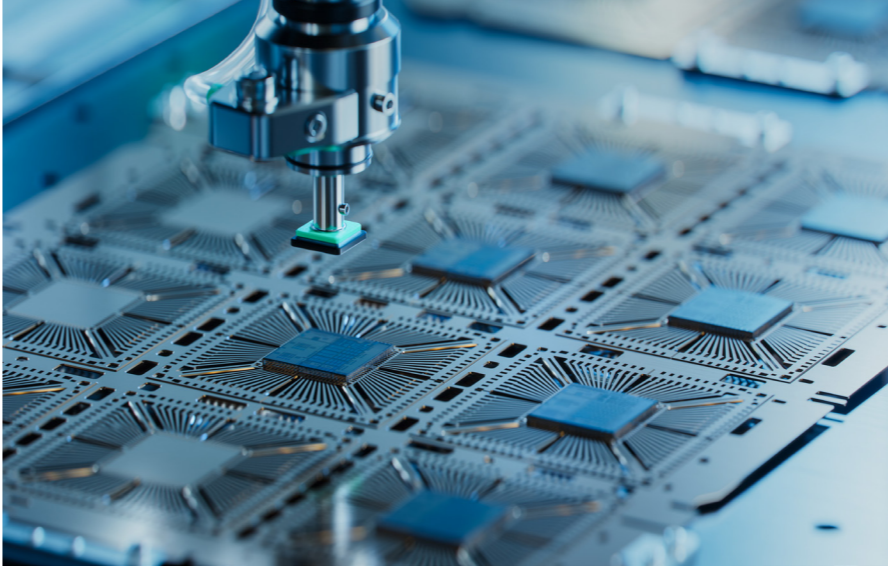
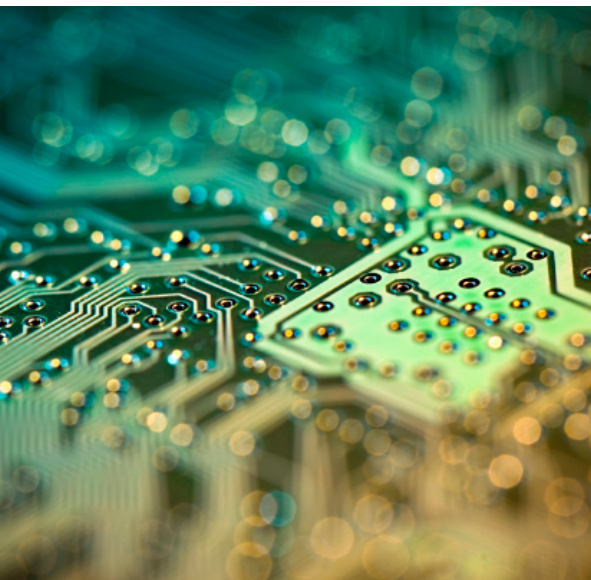


# Electronics Newsletter

May 2024

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Contact us to see how we can help you and your business succeed



# Introduction

Following several years of significant volatility, the M&A landscape across the electronics industry is showing signs of stabilisation and grounds for optimism throughout 2024

2022 and 2023 saw the electronics industry attempting to navigate a route through an unprecedented series of challenges and issues, bouncing back from the supply chain turmoil and instability that had plagued the industry since early 2020.

A confluence of factors came together during 2021 to negatively impact global supply chains. Soaring demand levels, stress on logistics and transportation networks, raw material shortages and an increasingly incendiary geo-political landscape all combined to place significant amounts of strain on the availability of critical components across the manufacturing sector. Perhaps most notably, semi-conductor chips.

At its nadir, such was the severity of semi-conductor component shortages, FAB's capacity stretched to breaking point and product manufacturers explored novel and/or radical methods of sourcing these valuable units.

Some businesses even resorted to purchasing finished products from other manufacturers for the sole purpose of stripping them down to access the precious semi-conductor parts within. Only those manufacturers and distributors with the most robust supply chains were able to profit from the situation.

During 2023, the electronics supply chain industry scrambled to regain a surer footing, with the inevitable dampening of consumer sentiment alongside wider macro-economic challenges driving a softening in demand, consequently improving the availability of many critical components across the sector.

However, whilst the blockages that have hampered global supply chains in recent years showed some signs of unwinding in 2023, escalation of ongoing conflicts and increasing tensions across several geographies that are fundamental to trade stability continue to create uncertainty in supply chains.

With 2024 bringing additional challenges for businesses reliant on the global movement of goods, there is no time for complacency with companies looking to capitalise on any breathing room to prepare as best possible. Shoring up supply chains remains a key area of focus, with larger companies continuing to streamline operations and in many instances are looking at near-shoring manufacturing operations to negate the impact of ongoing geo-political issues, with M&A often an attractive route to doing so (both through divestments and acquisitions).



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## Notable strategies to navigate the challenges facing the electronics industry

Despite some easing of pressure, structural issues around raw material shortages, inflation (in certain geographies) and the geo-political landscape continue to pose significant challenges for the electronics industry.

Whilst some companies turn to battening down the hatches and focusing on core business activities whilst supply chains stabilise, many are increasingly looking at initiatives to adapt and respond to external pressures, with a number of key strategies identified to mitigate disruption:

### Creating autonomy

In recent years a lot of businesses stockpiled large quantities of raw materials / component parts to provide a buffer against future supply constraints. Whilst this needs to be carefully managed to avoid large volumes of stock obsolescence, it is a very effective (albeit working capital intensive) route to maintaining operations when global supply chains struggle to meet demand. This strategy is more readily pursued by larger, well-capitalised companies.

### Increased flexibility

Plan for the worst and hope for the best is an old adage and one that is highly applicable here. The sector's winners over recent years have typically been those that have been able to pivot and adapt their processes to manage the turmoil, sourcing alternative materials and components or amending designs to work with what they have.

### Increased diversification

Whether it's a particular company or a certain country, supplier concentration can create material issues. By diversifying the supplier base, businesses can spread risk and reduce impact of disruption. Engaging multiple suppliers, and if possible, suppliers in different locations can help to reduce the risk of localised issues impacting your supply chain.

### Digitalisation for improved visibility

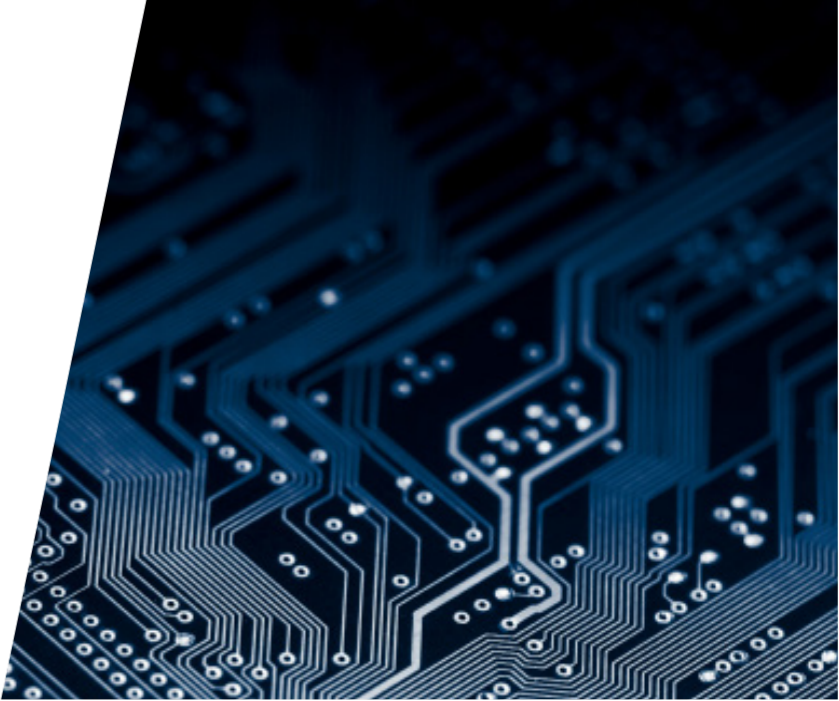
Supply chains are often fragmented, segregated into many different operational stages. Without proper visibility this can lead to issues only becoming apparent deep into the later stages of a supply chain process, creating larger problems than the original issue would have caused if identified at source.

Knowledge is power and the sooner businesses are aware of issues within a supply chain the greater the potential for rectifying them without giving rise to material disruption or delays.

Businesses are increasingly looking to digitalise supply chain management processes and automate more and more of the individual stages. Not only does this increase the efficiency of the overall process but it affords management real time visibility of performance to identify and address any issues as soon as possible.

**No-one can say for certain what the future holds for the electronics industry, but with further turbulent conditions likely, businesses that are nimble and have the ability to pivot and adapt to the ever-evolving landscape are going to be best placed to navigate it.**

# Drivers of M&A activity



Whilst the unprecedented volume of transactions in 2021 was not sustainable, the volume of electronics M&A deals in 2023 remained relatively robust and in line with 2022 levels. According to industry reports, the value of electronics M&A deals in 2022 exceeded \$100 billion globally, with the market experiencing a range of larger transformational deals combined with smaller bolt-ons and consolidation driven acquisitions, with many companies looking to expand their presence in key growth areas such as IoT, electric vehicles, and 5G. The trend of consolidation in the industry also continued, with many companies seeking to increase their market share and improve efficiency via strategic acquisitions.

The drivers of electronics M&A in 2023 included:



Incremental capabilities / technology

Companies sought to acquire new technologies and capabilities (e.g. bespoke design services) to augment existing offerings and stay ahead of the competition.

Notable deals included:

ESCO acquisition of MPE



discoverIE acquisition of Silver Telecom



Growth opportunities

Companies looked to expand their market presence into more resilient, higher growth areas such as IoT, electric vehicles, the defence sector and 5G.

Notable deals included:

Cicor acquisition of STS Defence



Consolidation / cost efficiency

Companies sought to consolidate operations and reduce costs through M&A, benefitting from margin uplifts via synergies and sales of incremental products to their existing customer base.

Notable deals included:

discoverIE acquisition of 2J Antennas



Surety of supply

Inability to access mission critical components to produce end-products has driven a wave of upstream consolidation across the electronics industry, with larger players acquiring manufactures of niche components (e.g. microchips) to guarantee surety of supply and mitigate the impacts of soaring prices.

Notable deals included:

Infinite Electronics acquisition of Bulgin Electronics



# M&A transaction volumes

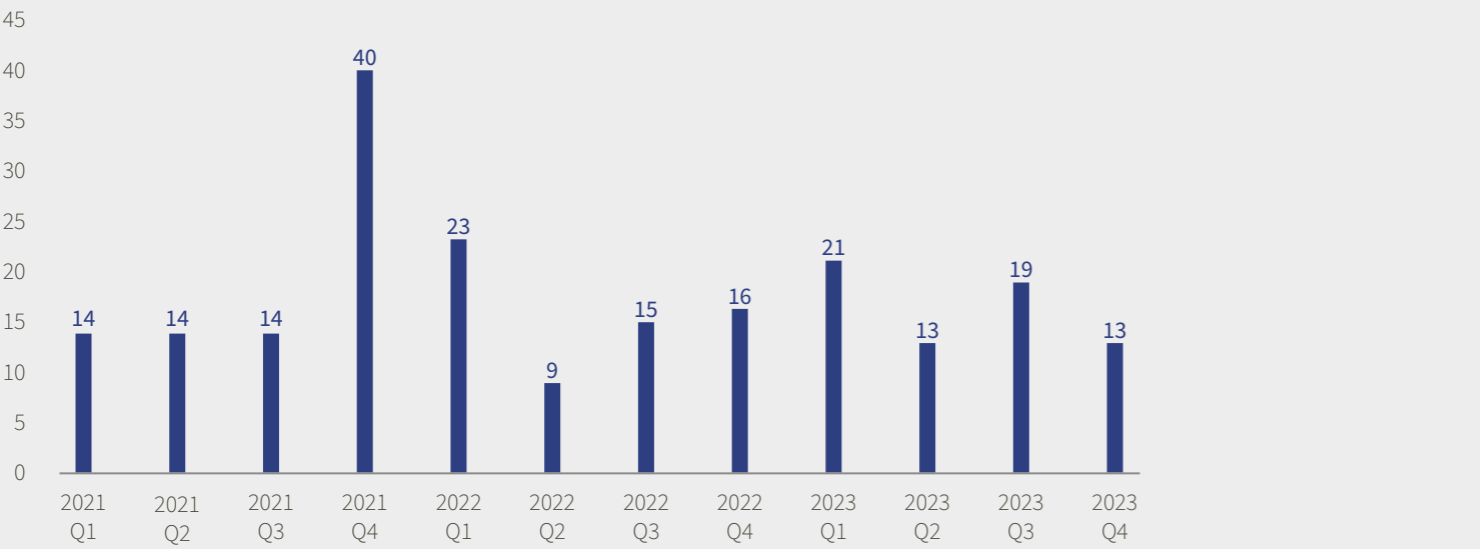
## A spotlight on notable transactions in the market

Following a period of very strong M&A activity in 2021, transaction volumes stabilised over the course of 2022 and 2023. According to data from Mergermarket, the number of acquisitions involving UK based industrial electronics businesses fell by 20% from 2021 (82) to 2023 (66), with the impact of ongoing geo-political instability, tightening debt markets and wider macro-economic pressures all dampening appetite for acquisitions.

Globally, there was a notable slow-down in the number of mega-deals that happened relative to preceding years, with the larger strategics focusing on integrating previous acquisitions and disposing of non-core operations. For example, following its multi-billion pound acquisition of Ultra Electronics in 2022, Advent began the process of carving up the UK based electronics giant through the disposal of non-core divisions, selling the forensics division to the US based group Leads Online in September 2023.

Despite this dampening of transformational billion dollar plus transactions, turbulent market conditions and depressed valuations impacted less on smaller scale. Strategic tuck-in acquisitions that could often be funded from Balance Sheets rather than via third party financing continued to progress. Such acquisitions help gain quick access to higher growth end-markets, bring incremental capabilities in house and can supplement potentially more modest organic growth levels in core products.

M&A VOLUMES - UK BASED INDUSTRIAL ELECTRONICS COMPANIES (2021 - 2023)



Source: Mergermarket, Arrowpoint Advisory analysis

## NOTABLE PRIVATE EQUITY INVESTMENTS

### KKR & Infracapital acquisition of Zenobe Energy

In September 2023, KKR and Infracapital Partners acquired a majority stake in Zenobe Energy, the UK based provider of electric fleet and battery storage solutions. The two funds invested a combined £870m to support future growth and international expansion, valuing the company at over £1bn.

### RCapital acquisition of Surface Technology

In October 2023, turnaround focused private equity firm RCapital acquired Surface Technology International, the UK based specialist contract electronics manufacturer focused on the aerospace and defence sectors. Having spent over six years under the ownership of US based Integrated Micro Electronics, RCapital’s investment enabled STI to refinance its capital structure and accelerate its growth strategy at a time when the wider aerospace and defence market is starting to see a strong recovery.

### Stellex Capital acquisition of MSS Group

In June 2023, Stellex Capital completed the platform acquisition of MSS Group, the UK based supplier and manufacturer of electronic components focused on the global power industry. Providing electrical transmission, distribution and power storage services to large OEM clients, MSS Group’s end-to-end offering from raw materials through to tailored end-market applications is a strong platform for Stellex to pursue a consolidation play in the sector. The surging demand and extraordinary growth across custom supply and distribution businesses in the last two years drove MSS Group to more than double revenue to £80m+ for 2023, translating into EBITDA in excess of £15m. With smaller scale private equity backed platforms having had success in pursuing inorganic growth (EC Electronics backed by Rockpool, and Easby Group backed by NVM), we would expect to see Stellex pursue a number of bolt-on acquisitions in the coming years.

## NOTABLE STRATEGIC ACQUISITIONS

### ESCO Technologies acquisition of MPE

In November 2023, ESCO Technologies acquired MPE Limited, a UK based specialist manufacturer of high performance EMC/EMP filters and capacitors. Delivering strong historical growth with revenues for 2023 of c.£15m, MPE’s capabilities are highly complementary to ESCO’s powerline filter business and provides a strong platform to expand the US listed player’s international footprint and end-market exposure. Following the transaction MPE will be integrated into ESCO’s RF test and measurement division.

### Cicor acquisition of STS Defence

In October 2023, Cicor Group acquired STS Defence Limited, the UK based provider of specialist design, manufacture and assembly services to clients across the defence, aerospace and medical sectors. Widely acknowledged as a leader in solving complex technical challenges faced by clients, STS generated revenues of c.£30m in 2023 following a period of strong historical growth. In combination with Axis Electronics, which Cicor acquired in 2021, STS provides Cicor with the opportunity to accelerate growth across the valuable defence and aerospace end-markets in the coming years.

### discoverIE acquisitions of Silver Telecom and 2J Antennas

In September 2023, the acquisition of Slovakian based 2J Antennas, the designer and manufacturer of antennas used in industrial connectivity applications. The acquisition has expanded discoverIE’s footprint across the CEE region. The acquisition enables discoverIE to accelerate penetration in the IoT sector and gain access to a valuable customer base in a high growth segment of the market. 2J Antennas has strong overlap with discoverIE’s existing Antenna division and is expected to realise both operational and revenue synergies, reflected in a valuation of £50m at a rumoured healthy EBITDA multiple based on historical analysis.

In August 2023, discoverIE Group acquisition of Silver Telecom, UK based designer and manufacturer of differentiated, high performance power over ethernet modules and complementary products. The transaction provides a complementary product set to sit alongside discoverIE’s existing portfolio whilst also providing valuable access to target customers across the broader industrial connectivity space.

# Valuation context

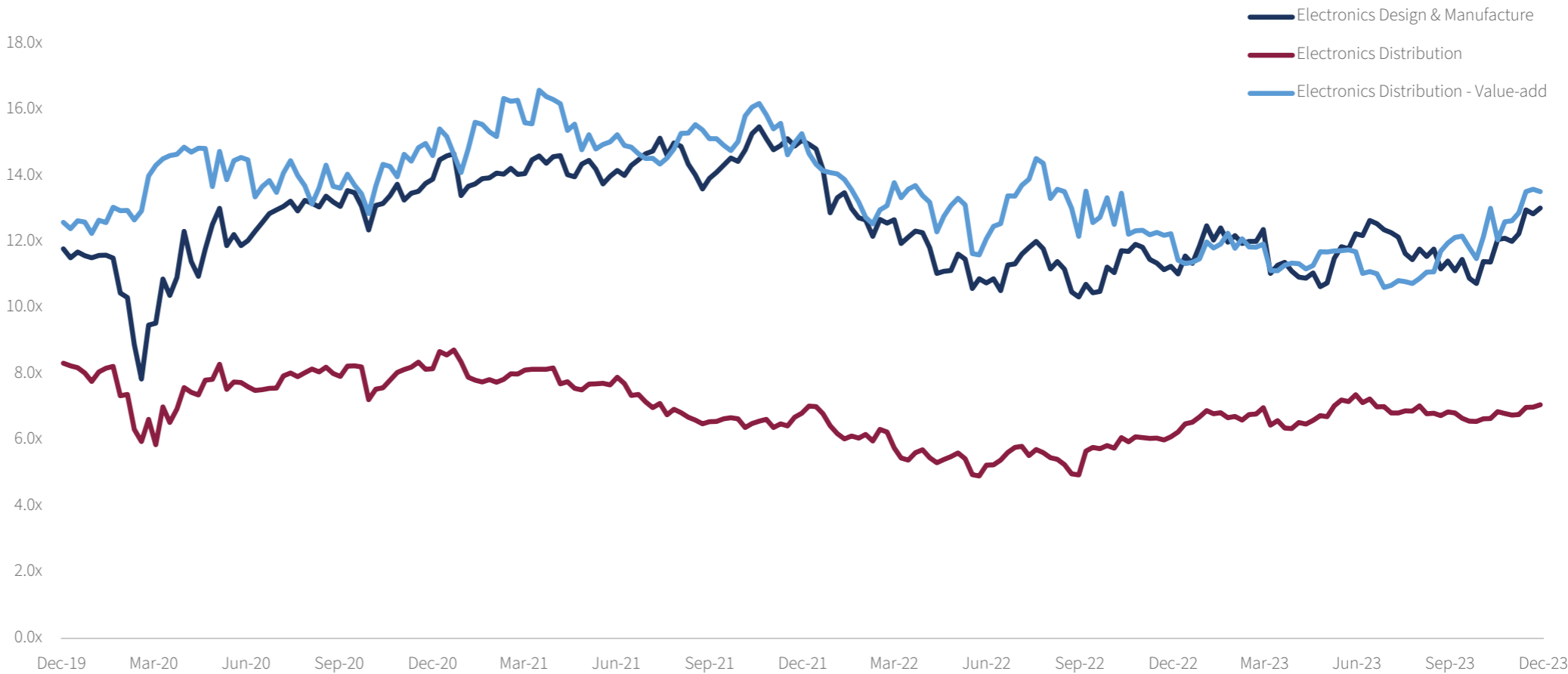
During 2023 valuations across the industrial electronics sector stabilised, falling back in line with pre-COVID levels following the surge in deal volumes and valuation multiples experienced in 2021.

The challenges and constraints experienced across the electronics sector in recent years further emphasise the importance of specialist component manufacturers and value-added distributors within the value chain.

Companies that were able to effectively source and procure business critical components for customers during this period were incredibly successful, translating into strong trading valuations and profits. In contrast, more traditional pure-play distribution businesses acting as intermediaries attracted lower valuations as a result of their less flexible offering and inability to access dwindling supplies of components.

In terms of growth prospects, with increasing demand for new technologies and the ever-growing importance of electronics across a range of industries, companies with embedded positions in higher growth end-markets typically traded at a premium to peers. Companies with a focus on sectors such as IoT, electric vehicles and 5G technology attracted strong valuations across the board.

EV/LTM EBITDA (x) - JANUARY 2019 - DECEMBER 2023



Source: Mergermarket, Arrowpoint Advisory analysis

# Why us?

## Leading Global M&A Adviser

Arrowpoint Advisory is the dedicated mid-market advisory team of Rothschild & Co in the UK.

We provide expert M&A, Debt and Special Situations advice to publicly-listed, private and family companies, entrepreneurs, sponsor-backed businesses and management teams, investors and lenders.

Arrowpoint Advisory's expertise in the mid-market complements Rothschild & Co's unrivalled capabilities and deal flow in larger situations. Our clients benefit from Rothschild & Co's strong sector and capital markets expertise and its global scale, with offices in over 40 countries.

## Our services

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BUY-SIDE

DEBT ADVISORY

EQUITY MARKETS SOLUTIONS


MANAGEMENT ADVISORY

SPECIAL SITUATIONS

## A Global Investment Bank with a Difference

| ADVICE ONLY   | GLOBAL SCALE   | SECTOR & MARKET KNOWLEDGE  |
|---|--|--|
| <ul style="list-style-type: none"><li>All of our revenue comes from our advice to clients</li><li>A family-controlled business: our advice is independent and unbiased</li><li>A long-term view building relationships and working with clients across the deal size spectrum</li></ul> | <ul style="list-style-type: none"><li>Our network of bankers is based in 50 offices across over 40 countries, pooling a wealth of local knowledge and contacts</li><li>We advise on more transactions across both M&amp;A and Financing than anybody in our core markets</li><li>Unique insight that helps us advise our clients</li></ul> | <ul style="list-style-type: none"><li>Our of sector specialists provides our clients with a global picture of industry dynamics and the current strategies of their participants</li><li>Deeper insight into equity and debt capital markets than other advisers</li></ul> |

As part of Rothschild & Co's Global Advisory business, we access over 1,400 investment bankers operating out of 50 offices worldwide.



Our team

- 700 in Europe
- 190 in US and Canada
- 74 in Asia
- 35 in Australia
- 35 in Latin America
- 30 in Africa and Middle East













1400+ advisers

50+ offices

40+ countries

- Rothschild & Co offices
- Joint ventures or representative offices

# Our recent sector experience

|  |   |  |   |   |   |
|--|---|--|---|---|---|
| <div>Advent</div> <div></div> <div>Sole adviser to Advent on Cobham Aerocomms disposal to Thales</div>          | <div>Hensoldt</div> <div></div> <div>Sole financial advisor on the sale of ESG to HENSOLDT for up to €730m</div> | <div>RS Group</div> <div></div> <div>€365m acquisition of Distrelec from Aurelius and related €150m acquisition financing</div> | <div>Spirax-Sarco</div> <div></div> <div>Acquisition of Durex Industries</div>                                     | <div>Cobham</div> <div></div> <div>£2.6bn recommended cash offer for Ultra Electronics</div> | <div>Cavotec</div> <div></div> <div>Carve-out and disposal of 100% of its Airports business to Fernweh Group</div> |
| <div>Legrand</div> <div></div> <div>€5.1bn disposal of a 98.1% stake in Legrand SA to Wendel Consortium</div> | <div>Meggitt</div> <div></div> <div>£6.3bn recommended cash offer from Parker Hannifin</div>                   | <div>Bulgin</div> <div></div> <div>Sale of manufacturer of ruggedised electrical components to Equistone</div>                | <div>Cursor Controls</div> <div></div> <div>Sale of precision electronic engineering company to discoverIE</div> | <div>Morgan</div> <div></div> <div>Sale of UK Electro Ceramics Business to CeramTec</div>  | <div>e2v</div> <div></div> <div>US\$80m acquisition of QP Semiconductor Inc. by e2v technologies plc</div>       |



# We would welcome the opportunity to discuss your strategic goals and requirements in confidence.

Whether you are looking to sell, acquire, raise or manage debt, or resolve a special situation, we can help your business to succeed.



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