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Positive Year for US-Traded Group

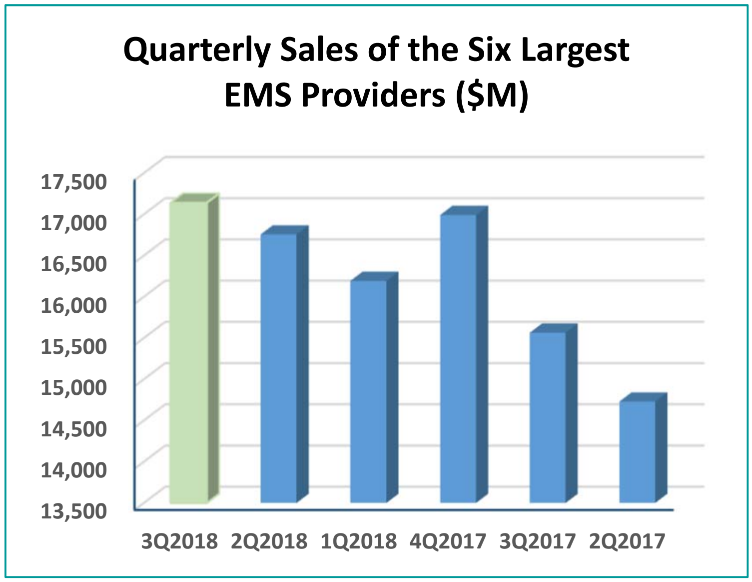
Based on *MMI*'s estimates for the first nine months, the six largest US-traded EMS providers, as a group, are on their way to turning 2018 into a growth year. In the current demand environment, such growth may be an easy task for the final quarter, as providers have been working diligently to boost sales with new program ramps.

MMI is projecting that third-quarter sales for the group will total $17.14 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 2.4% sequentially, marking the second straight quarter-to-quarter increase. Since the sequential increases will have started two quarters back, 1Q2018 looks in the rearview mirror like a revenue leading (see chart at right).

MMI estimates that group sales for the first nine months will reach $50.61 billion, up 11.2% year over year. All six providers are expected to experience revenue growth for the period and two of the increases will be of the double-digit variety (Table 1, p. 2). **Jabil** and **Plexus** will be the providers best able to achieve two-digit revenue growth for the first nine months, *MMI* predicts.

In comparison with the projected nine-month increase in group revenue, revenue for Q3 is forecasted to increase by 12.1% year over year. According to *MMI*'s estimates, Q3 sales for all six providers will grow versus the year-earlier period, with Jabil posting the highest growth rate at 20.5%. On a sequential basis, Q3 sales growth at **Flex**, **Sanmina**, and Plexus should outweigh declines at Jabil and **Benchmark,** whereas growth was stagnant at **Celestica** (Table 1).

Guidance suggests that adjusted EPS for Q3 will increase sequentially at Flex, Jabil, Sanmina, Benchmark, and Plexus. At the midpoint of its guidance, Jabil's growth would be 47.8%, the highest among the group. One can also infer from guidance that Celestica expects stagnant sequential growth in its Q3 EPS at its guidance midpoint.



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

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Table 1: 3Q2018 Guidance and Estimates for the Six Largest US-Traded Providers (sales in $B except as noted)													
Company	3Q18 Guidance	Q3 Mid-point	2Q18 Sales	Qtr.–Qtr. Estim. Chg. (%)	3Q17 Sales	Yr.–Yr. Estim. Chg. (%)	Q1–3 '18 Estim. Sales	Q1–3 '17 Sales	Estimated Change (%)	Q3 Guidance Adjusted EPS* $	Q3 EPS Mid-point $	2Q18 Adjusted EPS* $	EPS Q–Q Chg. at Midpoint (%)
Flex	6.6–7.0	6.80	6.40	6.2	6.27	8.5	19.90	18.14	9.7	0.26–0.30	0.28	0.24	16.7
Jabil	5.2–5.6	5.40	5.43	–0.6	4.48	20.5	16.41	14.04	16.9	0.56–0.80	0.68	0.46	47.8
Sanmina	1.825–1.875	1.85	1.81	2.2	1.75	5.7	5.33	5.11	4.3	0.63–0.69	0.66	0.55	20.0
Celestica	1.65–1.75	1.70	1.70	0.0	1.52	11.8	4.89	4.56	7.2	0.26–0.32	0.29	0.29	0.0
Benchmark	610–650 M	0.63	0.66	–4.7	0.60	4.5	1.90	1.78	6.7	0.28–0.36	0.32	0.30	6.7
Plexus	735–775 M	0.76	0.73	4.0	0.67	12.9	2.18	1.88	16.2	0.82–0.92	0.87	0.79	10.1
Total/Avg.		**17.14**	**16.73**	**2.4**	**15.29**	**12.1**	**50.61**	**45.51**	**11.2**				

Q3 estimates equal midpoint of Q3 guidance. Nine-month 2018 estimates equal first-half sales plus midpoint of Q3 guidance.
*Adjusted EPS may not be comparable from company to company.

MMI had expected a year-over-year increase of 7.2% (see May, p. 4); actual growth was 11.7%. In addition, the newsletter forecasted a sequential decrease of 0.7% for the group's Q2 sales; actual group revenue increased by a modest 3.5% (Table 2, 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 this. Furthermore, five companies in the group—Jabil, Sanmina, Celestica, Plexus, and Benchmark—generated revenue that exceeded guidance.

With five providers surpassing their midpoint and three companies beating guidance altogether, Q2 sales for the group of six were $670 million higher than estimated. Combined Q2 revenue amounted to $16.75 billion, 4.1% above what *MMI* had projected.

All companies grew their Q2 sales from the prior quarter, led by Celestica's 13% gain. Close behind were Benchmark and Sanmina, with increases of 8.6% and 8.2%, respectively.

When Q2 results were compared year over year, a different, more sanguine picture emerged. At all six providers, sales were up versus the year-ago period, with Jabil reporting the highest increase at 21.1% (Table 2). Revenue increases at six providers succeeded in moving the combined result into positive growth territory. Q2's 11.7% increase was helped by this strong growth. The two quarters combined to yield a first-half sales increase of 11.2%. This result was 230 basis points higher than what *MMI* had projected. First-half sales for the group totaled $32.95 billion, up from $29.64 billion in the year-earlier period. All six companies were able to grow their first-half sales year over year. Posting the greatest first-half increases from a year earlier were Jabil and Plexus, with 20.2% and 16.5% increases, respectively (Table 2).

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%, down 50 basis points sequentially and down 90 basis points year over year. Only one company raised its gross margin sequentially, and none managed to accomplish this feat on a year-over-year basis (Table 2).

Together, the five companies produced a GAAP operating margin of 2.6%, up 80 basis points sequentially and up 20 basis points year over year. Plexus, which attained the highest gross margin in the quarter, as usual turned in the highest operating margin, at 4.5%.

Two GAAP providers—Flex and Plexus—improved their operating margins from the prior quarter, while only Jabil achieved a margin increase versus a year earlier. As for the lone IFRS reporting company, Celestica, its IFRS operating margin was up sequentially but down year over year.

GAAP net income for the five companies in Q2 increased much faster in sequential comparison than in the year-over-year comparison, mostly because of earnings growth at Flex due to a strong environment within its Communications & Enterprise Compute segments, which will continue to positively impact its income. Combined net income of $230.4 million increased 126% quarter on quarter, while sales rose 2.5%. On a year-over-year basis, net income increased 28.3%. Jabil and Plexus were able to attain year-over-year growth in net income. Q2 net margin for the GAAP reporting companies was 1.5%, up 84 basis points sequentially and up 20 basis points from a year earlier, in line with the year-over-year growth in operating margin.

For the first half of 2018, combined GAAP net income for the five companies dropped 6.8% to $332.4 million from $356.6 million in the year-earlier period. The drop in net income was far worse than the 11.9% increase in sales. To be fair, though, the decline at Flex can be principally attributed to a decline in its Consumer Technologies Group segment, wherein seasonal demand reduction and losses from its strategic partnership with **Nike** took a toll on net income in the first half.

Table 2: Q2 and Six-Month 2018 Results for the Six Largest US-Traded EMS Providers (US$M or %)

Company	2Q18 Sales	1Q18 Sales	Qtr.–Qtr. Chg.	2Q17 Sales	Yr.–Yr. Chg.	2Q18 Gross Marg.	1Q18 Gross Marg.	2Q17 Gross Marg.	2Q18 Oper. Marg.	1Q18 Oper. Marg.	2Q17 Oper. Marg.	2Q18 Net Inc.	1Q18 Net Inc.	2Q17 Net Inc.	Q1–2 '18 Sales	Q1–2 '17 Sales	Yr.–Yr. Chg.	Q1–2 '18 Net Inc.	Q1–2 '17 Net Inc.
Flex	6,424.0	6,410.9	0.2	6,008.3	6.9	5.6%	6.1%	8.6%	2.9%	0.8%	2.9%	116.0	(19.6)	124.7	12,834.8	11,870.9	8.1	96.4	211.6
Jabil	5,437.0	5,301.1	2.6	4,489.6	21.1	6.9%	7.1%	7.1%	2.0%	2.3%	0.7%	42.5	68.2	(25.3)	10,738.1	8,935.2	20.2	110.7	(4.6)
Sanmina	1,813.4	1,675.6	8.2	1,711.4	6.0	6.5%	6.8%	7.6%	2.7%	2.9%	4.0%	34.0	24.6	36.4	3,489.0	3,393.6	2.8	58.6	68.1
Benchmark	660.6	608.1	8.6	619.6	6.6	7.9%	9.2%	11.1%	2.4%	3.3%	3.8%	11.4	16.5	18.1	1,268.7	1,177.5	7.7	27.8	26.6
Plexus	726.4	698.7	4.0	618.8	17.4	9.3%	7.6%	9.9%	4.5%	2.6%	5.0%	26.5	12.3	25.6	1,425.0	1,223.2	16.5	38.8	54.9
Subtotal/Avg.	**15,061.3**	**14,694.4**	**2.5**	**13,447.6**	**12.0**	**9.0%**	**9.5%**	**9.9%**	**2.6%**	**1.8%**	**2.4%**	**230.4**	**102.0**	**179.5**	**29,755.7**	**26,600.4**	**11.9**	**332.4**	**356.6**
Celestica	1,695.2	1,499.7	13.0	1,557.6	8.8	6.0%	6.1%	8.1%	1.6%	1.5%	2.7%	16.1	14.1	34.6	3,194.9	3,039.7	5.1	30.2	57.1
Total/Avg.	**16,756.5**	**16,194.1**	**3.5**	**15,005.2**	**11.7**										**32,950.6**	**29,640.1**	**11.2**		

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.

Q2 Summaries for Three Providers

Flex (FLEX). Reported first-quarter fiscal 2019 revenue totaled $6.4 billion, representing an increase of approximately $0.4 billion, or 7% from $6.0 billion during the three-month period ended June 30, 2017. The overall increase in sales was driven by increases in three of its segments, offset by a slight decline in sales in its Communications & Enterprise Compute (CEC) segment. The Consumer Technologies Group (CTG) segment increased $296 million, primarily because of stronger sales in consumer products from high-growth emerging markets such as India, offset by a decrease in its connected living business. The High Reliability Solutions (HRS) segment increased $83 million from higher sales in its automotive and medical businesses. The Industrial & Emerging Industries (IEI) segment increased $56 million, mainly driven by its industrial, home, and lifestyle businesses, offset by decreases in its solar energy and capital equipment businesses. Sales in its CEC segment remained flat, even declining $19 million or approximately 1%, primarily due to lower sales within its traditional telecom and networking businesses, offset by increased sales in its cloud and data center businesses. Net sales increased across all its regions, with increases of $251 million to $2.9 billion in Asia, $158 million to $1.2 billion in Europe, and $7 million to $2.4 billion in the Americas.

Flex's ten largest customers, during the three-month periods ended June 29, 2018 and June 30, 2017, accounted for approximately 44% and 43% of net sales, respectively. No customer accounted for more than 10% of net sales during the three-month periods ended June 29, 2018 and June 30, 2017.

Gross profit during the three-month period ended June 29, 2018 decreased $29 million to $378 million, or 5.9% of net sales, from $407 million, or 6.8% of net sales, during the three-month period ended June 30, 2017. Gross margin declined 90 basis points during the same period. These declines in both gross profit and gross margin are primarily due to higher levels of start-up costs, operational inefficiencies, and under-absorbed overhead costs for new ramps during the period, along with a greater portion of lower margin consumer products in the mix of business for the current quarter.

The CEC segment margin decreased 10 basis points, to 2.4% for the three-month period ended June 29, 2018, from 2.5% during the three-month period ended June 30, 2017. The decrease in CEC margin during the period is due to lower capacity utilization causing reduced overhead absorption, coupled with a modest increase in investments to expand its cloud data center engineering capabilities. The CTG segment margin increased 30 basis points to 1.5% for the three-month period ended June 29, 2018, from 1.2% during the three-month period ended June 30, 2017. The increase in CTG margin during the period primarily reflected fewer losses from its strategic partnership with a specific customer compared to the three-month period ended June 30, 2017. The IEI segment margin decreased 40 basis points, to 3.6% for the three-month period ended June 29, 2018, from 4.0% during the three-month period ended June 30, 2017. The decrease in IEI margin during the period is primarily due to softening demand from new customers in its industrial home and lifestyle businesses and reduced demand in its semiconductor capital equipment business. In addition, it saw declines in its Energy business due to a temporary impact from reduced shipments of NEXTracker solar tracking solutions and certain other customer declines. The HRS segment margin decreased 30 basis points, to 7.7% for the three-month period ended June 29, 2018, from 8.0% during the three-month period ended June 30, 2017, primarily as a result of ramping up several new customers and programs, coupled with its continuous investment to expand its design and engineering capabilities focused on autonomous vehicle and connectivity platforms.

For the second quarter ending September 28, 2018, revenue is expected to be in the range of $6.6 to $7.0 billion. Adjusted EPS is expected to be in the range of $0.26 to $0.30 per diluted share. GAAP EPS is expected to be in the range of $0.18 to $0.22 and includes stock-based compensation expense and intangible amortization.

Sanmina Corporation (SANM). Sales in the third quarter of 2018 were 6.0% higher than those for the third quarter of 2017. Sales to customers in its medical end market increased 29.8%, primarily as a result of increased demand for existing customer programs that are gaining traction in the marketplace and new program wins. Sales to customers in its industrial, automotive, and defense market increased 3.5%, primarily due to new program ramps in its automotive market, partially offset by reduced demand in its industrial market. Sales to customers in its cloud solutions market increased 4.2%, due in part to a new program with a Tier 1 cloud service provider.

Gross margin decreased to 6.5% for the third quarter of 2018 from 7.6% for the third quarter of 2017. This was primarily due to a decline in its Integrated Manufacturing Solutions (IMS) gross margin, partially offset by a $4.8 million benefit associated with a reduction in an accrual for contingent consideration related to a previously completed acquisition. IMS gross margin decreased to 5.7% for the third quarter of 2018 from 7.6% for the third quarter of 2017, due primarily to unfavorable material costs, freight premiums, and other inefficiencies associated with ongoing supply constraints, as well as costs associated with new program ramp-ups. The Components, Products and Services (CPS) gross margin increased to 8.4% for the third quarter of 2018 from 7.3% for the third quarter of 2017, primarily due to increased sales and improved operational efficiencies. Research and development expenses decreased $0.3 million, from $8.4 million, or 0.5% of net sales, in the third quarter of 2017 to $8.1 million, or 0.4% of net sales, in the third quarter of 2018. Sales to its ten largest customers have typically represented approximately 50% of its net sales. One customer represented 10% or more of its net sales for the three months and nine months ended June 30, 2018. Two customers represented 10% or more of its net sales for the three and nine months ended July 1, 2017.

The company typically generates about 80% of its net sales from products manufactured in its foreign operations. The concentration of foreign operations has resulted primarily from a desire on the part of many of its customers to manufacture in lower cost regions such as Asia, Latin America, and eastern Europe.

The company expects 4Q2018 revenue between $1.825 billion and $1.875 billion. Non-GAAP diluted earnings per share is expected to be between $0.63 and $0.69.

Benchmark Electronics, Inc. (BHE). The company reported 2Q2018 revenue of $660.6 million compared to $619.6 million during the comparable 2017 period. The overall revenue increase was driven primarily by demand increases in the Computing sector for legacy storage and data security customers, Test & Instrumentation growth in its precision manufacturing machining operations serving the semi-capital equipment market, and Medical growth from higher demand and program ramps from new and existing customers.

A substantial percentage of its sales is made to a small number of customers, and the loss of a major customer, if not replaced, would have an adverse effect. Sales to its 10 largest customers represented 45% of its sales in both the six-month periods ending June 30, 2018 and 2017.

Segment-wise performance: Industrials' second-quarter sales decreased 6% to $117.8 million from $124.8 million in 2017, primarily as a result of weaker demand from existing customers. Sales during the first six months of 2018 were $242.3 million compared to $241.9 million in the same period of 2017. In Aerospace and Defense, second-quarter sales increased 2% to $102.5 Million from $100.1 million in 2017. Sales during the first six months of 2018 were $200.4 million compared to $200.0 million in the same period of 2017. Medical second-quarter sales increased 12% to $97.0 million from $86.8 million in 2017, and increased 13% to $194.3 million during the first six months of 2018 from $171.8 million in the same period of 2017 due to higher demand and program ramps from new and existing customers. Test & Instrumentation had a second-quarter sales increase of 19% to $106.1 million from $88.8 million in 2017 and an increase of 27% to $208.3 million during the first six months of 2018 from $164.5 million in the same period of 2017. The increase reflected strong demand in its precision manufacturing machining operations serving the semi-capital equipment market. Computing second-quarter sales increased 13% to $160.6 million from $142.2 million in 2017, and increased 9% to $264.2 million during the first six months of 2018 from $242.5 million in the same period of 2017. The increase is primarily due to increased demand from its legacy storage and data security customers. Telecommunications second-quarter sales were $76.6 million and $76.9 million in 2018 and 2017, respectively, and increased 2% to $159.2 million during the first six months of 2018 from $156.8 million in the same period of 2017.

Bookings grew to $177 million; revenue was up 7% year over year; and cash cycle days of 69 were at the lower end of its target range. Its operating margin profile was lower than expected from higher computing revenue.

The company expects 3Q2018 revenue of $610–650 million. Diluted non-GAAP earnings per share should be between $0.28 and $0.36. The company projects that new program bookings for the second quarter will result in annualized revenue of $148–205 million when fully launched in the next 12–24 months (Medical up to 36 months). The new program bookings align with Benchmark's strategic focus.

Company	2Q18 Sales	1Q18 Sales	Qtr.–Qtr. Chg.	2Q17 Sales	Yr.–Yr. Chg.	2Q18 Gross Marg.	1Q18 Gross Marg.	2Q17 Gross Marg.	2Q18 Oper. Marg.	1Q18 Oper. Marg.	2Q17 Oper. Marg.	2Q18 Net Inc.	1Q18 Net Inc.	2Q17 Net Inc.	Q1–2 '18 Sales	Q1-2 '17 Sales	Yr.–Yr. Chg.	Q1–2 '18 Net Inc.	Q1–2 '17 Net Inc.
Stand-Alone EMS Providers																			
Kimball Electronics	276.8	283.9	−2.5	241.3	14.7	8.2%	8.1%	7.5%	4.1%	3.9%	3.5%	7.2	10.7	8.1	560.7	474.2	18.2	17.9	16.2
KeyTronic	108.4	111.7	−3.0	113.6	−4.6	7.5%	7.9%	8.0%	0.7%	1.5%	1.6%	0.6	−2.3	1.0	220.1	232.1	−5.2	−1.7	2.5
Sparton	93.9	97.8	−4.0	95.4	−1.6	18.8%	20.9%	17.7%	2.5%	3.9%	1.6%	0.6	−9.0	0.4	191.7	192.8	−0.6	−8.4	−0.5
SMTC	44.5	37.1	19.9	33.0	34.8	9.6%	10.4%	4.3%	1.2%	0.9%	0.0%	0.0	−0.4	−6.0	81.6	66.2	23.3	−0.4	−6.4
SigmaTron	68.2	65.7	3.8	65.9	3.5	10.0%	9.0%	12.0%	(8.0%)	0.4%	3.4%	−4.4	0.0	1.3	133.9	128.0	4.6	−4.4	1.2
IEC Electronics	29.8	31.8	−6.3	26.5	12.5	11.3%	15.1%	14.0%	1.8%	5.9%	4.2%	0.2	1.6	0.8	61.6	47.9	28.7	1.8	0.2
Nortech Systems	28.5	26.4	8.0	30.1	−5.3	13.4%	11.5%	11.2%	2.6%	(0.5%)	0.3%	0.4	−0.3	0.0	54.9	58.5	−6.1	0.1	0.0
Subtotal/Avg.	**650.0**	**654.5**	**−0.7**	**605.8**	**7.3**	**10.4%**	**12.1%**	**12.7%**	**1.8%**	**1.9%**	**2.9%**	**4.7**	**0.3**	**5.5**	**1,304.5**	**1,199.6**	**8.7**	**5.0**	**13.2**
EMS Units of Larger Public Companies																			
Ducommun*	84.5	82.4	2.5	81.8	3.3							8.7	5.7	8.9	166.9	160.5	4.0	14.4	16.0
Total/Avg.	**734.5**	**736.9**	**−0.3**	**687.6**	**6.8**										**1,471.4**	**1,360.1**	**8.2**	**19.4**	**29.2**

Table 3: Q2 and Six-Month 2018 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.

Modest Yearly Growth for North American Group

Combined Q2 sales for eight mid-tier and smaller EMS providers based in North America improved from the prior year by 6.8%. Five companies out of eight increased their Q2 revenue year over year, and their gains outweighed declines at the other two providers. **SMTC** posted the highest year-over-year increase at 34.8%. This North American group's year-over-year growth could not keep up with that of the largest providers in the US-traded sector as their combined sales went up by 11.7% (see Table 2, p. 3).

In the aggregate, the eight mid-tier and smaller providers fell short of their large US-traded competitors when Q2 revenue was measured sequentially. Q2 sales for the mid-tier and smaller group totaled $734.5 million, down 0.3% sequentially. By comparison, the revenue of the large US-traded group increased 3.5%.

Of the eight mid-tier and smaller players, four providers—SMTC, **SigmaTron**, **Nortech Systems**, and **Ducommun**—achieved sequential growth in Q2 revenue. SMTC stood out as the only provider to record a double-digit increase in Q2 revenue as well as a year earlier. Four providers saw their sales drop appreciably from a earlier, and **IEC Electronics** reported the highest decline of 6.3%.

Interestingly, when first-half results of the two groups are compared, their sales increases were 300 percentage points apart. For the first six months, the mid-tier and smaller group generated sales of $1.47 billion, up 8.2% year over year. Likewise, there was an increase for the large US-traded group, of 11.2%. It appears, then, that the US-traded group performed rather better and held its own over the first half of the year.

The eight-company group's first-half growth can be attributed to three providers that posted double-digit gains: IEC Electronics with 28.7%, SMTC with 23.3%, and **Kimball Electronics** with 18.2%.

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.

On a combined basis, the seven stand-alone providers earned net income of $5 million in the first half. This poor result can be attributed to **Sparton**, SigmaTron, KeyTronic, and SMTC, whereas Kimball Electronics and IEC Electronics performed better.

A Brief Look at Several Providers

IEC Electronics Corp. (IEC). IEC reported revenues of $29.8 million for the third quarter of fiscal 2018, an increase of 12.5% as compared to revenues of $26.5 million for the fiscal 2017 third quarter ended June 30, 2017. Gross profit margin for the third quarter of fiscal 2018 was 11.3% as compared to 14.0% in the same quarter last year. Selling and administrative expenses increased to $2.8 million but decreased slightly as a percentage of sales to 9.5%, as compared to $2.6 million or 9.8% of sales in the third quarter of fiscal 2017. The company reported net income of $0.2 million for the third quarter of fiscal 2018, or $0.02 per share, compared to net income of $0.8 million, or $0.08 per share, in the third quarter of fiscal 2017.

Fiscal 2018 third-quarter revenue was lower than anticipated due to the global component shortages affecting the electronics industry. Based upon firm order commitments from its customers, IEC acquired materials, staffed accordingly, and fully intended to deliver an additional $4 million in customer orders during the third quarter. However, due to numerous supplier de-commits and late deliveries, the orders that went unfulfilled will shift into the fiscal 2018 fourth quarter, similar to what occurred from its fiscal 2018 first quarter to its fiscal 2018 second quarter. Because of this shift, its margins were under pressure during the third quarter due to higher levels of overhead and workforce staffing necessary to meet the expected volumes.

KeyTronic Corporation (KTCC). For the third quarter of fiscal year 2018, Key Tronic reported total revenue of $108.4 million, compared to $113.6 million in the same period of fiscal year 2017. For the first nine months of fiscal year 2018, total revenue was $329.3 million, compared to $349.3 million in the same period of fiscal year 2017.

For the third quarter of fiscal year 2018, the company had net income of approximately $0.6 million or $0.06 per share, compared to net income of $1.0 million or $0.09 per share for the third quarter of fiscal year 2017. As expected, the results for the third quarter of fiscal year 2018 include expenses in connection with a binding arbitration hearing and severance expenses related to streamlining the company's facilities in Mexico, totaling $0.10 per diluted share. For the first nine months of fiscal year 2018, net income was $0.9 million or $0.08 per share, compared to net income of $4.3 million or $0.39 per share for the same period of fiscal year 2017.

For the third quarter of fiscal year 2018, gross margin was 7.5% and operating margin was 0.7%, compared to 8.0% and 1.6%, respectively, in the same period of fiscal 2017.

Most of its new programs continued to ramp steadily during the third quarter of fiscal 2018, though its productivity was adversely impacted by industry-wide shortages in key components and an unexpected delay from one large new customer. At the same time, it has continued to win significant new business from both EMS competitors and from existing customers, including five new programs involving gaming equipment, medical devices, and a consumer security product.

For the fourth quarter of fiscal year 2017, the company expects to report revenue in the range of $112 million to. $117 million, and earnings in the range of $0.11 to $0.16 per diluted share

Kimball Electronics, Inc. (KE). Fourth-quarter 2018 net sales were $277 million, up nearly 15% from the prior-year fourth quarter. Operating income percent improved to 4.1% for the quarter from 3.5% in the prior-year quarter. Strong cash flow provided by operations amounted to $19.3 million for the quarter. Cash conversion days (CCD) for the quarter ended June 30, 2018 were 63 days, up from 60 days in the same quarter last year, and up sequentially from 62 days in the prior quarter.

Strong growth in its automotive and medical end market verticals helped it achieve double-digit year-over-year growth for the fourth consecutive quarter and exceed its long-time stated goal of $1 billion in annual sales in fiscal year 2018.

Kimball improved its operating income margin by 60 basis points from the prior-year quarter and 20 basis points sequentially when compared to the third quarter. Partially offsetting the improved operating performance in the fourth quarter were expenses directly associated with its pending acquisition of **GES**, which is still on track to close in this first quarter of fiscal year 2019. The much-anticipated progress in Romania came through in the fourth quarter, helping to drive the improved overall performance, and Kimball looks forward to continued growth and positive contributions in fiscal year 2019. The company remains focused on achieving its midrange goal of 4.5% operating income.

The outlook provided by the company is a net sales goal of 8% annual organic growth. The operating income percent goal remains 4.5%. The ROIC long-term goal remains 12.5%.

Company News

EMS Firm Pektron to Build New UK R&D Center

EMS provider **Pektron** plans to raze its current building in the UK and construct a new four-story research and development center.

The new building will be over 25,000 square feet and will house vehicle testing bays, Pektron's electronics engineering teams, and other electronics development facilities. The ground floor will be used for research testing, with design and component manufacturing on the other three floors.

Flex Files Price-Fixing Suit Against Resistor Makers

Flex has filed suit in the US District Court against multiple Japanese semiconductor makers, alleging price-fixing.

Flex is claiming that **Hokuriku Electric Industry, HDK America**, **Rohm,** and **Rohm Semiconductor USA** engaged in fraudulent concealment, in the suit filed in Northern California District Court.

In filing the claim, Flex has opted out of a class action lawsuit covering the same allegations.

According to a Flex statement, the defendants "knowingly and intentionally engaged in a conspiracy to fix, raise, maintain and/or stabilize prices in the United States and elsewhere for resistors that were included in finished products imported to the US." The Japanese companies directly discussed "the price, output, capacity and other competitively sensitive data," the suit says. Flex claims that when it purchased linear resistors from Hokuriku, trade was limited and prices were inflated.

Flex is requesting a jury trial and a judgment of triple the amount of suffered damages, as well as attorneys' fees and related legal costs.

Hokuriku and Rohm are among the component makers involved in a separate suit brought last year for similar claims. Other defendants in that case include **Vishay**, **KOA Speer,** and **Panasonic**.

Ducommun to Close Phoenix EMS Plant

Ducommun will shutter its contract electronics assembly plant in Phoenix later this year and relocate capacity to its facility in Huntsville, Arkansas by year-end.

The company holds a lease on the 100,000-square-foot Phoenix site through 2022.

The closing brings the number of EMS plants run by Ducommun to five, all in the Midwest and southern US. The 69,000-square-foot plant in Huntsville was acquired as part of Ducommun's merger with LaBarge in 2011. That lease is due to expire in 2020, according to company filings.

Supply Chain Winners as Apple Becomes $1T Giant

With **Apple** becoming a $1 trillion company in its latest quarter, according to reports, its supply chain is getting extra attention.

It is estimated that some 20% to 25% of **Jabil Circuit**'s revenue comes from Apple, particularly the iPhone and iPad casings. The company said its DMS segment would bring in $2.2 billion in the August quarter, flat with the same quarter last year, according to *RBC Capital Markets* tech analyst Amit Daryanani.

Amphenol can attribute an estimated 7% to 8% of its sales to Apple, including iPhone and iPad antennas and connectors. The company's Mobile Devices segment grew "27% year over year in [the] June quarter and guided the September quarter to increase significantly quarter over quarter. For the full-year calendar year 2018, Amphenol expects Mobile Devices to increase mid- to high teens," said Daryanani.

Twenty-five percent of **Broadcom**'s sales are from Apple, with the firm supplying RF components, connectivity combo chips, touch controllers, and wireless charging components in the iPhone 8/8+.

Less than 10% of **Analog Devices**' sales can be attributed to Apple. The firm's "consumer segment decreased 17% quarter over quarter." Content includes 3D Touch/Force Touch processors and a dual-camera processor.

Apple has roughly 20% of global NAND and mid- to single digits of global DRAM, says Daryanani. Key memory suppliers include **Samsung, SK Hynix, Micron,** and **Western Digital**.

Private Equity Firm Acquires EMS Company Masterwork

A private equity firm has purchased electronics manufacturer **Masterwork Electronics** for an undisclosed sum. "Masterwork has made significant investments in state-of-the-art manufacturing equipment and facilities in Mexico," said John Caple, managing partner at Hidden Harbor, the firm acquiring the EMS company. "We are excited about Masterwork's growth prospects as it continues to focus on superior service, innovative solutions, and a high-performance culture for the benefit of its customers, suppliers, and employees."

"Masterwork is eager to partner with Hidden Harbor, which will bring the resources and capital to continue our strong record of performance and support our next phase of growth," said Paul Morben, CEO of Masterwork.

Tariffs Could Mean Plant Closures for Kimball

Kimball Electronics says the US tariffs on certain goods imported from China could lead customers to move production offshore, leading to plant closures in the US.

The EMS firm sent a letter to the US Trade Representative (USTR) indicating the possibility that it would be forced to close one or two US manufacturing plants if the tariffs continue, according to reports. In the letter, Kimball Electronics CEO Don Charron urged the USTR to remove tariffs from components the firm imports, stating that Kimball cannot absorb the additional costs.

Kimball has four assembly sites in the US: three in Indiana and one in Florida, according to *Circuits Assembly*'s Directory of EMS Companies.

According to reports, Kimball expects at least 13 US customers out of 39 to ask for production of their products to be moved to the firm's Mexico plant in the next 18 months. The letter said Kimball would not be able to quickly change practices to respond to the tariffs because of the parts qualification process and worldwide shortages.

Cemtrex Receives $20M in New EMS Orders during June Quarter

Cemtrex announced that it had received over $20 million in new orders in its electronics manufacturing services (EMS) segment during its most recent quarter ended June 30.

The company's new orders were driven primarily by customers in medical devices, industrial technology, automation, and measurement devices. The orders came from both new customers and existing customers such as **ERBE**, **Stäubli**, and **Heinzmann**. These new orders bring the total EMS segment's backlog up to over $50 million in total, which puts the segment on a path toward organic growth of 10% over the next 12 months, the firm said.

"We are encouraged with the recent success of our EMS segment," said Saagar Govil, chairman and CEO of Cemtrex. "We have been able to rebound from a decline in sales last quarter with these new bookings. With $50 million in backlog, this gives us a strong foundation for us to continue growing within this segment."

SVI Opens Facility in Cambodia

EMS provider **SVI** announced that the company has opened the doors of its new manufacturing facility in Phnom Penh, Cambodia.

Now fully operational, the new 12,000- square-meter facility will not only provide the company with additional capacity, it is also expected to provide import tax benefits to SVI's existing European customers, a press release reads.

The company is expected to add up to 2,000 jobs at the new facility within the next 2 years.

Managing Director Leaves Neways Electronics Riesa

Oliver Seifert, who has been the Managing Director of Neways Electronics Riesa and Neways Electronics Děčín since 2016, is leaving the EMS group on October 31, 2018.

"Under his leadership, the growth of the sites in Riesa (Germany) and Děčín (Czech Republic) was successfully continued, which contributed significantly to the recent growth of the entire group," says Huub van der Vrande, CEO of Neways Electronics International, in a press release.

Oliver Seifert has made the decision to seek new professional challenges outside the group. The company says it will make an announcement regarding Siefert's succession soon. In the meantime, Huub van der Vrande (CEO) and Paul de Koning (CFO), supported by Adrie van Bragt (COO), will continue the business together with the management team from Riesa.

Kris Haggstrom to Handle E-Commerce and EMS for PEI-Genesis

PEI-Genesis has named Kris Haggstrom Senior Director of E-Commerce and Electronic Manufacturing Services (EMS).

Haggstrom brings a wealth of experience from the distribution segment, having spent the better part of 25 years in various senior management positions for **Future Electronics** and **Digi-Key Electronics**, building and managing global sales and e-commerce business units.

Swedish EMS Provider Continues Investing in Estonian Unit

Swedish EMS provider **Inission** has carried out two major projects at its manufacturing unit in Tallinn during the summer.

In addition to having renewed the ISO 9001 and ISO 14001 certificates, the factory has also been certified according to ISO 13485, meaning that medical devices now can be manufactured at the facility.

Inission Tallinn has also finalized the installation of a new SMT line. This not only raises Inission's capacity, it also strengthens the possibility of standardization between the factories, thus facilitating load balancing.

USound Chooses Flex as Manufacturing Partner

Austrian **USound**, a developer of audio solutions for personal applications based on MEMS technology, is partnering with **Flex** to manufacture and provide technology, engineering, and design support for various MEMS speaker applications from the Flex facility in Althofen, Austria.

USound is looking to reinvent the audio industry with miniature loudspeakers that take up to 50% less space, use 80% less energy, and boast a greater frequency range than rival speaker products in use today.

"In an effort to maximize economies of scale, we made a strategic decision to enlist Flex to manufacture our devices," said Ferruccio Bottoni, CEO at USound in a press release. "Flex is a world-class manufacturing and engineering organization and their expertise will enable us to bring our highly innovative MEMS speaker to the market faster and at lower cost."

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