

Semiconductors

## Third Fab's a Charm for AMD

By Alexei Oreskovic

TheStreet.com Staff Reporter

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With its computer microprocessors continuing to gain market share, Advanced Micro Devices (AMD:NYSE) is expected to detail plans to build a third chip-manufacturing facility Monday.

The new facility would be located in Dresden, Germany, alongside AMD's other two fabs, and could boost the company's wafer production by up to 50%, according to some estimates.

An AMD spokesman said he couldn't confirm any specific rumors, but said AMD will be holding a press conference in Dresden on Monday morning, and that an announcement will be made.

According to Dave Cavanaugh, a semiconductor-equipment analyst at Semico Research, several industry insiders have informed him that AMD will announce plans next week to erect a new chip-fabrication facility in Dresden.

Cavanaugh said that the timing would fit in with previous comments by AMD CEO Hector Ruiz, who has said the company would provide details about additional manufacturing plans in mid-2006.

During the past year, AMD has been gaining ground on Intel (INTC:Nasdaq), the world's dominant supplier of microprocessors, thanks to the popularity of its dual-core processors for servers and desktop PCs.

Last week, AMD's stock received a 10% pop after Dell (DELL:Nasdaq), the world's No.1 PC maker and a longtime Intel-only vendor, announced that it would begin using AMD Opteron processors in some of its servers.

AMD has said it intends to grab 25% to 30% of the overall PC market share in the next couple of years, up from its current share, which is between 17% and 20%, depending on the estimates.

To meet the projected demand, AMD needs to ensure that it has sufficient manufacturing capacity.

In April, AMD announced that it had begun shipping production chips from Fab36, its second manufacturing facility in Dresden. And the company has inked a deal with contract chip manufacturer Chartered Semiconductor (CHRT:Nasdaq), providing it with extra manufacturing capacity.

Even so, Len Jelinek, at semiconductor-manufacturing analyst iSuppli, said AMD will run out of space at Fab36 in two years.

A new fab could provide AMD with capacity to produce 20,000 to 30,000 wafers a month, depending on how aggressive the company chooses to be, says Jelinek. He estimated AMD's current wafer capacity at around 50,000 wafers.

"Right now they have an excellent product with dual-core that's allowed them to expand in the marketplace," said Jelinek. "If they're able to maintain that trajectory of growth, then one could see them going for a building closer in the 30,000 wafer range."

Of course, too much capacity can quickly become a costly liability if demand slows or competition heats up.

Intel has vowed to retake market share from AMD beginning this summer, when it ships a line of processors featuring the new Core microarchitecture. Intel's new processors will be built using advanced 65-nanometer circuitry, which allows the company to squeeze more transistors onto an individual chip, increasing performance and functionality. Intel plans to begin manufacturing even more-advanced 45-nanometer chips in the second half of 2007.

AMD's new fab will probably take two years to get running, and will likely begin manufacturing chips that feature 65-nanometer circuitry, before evolving to producing chips with 45-nanometer dimensions, say analysts.

While AMD currently has its two fabs located in Dresden, there has been speculation that the company might opt to build its newest facility in the Asia-Pacific region, where labor costs are lower.

Semico's Cavanaugh, however, says that automation at the most advanced fabs require fewer workers, making labor costs a smaller factor in deciding where to build a facility.

More important, says Cavanaugh, is the quality of the local infrastructure, such as reliable power and water supplies, as well as roads and transportation to facilitate shipping the products.

Since Dresden already provides this kind of infrastructure to AMD's existing facilities, there's a benefit to expanding there.

Shares of AMD closed Friday up 66 cents, or 2.1%, to \$31.63.