

Q1 2014 Deal Volume Comparison

Chart A: Completed EMS Transactions

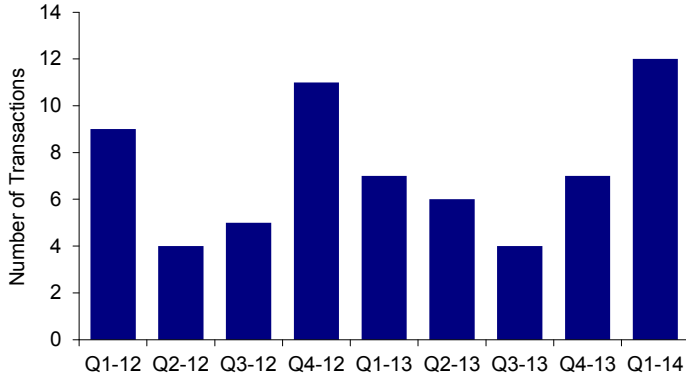
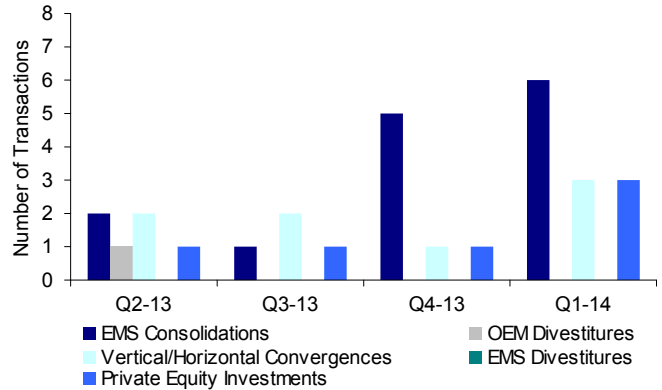


Chart B: Quarterly Comparison—EMS M&A by Deal Type



Announcements

- Scanfil has acquired Schaltex Systems GmbH (March-14)
- Electri-Cord Manufacturing Co. has acquired O.R.M., Inc. (March-14)
- Sparton Corp. has acquired Aubrey Group, Inc. (March-14)
- Lippert Components, Inc. has acquired Innovative Design Solutions, Inc. (February-14)
- HANZA AB has acquired DAVAB Elektronik AB and Arvika Industriklage AB (February-14)
- VirTex Assembly Services, Inc. has acquired MTI Electronics, Inc. (January-14)

Q1 2014 Summary

There were twelve completed transactions in Q1 2014. As displayed in Chart A, the twelve transactions represent an increase in recent M&A activity compared to seven transactions in the previous quarter. This is the highest level of quarterly M&A activity seen in the industry since Q3 2010.

As shown in Chart B, EMS consolidations were up from last quarter, representing six, or 50% of Q1 2014 transactions, compared to five in Q4 2013. There were three vertical / horizontal convergences in Q1 2014, up from one in Q4 2013. 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 three private equity transactions up from one in Q4 2013.

As illustrated in Chart C, seven transactions occurred within the U.S. and Canada in Q1 2014 (58% of total transactions), representing an increase of three transactions over the previous quarter. This is the highest amount of M&A activity in the U.S. and Canada since Q3 2008. There were five deals in Europe, up from two in the previous quarter. There were no cross-border or Asia deals this quarter.

As shown in Chart D, transactions by size for the quarter fell entirely in the Small tier, totaling twelve, up from four in this tier during Q4 2013.

EMS Size Guide

(Sales Dollars)

Large (Tier I)

Greater than \$3 billion

Mid (Tier II)

\$300 million to \$3 billion

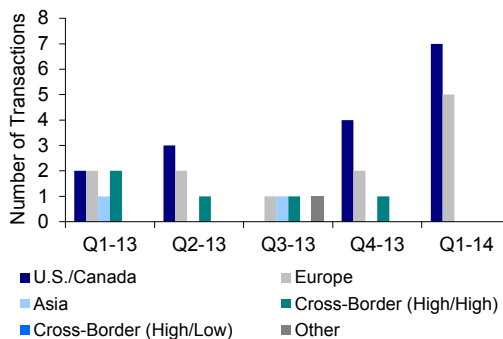
Small (Tier III)

Below \$300 million

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

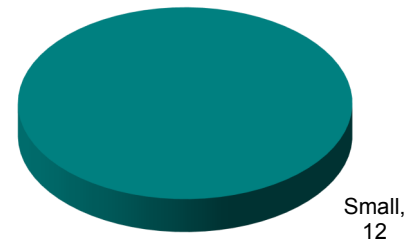
Sources: All information contained in this newsletter including the charts was obtained from company websites, Custer Reports, Lincoln International's internal data, Manufacturing Market Insider, and Capital IQ.

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: Q1 2014 Mergers and Acquisitions by Size



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, two companies' cash cycles worsened (more days), while two companies' cash cycles improved. Celestica lengthened its cash cycle by 17.9% to 41.4 days from 35.1 in Q1 2014 largely due to lower DPO. Flextronics' cash cycle lengthened from 25.6 days to 29.4, a 14.8% increase, because of higher DIO. On the other hand, Jabil Circuit's cash cycle shortened from 14.7 days to 6.1, a 58.5% decrease, because of lower DIO and lower DSO. Sanmina-SCI's cash cycle also improved this quarter from 52.7 days to 50.4, a 4.4% decrease, because of higher DPO.

In the Mid Tier, all but Plexus worsened their cash cycles. Benchmark and Sypris saw decreases in their DPO by more than their DSO shortened resulting in a net increase to the cash cycle. Key Tronic saw increases in both DSO and DIO, which lengthened its cash cycle. Meanwhile Plexus' DPO increased slightly, which minimally decreased the company's cash cycle.

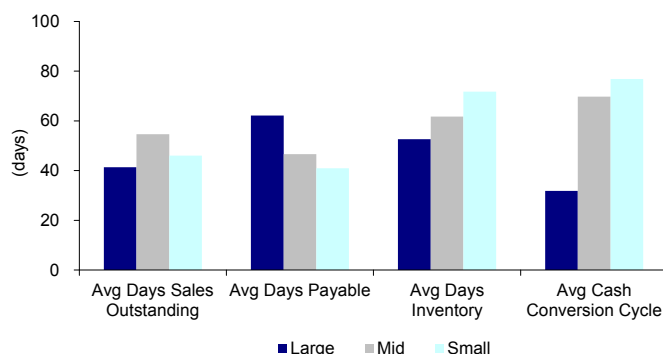
The Small Tier all showed improvement in cash cycles except for IEC. The improvements in cash cycles within the Small Tier were driven mainly by the strengthening of DIO and DSO. IEC's cash cycle worsened due to decreased DPO.

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 97.5), also has one the lowest inventory turns at 5.2. Conversely the three companies with the shortest cash cycles, Jabil, Flextronics and Celestica (cycles of 6.1, 29.4 and 41.4, respectively) have higher inventory turns (7.6, 6.8 and 6.6, 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		
	Q1-13	Q1-14	%chg	Q1-13	Q1-14	%chg
Large Tier						
Celestica	35.1	41.4	17.9%	6.8	6.6	-2.5%
Flextronics	25.6	29.4	14.8%	7.4	6.8	-8.3%
Jabil Circuit	14.7	6.1	-58.5%	6.6	7.6	16.0%
Sanmina-SCI	52.7	50.4	-4.4%	6.8	6.8	0.7%
Median	30.3	35.4	16.6%	6.8	6.8	0.1%
Mid Tier						
Benchmark	79.7	80.2	0.5%	6.2	6.3	1.6%
Key Tronic	70.1	81.8	16.7%	6.6	6.2	-7.2%
Plexus	75.2	74.8	-0.5%	4.2	4.3	0.3%
Sypris	36.6	42.4	15.8%	7.5	8.2	8.9%
Median	72.6	77.5	6.7%	6.4	6.2	-3.0%
Small Tier						
IEC	64.8	78.0	20.4%	6.5	6.0	-7.9%
Nortech	86.6	81.9	-5.5%	4.8	5.6	15.8%
SigmaTron	95.1	79.1	-16.8%	4.0	3.8	-5.9%
SMTC	72.2	47.5	-34.2%	4.6	5.6	20.4%
Sparton	100.1	97.5	-2.6%	4.7	5.2	11.5%
Median	86.6	79.1	-8.7%	4.7	5.6	19.6%

Note: Negative % change for cash cycle denotes improvement.

Chart E: Terms and Turns Comparison



About Lincoln International

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Contact

Lincoln International's Electronics Group is led by a former CEO of a public EMS company. The firm's Electronics team provides transactional, financial and strategic advisory services to electronics companies and private equity groups. For more information, please contact:

NORTH AMERICA

Jack Calderon,
Managing Director (Chicago)
jcalderon@lincolninternational.com

Matthias Norweg,
Director (Chicago)
mnorweg@lincolninternational.com

Chaim Lubin,
Vice President (Chicago)
clubin@lincolninternational.com

EUROPE

Mark Barrow,
Managing Director (UK)
mbarrow@lincolninternational.com

Richard Floto,
Managing Director (Frankfurt)
r.floto@lincolninternational.de

Iván Marina,
Managing Director (Madrid)
i.marina@lincolninternational.es

Géraud Estrangin,
Director (Paris)
g.estrangin@lincolninternational.fr

ASIA

Tetsuya Fujii,
Managing Director and
President - Japan (Tokyo)
tfujii@lincolninternational.com

T.N. Giridhar,
Managing Director and
President - India (Mumbai)
tngiridhar@lincolninternational.com

Joe Chang,
Managing Director and
CEO - China (Beijing)
jchang@lincolninternational.com

SOUTH AMERICA

James Sinclair,
Managing Director and
President - Brazil (São Paulo)
jsinclair@lincolninternational.com



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