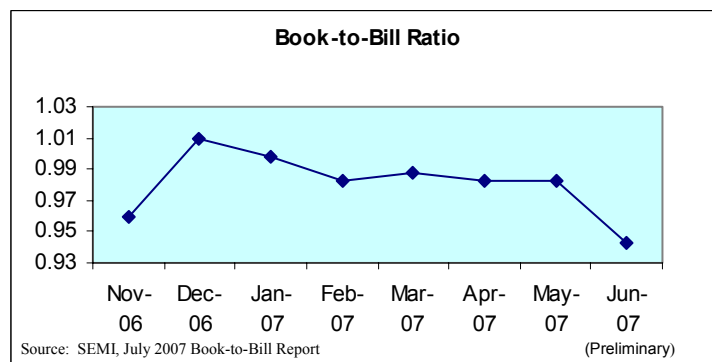


## Book-to-Bill Ratio Remains Strong

North American-based manufacturers of semiconductor equipment posted \$1.64 billion in bookings in May 2007 (three-month average basis) and a book-to-bill ratio of 0.98 according to the July 2007 Book-to-Bill Report published by SEMI. A book-to-bill of 1.00 means that \$100 worth of orders were received for every \$100 of product billed for the month.



The three-month average of worldwide *bookings* in June 2007 was estimated at \$1.65 billion. The bookings figure for May is down from the high of \$1.78 billion in June '06 but still marginally up from the value a year ago of \$1.62 billion. Although the June ratio forecast appears to foretell a weakness, billings are forecast to establish a record high of \$1.75 billion in July '07, producing what looks like a drop in activity in spite of a month-over-month gain in bookings.

Of note, the three-month average of worldwide *billings* in April 2007 was \$1.60 billion. The billings figure is over 11 percent higher than the final March 2007 level of \$1.44 billion and almost 11 percent higher than the April 2006 billings level of \$1.44 billion.

"This year, several large integrated device manufacturers are believed to be investing a substantial part of their capex in the first quarter. This is one reason that the April book-to-bill report shows strong gains in both billings and bookings for new semiconductor equipment from North American based suppliers," said Stanley T. Myers, president and CEO of SEMI. "Updated figures also show relative equilibrium of orders and shipments over the past few months, reflecting continued market stability for North American providers of chip making equipment."

## When Fabless is Not So Fabulous for Business

Recently the trend in the semiconductor industry has been to go fabless, but is that the best business model for everyone?

For the past few years companies, especially those that are publicly traded, have been getting out of the fab business and have outsourced their manufacturing to foundries with leading edge capabilities to stay competitive. Total worldwide foundry sales rose 16.7% in 2006 to \$21.5 billion, shrugging off a slowdown in business and an industry-wide inventory buildup to represent nearly 24% of total semiconductor sales, according to data from Gartner Dataquest.

Historically, companies spend 20 percent to 30 percent of revenues for capital expenditures, meaning that a fab can be justified only if it costs about one-third or less of annual revenue. In fact, building a fab is a huge capital investment. Latest estimates put the cost at \$3 billion or more and will continue to go up with each new technology process. And, it's much more than startup costs, as a fab needs regular maintenance, not to mention the cost of tracking new process technologies and constant retooling.

"Logic chips are highly differentiated, but don't require special processes," according to Loren Lancaster, head of Core Capital Group's Electronics and Semiconductor Group. "Consequently, standard manufacturing can be used to make logic chips. This makes outsourcing to foundries a good fit." For example, Texas Instruments, Inc. (TI) recently announced a new hybrid fab strategy that would shift their logic-based processing IC work to foundries, while maintaining their analog production in-house. By turning over more control of logic process development to its foundry partners, TI is also offloading some of the risk. It's a calculated move as the chip industry approaches a new inflection point in manufacturing, with complex technologies introduced for the 45-nm node and beyond.

(See page 2, col. 1)



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## Not So Fabulous *(From page 1, col. 2)*

Companies who are producing sophisticated non-leading-edge devices at low volumes that are able to demand higher prices make good candidates for buying second-hand fabs. For example, cell phones are highly price competitive. However, if you add a feature that is only enabled by one chip the manufacturer will pay more for that chip because it will make the phones sell better. The first cell phone to offer the hot new feature gets a premium so it justifies the more expensive chip price. For chip suppliers like this, building a new fab is extremely cost prohibitive and not necessary. Working with a foundry could be an option, but often you are at the whim of the foundry.

“During down times the foundries are very interested in the business, but the moment a bigger player comes in, the foundry will bump the low volume business and often no longer want to work with that company. A phenomenon that gets worse the closer you get into the sweet spot of an economic growth cycle,” Lancaster commented.

### **Owning a second-hand fab may be the best option.**

“Owning a second-hand fab allows you to control your own destiny. Products can be delayed, advanced or tweaked at will, while production can be monitored,” Lancaster said.

For example, Peregrine Semiconductor had historically contracted its production to a foundry. Outsourcing to a foundry was highly problematic as they could not get the attention they needed which made it difficult to reliably get their products to the market. It was clear they needed to change their strategy and the company decided to buy a second-hand fab in Australia to produce its silicon products. As a result, Peregrine was able to consistently deliver a high quality product to the market and the business achieved significant growth.

Second-hand fabs give you have control of a key resource in good times and bad. Highly specialized and often proprietary designs can be produced and protected. Another benefit is the ability to produce your product at the appropriate generation. You can't go to Ford Motor Company and ask them to produce a 1995 Taurus on their new lines. You have to buy a used Taurus manufacturing line to get what you want. The same thing holds true for chip manufacturing. It is very difficult to manufacture chips that are one or two generations behind the current technology at a new foundry. You preferably would go to an older facility.

### **Good time to buy.**

Now is a good time to buy a second-hand fab. This shift to fabless has created a healthy inventory of second-hand fabs coming on the market. It affords many companies who were fabless by circumstances and not by choice, to bring their production in-house for pennies on the dollar. “We are currently working with a handful of companies looking to sell their fab facilities. These second-hand fabs represent great opportunities for companies looking to bring their manufacturing in-house,” commented Lancaster.

## Recent Transactions

**JDSU (NASDAQ: JDSU; and TSX: JDU)**, a leading enabler of broadband and optical innovation, completed its acquisition of **Picolight**, a leading designer and manufacturer of optical pluggable transceivers. The completion of the deal valued at \$115 million was announced on May 29, 2007.

**KLA-Tencor Corporation (NASDAQ: KLAC)**, the world's leading supplier of process control and yield management solutions completed its acquisition of **Therma-Wave Corporation (Nasdaq: TWAV)**, developers of innovative, proprietary process control metrology products and technologies used in the manufacture of semiconductors. The \$75 million deal was announced May 25, 2007.

A definitive agreement was signed on May 3, 2007 for **Broadcom Corp.** to acquire **Octalica, Inc.** a privately held fabless semiconductor company that specializes in design and development of networking technologies. Irvine, CA-based Broadcom expects to pay approximately \$31 million in cash for all outstanding shares of Octalica's capital stock and other rights of Octalica.

**Esterline Corporation (NYSE:ESL)**, a leading worldwide supplier to the aerospace and defense industry, completed the acquisition of **CMC Electronics** designers and producers of leading technology electronics products on March 15, 2007. The deal is valued at more than \$285 million.

On March 12, 2007, **Polycom, Inc. (NASDAQ: PLCM)** and **SpectraLink Corporation (NASDAQ: SLNK)** announced that the U.S. federal regulatory antitrust waiting period has expired for Polycom's approximately \$220 million acquisition of SpectraLink. Polycom, Inc. is the worldwide leader in unified collaborative communications and SpectraLink is the leader in workplace wireless telephony.

LED Lighting player **Cree Inc. (NASDAQ: CREE)** has inked a definitive agreement to acquire privately held **Cotco Luminant Device Ltd.** in a combined stock and cash transaction valued at \$200 million. The deal was announced on March 12, 2007.

**Natel Engineering**, provider of microelectronics experience and advanced capabilities for a wide range of products and industries, announced the acquisition of **Circuits Processing Technology, Inc. (CPT)**, a wholly owned subsidiary of **Brush Engineered Materials Inc. (NYSE: BW)** in March of this year. CPT is in the business of custom thick-film substrates for the medical, aerospace/military and commercial marketplace. Terms of the transaction were not disclosed.

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