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Positive Year for US-Traded Group

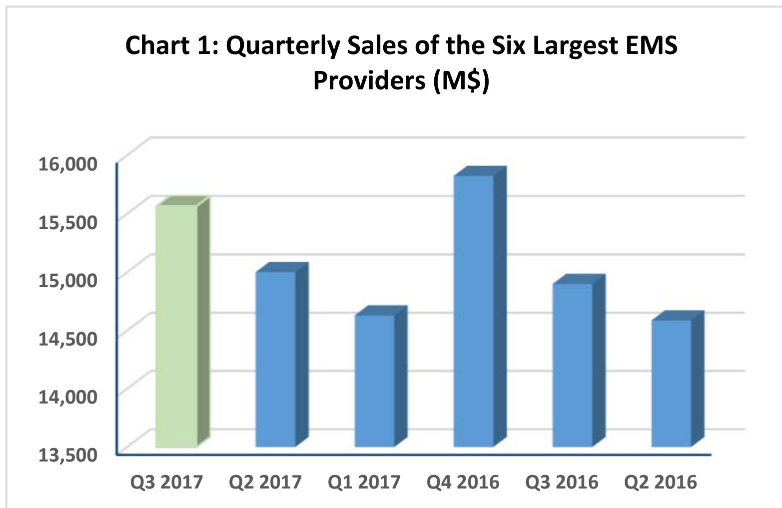
Based on *MMI's* estimates for the first nine months, the six largest US-traded EMS providers, as a group, are already on their way to turning 2017 into a growth year. In the current demand environment, such growth may be easy in the final quarter, as providers have been working diligently to boost sales with new program ramps.

MMI is projecting that third-quarter sales for the group will total $15.57 billion by setting the sales estimate for each provider equal to the midpoint of its Q3 guidance. At that level, Q3 sales will have risen 3.7% sequentially, marking a second straight quarter-on-quarter increase. Following the high point in 4Q2016, revenue has begun another ramp-up (see Chart 1).

MMI estimates that group sales for the first nine months will reach $44.97 billion, up 1.6% year over year. Three out of six providers are expected to experience revenue declines for the period, and all of the declines will be of the single-digit variety (Table 1, p. 2). **Sanmina, Flex,** and **Celestica** will be the providers able to achieve revenue growth for the first nine months, *MMI* predicts.

In comparison with the projected nine-month increase in group revenue, revenue for Q3 is forecasted to increase by 5.9% year over year. According to *MMI's* estimates, Q3 sales for all six providers will grow versus the year-earlier period, with **Jabil** posting the highest growth rate at 11.4%. On a sequential basis, Q3 sales growth at Flex, Jabil, Sanmina, and **Plexus** should outweigh declines at **Benchmark** and Celestica (Table 1).

Guidance suggests that adjusted EPS for Q3 will increase sequentially at Flex, Jabil, Sanmina, and Plexus. At the midpoint of its guidance, growth at Jabil would be 100%, the highest among the group. One can also infer from guidance that Celestica and Benchmark expect a sequential decline in their Q3 EPS of 3.1% and 10.5%, respectively.



US-Traded Group Beats Estimates

The second quarter did not bring a macroeconomic lift to the EMS industry. Still, there were some shafts of light poking through the dark clouds. As a group, the six largest US-traded EMS providers returned both sequential and year-over-year growth in Q2, though it was all rather modest.

Some articles in this issue

Table 1: 3Q2017 Guidance and Estimates for the Six Largest US-Traded Providers (sales in $B except as noted)													
Company	Q3 '17 Guidance	Q3 Midpoint	Q2 '17 Sales	Qtr.–qtr. Estim. Chg. (%)	Q3 '16 Sales	Yr–yr. Estim. Chg. (%)	Q1–3 '17 Estim. Sales	Q1–3 '16 Sales	Estimated Change (%)	Q3 Guidance Adjusted EPS* $	Q3 EPS Mid-point $	Q2 '17 Adjusted EPS* $	EPS Q–Q Chg. at Midpoint (%)
Flex	5.9–6.3	6.10	6.00	1.7	6.00	1.7	18.00	17.60	2.3	0.24– 0.28	0.26	0.24	8.3
Jabil	4.7–5.1	4.90	4.50	8.9	4.40	11.4	13.80	13.90	–0.7	0.50– 0.74	0.62	0.31	100.0
Sanmina	1.725–1.775	1.75	1.71	2.3	1.67	4.9	5.11	4.80	6.5	0.73–0.79	0.76	0.74	2.7
Celestica	1.5–1.6	1.55	1.56	–0.6	1.41	10.1	4.36	4.12	5.7	0.28–0.34	0.31	0.32	–3.1
Benchmark	575–595 M	0.59	0.62	–5.2	0.57	1.9	1.77	1.91	–7.4	0.32–0.36	0.34	0.38	–10.5
Plexus	660–700 M	0.68	0.62	9.9	0.65	4.1	1.93	1.94	–0.2	0.77– 0.87	0.82	0.74	10.8
Total/avg.		**15.57**	**15.01**	**3.7**	**14.70**	**5.9**	**44.97**	**44.27**	**1.6**				

Q3 estimates equal midpoint of Q3 guidance. Nine-month 2017 estimates equal first-half sales plus midpoint of Q3 guidance.
*Adjusted EPS may not be comparable from company to company.

MMI had expected a year-over-year increase of 13.3% (see May, p. 4); actual growth was 2.8%. In addition, the newsletter forecasted a sequential increase of 1.1% for the group's Q2 sales; actual group revenue increased by 2.5% (Table 2, p. 3).

This better-than-expected performance reflects the fact that most of the providers in the US-traded group achieved sales greater than *MMI's* estimates. *MMI* based its estimates on the midpoint of each company's sales guidance, and most in the group posted sales above the midpoint of their guidance. Furthermore, three companies in the group—**Flex**, **Jabil**, and **Benchmark**—generated revenue that exceeded guidance.

With five providers surpassing their midpoints and three companies beating guidance altogether, Q2 sales for the group of six were $217 million higher than estimated. Combined Q2 revenue amounted to $15 billion, 1.4% above what *MMI* had projected.

All companies grew their Q2 sales from the prior quarter, led by **Benchmark**'s 8.8% gain. Close behind was **Celestica** with an increase of 6%.

When Q2 results were compared year over year, a slightly different picture emerged. For one out of six providers (Plexus), sales were down versus the year-ago period, And Benchmark reported the highest increase at 6.6% (Table 2). Revenue increases at five providers succeeded in outweighing the decline at Plexus, which posted a drop of –7.3%.

Q2's 2.5% increase was helped by Benchmark's strong 6.6% year-over-year growth. The two quarters combined to yield a first-half sales increase of 2.6%. This result was still 490 basis points down from what *MMI* had projected. First-half sales for the group totaled $29.63 billion, up from $28.88 billion in the year-earlier period. Five companies were able to grow their first-half sales year over year. Posting the largest first-half increases from a year earlier were Celestica and Benchmark, achieving 6.7% and 5% increases, respectively (Table 2).

Five out of six providers follow GAAP accounting rules, while the sixth, Celestica, adheres to IFRS reporting standards. For the five GAAP companies, GAAP gross margin in Q2 was a combined 7%, down 60 basis points sequentially and down 40 basis points year over year. Only Benchmark raised its gross margin sequentially, while three of the companies managed to accomplish this feat on a year-over-year basis (Table 2).

Together, the five companies produced a GAAP operating margin of 2.5%, down 40 basis points sequentially and down 20 basis points year over year. Plexus, which attained the highest gross margin in the quarter, as usual turned in the highest operating margin at 5%. Three GAAP providers—Flex, **Sanmina**, and Benchmark—improved their operating margins from the prior quarter, while Flex, Sanmina, Benchmark, and Plexus achieved a margin increase versus a year earlier. As for the lone IFRS reporting company, Celestica, its IFRS operating margin was up sequentially and down on a year-over-year basis.

GAAP net income for the five companies in Q2 declined in a year-over-year comparison though rising slightly in the sequential comparison. This is mostly because of an earnings decline at Jabil due to a soft environment within its mobility business; challenges will continue to negatively impact its Diversified Manufacturing Services business. Combined net income of $178.3 million increased 0.2% quarter on quarter, while sales rose 2.1%. On a year-over-year basis, net income fell 1.1%, but revenue increased 2.6%. Flex, Sanmina, and Benchmark were able to attain year-over-year growth in net income. Q2 net margin for the GAAP reporting companies was 1.3%, down two basis points sequentially and down five basis points from a year earlier, in line with the year-over-year decline in operating margin.

For the first half of 2017, combined GAAP net income for the five companies dropped 5.7% to $356.3 million from $377.7 million in the year-earlier period. The drop in net income was far worse than the 2.2% increase in sales. To be fair, though, the decline at Jabil can be principally

Table 2: Q2 and Six-Month 2017 Results for the Six Largest US-Traded EMS Providers (US$M or %)																			
Company	Q2 '17 Sales	Q1 '17 Sales	Qtr.–Qtr. Chg.	Q2 '16 Sales	Yr.–Yr. Chg.	Q2 '17 Gross Marg.	Q1 '17 Gross Marg.	Q2 '16 Gross Marg.	Q2 '17 Oper. Marg.	Q1 '17 Oper. Marg.	Q2 '16 Oper. Marg.	Q2 '17 Net Inc.	Q1 '17 Net Inc.	Q2 '16 Net Inc.	Q1–2 '17 Sales	Q1–2 '16 Sales	Yr.–Yr. Chg.	Q1–2 '17 Net Inc	Q1–2 '16 Net Inc.
Flex	6,008.0	5,863.0	2.5	5,877.0	2.2	6.4%	6.5%	6.5%	2.9%	2.2%	2.4%	125.0	87.0	106.0	11,871.0	11,636.0	2.0	212.0	167.0
Jabil	4,489.0	4,445.0	1.0	4,310.0	4.2	7.1%	7.9%	7.2%	0.7%	1.8%	1.4%	(25.6)	20.1	5.8	8,934.0	8,713.0	2.5	(5.5)	84.2
Sanmina	1,711.0	1,682.0	1.7	1,669.0	2.5	7.6%	7.9%	7.5%	4.0%	3.7%	3.3%	36.4	31.7	29.5	3,393.0	3,280.0	3.4	68.1	59.8
Benchmark	617.0	567.0	8.8	579.0	6.6	9.1%	8.2%	8.6%	3.7%	2.4%	3.1%	17.0	10.0	13.0	1,184.0	1,128.0	5.0	27.0	24.0
Plexus	618.8	604.3	2.4	667.6	–7.3	9.9%	10.6%	9.4%	5.0%	5.9%	4.8%	25.5	29.2	26.0	1,223.1	1,286.2	–4.9	54.7	42.7
Subtotal/avg	**13,443.8**	**13,161.3**	**2.1**	**13,102.6**	**2.6**	**7.0%**	**7.6%**	**7.4%**	**2.5%**	**2.9%**	**2.7%**	**178.3**	**178.0**	**180.3**	**26,605.1**	**26,043.2**	**2.2**	**356.3**	**377.7**
Celestica	1,558.5	1,469.9	6.0	1,485.5	4.9	6.8%	6.8%	7.4%	2.6%	2.3%	3.5%	34.4	22.8	36.2	3,028.4	2,838.8	6.7	57.2	61.8
Total/avg.	**15,002.3**	**14,631.2**	**2.5**	**14,588.1**	**2.8**										**29,633.5**	**28,882.0**	**2.6**		

All results are based on GAAP except those of Celestica, which has converted to IFRS reporting. With the exception of sales, GAAP and IFRS results are not necessarily comparable.

attributed to the aforementioned softness in mobility product demand, which took a toll on net income in the first half.

Q2 Summaries for Five Providers

Flex (FLEX). Reported first-quarter fiscal 2018 revenue was just over $6.0 billion, growing 2% year over year and within the guidance range of $5.7 to $6.1 billion. GAAP income before income taxes was $146 million for the quarter and adjusted operating income was $178 million, within the range of guidance of $170 million to $200 million. GAAP net income was approximately $125 million and adjusted net income for the quarter was $128 million. GAAP EPS was $0.23 for the quarter and non-GAAP EPS was $0.24 for the quarter.

Lower-than-expected June quarter earnings and September guidance were due primarily to costs associated with ramping up Flex's opportunity with **Nike**. The Consumer Technology Group (CTG) (which includes Nike) margins were compressed to 1.2% in the June quarter, compared to 2.8% over the last fiscal year. The company expects these margins to improve through the year and to generate revenue of ~$200 million from Nike in FY18, ramping to ~$500–$600 million in FY19, and ultimately to drive $1+ billion in annual revenue, with operating margins of 6–9% by FY20.

The company's high-margin HRS (High Reliability Solutions) and IEI (Industrial & Emerging Industries) segments continue to increase as a percent of sales. Management continues to expect these two segments to see sales growth of more than 10% in FY18, which should help drive overall improvement in operating margins. HRS maintained its high 8.0% operating margin and is well positioned for growth this year in automotive and medical. While the IEI operating margin was at the low end of the segment's 4–6% target range, management expects margins to increase linearly over the remainder of FY18.

The company guided Q2 revenue to a range of $5.9–$6.3 billion, while EPS guidance was $0.24–$0.28. Communications & Enterprise Computing is expected to be down 10–15% year over year; the Consumer Technology Group is expected to be flat to up 5% year over year; Industrial & Emerging Industries is expected to be up 5–15% year over year; and High Reliability Solutions is expected to be up 10–20% year over year. Management continues to expect elevated costs associated with the Nike partnership, but for operating expense levels to moderate at ~$230 million per quarter going forward.

Sanmina Corporation (SANM). The company reported quarterly revenue/EPS of $1,711 million/$0.74. Overall, the operating margin profile was +50 bps year over year, with operating margins coming in at 4.2%.

Finally, the company saw the following end-market dynamics: 1) Communications Networks (39% of sales): This segment was up 7.3% quarter over quarter. Sales were $667M, with the optical sector (north of $1B in annual revenue) continuing to lead the way. Communications should be up, though with growth rates slowing on a year-over-year basis due to harder comparisons (optical exposure ranges from active to passive all the way up to testing). 2) Industrial/Medical/Defense (45% of sales) was down 0.5% q-o-q due to defense weakness and medical being down slightly. Sales were $770 million, with new defense programs beginning to ramp up. Medical was down slightly and industrial was flattish. 3) Computing and Storage (CPS) (16% of sales) was down –4.3% q-o-q. Sales in this segment came in at $274 million; the sector was down due to weaker storage and automotive revenues. Improvements are expected and the company should see CPS gross margins improve next quarter.

The company expects Q4 revenue of $1.725–$1.775 billion. Gross margins of 7.8–8.2%, operating expenditure guidance of $64–$66 million, and earnings guidance of $0.73–$0.79 have been set forth. The company's Industrial/Medical/Defense segment is expected to be up sequentially.

Communications Networks is expected to be up sequentially, with solid demand for optical products and mobile networks seeing good demand from existing and new customers. Embedded Computing & Storage is expected to be flat sequentially with some improvement in Q4 and new automotive programs ramping up.

Celestica, Inc. (**CLS**). The company reported Q2 revenue of $1.56B (up 5% y-o-y) and adjusted EPS of $0.32. Operating margins were 3.7%. Communication revenue led the growth, with overall revenues up 5%. EPS was up 9% year over year, and net cash came in at $363 million.

On a positive note, management highlighted a high level of activity on the M&A pipeline that could supplement growth and accelerate the shift toward higher margin end markets. With a strong balance sheet backed by $363 million in net cash, Celestica aims to make several midsize acquisitions starting in late fiscal 2017, as it focuses on adding capabilities and growing its higher margin diversified revenue base. Celestica has previously stated that it would be comfortable leveraging its balance sheet to 3–3.5 times net debt EBITDA, or up to ~$1B of debt from ~$0.22B currently. The focus is midsize acquisitions of $250–350 million in incremental revenue, which could add capabilities and accelerate the shift toward high-margin diversified revenue.

End-market breakdown: 1) Advanced Technology Solutions (ATS) (31% of sales) – This new segment combines the former Diversified and Consumer end markets. The segment was down 3% q-o-q and 3% y-o-y, as strong demand in the semiconductor market and new programs were offset by the exit from solar panel manufacturing. Excluding the impact of solar panels, ATS revenue was up 3% y-o-y. 2) Communications (44% of sales) – The Communications segment continues to be strong, with growth of 14% y-o-y and 12% sequentially due to seasonal demand strength. The strong performance was driven by new and existing programs (including Joint Design and Manufacturing programs – JDM) and continued demand strength in optical, offset modestly by some weakness in China. However, most of its optical business is driven by North America. Celestica has highlighted data center and 100G as key drivers of growth. The outperformance is a function of Celestica's participation in successful programs and a lack of wireless exposure. The JDM business saw double-digit revenue and bookings growth in Q2 YTD over the same period last year. While JDM accounts for less than 10% of total revenue, it is an important focus for Celestica, as it supports margin growth and stronger customer relationships. 3) Enterprise (25% of sales) – This new segment combines the former Storage and Server end markets. The segment delivered above company expectations with growth of 9% q-o-q and 1% y-o-y, driven by strength in server programs and new program ramps that offset softer demand in legacy programs. Celestica anticipates that Enterprise will decline in the mid-single digits y-o-y, due to lower anticipated market demand.

For 3Q2017, Celestica expects to deliver adjusted EPS of $0.28–$0.34 on revenue of $1.5 billion to $1.6 billion (flat at the midpoint). Management expects adjusted operating margin of ~3.7% (at the midpoint). Its Q3 guidance suggests a flat quarter after seven consecutive quarters of growth.

Benchmark Electronics, Inc. (BHE). The company reported revenue and EPS of $617 million/$0.38.

From an end-market perspective, June 2017 saw the following y-o-y trends: Telecom –12% y-o-y to $76 million, Medical –6% y-o-y to $86 million, A&D (Aerospace & Defense)/Industrial +5% y-o-y to $224 million (A&D $100M, Industrial $124M), Computing +29% y-o-y to $142 million, and Test & Instrumentation up 47% y-o-y to $89 million. Notably, new booking wins equated to $129–155 million in annualized revenue, with 14 engineering awards and 25 manufacturing wins. Finally, gross and operating margins came in at 9.5% (+40 bps y-o-y) and 4.1% (+40 bps y-o-y), respectively.

Benchmark guided the third quarter 2017 to $575–$595M/$0.32–0.36. On a segment basis, the company offered sequential guidance as follows: 1) Industrial Controls and A&D combined to be up low singles q-o-q, each segment individually to be up low singles; 2) Medical Devices to be up ~10%; 3) Test and Instrumentation to be down ~10%; 4) Telecom to be down >10%; and 5) Computing to be down >20%. From a margin perspective, the company noted that it should see operating margins of 3.85% at the midpoint (3.7–4.0%).

Plexus (PLXS). Plexus posted 3Q17 EPS of $0.74 on revenues of $619 million. Sales were up modestly q-o-q, 2.4%, with Networking Communications down 8.5%, partially offset by better-than-expected Industrial results, up 4.7% q-o-q. There was modest growth in Healthcare, up 2.5% q-o-q, and ~10% q-o-q growth in Defense/Security. Operating margins were down 14 bps y-o-y to 4.8%, at the low end of guidance, driven by lower gross margins of 9.9%.

On the negative side, Healthcare/Lifesciences was a bit below expectations, driven by program ramp delays with two customers. Plexus's $2.8 billion funnel of business dipped by $200 million q-o-q due to the removal of two large Communications wins. In addition, normalizing semicap equipment demand is expected to be a drag on growth in the Industrial/Commercial segment in F4Q17 and FY18.

Plexus reported better-than-expected F3Q17 results due to better sales and a lower tax rate that offset softer margins. The company continues to do a good job winning new deals, as evidenced by continued strong new program wins across the company's four main business segments. While margins were mildly disappointing, operating margins for both results and guidance are well within the company's long-term target range, and are typically depressed when new programs ramp. The key area to watch over the next few quarters will be revenue growth, as new programs are expected to drive "meaningful" growth in FY18 despite a relatively mediocre demand environment.

Plexus expects EPS of $0.77–$0.87 on revenues of $660–$700 million. Operating margin guidance calls for 4.7–5.1%, which remains at industry highs.

Table 3: Q2 and Six-Month 2017 GAAP Results for Eight Mid-Tier and Smaller EMS Providers Based in North America (M$ or %)

Company	Q2 '17 sales	Q1 '17 sales	Qtr.-qtr. chg.	Q2 '16 sales	Yr.-yr. chg.	Q2 '17 gross marg.	Q1 '17 gross marg.	Q2 '16 gross marg.	Q2 '17 oper. marg.	Q1 '17 oper. marg.	Q2 '16 oper. marg.	Q2 '17 net inc.	Q1 '17 net inc.	Q2 '16 net inc.	Q1-2 '17 sales	Q1-2 '16 sales	Yr.-yr. chg.	Q1-2 '17 net inc.	Q1-2 '16 net inc.
Stand-Alone EMS Providers																			
Kimball Electronics	241.3	232.9	3.6	220.4	9.5	7.5%	8.0%	8.1%	3.5%	4.1%	4.4%	8.1	8.1	5.8	474.2	434.5	9.1	16.2	13.2
Key Tronic	118.5	113.6	4.4	123.9	-4.3	8.3%	8.0%	8.7%	2.0%	1.6%	2.8%	1.3	1.0	2.1	232.1	242.4	-4.2	2.3	3.9
Sparton*	95.4	97.4	-2.0	102.2	-6.6	15.5%	14.1%	16.4%	1.6%	0.2%	2.4%	0.4	-0.9	1.1	192.8	205.7	-6.3	-0.5	1.4
SMTC	33.0	33.2	-0.6	43.6	-24.3	4.3%	10.7%	7.1%	-17.0%	-0.6%	-0.6%	-6.0	-0.4	-0.6	66.2	85.5	-22.6	-6.4	0.4
SigmaTron	65.6	61.9	5.9	60.8	7.9	11.6%	8.8%	9.8%	3.4%	0.5%	0.8%	1.3	0.0	0.0	127.5	120.0	6.2	1.2	0.3
IEC Electronics	26.5	21.4	24.0	32.5	-18.5	13.9%	10.7%	16.8%	4.1%	(1.8%)	6.1%	0.8	-0.6	1.6	47.9	65.7	-27.1	0.2	3.1
Nortech Systems	30.1	28.3	6.3	28.9	4.0	11.2%	10.9%	10.8%	3.1%	(0.8%)	-0.4%	0.0	0.0	-0.2	58.4	57.9	0.9	0.0	-0.1
Subtotal/avg.	**610.4**	**588.7**	**3.7**	**612.3**	**-0.3**	**10.4%**	**12.1%**	**12.7%**	**1.8%**	**1.9%**	**2.9%**	**5.9**	**7.1**	**9.9**	**1,199.1**	**1,211.7**	**-1.0**	**13.0**	**22.2**
EMS Units of Larger Public Companies																			
Ducommun**	81.8	78.7	3.9	72.7	12.5							8.8	7.1	6.7	160.5	150.8	6.4	15.9	13.7
Total/avg.	**692.2**	**667.4**	**3.7**	**685.0**	**1.0**										**1,359.6**	**1,362.5**	**-0.2**	**28.9**	**35.9**

Note: (*) Sparton Corporation agrees to be acquired by Ultra Electronics Holdings plc as reported on 7th July 2017. (**) Financial Data for Ducommun's Electronic Systems segment has been included.

Modest Sequential Growth for North American Group

Combined Q2 sales for eight mid-tier and smaller EMS providers based in North America improved from the prior quarter by 3.7%. Six companies out of eight increased their Q2 revenue sequentially, and their gains outweighed declines at the other two providers. **IEC Electronics** posted the highest sequential increase, at 24%. This North American group's sequential growth bested that of the largest providers in the US-traded sector, as the latter's combined sales went up by only 2.5% (see Table 2, p. 3).

In the aggregate, the eight mid-tier and smaller providers fell short of their large US-traded competitors when Q2 revenue was measured against the year-earlier level. Q2 sales for the mid-tier and smaller group totaled $692.2 million, up 1% year over year. By comparison, the revenue of the large US-traded group increased 2.8%.

Of the eight mid-tier and smaller players, four providers—**Kimball Electronics Group, SigmaTron, Nortech Systems,** and **Ducommun**—achieved year-over-year growth in Q2 revenue. Ducommun stood out as the only provider to record a double-digit increase in Q2 revenue versus a year earlier. Four providers saw their sales drop appreciably from a year earlier, and two of them reported double-digit declines, **SMTC** and IEC Electronics.

Interestingly, when first-half results of the two groups are compared, their sales declines were 260 percentage points apart. For the first six months, the mid-tier and smaller group generated sales of $1.36 billion, down 0.2% year over year. In contrast, there was an increase for the large US-traded group of 2.6%. It appears, then, that the US-traded group held its own over the first half of the year.

Still, the North American group's first-half decline would have been worse had it not been for Kimball Electronics, which posted the highest increase (year over year) for the period. The two providers, SMTC and IEC Electronics, that recorded double-digit first-half drops were the same two that posted double-digit decreases for Q2 year-over-year sales.

The group of eight mid-tier and smaller providers consists of seven companies in the EMS space, all publicly traded, and one EMS unit within a larger publicly held corporation. Together, the seven stand-alone providers produced a Q2 gross margin of 10.4%, down 170 basis points sequentially and 230 basis points year over year. **Sparton** turned in a high of 15.5%.

Collective operating margin for the seven stand-alone providers came in at 1.8%, dragged into bottom position by SMTC's –17% margin. The collective result for Q2 was down 10 basis points from the prior quarter and 110 basis points from a year earlier (Table 3).

On a combined basis, the seven stand-alone providers earned a net income of $5.9 million in Q2. Poor first-half net income can be attributed to SMTC and Sparton, whereas Kimball Electronics, **KeyTronic,** and SigmaTron performed better than the other providers.

A Brief Look at Each Provider

IEC Electronics Corp. (IEC). IEC reported revenues of $26.5 million for the third quarter of fiscal 2017 compared with revenues of $32.5 million in the third quarter of fiscal 2016. Sequentially, revenues increased 24.0% compared to the second quarter of fiscal 2017. Gross profit margin for the third quarter of fiscal 2017 was 13.9%, as compared to 16.8% in the same quarter last year, and represented a sequential increase from the gross margin of 10.7% in the second quarter of fiscal 2017.

Selling and administrative expenses decreased on a dollar basis and as a percentage of sales to $2.6 million or 9.8% in the third quarter of fiscal 2017 as compared to $3.5 million or 10.7% of sales in the third quarter of fiscal 2016. The company recorded net income for the third quarter of fiscal

2017 of $0.8 million or $0.08 per share, compared to net income of $1.6 million, or $0.16 per share, in the same quarter last year.

Kimball Electronics, Inc. (KE). The company reported 4Q2017 quarterly net sales record of $241 million, fourth quarter net income of $8.1 million, and diluted EPS of $0.30.

Kimball posted growth in all four of its end-market verticals, including double-digit growth in two of them, which helped it set a new quarterly sales record for the sixth consecutive quarter and provided a strong finish to a record-setting fiscal year 2017. New program launch and ramp-up activity, combined with the successes of its recent acquisitions, have created significant momentum and positioned Kimball well to achieve its goal of $1 billion in annual sales in fiscal 2018.

Outlook for 2018: Net sales goal remains $1.0 billion for fiscal year 2018. Operating income goal is being increased from 4.0% to 4.5%. Fiscal year 2018 capital expenditures are expected to decline to a level approximating depreciation expense.

KeyTronic Corporation (KTCC). For the fourth quarter of fiscal year 2017, KeyTronic reported total revenue of $118.5 million, compared to $123.9 million in the same period of fiscal year 2016. For fiscal year 2017, total revenue was $467.8 million, compared to $485.0 million for fiscal year 2016.

Net income for the fourth quarter of fiscal year 2017 was $1.3 million or $0.12 per share, compared to $2.1 million or $0.20 per share for the same period of fiscal year 2016. For the fourth quarter of fiscal year 2017, gross margin was 8.3% and operating margin was 2.0%, compared to 8.7% and 2.8%, respectively, in the same period of fiscal year 2016.

For the first quarter of fiscal year 2018, the company expects to report revenue in the range of $110 million to $115 million, and earnings in the range of $0.10 to $0.15 per diluted share. These expected results assume an effective tax rate of 25% in the quarter.

Sparton Corporation (SPA). Sparton reported 3Q2017 net sales of $95.4 million. Gross profit margin increased 140 bps from the prior quarter to 17.7%. SG&A expenses were $12.9 million, or 13.5% of sales; adjusted SG&A was $12.2 million, or 12.8% of sales. Earnings per share were $0.04, and adjusted earnings per share were $0.22.

Management expects revenues for the fourth quarter of fiscal 2017 of between $97 and $101 million and gross margins are expected to come in at approximately 18%.

As previously announced, the Board of Directors of Sparton Corporation is exploring a possible sale of the company. There can be no assurance that such a sale will occur.

SMTC Corporation (SMTX). Revenue for the second quarter of fiscal 2017 was $33.0 million, compared to $43.6 million in the same quarter in the prior year and essentially flat compared to $33.2 million in the first quarter of fiscal 2017. The reduction from the prior year is primarily the result of volume reductions from one customer. However, quarter-over-quarter revenue has stabilized.

Gross profit for the second quarter of 2017 decreased by $1.7 million to $1.4 million, or 4.3% of revenue, compared with $3.1 million, or 7.1% of revenue for the same period in 2016.

Net loss was $(6.0) million for the second quarter of 2017 compared to a net loss of $(0.6) million for the second quarter in the prior year and a net loss of $(0.4) million in the first quarter. The reduction is due to additional inventory provisions for excess and obsolete materials of $0.5 million and customer accommodations of $0.7 million recorded in the quarter.

Company News

Computrol Acquires Western Electronics LLC

Computrol, Inc. announced that it has acquired **Western Electronics LLC**. Computrol will merge the Western Electronics Meridian facility with its existing local facility, and operate the Denver, Colorado facility under the Computrol name.

As a result of the acquisition, Computrol increases its cable and wire harness capabilities. Western Electronics has been building custom cables and wire harnesses for more than 30 years, providing delivery on demand for low-, medium-, and high-volume customer requirements.

Computrol will build on this expertise to offer a wide variety of custom solutions, including molded cable assemblies, RF, coaxial, wire harnesses, and mold-making and machining. The addition of the Denver facility also brings advanced automated through-hole capabilities.

Computrol now serves its customers from three world-class facilities in Orem, Utah, Denver, Colorado, and its headquarters in Meridian, Idaho.

New Beyonics Sites in Singapore and Malaysia Set to Come Online

The consolidation of **Beyonics**'s four local facilities into a single vertically integrated headquarters is almost complete, the company reports.

The new 230,000-square-foot site will house all the firm's operations: metal forming, plastic injection molding, PCB assembly, and box build. Beyonics is investing nearly $40 million in the plant, which will be operational in the second half of this year. The new site will feature clean rooms for manufacturing Class III medical equipment and automotive components.

Moreover, the company is on track to open a 500,000-square-foot multi-building campus in a facility in Johor Bahru, where it will perform all the aforementioned processes plus CNC machining, new product introduction, and full box build.

Beyonics is forecasting business across southeast Asia to double or triple over the next several years. It expects sales at its facilities in Wuxi and Dongguan to double this year, while its Changshu site will grow more than 40%.

EM Solutions to Be Auctioned This Month

An EMS company based in Mooresville, North Carolina has gone out of business after more than 20 years and its equipment is being sold at auction.

Electronic Manufacturing Solutions, Inc. was founded in 1994 by civil service employees of the US Navy employed at the Electronics Manufacturing Productivity Facility. The company relocated multiple times before moving into a 10,000-square-foot plant in Mooresville.

The equipment, which includes multiple SMT lines, will be auctioned the week of August 21.

GE to Shutter Wireless Modem Assembly Plant

GE Digital Energy will close its electronics assembly plant in Rochester and lay off an undisclosed number of workers.

The company will outsource production to **Jabil**, company officials said. The plant makes wireless routers and modems for industrial applications.

In a statement to local media, GE said the plant was not “core” to its manufacturing capabilities. GE already subcontracts 80% of its Digital Energy products to third parties, the firm added. GE said production would be sent to a Jabil facility in China.

The move will cost “fewer than 100 employees” their jobs, GE officials said.

Foxconn Planning R&D Site in Michigan

Fresh off a deal to build a large production site in Wisconsin, **Foxconn** is planning a research and development facility in Michigan, according to new reports.

CEO Terry Gou told Chinese media that Foxconn will develop “next generation auto technology, such as [for] Internet of Vehicle[s] (IoV) and self-driving cars” near the center of the US auto industry in Michigan. Michigan’s governor has also suggested that plans could be in the works. No timetable or investment size was disclosed.

Foxconn confirmed earlier reports that it would build a display plant in southeast Wisconsin. That deal is contingent on the state government passing a series of incentives for the world’s largest contract assembler.

EMS Firm Accuspec Electronics Changes Name

AccuSpec Electronics has changed its name to **4Front Solutions** to better reflect the EMS firm’s mission. The new name reflects the company’s commitment to be on the cutting edge of technology, service, and innovation, the firm said.

Vision Technologies Completes Acquisition of Aethon

Vision Technologies Land Systems, Inc. (VTLS) has completed the acquisition of a 100 percent interest in **Aethon, Inc**. The acquisition was completed following the fulfilment of closing conditions.

Based in Pittsburgh, Pennsylvania, Aethon is best known for its TUG smart autonomous mobile robot, which helps automate intra-logistics in industrial, healthcare, hospitality, and other commercial environments. The acquisition of Aethon, a provider of autonomous mobile robots for material transportation and delivery, is in line with VTLS’s focus to strengthen the group’s robotics business. Aethon is now part of the group’s Land Systems sector.

Germany’s Biggest EMS Providers

In the run-up to the release of its annual strategic analysis of the European EMS industry, *Reed Electronics Research* has updated its ranking of the top 10 leading German EMS providers for 2016.

Although still dominated by domestic companies, in particular **Zollner**, the two foreign-owned companies within the ranking have gained market share. Based on provisional figures, **Asteelflash** has moved into second place, while **Neways** was ranked fourth.

Top 10 German EMS Providers, 2016:
1) Zollner 2) Asteelflash, France
3) Leesys 4) Neways, Netherlands
5) TQ Group 6) BMK Group 7) Katek
8) PRETTL Electronics 9) ML&S
10) Tonfunk

With four manufacturing sites in the country, Asteelflash has seen revenues from its German operations more than double between 2014 and 2016, moving the company from sixth to second in the ranking over the period.

Jabil Partners with eyeSight Technologies on In-Car Sensing

Jabil and **eyeSight Technologies** have entered into a new partnership in which they aim to develop next-generation in-car sensing technology that delivers advanced levels of driver monitoring and gesture control.

The partnership combines Jabil’s automotive-grade optics capabilities with eyeSight’s computer vision and deep learning software. Together, Jabil and eyeSight are developing a system that assesses the presence of an active and aware driver and improves the human–machine interface (HMI).

Foxconn Partners with Rockwell on IIoT Solutions for Smart Manufacturing

Foxconn, also known as Hon Hai Precision Industry Co., and **Rockwell Automation** announced that they are collaborating to implement Connected Enterprise and Industrial Internet of Things (IIoT) concepts for smart manufacturing in Foxconn’s new US facilities.

The companies will also collaborate to develop and apply smart manufacturing solutions at Foxconn’s global electronics assembly operations and within the related industry ecosystem.

The companies will also work together on workforce development and training as Foxconn increases its employee base in the United States. Foxconn has committed to participate in the previously announced program developed by Rockwell Automation and **Manpower Group** to upskill military veterans and create a pool of certified talent for in-demand advanced manufacturing roles across the United States.

Micron Doubles R&D Capabilities with New Boise Facility

Micron has opened a new facility in Boise, Idaho that will play a critical role in the company’s research into breakthrough new memory and storage technologies of the future.

When fully equipped, the new building will nearly double Micron's clean-room space dedicated to research and development in Boise, and will support what the company describes as a significant expansion of its overall R&D capabilities.

This expanded facility in Boise is the focal point for developing new semiconductor manufacturing processes and designs for the company's future memory and storage technologies. Once developed in the Boise R&D center, these processes will then be transitioned into production-scale manufacturing in Micron's network of 12 large-scale manufacturing plants around the world.

New Electronics Manufacturer Opens in Ashington

A new circuit board assembly plant has been opened in Ashington, UK, saving 24 jobs and promising to boost its production over the coming months.

Arian EMS has been set up by Malcolm Humble, founder of **Opsol** and former managing director of electronic manufacturer **Infoteam**.

Mr. Humble was appointed managing director of Hebburn-based Infoteam in December, but said that growing the business would have required too much investment to make it worthwhile. As a result, Infoteam ceased trading on June 30.

Following the closure, Mr. Humble launched Arian EMS to service Infoteam's former clients and brought 24 former Infoteam employees into the new business.

The new firm has moved into a 16,000-square-foot facility at Wansbeck Business Park in Ashington. The site consists of 12,000 square feet of manufacturing space and 4,000 square feet of offices.

Compal Forecasts Large Jump in Shipments

Compal Electronics, Inc. expects shipments to grow by a double-digit percentage this quarter as it emerges from a write-down of NT$2.9 billion (US$95.68 million) related to China's **Leshi Internet Information and Technology Corp.** (LeEco).

Compal expects an increase of between 5 and 10 percent for PC shipments in the current quarter and a greater than 10 percent pickup for "smart" devices, including smartphones, wearables, and Internet of Things gadgets, Compal president Ray Chen said.

Major technology brands are scheduled to launch their next-generation devices this month and next to take advantage of back-to-school demand and sales in upcoming holidays.

Quanta Sees Data Center Demand from Amazon, Google

Taiwan's **Quanta Computer** said it expects double-digit growth in its data center business this year and next, thanks to emerging applications in artificial intelligence.

The tech company, based in the northern Taiwanese city of Taoyuan, supplies data center servers to global Internet companies such as **Amazon, Google, Facebook,** and **Microsoft**. It also makes the **Apple** Watch and Macbooks.

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