



Vol . 180

High-tech Sector

Week ended September 4, 2005

Inventory Adjustment in IT Sector Largely Complete

Statistics published by the Ministry of Economy, Commerce and Trade suggest that inventory adjustment in Japan's IT sector is largely complete although inventories in other sectors, including steel and chemicals continue to pile up. The marginal increase in the IT inventories in July was in sharp contrast to the double-digit gains recorded in July 2004. While the government takes the position that the economy is headed up, it also warned that it could slip and slow down if inventory adjustment in other sectors is dragged out.

First Quarter Server Shipments Up

Shipments of open servers in the first quarter (April-June) of the current fiscal year rose 14% in volume but were flat in value. Shipments of UNIX servers were up 28% (15,130 units) and those of IA (Intel architecture, 77,581 units) rose 11%. Workstations shipments were up 85% to 30,360 units. In spite of these gains, the total value of shipments fell 3%.

FPD Demand Surges

Demand for flat panel displays is experiencing explosive growth, driven by an expanding range of applications from personal computers to consumer electronics, particularly flat panel televisions. Taiwanese manufacturers, the major suppliers to the Japanese market, expect their profits to increase reflecting a growing production volume and rising yields. Profit should stay strong through the end of the year, sources say. With more production lines due to come on stream, prices are expected to start slipping in 2006. In major components, (glass substrate, color filters, deflection panels, backlight modules and IC driver circuits) since cost performance is the key to survival in this highly market segment manufacturers are switching to in-house development or outsourcing production to highly efficient parts manufacturers.

Machine Tool Orders Up in July

Machine tool orders at Japan's seven major machine tool manufacturers increased a combined 73% year-on-year to ¥58.27 billion, recording a 33rd consecutive Y-o-Y increase in monthly orders. Mori Seiki (Stock code: 6141) and OKK (Stock code: 6205) were the only companies reporting declines. Orders turned positive at Amada (Stock code: 6113) for the first time in five months with an increase in domestic orders of 3.7% to ¥33.0 billion and overseas orders of 12.5% to ¥25.2 billion. The DI for sentiment for orders in September rose 4.6 percentage points to 15.2, according to the Japan Machine Tool Builders Association.

CAWT System Sales Up at Intelligent Wave (4847 JAQ)

Sales of CWAT (Internal data leak prevention system) in the fiscal year ended June 2005 rose three-fold from the previous fiscal to ¥1,800 million (¥920 million based on new accounting

standards) at Intelligent Wave (Stock code: 4847). The company is projecting a 2.1-fold increase in the current fiscal year to June 2006.

Amusement Machine Market Expanding

Increasing popularity of game machines, including consumer video game machines, arcade game machines, pachinko and pachislot machines, and increase in the number of large pachinko parlors and renewal of existing ones is expanding the amusement machine market. With the launch of new models, demand for arcade game machines and consumer video game machines is increasing. Game machine component manufacturers are also well positioned to benefit from these trends as growing production combined with an increasing number of components going into each machine is lifting demand.

Crystal Devices Production Drops in July

Production of crystal devices in July fell 7.4% in volume and 532 million units and 14.8% in value to ¥17.9 billion, according to QIAJ, the industry's trade body. The only device category which saw production gains in July was crystal oscillators for industrial applications.

Semiconductor Production Recovers in China

After a setback in the first half, the production of semiconductors is recovering steadily and pushing up capacity utilization rates. However, any increase in capital investment for upgrading existing facilities (300mm-wafers) is unlikely to materialize until 2006 and as a result Japan's semiconductor production equipment manufacturers will not benefit immediately from the Chinese market.

Earnings Roundup

Internet AD Agencies Report Strong 1Q Profit

Ad billings at Internet ad agencies in the first quarter of the current fiscal year increased at double-digit rates reflecting a rapidly expanding Internet ad market. Benefiting from an expanding market, all six listed Internet ad agencies are beefing up their payrolls to cope up with expanding demand. Two (Septeni: Stock code: 4293), and Mag Click (Stock code: 4784), of the six reported lower operating income as expenses related to a larger pay roll weighed heavily on profit. Cyber Communications (Ad billings up 80%) and DAC (ad billings up 88%) recorded the highest revenue gains. Operating income was up 178% at Cyber Communications and rose 128% at DAC.

Initial Public Offerings (For detailed information, go to:

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

Meiji Electric Industries (3388 JAQ)

Meiji Electric Industries Ltd, a Japanese company engaged in marketing control equipment, industrial machinery and the design, manufacturing and marketing of production support systems, will list on the JASDAQ Securities Exchange on October 5. The company will offer 950,000 shares to the public in its initial public offering. Of those 700,000 are newly issued shares and 250,000 are shares currently held in private. The tentative price range will be announced on September 13. The fixed offering price will be announced on September 26. Tokai Tokyo Securities is the underwriter of the offer.

Sanyo Electric Logistics (9379 JAQ)

Sanyo Electric Logistics Co., Ltd, a provider of logistics solutions based on the third-party logistic system (3PL), will list on the JASDAQ Securities Exchange on October 6. The company will offer 2,000,000 shares to the public in its initial public offering. Of those 1,000,000 are

newly issued shares and 1,000,000 are shares currently held in private. The company plans to use the proceeds from its IPO for capital investment. The tentative price range will be announced on September 15. The fixed offering price will be announced on September 28. Nikko Citigroup is the lead underwriter of the offer.

Sakura Internet (3778 MTH)

Sakura Internet Co., Ltd, an Internet data center service firm, will list on the Mothers Market of the Tokyo Stock Exchange on October 12. The company will offer 4,800 shares to the public in its initial public offering. Of those 2,000 are newly issued shares and 2,800 are shares currently held in private. The tentative price range will be announced on September 16. The fixed offering price will be announced on September 29. Nomura 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)
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
Sept	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	252
Dec	99.0	106.0	79.1	78.3	2,250	1,422	15,471	2,022	6,046	7,403	3,306	330
Jan	101.0	107.2	79.3	71.4	2,098	1,169	14,138	1,509	5,549	7,080	3,135	301
Feb	96.5	102.3	80.5	87.5	2,310	1,424	15,537	1,823	6,497	7,216	3,249	204
Mar	93.1	98.5	80.9	99.7	3,392	1,534	19,039	2,191	8,688	8,160	3,636	234
Apr	101.8	106.0	85.3	103.6	2,136	1,707	14,671	2,087	5,449	7,135	3,178	214
May	101.3	106.2	85.7	103.3	1,977	1,723	13,948	1,969	4,965	7,014	3,226	208
YoY	4.4	5.5	-1.7	9.0	0.6	-0.3	-10.0	-0.1	7.7	-13.9	-14.0	-6.9

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