

**EMS**  
**Quarterly**  
**Review**  
**Q1 2022**



## Announcements

### February 28, 2022:

Intervala has acquired EPE Corporation

### February 1, 2022:

MSD Partners has made a strategic investment in East West Manufacturing

### January 11, 2022:

Naprotek has acquired NexLogic Technologies

### January 10, 2022:

Kitron has acquired BB Electronics

# Lincoln Perspective

There were seven EMS transactions recorded in Q1 2022, representing the same amount and level of activity that was recorded in Q1 2021. EMS consolidations accounted for five transactions in Q1 2022, or approximately 71% of total EMS activity and represents a slight decrease in the number of EMS consolidations compared to Q4 2021.

There was one vertical / horizontal convergence transaction and one private equity (PE) investment transaction recorded in Q1 2022, each representing 14% of total activity.

Original equipment manufacturer (OEM) divestitures did not account for any transactions in Q1 2022, nor were there any transactions categorized as diversification into EMS or EMS divestitures this quarter.

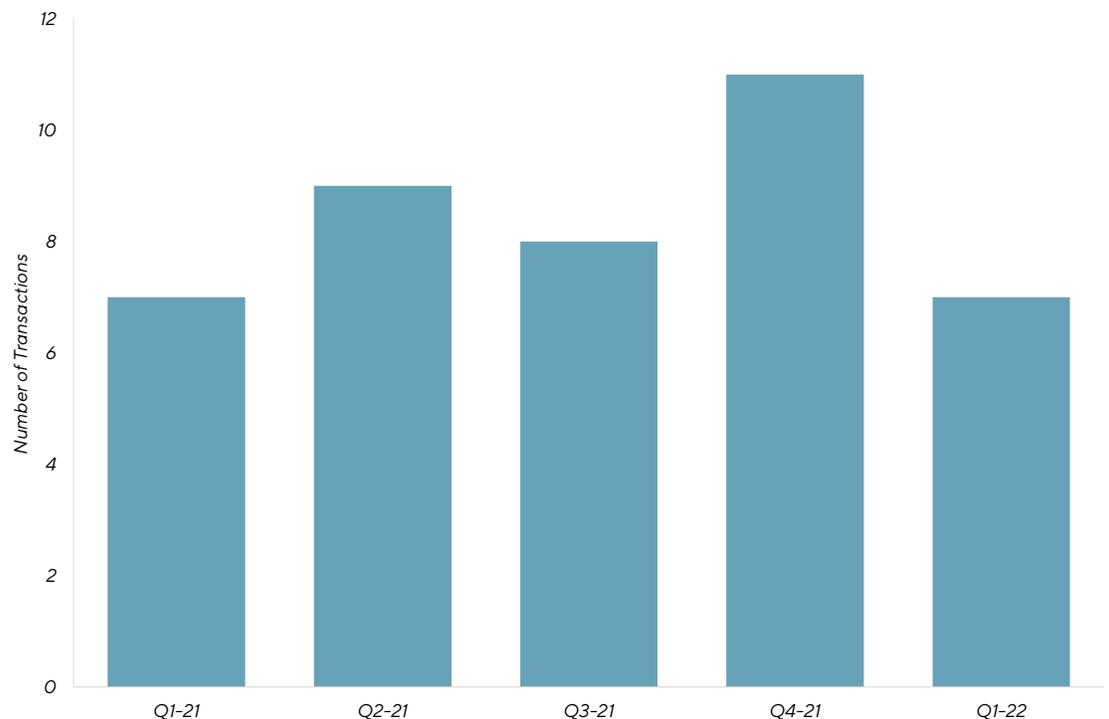
In terms of geography, four of the transactions that were completed in Q1 2022 occurred in the U.S. / Canada. This represented 57% of the total transaction activity in Q1 2022. In Europe, three transactions were completed in Q1 2022, representing 43% of total Q1 activity.

In terms of transaction size, small tier EMS providers accounted for 71% of the Q1 2022 transaction volume with five acquisitions. Mid tier providers accounted for two acquisitions, representing approximately 29% of total activity.

Despite ongoing global challenges of inflation, security and supply chain shortages, deal activity in the EMS sector remains robust and relatively consistent in terms of transaction volumes from the last 12 months. PE investments into EMS continue as there remains both a healthy appetite and sufficient liquidity for large take privates, platform investments as well as add-ons. Positive tailwinds, including but not limited to increased global security and defense spending, the growing electrification of vehicles and the Internet of Things (IoT) revolution, continue to bolster the industry via the increasing demand for electronics content. We expect that these trends and others will continue to drive EMS transaction activity through consolidations and vertical / horizontal convergences in 2022.

## EMS Quarterly Review Q1 2022

### Quarter-over-Quarter Completed EMS Transactions



## EMS Size Guide (Sales Dollars)

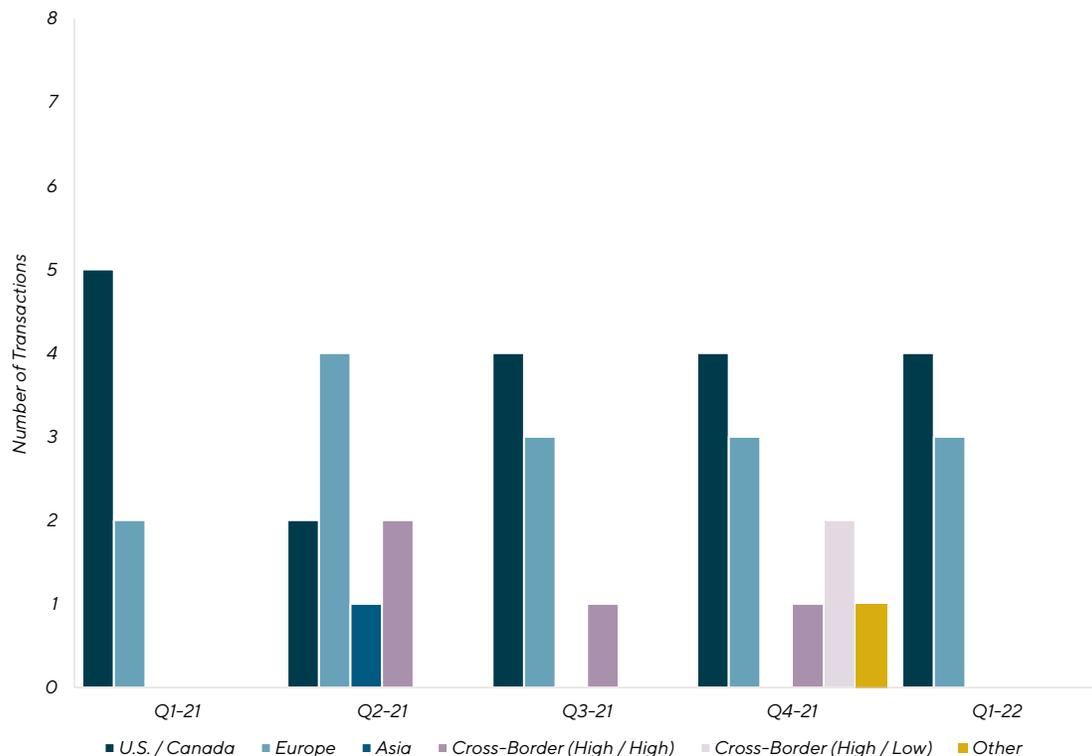
- **Large (Tier I) Greater than \$3 billion**
- **Mid (Tier II) \$300 million to \$3 billion**
- **Small (Tier III) Below \$300 million**

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.

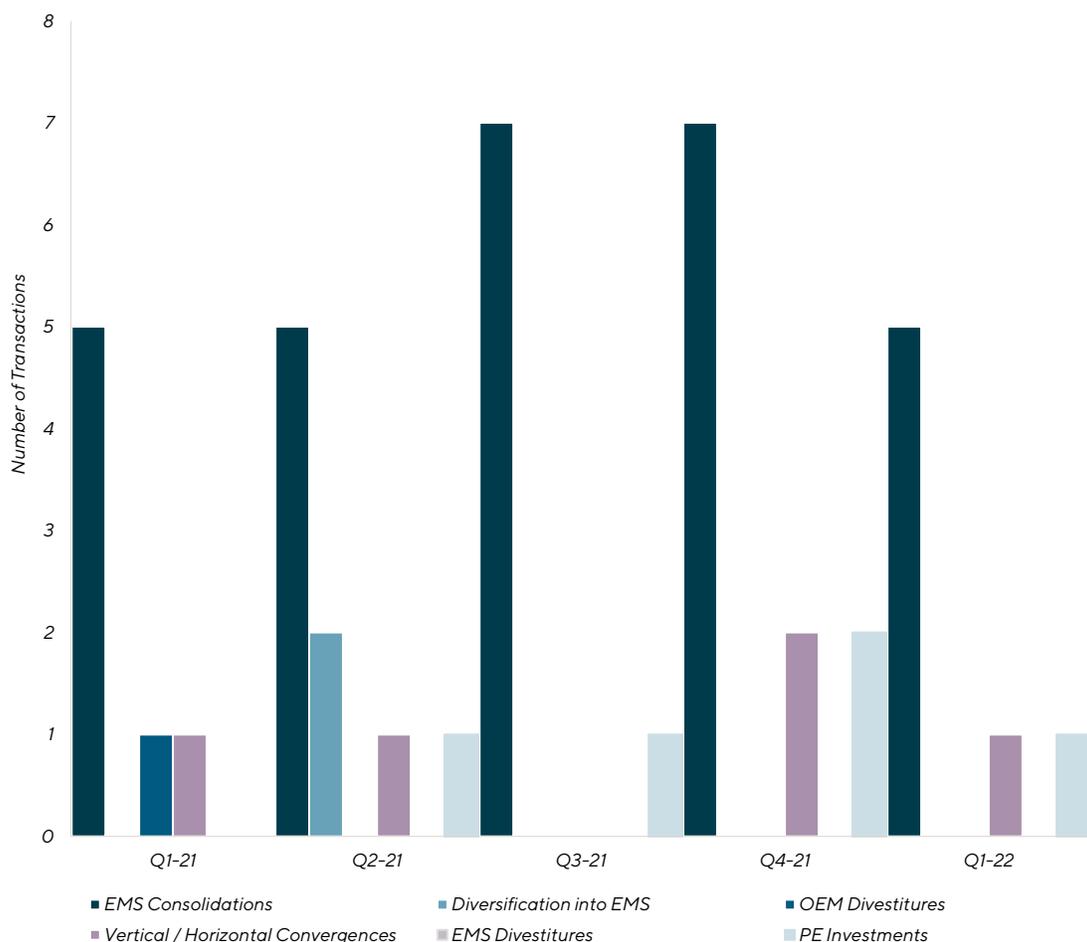
Note: Companies are included in a given tier by falling within the threshold for two consecutive quarters.



## Quarterly Comparison—EMS M&A by Geography



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



# Terms & Turns

## Revisiting the Cash Cycle

The cash cycle is calculated by adding days sales outstanding (DSO) and days inventory outstanding (DIO) and subtracting from this sum days payable outstanding (DPO). The financial statistic is used to measure how quickly a company can turn sales into cash. There are two basic disciplines in managing cash cycle: 1) contractual terms with vendors and customers and 2) inventory turns, hence “Terms & Turns.” Because the EMS industry is very material intensive, inventory management is the most important factor in achieving cash cycle improvements.

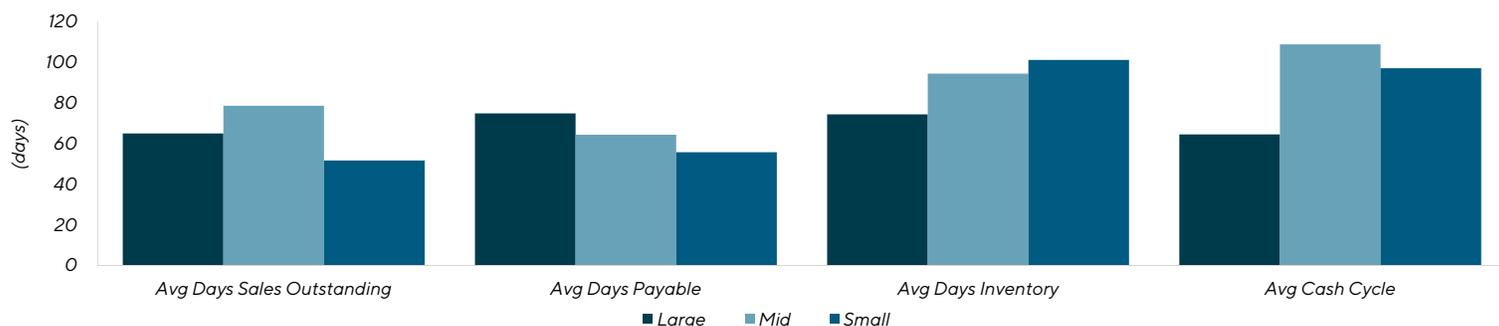
In the large tier, all companies’ cash cycles worsened (more days) relative to their Q1 2021 performance. Celestica’s cash cycle lengthened by 32.9% to 105.0 days, up from 79.0 days in Q1 2021, driven primarily by DIO and DSO growing at a faster rate than its DPO. Likewise, Flex experienced a 85.6% lengthening in its cash cycle, due to higher DIO and lower DPO. Jabil’s cash cycle lengthened by 32.0% to 32.6 days in Q1 2022 from 24.7 days in Q1 2021, as a result of DIO and DSO increasing at a faster rate than its DPO. Similarly, Sanmina’s cash cycle lengthened by 11.2% to 66.6 days in Q1 2022 from 59.9 days in Q1 2021 due to the same factors as Celestica and Jabil.

In the mid tier, all companies experienced worsening cash cycles. Benchmark, Key Tronic, Kimball and Plexus had slower efficiency in turning their sales into cash largely driven by increased DIO among each.

In the small tier, Nortech alone improved its cash cycle, primarily due to faster declines in its DIO and DSO relative to its DPO. Sigmatron experienced an increase in cash cycle, experiencing a 10.3% lengthening from 94.0 days in Q1 2021 to 103.7 days in Q1 2022, largely driven by a significant increase in DIO.

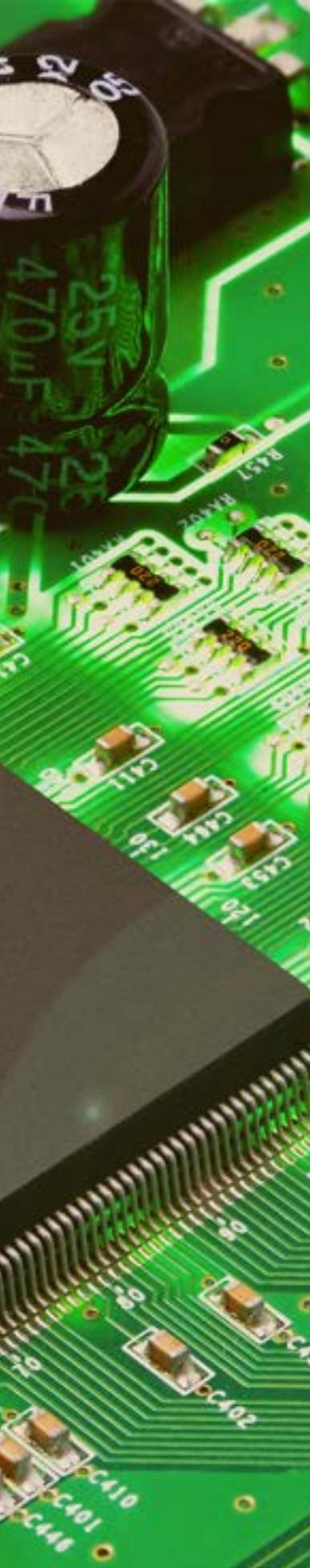
Inventory turnover is the most important cash cycle factor, making up the majority of the cycle. For example, Plexus has one of the longest cash cycles (123.7 days) and also has one of the lowest inventory turns at 3.1. Conversely, two companies with shorter cash cycles, Jabil and Sanmina (cycles of 32.6 and 66.6 respectively), have higher inventory turns (6.3 and 6.0, respectively). Inventory turns are also impacted by business type. Low volume, high mix manufacturing, for which inventory management is more difficult, generally leads to lower turns.

## Q1 2022 Cash Cycle



	Cash Cycle			Inventory Turns		
	Q1-21	Q1-22	%chg	Q1-21	Q1-22	%chg
<b>Large</b>						
Celestica Inc.	79.0	105.0	32.9%	4.7	3.5	(25.2%)
Flex Ltd.	31.2	57.9	85.6%	5.8	4.6	(21.0%)
Jabil Inc.	24.7	32.6	32.0%	7.5	6.3	(16.1%)
Sanmina Corporation	59.9	66.6	11.2%	7.6	6.0	(21.1%)
<b>Median</b>	<b>45.5</b>	<b>62.3</b>	<b>36.7%</b>	<b>6.7</b>	<b>5.4</b>	<b>(18.6%)</b>
<b>Mid Tier</b>						
Benchmark Electronics, Inc.	86.3	96.8	12.2%	5.4	4.5	(16.7%)
Key Tronic Corporation	113.8	128.3	12.7%	3.8	3.6	(7.3%)
Kimball Electronics, Inc.	70.6	89.2	26.3%	6.0	4.6	(22.9%)
Plexus Corp.	93.1	123.7	32.9%	4.1	3.1	(23.4%)
<b>Median</b>	<b>89.7</b>	<b>110.2</b>	<b>22.9%</b>	<b>4.7</b>	<b>4.0</b>	<b>(15.0%)</b>
<b>Small Tier</b>						
Nortech Systems Incorporated	92.5	90.5	(2.2%)	5.7	6.0	5.3%
SigmaTron International, Inc.	94.0	103.7	10.3%	3.1	2.6	(15.1%)
<b>Median</b>	<b>93.2</b>	<b>97.1</b>	<b>4.1%</b>	<b>4.4</b>	<b>4.3</b>	<b>(1.8%)</b>

Note: Negative % change for cash cycle denotes improvement.



# EMS Stock Index Underperforms S&P

Similar to the S&P 500 Index, the EMS Stock Index is a market cap weighted composite index. The index is prepared by first selecting a base period, in this case Q1 2003, and totaling the market caps of the companies for each tier in this period. This period and total market cap is set to a base index, in this case, 1,000.

Next, for each tier, the current period's total market cap is calculated, divided by the base period's total market cap and then multiplied by the base index (1,000). The result is the index value used for plotting in the graph on the next page.

## Quarterly Update Tables

Winners Circle	Tier
NYSE: Celestica Inc.	7.0% I
NYSE: Benchmark Electronics, Inc.	(7.6%) II
NasdaqSC: Nortech Systems Incorporated	1.3% III

EBITDA Margins	
Large Tier	5.9%
Mid Tier	5.1%
Small Tier	5.1%

Worst Performers	Tier
NYSE: Jabil Inc.	(12.3%) I
NasdaqGS: Plexus Corp.	(14.7%) II
NasdaqCM: SigmaTron International, Inc.	(33.9%) III

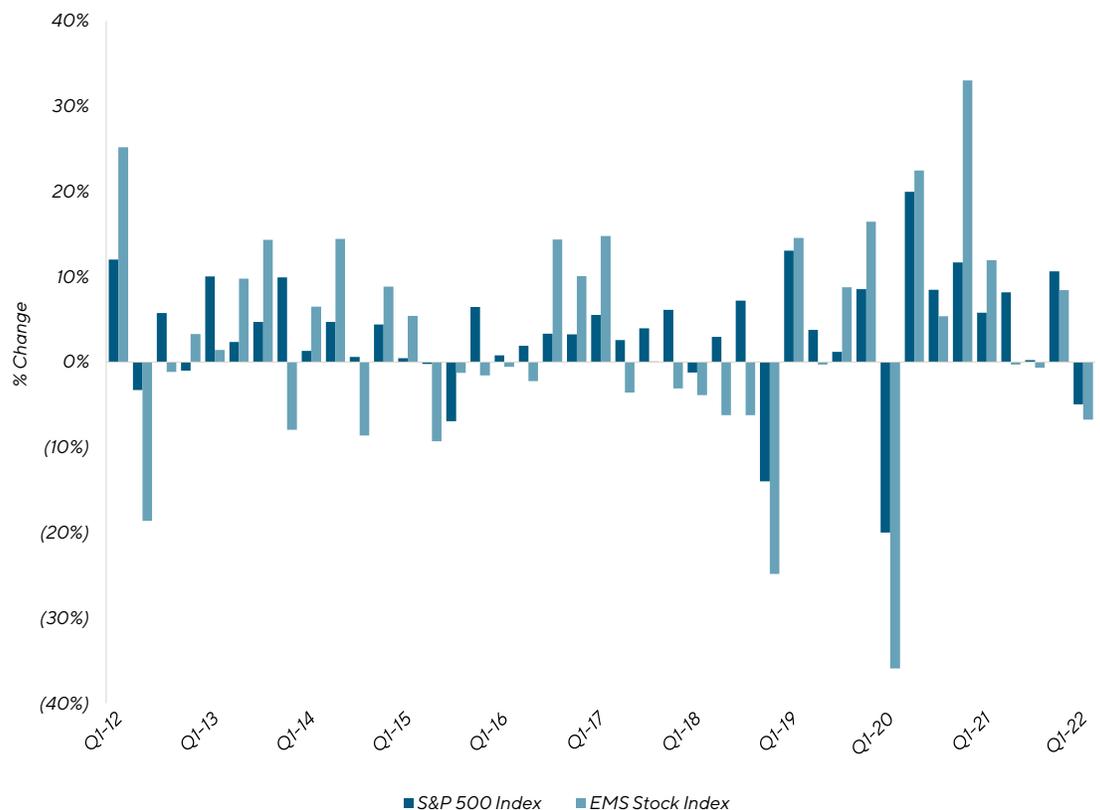
Year-over-Year Last Twelve Months Revenue Growth	
Large Tier	5.1%
Mid Tier	8.1%
Small Tier	25.1%

Note: Based on quarter-over-quarter share price performance

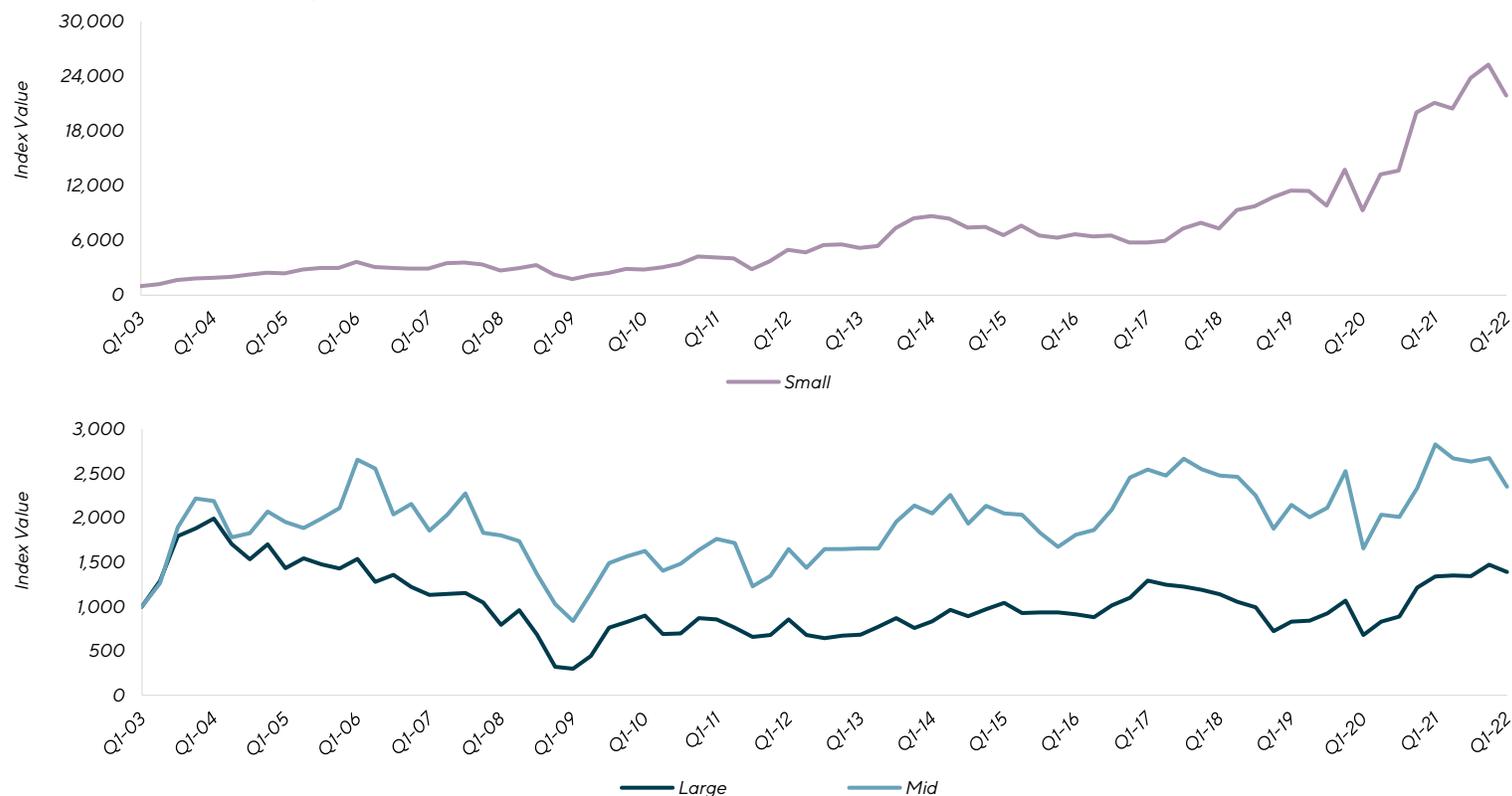
Source: Capital IQ as of March 31, 2022

Note: Average for each sector; YOY stands for year-over-year

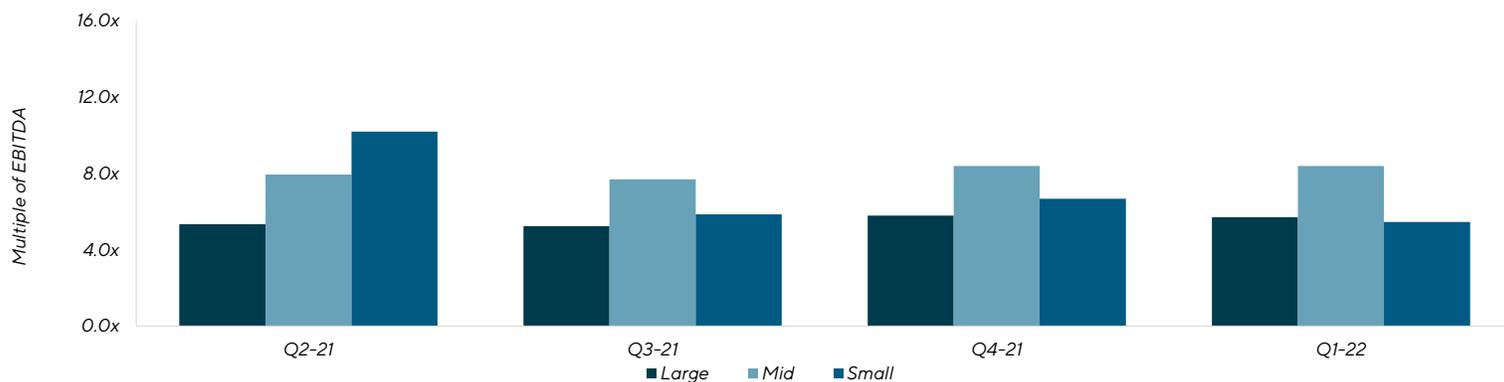
## S&P Index vs. EMS Stock Index Quarter Change



## EMS Stock Index by Size



## Enterprise Value / EBITDA



## EMS Stock Index Company Data

	Stock Price	LTM Sales (\$ in mm)	Diluted EPS	Avg. Cash Conversion Cycle (days)	Current Ratio	EV / EBITDA	EV / Sales	Market Cap (\$ in mm)	Net Debt (\$ in mm)
<b>Large</b>									
Celestica Inc.	\$11.91	\$5,967	\$0.91	105.0	1.5x	6.0x	0.3x	\$1,483	\$441
Flex Ltd.	18.55	26,041	1.94	57.9	1.3x	6.3x	0.4x	8,609	1,784
Jabil Inc.	61.73	30,744	5.42	32.6	1.0x	5.0x	0.4x	8,857	2,348
Sanmina Corporation	40.42	6,759	4.18	66.6	1.7x	5.4x	0.3x	2,569	(237)
<b>Mid</b>									
Benchmark Electronics, Inc.	\$25.04	\$2,386	\$1.08	96.8	2.1x	6.9x	0.4x	\$881	\$57
Key Tronic Corporation	5.65	534	0.22	128.3	2.1x	9.3x	0.4x	61	129
Kimball Electronics, Inc.	19.99	1,305	1.41	89.2	1.8x	7.2x	0.4x	502	50
Plexus Corp.	81.81	3,356	4.35	123.7	1.6x	10.2x	0.7x	2,299	167
<b>Small</b>									
Nortech Systems Incorporated	\$10.48	\$115	\$2.54	90.5	2.3x	6.6x	0.4x	\$28	\$20
SigmaTron International, Inc.	6.83	356	2.34	103.7	1.6x	4.3x	0.3x	35	68

Sources: Bloomberg, Capital IQ and company filings, as of March 31<sup>st</sup>, 2022



# Lincoln's Global Technology, Media & Telecom Group

## Connected to Clients' Ambitions

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## Contributors

### Jack Calderon

Managing Director | Chicago  
+1 (312) 580-6289  
jcalderon@lincolninternational.com

### Chaim Lubin

Managing Director | Chicago  
+1 (312) 506-2753  
clubin@lincolninternational.com



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