

Bright Spot Among the Gloom

Amid all the economic doom and gloom splashed in media headlines appears a glimmer of optimism. According to a recent Nielsen Global Consumer Confidence Survey¹ reported in *Nielsen's Consumer Insight Magazine*, consumers in large developing markets view their medium-to-long-term prospects as strong.

Indian consumers are the most optimistic. The survey showed that 51% of consumers in India expect the global recession to end within the next 12 months, the highest of all other nations. One in two Indians believes the local economy will continue to show good growth, and that the global recession will have limited impact on their buoyant domestic market.



In addition, consumers in India were the most optimistic regarding job prospects and personal finances. Seventy five percent were optimistic that their job prospects are good or excellent and 77% expect their personal finances to be in good or excellent shape in the coming year.

This strong consumer sentiment is reflected in Indian semiconductor market projections. Even with the global slowdown which impacts multinational captive companies and start ups, the industry is expected to grow at double digit rates. "The services outsourcing business tends to be less impacted directly by the economic situation, however, organizations face the risk of longer sales cycles and higher price pressures," according to Poornima Shenoy, president of the India Semiconductor Association (ISA).

(See page 2, col. 1)

IMAP Results Show Continued Strength

IMAP ranked sixth in the world for M&A transactions completed with transaction values under \$200 million, according to Thomson Reuters League Tables for 2008. IMAP improved its ranking from seventh place in 2007, solidifying its position as the authority in middle-market M&A transactions and outranking many well-known financial advisors.

"The Thomson Reuters League Table results are a direct reflection of our high-level of success and ability to close deals, even in the current economic environment," said Mark Esbeck, IMAP president.

IMAP is composed of nearly 60 firms with more than 100 offices in 40 countries including North and South America, Eastern and Western Europe, Australia, and Asia. Look for a full IMAP transaction report in the next issue of *M&A Advisor*.

Is It a Blip or a Signal?

A recent SemiBytes report showed a bounce from inventory depletion to inventory replenishment. The question is whether the data represents a blip, or a signal that we may have reached a market bottom, or at least be approaching it? Packaging and testing houses reported significant increases in sales for the month of February 2009 in part due to rush orders from consumer electronics, communications and computer segments.

This is potentially very significant news. "The assembly and test services are the first indication of returned demand for chips in existing inventory and for existing designs near completion in fabs," according to Loren Lancaster, managing director of Core Capital Group's Electronic and Semiconductor Group.

The Chinese government's stimulus program for domestic spending may have contributed to the rise in orders as manufacturers anticipate increased domestic demand. The package includes some less traditional moves, such as giving subsidies to rural residents to buy things like refrigerators and TV sets in an effort to increase domestic consumption.



Silicon foundry business, another key indicator, showed signs of life in February as well. Chartered Semiconductor Manufacturing revised its first quarter guidance upwards. And, Semiconductor Manufacturing Co. Ltd and United Microelectronics Corp reported improvement.

(See page 2, col. 2)



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

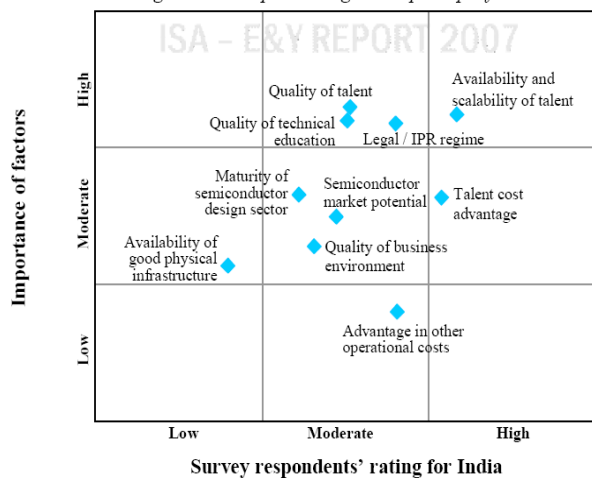
The positive domestic Indian market is based in part on cultural differences. Nielsen reports that Indian investors have been safeguarded by the country's relatively nascent financial market, where savings accounts are the principle investment option for many consumers, mainly due to the fact that fewer investment options exist overall. So it is not surprising that many Indian semiconductor start-ups rely on family and friends for early stage funding rather than on external sources.

"The Indian Semiconductor Association is looking to work with the government of India to help set up other sources for funding such start-ups," Shenoy said.

Conversely, mid-size companies sitting on cash are looking for acquisition of teams, technologies and available companies at attractive valuations.

One of the fastest growing segments of the Indian semiconductor market is in the area of design. An Ernst & Young study commissioned by the ISA in 2007, illustrates India's global competitiveness when compared to Canada, China, the Czech Republic, Israel, Taiwan, the UK and the US.

Fig 14: India's positioning on the principal factors



Shenoy stated that key factors positioning India, as a favored destination for semiconductor embedded design are:

- Growing expertise and capabilities in end-to-end design
- IP protection
- IP development steadily gaining traction
- A strong pool of experienced engineers as well as talented emerging engineers
- Decades-long success stories of world-class captive centers in India
- Emergence of the outsourced third party design services companies
- Cost effectiveness as compared to Western Europe or North America
- A fast growing economy and huge domestic market coupled with accessibility to other Asian markets
- Embedded design and development has been the strength of Indian software firms that provide third party design and development services to product vendors

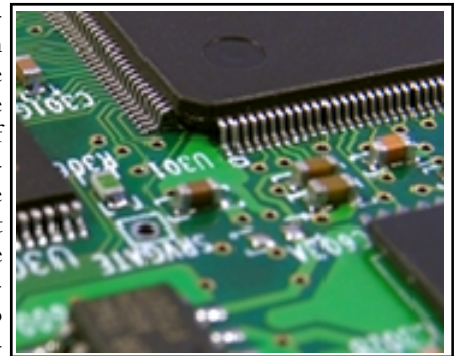
Companies in India and the US have enjoyed a decades-long and successful history of working together. "There is a mutual trust due to the IP protection laws in both countries as well as India's ability to provide quality talent that can be scaled up in a relatively short time period," Shenoy commented.

Shenoy advises companies looking to enter the Indian market to make a reconnaissance trip to India and network with local industry leaders.

¹ The Nielsen Global Consumer Confidence Survey polled 26,202 consumers in 52 countries in September 2008 as the global financial crisis reached a fever pitch.

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

"As the quarter is progressing, our business seems to be stabilizing with wafer starts for second quarter shipments showing increases due to additional orders from customers, compared to our view in January," said George Thomas, senior vice president and CFO of Chartered in a statement. "While we are seeing this improvement in customer orders, the macroeconomic environment continues to be challenging and business visibility remains limited."



It is this challenging macroeconomic environment that has some analysts calling the recent positive reports a blip. The concern is that a lack of global demand could indicate that the replenishment rebound is most likely a head fake. Naysayers cite the lack of consumer demand for PCs, cell phones and digital cameras not to mention cars. Further, the electronics market is saturated, the world economy is in shock and no bottom appears in sight.

First-quarter expectations are disappointing for many of the major chip companies. And, several analysts predict that overall semiconductor sales will drop at least 20% in 2009 from 2008's total. If they are right, this will be the largest semiconductor revenue drop since 2001's with a decline of 32%.

Perhaps there will be enough sustainable consumer demand in China, post stimulus, to bring the electronic and semiconductor market back to life. That remains to be seen.

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Our website contains additional information about Core Capital Group's Electronic and Semiconductor Group and the investment banking services we provide. Please take a moment to visit us on the web! You can also sign up to receive this newsletter by writing to info@esgibank.com.