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2010: The Outlook Brightens

Things are looking up for the EMS industry. It's not just that revenues are expected to head upward this year from a 2009 trough. In some respects, the industry is ironically in better shape now than when it entered the economic crisis in 2008. That's because many providers have strengthened their balance sheets through cash flow from operations. Going forward in 2010, operating statements in general should also be a source of good news. *MMI* believes that cost cutting, portfolio trimming and operational streamlining that went into effect last year will contribute to bottom-line performance as revenues pick up.

When EMS growth returns this year, it will be of the moderate, single-digit variety, if a blending of three EMS forecasts proves accurate. Estimates of EMS revenue for 2010 were averaged for forecasts made by **Electronic Trend Publications**, **IDC** and **InForum**. The 2010 revenue mean of \$149 billion is 7.2% higher than the comparable figure for 2009 (Dec. 2009, p. 6). When ODM sales for 2010 are added in, composite growth for total contract manufacturing revenue is nearly the same at 6.9%.

If 2010 turns out to be a modest growth year, that would not be such a bad outcome for the EMS business. For one thing, such growth should allow many, if not most, providers to continue to generate cash. Modest

growth also enables companies to increase productivity from existing brick and mortar without having to add much if any capacity. In that environment, SG&A expenses can be held in check, another plus for margins.

But there are projections that point to the possibility of somewhat higher growth for the year. The **Semiconductor Industry Association** has projected a 10.2% increase in global semiconductor sales for 2010. **Gartner** is even more optimistic, estimating that semiconductor revenue will increase 13% this year. If EMS revenue mirrors semiconductor sales this year and semiconductor revenue ends up in the 10% to 13% range, then EMS industry would achieve double-digit growth. But semiconductor forecasts take the demand for PCs into consideration, whereas the PC space is underrepresented among most EMS providers. Still, SIA's projection for 2009 growth was closer to EMS reality in 2009 than was a blend of EMS forecasts (Jan. 2009, p. 1-2).

Another way to model EMS growth is to look at a forecast for electronic systems. A new report from **IC Insights** predicts that sales of electronics systems will rebound in 2010 with a growth rate of 7%. If one assumes that new outsourcing could add a maximum of a few percentage points to the 7% rate, then EMS growth in this scenario could be at or near double digits.

A consumer electronics forecast, however, raises doubts about a double-digit scenario. Reportedly, the **Consumer Electronics Association** is projecting that global sales of consumer electronics in 2010 will be flat.

History would also argue against a double-digit recovery in 2010. When the EMS industry emerged from the tech-specific downturn of 2001-2002, the industry did not immediately return to double-digit growth. In 2003, the *MMI* Top 50 EMS providers, which act as an industry proxy, increased their sales by an aggregate 7.5%. It wasn't until 2004 that Top 50 growth soared into two-digit territory. Thus,

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2010 Outlook

recent experience would suggest that full recovery of the EMS industry is a two-year process.

Prudent providers will plan for a moderate growth environment in 2010. And a case can be made that the EMS industry will not return to the double-digit growth rates that followed the prior downturn. Indeed, a blended four-year CAGR derived from three forecasts for 2009 to 2013 works out to be 9.5% (Dec. 2009, p. 6). In this blended outlook, EMS industry growth rates will not spike, but will increase gradually over the next few years.

What would it take for higher growth? Since outsourcing in the communications infrastructure and computing segments has reached a mature stage, EMS providers will count on other segments for a much larger share of future growth than in the past. If the comm infrastructure and computing segments account for around 47% of industry sales, as Top 50 data indicate (April 2009, p. 2), then the remaining 53% of the market must produce a disproportionate amount of the sales increase necessary for high growth. For example, if sales from the comm and EMS computing segments increase by 7%, then revenue from the other segments must grow at about three times that rate in order for the industry to achieve 14% growth, which would be roughly consistent with 2004-2007 Top-50 growth rates. It may be too much to expect the other segments to exhibit such high growth.

In addition, except for the consumer sector, the other segments such as medical, industrial, and military/aerospace typically do not yield blockbuster programs individually worth hundreds of million of dollars in revenue. Smaller program sizes in these segments, often less than \$50 million a year, make it more difficult to achieve high growth rates.

With moderate growth as a backdrop, *MMI's* annual outlook has identified ten industry trends worth

watching in the coming year. Here they are in no particular order.

The halcyon days of the EMS industry may well be over, and more providers will be taking a hard look at how well their capabilities position them to grow faster than the industry average.

With prospects for high industry growth dimmed, savvy EMS providers will reexamine their capabilities to see if they have what it takes to win more business and expand their universe for business development. Basically, there are two ways to distinguish one provider from another: capabilities and execution. If two providers are equal performers, then the one with a more complete set of capabilities is more likely to win a customer's program. This is a long-standing principle of the EMS business, but one that will take on greater appeal in a moderate-growth environment where win rates can be the difference between average and above-average growth.

Within the EMS industry, capabilities can be extended horizontally, vertically or both. Although vertical integration can act as an albatross during a recessionary period, vertical capabilities can also produce higher margins than a company's average given sufficient loading. Now that loading is picking up, some vertically integrated providers may be tempted to enhance capabilities.

But the more common approach will be to look at a horizontal extension of capabilities on either the front or back end. A small provider, for example, might decide to review its design services and conclude that new layout equipment is warranted. Another company might find that beefing up after-market services will give it an edge with customers. Such is the case with **Celestica's** just-announced acquisition of Scotland-based **Invec Solutions**, an after-market services provider (see News, p. 7). Granted, there is nothing new in extending ca-

pabilities, but 2010 will be more conducive to this approach. As the industry recovers, providers will feel less constrained to invest in capabilities than they were last year.

Capabilities can also be added to enlarge a provider's pipeline of opportunities. New capabilities can expose a provider to market opportunities that would otherwise be denied it. For some EMS providers, especially the largest ones, the capabilities sought can sometimes lie outside the traditional bounds of the EMS industry.

Flextronics provides a prominent example of this out-of-bounds approach. Through the company's well-publicized entry into ODM computing, Flextronics gained access to a \$101-billion market that is essentially off limits to most other EMS providers. In addition, Flextronics' efforts to build up components capabilities in such areas as optomechanics and power allow the company to tap other markets with high-growth potential for the company.

Hon Hai is another provider with a yen for adding capabilities outside the traditional EMS space. Starting out as a components supplier, Hon Hai has never been a pure-play EMS company. But lately, Hon Hai is looking more like a conglomerate seeking additional growth from a number of non-EMS markets. At Hon Hai's size, the law of large numbers presents the company with a huge challenge: how to keep growing robustly when 2008 sales were over \$60 billion. Clearly, an EMS market that might be around \$150 billion in 2010 places a limit on the amount of new EMS business available to Hon Hai. So in addition to the company's components and channel businesses, Hon Hai has diversified into such areas as software and ODM notebooks and moved further into retail.

Among Hon Hai's retail efforts in China is a joint venture with Germany's **Metro Group** formed last year to

create consumer electronics megastores providing Hon Hai customers with retail outlets for goods produced by Hon Hai (March 2009, p. 7). This venture, a radical departure for any other EMS provider, will extend Hon Hai's distribution capabilities on the retail side, where the company's **CyberMart** unit already operates stores for channel distribution. In addition, the Hon Hai group has reinvested in **Saibo Digital**, a retail chain in China, according to *CENS.com*.

Then there's **Jabil Circuit**. The third largest EMS provider has been investing in solar panel manufacturing, a process that differs from SMT assembly, the EMS industry's mainstay. Solar panels comprise another market that would not normally be open to an EMS provider. Last year, Jabil also launched a single-use device business, expanding the company's activities in the medical segment. Lacking in electronics content, disposable medical devices constitute another market niche that would not normally be available to an EMS provider. Flextronics, also a player in this niche, recently made an acquisition to expand its offering in medical disposables (Dec. 2009, p. 7).

Look for more thinking outside the EMS box this year aimed at exposing providers to new markets.

2010 should be a good year for improving performance on the operating statement....But then what?

If revenues increase moderately this year, in line with projections, operating profits should generally improve as long as margins hold up. With the cost cutting and operational streamlining that went on last year, margin deterioration should not be a problem. What's more, for providers operating now at high incremental margins, modest revenue growth should bring higher operating margins this year.

In 2010, the absence of restructuring, goodwill impairment and distressed customer charges will bode

well for GAAP results. This year, GAAP earnings will become something to tout rather than something to gloss over.

Still, EMS is a margin-constrained industry. Once a provider's margins level off, operating profits will move pretty much in lock step with moderately increasing revenue. In this plausible scenario, providers must ask whether moderately increasing operating profits are enough to satisfy stakeholders. *MMI* believes this question will come up as the year wears on, and there is no easy answer. You can try to raise corporate margins by seeking higher margin business in markets outside your current niche, or you can try to shift attention to other metrics such as cash flow and ROIC.

Russia will finally emerge as an EMS center in the making, while the pace of development in Vietnam will remain slow unless Hon Hai kicks its investment plan into high gear.

Flextronics and Jabil have quietly located facilities in Russia. Neither has announced a presence in Russia, but both have disclosed this fact in their latest SEC Form 10-K. Add these developments to a St. Petersburg plant that Hon Hai and **HP** broke ground for in 2008 (the status of this plant is still unclear), and it appears that Russia is finally starting to attract a critical mass around which a local EMS industry can form. EMS development will be geared toward supplying domestic demand. The rate of development will hinge on the growth of Russian market for PCs and consumer electronics and the extent to which component duties are eliminated, *MMI* believes.

Two years ago, Vietnam appeared to be the new hot area for plant investment (Jan. 2008, p. 2). It seemed that the country was on its way to becoming China's understudy for low-cost manufacturing in Asia. This prospect was largely based on Hon Hai's \$5-billion investment plan for Vietnam. But so far, Hon Hai's plan has only

resulted in two factories at one location (see article on p. 5-6). And a number of notebook ODMs, for whom Vietnam would have provided a low-cost source of additional capacity, are reportedly focused on building new plants in China.

Without a major boost from Hon Hai's investment plan, EMS development in Vietnam has stayed on the slow track. Unless the Hon Hai group dramatically increases its investment in Vietnam this year – the group has received a license for one new plant – development of Vietnam as a manufacturing base will remain a gradual process.

OEMs will increasingly look to supplying China, now perhaps in the best position to lead the world economy back to growth.

Major OEMs will need more capacity in China to supply goods within a domestic economy that is already growing at a healthy rate. As a result, their EMS providers in China should see more demand for products going into the Chinese market. In some cases, this need will spur the development of new capacity in China. For example, **HP** is setting up a plant to make notebook and desktop PCs in Chongqing, a city in Southwestern China. Under a memorandum of understanding, **Cisco** has pledged, among other things, to support the development of a new telecom manufacturing base in Chongqing. It is no coincidence then that Hon Hai has started construction of an industrial base in Chongqing (Oct. 2009, p. 4).

But the desire to supply the Chinese market is not limited to the largest OEMs. Smaller companies who want to sell globally cannot overlook the market potential of China. But their products are often of the low-volume, high-mix variety. The need for low-volume, high-mix production in China will continue to grow because this capability can be used to deliver product to China and other desirable Asian

markets.

Increasing EMS demand from the Chinese market along with volumes from new products outsourced to China will tend to mask OEM defections from China. But it will be difficult to separate out these moving parts.

The regional manufacturing model will pick up steam.

The long-term trend toward regional manufacturing – making a product in the region where it is bought – should regain momentum this year. In 2009, cratered demand as well as massive layoffs in China and drastically lowered oil prices worked against the regional manufacturing trend (Jan. 2009, p. 3). Now that demand is returning, oil prices have stabilized at higher levels, and there is more pressure on the EMS labor supply in China, more OEMs will be taking a closer look at their total costs of offshoring a product.

Determining what gets manufactured where is a complex decision that is product-specific. But regional manufacturing is generally appealing because it increases the ability to respond to demand changes, shrinks pipeline inventory, cuts travel time, shortens shipping distances, reduces carbon footprint, and facilitates communication and engineering changes. Trouble is, for some products the cost of goods made in Asia can overwhelm all of these advantages.

MMI believes that more OEMs will try to apply regional manufacturing where it makes sense for them. North America and Europe are now handicapped in this regard because these regions for the most part lack the industrial commons necessary to enable full-blown regional supply chains (Nov. 2009, p. 8). OEMs still wanting to take advantage of the component supply base in Asia can opt to keep board assembly in Asia while applying the regional manufacturing model to final assembly.

Under a regional manufacturing

strategy, an OEM can require a provider to simultaneously start volume manufacturing for a new product in multiple locations around the world. This need for parallel production, long familiar to the largest providers, will begin showing up, if it hasn't already, at the doorsteps of mid-tier providers who operate in multiple regions.

Acquisitions of competitors should return to pre-2009 levels among mid-tier and smaller providers but are unlikely to occur among the largest providers. M&A deal making overall should recover from last year's dismal levels.

Last year at this time, there were expectations that, credit permitting, the downturn would bring about more consolidation from the sale of distressed businesses and the retirement of weary owners (Jan. 2009, p. 3). Frozen credit and cash hoarding along with market uncertainty pretty much dashed those expectations. For the first six months of 2009, *MMI* recorded not a single consolidation deal, and the total number of M&A transactions was at a level not seen in the last 15 years (July 2009, p. 1). But *MMI* believes that last year's lows will not be repeated in 2010.

Consolidation deal making should return to the normalized levels of the five years prior to 2009 when the number of annual transactions ranged from 13 to 21. Likewise, the total number of deals done should at least approach the range of 44 to 59, encompassing the counts from 2004 to 2008. Besides consolidation, the transaction total will also be driven by an appetite for acquiring new capabilities (see first trend on p. 2).

Increased liquidity, freer credit and better business conditions will put quite a few more providers in an M&A mood.

To cope with an expanding list of substances called out by various chemical regulations around the world, providers will increasingly

look for one solution for tracking substances in their supply base.

It will become apparent to more and more providers that they can't afford to survey their supply base every time substances are added to a chemicals regulation somewhere in the world. The EU's REACH regulation receives the most attention in this regard since the EU's goal is to continually expand the number of substances covered by the regulation (Aug. 2009, p. 3). But greater regulation of hazardous substances is a worldwide movement. Take Canada. It has singled out about 200 chemical substances, including those that contain rosin, as deserving high priority for action (Oct. 2009, p. 2). Moreover, substance tracking also applies to China because of the labeling requirements of China RoHS.

To avoid repeated surveys of a provider's supply base each time a chemical regulation is updated, the provider basically has two options. Obtain full material disclosures from its supply base or tap into a central database containing substance reports made by suppliers (Aug. 2009, p. 3). The first option requires dedicated personnel to collect supplier data and thus is more suitable for large providers able to allocate resources to such an effort. In either case, the trick is to get substance reports in advance of a regulation change from as many suppliers as possible. Those suppliers who are not represented in a substance reporting database, whether it be maintained by a provider or a third party, will still require manual intervention.

The ODM and EMS models will remain distinct, but the growth of ODM businesses at both Flextronics and Hon Hai will bring more credibility to a hybrid strategy.

This year, the growth of the ODM computing businesses of Flextronics and Hon Hai will create goodwill (not the financial kind) for a hybrid EMS-ODM strategy. The hybrid model is

making a comeback after it fell out of favor when earlier ODM attempts by several EMS providers failed.

Now that Flextronics and Hon Hai are making good on their mission to win ODM notebook programs, inquiring minds will want to know whether there are any products outside the computing space where EMS providers could compete with ODMs. The ODM model doesn't work where volumes are insufficient to amortize design and development costs. But within the high-volume space, mobile phones, like notebooks, have attracted a bevy of ODMs. And at least one EMS provider, Hon Hai's **Foxconn International Holdings** subsidiary, is a practitioner of a hybrid model applied to handsets.

A question naturally follows: Are both Flextronics and Jabil also pursuing ODM handset business? Neither company has talked about this subject recently. But according to unconfirmed reports published by Taiwan's *Digitimes* in September 2009, both companies were then seeking people for handset ODM activities in Taiwan. If true, these reports would indicate that both companies see an opportunity to beat the ODMs at their own game. Indeed, with respect to handsets both companies have vertically integrated capabilities, which should give them an edge on the ODM competition.

But it's not as if EMS providers and ODMs exist in two separate parts of the handset space. Both sides offer joint design services, which already put them on the same playing field.

If Flextronics is building a handset ODM capability in Taiwan, it would not be the first time that the company has made such an effort. In the early part of the last decade, Flextronics put together an engineering group that developed multiple cell-phone platforms on an ODM basis. But the company was unable to command the higher margins it originally envisioned for its

ODM handsets.

LCD-TVs comprise another area where EMS-ODM turf battles will take place. Based on some major programs recently awarded to EMS providers, the EMS side should continue to make inroads here.

Parts shortages give providers a way to convince customers that they should be using the providers' strategic suppliers.

As long as component shortages persist, they will give providers ammunition for persuading customers that they should allow substitution of parts from the providers' strategic suppliers. Convincing customers to accept a provider's strategic suppliers is an ongoing challenge. But parts shortages should make this job easier.

A provider gets favorable terms from its strategic suppliers in return for granting them a certain amount of business. When components are in short supply, this favorable treatment typically means that a supplier will satisfy its strategic customers first. Large providers will make greater efforts to convince customers to switch to the providers' strategic suppliers in order to assure parts deliveries.

Supplier consolidation is an ongoing trend that will likely receive a boost from component shortages. Large providers will want to put even more business with strategic suppliers in an effort to maximize component availability.

Smaller providers who depend on distributors could be in a bind if their distributors can't come through with parts when needed. Look for non-franchised distributors to assume a greater role with these providers while parts supplies remain tight.

Clean tech is emerging as a high-growth, but essentially fragmented segment.

Clean tech encompasses not only alternative energy technologies but also various forms of energy management and conservation. Thus, clean

tech consists of a relatively large number of product areas, many of which are unrelated. What's more, these areas vary in market size and are not all growing at the same rate. More and more providers will seek clean tech business. But coming up with a clean-tech strategy won't be easy. For one thing, providers will be choosing among a broad array of possible opportunities.

For another, some providers, particularly the largest ones, have staked claims in a number of areas. Take smart meters, an important building block for a smart grid. If you're not already well-established in the conventional metering space, then it will be difficult to compete for smart meter programs. Solar is an obvious niche. But making solar panels is a crowded field and one requiring significant capital investment in a new process for the EMS industry.

Astute providers will look beyond the highly visible choices in renewable energy for other opportunities. LED lighting will arise as a potentially large market segment for the EMS industry based on *MMI's* belief that LED technology is a game changer for the lighting industry. LED lighting possesses two stellar qualities: high efficiency and long life. As LED lighting prices come down, adoption will go up for both indoor and outdoor applications. This is one technology that providers will increasingly explore in 2010.

World Markets

So Far, Not Much To Show for \$5-billion Plan

In 2007, **Hon Hai Precision Industry**, also known by its **Foxconn** trade name, put the EMS industry on notice with the company's \$5-billion plan for developing an unprecedented number of industrial parks and urban areas in Vietnam. That year, Foxconn opened two plants in the northern

province of Bac Ninh to lead off the company's investment program in Vietnam. Since then, however, there have been no reports of any Foxconn factories starting up in the country. Barring any developments that have not reached the public eye, it would appear that Foxconn has made relatively little progress in Vietnam given the size and scope of its plan.

Based on a compilation of various published reports, Foxconn's plan encompassed at least six locations in Vietnam: Bac Ninh, Bac Giang, Binh Dinh and Vinh Phuc provinces as well as Ho Chi Minh City and the city of Hai Phong. Other sources mention Hanoi, which would bring the number to seven, and one source, *Vietnam Investment Review*, put the number of locations at nine in a Q&A article with Foxconn chairman Terry Guo. Reportedly, Foxconn's plan was to create a manufacturing center in these locations along with a new town or city.

Foxconn's investment alone would put Vietnam on the EMS map as a low-cost exporter of outsourced goods. Moreover, in Vietnam the company aimed to reprise its role of number-one exporter, just as it has done in China. According to reports on government of Vietnam websites, Foxconn set a goal of exporting \$5 billion worth of goods in three to five years and employing about 300,000 workers. In 2007, Guo told *Vietnam Investment Review* that his group planned to invest an average of \$1 billion annually over the next five years.

Some two years later, the two factories at the Que Vo Industrial Park in Bac Ninh province remain the only operations fostered by the \$5-billion investment plan. They were set up to focus on making camera modules, motherboards and connectors. The only other development that has come to light is a license granted to a Foxconn subsidiary in 2009 for a \$200-million plant to manufacture mobile phones and spare parts in the Binh

Xuyen II Urban Industrial Zone of Vinh Phuc province.

In an online report by *VietNamNet Bridge*, an official in Bac Ninh province was quoted as seeing no progress on the part of Foxconn toward building an industrial park and township there. The report also found that Foxconn had postponed construction of an industrial park in Bac Giang province.

The lack of progress shown in these two projects is an indication that Foxconn is behind schedule for parceling out \$5 billion over five years. Foxconn, of course, has said nothing about why it has not devoted more capital to Vietnam so far. An educated guess would be that the global downturn had something to do with it.

Foxconn's recent plans for expansion have centered on China, not Vietnam. The company has decided to build production bases in two cities in Southwestern China, Chongqing and Chengdu (Oct. 2009, p. 4). A question then arises: Will expansion into Southwestern China have any impact on Foxconn's plans for Vietnam? Only Foxconn has the answer.

Market Data

Quarterly Results

The latest quarterly results are in for two companies out of the six largest U.S.-traded providers, and both reported robust sequential growth. Not only that, a third provider expects to exceed its Q4 guidance. In alphabetical order, here are brief summaries of quarterly results for the two companies as well as the revised outlook of the third provider.

Benchmark Electronics. The provider now expects its sales and EPS to exceed the high end of guidance for Q4 2009. Benchmark originally expected Q4 sales to be in a range from \$520 million to \$560 million and non-GAAP EPS to be in a range from \$0.22 to \$0.26. The new outlook implies that sequential revenue growth

for Q4 will be greater than 9.7%, the growth rate corresponding to the high end of the earlier guidance.

Jabil Circuit. For the company's fiscal Q1 ended Nov. 30, 2009, sales totaled \$3.09 billion, down 8.7% year over year but up 10.3% sequentially. Core operating income increased 62.8% from the prior quarter, as core operating margin rose to 3.4%, a sequential gain of 110 basis points. The company added 14 cents of operating margin expansion per revenue dollar. Core EPS of \$0.32 came in at the high end of guidance and was double the level of the prior quarter. Jabil earned GAAP net income of \$28.3 million for fiscal Q1, up from \$5.5 million in the prior period.

By far the highest sequential sales growth occurred in the company's Consumer division, which accounted for about 40% of its fiscal Q1 revenue. Within the division, the mobility and digital home office sectors posted quarter-over-quarter growth of 30% and 22% respectively. Sales from company's EMS division, which represented about 54% of the total for the quarter, rose 2% sequentially.

Jabil generated about \$74 million in cash flow from operations for fiscal Q1. Core return on invested capital was 19.8%, up from 11.5% in the prior quarter.

For fiscal Q2, the company expects revenue to be in a range from \$2.9 billion to \$3.1 billion, reflecting typical seasonality and anticipated continued improvement in end markets. Jabil anticipates that the EMS division will grow by 5% sequentially, while the Consumer division is expected to decline 15%. Guidance calls for core EPS to be in a range from \$0.20 to \$0.32.

Plexus. Revenue for the provider's fiscal Q1 ended Jan. 2, 2010 amounted to \$430.4 million, hitting the top end of guidance. Sales were off 5.6% from the year-earlier period but increased 9.5% from the prior quarter. EPS of

\$0.44 exceeded guidance of \$0.31 to \$0.36. A legal settlement, lower than expected tax rate and lower than expected stock option expense accounted for a total EPS benefit of \$0.08. Plexus recorded net income of \$17.8 million for fiscal Q1 versus \$15.1 million for the prior quarter and \$17.0 million for the year-ago period. ROIC improved to 18.1% from the prior quarter's 13.2%.

As expected, the company saw robust sequential sales growth in both its wireline/networking and medical sectors, where the increases were 20% and 15% respectively. Sales were essentially flat in Plexus' industrial/commercial sector but still better than anticipated, while its wireless infrastructure and defense/security/aerospace sectors were both down sequentially.

Excluding a 0.7 percentage point

contribution from the legal settlement, fiscal Q1 gross margin would have been 9.6%, the same as the prior quarter's result. Operating margin was 4.7% including the settlement.

Not counting a substantial follow-on program with **Coca Cola** (see News), Plexus won 16 new manufacturing programs anticipated to generate about \$108 million in annualized revenue when fully ramped.

Plexus expects an exceptional fiscal Q2. The company has set forth revenue guidance of \$470 million to \$495 million with EPS of \$0.44 to \$0.52, excluding any restructuring charges. At the midpoint of guidance, sequential growth would be about 12%. The company anticipates sequential sales growth to continue in fiscal Q3 and Q4 and expects the growth rate to moderate rate in comparison with the rate implied by fiscal Q2 guidance.

Skellefteå, Sweden, to **Optronic** (Skellefteå, Sweden), an optoelectronics services provider. NOTE's largest telecom customer decided to stop manufacturing a major product. The decision caused further downsizing of the Skellefteå operation.

Alliance... **Mobile Telecommunications Limited**, an Indian EMS provider that has ventured into business process outsourcing and other areas, and **Aimtron** (Streamwood, IL), an American EMS company, have formed a partnership. MTL's corporate office is in Mumbai, but manufacturing takes place in Nashik.

New business... **Plexus** (Neenah, WI) has landed a substantial follow-on program with **Coca-Cola**, for whom Plexus currently manufactures the Freestyle fountain dispenser, designed for self-serve applications (June 2009, p. 5). The new program calls for the manufacture of the "crew-serve" version of the dispensing technology; this version is intended for applications behind the service counter. Plexus expects that it will ramp both programs to production levels during its fiscal 2011. The company plans to perform final assembly of both products at Plexus' mechatronics-focused facility in Appleton, WI, with subassemblies supplied from its plant in Juarez, Mexico.... **Hon Hai Precision Industry** (Tucheng City, Taiwan) recently paid \$68 million for the purchase of 3,424 pieces of equipment including molds and die from **Sony Electronics**. The price was based on book value. Hon Hai did not indicate whether this transaction is connected to the company's purchase of manufacturing assets related to Sony's Tijuana, Mexico, site, mainly for LCD-TV production (Sept. 2009, p. 6-7).

EMS divestiture... **NOTE** (Danderyd, Sweden) has reached an agreement to sell its operations in

News

Celestica Adds After-Market Services Firm

Celestica (Toronto, Canada) has acquired **Invec Solutions** (Gourock, Scotland), a provider of warranty management, repair, and parts management services to companies in the IT and consumer electronics sectors.

According to Celestica, the acquisition will enhance the company's after-market services offering through Invec's proprietary reverse logistics software, which allows customers to view their repair status and inventory information from anywhere in the world using a web browser. Celestica will integrate the software throughout all of its after-market services locations.

In addition, this deal will expand Celestica's after-market services network to include a UK-based depot and repair screening center for the European market.

Financial terms of the acquisition

were not disclosed.

In recent years, Celestica has not been known as a deal maker. This is Celestica's first acquisition since 2006, according to *MMI's* records. The Invec deal and a *Reuters* report that Celestica is shopping in the medical sector (Nov. 2009, p. 7) are signs pointing to a more prominent role for Celestica in the M&A arena.

Equipment purchase... **Hon Hai Precision Industry** (Tucheng City, Taiwan) recently paid \$68 million for the purchase of 3,424 pieces of equipment including molds and die from **Sony Electronics**. The price was based on book value. Hon Hai did not indicate whether this transaction is connected to the company's purchase of manufacturing assets related to Sony's Tijuana, Mexico, site, mainly for LCD-TV production (Sept. 2009, p. 6-7).

EMS divestiture... **NOTE** (Danderyd, Sweden) has reached an agreement to sell its operations in

report by *Bloomberg*....**Kimball Electronics Group** (Jasper, IN), the EMS subsidiary of Kimball International, has won a major new contract from **FLIR Systems** to manufacture infrared imaging electronics for the Tau camera program. This small, versatile camera can be used in firefighting and unmanned vehicle vision systems. Orders from the new contract could potentially double Kimball's current sales with FLIR, a longtime customer. ...**Sypris Electronics** (Tampa, FL), a subsidiary of Sypris Solutions, has received about \$5 million in follow-on orders to manufacture electronic assemblies for multiple commercial and government satellite systems that provide global communications and connectivity....**Kongsberg Defence and Aerospace** has awarded **Kitron** (Billingstad, Norway) orders totaling about NOK 20 million (\$4.8 million). The orders concern complex communication equipment....**Adeptron Technologies** (Markham, Ontario, Canada) will provide EMS to a maker of adaptive indoor coverage solutions for reliable operation of cell phones and other wireless devices. The value of this program is estimated at about C\$3 million (\$2.8 million) for 2010.

*Public listing...***Integrated Microelectronics, Inc.** (Laguna, Philip-

pinas), an *MMI* Top 50 EMS provider, has begun listing shares of its stock on the Philippine Stock Exchange by way of introduction (Dec. 2009, p. 8). Established in 1980, IMI is a member of the **Ayala** group of companies.

Hon Hai Expected To Be Taiwan's No. 2 in LCD TVs

Hon Hai has come a long way in the LCD-TV space in a short time. The company was not present on a **DisplaySearch** list of the top ten contract manufacturers of LCD TVs for the first quarter of 2009 (July 2009, p. 3-4). But 2010 will be a different story. Taiwan's *Digitimes* has reported that sources in the TV industry expect Hon Hai to produce 12 million LCD TVs in 2010, vaulting it to second position among LCD-TV contract manufacturers in Taiwan for 2010.

*Facility investments...***Sanmina-SCI** (San Jose, CA) plans to invest 10 million euros in the R&D activities of its operation in Fermoy, Ireland, according to a statement on the website of **IDA Ireland**, a government agency supporting the investment. The Fermoy site serves as a flagship facility for Sanmina-SCI's medical

operations....**Kitron** has leased about 4,000 m² of space in Ningbo, China, for a new factory, the company's first China plant....**Scanfil** (Sievi, Finland) expected to complete a 5,400-m² expansion of its plant in Hangzhou, China, during Q4 2009.

*Plant closures...***Suntron** (Phoenix, AZ) will shutter its facility in Newberg, OR, the *Portland Business Journal* reported last month....**Venture** (Singapore) will close its **GES US (New England)** unit in Lowell, MA.

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