

TTM TECHNOLOGIES INC
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 1, 2018

Commission File Number: 0-31285

TTM TECHNOLOGIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE 91-1033443
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)
1665 Scenic Avenue Suite 250, Costa Mesa, California 92626

(Address of principal executive offices)

(714) 327-3000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Number of shares of common stock, \$0.001 par value, of registrant outstanding at November 1, 2018: 103,677,289

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

TTM TECHNOLOGIES, INC.

Consolidated Condensed Balance Sheets

	As of October 1, 2018 (Unaudited)	January 1, 2018
(In thousands, except par value)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 207,952	\$ 409,326
Accounts receivable, net	569,215	483,903
Contract assets	296,836	—
Inventories	122,232	294,588
Prepaid expenses and other current assets	36,773	33,490
Total current assets	1,233,008	1,221,307
Property, plant and equipment, net	1,059,246	1,056,845
Goodwill	765,867	372,571
Definite-lived intangibles, net	394,825	102,950
Deposits and other non-current assets	36,280	28,209
	\$ 3,489,226	\$ 2,781,882
LIABILITIES AND EQUITY		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 40,000	\$ 4,578
Accounts payable	451,645	497,455
Contract liabilities	5,025	—
Accrued salaries, wages and benefits	86,601	103,638
Other accrued expenses	112,005	114,685
Total current liabilities	695,276	720,356
Long-term debt, net of discount and issuance costs	1,518,315	975,479
Other long-term liabilities	100,724	74,667
Total long-term liabilities	1,619,039	1,050,146
Commitments and contingencies (Note 14)		
Equity:		
Common stock, \$0.001 par value; 300,000 shares authorized, 103,677 and 101,820 shares issued and outstanding in 2018 and 2017, respectively		
	104	102
Additional paid-in capital	792,163	777,025
Retained earnings	343,177	193,342
Statutory surplus reserve	37,348	37,508

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Accumulated other comprehensive income	2,119	3,403
Total stockholders' equity	1,174,911	1,011,380
	\$ 3,489,226	\$ 2,781,882

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Operations

For the Quarter and Three Quarters Ended October 1, 2018 and October 2, 2017

	Quarter Ended		Three Quarters ended	
	October 1, 2018	October 2, 2017	October 1, 2018	October 2, 2017
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	\$755,837	\$666,814	\$2,136,306	\$1,919,243
Cost of goods sold	626,253	569,980	1,801,904	1,621,523
Gross profit	129,584	96,834	334,402	297,720
Operating expenses:				
Selling and marketing	18,533	16,269	54,780	48,775
General and administrative	39,892	30,570	121,378	89,502
Amortization of definite-lived intangibles	16,609	5,905	41,959	17,727
Total operating expenses	75,034	52,744	218,117	156,004
Operating income	54,550	44,090	116,285	141,716
Other income (expense):				
Interest expense	(22,225)	(13,598)	(56,425)	(40,116)
Loss on extinguishment of debt	—	(768)	—	(768)
Other, net	2,213	(6,984)	7,284	(14,519)
Total other expense, net	(20,012)	(21,350)	(49,141)	(55,403)
Income before income taxes	34,538	22,740	67,144	86,313
Income tax benefit (provision)	(7,537)	(1,205)	53,958	(10,902)
Net income	27,001	21,535	121,102	75,411
Less: Net income attributable to the noncontrolling interest	—	(82)	—	(408)
Net income attributable to TTM Technologies, Inc. stockholders	\$27,001	\$21,453	\$121,102	\$75,003
Earnings per share attributable to TTM Technologies, Inc.				
stockholders:				
Basic earnings per share	\$0.26	\$0.21	\$1.17	\$0.74
Diluted earnings per share	\$0.22	\$0.19	\$0.98	\$0.65

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Comprehensive Income

For the Quarter and Three Quarters Ended October 1, 2018 and October 2, 2017

	Quarter Ended		Three Quarters ended	
	October 1, 2018	October 2, 2017	October 1, 2018	October 2, 2017
	(Unaudited)			
	(In thousands)			
Net income	\$27,001	\$ 21,535	\$121,102	\$ 75,411
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net	(1,248)	15,669	(2,327)	34,307
Net unrealized gains (losses) on cash flow hedges:				
Unrealized (loss) gain on effective cash flow hedges during				
the period, net	1,641	30	(104)	194
Loss realized in the statement of operations	764	43	1,147	130
Net	2,405	73	1,043	324
Other comprehensive (loss) gain, net of tax	1,157	15,742	(1,284)	34,631
Comprehensive income, net of tax	28,158	37,277	119,818	110,042
Less: Comprehensive income attributable to the noncontrolling				
interest	—	(82)	—	(408)
Comprehensive income attributable to TTM Technologies, Inc.				
stockholders	\$28,158	\$ 37,195	\$119,818	\$ 109,634

See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Consolidated Condensed Statements of Cash Flows

For the Three Quarters Ended October 1, 2018 and October 2, 2017

	Three Quarters ended	
	October 1, 2018	October 2, 2017
	(Unaudited)	
	(In thousands)	
Cash flows from operating activities:		
Net income	\$121,102	\$75,411
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	121,165	109,719
Amortization of definite-lived intangible assets	44,124	17,727
Amortization of debt discount and issuance costs	10,326	7,977
Deferred income taxes	(64,516)	(4,936)
Stock-based compensation	14,948	13,306
Loss on extinguishment of debt	—	768
Other	666	6,971
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(44,685)	(42,268)
Contract assets	(12,597)	—
Inventories	5,399	(26,067)
Prepaid expenses and other current assets	(2,453)	(7,162)
Accounts payable	(25,598)	37,855
Contract liabilities	(2,753)	—
Accrued salaries, wages and benefits and other accrued expenses	(43,758)	(9,237)
Net cash provided by operating activities	121,370	180,064
Cash flows from investing activities:		
Acquisition, net of cash acquired	(596,396)	—
Purchase of property, plant and equipment and equipment deposits	(116,387)	(118,933)
Proceeds from sale of property, plant and equipment and assets held for sale	262	27,052
Net cash used in investing activities	(712,521)	(91,881)
Cash flows from financing activities:		
Proceeds from long-term debt borrowings	600,000	725,000
Repayment of long-term debt borrowing	(44,378)	(700,000)
Repayment of assumed long-term debt in acquisition	(178,604)	—
Proceeds from borrowings of revolving loan	23,000	—
Repayment of revolving loan	—	(63,000)
Payment of debt issuance costs	(7,653)	(5,330)
Payment of original issue discount	(1,500)	(1,750)
Proceeds from exercise of stock options	192	74
Redemption of convertible notes	—	(15)
Net cash provided by (used in) financing activities	391,057	(45,021)
Effect of foreign currency exchange rates on cash and cash equivalents	(1,280)	2,495

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Net decrease in cash and cash equivalents	(201,374)	45,657
Cash and cash equivalents at beginning of period	409,326	256,277
Cash and cash equivalents at end of period	\$207,952	\$301,934

Supplemental cash flow information:

Cash paid, net for interest	\$52,074	\$32,855
Cash paid, net for income taxes	23,628	18,584

Noncash transactions:

Property, plant and equipment recorded in accounts payable	\$49,386	\$85,582
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See accompanying notes to consolidated condensed financial statements.

TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements

(Unaudited)

(Dollars and shares in thousands, except per share data)

(1) Nature of Operations and Basis of Presentation

TTM Technologies, Inc. (the Company or TTM) is a leading global printed circuit board (PCB) manufacturer, focusing on quick-turn and volume production of technologically complex PCBs, backplane assemblies and electro-mechanical solutions (E-M Solutions) as well as a global designer and manufacturer of RF and microwave components and assemblies. The Company provides time-to-market and volume production of advanced technology products and offers a one-stop manufacturing solution to customers from engineering support to prototype development through final mass production. This one-stop manufacturing solution enables the Company to align technology developments with the diverse needs of the Company's customers and to enable them to reduce the time required to develop new products and bring them to market.

The Company serves a diversified customer base in various markets throughout the world, including aerospace and defense, automotive components, smartphones and touchscreen tablets, high-end computing, medical, industrial and instrumentation related products, as well as networking/communications infrastructure products. The Company's customers include both original equipment manufacturers (OEMs) and electronic manufacturing services (EMS) providers.

The accompanying consolidated condensed financial statements have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been condensed or omitted pursuant to such rules and regulations. These consolidated condensed financial statements reflect all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to present fairly the financial position, the results of operations and cash flows of the Company for the periods presented. It is suggested that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's most recent Annual Report on Form 10-K. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the full year. The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Company's consolidated condensed financial statements and accompanying notes. Actual results could differ materially from those estimates. The Company uses a 13-week fiscal quarter accounting period with the fourth quarter ending on the Monday nearest December 31.

Recently Adopted and Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606), which replaces most existing revenue recognition guidance in U.S. GAAP, including industry specific requirements, and provides companies with a single revenue recognition model for recognizing revenue of contracts with customers. The core principle of the new revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

The Company assessed the new guidance and adopted the new revenue standard on January 2, 2018, which resulted in a change to the timing of revenue recognition for certain of the Company's revenue streams from "point in time" upon physical delivery to an "over time" model. Additionally, the Company elected the cumulative effect transition method with adjustment to the opening balance of retained earnings at January 2, 2018 for all open contracts as of January 1, 2018. Therefore, comparative information has not been adjusted and continues to be reported under previous U.S. GAAP guidance for the consolidated balance sheet at January 1, 2018 and the consolidated condensed statement of operations for the quarter and three quarters ended October 2, 2017.

The cumulative effect of the changes made to the Company's January 2, 2018 consolidated condensed balance sheet for the adoption of the new revenue standard was as follows:

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TTM TECHNOLOGIES, INC.

Notes to Consolidated Condensed Financial Statements—(Continued)

	Balance at January 1, 2018 (In thousands)	New Revenue Standard Adjustment	Balance at January 2, 2018
Balance Sheet			
Assets			
Accounts receivable, net	\$483,903	\$ 8,171	\$492,074
Contract assets	—	260,654	260,654
Inventories	294,588	(223,576)	71,012
Liabilities			
Other accrued expenses	114,685		