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Labor Disturbances Spread to EMS Industry in China

The EMS industry in China may pay a price if it fails to account for changes in its Chinese workforce. Recent disturbances at the two largest EMS providers have put the industry on notice.

In the past, even a few years ago, labor unrest would have been unthinkable. After all, under China's totalitarian system the state-controlled labor union was, and still is, the only means for worker representation. Since the state's primary goal was economic development, the state saw to it that its union would not stand in the way of foreign investment and exports. Hence, the EMS industry, which generally has an aversion to unions, had nothing to fear from China's union. The threat of organized labor actions would be next to nil.

Furthermore, a large proportion of workers traditionally hired by the EMS industry were young women. Factory managers could rest easy knowing that their female workers were unlikely to take to the streets.

But China's one-child policy – the consequences of which have been higher birth rates for boys – has injected more and more young men into the workforce while causing the working-age population to start leveling off. In light of these demographic trends, Chinese factories, EMS included, have no choice but to hire more men than they would have in the past. For example, in one highly visible case the number of male workers clearly exceeded the number of female employees. Earlier this year, the **Fair Labor Association** investigated three **Foxconn** operations in China that do work for **Apple** (April, p. 7-8). At each of the three operations, male employees made up more than 60% of the workforce. *MMI* believes that one cannot expect majority or near-majority male workforces to be as docile as the female-dominated workforces of the past.

Today's Chinese workers also have higher expectations than the generation that came before them. For many, it's no longer enough just to earn some money for themselves and their families. They want a better life and greater participation in the Chinese economy. They see the wealth generated by the economy, and they want their share. Looking for more opportunity, they are less tolerant of the drudgery of a highly repetitive assembly line job. They are also less willing to suffer any abuse.

As a result, strikes have become a common occurrence in China. Often, these disputes revolve around pay. Until recently, the EMS industry had been able to avoid labor disturbances. A plausible explanation is that providers often pay above local minimums, and workers receive what they're owed.

A June incident involving Foxconn employees in Chengdu, China, became the first reported instance in a series of labor disturbances within China's EMS industry. According to Foxconn, seven employees of its Chengdu facility in southwestern China had a disagreement with a local restaurant owner. After returning to their dormitory, a riot broke out when other workers joined them in the dispute. Other accounts attribute the melee to a clash between employees and security guards. The size of this riot remains unclear as differing reports put the number of participants at about 100 or as many as 1,000.

Some articles in this issue

In the last two months, more disturbances have befallen the EMS industry in China. The latest incident occurred this month in central China's Henan province at one of Foxconn's factories in Zhengzhou, known for assembling **Apple** iPhones. Accounts differ as to what occurred. Citing information from workers, **China Labor Watch** (New York, NY) reported that 3,000 to 4,000 employees participated in a strike at the facility on Oct. 5. According to China's official *Xinhua News Agency*, more than 100 quality inspectors did not show up for work that morning following a conflict between workers and quality inspectors over tighter quality standards for the iPhone 5.

In CLW's version of events, the pressure to meet stricter iPhone 5 quality specs along with a requirement to work during the national holidays led to a strike. According to CLW, the majority of workers on strike were QC personnel, who took this action following two fights in the plant between workers and QC inspectors and threats made against inspectors. Three Foxconn workers told CLW that over 300 quality inspectors refused to go to work the morning of Oct. 5 and that other inspectors joined in later on that day. The labor group reported that, according to workers, multiple iPhone production lines were down on Oct. 5.

In addition, *Bloomberg News* said that the Zhengzhou plant went without two shifts that day. Various news sources included a *Xinhua* report that some production lines stopped in the absence of quality inspectors. *Xinhua* cited a spokesman for the zone where the plant is located.

Foxconn denied that a strike had occurred and said there had been no workplace stoppage at the facility. According to the company, two disputes arose between a small group of production line workers and QA personnel on Oct. 1 and 2. Foxconn said these incidents were isolated and immediately addressed, and measures were taken, including the addition of staff for the lines in question, to address the issues raised by both production workers and QA personnel. Foxconn added that employees who had worked during the China national holidays at all of its operations in China did so voluntarily.

Another incident involving Foxconn workers took place last month in Taiyuan within the northern province of Shanxi. In the evening of Sept. 23, some 2,000 workers from Foxconn's Taiyuan factory rioted, sending about 40 people to the hospital and causing the plant to shut down temporarily (Sept., p. 8). *Bloomberg News* reported workers as saying that the use of excessive force by security guards turned a dormitory dispute into a riot. A government official said an initial investigation determined that the melee occurred as workers from Shandong province fought with a contingent from Henan province, *Xinhua* reported.

One might be tempted to attribute these incidents to the size of Foxconn. After all, among some 1.2 million Foxconn employees in China, there are bound to be some frustrated people. And with the Foxconn-Apple connection, news outlets are primed to report anything that reflects badly on Foxconn. But a recent action by employees of **Flextronics'** Malu operations in Shanghai shows that labor disturbances are not unique to Foxconn.

On Sept. 17, Flextronics workers went on strike outside the Shanghai Malu site after the company announced that it must abandon the site to make way for municipal redevelopment. Depending on the report, more than 2,000 or about 6,000 employees participated in the walkout. Though it lasted for three days, by the third day some employees had returned to work.

In a September statement, the company attributed the strike to a "misunderstanding" with its Malu employees. Strikers told *AFP* that they were after more severance pay. The company said it has offered all employees an equitable severance package that is in accordance with company customs and local laws as well as relocation options.

Shanghai's Jiading district government intends to create a new satellite city on land that includes the Malu site. As a result, the Malu operation and other factories in the vicinity must leave. This edict has compelled Flextronics to relocate the bulk of its Malu operations to its existing facility in Suzhou's Wuzhong Export Processing Zone. The transfer is being carried out progressively over about 16 months, starting from September 2012. Flextronics originally planned to begin the transition in November. Note that Flextronics lists Shanghai as one of its industrial park locations.

The company reported that the strike did not cause an interruption to customer deliveries.

Given these incidents, the EMS industry can no longer take its Chinese workers for granted. As seen here, some workers are unafraid to engage in confrontation, and the conflict could be with management, security guards or their own kind. Strikes, worker fights and riots are not only a source of negative PR; they don't go over well with customers, especially if production is interrupted, as happened in at least two of these cases. Such disturbances also undercut the efforts of any provider attempting to build a strong CSER program.

These incidents should leave no doubt that changes have occurred in China's workforce.

Some Quarterly Results

Celestica. Q3 sales of $1.58 billion were slightly below guidance of $1.60 billion to $1.70 billion due to overall demand weakness. Revenue fell 10% sequentially and 14% year over year.

Most of the sequential decline and the majority of year-over-year decline resulted from the company's wind down of manufacturing services for **RIM** (June, p. 7). Excluding RIM, Q3 revenue was down 1% from the prior quarter and 5% from the same period of 2011. Celestica had projected sequential growth of its non-RIM business.

Adjusted EPS of $0.26 came in above guidance of $0.17 to $0.23 but included a one-time tax recovery benefit of $0.05. This EPS result was unchanged from the prior quarter but up 18% from a year earlier. The company recorded IFRS net earnings of $43.7 million, or $0.21 a share, up from $23.6 million, or $0.11 a share, in Q2 but down from $50.2 million, or $0.23 a share, in the year-ago period. Q3 net earnings include one-time tax recoveries totaling $21 million, $10.4 million of which was excluded from adjusted EPS. Without these recoveries, net earnings would have been $22.8 million, or $0.11 a share.

Non-IFRS gross margin stood at 7.2%, up 30 basis points sequentially despite the lower revenue, primarily due to favorable mix and one-time recoveries. Compared with the year-ago quarter, this margin was 10 basis points higher. Non-IFRS operating margin of 3.3% was flat sequentially and down 40 basis points year over year.

Consumer business dropped 35% sequentially and 48% year over year, predominantly due to the wind down of manufacturing services for RIM. Sales from the company's diversified end market rose 3% sequentially. On a year-over-year basis, the diversified market's revenue grew 14%, driven almost entirely by organic growth. But overall demand in this end market is lower than expected, particularly in the semiconductor segment. The diversified end market now represents 21% of total sales, up from 16% in Q3 2011.

Comprising 37% of the total, communications revenue inched upward 2% sequentially, which was lower than expected primarily due to the pushout of a customer-specific program. Year over year, communications revenue dropped 9% because of demand declines across a number of customers. The server segment sank 17% sequentially, in part due to a strong Q2 from one of Celestica's top customers, and fell 9% versus the year-ago period because of weak overall demand. Storage business decreased 6% from the prior quarter and was relatively flat year over year.

The company generated free cash flow (non-IFRS) of $59.9 million.

Celestica's board of directors has authorized a substantial issuer bid to repurchase up to $175 million of subordinate voting shares. The provider expects to launch and complete the offer during Q4.

With the RIM wind down now substantially complete, the company expects minimal revenue from RIM in Q4 and overall demand to continue to remain soft. As a result, Celestica is projecting Q4 revenue of $1.425 billion to $1.525 billion, at the midpoint of which revenue would be down about 6% sequentially. Excluding RIM, at the midpoint revenue would grow about 3%, primarily in the company's diversified and server end markets. For Q4, the company expects adjusted EPS of $0.15 to $0.21. At the midpoint of guidance, non-IFRS operating margin would be about 3%.

For the first half of 2013, Celestica anticipates a non-IFRS operating margin in the range of 2.0% to 2.5%, with an outlook of sequentially lower revenue in Q1.

Flextronics. Sales for its fiscal Q2 ended Sept. 28 totaled $6.2 billion, up 3% sequentially but down 23% year over year. The year-over-year decline resulted almost entirely from a business model shift to significantly less high-volume business. Non-GAAP EPS of $0.26 from continuing operations rose 18% sequentially and year over year. Sales came in above the guidance midpoint of $6.1 billion, while non-GAAP EPS exceeded the high end of guidance by one cent. Note that the EPS result included a $0.03 gain for warrants to purchase **Workday** stock.

Despite the year-over-year drop in revenue, non-GAAP operating income of $183.0 million grew 4% from the year-earlier period, while GAAP operating income of $174.6 million increased 8%. On a sequential basis, non-GAAP operating income rose 3%. The company earned GAAP net income from continuing operations of $160.5 million, up 17% sequentially and 19% year over year. GAAP EPS from continuing operations amounted to $0.24, representing a gain of 33% from a year earlier.

Non-GAAP gross margin was 6.0%, unchanged from the prior quarter but up 130 basis points from the year-ago quarter. This margin expansion resulted from the elimination of the company's PC ODM business and greater concentration of low-volume, high-mix business. Non-GAAP operating margin stood at 3.0%, the same as the prior quarter's level but 80 basis points above the year-earlier result. The company does not expect to reach its 3.5% operating margin target during the current fiscal year (ending March 2013).

At 44% of sales, Integrated Network Solutions (INS) business declined 2% sequentially and 9% year over year. Based on the midpoint of guidance, Flextronics had expected stable to slightly growing sales versus the prior quarter, but a weak demand trend identified in the June quarter continued in the September quarter for most of the company's larger telecom customers. Telecom sales fell 11% sequentially, partially offset by mid single-digit and high single-digit growth from data networking and service storage customers respectively.

On a year-over-year basis, the company saw weakness across all of its INS segments, mostly due to a more challenging macro environment.

Industrial and Emerging Industries (IEI) sales were off 1% sequentially, roughly in line with the company's stable outlook. Compared with the prior quarter, double-digit growth in appliances was offset by mid single-digit declines in capital equipment and energy. On a year-over-year basis, IEI grew 3%, driven by several new customer programs in the appliances segment and better performance in capital equipment and kiosks. These gains were partially offset by a substantial decline with respect to several energy-related customers.

Revenue from High Reliability Solutions (HRS) rose 16% year over year but decreased 2% quarter to quarter. Sequential performance was slightly below Flextronics' expectation for stable revenue as the company encountered mixed performance across the broad base of customers and industries served by this group. Within HRS, medical business fell slightly, while automotive sales increased by mid single digits. On a year-over-year basis, new outsourcing wins drove medical business up, and automotive sales grew by nearly 20% on the strength of new programs.

High Velocity Solutions' sequential growth of 17% exceeded the company's expectation of a mid single-digit increase. Within HVS, mobile business went down sequentially by only single digits as Flextronics experienced a less than expected impact from the wind down of its RIM assembly business. Consumer electronics business surged more than 40% from the prior quarter on seasonality and some new programs ramps. High-volume computing sales declined by low double digits mostly due to weakness in printers and business PCs. Year over year, HVS revenue dropped 48% mostly because of the company's ODM exit and the ramp down of assemblies for RIM.

For the September quarter, the company generated $342 million in free cash flow.

The company said the macroeconomic environment continues to be quite challenging across many product categories, and it does not see a rebounding in the near future.

Guidance for the December quarter calls for revenue in the range of $5.8 billion to $6.2 billion (down 3% sequentially at the midpoint) and non-GAAP EPS in the range of $0.18 to $0.22. The latter is based on a non-GAAP operating margin of 2.8% at the midpoint. At the midpoint of sales guidance, Flextronics expects both its INS and IEI businesses to decline by mid single digits sequentially, while its HRS and HVS businesses are expected to remain stable.

Jabil. For its fiscal Q4 ended Aug. 31, sales of $4.34 billion rose 2% sequentially and 1% year over year. Sales came in just shy of the high end of guidance, which called for sales of $4.1 billion to $4.35 billion. But non-GAAP EPS amounted to $0.54, which was at the low end of guidance of $0.54 to $0.66, and GAAP EPS of $0.39 ended up below guidance of $0.43 to $0.55. Non-GAAP EPS fell 16% sequentially and 13% year over year, while GAAP-EPS dropped 19% sequentially and 25% year over year. The company earned GAAP net income of $82.8 million (attributable to stockholders), down 18% from the prior quarter and 28% from the year-earlier period. GAAP results included a charge of $5.9 million for a distressed customer in the solar industry.

Non-GAAP operating margin for the August quarter was 4%, down 50 basis points sequentially and 40 basis points year over year. Non-GAAP operating income of $175.1 million declined 8% sequentially and 6% year over year. GAAP operating margin equaled 3.3%, down 60 basis points from a year earlier, while GAAP operating income totaled $144.3 million, down 13% year over year.

The company was disappointed with its income and margin performance for the August quarter.

Revenue from Diversified Manufacturing Services grew 14% year over year, driven by continued strength in Specialized Services and growth in healthcare and instrumentation, partly offset by softening demand in defense and aerospace as well as industrial and clean tech. DMS represented 45% of the company's sales in the quarter. The segment's non-GAAP operating margin stood at 5.3%, down from 6.5% in the prior quarter and 6.7% in the same period a year ago. Non-GAAP operating results for the August quarter were hurt by a challenging new program ramp in Jabil's Materials Technology Group within its Specialized Services sector and lower income levels in certain DMS programs, notably in defense and clean tech. These impacts extended to the company's non-GAAP operating results as did an unexpected mix shift from DMS to High Velocity work.

Accounting for 30% of total revenue, Enterprise and Infrastructure business fell 5% year over year. Non-GAAP operating margin for the segment was 2.4%, up 20 basis points from the prior quarter but down 20 basis points from a year earlier. The company expects to see a positive progression in the segment's operating performance during fiscal 2013.

Sales from the company's High Velocity segment decreased 10% year over year, driven by continued weakness in handset volumes. Despite large declines in Jabil's handset business, non-GAAP operating margin came in at 3.8%. This margin result rose 10 basis sequentially and 70 basis points year over year.

During the August quarter, Jabil generated $443 million in cash flow from operations.

The company also announced a revised set of long-term targets. Jabil's long-term growth goal for the DMS segment is now 15% on an organic basis, with a non-GAAP operating income target reset to 5.5% to 7%. For both the E&I and High Velocity segments, the company expects long-term growth in the range of 0% to 5%. Jabil has slightly reduced its non-GAAP operating income target for E&I to 3% to 4%, but has raised its High Velocity target to 2.5% to 3.5%. The company still believes it can attain a non-GAAP operating margin of 5% overall.

For the November quarter, Jabil expects revenue of $4.3 billion to $4.5 billion (1.4% growth year over year at the midpoint), non-GAAP operating margin of 4% to 4.4%, non-GAAP EPS of $0.51 to $0.62, and GAAP EPS of $0.37 to $0.50. On a year-over-year basis, the company estimates that DMS and E&I sales for the quarter will increase 12% and 14% respectively, and that High Velocity revenue will decline 24%.

For fiscal 2013, the company estimates GAAP and non-GAAP EPS growth to be in the range of 5% to 10%.

Plexus. For its fiscal Q4 ended Sept. 29, revenue totaled $595 million, down 2% sequentially but up 11% year over year. EPS amounted to $0.02, including $0.64 for a special charge related to a valuation allowance for deferred tax assets. Excluding the special charge, EPS of $0.66 was flat versus the prior quarter and up 27% from the year-earlier period. Revenue was below the sales guidance midpoint of $605 million, while EPS excluding the special charge was at the high end of guidance of $0.60 to $0.66 with the benefit of a lower than expected effective tax rate.

In Plexus' September quarter, the company's networking/communications sector (38% of sales) fell 4% sequentially, a weaker result than earlier expectations. Though Plexus saw sequential revenue growth at the majority of its top 10 customers in the sector, a couple of accounts had meaningful declines. For the December quarter, the company reported a negative forecast bias for the vast majority of its customers in the sector as end markets have softened. A couple of new program ramps should partly offset this forecasted weakness, resulting in an expectation of sequentially flat to down sales in the sector.

Revenues in the company's healthcare/life sciences sector, formerly known as its medical sector, rose 9% from the June quarter, stronger performance than expected as the majority of Plexus' top customers in this sector beat earlier forecasts. The company anticipates that December quarter sales for the sector will be down in the mid single-digit percentage range as customer forecasts are indicating broad-based weakness, with 12 of the company's top 15 accounts in the sector forecasting sequential declines in revenue.

Industrial/commercial sales in the September quarter dropped about 15% sequentially, in line with expectations. Of the top 20 accounts in the sector, 13 were down or flat versus the prior quarter. Current forecasts indicate that sector revenues for the December quarter will be down in the low to mid teen percentage range as 15 of the top 20 customers are projecting sequentially lower demand.

In the September quarter, business in the company's defense/security/aerospace sector grew about 21% versus the prior quarter, in line with expectations. This strength was driven primarily by new program wins. Plexus expects December quarter business to be up in the low to mid single-digit percentage range, with mixed performance among customers in the sector.

Gross margin for the September quarter was 9.5%, in line with expectations and up 10 basis points sequentially and 20 basis points year over year. Operating margin came in at 4.6%, consistent with expectations and 10 basis points higher than in the June quarter as well as 50 basis points above the year-earlier level.

During the quarter, the company won 28 new manufacturing programs expected to generate about $234 million in annualized revenue when fully ramped. The company's quarterly target is about $180 million.

Plexus reported that its customers' end market outlook appears to have deteriorated meaningfully in the past few weeks, resulting in forecast reductions that adversely affected the September quarter and the outlook for fiscal 2013. The company anticipates a challenging start to its fiscal year and has announced a 5% workforce reduction to adjust its cost structure to a near-term outlook of lower revenue. Currently, Plexus expects a better outlook for the second half of the fiscal year.

Guidance for the December quarter specifies revenue of $550 million to $580 million and EPS of $0.50 to $0.55, excluding any unexpected restructuring charges. The midpoint of sales guidance suggests that revenue will decline 5% sequentially, reflecting weak demand in customers' end markets. Plexus expects a December quarter operating margin of 4.1% to 4.2%.

New EMS Forecasts

A new study by **IPC – Association Connecting Electronics Industries** (Bannockburn, IL) is predicting high single-digit growth for the EMS market worldwide in 2012. IPC's forecast has the market growing 9.4% globally and 8.9% in North America this year. According to the study, the market in 2012 is still in a recovery mode, following the economic setbacks of 2009.

Note, however, that IPC's global projection is well above a six-month growth rate of 2.9% that *MMI* calculated for the 11 largest EMS providers as a group (Sept., p. 1).

Entitled *2011-2012 Analysis and Forecast for the EMS Industry*, the study presents information and analysis on EMS markets and operations, with an examination of critical trends as well as potential for market expansion. The IPC study is based on survey data from 97 EMS companies with 130 facilities worldwide but mainly in North America. These participants in IPC's EMS Annual Survey accounted for EMS sales of $7.4 billion in 2011.

The study includes forecasts through 2016, provided by **New Venture Research Corp.**, and presents results from companies by region. This report also examines trends in market size, sources of revenue, revenue per employee, services offered, markets served, customer relationship metrics, manufacturing technology, capital investment, and spending on equipment and materials. In addition, the study shows sales breakdowns of eight major end markets by region.

For more information, visit www.ipc.org/2011-12-EMS-Market-Report.

Forecasts for European EMS

With an uncertain outlook for the European and global economies, the European EMS industry will weaken further in the later part of 2012, and industry revenue is now forecast to decline by around 2% for the year to 26.0 billion euros, according to the latest findings from **Reed Electronics Research** (Wantage, UK), a market information provider. In line with a general recovery in Europe expected to begin in the latter part of 2013, EMS revenues in Europe are projected to stagnate in 2012 and 2013 and then show modest growth in 2014, followed by low single-digit growth over the next two years.

RER said growth in Central and Eastern Europe (CEE) and North Africa will outpace that in Western Europe. CEE and other such areas account for 57% of the EMS market in 2012 compared with Western Europe's 43% share, the firm estimated.

In the low volume/high mix sectors of automotive, medical, control and instrumentation, industrial and telecom, RER expects to see growth in Western Europe between 2.6% and 3.5% over the period 2011 to 2016.

The firm estimates that there are more than 950 companies in the European EMS industry and expects to see further consolidation in Europe over the period.

RER's findings appear in a new report called *The European EMS Industry – A Strategic Market Analysis of the European EMS Industry 2011-2016*. For more information, go to www.rer.co.uk.

In addition, consulting and research firm **Frost & Sullivan** (London, UK) has released a new study forecasting that the EMS market in Europe will grow from $45.80 billion in 2011 to $68.19 billion in 2016. These end points imply a five-year compound annual growth rate of 8.3%.

The firm singled out the industrial, medical and automotive sectors as among the areas where the outsourcing trend will offer more business opportunities for EMS providers in Europe. Within such niche markets, subassemblies with lower profit margins are being produced in CEE, rather than in Western Europe, ultimately resulting in the expansion of the overall EMS market, according to Frost & Sullivan.

For more information on this study entitled *Analysis of the European Electronic Manufacturing Services (EMS) Provider Market*, email anna.zanchi@frost.com.

Write-Offs Taken for Solar Customers

This year, two of the largest EMS providers – **Flextronics** and **Jabil** – recorded charges totaling $48.0 million in connection with financially distressed customers in the solar industry.

Overcapacity and falling prices have transformed the solar industry from a business flush with funding and start-ups to a concentrated marketplace where, says trade association **SEMI**, at least half of PV (photovoltaic) manufacturing capacity now rests in China. Some solar customers of the EMS industry ran into financial trouble during this transition, and the resulting fallout spread to their EMS providers. Customer difficulties in the solar space have caused at least one EMS provider, Jabil, to change its approach to the space.

During Jabil's earnings call last month, CFO Forbes Alexander described the solar business as a "tough marketplace" with a lot of OEMs struggling. Given this environment, the company is "operating with an abundance of caution with any solar or solar-related opportunity, with strict contractual operating agreements in place," said Alexander. He noted that the company is changing its operating model to some degree in many of its solar relationships. Looking forward into fiscal 2013, Jabil is being very cautious about further engagement in the solar space until its sees financial performance and growth from OEMs that have struggled, said Alexander.

For Jabil's fiscal Q4 ended Aug. 31, the company took a distressed customer charge of $5.9 million confined to one client in Jabil's solar business. It was the second straight quarter that the company had recorded such a charge in connection with its solar business. Its financial statements for the May quarter included a distressed customer charge of $10.1 million associated with the solar industry.

In Jabil's June earnings call (for the May quarter), the company reported that its solar business was at significantly lower levels of production than in fiscal 2011. The provider said it expected that its solar business volumes in fiscal 2013 would be "somewhat similar" to those fiscal 2012 levels.

Flextronics has also taken a write-off in connection with its solar business. In May, the company recognized a $32.0-million charge related to a customer in the concentrated solar photovoltaic market. The write-down consisted of $4.0 million in inventory and $28.0 million in provisions for doubtful accounts. Treated as a subsequent event, the charge was applied to results that were already published for the March quarter.

In the spring of 2012, Flextronics became aware that this customer was experiencing significant financial and liquidity problems. Flextronics management entered into negotiations with this customer regarding various out-of-court restructuring alternatives but concluded that all inventory and accounts receivable related to this customer were unrecoverable.

But in a difficult environment, the solar industry's panel volume has still gone up. "The ironic thing is that panel volume is exploding," said Jabil president and CEO Tim Main during the company's September conference call. He cited new quarterly and annual highs in shipments.

To the extent that Jabil can maintain its solar manufacturing and process capabilities, Main believes that the company will be able to have a profitable business there longer term. He said, "Hopefully, we'll be able to keep that manufacturing capability together and do business with successful companies in the future because the overall volume in that business is still increasing."

But rising volumes have not prevented the failure of technology-based startup companies. "They don't have the capacity, the scale, the investment to hang in there," said Main. So Jabil is going through a customer base transition, he noted.

Hon Hai to take part in solar power plant venture

The solar industry may be at a difficult stage, but the EMS giant **Hon Hai Precision Industry** (aka Foxconn) remains committed to a strategy of developing a solar energy business, based on a statement posted this month on the Taiwan Stock Exchange. According to published reports, Hon Hai and **GCL-Poly Energy Holdings**, a solar wafer supplier, have teamed up to erect a 310-megawatt solar power plant at Datong in China's Shanxi province. *Digitimes* wrote that GCL-Poly will supply solar wafers for the venture, while Hon Hai will take care of solar cell production and panel assembly. Last year, the two companies reportedly signed a memorandum of understanding to pave the way for this solar power project (Sept. 2011, p. 4). Note that GCL-Poly is also in the solar power generation business.

According to SEMI, installed PV capacity in China amounted to some 3.5 gigawatts at the end of last year, and new installations in 2012 are projected to more than double that amount with an additional 5 to 6 gigawatts. Last month, China finalized its five-year solar plan, which sets forth goals of 21 gigawatts of installed solar capacity and 250 billion yuan ($39.5 billion) in government investment by 2015. The capacity target consists of 20 billion gigawatts of PV installations and one gigawatt of CSP (concentrated solar photovoltaic) projects.

However, overcapacity in China remains a problem, and SEMI reported there are concerns within China's PV industry that the target falls short of what is needed for the country's beleaguered industry in solar manufacturing.

To achieve a global balance in supply and demand, SEMI is calling for capacity rationalization in China, up through and including domestic manufacturers in the first tier.

News

Creation Technologies Expands into Mexico

Top 25 EMS provider **Creation Technologies** (Burnaby, BC, Canada) has established a presence in Mexico with the acquisition of **Aisling Industries** (El Centro, CA), whose manufacturing operations are located in Mexicali, Mexico.

Founded in 1982, Aisling provides PCB assemblies, harnesses, transformers and finished products to customers in the industrial, medical, defense and automotive markets.

"Expanding our footprint into Mexico has been a strategic priority for some time now," said Arthur Tymos, Creation's president and CEO. "This acquisition allows us to offer 'Right-Shore' manufacturing to OEMs selling complex products into North American end markets."

"Though we have offered an Asian manufacturing alternative since 2008, certain of our customers have also requested a low-cost North American solution," he added.

The Aisling manufacturing facility, renamed Creation Technologies – Mexicali, employs over 200 people. Creation's plans call for the business unit to be relocated to a new 125,000-ft^2 facility later this year.

French Provider Enters German Market

Top 50 EMS provider **éolane** (Le Fresne sur Loire, France) recently expanded into the German market by acquiring **Lagassé Communications & Industries** (LCI) **GmbH**, an EMS operation in Berlin.

The acquired operation, now known as éolane Berlin, specializes in contract manufacturing, final assembly and system integration of secure mobile radio systems as well as applications in different wireless technologies. Customers include **Cassidian**, **telent**, **Center Communication Systems**, **Radiodata** and **Avianet**. Currently employing 47 people, the operation was acquired in July.

This deal marks the second LCI operation acquired by éolane this year. Earlier in the year, the French provider added an LCI activity in Douarnenez, France, and took on 182 people. Like the Berlin operation, the Douarnenez activity offers expertise in the industrialization and manufacture of secure radio communication systems and provides aftermarket support, an area that appeals to éolane. Both operations were former **EADS** facilities.

So far this year, éolane has made three acquisitions including the purchase of a former **Elcoteq** operation in Tallinn, Estonia.

Sharp said to be negotiating with Foxconn to sell three plants…**Sharp** and **Foxconn** are trying to reach an agreement for the sale of Sharp TV assembly plants in Mexico, China and Malaysia to Foxconn, *Bloomberg News* reported last month. Meanwhile, Sharp plans to increase its smartphone collaboration with Foxconn's handset subsidiary, **Foxconn International Holdings**, according to a *Digitimes* report.

Jabil Names Next CEO

Chairman to retire

The board of directors at **Jabil** (St. Petersburg, FL) has appointed COO Mark Mondello to serve as the company's next CEO. Mondello will take over from president and CEO Tim Main, who remain in his current role until March 2013 as part of a succession plan.

Jabil also announced that chairman of the board William D. Morean, son of company cofounder William E. Morean, will not stand for re-election to the board at the company's annual meeting of shareholders in January 2013. The board anticipates that Main will be named chairman of the board at that meeting. In addition, Mondello was nominated to stand for election to the board.

Flextronics to do some restructuring...During **Flextronics'** earnings call this month, CEO Mike McNamara told analysts that the company will "do some organizational restructuring" and "do some facility consolidation" in an effort to lower the amount of revenue needed to achieve the company's target operating margin of 3.5%.

Underage interns employed at Foxconn campus…Foxconn Technology Group has confirmed media reports in China that some interns working at its Yantai, China, campus were under the legal working age of 16. *Xinhua*, China's official press agency, reported that 56 underage interns would be returned to their schools. An investigation by Foxconn has shown that interns ranging in age from 14 to 16 had worked in the campus for about three weeks. The company has found no evidence of similar violations in any of its other campuses in China.

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