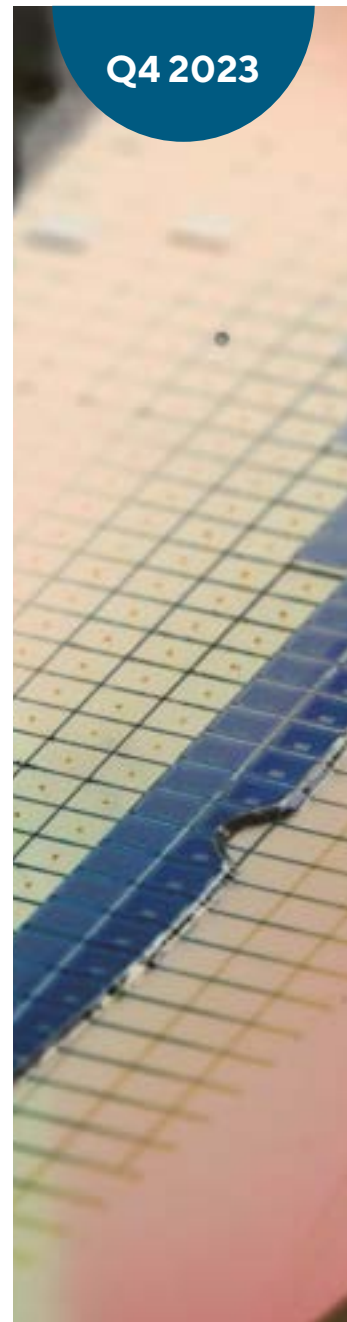
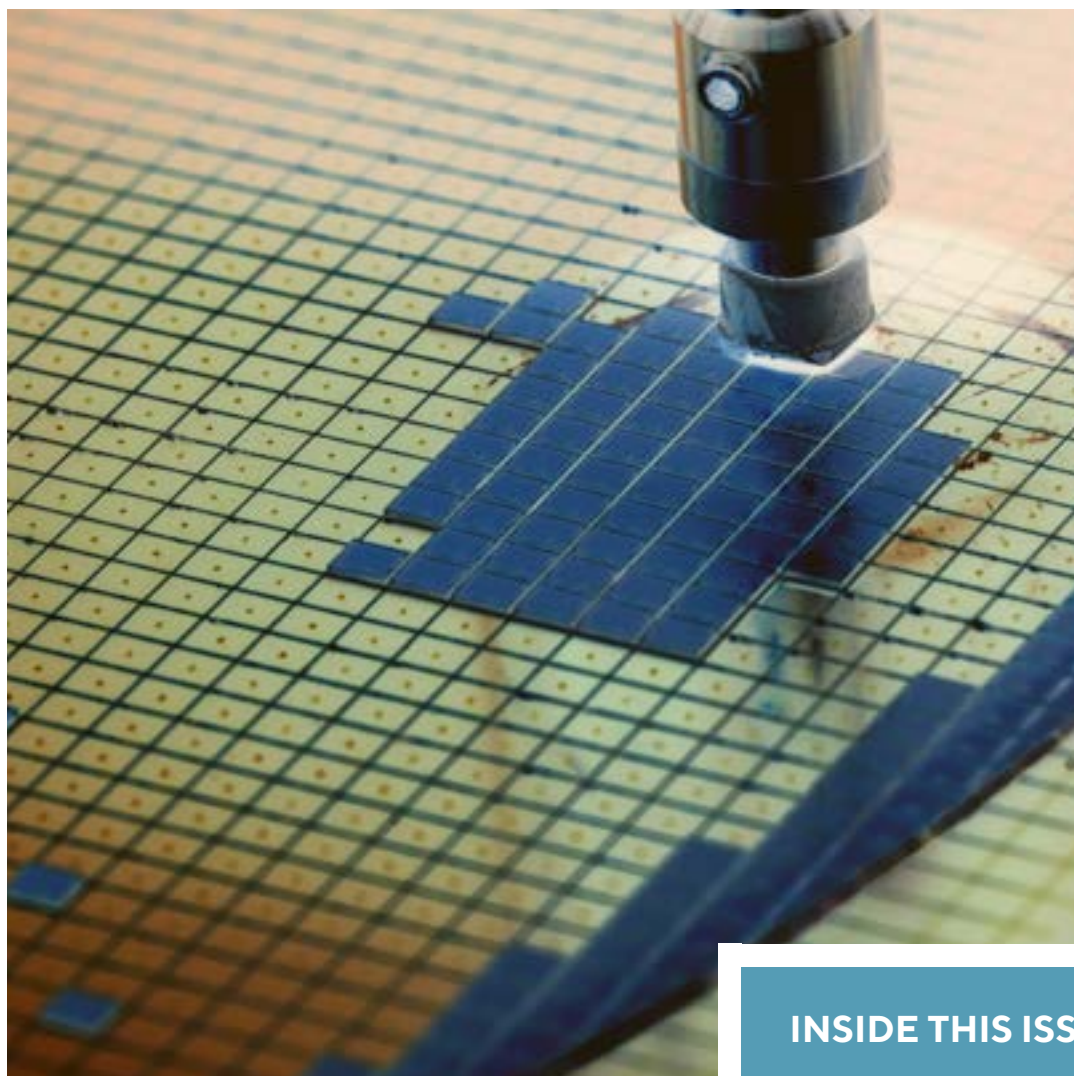


EMS

Quarterly Review

Q4 2023



INSIDE THIS ISSUE

- Deal Activity
- Margin Performance
- EMS Stock Performance

Lincoln Perspective

In Q4 2023, the EMS industry continued to navigate uncertainty in the market, but its overall resilience continues to prove true. However, the normalization of inventories and reduced visibility on demand forecasts remain challenges that the industry is working through. In all, Q4 2023 saw a continuation of the EMS market trend of employing nimbleness to navigate sector dynamics.

Despite these obstacles, the EMS sector underscores 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 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-month (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 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

November 15, 2023:
Emerald EMS
has acquired
Ascentraton, Inc.

EMS Quarterly Review Q4 2023

There were eight EMS transactions recorded in Q4 2023, representing a decrease in the 12 recorded in Q4 2022 and a decrease in the 11 transactions recorded in Q4 2021. EMS consolidations accounted for three of the transactions in Q4 2023, or approximately 38% of total activity, representing a decrease in the number of EMS consolidation transactions compared to the previous three years' Q4. Vertical / horizontal convergence accounted for four of the transactions in Q4 2023, or approximately 50% of the total activity, representing the highest number of vertical / horizontal transactions in the previous three years.

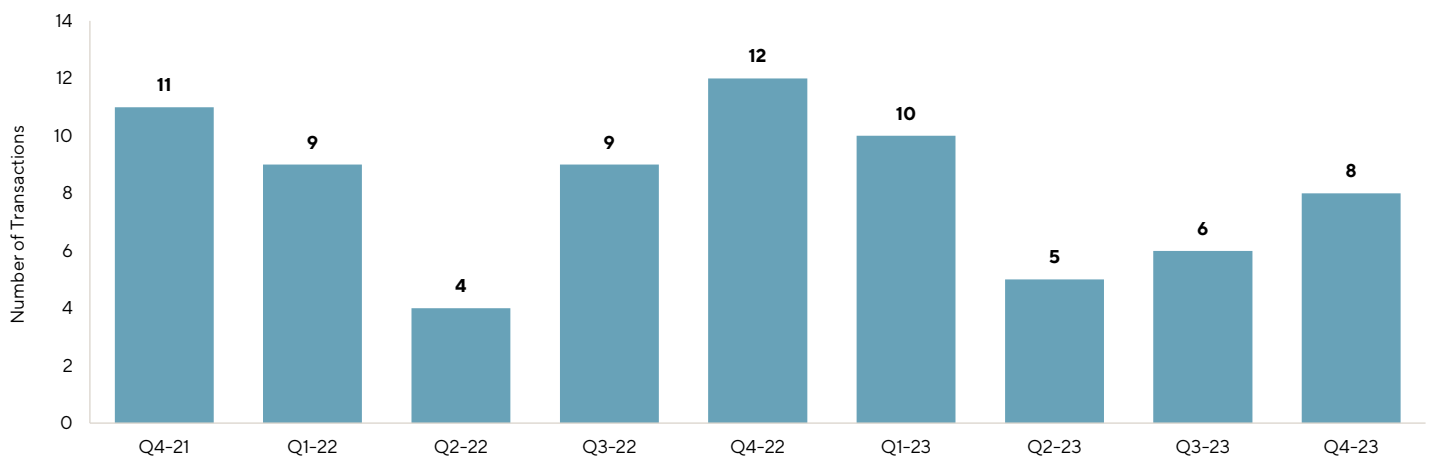
One private equity investment was recorded in Q4 2023, representing approximately 13% of the total activity for the quarter.

Diversification into EMS, EMS divestitures and original equipment manufacturer divestitures did not account for any transactions in Q4 2023.

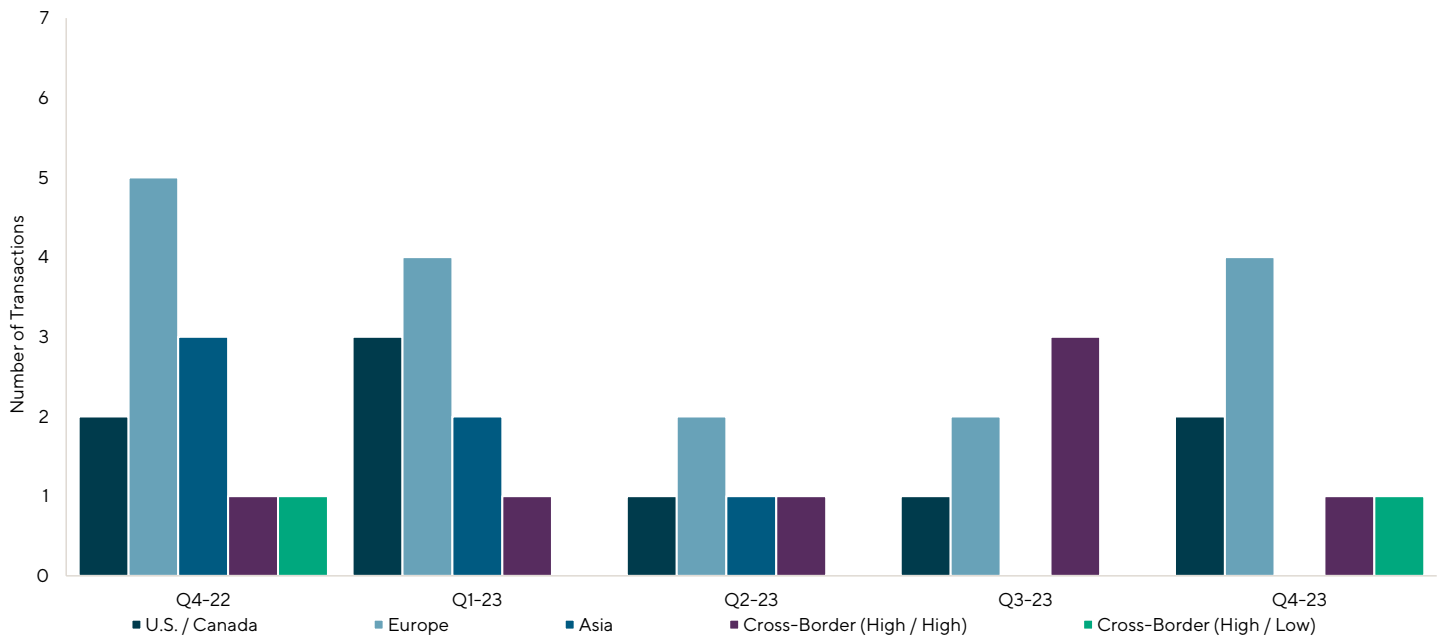
By geography, Europe had four transactions, representing approximately 50% of total Q4 2023 EMS transactions. The U.S. / Canada had two transactions, representing 20% of total transaction activity in Q4 2023. Cross-border (High / High) had one transaction, representing 13% of total transaction activity in Q4 2023, cross-border (Low / Low) had one transaction, representing 13% of total transaction activity in Q4 2023. Asia did not record a closed transaction in Q4 2023.

In terms of transaction size, small-tier EMS providers accounted for five of the Q4 2023 transaction volume, or 63% of the transaction activity. One transaction was categorized as mid-tier EMS deal, which represented 13% of outstanding EMS deals recorded in Q4 2023. Additionally, two transactions were categorized as large tier EMS deals, which represented 25% of EMS deals recorded in Q4 2023.

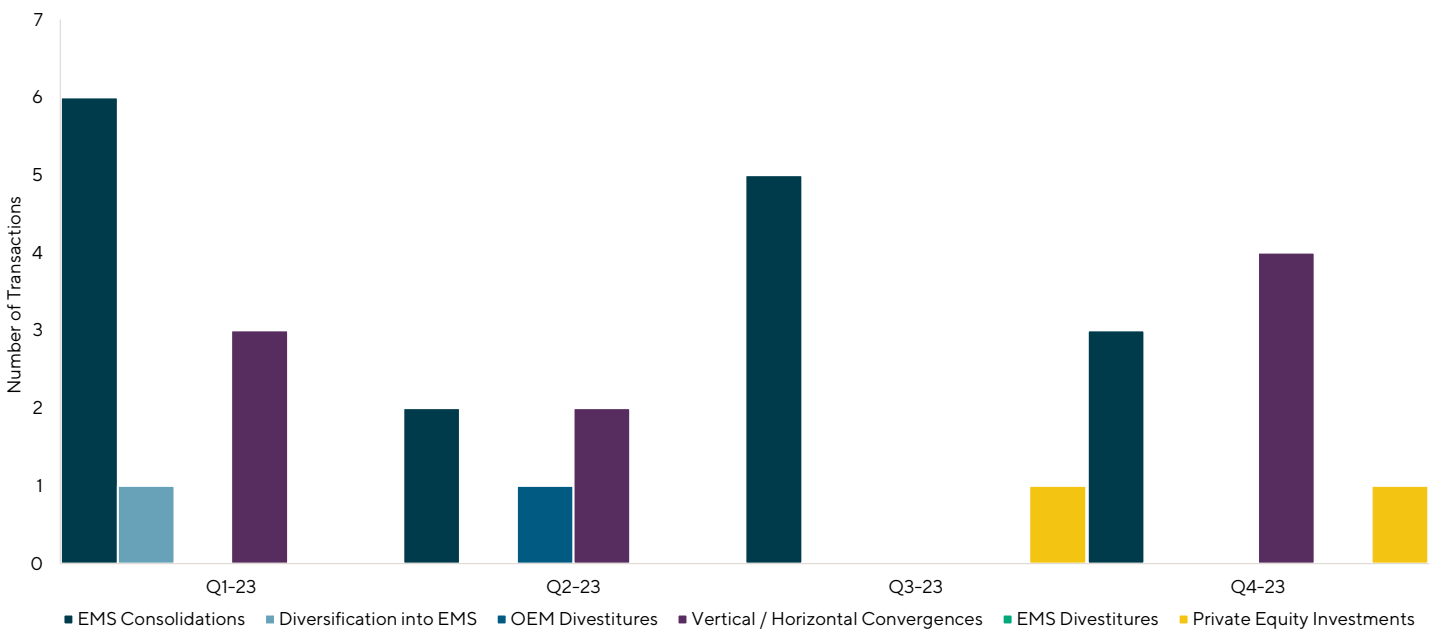
QUARTER-OVER-QUARTER COMPLETED EMS TRANSACTIONS



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 across all metrics for the LTM Q4 2023 period.

The three graphs on the following page provide an overview of gross margin, operating margin and EBITDA margin performance from 2003 through LTM Q4 2023. Each graph shows the margin performance by tier.

The large-tier EMS companies exhibited gross margin expansion in the LTM to 8.6%, a 40 basis points (bps) increase from the LTM period ending Q4 2022. Additionally, operating and EBITDA margins for large-tier companies expanded by 90 bps and 80 bps, versus the same period in 2022, to 5.0% and 6.7% respectively in the LTM Q4 2023 period.

Small-tier companies also exhibited margin expansion increasing gross margins by 80 bps to 13.5% and operating margins by 1.2% to 3.8%, but EBITDA margins declined by

10 bps to 5.3% compared to the same period in 2022. The mid-tier exhibited overall margin expansion increasing in all three metrics on an LTM basis to 8.9%, 4.1% and 5.8% for gross margin, operating margin and EBITDA margin, respectively. This is up from 8.2%, 3.5% and 5.1% for the same period in 2022, respectively.

On a percent change basis comparing the LTM Q4 2023 results with the same period a year ago, in the large tier, Celestica showed the largest increase in operating margin to 5.4%, an increase of 1.7%. In the mid-tier, Kimball Electronics, Inc. exhibited an operating margin improvement of 90 bps over the prior year. In the small tier, SigmaTron International Inc. realized the largest operating margin expansion of 1.4% from 3.4% to 4.8% versus in 2022.

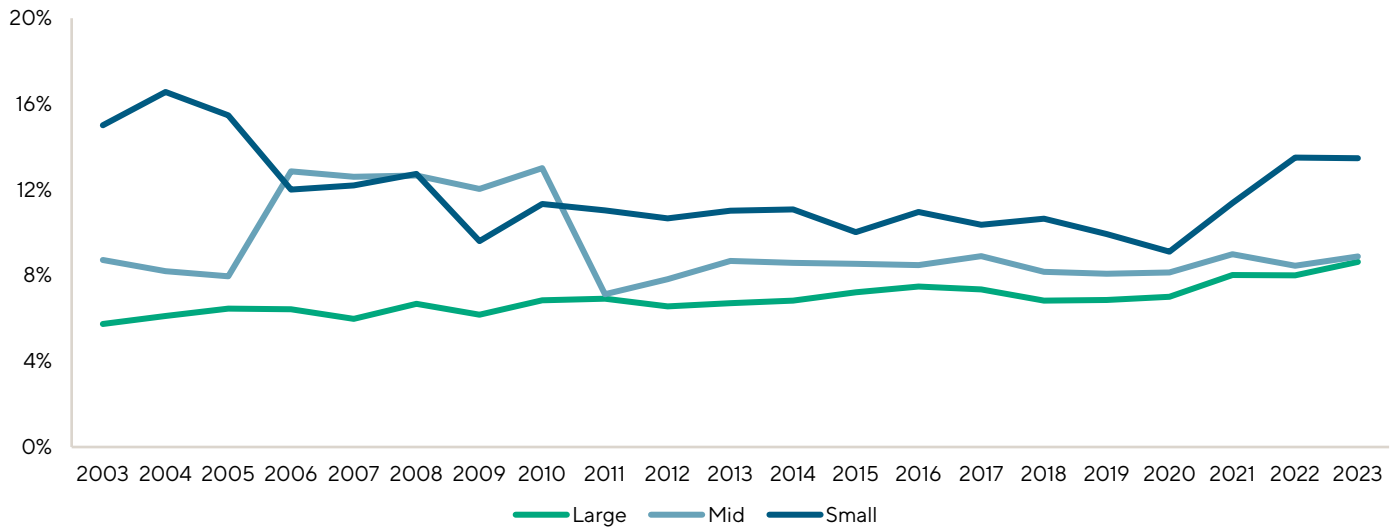
Overall, the EMS sector maintains its upward trajectory, bolstered by the sustained "Electronics Super-Cycle", which is driving persistent electronics demand.

AVERAGE GROSS MARGIN PERFORMANCE

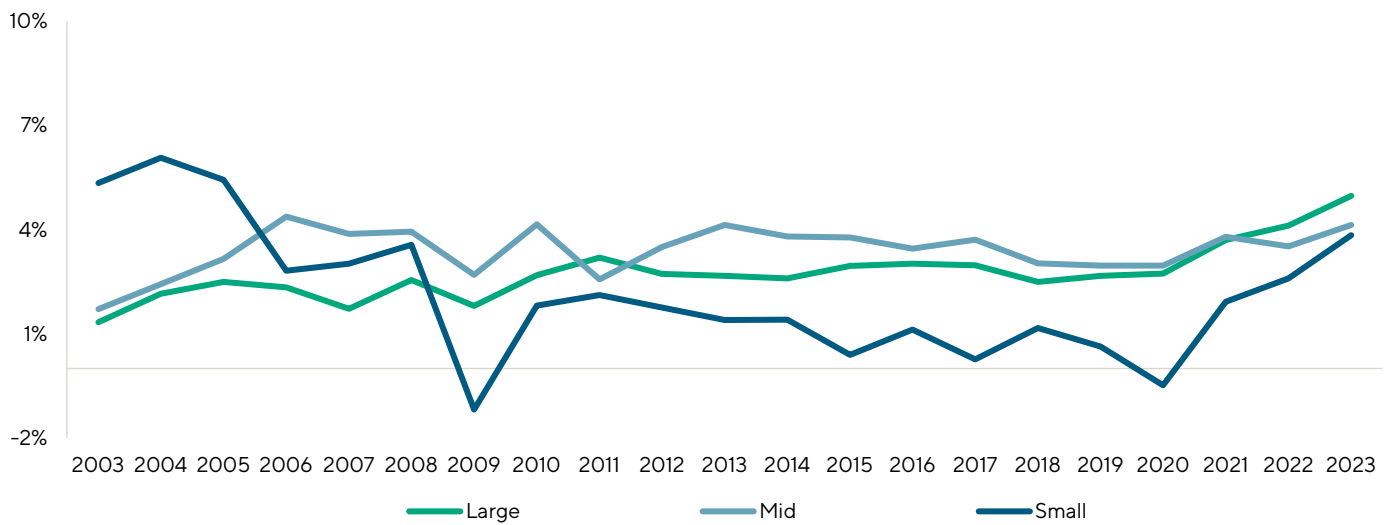
	Gross Margin	Operating Margin	EBITDA Margin
Large			
Celestica Inc.	9.4%	5.4%	6.9%
Flex Ltd.	8.1%	4.4%	6.1%
Jabil Inc.	8.7%	4.9%	7.5%
Sanmina Corporation	8.3%	5.2%	6.5%
Large Tier Average	8.6%	5.0%	6.7%
Mid			
Benchmark Electronics, Inc.	9.4%	4.0%	5.4%
Key Tronic Corporation	8.0%	2.1%	3.7%
Kimball Electronics, Inc.	8.8%	5.3%	7.1%
Plexus Corp.	9.6%	5.2%	7.0%
Mid Tier Average	8.9%	4.1%	5.8%
Small			
Nortech Systems Incorporated	15.4%	2.9%	4.4%
SigmaTron International, Inc.	11.5%	4.8%	6.3%
Small Tier Average	13.5%	3.8%	5.3%

Note: Based on the latest available financial data in Capital IQ, as of December 31, 2023

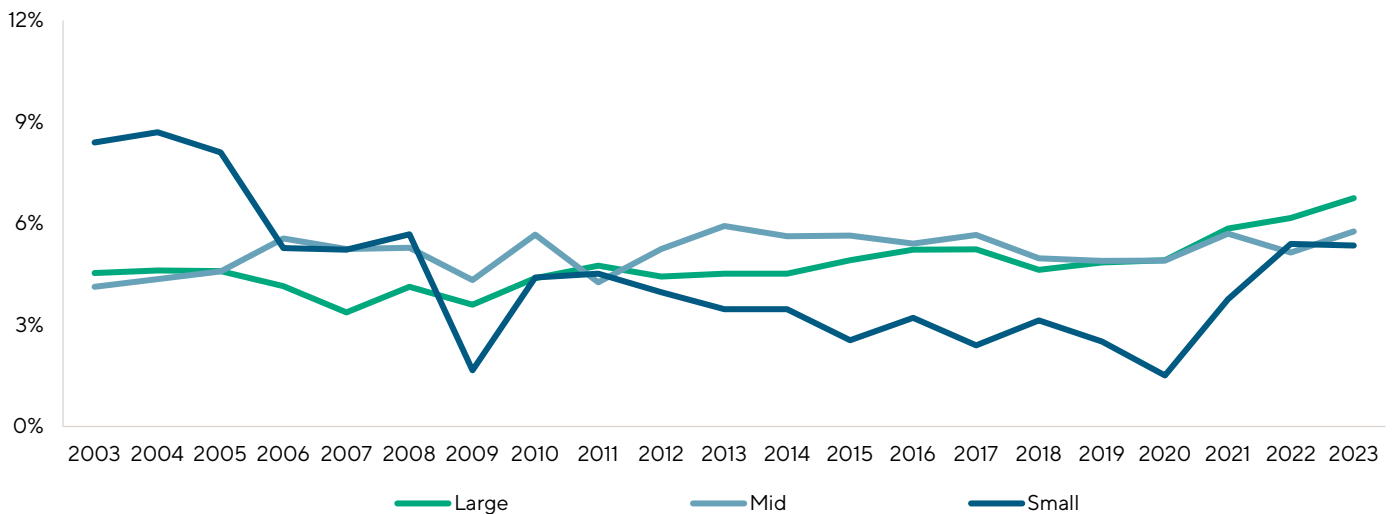
AVERAGE GROSS MARGIN PERFORMANCE



AVERAGE OPERATING INCOME MARGIN PERFORMANCE



AVERAGE EBITDA MARGIN PERFORMANCE



Note: Based on the latest available financial data in Capital IQ, as of December 31, 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.	19.4%	I
Plexus Corp.	16.3%	II
Nortech Systems Incorporate	1.8%	III

Worst Performers		Tier
Sanmina Corporation	(5.4%)	I
Key Tronic Corporation	(3.4%)	II
SigmaTron International, Inc.	(3.8%)	III

Note: Based on quarter-over-quarter share price performance, as of December 31, 2023

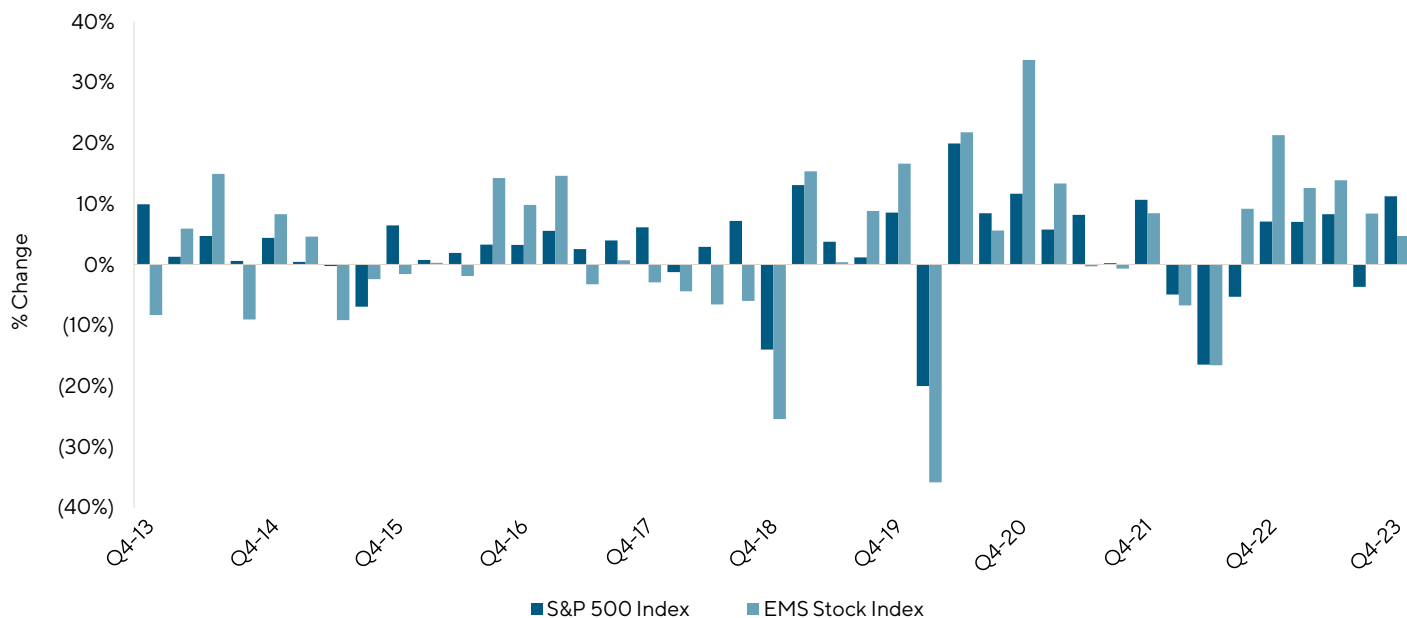
EBITDA Margins	
Large Tier	6.7%
Mid Tier	5.8%
Small Tier	5.3%

Year-over-Year Last 12 Months Revenue Growth	
Large Tier	2.8%
Mid Tier	8.6%
Small Tier	0.8%

Source: Capital IQ as of December 31, 2023

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

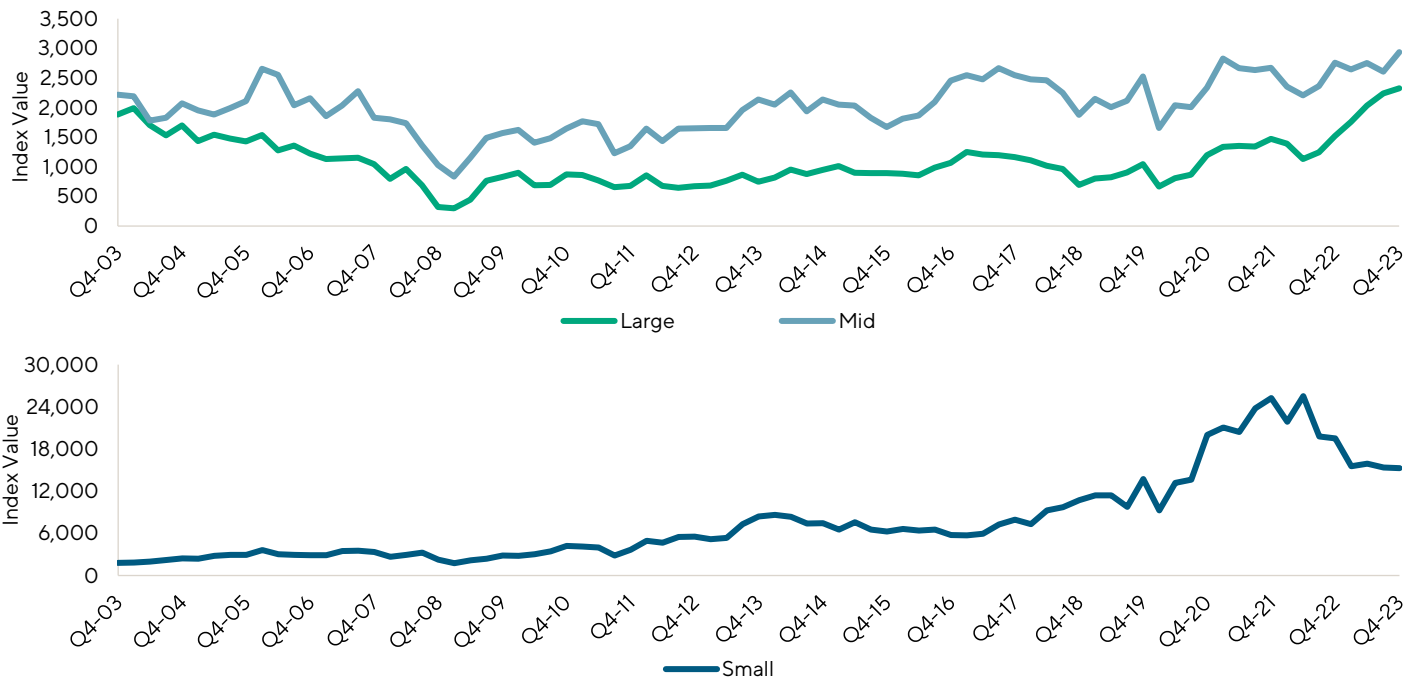
S&P INDEX VS. EMS STOCK INDEX QUARTER CHANGE



CURRENT EMS MARKET HIGHLIGHTS

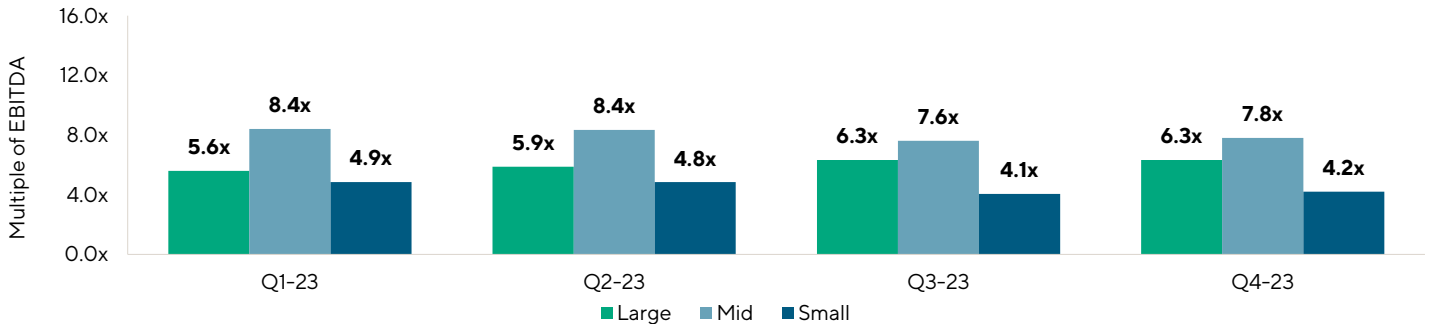
The overall Lincoln EMS Stock Index increased 4.7% from last quarter primarily driven by an increase in the mid index, which increased by 12.7%, and the large index, which increased by 3.8%. The small index shrank by (0.6%).

EMS STOCK INDEX BY SIZE



Note: Index Value as of December 31, 2023

ENTERPRISE VALUE / EBITDA



Note: Enterprise value is calculated as market cap on December 31, 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.	\$29.28	\$7,863	\$1.68	109.1	1.4x	6.7x	0.5x	\$3,498	\$437
Flex Ltd.	30.46	30,040	1.73	67.5	1.5x	7.3x	0.5x	13,201	1,009
Jabil Inc.	127.40	33,454	5.88	41.3	1.1x	6.8x	0.5x	16,390	1,666
Sanmina Corporation	51.37	8,935	5.18	54.0	1.9x	4.6x	0.3x	2,920	(252)
Mid									
Benchmark Electronics, Inc.	\$27.64	\$2,898	\$1.89	122.9	2.4x	7.3x	0.4x	\$986	\$302
Key Tronic Corporation	4.32	599	0.39	116.7	2.5x	6.6x	0.3x	46	136
Kimball Electronics, Inc.	26.95	1,856	2.27	99.5	1.9x	6.9x	0.5x	670	240
Plexus Corp.	108.13	4,210	4.95	153.6	1.5x	10.4x	0.8x	2,974	222
Small									
Nortech Systems Incorporated	\$9.42	\$139	\$0.74	95.8	2.3x	4.6x	0.3x	\$26	\$12
SigmaTron International, Inc.	3.01	398	(3.70)	122.5	2.2x	3.8x	0.3x	18	90

Sources: Bloomberg, Capital IQ and company filings, as of December 31, 2023

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.

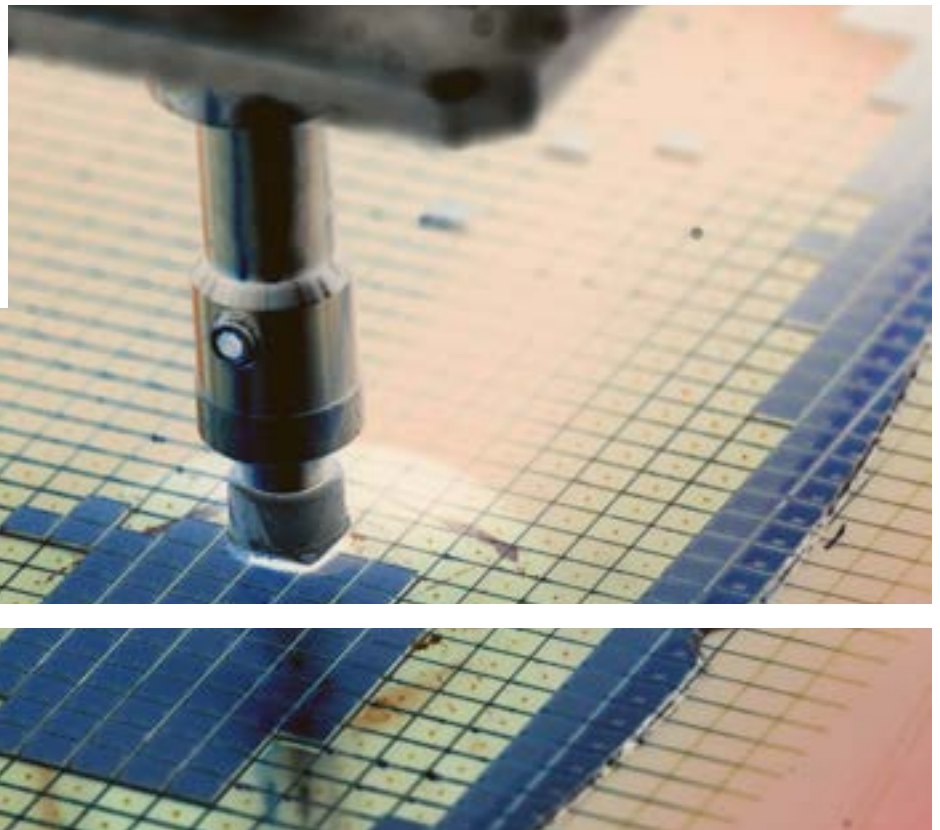
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