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2012 Outlook: Hoping for a Stronger Second Half

The new year is not starting off well. Europe is still mired in its sovereign debt crisis, and the IMF is now forecasting a mild recession for the euro zone in 2012. The jobless rate in the US remains stubbornly high, and its economy continues to be sluggish. What's more, the IMF has cut its growth projections for advanced economies to 1.2%, while trimming its global growth outlook to 3.3%. This world outlook does not warm the hearts of EMS providers who would like to see global demand pick up this year.

Semiconductor industry forecasts are also calling for low single-digit growth in 2012. **Gartner**, **IHS** and **WSTS** (World Semiconductor Trade Statistics) are projecting semiconductor sales growth of 2.2%, 3.2% and 3.7% respectively for 2012. If these forecasts can be taken as a rough proxy for electronics manufacturing, they would agree in indicating a low-growth outlook for overall manufacturing demand this year. (Note, however, that they contain a substantial PC ODM component that does not apply to the EMS industry.)

The latest EMS forecast from **IDC** is consistent with these semiconductor projections. IDC is estimating that EMS revenue worldwide will increase by 3.9% this year. In the IDC forecast, EMS revenue rises to $211.8 billion in 2012 from $203.8 billion (see article on p. 7).

Still, not every forecast would point to sub-five percent growth. IHS is also forecasting that electronics OEM revenues will grow 6.5% this year. That would argue for a moderate growth scenario for the EMS industry, especially when incremental growth from outsourcing is taken into account.

While demand is not where EMS providers would like it to be, things are not getting worse, according to one major player. In a January conference call, **Flextronics** CEO Mike McNamara said, "We would still characterize the environment as sluggish, but demand has stabilized." December 2011 was the first time in several months that the company did not see a forecast reduction.

Furthermore, customers are telling another large provider that demand will pick up as the year goes on. This month, Jure Sola, **Sanmina-SCI's** chairman and CEO, told analysts that customers expect demand to start improving in the June quarter, and "most of these customers still have an optimistic outlook for the second half of the calendar year 2012."

The second half of the year probably holds the key to how much growth the EMS industry can expect in 2012. Whether the growth is low or moderate, *MMI* has identified nine industry trends worth watching in 2012. Here they are in no particular order.

EMS providers will endeavor to make the best of what could be a low- or moderate-growth environment.

There are basically two strategies for this environment. One approach is to try to maximize financial performance under a modest growth scenario. Essentially, it means growing earnings faster than sales, either through mix, efficiencies or a combination. With this choice, providers will also seek to generate as much cash flow as possible, further strengthening their balance sheets. Providers will

Some articles in this issue

Cover story......1
MMI's annual outlook for the year ahead.
Some Quarterly Results in Brief......5
Forecast from IDC......7
Asteelflash Expands in North America......7
Plexus Obtains Kontron Assets and People......8

have the luxury of deciding what to do with the additional cash.

The other strategy calls for increasing revenue faster than the EMS market average through acquisitions, entry into new businesses or aggressive business development. The downside here is the potential impact on margins.

Both strategies will find adherents in 2012.

The majority of new outsourcing programs will come from the non-traditional segments.

The traditional segments of communications infrastructure (telecom and datacom) and computing and storage are already outsourced to a great extent. Flextronics' McNamara recently pointed out that in the smart-phone space within consumer electronics, US and European brands are also heavy users of contract manufacturing, while Korean and Taiwanese makers on average view manufacturing as a core competence. Set top boxes are yet another product area that is well penetrated by outsourcing. As a result, other market segments, which are often labeled nontraditional, must carry the majority of the outsourcing load in 2012.

These nontraditional segments can be thought of as consisting of industrial (or industrial/commercial), clean tech, medical (or healthcare and life sciences), automotive, defense/security/aerospace and other. *MMI* believes that the industrial and medical segments hold the greatest promise. For instance, some 58% of revenue from the manufacturing wins that **Plexus** reported for the December 2011 quarter came from those two segments.

This trend will shape how business development is carried out in 2012.

Western Europe will be a tough place to operate in 2012, while the EMS market in the US will also present challenges.

As the world knows, the sovereign debt crisis in Europe has taken its toll on the region's economy. In a recent *BBC* survey, 25 out of 27 economists predicted a European recession this year. That's bad news for EMS providers doing business in Europe, but particularly for regional players who depend on the European market. Recessionary conditions, if they arrive as predicted, will put a damper on the EMS business in Europe. History has shown that a recession will overwhelm any growth that might come from additional outsourcing. Regional players in Western Europe are especially vulnerable because they are competing with lower cost manufacturing in Central and Eastern Europe. European providers that offer low-cost production in the CEE region will stand a better chance of riding out the prospective recession.

The outlook for the US market is not as dire. For one thing, the US economy is in better shape than the European economy and seems to be heading in the right direction, albeit slowly. In addition, US manufacturing is being taken more seriously now in light of the increasing costs of supplying the North American market from China.

But regional players in the US will not have it easy in 2012. Many of them serve industrial customers whose demand generally tracks economic conditions. With conditions still weak in the US, industrial business will likely be anemic overall for the US market in 2012, barring a significant upturn in the second half. Medical business is a potential bright spot for the EMS market in the US, but regional players are facing more competition in the medical space from providers large and small. The defense sector is another market that appeals to regional providers in the US. With the passage of a defense authorization bill for fiscal 2012, military spending dollars will continue to flow into the EMS industry. But in a shrinking defense budget, not all programs will be treated equally.

US-based providers will increasingly find that Mexico, not Asia, poses the greater threat. Those that offer both US and Mexico sites will have the best hedging strategy for 2012, *MMI* believes.

CSER (corporate social and environmental responsibility) programs will begin to migrate from the EMS industry's top tier to providers in the industry's lower ranks.

While CSER programs are now commonplace among tier-one providers, they have yet to make major inroads among companies in the lower tiers. That will begin to change in 2012. Here's why.

• A number of large OEMs are already on board with CSER. It started with the **Apples** and **HPs** of the world and is spreading beyond big-name OEMs. Part of CSER is assuring that an OEM's supply chain is in compliance with the principles of CSER. As more and more OEMs adopt CSER, more and more of their supply chain partners, including EMS providers, will be asked to comply.

Although most providers want to do the right thing when it comes to social and environmental matters, putting together a CSER program takes up management time and attention that might otherwise be spent on revenue- and profit-generating activities. But when a current or potential customer, who is already committed to CSER, asks about CSER compliance, CSER suddenly becomes an investment in business development. And CSER jumps up the priority list.

• Many providers are already involved in some aspects of CSER, most notably RoHS on the environmental side. CSER extends corporate responsibility beyond the environment and a company's own workers to communities and supply chains.

• New laws and regulations are establishing CSER mandates. Take California's Transparency in Supply

Chains Act, which requires certain manufacturers to present their efforts for keeping their supply chains free from slavery and human trafficking. This law went into effect Jan. 1. Another law with a CSER objective is The Dodd-Frank Act, a section of which requires US public companies to report any use of conflict minerals originating from the Democratic Republic of Congo and neighboring countries. **IPC**, a trade association, expects that the requirements of this pending regulation will rapidly flow through the entire supply chain in a manner similar to RoHS.

There's more to setting up a CSER program than making glowing statements on a website. A CSER report should be generated regularly, and suppliers, especially those in low-cost regions, should be audited. The latter piece is time-consuming and expensive. That's probably why one doesn't see more CSER programs in the industry. It will probably take years before CSER audits of suppliers are done routinely across the industry. But for 2012, CSER will at least be claiming more industry mind share.

Following last year's natural disasters, risk management will gain more weight in OEMs' manufacturing strategies.

Quantifying risk has always been a fuzzy exercise. How do you put a number on something that may never happen? Then again, if it does happen, you better have a response plan in place ready to go. Even at that, the costs of recovering from a major natural disaster can be significant. Japan's earthquake and tsunami and Thailand's floods have put OEMs in a mood to mitigate risk as much as possible.

That means more OEMs will be looking to avoid putting all of their eggs in one basket. The trend toward supplier consolidation, which has been underway for several years, will reach a limit in 2012. Sure, OEMs don't want to deal with a half dozen EMS providers, but a greater emphasis on risk management will make more OEMs leery of sourcing product from a single site, especially if that site is in a location prone to flooding, hurricanes or typhoons. In the age of global warming where storms are likely growing more severe, risk management will become more pervasive and more sophisticated. How risk management plays out will depend on a number of factors such as the size of the OEM, the type of products, the geographic markets to be served, and the scope of the EMS provider's manufacturing network.

MMI believes that OEMs will also seek ways to make their entire supply chains more robust. One approach is to minimize the use of sole-sourced parts. Here, EMS providers can help by recommending component substitutes that are more widely available.

Consolidation of the EMS industry will continue in Europe and North America, while 2012 could be another soft year for M&A.

The 2011 bankruptcy filings by **Elcoteq**, **Simclar** and the French operations of **TES Electronics Solutions** set the stage for other EMS business failures in Europe this year. As mentioned previously, regional providers in Western Europe are the most vulnerable. There will likely be instances where Europe's poor economy pushes a struggling provider over the edge into failure. It remains to be seen, however, whether anyone will be interested in buying a Western European operation that has gone under. *MMI* believes that asset sales from failed businesses in Europe will not have great appeal during a prospective recession in Europe.

Indeed, overall M&A activity in Europe will probably fall off in 2012 due to Europe's beleaguered economy. Since European acquisitions represented the largest portion of EMS industry transactions in both 2010 and 2009, it stands to reason that a drop in European deals will throttle overall industry M&A, unless North America and Asia turn out an unusual number of deals. Although M&A totals have yet to be finalized for 2011, preliminary data indicate that 2011 will be an off year for M&A. With the likelihood of a poor environment for M&A in Europe, 2012 could be another soft year for deal making overall.

Nevertheless, EMS companies below the top tier will continue to buy out competitors, particularly in North America. These consolidation deals can offer geographic expansion, diversification, more revenue, increased capacity, additional capabilities or a combination thereof. Yet the tier-one providers typically do not engage in this sort of M&A activity. Acquiring a smaller competitor would add little if anything to their capabilities or global footprint. What's more, since 2007 there has been no consolidation in the top tier, and *MMI* cannot see a reason why that will change in 2012.

But tier-one providers will continue to make "tuck-in" acquisitions when they decide that they want to add a capability, either horizontal or vertical, by buying it rather than by developing it in-house. Capability deals will continue to appeal to other providers as well, especially when the target operation is small, and its price tag is commensurately low.

Regional manufacturing will become an increasingly popular theme in the EMS industry, but will not affect all EMS players alike.

Regional manufacturing (producing an item in or near the region where it will be sold) will be considered for almost any product except high-volume consumer electronics such as tablets and notebooks and, to a great extent, handhelds. Continually rising costs in China have seen to that, while regional manufacturing has moved from lip service to implementation. However, this theme will not affect all

providers equally.

For providers with global manufacturing networks, regional manufacturing causes a gradual shifting of some business within their networks. Production that might have been confined to Asia in years past gets split among regional sites. Still, this shifting is more or less a zero-sum game.

But there is another aspect of regional manufacturing that is presenting more and more opportunities, especially for the largest providers. They are in a position to pursue domestic manufacturing for growing markets such as Brazil, China and India. Good examples can be found within the aerospace segment. Recently, **Celestica**, **Jabil Circuit** and Plexus each had a site in China certified to AS9100C for aerospace manufacturing. By getting a facility in China certified, each company can go after aerospace business that calls for manufacturing for the Chinese market. In a similar fashion, **Sanmina-SCI** gained AS9100C certification for its Chennai, India, facility. Presumably, this certification will put the company in a position to manufacture for the aerospace market in India. Brazil offers yet another source of aerospace business, and Jabil recently partnered with **Rockwell Collins** to provide in-country manufacturing for Brazil's KC-390 aircraft (Dec. 2011, p. 8).

Aerospace is perhaps the latest sector to be pursued by global providers seeking domestic manufacturing business in developing markets. Other segments that lend themselves to this regional approach include communications infrastructure, industrial products and healthcare. This isn't new thinking, but it is becoming a greater source of growth for global providers, especially when demand in the developed markets is lacking. For instance, **Huawei** has engaged Flextronics to handle some of Huawei's telecom manufacturing in India, *The Times of India* reported. As for the medical market, ISO 13485 certifications have become more and more common in Asia, indicating a large potential for supplying medical devices to Asian markets.

Regional and local providers operating in Europe and North America will see a different effect from this regional manufacturing trend. Yes, they will find more OEMs receptive to manufacturing on a regional basis. Problem is, they will be facing a lot of competition, including sites that can act as gateways to lower cost production elsewhere. These regional and local providers may not be competing so much with Asian sources but they will see more North American OEMs looking at Mexico or more European OEMs leaning toward Central/Eastern Europe. And, of course, some OEMs will want a global solution that is beyond the capability of a regional provider.

In the face of such demands, it will be harder for a single-site company to operate as a general-purpose provider in 2012. Increasingly, single-site operations will have to specialize in business such as defense programs that won't move and/or offer services that aren't available from the local competition. Alternatively, some will explore an alliance or acquisition that would connect them with a global network with lower-cost production.

Regional manufacturing will emerge as an important theme but not the only strategy followed in 2012. Asia still has the lowest cost and most extensive supply base for components and other parts. That advantage is not going away any time soon. Some OEMs will continue to incorporate an Asian supply base in their manufacturing strategies.

In the clean tech segment, LED lighting will garner more attention this year, while solar PV experiences a bumpy ride.

Hon Hai Precision Industry's entry into the solar PV business will likely make an oversupply situation in China even worse. Overall, things are not starting out well in the solar PV space following a worldwide PV manufacturing equipment book-to-bill ratio of 0.35 for the third quarter of 2011. That's by far the ratio's lowest level since data collection began in Q1 2010. **SEMI**, a trade association that released this statistic, expects that bookings will not significantly improve through Q1 2012 without policy adjustments in Europe, Japan and China, combined with easing of credit markets and improved economic growth. According to IHS, gross margins "from wafer to module production will be in the single-digit range," driven by stiff competition and overcapacity. A drop in gross margins is not good news for EMS providers producing solar panels. Note, however, that this prediction was not accompanied by a timeframe. Given the current state of the solar module business, *MMI* would be surprised if panel manufacturing attracts any other EMS entrants this year besides Hon Hai.

Still, solar PV growth is expected in the US this year, which should be encouraging for EMS providers supplying panels or inverters for the US market. These providers should also benefit from any US tariffs imposed on Chinese-made panels if dumping is found to have occurred. In Canada, Ontario's feed-in-tariff initiative with its domestic content requirement will continue to fuel solar growth in the province. That should mean more business for EMS providers whose Ontario sites are running panels or inverters. Take Flextronics. According to a local news source, the company will install a second line for producing solar panels in Newmarket, Canada.

Solar receives lots of attention, but LED lighting should not be overlooked because it's a clean tech market forecasted to grow at a healthy double-digit CAGR well into the future. Indeed, it could be argued that LED lighting is closer to EMS than solar

panels are because with LEDs one is still dealing with solid-state components. As LED lighting migrates into more and more applications, EMS opportunities will also grow. A good example is the Hungary-based provider **Videoton**. Citing "the revolutionary breakthrough of LEDs" in the lighting industry, Videoton in 2011 gained new lighting business in the field of public lighting and in the automotive and consumer industries.

If Hon Hai successfully implements its plan to install 300,000 robots this year, automation will have reached a new milestone in electronics assembly.

Hon Hai chairman Terry Gou has been very public about its plans to go big in robotics. He is widely reported to have said that the company intends is to employ 300,000 robots this year and 1 million by 2014. The use of robots on such a massive scale, of course, is unprecedented in the EMS industry. And if the Hon Hai is successful in carrying out its plans, the company will have set a new benchmark for automation in the EMS industry.

MMI believes it would be unwise to bet against Hon Hai reaching or at least approaching its initial goal. For one thing, the company is investing in a complex in Taiwan to produce automation equipment such as robots (Sept. 2011, p. 6-7). Hon Hai will supply its own robots, *Xinhua News Agency* reported. Secondly, Hon Hai is known for the speed at which it can accomplish large undertakings. This attribute can be seen in the company's rapid buildup in inland China. Thirdly, the company's reputation, at least to some extent, is on the line. If Hon Hai fails to achieve its initial goal for robot installations, that would be a blow to its credibility. It would also be a personal failure for chairman Gou.

According to *Xinhua*, Gou said that the company will not lay off workers this year despite the addition of robots to perform routine tasks now primarily done by employees. Still, employing such a large number of robots to take over human jobs, will allow the company to greatly increase the ratio of robots to humans in its "workforce." A growing part of Hon Hai's workforce will have fixed costs in lieu of China's continually rising labor costs, no personal problems, no Chinese New Year and no sleep or dining requirements. Presumably, quality will go up as well since robots don't make mistakes.

It would be a stretch to expect other EMS providers to jump on the robotic bandwagon in 2012. But they will be watching Hon Hai's progress.

Results

Some Quarterly Results in Brief

Flextronics. In its fiscal Q3 ended Dec. 31, 2011, sales came to $7.5 billion, at the midpoint of guidance, while non-GAAP EPS of $0.18 was at the low end of guidance. Revenue fell 7% sequentially and 4% year over year. Non-GAAP operating income declined 15% sequentially and 35% year over year, while non-GAAP EPS dropped 18% sequentially and 28% year over year. The company earned GAAP net income of $102 million, down 22% sequentially and 48% year over year.

Non-GAAP gross margin for the December quarter was 5.1%, up 40 basis points sequentially but down 50 basis points year over year. Non-GAAP operating margin came in at 2%, down 20 basis points from the prior quarter and 100 basis points from a year earlier. Excluding Flextronics' ODM PC operation, which incurred a non-GAAP operating loss of $70 million, non-GAAP operating margin would have been 3%. Flextronics completed its exit of the ODM PC business during the quarter, and its sequential revenue decline in the quarter was entirely (CFO) or almost entirely (CEO) due to the withdrawal from this business.

Flooding in Thailand cost the company about $100 million in revenue.

At two of the company's four business groups, revenue was down sequentially and year over year. Sales from Integrated Network Solutions declined 7% sequentially and 2% year over year, while High Velocity Solutions business dropped 10% sequentially and 12% year over year. High Velocity Solutions accounted for 42% of sales, and the company's goal is to take that down to 30% ultimately. Revenue from Industrial and Emerging Industries was flat versus the prior quarter but increased 4% from a year earlier. Within this segment, Flextronics believes that its capital equipment business may have bottomed out in the December quarter. High Reliability Solutions grew 2% sequentially and 22% year over year.

The company's component businesses produced a slight loss in the quarter excluding restructuring. Flextronics is reducing the number of factories in its power business from five to two and intends to eliminate a camera module plant.

In the December quarter, the provider generated free cash flow of $136 million, bringing its nine-month total to $336 million.

Guidance for the March 2012 quarter calls for sales of $6.3 billion to $6.6 billion and non-GAAP EPS of $0.22 to $0.24. The revenue guidance, which corresponds to a 14% sequential decline at the midpoint, reflects the sales lost from the exiting the ODM PC business and seasonal declines in the High Velocity Solutions group.

Jabil Circuit. For its fiscal Q1 ended Nov. 30, 2011, revenue totaled $4.33 billion, up 1.1% sequentially and 6% year over year. Non-GAAP EPS of $0.65 increased by 4.8% se-

quentially and 6.6% year over year. Revenue came in near the low end of guidance, which called for sales of $4.3 billion to $4.5 billion, while non-GAAP EPS was one cent below the guidance midpoint. The company earned attributable GAAP net income of $112.9 million, down from $114.3 million in the prior quarter but up from $106.7 million a year ago. GAAP EPS of $0.54 rose 3.8% sequentially and 10% year over year.

Non-GAAP operating margin for the November quarter amounted to 4.5%, 10 basis points above the prior quarter's level and consistent with the year-earlier result. The company, which had expected a margin of 4.3% to 4.5%, said it was "especially pleased" with its operating margin performance in the quarter, delivered in a period of economic uncertainty.

Revenue from Diversified Manufacturing Services grew 30% year over year, rising to 42% of total sales in the quarter. The DMS segment's non-GAAP operating margin improved by 10 basis points sequentially to 6.8%. Jabil's Enterprise & Infrastructure sales increased 4% from the year-ago period, which was lower than expected. The company experienced revenue reductions late in the quarter as a result of inventory leveling with specific large customers and inbound product transitions. Non-GAAP operating margin in the E&I segment was 2%, down 60 basis points sequentially. Jabil expects a return to revenue growth and improved non-GAAP operating income performance in this segment for the balance of the fiscal year. The company's High Velocity segment performed above Jabil's expectations for the November quarter, though segment sales dropped 14% year over year. Here, non-GAAP operating margin went up 70 basis points sequentially to 3.8%.

Guidance for Q2 fiscal 2012 (the February quarter) specifies revenue of $4.0 billion to $4.2 billion, corresponding to a decline of 5% sequentially and growth of 4% year over year at the midpoint. In this outlook, year-over-year growth will be confined to the DMS segment, estimated to show a 25% gain. Jabil expects non-GAAP EPS of $0.52 to $0.62.

The company is projecting fiscal 2012 sales of about $17.4 billion.

Plexus. For its fiscal Q1 ended Dec. 31, 2011, revenue of $530 million was at the high end of narrowed guidance of $525 million to $530 million, which superseded original guidance of $510 million to $540 million. Revenue declined 2% sequentially and 6% year over year. EPS of $0.51 exceeded revised guidance of $0.48 to $0.50, which replaced earlier guidance of $0.44 to $0.49. EPS decreased 2% sequentially and 16% year over year.

The company's networking/communications and medical businesses grew 8% and 1% sequentially, yet Plexus expects that March quarter sales from both sectors will show sequential declines in the low single-digit percentage range. Revenue from the company's industrial/commercial sector dropped 14% sequentially in the December quarter, but the company anticipates that sequential growth in this sector will approach 30% for the March quarter. Industrial/commercial sales in the quarter will benefit from Plexus' newly expanded relationship with **Kontron** (see News, p. 8), improved demand from the **Coca Cola** programs, and a program ramp from a major customer in the energy field. In the December quarter, Plexus' defense/security/aerospace sector saw a sales decline of 9%, but the company expects a mid teens percentage increase for the sector's March quarter sales.

Juniper Networks accounted for 22% of December quarter sales, up from 17% for the prior quarter. Coca Cola did not meet the 10% threshold as it did last quarter.

Gross margin for the December quarter was 9.8%, up 60 basis points sequentially and 10 basis points year over year. This result exceeded expectations because of stronger than anticipated earnings from Plexus' Engineering Solutions group and a favorable outcome of inventory disposition related to a customer disengagement. Operating margin was a better-than-expected 4.5%, up 40 basis points sequentially but down 40 basis points year over year.

During the quarter, Plexus won 28 new manufacturing programs (excluding Kontron) expected to generate about $203 million in annualized revenue when fully ramped.

Counting the new Kontron business, Plexus has set fiscal Q2 guidance of $550 million to $580 million with non-GAAP EPS of $0.51 to $0.58. Based on customer forecasts, the company expects sequential sales growth in each of the remaining quarters of its fiscal year.

Sanmina-SCI. In its fiscal Q1 ended Dec. 31, 2011, revenue totaled $1.5 billion, down 11% sequentially and 10% year over year. Revenue came in at the low end of guidance, which set forth a range of $1.5 billion to $1.6 billion. Non-GAAP EPS of $0.28 was within guidance of $0.26 to $0.34, but the EPS result dropped 40% sequentially and 38% year over year. The company reported GAAP net income of $8.6 million, down from $18.1 million in the prior quarter and $28.4 million in the year-ago period.

Non-GAAP gross margin amounted to 7.3%, down 50 basis points sequentially and year over year. The margin was the lowest it has been in a number of quarters. The revenue decline and the mix of business were the main drivers in the gross margin decline. Because of the high contribution margin of the components businesses, a sequential decline of about 17% in these businesses had a disproportionate effect on gross margin. Non-GAAP operating margin was 3.3%, down 80

basis points sequentially and 90 basis points year over year.

Demand was soft in all four of the company's segments, particularly in communications networks, the provider's largest segment at 45% of December quarter sales. Two other factors affected revenue – the aforementioned drop in components revenue and supply constraints caused by the floods in Thailand. These constraints resulted in missed revenue of $30 million to $40 million, primarily in enterprise computing and storage and multimedia.

The communications networks segment showed a 15.6% sequential decline in sales. For the March quarter, the company believes this business has stabilized. Sales from enterprise computing and storage sank by 3.5% sequentially. The March quarter forecast for this segment is stable to slightly up on a sequential basis. Sanmina-SCI's defense/industrial/medical business fell 5.7% from the prior quarter. Within this segment, the company expects medical sales to be stable and defense and aerospace business to be stable or slightly improved in the March quarter, while semiconductor capital equipment will continue to be weak. The company's multimedia segment went down 15% sequentially, and March quarter sales are expected to be down slightly.

For the March quarter, the company is forecasting revenue of $1.45 billion to $1.55 billion and non-GAAP EPS of $0.24 to $0.30.

Market Data

Forecast from IDC

Market research firm **IDC** has presented *MMI* with the firm's latest forecast for the contract manufacturing business. In the 2011-2016 forecast, the EMS industry's CAGR (compound annual growth rate) is 4.5 percentage points below the ODM rate.

IDC projects that the EMS industry will expand at a CAGR of 6.5% over the forecast period, with sales growing from $203.8 billion in 2011 to $278.5 billion in 2016. After 2011, IDC foresees strictly single-digit annual growth rates for EMS revenue, as annual increases are projected to go no higher than 7.8% (see table). The EMS industry's lowest growth rate of 3.9% will occur this year, IDC estimates, when sales reach $211.8 billion.

IDC's outlook for the ODM sector is more sanguine. According to the firm's forecast, ODM sales will increase at a CAGR of 11%, starting at $133.7 billion in 2011 and ending up at $225.5 billion in 2016. Over the same period, the ODM sector's market share will grow from 39.6% to 44.7%.

Combining EMS and ODM sales, total contract manufacturing revenue is forecasted to grow from $337.5 billion in 2011 to $504 billion in 2016, corresponding to a CAGR of 8.4% (table).

Worldwide Contract Manufacturing Revenue Forecast, ($B), 2011-2016

	2011	2012	2013	2014	2015	2016	CAGR
EMS	$203.8	$211.8	$223.7	$239.9	$258.5	$278.5	6.5%
Growth	10.9%	3.9%	5.6%	7.2%	7.8%	7.7%	
ODM	$133.7	$147.7	$168.1	$186.0	$206.5	$225.5	11.0%
Growth	5.9%	10.4%	13.8%	10.7%	11.0%	9.2%	
Total contract mfg.	$337.5	$359.5	$391.7	$425.9	$465.0	$504.0	8.4%
Growth	8.9%	6.5%	9.0%	8.7%	9.2%	8.4%	

Source: IDC, 2012

News

Asteelflash Expands in North America

Asteelflash (Paris, France), whose US production was limited to the West Coast, has extended its presence in North America with the acquisition of **Catalyst Manufacturing Services**, an American EMS company with plants in Owego, NY; Raleigh, NC; and Tijuana, Mexico.

The acquisition will also allow Asteelflash to strengthen its activities in segments such as military/aerospace, medical and industrial, which are already well established in the group, while increasing manufacturing capacity in North America. With this deal, Asteelflash plans to extend its business development across the US.

After posting revenue of $780 million in 2011, Asteelflash expects to top $900 million in 2012, of which more than $400 million will come from North America.

According to the website of the *Press & Sun-Bulletin* (Binghamton, NY), each Catalyst site employs about 150 people.

Asteelflash has also entered into a strategic partnership with **Varitron Technologies**, an EMS provider in Saint-Hubert, Quebec, Canada. The alliance will give Asteelflash customers access to a Canadian provider, while enabling Asteelflash to support Varitron customers who want to include production outside Canada in their manufacturing strategy.

Reverse Takeover

Recently, publicly held **Adeptron Technologies** and privately owned **Artaflex**, two EMS companies based in Markham, Ontario, Canada, agreed to combine in a reverse takeover of Adeptron by Artaflex. Following completion of the deal, Artaflex's shareholders will own about 75% of the

resulting company, and Adeptron's shareholders will own about 25%. The combined company will operate under the name Artaflex.

Paul Walker, CEO of Artaflex, will become CEO of the combined company. Walker led a group that purchased Artaflex in 2010 (Oct. 2010, p. 7).

On a pro forma basis, the combined company would have generated revenue of $61.7 million over the 12 months ended June 30, 2011, compared with $42 million for Adeptron alone.

Deal done… **AirBorn** (Georgetown, TX), a manufacturer of components and provider of value-added solutions, has acquired **AESCO Electronics**, a contract manufacturer and electronic distributor operating in Akron, OH, and Taunton, MA.

Plexus Obtains Kontron Assets and People

Plexus (Neenah, WI) has acquired the inventory and equipment of **Kontron's** subsidiary Kontron Design Manufacturing Services in Penang, Malaysia, for a purchase price of $35.2 million, including a $3-million premium. Plexus also agreed to hire substantially all KDMS employees, and the company expected to bring on about 800 KDMS employees. In exchange, Kontron will commit to about $100 million of incremental revenue annually for two years. Plexus plans to transfer a majority of the KDMS work to one of the company's Penang, Malaysia, facilities. There is no real estate involved in this agreement.

KDMS also had a contract manufacturing business, which was worth about 15 million euros a year to Kontron. Plexus described this EMS activity as a "small piece" of the new the Kontron business.

Kontron is in the field of embedded computing technology.

New facilities… **Flextronics** (Singapore) has leased 140,000 ft^2 at America Center in San Jose, CA, according to a press release from lender **Mesa West Capital**, and local media reported that the provider will move its US headquarters there from Milpitas, CA.…**VTech Contract Manufacturing Services** has added a new building complex at its base in Dongguan, China. The new complex offers 200,000 ft^2 of manufacturing space, equivalent to a 40% increase in capacity.…EMS provider **EIT** (Sterling, VA) has opened its second plant in Danville, VA. The 60,000-ft^2 factory brings EIT's total facility space to just under 200,000 ft^2.

Facility closures… **Jabil Circuit** (St. Petersburg, FL) is closing its site in Northern Italy.…**Kitron** (Billingstad, Norway) has decided to close down its site in Karlskoga, Sweden.

People on the move… Flextronics has appointed Tom Linton chief procurement officer for the company. Previously, he served as chief procurement officer at **LG Electronics**, **Freescale Semiconductor** and **Agere Systems**. Michael Clarke has left Flextronics, where he headed its Integrated Network Solutions group, to become president and CEO of **Nortek**, a building products company.

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