

# Q2 2015 Deal Volume Comparison

Chart A: Completed EMS Transactions

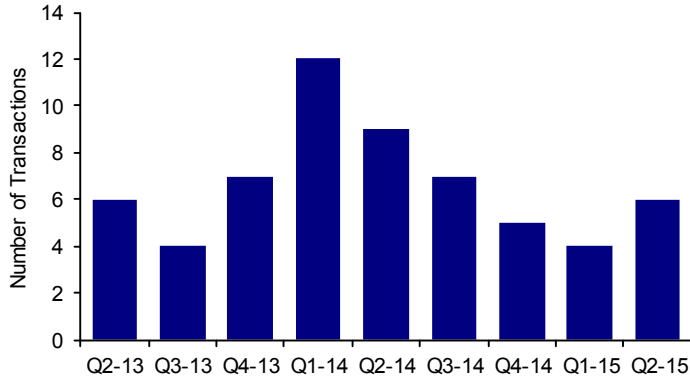
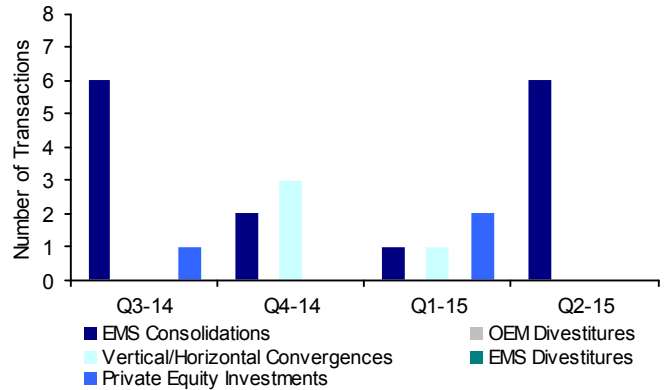


Chart B: Quarterly Comparison—EMS M&A by Deal Type



## Announcements

- Scanfil Oyj has acquired PartnerTech AB (June-15)
- Zentech Manufacturing, Inc. has acquired Colonial Assembly & Design, LLC (April-15)
- Sparton Corp. has acquired Hunter Technology Corporation (April-15)
- Natel Engineering Co., Inc. has acquired OnCore Manufacturing Services LLC (April-15)

## Q2 2015 Summary

There were six completed transactions in Q2 2015. As displayed in Chart A, the six transactions represent an increase in recent M&A activity compared to the four transactions in the previous quarter. On a comparative basis, this is down from the nine transactions reported in Q2 2014.

As shown in Chart B, EMS consolidations were up from last quarter, representing all of the Q2 2015 transactions, compared to one in Q1 2015. On a comparative basis, this is up from the three EMS consolidations reported in Q2 2014. There were no transactions categorized as vertical / horizontal convergences, OEM divestitures, EMS divestitures or private equity investments in Q2 2015.

As illustrated in Chart C, three transactions occurred within the U.S. and Canada in Q2 2015 (50% of total transactions), representing the same

number of transactions as the previous quarter. On a comparative basis, the three transactions that occurred within the U.S. and Canada in Q2 2014 represented only 33% of the total transactions in that quarter last year. Three transactions occurred in Europe (50% of total transactions), up from zero in the previous quarter. On a comparative basis, this is up from two transactions reported in Q2 2014. There were no cross-border or transactions in Asia this quarter.

As shown in Chart D, transactions by size for the quarter fell primarily in the Small tier, totaling four, while the Mid tier accounted for two transactions.

## EMS Size Guide

(Sales Dollars)

### Large (Tier I)

Greater than \$3 billion

### Mid (Tier II)

\$300 million to \$3 billion

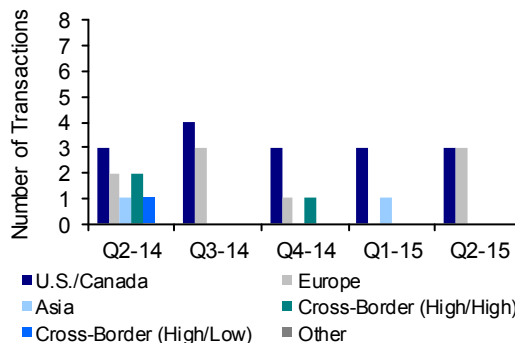
### Small (Tier III)

Below \$300 million

Note: Companies are included in a given tier by falling within the threshold for two consecutive quarters

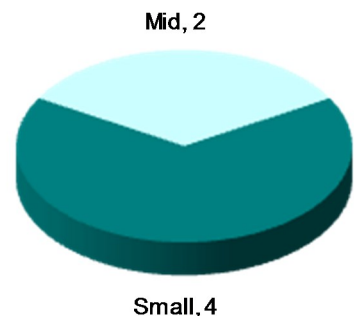
Sources: All information contained in this newsletter including the charts was obtained from company websites, Custer Reports, Lincoln International's internal data, Manufacturing Market Insider, and Capital IQ.

Chart C: Quarterly Comparison—EMS M&A by Geography



Note: "High/High" indicates cross-border transactions between Japan, Taiwan, Western Europe and U.S./Canada; "High/Low" indicates cross-border transactions between high-cost regions and low-cost regions.

Chart D: Q2 2015 Mergers and Acquisitions by Size



# Margin Squeeze and Expansion: An exploration of Margin Performance in the EMS Industry

EMS companies have exhibited mixed results with varying margin fluctuation across industry tiers.

The three graphs below provide an overview of gross margin, operating income margin, and EBITDA margin performance from 2002 through LTM Q2 2015. Each graph shows the margin performance by tier.

The Large Tier EMS companies' gross margin and operating income margin increased to 7.2% and 2.9%, respectively, in

the last twelve months ("LTM"), up from 6.8% and 2.6% for the same period in 2014. EBITDA margin increased to 4.9%, from 4.5% in the previous year. Mid Tier companies' gross margin remained flat at 10.7% on an LTM basis for 2015, while operating income margin and EBITDA margin decreased to 4.1% and 6.2%, respectively, versus 4.5% and 6.5% in the same period in 2014. The Small Tier saw a decrease in all three metrics on an LTM basis to 9.8%, -0.1% and 2.4% for gross margin,

operating income margin and EBITDA margin, respectively, down from 10.3%, 1.2% and 3.5% for the same period in 2014.

On a percent change basis comparing the LTM Q2 2015 results with the same period a year ago, in the Large Tier, Jabil Circuit showed the most improvement in operating margin to 2.9% from 2.3%; Kimball Electronics led the Mid Tier in operating margin improvement, up to 4.8% from 3.6%; all companies in the Small Tier exhibited decreasing operating margins.

Chart E: Average Gross Margin Performance

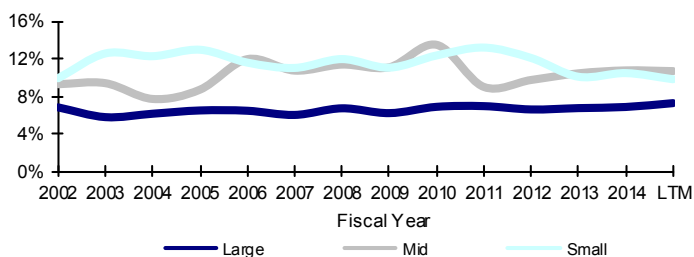


Chart F: Average Operating Income Margin Performance

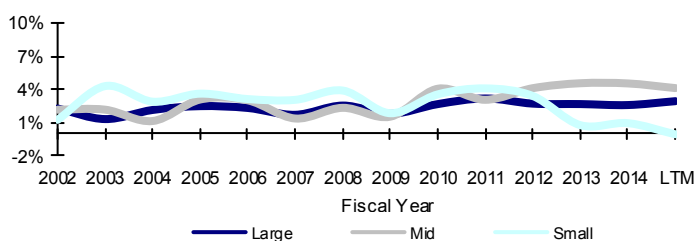
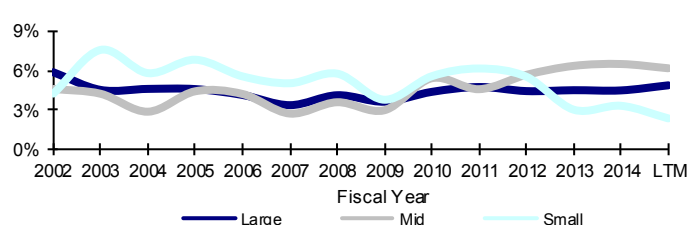


Chart G: Average EBITDA Margin Performance



(LTM)	Gross Margin	Operating Margin	EBITDA Margin
Celestica Inc.	7.2%	2.8%	3.9%
Flextronics International Ltd.	6.1%	2.6%	4.7%
Jabil Circuit Inc.	8.0%	2.9%	5.9%
Sanmina Corporation	7.7%	3.5%	5.1%
<b>Large Group Average</b>	<b>7.2%</b>	<b>2.9%</b>	<b>4.9%</b>
Benchmark Electronics Inc.	8.0%	3.9%	5.7%
Key Tronic Corp.	7.7%	1.7%	3.1%
Kimball Electronics, Inc.	8.9%	4.8%	7.1%
Plexus Corp.	9.3%	4.7%	6.5%
Sparton Corp.	19.3%	5.7%	8.5%
<b>Mid Group Average</b>	<b>10.7%</b>	<b>4.1%</b>	<b>6.2%</b>
IEC Electronics Corp.	9.9%	-2.4%	1.2%
Nortech Systems Inc.	11.7%	0.8%	2.6%
SigmaTron International Inc.	9.6%	1.1%	3.5%
SMTC Corporation	8.0%	0.3%	2.2%
<b>Small Group Average</b>	<b>9.8%</b>	<b>-0.1%</b>	<b>2.4%</b>

## About Lincoln International

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