



# DealReader

## EMS

Q2 2018

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### Announcements

- IMI Subsidiary acquires Toppan Touch Panel Products (Apr-18)
- Elemaster acquires GDM, adds locations in Belgium and Romania (Apr-18)
- VTech to acquire manufacturing facility from Pioneer Corporation (May-18)
- Hindley Circuits buys design shop Irridian Industrial Electronics (May-18)
- lingShot Assembly acquires BEI Electronics (May-18)
- Kimball Electronics acquires GES Holdings (May-2018)
- CCS Customer Care & Solutions acquires NewTal Elektronik (Jun-2018)

## Q2 2018 Summary

There were 9 EMS transactions recorded in Q2 2018, up slightly from the 6 recorded in Q1 2018. EMS consolidations accounted for 6 transactions in Q2 2018, or 67% of total activity, compared to 50% in the prior quarter.

In Q2 2018, there was one vertical/horizontal convergence, the same amount recorded in Q1 2018, or roughly 11% of total activity for this quarter. OEM Divestitures accounted for 2 transactions in Q2 2018, representing 22% of total activity.

Transactions categorized as Diversification into EMS and Private Equity Investments did not account for any transactions in Q2 2018.

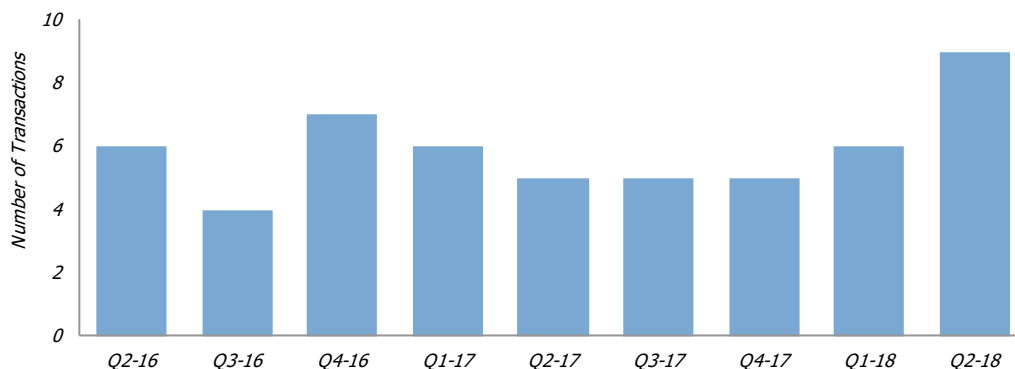
In terms of geography, North America and Europe both recorded 3 transactions in Q2 2018, respectively. Together, these transactions represented 67% of total activity in Q2 2018.

One transaction, or 11% of the total, occurred in Asia. There were 2 cross-border transactions in Q2 2018 (22% of the total), one of which occurred between a

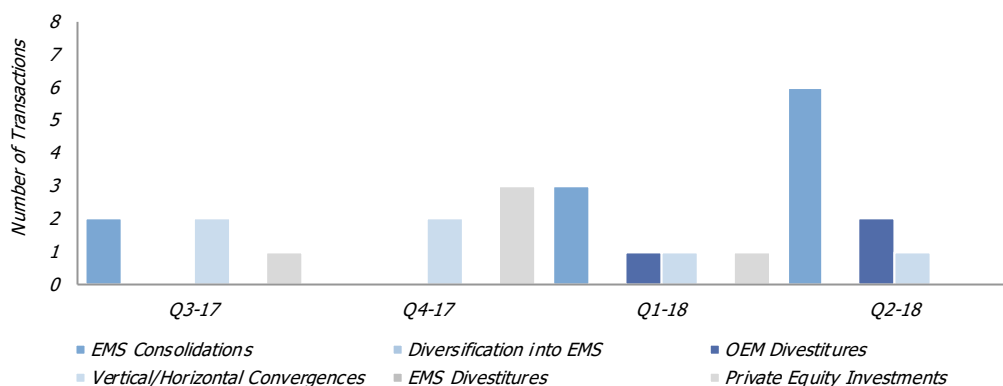
high-cost region and a low-cost region, and one of which occurred between two high-cost regions. No transactions were isolated to only South America.

In terms of transaction size, Large Tier EMS providers did not account for any of the transactions in Q2 2018. Mid Tier EMS providers accounted for 3 acquisitions, representing approximately 33% of total activity. There were 6 acquisitions by Small Tier EMS providers during the quarter, representing approximately 67% of the total.

### Completed EMS Transactions



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

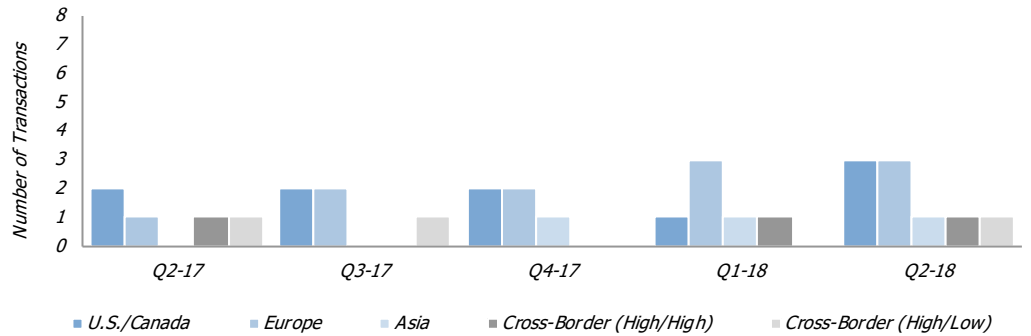


### EMS Size Guide (Sales Dollars)

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

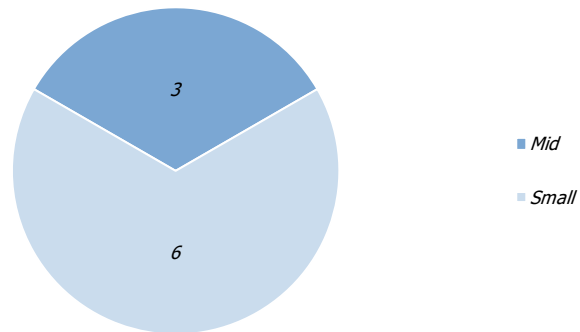
Sources: All information contained in this newsletter including the charts was obtained from company websites, Custer Reports, Lincoln International's internal data, Manufacturing Market Insider and Capital IQ.

### 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 2018 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 2018. Each graph shows the margin performance by tier.

The Large Tier EMS companies' gross margin and operating margins decreased slightly to 6.8% and 2.5%, respectively, in the last twelve months ("LTM"), down from 7.3% and 2.9% for the same period in 2017. EBITDA margins also experienced a decline, falling from 5.3% to 4.7%. Mid Tier companies demonstrated similar declines across margin performance. Gross margins fell from 8.9% to 8.6%, while operating margins declined from 3.8% to 3.3%. EBITDA margins experienced decreased slightly from 5.8% to 5.2% for the same period in 2017.

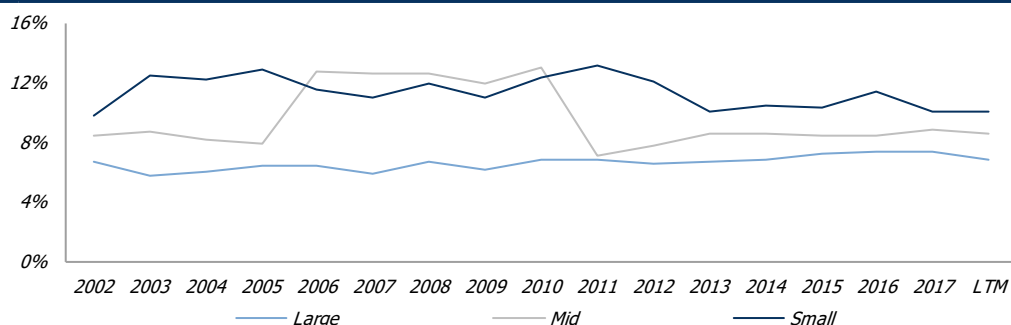
The Small Tier also saw a decrease in all three metrics on an LTM basis to 10.0%, 0.2% and 2.4% for gross margin, operating income margin and EBITDA margin, respectively, down from 10.4%, 0.4% and 2.7% for the same period in 2017.

On a percent change basis comparing the LTM Q2 2018 results with the same period a year ago, in the Large Tier, Jabil Inc. showed the most improvement in operating margin to 2.8% from 2.7%; while IEC Electronics Corp significantly led the Small Tier in operating margin improvement improving from 0.0% to 1.9%. All companies in the Mid Tier experienced significant operating margin degradation – Kimball Electronics, Inc. was impacted least with a decline from 4.2% to 4.0%, while Key Tronic Corporation was most impacted with a decline from 2.3% to 1.3%.

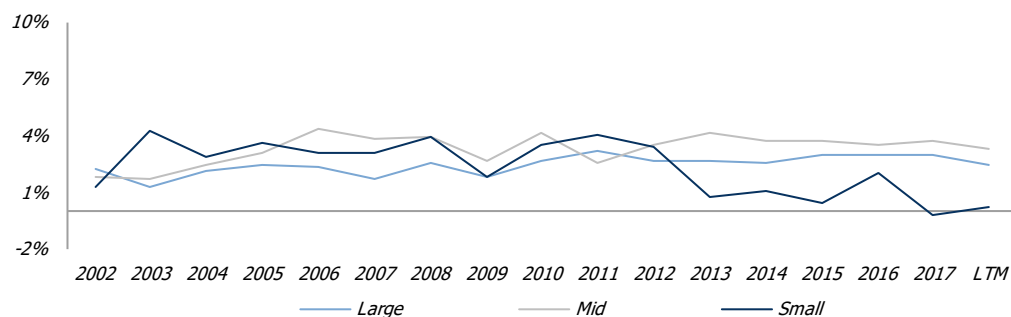
### Margin Data

	Gross Margin	Operating Margin	EBITDA Margin
<b>Large Tier</b>			
Celestica	6.5%	2.7%	3.9%
Flex	6.3%	2.0%	4.1%
Jabil	7.9%	2.8%	6.4%
Sanmina	6.7%	2.5%	4.2%
<b>Average</b>	<b>6.8%</b>	<b>2.5%</b>	<b>4.7%</b>
<b>Mid Tier</b>			
Benchmark	9.1%	3.4%	5.2%
Key Tronic	7.7%	1.3%	3.0%
Kimball	8.0%	4.0%	6.4%
Plexus	9.5%	4.6%	6.3%
<b>Average</b>	<b>8.6%</b>	<b>3.3%</b>	<b>5.2%</b>
<b>Small Tier</b>			
IEC	11.9%	1.9%	4.0%
Nortech	10.9%	-0.5%	1.7%
SigmaTron	9.6%	1.2%	3.2%
SMTC	7.8%	-1.7%	0.6%
<b>Average</b>	<b>10.0%</b>	<b>0.2%</b>	<b>2.4%</b>

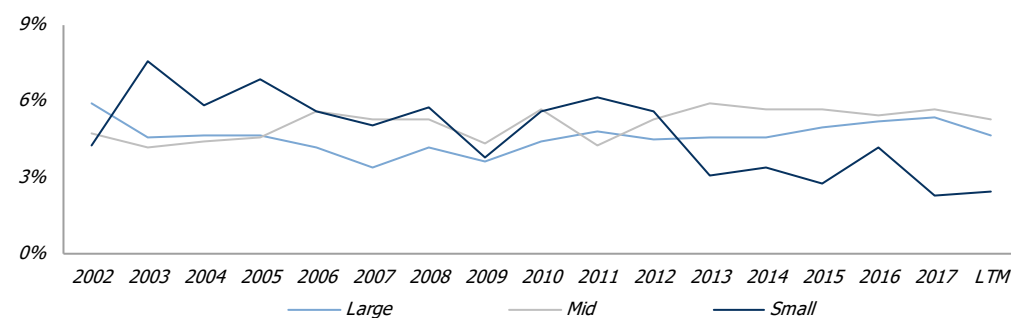
### Average Gross Margin Performance



### Average Operating Income Margin Performance



### Average EBITDA Margin Performance



## Global Industry Groups

Business Services  
Consumer  
Energy, Power & Infrastructure  
Healthcare  
Industrials  
Technology, Media & Telecom

## Global Locations

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Beijing  
Chicago  
Dallas  
Frankfurt  
London  
Los Angeles  
Madrid  
Milan  
Moscow  
Mumbai  
Munich  
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