

# Manufacturing Market™ INSIDER

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## ***Solectron Acquisition To Put Flextronics Over \$30 Billion***

### ***Industry consolidation makes a quantum jump***

**Flextronics**, the second largest EMS provider, intends to acquire **Solectron**, the third or fourth largest, in a historic deal that will alter the upper ranks of the EMS industry. With a value of about \$3.6 billion to Solectron shareholders, the deal will create a more diversified EMS company with about 200,000 employees and over \$30 billion in annual revenue.

Industry consolidation has been underway for some time (Feb., p. 1 and 4), but a consolidation deal of this magnitude has not occurred since **Sanmina's** 2001 acquisition of **SCI Systems** at a total price of \$4.4 billion (including stock options). Although Sanmina paid more, Flextronics will be acquiring a larger organization with more employees and facility space.

"By joining forces, we expect the increased scale will enable us to further extend our market segment reach and leverage an increased vertical integration capability, realize significant cost savings, and better serve the needs of our combined customers, employees and shareholders. Solectron's strength in the high-end computing and telecom segments will be an invaluable addition to Flextronics' existing capabilities, and the combined company will be a market leader in most product market segments," stated Mike McNamara, CEO of Flextronics.

He said, "The combined company

is clearly more diversified and formidable than either on its own, and we are better positioned to increase shareholder value through greater cash flow and earnings."

What he didn't say is that the transaction will give Flextronics an immediate and considerable boost in market share. Increasing market share has been a company objective. Flextronics as well as other competitors have watched in recent years the share gains of the world's largest EMS provider, **Hon Hai Precision Industry**, which has maintained high growth rates despite its size. The addition of Solectron's revenue, which amounted to \$11.5 billion for the latest 12-month period ended February 2007, represents an estimated increase in EMS market share of 7.7% based on a market size of \$150 billion. Combining this revenue with Flextronics' \$18.9 billion in fiscal 2007 (ended March)

yields a total of \$30.4 billion, or a 20.3% share. The company's share of the total outsourcing space (EMS+ODM), pegged at about \$230 billion, would be around 13.2%.

This acquisition probably won't bring Flextronics within striking distance of Hon Hai, which reported consolidated 2006 revenue of \$40.6 billion (expressed in US dollars). To catch Hon Hai, it would have to stop growing, *MMI* believes. But the deal will further separate Flextronics from smaller EMS competitors and likely put some distance between it and the large ODMs (May, p. 2.).

### **Synergies and financial gains**

Flextronics estimates that the combination will yield after-tax synergies of at least \$200 million per year, which should be at least 15% accretive to Flextronics' EPS once all of the synergies are realized. The company said it could take up to 18 to 24 months after closing to fully integrate

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## Flextronics-Solectron Deal

Solectron and capture the full synergy potential. Closing is expected to occur by the end of the year.

“Most of the synergies result from eliminating redundant assets or unnecessary functions that result from combining two companies into one. For example, there will be some footprint rationalization in manufacturing and operating expense reductions,” Flextronics CFO Thomas Smach told analysts in a June conference call following the deal’s announcement. A company presentation listed six areas as sources of cost synergies: corporate, sales and marketing, vertical integration, capacity rationalization, indirect manufacturing costs and IT systems. Smach mentioned that the combined company’s purchasing power would also drive cost savings.

The \$200 million in synergies do not include the restructuring charges necessary to achieve these benefits. Three times during the call, an analyst asked Flextronics about its restructuring plans, and each time the company responded that it was too early to discuss those plans. “Remember we have not had the detailed opportunity to really get into the Solectron plans and understand exactly what the rationalization activities are going to be and what the opportunities are going to be,” McNamara answered one analyst.

In March, Solectron announced that it was starting the second phase of a restructuring plan, the first part of which was announced in October 2006 (Oct. 2006, p. 7; April 2007, p. 7). The company estimated it would take charges of \$35 million to \$45 million stemming from the second phase, scheduled for completion within 12 months. In this phase, Solectron expected to cut its work force by about 1,300 to 1,500 employees and close or consolidate about 400,000 ft<sup>2</sup> of facilities.

Solectron has about 50 manufacturing plants and service plants, while McNamara estimated Flextronics’ fac-

tory total at “maybe 100.”

Although Flextronics would not discuss restructuring charges associated with the acquisition, the company expects that cash flow synergies of the deal will more than pay for the cash portion of the unspecified restructuring charges. Flextronics believes that it can generate \$300 million to \$600 million of cash by reducing Solectron’s cash conversion cycle by 10 to 20 days. Also, Flextronics expects cash savings from reducing capital expenditures as a result of redeploying equipment freed up by asset rationalization. Over the first three fiscal years after closing (FY2009-2011), estimated capex savings total some \$450 million.

### Customers and diversification

The acquisition of Solectron allows Flextronics to diversify business with existing customers while adding new top-tier customers to its portfolio, according to the company. For example, Flextronics will gain significant exposure to **IBM, Alcatel-Lucent** and **HP’s** medium and high-end servers (Table 1).

Diversification also applies to Flextronics’ revenue mix. By gaining business from such customers, Flextronics will tap into Solectron’s strength in high-end computing, communications and networking equipment market segments.

The deal will give Flextronics greater portions of computing and telecom infrastructure business. Computing will go from 10% of Flextronics’ revenue to about 19%, while infrastructure will increase from 23% to about 30% (Table 2). Adding Solectron will also make Flextronics less dependent on the mobile segment, which will drop from 31% to 19% of sales, and somewhat less reliant on the consumer digital segment, which will decrease from 24% to about 20%.

As the two companies share some customers (Table 1), there is customer overlap and the possibility of product

Common customers	New customers for Flextronics
Cisco	Alcatel-Lucent
Ericsson	IBM
HP	NEC
Kodak	Pace
Motorola	Teradyne
Nortel	Thomson
Sun	

overlap within the same customer. Overlap of either kind might cause a customer to move business to another supplier rather than accept greater dependence on the combined company.

During the conference call with analysts, Flextronics’ CEO went over four common customers with respect to product overlap. For **Cisco**, “we tend to do product categories that are more volume related, and Solectron does the product categories which are the highest end products that Solectron makes,” reported McNamara. Flextronics believes that Cisco will benefit from the deal because the combined company will be able to provide Cisco with a complete service from low-end to high-end products. For overlap customers, Flextronics’ approach will be to offer the additional capabilities of the combined company to dissuade those customers from moving business elsewhere.

Overlap in HP products “almost doesn’t exist,” said McNamara, because almost all of Flextronics’ business with HP is in printers, and nearly all of Solectron’s HP business comes

Segment	Flextronics	Solectron	Combined pro forma
Computing	10%	34%	19%
Consumer digital	24%	12%	20%
Industrial, auto, medical & other	12%	13%	12%
Infrastructure	23%	41%	30%
Mobile	31%	0	19%

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from other areas. With **Nortel**, he reported no overlap in product categories. Solectron handles mostly wireline products, while Flextronics “on average” works on optical and wireless products, said McNamara. (Flextronics also provides EMS for Nortel enterprise telecom products.) But he did acknowledge that there is “probably some overlap in some of the **Ericsson** products that we do.”

“Obviously, we know all the customers that have the overlap, and we know how they think. We know what their supply chain strategies are, and we’re very, very confident we can provide increased value as a result of this transaction as opposed to a reduction in capabilities. So we’re very confident that we’ll have minimal loss there,” said McNamara.

Paul Tufano, Solectron executive VP and interim CEO, added, “Right now, there’s very little overlap in our customer base in terms of product line. And that’s what made this such attractive timing.”

Although Flextronics does not know what business it will lose as a result of the acquisition, in projecting synergies it has modeled “a little bit walking away,” said McNamara. So the \$200 million in synergies incorporates an estimate for revenue loss.

How are customers reacting to the deal? OEMs are typically tight lipped about this sort of thing, but a major OEM customer did comment. This customer said it is optimistic overall that the acquisition will be beneficial to the EMS industry. According to the customer, Solectron brings high-end capabilities, while Flextronics brings financial stability and improved support, processes and operations. Together, the two companies offer a more comprehensive scale and portfolio, said the customer.

The customer told *MMI* that it’s too early to know the impact of the acquisition as it relates to the customer’s spend and product overlap, since the

details of the integration have not been finalized. While this customer is always looking across its EMS capabilities to ensure an optimal balance of spend, product distribution, etc., the customer does not see any immediate issues as a result of the acquisition.

### Combining capabilities

Each side of the transaction will contribute capabilities that the other needed. It should be apparent by now that Flextronics not only will gain business but also expertise from Solectron in high-end computing, communications and networking equipment. Solectron also offers strengths in aftermarket services and complex-product BTO/CTO that will meet Flextronics’ need to increase such capabilities. In the recent past, Solectron presented its aftermarket services unit as the industry leader in terms of revenue and breadth of services.

Will these capabilities help Flextronics compete against arch rival Hon Hai? The deal won’t do much for Flextronics in volume consumer products, an area where the two companies currently butt heads. And in PC products, a mainstay for Hon Hai, McNamara does not see his company overlapping with Hon Hai. But Solectron’s capabilities give Flextronics a stronger, more defensible position in high-end, complex products should Hon Hai choose to pursue that space in a big way. So far, said McNamara, Flextronics has not seen much evidence of Hon Hai moving up the food chain into these kinds of products. “Obviously, they probably will over time,” he said.

As for Solectron, it will get vertical integration and ODM capability from Flextronics. Other than Solectron’s vertical integration in enclosures, these are two areas that Solectron had stayed away from in the past.

According to Tufano, “The transaction will provide Solectron’s customers with an enhanced portfolio of

design and vertically integrated capabilities, greater scale, and expanded supply chain leverage along with the advantages of an increased low-cost global footprint.”

### Supplying boards and enclosures to Solectron

Flextronics wants to expand its vertical integration into Solectron because the combined company would capture margins on the boards and enclosures supplied to the Solectron customers. Asked by an analyst to quantify this opportunity, Flextronics did not provide a number. McNamara said the company has made a rough estimate but was unsure of its accuracy.

“Solectron today has control over certain bill of material items that they may or may not have been directing toward Flextronics and our vertical integration capabilities. Certainly in some instances perhaps they’ve done that, but I think it’s fair to say they haven’t in 100% of those instances directed that business toward Flextronics,” said Smach. He added, “You can be assured that we’re going to work together to maximize what is placed inside of Flextronics.”

In addition to such business, Flextronics is looking forward to the opportunity of packaging boards and enclosures as part of outsourcing deals with Solectron customers.

**Multek**, Flextronics’ PCB unit, essentially serves two segments: mobile phones and high-end infrastructure (telecom and datacom products). According to McNamara, “the high-end nature of Solectron’s business fits extremely well into Multek’s business.” He said Solectron also complements Flextronics’ enclosure business. However, during the conference call no mention was made of Solectron’s own vertically integrated capability in enclosures.

Solectron probably buys \$50 million in boards from Multek, McNamara estimated.

# Flextronics-Solectron Deal

## Integration will be no mean feat

In combining with Solectron, Flextronics will face the task of integrating by far the largest organization ever acquired by an EMS provider. A measure of the scope and complexity of this project can be seen in the 18 to 24 months allotted for completion. According to Flextronics, it's equal to the task.

"One of Flextronics' competitive advantages is its ability to effectively integrate large-scale acquisitions of global operations, and we are confident in our ability to do so with the transaction," McNamara told analysts this month. He also stated, "Over the last 18 months, we have reorganized our management structure to create the infrastructure required to effectively and efficiently add scale to our operations."

IT systems present what could be one of management's toughest challenges of combining the two companies. Solectron does not run on a single ERP platform. Far from it. "Clearly, we have a good number of ERPs," said Tufano in a December 2006 conference call. Within Solectron worldwide, "I think we probably have every flavor of ERP ever introduced," he added. Some portion of these originated with operations acquired by Solectron.

As of December 2006, Solectron was working on short- and long-term fixes for this problem. The company's near-term solution was to put in software applications that would reside outside the ERP systems. This middleware would ensure access to common data for demand planning, quality systems and the like. For a long-term fix, Solectron settled on one ERP system that it hoped would replace a fair number of those legacy systems. But that process "will take several years," said Tufano in December.

When the deal closes, Solectron's problem of disparate ERP systems becomes Flextronics'. How Flextronics

will proceed to solve this problem is unclear to *MMI*, which makes no claim to software expertise. But Flextronics will need to end up with an integrated IT system that will allow it to do such things as monitoring inventory levels companywide and aggregating component purchases. The latter will be needed to achieve the promised buying power of the combined company.

Consolidating operations, of course, will take on a central role in the integration process. The extent of this consolidation is unknown. Flextronics said it has not formalized restructuring plans.

In some cases, the two companies operate facilities in nearby locations. In other instances, the two sides have a manufacturing presence in the same

geographic area. Table 3 shows selected examples of both types, but does not include facilities that appear to have different functions. The intent here is to show the extent of geographic overlap between the two companies. This table should not be interpreted as providing a list of redundant sites. It is up to Flextronics to determine where capacity can be eliminated.

Could both companies rationalize capacity on their own without combining? During the June conference call, McNamara agreed that maybe footprint rationalization can happen apart from the deal. "But I think this will accelerate it," he said.

Still, Flextronics sees additional opportunities for increasing utilization rates. Take Guadalajara, where both

companies operate large facilities. McNamara presented Guadalajara as a place where the company might keep two big operations, which would be easier to balance than one.

Integration will extend to back-office operations, and here Flextronics will confront an agreement that Solectron signed last year with **IBM**. This contract called for IBM to take over management of some \$1.2 billion a year in

Americas				
Country	Flextronics location*	Manufacturing sq ft	Solectron location**	Facility sq ft
Brazil	Sorocaba	553,608	Jaguariuna	233,000
Canada	Montreal	219,704	Sherbrooke	
Mexico	Guadalajara	613,951	Guadalajara	645,000
USA	San Jose, CA	84,000	Milpitas, CA	888,000
	Raleigh, NC	200,000	Charlotte, Creedmoor & Morrisville, NC	1,252,000
	Memphis, TN	logistics	Memphis, TN	275,000
	Dallas & Houston, TX	307,700	Austin, TX	864,000
Asia				
China	Shanghai	668,054	Shanghai	1,253,000
	Shenzhen (2 sites)	861,613	Shenzhen	China total including 2 other sites
	Suzhou	53,820	Suzhou	
India	Bangalore	26,030	Bangalore	51,000
Japan	Aichi	132,174	Ibaraki	
Singapore		609,050		423,000
Europe				
France	Chateaudun	109,149	Cestas	334,000
	St. Etienne	52,628		
Germany	Paderborn	173,839	Herrenberg	90,000
Hungary	Sarvar/Zalaegerszeg	552,259	Budapest	301,000
	Tab	160,733		
Sweden	Karlskrona	189,446	Ostersund	280,000

\*Source: Flextronics' website. \*\*Source: Solectron's Form 10-K for the fiscal year ended Aug. 31, 2006, except for Mexico facility sq ft.

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indirect spend for Solecron. Covered by the contract were areas such as temporary contract services, office equipment, utilities and telecom.

### **Solecron at a crossroads**

Solecron has been engaged in a turnaround effort at least since January 2003, when the company brought in former CEO Mike Cannon to lead the effort. By the time he left the company earlier this year, it had returned to growth, but was still in need of better margins and free cash flow (Feb., p. 6). For Solecron's fiscal 2007 Q2 ended March 2, non-GAAP operating margin stood at 1.5%, still far from the company's goal of exiting its Q4 at 2.4% or better.

While Solecron cannot yet pronounce itself fully recovered, Flextronics has seen progress. "From Flextronics' perspective, Solecron is at a crossroads, making the timing right for this transaction. They have stabilized their business levels and operating results, but for further improvement we believe they require vertical capabilities and further footprint rationalization," said McNamara to analysts. He also cited Solecron's management team transition – a permanent CEO has not been named – as another factor.

"One of the reasons that we were attracted to Solecron," he said, is that "we actually think they're on the path towards recovery. We don't necessarily think that about everybody in the industry."

Tufano said the deal gives Solecron the ability to accelerate margin improvements through vertical integration and the purchasing power of the combined company. More importantly, he expects to see rationalization of "fixed overheads affected dramatically to improve the overall bottom line."

### **By the numbers**

Under the terms of a definitive agreement, Solecron shareholders

must opt to receive either 0.3450 share of Flextronics for each Solecron share or cash at \$3.89 per share (but not a combination of the two). The exchange will be limited such that no more than 70% and no less than 50% of Solecron shares will be converted into shares of Flextronics. Compared with Solecron's closing price on June 1, the cash and stock offers represented premiums of about 15% and 20% respectively.

**Fitch Ratings** estimates that the \$3.6-billion acquisition price is equivalent to about 10.7 times Solecron's latest 12-month EBITDA.

**Citigroup Global Markets** has committed to provide Flextronics with a \$2.5-billion backstop facility to fund the cash needed for this transaction, including the refinancing of Solecron's debt, if required. Cash to be paid for Solecron shares ranges from \$1.06 billion to \$1.77 billion. Fitch believes that Flextronics will likely redeem Solecron's \$600 million of senior and subordinated notes due to change of control provisions. Flextronics is not required to draw on the backstop facility, and the company will continue to evaluate alternative sources of financing. Including acquisition debt, Flextronics' debt to capital ratio would be a maximum of 33.5% in the event of a 50% cash deal.

Following the acquisition, Solecron will become a wholly owned subsidiary of Flextronics, and Solecron shareholders will own about 20% to 26% of Flextronics' outstanding shares. As part of the agreement, Solecron has the right to nominate two people approved by Flextronics to the board of directors of the combined company.

The transaction is subject to customary closing conditions, including approvals by shareholders of both companies and regulatory bodies. Until the acquisition is completed, both companies will continue to operate their businesses independently. How-

ever, Flextronics intends to start integration planning right away.

Should the deal fall apart, there is a breakup fee of \$100 million.

### **Consolidation move**

"We think any time you have the opportunity to consolidate a competitor with stable, high-quality operations at a valuation that creates significant shareholder value with lower execution risk, it's a compelling opportunity worth pursuing," said McNamara during the June call.

Flextronics sees significant industrywide benefits resulting from consolidation. "The EMS industry is very fragmented with too many well capitalized competitors with excess capacity. As the industry consolidates, we believe it increases the industrywide capacity utilization, thereby lowering overall costs, which increases profitability, cash flow and return on capital," he said.

But clearly Flextronics did not make this deal out of altruism. At the heart of its motivation was the price of its stock. "With regard to Flextronics' valuation and in light of our flat stock price despite our above-average market performance, it felt like we needed an industrywide catalyst to ignite a higher valuation for our shareholders," said McNamara.

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## **News**

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### ***U.S.-Based Providers Join Forces***

**Nu Visions Manufacturing** (Springfield, MA), a privately held EMS provider, and **Golden Gate Capital** (San Francisco, CA), a private equity firm, have announced the acquisition of another EMS provider, **Veritek Manufacturing Services** (San Marcos, CA). Terms of this consolidation deal were not disclosed.

The combined company will have five manufacturing facilities in North

America. Veritek will add its facilities in San Marcos and San Jose, CA, and Longmont, CO, to Nu Visions' plants in Springfield, MA, and Tijuana, Mexico.

"The combining of these two great companies creates a leading high-mix/low-volume EMS provider serving premier customers in defense, medical, industrial and other related industries," stated Dan Perez, CEO of Nu Visions. He said customers will benefit from enhanced technical and manufacturing offerings with greater geographic coverage.

In 2001, a management group and Golden Gate Capital purchased the Nu Visions business from **Nu Horizons Electronics**, a distributor. Veritek came into being in 2005 when the former owner of the business, Keith Butler, along with an investor bought it back from wireless OEM **REMEC**.

*Acquisition in India...* In line with a letter of intent signed earlier this year, India's **TVS Electronics** has agreed to transfer its contract manufacturing unit in Tumkur, India, and related design services in Bangalore to a subsidiary of EMS provider **Incap** (Oulu, Finland) on June 1 (March 2007, p. 5). The total value of the acquisition is about 7.4 million euros. Incap forecasts that its Indian operations will generate 8 to 10 million euros in revenue from June to December. To attract new customers, Incap will invest in more capacity. About 230 employees work in the unit. Incap expects this presence in the growing markets of India and Asia will create new business potential. In addition, proximity to Asian sources will make materials purchasing more global and more effective, says Incap.

*New business...* **Hatteras Networks** (Research Triangle Park, NC) has named **Sanmina-SCI** (San Jose, CA) exclusive producer of Hatteras' Mid-Band Ethernet product line. Also,

**Ceterus Networks** (Richardson, TX), a provider of flexible transport systems for next-generation cell tower backhaul and enterprise data applications, has selected Sanmina-SCI as a strategic manufacturing partner. Finally, **Sikorsky Aircraft**, a subsidiary of **United Technologies**, has tapped Sanmina-SCI's Defense and Aerospace Systems Division to supply its Fire-Comm intercommunications system for integration into the CH-53K Heavy Lift Helicopter for the U.S. Marine Corps.... **Thales** has chosen **Celestica** (Toronto, Canada) to manufacture new video displays and electronic boxes for Thales' in-flight entertainment system on board the **Boeing** 787 aircraft. In addition, **Aperto Networks** (Milpitas, CA), builder of WiMAX base stations and subscriber units, and Celestica have entered into an alliance to develop and manufacture multiple WiMAX platforms. Among the items they will work on is a remote radio head based on Celestica's WiMAX Solution Accelerators (see also April, p. 3-4).

...Under a new \$15.7-million contract announced by the U.S. Department of Defense, **Kimball Electronics Group** (Jasper, IN), a division of publicly held **Kimball International**, will produce circuit card assemblies used in the MH-60 helicopter and the EA-18G Growler, a U.S. Navy aircraft being developed by Boeing for electronic warfare. Kimball Electronics will partner with the **Crane Naval Surface Warfare Center**.... Norway-listed **Tomra** has given **PartnerTech** (Malmö, Sweden) additional orders for Tomra's Logistima products, which handle beverage containers for recycling at high-volume outlets. Logistima orders are worth an estimated SEK 150 million (\$21.8 million). Tomra has also selected PartnerTech as its main supplier for the Tomra Recycling Center, an automated recycling unit. Involving production of complete systems and distribution, this work is expected to yield annual sales of SEK

100 million (\$14.5 million) for PartnerTech. In addition, **OptoPlan** has chosen PartnerTech for production of mechanical components for OptoPlan's new fiber optic sensor system, which monitors oil reservoirs from the ocean floor. PartnerTech expects this agreement to boost sales by about SEK 200 million (\$29.1 million) over three years. Scheduled for delivery in the next three quarters, the initial order is worth about SEK 30 million (\$4.4 million).... **Kongsberg Defence & Aerospace** of Norway and EMS provider **NOTE** (Danderyd, Sweden) have signed a long-term collaboration agreement designating NOTE as a supplier of production and product development services for KDA.... **LaBarge** (St. Louis, MO) recently landed contracts from four customers. The provider received \$2 million in contracts from **Northrop Grumman** for continued production of equipment for a military aircraft defense system, a \$2.1-million award from **Kaman Aerospace** for wiring harnesses used in the Seahawk helicopter program, a \$2.9-million contract from **General Dynamics Armament and Technical Products** for continued production of high-level assemblies for the U.S. Navy's Aegis Weapon System, and a \$2.4-million order from **BAE Systems** for more Ethernet Switch Units used in A3 Bradley combat vehicles.

### **Sanmina-SCI Opts for India Facility**

Sanmina-SCI plans to open its first manufacturing facility in India. With this announcement, the company will jump on the India bandwagon, joining the other top-six EMS providers, which already have manufacturing sites in India.

In signing a memorandum of understanding with the government of India's Tamil Nadu state, Sanmina-SCI has selected Oragadam near Chennai as the location for its first manufactur-

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ing technology campus in the country. Covering about 100 acres, the campus will be designated a Special Economic Zone. Two India news sources reported that the company will initially spend \$50 million on the new facility.

Sanmina-SCI's existing activities in Chennai, such as engineering, supply chain management and IT services, will relocate to the campus in phases.

### New Chennai facility for Jabil

Another top-six provider investing in the Chennai area is **Jabil Circuit** (St. Petersburg, FL). The company will start operations in August at a new 400,000-ft<sup>2</sup> facility located in the Nokia Telecom Park near Chennai. Initially, the plant will employ 300 to 500 people.

*New facilities in the Czech Republic...* According to several news reports, **Hon Hai Precision Industry** (Tu-Cheng, Taiwan), the world's largest EMS provider, will put up a factory in Kutna Hora, Czech Republic, for manufacturing LCDs and computer components. Reportedly, Hon Hai will spend \$147 million on the new plant, which is expected to employ 5,000 people. Construction is slated to start in August, with a June 2008 completion date, news sources noted. The new plant will become Hon Hai's second site in the Czech Republic after the company's large facility in Pardubice....**Solectron** (Milpitas, CA) has also selected a location in the Czech Republic for one of its operations. The provider has opened an aftermarket services center in the Czech city of Plzen. Solectron cited proximity to consumers in Western and Eastern Europe, skilled labor, and advanced infrastructure as key factors for choosing Plzen.

*Expanding in Romania...* **IPTE** (Genk, Belgium), which runs both EMS and production equipment businesses, has given the go-ahead for building a 16,000-m<sup>2</sup> EMS plant in

Oradea, Romania. The company estimates that construction of the leased facility will be finished at year end. This is the third time that IPTE's EMS operation in Romania needed to move into larger quarters. The operation, which started in December 2002, has grown steadily over the years, reports IPTE. Some 550 people work in the Romanian operation, and the new plant will accommodate more than 1,000 employees. Total investment in the plant amounts to 5 million euros.

*Financial news...* Jabil's core operating income for the May quarter (fiscal Q3) decreased 7% year over year to \$87.1 million, but increased 57% sequentially. Although core EPS of \$0.23 was down 36% from the year-earlier period, it rose 64% versus the prior quarter. Revenue for the May quarter totaled \$3.0 billion, up 16% year over year and 2% sequentially. GAAP EPS amounted to \$0.03 compared with \$0.30 a year earlier. For the August quarter, Jabil expects sales to remain at the \$3.0-billion level and projects core EPS of \$0.25 to \$0.31.

*Some company news...* Hon Hai's chairman Terry Gou recently told shareholders that his company will enter the medical sector, reported Taiwan source CENS.... According a Form 8-K filing made this month, one of the three major customers of Sanmina-SCI's PC business has indicated that it intends eventually to manufacture its products internally, thereby ending its manufacturing relationship with the PC business. Also, **Standard & Poors** will remove Sanmina-SCI from the S&P 500 after the close of trading on June 29.... Paul Ehlers, executive VP and COO of **Plexus** (Neenah, WI), passed away on June 10 after battling cancer. He had been on medical leave since January.

*People on the move...* Celestica has appointed Paul Nicoletti executive VP

and CFO. He had been acting CFO since March when Tony Puppi retired from the position (March, p. 7).... **CTS** (Elkhart, IN) has promoted CFO Vinod Khilnani to the position of president and CEO. He will succeed Donald Schwanz, current chairman and CEO, who had previously announced his intention to retire this year. CTS intends to appoint Roger Hemminghaus, an independent director, as chairman.... **Elcoteq** (Espoo, Finland) has named Mike Liang senior VP, human resources. For now, he will also continue to serve as head of HR in Asia-Pacific. In addition, Suresh Babu has joined the company as Communications Networks product development services director for an Elcoteq subsidiary based in Bangalore, India. He will oversee Elcoteq's global initiative in implementing Communications Networks ODM and product development services.... **Suntron** (Phoenix, AZ) has appointed EMS industry veteran Brian Throneberry as VP of sales and marketing. Most recently, he developed overseas relationships for **Venture** (Singapore). In prior roles, Throneberry served at the executive level for **Avex Electronics**, **Tri-M Technologies**, **CMC Industries**, and **ACT Manufacturing**. ... **Microboard Processing Inc.** (Seymour, CT), or MPI, has named Jim DiBurro executive VP and chief customer officer. DiBurro comes to the EMS provider from Celestica, where most recently he was VP of sales for its consumer electronics sector.

*More restructuring...* According to two US newspapers, Jabil is closing its plant in Poway, CA, near San Diego. ... Two Arizona publications reported that Sanmina-SCI will shutter its PCB fabrication facility in Phoenix, AZ.... Local media reported that Kimball Electronics plans to close its Gaylord, MI, factory, which Kimball obtained in its February 2007 acquisition of **Reptron Electronics**.

## Flextronics-Solectron Deal: A New Order

The top-six EMS providers have been in place long enough that the group might have been expected to remain intact indefinitely. But **Flextronics'** proposed acquisition of **Solectron** (see p. 1) has dispelled that notion. By the end of the year, if all goes according to plan, the top six will shrink to five.

As a consolidation move, this deal should not be surprising. The industry has been gradually consolidating, mostly within its lower ranks, for years. *MMI* has counted an average of 12 consolidation deals per year from 2003 to 2006. What's more, there is precedence for a major deal of this type. Recall **Sanmina's** acquisition of **SCI** in 2001.

For a maturing industry such as EMS, consolidation is probably inevitable, especially in the current environment of excess capacity. Financial analysts and EMS executives who want to see higher utilization of industry capacity will view such consolidation as healthy. In general, higher plant loading translates into better financial performance. There is also the possibility that higher utilization rates will ease pricing pressure.

Still, *MMI* was taken aback somewhat by this particular deal. *MMI* did not suspect that Flextronics would want to take on the task of combining with a

provider like Solectron. Not only is Solectron the largest organization ever to be integrated by an EMS provider, but the task is made more difficult because Solectron is still engaged in a turnaround effort, which has lasted for at least four and half years. Flextronics must combine operations of the two companies, eliminate redundancies, and improve performance of the Solectron side, all while keeping customers happy and the overall business growing. How well Flextronics handles these challenges will have much to say about the company's future over the next few years, *MMI* believes.

Will consolidation among the largest providers continue? That question invariably comes up in discussions of the Flextronics-Solectron deal. *MMI's* take is that consolidation among the remaining top five appears unlikely in the near term unless **Celestica** and **Sanmina-SCI** decide to merge. **Hon Hai** doesn't need to acquire an EMS company; as the largest provider, it already has plenty of scale. **Jabil's** CEO Tim Main just told analysts that his company would look for acquisitions that allow OEMs to outsource or Jabil to add a capability or technology that it lacks. His statement seems to leave little room for a major consolidation deal.

The combined Flextronics will be the second provider after Hon Hai with more than \$30 billion in revenue. By

sheer size, these two mega-providers will stand apart from the rest of the industry. The prospect of this mega-tier is already igniting a debate about whether such scale matters. Competitors will argue that this scale is only relevant if it results in lower costs to the customer. It will be up to Flextronics to make good on promised benefits such as greater purchasing power.

For now, the Flextronics-Solectron deal is a reminder that the EMS industry continues to lose players to consolidation throughout its ranks.

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