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Off Year Projected for US-Traded Group

Based on estimated nine-month sales, *MMI* is projecting that 2012 will be a collectively down year for the six largest US-traded EMS providers.

MMI estimates that the group's combined sales for the first nine months of 2012 will total $44.5 billion, down 8.3% from the year-ago period (Table 1, p. 2). It would take a spectacular showing in the fourth quarter to wipe out this decline and bring the group's full-year revenue into growth territory. Given a nine-month estimate of $44.5 billion, *MMI* calculates that a growth year would require the group's Q4 sales to increase by more than 36.3% sequentially, a preposterous result especially in the current economic environment.

By how much will the group's combined sales fall in 2012? Companies have yet to issue guidance for the fourth quarter so it is premature to try to come up with a revenue estimate for the year. However, one can still look at two scenarios that would not be beyond the realm of possibility. Scenario one: the group's Q4 sales are flat versus the Q3 estimate of $14.79 billion (Table 1). Math says the group's 2012 sales would then be down 8.3% from last year. In a more optimistic scenario two, there would be a seasonal uptick from in Q4 versus Q3. If you assume a sequential upturn of 9.2% such that Q4 2012 sales equal the Q4 2011 level of $16.15 billion, then 2012 sales would fall by 6.2%. You get the idea: the 2012 decline is likely to be more than a few percentage points unless Q4 winds up being exceptionally strong for the group.

For the first nine months of 2012, sales are projected to grow for three of US-traded providers and drop for the other three (Table 1). Unfortunately, the estimated revenue declines will outweigh the increases, leaving total sales $4.0 billion below the year-earlier figure. Much of this overall drop can be attributed to **Flextronics**, whose sales are estimated to fall by $3.84 billion, or 17.2%. *MMI* expects both **Celestica** and **Sanmina-SCI** to show nine-month declines as well. On the plus side, **Benchmark Electronics** is projected as the nine-month growth leader with an estimated increase of 8.2%, followed by **Plexus** at 7.3% and **Jabil** at 2.2%.

MMI estimates that third-quarter sales for the group of six providers will add up to $14.79 billion, essentially even with the prior quarter's total of $14.77 billion but down 12.7% year over year. On a sequential basis, Flextronics and Sanmina-SCI will see their Q3 sales increase, while the other four will experience sales declines ranging from slight to modest, according to *MMI's* estimates (Table 1). Compared with a year earlier, only Benchmark and Plexus will grow their Q3 sales, if *MMI's* projections hold true, with Plexus the sole provider sporting a double-digit increase. Of the four providers with projected year-over-year declines, Flextronics will endure the greatest drop by far (-23.9%), based on *MMI's* estimates. As such, Flextronics is expected to be the prime mover in the double-digit year-over-year decrease that is projected for the group's Q3 sales.

Q3 revenue for each provider was estimated by selecting the midpoint of its Q3 sales guidance. Note that in Jabil's case, Q3 data corresponds to the quarter ending August 2012.

Sanmina-SCI is the only provider

Some articles in this issue

Table 1: Q3 2012 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q3 guidance	Q3 mid-point	Q2 '12 sales	Qtr.-qtr. estim. chg.	Q3 '11 sales	Yr.-yr. estim. chg.	Q1-3 '12 estimated sales	Q1-3 '11 sales	Estimated change	Q2 '12 adjusted EPS* $	Q3 guidance adjusted EPS* $	Q3 EPS midpoint	EPS Q-Q chg. at midpoint	EPS Y-Y chg. at midpoint
Flextronics	5.9 - 6.3	6.10	5.99	1.8%	8.02	-23.9%	18.47	22.31	-17.2%	0.23	0.21 - 0.25	0.23	0%	5%
Jabil**	4.1 - 4.35	4.23	4.25	-0.6%	4.28	-1.3%	12.71	12.44	2.2%	0.64	0.54 - 0.66	0.60	-6%	-3%
Celestica	1.6 - 1.7	1.65	1.74	-5.4%	1.83	-9.8%	5.09	5.46	-6.9%	0.22	0.17 - 0.23	0.20	-9%	-23%
Sanmina-SCI	1.575 - 1.625	1.60	1.55	3.3%	1.70	-5.7%	4.61	4.94	-6.6%	0.26	0.32 - 0.38	0.35	35%	-26%
Benchmark	595 M - 625 M	0.61	0.63	-3.2%	0.57	7.0%	1.83	1.69	8.2%	0.32	0.27 - 0.32	0.30	-8%	-13%
Plexus	590 M - 620 M	0.61	0.61	-0.6%	0.54	12.4%	1.79	1.67	7.3%	0.66	0.60 - 0.66	0.63	-5%	21%
Total/avg.		**14.79**	**14.77**	**0.1%**	**16.93**	**-12.7%**	**44.50**	**48.51**	**-8.3%**					

Q3 estimates equal midpoint of Q3 guidance. Nine-month 2012 estimates equal first-half sales plus midpoint of Q3 guidance.
*Adjusted EPS may not be comparable from company to company. **Q3 2012 data correspond to the quarter ending August 2012.

whose Q3 guidance suggests that its adjusted EPS will improve from the prior quarter. Sequential growth at the midpoint of the company's guidance would be 35%. At Benchmark and Plexus, Q3 guidance implies that their adjusted EPS will be equal to or less than what they reported for Q2. At the midpoint of guidance, adjusted Q3 EPS would be down 8% sequentially for Benchmark and 5% for Plexus. No such conclusions can be drawn from the guidance of the other three companies. Still, at the midpoint of their guidance, adjusted EPS would be unchanged from the prior quarter for Flextronics and sequentially down 6% and 9% for Jabil and Celestica respectively (Table 1).

On a year-over-year basis, only Plexus' guidance calls for growth of adjusted Q3 EPS, and at the midpoint of the provider's guidance EPS would be up 21%. This percentage gain would easily outpace the provider's estimated sales growth of 12.4%. Benchmark, Celestica and Sanmina-SCI all expect their adjusted Q3 EPS to fall from the year-ago period, based on their Q3 outlook. At the guidance midpoint, adjusted EPS would drop 13%, 23% and 26% year over year for Benchmark, Celestica and Sanmina-SCI respectively. Flextronics' and Jabil's guidance does not indicate which direction adjusted EPS will go. But at the guidance midpoint, adjusted EPS would rise 5% year over year at Flextronics despite an estimated 23.9% drop in its sales. At the midpoint, Jabil's adjusted EPS would decline 3% from a year earlier (Table 1).

Results

Another Down Quarter for US-Traded Group

For the third straight quarter, combined Q2 sales of the six largest US-traded EMS providers fell sequentially and year over year. Group sales totaled $14.77 billion, down 1.1% from the prior quarter and 9.8% from the year-earlier period. Global economic woes and the troubles of **RIM**, a major EMS customer, delivered a one-two punch to group revenue in Q2.

These sales declines were slightly worse than *MMI's* estimates, which called for a sequential drop of 0.8% and a year-over-year decrease of 9.6% (May, p. 5). Group sales for Q2 were $47 million below what *MMI* projected. *MMI* based its estimates on the midpoint of each company's sales guidance for Q2.

One provider, **Flextronics**, was responsible for the group's sequential sales decline. As the largest provider in the group, Flextronics posted a 6.2% drop that outweighed the sequential increases of the other five providers. Also, Flextronics, which recorded a sales decrease of 20.2% year over year, was the main drag on the group's 9.8% slide from a year earlier. Three providers managed to achieve year-over-year increases, which ranged from 0.5% to 8.9%, the high belonging to **Plexus** (Table 1A, p. 3).

For the first half of 2012, group sales amounted to $29.71 billion, down 5.9% from the same period last year. Half of the group reported revenue gains, led by **Benchmark Electronics** at 8.9%; the other half had revenue declines ranging from 5.3% to 13.5%, which more than offset the gains (Table 1A).

Five out of six providers follow GAAP accounting rules, while the sixth, **Celestica**, has switched to IFRS reporting. For the five GAAP companies, GAAP gross margin in Q2 was a combined 6.9%, up 20 basis points sequentially and 40 basis points year over year. Three out of five GAAP providers raised their gross margins from both the prior quarter and the year-earlier period (Table 1A).

Together, the five companies produced a GAAP operating margin of 3.0%, up 10 basis points sequentially and year over year. As usual, Plexus turned in the highest operating margin at 4.5%. Three GAAP providers – Benchmark, **Jabil** and **Sanmina-SCI** – improved their margins from the prior quarter, while margins remained unchanged at the other two. On a year-over-year basis, margins rose at Benchmark, Flextronics and Jabil.

GAAP net income for the five providers totaled $284.8 million, down 3.6% sequentially, but except for Flextronics all were able to increase their net income from the prior quarter. On a year-over year basis, combined net income for the five inched down 0.5%, with only Plexus showing a significant gain. Q2 net margin for the GAAP reporting companies was 2.2%, unchanged from the prior quarter and up 20 basis points from a year earlier.

For the first half of 2012, combined GAAP net income for the five companies increased from the year-earlier period despite a decline in sales. Collective net income rose 9.9%, while sales fell 6.0%.

Q2 summaries for two providers

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

Benchmark Electronics. Q2 revenue of $630 million rose 6% sequentially and 8% year over year. Revenue topped guidance of $595 million to $625 million. Non-GAAP EPS of $0.32 also exceeded the company's forecast of $0.26 to $0.30, as the EPS result increased 28% over both the prior quarter and the year-earlier period. GAAP net income amounted to $13.6 million, up from $5.6 million in Q1 but down from $14.7 million in Q2 2011. Included in Q2 2012 results were Thailand flood-related charges of $4.7 million.

Non-GAAP operating margin came in at 3.7%, up 70 basis points sequentially and 120 basis points year over year. The sequential gain resulted from increased sales, continued recovery in Thailand and a focus on operations. Benchmark continues to work toward achieving its margin target of 4% by the end of the year. Reaching that goal will depend on the revenue level and mix.

The company was pleased with its Q2 execution in a weakening environment.

Business was up sequentially in four out of five industry sectors. Medical sales increased 16%, primarily driven by new programs ramping for several customers. In test and instrumentation, revenue rose 10%, while in telecom, sales showed an 8% gain, primarily associated with new program ramps and increased output in Thailand. Computing business grew 7%, again bolstered by new program ramps. But in industrial controls, revenue was essentially flat versus the prior quarter.

Cash flow from operations totaled $41 million in Q2. Inventory turns improved to six times from 5.5 in the first quarter.

During the quarter, the provider landed 37 new programs, including 12 engineering projects, representing an annual run rate of $155 million to $177 million at volume.

Reflecting a prudent level of caution, the company's Q3 guidance calls for sales of $595 million to $625 million and non-GAAP EPS of $0.27 to $0.32 (see also the article on p. 1-2). On a sequential basis, Benchmark expects that only test and instrumentation will be down significantly in Q3, and that most of the other segments will be flattish. Without giving guidance for Q4, the company said it would be highly unusual not to show strength in Q4 over Q3.

Celestica. The provider reported Q2 sales of $1.74 billion, just below the high end of guidance of $1.65 billion to $1.75 billion. Sales grew 3% sequentially but dropped 5% year over year. IFRS net earnings amounted to $23.6 million, down from $43.2 million in the prior quarter and $45.7 million a year earlier. The year-over-year drop in IFRS earnings mainly stemmed from higher restructuring charges and lower volumes. Adjusted EPS of $0.22 came in slightly lower than the midpoint of guidance and included a $0.02 per share impact from higher than expected taxes. Adjusted EPS fell 12% sequentially and 19% year over year.

Table 1A: Q2 and Six-Month 2012 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company	Q2 '12 sales	Q1 '12 sales	Qtr.-qtr. chg.	Q2 '11 sales	Yr.-yr. chg.	Q2 '12 gross marg.	Q1 '12 gross marg.	Q2 '11 gross marg.	Q2 '12 oper. marg.	Q1 '12 oper. marg.	Q2 '11 oper. marg.	Q2 '12 net inc.	Q1 '12 net inc.	Q2 '11 net inc.	Q1-2 '12 sales	Q1-2 '11 sales	Yr.-yr. chg.	Q1-2 '12 net inc.	Q1-2 '11 net inc.
Flextronics	5,989.5	6,382.4	-6.2	7506.2	-20.2	6.0	5.6	5.3	2.6 [1]	2.1 [1]	2.3 [1]	137.5 [2]	141.4 [2]	135.4 [2]	12,371.9	14,295.0	-13.5	278.9 [2]	270.1 [2]
Jabil [3]	4,250.9	4,236.2	0.3	4227.7	0.5	7.7	7.6	7.5	3.7	3.5	3.6	101.3	97.7	104.7	8,487.1	8,156.4	4.1	199.0	160.1
Sanmina-SCI	1,549.3	1,463.1	5.9	1674.2	-7.5	6.8	7.3	7.9	2.3	2.1	3.2	8.9	(1.4)	9.4	3,012.4	3,243.3	-7.1	7.5	22.5
Benchmark	630.0	593.4	6.2	585.5	7.6	7.3	6.8	6.4	2.9	1.3	2.4	13.6	5.6	14.7	1,223.4	1,123.9	8.9	19.2	29.2
Plexus	608.8	573.5	6.2	559.2	8.9	9.4	9.5	9.7	4.5	4.5	4.5	23.5	20.0	22.0	1,182.3	1,127.3	4.9	43.5	45.9
Subtotal/avg.	**13,028.5**	**13,248.6**	**-1.7**	**14,552.8**	**-10.5**	**6.9**	**6.7**	**6.5**	**3.0**	**2.6**	**2.9**	**284.8**	**263.3**	**286.2**	**26,277.1**	**27,945.9**	**-6.0**	**548.1**	**527.8**
Celestica	1,744.7	1,690.9	3.2	1829.4	-4.6	6.7	6.6	6.9	1.9	2.8	3.0	23.6	43.2	45.7	3,435.6	3,629.5	-5.3	66.8	75.7
Total/avg.	**14,773.2**	**14,939.5**	**-1.1**	**16,382.2**	**-9.8**										**29,712.7**	**31,575.4**	**-5.9**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. With the exception of sales, GAAP and IRS results are not necessarily comparable. [1] Intangible amortization was subtracted from reported operating income. [2] Net income from continuing operations. [3] For Jabil, Q2 '12 corresponds to the quarter ended May 31.

Non-IFRS operating margin of 3.3% was down 10 basis points sequentially and 40 basis points year over year.

Sequential growth took place in all end markets except consumer. Consumer business declined 6% sequentially and fell 17% year over year, primarily due to weaker demand. Sales from the company's diversified end markets rose 1% sequentially, while the year-over-year gain was 39%, partly driven by new program wins, which accounted for about one third of the increase, with the balance coming from the 2011 acquisition of **Brooks Automation's** contract manufacturing division. Diversified end markets represented 19% of total revenue, unchanged from Q1 but up from 13% for the same period last year. Communications revenue, which accounted for 32% of the total, rose 3% sequentially. Compared with the year-ago period, communications revenue dropped 11%, as Celestica experienced demand declines across a number of customers. The server segment grew 10% sequentially, driven by two major customers, but segment revenue decreased 11% year over year. Storage business climbed 20% sequentially due to strong demand across a number of customers and went up 4% year over year mainly from strong demand from a major customer.

The company recorded restructuring charges of $20.1 million, primarily related to the wind down of its manufacturing services for **RIM** (June, p. 7). For Q2, RIM represented 17% of total revenue, and Celestica expects the RIM portion drop to about 10% for Q3. The provider plans to be largely done with manufacturing for RIM by the end of Q3. Due to the significance of RIM as a customer and in order to improve margin performance, Celestica will take additional restructuring actions in 2012 to reduce its overall cost structure. By the end of 2012, the company expects to record total restructuring charges of between $40 million and $50 million, including an estimated $35 million announced earlier in connection with RIM. As a result of this wind down and the challenging demand outlook, Celestica anticipates that revenue growth for 2012 will be negative.

For Q3, the company expects revenue of $1.6 billion to $1.7 billion and adjusted EPS of $0.17 to $0.23. Celestica is projecting sequential growth of its non-RIM business, driven by strength in its diversified end markets and its communications segment. At the midpoint of guidance, non-IFRS operating margin would be about 3.0%. While the company expects a Q4 margin of 2.5% to 3.0%, it plans to achieve its 3.5% to 4.0% margin target in the second half of 2013.

North American Group Surprises

Thanks to high growth at two companies, combined Q2 sales for seven mid-tier and smaller EMS providers based in North America grew at a surprising double-digit rate from the year-ago quarter.

On an adjusted basis, Q2 sales for this group rose 10.4% year over year. This rate is 20.2 percentage points higher than the collective sales decline of the six largest US-traded providers (see the article on p. 2-3). Apparently, there are pockets of growth in the EMS industry despite the global economic malaise.

Q2 revenue for the seven mid-tier and smaller providers totaled $586 million, which was up 1.8% sequentially. By contrast, their large US-traded competitors were unable to achieve sequential growth in the aggregate as their sales declined 1.1% overall.

Key Tronic and **SMTC** were responsible for the North American group's double-digit increase, as adjusted, from a year earlier. Q2 sales went up 46% year over year at Key Tronic and 54% at SMTC. These results stood apart from the rest of the group, where sales growth ranged from an adjusted -3.5% for **Ducommun LaBarge Technologies** to 4.0% for **IEC Electronics**.

Without *MMI's* adjustment, DLT recorded a Q2 sales increase of 243% year over year, which included revenue from its June 2011 acquisition of LaBarge in Q2 2012 sales but did not include LaBarge's sales prior to the acquisition date in Q2 2011 sales. Later on, this article explains how DLT's Q2 2011 sales were adjusted to reflect LaBarge's revenue prior to the acquisition. Table 1B on p. 5 shows GAAP results for all seven EMS providers, while Table 2B on p. 5 presents adjusted sales growth for DLT and the group of seven as a whole. *MMI* believes that adjusted sales growth is a more realistic measure of this group's performance.

Four out of seven providers raised their Q2 sales from the prior quarter, as the revenue gains outweighed the sales declines. **CTS Electronics Manufacturing Solutions** took top honors with a sequential increase of 9.8% (Table 1B).

For the first six months, the seven providers together generated sales of $1.16 billion, up by an adjusted 5.3 % year over year (Table 2B). Again, results from both Key Tronic and SMTC stood out as both companies posted first-half growth of 40% or better. On an adjusted basis, only one other provider, IEC, succeeded in growing its first-half revenue.

The group of seven mid-tier and smaller providers consists of four companies in the EMS industry, all publicly traded, and three EMS units within larger publicly held corporations. Together, the four stand-alone providers produced a Q2 gross margin of 11.5%, down 20 basis points sequentially but up 50 basis points year

Table 1B: Q2 and Six-Month 2012 GAAP Results for Seven Mid-tier and Smaller EMS Providers Based in North America (M$ or %)																			
Organization	Q2 '12 sales	Q1 '12 sales	Qtr.-qtr. chg.	Q2 '11 sales	Yr.-yr. chg.	Q2 '12 gross marg.	Q1 '12 gross marg.	Q2 '11 gross marg.	Q2 '12 oper. marg.	Q1 '12 oper. marg.	Q2 '11 oper. marg.	Q2 '12 net income	Q1 '12 net income	Q2 '11 net income	Q1-2 '12 sales	Q1-2 '11 sales	Yr.-yr. chg.	Q1-2 '12 net inc.	Q1-2 '11 net inc.
Stand-Alone EMS Providers																			
Key Tronic	96.7	95.5	1.3	66.0	46.5	9.6	9.1	7.6	5.4	4.9	2.5	3.8	3.4	1.5	192.3	129.5	48.5	7.2	2.3
SMTC	75.1	72.5	3.7	48.8	53.8	9.7	10.4	9.5	4.7	4.3	-1.0	2.8	2.4	(1.0)	147.6	105.2	40.3	5.2	-0.2
IEC Electronics	36.0	38.0	-5.3	34.6	4.0	20.6	21.7	19.0	9.8	11.8	7.6	2.2	2.6	1.3	74.0	69.7	6.2	4.8	3.1
Nortech Systems	28.0	28.4	-1.2	27.8	0.8	11.0	10.6	11.6	1.1	1.2	1.2	0.1	0.1	0.1	56.4	56.8	-0.7	0.2	0.8
Subtotal/avg.	**235.9**	**234.4**	**0.7**	**177.3**	**33.1**	**11.5**	**11.7**	**11.0**	**5.4**	**5.4**	**2.3**	**8.9**	**8.6**	**2.0**	**470.3**	**361.1**	**30.2**	**17.5**	**5.9**
EMS Units of Larger Public Companies																			
Kimball Electronics Group [1]	164.9	161.0	2.4	163.1	1.1				3.6	3.1	0.4	4.1	3.3	1.3	325.8	362.1	-10.0	7.4	4.4
Ducommun LaBarge Technologies	107.8	110.1	-2.0	31.5	242.6				9.7 [2]	7.5 [2]	8.6 [2]				217.9	58.8	270.4		
CTS Electronics Manufacturing Solutions	77.5	70.6	9.8	78.9	-1.8				5.4 [3,4]	-1.5 [3]	0.5 [3,5]				148.0	158.4	-6.5		
Total/avg.	**586.0**	**575.9**	**1.8**	**450.8**	**30.0**										**1,162.0**	**940.4**	**23.6**		

[1] Operating and net income do not correspond to GAAP results on a stand-alone basis. [2] Segment operating income did not include corporate general and administrative expenses. [3] Segment operating income included corporate and shared services charges. [4] Excluded restructuring and related charges of $3.8 million not allocated to business segments. [5] Excluded restructuring and related charges of $0.7 million not allocated to business segments.

over year. Two of these providers, IEC and Nortech, turned in double-digit margins led by IEC at 20.6%.

Collectively, the four stand-alone providers achieved a Q2 operating margin of 5.4%, unchanged from the prior quarter but up 310 basis points from the year-earlier period. All three EMS units improved their operating margins both sequentially and year over year (Table 1B).

First-half net income for the four stand-alone providers totaled $17.5 million, or 3.7% of sales, compared with $5.9 million in the year-ago period.

A look at each provider

CTS Electronics Manufacturing Solutions. CTS's EMS unit generated Q2 sales of $77.5 million, which fell 2% year over year mainly because of the impact from the Thailand floods, partially offset by new customer program ramps. Sales declines in the defense and aerospace, communications and computer markets outweighed increases in the industrial and medical markets. Segment operating earnings of $6.1 million before corporate and shared services charges increased by $3.8 million from the year-earlier period, primarily due to the timing of flood insurance recoveries in excess of costs incurred.

On a sequential basis, Q2 sales rose 10%, as demand increased primarily in the communications, industrial and medical markets, partially offset by lower sales in the defense and aerospace market. Segment operating earnings before corporate and shared service charges increased by $5.6 million from Q1, mainly as the result of the timing of flood insurance recoveries and higher sales.

CTS's EMS facility in Thailand, which had been out of service since the October 2011 flood, is now fully operational, and substantially all production has been transferred back to Thailand from California.

Ducommun LaBarge Technologies. Ducommun's DLT segment reported Q2 sales of $107.8 million, which included $80.3 million from the June 2011 acquisition of **LaBarge**. In comparison, sales for Q2 2011 were $31.5 million. However, on Form 10-Q

Table 2B: Adjusted* Q2 and Six-Month 2012 Sales Results for Seven Mid-tier and Smaller EMS Providers Based in North America (M$ or %)								
Organization	Q2 '12 sales	Q1 '12 sales	Qtr.-qtr. chg.	Q2 '11 sales	Yr.-yr. chg.	Q1-2 '12 sales	Q1-2 '11 sales	Yr.-yr. chg.
Stand-Alone EMS Providers								
Subtotal/avg.	235.9	234.4	0.7	177.3	33.1	470.3	361.1	30.2
EMS Units of Larger Public Companies								
Kimball Electronics Group	164.9	161.0	2.4	163.1	1.1	325.8	362.1	-10.0
Ducommun LaBarge Technologies + LaBarge	**107.8**	**110.1**	**-2.0**	**111.7**	**-3.5**	**217.9**	**222.3**	**-2.0**
CTS Electronics Manufacturing Solutions	77.5	70.6	9.8	78.9	-1.8	148.0	158.4	-6.5
Total/avg.	**586.0**	**575.9**	**1.8**	**531.0**	**10.4***	**1,162.0**	**1,103.9**	**5.3***

*The group's year-over-year sales growth for Q2 and for the first six months of 2012 were adjusted to reflect the 2011 sales of LaBarge before it was acquired by Ducommun in June 2011.

Ducommun listed pro forma Q2 2011 sales as if the LaBarge acquisition had occurred as of Jan. 1, 2010. Subtracting Ducommun's actual Q2 2011 sales of $108.0 million from pro forma Q2 2011 sales of $188.3 million yields LaBarge's sales of $80.2 million that were not included in DLT's Q2 2011 (figures are rounded off). Therefore, if one adds LaBarge's sales of $80.2 million not included in the year-ago quarter to DLT's Q2 2011 sales of $31.5 million, the sum of $111.7 million represents the combination of LaBarge and DLT for DLT's Q2 2011 (which ended July 2, 2011). With this adjustment to account for the combined sales of LaBarge and DLT in Q2 2011, DLT's Q2 2012 sales would show a year-over-year decline of 3.5% (Table 2B, p. 5).

DLT's operating income for Q2, which did not include corporate general and administrative expenses, amounted to $10.5 million, or 9.7% of revenue, compared with operating income of $8.3 million, or 7.5% of revenue, for the prior quarter, and $2.7 million, or 8.6% of sales, for the year-ago period. Adjusted EBITDA for Q2 was 12.8% of sales versus 12.0% in Q1 and 14.8% a year earlier.

IEC Electronics. For its fiscal Q3 ended June 29, sales of $36.0 million grew 4% year over year, while net income of $2.2 million increased 65% over the same interval. Gross profit margin in the quarter came in at 20.6%, up from 17.8% in the year-ago quarter, while operating margin improved to 9.8% compared with 7.6% a year earlier. The company noted that this is the second quarter in a row in which the company achieved financial results well above its historical metrics. During the quarter, cost containment and product mix were important drivers of higher margins. EBITDA amounted to $4.8 million, up 39% year over year.

Still, the quarter was not what the company envisioned in either sales or debt reduction. IEC experienced some softness in its industrial and medical sectors, and on July 31 those sectors appeared to be back on track. The company believes its debt can be reduced to about $26 million by the end of September. At end of fiscal Q3, short- and long-term debt totaled $30.5 million.

IEC expects its businesses to grow at rates between 9% and 14%. The company said now is the time to take some larger steps toward growing the company through acquisitions or by starting new businesses.

Key Tronic. For its fiscal Q4 ended June 30, revenue totaled $96.7 million, up 1% sequentially and 46% year over year. Net income for the June quarter was $3.8 million, or $0.35 per share, up 148% from $1.5 million, or $0.15 per share, for the same period last year. Compared with the prior quarter, net income gained 12%.

Gross margin equaled 9.6%, up 50 basis points sequentially and 200 basis points year over year, while operating margin was 5.4%, up 50 basis points sequentially and 290 basis points year over year.

For the September quarter, the company expects revenue of $94 million to $99 million and EPS of $0.32 to $0.39.

At the end of the June quarter, Key Tronic was generating revenue from 165 programs and had 48 customers, up from 119 programs and 33 customers a year earlier.

Kimball Electronics Group. For fiscal Q4 ended June 30, sales from Kimball's EMS segment rose 1% year over year to $164.9 million as increased sales to customers in the automotive and industrial markets more than offset a decline in sales to customers in the medical industry. The performance of the automotive business was aided by comparison with the year-ago quarter in which the Japan earthquake had an adverse impact on sales to automotive customers. The decline in sales to the medical industry resulted from the expiration of a contract with **Bayer** late in fiscal 2011, which accounted for a $10.5-million reduction in sales in the June quarter versus a year earlier. Excluding sales to this customer, EMS sales for the June quarter would have increased 8% year over year.

Gross margin improved by 200 basis points from the year-ago quarter primarily as a result of benefits from restructuring activities in which two facilities were closed during fiscal Q2, increased labor efficiencies at certain facilities, and a mix shift to higher margin products.

SG&A costs shrank 110 basis points year over year. Adjusted operating income of $6.3 million grew 490% from the year-ago quarter, and adjusted net income of $4.3 million increased 178% from a year earlier.

Nortech Systems. Q2 sales of $28.0 million increased slightly by 0.8% year over year. Operating income for the quarter was $319,000, down 6% year over year, and the company reported net income of $126,000, down 14% year over year.

The company said its revenue results show stability amid ongoing economic headwinds. Nortech noted that EMS industry growth forecasts are mixed, echoing the diverse signals it is receiving from its broad customer base.

In the short term, however, the company is carrying excess capacity that impacts its profitability. Nortech said it has positioned itself for long-term growth through synergistic acquisitions and efficiency improvements.

SMTC. Q2 revenue of $75.1 million grew 4% sequentially and 54% year over year. The company earned Q2 net income of $2.8 million, up from $2.4 million in the prior quarter and a loss of $1.0 million in Q2 2011. Gross margin stood at 9.7% including unrealized losses from currency forward contracts of $455,000. This margin result was down 70 basis points sequentially but up 20 basis points year over year. Adjusted EBITDA of $4.3 million was flat versus the prior quarter but up from $1.9 million a year earlier. Excluding the impact of unrealized foreign exchange gains and losses, adjusted EBITDA for the quarter would be $4.8 million compared with $3.8 million in Q1.

Going into the second half of 2012, SMTC anticipates sales to level off from significant first-half growth rates, but the company expects to achieve solid profitability coupled with improved free cash generation and debt reduction.

SMTC noted that although it has not fully optimized its business to take advantage of its significant revenue growth, it has made progress in improving operating efficiencies.

The company has raised its 2012 revenue guidance to $270 million to $290 million from $250 million to $270 million.

Market Data

IPC Studies On-Shoring

A new study by **IPC – Association Connecting Electronics Industries** (Bannockburn, IL) predicts that over the next three years electronics manufacturing operations with a total production value of at least $2.5 billion will undergo on-shoring. IPC's definition of on-shoring covers both overseas operations brought back to North America and new operations started in the region.

The study is based on a May 2012 survey of 229 companies with global revenues totaling more than $935.3 billion. OEMs comprised 34% of participating companies, while EMS providers made up 33%. The remainder included PCB fabricators (10%) and other types of suppliers.

Of the companies surveyed, 7% indicated that they plan to move overseas operations to North America in the next three years. EMS providers account for a 53% majority of the value of operations that participating companies plan to bring back.

New operations, however, represent a much larger share of future North American production, and these planned operations were reported primarily by OEMs. According to the study, OEMs in general are expected to add North American operations totaling about $1.5 billion in value over the next three years, while the EMS industry is expected to add about $1 billion worth of operations over the period. Of the participating companies, 18% said they plan to locate new operations in North America in the next three years.

IPC's study also shows that on-shoring is not a brand-new phenomenon. The survey asked participants whether their companies moved any existing operations from overseas to the Americas since 2009. Respondents who answered yes accounted for 11% of those polled.

OEMs have done, by far, the most on-shoring since 2009 as they accounted for 92.4% of the value of operations moved to North America since 2009, based on survey findings. EMS companies represented just 7.4%. Note, however, that IPC cannot be sure that OEMs were all referring to their own internal operations as opposed to any operations that might have been outsourced. One-quarter of the operations that returned to North America since 2009 came from China, in contrast with popular notions of on-shoring, which presume that on-shoring of overseas manufacturing and bringing back operations from China are basically one and the same.

The primary reason most often cited for bringing operations back to North America was quality control concerns, selected by 24% of participants. The rising cost of manufacturing and the cost of transportation were the second most popular reasons given, each chosen 21% of the time.

Participating OEMs and EMS providers reported that since 2009 they brought back operations with an aggregate value of about $9 billion, which gives IPC a rough estimate of $27 billion as the value of operations returned since 2009 by the entire electronics manufacturing industry. This rough estimate would suggest that the aforementioned outlook for on-shoring is far less than what has occurred since 2009. However, IPC points out that almost one-quarter of the respondents did not know whether their companies would be doing any on-shoring in the next three years. With the possibility that some of these companies could decide to undertake on-shoring or more of it, IPC believes that its three-year forecast for on-shoring is very conservative.

Responding companies also indicated whether or not they created new operations in North American since 2009. Those who located new operations in the region represented 19% of participants. The most common reason given for setting up a new operation in the region was to be close to customers.

The new IPC study is entitled *On-Shoring in the Electronics Industry: Trends and Outlook for North America*. For more information, visit www.ipc.org/on-shoring-2012.

News

Asteelflash Targets German Provider

Seeking greater proximity to European customers, **Asteelflash** (Paris, France), a top 20 EMS provider, reported that it is acquiring **EN ElectronicNetwork** (Bornheim-Hersel, Germany), described as Germany's second largest EMS provider, with 700 employees and 2011 sales of $181 million.

This acquisition will extend Asteelflash's presence in Europe by adding manufacturing sites in Germany. ElectronicNetwork, a full-service EMS provider, also operates a plant in the Czech Republic and is currently ramping up a new plant in Romania, enabling Asteelflash to offer a manufacturing alternative in Eastern Europe.

The deal will also allow Asteelflash to access new regional market accounts and strengthen its activities in segments that are already well established such as industrial, defense and aerospace, medical and automotive.

The transaction is still subject to approval by antitrust authorities.

Celestica to Acquire Machining Company

Celestica (Toronto, Canada) has agreed to acquire **D&H Manufacturing Company** (Fremont, CA), a manufacturer of precision machined components and assemblies, primarily for the semiconductor capital equipment market.

Celestica expects to pay about $70 million for D&H, which generates about $80 million in annual revenue and employs about 350 people. Subject to customary conditions, the deal is expected to close in the third quarter of 2012.

"This acquisition will strengthen our complex mechanical and systems integration offering and allows us to provide additional value to our customers in the diversified markets segment of our business," said Craig Muhlhauser, Celestica president and CEO.

D&H's machining capability adds a level of vertical integration for Celestica. Muhlhauser noted that there is a high degree of synergy between D&H and Celestica's existing semiconductor capital equipment business.

According to Celestica, D&H has an operating margin profile in the "high teens."

This deal supports Celestica's growth strategy for its diversified end markets.

Some new business…**Lenovo** has extended its service agreement with **Flextronics** (Singapore), which performs manufacturing, assembly and fulfillment of PCs, workstations and servers in Hungary for Lenovo's European clients. Also, **Nokia Siemens Networks** has partnered with Flextronics for the production of 4G wireless equipment in Brazil, *Reuters* reported….**Sorrento Networks** (Denver, CO), a provider of metro optical access solutions, has engaged **Sonic Manufacturing Technologies** (Fremont, CA) for contract manufacturing of all Sorrento products….Top 50 EMS provider **PartnerTech** (Vellinge, Sweden) and **Dignitana** (Lund, Sweden), developer of a scalp cooling system to prevent hair loss from chemotherapy, have signed a framework agreement for the development, manufacturing and supply of products to Dignitana. In addition, PartnerTech and **BAE GCS** have signed a letter of intent for the manufacturing of defense electronics, and the EMS provider has entered into a framework agreement for the supply of electronic components to **ABB Substation Automation Products**.

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