

Indian Market Growth Impressive and Energizing

Ajit Utagikar, Director India Activities with Core Capital Group's Electronic and Semiconductor Group, recently visited India and was quite impressed by what the market is doing and the robust growth they're experiencing. He shares his impressions with *M&A Review*.

M&A: What was the purpose of the trip?

Utagikar: The intent of the trip was to build communications and business relationships with the key players in the Indian electronics market. We also wanted to better understand their needs and explore how we can help.

M&A: What did you find when you got there?

Utagikar: The energy, excitement and positive view of looking toward the future were refreshing and very contagious. This is in stark contrast to the paralysis that seems to have gripped many US companies. Our discussions centered on what we could do to help Indian electronic companies grow and improve already strong results. When we brought up the idea of divestitures, that idea was



typically dismissed. Companies wanted to talk about mergers, acquisitions and strategic transactions. Indian electronics companies are in a bullish phase and focused on growth.

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Semiconductor Stock Values and Chances of a Double-Dip Recession

According to Neal Rappaport, Ph.D. in economics, given the uncertainty in the market, mainly driven by Europe, public semiconductor stock market capitalizations are likely to experience some volatility and downward pressure through the summer, until there is a clear resolution to European issues.

The past year's strong upward trend – stock prices rising 40% or more, came from unrealistically depressed levels, which led to such a large year over year percentage. “Even if the recovery exceeds current expectations, I expect a modest 5 – 10% increase in stock market capitalizations over the next year,” said Rappaport.



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Moore's Law Advances Shifting

Some have said that advances driven by Moore's Law are slowing down. Others say they have not slowed but are becoming more challenging. In any case, it is important to ask what this could mean for the semiconductor industry as we enter the next growth cycle.



What has become very clear is the economic realities of Moore's Law have caught up to the industry. Semiconductor companies are no longer able to chase improvements in size and speed while ignoring the cost to do so. This dynamic is forcing companies to create competitively differentiated strategies through innovation that don't depend on Moore's Law.

“Technological advancements are being undermined by the cost of improvements and it is increasingly more difficult to get a return on investment,” according to Warner Andrews, vice president of business development and strategic planning with Zarlink Semiconductor. “Semiconductor companies that have focused on mixed signal and have differentiated on architecture and applications have figured out how to make money.”

Companies that continue to ride Moore's Law will remain profit challenged going forward.

Smart middle market semiconductor companies will shift to a more sustainable mature business model, one based on sound business principals that offer a reasonable growth rate.

“Companies need to wean themselves off the silver bullet mentality and stop counting on future innovations driven by Moore's Law to save them,” Andrews added.

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Mr. Utagikar *(From page 1, col. 1)*

M&A: What are the biggest challenges Indian companies are facing in terms of managing growth?

Utagikar: A common mistake is to compare India to China. China is set up to be a high volume low cost manufacturing destination. Conversely, India currently lacks the infrastructure, mind set and skill set for manufacturing the way China is.

India has focused on product design, development, and lifecycle management. Indian electronics companies are moving up the value chain and developing newer applications for existing IP cores.

Within this space, Indian electronics companies face several challenges. The country's infrastructure – power, transportation and taxation – puts up road blocks that must be overcome. Additionally, there is a lack of a coherent and broadly accepted plan that can help the industry to work together and maximize market opportunities. In both cases, positive improvements are being made, but work still remains.

M&A: Where are the opportunities for US companies to do business in India?

Utagikar: It may surprise many US executives to hear the domestic Indian market has developed a large appetite for electronics. It is estimated that the expenditure on electronics in India will surpass expenditure on oil in the next three to five years. The growing middle class and increasing disposable income is fueling the demand.

US companies should be thinking about their India strategy not just in terms of outsourcing work, but as a new market for their products. Products specifically designed and developed for the Indian consumer's needs have a great market. US companies can access the Indian market on their own or by building strategic relationships with Indian companies. India is not a rich country, but is developing and growing very quickly and offers great opportunities.

Double-Dip Recession *(From page 1, col. 1)*

The risk of a double-dip recession over the next year or so is small – probably in the range of about 10%, Rappaport estimates. Globally, the risk is probably about the same. South America and Asia probably have a slightly smaller risk of a double-dip recession than the US, while the Eurozone is probably a bit higher, most likely around 20%.

The real question according to Rappaport is how strong the recovery will be over the next year or so. Given the intensity of the recession, a “typical” recovery could be expected to be in the 5% real growth range. “Such a strong recovery is unlikely; with 3% or so being more likely. The result will be continued pockets of weakness – the labor market and parts of the financial sector – amid a general recovery,” Rappaport commented.

Moore's Law *(From page 1, col. 2)*

This is not to say we have stopped innovating and that technology advances are a thing of the past. There is still a great deal of opportunity and innovative thinking in the industry. The innovation is now coming more from the application of technology rather than changes in the transistors themselves.

Innovation still requires investment to maintain the pace of advancement and stay competitive on the world stage. There needs to be a revolution in the way IP is monetized. Companies can no longer own all the IP and shoulder the complete financial burden for advancement. “We need to harness the innovation and share the rewards,” Andrews said.



R&D investment remains a critical component to success and innovation. The question and challenge is how to continue to fund this line item in the face of economic pressures that are likely to remain for some time.

“We need to work more closely with all the people in the value chain. Working together in virtual alliances to minimize the cost of innovation while reaching a common goal is the key to moving forward,” said Ajit Manocha, principal with Experiedge. “In the past we have not done a good job of working together because we wanted to protect and own all the IP.”

For example, there remains room for scaling and technology advancement at the package level and increased R&D investment can integrate more chips into packages in new and exciting ways. Manocha suggests sharing back-end IP for better test and packaging enhancements. Companies would hold on to the product-level IP. Consider what IBM shared alliances has done for front end development. He suggests the industry works to do the same thing on the back end.

Semiconductor companies need to carefully manage the balance between collaborative innovation and managing expenses. “They need to avoid becoming so sharp and focused as to stifle innovation,” said Manocha.

There is still a great deal of advancement to be made and highly creative and driven people to make it happen. The industry needs take a leadership role to encourage business-driven innovation and collaborate and partner where it makes sense.

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