

Music and Pictures Driving Storage Needs and Growth

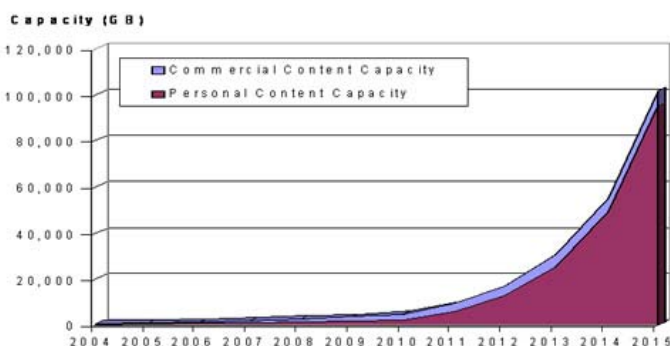
Thanks to the boom in home entertainment and digital photography, the external digital storage market has continued to maintain very strong growth. According to IDC the market will amount to \$19.68 billion this year.

Digital data and its storage were only important topics for the IT sector as recently as 10 years ago. In that time digital storage applications have increased manifold in entertainment electronics due to the rapid development of mobile phones, digital cameras and MP3 players.

Companies providing computing and storage capacity will gain greatly from the growth of internet usage around the world.

"In the Internet, we see in effect limitless opportunities," said Sun Microsystem's vice president of marketing, Juan Carlos Soto. "Media-rich content needs a lot of computing and storage capacity."

In addition to adding storage capacity, Soto expects the needs for more bandwidth and servers will soar over the coming years as parts of the world with rapidly growing economies, such as Asia and Eastern Europe increase their Internet connectivity.



According to The Wave Report, in the next 10-15 years HDD storage in homes will explode to dwarf corporate use. Storage Visionaries predict that within 10 years personal content will exceed commercial. The market success of digital cameras and Youtube shows that content created by individuals is important. Storage technology enables this and brings a shift in the market of how users see content storage and use.

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Semiconductor Sales Seem to Defy Slowing Economy

Historically semiconductor sales have been highly volatile and prone to large swings triggered by the strength of the economy. Market globalization appears to be adding some stability to the semiconductor industry. The Semiconductor Association announced worldwide sales of semiconductors rose 3.2 percent reaching a record \$255.6 billion in 2007 despite price cutting and a weaker economy. This represents the sixth consecutive year of growth.

"The major drivers of demand for semiconductors – personal computers, mobile phones and consumer electronics remained strong in 2007," said SIA president George Scalise. "The past year was another good year for the global semiconductor industry, despite concerns about steep increases in energy costs and the sub-prime mortgage problem."

JPMorgan reports that shipments of personal computers, which account for approximately 40 percent of all semiconductor consumption, grew by 13.8 percent and will grow by 12.2 percent in 2008. Cell phone unit shipments grew by 20 percent to nearly 1.2 billion units in 2007. Current forecasts project 10 to 15 percent growth in unit shipments in 2008.

MP3/PMP player unit sales continue to grow at nearly 20 percent per year. LCD TV units grew by more than 50 percent and digital camera units grew by 20 percent.

Based on the outlook for key demand drivers, SIA is forecasting 7.7 percent industry growth for 2008.

"The strength in the semiconductor market is spilling over into chip manufacturing equipment sales," according to Loren Lancaster, head of Core Capital Group's Electronic and Semiconductor Group.

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Storage *(From page 1, col. 1)*

The emerging global online backup services market is also poised for growth, according to research company IDC. The growth will be fueled by both individuals and small businesses. IDC said it estimates that revenue for this emerging world market would reach \$715 million by 2011, representing a 33.3 percent compound annual growth between 2006 and 2011.

IDC noted that online storage began its transformation in 2007 from a simplified backup option for consumers and small businesses to an offering that can enable larger businesses to bolster recovery operations, regulatory compliance needs and help curb storage infrastructure costs. Even Google is reportedly interested in building online storage technology to take advantage of the lucrative market.

“Consumers and small businesses especially are interested in alternative methods of protecting their data as traditional backup methods fall short regarding efficiency, reliability and ease-of-use,” said Doug Chandler, Research Director for Storage Services at IDC. “Online backup has become an attractive approach for many customers, with the advent of cheaper broadband access, users’ greater comfort level with web-based services, and the growing business need for a second site for remote data protection purposes.”

Unique Buyer’s Perspective Gains Traction in Tight Credit Environment

M&A activity has fallen off in the past six months. BusinessWeek reports that there were 10 percent fewer deals announced the second half of 2007 than in the first half, according to Thomson Financial. And on average those transactions were 63% smaller by dollar value.

In addition the tightening credit market is making it very difficult if not impossible for the highly leveraged deals that were common just a few months ago from getting funding or being completed.

There is a bright spot in this morass of negative economic news and down markets. Berkshire Hathaway-style investing is one area that is still moving forward. Warren Buffet’s company is on a buying spree and other like-minded private equity investors are following suit.

“We have one client in particular who is actively looking for well established, consistent steady companies to buy. They are looking to buy and build, not buy and flip,” according to Loren Lancaster head of Core Capital Group’s Electronic and Semiconductor Group. “Their unique investment criteria gives them access to a great deal of capital that is free of many of the restrictions that often accompany investment capital.”

Having access to capital in today’s environment gives these types of private equity investors an advantage and the ability to move forward and make acquisitions when many are hamstrung by their own aggressive investment style.

Semiconductors *(From page 1, col. 2)*

“Chip equipment sales have finished 2007 as the second strongest year on record.”

The leading manufacturers of semiconductor equipment reported that 2007 has reach \$41.68 billion, according to the year-end edition of the SEMI Capital Equipment Consensus Forecast, released by SEMI in December 2007.

A Positive Voice

A rare voice of optimism can be heard among a chorus of recession worries. According to the BDO Seidman 2008 Technology Outlook Survey, 73% of tech CFOs said they expected their company revenue to increase in 2008 over 2007, while only 15% forecast flat revenue and 6% forecast a decline. They’re not predicting a boom year but are still forecasting growth. Those CFOs who see revenue increasing are expecting 10% growth, on average, while a subset based in Silicon Valley is looking at 15% growth.

The survey pointed to consumer demand as the main driver. Thirty-nine percent of respondents said they expect consumer demand for innovative personal technology to be the biggest driver of industry growth in 2008, followed by international expansion (32%) and higher IT budgets (17%).

Most of the tech CFOs surveyed expect mergers and acquisitions to either accelerate (41%) or stay about the same (42%) this year, while only 17% expect them to slow down. Not surprisingly, they said the primary drivers behind acquisitions in today’s technology market are increasing revenue and profitability (37%), expanding market share (26%) and acquiring technology assets (24%).

Core Capital Group’s Electronics and Semiconductor Group has seen the same trend in activity. “We have seen a significant uptick in interest and activity over the past three months,” commented Loren Lancaster, head of the group at Core Capital. “Buyers are very active, driven by lower interest rates, and they are putting pressure on the sellers. We have several clients seeking advice from us about buyers who keep calling.”

These findings are from the [BDO Seidman 2008 Technology Outlook Survey](#) which examined the opinions of 100 chief financial officers at leading technology companies located throughout the U.S. including a subset in the Silicon Valley. The technology businesses in the study had revenues ranging from more than \$100 million to \$15 billion. The survey was conducted in January of 2008.

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