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Emerging Trends of Low Industry Growth, Value-Add Microelectronics, Consolidation, Near-Shoring, and Manufacturing Innovation for 2016

By all accounts and indicators, 2015 was a year of very low or no growth in the EMS industry—certainly for the top-tier suppliers. Mid-tier companies have fared better, with many firms taking advantage of acquisition opportunities and expanding services to other geographic regions for assemblies that customers require (a summary of 2015 M/A activity will be provided in the February issue of *MMI*). The EMS industry is undergoing significant consolidation, although this is not deterring new entrants from entering the market. The financial and structural advantages of outsourcing have been well proven for many years, as evidenced by very few OEM companies planning or investing in manufacturing automation any more, leaving the expertise of electronics production to their contract manufacturing partners. And more recently, this trend is starting to apply to new Asian OEM companies as ODMs and EMS companies line up to secure contracts to manufacture new hardware innovations from such established OEMs as **Samsung**, **Sony**, **NEC**, and **Toshiba**, which

are engaging in more outsourcing every year.

A successful business will naturally attract competitors, and because the barriers to entry for EMS are low, outsourcing is being driven by the needs of high-velocity OEM companies that seek the lowest cost and try to capture all the available profit (e.g., **Apple** vs. **Foxconn**), leaving the EMS supplier struggling. It is difficult to understand why EMS companies put up with this imbalance, which forces them to seek profit in supply chain management, parts arbitrage, or services such as design, logistics, or repair.

The question of who controls the relationship (the OEM or the subcontractor) is changing depending on the product volume, cost, quality requirements, and technical capabilities. Skilled and powerful companies such as **Jabil**, **Celestica**, or **Plexus** exhibit better control, whereas EMS suppliers like **Foxconn**, **Flextronics**, and **Sanmina** struggle

to manage the terms and conditions of the traditional engagement for the standard reasons. Increasingly, mid-tier suppliers such as **Benchmark**, **Firstronics**, **Morey**, **Venture**, **Kimball**, **IMI**, **TT Electronics**, **Creation Technologies**, and a few European suppliers have achieved more leverage in the relationship and become more evenly balanced. For the last two decades, EMS subcontracting has been under the control of the OEM, but with the development of advanced and high-skill services (discussed below), the playing field is becoming more level for EMS.

Low Industry Growth

Table 1 (on page 2) illustrates how top-tier EMS/ODM firms performed for 2015 (estimated and unaudited figures). Only one supplier, **Pegatron**, performed very well; it is a leading supplier of TVs and large-screen monitors and is still experiencing high growth due to strong demand for

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new products each year. Plexus also performed adequately as a result of its industry diversity and carefully selected customer base. **Quanta Computer** survived the downturn of the desktop industry by providing low-cost notebooks, Chromebooks, and tablet solutions to a sector that requires frequent hardware upgrades and replacements. By all indications, for semiconductor components, equipment purchases, and CAPEX spending, industry sector growth for 2015, and most likely for 2016, will be flat and unspectacular.

Design and Innovation Centers and Value-Add Microelectronics

A bright spot on the EMS horizon has emerged in the last several years. From 2015 and going forward, we expect that EMS industry growth will be equal to or slightly higher than that of the OEM electronics industry. It is clear that EMS growth will continue to exceed overall OEM electronics sector growth as more of the R&D shifts away from OEM suppliers (which have abandoned support for the leading/bleeding edge of CAPEX investment) and toward EMS/ODM specialists. A decade or two ago, the complaint was that manufacturing R&D was being forsaken by the OEMs, and the EMS companies were not picking up the ball to continue manufacturing innovation anymore. But in the last two years that has changed dramatically as top-tier EMS firms like Foxconn (robotics), Jabil (Blue Sky Innovation Center—see **May 2015 MMI**), Flextronics (Customer and Product Innovation Centers), Celestica, Plexus, and even Sanmina are now making R&D investments in advanced manufacturing automation and technology. As a result of these moves, customers now enjoy shorter time to market, reduced inventories, and innovations in manufacturing while improving worker safety and operational efficiencies. EMS companies have invested in advanced IC packaging technologies, breakthroughs in thin and thick films such as conductive inks, integrated sensors,

broader connectivity, and big data analytics, which are enabling the optimization of solutions, leading to new consumer and customer experiences with new business models. These developments have redefined the relationship between the OEM customer and the EMS manufacturing partner in ways that should allow the industry to become more profitable and sustain long-term contracts.

Consolidation

Throughout 2015, there was increased interest among EMS suppliers in acquiring weak or strategic service providers. Several such purchases have been completed, but many more are under consideration. Only recently, **SVI** acquired five **Seidel Electronics Group** sites in Austria, Slovakia, and Hungary, adding approximately USD\$100 million in revenue and 700 people. **Sparton Corporation** increased its revenue and profitability as the result of several acquisitions, but is now emphasizing organic growth and taking a break from its aggressive accumulation of smaller companies of the last two years. **Scanfil** reported triple-digit growth as a result of its merger/acquisition of **PartnerTech**, completed in early 2016, making it the largest EMS supplier in Scandinavia. **Key Tronic Corp.** improved revenue by its acquisition of **Ayrshire**, while Swedish EMS firm **Hanza** sold its subsidiary in Slovakia to a private investor. Flextronics acquired **Farm Design**, a full-service product design company for medical devices and diagnostics. A more detailed summary of all the M/A activity will be presented in the February 2016 issue of *MMI*, but suffice it to say that there are enough such events to support the trend that EMS companies and their OEM customers, big and small, are becoming attractive targets. It is evidence of an increasingly mature and consolidating EMS industry.

Near-Shoring

Last month (December 2015) *MMI* presented a brief exposé of the trend by EMS companies to bring back manufacturing to regional low-cost locations. While this helps the OEM customer and EMS supplier, it also disrupts labor dynamics in Asia, once the preferred manufacturing location, and elsewhere. Now it is clear, when we take into account the total cost of ownership, that near-shoring is more practical, efficient, and cost effective. Thus we expect that this trend will continue for EMS companies with products that are not commodities and, especially, price sensitive. This helps all parties involved.

Asia is not the only region struggling with the near-shoring trend. Working conditions in Mexico and eastern Europe can be just as onerous and harsh, depending on the subcontractor. Shifts can be 12 hours in length, as overtime hours are not regulated. Some South American governments seem to do more than

Table 1: EMS and ODM Firms' 2015 Performance (\$ Millions)

EMS Companies	2014	2015*	Growth
Foxconn	139.0	129.0	-7.2%
Pegatron	33.6	38.4	14.0%
Wistron	19.5	18.9	-3.4%
Flextronics	24.3	24.3	0.1%
Jabil	18.7	18.6	-0.5%
Sanmina	6.2	6.4	2.5%
Celestica	5.6	5.5	-2.4%
Plexus	2.5	2.6	3.9%
Total	249.5	243.6	-2.4%
ODM Companies	2014	2015	Growth
Quanta Computer	30.6	31.7	3.8%
Compal Electronics	27.9	26.7	-4.4%
Inventec	14.4	12.0	-16.6%
TPV Technology	4.6	4.4	-6.1%
Total	77.5	74.8	-3.5%
Total	327.0	318.4	-2.6%

*unaudited - Source: Company reports - NT converted at 31.744

most to protect workers by requiring paid holidays, annual bonuses, health insurance, and sometimes pension plans. Also, labor organizations assist in requiring good and safe working conditions, but this naturally adds overhead and cost. However, the labor market is fluid and wages vary according to demand. Yet considerations of transit time, management issues, time zone difficulties, and the cost of capital have demonstrated that when the total cost of ownership is taken into account, outsourcing to China is becoming less cost-effective. Near-shoring in North America and Europe will become more prevalent over the next few years.

This trend was highlighted last year in *MMI's* January issue, and today it seems even more prescient. There is no question that subcontracted manufacturing is moving closer to the customer each year, as it no longer makes economic or strategic sense to manufacture anything but commodity products abroad, where costs can be pushed to the margin. Historically, almost two-thirds of all electronics products manufactured by EMS and ODM suppliers have been commodity computer and communications products. So while many complex and high-mix products found in the industrial, medical, and transportation industries are finding their way back into local production, a large percentage (such as motherboards, cell phones, and consumer electronics) will remain offshore and be produced in the lowest cost regions (China, Mexico, Vietnam, Poland, and Romania). Having said this, there are token efforts by Foxconn and a few ODMs to green field manufacturing facilities in high-cost regions such as the US, Germany, and France.

Despite this trend, as we begin 2016 we are seeing no improvement in electronics industry growth as CAPEX investment is flat, and the 3-month book-to-bill ratio is down slightly, indicating weakness in market demand. The Worldwide Semiconductor Trade Statistics

(WSTS) association pegs growth over the next few years at 0%—not an encouraging number. This figure includes wafer fab equipment, automated test equipment, and packaging and equipment assembly. Gartner, IDC, and other market research companies vary their forecasts almost monthly, essentially projecting flat growth for 2015 and 2016, yet optimistically stating that 7%+ growth for 2017 and 2018 will return (easy to say).

What is lacking in many of the high-cost regions is a well-oiled supply chain like that so dominant in Asia today. Suppliers are as guilty as OEM companies in moving to low-cost locations to manufacture components, printed circuit boards, and—more devastating—critical subsystems such as IC chips, displays, and storage drives. These assemblies will never return from any other geography than Asia, ostensibly because the OEM manufacturers are willing to sacrifice profit margins to ensure market share and production revenue. The only component of any significant intellectual value today is the IC semiconductor chip. All other parts are commodity, including EMS assembly.

Manufacturing Innovation

Over the last several years, it has become clear that EMS companies must provide the guidance and innovation that OEMs used to drive in the fields of materials science (e.g., printed electronics, exotic inks, polymers, transparent and conductive thin films, and the latest breakthrough technology in 3D (or additive) manufacturing). Additive manufacturing technology allows for rapid and iterative prototypes to be developed in hours instead of days or weeks, giving an OEM a definitive competitive edge not previously thought possible. These are high-potential technologies that provide electronics companies the tools to produce new and leading-edge products not previously possible. What is lacking are certain contract

manufacturers with the understanding and resources to develop the technology and applications to drive innovation not yet developed. It is the electronics contract manufacturers, and not the OEMs, who have emerged today as the primary innovators of the manufacturing production that is giving life and competitive advantage in electronics assembly to the EMS industry. The industry's development of the "smart factory" concept will keep the profession vibrant with new development, technology, and revenue growth.

Some Quarterly Results

Plexus Corp. For its fiscal Q1 ended Jan. 2, 2016, Plexus reported revenue of \$617 million (down 7% y-o-y and down 8% q-o-q), which was above the midpoint of guidance (\$600–625 million). Gross margin was 8.1%, at the high end of guidance of 7.7–8.1%, primarily due to productivity improvements and greater fixed-cost absorption. Operating margin was 3.7%, down 60 basis points q-o-q, but above the high end of guidance of 3.3–3.6%. Note that unlike many of its peers, Plexus includes stock-based compensation (55 basis points) in its operating results.

On an annual basis, management is targeting between \$24 million and \$32 million in annual cost savings from (a) productivity improvements and cost reductions by plant; (b) the closure of the Fremont facility and downsizing of the Livingston, Scotland facility; and (c) reduction in discretionary expenses (SG&A).

In order to protect margins, Plexus chose to disengage with two customers in the midst of an overall demand meltdown. Furthermore, to address the weak demand environment, Plexus also chose to shut down its highest cost plant in the world (Fremont), and downsize a plant in Livingston, Scotland by eliminating high-volume production

at the facility but maintaining design and prototyping capabilities.

Plexus reported revenue based on the market sector breakout set forth here: Revenue in Networking/Communications (N/C) was down 12% q-o-q, slightly better than guidance of down in the high teens, with four of the top five customers performing better than expectations, though performance in the rest of the sector was mixed. Revenue in Industrial/Commercial (I/C) was down 14% q-o-q, slightly worse than guidance of down in the low teens, as a result of broad-based weakness. Eight of the top 10 customers were down q-o-q in the quarter. Revenue in Healthcare/Life Science (HC/LS) was up 4% q-o-q, slightly better than guidance of up in the low single digits, with demand stable within the quarter. Revenue in Defense/Security/Aerospace (D/S/A) was down 9% q-o-q, worse than guidance of down in the low single digits, with several aerospace firms lowering demand from expectations at the beginning of the quarter.

New manufacturing wins of \$179 million increased 7% q-o-q from \$167 million, up q-o-q for the past two quarters, with the mix still favorable (88% of wins in I/C, HC/LS, and D/S/A, and 12% of wins in N/C).

Plexus has yet to see any real benefit from the repeal of the medical device tax; however, there should be some benefits over the next 12 months, which should impact roughly half of its Healthcare/Life Science segment (30% of total sales). With its strong engineering organization that helps customers design new products, Plexus expects a resurgence in R&D spending from its medical device customers.

Jabil Circuit (JBL). The company reported first-quarter net revenue of \$5.2 billion, a 14% increase from the first quarter of fiscal year 2015. Revenues were up 14.5% y-o-y and 11.3% q-o-q. On a segment basis, the Diversified Manufacturing Segment (DMS) was up (+31% y-o-y, +30% q-o-q), while the Electronics

Manufacturing Segment (EMS) from DMS and \$2.6 billion (consistent revenue y-o-y, -3% q-o-q) from EMS. was up much less (+3% y-o-y, -2% q-o-q). Operating margins came in at 4.3%; DMS operating margins were 6.7% (up 260 basis points q-o-q) and EMS margins were 3.1% (up 10 basis points q-o-q).

DMS revenues were up 31% y-o-y; growth was likely driven by continued strength at **Apple (AAPL)**. The sequential revenue growth was due to strength in demand in the DMS mobility and lifestyle businesses. AAPL was a 24% customer in FY15, up from 18% in FY14 and up 50% y-o-y. EMS revenues were up 3% y-o-y. The EMS business is expected to ramp strongly in the second half of the fiscal year, driven by automotive and healthcare.

Management seemed the most positive about opportunities for the Electronics Manufacturing Segment's business this year, expecting healthy growth in 2H16 driven by both existing customers (70%) and new opportunities (30%). In the Diversified Manufacturing Segment, ongoing efforts to diversify away from Apple (24% of sales) are driving investments in healthcare, packaging, and the acquisition of Israeli manufacturer **Shemer**. While these opportunities are expected to yield longer-term growth opportunities, expenses related to new program ramps will weigh on margins through 1H17, creating some variability in margins. Despite these puts and takes, management expects healthy 4.0% operating margins for FY16.

JBL generated \$145 million in cash flow from operations for the quarter, which was offset by \$249 million in capital expenditure (CAPEX), causing FCF to come in at -\$104 million. In addition, the company reiterated CAPEX guidance of \$800-1,000 million for FY16, split \$250 million in capacity/infrastructure, \$150 million in mobility, \$100 million in **Nypro**, \$200 million in Other, \$150 million in EMS, and \$50 million in capabilities.

JBL provided a February 2016 estimated revenue guide at \$4.40-4.70 billion/\$0.54-0.70. From a segment standpoint, the company is calling for \$1.9 billion (+14% y-o-y, -23% q-o-q) in revenue

The company reiterated its full-year FY16E revenue guide of \$20 billion in revenue and raised its EPS guide from \$2.60 to \$2.65.

Sanmina (SANM) reported 1Q2016 revenue of \$1.53 billion (down 8% y-o-y and down 6% q-o-q), which was below the midpoint of guidance (\$1.55-1.60 billion). Gross margin was 8.2%, at the high end of guidance of 7.9-8.3%, primarily due to favorable mix and execution in Integrated Manufacturing Solutions (gross margin was 7.7%, a record high, up 60 basis points q-o-q), which offset depressed gross margins in Components, Products, and Services (8.7%, down 60 basis points q-o-q). Gross margins in Components, Products, and Services were down q-o-q and y-o-y due to unabsorbed overhead from lack of revenue.

Non-GAAP SG&A and R&D was \$65 million, or 4.2% of sales. Operating margin (excluding stock-based compensation) was 4.0%, up 20 basis points q-o-q, at the midpoint of guidance of 3.8%-4.2%.

The **Motorola** acquisition should close mid-February, with partial contribution in the March quarter and then full contribution in the June quarter. The business is very stable and also very profitable, especially given that there is a high degree of after-market repair and warranty work for ruggedized communications gear for municipalities and the military.

Revenue in Industrial/Medical/Defense (I/M/D) was 40% of total sales and decreased 7.5% q-o-q. This was worse than guidance of down slightly q-o-q, with weakness across all three sub-segments. Revenue in Communications Networks (C/N) was 39% of total sales and decreased 3.4% q-o-q, which was worse than guidance of flat q-o-q. Weakness was in older products, but new products in networking, optical, and mobile broadband were stable. Revenue in Embedded Computing & Storage was 21% of total sales and decreased 8.9% q-o-q, which was slightly worse than guidance of down slightly q-o-q. This result was driven by weak demand from automotive and storage, with the rest of the segment stable.

Foxconn Wants Sharp

Taiwanese EMS giant **Foxconn** has made an offer to acquire Japanese electronics company **Sharp** for about \$5.3 billion. Sharp, which hasn't been thriving over the years, has been bailed out repeatedly by banks. The company recently received a competing offer from Innovation Network Corp. of Japan (INCJ)—a government-backed investment fund—of \$2.56 billion, according to a report in the *Wall Street Journal*.

Sharp is reportedly leaning more toward accepting the offer from INCJ, the report continues, citing a person familiar with the matter. A report in *Bloomberg* also states that Sharp is considering accepting rescue from the government-backed investment fund rather than the bigger offer from Foxconn.

Facility expansion... **Kabel-Technik-Polska** has officially opened a new production facility. The company, part of the **PKC Group**, has rented the new 3,000-square-meter facility from Białogardzki Park Inwestycyjny, aka "Invest-Park." The company will employ about 370 people for the new premises by the end of 2016. Kabel-Technik-Polska has also recently signed another lease contract with **Białogard** for additional production premises of 2,500 square meters. With these facilities, KTP will rent a combined area of 5,500 square meters. Construction on the second premises has already started. The premises will be completed in May 2016... **MC Assembly**, a Florida-based EMS provider, is expanding its manufacturing presence within the high-technology business hub in Billerica, Massachusetts. The move almost doubles the company's manufacturing presence in Billerica. The new facility offers the company 58,000 square feet of space. This capacity expansion will allow the company to achieve its growth objectives with both its existing customer base and new clients. Coupled with the extensive capital equipment investments it continues to make in the Northeast, the company will have a compelling manufacturing option for its clients. MC Assembly CEO and President George

Moore said it was important to the company to expand its manufacturing base without disrupting the day-to-day business of the companies and vendors it serves... **Inventec Appliances**, a subsidiary of **Inventec**, recently completed the second phase of its factory in Nanjing, doubling its handset production capacity to 86 million units a year, according to the company. Total investment for the second-phase expansion project, which has a floor area of 89,244 square meters, reached \$50 million, the company noted. The new facilities are expected to begin volume production of handsets in March 2016. Market sources indicated that Inventec Appliances has landed orders from China-based **Xiaomi Technology** for production of the forthcoming Xiaomi Mi 5 smart phones, which are to be launched after the Lunar New Year holiday in February. Inventec Appliances has secured about 60% of Xiaomi Mi 5 orders, the sources added. In addition to smart phones, the Nanjing plant also produces telecommunication modules for machine-to-machine (M2M) and IoT applications, according to the company. Inventec shipped over 55 million smart phones in 2015, of which 30 million units were produced by Inventec Appliances, as reported by *DigiTimes*... **Compal Electronics** will set up a factory in New Delhi, India, specifically for assembly of smart phones for 3–4 vendors, with production to begin in March 2016, according to company president Ray Chen. The factory will assemble smart phones from semi-knockdown (SKD) units shipped from Compal's factory in eastern China and will have initial monthly capacity of 500,000 units, Chen said. But Compal has suspended a plan to establish smart phone production lines in Vietnam, Chen noted. Compal has been diversifying its business in response to a shrinking global notebook market. Compal has set up a smart Medicare R&D office, a healthcare technology development office, and an IoT business office, Chen said. Compal shipped 40 million notebooks and 37 million tablets, smart phones, and other types of smart handheld devices in 2015, respectively decreasing 7% and increasing 32.1% for the year, Chen said. Compal shipped 2.3

million LCD TVs in 2015, slipping 42.5%. Compal expects global notebook shipments in 2016 to decline 5% year on year, but the company's shipments will remain unchanged, Chen indicated, as reported by *DigiTimes*.

Partnerships... **LACROIX Electronics** (France) and **MicroEJ** (France) have entered into a partnership to accelerate the development and production of Internet of Things (IoT) devices and embedded electronic products for the European market. This partnership enables LACROIX Electronics to offer its services and its electronic assembly production resources for the design and production of "turnkey" electronic assemblies using MicroEJ software technologies for customers wanting to subcontract all or part of their projects. The partnership aims to offer customers ways of saving time and cost in the development and production of their products, particularly for the R & D software part, which represents an increasing share of investments and innovation, and for the production costs of materials (bill of materials).

Quanta to Increase Investment in Subsidiary ThinkTech

Quanta Computer will increase its investment in subsidiary **ThinkTech Ind. E Com. DE Informatica SA** by US\$27.2 million.

ThinkTech is based in Brazil and mainly focuses on manufacturing and selling PCs and peripherals.

Ducommun Sells Pittsburgh Operation

Ducommun, Inc. announced the sale of its Pittsburgh, PA business unit to a private investment group for \$38.5 million in cash, subject to customary post-closing adjustments. The Pittsburgh business, acquired in 2011 as part of the company's purchase of **LaBarge, Inc.**, supplies printed circuit cards and related assemblies to industrial and energy markets. The business had sales in 2015 of approximately \$42 million.

PartnerTech Closing Shop in Norway

On November 17, 2015, **PartnerTech AB** (Sweden) announced its intent to reorganize the operations at its Norwegian subsidiary, PartnerTech AS. Concurrent with that announcement, the company stated that it would start negotiations with representatives of the staff. The possibility of closing down the production of the plant was also discussed during these negotiations. Now it's been finalized that the owner, **Scanfil**, intends to shut down the unit.

The negotiation process ended on 11 January 2016. Based on its results, PartnerTech's board of directors has decided to start closing down production of the plant.

The plan is to conclude most of the actions by 30 June 2016. The impact on earnings will be mainly in the first quarter of 2016.

New orders... **Camtek, Ltd.** (Israel) received repeat orders for multiple systems totaling over \$3 million from a global OSAT (outsourced semiconductor assembly and test) company. The systems will be installed during the first quarter of 2016 and will be used for inspection and metrology of advanced packaging applications... **Altus Group** has received a significant new order from **Exception EMS** (United Kingdom) to provide the company with a nitrogen-capable production reflow soldering system. The system will be installed in the UK facility of Exception EMS, a contract electronics manufacturing solutions provider. The chosen oven has 14 zones (10 heating and 4 cooling), and its size and modular design will cater to any demands that the company receives from its customer base... **Orbit International's** consolidated bookings for both its Electronics and Power Groups exceeded \$2.4 million for the month of December 2015. In addition, the company announced that consolidated bookings for the fourth quarter of 2015 exceeded \$6.3 million. The bookings for December were highlighted by previously announced orders in excess of \$1.3 million received by its Electronics Group for follow-on orders for its switch panels, displays,

and keyboards, and follow-on orders received by the company's Power Group in excess of \$900,000 for various commercial products as well as new orders for its VPXtra power supplies. Deliveries for the awards received during December are scheduled to commence in the first quarter of 2016 and continue through the first quarter of 2017.

Foxconn Plans to Make India Hub for Africa, West Asia

Taiwanese electronics major **Foxconn** intends to make India a key global manufacturing hub for servicing markets across Africa and West Asia, which may result in an inflow of billions of dollars.

Foxconn, which has already started making phones and televisions in India as part of its contract manufacturing business, intends to widen its engagement with the market.

The world's largest electronics manufacturer is making products for companies such as **Sony, Xiaomi, Gionee, and Microsoft** at its Indian units and has plans to increase the number of locations. Currently, it has operations at Sri City in Andhra Pradesh, Sriperumbudur in Tamil Nadu, and Navi Mumbai in Maharashtra.

Exports will become a key strategy for the company as it builds scale. Africa and West Asia can be serviced from India. The company will also create a network of suppliers while looking at new product segments to add to its manufacturing portfolio.

New categories of products for Foxconn to consider in India include laptops, tablets, digital boxes, and devices related to the Internet of Things.

Latest acquisitions... UK-based EMS provider **Chemigraphic** has acquired **CRS Electronics, Ltd.**, a Hertfordshire-based contract manufacturing business, for an undisclosed sum. CRS has been in the electronics manufacturing services business for the last 40 years and has built up a strong base of customers. Products that CRS supports range from maritime communication systems and marine electronics to control systems for

rail transport and LED lighting. Commenting on the acquisition, Chemigraphic's CEO, Stephen Perkins, noted that CRS complements its strategy to become the UK's leader in supporting complex products and electronic systems on behalf of global OEMs.

Fire at Foxconn's Zhengzhou Plant

A fire broke out at **Foxconn's** Zhengzhou plant in China, but no casualties were reported. The factory, which is responsible for a substantial amount of iPhone production, was affected by a fire that broke out in the facility's air-conditioning system and then spread to several floors, *Techcrunch* writes.

However, representatives from the company later told reporters that no casualties were reported and that the manufacturing won't be affected.

In a statement, Foxconn said that the fire "was brought under control by the fire department shortly after it was reported," *Techcrunch* concludes.

Foxconn Interconnect Technology Acquires Avago Optical Module Business

Foxconn Interconnect Technology, a connector and cable harness maker belonging to the Foxconn Group, announced on January 26 that it has finished acquisition of the optical module business unit and related assets of US-based **Avago Technologies**.

Foxconn Interconnect pointed out that the acquisition will enable the company to extend its products to fiber-optic networks and satisfy clients' demand for network-related products.

Foxconn Invests in High-Tech Construction Company Katerra

Icreate Investments, an investment arm of **Foxconn**, has invested US\$51 million to take a 10.7% stake in the US-based smart building solution vendor **Katerra**, according to a Taipei-based *Central News Agency* (CNA) report.

Inventec to See Server Revenues Grow 5–10% in 2016

According to *DigiTimes*, **Inventec** (Taiwan) is expecting to see its server revenues grow 5–10% year on year in 2016, buoyed by orders from the data center sector as well as from branded server vendors. OEM orders from brand server vendors accounted for 85% of the server revenues and those from the data center sector made up the remaining 15%. Inventec's server orders are coming from clients mainly in the US and China and will further strengthen its cooperation with China-based vendors. (This contradicts our cover article showing total company revenue growth being negative.)

Toshiba to Sell Part of Its Chip Operations, Reuters Reports

Japan's **Toshiba** plans to sell part of its chip business as it seeks to recover from a \$1.3 billion accounting scandal. The company has reportedly started accepting bids, with early interest shown by the **Development Bank of Japan**.

The sale would exclude Toshiba's mainstay NAND flash memory operations. On the block are businesses that handle system LSI and discrete chips, which are widely used in cars, home appliances, and industrial machinery. The loss-making operations posted sales of JPY330 billion (\$2.78 billion) in the year ended March 2015.

Foxconn Says Employment Subsidy Was for FY14, Denies Early Leave

Employment incentives received by the Henan government in China were for FY2014, and not any recent period, Foxconn has said. Foxconn refuted the reports of an early Lunar New Year holiday, and said the break didn't commence in December. Foxconn was among 135 companies in Henan's Zhengzhou City to receive employment incentives and the incentives granted are

in proportion to the amount of unemployment insurance paid in 2014. The *Wall Street Journal* reported that Foxconn will receive CNY81.9 million to minimize layoffs arising from iPhone production cuts in 1Q16.

Second-Generation Apple Watch to Enter Mass Production in 2Q16

The second-generation Apple Watch is expected to enter mass production in the second quarter, with **Quanta Computer** to be the sole manufacturer of the device, according to sources from the upstream supply chain.

Apple originally considered shifting some second-generation Apple Watch orders to **Foxconn Electronics** (Hon Hai Precision Industry), but decided to keep all the orders with Quanta, as volumes will not be high, the sources noted.

Quanta and Foxconn both declined to comment on their orders.

Because of Apple Watch's weaker than expected shipments, Apple recently further reduced the device's shipment forecast for 2016 from its estimate in the fourth quarter of 2015.

However, compared to other smart watches, the Apple Watch still performed rather strongly and had an over 50% share in the smart watch market at the end of 2015, as reported by *DigiTimes*.

SVI Buys Seidel Electronics Group

EMS provider **SVI Public Company, Limited** will, via one of its subsidiaries, acquire Austrian EMS provider **Seidel Electronics Group**.

SVI will acquire Seidel—which has manufacturing facilities in Austria, Slovakia, and Hungary—as well as a minority interest in Seidel's two product design and development companies, located in Austria and Slovenia.

The transaction supports the expansion of SVI's business in European markets, in particular in the German-speaking regions where the company is currently underpenetrated. The acquisition brings a solid design, manufacturing, and logistics platform to SVI in Austria and in cost-competitive eastern European

countries. Seidel Electronics Group employs about 700 people at its sites in Austria, Hungary, Slovenia, and Slovakia, and has a turnover of €90 million.

MMI's Most Recent Interview with SVI Executive on Seidel Acquisition

MMI's recent interview with Robert Sawyer, CEO of SVI (Austria) GmbH, stated that Seidel's customers are very attractive and include some marquee names, including global leaders in the industrial and medical markets. Like SVI, Seidel has no consumer electronics business. As a result, Seidel's focus markets line up perfectly with SVI's interests, although Seidel has better penetration in medical devices/equipment, transportation (especially trains), and power electronics. Ninety percent of Seidel's customers are in GSA (Germany, Switzerland, and Austria), where SVI is currently underpenetrated. Eighty percent of SVI's European business comes from Scandinavia, where Seidel had zero. So this represents a perfect geographical and market match.

Sawyer also told *MMI* that the acquisition was accretive from day one. He sees huge potential for revenue synergies now that SVI can offer new customers manufacturing locations in eastern Europe as well as new customers and low-cost/high-volume manufacturing in Asia.

The impetus for this acquisition was the need to create a worldwide manufacturing solution, and SVI expects revenue growth to double.

The acquisition also brings to SVI strong design and development teams and capabilities in Europe that will accelerate its strategy to move from pure EMS to DMS (design and manufacturing services) so it can provide more value-added services to its customers throughout product life cycles (but not as an ODM, as SVI will not compete with its customers).

According to Sawyer there will be no significant restructuring at the company, as the sites and facilities are ideal and SVI intends to build further on them. Along with the acquisition comes an experienced and successful team with strong customer relationships.

Compal Electronics to Adjust ODM Organization into Two Business Groups

Compal Electronics will adjust its ODM organization into PC and smart device business groups, with the former to cover notebooks, desktops, and servers and the latter tablets, smart phones, and LCD TVs, according to the company.

In addition, some market watchers believe the adjustment will facilitate the company's search for a successor to company president Ray Chen when he retires, as reported by *DigiTimes*.

New Kinpo Group Sees Growing Contributions from Southeast Asia

The New Kinpo Group is seeing its investments in southeast Asian countries such as Thailand and the Philippines starting to make contributions and is planning to expand its investments in the Philippines in 2016. With this growth, the New Kinpo Group expects its revenues to increase by single-digit percentages in 2016 and to see better growth in profits than revenues, according to group chairman Rock Hsu.

Hsu pointed out that the Philippines is suitable for electronics manufacturing service (EMS) businesses due to the advantages of its political environment, stable supply chain, manpower supply, and costs. Meanwhile, in addition to

existing businesses, the New Kinpo Group is planning to expand its semiconductor-related business in Brazil.

The company's subsidiary **XYZprinting** will also expand its businesses from 3D printing products to service and education robots and smart devices, and will create a brand in an attempt to improve its gross margin, as reported by *DigiTimes*.

New CEO for Swedish Note

Swedish EMS provider **Note AB** has appointed Stefan Hedelius as new President and CEO of Note. Stefan will take up his position on 7 March 2016. He is replacing Peter Laveson, who will be leaving the company.

Henrik Nygren will remain as acting President and CEO after the end of Peter Laveson's parental leave, and will stay in this position until Stefan joins Note.

Stefan will be joining Note from his current position as Vice President Brand and Marketing at **SAS**. He was previously Vice President Marketing and Communications at **Ericsson's** Support Solutions business unit. Stefan has lengthy experience with Ericsson in Austria, Brazil, Hungary, Sweden, and Switzerland, in leading roles with responsibility for operations, service, and sales.

Apple to Help Build AU Optronics into AMOLED Supplier for Future iPhones

According to *AppleInsider*, **Apple** is reportedly planning to invest in **AU Optronics** (Taiwan) and build the firm into an AMOLED screen supplier for future iPhones.

AUO has been developing AMOLED displays for over a decade, and last year began shipping units to some Chinese companies like **Huawei**.

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