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EMS Providers Finding a Place in the Cloud

Perhaps the hottest trend in IT is cloud computing. Relying on remote datacenters for computing power and storage is growing more and more popular. The trend includes not only public cloud services offered by well-known providers such as **Amazon**, **Google** and **Microsoft**, but also private cloud environments for use by a single enterprise as well as hybrid clouds, which allow access to both private and public cloud environments. But as a source of new business, cloud datacenters are not exactly a walk in the park for the EMS industry. The industry faces the growing use of commodity hardware in the cloud space, where operators are more and more interested in buying raw computing power at the lowest price. Commodity hardware means equipment such as white-box servers, which are a natural offering for an ODM. Indeed, the ODM sector has made significant inroads in the cloud datacenter market, and at least two ODMs are selling servers directly to operators of cloud datacenters. According to a report in the UK's *The Register*, ODMs have captured a share of about 80% of servers shipped to the cloud service provider market in the US. Despite the ODM advantage in supplying commodity hardware, some large EMS providers are finding ways to gain business from the burgeoning use of cloud datacenters.

EMS giant **Hon Hai Precision In-**

dustry, commonly referred to as Foxconn, is not about to be left out of the cloud computing trend. What's more, Foxconn is taking more than one approach to obtain manufacturing business from the cloud. First, **HP** and Foxconn have entered into an agreement to create a new line of cloud-optimized servers intended for service providers. According to HP, the new product line will specifically address compute requirements of the world's largest service providers by delivering low total cost of ownership, scale, and service and support. The partnership will combine the design and manufacturing expertise of Foxconn with the compute and service capabilities of HP.

"Cloud computing is radically changing the entire supply chain for the server market as customers place new demands on the breadth of design capability, value-oriented solutions, and large-scale and global manufacturing capabilities," said Terry Gou,

founder and chairman of Foxconn. Together with HP, Foxconn is embracing this new opportunity to change the industry, capture growth in this emerging market, and deliver end-to-end value, Gou added.

According to HP, creating servers and solutions has been a cornerstone of the relationship between Foxconn and HP for several decades, and the agreement further strengthens their partnership. Here Foxconn intends to gain cloud server design and manufacturing business through its relationship with HP, a strategy straight out of the EMS play book.

Foxconn has also embarked on a path that will allow it to assemble complete datacenters for a service provider in China. Under a new agreement with **21Vianet Group**, described as the largest carrier-neutral Internet datacenter services provider in China, Foxconn will build Internet datacenters for 21Vianet. In addition, the companies will jointly cooperate to

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develop cloud services targeting the Chinese market. This partnership will further enhance the technical capabilities of 21Vianet's self-built datacenters in terms of speed and scale, and help the Chinese provider of datacenter services to remain ahead of the growing demand for datacenters and cloud services in China and abroad, said 21Vianet. While this pact is not confined to the Chinese market, the two companies will select datacenter projects in Tianjin and Shenzhen, China, as part of their initial cooperation in 2014.

Taiwan's *Central News Agency (CNA)* reported this month that Foxconn wants to become a technology services company, and the joint development of cloud services as part of this agreement would seem to be in line with Foxconn's goal of transforming itself.

According to the agreement, 21Vianet and Foxconn will be jointly responsible for the supply chain management of 21Vianet's datacenter projects, with Foxconn bringing its global plant operations and supporting services as well as its capabilities in equipment manufacturing. Partner 21Vianet will contribute its expertise in datacenter construction and operations as well as sales and marketing.

This arrangement not only provides Foxconn with a new customer in a fast-growing market but also gives Foxconn a way of gaining expertise in datacenter construction and operation.

But 21Vianet may not be Foxconn's first customer operating datacenters. *The Wall Street Journal* recently reported that Foxconn has landed orders for servers and storage from **Facebook**.

In addition, Foxconn is said to be engaged in its own datacenter development. According to a May report from *Digitimes*, Foxconn is working on a new generation of container-housed datacenters with improved energy efficiency.

Following customers to the cloud

For **Flextronics**, cloud datacenters are a demand driver for many of its computing customers. When customers order products from Flextronics that are intended for cloud infrastructure, the cloud becomes an indirect source of manufacturing demand for the company. "Many of the products that we're delivering to our OEM customers are ending up inside of those datacenters," said Chris Winslow, VP and GM of Enterprise and Cloud Computing at Flextronics. The customers that are creating this demand for Flextronics are not limited to OEMs with well-known brand names. A fairly large part of Winslow's business segment comes from software appliance companies, which supply software for security, application delivery and other purposes on a hardware platform. Much of Flextronics' software appliance business is also going into cloud environments, he noted.

"We see ourselves as an enabler for our OEM customers to be present in the cloud. But our strategy today is not to go after the public cloud environment as a direct supplier of servers," said Winslow, referring to the approach that some ODMs are taking.

But Flextronics is doing more than assembling individual products that end up inside a cloud datacenter. For a number of customers, Flextronics is supplying fully integrated racks of server and storage hardware loaded with software stacks and delivered directly to a customer's datacenter location on a global basis. "It's a service that we believe has significant growth opportunities ahead of it," said Winslow.

The business of supplying integrated datacenter solutions "is a big part of our forward-looking strategy, and frankly it's also a big part of the forward-looking strategy of many of our customers," he pointed out.

In rack integration, a customer may

specify hardware from different manufacturers optimized around a particular solution. Flextronics' integration service allows for the use of hardware from multiple sources, not just equipment produced by Flextronics. The company's integration work has reached the point where Flextronics is delivering clusters of fully integrated racks including software that fill a datacenter in particular order. In effect, the company is building on its factory floor a datacenter pod, or module, that can fit inside a larger datacenter.

Although use of commodity hardware is increasing in the datacenter space, Flextronics also sees a greater need for global supply chain management, which is a core competence of the company. This need stems from Flextronics' customers wanting to satisfy their customers' demand on a regional basis with an optimized supply chain.

A new business unit aimed at the cloud

Jabil is also offering integrated solutions for cloud datacenters as earlier this year the company officially launched a new business unit, **StackVelocity**, expressly for this purpose. StackVelocity's rack-level integration services are designed for customers that require open source software and cost-optimized hardware. Rather than fight the growing use of commodity hardware in cloud datacenters, the new business unit has embraced this trend. Working with partners, StackVelocity offers predesigned and optimized software solutions running on white box hardware.

The new unit is providing factory rack integration for hyper-scale public cloud service providers. StackVelocity is engaged with tier 1 and 2 customers in the public cloud market, as well as SaaS (software as a service) providers and large enterprises. The unit leverages Jabil for manufacturing, global foot-

print, supply chain management and scale. Deployment, support, logistics and on-site repair are included in an end-to-end service offering.

StackVelocity also provides validation and testing for hardware and software stacks. Testing and validation take place at StackVelocity's Solutions Validation Lab in San Jose, CA. If a pre-validated solution is not a good fit, the unit can develop a customized solution and service delivery model.

The customer specifies the server, storage and networking hardware that StackVelocity will integrate in racks. Since StackVelocity is providing the service of rack integration, not a product, the unit is not competing with any Jabil customers that supply products for the cloud datacenter market, Jabil told *MMI*.

A server and storage solution

One of the things that sets **Sanmina** apart from the rest of the EMS industry is the company's Newisys brand of datacenter products. Newisys, a product division of Sanmina, offers solid-state memory and disk-based storage server appliances, JBOD storage systems and other products for a variety of datacenter and storage applications. Sanmina sees the cloud arena as an opportunity for Newisys. During Sanmina's April earnings call, CFO Bob

Eulau said, "There are a number of customers in that arena who are interested in the kinds of products we have in Newisys. So I think there's still a lot of evaluation going on.... We're hopeful that we'll really start to get some points on the board there soon."

For cloud datacenters, Newisys has full solutions incorporating servers and storage. "We have designs that are either more dense, faster or more flexible than the traditional OEMs. We can also make design changes and customize products much faster than the OEMs," said Eugene McCabe, executive VP of Newisys. According to McCabe, "Manufacturing is the easy part. The design is what wins the business."

As seen here, at least four large EMS providers have found ways to participate in the growth of cloud datacenters despite the increasing use of commodity hardware among cloud service providers. EMS providers are finding a place in the cloud datacenter market even though ODMs reportedly dominate server production for that market. Whether it's manufacturing products that end up in a cloud datacenter, performing integration services, building complete datacenters, or selling a server and storage solution, the EMS industry is also seizing opportunities that arise from cloud computing.

seven mid-tier and smaller providers fell short in a Q1 comparison with a cohort of large competitors. On a year-over-year basis, collective sales growth of the mid-tier and smaller providers in Q1 was 6.2 percentage points below that of the six largest US-traded EMS providers (Chart 1, p. 4). Overall, smaller was not better in this Q1 analysis. But that is not always the case. For example, through nine months of last year, the mid-tier and smaller providers combined for growth of 2.4%, compared with a 2.5% decline for their six large competitors.

Q1 revenue for the mid-tier and smaller group totaled \$564 million, compared with \$560 million in the same period a year ago. Year-on-year sales increases at four providers were essentially offset by declines at three others. **Sparton** recorded by far the highest sales growth at 28.8%, as no other provider was even close to a double-digit gain. Indeed, the second highest increase was 3.3%, posted by **IEC Electronics** (Table 1, p. 4). Of the three providers with revenue declines, **SMTC** was alone in reporting a double-digit decrease.

Versus the prior quarter, Q1 sales for the group of seven fell 2.8%. In this comparison, however, the mid-tier and smaller providers together outperformed their large US-traded counterparts, whose combined sales sank 9.0% sequentially (Chart 2, p. 4). It appears that the large providers, which have significant amounts of consumer and computing sales, are collectively more subject to seasonality than their smaller competitors.

Five out of the seven North American providers saw their Q1 sales drop from the prior quarter, with **SMTC** and **Nortech Systems** registering two-digit tumbles. The sequential declines at those five providers outweighed the gains at the other two players, **IEC** and **Kimball Electronics Group** (Table 1).

The group of seven mid-tier and smaller providers consists of five com-

Results

Slow Start for North American Group

For a group of seven mid-tier and smaller EMS providers based in North America, combined Q1 sales barely grew from the year-earlier period. The group's revenue rose 0.7% year over year, nothing to brag about, but at least the group is starting the year with a bit of growth on which to build in subsequent quarters. Better to start the year in positive territory than in a hole, as the US economy did. According to the

US Commerce Department's revised estimate for Q1, the US economy contracted at an annual rate of 1% in the quarter. Thus, this North American group as a whole outgrew the US economy by 170 basis points versus a year earlier, which could be a good sign. If the group can continue to maintain a higher growth rate than that of the US economy for the rest of the year, then the group should see annual growth above what is projected for the economy. The **International Monetary Fund** is estimating 2.8% for GDP growth of the US economy in 2014.

Still, this North American group of

Chart 1: Q1 Sales Growth Year Over Year

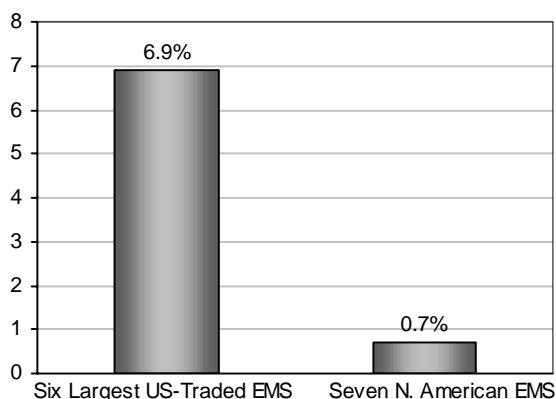
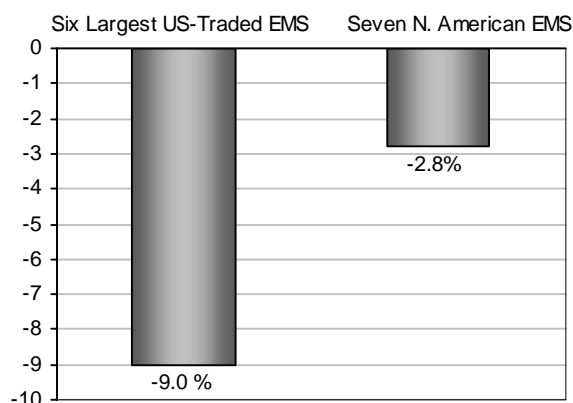


Chart 2: Q1 Sales Growth Quarter to Quarter



panies in the EMS space, all publicly traded, and two EMS units within larger publicly held corporations. Together, the five stand-alone providers produced a Q1 gross margin of 12.6%, up 220 basis points sequentially and 130 basis points year over year. Three out of five providers attained double-digit gross margins, with a high of 19.6% turned in by Sparton.

In the aggregate, Q1 operating margin for the five stand-alone providers stood at 2.8%, up 180 basis points sequentially and 30 basis points year over year. This margin was 110 basis points higher than the combined GAAP operating margin for the five largest US-traded providers that use GAAP accounting. Sparton, the gross

margin leader, also achieved the highest Q1 operating margin at 7.5%, which was well above the results of the other stand-alone providers. Two of them, SMTC and IEC, reported operating losses (Table 1 below). Still, SMTC and IEC improved their operating margins from the prior quarter as did Sparton, while Sparton and IEC raised their margins from a year ago.

As for the EMS units, Q1 operating margin at Kimball Electronics showed sequential growth but remained flat versus a year earlier, while the margin at **Ducommun LaBarge Technologies** was down both sequentially and year over year.

For the five stand-alone providers, net income in Q1 amounted to \$4.1

million, up from a combined net loss of \$1.9 million in the prior quarter but down from net income of \$4.6 million a year earlier. The year-over-year drop in net income occurred in spite of a 2% increase in sales versus a year ago. Q1 net margin came in at 1.5%, down 20 basis points year over year. Both SMTC and IEC declared net losses for the quarter.

A brief look at each provider

Ducommun LaBarge Technologies. Ducommun's DLT segment generated Q1 sales of \$98.1 million compared with \$103.2 million in the same period a year ago. The year-over-year decline reflects a 9.3% decrease in revenue from defense

Table 1: Q1 2014 GAAP Results for Seven Mid-tier and Smaller EMS Providers Based in North America (M\$ or %)

Organization	Q1 '14 sales	Q4 '13 sales	Qtr.-qtr. chg.	Q1 '13 sales	Yr.-yr. chg.	Q1 '14 gross marg.	Q4 '13 gross marg.	Q1 '13 gross marg.	Q1 '14 oper. marg.	Q4 '13 oper. marg.	Q1 '13 oper. marg.	Q1 '14 net income	Q4 '13 net income	Q1 '13 net income	
Stand-Alone EMS Providers															
Sparton	83.9	84.6	-0.7	65.1	28.8	19.6	17.7	15.5	7.5	6.2	3.6	4.2	3.5	1.5	
Key Tronic	77.0	78.3	-1.5	84.3	-8.7	8.6	8.9	9.3	2.9	3.0	4.3	1.4	3.1	2.9	
SMTC	58.0	67.4	-14.0	65.4	-11.3	7.6	2.0	10.6	-0.9	-5.6	3.0	(1.1)	(7.7)	1.2	
IEC Electronics	34.8	32.1	8.3	33.7	3.3	13.7	11.2	8.6	-1.3	-4.2	-4.2	(0.6)	(1.1)	(1.1)	
Nortech Systems	26.1	29.3	-10.7	25.9	0.9	11.8	12.0	12.5	0.9	1.6	0.9	0.1	0.2	0.1	
Subtotal/avg.	280.0	291.7	-4.0	274.5	2.0	12.6	10.4	11.3	2.8	1.0	2.5	4.1	(1.9)	4.6	
EMS Units of Larger Public Companies															
Kimball Electronics Group ¹	185.7	181.3	2.4	182.1	2.0				4.9	3.0	4.9	6.9	5.2	6.5	
Ducommun LaBarge Technologies	98.1	107.2	-8.5	103.2	-5.0				7.2 ²	8.8 ²	7.7 ²				
Total/avg.	563.7	580.1	-2.8	559.8	0.7										

¹ Operating and net income are not necessarily equivalent to GAAP results on a stand-alone basis.

² Segment operating income did not include corporate general and administrative expenses.

technology products partially offset by a 2.1% increase in revenue from non-A&D (aerospace and defense) products.

DLT's operating income for Q1, which did not include corporate general and administrative expenses, was \$7.0 million, or 7.2% of revenue, down from \$7.9 million, or 7.7% of revenue, a year earlier due to lower net sales. The segment's EBITDA, which again did not reflect these expenses, was 12.3% of sales, up 10 basis points year over year.

IEC Electronics. For its fiscal Q2 ended March 28, IEC generated revenue of \$34.8 million, up 8.3% sequentially and 3.3% year over year. The company reported a net loss of \$569,000 for the quarter, compared with a net loss of \$1.1 million for both the prior quarter and the year-ago period. Fiscal Q2's net loss included re-statement and related expenses of \$1.3 million versus \$1.2 million in the previous quarter and none a year earlier.

In fiscal Q2, IEC's medical activity was sequentially flat. A large medical customer remains on FDA hold, and some of the company's recently added medical programs were slower to ramp. By contrast, IEC reported that its industrial customers exceeded its expectations.

The company's Aerospace and Defense business, which represents about half of IEC's revenue, remains steady. Certain older programs are being winnowed down but are being replaced with new robust programs in the current and anticipated future military budgets. IEC is also seeing cost pressure from prime contractors, which is a reflection of the cost pressure that they are feeling from the US government.

Key Tronic. Revenue for its fiscal Q3 ended March 29 totaled \$77.0 million, down 1.5% sequentially and 8.7% year over year. The company earned net income of \$1.4 million, or \$0.13 a share, compared with \$3.1 million, or \$0.28 a share, in the prior

quarter, and \$2.9 million, or \$0.26 a share, in the year-earlier period.

Gross margin for fiscal Q3 was 8.6%, down 30 basis points sequentially and 70 basis points year over year, while operating margin was 2.9%, down 10 basis points sequentially and 140 basis points year over year.

At the end of the quarter, Key Tronic was generating revenue from 192 programs, up from 177 programs a year earlier. At the same time, the company continued to diversify its future revenue base during fiscal Q3 by winning two programs from new customers. These new programs involve consumer products and fitness equipment.

The company expects to see sequential sales growth during fiscal Q4 (the June quarter), as growing revenue from new customers and new programs should offset and then exceed demand reductions in recent periods by its two largest customers. For fiscal Q4, Key Tronic is projecting revenue of \$78 million to \$85 million and EPS of \$0.17 to \$0.23.

Kimball Electronics Group. For fiscal Q3 ended March 31, sales of \$185.7 million from Kimball International's EMS unit increased 2.0% year over year. Sales growth from automotive customers was strongest, as the unit continues to see strength in the US and Chinese markets. Sales to the medical and industrial markets grew slightly from the year-ago period, while sales to the public safety market, the unit's smallest segment, declined. On a sequential basis, the EMS unit's sales were up 2.4%.

Kimball Electronics' gross margin for the quarter improved by 20 basis points from the same period last year. The unit's operating margin of 4.9% was unchanged from a year earlier but rose 190 basis points from the prior quarter. Excluding proceeds from an antitrust lawsuit, operating margin was 4.5%. Selling and administrative expenses of the unit increased 10% year

over year.

Net income for the EMS unit amounted to \$6.9 million, up 5.6% year over year. Included in net income was \$0.4 million of after-tax income from the aforementioned lawsuit.

In January, Kimball International announced its plan to spin off its EMS business as an independent publicly traded company to be called Kimball Electronics (Jan., p. 4-5). The parent company expects the spin-off to be completed before the end of the calendar year.

Nortech Systems. Q1 sales of \$26.1 million fell 10.7% sequentially yet increased slightly by 0.9% year over year. Operating income of \$236,000 dropped 51% from Q4 2013 but grew 5.6% from a year earlier, as operating margin of 0.9% was down 70 basis points quarter to quarter and unchanged from a year ago. The company recorded Q1 net income of \$86,000, compared with \$241,000 for the prior quarter and \$141,000 for Q1 2013. Without last year's R&D tax credit, net income would be \$71,000 for the year-earlier quarter.

The company pointed out that its pretax profit of \$136,000 rose 13% year over year on a slight sales increase.

Nortech was encouraged that its overall 90-day backlog increased 6% during the quarter.

SMTC. Q1 revenue totaled \$58.0 million, a 14.0% decrease from the prior quarter due to seasonality as well as severe winter weather affecting one of the company's industrial customers. Compared with a year earlier, revenue was down 11.3%.

Gross margin was 7.6%, compared with 2.0% in Q4 2013 or 7.3% when eliminating the effects of a year-end physical inventory count adjustment. Versus last year's Q1, gross margin dropped by three percentage points.

Adjusted EBITDA in Q1 came in at \$1.2 million compared with a loss of \$2.2 million in the previous quarter.

However, when one removes costs related to additional professional service fees as a result of the inventory adjustment, adjusted EBITDA becomes \$1.7 million compared with \$1.3 million in the prior quarter, which excludes costs related to the inventory adjustment as well as additional provisions for a legacy customer.

SMTC reported a net loss of \$1.1 million for the quarter, compared with a net loss of \$7.7 million for Q4 2013 and net income of \$1.2 million a year earlier.

The company noted that even with lower revenue levels, its cost reduction program has led to improved margins.

During Q1, SMTC had three new customer wins and four new program awards with an existing customer. The company said its sales pipeline is strong.

Sparton. For its fiscal Q3 ended March 31, the company posted sales of

\$83.9 million, down 0.7% sequentially but up 28.8% year over year. Organic growth from the year-earlier period was 11%. Adjusted operating income was \$6.5 million, up from \$5.4 million in the prior quarter and \$2.4 million in the year-ago period. Adjusted net income amounted to \$4.3 million, up from \$3.6 million in the previous quarter and \$1.5 million a year earlier. Adjusted EBITDA of \$8.9 million grew 121% year over year.

During the quarter, the company landed 20 new programs with potential annualized sales of \$6.1 million.

Medical revenue for the quarter was \$37.2 million, down 4.9% year over year. Excluding sales of \$0.3 million from Sparton's acquisition of **Aubrey**, medical revenue decreased about 6% year over year, mainly reflecting a rebalancing of **Fenwal** program engagements. Gross margin on medical sales rose to 14.3% from

13.6% a year earlier, primarily due to favorable mix.

Sales from the company's Complex Systems segment came to \$23.6 million, up 43% year over year. Omitting \$7.5 million in sales from the acquisitions of **Creonix** and **Beckwood** and a \$1.0-million increase in intracompany sales, CS sales to legacy external customers fell 12% from the year-ago quarter. This decline primarily reflects a sales delay resulting from a customer's engineering and design changes. CS gross margin dropped to 10.6% from 11.5% a year earlier, mainly because of unfavorable mix.

Sparton's Defense and Security Systems segment, which *MMI* does not consider to be an EMS business, grew 103.4% year over year to \$28.9 million. Excluding the acquisition of **Ay-din**, growth was about 75%. DSS gross margin was 29.8%.

Healthy Q1 Growth for European Group

First-quarter sales in euros for a group of six European EMS providers rose 7.1% year over year, well above comparable growth of the European Union's GDP. Revenue for the six mid-sized providers totaled 318.2 million euros, up from 297.0 million euros in the year-ago quarter. As a group, the six providers made a good start in 2014 with a healthy year-over-year increase in Q1, 5.7 percentage points higher than growth in the European Union.

Sales grew from a year earlier at five out of six providers, but **LACROIX Electronics** was the only one able to achieve a double-digit gain (Table 1A). The French provider, a division of the LACROIX Group, stood out with a 29.9% increase. In the first half of the Group's fiscal year ending September 2014, the EMS division's sales grew 26.8% as strong growth came from new business initi-

ated in the second half of fiscal 2013. This growth is expected to moderate in the second half of fiscal 2014.

At **Neways Electronics International**, Q1 sales were up 3.7% sequentially and 6.7% year over year.

Compared with a loss in the year-ago period, the company recorded a clear profit in Q1, in line with the results of the second half of 2013.

Revenue growth and improved profitability were pressured somewhat by the aftermath of the permanent shutdown of Neways' operation in Kassel, Germany, following a major fire there in September 2013 (Dec. 2013, p. 7).

Neways expects to book a higher operating profit in the first half of 2014 compared with last year's first half.

As for **PartnerTech**, its Q1 sales declined

1.1% year over year in its SEK reporting currency (-5.1% in euros). Operating profit in Q1 amounted to SEK 0.6 million versus SEK 8.1 million in the year-ago period, and the company reported a net loss of SEK 2.2 million in Q1 compared with a net profit of SEK 1.8 million a year earlier.

External sales in SEK from Part-

Table 1A: Q1 2014 Results for Six European EMS Providers (M euros or %)

Company (in order of Q1 '14 sales)	Head- quarters	Reports in euros	Q1 '14 sales	Q1 '13 sales	Yr.-yr. chg.
Neways Electronics International	Nether- lands	Yes	68.1	63.8	6.7
PartnerTech	Sweden	No	61.8	65.1	-5.1
LACROIX Electronics	France	Yes	55.2	42.5	29.9
Kitron	Norway	No	52.2	50.9	2.5
Scanfil	Finland	Yes	47.6	44.0	8.0
Connect Group	Belgium	Yes	33.3	30.7	8.5
Total/avg.			318.2	297.0	7.1
Results in non-euro currencies were converted to euros by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were obtained from OANDA.					

nerTech's Electronics segment grew 29.6% year over year, slightly outweighed by a 13.9% decrease in external sales from Systems Integration and Enclosures and a 45.1% drop in external Machining business. Within Machining, defense business continued to decrease sharply.

Kitron saw its Q1 revenue grow 15.2% from a year earlier in its NOK reporting currency (2.5% in euros). Sales were up in all five of the company's market sectors, led by Defence/Aerospace and Energy/Telecoms with increases of 27.1% and 23.2% respectively. Sales from Kitron's Medical Equipment and Offshore/Marine sectors also rose by double digits.

Operating profit (EBIT) in Q1 dropped to NOK 2.0 million from NOK 4.0 million in the same period a

year ago. Kitron posted a Q1 net loss of NOK 1.7 million, compared with a net profit of NOK 1.4 million a year earlier.

The company expects revenue growth in 2014, partly explained by development in foreign currency exchange. As a result of a reorganization and other actions, Kitron looks for profitability to improve during the year.

At **Scanfil**, Q1 revenue increased 8% year over year, while operating profit was up about 26%. The operating profit gain mainly resulted from greater sales volume and successful cost control. Operating profit of 2.5 million euros represented 5.3% of sales, up 70 basis points from the year-ago quarter. The company earned a net profit in Q1 of 1.7 million euros, compared with 1.1 million euros a year

earlier.

In light of Scanfil's recent acquisition of German contract manufacturer **Schaltex Systems** (April, p. 8), Scanfil now estimates that its revenue for 2014 will increase by 11 to 18% and that its operating profit for the year will reach 11.0 million to 15.0 million euros.

Finally, **Connect Group** reported that Q1 sales grew 8.5% from the same period last year, reflecting a generally improving economic climate. Sales were consistent with expectations. At 84 million euros, the order book on March 31 remained unchanged from the end of the prior quarter.

The provider anticipates that second-quarter sales will be in line with those of the first quarter.

News

Moto X factory in Texas to close... **Motorola Mobility's** foray into manufacturing high-volume smartphones in the US is coming to an end (June 2013, p. 1-2). By year-end, **Google**-owned Motorola Mobility will close a Fort Worth, TX, plant where **Flextronics** (Singapore) has assembled Moto X smartphones for Motorola, according to a *Wall Street Journal* report, which Motorola has confirmed.

Acquisition reported... Flextronics has acquired **Tech Mold** (Tempe, AZ), a manufacturer of injection molds, *Plastics News* reported, citing industry sources. When asked to confirm this report, Flextronics would not comment.

Flextronics divestiture... **4K INVEST**, owner of Top 50 EMS provider **Selcom Group** (Bologna, Italy), has acquired Flextronics' 25,000-m² operation in Paderborn, Germany. The divested operation will continue to do EMS business under a new name, **Periscope**.

Another acquisition... **Centre Lane Partners**, a New York-based private investment firm, has acquired **STACI Holdings** (LaGrange, OH), an EMS provider with facilities in Ohio and Dongguan, China. STACI also offers PCBs and electromechanical components through equity ownership and/or joint-venture partnerships with offshore manufacturing facilities. For the 12 months ended March 2014, STACI generated \$71 million in sales.

Alliance... EMS provider **Delta Group Electronics** (Albuquerque, NM) and **Mesa Secure Acquisitions** (Carlsbad, CA), a provider of design and engineering solutions for the US Department of Defense and prime government contractors, have teamed up to offer product design, engineering support and EMS to US government and industrial customers with communication systems products.

Some new business... **Hon Hai Precision Industry** (New Taipei, Taiwan) will be primary manufacturer of a new 4.7-in. iPhone from **Apple**, with **Pegatron** handling 30% of unit vol-

umes, according to a *Digitimes* report, which relied on supply chain sources. The report also said Hon Hai will produce a new 5.5-in. model, while orders for the current 4-in. iPhone will go to **Wistron**. In addition, Hon Hai will build humanoid robots for Japan's **Softbank**, Taiwan's *Central News Agency* reported.... **Aviage Systems** has selected Flextronics to manufacture integrated modular avionics cabinet units to support commercial aircraft programs in China. Aviage, a joint venture between **GE** and **Aviation Industry Corporation of China**, is a provider of avionics systems and a tier-1 supplier for China's first commercial aircraft, the C919.... **Faiveley Transport**, an international manufacturer of railway equipment, has renewed its frame agreement with EMS provider **Connect Group** (Kampenhout, Belgium). The provider is also continuing its relationship with **Nedap** (Groenlo, the Netherlands), a manufacturer of intelligent technological solutions.

Expanded facilities... At the Kwidzyn, Poland, plant of French

EMS provider **LACROIX Electronics**, overall manufacturing area has increased to 12,000 m² from 7,500 m²....Another French EMS provider, **éolane**, undertook a project to expand the overall factory area of its Suzhou, China, subsidiary to 5,500 m² from 1,500 m².

Last Word

Fond Farewell

Last Word columns by your editor have been reserved for presenting views on industry issues. But not this time. After producing a continuous series of monthly newsletters dating back to May 1991, your editor is calling it a day. As much as I've enjoyed writing this publication, I have reached the point in a person's career when retirement beckons. The June edition will be the last issue that I turn out.

But *MMI* will continue without missing a beat under the leadership of Randall Sherman, president of **New Venture Research Corp.** Sherman has been following the EMS industry since the early 1990s, as an analyst and as a consultant. His deep industry knowledge and publishing background ensure that *MMI* remains in good hands. I can't think of a better or more qualified person to carry on the legacy of this newsletter.

I've had quite a ride covering the EMS business through the good years and the forgettable ones as it has evolved from a high-flying growth sector to a mature industry. Despite the bursting of the dot-com bubble, the early 2000s recession, extensive restructuring, the Great Recession and natural disasters, the EMS industry has persevered, handling all challenges thrown before it. If I could somehow encapsulate the industry in a single word, it would be resilience. I believe that this ability to withstand calamities, be they economic, political or natural, reflects a certain grittiness in the companies that make up the industry. After all, EMS has been and will continue to be a tough place to do business. The difficulties of competing in this low-margin industry require disciplined managers and executives who are unfazed by the problems they confront.

But there's much more to the industry than its ability to handle adversity. As the industry has progressed, so too have its skills in supply chain management. It can easily be argued that EMS providers are the world's consummate supply chain managers. Who else must keep track of so many part numbers and assemblies while managing the intricacies of complex, global supply chains? This may well be one of the industry's most impressive attributes.

Another is the extent to which the

industry has become international. And I'm not talking about just the top 10 or 12 providers. A substantial number of EMS companies now offer solutions in high- and low-cost geographies. For OEMs that want regional manufacturing combined with a low-cost solution, there's no shortage of providers with the necessary footprint.

The EMS industry has come a long way since 1991, and it will continue to change. I won't be around to report future developments, but *MMI* will.

Goodbye – it's been a privilege.

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