RESEARCH BULLETIN

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Capital Spending Cutbacks Put IC Industry on "Collision Course"

With IC fab utilization over 90%, higher IC average selling prices forecast to result.

Current spending plans by IC manufacturers worldwide will lower total semiconductor capital expenditures by 18% to $49.7 billion in 2008 from $60.3 billion in 2007, according to new data collected by IC Insights.

MORE INFORMATION CONTACT

Bill McClean
President
IC Insights, Inc.
Phone: +1-480-348-1133
Email: bill@icinsights.com

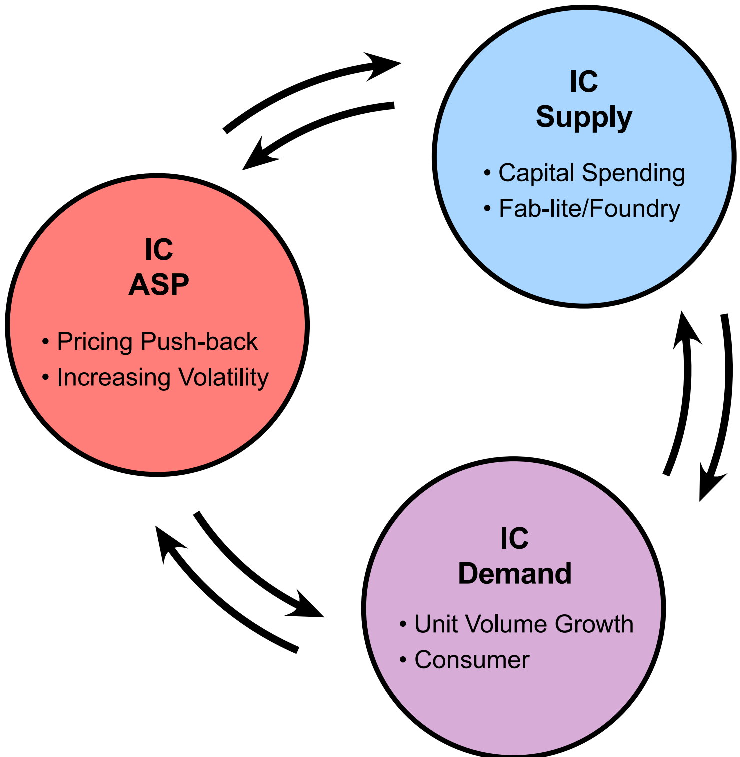
Capital expenditure estimates for 2008 have been sliding since the end of 2007 (-9% projected in December and -18% now), but it's unlikely that additional significant reductions will occur through the rest of this year, given the relatively high capacity utilization rates being seen in most manufacturing segments in the chip industry, concludes IC Insights.

Overall, fab capacity utilization is forecast to be at an average over 90% in 2008, up from 89% in 2007. In 1Q08, wafer fab utilization stood at 91% worldwide. However, 300mm fab utilization rates were at an extremely high level of 96% in 1Q08, and it is worth noting that about 85% of all DRAMs and 32/64-bit microprocessors are now fabricated on 300mm diameter wafers. Considering the strong unit growth rates being seen in memory and logic ICs, there simply isn't much *wiggle room* for additional cuts in capital spending budgets at most chipmakers, based on the latest analysis from IC Insights' online *Strategic Reviews* database of semiconductor suppliers.

IC Insights expects 2008 capital spending as a percentage of semiconductor sales to be at 17.8%, which would be the lowest ratio over the past 30 years! All this is occurring while IC unit volume shipments are forecast to increase at a healthy 8% rate in 2008.

With a growing number of large IC companies outsourcing more products to foundries and major pure-play wafer foundries aiming to increase profitability by controlling capital spending, IC Insights believes the IC industry continues on a "collision course" with respect to supply, demand, and average selling prices or ASPs (Figure 1). IC Insights first identified this collision course in the 2008 edition of *The McClean Report*, which was released in January 2008. Tight supply conditions and rising IC ASPs are expected over the next five years. Capex as a percentage of semiconductor sales went from an average of 27% in the late 1990s to 21% in the early years of this decade. Moreover, IC Insights forecasts that capital spending as a percentage of sales will average only 17-18% between 2008 and 2012.

The Upcoming "Collision Course"



Source: IC Insights

Figure 1

Report Details

Additional details about capital spending and capacity utilization through 2012 can be found in the 2008 edition of *The McClean Report,* IC Insights' complete analysis and forecast of the integrated circuit market. Packed with 400 tables and graphs, the report is available in three-ring binder, CD-ROM, and on-line formats, and also comes with free monthly updates by e-mail from March through November. A single copy of the 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.

Detailed company profiles of more than 220 IC suppliers, including their 5-year sales and capital expenditures figures, key management, product/services offered, strategic alliances, process technology, and detailed wafer fab information is offered in IC Insights' *Strategic Reviews* database. The online database recently completed a major revision and receives ongoing updates throughout the year. A 12-month, single-user subscription to *Strategic Reviews* is priced at $2,290. Access is also available under a multi-user corporate license for $3,990.

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.

Web Site: www.icinsights.com • **Phone:** +1-480-348-1133 • **E-mail:** info@icinsights.com