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9th Annual Gateway Conference  
September 10, 2020

## **Participants**

Edward Smith - President and Chief Executive Officer

## **Presentation**

### **Moderator**

Hello, everyone, and welcome. Our next presenting company is SMTC Corporation, which is traded on the NASDAQ, under the ticker symbol SMTX. Here to tell you more about the company is SMTC's Chief Financial Officer, Steve Waszak; and Chief Executive Officer and President, Ed Smith. Gentlemen?

### **Edward Smith - President and Chief Executive Officer**

Thank you, everybody, for joining us today. It's a pleasure to be here. And I wish we could be face to face and I'm sure that will happen in the near future.

So with that, I'll get started. We are an EMS company in the contract manufacturing space. I came with Steve back in 2017. We took a company that was about \$139 million, losing money, and we've turned it into a company approaching \$400 million, making approximately \$28 to \$30 million in [adjusted] EBITDA. And I'll walk you through those numbers a little bit more directly.

So with that, if you look at Slide number 2, you have a forward-looking statement. And you can read that typical forward-looking statements. I won't read the whole slide. You can do that on your own.

## FORWARD-LOOKING STATEMENT



This presentation contains forward-looking statements within the meaning of U.S. federal securities laws. These forward-looking statements include, but are not limited to, statements regarding our expectations, hopes, beliefs, intentions, plans, prospects or strategies regarding the future. Any statements contained herein that are not statements of historical fact may be deemed to be forward-looking statements. In addition, any statements that refer to projections, forecasts or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking statements. The forward-looking statements contained in this presentation are based on our current expectations and beliefs as of the date of this presentation, unless otherwise noted, concerning future developments and their potential effects on us. There can be no assurance that future developments affecting us will be those that we have anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, our actual results may vary in material respects from those projected in these forward-looking statements. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

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Peter, you can go to Slide 3.

# Building a Stronger Company: World Class – Flexible – Customer Focused



**Global Mid-size Provider of End-to-end EMS**

**Proactive Services & Solutions**

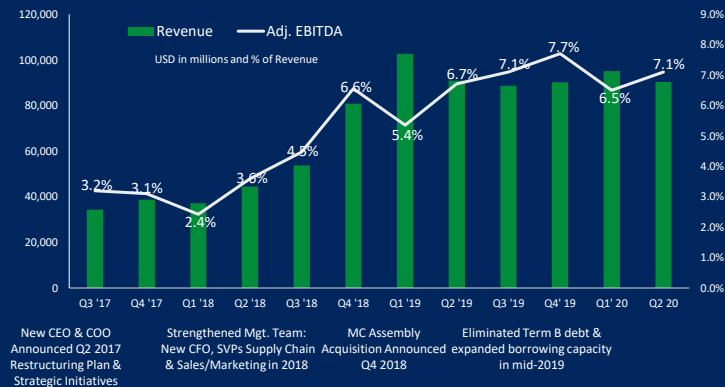
**Expanding Customer Base**

**Continuing to Reduce Debt-to-Leverage Ratio**

**D-L Ratio: Lender debt (excl. Leases)**  
Q4 2018: 4.67 vs. Q1 2019: 4.02 vs Q2 2020: 2.66

**D-L Ratio: Total Debt (incl. Capital Finance Leases)**  
Q4 2018: 5.32 vs. Q1 2019: 4.57 vs Q2 2020: 3.03

## Improving Second Half 2020 Expected Gains in Efficiencies & Scale Leading to EBITDA Growth



On Slide 3, we show the progression, not only of revenue and the growth in revenue, in 2017-2018 we had 56% organic growth. Then we did some M&A, doubled the size of the company. And now, we are back on the organic growth trail. Even through this COVID-19 pandemic. You can also see the leverage we get out of our business.

You can see that [adjusted] EBITDA went from 3% to 4% to 5% to 6% and now in the 7%*s*. And as we continue to grow, we expect that leverage to continue. So you can kind of see some key parts of what we've done in terms of strengthening the management team, eliminating some of our Term B debt.

You'll also see on the left side, which is really very important to us, our debt-to-leverage ratio. When we made our acquisition, our debt-to-leverage ratio excluding leases was 4.67. Last quarter, we had it down to 2.66. We'll probably be flat for a quarter just because of COVID. We

brought in extra material to get through the shutdowns of China, Europe, India and some of the countries that were shutting down. But we got on top of it before COVID, which has helped us continue to grow through the COVID period.

And so, you can kind of see the debt-to-leverage ratio on the – continuing to decrease. Growth on the top-line; clearly, growth on the adjusted EBITDA; and contraction on the debt-to-leverage ratio, and that's the short-term story.

Long-term story is we're going to continue. We announced about \$130 million of new contracts we picked up. It was slow to get many of them put in our factories, because people couldn't enter Mexico. They can't enter our factories in the U.S. There are a lot of CDC rules. Lot of internal rules about having people come to our factories. But time now, we're figuring new ways, by Zoom and other ways to have them get into our factories, qualify and get started. And so, we should start seeing some of that revenue growth second half.

And as I talked about, the [second half of 2020] outlook being \$190 million to \$205 million [in revenue], that'll show some growth from the first half to second half. Even with some parts of the economy going down, and I'll talk about that, in terms of aviation, payment systems and some of that.

You go to next slide, Page 4.

# INVESTMENT HIGHLIGHTS

## What is Changing?

**Winning significant new business** with over \$130 million of new orders received over the past 3 quarters

**Managing through COVID-19 environment** all factories remain open supporting customers deemed essential; cost controls: targeted headcount reductions, a freeze on all non-essential new hiring, curtailed new programs and reduced capital expenditures

**Increasing North American capacity** Installed equipment from former Chinese manufacturing facility avoids capital expenses otherwise needed

**Delivering on best-in-class financial metrics** across our Tier III EMS peers to deliver premium shareholder value

- ✓ **Improving second half 2020 financial performance outlook\***  
Revenue \$190M - \$205M, up from \$185M in first half of 2020  
Adj. EBITDA \$13.7M - \$15.0M, up from \$12.6M in first half of 2020
- ✓ **Focusing on the most attractive end markets**, incl. Avionics, Aerospace & Defense, IoT, 5G, Medical & Safety
- ✓ **Gaining market share** by deepening existing customer relationships and adding new customers
- ✓ **Experienced management team** managing through challenging market conditions
- ✓ **Local experience, global reach** offers best-in-class options to customers
- ✓ **Committed to further deleveraging the balance sheet**, generated \$2.6 million positive cash flow from operations in the first half of 2020

\*Guidance made as of Aug. 5, 2020 and subject to change without notice.

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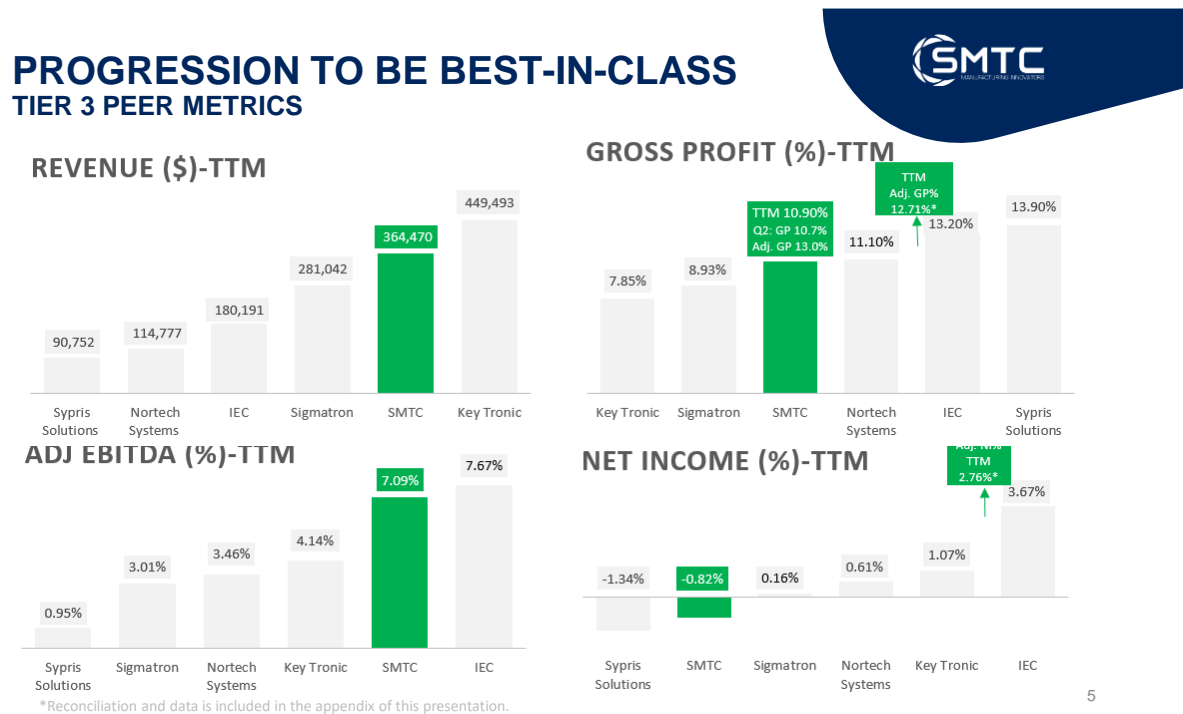
The reason we think you should invest in us, improving second-half financial performance outlook. So we focus on some really good markets in terms of Defense. Avionics was a good market until COVID hit. And that's a market we played pretty well. We built stuff with 737, 787 and some Airbus equipment. The Aerospace & Defense market continues to be a strong market and will continue to grow in that market. We've landed some contracts that we've announced for some different Defense systems, and we would expect those to continue for quite a while.

The IoT, we build lots of different products in the IoT space. And the reason we build in the IoT space, I think, better than many of our competitors is we have some capability in RF and RF testing that most EMS providers our size would not have. So we can do some wire bonding, we can do some testing. We actually in our factories have our own communication – RF communication links, we can test only up to 5G, and then Medical & Safety. So we're gaining market share. We have an experienced management team. We've made it through COVID, with no major crisis, and actually some growth. So I think that's pretty exciting.

But then we have local experience with global reach. Everybody who's on the leadership team has dealt in a global business. We live in the U.S., and we've been able to understand the China-U.S. relationship. So we consolidated our China operations into Mexico. I think that's going to pay dividends over the years. But in our supply chain, we were able to make that global. And we still have engineers in China, working on our supply chain.

We generated \$2.6 million of positive cash flow from operations in first half, even as we increased the inventory to combat the choppiness of COVID-19. And so as our inventory stabilizes and even goes down a bit, will generate even more cash, so pretty exciting time for us.

And the next slide is very important to the way I look at business.



If you're not going to be best in class, and you don't have a progression to be best in class, I've always thought, why do it? And so you've seen the progression from a company that was losing money to one that's now second best in adjusted EBITDA, second best in gross margin. Gross margin, right now has amortization for intangibles from the MC [Assembly acquisition]. So that's the adjustment that you see there. And then net income or second best and we expect over the next 12 months to continue our progression, and hopefully be number one.

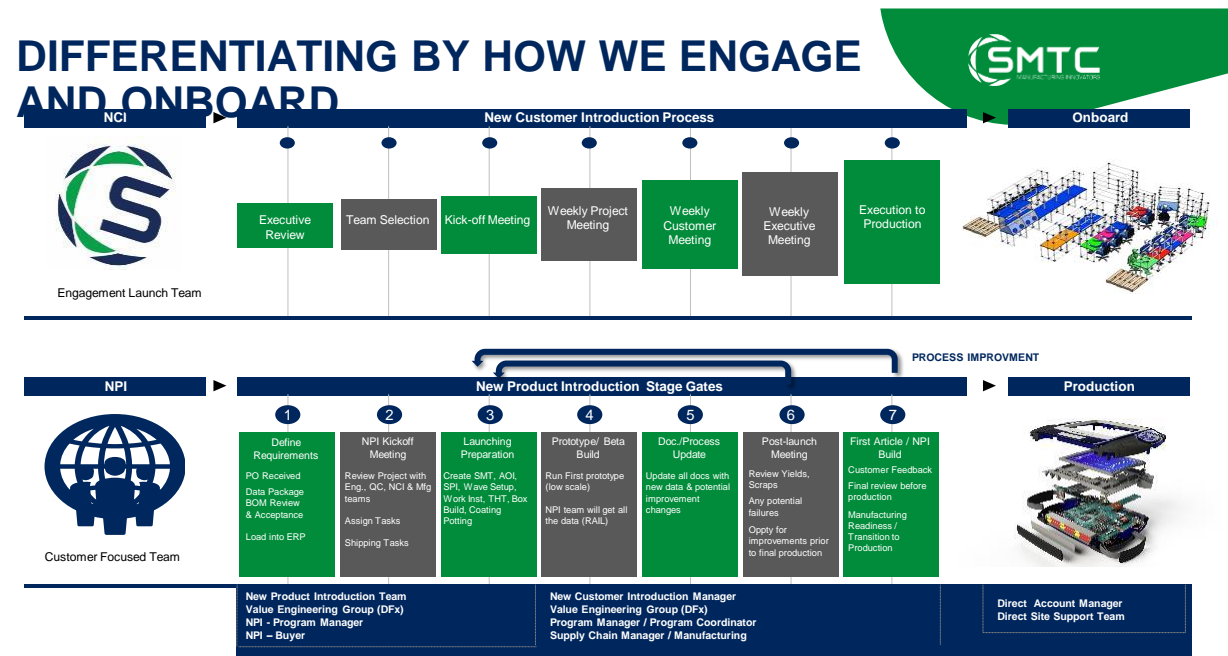
This is the leadership team. So you're speaking to me, but we have Rich Fitzgerald, who's our COO; Steve Waszak, who's our CFO; Josh Chien, who came out of Sanmina; Phil Wehrli, who ran my supply chain at Avnet, also ran at Motorola and Apple. As you can tell by all of the companies they work, all of these gentlemen have been in some key roles in their career.



## DIFFERENTIATING LEADERSHIP TEAM with Shared History of EMS Success

				
<b>Ed Smith</b> President & CEO	<b>Rich Fitzgerald</b> COO	<b>Steve Waszak</b> CFO & SVP M&A	<b>Josh Chien</b> SVP Global Head of Sales, Marketing & Customer Experience	<b>Phil Wehrli</b> SVP Global Planning & Supply Chain
25+ years EMS, electronic components distribution industry experience	18+ years: electronics industry experience	20+ years finance, strategic M&A development experience	20+ years EMS sales and operations experience	35+ supply chain management experience
<div style="background-color: #003366; color: white; padding: 5px; width: fit-content; margin: 0 auto;">SMTEK increased from \$0.35 to \$15.23 at takeout under his stewardship</div> <div style="background-color: #006633; color: white; padding: 5px; width: fit-content; margin: 0 auto;">At AVNET led Americas component operation increased from \$ 1.2 to \$4.0B; Started a glob embedded business and grew to \$2.2B in 7 years</div>	  	   	   	 

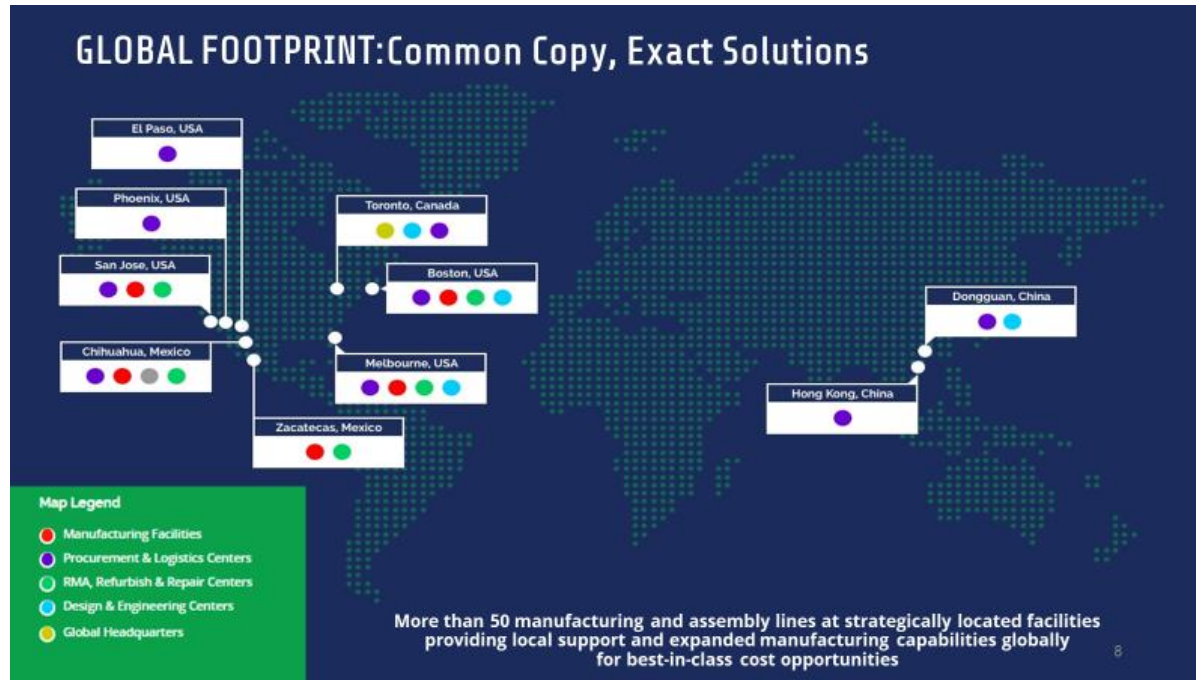
Slide 7 is really about how we differentiate ourselves and onboard customers engage with customers. So when people ask me, how do we grow faster than the market? How do we grow 56% in one year, 7% in the middle of them M&A next year, and how do we go to double-digit growth? This Slide 7 shows, this is how we take customers from being prospects to actually being customers.



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Slide 8, you'll see that in Dongguan, China, we had a manufacturing facility there. We now only do design, engineering and procurement and logistics. We're also in Hong Kong with what's going on with Hong Kong and Dongguan, we've kept people on both sides of that border in terms of tariffs and tax to work through many of those issues as they come up. So our big manufacturing facilities are in Chihuahua, Mexico, and Zacatecas, Mexico; one in Melbourne, Florida is on Space Coast. And so that builds all our Defense, Avionics and Aerospace equipment.





Our Boston facilities and NPI (or New Production Introduction] facility, Toronto used to be the old headquarters and still maintains some engineering and some finance people. El Paso is our logistics center to come out of Mexico, and you may say why El Paso to get to either East Coast or West Coast, you can go 2-days out of El Paso and hit either coast. So when we do fulfillment for our customers, we can fulfill orders in 2 days on either coast.

San Jose is right in the heart of Silicon Valley. So we have a manufacturing facility there that's growing at a rate that's pretty significant. And so our Chihuahua plant, I would just say is an old Zenith TV factory. And they're very capable, they can build metal, they can build cables. We have lasers and metals, do all kinds of different things, it is very vertically integrated. The only integration we don't have in Chihuahua, Mexico is plastic. We don't form plastics, but anything that has to do with metals or PCBAs, we do in Chihuahua, Mexico. So it's a very sophisticated factory there.

Up in the top [of slide 8], you'll see Common Copy, Exact Solutions, bridge coming out of Intel. It believes in Copy and Exact, and process that you have in one factory, we duplicate in every factory, and so when we move customers around, we can do that pretty easily.

Okay, we'll move to Slide 9.



These are pictures of all the products, some of these products, some of you may see obviously gas stations on payment systems and some of these other things you may see in restaurants and vending machines, we build payment systems, it is for us a shrinking business, because as COVID-19 hit, less people went to restaurants, less people left their house, people didn't go to work and they bought less gas. So that that business I think will maintain a more steady, but lower rate.

We have semiconductor capital equipment, and that machine that you see there is about the size of a big conference room, so it doesn't look that big in the picture. Industrial Power & Clean Technology, we built smart power for server farms. We build smart power for IT infrastructure. We built cameras for the movie industry, some pretty high tech, 8k, 4k cameras out there.

We move to Aerospace & Defense, we build everything from thermal weapon sights to radars, lasers, defensive missile defense systems, going to test the measurement. We measure everything from power all the way through on the grid, all the way through 5G – in the 5G rollout.

Medical & Safety, we build – as you can see, we build hospital equipment, we build breathing machines, blood pressure machines, some different things. So it's quite an extensive array. One of the things I try to do is not be dominant in any one particular market, which has given us strength during COVID, because no one market drives our company, we don't have any detrimental reliance on one particular customer or detrimental reliance on one particular set of customers. And so that makes us a little bit more stable.

You'll also see on Slide 10, probably key to note is Aerospace & Defense. We were 0 in 2018. We then went to 5%, 10% last quarter, and that will continue to grow as we want a couple significant contracts in the Defense sector there.

On the Semiconductor Equipment space, we expect that to continue to grow lead time throughout on semiconductors. That means equipment will be bought and that will continue to grow there and it's pretty exciting.

Test & Measurement, next year will grow just from the 5G marketplace. We do testers in 5G and it's pretty exciting time there too.

So you can see our certifications on the bottom. We have most certifications we can build anything from just a regular board all the way up to space level product for – and being on Space Coast, that's something that we've done. We can build payment systems and actually load on the algorithms. And so we have quite the certifications there.

## MARKETS WE SERVE




Revenue by Industry Sectors	Q2 2020		Q2 2019		Change	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
\$ millions						
Industrial IoT, Power & Clean Technology	\$38.3	42.4%	\$36.9	40.6%	\$1.4	3.8%
Test & Measurement	\$13.9	15.4%	\$12.1	13.3%	\$1.8	14.9%
Medical & Safety	\$10.2	11.3%	\$11.2	12.3%	(\$1.0)	(8.9%)
Avionics, Aerospace & Defense	\$9.2	10.2%	\$4.8	5.3%	\$4.4	91.7%
Semiconductors	\$7.1	7.9%	\$5.8	6.4%	\$1.3	22.4%
Retail & Payment Systems	\$6.7	7.4%	\$12.1	13.3%	(\$5.4)	(44.6%)
Telecom, Networking & Communications	\$5.0	5.5%	\$8.0	8.8%	(\$3.0)	(37.5%)
<b>Total</b>	<b>\$90.4</b>	<b>100.0%</b>	<b>\$90.9</b>	<b>100.0%</b>	<b>(\$0.5)</b>	<b>(0.6%)</b>

\*Several customers were reclassified between Test & Measurement to Industrial IoT, Power & Clean Technology for all periods

<p>GENERAL CERTIFICATIONS / STANDARDS</p> <p>All sites: ISO 9001:2015 ISO 134885</p> <p>ISO 14001 FDA Registration</p>	<p>Fremont: AS9100 Rev D ITAR Registration</p>	<p>GLOBAL ELECTRONICS MANUFACTURING SERVICES CUSTOMER VALUE LEADERSHIP AWARD</p>	<p>ISO 9001 ISO 13485 AS9100</p> <p>IATF 16949 (MX Facility Q1 2018) FAA: PMA Certified cGMP Compliant IPC 610 Class 2 &amp; 3 soldering ITAR Registration</p>	<p>FDA Registration TRAC: 4144-7785-7736 Cage Code: 4X3Y1 Apple @ Authorized Mfi Manufacturing License 6.0</p>
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We then go to the financial summary, take a quick look. You'll see Q2 got affected a little bit by COVID, but not extensively. You'll see growth in the second half. So we're pretty excited about that from the first half. And so in the middle of all this COVID chaos, we're starting to see growth. You'll also see some of our new customers starting to kick in. And so you'll see growth going into next year and we're pretty excited about that. You also see the adjusted EBITDA margin is across the 7% mark. And we expect that to continue now long-term.



## FINANCIAL SUMMARY

### SMTC KEY STATISTICS

Stock Price as of 9/1/20	\$3.33
Market Cap as of 9/1/20	\$93.9M
Ticker / Exchange	SMTX / Nasdaq

### SMTC CAPITALIZATION

Basic Shares as of 6/28/20	28.2 M
Diluted Shares as of 6/28/20	29.5 M
Net Debt as of 6/28/20 <sup>1</sup>	
Term Loans A/B and ABL Revolver	\$ 68.7 M
Finance and operating lease obligations	\$ 16.2 M
	\$ 84.6 M <sup>1</sup>

In \$1,000s except EPS	Long Term Target Model	Q2 2020	Q1 2020	Q2 2019	FY 2019	FY 2018
Revenues	15-20% growth <sup>2</sup>	\$90.4	\$95.1	\$90.9	\$372.5	\$216.1
Adj. Gross Margin <sup>3</sup>	12%-14%	13.0%	12.3%	11.9%	11.9%	10.4%
Gross Margin		11.8%	10.1%	9.9%	9.9%	10.0%
Adj. EBITDA		\$6.4	\$6.2	\$6.1	\$24.8	\$10.2
Adj. EBITDA Margin	7%-9%	7.1%	6.5%	6.7%	6.7%	4.7%
EPS		\$0.03	\$0.03	\$0.10	(\$0.23)	(\$0.02)

<sup>1</sup>Net debt excludes \$0.3 million in cash. Effective January 1, 2019, with the adoption of the new lease standard (ASC 842 – Leases), the Company recorded \$16.2 million of finance and operating lease obligations (as of June 28, 2020) which includes \$3.6 million for extension of the Company's Fremont, CA facility lease in Q1 2020.

<sup>2</sup>Target 50%+ of incremental Manufacturing Value Add dollars contributes to Gross Profit

<sup>3</sup>Adjusted Gross Margin excludes non-cash amortization of intangibles associated with the acquisition of MC Assembly, COVID-19 related expenses and unrealized foreign exchange gain on unsettled forward exchange contracts,

Okay. And on the balance sheet, we increased our inventory to try to get a jump on the COVID. And I think that turned out to be pretty prudent, our inventory turns went down from 4.5 to 4. We won't go below 4 will now flatten out until COVIDs gone and then we will start improving them back up towards the 5 range.

Term loans A/B and our revolver stands at \$68 million. We no longer have a Term B, we paid that off. And then obviously you can see our leasing obligations have stayed pretty flat. And so as I said earlier, our overall bank leverage went down from 4.6 to 2.6 in about 15 months. And so we're pretty excited about that, and that continued leverage decrease.



## BALANCE SHEET HIGHLIGHTS

(in thousands)	June 28, 2020	Mar. 29, 2020
Current Assets	\$ 161,586	\$ 150,620
Property Plant & Equipment, net	23,495	24,410
Other Long Term	36,189	37,311
<b>Total Assets</b>	<b>\$ 221,270</b>	<b>\$ 212,341</b>
Current Liabilities <sup>1</sup>	\$131,606	\$122,960
Long term Debt	32,903	33,365
Other Long term liabilities <sup>1</sup>	13,617	13,892
Stockholders' equity	43,144	42,034
<b>Liabilities and stockholders' equity</b>	<b>\$ 221,270</b>	<b>\$212,341</b>

<sup>1</sup>Effective January 1, 2019, with the adoption of the new lease standard (ASC 842 – Leases), the Company recorded \$16.2 million of finance and operating lease obligations (as of June 28, 2020) which includes \$3.6 million of new operating lease for extension of the Company's Fremont, CA facility lease in Q1 2020.

<sup>2</sup>Increase in DIO-Inv Turns in Q2 2020 was attributable to shifting customer forecasts within the quarter that resulted in higher than anticipated inventory levels exiting Q2 2020.

KEY STATISTICS: (FOR THE RESPECTIVE QUARTER)		
	June 28, 2020	Mar. 29, 2020
Cash-to-Cash Cycle	82 days	73 days
DSO	64 days	60 days
DPO	73 days	68 days
Inventory <sup>2</sup>		
DIO	91 days	80 days
Inv Turns	4.0x	4.5x
Net Debt (at quarter end)		
Term Loans A/B and ABL Revolver	\$68.7 M	\$68.3 M
Finance & operating lease obligations	\$16.2M <sup>1</sup>	\$16.7M <sup>1</sup>
	\$84.6 M	\$83.6 M

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So I'll end with this on Page 13.

## Building a Stronger Company: World Class – Flexible – Customer Focused



Achieving Top-Quartile Operating Metrics Among Peer EMS Companies  
Powerful Low-to-Medium Volume, High Mix EMS Provider

Relentless Pursuit  
of Profitable Growth  
through Customer and  
Employee Excellence

Above Market Returns  
for our Investors

**Achieve Double Digit** Growth With Existing Customers Through **New Programs**

**Increase Business** with Existing Customers Through **World Class Service**

**Become Provider of Choice** And Win New Customers to **Accelerate Growth**

**Drive Value** via **M&A**, **Expand Mix** of Lines of Business

**Increase TAM** with Supply Chain Synergies to **Gain Scale**

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We want to continue to achieve double-digit growth with our existing customers through new programs. We also want to become provider of choice and win new customers. I think on both fronts, we're doing a pretty good job, in particular on the new customers. As we've been announcing significant contracts, ongoing drive value with M&A, expand mix of lines of business, I think we will probably take a pause through this COVID and part of next year, if not all of next year, and try to decide, when's the right time to do M&A.

And then, obviously, increase our TAM with supply chain synergies to gain scale. We – this year increased our available market by a lot, when we added hybrid circuitry on. So we now have to do wire bonding and technically to build almost any type of board out there. So that was a big – so for a Tier 3 contract manufacturer, we have capabilities of Tier 1s. And if you go to Page 14, this is just a comparison, us versus our competitors.

## Appendix



### TTM Adjusted EBITDA

	SMTC	IEC	Key Tronic	Nortech Systems	Sigmatron	Sypris Solutions
Revenue	364,470	180,191	449,493	114,777	281,042	90,752
Net income	(2,991)	6,620	4,803	701	443	(1,218)
Restructuring	5,439	-	-	-	-	502
Other	971	-	-	-	-	-
Stock based comp	908	678	282	29	90	452
Adj net income	10,061					
Gross profit	39,742	23,778	35,266	12,736	25,105	12,614
SG&A	28,007	13,869	21,085	10,759	22,292	13,449
Depreciation/Amortization	12,364	3,227	5,774	1,961	5,430	2,600
Unrealized FX (gain)/loss	(459)		4,629	10		(2,375)
Interest expense	8,972	1,596	2,665	919	1,839	913
Tax	651	1,693	442	357	650	(8)
Adj EBITDA	25,855	13,814	18,595	3,977	8,452	866

Adjusted EBITDA is not an earnings measure recognized by GAAP and does not have a standardized meaning prescribed by GAAP. SMTC believes that the presentation of non-GAAP measures when shown in conjunction with the corresponding GAAP measures, can provide useful information to investors and management regarding financial and business trends relating to its financial condition and its historical and projected results of operations. The comparison here is done on a consistent basis across these companies and is used by SMTC.

Adjusted EBITDA should be considered in addition to, and not as a substitute for, or superior to, operating income, cash flows, revenue, or other measures of financial performance prepared in accordance with GAAP. Adjusted EBITDA is not a completely representative measure of either the historical performance or, necessarily, the future potential of the combined entities. Non-GAAP financial measures should not be considered in isolation and should be viewed in addition to, and not as an alternative for, the Company's reported results prepared in accordance with GAAP.

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So with that, I will ask the moderator to see if there are any questions.

### Moderator

**Q:** Thank you, Ed and Steve. We'll now open up the polling for questions. [Operator Instructions]

Our first question: in which industry sectors are you focusing on growing most rapidly at the moment? Do you foresee a shift towards another sector, given recent market volatility?



### **Edward Smith - President and Chief Executive Officer**

**A:** Yeah, we're growing and will continue to grow in terms of percent, fastest in the defense market. But at Industrial IoT, Power & Clean Technology market, I think will continue to grow for us at a faster dollar percentage, or dollars and cents. So percentage wise will be Aerospace and Defense, which you're going from a low number. Dollar wise, it will be Industrial IoT, Power & Clean Technology.

We've landed some contracts in terms of smart power and those type of things that will continue to help us expand there. So pretty exciting in terms of where we're going. But those 2 markets, clearly, will drive. The other market that's interesting to watch will be the 5G market. Test & Measurement, as the 5G market gets really some momentum, our Test & Measurement, we are on the 5G circuit in Test & Measurement. And so, if 5G gets going that could really kick it up a notch.

### **Moderator**

**Q:** Our next question, are you prioritizing driving customer volume or growing deeper relationships with your existing customers? Historically, where have you seen the most value?

### **Edward Smith - President and Chief Executive Officer**

**A:** Yeah, we have some things that we do for customers I don't think too many of our competitors, if any, do. We think a deep relationship with our customers. So I talk to all our top customers every quarter, minimally. A lot of them I speak to monthly. Some I speak to even more.

So when we grew 56% in the first year, it was mostly from our existing customers. And I would thank our existing customers for being customers. And so, we want to continue to grow those relationships. But as we're growing now and as we add on different things, such as hybrid circuitry, we added that on for existing customer to help them out. But as we did that, then we open up for new customers. So I think it starts with growing deeper with our existing customers, but opening up opportunities for new customers. And that's how we will get double-digit growth going forward. So when I look at growth, I'd like it to be split 50/50. We measure our NPS score [Net Promoter Score] of our existing customers. I read all the comments. We respond back. So we have pretty deep relationships with our customers for sure. I think it's going to be 50/50 growth, so existing customers, more from them than the new customers.

## **Moderator**

**Q:** What are your key criteria for future M&A targets? And what does the integration and consolidation process look like?

## **Edward Smith - President and Chief Executive Officer**

**A:** Yeah. So I've done quite a few M&A deals when I was with Avnet, so we have a very strict process that would take me hours to go through on this call. So I'll just say we have a book. It has many pages in it. It goes through each portion of the company of to-dos, checklists, things like that.

We probably won't do M&A in a short-term. But if we were to see the right opportunities, like anything, you always – if it's just an unbelievable opportunity, we may take a look. But I don't see M&A. And if I was to look at M&A, we'll do the same thing we did last time. We will say what's important to us. Is it market segments? Is it financials? We'll weight those averages. Last time, we had 10 criteria weighted.

We took 127 companies. We evaluated them. Got it down to 22. We visited and then down to 3. We'll do the same process based on what we're looking for. Is it customer base? Is it profitability? Is it capability? What is most important to us? What's least important to us? And what's their culture, all those things add. And then, we make a decision.

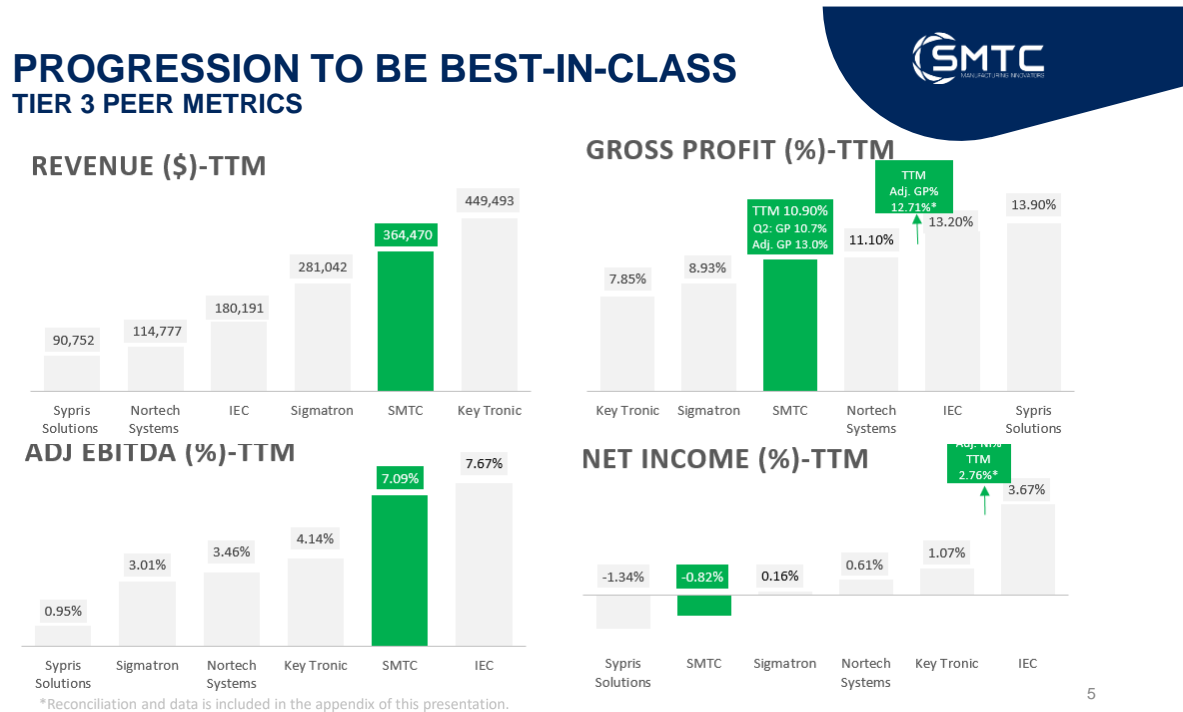
But I don't see anything imminent. And I think next year with the election and COVID, I think some stabilization for a period of time would be good.

**Moderator**

**Q:** All right. Thank you, Ed. And one last question. What is success for SMTC look like in the next few years?

**Edward Smith - President and Chief Executive Officer**

**A:** Yeah, so success, if we went back to Slide 5, it would be the number one adjusted EBITDA, number one gross profit, number one net income company financially. It would be NPS scores, highest in our industry, so that I know our customers are happy. So you have the financial success. You have the customer NPS, Net Promoter Score, customers be successful. And last, but clearly most important is that our employees are happy.



So we do employee engagement surveys. So if you take the constituents, if you have happy employees, happy customers, and you're financially successful, then to me that would be considered success.

Interesting enough, the last time I did this in the EMS space, you would say, okay, how does that to me, a shareholder, making more money? I was able to sell an EMS company at 15 times EBITDA last time, because all those things were successful. We were the most profitable, happiest customers, happiest employees. So we want to engage the employees, happy customers, and success on the financial metrics. We'd like to be number one in all those things.

So with that, that's what we look for success. We have a strategic plan. We call it our house and those pillars for every one of those things to make sure we're successful. And we go through that every quarter, make sure we're staying on track to that. And so far in 3 years, we've stayed on track. I would expect that to continue.

So with that, since that was the last question, I want to thank everybody for their time and spending time with us and the support in the past and, hopefully, support in the future.

**Moderator**

Thank you, everyone, for attending today's conference. I'll now turn it over to the operator for closing.

**Operator**

Thank you. This concludes today's conference. We thank you for joining. You may disconnect your lines at this time and have a great day.



# Thank you

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