

Edition 039- FEBRUARY 12, 2009

GENERAL

In order to address the sharp downturn in demand stemming from the global economic downturn, the biggest Japanese groups have engaged business structural and cost-structure reforms, adjusting their workforce, and are often predicting huge net losses for their fiscal year 2009. That is the case for Panasonic (- 15 000 jobs; Y 380 B or € 3.2 billion net loss), NEC (- 20 000 jobs; Y 290 B net loss), Toshiba (- 4500 jobs; Y 280 B net loss), Hitachi (- 4000 jobs; Y 700 B net loss), Fujitsu (Y 20 B net loss), Sharp (- 1500 jobs; Y 100 B net loss), Renesas (- 2500 jobs; Y 206 B net loss). There are even rumors that Toshiba is in talks to merge part of its chip operations with NEC Electronics.

SEMICONDUCTORS

Worldwide sales of semiconductors were severely impacted by the economic turmoil in 2008 resulting in the first year-on-year drop in sales since 2001, so the SIA. Total sales for 2008 were \$ 248.6 billion compared to \$ 255.6 billion in 2007, a decrease of 2.8 percent. Sales fell from \$ 22.3 billion in December 2007 to \$ 17.4 billion in December 2008, a decline of 22 percent. December sales declined by 16.6 percent from November 2008.

Measured in Euro, **European semiconductor sales** in December 2008 were a record low in this decade of € 1.944 billion, down 16.8 percent on previous month and down 20.4 percent versus the same month a year ago, so the WSTS. On a total year basis semiconductor sales showed a decline of 13.1 percent in 2008 versus the year 2007. In Euro the market in total year 2008 reached a value of € 25.984 billion.

The global semiconductor market will fall by 28 percent in value and by 26 percent in unit shipments in 2009 after the unprecedented collapse of Q4 2008, so **Future Horizons** which also predicts a recovery in 2010 with the resumption of growth in Q3 2009. Future Horizons is predicting that Q2 2009 will be the bottom of the dip.

The top 10 original equipment manufacturer (OEM) firms accounted for \$ 91.6 billion of the semiconductor market in 2008, representing one-third of all semiconductor consumption, so **Gartner**. This was a 3.8 percent decline from 2007. The leading applications remain PCs and mobile phones. HP remained the leading OEM for semiconductor consumption (\$16.5 billion in 2008).

On a dollar basis, Germany's semiconductor market for December 2008 was down 19 percent sequentially and 34 percent year-on-year with a book-to-bill ratio of 0.82, so the **ZVEI**. Overall revenues for 2008, on a dollar basis, were down 12 percent compared with 2007, and down 18 percent on a euro basis.

STMicroelectronics is targeting to reduce its costs by over \$ 700 M in 2009. The actions are a combination of the ongoing restructuring initiatives and new programs that are focused on resizing the company's manufacturing operations and streamlining expenses, and are expected to affect about 4,500 net jobs worldwide in 2009. 2008 net revenues were \$ 9.84 billion compared to 2007 revenues of \$ 10.0 billion, as reported. Net loss was \$ 786 M in 2008, compared to a net loss of \$ 477 M in 2007. ST has set a capex budget of about \$ 500 M for 2009, representing a 50 percent reduction in comparison to 2008. ST and Ericsson also announced the closing of their agreement merging Ericsson Mobile Platforms and **ST-NXP Wireless** into a 50/50 joint venture in mobile platforms and wireless semiconductors. The JV begins as a major supplier to four of the industry's top five handset manufacturers, who together represent about 80 percent of global handset shipments. Ericsson contributed \$ 1.1 billion net to the joint venture, out of which \$ 0.7 billion was paid to ST. Prior to the closing of the transaction, ST exercised its option to buyout NXP's 20 percent ownership stake of ST-NXP Wireless for \$ 92 M. Alain Dutheil, presently CEO of ST-NXP Wireless and COO of STMicroelectronics, will lead the joint venture as President and CEO. Employing about 8000 people - roughly 3000 from Ericsson and approximately 5000 from ST - the JV in wireless technologies is headquartered in Geneva, Switzerland.

Texas Instruments announced reductions in employment which will be reduced 12 percent through 1800 layoffs and 1600 voluntary retirements and departures. Annualized savings from these reductions, plus those announced in October for the restructuring of the company's Wireless business, will be about \$ 700 M. TI has also cancelled plans to sell its wireless merchant base station IC division because it could not find buyers willing to pay what the company wants. TI announced fourth-quarter revenue of \$ 2.49 billion and net income of \$ 107 M. TI's revenue declined 30 percent compared with the fourth quarter of 2007 and declined 26 percent compared with the third quarter of 2008.

Infineon's revenues in the first quarter of the 2009 fiscal year ended December 31, 2008 were € 830 M, down 28 percent sequentially and 24 percent year-over-year. For the first quarter, Infineon reported group net loss of € 404 M. In response to continuing weak demand worldwide, Infineon has identified additional savings potential. Amongst others, the company has introduced reduced work hours in the company's German production sites Regensburg and Dresden. Infineon originally announced expected annualized savings of at least € 200 M, and then increased this target in December to at least € 250 M. As a result of substantial additional cost reductions and cash savings, the company now targets total annual savings of € 600 M.

Following the insolvency application of **Qimonda**, the German company announced its decision to streamline its production capacities. This is the reason that production will now be ramped down at the Richmond 300mm manufacturing facility, Virginia (USA). In the future, more customers will be supplied with chips from the plant in Dresden. Approximately 1,500 employees are affected by this restructuring measure. Production at the other Qimonda facilities continues for the time being.

Atmel is pursuing strategic alternatives for the company's ASIC business and related manufacturing assets, including a potential sale. Atmel's ASIC business provides customer specific ICs and security solutions to the industrial, aerospace and consumer markets operating in three distinct segments: Customer Specific Products (CSP), Smart Cards (SMS) and Aerospace. The ASIC business also includes an advanced 200mm fab located in Rousset, France, and a test and finishing operation located in East Kilbride, Scotland, UK, along with related design, operation, marketing, sales and support resources. Revenues for the ASIC business totaled \$ 416 M in 2008. This is a further step in Atmel's transformation plan, which is aimed at focusing on the company's core microcontroller business and enhancing its cost structure. Revenues for the full year 2008 were \$ 1.57 billion compared to \$ 1.64 billion for 2007. Net loss for the full year 2008 was \$ 27.2 M compared to net income of \$ 47.9 M for 2007. Atmel has also acquired all MeshNetics ZigBee Intellectual Property Rights from LuxLabs BVI for an undisclosed sum.

In view of the extremely uncertain outlook for the current year, **Micronas** (Zurich, Switzerland) has decided to close its Consumer division which mainly sells video processors for digital TV sets. Negotiations for sale of parts of the Consumer business are ongoing with potential buyers who want to retain employees. The rest of the Consumer division will be shut down. In Freiburg, further jobs will be cut in production and administration. The total number of jobs affected worldwide is 800 to 900. Currently, Micronas employs around 1800 people. In Germany, a total of 500 to

600 jobs will be cut in production, administration and in the Consumer division. The Automotive division will continue and the already diversification into new markets such as industrial products and white goods will be pushed. Consolidated net sales fell to CHF 597.6 M in 2008, 16.1 percent lower than in the previous year. Year-on-year sales in the Consumer division fell by 20.6 percent to CHF 396.0 M. Automotive division sales fell 5.9 percent compared with 2007 to CHF 201.6 M.

After failing to find a buyer for its wireless handset IC business, **Freescale** is considering selling pieces of the cellular division rather than hold out for a single buyer. Cellular net sales were \$ 64 M in the fourth quarter of 2008, compared to \$ 344 M in the third quarter of 2008. Freescale net sales for fiscal year 2008 were \$ 5.2 billion, compared to \$ 5.7 billion in the prior year. Freescale's net loss widened sharply to \$ 7.9 billion in 2008—after a huge impairment charge of \$ 6.9 billion—from a net loss of \$ 1.6 billion in 2007.

ON Semiconductor has decided to close its remaining Phoenix wafer-fab facility by the end of the first quarter 2010, expecting to eliminate approximately 350 jobs at this fab between now and early 2010. Total revenues for 2008 were \$ 2.055 billion, an increase of 31 percent from \$ 1.566 billion in 2007. During 2008, the company reported a net loss of \$ 393.0 M.

International Rectifier has initiated a cost reduction effort to reduce headcount. The company expects a total reduction of about 850 jobs, or approximately 18 percent of the worldwide workforce. Additionally, the company is consolidating its Newport, Wales fabrication facility, which is expected to conclude at the end of 2009. Also, IR is planning to close its El Segundo, California fabrication facility and consolidate its production capacity to the company's Temecula, California fabrication facility.

Fujitsu Microelectronics Europe (FME) announces the expansion of its software capabilities with the acquisition of Comneon's software development centre in Linz, Austria, from parent company Infineon Technologies. Comneon (48 engineers) has been a global supplier of embedded software solutions for 17 years, providing a comprehensive range of R&D, applications and software services.

British semiconductor start-up **picoChip** has appointed Nigel Toon to be the company's President and CEO, replacing Guillaume d'Eyssautier. Nigel joins picoChip from Icera, which he co-founded and where he was VP Sales and Marketing before heading the company's Phone Business Unit.

Spansion appoints John Kispert, former president and COO of KLA-Tencor, as chief executive officer. As CEO,

Kispert expects to intensify Spansion's strategic and restructuring initiatives. Kispert's appointment at Spansion follows the resignation of president and CEO Bertrand Cambou.

ARM acquired Logipard, a small Swedish video processor and imaging technology company, from Anoto Group. ARM, which reported sales of £ 298.9 M (+15 percent) in FY 2008, is also looking to cut about 3 percent of its workforce. At 31 December 2008, ARM had 1,740 full-time employees, representing a net increase of 12 over the year, including the 15 people who joined the group through the acquisition of Logipard.

Conexant, a fabless semiconductor company for imaging, video, audio, and Internet connectivity applications, completed actions that resulted in the elimination of 140 positions worldwide, which represented a total headcount reduction of more than 11 percent. Conexant recorded revenues of more than \$ 500 M in fiscal year 2008. **Zarlink Semiconductor** will be reducing its workforce by 6-8 percent. Zarlink's current workforce is approximately 630 employees. **Chartered Semiconductor Manufacturing**, one of the world's top dedicated semiconductor foundries, is reducing its worldwide workforce by approximately 600 people, or about 8 percent of its total employment.

BE Semiconductor Industries, a Dutch manufacturer of assembly equipment for the semiconductor industry, announced its agreement to acquire the **Esec** business unit from OC Oerlikon. Founded in 1968, Esec is a manufacturer of die bonding equipment for the semiconductor, telecommunications and smart card industries based in Cham, Switzerland. It also manufactures and services wire bonding systems from its Singapore assembly facility. Esec has an estimated installed base in excess of 9,000 systems at customer locations worldwide. The purchase price of the transaction was not disclosed. Separately, Oerlikon expects to agree a management buyout of the Etch business from Oerlikon Systems. With this move, Oerlikon continues the strategic realignment of the systems business unit to focus on its core PVD process competence.

Brooks Automation, a provider of automation solutions and integrated subsystems to the semiconductor industry, is in the process of restructuring its operations to enhance performance and improve operating results. In the quarter ended December 31, 2008 Brooks reduced headcount by about ten percent. Subsequent to that date the company expects to eliminate approximately 350 additional positions which will reduce the global workforce by about a further twenty percent. ■

OPTOELECTRONICS

Bookham and **Avanex** have reached a definitive agreement to merge in an all- stock transaction to create a leader in

optical solutions for metro and long haul telecom networks. Avanex shareholders will own approximately 46.75 percent of the combined company. Based on the closing price of Bookham the total consideration to Avanex shareholders would be equivalent to \$ 35.4 M. Annualized cost saving are expected to reach \$ 28 M.

Results of DisplaySearch's large-area (10" and larger) TFT LCD survey for Q4'08 indicate that shipments reached 93.5 million units, a decline of 19 percent Q/Q and 17 percent Y/Y. Due to drastic cuts in panel prices, **large-area TFT LCD** revenues fell 33 percent Q/Q and 48 percent Y/Y, to \$ 12 billion. Total shipments of large-area TFT LCD panels reached 439 million in 2008, 11 percent growth from 2007. Large-area TFT LCD revenues declined 1 percent, at \$ 72 billion in 2008.

In Q4'08, **plasma** panel module shipments were down 8 percent Q/Q and 12 percent Y/Y to 3.8 million units, which is the first Y/Y decline since Q2'07, so DisplaySearch. Total plasma panel shipments for 2008 were 15.1 million. This represents a 26 percent increase from 2007. Price erosion took a toll on revenue growth with revenues falling 13 percent Q/Q and 21 percent Y/Y. However, 2008 annual revenues showed positive growth at 6 percent.

PASSIVE COMPONENTS

Ruwel, one of the biggest European manufacturers of printed circuit boards, has had to file an insolvency petition since the company is no longer able to meet its financial obligations. Ruwel's main sales (58 percent) are with car component suppliers who are currently experiencing their worst crisis worldwide. Up to now, the salaries and wages of more than 600 employees in Geldern and Pfullingen have always been paid on time and in full. Ruwel's business activities are continuing without restriction. Leading supplier partners have promised to support Ruwel. Many loyal customers have shown their interest in helping to keep their European supplier base alive.

With a decline in sales and orders during the months of January to December by about 70 percent on last year's level **Lamitec-Dielektra**, Germany based manufacturer of copper foil and laminates for the PCB production, has had to file an insolvency petition. The Lamitec-Dielektra employed at sites in Grassau am Chiemsee 150 employees, in Cologne, Germany 60 and in Neu-Ulm 29 employees. Their biggest customer, the Fuba Printed Circuit in Gittelde, adopted on 14.01.2009 bankruptcy. In close coordination between insolvency and management it was decided that existing contracts are fully executed.

Epcos is implementing a series of personnel measures in order to adjust production capacity to the significant drop in customers' demand for components. In Q1 2009, it also became unavoidable to reduce the number of people working for Epcos worldwide by around 4,100. About half

of these people were Epcos' own employees. The other half were temporary staff and the staff of subcontractors. At the end of the fiscal year 2008 (October 1, 2007, to September 30, 2008), the company employed about 21,200 people worldwide. In the first quarter of fiscal 2009 (October 1 to December 31, 2008), Epcos sales declined to € 282 M, a 23 percent drop both year on year and 26 percent sequentially. Epcos expects sales to decline to about € 260 M in Q2 2009.

Bishop & Associates is forecasting that **worldwide connector sales** will decline 14.7 percent in 2009, after +1.4 percent in 2008. Q1 world connector sales will be very weak at approximately the same level as Q408, or around \$ 8.545 billion. Bishop estimates Q209 at \$ 9 billion, Q309 at \$ 9.5 billion and Q409 at \$ 10 billion.

NEC Tokin announced a massive restructuring plan that includes halving its work force of 19,000 workers and factory shutdowns. The NEC unit, which produces passive components and sensors, plans to slash about 9,000 full-time positions overseas as well as around 450 jobs in Japan. The company will also withdraw from some unprofitable segments, such as lithium ion batteries used in mobile devices.

Molex took a restructuring charge of \$ 39.8 M recorded in the December quarter related to severance for headcount reductions across all divisions, and the costs associated with a plant closure in Japan and in its European automotive business. The automotive business also plans to close additional plants in Europe and Asia Pacific while the industrial business plans to consolidate two Canadian facilities and close a U.S. warehouse. Revenue for the quarter ended December 31, 2008 was \$ 666.7 M, a decrease of 20.8 percent from the same period last fiscal year, and 20.5 percent from the September 2008 quarter. Net loss was \$ 87.2 M. Molex has also acquired Fuchigami Micro, a small Japanese company with capabilities in photolithography, micro-etch and thermal dissipation technology.

AT&S made adjustments to capacity at its Austrian facility in Leoben-Hinterberg. Production capacity, measured in surface area of printed circuit boards manufactured, was reduced from 215,000 m² to 130,000 m². In the course of the restructuring process, 293 of AT&S's own staff and 159 contract workers are being made redundant. In its third quarter, AT&S posted sales amounting to € 117.1 M. Net income for the period sank as a result to € -23.5 M.

DISTRIBUTION

Acal has been notified by one of its semiconductor suppliers that it is terminating Acal's distribution contract. Termination will take effect from 30 April 2009. This product line represents approximately 4 percent of group

revenue and 3 percent of gross margin. With the appointment of Nick Jefferies as Group Chief Executive on 5 January 2009, the group will be carrying out a comprehensive review of Acal's business and strategy and will factor this contract loss into the review. Although Acal's sales for the quarter ended 31 December 2008 were slightly ahead of the corresponding quarter to December 2007, margins within the Electronics Division were adversely impacted by the decline in sterling over the quarter. The acquisition of 75 percent of Service Source Europe (SSE) was completed on January for a consideration in cash of £ 1.85 M.

Electrocomponents, trading in the UK as RS Components based at Corby, announces proposals to release 90 temporary agency staff, make 340 permanent roles redundant and create 190 new positions, redeploying those at risk wherever possible. These proposals result in a net reduction of 150 roles in the UK. The proposed redundancies are part of a worldwide cost-reduction plan announced in December to reduce global operating costs by £15m (5 percent) in response to the severe economic downturn. Based in Corby, Northamptonshire, RS employs over 2,500 employees nationwide.

Avnet Time, an electronic component distributor for interconnect, passive, electromechanical and power supply products (IP&E), has expanded its portfolio of products adding Schurter Electronic Components. Avnet Time will market fuses, non resettable fuses, fuse holders, and IEC connectors by Schurter.

EBV Elektronik, an Avnet company, has announced the launch of a dedicated RFID sales team to concentrate solely on RFID customers and opportunities in EMEA. This team is collaborating with the user in producing customised system solutions.

Mouser Electronics has signed global distribution agreements with Würth Electronics Midcom, a company that focuses on the manufacture of inductors, with DeLorme, a supplier of mapping and GPS products, with Sagrad, to carry their portfolio of WiFi products, and with Leadis Technology, a fabless analog and mixed-signal semiconductors company. Mouser Electronics also announced the availability of the latest catalog for 2009. The new catalog (Feb – April 09) features 2,184 pages of the newest products and technologies from over 390 premiere electronic component suppliers. In the last quarter alone, Mouser has added over 25,000 new products to the online and free print catalog. ■