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TTM Technologies, Inc. (TTMI)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to TTM Technologies' First Quarter Fiscal 2023 Financial Results Conference Call. During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be opened for questions. [Operator Instructions] As a reminder, this conference is being recorded today, May 3, 2023.

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, Sheri. 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 our 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 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 in this call certain non-GAAP financial measures such as adjusted EBITDA. Such measures should not be considered as a substitute for 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've also posted on our website a slide deck that we will refer to during our call.

I will now 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 fiscal year 2023 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 2023 financial performance and our Q2 2023 guidance. We will then open the call to your questions.

The quarter's results are also shown on slide 3 of the investor presentation posted on TTM's website. In the first quarter of 2023, revenues were below the guided range due to demand softness in our commercial markets and supply chain challenges that made us unable to meet strong demand in the aerospace and defense end market. But as a result of better product mix and cost controls, non-GAAP EPS was within the guided range.

Demand in our aerospace and defense market remains strong, with continued record backlog offset by weaker demand in our commercial end markets. As we look into Q2, inventory adjustments and demand softness in our commercial markets continue, but at a lesser extent resulting in bookings stabilizing, albeit at low levels. And we continue to see strong demand in our A&D market, which now represents 40% of our revenues. I would now like to provide a strategic update.

TTM is on a journey to transform our business to be less cyclical and more differentiated. Over the past several years, TTM has consistently emphasized that a key part of our strategy is to add value to the product solutions that we deliver to our customers, particularly in the aerospace and defense market. In 2018, we acquired Anaren, which broadened TTM's product portfolio into highly engineered RF components and subassemblies, as well as adding critical RF engineering capability and resources.

In 2022 we acquired Telephonics, which builds on Anaren and TTM's customer-driven culture and disciplined approach to engineering and manufacturing. The addition of Telephonics expands TTM's aerospace and defense product offering vertically into higher level engineered systems solutions and horizontally into the surveillance and communications markets while strengthening our position in radar systems. As a result of these strategic moves, over 50% of A&D revenues are from engineered and integrated electronic products, with PCBs being less than 50% of the overall contribution.

Another important element of our differentiation strategy is the current construction of 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-layered PCB-sourcing options in locations outside of China. The new facility in Malaysia will assist customers in our commercial markets, such as networking and medical industrial and instrumentation. We continue to make progress on the Malaysian facility and we have hired over 50 engineers, most of whom are currently training in our China facilities.

Finally, I'd like to update you on the consolidation of our manufacturing footprint. We previously announced our plan to close three small manufacturing facilities in order to improve total plant utilization, operational performance, customer focus and profitability. PCB manufacturing operations in Anaheim and Santa Clara, California, and Hong Kong will be closed and consolidated into TTM's remaining facilities.

The plant closures are expected to improve both facility and talent utilization across our footprint, resulting in improved profitability. We remain on track with closing the Hong Kong facility by the end of our second quarter and the two North America facilities by the end of the year. Customers have been supportive of the consolidation and we expect to retain the majority of the business at the closed facilities.

We also completed the sale of our Shanghai Backplane Assembly facility or BPA at the end of March. This facility accounted for approximately \$45 million in revenue in 2022 and an immaterial amount of operating income. We are glad to have found an excellent home for our employees with the buyer DBG Technology Company Limited, which specializes in assembly work and will be [ph] intent on (00:08:20) servicing and growing the customer base through this facility.

Now I'd like to review our end markets, which are referenced on page 4 of the earnings presentation on our website. The aerospace and defense end market represented 43% of total first quarter sales, compared to 30% of Q1 2022 sales and 40% of sales in Q4 2022 and majority of the year on year growth was due to the inclusion of Telephonics. Excluding that impact, our Q1 A&D revenues grew 7% year-on-year organically. We continue to experience a positive defense climate with our A&D program backlog at \$1.38 billion, including Telephonics. The solid demand in the defense market is a result of a positive tailwind in defense budgets. Our strong strategic program alignment and key bookings for ongoing franchise programs.

During the quarter, we saw significant bookings for key programs, including the Scalable Agile Beam Radar or SABR for F-16 fighter jets and SPY-7 Radar for Japan's Aegis System Equipped Vessel or ASEV program. While the demand picture continues to look favorable, we are experiencing supply chain challenges due to the complexity of the supply chain, including a number of smaller organizations that are struggling to meet the lead time requirements of TTM and our customers. We expect to make steady progress in this area throughout 2023 and we expect sales in Q2 from this end market to represent about 45% of our total sales.

In terms of the defense budget backdrop, the administration released preliminary details of the fiscal 2024 President's Budget Request or PBR in early March. The fiscal 2024 DoD budget request is an increase of 3% over the fiscal 2023 enacted funding. During the quarter, President Biden and Canadian Prime Minister Justin Trudeau announced a partnership and \$50 million in government funding to strengthen advanced packaging for semiconductors and printed circuit boards in North America. In addition, The White House announced a presidential determination invoking the Defense Production Act to cover printed circuit boards and advanced packaging production capability. These actions demonstrate the increasing attention that the printed circuit board industry is receiving as a critical component of the aerospace and defense supply chain and the increased need for supply chain resiliency. We will continue to work with our customers to ensure that our leadership position in North America printed circuit board production meets their present and future needs.

The medical, industrial instrumentation end market contributed 19% of our total sales in the first quarter compared to 21% in the year ago quarter and 17% in the fourth quarter of 2022. A number of our customers have been reducing inventory as well as quick-turn business. In addition, the instrumentation segment is weighted toward the semiconductor capital equipment market, which is seeing weaker demand.

For the second quarter, we expect MI&I to be 18% of revenues. Automotive sales represented 17% of total sales during the first quarter of 2023, compared to 20% in the year ago quarter and 16% during the fourth quarter of 2022. The sequential decline for automotive was due to inventory adjustments and semiconductor shortages that have been impacting automotive OEM production as well as a reduced number of working days due to Chinese New Year. We expect our automotive business to contribute 18% of total sales in Q2.

Networking accounted for 11% of revenue during the first quarter of 2023. This compares to 13% in the first quarter of 2022 and 13% of revenue in the fourth quarter of 2022. Here too, demand was softer as customers focus on inventory digestion. In Q2, we expect this end market to be 8% of revenue, as revenues associated with the sold, Shanghai BPA facility are no longer included in this end market. Shanghai BPA contributed approximately \$8 million of revenue to this end market in Q1 of 2023.

Sales in the data center computing end market represented 10% of total sales in the first quarter, compared to 16% in Q1 of 2022 and 14% in the fourth quarter of 2022. The weaker demand in data center computing was primarily due to inventory digestion at our data center customers and ongoing weakness in the semiconductor market. We expect revenues in this end market to represent approximately 11% of second quarter sales as orders and revenues stabilize.

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 and engineered products business, which includes HDI, rigid-flex, RF subsystems and components and engineered systems, accounted for approximately 41% of our revenue. This compares to approximately 33% in the year-ago quarter and 39% in Q4. We are continuing to pursue new business opportunities and increase customer design engagement activities that will leverage our advanced technology and engineered products capabilities in new programs and new markets.

PCB capacity utilization in Asia Pacific was 52% in Q1 compared to 78% in the year ago quarter and 69% in Q4. Our overall PCB capacity utilization in North America was 39% in Q1 compared to 49% in the year ago quarter and 41% in Q4. Note [ph] at the beginning of (00:15:23) every year, we update our utilization methodology calculation and have restated the previous year and quarter's utilization for a like for like comparison.

The lower rate in Asia Pacific was caused by a decline in production volumes, as well as lower working days from the Chinese New Year holiday. While the lower year-over-year rate in North America was due to additional plating capacity added, as well as a greater mix of higher technology product that requires less plating. Our top five customers contributed 36% of total sales in the first quarter of 2023, the same as in the fourth quarter of 2023. We had one customer over 10% in the quarter.

At the end of Q1, our 90-day backlog, not including Telephonics, which is subject to cancellations, was \$429.1 million compared to \$605.3 million at the end of the first quarter last year, including Telephonics our backlog at the end of Q1 was \$482.2 million. Our book-to-bill ratio including was 0.82 for the three months ended April 3, reflecting a stronger aerospace and defense book-to-bill offset by weaker commercial bookings. Our A&D bookings also ship over a longer period of time compared to our commercial bookings.

As we look into Q2, we are seeing our commercial markets continue to be soft with bookings stabilizing at lower levels. On the A&D side of our business, we continue to focus on making incremental improvements in shipments as we work with supply chain partners to loosen bottlenecks and take advantage of an improving labor market. I am confident that with the effort of our employees, we will be able to overcome these challenges as we work our way through 2023. In the meantime, I wish to thank our employees for continuing to contribute to TTM and our critical mission of inspiring innovation for 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, everyone. I'll be reviewing our financial results for the first quarter that were included in the press release distributed today as well as on slide 6 of our earnings presentation that is posted on our website. For the first quarter, net sales were \$544.4 million, compared to \$581.3 million in the first quarter of 2022. The year-over-year decrease in revenue was due to declines in our commercial markets, partially offset by the inclusion of Telephonics as well as organic growth in our aerospace and defense end market.

GAAP operating loss for the first quarter of 2023 was \$3.5 million and compares to operating income of \$25.9 million in the first quarter of 2022. On a GAAP basis, net loss in the first quarter of 2023 was \$5.8 million or \$0.06 per diluted share. This compares to GAAP net income of \$17.2 million or \$0.17 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 M&A related costs, restructuring costs, certain non-cash expense items such as amortization of intangibles and stock compensation, gains on the sale of property 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 17.1% and compares to 15.9% in the first quarter of 2022. The year-on-year increase was due to the inclusion of Telephonics favorable foreign exchange and product mix, partially offset by less premium revenue and production inefficiencies.

Selling and marketing expense was \$20.6 million in the first quarter or 3.8% of net sales versus \$17.6 million or 3% of net sales a year ago. First quarter G&A expense was \$32.1 million or 5.9% of net sales, compared to \$29.8 million or 5.1% of net sales in the same quarter last year. The year-over-year increases were due primarily to the addition of Telephonics.

In the first quarter of 2023, R&D expense was \$6.8 million or 1.3% of revenues compared to \$5.3 million or 0.9% in the year ago quarter. Our operating margin in Q1 was 6.1%. This compares to 6.8% in the same quarter last year. Interest expense was \$12.1 million in the first quarter, compared to \$10.8 million in the same quarter last year.

During the quarter, there was a negative \$0.9 million of foreign exchange impact below the operating line. Government incentives and interest income more than offset this, resulting in a net \$1.2 million gain or \$0.01 positive impact to EPS. This compares to \$1 million gain or \$0.01 impact on EPS in Q1 of last year.

Our effective tax rate was 17% in the first quarter, resulting in tax expense of \$3.8 million. This compares to a rate of 15% or a tax expense of \$4.5 million in the prior year. First quarter net income was \$18.6 million or \$0.18 per diluted share. This compares to first quarter 2022 net income of \$25.3 million or \$0.24 per diluted share. Adjusted EBITDA for the first quarter was \$58.5 million or 10.7% of revenue compared with first quarter 2022 adjusted EBITDA of \$62 million or 10.7% of revenue.

Depreciation for the quarter was \$34 million. Net capital spending in the quarter was \$30.7 million. Cash flow from operations was a very strong \$55.1 million or 10.1% of revenue in line with our target of 10%. Free cash flow was also very good at \$24.4 million or 4.5% of revenue. Cash and cash equivalents at the end of the first quarter of 2023 were \$417.5 million, inclusive of \$40.3 million from the proceeds of the sale of the property associated with our Shanghai E-MS facility and partial proceeds from the sale of our Shanghai Backplane Assembly Facility.

Our net debt divided by last 12 months EBITDA was 1.4 times below our targeted range of 1.5 times to 2 times. During the quarter, we entered into an interest rate swap for \$250 million of our variable debt, effectively fixing the interest rate for that amount of debt at 6%. Given our strong balance sheet and cash flow, our board of directors

has authorized a new \$100 million stock buyback program. And we are also evaluating options for the refinancing of our Term Loan B that matures in the third quarter of 2024.

I'd now like to turn to our guidance for the second quarter. Given the continued softness in commercial markets, we project total revenue for the second quarter of 2023 to be in the range of \$530 million to \$570 million and non-GAAP earnings to be in the range of \$0.17 to \$0.23 per diluted share. I would also like to point out the Q2 guidance does not include \$8 million of revenues and \$0.4 million of operating profit generated in Q1 from the Shanghai Backplane Assembly Facility [ph] that was sold (00:24:10)

The EPS forecast is based on a diluted share count of approximately 106 million shares, which includes the dilutive securities such as options and RSUs. We expect that SG&A expense will be about 10% of revenue in the second quarter and R&D will be about 1.3% of revenue. We expect interest expense to total approximately \$11.1 million.

Finally, we estimate our effective tax rate to be between 15% and 19%. 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 \$16.5 million. Stock-based compensation expense of about \$5 million. Non-cash interest expense of approximately \$0.5 million and we estimate depreciation expense will be approximately \$23.8 million.

Finally, I'd like to announce that we'll be participating in the Barclays Leveraged Finance Conference on May 23. The Stifel Cross Sector Insight Conference, on June 7 and the UBS Industrials Conference on June 8. We will also be hosting an Analyst Day on May 31 at our Telephonics facility in Farmingdale, New York.

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

QUESTION AND ANSWER SECTION

<Operator>: Thank you. [Operator Instructions] Our first question will come from the line of William Stein with Truist Securities. Your line is open.

William Stein

Analyst, Truist Securities, Inc.

Q

Great. Thanks for taking my questions. I'm hoping you can quantify lead times in the aerospace defense end market. I think we've seen ever higher backlog in this business. I think based on current revenue, it looks like you got about a year and a half of backlog, assuming it's all sort of deliverable ASAP, it's probably a bit more stretched out [ph] than that (00:26:34) I imagine you have [ph] some blanket (00:26:36) orders that are much further out, but still it's a ton of backlog relative to your revenue, you must be having some pretty meaningful supply chain constraints, I assume. I'm hoping you can quantify that for us. Tell us where the biggest problems are and explain whether the Defense Production Act helps in some way? Thank you.

Thomas T. Edman

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

A

Sure, Will. Thank you for the question. Yeah, if you start to look at lead times, I think the first cut you have to take out it is PCB versus what we define as integrated electronics, which is now over 50% of that aerospace and defense business. So, take that first cut and I can tell you the printed circuit board area. Yes, still some challenges there, but largely from a lead time standpoint where that's not where the issue lies. Where we run into bigger challenges is around the integrated electronics piece, which includes assembly, it includes the RF-sub assembly work we do, the microelectronics work we do.

And then the completed systems the work that we do that's where we're finding the bigger challenges from a supply chain standpoint to – and so, if you look at that backlog that we have and you're absolutely right, you can look at that, as I look at it, it's an 18-month to 2 year kind of window for most of that program backlog to ship, that piece of the integrated electronics portion of that piece is really where we're focused on getting the lead times improved and there is a huge variability.

So, it's hard to give you a precise, hey here is what the lead time is, at this point, particularly as the system builds get more complex, you start to see a push out of lead times with our supply base. So that's – hopefully will help you at least as you get a picture, to give you a picture of what we're seeing out there. And if you look at the primes, major primes they've been pointing to similar issues in the supply chain related to and a lot of this is related to smaller suppliers who have come out handicapped coming out of COVID, challenged on the labor side, now dealing also with interest rates going up and challenges, in terms of financing their business and cash flowing it, just sort of a number of issues in that supply chain, particularly with the smaller organizations.

William Stein

Analyst, Truist Securities, Inc.

Q

In their case are we talking about semiconductor devices that you're waiting on, where we've heard about supply constraints for a couple of years now, but they seem to be getting much better or is it something else, [ph] does it not (00:30:04) have to do with devices?

Thomas T. Edman

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

A

Yeah. So there's still some bottlenecks related to analog, analog semiconductors. And if you think about some of the systems that we're building there, they're relying on older designs, particularly as you get into the service side of the business. So, certainly there we still have issues with some of the analog semiconductor supply. It's much broader than that though, as you get into some of the – our suppliers who are dealing, whether it's power supplies, whether it's older parts, that they're just having a tough time requalifying for, they continue to run into just a number of challenges. So, I would put yes, analog semiconductor is still a challenge, it's much broader than that when it comes to the defense supply base and a lot of this ties to just smaller enterprises that have been struggling for several years now.

William Stein

Analyst, Truist Securities, Inc.

Q

If I can squeeze one more and Tom appreciate the time you're taking.

Thomas T. Edman

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

A

Sure.

William Stein*Analyst, Truist Securities, Inc.*

Q

Can you quantify the timing of the Penang facility coming online and what happens to your China footprint once the Penang facility does come online?

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

A

Sure. Yeah. So Penang, we are at this point still working on completing the building. We'll start taking equipment deliveries during the course of our third quarter. And we'll start qualification in the fourth quarter, the very early stages of production. It's really going to be a facility that ramps during the course of next year. So, we are aiming to get to close to full rate production by the fourth quarter of next year. So, that's the ramp cycle we're looking at.

And in terms of how that effects our China facilities, it really by and large, there is some business that will transfer existing programs. But most of what our customers plan for the facility are new programs. They tend to be more weighted towards the standard and high technology board production that 16 to 18 layer kind of production required for data center computing for some of the medical industrial applications that we service.

And we're looking at an automated line. So really that window is relatively narrow and it's a window that today we address, but it's not a large part of the business for us, it's a business that we've been talking with customers about using that automation capability to really drive home the technology that they require. Again that high technology, standard technology area, Will. So, largely supplemental to our revenues, a slight bit of transfer, but largely supplemental.

William Stein*Analyst, Truist Securities, Inc.*

Q

Great. Thank you.

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

A

Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Griffin Boss with B. Riley Securities. Your line is open.

Griffin Taylor Boss*Analyst, B. Riley Securities, Inc.*

Q

Hi. Thanks for taking my questions. So first one for me, given the remarks on the percentage mix between PCB revenue and design and engineered products. Can you remind us how you account for all of the RF engineering and related revenue generated from what your Anaren and Telephonics acquisitions were and as that relates to the PCB in RF&S operating segments?

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

A

Okay. Yeah that goes into the PCB segment. Yeah, so RF&S segment really is the commercial component production that we do, that portion of the production from Anaren. The balance of what is Anaren and

Telephonics, legacy Telephonics and our assembly operations are really what I talked about earlier when I talked about the non-PCB portion of our aerospace and defense business.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Got it. Okay, really helpful. Thanks for that. And then, so shifting gears. On slide 16 of the investor presentation that was published earlier today, not the earnings

one, that slide 16 listed, I think some 40 of the 180-plus defense programs you are on. Could you share what are perhaps maybe the top 5 or 10 of these programs and where you think are generating the most bookings from.

Thomas T. Edman

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

A

Yeah. Without – I think you've got a good listing there with some of the primary programs. Let me just talk about critical overall programs for TTM. We talked about today about the SABR program, F-16 also involved in F-35. We are heavily involved in radar programs as they relate to both SPY-6 and SPY-7. SPY-6 as you know, we announced that program very important. We are involved in the low tier air missile defense system program, that's a critical one to us as well.

And then, so as you switch over into more of our Telephonics radar business, you're looking at primarily helicopter platforms as well as Boeing programs being of high importance to us on that side. So, if you're looking at the larger content programs, we tend to drive the content into radar-related programs. And then we're going to have a larger portion of printed circuit board content on some of the other programs that we covered in that listing.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Okay. Got it. Thanks for the color there. And then just last one for me. Apologies if I missed this in the prepared remarks, but can you discuss the number and value of automotive design wins in the quarter.

Thomas T. Edman

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

A

Sure. Yeah. No, I had not mentioned that this quarter, but let me get you that. So, we had – actually a really strong quarter, in terms of automotive design wins. We won a total program value of about \$267 million, that to give you a year-on-year comparison that compares to about \$66 million last year, \$279 million in Q4. But to put this into real perspective, all of 2022, we won \$530 million. So, really strong positioning in the first quarter on these large programs that positions us well as these programs tend to become production of record – go into production approximately six months to a year after we have the win. So, really strong program wins this quarter. Thank you for asking.

Griffin Taylor Boss

Analyst, B. Riley Securities, Inc.

Q

Yeah. Thanks for the detail. I appreciate it. Okay, great. That's it for me. Thanks again, guys.

Thomas T. Edman

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

A

Thank you.

Operator: Thank you. One moment for our next question. And that will come from the line of Jim Ricchiuti was Needham & Co. Your line is open.

Jim Ricchiuti

Analyst, Needham & Co. LLC

Q

Hi. Thank you. Good afternoon. I apologize, I missed a part of the opening presentation and some of the Q&A [ph] that I got (00:38:55) my question is around the aerospace and defense business Tom. The supply chain challenges, there are your own challenges, there are the challenges that the primes are having. And I guess, what I'm trying to understand is, that you have given us some color as to how to think about A&D in Q2. But as we think beyond Q2 into the second half of the year, you guys have your own forecast, what's your confidence level that some of this plays out, as you're expecting just because there's been, so many issues around supply chain, not just your own issues, but your customers issues.

Thomas T. Edman

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

A

Right? Right. I agree with you, Jim. That's a critical question. Our focus here is going to be on sequential improvement as we manage the supply chain. Obviously, with integrated electronics, we had our own legacy challenges on supply chain, non-PCB challenges. We've added to that with the Telephonics business and the complexity there. So the piece that is challenged, if you will, on the supply chain side has certainly grown post that acquisition, we have a plan to continue to work on sequential improvements as we go through the course of this year. And frankly, I think some of the issues will move into next year as well. But we are going to be focused on sequentially attacking this and improving.

The good news is that the labor markets have improved. And there that is impacting North America PCB production and helping us there and is also helping to ease at least one pain point on the integrated electronics side of the business. And to give a perspective, I mean, again, yes. Asia weakness plays into this as well. But about 58% of our revenues this quarter came from North America production, 42% from Asia and if you remember, you can almost flip that script if you went back a year ago, in terms of revenue split and so North America is improving for us, it's just that, has tended to be towards PCB. We don't have the supply chain issues there. It's really now about integrated electronics and the focus that we're putting on that organization. And there is a lot of focus, in terms of improving and working with our vendor base to provide more predictability as they deliver into our requirements.

Jim Ricchiuti

Analyst, Needham & Co. LLC

Q

Got it. Thanks for that. Follow-up question just relates to the commercial business because I think I heard you talked about some stabilization. I don't know if that was later in the quarter, in some of those markets, but I guess what I'm wondering is, if we look at that broad commercial business, [ph] where is the (00:42:31) more certainty from your standpoint? [ph] where is the (00:42:33) less certainty in terms of some of those verticals?

Thomas T. Edman

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

A

Yeah, great. Yes, we did start to see some stabilization late in the quarter, in terms of the bookings environment. But to characterize the overall markets and how they position and how we think about them as we're going into this next quarter. Aerospace and defense, you can almost take off the table, that for us is an execution, that's

execution We have the backlog that's 40% give or take of revenue [ph] included (00:43:12) so, automotive I put into that category, you can see what I talked about last quarter was that we would see a downtick in auto of about 7% or so given Chinese New Year factors that we – that given a constant demand environment, we would expect it to come back and yes, that's what we're seeing.

So, auto remains pretty good, pretty strong, especially if you go back, look at Q3, Q4 levels. What we're expecting in [ph] Q (00:43:44) and compare that to what we're expecting in Q2. So, auto remains solid, industrial still holding up fairly well. So, right there you've got, let's just say 73% or so of our business, what I have on watch at this point is really the medical area. A lot of inventory control going on. The underlying demand should be there. So, looking to see that improve, if not this next quarter as we start to push into Q3 and Q4, that's about 5% of revenue.

And then you go to the – what is weak? To your question, Jim what – we're really looking at areas to look for improvement in our data center and semiconductor, right. Our data center, computing end market very – remains very weak. Networking remains very weak. Even if you strip out Shanghai BPA, it's still down substantially year-on-year. And then instrumentation, which for us is that semiconductor capital equipment market. So, roughly 22% or so of revenue there that is right now showing real softness. Most of these markets you're going to – we may start to see some improvement in Q3, Q4. Certainly the semiconductor side, I would say, is going to push out into next year. Data center may start to improve a bit as we go through the course of the year. So, that's at least how I'm looking at the markets right now, Jim.

Jim Ricchiuti

Analyst, Needham & Co. LLC

Yeah. Okay. That's good color. Thank you.

Q

Thomas T. Edman

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

Thank you.

A

Operator: Thank you. [Operator Instructions] I'm showing no further questions in the queue at this time. I would now like to turn the call back over to Mr. Tom Edman for any closing remarks.

Thomas T. Edman

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

Sure thing. First of all, I want to thank everyone for joining the call. And I wanted to highlight a few points. This really is a critical transition year for us. We're looking – we're seeing an improvement in labor markets in North America. That's a positive, we still have to work through those supply chain issues that we addressed in the call. In Asia Pacific, really focused on a flexible response, taking advantage of market share gain opportunities here as we're in a soft period and looking to see improvement as we go forward.

And then the third area of focus is Penang and the Penang ramp. So, that's where we remain focused on here in 2023, I do want to highlight that we continue to generate very strong cash flow and that our debt to – our debt ratio right now is at about 1.4 times, so actually below our target range. I do look forward to seeing many of you at our Analyst Day on May 31. And again, wanted to thank you for joining our call. Take care.

Operator: Thank you all for participating. This concludes today's program. You may now disconnect.

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