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Industry Prepares for Financial Fallout

The economic fallout from the crisis in financial markets continues to unfold. And no one can know for sure how bad things will get and for how long. Yet EMS providers cannot afford to sit on their hands as economic conditions worsen in various parts of the world.

What can they do? A review of comments made by CEOs and CFOs of publicly held providers during recent earnings conference calls reveals that steps are being taken.

First, providers want to know if the credit crisis has created financially weakened customers that may not be able to pay their bills. Both **Flextronics** and **Plexus** have disclosed that they undertook efforts to uncover risk posed by financially distressed customers. They both have recorded reserves as a result of these efforts. (For more on Flextronics' effort, see p. 2.) The two companies are also checking the financial health of their suppliers. It stands to reason if they're reassessing customers and suppliers, then others in the industry must be doing this as well.

In a credit crisis, cash is king. Generating and preserving cash is another step that can be taken. Indeed, **Celestica** plans to use its cash as a competitive weapon to take advantage of opportunities that it believes will arise once OEMs sort through their own

liquidity issues. **Benchmark Electronics** pointed out that in today's environment cash is very important to the company as well as its customers.

Flextronics reported that OEMs are evaluating their EMS suppliers as to the strength of their balance sheet and their survivability in a downturn. There's a saying that in tough economic times the strong get stronger, and the weak get weaker. Flextronics believes that a lot of its booked business expected to hit next fiscal year results from redistribution of work based on OEMs' understanding of who the survivors will be. **Jabil Circuit** expects to see some defensive moves from customers who want to transfer their production to players which are financially viable long term and in a position to make necessary investments on behalf of the customer.

Taking business away from competitors is yet another means for weathering a downturn. When demand softens in base business, the only re-

course is to offset this sluggishness as much as possible with new wins. Look for some providers to become proactive in targeting customers of weakened competitors.

If history is any guide, increased cost pressures from hard times will put more OEMs in a mood to outsource. Here is another potential source of new business to eventually counteract a lack of demand.

When EMS providers see demand softening, they adjust their cost structure accordingly – still another instrument in the anti-recession tool box. Problem is, forecast visibility is generally poor today, yet providers need a pretty good idea of what the demand in their factories will be. This becomes a judgment call.

Finally, opportunistic providers with a solid financial position will look for desirable assets to acquire if they become available as a result of the liquidity crisis. One such provider, **Benchmark**, is already looking.

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Some Q3 Results in Brief

Benchmark Electronics. The company missed revenue guidance for the third straight quarter. Still, non-GAAP operating margin held steady at 3.6% on a sequential basis despite a \$40.7-million drop in revenue from the prior quarter. Q3 revenue of \$641.7 million was down 6.0% sequentially and 4.6% year over year. Non-GAAP EPS amounted to \$0.32, up from \$0.24 a year earlier but below Q2's level of \$0.35.

In late September, the provider saw a sudden, broad-based slowdown in orders in reaction to the financial crisis unfolding at the end of the quarter. Revenue softness continued into October, but the trend began to stabilize by the week of Oct. 23 with some increase in orders. Benchmark sees revenue growth in 2009 and expects that this growth will come from the non-tech sectors primarily.

Celestica. Gross margin for the quarter rose to 7.4%, its highest level since 1999. Non-GAAP operating margin of 3.2% increased by 20 basis points from Q2 and 90 basis points from the year-earlier period. ROIC including intangibles stood at 13.9%, a level of return not seen since 2000. Revenue of \$2.03 billion rose 8.3% from the prior quarter but was off 2.4% year over year. Adjusted EPS, which beat the guidance range by one cent, amounted to \$0.24 versus \$0.13 a year earlier. Stronger earnings were driven primarily by year-over-year improvements in Celestica's Mexican and European operations. GAAP EPS was \$0.14, down from \$0.22 for the year-ago period, primarily as a result of lower tax recoveries and higher restructuring charges.

Elcoteq. The provider maintained operating income at the same level as in Q2 despite sequentially lower sales. Operating income was 0.3 million euros compared with 0.6 million euros in the prior quarter, while revenue fell to

740.5 million euros from the Q2 figure of 904.8 million euros. Elcoteq was expecting lower sales. The decline was mainly in the personal communications business, where a change in the customer portfolio is underway. EPS came to -0.35 euro, compared with -0.19 euro in the same period last year. Elcoteq was unhappy with its Q3 negative cash flow of 66.7 million euros after investing activities.

As a result of a weaker general market outlook, Elcoteq now expects operating income may not reach the 1% level in Q4. Sales are expected to increase from Q3 to Q4.

Flextronics. For its fiscal Q2 ended Sept. 26, sales totaled \$8.86 billion, up 59.5% from the year-earlier period, which did not contain revenue from Flextronics' Solectron acquisition. Non-GAAP operating margin improved by 20 basis points year over year to 3.3%. Adjusted net income rose 57% from the year-earlier quarter to \$230 million, while adjusted EPS increased 17% to \$0.28. During the quarter, the company generated free cash flow of about \$611 million and used its cash position to repurchase \$260 million worth of its stock. GAAP EPS was \$0.05, compared with \$0.20 a year earlier.

GAAP results include \$129 million in charges primarily for doubtful accounts receivable, the write-down of inventory and recognition of related obligations for some customers that have become distressed due to the worsening global credit market conditions.

Flextronics anticipates that the softening of demand which it saw in late September will continue.

Jabil Circuit. For its fiscal Q4 ended Aug. 31, revenue increased 5.7% from the prior quarter and 4.3% year over year to \$3.26 billion. Core operating income amounted to \$104.7 million, or 3.2% of sales, compared with \$103.8 million, or 3.3% of sales, for the year-ago period. Versus the prior

quarter, core operating income grew by 22.7%. Core EPS was \$0.30, compared with \$0.26 in the prior quarter and \$0.29 a year earlier. GAAP EPS increased to \$0.28, versus \$0.19 for the previous period and \$0.06 in the year-ago quarter. Cash flow used in operations was about \$7 million.

For the November quarter, the company expects its consumer division revenue to grow by 30% sequentially, led by a projected 55% increase for the mobility sector.

Plexus. Revenue for its fiscal Q4 ended Sept. 27 totaled \$476 million, up 4.3% sequentially and 11.8% year over year. Non-GAAP EPS was \$0.48 including a tax rate benefit of \$0.05, compared with \$0.41 in the prior quarter and \$0.55 a year earlier. GAAP EPS equaled \$0.43 for fiscal Q4. Gross and non-GAAP operating margins were 10.5% and 4.8% respectively. These margins, along with a fiscal 2008 ROIC of 20.1%, are in keeping with Plexus' 20-10-5 financial model.

In the quarter, the company won 19 significant new programs, estimated to deliver about \$200 million in annualized revenue when fully ramped. In addition to these manufacturing wins, Plexus has landed a new program to produce a complex mechatronics product. This program is forecasted to generate about \$30 million of revenue, largely in the second half of fiscal 2009. About \$16 million in engineering services business also came in.

Sanmina-SCI. For its fiscal Q4 ended Sept. 27, revenue from continuing operations declined 10.5% sequentially and 2.9% year over year to \$1.70 billion, which was below the company's guidance range. Sales were down from the prior quarter in all but one of Sanmina-SCI's seven end markets, a fact largely attributed to a weakening global economy. But non-GAAP gross margin amounted to 7.8%, up from 7.4% in the prior quarter and 6.3% a year ago. Likewise, non-GAAP operating margin equaled 3.5%, represent-

ing an increase from 3.2% in the previous period and 1.3% a year earlier. Non-GAAP EPS came in at \$0.05, versus \$0.05 in the prior quarter and a loss of \$0.02 in the year-ago period. GAAP EPS for continuing operations were at break even.

The company's board has approved a program to repurchase up to 10% of Sanmina-SCI shares.

World Markets

Mexico: A Growth Haven

Despite the financial storm that has buffeted world markets, some EMS providers are enjoying growth in Mexico. While Mexico may not be the EMS industry's answer for the economic damage done by this storm, it appears to offer, at least in some cases, a haven of regional strength.

Flextronics, Jabil Circuit and Sanmina-SCI all report that their businesses in Mexico are growing. What's more, **Hon Hai Precision Industry** (aka Foxconn) has embarked on a major expansion project in Mexico on the U.S. border (Aug., p. 6). Of course, Hon Hai isn't one to offer explanations for its investments in new facilities, but it would be safe to assume that Hon Hai would not be erecting a large complex in Mexico without anticipating growth of its Mexico business.

Take Flextronics. During the company's earnings call this month, CEO Mike McNamara said Flextronics is "experiencing very significant growth in Mexico." This growth will include cell phone business in Mexico. He also reported that while Flextronics is ramping down a cell phone activity in Malaysia, the company "is ramping up very significantly a cell phone operation in Mexico."

Jabil is adding a leased facility of around 150,000 ft² in Guadalajara, Mexico, to support expanding busi-

ness. "We've about 18 customers that are there now, and growth and expansion with some of those customers is causing this increase," Beth Walters, Jabil's VP of investor relations and communications, told *MMI*. Walters said she believes that one of the factors contributing to this growth is that the shifting of some work from Mexico to lower cost regions has changed over time.

Sanmina-SCI isn't investing in Mexico at present because the company added just under a half million ft² there in its last fiscal year ended Sept. 27. "We brought on so much space last year that we think we're in good shape. And we'll continue to invest as we need to," said Hari Pillai, Sanmina-SCI's newly named president and COO, in an interview with *MMI*.

Pillai attributed most of the growth that the company is seeing in Mexico to the company's fully indigenous management team there. This team, which Sanmina-SCI has groomed for seven or eight years, "does a great job," said Pillai.

He noted that a number of things are driving senior executives to look at regionalization of supply chains, which would benefit Mexico. But the rising costs of offshoring to China are not high on his list of today's drivers. "We see far greater sensitivity to things like carbon footprint and the amount of working capital tied up in long supply chains..." said Pillai "But the trend doesn't switch over so quickly because supply chains are not so simple that they can be flipped over at a minute's notice."

Although Sanmina-SCI has not seen any major redirection of supply from broader Asia, changes may be in the offing. Jabil's analysis shows that for certain bulky products the company is "very close to inflection points to localize" some Asia-based production, which would end up back in places such as Mexico and Eastern Europe, said Tim Main, Jabil's president and

CEO, during the company's September earnings call. Amounting to a significant portion of Jabil's production, these heavy, very bulky products consist of large-scale telecom gear, networking equipment, medical and instrumentation products for which logistics costs are a concern. He described a potential scenario in which PCB assemblies would be produced in low-cost locations and shipped into consuming regions, where final assembly and order fulfillment would take place.

Market Trends

Vertically Integrated Ventures Arise in LCD-TV Space

Vertical integration, which is sometimes used as a competitive weapon by EMS providers, is now being used against them in the LCD-TV space. In two recent cases, an LCD panel supplier joined forces with a Taiwanese LCD-TV ODM in a joint venture. These ventures would seem to offer TV OEMs the proverbial one-stop shop when outsourcing production of LCD TVs.

Last month, LCD panel maker **AU Optronics** and **Qisda**, formerly the ODM/EMS operations of **BenQ**, announced that they would form a joint venture with a total investment of NT\$200 million (\$6.0 million). AUO will hold a 60% stake in the venture, while Qisda will have the remaining 40%. According to two Taiwan news sources, the purpose of the joint venture is LCD-TV assembly. Then this month *Digitimes* reported that Qisda will withdraw from the LCD-TV business and turn over all of its LCD-TV activities to the joint venture, whose direction would be guided by AUO.

This venture will allow AUO to migrate up the supply chain from panel manufacturing to LCD-TV assembly, a trail that was blazed by **Innolux**

Display.

In the second case, **LG Display**, another major manufacturer of LCD panels, and **AmTRAN Technology**, a display OEM/ODM company, in recent weeks signed an agreement to form a joint venture that will produce LCD modules and contract manufacture LCD TVs. Under the agreement, an LCD module line will be built in AmTRAN's existing TV plant in Suzhou, China. The plant is scheduled to produce 3 million LCD modules and 5 million LCD TVs a year starting in early 2009.

The joint venture company, to be named **Suzhou Raken Technology**, will be set up in Suzhou and funded with an investment of \$20 million. LG Display and AmTRAN will hold 51% and 49% equity positions respectively in the new company.

LG Display expects that the pact with AmTRAN will help LG Display to expand its customer base by securing a stable, long-term source of demand for its panels. Moreover, the production of LCD modules and LCD TVs in a single location should lead to the use of fewer components through joint R&D and significantly lower packaging and logistics costs, according to LG Display. The latter benefit is often cited within the EMS industry as a reason to have a vertically integrated campus.

Another LCD venture has been reported, but not confirmed. The *Economic Daily News*, a Chinese-language newspaper in Taiwan, reported last month that **Chi Mei Optoelectronics**, an LCD panel manufacturer, has teamed up with ODMs **TPV Technology** and **Proview** to build LCD-TV panel module assembly plants in China. CMO said it has made no such announcement via a statement submitted to the Taiwan Stock Exchange. Reportedly, the LCD module facilities will be located in China's Hubei and Sichuan provinces.

TPV already has a strategic alliance

with CMO, which agreed to buy stock in TPV, and that's in addition to TPV's two LCD module joint ventures. Indeed, forging an alliance between a system integrator and an LCD panel manufacturer is an idea that has gained traction in the display business.

But EMS providers in the LCD-TV space have yet to announce, at least publicly, a strategic alliance with an LCD panel manufacturer much less a joint venture offering a vertically integrated LCD-TV solution. Providers may have good reasons such the ability to shop around for panels and use of customer clout in dealing with panel suppliers. Nevertheless, when a strategic alliance morphs into a vertically integrated joint venture between ODM and panel manufacturer, EMS providers face a new form of competition in the flat TV space. Now the panel supplier becomes a competitor as well.

News

TS3 Acquires Texas Provider

TS3 Technology, a privately held EMS company headquartered in Franklin, TN, has merged with **Alpha Circuits**, an EMS provider operating out of Stafford, TX, near Houston.

This merger will expand TS3's North American footprint and product capabilities, according to a statement from TS3. Its existing facilities in Houston, TX, and Franklin, TN, total 140,000 ft². The Alpha transaction will increase this footprint to over 200,000 ft². Alpha's website lists the size of its Texas facility as 70,000 ft².

In addition to enhancing TS3's position as a value-added EMS supplier, the merger will "significantly enhance the breadth of our manufacturing and technical capabilities, increase our market reach, and add capacity for growth," stated Mike McCammack, president and CEO of TS3.

"Alpha will add to our flexibility,

agility and execution. We believe that this strategic merger is important to delivering a total order fulfillment value proposition to our customers. This gives us a strong position in the growing markets that we serve," he said.

TS3, which changed its name in October 2007, was formerly known as **Telco Solutions III**. The provider focuses on supporting low- to mid-volume, high-mix programs in the industrial, energy, medical, government and military markets.

French Provider Buys Development Firm

LACROIX Electronique (Vern sur Seiche, France), the EMS division of **LACROIX Group**, has purchased **THARSYS**, a French design and development firm whose expertise includes aviation electronics. The deal increases LACROIX Electronique's R&D offering in the European EMS and CDM (contract design and manufacture) market.

Located near Toulouse, France, THARSYS is a subsidiary of **SOGECLAIR**, an engineering company. With 22 employees, THARSYS generated 2007 sales of 2.9 million euros. It has specialized in the development of electronic products and systems since 1990.

"This business transaction will efficiently increase our possibilities to consult our clients in the product development phase, especially... development of complex systems in the aviation industry. THARSYS is situated in the center of Aerospace Valley and has important reference customers in the avionic [sector] as well as various registrations and certifications....," stated Vincent Bedouin, managing director of LACROIX Electronique.

The THARSYS purchase marks LACROIX Electronique's second acquisition in recent months. In July, the LACROIX unit acquired a German

EMS provider, **PrehTronics** (Willich, Germany), whose 130 workers in 2007 achieved revenue of 29.6 million euros. Counting R&D personnel from PrehTronics, the LACROIX unit now has about 50 engineers and technicians on the development side. According to Yves Krotoff, CEO of LACROIX Group, the THARSYS deal completes the unit's R&D offering.

LACROIX Electronique is emerging as one of the more visible players in the European EMS market. In fiscal year 2007, the EMS provider brought in sales of 105 million euros with 1,273 employees. The provider is one of three divisions of the LACROIX Group, which also has road sign and telemetry businesses.

Another deal announced... Recently, **HANZA** (Stocksund, Sweden), a new EMS company launched earlier this year (Feb., p. 7-8), signed an agreement to acquire **Molift Supply AB** (Svårta, Sweden), a welding operation. In conjunction with the acquisition, HANZA received a three-year contract to manufacture products for **Molift Group**, a maker of equipment for moving and handling patients. The contract is worth SEK 100 million (\$13.4 million). Through this deal, HANZA broadens its manufacturing capabilities and gains an advanced machine park including, for example, welding robots. The acquired Svårta operation, which will focus on prototyping and know-how in the welding area, will be responsible for developing a welding site in Estonia where volume production is taking place. This acquisition follows the purchase of a factory in Wrocław, Poland, announced in April.

Joint venture... **Brantham Engineering**, a UK provider based at Witham in England's Essex county, recently formed a joint venture with a Bulgarian partner, **ATM Electronics** of Sofia, Bulgaria. The venture allows

Brantham to offer customers the option of low-cost region manufacturing.

New business... **Dot Hill Systems** (Carlsbad, CA), a storage technology company, has engaged **Foxconn Technology Group** to supply Dot Hill with manufacturing, assembly and test services from Foxconn's facilities in China as well as final integration services, including final assembly, testing and configure to order, through its worldwide facilities. Foxconn Technology Group is anchored by **Hon Hai Precision Industry** (Tucheng City, Taiwan). Dot Hill said it would benefit from Foxconn's global distribution system, among other things. Also, Hon Hai will make 15.4-inch X-series notebooks for Taiwan's **Asustek**, reported *Digitimes*, citing Taiwan component suppliers. *Reuters* reported that Hon Hai's mobile phone subsidiary, **Foxconn International Holdings**, and **Flextronics** (Singapore) will provide manufacturing for handsets to be offered through **Hutchison Whampoa's** new mobile phone unit, **INQ Mobile**. ...**Enics** (Baden, Switzerland) will manufacture new wireless modules for **connectBlue** (Malmö, Sweden). Late last year, connectBlue won a contract for delivery of 100,000 Bluetooth modules to a large telecom company. ...**CTS Electronics Manufacturing Solutions** (Moorpark, CA) has landed contracts from four new customers. The EMS provider will supply PCB assemblies for use in portable medical ultrasound equipment, high-end networking video products, and alternative and renewable energy solutions such as wind power. CTS EMS anticipates that initial manufacturing will start in late 2008 at its U.S. and China facilities. These awards are expected to total about \$15 to \$20 million of new revenue in 2009. CTS EMS is a business unit of publicly held CTS (Elkhart, IN). ...**PartnerTech** (Malmö, Sweden) will provide PCB assembly, subsystem build and test services

across **Snap-On Diagnostics'** range of gas analyzer and emissions products. Snap-On's team at King's Lynn, England, needed a local outsourcing partner to help meet a 48-hour order-to-delivery schedule for its emissions products. The Snap-On business will be fulfilled out of PartnerTech's UK manufacturing facility at King's Lynn. Snap-On Diagnostics is part of U.S.-based Snap-On, which sells to professional tool users. ...**LaBarge** (St. Louis, MO) has secured a \$7-million contract from **Raytheon Missile Systems** to continue to provide cables and electronic assemblies for the Tactical Tomahawk cruise missile. This contract is in addition to a \$9.2-million award announced in February (Feb., p. 7). In addition, LaBarge has received a \$1.6-million contract from **General Dynamics Land Systems** to continue to build cable assemblies for variants of the M1 Abrams tank for the U.S. Army. ...A subsidiary of **Kitron** (Billingstad, Norway) has received NOK 40 million (\$5.8 million) in new orders from **Kongsberg Defence & Aerospace** for products that are part of a KDA weapon control system. Deliveries will occur during the first half of 2009, and Kitron expects that its 2009 business from this program will exceed the 2008 level of NOK 113 million (\$16.4 million). ...**Sparton** (Jackson, MI) has received a sonobuoy subcontract from its **ERAPSCO** joint venture for \$7.6 million. Sparton's share of an \$11.5-million award from the U.S. Navy. Also, Sparton is finalizing a \$2.2-million increase in another sonobuoy contract from the U.S. Navy. ...Acting as sole EMS source, **Microboard Processing, Inc.** (Seymour, CT) will manufacture high-end radios for **Cue Acoustics** (Somerville, MA) and RFID products for **ThingMagic** (Cambridge, MA). These are among eight new customers won by MPI. ...Customers recently added by **VirTex Assembly Services** (Austin, TX) include **BPM Microsystems**

(Houston, TX), a supplier of device programmers and programming systems; **Tanisys Technology** (Austin, TX), a source of semiconductor test equipment; and **Uson** (Houston, TX), a provider of automated leak detection equipment. ... **Incap Contract Manufacturing Services Private Limited**, the Indian subsidiary of **Incap** (Oulu, Finland), has landed contracts with six new customers operating in India. With a total value estimated at 5 to 7 million euros a year, these contracts mark the first new customers won in India since Incap acquired **TVS Electronics'** contract manufacturing unit there in June of last year. Manufacturing for the new business will take place in Tumkur, near Bangalore. Three of the new customers have been identified. **Taco Sasken Automotive Electronics**, a designer of automotive electronics and part of the **TATA** group, has engaged Incap for the manufacture of vehicle tracking systems and information systems. **Emerson Network Power**, an Indian subsidiary of U.S.-based **Emerson**, is partnering with Incap in the production of about 60 different types of PCBAs for Emerson Network's industrial UPSs. For **Mango Global**, Incap is manufacturing GSM- and CDMA-based point-of-sale terminals as complete box-build products.

India's Wipro Expands Manufacturing

A unit of India's **Wipro**, a well-known provider of IT, R&D and business process outsourcing, has unveiled a second manufacturing facility at Kotdwar in the Northern India state of Uttarakhand. The 75,000-ft² plant will manufacture servers, storage, notebooks, desktops and associated IT electronics, according to published reports.

Various reports quoted a Wipro executive as saying that this factory, along with an existing unit in

Pondicherry, India, "will further Wipro's expansion plans of cutting-edge indigenous products and services."

The question that follows is whether or not these plans include offering contract manufacturing in India.

More new facilities... Flextronics has taken an additional 214,320 ft² at Memphis' Chickasaw Distribution Center, according an online report from *CoStar Realty Information*. ...EMS provider **NBS Design** has opened a 40,000-ft² plant in Santa Clara, CA. ... **Avalon Technologies** (Chennai, India), an EMS provider in the **Sienna** group (Atlanta, GA), will double its capacity in the Madras Export Processing Zone with a new facility, according to Indian news sources. Reportedly, Avalon also plans to serve the Indian market through a new company, **Avalon Technologies and Services**, which will offer 50,000 ft² in Arumbakkam. In addition, Sienna is setting up a new company, **Sienna Technologies and Services**, to meet the sales, distribution and after-sales needs of U.S. customers selling in India, two sources reported. ... Also in India, construction has begun on a new factory building for Incap's operations in Tumkur, and it is due to be ready in early 2009. ... With the completion of three new buildings, EMS provider **ArmorLink** recently increased its floor space in Shanghai, China, to 41,750 m². **ArmorLink** is a member of the **ICP Group**, which is organized around Taiwan-based **ICP Electronics**, a publicly held EMS company. ... **The ROB Group** (Neulingen, Germany) recently broke ground for a new facility in Sibiu, Romania, with about 1,000 m² of production and office space. Completion is scheduled for January 2009. Last year, the EMS provider recorded revenue of about 43.2 million euros.

Financial troubles... UK provider **Cemtron** of Fife, Scotland, has been

taken over by administrators, who are trying to sell the company, reported *BBC News*. *BBC* said the company recently faced trading losses and cash flow and funding problems. Annual sales were reported as £16 million. ... The new ownership of **Propartner** has made a bankruptcy filing for the Norwegian EMS provider, according to online source *evertiq*.

More financial news... Stockholders of **Sanmina-SCI** (San Jose, CA) have approved a plan by which the company's board may effect a reverse stock split that would combine no less than three shares and no more than ten into a one share of common stock. ... As a result of management restructuring, **Nam Tai Electronics** (Macao, China) has decided to discontinue conference calls following the release of its quarterly results. The company said it would monitor the reaction of investors and analysts to this decision, and depending on what it hears, may reconsider conference calls in the future. ... The New York Stock Exchange has notified Sparton that it no longer complies with NYSE listing standards for market capitalization and shareholders' equity. Sparton intends to submit a plan required by NYSE to show its ability to achieve compliance within 18 months. For Sparton's fiscal 2008 ended June 30, the company reported a net loss of \$13.1 million compared with a year-earlier loss of \$7.8 million. Fiscal 2008 sales totaled \$229.8 million, up 14.9% year over year. ... **AWS Electronics Group** (Hindlip, UK) has secured a £5.5-million equity investment from **Barclays Ventures**, the private equity arm of **Barclays Bank**. AWS's management team plans to more than double its current revenue of about £40 million to between £80 million and £100 million within the next three years through a combination of organic growth and further acquisitions. This investment will give the group access to financing

for this growth, according to a statement from Barclays. Barclay's Ventures also introduced John Weston, former CEO of **British Aerospace**, who will join AWS's board as chairman. Since the current ownership group bought AWS Electronics in December of 2005, the group has made four subsequent acquisitions.

Elcoteq Staying in Russia

Elcoteq (Luxembourg), which had tried to divest its plant in St. Petersburg, Russia, has decided to keep the facility.

In a statement, the provider said it sees strong growth opportunities in Russia, especially in the home communications area. Elcoteq now intends to push that facility hard to get home communications customers in particular because Russia recently changed some of the customs duties for certain components that are related to home communications, Jouni Hartikainen, Elcoteq's president and CEO, told analysts during its earnings conference call this month.

"We see that now the demand is also getting higher, of course, taking into account what happens with the overall economy. But it looks much more promising from that point of view," he added.

New production in the St. Petersburg plant is expected to be ramped up during Q1 of 2009.

Elcoteq had originally planned to sell the plant to Flextronics, but the deal fell through (June, p. 6 and Feb., p. 7). After the deal ended, Elcoteq said it would continue to negotiate with Russian authorities regarding certain customs practices.

People on the move... Sanmina-SCI has promoted its president of global EMS operations, Hari Pillai, to president and COO. Pillai, who has spent 14 years at Sanmina-SCI, suc-

ceeds Joe Bronson, who will assist chairman and CEO Jure Sola in an advisory capacity....Elcoteq has appointed Roger Taylor senior VP of group operations. He replaces Petteri Laakso, who left the company last month. Taylor worked in senior operational management within major communications technology OEMs such as **Nokia** and **Motorola**. Most recently, he worked as an independent consultant in overseas assignments for EMS companies....Last month, John Farina resigned from his position as president and CFO of Nam Tai Electronics due to personal reasons related to family considerations, according to a statement from the company. Chan Sze Chung, Anthony, who had been Nam Tai's financial controller, is serving as acting CFO....CTS Electronics Manufacturing Solutions has hired Tony Corscadden as senior VP of global operations for the CTS unit. Corscadden comes with 14 years of EMS experience working for companies including **Design to Distribution** in the UK, an EMS provider that was acquired by **Celestica** in 1997. At Celestica, he became global operations director and GM for some of Celestica's largest customers, **Dell** and **Avaya**. His last job was director of operations for **Accellent**, a contract manufacturer....**BreconRidge** (Ottawa, Canada) recently hired Michael McGuire as VP of sales and marketing. He joined the company from Celestica, where he was VP of sales for the industrial and aerospace/defense market sectors. Before that, he served as VP of worldwide sales and marketing at **Plexus**. This is BreconRidge's second appointment of a senior executive this year. In February, BreconRidge named Cyril McKelvie president and CEO....In the summer, Dr. Lo Wai Kwok was appointed deputy chairman of **Surface Mount Technology (Holdings) Limited** (Hong Kong). He added this role to his position as managing director of the

company....Tom Carlin has joined contract manufacturer **Inovar** (Logan, UT) as president. Most recently, Carlin served as president and COO of **MSD Performance**, an automotive performance company. His resume also includes a stint at **McKinsey & Company**. Inovar is a division of **inthinc**....**EPIC Technologies** (Norwalk, OH) has promoted Mike Goryl to the newly created position of VP of human resources....**Winland Electronics** (Mankato, MN) has named David Kuklinski its director of sales. His experience includes working as business development director at **Solectron** and **Jabil Circuit** and serving in a variety of sales management and business development positions at **Benchmark Electronics**....Publicly held **Adeptron Technologies** (Markham, Ontario, Canada) has appointed Francis Lindayen as its CFO. He had been a public company CFO and at another point in his career spent four years at a tier-one EMS company....Dr. Keya Bhattacharyya has joined **Axiom Electronics** (Beaverton, OR) in the newly created role of Six Sigma manager. She previously worked as a quality/reliability contractor for **Celerity**, **Planar** and **Flextronics**, while teaching at Portland State University and Portland Community College.

Certifications... Among the EMS operations that have recently earned ISO 13485 medical certification are PartnerTech's facility in King's Lynn, England; **Catalyst Manufacturing Services'** plant in Endicott, NY; and **Distron** in Attleboro, MA. **AWS Electronics** has achieved AS9100 aerospace accreditation for its wiring systems and surface mount operations in Newcastle-under-Lyme, UK. This provider is part of the AWS Electronics Group. **MTI Electronics** recently gained ISO 13485 and AS9100 certifications for its EMS facility in Menomonee Falls, WI.

It's Not All Gloom and Doom

The dust has yet to settle from the economic damage caused by the crisis in financial markets. But it is probably unrealistic to expect that end market demand will come through it unscathed. Reductions in customer demand, of course, can spell bad news for EMS providers if the downsides are widespread. Is the EMS industry facing a downturn such as what occurred in 2001-2002 or something milder? Who knows, but the immediate fallout from the crisis can't be good for the industry.

Still, *MMI* believes that there are developments underway in the EMS industry that will promote its long-term health despite any ill effects from the current crisis. Six developments can be listed.

More regional production.

Emerging growth markets such as China and India are likely to be somewhat insulated from the crisis. Global providers will benefit by serving these markets. Rising costs of offshoring to China will increase North American and European manufacturing of products consumed in these two markets. That's good news for local and regional providers. It may also prove a disadvantage to Asia-centric ODMs.

Diversification. EMS providers are

generally more diversified than when the last downturn struck in 2001. Their risk is spread across more industries, and many are positioned in nontraditional markets where outsourcing potential is highest.

Consolidation. The financial crisis will likely force some weak providers to sell out or liquidate. Their customers will move to providers in good financial health, and these providers will grow stronger. It's a case of Darwinism, but one that is necessary for the overall health of the industry.

Lean manufacturing. Widespread adoption of this manufacturing practice has meant that providers are turning their inventory faster. That means working capital requirements are less, promoting cash flow. It is often expected that in a steady state, let alone a sales decline, a provider will generate cash, which is the antidote to this financial crisis.

More outsourcing in the wings. **Dell** is one prominent example of a company that intends to outsource more, and the Dell opportunity could be among the largest chunks of contract manufacturing business seen in recent years if the company sells most of its plants as has been reported. Some OEMs in the LCD TV business reportedly are also planning to increase their outsourcing levels. And if history repeats itself, economic fallout

from this crisis should prompt other OEMs to do the same.

Emphasis on adequate returns. Most providers have learned the lesson that buying business ultimately comes back to haunt them. Look for well-run providers to continue to insist on adequate returns from the new business they win, despite any short-term reductions in demand. This financial discipline will hold them in good stead and keep the industry on solid footing.

There is panic in financial markets, but the long-term prospects of the EMS industry should inspire the opposite – confidence.

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