 50% year-on-year.

Profitability went from losing money to making a couple million dollars of EBITDA. And in the last year that growth continued in the 40% range. And so late in the year and this kind of was interesting on Friday, I learned some valuable lessons about how to send the message on Friday.

We bought a company called MC Assembly and it's kind of interesting when we bought MC Assembly. When we started talking to them, they were bigger than us. When we bought them, we were bigger than them and more profitable than them. So when we announced the stub period last Friday, our stock vacillated dramatically, way up and then way down. Partly because I think when you have to announce the stub period, so maybe that's the best learning I learned is not to buy a company mid quarter because it really makes it difficult for people to get through the mess of numbers of what's really the compares, what's not the compares and all of that.

When you get passed all the craziness of the quarter in the stub period, what really was meant to be said was quarter-on-quarter or year-on-year, the growth was double digits. And so in the midst of an acquisition and integration, we were able to grow the business almost 20%. And that kind of got lost in the whole messaging of stub periods versus pro forma versus GAAP. And so our stock vacillated way up and then our stock came way back down. And so a lot of people ask me what happened and how did that happen. And my answer was we probably weren't as clear as we could have been. And then the second thing is if I ever buy a company again, it'll be at the end of the quarter.

And I knew that lesson a long time ago. We at Avnet when we bought many companies we would not close at mid quarter, we would close either beginning or the end of a quarter. And so if I could take back and that I would, but timing just worked out to be what it was.

So now we're in what I would call heavy growth period of time. I'll just use this, a little forward-looking statement. [Slide 2]

So came in, like I said, the first bullet's really talking about to create one of the best midsized providers at EMS services. [Slide3] I think as you would tell that's going pretty well. We're gaining both in our existing customers or we're getting new customers. We did say on a conference call that we've landed about 10 new projects even in the middle of this integration also. So that's pretty exciting.

When you look year-over-year, our revenues up about 109% and that's with the stub period. If you took it as a full quarter, that would be significantly even higher than that. If you take year-on-year overall for the year and only having MC for five weeks, we were still up 55%. If you only took SMTC, it would still be start with a "5". So it's a pretty exciting time for us, heavy growth in an industry that's not normally known for growth.

I get this question many, many times when I'm on the road shows and speaking to investors, why are you growing faster than many other people in an industry that's not really known for growth numbers like 40%, 50%. And my answer is I think through consolidation, it opened up a space in this industry that customers are looking for a high quality, great operational company. And I think we fill that space for them.

And when I talk about quality, I brought our COO and I'll talk in about the leadership team, but we today, we measure our quality daily. I have it on my phone every day. I can see the quality of every factory around the world. Most companies our size don't measure to that level. The gentleman who runs our operations came out of Intel. And if you know, the Intel way, quality is built into what they do.

And then the other thing we can do as a Tier 3 that most Tier 3s can't do, that's pretty impressive is we actually can go from cradle to grave with our product's life cycle. So we can actually build the board, we can bend metal, we can create cable and harness, we can do everything. The only thing we don't do is plastics and the reason we don't do plastics is because the Chinese do a really, really good job of that and it just – it makes no sense for us to get into that business in terms of profitability. And then the last but not least, we transformed the company went from $200 million to $400 million and some million dollar company on November 9.

[Slide 4] Why we did it? We wanted to – we needed more capacity. We want to diversify our customer base. I think this is going to be interesting because I think as the U.S. economy decides how much it's going to slow and what's going to happen with the U.S. economy, I think we're very well protected. We have a very spread out end market game in diversification. So we have a little of our business in medical, a little bit in defense, test and measurement. When you look at that and you start looking at all the different segments we are, if one segment gets hurt more than the other, we'll actually be able to weather that much better, no doubt about it.

And last but not least, one of the reasons that I looked at MC Assembly and bought them is they're really big in the RF space and communication space. And you might say, why is that important? IoT is going to be all about RF and communications, how to get the information off a sensor into the web, and we're able to do that. We have a quite a sophisticated facility down in Florida that does it right in the Space Coast. So we get a lot of good people from a lot of the defense aero companies that can do these types of things to communicate with satellites and all of that. And so that's pretty important to us.

We also have very little overlap. So when we bought the MC, one of the things that we measured, we started with the 127 companies, took it down to 23 and actually negotiated with three. But the way we figured out who we're interested in and not, part of it is we did want – we wanted no overlap with customers. We felt like that might lose us a customer or two. And we decided we didn't want to take that risk. And so we have no overlap with customers. So that was pretty good.

The other part was the manufacturing footprint. So we had the West Coast, we had Mexico and we had China. This gave us East Coast further into Mexico and no Asian presence. So we're now in the Northeast, Southeast and in the West. The West is kind of an interesting one because we're on the same street as Tesla. And if you're on the same street as Tesla, that's kind of crazy. We don't put up tents and build cars. And I drive by Tesla, they don't put up buildings. I used to think of manufacturing facilities put a building. These guys put up lights, maybe a tent, and then start building more cars. And I find that fascinating for sure, no doubt about it.

We originally came out with cost synergies of about $6 million. And why that number is so significant? If you took the EBITDA of both companies, that's $18 million. If you add this cost synergies to that, you're looking at a $24 million plus the synergetic EBITDA. It'll cost us about $3 million. We're well on our way to getting there. As I said on a conference call, there's really nothing that's slowed us down. We believe we found more synergies and we will over the next couple quarters realize those. They are a little bit more difficult. They're not people. There are processes and different things that we can do.

[Slide 5] So the philosophy; if you kind of look at this crazy mash of stuff in the middle; we were strong in power, energy, networking, communications, they were strong in telecom, aerospace, defense, clean technology. The stuff in the middle we both had, as you can see, it expanded the type of customers that we do for sure. We had five sites, they had three sites. I won't bore you with a lot of the other, but no doubt about it. Mexico is becoming more and more important. It's probably the big thing that came out of that. People ask about Mexico, so I'll talk about Mexico right now.

One of the ways that the whole tariff thing has affected the EMS space is more and more people are building in Mexico because Mexico doesn't have tariff funds. So you bring parts into Mexico onto one harmonic code, you build product and it comes into the U.S. under a different harmonic code and obviously the tariff is then avoided. So, clearly Mexico is going to continue to grow. If you think about Mexico in the automotive space, they've grown 24 million square feet of automotive manufacturing down there in the last five years and I don't see that slowing down at all. So we're going to continue to expand in Mexico. We just took another building in Mexico. And I would say that that will continue down there.

Our vision is to achieve double-digit growth with our existing customers by winning new programs. The easiest way for us to grow and the easiest way we've grown so far as we say to our existing customers, we're better than our competitors. We can do higher quality or better on time delivery, give us more business and that has been very successful for us. About 50% of that 55% number that we've talked about on growth, about 50% of that is our existing customers giving us new programs. Increased business with existing customers through world-class service, and then become provider of choice and win new customers. The other 50% of that growth has been in winning new customers.

The reason we did both new customers, existing customers is you can get up and running quicker with your existing customers. You're already there. You don't have to set up credit. You don't have to do a lot of qualification. With new customers to take a new customer from beginning to get them up to a reasonable manufacturing level, it takes somewhere between six months and nine months. So when we announce a new customer before we actually see significant revenue, it normally takes six months to nine months to get to that revenue and their profitability. So the thought was, hey, let's go grow with the ones already in quicker, then let's go add new customers on top of that for a longer term.

And then we want to drive value through M&A, expand the mix of our lines of business, increase our TAM and supply chain synergies. One of the ways we're going to increase our TAM is to be able to do more lifecycle and supply chain things. I would tell you right now, and I would say this with no hesitation, one of the things we do better than anybody in our segment is supply chain. That wouldn't surprise you considering that four of the top five executives came from Avnet, the largest distributor of components. 70% of our revenue comes from the supply chain. So the thought was let's be the best supply chain company in the industry.

[Slide 7] If you look at our progression of best-in-class, and anybody has heard me present before is, my answer is if you want to be a great company, you better be better than all the others before you can claim that you're a great company. So this is our march to being best-in-class. So if you look trailing 12 months is $216 million. We announced forward guidance between $96 million and $100 million. So, obviously, as you can see that we'll jump to be in the second biggest after next quarter. Our gross profit trailing 12 months is 10.25% – of 10.02%. Q4 was 10.25%. And in our business as you grow, your gross profit gets better, you utilize your factories better. And I would expect by the end of the year that to be somewhere 12% plus.

Our adjusted EBITDA trailing 12 months, we were 4.75%; in last quarter we were 6.58%. As you can see, we're getting close to being best-in-class there. And then obviously net income, if you – this is GAAP, if you went non-GAAP we would actually be positive. So just something to take a look at of what we mean by being best-in-class.

[Slide 8] Our leadership team, I couldn't be any more proud to say for a $400 million company we have one of the best leadership teams that I think. We have Steve Waszak, who's here today with us in the back there. Steve's been the CEO of companies like BTI Systems. He's worked at Ciena, Deloitte early in his career and he's our CFO. Rich Fitzgerald worked at Intel, CTS, and then obviously in Avnet he worked for me running my global operations at Avnet. Terry Wegman, ran sales for a portion of Avnet. And then Phil Wehrli has an interesting background. He started at Motorola, went to Apple and then worked for me for about eight years at Avnet, running my supply chain, buying about $6 billion of parts a year. So interesting team.

[Slide 9] If you look at the stock price and how this has all led; two years ago, stock price was about $1.20. This week is vacillating between $4.50 and $6.30. So it's been quite the ride this week for sure. And I think it has to do with the messy numbers of acquisition stub periods, people trying to figure out.

And then probably the other big question that I get is when we put forward guidance out for Q1 why does it look flat to Q4? And that's pretty simple. We normally actually go down Q4 – Q1 to Q4, because of seasonality. Last year we went down almost 7% on a top line. I'm actually pretty proud that we actually will beat Q1 – Q4 numbers with our Q1 numbers. That will be a first in 10 years. And so it actually shows you the growth in a progression that we're going through. So this year we don't have the seasonality that a lot of people talk about. But you know, this is because we have new customers, the existing customers will still suffer the same seasonality that they normally suffer.

I could go back to all the history. I won't bore you with all the history other than we are now a growth story after going from a turnaround story to an M&A story to now our growth story. And so the story of what we're trying to accomplish, it turns into growth. And in our space growth is really important because growth is profitability because once you have a plant, you don't have to pay for the power twice, you don't have to pay for the infrastructure twice. You don't have to pay for the management team twice. The more business you can put in particular sites, the more profitable you get.

[Slide 10] So a little bit about the footprint. We're in up in Massachusetts in Billerica. So nice little site there, not one of our bigger; we're then down in Melbourne, Florida with one of our bigger sites. Melbourne, Florida was really how MC started. So it's pretty fun when you hear the history. They started out helping NASA do test – test their equipment. They then went into the assembly business and now they're right in the middle of the Space Coast Highway there. When you drive 5 miles from that plant, you'll see all the major contractors in this defense and aerospace business. And as we grow here, that will be a major focus for us.

We're then in Zacatecas, Mexico with the PBC plant there. And that has the distinction, interesting distinction to be the geographic center of Mexico. So if you were to cut Mexico right in the middle, Zacatecas would be right in the middle, it's an old city, been there for a long time. And if you look outside our plant, you will see the biggest Corona factory in the world, just in case you want to ever come visit us. Interesting enough in Chihuahua, so just the opposite, we must like liquor. Chihuahua's right by where the tequila is harvested. And so you can actually go up and drink tequila if you come to our Chihuahua plant.

Our Chihuahua plant is a pretty interesting plant because our Chihuahua plant used to be the old Zenith TV plant. So if you think about what TVs were made of before, metal bending, LCD screens, all of those types of things. Our Chihuahua plant is really very sophisticated plant. When Zenith left, we then put an EMS place in our Chihuahua plant. We then put a supply chain center in Phoenix, Arizona. So that's pretty new. Fremont, we build, like I said, we're on the same street as Tesla, that's always exciting. Toronto, Canada, which everybody always asked me how many people. We have 28 people in Toronto, Canada, that's really down to our engineering and finance group for the company. So there's 28 people up in Toronto, Canada.

SMTC stands for and it came out of Toronto, Canada. It used to be Surface Mount Training Center and you might say, Surface Mount Training Center for who, and that was IBM. So we were spun out of IBM, and we are a Surface Mount Training Center and that's why it's Toronto, Canada. If you think about who else was in Toronto, Canada; Celestica, we were the training center, they were the production center and we were both spun out of IBM way, way back.

[Slide 11] These are the markets we serve; medical and safety. We'll continue to grow in medical and safety market. Semiconductor equipment market, I think this goes to my first little part blurb about how companies, and as the industry slows down, if you haven't noticed the semiconductor equipment companies are slowing down. We actually are still riding the wave because we have some new technology.

We’re in the retail and payment systems. So if you go to a gas station and you put your credit card into a gas station, 80% of the time you’re paying through a system we’ve built in the U.S. We have about 80% market share there. If you ever go to a Chili’s, and some of the others, we actually make that little thing where your kids play the games and then you pay and you get your receipt at the table, we do that also.

Test and measurement; we worked for many of the best test and measurement companies in the country. Industrial power, clean technology, we do everything from the windmill type stuff all the way through metering, water metering, gas metering, that type of stuff. And in defense and aero, when we bought MC, we bought some of that business.

[Slide 12] So to go through the numbers real quick, you can kind of look at the different marketplaces. As you can see, the biggest marketplace [in 2017] we have is the payment marketplace at 24% [while in 2018 test and measurement was the largest at 21% on higher sales]. It’s really very diverse and that’s going to save us as the markets, different markets go up and go down. And so I’m pretty excited about that.

[Slide 13] This is some of our manufacturing discipline. I won’t bore you with this because if I went through all of this, I would be bored also.

[Slide 14] But here’s probably the most important part, the financial part of the growth part of the business. When we put these slides together, as I could tell you, it was only $3.13. Our stock was $5.02. It jumped up to $6.30 and then dropped back to $4.50, and this morning it’s actually moving back up.

So, a lot of people talk about debt. We have a term A, term B and a revolver. So we have about $80.8 million in bank debt, and then we have some capital leases. The capital leases; interesting is how you have to now qualify building leases into a capital lease because of how long they are. So, it’s not your typical capital leases that we used to talk about.

[Slide 15] And then income statement, this was the stub period of $80.855 million. If you take non-stub period combining both companies, you would have been $96.3 million for Q4. And that’s a dramatic difference from $38 million a year ago if you think about the difference in those two numbers. If you look at the EBITDA and adjusted EBITDA and what that looked like, it looked like almost $6 million of adjusted EBITDA. So quite the turnaround, as you look. I think there’s been some notes put out today that would explain some of these numbers even more in depth that I’m going to do here.

[Slide 16] And then, last but not least, if you take the trailing 12 months at $345 million, and this is where I think it got a little confusing on a call and had things vacillate. And you look at the adjusted EBITDA $18 million, we talked about synergies of $6 million. So the minimum you should see on the EBITDA is $24 million plus and then top-line revenue will continue to grow. And some of the people that put out that start with $4, $4-plus, and I think that’s probably very accurate. So pretty exciting time for us in terms of growth.

[Slide 17] Cash to cash conversion cycle, we're still one of the best in the industry. The average is 78 days, where it's 67 days in terms of converting our cash. We will continue to do that. It makes us more efficient. We'll continue to work there on that.

[slide 18] And then I'll end with, I think we're a stronger company today, obviously, then two years ago, but even a year. We were two customer-driven, full service leading turnkey EMS companies. We are some of the best, we are dedicated to operational supply chain excellence and we now have a shared vision that will drive us to new levels.

[Slide 19] And then for you the investor, why would you invest in us? Clearly one is the leadership team. The last time we did this we took stock from $0.38 to $15 and we did that in less than three years. We took this stock so far from $1.20 in two years to over $5 a week ago. I see that continuing.

Our operational excellence allows us to continue to grow and have metrics better than our competitors. Our customer base is Tier 1 customers. We don't have any customers that I worried day to day, are they going to be here next week, next year. These are all top notch customers and then we're going to deliver shareholder value. So far, I think we've done a pretty reasonable job of that, but we got some more work to do to finish the integration and get us where we can get.

So with that, I will take any questions that we possibly have.

Q&A

<Q>: And we look forward doing the Mexico liquor toward some point.

<A – Edward Smith >: So do I.

<Q>: Can you talk about the tariffs? I think it's on people's minds and it seems like there is a transition of manufacturing to Mexico. What kind of revenue bump has that given you to-date and what kind of more important, what visibility do you have now, that project doesn't happen overnight. So I'm curious what your visibility is then?

<A – Edward Smith >: Yeah. The tariffs are crazy moment, right. One of the things I always say is, who knows what the next tweet will bring or what will happen. I can't react to that. So all I can react to is what I know. And when the first tariffs came into place, we have $13.8 million risk for our customers. And that's a pretty significant risk, if you think that we were $200 million, 6.5%. We've been able to – by moving customers to Mexico, we've been able to lower that $13.8 million to less than $1 million.

So clearly I think companies are moving more and more to Mexico, out of the U.S. and out of China. I don't think that slows down because now I think companies have found ways to be more efficient in Mexico. So I think China is going to become the Asian manufacturing center. I think Mexico will become more of the North American manufacturing center. And then if you want really low costs, you'll move to either India or even further into the Middle East, interestingly enough.

So the tariffs, for me, and I know personally on one side I say one thing and on a business side is other. On a business side, the tariffs are good for me because they'd move more and more to Mexico, and we've picked up customers that want to build in Mexico. And since we're one of the better manufacturers in our space in Mexico, the tariffs have helped us. On the personal side, obviously, nobody wants to pay more for electronics. So on a personal side, I'd rather let them go away. But right now it's helped us a lot, and I would say it's probably grown our business 20% year-on-year.

<Q>: Great. We'll take the questions from the audience if there are now. And I'll repeat them for the webcast.

<Q>: [Question Inaudible]

<Q>: I'd just repeat the question, Eddie. It seems like when you get new customers, are they coming in through additional projects or you're taking business from other EMS?

<A – Edward Smith >: It's mostly taking business from our competitors. I'd like to say it's moving outsourcing more but it's not, most of our customers that were going to outsource have either outsourced. So it's more taking from our competitors. We do that through operational efficiency, supply chain.

I can tell you one funny story. We had a customer that we had done business with in my days, in Rich's days from Avnet. They were aligned down with the EMS provider they had, which was a Tier 1. They called us to get them parts. We got imparts up and running and in two days, then they called us again and my answer was, okay, I can only help you so many times, so you have to give us some business. And they turned out to be a $15 million customer.

<Q>: [Question Inaudible]

<A – Edward Smith >: The question is, is it mostly from Tier 1s or is it from others? I would say it's the lower Tier 1s, some of the Tier 2s, is really where we're winning most of the business. So I can see the next group's coming in. I want to thank everybody for your time, unless there's one more question, I guess.

<Q>: Any quick question?

<Q>: [Question Inaudible]

<<Unidentified Analyst>>

Excellent. Thank you, Eddie.

<<Edward Smith, President and Chief Executive Officer>>

Thank you. Thank you for having me.

<<Unidentified Analyst>>

Great.