

Larger EMS Companies Have Faster Cash Conversion Cycles, Study Finds

Written by Mike Buetow

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CHICAGO -- Lincoln International has published its [quarterly EMS stock index](#) and, as usual, there are several interesting nuggets to be gleaned.

In compiling its index, the banking firm looks at a variety of ratios for 15 electronics manufacturing services companies that are publicly traded on US exchanges. The firms are broken into three groups based on their annual revenues, with \$300 million and \$3 billion the breakpoints.

Nine of the companies carry net debt, ranging from a nominal \$7 million (**CTS**) to a more eye-opening \$636 million

(Jabil)

. Among the four Top Tier EMS firms only

Celestica

is debt-free, while among the five lowest tier firms only

Sparton

is in the black. Flextronics and

Sanmina

also carry debt loads of more than \$500 million each, although the raw numbers can be deceiving given that Flextronics' annual revenues are five times those of Sanmina's.

When it comes to cash conversion cycles, however, Jabil leads the pack, averaging just 8.6 days. In fact, only one other company followed by Lincoln takes less than three weeks: **Nam Tai**,

at

10.7 days. Among top tier firms Sanmina is the slowest, at 52.9 days. In the second tier, Benchmark takes 90 days, and in the small tier,

SigmaTron

takes 107. The smaller the company, the longer it takes to convert cash to cash. The small tier averages 83.5 days, the mid tier 56 days, and the top tier 29.85.

Most companies are trading at similar values among their peer group, based on the ratio of the enterprise value to the company's sales. (The EV/sales ratio shows the cost to buy the company's sales, also taking into account that company's debt. Generally the lower the EV/sales, the more undervalued the company is considered to be.) All the top tier firms are within two-tenths of a point of each other, with Celestica the lowest (0.1) and Jabil the highest (0.3). The mid tier shows a greater range, with **Sypris Solutions** the lowest (0.2) and CTS the highest (0.6). In the small tier, three of the five players tracked

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(NorTech,

SigmaTron

and

SMTC)

are at 0.2, while Sparton

is at 0.5 and

IEC Electronics

is at 0.7x.