

Cowen Aerospace/Defense & Industrials Conference

Company Participants

- Tom Edman, CEO
- Unidentified Speaker, Unknown

Presentation

Unidentified Speaker

For the 44th Annual A&D Conference. I'd like to introduce Tom Edman from TTM, CEO, and he's going to give a brief presentation, and then we'll go through some q&a. Thanks.

Tom Edman {BIO 1729364 <GO>}

Great, thank you. Thank you for attending. I'm going to just go through a little bit about TTM and talk in particular, of course, about our A&D position for today, for today's audience. So, let me just start with an overview of TTM. TTM is a major provider of engineered systems, printed circuit boards and specialty components, primarily, RF related specialty components.

We service a diverse set of end markets, including data center and semiconductor, the networking end market, aerospace and defense, automotive, and medical industrial instrumentation. We have a global footprint with about 27 facilities and 17,800 employees. And you can see last year, we finished the year with about \$2.5 billion of revenue.

So, today, as I go through the strategy, I'm going to talk about three different areas -- differentiation for TTM, which is critical to us in terms of our engineering depth in the organization, the early engagement strategy with our customers, our breadth of technologies, and then the global footprint capabilities. Diversification in terms of our end markets, and I'll go through those and markets, and then discipline in terms of our financial management, related to execution operationally, and then cash flow management as well.

So, we'll go through those in order. But prior to doing that, there's a few highlights I wanted to cover. First of all, as we finished out the fiscal year, very solid P&L performance for the company with organic revenues growing over 5%. We did have non-GAAP earnings per share at about \$1.74. That's substantially up from the previous year.

Aerospace and Defense demand very strong, and we finished the year with 1.36 billion and program backlog, organically, about a billion dollars in program backlog. Cashflow, about 10.9% of revenues in terms of our operating cash flow, and free cash flow of 7% of revenue. So, strong cash flow year as well.

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And the use of cash, we did use cash to buy back \$100 million of stock. We also completed the acquisition of Telephonics, and I'll talk in more detail about that, and broke ground on a manufacturing facility in Penang, Malaysia. We did publish our first corporate responsibility report.

And then most recently, in February, we did announce the consolidation of our footprint. We'll be closing one facility in Hong Kong midway through the year, and two facilities in California towards the end of the year. That really is to drive improved efficiencies for our customer base, as well as improving our bottom line performance.

So, a little bit on the history of TTM through acquisitions, and I'll just highlight some of the bigger acquisitions we've made. 2006, we acquired Tyco's Printed Circuit Board Group, that brought us our aerospace and defense foundational position. In 2010, we added an Asian footprint capability with the acquisition of Meadville.

In 2015, we really completed our printed circuit board related acquisitions with the acquisition of Viasystems, which put us in a position as the largest manufacturer of printed circuit boards in North America for, primarily, for aerospace and defense. But also strengthened our overall industrial and automotive position as well.

So, now, we're in a position where with strength on printed circuit board, and we began to build above the printed circuit board targeted at the aerospace and defense end market. With the acquisition of Anaren, we RF capability, RF simulation capability as well, and the ability to design to the specifications of our customers as they were looking at their RF radar needs.

In 2022, we acquired Telephonics to bring system engineering skills to the company. And the ability now with 50% of that business being in radar to really support our own business and support the Telephonics transition to AESA, or active electronically scanned arrays their radar platform. So, driving growth through Telephonics overall. So, a real history of strong acquisitions, strong integration practice for the company as well.

So, why are we doing this? If you look, start from the bottom of this page, the company has been on a journey. We've been reducing our consumer exposure and seasonal exposure. We sold our mobility business which was out of China. We sold our E -- or we closed our EM solutions or contract manufacturing facilities in the commercial side of our business, because they really didn't have commercial critical mass.

We moved from there and continue to invest in engineering capabilities. And really adding new footprint capabilities to TTM as well, resulting in a higher value package that we deliver to our customers. A differentiated package for the customers with a goal of improving, continuing to improve our margins over time.

One of those moves with the acquisition of Telephonics, what does that do for TTM? Well, we now have a billion dollar aerospace and defense business. We're one of the top 40 defense suppliers worldwide. That takes our revenue for A&D up to over 40%, and

reduces our PCB revenues in aerospace and defense to less than 50%. It's actually closer to 40% of our A&D revenue. The balance is in what we call "integrated electronics."

Benefits our customers through this acquisition, again, I talked about RF and the positioning in radar, delivering value creation to our customers, and an acquisition that's immediately accretive to non-GAAP EPS. And through the course of this year, we'll be delivering on cost synergies as well, \$12 million in cost synergies that we had identified through the acquisition process.

So, from a platform standpoint, Telephonics was a big step forward for TTM, really, into the Tier 1 space and Tier 2, balanced with TTM's existing platforms that were mainly in Tier 4 and Tier 3. So, if you start to think about future acquisition potential, there's a lot of space to fill in there, from a radar perspective, from an electronic warfare perspective as well. We've now got space to build in as we go forward as an organization.

And this brings -- this acquisition brought us engineering capability that we were really looking to add to the company as well. So, 625 employees overall, 25% of whom are engineers, and 100-plus platforms. And I'll go through the programs that we're involved in. But increases our breadth of programs as well as our depth of involvement in targeted programs.

We're also adding to our footprint. We're building a facility in Penang, Malaysia. This is a recent photo of that facility as it goes up, and over 700,000 square feet building. The roof is up now, and now we've got to fill it in. But making great progress there. We're looking at a \$180 million revenue facility in Phase I, with Phase One really being completed by the end of 2024.

Starting of production, midway through this year. And a step change for TTM in terms of the use of manufacturing automation and robotics, as we manufacture high layer count complex printed circuit boards, primarily for the communication data center, the computing space and the networking communication space with a little bit of industrial mixed in.

Customer base has committed to this. We have five customers who have signed long term agreements. That those five customers paid down deposits, those deposits have been received in order to secure about 70% of the overall capacity in that Phase I. So, we're in a very strong position, vis-à-vis our customers who are really looking for additional supply chain resiliency from TTM in Malaysia.

Okay. So, I laid the -- I laid the foundation for the presentation. Now, let me just get into the strategies here, starting with differentiate -- or sorry, starting with diversification. I'll talk first about the end markets. And, of course, A&D comes first and foremost to us.

If you look at the first number here, that's 35%. That is the percentage of revenue of A&D for TTM at the end, or through the fiscal year 2022. But we own Telephonics for less than half the year. So, if you pro forma in Telephonics, we'd be looking at about 40% of

revenue. And as we looked at Q1, we're looking at about 43% of revenue in the A&D space.

We're looking at a few mega trends that are of real importance to us., I talked about the AESA radar conversions that are going on. And then, in really increasing spending for critical programs tied to radars.

If you start to look at overall forecasts, which is the next column, we're looking at a long term forecast of three to 5% for A&D. We've historically grown at high single digits. Last year was a little bit of an aberration. Last year, we grew about 1%.

And the biggest challenge we had was, really, labor as it tied to our facilities in North America. That situation has improved. And I can tell you now that that's been replaced by supply chain as being the biggest challenge that we're dealing with, particularly, in the non-PCB part of this business.

But we are forecasting sequential improvement in A&D through the course of the year. And that's already sowing year-on-year in Q1, as you look at our forecast organically about 10% growth that we're showing for -- in our forecast for Q1. So, showing that growth year on year and building from that base.

So, the mega trends that are driving A&D, I don't have to tell you,. You already know this. The defense budgets is one factor. But then our positioning within those budgets in terms of key programs, and we're involved in over 180 programs overall, and then a real depth of program involvement on radar through TTM.

We also, of course, as we go forward and look at our M&A strategy. We are seeing supplier consolidation, suppliers spinoff. There are still activity out there on the M&A front that we'll be looking at.

So, the business as a whole, bookings levels in fourth quarter -- record bookings for TTM, about 463 million; program backlog, 136 billion for TTM. Key programs that alignment, we booked in some critical programs, including SPY-6 and MH60M. I'll show the program list. But a critical programs both for TTM and for the legacy Telephonics business.

And then real engineered products focus going forward. If you look at that pie in the middle, you can see the defense for us the largest market here. Space is growing, about 7% of our A&D revenue. Commercial aerospace, coming off the bottom and we do expect to see to see improvement there through the course of the year, at about 6% of revenue in Q4.

And then, you can see on the righthand side the balance, the mix of revenue for TTM overtime. Largely, if you step back to 2017, we were mainly printed circuit boards with a little bit of assembly. From that, we built the RF positioning with Anaren, and then we added the Telephonics piece to that. Now, you can see the balance of a very diverse portfolio of capabilities.

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Programs. If you start with radar, very important to us. I'll just highlight a few of these programs that we have particularly high content AMDR major involvement there, G/ATOR program. F16 SABR is a big program for us.

Going out to Telefonica, which is the reason that's highlighted, MH-60, a critical platform. And then, LTAMDS, the low -- the low tier air missile defense system, replacement to Patriot. And again, a strong opposition for us and the radar side there. On missile systems, APKWS, JAGM, Hellfire, a few of the programs that are -- that are important to us.

Communication systems with Telephonics adding in KC-46. And then, Manpack and Project X. Space systems, we're involved in Leo and NGO. We're involved in commercial, as well as military space, and continuing to grow our presence there. And then finally, again, with Telephonics coming on board, a real list of surveillance system type of programs that have been added to our portfolio.

So, the key message here, diverse portfolio, real depth on some of these programs that are driving our revenues going forward. So, I'm going to just cover the rest of the end markets for you quickly.

Automotive, about 17% of fiscal year 2022 revenues, as we grew last year about 4% year-on-year, coming off a much stronger year than the prior year in terms of growth. But as we look at the third party forecast at 68%, this year we're expecting to be lower than that.

We should still see growth in automotive, but be lower than that 68% number, primarily, because we sort of leveled off in terms of automotive business at this point this year. The first half looks solid. And the second half is still I'd say uncertain until we really see semiconductor chips, and particularly, analog chips catch up in terms of supply. And at that point, we'll be seeing real demand in automotive that will give us better visibility.

Data center computing, about 10% of our 2022 sales. Again, a terrific growth year, about 17% growth for us. And that was coming off a double digit growth rate two years prior. So, we've just had a sequence of very strong growth here. About a third of this business for us is semiconductor. Two thirds is data center. For obvious reasons semiconductor is down this year; data center as well. I think we've entered a period of digestion in data center. That should last at least the first half.

So, as we look at the forecast, again, long term forecasts of strong growth. We're expecting to be well below that. It would be difficult, I think, to grow in datacenter. Again, back half dependent, but first half looking soft.

Medical industrial instrumentation about 20%. Again, 17% growth last year for us. And that was again, coming off of two years of double digit growth in medical industrial instrumentation. It's about a third of each one of those pieces.

Instrumentation for us largely tied to semiconductor capital equipment. Medical, so industrial, largely tied to robotics, industrial robotics. Medical, a really good spread of presence there. Medical industrial holding up well; instrumentation struggling with the semiconductor capital equipment business being down. So, again, as we look at that two to 4% growth rate, we're expecting to be below that this year.

And finally, networking, about 13% of our business, largely enterprise but not exclusively. We have a very long list of networking customers. And then a little bit of telecom as well, particularly, for our RF components.

So, what's driving this business? 5G For the telecom side and 5G, right, this year looks to be really limited to India, at least in the first half. So, a little bit of weakness there. And then, overall, enterprise networking looks to be more of an inventory control situation. Certainly, I'm sure you saw Cisco's announcement yesterday. That was an encouraging announcement. And so hoping to see networking again turn around here as we go through the course of the year.

But you can see this is how TTM is positioned. We saw tremendous strength in the commercial markets over the last several years. Huge contributions there. This year, we're going to see that contribution coming from A&D and then automotive. And, really, the medical and industrial piece of MII, as we call it. So, you're looking at about 70% of the business that's very solid, 30% that where we're reacting to some demand weakness.

So, differentiation, just to hit this as quickly here. A few key points. One, technology breath, right? So, deliberately, we've added technology into our portfolio for aerospace and defense, all closely tied to our foundational capability around printed circuit boards.

But we've added the RF component position. We've added RF simulation capability. So, we were designing the customer specification. On top of that, we've now added radar and communications surveillance, right? Strengthening that portfolio for A&D.

On the commercial side of our business, we've got pure printed circuit boards and components, RF components. And we will continue to build on that position. Okay. But the critical point is advanced technologies in printed, within printed circuit boards. And then, design and engineered products now constitute about 39%, close to 40% of our revenues. And that's where we're really adding value over and above what we do in the printed circuit board.

So, we couple that with an early engagement model. I mentioned designing the specification. And the systems plays, in the systems engineering side, we're actually designing that product into the helicopter. And the balance of our A&D business, we're working closely as customers release specifications.

On the commercial side, we have a field application engineering for us. I believe it's second to none, certainly, in the Western world. And that forces, field application engineering forces, in close contact with customer engineers as they design their printed circuit board requirements, right?

So, then we complement that with a footprint, a strong footprint in North America so that for our commercial customer, they can design their prototypes, and their pilot production in our North America footprint.

This is becoming more and more important to them. And then they have an option to place volume production into our facilities in China. And we're obviously adding Malaysia into that mix. So, they can take full advantage of the TTM footprint through product lifecycle.

A&D side, we have a number of specialized plants here and a breadth of technologies to meet those requirements. I did highlight on this chart the facilities that are closing, Anaheim and Santa Clara, smaller facilities for us. The equipment will transfer to our other facilities. And we'll concentrate our engineering resources in those other facilities to take on the work from Santa Clara and Anaheim.

I also highlighted the Telephonics footprint. So, two facilities in Long Island, one serving as primarily in engineering and prototyping center. The other is production. And then Elizabeth City, North Carolina, increasing thing on -- an increasing portion of the operational footprint. And then you can see China, largely southern China footprint for us on the commercial side.

Finally, discipline, to finish with the financials. It's a great, it's a great story. If you start in 2020, yes, revenues, pick a dip. Revenues took a dip because we sold our mobility business and we closed two EMS contract manufacturing facilities that were diluted to margin.

From there, we've been stepping up in revenues over time. We've been stepping up in operating margin over time. As we deliver on the synergies on Telephonics, we're going to look to continue that process. And you can see great EPS performance here as well.

That's coupled with strong cash flow generation. So, cash flow generation over the last several years, if you look at that middle column, so percentage of revenue holding at about 11% as for operating cash flow. So, strong demonstration of capability there.

And then, if you look at that, that debt to EBITDA ratio, we like to operate between one-and-a-half and two times. It's almost as if the Telephonics acquisition didn't happen if you look at this chart.

We were able to finish the year with the kind of cash generation that allowed us to pay, to bring down our debt levels. Early in the year, we pay down \$50 million of our Term Loan B, and we'll continue that process of operating this one-and-a-half to two times level.

So, what's the capital? Well, allocation strategy, we will continue to invest on the M&A side and organically in developing, strengthening our product portfolio. We will repay debt. Now, we do have a term loan that's maturing in September 2024. So, that goes short

term September of 2023. And we're looking at our options and whether we retire that debt, whether we roll it over. We'll continue to look at our options there.

And then, of course, returning capital to shareholders. Last year, \$100 million stock buyback. This year with the economic situation and with our debt structure, we're making sure that we do -- that we do the proper job of preparing ourselves for whatever may come first and then -- and then looking next at what we do, vis-à-vis, the shareholders.

So, that's our position. And just to finalize here, the -- and hit you with a summary that the company is prepared and is moving forward. We have the right market diversity. We've got strong growth characteristics, great characteristics in each of our end markets.

And we have a particular strength in A&D and A&D engineered products that we're going to be building on along with our RF and radar position. And then finally, a strong balance sheet management and execution in terms of cash flow delivery. So, with that, I think we can turn it to questions.

Questions And Answers

A - Unidentified Speaker

Thanks a lot, Tom. A really nice presentation. I appreciate it. You spent some time talking about the transition strategy. How do you think that's going? Where are you at in that journey? What's still left to do?

A - Tom Edman {BIO 1729364 <GO>}

Definitely, so we're in the middle innings, if you will, on the transition. I'm really proud of the organization, how we've deliberately moved in the aerospace and defense space. We recognized probably 10 years ago that we had a real opportunity to be indispensable, as we call it, to our customer base based on our foundational capabilities. But we needed to add additional capabilities. And we've been moving through that transition.

What we need to deliver on there is that -- is that operating margin potential that we see in the A&D space. And that delivery comes about because of what we deliver to the customer base.

So, first is performance; second is what we deliver in terms of technology capabilities. You do that correctly and the margin comes along. So, we'll be -- we'll be improving this margin going forward. Telephonics is a good, a great piece that we've added in on the A&D side. So, I think we're in the middle there.

The commercial market, Malaysia, again a big step for us. We've got a little bit more work to do on the footprint, but we're in pretty good shape on the commercial side of the business.

A - Unidentified Speaker

Great. Any questions from the audience?

Yes. That one slide where you were showing basically assumption for market growth.

A - Tom Edman {BIO 1729364 <GO>}

Yes.

A - Unidentified Speaker

You were below on all on except for the A&D.

A - Tom Edman {BIO 1729364 <GO>}

Yep.

A - Unidentified Speaker

It seems like that lag is growing. I mean, it sounds like things are good, I guess. What are you seeing? What are the indicators? Or what's kind of making you think things kind of blow up (inaudible)?

A - Tom Edman {BIO 1729364 <GO>}

So, on the commercial -- yes, that's really a commercial market side. Right? So, A&D, we aim to be above. If we look at the commercial markets, there's no question that, economically, it's a more challenging time. And that's affecting our customers.

And it's really around that 30% that I identified that's related to datacenter, networking, semiconductor, semiconductor capital equipment. So, you take that piece, those are pieces that are real -- they're experiencing demand softness.

So, how long that lasts is a real question. But that -- but for sure, the customers are seeing demand softness there. And that's what's reflected in our being below.

That middle column was really the longer term forecast and so -- and the interesting thing about market forecasters that you may have noticed is they aren't exactly forward-looking sometimes. It takes them a little while to catch up to what's going on. And so, I think they're going to bring those forecasts down.

Here, as they revise their forecasts, and they take into account a potential global recession, or at least a global softening into their forecasts. But in the meantime, yes, those commercial markets will, definitely with the demand softness we've seen in that 3%, we shouldn't be below those numbers. But the longer term trends are very much in place.

A - Unidentified Speaker

Yes?

How do you think the CHIPS Act is going to impact your business? Is it net positive or negative in (inaudible) already in the space supplier?

A - Tom Edman {BIO 1729364 <GO>}

Yes, a great question. We are a big supporter of the CHIPS Act and have been through our -- through our directly and through our association involvement.

The reason for that is bringing back that chip infrastructure demands that we also look at the balance of the electronics ecosystem, right? As we like to say chips don't float. Chips are not their own any. And unfortunately, we don't do -- we don't develop infrastructure around the chips. We'll be shipping the chips out back to Asia for packaging.

So, as we've looked at this, absolutely, that's a great first step. There is -- there are allocations of monies for advanced packaging as well. And inclusive and advanced packaging are substrates, which are really that connection between the chip and the printed circuit board. It's a mini printed circuit board that's being -- and being asked to take on more and more functionality.

So, as we look at our defense customer base, in particular, they're looking at a requirement to import 100% of substrate. Certainly, TTM has a -- has a fledgling effort on substrate. And our goal is to build on that, as well as building on our advanced PCB capability and our microelectronics businesses as we -- inside of our Syracuse operation. We have a position, a growing position in microelectronics. And so, we're part of that ecosystem. We believe that this is critical, and looking to certainly help, to help that grow and be a part of it.

A - Unidentified Speaker

Question. Do you feel that there's opportunities? You mentioned acquisition strategies, historically, to double down in that space. Given what's been said about Congress talking about the risks (inaudible).

A - Tom Edman {BIO 1729364 <GO>}

So, great. You know it's a perfect, perfect question. This allows me to finish my thoughts which really is, ultimately, it's demand signal, right? The demand signal is going to make, is going to drive the change. And it's great to have the government step in and help on the funding and the capital allocation. But it's demand signal that's critical.

And a great example of that, a couple of years ago in the NDAA, the printed circuit board, there's a printed circuit board related piece of that where printed circuit boards will have to be sourced outside of China for critical defense applications, including critical -- what you would call "COTS" in the old days, applications in defense. That will have to be sourced out of China.

And that's -- and that makes a lot of sense for critical infrastructure. That's going to help drive demand. That helps to drive customer response from our perspective, which is the

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most important piece of this. The customers understand, as they have in Malaysia, that there's a premium associated with what we need to do for the customer base and for the government.

Then at that point, you have sort of the equation is complete, right? The customers are on board, the government is on board, and certainly, we will be investing. So, completing that circle is critical. And it comes back to our commercial customers, as well as their defense customers, and their ability to help drive that demand.

So, working, working through that I think there will be as TTM both organically, and to your point, through acquisition, yes. We will continue to look at what we can do here. We are the largest presence in North America. It's our obligation to step up. So, we will -- we're looking to do that.

A - Unidentified Speaker

(Inaudible)?

A - Tom Edman {BIO 1729364 <GO>}

Yes.

A - Unidentified Speaker

(Inaudible) you talked about the challenges, some of their suppliers on the chip side.

A - Tom Edman {BIO 1729364 <GO>}

Yes.

A - Unidentified Speaker

It seems to be an issue anywhere with its supply chain.

A - Tom Edman {BIO 1729364 <GO>}

Yes.

A - Unidentified Speaker

Particularly as people getting older and circulating (inaudible).

A - Tom Edman {BIO 1729364 <GO>}

Yes.

A - Unidentified Speaker

How do you guys (inaudible)?

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A - Tom Edman {BIO 1729364 <GO>}

Yes, absolutely. I couldn't agree with you more. The last year has been tough for us in North America. We got ahead of things. We made a major adjustment in our labor rates across the board, including our exempt employees as well early in the year last year, major investment.

And I'm glad we did it. It was critical for us. It was a partial solve, because we still dealt with a labor shortage through the rest of the year. It's starting to ease a bit. But your point about experienced labor, even in a printed circuit board fab, if you will, there's still a serious reliance on experience. And to lose that experience, it has an effect on yields. So, yes, we're rebuilding that capability here. That's absolutely critical for us.

I would add that on this the second part of your question, supply chain management. And particularly, on our integrated electronic side of our business, non-PCB side, we have lost revenue because of challenges in managing the supply chain.

And again, it comes back to their ability to hire labor, their ability to get materials. It really is it's a widespread issue for the industrial base. Getting better, a little bit better I would say on the labor front, which is the only good news.

A - Unidentified Speaker

Sorry. We ran out time. Thank you.

A - Tom Edman {BIO 1729364 <GO>}

Thank you. Thank you, everyone. I appreciate your attention.

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