

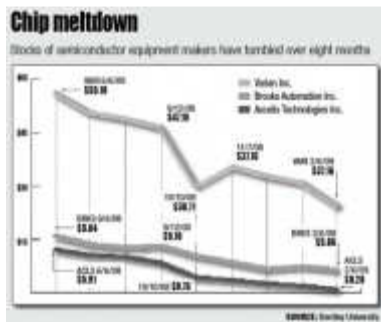


<http://www.masshightech.com/stories/2009/02/09/weekly14-Semiconductor-gear-makers-struggle-as-demand-plummets.html>

Friday, February 13, 2009

Semiconductor gear makers struggle as demand plummets

By Efrain Viscarolasaga



The drastic drop in consumer demand for electronics has had a crushing effect on the semiconductor industry, and local chip equipment manufacturers are paying the price.

Over the past four months, the region's well-known makers of equipment used in the manufacture of semiconductors have released some shocking numbers: Chelmsford's [Brooks Automation Inc.](#) laid off 550 people in January; Beverly's [Axcelis Technologies Inc.](#) laid off 200 in October and missed an interest payment on an \$85 million convertible loan in mid-January; and Gloucester's [Varian Semiconductor Equipment Associates Inc.](#) reported a 53.7 percent drop in quarterly revenue.

The slide was not wholly unexpected, but its depths have been: Research firm [Gartner Inc.](#) recently reported a 30.6 percent decline in worldwide semiconductor capital equipment spending in 2008, significantly larger than the 25.2 percent drop the firm previously projected. On the heels of that news, the firm adjusted its 2009 predictions from an expected 12.8 percent drop to a 31.7 percent downturn.

In a recent statement, Varian CEO [Gary Dickerson](#) called the deterioration in the semiconductor capital equipment industry "unprecedented."

The driving force behind the drop is simple supply-side economics, say experts. Consumers are not buying electronic devices at the rate they once were, so manufacturers are making fewer products, which use fewer chips, which means less need for expensive equipment to make new semiconductors.

The jolt is being felt by equipment and chip makers of all sizes.

“Chip factories are running at about 30 percent utilization,” said [Peter van der Meulen](#), founder and chairman of Andover-based [BlueShift Technologies Inc.](#), a privately held, 23-employee company that makes semiconductor equipment such as robotic wafer-handling machines. “That means they don’t need capital equipment and are making the best with what they already have.”

The immediate future doesn’t look bright. In its revenue guidance, Varian predicted revenue of between \$60 million and \$70 million for the current quarter, a significant drop from the \$255 million the company reported in the same quarter last year, and a drop of \$30 million to \$40 million from last quarter’s \$107 million in total sales.

In 2007, Varian, Brooks Automation and Axcelis employed more than 5,100 people worldwide, with the majority of each company’s work force located in New England. Brooks Automation and Axcelis laid off more than 750 combined over the past four months, and Varian avoided layoffs by shortening workweeks and other cost cutting. The three firms’ stock prices also reflect the sector’s dire situation, with Axcelis taking the hardest hit: Its stock has lost almost 95 percent of its value over the past six months.

While capital equipment makers are perceived as the end of the semiconductor value chain, the rest of the industry is getting hit hard as well, locally and outside the region. South Portland, Maine-based Fairchild Semiconductor Inc. reported layoffs of 1,100 workers in December and has seen its stock price fall from approximately \$14 per share last August to \$4.30 per share this week. Teradyne Inc. of North Reading, a maker of semiconductor testing equipment, cut 532 jobs in January.

And last month, industry giant Intel Corp. announced the closing of five manufacturing plants, though its regional plant in Hudson was spared.

There could be a light at the end of the tunnel for the publicly traded companies. According to van der Meulen, companies in the capital equipment space are well-accustomed to market fluctuations and, as a result, tend to keep a lot of cash on hand. Once the industry begins to turn around, what is left of that cash is usually used to fund consolidation and acquisitions.

Varian and Brooks Automation are both examples. As of their last quarterly reports, Varian had \$170 million in cash on hand and Brooks Automation reported \$78 million on hand.

[William Burke](#), CFO of Andover-based fabless semiconductor maker [SigE Semiconductor Inc.](#) echoed the sentiment for consolidation in the semiconductor industry as a whole, and pointed to this week’s acquisition of California-based GPS chip maker [SiRF Technology Holdings Inc.](#) by British Bluetooth integrated circuit maker [CSR plc](#) for \$139 million, as an example of what may come.

Burke also said there are small opportunities in a down market. His company, for example, has been able to buy equipment at bargain prices that it otherwise would have leased. In addition, many manufacturers continue to invest in new-product R&D, which has produced some revenue for equipment makers.

“We continue to hear from companies that they are reducing their investment in capacity, but are continuing to invest in research and development, which requires some form of equipment,” said Joanne Itow, managing director of the manufacturing practice at Semico Research in Arizona.

That said, any turnaround will take some time.

“Once consumer spending goes back, it will start, but there is going to be some lag time,” said van der Meulen. “I think the general consensus is that 2009 will be down about 30 percent, and we won’t see a pickup until 2010.”