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High-tech Sector

Week ended Feb. 13, 2005

Fujitsu (6702 TSE1) Develops High Voice Quality IP Phone

Fujitsu Research Laboratory has developed a LAN-based IP phone that gives excellent voice quality. The new phone was made possible by linking the SIP server with LAN access points. The new technology assures stable voice quality even when communicating with different types of terminals. Fujitsu plans to commercialize the technology in about a year.

Consolidation in FPDs entering Final Stage

With Hitachi and Matsushita announcing a tie-up and Fujitsu selling its FPD business to Sharp, consolidation among the winners in the battle for the expanding FPD market seems to be entering the final stage. The goal is to remain competitive as prices slide. Hitachi and Matsushita have agreed to tie-up in four areas (development, production, marketing and intellectual property) in an attempt to stay competitive in large plasma panels, which they feel have an edge in larger sizes. On the other hand, Sharp has purchased Fujitsu's LCD operations (Fujitsu Display Technologies). The consolidation is partly in response to increasing competition from South Korea, Taiwan and China and also to protect outflow of technology.

Electronic Component Makers Step up Production of Devices for FPDs

Japanese electronic component manufacturers expect demand for flat panel displays to surge in the years ahead and are gearing up to boost production of electronic components for FPDs. While demand for control units, inverters and other components is expected to increase, competition is heating up and forcing manufacturers to revamp their marketing, design and manufacturing networks and strategies. Demand for flat panels is expected to increase from 398 million panels in 2004 to 566 million panels in 2007.

Demand for Digital TVs to Surge

Total global demand for color television from 2004 through 2009 is expected to increase at an average annual rate of 5.3% to reach 190 million units. During this period demand for CRT televisions is likely to decline at an average annual rate of 3.0%, falling from 131 million units to 113 million units. On the other hand, demand for PDP television sets should increase at an annual rate of 38.0% to reach 11.6 million units. Demand for LCD televisions is projected to increase at an annual rate of 49.2% to 59 million units in 2009, the final year of the forecast. Demand for digital TVs is expected to increase sharply in Japan. Digital televisions are expected to account for 99% of all shipments in 2009, up from 19.4% in 2004.



Domestic PC Shipments Up in 2004 – Dell Moves to the Third Position

Shipments of personal computers in Japan rose 4.2% year-on-year to 12.49 million units, registering a second consecutive gain in YoY shipments. Dell, particularly strong in the corporate market, increased shipments by more than 20%, moving from the fourth to the third spot in the market share ranking. HP increased shipments by nearly 50%. The largest supplier in the Japanese market was NEC, with a share of 20.9%. Fujitsu was ranked second, with a market share of 20%. HP increased its share of Japan's market by 1.6 percentage points from 2003 to 5.7%. Dell's market share was 10.7%, up 1.4 percentage points.

Earnings Roundup***Slowdown in Orders for Digital Home Electronics Affecting Component Manufacturers***

Electronic component manufacturers business results for the third quarter (October -December 2004) of the current fiscal year show that operating income, the barometer of core earnings, are under pressure due to a slowdown in orders. Operating income declined at Kyocera, TDK and ROHM and it increased only marginally at Murata Manufacturing and Nitto Denko. However, most major manufacturers remain bullish and are investing in growth areas. The combined operating income of the six major manufacturers was down 8% year-on-year and about 20% from the previous quarter. Orders, an indicator of future trends, continue to hover at below previous levels, suggesting that a recovery in the January-March period is unlikely. Inventories are also high relative to shipments. Orders for components, such as optical films for LCD monitors and high-frequency devices, the recent demand drivers have also slowed down. On the contrary, manufacturers are very bullish, expecting demand to resume growth after spring and continue to expand over the medium term.

Third Quarter Ordinary Income Doubles at THK (6481 TSE1)

THK's consolidated ordinary income in the third quarter ended December doubled from the same period a year earlier to ¥2250 million on a sales gain of 31% to ¥112,100 million, according to the figures released by the company. Strong demand for linear motion systems and streamlining of production drove sales and profit, the company said. However, the company left its full year forecasts for the fiscal year ending March 2005 unchanged but plans to raise its annual per-share dividend by ¥3.

Interim Net Profit Up at Keyence (6861 TSE1)

Consolidated net income for the half year ended December 2004 increased 30% year-on-year to ¥22,200 million at Keyence. Sales rose 22% year-on-year to ¥69,800 million. Operating income rose 28% to ¥36,400 million. All figures were record highs. Strong sales of high-margin products like new sensors drove sales and profit as their share of total sales rose to 35%. There has been no major change in order trends from the electronic and electrical equipment sector, where capital investment is still brisk in general, although some signs of investment constraints were seen in Taiwan.



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

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

Nextech (3767 TSE Mothers)

Nextech Co., Ltd., a Japanese IT consulting firm offering data analysis and design and system development and installation consulting services, will list on the Mothers market of the Tokyo Stock Exchange on March 16. The company will offer 2,000 shares in its initial public offering. Of those, 1,000 are newly issued shares and 1,000 are shares currently held in private. The tentative price range will be announced on February 23. The fixed offering price will be announced on March 4. UFJ Tsubasa Securities is the lead underwriter of the offer.

Basic Electronics Industry Statistics

	Prod	Shp.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
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	2,116	1,419	15,088	2,369	5,014	7,705	3,721	253
Nov	102.3	107.1	81.8	81.0	2,223	1,553	15,872	2,496	5,625	7,751	3,674	251
Dec.	99.1	106.0	79.1									
YoY	-1.1	3.5	-2.7	9.3	16.3	6.0	-3.1	7.9	-4.8	-4.9	1.7	3.7

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

