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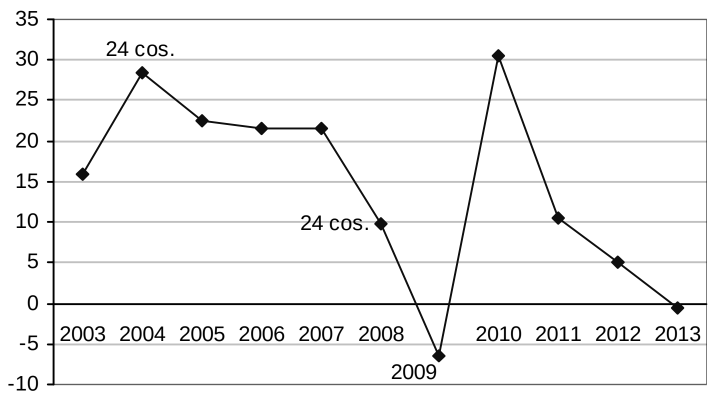
Slight Slippage for Top 25 in 2013

For only the second time in the past 11 years, combined revenue for the Top 25 contract manufacturers (EMS providers and ODMs) failed to grow in 2013. Last year, Top 25 revenue totaled $342.1 billion, down 0.5% from 2012 (Chart 1). Since the Top 25 accounts for 80% to 90% of revenue in the outsourcing space, this downward tick in revenue serves as an approximate indicator of how the contract manufacturing market behaved in 2013.

Perhaps more disappointing than the lack of growth was the realization that the Top 25 as a whole did not keep up with the global economy, which grew at a 3% rate in 2013, according to the **International Monetary Fund**. The Top 25's underperformance says something about the contract manufacturing space: it can no longer be relied on to outgrow the global economic baseline. In 2013, new contract manufacturing business was not enough to increase revenue in the outsourcing space, leaving no doubt that the space has reached a state of maturity in which outsourcing penetration of end markets, especially the traditional ones, has left the space more dependent on, and some would say vulnerable to, end market demand. Last year made it clear that softness among end markets along with revenue losses from products at end of life and cost reductions can offset gains from new programs.

Chart 1: Top 25 Growth Rates (%)



Annual sales growth for the Top 25 over the last 11 years has averaged 14.4%. But annual results for the past two years haven't been anywhere near double digits, much less at that level. Once again, the question arises: Are the days of double-digit growth now behind the Top 25 and, by extension, the contract manufacturing sector? At least one market forecast suggests that mid single-digit increases will be the new norm (see article on p. 7).

EMS providers outgrow ODMs

The Top 25 contract manufacturers for 2013 consist of 17 companies whose primary business is EMS – defined here as EMS providers – and eight companies that mainly rely on ODM work – classified as ODMs. In 2013, the EMS group outgrew the ODM side by 6.7 percentage points. Combined revenue for the EMS providers increased by just 1.6%, but sales on the ODM side dropped by 5.1% (Chart 2, p. 3). It's no surprise that 2013 was a tough year overall for the ODM group given its reliance on the PC market and the market's worst-ever decline in 2013.

For 2013, EMS providers contributed 70.2% of Top 25 sales, up from

Some articles in this issue

59.9% in 2012. The primary reason for the share gain was the reclassification of **Pegatron** from ODM to EMS provider. *MMI* has learned that a clear majority of Pegatron's contract manufacturing sales come from EMS. Combined revenue on the EMS side amounted to $240.2 billion, while the ODM cohort brought in sales of $101.9 billion, or 29.8% of the total.

As shown in Table 1 on this page, *MMI* ranked the Top 25 contract manufacturers in order of calendar 2013 sales in US dollars. It was significantly easier to make the 2013 edition of the Top 25 than to join the previous year's version. A place in the Top 25 required a minimum of $810 million, $96 million below the 2012 cutoff of $906 million. Sales declines among the bottom ranks of the Top 25 resulted in a lowering of the cutoff. Interestingly, the cutoff has dropped for three consecutive years following 2010 (Chart 3, p. 3). Indeed, it's somewhat counterintuitive that entering the Top 25 has become progressively easier over the last three years, but that is what the data show. On the other hand, the barrier to entry will fall if there are sales declines at the bottom of the previous year's Top 25 and any replacements haven't grown enough to support the prior year's cutoff. To *MMI*, this progressive easing of the cutoff indicates that in the $800 million to $1 billion range not enough CMs have been growing.

At $133.2 billion in sales for 2013, **Hon Hai Precision Industry** again stood unchallenged atop the Top 25. The company's share of Top 25 revenue continued to increase in 2013, reaching 38.9% for a gain of 110 basis points year over year. But unlike the previous three years when Hon Hai gave Top 25 growth a substantial boost, in 2013 Hon Hai's effect was minimal. Last year, revenue for the 24 companies excluding Hon Hai fell by 1.2% from a year earlier versus a decrease of 0.5% for the entire group.

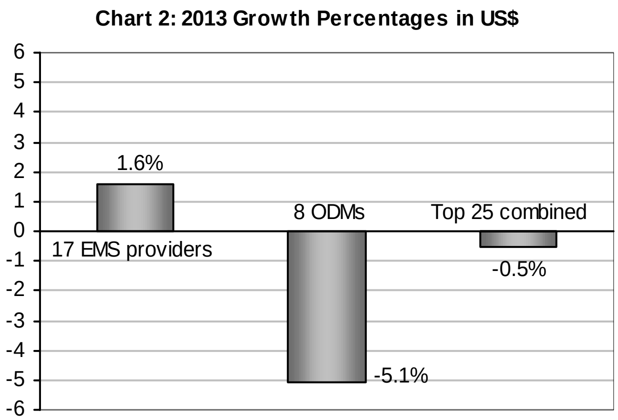
Table 1: Top 25 Contract Manufacturers for 2013

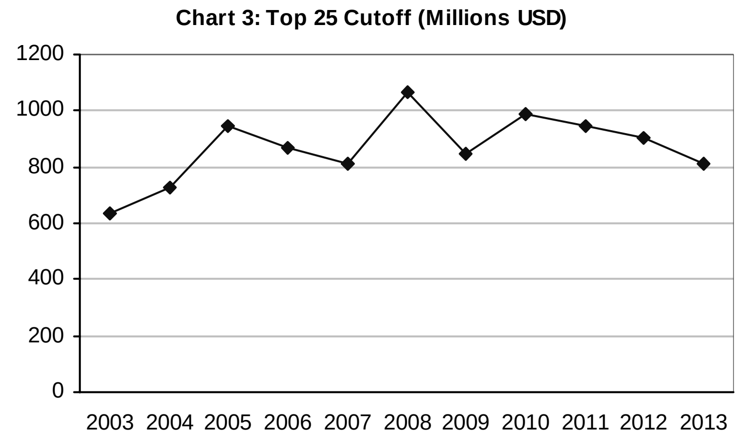
Organization	Headquarters	Sales calendar 2013 (M US$)	2013 rank by total sales	2012 rank	Sales calendar 2012 (M US$)	Sales growth '12-'13	Business model
Hon Hai Precision Industry (Foxconn)	New Taipei, Taiwan	$133,226	1	1	$132,263	1%	EMS/ODM/channel/components/other
Quanta Computer	Gueishan, Taoyuan, Taiwan	$29,676	2	2	$34,691	-14%	ODM/OBM
Pegatron[1]	Taipei, Taiwan	$28,935	3	3	$25,961	11%	EMS/ODM
Flextronics	Singapore	$24,680	4	4	$24,644	0%	EMS/components
Compal Electronics[2]	Taipei, Taiwan	$23,348	5	5	$23,151	1%	ODM
Wistron	Hsinchu, Taiwan	$21,024	6	6	$22,264	-6%	ODM/EMS/OBM
Jabil Circuit[3]	St. Petersburg, FL	$18,311	7	7	$17,462	5%	EMS/materials
Inventec	Taipei, Taiwan	$15,538	8	8	$13,913	12%	ODM
New Kinpo Group[2]	New Taipei, Taiwan	$6,645	9	10	$6,634	0%	EMS/ODM
TPV Technology[4]	Taipei, Taiwan	$6,393	10	9	$6,682	-4%	ODM/OBM
Sanmina	San Jose, CA	$5,870	11	12	$6,086	-4%	EMS/components/ODM
Celestica	Toronto, Canada	$5,796	12	11	$6,507	-11%	EMS
Qisda	Gueishan, Taoyuan, Taiwan	$4,018	13	13	$3,944	2%	ODM/EMS
Benchmark Electronics	Angleton, TX	$2,506	14	15	$2,468	2%	EMS
Shenzhen Kaifa Technology	Shenzhen, China	$2,430	15	14	$2,580	-6%	EMS/ODM
Universal Scientific Industrial (USI)	Shanghai, China	$2,303	16	17	$2,110	9%	EMS/ODM
Plexus	Neenah, WI	$2,228	17	16	$2,308	-3%	EMS
Venture	Singapore	$1,865	18	19	$1,908	-2%	EMS/ODM
UMC Electronics	Saitama, Japan	$1,293	19	23	$1,081	20%	EMS
SIIX	Osaka, Japan	$1,240	20	21	$1,374	-10%	EMS
Zollner Elektronik Group	Zandt, Germany	$1,180[5]	21	22	$1,108	7%	EMS
AmTRAN Technology	Chong He City, Taiwan	$994	22	18	$1,252	-21%	ODM/OBM
Ability Enterprise	Taipei, Taiwan	$900	23	20	$1,469	-39%	ODM
Sumitronics	Tokyo, Japan	$841	24	25	$906	-7%	EMS
Beyonics Technology	Singapore	$810	25	returnee	$960	-16	EMS/components
Total/avg.		**$342,050**			**$343,726**	**-0.5%**	

Companies with multiple businesses were classified as EMS or ODM as indicated by the first acronym in the business model description. Model descriptions are not meant to capture every business a company might pursue. For Taiwan-based ODMs and Hon Hai, converting NT$ into US$ was done using average quarterly exchange rates based on US Federal Reserve data. [1] Sales correspond to Pegatron's core DMS business. [2] A member of the Kinpo Group. [3] Sales are from December to November and include an aftermarket services business that was divested in 2014. [4] Sales correspond to TPV's ODM business, which represented 53.4% of TPV's total sales in 2013. [5] Preliminary sales figure.

Hence, Hon Hai narrowed the Top 25 decline by just 70 basis points.

Not only did Hon Hai remain in first place, but the Top 25 order from second to eighth was also unchanged from 2012. **Quanta Computer** held





on to second place, followed by **Pegatron**, **Flextronics**, **Compal Electronics**, **Wistron**, **Jabil** and **Inventec** in that order. **New Kinpo Group** moved up one position to ninth, while **TPV Technology** saw its rank drop from ninth to tenth. TPV's downward move resulted from a change in the way its sales were counted. For the 2012 list, TPV was ranked based on total sales, which included a substantial amount of own-brand sales; for 2013, only its ODM sales (53.4% of the total) were used for ranking.

There was only one change in the makeup of the 2013 Top 25 when compared with the previous year's version. A spot on the 2013 list opened up when ODM **Accton Technology**, a Top 25 member in 2012, failed to qualify because of a sales decline. The Accton departure allowed **Beyonics Technology** to return to the Top 25 after a two-year absence.

Sales were flat or down at 15 CMs, with six of them enduring double-digit declines (Table 1, p. 2). Still, nine players moved up in the standings, as EMS provider **UMC Electronics** climbed the farthest — an ascent of three places. It was no coincidence that UMC also achieved the highest sales growth at 20%.

Editor's note: The EMS-versus-ODM analysis presented here does not allow for the fact that some companies pursue both EMS and ODM business.

The Top 25's sales of $342.1 billion were not all derived from EMS and ODM work. As shown in Table 1 on page 2, some companies mix in revenue from other businesses such as components and own-brand manufacturing. To some degree, Top 25 sales and growth figures have been influenced by revenue from businesses outside the realm of contract manufacturing. There may be cases where the addition of other business to contract manufacturing revenue might have unfairly boosted a provider's rank.

New Analysis of Market Segments

MMI has completed its latest analysis of EMS market segments by utilizing data from its annual Top 50 survey. Data from 40 of the *MMI* Top 50™ EMS providers show that nontraditional areas comprised the largest source of combined revenue for these players in 2013. The nontraditional segments – industrial/commercial, medical, automotive, defense/security/aerospace and other – together represented 34%, or just over one third, of the providers' total sales of $63.7 billion (Chart 1A, p. 5). In a similar analysis of Top 50 data for 2012, the nontraditional areas also claimed the biggest share of total revenue (April 2013, p. 3). For many providers, nontraditional areas continue to be the most productive segments for their business development efforts.

The attraction of the nontraditional areas can be seen in the popularity of the industrial segment, which drew 37 out of 40 providers. No other segment in this analysis came close to getting that many votes.

Market segment percentages for the 40 Top 50 EMS providers appear in Table 1A on pages 4 and 5. Percentages came directly from the providers' responses to the Top 50 survey. Ten companies in the Top 50 either did not provide a breakdown of their sales by market segment or supplied data inconsistent with *MMI's* categories.

Communications infrastructure took the second largest share of the 40 providers' aggregate sales in 2013. The comm infrastructure segment accounted for 27.3% of combined sales. One company, **Fabrinet**, obtained more than 70% of its sales from the segment, while two others, **Flextronics** and **Celestica**, derived more than 40% of their sales from the segment.

The final two segments were nearly equal in the amount of business they attracted. Computing and storage garnered 19.6% of total revenue, while consumer electronics, mobile phones and other high-velocity products accounted for 19.1%.

For 18 providers out of 40, computing and storage was a segment to avoid, which is no surprise. Much of the outsourcing in the computing and storage space is controlled by the EMS giant **Hon Hai**, number-two EMS provider **Pegatron**, and the ODMs. Their considerable presence in the space shrinks the amount of business available to other EMS providers and even more so for those who eschew high volumes. Still, some providers have carved out niches for themselves within the space. For example, six providers, all based in Asia, gained more than half of their revenue from computing and storage, and three of them – **Shenzhen Kaifa Technology**, **Global Brands Manufacture** and **SMT Technologies** – depended on the segment for more than 70% of their business (Table 1A).

Consumer electronics, mobile phones and other high-velocity products make up another segment that a significant number of Top 50 providers stay away from. Of the 40 Top 50 providers in this analysis, 15 steer clear of this high-velocity segment. Of course, providers that follow a lower-volume, high-mix strategy, which is common among players below the top tier, want no part of the high-volume work required in this space. Still, three providers – **Universal Scientific Industrial**, **V.S. Industry** and **Computime** – generated more than half of their revenue from the high-velocity segment.

Although 2013 was a year of barely discernible growth for the Top 50, the same cannot be said for the four main areas based on results of this analysis. To see which areas grew which did not, *MMI* performed an apples-to-apples comparison by using market segment data from 36 companies that were present in both the 2012 and 2013 analyses.

After combining the segment data from the 36 providers for both years, analysis showed that two sectors gained revenue in 2013 versus the prior year and two sectors saw lower sales last year. The nontraditional and high-velocity sectors were the winners

Table 1A: Market Percentages for 40 of the Largest EMS Providers in 2013

Organization	Computing & storage	Comm. infra-structure	Con-sumer & mobile	Indus-trial/com-mercial	Med-ical	Auto-motive	Defense/ security/ aerospace	Other
Flextronics	4.4	41.2	26.6	14.9	5.5	7.0	0.4	
New Kinpo Group	56.4	22.1	21.5					
Celestica	27	42	6	*	*		*	25
Benchmark Electronics	30	23		36	11			
Shenzhen Kaifa Technology	88		5	4	3			
Universal Scientific Industrial (USI)	25		52	15		8		
Plexus		37		25	25		13	
SIIX	11.3	0.8	36.4	15.5		26.7		9.4 [1]
Zollner Elektronik Group	13.9	0.6	2.9	40.3	12.9	23.7	5.7	
Sumitronics		5	26	55		14		
Beyonics Technology	68		24	4	2	2		
Asteelflash		28 [2]		63 [3]	5		4	
Global Brands Manufacture (GBM)	76	14	9			1		
Kimball Electronics Group				27	28.5	37	7.5	
Integrated Micro-Electronics, Inc.	5	19	15	15	4	40		2
Fabrinet		71		24		5		
3CEMS Group	18	20	19	26	5	12		
Enics				100 [4]				
WKK Technology	19	20	31	18	6	6		
Creation Technologies	7	23		32	16	6	9	7
VIDEOTON Holding		3	21	36		41		
éolane		10		60 [5]	7	9	14	
VTech Communications		16	11	68.4	4.6			
Wong's International Holdings Limited	40	7	7	44				2
V.S. Industry			98			2		
Ducommun Inc., Electronic Systems Group				20	10		70	
ALL CIRCUITS		6	25	27	2	42		
OnCore Manufacturing	2	2	2	40	33		21	
Di-Nikko Engineering	45	5	20	10	5	10	5	
Neways Electronics International		1		62	24	9	2	2 [6]
Hana Microelectronics	25	22	11	10	3	8		21
PartnerTech		27		43	15		15	
Key Tronic	5	20	28	30	10	5	2	
Computime Limited			55	45 [7]				
Orient Semiconductor Electronics	50.1	5.1		26.8	6.7		11.3	

Where possible, home appliances have been placed in the consumer electronics category, and test and instrumentation have been put in the industrial category. * Included in other. [1] Includes components and machinery. [2] Consists of data processing. [3] Includes energy management at 18% and transportation at 15%. [4] Includes medical. [5] Includes private mobile radio at 18%, railway at 12% and energy at 10%. [6] Includes consumer. [7] Includes building and home control at 29%.

Table 1A Contd.: Market Percentages for 40 of the Largest EMS Providers in 2013								
Organization	Computing & storage	Comm. infra-structure	Con-sumer & mobile	Indus-trial/com-mercial	Med-ical	Auto-motive	Defense/ security/ aerospace	Other
Kitron		11		20	31		19	19 [8]
SMTC	37	15	9	32	6	1		
SMT Technologies	87		9.3	3.4	0.2		0.1	
Scanfil EMS		12		82				6
LACROIX Electronics				62 [9]	2	26	10	

[8] Consists of offshore/marine. [9] Includes home automation and building automation at 25%.

Chart 1A: Market Mix for 40 Top 50 EMS Providers in 2013

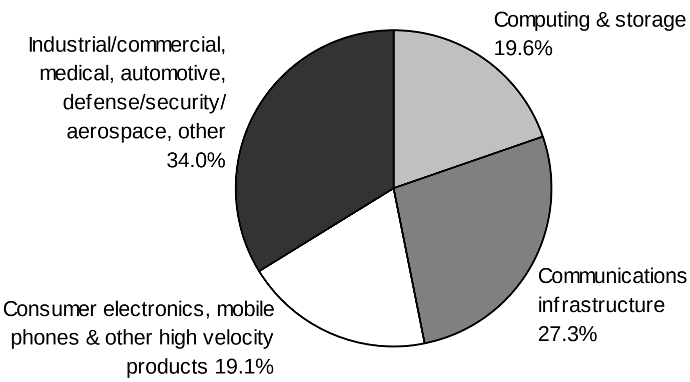


Chart 2A: Individual Markets for 34 EMS Providers Under $3 Billion

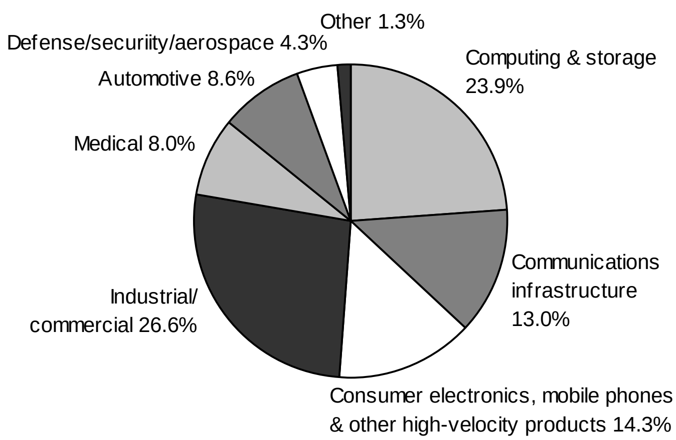


Table 2A: A Comparison of Segment Revenue for the Same 36 Top 50 EMS Providers					
Segment	2013 share	2012 share	2013 sales (M)	2012 sales (M)	Change
Computing & storage	19.7%	20.7%	$12,246	$12,787	-4.2%
Communications infrastructure	27.7%	28.9%	$17,266	$17,908	-3.6%
Consumer, mobile & other high velocity	18.9%	18.2%	$11,774	$11,270	4.5%
Nontraditional*	33.7%	32.2%	$20,995	$19,916	5.4%
Total			$62,281	$61,881	0.6%

* Includes other.

in this comparison, while the computing and storage and communications infrastructure segments were on the losing end.

For the 36 providers as a whole, 2013 sales from the nontraditional segments (plus “other”) rose 5.4%, well above the group’s average growth of 0.6%. The above-average growth of the nontraditional areas probably indicates a greater abundance of new outsourcing opportunities in those areas, which tend to be less penetrated than the more mature computing and storage and comm infrastructure segments. In this comparison, the nontraditional areas picked up 150 basis points of market share in 2013, which increased their share to a leading 33.7% (Table 2A, below).

Revenue from consumer electronics, mobile phones and other high-velocity products grew at a slightly lower rate than was observed for the nontraditional areas. High-velocity business advanced 4.5%, perhaps a somewhat pleasant surprise in light of slower-than-expected overall growth in world markets. And yet, demand for consumer products in China and other developing countries continues unabated, giving this segment a built-in engine for growth. The high-velocity share of the group’s sales was 18.9%, up 70 basis points from 2012.

In this comparison, sales from the communications infrastructure segment declined 3.6% from 2012, a not unexpected result in that end market demand in general did not catch fire in 2013. The segment lost 120 basis points of market share in 2013, which brought its share down to 27.7%.

Finally, computing and storage revenue fell 4.2% from a year earlier, while giving up 100 basis points of market share. Those EMS providers who did business in the PC market had to contend with a decline in PC shipments, which **Gartner** put at -10% for 2013. In addition, the high-performance technical server market was down 7.2% last year, according to **IDC**.

The three top-tier providers in this analysis contributed 58% of total sales. As a result, these three providers heavily influenced market segment results for the entire group of 40. What do the market segments look like for providers below the top tier? When these three companies were excluded along with three others whose nontraditional categories did not correspond with *MMI's*, a different picture emerges. For the remaining 34 EMS providers with sales under $3 billion, the nontraditional areas overall take on greater importance. In 2013, the nontraditional segments (plus other) accounted for 48.8% of the combined revenue of those 34 providers. This result is consistent with a 2012 analysis of 36 providers, in which the nontraditional areas captured a nearly identical share of 49.0% (April 2013, p. 6). If these results can be extrapolated to the industry at large, then it can be said that the nontraditional segments supply nearly half of the revenue for providers below the top tier.

Data from providers below $3 billion in sales show how the individual segments within the nontraditional category break down for them. For this subgroup of 34 Top 50 EMS providers, the industrial/commercial area furnished more revenue than any other segment, nontraditional or otherwise. The industrial/commercial segment represented 26.6% of total sales, dwarfing the other nontraditional segments (Chart 2A, p. 5). Industrial/commercial also came out number one in the 2012 analysis of 36 providers (April 2013, p. 5). Again, if these results can be generalized, then the industrial/commercial segment has become the number-one revenue producer for providers below the top tier.

Next in size among the nontraditional areas was the automotive segment with 8.6% of revenue. Growth of the global auto industry in 2013 probably contributed to the automotive share, which was 140 basis points higher than in the 2012 analysis. Close behind the automotive segment was the medical segment with an 8.0% share, unchanged from the 2012 analysis. Over the past four years of analysis, the medical share has ranged from 7.8% to 8.1%, evidence that medical business is not gaining market share despite the emphasis that many providers have placed on this segment. Business from the defense/security/aerospace segment came in at 4.3% of total sales, showing once more that this business is significantly smaller than the automotive or medical segments, at least for Top 50 providers below the industry's first tier. Other business that could not be categorized fell into the smallest segment, which claimed a share of 1.3% (Chart 2A).

Editor's note: This analysis covered providers who sometimes differ as to which products go in what categories. As a result, there is some uncertainty with respect to the results presented here.

Some Quarterly Results

Jabil. For its fiscal Q2 ended Feb. 28, revenue totaled $3.58 billion, down 18% sequentially and 14% year over year. The company reported non-GAAP EPS of $0.10, compared with $0.43 in the prior quarter and $0.45 in the year-ago period. Revenue was slightly below the midpoint of guidance, while non-GAAP EPS landed at the midpoint.

GAAP operating income for fiscal Q2 amounted to $3.6 million, or 0.1% of revenue, versus $133.0 million, or 3.2% of revenue, in the year-ago quarter. Jabil recorded a GAAP net loss attributable to shareholders of $38.7 million, or a loss of $0.19 a share, compared with net income of $88.5 million, or $0.43 a share, in the year-earlier period. Included in the net loss were restructuring and related charges of $36 million.

Non-GAAP operating margin came in at 1.7%, down 200 basis points sequentially and 190 basis points year over year. Non-GAAP operating income was $60.4 million, down from $159.7 million in the prior quarter and $151.5 million a year earlier.

Diversified Manufacturing Services revenue (43% of total sales) dropped 16% year over year in line with guidance. The decline mainly stemmed from a lack of demand from a customer in Jabil's Materials Technology unit, as previously discussed (Jan., p. 4). Non-GAAP operating margin for the DMS segment stood at 1.8%.

Enterprise and Infrastructure business (34% of sales) fell 9% from a year earlier, reflecting declines in enterprise spending seen late in the quarter. The E&I segment produced a non-GAAP operating margin of 2.5%.

Revenue from Jabil's High Velocity segment (23% of sales) decreased 18% year over year, mainly due to the company's **BlackBerry** disengagement. The segment's non-GAAP operating margin was 0.3%.

For the second straight quarter, free cash flow went negative as cash flow from operations was $17 million, and capital expenditures totaled $76 million. For fiscal 2014, Jabil is now estimating free cash flow at $150 million to $250 million, down from an earlier projection of $400 million to $500 million (Jan., p. 3-4).

For fiscal Q3 ending in May, Jabil expects revenue to decline about 14% year over year to within a range of $3.5 billion to $3.7 billion. Fiscal Q3 guidance also includes non-GAAP operating income of $20 million to $60 million, non-GAAP operating margin of 0.6% to 1.6%, non-GAAP EPS of minus $0.20 to $0.00 a share, and GAAP EPS of $0.74 to $1.04 a share. The prediction for GAAP EPS reflects the sale of the company's aftermarket services business (see News, p. 8). Jabil believes Q3 will be the turning point for operating income levels.

On a year-over-year basis, the company is forecasting DMS sales to be flat, E&I revenue to decrease 5%, and High Velocity business to drop 40%. The High Velocity decline reflects the wind down of Jabil's BlackBerry relationship.

Jabil believes it will deliver non-GAAP EPS of $1.65 to $1.95 in fiscal 2015.

Plexus. For its fiscal Q2 ended March 29, the company reported revenue of $558 million, up 4% from the prior quarter and flat versus the year-ago period. Non-GAAP EPS stood at $0.60, down 2% sequentially but up 15% year over year. Revenue came in above the midpoint of its guidance range, while non-GAAP EPS matched the midpoint of guidance for that EPS metric.

The company earned GAAP net income of $18.5 million, compared with $17.7 million in the prior quarter and $18.0 million a year earlier. GAAP EPS of $0.53 gained 4% sequentially and 2% year over year. The GAAP EPS result included a negative $0.18 a share of restructuring and impairment charges, partly offset by $0.11 a share of discrete tax benefit.

Networking/Communications sales were flat sequentially, exceeding expectations. Plexus' Healthcare/Life Sciences sector grew 1% quarter to quarter, in line with expectations. Industrial/Commercial business increased 7% from the prior quarter, a result that was below expectations. The company's Defense/Security/Aerospace sector was up 20% sequentially, but this performance also fell short of expectations.

Gross margin for fiscal Q2 came in at 9.5%, down 10 basis points sequentially but up 20 basis points year over year. In line with guidance, non-GAAP operating margin was 4.5%, down 30 basis points sequentially but up 30 basis points year over year.

Guidance for fiscal Q3 (the June quarter) calls for revenue of $600 million to $630 million and non-GAAP EPS of $0.69 to $0.74. The midpoint of revenue guidance suggests sequential sales growth of about 10%. Plexus expects a non-GAAP operating margin of 4.6% to 4.8%.

On a sequential basis, the company is projecting growth of more than 20% for Networking/Communications, a low to mid single-digit increase for Healthcare/Life Sciences, high single-digit growth for Industrial/Commercial, and a mid single-digit rise in revenue for Defense/Security/Aerospace.

The company said its outlook for fiscal 2014 had improved modestly during fiscal Q2.

IDC's Latest Forecast

Market research firm **IDC** has put out a new forecast for the contract manufacturing space, consisting of the EMS and ODM sectors. The firm's latest projections show that contract manufacturing revenue will exceed $500 billion by 2018.

IDC is predicting that contract manufacturing sales will rise from $390.2 billion in 2012 to $517.4 billion in 2018. According to the forecast, the contract manufacturing business grew 3.0% last year to $401.7 billion. For 2014, IDC foresees the growth rate increasing modestly to 5.2%, which will bring the total of EMS and ODM sales to $422.5 billion. For the years 2015 through 2018, the forecast calls for annual growth rates between 4.9% and 5.5%. With projected annual growth rates from 2013 to 2018 in the vicinity of 5%, it's no wonder then that the five-year CAGR for that period works out to 5.2%, reflecting a business that has reached the mature stage (Table 1B, below).

The EMS industry, however, is expected to grow somewhat faster than that. It's CAGR from 2013 to 2018 is 6.4%, based on the IDC forecast. After a nearly flat 2013 when EMS revenue amounted to an estimated $240.3 billion, the EMS industry is expected to pick up steam this year. IDC is projecting that EMS revenue will grow by 8.9% in 2014 to $261.6 billion. Growth in subsequent years will range from 5.5% to 6.5%, with 2015 at the high end of the range. The firm is forecasting that the EMS business will cross the $300-billion mark in 2017, ending up at $328.2 billion in 2018 (Table 1B).

IDC's outlook for the ODM sector is not as bright. Forecast data from 2013 to 2018 for the ODM side yield

Table 1B: Worldwide Contract Manufacturing Revenue Forecast, ($B), 2012-2018

	2012	2013	2014	2015	2016	2017	2018	CAGR 2012-2017	CAGR 2013-2018*
EMS	$240.6	$240.3	$261.6	$278.6	$294.4	$310.6	$328.2	5.2%	6.4%
Growth	5.4%	-0.1%	8.9%	6.5%	5.7%	5.5%	5.7%		
ODM	$149.6	$161.5	$161.0	$167.3	$174.7	$181.6	$189.2	3.9%	3.2%
Growth	3.7%	7.9%	-0.3%	3.9%	4.4%	3.9%	4.2%		
Total contract mfg.	$390.2	$401.7	$422.5	$445.9	$469.1	$492.2	$517.4	4.8%	5.2%
Growth	4.7%	3.0%	5.2%	5.5%	5.2%	4.9%	5.1%		

Source: IDC, 2014. *CAGR for 2013-2018 was calculated by MMI.

an ODM CAGR of 3.2%, exactly half of the comparable EMS rate. Annual growth rates for the ODM sector are forecasted lower than those of the EMS industry every year from 2014 to 2018, with 2014 showing the greatest difference (Table 1B, p. 7). While IDC has the EMS industry expanding at an 8.9% clip in 2014, ODM revenue is predicted to shrink slightly by 0.3% to $161.0 billion.

But IDC estimates that the tables were turned in 2013, when the ODM side outgrew the EMS sector by 8 percentage points. Last year when EMS sales were essentially flat, ODM revenue increased by an estimated 7.9% to $161.5 billion, according to IDC.

By 2018, ODM revenue is forecasted reach $189.2 billion, or 36.6% of the contract manufacturing market. The ODM sector will lose 3.6 percentage points of market share over the period 2013 to 2018, IDC predicts.

News

Two German EMS providers are targeted for acquisition…**Scanfil EMS** (Sievi, Finland) has purchased EMS provider **Schaltex Systems** of Schenefeld, Germany, while **Neways Electronics International** (Son, The Netherlands) has signed a letter of intent to acquire family-owned **BuS Group**, an EMS provider based in Riesa, Germany.

Scanfil is paying about 6.6 million euros for Schaltex, which brought in sales of 20.8 million euros in 2013 and employs a staff of 80. Scanfil, which did not have a production site in Germany, said the Schaltex deal strengthens the provider's position in the German market and widens Scanfil's customer base.

Similarly, Neways' prospective acquisition of BuS Group will significantly strengthen Neways' footprint in the German EMS market, said Neways. The company has an existing operation in Neunkirchen, Germany. BuS Group utilizes a workforce of about 900, generates annualized sales of around 106 million euros, and operates in Germany and the Czech Republic. The price for acquiring BuS Group was not disclosed.

Divestiture completed…**Jabil** (St. Petersburg, FL) has completed the sale of its aftermarket services business to **iQor Holdings** for $725 million subject to closing adjustments and other items (Dec. 2013, p. 1-2).

Correction…Upon further review of Top 50 data, *MMI* determined that the Top 50 sales figure used for **Sparton** – $241 million – included intracompany sales that should have been eliminated. When intracompany sales are taken out, Sparton's EMS sales become $224 million, which is the figure that should have been used for Top 50 ranking. As a result, Sparton drops to 50th position, and the Top 50 cutoff is lowered to $224 million.

In addition, **SMTC** released its 2013 sales in April after the *MMI* Top 50 was published. For the record, SMTC's actual sales were $271 million versus an estimate of $268 million used for the Top 50. SMTC's actual sales increased overall revenue per employee ratios slightly by about $100.

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