

Fabrinet
Form 10-Q
November 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 28, 2018**

OR

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number: 001-34775**

FABRINET
(Exact name of registrant as specified in its charter)

Cayman Islands
(State or other jurisdiction of
incorporation or organization)

Not Applicable
(I.R.S. Employer
Identification No.)

c/o Intertrust Corporate Services (Cayman) Limited

190 Elgin Avenue

George Town

Grand Cayman

Cayman Islands
(Address of principal executive offices)

KY1-9005
(Zip Code)

+66 2-524-9600

(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 (the Exchange Act) 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 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

As of October 31, 2018, the registrant had 36,832,996 ordinary shares, \$0.01 par value, outstanding.

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QUARTER ENDED SEPTEMBER 28, 2018

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Table of Contents**PART I: FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FABRINET****UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS***(in thousands of U.S. dollars, except share data)*

	September 28, 2018	June 29, 2018 (audited)
Assets		
Current assets		
Cash and cash equivalents	\$ 219,976	\$ 158,102
Restricted cash in connection with business acquisition		3,331
Marketable securities	132,383	174,269
Trade accounts receivable, net	258,705	246,912
Contract assets	10,157	
Inventory, net	278,397	257,687
Prepaid expenses	10,978	8,061
Other current assets	6,512	5,948
Total current assets	917,108	854,310
Non-current assets		
Property, plant and equipment, net	216,849	219,640
Intangibles, net	4,590	4,880
Goodwill	3,822	3,828
Deferred tax assets	5,378	5,280
Other non-current assets	57	80
Total non-current assets	230,696	233,708
Total Assets	\$ 1,147,804	\$ 1,088,018
Liabilities and Shareholders Equity		
Current liabilities		
Bank borrowings	\$ 3,250	\$ 3,250
Trade accounts payable	249,080	220,159
Capital lease liability, current portion	434	451
Income tax payable	2,389	709
Deferred liability in connection with business acquisition		3,331
Accrued payroll, bonus and related expenses	19,484	13,476
Accrued expenses	10,277	9,013
Other payables	20,862	19,728
Total current liabilities	305,776	270,117

Non-current liabilities		
Long-term loan from bank	60,125	60,938
Deferred tax liability	2,387	2,284
Capital lease liability, non-current portion	414	516
Severance liabilities	10,835	10,162
Other non-current liabilities	2,110	3,062
Total non-current liabilities	75,871	76,962
Total Liabilities	381,647	347,079
Commitments and contingencies (Note 16)		
Shareholders' equity Preferred shares (5,000,000 shares authorized, \$0.01 par value; no shares issued and outstanding as of September 28, 2018 and June 29, 2018)		
Ordinary shares (500,000,000 shares authorized, \$0.01 par value; 38,118,609 shares and 37,723,733 shares issued; and 36,829,506 shares and 36,434,630 share outstanding as of September 28, 2018 and June 29, 2018, respectively)	381	377
Additional paid-in capital	147,869	151,797
Less: Treasury shares (1,289,103 shares and 1,289,103 shares as of September 28, 2018 and June 29, 2018, respectively)	(42,401)	(42,401)
Accumulated other comprehensive loss	(1,170)	(1,257)
Retained earnings	661,478	632,423
Total Shareholders' Equity	766,157	740,939
Total Liabilities and Shareholders' Equity	\$ 1,147,804	\$ 1,088,018

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**FABRINET****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND
COMPREHENSIVE INCOME**

<i>(in thousands of U.S. dollars, except per share amounts)</i>	Three Months Ended	
	September 28, 2018	September 29, 2017
Revenues	\$ 377,177	\$ 357,313
Cost of revenues	(336,901)	(316,981)
Gross profit	40,276	40,332
Selling, general and administrative expenses	(14,437)	(15,678)
Expenses related to reduction in workforce	(85)	
Operating income	25,754	24,654
Interest income	1,444	809
Interest expense	(634)	(853)
Foreign exchange gain (loss), net	3,068	(1,934)
Other income	77	97
Income before income taxes	29,709	22,773
Income tax expense	(1,859)	(1,740)
Net income	27,850	21,033
Other comprehensive (loss) income, net of tax:		
Change in net unrealized gain on marketable securities	288	29
Change in net unrealized loss on derivative instruments	(1)	(1)
Change in foreign currency translation adjustment	(200)	526
Total other comprehensive (loss) income, net of tax	87	554
Net comprehensive income	\$ 27,937	\$ 21,587
Earnings per share		
Basic	\$ 0.76	\$ 0.56
Diluted	\$ 0.75	\$ 0.55
Weighted-average number of ordinary shares outstanding (thousands of shares)		
Basic	36,625	37,447
Diluted	37,140	38,163

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**FABRINET****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

<i>(in thousands of U.S. dollars)</i>	Three Months Ended	
	September 28, 2018	September 29, 2017
Cash flows from operating activities		
Net income for the period	\$ 27,850	\$ 21,033
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	7,412	7,419
Loss (Gain) on disposal of property, plant and equipment	46	(131)
Loss on intangibles assets written-off	149	
Loss from sales and maturities of available-for-sale securities	178	353
Amortization of investment (premium) discount	(94)	(216)
Amortization of deferred debt issuance costs		150
(Reversal of) allowance for doubtful accounts		(1)
Unrealized (gain) loss on exchange rate and fair value of derivative instruments	(4,232)	2,026
Share-based compensation	4,980	6,920
Deferred income tax	3	(307)
Other non-cash expenses	590	629
Reversal of inventory obsolescence	(478)	(292)
Changes in operating assets and liabilities		
Trade accounts receivable	(10,887)	(11,122)
Contract assets	(280)	
Inventory	(28,904)	(16,032)
Other current assets and non-current assets	(1,029)	(7,263)
Trade accounts payable	29,182	(11,323)
Income tax payable	1,680	493
Other current liabilities and non-current liabilities	8,427	4,610
Net cash provided by (used in) operating activities	34,593	(3,054)
Cash flows from investing activities		
Purchase of marketable securities	(1,955)	(26,969)
Proceeds from sales of marketable securities	24,181	11,730
Proceeds from maturities of marketable securities	19,863	14,947
Purchase of property, plant and equipment	(5,410)	(11,203)
Purchase of intangibles	(78)	(702)
Proceeds from disposal of property, plant and equipment		142
Net cash provided by (used in) investing activities	36,601	(12,055)
Cash flows from financing activities		
Repayment of short-term loans from bank		(992)

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Repayment of long-term loans from bank	(813)	(3,400)
Repayment of capital lease liability	(123)	(95)
Proceeds from issuance of ordinary shares under employee share option plans		931
Release of restricted cash held in connection with business acquisition	(3,478)	
Withholding tax related to net share settlement of restricted share units	(8,904)	(3,550)
Net cash used in financing activities	(13,318)	(7,106)
Net decrease in cash, cash equivalents and restricted cash	57,876	(22,215)
Movement in cash, cash equivalents and restricted cash		
Cash, cash equivalents and restricted cash at beginning of period	161,433	137,137
Increase (decrease) in cash, cash equivalents and restricted cash	57,876	(22,215)
Effect of exchange rate on cash, cash equivalents and restricted cash	667	123
Cash, cash equivalents and restricted cash at end of period	\$ 219,976	\$ 115,045
Non-cash investing and financing activities		
Construction, software-related and equipment-related payables	\$ 3,830	\$ 4,658

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

Table of Contents**FABRINET****UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited condensed consolidated balance sheets that sum to the total of the same amounts shown in the unaudited condensed consolidated statements of cash flows:

<i>(amount in thousands)</i>	As of September 28, 2018	As of September 29, 2017
Cash and cash equivalents	\$ 219,976	\$ 111,631
Restricted cash in connection with business acquisition (non-current assets)		3,414
Cash, cash equivalents and restricted cash	\$ 219,976	\$ 115,045

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(in thousands of U.S. dollars unless otherwise noted)

1. Business and organization

General

Fabrinet (Fabrinet or the Parent Company) was incorporated on August 12, 1999, and commenced operations on January 1, 2000. The Parent Company is an exempted company incorporated in the Cayman Islands, British West Indies. The Company refers to Fabrinet and its subsidiaries as a group.

The Company provides advanced optical packaging and precision optical, electro-mechanical and electronic manufacturing services to original equipment manufacturers (OEMs) of complex products, such as optical communication components, modules and sub-systems, industrial lasers, medical devices and sensors. The Company offers a broad range of advanced optical and electro-mechanical capabilities across the entire manufacturing process, including process design and engineering, supply chain management, manufacturing, complex printed circuit board assembly, advanced packaging, integration, final assembly and test. The Company focuses primarily on the production of low-volume, high-mix products. The principal subsidiaries of Fabrinet include Fabrinet Co., Ltd. (Fabrinet Thailand), Casix, Inc. (Casix), Fabrinet West, Inc. (Fabrinet West) and Fabrinet UK Limited, which was formerly known as Exception EMS Ltd.

2. Accounting policies

Basis of presentation

The accompanying unaudited condensed consolidated financial statements for Fabrinet as of September 28, 2018 and for the three months ended September 28, 2018 and September 29, 2017 includes normal recurring adjustments, necessary for a fair statement of the financial statements set forth herein, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, such information does not include all of the information and footnotes required by U.S. GAAP for annual financial statements. For further information, please refer to the consolidated financial statements and footnotes thereto included in Fabrinet s Annual Report on Form 10-K for the year ended June 29, 2018.

The balance sheet as of June 29, 2018 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The results for the three months ended Sep