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EMS Top 12 Delivers Some Good News in Q1

Compared with a year earlier, first-quarter revenue for the world's 12 largest EMS providers was somewhat encouraging. Their combined Q1 sales in US dollars not only grew year over year, but expanded at a faster pace than the annual rate projected for the global economy. Top-12 revenue rose 5.6% year over year, 200 basis points above the 3.6% increase that the **International Monetary Fund** is now forecasting for the world economy in 2014. What's more, top-12 growth came despite a US economy that showed almost no growth in Q1 on an annualized basis. Top-12 revenue, which includes some non-EMS sales, totaled $52.8 billion, up from $50.0 billion in the same period a year ago.

Seven out of 12 providers boosted their Q1 sales from a year earlier, with **Flextronics**, **Universal Scientific Industrial** (USI), **Shenzhen Kaifa Technology** and **Benchmark Electronics** all producing double-digit gains (Table 1, p. 2). Taking top honors, both Flextronics and USI achieved growth rates at the 27% level.

Since **Hon Hai Precision Industry** accounted for 55.3% of top-12 sales in Q1, how much did Hon Hai affect year-over-year growth of the top 12? The answer: not very much. With Hon Hai excluded, combined sales of the other companies rose by 4.6%, compared with 5.6% for the group as a whole (Chart 1, p. 2). Thus, Hon Hai's effect on top-12 growth versus a year ago was a lift of one percentage point. Stripping out Hon Hai also shows that in the aggregate the other companies outpaced projected annual growth of the world economy.

But when Q1 revenue is measured against the prior quarter's sales, Hon Hai's influence looms large. Top-12 sales in Q1 fell 26.7% sequentially, while without Hon Hai the decrease for the others was 12.6% (Chart 2, p. 2). So Hon Hai was responsible for 14.1 percentage points of the group's decline. Hon Hai's sales are subject to seasonality, and the company endured the most severe sequential decline in the group, a 35.1% drop. **Jabil**, USI, Benchmark and **Pegatron** also experienced double-digit declines, as sales were down at nine out of 12 providers.

Net income in Q1 totaled approximately $784 million for 11 of top 12 providers. Included in this amount are net losses at two providers, Jabil and Shenzhen Kaifa. The 12th provider, Pegatron, could not be included in the net profit total because only the sales of its DMS segment are used here, and DMS profit is pretax, which does not agree with the net profits of the other players. (Note that the combined net income of the other players is approximate because they don't all follow the same accounting standard.)

On a year-over-year basis, net income for the 11 companies increased faster than sales did. Net profit grew about 11.9%, while sales rose 6.7%. Seven out of the 11 providers improved their net profits appreciably in US dollars versus a year earlier, and the 12th provider, Pegatron, also raised the profit of its DMS segment from a year ago. But in the sequential comparison, eight out of 11 companies saw their net income drop (Table 1).

Overall net margin for the 11 providers in Q1 stood at about 1.7%, down some 130 basis points sequentially but up about 10 basis points year over year. **Venture** achieved the high-

Some articles in this issue

Company (in order of Q1 '14 sales)	Head-quarters	Reports in US$	Q1 '14 sales	Q4 '13 sales	Qtr.-qtr. chg.	Q1 '13 sales	Yr.-yr. chg.	Q1 '14 net profit	Q4 '13 net profit	Q1 '13 net profit
Hon Hai (Foxconn)	Taiwan	No	29,177	44,970	-35.1	27,431	6.4	645	1,443	554
Flextronics	Singapore	Yes	6,724	7,183	-6.4	5,295	27.0	43	145	(49)
Jabil	Florida	Yes	3,577	4,343	-17.6	4,166	-14.1	(32)	102	76
Sanmina	California	Yes	1,477	1,448	2.0	1,428	3.4	21	23	21
Celestica	Canada	Yes	1,312	1,437	-8.7	1,372	-4.4	37	22	11
Cal-Comp Electronics	Thailand	No	952	989	-3.8	1,005	-5.3	6	(8)	9
Universal Scien-tific Industrial	China	No	706	962	-26.6	556	27.1	21	30	21
Shenzhen Kaifa Technology	China	No	677	653	3.6	595	13.8	(19)	13	5
Benchmark Electronics	Texas	Yes	639	757	-15.5	542	17.9	19	68	12
Plexus	Wisconsin	Yes	558	534	4.4	558	0.0	19	18	18
Venture	Singapore	No	466	498	-6.5	429	8.7	24	30	23
Subtotal/avg.			**46,264**	**63,774**	**-27.5**	**43,377**	**6.7**	**~784**	**~1,886**	**~700**
Pegatron[1]	Taiwan	No	6,522	8,201	-20.5	6,621	-1.5	106	128	80
Total/avg.			**52,786**	**71,975**	**-26.7**	**49,998**	**5.6**			

Table 1: Q1 2014 Results for the 12 Largest EMS Providers (M US$ or %)

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 2013 and 2014 data from the US Federal Reserve. Net profit totals are approximate because not all companies follow the same accounting standard. [1] Sales and net profits listed for Pegatron correspond to the company's DMS segment. Net profits for the DMS segment are pre-tax and are shown separately from the other companies' profits, which include taxes.

est margin with a 5.2% result. No other provider was close as **Plexus** ranked second with a 3.3% net margin. Without Hon Hai, net margin for the ten others would have been a barely profitable 0.6%.

Some color for the Asia-listed providers

Compared with a year earlier, Q1 sales generated by Hon Hai in its NT dollars reporting currency were up 9.2%, versus 6.4% in US dollars. On a sequential basis, sales dropped 33.5% in NT dollars (35.1% in US dollars). The company's Q1 operating margin came in at 2.4%, up 70 basis points year over year.

For Pegatron, its DMS (design, manufacturing and service) segment represented 90.3% of total sales in Q1. Not counted in this analysis is the company's other segment, Strategic Investment Group, comprised of DMS's upstream and downstream supply chain, strategic investments and other related investment arms. Although Pegatron's DMS sales in US dollars decreased 1.5% year over year, in NT dollars the DMS segment grew 1.1%. Measured against the prior quarter, DMS revenue dropped 18.5% in NT dollars (20.5% in US dollars).

While US-dollar sales at **Cal-Comp Electronics** fell 5.3% in Q1 versus a year earlier, they rose 3.8% in baht, the company's native currency. The increase in baht mainly resulted from sales growth for set-top box products and external hard-disk products. Net margin declined to 0.61% in Q1 from 0.94% in the year-ago period.

For Q1, Shenzhen Kaifa reported a net loss of 115.7 million yuan, which converts to a loss of $19 million, on sales of 4.13 billion yuan ($677 million). Sales in the Chinese currency increased 3.8% sequentially and 11.5% year over year.

In NT dollars, USI's Q1 sales fell 24.8% sequentially but grew 30.5% year over year. USI's gross margin in the quarter was 9.6%, up 190 basis points from the prior quarter but down 190 basis points from a year earlier. Operating margin amounted to 3.9%,

Chart 1: Q1 2014 Sales Growth Year Over Year

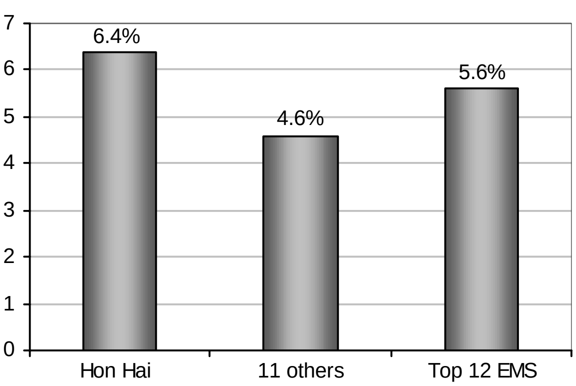
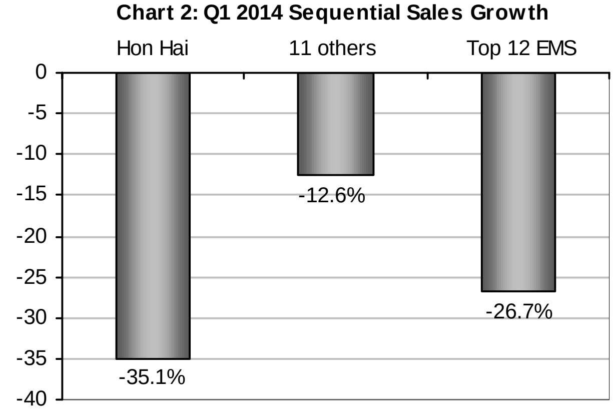


Chart 2: Q1 2014 Sequential Sales Growth



up 50 basis points sequentially but down 90 basis points year over year. USI's five largest customers accounted for 73% of total revenue. USI is the EMS arm of **Advanced Semiconductor Engineering**.

At Venture, Q1 revenue in Singapore dollars was 11.4% higher than in the year-ago period, while profit attributable to owners of the company went up 9.8% from a year earlier. Compared with the previous quarter, sales in Singapore dollars declined 5.1%. On a year-over-year basis, Singapore-dollar sales grew in all of Venture's segments, as Test & Measurement/Medical/Others stood out with a 24.2% gain.

Decent Start for US-Traded Group

Combined first-quarter revenue for the six largest US-traded EMS providers rose 6.9% year over year, a solid start on which a growth year could be built. What's more, this marks the third consecutive quarter in which the group's sales grew year over year. Three straight quarters of year-on-year increases are good sign for this sector of the EMS industry and may indicate that the sector began growing again in the second half of 2013.

In Q1, the six providers generated sales totaling $14.29 billion, up from $13.36 billion in the year-earlier period. The prime mover behind this increase was **Flextronics**, which boosted its sales by 27% year over year. **Benchmark Electronics** also posted a double-digit gain. Despite the group's respectable 6.9% growth from a year earlier, sales performance varied a lot, ranging from Flextronics' double-digit high to **Jabil's** double-digit low (Table 1A, p. 4).

MMI had estimated that aggregate growth for the six providers would be 2.7% (Feb., p. 8). So the group beat *MMI's* projection by 4.2 percentage points, and the group's Q1 revenue was $587 million higher than projected. *MMI* based its estimates on the midpoint of each company's sales guidance for Q1. The upside was mostly driven by Flextronics, which exceeded the midpoint of its guidance by $624 million.

On a sequential basis, the group's revenue fell by 9.0% in Q1, a quarter in which segments such as consumer electronics and computing are prone to seasonality. Still, the decrease was 3.7 percentage points better than forecasted. Sales declines at four providers prevailed, with both Benchmark and Jabil registering double-digit drops. **Plexus** and **Sanmina** were the two companies able to grow their sales from the prior quarter.

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 6.2%, down 50 basis points sequentially but up 60 basis points year over year. Benchmark and Sanmina succeeded in raising their gross margins from Q4 2013, while all but Jabil improved their margins from the year-earlier period.

Together, the five companies in Q1 produced a GAAP operating margin of 1.7%, down 140 basis points sequentially but up 20 basis points year over year. Three providers – Benchmark, Plexus and Sanmina – turned in GAAP operating margins above 3%, led by Benchmark with a 3.5% result. Sanmina was the only provider to increase its GAAP margin from the prior quarter, while Benchmark and Flextronics boosted their margins from a year earlier. As for the lone IFRS reporting company, Celestica raised its IFRS operating margin from both the previous quarter and the year-ago period (Table 1A, p. 4).

On a sequential basis, combined GAAP net income for the five companies in Q1 fell far faster than sales did. Aggregate net income of $69.0 million dropped 80.6% in contrast with a sales decline of 9.0%. Net income was down from the prior quarter at four out of five companies, with Plexus being the lone exception. In the year-over-year comparison, total GAAP net income for the five companies sank 10.5% despite sales growth of 8.2%. Jabil bore nearly all responsibility for this decline. Q1 net margin for the GAAP reporting companies was 0.5%, down 200 basis points sequentially and 10 basis points year over year.

Q1 summaries for four providers

Last month's issue covered quarterly results for two of the six largest US-traded EMS providers. Results for the four other companies are briefly summarized below. However, their June quarter guidance for sales and non-GAAP EPS appears in Table 1B on page 6.

Benchmark Electronics. The company reported Q1 revenue of $639 million, down 16% sequentially but up 18% year over year. Revenue was within guidance, though below the midpoint of $645 million. As expected, revenue dropped sequentially due to normal seasonality. Also, Benchmark said softness in the computing sector was somewhat greater than forecasted. On an organic basis, sales rose 6% year over year. Non-GAAP EPS of $0.35 surpassed the high end of guidance by one cent and was 19% below the prior quarter's result but 59% above the year-ago figure.

In Q1, the provider earned GAAP net income of $19.1 million, or $0.35 a share, compared with $67.5 million, or $1.24 a share, in the prior quarter and $11.5 million, or $0.21 a share, in the year-earlier period.

Non-GAAP operating margin stood at 3.6%, down 50 basis points sequentially but up 90 basis points year over year.

Computing revenue (20% of total sales), which typically exhibits the

Table 1A: Q1 2014 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company	Q1 '14 sales	Q4 '13 sales	Qtr.-qtr. chg.	Q1 '13 sales	Yr.-yr. chg.	Q1 '14 gross marg.	Q4 '13 gross marg.	Q1 '13 gross marg.	Q1 '14 oper. marg.	Q4 '13 oper. marg.	Q1 '13 oper. marg.	Q1 '14 net inc.	Q4 '13 net inc.	Q1 '13 net inc.
Flextronics	6,723.9	7,183.4	-6.4	5,295.3	27.0	5.4	5.5	3.7	1.9 [1]	2.3 [1]	-0.7 [1]	43.0	145.2	(49.3)
Jabil [2]	3,577.3	4,342.7	-17.6	4,166.4	-14.1	6.0	7.7	6.9	0.1	3.6	3.2	(32.4) [3]	101.8 [3]	75.7 [3]
Sanmina	1,476.7	1,447.5	2.0	1,427.6	3.4	8.1	7.7	7.0	3.1	2.7	3.2	20.8	23.1	21.2
Benchmark	639.3	756.8	-15.5	542.4	17.9	8.0	7.9	6.8	3.5	8.0	2.6	19.1	67.5	11.5
Plexus	557.6	533.9	4.4	557.8	0.0	9.5	9.6	9.3	3.4	4.1	4.2	18.5	17.7	18.0
Subtotal/avg.	**12,974.8**	**14,264.3**	**-9.0**	**11,989.5**	**8.2**	**6.2**	**6.7**	**5.6**	**1.7**	**3.1**	**1.5**	**69.0**	**355.3**	**77.1**
Celestica	1,312.4	1,436.7	-8.7	1,372.4	-4.4	6.9	7.2	6.3	2.4	1.5	1.2	37.3	22.1	10.5
Total/avg.	**14,287.2**	**15,701.0**	**-9.0**	**13,361.9**	**6.9**									

All results are based on GAAP except those of Celestica, which adopted 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] For Jabil, Q1 '14 data correspond to the quarter ended Feb. 28, 2014. [3] Net income attributable to Jabil from continuing operations.

highest level of seasonality in the Q4 to Q1 comparison, fell 47% sequentially, which Benchmark said was slightly softer than expected. On a year-over-year basis, the decline was 5%. Business from the industrial control sector (29% of sales) fell 7% quarter to quarter, a typical result for the sector, yet increased 19% from a year earlier. Telecom revenue (27% of sales) decreased 6% seasonally from Q4 but grew 22% year over year. Medical business (11% of sales) was flat versus the prior quarter and rose 5% from a year ago. Driven by new program ramps, test and instrumentation revenue (13% of sales) climbed 36% sequentially and 96% year over year.

To meet increasing demand in the Americas, Benchmark has expanded the capacity of its operations in Guadalajara, Mexico.

For Q2, the company expects computing to be up by low single digits sequentially, industrial controls to grow by more than 20% sequentially, telecom business to be up by mid single-digits, the medical sector to be flat versus Q1, and test and instrumentation to be down by high single digits. The midpoint of Q2 guidance reflects a non-GAAP operating margin of 3.8%.

Celestica. The provider recorded Q1 sales of $1.31 billion, down 9% sequentially and 4% year over year. Revenue came in near the low end of guidance of $1.30 billion to $1.40 billion primarily because of demand softness in the company's communications business and a delayed program in Celestica's diversified end markets. Non-IFRS EPS of $0.26 beat guidance of $0.17 to $0.23 due to a tax benefit of $0.06 per share. Including the tax benefit, non-IFRS EPS grew 8% sequentially and 63% year over year.

In Q1, Celestica produced IFRS earnings of $37.3 million, or $0.20 a share, up from $22.1 million, or $0.12 a share, in the prior quarter, and $10.5 million, or $0.06 a share, a year earlier.

Non-IFRS gross margin was 7.2%, down 20 basis points sequentially but up 60 basis points year over year. Non-IFRS operating margin was 3.1%, also down 20 basis points sequentially but up 60 basis points year over year.

Q1 revenue from the company's diversified end markets (28% of total sales) was impacted by the push-out of a program into Q2. Diversified revenue grew 10% from a year earlier with strong growth in the company's semiconductor, industrial and aerospace and defense sectors, partially offset by declines in solar business. Compared with the prior quarter, diversified revenue declined 5%, largely driven by the push-out.

Communications business (40% of sales) decreased 3% year over year, primarily due to reductions in telecom and lower overall demand, partially offset by revenue growth from new programs. On a sequential basis, communications revenue fell 10%, a drop that was greater than expected as a result of lower demand across a few customers.

Storage revenue (16% of sales) increased 22% from Q1 2013, primarily driven by new programs, but was down 4% sequentially, driven by lower than expected demand from one customer, partially offset by new programs.

Revenue from the server segment (10% of sales) dropped 43% from a year earlier due to overall weaker demand and the previously disclosed insourcing of a lower-margin assembly program. Versus the prior quarter, server revenue declined 16% mainly because of seasonal impacts.

The company's consumer end market (6% of total sales) fell 18% year over year as a result of program transitions that reflect de-emphasis of lower-margin areas of Celestica's consumer business. On a sequential basis, consumer revenue was down 16% mainly due to seasonal impacts.

For Q2, Celestica expects sequential growth in low double digits for the diversified and server segments, a double-digit gain for storage business versus Q1, a sequential increase in mid single digits for communications sales, and essentially flat revenue from the consumer end market. The company is forecasting a non-IFRS operating margin of 3.3% at the midpoint of guidance.

Flextronics. For its fiscal Q4 ended March 31, sales totaled $6.72 billion, down 6% sequentially but up 27% year over year. Sales exceeded guidance of $5.9 billion to $6.3 billion, with all business groups performing above expectations. Non-GAAP EPS of $0.24 also surpassed guidance, given as $0.18 to $0.22. The EPS result was down 8% sequentially but up 85% year over year.

Non-GAAP operating income amounted to $182.0 million, down 3% sequentially but up 72% year over year. This operating income performance reflected the company's ability to lower operating expenses and leverage SG&A. GAAP operating income was $137.4 million, compared with operating income of $174.0 million in the prior quarter and an operating loss of $27.1 million in the year-ago period. (Flextronics does not include intangible amortization in GAAP operating income.)

The company earned GAAP net income of $43.0 million, or $0.07 a share, versus net income of $145.2 million, or $0.23 a share, in the previous period and a net loss of $49.3 million, or a loss of $0.08 a share, a year earlier. GAAP net income for fiscal Q4 included a $55-million charge for an obligation written into a customer's contract. Flextronics and the customer are amending the contract to provide for a waiver of the obligation. The provider believes the amendment will be executed in the June quarter, and when that occurs, Flextronics will reverse the $55-million charge.

Non-GAAP gross margin equaled 5.8%, up 20 basis points sequentially but down 10 basis points year over year. Operational improvements in Flextronics' PCB business and a healthier mix contributed to the sequential improvement in the non-GAAP metric. Non-GAAP operating margin came in at 2.7%, up 10 basis points sequentially and 70 basis points year over year.

Revenue from the company's Integrated Network Solutions (INS) business group (36% of total sales) declined 7% sequentially, which was slightly better than expectations, and was down 1% year over year. The server and storage and networking segments within INS both decreased sequentially due to seasonality and overall market softness, while telecom saw unexpected single-digit growth due to a few customer upsides.

Industrial and Emerging Industries (IEI) business (15% of sales) grew 10% quarter to quarter and 16% year over year. Sequential growth exceeded expectations due to the ramp of a few programs and growth in all IEI segments.

High Reliability Solutions (HRS) revenue (13% of sales) rose 2% from the prior quarter, which was above expectations, and 9% from a year earlier. The sequential upside was related to better demand equally split between the automotive and medical segments of HRS.

High Velocity Solutions (HVS) business (36% of sales) fell 14% sequentially, which was much better than forecasted as a result of significantly less than expected seasonality across multiple HVS customers, particularly the company's largest HVS customer. Versus a year ago, HVS business was up 107%.

For the June quarter, Flextronics is projecting that INS and HRS sales will be stable versus the prior quarter, IEI revenue will grow sequentially by high single digits, and HVS business will drop sequentially by 20% to 25%.

Sanmina. For its fiscal Q2 ended March 29, the company posted sales of $1.48 billion, up 2% sequentially and 3% year over year. Revenue exceeded the high end of guidance by just $1.7 million. Non-GAAP EPS of $0.44 also came in above the high end of guidance, surpassing the upper limit of the range by two cents a share. The non-GAAP result was up 7% sequentially and 47% year over year.

The company earned GAAP net income of $20.8 million, or $0.24 a share, down from $23.1 million, or $0.26 a share, in the prior quarter and $21.2 million, or $0.25 a share, in the year-ago period. The sequential decline in GAAP EPS was driven by a $7-million increase in taxes.

Non-GAAP gross margin amounted to 8.2%, up 40 basis points sequentially and 110 basis points year over year. This is the highest quarterly gross margin recorded by Sanmina since 2001. The company's Integrated Manufacturing Solutions segment produced a non-GAAP gross margin of 6.9%, down 10 basis points quarter to quarter but up 120 basis points year over year. Sanmina's other segment – Components, Products and Services – turned in a non-GAAP gross margin of 10.7%, up 160 basis points from the prior quarter's disappointing result but down 40 basis points from a year earlier. CPS's sequential margin improvement was driven mainly by the components businesses.

Sanmina recorded non-GAAP operating income of $53.2 million, up 9% sequentially. Non-GAAP operating margin was 3.6%, up 20 basis points from the previous quarter and 80 basis points from the same period a year ago.

The company owed its sequential increase in fiscal Q2 sales to the growth of its Defense/Industrial/Medical segment (34% of total sales), whose revenue rose 10.6% from the prior quarter, more than offsetting sequential declines in the other three segments. Sanmina expected the segment's sales to be up, and the increase was driven by strong growth in industrial business along with an increase in the medical area. Revenue from the Communications Networks segment

(43% of sales) fell 2.6% quarter to quarter, consistent with a forecast of slightly down. Sanmina reported that overall demand in the segment was stable during the quarter. Computing and Storage business (13% of sales) was off 0.6% sequentially, as flat demand was in line with the segment's outlook. Multimedia revenue (10% of sales) was down 0.5% on overall stable demand versus a sales forecast of slightly down.

For the June quarter, in which demand is improving, the company is forecasting Communications Networks and Defense/Industrial/Medical sales to be nicely up on a sequential basis, Computing and Storage revenue to be slightly up quarter to quarter, and Multimedia business to be flat versus the prior quarter.

Table 1B: Q2 2014 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q2 '14 guidance	Q2 midpoint	Q1 '14 sales	Qtr.-qtr. estim. chg.	Q2 '13 sales	Yr.-yr. estim. chg.	Q1-2 '14 estimated sales	Q1-2 '13 sales	Estimated change	Q2 guidance adjusted EPS* $	Q2 EPS midpoint $	Q1 '14 adjusted EPS* $	EPS Q-Q chg. at midpoint	Q2 '13 adjusted EPS* $	EPS Y-Y chg. at midpoint
Flextronics	6.0 - 6.5	6.25	6.72	-7.0%	5.79	7.9%	12.97	11.09	17.0%	0.20 - 0.24	0.22	0.24	-8%	0.18	22%
Jabil**	3.5 - 3.7	3.60	3.58	0.6%	4.19	-14.2%	7.18	8.36	-14.2%	(0.20) - 0.00	(0.10)	0.10	NA	0.47	NA
Sanmina	1.50 - 1.60	1.55	1.48	5.0%	1.49	4.1%	3.03	2.92	3.8%	0.45 - 0.49	0.47	0.44	7%	0.40	18%
Celestica	1.375 - 1.475	1.43	1.31	8.6%	1.50	-4.7%	2.74	2.87	-4.5%	0.20 - 0.26	0.23	0.26	-12%	0.21	10%
Benchmark	665 - 700 M	0.68	0.64	6.8%	0.61	12.3%	1.32	1.15	14.9%	0.35 - 0.40	0.38	0.35	7%	0.31	21%
Plexus	600 - 630 M	0.62	0.56	10.3%	0.57	7.5%	1.17	1.13	3.8%	0.69 - 0.74	0.72	0.60	19%	0.68	5%
Total/avg.		**14.12**	**14.29**	**-1.2%**	**14.15**	**-0.2%**	**28.41**	**27.51**	**3.3%**						

Q2 estimates equal midpoint of Q2 guidance. First-half 2014 estimates equal Q1 sales plus midpoint of Q2 guidance.
*Adjusted EPS may not be comparable from company to company. **Q2 2014 data correspond to the quarter ending May 2014.

Tepid First Half Projected

Combined revenue growth of the six largest US-traded EMS providers in the first half will be underwhelming, if *MMI's* estimates hold true. *MMI* is projecting that the group's first-half sales will total $28.41 billion, up 3.3% year over year. Given this projected increase, hopes for a strong growth year now rest on the group's second-half performance.

According to *MMI's* estimates, first-half sales will grow from a year earlier at four out of six providers, with double-digit gains projected for **Benchmark Electronics** and **Flextronics**. Sales increases at those four providers will outweigh revenue declines at the other two companies (Table 1B, above).

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

Estimated Q2 sales for the six providers add up to $14.12 billion, down 1.2% from Q1 and essentially flat (down 0.2%) versus the year-ago period. In the sequential comparison, Q2 sales are projected to rise at five providers, but the gains will not be sufficient to offset an estimated 7.0% drop at Flextronics. **Plexus** is the only provider with a projected sequential increase in double digits. On a year-over-year basis, forecasted sales growth at four providers will be canceled out by declines at **Celestica** and **Jabil**, with a double-digit drop predicted for the latter. (In the case of Jabil, its fiscal quarter ending in May is used as a quasi-Q2 in this analysis.) Benchmark alone is expected to boost its Q2 revenue by double digits from a year earlier (Table 1B).

Guidance suggests that adjusted EPS for the June quarter will increase sequentially for both Plexus and **Sanmina**, and at the midpoint of their guidance adjusted EPS would be up by 19% for Plexus and 7% for Sanmina. Based on guidance from Jabil, the company expects that adjusted EPS in its May quarter will decline from the prior quarter. No such inferences can be made for EPS guidance issued by the other companies. Still, at the midpoint of guidance, adjusted EPS would be up 7% sequentially at Benchmark and down 8% and 12% at Flextronics and Celestica respectively.

In a year-over-year comparison, guidance implies that adjusted EPS will improve at Flextronics, Sanmina, Benchmark and Plexus, while the EPS metric is expected to fall at Jabil. At the midpoint of guidance, adjusted EPS growth from a year earlier would be in double digits for Flextronics, Sanmina and Benchmark, and the growth rates at Flextronics and Benchmark would be over 20%. Celestica's guidance does not lead to any conclusion about how Celestica's adjusted EPS for Q2 will compare with the year-ago result, although at the guidance midpoint Celestica's adjusted EPS would be up by 10% (Table 1B).

News

EMS Factory Torched in Vietnam

A southern Vietnam factory owned by EMS provider **Fittec International Group** (Hong Kong) ceased operation this month after the plant was torched and looted by rioters. The factory was among Chinese- and other foreign-owned sites in Vietnam that were attacked during anti-China riots sparked by China's placement of an oil rig in waters claimed by both China and Vietnam. Hundreds of foreign-owned facilities were burned or damaged, *The Wall Street Journal* reported.

Fittec's operation in Vietnam is located in Binh Duong province at the Vietnam Singapore Industrial park, one of the places targeted by rioters. The factory has been temporarily suspended from operation until further notice. Equipped with 16 SMT lines, the plant represented about 24% of Fittec's placement capacity and accounted for about 11% of the provider's revenue for the six months ended December 31, 2013.

In 2013, Hong Kong-listed Fittec generated sales of HK$1.12 billion ($144.6 million).

Initially, **Hon Hai Precision Industry** (New Taipei, Taiwan) said the riots in Vietnam had no impact on its factories there, but according to news reports, the company subsequently suspended operations in Vietnam for three days.

Canadian Provider Gains US Presence

Varitron Group, a Canadian EMS provider based in Saint-Hubert, Québec, has acquired an American provider, **Altronics Manufacturing** of Hudson, NH. This transaction will provide Varitron with an essential presence for meeting US content requirements for its customers, locally and abroad.

"Varitron and Altronics provide similar services but also have complementary offerings intended for different markets," said Michel Farley, president of Varitron Group. "By pooling our expertise, we will be able to serve more customers and to provide added value in terms of volume with the aim of consolidating the US market and developing new niches."

Altronics serves commercial, military, industrial and medical customers, while Varitron provides EMS to the energy, telecom, aerospace, medical, military and automobile industries.

"Altronics was at a crossroads, and this acquisition enables us to grow our business more rapidly and develop new markets," said Jeff Altschuler, founder of Altronics, who becomes executive VP of Varitron's New Hampshire division.

The purchase price was not disclosed.

3D alliance…EMS provider **Firstronic** (Grand Rapids, MI) has formed an alliance with **DASI Solutions** (Pontiac, MI), a supplier of 3D printing equipment, software and services. Under the alliance, DASI will work with Firstronic exclusively for the next three years on developing a range of EMS applications. In exchange, Firstronic will cooperate exclusively with DASI to develop applications related to the production requirements of Firstronic's automotive customer base and will introduce DASI's team to product development teams at Firstronic's customers, as appropriate.

Automotive alliance…Hon Hai Precision Industry is working with China's **Beijing Automotive Group** to develop batteries for electric vehicles, *Digitimes* reported, citing supply chain sources.

Some new business…**Flextronics** (Singapore) will provide design and manufacturing services to **Ichor Medical Systems** (San Diego, CA) for the development of its next-generation electroporation device used to deliver DNA vaccines and treatments addressing a broad spectrum of diseases. Electroporation is a method for enhancing DNA vaccine delivery with the application of electrical fields at the site of DNA administration. On the automotive side, Flextronics recently announced that it has provided design and manufacturing services for the all-new 2014 Jeep Cherokee. In addition, **5BARz** (San Diego, CA) has selected Flextronics as its supply chain solutions and manufacturing partner for the 5BARz Network Extender, which provides improved cellular signals for reception on mobile and cellular equipped devices….In Livingstone, Scotland, **Jabil** (St. Petersburg, FL) will manufacture up to 390,000 micro-CHP Flow boilers for **Flowgroup** (Chester, UK). The boiler generates low-carbon electricity as it heats a home….**Sanmina** (San Jose, CA) and **Primus Power** (Hayward, CA) have entered into a manufacturing agreement to produce grid-scale electrical energy storage systems. As part of the agreement, Sanmina will assemble and test distributed energy storage systems in Silicon Valley for Primus….**Shenzhen Kaifa Technology** (Shenzhen, China) reported that it is serving as the sole contract manufacturer for **Nubia**, a smartphone brand of China's **ZTE**….**PartnerTech** (Malmö, Sweden) has signed a framework agreement with battery maker **Exide Technologies** for manufacturing of PCBAs used in the company's battery chargers. Initially, the contract is estimated to be worth about 3 million euros, and assembly will take place in PartnerTech's unit in Sieradz, Poland. …**Kongsberg** has placed separate orders for military communications equipment and weapon guidance system modules with **Kitron** (Billingstad, Norway). The first order, related to an air-defense system, is valued at NOK 80.7 million ($13.5 million), and the second is worth about NOK 30 million ($5 million)….Under a new business award from **Shanghai Avionics Corporation**, **TT Electronics Integrated Manufacturing Services** is providing manufacturing services in support of Level A airborne avionics systems that will be used on the C919, China's first domestically produced airplane. TT Electronics-IMS is a subsidiary of TT Electronics (Weybridge, UK)….**Bell**

Helicopter, a subsidiary of **Textron**, has awarded **Ducommun** (Carson, CA) contracts valued at $5.6 million to provide electronics assemblies and wiring harnesses for the V-22 Osprey tilt-rotor military aircraft.

New engineering centers in the US…TT Electronics-IMS has opened a new engineering office in Cary, NC, to support aerospace and defense customers and meet the rising demand for engineering services within those markets….**Creation Technologies** (Burnaby, BC, Canada) has relocated its Colorado-based Design Center to a larger, 16,000-ft^2 facility to help meet increased demand from its customers for design services. Located in Golden, CO, the new center features labs dedicated to each of Creation's engineering disciplines.

New location…**MC Assembly** (Palm Bay, FL) will be moving its Florida operation to a new facility inside the technology business hub in Melbourne, FL. The EMS company expects to be completely operational in the new facility in early 2015.

Lithium-ion capability…**NATEL EMS** has built a facility and invested in equipment to handle lithium-ion module manufacturing at its Chatsworth, CA, headquarters. Li-ion battery assemblies are commonly used in aerospace and energy, and NATEL is poised to deliver Li-ion solutions to customers in these industries and others.

People on the move…Peter Nilsson has been named as the new CEO of Kitron, effective no later than November 2014. He had been president for PartnerTech's Electronics Technology division, a position he gave up to take on the CEO job at Kitron. In addition to PartnerTech, Nilsson held executive-level positions at **Rimaster**, Sanmina and **Ericsson**. With Nilsson leaving PartnerTech, the company has appointed Stefan Hansson-Mutas acting president for its Electronics Technology division, in addition to his position as managing director for PartnerTech's electronics unit in Malmö, Sweden….Patrick Jermain has assumed the role of CFO at **Plexus** (Neenah, WI) in place of outgoing CFO Ginger Jones, who intends to leave the company by Sept. 28. Jermain joined Plexus in 2010 and most recently served as VP of finance and treasurer….At **Kimball Electronics Group** (Jasper, IN), Julie Dutchess has been promoted to VP, human resources; Sandy Smith has advanced to VP, information technology; and Janusz Kasprzyk has moved up to VP, European operations….**SMTC** (Markham, Ontario, Canada) has appointed Josh Chien senior VP of worldwide sales and marketing. With over 15 years of experience in the EMS industry, he joins SMTC from Sanmina, where he was VP of strategic business engagement. Also, SMTC has named Jim Currie interim CFO. He has provided services as a financial executive to a number of public and private companies….**IEC Electronics** (Newark, NY) has promoted Michael Williams to VP of finance and CFO effective June 1. He joined IEC in February as VP of finance.

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