

KEMET CORP  
Form 10-K  
June 01, 2017

Use these links to rapidly review the document

TABLE OF CONTENTS

PART IV

Table of Contents

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 March 31, 2017

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: 001-15491

---

KEMET Corporation  
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 57-0923789 (I.R.S. Employer Identification No.)

2835 Kemet Way, Simpsonville, South Carolina 29681  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (864) 963-6300

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

(Title of each class) (Name of Exchange on which registered)  
Common Stock, par value \$0.01 New York Stock Exchange

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required

Edgar Filing: KEMET CORP - Form 10-K

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 (§ 229.405) 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.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
(Do not check if a smaller reporting company)  
Smaller reporting company  Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The aggregate market value of voting common stock held by non-affiliates of the registrant as of September 30, 2016 computed by reference to the closing sale price of the registrant's common stock was approximately \$160,510,185.

The number of shares of each class of common stock, \$0.01 par value, outstanding as of May 25, 2017 was 47,505,958.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders to be held August 2, 2017 are incorporated by reference into Part III of this report.

---

Table of Contents

Index	
<u>ITEM 1. BUSINESS</u>	<u>4</u>
<u>ITEM 1A. RISK FACTORS</u>	<u>12</u>
<u>ITEM 1B. UNRESOLVED STAFF COMMENTS</u>	<u>19</u>
<u>ITEM 2. PROPERTIES</u>	<u>19</u>
<u>ITEM 3. LEGAL PROCEEDINGS</u>	<u>20</u>
<u>ITEM 4. MINE SAFETY DISCLOSURES</u>	<u>22</u>
<u>ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT</u>	<u>22</u>
<u>ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	<u>25</u>
<u>ITEM 6. SELECTED FINANCIAL DATA</u>	<u>28</u>
<u>ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>29</u>
<u>ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>57</u>
<u>ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	<u>58</u>
<u>ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	<u>58</u>
<u>ITEM 9A. CONTROLS AND PROCEDURES</u>	<u>58</u>
<u>ITEM 9B. OTHER INFORMATION</u>	<u>59</u>
<u>ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	<u>60</u>
<u>ITEM 11. EXECUTIVE COMPENSATION</u>	<u>60</u>
<u>ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	<u>60</u>
<u>ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	<u>60</u>
<u>ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u>	<u>60</u>
<u>ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES</u>	<u>61</u>
<u>SIGNATURES</u>	<u>129</u>



Table of Contents

## PART I

## ITEM 1. BUSINESS

## Background of Company

KEMET Corporation (“we,” “us,” “our,” “KEMET” and the “Company”), is a global manufacturer of passive electronic components. We first began manufacturing tantalum capacitors in 1958 as a division of Union Carbide Corporation (“UCC”) and became a stand-alone legal entity in 1990 following a management buyout from UCC. In 1992, we publicly issued shares of our common stock. Since then, we have made the following acquisitions:

Business Group	Fiscal Year	Business
Solid Capacitors Business Group (“Solid Capacitors”)	2007	Tantalum Business Unit of EPCOS AG
Film and Electrolytic Business Group (“Film and Electrolytic”)	2008	Evox Rifa Group Oyj
Film and Electrolytic	2008	Arcotronics Italia S.p.A.
Film and Electrolytic	2012	Cornell Dubilier Foil, LLC (renamed KEMET Foil Manufacturing, LLC (“KEMET Foil”))
Solid Capacitors	2012	Niotan Incorporated (renamed KEMET Blue Powder Corporation (“Blue Powder”))
Corporate	2013	34% economic interest in TOKIN Corporation (“TOKIN”)*
Corporate	2016	IntelliData, Inc. (“IntelliData”)

Through the above acquisitions and organic growth we have expanded our product base to include multilayer ceramic, solid & electrolytic aluminum and film capacitors.

\* In fiscal year 2013, our subsidiary, KEMET Electronics Corporation (“KEC”) acquired a 34% economic interest in TOKIN as calculated based on the number of common shares held by KEC, directly and indirectly, in proportion to the aggregate number of common and preferred shares of TOKIN outstanding as of such date. The Company accounted for its investment in TOKIN using the equity method for a non-consolidated variable interest entity since KEC did not have the power to direct significant activities of TOKIN. KEMET entered into a Definitive NEC TOKIN Stock Purchase Agreement (the “TOKIN Purchase Agreement”) with NEC Corporation (“NEC”), to acquire all of the outstanding shares of common stock and preferred stock of TOKIN not already held by KEMET. The transaction closed on April 19, 2017 and on that date TOKIN became a 100% owned subsidiary of KEMET.

## General

We compete in the passive electronic component industry, specifically multilayer ceramic, tantalum, film and aluminum (solid & electrolytic) capacitors. Product offerings include surface mount, which are attached directly to the circuit board; leaded capacitors, which are attached to the circuit board using lead wires; and chassis-mount and other pin-through-hole board-mount capacitors, which utilize attachment methods such as screw terminal and snap-in.

Capacitors are electronic components that store, filter, and regulate electrical energy and current flow. As an essential passive component used in nearly all circuit boards, capacitors are typically used for coupling, decoupling, filtering, oscillating and wave shaping and are used in communication systems, servers, personal computers, tablets, cellular phones, automotive electronic systems, defense and aerospace systems, consumer electronics, power management systems and many other electronic devices and systems (basically anything that plugs in or has a battery).

Our product line consists of many distinct part configurations distinguished by various attributes, such as dielectric (or insulating) material, configuration, encapsulation, capacitance (at various tolerances), voltage, performance characteristics and packaging. Most of our customers have multiple capacitance requirements, often within each of their products. Our broad product offering allows us to meet the majority of those needs independent of application and end use.

We believe the long-term demand for the various types of capacitors we offer will grow on a regional and global basis due to a variety of factors, including increasing demand for and complexity of electronic products, growing demand for technology in emerging markets and the ongoing development of new solutions for energy generation and conservation. Our customer base includes most of the world's major electronics original equipment manufacturers ("OEMs") (including Alcatel-Lucent USA, Inc., Bosch Group, Cisco Systems, Inc., Continental AG, Dell Inc., HP Inc., International Business Machines Corporation, Motorola Solutions, L.M. Ericsson, Siemens AG and TRW Automotive), electronics manufacturing services

Table of Contents

providers (“EMSs”) (including Celestica Inc., Flextronics International LTD, Jabil Circuit, Inc. and Sanmina-SCI Corporation) and distributors (including TTI, Inc., Arrow Electronics, Inc. and Avnet, Inc.).

Solid Capacitors products are commonly used in conjunction with integrated circuits, and the same circuit may, and frequently does, contain both ceramic and tantalum capacitors. Tantalum capacitors are a popular choice because of their ability for high capacitance in a small volume package. While ceramic capacitors are more cost-effective at lower capacitance values, tantalum capacitors are more cost-effective at higher capacitance values while solid aluminum capacitors can be more effective in special applications. Film, paper and aluminum electrolytic capacitors can be used to support integrated circuits, but also are used in the field of power electronics to provide energy for applications such as motor starts, power conditioning, electromagnetic interference filtering safety and inverters. Capacitors account for the largest market within the passive component product grouping.

**Our Industry**

We compete with others that manufacture and distribute capacitors both domestically and globally and our success in the market is influenced by many factors, including price, availability, engineering specifications, quality and breadth of offering, performance characteristics, customer service and geographic location of our manufacturing sites. As in all manufacturing industries, there is ongoing pressure on average unit selling prices for capacitors. To help mitigate this effect, KEMET, as well as many of our larger competitors, have relocated their manufacturing operations to low cost regions and locations in closer proximity to our respective customers.

According to a March 2017 report entitled “Passive Electronic Components: World Market Outlook: 2017-2022” by Paumanok Publications, Inc. (“Paumanok”), a market research firm concentrating on the passive components industry, the global capacitor market in fiscal year 2017 (fiscal year ending March 2017) was estimated to be \$18.9 billion in revenues and 1.93 trillion units. The Paumanok report estimates that the global capacitor market will improve substantially and achieve revenue and unit volume increases of 20% and 13%, respectively, by fiscal year 2022.

According to Paumanok, the forecast of the capacitor industry for fiscal year 2017 and the expected growth to fiscal year 2022 are as follows (amounts in billions):

	Fiscal Year 2017	Fiscal Year 2022
Tantalum	\$1.7	\$2.0
Ceramic	11.1	13.3
Aluminum	3.8	4.3
Paper and plastic film	1.7	2.2
Other	0.6	0.8
	\$18.9	\$22.6

Because capacitors are a fundamental component of electronic circuits, demand for capacitors tends to reflect the general demand for electronic products, as well as integrated circuits, which, though cyclical, continues to grow. We believe growth in the electronics market and the resulting growth in demand for capacitors will be driven primarily by a number of recent trends which include:

- the development of new products and applications, such as alternative and renewable energy systems, hybrid transportation systems, electronic controls for engines and industrial machinery, smart phones and mobile personal computing devices;
- the “internet-of-things” products;
- the next generation of automotive electronics to support advance driver assistance systems, as well as the connected car;
- the increase in the electronic content of existing products, such as home appliances, medical equipment and automobiles;
- consumer desire for mobility and connectivity; and

the enhanced functionality, complexity and convergence of electronic devices that use state-of-the-art microprocessors.

The acquisition of TOKIN increases our market opportunity through the Electro-Magnetic Compatible (“EMC”) Devices and Sensor & Actuator markets.

#### Markets and Customers

Our products are sold to a variety of OEMs in a broad range of industries including the computer, communications, automotive, military, consumer, industrial and aerospace industries. We also sell products to EMS providers, which also serve



Table of Contents

OEMs in these industries. Electronics distributors are an important channel of distribution in the electronics industry and represent the largest channel through which we sell our capacitors. One electronics distributor accounted for over 10% of our net sales in fiscal years 2017, 2016 and 2015. If our relationship with this customer were to terminate, we would need to determine alternative means of delivering our products to the end-customers served by them. Our top 50 customers accounted for 86.7% of our net sales during fiscal year 2017.

While we are seeing a merging of major segments as connectivity and “internet-of-things” grow, the following table presents an overview of the diverse industries that incorporate our capacitors into their products and the general nature of those products.

Industry	Products
Automotive	Adaptive cruise control, High intensity discharge headlamps, Light emitting diode electronic modules, Lane departure warning, Camera systems, Audio systems, Tire pressure monitoring, Power train electronics, Instrumentation, Airbag systems, Anti-lock braking and stabilization systems, Hybrid and electric drive vehicles, Electronic engine control modules, Driver comfort controls, Security systems, Radar, Connectivity systems and Advance driver assistance gear
Communications	Smart phones, Telephones, Switching equipment, Relays, Base stations, and Wireless infrastructure
Computer-related	Personal computers (laptops, tablets, netbooks), Workstations, Servers, Mainframes, Computer peripheral equipment, Power supplies, Solid state drives, and Local area networks
Industrial	Electronic controls, Measurement equipment, Instrumentation, Solar and wind energy generation, Down-hole drilling and Medical electronics
Consumer	Digital media devices, Game consoles, Televisions, Audio devices, and Global positioning systems
Military/Aerospace	Avionics, Radar, Guidance systems, and Satellite communications
Alternative Energy	Wind generation systems, Solar generation systems, Geothermal generation systems, Tidal generation systems and Electric drive vehicles

We produce a small percentage of capacitors under military specification standards sold for both military and commercial uses. We do not sell any capacitors directly to the United States government. Certain of our customers purchase capacitors for products in the military and aerospace industries.

It is impracticable to report revenues from external customers for each of the above noted products primarily because approximately 46% of our external sales were to electronics distributors for fiscal year 2017.

TOKIN increases our position in the following industries that incorporate EMC and sensors and actuators into their products:

Industry	Products
Telecom Infrastructure	Switching equipment, Base stations, and Wireless infrastructure
Gaming	Consoles, Displays, Power management
Consumer	Battery chargers/AC adapters, Power supply, Refrigerators, Inductive cooking and Air conditioning
Automotive	Infotainment and Power supply
Medical	Test and Diagnostic

#### KEMET in the United States

Our corporate headquarters is located near Greenville, South Carolina.

Commodity manufacturing previously located in the United States has been substantially relocated to our lower-cost manufacturing facilities in Mexico, China and Europe. Production remaining in the United States focuses primarily on early-stage manufacturing of new products and other specialty products for which customers are predominantly located in North America.



## Table of Contents

On February 21, 2012, we completed the acquisition of all of the outstanding shares of Blue Powder, a leading manufacturer of tantalum powders. Blue Powder had been a significant supplier of tantalum powder to KEMET for several years. Blue Powder's principal operating location is in Carson City, Nevada.

To accelerate the pace of innovations, KEMET maintains an Innovation Center for Solid Capacitors near Greenville, South Carolina. The primary objectives of the KEMET Innovation Center are to ensure the flow of new product platforms, material sets, and processes that are expected to keep us at the forefront of our customers' product designs, while enabling these products to be transferred rapidly to the most appropriate KEMET manufacturing location in the world for low-cost, high-volume production.

### KEMET in Mexico

We believe our operations in Mexico are among the most cost efficient in the world, and we expect they will continue to be our primary production facilities supporting North American and European customers for Solid Capacitors. One of the strengths of KEMET Mexico is that it is a local operation, including local management and workers. These facilities are responsible for maintaining KEMET's tradition of excellence in quality, service, and delivery, while driving costs down. The facilities in Victoria and Matamoros are focused primarily on tantalum capacitors, while the facilities in Monterrey are focused on ceramic capacitors.

### KEMET in Asia Pacific

We have a well-established manufacturing, sales and logistics network in Asia to support our customers' Asian operations. We currently manufacture tantalum and aluminum polymer and Electrolytic products in China. As a result of the acquisition of TOKIN on April 19, 2017, we now manufacture electromagnetic compatibility and sensor and actuator products in China, Japan and Vietnam and tantalum capacitors in Thailand and Japan. The vision for KEMET operations in China is to be a local operation, with local management and workers, to help achieve our objective of being a global company. These facilities are responsible for maintaining our tradition of excellence in quality, service, and delivery, while accelerating cost-reduction efforts and supporting efforts to grow our customer base in Asia.

### KEMET in Europe

We currently have one or more manufacturing locations in each of the following countries: Bulgaria, Finland, Italy, Macedonia, Portugal, and Sweden. In addition, we operate product innovation centers in Italy, Portugal and Sweden. We continue to maintain and enhance our strong European sales and customer service infrastructure, allowing us to continue to meet the local preferences of European customers who remain an important focus for KEMET.

### Global Sales and Logistics

KEMET serves the needs of our global customer base through three geographic regions: North America and South America ("Americas"), Europe, the Middle East and Africa ("EMEA") and Asia and the Pacific Rim ("APAC"). We also have independent sales representatives located in several countries worldwide including: Brazil, Israel, Canada, and the United States.

In our major markets, we market and sell our products primarily through a direct sales force. With a global sales organization that is customer-focused, our direct sales personnel from around the world serve on KEMET Global Account Teams committed to serving any customer location in the world with a dedicated KEMET representative. The traditional sales team is supported by regional Field Application Engineers who are experts in electronic engineering and market all of KEMET's products by assisting customers with the resolution of capacitor application issues. We believe our direct sales force creates a distinct advantage in the marketplace by enabling us to establish and maintain strong relationships with our customers to efficiently process simple repeat business as well as to consult with customers on new and technically complex custom applications. In addition, where appropriate, we use independent commissioned representatives. This approach requires a blend of accountability and responsibility for specific customer locations, guided by an overall account strategy for each customer. Our sales team works with the customers throughout the entire purchasing process, following opportunities as they progress through concept, design, validation and, finally, mass production. In Japan, we market and sell directly and through manufacturers agents, who sell exclusively for KEMET or TOKIN, and do not carry competitor products. These manufacturers agents create

unique custom solutions integrating our products which help pull our products through the channel. Electronics distributors are an important distribution channel in the electronics industry and accounted for 46%, 42%, and 45% of our net sales in fiscal years 2017, 2016 and 2015, respectively. A portion of our net sales to distributors are made under agreements allowing certain rights of return and price protection on unsold merchandise held by distributors. In addition, our distributor policy includes inventory price protection and “ship-from-stock and debit” (“SFSD”) programs common in the industry.

7

---

Table of Contents

## Sales by Geography

In fiscal years 2017 and 2016, net sales by region were as follows (dollars in millions):

	Fiscal Year		Fiscal Year	
	2017		2016	
	Net	% of	Net	% of
	Sales	Total	Sales	Total
Americas	\$224.1	30 %	Americas	\$225.7 31 %
APAC	295.8	39 %	APAC	275.8 37 %
EMEA	237.9	31 %	EMEA	233.3 32 %
Total	\$757.8		Total	\$734.8

We believe our regional balance of revenues is a benefit to our business. The geographic diversity of our net sales diminishes the impact of regional sales decreases caused by various holiday seasons. While sales in the Americas are the lowest of th