

# Q2 2014 Deal Volume Comparison

Chart A: Completed EMS Transactions

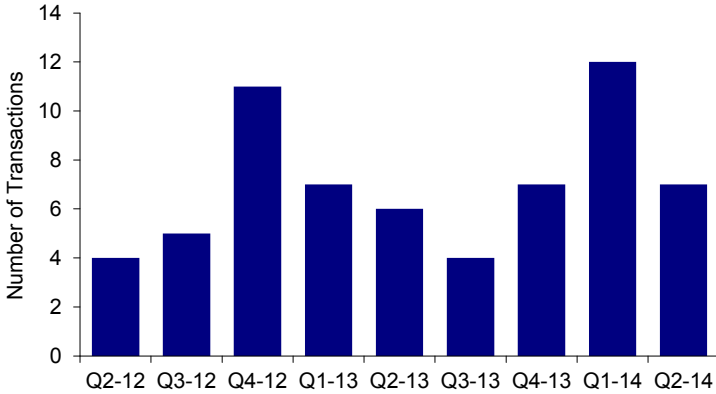
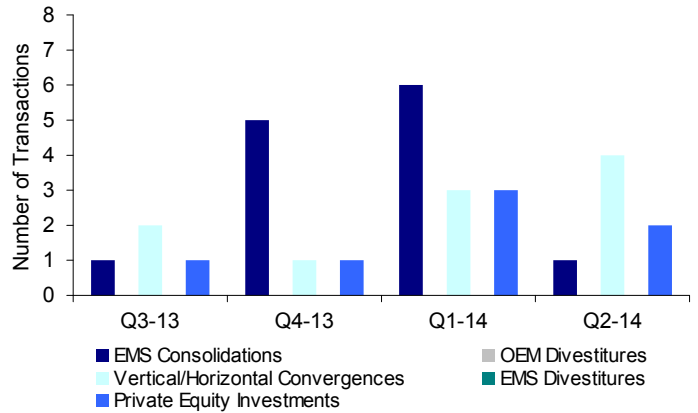


Chart B: Quarterly Comparison—EMS M&A by Deal Type



## Announcements

- 4K Invest has acquired Flextronics' manufacturing facility in Paderborn, Germany manufacturing facility (June-30)
- Kanoria Chemicals has acquired APAG Elektronik (June-27)
- A-Belco has acquired OPSOL UK (June-9)
- Tomoike Industrial has acquired S.M.T. Assembly (June-6)
- Centre Lane Partners has acquired STACI Corp. (May-29)
- Varitron Technologies has acquired Altronics Manufacturing (May-13)
- Contemporary Research Corp. has acquired J.S. Techtronics Assembly (April-8)

## Q2 2014 Summary

There were seven completed transactions in Q2 2014. As displayed in Chart A, the seven transactions show a decrease in the M&A activity compared to the twelve transactions in the previous quarter. However, the year-to-date transaction activity for 2014 remains markedly higher than the same period in 2013 with 19 transactions completed thus far in 2014 versus 13 transactions in Q1 and Q2 for 2013.

As shown in Chart B, vertical/horizontal convergences represented four transactions, or 57% of total activity in Q2 2014. Two transaction this quarter were classified as private equity investments, slightly down from three in the prior quarter. There was one transaction classified as an EMS consolidation in Q2 2014, down from six in the prior quarter. The transaction activity shows an uptick in outside investment in EMS companies both from companies expanding into EMS through vertical / horizontal integration as well as from private equity firms.

As illustrated in Chart C, three transactions occurred within the U.S. / Canada in Q2 2014, or 43% of total transactions, representing a decrease from seven transactions in the U.S. / Canada in the previous quarter. There was one European transaction as well as one transaction within Asia, both up from none in Q1 2014. There were two cross-border transactions, one between two high cost regions (Germany and the U.S.) and one between a high and low cost region (Switzerland and India).

As shown in Chart D, all seven transactions for Q1 2014 were classified within the Small Tier.

## 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

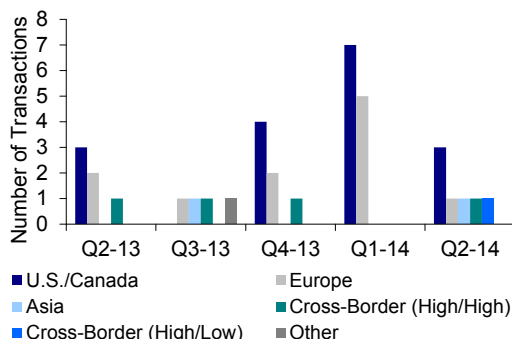
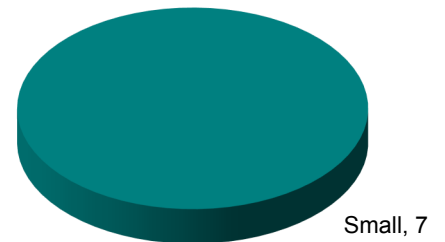


Chart D: Q2 2014 Mergers and Acquisitions by Size



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.

# Margin Squeeze and Expansion: An exploration of Margin Performance in the EMS Industry

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

The three graphs below provide an overview of gross margin, operating income margin, and EBITDA margin performance from 2001 through LTM Q2 2014. Each graph shows the margin performance by tier.

The Large Tier EMS companies' gross margin and operating income margin increased to 6.9% and 2.7%, respectively, in

the last twelve months ("LTM"), up from 6.7% and 2.6% for the same period in 2013. EBITDA margin increased to 4.5%, from 4.4% in the previous year. Mid Tier companies' gross margin and operating income margin remained flat at 10.9% and 3.7%, respectively, while EBITDA margin increased to 5.9% on an LTM basis for 2014 versus 5.8% in the same period in 2013. The Small Tier saw a decrease in all three metrics on an LTM basis to 10.1%, 1.0% and 3.2% for gross margin, operating income margin

and EBITDA margin, respectively, down from 10.7%, 1.3% and 3.5% for the same period in 2013.

On a percent change basis comparing the Q2 2014 results with the same period a year ago, in the Large Tier, Celestica showed the most improvement in operating margin to 2.6% from 2.3%; Benchmark led the Mid Tier in operating margin improvement, up to 3.8% from 3.4%; and IEC Electronics led the Small Tier, improving operating margin to 2.9% from 1.4%.

Chart E: Average Gross Margin Performance

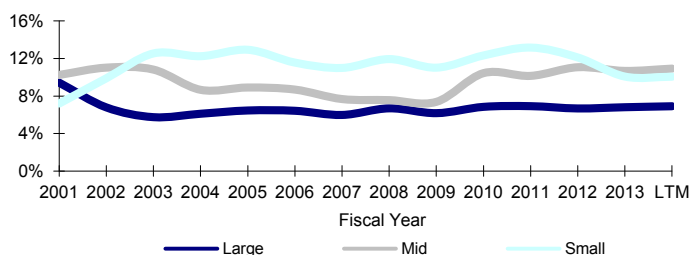


Chart F: Average Operating Income Margin Performance

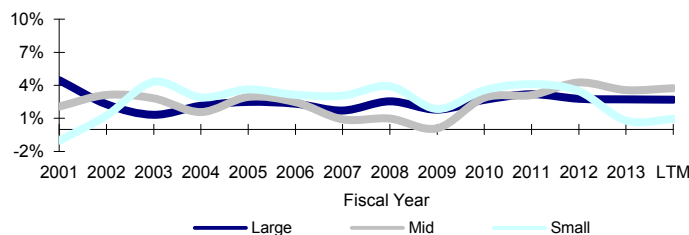
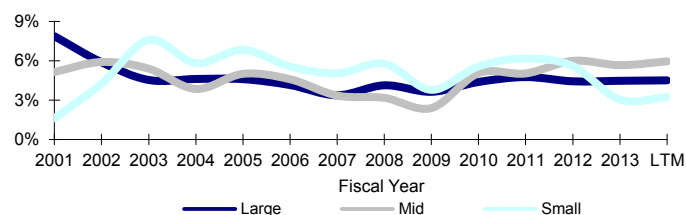


Chart G: Average EBITDA Margin Performance



(LTM)	Gross Margin	Operating Margin	EBITDA Margin
Celestica Inc.	7.0%	2.6%	3.7%
Flextronics International Ltd.	5.7%	2.4%	4.1%
Jabil Circuit Inc.	7.1%	2.5%	5.4%
Sanmina Corporation	7.8%	3.3%	4.9%
<b>Large Group Average</b>	<b>6.9%</b>	<b>2.7%</b>	<b>4.5%</b>
Benchmark Electronics Inc.	7.9%	3.8%	5.4%
Key Tronic Corp.	8.8%	3.3%	4.5%
Plexus Corp.	9.5%	4.7%	6.8%
Sparton Corp.	18.1%	7.2%	9.6%
Sypris Solutions Inc.	10.3%	-0.3%	3.5%
<b>Mid Group Average</b>	<b>10.9%</b>	<b>3.7%</b>	<b>5.9%</b>
IEC Electronics Corp.	13.4%	2.9%	6.4%
Nortech Systems Inc.	11.6%	1.3%	3.1%
SigmaTron International Inc.	10.3%	1.6%	3.9%
SMTC Corporation	4.9%	-2.1%	-0.6%
<b>Small Group Average</b>	<b>10.1%</b>	<b>1.0%</b>	<b>3.2%</b>

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