



## **TPI Composites Annual Report 2020**

**Form 10-K (NASDAQ:TPIC)**

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**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 December 31, 2019

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 001-37839



**TPI Composites, Inc.**

(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-1590775  
(I.R.S. Employer  
Identification Number)

8501 N. Scottsdale Rd.  
Gainey Center II, Suite 100  
Scottsdale, AZ 85253

(480) 305-8910

(Address, including zip code, and telephone number,  
including area code, of Registrant's principal executive offices)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value \$0.01	TPIC	NASDAQ Global 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 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 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

The aggregate market value of the shares of common stock held by non-affiliates of the Registrant, based on the closing price of the shares of common stock on June 28, 2019 as reported by the NASDAQ Global Market on such date was approximately \$740 million. Shares of the Registrant's common stock held by each executive officer, director and holder of 5% or more of the outstanding common stock have been excluded in that such persons may be deemed to be affiliates. This calculation does not reflect a determination that certain persons are affiliates of the Registrant for any other purpose.

As of January 31, 2020, the Registrant had 35,184,189 shares of common stock outstanding.

**Documents Incorporated by Reference**

Portions of the Registrant's Definitive Proxy Statement relating to the Annual Meeting of Stockholders, scheduled to be held on May 20, 2020, are incorporated by reference into Part III of this Report.

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities law. All statements other than statements of historical facts contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In many cases, you can identify forward-looking statements by terms such as “may,” “should,” “expects,” “plans,” “anticipates,” “could,” “intends,” “target,” “projects,” “contemplates,” “believes,” “estimates,” “predicts,” “potential” or “continue” or the negative of these terms or other similar words. Forward-looking statements contained in this Annual Report on Form 10-K include, but are not limited to, statements about:

- growth of the wind energy market and our addressable market;
  - the potential impact of the increasing prevalence of auction-based tenders in the wind energy market and increased competition from solar energy on our gross margins and overall financial performance;
  - our future financial performance, including our net sales, cost of goods sold, gross profit or gross margin, operating expenses, ability to generate positive cash flow, and ability to achieve or maintain profitability;
  - changes in domestic or international government or regulatory policy, including without limitation, changes in trade policy;
  - the sufficiency of our cash and cash equivalents to meet our liquidity needs;
  - our ability to attract and retain customers for our products, and to optimize product pricing;
  - our ability to effectively manage our growth strategy and future expenses, including our startup and transition costs;
  - competition from other wind blade and wind blade turbine manufacturers;
  - the discovery of defects in our products;
  - our ability to successfully expand in our existing wind energy markets and into new international wind energy markets, including our ability to expand our field service inspection and repair services in wind energy markets;
  - our ability to successfully open new manufacturing facilities and expand existing facilities on time and on budget;
  - the impact of the accelerated pace of new product and wind blade model introductions on our business and our results of operations;
  - our ability to successfully expand our transportation business and execute upon our strategy of entering new markets outside of wind energy;
  - the potential impact of the Coronavirus on our business and results of operations;
  - worldwide economic conditions and their impact on customer demand;
  - our ability to maintain, protect and enhance our intellectual property;
  - our ability to comply with existing, modified or new laws and regulations applying to our business, including the imposition of new taxes, duties or similar assessments on our products;
  - the attraction and retention of qualified employees and key personnel;
  - our ability to maintain good working relationships with our employees, and avoid labor disruptions, strikes and other disputes with labor unions that represent certain of our employees;
  - our ability to procure adequate supplies of raw materials and components to fulfill our wind blade volume commitments to our customers;
- and
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- the potential impact of one or more of our customers becoming bankrupt or insolvent, or experiencing other financial problems.

These forward-looking statements are only predictions. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other important factors that may cause our actual results, levels of activity, performance or achievements to materially differ from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. We have described under the heading "Risk Factors" included in Part 1, Item 1A of this Annual Report on Form 10-K the principal risks and uncertainties that we believe could cause actual results to differ from these forward-looking statements. Because forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, you should not rely on these forward-looking statements as guarantees of future events.

The forward-looking statements in this Annual Report on Form 10-K represent our views as of the date of this Annual Report on Form 10-K. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we undertake no obligation to update any forward-looking statement to reflect events or developments after the date on which the statement is made or to reflect the occurrence of unanticipated events except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date after the date of this Annual Report on Form 10-K. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures, or investments we may make.

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## PART I

### Item 1. Business

#### **Description of Business**

TPI Composites, Inc. is the holding company that conducts substantially all of its business operations through its direct and indirect subsidiaries (collectively, the Company or we). The Company was founded in 1968 and has been producing composite wind blades since 2001. The Company's knowledge and experience of composite materials and manufacturing originates with its predecessor company, Tillotson Pearson Inc., a leading manufacturer of high-performance sail and powerboats along with a wide range of composite structures used in other industrial applications. Following the separation from the boat building business in 2004, the Company reorganized in Delaware as LCSH Holding, Inc. and then changed its corporate name to TPI Composites, Inc. in 2008.

#### **Overview**

We are the only independent manufacturer of composite wind blades for the wind energy market with a global manufacturing footprint. We enable many of the industry's leading wind turbine original equipment manufacturers (OEM), who have historically relied on in-house production, to outsource the manufacturing of some of their wind blades through our global footprint of advanced manufacturing facilities strategically located to serve large and growing wind markets in a cost-effective manner. Given the importance of wind energy capture, turbine reliability and cost to power producers, the size, quality and performance of wind blades have become highly strategic to our OEM customers. As a result, we have become a key supplier to our OEM customers in the manufacture of wind blades and related precision molding and assembly systems. We have entered into long-term supply agreements pursuant to which we dedicate capacity at our facilities to our customers in exchange for their commitment to purchase minimum annual volumes of wind blade sets (which consist of three wind blades). This collaborative dedicated supplier model provides us with contracted volumes that generate significant revenue visibility, drive capital efficiency and allow us to produce wind blades at a lower total delivered cost, while ensuring critical dedicated capacity for our customers. For a further discussion regarding our wind blade and precision molding and assembly systems manufacturing businesses, refer to the discussion in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations" included in Part II, Item 7 of this Annual Report on Form 10-K.

We also provide field service inspection and repair services to our OEM customers and wind farm owners and operators. Our field service inspection and repairs services include diagnostic, repair and maintenance service offerings for wind blades that have been installed on wind turbines located at wind farms. Our field service inspection and repair services can be performed up-tower, where a blade technician performs these services in the air or from the wind turbine tower on a wind turbine blade, or down tower, where a blade is first removed from a wind turbine and these services are performed on the ground at the wind farm site or in a repair facility.

We also leverage our advanced composite technology and history of innovation to supply high strength, lightweight and durable composite products to the transportation market. In November 2017, we signed a five-year supply agreement with Proterra Inc. (Proterra) to supply Proterra Catalyst® composite bus bodies. In February 2018, we entered into an agreement with Navistar, Inc. (Navistar) to design and develop an all composite Class 8 tractor cab. This collaborative development project was entered into in connection with Navistar's recent award under the Department of Energy's (DOE) Super Truck II investment program, which is designed to promote fuel efficiency in commercial vehicles. In 2019, we also agreed to develop prototype composite body delivery vehicles for Workhorse Group. In November 2018, we announced a capital investment of approximately \$11.5 million in 2019 to develop a highly automated pilot manufacturing line for the electric vehicle market within our Warren, Rhode Island facility, and we plan to commence operating this pilot line later this year. We expect this investment will enable us to further develop our technology, create defensible product and process IP and demonstrate our capability to manufacture composite components cost effectively at automotive volume rates. We also expect this pilot line will also help our current and potential customers to de-risk the decision-making process to commit to TPI for high-volume manufacturing programs in the future.

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Our wind blade and precision molding and assembly systems manufacturing businesses accounted for approximately 96%, 95%, and 96% of our total net sales for each of the years ended December 31, 2019, 2018 and 2017, respectively. As of February 27, 2020, our long-term wind and transportation supply agreements provide for minimum aggregate volume commitments from our customers of approximately \$2.8 billion and encourage our customers to purchase additional volume up to, in the aggregate, a total contract value of approximately \$5.2 billion through the end of 2023.

### ***Public Offerings and Stock Split***

In July 2016, we completed an initial public offering (IPO) of 7,187,500 shares of our common stock at a price of \$11.00 per share, which included 937,500 shares issued pursuant to the underwriters' over-allotment option. Certain of our existing stockholders, a non-employee director and executive officers purchased an aggregate of 1,250,000 shares of our common stock in the IPO included in the total issuance above. The net proceeds from the IPO were \$67.2 million after deducting underwriting discounts and offering expenses. Immediately prior to the closing of the IPO, all shares of the then-outstanding redeemable preferred shares converted into an aggregate of 21,110,204 shares of our common stock and the redeemable preferred share warrants converted on a net issuance basis into 120,923 shares of our common stock. In addition, concurrent with the closing of the IPO, certain subordinated convertible promissory notes in the aggregate principal and interest amount of \$11.9 million were converted into 1,079,749 shares of our common stock at the public offering price of \$11.00 per share.

Prior to the IPO, in July 2016 we amended our amended and restated certificate of incorporation to effect a 360-for-1 forward stock split of our common stock. As a result of the stock split, we have adjusted the share amounts authorized and issuable under the share-based compensation plans. All share and per share common stock information (including the share-based compensation plans) referenced throughout the consolidated financial statements and notes thereto have been retroactively adjusted to reflect this stock split. The stock split did not cause an adjustment to the par value of the authorized shares of our common stock.

In May 2017, we completed a secondary public offering of 5,075,000 shares of our common stock at a price of \$16.35 per share, which included 575,000 shares issued pursuant to the underwriters' option to purchase additional shares. All of the shares were sold by existing stockholders and certain of our executive officers. The selling stockholders received all of the net proceeds of \$78.8 million from the secondary public offering. We did not sell any shares and did not receive any of the proceeds from the offering and the costs paid by us in connection with the offering of \$0.8 million were recorded in general and administrative costs in the accompanying consolidated statement of operations.

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### **Financial Information about Segments and Geographic Areas**

We divide our business operations into four geographic operating segments—(1) the United States (U.S.), (2) Asia, (3) Mexico and (4) Europe, the Middle East, Africa and India (EMEI) as follows:

- Our U.S. segment includes (1) the manufacturing of wind blades at our Newton, Iowa plant, (2) the manufacturing of precision molding and assembly systems used to manufacture wind blades at our Warren, Rhode Island facility, (3) the manufacturing of composite solutions for the transportation industry, which we also conduct at our Rhode Island facility, (4) wind blade inspection and repair services in North America, (5) our advanced engineering center in Kolding, Denmark, which provides technical and engineering resources to our manufacturing facilities, (6) our engineering center in Berlin, Germany which we purchased in July 2019 and (7) our corporate headquarters, the costs of which are included in general and administrative expenses.
- Our Asia segment includes (1) the manufacturing of wind blades at our facilities in Dafeng, China and Yangzhou, China, the latter of which commenced operations in March 2019, (2) the manufacturing of precision molding and assembly systems at our Taicang Port, China facility and (3) wind blade inspection and repair services.
- Our Mexico segment manufactures wind blades from three facilities in Juárez, Mexico and a facility in Matamoros, Mexico at which we commenced operations in July 2018. In November 2018, we entered into a new lease agreement with a third party for a new precision molding and assembly systems manufacturing facility in Juárez, Mexico and we commenced operations at this facility in March 2019. This segment also performs wind blade inspection and repair services.
- Our EMEI segment manufactures wind blades from two facilities in Izmir, Turkey and also performs wind blade inspection and repair services. In February 2019, we entered into a new lease agreement with a third party for a new manufacturing facility that was built in Chennai, India and we commenced operations at this facility in the first quarter of 2020. This segment also performs wind blade inspection and repair services.

For additional information regarding our operating segments and geographic areas, see Note 18 – Segment Reporting of the Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

### **Business Strategy**

Our long-term success will be driven by our business strategy. The key elements of our business strategy are as follows:

- **Grow our existing relationships and develop new relationships with leading industry OEMs.** We plan to continue growing and expanding our relationships with existing customers who, according to data from Wood Mackenzie (WoodMac), represented approximately 55% of the global onshore wind energy market, approximately 87% of that market excluding China, and 99% of the U.S. onshore wind turbine market over the three years ended December 31, 2018, based on megawatts (MWs) of energy capacity installed, as well as developing new relationships with other leading industry OEMs. We expect to be presented with opportunities to expand our existing relationships and develop new relationships with industry OEMs as they seek to capitalize on the benefits of outsourced wind blade manufacturing while maintaining high quality customization and dedicated capacity. General Electric International, Inc. and its affiliates (GE Wind) agreed to transition to a larger blade model in our Newton, Iowa plant in early 2019 and to eliminate its option to terminate their supply agreement at this location prior to its December 2020 expiration. In December 2018, we entered into a multiyear supply agreement with Vestas to supply wind blades from a new manufacturing facility that was built in Chennai, India and we commenced operations at this facility in the first quarter of 2020. In the first quarter of 2019, GE Wind executed a joint development agreement to cooperatively develop advanced blade technology for future wind turbines. In August 2019, we reached an agreement with Nordex SE (Nordex) to transition multiple existing lines at one of our Izmir, Turkey locations to longer blades and at the same time extended the contract by two years through 2022.
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- **Leverage our footprint in large and growing wind markets, capitalize on the continuing outsourcing trend , evaluate building wind turbine blades for the offshore market and evaluate strategic acquisitions.** As the wind energy market continues to expand globally and many wind turbine OEMs continue to shift towards increased outsourcing of wind blade manufacturing, we believe we are well-positioned with our global footprint. We utilize our strengths in composites technology and manufacturing, combined with our collaborative dedicated supplier model to provide our customers with an efficient solution for their expansion in large and growing wind markets. Our quality, reliability and total delivered cost reduce sourcing risk for our customers. In addition, our demonstrated ability to enter into new markets and the strength of our manufacturing capabilities afford us the optionality to build new factories or grow through strategic acquisitions.
- **Continue to drive down costs of wind energy .** We continue to work with our customers on larger size wind blade models that maximize the capture of wind energy and drive down the levelized cost of energy (LCOE). We also continue to utilize our advanced technology, regional manufacturing facilities strategically located to cost effectively serve large and growing wind markets and ability to source materials globally at competitive costs to deliver high-performing, composite wind blades. Our collaborative engineering approach and our advanced precision molding and assembly systems allow us to integrate our customer's design requirements with cost-efficient, replicable and scalable manufacturing processes. This collaborative engineering approach with our customers also allows us to reduce manufacturing cycle times, new line and factory start up times and new blade model transition times. We also continue to work with our customers to drive down the cost of materials and production, the benefit of which we typically share with our customers contractually in a manner that reduces LCOE for customers, further strengthens our customer relationships and improves our margins.
- **Expand our field service inspection and repair business.** Although sales from our field service inspection and repair business currently represent a very small percentage of our total revenue, we plan to expand our field service inspection and repair business by leveraging our existing wind blade manufacturing and composites expertise. We believe there is an increasing demand and growing market for experienced wind blade inspection and repair services worldwide as the number of wind turbines installed worldwide continues to grow and the fleet of existing wind turbines continues to age.
- **Expand our transportation business and expand into other strategic markets.** We leverage our advanced composite technology and history of innovation to supply high strength, lightweight and durable composite products to the transportation market. As the vehicle electrification trend continues, reducing the weight of these vehicles is critical to expanding range and/or providing more room for additional batteries or reducing the number of batteries. As a result, we believe there is an increasing demand for composites products for electric vehicles. In addition, we believe there is a potential demand in other strategic markets for composites as to replace aluminum or other more expensive composite materials such as carbon.
- **Focus on continuing innovation.** We have a history of innovation in advanced composite technologies and production techniques and use several proprietary technologies related to wind blade manufacturing. With this culture of innovation and a collaborative "design for manufacturability" approach, we continue to address increasing physical dimensions, demanding technical specifications and strict quality control requirements for our customers' most advanced wind blades. We also invest in ongoing simplification and selective automation of production processes for increased efficiency and precision. In addition, we plan to leverage our history of composite industry-first innovations to grow our business in the transportation market, in which we believe there is a demand for high precision, structural composites manufacturing as well as high speed, high volume manufacturing of structural composite components, particularly in the transportation market.

#### **Wind Blade Manufacturing Operations and Process**

We have developed significant expertise in advanced composite technology and use high performance composite materials, precision molding and assembly systems including modular tooling, and advanced process technology, as well as sophisticated measurement, inspection, testing and quality assurance tools, allowing us to produce over 55,000 wind blades since 2001 with an excellent field performance record in a market where reliability

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is critical to our customers' success. We manufacture or have manufactured wind blades ranging from 30 meters to over 70 meters across our global facilities, and have the capability to manufacture wind blades of greater lengths as required by existing or new customers. In combination with our advanced technologies, we seek to create manufacturing processes that are replicable and scalable in our manufacturing facilities located worldwide, regardless of cultural or language barriers. Using continuous improvement principles, we can customize each manufacturing step, from raw materials to finished products. This also allows us to systematically design for the entire manufacturing process so that we can achieve better quality control and increase production efficiencies. We believe that our focus on simplifying and, where feasible, automating production processes is critical to manufacturing high-precision, lightweight and durable products at a reasonable cost to our customers. We produce high unit volumes of near-aerospace grade products at industrial costs.

### ***Raw Materials***

The key raw materials for the wind blades we manufacture include highly advanced fiberglass fabrics, select carbon reinforcements, foam, balsa wood, resin, adhesives for assembly of molded components, gel coat or paint for preparation of cosmetic surfaces and attachment hardware including steel components. Most of these materials are available in multiple geographic regions and in reasonably close proximity to our manufacturing facilities. Our agreements for the supply of raw materials are designed to guarantee volumes that we believe will be required to fulfill our customers' wind blade commitments. A portion of our raw materials are subject to price volatility, such as the resins used in our manufacturing processes. Although the majority of materials incorporated into our products are available from a number of sources, certain materials are available only from a relatively limited number of suppliers. We seek multiple suppliers for our raw materials and continually evaluate potential new supplier relationships.

### ***Precision Molding and Assembly Systems***

Over the last decade, we have produced hundreds of precision molding and assembly systems, ranging from 30 meters to over 70 meters in length, to support our global operations. We began these operations in our tooling technology center in Warren, Rhode Island. In 2013, we expanded our precision molding and assembly system production capabilities to a facility in Taicang City, China, which was recently moved to Taicang Port, China, which serves customers around the globe. While capable of cost-effectively delivering precision molding and assembly systems across all of our facilities, our Rhode Island tooling technology center primarily serves the North American market. We currently have transitioned most of our North American precision molding and assembly system production capabilities from Warren, Rhode Island to a new facility in Juárez, Mexico, which can serve customers globally. We expect this transition to be completed during 2020. Our precision molding and assembly systems have been used to build tens of thousands of wind blades worldwide.

Our tooling solutions include precision wind blade patterns, precision molding and assembly systems, including modular tooling techniques. We believe that our technological and production expertise are key factors in our continued competitiveness, as we address continually increasing physical dimensions, demanding technical specifications, and strict quality control requirements for wind blades.

### ***Wind Blade Production Process***

Production of wind blades requires adherence to the unique specifications of each of our customers, who design their wind turbines and wind blades to optimize performance, reliability and total delivered cost. With our culture of innovation and a collaborative "design for manufacturability" approach, we have the capability and expertise to manufacture wind blades of different designs, utilizing fiberglass, carbon or other advanced composite materials to meet unique customer specifications. We also have the flexibility to quickly transition our manufacturing facilities to produce different wind blade models and sizes using our precision molding and assembly systems, including modular tooling techniques.

We have developed a highly dependable method for making high-quality wind blades. In conjunction with our continuous improvement principles, we design our proprietary manufacturing processes to be replicable, scalable and transferable to each of our advanced manufacturing facilities worldwide. As a result, we can repeatedly move a product from its design phase to volume production while maintaining quality, even in developing regions of the