

The Power Semiconductor Market's Alternating Currents

Growth cycle narrows—but continues to shape suppliers' fortunes

By Marijana Vukicevic, iSuppli Corporation

There's never a dull moment in the power-management semiconductor market, with an enduring cycle that oscillates between expansion and contraction and between times of fat and times of lean. However, at the tipping point of the current cycle, it's clear the market's oscillations are becoming less pronounced, with less growth at the peaks and less severe downturns at the troughs. For power-management semiconductor suppliers, this means greater product differentiation, better efficiency and superior execution will be required to remain competitive and to attract the interest of investors in the coming quarters, iSuppli Corp. believes.

The power-management growth cycle typically lasts seven to eight quarters, marking the elapsed time between the

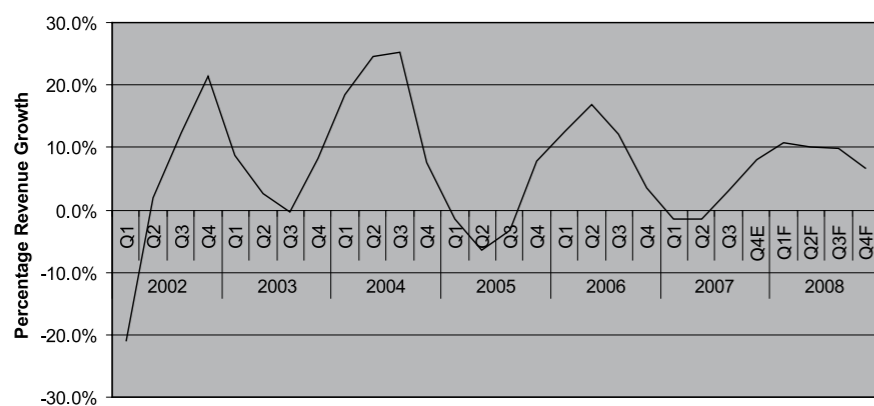


nadir of worldwide revenue growth. The current cycle, which started in the second quarter of 2007, is reaching its fourth quarter of duration at the end of the first quarter of 2008. iSuppli believes this will mark the end of the phase of rising growth in the current cycle and

the global revenue expansion will slow for at least three quarters afterwards compared to the same quarters a year earlier.

Figure 1 illustrates the market cycle, showing iSuppli's estimate of quarterly revenue growth for power management semiconductors. The figures show quarterly growth compared to the same period a year before.

Using this measure, the historical peak-to-trough oscillation before the year 2005 for global power-management market revenue averaged about 30 percent. However, from 2005 to 2006, the variation narrowed to the 20-percent range. iSuppli forecasts this will continue to dwindle to around 12 percent from 2007 going forward.



Source: iSuppli Corp. March 2008

Figure 1: Percentage Quarterly Revenue Growth for Power Management Semiconductors Compared to Year-Earlier Quarter.

The major reason for this trend is the fact that the power-management semiconductor market has become increasingly competitive during the past five years. This has helped to expand the market, but also has spurred significant price erosion, which has contributed to the shallow cyclical in the market.

The current power-management semiconductor cycle is peaking in the first quarter of 2008, with revenue rising 10.9 percent compared the same period in 2007. Growth will slow in the following quarters, decreasing to 10.1 percent in the second quarter, to 9.8 percent in the third and to 6.6 percent in the fourth quarter, iSuppli believes. The narrowing range from peak to trough illustrates the expected dampening of the market's growth cycle.

Finding growth

For all of 2008, annual global power management revenue is expected to rise by 9.3 percent, compared to 5.4 percent in 2007. Growth will hit a trough of 6.3 percent in 2009, before rebounding to 10.6 percent in 2010 and accelerating further to 11.9 percent in 2011, iSuppli believes.

Everyday electronic equipment continues to require more regulated power, demanding increasing power-management semiconductor content. This will help keep the market on a positive growth track in the coming years.

The tedious cycle

However, the narrowing of the cycle does not mean that opportunities in the market are evaporating—but rather are getting harder to find. Furthermore, the dampening cycle means that the power management industry may become too dull to attract the interest of investors.

Investors are looking at higher returns than can be derived from the current cycles. Such

investors are attracted to markets that generate greater revenue growth due to larger unit shipment increases and that have higher average selling prices for their products.

To generate the kind of growth that will attract investor interest, power-management semiconductor makers must achieve greater differentiation and show a capability to increase operating margins.

iSuppli believes power-management semiconductor suppliers will achieve

distinction if they take actions including:

- Attain efficient cost structures
- Focus on profitable product sectors, including high-performance analog and high-performance power-management devices
- Offer distinctive product designs
- Address volume markets by using a well-thought-out manufacturing strategy
- Focus on niche markets that are free of commoditization
- Obtain key Intellectual Property (IP).

www.isuppli.com

Got Power Players? We have!

www.powersystemdesign.com