Manufacturing Market™

INSIDER

inside the contract manufacturing industry

Vol. 23, No. 12 December 2013

Jabil to Quit AMS Market

A major divestiture in the offing

Jabil (St. Petersburg, FL) has entered into an agreement to sell its aftermarket services business to **iQor Holdings** (New York, NY), a global provider of business process outsourcing services, for $725 million. By withdrawing from the AMS space, Jabil has set itself apart from EMS competitors who continue to engage in AMS.

This prospective deal should go down as one of the largest divestitures in the EMS industry, perhaps second only in value to the sale of **Flextronics'** software business.

In explaining the AMS deal, which some might find surprising, the company said its AMS business is concentrated in depot repair for consumer electronics, which is not aligned with Jabil's strategy to focus on diversified manufacturing solutions.

Jabil's AMS business contributed sales of $1.1 billion in fiscal 2013. According to a statement from iQor, the business has 13,000 employees and 28 facilities around the world. Based in St. Petersburg, FL, the AMS business serves electronics manufacturers, retailers and service providers in categories such as computing, consumer devices, mobility, networking, storage, telecom and medical devices. The AMS business got its start in 1999 through a $30-million acquisition of a warranty repair business.

"AMS was a tremendous business for us, but I want our team focused on building stuff. I want our team focused on manufacturing. And as we look forward, the AMS business just didn't quite fit that," said Jabil CEO Mark Mondello during the company's earnings call this month.

Mondello told analysts, "This AMS sale has been in the works for quite some time."

The sale will increase Jabil's bankroll for investing in organic growth, first and foremost, and for seeking M&A opportunities. In a press release, Mondello stated, "This divestiture should provide us the financial flexibility to potentially add more engineering intensive capabilities, which should allow us to expand and diversify our core manufacturing business. We expect to continue to pursue opportunities similar to our recent **Nypro** acquisition." A new program to repurchase up to $200 million of stock will also consume some of Jabil's funds.

As part of a multiyear contract, iQor Aftermarket Services, iQor's name for the Jabil business when acquired, will become the exclusive aftermarket services provider for Jabil, which will retain a financial stake in the combined company. This arrangement is designed to facilitate continuity of service for existing Jabil customers.

Of the $725 million purchase price, which is subject to adjustment, $675 million is cash and $50 million is senior nonconvertible preferred stock of iQor that accretes dividends at an annual rate of 8%. This stock is redeemable in nine years or upon a change of control. Contingent upon certain closing conditions, the transaction is expected to be completed in Q1 of calendar 2014, according to iQor. During the call, Mondello said the deal is supposed to close March 1, 2014.

He said the AMS business should benefit from the complementary capa-

Some articles in this issue

bilities of iQor, which provides customer care, receivables management and outsourcing solutions for blue-chip, global brands.

"At iQor, we see more and more of our clients consolidating outsource service providers in order to reduce complexity and streamline operations, and this transaction addresses that market dynamic in a powerful way," said Hartmut Liebel, iQor's CEO, who previously served as CEO of Jabil Aftermarket Services for more than 10 years.

MMI's take

Jabil has turned its back on the mantra that a large EMS provider must have end-to-end capabilities. The company seems to be saying that it will continue to offer end-to-end services but does not need to own capabilities at the back end.

For Jabil and other large providers with separate AMS businesses, there is an inherent dilemma. While it made sense for these providers to set up separate AMS organizations to focus on the AMS market, these AMS units ended up with clients that often were not EMS customers. In many cases, an EMS provider would be repairing device that it did not make, and, as a result, manufacturing and AMS would largely exist in separate worlds. The Jabil divestiture brings this disconnect to light.

Still, there are plenty of advantages to owning an AMS business such as higher margins than traditional EMS, growth potential, and the ability to take over an OEM's entire system for manufacturing and product support. And those who have built up an AMS business are well aware of the pros and cons. Jabil's sale didn't change that.

Nine-Month Sales Down for Large CMs

Based on nine-month sales of 20 of the largest contract manufacturers, the outsourced manufacturing space is not having a good year. Nine-month revenue for the 20 CMs totaled $232.4 billion, down 3.7% year over year. Sales in US dollars were flat or down at 15 companies, with five of them showing double-digit declines (Table 1, p. 3).

The 20 CMs consist of nine EMS providers, eight ODMs and three hybrid providers. *MMI* recently began using the hybrid category to identify companies that do substantial amounts of both ODM and EMS work (Sept., p. 1) and separate them for the purposes of analysis from those whose sales put them in the traditional EMS or ODM buckets. *MMI* believes that this three-way system, though far from perfect, will yield a clearer picture of EMS versus ODM performance while acknowledging the rise of the hybrid model.

Nine-month sales were down collectively for both the nine EMS providers and the eight ODMs, but ODM performance was worse by 1.7 percentage points. Combined sales for the EMS group fell 4.7% year over year versus 6.4% for the ODMs. In stark contrast with these declines, aggregate sales of the three hybrid providers grew 10.7%, largely thanks to **Pegatron's** 11.2% increase (Chart 1). For now at least, the hybrid group is gaining share and poses a competitive threat to both the EMS and ODM sides.

EMS providers generated the majority of the 20 CMs' sales for the period. Revenue in the EMS category amounted to $136.4 billion, or 58.7% of overall sales. ODMs contributed $69.9 billion, or 30.1% of sales, while the hybrid group accounted for $26.1 billion, or 11.2% of sales.

Upon further review, *MMI* has made two changes to the hybrid group. **Universal Scientific Industrial** has been added to the hybrid group since ODM business in recent times has made up 30% to 40% of USI's sales. **Wistron**, which had been placed in the hybrid category, has been reclassified as an ODM. Although Wistron has done EMS work in the past, *MMI* can find no evidence that EMS revenue currently makes up a substantial portion of Wistron's sales (Table 1).

Of the five CMs that grew their nine-month revenue, two were hybrid providers, two were ODMs, and only one was an EMS provider (Table 1). Those two hybrid providers, Pegatron and USI, achieved double-digit gains as did ODM **Kinpo Electronics**.

Hon Hai Precision Industry, the EMS giant, had a minimal effect on the combined nine-month sales of the 20 CMs. Without Hon Hai, combined sales would have been down 2.7% from a year earlier versus 3.7% including Hon Hai.

While nine-month sales were down overall for the 20 CMs, third-quarter results present a brighter picture. Totaling $81.6 billion, Q3 sales for the entire group rose 6.1% sequentially and 2.0% year over year. US-dollar increases at 10 CMs carried the day, and six of those gains were of the two-digit variety.

In the year-on-year comparison,

Chart 1: Nine-Month Growth Year on Year (%)

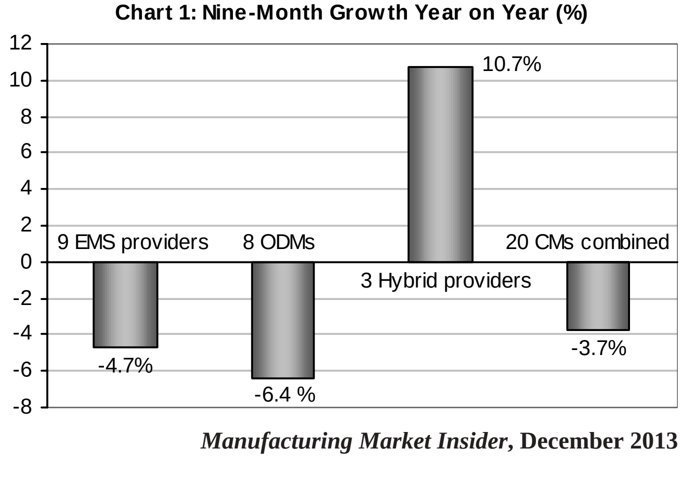


Table 1: Q3 and Nine-Month 2013 Results for 20 of the Largest Contract Manufacturers (M US$ or %)																
Company (in order of 9-mo. sales)	Primary business	Head-quarters	Reports in US$	Q3 '13 sales	Q2 '13 sales	Qtr.-qtr. chg.	Q3 '12 sales	Yr.-yr. chg.	Q3 '13 net profit	Q2 '13 net profit	Q3 '12 net profit	Q1-3 '13 sales	Q1-3 '12 sales	Yr.-yr. chg.	Q1-3 '13 net profit	Q1-3 '12 net profit
Hon Hai (Foxconn)	EMS	Taiwan	No	30,814	30,010	2.7	29,346	5.0	1,031	569	1,099	88,256	93,210	-5.3	2,154	2,042
Pegatron	EMS/ODM [1]	Taiwan	No	8,513	7,111	19.7	7,480	13.8	83	47	55	23,002	20,682	11.2	208	122
Quanta Computer	ODM	Taiwan	No	7,385	6,400	15.4	9,199	-19.7	156	135	217	20,482	25,327	-19.1	442	593
Flextronics	EMS	Singapore	Yes	6,410	5,791	10.7	6,175	3.8	118	59	161	17,497	18,521	-5.5	128	441
Compal Electronics [2]	ODM	Taiwan	No	5,526	5,592	-1.2	5,803	-4.8	(91)	47	51	16,799	16,823	-0.1	1	170
Wistron	ODM	Taiwan	No	5,359	5,460	-1.8	5,144	4.2	49	58	51	16,183	16,473	-1.8	162	178
Jabil [3]	EMS	Florida	Yes	4,815	4,468	7.8	4,338	11.0	127	50	83	13,700	12,825	6.8	266	282
Inventec	ODM	Taiwan	No	4,105	3,459	18.7	3,176	29.3	64	54	28	10,981	10,026	9.5	178	90
Sanmina	EMS	California	Yes	1,505	1,489	1.1	1,579	-4.6	39	19	164	4,422	4,591	-3.7	79	172
Celestica	EMS	Canada	Yes	1,492	1,495	-0.2	1,575	-5.3	57	28	44	4,359	5,011	-13.0	96	111
Cal-Comp Electronics [4]	EMS	Thailand	No	961	1,015	-5.4	1,173	-18.1	7	8	13	2,970	3,494	-15.0	24	34
Qisda	ODM	Taiwan	No	1,007	982	2.5	1,025	-1.8	11	19	(38)	2,922	2,950	-0.9	2	(56)
Shenzhen Kaifa Technology	EMS	China	No	593	606	-2.1	623	-4.9	10	9	1	1,793	1,956	-8.3	25	11
Benchmark Electronics	EMS	Texas	Yes	600	608	-1.3	611	-1.8	24	9	19	1,750	1,834	-4.6	44	39
Plexus	EMS	Wisconsin	Yes	568	572	-0.7	595	-4.6	25	23	1	1,697	1,777	-4.5	66	44
Universal Scien-tific Industrial	EMS/ODM [5]	China	No	655	475	37.9	507	29.2	21	15	25	1,686	1,426	18.3	57	56
Venture	EMS/ODM [6]	Singapore	No	464	471	-1.4	489	-5.0	28	24	26	1,364	1,427	-4.5	74	81
Kinpo Electronics [4]	ODM	Taiwan	No	306	435	-29.7	390	-21.5	(159)	7	3	1,135	893	27.1	(142)	2
AmTRAN Technology	ODM	Taiwan	No	259	227	14.0	331	-21.9	10	9	17	703	1,023	-31.2	27	47
Ability Enterprise	ODM	Taiwan	No	216	221	-2.4	381	-43.3	5	4	13	677	1,117	-39.4	12	37
Total/avg.				**81,553**	**76,889**	**6.1**	**79,940**	**2.0**	**~1,614**	**~1,192**	**~2,031**	**232,379**	**241,385**	**-3.7**	**~3,902**	**~4,493**
Total/avg. with-out Hon Hai				**50,739**	**46,878**	**8.2**	**50,594**	**0.3**	**~583**	**~623**	**~932**	**144,123**	**148,176**	**-2.7**	**~1,748**	**~2,452**

Results in non-US currencies were converted to US dollars by applying a three-month average exchange rate for the corresponding quarter. Average exchange rates were based on monthly 2012 and 2013 data from the US Federal Reserve. Company net profits shown here are attributable to shareholders. Net profit totals are approximate because not all companies follow the same accounting standard. [1] Roughly half of Pegatron's sales comes from EMS. [2] A member of the Kinpo Group. [3] For Jabil, Q3 '13 corresponds to the quarter ended Aug. 31, 2013. [4] A member of the New Kinpo Group, a subgroup under the Kinpo Group. [5] In recent times, ODM business contributed 30% to 40% of USI's sales. [6] About 35% of Venture's 2012 sales came from ODM work.

seven companies achieved sales growth in Q3, more than offsetting the declines at the 13 other CMs. However, without Hon Hai aggregate sales would have been essentially flat. Pegatron, **Jabil**, **Inventec** and USI all achieved double-digit increases. On the other hand, sales fell by double-digit percentages at **Quanta Computer**, **Cal-Comp Electronics**, Kinpo Electronics, **AmTRAN Technology** and **Ability Enterprise** (Table 1).

There was a wide range in Q3 sales results among the three CM groups. On a year-over-year basis, Q3 sales in the hybrid category increased 13.6% compared with 3.8% growth for the EMS providers and a drop of 5.1% for the ODMs. When compared with the prior quarter, the hybrid group again led with a 19.6% gain, followed by the ODMs with a 6.1% increase and the EMS providers at 3.7% growth (Table 2, p. 4).

When combined, Q3 income for the 20 CMs was approximately $1.6 billion, up from about $1.2 billion in the prior quarter but down from about $2.0 billion a year earlier. (Net income was approximate because not all com-

Table 2: Comparing Results Where Companies are Grouped by Primary Business (M US$ or %)

No. of compa-nies	Primary business	Q3 '13 sales	Q2 '13 sales	Qtr.-qtr. chg.	Q3 '12 sales	Yr.-yr. chg.	Q3 '13 net profit	Q2 '13 net profit	Q3 '12 net profit	Q1-3 '13 sales	Q1-3 '12 sales	Yr.-yr. chg.	Q1-3 '13 net profit	Q1-3 '12 net profit
10	EMS	47,758	46,054	3.7	46,015	3.8	~1,438	~773	~1,584	136,445	143,219	-4.7	~2,880	~3,174
7	ODM	24,163	22,777	6.1	25,449	-5.1	~45	~333	~342	69,882	74,632	-6.4	~683	~1,061
3	EMS/ODM	9,633	8,057	19.6	8,476	13.6	~131	~86	~105	26,052	23,535	10.7	~339	~258
20		81,553	76,889	6.1	79,940	2.0	~1,614	~1,192	~2,031	232,379	241,385	-3.7	~3,902	~4,493

Net profit totals are approximate because not all companies follow the same accounting standard.

panies follow the same accounting rules.) Net profit fell about 20.5% year over year despite the corresponding sales increase of 2.0%. At 11 companies, Q3 net income decreased versus a year ago, overwhelming the gains made at nine others. Both **Compal Electronics** and Kinpo Electronics reported net losses for Q3. Hon Hai represented about 64% of Q3 net income yet accounted for 38% of sales.

For the first nine months, the 20 CMs together earned net income of approximately $3.9 billion. Net income declined at a faster rate than sales did as net income was down about 13.2% year over year compared with the 3.7% drop in sales for the period. Net margin overall came in at about 1.7% for the first nine months. Aggregate net margin for the EMS providers stood at about 2.1%, above the CM average, while the net margins for the ODM and hybrid groups were below average at about 1.0% and 1.3% respectively.

Mixed Results for North American Group

For a group of eight mid-tier and smaller EMS providers based in North America, combined Q3 sales were not bad or were rather disappointing, depending on how they are compared. On a year-over-year basis, the group's revenue was up 2.7%, but versus the prior quarter revenue was down 4.5%.

Q3 sales for the group of eight North America-based providers totaled $627 million, representing modest growth from the group's year-earlier revenue of $611 million. Among the group, year-over-year sales performance varied greatly, ranging from -20% for **Key Tronic** to 46% for **Sparton**. Sales increases at five providers outweighed declines at the remaining three (Table 1A, p. 5). The group's 2.7% growth from a year earlier was not far below the 3.5% collective gain of the six largest providers in the US-traded sector (Nov., p. 4).

In the sequential comparison, Q3 sales fell at five out of eight providers. As a result, the group's revenue growth went decidedly negative. Yet both **SMTC** and **IEC Electronics** raised their revenue from the year-earlier quarter in double-digit fashion. On a sequential basis, the North American group's 4.5% decline in Q3 was more than 11 percentage points behind a 6.7% gain achieved by the six largest US-traded providers.

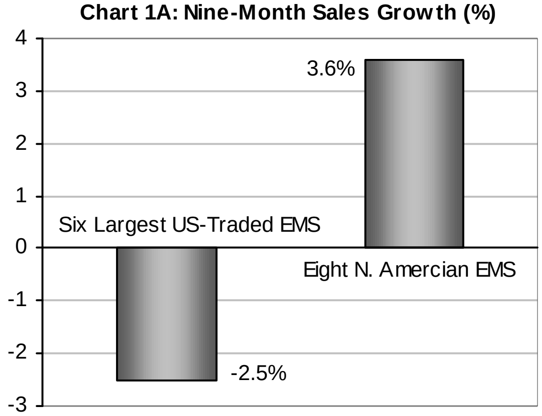
However, for the first nine months of 2013, the eight mid-tier and smaller EMS providers outperformed their larger counterparts in the sales department. Nine-month sales for the eight mid-tier and smaller providers grew 3.6% year over year, compared with a 2.5% drop for their larger competitors (Chart 1A). Collectively, the eight mid-tier and smaller providers generated sales of $1.89 billion for the first nine months, up from $1.83 billion in the year-ago period. Sales increases at three providers – Sparton, **SigmaTron International** and **Kimball Electronics Group** – were enough to give combined sales a modest lift. All three companies turned in double-digit gains, led by Sparton's 35% growth.

The group of eight mid-tier and smaller providers consists of six companies in the EMS space, all publicly traded, and two EMS units within larger publicly held corporations. Together, the six stand-alone providers produced a Q3 gross margin of 11.2%, down 20 basis points from the prior quarter and unchanged from a year earlier. Sparton turned in a high of 16.4%.

Combined operating margin for the six stand-alone providers in Q3 came in at -1.4%, dragged into negative territory by IEC's operating loss of $13.1 million. Excluding IEC, the Q3 margin was 2.7%. Two providers increased their margins sequentially, and three raised their margins year over year (Table 1A). Sparton, which posted the highest gross margin in the stand-alone subset, also achieved the highest operating margin at 4.6%.

As for the EMS units, Kimball Electronics improved its Q3 operating margin both sequentially and year over

Chart 1A: Nine-Month Sales Growth (%)



year, while operating margin at **Ducommun LaBarge Technologies** was down from both the prior quarter and a year earlier.

The six stand-alone providers combined for a Q3 net loss of $3.1 million, compared with net income of $4.7 million and $8.7 million in Q2 and the year-ago period respectively. IEC, which recorded a net loss of $8.7 million in Q3, was responsible for the aggregate net loss.

For the first nine months, net income for the stand-alone providers amounted to $6.5 million, down 80% from a year earlier, a far cry from their 1.6% increase in sales. Two providers, SMTC and IEC, showed a net loss for the period (Table 1A). Despite the steep overall drop in net income, Sparton, SigmaTron and Nortech achieved year-on-year gains in their bottom-line results for the first nine months.

A brief look at each provider

Ducommun LaBarge Technologies. Ducommun's DLT segment generated Q3 sales of $103.5 million compared with $107.4 million in the same period a year ago. The year-over-year decline reflects a 24.7% decrease in non-A&D (aerospace and defense) revenue, partly offset by an 8.9% increase in defense electronics and commercial aerospace revenue.

DLT's operating income for Q3, which did not include corporate general and administrative expenses, was $7.6 million, or 7.3% of revenue, down from $10.5 million, or 9.7% of revenue, a year earlier. The decrease primarily resulted from lower sales in the company's non-A&D end markets and a $1.1-million charge for inventory reserves. Adjusted EBITDA was 10.6% of revenue, down from 11.9% for the year-ago period.

Nine-month sales totaled $314.2 million, down 3.4% year over year, as a 27.5% drop in non-A&D sales was partly offset by 12.3% growth of defense electronics and commercial aerospace revenue. Again excluding corporate general and administrative expenses, DLT's operating margin was 8.5% for the first nine months.

IEC Electronics. For its fiscal Q4 ended Sept. 30, IEC generated revenue of $39.1 million, up 11% sequentially and 6% year over year. Revenue for the September quarter was IEC's highest quarterly revenue in over 10 years. However, the company reported a net loss of $8.7 million for the quarter, compared with net income of $382,000 and $1.6 million in the prior quarter and year-ago period respectively. Significantly impacting earnings was an impairment charge of $14.2 million related to IEC's Southern California Braiding operation.

The company said its SCB acquisition has been a disappointment from a profitability, growth and cash flow perspective. IEC has made a number of changes at SCB. In addition, the company has moved some of its military and aerospace work from SCB to IEC's Albuquerque, NM, business unit.

Though, as mentioned earlier, IEC's operating loss in the September quarter was $13.1 million, without the impairment charge operating income would have been $1.1 million versus $607,000 in the previous quarter.

The company expects the first half of fiscal 2014 to show relatively flat sales on a year-over-year basis. A large medical customer is on an FDA

Table 1A: Q3 and Nine-Month 2013 GAAP Results for Eight Mid-Tier and Smaller EMS Providers Based in North America (M$ or %)

Organization	Q3 '13 sales	Q2 '13 sales	Qtr.-qtr. chg.	Q3 '12 sales	Yr.-yr. chg.	Q3 '13 gross marg.	Q2 '13 gross marg.	Q3 '12 gross marg.	Q3 '13 oper. marg.	Q2 '13 oper. marg.	Q3 '12 oper. marg.	Q3 '13 net income	Q2 '13 net income	Q3 '12 net income	Q1-3 '13 sales	Q1-3 '12 sales	Yr.-yr. chg.	Q1-3 '13 net inc.	Q1-3 '12 net inc.
Stand-Alone EMS Providers																			
Key Tronic	78.0	84.6	-7.8	97.5	-20.0	8.5	9.1	9.7	3.2	4.1	5.8	1.7	2.4	3.7	246.9	289.8	-14.8	7.0	10.9
Sparton	74.2	87.1	-14.8	50.8	46.1	16.4	19.4	15.7	4.6	10.5	4.2	2.3	6.8	1.5	225.2	167.2	34.7	10.6	7.5
SMTC	72.9	64.9	12.3	75.6	-3.5	8.0	1.9	7.9	1.4	-7.9	2.3	0.6	(6.0)	1.3	203.2	223.1	-8.9	(4.2)	6.6
SigmaTron International[1]	56.6	56.2	0.7	52.7	7.3	10.6	11.2	10.2	2.0	2.6	1.4	0.8	1.0	0.5	164.1	140.1	17.1	2.1	1.0
IEC Electronics	39.1	35.2	11.3	37.1	5.6	13.9	14.7	16.7	-33.6	1.7	7.0	(8.7)	0.4	1.6	108.0	111.1	-2.8	(9.4)	5.9
Nortech Systems	27.4	28.5	-3.7	25.5	7.3	11.0	11.8	10.9	1.4	1.3	1.3	0.2	0.2	0.1	81.8	81.9	-0.2	0.5	0.4
Subtotal/avg.	**348.2**	**356.4**	**-2.3**	**339.2**	**2.6**	**11.2**	**11.4**	**11.2**	**-1.4**	**2.8**	**3.9**	**(3.1)**	**4.7**	**8.7**	**1,029.2**	**1,013.2**	**1.6**	**6.5**	**32.3**
EMS Units of Larger Public Companies																			
Kimball Electronics Group[2]	175.6	192.7	-8.9	164.2	7.0				5.7	4.5	3.1	7.5	7.4	3.3	550.4	490.0	12.3	21.4	10.6
Ducommun LaBarge Technologies	103.5	107.5	-3.7	107.4	-3.6				7.3[3]	10.5[3]	9.7[3]				314.2	325.3	-3.4		
Total/avg.	**627.3**	**656.6**	**-4.5**	**610.8**	**2.7**										**1,893.8**	**1,828.5**	**3.6**		

[1] For SigmaTron, Q3 '13 corresponds to the quarter ended Oct. 31, 2013. [2] Operating and net income are not necessarily equivalent to GAAP results on a stand-alone basis.
[3] Segment operating income did not include corporate general and administrative expenses.

hold, and this will have some effect in the first half.

Key Tronic. Revenue for its fiscal Q1 ended Sept. 28 ended up at $78.0 million, down 20% year over year. Net income was $1.7 million, or $0.16 a share, compared with $3.7 million, or $0.35 a share, for the year-earlier quarter. Revenue and EPS were in line with guidance. As expected, revenue and earnings were impacted by a significant reduction in orders from some of the company's large, long-standing customers in fiscal Q1.

At the end of the quarter, Key Tronic counted 57 customers and 189 revenue-generating programs, up from 51 customers and 168 programs a year ago. The company expects an increase in revenue-generating programs and customers to reduce its revenue concentration. Key Tronic is projecting that by Q4 fiscal 2014 (the June 2014 quarter) its top three customers will be contributing about 41% of revenue, down from about 61% of revenue in Q4 fiscal 2013.

Guidance for the December quarter calls for revenue of $75 million to $80 million and EPS of $0.15 to $0.20.

The company expects to see strong sequential growth during the second half of fiscal 2014, based on growing revenue from several new customers.

Kimball Electronics Group. For fiscal Q1 ended Sept. 30, sales of $175.6 million from Kimball International's EMS unit increased 7% year over year on double-digit sales growth to customers in the automotive and industrial sectors. The parent company pointed out that the automotive end market is benefiting from relative strength in the US market and improvement in the Chinese market, which contributed to the double-digit increase in sales to the automotive market. Sales to the public safety industry declined from a year earlier, while medical business remained flat.

Operating income of $10.0 million, representing 5.7% of sales, included $5.0 million from settlement proceeds related to two antitrust class-action lawsuits. Excluding the $5.0 million and some minor restructuring charges, adjusted operating income was $5.0 million, down 1% year over year, and adjusted operating margin came in at 2.9%, 20 basis points lower than a year ago.

While sales in the industrial segment were up from a year earlier, they were down versus the previous two quarters when Kimball Electronics surpassed its 4% operating margin goal. Lower absorption of fixed costs as a result of the lower revenue was the primary reason for missing the 4% goal in fiscal Q1.

Adjusted net income for the quarter rose 35% year over year to $4.5 million.

Nortech Systems. Q3 sales of $27.4 million dropped 4% sequentially but grew 7% year over year. Operating income of $376,000 increased 1% sequentially and 14% year over year, as operating margin of 1.4% was up 10 basis points over Q2 and the year-earlier quarter. The company earned Q3 net income of $218,000 versus $187,000 in the prior quarter and $105,000 a year earlier.

Nortech said its profitability was aided by the quarter's increased revenue from a year ago and a number of corporate initiatives focused on business development activities and lowering the overall cost of operations.

For the first nine months, revenue totaled $81.8 million, compared with $81.9 million for the same period in 2012 year, while net income amounted to $546,000, up from $354,000 a year earlier. Net income throughout 2013 benefited from the reinstatement of the federal R&D tax credit.

The company said its positive results so far during 2013 have met its expectations.

SigmaTron International. For its fiscal Q2 ended Oct. 31, sales totaled $56.6 million, up 1% sequentially and 7% year over year. The company reported net income of $785,000, compared with $967,000 in the prior quarter and $483,000 in the year-ago period. Results for fiscal Q2 included expenses of $300,000 related to a tender offer filed with the SEC.

SigmaTron produced a gross margin of 10.6%, down 60 basis points sequentially but up 40 basis points from a year earlier. Operating margin was 2.0%, down 60 basis points quarter on quarter but up 60 basis points year on year.

The company said it is continuing to see benefits in terms of revenue and scale from several new customers and new programs that had previously been delayed. SigmaTron is hopeful that its current momentum will continue and noted that it has several new opportunities that it believes will help set the stage for fiscal 2015 if customers' products meet expectations. The provider is looking at modest expansions at several of its offshore facilities during the second half of the fiscal year, another good sign.

SMTC. The provider recorded Q3 revenue of $72.9 million, up 12% sequentially but down 4% year on year. Two customers were mainly responsible for the sequential increase. SMTC reported Q3 net income of $619,000, compared with a net loss of $6.0 million in the prior quarter and net income of $1.3 million in the year-ago period. Q3 net income was negatively affected by two nonrecurring legacy items totaling $0.51 million.

Gross margin was 8.0% versus 1.9% in Q2 and 7.9% a year earlier. However, after removing the effects of unrealized foreign exchange on derivatives, the negative gross margin from the closed Markham plant and all nonrecurring expenses, gross margin for Q3 stood at 8.6% compared with 9.1% in the prior quarter and 7.7% in Q3 2012.

Adjusted EBITDA in Q3 came in at $2.1 million versus a loss of $1.3 million in Q2 and adjusted EBITDA of

$1.4 million a year ago. Again, after removing the closed Markham plant's gross margin and the nonrecurring expenses, adjusted EBITDA equaled $2.7 million in Q3 compared with $2.2 million in the prior quarter and $2.3 million a year earlier.

The company said it will put additional emphasis on operational effectiveness leading to margin improvement and will continue to focus on reducing working capital.

Sparton. For its fiscal Q1 ended Sept. 30, the company posted sales of $74.2 million, down 15% sequentially but up 46% year over year. The increase resulted from three acquisitions completed within the last 12 months as well as 15% organic growth. Net income amounted to $2.3 million compared with $6.8 million in the prior quarter and $1.5 million in the year-earlier period. Adjusted EBITDA was $5.5 million, up 101% year over year, primarily from the accretive effect of the three acquisitions.

Including $12.9 million in sales from the acquisition of **Onyx,** medical revenue was $42.0 million, up 50% year over year. Omitting sales from Onyx, legacy medical sales rose by $1.0 million from a year ago. Gross margin of the Medical segment increased to 16.6% from 14.9% a year earlier, mainly reflecting favorable product mix partly offset by increased depreciation relating to acquired Onyx assets.

Sales from the company's Complex Systems segment, including intracompany sales, came to $18.3 million, up 48% year over year. Excluding sales of $2.2 million from the acquisition of **Creonix** and a $0.6-million decrease in intracompany sales, CS sales to legacy external customers increased $4.3 million from the same quarter a year ago. CS gross margin improved to 10.2% from 8.9% a year earlier.

Sparton's Defense and Security Systems segment grew 19% year over year to $17.9 million. Excluding sales of $1.2 million from the acquisition of **Aydin Displays**, DSS legacy sales rose 11% from the year-ago quarter. DSS gross margin was 18.7%, up 60 basis points year over year.

Flat Q3 for European Providers

Third-quarter sales for a group of six European EMS providers were essentially flat compared with the year-earlier period. Revenue for the six providers totaled 302.7 million euros versus 301.0 million euros in the year-ago quarter. To be precise, sales in Q3 rose by a barely discernible 0.6%. The group's overall flat result is not surprising in that the euro zone economy has yet to show clear signs of recovery. But this is quite a change from Q1 when sales were down 10.5% year over year.

Revenue growth at two providers, **Scanfil** and **LACROIX Electronics**, offset euro-based declines at the four other providers (Table 1B).

LACROIX Electronics was the only EMS provider to achieve double-digit growth. The French provider, a division of the LACROIX group, accomplished a Q3 sales increase of 22% year over year. In the second half of fiscal 2013 ended September 30th, LACROIX Electronics' sales rebounded sharply, rising 20.5% above the first half's level.

At Scanfil, Q3 sales grew 5% year over year, while operating profit was up 53%. The profit gain was mainly influenced by cost control and favorable product mix. The company estimates that its revenue for 2013 will increase slightly, and this year's operating profit will grow clearly compared with 2012.

In Q3, **Neways Electronics International** observed further improvement in a positive EMS market trend, first noticed in Q2. This trend contributed to continued sequential improvement in Neways' quarterly results. Profitability was considerably higher in Q3 than a year earlier on slightly lower turnover of 68.4 million euros.

A major fire in September led to the shutdown of operations at Neways' Kassel, Germany, site. Production activities have been moved to other Neways units, and the company has decided against resuming production at the Kassel site. On balance, the company does not expect the fire or the decision regarding Kassel to have a negative impact on the company's results.

Neways anticipates that second-half net profit excluding exceptional income and expenses will largely exceed the first-half result.

PartnerTech's sales were down slightly in US dollars but up 2% in its SEK reporting currency, while operating profit rose slightly to SEK 11 million. Revenue from PartnerTech's Electronics segment increased 15%

Table 1B: Q3 2013 Results for Six European EMS Providers (M euros or %)

Company (in order of Q3 '13 sales)	Head-quarters	Reports in euros	Q3 '13 sales	Q3 '12 sales	Yr.-yr. chg.
Neways Electronics International	Nether-lands	Yes	68.4	69.5	-1.6
PartnerTech	Sweden	No	60.8	61.3	-0.9
Scanfil	Finland	Yes	50.4	48.2	4.5
LACROIX Electronics	France	Yes	49.8	40.8	22.1
Kitron	Norway	No	43.7	49.5	-11.7
Connect Group	Belgium	Yes	29.7	31.7	-6.3
Total/avg.			**302.7**	**301.0**	**0.6**

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.

year over year (in SEK), offsetting a 9% decline in sales from Systems Integration and Enclosures and a 41% drop within Machining.

Kitron saw its revenue fall 5% from a year earlier in its NOK reporting currency, as sales declined in its Defence/Aerospace, Medical Equipment and Offshore/Marine segments, mitigated mainly by an increase in its Industry business. Sales were consistent in Energy/Telecoms. The company faced weaker demand and production postponements. EBIT for Q3 decreased to NOK 7.6 million from NOK 15.4 million a year ago. Kitron expects sales in the second half of 2013 to match the level of the year-ago period.

Following a reorganization lasting several months, **Connect Group** returned to profitability in Q3 on sales of 29.7 million euros. Sales declined 6% year over year. The provider expects in the next quarters a slight increase in sales and enhanced results due to new customers and the further effect of cost savings.

News

Some new business…**BlackBerry** announced that it has entered into a five-year strategic partnership with **Foxconn**. Under this new relationship, Foxconn will jointly develop and manufacture certain new BlackBerry devices and manage the inventory associated with those devices. Production will take place in both Indonesia and Mexico for new and existing markets. The initial focus of the partnership will be a consumer smartphone for Indonesia and other fast-growing markets with a target of early 2014. According to published reports, BlackBerry's actual partner will be **FIH Mobile**, a majority-owned handset subsidiary of Hon Hai Precision Industry, which anchors the Foxconn Technology Group….This month, **Apple** CEO Tim Cook tweeted that manufacturing of Apple's new Mac Pro has started in Austin, TX, news media reported. This announcement leads one to believe that **Flextronics** (Singapore) is building the new desktop computer in Austin (see Oct., p. 6).

People on the move...**SMTC** (Markham, Ontario, Canada) has appointed Sushil Dhiman as its president and CEO. He joins SMTC from **Sanmina** where he was senior VP of operations. Larry Silber, who served as interim president and CEO, will continue as a board member….**Ducommun** (Los Angeles, CA) has promoted executive VP and COO Joel Benkie to the position of president. Benkie, who will retain the role of COO, will succeed Anthony Reardon, who will continue as chairman and CEO. One of Ducommun's two primary business units is Ducommun LaBarge Technologies, a Top 50 EMS provider….In a planned transition, Michael Degen will retire as CEO of **Nortech Systems** (Wayzata, MN) on Jan. 1, 2014, and become executive chairman of Nortech's board. President and COO Richard Wasielewski will take over as president and CEO at that time and join the board. Last month, Nortech's chairman, Myron Kunin, passed away from complications of leukemia.

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Manufacturing Market Insider is a monthly newsletter published by JBT Communications, 43 Summit Ridge, Burlington, VT 05401-3911. Phone (802) 651-9334. Fax (802) 651-9336.
 ISSN 1072-8651

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