

ATC TECHNOLOGY CORPORATION

Moderator: Mary Ryan
April 28, 2010
9:00 am CT

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the ATC Technology Corporation First Quarter 2010 Earnings conference call and Webcast. Today's call is being recorded.

Currently, all lines are in a listen-only mode. If you should need assistance during the call today, please press star 0 and an operator will assist you.

At this time, I'd like to turn the conference to your host for today's agenda, Mary Ryan. Please go ahead.

Mary Ryan: Good morning everyone. Thank you for joining us. With me today are Todd Peters, our President and CEO and John Pinkerton, our CFO. Please turn to slide 2.

Our agenda for today includes a brief overview of the company's first quarter results as well as a report on each segment's performance and new business opportunities presented by Todd.

The financial review will be presented by John. Todd will then present our 2010 outlook. At the end of Todd's comments, we will open the floor for questions to a pre-approved list of analysts, money managers and institutional holders.

Please turn to slide 3. Before we go to the substance of the call today, I would like to point out that many of our comments are considered to be forward-looking statements under the federal securities laws.

These forward-looking statements generally include all statements other than statement of historical fact including statements that are predictive, that depend upon or refer to future events or conditions, or that concern future financial performance or position including future revenues, expenses, earnings, growth rates or margins.

You are reminded the forward-looking statements are subject to numerous risks and uncertainties that could cause future results to differ materially from those stated or implied by our comments today. Those risks and uncertainties are fully described in our 2009 annual report on Form 10-K and our other SEC filings. Please turn to slide 4.

For those of you who are unfamiliar with the ATC story, this slide presents a brief description of each of our businesses. Please turn to slide 5.

At this time, I would like to turn the call over to our President and CEO, Todd Peters.

Todd Peters: Thank you, Mary. Good morning. I'd like to thank all of you who have joined us on the call today. My comments will cover the following four topics.

First, I will provide a brief overview of the company's first quarter results; second I will highlight the factors that impacted each of our business segments; third I will provide a summary of our new business opportunity in each segment; and fourth after John presents the financial detail related to our performance, I will offer summary comments and reaffirm our 2010 guidance.

Please turn to slide 6 for the company's first quarter performance. As I reflect on the first quarter, I am pleased with our results as we accomplished much strategically in both our operating segments.

First and foremost we extended our contract covering all services currently provided to AT&T through 2013. AT&T has been a valued customer since 1996 and throughout the years, we have been privileged to serve them in both our wireless and more recently wire-line businesses.

The extension of our relationship with AT&T was made possible by consistently delivering the highest levels of service and quality. I could not be prouder of the performance of our people who worked to deliver services to AT&T.

We look forward to continuing to support AT&T's market-leading innovations. Additionally, we won \$24 million in new logistics business, added a new wireless customer and are pursuing combined pipeline opportunities of \$126 million.

Now let's look at the high-level results of the quarter. Net sales were down 7.9% to \$104.5 million compared to \$113.5 million for last year's first quarter. The most significant contributing factor to the reduction in revenues was the anticipated impact of the wind-up of the transmission remanufacturing program with Honda.

And although we experienced unanticipated declines in return volumes with AT&T, we maintained our focus and managed our cost structure to minimize the impact.

Earnings per diluted share for the quarter were 35 cents as compared to 36 cents per diluted share for the first quarter of 2009 and 47 cents per diluted share on an adjusted basis.

We entered the quarter with approximately \$87 million in cash and no debt. Now let's review performance for the logistics business so please turn to slide 7. Our logistics segment revenue was \$75.1 million, down 2.8% compared to last year's first quarter.

There are three principal drivers for our first quarter performance. First we experienced a decrease in revenue with AT&T primarily attributable to a decline in returns volume.

We believe the lower returns are being driven by improved return rates for smart phones driven by better customer acceptance, improved quality and longer customer retention periods. Furthermore, the iPhone impacts are reverse revenues as we have fewer service opportunities as compared to other devices.

Second the impact of price concessions with certain customers primarily AT&T associated with contract renewal and third the first two items I just described were partially offset by the ramp-up and expansion of new programs led by the expansion of business with a leading wireless device manufacturer who we expect to become a 10% customer for 2010.

We achieved a 14.2% margin for the segment which was within our expectations and puts us on track to achieve our full-year expectation. During the quarter we won \$24 million in new business and these wins include a new wireless customers and new programs with existing customers.

Now let's take a closer look at the drivetrain segment so please turn to slide 8. First quarter revenue came in as expected, down 18.8% from the first quarter last year led by the reduction in revenues of Honda.

For the quarter, we achieved break-even segment profit, down from last year's adjusted segment profit of \$1.3 million due to the loss of the Honda transmission remanufacturing program and launch costs associated with a new engine remanufacturing program.

These impacts were partially offset by cost savings attributable to our restructuring of business last year that resulted in a 30% reduction in our workforce and a 40% reduction in our facilities footprint.

While much work remains to be done, we are making progress on the launch of the new U.S.-based engine remanufacturing program. In the fourth quarter of 2009, we experienced a \$1.5 million segment loss.

During the current quarter, we achieved break-even profitability. This result is encouraging and supports our expectation for the drivetrain business to act as a second quarter on a run rate of modest profitability.

Going forward our goal remains unchanged and that is to deliver low single-digit margins with a strong focus on cash flow generation. Now to our new business pipelines for both segments, please turn to slide 9.

Our new business pipelines will represent a snapshot of qualified opportunities with both existing and new customers. Not surprisingly, these pipelines fluctuate as customer award, modify or withdraw opportunities for any number of reasons.

This couldn't have been truer for the activity that we saw during the first quarter. As you can see from the left-hand side of the slide for the logistics business, we currently have a pipeline of \$72 million of annual revenue opportunities across 15 customers.

We won \$24 million of new logistics business in the first quarter. These wins include new programs with existing customers as well as a significant win with a new wireless customer.

This win is significant as it was won from an incumbent. I believe that this is another affirmation of our demonstrated capability in the wireless space. The second quarter will be busy as we will finish launching the business we won in Q4 2009 and the 2010 wins announced today.

We started the year with a pipeline of \$197 million. In February we said that there were eight opportunities that would be decided upon in six months. Thus far, three opportunities went our way. Three opportunities were lost or withdrawn and we are very bullish about the remaining two.

Unfortunately, one of the opportunities we did not win included a significant opportunity with a wireless carrier values at more than \$100 million. I am disappointed to report that we were unable to win this opportunity; however, it is worth noting that this is only the second time in our history that we've had such an opportunity in terms of its size.

Despite the contraction of the current pipeline, our recent wins, the addition of new customers, the extension of our long-term relationship, our continued focus on service and quality, and the current positive environment give me the confidence to say that I believe we will continue to develop and land new opportunities.

Look at the right-hand side of the slide for drivetrain. We currently have \$56 million in new business opportunities across 10 customers. During the quarter we landed a new program with an existing customer worth a million dollars per year.

At this time, I'd like to turn the call over to John and he will present financial details for the first quarter. Please turn to slide 10.

John Pinkerton: Thank you, Todd. Today I will share with you our results of operations for the first quarter of 2010 including our cash flow and net debt highlights. Please turn to slide 11.

As Todd mentioned, net sales decreased 7.9%. There are three primary factors contributing to this decline. First is the impact of Honda's decision to in-source production of remanufactured transmissions. Honda revenues decreased \$8.9 million or 78% as we shipped the remainder of finished goods related to this program during the quarter.

The second contributing factor was lower sales to AT&T as improved quality and increased consumer acceptance of smart phones has reduced the volume of product returns and the third factor relates to scheduled price concessions at our logistics segment granted to certain customers primarily AT&T in connection with contract renewals.

These factors were partially offset by the launch and expansion of new programs in our logistics segment including a test-and-repair program for a leading wireless device manufacturer.

For the first quarter of 2010, operating income of \$10.6 million decreased \$4.1 million from adjusted operating income of \$14.8 million in 2009. The 2009 result excludes \$3.2 million of restructuring charges related to the consolidation of our drivetrain operation in North America.

The decrease reflects the lost contribution from the Honda program, the impact of lower returns volume with AT&T, scheduled price concessions in logistics, and the launch costs associated with new engine programs in drivetrain.

These impacts were partially mitigated by the efficient launch of significant new business in logistics and the realization of cost reductions in both segments.

Correspondingly, income from continuing operations of \$7.1 million or 35 cents per diluted share decreased from \$7.2 million or 36 cents per diluted share in 2009.

Excluding the previously-mentioned 2009 restructuring charges of \$2 million or 10 cents per diluted share, income from continuing operations decreased \$2.1 million or 22.9%. This decrease was driven primarily by the same factors impacting operating income.

Additionally during the quarter, the IRS completed its examination of our 2006 through 2008 tax returns without any significant adjustments. As a result, all uncertain tax positions have been resolved and during the quarter we reported tax benefits of \$.5 million or approximately three cents per diluted share.

Going forward, we expect our effective tax rate to be approximately 37.8%. Please turn to slide 12. As has been our legacy, we continue to generate substantial free cash flow.

Our adjusted cash flow from operations of \$11.7 million increased \$5 million compared to the first quarter of 2009. This solid performance reflects a 22% improvement in our inventory metrics from the same quarter last year.

Additionally during the quarter, we saw a slight increase in accounts receivable due to the timing of shipments within the quarter and we funded a significant scheduled distribution from our non-qualified deferred compensation plan.

Capital spending for the first quarter of 2010 was \$2.5 million primarily in logistics and reflects spending related to new business wins and cost reduction initiatives. This compares to \$1.1 million in 2009.

Financing activities in 2009 represents the \$70 million preemptive draw on our credit facility reflecting last year's uncertainty in the credit markets and which we repaid in the fourth quarter of 2009.

Our liquidity position remains enviable with \$86.9 million of cash on hand, zero debt and \$148 million of borrowing capacity on our credit facility which we intend to renew or replace prior to March of 2011.

We are well-positioned to fund our strategic initiatives. We do not anticipate making any stock repurchases in 2010. At this point, I would like to turn it back over to Todd.

Todd Peters: Okay, thank you, John. Please turn to slide 13. The first quarter was not without its challenges as we managed through the unanticipated decline in the reversal lines with AT&T.

With that said, we achieved a high-water mark in the company's history based on the confluence of key milestones that we achieved and that are critical to our go-forward strategy.

We renewed our contract with our largest customer AT&T. We added a new wireless customer to our roster. We ramped-up and expanded programs with a leading wireless device customer that is expected to be a 10% customer for 2010.

We have \$126 million in combined new business opportunities after winning \$25 million in the quarter and our new business development teams are intensely focused on delivering revenue growth and diversification in both segments.

Our management team remains focused on delivering results and managing costs with savings expected to be in the 15 to \$20 million range for the year and at quarter end, we had \$87 million in cash and no debt, opportunistically positioning us for further growth.

We see the current environment as stable to improving for our customers as compared to 2009. In terms of guidance, our 2010 full-year revenue guidance is 475 to \$500 million. This translates to earnings per diluted share from continuing operation of \$1.75 to \$1.95.

The range from low to high in large measure reflects the timing, size, scale and scope of new business wins, the impact of contract renewals and the contribution from cost reductions.

We expect to generate 24 to \$31 million of pre-cash flow. Our logistics revenue guidance of 355 to \$375 million with segment profit of 55 to \$61 million or margins of approximately 15%.

Our guidance for margins reflects continued success with cost reductions offset by infrastructure and launch costs associated with recent and anticipated new business wins and the anticipated impact of contract renewals.

Our drivetrain revenue guidance is 120 to \$125 million with a segment profit of 2 to \$3 million. As we have previously indicated, we expect to achieve low single-digit profit margins.

Our primary focus for the drivetrain business will be the maximized cash flow generation. We expect to generate over \$10 million on pre-cash flow from the segment in 2010 including the liquidation of \$4 million of working capital related to the wind-up of the Honda transmission program.

So in summary, the five key drivers of our performance in 2010 remain the successful of all new business won in 2010 and late 2009, successfully converting pipeline opportunities into new business wins, realization of savings from costs reduction initiatives and achieving low single-digit margins in drivetrain and factoring-in the anticipated impact of contract renewals.

Strategically looking at the 2010 to 2012 horizon, we expect logistic sales to increase organically greater than 10% per year with margins in the 14 to 15% range.

In looking at our growth opportunities in logistics, we will continue to focus on the consumer electronics market and more specifically we will focus on four key channels: wireless, broadband and cable operators; product OEMs; retailers; and insurance and extended-warranty providers.

While I'm enthusiastic about our organic growth, we continue to analyze acquisition opportunities to augment our logistics business. We are focusing on businesses that have enterprise value of \$150 million or less and more specifically we are focusing on smaller tuck-in or bolt-on acquisitions that are constant traded in products and services that are adjacent to what we currently do.

I'd like to thank you for your time today and Melody, we are now available to answer questions.

Operator: Thank you. Ladies and gentlemen, if you do have a question at this time, please press star 1 on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Once again that is star 1 at this time if you have any questions.

We'll go to Alex Brand with Stephen.

Alex Brand: Hey, good morning, guys.

Todd Peters: Good morning, Alex.

Alex Brand: I just want to first Todd clarify a couple of things you just said there. You were talking about the logistics outlook for Q1 and Q2, 10% growth and you said 13 to 14% margins?

Todd Peters: No, I said for the 2010 to 2012 horizon, we expect logistic sales to increase organically greater than 10% per year with margins in the 14 to 15% range.

Alex Brand: Okay, good, thank you for that, and what about the 15 to \$20 million of costs saved? That is for all of 2010 and would show up in cost of goods sold?

Todd Peters: Well, maybe it would show up at all line items above pre-tax so including A.

Alex Brand: Okay. All right, but that's the just the 2010 figure, right?

Todd Peters: Correct.

Alex Brand: Okay. Now with respect to AT&T and the unexpected volume setback in Q1, has that resolved itself? Help us understand what you're thinking about for that in your guidance for the rest of the year.

Todd Peters: Yeah, when we revised guidance in March, we took into consideration the current trends that we had seen develop over the last five months which was better data than we had when we closed out the year and we think we have all known factors embedded in our guidance based on run rates that we're currently seeing.

Alex Brand: Okay, and with the renewal of your AT&T contract, is there an expectation that there are a number of growth opportunities there and they will continue to grow as a customer?

Todd Peters: Yeah, I think there's two things. We've continued to provide services to AT&T as they've continued to grow and put new innovations in the marketplace.

Our contract that we renewed through 2013 covers all of our existing services. Having said that, there are other opportunities for us to serve AT&T in other areas in their company and we expect to be able to do that in the future.

Alex Brand: Okay, and just one more and I'd get back in queue. I think when you pre-announced a month ago, part of what we talked about then was that you had some scope and timing issues with new business and I don't hear you talking about that as much in this release or on your call today.

Was that really just a small part of it and that's why you're not talking about it now or are those things kind of worked out and so it's not an issue?

Todd Peters: We've put out a press release of what we said. We changed our guidance and we're reaffirming our guidance to there was no change from the prior communication so really we're pleased with the new business wins that we have. We've got those factored into our guidance and we feel pretty good about where we're at right now.

Alex Brand: Okay, fair enough. Thanks for the time, guys.

Operator: Next we'll hear from Craig Kennison with Robert W. Baird.

Craig Kennison: Good morning everybody and congratulations on the AT&T renewal.

Todd Peters: Thank you, Craig.

Craig Kennison: Following-up on AT&T, I know you always can't get too specific with respect to their contract but for investors who are concerned about the iPhone conversion or potential exclusivity loss for AT&T, how should we think about that in the context of the renewal?

Todd Peters: In the context of the renewal it's meaningless because today we - the iPhone and the contract renewal - have nothing to do with each other. The contract renewal is for all the services we provide.

The question on the iPhone and exclusivity is a hard one to answer. Obviously it~~s~~ had an impact to the extent that the iPhone device is different than any other device that goes through the AT&T supply chain in that it~~s~~ also supplied both on a forward and a reverse basis through the Apple channel.

So that does have an impact because it reduces if you will our addressable market so to the extent that if and when and we don~~t~~ know because we~~re~~ privy to the contracts that AT&T would lose their exclusivity, it~~s~~ too speculative to know right now what impact that will have one on AT&T and two on us.

Craig Kennison: Is it possible Todd that although maybe volume at AT&T could slow for AT&T? You actually might pick-up a larger share because the device itself is something where you have a larger stake?

Todd Peters: That theory is out there, that~~s~~ right, that the iPhone is not a bigger part of the growth and that AT&T - well first of all, AT&T is a leader in integrated devices; they offer all the operating system, all the devices - so we would expect AT&T to have a commercial response to any loss of exclusivity.

To the extent that those are devices that we handle, then theoretically we could benefit from that.

Craig Kennison: Okay, Todd, that~~s~~ helpful and then just with respect to your guidance a month ago, you ended-up coming in above that expectation. Did anything change as the books closed or is that just a function of being maybe somewhat conservative?

Todd Peters: Well, I think there~~s~~ two things. I think we heard John~~s~~ comments. We did have a tax benefit that we had thought we were going to get during the year. We didn~~t~~ know we were going

to close that out in Q1 to congratulations to our finance team in getting the IRS again put behind them so the other difference I would just say it was within the range of forecasting when we said 30 cents and if you take the taxes out, then we're at 32.

Craig Kennison: Okay, that's helpful and then on the new team of business developers that you've hired, can you just shed any light on how that initiative is going? Certainly it seems to be the most promising thing?

Todd Peters: Yeah, no, I'm really happy with it. Like we've said, we've got seven new people in business development essentially with the leader, he's been on-board a year. The rest - some of the people - came in really third and fourth quarter and like I said in February, we're seeing opportunities that we haven't seen before.

We're getting closer on opportunities and processes where we've never been in before so I feel pretty good about the fact that we've won business from an incumbent, that we've got another customer that we've had that's going to grow to a 10% customer and that we're getting good commercial traction so I feel good about where we're at as of today.

Craig Kennison: Okay, I'll get back in the queue. Thank you.

Todd Peters: Thank you, sir.

Operator: Our next question comes from Gary Prestopino with Barrington Research.

Gary Prestopino: Good morning, everyone.

Todd Peters: Good morning.

Gary Prestopino: Hey, Todd; I was writing real quickly. Could you just give me those margin metrics on your logistics outlook?

Todd Peters: Yeah, well we said Gary for 2000 - well, I'd give you two shots - first, for 2010, you know, our first quarter we came in at 14.2%.

Gary Prestopino: Right.

Todd Peters: That's for the year, we'd have approximately 15%. And the we said for the outlook and the horizon through 2012, think about 14 to 15%.

Gary Prestopino: Okay. Thank you. Can you talk about in terms of with the revenue decline from AT&T this quarter, you cited two issues: lower returns and price concessions.

Todd Peters: Correct.

Gary Prestopino: Can you kind of give us the split on what the percentage impact was based on those two factors?

Todd Peters: No, because that would get us to talk about pricing in the contract and we respectfully decline to get into that conversation.

Gary Prestopino: Okay, that's fine, and this new customer that you've signed-up, that would be 10% - a goal of 10% - of overall corporate sales?

Todd Peters: The wireless device manufacturer that we launched last year and our expanding programs into 2010, yes, that would be 10% corporate-wide.

Gary Prestopino: Okay, and then...

Todd Peters: That's not to be confused with the fact that we announced this quarter an additional new wireless customer.

Gary Prestopino: Okay.

Todd Peters: Okay?

Gary Prestopino: Got it, and then - I lost my train of thought here - all right. I'd get back in the queue. I had a question and I lost it so okay.

Todd Peters: Thanks, Gary.

Gary Prestopino: Gary.

Operator: Next we'll go to Torin Eastburn with CJS Securities.

Torin Eastburn: Hi, good morning.

Todd Peters: Hey, good morning, Torin.

Torin Eastburn: On the return issue, can you just say if it's getting any better or worse compared to where it was say three months ago?

Todd Peters: I think what we've got in our guidance and if you heard the kind of roll-out that I gave you for the balance of the year, I think the first half looks slower than the second half and I think that's embedded in a lot of the industry data that's out there.

And when you look at the second half versus our first half, what do we have going on? We're launching business Q1. We're launching business Q2 and then getting in Q3/Q4, we should be at full run rates on kind of the new business or ramping-up to those rates.

We have additional seasonal impacts for both businesses; more pronounced in Q3 on the drivetrain side and clearly more pronounced in Q4 on our logistics side, so second half is a definite stronger half than the first.

Torin Eastburn: Well, I guess what I'm asking is underlying that guidance, what is the assumption about the trend for the returns?

Todd Peters: Well, they keep at kind of current levels but there's more business activity.

Torin Eastburn: Okay.

Todd Peters: In the second half.

Torin Eastburn: Okay. Second question is about the pipeline, the contract, the large one that you didn't win in logistics, did that go to a competitor or to an in-house provider?

Todd Peters: Yeah, thanks for that question, Torin. That stayed with an incumbent.

Torin Eastburn: Okay. Third one, the AT&T contract that you've renewed. Are there any material differences in it versus the prior contract?

Todd Peters: Well, other than a price concession, no, there are no other specific legal points that are at issue.

Torin Eastburn: Okay, and my last one, just given the cash you have on the balance sheet, the low multiple your stock is trading at and what sounds like a pretty optimistic view of business opportunities, what are your thoughts on repurchases?

Todd Peters: Well, my first five on the use of our capital is to look at acquisitions because I think the money's better spent there given our current level of size of our business and where we'd like to grow it.

If I'm not able to get an acquisition done within a reasonable period of time and let's say that's within 12 months, then I think we need to look at - because we'd be building cash during that whole time - we'd have to balance the total needs but right now we're looking at it opportunistically.

Torin Eastburn: Okay, thanks, Todd.

Operator: As a reminder, ladies and gentlemen, if you have a question, please press star 1 at this time. We'd go to Bill Dezelle with Tieton Capital Management.

Bill Dezelle: Thank you. Actually my question was partially answered but I'd like to dive in just a little bit more on that large prospect, the \$100 million that you were not able to it sounds like pull away from the incumbent.

What is your sense as to what caused the prospective customer to number 1, look outside of the incumbent and then number 2, decide to stay with the incumbent? I guess that's a roundabout way of asking why not choosing ATC?

Todd Peters: Yeah, I think the incumbents a solid competitor and I think overall the customer balanced the risk of moving versus the price and I don't think that we were the lowest price.

Bill Dezellem: Thank you.

Operator: And with no further questions in the queue, I'll turn the conference back over to Todd Peters for any additional or closing remarks.

Todd Peters: Again, I appreciate all of you joining us this morning and we thank you for your continued interest in ATC. Thanks.

Operator: Ladies and gentlemen, that does conclude today's conference. We thank you for your participation.

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