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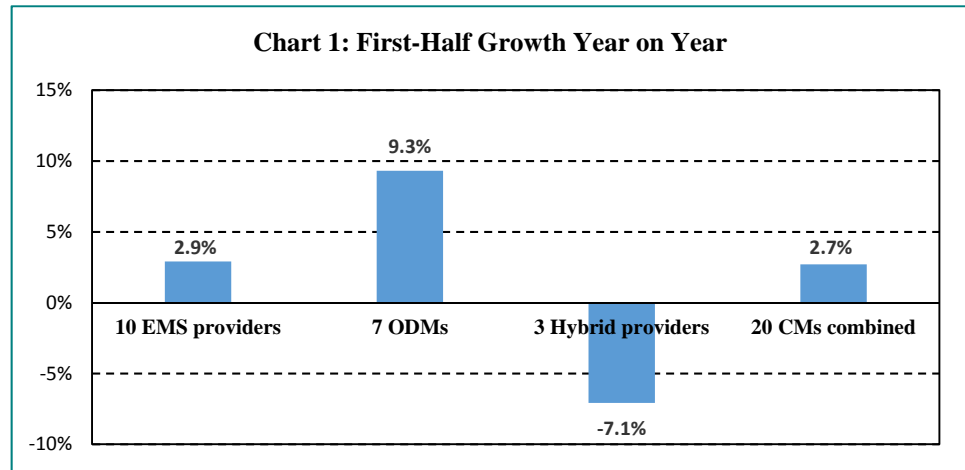
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First-Half Growth Favors ODM Providers

Based on first-half results of 20 of the largest contract manufacturers, revenue increased by 2.7% in 2014, compared to a decrease in revenue of -6.6% in 2013, reflecting a moderate turnaround from the previous year. Seven ODMs in this group experienced the strongest growth during this period of 9.3% in 2014, as compared to a decline of -7.8% in 2013. This reversal came as a result of strong demand for ODM tablets, servers, notebooks (desktops went into decline), and smart phones, whereas EMS companies achieved a more modest turnaround of 2.9% growth in 2014 versus an -8.6% decline the previous year. EMS companies benefited from the rebound in demand for smart phones and tablets, plus a resurgence from traditional industries such as medical, industrial, and transportation, where ODMs have only a minor manufacturing presence.

The companies with the strongest improvement in terms of year-to-year gain were Flextronics (20.6%), Benchmark (17.9%), Compal (11.6%), Qisda (11.2%), and Quanta Computer (11.0%). Foxconn managed to expand its gross revenue by 2.4%, from \$57 billion to \$59 billion. The most negative result occurred among the three hybrid suppliers (ODMs performing internal contract manufacturing), which experienced a -7.1% growth rate in 2014 versus a 2.9% growth in 2013. These three companies (Pegatron,



Wistron, and Venture) combined experienced the most severe revenue decline in 2Q14 from the previous year—although it was essentially Wistron that drove the group’s results down in the first and second quarters of 2014 due to a significant drop in notebook orders and slow product diversification deployment. Pegatron also experienced a slight decline in notebooks and smart phones (possibly from its ramp-up with Apple), but Venture continued to perform

consistently with the rest of the industry overall.

Other ODMs that performed quite well during the first half of 2014 include **Quanta**, the largest notebook (NB) ODM in the world, with reported 2Q14 revenue of NT\$214.5 billion (US\$7.2 billion) (-0.65% q-o-q, +12.3% y-o-y). Its 2Q14 operating margin improved by 0.67 percentage points to 2.01 percent on rising revenue proportions of low-end NB and cloud products. Its revenue breakdown by product is as follows: NB

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Table 1: Q2 and Six-Month 2014 Results for 20 of the Largest Contract Manufacturers (M US\$ or %)

Company	Primary business	Head/quarters	Reports in US\$	Q2 2014 Sales	Q1 2014 Sales	Qtr.-qtr. chg.	Q2 2013 Sales	Yr.-yr. chg.	Q2 2014 Net Inc.	Q1 2014 Net Inc.	Q2 2013 Net Inc.	Q1-2 '14 sales	Q1-2 '13 sales	Yr.-yr. chg.	Q1-2 '14 net profit	Q1-2 '13 net profit
Hon Hai	EMS	Taiwan	No	29,349	29,495	-0.5	29,900	-1.8	694.9	652.4	566.8	58,844	57,442	2.4	1,347	1,113
Quanta	ODM	Taiwan	No	7,183	7,217	-0.5	6,373	12.7	136.2	156.3	134.2	14,400	12,978	11.0	292.5	283.2
Pegatron	ODM/EMS	Taiwan	No	7,112	7,313	-2.7	7,081	0.4	50.2	91.3	46.5	14,425	14,358	0.5	141.5	123.6
Compal	ODM	Taiwan	No	6,761	5,705	18.5	5,568	21.4	79.3	-75.7	46.5	12,466	11,171	11.6	3.6	91.9
Flextronics	EMS	Singapore	Yes	6,643	6,724	-1.2	5,791	14.7	173.9	43.0	59.3	13,367	11,086	20.6	216.9	32.2
Wistron	ODM/EMS	Taiwan	No	4,551	4,207	8.2	5,437	-16.3	40.6	11.4	58.1	8,757.6	10,727	-18.4	52.0	112.0
Jabil	EMS	Florida	Yes	3,786	3,577	5.8	4,196	-9.8	188.3	-38.7	49.8	7,363.2	8,363	-12.0	149.6	138.3
Inventec	ODM	Taiwan	No	3,513	3,901	-9.9	3,444	2.0	49.5	63.3	53.7	7,414.6	6,814	8.8	112.8	113.3
Sanmina	EMS	California	Yes	1,605	1,477	8.7	1,489	7.8	20.7	20.8	18.7	3,081.4	2,917	5.6	41.6	39.9
Celestica	EMS	Canada	Yes	1,472	1,312	12.1	1,495	-1.6	40.9	37.3	28.0	2,783.9	2,868	-2.9	78.2	38.5
Qisda	ODM	Taiwan	No	1,114	996.8	11.8	978	13.9	13.9	9.5	19.0	2,110.8	1,898	11.2	23.4	-9.1
Cal-Comp Electronics	EMS	Thailand	No	1,042	969.6	7.4	1,439	-27.6	3.1	4.5	1.0	2,011.2	2,461	-18.3	7.7	10.6
Benchmark Electronics	EMS	Texas	Yes	716.9	639.3	12.1	607.5	18.0	22.2	19.1	8.5	1,356.2	1,150	17.9	41.3	19.9
Plexus	EMS	Wisconsin	Yes	620.5	557.6	11.3	571.9	8.5	24.6	18.4	23.2	1,178.1	1,130	4.3	43.0	41.2
Shenzhen Kaifa	EMS	China	No	578.6	670.5	-13.7	606	-4.5	17.3	-18.7	9.0	1,249.1	1,201	4.0	-1.4	14.0
Universal Scientific Industrial	EMS	China	No	564.6	683.0	-17.3	565.1	-0.1	25.7	27.3	31.9	1,247.6	1,265	-1.4	53.0	73.7
Venture Corp	ODM/EMS	Singapore	No	482.2	471.4	2.3	463.4	4.1	26.9	24.5	23.7	953.6	891.0	7.0	51.5	46.3
Kinpo Electronics	ODM	Taiwan	No	366.7	305.0	20.2	388.1	-5.5	16.7	1.9	9.3	671.7	812.9	-17.4	18.6	11.7
Amtran Technology	ODM	Taiwan	No	191.7	291.3	-34.2	214.9	-10.8	11.5	10.8	8.3	483.1	444.9	8.6	22.3	9.7
Ability Enterprise	ODM	Taiwan	No	171.6	223.1	-23.1	236.5	-27.5	-6.7	3.9	3.4	394.7	589.3	-33.0	-2.8	10.8
Total/avg.				77,822	76,736	1.4	76,846	1.3	1,630	1,063	1,199	154,559	150,567	2.7	2,692	2,314
Total/avg. without Hon Hai				48,474	47,241	2.6	46,945	3.3	935	411	632	95,715	93,125	2.8	1,345	1,202

Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2014 and 2013 data from the US Federal Reserve. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard.

65%, all-in-one (AIO) 10–15%, cloud 15%, and others 5–10%. Quanta's major NB clients are **HP** (US), **Apple** (US), **Asustek** (Taiwan), and **Acer** (Taiwan), reflecting a confusing mix of manufacturing capacity among OEM/ODM and hybrid EMS suppliers. Quanta's cloud products include servers and tablets. Major server clients include **Google** (US), **Facebook** (US), **Amazon** (US), and many ISPs (Internet service providers) in China. Its branded clients include **Dell**, **NEC**, and **Siemens**, among others. Its white-box server accounts for 70–80% of Quanta's server shipment, and the figure is likely to climb further with the growth in digital data. The end of Windows XP support has boosted a PC replacement trend.

Supplemented by order concentration among branded clients, Quanta's 2Q14 NB shipment reached 11.5 million units (+9.5% q-o-q, +11.7% y-o-y). Cloud server business will likely be another area of long-term growth; to capitalize on this, Quanta has set up server service offices in Beijing and Shanghai and plans to expand to more locations, including Guangzhou, Shenzhen, and others.

Compal is another leading player and one of the leading notebook (NB) PC ODM suppliers in Taiwan. Its major clients include **Dell**, **Hewlett-Packard**, **Toshiba**, **Acer**, and **Lenovo**. Of the top NB ODMs, Compal has the highest NB exposure, at close to 89%, according to its annual reports. It reported

consolidated 2Q14 sales of NT\$202 billion (US\$6.8 billion) (up 18% q-o-q and 21% y-o-y) and net profit of NT\$2,481 million (+78% y-o-y). Gross margin declined to 3.9% in 2Q14 from 4.3% in 1Q14, and operating margin increased to 1.4% in 2Q14 from 1.3% in 1Q14.

The third major player, **Inventec**, reported 2Q14 sales of NT\$105 billion (US\$3.5 billion) (-10% q-o-q/+1.6%). Gross profit was NT\$5.5 billion (US\$186 million), down 13.8% q-o-q and up 9.5% y-o-y. While its gross margin came in at 5.3%, as improved from 1Q's 5.0%, this is mainly due to lower NB sales contribution. Inventec announced a NT\$2.2 billion capacity expansion at its Nanjing factory in April

which caters mainly to its China (**Xiaomi**) and Japan smart phone customers. Besides this, the company announced another expansion plan in June, which is mainly for Xiaomi, as it recently raised its 2014 smart phone shipment guidance from 40 million to 60 million (compared to 20 million in 2013) and the company reported that shipments would further increase to 100 million units in 2015.

The fourth largest ODM player, **Qisda DMS** (Design and Manufacturing Services), entered the top two position worldwide in 2013 with increased market shipment and market share. It reported 2Q14 revenue of NT\$33.4 million (US\$1.1 billion), an increase of 13.7 percent on a year-over-year basis (11.7% in US dollars).

The fifth ODM placed in the group is **Kinpo Electronics**, whose only reportable segment was Consumer Electronics Production. The business engages mainly in design and manufacturing of calculators/computers, web-based communications, computer-related items, and storage products. The company reported 2Q14 revenue of NT\$ 14.6 billion (US\$487 million), an increase of 12.7% compared to the same period a year ago (an increase of 33% in US dollars).

Another ODM supplier, **Ability Enterprise Co.**, is principally engaged in the design, manufacture, and distribution of optoelectronic products. It achieved the most negative result of the group. The company's main product portfolio consists of price-sensitive digital still cameras (DSCs), digital videos (DVs), and camera modules. It reported 1Q14 revenue of NT\$5.1 billion (US\$172 million), a decline of 28 percent compared to the same period a year earlier (-27.4% in US dollars).

A final company tracked in our ODM group is **Amtran Technology**, which is principally engaged in the manufacture and distribution of digital televisions as well as monitors. The company's products portfolio consists of liquid crystal display (LCD) monitors, LCD/light emitting diode (LED) televisions, sound bars, streaming boxes (which serve wireless Internet TVs),

And portable speakers, among others. It reported 2Q14 revenue of NT\$4.3 billion (US\$144 million), which declined by 36 percent compared to the same period a year earlier (-36% in US dollars).

These are the seven companies that *MMI* has identified so far as having established substantial ODM electronics manufacturing businesses. By first-half revenue, the ODM providers comprise the second largest group of the three groups into which the 20 CMs are segmented. Sales of the hybrid CMs totaled \$24 billion, or 16% of the combined sales of the group. By far the largest share of total sales—60%—derive from the EMS group, while ODMs generated the remaining 24% of the total. (See Chart 2.)

First-half sales of the 20 CMs amounted to \$154.5 billion, increased 2.7% year over year. *MMI* believes that this figure can be used as a proxy for the board- and system-level outsourcing space, since these 20 companies account for the vast majority of revenue from the space. **Hon Hai Precision Industry**, the EMS giant, did not influence this result in any significant way (an increase of almost \$1.5 billion from the previous year), probably as a result of the redistribution of Apple's subcontractors. Otherwise the figure might have been higher for Hon Hai, but not the total result.

Of the 20 CMs, 7 experienced first-half sales declines in US dollars ranging from slight to rather severe. Five companies endured double-digit decreases, including ODMs **Ability Enterprise** and hybrid provider **Wistron**, suffering declines of over 25% (previously mentioned in US dollars) from a year earlier. Of the 13 CMs that raised their first-half sales versus a year ago, just five—**Quanta**, **Compal**, **Flextronics**, **Qisda**, and **Benchmark Electronics**—achieved double-digit growth (Table 1, p. 2). **Flextronics** separated itself from the other CMs with a 20.6% gain.

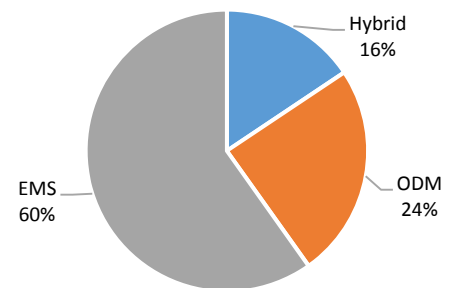
For the first six months, the 20 CMs together earned net income of approximately \$2.7 billion.

(Net income was approximate because not all companies follow the same accounting rules.) Net profit increased to about 16.3% year on year, in line with the aforementioned sales increase of 2.7%. However, unlike the ODM and hybrid contingents, the EMS group improved its net income from a year earlier (Table 2, p. 4). On the other hand, first-half net margin for the EMS group came in at about 2.1%, compared with about 1.2% for the ODM group and 1.01% for the hybrids. Hon Hai contributed some 50.1% of total net income for the first half, while accounting for 37% of sales.

Second-quarter revenue for the entire group totaled \$78 billion, up 1.4% from the prior quarter and increased by 1.3% from the year-ago period. Sequential increases on the part of 11 CMs outweighed declines produced by the others. Five companies, **Celestica**, **Qisda**, **Benchmark Electronics**, **Plexus**, and **Kinpo Electronics**, sported double-digit gains. Excluding **Hon Hai**, sequential growth in Q2 was a positive 2.6%.

In the year-on-year comparison, Q2 increases from 10 companies more than offset decreases by 10 CMs. Four CMs

Chart 2: First-Half Sales by Provider Type



faced two-digit drops in their revenue (expressed in US dollars), with Ability and Cal-Comp Electronics showing the worst declines (Table 1). Compal Electronics stood out with its 21.4% growth in Q2.

In Q2, the EMS group's revenue fell 0.6%, while the hybrid group's revenue dropped 6.4%. By contrast, Q2 sales of the ODM group increased 12.2%. When compared with the prior quarter, the ODM group's

sales rose 3.5%, a far better result than the 0.6% increase of the EMS group or the 1.3% increase of the hybrid group (Table 2).

Q2 net income for the group of 20 was approximately \$1.6 billion, up from about \$1.06 billion in the previous quarter but down from about \$1.19 billion a year earlier. Net income increased to about 36% year over year, a much better outcome than the Q2 sales increase of 1.4%. 15 CMs boosted their net income from a year ago, but this combined effort was not enough to counter the declines for the other providers. Without Hon Hai, the increase in Q2 net income would have been about 48% year on year.

First-Half Revenue Neutral for Asian Group

A group of 10 large and mid-sized EMS providers based in Asia produced first-half sales revenue that nearly mirrored the previous year, suggesting a small recovery from the previous year. First-half revenue for the 10 Asia-based providers totaled \$6.9 billion, down from \$7 billion in the year-ago period. For the first six months, increases at seven EMS providers outweighed declines at three others. Five players—**Integrated Micro-Electronics, SVI, Pan-International, WKK International, and Wong's International Holdings**—chalked up double-digit increases (in US dollars). On the other hand, one player, **Cal-Comp Electronics**, had revenue decline by two-digit percentages (Table 1A, p. 5). Two of the 10 Asian providers, **WKK** and **Wong's International Holdings**, report results only on a half-year basis. For the remaining eight players, sales for 2Q14 amounted to \$3.1 billion, down 2.4% sequentially but down 9.7% year

over year. All but two of the eight providers increased their sales from the prior quarter, and two of them—**PCI** and **Pan-International**—achieved double-digit gains (Table 1A). In Q2, the eight providers together earned net income of approximately \$90 million for a net margin of about 2.8%, which was a substantial improvement from the previous quarter's net income of \$51 million. (Net income was approximate because not all companies follow the same accounting rules.) The highest net margins in the quarter were turned in by **SVI** at 11.3% and **Venture** at 5.6%. Collectively, net income increased about 20.5% sequentially and this group reported a 2.4% decline in sales from the prior quarter.

Sequential net income declines at four companies more than offset gains at three others. But on a year-over-year basis, combined Q2 net income for the eight companies grew, though sales declined. Net income rose about 20.5%, compared with a sales decline of 9.7%. Significant profit growth at **Integrated Micro-Electronics** and **Cal-Comp Electronics** drove the increase. For the first six months, net income of the eight providers totaled approximately \$141 million for a net margin of about 2.2%.

Some Financial Highlights

The expansion strategy of **Integrated Micro-Electronics, Inc. (IMI)** appears to be working; the company recorded first-half 2014 sales of \$431 million, up by 23 percent from \$350 million for the same period in 2013, mainly driven by increased demand from customers in the telecommunications infrastructure,

automotive electronics, and storage device markets.

Net income reported for the first half was \$11.3 million, more than five times 2013's first-half profit of \$2.1 million.

IMI China's first-half revenues of \$161 million represent a 32 percent increase from last year's, boosted by volume expansion for main customers in the telecommunications segment.

The China EMS operations contributed 37 percent to IMI's total first-half 2014 revenues. The sustained expansion of the automotive business in IMI's factories in Eastern Europe has resulted in the company's Europe and Mexico operations generating combined revenues of \$138 million, an 18 percent increase year over year.

IMI's EMS operations in the Philippines posted \$110 million in revenues, a 25 percent year-on-year growth due mainly to a robust storage device assembly business and an upsurge in automotive electronics business. The company ranked 8th worldwide in automotive-related EMS assemblies in 2013, according to market research published by *New Venture Research Corp.*, and ranked 21st based on the top 50 EMS suppliers from *MMI's* 2014 market survey.

Meanwhile, IMI's power semiconductor company, **PSI Technologies, Inc.**, recorded \$22.1 million in revenues, slightly lower than last year's by 4 percent.

The company's revenues for the second quarter of 2014 of \$225 million sequentially increased by 9 percent from \$206 million the preceding quarter. The net income of \$6.3 million represents a 25 percent sequential increase, and it is more than three times that for the same period in 2013.

Table 2: Comparing Results Where Companies are Grouped by Primary Business (M US\$ or %)

No. of cos.	Primary business	Q2 '14 sales	Q1 '14 sales	Qtr.-qtr. chg.	Q2 '13 sales	Yr.-yr. chg.	Q2 '14 net profit	Q1 '14 net profit	Q2 '13 net profit	Q1-2 '14 sales	Q1-2 '13 sales	Yr.-yr. chg.	Q1-2 '14 net profit	Q1-2 '13 net profit
10	EMS	46,375.8	46,105.7	0.6	46,661.3	(0.6)	1,211.5	765.5	796.2	92,481.5	89,882.0	2.9	1,977.0	1,521.1
7	ODM	19,301.3	18,639.7	3.5	17,203.0	12.2	300.4	170.0	274.4	37,941.0	34,708.9	9.3	470.5	511.4
3	ODM/EMS	12,145.3	11,991.1	1.3	12,981.4	(6.4)	117.6	127.3	128.2	24,136.4	25,976.0	(7.1)	244.9	281.9
20		77,822.4	76,736.5	1.4	76,845.7	1.3	1,629.5	1,062.9	1,198.8	154,558.9	150,566.9	2.7	2,692.4	2,314.4

Net profit totals are approximate because not all companies follow the same accounting standard.

At **PCI Limited**, sales for its fiscal Q4 ended June 30 totaled \$46.5 million, as revenue increased 2.8 percent compared to the same period last year. The improvement in 4Q14 was mainly driven by increases in revenue from EMS activities, estate management, and rental income activities.

For the fiscal year 2014, the company reported revenues of \$179 million, wherein revenues decreased by 2.7% from last year. Gross profit for the year was \$17.4 million, or 14.5 percent higher than the previous year. This was due to improvement in cost of sales. Foreign exchange loss was \$0.55 million versus a gain the previous year of \$0.39 million.

Of the \$179 million in total revenue, 97.4 percent (\$174 million) was contributed by the EMS segment of the company, which declined by 2.7 percent compared to last year.

SVI rang up Q2 sales of 2.25 billion baht (US\$70 million), 20 percent above the prior quarter's level and a 7 percent increase from the previous quarter. Revenue for the first half of 2014 amounted to \$134 million. Q2 net income amounted to 272 million baht (US\$8.47 million), which increased by 74 percent compared to the same period last year.

Out of US\$134 million revenue in

the first half of 2014, the industrial products division contributed US\$50 million, niche products reported US\$76 million, medical products contributed US\$7 million, and communication component products contributed US\$1 million.

Universal Scientific Industrial, the EMS unit of publicly held **Advanced Semiconductor Engineering**, generated Q2 revenue of NT\$20,509 million (US\$685 million), up by 45% year over year and down by 4% sequentially. Cost of revenues was NT\$18,468 million (US\$616 million), up by 47% year over year and down by 4% sequentially. Gross margin increased to 10.0% in 2Q14 from 9.6% in 1Q14. Operating income for the quarter totaled NT\$692 million (US\$23 million), down from NT\$833 million

(US\$27.8 million) in the previous quarter. Operating margin decreased to 3.4% in 2Q14 from 3.9% in 1Q14.

Communications products accounted for 44% of its total net revenues from EMS operations, down by 4 percentage points from the previous quarter. Computing products accounted for 24% of its total net revenues from EMS operations, up by 2 percentage points from the previous quarter. Consumer products accounted for 11% of its total net revenues from EMS operations, up by 1 percentage point from the previous quarter. Industrial products accounted for 12% of its total net revenues from EMS operations, remaining the same as the previous quarter. Automotive products accounted for 8% of its total net revenues from EMS operations,

Chart 1A: First-Half Growth Year on Year

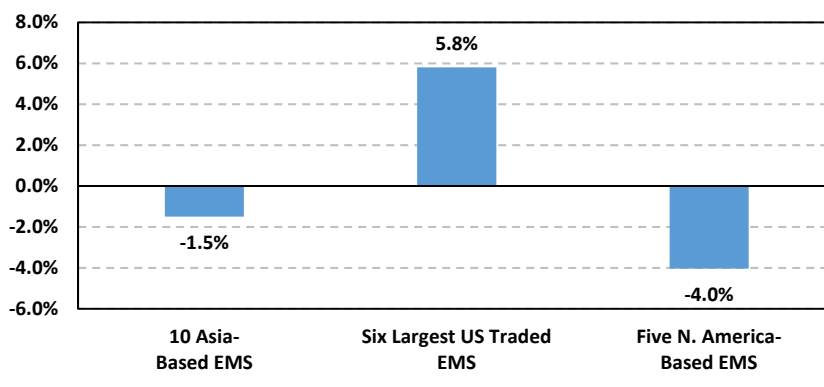


Table 1A: Six-Month 2014 Results for 10 Asia-Based EMS Providers (M US\$ or %)

	Head-quarters	Report in US\$	Q2 '14 sales	Q1 '14 sales	Qtr.-qtr. chg.	Q2 '13 sales	Yr.-yr. chg.	Q2 '14 net profit	Q1 '14 net profit	Q2 '13 net profit	Q1-2 '14 sales	Q1-2 '13 sales	Yr.-yr. chg.	Q1-2 '14 net profit	Q1-2 '13 net profit
Cal-Comp Electronics	Thailand	No	1041.6	969.6	7.4	1438.6	-27.6	3.1	4.5	1.0	2011.2	2461.0	-18.3	7.7	10.6
Shenzhen Kaifa	China	No	578.6	670.5	-13.7	606.0	-4.5	17.3	-18.7	9.0	1249.1	1201.0	4.0	-1.4	14.0
Universal Scientific Industrial	China	No	564.6	683.0	-17.3	565.1	-0.1	25.7	27.3	31.9	1247.6	1264.9	-1.4	53.0	73.7
Venture	Singapore	No	482.2	471.4	2.3	463.4	4.1	26.9	24.5	23.7	953.6	891.0	7.0	51.5	46.3
Integrated Micro-Electronics	Philippines	Yes	225.2	205.7	9.5	185.7	21.3	6.1	4.8	1.2	431.0	350.5	23.0	10.9	0.8
Pan-International Industrial	Taiwan	No	135.2	117.5	15.1	118.0	14.6	2.4	-0.9	1.5	252.7	217.2	16.3	1.5	3.3
SVI	Thailand	No	69.5	65.5	6.1	60.5	15.0	7.8	8.0	6.1	135.0	115.5	17.0	15.8	13.7
PCI	Singapore	Yes	46.6	38.5	20.9	45.3	2.8	0.6	1.4	0.3	85.1	85.9	-1.0	2.1	0.5
Subtotal/avg.			3143.5	3221.8	-2.4	3482.6	-9.7	89.9	51.0	74.6	6365.3	6586.9	-3.4	141.0	162.8
WKK International (Holdings)	Hong Kong	No									335.0	241.0	39.0	3.2	3.3
Wong's International Holdings	Hong Kong	No									243.4	219.0	11.1	9.3	3.7
Six-month total/avg.											6943.7	7046.9	-1.5		

Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter, except for the two Hong Kong-based companies, whose results were converted by using six-month average exchange rates. Average exchange rates were based on monthly 2014 and 2013 data from the US Federal Reserve. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard. Fabrinet (Thailand) has been excluded from this list due to non-availability of its latest financial results because of an ongoing accounting investigation at the company.

up by 1 percentage point from the previous quarter.

For the EMS division, the five largest customers together accounted for approximately 71% of its total net revenues in 2Q14, compared to 61% in 2Q13 and 73% in 1Q14. There were two customers that accounted for more than 10% of total net revenues in 2Q14.

Venture posted Q2 sales of S\$601 million (US\$480 million) for the quarter ended 30 June 2014, a slight increase of 2.3 percent compared to the corresponding quarter of the prior year.

The Test & Measurement/Medical/Others segment and the Networking & Communications segment registered year-on-year revenue growth of 18.4 percent and 4.6 percent, respectively.

This improvement was offset by the year-on-year revenue decline in other segments, namely computer peripherals and data storage (-17.9%), retail store solutions and industrial products (-2.8%), and printing and imaging (-5.7%).

Q2 profit attributable to shareholders was S\$33.5 million (US\$26.7 million), an increase of 11.6 percent compared to the corresponding quarter of last year.

For the first six months of 2014, **WKK International (Holdings)** reported sales of HK\$2.6 billion (US\$335 million), representing a decrease of approximately 2% compared to the same period last year. However, the Group registered a profit attributable to shareholders of HK\$25.2 million (US\$3.2 million) for the first half of 2014 as compared to a profit attributable to shareholders of HK\$7.6 million (US\$0.9 million) for the same period last year, mainly due to a profit of HK\$23.9 million (US\$3 million) on the disposal of a property in Singapore recorded earlier this year.

The sales of the Group's Industrial Product Trading division grew by approximately 8% to HK\$0.8 billion (US\$103.2 million) in the first half of 2014, compared to the same period last year. However, the division's operating profit overall decreased by approximately 39.9%, mainly due to the tough market environment for the division. Whilst the PCB-related

Products Sales division performed excellently, the operations in Taiwan recorded a significant drop in operating profit. The operations in the PRC incurred operating losses in the first half of this year.

The Group's OEM Manufacturing division registered sales of HK\$1.7 billion (US\$219.3 million) during the first half of 2014. This represented a decline of approximately 7% and as a result, the division's operating profit decreased by approximately 22% compared to the same period last year.

For the first six months ended 30 June 2014, **Wong's International Holdings** reported sales of HK\$1,886.6 million (US\$243.4 million), representing an increase of HK\$184.8 million (US\$23.8 million) or 10.9%, as compared to HK\$1,701.7 million (US\$219.5 million) for the corresponding period last year. Operating profit for the six months ended 30 June 2014 was HK\$72.3 million (US\$9.3 million), or 3.8% of revenue, as compared to HK\$40.1 million (US\$5.1 million), or 2.3% of revenue, for the corresponding period last year. The increase in operating profit was driven by growth in sales revenue, which was impacted by an impairment loss on intangible assets and a decrease in the surplus from investment properties valuation.

Wong's operates two divisions: EMS and ODM. The EMS division reported first-half revenue of HK\$1,881 million (US\$243 million), representing an 11.0% increase as compared to HK\$1,695 million (US\$219 million) for the corresponding period last year. Revenue for the manufacturing plant in Shenzhen increased by 18.2%, while the plant in Suzhou was slightly down, by 1.0%, as compared to the corresponding period for financial year 2013. The segment profit attributable to the EMS division was HK\$99.3 million (US\$12.8 million), a 144.1% increase as compared to the HK\$40.7 million (US\$5.2 million) for the corresponding period last year.

Revenue for the ODM division for the six months ended 30 June 2014 was HK\$5.5 million (US\$0.7 million), as compared to the HK\$6.8 million (US\$0.8 million) for the corresponding

period last year.

Pan-International Industrial, a vertically integrated affiliate of EMS giant **Hon Hai Precision Industry**, turned in Q2 sales of NT\$4.04 billion (US\$135 million), higher than in the same period last year by 14.4%. Q2 gross profit amounted to NT\$358.3 million, down 32% year over year, while net income equaled NT\$73 million (US\$2.4 million), increased from NT\$43.4 million (US\$1.4 million) in the same period a year ago.

First-half revenue of NT\$7.58 billion (US\$253.3 million) increased 16.3% year over year (16.3% in US dollars).

At **Cal-Comp Electronics**, 2Q14 sales of 33.8 billion baht (US\$1.04 billion) were down 24.2% year over year (-25.2% in US dollars), and first-half sales of US\$2.01 billion fell 18.3% year over year in US dollars. The company produced Q2 net income of 101 million baht (US\$3.1 million), an increase of 232 percent year over year (210% in US dollars).

Reported first-half net income was 246 million baht (US\$7.6 million) on sales of 65 billion baht (US\$2 billion).

Company News

Latest Acquisitions... **Key Tronic Corp.** (Spokane, WA) announced that it has signed a definitive agreement and completed the acquisition of **CDR Manufacturing, Inc.** (Fayetteville, AR) (dba Ayrshire Electronics) for \$46.9 million in cash. CDR has annual revenue of approximately \$120 million and provides printed circuit board assembly and other EMS services to a diversified customer base, including a number of large multinational companies. It operates manufacturing facilities in Minnesota, Arkansas, Mississippi, Kentucky, and Mexico. The acquisition will expand Key Tronic's diverse footprint by adding facilities in four locations in the US and adding a second plant in Mexico in Reynosa to supplement Key Tronic's Juarez manufacturing operation with

engineering, plastic molding, metal forming, and final product assembly capabilities. ... **Nordson Corp.** (Westlake, OH) has acquired **Dima Group B.V.** (Netherlands), manufacturer of conformal coating, dispensing, and surface-mount technology (SMT) equipment for the global electronics assembly market. The acquisition will add depth to Nordson's tiered product offering, strengthen multiple customer relationships, and add to its overall application expertise. Dima will operate as part of Nordson's Advanced Technology Systems segment, as reported by *Evertiq*. ... A privately held EMS provider, **Libra Industries** (Mentor, OH), has acquired **Focus Manufacturing** (Willoughby, OH), which produces precision-machined parts, sheet metal, assembled components, and complete enclosures with integrated electronics. Under the agreement, Libra Industries will benefit from Focus Manufacturing's world-class metal fabrication capabilities, while Focus Manufacturing will continue operations under its own name. ... **TTM Technologies** (Los Angeles, CA) has acquired **Viasystems** (St. Louis, MO) for \$368 million. Under the agreement TTM Technologies will pay more than \$250 million in cash and stock for Viasystems which currently has a market capitalization of \$245 million. The acquisition of Viasystems is expected to provide a number of benefits to TTM, including expanding TTM's presence in the medical, industrial and instrumentation, and aerospace and defense segments, and increasing TTM's customer and end market diversity.

Flextronics Partners with Norwegian Thin Film Electronics

EMS provider **Flextronics International** (Singapore) has entered into a partnership with **Norwegian Thin Film Electronics** (Oslo, Norway), expanding Flextronics's Open Innovation Platform offering. Thin Film Electronics is the leading innovator in the world for printed

electronics, the next technical manufacturing step in the evolution of PCB assembly. The subject is fully explored in *New Venture Research's* seminal report, *The Worldwide Printed Electronics Market – 2013 Edition* (see <http://www.newventureresearch.com/products-services/reports/>), which describes the manufacturing technology, materials science, and most promising applications emerging in transportation, medical, consumer packaging, and aerospace.

As part of the agreement, Flextronics will further expand its Open Innovation Platform with the addition of Thin Film's technology, and offer Thin Film's printed electronics products and solutions—including rewritable memory, integrated smart label systems, and printed NFC tags—to its customers, as reported by *Evertiq*.

Foxconn Invests in its Shanxi Factories

Foxconn Technology Group (New Taipei, Taiwan) will invest at least 5 billion Yuan (\$814 million) into its factories in northern China's Shanxi province amid the world's largest contract electronics manufacturer's push into electric vehicles, as reported by *Bloomberg*.

Foxconn is cooperating with companies such as **Tesla Motors, Inc.** (Palo Alto, CA) and **China United Network Communications Corp.** (Shanghai) that are capitalizing on China's drive to boost production and usage of new-energy cars, which includes electric, hybrid, and fuel-cell vehicles. The Chinese government is considering providing as much as 100 billion Yuan to build charging stations and has already set a target for government procurement of electric cars.

New Orders... **IEC Electronics Corp.** (Newark, NY) announced that it has received notification from an existing medical customer to

commence procurement of materials to support orders currently anticipated to be at least \$20 million, expected to ship over the course of IEC's fiscal 2015 year. ... **Quanta Computer** (Taiwan) has landed orders for **Acer's** (Taiwan) 15-inch notebooks for 2015, which will account for 45–50% of Acer's overall orders. Quanta will become Acer's largest ODM partner and also the largest notebook maker in 2015, according to sources from the upstream supply chain. ... **API Technologies** (Orlando, FL) has received a new, \$3.6 million order for microelectronics modules to be used in a major commercial airplane platform. The orders are scheduled for delivery throughout 2015.

Firstronic Expands into Mexico

Specialty EMS provider **Firstronic** (Grand Rapids, MI) has entered into a seventy-eight month contract for services in Mexico with the **Tecma Group** (Mexico) that will enable the firm to begin the assembly of electronic control units for industrial and automotive applications at its new Mexican manufacturing operations in Ciudad Juarez during the fourth quarter of 2014. The company's Ciudad Juarez facility will occupy 70,000 square feet of industrial space.

According to the company, the expansion will enable it to meet customers' local content requirements, as well as to reduce logistics costs and lead times, and to expand the flexibility of its service. ... **Primax Electronics** (Taiwan) will invest US\$40 million to expand production capacities for audio devices and smart phone—use CCMs (compact camera modules) at its factories in Chongqing, western China, and Dongguan, southern China. The expansions will be completed in the second quarter of 2015, according to the company. Primax said it has obtained CCM orders from first-tier China-based smart phone vendors. Along with increasing revenues from CCMs and audio devices, the revenue proportion for PC peripherals, mainly keyboards and mice, has dropped to about 45%.

Partnerships...Microsaic Systems (Surrey, UK) has entered into an agreement with **Plexus** (Neenah, WI) under which Plexus will provide manufacturing solutions so that Microsaic's ability to scale up output rapidly is significantly improved. Plexus will manufacture Microsaic's 4000 MiD analytical instrument, as reported by *Evertiq*. ... **Micromem Technologies** (Toronto, ON) has, through its wholly owned subsidiary Micromem Applied Sensor Technologies (MAST), contracted with **Flextronics** (Singapore). Under the terms of the agreement Flextronics will be granted worldwide exclusivity to manufacture and distribute the oil pan plug sensor suite. Annual revenue to Micromem is expected to grow to over \$18 million over the next ten years as the market penetration matures.

Executive Changes...Sparton Corp. (Schaumburg, IL) announced that Don Pearson has been appointed as the company's new chief financial officer, effective immediately. Over the last year, Sparton has been undergoing an expansion strategy of acquisitions to increase its manufacturing footprint and mix of customers as a hedge against market downturns.

Pearson most recently served as senior vice president and chief

financial officer of AMCOL International Corporation, a \$1 billion global producer of specialty materials.

Accounting Investigation...Fabrinet (Thailand) announced that the filing of its annual report on Form 10-K for the year ended June 27, 2014 will be delayed beyond the required filing date of September 10, 2014.

Per the company, the delay is due to an internal investigation by the Audit Committee to determine whether there were any violations of the company's accounting policies. Specifically, the Audit Committee is investigating various cut-off issues, including procedures surrounding revenue cut-off. The Audit Committee has not reached any conclusion because the investigation is still ongoing.

Joint Venture...UMC Electronics (Japan) has formed a joint venture with **Fujitsu Semiconductor, Ltd.** (Japan) wherein UMC will invest \$48 million to acquire a roughly 9.3 percent stake in the new joint venture, along with a seat on the board of directors. Under the joint venture, a 12-inch wafer plant in Mie Prefecture in Japan will manufacture 28,000 wafers per month for use in image sensors and automobile electronics, according to

UMC.

Financial Outlook...Scanfil plc (Finland) changed its outlook for the year 2014, due to better-than-expected profitability in the third quarter. It now estimates operating profit of EUR 14.5–16.0 million. Turnover is expected to increase by 11–18 percent. Continued strong customer demand and improving operational performance contributed to this favorable development.

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