

**DECEMBER 3, 2007**

## **2008 Capital Spending—Shaking the Foundation of the IC Industry**

*Semiconductor industry capital spending forecast to drop 9% in 2008*

In January 2007, General Motors' President, Bob Lutz, stated that GM would intentionally cut back its fleet sales (i.e., rental cars) by at least 100,000 vehicles in 2007. At the same time, Ford Motor Company also voiced its plans for a similar cutback in fleet sales. It should be noted that these announcements came at a time when the two auto makers were, and still are, involved in a desperate struggle for automotive marketshare with Toyota and others.

Move forward to October 2007. In its 3Q07 financial report, UMC made this bombshell statement:

"CAPEX for 2008 will be significantly reduced relative to 2007..... ***From now on, increasing profitability will be UMC's number one business objective.*** However, this goal will not happen overnight. A solid beginning will be the implementation of a disciplined CAPEX strategy."  
(italics added)

### **MORE INFORMATION CONTACT**

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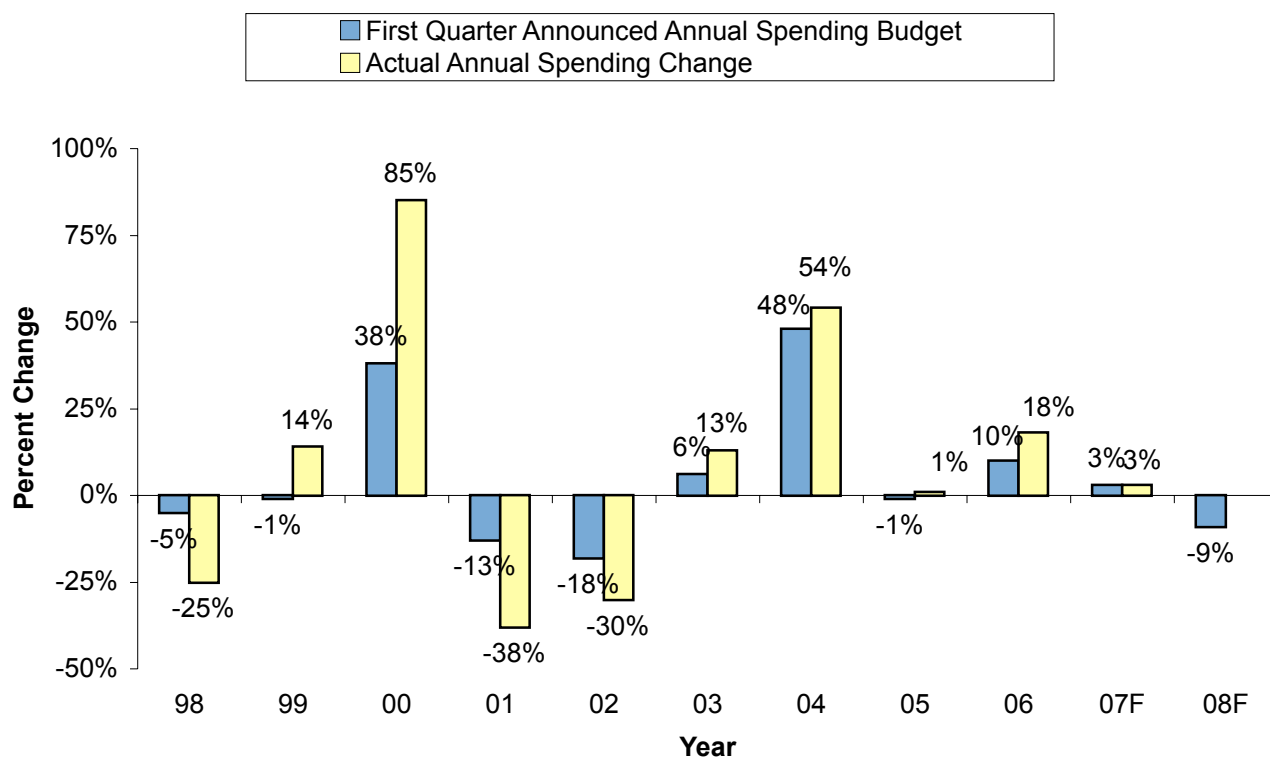
What ties these two seemingly unrelated situations together? In IC Insights' opinion, an increasing number of companies in the automotive and semiconductor industries have reached their "pain threshold" for pricing pressures and low profit margins! In both of these cases, marketshare gains are willing to be sacrificed in order to achieve higher profits.

In the automobile world, fleet sales are an *extremely* low margin business. It currently appears that GM and Ford have reached the breaking point where they would rather walk away from selling tens or hundreds of thousands of automobiles to rental car companies, and lose unit marketshare to their competitors, than to continue in this low margin segment.

Although IC Insights highlighted a paragraph describing UMC's increased emphasis on profitability, its message can be applied to a rising number of companies throughout the semiconductor industry. Other major IC foundries and many DRAM producers are expected to follow UMC's example, at least for 2008.

In total, a 3% increase in capital spending is expected for 2007 after an 18% increase in 2006. A 3% capital spending increase exactly matches what the surveyed companies, in total, budgeted for the year (Figure 1). Since 2004, semiconductor companies, in total, have essentially stuck by the budget levels they announced early in the year, with the notable exception to this trend being the DRAM and flash memory suppliers spending surge (over 40% increases in each segment) in 2006.

### First Quarter Worldwide Semiconductor Capital Spending Budgets vs. Actual Annual Expenditures



Source: IC Insights

**Figure 1**

Although total semiconductor industry capital spending is forecast to increase 3% in 2007, Samsung is expected to increase its spending by 22% this year—to an astounding \$8.33 billion. In fact, Samsung’s capital spending as a percent of sales level is expected to be 41% in 2007, about twice the industry-average ratio of 22%.

Even with Intel lowering its capital spending budget by 15% for 2007, Intel and Samsung are collectively expected to represent about 24% of worldwide semiconductor capital expenditures this year! Given the importance of these two companies, the semiconductor equipment suppliers are waiting with great anticipation for Intel and Samsung to announce their 2008 spending budgets.

As shown in Figure 1, total semiconductor industry capital expenditures are forecast to decline by 9% in 2008 to \$51.0 billion. As of early December, the two largest semiconductor industry capital spenders—Samsung and Intel—had not released their 2008 capital spending guidance. Depending on what Samsung and Intel budget, IC Insights believes the total 2008 industry-wide capital spending level could be about  $\pm 4$  percentage points from the current forecast of -9%.

*Thus, at the present time, it appears that the "best-case" scenario for semiconductor industry capital spending in 2008 is -5%.*

The top five spending cutbacks in 2008 are expected to come from major DRAM suppliers—Micron, ProMOS, Samsung, Hynix, and Nanya. After increasing total spending for DRAM by 44% in 2006, the DRAM suppliers "paid" for this overspending with a price collapse in 2007. Heading into 2008, many DRAM suppliers have collectively (though most likely not through illegal means this time!) come to the conclusion that big spending cutbacks are needed to restore some sanity to DRAM ASPs next year.

For 2008, IC Insights is forecasting a 10% increase in the semiconductor market. Assuming this growth takes place, the semiconductor capital spending as a percent of sales ratio for next year would be only 18%, down from 22% this year. At only 18%, it would be the lowest ratio since 2003, the year before the big boom year of 2004 (in which IC ASPs increased 10%). Overall, the industry-wide capital spending as a percent of sales ratio is continuing to trend downwards and is likely to reside in the "high-teens" range during the latter half of this decade.

## Report Details

IC Insights examines semiconductor industry capital spending trends in *The McClean Report—A Complete Analysis and Forecast of the Integrated Circuit Industry*. Including the main 400-page report published in January and free monthly updates March through November, the complete year-long *McClean Report* service offers over 700 tables and graphs of valuable market research data. The 2008 edition will be available beginning in January of 2008. A single copy of the main report in CD-ROM or binder format is priced at \$2,790. A bundled CD-binder set is priced at \$3,285. An Internet access password is available as a \$695 option. The report is also available under a multi-user corporate license for \$5,990.

### About IC Insights

IC Insights, Inc., based in Scottsdale, Arizona USA, is dedicated to providing high-quality, cost-effective market research for the semiconductor industry. Founded in 1997, IC Insights offers coverage of global economic trends, the semiconductor market forecast, capital spending and fab capacity trends, product market details, and technology trends, as well as complete IC company profiles and evaluations of end-use applications driving demand for ICs.

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