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Southwest China: A New Frontier for Contract Manufacturing

A year ago, few people would have associated contract manufacturing with southwestern China, which is far removed from the production centers of China's coastal cities. But today, anyone paying attention to the notebook industry has learned that the city of Chongqing in southwestern China will soon become a major base for contract manufacturing of notebooks. **Hon Hai Precision Industry** and two of the four largest notebook ODMs have all decided to locate notebook manufacturing operations in Chongqing, and it has been reported that Hon Hai's PC factory is already being staffed. But notebooks won't be the only contract manufactured products in Chongqing, and Chongqing won't be the only city attracting outsourced manufacturing in southwestern China. And for good reason. Compared with coastal cities, labor and other costs are lower in southwestern China, and its labor supply is more plentiful.

Before Hon Hai and the ODMs committed to Chongqing, there was **HP**, which in 2008 announced plans for a Chongqing plant to produce notebooks and desktop PCs for customers in China. Then in the fall of last year, news broke that Hon Hai began construction of a notebook manufacturing facility in Chongqing (Oct. 2009, p. 4). In the notebook ODM space, Hon Hai is a relative newcomer, and two of the first-tier notebook ODMs soon made it known that Hon Hai would not be without competition in Chongqing. In December 2009, wire services reported that **Inventec** would invest $800 million to build a Chongqing plant initially centered on production of notebook computers with other IT products to follow later on. Shortly thereafter in January 2010, **Quanta Computer** announced that it had signed an agreement with the government of Chongqing to build a manufacturing site there, Quanta's third one in China. Both Quanta and Inventec are suppliers to HP, as is Hon Hai.

The three notebook contract manufactures are establishing operations in Chongqing with the expectation that notebook part suppliers will follow them there. Hon Hai chairman Terry Guo expects that 80% of the parts needed by his PC facility in Chongqing will be obtained locally, *CENS.com* reported. Hon Hai's supply base in Chongqing will include parts sourced internally through vertical integration, a core principle at Hon Hai. As a major example, Hon Hai is indirectly investing $100 million in a Chongqing operation that manufactures computer chassis and stamped metal parts. With over 1,000 employees already on site, Hon Hai aims to increase its workforce there above 10,000 in 2011, according to *CENS.com*.

The buildup of electronics manufacturing in Chongqing will not be confined to notebook computers. Under a memorandum of understanding signed last year, **Cisco** and the Chongqing municipal government agreed to cooperate in several areas including the development of a new telecom manufacturing base in Chongqing. "The parties have committed to collaborate on several initiatives to improve the local manufacturing and supplier base, infrastructure, and logistics," stated Cisco. Since Cisco is a devotee of outsourcing, a local manufacturing base could well include contract manufacturing. You can be sure that Cisco's

Some articles in this issue

telecom manufacturing pledge is not lost on Hon Hai, which counts Cisco as one of its customers.

Whether or not Hon Hai eventually manufactures for Cisco in Chongqing, Hon Hai is said to have 10 projects in mind for its industrial base there (Oct. 2009, p. 4). Add that to Inventec's plan to expand beyond notebook production in Chongqing to other IT products – Inventec is a leading server ODM – and you have Chongqing emerging as a new contract manufacturing center for notebooks and other products in China. Indeed, other products are already being contract manufactured in Chongqing.

IMI expands in southwestern China.

Despite the foregoing, Hon Hai is not the first EMS provider to locate an operation in Chongqing. At least one provider was there before Hon Hai's entry. **Integrated Micro-Electronics Inc.**, a Top 50 EMS provider based in the Philippines, opened a factory in Chongqing in 2005. IMI went to Chongqing because the provider had a customer that invited IMI to support it there. The Chongqing factory is a 2,200-m^2 facility.

Now IMI is expanding its presence in southwestern China. This month, the provider officially opened a 7,500-m^2 plant in Chengdu, the capital of Sichuan province in southwestern China. Like the earlier move into Chongqing, IMI was invited by a key customer to support its new plant in Chengdu. IMI also has OEM customers based in Chengdu that are currently supplied by the provider's plant in Chongqing. "With our new plant in Chengdu, we can offer to bring our expertise nearer to them," said Arthur Tan, president of IMI.

In opting for this southwestern expansion, IMI also considered the steadily rising costs of manufacturing and labor supply shortages in the coastal regions. Manufacturing costs in southwestern China are around 20% to 30% lower than those in the coastal cities, according to IMI. Southwestern China "also has the largest pool of migrant workers," said Tan. "Because of this, the move into the central regions by OEMs and their EMS providers has gained momentum."

Jaime Augusto Zobel de Ayala, IMI's chairman, said, "IMI's expansion to Chengdu is part of our strategy to bring IMI's services closer to OEMs which increasingly require greater capacity in China to supply a large domestic market as well as to manufacture for export markets."

IMI's position in the region will allow it to capture a greater share of volume orders as demand turns in step with the economic cycle, said Ayala.

The Chengdu factory brings the number of IMI's manufacturing sites in China to six. In addition to locations in Chengdu and Chongqing, IMI has three sites in Shenzhen and one in Jiaxing.

IMI confirmed that the supply base in southwestern China is not as mature as that in southern China. The provider told *MMI* that most components and parts for the Chengdu factory come through IMI's Shenzhen organization. IMI is in the process of enhancing its supplier base in the region.

Reportedly, Chengdu has also attracted investment from Hon Hai. Last year, news services reported that the company will spend $1 billion to set up a production base in Chengdu (Oct. 2009, p. 4). This base will focus on optoelectronic products, according to *Digitimes.*

The labor and cost advantages of southwestern China have given OEMs and their contract manufacturers another region to consider for increasing capacity in China.

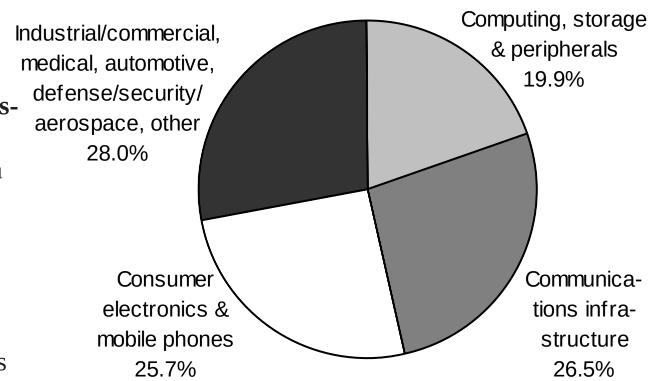
Market Data

Nontraditional Areas Combine for Leading Share

EMS industry sales were decidedly down last year, but that didn't prevent nontraditional segments from collectively gaining share in 2009. Together, these nontraditional areas – industrial/commercial, medical, automotive, defense/security/aerospace and other – comprised the largest wedge of a revenue pie based on data from 42 Top 50 EMS providers. This is the first time that a combination of nontraditional segments has taken the leading share in a market segment analysis by *MMI*. These nontraditional segments now comprise the largest source of revenue for the 42 providers, and by extension, a major portion of the EMS industry. (This finding does not apply to the biggest EMS provider, **Hon Hai Precision Industry**, whose sales are largely derived from other areas.)

As a group, the five nontraditional segments accounted for 28.0% of the $67.9 billion in sales generated by 42 Top 50 providers in 2009 (Chart 1). Within the Top 50, these are the 42 companies that provided market segment data useful for

Chart 1: Market Mix for 42 Top 50 EMS Providers in 2009



analysis. Although a somewhat different set of 42 companies provided data for 2008 (five names were replaced in 2009), and two of the categories were revised for 2009, an approximate comparison can still be made for the share gained by the nontraditional segments. The 2008 analysis showed that nontraditional segments represented 25.2% of revenue produced by the former group of 42 companies (April 2009, p. 2). By this measure, the group of nontraditional segments gained about 2.8 percentage points of share. On a year-to-year basis, that's a significant step up and a tangible piece of evidence showing that nontraditional segments offer a source of growth above the industry norm.

As mentioned above, two changes were made to category names for 2009. The industrial category of 2008 became industrial/commercial for 2009, and the defense and aerospace grouping was expanded to include security. These changes do not affect this result in a material way.

Market segment percentages for all 42 Top 50 providers appear in the tables on pages 3 and 4. The data came from *MMI's* annual Top 50 survey. As is evident from the tables, the five largest of these providers do not supply a full breakdown of their sales across the industrial/commercial, medical, automotive and defense/security/aerospace categories. Nevertheless, the 42 companies supplied the necessary sales breakdowns in the three more developed categories: communications infrastructure; consumer electronics and mobile phones; and computing, storage and peripherals. Sales in each of the three categories were computed for each of the 42 companies and totaled via spreadsheet. Combined sales from the remaining nontraditional segments were then obtained by subtraction.

Among the 42 providers, communications infrastructure contributed the second largest portion of total sales,

Market Percentages for 42 of the Largest EMS Providers in 2009

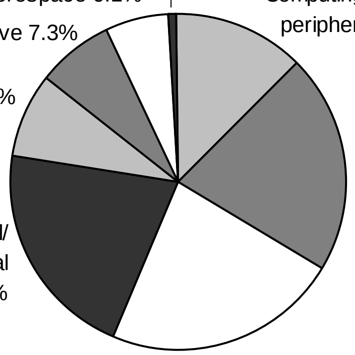
Organization	Computing, storage & peripherals	Comm. infra-structure	Con-sumer & mobile	Indus-trial/com-mercial	Med-ical	Auto-motive	Defense/ security/ aerospace	Other
Flextronics	19.1	30.0	32.8	*	*	*	*	18.2
Jabil Circuit	23	23	24	*	*	3	*	27
Celestica	25	36	29	*	*		*	10
Sanmina-SCI	21	34	19 [1]	*	*		*	26
Venture	56.9 [2]	14.4		16.4	*			12.3 [3]
Elcoteq		25	75					
Benchmark Electronics	39	23		24	14			
Plexus (FY)		55		13	22		10	
Universal Scientific Industrial (USI)	33	24	27	10		5	1	
SIIX	14.5	3.9	40.8	14.9		17.5		8.4 [4]
Zollner Elektronik	~22	~4	~3	~39	~7	~21	~4	
Sumitronics			14	78		8		
Kimball Electronics Group				17.3	47.9	27.4	7.4	
Orient Semiconductor Electronics	36.2	2.3	19.8	32.2	1.2	2.1	6.2	
AsteelFlash Group	12	32	7	26	7	8	8	
Alco Electronics	2		95	1		2		
Nam Tai Electronics			83					17 [5]
VIDEOTON Holding	4	3	27	22		44		
Integrated Micro-Electronics, Inc.	9	40	22	13	4	10		1
Fabrinet		90		7	1	2		
Enics				100 [6]				
Creation Technologies	4	25		36	14	3	15	3
SRI Radio Systems		80		9	2	7	2	
WKK Technology	35	17		44	2	2		
Wong's Electronics	~30	~30	~5	~30		~5		
Topscom Technology	19	31	22		12 [7]	8		5
CTS Electronics Manufacturing Solutions	~10	24		17	14		35	
PartnerTech		24 [8]		48	18		10	
LaBarge				41	11		48	
VTech Communications	2.1	16.1	56.2	19.8	3.0	2.8		
Neways Electronics International		5		48	31	8	6	2 [9]
EPIC Technologies				27	48	12		
Selcom Elettronica		10.6	55.7	23.4	2.5	7.8		
DRS Technologies							99	
OnCore Manufacturing		5		30	20		45	
EN ElectronicNetwork	35	4	3	44	8	6		
EPIQ			14	10		76		
Hana Microelectronics	17	12	13	23	4	28	3	

Where possible, sales from home appliances have been placed in the consumer electronics category. * Included in other. [1] Includes automotive electronics. [2] Includes printing & imaging (40.3%). [3] Includes test & measurement and medical. [4] Includes components and machinery. [5] LCD products. [6] Includes medical. [7] Includes instrumentation. [8] Total information technology. [9] Includes consumer.

Market Percentages for 42 of the Largest EMS Providers in 2009

Organization	Computing, storage & peripherals	Comm. infra-structure	Con-sumer & mobile	Indus-trial/com-mercial	Med-ical	Auto-motive	Defense/ security/ aerospace	Other
BreconRidge		67		13	1		19	
Surface Mount Technology (Holdings) Limited	27		19	39		15		
EOLANE		5		30	6	14	41	4
V.S. Industry			98			2		

Chart 2: Market Mix for 35 Top 50 EMS Providers in 2009



but only by a slim margin. Comm infrastructure sales amounted to 26.5% of the total. By comparison, the comm infrastructure segment represented 28.6% of sales rung up by the 2008 set of 42 providers. The resulting loss of about 2.1 percentage points in market share was enough to drop this segment from first place in the 2008 market-segment analysis to second in the 2009 analysis.

Four providers – **BreconRidge**, **Fabrinet**, **Plexus** and **SRI Radio Systems** – derived a majority of their sales from comm infrastructure products.

Closely following the comm infrastructure segment in size was the consumer electronics and mobile phones sector, which garnered 25.7% of the 42 providers' revenue. Compared with the 2008 analysis, the consumer and mobile segment lost about 1.9 percentage points in market share. If the 42 companies were indicative of the industry at large, then consumer and mobile revenue fell at a rate greater than the industry average decline last year. A drop in the volume of contract manufactured cell phones likely played a major role in the segment's revenue loss. The top 10 contract manufacturers of mobile phones shipped 30% fewer handsets in 2009, according to estimates by **iSuppli** (see article on p. 5). Interestingly, this is the second straight year that the consumer and mobile segment has lost share in *MMI's* market-segment analysis (April 2009, p. 4).

In four cases, business was highly concentrated in the consumer and mobile segment. **Alco Electronics**, **Elcoteq**, **Nam Tai Electronics** and **V.S. Industry** obtained 75% or more of their 2009 sales from the segment.

Computing, storage and peripherals continued to constitute the smallest of the four slices making up the 2009 revenue pie for the 42 Top 50 providers (Chart 1, p. 2). The computing-related segment accounted for 19.9% of group revenue, up from 18.6% in the 2008 analysis. However, this increase in market share can be attributed to **Venture's** printing and imaging business (40.3% of sales), which was reclassified from industrial in 2008 to computing-related in 2009. Other than Venture, **Benchmark Electronics** reported the highest proportion of computing-related sales at 39%. As *MMI* has stated before, the size of this sector in relation to the comm infrastructure and consumer and mobile segments indicates a certain lack of emphasis on computing-related business among the companies analyzed, especially when compared with the ODM penetration of the segment.

Also note that the contribution of mammoth Hon Hai would likely make computing, storage and peripherals a much larger segment with a greater market share. Unfortunately, Hon Hai does not break down its sales by market segment.

Although it is not possible to pin down the sizes of the nontraditional segments individually without full sales breakdowns from the largest providers, there is enough data to get a rough of idea of how these segments stack up. By confining analysis to the 35 companies that provided the necessary breakdowns, one can obtain a picture of market segmentation for this subgroup. This picture will not be representative of the entire EMS industry, but it will shed some light on how the nontraditional markets compare with one another. The 35 companies ranged in size from $196 million to $2.1 billion and totaled $18.9 billion in sales.

Within this subset of 35 providers, the industrial/commercial segment is by far the largest nontraditional business. (The consumer and mobile sector is sometimes included with nontraditional areas but not in this analysis.) With 21.1% of the subgroup's sales, industrial/commercial business was more than twice the size of any other segment on the nontraditional side (Chart 2). This is essentially the same finding that appeared in the 2008 analysis of a somewhat different group of 35 Top 50 providers (April 2009, p. 4). But in the case of 2009, the industrial/commercial share was 4.9% percentage points above the industrial share of the 2008 analysis. Much if not most of this gain can be traced to the five new members of the 2009 group of 35. It is no secret that the mix and volume requirements of the industrial segment often present a sweet spot for mid-tier providers.

Two EMS providers, **Enics** and **Sumitronics**, obtained a high percentage of their sales from the industrial/ commercial segment.

Among the 35 providers, the medical segment was the second largest nontraditional category with 8.3% of sales. While pursuit of medical business has become widespread only in the last few years, some providers have already made significant inroads in the segment. For **EPIC Technologies** and **Kimball Electronics Group**, sales from the medical segment represent 48% and 47.9% respectively of total revenue.

Next in size was the automotive segment at 7.3% of sales. Although the automotive segment is not everyone's cup of tea, some providers derive a significant portion of their sales from the segment. Four providers – **EPIQ**, **Hana Microelectronics**, Kimball Electronics Group, and **VIDEOTON** – gained more than 25% of their EMS sales last year from the automotive area.

The defense/security/aerospace business, the smallest identifiable segment in this analysis, contributed 6.1% of the 35 providers' combined sales in 2009. Although the composite percentage for this segment is low, it represented more than 40% of sales for another four providers: **DRS Technologies**, **EOLANE**, **LaBarge** and **OnCore Manufacturing**.

There's another takeaway from looking at the data from this subset of 35 providers. In the aggregate, this mid-tier subset relies much more heavily on sales from the nontraditional segments (including other) than its larger competitors do. The nontraditional segments made up 43.7% of the subset's 2009 sales, compared with 20.8% of the sales of the five largest providers in the analysis.

In a perfect world, everyone would adhere to the same definition of each market category. But this analysis covered real-life providers who sometimes differ as to which products go in what buckets. Home appliances and printers serve as two salient examples where such differences crop up. In the case of home appliances, some providers consider them as consumer electronics, others list them under a separate category, while yet another provider, **Flextronics**, classifies them as industrial products. For the purposes of this analysis, revenue from home appliances was placed in the consumer and mobile segment, where possible.

Printers also show up in more than one category. Flextronics and **Jabil Circuit** treat printers as a consumer product, yet others classify them as computer peripherals belonging in the computing-related segment. Not only that, one provider, Venture, puts printing in a separate category along with imaging. In this analysis, printer and related business went into the computing, storage and peripherals segment, again where possible.

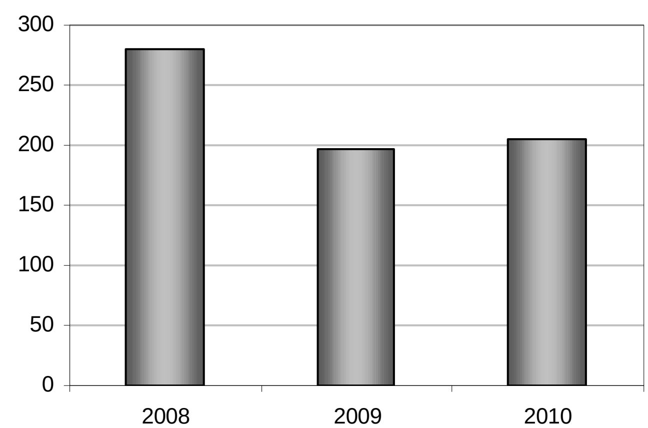
MMI's efforts eliminated some inconsistency among providers' categories, but not all of it. Hence, some uncertainty does remain with respect to the results presented here.

Top 10 Handset Contractors Expected To Lose Share

In 2010, combined unit growth for the top 10 handset contract manufacturers will lag the volume increase in cell phones overall, according to estimates by market research firm **iSuppli** (El Segundo, CA). Math then tells you that this top 10 group of EMS providers and ODMs is expected to lose share of the mobile phone market in 2010, at least on a unit-volume basis. This is not good news for those who were looking for outsourced handset volumes to grow in tandem with the recovery of the mobile phone market overall.

The firm projects that combined cell-phone shipments for the top 10 contract manufacturers in the space will rise by 3.4% to 204.2 million units this year, up from 197.5 million in 2009 (see chart). But iSuppli also estimates that the wireless handset market overall will grow by a significantly higher rate, 12.8%, in 2010 to 1.5 billion units. Dividing top-10 shipments in 2010 by market volume yields a top-10 share of about 13.6% in 2010. Based on a 12.8% growth rate, cell phone volumes in 2009 totaled about 1.33 billion units, according to iSuppli's numbers. Performing the same calculation with estimated top-10

Global Shipment Forecast for the Top 10 Cell Phone Contract Manufacturers, 2008-2010 (Millions of Units)



Source: iSuppli

Decline in Unit Shipments for Select Contract Manufacturers from 2008 to 2009	
Organization	Percentage decline
Foxconn International Holdings	-51.9%
Flextronics	-46.1%
Compal Communications	-57.6%
Arima Communications	-6.1%
Elcoteq	-62.3%
Source: iSuppli	

shipments and total market volume for 2009, you get a top-10 share of about 14.8% in 2009. According to this analysis of iSuppli's estimates, the top 10 are expected to lose about 1.2 percentage points of share this year.

Nokia is also calling for double-digit growth in mobile phone volumes this year. The world's largest cell-phone OEM expects mobile device volumes to increase by about 10% in 2010. Under the company's revised definition of the mobile device market, Nokia's estimate of 2009 volumes would have been 1.26 billion units. In Nokia's 10% growth scenario, 2010 volumes work out to be 1.39 billion units. Applying Nokia's market volumes to the above calculations, you wind up with top-10 shares of about 15.7% and 14.7% in 2009 and 2010 respectively.

According to iSuppli, the challenges that these cell-phone contract manufacturers faced in 2009 will persist in 2010. Responding to reduced demand last year, many mobile phone OEMs adjusted their manufacturing and outsourcing strategies, with negative consequences for both ODMs and EMS providers. Jeffrey Wu, senior analyst for EMS & ODM at iSuppli, said prospects remain gloomy in 2010 for the top-10 group. OEMs remain cautious about reengaging contract manufacturers in case the market does not recover as quickly as expected, iSuppli stated.

Last year, insourcing by Nokia created a loss of up to $5 billion in contract manufacturing revenue, estimated iSuppli, and pullbacks occurred at other OEMs as well. In addition, market-share losses of **Motorola** and **Sony Ericsson** – two tier-one OEMs that relied heavily on contract manufacturers – impacted their manufacturing partners. Amid such difficulties, top-10 shipments fell by 30% in 2009, according to iSuppli. What's more, iSuppli data for five contract manufacturers show that four of them experienced substantially greater declines in volume (see table).

Take **Foxconn International Holdings** (FIH), a pure-play handset contract manufacturer and a majority-owned subsidiary of **Hon Hai Precision Industry**. FIH's shipments dropped by 51.9% in 2009, according to iSuppli. But FIH's sales did not fall as steeply. The company reported sales of $7.21 billion for 2009, down by 22.2%. Last year's growth of the higher ASP smart-phone market, cited by FIH, is one possible explanation for the difference.

News

Hon Hai To Take Control of Another Sony TV Plant

Under a new outsourcing agreement, **Sony Group** will sell controlling interest in its Slovakian TV factory to **Hon Hai Precision Industry** (Tucheng, City, Taiwan). This is the second such deal announced by the two parties in less than a year. Seven months ago, Sony said it would sell manufacturing assets of its Tijuana, Mexico, site to Hon Hai, which would end up with 90% ownership of the LCD-TV operation (Sept. 2009, p. 6-7).

In the new deal, Hon Hai will acquire a 90.1% stake in **Sony Slovakia**, the name of Sony's LCD-TV factory in Nitra, Slovakia. The stake will allow Hon Hai to take over the Sony factory, which, according to Sony, will continue to be a key location for the production of Sony LCD TVs for the European region. The outsourcing agreement is part of Sony's initiative to improve the profitability of its LCD-TV business.

When the transaction is completed, Hon Hai will take on the employees currently working at the Nitra factory. As of February, the operation had about 2,500 employees.

The parties intend to complete the sale by the end of September, subject to regulatory approvals in several countries. No financial details were disclosed.

Sony Supply Chain Solutions Europe, a Sony subsidiary, will lease a portion of the Nitra factory, which will remain a logistics center of Sony Group in Europe.

Sony had invested 73 million euros in the factory by the time it opened in 2007 with a 60,000-m^2 footprint. In Europe, the company also operates a TV factory in Barcelona, Spain.

*Alliance…***EPIC Technologies** (Norwalk, OH), an *MMI* Top 50 EMS provider, has formed an alliance with **SFO Technologies**, an EMS provider based in Cochin, India. The alliance will allow EPIC to offer a manufacturing option in Asia, while SFO will be able to give its customers an expanded North American solution through EPIC's facilities. According to a statement from EPIC, SFO is India's largest indigenous electronics design and manufacturing services provider. SFO, a **NeST Group** company, provides end-to-end services including software.

*New business…***Q-Cells**, a major solar-cell producer, has selected **Flextronics** (Singapore) to manufacture 200 megawatts of solar modules. The deal represents one of the largest solar manufacturing contracts awarded in the industry to date. Flextronics will dedicate 200 megawatts of capacity at its Clean Tech Super Site in Port of Tanjung Pelepas, Malaysia, for production of Q-Cells' modules (see also March, p. 6). In addition, **SunPower** (San Jose, CA), a maker of solar cells, solar panels and solar systems, has partnered with Flextronics to begin manufacturing solar panels in Milpitas, CA. The new operation is expected to employ about 100 people this year and produce 75 megawatts of SunPower panels annually. Production will take place on Flextronics' Milpitas campus, and SunPower will purchase the equipment for the operation, reported the *San Francisco Chronicle*. On the logistics side, Flextronics will provide airgun manufacturer **Crosman** (East Bloomfield, NY) with distribution services in Europe, reported *The Clare Herald* of Ireland….Hon Hai will produce slim-type DVD drives for Japan's **Matsushita**, according to Taiwan-based *CENS.com*, which cited industry sources. Reportedly, the order is worth about NT$50 billion ($1.59 billion) in 2010 revenue. In addition, **Beijing UniStrong Science & Technology**, a supplier of satellite navigation systems in China, has engaged the Hon Hai group and another provider to manufacture personal navigation device products, reported Taiwan's *Digitimes*, which attributed the information to industry sources….**Symmetricom** (San Jose, CA), a supplier of precise time and frequency technologies, has entered into an agreement to transfer product fabrication processes and related activities from its Aguadilla, Puerto Rico, facility to **Sanmina-SCI** facilities. Operations to be transitioned include assembly, testing, repair and logistics, and the transfer is expected to be complete within a year. Under the agreement, Symmetricom will not transfer the manufacturing assets of the Puerto Rico facility, which the company intends to close. In 2008, Symmetricom outsourced manufacturing of PCBAs to Sanmina-SCI (San Jose, CA). Also, Sanmina-SCI and **GigOptix** (Palo Alto, CA) have teamed up to produce GigOptix's polymer modulator designed for 40Gb/s and 100Gb/s long-haul optical transponders….A Japanese handset manufacturer has awarded **Elcoteq** (Luxembourg) a contract estimated to contribute over 150 million euros to Elcoteq's sales this year. Elcoteq will provide industrialization, manufacturing, distribution and after-market services….**Benchmark Electronics** (Angleton, TX) is the design and manufacturing supplier for the **AccuVein** AV300, billed as the world's first hand-held, non-contact vein finder. The product has won a 2010 Medical Design Excellence Award….**Axell Wireless** (Chesham, UK), a provider of wireless coverage solutions, has chosen **NOTE UK** (Stonehouse, UK), the UK unit of NOTE (Danderyd, Sweden), as a supplier of a range of RF-based PCB assemblies. In line with NOTE's Nearsourcing strategy, its UK operation will manage the customer relationship, while PCBAs will be produced at NOTE's facility in Estonia.

*New facilities…*Hon Hai has opened a plant near St. Petersburg, Russia, initially for assembly of **HP** PCs, reported state-owned *RIA Novosti*. Construction began in 2008 (May 2008, p. 6). Also, through subsidiaries, Hon Hai has indirectly invested $230 million in a printer manufacturing operation in Shenzhen, China....Last month, Sanmina-SCI formally opened its campus in the Oragadam Hi-Tech Special Economic Zone near Chennai in India's Tamil Nadu state. The company, which has over 1,500 employees in India, has moved all manufacturing operations to the new 100-acre Oragadam Campus….**Victron** (Fremont, CA) has expanded into a new 30,000-ft^2 manufacturing facility in Rosarito, Mexico, a short drive from the U.S. border at San Diego. Product shipped from the Rosarito facility can reach the Fremont plant in one to two days for product fulfillment. The company expects to add another 30,000 ft^2 at the Mexico site by the end of the year. In addition, Victron said it will soon announce its expansion into China as well as other sites within the U.S. …**Integrated Micro-Electronics Inc.** (Laguna, Philippines), an *MMI* Top 50 provider, has relocated its IMI Japan sales office from Tokyo to Nagoya, Japan. The company said the action supports its strategic initiative to move closer to its existing customers and new focus markets. It is also cheaper to operate an office in central Japan than in Tokyo. Japanese customers account for almost 40% of IMI's revenue, and IMI Japan expects to increase its business with OEMs in the storage device, semiconductor, automotive and medical electronics segments. Japanese OEMs are outsourcing more to EMS providers, said IMI, because of fierce competition from emerging economies' OEMs that operate in areas with significantly lower cost structures.

Elcoteq Takes Positive Steps

Board make-up to change

Elcoteq recently took steps in an effort to stabilize its financial position and regain customer credibility, after enduring a 56% drop in 2009 sales (euros) in part due to a weak balance sheet. In addition, a share conversion will reduce the total voting percentage of the three founder shareholders by more than half, and two of them are leaving the board of directors along with a third board member.

Most recently, Elcoteq and the lenders of its 100-million euro revolving credit facility agreed to extend the facility from April 30, 2010 until June

30, 2011. The facility will be amortized by 33 million euros by March 31, 2011. As of Dec. 31, 2009, the facility was fully drawn.

Earlier in January, Elcoteq issued 29 million euros in hybrid securities through a private placement as part of its previously announced balance sheet restructuring. The proceeds from the issue were used to redeem debenture bonds at 25% of their nominal value of 105 million euros. As a result, the company increased its equity by about 85 million euros. Had these actions taken place in December 2009, Elcoteq's solvency would have been 23.7% instead of 6.3% on Dec. 31, 2009, and its gearing would have been 0.7 instead of 5.8.

To enhance possibilities for further balance sheet strengthening, the three founder shareholders of the company will exercise their right to convert all of their series K founders' shares to series A shares. This conversion will reduce the total voting share of the three from 84.81% to 41.38%. In addition, two of the founders, chairman Antti Piippo and Henry Sjöman, as well as vice chairman Juha Toivola have announced that they will not be available for reelection as board members. Elcoteq proposes to add two independent members to its board.

Elcoteq said it continues to explore ways to further strengthen its balance sheet through equity-related transactions and long-term financing arrangements. The company has launched an exchange offer for holders of its remaining debentures with a total face value of 35 million euros. Also, the company will arrange a rights issue during 2010.

Lastly, Elcoteq and India's **Videocon Industries** have decided to end negotiations regarding an equity investment that would have made Videocon a major shareholder in Elcoteq (Oct. 2008, p. 7). The hybrid securities transaction altered the investment structure originally planned by Videocon and finally led to the mutual decision ending the talks.

*More financial news…*Last month, Flextronics redeemed its 6 ½% senior subordinated notes due 2013. They had a total face value of $299.8 million….Likewise, **Celestica** (Toronto, Canada) completed redemption of its 7.625% senior subordinated notes due 2013. In the March transaction, the company used $234.5 million of its cash to retire the notes with an aggregate face value of $223.1 million. Celestica no longer has any outstanding debt….Benchmark Electronics' board of directors recently authorized a $100-million share repurchase program, which is in addition to the currently active 2008 repurchase program also with a $100-million cap. Benchmark has $38 million remaining under the 2008 program….**Ionics** has proposed a voluntary delisting of its **Ionics EMS** subsidiary (Laguna, Philippines) from the Singapore Exchange. Delisting will eliminate the cost of compliance with listing rules, and Ionics EMS believes that it is unlikely to require access to capital markets in the foreseeable future to finance its operations.

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