# Celestica’s Restructuring Drives Shares

## Description

*By: Chris Lau*

**Celestica** (TSX:CLS, NYSE:CLS) has been in a restructuring mode of source since **BlackBerry** ended its production agreement last year. This restructuring process is set to be completed by the end of this year. The company has reduced its cost structure and is more focused on margin performance.



**Restructuring reduces uncertainty**

Celestica began a plan to restructure its cost structure in 2012 after BlackBerry ended its supply agreement. Celestica expects the total cost of restructuring will be as high as $65M. The cost reduction will mean better profit margin in the future.

In terms of the company’s top line, Celestica successfully replaced a decline in revenue from the consumer segment by growing the proportion of sales to both communications and diversified markets. By widening its reach across a greater number of markets, Celestica is unlikely to as dependent on a single customer for its revenue in the future. This change in revenue mix is depicted in the table below.

| | 2012 | | | | | 2013 | | |
|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | FY | Q1 | Q2 | Q3 |
| Communications | 33% | 32% | 37% | 37% | 35% | 40% | 42% | 45% |
| Consumer | 23% | 21% | 15% | 9% | 18% | 7% | 7% | 6% |
| Diversified (i) | 19% | 19% | 21% | 23% | 20% | 24% | 25% | 26% |

(i) *Diversified end market is comprised of industrial, aerospace and defense, healthcare, solar, green technology, semiconductor equipment and other.*

*Source: Celestica quarterly press release*



**Other drivers**

Promotional campaigns could result in new businesses. Celestica's reputation for quality and meeting customer qualifications should also be a positive factor. The complex mechanical production industry could grow by double digits. Celestica has the opportunity to benefit from that growth through customer wins.

**Risks**

Inventory rose by $41M to $882M in Q3. Inventory turns declined from 6.9 turns in Q2 to 6.4 turns. Celestica said in its conference call that inventory was impacted by program transitions and forecast variability from its customers.

Demand will be a challenge, given the end market environment is challenging. The volatility is so high that Celestica does not have any guidance for Q1/2014.

Lower demand in the solar business will also hurt the diversified revenue segment.

**Bottom line**

Celestica faced a setback due to the decline BlackBerry's business. This proved however to be temporary as business improved and the company is now on a more secure, diversified footing.  Cost reductions are nearly complete, and the next phase for growth will be in customer wins.

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*Fool contributor Chris Lau owns shares of BlackBerry. The Motley Fool has no positions in the stocks mentioned above at this time.*

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