



DealReader

EMS

Q3 2016

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EMS Industry**

Announcements

- Kimball Electronics has acquired Aircom Manufacturing (July-16)
- STMicroelectronics has acquired the NFC and RFID reader assets of ams AG (July-16)
- Foxconn has acquired Smart Technologies (September-16)
- IMI has acquired VIA Optronics (September-16)

Q3 2016 Summary

There were four completed transactions in Q3 2016. As displayed below, the four transactions represent a decrease in recent M&A activity compared to the six transactions recorded in the previous quarter. On a comparative basis, this represents a decrease from the 10 transactions reported in Q3 2015.

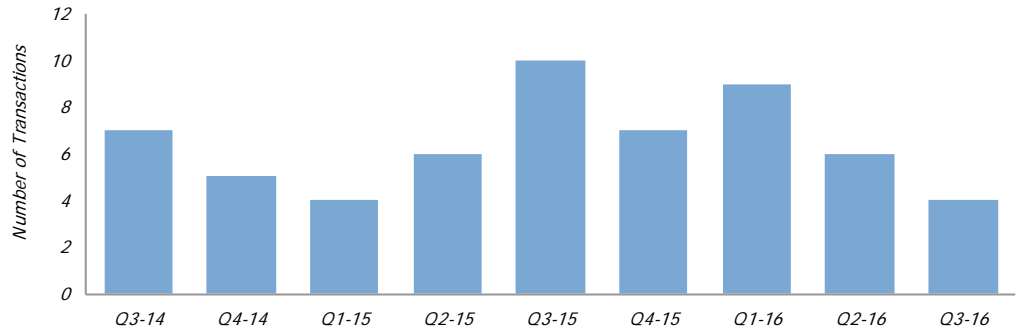
EMS consolidations were down from the last quarter, representing one transaction in Q3 2016 compared to two transactions in Q2 2016. On a comparative basis, this is down from the four EMS consolidations reported in Q3 2015. There were two transactions categorized as vertical/horizontal convergences in Q3 2016, representing the same level of activity in Q2 2016 and a decrease on a comparative basis from the five vertical/horizontal convergences reported in Q3 2015. Additionally, there was one reported OEM divestiture in Q3 2016. No transactions

categorized as private equity investments, diversification into EMS or EMS divestitures occurred in Q3 2016.

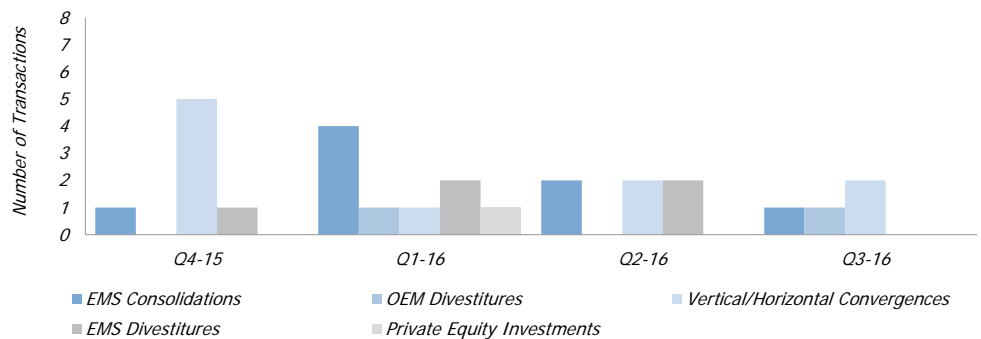
There were two cross-border transactions in Q3 2016 (50% of the total transactions), down from three transactions in the previous quarter. On a comparative basis, two cross-border transactions also occurred in the same quarter of 2015. One transaction occurred within North America (25% of the total) in Q3 2016, down from two in the previous quarter. There was also one transaction reported within Europe in Q3 2016, which reflects the same level of M&A activity as the previous quarter. There were no transactions in Asia this quarter.

Transactions by size for the quarter were split evenly between the Large and Mid tier, with each tier recording two transactions. The Small tier did not record a transaction.

Completed EMS Transactions



Quarterly Comparison—EMS M&A by Deal Type



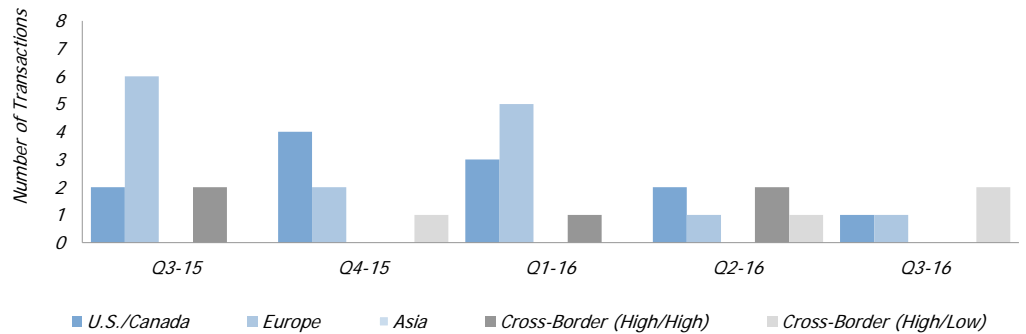
EMS Size Guide

(Sales Dollars)

- Large (Tier I)
Greater than \$3 billion
- Mid (Tier II)
\$300 million to \$3 billion
- Small (Tier III)
Below \$300 million

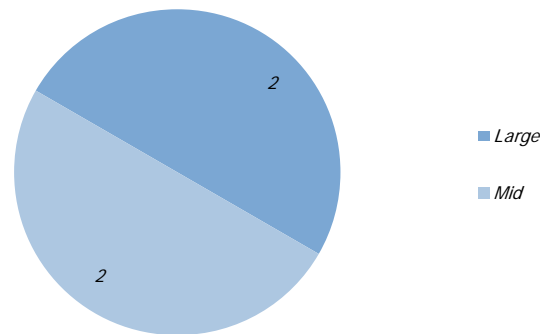
Sources: All information contained in this newsletter including the charts was obtained from company websites, Lincoln International's internal data, Manufacturing Market Insider and Capital IQ.

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.

Q3 2016 Mergers and Acquisitions by Size



An Analysis of Growth Trends Affecting the EMS Industry

EMS industry revenue decreased by 1.8% in 2015, following the 23.9% increase exhibited in 2014.

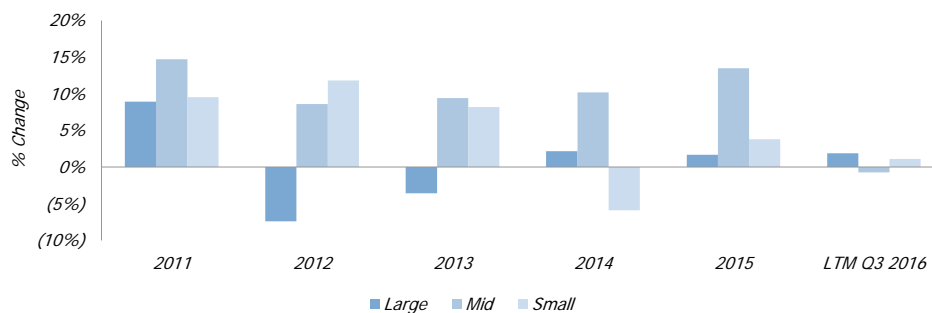
As shown in the chart on the following page, overall LTM Q3 revenue has increased slightly for Large and Small tier EMS providers, but decreased slightly for those in the Mid tier. Large tier EMS providers' revenue increased 1.9% on an LTM Q3 2016 basis versus an increase of 2.0% in LTM Q3 2015. The Mid tier has shown weaker performance with LTM Q3 revenue decreasing 0.7% relative to an increase of 13.0% for the same period during 2015. Small tier EMS companies experienced an increase of 1.1% in the LTM Q3 2016 period compared to flat revenue for the same period during 2015.

In the most recent industry forecast, the communications segment is expected to exhibit the most significant growth within the EMS industry over the next five years. This communications segment is expected to grow at a CAGR of 7.7% from 2015 to 2020. The medical and industrial segments are also expected to show strong growth, with CAGRs

of 6.6% and 6.0%, respectively, over the next five years. Also anticipating strong growth are the automotive and commercial aviation segments with expected CAGRs of 5.8% and 5.1%, respectively, through 2020. Overall, the global EMS market is expected to grow 5.4% annually from a \$330 billion market in 2015 to a \$430 billion market in 2020.

The continued trend of OEM customers requiring their suppliers to manufacture products near the regions where they are being sold is stronger than ever. Some high-volume products, such as consumer devices, require OEMs to utilize the lowest cost manufacturing and tend to prefer Asia for their manufacturing needs. However, due to increasing labor costs in Asia and the logistics costs associated with larger and more complex products, offshore manufacturing has been less of a focus for certain higher margin products. Offshoring will still take place, according to New Venture Research's forecasts, but it will be at a more moderate pace.

Year-Over-Year Revenue Growth by Tier



Note: Chart represents companies from Lincoln's quarterly Stock Index

Global EMS Market by Industry Segment

	2015		2020		CAGR
	Revenue (\$ in millions)	%	Revenue (\$ in millions)	%	
Automotive	\$11,459	3.4%	\$15,217	3.5%	5.8%
Communications	\$127,498	38.3%	\$184,842	42.7%	7.7%
Computer	\$88,438	26.6%	\$97,113	22.4%	1.9%
Consumer	\$47,738	14.4%	\$59,741	13.8%	4.6%
Industrial	\$30,374	9.1%	\$40,637	9.4%	6.0%
Medical	\$15,800	4.8%	\$21,722	5.0%	6.6%
Commercial Aviation	\$5,763	1.7%	\$7,404	1.7%	5.1%
Defense / Other	\$5,537	1.7%	\$6,620	1.5%	3.6%
Total	\$332,606	100.0%	\$433,295	100.0%	5.4%

Source: New Venture Research, 2016

Global Industry Groups

Aerospace & Defense
Automotive & Truck
Building &
Infrastructure
Business Services
Chemicals
Consumer
Distribution
Electronics
Energy & Power
Financial Institutions
Food & Beverage
Healthcare
Industrials
Packaging
Technology & Media

Global Locations

Amsterdam
Beijing
Chicago
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Frankfurt
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