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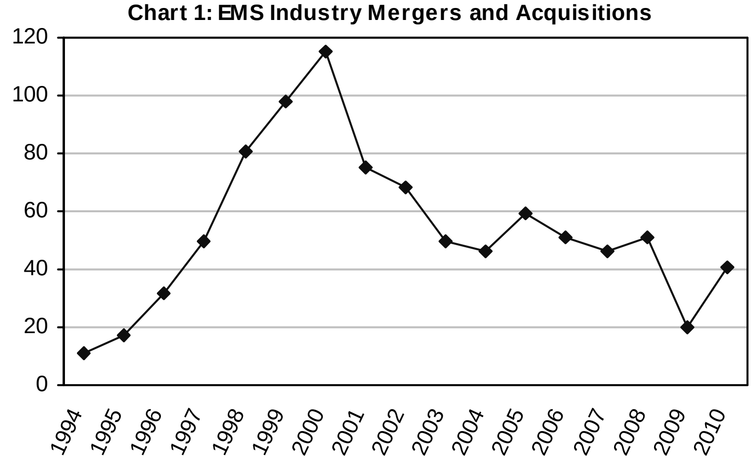
M&A Bounced Back in 2010

After sinking in 2009 to a level not seen in more than a decade, the number of EMS industry mergers and acquisitions more than doubled in 2010. *MMI's* annual Scorecard, or summary, of EMS industry M&A lists a total of 41 transactions closed in 2010, up 105% from a revised total of 20 completed in 2009. Although M&A activity bounced back in 2010, last year's total still fell short of annual levels over the period 2003 to 2008, when the number of deals ranged from 46 to 59 (Chart 1).

Chart 1: EMS Industry Mergers and Acquisitions



The industry recovery of 2010 brought out more buyers and sellers. A return to growth put companies in an acquiring mood as they sought ways to bring in even more business. With market uncertainty on the wane, buyers could feel more confident about the prospects of a target company. Some sellers saw 2010 as the right time to become part of a larger organization. With financial performance improving, their business would appeal more to a buyer. Other sellers wanted to part with operations that no longer made sense for them.

MMI's annual Scorecard on pages 2 and 3 lists each of the 41 M&A deals done in 2010 and classifies them in one of four traditional categories plus an "other" category. The most popular type of deal last year consisted of one EMS provider acquiring an operation from another provider (marked C on the Scorecard). There were 17 transactions of this kind, compared with six in 2009 (Chart 2, p. 3). That's an increase of 183%. Such deals can offer new customers in desirable markets, more revenue, increased capacity, geographic expansion, additional capabilities or a combination thereof. Acquisitions of competitor operations represented 41% of 2010 transactions, compared with 30% in 2009.

Of these 17 deals, 15 resulted in consolidation, defined as the loss of an independent EMS provider. The number of consolidation deals in 2010 tripled from five the previous year. (These transactions, designated C* on the Scorecard, are treated as a subcategory here.) Except for a drop-off in 2009, industry consolidation due to acquisitions has been a fairly steady

continued on p. 3

Some articles in this issue

MMI Scorecard: EMS Industry Mergers and Acquisitions in 2010

Deal Maker	Home Base	Type	Target	Location	Some Details
Advanced Semiconductor Engineering	Kaohsiung, Taiwan	N	Universal Scientific Industrial	Nantou, Taiwan	EMS provider USI became a wholly owned subsidiary of ASE, a provider of IC packaging and test services, through a tender offer for USI stock.
Alta Manufacturing	Fremont, CA	C*	NRC Manufacturing	Fremont, CA	
Cal-Comp Electronics	Bangkok, Thailand	S	Avaplas	Singapore	Acquired majority interest in a provider of injection molded plastics and related manufacturing services.
		C*	Spectragraphics	San Diego, CA Logansport, IN Reynosa, Mexico	Acquired the holding company for two EMS providers: Total Electronics and SMS Technologies. Deal gave Cal-Comp a manufacturing presence in North America. Spectragraphics' sales were projected at $60 M to $70 M in 2010.
Catalyst Manufacturing Services	Endicott, NY	C*	PCBA Division of Harvard Custom Manufacturing	Owego, NY	
Celestica	Toronto, Canada	S	Invec Solutions	Gourock, Scotland	Acquired a provider of warranty management, repair, and parts management services for a cash price of $5.0 M.
		C*	Allied Panels	Frankenburg, Austria Madison, WI	Acquired a medical contract manufacturer with annual revenue of about 40 M euros and close to 130 employees.
Contract Production Ltd	Pickering, UK	N	Micro Forge Ltd	Pickering, UK	Launched a new EMS business after acquiring Micro Forge assets at the same location.
Current Circuits	Arab, AL	S	Patterson Machines	Union Grove, AL	EMS provider Current merged with a machining company to form PMI Technologies.
Darekon	Haapavesi, Finland	S	Mecanova factory	Klaukkala, Finland	Finnish EMS provider acquired a mechanical operation mainly supplying medical equipment manufacturers.
Delfi Group	Hong Kong	S	Rose Solutions	Sønderborg, Denmark	EMS group acquired a managed services provider.
EN ElectronicNetwork	Bornheim-Hersel, Germany	C*	Görmiller Electronic	Schwandorf, Germany	Acquired an EMS company that filed for insolvency.
éolane	Le Fresne sur Loire, France	S	Cybersys	Grenoble, France	Acquired an engineering group with industrial computing and other expertise.
		C*	NCF	France, Morocco, Tunisia	Acquired NCF's French units, 85% of its Moroccan subsidiary and 50% of its Tunisian subsidiary. Deal increased work force to 2,300 and 2010 sales to 268 M euros. NCF's FY2009 sales (ended March) were 101 M euros.
Equation Corp	Singapore	N	Ternary Technologies Pte. Ltd.	Singapore	Equation, a holding company, entered the EMS business. Acquisition was renamed Disa Digital Safety Pte. Ltd.
Fideltronik owner	Poland	C	NOTEFideltronik	Krakow, Poland	Principal owner of a Polish EMS provider acquired the remaining 50% of a joint venture with EMS provider NOTE.
Flextronics	Singapore	S	Plating operation	unknown	Acquisition was described as a small, local operation specializing in various forms of plating in the machining space.
		C*	Proxy Electronics	Kalmar, Sweden	Purchased assets of a bankrupt EMS provider in Sweden, which had set-top box business.
Hon Hai Precision Industry (Foxconn)	Tucheng City, Taiwan	O	Dell operation	Lodz, Poland	Under Hon Hai, the plant will continue to support Dell, which had invested about $292 M in the plant when it opened in January 2008 with 37,000 sq m of space.
		O	Sony LCD-TV factory	Nitra, Slovakia	Acquired 90.1% ownership of the factory, which will continue to produce Sony LCD TVs. Sony had invested 73 million euros in the factory when it opened in 2007 at 60,000 sq m. Purchase price was 29.7 million euros.
		S	Kunshan Guann Jye Electronics	Kunshan, China	Acquired control of an inverter company.
IEC Electronics	Newark, NY	S	Celmet	Rochester, NY	Purchased a manufacturer of metal chassis and assemblies for about $2 M. Its 2009 sales were about $3.6 M.
		S	Southern California Braiding Company	Bell Gardens, CA	Acquired a supplier of high-reliability cables and wire harnesses for the defense market and NASA.
Integrated Micro-Electronics, Inc.	Laguna, Philippines	S	PSi Technologies	Metro Manila, Philippines	IMI acquired a 56% stake in a provider of power semiconductor assembly and test services.

C = CM acquiring or merging with CM operation. O = OEM divesting OEM operation.
S = service or supply chain extension. N = new player. *Consolidation deal.

MMI Scorecard: EMS Industry Mergers and Acquisitions in 2010					
Deal Maker	Home Base	Type	Target	Location	Some Details
Kitron	Billingstad, Norway	C*	Veru Electronic GmbH	Grossbettlingen, Germany	Price was 700,000 euros on a debt-free basis. Veru had about 20 employees and 2008 sales of 1.4 M euros.
Matric Group	Seneca, PA	other	Windurance	Coraopolis, PA	Acquired controlling interest in an OEM customer that markets blade pitch control systems for wind turbines.
MC Assembly	Palm Bay, FL	C*	Chase EMS	Winchester, MA	Chase Corporation divested its EMS business with FY2009 revenue of $16.37 M.
Mercatech	Ocala, FL	N	four Jabil sites (renamed Competence)	Brest & Gallargues, France; Cassina dé Pecchi & Marcianise, Italy	A private equity firm bought the four sites that Jabil divested. With about 1,500 employees, the sites had sales of $298.6 M and an operating loss of $39.6 M in about 10.5 months of FY2010.
National Technical Systems	Calabasas, CA	N	Mechtronic Solutions, Inc.	Albuquerque, NM	NTS, a publicly traded engineering firm, acquired a company that offers both engineering and manufacturing.
Nortech Systems	Wayzata, MN	C*	Trivirix	Milaca, MN	Acquired a medical contract manufacturer.
Orbit One	Ronneby, Sweden	O	Siemens factory	Huddinge, Sweden	Took over a Siemens operation that makes electromechanical parts for heating systems.
Pufin	Frigento, Italy	C	Flextronics operation	Saint Etienne, France	Acquired an operation divested by Flextronics.
Sanmina-SCI	San Jose, CA	C*	BreconRidge	Ottawa, Canada Shenzhen, China Hong Kong & NY	Acquired an EMS provider specializing in RF/microwave and optical areas. Purchase was valued at $33.5 M. BreconRidge was at a run rate of about $45 M per quarter.
Season Group	Hong Kong	C*	DC Electronics	San Antonio, TX	Deal gave Season an EMS site in the U.S.
Segue Manufacturing Services	Lowell, MA	N	Sanbor Interconnect	Xiamen, China	Segue, an electromechanical CM, acquired a Chinese company whose capabilities include SMT and box build.
SemiGen	Londonderry, NH	C*	Alternative Microwave Resources	Amherst, NH	EMS provider of SMT and hybrid assembly acquired a contract manufacturer specializing in hybrids.
Sparton	Schaumburg, IL	C*	Delphi Medical Systems' contract manufacturing business	Longmont, CO	Subject to adjustment, the purchase price was $8.0 M for a business with projected annual revenue of $32 M. It's main activity is medical contract manufacturing.
Sunburst EMS	West Bridgewater, MA	S	Quality Electronics Manufacturing	Melbourne, FL	Acquired company specializes in wire and cable harness assembly.
Tomoike Industrial	Hong Kong	N	S.M.T. Assembly	Hong Kong (office) Dongguan, China	Manufacturer of LCD and other parts acquired control of an EMS company with a factory in China.
Ultra Electronics	London, UK	C*	Extec Integrated Systems	Portchester, UK	Defense and aerospace company bought a thick-film hybrid manufacturer for the company's EMS business.
VIDEOTON	Székesfehérvár, Hungary	other	STS Group	Gyor, Hungary	Acquired 51% ownership in a firm that mainly plans, operates and implements alternative energy projects.

C = CM acquiring or merging with CM operation. O = OEM divesting OEM operation.
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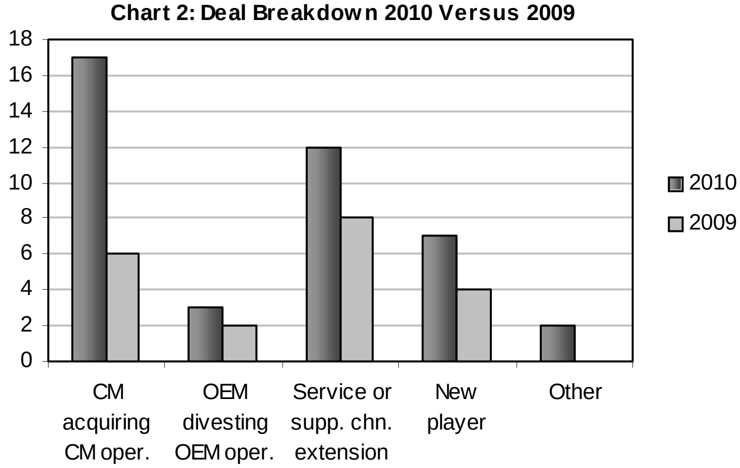
trend in the EMS industry (Chart 3, p. 5). From 2003 to 2010, the Scorecard averaged 14.9 consolidation deals per year. The 2010 count of 15 came in at almost exactly the eight-year average.

Next in popularity was the service or supply chain extension (marked S on the Scorecard). Transactions of this type occur when a provider makes an acquisition to extend its service offering or expand its capabilities for vertical integration. For 2010, the deal count in this category was 12, up 50% from eight the previous year. While 2010's upsurge in acquisitions of EMS operations left extension deals in second place, the latter remains a tried-and-true option for companies of various sizes looking to add a capability that cannot be readily developed in-house. Such deals become more palatable when the target activity is a "tuck-in" acquisition, that is, small in relation to the size of the acquirer. Capability extensions accounted for 29% of the deals done in 2010, down from 40% in 2009.

Chart 2: Deal Breakdown 2010 Versus 2009



EMS Industry Alliances and Equity Partnerships in 2010

Company	Home Base	Partner	Location	Some Details
Adeptron	Markham, Ontario, Canada	unnamed EMS provider	Tijuana, Mexico	Partnership enables Adeptron to offer manufacturing in Mexico.
Assembly Contracts Limited	Manchester, UK	Cinterion Wireless	Munich, Germany	EMS provider ACL and Cinterion will jointly design and integrate wireless components based on Cinterion's modules.
Benchmark Electronics	Angleton, TX	Texas Instruments	Dallas, TX	Benchmark joined the Texas Instruments Elite Design House Network, a small group of independent companies offering system-level design and other services.
Cal-Comp Electronics	Bangkok, Thailand	Metal Component Engineering	Singapore	Cal-Comp purchased a 16.7% interest in a provider of mechanical manufacturing services.
CEI Contract Manufacturing	Singapore	Singapore's Agency of Science, Tech-nology and Research	Singapore	CEI is one of four companies to form a partnership with the Singapore agency to develop smart grid and distributed energy solutions.
EPIC Technologies	Norwalk, OH	SFO Technologies	Cochin, India	Alliance will allow EPIC to offer a manufacturing option in Asia, while SFO customers will have access to EPIC's facilities.
Flextronics	Singapore	ASSET InterTech	Richardson, TX	Partnership was formed to accelerate the adoption of the IEEE P1687 IJTAG standard for the use of embedded instruments.
Hon Hai Precision Industry (Foxconn)	Tucheng City, Taiwan	Yingli Green Energy	Baoding, China	Reportedly, Hon Hai and Yingli, a photovoltaic manufacturer, will jointly build a polycrystalline silicon plant in China.
		NEA, Onset and DCM	Silicon Valley, CA	Formed an alliance with three venture capital firms and 12 of their IT ventures to build a technology exchange and incubation platform.
		SiBEAM	Sunnyvale, CA	Partnership aims to find new customers for SiBEAM's high-speed wireless technology.
		Chi Lin Technology	Tainan City, Taiwan	Acquired a 6.87% interest in a company that specializes in backlighting technology, materials science and advanced display systems.
Invotronics	Scarborough, Ontario, Canada	DGE	Rochester Hills, MI	Alliance will combine Invotronics' services as an EMS provider with DGE's hardware and software design services.
		Eagle Harbor Holdings	Bainbridge Island, WA	Partnership was formed for the manufacture and distribution of vehicle infotainment systems utilizing EHH's technologies.
Jabil Circuit	St. Petersburg, FL	AuthenTec	Melbourne, FL	Joint development agreement incorporates AuthenTec's smart sensor technology in a keypad for the mobile phone market.
		JTouch	Taoyuan Hsien, Taiwan	Jabil Green Point and JTouch co-developed an integrated touch screen solution for mobile phone designs.
Scanfil	Sievi, Finland	Kitron	Billingstad, Norway	Scanfil took a 32.96% stake in EMS provider Kitron for about 18 M euros.
		Greenpoint Oy	Pori, Finland	Acquired 40% interest in a developer of solutions and equip-ment to drive impulse sales of consumer goods and signed a supply contract with the company.
SIIX	Osaka, Japan	iWOW Technology	Singapore	Seeking new wireless business, SIIX purchased an 11.3% stake in a firm offering design and development for wireless communication.
Simpro	Løkken Verk, Norway	Creo Development (former Kitron unit)	Oslo, Norway	EMS provider Simpro was to take a 33% stake in the development operation being divested by Kitron. The equity stake allows Simpro to offer developoment services.
tbp electronics	Dirksland, the Netherlands	Technolution	Gouda, the Netherlands	EMS provider tbp and Technolution, a developer of electronics and software, formed a venture to offer a single contact point for design and manufacturing.

Another type of M&A transaction occurs when a new EMS player emerges from the sale of a manufacturing business. The 2010 Scorecard contains seven new-player deals (marked N), up from four in 2009. Basically, a new player arises when a company without EMS capability acquires a business or assets with that capability or when a divested EMS operation gains its independence through acquisition by new ownership. In the former case, the acquiring company becomes a new EMS player, but the deal does not produce a brand new provider. In the latter case, the divested operation does emerge as a new EMS provider. *MMI* identified one such divestiture, which, by creating a new provider, offsets to a small extent the loss of independent providers by acquisition. Subtracting the single divestiture from the 15 consolidation deals reported earlier yields a net loss of 14 providers through M&A in 2010. By comparison, M&A-based consolidation in 2009 was nearly absent as there was a net loss of just two providers through M&A.

The fourth category in this analysis

Chart 3: Consolidation Deals

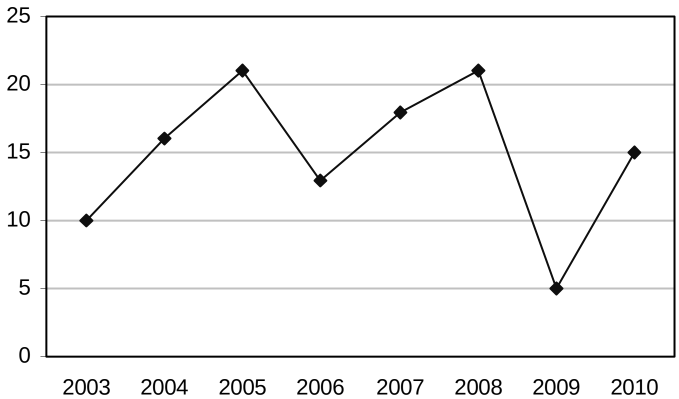
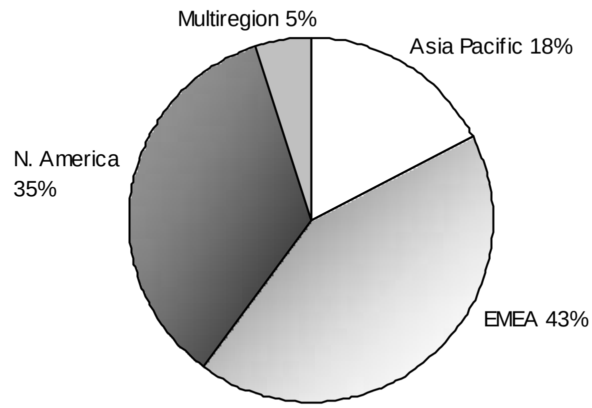


Chart 4: Percentage of Deals by Target's Region



applies to deals where an OEM divests assets to an EMS provider. For the most part, OEM asset deals have fallen out of favor in the EMS industry, and *MMI* counted just three such deals in 2010. The number of OEM divestitures has been at or below this level for the last three years. As has been written here before, EMS providers are reluctant to take over OEM plants, especially in high-cost areas, and the number of divestiture opportunities has dwindled in well-penetrated market segments.

Unlike in recent years, *MMI* found two acquisitions in the EMS industry that do not fit into any of the four traditional categories. Rather than leave these transactions out of the analysis, *MMI* decided to place them in an "other" category. Both transactions allow the deal maker to seek clean-tech business outside of the EMS industry.

When Scorecard deals are sorted by the region in which the acquisition took place, EMEA (Europe, Middle East and Africa) hosted the most transactions last year with 17, or 43% of the total. *MMI* has been analyzing deals by region for the past three years, and EMEA has come out on top in each of those years. In 2010, acquisitions in North America and Asia Pacific accounted for 35% and 18% of the total respectively (Chart 4). For the remaining 5% of 2010 transactions, the acquired businesses had operations in more than one region.

Six providers – **Cal-Comp Electronics**, **Celestica**, **éolane**, **Flextronics**, **Hon Hai** and **IEC Electronics** – made more than one deal. Hon Hai was the M&A leader with three transactions completed.

But acquisitions are not the only way to go. As *MMI* has noted in past M&A analyses, a company can gain access to another's capabilities, technology or footprint through an alliance or an equity partnership. With an equity partnership, one partner takes a minority stake in the other, or the two companies form a joint venture. In 2010, there were 20 alliances and equity partnerships, as listed in the table on page 4. While the partnership total was up 18% for 2010, the number was within the range of 15 to 22 such arrangements counted over the previous five years. (Before that there were greater variations.) Although these kinds of partnerships do not offer the permanence or control of an acquisition, they can be inexpensive. That attribute continues to be a major selling point for alliances and equity partnerships, and the reason, *MMI* believes, for their staying power.

Hon Hai was the most active in partnering with four arrangements to its credit. **Invotronics**, **Jabil Circuit** and **Scanfil** each entered into two partnerships.

Scorecard rules. *MMI's* annual Scorecard lists only M&A transactions within the EMS industry. Its does not include divestitures by EMS companies unless the divested assets were purchased by another EMS provider or a company entering the EMS business. In general, the Scorecard will exclude private equity investments, and none were on the 2010 list.

Market Data

2010: A Banner Year for U.S.-Traded Group

Combined sales for the six largest U.S.-traded providers rose 19.1% in 2010, a year that provided the EMS industry with welcome relief from recession-wracked 2009. Sales for the group totaled $59.7 billion last year, up from $50.2 billion in 2009. Growth in 2010 exceeded *MMI's* earlier estimate by a full percentage point (Nov. 2010, p. 1-2).

Five out of six providers achieved double-digit growth for 2010. **Plexus** was the growth leader with a 35.1% increase.

Together, the group of six earned GAAP net income of $1.12 billion for 2010, representing a swing of $2.16 billion from 2009's net loss of $1.04 billion. All six companies were in the black last year.

A look at Q4 results

The group's Q4 sales rose 6.1% sequentially. This rate was twice what *MMI* projected when it set Q4 sales

Table 1A: Q4 and 2010 GAAP Results for the Six Largest U.S.-Traded EMS Providers (M$ or %)

Company (in order of 2010 sales)	Q4 '10 sales	Q3 '10 sales	Qtr.-qtr. chg.	Q4 '09 sales	Yr.-yr. chg.	Q4 '10 gross marg.	Q3 '10 gross marg.	Q4 '10 oper. marg.	Q3 '10 oper. marg.	Q4 '10 net inc.	Q3 '10 net inc.	Q4 '09 net inc.	2010 sales	2009 sales	Yr.-yr. chg.	2010 net inc.	2009 net inc.
Flextronics	7832.9	7,422.3	5.5	6556.1	19.5	5.5	5.4	2.6[1]	2.4[1]	198.3	144.4	92.9	27,761.3	23,753.1	16.9	521.0	(281.2)
Jabil	4082.2[2]	3,860.9	5.7	3088.3	32.2	7.6	7.4	3.8	2.7	106.7	58.7	28.3	14,403.3	11,390.3	26.5	247.2	(861.1)
Celestica	1,876.1	1,546.5	21.3	1,664.4	12.7	6.5	6.9	1.4[3]	2.4[3]	25.6	35.4	31.1	6,526.1	6,092.2	7.1	80.8	55.0
Sanmina-SCI	1662.5	1,687.8	-1.5	1478.3	12.5	7.7	7.8	3.7	3.4	28.4	31.4	59.4	6,503.0	5,236.6	24.2	91.5	(52.7)
Benchmark	626.9	613.9	2.1	600.2	4.4	7.8	7.8	3.3	3.9	19	23.0	16.7	2,402.1	2,089.3	15.0	81.0	53.9
Plexus	565.8	555.6	1.8	430.4	31.5	9.7	10.1	4.9	5.2	25	26.6	17.8	2,148.8	1,590.9	35.1	96.7	47.1
Total/avg.	**16,646.4**	**15,687.0**	**6.1**	**13,817.7**	**20.5**	**6.6**	**6.6**	**3.0**	**2.7**	**403.0**	**319.5**	**246.2**	**59,744.6**	**50,152.4**	**19.1**	**1,118.2**	**(1,039.0)**

[1] Intangible amortization was subtracted from Flextronics' reported operating income. [2] For the quarter ended Nov. 30, 2010. [3] MMI calculation.

estimates equal to guidance midpoints (Nov. 2010, p. 1-2). **Celestica** had far and away the highest sequential growth rate at 21%. Only **Sanmina-SCI** reported a sales decline from the prior quarter (Table 1A).

Compared with a year earlier, aggregate Q4 sales climbed by 20.5%, 3.6 percentage points higher than *MMI's* estimated growth. Posting the highest growth rates were **Jabil Circuit** and Plexus with year-over-year gains above 30%. Five out of six providers reported double-digit increases.

In Q4, GAAP gross margin for the group of six remained at the 6.6% level of the prior quarter (Table 1A). Gross margin was also the same as a year earlier. However, the group's GAAP operating margin of 3.0% was up 30 basis points sequentially and 60 basis points year over year. Combined GAAP operating income grew 14.9% sequentially and 49.4% year over year. Compared with the prior quarter, GAAP operating margin rose in three cases and fell in three others. Four out of six providers generated GAAP operating margins of 3.3% or better, with Plexus taking top honors at 4.9% (Table 1A).

GAAP net income for the six providers in Q4 totaled $403 million, 26.1% higher than in the prior quarter and 63.7% above the year-ago result. The group's GAAP net margin in Q4 was 2.4%, a sequential improvement of 40 basis points. Net margin ranged from 1.4% (Celestica) to 4.4% (Plexus).

Q4 results for three out of the six EMS providers are briefly summarized below. The other three were covered in last month's issue on pages 5-6.

Benchmark Electronics. Sales for Q4 totaled $627 million, up 2% from Q3 and 4% from the year-earlier period. Revenue was near the high end of guidance of $590 million to $630 million. On a sequential basis, sales from the computing, medical, and test and instrumentation sectors rose 9%, 8% and 1% respectively, while sales fell in the industrial control and telecom sectors by 4% and 3% respectively.

In Q4, the provider produced a non-GAAP gross margin of 7.8%, unchanged from the prior quarter. Non-GAAP operating margin stood at 4.1%, up 10 basis points sequentially and 60 basis points year over year. Non-GAAP EPS amounted to $0.37, down slightly from $0.38 in Q3 but at the high end of guidance and up from $0.29 in Q4 2009. Benchmark earned GAAP net income of $19 million in Q4 versus $23 million in Q3 and $17 million in the year-ago period.

During Q4, the provider booked 22 programs, including a number of new engineering projects, worth an estimated $110 million to $121 million in annual revenue.

For Q1 2011, Benchmark expects sales of $565 million to $605 million and non-GAAP EPS of $0.30 to $0.36. Guidance reflects a traditionally slower Q1 for the company, specifically in the computing sector, as well as the impact from ending **Sun** production in Q4. (Sun contributed less than $30 million in Q4.) Benchmark found a level of caution in its customer base. The provider anticipates a bounce-back in the second half of the year fueled in part by the growth of a large computing program. Benchmark expects modest revenue growth for 2011 and said it will probably see double-digit growth in the second half but not in the first half.

For 2010, **IBM** was the only customer accounting for over 10% of sales.

Celestica. Q4 revenue of $1.88 billion increased 21% sequentially and 13% year over year. Sales were just above the high end of guidance, which called for $1.70 billion to $1.85 billion. Sequential growth was led by the server and consumer segments, where sales climbed by 56% and 24% respectively from the prior quarter. Three months ago, the company said it expected that recent large program wins in the server and consumer segments would be the primary growth driver for the sequential increase in its Q4 sales (Nov. 2010, p. 3). Revenue increased sequentially in all of Celestica's end markets, with double-digit gains in five out of six segments. One customer represented 20% of sales. **RIM** is said to be Celestica's largest customer.

Non-GAAP gross margin amounted to 6.8%, down 40 basis points sequentially and 30 basis points year over year. In Q4, Celestica saw a larger than forecasted mix of server and consumer business. Still, non-GAAP operating margin came in at 3.6%, up 20 basis points sequentially and unchanged from a year ago. This margin beat the company's expectation of 3.0% to 3.5%. Non-GAAP EPS of $0.26, which was at the high end of guidance, rose 30% sequentially and 24% year over year. At 29.5%, non-GAAP ROIC was the highest since the company went public in 1998. GAAP net earnings totaled $25.6 million, down from $35.4 million in the prior quarter and $31.1 million a year ago.

At the midpoint of sales guidance for Q1 2011, the sequential revenue decline would be 4%, which is below seasonal decreases of recent years (Table 1B below). The company expects operating margins (non-GAAP) of 3% to 3.5% for the first half of 2011 and 3.5% to 4% for the second half.

Sanmina-SCI. For its fiscal Q1 ended Jan. 1, revenue totaled $1.66 billion, down 1% sequentially but up 12% year over year. Sales from the enterprise computing and storage, defense/industrial/medical, and multimedia segments were down sequentially. Communications networks were the only segment that showed a quarter-over-quarter gain.

Non-GAAP gross margin stood at 7.8%, unchanged from the previous quarter but below the company's expectation of 8.0% to 8.2%. Revenue was down in most categories of the company's components business, where contribution margins are generally higher and a decline in revenue has a disproportionately negative impact on gross profit. Non-GAAP operating margin came in at 4.2%, up 10 basis points from the prior quarter and 90 basis points from a year earlier. Non-GAAP EPS equaled $0.45, slightly below the previous quarter's $0.46 mostly due to business mix and higher taxes, but well above of the year-earlier result of $0.23. In addition, non-GAAP EPS for the quarter exceeded guidance of $0.40 to $0.44, primarily because of lower operating expenses.

GAAP net income amounted to $28.4 million, down from $31.4 million in the prior quarter and $59.4 million a year earlier. If one-time gains of $48 million are excluded from the latter result, GAAP net income improved significantly year over year.

For the March quarter, Sanmina-SCI is forecasting revenue of $1.62 billion to $1.67 billion, non-GAAP gross margin of 7.9% to 8.1%, non-GAAP operating margin of 4.0% to 4.2%, and non-GAAP EPS of $0.40 to $0.43. The company believes that it can achieve low double-digit growth in fiscal 2011, with a stronger second half. If economic conditions continue to improve, the provider believes it has the potential to exit the calendar year with a non-GAAP operating margin of around 5%.

No Letdown in Q1 Estimates

For the EMS sector consisting of the six largest U.S.-traded providers, Q1 sales estimates indicate that the sector's year-over-year growth in Q1 will continue at the same pace as that observed in the prior quarter. *MMI* projects that combined Q1 sales for the six providers will increase by 20.5% from a year earlier, the same growth rate that the group achieved in Q4 2010 (see p. 6). Given this growth estimate, 2011 is starting out where 2010 left off, at least for this publicly traded EMS group.

Q1 sales estimates for the group totaled $15.74 billion, compared with $13.05 billion in the year-ago period. For all six companies, *MMI* made sales estimates equal to the midpoint of Q1 sales guidance. On a year-over-year basis, estimated Q1 growth ranges from 2.3% for **Benchmark Electronics** to 29.8% for **Jabil Circuit** (Table 1B). Four out of six providers will achieve double-digit growth rates according to the estimates.

Given that Q1 is a seasonally weak quarter, most notably in the consumer and computing sectors, it's not surprising that estimates call for a sequential decline in Q1 revenue for this group of six large providers. In the aggregate, estimated Q1 sales are down 5.5% from the prior quarter. If estimates prove out – that is, if providers hit the midpoint of their Q1 sales guidance – all of them will experience

Table 1B: Q1 2011 Guidance and Estimates for the Six Largest U.S.-Traded Providers
(sales in B$ except as noted)

Company	Q1 '11 guidance	Q1 '11 midpoint	Q4 '10 sales	Qtr.-qtr. estim. chg.	Q1 '10 sales	Yr.-yr. estim. chg.	Q4 '10 EPS Non-GAAP* $	Q1 '11 EPS Guidance Non-GAAP* $
Flextronics	7.1 - 7.4	7.25	7.83	-7.4%	5.94	22.0%	0.25	0.21 - 0.23
Jabil**	3.85 - 3.95	3.90	4.08	-4.5%	3.00	29.8%	0.61	0.49 - 0.53
Celestica	1.725 - 1.875	1.80	1.88	-4.1%	1.52	18.6%	0.26	0.20 - 0.26
Sanmina-SCI	1.62 - 1.67	1.645	1.66	-1.1%	1.53	7.7%	0.45	0.40 - 0.43
Benchmark	565 M - 605 M	585 M	0.63	-6.7%	0.57	2.3%	0.37	0.30 - 0.36
Plexus	540 - 570 M	555 M	0.57	-1.9%	0.49	13.0%	0.61	0.53 - 0.58
Total/avg.		**15.74**	**16.65**	**-5.5%**	**13.05**	**20.5%**		

Q1 sales estimates equal the midpoint of Q1 guidance. *Non-GAAP EPS may not be comparable from company to company. **Q1 2011 data correspond to the February 2011 quarter.

single-digit decreases in Q1 revenue versus the prior quarter (Table 1B, p. 7).

But the overall seasonality projected here is no worse than what occurred last year, when the group's Q1 revenue declined by exactly the same 5.5%. Indeed, the group as a whole seems to have move into a period of more modest seasonal declines when compared with the 11.4% and 9.6% drops of the two Q1s that preceded the Great Recession.

Based on guidance, five out of six providers expect that their non-GAAP EPS will decline sequentially in Q1 (Table 1B). Only **Celestica** has issued an outlook in which non-GAAP EPS for Q1 would remain at the Q4 level if the company were to attain the high end of the EPS guidance range. Failing to do so will leave Celestica with an EPS decline as well.

News

Jabil Takes Back Divested Operations

Jabil Circuit (St. Petersburg, FL) has acquired three operations that it previously divested in France and Italy. In July 2010, Jabil sold its operation in Brest, France, including a satellite in Gallargues, France, and operations in Cassina dé Pecchi and Marcianise, Italy, to **Mercatech Inc.**, a U.S. private equity firm. Jabil said it "will establish viable operations at the sites following multiple breaches by the purchaser of those facilities, including their diversion of funds that were specifically designated as working capital."

Benchmark Acquires Assets in Malaysia

Benchmark Electronics (Angleton, TX) has acquired facilities and other assets to expand its precision technologies capabilities in Penang, Malaysia. This expansion will provide sheet metal and frames fabrication, advanced metal joining and grinding, along with complex mechanical assembly and machining services.

*Another transaction…***Main Street Capital Holdings** (Pittsburgh, PA), a private equity firm, has acquired **Conelec of Florida** (Sanford, FL), a regional provider of EMS. The firm's current investments include EMS provider **AccuSpec Electronics** (McKean, PA).

*New clean-tech business...***Celestica** (Toronto, Canada) will manufacture solar modules for **Recurrent Energy** (San Francisco, CA) at Celestica's Toronto operation. Recurrent has secured 180 megawatts of solar module supply for feed-in-tariff projects in the Canadian province of Ontario.

*Filed for court protection…*Due to a cash shortfall, **TES Electronic Solutions** (Langon, France), a design and manufacturing services company, has filed a legal notice under which it has suspended payments to suppliers of its French operations. TES has been granted a six-month period of protection, which, according to TES, means that a court-appointed administrator guarantees debts to suppliers.

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