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SMTX - Q1 2018 SMTC Corp Earnings Call

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Edward J. Smith *SMTC Corporation - President, CEO & Director*

Steve Waszak

CONFERENCE CALL PARTICIPANTS

Steven Kohl

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the SMTC First Quarter 2018 Earnings Call. (Operator Instructions] As a reminder, this 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 - *SMTC Corporation - VP of Finance & Corporate Controller*

Thank you. Before we begin the call, I'd 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, 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. This conference call will also be available for audio replay in the Investor Relations section of SMTC's website at www.smtc.com.

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

Edward J. Smith - *SMTC Corporation - President, CEO & Director*

Thank you, Blair. Welcome, and good morning. Ladies and gentlemen, I'm Eddie Smith, SMTC's President and Chief Executive Officer. One this call with me today is Steve Waszak SMTC's CFO; and Richard Fitzgerald, our COO.

After the close of the market yesterday, we reported results for our first quarter of 2018. We finished the quarter with \$37.1 million in revenue, up 4% from comparable quarter last year. Adjusted gross margin improved from 6.9% to 9.6%, while adjusted EBITDA was \$922,000, which is \$1.1 million higher compared to the first quarter of 2017.

The company reported both net income and positive cash flows from operations in our first quarter of 2018. Yes, I am pleased to report that we're on track with our business plan to stabilize and reposition the company's business, and we can now focus on accelerating our growth.

Customer demand from new and existing customers we've added over the last quarter -- few quarters remain strong. And our backlog, barring any further tightening of the supply chain by electronic component suppliers, support double-digit revenue growth in 2018 and positive year-over-year trends in our adjust gross margins and EBITDA metrics.



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We've been successfully working with our key supply chain partners and meeting our customers' commitments. The strong collaboration have been exceptional. To further provide flexibility to fill the upside in our forecast, I announced the appointment of Phil Wehrli as Senior Vice President SMTC's global supply chain organization.

We remain focused on crisp execution of our business plan with detailed attention to operational excellence, industry-leading quality metrics and superior customer on-time delivery. Over the past 4 months, we've made progress aligning our cost structure to our near-term opportunities, stabilize and expanded our custom base into new markets and product lines. We've also strengthened the organization's senior leadership team with Rich and Steve, who are on today's call, with whom I've worked at SMTEK International, an EMS company, where we transformed SMTEK's market positioning and shareholder value; and also with Phil, who I just mentioned.

At SMTC, we are intensely dedicated to achieving our relentless pursuit of customer employee excellence and profitable growth with above-market returns for our investors. We are making important strides forward towards this vision, including reporting a slight profit and generating positive cash flow from operations in the first quarter, improvements compared to the same quarter a year ago.

But we have much more to do to capitalize on the opportunities we see for SMTC. To achieve our vision, we're targeting to expand into additional programs and divisions at our existing customers as well as continuing to secure new customers. We will also explore M&A opportunities that provide synergistic benefits and/or high-value end markets to accelerate our growth and enhance shareholder value.

I'll now hand the call over to Steve to review the financial details, and then come back with some additional comments. Welcome, Steve.

Steve Waszak

Thank you, Eddie, and good morning, everyone. What I'd like to say is revenues for the first was \$37.1 million compared to \$33.2 million for the same quarter in 2017. \$1.7 million of this revenue reported in the first quarter of 2018 was due to the impact of a new revenue accounting recognition standard, ACS 606. The remainder of our 12% year-over-year growth in revenue is a result of increased orders from existing and new customers added over the last 2 quarters. With our expanding revenues, the company has 4 10% customers, accounting for 46% of our revenues compared to 1 customer that account for 11% during the comparable quarter last year. We saw year-over-year increases to customers in industrial, power and energy, electronic payment processing and medical industry sectors. Revenues from -- to customers in the networking and communications sectors experienced a slight decline over the same period a year ago.

Gross profit for the first quarter was \$3.9 million or 10.4% of revenue compared to \$3.6 million or 10.7% of revenues in the same quarter in 2017. That said, adjusted gross profit in the first quarter, which excludes the impact of unrealized foreign exchange gains or losses, was \$3.5 million or 9.6% as a percentage of revenues compared to \$2.3 million or 6.9% the same quarter in 2017. This increase in adjusted gross profit in the first quarter compared to the same period in the prior year was primarily due to increases in revenues, and to a lesser extent, improved efficiencies.

Operating expenses, which is comprised of selling, administrative and general costs, were \$3.5 million in the first quarter compared with \$3.8 million in the first quarter of 2017. This same-quarter year-over-year decrease was due to cost savings related to the restructuring plan executed in May of 2017, in addition to reduced rent and operating costs due to corporate office moves, which occurred during the second quarter of 2017. These costs were primarily or partially offset by the hiring of COO and VP of Customer Acquisition, which are new positions not existing in the first quarter 2017; and a new CFO hired during the first quarter in 2018. In addition, during the transition, the prior CFO ongoing salary and severance costs were recorded in the first quarter of 2018.

As Eddie reported, net income was \$0.8 thousand (sic) [\$8,000] for the first quarter compared to a net loss of \$400,000 in the first quarter of 2017. Further, adjusted EBITDA was positive \$0.9 million in the first quarter compared to a negative \$0.3 million in the first quarter of 2017. This increase in the first quarter compared to the same period in the prior year is due to improvements in adjusted gross profit from higher revenue, improved margin and cost-reduction efforts.

Now before I return the call back to Eddie, let me allow a few balance sheet items -- I'll comment on a few balance sheet items and provide guidance for the second quarter. At the end of the first quarter, we have \$3.3 million in cash and \$9.6 million of funds available to borrow under our revolving

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credit line with PNC. We were cash flow positive from operations in the first quarter, generating \$0.6 million from working capital. And our cash-to-cash cycle was 53 days with DSO of 64 and DPO of 70 days. Inventory turnover on annualized basis was 5x for both the first quarter 2018 and the first quarter 2017. Clearly, we remain focused on making additional working capital management improvements to accelerate efforts to strengthen our balance sheet and further reduce our debt. In closing, based on our current visibility with current backlog and benefiting from expanding customer programs, we expect the second quarter revenue to exceed the revenue in the first quarter.

Now I'd like to hand the call back to Eddie to provide some additional comments before we open for questions.

Edward J. Smith - SMTC Corporation - President, CEO & Director

Thanks, Steve. Let me wrap up by saying, we remain on track with our strategic plan and have produced a solid Q1, with year-over-year growth in revenue, adjusted gross margin and adjust EBITDA. I look forward to reporting on future earnings call our continued progress towards making SMTC a stronger company that delights its customers with superior service and rewards its stockholders with enhanced shareholder value.

With that, let's take questions from those on the call today.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Lucas Davenport. He's a private investor.

Unidentified Participant

Couple of questions. The first is, do you have any comments on the seeking alpha article that came out a few days ago?

Edward J. Smith - SMTC Corporation - President, CEO & Director

Thank you. Everybody -- first of all, we hadn't announced our earnings before the article was written. And people today look at stock in different ways. I'm not so sure that the person who wrote it understood the EMS industry all that well. So it's -- I don't make a lot of comment on some of that. The reality is we had a good quarter. I think the business or trajectory is up and to the right. And I've done this turnaround thing before, and you don't turn it around in 1 quarter. And then I think taking comments back from 2012 and try to tie those to something that happened in 2018 is a pretty difficult stretch. But I'll also say, probably the 2 highlights that I would point out that were -- that are different than what I think was talked about is, we're now cash flow positive from operations, which is the first time in multiple years SMTC has been there with that. And we have double-digit growth. In the end, I'll go run the business to increase shareholder value and to be profitable, and then the articles will change. I think that might be a lingering article from previous history, so I'm not too worried about it.

Unidentified Participant

Okay. Thank you for that. What percentage can you estimate the percentage increase for the revenue in the next quarter of Q2.

Edward J. Smith - SMTC Corporation - President, CEO & Director

Yes. We don't give forward guidance, other than to say, I think we did speak about, as an overall for the year, we should have double-digit growth. And I feel very comfortable. I know that in the marketplace, people talk about a tight supply chain. So far, that hasn't affected us super negatively. We have to work a little harder. I brought somebody in to -- Phil Wehrli. Phil had worked for me at Avnet and bought multiple billions of dollars



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per year worth of components. So he has the right connections. He has the right processes. So I don't see the supply chain as big an issue as some of my competitors. So I believe we'll continue to have double-digit growth plus. I'll say it that way.

Unidentified Participant

My last question is -- would be, I guess, the president, having an America-first policy, is -- are there any plans to possibly seek -- for example, like this might be a bit optimistic, but like Apple has talked about coming back possibly to North America and manufacturing here. Is there any possibility of reaching out to those big companies to try to get some kind of business from them? And that's all I have.

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Great question, [Lucas]. Clearly the tariff, the 301 tariff stuff that was announced, and now is going through the process, has caught our attention and our customers' attention. We've done analysis of what it would mean for our customers on components that we import from China, and we've talked to our customers about that. But we continue to be in conversations with our customers about what they manufacture with our competitors over in China and should that come back to either Chihuahua or our Fremont plant. So I do think that there's possibilities that there'll be more onshoring that'll go on. And what I tell the customers and kind of -- is I can't change or influence what goes on in politics, but we have such a footprint that we're in America, we're in Mexico, we're in China. That what we can do well is react to what the customer needs, based on what political agendas are implemented. So we have the solution for our customers. And I think what will happen is it'll be implemented based on what the ultimate final results of the 301 tariff is.

Operator

And we have a question from Steve Kohl with Mangrove.

Steven Kohl

I guess, Eddie, I wanted to ask you stay on the tariff question for a second. So as you guys have looked at this, and obviously, one of the ideas, I think, that you've spoken of in the past was trying to level production the best you can between the various plants. I guess, 2 parts to this: Number one, how much more capacity -- because Chihuahua's been doing very well, has been going now. Do we have additional capacity in Mexico to handle more of these volumes as they do come over there? And then number two, are you seeing opportunities to fill the China facility with folks -- indigenous markets, so folks that are selling into Asia, that are not shipping product back in the United States?

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

It's a great question. So because of the growth in Chihuahua, we put about \$4 million of CapEx due to the business, most of it in Chihuahua. We did put some into the other plants, but I would say the predominance, more than 80%, in Chihuahua. That should give us some significance expansion possibilities. So we continue to look at, do we need more equipment? And I think we'll be adding more CapEx to Chihuahua based on its growth. That new line that we bought just got there this week. It'll take a couple weeks to install, test out, get it up and running and make it efficient. Rich's team have done a great job getting it brought in. So I don't think we have a long-term expansion issue in Chihuahua. We do have some tightness short term, but that should be solved by the end of the month. As far as the second part of your question, about level loading the factories and doing that, we have moved some customers around to different plants to get some operating efficiencies in the other plants. We also move them because of the type of business that they do. Where Chihuahua is a big-time production facility, Fremont's more of an NPI facility. But I would tell you that, over in China, we're doing more China-for-China manufacturing and less China to bring back to the U.S. manufacturing, Steve. So I would say our customers are much more keen and to say, okay, if I'm going to -- if it's a big product I'm going to bring back to North America, I'll build it in Chihuahua. If it's a product that's going into China, I'll build it in China. And if I need NPI, I'll do the NPI up in Fremont. And that seems to be the way that, that's playing out with our customers right now. So it has level loaded some of our factories, and we've moved multiple customers to different factories for different reasons.



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Steven Kohl

And one other question, just on the -- and you mentioned that you've been filling up. Obviously, we noticed that some customers are growing and you had some good success there. How are you feeling about that pipeline, the visibility? Obviously, you mentioned that you expect double-digit, I think, growth kind of your revenue visibility for this year. Should we see the margins come through? Obviously, you had a decent quarter here. But does it get into Q2? Should that come through on the margins side? Or what should we expect to see kind of on the margins side as the volumes ratchet up from here?

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Yes. One of the things -- the great things about EMS is, as you fill your plants, you become more efficient, right. You don't have to pay for the lights twice, the building twice and some of those. So your margins actually increase. So I would expect our margin to remain steady or grow, based on the increase in business for the rest of the year. So it is a pretty exciting time when it comes to that part of our business of adding customers. Our pipeline -- so to the first part of your question about pipeline and quotes, right now we have a significant pipeline of quotes that are out. Some that I feel very confident we'll win, others I think will be a little bit of a stretch for us to win. But I think we have a pretty good pipeline. I would say, as we win customers right now, because of the tight supply chain, it takes a little bit longer to day to ramp up a customer than it did a year ago or maybe 2 years ago. But we have been able to actually ramp some new customers up pretty quickly, and so I'm pretty excited about the rest of the year.

Steven Kohl

Okay. And one thing that I've given you guys a lot of credit since you've come onboard is buying stock. And (inaudible) we've obviously noticed there's an absence of that last quarter. Can you give us a little bit of color on kind of how the executive team is feeling about the stock? Is it the fact that it moved \$2, it goes -- it's just gone off the top and so you don't want to buy anymore.

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

I personally plan out to stay in the same pattern before. There's always reasons you can buy and not buy at different points and different times. I knew we were going to have a good quarter and go net income positive, and so I didn't think it was appropriate for me to use that information and go out and procure stock at this point. But I'm still very high in the stock, even at this price. I like the \$2 question. It's going to be even funnier when you ask that question at \$3 and \$4. But I am still very high in the stock.

Operator

Our next question comes from [Craig Boots]. He's private investor.

Unidentified Participant

Yes. I guess I have a couple questions. The first one I'd like to start with, it's, I guess, it is related to the Seeking Alpha article. They had touched on the debt issue and our cash on hand as far as being able to service our backlog and our orders. And they were -- seem to be obviously concerned about whether we have sufficient cash to do that, not to mention our debt, and how we're going to be able to service our debt. I'm just wondering if you can touch on those 2 factors.



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Edward J. Smith - *SMTC Corporation - President, CEO & Director*

Yes, sure. Absolutely. I appreciate it. As I said about the article earlier, I'm not sure it's accurate or she understands how we borrow money and the availability that we have to do that. So the first -- if you heard Steve -- as Steve spoken, and I'll have Steve comment when I'm finished, is we have \$3.6 million on hand, and then we have availability over \$9 million on our bank line. But here's what I would say, that those 2 numbers together are the largest amount that I could find in the last 4 years at any one time. I believe we have plenty of room to grow significantly over the next bunch of quarters without any cash flow or cash issues. I don't think she understands ABL banking, which is what we do. We do asset-based lending. So as we increase our inventory and we increase our receivables from our customers, our bank credit line actually expands and allows us to grow quickly without having to raise money. So I'm not so sure if she understands the whole business. I'd be more than happy to talk to her and explain to her our business and our business model. But with all that being said, and I'll put that aside. I'll answer really the under core question. I don't foresee, in the near future, that our day-to-day operations, right, will be -- have any impact on growth or anything based on money we would need. Our bank, we like our bank. They're really phenomenal, and they've been very good in terms of what we've needed. As you saw, when I first came in, I asked them amendment, and we got that. But we have availability in it. As we're cash flow positive, it'll be even more a positive story. So [Craig], I think she's off base with that type of stuff, so I won't spend a lot of time on trying to respond to somebody that doesn't understand our business. I don't know, Steve, you want to add anything.

Steve Waszak

Yes, the only think I would add -- this is Steve Waszak, I would add is that under Eddie's direction and the board, I have done some extensive modeling to project out where we think we'll be in the next 2 quarters in '18 plus all -- also potential growth scenarios for '19. And as Eddie said, we have a very, very strong relationship with our bank. We've been compliant with all of our covenants, and the capacity that we have under our bank line provides the financing and working capital for both inventory and receivables, again, assuming we stay on track and execute as we are in terms of cash-to-cash, days outstanding and all that. So we have sufficient, more than sufficient capital to drive very, very strong growth over the next 4 to 6 quarters, as we do our modeling and do our stress testing internally. And so that anything we look for now is really going to be growth-oriented. As Eddie talked about, we put \$4 million of CapEx into the business in Q2, which you'll see over the quarter and we report next quarter. All that capital was done in a customer-by-customer program basis with tight ROIs. So that we put lines into the plants, expand the plants' capacities as we bring on new customers and expand customer programs of our existing customers. So this is -- you always would like to have perhaps less debt. But at the end of the day, this business thrives on the ability to efficiently use -- manage your cash, your cash flow and your debt in conjunction with growing the business. So we feel very good. And based on the modeling I've done in the past few weeks since coming onboard, extensive modeling, we feel very comfortable we're in good shape from that regard for working capital and cash.

Unidentified Participant

Okay. And I guess then to get to the other question. What I was wondering on these potential new customers that's been talked about in our previous calls. I know you didn't really have full information yet on the how that was going to impact us. And I'm just wondering if you could give a little more insight on what's going on with these potential new customers. And how that will affect our profitability? I'm assuming that, that could help us tremendously if these pan out for us.

Edward J. Smith - *SMTC Corporation - President, CEO & Director*

Yes. So we're ramping up. So I would say -- and once I give a number for it, I'm going to repeat it a lot of times. So I wouldn't give you the number of new customers. But I would tell you, all those customers are in some stage of ramp-up. Some are already ramped up in our production volumes. Some are starting to ramp up. We've won some new customers, which we're now putting the pipeline in place. For those customers, I would tell you that as I said earlier in the call, as a new customer ramps up, they're more profitable normally than our existing customer, and that is really because of scale. The factory gets more scale. They have their overhead spread over more dollars. And the reality is that's going to get better and better over time. So I'm very pleased with the pipeline. It hasn't been bigger since I've been here a year in terms of quotes that are outstanding and opportunities. We've added some new logos, which means new customers. I just learned that whole jargon the last couple of days from my team. But the reality is, we've added a couple new logs each quarter. And so -- it is a pretty exciting time on the customer-acquisition side of the



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business. As Steve said, one of the things I'd point out as in Steve's comments, we have 4 customers that are approximately 10% of our business. So I think what you're seeing is some new customers being added on, some of our existing customers showing us some more confidence and more faith. And I think that, that combination will lead to very positive return for long term.

Unidentified Participant

I know you had mentioned in a previous call there were 2 customers you didn't know if we were going to land those contracts or not. And I'm wondering if you've got any information you can throw in there on those 2 potential customers.

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Yes. We've landed a few potential customers. And on the very specific ones that we talked about I think in the last conference call and the conference call before that, I think we landed 1 of the 2. And I think it's pretty exciting time. We've landed a couple that are going to be pretty exciting as time goes on here. So the customer acquisition side, we have Bob Miller as the VP of Customer Acquisition. I was doing that for the first couple of quarters, and so I want to add some resource to that. And so I couldn't be more excited about where we're going in the customer-acquisition side.

Operator

Our next question comes from [David Cannon] with [Cannon Wealth Management].

Unidentified Analyst

Many of my questions have been answered already. Just 2 things I would like to know. In terms of growth that you've seen and you're seeing in coming quarters, can you share with us some of the differentiators that you think -- reasons that you're winning that business with those customers? And also, you've spoken a lot about the fixed costs. You don't have to pay for the lights twice. So as you get up to \$45 million, \$50 million a quarter revenue, what is the contribution margin on that next dollar of revenue once you get up to that level? So we can get an idea of the leverage on our earnings models.

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Yes. So let me start with the first part of the question, which is why the customers come to SMTX? Or should they come to SMTX? One is, I think, our operation group, bar none, is the best in the industry. I think Rich and his team, quality-wise and metrics-wise, I think are doing a phenomenal job and have come a long way in a short period of time. I think -- so first, I would say operationally, we're getting better and better by the day. That's pretty phenomenal. Second is supply chain. As you probably have noticed from many of our competitors' announcements, supply chain is tight. We have not experienced some of the same issue. It's clearly tight, but with the relationships that Rich, myself Phil and others have, we've been able to overcome that and not negatively affect our customers to the point of any stoppage or loss of revenue. And so I'd say supply chain. And then last is, we've been able to ramp up some new types of customers, such as medical customers and others. I think also you're going to see in 2019 a lot of the efficiencies drop to the bottom line. But I'll give you my overall model, [David]. For every growth dollar of MVA, or material value added, 50% of that should drop down to the contribution margin or more, as you get more efficient, right. I mean the model will get better and better as time goes on. So we have Chihuahua, which is a pretty senior plant. It's been around. It's hit a threshold, and they should drop more. Our Fremont and Dongguan plants are not as full, and so they'd probably drop a little bit less. And so where we bring the customer on matters a little bit about what drops from the MVA down to the contribution margin. What I would say is as you look at it overall for the company, 50% looks like a pretty reasonable target and model for the company in terms of what drops.



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Operator

And our next question comes from [Tony Dugoff] with -- is a private investor.

Unidentified Participant

So my question is about, could you highlight some of the quality improvements you've made over the course of the past year? I know there's been increased trust in your customer base. And would you say all the low-hanging fruit, as far as operational efficiencies, have been picked? Or is there more to go?

Edward J. Smith - SMTC Corporation - President, CEO & Director

Yes. So with doing the CapEx spend that we did before, that had Steve spoken about the \$4 million, obviously, as we get new equipment, it gives us better technology, faster technology, and you can get more operationally efficient. That's number one. So I think there's still a ways to go. And if you ever speak to a really good operations guy, he's never done tinkering in and getting better and better, but we've come a long way. Second is, Rich has implemented a real-time dashboard in the company, which means Rich, myself, Steve, the executive team wake up every morning, and we can see what happened the day before, as what's going on in that particular day. We can see our on-time delivery. We can see our quality. We can see our P&L. We can even see real time as our customers answer our NPS surveys, so Net Promoter Score, from our customers. So when our customers are unhappy, we can deal with it. So Rich and myself -- I can give you a particular story. We had a customer give us a bad NPS score, made some comments. I called Rich up. The next day, we're on a plane. We go see the customer, understand what their -- the issues are, and then we go fix those issues. So it's real-time feedback. And as you adjust to real-time feedback, Rich's team have been really good to be able to say, here's the industry standard metrics. Here's where we are today. Here's where we want to be in the future. I don't think operational excellence ever ends, so I would say it's going to continue to get better. But I think with new equipment, new tools, new measurements -- and then every employee at SMTC has KPIs with respect from them on what we're doing. And as we give them those measurements, I think people just get better and better as you're inspecting what you do and holding them accountable.

Unidentified Participant

Okay. Great. And then on the growth side, can you give any color as far as what sorts of customers you won or are in your pipeline? Are you finding that you're going after bigger wins these days, et cetera?

Edward J. Smith - SMTC Corporation - President, CEO & Director

Yes. I would say it this way: You have to know who you are when you go to market or you're going to be pretty unsuccessful. And I understand that we are a Tier 3 EMS provider. So when you say size, I don't see us ever try to win something that's \$100 million, not at the size we are today. I think that would cause us and the customer issues. My ultimate goal is to try to keep customers below the 20% mark. Somewhere in the 10% to 20% mark would be a really good feeling for us and the customer. Otherwise, it gets to be risk detrimental to the alliance: risk on our part, it gets to be risk on the customer's part. And so my answer to you is, we know where we fit in the industry. We focus on that particular space. We would take a customer from \$1 million to probably \$15 million to \$20 million and feel very comfortable with it. But if we got into the \$50 million or \$100 million, it's probably not a space we would want to compete, because it would be less profitable, effect the profitability and it probably would overwhelm our plants. And we don't want that.

Unidentified Participant

Okay. The last question, the share of wallet with existing customers, are you seeing improvements there? And for new customers, are you leaning one way or the other versus a direct model compared to your sales reps in the field?



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Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Yes. So as far as the existing customer share of wallet, I think we'll -- that will continue to expand. We continue to talk to our customers. I think it took awhile for them to change their view of SMTX, and I think some of them still have to change their view of SMTX. Some of our customers have given us more business. Some of our customers have talked to us about new opportunities. But I think we'll see the benefits from our existing customers and new share of wallet in 2019, early 2019 to mid-2019. I think some of them have to get over the -- some of the history of SMTX. And if I could re-brand SMTX from day 1 that I was here to now, I would do that. But I have to live with some of the legacy stuff, and so I think some of that took us some while. I think the articles where people talk about debt and growth, that are not accurate, don't help our situation for sure. Because we do have enough room to expand pretty significantly and not need additional cash. But sometimes, people believe what's in writing and not with the reality is.

Operator

And our next question is a follow-up from Steve Kohl with Mangrove.

Steven Kohl

Just a quick one, well, maybe not really that quick, but at least (inaudible). Eddie, we noticed that obviously, it isn't lost on us that 2 of the customers that you've bought on are medical. I mean, that was 1 of the 2 focus areas that you guys have had, is to move into kind of more chemically challenging stuff, secure, et cetera, sounds good and makes a lot of sense. Can you maybe give us an update on where you are, both on a organic -- how much of this can be done organically? Are we continuing to -- I know you mentioned in the past getting some of these -- (inaudible) industry, you need these certifications and things like that. Where are we there? Are we trying to work on some things internally? Are we still looking to acquire businesses or alliance that we pick. Maybe just give us a little bit of a sense of direction of where we are there.

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

So Steve, so we are in the process of -- getting a AS9100 accreditation, which is what you need for the military medical -- military (inaudible) market. So Rich and his team are vigorously working to get that. But as you know, it's not an overnight process because you have to change actually how the company does things and the process they go through. I expect in the Q3 quarter that we'll have AS9100 in both our Chihuahua and in our Fremont plants, so we can do military and medical plants. That's a pretty exciting change, because the world that I come out of and Rich comes out of, we have pretty deep loyalty in that marketplace from some of the bigger Tier 2 and Tier 1 providers for the U.S. government. You also know right now that the U.S. government spending in that space has increased. So we're working as quickly as we can to get our AS9100 and 9200 and get what we need to get to do our aerospace business. But we're not quite there. The only way I could see that going any quicker is if we were to find the right M&A candidate that had these accreditations already in some of their plants, and we were to do some M&A and buy the accreditation by using their plants. And so clearly, it's something that we take a look at every day to make sure that we can expand what markets are higher growth, higher-profitability markets, the more technical, what I normally refer to as the highly regulated markets. These markets are highly regulated. You need to do them correctly. You need to understand them. And if you do that, there's a significant profit that comes with that, and we are deep into the process of getting our accreditation. Rich and team have done a good job. We got our ISO 1345 (sic) [ISO 13485] to add the medical customers. We did that unbelievably quick, and now this is the next step to get into other regulated markets.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back to Mr. Eddie Smith for any closing remarks.



MAY 08, 2018 / 12:30PM, SMTX - Q1 2018 SMTX Corp Earnings Call

Edward J. Smith - *SMTX Corporation - President, CEO & Director*

Well, first of all, I'd like to thank all of you for attending. Thank you for that. SMTX will be present at the B. Riley FBR's 19th Annual Institutional Investor Conference on May 24, taking place in Santa Monica, California. Clients of B. Riley and FBR can contact their sales rep to arrange a one-on-one meeting with us. Information about this event will be posted on the Investor Relations section of our website.

I'd like to once again thank our dedicated employees, suppliers, customers and investors for their continued support as we build a stronger company. I look forward to updating you on our progress on our earnings call. Everybody, have a great day. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may now disconnect. Everyone, have a great day.

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