

## Tech Conf Day 1 Supply Chain Takeaways

### End Demand Stability as Autos Continue to Thrive while Mobile Device Decelerates and PC's Remain Soft

- **Event** – Day 1 of Citi's Tech Conference featured EMS/Supply Chain companies Celestica (CLS), Jabil (JBL), Sensata (ST), AVX Corp (AVX), TE Connectivity (TEL), and Benchmark (BHE).

- **Key Takeaways** – 1) Y/Y demand appears to have improved for many companies while sequentially we have heard account of stability and seasonality. While conviction in long-term growth is not apparent at this time, improving to stable conditions is much more promising than the environment a year ago. 2) Auto exposure continues to be an area of strength for many tech firms (TEL, ST, AVX) 3) PC's remain soft and show no signs of recovery as tablets continue to cannibalize the PC market. 4) Mobile devices (smart phones & tablets) appear to be decelerating as the industry becomes more commoditized. 5) Across the board, investors were highly interested in dividends and stock buybacks; this gives us some indications that buyers are interested in cash being returned to shareholders highlighting investor sentiment that the economy and markets remain uncertain.

- **Company-Specific Commentary** – Inside this report, we highlight company-specific commentary from presentations on Day 1, including: 1) TEL, ST, and AVX continued opportunity in autos on strong content growth and electronification of vehicles. 2) JBL's Nypro acquisition raised many questions by investors as the plastic packaging market is highly competitive and falls well outside of JBL's historical core competency. 3) CLS looks for higher utilization rates, more favorable sales mix, and reaching top-line sales of \$6.5-7b 4) While we continue to be stalled in Phase 2 of the EMS framework BHE has logged solid wins for the past few quarters to help stifle some of the uncertainty that is persistent in the economy.

- **Looking Ahead** – Tomorrow, in EMS/Tech Supply Chain, Flextronics (FLEX), Plexus (PLXS), Sanmina (SANM), and Amphenol (APH) will present.

- **Stock Calls** – We continue to favor the connector companies which have much more diversified customer bases, stronger cash flow, margins, dividends, stock buybacks, & accretive M&A opportunities. Our top pick is TE Connectivity (TEL.N; US\$49.34; 1) given the increased electronic content in automobiles & attractive valuation at 13x & ~2% dividend yield. We remain positive on the long-term growth thesis in the automotive sector given increasing electronic content of +4-6% per year. We also have a Buy recommendation on (APH.N; US\$75.35; 1) which continues to execute despite the uncertain macro environment with additional upside coming from accretive M&A which has historically represented 1/3 of the company's growth.

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Figure 1. Day 1 - Tech Conference Agenda – Tuesday, September 3, 2013

Tuesday, September 3, 2013						
Presentation Rooms:	Beekman Parlor	Sutton Parlor North	Sutton Parlor Center	Sutton Parlor South	Regent Parlor	Nassau Suite B
7:00 AM	Registration/ Continental Breakfast - 2nd Floor					
8:15 AM - 8:55 AM	SAP AG Werner Brandt, Chief Financial Officer Grand Ballroom - 3rd Floor					
9:00 AM - 9:40 AM	Lexmark International, Inc.	Fairchild Semiconductor International	AtoS S.A.	Proofpoint, Inc.	F5 Networks, Inc.	Giant Interactive Group Inc.*
9:45 AM - 10:25 AM	Xerox Corporation	Micron Technology, Inc.	Zillow, Inc.	Riverbed Technology Inc	Vipshop Holdings Ltd	Wipro Limited
10:30 AM - 11:10 AM	Cognizant Technology Solutions	Xilinx, Inc.	STMicroelectronics N.V.	Akamai Technologies Inc.	Qihoo 360 Technology Company, LTD	Brooks Automation, Inc.
11:15 AM - 11:55 AM	Semtech Corporation	Qlik Technologies, Inc.	JDS Uniphase Corporation	Luxoft Holding Inc	Silicon Motion Technology Corp.*	Celestica, Inc.
12:00 PM - 12:40 PM	Alcatel-Lucent Michel Combes, Chief Executive Officer Grand Ballroom - 3rd Floor					
Tuesday, September 3, 2013						
Presentation Rooms:	Beekman Parlor	Sutton Parlor North	Sutton Parlor Center	Sutton Parlor South	Regent Parlor	Nassau Suite B
12:50 PM - 1:30 PM	Jabil Circuit, Inc.	Analog Devices	Citi IT Unplugged: Focus on Digital/Mobile	YY Inc.	Medidata Solutions, Inc.	Electronics for Imaging
1:35 PM - 2:15 PM	Avnet, Inc.	Dassault Systemes SA	Citi IT Unplugged: Focus on Security	Rambus, Inc.	ATMI, Inc.	EMCORE Corporation*
2:20 PM - 3:00 PM	Yahoo! Inc Ken Goldman, Chief Financial Officer Grand Ballroom - 3rd Floor					
3:05 PM - 3:45 PM	Sensata Technologies Holding	ARM Holdings plc	Citi IT Unplugged: Focus on Software Defined Networking	EXLSERVICE Holdings, Inc.	AVX Corporation	Peregrine Semiconductor Corporation
3:50 PM - 4:30 PM	TE Connectivity	Microsoft Corporation	Citi IT Unplugged: Focus on Big Data	Mercadolibre Inc	21Vianet Group Inc	Benchmark Electronics, Inc.
4:35 PM - 5:15 PM	VMWare, Inc. Jonathan Chadwick, Chief Financial Officer and Executive Vice President Grand Ballroom - 3rd Floor					

Source: Citi Research

Figure 2. Day 2 - Tech Conference Agenda – Tuesday, September 3, 2013

Wednesday, September 4, 2013							
Presentation Rooms:	Beekman Parlor	Sutton Parlor North	Sutton Parlor Center	Sutton Parlor South	Regent Parlor	Nassau Suite B	Nassau Suite A
7:00 AM	Registration/ Continental Breakfast - 2nd Floor						
7:30 AM - 8:10 AM	Citrix Systems, Inc.	YuMe Inc	Molex, Inc.	ASML Holding N.V.	Bankrate, Inc.	ARRIS Group, Inc.*	
8:15 AM - 8:55 AM	Symantec Corporation	KLA-Tencor Corporation	Arrow Electronics, Inc.*	LSI Corporation	Yelp, Inc.	Infinera Corp.*	Calxeda
9:00 AM - 9:40 AM	Intel Stacy Smith, Executive Vice President and Chief Financial Officer Grand Ballroom - 3rd Floor						
9:45 AM - 10:25 AM	Jive Software, Inc.	Juniper Networks, Inc.	eBay, Inc.	Altera*	Silicon Labs, Inc.	Advanced Micro Devices Inc.	Applied Materials
10:30 AM - 11:10 AM	Freescale Semiconductor, Inc.	Motorola Solutions, Inc.	Shutterfly, Inc.	Genpact, Ltd.	Entegris, Inc.	Web.com Group, Inc.	Amkor Technology, Inc.
11:15 AM - 11:55 AM	CA Technologies	Lam Research Corporation	Corning, Inc.*	Towers Watson & Co.	Cypress Semiconductor Corporation*	Texas Instruments Incorporated	FormFactor, Inc.
12:00 PM - 12:40 PM	IBM Corp. Michael Rhodin, SVP, IBM Software Solutions Group (SSG) Grand Ballroom - 3rd Floor			Cisco Systems, Inc.* Kelly Ahuja, SVP, General Manager, Mobility Business Group Grand Ballroom - 3rd Floor			

  

Wednesday, September 4, 2013							
Presentation Rooms:	Beekman Parlor	Sutton Parlor North	Sutton Parlor Center	Sutton Parlor South	Regent Parlor	Nassau Suite B	Nassau Suite A
12:50 PM - 1:30 PM	Flextronics International LTD	International Rectifier Corporation	WebMD Health Corporation	PMC-Sierra Inc.	Ingram Micro	Nanometrics, Inc.	Plexus Corp*
1:35 PM - 2:15 PM	ON Semiconductor Corp.	Panel Discussion: Mobile Internet	EMC Corporation	Convergys Corporation	ServiceNow Inc	Integrated Device Technology, Inc.	Sanmina Corporation
2:20 PM - 3:00 PM	Microchip Technology, Inc.*	Amphenol Corp	Broadcom Corporation	Tata Consultancy Services, LTD	NQ Mobile	MagnaChip Semiconductor Corporation	Belden Inc.
3:05 PM - 3:45 PM	Teradyne, Inc.	NetApp, Inc.	Marvell Technology Group Ltd.	3D Systems Corporation	Intersil Corporation*	West Corp.	Lattice Semiconductor*
3:50 PM - 4:30 PM	Maxim Integrated Products, Inc.	EPAM Systems Inc.*	Skyworks Solutions, Inc.	Stratasys, Ltd.	Oclaro, Inc.	Adtran	Aquantia*
4:35 PM - 5:15 PM	Salesforce Graham Smith, Chief Financial Officer Grand Ballroom - 3rd Floor						

Source: Citi Research

Figure 3. Citi Proprietary Customer Matrix Profile

Top Customers	BHE	CLS	FLEX	JBL	PLXS	SANM	Hon Hai	FIH	Funai
Adaptec						X			
Adtran		X		X					
Agilent				X		X			
Alcatel		X	X	X		>10%			
Apple			X	13%			38%		
Applied Materials	New Acq		O			X			
Arnis	O		O		X				
Avaya		X	X						
BAE Systems					X				
Blackberry				10%					
Boston Scientific	New Acq								
Casio Computer			X						
Ciena	X	X							
Cisco Systems		~10%	~9%	10%		X	6%		
Coca-Cola					~8%				
Denso						X			
Echostar				O		Top 5			
Draeger					X				
EMC	8-9%	X	O	O		X			
Emerson	X			X					
Emulex	X								
Ericsson			X	X		X			
Extreme			O						
F5			O						
Foxconn International Holdings							5%		
Foundry		O				X			
Fujitsu						X			
GE (Medical & Industrial)	New Acq			X	>10%				
General Dynamics					X	X			
Guidant	X								
Harris					X				
Hitachi		X	O			O			
Harmonic					X				
Hewlett-Packard		X	~5%	8-10%		Top 5	12%		
Honeywell		O			X				
Huawei			X					29%	
IBM	~17%	X	O	X		X	X		
iDirect Tech					X				
Infinera				O		O			
Ingenico S.A.				X					
Intermec					X				
JDS Uniphase	X					X			
Johnson & Johnson					X				
Juniper		X	X						
KLA Tencor					X				
Kodak			O		O	X			
Kyocera			X						
LeCroy					X				
Lego			O						
Lenovo			X			X	O		
Lexmark									X
LG Electronics			O						
Lockheed Martin						X			
Lucent		X	O			X			
Medtronic	6-7%		O						
Microsoft			X				O		
Motorola Mobility	New Acq	X	soon to be >10%	O	X			6%	
NCR									
NEC		X	O	X					
NMS Communications					X				
NetApp				X					
Network Appliance				X					
Nokia			O	4%		X		40%	
Nokia Siemens Networks						Top 5			
Nortel Networks			3%	X		X	X		
Panasonic		O							
Powerwave		O							
Pace Plc				X					
Polycom		X	O						
Qlogic				X					
Qualcomm				X					
Raytheon		O				X			
Roche Diagnostics						X			
Royal Philips Electronics			O	X		Top 5			X
Samsung								11%	
Siemens	New Acq				X	X			
Sony-Ericsson			3%	O				5%	
Sony			X	O			9%	5%	
Sun Microsystems		X	X			X			
TEK									
Tekelec	X		O						
Telular					X				
Tellabs			O	X		X			
Teradyne			O						
Thomson			O						
Valeo				X					
Walmart									X
Xerox			X						

X denotes top customer, O denotes less than 2% rev customer. Avnet distributor for Xilinx. Arrow distributor for Altera.

Source: Citi Research

Figure 4. YTD Returns on Coverage

Sector / Stocks	2005	2006	2007	2008	2009	2010	2011	2012	YTD 2013
<b>Tech Hardware</b>									
IBM	-15.8%	19.8%	12.8%	-20.8%	58.6%	14.3%	27.4%	5.9%	-2.6%
HPQ	38.3%	45.2%	23.4%	-27.6%	43.2%	-17.7%	-37.9%	-43.1%	59.9%
EMC	-8.4%	-3.1%	40.4%	-43.5%	66.9%	31.1%	-5.9%	17.5%	3.6%
NTAP	-18.7%	45.5%	-36.5%	-44.0%	146.0%	60.0%	-34.0%	-7.5%	25.6%
MSI	32.4%	-8.2%	-21.1%	-71.6%	75.2%	16.9%	25.9%	22.6%	2.5%
XRX	-13.9%	15.7%	-4.2%	-50.0%	8.9%	38.5%	-29.6%	-12.3%	51.2%
LXK	-47.3%	63.3%	-52.4%	-22.8%	-3.4%	34.0%	-4.3%	-26.6%	50.8%
EFII	52.8%	-0.1%	-15.4%	-57.5%	35.7%	10.3%	-0.4%	33.3%	57.1%
<b>Handset</b>									
AAPL	123.3%	18.0%	133.5%	-56.9%	146.9%	53.1%	25.6%	32.6%	-6.4%
MMI	32.4%	-8.2%	-21.1%	-71.6%	75.2%	16.9%	33.3%	-	-
NOK1V-HEL	36.6%	2.4%	75.3%	-57.0%	-16.6%	-9.1%	-47.9%	-15.9%	35.7%
BBRY	-19.9%	93.6%	166.2%	-64.2%	66.4%	-13.9%	-75.1%	-18.1%	-14.0%
CELL	112.9%	-12.7%	14.2%	-71.7%	69.0%	18.8%	23.3%	-	-
<b>Optical/Glass</b>									
GLW	67.0%	-4.8%	28.8%	-59.8%	105.6%	1.2%	-31.9%	-0.2%	12.6%
<b>Electronic Manufacturing Services</b>									
BHE	-1.4%	8.7%	-27.2%	-28.0%	48.1%	-4.0%	-25.8%	23.4%	32.4%
CLS	-25.2%	-26.0%	-25.7%	-20.5%	104.8%	2.8%	-24.4%	11.2%	33.1%
FLEX	-24.5%	10.0%	5.1%	-78.8%	185.5%	7.4%	-27.9%	9.7%	44.0%
JBL	45.0%	-33.3%	-37.0%	-54.7%	166.1%	18.0%	-0.7%	-0.4%	19.4%
PLXS	74.8%	5.0%	10.0%	-35.5%	68.0%	8.6%	-11.5%	-5.8%	29.0%
SANM	-49.7%	-19.0%	-47.2%	-74.2%	291.1%	4.1%	-18.9%	18.9%	47.9%
<b>Distributors</b>									
ARW	31.8%	-1.5%	24.5%	-52.0%	57.2%	15.7%	9.2%	1.8%	21.1%
AVT	31.3%	6.6%	37.0%	-47.9%	65.6%	9.5%	-5.9%	-1.5%	25.9%
IM	-4.2%	2.4%	-11.6%	-25.8%	30.3%	9.4%	-4.7%	-7.0%	30.2%
TECD	-12.8%	-4.4%	-0.4%	-52.7%	161.5%	-5.7%	12.2%	-7.9%	8.5%
SNX	-37.2%	45.2%	-10.7%	-42.2%	170.6%	1.8%	-2.4%	12.9%	38.7%
<b>Connectors</b>									
TEL				-55.5%	56.8%	47.5%	-11.1%	23.4%	35.1%
APH	20.8%	40.6%	49.6%	-48.2%	92.9%	14.4%	-13.9%	43.6%	17.1%
MOLX	-12.9%	22.9%	-12.5%	-45.5%	54.0%	8.6%	8.5%	18.4%	7.9%
ST						66.0%	-12.7%	23.6%	16.2%
<b>Passive Components</b>									
AVX	16.3%	3.1%	-8.4%	-39.9%	62.1%	23.3%	-15.9%	-13.1%	22.9%
VSH	-8.4%	-1.6%	-15.7%	-70.0%	144.2%	95.4%	-38.8%	18.2%	13.4%
<b>MARKET INDEX</b>									
COMP	1.4%	9.5%	9.8%	-40.5%	43.9%	16.9%	-1.8%	15.9%	19.6%
SP50	3.0%	13.6%	3.5%	-38.5%	23.5%	12.8%	0.0%	13.4%	15.0%
<b>SECTOR AVERAGE</b>									
Tech Hardware	-13.9%	15.7%	-4.2%	-44.0%	43.2%	16.9%	-4.3%	-7.5%	37.4%
Handsets	36.6%	2.4%	75.3%	-64.2%	69.0%	16.9%	23.3%	-15.9%	-6.4%
Glass	67.0%	-4.8%	28.8%	-59.8%	105.6%	1.2%	-31.9%	-0.2%	12.6%
EMS/Tech Supply Chain	-4.2%	3.1%	-10.7%	-48.1%	80.5%	9.4%	-11.5%	11.2%	25.9%
Coverage Universe (Average)	12.9%	10.3%	9.0%	-50.0%	86.3%	17.9%	-9.6%	4.3%	25.2%
Coverage Universe (Median)	-2.8%	2.8%	-3.3%	-52.0%	66.9%	12.3%	-8.5%	3.9%	25.7%

Note: 1) MSI and MMI were previously MOT, 2) MMI was acquired by GOOG in May 2012, 3) CELL was acquired by IM in Oct 2012

Source: Citi Research

## Technology Supply Chain Investment Cycle

**Stalled in Phase 2** – Over the past decade we have written extensively about the “Four Phases” of the EMS economic cycle and cautioned investors that fundamentals across the industry would not stabilize until we reached the third phase. The most advantageous time to own EMS stocks is during Phases Three and Four. In late 2011 we moved back to Phase One as Citi’s economic team negatively revised their global growth forecasts and several OEMs began cutting orders which resulted in sales and margin pressure for EMS companies. Since the beginning of 2012, global growth forecasts have stabilized and have modestly ticked higher spurred by better-than-expected economic activity and central bank stimulus measures which have underpinned business and consumer confidence. However, recently, the EMU has appeared to somewhat stabilize (see [Global Economic Outlook and Strategy - July 2013](#)). We believe we have stalled in Late Phase One/Early Phase Two of the EMS cycle and continue to recommend an investing style that is more company specific (big new customers ramping, etc) until we are able to see better visibility and order trends. At this time we prefer the connector sector given higher profitability and better cash flow characteristics which can be used for accretive M&A, dividends, stock buy backs all while support organic growth. We remind investors of our “Four Phase” framework to the EMS economic cycle below:

- **Phase One:** We are moving past Phase One as OEMs order cuts from lower demand have occurred and the downward GDP revisions have occurred. This is not the phase to build ownership positions in EMS stocks.
- **Phase Two:** OEMs also in-source production (i.e. shift it away from EMS) in the initial stages of a downturn in hopes of increasing utilization rates at company owned factories. By our estimate, this phase has cost the EMS industry \$7B to \$10B in annual revenues since the macro recession began in late 2007. We note at this time most in-sourcing changes have occurred as well as OEM restructuring announcements. GDP revisions have now started to stabilize.
- **Phase Three:** In the third stage of the cycle the OEMs typically engage in restructuring efforts during which they begin to incrementally outsource more and/or try to sell assets to EMS companies in return for the promise of future business. We believe this phase occurred in 2010/2011 as we saw asset acquisition transactions (Sanmina’s purchase of JDSU assets and Hon Hai’s co-investment with HP for PC manufacturing capabilities). We have also seen new outsourcing from HP for notebooks to FLEX and Hon Hai, as well as from Research in Motion for smart-phones to Jabil, Flextronics, and Celestica and several LCD TV makers outsourcing which occurred in early 2011 but since has come to an abrupt slowdown. During 2009 to early 2011 the sector experienced this favorable phase.
- **Phase Four:** In the last phase, the economic recovery starts and OEMs find themselves with capacity shortages – thus pushing them to increase their outsourcing efforts. In our view, this is the most profitable phase of the cycle as the pure incremental outsourcing wins (without asset purchases) should push capacity utilization rates and margins higher across the industry. **During both Phase Three & Four we expect a series of positive estimate revisions and for shares of EMS companies to materially appreciate over time.**

## Details from Company Presentations

Below we provide notes and important takeaways from Day 1 management presentations and fireside chats...

### TE Connectivity Ltd. (TEL.N; US\$49.34; 1)

**Presenter:** Bob Hau, CFO

**Expected Stock Reaction** – Neutral, TEL did not produce any new information that was not discussed on the June earnings call. We continue to favor connector stocks on their exposure to the auto industry, specifically, TEL has approximately 40% exposure to auto's.

**Autos** – Auto's continue to show improvement in the US and Asia while European softness is offset in that much of TEL's exposure is to exports out of Europe. TEL commented that content growth in Auto's is in the mid-single digit growth range which is consistent with the 4-6% growth they've mentioned in the past. The typical dollar amount of TEL content in an automotive is \$60/car. Electric Hybrid cars average \$120/car while full electric vehicle range in the \$60-\$120/car.

**Use of Cash** – As a result of the high fragmented nature of the connector space, it was no surprise to hear TEL reiterate that accretive acquisitions will be the primary use of cash. Mgmt. did however note that if there were no opportunities they next move would be to return cash to shareholders via buybacks and dividends (currently a 2% dividend yield).

**End Demand & Visibility** – TEL commented that they have seen some improvement in visibility while book-to-bill has increases somewhat over the past few quarters.

**Restructuring** – While TEL admitted they will always do restructuring; their current \$275m initiative which will move factory lines is expected to produce a \$100m cost savings run rate exiting 2015.

### Sensata Technologies Holding B.V. (ST.N; US\$37.74; 2)

**Presenter:** Jeff Cote, COO

**Reaction** – Neutral, Sensata reiterated much of what we already knew about the auto industry and what was said on the June earnings call.

**Auto** – As expected Sensata highlighted the opportunity they see within autos (>60% of sales). While content growth had been guided for 2013 to be below the historical range of 7-10%, Sensata was clear that the company expects content growth go back to historical levels. Similar to TE Connectivity Sensata finds more content in hybrids than in pure fossil fuel or fully electric cars.

**Use of Cash** – Sensata stated that M&A will be the main focus for use of their cash (note ST has not done an acquisition in more than 2 years). Stock buy-backs call second on the priority followed by debt pay-down and then dividends. While ST does not have a dividend currently they have no ruled out one in the future but it does not appear to be a near term high probability.

**End Demand** – Sensata experiences long lead times (3-4 years) as often they are the sole source for a project with multi-year contracts. Management noted there is more stability now as opposed to at the beginning of the year; this is a common theme we've heard across many tech companies at this conference.

**Tax rate** – Sensata's tax rate is geared to remain in the 4-6% range for the next 5 years to then increase to the mid-teens within 20 years.

## Jabil Circuit Inc (JBL.N; US\$22.76; 2)

**Presenter:** Forbes Alexander, CFO

**Stock Reaction** – Neutral, Jabil did not give any information outside of normal expectations or out of line with the May conference call.

**Nypro** – There was a lot of investor interest about the Nypro acquisition, Jabil gave a quick overview of the business whose focus is primarily on hard plastic packaging. Jabil believes there is much opportunity within this business segment and can lead to synergies among their current offerings. We note investors were more skeptical as this new focus is outside of Jabil's historical core electronics market.

**End Demand** – On a y/y basis demand has improved while sequentially demand appears stable. Mgmt. indicated that economically the current environment feels better but indicated there is little certainty that the environment will remain consistent. JBL indicated there was little change in lead times and that visibility remains clouded.

**Use of cash** – Jabil is one of few EMS companies that pay a dividend, spending ~\$150m/year for stock repurchasing to stop stock dilution from equity compensation. With the Nypro acquisition closing about 2 months ago JBL will focus its efforts on integration rather than large acquisitions. This does not mean, however, there couldn't be small tuck-in acquisitions.

**Margin Expansion** – Restructuring, costing in the range \$180-\$190m over 5-6 quarters, to "re-align" capacity is expected to benefit the bottom line \$0.11-\$0.15 annually once completed. Helping operating margin's per business segment to achieve the following: DMS 5.5-7%, E&I 3-4%, HVS 2.5-3.5%.

## Celestica Inc (CLS.N; US\$10.85; 3)

**Presenter:** Darren Myers, CFO

**Expected Stock Reaction** – Neutral, the fireside chat was lightly attended which was expected given Celestica's market cap. Consistent with June results CLS commented on stabilizing end demand but no real conviction of sustainable growth.

**Operating Margin** – CLS's CFO commented on their long-term operating margin target of 3.5-4% being obtainable on \$6.5-\$7b in annual revenues, which would be contingent on other factors such as geographic or business mix. Additionally, the CFO noted that this target should be feasible on if utilization rates approach the 75-80% range.



**End Markets** – Mgmt. reiterated their June guidance for consumer and server business segments coming down sequentially. While y/y end demand has improved; sequentially it has appeared stable across most business segments as visibility continues to remain clouded. We continue to wait for more compelling growth outlook and outsourcing to increase.

**Use of Cash** – Celestica indicated they intend to split the use of cash 50/50 between stock buyback and M&A. While many tech companies have begun paying dividend the EMS sub-sector has traditionally shied away from. CLS affirmed a buy back was more desirable than a dividend on the ability to throttle it back when needed.

## AVX Corp (AVX.N; US\$12.98; 2)

**Presenter:** John Lawing, COO

**Stock Reaction** – Neutral, AVX gave a presentation and reiterated much of the sentiments of the June earnings call. While the investors present were light due to the company's smaller market cap and lower daily trading volume relative to other companies, questions ranged from auto exposure to the effects of sequestration on the defense end demand.

**Use of Cash** – M&A remains the priority for use of cash with dividends (2.7% yield) coming next and lastly buybacks to combat dilution as the third use.

**Automotive** – Similar to TEL and ST, AVX is finding opportunity within content growth in autos. Specifically, they have found a strong niche within the engine as well as applications within infotainment. Additionally, other end markets are seeing similar content growth.

**EPA Settlement** – AVX touched on the EPA settlement that has been calculated to \$366m with interest to be added on (we estimate around \$400m). Mgmt. indicated that once this settlement is approved by the courts this mitigation cannot be brought upon them again, however, it is still pending court approval.

**Bandwidth** – within the Consumer segment AVX made it clear that bandwidth is everything and they have been finding great opportunities within this market that will only grow as content is distributed eventually in HD and 4K as well as the number of consumers utilizing internet access.

**Pricing Pressure** – Especially for Tantalum, AVX continues to see pricing pressure as a result of closed Australian mines causing supply shortages. We project that tantalum costs represent approximately 50% of COGS.

## Benchmark Electronics Inc (BHE.N; US\$22.00; 3)

**Presenter:** Gayla Delly, CEO

**Stock Reaction** – Neutral, BHE did not provide any new insight or color into the business outside of what was already expected from the June earnings call.

**End Demand** – Year-over-year end demand has improved with better sense of business outlook of customers. Sequentially, there has not been much change in end demand and visibility.

**Wins** – BHE targets approximately to make >\$150m in annual sales from new wins; BHE could not give an estimate on the average roll-off of projects but indicated new wins are not designed to cannibalized existing projects.

**Margins** – the long-term operating margin target of 4% have not been obtained largely due to sales mix. BHE's primary use of cash is for internal growth with focus on project ramps, some take much longer and as a result cost more but once established should show on the bottom line. BHE believes 4% operating margins are obtainable next year (we do not believe this is obtainable).

**Thailand** – the Thailand facilities were fully online one year ago with \$50m in insurance proceeds already collected and more to roll-in in the future. There has been no post-recovery impact from Thailand facilities.

## Appendix A-1

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