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PRESENTATION

Operator

Good day, and welcome to the SMTC Third Quarter 2020 Financial Results Conference Call. (Operator Instructions) Please note this event is being recorded.

I would like to turn the conference over to Blair McInnis, Vice President of Finance. Please go ahead.

Blair McInnis - *SMTC Corporation - VP of Finance & Corporate Controller*

Thank you. Before we begin the call, I would like to remind everybody that the presentation will include statements about expected future events and financial results that are forward-looking in nature and subject to risks and uncertainties. The company cautions that actual performance will be affected by a number of factors, many of which are beyond the company's control, and that future events and results may vary substantially from what the company currently foresees. Discussion of the various factors that may affect future results is contained in the company's annual report on Form 10-K, quarterly reports on Form 10-Q and subsequent reports on Form 8-K and other filings with the Securities and Exchange Commission. All forward-looking statements are made as of the date of this call. And except as required by law, we do not intend to update this information. During the call, we will also reference certain non-GAAP measures, including adjusted gross profit, adjusted net income, EBITDA and adjusted EBITDA. Please refer to the press release we issued yesterday for reconciliations between GAAP and adjusted results.

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

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

I will now pass the call over to Ed Smith, SMTC'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. On this call with me today is Rich Fitzgerald, our Chief Operating Officer; and Steve Waszak, our Chief Financial Officer. As I did last quarter, I want to thank the entire SMTC team and our supply chain partners for their hard work and dedication as we continue to operate our business with the added challenges brought on by the global fight against the COVID-19 pandemic. I'd also like to thank our stockholders for their continued patience and support during these trying times.

Before I provide a quick financial recap, I want to note that while we are pleased with our business execution across all facets of our operations and response to the challenges posed by the COVID pandemic, the fight isn't over yet. Our COVID-19 prevention activities go beyond the basic requirements that are prescribed by the various governments and health care agencies. As a result of these actions and our ability to remain focused, our facilities remain open and in operation. And we look forward to the day where the pandemic is behind us and when we expect to emerge as even a stronger and more profitable company.

As you can see on Slide 3, revenue for the third quarter was $99.5 million, up 12.3% from the $88.7 million reported in the same quarter a year ago and up 10.1% from the 90.4% reported in the prior quarter. Customer demand during the third quarter of 2020 continued to track to our internal plans, as we expanded our customer base and increased our market share. We've been successful with our end markets diversification, dedication to putting the customer first and adapting our sales and onboarding processes to address the challenges posed by the COVID-19 pandemic. While these processes may be a little bit different and perhaps take a little longer and acquire more meticulous planning, we expect to continue to gain market share and grow our sales funnel.

During the third quarter of 2020, we continued to operate as a COVID-compliant safe work place and incurred $1.3 million to protect our employees and their families. Adhering to the health and safety action plans that we discussed in our previous conference calls and by carefully managing our expenses and business operations, we were able to once again generate improving bottom line results, including adjusted EBITDA of $7.5 million or 7.6% of revenues that enabled us to report earnings per share of $0.04 and adjusted earnings per share of $0.13, as noted on Slide 4. I'm pleased by the trust our customers have put in us as our business development teams continue to expand SMTC's market share and expand our sales funnel. We've been successful in securing $46 million in new awards and bookings during the third quarter, primarily from 5 new customers and 1 existing customer in the Aerospace, Defense and Industrial IoT markets.

Let me quickly share with you just one example of why we're winning new customers and expanding our business with our existing customers before Steve discusses the Q3 financial results, and provides our outlook for the balance of the year and our initial expectations for 2021. Recently, after an extensive supplier evaluation process that involved dozens of EMS providers and because of our track record of superior supply chain management, we were selected by a leading multibillion-dollar-a-year international supplier of sophisticated hardware and software products as one of their 2 global preferred suppliers. This customer who provides products to a variety of growth industries, including many we are targeting such as defense, aerospace, industrial IOT, test and measurement and medical and safety; also values our leadership team's ability and willingness to develop flexible, innovative and strategic solutions to its complex manufacturing requirements. Manufacturing for this customer award started in Q2 2020, and will continue into 2021 at 4 of our facilities in North America.

I want to thank Rich who has decided to pursue other opportunities for his leadership and guidance over the past 3.5 years, during which time, SMTC tripled in size with increased profitability and customer satisfaction. Rich will continue in his current COO role during the search for a successor, which is expected to be completed by the end of first quarter 2021.

Steve Waszak, our CFO, will now discuss our third quarter results in more detail. After Steve's remarks, I will provide some additional commentary before we open the call to questions. Steve?

Steven M. Waszak - *SMTC Corporation - CFO and Senior VP of Mergers & Acquisitions*

Thank you, Eddie. Now let me discuss the financial results, which you can see on Slide 5. Revenue in the third quarter of 2020 was $99.5 million compared to $90.4 million in the prior quarter and $88.7 million from the third quarter a year ago. During the third quarter of 2020, and we had 2 10%-plus customers that accounted for 11.7% and 11.1%, respectively. As Eddie noted, we are pleased with the top line growth and the strength provided by our end market diversification and believe that we'll continue to gain market share as we manage through the COVID-19 pandemic.

Our gross profit for the third quarter of 2020 and was $11.1 million or 11.2% of revenues. This compares to $10.7 million or 11.8% of revenues in the prior quarter. Our Q3 2020 adjusted gross profit was $12.5 million or $12.6 million of revenues, excluding $354,000 of noncash amortization of intangibles recorded in connection with our acquisition of MC Assembly, $1.3 million of COVID-19 related costs and $261,000 of noncash unrealized foreign currency gain on unsettled foreign currency contracts. The $1.3 million incremental costs incurred to address the COVID-19 issues, includes temporary labor in lieu of at-risk employees required to stay at home, cleaning, disinfecting and health care monitoring. In comparison, our Q2 2020 adjusted gross profit was $11.7 million or 13% of revenues.

Selling, general and administrative expenses for the third quarter of 2020 was $6.7 million, a reduction compared to $7.1 million reported in the second quarter of 2020. The lower SG&A expense in Q3 related to the prior quarter was primarily due to reduced professional services fees rendered in connection to our SOX compliance. As a percent of revenues, SG&A expenses decreased from 7.9% of revenues in the prior quarter to 6.7% of revenues in the third quarter of 2020. In comparison, SG&A was 7.4% of revenues in Q3 2019.

We reported net income of $1.2 million in the third quarter of 2020, compared to $995,000 in the prior quarter and a net loss of $5.7 million in the same quarter a year ago. Adjusted net income in the third quarter of 2020 was $3.8 million. In comparison, we recorded adjusted net income of $2.4 million in the prior quarter and adjusted net income of $2.1 million in the same quarter a year ago.

Adjusted EBITDA in the third quarter of 2020 was $7.5 million or 7.6% of revenue compared to adjusted EBITDA of $6.4 million or 7.1% of revenues in the prior quarter and $6.3 million or 7.1% of revenues in the same quarter a year ago. Reconciliations of adjusted net income, adjusted gross profit and adjusted EBITDA are included in the press release we issued after the market closed yesterday.

Now, I'd like to comment on the balance sheet and a few other key financial metrics that we reported for the third quarter. As you can see on Slide 5, our cash-to-cash cycle averaged 81 days, compared to 82 days during Q2 2020. The third quarter 2020 DSO was 59 days, DPO at 75 days and inventory turns for Q3 were 3.8 turns compared to 4 turns in Q2 of 2020. Capital expenditures were approximately $1.4 million gross in Q3 2020.

Net debt at the end of the third quarter of 2020 was $85.9 million compared to $84.6 million in the second quarter. Both periods include $3.6 million for the extension of the company's Fremont, California facility lease in February of 2020. In comparison, net debt was $84.4 million in the same quarter a year ago. Net debt, excluding our finance and operating lease obligations at the end of the third quarter was $68.9 million compared to $68.4 million at the end of the prior quarter. As of September 27, 2020, our debt-to-trailing-12-month adjusted EBITDA ratio, excluding leases, was 2.55, significantly lower than the 4.67 when we acquired MC Assembly in November 2018. Including capital leases, our debt-to-trailing-12-month adjusted EBITDA ratio was 2.94, which is in line with our public company peers. We continue to expect that we will be able to further reduce our debt-to-EBITDA ratio exiting 2020.

Our financial priorities during the COVID-19 pandemic remained focused on tight controls over expenses, carefully managing our working capital, and leveraging fixed costs as revenues expand, and managing strong relationships with our partners to ensure financial flexibility so we can adjust as needed and support our operations through continuing COVID-19 pandemic and the uncertainty that that creates. At the end of the quarter, and subject to debt covenants, we had $30.5 million available under our asset-based lending credit facility. To ensure covenant flexibility as we continue to navigate through the continuing COVID-19 pandemic, we recently also further amended our credit facilities.

As noted on Slide 6, based on the current demand and supply chain visibility and assuming our facilities continue to operate at currently planned levels, we are reaffirming and affirming at the higher end of our prior quarter guidance issued in August 5, 2020. We now expect revenues to range between $195 million to $205 million and adjusted EBITDA to range between $14 million and $15 million for the second half of 2020. Further, with continued sales momentum and planned operational efficiencies, we currently expect 2021 revenues to range between $430 million and $450 million, with adjusted EBITDA to range between $33 million and $37 million, consistent with the revenue and adjusted EBITDA margins targeted in our long-term financial model. Based upon our revenue outlook, we expect improvements in our cash-to-cash days as we move through 2021.

With that said, here's Eddie for some additional comments in our business. And thank you.

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

Thank you, Steve. Q3 was a strong quarter. Our operations and supply chain team continued to perform exceptionally well, working around the challenges presented by COVID-19 pandemic. If you're following along with our posted slides, turn to Slide 7. I'm pleased that we're starting to see an acceleration of our customer programs moving through the customer certification process, into the new product introduction phase and entering production that will continue to ramp in 2021. Over the last 2 quarters, our engineering production staff in Boston and Fremont successfully launched 11 new product introductions or NPI programs. Our business development and sales teams continue to expand our business with $46 million in new customer multiyear orders in Q3 from 5 existing customers and 1 new customer.

As noted on Slide 8, we remain focused on growing our market share in key markets that play to our strengths, including industrial IoT, the regulated medical markets and markets of customers supporting the defense and aerospace industry. During the third quarter, we continued to see robust strength with some defense and space programs, which offset softness in the commercial avionics. We also benefited from a rebound by our semiconductor customers. These markets provide a stable and solid base to profitably grow our business in the years ahead.

As Slides 9 and 10 illustrate, we are making progress and remain focused on achieving and maintaining a leadership position in terms of operational performance among our Tier 3 EMS peers, including revenue growth, gross margin, EBITDA margin and net margin percentage. In short, we're on track and potentially exceed our internal plans. We remain focused on deleveraging and prudently managing our balance sheet, generating returns for our shareholders that rank us among the top of our peer group, as we continue to stay committed to being a customer-focused company that provides superior service together with operational excellence.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Mike Crawford with B. Riley Securities.

Michael Roy Crawford - *B. Riley Securities, Inc., Research Division - Senior MD, Head of The Discovery Group & Senior Analyst*

Eddie and Steve, you have $176 million of new orders from new customers or new programs with existing customers in the trailing 12 months. But what about orders overall, including with existing customers with existing programs?

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

Yes. So Mike, some customers like -- so we build for some customers, commercial avionics. Those customers have gone really to zero, and I don't expect them to come back for quarters, maybe even years. And so this $176 million that we referred to $179 million, some of that is replacing business that's gone away. Same as in the payment system area, right? People not going to restaurants in certain states, reduce capacity in that makes it where the payment systems have dropped off dramatically. So I would say in a normalized year, that would lead to significant growth. But because of the pandemic in certain markets being more effective than others, it's leading to -- we're showing double-digit growth, but it's not the 20% or 30% it could be if we didn't have COVID.

Michael Roy Crawford - *B. Riley Securities, Inc., Research Division - Senior MD, Head of The Discovery Group & Senior Analyst*

Okay. And then if you had to prioritize between, say, expanding capacity at Chihuahua, or in another of your facilities, or adding manufacturing footprint in Southeast Asia or pursuing external M&A; what seems most important at this point?

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

Yes. So because of some of these new awards that you just referred to, we will expand our footprint in Mexico in our current facilities, which we own. We have 17 acres. We only built on eight of those. We are looking at what we should do with those other 8 acres or and what type of expansion. So if you were to show up at our facility, you'll see that there's some expansion going on now in a smaller way. But over time, we will need to expand. Our sales, when we talk about our sales next year, our facilities in Mexico next year could do over $250 million or more in Mexico. So first #1 priority would be to expand in Mexico. Clearly, not being in Southeast Asia and Europe is not where we want to be. I'm not actively out looking for acquisitions today. But as we get through this COVID, obviously, I'd like to be there. I would try to avoid a greenfield, but if I have to, maybe at some point, we'll look at that. But today, I'm not there, Mike. So I'd say, expanding our current facility in Mexico would be #1. And then looking at what markets we want to be, #2; and then M&A would probably be closer to #3. But clearly, things come across our desk every day about people looking to sell or merge or do different things. We look at them, but there just hasn't been anything that's excited us yet.

Michael Roy Crawford - *B. Riley Securities, Inc., Research Division - Senior MD, Head of The Discovery Group & Senior Analyst*

Okay. And then last question is just based on your guidance for fiscal '21, it looks like in the second half of the year, you should be -- you have the potential to exceed 8% adjusted EBITDA margins. And I'm wondering if that is where you see the long-term model with the existing footprint, maybe with some expanded space at Chihuahua, or if you have any changes to what you think you can get out of this company.

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

Yes. As we expand and scale matters in the EMS space, so clearly we want to be over 8% next year, and so you're right on with that. Can we get it to 9% or 10%? Obviously, that becomes a little bit more driven by how do we expand. Do we expand organically in our existing facilities? Do we pick up a new facility? But I would be disappointed, Mike, because, if you know me definitely as you do, I would be disappointed if at some point we can't start touching 9% or even getting over 9%. But clearly, let's first get to 8%, and then we'll move from there.

Operator

The next question is from Christian Schwab with Craig-Hallum Capital Group.

Christian David Schwab - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst & Partner*

Congratulations on a good quarter and execution here. As we look to 2021, kind of really strong double-digit growth in this environment expected, can you walk us through your confidence in that? Is that based upon all the new wins that we've won in the last 12 months? Is there market share gains? Or is it a continuation of extremely strong growth expected in the aerospace and defense market? I'm just trying to better understand that. It doesn't sound like some of the businesses that have been weakened by COVID are going to improve next year, in your opinion.

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

Yes. So that's the greatest question. Most of that, if not 90% of that growth will be new customers that we've obtained over the last 3-4 quarters ramping up. So we had announced at some point, a large defense aero win. We've announced different wins. So Christian, we're probably better in backlog this year than any year since I've been here in terms of orders and backlog going into the next year. And that's actually why we decided to guide this early. Because if you remember, we normally guide in December, the first or second week in December. But we decided to guide early, because we have most of that either locked up through forecasts or orders. And so we thought it was appropriate to put it out. But most of that's new customers or new programs with existing customers. I believe the existing customers will stay flatter this year than in previous years. And some of that aerospace commercial avionics business will stay away. I don't see the 737 ramping back up this year and some of the other programs. So it's mostly driven by new awards and new customers.

Christian David Schwab - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst & Partner*

Okay. Great. And then just a great segue into the long-term model where you think you could grow this business over time at a 15% to 20% top line growth. Is that -- I just want to make sure I understand that. Is that an organic growth number? Or is that assuming that over time, there'll be potential future M&A?

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

Yes. It's a good question. Right now, the 15% to 20% will be organic. And what we do have in our house and our structural strategy, some data to take a look at M&A. But I don't see us doing any of that for a bit here, unless something is so striking we've said, hey, let's do it. I think that Q1 -- we're bringing on a lot of customers in Q4. We're bringing on a lot of qualifications in Q1. And so I don't want to be distracted while we bring them on. Once we get the couple of big customers on, we'll probably take a look and see what's out there and see if there's something of value to us. But right now, that's really clearly defined, Christian, by organic growth, but I would say a couple of years out as we gain some pretty significant scale. I don't think you can grow 20% or over $100 million without some sort of M&A somewhere along the way.

Christian David Schwab - *Craig-Hallum Capital Group LLC, Research Division - Senior Research Analyst & Partner*

Great. And then my last question has to do with gross profit margins. As we are doing a material ramp of new customer-driven growth next year, are you confident that as we ramp up these new programs that you're prepared for that to be efficient? Or should we assume that there could be some hiccups as we kind of ramp all these new programs up at the same time, how should we be thinking about that?

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

Yes. It's a great question. So normally, at the front end of a program, there are additional costs to that front-end of the program. And I think it won't kill our gross margin, but it will probably keep it flat to down a couple tenths of a point as we ramp up through Q4 and Q1. So you're never efficient the first day you add a large customer on. It normally takes a couple of quarters to get that efficiency. I would tell you that it's probably a couple tenths of a point in Q4-Q1 and then ramping up to a very strong gross profit in Q2, Q3, Q4 next year.

Operator

The next question is from [Craig Woods], private investor.

Unidentified Participant

Yes, Eddie, if you could elaborate a little bit on the potential expansion plans in Mexico, I'm just wondering if we're going to be able to do this. If we do need to do this, are we going to be able to do it fast enough to keep up?

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

Everything that I've told you in terms of keeping up, we have plans for. So yes, in terms of keeping up, I don't think there's any issue there. In terms of expansion plan, we'll announce at some point, what we're going to do and how we're going to do it so that everybody will be prepared. But -- so I'm not prepared today to give you all the specifics. But we are clear that we're going to have to expand in Mexico as we go here.

Unidentified Participant

Right. Yes. Okay. I guess I do have one other question. I think I touched on this on the last call about if there was any potential of losing any of you guys. And now it sounds like we might be. I don't know if I heard you right, that we might be losing Rich. And I'm just wondering if you could elaborate on what plans we might have to replace him. If that is what I heard, I'm not sure if I heard that right.

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

No, you heard that right. Rich, for personal reasons, has decided to make a change. This is, first of all, very sad for me. Me and Rich have been together, off and on 3 or 4 times over 20 years. And so we have started a search for a new COO. Rich has been kind enough to say that he would stay through Q1, which will get our customers on-boarded and a few of the projects done. And so I appreciate that from Rich. But life changes. Me and Rich have been through this together. Like I said, we've worked 4 times together. So I hope in the future, and we get another chance to do that. But Rich has made the decision to move on at this point. So Craig, these things happen and we work through them. I have a list that if you want to use the old terminology, I had a Rolodex that I went through, and I've made a list of people that we have started reaching out and talking to, and we're hoping to have the search done by the end of Q1 in that [fix].

Unidentified Participant

He will be with us through the entire first quarter?

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

At this point, yes. So yes.

Unidentified Participant

Okay. I sure hope that works out. I hate to say it looks like my fears of what I asked last time, unfortunately, they've been realized. I kind of had a feeling that something might be going to happen, and I wish I was wrong, but unfortunately, I'm not. But anyway, I'm glad you got plans to deal with that. So you guys did real great here this quarter. I'm really appreciative of the work you've done.

Operator

Your next question is from Steve Kohl with Mangrove.

Steven Andrew Kohl - *Mangrove Capital Partners - Former Partner*

First off, I want to congratulate you on an excellent quarter. Obviously, we all know that COVID hasn't been easy on many different fronts. And it's rare to actually have a company come through when they say they're going to. So congratulations on that. I did briefly want to also call out Rich. I think when I look back at SMTX to when you guys came on, the company was in a far different place, as you guys know. And I think at this point, I can't recall a time where I feel as good about the company than I do now, or the plants have operated as well as they have now. And I know Rich has worked tirelessly to make that happen along with the rest of the team. But I think even more importantly, and my last point on this is that I think it's having the people behind them to drive the company. And I think I certainly wish him the best of luck on his future endeavors. So good luck, Rich. I think in terms of a couple of questions, since I always, as you know, I'm going to have a few of those. Let me turn a little bit to the balance sheet. I know Steve has talked a little bit about kind of the EBITDA numbers, the adjusted EBITDA leverage numbers, which I think are relevant. I guess I'm trying to key on a couple of things. One is the absolute debt level and kind of free cash flow generation in terms of how we see that playing out. And how does that dovetail in with some of the plans that you guys have talked about in Mexico, for example? And I know you haven't talked about specifics, but presumably, that expansion is going to cost some amount of money. How does that tie into kind of the -- some of the leverage ratios going forward and also our absolute debt levels.

Steven M. Waszak - *SMTC Corporation - CFO and Senior VP of Mergers & Acquisitions*

Yes. So Steve, this is Steve Waszak. So as you saw, the absolute numbers in debt levels are constant across the last couple of quarters, which through COVID and through our increase in some inventory as well as we've got about $2.1 million of COVID costs through the year; we've probably had more pressure on some of the cash and we've been able to keep debt levels constant. So we've been working hard on that. And so we'll continue to leverage that. We watch it daily. We do our 13-week cash flows. With that, our collections are actually have been -- each quarter have been a little stronger than the prior quarter. So that's helped us a lot. We've done some good work around -- Rich has done some good work around structuring some of our contracts with the aerospace defense in terms of payment streams that mirror when we have to acquire or bring on materials for these longer-term contracts. So all in all, we manage it on a daily basis. So you can see our history has been -- we've been able to keep debt constant over the last 2 or 3 quarters in the midst of COVID in this whole process. As we look forward, as Eddie talked about in terms as we look towards expansions and that, we'll look at what alternatives are relative to generating the right sources and uses to manage through that. So it's something that we have tremendous rapport with our banks, and we talk to them constantly about how we manage the operations. And the other thing with the growth that we talked about for next year, between 430 and 450, we'll continue to put a bright light on working capital. So it's top of mind, but we don't expect it to increase on an absolute level basis. And by doing that, our debt leverage ratio will continue to decline relative to quarter-over-quarter based on having more EBITDA, higher EBITDA relative to the constant debt level from that perspective. So in a macro sense, that's where we're at. We do work hard at it, and we do monitor it, like I said, almost daily. And certainly weekly with the updated week -- 13-week cash flows and everything else.

Steven Andrew Kohl - *Mangrove Capital Partners - Former Partner*

Right. Eddie, did I hear this right on the new -- when you look at new orders, was it largely just from existing customers and new programs versus -- was it just one new customer? Did I get that right or did I not get that right?

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

It is largely new customers, new programs.

Steven Andrew Kohl - *Mangrove Capital Partners - Former Partner*

New customers, new programs?

Steven M. Waszak - *SMTC Corporation - CFO and Senior VP of Mergers & Acquisitions*

Yes, Steve, you had it inverted.

Steven Andrew Kohl - *Mangrove Capital Partners - Former Partner*

Okay. It's late here, so I did a hike and almost died today, so it could have had something to do with that, but maybe mixing some things up. But what do you guys -- when you look at some of the areas that you're targeting, I know, obviously, we talked about avionics being difficult and obviously, defense being a focus. Are there other segments of the market that you see as offering particular potential for you guys to target as we go out over the next year or 2? And where are we -- how are you targeting those? And do we have some things in the pipeline? Or what can you speak or provide color there on?

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

Yes. So we have a pipeline, and we really go for 2 types of customers as a general rule, Steve. Highly regulated, which aerospace, defense, medical, all fall into the highly regulated markets and there's others; and highly complex work, which semiconductor, capital equipment, those type of things. They need a certain complexity. They also need certain quality levels that are above and beyond the normal. And we look for those because we believe we get a higher-margin for doing those things. So yes, we look for certain types of customers. And right now the pipeline is strong in those sets.

Operator

The next question is from [David Kanan] with [Kanan West].

Unidentified Analyst

Congratulations, great execution. And just would like to wish Rich Fitzgerald well, I appreciate your impact on the company and whatever you do in the future, I wish you much success. So you kind of touched on this, but in terms of the organic growth, both in bookings and in the quarter, can you speak a little bit to those sectors where you're seeing the strength?

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

Sure. We're seeing a lot of strength in the defense aero market we'll continue to grow. Two years ago, we were zero. Last year, we were at 5% or so. This year, I expect that to be 15% to 20% of our revenue. So we'll continue to grow in the defense aerospace market significantly. We also expect to grow in the power market. And we think that, that's a market for us that excites us. So when you look at the industrial IoT, power and clean technology, that will continue to grow. And then the third one that has really given us really good growth is the semiconductor capital equipment market. We've added 2 new customers in that market. One was a division of one of our existing customers. So we've landed-expanded there. One is a brand-new semiconductor capital equipment customer, and that one is a pretty significant win, too. So we're pretty excited about next year and the new customers and the expansion in our customer base. But clearly, we're expanding where we want to. We're expanding in the defense market. We're expanding in semiconductor capital equipment and in the power, industrial IoT market.

Unidentified Analyst

So, Ed, my follow-up on that is, when one looks at those sectors, one can't say they're going gangbusters right now. So it appears as if you have a differentiated value proposition to these customers and you're gaining share. Could you kind of summarize what that is versus some of the people that you're going up against? And if I'm wrong, just please correct me, but it seems as though you're gaining share and that you've got a value proposition that the customers are finding attractive and allocating more business to it.

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

Yes. I think it's really a couple of things. One is, we are no doubt about it gaining share and winning new customers is the easiest way to check off the box if you're gaining share, right? It's a new customer. So somebody is losing it when you're gaining it. So we're excited about that. I think driven by, first of all, our supply chain and our supply chain flexibility. So during COVID, we have not had some of the issues some of our competitors have had. And I think our customers see that flexibility and people who haven't done business with us, want to be part of that because they say, hey, these guys have been really flexible with their existing customers, we'd like to have that same flexibility. So supply chain is one, and operational excellence. We have a great leadership team through all our factories now. Each factory has somebody who's been around the industry, has a lot of experience. And that wins us a lot of business. And then in the end, as we have success, people are talking about it. And people leave companies and they go to a new company and they call us and say, hey, we like what you did at our old company, come in and do that here. So I think supply chain, operational excellence and then the last is, I think, reputationally right now, because we haven't closed down during COVID, because we haven't had the issues of our competitors, we're winning more business and taking market share.

Unidentified Analyst

Okay. And then just sort of a general industry question, this is my last question. I don't want to monopolize. But given your execution margins, organic growth, it seems as you're not getting credit for differentiated performance as a company. In the industry in general, right now, what you're seeing; what are multiples -- not saying that you guys should sell the company per se. But in the public market now, what are multiples you think that both strategic and financial buyers are paying, given that we're in such a low interest rate environment? Because on one hand, we're not getting a good multiple based on your guidance, which you've executed well on in the past. What do you think -- what are some of the numbers out there that you're seeing?

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

Yes. This is probably the most intricate question that me and the board discuss all the time to how do you get the true value of the company. But clearly, at 5.5x EBITDA, I believe were undervalued. There's people in the industry at 8x, and I think the top is probably low double digits, 10 or so. So we should be probably somewhere between 5.5 and 10 -- I think 7.5 or 8 seems to be a reasonably valued. But we're not there. And so I think -- I'm hoping that over a couple of quarters of performance and significant growth, that that will happen. But clearly, it's a little frustrating. We've grown double digits every year organically other than this year, which is COVID. And even in a COVID environment, year-on-year, our growth will be 7% or so. And there's not many companies that could say one year, they grew 56%, the next year they grew 28%, then 7%. And now we'll be back on the double-digit growth next year (inaudible). And so to get such a low multiple is a little bit frustrating. But clearly, I think, at some point, the true value will come out.

Unidentified Analyst

Okay, well, I'm a patient shareholder, and I have confidence in you guys (inaudible).

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

Thanks, David. We would like it to happen to borrow, but unfortunately, that's just not the way the world works.

Operator

The next question is from George Melas with MKH management.

George Melas

I'm fairly new to the story. So I'm going to -- I have 3 questions and maybe they're a little bit basic. But the first one is the new customers that you're winning, the new programs, are you getting these primarily from other contract manufacturers or from company factories? Or is it sort of new programs where they're looking for a new manufacturer to do the program, but you're not taking it from anybody else?

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

We are taking them from our competitors.

George Melas

So from existing contract (inaudible)?

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

Yes.

George Melas

Okay. Great. Okay. And then 2 quick questions on the financials. I'm somewhat confused by the interest expense. I don't quite understand why it's so high. And then maybe you could comment on your CapEx expectations for next year.

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

Sure. I'll let Steve answer both of those.

Steven M. Waszak - *SMTC Corporation - CFO and Senior VP of Mergers & Acquisitions*

On Capex, we typically run between 1.1% to 1.25% of revenue. So we're still developing our plans for next year. So we can't comment on it specifically yet. We'll get there in the next 30-60 days, we'll lock it in. So that's typically what we drive on CapEx, split between new and maintenance CapEx. And then on interest expense, we have about a 10.5% on the Term B, I mean on Term A -- sorry, on the Term A, Term B has been retired, so Term A is about 10.5%. And then the ABL is in that range of 4% to 5%. It's LIBOR-based, so it's in that range of between 4% and 5%. So on a blended perspective, we're probably somewhere in that 8-8.5%, 9%. And then on top of that, we have some leases that are at some higher rate. So that's typically where we're at. We're in that range, and we've been in that range for a bit in terms of where we're at. So until we refi, which we certainly look towards reshaping this debt. We continue to look towards, can we get it to a full ABL to get to a lower interest rate, things like that. How can we capitalize on some of this stuff to get to a lower interest rate? We'll continue to go there. But we'll be at these rates for a period yet in terms of the interest rates. Don't disagree with you, we think it's high. But those are the instruments we have in place today.

George Melas

But you can refi the A after November of this year, basically soon within just a 1% penalty, and is that something that you would consider?

Steven M. Waszak - *SMTC Corporation - CFO and Senior VP of Mergers & Acquisitions*

Yes. It's really we can refi the A. It's a 3-2-1. So it's at 2 right now. So we refied it a period back. So every August, it triggers into that 3-2-1. So we're in that 2% range now. And certainly, we have to have the right capabilities to do it relative to our cash flow, relative to our assets, relative to our growth and all that. So I don't see it happening immediately after November. But certainly, it's something we scan the market for at all times to work with both our -- we have a tremendous relationship with both the revolver and the term debt. So we talk to them continuously about how do we manage this debt to first and foremost, support the growth of the company, because it is a working capital-intensive industry. And then second, we look at the cost of capital, which is important as well.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Ed Smith for any closing remarks.

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

Thank you, operator. First of all, in closing, I want to thank Rich for his dedication over the last couple of years, and to let him know that he will be missed. I want to once again thank our employees, leadership team, business partners, distributors and our stockholders for their continued support and look forward to reporting our progress to our various stakeholders as we go forward. Thank you, and have a great day.

Operator

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