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Double-Digit Growth through Three Quarters

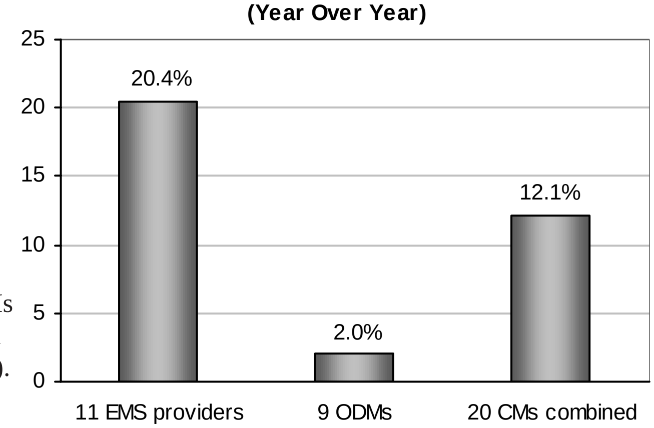
Although year-over-year growth in Q3 slipped into single digits for the top 20 contract manufacturers, their sales for the first nine months of 2011 still increased at a double-digit rate. Top-20 sales for the first three quarters totaled $235.4 billion, up 12.1% from the same period a year ago. But as demand in various markets continues to ratchet downward in Q4, doubts have arisen about where the full year will end up.

The top 20 contract manufacturers consist of 11 EMS providers and nine ODMs, who together account for the vast majority of sales in the outsourcing space. (It's hard to put a number on the top 20's share, but *MMI* believes that it's well north of 80%.) Double-digit growth for the top 20 indicates that outsourcing was alive and well through first nine months of the year despite the sovereign debt problems in Europe and a sluggish US economy.

Yet when it came to growth, the 11 EMS providers presented a far better picture than the ODM group did. Nine-month sales of the 11 EMS providers totaled $138.8 billion, up 20.4% year over year. In contrast, the ODM group's sales of $96.6 billion rose just 2% from a year earlier (Chart 1). Hence, the EMS group grew 18.4 percentage points faster than the ODMs did over the first three quarters. As has been written here before, the PC market, which had once fueled superior growth for the ODM sector, has put a damper on ODM growth in 2011.

Note that the top 20 contract manufacturers presented here contain two changes from the 20 large CMs tracked earlier for Q1 and Q2 (Sept., p. 1-3). EMS provider **Shenzhen Kaifa Technology** has been added to the group, while ODM **Inventec Appliances** has been removed. With these changes, *MMI* believes it has assembled the 20 largest CMs.

Chart 1: Nine-Month Sales Growth Percentage (Year Over Year)



Gargantuan **Hon Hai Precision Industry** (aka Foxconn), which represented 34.7% of top-20 sales, weighed heavily on collective results. Excluding Hon Hai, nine-month growth for the 19 other players drops to 5.4% from 12.1% (Chart 2, p. 2). So Hon Hai was responsible for 6.7 percentage points, or more than half, of the Top-20 growth rate. Likewise, the EMS group's growth rate looks less impressive without Hon Hai. Sans Hon Hai, EMS group sales would have increased by 11.7% instead of 20.4%. So Hon Hai added 8.7 percentage points to the EMS group's growth rate. Still, even without Hon Hai, the re-

Some articles in this issue

maining 10 EMS providers were 9.7 percentage points of growth ahead of the ODMs (Chart 2).

At 27.4% in US dollars, Hon Hai's nine-month growth rate earned first place among the top 20. Of the seven CMs that achieved US-dollar growth rates in double digits, only two were ODMs. Yet ODMs made up a majority of the CMs whose nine-month sales dropped in US dollars. Five out of the seven companies with sales declines were ODMs (Table 1 below).

Top-20 net income for the first nine months totaled about $3.9 billion. (The total is approximate because not all companies follow the same accounting rules.) But net income performance was out of step with sales growth as net earnings declined by around 15%. Just four companies succeeded in improving their nine-month net income, and

Chart 2: Nine-Month Sales Growth Percentage (Year Over Year) Excluding Hon Hai

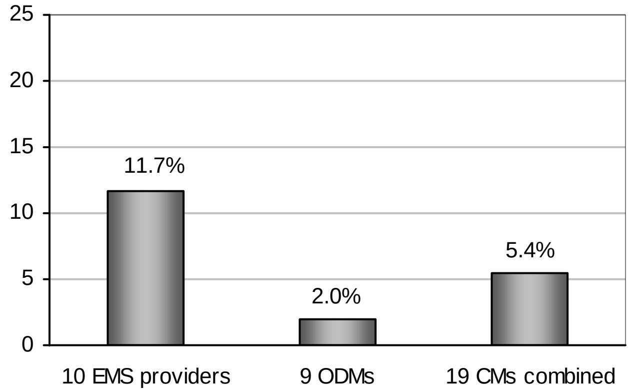


Table 1: Q3 and Nine-Month 2011 Results for the 20 Largest Contract Manufacturers (M US$ or %)

Company (in order of 9-mo. sales)	Primary business	Head-quarters	Reports in US$	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 net profit	Q2 '11 net profit	Q3 '10 net profit	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net profit	Q1-3 '10 net profit
Hon Hai (Foxconn)	EMS	Taiwan	No	29,584	27,252	8.6	26,569	11.3	657	450	658	81,731	64,166	27.4	1,599	1,748
Quanta Computer	ODM	Taiwan	No	9,709	9,514	2.1	8,691	11.7	187	186	183	27,813	25,872	7.5	568	510
Flextronics	EMS	Singapore	Yes	8,044	7,548	6.6	7,422	8.4	130	132	144	22,451	19,928	12.7	397	323
Compal Electronics	ODM	Taiwan	No	5,922	6,115	-3.2	6,719	-11.9	72	114	121	17,877	21,024	-15.0	306	590
Wistron	ODM	Taiwan	No	5,701	5,529	3.1	5,088	12.1	75	86	103	15,917	14,257	11.6	230	280
Jabil Circuit	EMS	Florida	Yes	4,280	4,228	1.2	3,861	10.9	114	105	59	12,437	10,321	20.5	274	141
Pegatron*	ODM	Taiwan	No	5,350	3,633	47.2	3,621	47.7	13	(23)	45	11,906	10,337	15.2	(30)	154
Inventec	ODM	Taiwan	No	3,441	3,021	13.9	3,076	11.9	28	2	25	9,310	8,793	5.9	52	97
TPV Technology	ODM	Taiwan	Yes	2,855	2,606	9.5	2,950	-3.2	10	28	32	8,152	8,399	-2.9	80	112
Celestica	EMS	Canada	Yes	1,830	1,829	0.0	1,547	18.3	50	46	21	5,460	4,650	17.4	126	63
Sanmina-SCI	EMS	California	Yes	1,697	1,674	1.3	1,688	0.5	18	7	31	4,940	4,841	2.1	38	63
Cal-Comp Electronics	EMS	Thailand	No	1,230	1,098	12.0	1,031	19.3	9	7	16	3,336	2,775	20.2	23	44
Qisda	ODM	Taiwan	No	977	1,052	-7.1	1,031	-5.2	(12)	4	14	3,136	3,195	-1.8	(48)	96
Shenzhen Kaifa Technology	EMS	China	No	747	689	8.4	869	-14.0	12	10	12	2,194	2,373	-7.5	28	39
Benchmark Electronics	EMS	Texas	Yes	570	586	-2.6	614	-7.1	20	15	23	1,694	1,775	-4.6	49	61
Plexus	EMS	Wisconsin	Yes	538	559	-3.8	556	-3.1	18	22	27	1,665	1,583	5.2	64	72
Universal Scientific Industrial	EMS	Taiwan	No	484	485	-0.2	549	-11.8	17	11	28	1,484	1,466	1.2	40	62
Venture	EMS	Singapore	No	476	507	-6.2	500	-4.9	29	34	36	1,443	1,426	1.2	95	97
AmTRAN Technology	ODM	Taiwan	No	379	356	6.5	636	-40.4	8	3	15	1,264	1,587	-20.4	23	43
Ability Enterprise	ODM	Taiwan	No	448	370	21.2	435	3.0	14	6	23	1,181	1,221	-3.3	28	64
Total/avg.				**84,264**	**78,652**	**7.1**	**77,453**	**8.8**	**~1,470**	**~1,246**	**~1,616**	**235,390**	**209,987**	**12.1**	**~3,943**	**~4,659**
Total/avg. without Hon Hai				**54,679**	**51,400**	**6.4**	**50,883**	**7.5**	**~813**	**~795**	**~958**	**153,659**	**145,821**	**5.4**	**~2,344**	**~2,911**

Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2010 and 2011 data from the US Federal Reserve. Net profit totals are approximate because not all companies follow the same accounting standard. Company net profits shown here are attributable to shareholders. *Results correspond to Pegatron's core DMS business.

No. of companies	Primary business	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 net profit	Q2 '11 net profit	Q3 '10 net profit	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net profit	Q1-3 '10 net profit
11	EMS	49,481	46,455	6.5	45,206	9.5	~1,075	~839	~1,056	138,835	115,304	20.4	~2,735	~2,712
9	ODM	34,783	32,197	8.0	32,247	7.9	~395	~407	~560	96,555	94,684	2.0	~1,208	~1,947
20		84,264	78,652	7.1	77,453	8.8	~1,470	~1,246	~1,616	235,390	209,987	12.1	~3,943	~4,659

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

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

three of them were EMS providers – **Celestica**, **Flextronics** and **Jabil Circuit** (Table 1, p. 2). **Quanta Computer** was the only ODM able to raise its net profit from the year-ago period.

For Q3, the top 20 combined for sales of $84.3 billion, up 7.1% sequentially and 8.8% year over year. Hon Hai did not affect these results much: The company raised the sequential rate by less than percentage point and the year-on-year result by less than two percentage points (Table 1).

Q3 growth rates of the EMS and ODM groups were not that far apart. On a sequential basis, the ODMs' Q3 revenue grew 8%, somewhat better than the EMS group's 6.5%. On the other hand, EMS group sales in Q3 rose 9.5% year over year, topping the ODMs' 7.9% (Table 2 above). EMS providers' Q3 sales of $49.5 billion accounted for 58.7% of the top-20 total.

The top 20's increase of 8.8% year over year in Q3 signals a slowdown from Q1 and Q2 growth rates of 15.4% and 12.8% respectively. Nonetheless, eight CMs achieved double-digit growth in Q3, led by **Pegatron** at 47.7% (in US dollars). Partly offsetting these gains were year-over-year sales declines at nine CMs, nearly half the top 20 (Table 1).

On a sequential basis, four companies produced double-digit sales increases in Q3, and three of them were ODMs. Sales fell or remained flat at seven CMs, of which five were EMS providers (Table 1).

The 20 CMs together earned net income of approximately $1.5 billion in Q3. Compared with the prior quarter's total, Q3 net profit went up about 18%, more than twice the rate of sales growth. A majority of the top 20 improved their net income from Q2 to Q3.

But a year-over-year comparison for combined Q3 net profit is not so favorable. Net profit in the quarter dropped by about 9% versus revenue growth of 8.8%. Only four CMs succeeded in growing their net income from the year-ago quarter (Table 1).

MMI compiled quarterly operating margins for eight out of the nine ODMs in the top 20. (ODM **TPV Technology** was left out of this analysis because it does not report results consistent with those of the other ODMs.) For Q3, overall operating margin for the eight ODMs was a mere 0.88%, virtually the same as the prior quarter's 0.87% and down from 1.8% in the year-ago period. By contrast, five large US-traded providers collectively generated a GAAP operating margin of 2.6% for Q3 (Nov., p. 2). Aggregate operating margin for the eight ODMs has sunk to a level that makes EMS margins look almost rich by comparison.

ODM operating margins in Q3 ranged from -1.14% for **Inventec** to 4.16% for **Ability Enterprise**. Out of the eight ODMs, only Ability Enterprise and **Compal Electronics** had Q3 operating margins above 2%.

What's more, Q3 net margin for the ODM group ended up about 110 basis points below that of the EMS group. The ODM group's margin was around 1.1% compared with the EMS providers' margin of around 2.2%. Q3 net margin for the entire top 20 came in at approximately 1.7%, up about 10 basis points sequentially but down about 40 basis points year over year.

One can rank the top 10 CMs by nine-month sales and compare that order to the 2010 standings (May, p. 2). Table 1 lists CMs in order of nine-month sales. That order has Hon Hai and Quanta in first and second place, as they were in the 2010 standings. Flextronics has moved up one rank to third position, replacing Compal, which dropped to fourth place. Fifth through tenth remained the same as last year, the order being **Wistron**, Jabil, Pegatron, Inventec, TPV and Celestica. This order based on nine-month sales is the same one that resulted from ranking companies by first-half sales (Sept., p. 3).

Editor's note: This analysis presents a rough approximation of EMS versus ODM sales since a number of the contract manufacturers listed here do both EMS and ODM work. Companies were classified as EMS or ODM based on which model represents their primary business. In addition, sales of some EMS providers include non-EMS revenue from such activities as component-level manufacturing.

Correction: Due to a misinterpretation of Pegatron's financial statements, the Q1 and Q2 net income figures for Pegatron's DMS business in Table 1 on page 3 of the September edition represent profit before taxes. Net profit results presented for the Pegatron business in this month's Table 1 on page 2 correspond to net income after taxes.

N. American Group Not Keeping Up

So far this year, sales growth for a group of nine mid-tier and smaller EMS providers based in North America has not kept up with the rate at which revenue has increased for the 11 largest EMS providers. For the first nine months of 2011, sales for the North American group totaled $1.6 billion, up 3.5% year over year. In contrast, top-11 sales for the period grew at a 20.4% clip (see Chart 1 on p. 1). Even if one took a conservative approach and removed **Hon Hai Precision Industry** from the top-11 comparison, the North American group still lagged the rest of the top 11 by 8.2 percentage points (Chart 2, p. 2).

Despite the anemic single-digit result for the North American group overall, five providers achieved double-digit growth for the first three quarters, led by **IEC Electronics** and **Sparton** at 33.1% and 31.1% respectively (table below). Two providers – **Kimball Electronics Group** and **SMTC** – saw their nine-month sales decline from the year-ago period. For the seven providers that report net income for their EMS operations, only two – IEC and **Nortech Systems** – boosted their nine-month net earnings from a year earlier (table).

Q3 sales of the nine North America-based providers came to $506 million, down 5.5% sequentially and 4.4% year over year. Four of the nine recorded sequential declines in their Q3 sales. On a year-over-year basis, revenue growth ranged from -32.6% at SMTC to 28% at IEC. Compared with the year-ago quarter, four providers grew their Q3 sales at double-digit rates, while three endured revenue drops (table).

The group of nine mid-tier and smaller providers consists of six companies in the EMS space, all publicly traded, and three EMS units within larger publicly held corporations. Together, the six stand-alone providers produced a Q3 gross margin of 11.4%, down 50 basis points sequentially and 90 basis points year over year. Three out of the six companies achieved two-digit gross margins (table).

Q3 operating margin for the six-company subset amounted to 2.4%, down from 5.1% a year earlier. IEC was the margin leader at 7.1%. On a year-over-year basis, only one provider in the subset, Nortech, improved its operating margin. In addition, two of the EMS units – **CTS Electronics Manufacturing Solutions** and **Raven Industries' Electronic Systems Division** – raised their segment operating margins from the year-ago quarter (table).

Combined Q3 net income for the six stand-alone providers was $4.3 million, up from $1.5 million in the prior quarter but down from $10.9 million in the year-ago period. Their aggregate net margin for Q3 came in at 1.6%.

Some salient snippets

CTS Electronics Manufacturing Solutions, a unit of **CTS**. Q3 sales were lower than Q2 levels in all markets except defense and aerospace.

Q3 and Nine-Month 2011 GAAP Results for Nine Mid-tier and Smaller EMS Providers Based in North America (M$ or %)

Organization	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 gross marg.	Q2 '11 gross marg.	Q3 '10 gross marg.	Q3 '11 oper. marg.	Q2 '11 oper. marg.	Q3 '10 oper. marg.	Q3 '11 net income	Q2 '11 net income	Q3 '10 net income	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net inc.	Q1-3 '10 net inc.
Stand-Alone EMS Providers																			
Key Tronic	69.8	66.0	5.6	63.3	10.1	7.2	7.6	9.4	2.3	2.5	4.1	1.2	1.5	1.7	199.2	176.9	12.6	3.5	8.5
Sparton	51.8	60.9	-14.9	45.8	13.3	16.1	17.1	15.4	4.6	-20.3	9.3	1.5	(0.7)	4.2	163.1	124.4	31.1	3.3	7.0
SMTC	44.1	48.8	-9.7	65.4	-32.6	8.7	9.5	12.0	-2.2	-1.0	4.8	(1.5)	(1.0)	2.6	149.2	198.0	-24.6	(1.7)	7.8
SigmaTron International [1]	39.9	38.9	2.6	38.2	4.5	8.9	9.1	11.1	1.4	1.6	3.2	0.2	0.2	0.6	117.3	111.2	5.5	0.7	3.2
IEC Electronics	34.9	34.6	0.9	27.3	28.0	18.8	17.8	17.5	7.1	7.6	7.8	2.6	1.3	1.6	104.7	78.6	33.1	5.7	3.9
Nortech Systems	28.3	27.8	1.9	26.0	9.1	11.6	11.6	11.1	1.5	1.2	0.6	0.2	0.1	0.1	85.1	72.4	17.6	1.0	0.4
Subtotal/avg.	**268.8**	**277.1**	**-3.0**	**265.9**	**1.1**	**11.4**	**11.9**	**12.3**	**2.4**	**-2.7**	**5.1**	**4.3**	**1.5**	**10.9**	**818.7**	**761.5**	**7.5**	**12.5**	**30.7**
EMS Units of Larger Public Companies																			
Kimball Electronics Group [2]	142.8	163.1	-12.4	177.9	-19.7				-1.6	0.4	0.1	(1.1)	1.3	(0.2)	504.9	554.5	-8.9	3.3	13.0
CTS Electronics Mfg. Solutions	77.0	78.9	-2.4	67.6	13.9				4.6	0.5 [3]	0.1				235.4	190.2	23.8		
Raven Industries' EMS unit [1]	17.3	16.5	4.7	17.8	-2.5				13.2 [4]	14.0 [4]	12.9 [4]				53.3	52.1	2.3		
Total/avg.	**506.0**	**535.6**	**-5.5**	**529.1**	**-4.4**										**1,612.3**	**1,558.3**	**3.5**		

[1] Q3 results are for the quarter ended October 31. [2] Operating and net income do not correspond to GAAP results on a stand-alone basis. [3] Segment operating income excluded restructuring expenses of $0.7 million not allocated to business segments. [4] Segment operating income excluded corporate expenses.

Segment operating earnings in Q3 improved from the prior quarter, despite 2% lower sales, because of higher gross margins and a $2.7-million insurance recovery. Compared with the year-earlier quarter, demand increased in defense and aerospace, communications and industrial markets, partially offset by lower sales in computer and medical markets.

IEC Electronics. The company reported that funding for several of its programs in the military/aerospace sector have not been released. IEC anticipates that funding release will be an issue for the December quarter and may extend into the following quarter. This sector represented 56% of sales in fiscal 2011 ended Sept. 30.

The company expects revenue growth from its existing businesses to be between 9% and 14% for fiscal 2012. This outlook is below IEC's long-term goal of 17% annual growth.

Key Tronic. During its fiscal Q1 ended Oct. 1, the company achieved the highest quarterly sales in its history. Gross margin, which dropped to 7% from 9% in the year-ago quarter, was affected by product mix changes as well as expenses associated with several steep new program ramps.

For fiscal Q2, the company expects sales of $75 million to $80 million and EPS of $0.15 to $0.20, both of which suggest sequential increases.

Kimball Electronics Group, a unit of **Kimball International**. September quarter sales decreased 20% year over year as sales to medical and industrial control customers fell. Kimball attributed the decline in medical sales to the expiration of a medical contract, the loss of which accounted for a $38-million drop in medical sales versus the year-earlier quarter. A 12% sequential decline in September quarter revenue was also driven by lower medical and industrial control sales.

Kimball is closing its EMS facility in Wales (UK) as part of a European consolidation effort planned in 2008 and is also shuttering its EMS facility in Fremont, CA.

Nortech Systems. Q3 revenue grew 9% year over year, while nine-month revenue increased by 18%. The company said revenue growth was led by its industrial and medical customers, strongly aided by its two most recent acquisitions. Operating income in Q3 was $420,000, compared with $166,000 in the year-ago period.

Macroeconomic uncertainty has affected Nortech's customer base, most significantly in semiconductor capital equipment. However, demand is increasing from defense customers.

Raven Industries' Electronic Systems Division. Sales for the quarter ended Oct. 31 went down 3% year over year, while operating income was relatively flat. The division continues to see a decline in its avionics-related business. Raven said it can count on this division to be a consistent generator of strong cash flows. It is also getting more internal manufacturing business from Raven's Applied Technology Division.

SigmaTron International. Given the continuing margin pressures in the EMS industry, the company was pleased to report that it remained profitable for fiscal Q2 ended Oct. 31. As the company has been reporting for some time, it is experiencing level revenue with pricing pressures from both its customers and vendors. The company sees this trend continuing for the balance of its fiscal year.

To facilitate the growth of its China operation, SigmaTron recently established a new Chinese entity that will allow it, among other things, to conduct business with both customers and vendors in Chinese currency.

SMTC. While in line with guidance, sales declined as demand reductions and end-of-life programs from certain customers in Q3 resulted in what is expected to be the company's lowest revenue and profit quarter of 2011. During the quarter, the new management team continued with its restructuring plan and has eliminated 11 corporate positions. At the same time, SMTC added 550 direct labor employees to meet increased demand in Q4 and beyond.

For Q4, the company expects revenue of about $69 million, which would amount to sequential growth of 56%. SMTC's guidance for 2012 now calls for revenue of $240 million to $260 million.

Sparton. The company's 13% increase in September quarter sales from a year earlier was driven by Sparton's medical segment, which grew 44% year over year. The impact of the acquisitions of **Delphi Medical's** contract manufacturing business and **Byers Peak** along with post-acquisition growth in both acquired and new customer programs fueled the growth of medical sales. Baked into this growth was a $2.0-million decrease in medical sales to **Siemens Diagnostics**, which recently decided to change to dual sourcing for two of its larger programs with Sparton.

Non-GAAP net income for the September quarter was $1.5 million, up from $1.1 million in the year-ago quarter.

Q3 and Nine-Month Results from Asia

For the first nine months of 2011, a group of seven Asia-based EMS providers grew at a rate that was nearly on par with what their larger counterparts collectively achieved in the period. Combined sales of the seven publicly listed providers based in Asia rose by 19% year over year, slightly below the 20.4% gain made by the 11 largest EMS providers (see Chart 1 on p. 1). But the nine-month growth of the Asia-based group easily bested the collective effort of nine mid-tier and smaller providers based in North America (see table on p. 4). The growth gap between these Asia- and

Q3 and Nine-Month 2011 Results for Seven Publicly Listed EMS Providers Based in Asia (M US$ or %)														
Company (in order of 9-mo. sales)	Head-quarters	Reports in US$	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 net profit	Q2 '11 net profit	Q3 '10 net profit	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net profit	Q1-3 '10 net profit
Fabrinet	Thailand*	yes	186	190	-2	174	7	16	17	15	572	468	22	49	42
Nam Tai Electronics	China	yes	147	148	0	175	-16	1	3	8	457	368	24	6	10
Integrated Micro-Electronics, Inc.	Philippines	yes	158	140	13	104	51	0.5	1	0.3	420	293	43	2	5
Pan-International	Taiwan	no	146	130	12	139	5	(11)	0.2	2	402	356	13	(10)	6
SVI	Thailand	no	88	81	9	64	37	7	8	6	250	176	42	23	17
PCI	Singapore	yes	59	71	-16	63	-6	0.3	2	5	189	154	23	5	7
SMT (Holdings)	Hong Kong	no	38	53	-30	76	-50	(3)	(3)	(2)	146	227	-35	(98)	(4)
Total/avg.			**823**	**813**	**1**	**795**	**4**	**~11**	**~27**	**~33**	**2437**	**2042**	**19**	**~(24)**	**~82**

Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2010 and 2011 data from the US Federal Reserve. Note that total net profit figures are approximations because not all companies follow the same accounting standard. *Fabrinet's manufacturing headquarters are in Thailand.

North America-based providers was more than 15 percentage points. Nine-month sales of the seven Asia-based providers totaled $2.4 billion compared with $2.0 billion in the year-earlier period.

Six out of the seven Asia-based companies generated double-digit increases in their nine-month sales (in US dollars), and five of them grew their sales at rates above 20%. Leading the group were **Integrated Micro-Electronics, Inc.** (IMI) and **SVI** with increases of 43% and 42% respectively. The outlier in the group was **Surface Mount Technology (Holdings)**, whose sales (in US dollars) fell by 35% (table above).

For the first three quarters, a large net loss by SMT (Holdings) dragged the group's bottom line into negative territory. **Pan-International** also sustained a net loss in the period. Only two providers, **Fabrinet** and SVI, were able to raise their net income from a year earlier.

The Asian group rang up Q3 sales of $823 million, up 1% sequentially and 4% year over year. Year-over-year growth rates varied greatly, ranging from -50% at SMT (Holdings) to 51% at IMI. Four companies saw their sales increase from the year-ago quarter, while three experienced sales declines. The range of sequential growth rates, while not as wide, was still substantial (table). Three providers – IMI, Pan-International and SVI – increased their sales from Q2 to Q3.

The group's net income performance in Q3 did not keep up with sales growth, whether the comparison was sequential or year over year. Net income amounted to around $11 million, down from about $27 million in the prior quarter and about $33 million a year earlier. (Net income is approximate because not all companies use the same accounting rules.) Compared with the prior quarter, net income dropped at six out of seven providers.

Some highlights

• In the September quarter, Fabrinet, a provider of optical, electromechanical and electronics manufacturing services, earned non-GAAP net income of $16.6 million, up 7.8% year over year, which was consistent with the company's Q3 sales growth of 7.3% year over year.

For the December quarter, the company has issued limited guidance due to the flooding that affected its facilities in Thailand. Fabrinet expects to generate revenue somewhere above a minimum of about $28 million, which would result if the company obtains no further sales from the facilities that were shut down because of flooding. But on Nov. 29, the company reported that production at its Pinehurst campus was back to normal levels. Production will not resume at Fabrinet's Chokchai campus during the December quarter, and the company acknowledges that it may never again manufacture there. Fabrinet is collaborating with its Chokchai customers to set up their manufacturing lines at its Pinehurst campus. The company anticipates suffering a net loss in the quarter due to the significant decline in revenue and the timing and results of insurance claims by the company.

• IMI attributed the 43% increase in its nine-month revenue to increased turnkey business in China, strong business in the automotive and industrial segments for its Philippine operations, and additional revenues from **PSi Technologies** and IMI's recently acquired operations in Eastern Europe and Mexico. PSi, a power semiconductor assembly and test house, accounted for $61.4 million, or 14.6%, of IMI's total sales for the first nine months, while the acquired operations contributed $25.7 million during August and September. Higher material and direct labor costs, however, caused margins to decline during the first nine months. As a result, net income for the period fell by 67%.

For Q3, sales rose 13% sequentially, but net income dropped 39% due to expenses incurred during the acquisition in Eastern Europe and Mexico.

• At **Nam Tai Electronics**, Q3 gross margin decreased to 5.5% from 10.2% in the year-ago quarter mainly for three reasons. First, box-build products such as Bluetooth headsets and calculators with higher gross margins have been discontinued. The company is narrowing its focus to higher-growth, lower-margin business such as key component assembly for telecom products. Second, increased labor costs, including increases in basic wages since last year, depressed margins in Q3. Third, start-up costs and operating losses continued at Nam Tai's Wuxi, China, facility, which began flex circuit manufacturing and assembly last year.

The company has embarked on a two-phase investment program totaling about $130 million for LCD module manufacturing at two sites in China.

• For the first nine months, gross margin at Pan-International came in at 6.59%, down from 9.32% in the same period last year. Operating margin stood at 0.03% versus 2.9% a year earlier. The company is a vertically integrated EMS provider that can also produce connectors, cables, cable assemblies and bare PC boards.

• **PCI's** sales in the September quarter declined 6.3% year over year due to weaker orders from selected customers. Material content was higher in Q3 than in the year-earlier period, resulting in an increase in material costs. Manufacturing costs increased by 3.3% as a result of higher fixed costs. The sales decline and revenue from products with higher material content caused Q3 gross margin to fall from 12.2% to 8.2%.

• At SMT (Holdings), September quarter revenue dropped 30% sequentially in US dollars (29% in Hong Kong dollars) mainly due to downsizing and a change in sales mix from turnkey to consigned component assembly. Hence, gross margin for the quarter increased to 18.1% from 11.5% in the prior quarter.

Under SMT's reorganization plan, a new investor, **Redbud (Oversea) Holding**, has agreed to pay HK$30 million ($3.9 million) in return for a controlling interest in the company. SMT has started to work with the investor in seeking interim financing. In addition, SMT continues to downsize its operations; at the end of October, the number of employees had shrunk to 3,900 from 4,900 at the end of June. Part of this reorganization plan involves restructuring bank debt owed by SMT.

• SVI's Q3 revenue growth of 37% year over year in US dollars (31% in baht) was driven mainly by the demand for IP video and industrial products. Q3 gross margin was 10.5%, down from 11.2% a year earlier. Gross margin was affected by higher material cost driven by supply chain disruption and a 4% stronger baht compared with the year-ago quarter. In Q3, the company achieved a net profit margin of 8%, although year-over-year net income growth did not keep up with sales growth.

Correction: IMI's Q1 2011 net income was $377,000, whereas Table 1B on page 6 of the August edition mistakenly presented the net income as $1 million rounded off to the nearest million.

Upbeat Forecasts

Macroeconomic headwinds may have settled over North America and Europe, but two new forecasts are upbeat about the EMS markets in the two regions.

In a new EMS study released by the trade association **IPC** (Bannockburn, IL), the EMS market in North America is projected to grow 10.2% in North America this year, well above the sluggish performance of the US economy. What's more, global EMS revenue is predicted to increase by 14.8%. The study includes forecasts through 2015 provided by **New Venture Research** (Nevada City, CA).

The global EMS study, *2010-2011 Analysis and Forecast for the EMS Industry*, presents, among other things, business metrics on the sample of 90 participating EMS operations by region, including North America, Europe and Asia. Also included in the study is a breakdown of sales to eight major end markets by region.

Despite the sovereign debt crisis in Western Europe, a new report forecasts growth for the European EMS business this year. Published by **Reed Electronics Research** (Wantage, UK), the report predicts that sales of the European EMS industry will increase by 6.4% in 2011. But it's no surprise that slower growth is expected in Western Europe than in the low-cost countries nearby. The RER report estimates that EMS revenue will rise by 2.7% this year in Western Europe compared with 9.2% for Central and Eastern Europe and other nearby low-cost countries.

RER expects that revenue in the CEE and Other region will return to 2007 levels by 2012, but sales in Western Europe are unlikely to reach the 2007 mark by 2015.

The CEE and Other region will account for more than 60% of all European electronics production by 2015, up from an estimated 57% at the end of 2010, the firm predicts.

RER estimates that there are more than 720 EMS companies in Europe.

Appearing as a tenth edition, the new RER report is entitled *The European EMS Industry Report 2010-2015*. For more information, go to www.rer.co.uk/publications/sectors/contract_assembly.shtml.

For more on the IPC report, visit www.ipc.org/2010-11-EMS-Market-Report.

Some new aerospace business…**Jabil Defense and Aerospace Services**, a subsidiary of **Jabil Circuit** (St. Petersburg, FL), and **Rockwell Collins** are teaming up to provide in-country manufacturing for Brazil's KC-390 aircraft. Jabil and Rockwell Collins' Brazilian Service Center will produce various systems and subsystems in Jabil's production facilities located in Brazil….**Sanmina-SCI** (San Jose, CA) will manufacture **TrueNorth's** in-cabin telecom equipment for business aircraft at Sanmina-SCI's Ottawa, Ontario, facility….**Bell Helicopter**, a unit of **Textron**, has awarded **Ducommun** (Carson, CA) about $14 million in contracts for the V-22 Osprey military aircraft. The company's **Ducommun LaBarge Technologies** unit will produce electronic assemblies and wiring harnesses for the Osprey.

More new business…**SMTC's** Markham facility in Canada's Ontario province will produce **Enecsys** micro inverters for the Canadian market. This contract enables Enecsys (Cambridge, UK) to meet the domestic content requirement of the Ontario Power Authority's feed-in tariff program for renewable energy projects (see also June, p. 1-2)….Through a subsidiary in Lithuania, **Kitron** (Billingstad, Norway) has landed new orders of about NOK 50 million ($8.4 million) from **ABAX** (Larvik, Norway) for the production of vehicle tracking/trip logging equipment….**Incap** (Helsinki, Finland) has gained a contract from **Valkee** for the manufacture of components of a bright light headset developed by Valkee to treat seasonal affective disorder.

Deals done…Jabil has completed its acquisition of **Telmar Network Technology**, a global provider of aftermarket services (Aug., p. 7-8). …EMS provider **ETK Elektronik** (Skanderborg, Denmark) has acquired **Zoma Electronic's** EMS factories in Frederikssund, Denmark, and Rayong, Thailand. Note that Rayong was not affected by the flooding in Thailand. The acquisition will add 65 employees to ETK's workforce.

*Facility projects…*According to published reports out of Taiwan, **Hon Hai Precision Industry** (Tucheng City, Taiwan) was scheduled to break ground this month on a Kaohsiung, Taiwan, site for cloud computing, software development and the like. …**Flextronics** (Singapore) has expanded its facility in Timisoara, Romania, to include a dedicated medical operation. Also, the company has begun production in Pecs, Hungary, where Flextronics and **Huawei** were said to be cooperating on a new plant, according to two *MTI* reports posted by the *Budapest Business Journal*. (See also Oct., p. 6)….Malaysia's **V.S. Industry**, a Top 50 EMS provider, has opened a facility in Senai, Malaysia, dedicated to producing **Keurig's** single-cup brewers and accessories for export to North America. The provider has invested RM30 million ($9.4 million) in the 20,695-m^2 facility, which includes a production area of 11,333 m^2. Keurig is a subsidiary of Vermont's **Green Mountain Coffee Roasters**.

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