Manufacturing Market™ INSIDER

inside the contract manufacturing industry

Vol. 21, No. 11 November 2011

Ho-Hum Year Projected for US-Traded Group

Q4 2011 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q4 guidance	Q4 mid-point	Q3 '11 sales	Qtr.-qtr. estim. chg.	Q4 '10 sales	Yr.-yr. estim. chg.	Q1-3 '11 sales	2011 estimated sales	2010 sales	Estimated change	Q3 adjusted EPS* $	Q4 guidance adjusted EPS* $	Q4 EPS midpoint	EPS Q-Q chg. at midpoint
Flextronics	7.3 - 7.7	7.5	8.04	-6.8%	7.83	-4.3%	22.45	29.95	27.76	7.9%	0.22	0.18 - 0.22	0.20	-9%
Jabil**	4.3 - 4.5	4.4	4.28	2.8%	4.08	7.8%	12.44	16.84	14.40	16.9%	0.62	0.62 - 0.70	0.66	6%
Celestica	1.70 - 1.85	1.78	1.83	-3.0%	1.88	-5.4%	5.46	7.23	6.53	10.9%	0.26	0.23 - 0.29	0.26	0%
Sanmina-SCI	1.5 - 1.6	1.55	1.70	-8.6%	1.66	-6.8%	4.94	6.49	6.50	-0.2%	0.47	0.26 - 0.34	0.30	-36%
Benchmark	475 - 525 M	0.50	0.57	-12.3%	0.63	-20.2%	1.69	2.19	2.40	-8.7%	0.34	0.00 - 0.11	0.06	-84%
Plexus	510 - 540 M	0.53	0.54	-2.4%	0.57	-7.2%	1.67	2.19	2.15	1.9%	0.52	0.44 - 0.49	0.47	-11%
Total/avg.		**16.25**	**16.96**	**-4.2%**	**16.65**	**-2.4%**	**48.65**	**64.90**	**59.74**	**8.6%**				

Q4 estimates equal midpoint of Q4 guidance. 2011 estimates equal nine-month sales plus midpoint of Q4 guidance.
*Adjusted EPS may not be comparable from company to company. **Q4 2011 data correspond to the quarter ending November 2011.

A fourth-quarter sales decline will result in single-digit growth for the 2011 combined sales of the six largest US-traded EMS providers, according to an estimate by *MMI*. The group's Q4 revenue is projected to drop by 2.4% year over year, lowering the group's 2011 sales growth to an estimated 8.6%. Through the first nine months, revenue had grown at a 12.9% rate, buoyed up by double-digit increases in the first two quarters. For this US-traded sector of the EMS industry, 2011 started with a bang and is ending with a whimper. As a result, 2011 will go down as a ho-hum year for this group rather than something more impressive.

MMI estimates that 2011 sales for the group of six will total $64.9 billion, up the aforementioned 8.6% from $59.7 billion a year earlier. Only two providers, **Jabil** and **Celestica**, are expected to enjoy double-digit growth for 2011. Jabil will lead the group with a projected sales increase of 16.9%, followed by Celestica at 10.9%. Sales at **Flextronics** and **Plexus** are also predicted to grow, but at single-digit rates. **Sanmina-SCI's** 2011 revenue will be nearly flat versus a year earlier, while **Benchmark Electronics'** revenue will fall by 8.7%, according to *MMI's* projections (table above).

MMI estimated 2011 sales by adding a company's nine-month sales to the midpoint of its Q4 sales guidance. In this analysis, the guidance midpoint became the Q4 sales estimate in each case.

For the fourth quarter, only Jabil will see year-over-year sales growth, which will amount to 7.8%, according to *MMI's* estimates. Projected revenue declines for the rest are in single digits except for Benchmark's 20.2% drop (table). Because these declines will be partly offset by Jabil's increase, the group's Q4 revenue is projected to decrease by 2.4% from the year-earlier

Some articles in this issue

period to $16.25 billion.

On a sequential basis, the group's Q4 revenue is estimated to decline by 4.2%, as market uncertainty and softening demand are taking their toll on various end markets. Again, Jabil is the only provider whose Q4 sales are projected to grow from the prior quarter. *MMI* estimates that sequential declines for the other five providers will range from -2.4% for Plexus to -12.3% for Benchmark (table, p. 1). Note that Benchmark's drop in revenue stems from the flooding of its Thailand facility.

Based on Q4 EPS guidance, three providers – Benchmark, Plexus and Sanmina-SCI – expect a sequential decline in their non-GAAP EPS for Q4. In all three cases, the decline is in double digits at the guidance midpoint, the worst case being Benchmark's 84% drop. Non-GAAP EPS for Plexus and Sanmina-SCI would fall 11% and 36% respectively at the midpoint. With Flextronics' outlook, non-GAAP EPS in Q4 could be the same as or less than the Q3 result. At guidance midpoint, Flextronics' non-GAAP EPS would be down 9% sequentially (table, p. 1). For all four of these companies, the sequential EPS decline at guidance midpoint is greater than the corresponding revenue decline at guidance midpoint.

According to guidance from Jabil, the company expects non-GAAP EPS for its December quarter to equal or exceed the result from the prior quarter. At guidance midpoint, non-GAAP EPS would improve by 6.5% sequentially, which is greater than the corresponding 2.8% increase in revenue at the midpoint. As for Celestica, non-IFRS (adjusted) EPS at Q4 guidance midpoint would be unchanged from the EPS value produced in Q3 (table, p. 1).

Results

Slower Sales Growth in Q3 for US-Traded Group

Year-over-year growth slowed in Q3 for the combined sales of the six largest US-traded EMS providers. Revenue for the US-traded group rose by 8.1% year over year in Q3, well below Q1 and Q2 growth of 16.9% and 14.4%. Still, the Q3 growth rate was 2.1 percentage points higher than *MMI's* earlier estimate of 6.0% (Aug., p. 1). So the slowdown could have been worse.

Group sales for Q3 totaled $16.96 billion, up 3.3% sequentially versus *MMI's* projection of 1.2%. Three out of the six providers reported sequential growth, led by **Flextronics** with a 6.6% increase. On a year-over-year basis, **Celestica** achieved the highest Q3 growth with an 18.3% gain, and only one other provider, **Jabil**, was in double digits. Both **Benchmark Electronics** and **Plexus** reported sequential and year-over-year declines (Table 1).

MMI based its estimates on the midpoint of each company's sales guidance for Q3 (or the August quarter in Jabil's case). One company, Flextronics, exceeded the high end of its guidance, while a second, **Sanmina-SCI**, came in at the upper end of the expected range. Two others, Jabil and Celestica, posted sales above the midpoint of their guidance. Only Benchmark's sales fell short of its guidance. The group's Q3 revenue was $340 million, or 2%, above what *MMI* estimated (Aug., p. 1).

Nine-month sales for the six US-traded providers amounted to $48.65 billion, up 12.9% from the year-ago period. The pacesetter for nine-month growth was Jabil with a 20.5% increase (for the period December 2010 to August 2011), followed by Celestica and Flextronics at 17.4% and 12.7% respectively (Table 1). Only one provider, Benchmark, experienced a sales decline for the first nine months.

Five of the providers adhere to GAAP reporting, while the sixth, Celestica, has switched to IFRS accounting. Hence, with the exception of revenue Celestica's results are being treated separately from those of the other five companies.

For the other five, aggregate GAAP gross margin in Q3 was 6.1%, down 40 basis points sequentially and year over year. As usual, Plexus turned in the highest margin at 9.3%. Sanmina-

Table 1: Q3 and Nine-Month 2011 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company (in order of 9-mo. sales)	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 gross marg.	Q2 '11 gross marg.	Q3 '10 gross marg.	Q3 '11 oper. marg.	Q2 '11 oper. marg.	Q3 '10 oper. marg.	Q3 '11 net inc.	Q2 '11 net inc.	Q3 '10 net inc.	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net inc.	Q1-3 '10 net inc.
Flextronics	8,044.3	7,547.8	6.6	7,422.3	8.4	4.7	5.3	5.4	1.8 [1]	2.3 [1]	2.4 [1]	129.9	132.0	144.4	22,451.0	19,928.4	12.7	397.2	322.7
Jabil [2]	4,280.3	4,227.7	1.2	3,860.9	10.9	7.7	7.5	7.4	3.9	3.6	2.7	114.3	104.7	58.7	12,436.7	10,321.1	20.5	274.4	140.5
Sanmina-SCI	1,696.7	1,674.2	1.3	1,687.8	0.5	7.9	7.9	7.8	3.2	3.2	3.4	18.1	7.2	31.4	4,940.0	4,840.5	2.1	38.4	63.1
Benchmark	570.1	585.5	-2.6	613.9	-7.1	6.1	6.4	7.7	2.0	2.4	3.8	19.9	14.7	22.5	1,693.9	1,775.2	-4.6	49.1	60.7
Plexus	538.1	559.2	-3.8	555.6	-3.1	9.3	9.7	10.1	4.1	4.5	5.2	18.3	22.0	26.6	1,665.4	1,583.0	5.2	64.2	71.7
Subtotal/avg.	**15,129.5**	**14,594.4**	**3.7**	**14,140.5**	**7.0**	**6.1**	**6.5**	**6.5**	**2.6**	**2.8**	**2.8**	**300.5**	**280.6**	**283.6**	**43,187.0**	**38,448.2**	**12.3**	**823.3**	**658.7**
Celestica	1,830.1	1,829.4	0.0	1,546.5	18.3	6.9	6.9	7.0	3.3	3.0	1.5	50.2	45.7	21.3	5,459.6	4,650.0	17.4	125.9	62.8
Total/avg.	**16,959.6**	**16,423.8**	**3.3**	**15,687.0**	**8.1**										**48,646.6**	**43,098.2**	**12.9**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. [1] Intangible amortization was subtracted from Flextronics' reported operating income. [2] Q3 '11 results correspond to the quarter ended August 31.

SCI's 7.9% earned second place. But Jabil was the only provider to show sequential improvement in GAAP gross margin (Table 1, p. 2).

The five companies with GAAP results together produced a GAAP operating margin of 2.6%, down 20 basis points both from the prior quarter and the year-earlier period. Plexus again took the lead with a 4.1% result, followed by Jabil at 3.9%. As with gross margin, Jabil was the only GAAP company to increase its operating margin from the prior quarter. In addition, Celestica achieved a sequential gain in IFRS operating margin (Table 1).

Compared with the prior quarter, combined net income for the five GAAP companies in Q3 increased faster than sales did. Aggregate net income of $300.5 million grew 7.1% sequentially, while sales rose 3.7%. Q3 net margin for the GAAP subgroup was 2.0%. Three out of five providers improved their net income from the previous quarter. But on a year-over-year basis, only one GAAP provider, Jabil, achieved a gain in net income. Aside from the GAAP companies, Celestica raised its Q3 net income both sequentially and year over year (Table 1).

For the first nine months, net income for the GAAP companies totaled $823.3 million, up 25% from the year-ago period. That's essentially double the 12.3% rate at which sales increased. But only two GAAP companies, Flextronics and Jabil, were responsible for the 25% increase. Overall net margin for the five GAAP providers was 1.9% in the first nine months.

Q3 summaries for three providers

Last month's issue covered Q3 results for three out of the six largest US-traded providers. Results for the remaining three companies are briefly summarized below.

Benchmark Electronics. Q3 sales of $570 million declined 3% sequentially and 7% year over year. Revenue came in below guidance of $585 million to $620 million. During the quarter, the company experienced an unanticipated decline in demand, primarily in the test and instrumentation sector. Non-GAAP EPS amounted to $0.34 versus $0.25 in the prior quarter and $0.37 in the year-earlier period. The Q3 EPS result was within guidance of $0.30 to $0.36 but included an income tax benefit of about $9.2 million, or $0.16 a share. Benchmark earned GAAP net income of $20 million compared with $15 million in Q2 and $22 million a year earlier.

Non-GAAP operating margin for Q3 was 2.1%, down 40 basis points sequentially and 190 basis points year over year. The revenue shortfall and a less favorable business mix that resulted from the shortfall adversely affected operating margin.

Sales from the test and instrumentation sector fell 34% sequentially, and this sector includes customers who utilize precision technologies services, which historically produce higher margins. Benchmark attributed the revenue drop to the continued slowdown in the semiconductor capital equipment market. At the same time, the company was investing in more capacity in Asia for the precision technologies business. That created another drag on operating margin. Revenue also declined sequentially in the computing and medical sectors by 5% and 8% respectively. The drop in medical sales was partly the result of a component shortage. Still, telecom business rose 13% from Q2, while sales from the industrial control sector remained flat.

During the quarter, Benchmark won 38 new programs with 12 engineering projects, estimated to bring in $136 million to $167 million in annual revenue.

Taking its flooded Thailand facility into account (see Oct., p. 1), the company expects Q4 sales of $475 million to $525 million. Benchmark anticipates a net shortfall of about $90 million to $100 million related to the flooding in Thailand. The outlook also calls for non-GAAP EPS of $0.00 to $0.11. This guidance does not include the costs of returning the Thailand facility to operation, and the company plans to restart it sometime in December.

Plexus. For its fiscal Q4 ended Oct. 1, revenue of $538 million dropped 4% sequentially and 3% year over year. EPS came in at $0.52, down 10% sequentially and 20% year over year. Both revenue and EPS were within the company's guidance for the quarter. The provider generated net income of $18 million, down 17% from the prior quarter and 31% from the year-ago period.

Four out of Plexus' five sectors exhibited sequential sales declines in fiscal Q4. Sales from the wireline/networking sector, the company's largest contributor, fell 17%, below expectations for a weak quarter. **Avocent**, which has taken its business elsewhere, accounted for about one third of the decrease. In addition, four of the top 10 customers in the sector missed revenue forecasts in a meaningful way. Wireless infrastructure business was down 16% from the prior quarter, while the medical and defense/security/aerospace sectors each saw a 2% decline. Industrial/commercial revenue rose 21% sequentially, which was still below expectations.

Gross margin was 9.3%, in line with earlier expectations but down 40 basis points sequentially and 80 basis points year over year. Operating margin came in at 4.1%, down 40 basis points sequentially and 110 basis points year over year.

Juniper Networks and **Coca-Cola** accounted for 17% and 10% respectively of total revenue in the quarter, as Coca-Cola reached the 10% threshold for the first time.

During the quarter, Plexus won 24 new manufacturing programs, worth about $182 million in annualized revenue when fully ramped, as well as engineering projects totaling about $18 million.

Continued volatility in customer forecasts and uncertainty about end markets are reflected in the company's guidance of $510 million to $540 million for December quarter revenue. At the midpoint of guidance, revenue would be down 2% sequentially. The only business segment expected to show sequential growth is the new networking and communications sector, which combines the former wireline/networking and wireless infrastructure categories. Excluding any restructuring charges, the provider expects operating margin of 4.1% to 4.2% and non-GAAP EPS of $0.44 to $0.49.

Given the uncertain environment, Plexus is adjusting its cost structure for fiscal 2012 growth that it believes could be "meaningfully below" the company's goal of 15%.

Sanmina-SCI. For its fiscal Q4 ended Oct. 1, revenue totaled $1.70 billion, which was at the high end of the company's guidance. Revenue rose 1.3% sequentially and 0.5% year over year. Non-GAAP EPS of $0.47 surpassed the company's outlook of $0.40 to $0.44. The EPS result grew 12% sequentially and 2% year over year. GAAP net income was $18 million, up from $9 million in the prior quarter but down from $31 million in the year-ago period. The sequential increase in GAAP net income was mainly attributed to debt extinguishment costs incurred in the prior quarter. Restructuring costs of $14 million in fiscal Q4 were higher than normal.

Non-GAAP gross margin for fiscal Q4 amounted to 7.8%, down 20 basis points sequentially but on par with a year earlier. This gross margin was within the company's expected range. Component gross margin, which reached the highest level in several years, came in above the corporate average. Non-GAAP operating margin stood at 4.1%, up 20 basis points from the prior quarter and unchanged from a year ago.

At 47% of Q4 revenue, the communications networks segment contributes by far the largest share of the company's sales. In Q4, revenue from the segment declined by 1.5% sequentially, basically driven by slower demand. Sanmina-SCI sees push-outs and inventory corrections in this segment over the short term. But the company believes that this market segment should continue to be strong in calendar 2012. The defense/industrial/medical segment ticked downward 0.5% sequentially. Within this segment, medical and defense sales rose, while industrial business fell, mainly driven by the semiconductor equipment market. For fiscal Q1 2012, Sanmina-SCI is forecasting flat to slightly down for this segment versus fiscal Q4.

These declines were more than offset by sequential gains in the company's other two segments. Multimedia business grew by 12.6%, while enterprise computing and storage sales increased by 2.8%. For the December quarter, the sequential outlook is flat to slightly down for the former and flat for the latter.

The company expects a sequential decline in December quarter revenue with a projection of $1.5 billion to $1.6 billion. Non-GAAP operating margin and EPS are also expected drop as the outlook for the quarter calls for a margin of 3.2% to 3.6% and EPS of $0.26 to $0.34. (See also table on p. 1).

Top-11 Results Yield Two Views

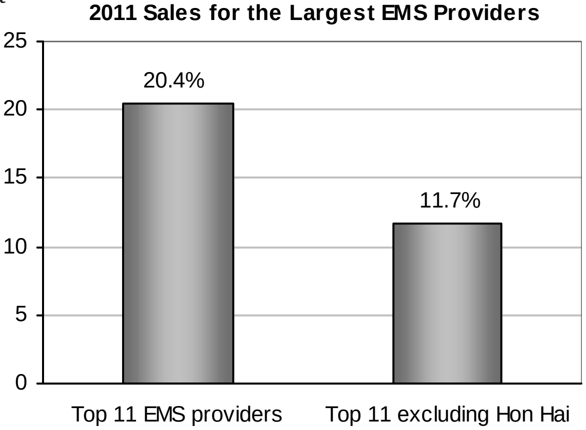
For the 11 largest EMS providers as a whole, the first nine months of 2011 have been either a great period for growth or a just good period. It all depends on whether one includes the results of the EMS colossus **Hon Hai Precision Industry** (aka Foxconn).

Counting Hon Hai, nine-month sales for the top 11 providers totaled $138.8 billion, up 20.4% year over year. With Hon Hai excluded, sales drop to $57.1 billion, and the growth rate falls to a more pedestrian 11.7% (see chart). So Hon Hai adds 8.7 percentage points to the top-11 growth rate. Based on this nine-month difference, there is a now a possibility that Hon Hai will skew the full-year results for the top 11, and by extension, the entire industry.

Hon Hai's nine-month growth rate of 27.4% in US dollars took first place among the top 11 providers. Note that this result received an 11.1 percentage-point bump from a weakening of the US dollar against the NT dollar. Two other companies in the group, **Jabil** and **Cal-Comp Electronics**, also achieved sales growth above 20%. Below the 20% rate but still posting double-digit growth were **Celestica** and **Flextronics**. For two providers, **Benchmark Electronics** and **Shenzhen Kaifa Technology**, nine-month sales declined in US dollars (table, p. 5).

Together, the 11 providers earned net income of approximately $2.7 billion in the first nine months for a net margin around 2%. (These figures are approximate because not all compa-

Hon Hai's Effect on % Growth of Nine-Month 2011 Sales for the Largest EMS Providers



Company (in order of 9-mo. sales)	Head-quarters	Reports in US$	Q3 '11 sales	Q2 '11 sales	Qtr.-qtr. chg.	Q3 '10 sales	Yr.-yr. chg.	Q3 '11 net profit	Q2 '11 net profit	Q3 '10 net profit	Q1-3 '11 sales	Q1-3 '10 sales	Yr.-yr. chg.	Q1-3 '11 net profit	Q1-3 '10 net profit
Hon Hai (Foxconn)	Taiwan	No	29,584	27,252	8.6	26,569	11.3	657	450	658	81,731	64,166	27.4	1,599	1,748
Flextronics	Singapore	Yes	8,044	7,548	6.6	7,422	8.4	130	132	144	22,451	19,928	12.7	397	323
Jabil Circuit	Florida	Yes	4,280	4,228	1.2	3,861	10.9	114	105	59	12,437	10,321	20.5	274	141
Celestica	Canada	Yes	1,830	1,829	0.0	1,547	18.3	50	46	21	5,460	4,650	17.4	126	63
Sanmina-SCI	California	Yes	1,697	1,674	1.3	1,688	0.5	18	7	31	4,940	4,841	2.1	38	63
Cal-Comp Electronics	Thailand	No	1,230	1,098	12.0	1,031	19.3	9	7	16	3,336	2,775	20.2	23	44
Shenzhen Kaifa Technology	China	No	747	689	8.4	869	-14.0	12	10	12	2,194	2,373	-7.5	28	39
Benchmark Electronics	Texas	Yes	570	586	-2.6	614	-7.1	20	15	23	1,694	1,775	-4.6	49	61
Plexus	Wisconsin	Yes	538	559	-3.8	556	-3.1	18	22	27	1,665	1,583	5.2	64	72
Universal Scientific Industrial	Taiwan	No	484	485	-0.2	549	-11.8	17	11	28	1,484	1,466	1.2	40	62
Venture	Singapore	No	476	507	-6.2	500	-4.9	29	34	36	1,443	1,426	1.2	95	97
Total/avg.			**49,481**	**46,455**	**6.5**	**45,206**	**9.5**	**~1,075**	**~839**	**~1,056**	**138,835**	**115,304**	**20.4**	**~2,735**	**~2,712**
Total/avg. without Hon Hai			**19,897**	**19,203**	**3.6**	**18,636**	**6.8**	**~417**	**~388**	**~397**	**57,104**	**51,137**	**11.7**	**~1,136**	**~964**

Q3 and Nine-Month 2011 Results for the 11 Largest EMS Providers (M US$ or %)

Results in non-U.S. currencies were converted to U.S. dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2010 and 2011 data from the U.S. Federal Reserve. Net profit totals are approximate because not all companies follow the same accounting standard.

nies use the same accounting standard.) Net margin did not change when Hon Hai was excluded. But of the top 11, only three companies – Celestica, Flextronics and Jabil – succeeded in increasing their net income from the year-earlier period.

For the third quarter, top-11 sales amounted to $49.5 billion, up 6.5% sequentially and 9.5% year over year. On a sequential basis, Q3 sales in US dollars declined by more than 2% at three providers, while revenue remained flat or nearly so at two others. Only Cal-Comp managed to grow its sales by double digits (table above).

Compared with the year-ago quarter, sales in US dollars rose by double digits at four providers, led by Cal-Comp's 19.3%. On the other hand, five companies saw their Q3 sales decline from a year earlier (table).

Collectively, the 11 providers generated Q3 net income of about $1.1 billion for a net margin of approximately 2.2%. Without Hon Hai, net income totaled about $417 million for a net margin of around 2.1%. Interestingly, Hon Hai did not have much of an effect on the group's net margin in Q3 and, as noted earlier, had little or no margin impact in the first nine months.

Q3 results for five Asia-based providers

The top 11 consists of six US-traded companies whose Q3 results have already been covered in the previous article or last month's issue, and five Asia-based providers who report results in non-US currencies. Results for the remaining five companies are briefly summarized below in terms of the companies' reporting currencies. See the table above for results converted into US dollars.

Cal-Comp Electronics. Q3 sales of 37.1 billion baht increased 11.5% sequentially and 13.7% year over year. Nine-month sales of 101 billion baht rose 13% from the year-ago period. The Thailand-based company said the nine-month growth was mainly driven by an increase in sales from PCBA, hard disk drive, set-top box and printer products including performance from new subsidiaries.

Gross margin for Q3 came in at 2.79%, down from 3.09% in the prior quarter and 3.85% in the same period a year ago. For the first nine months, gross margin sank to 2.97% from 4.05% in the year-earlier period. The nine-month margin decline mainly resulted from a shift in product mix, and the company also mentioned the raw material shortage associated with the Japanese earthquake in March 2011.

In Q3, Cal-Comp earned a net profit of 261.6 million baht, up 19.6% sequentially but down 47.8% year over year. For the first nine months, net profit amounted to 692.9 million baht, down 51.3% from the year-earlier profit attributable to shareholders.

Hon Hai Precision Industry. For Taiwan's Hon Hai, *MMI* calculated consolidated Q3 sales of NT$863.3 billion, up 9.8% sequentially and 2% year over year. Computed gross margin for Q3 came in at 7.05%, down 23 basis points sequentially and 104 basis points year over year. According to *MMI's* figures, Q3 operating margin was 2.2%, up 19 basis points quarter to quarter but down 33 basis points from a year earlier. As calculated, Q3 net income attributable to shareholders came to NT$19.2 billion, up 47.7% sequentially but down 8.6% year over year. Q3 net margin attributable to stockholders equaled 2.22%, up 57 basis points sequentially but down 26 basis points year over year.

For the first nine months, sales grew 16.3% year over year to NT$2.38 trillion, while net income attributable to shareholders declined 16.4% from a year earlier to NT$46.6 billion. Gross margin for nine months was 7.19%, down 106 basis points year over year, and operating margin stood at 2%, 101 basis points lower than in the same period a year ago. Shareholders' net margin was reported at 1.96%, 76 basis points below the year-ago level. Diluted EPS for the first three quarters was NT$4.26, down 17.9% year over year.

Hon Hai does not break down its sales by the businesses it operates, but *MMI* continues to believe that EMS work still accounts for the majority of its revenue.

Shenzhen Kaifa Technology. Q3 sales for this Chinese company totaled 4.8 billion yuan, up 7.1% sequentially but down 18.5% year over year. The company earned Q3 net income of 77.6 million yuan, up 22% sequentially though down 6.5% year over year. Net margin for the quarter amounted to 1.62%, up 20 basis points from the prior quarter and 21 basis points from a year earlier.

For the first three quarters, the company generated sales of 14.3 billion yuan, representing a decline of 11.7% from the year-earlier period. Net income for the first nine months was 184.5 million yuan, down 29.9% year over year.

Universal Scientific Industrial. Taiwan-based USI, a wholly owned subsidiary of publicly held **Advanced Semiconductor Engineering**, took in Q3 revenue of NT$14.1 billion, up 0.9% sequentially but down 19.3% year over year. Communications products contributed 33% of USI's sales, down one percentage point from the prior quarter. Computing products represented 21% of EMS sales, which remained the same as in Q2. Consumer products made up 20% of revenue, down one percentage point from the previous quarter. Industrial products were 16% of sales, up by two percentage points from Q2. Finally, car products amounted to 10% of sales, unchanged from the prior quarter.

In Q3, gross margin for EMS operations came in at 12.2%, up 140 basis points sequentially and 20 basis points year over year. Operating margin for the quarter was 4.3%, up 130 basis points sequentially though down 120 basis points year over year. USI earned Q3 net income (before minority interests) of NT$496 million, up 53% from the prior quarter but down 45% from the year-ago period. Net margin for Q3 equaled 3.5% versus 2.3% in Q2 and 5.2% a year earlier.

For the first nine months, sales of NT$43.2 billion, declined 7.5% from a year ago, while net income of NT$1.2 billion fell 41.5%.

Venture. The Singapore-based provider recorded Q3 revenue of S$583.6 million, down 7.2% sequentially and 13.9% year over year. The latter decline was largely attributed to US dollar depreciation against the Singapore dollar of about 11% year on year. For Q3, Venture reported year-on-year volume growth in its Computer Peripherals & Data Storage, Retail Store Solutions & Industrial Products, and Test & Measurement/Medical/Others segments. However, this growth was not enough to offset the volume decline in the Networking & Communications and Printing & Imaging areas.

For Q3, the company turned in a net profit attributable to shareholders of S$35.4 million, down 15.6% sequentially and 27.2% year over year. Shareholders' net margin was 6.07%, down 60 basis points from Q2 and 110 basis points from Q3 a year ago. Diluted EPS in Q3 came to 12.9 cents compared with 15.3 cents in the prior quarter and 17.7 cents in the same period a year ago.

For the first three quarters, revenue totaled S$1.8 billion, down 8.7% year over year, as net income amounted to S$118.5 million, for a decline of 11.5%.

News

OnCore Enters China

Top 50 EMS provider **OnCore Manufacturing Services** (San Jose, CA) has established a presence in China with its acquisition of **Alta Electronics International**, an EMS operation in Suzhou, China.

"The new facility will provide engineering and manufacturing services of advanced electronics for our US customers that require an entrée into the China market or whose products benefit from being sourced in China," said Daniel Perez, president and CEO of OnCore. He added, "Suzhou is a key part of our customer-driven strategy of providing them with the capabilities and geographic footprint they demand."

"Becoming part of the OnCore family will provide our existing customers with a broader range of product commercialization services," said Ming Li, president and GM of OnCore China. The Suzhou facility's customers include those serving the industrial, semiconductor and advanced communications markets.

OnCore's Suzhou plant, the company's first Asian facility, joins operations in Massachusetts, Colorado, California and Mexico. The company has told *MMI* that it plans to expand into Europe as well.

This is the second acquisition made by OnCore this year (Aug., p. 8).

Creation Bolsters Design Services

Creation Technologies (Burnaby, BC, Canada), a top-25 EMS provider in 2010, has acquired the design, product development and manufacturing group of **Quest Product Development** (Arvada, CO).

Creation will merge its existing design engineers, located in Milwaukee, WI, with those of Quest to form Creation Technologies Design Services. This unit will employ about 30 design engineers and provide product development services in various disciplines as well as project planning, verification, validation and prototyping. Mark Stephenson, COO of Quest Product Development, will lead the new unit.

"The Quest people and their capabilities will significantly enhance the design, product development and prototyping services we can offer our current and future customers. We are particularly excited about Quest's acknowledged experience in medical product design. This capability will provide a significant service offering to our growing medical customer base," said Arthur Tymos, Creation's president and CEO.

Quest Technologies Group, a separate unit of Quest Product Development, was not part of the acquisition.

Another deal done…**Nordica Capital Partners** has purchased EMS provider **HPI Electronics & Cables** (Korsør, Denmark) out of bankruptcy. Many of its approximately 75 former employees will be reinstated.

Alliances…Publicly held **SIIX** (Osaka, Japan), which ranked 13th in the *MMI* Top 50 for 2010, and privately owned **Ayrshire Electronics** (Louisville, KY), another EMS provider, have formed a business alliance. With the alliance, both companies can provide what they describe as seamless worldwide service to their respective customers through the assets and capabilities of each company. The alliance allows SIIX to enhance and expand its service to its North American customers, while the partnership enables Ayrshire to follow and serve its customers around the globe. "Furthermore, we expect the alliance to expand Ayrshire's scope of opportunities with new customers seeking a US control point for outsourced manufacturing worldwide," stated Ayrshire chairman and CEO Milo Bryant. The alliance is fully functional and has been in effect since March….EMS provider **ESCATEC** (Penang, Malaysia) has entered into a partnership with **GMMI Texchem** (Penang, Malaysia), a manufacturer of single-use medical devices including molded or extruded plastic components. The companies say that the combined skill set of this alliance creates a one-stop shop for the design and manufacture of medical electronic devices and disposable parts from initial research and design through to volume production.

Update on Thailand floods…*MMI* has identified another EMS facility affected by the flooding in Thailand besides the operations covered in last month's issue on pages 1-2. Because of severe flooding, production at **CTS's** EMS plant near Bangkok has been suspended since the second week of October, and the facility is expected to remain closed for about 10 to 12 weeks. In the meantime, production is being transferred from Bangkok to other CTS facilities to meet customer demand. The company does not expect any material impact from the floods on its financials….As of Oct. 28, **Cal-Comp Electronics'** factories in Samuthsakorn and Petchaburi provinces were still safe from the floods. But the flooding has affected some of the company's suppliers and customers, resulting in shipping schedule delays. The company has estimated an impact of about 5 to 15% on its Q4 output. Also, the Thailand operations of its plastics subsidiary **Avaplas**, which were temporarily halted, are scheduled to resume gradually starting on Nov. 25….**Benchmark Electronics** (Angleton, TX) has reported that it restarted its idle Korat, Thailand, facility in a record time of two weeks. The company is using the Korat facility to take over some of the production of its flooded main plant in Ayutthaya.

Some new business...**Hon Hai Precision Industry** (Tucheng City, Taiwan) will join **Quanta Computer** as an ODM supplier of **Amazon's** 7-in. Kindle Fire tablet, *Digitimes* reported. Hon Hai is said to have won orders for the next-generation Kindle Fire as well (Oct., p. 6)….**Karbon Kinetics** (London, UK) has selected **Flextronics** (Singapore) as its contract manufacturer for the Gocycle, an electric bicycle. Flextronics will take over manufacturing sourcing and logistics, assembly and ultimately quality control for the product at the provider's operations in Hungary. What's more, Flextronics is currently producing the Enertia, an electric motorcycle developed by **Brammo** (Ashland, OR), in Sarvar, Hungary, and is about to begin supplying Brammo battery packs from Frickenhausen, Germany….Under a newly signed memorandum of understanding, **Ceramic Fuel Cells Limited** (Noble Park, Victoria, Australia) and **Jabil Circuit** (St. Petersburg, FL) will work together toward scaling up the manufacturing of CFCL's Gennex fuel cell module and BlueGen electricity generation product. In the first phase of the program, CFCL will source selected components from Jabil's manufacturing operations. Plans call for Jabil to ultimately assemble finished products for CFCL….**Edgewater Wireless** (Ottawa, Canada) has awarded **SMTC** (Markham, Ontario, Canada) a manufacturing contract to support volume production of Edgewater Wireless' family of wireless access point devices. SMTC's Canadian facility will handle this program. Under another new contract, SMTC will manufacture a disinfection system for **Medizone International** (Sausalito, CA). Production will also take place in Canada, at least initially. Finally, SMTC has landed a contract from **Recon Instruments** to manufacture what are billed as the world's first GPS and sensor-enabled Micro Optics Displays for alpine goggles. For this program, SMTC will utilize package-on-package manufacturing process technology at its Chihuahua, Mexico, plant….In San Marcos, CA, OnCore Manufacturing Services will produce a line of console servers for **Lantronix** (Irvine, CA), which will move the manufacturing of these remote IT management products, intended for the North American market, from Penang, Malaysia, to the US. Lantronix, a global provider of smart connectivity solutions, said it is taking this action in order to improve responsiveness to fluctuations in customer demand, shorten lead time, and mitigate rising freight costs. The move will also make it easier for Lantronix to source products that comply with the Buy American Act….According to published reports from India, **QUAD Electronics Solutions**, an Indian EMS company, is manufacturing the Aakash, reputedly the world's cheapest tablet, in Hyderabad, India.

Company news…EMS provider **OEM Worldwide** (Watertown, SD) has changed its name to **Onyx EMS**. According to the company, its new name reflects its growth strategies and evolution into new industries.

*People on the move…*Cary Fu, CEO and co-founder of Benchmark Electronics, has decided to step down. Gayla Delly, president of the company, will succeed Fu as CEO effective Jan. 1, 2012. He will continue to serve as chairman of the board through the end of 2012 and has agreed to provide consulting services to Benchmark through 2014. This month, Delly joined the company's board….Jane Todd has resigned from her position as senior VP, finance, and CFO at SMTC. The company said she decided to leave SMTC to focus on her family….**Fabrinet**, whose manufacturing headquarters are in Thailand, has expanded its international business development team with the hiring of Richard Vincent as VP of North American business development and Greg Reny as senior director of business development. Most recently, Vincent served as VP of ODM business development at Hon Hai. Reny joined Fabrinet from Flextronics, where he was director of business development for the industrial market….Rob Snyder has joined **The Morey Corporation** (Woodridge, IL) as VP of operations. Before his most recent role as a consultant, Snyder served as VP of operations for **American Air Filter International's** Americas Division.

Editor and Publisher: John Tuck
Circulation Director: Ann Connors

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

ISSN 1072-8651

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