CORE CAPITAL GROUP
INVESTMENT BANKING SERVICES

M&A REVIEW

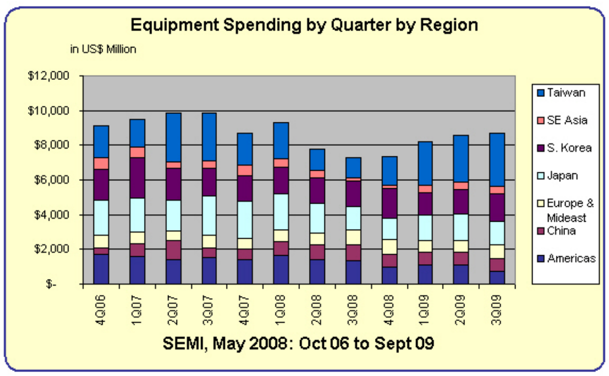
The Newsletter of Core Capital's Electronics and Semiconductor Group

Volume 7, Issue 4 August 2008

2009 Looks Strong for Semiconductor Fabs

SEMI reports that driven by the weak economy, more companies have been forced to postpone fab projects. This year is expected to show double digit losses for money spent on fab construction and fab equipping. Next year, however, positive double digit growth rates are expected.

After enjoying 12 percent growth in 2007, money spent on fab equipping is projected to drop 16.5 percent in 2008 and is expected to rebound and grow more than 12 percent in 2009.



Curt Mitchke, General Manager at Poly-Flow Engineering, a manufacturer and seller of wet processing equipment to maintain the most advanced semiconductor fabs in the world, said, "We have seen fab equipment manufacturers' sales soften across the board and particularly in the past two months. Poly-Flow's sales have grown due to new products and acquisitions, without which our sales would be flat or down as well. We agree with forecasts that the market will see greater strength in 2009."

Fab equipping expenditures are driven by three main components: new fab construction, upgrading existing fab operations or making changes to lower the cost of operations. "We are seeing a lot of activity in the third area. Technology and products that can offer better functionality and efficiencies with a payback in less than two years are drawing strong attention," commented Mitchke. "For example, our new factory integrated FOUP cleaning tool can reduce the number of people required to manage the cleaning process from six down to one per shift. It doesn't take long to recoup the $1.5 million cost of the new equipment. And, they get the added functionality as well."

Money spent on fab construction projects shows a 26 percent decline in 2008 compared to 10 percent growth for 2007. However, spending is expected to rebound to more than 50 percent growth in 2009.

(See page 2, col. 1)

Striking Gold in China Getting Tougher

As the Summer Olympics come to an end, media attention on China will start to fade. However, business remains highly interested in China and her 1.5 billion residents. But striking gold in China may be tougher than it used to be.

A recent study by InterChina Consulting, one of Core Capital Group's Asian affiliates, indicates that tightening land controls and prices may be putting the squeeze on foreign investors in China.

Just two years ago, it was fairly easy for foreign companies to set up new factories in industrial coastal areas like Shanghi, Tianjin, and Guangzhou.

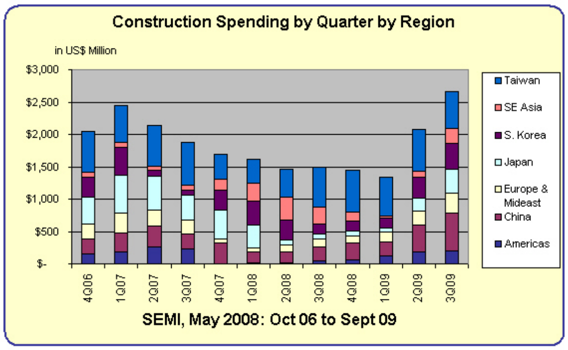
But things have changed significantly. Today, many foreign companies, especially small and medium-sized ones, are compelled to locate operations outside of coastal provinces because of surging land prices and strict government limitations on land purchases. As a result, instead of buying, many companies are finding it wiser to rent land or facilities.

Beginning in early 2006, the central government implemented a series of measures aimed at strengthening land management and control over the rate of fixed asset investment. As a result of the new

(See page 2, col. 2)

IMAP
INTERNATIONAL NETWORK OF M&A PARTNERS

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



It is widely reported that all fab construction activity is happening outside the U.S. particularly in Asia. However, a few companies are bucking the trend. For example, Intel continues to invest in their domestic fabs and Samsung is pouring money into their 300 mm megafab in Austin, Texas.

The major investments in fabs world-wide have skewed toward large high-volume fabs. The result has been a lack of capacity for low-volume, specialized semiconductor manufacturing capability. One U.S. company is working to change that.

Aurora Semiconductor is buying older fab facilities in the U.S. and upgrading and converting them to foundries. The company created this strategy based on the underserved market in the U.S. for high quality, customer service focused, custom foundry work specializing in technologies and capabilities that are not readily available to small or medium commercial and industrial fabless customers. "The current megafab foundry model is focused on leading edge technology with high volume production. Our concept is based on the reality that not all customers have products that demand leading edge technology but need an assured supply at good pricing levels," said Gary Breton, President and CEO of Aurora Semiconductor.

The projected demand for low-volume, specialized capacity is strong. There are more than 800 fabless semiconductor companies in the Global Semiconductor Alliance and many more companies are exploring markets in MEMS, photo sensor, biometric and other non-traditional semiconductor markets.

By focusing on captive manufacturing capacity that would otherwise be lost overseas, Aurora is able to extend product lifetimes by transferring older but still market-viable processes to their fabs. It allows for cost effective R&D for small companies starting out and for special processing for companies rapidly growing or addressing smaller markets to combine CMOS circuitry with their products to make more efficient system solutions. It also allows companies with wafer fabs to outsource to a foundry in the U.S. "We think this concept will actually lead to more innovative solutions to be developed as long as an assured U.S.-based supply is available that focuses on customer needs rather than a stringent process that cannot be changed as with the mega foundries in Asia," Breton added.

Aurora's concept has been well received. The company has double digit verbal or written letters of interest which is providing a proof of concept for their business model.

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

regulations and a continuous growth in demand for land, acquisition costs, development costs and government taxes related to new construction projects have all risen. InterChina estimates that the price of industrial land has risen by at least 100% - 150% over the past two years.

There has been a dramatic change in the way governments sell industrial land use rights. In the past, to attract foreign investment and achieve provincial economic growth targets, even some of the most affluent industrial parks sold at below-market prices and often paid little attention to the way the land was acquired or to the actual nature of the projects they were sponsoring.

Presently, as part of adjustments in macroeconomic policies and to avoid redundant investments and ruined farmland, the government's attitude toward certain investors and projects has changed forever.

A valid alternative to buying land is to rent a ready-made factory. However, several issues need to be addressed carefully when considering renting. First, the quality of ready-made structures is often much lower than expected, considering the speculative motivations of most landlords. Second, technical specifications for standard factories (height, surface floor resistance, etc.) may not match the specific requirements of the foreign investors. And finally, signing a buy option may help protect against future market pricing volatility.

Another option to consider is combining the advantages of owning and renting. By signing a long-term leasing agreement (5 – 10 years) with a landlord who has not started construction, the facility can be built out to the leasee's specifications. However, the rent is likely to be much higher than for a ready-made facility.

Foreign firms can expect the current trends of tightening restrictions on land and price inflation to continue. It is important to consider what locations will become the next investment hot spot, will changing land policies and potential land shortages affect expansion plans, and does it make sense to buy a bigger piece of land now to avoid facing harsher constraints in terms of pricing and availability later.

"We are advising our U.S.-based electronic and semiconductor clients to reconsider the value of manufacturing off-shore versus domestically based on the devaluation of the dollar and the tightening of restrictions for building in China," according to Loren Lancaster, managing director for Core Capital Group's Electronic and Semiconductor Group. "This may represent a significant shift in strategy, but it is too early to tell."