

July 8, 2010

## Survey Says Positive for Tier 1 EMS

### ■ Investment Conclusion.

Supply chain consulting firm Riverwood Solutions just released an extensive OEM survey (survey respondents represent \$100B of global supply chain spend), many of which use EMS providers Celestica, Jabil, Flextronics and Sanmina-SCI. Overall, we believe the survey bodes well for continued improvement in revenue growth and operating metrics for these providers. We draw three main conclusions from the data: 1) In 2010, OEMs are less focused on tight cost control as items like product availability become more important - implying less price pressure as our EMS providers work to improve operating margins. 2) Despite recent headline issues, China is still the top place to build product, making it easier for EMS providers to pass along structural wage hikes to OEMs. 3) Many OEMs are re-evaluating internal programs and looking to consolidate work with fewer EMS providers. We believe this trend will favor larger, not smaller providers including our coverage group (4 of the top 5 global providers).

### ■ Cost Less an Issue than in '09, Will Benefit Positive OM Trends.

Last year 41% of survey respondents said that product cost was the single most important factor in measuring EMS providers. This dropped to 14% in 2010. Concurrently, 46% of OEMs (vs. 12% last year) fear that an unforeseen supply chain event in the next 2 qtrs will impact product shipments. Taken together these two responses suggest to us that the main OEM issue today is reliable product delivery, not just trying to cut more costs. The EMS providers have been making material op. margin improvements (2.4% in '09 to 3.6% in '10E & 4.1% in '11E). If OEMs viewed cost as the #1 issue, we would be concerned that OM improvements would be much more challenging for the group near-term.

### ■ China, Its Still the Place to Be.

In 2009, only 24% of OEMs said that China was the 'best' location for the next few years. After a year of soul-searching, 67% of OEMs conclude that even with the headline issues China is still the "best" place to be for the next few years. The large skilled labor force, despite signs of tightness and wage pressures, is one factor. More importantly, the mature supply chain infrastructure from raw materials to logistical support out-weights the attractiveness of areas like India or lower labor cost locales like Vietnam. If OEMs prefer China, it is easier for our EMS providers to pass along structural wage increases. All four EMS' we cover have sizable Asia footprints - 30%-50% of total revs with over half in China, the single largest country concentration.

### ■ New Suppliers: Business Could Shift to Top Providers.

Survey responses show a material increase in OEMs evaluating new suppliers with almost 60% considering supplier consolidation, vs. 35% last year. The top 5 EMS' dominate in terms of market share, but there remains \$27B of revenue at the #6-50 EMS providers with growing OEMs looking to "graduate" to global providers. And the issues swarming around #1 Hon Hai, could lead some of its \$60B+ revs elsewhere. Not immaterial given that our #2-5 EMS providers had combined '09 rev of \$46B.

Company	Ticker	Price	Rec.
Celestica Inc.	CLS	\$8.18	BUY
Flextronics Intl.	FLEX	\$5.88	BUY
Jabil Circuit Inc.	JBL	\$13.50	BUY
Sanmina-SCI Corp.	SANM	\$13.64	BUY

**See Page 3 for Valuation Methodology, Price Targets and Risks to achieving those price targets.**

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**Cost, Less of an Issue than in 2009, Will Continue to Aid Positive OM Trends.** OEMs are becoming more worried that they have pushed the supply chain too far - 41% said that they are concerned about under-investment by EMS providers. The implication is OEM's can't have it both ways – an OEM can't expect its EMS provider to make strategic investments to improve business responsiveness and performance to the customer while at the same time hammering on cost concessions. We view this as another data point that the relentless downward pressure on pricing of EMS builds is easing somewhat.

### Exhibit 1: Summary of Survey Results

Topic	Question	2009	2010	Increase/ (decrease)
Cost	<b>Supply Continuity:</b> Supply chain disruption in next 2 quarters will impact my product shipments	12%	46%	34%
	<b>EMS Under-Investment:</b> Under-investment by my EMS provider will hurt performance on my account over the next year	25%	41%	16%
	<b>EMS Performance Metrics:</b> Cost is the single most important performance factor I use in measuring and managing my EMS provider	41%	14%	(27)%
Location	<b>China:</b> China is best location for building my company's product over the next few years	24%	67%	43%
Supplier Selection	<b>New Suppliers:</b> Evaluate new EMS/ODM or CDM Suppliers	24%	68%	45%
	<b>Switch Suppliers:</b> Relocate some or all of production to another supplier	47%	68%	21%
	<b>Consolidate Suppliers:</b> Consolidate key suppliers to reduce cost	35%	59%	24%
Services	<b>Quality Premium:</b> I would be willing to pay our EMS provider 2% more if product returns were cut in half	24%	48%	24%

Source: Riverwood Solutions Annual OEM Survey

**New Suppliers: Business Could Shift to Top Providers.** A mini race seems to be on as many OEMs indicate a willingness to move business around, consolidate on fewer providers, or graduate from smaller to more global providers. While the trend of shopping around is a double-edged sword, we believe all the providers we cover should be share gainers as this trend plays out. During the 2001-2009 time-frame all the major vendors we cover experienced some operational and/or major customer issues. After multiple years of restructuring and improved customer focus we see no abnormal issues in the near-term, barring economic uncertainty, and thus we would expect our providers to gain share due to their expanded capabilities and improved operations. Share gains are implied in our 2010 top-line growth estimates with Jabil at 27% growth, Sanmina at 25% growth, and \$26B provider Flextronics at 10% growth vs. the broader market growth rate of approximately 10%.

**Services.** Similar to our comments on cost, as OEMs move from the hunkered down bunker mentality of 2009 they will begin to look at broader areas of services that may require larger up-front investments or new ways of thinking in order to deliver reduced costs over time. As an example, all of our top EMS providers offer After-Market Services such as warranty, repair and reverse logistics. However, if design-for-service were taken into consideration in the product design and build stage, it would reduce total

lifecycle costs and reduce the rate of returns and associated costs. Few OEM's currently consider involving their EMS providers after-market services groups at the design stage because of the cost of these consulting services but that attitude could be changing.

**More info on the survey.** If you would like more information on the survey, and the source details, please let us know and we can arrange to get you additional information.

Riverwood Solutions advises small, medium and large OEMs on how to make the best use of the supply chain and EMS providers. Almost all or Riverwood's senior executives have years of experience in the supply chain, many at top EMS providers. Please feel free to pass along this information to any company needing supply chain consultants and resources.

### Valuation & Risks

CLS: Our \$15 price target for Celestica shares is based on 12x our 2011 EPS estimate of \$1.05, and then adding back Celestica's ~\$3 of net cash per share. Risks to owning CLS shares include excessive industry competition, inability to expand addressable market, weakening of the consumer-led recovery, and that the recovery in enterprise IT spending could fall short of expectations.

FLEX: Our \$10 price target for FLEX shares is based on 11x our FY12 (year ended March 2012) EPS estimate of \$0.93. Risks to owning FLEX shares include excessive industry competition, inability to expand addressable market, weakening of the consumer-led recovery, and that the recovery in enterprise IT spending could fall short of expectations.

JBL: Our \$21 price target for JBL shares is based on a very conservative 10x our FY11 EPS estimate of \$2.08. Risks to owning Jabil shares include excessive industry competition, inability to expand addressable, weakening of the consumer-led recovery and the recovery in enterprise IT spending falling short of expectations.

SANM: Our \$20 price target for Sanmina-SCI shares is based on a conservative 11x our FY11 EPS estimate of \$1.90, a multiple that is at the low end of the 11x to 13x multiples we use for the price targets of our other Buy-rated EMS names, and a discount to SANM's 12.3x 5-year median forward PE multiple. Risks to owning SANM shares include excessive industry competition, inability to expand addressable market, weakening of the consumer-led recovery, and that the recovery in enterprise IT spending could fall short of expectations.

**Exhibit 2: Collins Stewart EMS Comp Table**

ELECTRONIC MANUFACTURING SERVICES (EMS) GROUP															
EPS Comparison		Price	Earnings Per Share*								Price to Earnings Ratios**				
		7/7/10	CY11E	y/y%	CY10E	y/y%	CY09A	y/y%	CY08A	y/y%	CY07A	CY11E	CY10E	CY09A	CY08A
<b>Top Tier EMS</b>															
Celestica	BUY	\$8.18	1.05	14%	0.92	49%	0.62	-18%	0.75	178%	0.27	7.8x	8.9x	13.3x	6.1x
Flextronics	BUY	\$5.88	0.93	24%	0.75	88%	0.40	-59%	0.97	1%	0.96	6.3x	7.8x	14.7x	2.6x
Jabil Circuit	BUY	\$13.50	2.16	27%	1.71	164%	0.65	-39%	1.06	4%	1.02	6.3x	7.9x	20.9x	6.4x
Sanmina-SCI	BUY	\$13.64	1.94	37%	1.41	nm	(0.26)	nm	0.80	264%	0.22	7.0x	9.6x	nm	0.6x
<b>Average</b>												6.5x	8.5x	17.8x	3.2x
<b>Mid Tier EMS</b>															
Plexus	nr	\$27.76	2.74	17%	2.34	83%	1.28	-29%	1.81	7%	1.69	10.1x	11.8x	21.7x	9.4x
Benchmark	nr	\$15.62	1.50	15%	1.31	45%	0.90	-28%	1.25	-6%	1.33	10.4x	12.0x	17.4x	10.2x
<b>Average</b>												10.3x	11.9x	19.5x	9.8x
<b>S&amp;P 500</b>		1,062	92.19	16%	79.53	32%	60.18	-8%	65.47	-26%	88.18	11.5x	13.4x	17.7x	16.2x

\*All the companies reflect Cash EPS. PLEX, BHE, MERX estimates are consensus fiscal estimates from First Call. \*\*Historical P/E Ratios (CY08) = YE Stock price / 12-mth Trailing EPS.

Revenue Comparison															
5 yr CAGR		Pricd	Revenues (\$M)								Price to Sales Ratios*				
10/05		Target	CY11E	y/y%	CY10E	y/y%	CY09A	y/y%	CY08A	y/y%	CY07A	CY11E	CY10E	CY09A	CY08A
<b>Top Tier EMS</b>															
Celestica	-4%	\$15.00	7,028	7%	6,568	8%	6,092	-21%	7,678	-5%	8,070	0.3x	0.4x	0.4x	0.1x
Flextronics	10%	\$10.00	29,000	11%	26,240	10%	23,753	-28%	33,141	35%	24,460	0.2x	0.3x	0.3x	0.1x
Jabil Circuit	9%	\$21.00	16,800	16%	14,460	27%	11,390	-11%	12,794	3%	12,435	0.2x	0.3x	0.3x	0.1x
Sanmina-SCI	-8%	\$20.00	7,053	8%	6,552	25%	5,236	-30%	7,435	-27%	10,138	0.2x	0.2x	0.3x	0.0x
<b>Total</b>		6%	52,853		47,253	17%	40,380	-24%	53,371	13%	47,032				
<b>Mid Tier EMS</b>															
Plexus	10%	na	2,466	14%	2,155	35%	1,591	-14%	1,839	13%	1,624	0.6x	0.7x	0.4x	0.4x
Benchmark	-2%	na	2,667	9%	2,441	17%	2,089	-19%	2,590	-11%	2,916	1.1x	1.2x	0.4x	0.3x
<b>Total</b>		3%	5,133		4,595	25%	3,680	-17%	4,430	-2%	4,540				

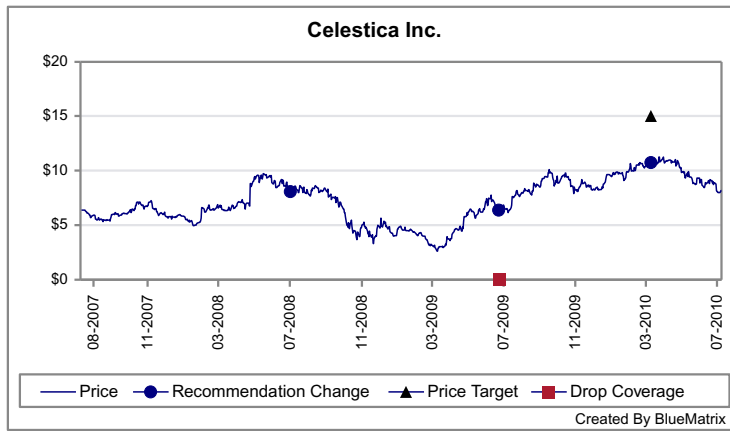
\*Price / Sales Ratio = Market Cap / 12-mth Trailing Revenue. Historical Market Cap (CY08) = YE Stock Price \* Shares Outstanding.

Price Performance														
52 Wk High		%Chng	12/31 2009	12/31 2008	12/31 2007	12/31 2006	12/31 2005	12/31 2004	2009 y/y%	2008 y/y%	2007 y/y%	2006 y/y%	Mkt Cap (MM)	Shares Out (MM)
<b>Top Tier EMS</b>														
Celestica	\$11.34	-28%	9.44	4.61	5.80	7.81	10.56	14.11	105%	-21%	-26%	-26%	2,445	233
Flextronics	\$8.38	-30%	7.31	2.56	12.06	11.48	10.44	13.82	186%	-79%	5%	10%	6,599	816
Jabil Circuit	\$18.49	-27%	17.37	6.75	15.27	24.55	37.09	25.58	157%	-56%	-38%	-34%	3,655	215
Sanmina-SCI	\$20.30	-33%	11.03	0.47	1.82	3.45	4.26	8.47	2247%	-74%	-47%	-19%	1,515	81
<b>Average/Total</b>									863%	-70%	-27%	-14%	11,769	
<b>Mid Tier EMS</b>														
Plexus	\$39.66	-30%	28.48	16.95	26.26	23.28	17.17	13.01	68%	-35%	13%	36%	1,563	40
Benchmark	\$22.82	-32%	18.91	12.77	17.73	24.36	34.81	34.10	48%	-28%	-27%	-30%	1,422	64
<b>Average/Total</b>									58%	-32%	-7%	3%	2,985	
<b>S&amp;P 500</b>		1,220	1,115	903	1,468	1,418	1,248	1,211.9	23%	-38%	4%	14%		

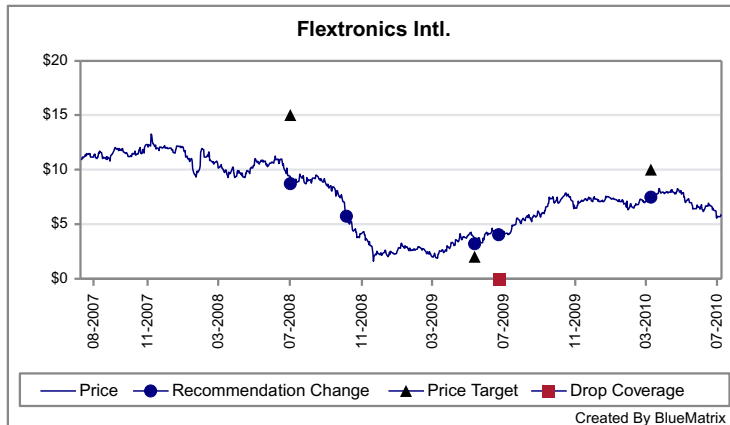
EBITDA (MM)							Enterp Value (MM)	Current TEV** / Historical EBITDA				Cash	Debt	Net Debt
FY11E	FY10E	FY09A	FY08A	FY07A	FY06A	FY11E		FY10E	FY09E	FY08A				
<b>Top Tier EMS</b>														
Celestica	431	364	291	342	265	306	1,733	4.0x	4.8x	6.0x	5.1x	712	0	(712)
Flextronics*	1,551	1,335	1,067	1,330	1,435	1,228	6,928	4.5x	5.2x	6.5x	5.2x	1,928	2,257	329
Jabil Circuit	915	743	516	618	542	569	4,181	4.6x	5.6x	8.1x	6.8x	600	1,126	526
Sanmina-SCI	392	321	178	295	292	371	2,104	5.4x	6.5x	11.8x	7.1x	673	1,261	588
<b>Average</b>								4.8x	5.8x	8.8x	6.4x			

Source: Collins Stewart LLC Estimates, Company Reports, Capital IQ & Thomson One

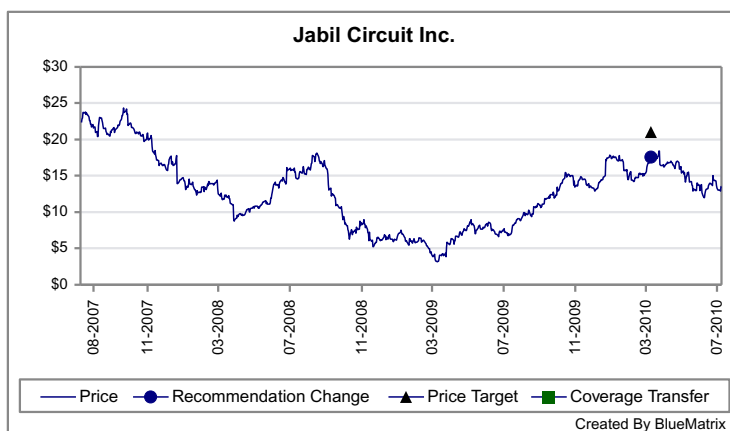
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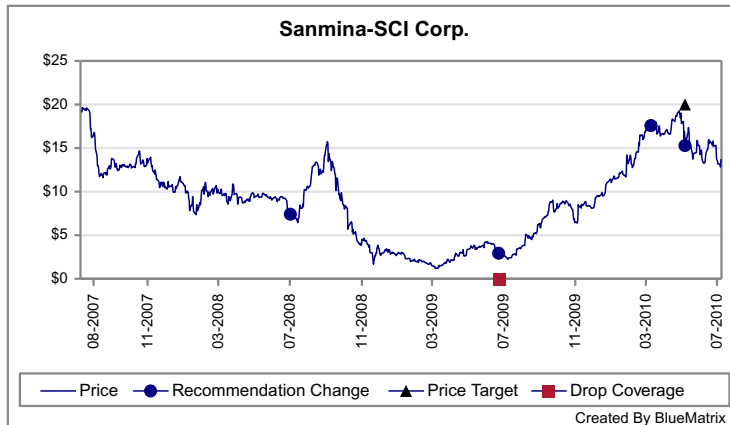
Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
CLS	2010-03-10	Initiation of Coverage	NR	BUY	\$10.72	\$15.00
CLS	2009-06-24	Drop of Coverage	NR	NR	\$6.65	NA
CLS	2009-06-23	Lowering Rating	HOLD	NR	\$6.36	NA
CLS	2009-04-24	Maintain Rating	HOLD	HOLD	\$5.75	NA
CLS	2009-04-23	Maintain Rating	HOLD	HOLD	\$5.30	NA
CLS	2009-02-18	Maintain Rating	HOLD	HOLD	\$3.69	NA
CLS	2009-01-29	Maintain Rating	HOLD	HOLD	\$4.35	NA
CLS	2008-11-5	Maintain Rating	HOLD	HOLD	\$4.90	NA
CLS	2008-10-24	Maintain Rating	HOLD	HOLD	\$4.35	NA
CLS	2008-10-7	Maintain Rating	HOLD	HOLD	\$4.81	NA
CLS	2008-07-25	Maintain Rating	HOLD	HOLD	\$8.05	NA
CLS	2008-07-2	Maintain Rating	HOLD	HOLD	\$8.09	NA
CLS	2008-07-2	Initiation of Coverage	NA	HOLD	\$8.09	NA



Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
FLEX	2010-03-10	Initiation of Coverage	NR	BUY	\$7.46	\$10.00
FLEX	2009-06-24	Drop of Coverage	NR	NR	\$4.07	NA
FLEX	2009-06-23	Lowering Rating	SELL	NR	\$4.03	\$2.00
FLEX	2009-05-13	Lowering Rating	HOLD	SELL	\$3.19	\$2.00
FLEX	2009-04-30	Maintain Rating	HOLD	HOLD	\$3.88	NA
FLEX	2009-03-11	Maintain Rating	HOLD	HOLD	\$2.24	NA
FLEX	2009-01-29	Maintain Rating	HOLD	HOLD	\$2.67	NA
FLEX	2008-11-19	Maintain Rating	HOLD	HOLD	\$2.27	NA
FLEX	2008-11-19	Maintain Rating	HOLD	HOLD	\$2.27	NA
FLEX	2008-11-18	Maintain Rating	HOLD	HOLD	\$2.65	NA
FLEX	2008-11-17	Maintain Rating	HOLD	HOLD	\$2.96	NA
FLEX	2008-11-5	Maintain Rating	HOLD	HOLD	\$4.01	NA
FLEX	2008-10-24	Maintain Rating	HOLD	HOLD	\$3.83	NA
FLEX	2008-10-6	Maintain Rating	HOLD	HOLD	\$5.72	NA
FLEX	2008-10-6	Lowering Rating	BUY	HOLD	\$5.72	NA
FLEX	2008-08-21	Lowering Target Price	BUY	BUY	\$9.01	NA
FLEX	2008-04-2	Initiation of Coverage	NA	BUY	\$9.91	\$15.00



Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
JBL	2010-03-10	Initiation of Coverage	NA	BUY	\$17.54	\$21.00



Ticker	Date	Action	Prior Rating	Current Rating	Price	Target Price
SANM	2010-05-7	Raising Rating	HOLD	BUY	\$15.27	\$20.00
SANM	2010-04-27	Maintain Rating	HOLD	HOLD	\$18.94	NA
SANM	2010-04-26	Maintain Rating	HOLD	HOLD	\$19.22	NA
SANM	2010-04-13	Maintain Rating	HOLD	HOLD	\$17.48	NA
SANM	2010-03-10	Initiation of Coverage	NR	HOLD	\$17.56	NA
SANM	2009-06-24	Drop of Coverage	NR	NR	\$2.76	NA
SANM	2009-06-23	Lowering Rating	HOLD	NR	\$2.88	NA
SANM	2009-04-23	Maintain Rating	HOLD	HOLD	\$2.76	NA
SANM	2009-02-4	Maintain Rating	HOLD	HOLD	\$1.92	NA
SANM	2009-01-22	Maintain Rating	HOLD	HOLD	\$1.92	NA
SANM	2008-11-5	Maintain Rating	HOLD	HOLD	\$4.32	NA
SANM	2008-10-30	Maintain Rating	HOLD	HOLD	\$3.84	NA
SANM	2008-10-7	Maintain Rating	HOLD	HOLD	\$5.64	NA
SANM	2008-07-15	Maintain Rating	HOLD	HOLD	\$6.90	NA
SANM	2008-07-14	Maintain Rating	HOLD	HOLD	\$6.42	NA
SANM	2008-07-2	Maintain Rating	HOLD	HOLD	\$7.38	NA
SANM	2008-07-2	Initiation of Coverage	NA	HOLD	\$7.38	NA

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	% of CSTI Universe with this rating	% of rating tier for which CSTI provided IB services
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Hold	50%	0%
Sell	1%	0%

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