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DRAM Producers to Fall Behind the Curve in Capital Spending

DRAM average selling prices to surge in 2010!

According to the 2009 edition of IC Insights' *McClean Report*, to be released next month, DRAM manufacturers are severely overreacting to the current downturn in the DRAM market. This overreaction is in the form of slashed capital spending outlays that will leave the DRAM producers unable to meet strong demand in 2010 and 2011. The result will be surging average selling prices for DRAM devices beginning in 2010.

Historically, the DRAM segment has been the leading example of extreme market volatility in the IC industry. Although the DRAM suppliers made some strides toward maturity in the early 2000s, in 2006 and 2007 they reverted to their past bad habit of overspending for new production facilities. This overspending resulted in the disastrous conditions currently being felt in the DRAM market (forecast to decline over 20% this year).

You need only to go back to 2006 to find a booming DRAM market! Given the current state of the DRAM market it is difficult to believe how strong this segment was only two short years ago.

2006 DRAM Unit Growth: +14%
2006 DRAM Average Selling Price Increase: +17%
2006 DRAM Market Growth: +32%!!!!!!

What caused a 32% DRAM market surge in a year when the total IC market increased only 9%? The answer is under-spending in the previous two years! Having been burned by years of losses and competitive pressures, the DRAM suppliers began to rationalize their capital spending outlays as shown below.

2004 DRAM Capital Expenditures: \$9.1B
2005 DRAM Capital Expenditures: \$10.2B
Total 2004-2005 DRAM Capital Expenditures: \$19.3B

When the DRAM market took off in 2006, rational thinking went "out the window" and big spending was the new mantra. Compare the 2004-2005 DRAM capital spending above with what took place in 2006 and 2007 below.

MORE INFORMATION CONTACT

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

2006 DRAM Capital Expenditures: \$15.6B
2007 DRAM Capital Expenditures: \$18.7B
Total 2006-2007 DRAM Capital Expenditures: \$34.3B

As shown, the 2006-2007 DRAM capital expenditures were 78% greater than the amount spent in 2004-2005. After looking at the figures, it is easy to see why the 2008 DRAM market is in such a slump.

However, currently, the ingrained overreaction "personality" of the DRAM producers is once again coming to the forefront. Consider the 2008 spending outlays and 2009 budgets for DRAM capital expenditures as shown below.

2008 DRAM Capital Expenditures: \$9.6B
2009F DRAM Capital Expenditures: \$7.3B
Total 2008-2009F DRAM Capital Expenditures: \$16.9B

Yes, you are seeing it correctly; the DRAM producers are budgeting to spend 12% less on capital expenditures in 2008-2009 than they spent in 2004-2005! Moreover, we have seen the result of such conservative capital spending outlays with what happened to the DRAM market in 2006.

After the global recession-induced slowdown in 2009, pent-up demand for DRAM-rich electronic systems in 2010 and beyond is highly likely to cause DRAM unit prices to surge (this surge could actually begin in the second half of 2009). This jump in prices will once again give the DRAM producer renewed confidence, leading to moderate increases in DRAM spending in 2010 and big DRAM capital expenditure increases in 2011. Of course, the size of the capital expenditure outlays in 2010-2011 will determine how long the DRAM market "recovery" lasts the next time around.

Report Details

Additional details about capital spending and capacity utilization through 2013 can be found in the 2009 edition of *The McClean Report (released in January 2009)*, 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 \$2,890. A bundled CD-binder set is priced at \$3,385. 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

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