

# Q1 2013 Deal Volume Comparison

Chart A: Completed EMS Transactions

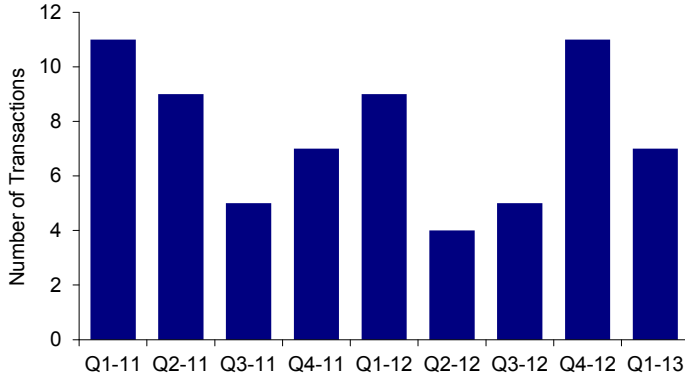
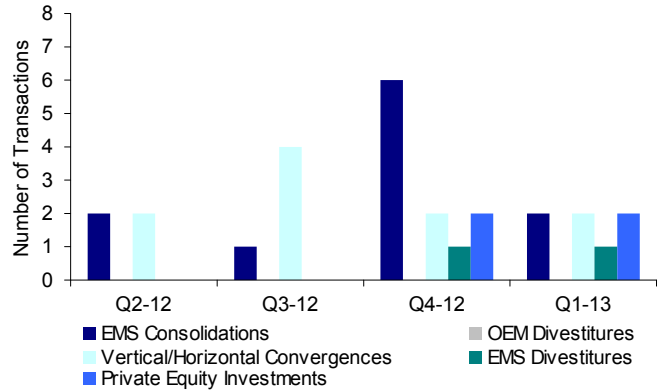


Chart B: Quarterly Comparison—EMS M&A by Deal Type



## Announcements

- EIT, LLC has acquired the Menthuen Massachusetts Manufacturing Facility from Suntron Corp. (January-13)
- Jerome Bootz has acquired Systech SAS (January-13)<sup>(1)</sup>
- Oy Darekon Ltd. has acquired Apelec Oy (January-13)
- The management of Kinery Ltd. has acquired the remaining shares of Kinery Ltd. (February-13)<sup>(2)</sup>
- Tekelek Europe Ltd. has acquired Ingenion Design Ltd. (February -13)
- HANZA AB has acquired Alfaram Oy (February-13)

## Q1 2013 Summary

There were seven completed transactions in Q1 2013. As displayed in Chart A, the seven transactions represent a drop in recent M&A activity compared to eleven transactions in the previous quarter. However, this level of transaction activity is still exhibiting a higher run rate of transaction volume than what was completed in 2012.

As shown in Chart B, EMS consolidations were down from last quarter, representing two, or 29% of Q1 2013 transactions, compared to six in Q4 2012. There were two vertical / horizontal convergences in Q1 2013, flat with Q4 2011. The level of vertical / horizontal convergences has remained active in recent quarters as companies outside of the “pure play” EMS industry have renewed their interest in EMS and expanded horizontally. There were two private equity transaction for the second quarter in a row, following an extended drought of private equity interest in the EMS industry. In addition, Q1

2013 also had one EMS divestiture, remaining flat with Q4 2012.

As illustrated in Chart C, two transactions occurred within the U.S. and Canada in Q1 2013 (29% of total transactions), representing a decrease over the previous quarter. This also highlights a trend of decreased M&A activity in the U.S. and Canada since this same time last year. There were two deals in Europe, down from five in the previous quarter. Cross-border activity is down from last quarter, with two transactions between high cost countries, compared to one transaction between high cost countries and two between high and low cost countries. There was one deal in Asia this quarter, representing the first deal completed in Asia since Q1 2012.

As shown in Chart D, transactions by size for the quarter fell entirely in the Small tier, totaling seven, down from eight in this tier during Q4 2012.

(1) Represents the private equity purchase of Systech SAS by an individual, Jerome Bootz  
 (2) Represents the private equity purchase of Kinery Ltd. by the management team of Kinery

## 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.

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

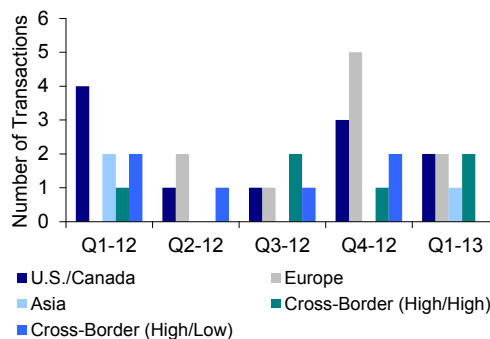
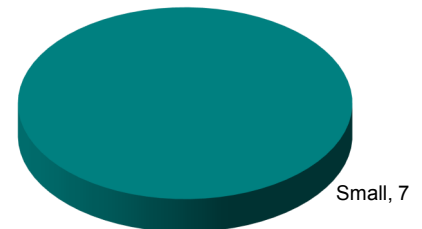


Chart D: Q1 2013 Mergers and Acquisitions by Size



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.

# 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 electronic manufacturing services industry is very material intensive, inventory management is the most important factor in achieving cash cycle improvements.

In the Large Tier, all but one company's cash cycle worsened (more days). Celestica lengthened its cash cycle by 8.0% to 35.0 days from 32.4 in Q1-2012 largely due to lower DPO. Flextronics' cash cycle lengthened from 21.5 days to 22.6, a 4.9% increase, because of higher DSO and higher DIO. Jabil Circuit's cash cycle lengthened from 13.8 days to 14.3, a 3.4% increase, because of higher DSO and higher DIO. However, Sanmina-SCI's cash cycle improved this quarter from 54.6 days to 53.1, a 2.7% decrease, because of higher DPO.

In the Mid Tier, all but Sypris and CTS improved their cash cycles. Benchmark, Key Tronic and Nam Tai shortened their DIO and DSO leading to a significant improvement in their respective cash cycles. While Plexus' DIO decreased significantly, it was offset by an increase in DPO mitigating the overall impact. CTS lengthened its DIO, while Sypris shortened its DPO, both leading to an increase in their respective cash cycles.

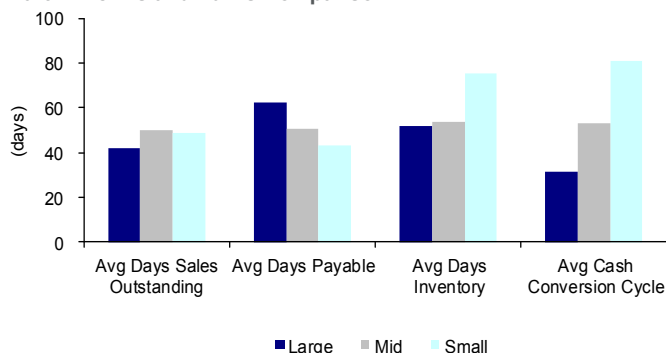
The Small Tier showed improvement in cash cycles for SigmaTron and SMTC, while cash cycles worsened for IEC, Nortech and Sparton. The improvements in cash cycles within the Small Tier were driven by the strengthening of DSO and DIO. IEC's and Nortech's cash cycles worsened due to decreased DPO, while Sparton's cash cycle worsened due to an increase in DSO and DIO.

Inventory turnover is the most important cash cycle factor, making up the majority of the cycle. For example, the company with the longest cash cycle, Sparton (cash cycle of 101.7), also has one the lowest inventory turns at 4.6. Conversely the three companies with the shortest cash cycles, Nam Tai, Jabil and Flextronics (cycles of 4.8, 14.3 and 22.6, respectively) have three of the highest inventory turns (25.4, 6.7 and 7.2, respectively). Inventory turns are also impacted by business type. Low volume, high mix products, for which inventory management is more difficult, generally have lower turns. The cash cycle continues to be a focus for EMS providers due to its significant impact on ROIC and the importance of cash flow for growth.

	Cash Cycle			Inventory Turns		
	Q1-12	Q1-13	%chg	Q1-12	Q1-13	%chg
<b>Large Tier</b>						
Celestica	32.4	35.0	8.0%	7.0	7.5	6.8%
Flextronics	21.5	22.6	4.9%	8.2	7.2	-12.4%
Jabil Circuit	13.8	14.3	3.4%	7.0	6.7	-3.6%
Sanmina-SCI	54.6	53.1	-2.7%	7.0	6.7	-3.4%
<b>Median</b>	<b>27.0</b>	<b>28.8</b>	<b>6.7%</b>	<b>7.0</b>	<b>6.9</b>	<b>-0.6%</b>
<b>Mid Tier</b>						
Benchmark	92.4	77.8	-15.8%	5.4	6.4	18.2%
CTS	64.3	65.4	1.7%	5.6	5.2	-6.6%
Key Tronic	79.1	63.5	-19.8%	5.8	6.8	16.1%
Nam Tai	12.0	4.8	-60.3%	16.7	25.4	51.8%
Plexus	76.5	75.2	-1.8%	4.0	4.2	5.9%
Sypris	30.2	31.4	4.2%	9.4	8.8	-6.3%
<b>Median</b>	<b>70.4</b>	<b>64.4</b>	<b>-8.5%</b>	<b>5.7</b>	<b>6.6</b>	<b>15.3%</b>
<b>Small Tier</b>						
IEC	69.6	70.0	0.5%	6.0	6.0	0.7%
Nortech	81.0	82.9	2.4%	5.1	5.2	1.3%
SigmaTron	123.2	95.4	-22.6%	3.4	4.0	16.1%
SMTC	69.3	54.4	-21.5%	4.2	5.0	19.9%
Sparton	90.6	101.7	12.3%	4.7	4.6	-2.8%
<b>Median</b>	<b>81.0</b>	<b>82.9</b>	<b>2.4%</b>	<b>4.7</b>	<b>5.0</b>	<b>7.1%</b>

Note: Negative % change for cash cycle denotes improvement.

Chart E: Terms and Turns Comparison



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