

Manufacturing MarketTM INSIDER

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M&A Deals Down 30% in 2011

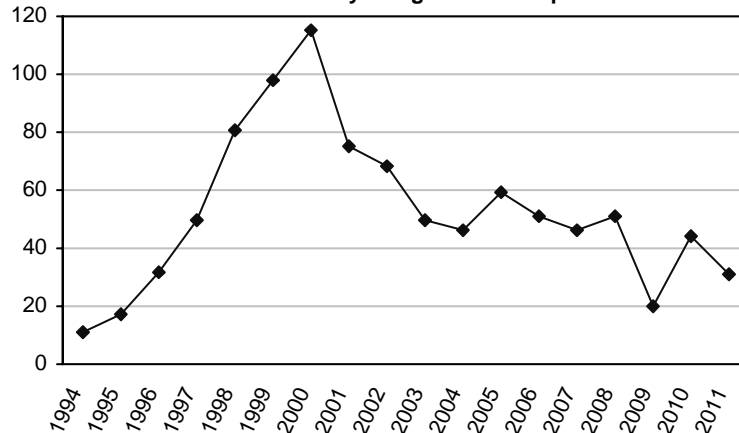
After sharply increasing in 2010, the number of EMS industry mergers and acquisitions fell by 30% in 2011. *MMI's* annual Scorecard, or summary, of EMS industry M&A lists a total of 31 transactions closed in 2011, down from a revised total of 44 in 2010. Last year's M&A total was the second lowest in 16 years (Chart 1). Deal making, which nose-dived in the recession year of 2009, has yet to return to pre-recession levels.

Deteriorating business conditions in the second half of 2011 may have had something to do with the 30% reduction in M&A. Potential buyers often head to the sidelines when conditions are unstable.

MMI's annual Scorecard on pages 2 and 3 lists each of the 31 deals done in 2011 and classifies them in one of four categories. Reflecting a general loss of M&A appetite, the number of transactions dropped from a year earlier in three out of the four categories, not counting 2010's "other" category (Chart 2, p. 3).

As in 2010, 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 13 transactions of this kind, down 32% from a revised total of 19 the year before. Acquisitions of competitor operations represented 42% of 2011 transactions, just 1% below the comparable figure of 2010.

Chart 1: EMS Industry Mergers and Acquisitions



Of these 13 deals, 11 resulted in consolidation, defined as the loss of an independent EMS provider. The number of consolidation deals in 2011 dropped by 35% from a revised count of 17 in 2010. (These transactions, designed C* on the Scorecard, are treated as a subcategory here.) Over the past nine years, acquisitions have absorbed anywhere from five to 21 providers a year, and the annual aver-

age was 14.7 (Chart 3, p. 3). The count of 11 independent providers lost in 2011 was somewhat below the 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 expand its capabilities horizontally or vertically. For 2011,

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M&A 2011

MMI Scorecard: EMS Industry Mergers and Acquisitions in 2011					
Deal Maker	Home Base	Type	Target	Location	Some Details
API Technologies	Ronkonkoma, NY	N	SenDEC	Fairport, NY	Defense contractor API acquired an EMS provider and about \$30 M in cash in exchange for API stock issued to a private equity firm. SenDEC had sales of about \$90 M and net income of about \$3.5 M in FY 2010. Deal included assuming a prior earn-out obligation of up to \$14 M
Asteelflash Group	Paris, France	C	TES plant	Langon, France	Bought Langon site of TES Electronics Solutions, whose French operations were in receivership, for 500 K euros. Was scheduled to take on 191 TES employees.
Benchmark Electronics	Angleton, TX	S	mechanical assets	Penang, Malaysia	Acquisition was made to expand Benchmark's precision technologies (mechanical) capabilities in Asia.
BT Manufacturing	Melbourne, FL	N	BT Manufacturing	Melbourne, FL	Bulova Technologies Group sold its contract manufacturing subsidiary, BT Manufacturing.
Cal-Comp Electronics	Bangkok, Thailand	C*	Phitronics Industria Comercio De Electronica E Informatica	Brazil	Purchased Brazilian EMS provider for \$4 M.
Celestica	Toronto, Canada	S	Contract manufacturing operations of Brooks Automation	Portland, OR Wuxi, China	Acquired semiconductor equipment contract manufacturing operations. Purchase price was \$78 M, net of cash acquired. Business generated sales of about \$135 M for the six months ended Mar. 31 and employed about 450.
Creation Technologies	Burnaby, BC, Canada	S	activity of Quest Product Development	Arvada, CO	Acquired a design, product development and manufacturing group.
Da-Tech	Ivlyand, PA	C*	Synchronized Manufacturing Technologies	Salem, NH	Bought assets of an EMS provider that ceased operations.
Ducommun	Carson, CA	N	LaBarge	St. Louis, MO	Purchase price was about \$340 M, net of cash acquired, and including debt assumed. The deal's value was about 8.7 times last 12 months' EBITDA. LaBarge's sales were \$324 M for the 12 months ended Jan. 2.
Elcoteq	Luxembourg	S	BroadTech	Lewisville, TX	Acquired a provider of aftermarket services. (Later on, Elcoteq was declared bankrupt.)
ETK Elektronik	Skanderborg, Denmark	C*	Zoma Electronic	Frederikssund, Denmark; Rayong, Thailand	Acquired two factories that will give ETK 65 more employees.
HANZA	Stocksund, Sweden	O	Saab operation	Gothenburg, Sweden	Took over production from Saab's Electronic Defence Systems. About 20 Saab employees were affected.
Hon Hai Precision Industry (Foxconn)	Tucheng City, Taiwan	O	Elektrometalli Group Cisco factory	Finland Juarez, Mexico	Acquired a company that does sheet metal processing. Cisco turned over its set-top box plant in Juarez and about 5,000 employees there to Hon Hai, which paid \$44.9 M.
Hunter Technology	Santa Clara, CA	S	Spinnaker Microwave	Santa Clara, CA	Acquired a provider of RF and microwave solutions.
Integrated Micro-Electronics, Inc.	Laguna, Philippines	C	three EPIQ plants	Bulgaria, Mexico and the Czech Republic	Purchase price was about 43 M euros, paid in cash and stock. Plants generated sales of 90 M euros and net income of about 4 M euros in 2010.
Jabil Circuit	St. Petersburg, FL	C*	Former Jabil operations	Brest & Gallargues, France; Cassina de Pechi & Marcianise, Italy	Jabil took back operations that it had divested in 2010 to a US private equity firm.
		S	Telmar Network Technology	Plano, TX	Acquired an aftermarket services provider with fiscal 2010 sales of \$145 M. Paid \$128.5 M in cash, subject to adjustment. Offering multivendor, network-wide repair, Telmar had facilities in 10 countries.
LACROIX Electronics	Vern-sur-Seiche, France	S	TES design activities	Fontaine, Quimper and Bruz, France	Bought two design centers and part of a third out of receivership.
Neways Electronics International	Son, the Netherlands	S	DHV department	Eindhoven, the Netherlands	DHV, an engineering/consulting firm, sold an operation involved in the development and engineering of electronic systems.
Norautron	Horten, Norway	S	Elektronix	Lysaker, Norway	Acquired a supplier of customized hardware and software.
Nortech Systems	Wayzata, MN	C*	EMS assets of Winland Electronics	Mankato, MN	Bought the EMS unit for \$1.5 M in cash, an inventory obligation of at least \$2.2 M, and the assumption of liabilities. Unit had 9-mo. 2010 sales of \$11.6 M with an operating loss of \$366 K.

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 2011					
Deal Maker	Home Base	Type	Target	Location	Some Details
OnCore Manufacturing Services	San Jose, CA	C*	Victron	Fremont, CA	Acquired an EMS provider with complementary medical and communications business and plants in Fremont, CA, and Rosarito, Mexico.
		C*	Alta Electronics International	Suzhou, China	Acquisition gives OnCore a presence in China.
Paramit	Morgan Hill, CA	C*	Lemtronics	Malaysia	Contract manufacturer of medical devices and instruments bought a manufacturing operation.
PeerTV	Petach-Tikva, Israel	N	Digitek	Israel	Provider of Internet TV hardware and software acquired an EMS company.
PhotonStar LED	Romsey, UK	N	Camtronics Vale	Tredegar, Wales, UK	LED lighting company acquired an EMS provider, which will give PhotonStar an expanded manufacturing base.
SKEAB Elektronik	Sollentuna, Sweden	C*	Qfab Elektronik	Sollentuna, Sweden	Two EMS providers merged operations.
SMTC	Markham, Ontario, Canada	C*	ZF Array	San Jose, CA	Purchase price was expected to be about \$9.1 M, including a \$2.4 M earnout. ZF Array had sales of about \$27.8 M and EBITDA of about \$1.7 M in 2010.
Sparton	Schaumburg, IL	C*	Byers Peak	Colorado	Acquired Byers Peak, primarily a medical contract manufacturer, for \$4.35 M, subject to adjustment. Deal was expected to add revenue of \$10 M a year.
VIDEOTON	Székesfehérvár, Hungary	S	Ventifilt	Hajdúnánás, Hungary	Acquired a mechanical engineering firm involved areas such as environmental contamination and industrial air.

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

the tally in this category was 11, down 21% from an adjusted total of 14 the year before. Capability deals accounted for 35% of the deals done in 2011, up from 32% in 2010.

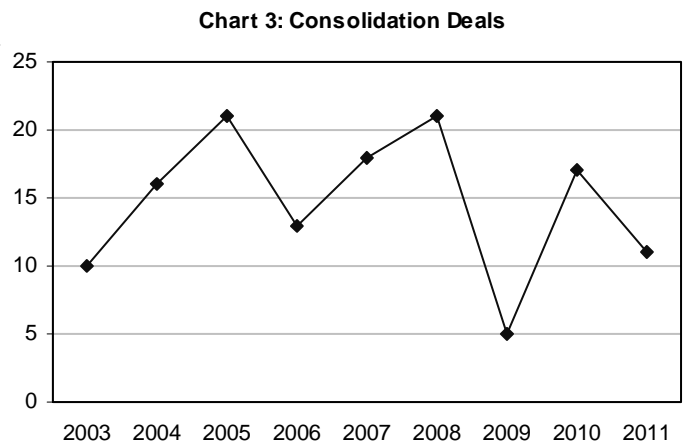
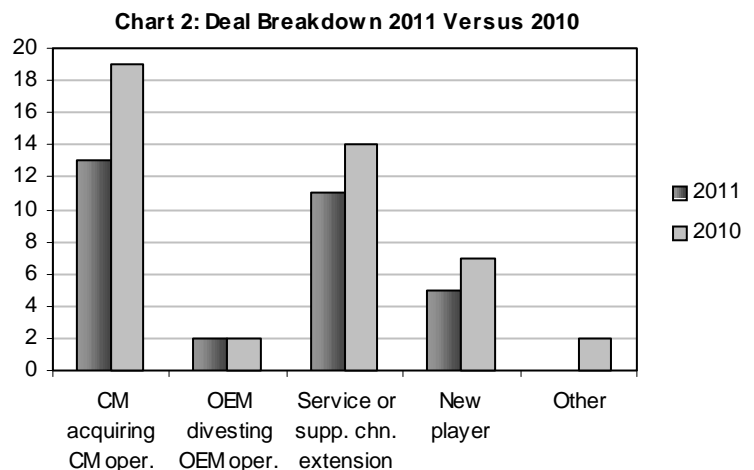
Another type of M&A transaction occurs when a new EMS player emerges from the sale of a manufacturing business. The 2011 Scorecard contains five new-player deals (marked N), down from seven in 2010. Basically, a new player arises when a company without EMS capability acquires a business or assets with that capability or when a divested EMS operation gains its independence through acquisition by new ownership.

In 2011, there were no EMS divestitures resulting in new players that would partially offset the loss of providers through acquisition. Therefore, the net loss of providers through M&A in 2011 was the same as the consolidation deal count of 11, compared with a net loss of 16 in 2010.

The fourth category in this analysis 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 two such deals in 2011, the same number that occurred in the previous two years.

When Scorecard deals are sorted by the region in which the acquisition took place, North America hosted the most transactions last year with 12, or 39% of the total. EMEA (Europe, Middle East and Africa) came in second with 11 deals, or a 35% share. This is the first time in four years that EMEA has not come out on top. One can speculate that economic headwinds in Europe played a role in this outcome. Multiregion deals, in which



M&A 2011

EMS Industry Alliances and Equity Partnerships in 2011				
Company	Home Base	Partner	Location	Some Details
Absolute Turnkey	Santa Clara, CA	PTH Solutions	San Jose, CA	Alliance was formed to support PTH's PCB board design and software services in Vietnam. Absolute Turnkey's EMS capabilities complement PTH's box build and other services.
EPIC Technologies	Norwalk, OH	Rocket EMS	San Jose, CA	EPIC's customers will have access to Rocket's quick-turn assembly services, while Rocket's NPI customers will be able to move into volume production at EPIC's facilities.
ESCATEC	Penang, Malaysia	Atmel	San Jose, CA	ESCATEC was appointed as one of two Atmel Design Partners for touch sensing technology in Europe.
		GMMI Texchem	Penang, Malaysia	ESCATEC formed an alliance with a maker of single-use medical devices to offer a one-stop shop for the design and manufacture of medical electronic devices and disposables.
Hon Hai Precision Industry (Foxconn)	Tucheng City, Taiwan	SiBEAM	Sunnyvale, CA	Partners will work together to find new customers for SiBEAM's high-speed wireless technology.
		Jianghuai Automobile Co.	China	Hon Hai reportedly partnered with a Chinese automaker, which is already building electric vehicles.
		Sharp	Japan	Joint venture will reportedly allow the companies to combine purchases of LCD panel components.
		GCL-Poly Energy Holdings	China	Under an MOU, Hon Hai and solar wafer supplier GCL-Poly will partner to build a solar power station in China's Shangxi province.
		Nvidia	Santa Clara, CA	Partners reportedly agreed to set up an R&D joint venture in China for mobile devices and cloud computing.
Kitron	Billingstad, Norway	Prevas	Vasteras, Sweden	Joint venture is reportedly building a smartphone facility in China's Sichuan province to mainly supply a Changhong subsidiary, A'HONG Communication & Digital Information Co.
				EMS provider Kitron partnered with Prevas, which offers product development services, to support customers via a combined services offering.
LACROIX Electronics	Vern-sur-Seiche, France	TELNET	Tunisia	LACROIX's design services unit and a Tunisian engineering firm teamed up to create a joint organization offering complete product engineering services plus NPI/production at LACROIX.
The Morey Corporation	Woodridge, IL	Rugged Telematics Alliance	Not applicable	Seven companies formed an alliance offering a turnkey telematics solution for the heavy vehicle and equipment space.
Season Group	Hong Kong	Logatech GmbH	Kölldeda, Germany	Under an MOU, the two EMS providers intend to collaborate on a number of projects and services including support for Season Group customers out of Germany.
		Outsource Electronics Limited	Havant, UK	Under an MOU, each partner can benefit customers of the other partner. Alliance is also intended to attract new business.
SIIX	Osaka, Japan	Ayrshire Electronics	Louisville, KY	SIIX can expand its services to N. American customers, while enabling Ayrshire to provide its customers with global production. Ayrshire also becomes a US gateway for offshoring.
SRI Radio Systems	Durach, Germany	AMIMON	Herzlia, Israel	A collaboration in developing RF modules and products based on Wireless Home Digital Interface technology.
Vanguard EMS	Beaverton, OR	Tektronix Component Solutions	Beaverton, OR	Companies are jointly offering their capabilities to customers in the defense, aerospace, medical and industrial markets.

the acquired businesses had operations in more than one region, represented 13% of the total, while acquisitions in the Asia Pacific region accounted for 10% (Chart 4, p. 5).

EMS providers with annual sales under \$200 million made the greatest number of deals in 2011. These players from the industry's lower tiers closed 14 transactions, or 45% of the total. Mid-tier providers with sales of \$200 million to \$5 billion completed

12 deals, or 39%. Tier-one providers whose sales exceeded \$5 billion contributed the fewest deals and ended up with a 16% share of the total (Chart 5, p. 5).

Three providers – **HANZA**, **Jabil Circuit** and **OnCore Manufacturing Services** – made two deals apiece. That was the limit in 2011.

But as *MMI* has noted in the past, acquisitions are not the only way to go. A company can gain access to another's capabilities, technology or footprint through an alliance or through an equity partnership, which can take the form of an investment or a joint venture. In 2011, there were 18 alliances and equity partnerships, as listed in the table above, versus 20 in 2010. While these arrangements do not approach M&A numbers in most years, including 2011, the lower cost of an alliance or equity partnership remains a major selling point.

Chart 4: Percentage of Deals by Target's Region

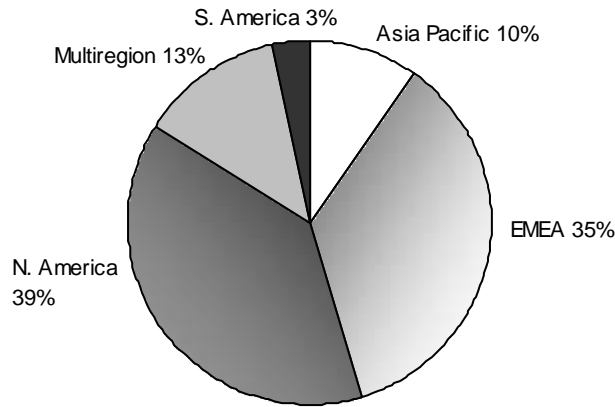
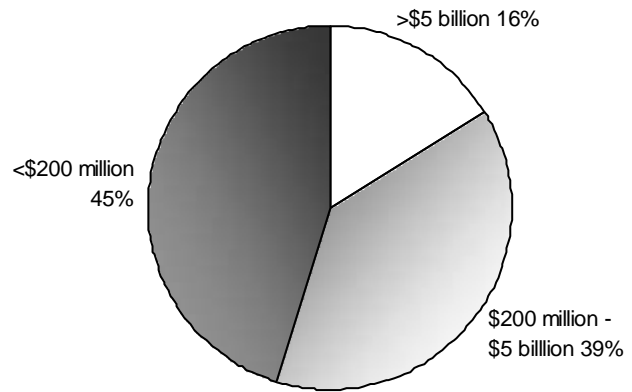


Chart 5: Percentage of Deals by Size of Acquirer



Market Data

Single-Digit Year for US-Traded Group

A fourth-quarter sales decline for the six largest US-traded EMS providers has robbed them of double-digit growth for 2011. After three quarters, their revenue had grown at a 12.9% clip. But sales in Q4 sank by 2.9% year over year, dragging annual growth down to 8.5%, a respectable finish, but one that could be considered somewhat of disappointment, if not a surprise, given the year's strong first half.

Combined 2011 sales for the six totaled \$64.8 billion, up from \$59.7 billion the year before. Two providers, **Jabil Circuit** and **Celestica**, achieved above-average growth with annual increases of 16.4% and 10.5% respec-

tively. (Jabil's results covered the period December 2010 to November 2011.) Two others, **Sanmina-SCI** and **Benchmark Electronics**, saw their annual sales drop (Table 1).

Annual growth ended up 10 basis points below *MMI's* November 2011 estimate. That's because the Q4 decline of 2.9% year over year was 50 basis points below what *MMI* had projected based on the midpoint of companies' guidance (Nov. 2011, p. 1). Nevertheless, as projected, five out of six providers reported that Q4 sales fell year over year. Only Jabil managed to increase its quarterly revenue (for the November quarter) from a year earlier (Table 1).

It was pretty much the same story for sequential comparisons of Q4 sales. Jabil alone was able to improve quarterly sales from the prior period. Everyone else's revenue went down

(Table 1). Totalling \$16.2 billion, the group's Q4 sales decreased 4.7% overall on a sequential basis.

Five of the providers adhere to GAAP reporting, while the sixth, Celestica, has switched to IFRS accounting. Hence, with the exception of Celestica's revenue, Celestica's results are being treated separately from those of the other five companies.

For the other five, GAAP gross margin for Q4 was 6.3% in the aggregate, up 20 basis points sequentially but down 30 basis points year over year. As usual, Plexus turned in the highest margin at 9.8%. Jabil's 7.9% earned second place. Three out of the five providers raised their GAAP gross margins from the prior quarter (Table 1).

The five providers collectively produced a GAAP operating margin of 2.5%, down 10 basis points sequential-

Table 1: Q4 and 2011 Results for the Six Largest US-Traded EMS Providers (M US\$ or %)

Company (in order of 2011 sales)	Q4 '11 sales	Q3 '11 sales	Qtr.- qtr. chg.	Q4 '10 sales	Yr.-yr. chg.	Q4 '11 gross marg.	Q3 '11 gross marg.	Q4 '10 gross marg.	Q4 '11 oper. marg.	Q3 '11 oper. marg.	Q4 '10 oper. marg.	Q4 '11 net inc.	Q3 '11 net inc.	Q4 '10 net inc.	2011 sales	2010 sales	Yr.-yr. chg.	2011 net inc.	2010 net inc.
Flextronics	7,492.7	8,044.3	-6.9	7,832.9	-4.3	5.1	4.7	5.5	1.7 ¹	1.8 ¹	2.6 ¹	102.2	129.9	198.3	29,943.7	27,761.3	7.9	499.4	521.0
Jabil ²	4,326.8	4,280.3	1.1	4,082.2	6.0	7.9	7.7	7.6	3.9	3.9	3.8	112.9	114.3	106.7	16,763.5	14,403.3	16.4	387.3	247.2
Sanmina-SCI	1,502.4	1,696.7	-11.5	1,662.5	-9.6	7.3	7.9	7.7	2.6	3.2	3.7	8.6	18.1	28.4	6,442.4	6,503.0	-0.9	47.0	91.5
Benchmark	559.1	570.1	-1.9	626.9	-10.8	5.2	6.1	7.8	0.0	2.0	3.3	2.9	19.9	19.0	2,253.0	2,402.1	-6.2	52.0	79.8
Plexus	529.7	538.1	-1.6	565.8	-6.4	9.8	9.3	9.7	4.5	4.1	4.9	17.9	18.3	25.0	2,195.1	2,148.8	2.2	82.1	96.7
Subtotal/avg.	14,410.7	15,129.5	-4.8	14,770.3	-2.4	6.3	6.1	6.6	2.5	2.6	3.2	244.5	300.5	377.4	57,597.7	53,218.5	8.2	1,067.8	1,036.2
Celestica	1,753.4	1,830.1	-4.2	1,876.1	-6.5	7.0	6.9	6.5	3.2	3.3	1.9	69.2	50.2	38.4	7,213.0	6,526.1	10.5	195.1	101.2
Total/avg.	16,164.1	16,959.6	-4.7	16,646.4	-2.9										64,810.7	59,744.6	8.5		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. ¹ Intangible amortization was subtracted from Flextronics' reported operating income. ² Q4 '11 results correspond to the quarter ended November 30.

ly and 70 basis points year over year. Plexus again took the lead with a 4.5% result, followed by Jabil at 3.9%. In addition, Plexus was the only GAAP company to increase its operating margin from the prior quarter. On the other hand, Jabil was the only one to improve its operating margin year over year. Separately, Celestica also boosted its IFRS operating margin from a year earlier. (Table 1, p. 5).

Compared with the prior quarter, combined net income for the five GAAP companies in Q4 fell faster than sales did. Aggregate GAAP net income of \$244.5 million dropped 18.6% sequentially, while sales declined 4.8%. Q4 net margin for the GAAP subgroup was 1.7%, down 30 basis points sequentially. All five providers saw their net income go down from the prior quarter. On a year-over-year basis, Jabil was the only GAAP provider to achieve a gain in net income. Aside from the GAAP companies, Celestica raised its Q4 net income both sequentially and year over year (Table 1).

For 2011, net income for the GAAP companies totaled \$1.1 billion, up 3% from 2010. So for the year, the gain in net income did not keep up with the companies' sales growth of 8.2%. What's more, all of the net income growth for the GAAP companies came from one provider, Jabil. Overall net margin for the five GAAP companies was 1.9% for 2011.

Q4 summaries for two providers

Last month's issue covered Q4 results for four out of the six largest US-traded providers. Results for the remaining two companies are briefly summarized below.

Benchmark Electronics. Q4 sales of \$559 million surpassed guidance of \$475 million to \$525 million, and non-GAAP EPS of \$0.17, which excluded restructuring and Thailand flood-related charges, net of insurance, exceeded expectations. Revenue in Q4 declined

2% sequentially and 11% year over year. Still, the company reported that customer demand levels were strong across each of its industry sectors in the quarter.

Flooding in Thailand hurt Benchmark's Q4 sales. The provider's Thailand operation, which was flooded in October, served customers primarily in the telecom, industrial controls and medical sectors (Oct. 2011, p. 1). Compared with the prior quarter, telecom sales fell 29% as this business was significantly affected by the floods. Revenue from the industrial controls and medical sectors went down 3% and 2% respectively versus Q3. But sales from the computing and test and instrumentation sectors rose 22% and 11% respectively from the prior quarter.

During Q4, the company booked 43 new programs, including 13 engineering projects, totaling \$132 million to \$150 million in estimated annual revenue.

Excluding restructuring and Thailand flood-related charges, non-GAAP operating margin for the quarter was 1.2%. Duplicative costs, program transfer costs and lower fixed cost absorption caused by the flooding adversely affected the operating margin, which was down 90 basis points from Q3. Non-GAAP EPS of \$0.17 dropped 50% sequentially and 54% year over year. Benchmark earned GAAP net income of \$3 million (\$0.05 a share), down from \$20 million in the prior quarter and \$19 million in the year-earlier period.

Cash flow from operations totaled some \$55 million in Q4.

For Q1 2012, the company expects sales of \$550 million to \$590 million and non-GAAP EPS of \$0.17 to \$0.23. Benchmark anticipates that its operating margin (non-GAAP) will significantly improve in Q1, but is not expected to reach normal levels.

Benchmark said it is pleased with its recovery in Thailand and expects to

return to full production levels there by the end of March.

The company also noted that Q2 is showing to be stronger than Q1.

Celestica. Q4 2011 sales of \$1.75 billion fell 4% sequentially and 7% year over year. Revenue came in slightly below the midpoint of guidance, which called for sales of \$1.70 billion to \$1.85 billion. Non-IFRS EPS of \$0.33 exceeded guidance of \$0.23 to \$0.29, but settlement of tax audits added an income tax benefit of \$0.05 that was not baked into guidance. This EPS result was 27% higher than in the prior quarter and 22% above the year-earlier level. For Q4, the company posted IFRS net earnings of \$69.2 million, up 38% sequentially and 80% year over year.

On a year-over-year basis, sales from Celestica's diversified end market grew 45% overall and 27% organically. Compared with Q3, sales from this market rose about 8%, *MMI* calculated. No other market segment showed either sequential or year-over-year growth. The diversified end market accounted for 18% of Q4 sales, up from 11% a year earlier, and Celestica's goal is to obtain 25% to 30% of its sales from the diversified segment. Consumer business declined 2% sequentially, while remaining relatively flat year over year. Enterprise communications revenue dropped 10% sequentially and 3% year over year, while server revenue went down 4% sequentially and 26% year over year. Storage sales fell 11% from the prior quarter and 23% from a year earlier, as telecom business decreased 5% sequentially and 32% year over year.

Non-IFRS gross margin for Q4 amounted to 7.2%, up 10 basis points sequentially and 40 basis points year over year. Non-IFRS operating margin was 3.8%, up 10 basis points sequentially and 30 basis points year over year.

The company generated free cash flow (non-IFRS) of \$89 million during

Q4.

Subject to approval by the Toronto Stock Exchange, Celestica expects to repurchase up to 10% of the public float of its subordinate voting shares over the next 12 months.

For Q1 2012, the company antici-

pates sales of \$1.6 billion to \$1.7 billion and non-IFRS EPS of \$0.18 to \$0.24. (See article below). At the midpoint of EPS guidance, operating margin (non-IFRS) would be about 3.3%. On a sequential basis, Celestica expects continued growth in its diversi-

fied market segment, a decline of about 15% in its consumer business and no change to slight declines in all other segments.

Celestica is currently estimating that its sales will grow 3% to 5% this year.

Starting the Year in the Hole

Based on *MMI's* first-quarter estimates, the six largest US-traded EMS providers will start off the year with a decline in their combined sales, both sequentially and year over year. Revenue for the US-traded group will total an estimated \$14.8 billion in Q1, down 8.2% sequentially and 2.8% year over year. However, the year-over-year drop is small enough that it can be wiped out quite easily if subsequent quarters show even modest growth.

Q1's projected decline of 2.8% from a year earlier is consistent with the group's performance in the prior quarter, when sales fell 2.9% year over year (see article on p. 5). So here's one sign that things are not getting worse in Q1.

On a year-over-year basis, only two providers, **Benchmark Electronics** and **Jabil Circuit**, are expected to grow in Q1, with growth estimated at 5.9% and 4.4% respectively. *MMI* also reckons that **Plexus'** revenue will remain essentially flat compared with the year-earlier quarter, while sales de-

clines for **Celestica**, **Flextronics** and **Sanmina-SCI** are estimated at -8.3%, -6% and -4.4% respectively (Table 1A).

Revenue for each provider was estimated by selecting the midpoint of its Q1 sales guidance.

The estimated 8.2% sequential drop in the group's Q1 revenue is almost identical with the seasonal decline that occurred a year earlier, when combined Q1 sales fell 8.3% sequentially (May 2011, p. 4). While overall demand remains soft, Q1 seasonality, at least for this group, appears to be in line with what took place a year ago.

According to *MMI's* estimates, just two providers, Benchmark and Plexus, will exhibit sequential growth in Q1. Sanmina-SCI's sales are projected to remain flat versus the prior quarter, while the other three providers are expected to see sequential declines in revenue. Flextronics is the only provider with an estimated sales decline in double digits, reflecting sales lost from exiting the PC ODM business and seasonal declines in the company's High Velocity Solutions group

(Table 1A).

But at the same time, Flextronics is the only provider whose Q1 outlook calls for a clear-cut increase in adjusted EPS from the prior quarter. At the midpoint of guidance, non-GAAP EPS would increase 28% sequentially. Q1 guidance from Benchmark and Plexus suggests that their non-GAAP EPS will equal or exceed the prior quarter's level. At guidance midpoint, non-GAAP EPS would rise sequentially by 18% and 7% for Benchmark and Plexus respectively.

Based on guidance, Jabil expects that its non-GAAP EPS for the February quarter will show a sequential decline, and the same goes for Celestica's non-IFRS EPS in calendar Q1. If adjusted EPS hits the midpoint of guidance for these two providers, then the EPS result would fall sequentially by double digits in both cases. Sanmina-SCI's guidance does not reveal which way its non-GAAP EPS is expected to go in Q1, but at guidance midpoint adjusted EPS would be down 4% sequentially (Table 1A).

On a year-over-year basis, Flex-

Table 1A: Q1 2012 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B\$ except as noted)

Company	Q1 sales guidance	Q1 mid-point/estimate	Q4 '11 sales	Qtr.-qtr. estim. chg.	Q1 '11 sales	Yr.-yr. estim. chg.	Q4 '11 adjust- ed EPS* \$	Q1 guidance adjusted EPS* \$	Q1 EPS midpoint \$	EPS Q-Q chg. at midpoint	Q1 '11 adjusted EPS* \$	EPS Y-Y chg. at midpoint
Flextronics	6.3 - 6.6	6.5	7.49	-13.9%	6.86	-6.0%	0.18	0.22 - 0.24	0.23	28%	0.21	10%
Jabil**	4.0 - 4.2	4.1	4.33	-5.2%	3.93	4.4%	0.65	0.52 - 0.62	0.57	-12%	0.54	6%
Celestica	1.6 - 1.7	1.65	1.75	-5.9%	1.80	-8.3%	0.33	0.18 - 0.24	0.21	-36%	0.25	-16%
Sanmina-SCI	1.45 - 1.55	1.5	1.50	-0.2%	1.57	-4.4%	0.28	0.24 - 0.30	0.27	-4%	0.30	-10%
Benchmark	550 - 590 M	0.57	0.56	1.9%	0.54	5.9%	0.17	0.17 - 0.23	0.20	18%	0.25	-20%
Plexus	550 - 580 M	0.57	0.53	6.7%	0.57	-0.5%	0.51	0.51 - 0.58	0.55	7%	0.59	-8%
Total/avg.		14.84	16.16	-8.2%	15.26	-2.8%						

Q1 sales estimates equal midpoint of Q1 sales guidance. *Adjusted EPS may not be comparable from company to company.
**Q1 2012 data correspond to the quarter ending February 2012.

tronics' guidance again points to an increase in adjusted EPS for Q1, with growth of 10% estimated at the midpoint. No conclusions can be drawn one way or the other from Jabil's guidance, but at the midpoint non-GAAP EPS would be up 6% year over year. Guidance from Benchmark, Celestica and Plexus indicates that all three companies expect their adjusted EPS to drop year over year, while the outlook at Sanmina-SCI suggests that its adjusted EPS will remain the same or decline. In three cases, a double-digit decline would result at the midpoint of guidance (Table 1A, p. 7).

News

Labor Group Begins Inspections of Foxconn

The **Fair Labor Association** (Washington, DC) has launched an independent investigation into labor rights allegations concerning **Foxconn. Apple**, reputedly Foxconn's largest customer, requested that the FLA conduct audits of Apple's final assembly suppliers, including Foxconn factories in Shenzhen and Chengdu, China. Apple's suppliers have pledged full cooperation with the FLA and are offering unrestricted access to their operations. Inspections of **Quanta** and **Pegatron** facilities will take place lat-

er this spring.

As part of the Foxconn investigation, the FLA will assess worker treatment and working conditions through document review, physical observation, management interviews, and on-site and off-site interviews with workers. In addition, the FLA will conduct anonymous worker surveys.

In January, Apple became the first technology company admitted to the FLA.

Apple and Foxconn faced a wave of negative PR following the January publication of a *New York Times* article that looked at the human costs of making Apple products.

Meanwhile, Foxconn announced this month that it has raised the base wage for assembly line workers at its China operations by some 16 to 25 percent effective Feb. 1. Foxconn said its goal is to limit overtime while maintaining workers' monthly pay. The megaprovider has been criticized for excessive overtime.

Alliance... Top 50 EMS provider **OnCore Manufacturing Services** (San Jose, CA) intends to enter into a medical product design alliance with **Proven Process Medical Devices** (Mansfield, MA).

People on the move... **Flextronics** (Singapore) has appointed Jeannine

Sargent as president, Flextronics Renewable Energy, a division of the company's Industrial and Emerging Industries business unit. Ms. Sargent, who serves as executive chairman of **AstroWatt**, is a former CEO of both **Oerlikon Solar** and **Voyan Technology...Qual-Pro** (Gardena, CA) has hired Alex Richardson as VP, sales. With more than 25 years of experience in manufacturing services, Richardson most recently held the position of VP of business development at **Stellar Microelectronics**, an EMS provider.

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