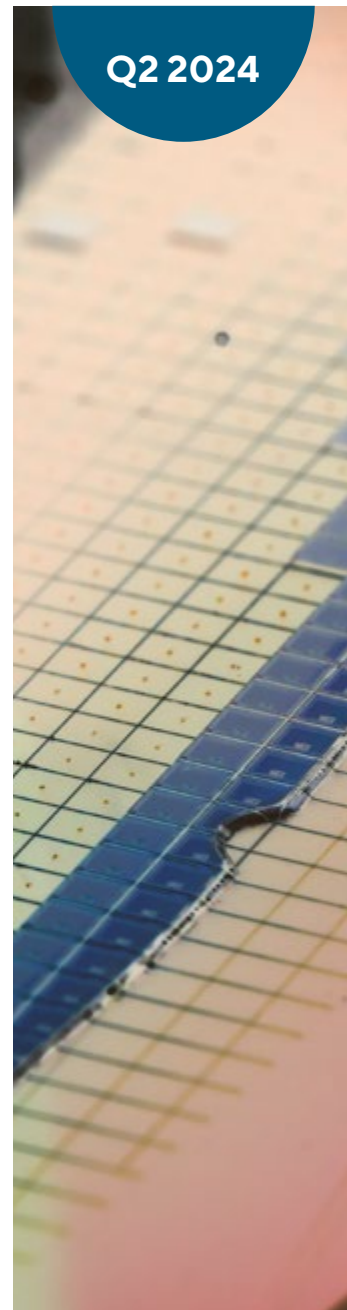
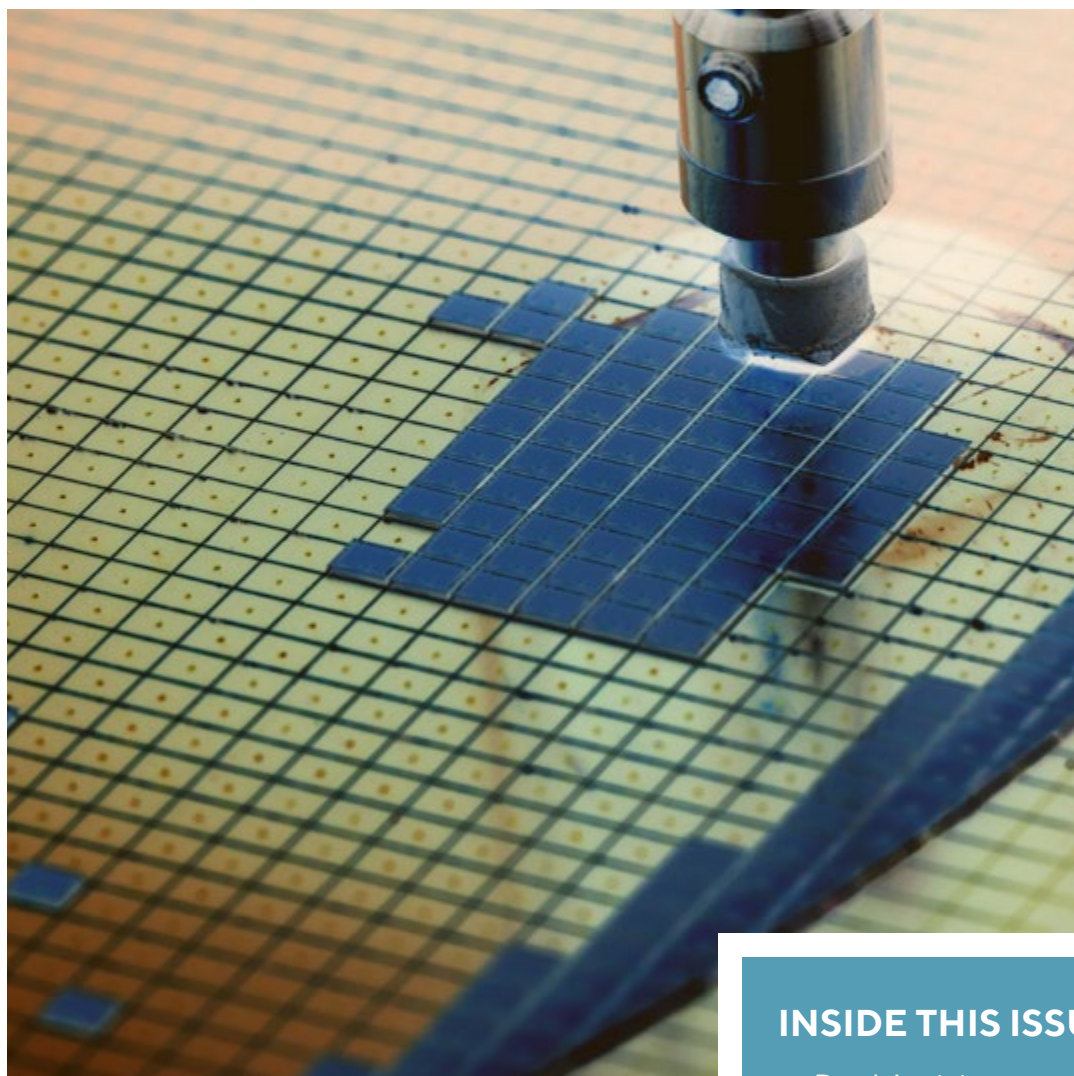


EMS

# Quarterly Review

Q2 2024



## INSIDE THIS ISSUE

- Deal Activity
- Margin Performance
- EMS Stock Performance

# Lincoln Perspective

In Q2 2024, the EMS industry continued to build sector momentum by maintaining a margins-focused strategy. The normalization of inventories, consistent improvement in technology and uptick in market demand underscores emerging market optimism. In all, Q2 2024 vindicated that the underlying proof points of an EMS market recovery are taking hold.

While the publicly listed EMS companies experienced mixed stock performance and overall underperformance to the S&P 500 in Q2 2024, the improved financial profiles of the sector, particularly around margins, were a strong indicator of market improvement. Adaptive supply chain strategies, including diversifying component sources, have become a key focus. This approach, along with strategic collaborations and employing financial restraints, positions the EMS sector to improve financial stability in the future. Sector financial stability along with the “Electronics Super-Cycle,” which is the demand for comprehensive connectivity, has positioned the EMS sector to better meet market demand for technological innovation across a wide variety of end markets and applications as well as an overall increase in electronics content.

## NOTABLE ANNOUNCEMENTS

### May 2, 2024:

Emerald Technologies has acquired Optimum Design Associates

In this publication, we observe that despite a relatively flat 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. While down for Q2, mergers and acquisitions (M&A) activity is expected to rise in H2 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.

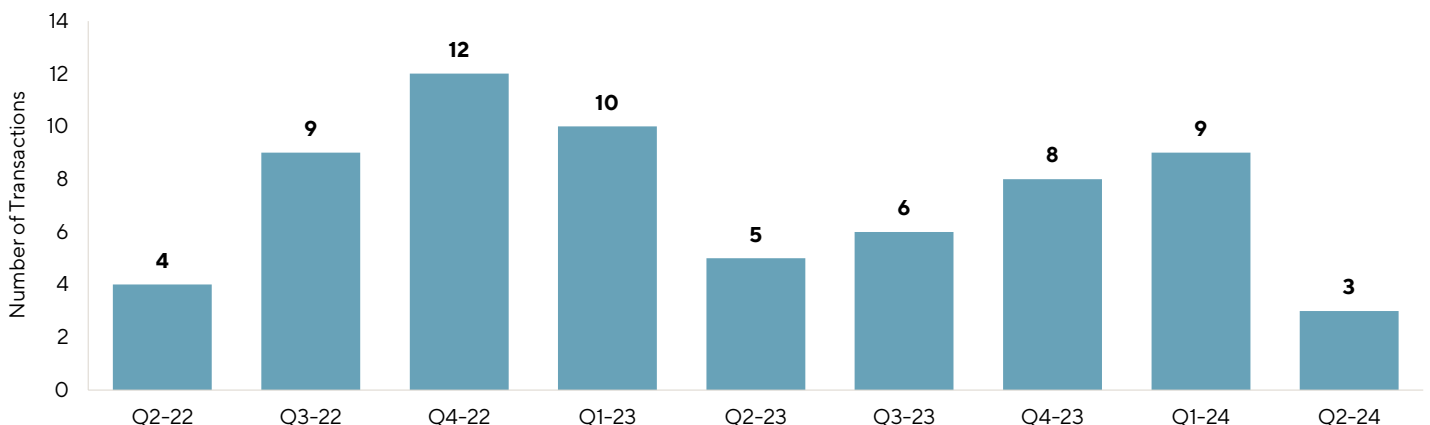
## EMS Quarterly Review Q2 2024

There were three EMS transactions recorded in Q2 2024, representing a decrease from the five recorded in Q2 2023 and the four in Q2 2022. EMS consolidations accounted for one of the transactions in Q2 2024, or approximately 33% of total activity, representing a decrease in the number of EMS consolidation transactions compared to the previous four years' Q2. Vertical/horizontal convergence accounted for two of the transactions in Q2 2024, or approximately 66% of the total activity, representing the highest number of vertical / horizontal transactions in the previous four years. Diversification into EMS, EMS divestitures, private equity investment and original equipment manufacturer divestitures did not account for any transactions in Q2 2024.

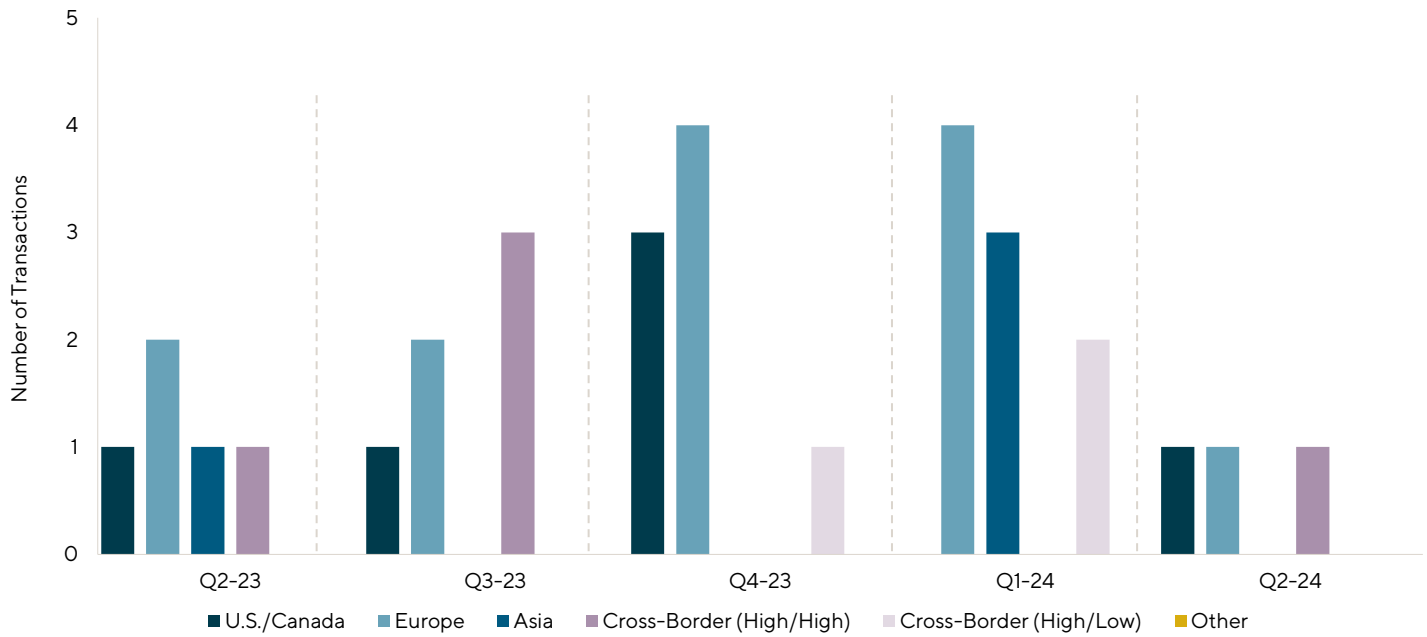
By geography, Europe had one transaction, representing approximately 33% of total Q2 2024 EMS transactions. U.S. / Canada had one transaction, representing 33% of total transaction activity in Q2 2024. Cross-border (High / High) had one transaction, representing 33% of total Q2 2024 transaction activity. Asia and cross-border (High / Low) did not record a closed transaction in Q2 2024.

In terms of transactions by acquirers, small-tier EMS providers accounted for one of the Q2 2024 transactions, or 33% of the transaction activity. One transaction was categorized as a mid-tier EMS deal, which represented 33% of EMS deals recorded in Q2 2024. Additionally, one transaction was categorized as a large-tier EMS deal, which represented 33% of EMS transactions recorded in Q2 2024.

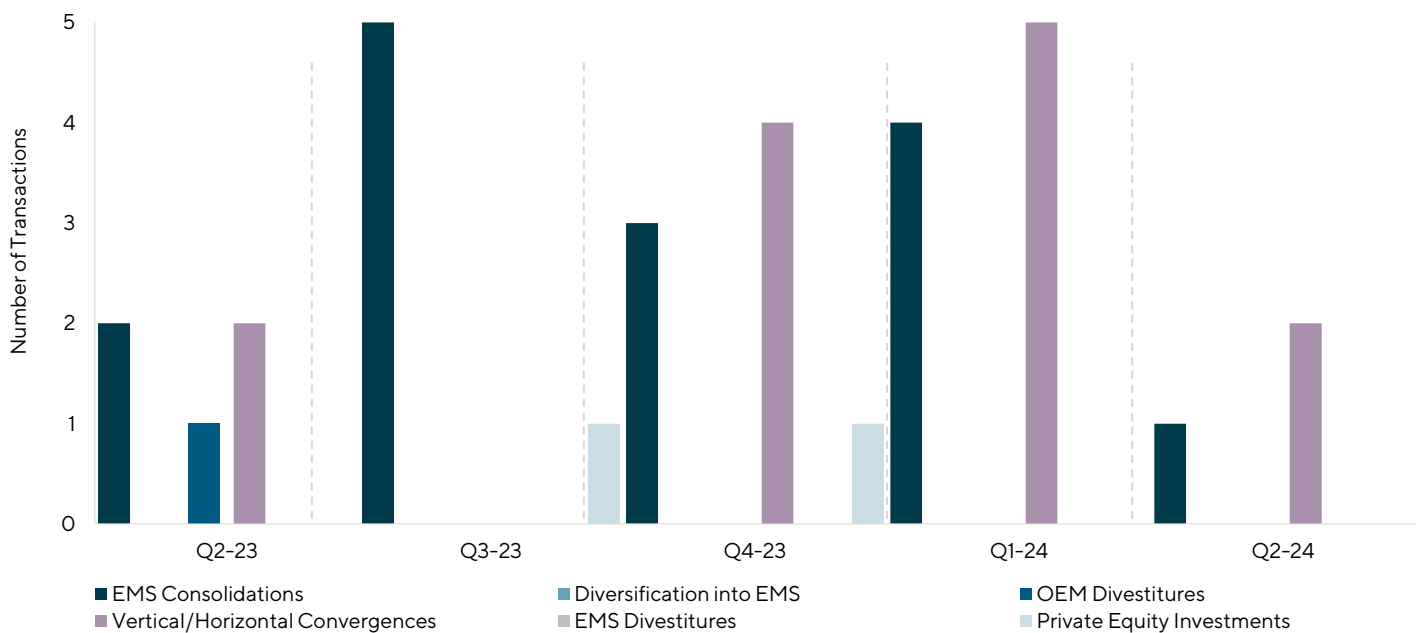
### QUARTER-OVER-QUARTER COMPLETED EMS TRANSACTIONS



## 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

## Latest Quarter: Q2 2024

Large-tier, mid-tier and small-tier EMS companies have all demonstrated generally positive margin results across all metrics for the LTM Q2 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 Q2 2024. Each graph shows the margin performance by tier.

The large-tier EMS companies exhibited gross margin expansion in the LTM to 8.8%, an 80 basis points (bps) increase from the LTM period ending Q2 2023. Additionally, operating and EBITDA margins for large-tier companies expanded by 30 bps and 40 bps, versus the same period in 2023, to 4.8% and 6.6% respectively in the LTM Q2 2024 period. The mid-tier exhibited overall margin expansion increasing in all three metrics on an LTM basis to 8.7%, 4.0% and 5.8% for gross margin, operating margin and EBITDA margin, respectively. This is up from 8.6%, 3.8%

and 5.4% 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 1.3% to 4.4%, and EBITDA margins increased by 1.3% to 5.9% compared to the same period in 2023.

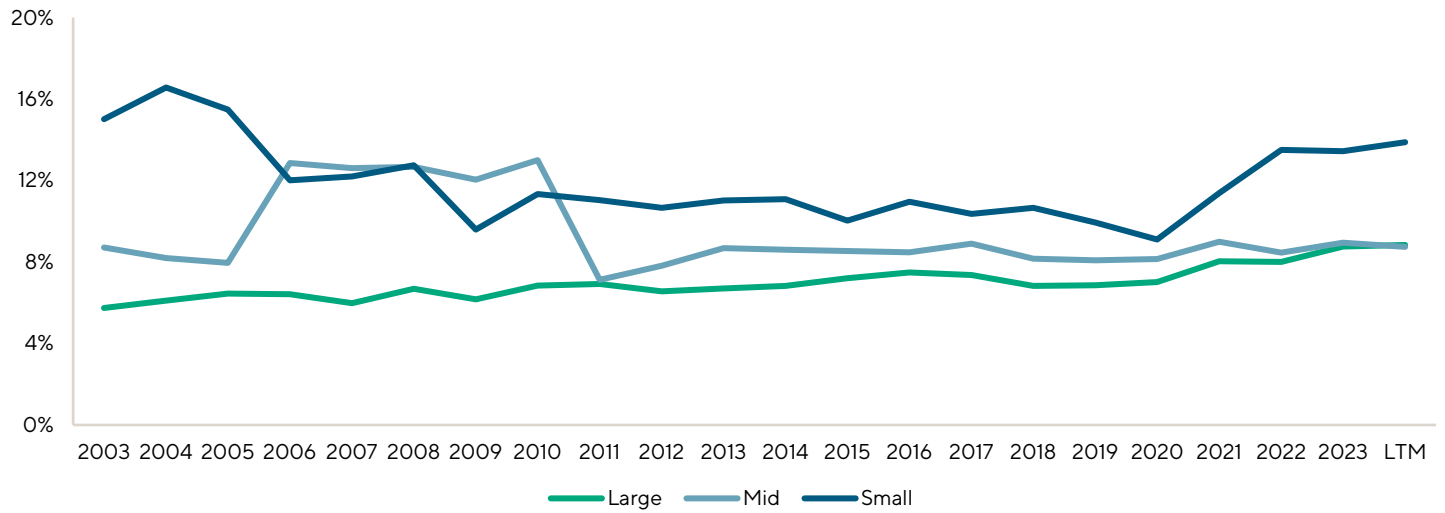
On a percent change basis comparing the LTM Q2 2023 results with the same period a year ago, in the large tier, Celestica showed the largest increase in operating margin to 5.4%, an increase of 85 bps. In the mid-tier, Benchmark Electronics exhibited an operating margin improvement of 90 bps over the prior year. In the small tier, SigmaTron realized the largest operating margin expansion of 1.6% from 2.7% 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

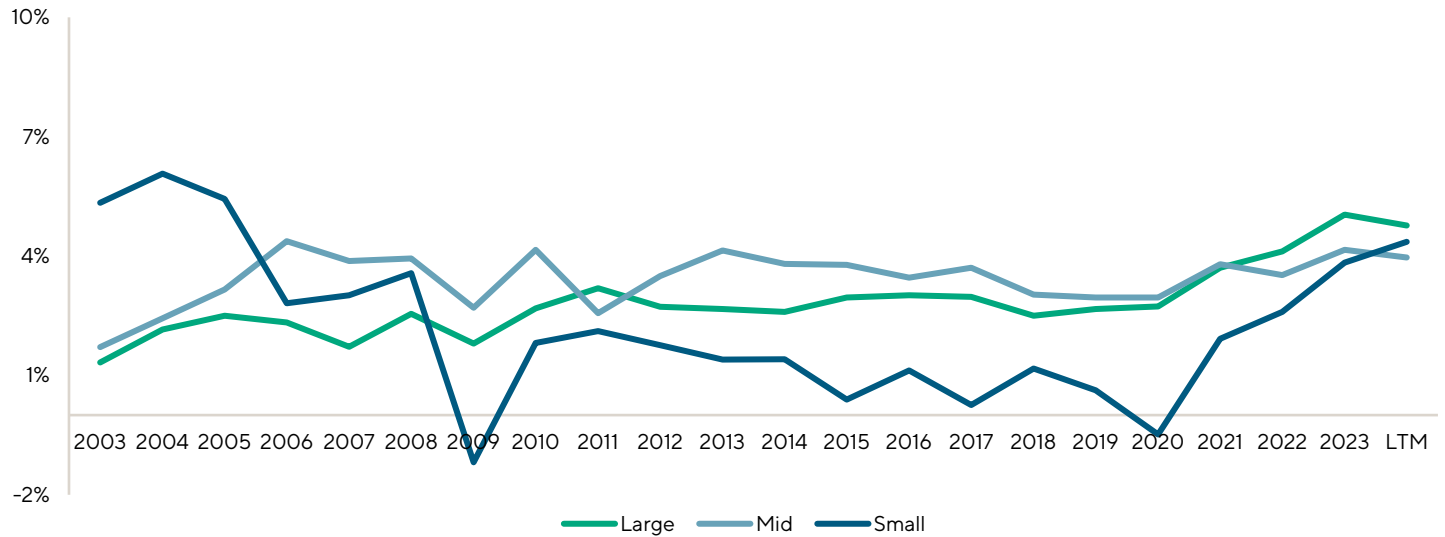
	Gross Margin	Operating Margin	EBITDA Margin
<b>Large</b>			
Celestica Inc.	10.1%	5.4%	6.9%
Flex Ltd.	7.6%	3.9%	5.9%
Jabil Inc.	9.1%	5.1%	7.5%
Sanmina Corporation	8.4%	4.8%	6.3%
<b>Large Tier Average</b>	<b>8.8%</b>	<b>4.8%</b>	<b>6.6%</b>
<b>Mid</b>			
Benchmark Electronics, Inc.	9.7%	4.4%	5.8%
Key Tronic Corporation	7.5%	1.7%	3.5%
Kimball Electronics, Inc.	8.6%	4.9%	7.0%
Plexus Corp.	9.2%	4.9%	6.7%
<b>Mid Tier Average</b>	<b>8.7%</b>	<b>4.0%</b>	<b>5.8%</b>
<b>Small</b>			
Nortech Systems Incorporated	16.6%	4.4%	5.8%
SigmaTron International, Inc.	11.1%	4.3%	5.9%
<b>Small Tier Average</b>	<b>13.9%</b>	<b>4.4%</b>	<b>5.9%</b>

Note: Based on the latest available financial data in Capital IQ, as of June 30, 2024

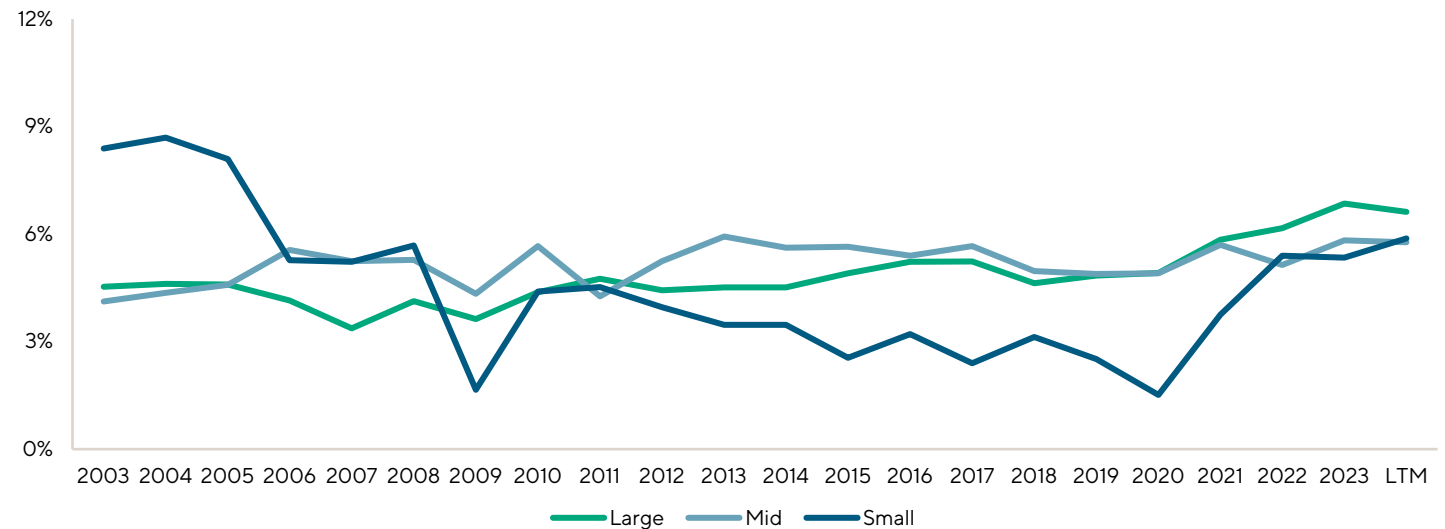
### AVERAGE GROSS MARGIN PERFORMANCE



### AVERAGE OPERATING INCOME MARGIN PERFORMANCE



### AVERAGE EBITDA MARGIN PERFORMANCE



Note: Based on the latest available financial data in Capital IQ, as of June 30, 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.	27.6%	I
Benchmark Electronics, Inc.	31.5%	II
SigmaTron International, Inc.	54.0%	III

Worst Performers		Tier
Jabil Inc.	(18.8%)	I
Key Tronic Corporation	(13.1%)	II
Nortech Systems Incorporated	2.2%	III

Note: Based on quarter-over-quarter share price performance, as of June 30, 2024

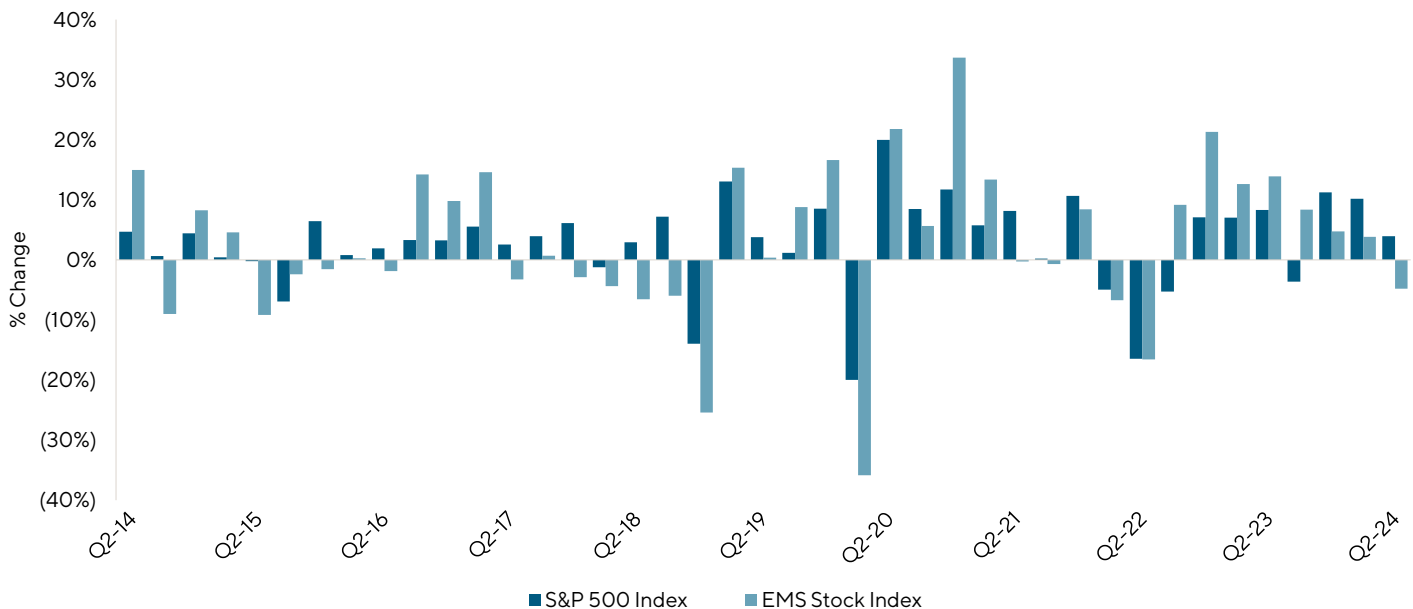
EBITDA Margins	
Large	6.6%
Mid	5.8%
Small	5.9%

Year-over-Year Last 12 Months Revenue Growth	
Large	-7.9%
Mid	-3.2%
Small	-2.4%

Source: Capital IQ as of June 30, 2024

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

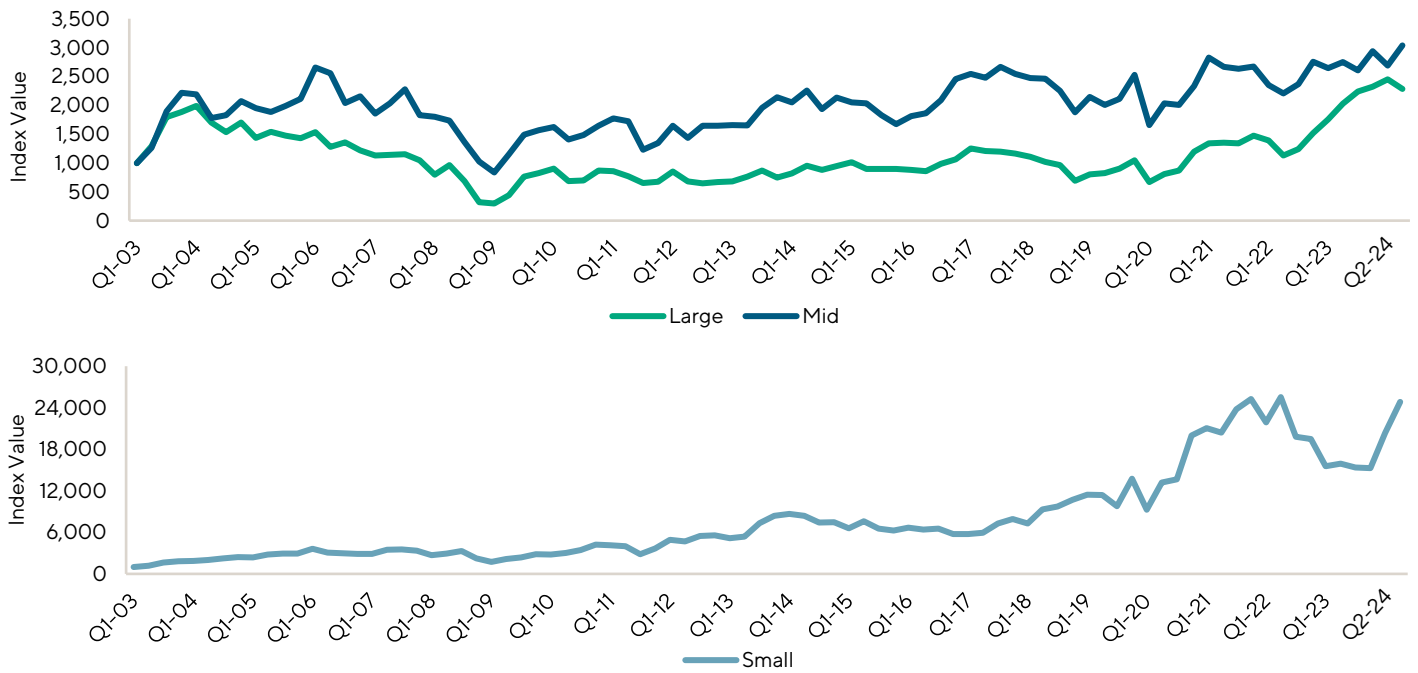
## S&P INDEX VS. EMS STOCK INDEX QUARTER CHANGE



### CURRENT EMS MARKET HIGHLIGHTS

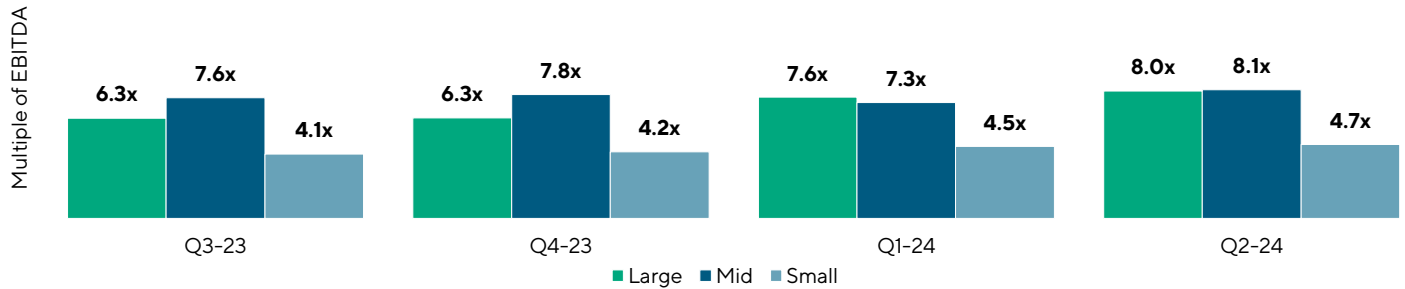
The overall Lincoln EMS Stock Index decreased 4.8% from last quarter, primarily driven by a decline of 6.9 in the large index. Inversely, the mid index increased by 13% and the small index by 22.1%.

## EMS STOCK INDEX BY SIZE



Note: Index Value as of June 30, 2024

## ENTERPRISE VALUE / EBITDA



Note: Enterprise value is calculated as market cap on June 30, 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)
<b>Large</b>									
Celestica Inc.	\$57.33	\$8,785	\$3.06	98.7	1.5x	12.1x	0.9x	\$6,788	\$518
Flex Ltd.	29.49	25,837	2.23	69.5	1.4x	7.5x	0.5x	11,761	1,435
Jabil Inc.	108.79	30,377	10.92	42.4	1.1x	5.8x	0.5x	13,120	777
Sanmina Corporation	66.25	7,603	3.86	70.5	2.0x	6.7x	0.4x	3,674	(341)
<b>Mid</b>									
Benchmark Electronics, Inc.	\$39.46	\$2,753	\$1.86	121.7	2.3x	8.5x	0.6x	\$1,422	\$97
Key Tronic Corporation	4.05	596	0.02	118.4	2.8x	6.9x	0.3x	44	140
Kimball Electronics, Inc.	21.98	1,780	1.27	101.7	2.0x	6.4x	0.5x	547	256
Plexus Corp.	103.18	3,934	3.97	161.1	1.5x	10.6x	0.8x	2,826	119
<b>Small</b>									
Nortech Systems Incorporated	\$13.65	\$139	\$2.41	101.5	2.3x	4.7x	0.4x	38	\$11
SigmaTron International, Inc.	5.59	401	0.19	128.2	2.3x	4.6x	0.3x	34	93

Sources: Bloomberg, Capital IQ and company filings, as of June 30, 2024

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## Contributors

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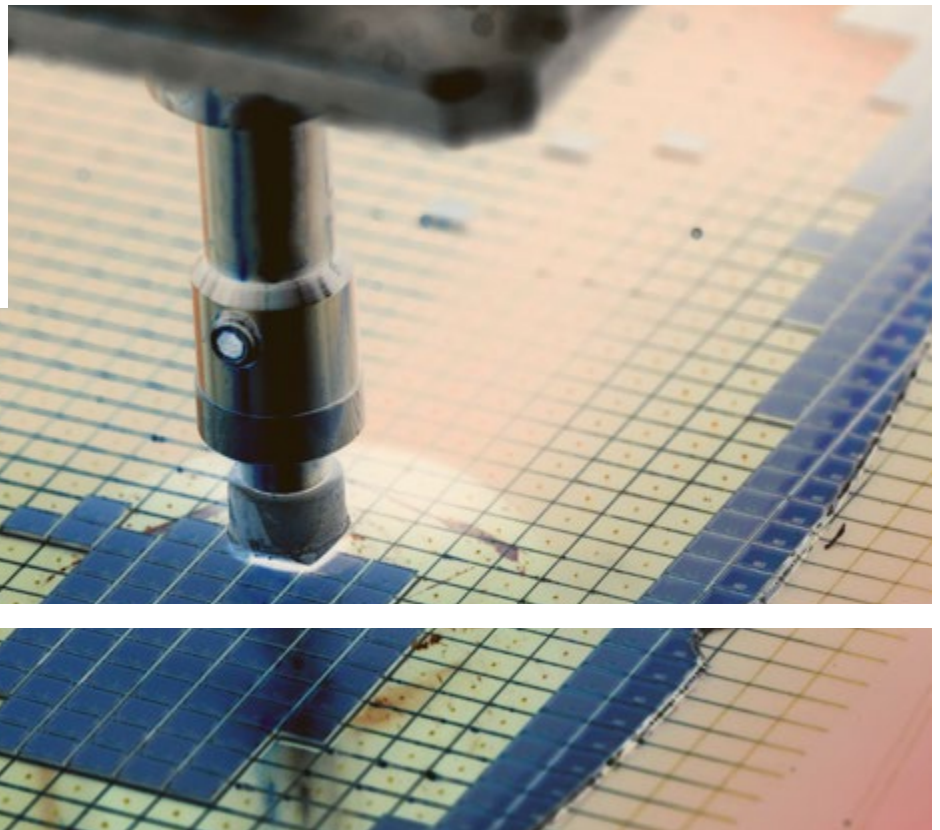
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