

Exclusively written for Electronic Business, 775 words

In the world of EMS, is now the time to buy, sell, merge or acquire?

By Gary A. Tanel

“I’m a great believer in luck, and I find the harder I work, the more I have of it.”

The quote, made by Thomas Jefferson, reveals a timeless reality: Work hard and prepare, and good, 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 Well-Prepared Seller

Leveraging today’s strong economy 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 Electronic Manufacturing Services (EMS). More than likely, you’re privately held, owned by an individual who has just turned the corner as living for half a century and you serve a specific geographic region of the United States. And yes, you’re more often contract manufacturer vs. an Original Equipment Manufacturer (OEM). You’re 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 The Innovator. Financially and operationally, you’re not perfect, but you have prepared. Your books are clean, and you’re probably generating revenue of \$50 million a 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 percent earnings.

There are factors that can stymie suitors from knocking on your door. Being overleveraged with inventory, for example, can stall 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 vs. Selling.

Instead of selling your well-prepared, well-run organization, why not consider expansion and diversity of services offerings? 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 capital 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. 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 lower 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 region or specific services 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.

So, Now What?

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

#####

Gary A. Tanel is vice president of electronic manufacturing services at Allegiance Capital Corp., a Dallas investment banking services company focused on the mid-market. Tanel also serves as president of the Surface Mount Technology Association's Dallas chapter and is the chairman of the Dallas M&A Forum. He can be reached at (214) 217-7748 or e-mail: GTanel@AllCapCorp.com.

For The Editor, Contact:
Roy G. Miller
RGM Communications
903-422-5117
rmiller@rgmcomms.com