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Nine-Month Revenue Falls for Top 11

A mid single-digit decline for the first nine months of 2013 raises the possibility that the top-11 EMS providers as a whole will not end up with annual growth in 2013.

For the first nine months, revenue for the 11 largest EMS providers by total sales amounted to \$139.5 billion, down 4.5% year over year. In order to match last year's sales of about \$202.9 billion, the top-11 group would need to increase its Q4 sales sequentially by some 29.7%. That may be a lot to ask, but it's not completely out of the question in a seasonally strong Q4. Last year, top-11 sales in Q4 rose by about 20.8% from the prior quarter, driven by **Hon Hai's** sequential growth of 33% (in US dollars). *MMI* estimates that just to bring 2013 revenue even with the 2012 level, Hon Hai will need to generate a sequential growth percentage for Q4 in the mid 40s, or year-over-year growth in the mid teens. The EMS giant is not likely to get any sequential push in Q4 from the six largest US-traded providers (see article on p. 6). Given what a flat 2013 would require, a meaningful growth year may well be a long shot for the top 11.

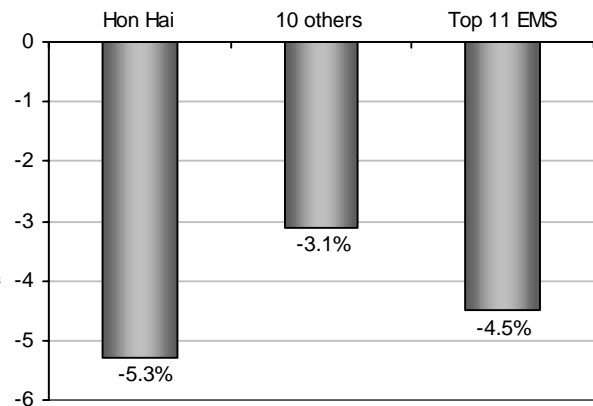
Unlike in 2012 when Hon Hai gave a boost to top-11 sales, so far this year Hon Hai has exerted a drag on sales. For the first nine months, top-11 sales without Hon Hai were down 3.1% versus a decline of 4.5% including the company (Chart 1). So Hon Hai made

the decline worse by 1.4 percentage points.

While top-11 revenue is not all EMS – ODM, component and other types of revenue are mixed in – the majority of it is, enough so that this decline serves as a rough gauge of how well the EMS industry did in the first nine months, based on the belief that the top 11 account for 80% to 90% of industry revenue.

Nine-month sales results can give one a partial view of how the top-11 order will shape up at the end of the year. The first three companies in the current standings – Hon Hai, **Flextronics** and **Jabil** in that order – will easily retain those positions at year-end barring the entry of any potentially new candidate, i.e., **Pegatron**. **Sanmina**, **Celestica** and **Cal-Comp Electronics** will remain in fourth, fifth and sixth place respectively, based on

Chart 1: Nine-Month 2013 Sales Growth Year Over Year



2013 estimates for the first two companies (see p. 6). However, **Cal-Comp** is a member of the **New Kinpo Group**, whose 2013 sales might challenge those of **Sanmina** and **Celestica** in the annual ranking of the *MMI* Top 50. The next four providers are in a fairly tight cluster after nine months so it's unclear how **Shenzhen Kaifa Technology**, **Benchmark Electronics**, **Plexus** and **Universal Scientific Industrial (USI)** will finish except to

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Table 1: Q3 and Nine-Month 2013 Results for the 11 Largest EMS Providers (M US\$ or %)

Company (in order of 9-mo. sales)	Head- quarters	Reports in US\$	Q3 '13 sales	Q2 '13 sales	Qtr.- qtr. chg.	Q3 '12 sales	Yr.-yr. chg.	Q3 '13 net profit	Q2 '13 net profit	Q3 '12 net profit	Q1-3 '13 sales	Q1-3 '12 sales	Yr.-yr. chg.	Q1-3 '13 net profit	Q1-3 '12 net profit
Hon Hai (Foxconn)	Taiwan	No	30,814	30,010	2.7	29,346	5.0	1,031	569	1,099	88,256	93,210	-5.3	2,154	2,042
Flextronics	Singapore	Yes	6,410	5,791	10.7	6,175	3.8	118	59	161	17,497	18,521	-5.5	128	441
Jabil ¹	Florida	Yes	4,815	4,468	7.8	4,338	11.0	127	50	83	13,700	12,825	6.8	266	282
Sanmina	California	Yes	1,505	1,489	1.1	1,579	-4.6	39	19	164	4,422	4,591	-3.7	79	172
Celestica	Canada	Yes	1,492	1,495	-0.2	1,575	-5.3	57	28	44	4,359	5,011	-13.0	96	111
Cal-Comp Electronics	Thailand	No	961	1,015	-5.4	1,173	-18.1	7	8	13	2,970	3,494	-15.0	24	34
Shenzhen Kaifa Technology	China	No	593	606	-2.1	623	-4.9	10	9	1	1,793	1,956	-8.3	25	11
Benchmark Electronics	Texas	Yes	600	608	-1.3	611	-1.8	24	9	19	1,750	1,834	-4.6	44	39
Plexus	Wisconsin	Yes	568	572	-0.7	595	-4.6	25	23	1	1,697	1,777	-4.5	66	44
Universal Scien- tific Industrial ²	China	No	655	475	37.9	507	29.2	21	15	25	1,686	1,426	18.3	57	56
Venture ³	Singapore	No	464	471	-1.4	489	-5.0	28	24	26	1,364	1,427	-4.5	74	81
Total/avg.			48,877	47,000	4.0	47,011	4.0	~1,486	~813	~1,635	139,494	146,072	-4.5	~3,011	~3,311
Total/avg. with- out Hon Hai			18,063	16,990	6.3	17,665	2.3	~455	~244	~536	51,239	52,862	-3.1	~857	~1,269

These are the 11 largest EMS providers based on total sales. Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2012 and 2013 data from the US Federal Reserve. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard. ¹ For Jabil, Q3 '13 corresponds to the quarter ended Aug. 31, 2013. ² In recent times, ODM business contributed 30% to 40% of USI's sales. ³ About 35% of Venture's sales in 2012 came from ODM work.

say that according to 2013 estimates, Benchmark will rank ahead of Plexus. But the final 11th spot should go to **Venture**.

There were nine top-11 providers whose nine-month sales in US dollars fell from the year-earlier period. Only Jabil and USI were able to increase their sales year over year, with USI posting a double-digit gain (Table 1 above).

For the first nine months, the 11 providers together earned net income of approximately \$3.0 billion, down about 9% from a year earlier. (The net income total is approximate because not all companies follow the same accounting standard.) Since nine-month sales fell by 4.5%, net income declined faster than sales did. Net profit declines at six companies outweighed increases at the five other companies. Overall net margin for the first three quarters was about 2.2%. Hon Hai contributed about 72% of net income

for the period while generating 63% of sales.

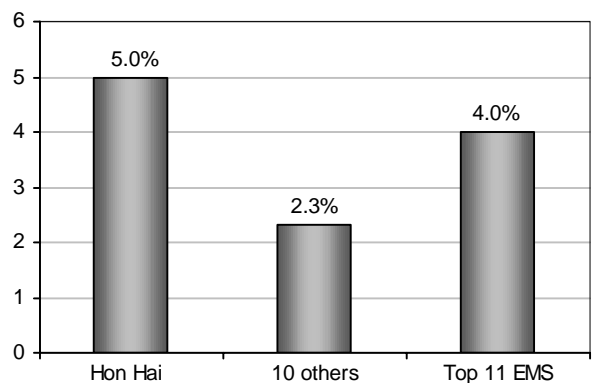
Q3 sales for the top 11 totaled \$48.9 billion, up 4% sequentially and year over year. Five companies grew their sales from the prior quarter, led by USI with a 37.9% increase in US dollars. Flextronics also reported a sequential gain in double digits (Table 1). On a year-over-year basis, four providers, including the three largest, succeeded in growing their Q3 sales.

These increases, including double-digit gains at Jabil and USI, more than offset the declines at the seven other companies. In this quarterly comparison, the presence of Hon Hai was a positive. Excluding Hon Hai, Q3 growth would have been 2.3%, meaning that the EMS giant added 1.7 percentage points to the top-11's year-over-year

growth (Chart 2 below).

Net income for the top 11 in Q3 amounted to approximately \$1.5 billion for a net margin of about 3%. Without Hon Hai, combined net margin would have been 2.5%. Benchmark, Plexus and Venture recorded net margins of 4% or better. Top-11 net income fell about 9% year over year, despite 4% sales growth. Though six out of 11 providers raised their Q3 net income from a year earlier, these im-

Chart 2: Q3 2013 Sales Growth Year Over Year



provements were more than offset by lower net income results at the remaining five companies.

But on a sequential basis, the top 11's net income growth in Q3 far outstripped sales growth. Net income surged about 83% quarter on quarter, while sales increased 4%. The net income gains were nearly universal as 10 out of 11 providers saw their net profits rise from the prior quarter (Table 1).

Results for five providers based in Asia

- At **Cal-Comp Electronics**, Q3 sales of 30.21 billion baht (US\$961 million) were down 18% year over year, and nine-month sales of 90.15 billion baht (US\$3.0 billion) fell 17% year over year (-15% in US dollars). The company said sales were lower mainly due to a continuance of weakened global demand in the PC industry.

Revenue from external customers in Cal-Comp's computer peripheral segment made up 76% of Q3 sales.

For Q3, the company's gross margin came in at 4.50%, up 102 basis points year over year, and nine-month gross margin stood at 4.38%, up 94 basis points year over year. The increase in gross margin mainly stemmed from a difference in product mix as compared with last year.

The company produced Q3 net income of 216 million baht (US\$6.9 million), down 48% year over year, and nine-month net income of 717 million baht, down 32% year over year (-30% in US dollars).

Cal-Comp reported that it is undergoing facility expansion as well as restructuring.

- For the third quarter, **Hon Hai Precision Industry** recorded sales of NT\$919.3 billion (US\$30.8 billion), up 3% sequentially and 5% year on year.

Q3 gross margin was 7.07%, 127 basis points higher than in the prior quarter but 46 basis points below the

year-earlier result. Despite the year-over-year decline in gross margin, operating margin improved slightly from a year earlier. Q3 operating margin equaled 3.46%, up 7 basis points year over year, as selling, administrative and R&D expenses as a percentage of sales shrank by 52 basis points from a year ago to 3.61%. Compared with the prior quarter, operating margin rose by 138 basis points mainly as a result of the sequential increase in gross margin.

In Q3, net income attributable to shareholders was NT\$30.8 billion (US\$1.0 billion), up 81% from Q2 and but down 6% from the same period a year ago. Net margin in Q3 was 3.3%.

For the first nine months, sales totaled NT\$2.62 trillion (US\$88.3 billion), down 5% year on year. While revenue was lower, net income was comparatively higher. Nine-month net income increased to NT\$64.1 billion (US\$2.15 billion) from NT\$60.7 billion (US\$2.04 billion) in the year-ago period. Operating margin for the first three quarters came in at 2.45%.

- **Shenzhen Kaifa Technology** reported Q3 sales of 3.6 billion RMB (US\$593 million), down 3% sequentially (-2% in US dollars) and 8% year over year (-5% in US dollars). Yet Q3 net income of 64.2 million RMB (US\$10.5 million) was up from 55.0 million RMB (US\$8.9 million) in the prior quarter and 5.0 million RMB (US\$0.8 million) in the year-earlier period. Net margin for the third quarter was 1.8%.

For the first nine months, revenue came to 11.1 billion RMB (US\$1.8 billion), down 11% year over year (-8% in US dollars). But the company boosted its nine-month net income to 151.7 million RMB (US\$24.6 million) from 71.2 million RMB (US\$11.3 million) in the year-ago period.

- **Universal Scientific Industrial** generated Q3 revenue of NT\$19.6 billion (US\$655 million), up 38% sequentially and 29% year over year. USI, the EMS unit of **Advanced**

Semiconductor Engineering, also does ODM work, which in recent times has contributed 30% to 40% of USI's revenue.

USI saw revenue from communications products increase dramatically from both the prior quarter and the year-earlier period. Communications revenue, which represented 47% of total sales, climbed about 170% sequentially and 102% year over year, as it gained 23 percentage points of total revenue share versus Q2 and 17 percentage points of share versus Q3 2012.

Q3 gross margin measured 9.7%, down 170 basis points sequentially and 360 basis points year over year. Operating margin stood at 3.5%, down 10 basis points from the prior quarter. In Q3, net income attributable to shareholders amounted to NT\$615 million (US\$20.6 million), up 35% quarter on quarter but down 17% year on year.

Nine-month sales of NT\$50.1 billion (US\$1.7 billion) rose 18% from a year earlier, while nine-month net income of NT\$1.7 billion (US\$56.7 million) increased 2%.

- **Venture**, which also carries on an ODM business, posted Q3 sales of S\$588 million (US\$464 million), essentially flat versus Q2 (-1% in US dollars) and down 3% year over year (-5% in US dollars). Yet net profit attributable to shareholders totaled S\$35.1 million (US\$27.7 million), up 17% sequentially (15% in US dollars) and 8% year over year (6% in US dollars). The company turned in a Q3 net margin of 6.0%, an improvement of 90 basis points from the prior quarter and 60 basis points from the year-ago period.

Over the first nine months, Venture rang up sales of S\$1.7 billion (US\$1.4 billion), down 5% year over year (-4% in US dollars), while attributable net profit came to S\$93.1 million (US\$74.4 million), down 8% year over year. Net margin for the period was

5.5%.

For summaries of Q3 results for the US-traded providers in the top 11, see *MMI's* October issue on p. 2-4 and the next article in this month's issue.

Growth Quarter for US-Traded Group

Combined Q3 sales for the six largest US-traded EMS providers rose on both a sequential and year-over-year basis, an outcome that wouldn't normally raise eyebrows. Except that this is first time in two years that the group of six has achieved year-over-over growth in quarterly sales.

Revenue for the six providers totaled \$15.39 billion, up 6.7% sequentially and 3.5% year over year.

Year-on-year growth at **Flextronics** and **Jabil** outweighed declines at the other four companies, while Jabil was the only provider with a double-digit gain. The two companies also increased their sales with respect to the prior quarter, supplying most of the push for the group's sequential growth in Q3 (Table 1A below). In this comparison, Flextronics led the way with a double-digit increase.

Actual Q3 sales were \$450 million, or 3%, above *MMI's* estimate for the quarter (Aug., p. 2). What's more, 6.7% sequential growth was nearly twice the newsletter's projection of 3.6%, and 3.5% year-over-year growth

beat *MMI's* estimate by a full three percentage points. *MMI* based its estimates on the midpoint of each company's sales guidance for Q3. Five out of six companies reported sales above the midpoint of their guidance, with Flextronics hitting the high end of its guidance and Jabil exceeding it.

It follows that group revenue for the first nine months of 2013 also beat *MMI's* projections. For the period, combined sales came in at \$43.43 billion 104 basis points above the newsletter's estimate of \$42.98 billion, and revenue fell 2.5% year over year, compared with an estimated decline of 3.6%. Just one company, Jabil, succeeded in growing its nine-month sales from the year-earlier period. The other companies had single-digit declines except for **Celestica**, whose sales went down 13% (Table 1A).

Five out of six providers follow GAAP accounting rules, while the sixth, Celestica, adheres to IFRS reporting standards. For the five GAAP companies, GAAP gross margin in Q3 was a combined 6.7%, up 10 basis points sequentially but down 10 basis points year over year. Flextronics and **Benchmark Electronics** were able to raise their gross margins sequentially, while **Sanmina**, Benchmark and **Plexus** accomplished year-over-year growth (Table 1A).

Together, the five companies produced a GAAP operating margin of

2.4%, up 40 basis points sequentially but down 60 basis points year over year. Although Plexus, as usual, posted the highest gross margin for Q3, Benchmark took the prize for the quarter's highest operating margin with a 4.9% result. Four out of five providers improved their operating margins from the prior quarter; only Jabil endured a decline. Compared with a year earlier, margin increases occurred at Sanmina, Benchmark and Plexus. As for the lone IFRS reporting company, Celestica raised its operating margin both sequentially and year on year (Table 1A).

On a sequential basis, GAAP net income for the five companies in Q3 grew much faster than sales did. Their collective net income of \$332.2 million was more than double the amount of the prior quarter as earnings surged by 108% sequentially. By contrast, sales went up 7.5%. All five companies increased their net income quarter on quarter, and four out of five boosted their net income by 99% or more. But on a year-over-year basis, net income dropped by 22.3%, while sales rose by 4.5%. Sanmina was largely responsible for this decline, though net income also fell at Flextronics. Q3 net margin for the GAAP reporting companies was 2.4%, up 120 basis points sequentially but down 80 basis points year over year.

For the first nine months of 2013, combined GAAP net income for the

Table 1A: Q3 and Nine-Month 2013 Results for the Six Largest US-Traded EMS Providers (M US\$ or %)

Company	Q3 '13 sales	Q2 '13 sales	Qtr.-qtr. chg.	Q3 '12 sales	Yr.-yr. chg.	Q3 '13 gross marg.	Q2 '13 gross marg.	Q3 '12 gross marg.	Q3 '13 oper. marg.	Q2 '13 oper. marg.	Q3 '12 oper. marg.	Q3 '13 net inc.	Q2 '13 net inc.	Q3 '12 net inc.	Q1-3 '13 sales	Q1-3 '12 sales	Yr.-yr. chg.	Q1-3 '13 net inc.	Q1-3 '12 net inc.
Flextronics	6,410.1	5,791.1	10.7	6,174.8	3.8	5.7	5.4	5.9	2.2 ¹	1.4 ¹	2.7 ¹	118.2	59.3	160.5 ²	17,496.5	18,520.8	-5.5	128.2	440.6 ²
Jabil ³	4,814.9	4,467.8	7.8	4,338.1	11.0	7.3	7.4	7.3	1.8	2.3	3.3	127.0	50.1	82.8	13,700.0	12,825.2	6.8	265.6	281.8
Sanmina	1,505.3	1,489.2	1.1	1,578.6	-4.6	7.7	7.7	7.3	3.0	2.4	2.0	38.8	18.7	164.2	4,422.1	4,591.0	-3.7	78.7	171.7
Benchmark	599.7	607.5	-1.3	610.8	-1.8	7.6	7.3	7.3	4.9	2.1	4.1	23.7	8.5	19.3	1,749.6	1,834.2	-4.6	43.7	38.5
Plexus	567.7	571.9	-0.7	594.8	-4.6	9.6	9.7	9.5	4.7	4.4	4.6	24.5	23.2	0.7	1,697.4	1,777.1	-4.5	65.7	44.2
Subtotal/avg.	13,897.7	12,927.5	7.5	13,297.1	4.5	6.7	6.6	6.8	2.4	2.0	3.0	332.2	159.8	427.5	39,065.6	39,548.3	-1.2	581.9	976.8
Celestica	1,491.9	1,495.1	-0.2	1,575.4	-5.3	6.9	6.4	6.9	4.3	2.1	2.0	57.4	28.0	43.7	4,359.4	5,011.0	-13.0	95.9	110.5
Total/avg.	15,389.6	14,422.6	6.7	14,872.5	3.5									43,425.0	44,559.3	-2.5			

All results are based on GAAP except those of Celestica, which has adopted IFRS reporting. With the exception of sales, GAAP and IFRS results are not necessarily comparable. ¹ Intangible amortization was subtracted from reported operating income.

² Net income from continuing operations. ³ For Jabil, Q3 '13 corresponds to the quarter ended August 31.

five companies sank by 40.4% to \$581.9 million. This drop was far worse than their 1.2% decline in sales.

Q3 summaries for two providers

Last month's issue covered quarterly results for four out of the six largest US-traded EMS providers. Results for the remaining two companies are briefly summarized below.

Flextronics. For its fiscal Q2 ended Sept. 27, the company reported sales of \$6.41 billion, up 11% sequentially, driven by growth in the company's three largest business groups. On the year-over-year basis, sales increased 4%, thanks to double-digit growth in the High Reliability Solutions (HRS) and High Velocity Solutions (HVS) groups, which outweighed single-digit declines in the other groups. Non-GAAP EPS of \$0.22 rose 22% sequentially but fell 15% year over year. Both revenue and non-GAAP EPS were at the high end of guidance.

Non-GAAP operating income amounted to \$158.6 million, up 16% from the prior quarter but down 13% from the year-earlier period. GAAP operating income was \$149.9 million, compared with \$87.4 million in the previous quarter, which included \$40.8 million in restructuring charges, and \$174.6 million in the same period a year ago. (Flextronics does not include intangible amortization in GAAP operating income.)

GAAP net income from continuing operations totaled \$118.2 million, or \$0.19 a share, up from \$59.3 million, or \$0.09 a share, in the prior period but down from \$160.5 million, or \$0.24 a share, a year earlier.

Non-GAAP gross profit increased 6% sequentially. But non-GAAP gross margin fell 20 basis points from the prior quarter to 5.8%, as better overhead absorption, continued improvement in printed circuit board (Multek) operations, and, to a lesser extent, incremental benefits from restructuring were undermined by operational ineffi-

ciencies and higher start-up costs associated with several complex programs being ramped and a higher concentration of HVS business. Compared with a year earlier, non-GAAP gross margin was also down 20 basis points. Non-GAAP operating margin stood at 2.5%, 10 basis points higher than in the prior quarter due to operating income expansion but 50 basis points below the year-earlier result.

Integrated Network Solutions revenue (40% of total sales) rose 2% sequentially, in line with expectations. Double-digit growth in networking and modest growth in the server and storage area were mostly offset by a single-digit decline in telecom. Compared with a year earlier, INS revenue was down 4%. Industrial and Emerging Industries business (15% of sales) grew 4% sequentially, also in line with expectations, as new programs with new customers began to ramp. On a year-over-year basis, IEI sales declined 4%.

HRS revenue (12% of sales) decreased 3% sequentially, which was below expectations of flat sales, but went up 19% year on year. Much of the sequential decline was in medical, which was off 4%. HVS business (33% of sales) climbed 36% quarter on quarter, which was above expectations of 25% to 30% growth due to multiple ramping new programs. Versus a year ago, HVS business was up 14%.

Flextronics had one 10% customer in the quarter – **Google-owned Motorola Mobility**.

Flextronics' sales and non-GAAP EPS guidance for the December quarter appear in Table 1B on p. 6. At the midpoint of sales guidance, revenue would be at \$6.7 billion, up 4.5% sequentially but below the \$6.9-billion target that Flextronics presented during its May Investor and Analyst Day. The \$0.23 midpoint of EPS guidance is also lower than the December quarter target of \$0.25. Flextronics is see-

ing some near-term pressure in the broader demand environment, resulting in some unfavorable mix changes and some slippage in new product ramps. For the December quarter, the company expects non-GAAP operating income of \$160 million to \$190 million. On a sequential basis, the company is forecasting low single-digit declines for INS and HRS, a high single-digit decline for IEI, and about 15% to 25% growth for HVS, according to Flextronics slides. (The company's CEO gave a slightly different outlook for INS and HVS.) Roughly two-thirds of HVS's growth is expected to come from Flextronics' partnership with Motorola.

Sanmina. For its fiscal Q4 ended Sept. 28, sales totaled \$1.51 billion, up 1% sequentially but down 5% year over year. Non-GAAP EPS amounted to \$0.46, up 15% quarter on quarter and unchanged from the year-earlier period. Sales fell within revenue guidance, while EPS exceeded earnings guidance by three cents. The company earned GAAP net income of \$38.8 million, or \$0.44 a share, compared with \$18.7 million, or \$0.22 a share, in the prior quarter and \$164.2 million, or \$1.96 a share, in the year-ago period. GAAP net income for fiscal Q4 included a tax benefit of \$21.5 million, or \$0.25 a share, versus a tax benefit of \$159 million, or \$1.90 a share, recognized in the year-earlier quarter.

Non-GAAP gross margin came in at 7.8%, the same as reported for the prior quarter and up 40 basis points from a year earlier. The company's Integrated Manufacturing Solutions segment produced a non-GAAP gross margin of 6.6%, up 30 basis points sequentially due to mix and 10 basis points year over year, while the Components, Products and Services segment turned in a non-GAAP margin of 10.9%, down 90 basis points sequentially but up 70 basis points year over year. The sequential decline in the CPS margin reflects lower net profit-

ability in the product areas, largely due to a slower than expected ramp of new products. Sanmina made a change that affected both segments: it moved its optical and RF module product and services business to the CPS segment.

The company recorded non-GAAP operating income of \$55.7 million, up 12% sequentially. Non-GAAP operating margin increased by 40 basis points from the prior quarter to 3.7%, as operating expenses fell by 30 basis points as a percent of revenue. Compared with a year earlier, the non-GAAP margin was up by 20 basis points.

Accounting for 49% of company sales, Communications Networks revenue grew 1.5% sequentially in line with expectations, as Sanmina saw

good, stable demand in the quarter, driven by networking and wireless accounts. Consistent with guidance, revenue from the company's Defense/Industrial/Medical segment (29% of sales) rose 4.6% quarter on quarter, and business was up in all three sub-segments. Computing and Storage business (13% of sales) declined 1.1%, basically driven by slower growth in new programs; whereas sequentially flat sales were forecasted. Sanmina expected Multimedia sales to be down sequentially, and they dropped 7.9%, as there was overall slower growth of new programs in the Multimedia segment (9% of sales). The company is working to improve the mix of business in the segment,

and Sanmina reported that it has exited the set-top box business.

The company generated \$90 million in cash flow from operations and \$72 million in free cash flow.

For fiscal Q1 ending Dec. 28, Sanmina expects a modest decline in sales, the result of seasonality and slower than anticipated ramp-up of new programs. See the company's sales and EPS guidance below. Included in guidance is a non-GAAP operating margin of 3.1% to 3.5%. The company is forecasting that the Communications Networks and Defense/Industrial/Medical segments will be flat sequentially, while the outlook for the Computing and Storage and Multimedia segments is down.

Slight Drop Projected for US-Traded Group

If the six largest US-traded EMS providers hit the midpoint of their Q4 sales guidance, 2013 will be another down year for the group as a whole. According to *MMI's* Q4 estimates, which have been set equal to the midpoint of providers' guidance, the group's 2013 sales will decline slightly by 1.2%. Group revenue for the year is estimated at \$58.76 billion, down from \$59.48 billion in 2012. If this estimate proves true, then 2013 will mark the second year of declining sales for the group as 2012 revenue fell by 8%. Projected 2013 sales remain 9.1% below a post-recession high of \$64.62

billion in 2011. Overall, this sector of the EMS industry may have recovered from the Great Recession, but it has not prospered.

In order to turn 2013 into a growth year, the six providers must generate Q4 sales more than \$715 million above *MMI's* estimate for the year. That means the providers would need to exceed the midpoint of their Q4 guidance by more than that amount on a combined basis – a pretty tall order.

MMI is projecting that **Jabil** will be the only provider to achieve sales growth for 2013. (In this analysis, Jabil's annual sales run from December to November.) Sales declines at the other five companies are projected to range from slight to modest except for **Celestica**, whose revenue is esti-

mated to drop by 10.7% (Table 1B below).

While 2013 may end up with a decline, the estimate for combined Q4 sales does offer one hopeful sign. Projected Q4 revenue of \$15.34 billion represents year-over-year growth of 2.8%. If such an increase were realized, then Q4 would be the second quarter in a row to show year-on-year growth. Two quarters would not constitute a trend, but they would show this group heading in the right direction. If the group is truly on a growth trajectory, that will be borne out in the next one or two quarters.

Estimates say **Flextronics** will be the prime mover in the quarterly increase with a 9.4% increase at midpoint of its guidance. *MMI's*

Table 1B: Q4 2013 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B\$ except as noted)

Company	Q4 '13 guidance	Q4 mid-point	Q3 '13 sales	Qtr.-qtr. estim. chg.	Q4 '12 sales	Yr.-yr. estim. chg.	2013 est. sales	2012 sales	Est. change	Q4 guidance adjusted EPS* \$	Q4 EPS midpoint	Q3 '13 adjusted EPS* \$	EPS Q-Q chg. at midpoint	Q4 '12 adjusted EPS* \$	EPS Y-Y chg. at midpoint
Flextronics	6.5 - 6.9	6.70	6.41	4.5%	6.12	9.4%	24.20	24.64	-1.8%	0.21 - 0.25	0.23	0.22	5%	0.22 ¹	5%
Jabil ²	4.35 - 4.65	4.50	4.81	-6.5%	4.64	-3.0%	18.20	17.46	4.2%	0.50 - 0.60	0.55	0.56	-2%	0.61	-10%
Sanmina	1.425 - 1.475	1.45	1.51	-3.7%	1.49	-3.0%	5.87	6.09	-3.5%	0.35 - 0.41	0.38	0.46	-17%	0.29	31%
Celestica	1.4 - 1.5	1.45	1.49	-2.8%	1.50	-3.1%	5.81	6.51	-10.7%	0.20 - 0.26	0.23	0.22	5%	0.25	-8%
Benchmark	685 - 715 M	0.70	0.60	16.7%	0.63	10.4%	2.45	2.47	-0.8%	0.34 - 0.38	0.36	0.31	16%	0.33	9%
Plexus	520 - 550 M	0.535	0.57	-5.8%	0.53	0.8%	2.23	2.31	-3.3%	0.57 - 0.63	0.60	0.71	-15%	0.47	28%
Total/avg.		15.34	15.39	-0.4%	14.92	2.8%	58.76	59.48	-1.2%						

Q4 estimates equal midpoint of Q4 guidance. 2013 estimates equal nine-month sales plus midpoint of Q4 guidance. *Adjusted EPS may not be comparable from company to company. ¹EPS was from continuing operations. ²For Jabil, Q4 2013 data correspond to the quarter ending November 2013.

projections also indicate that two other companies will attain year-over-year growth for their Q4 sales. **Benchmark Electronics'** growth is expected to reach the double-digit threshold, while **Plexus** should eke out a slight gain. Interestingly, the declines at the three remaining companies are all in the neighborhood of 3% (Table 1B, p. 6).

Compared with a year earlier, the group's Q4 revenue will tick downward by 0.4%, according to *MMI's* forecast. Sequential increases at Flextronics and Benchmark should be offset by drops at the other four companies (Table 1B).

European Forecast

According to a new forecast for 2012 to 2017, both sides of the European EMS market will see less than a 2% compound annual growth rate over the period and will combine for a market total of 27.84 billion euros in 2017.

In a new report, market information provider **Reed Electronics Research** (Wantage, UK) is predicting that EMS revenues in Western Europe will expand at a five-year CAGR of 1.74%, reaching 11.99 billion euros in 2017, while revenues in Central and Eastern Europe (CEE), North Africa and other areas will grow to 15.86 billion euros at a CAGR of 1.58%. Interestingly, this forecast suggests that lower costs

Guidance suggests that adjusted EPS for Q4 will improve sequentially at Benchmark, and at the midpoint of its guidance, the growth would be 16%. One can also infer from guidance that **Sanmina** and Plexus expect a sequential decline in their adjusted Q4 EPS. At the midpoint of their guidance, the decrease would be 17% at Sanmina and 15% at Plexus. No conclusions can be drawn from the guidance issued by the other three providers. At the midpoint, adjusted EPS would be up 5% from the prior quarter at Flextronics and Celestica and down 2% at Jabil.

of manufacturing in CEE and North Africa will not result in a five-year CAGR that is higher than what Western Europe will exhibit.

For 2013, RER estimates that European EMS revenues will decline modestly to 25.5 billion euros, reflecting ongoing uncertainty. The firm expects growth of 0.8% in Western Europe to be outweighed by a drop of 1.4% in CEE as the "major Group 1" companies have been impacted by falling PC sales and subdued demand for LCD TVs. CEE will still represent the largest share of the market in 2013 at 57%.

In revenue terms, the European EMS industry continues to be dominated by the major Group 1 global EMS providers with a strong focus on high-volume products and with the majority of their European manufac-

On a year-over-year basis, Q4 guidance implies that adjusted EPS will rise at Sanmina, Benchmark and Plexus, with increases of 31%, 9% and 28% respectively at the midpoint of their guidance. Guidance also suggests that Jabil's adjusted EPS in Jabil's quasi-Q4 (the November quarter) will fall from a year earlier, and the decline would be 10% at the guidance midpoint. No inferences can be made from the guidance of the other two providers. At the midpoint of their guidance, Flextronics' adjusted EPS would be up 5%, and Celestica's would be down 8% (Table 1B).

turing operations now located in CEE, RER writes. Despite this transition, the leading global EMS companies, apart from **Foxconn**, have retained a regional manufacturing presence in Western Europe, albeit significantly scaled back from the levels seen before the 2009 global recession. Utilizing these facilities in Western Europe and CEE, the global EMS companies are expected to provide competition for the leading indigenous European EMS companies in the growth markets of industrial, medical, aerospace and defense, automotive and high-end communications.

RER's new report is entitled *The European EMS Industry – A Strategic Study of the European EMS Industry 2012-2017*. For more information, visit www.rer.co.uk.

News

Hon Hai to invest in Pennsylvania... **Hon Hai Precision Industry** (New Taipei, Taiwan) intends to spend \$30 million over two years to establish a plant in Pennsylvania, where the output will include telecom and server components, *Bloomberg News* reported. According to a local TV station, the governor of Pennsylvania said Hon Hai wants to expand its connector and engineering activities. The company

already has a small operation in Harrisburg, PA. In addition, Hon Hai plans to invest \$10 million in robotics R&D at Pittsburgh's **Carnegie Mellon University**, according to published reports. It has also been reported that Hon Hai is looking at the possibility of locating a TV panel and assembly facility in Arizona.

Deals done... **Flextronics** (Singapore) has completed its previously announced acquisition of **RIWISA**

(Haggligen, Switzerland), a provider of high-volume, high-precision injection molding and automation solutions (Aug., p. 8)...Privately owned **Nistec**, an EMS provider whose operations are in Israel, has acquired 50.5% of the outstanding shares of **Eltek**, a PCB fabricator also located in Israel, through two transactions that were proposed earlier (Aug., p. 8).

Joint marketing agreement... EMS providers **Delta Group Electronics**

(Albuquerque, NM) and **QCMI** (Colorado Springs, CO) have signed an agreement whereby they will combine their strengths to market EMS in Colorado.

Some new business... Flextronics will provide an end-to-end supply chain solution for **HP's** Printing and Personal Systems business in Brazil. Also, Flextronics has revealed the names of four of the early-stage companies being supported by Flextronics' Lab IX accelerator business. They are **OMsignal**, which has created apparel with embedded sensors; **Amiigo**, developer of a product for exercise monitoring; **Central Standard Timing**, inventor of what CST describes as the world's thinnest watch (Oct., p. 6); and **Nextinput**, which offers force-sensitive touch technology. **Integrated Micro-Electronics Inc.** (Laguna, Philippines) recently started manufacturing HVAC and blower units in Guadalajara, Mexico, for **Japan Climate Systems**. The JCS units are intended for **Mazda** cars. **PartnerTech** (Malmö, Sweden) has signed a three-year framework agreement with **Securitas Direct Verisure**, a provider of connected home alarms in Europe, for the manufacture of the company's products.

Facility investments... According to published reports, Hon Hai has opened

an R&D and testing center in Nanning, a city in southern China. Reportedly, Hon Hai is investing 150 million RMB (\$24.5 million) in the center, which will focus in part on communication products. **Kitron** (Billingstad, Norway) is spending over NOK 37 million (\$6.1 million) for expansion of its factory in Lithuania. In addition, the Lithuanian government has granted NOK 7 million (\$1.1 million) of financial support. The project is due to be completed in the second half of 2014. **OnCore Manufacturing** (Fremont, CA) recently opened a new design center in Naperville, IL. The company has also launched its OnCore Interconnect business, which produces cable and harness products in Mexico.

Flextronics investigating allegations... A November article published by *Bloomberg Businessweek* reported that excessive recruiting fees were paid by Nepalese workers who were brought to Flextronics' Bukit Raja, Malaysia, facility in 2012 for production of iPhone 5 camera modules. According to the article, the workers' jobs were eliminated in January 2013, and more than 1,300 of them were stranded in Malaysia for some weeks, as money for food ran out. In response to the article, Flextronics stated, "The recent allegations that have been raised by *Bloomberg* around excessive

placement fees by our labor agencies and improper treatment of employees at our Bukit Raja, Malaysia, facility last year are concerning. We are thoroughly investigating the allegations to ensure that any cases of misconduct are immediately addressed and any necessary corrective actions are promptly implemented across Flextronics to avoid reoccurrences. We have also initiated an audit with a third-party organization that will be traveling to Malaysia and Nepal to further investigate the allegations."

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

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E-mail: jbt@mfgmkt.com
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