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MMI Ranks the 25 Largest Providers in Outsourcing

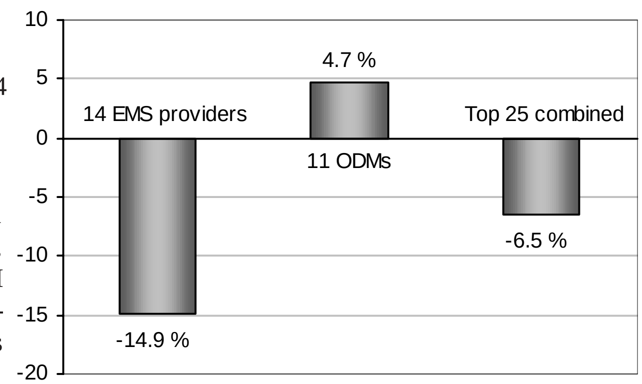
Group sales declined by 6.5% in 2009

When *MMI* ranked the 25 largest providers in outsourcing by 2009 sales in U.S. dollars, several things stood out. First, ODMs in the group managed to pull off an overall sales increase, resulting in a better-than-expected single-digit decline for the Top 25 last year. Second, the gap between ODM and EMS growth widened in 2009 within the Top 25. Third, some important changes in the Top 25 order occurred. Fourth, the addition of three EMS providers meant that the EMS side was once more in the majority of the Top 25. Finally, Taiwan-based companies increased their already commanding share of Top 25 revenue.

After 2009 sales were compiled for the 25 largest providers in outsourcing, their combined performance for 2009 did not look as bleak as one might have expected given the severity of the global downturn. Indeed, Top 25 sales declined by 6.5% in 2009, well above a blended forecast that called for a 12.5% drop in outsourcing revenue (Feb., p. 7). Top 25 sales totaled $234.1 billion for 2009, down from $250.5 billion the year before.

The Top 25 decline would have been more severe had it not been for the contribution of the 11 ODMs that made the 2009 list. Their combined revenue grew by 4.7% (in U.S. dollars) last year. In contrast, aggregate sales for the 14 EMS providers fell by 14.9% in 2009 (Chart 1). Thus, the spread between the ODM and EMS rates was 19.6%, showing that the ODM model, relying on markets such as notebooks and LCD TVs, was more resilient during the recession than the more diversified EMS model was. The EMS-ODM growth gap within the Top 25 was far greater than in the previous three years when the ODM advantage ranged from 4.9% to 5.9%. This pronounced widening of the growth gap in 2009 signified greater share gains by ODMs last year.

Chart 1: 2009 Growth Percentages in US$



As evidence of ODM share gains, ODMs in the Top 25 accounted for 47.9% of group sales in 2009, compared with 44.0% of sales the year before. This increase becomes all the more significant when you realize that the 2009 Top 25 contains three fewer ODMs than in 2008 (Chart 2, p. 3).

In 2009, the Top 25 growth rate declined for the second year in a row. The 2009 rate of -6.5% followed the prior year's 9.8%, which represented 24 companies (2008 sales growth was not applicable in one case.) Both the 2009 and 2008 rates departed from the results of the previous five years (Chart 3, p. 3). Yet the average growth

Some articles in this issue

Cover story......................................1
The EMS-ODM growth gap widened within the Top 25.

Hon Hai Boosts Q1 Results for Top 11 in EMS..................4
Double-Digit Growth Estimated for First Half....................6
New IDC Forecast..................................6
Sanmina-SCI To Buy BreconRidge......................7

rate over the last seven years still equals 16.2%, despite the slide of the last two years. Questions now arise: Will future years return to this average? Or do 2008 and 2009 presage a new norm of lower growth?

The Top 25 providers in outsourcing appear in Table 1. The 2009 standings, based on revenue for the year, reveal a new order in the outsourcing space. While **Hon Hai Precision Industry** retained its virtually unassailable number-one position, **Quanta Computer** overtook **Flextronics** for second place. With Flextronics dropping to third, **Compal Electronics** held onto fourth position. **Wistron** and **Pegatron/Unihan** switched places from 2008, as Wistron moved up one rung to fifth, and Pegatron/Unihan correspondingly moved down to sixth. Likewise, **Inventec** and **Jabil Circuit** exchanged positions, with Inventec taking over seventh from Jabil, which landed in eighth. Completing the top 10 were **TPV Technology** and **Celestica** in ninth and tenth place respectively, the same positions they held for 2008.

Three contract manufacturers made the greatest advance in the 2009 standings from the year before. ODMs **AmTRAN** and **Ability Enterprise** and EMS provider **Plexus** each rose three positions from 2008 to 2009.

In 2009, sales declines made it easier to join both the top 10 and the Top 25. To be ranked in the top 10, a contract manufacturer needed a minimum of $6.09 billion in sales, which was $1.59 billion lower than the 2008 cutoff. Membership in the outsourcing Top 25 required 2009 sales of at least $850 million, compared with a 2008 minimum of $1.06 billion (May 2009, p. 2). The Top 25 cutoff reached its peak in 2008 and last year returned to within $20 million of its 2006 level (Chart 4, p. 3).

The 2009 Top 25 includes three EMS providers that did not show up on the 2008 list. They are Asia-based **Beyonics Technology** and **SIIX** and Europe's **Zollner Elektronik**. Both SIIX and Zollner are returnees, having made the 2007 list, while Beyonics is a newcomer. Three ODMs disappeared from the 2009 list. Two dropped off because of sales declines, and a third was reclassified as a branded-product OEM. The replacement of three ODMs with three EMS providers restored the EMS side to a majority of the Top 25.

Table 1: Top 25 Providers in Outsourcing for 2009

Organization	Headquarters	Sales calendar 2009 (M US$)	2009 rank by total sales	2008 rank	Sales calendar 2008 (M US$)	Sales growth '08-'09 (%)	Business model
Hon Hai Precision Industry	Tucheng City, Taiwan	$59,333	1	1	$61,879	-4	EMS/components/channel/ODM/other
Quanta Computer	Gueishan, Taoyuan, Taiwan	$25,433	2	3	$25,974	-2	ODM
Flextronics	Singapore	$23,754	3	2	$33,141	-28	EMS/components/ODM
Compal Electronics	Taipei, Taiwan	$20,451	4	4	$15,188	35	ODM
Wistron	Hsinchu, Taiwan	$16,556	5	6	$14,121	17	ODM/EMS
Pegatron/Unihan	Taipei, Taiwan	$13,999	6	5	$14,775	-5	ODM/EMS
Inventec	Taipei, Taiwan	$13,478	7	8	$12,030	12	ODM
Jabil Circuit	St. Petersburg, FL	$10,962	8	7	$12,113	-10	EMS
TPV Technology	Taipei, Taiwan	$8,032	9	9	$9,247	-13	ODM/OBM
Celestica	Toronto, Canada	$6,092	10	10	$7,678	-21	EMS
Sanmina-SCI	San Jose, CA	$5,237	11	11	$6,844	-23	EMS/components
Innolux Display*	Miao-Li, Taiwan	$4,989	12	14	$5,097	-2	ODM/components
Qisda	Gueishan, Taoyuan, Taiwan	$4,547	13	12	$5,378	-15	ODM/EMS
New Kinpo Group	Taipei, Taiwan	$4,200	14	13**	$4,700	-11	EMS/ODM
Venture	Singapore	$2,343	15	16	$2,679	-13	EMS/ODM
Elcoteq	Luxembourg	$2,095	16	15	$5,070	-59	EMS
Benchmark Electronics	Angleton, TX	$2,089	17	17	$2,590	-19	EMS
AmTRAN	Chong He City, Taiwan	$2,037	18	21	$2,021	1	ODM
Plexus	Neenah, WI	$1,591	19	22	$1,840	-14	EMS
Universal Scientific Industrial (USI)	Nantou, Taiwan	$1,563	20	19	$2,062	-24	EMS/ODM
Inventec Appliances	Taipei, Taiwan	$1,492	21	18	$2,202	-32	ODM/OBM
Ability Enterprise	Taipei, Taiwan	$1,109	22	25	$1,070	4	ODM
Beyonics Technology	Singapore	$1,028	23	new	$886	16	EMS
SIIX	Osaka, Japan	$865	24	new	$897	-4	EMS
Zollner Elektronik	Zandt, Germany	~$850	25	new	$1,050	-19	EMS
Total/avg.		**$234,125**			**$250,532**	**-6.5**	

Companies with multiple businesses were classified as EMS or ODM as indicated by the first acronym in the business model description. Some currency conversions, when necessary, were done using average annual exchange rates from the US Federal Reserve. *In 2010, Innolux Display merged with Chi Mei Optoelectronics and TPO Displays to create Chimei Innolux. **2008 rank included a power supply company that was excluded from this analysis.

Chart 2: Top-25 Sales by Type of Provider

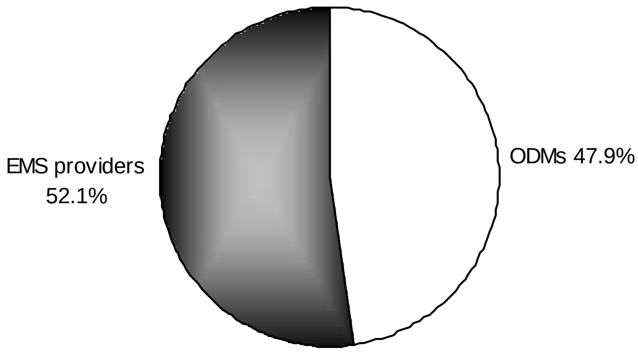
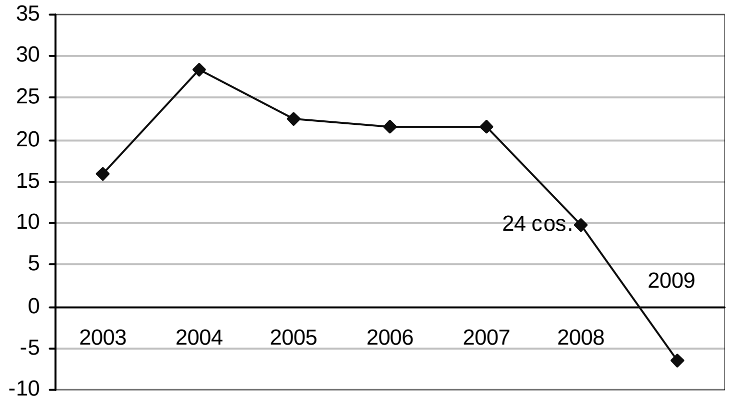


Chart 3: Top 25 Growth Rates (%)



Of the Top 25, ODM **Compal Electronics** had by far the highest growth rate at 35% (in U.S. dollars). Three other contract manufacturers – ODMs **Wistron** and **Inventec** and EMS provider Beyonics – also posted double-digit growth rates in 2009. For 19 members of the Top 25, sales were down in 2009 on a U.S.-dollar basis.

Hon Hai's consolidated sales fell by 4% in U.S. dollars (essentially flat in NT dollars), slightly above the Top 25 average. The company's non-consolidated sales were off 8%, and sales of its majority-owned handset subsidiary, **Foxconn International Holdings**, were down 22%. Buffering these declines was a 55% increase in the sales of other units whose revenue Hon Hai can claim (Table 2). The other units, which are not affiliates, accounted for 15% of Hon Hai's consolidated sales in 2009.

Last year, Taiwan tightened its grip on the outsourcing space, based on Top 25 data. Taiwan-based providers in the Top 25 accounted for 75.7% of group sales (Chart 5). That's up from 71.3% of revenue for the 2008 list, which contained three more Taiwanese ODMs (May 2009, p. 3). The 14 Taiwan-based providers in the 2009 Top 25 combined for sales of $177.2 billion, up 1% from a year earlier.

Editor's note: A company was classified as EMS or ODM based on which model supplied the company's primary source of revenue or was estimated as such. The EMS-versus-ODM analysis presented here does not allow for the fact that some companies pursue both EMS and ODM business.

The Top 25's sales of $234.1 billion were not all derived from EMS and ODM work. As shown in Table 1, some companies mix in revenue from other businesses such as components or own brand manufacturing (OBM). Mammoth Hon Hai has taken this strategy the furthest, with revenue streams coming not only from components and the channel but also from other areas such as retail and software. To some degree, Top 25 sales and growth figures have been influenced by revenue from businesses outside the realm of contract manufacturing. In a few cases, the addition of other business to contract manufacturing revenue might have unfairly boosted a provider's rank.

Table 2: Components of Hon Hai's Sales

Sales component	Sales calendar 2009 (M US$)	Sales calendar 2008 (M US$)	Sales growth '08-'09 (%)
Hon Hai non-consolidated	43,022	46,732	-8
Foxconn International Holdings	7,214	9,271	-22
Other units	9,098	5,876	55
Hon Hai consolidated	59,333	61,879	-4

Chart 4: Top 25 Cutoff (Millions USD)

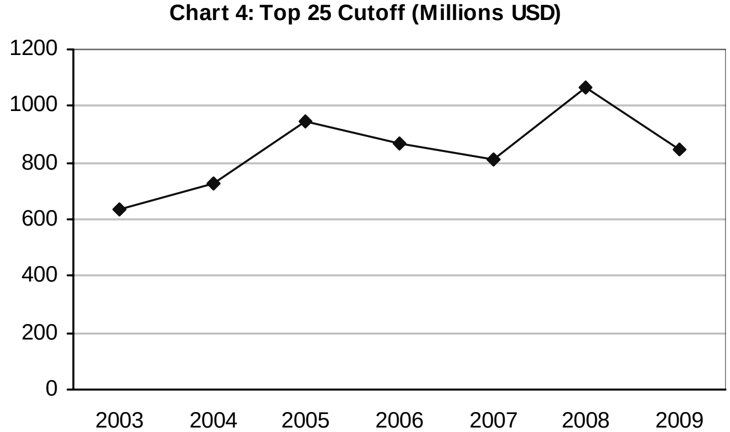
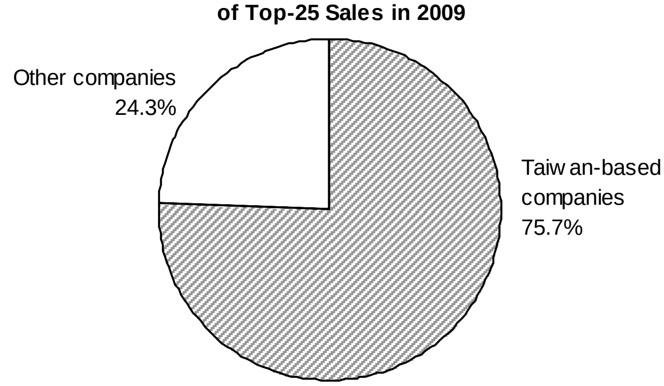


Chart 5: Taiwan-Based Companies' Share of Top-25 Sales in 2009



Hon Hai Boosts Q1 Results for Top 11

Thanks to the contribution of **Hon Hai Precision Industry**, combined Q1 sales for the eleven largest EMS providers increased 27.3% year over year in U.S. dollars. However, without Hon Hai, revenue growth for the other ten companies amounted to a modest 7.0% (Table 1). Hon Hai, by far the largest company in the group, had the highest growth rate year over year. Only one other provider in the top 11 was even close.

On a sequential basis, top-11 revenue for Q1 was down 8.2%, but aggregate net profit fell at a faster rate of 25.9%. For this comparison, Hon Hai exerted a drag on results. Excluding Hon Hai, combined sales for the rest of the group slipped by 6.7% from the prior quarter, while net profit rose by 17%. Only two providers, **Plexus** and **Sanmina-SCI**, were able to increase their sales sequentially in a quarter prone to seasonal effects.

GAAP margins were analyzed for the six U.S.-traded providers in the top 11 (Table 2, p. 5). Composite gross margin for this subset held steady at 6.6% from the prior quarter despite a 5.5% decline in combined sales. What's more, composite gross margin was up by 230 basis points year over year. Overall operating margin for Q1 stood at 2.3%, down 10 basis points sequentially.

Q1 results in brief

Benchmark Electronics. Q1 revenue of $571.9 million came in below guidance of $580 million to $620 million. Sales were up sequentially in all of Benchmark's sectors except computing, where revenue dropped 24%. Extended lead times impacted shipments by about $20 million in the quarter. Non-GAAP gross margin rose to 7.9% from 7.3% in the prior quarter, and non-GAAP operating margin was 4.0%, up 50 basis points sequentially. Benchmark posted non-GAAP EPS of $0.30 for Q1, which represented an 88% increase year over year.

During Q1, the provider booked 11 new programs estimated to generate revenue of $300 million to $375 million at full ramp. Two are computing programs together worth about $200 million in revenue.

Cal-Comp Electronics. Q1 sales of 27.3 billion baht grew 12.7% year over year mainly due to increased demand in the PC peripherals sector. Gross margin amounted to 3.58%, up 38 basis points from the year-earlier period as a result of an increase in box build. The company saw its net income more than triple from 103.5 million baht in Q1 2009 to 381.9 million baht in Q1 2010. Net profit margin for the quarter was 1.4%.

Celestica. The provider reported Q1 adjusted EPS of $0.19 versus $0.15 for the year-earlier period. Adjusted gross margin was 7.2%, up 10 basis points from the prior quarter, but down 60 basis points from a year earlier. Adjusted operating margin equaled 3.4%, compared with 3.6% for the previous quarter and 3.2% a year ago. The 3.4% operating margin was the company's best result for its seasonally weak Q1 in more than eight years. Celestica continues to pursue an adjusted gross margin target of 7% to 7.5% and an adjusted operating margin goal of 3.5% to 4%.

Q1 sales were down sequentially in all of Celestica's segments except telecom, where revenue increased 10%.

Elcoteq. Q1 sales totaled 220.5 million euros, down 53.1% year over year. Sales of Elcoteq's Consumer Electronics unit (77% of total sales) fell by 50.7% mainly due to lower handset deliveries and a shift to consigned business in Juarez, Mexico. Sales of the System Solutions unit dropped about 59.6% primarily as a

Table 1: Q1 2010 Results for the 11 Largest EMS Providers (M US$ or %)

Company (in order of Q1 sales)	Head-quarters	Reports in US$	Q1 '10 sales	Q4 '09 sales	Qtr.-qtr. chg.	Q1 '09 sales	Yr.-yr. chg.	Q1 '10 net profit	Q4 '09 net profit	Q1 '09 net profit
Hon Hai (Foxconn)	Taiwan	No	17,055	18,856	-9.6	11,137	53.1	564	898	393
Flextronics	Singapore	Yes	5,940	6,556	-9.4	5,583	6.4	60	93	(240)
Jabil	Florida	Yes	3,005	3,088	-2.7	2,887	4.1	30	28	(866)
Sanmina-SCI	California	Yes	1,528	1,478	3.3	1,195	27.8	10	59	(38)
Celestica	Canada	Yes	1,518	1,664	-8.8	1,469	3.3	26	31	19
Cal-Comp Electronics*	Thailand	No	831	849	-2.2	687	21.0	12	9	3
Benchmark	Texas	Yes	572	600	-4.7	497	15.1	18	17	9
Plexus	Wisconsin	Yes	491	430	14.1	389	26.3	21	18	5
Venture	Singapore	No	456	655	-30.4	480	-4.9	28	12	18
Universal Scientific Industrial	Taiwan	No	454	464	-2.0	314	44.5	17	16	8
Elcoteq	Luxembourg	No	305	392	-22.2	612	-50.2	56**	(46)	(59)
Top-11 Total/avg.			**32,154**	**35,034**	**-8.2**	**25,250**	**27.3**	**841**	**1,135**	**(748)**
Total/avg. without Hon Hai			**15,100**	**16,178**	**-6.7**	**14,113**	**7.0**	**277**	**237**	**(1,141)**

Results in non-U.S. currencies were converted to U.S. dollars by applying a three-month average rate for the corresponding period. Average exchange rates were based on monthly 2009 and 2010 data from the U.S. Federal Reserve. *Largest member of New Kinpo Group. **Includes one-time gain from hybrid securities transaction.

Table 2: Q1 2010 GAAP Margins for Six Large EMS Providers, U.S.-Traded (%)

Company (in order of Q1 sales)	Q1 '10 gross marg.	Q4 '09 gross marg.	Q1 '09 gross marg.	Q1 '10 oper. marg.	Q4 '09 oper. marg.	Q1 '09 oper. marg.
Flextronics*	5.4	5.7	2.0	1.9	2.2	-2.4
Jabil	7.4	7.5	5.4	2.1	2.1	-24.4
Sanmina-SCI	7.7	7.4	5.7	3.0	2.7	-1.1
Celestica	7.0	6.6	7.6	2.4	2.4	2.2
Benchmark	7.9	7.3	6.4	3.7	3.1	2.1
Plexus	10.3	10.3	9.2	4.8	4.7	1.4
Total/avg.	**6.6**	**6.6**	**4.3**	**2.3**	**2.4**	**-6.7**

*Intangible amortization was subtracted from reported operating income.

result of the divestment of **Ericsson**-related operations in Estonia. Elcoteq believes that it reached a bottom in Q1. The provider reported an operating loss of 12.9 million euros for Q1 but expects operating profit to turn positive for the second half of 2010.

The company said it continues to work on further strengthening its balance sheet and this month retired debentures valued at 21.5 million euros in exchange for a hybrid bond and warrants (see also April, p. 7-8).

Flextronics. For its fiscal Q4 ended Mar. 31, non-GAAP EPS amounted to $0.16, compared with $0.17 in the prior quarter and $0.03 a year earlier. Non-GAAP gross margin for the March quarter increased sequentially by 30 basis points to 5.8% as overall mix improved. The company's components businesses remained below normalized profitability levels. Adjusted operating margin for the quarter held constant at 2.9% versus the prior quarter but was up 200 basis points from a year ago. Flextronics has a near-term goal of 3.5% for this metric.

The provider was unable to claim revenue estimated at $150 million to $200 million because of component shortages. Sales declined sequentially in three out of Flextronics' five segments.

Hon Hai Precision Industry. The world's largest EMS provider reported consolidated Q1 sales of NT$544.4 billion, compared with NT$378.3 billion for the same period a year ago. That's an increase of 43.9% in Taiwan dollars. While Q1 gross profit increased by 31.4% (in NT$) from a year earlier, gross margin fell by 83 basis points to 8.65%. Q1 operating margin of 3.65% was virtually the same as the year-earlier figure of 3.66%. On a year-over-year basis, EPS did not grow as fast as sales did. Hon Hai posted Q1 EPS of NT$2.08, up 34% from the year-ago result of NT$1.55.

Jabil Circuit. For its fiscal Q2 ended Feb. 28, non-GAAP EPS of $0.29 more than doubled from $0.13 reported a year earlier. Non-GAAP operating margin stood at 3.2%, down 20 basis points sequentially but up 140 basis points year over year. Jabil experienced the lowest sequential decline in fiscal Q2 revenue (see Table 1) and non-GAAP operating margin since fiscal 2004.

Revenue from the company's EMS division grew 10% sequentially, and in three out of four sectors within the division there were double-digit increases. Jabil's Consumer division posted a 21% seasonal decline in sales from the prior quarter. Non-GAAP operating margins for the EMS division and Consumer division were 4.2% and 0% respectively.

Plexus. Sales for its fiscal Q2 ended April 3 were up 14% sequentially, while EPS rose 16%. Compared with the prior quarter, revenue increased by double-digits in three out of Plexus' five sectors led by wireless infrastructure with 42% growth. The only disappointment was the defense/security/aerospace sector, whose sales remained nearly flat versus the prior quarter. Gross margin for fiscal Q2 was 10.3%, the same as in the prior quarter, which included 70 basis points from a legal settlement, while operating margin rose 10 basis points sequentially to 4.8%, not far from the company's 5% target.

During fiscal Q2, Plexus won 18 new manufacturing programs expected to bring in about $137 million in annualized revenue when fully ramped.

Sanmina-SCI. For its fiscal Q2 ended April 3, non-GAAP EPS of $0.29 beat guidance of $0.22 to $0.27 and surpassed the prior quarter's EPS by $0.06. Non-GAAP gross margin of 7.8% improved by 20 basis points sequentially and 190 basis points year over year. Sanmina-SCI said non-GAAP gross margin for its component businesses is approaching the corporate average. Non-GAAP operating margin was 3.7%, up 40 basis points quarter to quarter and 270 basis points from a year earlier. The provider's goal for non-GAAP operating margin is to exceed 6%.

Compared with the prior quarter, the company saw revenue growth in three out of four segments. Sales were down 10% in enterprise computing and storage.

Universal Scientific Industrial. Consolidated Q1 revenue totaled NT$14.5 billion, representing growth of 35.8% from the same period a year ago. Consolidated net income improved at a much faster rate, as it doubled from a year earlier to NT$530.5 million. Gross margin for Q1 was 11.12%, nearly unchanged from 11.07% a year earlier. But operating margin rose by 198 basis points year over year to 4.31%, and operating income climbed by 151% (in NT$).

Venture. Q1 revenue of S$639.5 million fell by 11.9% year over year, mainly due to an anticipated paring down of the lower value-added portion of the company's printing and imaging business. Apart from the sales decline in this business and related printing and imaging peripherals and accessories classified under Venture's computer peripherals and data storage segment, the provider's other segments contributed double-digit gains from a year earlier. Despite the revenue decline, adjusted profit after tax and minority interests came to S$40.3 million, up 29% from the year-earlier period. Adjusted PATMI margin stood at 6.3% for Q1 versus 4.3% a year ago.

Double-Digit Growth Estimated for First Half

If the six largest EMS providers in the U.S.-traded sector hit the midpoint of their Q2 sales guidance, then this highly visible group will achieve double-digit sales growth for the first half of 2010. With Q2 sales estimates set equal to guidance midpoints, first-half revenue for the group is projected to total $26.90 billion, up 12.6% (table). If this rate holds up for the entire year within the industry at large, then 2010 will surprise those people expecting a single-digit recovery in 2010.

On a year-over-year basis, composite growth for Q2 has an even better outlook than the first half does. Again based on guidance midpoints, Q2 sales for the six providers will amount to an estimated $13.85 billion, representing a 16.7% increase from a year ago. The lowest projected growth rate for the quarter is 9.8%, and in four out of six cases, the estimated increases exceed 20% (table). At the high end are **Plexus** and **Sanmina-SCI** with projected growth of 40.6% and 32.3% respectively.

All six providers will attain sequential sales growth in Q2 if these projections prove accurate. Overall, the sequential increase for the group's Q2 revenue is estimated to be 6.1%.

Q2 guidance suggests that four out of six companies expect their non-GAAP EPS for the quarter to improve from Q1. **Benchmark Electronics**, **Jabil Circuit**, Plexus and Sanmina-SCI are in this camp. In the case of **Celestica** and **Flextronics**, guidance calls for non-GAAP EPS in Q2 to be equal to or greater than that in Q1.

Q2 2010 Guidance and Estimates for the Six Largest U.S.-Traded Providers (sales in B$ except as noted)

Company	Q2 guidance	Q2 midpoint	Q1 '10 sales	Qtr.-qtr. estim. chg.	Q2 '09 sales	Yr.-yr. estim. chg.	Q1-2 '10 estimated sales	Q1-2 '09 sales	estimated change	Q1 EPS Non-GAAP* $	Q2 Guidance Non-GAAP* $
Flextronics	6.1 - 6.6	6.35	5.94	6.9%	5.78	9.8%	12.29	11.37	8.1%	0.16	0.16 - 0.19
Jabil**	3.1 - 3.3	3.2	3.00	6.5%	2.62	22.4%	6.20	5.50	12.8%	0.29	0.30 - 0.36
Sanmina-SCI	1.55 - 1.65	1.60	1.53	4.7%	1.21	32.3%	3.13	2.40	30.1%	0.29	0.30 - 0.36
Celestica	1.5 - 1.6	1.55	1.52	2.1%	1.40	10.5%	3.07	2.87	6.8%	0.19	0.19 - 0.23
Benchmark	600 - 630 M	615 M	0.57	7.5%	0.48	27.6%	1.19	0.98	21.3%	0.30	0.31 - 0.34
Plexus	520 - 545 M	532.5 M	0.49	8.5%	0.38	40.6%	1.02	0.77	33.4%	0.51	0.54 - 0.60
Total/avg.		**13.85**	**13.05**	**6.1%**	**11.87**	**16.7%**	**26.90**	**23.89**	**12.6%**		

Q2 estimates equal midpoint of Q2 guidance. First-half estimates equal Q1 sales plus midpoint of Q2 guidance.
*Non-GAAP EPS may not be comparable from company to company. **Q2 data corresponds to the quarter ending May 2010.

New IDC Forecast

According to a new forecast from market research firm **IDC** (Framingham, MA), the contract manufacturing industry comprised of EMS providers and ODMs will exhibit a compound annual growth rate of 8% over the period 2010-2014. The IDC forecast seems to be saying that the industry is no longer capable of generating double-digit growth over the long term.

This forecasted growth follows an industry contraction of 11% last year, which IDC said was less than expected due to a resurgence of consumer spending late in the year. Note that this estimated decline is still greater than the 6.5% decrease computed for the outsourcing Top 25 in 2009 (see article on p. 1).

IDC says the industry's recovery is still on shaky ground, with periods of weakness expected into 2011. The firm expects that consumer spending will be slow to recover, while most enterprises remain cautious in their spending. "Significant expansion opportunities will present themselves, but growth will be uneven throughout the industry, with some segments faring better than others," stated Michael Palma, senior research analyst, Electronics Manufacturing Services & Consumer Device Semiconductors.

The firm listed a number of difficulties that contract manufacturers will face over the long term. A greater proportion of lower-priced computer and consumer products will continue to put downward pressure on revenues. Many OEMs are expected to continue following commodity purchasing patterns, which erode profits for contract manufacturers. OEM desires to increase efficiency in supply chains will continue to pressure lead times and inventory levels. Consolidation of OEMs and suppliers will continue even as emerging entrants from developing regions begin to impact global markets. Alternative service providers are likely to pose a greater competitive threat to contract manufacturers, and they will be challenged to keep providing new value to their clients.

News

Sanmina-SCI To Buy BreconRidge

Sanmina-SCI (San Jose, CA) has signed a definitive agreement to acquire **BreconRidge** (Ottawa, Canada), a design and manufacturing services provider specializing in RF, microwave and optical technologies and applications. The deal will expand Sanmina-SCI's RF/microwave and micro/opto-electronic capabilities, which can be applied across a number of market segments.

Subject to post closing adjustments, the purchase price will be $53 million including equity and assumption of certain liabilities. BreconRidge, an *MMI* Top 50 EMS provider, listed its 2009 sales as $225 million in the latest Top 50 survey (March, p. 4). The company's revenue is now running at a rate of about $45 million per quarter. Sanmina-SCI expects revenue from the acquisition to be in a range of $250 million to $300 million in the first year. Closing is expected is occur in about 30 days from the deal's announcement on April 26. The transaction is expected to be accretive to non-GAAP EPS within the first year.

"The number-one reason that we wanted to do this transaction was the engineering strength in opto-electronics and RF that is applicable across all of our vertical markets from wave guides in the defense and aerospace business, in our optical communications business, in our medical business," said Hari Pillai, Sanmina-SCI's president and COO, during the company's earnings conference call last month. The industrial sector is another area mentioned in connection with these capabilities.

BreconRidge has engineering expertise in component- and module/system-level solutions for RF/microwave and optical applications up to 100 Gb/s, with advanced broadband applications topping this speed. Design and engineering strengths also include multichip module solutions as well as multiple semiconductor packaging technologies and MEMS packaging solutions.

By adding expertise in these leading-edge technologies, Sanmina-SCI is following a long-held strategy to build high-end capabilities. The company has applied the strategy to such areas as PCBs, backplanes and mechanical services. "We're trying to create a niche where we believe that we have a competitive advantage," said Jure Sola, Sanmina-SCI's chairman and CEO, during the earnings call.

"This acquisition strengthens both our position and our customer base in RF/microwave and micro/opto-electronic technologies," stated Sola. He asserted that after the deal closes, "Sanmina-SCI will be the leading electronics manufacturing services provider for these rapidly expanding leading-edge technologies."

BreconRidge began life as an EMS provider in 2001, when the divested manufacturing, distribution and repair operations of **Mitel Networks** were combined with a consulting and sourcing firm and a developer of testing hardware and software. Mitel remains a customer of BreconRidge, and other clients include **Thales**, **GE**, **Catch the Wind**, **BelAir Networks** and **R.L. Drake**. BreconRidge also serves the **Nortel** optical business that was sold to **Ciena**, which happens to be a customer of Sanmina-SCI.

Although customer overlap is present, Sanmina-SCI reported that there is virtually no program overlap. The company views the customer overlap as complementary.

BreconRidge operates manufacturing sites in Ottawa, Canada, and Shenzhen, China. The company also has a logistics and repair center in Odgensburg, NY, and engineering and support offices in Hong Kong. At the end of 2009, BreconRidge employed 1,200 people, according to Top 50 survey data.

With this acquisition, Sanmina-SCI will take over responsibility for investment in the BreconRidge business.

The deal will augment Sanmina-SCI's optical capability, which the company has been building in recent years, starting with an optical activity acquired from **Alcatel** in 2002 and enhanced by the 2009 takeover of **JDSU's** operations in Shenzhen, China (Feb. 2009, p. 7). To "take this capability to the next level," Sanmina-SCI felt that it needed the BreconRidge acquisition, said Sola. Optical capabilities at Sanmina-SCI have a current capacity of around $500 million to $600 million in revenue, and he noted that the optical side "could be a billion-dollar business in a couple years." The company expects this type of business to deliver higher margins than the corporate average.

Nortech Makes Medical Move

Nortech Systems (Wayzata, MN), a publicly held EMS provider, has expanded its presence in the medical market by acquiring the intellectual property and assets of **Trivirix** (Milaca, MN), excluding cash and receivables.

Trivirix specializes in design, manufacturing and post-production services for complex electronic and electromechanical medical devices in diagnostic, analytical and other life-science applications. In addition, the operation maintains ISO 9001 and ISO 13485 certification, FDA registration and QSR compliance.

"This acquisition expands our capabilities and expertise serving medical electronics manufacturers," said Mike Degen, Nortech's president and CEO. "Along with enhancing our long-term sales opportunities to both existing and new customers, the quality systems, supply chain expertise and lean manufacturing discipline we acquired make this a strategic fit with Nortech."

According to Trivirix's website, two of its customers are **DuPont** and **Neoprobe**.

Nortech serves three core market segments – industrial, defense and medical – and market analysts expect medical to have the strongest growth potential for EMS firms.

Season Gains a Foothold in the U.S.

Season Group (Hong Kong), a vertically integrated EMS provider, has acquired the assets of **DC Electronics**, a San Antonio, TX-based EMS company that will give Season a manufacturing site in the U.S.

The deal will enable Season to offer U.S. customers services such as NPI, prototype and quick-turn manufacturing as well as low- to high-volume manufacturing to help them launch products quicker and more effectively, according to the company.

Season now operates seven manufacturing facilities spread among four countries: Canada, USA, Malaysia and China, and manufacturing space exceeds 700,000 ft^2. The company has some 1,600 employees.

*Other deals done…***Flextronics** (Singapore) recently acquired an unidentified operation that specializes in various forms of plating in the machining space. The company described this deal as a "small, local acquisition." Flextronics said it has a rapidly growing machining operation….In March, EMS provider **Cal-Comp Electronics** (Bangkok, Thailand), the largest member of the **New Kinpo Group**, purchased 53.08% of the common stock of **Avaplas** (Singapore), a provider of injection molded plastics and related manufacturing services. Avaplas has manufacturing plants in China, Malaysia and Thailand. The price was S$13.2 million ($9.4 million). Cal-Comp has since increased its shareholding to 58.96%. The company made this purchase to improve its vertical integration capability.

*Deals in the pipeline…*Last month, Craig Muhlhauser, president and CEO of **Celestica**, told *Reuters* that the provider plans to complete two healthcare deals during the second half of 2010.

Nokia reportedly to outsource some assembly…According to a *Reuters* report, **Nokia** will resume contracting out some of its assembly work in 2010. Last year, the largest mobile phone maker stopped using contract manufacturers to supply it with handset engines (April 2009, p. 5).

*More on Russian facility…*Last month, *MMI* reported that **Hon Hai Precision Industry** (Tucheng City, Taiwan) opened a plant near St. Petersburg. However, according to a report published after the newsletter's April deadline, this is not the 32,000-m^2 plant for which Hon Hai and HP broke ground in 2008. Rather, the newly opened plant is a leased 10,000-m^2 facility with a pilot production line, *The Moscow Times* reported. The larger facility is said to remain unfinished.

Editor and Publisher: John Tuck
Circulation Director: Ann Connors

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