RESEARCH BULLETIN

IC Insights

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IC Foundry Suppliers Heading for Record Capex Spending in 2011

Is excess capacity in the IC foundry business close behind?

A tremendous surge in capital spending plans among some of the largest pure-play and IDM foundries in 2011 may result in an overcapacity situation in the foundry business by the end of next year, according to data presented in the recently released 2011 edition of IC Insights' *McClean Report.* In fact, the combined foundry industry capital spending in 2010 and 2011 is expected to be only 5% less than the foundry spending in the five-year period of 2005-2009 (Figure 1)!

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A big upswing in capital spending, and the overcapacity that typically follows, has been an all-too common theme of some other IC market segments—namely DRAM and flash memory. Now, that situation stands a good chance of spilling over to the IC foundry segment in the near future due to a big increase in 2011 capital spending among several leading foundry suppliers.

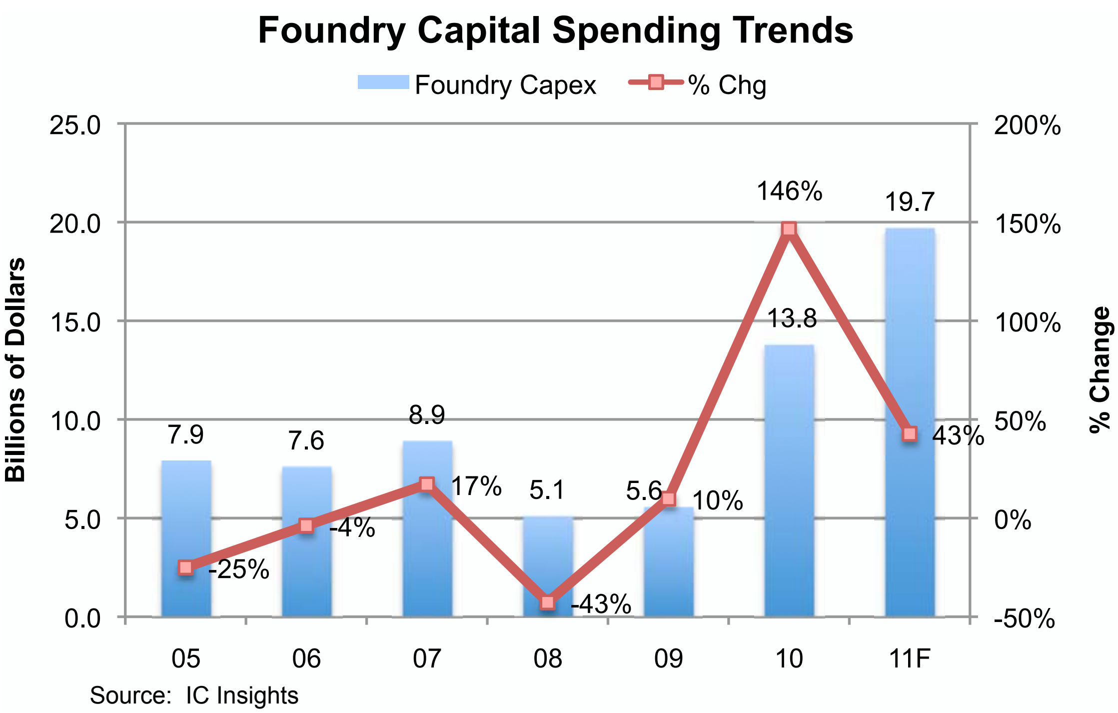

Figure 1

Pure-play foundries GlobalFoundries and TSMC announced major increases to their respective capex spending plans for 2011. GlobalFoundries increased its 2011 capex budget to $5.4 billion, an increase of 96% compared to 2010. Meanwhile, TSMC boosted its capex budget to $7.8 billion for 2011, an increase of 32% over 2010. UMC's $1.8 billion capex budget in 2011 is forecast to be flat with 2010, which was up 227% from the $551 million the company spent in 2009. Meanwhile, Samsung's $9.2 billion total semiconductor capex budget for 2011 includes a major upgrade to an existing fab or a brand new fab specifically dedicated to its foundry business. As shown in Figure 1, collectively, capital spending among IC foundry players (pure-play and IDM foundries) is expected to grow 43% in 2011 to $19.7 billion, up from $13.8 billion in 2010, which was a 146% increase over 2009.

In some respects, an increase in capital spending among foundry suppliers is necessary to accommodate the growing wave of semiconductor companies that are migrating to the fab-lite/fabless business model (e.g., ST, Toshiba, etc.). Moreover, in IC Insights' opinion, the big surge in foundry spending in 2010 was justified given the extremely low levels of spending in 2008 and 2009. However, IC Insights sees a situation developing in which the extremely large amount of capital spending planned for 2011, and possibly 2012 as well, would lead to excess capacity and lower per-wafer revenues for the foundries. Thus, if the major IC foundries continue to spend at 2011 levels in 2012, the foundry industry is highly likely to enter a period of overcapacity before the end of next year.

Report Details

IC Insights has released the new 2011 edition of *The McClean Report*. Packed with 363 tables and graphs, the 2011 *McClean Report* subscription also comes with free monthly updates by e-mail from March-November (including a 200+ page *Mid-Year Report*). A single-user subscription to the 2011 edition of *The McClean Report* is priced at $3,190 and includes an Internet access password. The subscription is also available under a multi-user worldwide corporate license for $6,290.

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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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