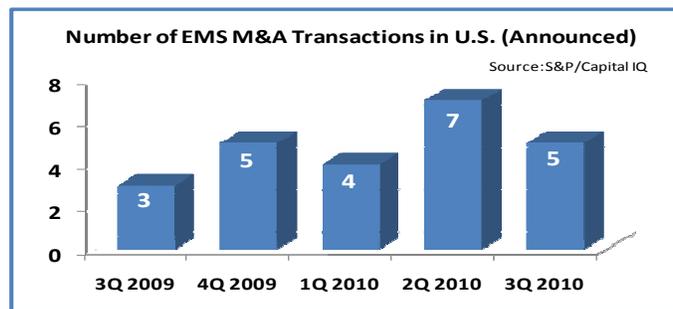


# EMS Industry Update - 3rd Quarter 2010



> As consumer demand has slowed and inventories have risen, iSuppli Corp. has reduced its 2010 global semiconductor sales forecast to \$302 billion. In fact, it is expected that fourth quarter sales will be slightly lower than third quarter sales, which would be the first sequential quarterly decrease since 4Q 2008 - 1Q 2009. Nevertheless, the \$302 billion forecasted sales for this year is 32% higher than last year and \$28 billion higher than in 2007, the previous peak year for semiconductor sales.

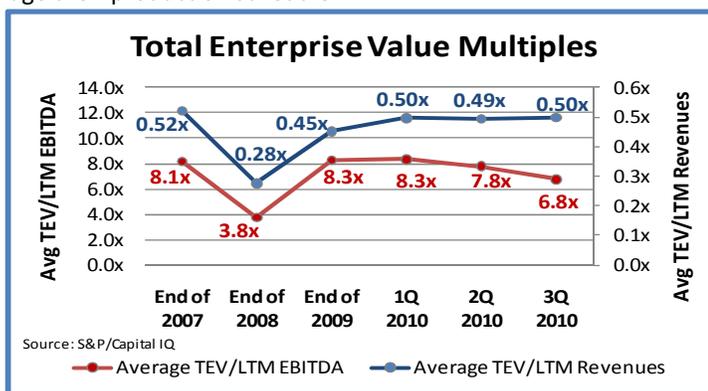


> Overall, the number of merger and acquisition (M&A) transactions globally in the third quarter increased from the second quarter. However, the U.S. EMS industry did not see as many transactions in the third quarter as it did the previous quarter. With many business owners concerned about the potential increase in capital gains taxes next year, M&A activity could be very strong in the final quarter of 2010.

> As industry sales have increased, EMS companies have utilized their excess capacity and have invested more into their operations by adding more capacity or equipment. Additions to fabricating capacity are on pace to increase 7% this year, and through the first eight months this year, spending on semiconductor equipment is already over 40% higher than it was for all of 2009.

> Purchasing managers should begin seeing changes in their orders for discrete components next year. After increasing every quarter for over a year, pricing should begin to ease as the industry enters the slower period of the year. However, the likely small decreases in prices will do little to offset the price increases experienced the last year-and-a-half. Additionally, lead times are more likely to expand than contract in the near future, making it more difficult for manufacturers to effectively manage their production schedule.

> Average valuation multiples for public EMS companies remained near 0.5 times revenues for the third consecutive quarter; however, the EBITDA multiples dropped for the second consecutive quarter and stood at 6.8 times EBITDA at the end of the third quarter. This data suggests the profitability of this group of companies has increased over the course of the year.



## 3Q 2010 Announcements

- > On July 30th, IEC Electronics Corporation announced it acquired the assets of Celmet Corporation, a manufacturer of metal chassis and assemblies located in Rochester, NY. Celmet had revenues of \$3.6 million in 2009, and was sold for approximately \$2 million in cash.
- > On August 6th, Sparton Corporation's wholly-owned subsidiary Sparton Medical Systems Colorado, LLC acquired Delphi Medical Systems Corporation's contract manufacturing business for \$8 million.
- > On August 4th, North Carolina-based Catalyst Manufacturing Services, Inc. acquired Harvard Custom Manufacturing's PCBA Division. On August 23rd, it was announced that Labinal, Inc. had entered into an agreement to acquire Harvard Custom Manufacturing, Inc. Financial details were not released for either transaction.