

Semico Maintains Optimistic 17.3 percent Growth Projection for Semiconductors

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Semico is projecting a strong semiconductor market this year, with positive growth in all four quarters and a 17.3 percent annual revenue growth. Semico's Inflection Point Indicator (IPI) ticked up a notch in December to 16.2. The IPI has risen above 16 for four of the last five months, and has been on an upward trend since May 2005.

Semico says its optimism is founded on the momentum generated from strong year-end numbers. Final worldwide semiconductor revenue shipment data just released by the SIA showed total revenue shipments in December were \$21.8 billion, an increase of 10.6 percent. Year-over-year, December 2005 revenue shipments were up 12.2%. Overall, 2005 finished with 6.8% growth, with total worldwide semiconductor revenue shipments reaching \$227.6 billion.

A number of other indicators further supports Semico's forecast. Robust demand has a number of companies reporting stronger-than-expected results. TSMC, for example, reported both revenues and net income increased both sequentially and year-over-year in 4Q05, topping the company's previous guidance. TSMC also reported the foundry was running at full capacity.

On the communications side, Cisco delivered solid revenue and earnings per share results during its second quarter, the period ending January 28, 2006. The company cites strong order momentum as a result of its strategy focused on the convergence of voice, video, and data.

Another indicator supporting our optimistic forecast is inventory -- the dreaded word of the year in 2004. December inventory levels for Electronic computers, Non-defense communications, and Electronic components are significantly lower than they were a year ago, substantiating a healthy market in which inventories are not an issue.

Semico expects the market to strengthen on increased demand for notebook computers and consumer products. Consumers are certainly doing their part to drive semiconductor growth. Retail sales excluding autos were up 2.2% in January, the greatest increase since 1999. Including autos, retail sales were up 2.3%, the best showing in 20 months.

The consumer confidence index surged in January to 106.3, the highest level since June 2002. The unemployment rate fell to its lowest level since July 2001, sliding to 4.7%, indicating the labor market is strong. American assessments of current economic conditions and positive views of their job market will spur purchases of new gadgets.

If the activity at the 2006 3GSM World Congress in Barcelona is any indication, demand will be hot during the next couple of years for replacement products and new gadgets. Mobile phone operators are teaming up to roll out interoperable instant messaging and VoIP services, and 3G is a part of many operators' technology migration strategy. In a sign of the times, Israeli operator Cellcom has announced the launch of a reality show that is accessible only to mobile subscribers.

It seems like yesterday that camera phones were just emerging, and now Johnson Electric Holdings Limited has launched a high-precision motion technology module for in-focus zoom in camera phones. Innovation has always spurred growth, and the trend continues in the cell phone market.

The advent of new cell phone types will add to the already solid worldwide semiconductor unit shipment levels. In 2005, unit shipments increased 6.5%. This positive trend is expected to continue into 2006, with unit growth projected at a solid 10.5%. Looking at the most up-to-date data available -- December 2005 -- unit shipments rose 4.9% to 43.0 billion. Year-over-year, December 2005 numbers were up 18.2%.

Aggregate ASPs are doing their part to support overall growth in the market, rising from \$0.482 in November to \$0.508 in December. The aggregate ASP in December was the highest since March 2005.

Geographically speaking, in December both the Americas and Asia Pacific posted revenue growth stronger than the worldwide average of 10.6%. Asia Pacific registered the greatest improvement, boasting a growth of 14.9%, while the Americas posted 11.8%. In contrast, Europe and Japan had only single-digit growth, 5.9% and 2.7%, respectively.

Overall, Asia Pacific continues to make gains in the industry. This region increased its worldwide revenue shipment market share, from 41.7% in 2004 to 45.4% in 2005. This came at the expense of every other region. Japan felt the greatest pain, dropping 2.1 percentage points, followed by Europe, which fell 1.2 percentage points. The Americas remained relatively stable, falling from an 18.3% share of revenue shipments in 2004 to 17.9% in 2005.

About the market research report

Semico Research developed the Inflection Point Indicator to assist in forecasting semiconductor revenues approximately three quarters in advance. IPI combined with Semico's bill-of-materials, end-market analysis and primary research has helped Semico Research accurately forecast the industry ahead of all the other prognosticators.