



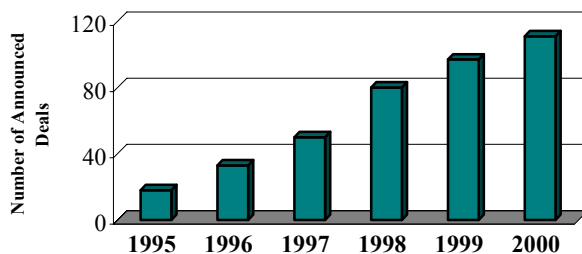
EMS DEALREADER

Our Mission...

To provide the highest quality, results oriented merger & acquisition and capital raising advisory services to EMS companies, OEMs, and private equity groups.

2001 DEAL VOLUME COMPARISON

EMS Industry Mergers & Acquisitions



Announcements

- NEC to turn five to seven manufacturing units into EMS units
- SCI Systems to acquire Nokia Networks' manufacturing business in Haukipudas, Finland and Camberley, United Kingdom
- Flextronics to make nearly all of Ericsson's mobile phones
- Solectron, Flextronics, SCI Systems, and SMTC announce plant closings
- Layoffs announced at numerous EMS companies
- Pemstar to double manufacturing capacity in Thailand and to open engineering facilities in Japan and Austin
- Solectron continues expansion into Asia by acquiring NatSteel Electronics and a Sony facility in Taiwan

Throughout the 1990s the number of M&A transactions increased every year. The 111 announced transactions in 2000 represent more than a 450% increase over the number of deals announced in 1995. In 2000, the deal leaders were Flextronics with 24 completed deals and Solectron with 10 completed deals.

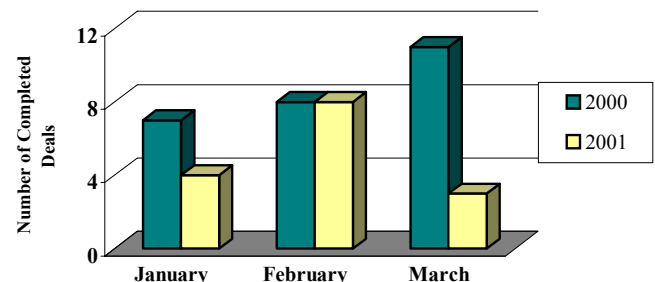
During Q1 of 2001, M&A activity as measured by completed transactions declined 42% compared to the first quarter of last year; however, the number of deals announced during Q1 of 2001 as compared to the same period in the previous year is almost equivalent. The discrepancy in deals completed versus announced (particularly evident in March) has largely resulted from heavier financing constraints, lowered

stock market valuations, and weakened company earnings. Furthermore, due to revenue slowdowns, companies are faced with excess capacity.

Q1 of 2001 deals were characterized by 7 consolidation transactions among EMS companies, 4 OEM divestitures, and 4 vertical integration transactions. The deal leader in Q1 of 2001 was Solectron, completing three acquisitions.

grated its operations by purchasing AB Segerström & Svensson, a supplier of integrated enclosure systems to the communications market. San Jose-based Sanmina purchased a 49.9% equity stake in complex PCB manufacturer INBOARD (Germany), taking its first step in expanding its PCB fabrication in Europe. • In an effort to provide full systems solutions to OEMs in communications, C-MAC Industries acquired Honey-

Q1 2000 & 2001 EMS Transactions



Highlights of Q1 activity included • Solectron expanded its Asian presence through acquisitions of NatSteel Electronics and a Sony operation in Taiwan. Solectron is consolidating its operating facilities that are not optimally located and is reorganizing product mixes in other locations. • Sanmina vertically inte-

well's last two contract manufacturing operations in Melbourne, Florida and Juarez, Mexico.

Source: All information contained in this article including the charts is obtained from Manufacturing Market Insider, Bloomberg, and company websites.

EMS Slowdown or Meltdown?

In the twenty-year history of the EMS industry, electronic manufacturing service providers enjoyed accelerating growth in both expansionary and recessionary periods. As late as the fourth quarter of 2000, numerous industry executives relied on this past experience in boldly predicting that, once again, the EMS sector would be immune from the wrath of the business cycle.

By mid first quarter of 2001, this reasoned optimism gave way to the harsh reality of missed expectations, losses instead of profits, and industry wide layoff announcements. For the first time, multiple companies announced plant closings. As part of a company-wide restructuring program, Solectron announced it would close its Suwanee, Georgia plant, transfer the existing business to another plant, and eliminate 750 full-time and 325 temporary positions. Flextronics announced that it would close its Multek PCB plant in Austin, Texas because of "the sudden change in economic conditions resulting in customer demand for lower-cost products" than Austin makes. SMTC announced that it would close its Denver, Colorado operations saying, "It was the least

strategically located plant relative to our customers."

Why did this downturn catch the once immune EMS industry? And is this a meltdown or a slowdown?

There are several reasons why EMS is part of this downturn. First, during past downturns, the percentage of electronic business that was actually outsourced was relatively small. According to Technology Forecasters, the amount of electronics outsourced has increased by 40% since 1998. Exacerbating the problem is that the greatest increase in outsourcing has occurred in the hardest hit industries—communications and computers. Obviously, the greater the percentage of outsourcing in any industry, the more likely that the EMS provider will be impacted by events in that industry. Second, this downturn in certain sectors was much faster and steeper than previous cycles. The demand bubble created by Y2K and a frenzy of purchasing by venture-backed dot-coms burst. This rapid decline decreased reaction time and left a pipeline of excess inventory across the supply chain.

The lesson of 2001 is that the EMS industry has indeed become a much more significant factor in the economy and will therefore be much more in sync with the demand cycles of its OEM customers.

During this period of slowdown, many leading EMS companies are

restructuring to better focus their capacities and capabilities on future realities. Both Solectron and Flextronics, the two largest EMS companies, have announced such plans. Properly executed, these realignments will strengthen these companies in future years.

The big question is whether this is a meltdown or a slowdown? While Y2K and the dot-com phenomenon accelerated demand in 1998 and 1999 to new levels, the passage of Y2K and the demise of many dot-coms will not, however, meltdown EMS. The technology story is still alive.

We live in a world that is dependent on technology for progress. Communication networks will be expanded. One day most cars will have navigation systems. The Internet will continue to provide benefits not yet realized. All of this will require more electronic content. Furthermore, the reasons for outsourcing really haven't changed, i.e. core competencies, working capital advantages, and time-to-market.

It will take some time for inventories to clear, and this varies by sector. The next six months will be a challenging time. It also, however, presents an opportunity for EMS providers to more strategically tune their business models and to better position their enterprises to seize the opportunities that future technological growth will bring.

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About Lincoln Partners

Lincoln Partners is a Chicago-based investment bank providing services to companies involved in manufacturing, distribution, branded products, and business services. Lincoln Partners' exclusive EMS practice is led by a seasoned EMS operating executive, an experienced investment banker with financial expertise, and a research analyst. This team is positioned to deliver unparalleled service to EMS companies, OEMs, and private equity groups.

During the first quarter of 2001, Lincoln Partners represented a company in the sale of its repair business to a major EMS manufacturer and provided advisory services to Metawave Communications Corp. in its divestiture of two manufacturing facilities to Viasystems Group, Inc.