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No Growth Projected for US-Traded Sector in 2008

If the six largest US-traded providers hit the midpoints of their Q4 sales guidance, this EMS industry sector will show no growth for 2008 despite reported revenues that would indicate otherwise. While it has become increasingly apparent that the US economy has entered a recession, this sector of the EMS industry, as a whole, will not fare much better in 2008.

MMI's projection of 2008 sales for these providers yields no aggregate growth when an estimate of **Solectron's** 2007 sales is factored in (Table 1). As *MMI* pointed out previously, reported results do not account for the 2007 sales of Solectron, which **Flextronics** acquired on Oct. 1, 2007 (Aug., p. 3-5). Hence, a revised estimate of $8.89 billion for Solectron's 2007 sales was added to Flextronics' reported revenue for that year. Including combined sales of the two companies, adjusted 2007 sales for the publicly traded group totaled $65.40 billion, compared with projected 2008 sales of $65.20 billion. That figure represents a near-zero decrease of 0.3% from last year.

Since about $1 billion in business came out Flextronics as a result of overlap created by its Solectron acquisition, it can be argued that the adjusted 2007 total for Flextronics should reflect this loss. But some of this business went to competitors in the group. If, for example, half of the business, or $500 million, stayed in the group, then only the $500 million lost would be deducted from the group's 2007 total. In this example, growth would have remained below 1%. The counterpoint is to say that any business lost by the group should be rolled into its growth rate. *MMI* takes the latter position.

Table 1: 2008 Revenue Estimates for the Six Largest US-Traded EMS Providers with Solectron's 2007 Sales Added
(sales in B$ except as noted)

Company	Q1-3 '08 sales	Q4 guidance	Q4 midpoint	2008 estimated sales	2007 sales	% estimated growth
Flextronics + Solectron	24.99	7.5 - 9.0	8.25	33.24	33.35*	-0.3
Jabil	9.41	3.40 - 3.60	3.50	12.91	12.44	3.8
Celestica	5.74	1.75 - 2.0	1.875	7.62	8.07	-5.6
Sanmina-SCI	5.42	1.425 - 1.625	1.525	6.95	7.01	-0.8
Benchmark	2.01	600 - 640 M	620 M	2.63	2.92	-9.9
Plexus	1.38	455 - 480 M	467.5 M	1.85	1.62	14.0
Total	**48.96**		**16.24**	**65.20**	**65.40**	**-0.3**

2008 estimates equal nine-month sales plus midpoint of Q4 guidance.
*Includes $8.89-billion estimate for Solectron's Q1-3 '07 sales.

Four out of six providers in the group will see no growth or revenue declines for 2008 if *MMI's* estimates prove true (Table 1). That includes Flextronics if its 2007 sales are combined with Solectron's. The only provider with doubled-digit growth projected for 2008 is **Plexus**.

To project a company's 2008 sales, the midpoint of its Q4 sales guidance was added to its nine-month revenue. Q4 midpoints totaled $16.24 billion, down 4.4% from combined Q3 sales.

Some articles in this issue

Table 2 : Q4 Guidance and 2008 Revenue Estimates for the Six Largest US-Traded EMS Providers Without Accounting for Solectron's Sales in 2007 (sales in B$ except as noted)

Company	Q1-3 '08 sales	Q4 guidance	Q4 midpoint	2008 estimated sales	2007 sales	% estimated growth	Q3 EPS Non-GAAP* $	Q4 Guidance Non-GAAP* $
Flextronics	24.99	7.5 - 9.0	8.25	33.24	24.46	35.9	0.28	0.15 - 0.27
Jabil	9.41	3.40 - 3.60	3.50	12.91	12.44	3.8	0.30	0.30 - 0.38
Celestica	5.74	1.75 - 2.0	1.875	7.62	8.07	-5.6	0.24	0.16 - 0.24
Sanmina-SCI	5.42	1.425 - 1.625	1.525	6.95	7.01	-0.8	0.05	0.00 - 0.03
Benchmark	2.01	600 - 640 M	620 M	2.63	2.92	-9.9	0.31**	0.25 - 0.32
Plexus	1.38	455 - 480 M	467.5 M	1.85	1.62	14.0	0.48	0.38 - 0.43
Total	**48.96**		**16.24**	**65.20**	**56.51**	**15.4**		

2008 estimates equal nine-month sales plus midpoint of Q4 guidance. *Non-GAAP EPS may not be comparable from company to company . **Recalculated to make consistent with guidance.

According to this projection, there will be no seasonal boost overall in Q4 for the group of six. What's more, this midpoint total for Q4 is 11.6% below sales for the year-earlier quarter.

The economic uncertainties introduced by the financial crisis have made forecasting difficult for OEMs and their EMS providers. Consider Flextronics. This month, company revised its December quarter guidance by dropping the low end of the range for sales and EPS. The original outlook called for revenue in the range of $8.0 billion to $9.0 billion; Flextronics now expects sales in the range of $7.5 billion to $9.0 billion. What if softening demand pulls sales down to the low end of guidance for Flextronics and the others in the group? This one-quarter effect would not make much of an impact on the full year. Assuming that all six providers come in at the low end of their revenue outlook, *MMI* finds that the group's 2008 sales would decrease by 2.0%. But the effect on Q4 would be more significant. The quarter's sequential decline would increase to 10.9%, while its year-over-year drop would grow to 17.7%.

The picture for 2008 brightens when estimates are based only on reported results with no adjustment for Solectron's 2007 sales. Under this scenario, the group's estimated growth for 2008 becomes 15.4% (Table 2).

This rate is obviously attributable to the 36.9% estimated growth of Flextronics. At 51% of the group's projected sales in 2008, Flextronics can skew the group's results. Without Flextronics, the group's estimated sales would decline by 0.3%.

Providers' Q4 guidance for non-GAAP EPS is also presented here (Table 2). Guidance supplied by Flextronics, **Sanmina-SCI** and Plexus implies that these three companies expect a sequential decrease in their non-GAAP EPS for Q4. **Celestica's** Q4 outlook calls for non-GAAP EPS to remain the same or go down versus the Q3 level. **Jabil** expects non-GAAP EPS in Q4 to equal the Q3 result or increase sequentially. No such conclusions can be drawn from **Benchmark's** guidance.

Hon Hai Props Up 9-Month Growth

Although 2008 is ending with a downturn, preliminary nine-month results for the 11 largest EMS providers show a double-digit growth rate, thanks to the non-consolidated results of **Hon Hai Precision Industry**. The world's largest EMS provider racked up nine-month growth of 35.4% for its non-consolidated sales expressed in US dollars. Propped up by Hon Hai's contribution, combined nine-month revenue for the 11 largest providers grew by 13.3% year over year (Table 1).

Not to avoid a cliché, that's the good news. The sobering part of these results lies with the rest of the group. Without Hon Hai, aggregate growth for the ten remaining providers drops to 3.7% (Chart 1, p. 3).

Together, the 11 largest providers generated sales of $92.98 billion for the first nine months of 2008, compared with $82.05 billion in the year-earlier period. Besides Hon Hai, three other companies achieved double-digit growth for the first nine months. They are **Cal-Comp Electronics**, **Plexus** and **Universal Scientific Industrial** (USI). Among the double-digit elite, only Plexus is not based in Asia.

Table 1: Top 11 EMS Providers by Sales (M US$)

Company (in order of 9-mo. sales)	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.
Hon Hai*	33,701	24,899	35.4
Flextronics + Solectron	24,988	~24,280**	~2.9
Jabil	9,412	9,067	3.8
Celestica	5,743	5,860	-2.0
Sanmina-SCI	5,424	5,215	4.0
Elcoteq	3,886	4,008	-3.0
Cal-Comp	2,706	2,062	31.3
Venture	2,069	1,909	8.4
Benchmark	2,008	2,181	-7.9
USI	1,663	1,403	18.5
Plexus	1,383	1,166	18.7
Total/avg.	**92,983**	**82,050**	**13.3**

*Sales are non-consolidated. **Includes $8.89-billion estimate for Solectron's Q1-3 '07 sales.

Results from Asia-Based Providers

This nine-month data cannot be considered the final word for the top-11 providers. That's because Hon

Table 2: Q3 2008 and Nine-Month Results for Five Large EMS Providers Listed Outside the US

Company	Home base	Cur-rency	Q3 '08 sales	Q3 '07 sales	Yr.-yr. chg.	Q3 '08 net profit	Q3 '07 net profit	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.	Q1-3 '08 net profit	Q1-3 '07 net profit
Hon Hai*	Taiwan	M NT$	431,214	311,238	38.5	17,820	19,873	1,046,596	821,466	27.4	45,828	51,134
Elcoteq	Luxembourg	M EUR	740.5	1,059.7	-30.1	(11.5)	(6.3)	2,554.1	2,980.5	-14.3	(36.8)	(73.8)
Cal-Comp	Thailand	M Baht	37,668	26,190	43.8	642	959	87,547	67,232	30.2	1,881	2,287
Venture	Singapore	M S$	965.6	935.9	3.2	40.1	76.3	2,877.3	2,909.5	-1.1	162.1	225.7
USI	Taiwan	M NT$	16,741	16,857	-0.7	230	438	51,641	46,297	11.5	1,125	1,343

* Results are non-consolidated.

Table 3: Q3 2008 and Nine-Month Results Converted to US$ for Five Large EMS Providers Listed Outside the US

Company	Q3 '08 sales	Q3 '07 sales	Yr.-yr. chg.	Q3 '08 net profit	Q3 '07 net profit	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.	Q1-3 '08 net profit	Q1-3 '07 net profit
Hon Hai*	13,817	9,452	46.2	571	604	33,701	24,899	35.4	1,476	1,550
Elcoteq	1,112	1,458	-23.7	(17)	(9)	3,886	4,008	-3.0	(56)	(99)
Cal-Comp	1,113	834	33.5	19	31	2,706	2,062	31.3	58	70
Venture	691	617	11.9	29	50	2,069	1,909	8.4	117	148
USI	536	512	4.8	7	13	1,663	1,403	18.5	36	41
Total/avg.	**17,269**	**12,872**	**34.2**	**609**	**689**	**44,025**	**34,281**	**28.4**	**1,631**	**1,710**

* Results are non-consolidated. Currencies were converted to US$ by using three- and nine-month averages based on monthly 2008 and 2007 data from the US Federal Reserve.

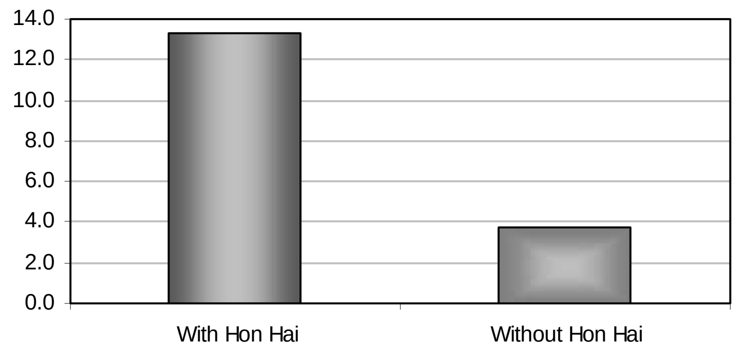
Hai's consolidated results are not included, even though, for this first time, Hon Hai along with other Taiwan-listed companies did report consolidated results for the first nine months. But Hon Hai has not supplied consolidated results for the same period in 2007. Therefore, year-to-year comparisons must be limited to non-consolidated data.

The company's Q3 growth, which basically defied the law of large numbers, lifted Hon Hai's sales increase for the first nine months. Non-consolidated sales in the quarter rose 38.5% in NT dollars, or 46.2% in US dollars, from the year-ago period (Tables 2 and 3). Nine-month revenue went up 27.4% in NT dollars, or 35.4% in US dollars, year over year. However, Hon Hai's net income for both the third quarter and the first nine months decreased from the comparable periods a year earlier.

Consolidated sales for the first nine months amounted to NT$ 1,384.6 billion, or $44.6 billion. On this revenue, Hon Hai earned net income of NT$45.8 billion, or $1.5 billion, which equates to a net margin of 3.3%. Gross margin for the period came to 8.9%, while operating margin was 4.2%, quite desirable by EMS standards.

Hon Hai's consolidated growth rate in US dollars for the first half of 2008 was seven points below its non-consolidated rate (Sept., p. 4). Consolidated sales include its handset unit, **Foxconn International Holdings**, which recorded a first-half growth rate of 4.3%. If Hon Hai's consolidated growth remained below its non-consolidated increase for the nine-month period, then top-11 growth would likely come down a bit but stay in double digits.

Chart 1: Initial Nine-Month Growth Rates for Largest Providers



Thailand-based **Cal-Comp Electronics**, a member of the **Kinpo Group**, also posted high year-on-year growth for both Q3 and the first nine months (Tables 2 and 3). The provider attributed this growth to increased business in PCB assembly, external hard disks and other products in the PC peripherals sector as well as greater sales from the set-top box space. However, Cal-Comp's net income for Q3 and the first nine months was down year over year. The company said it was difficult to pass on higher raw materials prices to

Table 4: Estimate of Nine-Month Growth of US-Traded Group with Solectron's 2007 Sales Added

Company (in order of 9-mo. sales)	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.
Flextronics + Solectron	24,988.1	~24,280*	~2.9
Jabil	9,411.8	9,066.6	3.8
Celestica	5,742.8	5,859.9	-2.0
Sanmina-SCI	5,424.3	5,215.2	4.0
Benchmark	2,008.4	2,181.4	-7.9
Plexus	1,383.4	1,165.5	18.7
Nam Tai	453.8	593.9	-23.6
Total/avg.	**49,412.6**	**~48,363**	**~2.2**

*Includes $8.89-billion estimate for Solectron's Q1-3 '07 sales.

Company (in order of 9-mo. sales)	Q3 '08 sales	Q2 '08 sales	Qtr.-qtr. chg.	Q3 '07 sales	Yr.-yr. chg.	Q3 '08 gross marg.	Q3 '07 gross marg.	Q3 '08 oper. marg.	Q3 '07 oper. marg.	Q3 '08 net inc.	Q2 '08 net inc.	Q3 '07 net inc.	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.	Q1-3 '08 net inc.	Q1-3 '07 net inc.
Flextronics	8,862.5	8,350.2	6.1	5,557.1	59.5	4.7	5.6	1.2*	2.7*	38.5	130.3	120.9	24,988.1	15,390.9	62.4	76.0	348.5
Jabil	3,264.9	3,088.3	5.7	3,129.8	4.3	7.0	7.3	2.7	1.6	57.5	38.4	11.7	9,411.8	9,066.6	3.8	71.9	31.8
Celestica	2,030.8	1,876.3	8.2	2,080.6	-2.4	7.4	5.8	2.2	1.9	32.1	39.8	51.5	5,742.8	5,859.9	-2.0	101.7	(2.0)
Sanmina-SCI**	1,703.6	1,903.3	-10.5	1,753.9	-2.9	7.7	6.0	2.1	-59.8	(11.2)	15.3	(1,109.1)	5,424.3	5,215.2	4.0	(20.3)	(1,162.8)
Benchmark	641.7	682.4	-6.0	672.6	-4.6	6.9	5.8	3.5	2.2	23.9	22.4	22.0	2,008.4	2,181.4	-7.9	69.0	72.4
Plexus	476.0	456.4	4.3	425.7	11.8	10.5	12.6	4.4	7.4	17.3	17.4	24.9	1,383.4	1,165.5	18.7	56.8	50.6
Nam Tai	160.5	146.2	-21.5	204.5	-21.5	9.8	12.7	2.8	6.8	4.9	11.8	12.7	453.8	593.9	-23.6	45.1	59.9
Total/avg.	**17,140.0**	**16,503.1**	**3.9**	**13,824.2**	**24.0**	**6.1**	**6.4**	**1.9**	**-5.4**	**163.0**	**275.4**	**(865.4)**	**49,412.6**	**39,473.4**	**25.2**	**400.2**	**(601.6)**

Table 5: Q3 and Nine-Month 2008 GAAP Results for Seven Large EMS Providers, US Traded (M$ or %)

*Intangible amortization was subtracted from reported operating income. **Company's net income includes discontinued operations of PC business.

customers.

Singapore-listed **Venture** reported operational earnings of S$73.8 million ($52.8 million) for Q3, the fifth straight quarter that operational earnings have been above S$70 million. According to Venture, its competitive cost structure has enabled it to sustain operational margins in spite of an aggressive pricing strategy. The company said that despite the current financial and economic environment, it has been able to win new customers and expand its market share with its existing customers. Venture presented Q3's year-over-year growth in US dollars as 13.8%, while *MMI's* dollar conversion yielded growth of 11.9% (Table 3, p. 3). In the quarter, Venture took a charge of S$29.8 million ($21.3 million) for a fair-value market adjustment on its derivative financial instrument.

Although USI's Q3 sales in NT dollars were flat versus the year-earlier quarter, the company still managed to achieve double-digit growth for the first nine months (Table 2, p. 3). But net income declined year over year in both Q3 and the first nine months.

US-Traded Sector

Combined nine-month sales of the seven largest EMS companies in the US-traded sector inched upward by about 2.2% when an estimate of $8.89 billion for **Solectron's** 2007 sales was added in (Table 4, p. 3). As has been noted here before, Flextronics' results do not reflect Solectron's revenue prior to Flextronics' acquisition of Solectron on Oct. 1, 2007.

Table 6: Inventory and Cash for Seven Large EMS Providers (M US$)

Company (in order of 9-mo. sales)	Q3 '08 inventory	Q2 '08 inventory	Q2-Q3 change %	Q1 '08 inventory	Q1-Q3 change %	Q3 '08 cash + equivalents	Q2 '08 cash + equivalents	Q2-Q3 change %
Flextronics	4,534.5	4,456.1	1.8	4,118.6	10.1	1,700.9	1,761.7	-3.5
Jabil	1,528.9	1,511.6	1.1	1,482.5	3.1	772.9	860.1	-10.1
Celestica	843.3	812.0	3.9	805.9	4.6	1,258.2	1,203.0	4.6
Sanmina-SCI	813.4	901.0	-9.7	949.9	-14.4	869.8	981.6	-11.4
Benchmark	362.7	393.0	-7.7	397.2	-8.7	341.4	288.0	18.5
Plexus	340.2	342.3	-0.6	313.0	8.7	166.0	206.5	-19.6
Nam Tai	32.7	22.3	46.6	28.5	14.7	250.5	271.9	-7.9
Total/avg.	**8,455.7**	**8,438.3**	**0.2**	**8,095.6**	**4.4**	**5,359.7**	**5,572.8**	**-3.8**

While the group's Q3 revenue increased 3.9% sequentially, aggregate (GAAP) net income for the quarter decreased by 40.8% from the prior period (Table 5). Only two providers, **Jabil Circuit** and **Benchmark Electronics**, recorded sequential increases in net income for Q3.

On a GAAP basis, combined gross margin for Q3 stood at 6.1%, down 30 basis points from the year-earlier quarter, whose results were not adjusted for Solectron's effect on margins (Table 5). Plexus and **Nam Tai Electronics** were clearly ahead of the rest of pack with regard to Q3 gross margins. Composite operating margin for the quarter amounted to 1.9%, with Plexus the only provider above 4%.

For the first nine months, the seven US-traded providers together earned net income of $400.2 million on sales of $49.41 billion for a net margin of 0.8%. A net margin at this level provides little or no room for a loss of profitability that could result from the current downturn.

The seven providers had a total of $5.36 billion in cash and cash equivalents on hand at the end of Q3. This total represented a decrease of 3.8% from the prior quarter's level (Table 6). Six out of seven providers saw sequential declines in the cash metric. Given the current emphasis on cash in a credit-starved environment, it would be surprising to see another such drop in the group's cash and equivalents in the current quarter.

Combined Q3 inventory for the group came to $8.46 billion, nearly the same as Q2's total (Table 6). Third-quarter inventory was still up 4.4% from Q1's level.

Company	Q1-3 '08 sales (M NT$)	Q1-3 '07 sales (M NT$)	% chg.	Q1-3 '08 net. inc. (M NT$)	Q1-3 '07 net. inc. (M NT$)	Q1-3 '08 sales (M US$)	Q1-3 '07 sales (M US$)	% chg.	Q1-3 '08 net. inc. (M US$)	Q1-3 '07 net. inc. (M US$)
Quanta	575,341	507,370	13.4	16,328	12,882	18,527	15,379	20.5	526	390
Compal Electronics	298,146	311,233	-4.2	9,901	9,537	9,601	9,434	1.8	319	289
Wistron	294,257	183,621	60.3	5,307	4,251	9,475	5,566	70.2	171	129
Inventec	245,219	162,018	51.4	3,879	3,864	7,896	4,911	60.8	125	117
Innolux	127,151	111,636	13.9	6,873	9,665	4,094	3,384	21.0	221	293
Inventec Appliances	52,229	50,248	3.9	2,128	2,376	1,682	1,523	10.4	69	72
MiTAC	47,006	60,792	-22.7	1,732	4,047	1,514	1,843	-17.9	56	123
Compal Communications	26,047	38,257	-31.9	990	3,089	839	1,160	-27.7	32	94
Ability Enterprise	24,644	24,213	1.8	1,325	1,647	794	734	8.1	43	50
Total/avg.	**1,690,040**	**1,449,388**	**16.6**	**48,463**	**51,358**	**54,421**	**43,931**	**23.9**	**1,561**	**1,557**

Table 7: Nine-Month Non-Consolidated Results for Nine Large Taiwan-Based ODMs

Currency was converted to US$ by using 9-month averages of monthly 2008 and 2007 data from the US Federal Reserve.

ODMs Chime In

On a non-consolidated basis, nine Taiwan-based ODMs collectively brought in nine-month sales of NT$1,690.0 billion, or $54.4 billion. Sales increased 16.6% in NT dollars from the year-ago period, or 23.9% in US dollars (Table 7). But net income in NT dollars was down 5.6%, and the US-dollar equivalent showed basically no change. Two companies, **Wistron** and **Inventec**, reported NT-dollar sales increases over 50%. Year-over-year growth rates varied widely among ODMs in the group and ranged well into negative territory.

For the first nine months, the ODM group's non-consolidated sales in US dollars grew 10.6 percentage points faster than revenue of the top-11 EMS providers. Combined sales for the nine ODMs and 11 EMS providers totaled $147.4 billion, up 17.0% year over year (Table 8).

Smaller US providers tabulated

Combined Q3 sales for five smaller US-traded providers increased by 6.5% year over year, but fell sequentially by 10%. All of these companies experienced sequential sales declines (Table 9). Overall gross margin for the quarter improved by 150 basis points from a year earlier to 11.1%, while the group's operating margin advanced by 50 basis points to 2.1%. **LaBarge** was the leader in both metrics. Nine-month sales for this US-traded group rose by 8.4% year over year, with LaBarge and **Key Tronic** posting double-digit increases.

Note: As is *MMI's* usual practice, results in non-US currencies were converted to US dollars by a using an average exchange rate for the period in question. Average exchange rates were calculated from monthly data supplied by the US Federal Reserve. Where contracted business was not conducted in US dollars, this methodology will introduce some distortion in growth rates.

Table 8: Q1-3 Revenue by Outsourcing Groups in M US$

Group	No. of cos.	Q1-3 '08 revenue	Q1-3 '07 revenue	% chg.
Largest EMS providers	11	92,983	82,050	13.3
ODM group	9	54,421	43,931	23.9
Total/avg.	**20**	**147,404**	**125,981**	**17.0**

Table 9: Q3 and Nine-Month 2008 GAAP Results for Five Smaller EMS Providers, US Traded (M$ or %)

Company (in order of 9-mo. sales)	Q3 '08 sales	Q2 '08 sales	Qtr.-qtr. chg.	Q3 '07 sales	Yr.-yr. chg.	Q3 '08 gross marg.	Q3 '07 gross marg.	Q3 '08 oper. marg.	Q3 '07 oper. marg.	Q3 '08 net inc.	Q2 '08 net inc.	Q3 '07 net inc.	Q1-3 '08 sales	Q1-3 '07 sales	Yr.-yr. chg.	Q1-3 '08 net inc.	Q1-3 '07 net inc.
LaBarge	68.2	77.8	-12.3	59.2	15.2	21.0	19.3	8.8	7.4	3.7	4.6	2.5	221.4	183.7	20.5	12.6	8.2
SMTC	60.1	66.3	-9.4	54.0	11.3	8.0	6.3	1.2	0.3	0.1	(6.3)	(1.2)	181.5	189.6	-4.3	(5.8)	1.7
Sparton	54.0	57.9	-6.7	58.9	-8.3	4.4	2.7	-5.4	-3.6	(3.4)	(10.5)	(1.4)	170.0	157.6	7.9	(13.3)	(5.3)
Key Tronic	48.2	57.3	-15.9	44.6	8.1	7.1	7.0	1.3	1.1	0.4	2.6	0.2	157.0	141.0	11.3	4.2	3.6
Nortech	31.7	32.0	-0.9	29.6	7.1	13.6	13.9	3.0	3.4	0.5	0.6	0.4	94.9	88.8	6.9	1.7	1.1
Total/avg.	**262.2**	**291.3**	**-10.0**	**246.3**	**6.5**	**11.1**	**9.6**	**2.1**	**1.6**	**1.3**	**(9.0)**	**0.5**	**824.8**	**760.7**	**8.4**	**(0.6)**	**9.3**

Projects Reconsidered

With economic conditions in flux, major initiatives in both the EMS and ODM sectors are being rethought.

Take **Elcoteq** (Luxembourg). Last year, the EMS provider announced that it had embarked on an Integrated EMS strategy to increase its mechanics expertise and services and to strengthen product development services that combine both electronics and mechanics (July 2007, p. 4; Aug. 2007, p. 2). This broadening of the company's service offering is meant for terminal products customers, especially mobile-phone manufacturers. According to Elcoteq, the plan has been a priority in 2008.

The company also said previously that in addition to developing internal operations, this strategy could call for M&A arrangements or various forms of collaboration with other companies in the same sector. Due to current uncertainty in the markets, the plan has been delayed and is more likely to be implemented in several phases.

Given current conditions, "I think that vertical integration is probably not exactly where you want to be when financing gets tighter and tighter," said Jouni Hartikainen, Elcoteq's president and CEO, during the last month's press conference to announce Q3 results. "We are still preparing how to get the service offering in place, and we will do it. But we have postponed certain activities, and we want to see where the world is going before we make any bigger moves."

Another provider that is rethinking plans is **Nam Tai Electronics** (Macao, China). The company has a project underway to construct a new factory building at Wuxi in China's Jiangsu Province. This undertaking, the first of three planned expansion projects, continues on schedule with completion still targeted for the first half of 2009. However, in view of global economic conditions and uncertainty in the business climate, management is giving serious consideration to postponing the other two stages of Nam Tai's expansion plan, namely the construction of a new factory in a Shenzhen industrial park and the development of the company's second site in Wuxi. The company will consider resuming these projects in mid 2009 by taking into account global economic conditions and Nam Tai's business development.

At least one ODM is reportedly changing its expansion plans as well. Taiwan's **Compal Electronics** no longer intends to expand in China next year and will scale back the amount of capacity it will initially put in Vietnam, according to *Digitimes*, an online news source in Taiwan. *Digitimes* reported that Compal now aims to invest in capacity for just 300,000 to 500,000 notebooks in Vietnam as the first phase of a production plan. It was reported late last year that Compal had started work on a notebook factory in the northern province of Vinh Phuc (Dec. 2007, p. 1).

The reported slowdown of Compal's plans for Vietnam brings up the question of whether or not **Hon Hai Precision Industry** (Tucheng City, Taiwan) has modified its $5-billion investment program for the country. Unfortunately, Hon Hai has provided few if any details about this investment plan, much less how it may or may not have changed.

CDR Acquires EMS Unit in Mississippi

Privately held **CDR Manufacturing** (Louisville, KY), which operates its EMS business under the trade name **Ayrshire Electronics**, has acquired through a subsidiary the Mississippi operation of EMS provider **ACT Electronics**. This move has saved the jobs of more than 200 employees who work at the Corinth, MS, plant, which had been slated for closure.

ACT Electronics, a portfolio company of **Sun Capital Partners** (Boca Raton, FL), is undergoing liquidation, according to **Realization Services** (Bedford Hills, NY), whose president also serves as chief restructuring officer of ACT. Recently, ACT closed its two plants in Hudson, MA.

The 350,000-ft^2 Corinth facility has done subassembly for the telecom, medical and industrial sectors. Its capabilities include RF manufacturing and testing for products such as DSL modems, satellite receivers/decoders and wireless terminals. The Mississippi plant offers medium- to high-volume, high-mix, full-service EMS.

In 2002, Sun Capital Partners acquired the US assets of **ACT Manufacturing**, an EMS company that had filed under Chapter 11 of the US Bankruptcy Code. The Mississippi operation was among the company's US assets that Sun Capital bought in a bankruptcy court auction.

Lincoln International (Chicago, IL), a mid-market investment bank, acted as financial advisor to ACT Electronics in the current transaction. The purchase price was not disclosed.

Ayrshire Electronics facilities are located in Kentucky, Arkansas, Minnesota, Mexico and now Mississippi.

Stadium Group Adds UK Provider

Stadium Group (Hartlepool, UK) has acquired **Zirkon**, an EMS provider in Rugby, UK, for net cash consideration of £2.5 million. According to Stadium, the deal further strengthens its Electronics division, which operates as an EMS business.

Zirkon, an EMS provider since 1999, brings expertise in the industrial instrumentation, security, medical and mobility sectors. The provider's manufacturing operations in Rugby cover 6,000 m^2, employ 84 people and have annual sales exceeding £7 million. These operations will continue under the Stadium Electronics trade name.

In a time of continued consolidation in the UK EMS industry, Stadium identified an opportunity to acquire a well-managed business that offers a perfect fit with its own operational model and growth strategy, the company said in a statement.

"Zirkon are an experienced company with a solid reputation, and its customer base will benefit from the added support from Stadium Group, including access to our wholly owned operations in China for offshore manufacturing and global procurement," stated Richard Reid, Stadium Electronics managing director. He said the acquisition complements the existing Stadium operations in Hartlepool.

*Hon Hai investment…*Through subsidiaries, Hon Hai Precision Industry has taken a 16% stake in a silicon foundry, **Advanced Microelectronic Products**, at a cost of NT$142.8 million ($4.3 million). This is one way to cement a relationship with a silicon supplier. Also, Hon Hai has made indirect investments totaling $17.0 million in two PCB product manufacturing operations in China.

*New business…*During **Flextronics'** analyst and investor meeting this month, the company disclosed several new or relatively new programs by customer name. Flextronics (Singapore) is manufacturing TVs for **Sony** under a contract described as "pretty big" by Flextronics CEO Mike McNamara. He said that more than anything this contract is responsible for making Sony a top-ten customer. In the mobile segment, Flextronics is ramping volume for **RIM**. On the automotive front, the provider revealed two ODM projects. Flextronics is doing the overhead lighting module for every **Mercedes** launched in 2010 and 2011 and is supplying lights on the same time line for the three series of **BMW** cars….**Wurldtech Security Technologies** (Vancouver, BC, Canada) has contracted **Suntron** (Phoenix, AZ) to design and manufacture various platform products in support of Wurldtech's Achilles Satellite Platform. Wurldtech is a provider of cyber-risk and compliance management solutions for industrial automation industries. As part of this award, Suntron will integrate the complete satellite platform in its Open System Solutions facility in Lawrence, MA. The facility specializes in services based on commercial off-the-shelf technology.
…**Integrated Microelectronics, Inc.** (Laguna, Philippines) will serve as manufacturing partner in a new alliance formed with **Validus Technologies** to serve the powered card industry. The first product designed by Validus and manufactured by IMI is the VALIDcard, described as the world's first powered card offering fully self-contained biometric authentication within a card form factor.

Flextronics Ends Agreement with MPC

Last month, Flextronics notified PC vendor **MPC** (Nampa, ID) that Flextronics would not supply product or services to MPC on grounds that MPC failed to meet its contractual obligations, according to an SEC Form 8-K filed by MPC. Then on Nov. 7, MPC announced that it filed under Chapter 11 of the US Bankruptcy Code.

In April, the two companies entered into an agreement under which Flextronics would perform manufacturing and other services for MPC at Flextronics' facility in Juarez, Mexico (April, p. 7).

*More capacity…***CEI Contract Manufacturing** (Singapore) has bought a second factory adjacent to its existing one in Batam, Indonesia. The two facilities will be linked to provide gross production area of around 80,000 ft^2, double the current space. CEI is positioning itself for further business growth from both PCB assembly and equipment manufacturing opportunities in 2009 and beyond.

New capabilities….**I. Technical Services** has added SMT production capacity, a new potting line and a new automated conformal coating line at its facility in Alpharetta, GA.

*People on the move…*Steven Barton and Donald Nigbor, who along with Cary Fu founded **Benchmark Electronics** (Angleton, TX), are retiring from the company. Barton is executive VP of Benchmark, and Nigbor is chairman. Both will continue to serve as directors until the 2009 annual meeting of shareholders, and each will continue to provide consulting services to the company through 2009. Benchmark's board intends to nominate CEO Cary Fu to succeed Nigbor as chairman, effective in May 2009. In addition, Benchmark has added Clay Williams to its board. He is senior VP and CFO of **National Oilwell Varco**, a service provider and manufacturer of equipment for oil and gas producers.
…Masaaki Yasukawa has resigned from his position as CEO of **Nam Tai Electronics** (Macao, China) for personal reasons related to his family, according to a statement from Nam Tai. Wong Kuen Ling (Karene Wong), CEO of the company's NTEEP business unit, has been appointed acting president and CEO of Nam Tai.
…**Sparton** (Jackson, MI) has named Cary Wood its new CEO. Since 2004, he has served as COO of **Citation**, a private company with foundry, machining and assembly operations. Richard Langley will retain the position of president. He became interim president and CEO following the retirement of David Hockenbrocht (March, p. 8).
…Flextronics has appointed Robert Edwards, executive VP and CFO of **Safeway**, to the provider's board. Edwards' appointment coincides with the retirement of Richard Sharp from the board.

No Time To Hunker Down

With demand sinking, providers are taking defensive measures to preserve their margins as much as possible. It's about reacting to a downturn of global proportions. Cutbacks are in the offing, and many in the EMS industry are hunkering down for the lean times ahead.

Although recessions take their toll on financial performance, they also can offer opportunities. Here's some advice: Don't let this bunker mentality stifle the pursuit of new opportunities. Strangely enough, a recession can actually be good for a business.

Take this one. *MMI* in a sense owes its well-being to the recession of 1991. That's the year *MMI* was launched. And in all honesty, the newsletter started off with a whimper, not a bang. In those early years, *MMI* covered electronics assembly in general, based on the trade magazine experience of the editor. But following that recession, the editor noticed that a particular segment of the electronics assembly market, contract manufacturing, was taking off. What had been a relatively unknown dumping ground for excess OEM work was turning into high-growth industry whose customers used it strategically for outsourcing. As time went on, more and more of the newsletter's coverage was devoted to contract manufacturing until *MMI* was dedicated fully to the industry in the mid '90s. But it all started with that recession. Without the recession, the industry's emergence would likely have been delayed, and who knows what would have happened to the newsletter.

It might be said that the newsletter was started during a recession to be in a position to benefit from it. Of course, that was not the plan at the time. But it does show that a new venture borne in a recession can pave the way for success later on.

New ventures come in all forms; they're not limited to start-ups. In an existing business, one might begin an effort to find customers in a new product area or start a team to make operations more efficient. Anything done now to add new lines of business or improve operations will benefit a company down the road. In fact, a recession gives management time to examine areas of a business that might receive scant attention during boom times.

This may not be the time to fund major new projects if cash is to be preserved. But it does not follow that creative efforts to add business or enhance operations should be suppressed.

It's human nature to hunker down during tough times. But if this psychology pervades a company's culture, it can interfere with the flow of creative ideas needed to assure long-term health.

A downturn puts a company on the defensive. But within the organization, attitudes should not follow suit.

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