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**LD Micro Main Event XI
December 4, 2018**

Edward Smith, President and Chief Executive Officer

Thanks. Does everybody know Peter [Seltzberg of Darrow Associates, Inc.]? Raise your hand if you know Peter. All right. He's the LeBron James of IR. That's what he tells me. So, we got LeBron with us. The other gentlemen, that I brought along, is Steve Waszak, so Steve is in the back of the room. He is the CFO for SMTC.

So, we were here a year ago and that was our first conference and we had just taken a company SMTC, turned it around and we didn't really have a lot to show for you yet. And I know people kind of wonder hey is it really going to happen, what's going to happen to the company. At that time, we're at \$134 million run rate and we were making a very marginal profit. We will end this year because of our pre-announced Q4, we'll end this year at \$195 million, we'll have growth over 40% and we'll go from a company that broke even to making \$7.5 million of EBITDA.

So pretty dramatic change in terms of the core, what I would call organic business. Interesting enough, we didn't think that was enough to do turning the business around. We actually on November 9th announced that acquisition of a company called MC Assembly out of Melbourne, Florida. So, if you think about it, we were \$134 going to \$195 [million]. We bought a company called MC Assembly, which was about \$150 million company, that was accretive to both our EBITDA and a lot of our other metrics and I'll kind of walk you through some of this.

So it's been a pretty exciting time. My name is Ed Smith. I'm the CEO. I came from AVNET. So, I was the President of AVNET. If you know about the electronics distribution marketplace, AVNET sold about 40% of the electronic components in the Americas. And I had the pleasure of taking that business from \$1.8 billion, when I came in to over \$8 billion combined. So, I've been very blessed in terms of growth.

Somebody asked me – a lot of the questions today were what happens if the economy goes down, 2% or 3%, and what happens if it tanks. Here is what I would tell you,

interesting enough. If the economy goes down, 2% or 3%, I think we'll work our way through it. We'll continue to grow. Things will be fine.

If the economy goes down like it did in 2008, 2009, we'll just have to react to it. I was the President of AVNET. I'll never forget, this is one of the funnier stories of my career. In 2008, when the economy tanked, and we were \$6 billion business, four quarters later, we were \$3 billion business. We lost \$3 billion of sales in four quarters.

But interesting enough, our profitability didn't go in by half. Our profitability stayed where it was. I'm a big believer that you follow the market and you follow the way you need to. Interesting enough, one of the greatest experiences in my career, in 2009, in five quarters, the business went from \$3 billion up to \$6 billion. So four quarters down in 2008, four quarters up in 2009.

And I was like telling people, it was really difficult on the way down keeping up, but it was much more difficult on the way up in 2009, because hiring people and getting people back into the workplace was really, really difficult. So that's a little bit of my history.

I'll give you the forward-looking statement. I'll let you read it, if you can read it, that's great. If you can't read it, you've probably seen many of these, but clearly a lot of these are forward-looking statements, the securities laws and so I won't read it all out to you.

A little bit of overview of where we've been. We are a global mid-sized provider of EMS services, so electronic manufacturing services. We don't try to compete with Flextronics. We don't try to compete with the big people. They don't play in our space. We've tried to find customers that have varying customers, have varying products, have to build a lot of different boards at low volumes to mid volumes, where the Tier 1s aren't interested in that business. We stay away from them. They stay away from us.

You may ask why I mentioned it? When you look at gross margins, when you look at the "Flextronics", they're in the low single digits. They're 5% to 6%. When you look at our gross margin, our long-term target is to be above 12%, and so you think about twice as much profitability as where they are. When you look at our EBITDA, which is even probably more important to us in the end, we're looking somewhere between 6% and 10%. And if you think that their gross margins that have been 6%, obviously you're a much more profitable segment of the industry.

We brought in a new leadership team. Many people asked me what's the differentiation for our business versus many of my competitors. One of them is supply chain. We have not felt the effect of the tight supply chain in EMS space. Partly is because I brought the team, I had at AVNET over [where] we had spent over \$72 billion in buying parts. We're now buying parts for a couple hundred-million-dollar company. It is dramatically much easier for us to secure those parts.

We brought – I brought some gentlemen over, who had worked for Apple then he worked for me at AVNET and now he works for me here at SMTC. Also the gentleman who runs

my operations came from Intel then worked for me at SMTEK and then actually came over here. A lot of people asked me, why do people leave these big jobs to come work here at a small company? My answer is it's really not more complicated than we have a blast doing this. Anytime you're growing faster than the market and you're making more money than the market. It's a lot more fun than growing slower than the market and the grind that the market is in right now.

The gentleman who runs our operations, Rich Fitzgerald, and I'll show you him in a second, here is a little bit of his history. We don't believe in just quality. We believe in quality better than the industry. If you ever saw my phone, I keep real-time statistics. I can tell you how our factories are running today. I can tell you what they did yesterday. I can tell for what customers.

Most companies that have \$400 million, don't keep those types of statistics and don't have the quality we have. What you measure happens and so we measure our quality daily. If our quality drops in a particular factory, I can pick up the phone tonight, call Mexico and call China and say so walk me through what happened, and they would have that capability to tell me that.

And then we can service the product lifecycle. Have any of you eaten at Chili's [Bar & Grill] restaurant? Raise your hand if you've eaten Chili's in the restaurant. So, you know those little things that are on chilies. You could place your order for your dessert. You can pay your bill. You can play the little games. We build that from start to finish. We repair them. We replace them. So, we are what they would call end to end product life cycle company. We can build it, we can design it, we can make it test it and then deliver it. And so, we do that at Texas, El Paso. The reason we do it at Texas, El Paso is you can hit anywhere in the United States out of Texas, El Paso. It's right in the middle of United States in two days. You can go east coast or west coast in two days. Most other places you hit one side in three days and the other side in one day. We actually are right in the middle, you can hit both in two days.

This is my vision for the company and I get pretty excited about this, because we've been pretty successful. We want to achieve double-digit growth. And people asked me when you say double-digit growth, we have new programs in our existing customers, it's the easiest way to grow. I've done this three different times. I worked for AVNET. I grew it from \$1.8 billion to \$8 billion business. I did another EMS startup, where we grew at 300% over 18 months. And then here we grew this year, probably the most disappointing of it. We grew our business about 40% year-on-year. So this one we were a little bit slower, but we're going to kick it up a notch next year and start getting this thing going.

Then we want to increase our business through world-class service. We want to do things for our customers that make them successful, so that their existing business grows. And when their existing business grows, then our business will grow with that. And so we've been able to do that for some of our customers this year.

And then the last, we want to be the provider of choice. So we want new customers. Is it a little funny story? Maybe not so funny story for my competitors, but we had an old customer. We used to do business with who called us, they said, hey Ed we're line down, we're going to be line down for the next two months on some particular parts. We called the manufacturer. We got them the parts, got them back up, eventually left that contract manufacturing came to us. They are now our second biggest customer. I can tell you that story seems like that would be just one story, but we do that over and over every day.

Why would you invest in us? This is probably most important and why do we do the acquisition? We took two of the best companies in industry combined them. Obviously, if we do it right, we'll be the leader in the industry.

We enhanced our end market diversification. SMTC was not in the medical market in a big way than we were in the defense aero market. We're now on both the medical and defense aero. But interesting enough, what we got from MC Assembly also was the industrial Internet of Things. So, they do a lot of wireless communication, they do meters that do wireless communication, a lot of IoT stuff. I find that everybody using the word industrial IoT. On our side of the business, we have always been doing IoT. We did smart power for data centers and that type of stuff, but this gives us some RF capability we didn't have. Stronger customer base with no significant customer overlap, we have been able through the scale of growing so quickly. We've been able to take our customers, our top four customers used to be about 30 some percent, 37%, 38% of our business, our top four customers now will be less than 25% of our business. So dramatically changed what I would call the risk factor for the company on detrimental reliance.

And then our footprint, our footprint is pretty interesting. They had three and they were east-coast based and one in Mexico. We had one in Fremont, one in Mexico and one in China. So, you put those six together and clearly, we've been able to expand. We were going to build the new building in Mexico, because of the growth. Every time President Trump talks about a new tariff, more business comes back to Mexico. And so, for us, this has been a boom. And we grew in Mexico over 50% last year we're going to continue to grow. We are going to build the new building, but by buying MC [Assembly] we're able to forego, spend at about \$10 million to \$15 million to build another building.

I kind of liked Mexico, our factory used to be the old Zenith TV factory. So, when you walk-in, it's a pretty incredible campus. They got these lines, then they got glass making, we have clean rooms to do different things. So, I flew down to Zacatecas, Mexico. So, if any of you ever want to visit Zacatecas, it's a – you go through Mexico City and quite an effort to get there. But the coolest thing is driving to the plant was the Corona. It's the largest bottler of Corona in the world. So, I was like, wow that's pretty cool. We should get a Corona, when we go to dinner tonight. So, we went to dinner and then also that Corona in Mexico. It's all for export. So, the U.S. is the largest consumer of Corona beer in the world.

And then last but not least, we will have more than \$6 million, of course, cost synergy, so if you think about it that will help quite a bit. If you really put into perspective, when we

started the conversation with them, we weren't even making \$6 million of EBITDA. We now have synergies of higher than \$6 million. We doubled our EBITDA just by the synergies plus the EBITDA that MC was making.

We put the companies together, put together one philosophy. If you kind of look at it, they had 1,100 employees, we had 1,100 employees. You think about the synergies, a lot of people talk to me about the synergies. One-third is people or leadership. One-third will be – we will double our purchases from our suppliers, so discounts and savings we can get from purchasing from the same suppliers. And then one-third will be from – in Mexico we own our own operations. They actually use a shelter company and savings on a shelter company. We put that together and you have – I'll say this, we will be one of the most profitable, if not the most profitable EMS company in our space. And I'll show a slide on that in a second. But, didn't take long to get there.

So as you can see, we are moving from left to right last year. And it was pretty exciting to watch from a company that lost money, first to breakeven, then start making money, then continued to move to the right to being close to best-in-class. When we finished the acquisition, finished the integration, we were best-in-class in trailing 12 months of EBITDA, EBITDA percent, growth and net income. So pretty exciting turnaround from where we were to where we are now.

I think the leadership team matters and so obviously I've been around. The last time I ran a public company I ran it from \$0.38 to \$15 [stock price] and then sold it in 18 months. So we're going to try to do the same thing, and move the stock up and then see where it goes in three years or so. Rich Fitzgerald came out of Intel, CTS, which was another big contract manufacturer, and then he worked for me at AVNET for the last many years.

Steve Waszak, I have known for 20 years. He was first a customer, sold the business to Ciena, sold another business to the Nortel. I put him on my board when I was at SMTEK. I called him up. It's kind of a funny story and said, hey I'm looking for a CFO that can do M&A, helping to turn around and raise some money. Steve said I'm interested. And I was surprised by that. So, we hired Steve. And then Terry Wegman ran sales over a \$1 billion of sales for me at AVNET.

So, the stock price, so thank you to all the shareholders who own our stock. The stock has been moving up and that always makes everybody happy. But if you think about it, we started a restructuring in Q2 of 2017, we stabilized the customer base, we expanded our addressable market. Then we strengthened our organization, I brought key executives in, so year-over-year, 56% in Q3, year-to-date 34.5% that will continue to grow and then we did the accretive acquisition of MC Assembly and that'll continue to make us more profitable.

Global footprint, I won't waste your time with a lot of this. We're in Boston, Massachusetts; Melbourne, Florida; Fremont[, California]; two in Mexico and one in China. So, when people ask me about tariffs and different things and about the world events, as I tell my board, I will deal with whatever tweet comes out, because we're in

every one of these regions and we can just move business to where we need to move it to deal with what's going on.

The markets we serve, and this is probably one of the key reasons why we bought MC [Assembly]. They're in a medical market as you can see here. They're big in the defense market. And we played very little, in terms of dollars, we have a lot of products but very small dollars, but we didn't play at all in the defense area.

Somebody said, why wouldn't you do that organically? It would take two to three years for us to grow defense business. You just – don't say, hey, I want to go and do it. We had gotten our AS9100 [certification] two weeks before we bought MC [Assembly]. And somebody said, well, you got AS9100, but you also now need a top-secret clearance, you also need a contract. You need a lot of different things and it takes a lot of time to do those things. This quickens the pace. It also lowered our detrimental reliance on our customers by half.

If you ever see us, we play in a payment systems. We have capabilities to protect firmware, install this, test this. This is not easy stuff. Payment system seems easy, but they're really very dangerous because people worried about malware, security, a lot of different issues and we're able to do that for our customers. We do a lot of test and measurement. One of the things that IoT, most people don't realize that cameras and image sensing are getting to be more and more important in the IoT.

So if you go to a store today, does everybody know that no matter what store you're in, your picture is being taken. They're doing facial recognition. They are doing how long you're standing at a particular counter. They're counting how many times you pick something up, how often you put it back down. They're measuring when you walk down, how fast you walk past one store and how much you slow down in another store. So do you see what sales were going on and what sales, all of that is being measured today. Most people don't realize that.

My children always funny, they didn't want to do CLEAR. Who does CLEAR in the airports? I do it in a second, they say, but they'll get my fingerprints. And my answer is – so where do you think your fingerprints are hidden from today? Everybody has your facial recognition, they have your fingerprints, they have all those data. If you like it or not we live in a world that your pictures are being taken. And then I ask like follow-up to my kids, are you on Facebook? And the kids told, oh! Yeah. Oh! You don't think that every person in the world could find every picture or thing you've placed on Facebook and go back. I said forget it with, you're going to sign up for CLEAR and the reason is I don't want to wait for them at the airport.

You know how that goes, right? You're getting back from vacation and you're ready to go and get through the thing, get home. I didn't get TSA PreCheck, I got to go on the other line. Next time, you're not going. My kids are now 21 and 23, so I could say that and they believe it. Whenever – teenagers, they'd say, oh, no, you've got to think because you don't have a choice.

Okay, I won't bore you with all of this, but this is our manufacturing discipline. So as you can see, we have most of the things we need. One of the coolest things we did last year that was really a lot of fun. We took a medical customer away from one of our competitors and we were able to get them from signing a contract up and running to get FDA registration, so that means you have to have FDA inspectors come in your factory, watch you build something, test it out, we did all of that in 67 days. And our customer, as I would say, was really blown away. He thought that would be a half year to a year project to get that done.

Oh! Five minutes. I talk a lot. We got to go. I won't bore you with the favorable industry trends. You all know that in the electronics business, things are growing. I won't bore you with that too much. This is probably one of the most important. We believe our long-term target model will be 20% growth, gross margin 12% to 14% and 6% to 10% [EBITDA]. Anybody know why that's important? That would make us as the best contract manufacturer by more than 50% in every one of those categories. It's important to me to be number one or not do something. You don't waste your time unless you can be number one in something.

Our income statement, so I won't bore you too much with this. [Q4, we did \\$53.6 million in revenue](#). I would tell you that there's people who are presenting at this conference and other EMS people I compete with that when you talk about this type of growth, 50% plus growth, would say that the supply chain is really tough and it's struggling. We have really no problem with the supply chain. And so I would tell you we are a leading supply chain company, not just a manufacturing company.

Then you kind of go down to net income. We made \$0.04 a share and I can tell you it makes me very proud to make \$0.04 a share considering how much money we lost when I walked into the door and I would look at numbers that would say \$0.20 and \$0.30. Our diluted shares here is 19 million, but that's not right because as we bought MC [Assembly]. Our diluted shares today are 23 million outstanding and 25 million shares diluted.

A little bit of some of the highlights. So current assets, \$95 million, as you can see a dramatic turnaround from where we were. A lot more liabilities, so the cash we needed to grow and then this was pretty exciting to our cash-to-cash conversion is 63 days. The next best in our industry is 78 and the average in our industry is 84. We use our cash really, really efficiently and that I think is really important to us.

And then creating a stronger company, customer-driven company and then both will be dedicated to operational excellence and then one strong company on the way to \$400 million together. So, it's kind of where we are.

Income statement, I won't bore you with that. But as you can see, MC [Assembly] had about \$11.2 million of EBITDA in the trailing 12 months. We had \$6.4 million total of 17. I talked to you about synergies of \$6.3 million and obviously Q4, I pre-announced

that will take up our \$6.4 million to \$7.5 million. So you can take \$7.5 million, add it to \$11.2 million and add \$6.3 million and that will be the company. So think about it. We went from breaking even and in 18 months we'll have \$25 million of EBITDA, that's a pretty long road in 18 months to go and I expect that not to slow down.

So, I'll take any questions. I know we're at the end, but I always know there's one or two.

Q&A

<Q>: So, in terms of financing, debt or you paid all cash?

<A – **Edward Smith**>: We took on debt and paid all cash.

<Q>: All cash?

<A – **Edward Smith**>: All cash.

<Q>: But why is the – why is the pay down were 20 to 25...

<A – **Edward Smith**>: We did a rights offering last year. We are going to use it to pay down debt, which obviously in our world we pay down debt and we took new debt, we got one minute, but – so we did the rights offering to pay down debt originally.

<Q>: Are you doing more acquisitions?

<A – **Edward Smith**>: We're always interested in looking. We probably won't do anything until the second half of the year, but I'd be more than happy to talk to anybody about acquisitions for sure. I think we need to get the integration done, which will take us Q1 that will be primarily done. I think Q2 we will start looking, we probably won't do anything until the second half of the year if we do. One more question and we got to go.

<Q>: [Question Inaudible]

<A – **Edward Smith**>: Say that again. Say it one more time.

<Q>: [Question Inaudible]

<A – **Edward Smith**>: I don't think we need it for – so I don't think we need it for working capital. I don't think we need it for day-to-day. We may sometime – put that aside, I'll just finish this question. We may issue some stock at some point to take out our Term B loan, but it'd be a very small amount, very, very small, just \$12 million, it's Term B, it's just a pain in the ass to have it sitting there.

<Q>: Thanks Ed.

<A – **Edward Smith**>: So thank you all. Appreciate it.