

The Worldwide EMS Market Quarterly for First Half 2011

The worldwide contract manufacturing industry grew substantially in the first half of 2011 by an estimated 22 percent when compared to the first half 2010 according to *The Worldwide EMS Market Quarterly*, published by *New Venture Research Corp.* This is surprising because the industry just came off a spectacular year of approximately 37 percent growth in 2010, after several earlier years of slowing growth. Most industry pundits expected to see a decline in growth in 2011 but apparently the continued demand for new products (such as iPads, E-readers and smart phones) bursting on the scene in 2010 give impetus to this trend. Foxconn is the largest EMS company in the world today, and experienced one of the highest growth rates during this period (38 percent), outpacing its closest competitor (Flextronics) which grew at 17 percent during the same period. Jabil Circuit experienced much stronger growth at 26 percent, while Celestica achieved growth of 17 percent. Table 1-1 summarizes the growth statistics for the entire contract manufacturing industry (EMS and ODM companies) for both first half years.

**Table 1-1: The Worldwide Contract Manufacturing Services Market,
First Half, 2010 and 2011**

Supplier Type	1H10 (\$M)	1H11 (\$M)	% Change
EMS	101,806	124,586	22.4%
ODM	68,270	82,870	21.4%
Total CM	170,076	207,456	22.0%

Gross margins declined in the first half 2011 from the previous year, reflecting a trend of constricting costs. This naturally affected profits significantly in the first half of 2011. Table 1-2 below summarizes this trend.

Table 1-2: The Worldwide Contract Manufacturing Services Market

Gross Margins, First Half, 2010 and 2011

Supplier Type	1H10	1H11	% Change
EMS	5.6%	4.8%	-13.7%
ODM	5.6%	4.9%	-13.4%
Total CM	5.6%	4.9%	-13.6%

Profits naturally fell dramatically among public only contract manufacturers, reflecting a trend from previous years which resulted from constricting profit margins as shown in Table 1-3. While revenue growth was increasing, profitability was shrinking in 2011, indicating a tightening of the industry.

Table 1-3: The Worldwide Contract Manufacturing Services Market

Profit Margin Percentage, First Half, 2010 and 2011

Supplier Type	1H10	1H11	% Change
EMS	1.7%	1.3%	-26.5%
ODM	3.5%	2.5%	-30.5%
Total CM	2.6%	1.9%	-29.2%

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(Mike, if you need more content for this article please consider the following)

The following performance highlights occurred among the top ten contract manufacturing companies during 2011:

Foxconn

Foxconn experienced a very significant growth in revenue of 38 percent from the first half 2010 to the first half 2011, yet the company's net income declined by 11 percent during the same period. Foxconn's cash position remains very strong and its debt very low under the circumstances. Such a revenue growth rate, however, cannot be expected to be maintained without the continued positive growth of its leading customers such as Acer, Apple, Cisco, Dell, HP, Intel, Lenovo, Motorola and SonyEricsson.

Flextronics

Flextronics achieved a respectable growth of almost 17 percent when comparing the first quarter 2010 to the first quarter 2011. While its growth profit margins declined over the same period, its profit improved which was a very positive sign and a substantial improvement over its results in 2010.

Jabil Circuit

Jabil experienced a very strong 26 percent growth in revenue from the first half 2010 to the first half 2011, as well as a dramatic improvement of almost 100 percent in earnings, indicating that the company is doing better than ever before. Clearly, the company is executing and performing very well compared to its peers in the EMS industry.

Celestica

Celestica expanded revenue at a similar growth rate to Flextronics of 17 percent from the first half 2010 to the first half 2011. Perhaps more important, the company improved its earnings by almost 3 times to a very healthy rate for the

EMS industry. If Celestica can maintain this performance rate, it will emerge as one of the most successful EMS companies in the industry.

Sanmina-SCI

Sanmina-SCI experienced a very low growth rate compared to its competitors in the first half 2010 compared to the first half 2011. Worse, the company's earnings slipped by more than a third over the same period despite many project wins that should have helped the company to perform better. Sanmina-SCI still seems to be struggling with its niche.

Shenzhen Kaifa Technology

Kaifa experienced only moderate growth from the first half of 2010 to the first half to 2011 as compared to the entire contract manufacturing industry. It is difficult to tell where the company's problems and opportunities reside.

Benchmark Electronics

To our surprise, Benchmark experienced a decline in revenue of more than 3 percent from the first half 2010 to the first half 2011, while other EMS companies performed extremely well. Similarly, the company's earnings suffered significantly by dropping by almost one quarter. The explanation must reside in its customer base which is heavily dependant on the computing and communications sectors which account for approximately 55 percent of total revenue.

Plexus

Plexus experience a lower than average revenue growth from the first quarter 2010 to the first quarter 2011 of approximately 10 percent—less than have

of the total contract manufacturing industry revenue for the same period. The company improved its profit slightly but still can't seem to get traction because it is so dependant on the communications sector, where it derives 55 percent of its total revenue.

Venture

In the second quarter 2011, Venture recorded revenue of \$509 million, resulting in a weak 4 percent growth from year-to-year from the first half 2010 to the first half 2011. Only two of the company's segments, test & measurement and medical/others and retail solutions & industrial products exhibited year-on year growth, and both increases were in single digits. Earnings increased slightly by almost 8 percent, compared to the revenue growth of 4 percent, but it was not enough to compare with it competitors who performed much better.