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Positive Sign in Mexico

According to a popular perception, the rise in regional manufacturing – making a product in the region where it will be sold – will benefit Mexico, because it can offer lower costs in fulfilling North American demand. But is this perception a reality? One way to answer this question is to look for EMS providers who are adding capacity in Mexico. As the EMS industry is well aware, providers don't add capacity unless they have customers ready to utilize it. While *MMI* did not find enough evidence to indicate that demand is growing in Mexico across the board, some providers at least have been adding capacity – a positive sign for Mexico's prospects.

EMS giant **Hon Hai Precision Industry** is said to have ambitious plans for expanding operations at a site in Mexico. The *Albuquerque Journal* reported that Hon Hai expects to put into operation this year its third 400,000-ft^2 facility in San Jerónimo, Mexico, across the border from Santa Teresa, NM. What's more, Hon Hai plans to add 13 more factories of that size in San Jerónimo in the future, according to the *Journal*.

However, the massive expansion planned for the future in San Jerónimo may be driven primarily by consolidation of operations from Hon Hai's other facilities in Mexico. For a 2011 article, a Hon Hai executive told weekly newspaper *El Paso Inc.* that the main reason for a huge campus in San Jerónimo was the need to bring the operations at the company's four other sites in Mexico into a single location.

Sanmina is another large provider that is adding capacity in Mexico. The company is investing in five more SMT lines for its Guadalajara operations. In addition, Sanmina has funded the installation of a new failure analysis lab so that the company can provide more technical support and services to its Guadalajara customers. Sanmina is adding capacity in Mexico to meet requirements for regional manufacturing, said Javier Carral, executive VP IMS (Integrated Manufacturing Services), Mexico.

Still, if new business were pouring in across the EMS industry in Mexico, one would expect to see indications of that at other large providers. But unfortunately, *MMI* came up empty looking for such evidence. **Jabil** told *MMI* that it does not have any significant expansion plans being implemented in Mexico. **Flextronics** did not respond when *MMI* asked whether Flextronics is expanding any operations in Mexico.

Responding to customers

OnCore Manufacturing is yet another EMS provider responding to increased demand for manufacturing in Mexico. The company recently opened its second plant in Tijuana, which more than doubles the size of OnCore's footprint there. This new plant is 84,000 ft^2 in size, bringing the company's total floor space in Tijuana to 142,000 ft^2 from 58,000 ft^2. OnCore reported that its business in Mexico is enjoying double-digit growth.

In deciding to expand in Tijuana, OnCore recognized the trend toward regional manufacturing and Mexico's role in that trend. "Many of the folks we're talking to are moving to a 'build in region for region' model, as logistics costs become a larger portion of a product's cost and as the labor arbi-

Some articles in this issue

trage becomes ever less consequential," said Dave Busch, VP business development/marketing at OnCore.

Creation Technologies also launched a new Mexico facility in recent months. With the 2012 acquisition of **Aisling Industries** and its operation in Mexicali, Creation had planned all along to move the operation into a larger facility there (Oct., 2012, p. 7). The company is initially occupying 85,000 ft^2 of the new facility, with the ability to expand into an adjacent 40,000 ft^2 as the business requires. This is a significant step up from the 40,000-ft^2 facility obtained in the Aisling deal.

The need to offer North American clients a low-cost source of regional manufacturing was Creation's main motivation for making that deal. "The acquisition of Aisling allowed us to offer right-shore manufacturing to OEMs selling complex products into North American end markets," said Jeff Lambkin, market development manager at Creation.

He noted that less than six months experience in the new location is probably not enough time to see any significant business trends. "However, the initial response and level of interest from our customer base have been extremely positive and encouraging," said Lambkin.

At the core of a regional manufacturing model is proximity to end customers, a factor behind the growth that is coming Sanmina's way in Mexico. "We are seeing greater demand, and part of that growth is based on customers trying to produce products closer to the final customer or consumer," said Sanmina's Carral. "They are looking for a best time-to-market solution. If the product is available, you get the sale, or otherwise you lose the sale. So flexibility and availability of the product are very, very important."

"We see a good, solid trend of business coming into Mexico. So the pipeline is pretty solid," he said.

With costs in China continually rising, has Mexico reached parity with China with respect to total landed costs? Carral was unwilling to make general comparisons of the two regions because the analysis of where to manufacture depends too much on the product and on variation of demand from forecasts. Still, Sanmina has noticed a trend in certain markets. "In some specific markets such as telecom and medical, because of the size of the product and the variability of requirement, we see Mexico more and more as being a more attractive solution in the manufacturing area," said Carral. Sanmina has witnessed not only telecom infrastructure and bulky medical products coming back from Asia, but also industrial products such as power meters returning.

Is crime an issue?

Crime in Mexico makes headlines, but does it deter some OEMs from choosing Mexico for their manufacturing solution? "OEMs feel very comfortable with visiting our plants in Mexico," said Carral. "So it is not really a factor in the decision making process."

OnCore with its two Tijuana plants is not concerned about crime either. "It never was a problem in Tijuana," said Dave Busch.

But **Plexus** has a different view. "We believe we are currently disadvantaged in the Americas region with our low-cost solution in Juarez, Mexico. Although the site is performing well, we believe the brand at that site is tarnished by violence in Juarez. We are exploring solutions in Mexico and hope to make a decision and announce our plans in the fiscal third [June] quarter," said Plexus CFO Ginger Jones during the company's earnings call last month.

Observing a general trend

"We are seeing a trend in general of more companies manufacturing in Mexico, some of which are transferring products from Asia to Mexico," said Carral. But he pointed out, "It's not for every product or every market because it depends on a number of factors. But being close to American customers is the most obvious one." Analysis of a customer's total landed cost will include the sales price, time to market, the cost of money, and the logistics of delivering finished goods.

"We have seen that trend going on for the last few years, and we see that it's going to continue for a few more years," said Carral. The trend is accelerating in some areas. He cited as examples the telecom and medical sectors, where products are normally bulky, and logistics costs favor Mexico over Asia. Also, shipping goods from Mexico beats flying them from Asia when deliveries become urgent.

But the magnitude and pace of this trend remain elusive. The rate at which OEMs convert to a regional manufacturing model will have a lot to do with how fast this trend progresses. And if this trend is indeed a major one, more EMS providers will chime in with capacity additions.

Hon Hai Drags Down Top-11 Sales

EMS giant **Hon Hai Precision Industry** usually boosts the combined sales of the largest EMS providers. Not this time. In Q1, collective sales of the 11-largest EMS providers took a double-digit plunge from a year earlier, and almost half of that drop can be attributed to Hon Hai. Q1 revenue for the top 11 fell 15.0% year over year; without Hon Hai, the decline would have been a more tolerable 8.0% (chart, p. 3).

A 15% decline in revenue puts the top 11, and by extension the EMS industry at large, in a rather large hole to start the year.

Top-11 sales for the quarter totaled $43.6 billion, down from $51.3 billion

Table 1: Q1 2013 Results for the 11 Largest EMS Providers (M US$ or %)

Company (in order of Q1 '13 sales)	Head-quarters	Reports in US$	Q1 '13 sales	Q4 '12 sales	Qtr.-qtr. chg.	Q1 '12 sales	Yr.-yr. chg.	Q1 '13 net profit	Q4 '12 net profit	Q1 '12 net profit
Hon Hai (Foxconn)	Taiwan	No	27,431	39,053	-29.8	33,736	-18.7	554 [1]	1,269 [1]	535 [1]
Flextronics	Singapore	Yes	5,295	6,123	-13.5	6,370	-16.9	(27)	32	143
Jabil	Florida	Yes	4,417	4,637	-4.7	4,236	4.3	89	106	98
Sanmina	California	Yes	1,428	1,495	-4.5	1,463	-2.4	21	1	(1)
Celestica	Canada	Yes	1,372	1,496	-8.3	1,691	-18.8	11	7	43
Cal-Comp Electronics	Thailand	No	994	1,019	-2.4	1,101	-9.7	9	5	8
Shenzhen Kaifa Technology	China	No	595	644	-7.6	640	-7.1	5	4	7
Plexus	Wisconsin	Yes	558	531	5.1	574	-2.7	18	17	20
Universal Scientific Industrial	China	No	556	691	-19.6	466	19.3	21	26	16
Benchmark Electronics	Texas	Yes	542	634	-14.4	593	-8.6	12	18	6
Venture	Singapore	No	429	485	-11.6	455	-5.7	23	31	28
Total/avg.			**43,617**	**56,807**	**-23.2**	**51,325**	**-15.0**	**~735**	**~1,515**	**~903**
Total/avg. without Hon Hai			**16,186**	**17,754**	**-8.8**	**17,588**	**-8.0**	**~181**	**~246**	**~368**

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 2012 and 2013 data from the US Federal Reserve. Net profit totals are approximate because not all companies follow the same accounting standard. [1] Hon Hai's Q1 '13 and Q1 '12 net income are based on IFRS accounting, while Hon Hai's Q4 '12 net income is not consistent with IFRS accounting.

in the same period a year ago. At $27.4 billion in Q1 sales, Hon Hai represented 62.9% of top-11 sales, as the company lost 2.8 percentage points of top-11 market share from a year earlier.

Hon Hai's sales decline of 18.7% year over year in US dollars nearly tied for the worst such result turned in by a top-11 provider. **Celestica's** 18.8% drop was just slightly greater. Although **Apple** sold 7% more iPhones in Q1 than a year earlier, an analyst told *IDG News Service* that weak demand for the iPhone 5 was the primary cause of the slump in Hon Hai's sales. *Reuters* quoted another analyst as saying, "iPhone orders corrected more than expected" for Hon Hai.

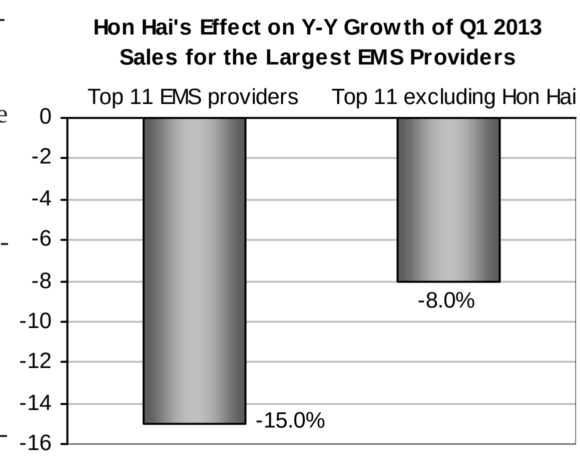
Nine out of 11 providers saw their sales in US dollars fall from the year-earlier quarter (Table 1). Only **Jabil** and **Universal Scientific Industrial** recorded revenue increases, and USI was alone in achieving double-digit growth.

On a sequential basis, top-11 sales in Q1 also plummeted by a two-digit percentage, and Hon Hai was responsible for a clear majority of the drop. The group's revenue sank by 23.2% from the prior quarter, weighed down by Hon Hai's sequential decline of 29.8% in US dollars. Excluding Hon Hai, group revenue would have fallen by 8.8% sequentially. While Hon Hai endured the greatest decline, four other providers experienced double-digit drops from the prior quarter (Table 1). Of the 11 companies, **Plexus** was the only provider able to increase revenue sequentially.

Top-11 net income for Q1 amounted to approximately $735 million for a net margin of about 1.7%. (The net income total is approximate because not all companies follow the same accounting standard.) Just three providers – **Plexus**, USI and **Venture** – achieved net margins above 3%, and only one, Venture, attained a net margin greater than 5%.

Net income was down about 19% year over year, roughly in line with the aforementioned sales decline of 15%. However, without Hon Hai's contribution, net income would have plunged by about 51%, and net margin would have fallen to about 1.1%.

For Q1, Hon Hai earned attributable IFRS net income of NT$16.4 billion ($554 million) on sales of NT$809.0 billion ($27.4 billion), resulting in a net margin of 2.0%. IFRS gross margin for the quarter came in at 5.68%, up 85 basis points year over year, while IFRS operating margin was 1.72%, up 18 basis points year over year. Despite a year-over-year sales decline of 19.2% in NT dollars (18.7% in US dollars), IFRS net income rose 2.9% in NT dollars (3.6% in US dollars) from a year earlier.



Dismal Start for US-Traded Group

Combined first-quarter sales for the six largest US-traded EMS providers fell 8.7% sequentially and 8.8% year over year. This marks the sixth straight quarter in which aggregate sales declined on a year-over-year basis.

But the news wasn't all bad. Q1 sales for the six providers totaled $13.61 billion, $150 million higher than *MMI's* estimate for the quarter. Q1 sales performance was dismal, but it could have been worse. *MMI* had projected that sales would drop 9.8% sequentially and year over year (Feb., p. 6). So actual results were 110 basis points better than the sequential projection and 100 basis points better than the year-over-year estimate. Note that *MMI's* estimates were derived by taking the midpoint of each company's guidance.

Five out of the six companies reported that their sales declined from the year-earlier period. Only **Jabil** was able to grow its revenue year over year. (Jabil's results were based on the quarter ended Feb. 28.) Posting the greatest sales declines from a year earlier were **Celestica** and **Flextronics**, both of which endured double-digit drops (Table 1A).

When results were compared quarter to quarter, a similar pattern emerged; again, five out of six companies saw their sales decline. **Plexus** was the sole provider to achieve a sequential increase. Two companies, **Benchmark Electronics** and Flextronics, ended up with double-digit decreases in revenue.

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 Q1 was a combined 5.8%, down 10 basis points sequentially and 90 basis points year over year. For the second quarter in a row, restructuring charges taken against gross profit by Flextronics had a major impact on aggregate gross margin. Of the five GAAP companies, only **Sanmina** succeeded in improving its gross margin from the prior quarter. None of these companies could raise its gross margin from the year-earlier period, although Benchmark was able to maintain the status quo (Table 1A).

Together, the five companies produced a GAAP operating margin of just 1.6%, down 50 basis points sequentially and 100 basis points year over year. Flextronics' restructuring charges, which totaled $125 million, drove Flextronics' GAAP operating margin into negative territory and took their toll on the combined margin of the five companies. As usual, Plexus attained the highest operating margin at 4.2%, while both Jabil and Sanmina came in above 3%. Plexus and Sanmina raised their GAAP operating margins from the prior quarter, and Benchmark and Sanmina achieved year-over-year gains (Table 1A). As for the lone IFRS reporting company, Celestica, its IFRS operating margin amounted to 1.2%, down 160 basis points year over year.

GAAP net income for the five companies fell much faster than sales did in both quarter-on-quarter and year-over-year comparisons. Their combined GAAP net income totaled $112.2 million, down 35% sequentially and 58% year over year. By contrast, sales for the five providers declined 8.8% sequentially and 7.5% year over year. Aggregate net margin in Q1 amounted to 0.9%, compared with 1.3% in the prior quarter and 2.0% a year earlier. (In February, *MMI* published a Q4 2012 net margin of 1.2%, which included net income from Flextronics' discontinued operations.) In keeping with operating margin improvements, Plexus and Sanmina were able to boost their GAAP net income from the prior quarter, while Benchmark and Sanmina accomplished year-over-year increases (Table 1A).

Q1 summaries for three providers

Last month's issue covered quarterly results for three out of the six largest US-traded providers. Results for the remaining three companies are

Table 1A: Q1 2013 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company	Q1 '13 sales	Q4 '12 sales	Qtr.-qtr. chg.	Q1 '12 sales	Yr.-yr. chg.	Q1 '13 gross marg.	Q4 '12 gross marg.	Q1 '12 gross marg.	Q1 '13 oper. marg.	Q4 '12 oper. marg.	Q1 '12 oper. marg.	Q1 '13 net inc.	Q4 '12 net inc.	Q1 '12 net inc.
Flextronics	5,295.3	6,123.3	-13.5	6,370.0	-16.9	3.7	4.0	5.6	-0.7 [1]	0.5 [1]	2.1 [1]	(27.0)	32.3 [2]	143.3 [2]
Jabil [3]	4,417.3	4,637.0	-4.7	4,236.2	4.3	7.3	7.6	7.6	3.4	3.7	3.5	88.5	105.8	97.7
Sanmina	1,427.6	1,494.9	-4.5	1,463.1	-2.4	7.0	6.5	7.3	3.2	2.1	2.1	21.2	0.6	(1.4)
Plexus	557.8	530.5	5.1	573.5	-2.7	9.3	9.6	9.5	4.2	4.0	4.5	18.0	16.6	20.0
Benchmark	542.4	633.9	-14.4	593.4	-8.6	6.8	7.2	6.8	2.6	3.9	1.3	11.5	18.1	5.6
Subtotal/avg.	**12,240.4**	**13,419.6**	**-8.8**	**13,236.2**	**-7.5**	**5.8**	**5.9**	**6.7**	**1.6**	**2.1**	**2.6**	**112.2**	**173.4**	**265.2**
Celestica	1,372.4	1,496.2	-8.3	1,690.9	-18.8	6.3	6.7	6.6	1.2	0.2	2.8	10.5	7.2	43.2
Total/avg.	**13,612.8**	**14,915.8**	**-8.7**	**14,927.1**	**-8.8**									

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 from continuing operations. [3] For Jabil, Q1 '13 corresponds to the quarter ended Feb. 28.

briefly summarized below.

Benchmark Electronics. Q1 sales totaled $542 million, down 14% sequentially and 9% year over year. Guidance called for sales of $530 to $560 million. Non-GAAP EPS amounted to $0.22, down 33% from the prior quarter and 12% from the year-earlier period. The EPS result was one cent above the high end of guidance, which specified $0.17 to $0.21.

Benchmark earned GAAP net income of $11.5 million, compared with $18.1 million in the previous quarter and $5.6 million a year earlier. Note that the prior quarter included a net Thailand flood-related recovery of $2.8 million, and the year-earlier quarter included Thailand flood-related charges of $10.2 million. There were no flood insurance recoveries during Q1.

Q1 revenue included softness that was expected in the company's computing and related products sector as sector revenue dropped 34% sequentially. Sales from the industrial control sector fell 5% from the prior quarter, and telecom business also weakened. On the positive side, sales from test and instrumentation rose 21% sequentially, while medical sales grew 4%.

Non-GAAP operating margin came in at 2.7%, down 100 basis points sequentially and 30 basis points year over year. The Q1 margin, which was in line with expectations, suffered from lower revenues and a higher-than-usual level of new program ramps.

For the company's Q2 guidance, see the article on page 6.

Celestica. The company recorded Q1 sales of $1.37 billion, down 8% sequentially and 19% year over year, with the latter decline predominately due to the company's disengagement with **RIM**. Excluding RIM, revenue would have been nearly flat versus a year earlier. Non-IFRS EPS equaled $0.16, down 36% sequentially and year over year. Compared with guidance of $1.325 to $1.425 billion, revenue came in just a hair below the midpoint, while non-IFRS EPS fell near the high end of the company's guidance range $0.11 to $0.17.

IFRS earnings amounted to $10.5 million, up from $7.2 million in the prior quarter but down from $43.2 million in the same period a year ago. Q1 net earnings included restructuring charges of $7.3 million.

Non-IFRS gross margin was 6.6%, down 30 basis points from the prior quarter primarily because of lower revenue and down 20 basis points year over year. Non-IFRS operating margin of 2.5% declined 60 basis points sequentially on lower revenue and fell 90 basis points year over year. For Q2, Celestica projects a non-IFRS operating margin of about 2.5% at the midpoint of guidance, which appears on page 6.

Sales from the company's diversified end markets were off 4% from the prior quarter mainly due to seasonality and demand weakness but grew from a year earlier though not as much as expected. The diversified segment represented 24% of total sales, up from 19% a year ago. At 40% of company sales, communications business was relatively flat on both a sequential and year-over-year basis. Server business shrank 10% sequentially and 9% year over year, while revenue from the storage end market dropped 14% sequentially and was relatively flat versus a year earlier. Sales from the consumer end market declined 34% primarily due to program transitions and fell 77% year over year mainly as a result of the RIM disengagement.

For Q2, Celestica expects the diversified segment in Q2 to grow sequentially by double digits and is also forecasting sequential increases for the communications, storage and consumer end markets. Server business is expected to decline from Q1 mainly because of a decision by a server customer to insource part of its business with Celestica, causing a Q2 revenue loss of about $35 million versus Q1 (Jan., p. 6).

Flextronics. For its Q4 ended March 31, the provider reported sales of $5.3 billion, at the high end of its guidance range of $5.0 to $5.3 billion. Sales dropped 14% sequentially and 17% year over year. The majority of the year-over-over decline stemmed from ending assembly for RIM. Non-GAAP EPS came in at $0.13, within guidance of $0.11 to $0.15. The EPS result was down 41% sequentially and 46% year over year. After including restructuring charges of $125 million, the company posted a GAAP net loss of $27 million, compared with net income of $148 million in the year-earlier period.

At 47% of total sales, Integrated Network Solutions revenue fell 10% sequentially, reflecting normal seasonality and a weak economic backdrop. Compared with a year earlier, INS revenue was down 12%. Industrial and Emerging Industries business decreased 5% sequentially and 4% year over year, while High Reliability Solutions revenue grew 9% sequentially and 20% year over year. High Velocity Solutions business dropped 33% sequentially, reflecting the seasonality of end markets served by HVS. Within HVS, mobile communications endured the steepest decline at over 40%, largely as a result of ending RIM assembly in the December quarter. Flextronics said the March quarter marks a bottom for the HVS segment. On a year-over-year basis, HVS sales fell 41%.

Non-GAAP gross margin was 5.9%, up 20 basis points sequentially and year over year. The company cited restructuring activities as the main reason for the improvement. Non-GAAP operating income amounted to $106 million, down 28% sequentially and 33% year over year. Non-GAAP operating margin declined 40 basis points from the prior quarter to 2.0%, driven by the sequential drop in revenue. In addition, increased investments in corporate infrastructure caused SG&A expenses to go up. Versus the year-earlier quarter, non-GAAP operating margin was down 50 basis points.

Flextronics expects annual savings of more than $150 million from its restructuring effort. As part of this effort, the company is in the process of closing seven factories including its Multek factories in Germany and Brazil. Both Multek sites are considered high cost.

The company believes that the March quarter will mark a margin and revenue trough. At the midpoint of June quarter guidance (see below), Flextronics is forecasting INS and HRS sales to be flat sequentially, IEI to see low single-digit growth quarter to quarter, and HVS to experience low double-digit growth.

Table 1B: Q2 2013 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q2 '13 guidance	Q2 mid-point	Q1 '13 sales	Qtr.-qtr. estim. chg.	Q2 '12 sales	Yr.-yr. estim. chg.	Q1-2 '13 estimated sales	Q1-2 '12 sales	Estimated change	Q2 guidance adjusted EPS* $	Q2 EPS midpoint $	Q1 '13 adjusted EPS* $	EPS Q-Q chg. at midpoint	Q2 '12 adjusted EPS* $	EPS Y-Y chg. at midpoint
Flextronics	5.3 - 5.6	5.5	5.30	2.9%	5.98	-8.8%	10.75	12.35	-13.0%	0.12 - 0.16	0.14	0.13	8%	0.22	-36%
Jabil**	4.3 - 4.5	4.4	4.42	-0.4%	4.25	3.5%	8.82	8.49	3.9%	0.50 - 0.58	0.54	0.53	2%	0.64	-16%
Sanmina	1.45 - 1.50	1.475	1.43	3.3%	1.55	-4.8%	2.90	3.01	-3.6%	0.32 - 0.38	0.35	0.30	17%	0.26	35%
Celestica	1.375 - 1.475	1.425	1.37	3.8%	1.74	-18.3%	2.80	3.44	-18.6%	0.13 - 0.19	0.16	0.16	0%	0.22	-27%
Plexus	550 - 580 M	0.565	0.56	1.3%	0.61	-7.2%	1.12	1.18	-5.0%	0.55 - 0.62	0.59	0.52	13%	0.66	-11%
Benchmark	560 - 590 M	0.575	0.54	6.0%	0.63	-8.7%	1.12	1.22	-8.7%	0.25 - 0.30	0.28	0.22	25%	0.32	-14%
Total/avg.		**13.89**	**13.61**	**2.0%**	**14.76**	**-5.9%**	**27.50**	**29.69**	**-7.4%**						

Q2 estimates equal midpoint of Q2 guidance. First-half 2013 estimates equal Q1 sales plus midpoint of Q2 guidance.
*Adjusted EPS may not be comparable from company to company. **Q2 2013 data correspond to the quarter ending May 2013.

Weak First Half Projected for US-Traded Group

MMI is estimating that combined first-half sales of the six largest US-traded EMS providers will be down 7.4% year over year. For this sector of the EMS industry, hopes for a growth year now rest on the second half.

First-half declines are projected for five out of the six companies, with double-digit drops estimated for **Celestica** and **Flextronics** (Table 1B). **Jabil** is the only provider whose first-half sales are expected to grow. (Note that Jabil's first half ends in May 2013). Estimated first-half sales for this US-traded group total $27.50 billion, down from $29.69 billion in the same period a year ago.

First-half projections are based on second-quarter estimates set equal to the midpoint of sales guidance for each company.

The group's estimated revenue for the second quarter amounts to $13.61 billion, 5.9% below the year-earlier total. Consistent with first-half projections, five out of six providers are also expected to endure year-over-year declines in their Q2 sales (Table 1B). As before, Jabil becomes the sole provider with a forecast of year-over year growth for its quarter.

But the Q2 outlook is not all gloom and doom. Compared with the prior quarter, group sales are projected to rise by 2.0%, a change in the right direction. Not only that, if estimates prove true – that is, if each provider hits the midpoint of its guidance – then five out of six providers will enjoy some degree of sequential sales growth in Q2 (Table 1B). Jabil is the odd man out in this comparison; its sales are estimated to fall slightly by 0.4%.

Guidance suggests that adjusted EPS for Q2 will increase sequentially at **Sanmina**, **Plexus** and **Benchmark Electronics**. At the midpoint of their guidance, all three providers would see their adjusted EPS grow by double digits from the prior quarter (Table 1B). No inferences can be drawn from the guidance of the other three companies, but at the midpoint of their guidance adjusted EPS would rise sequentially by 8% and 2% at Flextronics and Jabil respectively and remain flat at Celestica.

When compared with the year-earlier quarter, EPS guidance offers little to cheer about. Five companies out of six expect adjusted EPS to drop from a year earlier, given their guidance, and at the midpoint EPS of all five would decline by double digits (Table 1B). Sanmina is the only provider whose outlook points to a year-over-year gain in adjusted EPS. At the midpoint of its guidance, the increase would be 35%.

News

Foxconn Won't Make Deadline for Working Hours

A spokesman for **Foxconn Technology Group** told *Reuters* that it would be unable to meet a July 1 deadline for complying with China's legal limit for working hours, which calls for 40 hours per week plus an average of nine hours of overtime per week. Foxconn agreed to the working hours deadline following the **Fair Labor Association's** 2012 assessment of working conditions and worker treatment at three Foxconn facilities that manufacture **Apple** products. The FLA inspection found excessive overtime and other serious issues that Foxconn planned to correct through remedial actions (April 2012, p. 7-8).

In a second status report on actions taken from July 1, 2012 to Dec. 31, 2012, FLA confirmed that workers at the Longhua and Chengdu facilities worked between 40 and 60 hours per week during that period. The same was true in the Guanlan facility with the exception of two weeks in September and one in October when working hours were between 40 and 70 per week. FLA said Foxconn has made significant progress in reducing total hours worked to 60 per week consistent with FLA and Apple standards, with the goal of reaching full compliance with the Chinese legal limit of 49 hours per week on average while protecting worker pay.

FLA's assessment resulted in 360 action items to be completed by July 1, 2013. As of Dec. 31, 2012, Foxconn had achieved a completion rate of 98.3%.

FLA assessors reported notable increases in the participation of workers in union committees. As of January 2013, worker representatives comprised 38.7%, 40.9% and 29.5% of main union committees at Guanlan, Longhua and Chengdu respectively.

Two employee suicides near Zhengzhou campus

In response to a report from **China Labor Watch**, Foxconn Technology Group has confirmed the death of a female employee on April 27th and of a male employee on May 14th, both found outside off-campus residences near Foxconn's facility in Zhengzhou, China. A government news portal reported that both employees ended their lives by jumping off buildings.

In a statement provided to *MMI*, Foxconn noted, "We cannot speculate on individual reasons for these actions, but an internal review shows that there is no indication that they were caused by work-related matters."

The CLW report included a third suicide, but Foxconn pointed out this person, a male who died on April 24th, had applied to work at its Zhengzhou campus but was not yet an employee and had never worked at any Foxconn facility.

Suicide prevention has become an important mission at Foxconn following a series of employee suicides in 2010.

Season Group to Make UK Acquisition

EMS provider **Season Group** (Hong Kong) is in the process of acquiring another EMS company, **Outsource Electronics Limited**, which operates a 25,000-ft^2 factory in Havant, UK.

According to Season Group, this acquisition ensures that the company is well placed to respond to the growing trend towards right shoring. With the addition of OEL, Season Group can now provide PCBA, electromechanical assembly, cable assembly and aftermarket services in both Europe and North America for OEMs who want some of their product portfolio manufactured on a regional basis. The company said that its Malaysia and China sites will still appeal to many OEMs, especially as their sales opportunities in those markets continue to grow.

"We have been working closely with OEL for around 18 months on a number of projects," stated Carl Hung, president and COO of Season Group. "During this time we have had excellent feedback from customers involved in these joint activities – a testimony that they clearly value the opportunity to validate their designs in the UK before moving production to Season Group's other sites."

Hung added, "OEL's established customers have also seen the opportunity to leverage Season Group's in-house cable and plastics capabilities, and some are looking to consolidate all of their products – some of which are with other UK and Far East suppliers – to Season Group."

Deal done...**TQ-Group** (Seefeld, Germany) recently acquired **SRI Holding** (Durach, Germany), an EMS provider that filed for insolvency in 2012.

Change of ownership…**Selcom Group**, whose holdings include Top 50 EMS provider **Selcom Elettronica** (Bologna, Italy), is now operating under new ownership. **BluO** (Munich, Germany, and Luxembourg), a private equity group that specializes in turnarounds, recently purchased Selcom Group.

New facilities…According to an online report from a Texas newspaper, the *Fort Worth Star-Telegram*, about 470,000 ft^2 of leased space in north Fort Worth is being renovated before **Flextronics** (Singapore) moves in. The newspaper based its report on a government filing. *MMI* was unable to confirm this report with Flextronics. …**EPIC Technologies** (Norwalk, OH) has relocated operations from a 56,000-ft^2 facility in Lebanon, OH, to a 74,000-ft^2 facility in Mason, OH. EPIC's Ohio Valley Operations facility is focused on low-to-medium volume, higher mix production. The added square footage will be used to expand the facility's higher level assembly operations. "In the last several years, we've seen two projects brought back from China and hope our expanded facility will attract more of this business," said John Smith, the facility's GM.…**Vanguard EMS** (Beaverton, OR) plans to relocate during the summer of 2013 to a larger 77,000-ft^2 facility within three miles of its current location. "Vanguard's new facility offers benefits to customers and employees," said CEO Floyd Sutz, "including

10% more manufacturing floor space with high ceilings throughout for box build, access to light-rail service and a shorter commute for most employees, double the electrical power of our current facility, and an open manufacturing area, at lower facility costs than today." An LLC owned by Vanguard's CEO purchased the facility in March, and Vanguard has entered into a 10-year, fixed-rate lease.…**Proto-Pac Engineering** of Wilmington, MA, has leased 42,000 ft^2 for a new facility close by its existing location. The new facility will replace the EMS provider's existing factory of about 18,000 ft^2. "We have outgrown our existing space, and we want to have updated space to offer our customers a broader range of services and to allow for additional capital equipment," said David Prunier, director of operations at Proto-Pac. At the new location, Proto-Pac will have access to an additional 10,000 ft^2 of optional space that the company is looking at as a phase-two expansion.

Some new business...According to a *Digitimes* report, **Hon Hai Precision Industry** (New Taipei, Taiwan), anchor company of the Foxconn Technology Group, is assembling **Microsoft's** next-generation game console, unveiled this month as the Xbox One….**Plexus** (Neenah, WI) has teamed with **Sensity Systems**, developer of Light Sensory Networks, as its first EMS partner in an effort to further build out these networks of sensor-equipped LED luminaires. Working with Plexus, companies that join Sensity's Lighting Manufacturer Partner program will be able to design and install Sensity's NetSense technology into their own fixtures, enabling an LSN to be created for use by their customers.

People on the move…This month, Paul Read ended his tenure as CFO of Flextronics. The company said he decided to leave the company to pursue new opportunities but will remain available through the end of the quarter for any necessary transitional activities. Flextronics appointed Christopher Collier as its new CFO effective May 3rd. The company said Collier, its chief accounting officer since 2007, has been groomed for the CFO position for many years. …**SMTC** (Markham, Ontario, Canada) has named Larry Silber interim president and CEO in place of co-CEOs Alex Walker and Claude Germain. By mutual agreement, Walker and Germain are departing as officers and directors of the company to pursue their merchant banking business full time. Silber joined SMTC's board as a director in 2012 and recently served as COO of **Hayward Industries**, a privately held equipment manufacturing company. In addition, SMTC has appointed another director, Clarke Bailey, to serve as executive chairman. He will lead the board's CEO Search Committee to find a permanent CEO for SMTC. Finally, the company has hired Steve Brown as VP, quality and engineering. He has held senior positions in product design, NPI, assembly and test engineering, R&D, and all aspects of quality, most recently with **Celestica**.

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