Baird Global Industrial Conference - 11/8/22

(DESCRIPTION)
[00:00:00.00] Text, Baird. The presentation will begin momentarily.

(SPEECH)
[00:00:00.59] Thanks everyone. Good afternoon. My name is Peter Arment. I'm senior aerospace analyst here at Baird. Very happy to host TTM Technologies. And with us from team today is Todd Schull. He's the chief financial officer executive vice president. And he's going to go through a presentation, and if there's time at the end we'll get some questions in. So thanks for coming.

[00:00:20.42] Thank you. Appreciate the opportunity to be here and share our story with you.

(DESCRIPTION)
[00:00:24.26] Todd Schull stands up and walks behind the podium. He points to the screen. Title, Disclaimers. Forward-looking statements.

(SPEECH)
[00:00:27.23] Of course, my attorneys always say I have to show this slide first but we'll keep going. So TTM is a leading technology solutions provider of engineered solutions, PCBs, as well as specialty components. PCBs are printed circuit boards. It's the foundation of any electronic product.

(DESCRIPTION)
[00:00:44.33] Text, Technology-enabled end markets and customers. Critical supplier to today's fastest growing technologies such as advanced defense radar, cloud infrastructure, 5G, automobile technology, semiconductor capital equipment, and internet of things. Significant global footprint with 27 facilities and 16,700 employees.

(SPEECH)
[00:00:44.96] We've got 27 facilities around the world and about 17,000 employees.

[00:00:50.90] Last year's revenue is about $2.5 billion on a pro forma basis adjusting for our recent acquisition.

(DESCRIPTION)
[00:00:57.27] Data center and semiconductors - Nivida. Networking and communications infrastructure - Cisco. Aerospace and defense - Raytheon. Semiconductor Capital Equipment and Medical and Industrial Automation. Automotive technology - Bosch.

(SPEECH)
[00:00:57.35] On the right side, you see the end markets that we're involved with, I'll go through that a little bit more in just a few minutes, and some representative customers in those end markets.

(DESCRIPTION)
[00:01:06.32] Title, Strategic Focus.

(SPEECH)
[00:01:07.65] Our strategic focus really focuses around what we internally refer to as the three D's.

[00:01:13.35] First is diversification. We have the most or at least one of the most diversified customer sets within the PCB industry and electronics industry led currently by our aerospace and defense end market, as well as medical industrial instrumentation and data center computing.

(DESCRIPTION)
[00:01:32.96] Differentiation - engineering depth, early engagement, technology breadth, and global footprint.

(SPEECH)
[00:01:33.62] Our second D is differentiation. And that really focuses on technology.

[00:01:39.46] We have a technology breadth that is very wide and able to support our PCB customers across a broad spectrum of their needs. And we've added to that recently significant engineering capabilities that allow us to focus and support customers with RF products and components and surveillance systems.

(DESCRIPTION)
[00:02:00.04] Discipline - operational execution, earnings power, and cash flow generation.

(SPEECH)
[00:02:00.79] And then our third is discipline. Discipline in how we run the business. Discipline and how we do M&A, and I'll go into that a little bit more in a second too.

(DESCRIPTION)
[00:02:07.93] Title, Recent Highlights.

(SPEECH)
[00:02:09.70] TTM has evolved over the years. OK, recent highlights. We'll do that first then. When you look at our recent highlights, we've actually had a very productive last nine months so far. Solid P&L performance in the face of some very significant challenges with inflation, and COVID, and supply chain disruptions, and we've delivered pretty decent results.

(DESCRIPTION)
[00:02:38.25] Text, Organic revenues grew 9.6% 9 M YTD, driven by commercial markets such as data center computing, medical, industrial and instrumentation and automotive.

(SPEECH)
[00:02:38.76] Organic revenues through the first nine months, we've grown almost 10%. Again led by those in markets I highlighted earlier.

(DESCRIPTION)
[00:02:47.11] Aerospace and defense market demand was strong with program backlog at $1.16 billion inclusive of telephonics.

(SPEECH)
[00:02:47.59] And our aerospace and defense business, although revenue has not grown significantly this year, our backlog has. I'll go into a little more detail on why that is but we have an extremely strong position with our backlog now just under $1.2 billion of backlog.

(DESCRIPTION)
[00:03:02.26] Non-GAAP earnings per share grew to $1.33 in 9M YTD 2022 from $0.94 in 9M YTD 2021.

(SPEECH)
[00:03:02.71] Non-GAAP earnings have grown significantly to $1.33 so far year to date.

(DESCRIPTION)
[00:03:07.39] Text, Solid balance sheet. Cash flow from operations was $195.3 million and free cash flow $119.2 million 9M YTD 2022. Net debt/LTM EBITDA was 1.8 times at the end of quarter 3 2022 due to strong cash flow and EBITDA.

(SPEECH)
[00:03:07.84] And our balance sheet is really in excellent position. Our leverage is minimal and we've generated solid cash flow in the last few quarters. We're off to a good start this year.

(DESCRIPTION)
[00:03:19.29] Completed $100 million stock repurchase program in quarter 2 2022. Completed the acquisition of Telephonics at the end of quarter 2 2022. Broke ground on new manufacturing facility in Malaysia in quarter 2 2022. Published first Corporate Social Responsibility Report August 2022.

(SPEECH)
[00:03:20.05] And then I highlighted a few things at the bottom there, we've obviously announced the transaction where we acquired Telephonics. We've also announced that we're building a new factory from the ground up in Penang, Malaysia, which is the largest factory of its kind outside of China in Southeast Asia at this point and we're very excited about that. And we've also published our corporate social responsibility report for those who are interested in what we're doing in the area of ESG. Kind of got our first report out there. So we kind of share with people what we're all about.

(DESCRIPTION)
[00:03:51.83] Title, The Evolution of TTM Through Strategic Transactions.

(SPEECH)
[00:03:53.23] TTM has evolved through time to a series of strategic transactions and the first bunch of transactions really focused on diversification and increased scale.

(DESCRIPTION)
[00:04:04.18] 2002, Acquires Honeywell ACI - Networking/Communications, High layer count. 2006, Acquires Tyco PCG - Aerospace and defense. diversification.

(SPEECH)
[00:04:04.33] You can see here we've gotten into different business and different end markets networking and communication with the Honeywell transaction, A&D with the Tyco transaction.

(DESCRIPTION)
[00:04:16.08] 2010, Acquires Meadville PCB - Cellular market, Asia footprint.

(SPEECH)
[00:04:16.75] The Meadville transaction in 2010 gave us a footprint in China, which was really critical to support customers who need ability to do high volume manufacturing at lower costs, as well as got us into the cellular phone market, which in 2010 was just starting its big run. So it was really a good acquisition

(DESCRIPTION)
[00:04:34.48] 2015, Acquires ViaSystems - Automotive, Synergies.

(SPEECH)
[00:04:34.90] and. Then ViaSystems in 2015 which got us into the automotive end market as well as significantly enhancing our position in the aerospace and defense end market.

[00:04:44.35] Our more recent transactions though have focused more on increasing our differentiation and bringing stability to the business model.

(DESCRIPTION)
[00:04:51.61] 2018, Acquires Anaren - Build to spec, RF technology.

(SPEECH)
[00:04:52.35] We acquired Anaren interest in 2018 which brought on board significant engineering content, particularly in the RF subsystem and subassemblies area.

(DESCRIPTION)

[00:05:02.81] 2019, Acquires i3's assets - Substrate like PCB technology, ultra high aspect ratio expertise, extensive patent portfolio. 2020, Divests mobility, and restructures E-MS - Stable end markets, financial flexibility. 2022, Acquires Telephonics - Aerospace and defense, engineered system solutions.

(SPEECH)
[00:05:03.24] We complemented that with our recent acquisition of Telephonics this year, which then moved us into engineered solutions and systems leveraging RF but also adding surveillance and communication and markets.

[00:05:17.97] And then we actually did a divestiture. Back in 2020, we in reviewing our portfolio of business, concluded that the cellular market had matured, and really didn't offer the same kind of returns. It was a very cyclical and a very volatile and market direct to consumer business, and concluded that the CapEx required and the returns generated from that really didn't justify our participating in that end market. And so we divested of that business.

[00:05:43.21] So we not only acquire companies, we call things out when it's time to move on.

(DESCRIPTION)
[00:05:47.43] Title, TTM Continues to Transform the Business by Implementing its Core Strategy of Differentiation. Reducing exposure to cyclical consumer-oriented/commodity business - Mobility divestiture, E-M solutions restructuring.

(SPEECH)
[00:05:48.78] Really this is all part of a journey that TTM is on now where we're trying to go from reducing our exposure if you look at the bottom of the diagram. Reducing our exposure to short cycle cyclical businesses focusing on longer cycle businesses we have better visibility and particularly where we can add to our differentiation.

(DESCRIPTION)
[00:06:08.85] Text, Investing in engineering/technology and new regions. Engineered solutions with technical capabilities (Anaren, Telephonics) in stable and growing A and D end-market. Footprint diversification (Penang, Malaysia).

(SPEECH)
[00:06:09.31] So we've been investing in engineers and engineered solutions and bringing that kind of technology into our portfolio. We've also been looking at our geographic footprint, which is a differentiator and caused us to really take advantage of an opportunity and establish and create a position a factory from the ground up here in Penang, Malaysia.

(DESCRIPTION)

[00:06:30.00] The result. Highly valued partner and satisfied customers. Strong and diversified portfolio with leading technical capabilities across all markets. Greater stability, less cyclicality, and improved visibility.

(SPEECH)
[00:06:30.42] And the result of what we're trying to do is to create more value for our customers to put us in a stronger position with our customers, and one that will command greater value bring stability to the financial statements, and higher value and better results to the financial statements.

(DESCRIPTION)
[00:06:45.49] Title, Overview of TTM's Acquisition of Telephonics.

(SPEECH)
[00:06:48.25] So I've mentioned a few times the acquisition of Telephonics. With that now, we have an R&D business that's over a $1 billion a year in revenue.

(DESCRIPTION)
[00:06:55.83] Text, Approximately 40% of TTM consolidated revenues (PCB less than 50% of A and D revenues).

(SPEECH)
[00:06:56.41] It's about 40% of our business now which positions us as one of the larger manufacturers of A&D.

(DESCRIPTION)
[00:07:02.31] Benefits our customers through accelerated innovation, new capabilities, and enhanced manufacturing discipline.

(SPEECH)
[00:07:04.53] Expands our microwave product solution by combining it with the acquisition that we did back in 2018. With Anaren.

(DESCRIPTION)
[00:07:11.25] Text, Significant value creation potential from revenue and cost synergies. Strong revenue synergies projected from new business opportunities, particularly in radar. Meaningful cost synergies expected from organizational alignment, corporate and back office integration, manufacturing and supply chain, product and technology alignment. Compelling financial benefits. Immediately accretive to non-GAAP EPS. $12 million of estimated annual run-rate cost synergies by the end of 2024.

(SPEECH)

[00:07:11.73] There's a lot of value creation opportunity here we've identified over $12 million of run rate synergies that we expect to execute on and have it a full run rate by the end of 2024. So that will improve the P&L.

[00:07:26.13] And then longer term we see a lot of revenue synergy opportunities. And I'll talk about that in the next slide. So the financial benefits are pretty compelling. It's a creative right from the get go. Margins will be slightly dilutive in the near term, but once the synergies kick in will be accretive. And EPS is accretive right from the. Go

[00:07:45.72] So who is Telephonics.

(DESCRIPTION)
[00:07:47.44] Title, Telephonics Overview. Source: Griffon 10K for fiscal year 2021.

(SPEECH)
[00:07:48.36] So they're a leading designer and manufacturer of defense electronics focusing on maritime surveillance and other critical missions.

(DESCRIPTION)
[00:07:55.50] Text, Strong installed base of integrated systems. Product and technology roadmaps focused on next-gen platforms and existing program modernization.

(SPEECH)
[00:07:56.25] They've got a strong installed base of loyal customers. This is a company that's been around for nearly 100 years. Their system engineering capabilities are an expertise in RF and microwave which complement our subsystem capabilities.

(DESCRIPTION)
[00:08:10.35] Approximately 625 employees, 25%engineers.

(SPEECH)
[00:08:11.07] And they're on over 100 different platforms. Many of them are sole sourced.

(DESCRIPTION)
[00:08:15.03] 95% of revenues from the aerospace and defense end market with approximately 25% international.

(SPEECH)
[00:08:15.63] The diagram on the bottom left is really kind of key. If you look at the y-axis, the acquisition of Telephonics complements our components and subassemblies business which are kind of tier 3 tier four manufacturing, which is where we've been. Telephonics though is a system solution provider and

that moves us up into the tier 1 providers. And then they also add so we add more value and can provide a broader solution to our customer set.

[00:08:42.15] On the x-axis, you can see that they actually introduce us into some additional end markets where we've been focused to date on RF technology. They introduce us and bring get us access into the surveillance end market as well as some of the communication, particularly focused in the aerospace and defense world. What we like about this framework is it gives us a great floor plan or an ability then to add in and to fill out some of the pieces as we go forward, leveraging the increased value add as well as the increased market access.

(DESCRIPTION)
[00:09:15.54] Title, TTM Build New Manufacturing Facility in Malaysia. Exand TTM manufacturing footprint in Asia outside China and HK.

(SPEECH)
[00:09:17.47] If you look the other announcement that we had during in the first part of the year was the creation of a new factory in Penang, Malaysia. We've had a lot of customers talk to us about the need for supply chain resiliency, and over 60% of the world's circuit boards are manufactured in China. And as our customers found out in 2017 and 2018 when tariffs were imposed, it created quite a financial situation and they realized they have too many eggs and too few baskets, and as a result needed to look for solutions.

[00:09:49.42] And we offered that to our customers. And we've started construction, we're on schedule expect to complete a mid next year, and be producing product by the end of next year qualifying with our customers. We've got a handful of customers that have already put in deposits for capacity, securing capacity in this plant. So we have 60% of the capacity of this plant already spoken for.

(DESCRIPTION)
[00:10:12.13] Text, Phase one capacity of $180 million in 2024 with 25% expansion room for Phase two. Step change in the use of manufacturing automation ($130 million in capital investment) for advanced multilayer board production. Address supply resiliency concerns from out customers and mitigate the geopolitical risk.

(SPEECH)
[00:10:12.79] We expect it to be about $180 million in revenue once it's a full run rate. And this will be a very highly automated facility and very environmentally friendly. We're very focused on making it really a leading edge facility. So circling back to our 3D let's talk a little bit about diversification.

(DESCRIPTION)
[00:10:32.47] Title, End Market Growth Drivers and Outlook.

(SPEECH)

[00:10:33.26] So we're in five end markets that we believe offer better than average growth potential for us, again led by aerospace and defense.

[00:10:43.21] So aerospace and defense on a pro forma basis last year was about 40% of our business. You can see to the right long term the five year KGA for this market is 2% to 4%. I'll show you some slides in a minute but we have grown much faster than that in the past and we're well positioned in the faster growing segments of the defense business with RF and radar capabilities.

[00:11:08.47] We expect to grow kind of in line with that range this year in 2022 exclusive of the Telephonics acquisition. That obviously steps on top of that.

(DESCRIPTION)
[00:11:19.09] Title, Key Defense Megatrends. Growing defense budgets. Bipartisan support of strong defense.

(SPEECH)
[00:11:20.05] What drives this market and what makes it so exciting for us is the megatrends that we see happening. So first and foremost, the defense industry drives off of the US government budget. And the budgets for defense have been very robust and have stayed robust.

[00:11:36.82] And of course, the world is not the safest place, not as safe as we would like it to be, and that's created even more potential demand as we go down the road. It's something that whether you're blue or red seem to be united in supporting this. So this is a good trend for us that is going to continue for the foreseeable future. The other thing next one is that we focus on key programs. It shows about 180 different programs.

[00:12:00.19] But it's across a wide spectrum of applications. These programs really drive and create a foundation of our aerospace and defense business and position us very well and for multiple year projects. It's not uncommon in the defense world that when you win in an engagement and get into a product, you're on that line for 10 to 20 years as long as that product is viable. So it's a great business for us to be in and that's what we strategically focus on.

[00:12:29.20] We do transaction oriented business, PO to PO. But that fills in a gap the. Long term key programs really provide a solid foundation.

(DESCRIPTION)
[00:12:38.11] Increasing AESA Radar use. AESA CAGR greater than Radar CAGR. Increasing supplier consolidation - M and A and U.S. footprint.

(SPEECH)
[00:12:38.74] And then the third one I like to highlight is we see the increasing use of a piece of radar that's active electronically scanned array. So instead of the mechanical whirly birds that you see at

places, this doesn't move but the electronics move. And so it's a much more stable and very state of the art kind of radar capability.

[00:12:58.57] We are very successful in that space. We do very well there and we're well positioned. And with the acquisition of Telephonics, it really puts us in an advantageous situation to take advantage of the growth in that end market.

(DESCRIPTION)
[00:13:12.28] Title, Aerospace and Defense at a Glance. A pie charge shows the quarter 3 market mix with defense at 87%, space at 7%, and comm aero at 6%. A bar graph title estimated A and D Revenues by Product contains the years from 2017 to 2021 on the x-axis and the numbers 0 to 1100 on the y-axis that represent millions.

(SPEECH)
[00:13:13.72] When you look at the right side of this graph, you'll notice there's been some strong growth. Yes there's some acquisitions there from 2017 to 2018. There was the Andaren acquisition. And then we tried to pro form a 21 with the Telephonics acquisition.

[00:13:26.50] Well we've had strong growth until 2021. And that was really not a function of demand, demand is very strong. It's really a function of labor availability and supply chain challenges. And like others that you've heard I'm sure in your conference over the last day or two and tomorrow, we're not unique in that situation. But we're trying to manage through that's primarily a US based business. But if you look on the top left, demand is strong.

[00:13:53.74] We had over $387 million of bookings in the last quarter.

(DESCRIPTION)
[00:13:58.71] Bookings $387.8 million.

(SPEECH)
[00:13:59.11] Year to date, we've had about $720 million in bookings.

(DESCRIPTION)
[00:14:03.27] Program backlog $1.16 billion.

(SPEECH)
[00:14:03.64] So and our backlog at just under 1.2 billion is very, very robust.

(DESCRIPTION)
[00:14:08.33] Title, Strong Defense Program Alignment. Radar Systems - F-35, AMDR, Q-53, G/A.T.O.R., F-16 (SABR), Space Fence, MH-60, LRDR/HDR, JCREW, L.T.A.M.D.S. Missile Systems - APKWS, AMRAAM, JDAM, JAGM, Hellfire, Paveway, Patriot, Standard Missile. Communication Systems - JTRS,

Soldier Radio, Rifleman, Manpack, Project X, Multi Channel Hand Held, MCHH, KC-46. Space Systems - Orion, GPS III, MSP, OPIR, ESS/PTS, Viasat-3, GEO Comm. Surveillance Systems - A.M.D.P.C.S., M5OAS, P-8, A.N./UPR-4V, TPS-80, J/A.D.G.E., AWACES E-3.

(SPEECH)
[00:14:12.19] This slide just illustrates a sampling of some of these key programs that I talked about that we're involved with.

(DESCRIPTION)
[00:14:18.97] MH-80, KC-46, and all surveillance systems.

(SPEECH)
[00:14:19.51] The bold items are ones that we've added now as a result of the Telephonics acquisition. And you can see really the whole surveillance column really drives or derives from that acquisition. Just a sampling of some of the programs that were involved with.

(DESCRIPTION)
[00:14:35.60] Title, End Market Growth Drivers and Outlook.

(SPEECH)
[00:14:37.26] Quickly on the rest of the end of markets, if you look, we have automotive 16% of our business last year. Expected to grow 3% to 6% on an annual basis over the next five years. We're actually running above that we grew 51% last year, and we are above that range as we look at this year.

(DESCRIPTION)
[00:14:58.49] End market growth drivers- Electric and autonomous vehicle, Safety/A.D.A.S./Infotainment.

(SPEECH)
[00:14:59.46] Really driven by the electronic content story. So if you've been out shopping for cars.

[00:15:05.04] There's a lot more in the way of electronic features, safety features, ADAS and other elements of that are and cockpit, comforts, and screens, and so forth within the driver's compartment. So there's a lot happening there today. You get $80 to $90 worth of circuit board content in a vehicle on the average. And that's projected to go up to more like $180 over the next 5 to 10 years.

[00:15:32.22] That's grown dramatically from where we started in this business a few years back. And that electronic content story, even with flat to soft vehicle units is resulting in growth in that end market for us. If you look at data center computing, about 2/3 of that market is what we call high end server applications within the data center environment. Think AI and other high end server applications.

[00:15:59.29] The other third is semiconductor related test and burning boards about 13% of our business last year. The 1% to 3% growth rate is for the broader computing market it's really an understatement of what we do. The niche we're focused in is growing very rapidly. We grew 25% last year and we're growing at about that same clip year to date this year. So very strong growth in that end market.

[00:16:23.97] Semiconductor obviously is going to be a little bit softening perhaps as we watch our customers balance their needs, their inventory levels, and matching other supply chain demands or concerns that they might have. We see some softness there but data center remains very strong. Medical industrial instrumentation about 17% of our business last year. Covers a broad spectrum, probably 1,000 customers in this end market, lots of smaller customers.

[00:16:54.33] Doing very well. Projected to grow 2% to 4% we grew 11% last year. We're growing at greater than 20% so far this year, year to date. And this is off a fairly large base for us. So this is a great growth for the last several years. Medical is driven by robotic surgery and patient monitoring. Instrumentation tends to be overweighted to semiconductor CapEx. So we're keeping a close eye on that submarket if you will. And then the industrial market is pretty broad as you might suspect as the name implies and moves generally with the growth in the economy overall.

[00:17:31.69] Finally, networking communications. 13% of our business last year. Projected to grow rather robustly and a lot of that has to do with the 5G rollout. Our growth rate is going to be below that. We've chosen to kind of deemphasize the telecom section of this market with the exception of our specialty components business. Why do we do that? The technology requirements for circuit boards in that particular application are not very significant. And as a result, there's a huge amount of competition, not really able to differentiate ourselves.

[00:18:00.99] And with our plants operating at near full capacity for the last year and we redirected that capacity towards networking and market and towards our data center and market, which are much more demanding technically. Harder product is better for us. That's our niche. And profitability is better as a result of that. So we expect that to be modest break even or so in terms of growth rates.

[00:18:26.86] More quickly. Differentiation.

(DESCRIPTION)
[00:18:29.08] Title, Broad Technology Suite Delivers Enhanced Value. Transforming TTM towards highly engineered products and advanced technologies for differentiation.

(SPEECH)
[00:18:29.35] Differentiation really starts with technology.

(DESCRIPTION)
[00:18:31.64] PCB Conventional/Advanced.

(SPEECH)

[00:18:32.26] And on the left side, you can see we offer there's several examples there of the kinds of technology we can offer to PCB customers. That's been our bread or butter. That's our foundation as a business.

(DESCRIPTION)
[00:18:42.84] RF components, microelectronics and subsystems, radar, and communication surveillance.

(SPEECH)
[00:18:43.39] Where we've been growing and where our future lies is really in design and engineered products, more the right half of that diagram where we get components and subsystems as well as full systems. Primarily focused in the aerospace and defense end market.

(DESCRIPTION)
[00:18:58.21] Title, Successful Customer Engagement Model. The x-axis contains time from 6 months to 7 to 10 years. The y-axis contains concept to production on the y-axis. The graph starts at concept and moves to prototype, pilot, and then production.

(SPEECH)
[00:18:59.92] If you look at our engagement model, that's also a little different. We're in a position where we invest significant amount of time, engineering resources, as well as financial resources in developing products with our customers that can take a long time to come to market. And you can start off with a two year process to get product qualified and ready to go. And then you might wait three years for Washington D.C. to fund the budget. Or you might wait a couple of years in automotive before that model actually goes to market.

[00:19:28.84] So the ability to fund and support customers and that is unique for us.

(DESCRIPTION)
[00:19:34.19] Global Manufacturing Footprint - Supports Customer Lifecycle Needs. North America Operations - Denver, North Jackson, Stafford, Stafford Springs, Sterling, Syracuse, Salem, Anaheim, Forest Grove, Santa Ana, Santa Clara, San Diego, Chippewa Falls, Logan, San Jose, Toronto, Syracuse, Huntington, and Elizabeth City. Asia Operations - Zhongshan, Guangzhou, Huiyang, Hong Kong, Dongguan, Shanghai, Suzhou, and Penang.

(SPEECH)
[00:19:34.68] And then our third differentiator is really our geographical footprint. Nobody has a footprint like we do in terms of being able to support customers in North America as well as lower cost manufacturing solutions in Asia. And we'll be adding to that with our opening facility. The third D really focuses on discipline. As I mentioned, we're really at our roots we're an operations company, manufacturing.

[00:19:58.87] And then we're adding to that with engineering skills as we bring on these additional acquisitions, I mentioned Anaren and Telephonics.

(DESCRIPTION)
[00:20:05.11] Title, Reported Annual Revenue, Operating Margins, and EPS. A bar graph on the left represents Revenues in millions. The x-axis contains the years 2019 to 2022, and the y-axis contains revenues from 0 to 3,000. 2019 - $2,689 million, 2020 - $2,105 million, 2021 - $2,249 million, 2022 - $2,476 million.

(SPEECH)
[00:20:05.47] If you look at the results financially, on the left side our revenue you'll noticed that dropped from 2019 to 2020. That's the divestiture of our mobility business and the exiting of some assembly services business that we had in China. If you normalize for that, we actually grew 3% in 2020 and grew 11% in 2021. And year to date we're growing just under 10%.

[00:20:31.38] So with the exiting of that business, we're actually doing quite well.

(DESCRIPTION)
[00:20:34.53] A line graph in the middle title Non-GAAP Operating margin shows 2019 through 2022 on the x-axis and 0% to 15% on the y-axis. 2019, 7.6%, 2020, 806%, 2021, 8.4%, and 2022, 9.1%.

(SPEECH)
[00:20:34.55] Similarly in the middle, the mobility business and the assembly business in China were quite significant detractors of profitability back in 2019 and 2020. If you normalize again for that we're about 9% operating margin in those two years. We obviously dipped down in the COVID year of 2021 and took some serious headwinds with inflation kicking in.

[00:20:58.43] But we've recovered now and we're doing very well. Year to date we're about 9%.

(DESCRIPTION)
[00:21:02.84] A bar graph titled Non-GAAP EPS shows 2019 to 2022 on the x-axis and $0.00 to $2.00 on the y-axis. 2019 - $1.13, 2020 - $1.10, 2021 - $1.28, and 2022 - $1.68.

(SPEECH)
[00:21:03.29] Notwithstanding those challenges, our EPS has grown every year. And we've had significant growth 16% in '21 and over 30% here in the last 12 months.

(DESCRIPTION)
[00:21:13.33] Title, Strong Cash Flow Used to Repay Debt.

(SPEECH)

[00:21:16.08] But P&L is one thing flow is another and we've been very focused as a company on make sure we're generating the right cash flow.

(DESCRIPTION)
[00:21:22.53] A bar graph titled Cash Flows from Ops shows 2019 to 2022 on the x-axis and 0 to 400 on the y-axis. 2019 - $312, 2020 - $248, 2021 - $177, and 2022 - $258.

(SPEECH)
[00:21:23.03] We took a dip in 2021 really as a function of inventory growth driven by supply chain challenges, both our own as well as our customers. And as a result, our customers ask us and work with us to carry more finished goods. And so as a result, we had an uptick in our working capital and a little bit of softness in our cash flow in '21. You see we've bounced back very nicely in the last 12 months. Our target is to keep it above 10%. That's what we're trying to be on cash flow from operations.

(DESCRIPTION)
[00:21:52.49] A line graph title Leverage shows 2019 to 2022 on the x-axis and 0.0 to 5.0 on the y-axis. The black line represents net debt, and the blue line represents gross debt.

(SPEECH)
[00:21:52.89] And then to finally leverage. Our leverage is down to about 1.8 times. Our sweetspot is 1 and 1/2 to 2 times net debt leverage and so we're within our range now. And that's after the acquisition of Telephonics which briefly put us above that range. So our balance sheet is really in quite good position. A lot of strength there.

(DESCRIPTION)
[00:22:13.57] Title, Capital Allocation Strategy.

(SPEECH)
[00:22:14.78] When it comes to capital allocation and how we're looking at that. First and foremost, we want to invest in differentiation. That's how we build the future of the business.

(DESCRIPTION)
[00:22:24.19] Text, New product and technology development. Strategic acquisitions to strengthen product portfolio.

(SPEECH)
[00:22:24.45] Secondly as needed, and I should say in that differentiation can come in the form of R&D or CapEx or actually M&A activity.

(DESCRIPTION)
[00:22:31.55] Repay debt until less than 2 times net debt/EBITDA. $400 million repayment of Term Loan B and $250 million convertible bond in 2020. Net debt/EBITDA to 1.8 times at the end of quarter 3 2022.

(SPEECH)
[00:22:31.88] Second is to make sure our debt stays in a reasonable position and so we don't get overly levered. And when we do initially for an acquisition perhaps then we work in focus and drive that leverage down.

(DESCRIPTION)
[00:22:42.40] Return of capital to shareholders. Completed entire $100 million stock buyback by May 3, 2022. Near term priority is to strengthen the balance sheet.

(SPEECH)
[00:22:42.74] And then finally return to shareholders. And you can see we recently had a shareholder return. We had $100 million program that finished earlier in the year.

[00:22:51.62] And we'll come back to that from time to time but it will be a little lumpy because our priority is M&A. And if that comes through, if a transaction happens, we'll exercise that. We might have to slow down on the shareholder return temporarily. But we are committed to that long term.

(DESCRIPTION)
[00:23:06.29] Title, TTM Going Forward. Continued focus on markets with growth characteristics and favorable megatrends.

(SPEECH)
[00:23:07.23] So in summary, we're going to continue to focus on end markets that we believe have above average long term returns. Long cycled products that can bring stability to the business.

(DESCRIPTION)
[00:23:17.78] RF and advanced technology capabilities, A and D engineered products. Manufacturing footprint.

(SPEECH)
[00:23:18.35] We'll make ongoing investments in differentiation, whether that's internally or through M&A.

(DESCRIPTION)
[00:23:22.37] Text, Strong Balance Sheet Management. Solid operating cash flow and working capital focus.

(SPEECH)
[00:23:22.88] But we'll always keep our eye on the balance sheet make sure that we have a strong company able to deal and take advantage of opportunities, or in a difficult environment, be able to be strong and take care of the business even if the economy softens. So with that, let me open it up to some questions.

[00:23:40.37] Yeah, sure. This is great. Thanks. Thanks we had a great overview and it leaves us a little bit of time for some questions. So I guess first one I'd ask is on the labor front wasn't mentioned in your presentation but I know it's something that everyone's dealing with. So maybe why don't you give us an update on how team is kind of navigating this and just your thoughts there first.

[00:24:05.12] Like most companies in North America right now, getting enough labor is a challenge. I mentioned earlier in our aerospace and defense business we kind of had a not much growth in 2021. That wasn't a function of demand, it was a function of we couldn't get enough people, and we couldn't get all the supply chain kinks worked out we choose a theme you've heard a lot from many companies as the earnings have come out really. It's an ongoing challenge.

[00:24:32.12] We took a step at the beginning of the year to take kind of a step function adjustment in our compensation structure to try to remain more competitive. It was highly inflationary situation going in the last half of '21 and into the first part of '22. So we took that step worked with our customers in terms of for pricing and so forth to maintain our profitability, but recognize that was a step function change in our cost structure. That's done.

[00:24:59.13] It's been very helpful in terms of retaining labor but it's still a challenge to attract labor. Just not enough workers available in America right now.

[00:25:08.21] This is direct labor that you're talking about.

[00:25:10.10] Primarily.

[00:25:10.82] Right.

[00:25:11.09] Yeah that's the big issue for us. So finding that labor is going to be key. And we'll have to see I know a lot of companies are slowing down, will that change the dynamics? We're hopeful. But in the meantime, we're trying to be creative in how we can attract people to come work for us.

[00:25:24.95] How about on the so not as much you're not buying a lot of chips. We maybe have some exposure a little bit through Telephonics, some of those higher end applications. But what would you say in terms of the other supply chain kind of headwinds? Have you faced much there?

[00:25:39.77] Well I think components or connectors, rather, connectors have been a challenge and again not unique to us. You're right, we don't buy a lot of components in the assembly business. We have some but not a lot. Well we see the pain more as indirect. Our customers can't get the components that they need. And as a result, they then try to flex what they're buying from us to try to mix and match things better to maximize their revenue situation.

[00:26:07.58] So we see it more indirectly than directly but we do have some direct exposure.

[00:26:11.27] Got it. When you have a slide about the margin, you know you've had margin expansion, maybe not as fast as you probably would like everyone like. But you originally kind of had some longer term targets out there. How do you think about this business now. Obviously a lot has changed over the last few years. But getting into double digit operating margins, do you still think that's achievable?

[00:26:35.36] I think it will over time. We thought we'd be there a lot sooner but then COVID hit, and everything really kind of upset the apple cart if you will. And it changed our dynamics and what we had to do. Part of that is I think within our PCB business itself, there's kind of a natural competitive ceiling. And so as we migrate the business to more engineered solutions, there's where you can give more value and therefore get more value for your customers.

[00:27:06.62] That's just going to drive us into the double digits. And that's our journey we're on but it's still have a way to go.

[00:27:12.65] Yeah. And part of that journey was been through M&A right? You kind of walked us through a lot of M&A actually that you've done. But Telephonics obviously a big one moving up the scale. So what's your thoughts on the M&A kind of still pursuing that is what's your kind of objective there.

[00:27:30.41] Absolutely. We have an appetite for further growth, particularly in the aerospace and defense. So for the right opportunities. But again, we want engineers engineering content. So it'll be that kind of a focus as opposed to just more circuit boards. We're the largest PCB supplier in North America by far and to the defense community by far. So we're limited, especially with the antitrust attitudes in D.C. these days we're limited as to what we can do there.

[00:27:57.50] Right.

[00:27:57.86] What's likely to happen for us is more in the engineered solution side. And we have an appetite when we're out looking. Obviously the M&A environments may tougher with interest rates lately. We're not immune to that as does anybody else but that's where we'd like to continue to grow. Nominally, we'd like to at least get 50% of our business to be aerospace and defense related.

[00:28:18.89] You're close but so yeah I mean, you're almost there. 1.8 times leverage. So you're still generating a ton of cash. So I mean is this should we just think of this environment right now where you're just going to be building cash and kind of waiting for the opportunities? Or what's the kind of focus on whether you I know you completed a buyback in May, so what's the philosophy there?

[00:28:42.65] That's a good question. We get this quite often, what are we going to do. In the short term, let's say three to six months, we're going to build the balance back.

[00:28:50.75] Yeah.

[00:28:51.68] We restock the cupboard so to speak. And then it'll be what's the opportunities. Do we have an M&A actionable event or not? If not, we may use that to either return to the shareholder. Or with the interest rate environment, we may take down debt a little bit more. We have about $400 million of variable debt that obviously is getting more expensive as we go along.

[00:29:13.85] And that'll be up for refinancing. It matures in 2024. So sometime next year before it goes current. Ideally, we'd like to take care of it but that will depend on the interest rate environment. So some combination of that. And it will be facts and circumstances driven. We'll have to see when we get there. But I think for the next six months we're just going to try to accumulate.

[00:29:35.58] That's great. Well we're up against the end so I appreciate everyone joining us. Thank you, Todd, for the presentation. It was very, very, very thorough. So Thank you. Thank you.

[00:29:44.48] [APPLAUSE]

(DESCRIPTION)
[00:29:46.17] Text, Baird. The presentation has concluded.