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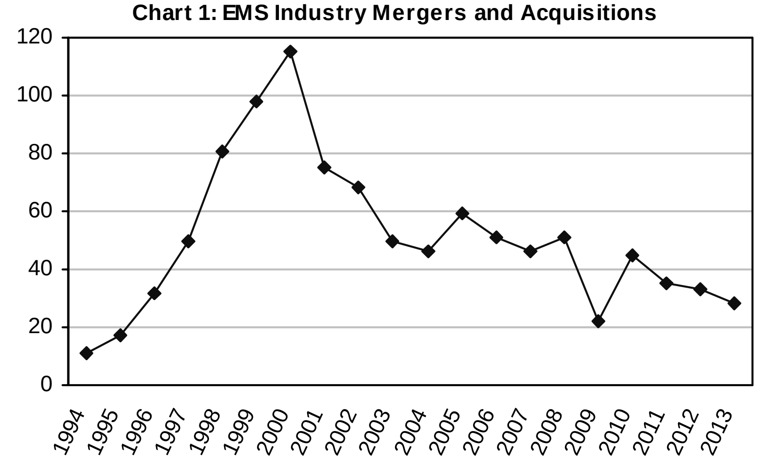
Another Annual Drop in M&A

In 2013 – for the third year in a row – the number of EMS industry mergers and acquisitions fell from the year before. M&A transactions closed during 2013 totaled 28, down 15% from a revised of count of 33 in 2012. Transaction totals have been in decline since a post-recession high of 45 in 2010 (Chart 1). The lackluster macro environment and associated uncertainties that followed the recession have not been a plus for deal making.

MMI's annual Scorecard of EMS industry M&A on pages 2 and 3 lists the transactions closed in 2013 and classifies them according to four categories developed by *MMI*. (A fifth was used in the prior year but did not apply to 2013.) Note that there were two cases where a transaction was placed in two categories.

EMS providers continue to acquire operations of competitors in substantial numbers. In 2013, this was the most popular type of deal, as it was the year before. Last year, there were 13 instances of EMS providers buying competitor operations (marked C on the Scorecard), down from 19 the year before (Chart 2, p. 3). All but one of these 2013 deals resulted in consolidation, or the loss of an independent provider. Industry consolidation persists, though the number of consolidation deals has bounced around from year to year (Chart 3, p. 3). The consolidation count of 12 deals in 2013 was 20% below an 11-year average of 15.

Chart 1: EMS Industry Mergers and Acquisitions



The second most common deal in 2013 was the service or supply chain extension (marked S on the Scorecard). With these transactions, EMS providers acquire a horizontal or vertical capability. Back in the pre-recession days, capability deals were more commonplace. From 2002 to 2008, capability deals averaged 17.9 per year. Last year, there were 10 such transactions, the same as the year before. As the industry has matured and providers have built out their service offerings, fewer companies generally need to acquire capabilities.

In the early part of the 2000s, OEM divestitures contributed a significant number of deals. As the industry progressed, these deals, often in high-cost areas, became less and less attractive. But they didn't go away completely.

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MMI Scorecard: EMS Industry Mergers and Acquisitions in 2013					
Deal Maker	Home Base	Type	Target	Location	Some Details
Anuva Manufacturing Services	Morrisville, NC	S	TriE Medical	Morrisville, NC	Anuva's owner acquired TriE, a medical device development firm.
Benchmark Electronics	Angleton, TX	C*	Suntron	Phoenix, AZ Tijuana, Mexico	Paid about $19 M for Suntron, which was to contribute at an annual run rate of about $70 M.
		C*	EMS operations of CTS	Lisle, IL	Bought CTS's EMS unit for $75 M in cash. Benchmark expects annual sales of about $200 M from the unit, which had plants in 5 locations and about 1,000 employees.
Cemtrex	Farmingdale, NY	N	ROB Group	Neulingen, Germany	Cemtrex, a publicy held instruments OEM, acquired the four German companies of the ROB Group, which were forced to file for insolvency in 2013. Together, the four companies offer design services, EMS and cabling.
Darekon Oy	Espoo, Finland	C*	Apelec Oy	Helsinki, Finland	Acquisition strengthens Darekon's design services and expands its customer base.
Electronic Instrumentation and Technology	Sterling, VA	C	Suntron plant	Methuen, MA	
éolane	Le Fresne sur Loire, France	C*	former Elcoteq operation	Bangalore, India	Purchased a former India subsidiary of Elcoteq, which was declared bankrupt in 2011.
Fideltronik Group	Sucha Beskidzka, Poland	O	Ascom Wireless Solutions factory	Herrljunga, Sweden	Fideltronik took over the Ascom production and repair facility, where 150 employees were to join Fideltronik.
Flextronics	Singapore	O	Motorola Mobility operations	Tianjin, China Jaguariuna, Brazil	Bought Motorola Mobility's China factory outright and took over the OEM's Brazil factory. Planned to pay about $75 M for the China factory and Brazil equipment.
		S	RIWISA	Hagglingen, Switzerland	Acquired a provider of high-volume, high-precision injection molding and automation solutions with 300 employees. Medical was one of three sectors served by RIWISA.
HANZA	Stocksund, Sweden	S	Alfaram	Finland, Slovakia, China	Contract manufacturer HANZA acquired an international cable group.
Hunter Technology	Santa Clara, CA	C*	NBS Design assets	Milpitas, CA	Hunter bought NBS's equipment and inventory when mounting liabilities forced NBS to cease operations.
Informatik Information Technologies	Istanbul, Turkey	C*	Solectron Elektronik	Istanbul, Turkey	Turkish provider of IT and industrial products, which is also an assembly partner of Fujitsu, acquired a former Solectron (EMS) operation.
Jabil	St. Petersburg, FL	S	Nypro	Clinton, MA	Acquired a plastics manufacturer with $1.2 B in 2012 revenue and about 10,000 employees for $665 M. Serving the healthcare, packaging and consumer electronics industries, Nypro had 20 manufacturing sites in 10 countries.
		O	IBM operations	Poughkeepsie, NY	At the Poughkeepsie site, Jabil took over portions of the assembly operations performed on customer-configured high-end systems, and the procurement operations and assembly of large panel and mechanical subassemblies.
Key Tronic	Spokane Valley, WA	S	Sabre Manufacturing	Juarez, Mexico	Acquired a sheet metal fabricator for about $6.0 M in cash. With annual revenue of over $7.0 M, Sabre operated a 66,000-sq ft facility and employed about 90 people.
Natel Engineering	Chatsworth, CA	C*	EPIC Technologies	Norwalk, OH	Natel, a microelectronics provider, acquired an EMS provider with 2012 sales listed as $210M.
Nistec	Israel	S	Eltek	Israel	EMS provider Nistec acquired a controlling interest in Eltek, a PCB fabricator.
OSI Electronics	Camarillo, CA	C*	Briton EMS	Bedford, UK	Acquired a 22,000-sq ft facility in the UK.
Probe Manufacturing	Irvine, CA	C*	Trident Manufacturing	Salt Lake City, UT	Trident had 2012 sales of about $3 M.
Sanmina	San Jose, CA	O, S	factory of an unidentified oil and gas services company	not available	Sanmina spent about $57.7 M to acquire a factory from a major oil and gas services company. Acquired capabilities include precision machining, assembly and system build.
Season Group	Hong Kong	C*	Outsource Electronics Limited	Havant, UK	Deal gives Season Group the ability to provide EMS in Europe from its own 25,000-sq ft factory.

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 2013					
Deal Maker	Home Base	Type	Target	Location	Some Details
Sparton	Schaumburg, IL	C*, S	Creonix	Bradenton, FL	Acquired a $12 M-a-year contract manufacturing business including a cable and wire harness division.
		S	Aydin Displays	Birdsboro, PA	Purchased a developer of flat panel display and touch-screen solutions. Aydin was an $18 M-a-year business.
		S	Beckwood Services	Plaistow, NH	Acquired an electromechanical contract manufacturer with an $18 M-a-year business.
Tekelek	Shannon, Ireland	N	Ingenion Design	Kimbolton, UK	Manufacturer of tank monitoring equipment and HVAC controls bought an Irish provider of end-to-end services.
TQ-Group	Seefeld, Germany	C*	SRI Holding	Durach, Germany	SRI filed for insolvency in 2012.
Vance Street Capital/Secure Communication Systems	Los Angeles/ Santa Ana, CA	N	Smart Electronics & Assembly	Anaheim, CA	Vance Street acquired EMS provider Smart Electronics to make it a division of Secure Communication Systems, a maker of rugged handheld and deployable computer systems and data encryption equipment.
C = CM acquiring or merging with CM operation. O = OEM divesting OEM operation. S = service or supply chain extension. N = new player. *Consolidation deal.					

Chart 2: Deal Breakdown 2013 Versus 2012

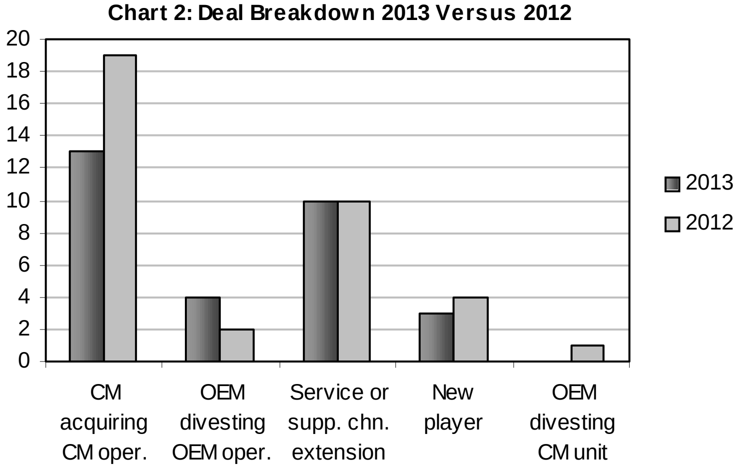
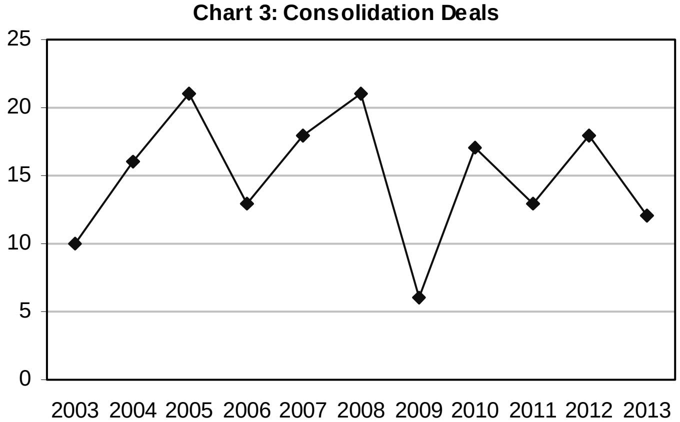


Chart 3: Consolidation Deals



For 2013, *MMI* counted four OEM divestitures (marked O), surprisingly up from two the year before.

One might think that a mature EMS industry, notorious for low margins, would not attract any new players. However, that has not been the case. Three companies entered the EMS industry via acquisition last year (marked N) versus four the year before.

MMI also keeps track of alliances and equity partnerships, which are an alternative to M&A deals. In 2013, there were 12 of these partnerships, down from 17 formed the year before (see table, p. 4).

Note that the M&A Scorecard does not include private equity deals or divested assets sold to industry outsiders.

Results

Flat Year for US-Traded Group

If *MMI's* projections were on target, combined 2013 revenue for the six largest US-traded EMS providers would have indicated a slightly down year (*MMI* was estimating -1.2%). Fortunately, fourth-quarter results on the whole came in better than expected, and 2013 will go down as a flat year for this US-traded group.

Revenue for the six providers totaled $59.34 billion in 2013 compared with $59.48 billion in 2012. Last year, sales declines at three providers offset revenue growth at two providers, with the sixth company (**Flextronics**) holding a neutral position with flat sales. Annual growth rates ranged from 4.9% for **Jabil** to -10.9% for **Celestica** (Table 1, p. 5).

In Q4, the six providers together generated sales of $15.97 billion, up 7.1% from the same period a year ago. For the second quarter in a row, the group's revenue grew year over year. This growth was driven by Flextronics and, to a lesser extent, **Benchmark Electronics**, both of which attained double-digit growth (Table 1). They were the only two companies with appreciable Q4 growth on a year-over-year basis.

On a sequential basis, the group's Q4 revenue rose 3.8%, again largely thanks to Flextronics with support from Benchmark. They were the only providers to increase their sales sequentially, and both posted double-

EMS Industry Alliances and Equity Partnerships in 2013				
Company	Home Base	Partner	Location	Some Details
Absolute EMS	Santa Clara, CA	Ionics EMS	Calamba, Laguna, Philippines	Alliance was formed for Absolute customers that must scale volumes quickly and easily.
Cal-Comp Electronics	Bangkok, Thailand	Memoright Memoritech	Cayman Islands	Cal-Comp planned to invest no more than $1M to obtain know-how for manufacturing solid state drive products.
Delta Group Electronics	Albuquerque, NM	QCMI	Colorado Springs, CO	The two EMS providers will jointly market EMS in Colorado.
ESCATEC	Penang, Malaysia	UID	Ludwigsburg, Germany	EMS provider ESCATEC formed a partnership with German design company UID to offer a complete solution.
Fideltronik	Sucha Beskidzka, Poland	Omni alliance	Oslo, Norway	Joined Norway-based alliance, which can take projects from start to finish.
Firstronic	Grand Rapids, MI	Maxway Technology	Shenzhen, China	In Shenzhen, the companies formed a joint venture that gives Firstronic a footprint in China and provides Maxway with access to manufacturing in the U.S. or Europe.
Flextronics	Singapore	Powermat Technologies	Neve Ilan, Israel	Flextronics has invested in Powermat, and the two companies will collaborate on the design, manufacturing and go-to-market of wireless charging solutions for mobile OEMs.
Hon Hai Precision Industry (Foxconn)	New Taipei, Taiwan	Mozilla	Mountain View, CA	Reportedly, Hon Hai is developing more than five devices that run on Mozilla's Firefox mobile operating system.
Jabil	St. Petersburg, FL	UPS	Atlanta, GA	Jabil Aftermarket Services and UPS's logistics and distribution business teamed up to provide reverse logistics services.
Plexus	Neenah, WI	U.S.R. Electronic Systems	Karmiel, Israel	U.S.R. will support Plexus customers requiring EMS in Israel, while Plexus will offer services to U.S.R. customers in loccations where U.S.R. does not operate.
SigmaTron International	Elk Grove Village, IL	Infinite Vision	Scotts Valley, CA	EMS company and product development firm join forces for projects requiring product development and manufacturing.
Surface Mount Technologies	Anaheim, CA	Eruston	Irvine, CA	EMS provider Surface Mount Technologies and Eruston, a manufacturer of press-fit motherboards and enclosures, are jointly offering complete turnkey manufacturing.

digit gains, which were more than enough to outweigh declines at the other four providers (Table 1, p. 5).

Sequential growth exceeded *MMI's* estimate of a 0.4% decline by 4.2 percentage points, while the year-on-year increase beat *MMI's* projection of 2.8% by 4.3 percentage points. Group sales in Q4 were $630 million, or 4.1%, above *MMI's* estimate for the quarter (Nov. 2013, p. 6). *MMI* based its estimates on the midpoint of each company's sales guidance for Q4. Both Benchmark and Flextronics surpassed their guidance, while Jabil reported sales above the midpoint of its guidance.

Five out of six providers follow GAAP accounting rules, while the sixth, Celestica, adheres to IFRS reporting standards. For the five GAAP companies, GAAP gross margin in Q4 was a combined 6.8%, up 10 basis points sequentially and 90 basis points year over year. Jabil and Benchmark were able to raise their gross margins from Q3, while all but Plexus improved their margins from the year-earlier period.

Together, the five companies in Q4 produced a GAAP operating margin of 3.2%, up 80 basis points sequentially and 110 basis points year over year. Their GAAP operating margin increased quarter to quarter throughout 2013. What's more, this was the first quarter that they collectively achieved a GAAP operating margin as high as 3.2% since Q4 2010. Benchmark's operating margin of 8% was well above results turned in by the other GAAP companies. Flextronics, Jabil and Benchmark improved their GAAP operating margins from the prior quarter, while all but Jabil boosted their margins from a year earlier. As for the lone IFRS reporting company, Celestica saw its IFRS operating margin drop from the prior quarter but increase from the year-ago period (Table 1).

On a sequential basis, GAAP net income for the five companies in Q4 grew faster than sales did. Their aggregate net income of $371.4 million increased 11.8%, while sales went up 4.6%. Flextronics and Benchmark were responsible for the sequential gain in net income as they were the only GAAP companies that improved their bottom lines from Q3. On a year-over-year basis, GAAP net income growth was much higher than the increase in revenue. Net income surged 90% compared with an 8.3% advance in sales. All five companies succeeded in boosting their net income from a year earlier. Q4 net margin for the GAAP reporting companies was 2.6%, up 20 basis points sequentially and 110 basis points year over year.

For 2013, however, combined GAAP net income for the five companies fell despite sales growth. Net income for the year dropped 18.7% to $953 million, whereas sales grew 1.2%. Benchmark and **Plexus** were the only two companies to accomplish annual increases in GAAP net income.

Table 1: Q4 and 2013 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company	Q4 '13 sales	Q3 '13 sales	Qtr.-qtr. chg.	Q4 '12 sales	Yr.-yr. chg.	Q4 '13 gross marg.	Q3 '13 gross marg.	Q4 '12 gross marg.	Q4 '13 oper. marg.	Q3 '13 oper. marg.	Q4 '12 oper. marg.	Q4 '13 net inc.	Q3 '13 net inc.	Q4 '12 net inc.	2013 sales	2012 sales	Yr.-yr. chg.	2013 net inc.	2012 net inc.
Flextronics	7,183.4	6,410.1	12.1	6,123.3	17.3	5.5	5.7	4.0	2.3 [1]	2.2 [1]	0.5 [1]	145.2	118.2	54.6 [2]	24,679.9	24,644.1	0.1	273.4	495.2 [2]
Jabil [3]	4,611.4	4,814.9	-4.2	4,637.0	-0.6	8.0	7.3	7.6	3.7	1.8	3.7	117.9	127.0	105.8	18,311.4	17,462.2	4.9	383.5	387.6
Sanmina	1,447.5	1,505.3	-3.8	1,494.9	-3.2	7.7	7.7	6.5	2.7	3.0	2.1	23.1	38.8	0.6	5,869.6	6,085.9	-3.6	101.8	172.3
Benchmark	756.8	599.7	26.2	633.9	19.4	7.9	7.6	7.2	8.0	4.9	3.9	67.5	23.7	18.1	2,506.5	2,468.2	1.6	111.2	56.6
Plexus	533.9	567.7	-6.0	530.5	0.6	9.6	9.6	9.6	4.1	4.7	4.0	17.7	24.5	16.6	2,231.3	2,307.6	-3.3	83.4	60.8
Subtotal/avg.	**14,533.0**	**13,897.7**	**4.6**	**13,419.6**	**8.3**	**6.8**	**6.7**	**5.9**	**3.2**	**2.4**	**2.1**	**371.4**	**332.2**	**195.7**	**53,598.7**	**52,968.0**	**1.2**	**953.3**	**1,172.5**
Celestica	1,436.7	1,491.9	-3.7	1,496.2	-4.0	7.2	6.9	6.7	1.5	4.3	0.2	22.1	57.4	7.2	5,796.1	6,507.2	-10.9	118.0	117.7
Total/avg.	**15,969.7**	**15,389.6**	**3.8**	**14,915.8**	**7.1**										**59,394.8**	**59,475.2**	**-0.1**		

All results are based on GAAP except those of Celestica, which has adopted IFRS reporting. With the exception of sales, GAAP and IFRS results are not necessarily comparable.
[1] Intangible amortization was subtracted from reported operating income. [2] Net income from continuing operations. [3] For Jabil, Q4 '13 corresponds to the quarter ended November 30, 2013.

Q4 summaries for four providers

Last month's issue covered quarterly results for two out of the six largest US-traded EMS providers. Results for the four other companies are briefly summarized below. However, March quarter sales and non-GAAP EPS guidance for these companies appear in Table 1A on p. 8.

Benchmark Electronics. Q4 revenue of $757 million easily beat guidance of $685 million to $715 million on higher than forecasted demand in the computing, medical, and test and instrumentations sectors. Revenue grew 26% sequentially and 19% year over year. Non-GAAP EPS of $0.43 also surpassed guidance, which called for $0.34 to $0.38 a share, while rising 39% sequentially and 30% year over year.

The company's **CTS** acquisition contributed about $50 million in Q4 revenue. Organic growth in the quarter was 8% on a year-over-year basis.

Benchmark earned GAAP net income of $67.5 million, or $1.24 a share, up from $23.7 million, or $0.43 a share, in the prior quarter and $18.1 million, or $0.33 a share, in the year-earlier period. GAAP results include Thailand flood insurance recoveries of $28 million net of taxes, restructuring charges and integration- and acquisition-related costs totaling $1.3 million net of taxes, and a US tax benefit of $17.5 million. Together, these three items added $0.81 to EPS. Non-GAAP net income was $23.5 million versus $16.9 million in Q3 and $18.0 million a year ago.

Non-GAAP operating margin came in at 4.1%, up 60 basis points sequentially and 40 basis points year over year. The company said volume and operating leverage, productivity improvements, cost controls and mix contributed to these results.

On a sequential basis, Q4 revenue was up in all of the company's sectors, as expected. Computing revenue (32% of total sales), which is subject to the highest level of seasonality, grew 35%, with eight of the top 10 computing customers exceeding expectations. Industrial control business (27% of sales), which included CTS customers in this segment, increased 10%. Test and instrumentation revenue (7% of sales) rose 23% on program wins and increased demand levels in the semiconductor capital equipment space. Medical business (10% of sales) was up 8%, while telecom revenue (24% of sales) surged 51%, aided by new programs from the CTS acquisition and a program ramp delayed from Q3.

During the quarter, Benchmark booked 33 new programs, including 10 engineering projects, with an estimated annual run rate of between $150 million and $180 million.

At the midpoint of guidance for this year's first quarter, sales would be up 19% year over year. The company estimates that about 60% of the increase would be acquisition-related. On a sequential basis, however, Q1 revenue would be down 15% at the midpoint. According to Benchmark, its computing sector will experience a typical first-quarter decline from the prior quarter, while the combined performance of the remaining sectors is expected to be flat.

Guidance reflects a non-GAAP operating margin of 3.3% at the midpoint, which is below the prior quarter's margin and the company's 4% target mainly due to deleveraging. Benchmark expects to return to 4%-plus operating margins in the second half of the year, which was the company's original time frame for reaching the 4% goal (Oct. 2013, p. 2).

Celestica. The company recorded Q4 sales of $1.44 billion, down 4% sequentially and year over year. Revenue was within guidance of $1.4 billion to $1.5 billion but below the midpoint primarily due to demand softness in the company's communications end market. Non-IFRS EPS of $0.24 came in one cent above the midpoint of guidance of $0.20 to $0.26. This adjusted EPS improved 9% from the prior quarter but declined 4% from the year-earlier period.

In Q4, Celestica produced IFRS net earnings of $22.1 million, or $0.12 a share, up from $7.2 million, or $0.04 a share, a year earlier. The increase in results primarily came from impairment charges taken in Q4 2012. Non-

IFRS earnings of $44.4 million were down 12% year over year.

Non-IFRS gross margin was 7.4%, up 30 basis points sequentially and 50 basis points year over year primarily due to improved program mix, recoveries and cost management. Non-IFRS operating margin of 3.3% was 10 basis points higher than in Q3 and 20 basis points above the year-ago level. The latter gain resulted from a better mix and a focus on cost productivity.

In line with expectations, revenue from the company's diversified end markets (27% of total sales) decreased 2% sequentially, as growth from the company's semiconductor, industrial and healthcare markets was more than offset by a sequential decline in solar business. On a year-over-year basis, diversified sales increased 11% with strong growth in the industrial, semiconductor and aerospace and defense markets, driven mainly by new programs, though healthcare business declined because of program transitions.

Communications business (41% of sales) fell 12% quarter on quarter, a drop that was greater than anticipated. The company experienced lower-than-expected demand from some key customers in this market. Versus a year earlier, communications revenue grew 6%, largely due to new programs.

Storage revenue (15% of sales) rose 7% sequentially, which was below expectations. Compared with the year-ago quarter, storage revenue was up 9% primarily as a result of new programs.

Revenue from the server segment (11% of sales) grew 10% from Q3 as expected due to improved demand. On a year-over-year basis, revenue dropped 39% because of overall weaker demand and the previously disclosed insourcing of a lower-margin assembly program.

The company's consumer end market (6% of sales) increased 2% sequentially but fell 36% year over year. This decline stemmed from program transitions that reflect de-emphasis of parts of Celestica's consumer business.

Celestica's Q1 guidance has been adversely affected by seasonality and a demand environment that continues to be challenging. At the midpoint of guidance, revenue would decline by 6% sequentially and 2% year over year. On a sequential basis, Celestica expects relatively flat Q1 sales from diversified end markets, a low to mid single-digit decline for communications business, essentially flat sales from the storage segment, and a drop of about 20% for revenue from both the server and consumer end markets. In a year-earlier comparison, the Q1 outlook calls for double-digit growth for diversified revenue, low to mid single-digit growth for communications business and strong double-digit growth for storage sales. In addition, the company is projecting an impact on server revenue in Q1 versus year earlier caused by weak demand from its current customers and the aforementioned insourcing of an assembly program.

Celestica is forecasting a non-IFRS operating margin of 3% at the midpoint of guidance.

Flextronics. For its fiscal Q3 ended Dec. 31, 2013, sales totaled $7.18 billion, up 12% sequentially, driven mostly by growth in the company's High Velocity Solutions (HVS) business. On a year-over-year basis, sales rose 17%, thanks to double-digit increases in HVS and High Reliability Solutions (HRS), which outweighed a single-digit decline in Integrated Network Solutions (INS) business. Non-GAAP EPS of $0.26 was up 18% sequentially and, when limited to continuing operations, also grew 18% year over year. Both revenue and non-GAAP EPS exceeded the guidance for each.

Non-GAAP operating income amounted to $187.2 million, up 18% from the prior quarter and 28% from the year-earlier period. GAAP operating income was $174.0 million, compared with $149.9 million in the previous quarter and $34.9 million in the same period a year ago. (Flextronics does not include intangible amortization in GAAP operating income.)

GAAP net income from continuing operations came to $145.2 million, or $0.23 a share, up from $118.2 million, or $0.19 a share, in the prior period, and $54.6 million, or $0.08 a share, a year earlier.

Non-GAAP gross margin stood at 5.6%, down 20 basis points sequentially and 10 basis points year over year. Still, non-GAAP gross profit increased 8% sequentially, as better utilization and overhead absorption, continued improvement in printed circuit board (Multek) operations, and to a lesser extent, the remaining incremental benefit from restructuring were undercut to some degree by some operational inefficiencies and greater product ramp costs associated with several complex programs. Non-GAAP operating margin came in at 2.6%, up 10 basis points sequentially due to operating income expansion and 20 basis points year over year.

During the quarter, the company generated free cash flow of $614 million, which benefited from customer advances of about $700 million to offset elevated inventory levels.

INS revenue (36% of total sales) was flat versus the prior quarter, slightly better than expectations. Telecom and networking both declined by single digits sequentially, while the server and storage area grew by double digits due to new program ramps and better demand for certain customers' products. Compared with a year earlier, INS revenue fell 4%.

Industrial and Emerging Industries business (13% of sales) was down 1% sequentially, better than expectations of a high single-digit decline, as a small group of customers saw slightly better than expected demand. On a year-over-year basis, IEI sales increased 2%.

HRS revenue (12% of sales) rose 5% sequentially, which was above expectations of a low-single digit decline, and grew 15% year over year. The slight sequential upside was related to a few medical customers surpassing previously reduced forecasts and a slight upside in automotive as well.

HVS business (39% of sales) climbed 35% quarter on quarter, well above a projected increase of 15% to 25% due to stronger than expected ramps across multiple new programs combined with fewer component constraints than expected. The company pointed out that this growth was broad-based. Versus a year ago, HVS business was up 57%.

For the March quarter, Flextronics is forecasting sequential declines of about 10% for INS and about 25% to 30% for HVS, sequential growth in low single digits for IEI, and a sequential drop in low single digits for HRS.

The company plans to reduce its workforce and make other cost cutting moves during the March quarter, with most actions focused on reducing SG&A expenses. As a result, the company expects to record pretax charges of $30 million to $35 million mainly comprised of employee severance and benefit costs. Cost reduction activities will potentially yield annualized savings of about $60 million.

When asked about **Lenovo's** prospective acquisition of **Motorola Mobility**, Flextronics' only 10%-plus customer in the quarter, from **Google**, Flextronics CEO Mike McNamara told analysts that his company will look to build on its relationship with Lenovo.

Sanmina. For its fiscal Q1 ended Dec. 28, 2013, the company reported sales of $1.45 billion, down 4% sequentially and 3% year over year. Non-GAAP EPS amounted to $0.41, down 11% sequentially but up 41% year over year. Sales were at the midpoint of revenue guidance, while EPS came in at the high end of earnings guidance.

The company earned GAAP net income of $23.1 million, or $0.26 a share, down from $38.8 million, or $0.44 a share, in the September quarter, but up from $621,000, or $0.01 a share, in the year-ago period. GAAP net income for the September quarter included a tax benefit of $21.5 million, or $0.25 a share. When this benefit is excluded, GAAP EPS is up both sequentially and year on year.

Non-GAAP gross margin equaled 7.8%, unchanged from the prior quarter but up 100 basis points from a year earlier. The company's Integrated Manufacturing Solutions segment produced a non-GAAP gross margin of 7.0%, up 40 basis points sequentially in spite of a 5% drop in revenue. The margin improvement was driven by mix and execution. Versus a year earlier, the margin gain was 120 basis points. Sanmina's other segment, Components, Products and Services, turned in a non-GAAP gross margin of 9.1%, down 180 basis points sequentially. Disappointing performance of several plants in the company's mechanical systems division presented the biggest challenge in this segment. On a year-over-year basis, CPS's non-GAAP gross margin declined by 40 basis points.

Sanmina recorded non-GAAP operating income of $48.6 million, down 13% from the prior quarter. Non-GAAP operating margin amounted to 3.4%, down 30 basis points sequentially but up 60 basis points year on year.

Sales were down quarter on quarter in two of the company's four end markets, but that was enough to produce the sequential decline in total revenue. Communications Networks revenue (48% of total sales) fell 9% sequentially, while the company's outlook was for flat sales. The company saw weaker than expected demand, and some push-outs occurred during the quarter. Consistent with guidance, Computing and Storage business (13% of sales) was down 3% sequentially as Sanmina continues to experience weaker demand in this market segment.

On the other hand, Multimedia sales (9% of sales) grew 6% from the prior quarter, exceeding expectations of a sales drop. All the key markets in this segment were strong. Revenue from the Defense/Industrial/Medical segment (30% of sales) rose 1%, nearly in line with the company's forecast for flat sales. Industrial business showed strong growth, offset by declines in the medical and defense subsegments.

For the March quarter, the company expects demand to be seasonally slower but stable, with some improvements anticipated during the quarter. On a sequential basis, Sanmina is forecasting Communications Networks and Multimedia to be slightly down, Defense/Industrial/Medical to be up, and Computing and Storage to be flat. The company is projecting a non-GAAP operating margin of 3.1% to 3.5%.

Sanmina's outlook for its fiscal 2014 is for modest growth and improvements in its financial results.

Positive Q1 Start Versus a Year Ago

Coming off a flat 2013, the six largest US-traded providers will see their combined Q1 sales take a small step upward from the year-ago quarter if *MMI's* estimates hold true. The newsletter is projecting that sales will total $13.7 billion, representing growth of 2.7% year over year. It's not a great start, but at least sales will be moving in the right direction from the year-earlier quarter.

But the low-growth estimate masks a wide range of projected revenue performance among the six companies in the group. Two providers, **Flextronics** and **Benchmark Electronics**, will achieve double-digit increases in their Q1 sales from a year earlier, according to *MMI's* estimates, while a third,

Table 1A: Q1 2014 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q1 '14 guidance	Q1 mid-point	Q4 '13 sales	Qtr.-qtr. estim. chg.	Q1 '13 sales	Yr.-yr. estim. chg.	Q1 guidance adjusted EPS* $	Q1 EPS midpoint $	Q4 '13 adjusted EPS* $	EPS Q-Q chg. at midpoint	Q1 '13 adjusted EPS* $	EPS Y-Y chg. at midpoint
Flextronics	5.9 - 6.3	6.10	7.18	-15.1%	5.30	15.2%	0.18 - 0.22	0.20	0.26	-23%	0.13	54%
Jabil[1]	3.5 - 3.7	3.60	4.34[2]	-17.0%	4.14[2]	-13.1%	0.05 - 0.15	0.10	not avail.[3]		not avail.[3]	
Sanmina	1.425 - 1.475	1.45	1.45	0.2%	1.43	1.6%	0.36 - 0.42	0.39	0.41	-5%	0.30	30%
Celestica	1.3 - 1.4	1.35	1.44	-6.0%	1.37	-1.6%	0.17 - 0.23	0.20	0.24	-17%	0.16	25%
Benchmark	630 - 660 M	0.645	0.76	-14.8%	0.54	18.9%	0.29 - 0.34	0.32	0.43	-27%	0.22	43%
Plexus	535 - 565 M	0.55	0.53	3.0%	0.56	-1.4%	0.57 - 0.63	0.60	0.61	-2%	0.52	15%
Total/avg.		**13.70**	**15.69**	**-12.7%**	**13.34**	**2.7%**						

Q1 estimates equal midpoint of Q1 guidance. *Adjusted EPS may not be comparable from company to company. [1] For Jabil, Q1 2014 data correspond to the quarter ending February 2014. [2] MMI lowered sales by an estimated $275 million per quarter to eliminate sales from discontinued AMS operations. [3] Jabil has not yet reported non-GAAP EPS excluding discontinued AMS operations.

Jabil, will experience a double-digit decline in sales. *MMI's* projections suggest that year-over-year revenue gains at three providers will more than offset sales declines at the other three companies, with Flextronics acting as the prime mover in the group's revenue increase (Table 1A above).

There will be no revenue increase, however, when the group's estimated Q1 sales are measured against the prior quarter's total. In the sequential comparison, *MMI* projects that sales will be down 12.7%, with seasonality playing a role. Estimates say four companies should endure sequential sales declines, and three of them should face double-digit drops, ensuring a two-digit decline overall (Table 1A).

Q1 revenue for each provider was estimated by selecting the midpoint of its Q1 sales guidance, though in the case of Jabil sequential and year-over-year comparisons were not straightforward. Jabil's guidance for the February quarter (a quasi-Q1 for the purposes of this analysis) leaves out the company's aftermarket services business, which is now considered a discontinued operation in light of Jabil's intention to sell the business (Dec. 2013, p. 1-2). The AMS business contributed sales of $1.1 billion in fiscal 2013. In order to do apples-to-apples comparisons, *MMI* had to adjust sales of the prior and year-ago quarters to exclude revenue from the discontinued AMS operation. An estimated $275 million in AMS revenue was subtracted from each quarter's sales. As for Jabil's February-quarter guidance for adjusted EPS, comparisons with results from prior quarters are not possible because those results still include the AMS business.

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