



## **Supplemental Presentation**

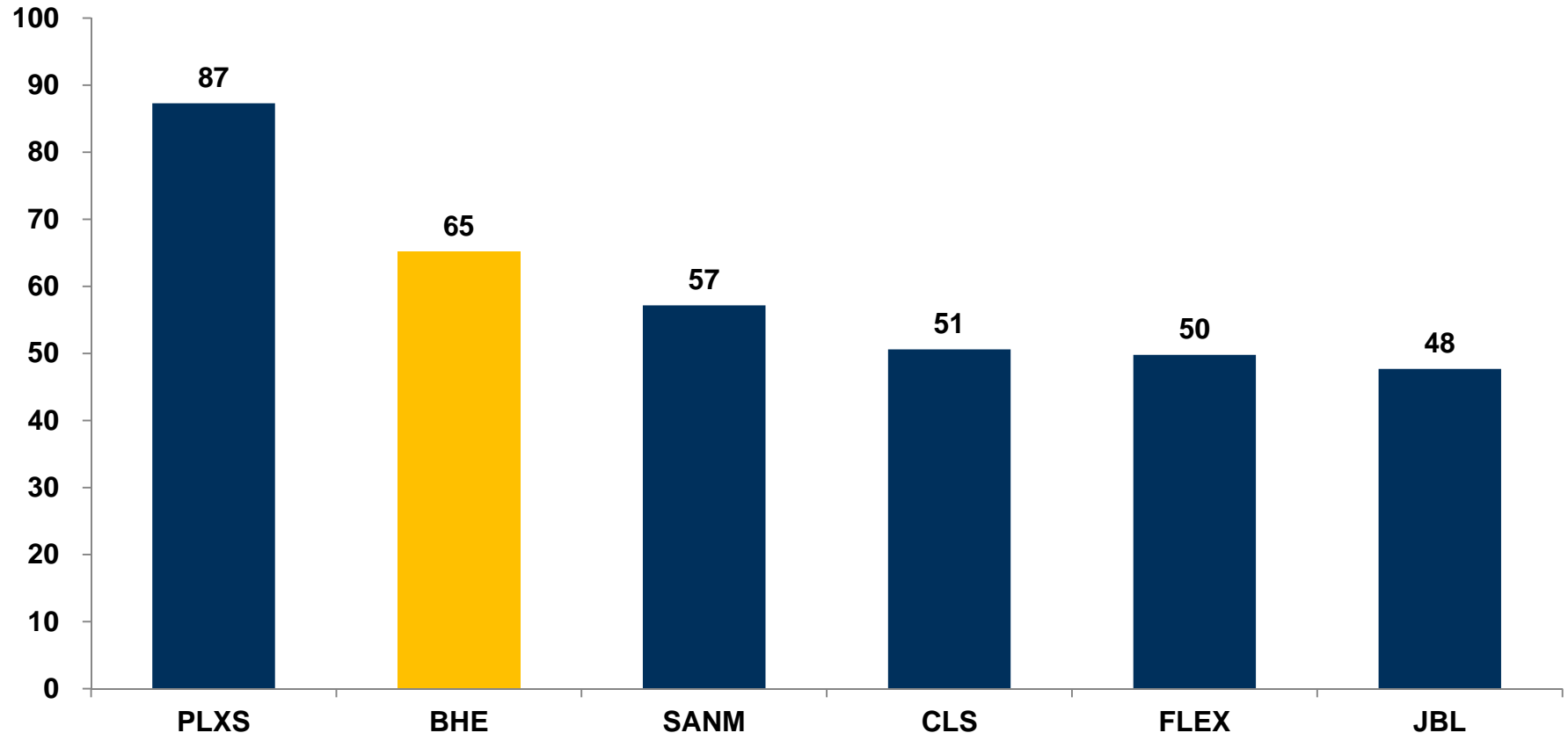


April 20, 2016

# **Benchmark Electronics' Working Capital Analysis is Flawed**

## BHE's Days Inventory is Less Efficient than Nearly all Peers

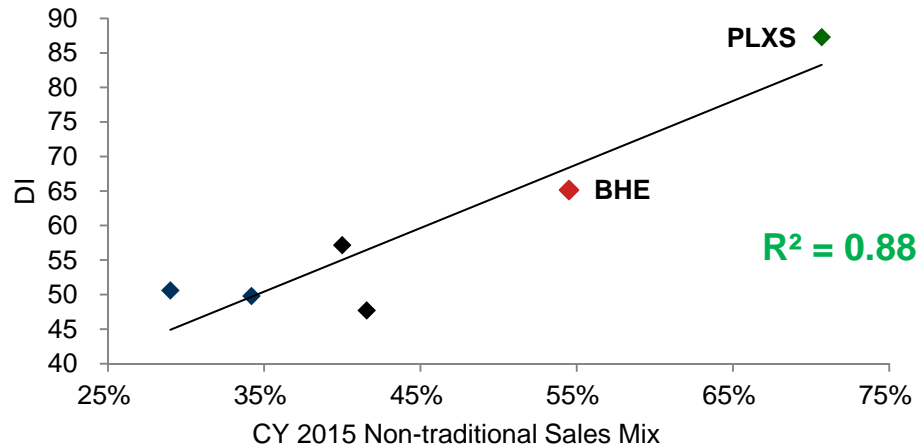
Days Inventory (DI)



**We believe BHE's higher Days Inventory is partially explained by its higher non-traditional revenue mix**

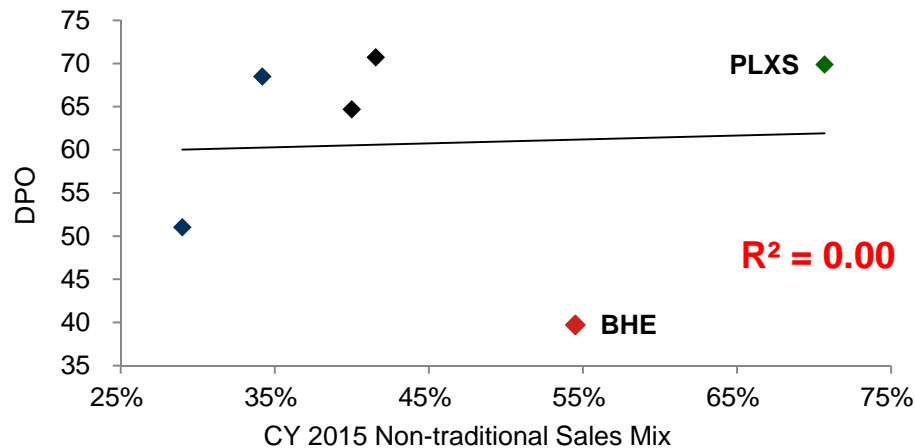
# Days Inventory is the ONLY Component of Cash Conversion Cycle that is Correlated to Non-Traditional Revenue Mix

## Days Inventory (DI) vs Non-Traditional Mix

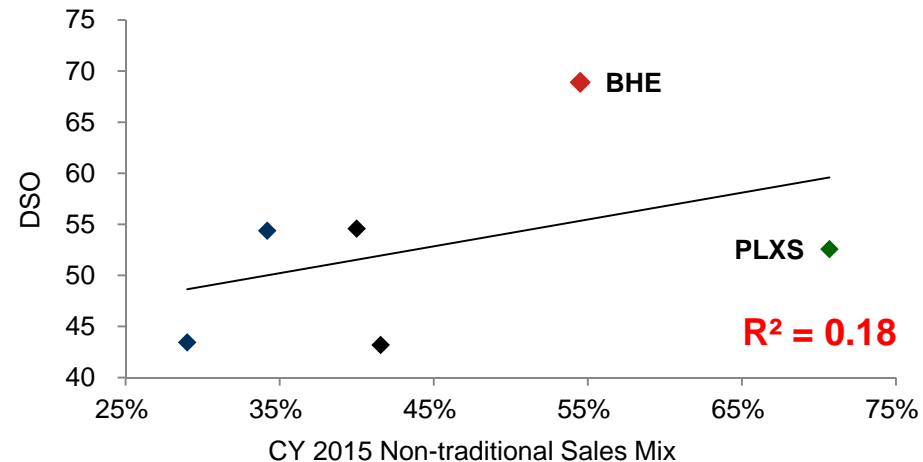


- BHE's statement that "end-market mix and shipping terms drive discrepancies between accounts receivable and inventory between peers" is incorrect – only inventory is correlated to mix
- PLXS non-traditional revenue mix (71%) is substantially higher than BHE (55%) – there is no reason to expect their DI to be comparable
- DSOs and DPOs show no correlation to mix

## Days Payables Outstanding (DPO) vs Non-Traditional Mix



## Days Sales Outstanding (DSO) vs Non-Traditional Mix





## We Believe BHE's Logic to Combine DSOs + DI is Nonsensical

- BHE is arguing that Days Inventory and DSOs are interchangeable, and BHE is choosing to trade off **higher DSOs** for **lower Days Inventory** vs. PLXS
  - However, based on differences in mix, **we would expect BHE's Days Inventory to be below PLXS**
- Besides mix, BHE asserts that “shipping terms” drive differences in DSOs
  - All of BHE's peers have **DSOs of  $49 \pm 6$  days<sup>1</sup>**; BHE's DSOs is **69 days – a clear outlier**
- We fail to see how differences in “shipping terms” can possibly drive a **16-day difference<sup>2</sup>** in DSOs vs. PLXS
  - Compared to PLXS, BHE has the **SAME revenue recognition policy<sup>3</sup>** AND a substantially similar customer base – we have no reason to believe BHE's customers require unique shipping terms
- Additionally, we are not aware of **any instance** where BHE or any of the Company's competitors have ever used Days Inventory + DSOs in evaluating their working capital performance, or publicly discussed any trade-off between the two metrics

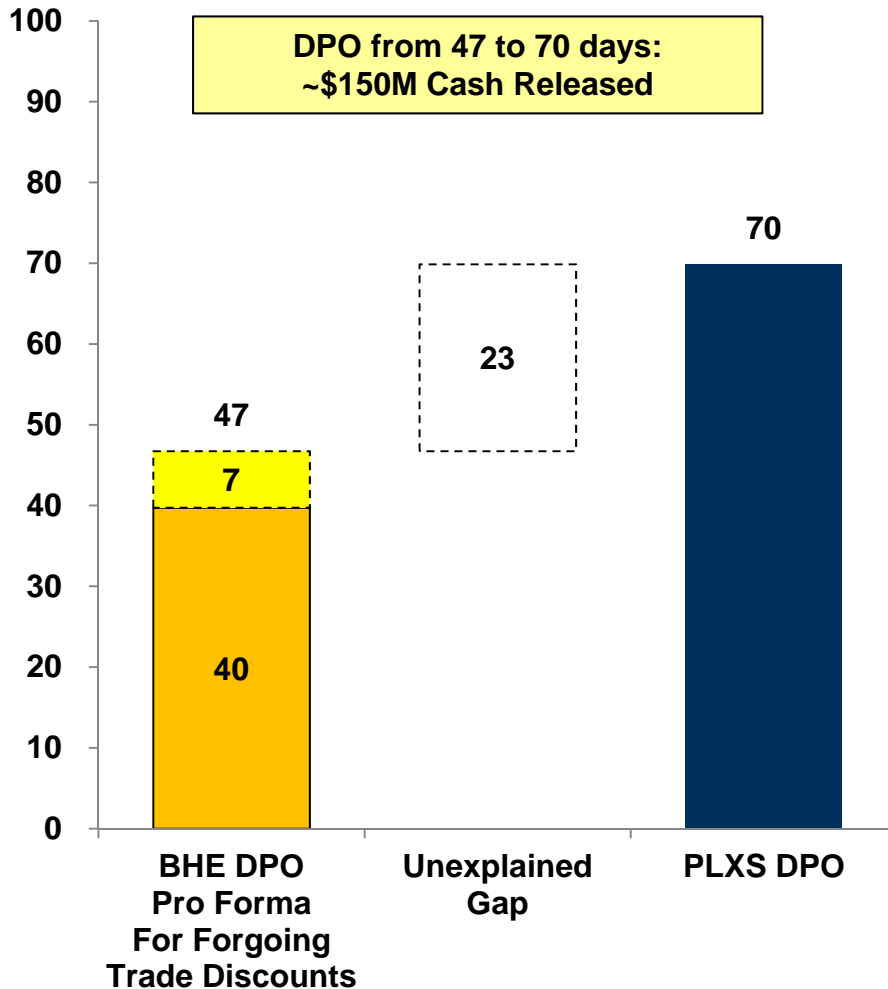
**Comparing aggregate DSO and DI appears to be a metric concocted by BHE to attempt to justify inefficient accounts receivables management**

1. As of CY Q4:2015. See Engaged Capital's presentation to investors filed 4/15/2016 for details  
2. Based on BHE's DSOs of 69 vs. PLXS DSOs of 53  
3. Revenue is recognized generally when the goods are shipped

## **Benchmark's Days Payable Inefficiency Remains Unexplained by the Company**

# BHE's DPOs are Well Below PLXS Levels Even After Adjusting for Trade Discounts

## BHE Pro Forma for Trade Discounts Comparison to PLXS



- BHE's DPOs are significantly lower than PLXS, even after adjusting for the seven days BHE management attributes to trade discounts it receives from its suppliers<sup>1</sup>
- Even if we take BHE's assertions regarding trade discounts at face value, there is still a 23-day gap between BHE's DPOs and PLXS DPOs – **which represents a \$150M opportunity**
- We see no other reason why BHE's DPOs should be lower than PLXS – there is no relationship between non-traditional revenue mix and DPOs in the peer group
- This unexplained gap appears to be due to inefficient payables management

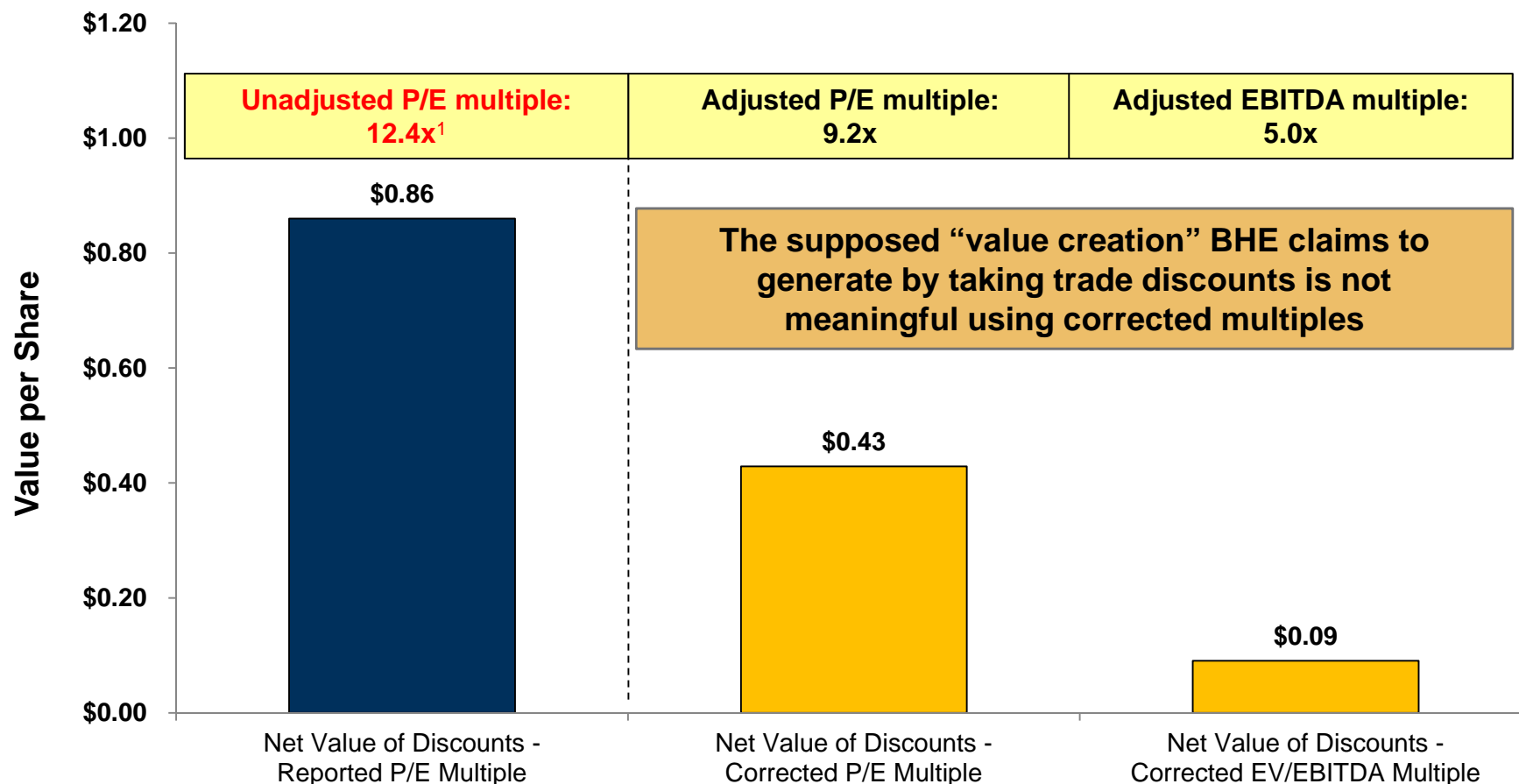
1. Per BHE presentation filed 4/14/2016

# **Benchmark's Valuation of Trade Discounts Uses Incorrect Multiples**



# BHE's Calculation of the Value of Trade Discounts is Inflated by Using Flawed, Unadjusted Multiples

Per Share Value of Trade Discounts Less Cash Released from Forgoing Discounts<sup>1</sup>



**If BHE truly is driving more shareholder value by taking supplier discounts rather than increasing cash generation and ROIC, why don't any of BHE's sophisticated competitors do the same?**

1. Based on management estimates in BHE presentation filed 4/14/2016. See appendix for details.

# **The Acquisition of Secure**

# The Secure Acquisition Was Costly and Non-Core

## Recent BHE M&A Characteristics<sup>1</sup>

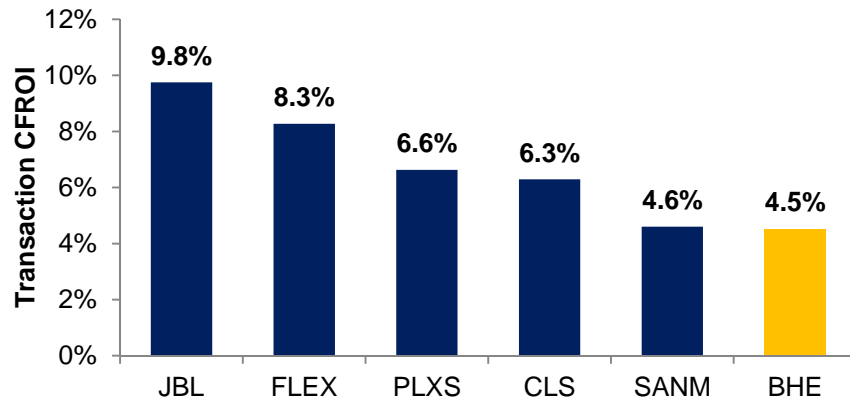
	Suntron	CTS	Secure
Purchase Price (\$M)	\$19	\$75	\$230
% of Enterprise Value at Announcement	~3%	~9%	~38%
Revenue (\$M)	\$67	\$200	\$100
EV/Revenue Multiple	0.3x	0.4x	2.3x
Margin Profile	Undisclosed	In-line with BHE	3x Core
EMS Revenue Mix	>90%	>90%	<20%
Increase in Non-Traditional Revenue	6%	18%	7%
Increase in Non-Traditional Mix	~100bps	~400bps	~200bps

- We believe BHE paid reasonable multiples for its previous two acquisitions, Suntron and CTS, that fit within BHE's core EMS business. These deals contributed to non-traditional revenue growth at a much lower price than Secure
- At \$100M in revenues, neither Secure's margin profile nor non-traditional revenue contribution is likely to be valued by the market at any level above BHE's market multiple

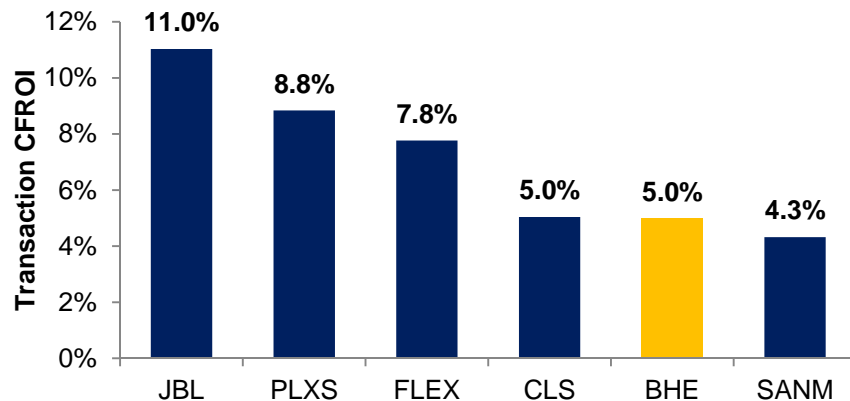
## **ROIC Adjustments**

# BHE's Calculation of Peer ROIC Adjusted for Accumulated Deficit is Flawed

## Transaction CFROI Forecast - Current Fiscal Year



## Transaction CFROI - Last Fiscal Year



- BHE argues ROIC comparisons can be misleading because several EMS peers have significant accumulated deficits, mainly due to goodwill and other write-offs due to acquisitions completed many years (in some cases, decades) ago. BHE adjusted for this by reversing out the accumulated deficit in its ROIC calculation
- A more precise adjustment is to use Credit Suisse HOLT's "Transaction CFROI (Cash Flow Return on Investment)." CFROI properly adjusts earnings, cash flow and balance sheet items for goodwill / intangible write-offs, one time charges, and other non-cash items in both the numerator and the denominator
- BHE compares poorly vs. peers under both ROIC and CFROI measures

# Appendix

## Value of Trade Discounts

Description	Data	Source
<u>P/E-based Value of Trade Discounts</u>		
Per Share Value of Trade Discounts	\$1.66	BHE presentation, filed 4/14/2016
Less: Per Share Cash Value Released by Forgoing Trade Discounts	(\$0.80)	BHE presentation, filed 4/14/2016
Per Share Net Value of Trade Discounts	\$0.86	
Per Share Value of Trade Discounts	\$1.66	
Divided by: As Reported 2016E P/E Multiple	12.4x	BHE presentation, filed 4/14/2016
EPS Impact of Trade Discounts	\$0.13	
EPS Impact of Trade Discounts	\$0.13	
Multiplied by: Corrected 2016E P/E Multiple	9.2x	Engaged estimate
Corrected Per Share Value of Trade Discounts	\$1.23	
Corrected Per Share Value of Trade Discounts	\$1.23	
Less: Per Share Cash Value Released by Forgoing Trade Discounts	(\$0.80)	
<b>Per Share Net Value of Trade Discounts</b>	<b>\$0.43</b>	
<u>EV/EBITDA-based Value of Trade Discounts</u>		
NOPAT Impact of Forgoing Trade Discounts	6.7	BHE presentation, filed 4/14/2016
Tax Rate	24.5%	Engaged estimate
EBITDA Impact of Forgoing Trade Discounts	8.8	
Multiplied by: 2016E EV/EBITDA Multiple	5.0x	Engaged estimate
Value of Trade Discounts	44	
Shares	50	BHE 10K
Per Share Value from Trade Discounts	\$0.89	
Per Share Value from Trade Discounts	\$0.89	
Less: Per Share Cash Value Released by Forgoing Trade Discounts	(\$0.80)	
<b>Per Share Net Value of Trade Discounts</b>	<b>\$0.09</b>	

## Valuation Multiples

Reference	Description	Value	After Tax	Shares	Per Share	Source / Calculation
A	Price				\$22.05	FactSet, as of 4/11/2016
B	2016E EPS Estimate				\$1.60	FactSet, as of 4/11/2016
C	<b>As Reported 2016E P/E</b>				<b>13.8x</b>	A / B
D	EPS Add back: Amortization					
E	Secure	8	6			EC Estimate, 24.5% tax rate
F	Other	4	3			EC Estimate
G	Total	12	9	50	\$0.18	E + F
H	Comparable EPS Estimate				\$1.78	B + G
I	EPS Add back: AT Interest	8	6	50	\$0.12	EC Estimate
J	Unlevered EPS				\$1.90	H + I
K	Net Cash	231		50	\$4.60	BHE 10K
L	<b>P/E Multiple Ex-Cash</b>				<b>9.2x</b>	(A - K) / J



## Valuation Multiples (cont'd)

Reference	Description	Value	Source / Calculation
A	Enterprise Value	876	FactSet, as of 4/11/2016
B	2016E EBITDA Estimate	166	FactSet, as of 4/11/2016
C	<b>As Reported 2016E EV/EBITDA Multiple</b>	<b>5.3x</b>	A / B
D	EBITDA Plus: Amortization of Intangibles for Secure Transaction	8	EC estimate
E	Comparable EBITDA Estimate	174	D + B
F	<b>EV / EBITDA Multiple</b>	<b>5.0x</b>	A / E