RCW MIRUS INDUSTRY

spotlight

Electronics Industry

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RCW Mirus Inc.5 Investment Banking Services

RAPID GROWTH AND CONSOLIDATION

Has the electronics manufacturing industry finally lost its power? The industry enjoyed record growth during 1998, 1999 and into 2000; with many companies reaching over 100% increases in annual top line revenue growth.

As the market slowed, companies scrambled to conserve cash and position to survive the shakeout. As a result, mergers and acquisitions have become a survival strategy for many companies while stronger players are using this market downturn to enhance their product offerings through strategic acquisitions. The survivors will be well positioned with a greater market share and manufacturing capacity when capital spending rebounds.

VALUE DRIVERS

RCW Mirus believes the following points are critical in driving premium pricing for middle market electronics companies:

- **Manufacturing Flexibility** – Players that have the expertise to manufacture a number of different products can meet a wide range of customer needs and keep pace with rapid changes in technology.
- **Leading Edge Technology** – This concept extends past the manufacturing process, and includes inventory, channel, and customer relationship management.
- **Scalability** – Companies that are able to quickly adjust to market conditions to meet increasing (or decreasing) demand are able to manage production risk and costs.
- **Realistic Expectations** – A successful acquisition process takes time. It will often take 6 to 9 months from initial contact with a Merger and Acquisition business advisor to complete a transaction. Companies that begin the process before they are in financial trouble retain more bargaining power, and can often entertain multiple offers.

RECENT TRANSACTIONS

The industry consolidation is occurring at lower valuations than just one year ago. However, many middle market companies are still completing acquisitions at favorable valuations. The following is a list of recent transactions:

- **Asyst Technologies, Inc. acquired GW Associates, Inc** – May 2001, $32 million
- **Plexus Corporation acquired Qtron, Inc.** – May 2001, $47 million
- **Solectron Corporation acquired Centennial Technologies** – April 2001, estimated $75 million
- **FTC Corporation merged with K*TEC Electronics** – May 2001, estimated $42 million post merger valuation
- **DDI Corporation acquired Olympic Circuits Canada** – May 2001, valuation not disclosed

Valuations as a multiple of book value or EBITDA will vary by the type of company. For example, manufacturers will have a lower price to book ratio than distributors with comparable revenues. The fact that many electronics companies have integrated operations compounds the complexity for developing meaningful valuations by advisors without significant industry experience.

INDUSTRY TRENDS

The long-term outlook for the electronics industry is strong. The July 2001 Electronics Industry Update produced by Cahners Business Information indicates that the production forecast for electronic components will return to an "annual growth rate of 35%" in 2002, which Cahners reports is less than half the growth rate of the late 1990's.

The electronics industry must still work through what is considered to be one of the worst market declines in history, with some sectors off as much as 40 percent from Q4 (2000) sales. What will emerge from this adjustment remains to be seen, but RCW Mirus anticipates that there will be some changes in the electronics value chain.

Industry participants will continue to seek ways to share risk and reduce costs, but managing costs below the revenue line will only be part of the solution. Companies will also need to identify strategic methods for adding value to their product offerings. Flexibility and partnerships will be key elements for continued growth, as subcontractors strive to increase sales and gain deeper penetration into their customer's manufacturing or assembly process.

Leading companies will seek merger and acquisition opportunities to quickly meet these objectives. The valuation of these opportunities will be driven by synergies obtained through operating flexibility, technology, and customer relationships. Cross-selling and up-selling reduce customer acquisition costs, create new market opportunities, and strengthen customer relationships and customer reliance on the services provided. These attributes are especially important as industry players jockey for position as a "preferred vendor" on the supplier list.

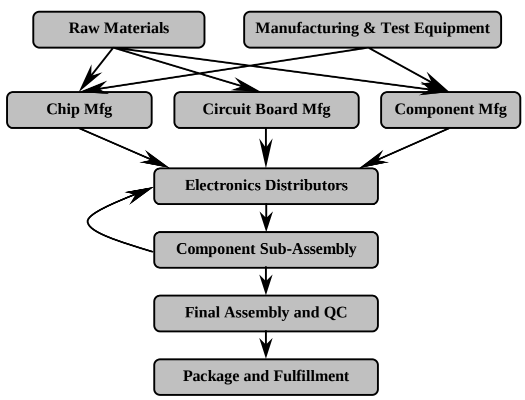

Exhibit 1: Electronics Industry Value Chain

If you would like to discuss consolidation and mergers and acquisitions in the electronics industry, please contact Jamie Grant at 617-338-1333.

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