Manufacturing Market™ INSIDER

inside the contract manufacturing industry

Vol. 23, No. 2 February 2013

Another Down Year for M&A

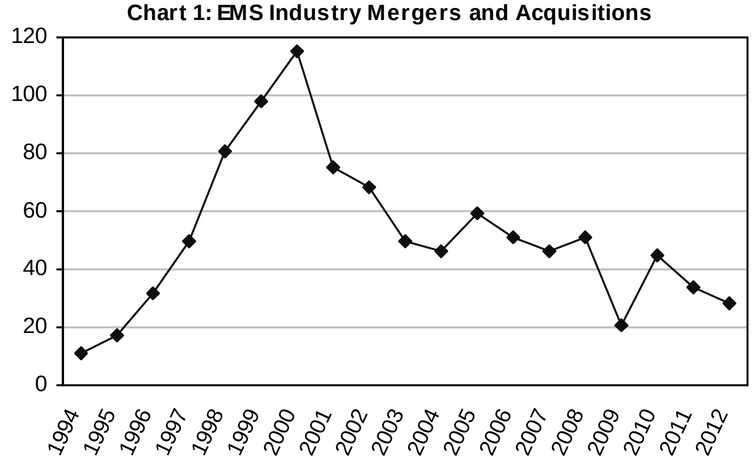
After decreasing in 2011, the number of EMS industry mergers and acquisitions dropped again in 2012. And for the second year in a row, the decline was a double-digit one.

MMI's annual Scorecard, or summary, of EMS industry M&A lists a total of 28 transactions closed in 2012, down 18% from a revised count of 34 in 2011. Except for a spurt in 2010, M&A remains well below pre-recession levels (Chart 1). Now a question arises: Will M&A return to those levels or is the industry seeing the advent of a new normal in M&A activity?

The Scorecard on pages 2 and 3 classifies each of last year's 28 deals in five categories. Note that three transactions fell into two categories. As in 2011, the most popular type of deal in 2012 consisted of one EMS provider acquiring an operation from another provider (marked C on the scorecard). In 2012, there were 18 of these transactions, up 20% from an updated total of 15 in 2011 (Chart 2, p. 3).

All but one of these 18 deals resulted in consolidation. Consolidation also occurred when **Plexus** obtained an EMS business along with OEM assets that **Kontron** divested. (This was also the only deal in the OEM divestiture category.) Adding this deal to the 17 others that eliminated an EMS player yields a total of 18 consolidation deals in 2012. That's up 38% from the year

Chart 1: EMS Industry Mergers and Acquisitions



before (Chart 3, p. 3). The consolidation total was above the 10-year average of 15.3.

Next in popularity was the service or supply chain extension (marked S on the Scorecard). The tally in this category was eight, down 33% from 2011.

Another category captures transactions that result in a new EMS player (marked N on the Scorecard). Three such deals occurred in 2012, down from five in 2011. Despite the maturity of the EMS industry, it still attracts new players.

The largest number of M&A targets were located in Europe, which accounted for 12 deals, or 43% of the total. North America was next with 11 transactions. Asia hosted three transactions, while two were multiregional in nature.

MMI also keeps track of alliances

continued on p. 3

Some articles in this issue

MMI Scorecard: EMS Industry Mergers and Acquisitions in 2012					
Deal Maker	Home Base	Type	Target	Location	Some Details
AirBorn	Georgetown, TX	N	AESCO Electronics	Akron, OH Taunton, MA	AirBorn, an interconnect manufacturer and provider of value-added solutions, acquired AESCO, a contract manufacturer and distributor.
American Computer Development, Inc. (ACDi)	Frederick, MD	C*	Fawn Electronics	Nashville, NC	EMS provider ACDi bought the assets of Fawn, another EMS provider, from Fawn Industries.
Anuva Manufacturing Services	West Melbourne, FL	C*	Coast Electronic Manufacturing	Rockledge, FL	
API Technologies	Orlando, FL	C*	C-MAC Aerospace Limited	Great Yarmouth, UK	API, which counts EMS as one of its activities, acquired a provider of high-reliability systems, modules and components for £20.95 M. C-MAC's FY 2011 sales were £22.5 M.
Artaflex	Markham, Ontario, Canada	C*	Adeptron Technologies	Markham, Ontario, Canada	The two EMS companies combined in a reverse takeover of Adeptron by Artaflex. Pro forma revenue for the combined company was $61.7 M for FY 2011 ended 6/11.
Asteelflash	Paris, France	C*	Catalyst Manufacturing Services	Owego, NY Raleigh, NC Tijuana, Mexico	Deal expanded Asteelflash's presence in North America.
		C*	EN ElectronicNetwork	Bornheim-Hersel, Germany	Acquired Germany's second largest EMS provider with 700 employees and 2011 sales of $181 M. Asteelflash adds sites in Germany plus a location in the Czech Republic and Romania along with access to new regional accounts and more business in established segments.
Balmoral Funds	Los Angeles, CA	N	Simclar, Inc.	Hialeah, FL; Ozark, MO Brownsville, TX Matamoros, Mexico	Renamed Concurrent Manufacturing Solutions, the acquired operations had served as the North American arm of Simclar Group, which become insolvent in 2011.
Celestica	Toronto, Canada	S	D&H Manufacturing Company	Fremont, CA	Acquired a manufacturer of machined components and assemblies, primarily for the semiconductor capital equipment market. Final price was $71.0 M. D&H generated about $80 M in annual sales and employed about 350.
Connect Group	Kampenhout, Belgium	C*	Halin Group	Veldhoven, the Netherlands	Consisting of three companies, Halin employed about 120 people and had annual sales of about 20 M euros. Deal strengthens Connect's position in the Dutch market.
Creation Technologies	Burnaby, BC, Canada	C*	Aisling Industries	El Centro, CA Mexicali, Mexico	Creation expanded into Mexico with this acquisition. Aisling's manufacturing operations are in Mexicali, where employees totaled over 200.
Electronic Manufacturing Solutions	Thatcham, UK	S	Applied Assembly	Southampton, UK	EMS provider acquired a supplier of cable and electromechanical assemblies.
éolane	Le Fresne sur Loire, France	C*	Elcoteq Tallinn	Tallinn, Estonia	Acquired the Tallinn operation that was formerly part of Elcoteq, which was declared bankrupt in 2011.
		C*	Lagassé Communications & Industries operation	Douarnenez, France	Took on 182 people from the LCI operation, which offers EMS expertise in secure radio communication systems and provides aftermarket support.
		C*	Lagassé Communications & Industries operation	Berlin, Germany	Acquired EMS operation specializes in secure mobile radio systems and applications in different wireless technologies. Operation employed 47 people.
Flextronics	Singapore	C*, S	Stellar Microelectronics	Valencia, CA	Acquired an EMS provider specializing in advanced packaging and operating from a 140,000-sq ft facility. Stellar's annual run rate was just under $100 M.
		C*, S	Saturn Electronics & Engineering	Rochester Hills, MI	Deal will expand Flextronics' automotive offering. A supplier of EMS, wiring and automotive solenoids, Saturn reported more than $300 M in annual revenue. It had two production sites in Mexico, one in Michigan and one in China.
H.B. Fuller Company	St. Paul, MN	N	Engent	Norcross, GA	A supplier of adhesives to the electronics industry purchased a provider of microelectronics development, testing and manufacturing services.
Inission	Munkfors, Sweden	C*	MikroMakarna	Pajala, Sweden	MikroMakarna had sales of 8 M euros and 36 employees. Inission expected its annual sales to exceed 35 M euros after completing the deal.

C = CM acquiring or merging with CM operation. O = OEM divesting OEM operation. OC = OEM divesting CM unit.
S = service or supply chain extension. N = new player. *Consolidation deal.

MMI Scorecard: EMS Industry Mergers and Acquisitions in 2012					
Deal Maker	Home Base	Type	Target	Location	Some Details
PartnerTech	Vellinge, Sweden	S	Aerodyn	Karlskoga, Sweden	PartnerTech aims to broaden its customer base within its machining business and expand its defense and maritime offering. Aerodyn is a CM for ship components.
Plexus	Neenah, WI	O, OC*	assets of Kontron subsidiary	Penang, Malaysia	Acquired Kontron assets for $35.2 M, including a $3 M premium, and expected to take on about 800 Kontron employees. A facility was not included. Deal should bring Plexus about $100 M a year in revenue for two years. A contract manufacturing business also came with the deal.
Season Group	Hong Kong	S	DSP Design	Chesterfield, UK	Acquired a provider of embedded computer systems.
SigmaTron International	Elk Grove Village, IL	S	assets of Spitfire Control	Carpentersville, IL Chihuahua, Mexico Vietnam	Acquisition of an electronic controls OEM will expand SigmaTron's footprint and allow SigmaTron to offer design services.
SMTC	Markham, Ontario, Canada	C	joint-venture factory	Dongguan, China	SMTC bought out Alco Electronics' share in a joint-venture factory located in China.
		C*	Seksun Array Electronics	Suzhou, China	Paid about $2.0 M for an EMS provider that was part of Seksun Group, a metal components manufacturer. Deal will support the growth of new business in the region.
Sparton	Schaumburg, IL	C*	Onyx EMS	Watertown, SD Minneapolis, MN	Sparton purchased Onyx from Everett Smith Group for $43.25 M in cash, subject to adjustments. Acquisition was expected to add $50 M in annual revenue. Onyx is primarily a medical CM, but also serves other markets.
Stadium Group	Hartlepool, UK	S	IGT Industries	Eastleigh, UK	Acquired a maker of intelligent displays for a maximum price of £4.2 M in cash. Its FY 2011 sales were £5.0 M.
TT electronics	Weybridge, UK	C*	ACW Technology assets	Southampton, UK Tonypandy, UK	Bought the majority of the UK business and assets of ACW, which was in administration. Acquired ACW's two UK plants. Also gained associated production from ACW's China unit. Paid £3.1 M, including repayment of debt. The deal will add over £25 M in revenue in 2013.
C = CM acquiring or merging with CM operation. O = OEM divesting OEM operation. OC = OEM divesting CM unit. S = service or supply chain extension. N = new player. *Consolidation deal.					

Chart 2: Deal Breakdown 2012 Versus 2011

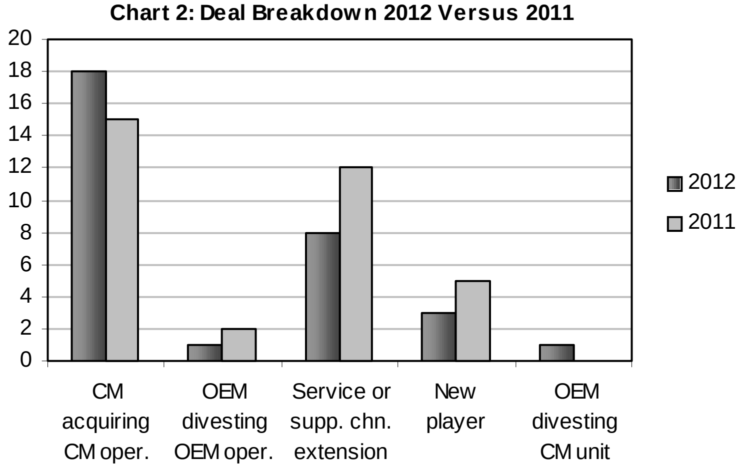
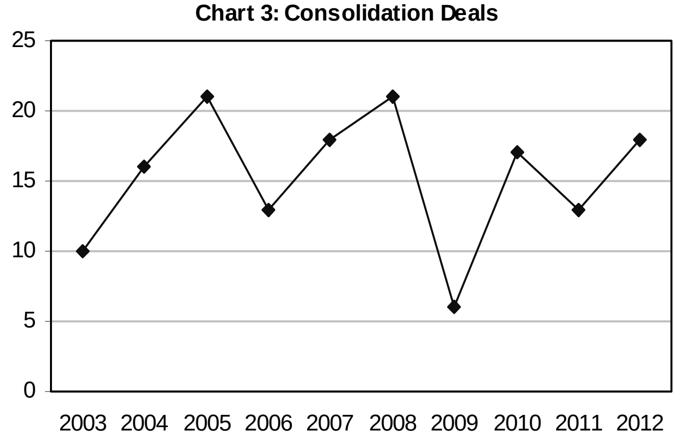


Chart 3: Consolidation Deals



and equity partnerships, which are an alternative to M&A deals. In 2012, there were 17 of these partnerships, down slightly from 18 in the prior year (see table, p. 4).

Note that the M&A Scorecard does not include private equity deals or divested assets sold to industry outsiders.

Results

Forgettable Year for US-Traded Group

Combined 2012 sales for the six largest US-traded EMS providers fell by 8.0% from a year earlier, a result that can be blamed on three things: end market weakness; the difficulties of **RIM**, a major customer of the EMS industry; and **Flextronics'** exit from the ODM PC business. The decline was slightly less than *MMI's* projection of -8.5% (Nov. 2012, p. 5). Revenue for the group of six totaled $59.48 billion, down from $64.62 billion in 2011.

EMS Industry Alliances and Equity Partnerships in 2012

Company	Home Base	Partner	Location	Some Details
Asteelflash	Paris, France	Varitron Technologies	Saint-Hubert, Quebec, Canada	Asteelflash customers gain access to a Canadian provider, while Asteelflash can support Varitron customers who need production outside Canada.
		Adetel Group	France	Asteelflash and engineering firm Adetel decided to form a joint venture to offer a solution from product design to turnkey manufacturing.
Bittele Electronics	North York, Ontario, Canada	XPtronics	Markham, Ontario, Canada	Bittele, which provides PCB fab and assembly in China, and XPtronics, a prototype/low-volume shop, are jointly offering a quick-turn assembly service for North America.
ESCATEC	Penang, Malaysia	Surface Mount Technology Corp.	Appleton, WI	Alliance can provide local support and manufacturing for US and European customers along with mass production in ESCATEC's Malaysia facilities.
Firstronic	Grand Rapids, MI	DornerWorks	Grand Rapids, MI	EMS provider Firstronic teamed up with design firm DornerWorks to combine their offerings.
		Flight Systems Electronics Group	Lewisberry, PA	Alliance with a remanufacturing firm created a joint offering of manufacturing plus remanufacturing and warranty support.
Flextronics	Singapore	Sevcon	Southborough, MA	Flextronics Automotive and Sevcon, a controls specialist, together will provide hybrid and electric vehicle drivetrain systems and conduct joint marketing and sales.
Foxconn International Holdings (see Hon Hai)	Hong Kong-listed	Ways Technical	Taiwan	FIH, Hon Hai's majority-owned handset subsidiary, and Ways, which specializes in surface coatings for handheld devices, formed a joint venture for making plastic molds for handhelds.
Hon Hai Precision Industry (Foxconn)	Tucheng City, Taiwan	Brightpoint	Indianapolis, IN	Hon Hai's Foxconn Global Services Division and Brightpoint, a provider of lifecycle services to the wireless industry, formed an alliance to furnish aftermarket services in the EMEA region.
		BMW	Germany	Reportedly, the two companies were to form an alliance for the development of automotive electronics.
		Woodman Labs	California	Invested $200 M in a maker of wearable and gear-mountable cameras. Reportedly, Foxconn wanted image-capture technology and thought it would be able to manufacture for Woodman.
Jabil	St. Petersburg, FL	R.H. Technologies	Nazareth Illit, Israel	RH's plant in Nazareth Illit will serve as Jabil's manufacturing arm in Israel.
Kimball Electronics Group	Jasper, IN	HCL Technologies	Noida, India	Kimball will use HCL to supplement Kimball's in-house design services.
OnCore Manufacturing Services	San Jose, CA	Proven Process Medical Devices	Mansfield, MA	Companies formed a medical product design alliance.
Sanmina	San Jose, CA	Adacel Systems	Orlando, FL	Sanmina entered into a marketing agreement with Adacel, whose speech recognition system will be at the heart of Sanmina's Voice Initiated Command Execution system initially for a new version of the Boeing Apache helicopter.
SMTC	Markham, Ontario, Canada	FICOSA International	Barcelona, Spain	SMTC will offer its customers the expertise of Idneo, a product design subsidiary of FICOSA. FICOSA is an SMTC customer and a supplier of automotive systems and parts.
Thames Gateway Manufacturing Centre	Greater London, UK	Partner Electronics	Silverstone, UK	EMS provider Thames and design firm Partner Electronics formed a partnership for development and production.

Sales drops at three providers outweighed gains at the other three companies. Revenue fell at **Celestica**, **Sanmina** and **Flextronics**, with the latter exerting by far the biggest drag, a revenue decline of 17.2% amounting to $5.1 billion. **Benchmark Electronics**, **Plexus** and **Jabil** achieved annual increases, led by Benchmark's growth of 9.6% (Table 1, p. 5).

Q4 sales for the group of six providers added up to $14.92 billion, down 7.6% year over year. This marks the fifth straight quarter of decreased revenue on a year-over-year basis. However, revenue topped *MMI's* estimate of $14.56 billion for the quarter by some $360 million as four out of six providers reported revenue above the midpoint of their guidance. (*MMI* bases its sales estimates on the midpoint of guidance.)

Year-over-year sales performance in Q4 varied widely. At the high end, Benchmark enjoyed a double-digit increase in revenue, while at the low end Flextronics' sales sank 18% (Table 1).

Compared with the prior quarter, group revenue in Q4 rose slightly by 0.3%, which was 240 basis points

Table 1: Q4 and 2012 Results for the Six Largest US-Traded EMS Providers (M US$ or %)																			
Company	Q4 '12 sales	Q3 '12 sales	Qtr.-qtr. chg.	Q4 '11 sales	Yr.-yr. chg.	Q4 '12 gross marg.	Q3 '12 gross marg.	Q4 '11 gross marg.	Q4 '12 oper. marg.	Q3 '12 oper. marg.	Q4 '11 oper. marg.	Q4 '12 net inc.	Q3 '12 net inc.	Q4 '11 net inc.	2012 sales	2011 sales	Yr.-yr. chg.	2012 net inc.	2011 net inc.
Flextronics	6,123.3	6,174.8	-0.8	7,469.3	-18.0	4.0	5.9	5.2	0.5 [1]	2.7 [1]	1.7 [1]	25.0 [2]	150.5 [2]	102.2 [2]	24,644.1	29,751.1 [3]	-17.2	428.7 [2]	499.4 [2]
Jabil [4]	4,637.0	4,338.1	6.9	4,326.8	7.2	7.6	7.3	7.9	3.7	3.3	3.9	105.8	82.8	112.9	17,462.2	16,763.5	4.2	387.6	387.3
Sanmina	1,494.9	1,578.6	-5.3	1,502.4	-0.5	6.5	7.3	7.3	2.1	2.0	2.6	0.6	164.2	8.6	6,085.9	6,442.4	-5.5	172.3	49.2
Benchmark	633.9	610.8	3.8	559.1	13.4	7.2	7.3	5.2	3.9	4.1	0.0	18.1	19.3	2.9	2,468.2	2,253.0	9.6	56.6	52.0
Plexus	530.5	594.8	-10.8	529.7	0.2	9.6	9.5	9.8	4.0	4.6	4.5	16.6	0.7	17.9	2,307.6	2,195.1	5.1	60.8	82.1
Subtotal/avg.	**13,419.6**	**13,297.1**	**0.9**	**14,387.3**	**-6.7**	**5.9**	**6.8**	**6.4**	**2.1**	**3.0**	**2.5**	**166.1**	**417.5**	**244.5**	**52,968.0**	**57,405.1**	**-7.7**	**1,106.0**	**1,070.0**
Celestica	1,496.2	1,575.4	-5.0	1,753.4	-14.7	6.7	6.9	7.0	0.2	2.0	3.2	7.2	43.7	69.2	6,507.2	7,213.0	-9.8	117.7	195.1
Total/avg.	**14,915.8**	**14,872.5**	**0.3**	**16,140.7**	**-7.6**										**59,475.2**	**64,618.1**	**-8.0**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. With the exception of sales, GAAP and IFRS results are not necessarily comparable. [1] Intangible amortization was subtracted from reported operating income. [2] Net income includes discontinued operations. [3] Q1 '11 sales were reduced by an estimated $10.7 million for a discontinued business. [4] For Jabil, Q4 '12 corresponds to the quarter ended Nov. 30.

higher than what *MMI* had projected (Nov. 2012, p. 5). Sequential growth at two providers – Jabil and Benchmark – offset sequential decreases at the other four companies (Table 1).

Five out of six providers follow GAAP accounting rules, while the sixth, Celestica, adheres to IFRS reporting standards. For the five GAAP companies, GAAP gross margin in Q4 was a combined 5.9%, down 90 basis points sequentially and 50 basis points year over year. Three out of the five GAAP providers saw their gross margins fall from the prior quarter, while four of them endured margin declines from the year-earlier period. Jabil and Plexus improved their gross margins from the prior quarter, while only Benchmark was able to raise its margin versus a year earlier (Table 1).

Together, the five companies produced a GAAP operating margin of 2.1%, down 90 basis points sequentially and 40 basis points year over year. The biggest blow to the collective operating margin in Q4 came from Flextronics' restructuring charges of $102.7 million (Jan., p. 6). Jabil and Sanmina saw their GAAP operating margins go up sequentially, and once again Benchmark was the sole provider with a year-over-year margin gain (Table 1). As for the lone IFRS reporting company, Celestica, its IFRS operating margin in Q4 was only 20 basis points above zero.

GAAP net income for the five providers in Q4 amounted to $166.1 million, or 1.2% of sales. Compared with the prior quarter, net income fell sharply by 60.2% in contrast with a collective sales gain of 0.9% versus the same period. Flextronics' Q4 restructuring charges played a major role in the sequential decline as did Sanmina's Q3 tax benefit of $159 million. (Net income results also included Flextronics' discontinued operations.)

GAAP net income rose sequentially at both Jabil and Plexus.

On a year-over-year basis, GAAP net income for the subgroup dropped by 32.1%, compared with a sales decline of 6.7%. Net margin was down 50 basis points year over year, as net income fell at four out of five companies (Table 1). Benchmark was the only provider to report a net income gain.

For the full year 2012, net income for the GAAP companies increased despite lower sales. Last year, their GAAP net income totaled $1.11 billion, up 3.3% from 2011. By contrast, combined 2012 revenue for the five providers dropped 7.7%. Their composite net margin for 2012 was 2.1%. Annual net income rose at Sanmina and Benchmark, stayed flat at Jabil, and declined at Flextronics and Plexus. In addition, IFRS net income for 2012 went down from a year earlier at Celestica.

Q4 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. Fourth-quarter sales of $634 million exceeded the high end of guidance of $580 to $610 million, and non-GAAP EPS of $0.33 for Q4 surpassed the top end of guidance of $0.26 to $0.31. Sales grew 4% sequentially and 13% year over year, while non-GAAP EPS increased 6% sequentially and 94% year over year. The company earned GAAP net income of $18.1 million versus $19.3 million in the prior quarter and $2.9 million a year earlier. Included in GAAP results for Q4 was a net Thailand flood-related recovery of $2.8 million.

Non-GAAP operating margin came in at 3.7%, unchanged from Q3 but up from 1.2% in the year-ago period. Benchmark said it would have achieved its target margin of 4% were it not for an unfavorable revenue mix and an increased level of new program ramps.

Computing revenue rose about 14% quarter to quarter, primarily from strong demand for customers' products, which was better than expected. Medical sales grew 10% sequentially, and industrial control revenue rose as well. Telecom sales dropped 7% from the prior quarter, consistent with the overall marketplace, and test and instrumentation remained weak.

In Q4, Benchmark generated $77 million in cash flow from operations.

Sanmina. For its fiscal Q1 ended Dec. 29, 2012, revenue of $1.49 billion fell 5% from the prior quarter and was roughly flat versus the year-earlier period. Non-GAAP EPS was $0.29, down 37% sequentially and but up 4% year over year. The company fell short of its guidance for both revenue ($1.50 to $1.55 billion) and non-GAAP EPS ($0.31 to $0.37).

GAAP net income amounted to $621,000, or $0.01 a share, compared with $8.6 million, or $0.10 a share, in the year-ago quarter. One-time charges of about $5 million for a distressed customer and $14.9 million in connection with debt redemption were partly offset by a gain of $4 million from the sale of a building.

Non-GAAP gross margin came in at 6.8%, down 60 basis points sequentially and 50 basis points year over year. The company's Integrated Manufacturing Solutions segment produced a non-GAAP gross margin of 5.8%, down 70 basis points sequentially, while the Components, Products and Services segment turned in a margin of 9.6%, down 80 basis points sequentially. Overall, non-GAAP operating margin was 2.8%, down 70 basis points sequentially and 50 basis points year over year.

In the company's December quarter, cash flow from operations totaled $97 million, with free cash flow at $78 million.

Compared with the prior quarter, demand was disappointing for all end market segments except for multimedia. Communications Networks, Computing & Storage and Defense/Industrial/Medical were sequentially down 12%, 10% and 8% respectively, while Multimedia rose 46%.

Projections

Weak Start in Q1

For an important sector of the EMS industry, first-quarter projections are not encouraging. *MMI* estimates that combined Q1 sales for the six largest US-traded EMS providers will total $13.5 billion, down 9.8% both sequentially and year over year. The group of six providers now has a tall order for the rest of the year: grow sales fast enough to not only wipe out the Q1 decline but also finish the year with an annual growth rate that won't be disappointing. Chances are the group won't dig itself out of the 9.8% year-over-year hole in a single quarter. That would take a Q2 growth rate of at least 10% year over year, probably too much of a rebound to expect in a single quarter. So hopes for the year will likely hinge on the second half.

On a year-over-year basis, only **Jabil** is projected to grow in Q1, which for Jabil is the quarter ending February 2013. The others are expected to see sales declines ranging as high as 18.7% at **Celestica** and 19.2% at **Flextronics** (Table 1A).

Revenue for each provider was estimated by selecting the midpoint of its Q1 sales guidance.

Typically, Q1 is a seasonally weak quarter for the group, but the 9.8% sequential drop estimated for Q1 2013 is somewhat worse than the sequential declines of 7.5% for Q1 2012 and around 8.3% for Q1 2011 (the latter number is not exact because it includes operations no longer part of Flextronics).

According to *MMI's* estimates, just one provider, **Plexus**, will exhibit sequential growth in Q1. Among the five others, three are expected to experience single-digit declines, and two are projected to endure double-digit drops (Table 1A).

Plexus is also the only provider whose Q1 outlook suggests an increase in adjusted EPS from the prior quarter. The increase would be 12% at the midpoint of EPS guidance. Four providers expect that their adjusted EPS will decrease sequentially, given their guidance. In three of those cases – Benchmark, Celestica and Flextronics – the sequential decline would be greater than 40% at the midpoint of EPS guidance. At the fourth provider, Jabil, the decline would be 11% at the

Table 1A: Q1 2013 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q1 sales guidance	Q1 mid-point	Q4 '12 sales	Qtr.-qtr. estim. change	Q1 '12 sales	Yr.-yr. estim. chg.	Q1 guidance adjusted EPS* $	Q1 EPS midpoint $	Q4 '12 adjusted EPS* $	EPS Q-Q chg. at midpoint	Q1 '12 adjusted EPS* $	EPS Y-Y chg. at midpoint
Flextronics	5.0 - 5.3	5.15	6.12	-15.9%	6.37	-19.2%	0.11 - 0.15	0.13	0.22	-41%	0.24	-46%
Jabil**	4.3 - 4.5	4.4	4.64	-5.1%	4.24	3.9%	0.50 - 0.58	0.54	0.61	-11%	0.58	-7%
Sanmina	1.40 - 1.45	1.425	1.49	-4.7%	1.46	-2.6%	0.26 - 0.32	0.29	0.29	0%	0.27	7%
Celestica	1.325 - 1.425	1.375	1.50	-8.1%	1.69	-18.7%	0.11 - 0.17	0.14	0.25	-44%	0.25	-44%
Plexus	550 M - 580 M	0.565	0.53	6.5%	0.57	-1.5%	0.50 - 0.55	0.53	0.47	12%	0.56	-6%
Benchmark	530 M - 560 M	0.545	0.63	-14.0%	0.59	-8.2%	0.17 - 0.21	0.19	0.33	-42%	0.25	-24%
Total/avg.		**13.46**	**14.92**	**-9.8%**	**14.93**	**-9.8%**						

Q1 2013 estimates equal the midpoint of Q1 guidance. *Adjusted EPS may not be comparable from company to company.
**Q1 2013 data correspond to the quarter ending February 2013.

midpoint. No inferences can be drawn from **Sanmina's** guidance, but at the midpoint adjusted EPS would be flat versus the prior quarter (Table 1A).

Compared with the year-earlier quarter, Benchmark, Celestica, Flextronics and Plexus expect adjusted EPS to fall, based on their outlook. At the midpoint of guidance, the EPS declines would be 44% and 46% at Celestica and Flextronics respectively, 24% at Benchmark, and 6% at Plexus. Jabil's guidance implies an expectation that adjusted EPS will be less than or equal to the year-earlier value, while adjusted EPS would be down 7% at the midpoint of guidance. No conclusions can be reached from Sanmina's guidance, but at the midpoint adjusted EPS would be up 7% year over year (Table 1A).

Forecasts from IDC and IHS

Market research firms **IDC** and **IHS** have released their latest forecasts for contract manufacturing revenue from EMS and ODM activities. IDC has the contract manufacturing space growing from $338.9 billion in 2011 to $454.3 billion in 2016 (Table 1B), as IHS estimates that market size will increase from $368.7 billion in 2011 to $451.9 billion in 2016 (Table 2B). The IDC forecast corresponds to a five-year CAGR (compound annual growth rate) of 6.0%, while the IHS numbers yield a somewhat lower CAGR of 4.2%.

Still, both firms are forecasting mid single digit growth for contract manufacturing sales this year. IDC expects that this outsourcing market will see 5.9% growth in 2013, and IHS estimates 4.5% growth. In the IDC forecast, the contract manufacturing market will increase to $372.9 billion in 2013 from $352.2 billion in 2012. IHS puts the market size at $404.5 billion in 2013, up from $387.0 billion last year.

According to the IDC forecast, EMS sales will increase 5.6% this year to $229.4 billion from $217.2 billion in 2012. In addition, IDC expects that EMS business will grow somewhat faster next year at a 7.8% clip, resulting in 2014 sales of $247.3 billion. Growth in 2015 and 2016 is forecasted to be 7.3% and 7.0% respectively. By the end of the forecast period in 2016, EMS revenue will reach $283.9 billion for a five-year CAGR of 6.3%. That is slightly higher than the 6.0% CAGR that IDC is projecting for the entire contract manufacturing space (Table 1B).

As for the ODM sector, IDC estimates that ODM sales will rise from $130.1 billion in 2011 to $170.4 billion in 2016, corresponding to a CAGR of 5.5%. The ODM CAGR is 80 basis points below the EMS rate. However, for 2013 IDC is predicting that ODM revenue will increase by 6.3%, 70 basis points faster than projected EMS growth. According to IDC, ODM sales will hit $143.5 billion this year, up from $135.0 billion in 2012 (Table 1B). The ODM share of the contract manufacturing market will shrink slightly over the forecast period from 38.4% to 37.5%, IDC estimates.

Yet another forecast has come to light. **TechNavio**, the syndicated research wing of **Infiniti Research**, is forecasting a contract manufacturing CAGR of 5.74% from 2012 to 2016.

Table 1B: Worldwide Contract Manufacturing Revenue Forecast, ($B), 2011-2016

	2011	2012	2013	2014	2015	2016	CAGR
EMS	$208.8	$217.2	$229.4	$247.3	$265.4	$283.9	6.3%
Growth	13.6%	4.0%	5.6%	7.8%	7.3%	7.0%	
ODM	$130.1	$135.0	$143.5	$152.4	$162.4	$170.4	5.5%
Growth	3.0%	3.8%	6.3%	6.3%	6.5%	5.0%	
Total contract mfg.	$338.9	$352.2	$372.9	$399.8	$427.7	$454.3	6.0%
Growth	9.3%	3.9%	5.9%	7.2%	7.0%	6.2%	

Source: IDC, 2013

Table 2B: Worldwide Outsourced Manufacturing Revenue Forecast, ($B)

2011	2012	2013	2014	2015	2016	CAGR
$368.7	$387.0	$404.5	$419.6	$435.4	$451.9	4.2%*

Forecast by IHS iSuppli Research, February 2013. *CAGR calculated by MMI.

News

Jabil to Acquire Nypro

Jabil (St. Petersburg, FL) has entered into an agreement to purchase **Nypro** (Clinton, MA), a global plastics manufacturer with $1.2 billion in 2012 revenue, for a price of $665 million, subject to adjustments. Contingent upon a number of conditions, the deal is expected to close in Jabil's fiscal Q3 ending May 2013.

"The combination with Nypro will extend Jabil's materials manufacturing capabilities into the healthcare and consumer packaging markets as well as add depth to our consumer electronics business," said Tim Main, chairman and CEO of Jabil.

Founded in 1955, employee-owned Nypro operates 20 manufacturing locations in 10 countries and has about 12,000 employees.

Adding Nypro will significantly expand the size of the total market that

Jabil can address. The company will gain entry into a rigid plastic packaging market worth $140 billion and a healthcare disposables and consumables space valued at $65 billion. With regard to Jabil's business plan for healthcare, Main believes the prospective deal "advances our clock three to four years." According to Jabil, the deal will position it as the number-one healthcare provider. Acquiring Nypro also reflects Jabil's strategy to grow its Diversified Manufacturing Services segment aggressively.

Meanwhile, Jabil has made another move within its DMS segment – an alliance with **UPS**. Jabil Aftermarket Services and UPS's logistics and distribution business unit will together provide global reverse logistics services.

*Deal done…*Contract manufacturer **HANZA** (Stocksund, Sweden) has acquired cable manufacturer **Alfaram**, which operates factories in Finland, Slovakia and China and employs some 150 people.

Some new business...China Daily's website reported that **Hon Hai Precision Industry** (Tucheng City, Taiwan) is making 60-in. TVs under the **RadioShack** brand for sale in China through two retail channels including Hon Hai's **CyberMart** unit….**Integrated Micro-Electronics Inc.** (Laguna, Philippines) will be manufacturing HVAC and blower units for **Japan Climate Systems** at IMI's Guadalajara, Mexico, plant. The units are intended for **Mazda** cars….**CTS Electronics Manufacturing Solutions** (Lisle, IL) will manufacture all of **Qualstar's** tape library products and related assemblies in Moorpark, CA….**CybAero**, a Swedish maker of unmanned helicopters, has chosen to outsource all production to **PartnerTech** (Vellinge, Sweden)….The Suzhou, China, plant of **TT electronics integrated manufacturing services** is providing manufacturing services for a system used to test avionics equipment of China's C919 aircraft project. This business came from **AVIAGE Systems**.

California facility investments... **Flextronics** (Singapore) has invested $12 million in its Product Innovation Center in Milpitas, CA, and plans to invest another $20 million in the center in the coming months….**OnCore Manufacturing** (San Jose, CA) has opened its first medical center of excellence at its Fremont, CA, facility…. EMS provider **NBS** (Santa Clara, CA) plans to move its manufacturing headquarters to a new facility of about 60,000 ft^2 in Milpitas, CA. The new facility will offer about 50% more space for assembly and test operations.

*Hon Hai eyeing Japan…*According to published reports, Hon Hai plans to make a large R&D investment in Japan.

*Facility closing…*Flextronics plans to shutter its facility in Creedmoor, NC. The company said this decision stems from its plan to optimize and streamline its footprint in the region.

People on the move… OnCore Manufacturing has promoted COO Sajjad Malik to president and CEO in place of Dan Perez, who is retiring.

Editor and Publisher: John Tuck
Circulation Director: Ann Connors
Board of Advisors: Michael Thompson, CEO, I. Technical Services; Ron Keith, CEO, Riverwood Solutions; Andy Leung, CEO, VTech Communications Ltd.

Manufacturing Market Insider is a monthly newsletter published by JBT Communications, 43 Summit Ridge, Burlington, VT 05401-3911. Phone (802) 651-9334. Fax (802) 651-9336.
 ISSN 1072-8651

E-mail: jbt@mfgmkt.com
Web site: www.mfgmkt.com