

**BDO CAPITAL ADVISORS, LLC**

*"Trusted Investment Bankers for the Middle Market"*

# Industry Insights: **Electronic Contract Manufacturing Services**

**Q3 2023 M&A Market Update**



**BDO**<sup>®</sup>

## Inside this issue...

The electronic contract manufacturing services (ECMS) sector has demonstrated continued momentum in 2023 despite facing various macro-economic headwinds. Inflationary pressures, supply chain bottlenecks, and labor shortages, combined with a rising interest rate environment, sparked concerns around a potentially looming recession. While M&A activity declined from peak highs in 2021, transaction volume year-to-date (YTD) through Q3 2023 was relatively in-line with historical levels. Well-capitalized investors continue to seek quality assets to add to their portfolios, resulting in healthy multiples and steady deal flow.

Tempered M&A activity in the broader market has cascaded down to the ECMS sector, although companies with strong balance sheets, robust sales pipelines, and attractive margins have continued to garner buyer interest. YTD through Q3 2023 saw transaction volume decline by 21 percent compared to the same period in the prior year, while total transaction value decreased by 47 percent (S&P Capital IQ).

Strong ECMS transaction volume in recent years can be credited in part to favorable domestic legislation, which has the goal of incentivizing manufacturers to re-shore production. Specifically, the 2020 CARES Act authorized \$100 million to drive growth in domestic manufacturing of medical technology, and the 2022 CHIPS Act designated \$52 billion of reshoring incentives for chip fabricators and suppliers.

Over the last twelve months (LTM) ending Q3 2023 the ECMS sector stocks outperformed the S&P 500, gaining 33 percent versus a 17 percent increase for the broader market. ECMS companies specializing in Communications, Consumer, and Automotive end markets saw outsized performance during the period. According to S&P Capital IQ, the average EV/EBITDA multiple for ECMS public companies rose to 11.3x during the LTM period ending Q3 2023 from 10.2x in 2022. Public company trading EV/EBITDA multiples were led by the Healthcare / Life Sciences end market with an LTM multiple of 14.6x.

A notable sub-sector of the broader ECMS space is the Technology Design & Manufacturing Service (TDMS) vertical. The TDMS sector transaction activity YTD Q3 2023 mirrored the broader ECMS industry with declines of 33 percent and 13 percent in transaction volume and transaction value, respectively, compared to the same period in the prior year. TDMS sector stocks underperformed the S&P 500 over the LTM period ending Q3 2023, gaining 16 percent versus a 17 percent increase for the broader market. Price to Earnings (P/E) ratios were led by the Healthcare / Life Sciences end market with 31.4x versus the broader TDMS Index of 17.8x, according to S&P Capital IQ.

### BDO Capital Advisors, LLC provides the following services:

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- ▶ Acquisition Advisory
- ▶ Capital Raising
- ▶ ESOP Advisory
- ▶ Board Advisory
- ▶ Special Situations

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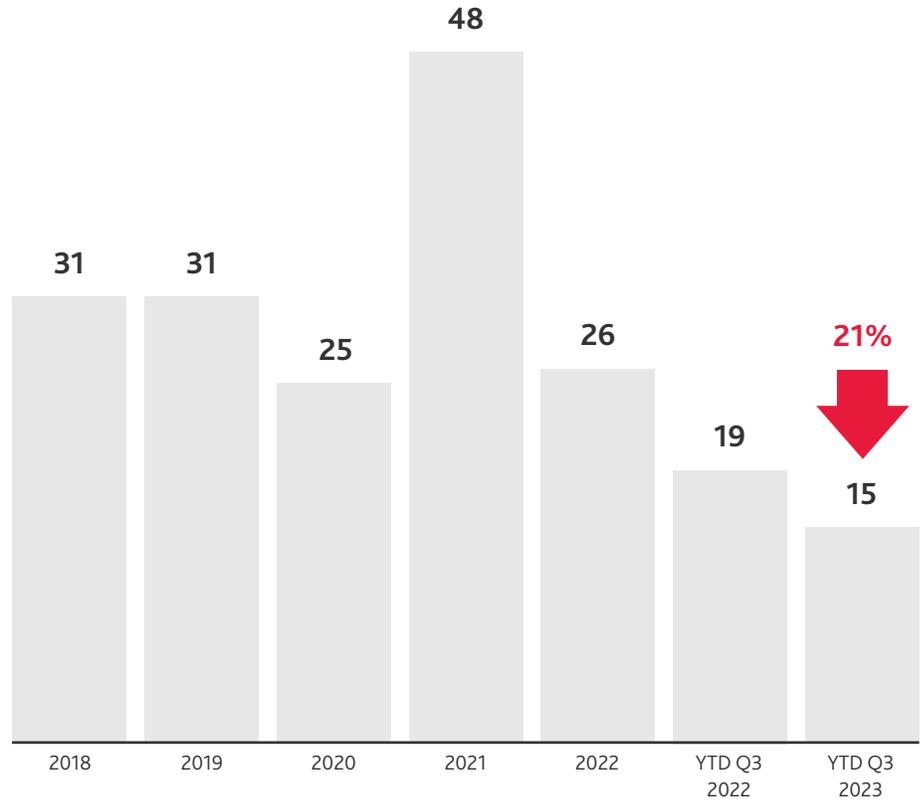
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## Sector M&A Activity

### M&A Transaction Volume: U.S. Electronic Contract Manufacturing Services Industry

#### Commentary

- ▶ Activity in the U.S. ECMS M&A market was relatively stable from 2018 to 2022 with the exception of the substantial increase in 2021. The 2021 surge can largely be attributed to transactions that were deferred during the COVID-19 pandemic. From 2018 to 2022, the average annual transaction volume was 32.
- ▶ Transaction volume YTD Q3 2023 stood at 15 transactions, a 21 percent decrease in volume from YTD Q3 2022.

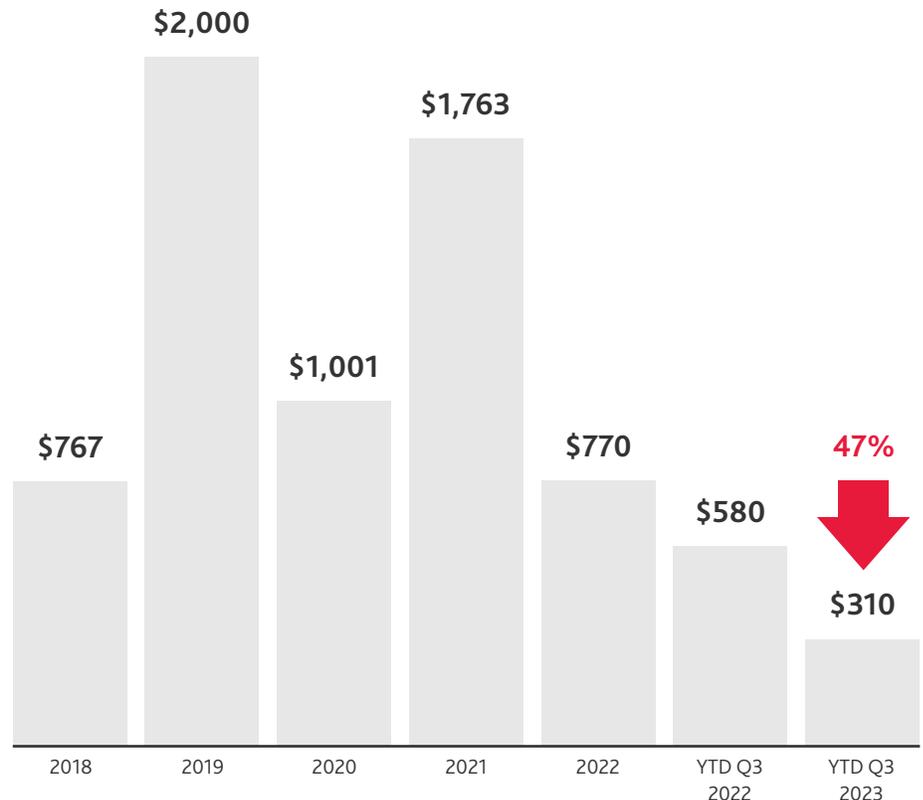


Source: S&P Capital IQ

### M&A Transaction Value (\$M): U.S. Electronic Contract Manufacturing Services Industry

#### Commentary

- ▶ Total reported deal value has fluctuated year-over-year between 2018 and 2022, primarily driven by a few outlier transactions.
- ▶ Total reported deal value YTD Q3 2023 declined to \$310 million from \$580 million in YTD Q3 2022, or a 47 percent decline.
- ▶ Average announced transaction value YTD Q3 2023 was \$62 million, down 68 percent from the same period in the prior year.



Source: S&P Capital IQ

## Equity Trading Trends

### S&P 500 vs. Electronic Contract Manufacturing Services Index

#### Commentary

- ▶ The ECMS Index gained approximately 33 percent on an LTM basis through Q3 2023 compared to a gain of approximately 17 percent in the S&P 500 during the same period.
- ▶ ECMS sector equities benefitted from legislative tailwinds including the 2020 CARES Act and the 2022 CHIPS Act, together which apportioned several hundred million dollars for investment in domestic manufacturing and chip production.
- ▶ Precarious U.S. relations abroad coupled with recent supply chain disruption have re-ignited the importance of domestic production across all facets of manufacturing.

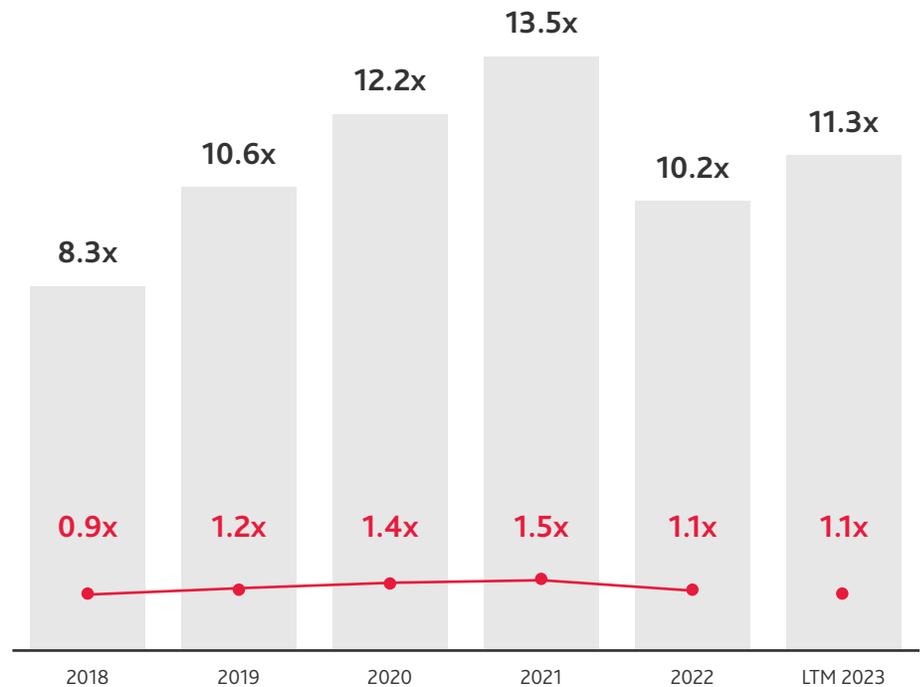


Source: S&P Capital IQ  
 Note: ECMS Index weighted by market capitalization

### Electronic Contract Manufacturing Services Index Multiples

#### Commentary

- ▶ Poor stock performance and fears of a recession put a damper on trading multiples through 2022. The ECMS Index declined to 10.2x in 2022, down 24 percent from the 2021 highwater mark.
- ▶ The average EV/EBITDA trading multiple as of LTM Q3 2023 increased to 11.3x from 10.2x in 2022, an increase of approximately 10 percent.
- ▶ LTM EV/EBITDA trading multiples were led by the Healthcare / Life Sciences end market at 14.6x.



Source: S&P Capital IQ  
 ■ EBITDA Multiple    ● Revenue Multiple

## Equity Trading Overview

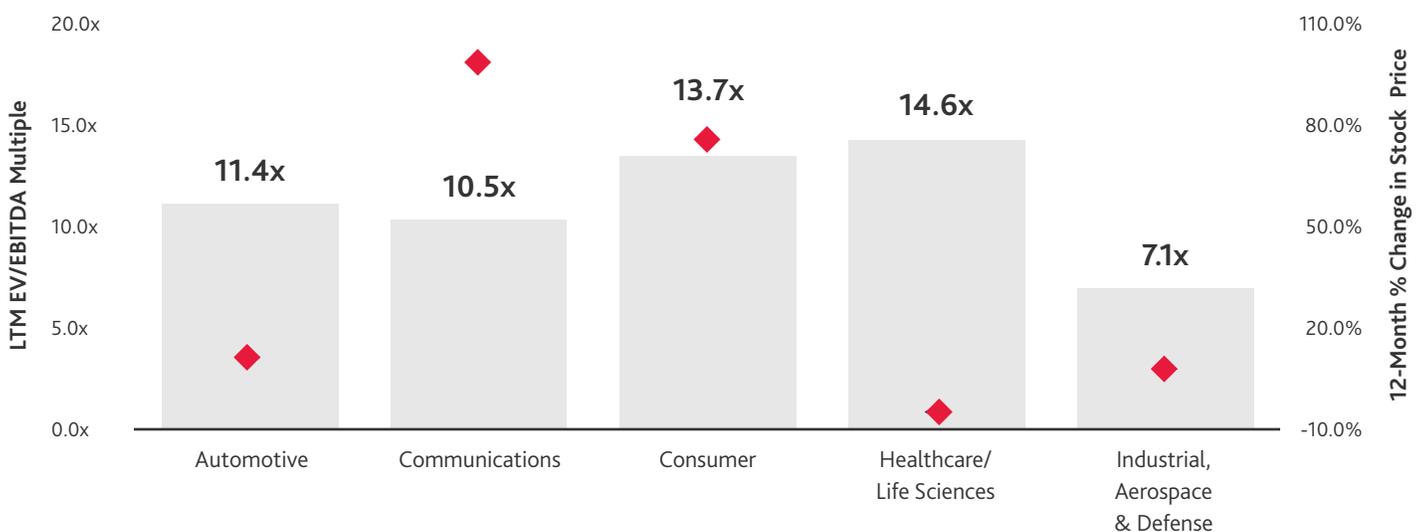
The ECMS industry has five distinct end markets including Automotive, Communications, Consumer, Healthcare / Life Sciences, and Industrial, Aerospace & Defense. The ECMS Index has seen a 12 month increase in revenue of 5.4 percent, led by the Industrial, Aerospace & Defense (17.6%) and Healthcare / Life Sciences (11.6%) end markets. LTM EV/EBITDA multiples are an average of 11.3x, led by Healthcare / Life Sciences (14.6x) and Consumer (13.7x). On an LTM P/E basis, the Healthcare / Life Sciences end market far outpaces the broader Index at 31.3x versus the Index at 19.9x.

### Key Trading Statistics

End Market	Average Enterprise Value (\$mm)	Change in Revenue		Change in Stock Price		LTM		
		12 mos.	24 mos.	3 mos.	12 mos.	EV/ Revenue	EV/ EBITDA	P/E
Automotive	24,635	6.3%	14.1%	(8.3%)	11.8%	1.9x	11.4x	18.4x
Communications	10,041	2.0%	8.1%	(2.4%)	101.2%	0.6x	10.5x	20.2x
Consumer	12,903	1.6%	9.5%	21.1%	77.5%	0.6x	13.7x	23.6x
Healthcare / Life Sciences	6,688	11.6%	1.4%	(14.6%)	(4.8%)	3.1x	14.6x	31.3x
Industrial, Aerospace & Defense	1,235	17.6%	27.8%	(10.1%)	8.3%	0.9x	7.1x	14.3x
<b>ECMS Index</b>	<b>11,322</b>	<b>5.4%</b>	<b>10.5%</b>	<b>0.0%</b>	<b>33.1%</b>	<b>1.1x</b>	<b>11.3x</b>	<b>19.9x</b>

Source: S&P Capital IQ

### Public Company Sector Performance



Source: S&P Capital IQ

■ LTM EV/EBITDA    ◆ 12 Mos. % Change

## Sector Spotlight: Technology Design & Manufacturing Service Companies

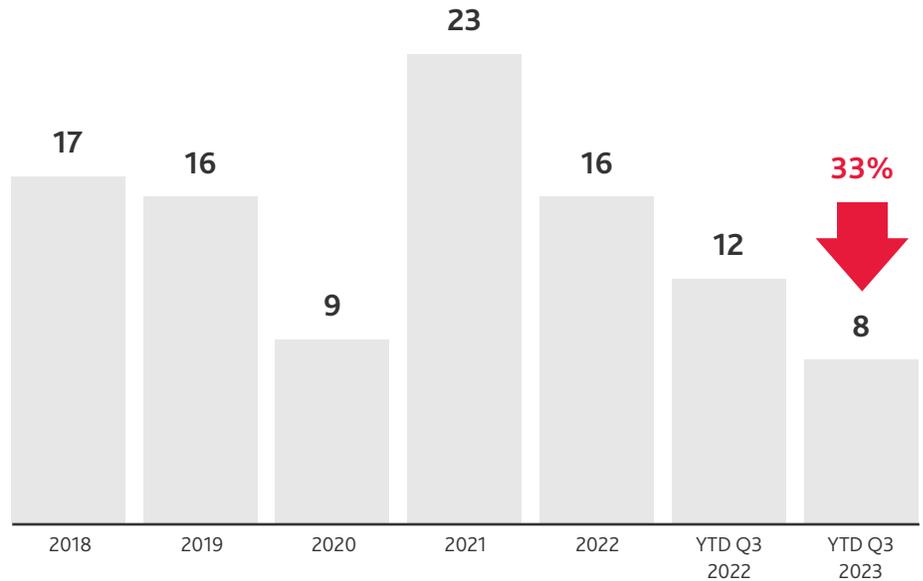
A notable sub-sector of the broader ECMS space is the Technology Design & Manufacturing Service (TDMS) vertical. In addition to offering contract manufacturing services, these organizations often function as turnkey solution providers. TDMS companies assist customers with all stages of the product lifecycle, including design & development, manufacturing, and aftermarket services.

The TDMS space can be considered quite lucrative, especially in the context of the legacy contract manufacturing business model. By offering cutting edge design services, TDMS companies de-commoditize the typical outsourced manufacturing process. This paves the way for stickier relationships with customers that are underpinned by innovation via design partnerships, rather than manufacturing bandwidth and legacy product assembly.

### M&A Transaction Volume: U.S. Technology Design & Manufacturing Service Industry

#### Commentary

- ▶ Between 2018 and 2022, approximately 50 percent of all ECMS transactions were of companies in the TDMS vertical.
- ▶ Transaction volume YTD Q3 2023 stood at 8 transactions, a 33 percent decrease in volume over YTD Q3 2022.

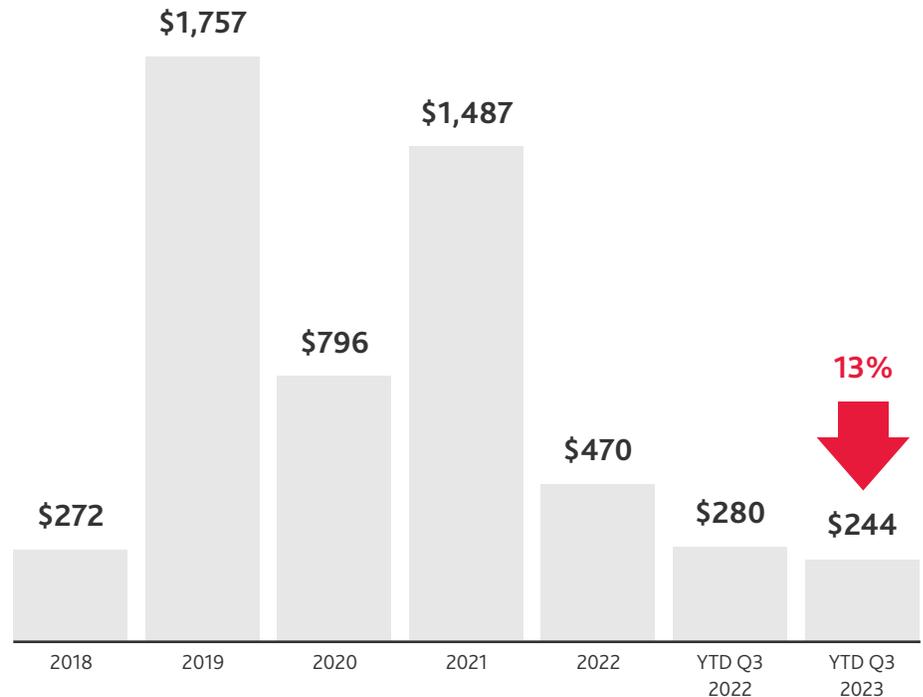


Source: S&P Capital IQ

### M&A Transaction Value: U.S. Technology Design & Manufacturing Service Industry

#### Commentary

- ▶ Total reported TDMS deal value YTD through Q3 2023 decreased to \$244 million from \$280 million, or 13 percent less than YTD Q3 2022.
- ▶ Average announced transaction value YTD Q3 2023 was \$81 million, down 42 percent over the same period in the prior year.
- ▶ TDMS transaction value made up 79 percent of total report deal value in the ECMS sector YTD Q3 2023, compared to 48 percent YTD Q3 2022.



Source: S&P Capital IQ

## Sector Spotlight: Technology Design & Manufacturing Service Companies

### S&P 500 vs. Technology Design & Manufacturing Service Companies Index

#### Commentary

- ▶ The TDMS Index gained approximately 16 percent on an LTM basis through Q3 2023 compared to a gain of approximately 17 percent in the S&P 500 during the same period.
- ▶ Over the last twelve months, the end markets with the highest percentage stock increase were Communications (59.2%) and Consumer (26.3%).
- ▶ The slump in stock performance in the last three months was primarily driven by the Healthcare / Life Sciences (-14.7%) and Industrial, Aerospace & Defense (-7.8%) end markets.

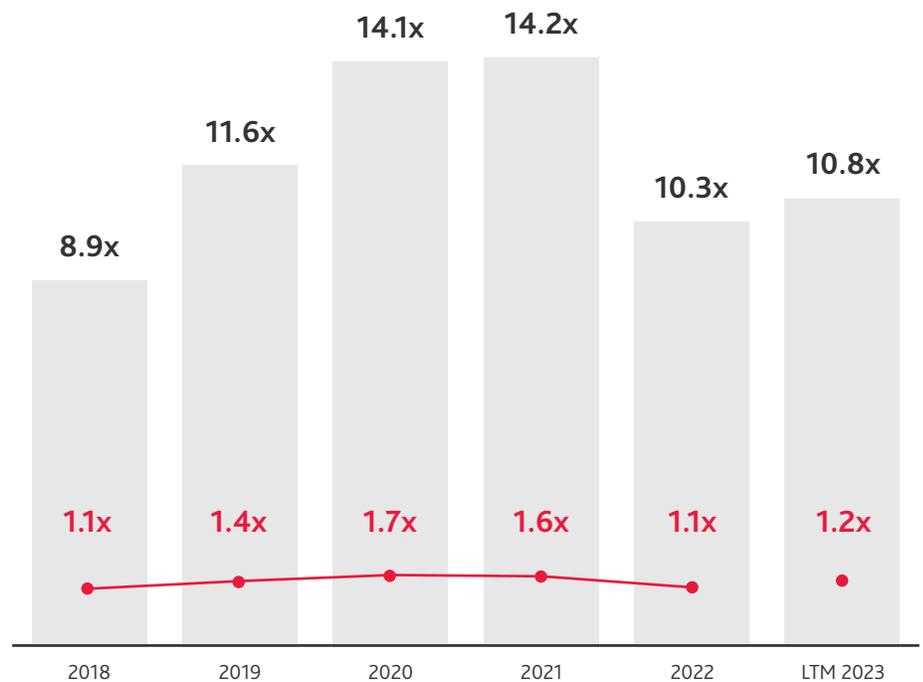


Source: S&P Capital IQ  
 Note: TDMS Index weighted by market capitalization

### Technology Design & Manufacturing Service Companies Index Multiples

#### Commentary

- ▶ TDMS companies have historically garnered higher valuations than traditional ECMS providers due to their value-added design capabilities. Throughout the historical period, TDMS companies traded on average 0.7x higher than the broader ECMS market.
- ▶ The average EV/EBITDA trading multiple as of LTM Q3 2023 increased to 10.8x from 10.3x in 2022, an increase of approximately 5 percent.
- ▶ LTM EV/EBITDA trading multiples were led by the Healthcare / Life Sciences end market at 14.6x.



Source: S&P Capital IQ  
 Legend: EBITDA Multiple (Gray Bar), Revenue Multiple (Red Line)

## Sector Spotlight: Technology Design & Manufacturing Service Companies

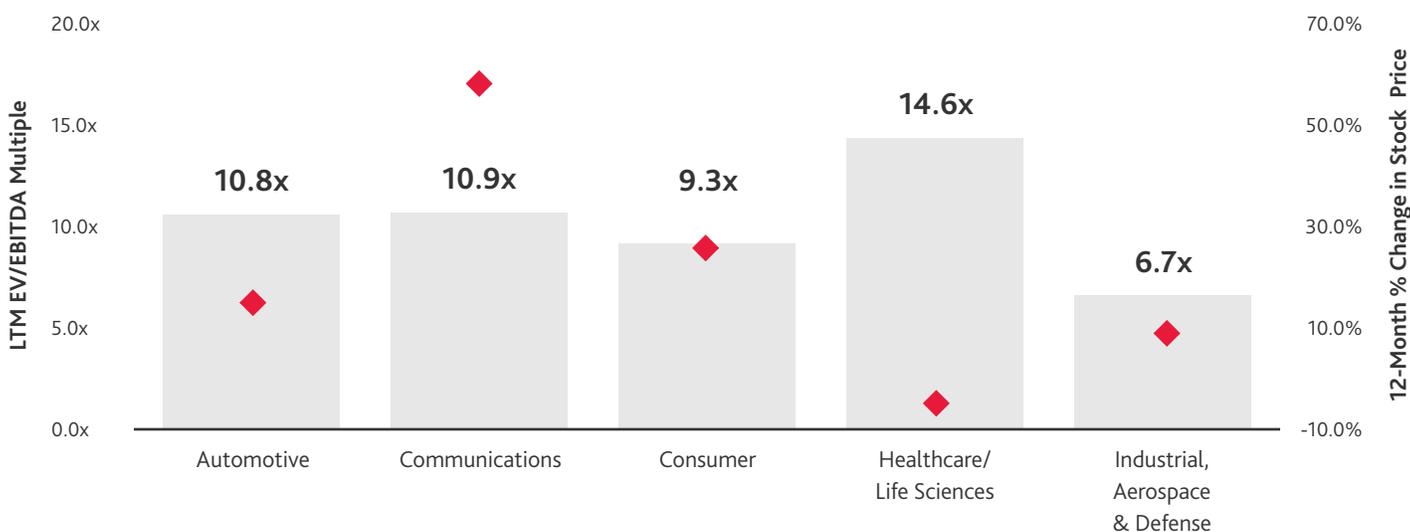
The TDMS Index is broken into five end markets including Automotive, Communications, Consumer, Healthcare / Life Sciences, and Industrial, Aerospace & Defense. The TDMS Index has seen a 12 month increase in revenue of 9.4 percent, led by the Industrial, Aerospace & Defense (17.1%) and Automotive (11.7%) end markets. LTM EV/EBITDA multiples traded at an average of 10.8x, led by Healthcare / Life Sciences (14.6x) and Communications (10.9x). On an LTM P/E basis, the TDMS Index traded at 17.8x, led by the Healthcare / Life Sciences (31.4x) and Consumer (21.1x) end markets.

### Equity Trading Statistics

End Market	Average Enterprise Value (\$mm)	Change in Revenue		Change in Stock Price		LTM		
		12 mos.	24 mos.	3 mos.	12 mos.	EV/ Revenue	EV/ EBITDA	P/E
Automotive	18,845	11.7%	17.6%	(4.7%)	15.4%	1.3x	10.8x	16.7x
Communications	8,990	4.4%	11.5%	(5.0%)	59.2%	0.8x	10.9x	15.6x
Consumer	12,776	4.2%	21.9%	4.3%	26.3%	0.5x	9.3x	21.1x
Healthcare / Life Sciences	8,857	11.6%	1.3%	(14.7%)	(4.7%)	3.1x	14.6x	31.4x
Industrial, Aerospace & Defense	1,491	17.1%	26.1%	(7.8%)	9.3%	0.9x	6.7x	14.2x
<b>TDMS Index</b>	<b>10,085</b>	<b>9.4%</b>	<b>14.0%</b>	<b>(5.6%)</b>	<b>16.2%</b>	<b>1.2x</b>	<b>10.8x</b>	<b>17.8x</b>

Source: S&P Capital IQ

### Public Company Sector Performance



Source: S&P Capital IQ

■ LTM EV/EBITDA    ◆ 12 Mos. % Change

## BDO Capital Deal Closing

### BDO Capital Advises Enercon Technologies on Investment from EW Healthcare Partners

BDO Capital Advisors, LLC (BDO Capital) is pleased to announce that Enercon Technologies, Inc. (Enercon or the Company) has received an investment from EW Healthcare Partners. BDO Capital served as exclusive financial advisor to Enercon on this transaction, which builds on the firm's experience advising businesses in the contract manufacturing sector. Valentina Midura, Senior Managing Director, led the client engagement for BDO Capital.

Founded in 1980, Enercon is an industry-leading Technology, Design and Manufacturing Service provider (TDMS) of medical devices, healthcare, life-sciences, industrial and automotive products. The Company manufactures complex electronic and electro-mechanical products using proprietary software systems and supports customers at every stage of the product lifecycle, from inception through after-market services. Enercon is based in Gray, Maine, and has over 250 highly skilled employees, all of whom operate from the Company's recently expanded 100,000 square foot state-of-the-art Design + Build facility.

***"Enercon is excited to partner with EW Healthcare for the next stage of our company's growth," said Ryan Marcotte, CEO at Enercon Technologies. "EW enhances Enercon's already strong financial and operational position by providing expertise in Enercon's core end markets of Healthcare and MedTech. EW shares our vision of growing Enercon as a platform and they align with our values and culture that our employees are our most important asset. We are thrilled to have EW as our partner."***

***"We are thrilled to partner with the Enercon team to help continue their history of impressive growth while providing additional resources and investment to further expand upon their innovative offerings for existing and future customers," said Brooks Andrews, Managing Director at EW Healthcare Partners. "Feedback from the market was clear in our diligence - Enercon excels when it comes to engineering and manufacturing capabilities, quality, and reliably serving its customers' needs - and we look forward to increasing the awareness of these core strengths in the years ahead."***

EW Healthcare Partners is a well-respected healthcare growth equity firm with over \$4 billion raised since inception. EW Healthcare has a global reach through three offices with active investments in the US and Europe. The firm has been an active investor in over 150 healthcare companies in the pharmaceutical, biotechnology, medical device, services and information technology sectors including growth equity, PIPE and buyout financings.



Served as exclusive financial advisor to Enercon Technologies, Inc.



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### Select BDO Capital Transactions

Served as exclusive financial advisor to Snap Lock Industries, Inc. in its sale to Gerflor Group

Served as exclusive financial advisor to Tendon Systems LLC in its sale to Commercial Metals Company (NYSE: CMC)

Served as exclusive financial advisor to Dutchland, Inc. in its sale to Lindsay Precast, a portfolio company of MiddleGround Capital

Served as exclusive financial advisor to Spiroflow in its sale to May River Capital

Served as exclusive financial advisor to Solatube International, Inc in its sale to Kingspan Light & Air, LLC, a division of Kingspan Group plc (ISE:KRX)

Served as exclusive financial advisor to Safe-Way Garage Doors, LLC in its sale to CW Industrial Partners, LLC

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- ▶ Cross-Border Transactions
- ▶ ESOPs

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- ▶ Structuring
- ▶ Negotiation
- ▶ Acquisition Financing
- ▶ Management Buyouts
- ▶ Acquisition Search

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- ▶ Feasibility, valuation and tax analyses
- ▶ Assistance with the selection of an ESOP Trustee
- ▶ Capital raising for leveraged ESOPs
- ▶ Benefit plan design and analyses\*
- ▶ M&A comparative analyses
- ▶ Tax and accounting\*
- ▶ Plan administration\*

### Capital Raising

- ▶ Debt
- ▶ Mezzanine
- ▶ Equity

\*Services provided with the assistance of BDO USA, P.C.

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