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The Worst Could Be Over

Poor visibility continues to keep the EMS industry in the dark as to when growth will resume. But comments made this month by three large, publicly held providers offer some indications that the worst of the downturn may now be behind the industry.

Benchmark Electronics during its Q1 earnings conference call said it saw a stabilization trend forming, and Sanmina-SCI told analysts that it noticed signs of stabilization in March. "We as a company are cautiously optimistic that maybe the worst is behind us," said Jure Sola, Sanmina-SCI's chairman and CEO. In addition, Celestica during its Q1 call said it was not seeing the same degree of volatility that it faced at the beginning of the first quarter.

But if demand is beginning to stabilize, that's little consolation to providers whose latest results were impacted by a pandemic of weak demand. See below.

Some quarterly results in brief

Benchmark Electronics. Its Q1 sales of \$496.8 million were down 27.4% from the year-earlier period and 14.6% from the prior quarter. Sales came in below guidance of \$525 million to \$570 million as broad-based soft demand continued to impact customers' orders. Non-GAAP EPS amounted to \$0.16, compared with \$0.27 for Q4 2008, and was at the low

end of the guidance range. Benchmark deemed this Q1 EPS acceptable given the revenue drop of \$85 million from the prior quarter and the amount by which sales missed guidance. Non-GAAP gross margin for Q1 was 6.4% versus 7% for the previous quarter due to the sequential revenue decline and a high level of NPI activities. Still, at the level of Q1 revenue, this 6.4% margin exceeded the company's expectations. Non-GAAP operating margin equaled 2.3%, down from 3.1% in Q4 2008. Benchmark reported GAAP EPS of \$0.14 for Q1, compared with \$0.32 for the same period last year.

During Q1, the provider booked 12 new programs with estimated annual revenues of \$92 million to \$125 million. Pursuing strong M&A candidates is a high priority for Benchmark.

The company reported that the rate of decline in demand is starting to slow down from the pace it saw in Q1. Benchmark believes this stabilization trend, although slow, will continue fully into Q2. Sales for Q2 are expect-

ed to be in a range from \$460 million to \$520 million, while earnings guidance calls for non-GAAP EPS between \$0.13 and \$0.21.

Celestica. Q1 revenue of \$1.47 billion fell 24.1% sequentially and 20% year over year. The latter decline was driven by the challenging economic environment across all sectors, of which enterprise communications, servers and storage were singled out, partially offset by 20% year-over-year growth in Celestica's consumer segment. Despite lower sales, Q1 gross margin of 7.6% was the highest in the company's 10-year history as a public company. This result primarily stemmed from greater operating efficiency in all regions and a focus on programs that generate sustainable returns. Non-GAAP operating margin was 2.9%, compared with 3.2% in the prior quarter and 2.7% in the year-ago period. ROIC was 16.9%. The company was pleased with the progress made in profitability metrics. Adjusted EPS amounted to \$0.13, compared with

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\$0.15 for last year's Q1, while GAAP EPS stood at \$0.08 versus \$0.13 a year earlier.

With a cash position of \$1.08 billion and long-term debt of \$585 billion, the company believes it has the strongest net cash position among its North American peers. During the quarter, Celestica repurchased \$150 million in debt.

For Q2, the company expects revenue to be in a range of \$1.3 billion to \$1.45 billion, and adjusted EPS to be in a range of \$0.07 to \$0.13. Celestica said it was not seeing the same level of volatility that it experienced at the beginning of Q1.

Jabil Circuit. For its fiscal Q2 ended Feb. 28, sales totaled \$2.89 billion, down 14.6% sequentially and 5.6% year over year. All of Jabil's sectors declined sequentially except mobility, which increased 13%. Aftermarket services produced modest sequential growth of 4%. Core operating income decreased 49% sequentially and 25% year over year. Core operating margin amounted to 1.8%, compared with 3.0% for the prior quarter and 2.2%

for the same period a year ago. Core earnings per share were \$0.13, representing a 57% sequential drop from \$0.30 in the prior quarter and a 35% decrease from \$0.20 a year earlier. In fiscal Q2, Jabil generated cash flow from operations of \$343 million, paid down \$100 million of debt, and reduced inventory by \$208 million.

For the quarter, the provider recorded goodwill impairment charges totaling \$705.1 million. Including these charges and associated income tax expense of \$111.8 million, Jabil reported a net loss of \$866.1 million.

Jabil's guidance for the May quarter calls for revenue to be in a range from \$2.5 billion to \$2.7 billion and for core EPS in a range from a loss of \$0.08 to \$0.08. The company projects sequential declines in the quarter across all sectors it serves.

Sanmina-SCI. For its fiscal Q2 ended March 28, the company reported revenue of \$1.20 billion, down 15.8% from the prior quarter and 34.2% from the year-ago period. This revenue fell short of the company's goal of \$1.3 billion. Sales declined

sequentially by double digits in four out of the company's five segments; the remaining segment, medical, was essentially flat. Non-GAAP gross margin was 5.9% versus 6.7% for the previous quarter and 6.9% a year earlier. Non-GAAP operating margin amounted to 1.0%, compared with 2.2% in the prior quarter and 2.5% in the same period a year ago. Sanmina-SCI posted a non-GAAP loss of \$0.06 per share, contrasted with break-even in the prior quarter and \$0.03 a year earlier. On a GAAP basis, the fiscal Q2 loss was \$0.07 per share. Free cash flow for the quarter was \$80 million.

Although demand for January and February was weak, the provider did see signs of stabilization in March. The company is cautiously optimistic that the June quarter will continue to stabilize. In Sanmina-SCI's outlook for the quarter, revenue is projected to be in a range from \$1.175 billion to \$1.250 billion. Non-GAAP earnings are forecasted to be in a range from a loss of \$0.04 per share to a loss of \$0.02.

Market Data

Nontraditional Areas Continue To Gain Share

Comm infrastructure takes first place in segment analysis.

Conventional wisdom says that EMS business in the industry's nontraditional segments is growing faster than the EMS market as a whole. Market segment data from 42 Top 50 EMS providers for 2008 supports this popular notion.

Together, the industrial, medical, automotive, defense and aerospace, and miscellaneous (other) segments represented 25.2% of the \$89.7 billion in sales generated by the 42 Top 50 providers last year. These categories are lumped in a pie wedge in Chart 1. By comparison, these segments

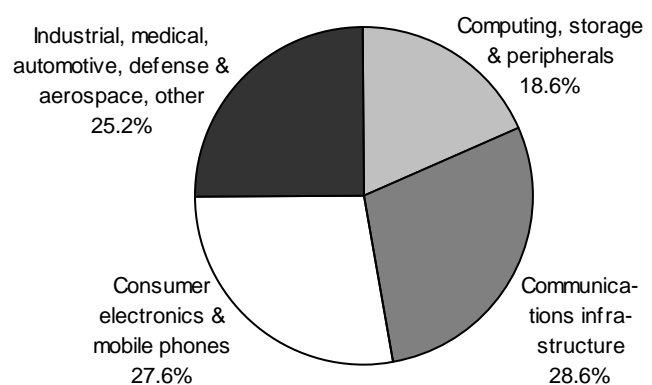
amounted to 23.6% of sales from a similar group of 42 Top 50 EMS providers in 2007 (April 2008, p. 3). Thus, on a combined basis these nontraditional segments gained about 1.6 percentage points of market share when compared with the 2007 analysis. (The share gain is not exact because the two groups are not identical.)

If the 42 Top 50 providers for 2008 are representative of the EMS industry as a whole, then an increase in market share means that the four segments typically identified as nontraditional

together with the miscellaneous category grew faster last year than the industry overall. Of course, this is not surprising. Nontraditional segments are supposed to have greater outsourcing potential than the more mature communications infrastructure and IT markets.

But try to figure out how fast each

Chart 1: Market Mix for 42 Top 50 EMS Providers in 2008



segment is growing, and you'll run into a brick wall. That's because a number of the largest EMS providers do not supply a full breakdown of their sales across the industrial, medical, automotive, and defense and aerospace categories.

Nevertheless, a complete data set for the more developed segments is available. From *MMI's* annual Top 50 survey, the newsletter obtained sales percentages by market segment for 42 out of the Top 50 providers. Sales percentages by segment are tabulated for each company. These 42 companies supplied the necessary sales breakdowns in the three largest categories: communications infrastructure; consumer electronics and mobile phones; and computing, storage and peripherals. Sales in each of the three categories were computed for each of the 42 companies and totaled via spreadsheet. Combined sales from the remaining nontraditional segments were then obtained by subtraction.

Among the 42 Top 50 providers, communications infrastructure accounted for the largest portion of their combined sales for 2008. Comm infrastructure grabbed first place with a 28.6% share of the \$89.7 billion in sales produced by this group (Chart 1, p. 2). By comparison, comm infrastructure amounted to 26.3% of revenue produced by a similar group of 42 Top 50 providers in 2007 (April 2008, p. 3). The additional 2.3 percentage points in market share were enough to lift the comm infrastructure segment from second place in the 2007 market-segment analysis to first in the 2008 analysis.

The share increase can be attributed to **Flextronics'** October 2007 acquisition of **Solectron**, which added substantial comm infrastructure sales to Flextronics' own business in the segment. Solectron's 2007 sales were not represented in the 2007 analysis.

BreconRidge, **Fabrinet** and **Plexus** derived more than 50% of their

Market Percentages for 42 of the Largest EMS Providers in 2008								
Organization	Computing, storage & peripherals	Comm. infrastructure	Consumer & mobile	Industrial	Medical	Automotive	Defense & aerospace	Other
Flextronics	17	33	35	*	*	*		15
Jabil Circuit (FY)	25	27	19	*	*	4	2	18
Celestica	22	39	30	*			*	9
Sanmina-SCI (FY)	18.2	41.6	16	*	10.5	*	*	13.7
Elcoteq		20	75	5				
Venture	19	19		62 ¹				
Benchmark Electronics	48	18		20	14			
Universal Scientific Industrial (USI)	41	23	24	8.2		3.3	1	
Plexus		53		16 ²	21		10 ³	
Zollner Elektronik	24	4	2	38	8	21	3	
SIIX	13.7	5.9	34.9	12.3		23.8		9.5 ⁴
Beyonics Technology	55		29		2	2		12
Kimball Electronics Group				18.2	44.5	30.3	7	
Nam Tai Electronics			100					
AsteelFlash Group	12	32	7	31	8	8	2	
Fabrinet		94		2	2	3		
Orient Semiconductor Electronics	31.8	4.7	23.4	31.7	1.5	1.8	5.1	
Alco Electronics	2		95	1		2		
Enics				100 ⁵				
3CEMS	59.6	7.1	18.9	7.4	0.1	7.0		
VIDEOTON Holding	5	2	27	21		45		
TT electronics		14		12	3	60	11	
Integrated Microelectronics, Inc.	24	22	20	18	5	9	2	
Wong's Electronics	42	20.6	13.9	19.9		3.6		
CTS Electronics Manufacturing Solutions	22	27		21	10		20	
Creation Technologies	3	22		39	14	4	4	14 ⁶
PartnerTech		17 ⁷		58	15		9	
Surface Mount Technology (Holdings) Limited	22.3		19.5	35.1		16.8		6.3 ⁸
WKK Technology	30	10	30	15	5	5	5	
Neways Electronics International		5		51	27	8	6	3 ⁹
Hana Microelectronics	35	10	5	15	10	25		
LaBarge				19	7		49	25
EPIQ			16.3	5.8		77.5		0.4
EPIC Technologies			2	37	48	4	3	6
EN	28	6	1	55	6	4		
ElectronicNetwork								
BreconRidge		64		19			17	
VTech Communications	2.5	21	44	26.8	2.7	3		

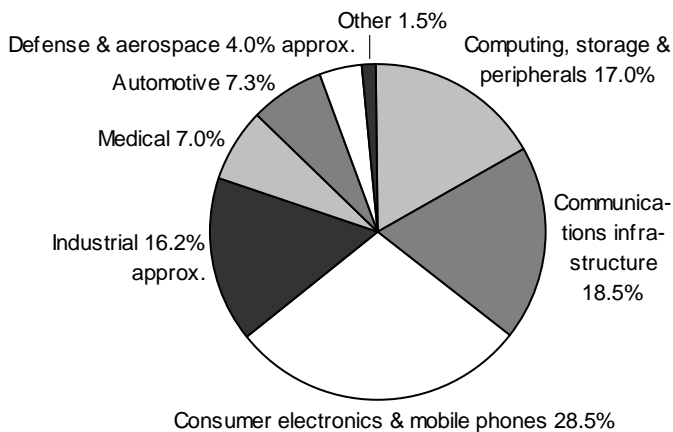
Test & measurement sales have been added to the industrial category. * Included in other.
¹ Includes printing & imaging (27%), test & measurement (15%), and retail store solutions.
² Includes commercial. ³ Includes security. ⁴ Includes components and machinery.
⁵ Includes medical and instrumentation. ⁶ Safety and security. ⁷ Total information technology.
⁸ Office appliances. ⁹ Includes consumer.

Table is continued on p. 4.

Organization	Computing, storage & peripherals	Comm. infra-structure	Con-sumer & mobile	Indus-trial	Med-ical	Auto-motive	Defense & aero-space	Other
DRS Technologies								99
Topscom Technology	10	20	40	8	13	5		4
V.S. Industry	1		95	2		2		
SMTC	15	13		68				3 ¹⁰
Connect Systems International		11		37	10	12	11	19 ¹¹

¹⁰ Transportation. ¹¹ Visualization.

Chart 2: Market Mix for 35 Top 50 EMS Providers in 2008



2008 sales from comm infrastructure products.

Closely following the comm infrastructure segment in size was the consumer electronics and mobile phones sector, which garnered 27.6% of the 42 providers' revenue. Compared with the 2007 analysis, the consumer and mobile segment lost 3.3 percentage points. Again, providing that the 42 companies were indicative of the industry at large, the consumer and mobile segment grew at a rate below the industry average last year. (According to *MMI's* 2007 and 2008 data, Flextronics' Solectron acquisition had little effect on the market share of this segment.)

In four cases, business was highly concentrated in the consumer and mobile segment. **Alco Electronics**, **Elcoteq**, **Nam Tai Electronics** and **V.S. Industry** obtained 75% or more of their 2008 sales from the segment.

Computing, storage and peripherals comprised the smallest of the three

major segments for the group of 42 in 2008. The computing-related segment remained in third position with 18.6% of group revenue, down slightly from a 2007 share of 19.2%. *MMI* believes that the size of this segment in relation to the other two major segments indicates a certain lack of emphasis on computing-related business among the companies analyzed, especially when compared with the ODM penetration of the segment. Yet five companies – **Benchmark Electronics**, **Beyonics Technology**, **3CEMS**, **Universal Scientific Industrial** and **Wong's Electronics** – gained over 40% of their 2008 sales from the computing-related segment.

Note that the contribution of **Hon Hai Precision Industry**, the world's largest EMS provider, would likely make computing, storage and peripherals a much larger segment with a greater market share. Unfortunately, Hon Hai does not break down its sales by market segment.

Although it is not possible to pin down the sizes of the four remaining nontraditional segments without full sales breakdowns from the largest providers, there is enough data to get a rough of idea of how these segments stack up. By confining analysis to the 35 companies that provided the necessary breakdowns, one can obtain a picture of market segmentation for this subgroup. This picture will not be representative of the entire EMS industry, but it will shed some light on how the nontraditional markets compare with one another. The 35 companies ranged in size from \$242 million to \$5.1 billion and totaled \$25.5 billion in sales.

Within this subset of 35 providers, the industrial segment is by far the largest nontraditional business. (The consumer and mobile sector is sometimes included with nontraditional areas but not in this analysis.) With about 16.2% of the subgroup's sales, industrial business was more than twice the size of any other segment on the nontraditional side (Chart 2). This is the same finding that appeared in the 2007 analysis of a somewhat different group of 35 Top 50 providers (April 2008, p. 5). It is no secret that the mix and volume requirements of the industrial segment often present a sweet spot for mid-sized providers.

In the case of **Plexus**, commercial business was commingled with industrial sales. Hence, the industrial share reported here contains some commercial sales and is therefore approximate. This case shows that the market segment categories customarily used by *MMI* leave no place for commercial sales that do not belong in computing. Examples of such commercial products would be equipment used in retail and banking. Because it is not always possible to draw a line between commercial and industrial, combining the two categories is an option that *MMI* will consider for the future.

Among the 35 companies, the automotive segment at 7.3% of sales was

about the same size as the medical area at 7.0%. Despite the relatively small size of the automotive and medical segments, some companies have developed significant concentrations in these areas. For example, **EPIQ** and **TT electronics** drew 77.5% and 60% of their EMS business respectively from the automotive segment. Medical business accounted for 48% and 44.5% of sales generated by **EPIC Technologies** and **Kimball Electronics Group** respectively.

Defense and aerospace work contributed about 4.0% of the 35 providers' combined sales in 2008. As in the 2007 analysis, defense and aerospace

was the smallest identifiable segment. One provider, **DRS Technologies**, obtained just shy of 100% of its EMS revenue from this segment, while another, **LaBarge**, relied on defense and aerospace for nearly half of its sales.

Again, the defense and aerospace share is approximate because some security sales were mixed in by Plexus.

Driven by post-9/11 growth, the security niche has developed to the point that at least two providers have called it out in their sales breakdowns. It may make sense in the future to add security to the defense and aerospace segment.

Nokia Stops Contracting Out Engines

Nokia has confirmed to *MMI* that the company has stopped using contract manufacturers to supply it with mobile-device engines, described as the hardware and software that enable the basic operation of a mobile phone.

Last year, outsourcing accounted for about 17% of Nokia's manufacturing volume of these engines. Given the size of Nokia as the world's largest mobile-phone producer with \$46.4 billion in COGS for 2008, this outsourcing represented a sizable chunk of contract manufacturing revenue. Market research firm **iSuppli** (El Segundo, CA) estimates that the loss of revenue will amount to more than \$5 billion. As a result, the firm said it will lower its EMS/ODM market forecast for 2009 and future years. The 2009 forecast currently calls for a decline of 9.9%.

This news did not come out of the blue. In December, **Jabil Circuit** (St. Petersburg, FL), one of Nokia's contract manufacturers, reported that Nokia decided to insource engine assembly (Dec. 2008, p. 4).

Nokia has utilized outsourcing to adjust its production to seasonal demand fluctuations, according to the

company's most recent SEC Form 20-F. A company spokesperson, Laurie Armstrong, told *MMI* that subcontracting according to market demand is Nokia's normal practice, and that it gives the company flexibility when covering demand peaks. At present, the company has enough internal capacity to meet its needs for engine production. She said it's more cost effective to use Nokia's own manufacturing when it's available to the company.

Still, Nokia continues to use subcontractors in other functions in manufacturing, such as packaging and logistics.

Besides Jabil, other contract manufacturers in Nokia's supply base include **Elcoteq** and **Foxconn International Holdings**. Several reports also list China's **BYD** as a contract assembler for Nokia. BYD has a subsidiary that supplies handset parts and assembly.

To support Nokia, Jabil set up an operation in the Nokia Telecom Park near Chennai, India. With less business from Nokia, Jabil is in the process of mothballing its Chennai operation. The provider expects Nokia to be around 4% of revenue for Jabil's fiscal year ending in August.

Asia Optical and Flextronics To Form Camera Venture

Asia Optical (Taichung, Taiwan) has announced it will form a joint venture in Hong Kong with **Flextronics** (Singapore) to engage in manufacture and development of digital cameras in Japan, Taiwan and China. Employing a vertical integration model, Asia Optical is a Taiwan-listed company made up of 16 divisions supplying products such as digital cameras and cell-phone, camera and projector lenses.

According to a statement by Asia Optical filed with the Taiwan Stock Exchange, the joint venture will capitalize on Asia Optical's strong optical zoom design technologies and integration capabilities in optics, mechanics and electronics coupled with Flextronics' high-end development capabilities in the digital-camera domain. The venture will consolidate both types of outsourcing business – EMS and ODM – and offer services in both categories.

Last month, Asia Optical invested \$4.0 million to set up the Hong Kong joint venture, which will in turn make an investment in China to form a manufacturing company. Published reports say Asia Optical will have an 80% stake in the venture, and Flextronics will hold the remaining 20% interest.

Flextronics became a major producer of digital cameras when it took over **Kodak's** camera production in 2006. As part of this deal, Flextronics acquired camera design activities in Japan from Kodak. But Flextronics' camera business traces its origins at least as far back as a 2002 outsourcing agreement with **Casio**, the deal covering cameras among other products.

According to Asia Optical, the joint venture expects to benefit from the outsourcing of international players.

Some new business... **Hon Hai Precision Industry** (Tucheng City, Tai-

wan) has received printer orders from **HP**, according to reports by *CENS* and *Digitimes*, both Taiwan-based. The former cited industry sources, while the latter based its report on a Chinese-language newspaper....**Suntron's** Northeast facility in Manchester, NH, has won a contract to manufacture PCB assemblies for the Merrimack, NH, location of **Elbit Systems of America** (Forth Worth, TX). As part of the agreement, Suntron will produce PCBAs for Elbit's heads-up display systems. Elbit Systems of America, owned by Elbit Systems, serves the defense, homeland security, commercial aviation and medical instrumentation markets....**Sparton Medical Systems** (Strongsville, OH), the medical contract manufacturing subsidiary of **Sparton** (Jackson, MI), produces the medical equipment that drives a system to measure circulating tumor cells. **Veridex**, a **Johnson & Johnson** company, is Sparton Medical's customer for this program. The Veridex technology used for measurement was ranked as the top medical innovation for 2009 at Cleveland Clinic's Medical Innovations Summit. Sparton Medical, together with **HS Design** (Gladstone, NJ), developed one of the instruments for this system....**LaBarge** (St. Louis, MO) has received a \$5.1-million contract from **Textron's Bell Helicopter** unit to continue to produce electronic subassemblies for the de-icing system of the V-22 Osprey, a fixed-wing aircraft with rotors that can be pivoted for vertical takeoff and landing. Also, **Northrop Grumman** has placed a \$1.7-million order with LaBarge for more electronic assemblies used in a radar jammer system designed for the F-15 Eagle fighter.

Alliances... Sparton Medical Systems and **MPR Associates** (Alexandria, VA), an engineering firm, have formed an alliance to fast-track medical projects for customers. With 170 engineers and scientists, MPR is

known for developing proprietary products that are first of a kind and has produced new Class II and III devices in as few as six months by using a fixed budget approach....**Alta Manufacturing** (Fremont, CA), a contract manufacturer specializing in NPI to pilot production of complex PCBs, has partnered with **Alta Via Technologies**, a PCB design service, in an agreement to implement a technology roadmap that advances the state-of-the-art in quality and traceability for PCB layout, fabrication and assembly. In support of this alliance, Alta Via will be relocating its Santa Clara, CA-based PCB layout group into the Alta Manufacturing facility in Fremont.

Expansion in the UK... To cope with increasing demand, UK-based EMS provider **Connor Solutions** has acquired a second manufacturing facility, which will more than double available floor space. The 38,000-ft² facility offers space for additional assembly areas, which are needed due to the growth in customer demand for complete product assembly. In addition, the facility will allow for consolidation of bulk storage and for optimum layout of the production areas of Connor's existing facility at Houghton le Spring near Sunderland....**Plexus** (Neenah, WI) has announced a modest expansion in the UK with a plan to lease a building in the Scottish village of Tweedbank. This facility will consolidate other leased locations in the region and result in a net addition of 25,000 ft² of manufacturing space required for recent program wins from both new and existing customers. The additional space will support mechatronics assembly with logistics services and will increase Plexus' overall footprint in the UK to 100,000 ft². Plexus expects that the facility will be ready for production this month and will employ about 50 people by December.

New logistics operation in

Poland... Flextronics plans to invest over 18 million PLN (\$5.3 million) to set up a logistics operation in Lodz, Poland, according to the Polish Information and Foreign Investment Agency. The agency reported that the logistics operation will support **Dell's** plant in Lodz and create at least 250 jobs.

Headquarters projects... Plexus plans to begin construction of a new 104,000-ft² headquarters in Neenah, WI, during the current quarter, with occupancy scheduled for summer 2010....State and local officials in Florida have agreed that Jabil can delay construction of a new headquarters facility in St. Petersburg for two years. The State of Florida, Pinellas County and the City of St. Petersburg granted Jabil an incentive package in return for building a new headquarters in St. Petersburg and expanding future employment there (Sept. 2008, p. 7-8).

Some financial news... According to published reports, Hon Hai chairman Terry Guo has set an internal goal of 30% sales growth for the company this year. It appears from these reports that this goal refers to the nonconsolidated sales of the company....**EMS Finance** has acquired control of French EMS provider **Cofidur**. Consisting of key Cofidur executives, EMS Finance increased its holdings to 58.4% of the capital and 62.1% of the voting rights of the company. This transaction followed a hostile takeover bid by **EOLANE**, a competitor. In conjunction with this transaction, **Evolis**, a maker of plastic card printers, entered into a partnership with Cofidur by investing 1 million euros in the French provider. Through the investment, Evolis will secure its sourcing of electronic cards, streamline its supply chain, allow for codevelopment of electronic cards, and achieve more responsive design and production....Plexus has recorded a non-cash

charge of \$5.7 million in the quarter ended April 4 to write off the entire carrying value of its goodwill.

Service offerings... **Catalyst Manufacturing Services** (Endicott, NY) has expanded the services offered by its Tijuana, Mexico, operation to include turnkey cable and wire harness manufacturing. Two of the provider's locations now offer this service.

... **Western Electronics** (Meridian, ID) has introduced prototype and NPI services to complement its existing EMS offerings. The provider will offer prototype services at both its Idaho and Colorado operations. Western Electronics recognized a need for quick-turn prototype and NPI services to support several existing customers as well as to offer an additional service to local target customers.... **Screaming Circuits** (Canby, OR), a quick-turn prototype division of **Milwaukee Electronics Companies**, has unveiled its new Short-Run/Small Lot Production service, tailored to the needs of companies with low-volume, hard-to-source production requirements. The division developed this service to provide a lower cost alternative to prototyping services for projects that don't require the fast turnaround associated with prototypes.

People on the move... M.K. Koo was recently appointed executive chairman and CFO of **Nam Tai Electronics** (Macao). He is a founder of the Nam Tai Group and served in various executive positions over the years. In his last role, he served as an independent director of the company. Chan Sze Chung, Anthony has resigned as acting CFO and has been named Vice CFO.... **Sanmina-SCI** (San Jose, CA) is searching for a CFO to replace David White, who recently became CFO of **NVIDIA**. Todd Schull, senior VP and corporate controller at Sanmina-SCI, was named acting CFO of the company.... William Watkins, former

CEO of **Seagate Technology**, has joined Flextronics' board of directors. Ambassador Rockwell Schnabel will retire from the board prior to the company's 2009 annual meeting.... **TT electronics-integrated manufacturing services** (Weybridge, UK) has appointed John Bran VP, global business development. Bran's experience includes 20 years in the EMS industry. Prior to joining TT electronics, Bran served as market sector VP for Plexus. Previously, he worked as a business unit director for Jabil Circuit.... **Suntron** (Phoenix, AZ) has promoted Jeff Wanago from senior director of corporate finance to CFO. Thomas Sabol, outgoing CFO and a director, is leaving the company to accept the CFO position at **Hypercom**, a supplier of electronic payment products and services. At one time, Sabol was CFO and then COO at Plexus.... EMS provider **Distron** (Attleboro Falls, MA) has promoted Michael Hayes to VP of quality and engineering and Don Petry to VP of sales and marketing.... **SMTC** (Markham, Ontario, Canada) has added David Sandberg to its board of directors. He is a managing member, founder and portfolio manager of **Red Oak Partners**, a hedge fund and SMTC's largest shareholder.... Craig Arcuri has joined Alta Manufacturing as CEO (see alliances, p. 7). He is the former president and CEO of EMS provider **NBS**, which he founded (Jan., p. 5-6).

Plant closures... Flextronics is closing a plant in Shah Alam, Malaysia, *Reuters* reported last month, quoting an official in Malaysia's government.... **Sparton** is shuttering its facility in London, Ontario, Canada. The company also announced recently that it will cease manufacturing operations in its Jackson, MI, facility, which also serves as the company's headquarters.... **SMTC** plans to close its Franklin, MA, facility for enclosures and system integration.

Certifications... TT electronics-integrated manufacturing services recently announced that its Suzhou, China, facility has achieved certification to AS9100, which is used by the aerospace industry. Also, the provider's site in Rogerstone, UK, has been qualified to ISO 13485 for the supply of medical devices.... **TRICOR Systems** (Elgin, IL) has been certified to ISO 13485.... The Eberbach, Germany, site of **EN ElectronicNetwork** (Limburg, Germany) has passed the audit for compliance with the International Railway Industry Standard (IRIS), Scope 19 (signaling).

Late-breaking news at press time... For the fourth fiscal quarter ended March 31, Flextronics reported sales of \$5.58 billion, down 31.5% sequentially and 28.2% year over year. Adjusted operating margin was 0.9%, compared with 2.3% in the prior quarter and 3.4% in the year-earlier period. Adjusted net income for the March quarter equaled \$21.7 million with adjusted EPS of \$0.03, versus adjusted net income of \$214.5 million and adjusted EPS of \$0.26 for the same period a year ago. For the March quarter, Flextronics recorded a GAAP net loss of \$239.8 million, which included pre-tax restructuring charges of \$150.6 million. In the quarter, the company generated \$197 million of free cash flow and reduced inventory by \$504 million. Fiscal 2009 sales totaled \$30.9 billion, up 12.3%.

Last Word

Investing During a Recession

The high-tech recession of 2001-2002 ushered in changes to the EMS industry's pecking order that eventually reshaped it. Was this a one-time event or could the same thing happen again following the current slump?

Last Word

There is a reason why the earlier changes were not necessarily unique products of that time.

To help explain, *MMI* cites an article by James Surowiecki in the April 20, 2009 edition of the *New Yorker*. Surowiecki writes, "...numerous studies have shown that companies that keep spending on acquisition, advertising, and R. & D. during recessions do significantly better than those which didn't." While this notion isn't directly transferrable to the EMS industry – advertising has little power to influence customer decisions – there is a kernel of truth that can be applied. Investing in a business while others are mostly preoccupied with cutting back and restructuring can be a competitive advantage.

The emergence of **Hon Hai Precision Industry**, now the world's largest EMS provider, can be attributed, at least in part, to this idea. Go back to the *MMI* Top 50 list for 2000, and you'll find that Hon Hai, known then primarily as a parts supplier, doesn't even show up. Fast forward to the post-recession year of 2003, and Hon Hai had already risen to fourth largest provider on the Top 50 list. Unencumbered by the need to restructure, Hon Hai was free to devote its attention to building up its EMS capabilities in China during those years.

For **Solectron**, to bring up another example, 2000 was a high-water mark. That year, Solectron led the EMS industry with \$16.9 billion in sales. But by 2002, the company had dropped to second place, never to regain its former status. During and after the recession, the company's focus on profitability improvement, to be achieved by restructuring and other means, interfered with its ability to invest in resources for sales growth, *MMI* believes. By 2004, Solectron had fallen to fourth position, while Hon Hai had climbed to second.

During a recession, the natural response for an EMS company is to cut costs in order to save margins, and this time around is no different. But it's a mistake to assume that because competitors are restructuring there's little risk of losing a company's position in the industry. The example of Solectron shows what can happen when not enough attention is paid to future growth.

MMI believes that companies should not lose sight of making strategic investments to assure longer-term growth, and the opportunity becomes more compelling if competitors are not investing much. For public companies, this is tough to do with performance under a microscope each quarter. On the other hand, their coffers are typi-

cally filling with cash so this stratagem is not out of the question.

Privately held providers are at an advantage here. They can invest, as long as their owners are on board, and not worry so much about short-term margin swings. Take Germany's **Zollner**. The company recently announced that it opened a facility in Virginia for technical sales and customer service. Zollner sees this facility as another source of growth, especially when the U.S. economy recovers.

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