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Survey Suggests Supplier Consolidation on the Rise

Trend could produce major effects within the EMS industry

That an OEM would reduce the number of its EMS providers is not some new idea borne of the exigencies of today. As the EMS industry is well aware, supplier consolidation by OEMs is an ongoing trend. But a new survey suggests that the trend has gained enough momentum to cause potentially significant effects within the industry.

More than half of all OEMs worldwide plan to reduce the number of contract manufacturers they work with during the next year, according to the new survey by **IHS** (El Segundo, CA), a global information company. If supplier consolidation occurs on this scale, it will likely result in more than a few winners and losers, depending on which providers end up with a net increase in business and which ones endure a net decline. Behind this trend lies an important question: Will business generally move in a direction toward larger providers in an OEM's supply base?

Citing increased pressure to maintain profitability and streamline operations, 51% of OEMs told IHS that they would cut the number of manufacturing services providers with which they currently do business. The survey found that most OEMs want to shrink their manufacturing supply base in order to reduce cost, with supplier consolidation coming in second among reasons given.

While the impact of this trend is still to be determined, such a move by OEMs potentially could result in a reduction in the number of EMS providers, ODMs and joint design manufacturers (JDMs) in the outsourcing space over the next 12 months, said Thomas Dinges, senior principal analyst for EMS and ODM research at IHS.

OEMs now average eight manufacturing partners spanning EMS-, ODM- and JDM-type engagements, according to the survey.

During a six-week period starting in late July, IHS sent the survey, covering more than 150 topics, to over 1,000 clients in the electronics supply chain spread through all major global technology regions. Entitled IHS iSuppli Outsourced Manufacturing Terms, Conditions and Best Practices Survey, the poll spanned industries including communications, computing, consumer electronics, automotive/transportation and industrial. Survey topics ranged from major issues such as expectations for contract manufacturing activity to detailed subjects like payment terms, inventory terms and sourcing discretion.

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Juniper drops Plexus

One of the most recent examples of supplier consolidation came to light this month. On Nov. 5, **Juniper Networks** notified **Plexus** (Neenah, WI), one of its three EMS providers, that Juniper had decided to end its relationship with Plexus. The decision surprised Plexus and was a blow to the company, which counts Juniper as its largest customer. While a transition plan has not been fleshed out, based on initial indications from Juniper, Plexus expects the exodus of Juniper

Some articles in this issue

products to be substantially complete by the end of its fiscal 2013 (September 2013).

Juniper told Plexus that the need to go from three to two providers was a direct result of Juniper's previously announced plan to reduce operating costs.

The customer accounted for $370 million, or about 16%, of Plexus' fiscal 2012 revenue. Before notification, Plexus was projecting that Juniper revenue in fiscal 2013 would be in the neighborhood of about $320 million. Now Plexus is estimating that Juniper business will amount to some $220 million to $270 million for fiscal 2013. Still, Plexus expects that the Juniper decision will have no material impact on revenue or earnings guidance for the December quarter.

Plexus serves Juniper from factories in Neenah, WI, and Penang, Malaysia. Operations in Penang will see the largest impact from the Juniper decision as Plexus had dedicated an entire manufacturing bay to Juniper in one of four Plexus facilities there. The company expects that it will be able to use that space for other business. In addition, Plexus remains committed to construction of a new plant in Neenah in place of two leased facilities (May, p. 7). The company had already anticipated less Juniper work in Neenah, given a new Juniper strategy to obtain a lower cost solution.

Under this strategy, Plexus has been shifting products from Neenah to Penang over the past 12 months. As a result, Penang's share of Juniper revenue went from 30% to 60%. According to Plexus, these efforts, which involved risk and investment for both Plexus and Juniper, were inconsistent with the intent to disengage. Plexus also pointed out that over the past three years it won nine major new programs from Juniper worth about $260 million in annualized revenue, including a most recent award in the June quarter, as well as prototype business that amounted to $30 million over the past year. To Plexus, this new business also did not square with a customer about to disengage. In addition, the provider saw no meaningful change in its performance for Juniper in recent times.

A conference call was scheduled for Nov. 5 to discuss the next phases of the Juniper strategy. The two companies were to talk about alternatives in relation to moving more products to Penang versus opting for a North American solution. "But the call was …hijacked essentially to inform us that they had a change of heart relative to their manufacturing strategy and that they're going to go from three [EMS suppliers] to two," Plexus president and CEO Dean Foate told analysts on Nov. 7.

MMI asked Juniper why it decided to disengage with Plexus. In an email, Juniper stated, "We have taken actions to best align the company's resources to improve productivity and effectiveness. Our decision to consolidate contract manufacturers will enable us to further drive operational excellence. Our actions are being carefully planned and managed to maximize efficiencies in our cost structure while preserving the investments in innovation in our core businesses of routing, switching and security."

Foate admitted, "There's a cost to Juniper to manage multiple suppliers." The company must have a team of people assigned to each supplier. "So if you look at their internal cost structure, it's, of course, higher if you have three [suppliers] versus if you have two," he said.

Juniper's other two EMS suppliers are **Celestica** and **Flextronics**. According to Foate, "Celestica is a big supplier to Juniper," while Flextronics has "a minority share of the business at this point." Juniper is retaining both suppliers, he reported. Juniper's SEC Form 10-K also lists Taiwanese ODM **Accton Technology** as a fourth contract manufacturer used by Juniper.

Foate described the Juniper business as "very competitive" and exhibiting lower than corporate average operating margins. What's more, Plexus had agreed to certain margin reductions in exchange for better forecasting from Juniper, which would have improved working capital performance.

While Juniper's decision is a significant event for Plexus in the near term, the company remains confident in its strategy. Foate cited $956 million in new business wins during fiscal 2012, including awards in the networking/communications sector.

He said it was frustrating that, due to management changes at Juniper, people are gone who remember what Plexus did for Juniper when end markets were rapidly expanding. "When you're in a market where there's flat to little growth in end markets or contraction in end markets, it's, of course, more difficult for us to demonstrate completely the value proposition that we bring to customers," said Foate. Plexus believes that the company proves its value when building high-quality, complex products with agility during periods of end market expansion.

Market Data

Q3 Mixed Bag for US-Traded Group

After three straight quarters of sequential declines, combined Q3 sales of the six largest US-traded providers turned slightly upward from the prior quarter. Totaling $14.87 billion, group sales for Q3 rose 0.8% sequentially. Providers can take some solace from the fact that sequential declines stopped for one quarter. But those looking for year-over-year improvement will be disappointed. Combined Q3 sales fell 12.1% year over year – the worst such result in the last four quarters. Prior to Q3, the year-over-

Table 1: Q3 and Nine-Month 2012 Results for the Six Largest US-Traded EMS Providers (M US$ or %)

Company	Q3 '12 sales	Q2 '12 sales	Qtr.-qtr. chg.	Q3 '11 sales	Yr.-yr. chg.	Q3 '12 gross marg.	Q2 '12 gross marg.	Q3 '11 gross marg.	Q3 '12 oper. marg.	Q2 '12 oper. marg.	Q3 '11 oper. marg.	Q3 '12 net inc.	Q2 '12 net inc.	Q3 '11 net inc.	Q1-3 '12 sales	Q1-3 '11 sales	Yr.-yr. chg.	Q1-3 '12 net inc.	Q1-3 '11 net inc.
Flextronics	6,174.8	5,976.0	3.3	8,008.4	-22.9	5.9	6.0	4.7	2.7 [1]	2.7 [1]	1.9 [1]	150.5 [2]	128.5 [2]	129.9 [2]	18,520.8	22,281.8 [3]	-16.9	403.7 [2]	397.2 [2]
Jabil [4]	4,338.1	4,250.9	2.1	4,280.3	1.4	7.3	7.7	7.7	3.3	3.7	3.9	82.8	101.3	114.3	12,825.2	12,436.7	3.1	281.8	274.4
Sanmina	1,578.6	1,549.3	1.9	1,696.7	-7.0	7.3	6.8	7.9	2.0	2.3	3.2	164.2	8.9	18.1	4,591.0	4,940.0	-7.1	171.7	40.6
Benchmark	610.8	630.0	-3.0	570.1	7.1	7.3	7.3	6.1	4.1	2.9	2.0	19.3	13.6	19.9	1,834.2	1,693.9	8.3	38.5	49.1
Plexus	594.8	608.8	-2.3	538.1	10.5	9.5	9.4	9.3	4.6	4.5	4.1	0.7	23.5	18.3	1,777.1	1,665.4	6.7	44.2	64.2
Subtotal/avg.	**13,297.1**	**13,015.0**	**2.2**	**15,093.6**	**-11.9**	**6.8**	**6.9**	**6.1**	**3.0**	**3.0**	**2.7**	**417.5**	**275.8**	**300.5**	**39,548.3**	**43,017.8**	**-8.1**	**939.9**	**825.5**
Celestica	1,575.4	1,744.7	-9.7	1,830.1	-13.9	6.9	6.7	6.9	2.0	1.9	3.3	43.7	23.6	50.2	5,011.0	5,459.6	-8.2	110.5	125.9
Total/avg.	**14,872.5**	**14,759.7**	**0.8**	**16,923.7**	**-12.1**										**44,559.3**	**48,477.4**	**-8.1**		

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 including discontinued operations. [3] Q1 '11 sales were reduced by an estimated $10.7 million for a discontinued business. [4] For Jabil, Q3 '12 corresponds to the quarter ended August 31.

year drops were all of the single-digit variety, that is, -9.8% (in Q2) or less.

Still, group sales came in $83 million above *MMI's* estimate for the quarter (Aug., p. 2). Quarter-on-quarter and year-over year sales gains were higher that *MMI's* projections by 70 basis points and 60 basis points respectively. *MMI* based its estimates on the midpoint of each company's sales guidance for Q3.

Flextronics was largely responsible for the group's revenue decline from the year-earlier quarter as the company's sales tumbled 22.9% year over year, almost entirely a result of a business model shift to less high-volume business. The company had exited the PC ODM business and is ramping down **RIM** assembly business (Oct., p. 3-4). Three providers did achieve revenue increases from a year earlier, but these were overwhelmed by the revenue declines at the other three companies. Only one provider, **Plexus**, managed to increase its sales by a double-digit percentage (Table 1).

On a sequential basis, a different group of three providers recorded revenue gains, and the remaining three reported revenue decreases. Quarter-to-quarter performance ranged from -9.7% at **Celestica** to 3.3% at Flextronics.

For the first nine months, group sales amounted to $44.56 billion, down 8.1% from the same period last year. This decline all but guarantees that group revenue will be down for 2012. (For an estimate of how much sales will drop in 2012, see the article on p. 5). The same three companies that posted year-over-year revenue gains in Q3 – **Benchmark Electronics**, **Jabil** and Plexus – also reported year-over-year increases for the first nine-months. Benchmark turned in the highest growth rate at 8.3%. Revenue declines for this period ranged from 7.1% to 16.9%, more than offsetting the gains (Table 1).

Five out of six providers follow GAAP accounting rules, while the sixth, Celestica, has switched to IFRS reporting. For the five GAAP companies, GAAP gross margin in Q3 was a combined 6.8%, down 10 basis points sequentially but up 70 basis points year over year. Two out of five GAAP providers raised their gross margins from the prior quarter, while three of them achieved margin increases from the year-earlier period (Table 1).

Together, the five companies produced a GAAP operating margin of 3.0% for Q3, unchanged from the prior quarter but up 30 basis points from a year earlier. The year-over-year increase came despite an 11.9% decline in revenue. Two providers, Benchmark and Plexus, recorded operating margins above 4.0%. Both companies improved their operating margins on both a sequential and year-over-year basis. A third provider, Flextronics, also boosted its operating margin from the year-ago period.

For Q3, GAAP net income for the five providers totaled $417.5 million, up 51.4% sequentially and 38.9% year over year. However, combined net income included **Sanmina's** tax benefit of $159 million associated with US deferred tax assets partly offset by Plexus' tax provision of $22.8 million for a reduction in deferred tax assets on Plexus' balance sheet. (The net income figure also included a net loss of $9.9 million for Flextronics' discontinued operations in Q3. *MMI* was unable to use Flextronics' net income from continuing operations because a restated result for continuing operations in Q1 2011 was unavailable for comparisons.) Without the two deferred tax items, net income would have risen by about 2% sequentially yet would have dropped by about 6% year over year. Q3 net margin for the five GAAP reporting companies was 3.1% versus 2.1% for the prior quarter and 2.0% for the year-earlier period. Without the deferred tax items, Q3 net margin would have been about 2.1%. Benchmark, Flextronics and Sanmina increased their net income sequentially, while Flextronics and Sanmina also enjoyed year-over-year growth in net income. Celestica's IFRS net income for the quarter was up sequentially but down year over year.

In the first nine months of 2012, the five GAAP providers together earned net income of $939.9 million, up 13.9% from a year earlier. But excluding the deferred tax items, net income would have fallen by about 3%, still somewhat better than the providers' revenue decline of 8.1%.

Q2 summaries for two providers

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

Benchmark Electronics. Q3 sales totaled $611 million, down 3% sequentially but up 7% year over year. Non-GAAP EPS amounted to $0.31, down 3% from the prior quarter and 9% from the year-ago period. Revenue came in just above the guidance midpoint of $610 million, while non-GAAP EPS was also within guidance ($0.27 to $0.32). GAAP net income amounted to $19.3 million, compared with $13.6 million in Q2 and $19.9 million in Q3 2011. Included in GAAP results for Q3 2012 was a net Thailand flood-related recovery of $3.1 million. GAAP EPS for Q3 was $0.34 versus $0.24 in Q2 and $0.34 in Q3 2011. Note that in the year-over-year comparisons, Q3 2011 results for net income and EPS (GAAP and non-GAAP) included a discrete tax benefit of $9 million, or $0.16 a share.

Non-GAAP operating margin came in at 3.7%, unchanged from the prior quarter but up 160 basis points year over year.

Telecom revenues rose sequentially, primarily because of new program ramps. Industrial sales increased slightly from Q2, also due to new program ramps. Medical business was relatively flat versus the prior quarter. In the computing sector, revenues fell sequentially as expected due to the softness in the overall marketplace. Sales from the test and instrumentation sector dropped significantly with the continued deterioration in the semiconductor capital equipment market.

In Q3, the company generated $53 million in cash flow from operations, including $23 million in Thailand flood insurance recoveries for inventory losses.

Benchmark reported seeing a broad-based demand deterioration in the recent weeks leading up to its Oct. 25 announcement of Q3 results. **Plexus**, a competitor, made a similar observation (Oct., p. 5).

Having achieved revenue and operating margin targets, Benchmark said it was pleased with its Q3 results.

During Q3, the company booked 25 new programs, including 10 engineering projects, with an estimated annual revenue run rate of $100 million to $120 million. The company said it tempered the high end of this range in view of the current business environment.

As for Q4, it is normally a stronger quarter for Benchmark, but two industries are providing more cautious forecasts to the company. To wit, customers in the defense and aerospace industry (part of the industrial sector) have incorporated pending sequestration activities into their forecasts. Also, test and instrumentation will continue to experience severe declines in semiconductor capital equipment spending. With this in mind, Benchmark estimates that Q4 sales will be in the range of $580 million to $610 million, while its non-GAAP EPS outlook calls for $0.26 to $0.31. (See also the article on p. 5).

Regarding the other sectors, the company foresees flattish Q4 revenue in computing and telecom versus Q3 levels. Potentially, medical business could be up sequentially in the low or mid single digits in Q4.

The company said it would not achieve its operating margin target of 4.0% in Q4, which would require revenue of about $625 million and a normalized sales mix.

Sanmina (formerly Sanmina-SCI – see News, p. 8). For its fiscal Q4 ended Sept. 29, revenue came to $1.58 billion, up 2% sequentially but down 7% year over year. Most of this decline was attributable to the company's multimedia business. The provider recorded non-GAAP EPS of $0.46, compared with $0.26 in the June quarter and $0.47 in the same period a year ago. Revenue fell within guidance though below the midpoint of $1.6 billion, while non-GAAP EPS was well above the high end of guidance, which specified $0.32 to $0.38.

The company earned GAAP net income of $164.2 million, or $1.96 a share, versus $8.9 million, or $0.11 a share, in the prior quarter and $18.1 million, or $0.22 a share, in the year-ago period. GAAP results for the company's September quarter included a tax benefit of $159 million, or $1.90 per share, due to a partial release of Sanmina's valuation allowance against US deferred tax assets. Offsetting this benefit was a restructuring charge of $17.5 million.

Non-GAAP gross margin came in at 7.4%, up 60 basis points from the prior quarter but down 40 basis points from the year-earlier period. The company attributed the sequential improvement to better product mix and comparison with a weak result for the June quarter. Non-GAAP operating margin of 3.5% increased 70 basis points sequentially but fell 60 basis points year over year. At $56.0 million, non-GAAP operating income rose 27% sequentially but dropped 20% year over year.

In the company's September quarter, cash flow from operations totaled $121 million, with free cash flow at $99 million.

Sanmina introduced two new segments into which it will divide its revenue. The first is Integrated Manufacturing Solutions (IMS), comprised of high-mix EMS including PCB assembly and test, optical and RF module assembly, final system assembly and test, and direct order fulfillment. This segment represents about 80% of total revenue. The second segment is Components, Products and Services (CP&S). Components consist of PCB fabrication, backplane assemblies, cable assembles, enclosures, precision machining and plastic injection molding. Products encompass computing and storage products, defense and aerospace products as well as memory and SSD modules. Services include design and engineering, logistics and repair services. On a sequential basis, the IMS business grew 1%, while CP&S revenue, which carries a significantly higher gross margin, rose 5%.

Compared with the prior quarter, strength in the communications networks and the enterprise computing and storage segments more than offset continued weakness in the multimedia segment. At 49% of sales, the communications networks segment grew 4.1% sequentially, while enterprise computing and storage (16% of sales) was up 7.8%. Revenue from the defense/industrial/medical segment (26% of sales) increased by 0.7% from the prior quarter. Within this segment, defense and aerospace sales and industrial sales gained strength in the September quarter, while medical business was down slightly from the June quarter, and semiconductor equipment business continued to be weak. Multimedia revenue (9% of sales) dropped 14.1% sequentially, mainly driven by the company's set-top box business.

The company has designated two facilities for restructuring, one of them a PCB fabrication plant in Malaysia (see News on p. 8). By realigning the PCB business, Sanmina aims to improve profitability while revenue is at the current level.

For the quarter ending Dec. 29, the company expects revenue of $1.5 billion to $1.55 billion, non-GAAP gross margin of 7.0% to 7.4%, non-GAAP operating margin of 2.9% to 3.3%, and non-GAAP EPS of $0.31 to $0.37. The provider is forecasting a sequential decline in communications networks, mainly driven by weak demand in the wireless access area. Sanmina's outlook also calls for enterprise computing and storage to grow slightly, multimedia business to increase, and defense/industrial/medical to be flat versus the prior quarter.

The company's CEO currently expects that fiscal 2013 overall "should be a little bit better year."

An Estimated 8.5% Annual Drop for US-Traded Group

In August, *MMI* had projected that combined 2012 revenue for the six largest US-traded EMS providers would likely be down by more than a few percentage points unless the fourth quarter is exceptionally strong. Well, Q4 is shaping up to be a weak quarter, and *MMI* is now estimating that 2012 sales for the US-traded group will fall by 8.5%. Of course, this projection is fitting for a year marked by macroeconomic head winds and end market uncertainty. This year, revenue for the group of six providers will total an estimated $59.12 billion, down from $64.12 billion in 2011.

Annual sales declines projected for three providers will easily outweigh revenue increases that the other three companies are expected to achieve. Sales at **Celestica**, **Flextronics** and **Sanmina** are predicted to drop for 2012, with both Celestica and Flextronics facing the prospect of double-digit declines. *MMI* is estimating single-digit revenue gains for **Benchmark Electronics**, **Jabil** and **Plexus** (Table 1A).

To estimate 2012 sales, *MMI* added a company's nine-month sales to the midpoint of its Q4 sales guidance. So in this analysis, the guidance midpoint became the Q4 sales estimate for each provider. Note that in Jabil's case, Q4 data corresponds to the quarter ended November 2012.

MMI projects that Q4 sales for the group of six will amount to $14.56 billion, 9.8% below the year-earlier

Table 1A: Q4 2012 Guidance and Estimates for the Six Largest US-Traded Providers (sales in B$ except as noted)

Company	Q4 guidance	Q4 mid-point	Q3 '12 sales	Qtr.-qtr. estim. chg.	Q4 '11 sales	Yr.-yr. estim. chg.	2012 estimated sales	2011 sales	Estimated change	Q3 '12 adjusted EPS* $	Q4 guidance adjusted EPS* $	Q4 EPS midpoint	EPS Q-Q chg. at midpoint	EPS Y-Y chg. at midpoint
Flextronics	5.8 - 6.2	6.0	6.17	-2.8%	7.47	-19.7%	24.52	29.75	-17.6%	0.26	0.18 - 0.22	0.20	-23%	11%
Jabil**	4.3 - 4.5	4.4	4.34	1.4%	4.33	1.7%	17.23	16.76	2.8%	0.54	0.51 - 0.62	0.57	6%	-12%
Celestica	1.425 - 1.525	1.475	1.58	-6.4%	1.75	-15.9%	6.49	7.21	-10.1%	0.26	0.15 - 0.21	0.18	-31%	-45%
Sanmina	1.5 - 1.55	1.525	1.58	-3.4%	1.50	1.5%	6.12	6.44	-5.1%	0.46	0.31- 0.37	0.34	-26%	21%
Benchmark	580 M - 610 M	0.595	0.61	-2.6%	0.56	6.4%	2.43	2.25	7.8%	0.31	0.26 - 0.31	0.29	-6%	71%
Plexus	550 M - 580 M	0.565	0.59	-5.0%	0.53	6.7%	2.34	2.20	6.7%	0.66	0.50 - 0.55	0.53	-20%	4%
Total/avg.		**14.56**	**14.87**	**-2.1%**	**16.14**	**-9.8%**	**59.12**	**64.62**	**-8.5%**					

Q4 estimates equal midpoint of Q4 guidance. 2012 estimates equal nine-month sales plus midpoint of Q4 guidance.
*Adjusted EPS may not be comparable from company to company. **Q4 2012 data correspond to the quarter ending November 2012.

level. Flextronics, whose December quarter sales are forecasted to fall by 19.7% year over year, will shoulder most of the blame for the group's projected Q4 sales decline from the year-ago period. Celestica's Q4 revenue will also drop by double digits, while sales at the other four companies will grow by single digits, according to *MMI's* estimates (Table 1A, p. 5).

On a sequential basis, five out of six providers will see lower sales in Q4, based on *MMI's* projections. Estimated declines range from -2.6% (Benchmark) to -6.4% (Celestica). Only Jabil is expected to raise its sales from the prior quarter, though the increase is slight (Table 1A). Given the preponderance of sales declines, group sales for the six providers in Q4 will decrease by 2.1% sequentially, if *MMI's* estimates hold true. That result would dispel any hope of an end-of-year bump upward and instead may reflect to some degree Q4 wariness brought on by the "fiscal cliff" in the US and continued economic troubles in Europe.

Guidance suggests that adjusted EPS for Q4 will be down sequentially at Celestica, Flextronics, Plexus and Sanmina. In all four cases, the decline would be 20% or more at the midpoint of EPS guidance. At Benchmark, guidance implies that its adjusted EPS will be less than or equal to its Q3 result, with a 6% sequential drop at the guidance midpoint. No inferences can be drawn from Jabil's guidance, but at the midpoint its adjusted EPS would be up 6% quarter to quarter.

On a year-over-year basis, both Benchmark and Sanmina expect growth in adjusted EPS for Q4, based on their guidance. At the midpoint of their guidance, the increase in adjusted EPS would be 21% and 71% for Sanmina and Benchmark respectively. Flextronics' outlook calls for adjusted Q4 EPS to be equal to or greater than the year-earlier result, with 11% growth at the guidance midpoint. Guidance from Celestica and Jabil suggests that both companies will see a year-over-year drop in adjusted EPS for Q4, and at the guidance midpoint the decline would be -45% for Celestica and -12% for Jabil. Plexus' guidance does not afford any such conclusions, but at the midpoint its adjusted EPS would be up 4% year over year (Table 1A).

Top-11 Sales Boosted

Thanks to a boost from **Hon Hai Precision Industry**, combined sales for the 11 largest EMS providers showed growth for the first nine months of 2012. Top-11 sales for the period totaled $146.1 billion, up 5.3% year over year. But without Hon Hai, which accounted for 63.8% of top-11 sales, this growth disappears. Aggregated nine-month revenue for the other ten providers dropped by 7.2% from the year-earlier period (Chart 1, p. 7).

Hon Hai made such a big difference

Table 1B: Q3 and Nine-Month 2012 Results for the 11 Largest EMS Providers (M US$ or %)

Company (in order of 9-mo. sales)	Head-quarters	Reports in US$	Q3 '12 sales	Q2 '12 sales	Qtr.-qtr. chg.	Q3 '11 sales	Yr.-yr. chg.	Q3 '12 net profit	Q2 '12 net profit	Q3 '11 net profit	Q1-3 '12 sales	Q1-3 '11 sales	Yr.-yr. chg.	Q1-3 '12 net profit	Q1-3 '11 net profit
Hon Hai (Foxconn)	Taiwan	No	29,346	30,127	-2.6	29,584	-0.8	1,015	426	657	93,210	81,731	14.0	1,944	1,599
Flextronics	Singapore	Yes	6,175	5,976	3.3	8,008	-22.9	150.5	128.5	129.9	18,547	22,303	-16.8	404	397
Jabil	Florida	Yes	4,338*	4,251	2.1	4,280	1.4	82.8	101.3	114.3	12,825	12,437	3.1	282	274
Celestica	Canada	Yes	1,575	1,745	-9.7	1,830	-13.9	43.7	23.6	50.2	5,011	5,460	-8.2	111	126
Sanmina-SCI	California	Yes	1,579	1,549	1.9	1,697	-7.0	164.2	8.9	18.1	4,591	4,940	-7.1	172	41
Cal-Comp Electronics	Thailand	No	1,173	1,220	-3.8	1,232	-4.7	13	13	4	3,486	3,337	4.5	34	36
Shenzhen Kaifa Technology	China	No	623	693	-10.0	747	-16.6	1	3	12	1,956	2,194	-10.9	11	28
Benchmark Electronics	Texas	Yes	611	630	-3.0	570	7.1	19.3	13.6	19.9	1,834	1,694	8.3	39	49
Plexus	Wisconsin	Yes	595	609	-2.3	538	10.5	0.7	23.5	18.3	1,777	1,665	6.7	44	64
Venture	Singapore	No	489	484	0.9	476	2.7	26	27	29	1,427	1,443	-1.1	81	95
Universal Scientific Industrial	Taiwan	No	507	453	12.1	484	4.9	28	17	17	1,426	1,484	-3.9	63	40
Total/avg.			**47,011**	**47,736**	**-1.5**	**49,447**	**-4.9**	**~1,545**	**~785**	**~1,070**	**146,090**	**138,688**	**5.3**	**~3,184**	**~2,750**
Total/avg. without Hon Hai			**17,665**	**17,609**	**0.3**	**19,862**	**-11.1**	**~529**	**~359**	**~413**	**52,880**	**56,957**	**-7.2**	**~1,239**	**~1,151**

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 2011 and 2012 data from the US Federal Reserve. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard. *For the quarter ended Aug. 31, 2012.

Chart 1: Nine-Month 2012 Sales Growth Year Over

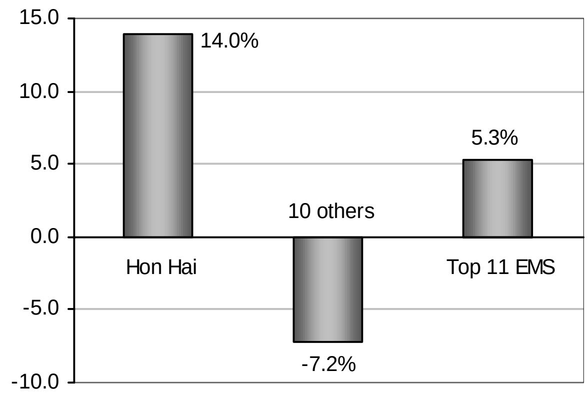
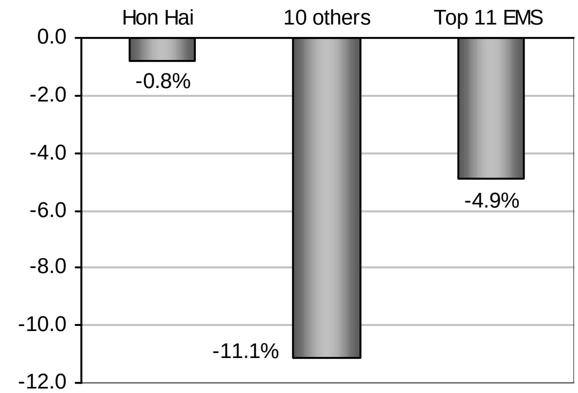


Chart 2: Q3 2012 Sales Growth Year Over Year



because it was the only top-11 provider with double digit growth for the first nine months (Table 1B, p. 6). Of the 10 other providers, four saw their nine-month sales increase, and six endured sales declines.

For Q3, top-11 sales amounted to $47.0 billion, down 4.9% year over year. Without Hon Hai, the decline would have been in double digits (Chart 2). Sales in US dollars fell from a year earlier at six providers, and three of them experienced double-digit drops (Table 1B).

On a sequential basis, Q3 sales were down 1.5%, but performance improved slightly when Hon Hai was excluded (Table 1B).

News

Sparton Acquires Onyx

Sparton (Schaumburg, IL), a supplier of electromechanical devices, subassemblies and related services for highly regulated environments in the medical, military and aerospace, and industrial markets, has purchased EMS provider **Onyx EMS** (Watertown, SD) from **Everett Smith Group** (Milwaukee, WI) for $43.25 million in cash, subject to post-closing adjustments. The acquisition is expected to add $50 million in annual revenue to Sparton's top line.

Onyx supplies manufacturing and design services from its Watertown, SD, headquarters, while offering additional product and design engineering services in Minneapolis, MN. Formerly known as **OEM Worldwide**, the provider changed its name to Onyx EMS in 2011. It primarily manufactures medical devices for OEM and emerging technology companies, including products for cardiovascular diagnostics, hearing assistance, patient temperature and warming, surgical equipment used in intraosseous medicine, and point-of-care diagnostics.

Onyx also has a presence in the industrial market by providing products such as instruments for monitoring air quality and pollution, commercial fire and smoke alarm systems, sensing tools, test fixtures, and complex LED assemblies. The provider's offering extends to the communications and military and aerospace markets as well, according to Onyx's website.

"The addition of Onyx meets the criteria of our growth strategy by providing further expansion regionally into the Minneapolis medical device corridor, diversifying our customer base through both existing programs and a strong business development pipeline, and to continue [sic] to increase the number of complex subassembly and full device programs within Sparton," stated Cary Wood, Sparton's president and CEO. "Additionally, Onyx brings solid, long-term customer relationships that will utilize Sparton's expanded list of service offerings such as our low-cost country footprint in Vietnam and full engineering design capabilities."

Sparton expects the acquisition to be accretive to earnings within its current fiscal year.

N. American Arm of Defunct Simclar Sold

Balmoral Funds (Los Angeles, CA), a private equity firm, has acquired the assets of EMS provider **Simclar, Inc.** in Hialeah, FL; Ozark, MO; Brownsville, TX; and Matamoros, Mexico. The provider had served as the North American operations of **Simclar Group**, a UK-based company that became insolvent in 2011 (July 2011, p. 1-2). The acquired operations have been renamed **Concurrent Manufacturing Solutions**, and company headquarters will be in Hialeah, FL.

Concurrent's core competencies include enclosure fabrication, cable assembly, PCB assembly, backplane assembly and complete box build. Balmoral plans to invest in capital equipment, facility improvements, process improvements and working capital, among other areas, in order to improve and grow Concurrent's business.

Benjamin Teno will serve as Concurrent's CEO, with Edwin Negrón-Carballo and Nathan Whipple filling the positions of CFO and VP of sales and marketing respectively.

Simclar Group had held a majority

ownership stake in North American provider Simclar, Inc., which was separately funded and managed. Under an insolvency procedure begun in June 2011, administrators from **Deloitte** took control of Simclar Group's ownership interest in Simclar, Inc.

*Another deal done…***Asteelflash** (Paris, France) has completed its previously announced acquisition of **EN ElectronicNetwork** (Bornheim-Hersel, Germany), described as Germany's second largest EMS provider (Aug., p. 7-8).

Name change…Effective Nov. 15, **Sanmina-SCI** (San Jose) changed its name to **Sanmina**. The company said this change is in line with its product portfolio branding strategy. SCI will remain as a brand for the company's defense and aerospace business.

Some new business...Sanmina and **Uros** (Oulu, Finland), a provider of roaming-free Internet, have collaborated to bring to market a new mobile hotspot device called Goodspeed. Sanmina is providing engineering and manufacturing services at its Haukipudas, Finland, facility….**Stratec Biomedical** (Birkenfeld, Germany) has engaged **Kimball Electronics Group** (Jasper, IN) for production of over 60 high-mix, low-volume of PCB assemblies for in-vitro diagnostic equipment. Production will take place at Kimball Electronics' facility in Poznan, Poland. Also, **FARO Technologies** (Lake Mary, FL), a developer of computer-aided coordinate measurement and imaging devices and software, has contracted with Kimball Electronics for manufacturing and assembly of 29 PCBAs across two product families. …Under a new contract currently valued at NOK 70 million ($12.4 million), **Kitron** (Billingstad, Norway) will manufacture military radio equipment and provide industrialization services for **Kongsberg Defence & Aerospace**. Kitron has also received a medical contract extension worth between NOK 350 million ($61.8 million) and NOK 400 million ($70.6 million) over a period of about two years.

New facilities…According to published reports, **Foxconn Technology Group**, which is anchored by mammoth **Hon Hai Precision Industry** (Tucheng City, Taiwan), has signed a letter of intent with the government of Chongqing, China, to establish an LCD TV manufacturing facility there. Reportedly, the plant will have an annual capacity of three million TVs. Foxconn's recent investments in China include $275 million for mobile device production at Jiyuan in central China's Henan province.

Facility slated for closure...Sanmina intends to close its PCB fabrication plant in Kuching, Malaysia. The company plans to transfer a significant portion of the plant's equipment to Sanmina's PCB operation in Wuxi, China, where a new building has been added. The company said it has also initiated restructuring in another facility, which it did not identify.

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