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High-tech Sector

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Outlook for Japan's Electronics Sector for 2005

Semiconductors

Production of semiconductor elements in 2005 is likely to increase 4.3% compared to the previous year, affected by a slowdown in growth of electronic devices in general, according to JEITA, a trade association. Production of ICs is likely to be up only 0.4%. However, the industry remains bullish, expecting demand to revive, driven by semiconductors going into digital home electronic devices, IP-related devices and car electronics. Demand from the new energy sector, such as fuel cells, is also expected to materialize.

Semiconductor Production Equipment

While SPE orders in Japan in the April-November period rose 25% year-on-year to slightly above the one trillion yen mark, year-on-year growth in monthly orders turned negative from September. The trend is expected to continue for a while since order growth started in October 2003. Sales of semiconductor production equipment in 2005 will be \$33.3 billion worldwide, a decline of 5.2% from the previous year, according to SEMI. But growth will resume in 2006, with sales expected to reach \$39.6 billion in 2007.

Semiconductor Materials

Production of semiconductor materials in 2005 is expected to increase 8.4% from the year before to \$28.1 billion. Of particular note will be the marked increase in production of the 300-mm wafer by Shin-Etsu Chemical Co.

Electronic Components

Production of electronic components in 2005 will increase marginally compared to the previous fiscal year. If the forecast holds it will be the third year of consecutive growth. The weak growth is due in part to rising production of electronic components as manufacturers try to beat cost increases resulting from a stronger yen. Demand will be underpinned by electronic components for mobile phones and digital home electronics. Output of connectors is expected to decline 0.6% and that of electronic circuit substrates by 0.2%. Production of transformer parts is likely to fall 6.8%. On the contrary, production of passive components will increase 0.6%.



Computer Hardware

Demand for computers in 2005 will stay strong after a brisk 2004. In addition to strong demand for personal computers, demand for middle-range computers is also expected to revive. Increasing investment in IT systems driven by an economic recovery combined with the need for enhancing the functions of existing systems will underpin demand growth in the new year. However, prices will continue to decline as competition between vendors turns brutal. Contrary to expectations, sales on mainframes in the April-September period increased 33% year-on-year to 597 units. Combined (middle-range, work stations, mainframes) shipments of computers are expected to increase from 288,500 units in 2004 to 300,100 units in 2005.

Wireless Equipment

Demand for communications equipment in fiscal 2005 is likely to increase 4.4% to ¥4.5 trillion, according to CIAJ, the sector's trade association. There will be major developments in 2005 in this sector. The shift to 3G phones will accelerate in 2005. The HSDPA service for 3.5G phones is also scheduled to start in 2005. Investment in ground stations in preparation for number portability to be introduced in 2006 will also speed up. The one-seg broadcasting service for mobile phones will also start in the second half of 2005.

Electrical Measuring Instruments

Demand for electrical measuring instruments in 2005 will increase about 5% to ¥187.7 billion. Measuring instruments used in the production of 3G phones, wireless LAN, digital home electronics, IP-related products and car electronics will underpin demand growth in 2005.

Car Navigation Systems

Domestic shipments of car navigation systems in 2004 seem to have topped 3.5 million units, up 42.5% from the previous fiscal year, according to JEITA. The association expects shipments to exceed four million units in 2005, as more automobile manufacturers have added car navigation systems to their lists of genuine parts.

Computer Virus Reports Jump in 2004

The reported cases of computer viruses in 2004 increased three-fold from the previous year to 52,151 in 2005, according to IPA Security Center statistics. There was also a 46% increase in unauthorized accesses.

Machine Tool Order Outlook

The Japan Machine Tool Builders Association expects orders in 2005 (January-December) to be around ¥1.15 trillion, a drop of 6.5% from 2004. This will be the first negative growth in annual orders in three years. The association seems to have been conservative in its forecasts since orders surged after April 2004. Actual orders could be closer to ¥1.2 trillion. Orders topping one trillion yen are seen as indicating a buoyant economy. Orders in 2004 rose to an estimated ¥1.23 trillion, up roughly 40% from 2003.



Injection Molding Machine Orders Plunge in November

Orders for injection molding machines in November plunged 32.1% year-on-year to 1,366 units, according to industry sources. This was the fifth consecutive decline in monthly orders. Orders were down 5.8% compared to the previous month. Domestic orders were down 13.4% while export orders fell 40.4%. Domestic orders for machines in the 40-ton class fell 55.1%, dragging down total orders. Orders for small machines (1-19-ton class) were also weak.

Security System Market Expanding

The market for security systems in Japan in 2005 is projected to expand 7.1% year-on-year to ¥750 billion. Combined with security services, the market is estimated at over one trillion yen. In the housing market, demand is increasing for key systems, reinforced glass, and window sensors, that is, systems to prevent forced entry. Demand is also rising for mobile alarms, and wireless automatic call buzzers. Demand for entry control systems for businesses is also expected to increase.

Fuel Cells Are Entering the Take-Off Stage

Fuel cells are expected to enter the take-off stage in 2005, with the market rising to about 400,000 units in the consumer sector and 100,000 in the corporate sector by 2010. The combined value of the market is estimated at ¥300 billion, assuming that the price of the home-use fuel cell will come down to ¥150,000 and that for commercial use to ¥250,000. Mass production is likely to start in 2008.

Imaging Devices Market Set for Solid Growth

Demand for imaging devices started to expand in 2003, reaching ¥490 billion, and despite a slowdown in the second half of 2004, the market expanded to nearly ¥600 billion in 2004. The market is expected to continue to expand at an annual average rate of 30% for the foreseeable future, according to a high-tech market research firm. According to a recent survey by a leading industry daily, the combined monthly production of CCDs by Japan's five major manufacturers in October was up 40% YoY to 30 million CCDs. The five leading producers are Sony, Matsushita, Sharp, Sanyo, and Fuji Film. The combined monthly production of CMOS sensors at Japan's six major CMOS producers was up 50% to 10 million sensors. Major manufacturers include Toshiba, Sharp, Sony, Rohm, Seiko Epson and Canon.

Earnings Roundup

NEC Electronics'(6723 TSE1) Fourth Quarter Operating Income Plunges

The consolidated operating income of NEC Electronics in the fourth quarter of 2004 plunged 94% YoY to ¥1,000 million, mainly because orders for semiconductors for mobile phones and digital home electronics were sharply lower. Full fiscal-year operating income is also likely to be about 40% lower, although the company has not revised its forecasts. Fourth quarter sales were off 6% to ¥165 billion.



Initial Public Offerings News (For detailed information, go to:

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

YSFOOD (3358 JASDAQ)

YSFOOD Co., Ltd, will list on the JASDAQ market on February 9. The core businesses of the company are directly operating and franchising noodle restaurants. The company will offer 1,400 shares to the public in its initial public offering. Of those 1,000 are newly issued shares and 400 are existing shares currently held in private. Proceeds from the IPO will be used for capital investment, including expansion and moving of the head office plant. The tentative price range will be set on January 19. The fixed offering price will be announced on January 28. Shinko Securities is the lead underwriter of the offer.

WORLDINTEC (2429 JASDAQ)

WORLDINTEC Co., Ltd, a staffing service and job-subcontracting firm, will list on the JASDAQ market on February 9. The company will offer 4,000 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 2,000 are existing shares currently held in private. Proceeds from the IPO will be used for working capital needs and for expansion of branch networks. The tentative price range will be set on January 20. The fixed offering price will be announced on January 31. Daiwa Securities SMBC is the lead underwriter of the offer.

MediciNova (4875 Hercules)

MediciNova Inc., will list on the Hercules market of the Osaka Securities Exchange on February 8. The core business of the company is the development of pharmaceuticals by obtaining licenses for promising new drugs. The company will offer 30,000,000 newly issued shares to the public in its initial public offering. The tentative price range will be set on January 19. The fixed offering price will be announced on January 28. Daiwa Securities SMBC is the lead underwriter of the offer.

HOLON (7748 JASDAQ)

HOLON Co., Ltd, will list on the JASDAQ market on February 9. The company develops, manufactures and markets electron beam super-precision measuring instruments for measuring integrated circuits printed on semiconductor wafers and photo masks. It will offer 4,100 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 2,100 are existing shares currently held in private. Proceeds from the IPO will be used for research and development. The tentative price range will be set on January 21. The fixed offering price will be announced on February 1. Ichiyoshi Securities is the lead underwriter of the offer.

HAVIX (3895 JASDAQ)

HAVIX Co., Ltd, a manufacturer of non-woven cloth and paper, will list on the JASDAQ market on February 9. The company will offer 750,000 shares to the public in its initial public offering. Of those 400,000 are newly issued shares and 350,000 are existing shares currently held in private. Proceeds from the IPO will be used for repayment of loans. The tentative price range will be set on January 20. The fixed offering price will be announced on January 31. Daiwa Securities SMBC is the lead underwriter of the offer.



Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Nov.	99.4	99.8	81.8	74.1	1,913	1,465	16,360	2,310	5,897	8,153	3,611	244
Dec.	100.2	102.4	81.3	80.9	2,123	1,529	17,484	2,289	7,034	8,160	3,596	321
Jan.	102.5	105.4	81.5	76.1	1,996	1,396	15,531	1,517	6,073	7,941	3,629	273
Feb.	95.7	99.0	80.1	84.9	2,153	1,554	16,577	1,812	6,774	8,022	3,575	195
Mar.	94.2	95.1	81.2	108.1	3,233	1,744	20,681	2,337	9,428	8,916	4,021	241
Apr.	102.0	107.2	85.1	100.8	2,060	1,792	15,745	2,079	5,535	8,132	3,604	224
May	105.7	107.6	84.3	95.1	1,961	1,728	15,549	1,969	5,434	8,145	3,750	219
June	102.0	107.4	82.1	112.9	2,287	2,013	17,641	2,362	6,525	8,754	3,938	248
July	102.1	106.4	81.0	114.0	2,226	2,005	16,722	2,165	6,057	8,499	3,847	296
Aug	108.4	108.8	82.0	79.2	2,101	1,435	15,383	1,860	5,455	8,068	3,761	237
Sep.	98.2	101.4	82.4	84.5	2,604	1,447	18,193	2,251	7,487	8,455	3,712	217
Oct.	99.9	106.1	81.5	74.9								253
YoY	1.3	1.1	0.9	-0.9	19.2	10.2	0.1	-2.2	0.5	0.3	-1.3	11.1

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations

