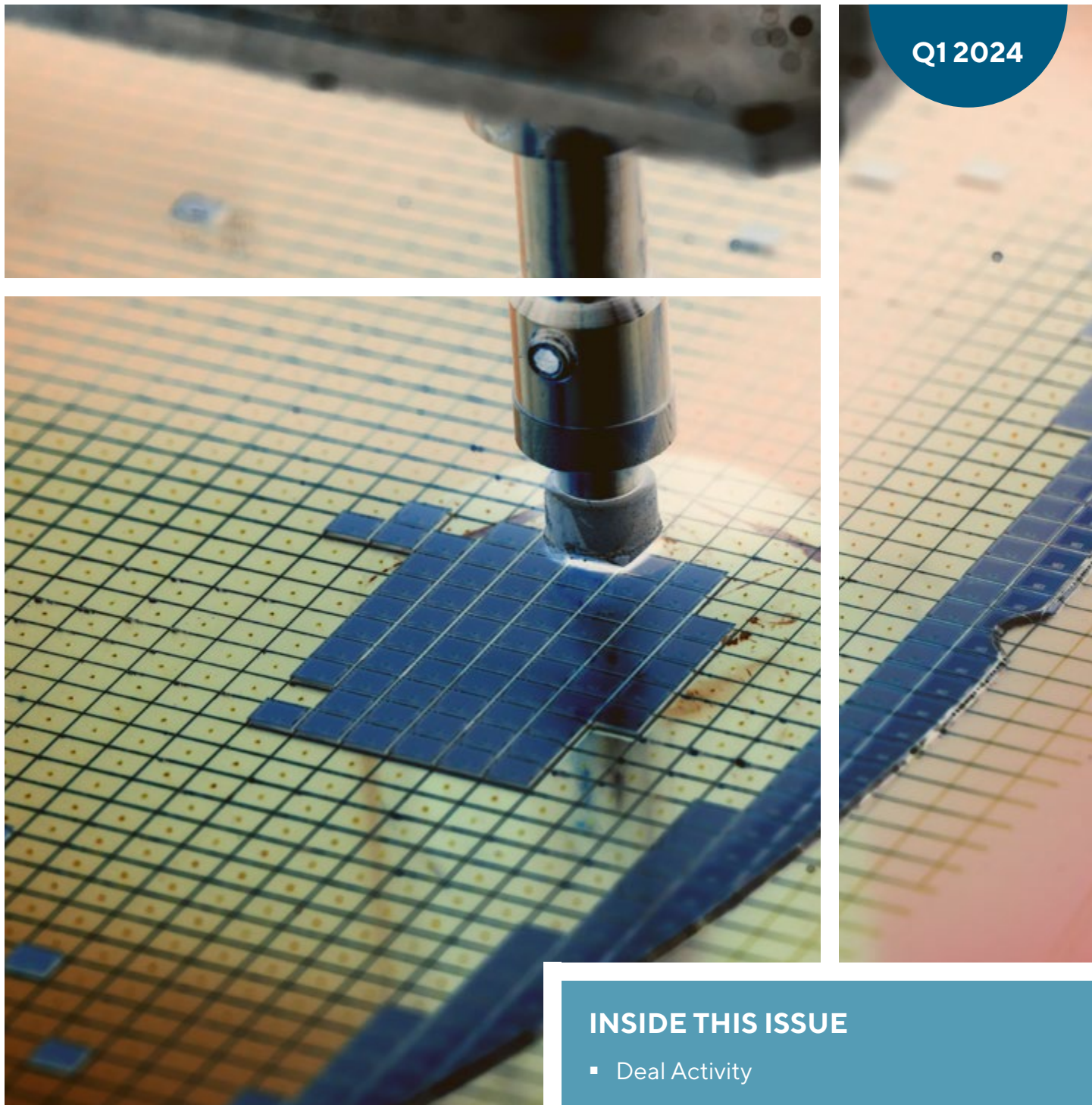


EMS

Quarterly Review



Q1 2024

INSIDE THIS ISSUE

- Deal Activity
- Terms & Turns
- Margin Performance
- EMS Stock Performance

Lincoln Perspective

In Q1 2024, the EMS industry saw increased momentum. The normalization of inventories, cash cycles and consistent improvement in margins underscores emerging market optimism. In all, Q1 2024 saw more tangible proof points of the EMS sector trend of employing nimbleness to navigate sector dynamics.

While the publicly listed EMS companies experienced mixed stock performance and overall underperformance to the S&P 500 in Q1 2024, the improved financial profiles of the sector highlights its ability to execute adaptive strategies. Resourceful supply chain management practices, including diversifying component sources, emerged as a key focus. This adaptive approach, coupled with strategic collaborations and agile response mechanisms, positions the EMS sector to effectively build on improved financial stability into the future.

In this publication, we observe that despite relatively unchanged revenue from the previous quarter, margins have improved. Gross margin, operating margin and EBITDA margin performance for large, mid and small tier companies have improved overall in the last-12-month (LTM) period relative to the same time last year. EMS companies' cash cycles and inventory turns show mixed results as compared to Q1 2023 as the industry fully normalizes the supply chain and customer demand. Mergers and acquisitions (M&A) activity is expected to rise in 2024-2025, especially with middle-market EMS companies, driven by demand resiliency and broader market improvement. With the EMS sector set to expand significantly, more M&A activity is expected for consolidating key capabilities and introducing additional capital to realize near- and long-term growth.

NOTABLE ANNOUNCEMENTS

January 17, 2024:
Neways Electronics has acquired Sencio BV

EMS Quarterly Review Q1 2024

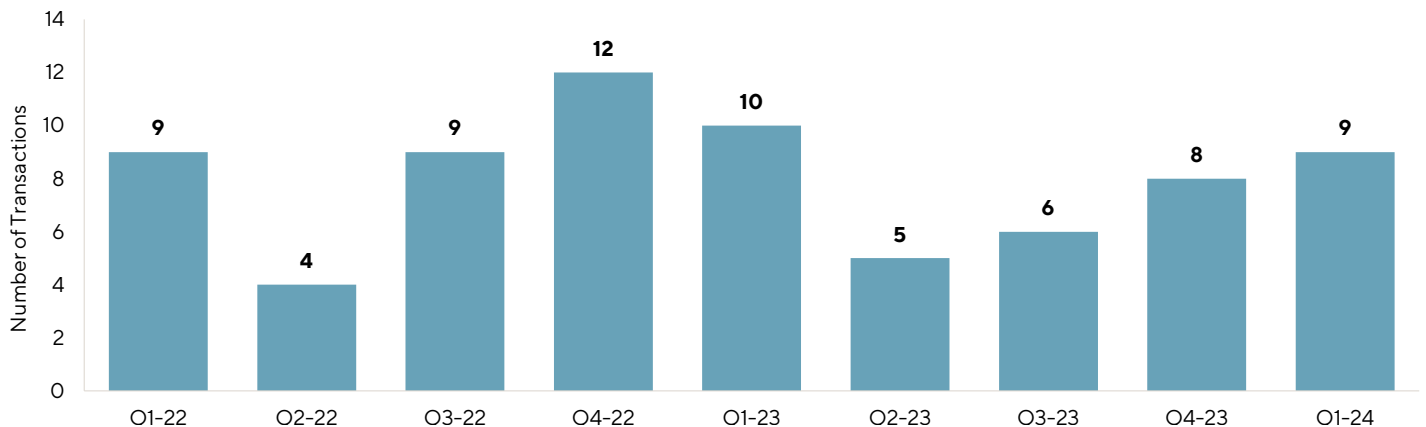
There were nine EMS transactions recorded in Q1 2024, representing a decrease in the 10 recorded in Q1 2023 and the same number of transactions recorded in Q1 2022. EMS consolidations accounted for three of the transactions in Q1 2024, or approximately 44% of total activity, representing a decrease in the number of EMS consolidation transactions compared to the previous four years' Q1. Vertical / horizontal convergence accounted for four of the transactions in Q1 2024, or approximately 56% of the total activity, representing the highest number of vertical / horizontal transactions in the previous three years.

Diversification into EMS, EMS divestitures, private equity investment and original equipment manufacturer divestitures did not account for any transactions in Q1 2024.

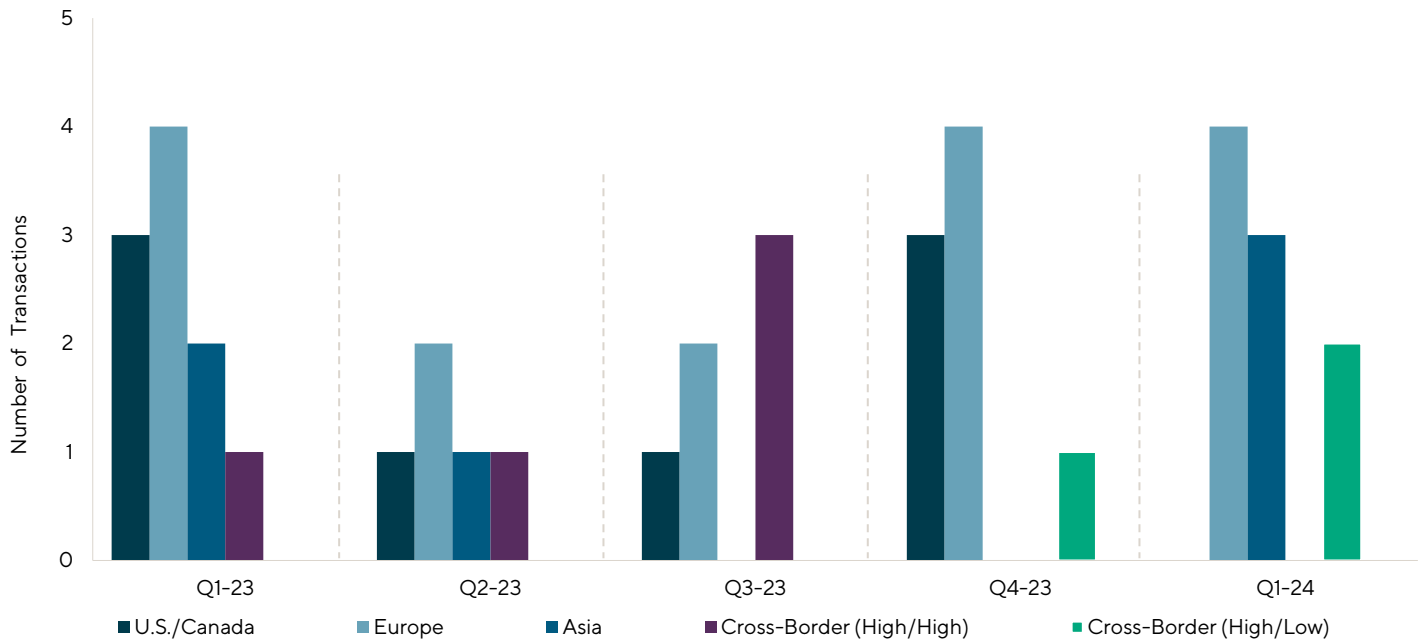
By geography, Europe had four transactions, representing approximately 44% of total Q1 2024 EMS transactions. Asia had three transactions, representing 33% of total transaction activity in Q1 2024. Cross-border (High / High) had zero transactions, cross-border (High / Low) had two transactions, representing 22% of total transaction activity in Q1 2024. U.S. / Canada did not record a closed transaction in Q1 2024.

In terms of transaction by acquirer, small-tier EMS providers accounted for two of the Q1 2024 transaction volume, or 22% of the transaction activity. Five transactions was categorized as mid-tier EMS deal, which represented 56% of EMS deals recorded in Q1 2024. Additionally, two transactions were categorized as large tier EMS deals, which represented 22% of EMS deals recorded in Q1 2024.

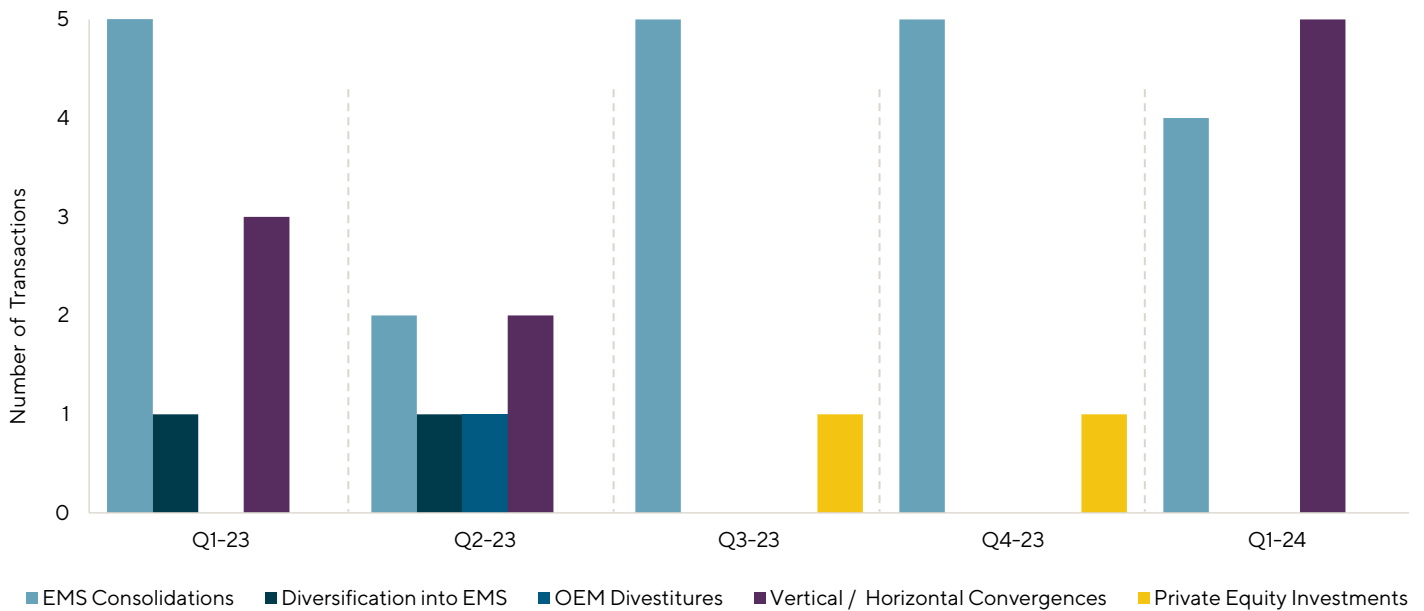
QUARTER-OVER-QUARTER COMPLETED EMS TRANSACTIONS



QUARTERLY COMPARISON—EMS M&A BY GEOGRAPHY



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

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

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, most companies’ cash cycles worsened (more days) relative to their Q1 2023 performance.

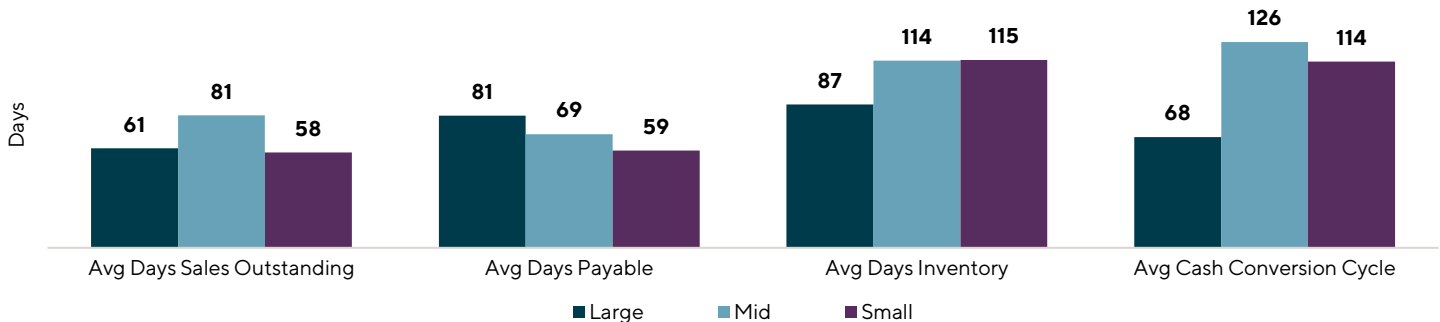
Celestica’s cash cycle shortened by 4.3% to 103.3 days, down from 108 days in Q1 2023, driven primarily by DIO shrinking at a faster rate than its DPO grew. Inversely, Flex experienced a 7.6% lengthening in its cash cycle, due to higher DIO and DSO. Jabil’s cash remained unchanged at 40.4 days. Additionally, Sanmina’s cash cycle improved and shortened by (1.2%) to 57.4 days in Q1 2024 from 58.1 days in Q1 2023 due to a decline in its DSO.

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

In the small tier, Nortech and SigmaTron saw an increase in their cash cycles, primarily due to material increases in DSO.

Inventory turnover is the most important cash cycle factor, making up most of the cycle. For example, Plexus has one of the longest cash cycles (159.9 days) and also has one of the lowest inventory turns at 2.6. Conversely, two companies with shorter cash cycles, Jabil and Sanmina (cycles of 40.4 and 57.4 respectively), have higher inventory turns (5.4 and 5.3 respectively). Inventory turns are also impacted by business type. Low-volume, high-mix operations, generally exhibit lower inventory turns.

Q1 2024 CASH CYCLE



	Cash Cycle			Inventory Turns		
	Q1-23	Q1-24	% Change	Q1-23	Q1-24	% Change
Large Tier						
Celestica	108.0	103.3	(4.3)%	3.2	3.4	8.7%
Flex	64.3	69.2	7.6%	4.0	3.7	(7.9)%
Jabil	40.4	40.4	0.0%	5.4	5.2	(5.2)%
Sanmina	58.1	57.4	(1.2)%	5.3	5.0	(6.0)%
Median	61.2	63.3	3.5%	4.7	4.3	(6.8)%
Mid Tier						
Benchmark	112.9	126.6	12.2%	3.9	3.6	(6.0)%
Key Tronic	132.4	109.0	(17.7)%	2.9	3.9	31.4%
Kimball	99.8	106.7	6.9%	3.8	3.6	(5.8)%
Plexus	143.8	159.9	11.2%	2.6	2.3	(12.6)%
Median	122.6	117.8	(3.9)%	3.4	3.6	7.3%
Small Tier						
Nortech	90.0	98.9	9.9%	5.5	5.3	(3.7)%
SigmaTron	124.5	128.2	3.0%	2.2	2.3	6.1%
Median	107.2	113.5	5.9%	3.8	3.8	(0.9)%

Note: Based on the latest available financial data in Capital IQ, as of March 31, 2024

Margin Performance in the EMS Industry

Large-tier, mid-tier and small-tier EMS companies have all demonstrated generally positive margin results across all metrics for the LTM Q1 2024 period. The three graphs on the following page provide an overview of gross margin, operating margin and EBITDA margin performance from 2003 through LTM Q1 2024. Each graph shows the margin performance by tier.

The large-tier EMS companies exhibited gross margin expansion in the LTM to 9.2%, a 100 basis points (bps) increase from the LTM period ending Q1 2023. Additionally, operating and EBITDA margins for large-tier companies expanded by 50 bps and 70 bps, versus the same period in 2023, to 4.9% and 6.8% respectively in the LTM Q1 2024 period.

The mid-tier exhibited overall margin expansion increasing in all three metrics on an LTM basis to 9.0%, 4.3% and 6.0% for gross margin, operating margin and EBITDA margin, respectively. This is up from 8.4%, 3.6% and 5.2% for the same period in 2023, respectively.

Small-tier companies also exhibited margin expansion increasing gross margins by 50 bps to 13.9% and operating margins by 1.2% to 4.3%, and EBITDA margins increased by 120 bps to 5.8% compared to the same period in 2023.

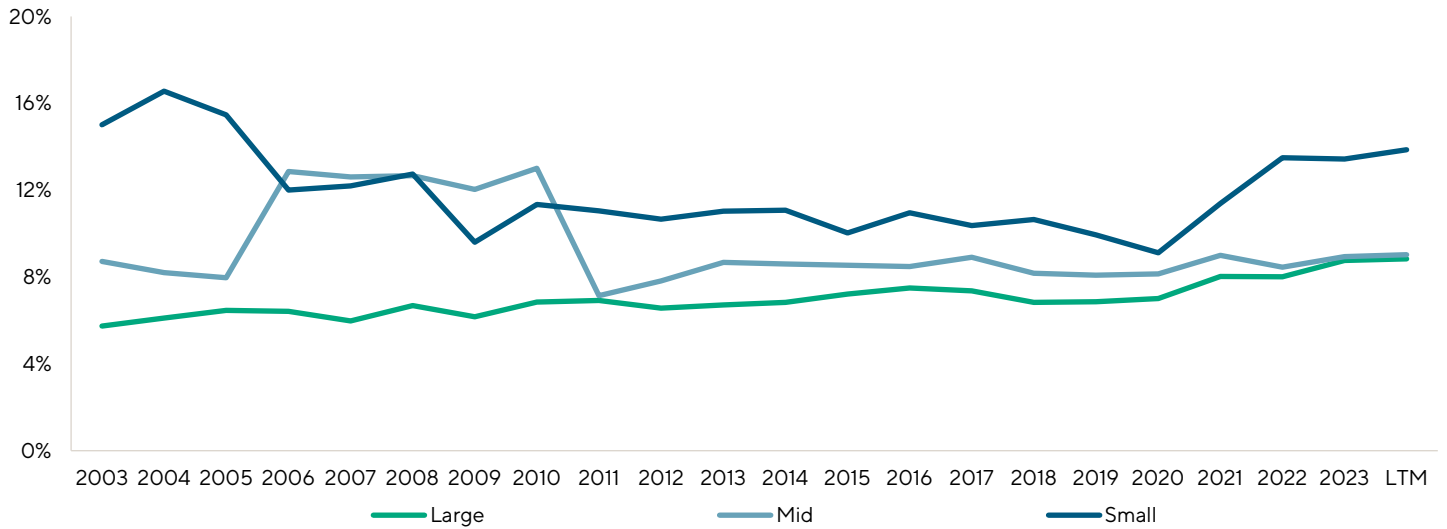
On a percent change basis comparing the LTM Q1 2023 results with the same period a year ago, in the large tier, Flex showed the largest increase in operating margin to 4.8%, an increase of 100 bps. In the mid-tier, Key Tronic exhibited an operating margin improvement of 90 bps over the prior year. In the small tier, Nortech Systems realized the largest operating margin expansion of 1.5% from 2.8% to 4.3% versus in 2023. Overall, the EMS sector maintains its upward trajectory, bolstered by the sustained “Electronics Super-Cycle”, which is driving persistent electronics demand.

AVERAGE GROSS MARGIN PERFORMANCE

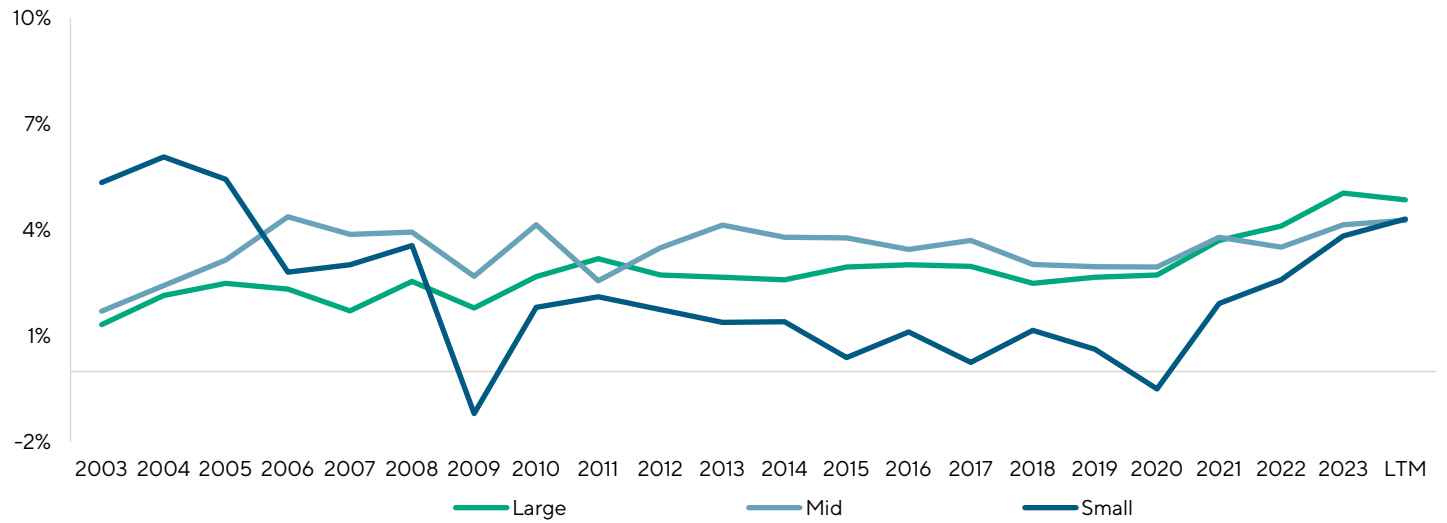
	Gross Margin	Operating Margin	EBITDA Margin
Large			
Celestica Inc.	9.3%	4.7%	5.9%
Flex Ltd.	9.6%	4.8%	7.3%
Jabil Inc.	8.9%	5.0%	7.3%
Sanmina Corporation	8.9%	5.3%	6.4%
Large Tier Average	9.2%	4.9%	6.8%
Mid			
Benchmark Electronics, Inc.	9.6%	4.2%	5.6%
Key Tronic Corporation	8.2%	2.5%	4.2%
Kimball Electronics, Inc.	8.8%	5.3%	7.2%
Plexus Corp.	9.5%	5.2%	7.0%
Mid Tier Average	9.0%	4.3%	6.0%
Small			
Nortech Systems Incorporated	16.6%	4.3%	5.7%
SigmaTron International, Inc.	11.1%	4.3%	5.9%
Small Tier Average	13.9%	4.3%	5.8%

Note: Based on the latest available financial data in Capital IQ, as of March 31, 2024

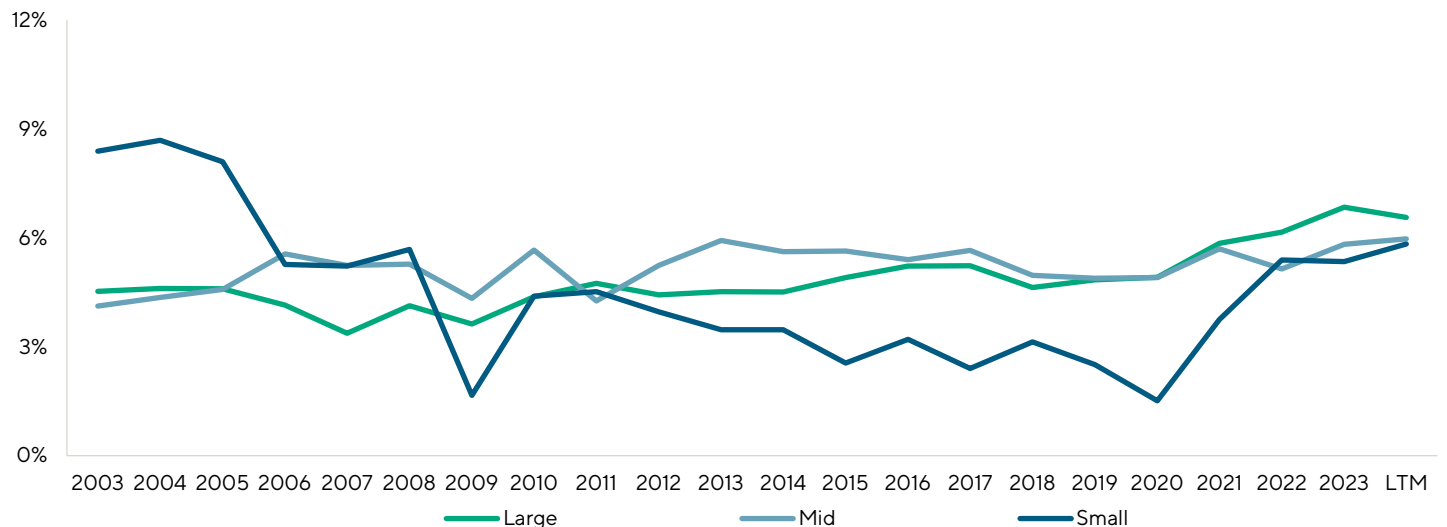
AVERAGE GROSS MARGIN PERFORMANCE



AVERAGE OPERATING INCOME MARGIN PERFORMANCE



AVERAGE EBITDA MARGIN PERFORMANCE



Note: Based on the latest available financial data in Capital IQ, as of March 31, 2024

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

Winner's Circle		Tier
Celestica Inc.	53.5%	I
Benchmark Electronics, Inc.	8.6%	II
Nortech Systems Incorporate	41.7%	III

Worst Performers		Tier
Flex Ltd.	(6.1%)	I
Kimball Electronics, Inc.	(19.7%)	II
SigmaTron International, Inc.	20.6%	III

Note: Based on quarter-over-quarter share price performance, as of March 31, 2024

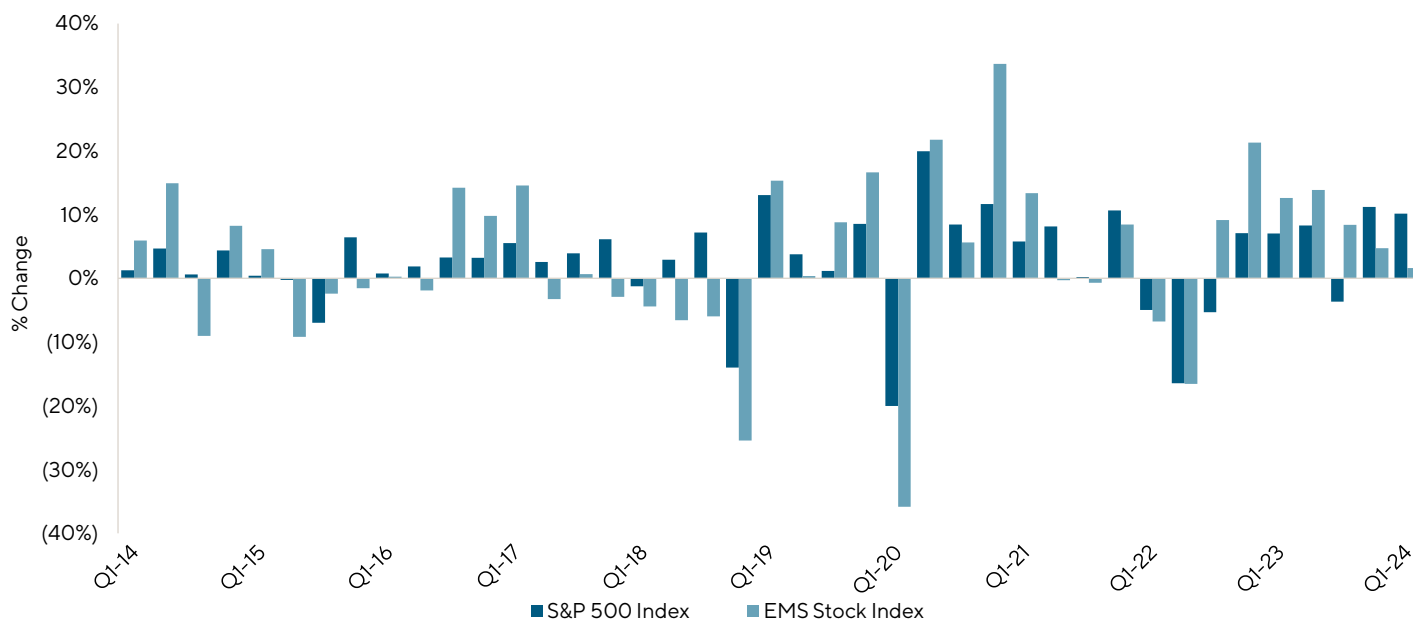
EBITDA Margins	
Large Tier	6.6%
Mid Tier	6.0%
Small Tier	5.8%

Year-over-Year Last 12 Months Revenue Growth	
Large Tier	-1.6%
Mid Tier	2.6%
Small Tier	-0.1%

Source: Capital IQ as of March 31, 2024

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

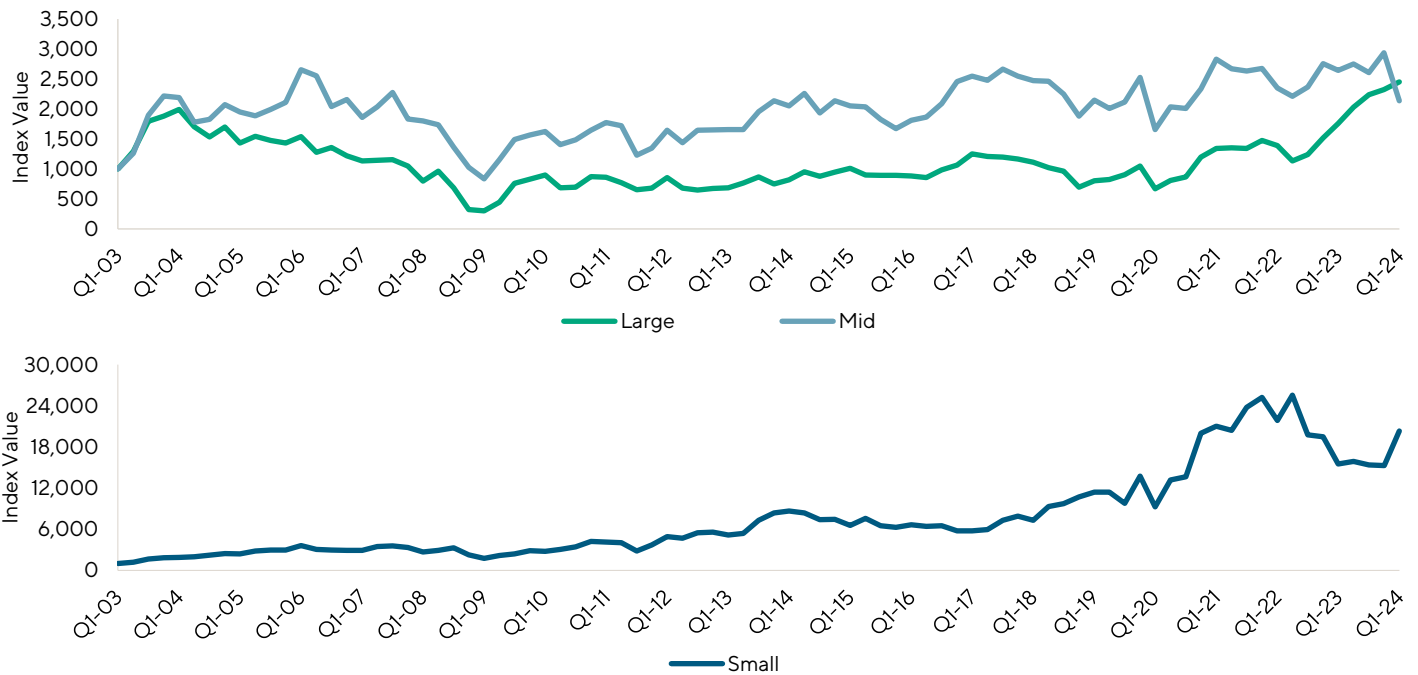
S&P INDEX VS. EMS STOCK INDEX QUARTER CHANGE



CURRENT EMS MARKET HIGHLIGHTS

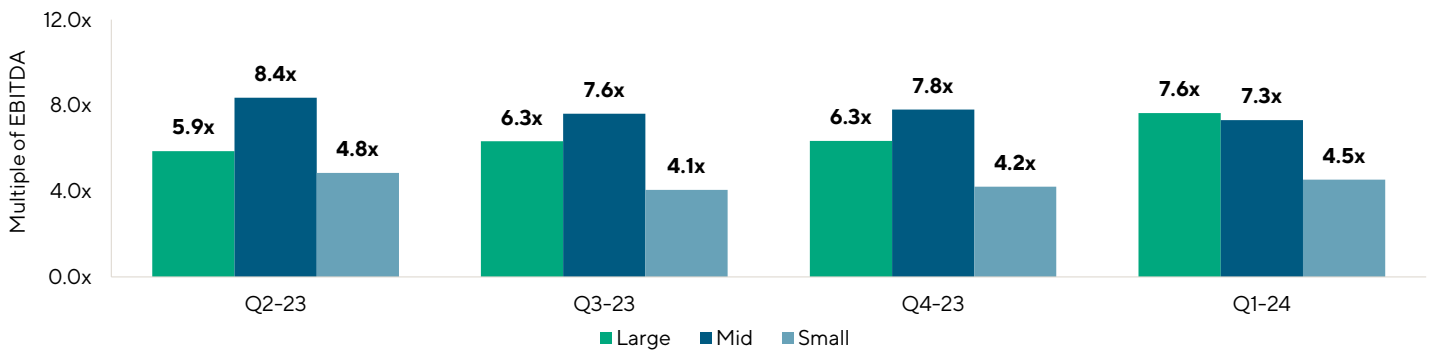
The overall Lincoln EMS Stock Index increased 1.7% from last quarter primarily driven by an increase in the small index, which increased by 33.0%, and the large index, which increased by 5.4%. The small index shrank by (27.3%).

EMS STOCK INDEX BY SIZE



Note: Index Value as of March 31, 2024

ENTERPRISE VALUE / EBITDA



Note: Enterprise value is calculated as market cap on March 31, 2024, plus debt, preferred equity and minority interest less cash

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)
Large									
Celestica Inc.	\$44.94	\$8,332	\$2.68	103.3	1.4x	11.1x	0.7x	\$5,339	\$525
Flex Ltd.	28.61	29,387	1.68	69.2	1.6x	6.5x	0.5x	12,049	1,172
Jabil Inc.	133.95	32,087	11.42	40.4	1.2x	7.1x	0.6x	17,085	660
Sanmina Corporation	62.18	8,454	4.62	57.4	2.0x	5.9x	0.4x	3,468	(226)
Mid									
Benchmark Electronics, Inc.	\$30.01	\$2,839	\$1.79	126.6	2.3x	7.0x	0.4x	\$1,074	\$195
Key Tronic Corporation	4.66	620	0.40	109.0	2.6x	6.3x	0.3x	50	136
Kimball Electronics, Inc.	21.65	1,840	2.16	106.7	2.0x	6.2x	0.4x	538	285
Plexus Corp.	94.82	3,995	3.62	159.9	1.5x	9.6x	0.7x	2,618	215
Small									
Nortech Systems Incorporated	\$ 13.35	139	2.38	98.9	2.2x	4.9x	0.4x	37	13
SigmaTron International, Inc.	3.63	401	0.19	128.2	2.3x	4.2x	0.3x	22	93

Sources: Bloomberg, Capital IQ and company filings, as of March 31, 2024

About Lincoln International

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Lincoln's Global Technology, Media & Telecom Group

Connected to Clients' Ambitions

Encompassing both physical assets and intellectual property, the technology, media & telecom (TMT) industry has expansive opportunities for investors and entrepreneurs. Our global network of professionals, our strong relationships with industry leaders and our deep expertise in a variety of TMT verticals combine to serve the unique needs of clients capitalizing on change within a sector that is highly integrated into nearly every service and product. Our connections, along with our track record of exceptional results, give us the edge to provide our clients with creative and innovative financial solutions.

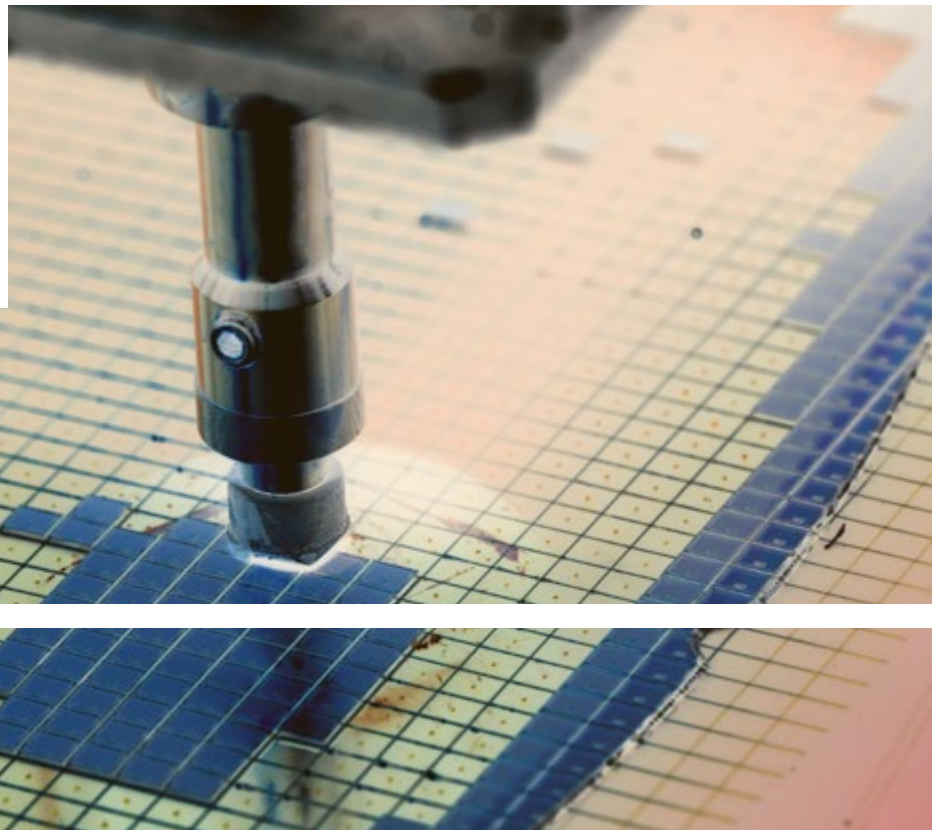
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