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TTM Technologies, Inc. (TTMI)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the TTM Technologies First Quarter 2022 Financial Results Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions. [Operator Instructions] As a reminder, this conference is being recorded today, May 4, 2022.

Sameer Desai, TTM's Vice President of Corporate Development and Investor Relations, will now review TTM's disclosure statement.

Sameer Desai

Vice President-Corporate Development & Investor Relations, TTM Technologies, Inc.

Thanks, Danielle. Before we get started, I would like to remind everyone that today's call contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements related to TTM's future business outlook. Actual results could differ materially from these forward-looking statements due to one or more risks and uncertainties, including the factors explained in our most recent annual report on Form 10-K and other filings with the Securities and Exchange Commission.

These forward-looking statements are based on management's expectations and assumptions as of the date of this presentation. TTM does not undertake any obligation to publicly update or revise any of these statements whether as a result of new information, future events or other circumstances, except as required by law. Please refer to the disclosures regarding the risks that may affect TTM, which may be found in the reports on Form 10-K, 10-Q, 8-K, the registration statement on Form S-4 and the company's other SEC filings.

We will also discuss on this call certain non-GAAP financial measures such as adjusted EBITDA. Such measures should not be considered as a substitute for the measures prepared and presented in accordance with GAAP, and we direct you to the reconciliation of non-GAAP to GAAP measures included in the company's press release,

which was filed with the SEC and is available on TTM's website at www.ttm.com. We have also posted on our website a slide deck, which we will refer to during our call.

I will now like to turn the call over to Tom Edman, TTM's Chief Executive Officer. Please go ahead, Tom.

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

Thank you, Sameer. Good afternoon, and thank you for joining us for our first quarter of fiscal year 2022 conference call. I'll begin with a review of our business highlights from the quarter and a discussion of our first quarter results, followed by a summary of our business strategy. Todd Schull, our CFO, will follow with an overview of our Q1 2022 financial performance and our Q2 2022 guidance. We will then open the call to your questions.

The quarter's highlights are also referenced in slide 3 of the investor presentation posted on TTM's website. In the first quarter of 2022, TTM delivered revenues at the high end of guidance and non-GAAP EPS above the midpoint of guidance despite a challenging supply chain and the labor environment and the continued impact that COVID-19 is having on our operations. Revenues were up 10.4% year-on-year as commercial end markets performed better than we expected.

Our employees did an excellent job of maximizing production despite ongoing operational headwinds, including supply chain constraints for ourselves and our customers, inflationary pressures and continued labor challenges in North America. During the first quarter, we mitigated virtually all of the material price increases through additional cost savings, adjustments in mix and product price adjustments.

Last quarter, we discussed the pay adjustments that we plan to make during the first quarter of this year in North America to increase our competitiveness. Since then, we have seen a general improvement in our ability to attract and retain talent, though the continued tight labor conditions remain challenging. The price increases that will offset these higher compensation costs are still anticipated to have a positive impact on our margins through the balance of the year.

I would also like to update you on our COVID situation. COVID-19 impacted our employee base with increased rates in North America earlier in the year. During the quarter, the higher infection rates experienced by employees in our facilities naturally resulted in higher levels of employee quarantines, which along with the general labor shortages contributed to production inefficiencies and capacity constraints in North America. In Asia-Pacific, we saw similar COVID-related disruptions in two of our smaller facilities in Hong Kong and Shanghai. But this was more than offset by stronger growth from our larger Asia-Pacific facilities in Southern China.

Our long-term strategy remains unchanged. TTM is on a journey to transform our business to be less cyclical and more differentiated. As part of this strategic transition, on April 18, we announced the acquisition of Telephonics for \$330 million in cash. Over the past several years, TTM has consistently emphasized that a key part of our strategy is to add value to product solutions that we deliver to our customers, particularly in the aerospace and defense market. In 2018, we closed the acquisition of Anaren, which broadened TTM's product portfolio into highly engineered RF components and subassemblies, as well as adding critical RF engineering capability and resources.

Telephonics builds on Anaren and TTM's customer-driven culture and disciplined approach to manufacturing by further broadening TTM's aerospace and defense product offering vertically into higher level engineered system solutions and horizontally into surveillance and communication markets, while strengthening our position in radar

systems. The transaction is expected to close by the end of the second quarter of 2022 and is expected to be immediately accretive to non-GAAP EPS.

Adding another element of our differentiation strategy, on March 1, we announced that we will open a new state-of-the-art, highly automated PCB manufacturing facility in Penang, Malaysia. The decision to build this new factory is a direct response to our customers' increasing concerns about supply chain resiliency and regional diversification, and in particular, the need for advanced multi-layer PCB sourcing options in regions outside of China.

The new facility in Malaysia will assist customers in our commercial markets such as networking and telecom, data center computing and medical, industrial and instrumentation. I had the pleasure of attending the groundbreaking ceremony on April 25, where I had an opportunity to thank the local and national governments in Malaysia for their support and our customers for recognizing the long-term value of this facility in improving supply chain resiliency.

Now, I'd like to review our end markets, which are referenced on page 4 of the investor presentation on our website. The aerospace and defense end market represented 30% of total first quarter sales, compared to 35% of Q1 2021 sales and 30% of sales in Q4 2021. We continue to experience a positive defense climate with our A&D program backlog at \$768 million compared to \$694 million a year ago. The solid demand in the defense market is a result of a positive tailwind in defense budgets and our strong strategic program alignment and key bookings for ongoing franchise programs.

The fiscal year 2022 omnibus appropriations bill was signed into law on March 15 and provides for approximately 4.5% year-on-year growth in defense spending. In addition, the White House request for fiscal year 2023 defense spending shows growth of approximately 4% over the fiscal year 2022 enacted budget and is the largest proposed budget to-date.

During the quarter, we saw significant bookings for the AN/TPS-80 Ground/Air Task Oriented Radar, or G/ATOR, and the [ph] RFS Skynet (00:09:25) programs. We expect sales in Q2 from this end market to represent about 31% of our total sales. This does not include any contribution from Telephonics, as the acquisition has not yet closed.

The medical, industrial, instrumentation end market contributed 21% of our total sales in the first quarter, compared to 17% in the year ago quarter and 19% in the fourth quarter of 2021. The MI&I market set a new quarterly record as it was up 33% year-on-year exceeding \$100 million in revenue for the fourth quarter in a row and performing much better than expectations, as we saw broad-based strength across all segments. For the second quarter, we expect MI&I to be 19% of revenues with a continued strong demand environment.

Automotive sales represented 20% of total sales during the first quarter of 2022, compared to 18% in the year ago quarter and 19% during the fourth quarter of 2021. Automotive grew 21% year-over-year and also exceeded \$100 million. There continues to be strong demand for automotive PCBs, but the combined impact of supply chain disruptions caused by COVID, the Ukraine-Russia conflict and semiconductor shortages are all impacting automotive OEM production.

In the near term, demand remains above our available capacity, particularly in the second quarter, as our largest automotive PCB facility production levels will be slightly impacted by new equipment installations and downtime for scheduled facility maintenance. As a result, we expect our automotive PCB business to contribute 18% of total sales in Q2.

Sales in the data center computing end market represented 16% of total sales in the first quarter, compared to 14% in Q1 of 2021 and 15% in the fourth quarter of 2021. This end market was up 27% year-on-year due primarily to growth from our data center customers. We expect revenues in this end market to represent approximately 17% of second quarter sales as strong data center demand continues to drive year-on-year growth.

Networking and communications accounted for 13% of revenue during the first quarter of 2022. This compares to 15% in the first quarter of 2021 and 16% of revenue in the fourth quarter of 2021. We saw relative strength on a year-on-year basis in networking as compared to telecom, as we continue to allocate capacity for a high-layer count boards to our data center computing and networking customers. In the second quarter, we expect this end market to be 14% of revenue as networking continues to grow.

Next, I'll cover some details from the first quarter. This information is also available on page 5 of our earnings presentation. During the quarter, our advanced technology business, which includes HDI, rigid-flex and RF subsystems and components, accounted for approximately 33% of our revenue. This compares to approximately 31% in the year ago quarter and 31% in the fourth quarter. We are continuing to pursue new business opportunities and increase customer design engagement activities that will leverage our advanced technology capabilities in new programs and in new markets.

Capacity utilization in Asia-Pacific was 85% in Q1 compared to 80% in the year ago quarter and 88% in Q4. Our overall capacity utilization in North America was 46% in Q1 compared to 55% in the year ago quarter and 50% in Q4. This lower rate was caused by the additional plating capacity that we added in North America during the quarter and the challenges posed by COVID-19 absences and direct labor shortages. The quarterly decline in capacity utilization in Asia was due to the Chinese New Year holiday.

Our top five customers contributed 33% of total sales in the first quarter of 2022, compared to 32% in the fourth quarter of 2021. We had one customer above 10% in the quarter. At the end of Q1, our 90-day backlog, which is subject to cancellations, was \$605.3 million, compared to \$540.5 million at the end of the first quarter last year, and \$597.2 million at the end of Q4. Our PCB book-to-bill ratio was 1.14 for the three months ending April 4. Our backlog is higher than our revenue forecast due to uncertainty around both labor and supply chain challenges for our customers and ourselves.

I'd like to conclude by again highlighting the significant strategic moves that we made in the quarter with the announced investment in Malaysia and the Telephonics acquisition, both of which will further differentiate TTM. I also want to thank our employees for continuing to contribute to TTM and our critical mission of inspiring innovation for our customers. Despite the inflationary pressures and labor-related challenges we are facing, our business performed better than we expected as a direct result of our employees and our supply chain partners' concerted efforts to support TTM and our customers.

Now, Todd will review our financial performance for the first quarter. Todd?

Todd Blake Schull

Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.

Thanks, Tom. And good afternoon, everybody. I'll be reviewing our financial results for the first quarter that are also shown in the press release distributed today as well as on slide 6 of our earnings presentation, which is posted on our website.

For the first quarter, net sales were \$581.3 million, compared to \$526.4 million in the first quarter of 2021. The year-over-year increase in revenue was due to strong growth in virtually all of our commercial end markets, which more than offset a decline in our aerospace and defense market due to commercial aerospace softness and production challenges in North America.

GAAP operating income for the first quarter of 2022 was \$25.9 million, compared to \$19.8 million in the first quarter of 2021. On a GAAP basis, net income in the first quarter of 2022 was \$17.2 million, or \$0.17 per diluted share. This compares to a net loss of \$3.2 million, or \$0.03 per diluted share in the first quarter of last year.

The remainder of my comments will focus on our non-GAAP financial performance. Our non-GAAP performance excludes non-routine tax items, M&A-related costs, restructuring costs, certain non-cash expense items and other unusual or infrequent items. We present non-GAAP financial information to enable investors to see the company through the eyes of management and to facilitate comparisons with expectations in prior periods.

Gross margin in the first quarter was 15.9%, compared to 16% in the first quarter of 2021. The year-on-year decline was largely due to labor and production challenges in North America, partially offset by revenue growth in our commercial businesses. During the quarter, we did experience significant material cost increases, but we were able to mitigate the profit impact of those increases through manufacturing efficiencies and other price increases.

Selling and marketing expense was \$17.6 million in the first quarter, or 3% of net sales, versus \$15.6 million, or 3% of net sales a year ago. First quarter G&A expense was \$29.8 million, or 5.1% of net sales, compared to \$26.6 million, or 5% of net sales in the same quarter of last year. In the first quarter of 2022, R&D was \$5.3 million, or 0.9% of revenue, compared to \$4.4 million or 0.8% in the year ago quarter.

Our operating margin in the first quarter was 6.8%. This compares to 7.2% in the same quarter last year. Interest expense was \$10.8 million in the first quarter, unchanged from the same quarter last year. During the quarter, there was a positive \$0.1 million of foreign exchange impact below the operating line. Government incentives and interest income increased this to \$1 million or a \$0.01 impact to EPS. This compares to a \$1.8 million or \$0.02 impact in Q1 of last year.

Our effective tax rate was 15% in the first quarter, resulting in tax expense of \$4.5 million. This compares to a rate of 12% or tax expense of \$3.4 million in the prior year. First quarter net income was \$25.3 million or \$0.24 per diluted share. This compares to first quarter net income in 2021 of \$25.2 million or \$0.23 per diluted share. Adjusted EBITDA for the first quarter was \$62 million, compared with first quarter 2021 adjusted EBITDA of \$61 million. Depreciation for the quarter was \$21.5 million. Net capital spending for the quarter was \$23.4 million. And cash flow from operations was \$36 million.

During the fourth quarter, we repurchased 2.4 million shares of our common stock under our previously announced \$100 million stock repurchase program at an average price of \$12.74 for a total of \$30.2 million. As of today, we have completed the \$100 million stock buyback program and have repurchased a total of 7.5 million shares of our stock.

Our balance sheet and liquidity positions remain very strong. Cash and cash equivalents at the end of the first quarter of 2022 were \$519.1 million and our net debt divided by last 12 months' EBITDA was 1.5 times. We plan to fund the \$330 million acquisition of Telephonics from our cash balance, which would increase our net leverage to 2.5 times, above our target of 2 times. We will likely not increase the stock buyback authorization until our leverage comes back down below 2 times.

Now, I'd like to turn to guidance for the second quarter. In the second quarter, we expect stronger revenue globally and improving operating conditions in North America. We expect total revenue for the second quarter of 2022 to be in the range of \$580 million to \$620 million and we expect non-GAAP earnings to be in the range of \$0.30 to \$0.36 per diluted share.

This guidance does not include any contribution from the previously announced acquisition of Telephonics as we are awaiting regulatory approvals prior to closing. The EPS forecast is based on a diluted share count of approximately 103 million shares, which includes dilutive securities such as options and RSUs.

We expect SG&A expense to be about 8% of revenue in the second quarter and R&D to be about 0.9% of revenue. We expect interest expense to total approximately \$10.8 million. And finally, we estimate our effective tax rate to be between 12% and 18%.

To assist you in developing your financial models, we offer the following additional information. During the second quarter, we expect to record amortization of intangibles of about \$9.7 million, stock-based compensation expense of about \$4.1 million, non-cash interest expense of approximately \$0.5 million and we estimate depreciation expense will be approximately \$21.6 million.

Finally, I'd like to announce that we'll be participating in several conferences over the next several weeks, starting with the Barclays High Yield Bond and Syndicated Loan Conference on May 24; the JPMorgan Global Technology, Media and Communications Conference on May 25; the Craig-Hallum Institutional Investor Conference on June 1; the UBS Global Industrials and Transportation Conference on June 7; the Baird Global Consumer, Technology & Services Conference on June 8; and the Stifel Cross-Sector Insight Conference on June 9.

That concludes our prepared remarks. And now, we'd like to open the line for questions. Danielle?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We'll take our first question from the line of Jim Ricchiuti. Please go ahead. Your line is now open.

James Ricchiuti

Analyst, Needham & Co. LLC

Q

Hi. Good afternoon. A couple of questions. Just first on gross margins. I know there's moving parts here, but is it fair to characterize the Q1 gross margin as a trough here because we've got – it sounds like a little better mix coming up in Q2 with a higher A&D volume, and I don't know if the COVID pressures that you alluded to have continued in areas like China, but I'm wondering how we might think about gross margins?

Todd Blake Schull

Executive Vice President & Chief Financial Officer, TTM Technologies, Inc.

A

Well, all things being equal, and that's a big qualifier, right, but generally speaking, [ph] in a cycle (00:24:33) now when you look at our seasonality, Q1 is always going to be a very challenging quarter primarily because of Chinese New Year. And so, that always puts pressure on revenue and costs to try to work our way through that holiday season. This year, that is a little more pronounced because of the strategy that we implemented regarding compensation in North America to increase our competitiveness and in stabilizing our workforce and attracting new workers into our business.

And so, as I indicated last quarter when we had this call, we were expecting a pretty significant short-term hit in Q1 because we're implementing these costs. And I've estimated those costs to be around 130 basis point margin hit in Q1. We also mentioned that we've taken actions to mitigate those costs through price adjustments back in December, but it'll be a timing issue before those adjustments actually begin to show up in our P&L as a result of a pretty significant backlog.

And so, we have to work through those backlogs before the new pricing really takes effect. So, Q1 is definitely a low mark. You see our Q2 coming back. And absent some dramatic shifts in the economy, we would expect to regain and improve as we go through the year as a result of these price increases starting to take effect more in the second half of the year.

James Ricchiuti

Analyst, Needham & Co. LLC

Q

Got it. And a question on the new facility going into Malaysia. First off, and I may have missed it, I'm sure you mentioned it, but when do you expect that to be up and running? And the bigger question that I had is, just as it relates to the new facility, you've talked in the past about introducing more automation into your facilities, and I'm wondering if there's anything you're doing differently? I know that you still have benefits from low labor costs there, but if there's anything you're doing differently in terms of the type of equipment, the automation that you might be...

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

A

Sure.

James Ricchiuti*Analyst, Needham & Co. LLC*

...incorporating in this facility? Thanks.

Q

Thomas T. Edman*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Yeah. Sure, Jim. Yeah. So, the facility in Malaysia will be starting its ramp in the second half of next year, and then, we'll be gradually ramping that capacity [ph] sort of like (00:27:09) the end of 2024, we should be close to full capacity. We do have room for an additional 25% or so of ex-additional phase 2 capacity in the plant building. But, first things first, we're going to bring this up throughout latter half of 2023 [indiscernible] (00:27:35) 2024, should be at full in the end of 2024, really 2025. And then, we'll be looking at what to do going forward.

A

From an automation standpoint, absolutely right, we have been automating our facilities over time, but that's – in that case, we're actually going back and incorporating automation into the facilities versus being able to start from a greenfield approach. So, what you'll see in this facility, it's a single floor, you're looking at a facility that's approx a little bit more than 700,000 – about 750,000 square feet, so a very large single floor facility. We're going to be optimizing production flow, and then the automation.

And when we use the term automation, we're talking not just about robotic loading, we're talking about robots being incorporated into the equipment itself, the plating equipment being a great example. But, we're going to be taking a – it's going to be a great opportunity to incorporate automation from the front of the line to the back of the line as well as industry [indiscernible] (00:28:48) practices from the standpoint of how we share the data, bring the data in from the various platforms, and then use that data to optimize our production and our yields.

So, yeah, we're going to be taking – this is a facility you can – yes, certainly located in South East Asia, but we're looking at optimizing that revenue per employee in the facility through the use of automation.

James Ricchiuti*Analyst, Needham & Co. LLC*

Thank you.

Q

Thomas T. Edman*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

Thank you.

A

Operator: We'll take our next question from the line of Mike Crawford. Please go ahead. Your line is open.

Mike Crawford*Analyst, B. Riley Securities, Inc.*

Thank you. Just further to Malaysia, how much of the capacity of that facility once it's fully ramped up around the end of 2024 is expected to be shifted from some of your Southern China operations versus any new business won from customers, and then ancillary to that is, what are you looking for that would then reload your China capacity?

Q

Thomas T. Edman*President, Chief Executive Officer & Director, TTM Technologies, Inc.*

A

Yeah. So – and of course, that's – it's difficult to say, Mike, for sure. Right? Because, we have programs that are ongoing in China that almost certainly will stay in China. We have programs that may be early in life where the customers are going to say, okay, but let's put that program into South East Asia combined with China, and then we may see a little bit of transfer from China into Malaysia. But that will be pretty insignificant. I mean, I think, as we look at it somewhere – if you're looking at a facility of size of about \$180 million in revenue, looking at 10%-ish of that being potentially transfer. But again, not a bad thing because it's going to help us with the startup efforts. But it's something that as we talk to our customers and as they go through their program planning, we're expecting to be relatively insignificant.

The critical advantage here for our customers is that if – they'll be able to cross-qualify program. So, put a piece of the program into South East Asia, or at least a qualification effort in South East Asia, and know that they have an option outside of our China facilities and vice versa. You do the same thing in terms of placing business in the South East Asia with the option of ramping either in South East Asia or in China. So, that's the real opportunity here from a customer standpoint.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Q

Okay. Thank you. And then, just switching gears slightly, you mentioned the new equipment being installed to support your automotive efforts because you're at capacity now. So, what kind of lift in capacity will you get from that? And then, I guess, I'm going to go ancillary to that question as well is when automotive be one of the main verticals that would lead you to continue your search for additional regional capacity in Europe?

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

A

So, the answer on the first side, it's actually part of an effort that we have in upgrading the facility. So, you're not going to see huge incremental capacity. We'll see a moderate level of capacity increase. And you can think about that as on the order over time of approximately \$20 million. But the real important aspect of the equipment that we're putting into our automotive facility is that we are upgrading that facility and also incorporating more automation as we do so. And then, it replaces equipment that is out of date, if you will, or equipment that is less optimal. So, that's what we're doing there. And of course, as you install equipment, it's a little bit disruptive to production flow. So, that's where we lose a little bit of the incremental capacity for a quarter and we'll be right back at it next quarter.

Europe was the other question, right? So...

Mike Crawford

Analyst, B. Riley Securities, Inc.

Q

Yes. Yeah.

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

A

Yeah. As we – and certainly from a quick turn standpoint, we continue to be on the watch for what we might be able to do in Europe to support automotive, but also medical, industrial and instrumentation customers in Europe. That's an area that we've been making some progress on. And so, as we look at our product mix, our European business continues to grow. It's MII, automotive and actually a little bit of aerospace and defense as we look at continuing to build out our footprint. That's certainly the one area that we haven't yet got the right to the right facility for. And so, we'll continue to look there.

Certainly, with South East Asia coming on in a year, that's going to be a big area, that's the real focus for us in terms of volume manufacturer. And while our automotive customers are satisfied with our capacity in China and looking to even see us build on that over time, it's really our other customer sets in data center, networking and medical, industrial and instrumentation that where they're looking for that supply chain resiliency piece.

Mike Crawford

Analyst, B. Riley Securities, Inc.

Okay. Well, great. Thank you very much.

Q

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

Thank you.

A

Operator: [Operator Instructions] We'll take our next question from the line of [ph] Travis Bucknell (00:35:11). Please go ahead. Your line is now open.

Q

Hi. Thanks for taking my question. I'm calling on behalf of Will Stein today. I know you've touched [indiscernible] (00:35:21) earlier, you touched on how COVID has impacted your operations. Can you please also tell us if or how you're seeing any supplier demand disruptions from the ongoing war in Ukraine?

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

So, the – so, supply chain disruptions from the COVID situation?

A

Well, I'm wondering...

[indiscernible] (00:35:45)

Q

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

...Ukraine-Russia. Okay. I understand. Yeah. So, in terms of the Ukraine-Russia conflict, the biggest – there really haven't been direct impacts in terms of the supply chain. What we're seeing are more what I'd call indirect, and that indirect impact has been on metal pricing, particularly if you look at palladium pricing and copper pricing bouncing all over the place is one way to put it. But we did see increases early in the quarter as the conflict began. Lately, we've seen that's shifting a bit. We are expecting an impact in terms of our costing as the copper pricing, in particular, flows into laminate. But those increases are – have – we've contemplated the potential continuing inflationary impacts as we looked at the price adjustments that we had to make back in December. So, our view is that we'll be able to absorb those at least short term. And again, watching what is a pretty volatile metal pricing environment to see if there's any real structural cost changes that flow through. So far, I think we're in fairly good shape there.

A

Q

Okay. Thank you. And then, I have a similar follow-up. I'm curious if you've been seeing that this war has triggered any accelerated design or production activity in your military end market?

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

A

So. Yeah. Interesting question. We have some historical content there with some – several programs that have been impacted, where inventories are being drawn down. It does take a while. As you know, when budgets are passed, it usually takes a year, a year-and-a-half for the budgets to then impact us in terms of actual program release. In this case, as you watch inventories come down, you can sort of take the same view. It's going to be something that over the course of the year, we'll probably start hearing about from customers and would be a positive – it would have a positive impact on us. But, again, relatively small, but certainly a positive development in terms of demand as we look through sort of the back half of this year into next year.

Q

Thank you.

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

A

Thank you.

Operator: [Operator Instructions] There are no further questions at this time. Mr. Edman, I'd like to turn the conference back to you for any additional closing remarks.

Thomas T. Edman

President, Chief Executive Officer & Director, TTM Technologies, Inc.

Thank you, Danielle. And thank you all for joining us. Just wanted to emphasize some of the points that I made earlier. First, we delivered revenues at the high end and earnings about the midpoint of guidance. We did that in the phase of production and labor inefficiencies in North America and global inflationary pressures. Second, our end market diversification allowed us to again experience solid year-on-year revenue growth of 10.4%. Third, we used our cash generation to continue to repurchase our stock. And fourth, we continued to take major steps in moving our strategy forward with differentiation with the expansion into Malaysia as well as the Telephonics acquisition.

I'd just like to close by thanking all of you again for joining this call, and we look forward to your continued support as we move into next quarter. Thank you very much.

Operator: This concludes today's call. Thank you for your participation. You may now disconnect.

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