



# DealReader

## EMS

Q2 2017

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### Announcements

- PKC Group has acquired Fortitude Industries (d/b/a Advanced Transit Manufacturing) (Apr-17)
- American Standard Circuits has acquired Camtech Technologies (May-17)
- Pivot International has acquired Avatar Engineering (May-17)
- Avenue Capital Group and Europa Investimenti have acquired Selcom Elettronica (May-17)
- IMI has acquired an 80% stake in STI Enterprises (May-17)

## Q2 2017 Summary

There were 5 EMS transactions recorded in Q2 2017, down slightly from the 6 recorded in Q1 2017. EMS consolidations accounted for 3 transactions in Q2 2017, or 60% of total activity, compared to 33% in the prior quarter.

In Q2 2017, there was one vertical/horizontal convergence, down from the 2 recorded in Q1 2017. This quarter's activity represented 20% of the total, compared to 33% last quarter. Private equity investors accounted for one transaction in Q2 2017, or 20% of the total.

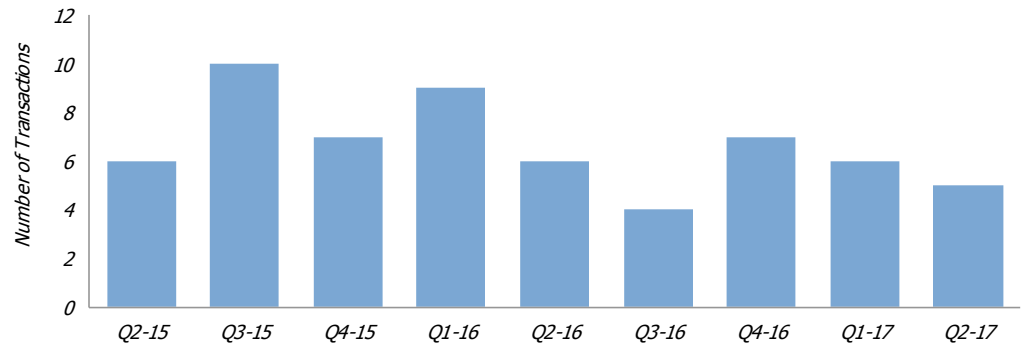
Transactions categorized as Diversification into EMS, EMS Divestitures and OEM Divestitures did not account for any transactions in Q2 2017.

In terms of geography, 2 of the transactions completed in Q2 2017 occurred in North

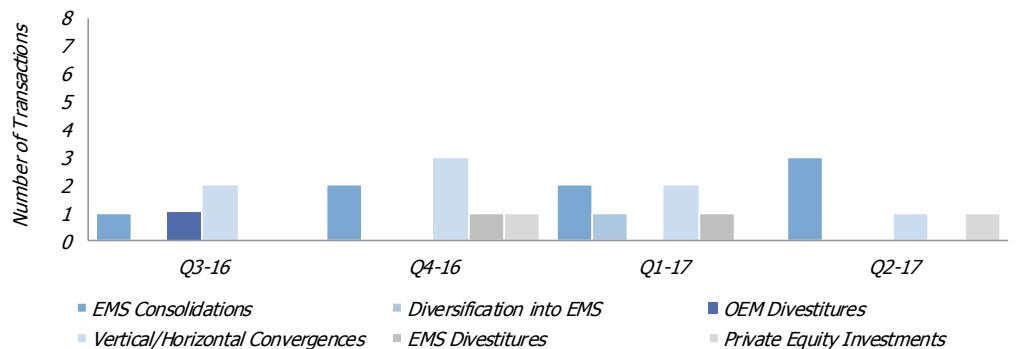
America. This represented 40% of total transaction activity in Q2 2017. One transaction, or 20% of the total, occurred in Europe. There were 2 cross-border transactions in Q2 2017 (60% of the total), one of which occurred between a high-cost region and a low-cost region, and one of which occurred between two high-cost regions. No transactions were isolated to only Asia or South America.

In terms of transaction size, Large Tier EMS providers did not account for any of the transactions in Q2 2017. Mid Tier EMS providers accounted for 3 acquisitions, representing approximately 60% of total activity. There were 2 acquisitions by Small Tier EMS providers during the quarter, representing approximately 40% of the total.

### Completed EMS Transactions



### Quarterly Comparison—EMS M&A by Deal Type

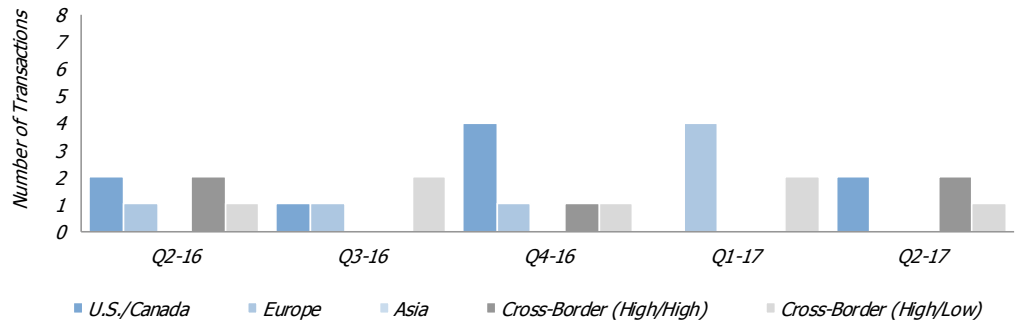


### EMS Size Guide (Sales Dollars)

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

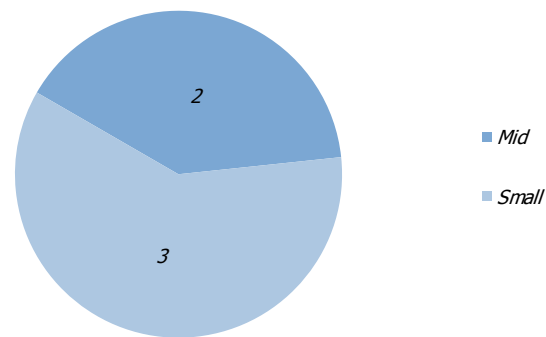
Sources: All information contained in this newsletter including the charts was obtained from company websites, Custer Reports, Lincoln International's internal data, Manufacturing Market Insider and Capital IQ.

### 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.

### Q2 2017 Mergers and Acquisitions by Size



## Margin Performance in the EMS Industry

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

The three graphs on the following page provide an overview of gross margin, operating income margin, and EBITDA margin performance from 2002 through LTM Q2 2017. Each graph shows the margin performance by tier.

The Large Tier EMS companies' gross margin and operating margins decreased slightly to 7.4% and 2.9%, respectively, in the last twelve months ("LTM"), down from 7.5% and 3.0% for the same period in 2016, while EBITDA margin increased to 5.3% from 5.1%. Mid Tier companies' gross margin increased to 10.7% on an LTM basis for 2017, versus 10.6% in the same period in 2016. In addition, operating income margin and EBITDA margin decreased to 3.4% and

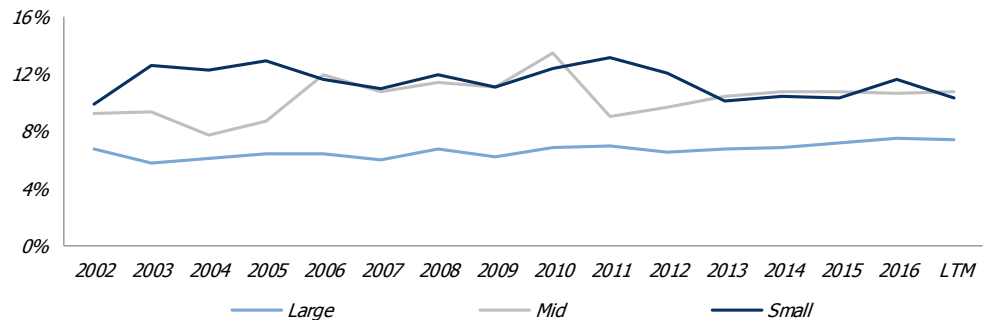
5.8%, respectively, versus 3.7% and 5.9% in the same period in 2016. The Small Tier saw a decrease in all three metrics on an LTM basis to 10.3%, 0.5% and 2.8% for gross margin, operating income margin and EBITDA margin, respectively, down from 11.7%, 2.6% and 4.7% for the same period in 2016.

On a percent change basis comparing the LTM Q2 2017 results with the same period a year ago, in the Large Tier, Sanmina Corporation showed the most improvement in operating margin to 3.4% from 3.2%; while Plexus Corp led the Mid Tier in operating margin improvement, up to 5.2% from 4.1%. All companies in the Small Tier experienced significant operating margin degradation – SigmaTron International was impacted least with a decline from 1.7% to 1.2%, while SMTC was most impacted with a decline from 2.3% to -0.1%.

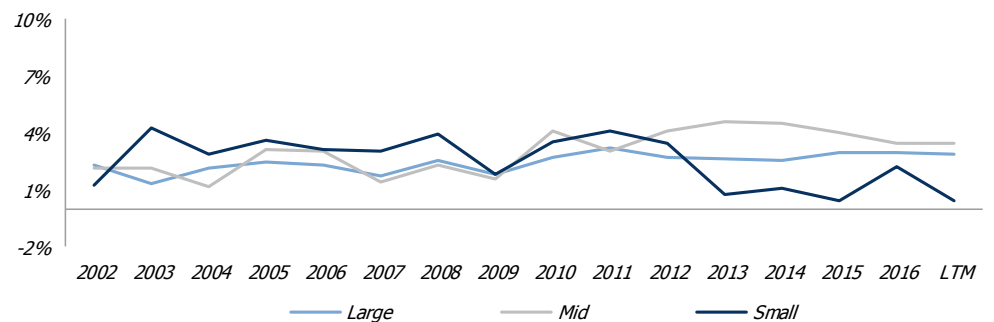
### Margin Data

	Gross Margin	Operating Margin	EBITDA Margin
<b>Large Tier</b>			
Celestica	7.0%	3.0%	4.1%
Flex	6.9%	2.6%	5.1%
Jabil	7.8%	2.7%	6.8%
Sanmina	7.7%	3.4%	5.1%
<b>Average</b>	<b>7.4%</b>	<b>2.9%</b>	<b>5.3%</b>
<b>Mid Tier</b>			
Benchmark	9.2%	3.6%	5.7%
Key Tronic	8.3%	2.3%	3.7%
Kimball	8.1%	4.2%	6.8%
Plexus	10.0%	5.2%	7.0%
Sparton	17.9%	2.0%	5.7%
<b>Average</b>	<b>10.7%</b>	<b>3.4%</b>	<b>5.8%</b>
<b>Small Tier</b>			
IEC	11.4%	0.7%	3.5%
Nortech	11.8%	0.1%	2.1%
SigmaTron	9.5%	1.2%	3.2%
SMTC	8.6%	-0.1%	2.5%
<b>Average</b>	<b>10.3%</b>	<b>0.5%</b>	<b>2.8%</b>

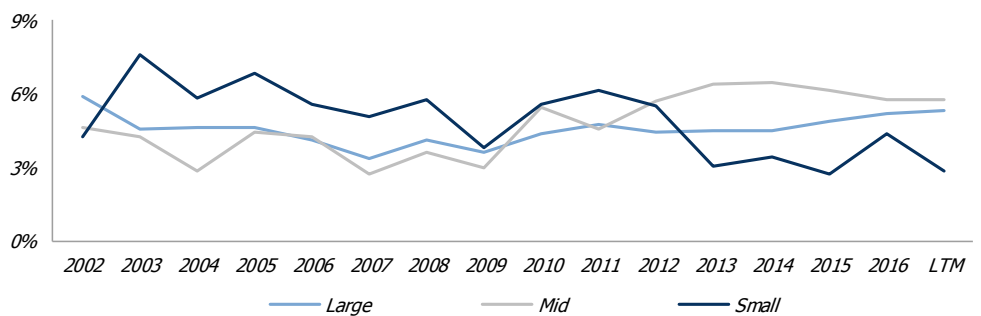
### Average Gross Margin Performance



### Average Operating Income Margin Performance



### Average EBITDA Margin Performance



## 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 &  
Telecom

## Global Locations

Amsterdam  
Beijing  
Chicago  
Dallas  
Frankfurt  
London  
Los Angeles  
Madrid  
Milan  
Moscow  
Mumbai  
Munich  
New York  
Paris  
São Paulo  
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