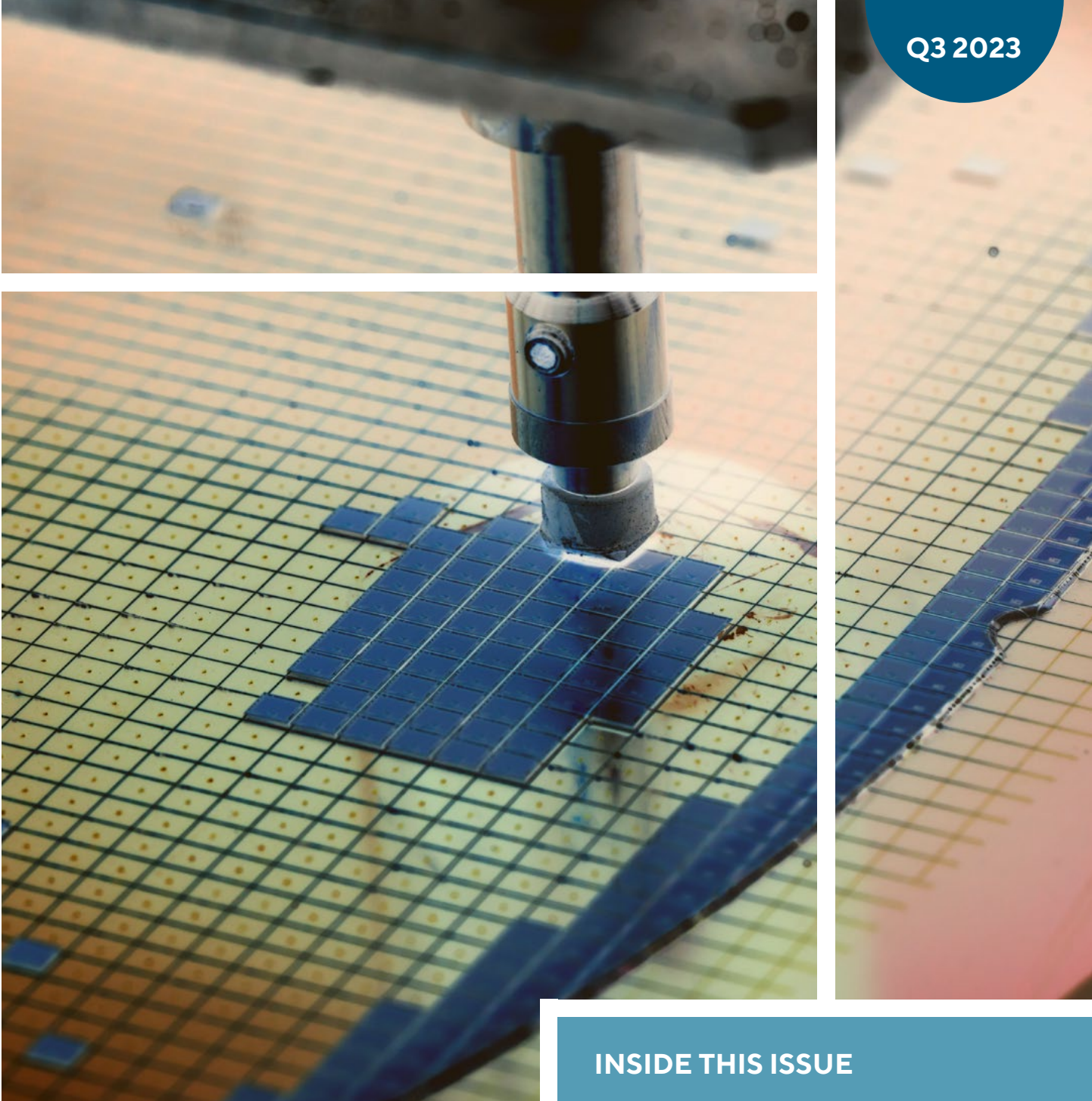


EMS

Quarterly Review



Q3 2023

INSIDE THIS ISSUE

- Deal Activity
- Margin Performance
- EMS Stock Performance

Lincoln Perspective

In Q3 2023, the EMS industry continued to navigate uncertainty in the market. While improving, geopolitical conflict, inflation and supply chain disruptions impacted EMS operations. Simultaneously, rising material and labor costs, energy price spikes and supply chain interruptions, exerted pressure on providers' margins and posed additional challenges.

Despite these multifaceted obstacles, the EMS sector underscores its resilience through adaptive strategies. Providers swiftly adjusted pricing and workforce strategies to manage cost pressures. Resourceful supply chain management practices, including diversifying component sources and fostering greater resilience, emerged as a key focus. This adaptive approach, coupled with strategic collaborations and agile response mechanisms, positions the EMS sector to effectively navigate these hurdles.

In this publication, we can see some of this resiliency from the margin trends. Gross margin, operating margin and EBITDA margin performance for large, mid and small tier companies have improved in the last-12-months (LTM) period relative to the same time last year. Moreover, EMS companies are working on specialization to stand out and gain market share, and are continuing to consolidate to achieve greater scale and operational efficiencies. Mergers and acquisitions (M&A) activity is expected to rise in 2024-2025, especially with middle-market EMS companies, driven by continued nearshoring 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

September 18, 2023:
Camtek Ltd. has acquired FRT GmbH

EMS Quarterly Review Q3 2023

There were six EMS transactions recorded in Q3 2023, representing a decrease in the nine recorded in Q3 2022 and a decrease in the eight transactions recorded in Q3 2021. EMS consolidations accounted for five of the transactions in Q3 2023, or approximately 80% of total activity, representing an increase in the number of EMS consolidation transactions from Q3 2022 and Q3 2020 but a decrease from Q3 2021.

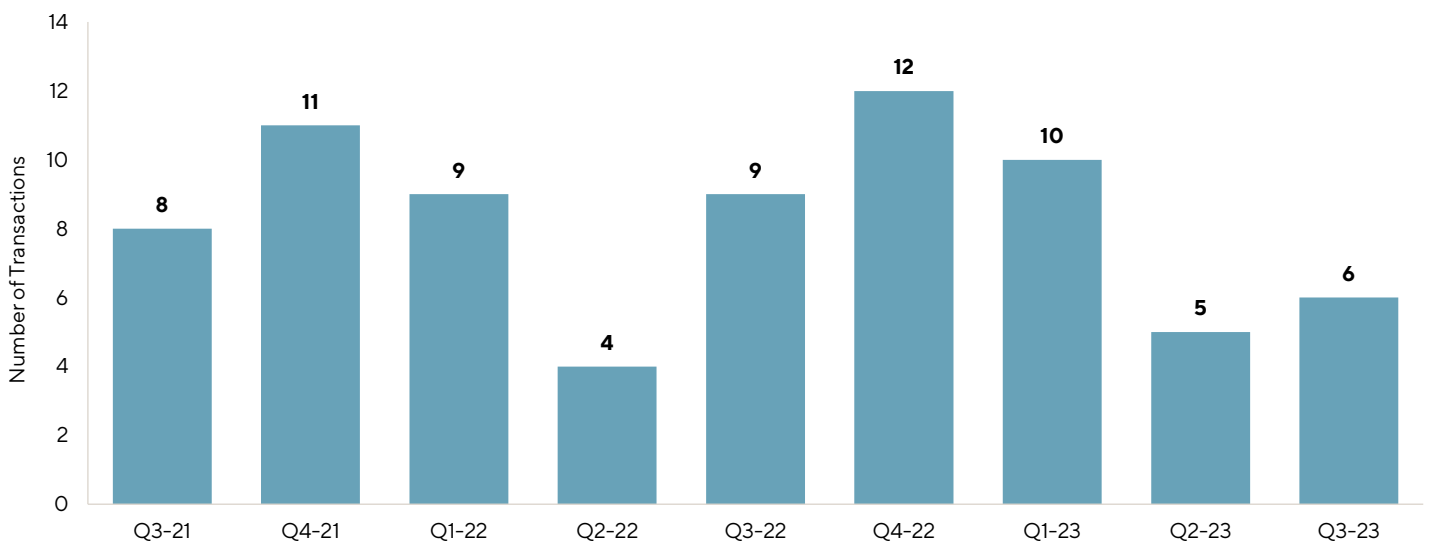
One private equity investment was recorded in Q3 2023, representing approximately 20% of the total activity for the quarter.

Diversification into EMS, EMS divestitures, original equipment manufacturer divestitures and vertical/horizontal convergence did not account for any transactions in Q3 2023.

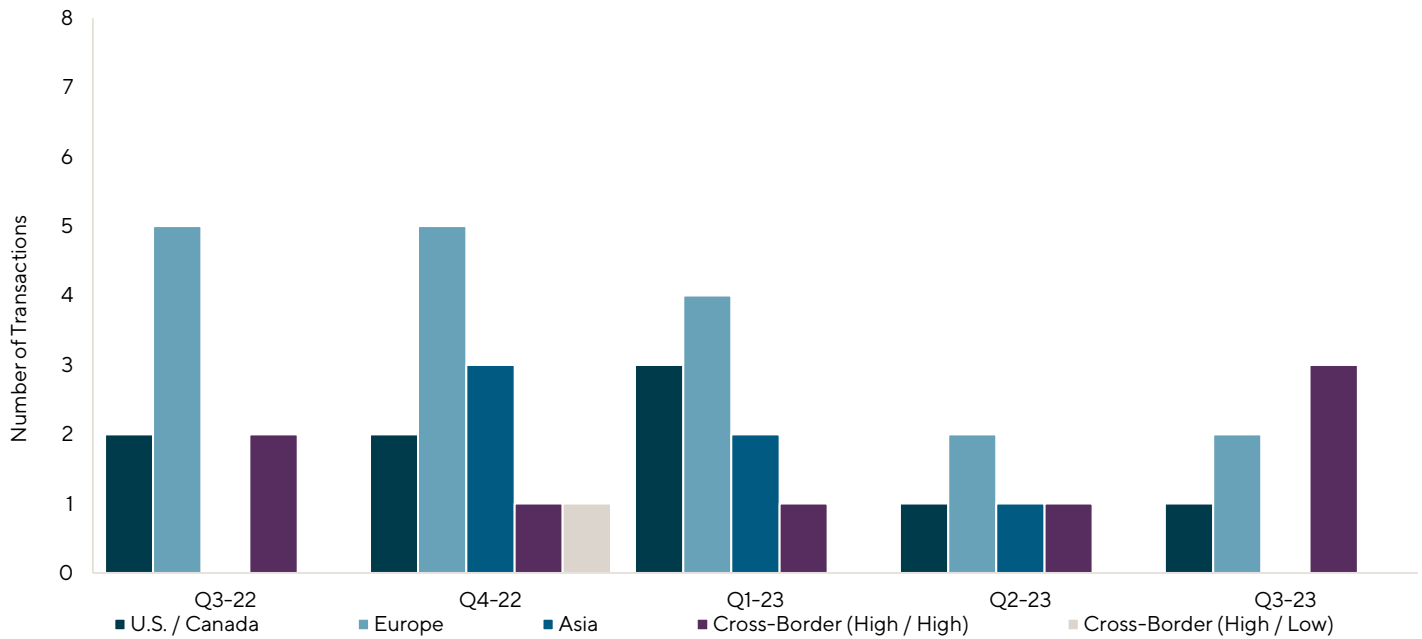
By geography, Europe had two transactions, representing approximately 30% of total Q3 2023 EMS transactions. The U.S. / Canada had one transaction, representing 20% of total transaction activity in Q3 2023, and cross-border (High / High) had three transactions, representing 50% of total transaction activity in Q3 2023, representing the balance of EMS deal geography this quarter. Asia did not record a closed transaction in Q3 2023.

In terms of transaction size, small tier EMS providers accounted for three of the Q3 2023 transaction volume, or 50% of the transaction activity. The remaining three transactions were categorized as mid tier EMS deals, which represented 50% of outstanding EMS deals recorded in Q3 2023.

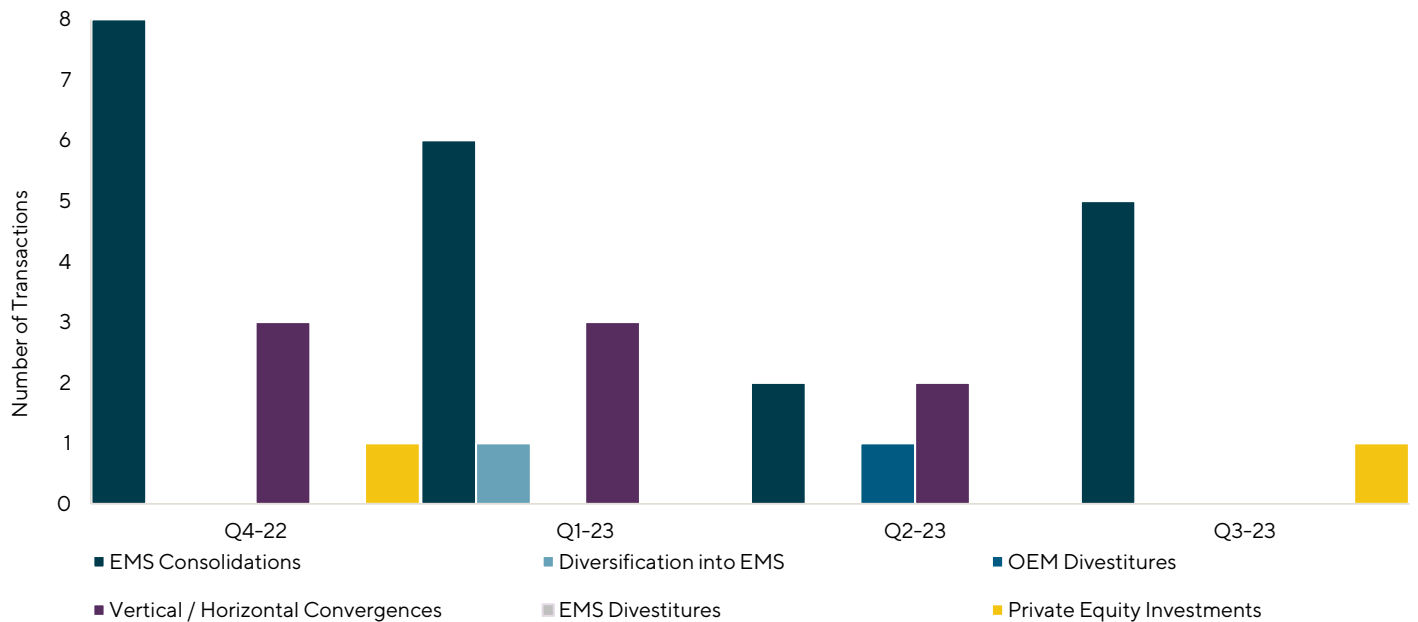
QUARTER-OVER-QUARTER COMPLETED EMS TRANSACTIONS



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

Margin Performance in the EMS Industry

Large-tier, mid-tier and small-tier EMS companies have all demonstrated generally positive margin results for the LTM Q3 2023 period. On average, each group experienced margin expansion across all aspects.

The three graphs on the following page provide an overview of gross margin, operating margin and EBITDA margin performance from 2003 through LTM Q3 2023. Each graph shows the margin performance by tier.

The large-tier EMS companies exhibited gross margin expansion in the LTM to 8.3%, a 0.1% increase from the LTM period ending Q3 2022. Additionally, operating and EBITDA margins for large-tier companies expanded by 0.7% and 0.6%, versus the same period in 2022, to 4.7% and 6.5% respectively in the LTM Q3 2023 period.

Small-tier companies also exhibited margin expansion increasing gross margins from 13.7% to 14.0%, operating margins from 4.2% to 4.5% and EBITDA margins from 5.8%

to 6.0% compared to the same period in 2022. The mid-tier exhibited overall margin expansion increasing in all three metrics on an LTM basis to 8.8%, 4.0% and 5.6% for gross margin, operating margin and EBITDA margin, respectively. This is up from 8.5%, 3.4% and 5.1% for the same period in 2022, respectively.

On a percent change basis comparing the LTM Q3 2023 results with the same period a year ago, in the large-tier, Celestica showed the largest increase in operating margin to 5.0% from 3.5%. In the mid-tier, Kimball Electronics, Inc. exhibited operating margin improvement of 0.9% over the prior LTM year. In the small-tier, SigmaTron International Inc. realized the largest operating margin expansion of 1.8% from 3.7% to 5.6% versus the same period in 2022.

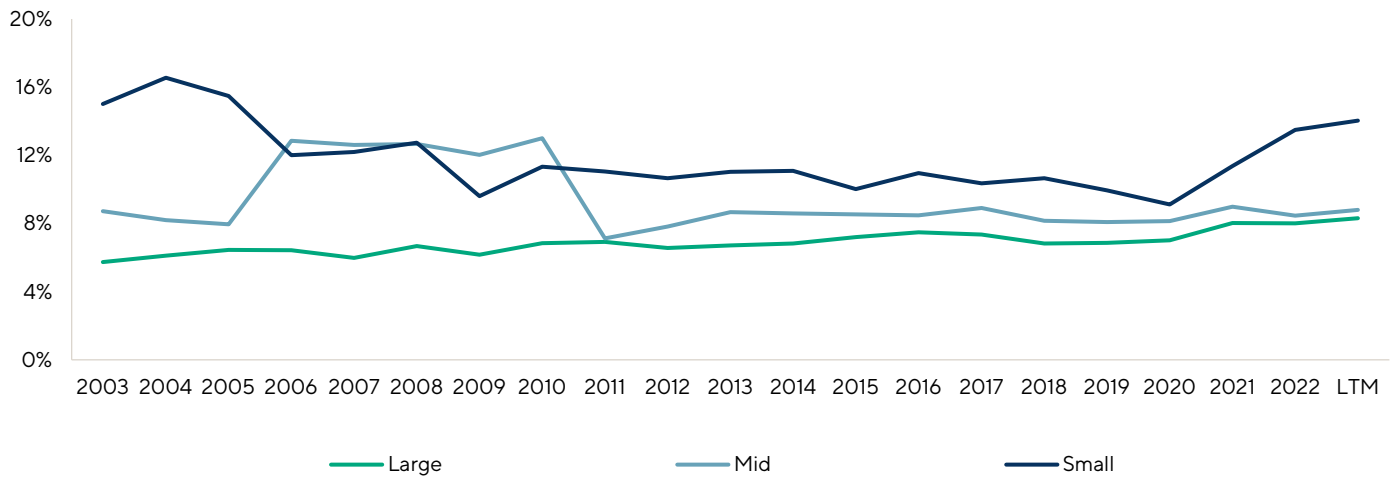
Overall the EMS sector maintains its upward trajectory, bolstered by the sustained "Electronics Super-Cycle", which is driving persistent electronics demand.

AVERAGE GROSS MARGIN PERFORMANCE

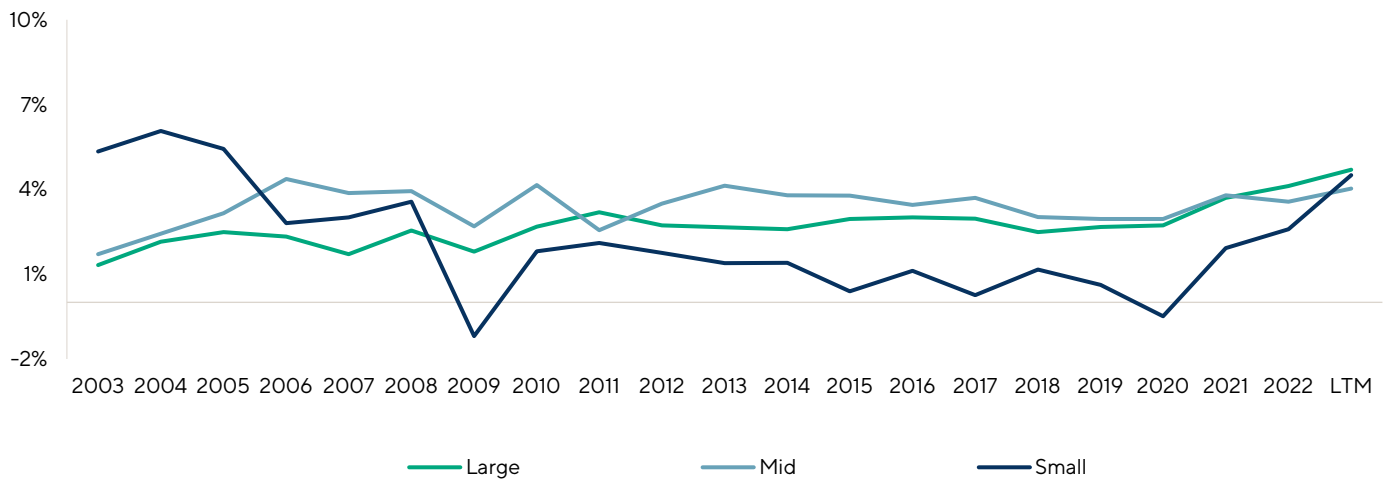
	Gross Margin	Operating Margin	EBITDA Margin
Large			
Celestica Inc.	9.1%	5.0%	6.4%
Flex Ltd.	7.8%	4.1%	5.8%
Jabil Inc.	8.3%	4.6%	7.3%
Sanmina Corporation	8.1%	5.1%	6.3%
Large Tier Average	8.3%	4.7%	6.5%
Mid			
Benchmark Electronics, Inc.	9.1%	3.7%	5.1%
Key Tronic Corporation	8.1%	2.0%	3.7%
Kimball Electronics, Inc.	8.6%	5.1%	6.9%
Plexus Corp.	9.4%	5.3%	6.8%
Mid Tier Average	8.8%	4.0%	5.6%
Small			
Nortech Systems Incorporated	15.9%	3.4%	4.8%
SigmaTron International, Inc.	12.2%	5.6%	7.1%
Small Tier Average	14.0%	4.5%	6.0%

Note: Based on the latest available financial data in CapitalIQ, as of September 30, 2023

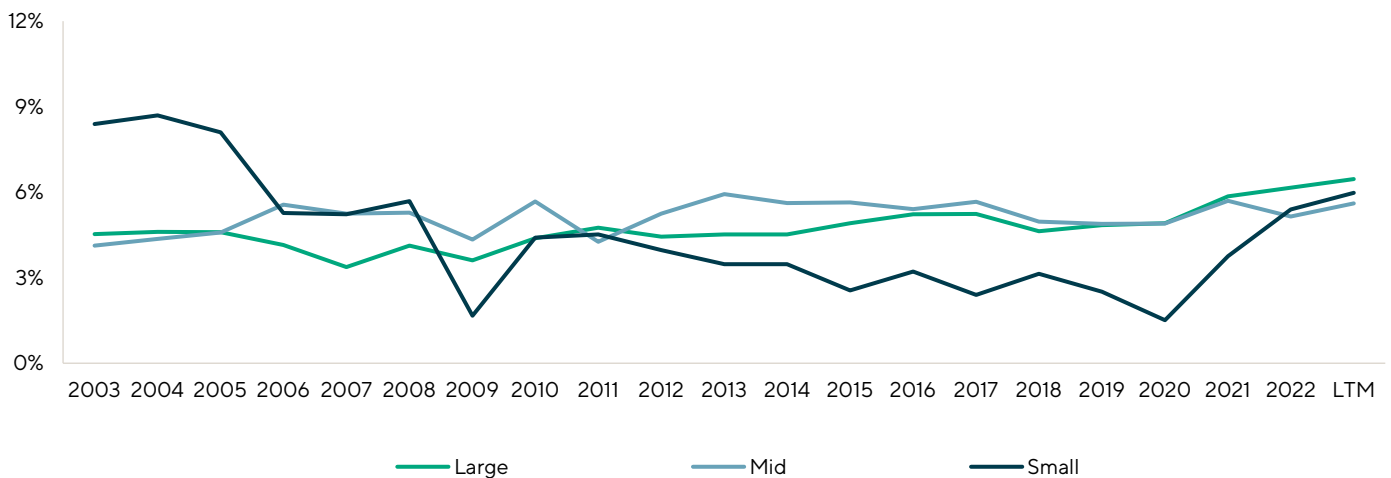
AVERAGE GROSS MARGIN PERFORMANCE



AVERAGE OPERATING INCOME MARGIN PERFORMANCE



AVERAGE EBITDA MARGIN PERFORMANCE



Note: Based on the latest available financial data in CapitalIQ, as of September 30, 2023

EMS Stock Index Outperforms 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.	69.1%	I
Key Tronic Corporation	21.2%	II
SigmaTron International, Inc	(18.5%)	III

Worst Performers		Tier
Sanmina Corporation	(9.9%)	I
Plexus Corp.	(9.7%)	II
Nortech Systems Incorporated	(24.5%)	III

Note: Based on quarter-over-quarter share price performance, as of September 30, 2023

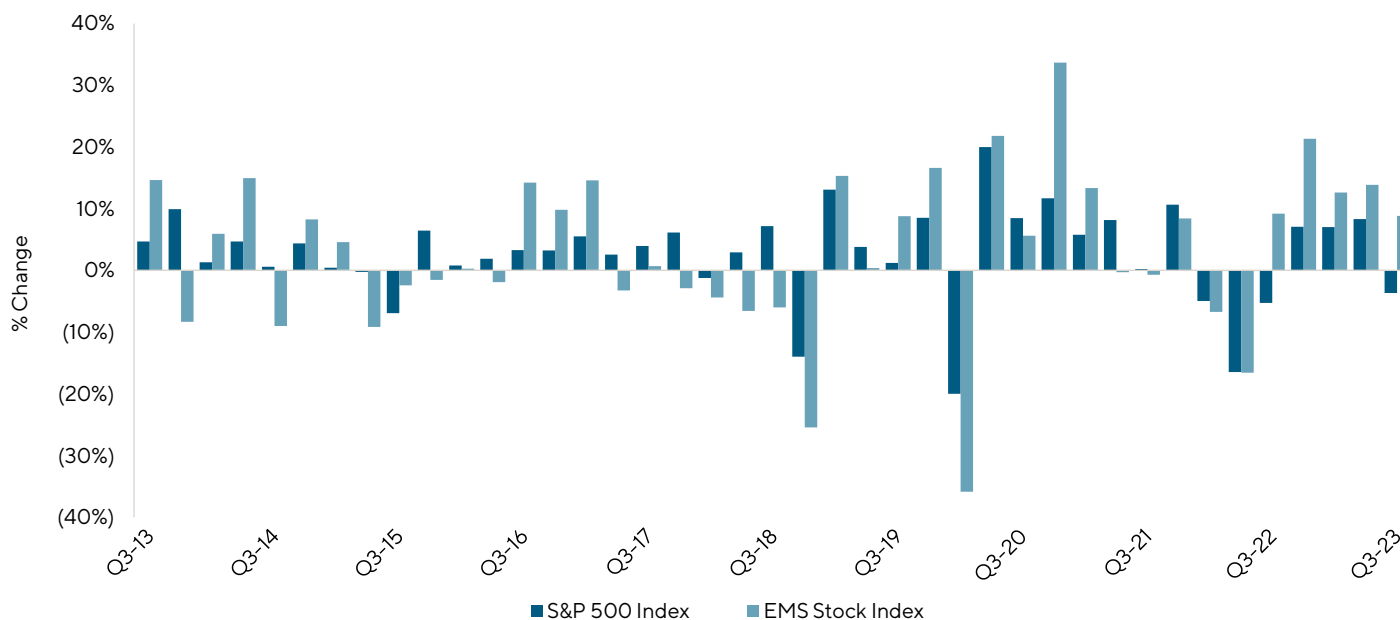
EBITDA Margins	
Large Tier	6.5%
Mid Tier	5.6%
Small Tier	6.0%

Year-over-Year Last Twelve Months Revenue Growth	
Large Tier	12.4%
Mid Tier	16.0%
Small Tier	4.6%

Source: CapitalIQ as of September 30, 2023

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

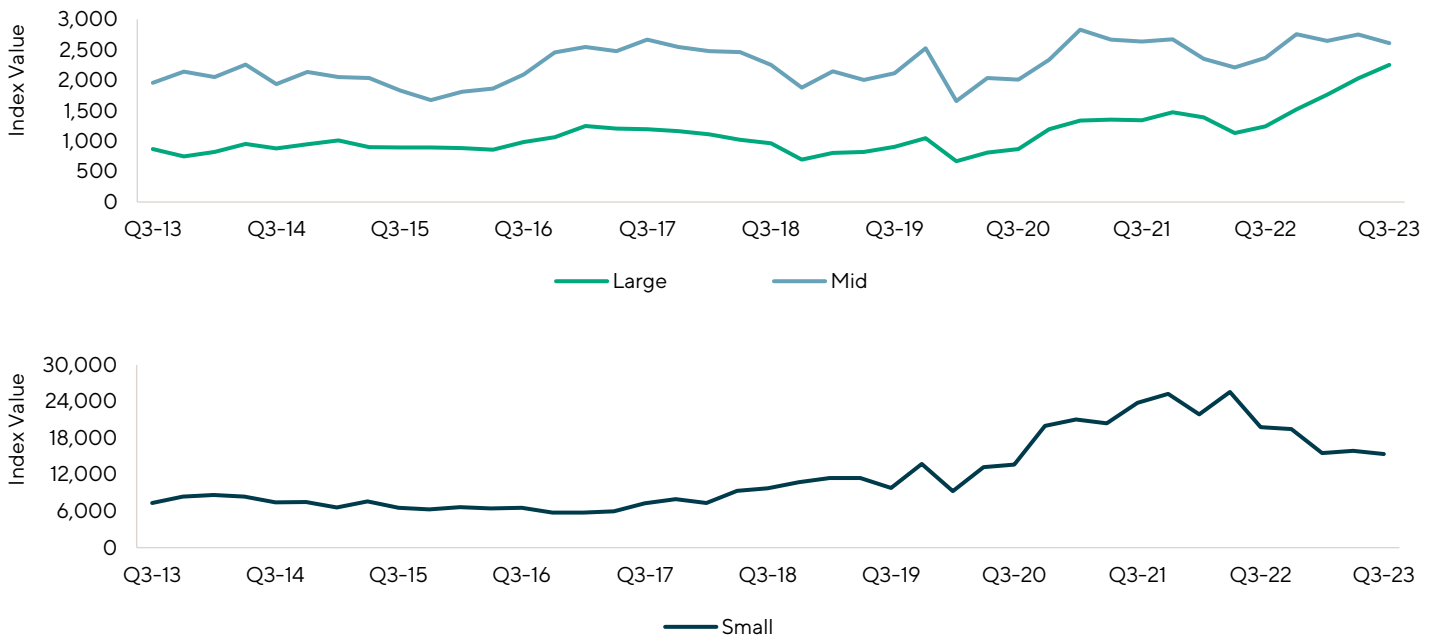
S&P INDEX VS. EMS STOCK INDEX QUARTER CHANGE



CURRENT EMS MARKET HIGHLIGHTS

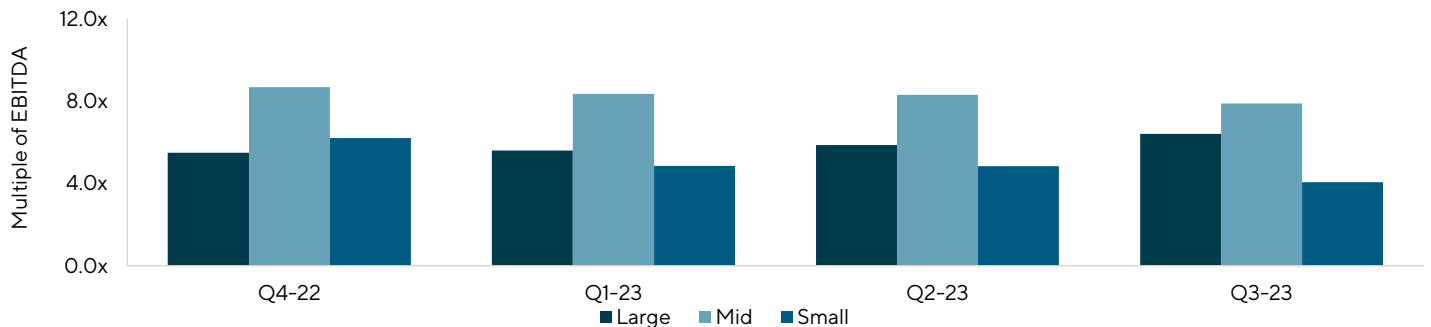
The overall Lincoln EMS Stock Index increased 8.8% from last quarter primarily driven by an increase in the large index, which increased by 18.6%, and the mid index, which increased by 1.4%. The small index shrank by (21.5%).

EMS STOCK INDEX BY SIZE



Note: Index Value as of September 30, 2023

ENTERPRISE VALUE / EBITDA



Note: Enterprise value is calculated as market cap on September 30, 2023, 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.	\$24.52	\$7,743	\$1.38	104.9	1.43x	6.7x	0.5x	\$3,100	\$423
Flex Ltd.	26.98	30,335	1.73	66.9	1.5x	7.1x	0.5x	12,050	1,449
Jabil Inc.	126.89	34,702	6.02	36.1	1.2x	6.8x	0.5x	16,608	1,444
Sanmina Corporation	54.28	9,108	5.12	54.0	1.8x	4.9x	0.3x	3,106	(237)
Mid									
Benchmark Electronics, Inc.	\$24.26	\$2,950	\$1.86	116.6	2.4x	6.8x	0.4x	\$865	\$281
Key Tronic Corporation	4.47	588	0.47	121.0	2.3x	7.2x	0.3x	48	146
Kimball Electronics, Inc.	27.38	1,823	2.22	94.1	2.0x	7.4x	0.5x	680	241
Plexus Corp.	92.98	4,310	5.28	145.3	1.4x	9.1x	0.7x	2,555	289
Small									
Nortech Systems Incorporated	\$9.25	\$141	\$0.86	92.4	2.2x	4.5x	0.3x	\$25	\$15
SigmaTron International, Inc.	3.13	407	(3.57)	122.7	1.5x	3.6x	0.3x	19	97

Sources: Bloomberg, Capital IQ and company filings, as of September 30, 2023

About Lincoln International

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Lincoln's Global Technology, Media & Telecom Group

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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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