THE SANDBOX

What's happening behind the scenes in the semiconductor manufacturing industry? Read this blog by Senior Editor Ann Steffora Mutschler to find out - and chime in with your thoughts and questions.

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Friday, July 20, 2007

Private equity: Good, bad or just plain ugly?

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Editor's Note:* **Semico Research Corp. *recently spun off some of its analysts to form* **Semiconductor Partners***, to focus on strategic and emerging semiconductor technologies including but not limited to semiconductor manufacturing, memories, advanced packaging, and RF technologies. Analysts that moved over from Semico are Mike Caldwell, founder/partner; Joanne Itow, managing partner; Morry Marshall, partner, strategic technologies; and Adrienne Downey, director of memory research. Following is a contributed entry from managing partner Joanne Itow.**

Another **Semicon West** is behind us. There are certainly many new equipment and material advancements available or on the horizon to provide great potential for semiconductor product improvement and growth. But as I was listening to the presentations this year, I a subtle difference began showing up in the mix of companies. Today there is a new breed of company out there—the private equity company.

What's the lure of going private? What's the payoff? And is this good for the semiconductor industry?

For starters, companies such as NXP and AMS aren't burdened with the same kind of scrutiny from the financial analyst community as public companies. Compare that with **Novellus, which rolled out new and improved tools** that extend the life of existing fabs and assist in the manufacturing of more efficient, high-volume memory products.

Because Novellus is restricted from commenting on performance or expectations beyond one or two quarters, financial analysts seemed unimpressed about the announcements.

It's true that private equity companies can't offer stock options to attract or retain scarce engineering talent. But public companies aren't in a position to offer those kinds of incentives any longer, either. Moreover, private equity companies claim to be more efficient with their funds because they are more accountable. We've certainly seen consolidation and budget cuts (including layoffs) at private equity companies, but is that any different from other buyouts or mergers?

Trends that become as widespread and pervasive as the private equity movement set off my caution light. What impact will this have on the industry five years from now? Most private equity investors admit they are hoping for a three- to five-year turnaround in their investment. What kind of strategy will be put into place for long-term viability of the company if the goal is to turn the company in five years? What incentives are there to participate in programs that aren't expected to show a return for 8 or 10 years?

And in three to five years, who will be on the list of potential buyers? Another semiconductor company looking to diversify? An OEM looking to expand up the food chain? Another private equity investor? Will this make sense in five years?

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In spite of my concerns, I was impressed with the private equity companies I talked with this week. They are enthusiastic about the vision and direction of their companies' activities so far. **NXP is shaping up** to be a lean, mean consumer machine with a very flexible and fast response time to **market signals**.

And AMS has new, innovative **solutions in the pipeline** to help solve the **advanced metrology challenges**.

The question still remains as to whether investors will know when a good thing has run its course. Will **private equity** fund managers stop buying up companies before the laws of diminishing returns begin to kick in? It's still very possible that the lure of a quick return will drive the buyout trend until there are no longer any returns to be made. Then who will be left holding the bad debt?

--Joanne Itow, Managing Partner, Semiconductor Partners

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