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3 Questions:

Have A Chip
Optimizing Infrastructure, June 30, 2005

With Jim Feldhan, president of Semico Research Corp., Phoenix, Ariz.

Question: Semico recently revised its 2005 forecast with a projection that semiconductor revenue will increase 2 percent to \$217.3 billion. Apart from being a good economic indicator, what might an IT manager or an IT professional at a large enterprise take away from such numbers?

Feldhan: An IT professional will see a slight impact in the competitive environment that exists for the products he or she buys. As an example, memory prices in the short term are declining, and an IT buyer will experience market conditions that would be described as a buyer's market. However, by 2006 prices will stabilize and may even increase as demand improves.

Question: Your forecast projects the second quarter will be weakest, but also foresees a revenue peak in November, followed by a weaker December. Is this typical seasonal activity or are some other forces at work here?

Feldhan: Second-quarter weakness is not a historical trend. Instead, second quarter is typically a stronger quarter as production is ramping for new products to fill the channel for IT sales in the second half of the year. This year, however, Semico forecasts weakness, which is attributed to excess inventories as well as a decline in aggregate prices. The revenue peak in November followed by a weaker December is due to two factors. On a weekly run-rate basis, December is historically weaker than November, as shipments of semiconductors destined to meet holiday end-use products have concluded. Secondly, we expect the bulk of the orders to replenish inventories will be shipped prior to December.

Question: According to the graphic that accompanies your June 20 press release, industry-wide revenue seems to have peaked in November 2004. What's been happening since then — less demand, smaller volumes shipped or price erosion per unit?

Feldhan: Market conditions have been at work. In many end markets, demand is still growing but at a slower rate than was experienced in 2004. Additionally, there was an accumulation of excess inventory in 2004 that is being reduced in the first part of 2005. Industry capacity to produce chips has increased faster than demand requires. On top of inventories and slower end markets, excess capacity has an additive downward pressure on prices.