

EMERGING CHIP COMPANIES POST STRONG GROWTH AND BETTER-THAN-EXPECTED RESULTS IN Q2'10

GSA Research Department

Today, the term “emerging” is on the mind of every executive connected with the semiconductor industry. Chip companies, venture capitalists, suppliers and original equipment manufacturers (OEMs) are investing in emerging applications, countries, companies, etc. as they continue to experience growth and drive demand. As a result, emerging semiconductor companies¹ are taking a bigger piece of the pie, accounting for 9.6% of total 2009 revenue compared to 8.9% in 2008.

While a good number of semiconductor companies have yet to report Q2'10 sales, a number of the emerging company sales leaders² that have reported over the past few weeks have generated double-digit or greater quarter-over-quarter (QoQ) and year-over-year (YoY) sales growths and have beat analyst estimates, including Epistar (TSE: 2448), Etron Technology (Taiwan OTC: 5351), Ralink Technology (TSE: 3534), Cirrus Logic (NASDAQ: CRUS), Microsemi (NASDAQ: MSCC), Standard Microsystems (NASDAQ: SMSC), Infinera (NASDAQ: INFN), Hittite Microwave (NASDAQ: HITT) and Dialog Semiconductor (FWB: DLG).

Light-emitting diode (LED) chipmaker Epistar beat KGI Research's forecasted QoQ growth of 24.9% when it posted 30.1% growth in Q2'10. It also experienced 68.6% growth YoY. KGI Research expects sales to rise further in Q3 with LED TV penetration rising rapidly in 2010-2011, the Japanese government encouraging purchases of energy-efficient electric appliances, and Epistar forming strategic alliances and increasing its exposure in China.

Other Taiwan-listed emerging companies Etron Technology and Ralink Technology exceeded analyst sequential and annual growth expectations in Q2'10 with double-digit QoQ and YoY growths. SinoPac Securities expects Etron to increase sales by 14.5% in Q3 as the DRAM shortage worsens and PC enters hot seasonality. Jih Sun Research indicates that Ralink's Q3 sales will grow by 8.9% QoQ. This momentum is expected to come from Wi-Fi&Bluetooth+EDR and Wi-Fi TV chips in 2H 2010.

Of the NASDAQ-listed emerging semiconductor companies that posted double-digit or greater QoQ and YoY growths in Q2'10 (i.e., Cirrus Logic, Microsemi, Standard Microsystems, Infinera and Hittite Microwave), Cirrus Logic posted the largest QoQ and YoY growths at 30.8% and 118.4%, respectively. According to Stifel Nicolaus & Company, this growth was driven by the company's audio products, targeting the consumer segment, and energy. Cirrus Logic's Q2'10 revenue beat Consensus forecast of \$81 million. And Cirrus Logic has forecasted Q3 revenue to be \$98–\$106 million, or up 19.7–29.4% QoQ.

Microsemi reported Q2'10 revenue of \$136 million, an increase of 15.1% QoQ and 27.1% YoY and ahead of Wedbush Securities' estimate of \$130 million. Growth was driven by strength in analog and a rebound in hi-rel. According to Wedbush, even though Microsemi is known for having a steady guidance of 1–4%, management is targeting 20+% YoY growth over the next four quarters.

With its automotive and analog segments achieving record quarterly revenue, Standard Microsystems announced May quarter sales of \$97 million which far exceeded CapStone Investment's \$93.5 million expectation. And guidance for the August quarter suggests revenue of \$101–\$104 million.

For Infinera, “the second quarter represents the company's fifth consecutive quarter of improving revenue,” said Tom Fallon, president and chief executive officer. Infinera posted 16.3% and 61.6% QoQ and YoY growths respectively in Q2'10. According to Miller Tabak & Co., revenues were 11% ahead of their forecast of \$100.5 million. Guidance calls for revenue of \$125–\$128 million in Q3, or up 12–15% QoQ.

For the quarter ended June 30, 2010, Hittite Microwave achieved \$60 million in sales, an increase of 11.3% QoQ and 52.0% YoY, and it beat Stifel Nicolaus & Company's estimate of \$59 million. Management expects revenue to grow between 3–6% in Q3'10 over Q2'10. Stifel Nicolaus sees "significant growth opportunities in cellular infrastructure and backhaul where emerging markets such as China, India and South America will be key geographies for Hittite."

Germany-based Dialog Semiconductor reported 12.1% and 52.2% QoQ and YoY growths, respectively, in Q2'10. According to their press release, this growth was driven by their customers' success with portable devices and increased demand for their automotive and industrial products. "Dialog's growth this quarter further underscores our confidence in our ability to grow faster than the markets we serve," said Dialog CEO Dr. Jalal Bagherli. Dialog's results beat Close Brothers Seydler Research's expectation of \$66 million. Dialog forecasts Q3 revenue to come in between \$72–\$77 million; however, it did note that possible foundry and back-end supply constraints could affect their customer build rate and limit revenue upside potential and margin expansion.

Emerging company sales leaders expecting to report results this week include Silicon Laboratories, Oclaro, IXYS, Alpha and Omega Semiconductor, among others. GSA will continue to track the financials of these and other semiconductor companies throughout Q2'10 and will publish all actual results in its Q2'10 Global Semiconductor Financial Tracker.

¹ *GSA has defined an emerging semiconductor company as a public IDM or fabless company that generates less than \$500 million in annual sales.*

²*Top 50 emerging semiconductor companies by CY 2009 sales.*