

TTM TECHNOLOGIES INC  
Form 10-Q  
August 09, 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 July 2, 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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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. Check one:

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) 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 August 1, 2018: 103,674,563

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (unaudited)

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Balance Sheets

	As of July 2, 2018 (Unaudited)	January 1, 2018
(In thousands, except par value)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 204,100	\$ 409,326
Accounts receivable, net	541,587	483,903
Contract assets	300,717	—
Inventories	121,285	294,588
Prepaid expenses and other current assets	34,950	33,490
Total current assets	1,202,639	1,221,307
Property, plant and equipment, net	1,072,578	1,056,845
Goodwill	758,849	372,571
Definite-lived intangibles, net	414,600	102,950
Deposits and other non-current assets	30,266	28,209
	\$ 3,478,932	\$ 2,781,882
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Short-term debt, including current portion of long-term debt	\$ 40,729	\$ 4,578
Accounts payable	448,455	497,455
Contract liabilities	7,680	—
Accrued salaries, wages and benefits	88,273	103,638
Other accrued expenses	104,139	114,685
Total current liabilities	689,276	720,356
Long-term debt, net of discount and issuance costs	1,555,425	975,479
Other long-term liabilities	92,938	74,667
Total long-term liabilities	1,648,363	1,050,146
Commitments and contingencies (Note 14)		
Equity:		
Common stock, \$0.001 par value; 300,000 shares authorized, 103,674 and 101,820 shares issued and outstanding in		
2018 and 2017, respectively	104	102
Additional paid-in capital	786,702	777,025
Retained earnings	315,975	193,342
Statutory surplus reserve	37,550	37,508

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Accumulated other comprehensive income	962	3,403
Total stockholders' equity	1,141,293	1,011,380
	\$ 3,478,932	\$ 2,781,882

See accompanying notes to consolidated condensed financial statements.

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Operations

For the Quarter and Two Quarters Ended July 2, 2018 and July 3, 2017

	Quarter Ended		Two Quarters ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(Unaudited)			
	(In thousands, except per share data)			
Net sales	\$716,887	\$627,182	\$1,380,469	\$1,252,429
Cost of goods sold	600,747	531,315	1,175,651	1,051,543
Gross profit	116,140	95,867	204,818	200,886
Operating expenses:				
Selling and marketing	18,619	15,851	36,247	32,506
General and administrative	46,298	29,050	81,486	58,932
Amortization of definite-lived intangibles	19,489	5,910	25,350	11,822
Total operating expenses	84,406	50,811	143,083	103,260
Operating income	31,734	45,056	61,735	97,626
Other income (expense):				
Interest expense	(20,453 )	(12,922 )	(34,200 )	(26,518 )
Other, net	6,178	(5,825 )	5,071	(7,535 )
Total other expense, net	(14,275 )	(18,747 )	(29,129 )	(34,053 )
Income before income taxes	17,459	26,309	32,606	63,573
Income tax benefit (provision)	66,545	(5,558 )	61,495	(9,697 )
Net income	84,004	20,751	94,101	53,876
Less: Net income attributable to the noncontrolling interest	—	(160 )	—	(326 )
Net income attributable to TTM Technologies, Inc. stockholders	\$84,004	\$20,591	\$94,101	\$53,550

Earnings per share attributable to TTM Technologies, Inc.

stockholders:				
Basic earnings per share	\$0.81	\$0.20	\$0.91	\$0.53
Diluted earnings per share	\$0.65	\$0.18	\$0.75	\$0.46

See accompanying notes to consolidated condensed financial statements.

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Comprehensive Income

For the Quarter and Two Quarters Ended July 2, 2018 and July 3, 2017

	Quarter Ended		Two Quarters ended	
	July 2, 2018	July 3, 2017	July 2, 2018	July 3, 2017
	(Unaudited)			
	(In thousands)			
Net income	\$84,004	\$20,751	\$94,101	\$53,876
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustments, net	(1,701 )	12,019	(1,079 )	18,638
Net unrealized gains (losses) on cash flow hedges:				
Unrealized (loss) gain on effective cash flow hedges during				
the period, net	(1,739 )	96	(1,745 )	164
Loss realized in the statement of operations	342	43	383	87
Net	(1,397 )	139	(1,362 )	251
Other comprehensive (loss) gain, net of tax	(3,098 )	12,158	(2,441 )	18,889
Comprehensive income, net of tax	80,906	32,909	91,660	72,765
Less: Comprehensive income attributable to the noncontrolling				
interest	—	(160 )	—	(326 )
Comprehensive income attributable to TTM Technologies, Inc.				
stockholders	\$80,906	\$32,749	\$91,660	\$72,439

See accompanying notes to consolidated condensed financial statements.

## TTM TECHNOLOGIES, INC.

## Consolidated Condensed Statements of Cash Flows

For the Two Quarters Ended July 2, 2018 and July 3, 2017

	Two Quarters ended July 2,      July 3, 2018      2017 (Unaudited) (In thousands)	
Cash flows from operating activities:		
Net income	\$94,101	\$53,876
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	80,073	72,223
Amortization of definite-lived intangible assets	25,350	11,822
Amortization of debt discount and issuance costs	6,358	5,304
Deferred income taxes	(64,769 )	95
Stock-based compensation	9,489	8,628
Other	56	3,476
Changes in operating assets and liabilities, net of acquisition:		
Accounts receivable, net	(17,056 )	(20,039 )
Contract assets	(16,478 )	—
Inventories	5,685	(13,273 )
Prepaid expenses and other current assets	356	(3,529 )
Accounts payable	(33,778 )	10,509
Contract liabilities	(98 )	—
Accrued salaries, wages and benefits and other accrued expenses	(47,911 )	(20,394 )
Net cash provided by operating activities	41,378	108,698
Cash flows from investing activities:		
Acquisition, net of cash acquired	(596,396 )	—
Purchase of property, plant and equipment and equipment deposits	(81,338 )	(87,106 )
Proceeds from sale of property, plant and equipment and assets held for sale	251	18,102
Net cash used in investing activities	(677,483 )	(69,004 )
Cash flows from financing activities:		
Proceeds from incremental long-term borrowings	600,000	—
Repayment of long-term debt borrowing	(3,718 )	(50,000 )
Repayment of assumed long-term debt in acquisition	(178,604 )	—
Proceeds from borrowings of revolving loan	23,000	—
Payment of debt issuance costs	(7,653 )	—
Payment of original issue discount	(1,500 )	—
Proceeds from exercise of stock options	192	74
Redemption of convertible notes	—	(15 )
Net cash provided by (used in) financing activities	431,717	(49,941 )
Effect of foreign currency exchange rates on cash and cash equivalents	(838 )	917
Net decrease in cash and cash equivalents	(205,226 )	(9,330 )
Cash and cash equivalents at beginning of period	409,326	256,277

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Cash and cash equivalents at end of period	\$204,100	\$246,947
Noncash transactions:		
Property, plant and equipment recorded in accounts payable	\$54,369	\$69,373

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 and electro-mechanical solutions (E-M Solutions) as well as a global designer and manufacturer of high-frequency radio frequency (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 two quarters ended July 3, 2017.

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

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:

	Balance at January 1, 2018 (In thousands)	New Revenue Standard Adjustment	Balance at January 2, 2018
<b>Balance Sheet</b>			
<b>Assets</b>			
Accounts receivable, net	\$483,903	\$ 8,171	\$492,074
Contract assets	—	260,654	260,654
Inventories	294,588	(223,576 )	71,012
<b>Liabilities</b>			
Other accrued expenses	114,685	13,384	128,069
Other long-term liabilities	74,667	3,291	77,958
<b>Equity</b>			
Retained earnings	193,342	28,574	221,916

As part of adoption of the new revenue standard, the Company recorded an estimated sales returns and allowance as well as a noncurrent deferred tax liability in the amount of \$5,213 and \$3,291, respectively, as of January 2, 2018. Additionally, the Company reclassified its sales returns and allowance balance of \$8,171 as of January 1, 2018, from trade accounts receivable to other accrued liabilities. Sales returns and allowances are recorded as a reduction of revenue and a component of accrued liabilities on the condensed consolidated balance sheet.

Additionally, the disclosure below summarizes the impact of the adoption of the new revenue standard on the Company's consolidated condensed balance sheet as of July 2, 2018, statement of operations for the quarter and two quarters ended July 2, 2018 and statement of cash flows for the two quarters ended July 2, 2018 for which the As Reported reflects the new revenue standard and Balances without New Revenue Standard Adjustment reflects the Company's replaced revenue recognition policy of "point in time" and upon physical delivery, for certain revenue streams, as appropriate.

July 2, 2018		
As reported	Effect of Change Increase	Balances without New Revenue

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(Decrease) Standard  
Adjustment

(In thousands)

<b>Balance Sheet</b>			
<b>Assets</b>			
Accounts receivable, net	\$ 541,587	\$ 8,171	\$ 533,416
Contract assets	300,717	293,114	7,603
Inventories	121,285	(245,895 )	367,180
<b>Liabilities</b>			
Other accrued expenses	104,139	14,033	90,106
Other long-term liabilities	92,938	3,163	89,775
<b>Equity</b>			
Retained earnings	315,975	38,194	277,781

	Quarter ended July 2, 2018			Two Quarters ended July 2, 2018		
	As reported	Effect of Change Increase (Decrease)	Balances without New Revenue Standard Adjustment	As reported	Effect of Change Increase	Balances without New Revenue Standard Adjustment
	(In thousands)			(In thousands)		
Net sales	\$ 716,887	\$ 17,730	\$ 699,157	\$ 1,380,469	\$ 31,811	\$ 1,348,658
Cost of goods sold	600,747	(10,338 )	611,085	1,175,651	22,319	1,153,332
Gross profit	116,140	7,392	108,748	204,818	9,492	195,326
Net income	84,004	7,392	76,612	94,101	9,620	84,481

## TTM TECHNOLOGIES, INC.

## Notes to Consolidated Condensed Financial Statements—(Continued)

Included in the Effect of Change Increase (Decrease) columns for the quarter and two quarters ended July 2, 2018 are \$14,408, \$11,375 and \$3,033 of net sales, cost of goods sold and gross profit, respectively, related to the opening balance sheet of Anaren Inc. which was acquired on April 18, 2018 (See Note 3), and not to the activity during the quarter.

	Two Quarters ended July 2, 2018		
	Effect of	Balances	
	Change	without	
	Increase	New	
As		Revenue	
reported	(Decrease)	Standard	
(In thousands)		Adjustment	
Cash flows from operating activities:			
Net income	\$94,101	\$ 9,620	\$ 84,481
Adjustments to reconcile net income to net cash			