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Industry Slowdown in Q3?

Q3 2011 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)												
Company	Q3 guidance	Q3 mid-point	Q2 '11 sales	Qtr.-qtr. estim. chg.	Q3 '10 sales	Yr.-yr. estim. chg.	Q1-2 '11 sales	Q1-3 '11 estimated sales	Q1-3 '10 sales	Estimated change	Q2 adjusted EPS* $	Q3 guidance adjusted EPS* $
Flextronics	7.6 - 8.0	7.8	7.55	3.3%	7.42	5.1%	14.41	22.21	19.93	11.4%	0.21	0.21 - 0.23
Jabil**	4.1 - 4.3	4.2	4.23	-0.7%	3.86	8.8%	8.16	12.36	10.32	19.7%	0.58	0.52 - 0.60
Celestica	1.725 - 1.875	1.80	1.83	-1.6%	1.55	16.4%	3.63	5.43	4.65	16.8%	0.27	0.23 - 0.29
Sanmina-SCI	1.65 - 1.70	1.68	1.67	0.0%	1.69	-0.8%	3.24	4.92	4.84	1.6%	0.42	0.40 - 0.44
Benchmark	585 - 620 M	0.60	0.59	2.9%	0.61	-1.9%	1.12	1.73	1.78	-2.7%	0.25	0.30 - 0.36
Plexus	530 - 560 M	0.55	0.56	-2.5%	0.56	-1.9%	1.13	1.67	1.58	5.6%	0.58	0.50 - 0.55
Total/avg.		**16.62**	**16.42**	**1.2%**	**15.69**	**6.0%**	**31.69**	**48.31**	**43.10**	**12.1%**		

Q3 estimates equal midpoint of Q3 guidance. Nine-month 2011 estimates equal six-month sales plus midpoint of Q3 guidance.
*Adjusted EPS may not be comparable from company to company. **Q3 data correspond to the quarter ending August 2011.

Macroeconomic headwinds may be catching up with the EMS industry, or at least its US-traded sector. *MMI* projects that combined sales of the six largest US-traded EMS providers will increase by 6% year over year for the third quarter. This estimate indicates a palpable slowdown in growth from Q1 and Q2, when sales rose 16.9% and 14.4% respectively from a year earlier. Still, *MMI's* estimates show that overall sales growth for this US-traded group will remain in double digits through the first nine months. Estimated nine-month sales for the group total $48.31 billion, up 12.1% from the year-ago period (table).

The midpoint of a company's Q3 guidance served as the estimate for its Q3 sales. **Benchmark Electronics**, **Plexus** and **Sanmina-SCI** would experience slight declines in Q3 sales from a year earlier if their sales come in as estimated. At the midpoint of guidance, **Celestica**, **Flextronics** and **Jabil Circuit** would produce year-over-year sales growth in Q3 or the August quarter in Jabil's case, with Celestica's 16.4% increase the only one in two-digit territory (table).

MMI's estimate for sequential growth of Q3 sales may also point to a slowdown. When combined, estimated Q3 revenue for the six-provider group totals $16.62 billion, up an anemic 1.2% from Q2. In contrast, group sales rose 8.4% sequentially from Q1 to Q2. If providers hit their guidance midpoints, then quarter-on-quarter sales growth in Q3 will range from -2.5% (Plexus) to 3.3% (Flextronics).

Slowdown or not, nine-month sales for three companies are projected to grow by double digits. Nine-month growth estimates for Flextronics, Celestica and Jabil are 11.4%, 16.8% and 19.7% respectively. The only pro-

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vider with an estimated sales decline for the period is Benchmark (table, p. 1).

Regarding EPS guidance for Q3 (or the August quarter in Jabil's case), no conclusions about sequential change can be drawn for four out of the six companies. But according to Benchmark's guidance, the company expects non-GAAP EPS to improve from Q2 to Q3, while Plexus' outlook suggests that non-GAAP EPS in Q3 will decline sequentially (table, p. 1).

Fourth quarter sales, driven by both new program ramps and volumes from existing programs, will determine whether 2011 ends up a double-digit year for this group or something less impressive.

Results

Q2 Results Beat Estimates

As a group, the six largest US-traded EMS providers generated Q2 sales growth that exceeded *MMI's* sequential and year-over-year estimates. Combined sales totaled $16.42 billion, up 7.6% from the prior quarter versus *MMI's* projection of 5.6% (May, p. 5). Likewise, group revenue rose 14.4% year over year, topping *MMI's* estimate of 12.3%.

MMI based its estimates on the midpoint of each company's sales guidance for Q2. Five out of six companies reported sales above the midpoint of their guidance by varying degrees. Only **Plexus'** sales fell short of the midpoint. Combined Q2 sales were $304 million, or 1.9%, higher than what *MMI* estimated (May, p. 5).

All but Plexus achieved sequential sales growth in the quarter, led by Flextronics with a 10% increase. On a year-over-year basis, **Celestica**, **Flextronics** and **Jabil Circuit** drove their sales upward by double-digit percentages, with a high of 22.3% turned in by Jabil. **Benchmark Electronics** was the only provider reporting a Q2 sales decline versus a year earlier (Table 1 below).

First-half sales for the six US-traded providers amounted to $31.69 billion, up 15.6% from the year-ago period. So far this year, these six companies as a group have outperformed long-range forecasts for EMS industry growth. The first-half growth leader is Jabil with a 26.3% increase (for the period December 2010 to May 2011), followed by Celestica and Flextronics at 16.9% and 15.2% respectively (Table 1). Just one provider, Benchmark, experienced revenue slippage in the first half.

Five out of six providers reported Q2 and first-half results according to GAAP. The sixth, Celestica, has switched to IFRS reporting. As a result, with respect to gross and operating profit and net income, Celestica's results are being treated separately from those of the other five companies.

For the other five, aggregate GAAP gross margin in Q1 was 6.5%, down 10 basis points from the prior quarter and 20 basis points from a year earlier. Plexus' 9.7% margin was the highest, followed by **Sanmina-SCI's** 7.9%. Sanmina-SCI was the only provider to show sequential improvement in GAAP gross margin. Separately, Celestica raised its IFRS gross margin from the prior quarter (Table 1).

The five companies with GAAP results produced an overall GAAP operating margin of 2.8%, up 20 basis points sequentially but down 10 basis points year over year. Plexus again took the lead with a 4.5% result. Jabil and Sanmina-SCI increased their GAAP operating margins from Q1. Apart from the GAAP reporting companies, Celestica achieved a sequential increase in IFRS operating margin (Table 1).

Among the five GAAP companies, only Jabil posted a sequential gain in GAAP net income for Q2. Celestica's IFRS net income also grew from the prior quarter. Compared with a year earlier, Flextronics and Jabil increased GAAP net income for Q2, while Celestica boosted its IFRS net income (Table 1).

For the first half of 2011, combined GAAP net income for the five companies increased faster than aggregate sales did. Combined net income climbed 39.3%, while aggregate sales rose 15.4%. Overall net margin for the

Table 1: Q2 and Six-Month 2011 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company (in order of 6-mo. sales)	Q2 '11 sales	Q1 '11 sales	Qtr.-qtr. chg.	Q2 '10 sales	Yr.-yr. chg.	Q2 '11 gross marg.	Q1 '11 gross marg.	Q2 '10 gross marg.	Q2 '11 oper. marg.	Q1 '11 oper. marg.	Q2 '10 oper. marg.	Q2 '11 net inc.	Q1 '11 net inc.	Q2 '10 net inc.	Q1-2 '11 sales	Q1-2 '10 sales	Yr.-yr. chg.	Q1-2 '11 net inc.	Q1-2 '10 net inc.
Flextronics	7,547.8	6,858.9	10.0	6,565.9	15.0	5.3	5.6	5.6	2.3[1]	2.4[1]	2.4	132.0	135.3	118.2	14,406.7	12,506.1	15.2	267.3	178.3
Jabil[2]	4,227.7	3,928.7	7.6	3,455.6	22.3	7.5	7.5	7.6	3.6	2.7	2.8	104.7	55.4	52.0	8,156.4	6,460.2	26.3	160.1	81.8
Sanmina-SCI	1,674.2	1,569.1	6.7	1,625.2	3.0	7.9	7.4	7.6	3.2	2.8	3.8	7.2	13.1	21.6	3,243.3	3,152.7	2.9	20.3	31.7
Plexus	559.2	568.1	-1.6	536.4	4.3	9.7	9.8	10.4	4.5	4.6	5.0	22.0	23.9	24.4	1,127.3	1,027.4	9.7	45.9	45.1
Benchmark	585.5	538.3	8.8	589.4	-0.7	6.4	7.1	7.8	2.4	3.1	3.9	14.7	15.3	20.1	1,123.9	1,161.4	-3.2	29.2	38.3
Subtotal/avg.	**14,594.4**	**13,463.1**	**8.4**	**12,772.5**	**14.3**	**6.5**	**6.6**	**6.7**	**2.8**	**2.6**	**2.9**	**280.6**	**243.0**	**236.3**	**28,057.6**	**24,307.8**	**15.4**	**522.8**	**375.2**
Celestica	1,829.4	1,800.1	1.6	1,585.4	15.4	6.9	6.5	6.8	3.0	1.9	2.4	45.7	30.0	13.0	3,629.5	3,103.5	16.9	75.7	41.5
Total/avg.	**16,423.8**	**15,263.2**	**7.6**	**14,357.9**	**14.4**										**31,687.1**	**27,411.3**	**15.6**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. [1] Intangible amortization was subtracted from Flextronics' reported operating income. [2] Q2 '11 results correspond to the quarter ended May 31.

five providers was 1.9% in the first half.

Q2 summaries for two providers

Last month's issue covered Q2 results for four out of the six large US-traded providers. Results for the remaining two companies are briefly summarized below.

Benchmark Electronics. Q2 revenue of $586 million ticked downward by 0.7% year over year but rose by 8.8% sequentially. Revenue was within guidance, but non-GAAP EPS of $0.25 was below guidance of $0.28 to $0.34. The EPS result was flat versus the prior quarter and down from the year-earlier EPS of $0.32.

Three factors hurt operating results. The company incurred unforeseen costs of $3.1 million associated with the transfer of a major program from the US to a low-cost geography. New program ramp costs were higher than expected as were capacity expansion costs in Asia for Benchmark's precision technologies business. Gross margin in Q2 was 6.4%, down 70 basis points from the prior quarter. Non-GAAP operating margin came in at 2.5%, down 60 basis points sequentially.

Sequential sales growth occurred in four out of five industry sectors, led by medical devices with an increase of 21%. Business in the computing and industrial control sectors also grew by double digits. Only the test and instrumentation segment saw a sales decline (-10%) due to slowness in the semiconductor market. **IBM**, Benchmark's largest customer, represented 13% of revenue in Q2.

During the quarter, Benchmark booked 23 new programs, including 10 engineering projects, with estimated annual revenue of $109 million to $132 million. In addition, the provider won a new high-end computing program in Q3, expected to generate revenue of $35 million to $55 million and begin ramping in Q4. But the company also noted that it has lowered its revenue expectation for a large high-end computing program announced last year. Benchmark's revenue estimate for this program, whose start has been delayed to Q1 2012, has been reduced to about $100 million from about $150 million.

Benchmark expects operating margins to improve for the remainder of the year. At the midpoint of Q3 guidance (see table on p. 1), operating margin (presumably non-GAAP) would be about 3.7%, according to Benchmark. The company expects revenue to grow sequentially in the next two quarters.

Sanmina-SCI. The company said, overall, results for its fiscal Q3 ended July 2 were better than it expected. Sales totaled $1.67 billion, up 6.7% sequentially and 3.0% year over year. Sales came in within revenue guidance but above its midpoint, while non-GAAP EPS of $0.42 exceeded guidance of $0.33 to $0.37. Non-GAAP EPS rose 40% sequentially and 31% year over year. GAAP EPS amounted to $0.09, down from $0.16 in the prior quarter and $0.26 a year earlier primarily because of debt extinguishment costs.

Non-GAAP gross margin was 8%, 50 basis points higher than in the previous quarter. Gross margin was above plan primarily due to good execution in several factories and ongoing progress in the components business. Components gross margin, which again was above the corporate average, was at its highest level in several years. Also note that non-GAAP gross margin was 10 basis points higher than a year ago despite a revenue decline in the company's high-margin defense business from last year. Non-GAAP operating margin stood at 3.9%, up 50 basis points sequentially and flat versus a year earlier.

During the quarter, Sanmina-SCI completed a series of debt transactions, expected to save the company about $5 million in quarterly interest expense. As a result, the company increased the average life of its debt from 3.4 to 5.7 years and reduced long-term debt by $80 million.

On a sequential basis, the company's enterprise computing and storage business grew 10.7%, while sales in the communications networks and multimedia segments increased by 8.6% and 8.4% respectively. Sales were flat (a 0.1% gain) in the defense/industrial/medical segment, which saw weakness in defense and aerospace business. This weakness is expected to continue in fiscal Q4.

At the midpoint of the company's guidance for fiscal Q4 (see table on p. 1), revenue would be $1.675 billion, nearly flat compared with the fiscal Q3 result. Non-GAAP operating margin for fiscal Q4 is expected to be in the range of 3.6% to 4%. Based on customer forecasts, Sanmina-SCI believes that demand in the short term remains stable.

Q2 Sales Down for N. American Group

Second-quarter sales declined 9.5% sequentially and 4.2% year over year for a group of seven mid-tier and smaller EMS providers based in North America. In Q2, these providers as a whole failed to keep up with their larger US-traded counterparts, whose aggregate sales grew both quarter on quarter and year over year (see previous article). Q2 sales for the North American group totaled $435.9 million, down from $481.8 million in Q1 and $455.1 million in the year-earlier quarter.

Only one provider in the group, **Key Tronic**, reported a sequential sales increase for Q2 (Table 1A, p. 4). Compared with a year earlier, Q2 growth rates varied widely, ranging from -31% (**SMTC**) to 33% (**IEC Electronics**).

First-half sales for group came to

Table 1A: Q2 and Six-Month 2011 GAAP Results for Seven Mid-tier and Smaller EMS Providers Based in North America (M$ or %)

Organization	Q2 '11 sales	Q1 '11 sales	Qtr.-qtr. chg.	Q2 '10 sales	Yr.-yr. chg.	Q2 '11 gross marg.	Q1 '11 gross marg.	Q2 '10 gross marg.	Q2 '11 oper. marg.	Q1 '11 oper. marg.	Q2 '10 oper. marg.	Q2 '11 net income	Q1 '11 net income	Q2 '10 net income	Q1-2 '11 sales	Q1-2 '10 sales	Yr.-yr. chg.	Q1-2 '11 net inc.	Q1-2 '10 net inc.
Stand-Alone EMS Providers																			
Key Tronic	66.0	63.4	4.1	61.9	6.8	7.6	6.7	10.7	2.5	1.5	4.9	1.5	0.7	2.3	129.5	113.6	14.0	2.3	6.7
SMTC	48.8	56.3	-13.3	71.2	-31.4	9.5	9.1	11.7	-1.0	2.2	5.2	(1.0)	0.7	3.2	105.2	132.6	-20.7	(0.2)	5.2
IEC Electronics	34.6	35.1	-1.3	26.1	32.7	17.8	19.8	17.8	7.6	9.5	8.7	1.3	1.7	1.2	69.7	51.3	35.8	3.1	2.3
Nortech Systems	27.8	29.0	-4.1	24.7	12.6	11.6	11.0	12.6	1.2	1.0	2.0	0.1	0.6	0.1	56.8	46.4	22.3	0.8	0.2
Subtotal/avg.	**177.3**	**183.8**	**-3.5**	**183.9**	**-3.6**	**10.7**	**10.6**	**12.4**	**2.3**	**3.1**	**5.2**	**2.0**	**3.8**	**6.9**	**361.1**	**343.9**	**5.0**	**5.9**	**14.5**
EMS Units of Larger Public Companies																			
Kimball Electronics Group	163.1	199.0	-18.0	186.5	-12.5				0.4	2.3	1.5	1.3	3.2	2.5	362.1	376.7	-3.9	4.4	13.3
CTS Electronics Mfg. Solutions	78.9	79.5	-0.8	66.6	18.5				0.5 [1]	0.0	-0.3				158.4	122.6	29.2		
Raven Industries' EMS unit [2]	16.5	19.5	-15.1	18.1	-8.5				14.0 [3]	17.5 [3]	15.6 [3]				36.0	34.4	4.8		
Total/avg.	**435.9**	**481.8**	**-9.5**	**455.1**	**-4.2**										**917.7**	**877.5**	**4.6**		

[1] Segment operating income excluded restructuring expenses of $0.7 million not allocated to business segments. [2] Q2 results are for the quarter ended July 31.
[3] Segment operating income excluded corporate expenses.

$917.7 million, up 4.6% year over year. This growth was 11 percentage points below that of the six largest US-traded providers.

The group of seven mid-tier and smaller providers consists of four stand-alone EMS companies, all publicly traded, and three EMS units within larger publicly held corporations. Together, the four stand-alone companies produced a Q2 gross margin of 10.7%, up 10 basis points sequentially but down 170 basis points year over year. Overall Q2 operating margin for this subgroup was 2.3% versus 3.1% in Q1 and 5.2% a year earlier. Among the EMS units, only **CTS Electronics Manufacturing Solutions** achieved sequential and year-over-year increases in segment operating margin (Table 1A above).

First-half net income for the four stand-alone companies totaled $5.9 million, compared with $14.5 million in the year-ago period.

Brief summaries of Q2 results for the seven providers appear below.

CTS Electronics Manufacturing Solutions. This segment of CTS generated Q2 sales of $78.9 million, which grew 18% year over year with increases reported across all markets served. This growth was primarily driven by a 46% gain in industrial business. Compared with the year-earlier period, new program launches contributed higher sales of $6.5 million in the industrial market, $2.6 million in the computer market, $2.1 million in the defense and aerospace market, and 0.5 million each in the medical and communications markets. On a sequential basis, sales were off 1% on lower defense and aerospace and computer sales, partially offset by stronger sales into the industrial market.

Segment operating earnings in Q2 were $0.4 million, up from breakeven in Q1, primarily as a result of cost control. Operating earnings improved from an operating loss of $0.2 million in Q2 2010, mainly because of higher sales.

IEC Electronics. For its fiscal Q3 ended July 1, revenue of $34.6 million climbed 33% year over year, of which organic growth contributed 14% in line with IEC's outlook. (The company acquired **Celmet** and **Southern California Braiding** last year.) Gross margin for the quarter came in at 17.8%. IEC's chairman and CEO, W. Barry Gilbert, said revenue growth and gross margin were somewhat disappointing. Both were affected by delayed revenue of $3 million caused by unplanned downtime for certain equipment, the delay in finalizing the US military budget, and an unusual number of customer change orders. In addition, a shift in IEC's product mix hurt gross profit. Operating margin came in at 7.6%, down from 9.5% in the prior quarter and 8.7% a year earlier. The company earned $0.13 per share, unchanged from the year-ago period.

According to IEC, its backlog continues to expand.

The company reported that the current performance of Southern California Braiding, a wire and cable products supplier to the defense market, has been "choppy" as IEC works through integration issues. But IEC is still enthusiastic about this acquisition.

Key Tronic. For its fiscal Q4 ended July 2, sales of $66.0 million rose 4% sequentially and 7% year over year. Net income was $1.5 million, or $0.15 per diluted share, compared with $0.7 million, or $0.07 per share, for the prior quarter and $2.3 million, or

$0.22 per share, for the year-earlier period.

During fiscal Q4, the company won new programs involving solar power controllers, energy monitors and electronic whiteboards.

Gross margin for fiscal Q4 came in at 7.6%, up from 6.7% in the previous quarter but down from 10.7% in the same period last year. Operating margin was 2.5%, up from 1.5% in the prior quarter but down from 4.9% a year earlier. With component shortages behind it, the company said it made good progress during fiscal Q4 in optimizing the product designs, production processes and supply chains of its new programs, resulting in markedly improved margins from the prior quarter.

Key Tronic's outlook for Q1 fiscal 2012 calls for revenue of $65 million to $69 million and EPS of $0.10 to $0.15.

Kimball Electronics Group. For this unit of Kimball International, sales in its fiscal Q4, which ended June 30, totaled $163.1 million, down 13% from the year-ago period. Decreased sales to customers in the medical, automotive and public safety industries were partially offset by an increase in sales to industrial controls customers. The decline in medical business was attributed to the expiration of a contract with one medical customer early in the quarter, while the effects of the Japan earthquake and tsunami caused a reduction in sales to the automotive industry. On a sequential basis, the unit's revenue fell 18% due to a decline in medical and automotive sales.

The unit's gross margin for the June quarter increased 40 basis points year over year. Sales and administrative costs increased 4% from a year earlier primarily because of an increase in accounts receivable reserves and labor costs, which were partially offset by lower incentive compensation costs. Non-GAAP operating margin stood at 0.7%, compared with 1.7% in the year-ago quarter. Non-GAAP net income was $1.5 million, down 43% year over year.

Nortech Systems. Q2 sales of $27.8 million rose 13% year over year, while EPS of $0.05 remained the same as the year-earlier result. For the first half of 2011, Nortech reported sales of $56.8 million, up 22% year over year, as net income increased to $772,000 from $242,000 in the year-ago period.

Acquisitions of **Trivirix**, a medical contract manufacturer, and **Winland Electronics'** EMS operations led the sales growth for industrial and medical customers. For defense customers, the second quarter saw federal funding emerge for several key programs that had been originally scheduled for earlier in the year. During the quarter, Nortech's 90-day backlog for defense customers increased 44%, while the company's overall 90-day backlog rose 14%.

Non-acquisition revenue decreased slightly in Q2 from a year ago, resulting in part from some softening in the long-term outlook for semiconductor capital equipment spending.

Q2 operating margin equaled 1.2%, down 80 basis points year over year but up 20 basis points sequentially.

The company said acquisition-related costs affected its financial results in Q2.

Raven Industries' Electronic Systems Division. Division sales for Raven's fiscal Q2 ended July 31 totaled $16.5 million, down 9% year over year. Excluding corporate expenses, operating income was $2.3 million, down 18% from the year-earlier quarter.

As expected, Q2 performance reflected the decline in Raven's avionics projects. To some degree, this decline was offset by increased support for Raven's Applied Technology Division. The company said Electronic Systems continues to generate strong cash flows.

The division's fiscal Q2 revenue decreased by 15% sequentially, while its operating income fell by 32% quarter on quarter.

SMTC. Q2 revenue of $48.8 million was down 13% sequentially and 31% year over year. Revenues declined as the company experienced demand reductions from customers driven by their end markets. Income for the quarter was $0.7 million before a $1.7-million restructuring charge associated with a 25% reduction in workforce. After restructuring, SMTC recorded a net loss of $1.0 million, compared with net income of $0.7 million for the prior quarter and $3.2 million for the same period last year.

"While the results this quarter remain disappointing, we have taken swift and aggressive action to improve company performance," stated Claude Germain, co-CEO. "Since Alex [Walker] and I started as co-CEOs in April, our priorities have been to rapidly right size our cost structure, reinvigorate our business development activities and push SMTC's culture to be more customer centric. We do not expect these initiatives to show significant results in Q3; however we do anticipate that, barring any major macroeconomic changes, these initiatives combined with new customer wins will result in a much improved Q4."

Some Q2 Results from Asia

As expressed in US dollars, combined Q2 sales for eight publicly-held EMS providers based in Asia rose by 15% year over year, in line with the 14% revenue increase collectively attained by the six largest US-traded providers (see p. 2). Q2 sales for the eight Asia-based providers totaled $2.7 billion, which also represented sequential growth of 4%.

Five out of eight companies boosted their Q2 sales in US dollars by 20% or more from a year earlier, with two of them achieving growth rates above

Company (in order of 6-mo. sales)	Head-quarters	Reports in US$	Q2 '11 sales	Q1 '11 sales	Qtr.-qtr. chg.	Q2 '10 sales	Yr.-yr. chg.	Q2 '11 net profit	Q1 '11 net profit	Q2 '10 net profit	Q1-2 '11 sales	Q1-2 '10 sales	Yr.-yr. chg.	Q1-2 '11 net profit	Q1-2 '10 net profit
Cal-Comp Electronics	Thailand	no	1,098	1,007	9	913	20	7	7	17	2,106	1,744	21	14	28
Universal Scien-tific Industrial	Taiwan	no	485	515	-6	463	5	11	12	17	1,000	917	9	23	34
Venture	Singapore	no	507	460	10	469	8	34	32	33	968	925	5	66	61
Fabrinet	Thailand [1]	yes	190	195	-2	157	21	17	17	14	385	294	31	33	27
Nam Tai Electronics	China	yes	148	162	-9	114	30	3	2	3	310	193	60	5	2
Integrated Micro-Electronics, Inc.	Philippines	yes	140	123	13	98	42	1	1	1	262	189	39	1	5
SVI	Thailand	no	81	80	1	57	43	8	7	5	162	112	45	16	11
SMT (Holdings)	Hong Kong	no	53	56	-4	84	-36	(3)	(91)	(1)	109	151	-28	(95)	(2)
Total/avg.			**2,703**	**2,599**	**4**	**2,355**	**15**	**~77**	**~(14)**	**~90**	**5,301**	**4,525**	**17**	**~64**	**~166**

Table 1B: Q2 and Six-Month 2011 Results for Eight Publicly Listed EMS Providers Based in Asia (M US$ or %)

Results in non-U.S. 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 2010 and 2011 data from the U.S. Federal Reserve. Note that total net profit figures are approximations because not all companies follow the same accounting standards. [1] Fabrinet's manufacturing headquarters are in Thailand.

40% (Table 1B above).

In the first half of 2011, revenue for the Asia-based group came to $5.3 billion, up 17% year over year. First-half growth rates varied greatly, ranging from -28% (**Surface Mount Technology (Holdings) Limited**) to 60% (**Nam Tai Electronics**). Half of the companies increased their six-month net income (in US dollars) from a year ago, and the other half saw their six-month net income decline (Table 1B).

Each provider's Q2 results in its reporting currency are briefly summarized below.

Cal-Comp Electronics. Q2 sales of 33.23 billion baht grew 12% year over year, but Q2 gross profit of 1.03 billion baht declined by 26%. Gross margin for the quarter came in at 3.1%, down from 4.7% for the year-ago period. Net profit in Q2 was 218.7 million baht, compared with 539.5 million baht a year earlier.

For the first half of 2011, sales rose 13% year over year, while net income fell by 53%.

The company plans to deliver 18 million disc drives this year, up 67% from 2010, reported *Digitimes*.

Fabrinet. For its fiscal Q4 ended June 24, the company reported revenue of $190.3 million, for an increase of 21% year over year. Revenue exceeded guidance of $173 million to $178 million. Non-GAAP EPS came in at $0.50, up 14% from $0.44 in the year-earlier quarter and above guidance of $0.46 to $0.48. Non-GAAP net income of $17.5 million rose 27% year over year, while GAAP net income of $16.7 million increased 23%. GAAP EPS for fiscal Q4 was $0.48 versus $0.43 for the year-ago period.

GAAP gross margin for fiscal Q4 amounted to 12.6%, up 30 basis points year over year. GAAP operating margin was 9.2%, down 40 basis points from a year earlier.

For Q1 of fiscal 2012, Fabrinet expects revenue of $173 million to $178 million, non-GAAP EPS of $0.41 to $0.43, and GAAP EPS of $0.39 to $0.41. This guidance suggests that the company expects revenue and EPS to decline sequentially.

Integrated Micro-Electronics, Inc. Sales for the first six months of 2011 totaled $262.5 million, up 39% year over year. IMI's China and Singapore operations, accounting for 55% of sales, generated a 23% increase in revenues. The growing contribution of these operations as well as revenue from the company's **PSi Technologies** acquisition (power semiconductor assembly and testing) were the main reasons for the increase in sales during Q1 and Q2. The communication and consumer segments continue to form the largest pieces of the company's market, with each segment accounting for 21% of sales.

First-half gross profit of $20.5 million declined 6% year over year as a result of higher direct material costs from increased turnkey business. Gross margin for the period stood at 7.8%, down from 11.6% for the first half of 2010. Net income of $1.1 million for this year's first half fell by 76% year over year because of higher direct costs.

Q2 sales of $139.5 million rose 42% year over year, while Q2 net income of $761,000 dropped 48% from a year earlier.

Nam Tai Electronics. Q2 revenue of $147.7 million increased 30% year over year, but Q2 gross profit of $9.5 million decreased 26% year over year. Gross margin declined to 6.4% from 11.2% in the year-earlier quarter mainly for three reasons. First, box-build products such as Bluetooth headsets and calculators that carry higher gross margins have been discontinued. The company is narrowing its focus to higher-growth, lower-margin opportunities such as key component assembly for telecom products. Second, increases in basic wages since last year depressed margins in Q2. Third, Nam Tai's facility in Wuxi, China, which began manufacture and assembly of flexible PCBs in 2010, continued to produce operating losses.

Lower gross margins resulted in GAAP operating income of $0.7 million in Q2, down from $3.8 million in same period last year. The operating income decline was largely offset by increased interest income and currency exchange gains, and the company earned GAAP net income of $3.0 million in Q2 versus $3.2 million a year earlier. Non-GAAP net income was $3.3 million compared with $3.7 million in Q2 2010.

SVI. Q2 revenue of 2.46 billion baht rose 33% year over year. Revenue growth was driven mainly by the demand for IP video and industrial products.

Q2 gross profit of 285 million baht increased by 54% from the year-earlier quarter, while operating profit of 246 million baht showed a gain of 102%. Gross margin of 11.6%, which was up 160 basis points from a year earlier, benefited from a weaker baht at the end of the quarter but was adversely affected by higher material cost arising from supply chain shortages. The company earned net income of 246 million baht, up 44% year over year.

Surface Mount Technology (Holdings) Limited. For its fiscal Q1 ended June 30, revenue totaled HK$414.7 million, down 36% year over year. The company said the decrease in sales was mainly due to the downsizing of operations announced in May. It reported a reduction in revenue from LED backlights for LCD-TVs and weakened demand for computer peripherals and automotive electronics products. These were partly offset by an increase in demand for industrial controls from European customers. The provider reported a net loss for the quarter of HK$25.6 million, compared with a loss of HK$6.6 million in the year-ago period. Excluding restructuring expenses of HK$16.2 million, the loss was HK$10.0 million.

The company's restructuring program has a number of elements. SMT (Holdings) reduced the number of employees to 4,900 at the end of June from 7,200 at the end of March. Its Suzhou, China, factory will cease operations by the end of September. The company is in the process of finalizing the execution of a standstill agreement by a few remaining bank lenders. A large loss in Q4 put the company in violation of debt covenants. Also, SMT (Holdings) has entered into exclusive negotiations with a potential investor. And by the end of June, the company had exited a number of low-margin businesses.

Universal Scientific Industrial. USI, a member of the **ASE Group**, generated Q2 sales of NT$13.99 billion, down 5% year over year and 7% sequentially. Compared with the prior quarter, sales from communications products and computing products declined by 7% and 1% respectively. Consumer, industrial and automotive business grew 3%, 4% and 2% respectively.

Q2 gross margin came in at 10.8%, down 120 basis points from the same period last year and 10 basis points from the previous quarter. Operating margin for Q2 was 3.0%, down 70 basis points year over year and 60 basis points sequentially. Net income in Q2 amounted to NT$322 million, down 41% year over year and 6% sequentially.

Venture. The company recorded Q2 revenue of S$628.7 million, down 3.7% year over year. Although the provider achieved volume growth, it was not enough to offset the steep depreciation in the US dollar. Compared with a year earlier, the US dollar in Q2 declined by more the 11% against the Singapore dollar, the company reported. In Singapore dollars, only two of the company's segments – Test & Measurement/Medical/Others and Retail Solutions & Industrial Products – exhibited year-on-year growth, and both increases were in single digits. In US dollars, a third segment, Computer Peripherals & Data Storage, also showed a sales increase, while business in the first two segments grew by double digits.

On a sequential basis, Q2 sales rose 7% in Singapore dollars. Four out of five segments saw revenue grow from the prior quarter; only Networking & Communications had a sales decline in Singapore dollars (flat in US dollars).

Net profit for Q2 amounted to S$42.0 million, down 8% year over year but up 2% sequentially.

Venture reported that general sentiment of its customers remains encouraging with most expecting business volume growth.

News

Jabil to Make Aftermarket Services Deal

Jabil Circuit (St. Petersburg, FL) has entered into an agreement to acquire **Telmar Network Technology** (Plano, TX), a provider of complex reverse logistics, repair services, technical support and spare parts management for communication network service providers, enterprises and OEMs worldwide.

"This acquisition supports Jabil's strategic commitment to expand our Diversified Manufacturing Segment, and we believe our combined forces will strengthen the depth and scope of Jabil's Aftermarket Services business," said Hartmut Liebel, executive VP and CEO of Jabil Aftermarket Services.

Specializing in the communications and networking markets, Telmar recorded fiscal 2010 revenue of about $145 million. Among other things, Telmar is a global provider of multi-vendor, network-wide repair.

Subject to regulatory clearance and customary conditions, the transaction is expected to close by November. According to Jabil, the acquisition will be accretive to earnings.

Telmar has facilities throughout the US and Canada, in addition to Brazil, Argentina, Mexico, the UK, The Netherlands, Belgium, India, and Malaysia.

OnCore Acquires Victron

Privately held **OnCore Manufacturing Services** (San Jose, CA), a Top 50 EMS provider, has acquired **Victron** (Fremont, CA), another privately owned EMS company.

"The combination increases our solution offerings, extends our target market reach and better serves the needs of our customers, employees and investors," said Daniel Perez, CEO of OnCore. He noted that Victron's strength in medical devices and communications is complementary to OnCore's existing market solutions.

OnCore purchased an 80% stake in Victron from **Unicorn Investment Bank**, which is based in Bahrain. The sale of Victron follows Unicorn's recent decision to exit the US market. Unicorn acquired the equity stake in December 2007.

OnCore operates facilities in Springfield and Wilmington, MA; Longmont, CO; San Marcos and San Jose, CA; and Tijuana, Mexico. Victron's plants are in Fremont, CA, and Rosarito, Mexico. OnCore plans to expand into Asia and Europe.

CharlesBank Capital Partners, a private equity firm, acquired OnCore in December 2010.

Other deals done…**Cal-Comp Electronics** (Bangkok, Thailand) recently purchased **Phitronics Industria E Comercio De Electronica E Informatica**, an EMS provider in Brazil, for $4 million. In addition, Cal-Comp's board has authorized the establishment of a subsidiary in Mexico….**Integrated Micro-Electronics, Inc.** (Laguna, Philippines) has completed the acquisition of **EPIQ** (Tessenderlo, Belgium) subsidiaries in Bulgaria, the Czech Republic and Mexico (May, p. 7-8).

Uncertain outlook for Elcoteq... With **Elcoteq** (Luxembourg) unable to repay the amount due on its expired revolving credit facility, credit facility lenders have continued their enforcement actions against company, which include blocking certain bank accounts and seizing payments of Elcoteq's customers in Europe and the US (July, p. 1). As a result, the company's future business outlook is "very uncertain," and the company is only partly able to control its business processes, Elcoteq reported.

President and CEO Jouni Hartikainen has resigned from the company. He became unable to manage the company due to the recent actions by credit facility lenders, according to a statement attributed to Hartikainen.

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