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High-tech Sector

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Signs of Recovery Appear in Electronic Components

While the electronic component and control equipment markets in Japan have been sluggish for several months, signs of recovery have started to appear in orders for components used in flat-panel TVs, mobile phones and other consumer electronic devices. Moreover, orders for electronic components for amusement machines and from the automotive sector are strong. According to a recent survey of electronic component manufacturers by a leading industrial daily, 56% of the manufacturers expect orders to improve somewhat in the April-September period, with 27% expecting orders to remain flat. Roughly 43% of the respondents expect prices to decline by 1%-10% in the fiscal year ending March 2006. On the other hand, 30% expect prices to stay unchanged and 15% see prices falling up to 10%. Regarding sales and earnings, 48% of the respondents expect sales on the average to increase by a single-digit figure. Thirty six percent of the respondents expect operating income to rise by 1% to 10%

LCD TV Shipments Jump in February

Shipments of LCD televisions (larger than 10") in February more than doubled to 240,000 units as manufacturers started shipping spring models, according to JEITA, the electronics' sectors trade association. This was the second consecutive month in which monthly shipments doubled from the same month a year earlier. Shipments of DVD decks were up 55% to 240,000 units. More than 80% of the DVDs sold in February were of the HDD type. Sales of car navigation systems rose 13% year-on-year to 300,000 units. Of particular note is the strong demand, up 42%, of the HDD-type car navigation systems. On the other hand, sales of the MD-type mobile audio players plunged 37% as flash memory and HDD-type mobile audio players won increasing popularity.

SCE Ordered to Pay Damages to a US Game Machine Manufacturer

A U. S. court ordered Sony Computer and its U. S. subsidiary to pay ¥9,600 million in damages to a U. S. game machine manufacturer, Immersion Corp., and stop shipments of its game consoles to the U. S. market, citing violation of the latter's patent rights related to controllers used in game machines. The company plans to appeal the ruling to a higher court.



U. S. Court Orders Toshiba to Pay Damages

A court jury in California ordered Toshiba to pay roughly ¥40 billion in damages to Lexar Media Inc., a medium size semiconductor manufacturer for stealing its trade secrets. Lexar claimed that Toshiba had violated its patent on flash memory control technology. Toshiba plans to appeal the verdict.

Plasma TV Manufacturers Consolidating Despite an Expanding Market

The three major Japanese manufacturers of plasma televisions, Matsushita, Hitachi and Pioneer, are likely to merge their operations. Other large players, Sony and Fujitsu, are planning to withdraw from plasma TV manufacturing. The merger will slash manufacturing costs and assure profitability as prices decline. The global demand for plasma televisions is expected to increase from 2.7 million units in 2004 to 7 million units in 2006. However, prices are on the skids, having fallen 40% year-on-year in 2004. Falling prices are squeezing profit.

Server Shipments Top Half Million Units in Japan

Domestic server shipments in 2004 rose 15.2% to 508,115 units, rising above the half-million unit level for the first time, according to Gartner, a high-tech think-tank. However, the value of shipments was down 2.3% from the previous year to ¥612.7 billion. Shipments were driven by the X-86 server, with shipment volume up 16.9% and the shipment value increasing by 7.7%. The X86 server was generally referred to as the IA server (Intel Architecture) but has now been categorized as the X-86 server since AMD is making headways in the market. By product, shipments of UNIX servers fell 1.8% in volume and 13.3% in value. Shipments of mainframes were down 3.5% in volume and 2.6% in value. On the other hand, shipments of blade servers rose 81.2% in volume and from 9,915 units in the previous year to 17,964 units. Shipments of Linux servers increased 54.2% to 77,290 units, raising its market share by 3.8 percentage points to 15.2%.

Earnings Roundup

ACCESS (4813 TSE Mothers) Reports Strong Profit

ACCESS, a Japanese company specializing in Internet browser software, reported an 88% increase in consolidated ordinary income to ¥2,258 million for the fiscal year ended January 2005 on net sales of ¥11,347 million, up 29% compared to the previous fiscal year. Operating income was up 75% to ¥2,272 million. Successful reduction of operating expenses combined with rising sales boosted profit. Underpinned by brisk sales of network browser software *NetFront*, custom software development-related sales rose 20% year-on-year to ¥6,637 million. Royalties on software installed on cell phones were up 50% to ¥3,611 million. ACCESS is forecasting consolidated ordinary income of ¥3,700-¥4,200 million on sales of ¥14,940 million for the current fiscal year ending January 2006.



**Cyber Agent (4751 TSE Mothers)
Poised to Post Strong Profit**

Cyber Agent, an Internet ad agency also active in e-commerce, is likely to see its consolidated ordinary income rise by 31% year-on-year to ¥2,300 million on net sales of ¥40,000 million, exceeding the previous forecast by roughly ¥4,000 million. Sales are being driven by banner ads, as Internet advertising wins growing acceptance in the business sector. Sales at Net Price, a subsidiary specializing in marketing through the cell phone network also rose 20%, contributing significantly to the consolidated results. However, interim net income is likely to fall a shade short of the previous-year level of ¥850 million although sales are expected to be up 53% to ¥18,000 million. The shortfall is due mainly to operating expenses reflecting a growing business. However, with up-front capital investment and sales promotion expenses largely behind them, profit should get a boost in the second half.

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

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

Softcreate (3371 Hercules)

Softcreate Co., Ltd., a Japanese IT services company, will list on the Hercules market of the Osaka Securities Exchange on April 20. The company will offer 150,000 shares in its initial public offering. Of those all are newly issued shares. The tentative price range will be announced on April 1. SMBC Friend Securities is the lead underwriter of the offer. The fixed offering price will be announced on April 11. For the current fiscal year through March 31, 2005, the company forecasts a non-consolidated pre-tax profit of ¥400 million, net profit of ¥236 million on sales of ¥6.43 billion, an earnings per share of ¥218.50 and a dividend of ¥25.00.

Gourmet Navigation (2440 Hercules)

Gourmet Navigation Co., Ltd., an operator of an Internet site providing information on restaurants, pubs and places to dine out, will list on the Hercules market of the Osaka Securities Exchange April 25. The company will offer 8,000 shares in its initial public offering. Of those, 4,800 are newly issued shares and 3,200 are shares currently held in private. The tentative price range will be announced on April 7. The fixed offering price will be announced on April 14. Nomura Securities is the lead underwriter of the offer.

mbs (1401 FSE)

mbs Co., Ltd., a Japanese company specializing in exterior maintenance services, and marketing construction materials and providing know-how to its franchise stores, will list on the Fukuoka Securities Exchange on April 26. The company will offer 700 shares in its initial public offering. All are newly issued shares. The tentative price range will be announced on April 1. The fixed offering price will be announced on April 14. D-Brain Securities 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)
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.	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	329
Jan.	101.0	107.2	79.3	71.8								302
YoY	-1.5	1.7	-2.7	-5.9	6.2	-7.3	-11.5	-11.7	-14.1	-9.3	-8.1	10.5

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

