

Electronics Manufacturing Services Market Continues With Extraordinary Growth

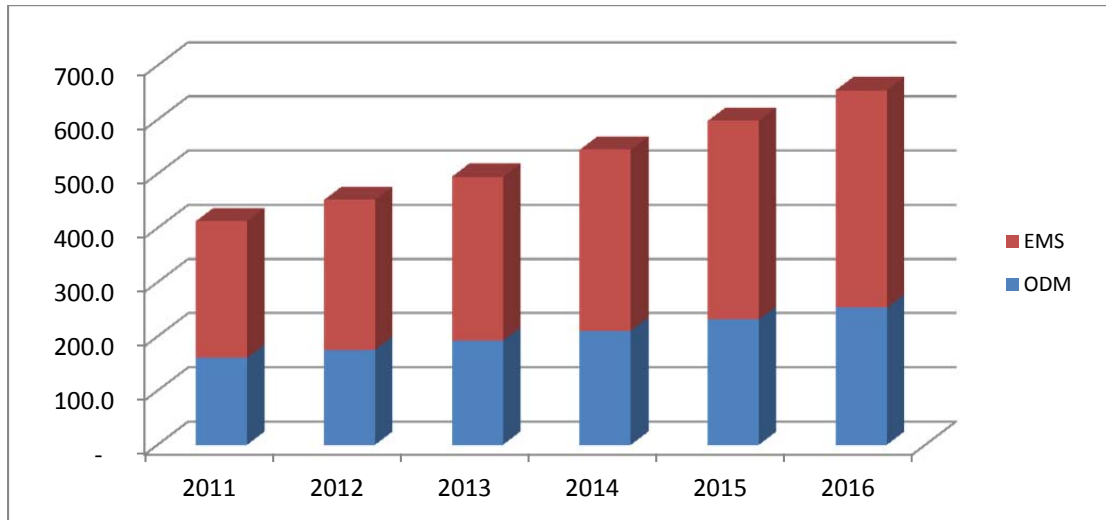
The worldwide contract manufacturing (CM) market took another large jump upward in 2011, increasing nearly 12 percent in revenue, following an extraordinary year in 2010 in which the industry expanded by 37 percent. Whereas most industry observers expected a modest growth rate in 2011, no one anticipated this strong a market, which was driven by the continued demand for smart phones and new mobility devices (iPhones, iPads, and e-readers). The largest beneficiary of this growth was Foxconn, the dominant subcontractor of these devices for a variety of key OEM companies. So long as Apple continues its spectacular growth in revenue, as most analysts predict, Foxconn will continue to be lifted by this company's rising tide.

The really good news is that virtually all industry participants made money in 2011, with very few exceptions. In fact, the contract manufacturing industry made more money in 2011 than at any time in history, although this may not continue if the past is any example. Foxconn once again set the record (\$2.7 billion—not a great result given its total revenue of \$111 billion), followed by HTC (\$2.1 billion), and to a lesser extent by a number of Asian ODMs. Only a minority of EMS firms did not grow or make money in 2011.

Table 1 below presents the summary forecast for the worldwide revenue growth of the CM market from 2011 to 2016. Given the minor differences in business models between EMS firms and ODMs, NVR foresees little separation between the two types of suppliers with regard to customer services and revenue growth. ODMs should underperform EMS companies over the forecast period as a result of their riskier business model that relies on giving preference to branded and low-end computer, communications, and consumer products. To their credit, ODMs are usually better able to streamline their production methods and create economies of scale through the concentration of components and vertical integration, but ultimately all profits get driven to the margin over time. Because EMS firms manufacture a wider range of products, and can leverage their operations in different ways, it is believed that they will experience a slightly higher growth rate over the forecast period.

Table 1

The Worldwide Contract Manufacturing Services Market (\$B), 2011-2016



The shift in production to low-cost regions has been fully accomplished over the last several years. Today, we are seeing OEM customers requiring their CM partners to manufacture products near the regions where they are to be sold. For certain high-volume products like mobile phones and PCs, OEMs need to leverage the lowest cost in manufacturing. However, for other products the labor cost differentials are becoming less significant when weighed against the total cost of production (including transportation and logistical challenges). Offshore product migration will still take place, according to NVR's forecasts, but it will be at a more moderate pace.

Both EMS firms and ODMs will experience the strongest growth from production in the communications, computer, and consumer market segments. Specifically, EMS companies will find very strong growth in E-readers, tablets, enterprise storage systems, and personal navigation systems, while ODMs are projected to experience very strong growth in tablets, E-readers, cellular handsets, notebook PCs, and digital cameras. In general, EMS firms will tend to excel in technology-intensive product areas and complex board assemblies. ODMs excel in manufacturing commodity/high-volume products such as motherboards, monitors, handhelds, and consumer electronics.

Foxconn continued its extraordinary dominance as the leading EMS firm in the industry, outdistancing its closest contender by more than three times in terms of revenue. Flextronics remained steadfastly in the number-two position, followed by two ODMs (Wistron and Quanta

Computer), and Jabil Circuit in fifth position. Table 2 summarizes the top ten leading CMs by revenue in 2011.

Table 2

Top Ten CM Companies' Market Share (\$M), 2011

<u>Company</u>	<u>2011</u>
Foxconn (Hon Hai)	114,044
Flextronics	29,944
Wistron	21,746
Quanta Computer	18,327
Jabil Circuit	16,519
Compal Electronics	14,881
HTC	11,492
Pegatron	10,357
Inventec	9,413
TPV Technology	8,059
Top Ten Total	254,783
Top Ten Market Share	62%
World Total	412,754

Every year, NVR conducts and financial and performance comparison and ranks the top ten overall best performing CM companies. In 2011, HTC emerged as the CM supplier with the highest ranking score, followed somewhat distantly by Quanta Computer and Wistron, according to NVR's metrics. Note that all of these high-performing companies were Asian ODMs. Jabil Circuit scored a respectable fourth level in rankings.

New Venture Research has just published it's widely acclaimed market research study on the contract electronics manufacturing services market in a report titled, "The Worldwide Electronic Manufacturing Services Market, 2012 Edition." More details can be seen at: <http://www.newventureresearch.com/wp-content/uploads/2012/06/ems2012-RS.pdf>