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Nine-Month Revenue Increases for Top 12

EMS revenue increased in the first nine months of 2014 by 0.9%, compared with a decrease of –3.1% in revenue in 2013. While EMS growth is now positive again, it is the numbers of the top 12 that paint the real picture of what is happening.

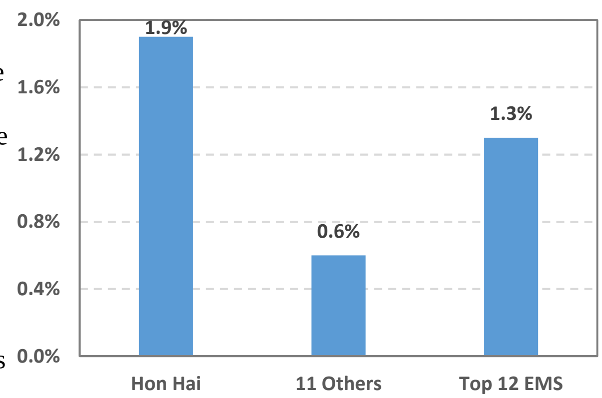
For the first nine months, revenue for the 12 largest EMS providers by total sales amounted to $164 billion, an increase of 1.3% year over year. In order to match last year's sales of about $233 billion, the top-12 group would need to increase its Q4 sales by some 42.9%. That may be a lot to ask, but it's not completely out of the question in a seasonally strong Q4. Last year, top-12 sales in Q4 rose by about 26.4% from the prior quarter, driven by Hon Hai's sequential growth of 43.4% (in US dollars). *MMI* estimates that just to bring 2014 revenue even with that of 2013, Hon Hai will need to generate a sequential growth percentage for Q4 in the mid-40% range.

Unlike in 2013 when Hon Hai gave a boost to top-12 sales, so far this year the company has provided only a modest increase to sales for this group. However, the 11 other top companies, on average, performed worse, increasing revenue by only 0.6% to give a net result averaging 1.3% for the three-quarter period.

The leading EMS companies this year in terms of revenue growth were Benchmark Electronics, Flextronics, and USI. The worst performing EMS companies this year in terms of revenue growth were (surprisingly) Jabil, Pegatron, Cal-Comp, and Celestica—all of which had negative revenue growth.

Nine-month sales results can give us a partial view of how the top-12 order will shape up at the end of the year in terms of industry ranking. The first three top-ranking companies—Hon Hai, Pegatron (a new entrant in *MMI* analysis), and Flextronics, in that order—will easily retain those positions at year end, although Pegatron's revenue is declining. Jabil ranks a distant fourth place. Another cluster, consisting of Sanmina, Celestica, and Cal-Comp, follow in fifth, sixth, and seventh place, respectively, based on 2014 estimates for the first two companies (see p. 5). The next five providers are in a different tier, so it's unclear how Benchmark Electronics, Shenzhen Kaifa Technology, Universal Scientific Industrial, Plexus, and Venture will finish except to say that according to 2014 estimates, Benchmark will lead this group.

Chart 1: Nine-Month 2014 Sales Growth Year Over Year



We do not include the results of ODM companies in this third-quarter analysis because of their conflicting business model that includes their own branded products for sale.

There were four top-12 providers whose nine-month sales in US dollars fell from the year-earlier period. With Flextronics, Benchmark Electronics and Universal Scientific Industrial were able to increase their sales year over year and posted double-digit gains (Table 1, page 2).

For the first nine months, the 12 providers together earned net income of approximately

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Table 1: Q3 and Nine-Month 2014 Results for the 12 Largest EMS Providers (US$M or %)

Company (in order of 9-mo. sales)	Head-quarters	Reports in US$	Q3 '14 sales	Q2 '14 sales	Qtr.-qtr. chg.	Q3 '13 sales	Yr.-yr. chg.	Q3 '14 net profit	Q2 '14 net profit	Q3 '13 net profit	Q1-3 '14 sales	Q1-3 '13 sales	Yr.-yr. chg.	Q1-3 '14 net profit	Q1-3 '13 net profit
Hon Hai (Foxconn)	Taiwan	No	30,900	29,442	5.0	31,092	-0.6	1100	676	1040	89,744	88,029	1.9	2447	2153
Pegatron	Taiwan	No	7600	7112	6.9	8224	-7.6	153	50	80	21,234	22,565	-5.9	294	204
Flextronics	Singapore	Yes	6529	6643	-1.7	6410	1.8	139	174	118	19,895	17,497	13.7	356	151
Jabil	Florida	Yes	4056	3786	7.1	4514	-10.1	-26	188	127	11,419	12,876	-11.3	124	265
Sanmina	California	Yes	1686	1605	5.1	1505	12.0	133	21	39	4768	4422	7.8	174	79
Celestica	Canada	Yes	1423	1472	-3.3	1492	-4.6	34	41	63	4207	4359	-3.5	113	102
Cal-Comp	Thailand	No	1205	1042	15.6	971	24.2	6.4	3	7.0	3199	3370	-5.1	14	18
Benchmark Electronics	Texas	Yes	731	717	2.0	600	22.0	17	22	24	2088	1750	19.3	58	44
Shenzhen Kaifa	China	No	700	579	21.0	593	18.1	24	17	5	1950	1794	8.7	22	24
Universal Scientific Industrial	China	No	673	565	19.2	655	2.8	26.6	25.7	21.3	1921	1686	13.9	79.3	57
Plexus	Wisconsin	Yes	621	558	11.3	568	9.3	25	18	24	1712	1698	0.9	61	66
Venture	Singapore	No	462	471	-2.0	464	-0.5	27.8	26.9	28	1415	1364	3.7	80	74
Total/avg.			**56,586**	**53,990**	**4.8**	**57,087**	**-0.9**	**1659**	**1264**	**1577**	**163,551**	**161,409**	**1.3**	**3821**	**3235**
Total/avg. without Hon Hai			**25,686**	**24,548**	**4.6**	**25,995**	**-1.2**	**559**	**588**	**536**	**73,807**	**73,380**	**0.6**	**1374**	**1082**

These are the 12 largest EMS providers based on total sales. 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. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard.

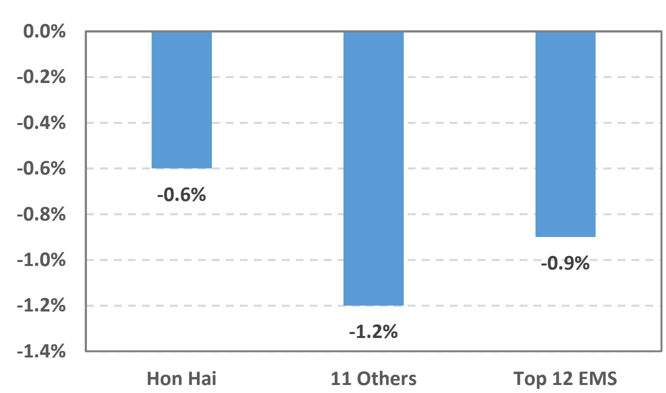
$3.8 billion, increased by 18.1% from a year earlier. (The net income total is approximate because not all companies follow the same accounting standard.) Because nine-month sales increased by 1.3%, net income increased faster than sales did. While there are a few companies with a net overall decline in profit, this positive increase shows that the EMS industry is starting to produce some good profits. Overall net margin for the first three quarters was about 2.3%. Hon Hai contributed about 64% of net income for the period while generating 55% of sales.

3Q2014 sales for the top 12 totaled $56.5 billion, up 4.8% sequentially, and declined by 0.9% year over year. Nine companies grew their sales from the prior quarter, led by Shenzhen Kaifa with a 21% increase, in US dollars. USI also reported a sequential gain in double digits (Table 1). On a year-over-year basis, seven providers, including Flextronics, succeeded in growing their Q3 sales. These increases, including double-digit gains at Sanmina, Cal-Comp, Benchmark Electronics, and Shenzhen Kaifa, more than offset the declines at the five other companies. In this quarterly comparison, the presence of Hon Hai was a positive. Excluding Hon Hai, Q3 growth would have been a decline of 1.2%, meaning that the EMS giant added 0.3 percentage points to the top-12's year-over-year growth (Chart 2).

Net income for the top 12 in Q3 amounted to approximately $1.7 billion for a net margin of about 2.9%. Without Hon Hai, combined net margin would have been 2.2%. Sanmina, Plexus, and Venture recorded net margins of 4% or better. Top-12 net income increased about 5.2% year over year, despite the 0.9% sales decline. Though seven out of 12 providers raised their Q3 net income from a year earlier, these improvements were more than offset by lower net income results for the remaining five companies.

But on a sequential basis, the top 12's net income growth in Q3 far outstripped sales growth. Net income surged about 31.3% quarter on quarter, while sales increased 4.8%. The net income gains at eight companies more than offset declines at the four other companies (Table 1). These results are positive signs for the EMS industry in 2014.

Chart 2: 3Q2014 Sales Growth Year Over Year



Results for Four Providers Based in Asia

For the third quarter, **Hon Hai Precision Industry** recorded sales of NT$950 billion (US$30.9 billion) (up 3% y-o-y, up 8% q-o-q).

Due to better product mix and operating efficiency, 3Q14 gross margin was maintained at 7.1% (vs. 7.1% a year ago and 7.1% a quarter ago), but likely offset by higher wages on labor shortage. Due to higher operating expenditures, the 3Q14 operating margin dropped to 3.3% (vs. 3.5% a year ago and 3.2% a quarter ago). The higher-than-expected operating expenditure was due to R&D and sales expense for new business (like 4G).

Hon Hai recognized strong non-operating income of NT$10 billion (US$325.5 million) (vs. NT$4 billion a year ago and NT$4 billion a quarter ago). The strong non-operating gain was likely driven by forex gain due to NTD depreciation against the USD. Given the better-than-expected non-op gain, 3Q14 net income improved to NT$34 billion (US$1.1 billion) (up 11% y-o-y and 69% q-o-q, or EPS of NT$2.3).

Due to solid iPhone 6 and iPhone 6+ shipments, Hon Hai's management guided 4Q14 sales, margins, and net income to all improve on a q-o-q basis. Hon Hai's robust iPhone orders (including assembly and components), new 12.9" iPad shipments, rising cloud product sales, and new 4G and Intranet operations are kicking in to increase its business growth easily.

Pegatron Corp. reported Q3 sales of NT$236.7 billion (US$7.6 billion), an increase of 11.4% sequentially. Pegatron's operating margin improved to 3.0% in 3Q14, vs. 2Q14's 2.7%. Pegatron attributed the margin expansion to a favorable sales mix, improved production yield, and reversal of inventory reserve. Without the one-off reversal of inventory reserve, Pegatron's 3Q14 operating margin would be 2.8%. Pegatron reported net income of NT$4.7 billion (US$153 million), an increase of 216% sequentially.

Pegatron guided for notebook shipments to grow 20–30% q-o-q, motherboard and desktop shipments combined to decline 0–5% q-o-q, and noncomputing sales to grow by 40–50% q-o-q.

As for the market's speculation that Pegatron may produce 5.5" iPhones, it's unlikely in 4Q14. As per our understanding, the major bottleneck for 5.5" iPhone production is the supply of in-cell display. Until the bottleneck is fully resolved, Apple is unlikely to add a new assembler like Pegatron to produce 5.5" iPhones. However, even without 5.5" orders, Pegatron still has a 4.7" order backlog that will support strong growth in 4Q14. Pegatron currently supplies 30–40% of 4.7" iPhones.

VTech Holdings reported first-half results for the six months ended 30 September 2014, wherein sales were US$901 million in 1H15, up 1% y-o-y. Gross margin further expanded 50 bps y-o-y to 32.2% in 1H15, thanks to lower raw materials costs and efficiency gains. Operating margin expanded 80 bps y-o-y to 12.6% in 1H15, thanks to selling expenses and R&D savings.

Net profit was US$103M, up 8% y-o-y. EPS was US$0.41 in 1H15 (up 7% y-o-y) and dividend per share was US$0.17, up 6% y-o-y.

Vtech's sales growth in North America (NA) was 1%, Europe 2%, APAC 17%, and Rest of World –8% in 1H15. In NA, telecommunication (TEL) sales increased 7% y-o-y thanks to increased sales from new products (commercial phones, baby monitors, etc.) and market share gain in residential phones. But electronic learning products (ELP) sales declined 11% y-o-y in NA, dragged down by a decline in platform product sales. In Europe, TEL sales declined 2% due to weak sales of residential phones, partially offset by growth in new products. ELP sales were flat in Europe in 1H15, with higher standalone product sales but lower platform product sales. Vtech was ranked the number-one infant toy manufacturer in the US, UK, France, and Germany.

Vtech management expects a slight decline in ELP sales in FY15, with a continuously challenging outlook for platform products offset by growing standalone product sales. TEL may continue the positive momentum in 2H15, thanks to market share gain in residential phones and more contributions from new products. CMS is expected to grow in FY15 thanks to new customer additions and order increases. Overall, management expects a mild growth in top line for Vtech with stable/improving margins.

Venture Corp. reported 3Q14 net income of S$36.1 million (US$27.8 million), ~10% weaker than the previous quarter, driven primarily by weaker revenue of S$599 million (US$461.5 million) (+1.7% y-o-y, –0.4% q-o-q) and a higher effective tax rate due to the expiry of some tax incentives in Singapore. The Test & Measurement (T&M)/Medical/Other segment registered impressive revenue growth of 26% y-o-y due to the contribution from new products and initiatives, especially in the life sciences space. This was partly offset by a –35% y-o-y revenue decline in the PC peripherals and data storage segment, where impact from the Honeywell-Intermec M&A continued. However, the sequential margin improvement trend continued, with the profit before tax margin improving from 6.2% in Q2 to 6.8% in Q3 (vs. 6.0% in 3Q13).

Management's take on customer activity, margins, and 3-D printing
Customer activity: Management believes the recent spin-off by Agilent into two focused businesses—Keysight Test and Measurement (T&M) and Agilent (life sciences)—will result in more opportunities but continued M&A in the industry. Wage inflation remains one of the key challenges. Margin improvement is sustainable and was driven by initiatives to target more value-added products compared to conventional EMS, a strategy that will continue. 3-D printing: The recent announcement of HP's entry into 3-D printing is encouraging, but the company believes it is still very early stage, and premature to assume a positive impact on Venture.

Growth Quarter for US-Traded Group

Combined Q3 sales for the six largest US-traded EMS providers rose, on a sequential basis, but declined by 0.3 percent on a year-over-year basis, an outcome that might raise eyebrows, as last year (2013), the group reported an increase of 3.5%.

Revenue for the six providers totaled $15.04 billion, up 1.8% sequentially, and declined by 0.3% year over year. Year-on-year growth at Benchmark Electronics was the highest, at 22%; Sanmina was at 12%, Plexus 9.3%, and Flextronics at 1.8%. Companies whose revenue declined were Jabil at 10% and Celestica at 4.6%. Benchmark Electronics and Sanmina were the only providers with double-digit gains. Plexus and Jabil increased their sales with respect to the prior quarter, supplying most of the push for the group's sequential growth in Q3 (Table 1A below). In this comparison, Plexus led the way with a double-digit increase.

Actual Q3 sales were $426 million, or 3% above *MMI's* estimate for the quarter (Aug., p. 5). The sequential growth was 1.8%, whereas *MMI*'s projection was a decline of 1.5%, so the group beat *MMI*'s estimate by over 3 percentage points. *MMI* based its estimates on the midpoint of each company's sales guidance for Q3. Four out of six companies reported sales above the midpoint of their guidance, with Jabil hitting the high end of its guidance and Benchmark Electronics exceeding it.

It follows that group revenue for the first nine months of 2014 also beat *MMI*'s projections. For the period, combined sales came in at $44.1 billion, 102 basis points above the newsletter's estimate of $43.6 billion, and revenue increased 3.5% year over year. Four companies succeeded in growing their nine-month sales from the year-earlier period: Benchmark Electronics posted the highest growth at 19.3%, Flextronics with 13.7%, Sanmina with 7.8%, and Plexus with 0.9%. Jabil had a double-digit decline of 11.3% and Celestica's sales went down 3.5% (Table 1A).

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 Q3 was a combined 8.4%, up 10 basis points sequentially but down 10 basis points year over year. Only Jabil was able to raise its gross margins sequentially, while only Sanmina accomplished year-over-year growth (Table 1A).

Together, the five companies produced a GAAP operating margin of 2.6%, up 40 basis points sequentially but down 10 basis points year over year. Plexus, as usual, posted the highest gross margin for Q3 and took the prize for the quarter's highest operating margin with a 4.7% result. Three out of five providers improved their operating margins from the prior quarter; only Benchmark Electronics endured a decline. Compared with a year earlier, margin increases occurred at Flextronics and Sanmina.

As for the lone IFRS reporting company, Celestica raised its operating margin both sequentially and year on year (Table 1A).

On a sequential basis, GAAP net income for the three companies in Q3 declined, wherein the major hit was taken by Jabil, with decline of 113%. The collective net income of $287.1 million declined by 32.2% compared to the prior quarter. By contrast, sales went up 2.4%. Only two companies increased their net income quarter on quarter, and four out of five showed a double-digit decline compared to the prior quarter. But on a year-over-year basis, net income dropped by 13.5%, while sales rose by 0.2%. Jabil was largely responsible for this decline, though net income also fell at Benchmark Electronics. Q3 net margin for the GAAP reporting companies was 2.1%, down 40 basis points sequentially and down 180 basis points year over year.

For the first nine months of 2014, combined GAAP net income for the five companies increased by 28% to $772.4 million. This increase was far better than their 4.3% jump in sales.

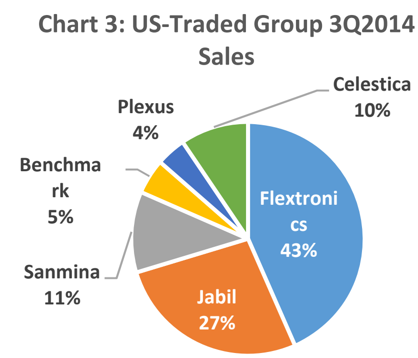


Table 1A: Q3 and Nine-Month 2014 Results for the Six Largest US-Traded EMS Providers (US$M or %)

Company	Q3 '14 sales	Q2 '14 sales	Qtr.-qtr. chg.	Q3 '13 sales	Yr.-yr. chg.	Q3 '14 gross marg.	Q2 '14 gross marg.	Q3 '13 gross marg.	Q3 '14 oper. marg.	Q2 '14 oper. marg.	Q3 '13 oper. marg.	Q3 '14 net inc.	Q2 '14 net inc.	Q3 '13 net inc.	Q1-3 '14 sales	Q1-3 '13 sales	Yr.-yr. chg.	Q1-3 '14 net inc.	Q1-3 '13 net inc.
Flextronics[1,2]	6,529	6,643	-1.7	6,410	1.8	5.6%	5.6%	7.3%	2.5%	2.5%	2.2%	138.9	173.9	118.2	19,895	17,497	13.7	355.8	150.5
Jabil	4,056	3,786	7.1	4,514	-10.1	6.3%	5.6%	9.6%	1.8%	0.4%	2.9%	-26.1	188.3	126.6	11,419	12,876	-11.3	123.5	264.9
Sanmina	1,686	1,605	5.1	1,505	12.0	7.8%	7.9%	7.6%	3.9%	3.5%	3.3%	132.5	20.7	38.8	4,768	4,422	7.8	174.1	78.7
Benchmark	731	717	2.0	600	22.0	7.6%	8.1%	7.6%	3.3%	4.1%	3.5%	17.2	22.2	23.7	2,088	1,750	19.3	58.4	43.7
Plexus	621	558	11.3	568	9.3	9.4%	9.5%	9.6%	4.7%	4.5%	4.7%	24.6	18.4	24.5	1,712	1,698	0.9	60.6	65.6
Subtotal/avg.	**13,623**	**13,308**	2.4	**13,597**	0.2	**8.4%**	**8.3%**	**8.5%**	**2.6%**	**2.2%**	**2.7%**	**287.1**	**423.4**	**331.8**	**39,882**	**38,242**	4.3	**772.4**	**603.4**
Celestica	1,423	1,472	-3.3	1,492	-4.6	7.2%	6.9%	8.1%	3.0%	2.9%	2.7%	34.4	40.9	63.2	4,207	4,359	-3.5	112.6	101.7
Total/avg.	**15,046**	**14,779**	1.8	**15,088**	-0.3										**44,089**	**42,602**	3.5		

All results are based on GAAP except those of Celestica, which has 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) Net income from continuing operations.

Slight Drop Projected for US-Traded Group

If the six largest US-traded EMS providers hit the midpoint of their Q4 sales guidance, 2014 will be another down year for the group as a whole. According to *MMI*'s Q4 estimates, which have been set equal to the midpoint of providers' guidance, the group's 2014 sales will decline slightly, by 0.2%. Group revenue for the year is estimated at $58.3 billion, down from $58.4 billion in 2013. If this estimate proves true, then 2014 will mark the third year of declining sales for the group, as 2013 revenue fell by 2%. Projected 2014 sales remain 2% below a post-recession high of $59.5 billion in 2012.

In order to turn 2014 into a growth year, the six providers must generate Q4 sales of more than $130 million above *MMI*'s estimate for the year. That means the providers would need to exceed the midpoint of their Q4 guidance by more than that amount on a combined basis.

MMI is projecting that Benchmark Electronics, Plexus, and Sanmina will be the providers to achieve sales growth for 2014. (In this analysis, Jabil's annual sales run from December to November.) Sales declines at the other three companies are projected to range from slight to modest except for Jabil, whose revenue is estimated to drop by 3.5% (Table 1B below).

While 2014 may end up with a decline, the estimate for combined Q4 sales does offer one hopeful sign. Projected Q4 revenue of $14.3 billion represents year-over-year growth of 2%. If such an increase were realized, then Q4 would be the second quarter in a row to show year-on-year growth. Two quarters would not constitute a trend, but they would show this group heading in the right direction. If the group is truly on a growth trajectory, that will be borne out in the next one or two quarters.

Estimates say Flextronics and Plexus will be the prime movers in the quarterly increase, with 15% and 18% increases at the midpoint of their guidance, respectively. *MMI*'s projections also indicate that two other companies will attain year-over-year growth for their Q4 sales. Sanmina's growth is expected to reach the single-digit threshold, while Celestica should eke out a slight gain. However, the declines at Jabil will be 16% (resulting from its loss of Blackberry), and at Benchmark Electronics 4% (Table 1B).

Compared with a year earlier, the group's Q4 revenue will tick downward by 3.6%, according to *MMI*'s forecast. Sequential increases at Plexus, Sanmina, and Celestica should be offset by drops at the other three companies (Table 1B).

Guidance suggests that adjusted EPS for Q4 will improve sequentially at Jabil, and at the midpoint of its guidance, the growth would be 100%. One can also infer from guidance that Flextronics and Celestica expect a sequential decline in their adjusted Q4 EPS. At the midpoint of their guidance, the decrease would be 23% at Flextronics and 8% at Celestica. No conclusions can be drawn from the guidance issued by the other three providers.

On a year-over-year basis, Q4 guidance implies that adjusted EPS willrise at Flextronics, Sanmina, and Plexus,with increases of 54%, 15%, and 15%, respectively, at the midpoint of their guidance. Guidance also suggests that the adjusted EPS in Jabil's quasi-Q4 (the November quarter) will fall from a year earlier, and the decline would be 100% at the guidance midpoint. No inferences can be made from the guidance of the other two providers. At the midpoint of their guidance, Celestica's and Benchmark Electronics' adjusted EPS would be at 0% (Table 1B).

Chart 4: US Group Estimated Sales for 2014

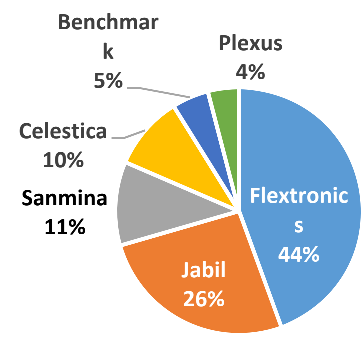


Table 1B: 4Q2014 Guidance and Estimates for the Six Largest US-Traded Providers (sales in $B except as noted)

Company	Q4 '14 guidance	Q4 midpoint	Q3 '14 sales	Qtr.-qtr. estim. chg.	Q4 '13 sales	Yr.-yr. estim. chg.	2014 estimated sales	2013 sales	Esti-mated change	Q4 guidance adj. EPS* $	Q4 EPS midpoint $	Q3 '14 adj. EPS* $	EPS Q-Q chg. at midpoint	Q4 '13 adj. EPS* $	EPS Y-Y chg. at midpoint
Flextronics	5.9 - 6.3	6.1	6.5	-15%	5.3	15%	25.90	26.10	-0.8	0.18 - 0.22	0.20	0.26	-23%	0.13	54%
Jabil	3.7 - 3.9	3.8	4.0	0%	4.5	-16%	15.21	15.76	-3.5	(0.1) - 0.1	0.00	-0.06	100%	0.60	-100%
Sanmina	1.6 - 1.65	1.6	1.6	2%	1.5	9%	6.39	6.21	2.9	0.50 - 0.55	0.53	0.53	0%	0.46	15%
Celestica	1.375 - 1.475	1.4	1.4	2%	1.4	2%	5.63	5.64	-0.2	0.21 - 0.27	0.24	0.26	-8%	0.24	0%
Benchmark	710 - 740 M	0.7	0.73	-1%	0.75	-4%	2.80	2.50	12.0	0.41 - 0.45	0.43	0.43	0%	0.43	0%
Plexus	645 - 675 M	0.7	0.62	6%	0.56	18%	2.37	2.22	6.8	0.74 - 0.80	0.77	0.74	4%	0.67	15%
Total/avg.		**14.3**	**14.9**	**-3.6**	**14.05**	**2.0**	**58.30**	**58.43**	**-0.2**						

Q4 estimates equal midpoint of Q4 guidance. 2014 estimates equal nine-month sales plus midpoint of Q4 guidance. *Adjusted EPS may not be comparable from company to company. For Jabil, 4Q2014 data correspond to the quarter ending November 2014.

Quarterly Results

Flextronics. For its fiscal Q2 ended Sept. 26, 2014, the company reported sales of $6.5 billion, within the company's previously provided revenue guidance of $6.2 billion to $6.6 billion. Second-quarter adjusted operating income increased 16% year over year to $183 million and was at the high end of the company's previously provided guidance range of $165 million to $190 million.

The company's adjusted earnings per diluted share of $0.26 in the second quarter were at the high end of the company's previously provided guidance of $0.22 to $0.26.

The Integrated Network Solutions (INS) segment (37% of sales) was down –4% q-o-q, which was in line with previous expectations calling for low-single-digit sequential declines. For the December quarter, the company expects this segment to be flat sequentially. Finally, management noted that core telecom should be flat, with network declining slightly and servers/storage increasing slightly on a sequential basis.

Industrial & Emerging Industries (IEI) (17% of sales) was down –3% on a sequential basis, which was a slight miss relative to expectations calling for flat q-o-q trends. Management noted that the December quarter should see strength in appliances and energy offset by softness in semi-cap and industrial. The company expects this segment to be stable on a sequential basis in the December quarter.

High Reliability Solutions (HRS) (13% of sales) was up +3% q-o-q, which was better than expectations calling for the segment to be stable q-o-q. HRS is expected to be flat on a sequential basis in the December quarter. Finally, the company noted that it had above-average new bookings in the quarter, which should provide double-digit y-o-y growth in the future.

Consumer Technology Services (CTS) (33% of sales) was down –1% q-o-q, which was better than previous guidance calling for high-single-digit sequential declines. This segment is expected to be up by low single percentages q-o-q in the December quarter.

For the December quarter, Flextronics guided revenues/EPS to $6.4–6.8 billion/$0.24–0.28. Overall, the company is guiding sales ~$100 million ahead of expectations and EPS in line.

On a segment basis, the company expects INS to be flat sequentially, IEI stable q-o-q, HRS flat q-o-q, and CTS up low single digits q-o-q. Positively, operating expenditure numbers continue to be in the ~$200 million range and should remain there in the foreseeable future. Finally, expected capital expenditure levels should be lower than depreciation levels throughout 2015 and the company is targeting $300–350 million for the full year.

Flextronics's inventory was down –6% y-o-y to $3.6 billion, while Accounts Receivable days grew +3 days on a sequential basis to 37. Notably, Accounts Payable days were down 1 day, causing overall cash cycle days to decrease 4 days q-o-q to 20.5.

Sanmina Corp. reported financial results for the Q4 and fiscal year ended September 27, 2014, wherein revenue for the fourth quarter was $1.69 billion, compared to $1.60 billion in the prior quarter and $1.51 billion for the same period of fiscal 2013. Revenue for the fiscal year ended September 27, 2014 was $6.22 billion, compared to $5.92 billion for the fiscal year ended September 28, 2013.

GAAP operating income in the fourth quarter was $61.5 million or 3.6% of revenue, compared to $44.7 million or 3.0% of revenue for the same period a year ago. GAAP operating income for fiscal year 2014 was $199.7 million, compared to $157.6 million in fiscal year 2013. GAAP net income in the fourth quarter was $132.5 million, compared to $38.8 million for the same period a year ago. GAAP diluted earnings per share for the fourth quarter was $1.52, compared to $0.44 in the same period a year ago. GAAP net income for fiscal year 2014 was $197.2 million, compared to $79.4 million in fiscal year 2013. GAAP diluted earnings per share in fiscal year 2014 was $2.27, compared to $0.93 in fiscal year 2013.

Non-GAAP operating income in the fourth quarter was $71.3 million or 4.2% of revenue, compared to $55.7 million or 3.7% of revenue for the same period a year ago. Non-GAAP operating income for the full fiscal year was $234.0 million, compared to $186.9 million for fiscal year 2013. Non-GAAP net income in the fourth quarter was $53.4 million, compared to $39.9 million for the same period a year ago. Non-GAAP diluted earnings per share for the fourth quarter was $0.61, compared to $0.46 in the same period a year ago. Non-GAAP net income for fiscal year 2014 was $172.5 million, compared to $123.4 million in fiscal year 2013. Non-GAAP diluted earnings per share in fiscal year 2014 was $1.99, compared to $1.44 in fiscal year 2013.

Regarding the business segments, the Communications Networks segment was up +3.6% q-o-q (–2.9% y-o-y) with stable demand, the Industrial/Medical/Defense segment overall was up +7.3% q-o-q (+37.8% y-o-y),
industrial and medical were up with defense slightly down, the Computing and Storage segment was up +8.9% q-o-q (+10.7% y-o-y) with new projects beginning to ramp, and the Multimedia segment was down –1.7% q-o-q (+7.7% y-o-y) but the company noted that demand was stable during the quarter.

The company guided the December quarter to $1.65–1.70 billion/$0.55–0.60. From an end-market viewpoint, the company expects the following on a sequential basis: Communications Networks to remain stable, Defense/Industrial/Medical to be up, Computing & Storage to increase, and Multimedia to see some declines. Wrapping up income statement line items, the company guided gross margins to 7.7–8.1%, operating expenditure to $65–67 million, other expense $5–7 million, tax rate 16.5%, on 87 million shares. Finally, the company noted that capital expenditure should be $25 million and D&A expense should come in at $25 million as well.

Benchmark Electronics, Inc. reported 3Q2014 revenue of $731 million, increased 2% from 2Q2014 and 22% from 3Q2013. The company incurred a $5 million charge ($0.09 per share) for the write-down of inventory and provisions to accounts receivable associated with the bankruptcy of GT Advanced Technologies. The charges increased cost of sales by $2 million and SG&A by $3 million. Operating margins declined 10 bps q-o-q to 4.0% due to negative mix and new program ramps.

Benchmark Electronics announced 51 new program wins in the quarter, with potential annual revenue of $140–160 million. Industrial continues to drive the majority of new bookings, representing 51% of new wins in 3Q14, with new wins also strong in Medical and Telecom. These wins point to strong future growth, with Industrial expected to be up 17–18% y-o-y in FY14, based on guidance. Telecom is also expected to see strong growth in FY14, up roughly 41% y-o-y based on guidance, and Benchmark announced that Arris was now a greater than 10% customer. Management highlighted good execution in Computing, but noted that some demand was pulled into 3Q14 from 4Q14, which will result in flat q-o-q growth in this segment in 4Q14, versus a normal seasonal uptick.

Management guidance for 4Q14 was$710–740 million revenue and EPS of $0.41–$0.45.

Celestica, Inc. reported revenue of $1.423 billion (down 5% y-o-y and 3% q-o-q), at the lower end of the company guidance of $1.40–1.50 billion.

Celestica reported a stronger than expected adjusted operating margin of 3.9% (up 40 bps from the last quarter), exceeding the management expectation of 3.4% at the midpoint. The strong operating margin resulted from a provision recovery that positively impacted gross margin by 15 bps, unusually low SG&A due to certain deferred spending, and favorable FX. Reported adjusted (non-IFRS) gross margin was 7.6%, up 30 bps from the prior quarter. On a yearly basis, gross margin improved 50 bps.

Among Celestica's business segments, the Diversified segment contributed 29% of total revenue, up from 26% a year ago, and grew 7% y-o-y, driven by new programs in industrial, semiconductor, and aerospace & defense. On a sequential basis, the Diversified end market increased 2%, primarily driven by industrial. The Communications segment (40% of sales) decreased 5% q-o-q due to weaker than expected demand from several key customers, and was down 15% y-o-y due to continued weakness in Japan and certain North American telecom program completions in 3Q13. Juniper, a key customer that recently consolidated with Celestica, recently warned that its revenue would be soft, given weak carrier demand in the US. The Server segment (9% of sales) decreased 10% q-o-q, as expected, and 7% y-o-y due to the previously announced insourcing of low-end assembly by Oracle. The Server segment is expected to grow by mid-single digits q-o-q in 3Q14, driven by seasonality and a new program with an existing customer. Storage segment (17% of sales) revenue was relatively flat q-o-q, but grew 18% y-o-y, driven by new programs launched in 1H14. Consumer segment (5% of sales) sales decreased 14% q-o-q and 25% y-o-y due to program completions and efforts to de-emphasize the lower margin, high-volatility segment. The segment is expected to decline by double digits q-o-q in 4Q14.

Celestica guided revenue of $1.375–1.475 billion ($1.425 billion at midpoint) for 4Q14. Adjusted EPS is expected to be $0.21–0.27. At the midpoint, the company expects operating margins to decline 40 bps to 3.5%, despite expectations for flat top-line growth q-o-q.

Company News

Acquisitions… **éolane** (France) has acquired **Bengale Electronique** (France) and **Syscom Electronik** (Germany) in line with its development and expansion strategy. Bengale, an electronics engineering and design firm, specializes in the medical field and is located near Montpellier. Syscom Electronik, a major player in EMS in Berlin, has more than 25 years' experience in PCBA manufacture, prototypes, and small and medium production runs. These acquisitions took place in July 2014.

Cytta Corp. (Las Vegas, NV) announced that it has entered into a Letter of Intent with Mr. John Dinovo, owner of **Ditron, Inc.,** to acquire all interest in the corporation. Ditron will provide complete manufacturing services and solutions to support the entire life cycle of products in the aerospace, defense, industrial, networking, transportation, and medical equipment market sectors requiring PCB assembly services. Cytta Corp. will use this acquisition to support its Cytta Connect medical product line and expand the Cytta Data Mobile Platform into additional industry segments… **Staci Corp.** (LaGrange, OH) has purchased fellow EMS company **EPM Global Services** (Canada) for an undisclosed sum. EPM provides manufacturing and integration services for radio frequency, global positioning satellite, medical device, and digital video/optical technologies. The company has manufacturing locations in Markham, Ontario and Shenzhen, China, plus a purchasing office in Hong Kong. It was founded in 1993. In 2006 it opened a prototype shop in Portsmouth, NH, but closed it a year later. Staci was acquired earlier this year by Centre Lane Partners. It has plants in LaGrange, OH and Dongguan, China… EMS provider **Hanza Holding** (Sweden) has acquired all shares in **KA Elektronik AB**, a Swedish electronics manufacturer. The company will be included in Hanza's Electronics division and is expected to have a positive impact on Hanza's earnings per share.

Facilities expansion… **Integrated Micro-Electronics, Inc.** (IMI) (Philippines), the electronics manufacturing services unit of the **Ayala** conglomerate, intends to bolster its operations in Bulgaria, China, and the Philippines next year through the amount it would raise from the sale of common shares awaiting approval from the corporate regulator.

IMI said it plans to use a portion of the proceeds for expansion of its facilities in Jiaxing and Bulgaria, and machinery expansion in the Philippines.

Of the total expected proceeds, IMI is allocating P $1.1 billion for capital expenditure, of which approximately 91% would be used for investments in its electronics manufacturing services (EMS) business line and the remaining 9% would be utilized for its semiconductor assembly and test services (SATS) business line.

Foxconn Profit Boost on iPhone Demand

Foxconn (Taiwan) (Hon Hai Precision Industry Co.) reported an 11% rise in third-quarter profit. Though robust demand for **Apple's** new bigger-screen iPhones was a big factor, another contributor was improving profitability at a unit named **FIH Mobile Ltd**.

Starting last year, however, domestic demand surged for low-priced handsets from Chinese phone makers, including **Xiaomi, Huawei Technologies Co**., and **Oppo Mobile**. Because FIH assembles the bulk of those phones, the boom in demand pushed the unit back into the black last year after a loss in 2012. The turnaround at FIH has been a positive development for Foxconn at a time when the 40-year-old manufacturing giant is struggling to increase its US$130 billion in annual revenue.

Foxconn's third-quarter net profit rose to NT$34.0 billion (US$1.1 billion) from NT$30.7 billion a year earlier, while revenue rose 3% to NT$950.4 billion from NT$919.3 billion.

Agreements & Alliances… **Zinwave** (Cambridge, UK), a provider of wideband DAS (distributed antenna system) technology, has signed a manufacturing agreement with **Plexus Corp.** (Neenah, WI), as reported by *Evertiq*.

Plexus will provide production services from its UK facilities and will support Zinwave with the manufacture of its in-building coverage solution based on photonic and wideband amplifier technology… **Unilife** (York, PA), a designer, manufacturer, and supplier of injectable drug delivery systems, has entered a global strategic alliance agreement with **Flextronics** (Singapore) to expand the production capacity and scale-up capability of Unilife's product portfolio. According to Unilife, this strategic alliance will further enhance its supply chain and maximize efficiencies by aligning its production capacity and scale-up capability with Flextronics's proven manufacturing expertise and established global size.

Fire Hits SVI Facility

SVI Ltd.'s (Thailand) facility in the Pathum Thani province of Thailand has suffered a fire accident. The company's head office had a fire during the early hours of Wednesday, November 12th.

According to local media, no one was seriously injured during the fire. The damages are estimated to be Baht 1 million (US$30.4 thousand).

New facilities… **Foxconn** is gearing up to supply displays for Apple's next devices. The Taiwanese company's display arm, **InnoLux**, is planning to spend $2.6 billion over the course of the next two years on a factory in Taiwan that will serve Apple exclusively. The new factory is expected to be staffed by 2,300 workers.

It is expected to start production by the end of 2015.

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