

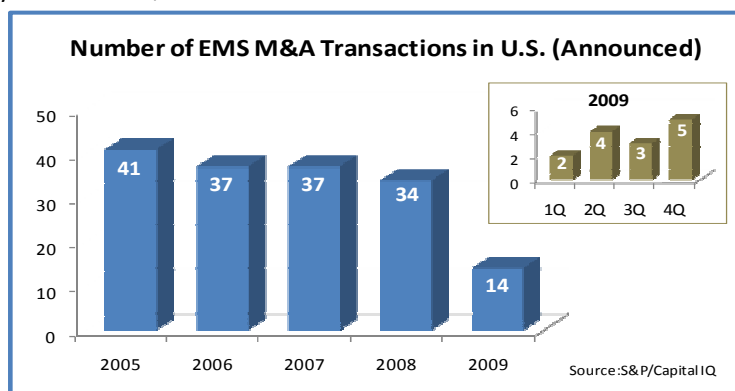
# EMS Industry Update - 2009 Year In Review

by **STRATEGICADVISORS**  
Middle Market Investment Bankers

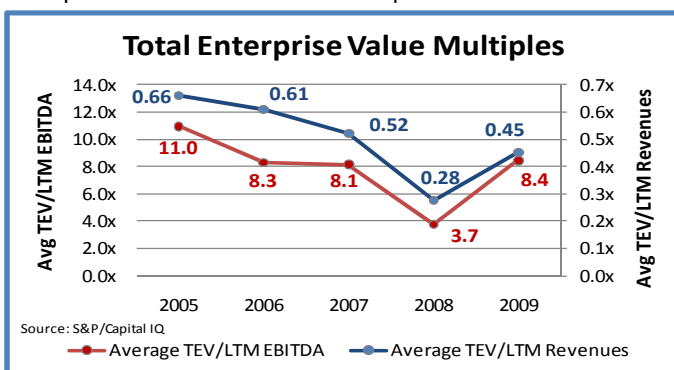
Ending a long streak of consecutive years of growth, the global EMS industry saw revenues deteriorate significantly as demand waned in 2009. While some companies experienced top-line growth this past year, the overwhelming majority of companies saw their revenues decrease. Those EMS companies that did perform well in 2009 benefitted from customers with strong product lines that compete in industries less affected by the economic downturn.

As industry sales declined, proactive EMS companies reduced headcount to lower operating expenses. Those hit harder by the downturn reduced expenses further by closing or divesting production facilities. This trend is expected to continue, according to Charlie Barnhart & Associates, as the global EMS manufacturing capacity of \$450-\$500 billion greatly exceeds the 2008 industry revenues of \$230 billion.

Another pathway to decreasing capacity is via a merger or acquisition; however, this method was rarely used in 2009. As seen in the graph to the right, EMS M&A activity in the U.S. in 2009 was well below historic levels. As the industry moves to cut capacity and the credit markets ease, M&A are likely to pick up in 2010.



The movement of production from the U.S. to lower cost regions of the world is losing momentum. Asian EMS is expected to grow at a 9.2% CAGR from 2008-2013, while North American EMS is forecasted to grow at a 6.3% CAGR over the same period, according to *Electronic Trend Publications*. The reduction of labor cost differentials is a driving force in the slowed movement to offshore production. Additionally, customers are often requiring their EMS partners to manufacture their products closer to where they are going to be sold.



A sample of 23 public EMS companies indicates the last twelve month (LTM) valuation multiples of EMS companies rebounded at the end of 2009 and were well above the depressed levels seen at the end of 2008. Business owners who have been contemplating sales of their businesses but were uncomfortable with lower valuations may see this as an opportune time to sell, particularly with the Tax Increase Prevention and Reconciliation Act set to expire at the end of 2010.

## 4Q 2009 Announcements

- > Sypris Solutions, Inc. (NasdaqGM: SYPR) sold Sypris Test & Measurement, Inc. to Oregon-based Tektronix Inc. The transaction was valued at \$39 million, or 0.71x net revenue and 17.9x EBIT.
- > New Mexico-based General Technology Corporation was sold by its parent company, Crane International Holdings, Inc., to IEC Electronics Corp. (AMEX:IEC) for \$15.1 million.
- > Two Minnesota-based companies filed for bankruptcy in 4Q 2009. Accu-Tronics Manufacturing, Inc. filed a voluntary petition for liquidation under Chapter 7, and Dimation, Inc. filed a voluntary petition for reorganization under Chapter 11.