

Manufacturing Market™ INSIDER

inside the contract manufacturing industry

Vol. 20, No. 11

November 2010

Robust Growth in 2010 Estimated for U.S.-Traded Group

During the dark days of the Great Recession, there were projections showing that not only would the EMS industry fail to snap back in 2010 but it would also enter a “new normal” stage of single-digit growth. Fresh estimates of 2010 sales for the six largest U.S.-traded EMS providers, often considered a bellwether of the EMS industry, defy such recession-era projections. According to these new estimates by *MMI*, the U.S.-traded group will achieve healthy double-digit growth in 2010.

Projected 2010 sales for the six providers total \$59.2 billion, up 18.1% from a year earlier. Compare that with the group’s revenue decline of 22.7% in 2009. The change in growth rates amounts to an estimated swing of 40.8 percentage points, a classic illustration of a rubber-band style recovery.

An 18.1% growth rate is a reminder that outsourcing-driven sales can still outpace OEM markets. Such double-digit growth also indicates that for one important sector of the EMS industry 2010 was not the beginning of a new-normal period of lower growth.

All but one company in the group of six is expected to attain double-digit growth this year. At the high end of the growth range is **Plexus** with a sales increase estimated at 35%, followed by **Jabil Circuit** and **Sanmina-SCI** at 25.3% and 23.9% respectively (Table 1, p. 2).

The midpoint of a company’s Q4 guidance served as the estimate for its Q4 sales. Sales estimates for the year were obtained by adding the Q4 guidance midpoint to the company’s nine-month revenue.

For Q4, the group’s sales are estimated to rise by 16.9% year over year, somewhat below the projected annual rate of 18.1%. Four out of six companies have estimated Q4 growth rates in double digits, again led by **Plexus** (Table 1).

Projected Q4 sales for the group total \$16.2 billion. This revenue figure represents quarter-to-quarter growth of 3.0%, which is well below the sequential increases of the previous two quarters. The Q3 gain was 9.3% (see article on p. 2), and the Q2 increase 10%. Whether or not the lower Q4 rate is a disappointing result remains to be seen. It is not clear how much seasonality one should expect with providers increasingly diversifying their businesses. Plus **Flextronics** believes that

OEMs had more consumer products pre-built in Q3 for the holiday season in order to take advantage of ocean shipping. But on the other hand, in some segments end market demand should surge if business and government customers seek to empty their budgets at the end of the year.

Only **Celestica** is projected to realize double-digit sequential growth in Q4. For the rest, quarter-to-quarter estimates are 2.4% or less, with **Benchmark Electronics** essentially flat and **Sanmina-SCI** going negative (Table 1).

Guidance for **Jabil**’s November quarter suggests that the company’s non-GAAP EPS will improve over the prior quarter’s result. **Flextronics** and **Celestica** expect non-GAAP EPS for calendar Q4 to equal or exceed that for the previous period. The remaining three members of the group – **Benchmark**, **Plexus** and **Sanmina-SCI** – have set forth Q4 guidance calling for a sequential decline in non-GAAP EPS.

Some articles in this issue

Cover story	1
Rubber-band recovery is estimated for U.S.-traded group.	
Q3 Results Speak Volumes	2
Hon Hai Continues to Skew Numbers	4
InForum Releases New Forecast	6
Nortech To Buy Assets of Competitor	6

Table 1: Q4 2010 Guidance and Estimates for the Six Largest U.S.-Traded Providers (sales in B\$ except as noted)

Company	Q4 guidance	Q4 midpoint	Q3 '10 sales	Qtr.-qtr. estim. chg.	Q4 '09 sales	Yr.-yr. estim. chg.	Q1-3 '10 sales	2010 estimated sales	2009 sales	estimated change	Q3 EPS Non-GAAP* \$	Q4 Guidance Non-GAAP* \$
Flextronics	7.5 - 7.7	7.6	7.42	2.4%	6.56	15.9%	19.93	27.53	23.75	15.9%	0.23	0.23 - 0.25
Jabil**	3.9 - 4.0	3.95	3.86	2.3%	3.09	27.9%	10.32	14.27	11.39	25.3%	0.52	0.53 - 0.57
Sanmina-SCI	1.625 - 1.675	1.65	1.69	-2.2%	1.48	11.6%	4.84	6.49	5.24	23.9%	0.46	0.40 - 0.44
Celestica	1.7 - 1.85	1.775	1.55	14.8%	1.66	6.6%	4.65	6.43	6.09	5.5%	0.20	0.20 - 0.26
Benchmark	590 - 630 M	610 M	0.61	-0.6%	0.60	1.6%	1.78	2.39	2.09	14.2%	0.38	0.33 - 0.37
Plexus	550 - 580 M	565 M	0.56	1.7%	0.43	31.3%	1.58	2.15	1.59	35.0%	0.65	0.56 - 0.62
Total/avg.		16.15	15.69	3.0%	13.82	16.9%	43.10	59.25	50.15	18.1%		

Q4 estimates equal midpoint of Q4 guidance. 2010 estimates equal nine-month sales plus midpoint of Q4 guidance.
*Non-GAAP EPS may not be comparable from company to company. **Q4 2010 data correspond to the quarter ending November 2010.

Q3 Results Speak Volumes

The six largest U.S.-traded EMS providers together generated Q3 sales of \$15.69 billion, up 26.1% year over year. This combined sales growth, so far the year's highest such rate, beat *MMI's* estimate of 23.2%, which was based on providers hitting the midpoint of their Q3 guidance (Aug., p. 6). Five out of the six companies reported quarterly growth of more than 20% from the year-earlier period (Table 1A).

On a sequential basis, the group's Q3 sales increased by 9.3%. Both **Flextronics** and **Jabil Circuit** achieved double-digit growth.

The group's composite GAAP gross margin for the quarter came in at 6.6%, a 10-basis point dip from the prior quarter but a 40-basis point gain nonetheless from the year-earlier peri-

od. Four out of six providers recorded a sequential decline in GAAP gross margin. Overall GAAP operating margin measured 2.7%, unchanged from the prior quarter but up 120 basis points from the same period last year. As usual, **Plexus** had the highest GAAP margins in both categories (Table 1A).

Collectively, the six providers earned GAAP net income of \$319.5 million for the quarter, yielding a net margin of 2.04%. Sequential net income growth of 38.4% was well ahead of the corresponding sales increase of 9.3%.

For the first nine months, the group tallied sales of \$43.1 billion for a gain of 18.6%, which should set the stage for a robust 2010 (see p. 1). All providers but one (**Celestica**) recorded nine-month revenue increases above 15% (Table 1A).

Results for five out of the six EMS providers are briefly summarized be-

low. Financials of the remaining provider, **Jabil**, were covered in last month's issue on p. 5.

Benchmark Electronics. Non-GAAP EPS for Q3 amounted to \$0.38, surpassing the company's guidance of \$0.33 to \$0.36. This EPS result was up 15% sequentially and 41% year over year. Q3 revenue of \$614 million increased 20% from the year-earlier period and 4% from the prior quarter. Benchmark saw sequential sales growth in all of its sectors, led by test and instrumentation at 10%.

In Q3, the company produced a non-GAAP gross margin of 7.8%, which was down 20 basis points from Q2. For the third straight quarter, non-GAAP operating margin came in at 4.0%. The company is aiming for an operating margin target of 4.5% (non-GAAP) based on revenue reaching a level of roughly \$675 million per quarter.

During the quarter, Benchmark

Table 1A: Q3 and Nine-Month 2010 GAAP Results for the Six Largest U.S.-Traded EMS Providers (M\$ or %)

Company (in order of 9-mo. sales)	Q3 '10 sales	Q2 '10 sales	Qtr.-qtr. chg.	Q3 '09 sales	Yr.-yr. chg.	Q3 '10 gross marg.	Q2 '10 gross marg.	Q3 '10 oper. marg.	Q2 '10 oper. marg.	Q3 '10 net inc.	Q2 '10 net inc.	Q3 '09 net inc.	Q1-3 '10 sales	Q1-3 '09 sales	Yr.-yr. chg.	Q1-3 '10 net inc.	Q1-3 '09 net inc.
Flextronics ¹	7,422.3	6,565.9	13.0	5,831.8	27.3	5.4	5.6	2.4	2.4	144.4	118.2	19.7	19,928.4	17,197.0	15.9	322.7	(374.1)
Jabil	3,860.9 ²	3,455.6	11.7	2,799.5	37.9	7.4	7.6	2.7	2.8	58.7	52.0	5.5	10,321.1	8,302.0	24.3	140.5	(889.4)
Sanmina-SCI	1,687.8	1,625.2	3.9	1,354.0	24.7	7.8	7.6	3.4	3.8	31.4	21.6	(32.7)	4,840.5	3,758.3	28.8	63.1	(112.1)
Celestica	1,546.5	1,585.4	-2.5	1,556.2	-0.6	6.9	6.8	2.4 ³	1.2 ³	35.4	(6.1)	(0.6)	4,650.0	4,427.8	5.0	55.2	23.9
Benchmark	613.9	589.4	4.2	510.5	20.3	7.8	8.0	3.9	4.0	23.0	20.8	16.4	1,775.2	1,489.0	19.2	62.0	37.2
Plexus	555.6	536.4	3.6	393.0	41.4	10.1	10.4	5.2	5.0	26.6	24.4	15.1	1,583.0	1,160.5	36.4	71.7	29.3
Total/avg.	15,687.0	14,357.9	9.3	12,445.0	26.1	6.6	6.7	2.7	2.7	319.5	230.9	23.4	43,098.2	36,334.6	18.6	715.2	(1,285.2)

¹ Intangible amortization was subtracted from Flextronics' reported operating income. ² For the quarter ended Aug. 31, 2010. ³ MMI calculation.

landed ten new programs estimated to contribute annual revenue of \$100 million to \$117 million.

With regard to Q4, the provider is seeing some signs of softness in customer demand and somewhat slower than expected progression of new business ramping to volume. As a result, Benchmark is expecting Q4 to be relatively flat compared with Q3. (See guidance on p. 2.) In the computing sector, the company has observed a broad-based decline in demand with the exception of one customer. Contributing to this decline is the windup of production for a former major customer in the sector.

Celestica. For Q3, the provider reported sales of \$1.55 billion and non-GAAP EPS of \$0.20, both of which were at the low end of Celestica's guidance. The company experienced some demand changes late in Q3, primarily in its consumer end market, which shifted demand into Q4. On a sequential basis, half of Celestica's segments exhibited single-digit sales declines in Q3, while sales in the other half went up at single-digit rates.

Non-GAAP gross margin in Q3 equaled 7.2%, up 20 basis points from Q2 and 10 basis points from a year earlier. For the third quarter in a row, non-GAAP operating margin was 3.4%.

Recent large program wins in the company's server and consumer segments are expected to serve as the primary driver for a sequential increase in Q4 revenue, which would be 15% at the guidance midpoint. Celestica's business is expected to grow more rapidly than previously projected over the next few quarters. The company had set a three-year CAGR target of 6% to 8%, along with other goals including an annual operating margin goal of 3.5% to 4%. Celestica now anticipates that revenue growth in 2011 will be in the 10% to 15% range, and operating margins over the next several quarters are likely to be in the 3% to 3.5%

range.

Flextronics. For its fiscal Q2 ended Oct. 1, revenue of \$7.42 billion exceeded guidance of \$6.8 billion to \$7.2 billion, and non-GAAP EPS of \$0.23 surpassed guidance of \$0.19 to \$0.21. Sales for the quarter rose 13% sequentially and 27% year over year, while non-GAAP EPS grew 21% sequentially and 77% year over year. Flextronics earned an all-time high GAAP net income of \$144 million. ROIC came in at a record 31.9%.

The company saw sequential growth across all of its market segments. By far the highest growth arose from the consumer digital segment, where sales were up 49%. Flextronics also achieved double-digit growth in the mobile and infrastructure segments, where revenue increased 15% and 12% respectively. The provider estimated that component shortages resulted in missed revenue of \$125 million to \$150 million, down from roughly \$200 million-plus in the prior quarter. Flextronics expects shortages to return to normalized levels in early 2011.

Non-GAAP operating margin for the quarter stayed at 2.9%, unchanged for the fourth straight quarter. Flextronics reported that its component businesses continue to remain at below-normalized profitability, masking margin expansion in its core EMS businesses.

During the quarter, the company generated \$385 million in free cash flow, which allowed it to repurchase \$195 million of its shares.

Flextronics expects a bit less seasonality in fiscal Q3, where guidance calls for sequential growth of 1% to 4%.

Plexus. For its fiscal Q4 ended Oct. 2, revenue of \$556 million came in just above guidance of \$530 million to \$555 million. EPS of \$0.65 beat guidance of \$0.58 to \$0.63, as a lower than expected tax rate added \$0.02 to EPS. Sales grew 41% year over year and

4% sequentially. The company recorded sequential growth in three of its five sectors: wireless infrastructure (5%), medical (4%) and industrial/commercial (18%). In the wireline/networking sector sales were down slightly (-1%), while revenue from defense/security/aerospace declined by double digits (-10%).

Gross margin for fiscal Q4, amounted to 10.1%, down 30 basis points from the prior quarter, while operating margin stood at 5.2%, an improvement of 20 basis points. Plexus continues to aim for a 10% gross margin and 5% operating margin.

During fiscal Q4, the provider won 24 new manufacturing programs expected to generate about \$115 million in annualized revenue. New engineering business totaled about \$21 million, a record.

Anticipating some headwinds in the first half of fiscal 2011, the provider expects that revenue for Q1 of fiscal 2011 will be flat or modestly higher than sales in the recently concluded quarter. Among the headwinds is the transfer of Plexus' **Cisco Starent** program to another EMS provider at an accelerated pace. Plexus expects to return to strong growth in the second half and is still comfortable with a growth target of 15% to 18% for fiscal 2011.

Sanmina-SCI. Sales for its fiscal Q4 ended Oct. 2 totaled \$1.69 billion, up 4% sequentially and 25% year over year. Non-GAAP EPS came in at \$0.46, well above guidance of \$0.35 to \$0.41 mainly because of expense control and a lower than planned tax rate. Compared with fiscal Q3, non-GAAP EPS was up 44%.

Non-GAAP gross margin for fiscal Q4 was 7.8%, down 10 basis points sequentially. This result was below the range specified by the company's guidance, and the company blamed the margin miss on a cost and execution issue in its PCB business. The provider believes this issue has been taken

care of. In the quarter, gross margin (non-GAAP) for Sanmina-SCI's components businesses retreated to slightly below the corporate average. According to the company, gross margin for the components businesses should average 15+%. Non-GAAP operating margin equaled 4.1%, up 20 basis points from the prior quarter.

On a sequential basis, sales in the company's communications networks and industrial/defense/medical sectors rose 12.9% and 3.7% respectively, while Sanmina-SCI saw revenue in its enterprise computing and storage and multimedia sectors declined by 9.8% and 5.3% respectively.

In its outlook for Q1 of fiscal 2011, the company reported that some customers are pausing to review their future requirements and some have a lot of inventory in the pipeline. Also, component shortages are expected to cause some missed revenue. Still, the provider expects to see "good growth" for fiscal 2011.

Hon Hai Continues To Skew Numbers

For 11 of the largest EMS providers, composite sales growth in Q3 amounted to 42.9% year over year. That's with **Hon Hai Precision Industry's** increase of 61.7% in U.S. dollars. Exclude Hon Hai from this group, and its Q3 growth shrinks nearly in half to 22.1%. Q3 sales for the group totaled \$44.7 billion, of which Hon Hai's sales represented 59%.

Hon Hai also skewed Q3 sequential growth. With Hon Hai, the group's Q3 revenue increased by 20.2% from the prior quarter. Without Hon Hai, the gain falls to 8.8%.

The same goes for nine-month sales growth, which was 36% counting all 11 providers. Take Hon Hai away, and the increase drops to a more ordinary

15.5%. Including Hon Hai, the group produced nine-month revenue of \$114.0 billion (table, p. 5).

This group consists of six U.S.-traded companies and five companies whose stock is listed elsewhere and whose results are reported in non-U.S. currencies. Since the U.S.-traded providers have been covered in the previous article, results for the remaining five companies are briefly described below.

Cal-Comp Electronics. Q3 sales of 32.58 billion baht increased 10% quarter over quarter and 15% year over year. Nine-month sales of 89.44 billion baht rose 12% from the year-earlier period. The Thailand-based company said increased demand in printer, set-top box and PCBA products drove sales higher. Gross margin for Q3 was 3.85% versus 4.70% in the prior quarter and 3.47% in the same period a year ago. For the first nine months, gross margin came in at 4.05%, 45 basis points higher than a year earlier.

For Q3, Cal-Comp earned a net income of 501.3 million baht attributable to shareholders, down 7% sequentially but up 13% year over year. Net margin equaled 1.54%, down from 1.80% (1.83% excluding minority interests) in Q2. For the first nine months, net income attributable to shareholders climbed 41% from the year-ago period to 1.42 billion baht.

Elcoteq. In Q3, operating income excluding restructuring costs turned positive at 1.3 million euros, compared with a loss of 3.0 million euros in the prior quarter. The European company reported a Q3 operating loss of 2.5 million euros and a net loss of 17.7 million euros. Q3 sales totaled 250.7 million euros, down 25% sequentially and 24% year over year. Sales fell from the prior quarter mainly due to the loss of **Sharp's** KIN smartphone business. In July, Elcoteq announced that Sharp decided to put KIN smartphone deliveries on hold.

The company stated that practically all of its customers have been satisfied with its efforts in strengthening its balance sheet. At the end of September, net debt amounted to 23.0 million euros, representing a decrease of 70% from Q2. Cash flow after investing activities amounted to 47.9 million euros.

Among new business won, Elcoteq cited two examples. During the quarter, the provider started an engagement to produce set-top box assemblies for a Korean OEM and expanded Elcoteq's LED business with **Philips** by preparing for mass production in India. In the consumer electronics segment, Elcoteq to some extent is aiming to shift from turnkey business to consignment.

The provider expects Q4 sales to be on the Q3 level and Q4 operating income to improve from Q3.

Earlier, the company announced a new organization structure effective Oct. 1 that splits Elcoteq's business into two segments: EMS and AMS (Sept., p. 1).

Hon Hai Precision Industry. For Taiwan's Hon Hai, *MMI* calculated consolidated Q3 sales of NT\$846.7 billion, up 29% sequentially and 57% year over year. (Like other Taiwan-listed companies, Hon Hai reports financial results on a year-to-date basis.) Computed gross margin for Q3 amounted to 8.09%, slightly below 8.11% for the prior quarter and down from 9.01% for the year-earlier period. According to *MMI's* figures, Q3 operating margin was 2.53%, down from 3.07% in Q2 and 3.75% in the year-ago quarter. As calculated, Q3 net income attributable to shareholders totaled NT\$21.0 billion, up 25% sequentially and 15% year over year.

For the first nine months, sales grew 51% year over year to NT\$2.05 trillion, while net income attributable to shareholders increased 19% from a year earlier to NT\$55.7 billion. Gross margin for nine months was 8.24%,

Q3 and Nine-Month 2010 Results for 11 of the Largest EMS Providers (M US\$ or %)															
Company (in order of 9-mo. sales)	Head- quarters	Reports in US\$	Q3 '10 sales	Q2 '10 sales	Qtr.- qtr. chg.	Q3 '09 sales	Yr.-yr. chg.	Q3 '10 net profit	Q2 '10 net profit	Q3 '09 net profit	Q1-3 '10 sales	Q1-3 '09 sales	Yr.-yr. chg.	Q1-3 '10 net profit	Q1-3 '09 net profit
Hon Hai (Foxconn)	Taiwan	No	26,569	20,542	29.3	16,435	61.7	658	526	559	64,166	40,684	57.7	1,748	1,406
Flextronics	Singapore	Yes	7,422	6,566	13.0	5,832	27.3	144	118	20	19,928	17,197	15.9	323	(374)
Jabil	Florida	Yes	3,861	3,456	11.7	2,800	37.9	59	52	6	10,321	8,302	24.3	141	(889)
Sanmina-SCI	California	Yes	1,688	1,625	3.9	1,354	24.7	31	22	(33)	4,841	3,758	28.8	63	(112)
Celestica	Canada	Yes	1,547	1,585	-2.5	1,556	-0.6	35	(6)	(0.6)	4,650	4,428	5.0	55	24
Cal-Comp	Thailand	No	1,031	913	12.9	833	23.8	16	17	13	2,775	2,316	19.8	44	29
Benchmark	Texas	Yes	614	589	4.2	511	20.3	23	21	16	1,775	1,489	19.2	62	37
Plexus	Wisconsin	Yes	556	536	3.6	393	41.4	27	24	15	1,583	1,161	36.4	72	29
Universal Scientific Industrial	Taiwan	No	549	463	18.6	424	29.4	28	17	19	1,466	1,101	33.2	62	37
Venture	Singapore	No	500	469	6.6	645	-22.4	36	33	27	1,426	1,700	-16.1	97	86
Elcoteq	Luxembourg	No	324	423	-23.3	475	-31.7	(23)	(7)	(9)	1,053	1,681	-37.4	25	(98)
Total/avg.			44,661	37,168	20.2	31,257	42.9	1,035	816	631	113,983	83,817	36.0	2,692	175
Total/avg. without Hon Hai			18,092	16,626	8.8	14,822	22.1	377	290	73	49,817	43,132	15.5	944	(1,231)

Results in non-U.S. currencies were converted to U.S. dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2009 and 2010 data from the U.S. Federal Reserve.

down 96 basis points year over year, and operating margin stood at 3.0%, 91 basis points lower than in the same period a year ago.

Hon Hai does not break down its sales by the businesses it operates, but *MMI* believes that EMS work still accounts for the majority of its revenue.

Universal Scientific Industrial.

The Taiwan-based EMS provider recorded Q3 revenue of NT\$17.49 billion, up 19% sequentially and 26% year over year. USI achieved a gross margin of 12% for Q3, matching the result of both the prior quarter and year-earlier period. Raw material cost represented 81% of revenue, while labor cost accounted for 3%, down from 4% in the previous quarter. Q3 operating income totaled NT\$968 million, representing a sequential gain of 78%. Operating margin for Q3 was 6%, up by two percentage points from the previous quarter. In Q3, USI earned net income of NT\$906 million, compared with NT\$549 million for prior quarter and NT\$605 million for the year-ago period. The provider's net profit margin in Q3 amounted to

5.2%.

USI enjoyed sequential sales growth in four of its segments, with communications revenue showing the highest growth rate at about 37%. Double-digit increases of about 19% were also seen both in the network storage and servers area and in industrial and automotive products, while sales from electronics packaging and (other) EMS rose at about 8%. The only sales decline occurred in computers and peripherals, where revenue was off by about 4%.

Earlier this year, USI became a wholly owned subsidiary of **Advanced Semiconductor Engineering**, a provider of IC packaging and test services, through a tender offer for USI stock.

Venture. The Singapore-listed provider reported Q3 revenue of S\$677.9 million, up 4% sequentially but down 27% year over year.

For the first nine months of 2010, the company recorded sequential quarterly improvement in sales across most segments. Except for the anticipated decline in revenue primarily from a

major customer in Venture's printing and imaging segment, the provider's business exhibited strong growth year-on-year, according to a statement from the company.

For Q3, profit after tax and minority interests was S\$48.6 million, 6% higher than the prior quarter's result and 27% above the year-earlier number. Net margin came in at 7.2%, up 20 basis points sequentially and 310 points year over year. The company stated that this progressive improvement is in line with its strategy to grow a sizable ODM and Solutions Enterprise (branded product) business.

Venture generated S\$60.2 million in cash flow from operations during the quarter, resulting in an 18% improvement in its cash position versus the prior quarter.

The company observed that most customers maintain a positive sentiment, but a few customers have exercised caution in their order commitments going into Q4. Overall, Venture expects sequential growth to continue into the fourth quarter.

InForum Releases New Forecast

A new forecast by market research service **InForum** projects that the EMS industry will grow from \$108.4 billion in 2009 to \$158.9 billion in 2014, resulting in a compound annual growth rate of 8.0%. The forecast has a larger ODM industry expanding at nearly the same five-year CAGR. InForum projections show ODM sales increasing from \$124.2 billion in 2009 to \$181.8 billion in 2014, corresponding to a CAGR of 7.9% (table).

In 2010, EMS revenue will rise by 15.0% to \$124.6 billion and then grow by 11.4% to \$138.8 billion in 2011, according to the new forecast. In the remaining three years, annual EMS growth is expected to go no higher than 5.1%.

InForum predicts that the ODM sector will experience 21.6% growth

	2009	2010	2011	2012	2013	2014
TAM	\$1,252,117	\$1,369,143	\$1,442,055	\$1,501,461	\$1,558,901	\$1,604,751
EMS	\$108,369	\$124,624	\$138,831	\$144,877	\$152,212	\$158,873
ODM	\$124,220	\$151,050	\$161,298	\$169,071	\$176,369	\$181,804

Source: InForum

in 2010, followed by annual increases that will dwindle from 6.8% in 2011 to 3.1% in 2014.

The forecast calls for TAM to increase at a 5.1% CAGR from \$1.25 trillion in 2009 to \$1.60 trillion in 2014. InForum uses OEM COGS as a proxy for TAM. The firm pointed out that since the truly addressable market is lower than COGS, outsourcing penetration is correspondingly higher than what can be derived from the forecast data.

"InForum's Five Year Forecast reflects a more optimistic view for the industry, fueled in part by growth in the communications segment. Our

Chief Economist, Matt Chanoff, offered members at the Q4 Forum guidance, as key macro economic factors continue to play out and impact the industry, particularly global outsourcing. We head into 2011 with numbers moving in the right direction but keep a close eye on key indicators in order to provide members an early warning if that should change," said Kathleen Geraghty, president of InForum.

InForum's annual Five Year Forecast for the Electronics Manufacturing Industry was released to members this month at the firm's Q4 Forum. For more information, go to www.inforuminc.com.

News

Minnesota-Based Nortech To Buy Minnesota Assets of Competitor

Nortech Systems, a publicly-held EMS provider based in Wayzata, MN, has agreed to acquire the EMS assets of **Winland Electronics**, a publicly-traded company in Mankato, MN.

Under the terms of the purchase agreement, Winland will sell its EMS business unit to Nortech for \$2 million in cash, an inventory consumption obligation of least \$2.2 million, and the assumption of substantially all of the liabilities of the business unit, according to an SEC Form 8-K filed by Winland.

Winland's EMS operation designs and manufactures PCB assemblies and complete box assemblies, primarily for OEMs in markets including medical, industrial, transportation and scientific

instrumentation. For the first nine months of 2010, sales of the EMS unit totaled \$11.6 million, down from \$15.6 million in the year-earlier period. The unit recorded an operating loss of \$366,000 in the first nine months of 2010, compared with an operating profit of \$405,000 in the same period of 2009.

Nortech intends to continue operations in Mankato and anticipates that this acquisition will be accretive starting in the second half of fiscal 2011. The company will lease Winland's 58,000-ft² facility there, comprised of manufacturing, warehouse and office space.

"Winland's existing customer base nicely complements ours, offering further diversification and additional growth opportunities," stated Curt Steichen, senior VP of Nortech's commercial operations. He added that the Winland operation will provide needed EMS capacity to support the growth that Nortech is experiencing in its industrial and medical markets.

Mike Degen, Nortech's president and CEO, said Winland had developed a reputation for excellence in design and manufacturing.

Winland also designs a proprietary line of environmental monitoring products and markets them to the security industry. This proprietary products business will be retained by Winland, which will continue as a public company.

"The sale of our Electronic Manufacturing Services business unit allows us to maximize shareholder value," stated Thomas de Petra, Winland's CEO. He said the proceeds from this sale will be used to satisfy existing contractual, banking and employee agreements, as well as give the company enough capital to move forward with its proprietary products business.

The transaction is subject to approval by Winland's shareholders and Nortech's bank. According to Winland, the deal is expected to close during the first quarter of 2011. Nortech gave a tentative closing date of Janu-

ary 1, 2011.

This is the second acquisition announced by Nortech this year. In May, the company purchased a contract manufacturer of medical devices (May, p. 7-8).

For the record... The price of **Cal-Comp Electronics'** purchase of **Spectrographics** should be below the \$20 million authorized by Cal-Comp's board (Oct., p. 1-2), according to a recent disclosure by Thailand-based Cal-Comp.

More capacity... **Flextronics Medical**, a unit of Flextronics (Singapore), will open a dedicated 180,000-ft² facility in Senai, Johor, Malaysia. The new site will expand Flextronics Medical's low-cost footprint, resulting in a greater diversity of low-cost locations to meet the needs of medical customers. Designed for clean-room manufacturing, the facility will provide medical manufacturing services including PCBA, plastic injection molding, and disposable device subassembly for medical devices and life sciences equipment. Flextronics Medical selected the Senai location for its low-cost solution and proximity to medical expertise in Singapore, where the unit already operates a medical manufacturing facility. The unit expects the Senai site to be fully operational by April 2011. This project follows Flextronics Medical's expansion in 2009, when the unit added 600,000 ft² of capacity in Shenzhen, China. Another unit of Flextronics, Flextronics Global Services, has launched a 240,000-ft² facility in Milan, Italy, and a 20,000-ft² facility in Delhi, India. From the Milan facility, FGS will provide order fulfillment and other services initially planned for the Italian, Portuguese, Spanish and Swiss markets. The Delhi location will offer fulfillment, managed logistics and other services for OEMs expanding their operations in Northern India. ...**Hon Hai Precision**

Industry (Tucheng City, Taiwan) and **Yingli Green Energy** (Baoding, China), a vertically integrated photovoltaic manufacturer listed on the New York Stock Exchange, together will build a polycrystalline silicon plant at Datong in China's Shanxi province, reported Taiwan's *Digitimes*, citing a Taiwan newspaper, which in turn relied on an online source in China. According to this unconfirmed reporting, the joint effort will also include solar cell production. ...Aided by an EU grant, **Jabil Circuit** (St. Petersburg, FL) will invest HUF 1.8 billion (\$8.9 million) to increase capacity for mobile phone production in Tiszaújváros, Hungary, reported the *Budapest Business Journal*. ...**Plexus** (Neenah, WI) plans to invest \$25 million to \$30 million for the development of a new manufacturing facility in Oradea, Romania. The facility will be 160,000 ft² to 215,000 ft² in size. Construction is expected to begin in 2011. Plexus started operations in Oradea with a leased facility in 2009 and anticipates that staffing levels in Romania may grow to 500 when the new plant is fully operational. ...**Benchmark Electronics** (Angleton, TX) intends to expand its precision technology operations into Penang, Malaysia, with capacity expected to be on line there by the end of the year. Precision technology services include mechatronics, precision machining, metal joining, clean-room production, final assembly, integration and system test. The company expects that precision technology services will contribute about 10% of its revenue for 2011. ...**CTS** (Elkhart, IN), a supplier of components, sensors and EMS, will add 30,000 ft² to its EMS site in Ayutthaya, Thailand, near Bangkok. This project will enable CTS to add complex box build and high-level mechanical assembly to the site, which currently serves as CTS's Asia center for high-tech PCBA. The building expansion, which will nearly double the facility's size, will be com-

pleted by mid-2011. ...**Elite Electronic Systems** (Enniskillen, Northern Ireland) is expanding its U.S. operations in Fairfield County, SC. The EMS provider will move these operations from a 30,000-ft² facility in Winnsboro, SC, to a 50,000-ft² speculative building in an industrial park also within Fairfield County. Elite will purchase the building from the county. In 2006, the company opened its U.S. subsidiary, Elite ES, in Winnsboro primarily to supply **Caterpillar** in Newberry, SC. This expansion project provides additional capacity needed for supplying Caterpillar as well as future demand of other customers. ...**Syrma Technology**, an India-based EMS provider, has added a new 20,000-ft² facility in the Krishnagiri District of India's Tamil Nadu state to accommodate strong demand for the company's custom RFID tag solutions and its telecom infrastructure services. About 200 jobs will be created there by December. Syrma is the manufacturing arm of **The Tandon Group**.

People on the move... At Plexus, Steve Frisch, an executive officer of the company, has assumed a new role as regional president – EMEA (Europe, Middle East, Africa). Frisch will retain top-level responsibility for the company's engineering services organization. Also, Plexus' board has increased its size to 10 directors and has elected Philip Martens to the new seat. He serves as president, principal executive officer and COO of **Novelis**, a producer of aluminum products. ...Olli-Pekka Vanhanen has rejoined **Elcoteq** (Luxembourg) as VP, business control and accounting and a member of the management team. In addition, CFO Mikko Puolakka will leave the company as of Dec. 1 to pursue his career outside the company, Elcoteq said. The company has also added two directors to its board – Hannu Krogerus, an attorney, and Paul Pauku, CEO of a consulting group

News

and a former **HP** executive....Publicly held **IEC Electronics** (Newark, NY) has promoted Jeffrey Schlarbaum and Donald Doody to president and executive VP respectively....Michael Marti has resigned from his position as CEO of **Adeptron** (Markham, Ontario, Canada) to pursue other business opportunities, the company stated. He will remain on the board of the publicly traded EMS company. Adeptron has appointed a senior executive, Trent Carruthers, as interim CEO....**PartnerTech** (Vellinge, Sweden) has hired Dan Turecek as executive VP, operations for Systems Integration and Enclosures, one of new areas into which the company has reorganized its customer centers and production units. He served most recently as managing director of a logistics chain of four plants at an **IKEA** subsidiary. Peter Nilsson has joined PartnerTech as executive VP, operations for Electronics, the other new area. Previously, he was managing director of **Rimaster Electronics**, an EMS business within Sweden's Rimaster, and at one time worked at **Sanmina-SCI**. In addition, Jan Johansson, formerly VP of operations, has taken over as executive VP, market and sales....**LaBarge** (St. Louis, MO) has promoted Jens Hauvn to director of corporate quality. In 1992, he joined LaBarge's Appleton, WI, operation where he served most re-

cently as senior manager of engineering and technology....**Sypris Electronics** (Tampa, FL), whose activities include EMS for the aerospace and defense sectors, has appointed Jim Long VP of operations. Before coming to Sypris, he served as VP and GM of Sanmina-SCI Optical Technology located in Shenzhen, China....Jon Saunders has joined **Suntron** (Phoenix, AZ) as the plant manager for Suntron's new manufacturing facility in Methuen, MA. He brings over 25 years of management experience in the local EMS market, including his most recent position as plant manager of Sanmina-SCI's Manchester and Derry, NH, facilities....**Catalyst Manufacturing Services** (Endicott, NY) has brought in David Zick as GM of its Endicott and Owego, NY, operations. Most recently, he was GM of **Teledyne Printed Circuit Technology**. Also, Greg Davis has come on board as director of business development for the Western Region of the U.S. His previous job was in sales at Sanmina-SCI.

*EMS provider participates in November election...*Suntron delivered 4,800 **Hart InterCivic** voting machines in time for the Harris County (Texas) General Election. An August fire destroyed all of Harris County's voting machines, and Hart InterCivic, the supplier of the original equipment,

turned to Suntron, which was given just seven weeks to build replacement machines. Suntron is Hart's longtime contract manufacturer.

Omission... There was an omission in the last sentence of the October edition's cover story. The sentence on page 3 should have included the greenfield option for offshore providers looking to set up manufacturing in North America. Due to an oversight, the sentence only named two options: alliance or acquisition.

Editor and Publisher: John Tuck
Circulation Director: Ann Connors
Board of Advisors: Michael Thompson, CEO, I. Technical Services; Andy Leung, CEO, VTech Communications Ltd.

Manufacturing Market Insider is a monthly newsletter published by JBT Communications, 43 Summit Ridge, Burlington, VT 05401-3911. Phone (802) 651-9334. Fax (802) 651-9336. © Copyright 2010 by JBT Communications™. ISSN 1072-8651

The information and analysis presented here are based on sources believed to be reliable, but content accuracy is not guaranteed. The publisher shall not be held liable for any business decisions influenced by this publication.

E-mail: jbt@mfgmkt.com
Web site: www.mfgmkt.com

Subscription Form

- I want 12 monthly issues of **MMI** at the annual rate of US\$495. For subscriptions outside North America, add \$50 for the print edition or \$25 for the electronic edition.
- Send the print edition. Or send the electronic edition (pdf).
- Payment is enclosed to JBT Communications.

Mail or fax to: JBT Communications, 43 Summit Ridge, Burlington, VT 05401-3911. Fax (802) 651-9336.

- Please bill me. Charge my credit card (see below).

Name _____ Title _____

Company _____ Phone _____

Street Address _____ Fax _____

City/State/ZIP _____ Email _____

MasterCard _____ Visa _____ Amex no. _____ Expires _____