



Speaking of Business Management

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Is time running out on EMS acquisitions?

With hard work and preparation, positive results often follow. Many North American electronic manufacturing service providers are well poised to capitalize on their hard work. Many are not. So how do you know what camp you fit in? How do you know whether you're ready to buy or sell, merge or acquire? And should you keep on "keeping on" and wait, or is now the time to cash in or cash out?

The Smart Seller - Today we have a strong economy with favorable corporate cash reserves. Interest rates are still favorable, but financing the highly leveraged deals is getting harder. Cashing in requires preparation that you started years ago. You decided on your approach, adapted to market changes and stayed focused on what you do well. In fact, over the years, you've re-invented your niche in the Electronic Manufacturing Services (EMS) industry. More than likely, you're privately held, owned by a few individuals who have just turned the corner in their fifties and you serve a specific geographic region of the United States. And yes, you see the trend of outsourcing to contract manufacturer vs. Original Equipment Manufacturer (OEM) in-house manufacturing continue to grow. For twenty years you have been agile, adaptable and often positioned yourself as the go-to guys, the "premier" provider that gets it done quickly and gets it done right. You charge more than your competitors but your customers are delighted to pay it. They know the difference, and know you'll deliver. They depend on you as their Innovator. Financially and operationally, you're not perfect, but you have prepared a solid operation that has value. Your books are clean, and you're probably generating revenue of 10's of millions per year. Potential buyers for your company should come running if you

have a low debt ratio (less than 10 percent of sales) and have earnings greater than 14 percent. Compare that against the typical high-volume production operation is Asia running 3 to 5 percent profits.

Strategic buyers are out there and willing to pay a very competitive price, but they are surgically looking for alignment to very specific industry niches. Customer base relationships are the key to attractiveness. There are factors that can scare away suitors once they are at your door. Being overleveraged with inventory, for example, can deflate a potential deal. Too much inventory, poor inventory management, or heavy dependence on one customer will create "red flags." Being prepared, having a track record of success and knowing who's buying what are key factors to successfully selling a business.

Buying to Expand - They say "people that don't grow, shrink". The same is true for business. If you are not ready to retire, instead of selling your well-prepared, well-run organization, why not consider expansion and diversity of services offerings? Organic growth alone takes time. The buy strategy is something to consider. While buying in today's market is somewhat tighter than it was even a month ago, the market remains strong. Financiers are more cautious and require more stringent terms and conditions. In fact, it's best if you can use your built-in or some of the private equity capital on the market instead of new financing. Regardless, the acquisition market is still strong, particularly among mid-sized, specialized, under-leveraged EMS firms. The buying strategy for successful electronic contract manufacturers is to buy other profitable firms with the desired customer base and service geography. The low price "turn-around" deals out there usually have lots of hidden challenges. As a buyer of EMS providers, you're looking for



the type of financial and operations history outlined above. You'll want to be strategic in considering what to buy, how it will integrate within your existing organization, and how it will add value, vs. distract—and potentially destroy—what you've already built. As a strategic buyer, you are well positioned to acquire well-managed manufacturers with higher margins and yields. Being a "strategic buyer" usually means you're well-established in your industry and/or geographic area, but want a local presence in other complementary markets. You want a deeper, larger customer base within your target region or specific niche, and you want a company with a small debt structure. Identify providers that complement your services. And avoid those providers doing high-volume, low-margin manufacturing. Leave that for the overly competitive Tier One giants in Asia.

Time to Decide - So, in an EMS in a global world, how can you compete, sustain and grow? You can buy, sell or stay the course; you should remain focused on agility, adaptability and specialization. You must remain keenly aware of market dynamics, your suppliers and competitors, and plan ahead for the day you decide to get off the train and pursue something different. The EMS industry is an exciting ecosystem of supply and demand, opportunities and obstacles. Work hard and experience what Thomas Jefferson calls "the luck of hard work." Ultimately, it pays off.

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