

SIGMATRON INTERNATIONAL INC
Form 10-K
July 24, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the fiscal year ended April 30, 2018.

Or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from _____ to _____.

Commission file number 0-23248

SIGMATRON INTERNATIONAL, INC.

(Exact name of registrant as specified in its charter)

Delaware 36-3918470
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification Number)

2201 Landmeier Rd., Elk Grove Village, IL 60007
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 847-956-8000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	ASDAQ Capital Market Name of each exchange on which registered
Common Stock \$0.01 par value per share	The NASDAQ Capital Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 registrant is a shell company (as defined in Rule 12b-2 of the Act.) Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of October 31, 2017 (the last business day of the registrant’s most recently completed second fiscal quarter) was \$35,764,422 based on the closing sale price of \$9.61 per share as reported by Nasdaq Capital Market as of such date.

The number of outstanding shares of the registrant’s Common Stock, \$0.01 par value, as of July 20, 2018 was 4,230,008.

DOCUMENTS INCORPORATED BY REFERENCE

Certain sections or portions of the definitive proxy statement of SigmaTron International, Inc., for use in connection with its 2018 annual meeting of stockholders, which the Company intends to file within 120 days of the fiscal year ended April 30, 2018, are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

CAUTIONARY NOTE:

In addition to historical financial information, this discussion of the business of SigmaTron International, Inc. (“SigmaTron”), its wholly-owned subsidiaries Standard Components de Mexico S.A., AbleMex, S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd. (collectively, “SigmaTron China”) and international procurement office SigmaTron Taiwan branch (collectively, the “Company”) and other Items in this Annual Report on Form 10-K contain forward-looking statements concerning the Company’s business or results of operations. Words such as “continue,” “anticipate,” “will,” “expect,” “believe,” “plan,” and similar expressions identify forward-looking statements. These forward-looking statements are based on the current expectations of the Company. Because these forward-looking statements involve risks and uncertainties, the Company’s plans, actions and actual results could differ materially. Such statements should be evaluated in the context of the risks and uncertainties inherent in the Company’s business including, but not necessarily limited to, the Company’s continued dependence on certain significant customers; the continued market acceptance of products and services offered by the Company and its customers; pricing pressures from the Company’s customers, suppliers and the market; the activities of competitors, some of which may have greater financial or other resources than the Company; the variability of our operating results; the results of long-lived assets and goodwill impairment testing; the variability of our customers’ requirements; the availability and cost of necessary components and materials; the ability of the Company and our customers to keep current with technological changes within our industries; regulatory compliance, including conflict minerals; the continued availability and sufficiency of our credit arrangements; changes in U.S., Mexican, Chinese, Vietnamese or Taiwanese regulations affecting the Company’s business; the turmoil in the global economy and financial markets; the stability of the U.S., Mexican, Chinese, Vietnamese and Taiwanese economic, labor and political systems and conditions; currency exchange fluctuations; and the ability of the Company to manage its growth. These and other factors which may affect the Company’s future business and results of operations are identified throughout the Company’s Annual Report on Form 10-K, and as risk factors, may be detailed from time to time in the Company’s filings with the Securities and Exchange Commission. These statements speak as of the date of such filings, and the Company undertakes no obligation to update such statements in light of future events or otherwise unless otherwise required by law.

Overview

SigmaTron is a Delaware corporation, which was organized on November 16, 1993, and commenced operations when it became the successor to all of the assets and liabilities of SigmaTron L.P., an Illinois limited partnership, through a reorganization on February 8, 1994.

The Company operates in one business segment as an independent provider of electronic manufacturing services (“EMS”), which includes printed circuit board assemblies and completely assembled (box-build) electronic products. In connection with the production of assembled products, the Company also provides services to its customers, including (1) automatic and manual assembly and testing of products; (2) material sourcing and procurement; (3) manufacturing and test engineering support; (4) design services; (5) warehousing and distribution services; and (6) assistance in obtaining product approval from governmental and other regulatory bodies. The Company provides these manufacturing services through an international network of facilities located in the United States, Mexico, China, Vietnam and Taiwan.

The Company provides manufacturing and assembly services ranging from the assembly of individual components to the assembly and testing of box-build electronic products. The Company has the ability to produce assemblies requiring mechanical as well as electronic capabilities. The products assembled by the

Company are then incorporated into finished products sold in various industries, particularly industrial electronics, consumer electronics and medical/life sciences. In some instances the Company manufactures the completed finished product for its customers.

The Company operates manufacturing facilities in Elk Grove Village, Illinois United States of America (“U.S.”); Union City, California U.S.; Acuna, Chihuahua and Tijuana, Mexico; Suzhou, China; and Ho Chi Minh City, Vietnam. In addition, the Company maintains an International Procurement Office (IPO) in Taipei, Taiwan. The Company also provides design services in Elgin, Illinois. The Company has an information technology office in Taichung, Taiwan.

The Company’s international footprint provides our customers with flexibility within the Company to manufacture in China, Mexico, Vietnam or the U.S. We believe this strategy will continue to serve the Company well as its customers continuously evaluate their supply chain strategies.

Products and Services

The Company provides a broad range of electronic and electromechanical manufacturing related outsourcing solutions for its customers. These solutions incorporate the Company’s knowledge and expertise in the EMS industry to provide its customers with an international network of manufacturing facilities, advanced manufacturing technologies, complete supply chain management, responsive and flexible customer service, as well as product design, test and engineering support. The Company’s EMS solutions are available from inception of product concept through the ultimate delivery of a finished product. Such technologies and services include the following:

Manufacturing and Testing Services: The Company’s core business is the assembly and testing of all types of electronic printed circuit board assemblies (“PCBA”) and often incorporating these PCBAs into electronic modules used in all types of devices and products that depend on electronics for their operation. This assembly work utilizes state of the art manufacturing and test equipment to deliver highly reliable products to the Company’s customers. The Company supports new product introduction (“NPI”), low volume / high mix as well as high volume/ low mix assembly work at all levels of complexity. Assembly services include pin-through-hole (“PTH”) components, surface mount (“SMT”) components, including ball grid array (“BGA”), part-on-part components, conformal coating, parylene coating and others. Test services include and are not limited to, in-circuit, automated optical inspection (“AOI”), functional, burn-in, hi-pot and boundary scan. From simple component assembly through the most complicated industry testing, the Company offers most of the services required to build electronic devices commercially available in the market today.

Design Services: To compliment the manufacturing services it offers its customers, the Company also offers DFM, design for manufacturing and DFT, design for test review services to help customers ensure that the products they have designed are optimized for production and testing. The Company also offers complete product design services.

Supply Chain Management: The Company provides complete supply chain management for the procurement of components needed to build customers' products. This includes the procurement and management of all types of electronic components and related mechanical parts such as plastics and metals. The Company's resources supporting this activity are provided both on a plant specific basis as well as globally through its IPO in Taipei, Taiwan. Each of its sites is linked together using the same Enterprise Resource Planning ("ERP") system and custom IScore software tools with real-time on-line visibility for customer access. The Company procures material from major manufacturers and distributors of electronic parts all over the world.

The Company relies on numerous third-party suppliers for components used in the Company's production process. Certain of these components are available only from single-sources or a limited number of suppliers. In addition, a customer's specifications may require the Company to obtain components from a single-source or a small number of suppliers. In the past twelve months the component marketplace has experienced shortages of various components, which in some cases has delayed delivery of product to customers. The loss of any such suppliers could have a material impact on the Company's results of operations. Further, the Company could operate at a cost disadvantage compared to competitors who have greater direct

buying power from suppliers. The Company does not enter into long-term purchase agreements with major or single-source suppliers. The Company believes that short-term purchase orders with its suppliers provides flexibility, given that the Company's orders are based on the changing needs of its customers.

Warehousing and Distribution: The Company provides both in-house and third party warehousing, shipping, and customs brokerage for border crossings as part of its service offering. This includes international shipping, drop shipments to the end customer, as well as, support of inventory optimization activities such as kanban and consignment.

Green, Sustainability, and Social Responsible Initiatives: The Company supports initiatives that promote sustainability, green environment and social responsibility. The Company requires its supply chain to meet all government imposed requirements in these areas and helps its customers in achieving effective compliance. Those include, but are not limited to, Restrictions of Hazardous Substances ("RoHS"), Restriction of Chemicals ("REACH") and Conflict Minerals regulations.

Manufacturing Location and Certifications: The Company's manufacturing and warehousing locations are strategically located to support our customers with locations in Elk Grove Village, Illinois U.S.; Union City, California U.S.; Acuna, Chihuahua and Tijuana, Mexico; Suzhou, China and Ho Chi Minh City, Vietnam. The Company's ability to transition manufacturing to lower cost regions without jeopardizing flexibility and service, differentiates it from many competitors. Manufacturing certifications and registrations are location specific, and include ISO 9001:2008, ISO 9001:2015, ISO 14001:2004, ISO 14001:2015, ISOTS 16949, Medical ISO 13485:2003, Aerospace AS9100D and International Traffic in Arms Regulations ("ITAR") certifications.

Markets and Customers

The Company's customers are in the industrial electronics, consumer electronics and medical/life sciences industries. As of April 30, 2018, the Company had approximately 165 active customers ranging from Fortune 500 companies to small, privately held enterprises.

The following table shows, for the periods indicated, the percentage of net sales to the principal end-user markets it serves.

Percent of Net Sales

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Markets	Typical OEM Application	Fiscal 2018 %	Fiscal 2017 %
Industrial Electronics	Health club equipment, gaming, controls, smart grid, IOT connectivity	54.8	48.4
Consumer Electronics	Appliances/white goods, automotive-vision systems, E-writers	40.4	47.0
Medical/Life Sciences	Operating tables, battery packs, dental equipment, sterilizers	4.8	4.6
Total		100%	100%

Reclassifications have been made to the above schedule for fiscal years 2018 and 2017. For the fiscal year ended April 30, 2018, the Company's largest two customers, Electrolux and Whirlpool Inc., accounted for 20.2% and 13.3%, respectively, of the Company's net sales. For the fiscal year ended April 30, 2017, Electrolux and Whirlpool Inc., accounted for 26.7% and 12.6%, respectively, of the Company's net sales. The Company believes that Electrolux and Whirlpool will continue to account for a significant percentage of the Company's net sales, although the percentage of net sales may vary from period to period.

Sales and Marketing

Many of the members of the Company's senior management are actively involved in sales and marketing efforts, and the Company has 4 direct sales employees. The Company markets its services through 8 independent manufacturers' representative organizations that together currently employ 19 sales personnel in the United States and Canada. Independent manufacturers' representative organizations receive variable commissions based on orders received by the Company and are assigned specific accounts, not territories. In addition, the Company markets itself through its website and tradeshow.

Mexico, Vietnam and China Operations

The Company's wholly-owned subsidiary, Standard Components de Mexico, S.A, a Mexican corporation, is located in Acuna, Coahuila Mexico, a border town across the Rio Grande River from Del Rio, Texas, and is 155 miles west of San Antonio. Standard Components de Mexico, S.A. was incorporated and commenced operation in 1968 and had 819 employees at April 30, 2018. The Company's wholly-owned subsidiary, AbleMex S.A. de C.V., a Mexican corporation, is located in Tijuana, Baja California Mexico, a border town south of San Diego, California. AbleMex S.A. de C.V. was incorporated and commenced operations in 2000. The operation had 336 employees at April 30, 2018. The Company's wholly-owned subsidiary, Digital Appliance Controls de Mexico S.A., a Mexican corporation, operates in Chihuahua, Mexico, located approximately 235 miles from El Paso, Texas. Digital Appliance Controls de Mexico S.A. was incorporated and commenced operations in 1997. The operation had 515 employees at April 30, 2018. The Company believes that one of the key benefits to having operations in Mexico is its access to cost-effective labor resources while having geographic proximity to the United States.

The Company's wholly-owned foreign enterprises, Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd., are located in Suzhou, China. The Company has entered into an agreement with governmental authorities in the economic development zone of Wujiang, Jiangsu Province, Peoples Republic of China, pursuant to which the Company became the lessee of a parcel of land of approximately 100 Chinese acres. The term of the land lease is 50 years. The Company built a manufacturing plant, office space and dormitories on this site during 2004. In fiscal 2015, the China facility expanded and added 40,000 square feet in warehouse and manufacturing. The total square footage of the facility is 202,000 and has 519 employees as of April 30, 2018. Both SigmaTron China entities operate at this site.

The Company's wholly-owned subsidiary, Spitfire Controls (Vietnam) Co. Ltd. is located in Amata Industrial Park, Bien Hoa City, Dong Nai Province, Vietnam, and is 18 miles east of Ho Chi Minh City. Spitfire Controls (Vietnam) Co. Ltd. was incorporated and commenced operation in 2005 and had 284 employees as of April 30, 2018.

The Company provides funds for salaries, wages, overhead and capital expenditure items as necessary to operate its wholly-owned Mexican, Vietnamese and Chinese subsidiaries and the Taiwan IPO. The Company provides funding in U.S. Dollars, which are exchanged for Pesos, Dong, Renminbi, and New Taiwan dollars. The fluctuation of currencies from time to time, without an equal or greater increase in inflation, could have a material impact on the financial results of the Company. The impact of currency fluctuations for the fiscal year ended April 30, 2018 resulted in net foreign currency transaction gains of approximately \$125,000 compared to net foreign currency losses of \$508,000 in the prior year. In fiscal year 2018, the Company paid approximately \$49,170,000 to its foreign subsidiaries.

The consolidated financial statements as of April 30, 2018 include the accounts and transactions of SigmaTron, its wholly-owned subsidiaries, Standard Components de Mexico, S.A., AbleMex S.A. de C.V., Digital Appliance Controls de Mexico, S.A. de C.V., Spitfire Controls (Vietnam) Co. Ltd., Spitfire Controls (Cayman) Co. Ltd., wholly-owned foreign enterprises Wujiang SigmaTron Electronics Co., Ltd. and SigmaTron Electronic Technology Co., Ltd., and international procurement office, SigmaTron Taiwan Branch. The functional currency of the Company's foreign subsidiaries operations is the U.S. Dollar. Intercompany transactions are eliminated in the consolidated financial statements.

Competition

The EMS industry is highly competitive and subject to rapid change. Furthermore, both large and small companies compete in the industry, and many have significantly greater financial resources, more extensive business experience and greater marketing and production capabilities than the Company. The significant competitive factors in this industry include price, quality, service, timeliness, reliability, the ability to source raw components, and manufacturing and technological capabilities. The Company believes it can compete on all of these factors.

Consolidation

As a result of consolidation and other transactions involving competitors and other companies in the Company's markets, the Company occasionally reviews potential transactions relating to its business, products and technologies. Such transactions could include mergers, acquisitions, strategic alliances, joint ventures, licensing agreements, co-promotion agreements, financing arrangements or other types of transactions. In the future, the Company may choose to enter into these types of or other transactions at any time depending on available sources of financing, and such transactions could have a material impact on the Company's business, financial condition or operations.

Governmental Regulations

The Company's operations are subject to certain foreign government, U.S. federal, state and local regulatory requirements relating to, among others, environmental, waste management, labor and health and safety matters. Management believes that the Company's business is operated in compliance with all such regulations, which include European regulations known as RoHS and REACH. RoHS prohibits the use of lead, mercury and certain other specified substances in products being sold into the European Union. The Company has RoHS-dedicated manufacturing capabilities at all of its manufacturing operations. REACH imposes information reporting requirements on all listed SVHCs (substances of very high concern). From time-to-time the Company's customers request REACH required information and certifications on the assemblies the Company manufactures for them. These requests require the Company to gather information from component suppliers to verify the presence and level of mass of any SVHCs greater than 0.1% in the assemblies the Company manufactures based on customer specifications. If any SVHCs are present at more than 0.1% of the mass of the item, the specific concentration and mass of the SVHC must be reported to proper authorities by the Company's customer.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") introduced reporting requirements for verification of whether the Company directly (or indirectly through suppliers of

components) is purchasing the minerals or metals gold, columbite-tantalite, cassiterite, wolframite and their derivatives (tin, tungsten, and tantalum), that are being provided by sources in the conflict region of the Democratic Republic of Congo (“DRC”). On May 23, 2018, the Company filed Form SD with the Securities and Exchange Commission stating the Company’s supply chain remains DRC conflict undeterminable.

The Company’s costs of compliance with environmental