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Another Down Year for US-Traded Group?

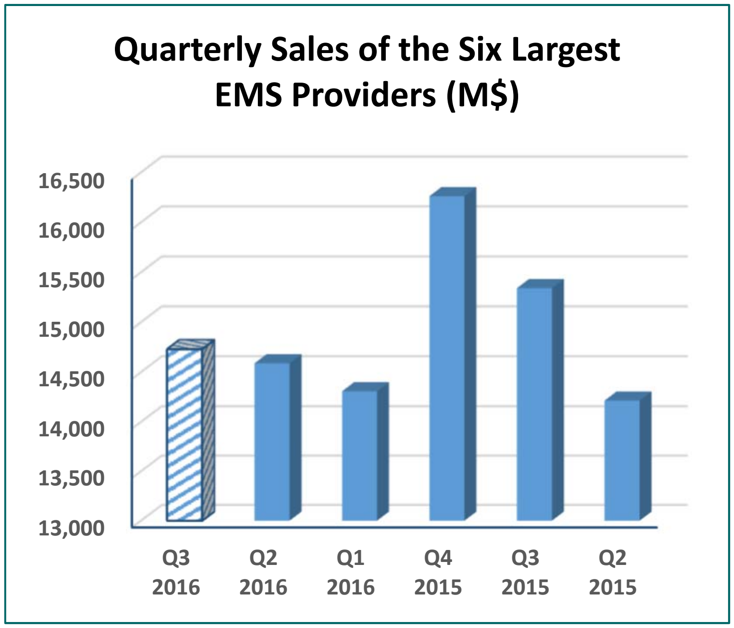
Based on *MMI*'s estimates for the first nine months of 2016, the six largest US-traded EMS providers, as a group, will need a double-digit gain in the fourth quarter in order to turn 2016 into a growth year. In the current demand environment, such growth may be a tall order for the final quarter, although providers have been working diligently 3to boost sales with new program ramps.

MMI is projecting that third-quarter sales for the group will total $14.73 billion by setting the sales estimate for each provider equal to the midpoint of its Q3 guidance. At that level, Q3 sales will have risen 1.5% sequentially, marking the second straight quarter-on-quarter increase. Since the sequential increases will have started two quarters back, 1Q2016 looks in the rear-view mirror like a revenue bottom (see chart, right).

MMI estimates that group sales for the first nine months will reach $43.59 billion, down 0.7% year over year. Four out of six providers are expected to experience revenue declines for the period, and all of the declines will be of the single-digit variety except for Benchmark's double-digit drop (Table 1, p. 2). **Sanmina** and **Celestica** will be the providers to achieve revenue growth for the first nine months, *MMI* predicts.

In agreement with the projected nine-month decrease in group revenue, revenue for Q3 is forecasted to decrease by 4% year over year. According to *MMI*'s estimates, Q3 sales for Sanmina, Celestica, and **Plexus** will grow versus the year-earlier period, while the others will see revenue declines ranging from 5% to 9.2%. On a sequential basis, Q3 sales growth at **Flex**, Sanmina, Celestica, **Benchmark,** and Plexus should outweigh **Jabil**'s minor decline (Table 1).

Guidance suggests that adjusted EPS for Q3 will increase sequentially at Flex, Jabil, Sanmina, and Celestica and at the midpoint of guidance the growth would be 3.7%, 47.1%, 4.8%, and 20%, respectively. One can also infer from guidance that Plexus and Benchmark expect a sequential decline in Q3 EPS, with 2.4% and 1.6% drops at their guidance midpoints, respectively.



US-Traded Group Beats Estimates

The second quarter did not bring a macroeconomic lift to the EMS industry. Still, there were some shafts of light poking through the dark clouds.

As a group, the six largest US-traded EMS providers returned both sequential and year-over-year growth in Q2 that was more than *MMI* had estimated.

Some articles in this issue

Table 1: 3Q2016 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)													
Company	Q3 '16 guidance	Q3 mid-point	Q2 '16 sales	Qtr.-qtr. estim. chg. (%)	Q3 '15 sales	Yr.-yr. estim. chg. (%)	Q1-3 '16 esti-mated sales	Q1-3 '15 sales	Estimated change (%)	Q3 guidance adjusted EPS* $	Q3 EPS mid-point $	Q2 '16 adjusted EPS* $	EPS Q-Q chg. at midpoint (%)
Flex	5.8–6.2	6.00	5.87	2.2	6.32	−5.0	17.64	17.83	−1.1	0.26–0.30	0.28	0.27	3.7
Jabil	4.15–4.35	4.25	4.31	−1.4	4.68	−9.2	12.96	13.34	−2.8	0.15–0.35	0.25	0.17	47.1
Sanmina	1.675–1.725	1.70	1.67	2.4	1.64	3.9	4.97	4.70	5.7	0.64–0.68	0.66	0.63	4.8
Celestica	1.475–1.575	1.53	1.49	3.0	1.41	8.3	4.36	4.12	5.7	0.27–0.33	0.30	0.25	20.0
Benchmark	570–600 M	0.59	0.58	1.0	0.63	−7.1	1.71	1.91	−10.5	0.28–0.33	0.31	0.31	−1.6
Plexus	655–685 M	0.67	0.67	8.2	0.67	0.1	1.95	1.98	−1.5	0.76–0.84	0.80	0.82	−2.4
Total/avg.		**14.73**	**14.59**	**1.5**	**15.34**	**−4.0**	**43.59**	**43.89**	**−0.7**				

Q3 estimates equal midpoint of Q3 guidance. Nine-month 2016 estimates equal first-half sales plus midpoint of Q3 guidance.
*Adjusted EPS may not be comparable from company to company. Note: For Plexus, Jabil and Sanmina we have included their Q3 2016 financials; For Flex Q1 2017 financials have been included.

Not only that, but the group's sequential growth was significantly higher than what *MMI* had predicted.

MMI had expected a year-over-year increase of 0.1% (see May p. 4); actual growth was 2.6%. In addition, the newsletter forecasted a sequential drop of 0.6% for the group's Q2 sales; instead, group revenue increased by a modest 2% (Table 1A, p. 3).

This better-than-expected performance reflects the fact that all of the providers in the US-traded group achieved sales greater than *MMI*'s estimates. *MMI* based its estimates on the midpoint of each company's sales guidance, and every company in the group posted sales above the midpoint of its guidance. Furthermore, three companies in the group—Celestica, Benchmark Electronics, and Plexus—generated revenue that exceeded guidance.

With each provider surpassing its midpoint and three companies beating guidance altogether, Q2 sales for the group of six were $349.3 million higher than estimated. Combined Q2 revenue amounted to $14.58 billion, 2.4% above what *MMI* had projected.

All companies except Jabil grew their Q2 sales from the prior quarter, led by Celestica's 9.8% gain. Close behind were Plexus and Benchmark with increases of 7.9% and 5.4%, respectively.

When Q2 results were compared year over year, a different, more sanguine picture emerged. At three out of six providers, sales were down versus the year-ago period, with Benchmark reporting a double-digit drop (Table 1A). But Sanmina, Flex, and Celestica succeeded in boosting their revenue from a year earlier. The increases outweighed Benchmark's double-digit decline, moving the combined result into positive growth territory.

Q2's 2.0% increase was helped by strong growth exhibited by Sanmina posting 8.5% year over year. The two quarters combined to yield a first-half sales increase of 1.1%. The growth posted surpassed by 100 basis points what *MMI* had projected. First-half sales for the group totaled $28.89 billion, up from $28.57 billion in the year-earlier period. Four companies were able to grow their first-half sales year over year. Posting the greatest first-half increases from a year earlier were Sanmina and Celestica, which executed 7% and 4.5% increases, respectively (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 Q2 was a combined 9.9%, down 660 basis points sequentially but up 206 basis points year over year. Only two companies raised their gross margins sequentially, while three managed to accomplish this feat on a year-over-year basis (Table 1A).

Together, the five companies produced a GAAP operating margin of 2.3%, down 1,786 basis points sequentially and down 2,333 basis points year over year. Plexus, which attained the highest gross margin in the quarter, as usual turned in the highest operating margin at 4.8%. Three GAAP providers—Flex, Benchmark, and Plexus—improved their operating margins from the prior quarter, while only Sanmina and Plexus achieved a margin increase versus a year earlier. As for the lone IFRS reporting company, Celestica, its IFRS operating margin was up sequentially and year over year.

GAAP net income for the five companies in Q2 declined much faster in year-over-year comparison than in the sequential comparison, mostly because of an earnings decline at Jabil due to a soft environment within its mobility business; challenges will continue to negatively impact its Diversified Manufacturing Services business. Sanmina also had a decline in its GAAP net income from the prior quarter. Combined net income of $179.6 million declined 9.5% quarter on quarter, while sales rose 1.1%. On a year-over-year basis, net income fell 28.4%; however, revenue increased 2.4%. Plexus and Sanmina were the only providers to attain year-over year growth in net income. Q2 net margin for the GAAP reporting companies was 1.4%, down 667 basis points sequentially and down 3,000 basis points from a year earlier, in line with the year-over-year decline in operating margin.

For the first half of 2016, combined GAAP net income for the five companies dropped 23% to $378 million from $491.4 million in the year-earlier period. The drop in net income was far larger than the 0.8% increase in sales. To be fair, though, the decline at

Table 1A: Q2 and Six-Month 2016 Results for the Six Largest US-Traded EMS Providers (M US$ or %)																			
Company	Q2 '16 sales	Q1 '16 sales	Qtr.-qtr. chg.	Q2 '15 sales	Yr.-yr. chg.	Q2 '16 gross marg.	Q1 '16 gross marg.	Q2 '15 gross marg.	Q2 '16 oper. marg.	Q1 '16 oper. marg.	Q2 '15 oper. marg.	Q2 '16 net inc.	Q1 '16 net inc.	Q2 '15 net inc.	Q1-2 '16 sales	Q1-2 '15 sales	Yr.-yr. chg.	Q1-2 '16 net inc	Q1-2 '15 net inc.
Flex	5,877.0	5,772.7	1.8	5,566.2	5.6	6.9%	6.6%	6.2%	2.4%	1.7%	2.5%	105.7	61.3	110.9	11,649.7	11,517.8	1.1	167.1	246.0
Jabil	4,310.8	4,403.6	-2.1	4,358.6	–1.1	7.2%	8.9%	8.5%	1.4%	3.5%	3.1%	5.2	78.9	70.5	8,714.3	8,668.0	0.5	84.1	123.4
Sanmina	1,669.5	1,611.2	3.6	1,539.3	8.5	7.5%	8.4%	7.8%	3.3%	3.8%	3.0%	29.5	30.4	24.5	3,280.6	3,066.8	7.0	59.9	39.2
Benchmark	579.0	549.2	5.4	664.0	–12.8	9.1%	9.2%	8.4%	3.1%	3.0%	4.1%	13.0	11.1	21.2	1,128.2	1,285.0	–12.2	24.1	35.4
Plexus	667.6	618.7	7.9	669.6	–0.3	9.4%	8.6%	8.8%	4.8%	3.8%	4.5%	26.1	16.8	23.8	1,286.3	1,320.9	–2.6	42.9	47.4
Subtotal/avg.	**13,103.8**	**12,955.4**	**1.1**	**12,797.8**	**2.4**	**9.9%**	**10.6%**	**9.7%**	**2.3%**	**2.8%**	**3.0%**	**179.6**	**198.5**	**250.9**	**26,059.2**	**25,858.5**	**0.8**	**378.0**	**491.4**
Celestica	1,485.5	1,353.3	9.8	1,417.3	4.8	7.4%	6.7%	6.7%	3.5%	2.3%	2.1%	36.2	25.6	24.2	2,838.8	2,715.8	4.5	61.8	43.9
Total/avg.	**14,589.3**	**14,308.7**	**2.0**	**14,215.1**	**2.6**										**28,898.0**	**28,574.3**	**1.1**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. With the exception of sales, GAAP and IFRS results are not necessarily comparable.

Jabil was principally attributed to the declines in mobility product demand that took a toll on net income in the first half.

Q2 Summaries for Three Providers

Flex (FLEX). Flex reported Q1 2017 results of $5.88B/$0.27. From a margin perspective, operating margins of 2.4% were below expectations due to the final phase-out of a large CTG customer in the June quarter negatively impacting operating margins, but positively offset by stable margin trends within the company's HRS and IEI segments. Flex generated $120.6M of FCF and used $95M for buy-backs.

End-Market Dynamics and Financials: a) Communications and Enterprise Computing (37% of sales) was down –0.2% q-o-q to $2.2B. For the September quarter, the company expects this segment to be down mid-single digits q-o-q. Within the segment, Flex saw growth in emerging areas such as security and the cloud, in addition to networking, offset by declines in legacy server/storage and telecom. The company also noted contributions from new program ramps. b) Industrial & Emerging Industries (22% of sales) was up 8.3% q-o-q to $1.3B. Management noted that the September quarter should be stable q-o-q. Performance was driven by strength in semicap and strong growth in energy, excluding the impact of the **SunEdison** (SUNE) bankruptcy. The loss of SUNE created demand push-outs from utility-scale customers. However, the company noted that these portions of the business will recover and contribute to margin expansion. c) High-Reliability Solutions (18% of sales) was up 5.9% q-o-q to $1.1B. HRS exceeded the target range on margins due to strength in the auto (new customer program ramps) and medical businesses. Looking forward, HRS is expected to be down mid-single digits q-o-q, below historical seasonality of +1–2%. d) Consumer Technology (22% of sales) was down –3.7% q-o-q to $1.3B. The decline in this segment is due to the ramp-down of **Motorola/Lenovo**. This segment is expected to be up +15–25% q-o-q in the September quarter.

Balance Sheet and Cash Flow Dynamics: Flex's inventory came in at $3.6B, up 5.3% y-o-y, while A/R days increased slightly on a sequential basis to 31.4 days. A/P days were down ~5 days sequentially, to 70.2 days. Overall cash cycle days increased ~1 day q-o-q to 19.2 days.

For the September quarter, Flex guided to revenue/EPS of $5.8–6.2B/$0.26–0.30. Finally, the company believes that it will continue to execute on its trailing five-year FCF road map of $3.2–3.3B by FY17 with CAPEX running slightly higher than depreciation due to new program ramps. September quarter operating margins are expected to be flat around 3.2% at the midpoint of Flex's guidance.

Sanmina Corp. (**SANM**). The company reported June quarter revenue/EPS of $1.67B/$0.63. Overall, the margin profile was –20 bps, with operating margins coming in at 3.3%. From a customer perspective, Sanmina noted that its top 10 customers represented 53.9% of total revenue.

End Markets and Financials: a) Communications Networks (36% of sales): Sales were up 3.6% sequentially to $601M due to growth in the optical and network segments. The company expects the segment to be up q-o-q in the June quarter, driven by further growth expected in the optical segment, especially in data center and routing products. b) Computing and Storage (20% of sales): Sales in this segment were down –5.8% sequentially to $334M; the company noted that segment declines in the quarter were driven primarily by the STB category. The company guided the segment to continue to decline slightly into the June quarter due to the declines in the STB market. c) Industrial/Medical/Aerospace/Defense (44% of sales): Sales were up 8.6% sequentially to $735M, driven by strong demand in the industrial and medical segments. The company guided the segment to be up in the June quarter, driven by new projects in the industrial, medical, and defense sectors, although the defense sector is expected to decline slightly.

Sanmina guided to revenues/EPS of $1.675–1.725B/$0.64–0.68.

On an end-market basis, the company expects the following: 1) Communications Networks: to be up sequentially, driven by growth in the optical and networking segments, especially from data center and routing products; 2) Computing and Storage: to be slightly lower on a sequential basis due to a decline in the set-top box (STB) segment, although the storage segment is expected to go up slightly; and 3) Industrial/Medical/Aerospace/Defense: to be up q-o-q, driven by new projects in industrial and medical, with defense expected to be slightly down.

Celestica (CLS). Celestica reported Q2 revenue of $1,486M and EPS of $0.29. The company's EBITDA came in 13% better than expected, but a one-time tax hit related to an F/X gain dampened EPS gains. The server and communications end markets came in better than expected, while the industrial market came in below target due to some solar business slipping into Q3. Traditionally, Q4 is the company's strongest quarter, but Celestica now expects Q3 to be the strongest quarter for its communications group, which represents 41% of sales and is still the largest group.

The top 10 customers comprised 67% of sales, up 2% from Q1 and down 1% y-o-y. There were two customers that accounted for more than 10% of revenue. The company experienced some strong demand late in the quarter, boosting inventory levels in the quarter. The company's profitability continued to improve and trailing 12-month ROE moved to 7.3% from 6.5%.

Celestica continues to deliver solid operations with improving profitability and ROE and good cash flow. It maintains a relatively diversified customer base that includes the likes of **Cisco, IBM, Juniper, Oracle,** and **Honeywell.**

For the third quarter ending September 30, 2016, it anticipates revenue to be in the range of $1.475 billion to $1.575 billion, and non-IFRS adjusted earnings per share to be in the range of $0.27 to $0.33.

Tepid Sequential Growth for North American Group

Combined Q2 sales for eight mid-tier and smaller EMS providers based in North America improved from the prior quarter by 0.8%. Four companies out of eight increased their Q2 revenue sequentially, and their gains outweighed declines at the other four providers. Key Tronic posted the highest sequential increase at 4.6%. But this North American group's sequential growth did not keep up with that of the largest providers in the US-traded sector, as their combined sales went up by 2% (see Table 1A on p. 3).

In the aggregate, the eight mid-tier and smaller providers also fell short of their large US-traded competitors when Q2 revenue was measured against the year-earlier level. Q2 sales for the mid-tier and smaller group totaled $685 million, down 0.8% year over year. By comparison, the revenue of the large US-traded group increased 2.6%.

Of the eight mid-tier and smaller players, all companies except two—SMTC Group and Ducommun—achieved year-over-year growth in Q2 revenue. Sparton stood out as the only provider to record a 9.8% increase in Q2 revenue versus a year earlier. Six providers saw their sales increase appreciably from a year earlier, but two of them reported double-digit declines, which reached –26.3% in the case of Ducommun. (See Table 2 below.)

Interestingly, when first-half results of the two groups are compared, their sales declines are less than one percentage point apart. For the first six months, the mid-tier and smaller group generated sales of $1.36 billion, up 0.9% year over year. The comparable increase for the large US-traded group was a slightly better 1.1%. It appears, then, that the mid-tier and smaller group held its own over the first half of the year.

Still, the group's first-half increase would have been better had it not been for Ducommun (also known as Ducommun's Electronic Systems segment) and SMTC, both of which registered double-digit declines (year over year) for the period. Ducommun's 24.4% sales decline mitigated to some extent the increases at the other six providers—KeyTronic, Sparton, SigmaTron, IEC Electronics, Nortech Systems, and Kimball Electronics—which recorded increases in the first half.

The group of eight mid-tier and smaller providers consists of seven companies in the EMS space, all publicly traded, and one EMS unit within a larger publicly held corporation.

A Brief Look at Several Providers

Key Tronic Corporation (**KTCC**). Key Tronic reported 4Q2016 revenue of $123.9 million, up 4.6% from $118.4 million in the previous quarter. The company continued to see sequential improvement in operating efficiencies. For the fourth quarter, gross margin was 8.7%. Similarly, operating margins improved each quarter, from 1.4% to 2.8% throughout fiscal year 2016. Net income for the fourth quarter of fiscal year 2016 was $2.2 million or $0.20 per share, compared to $2.3 million or $0.21 per share for the fourth quarter of fiscal year 2015.

The company continued its ramp-up of new programs and investment in improving its operations to accommodate a more diversified customer base; this drove the overall improvement in fiscal 2016. At the same time, it won a number of new significant programs throughout the year, including new programs involving home automation and industrial metering in the fourth quarter.

For the first quarter of fiscal year 2017, the company expects to report revenue in the range of $117 million to $122 million, and earnings in the range of $0.16 to $0.21 per diluted share. In the first quarter, the company expects to see a slight decline in revenue due to the closure of its Kentucky facility and its decision to disengage completely from the longstanding customer that adversely impacted its business throughout the year. Though these impact its top-line revenue, Key Tronic anticipates improvements in margins in the first quarter as the remaining Kentucky programs are transferred to other facilities and cost savings begin to be realized.

Company	Q2 '16 sales	Q1 '16 sales	Qtr.-qtr. chg.	Q2 '15 sales	Yr.-yr. chg.	Q2 '16 gross marg.	Q1 '16 gross marg.	Q2 '15 gross marg.	Q2 '16 oper. marg.	Q1 '16 oper. marg.	Q2 '15 oper. marg.	Q2 '16 net inc.	Q1 '16 net inc.	Q2 '15 net inc.	Q1-2 '16 sales	Q1-2 '15 sales	Yr.-yr. chg.	Q1-2 '16 net inc.	Q1-2 '15 net inc.
Stand-Alone EMS Providers																			
Kimball Electronics	220.4	214.1	2.9	201.1	9.6	7.7%	8.0%	8.8%	4.0%	3.4%	4.5%	5.8	7.5	7.4	434.5	401.5	8.2	13.2	10.3
Key Tronic	123.9	118.4	4.6	120.4	2.9	8.7%	8.4%	8.6%	2.8%	2.3%	2.7%	2.2	1.8	2.3	242.4	233.3	3.9	4.0	4.2
Sparton	102.2	103.5	-1.3	93.1	9.8	16.4%	15.5%	21.3%	2.6%	0.5%	5.3%	1.1	0.3	4.1	205.7	178.7	15.1	1.4	5.6
SMTC	43.6	41.9	4.0	57.7	-24.5	7.1%	11.6%	9.4%	-0.6%	2.8%	2.5%	-0.6	1.0	1.0	85.5	106.5	-19.7	0.4	0.5
SigmaTron	60.8	59.2	2.6	60.1	1.2	9.8%	9.6%	9.7%	0.9%	1.1%	1.1%	0.0	0.2	0.2	120.0	113.8	5.4	0.3	0.7
IEC Electronics	32.5	33.1	-2.0	32.5	0.0	16.9%	17.3%	13.7%	6.1%	6.0%	-10.7%	1.6	1.5	-4.0	65.6	61.7	6.4	3.1	-0.9
Nortech Systems	29.0	31.4	-7.9	26.5	9.1	11.7%	12.3%	10.8%	0.8%	1.0%	-0.8%	-0.1	0.1	-0.1	60.4	57.0	6.0	0.1	-0.2
Subtotal/avg.	**612.3**	**601.8**	**1.7**	**591.4**	**3.5**							**10.1**	**12.3**	**10.8**	**1,214.1**	**1,152.5**	**5.3**	**22.4**	**20.3**
EMS Units of Larger Public Companies																			
Ducommun**	72.7	78.1	-6.9	98.8	-26.3				9.3%	9.0%	7.8%	6.8	7.1	7.7	150.8	199.6	-24.4	13.8	13.9
Total/avg.	**685.0**	**679.9**	**0.8**	**690.2**	**-0.7**										**1,364.9**	**1,352.1**	**0.9**	**36.2**	**34.2**

Table 2: Q2 and Six-Month 2016 GAAP Results for Eight Mid-Tier and Smaller EMS Providers Based in North America (M$ or %)

Note: Financial Data for Ducommun's Electronic Systems segment has been included. For IEC Electronics & Sparton Corp. we have included Q3 2016 financials; For Kimball we have included Q4 2016 financials.

SMTC Corporation (**SMTX**). Revenue for 2Q2016 was $43.6 million compared to $57.7 million in the second quarter of the prior year. The decrease in revenue was primarily the result of reduced revenues from one former and one exiting customer and another customer's product reaching end of life. The decreases were partially offset by increases in new customer revenue and net volume increases with existing customers. The company experienced lower revenue in the quarter due to product ramp delays with some of its customers, in addition to the transfer of one customer to a consignment model.

Gross profit was $3.1 million or 7.1% for the second quarter compared to $5.4 million or 9.4% for the same period in the prior year. The reduction in gross profit in the second quarter of 2016 was the result of product mix and the impact of covering its fixed costs with lower revenues, partially offset by improved manufacturing efficiencies and reduced direct labor cost.

Net loss was $0.6 million for the second quarter of 2016, compared with net income of $1.0 million for the second quarter in the prior year.

IEC Electronics Corp. (**IEC**). For 3Q2016, IEC recorded net sales of $32.5 million, essentially flat as compared to net sales of $32.5 million in the third quarter of the last fiscal year. Gross profit margin for the third quarter grew to 16.9% compared to 13.7% in the same quarter last year.

Net income for the quarter was $1.6 million, or $0.16 per share, compared to a net loss of $4.0 million, or a loss of $0.39 per share, in the prior-year period. The company incurred a loss on discontinued operations of $4.4 million in the third quarter of 2015 related to its divestiture of its subsidiary **Southern California Braiding** (SCB).

During the quarter, IEC announced that it has been awarded a three-year, $10.2 million contract from a Tier 2 Department of Defense supplier in support of digital tactical networking and voice communication equipment for US aircraft, ground vehicles, and surface warships. The company expects production to commence in the fourth quarter of fiscal 2016. Additionally, subsequent to the close of the third quarter, the company announced that it had received a one-year, $3.7 million contract from a strategic aerospace and defense customer. IEC will manufacture guided missile firing system components that are utilized by a top US government prime contractor. The program will be fulfilled at IEC's Albuquerque facility, leveraging IEC's vertically integrated manufacturing services, including advanced test engineering and specialized processes for mission-critical applications.

Sparton Corporation (**SPA**). Sparton reported 3Q2016 net sales of $102.2 million and a gross profit margin of 16.4% with an operating margin of 2.6%. During this quarter the company finalized closure of the Lawrenceville facility and consolidation of its Irvine facilities. It also had 77 Manufacturing & Design Service segment new program wins, with expected annual revenue of $16 million when fully ramped into production. Trailing four quarter Manufacturing & Design Service Segment wins total approximating $54 million when fully ramped into production. Sparton was awarded $27.6 million for the production of domestic sonobuoys and $1.3 million for the production of foreign sonobuoys. As of March 27, 2016, the company had $123 million borrowed and approximately $151 million available under its credit facility and had available cash and cash equivalents of $0.8 million.

Company News

Apple Adds New Server Suppliers to Reduce Costs

In addition to cutting component quotes for notebooks and smartphones, **Apple** is planning to reduce its costs from servers. The company has been seeking new server suppliers with lower quotes and expects the move to give its existing server partners pressure to reduce their prices, according to *DigiTimes*.

Apple has recently increased orders for server system integrator **ZT**, which is a partner of Taiwan-based **Inventec**, and added China-based **Inspur** to its server supply chain. As a result, server supply from Apple's existing partner **Quanta Computer** has dropped, the sources noted.

In the past, Apple's biggest concern was mainly improvement in technologies and yield rates on the supply side, but the company is now focusing more on reducing costs.

Inventec's data center server shipments grew 20% in the first half, mainly thanks to orders from China's **Baidu, Alibaba,** and **Tencent** as well as Apple, the sources pointed out.

However, Quanta's focus is no longer on data centers, but enterprise private cloud systems; it is looking to compete against **Hewlett-Packard** (HP) and **Dell**, the sources added.

TE Connectivity to Acquire Intercontec Group

TE Connectivity (Switzerland) has signed a definitive agreement to acquire the **Intercontec Group**.

Intercontec is a privately owned manufacturer of circular metric connectors. Founded in Bavaria, Germany in 1996 by current CEO Wolfgang Pfeiffer, the company has headquarters in Niederwinkling and a total of four production plants in Germany.

The transaction is expected to close at the end of September 2016, following the completion of customary regulatory approvals and the finalization of various administrative matters.

Mergers & Acquisitions… **Nokia** has completed the acquisition of **Gainspeed**, a California-based start-up specializing in DAA (distributed access architecture) solutions for the cable industry via its Virtual CCAP (converged cable access platform) product line. Complementing Nokia's current fiber access technologies for cable multiple-system operators, Gainspeed's unique approach to DAA and innovative Virtual CCAP solutions will further enhance Nokia's product portfolio and provide cable operators with the end-to-end technology capabilities needed to support growing capacity requirements today and into the future. With this acquisition, Nokia is able to offer a turnkey solution for the cable industry that includes products for routing, transport, wireless, and analytics. Gainspeed will operate as part of Nokia's Fixed Networks business group… **Mycronic AB** has signed an agreement to acquire 75 percent of **Shenzhen Axxon Automation Co., Ltd** (Axxon) for a cash consideration of approximately SEK430 million. The acquisition will be financed through own funds. As part of the agreement, Mycronic will acquire the remaining shares of the company in two steps: An additional 5 percent will be acquired within this year and the last 20 percent after three years. The purchase price for the last part after three years will be set based on parameters such as growth and earnings, which may include changes compared to the current valuation. The acquisition is expected to be finalized by the end of September 2016 following regulatory approvals… **STMicroelectronics** has acquired **ams**' assets related to its NFC and RFID reader business. ST has acquired intellectual property, technologies, products, and business highly complementary to its secure microcontroller solutions serving the mobile devices, wearables, banking, identification, industrial, automotive, and IoT markets. Approximately 50 technical experts from ams have been transferred to ST. The acquired assets, combined with ST's secure microcontrollers, position ST for a significant growth opportunity, with a complete portfolio of best-in-class technologies, products, and competencies that comprehensively address the full range of the NFC and RFID markets for a wide customer base. ST acquired the ams assets in exchange for a cash payment of $77.8 million (funded with available cash) and a deferred earn-out contingent on future results that ST currently estimates will be about $13 million, but which in any case will not exceed $37 million… **Analog Devices, Inc.** (ADI) announced that it will acquire **Linear Technology Corporation** (LLTC) for USD14.8 billion, continuing the trend of big consolidations within the semiconductor sector. ADI reported annual semiconductor revenue of $3.4 billion in 2015, while LLTC revenue was $1.4 billion. After examining the potential margin improvement, product portfolio, and end-market focuses of these two companies, the acquisition will increase the competitiveness of ADI in several end markets. If correctly executed, the acquisition of LLTC by ADI will help boost margin performance, from a gross margin and operating margin standpoint. The resulting company is expected to post gross margins in the high 60s and operating margins in the mid-30s. If integrated properly, the resulting figures provide a substantial margin improvement for a company with $4.8 billion in annual revenue. ADI will now be able to offer the same high-performance, high-margin products from LLTC to the same market. If integrated correctly, ADI can use its high-volume manufacturing for LLTC products and generate substantial growth from the automotive and industrial end markets, while growing quickly and with improved gross margins.

SunEdison Sells Assets to Flex

EMS giant **Flex** will reportedly pay $8.7 million to the bankrupt solar firm for some of its assets. SunEdison, which filed for Chapter 11 in April 2016, already works with Flex, which makes solar modules for **SunEdison**. However, the sale is subject to court approval.

Additionally, SunEdison is looking into selling interests in its two companies, **TerraForm Power, Inc.** and **TerraForm Global, Inc.** A regulatory filing noted that SunEdison was "to explore value creation options for SunEdison's controlling Class B shares in both companies. This initiative will be conducted through a jointly managed sales process and accompanying marketing protocol."

Expansion… EMS provider **Season Group** has invested in new SMT and cable assembly equipment for its San Antonio, Texas and Reynosa, Mexico sites. The San Antonio site has installed two Juki SMT placement machines that will significantly boost capacity and capability at the site. In addition, Season has added a second x-ray machine to support the increased requirement for complex BGA placement at that site. The Reynosa site is benefiting from an additional MPM screen printer, selective solder machinery, and a flying probe test platform (to boost its SMT capability), as well as an additional Artos cut, strip, and crimp machine for its cable assembly business… **Harting Technology Group** has opened a plant in Silao, Mexico in a move that strengthens its global presence and expands its position in North and Central America. At the same time, the Harting sales team is moving into an office complex in the capital, Mexico City. Harting perceives good growth potential in the region, particularly in the key markets of mechanical and plant engineering and transportation (rail). In addition, many automotive manufacturers and suppliers have opened their own production plants in Mexico. Harting will use the Silao plant to manufacture over molded cables and cable harnesses. The plant area covers approximately 1,200 square meters. The current plans envision the creation of some 200 new jobs in the skilled-trade area over the next five years… **Cliff Electronics** has established a distribution agreement with Newark-based **Element14**. The wide-ranging agreement will increase the availability of its products in the Americas… **Allied Electronics**, a trading brand of **Electrocomponents plc**, is expanding into South America with the addition of a full-service sales office in Santiago, Chile. The Allied Chile office is the first in South America. Allied Electronics will continue to expand in this region in the next 12 to 18 months.

Facilities closing… USA-based EMS provider **Nortech Systems, Inc.** plans to close its manufacturing facility in Augusta, Wisconsin by the end of 2016. The three primary EMS markets served by Nortech Systems are industrial, medical, and aerospace/defense. Since 1992, the Augusta facility has served mainly an industrial customer base and in defense overflow production that aligned with Nortech's custom cable capabilities. Consolidation and restructuring costs are expected to be offset with savings and have minimal financial impact on the company's 2016 results and become fully accretive once the consolidation has been completed.

Executive changes… **Cicor Group** appointed as CEO Alexander Hagemann, who will join Cicor on 1 September, 2016. Mr. Hagemann has profound experience in operational management and has a proven track record in setting up and growing businesses, especially in the Asian and North American markets, which are of particular importance for the Cicor Group. From March 2007 to July 2016 he was CEO at Schaffner Group. Earlier in his career Mr. Hagemann was Executive Vice President for the Optics for Devices business segment at the globally active Schott Group and he also took up a post at BMW in the field of production and logistics. Until 1 September, 2016, Patric Schoch, CFO of Cicor Group, will act as CEO ad interim… The supervisory board of **Kontron AG** has decided to dismiss Rolf Schwirz from his position as CEO and at the same time dismiss Andreas Plikat from the Management Board of the company. Sten Daugaard is standing down as a Supervisory Board member and is taking over the position of CEO effective 25 July, 2016. He will be advised by a task force consisting of Supervisory Board members Martin Bertinchamp, Dr. Dieter Düsedau, and Harald Joachim Joos. Meanwhile, Dr. Thomas Riegler, interim CFO, has been appointed as Member of the Management Board. Kontron will continue to pursue the strategic reorientation announced in May 2015.

Innolux and Next Biometrics Invest in Mass Production

Taiwanese TFT-LCD panel manufacturer **Innolux** and **Next Biometrics Group ASA** are jointly investing to establishing mass production for Next Biometrics's new flexible fingerprint sensor technology.

Innolux and Next Biometrics have worked together for many years and Next Biometrics is manufacturing volumes of rigid fingerprint sensors at Innolux plants in Taiwan. With Next Biometrics's recent introduction of its first flexible fingerprint sensor, the parties have agreed to do joint investments to enable mass production of these new sensors. Next Biometrics has previously communicated a production capacity target of 2 million flexible sensors per month in 2017, growing to 10 million per month in 2018.

Leonardo-Finmeccanica Goes with Keysight Tech

Keysight Technologies, Inc. was awarded a contract for asset management by **Leonardo-Finmeccanica** across its UK sites. As of June 1, Keysight is providing a test equipment managed service (TEMS) for Leonardo.

The TEMS program was launched in 2015 to define and implement robust calibration, repair, and asset management solutions for test equipment across the UK. At the same time, Leonardo was looking to increase the efficiency and reliability of its test equipment. After an extensive review of multiple criteria—including service, quality, innovation, and price—Leonardo signed a three-year TEMS asset management contract with Keysight.

Beyonics to Set Up Global HQ at $39M Center

Precision engineer **Beyonics** will take up a newly developed facility in Singapore that will serve as its global headquarters and a place to consolidate its local operations.

The company has signed an agreement with Aims Amp Capital Industrial Real Estate Investment Trust (AA Reit) to develop the $39.4 million center.

When completed in the second half of next year, the over 230,000-square-foot Marsiling site will combine operations previously served by four production sites around Singapore. About 600 people will be employed at the new headquarters.

Beyonics was delisted from the Singapore Exchange in 2012 and is now owned by private equity fund manager ShawKwei and Partners. It has 14 factories, in Singapore, China, Malaysia, and Thailand, employing around 4,800 people.

Pegatron Automates Factory in Shanghai

Pegatron Technology chairman T. H. Tung has commented on China-based media reports that Pegatron's factory in Shanghai, China has recruited fewer workers than in 2015, saying that Pegatron has adopted Industry 4.0 concepts to automate production at the factory to reduce its workforce while maintaining output.

Tung pointed out that the company's plants in Shanghai will be able to match the output of 100 workers in the past with only 20 workers now through automation.

Although recruitment was formerly a good way to judge whether an industry was performing well, this is no longer the case with the Industry 4.0 concepts, Tung noted.

Because China is suffering from a low birth rate, recruiting a sufficient number of workers is a rather difficult task. With the addition of increasing wages, Pegatron has not been increasing its staff, but instead installing automated production lines to increase its output, as reported by *DigiTimes*.

Foxconn Interested in Managing Korea-Based Tongyang Magic

Foxconn Electronics reportedly is interested in participating in a bid to take up the management of Korea-based household appliance vendor **Tongyang Magic**, according to a *Korea Economic Daily* report.

Foxconn is likely to offer a bid under the name of Sharp, aiming to make Sharp a global brand for integrated household appliances, said the paper.

The deal is likely to total KRW500 billion (US$449.5 million), estimated the paper. Tongyang Magic posted sales of KRW390.3 billion and an EBITDA of KRW69.2 billion in 2015.

Tongyang Magic supplies a wide range of household appliances, including TVs, gas ovens, washing machines, refrigerators, and vacuum cleaners.

Korea-based food company CJ Group and a number of investment firms, including Bain Capital, Affinity Equity Partners, CVC Capital Partners, STIC Investments, and IMM Private Equity, may also participate in the bid.

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