

Business Update

Chip industry growth assessed

By Ed Taylor, Tribune

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The semiconductor industry is becoming a more mature business, and its long-term growth prospects are slowing, the chief executive of Freescale Semiconductor said.

Instead of expanding more rapidly than the overall economy, the industry may have to settle for a growth pattern more in line with the gross domestic product, chairman Michel Mayer told a conference of industry executives Tuesday at the Wild Horse Pass Resort on the Gila River Indian Community.

"We may not like it, it may not feel good," he said. "But it happened to a lot of very good industries before us — steel, railways. . . . There are people who still make lots of money in those industries, but the rules of the game are different."

In a mature industry, the competitive performance and the size of individual companies will become more important, he said. Also semiconductor companies will have to pay more attention to making money instead of focusing primarily on advancing technology, he said.

Another characteristic of a more mature industry is swings in the business cycle from expansion to recession and back again may not be as volatile as in the past, he said. The industry may do a better job of adjusting to changes in supply and demand and avoiding over expansion of manufacturing capacity, he said.

Freescale, which was spun off from Motorola last year, is staking its future on producing chips for three primary markets that Mayer believes have good growth prospects — automotive, wireless communications and networking.

Mayer said the semiconductor content of automobiles will continue to grow as new capabilities are added such as sensors that monitor tire pressure and lights and windshield wipers that turn on automatically based on driving conditions.

Also he sees wireless technology expanding beyond telephones to include, for example, wireless highdefinition televisions that can hang on the living room wall without unsightly dangling wires.

The Austin, Texas-based company is the third largest U.S.-based semiconductor company with annual revenue of about \$5.8 billion and operates chip-fabricating plants in Chandler and Tempe.

Looking at the shorter term, other speakers at the conference said semiconductor sales will be flat this year, but the industry is poised for a rebound in 2006.

Jim Feldhan, president of Semico Research Corp., a Phoenix-based industry consulting and research firm that organized the conference, said his analysis of inventory levels and booking and billing activity shows the turnaround could start as soon as August or September.

He added that the next three years should be good for the industry with the next downturn not likely until 2009.

John Bourgoïn, president of MIPS Technologies, a developer of embedded processors, said increasing design activity in the industry points to a sales recovery in 2006.

He said demand for semiconductors will be driven by consumer products such as digital televisions, DVD players and recorders, digital cameras and cell phones.

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