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Japan's Cell Phone Manufacturers Facing Head Wind Overseas

Japan's leading cell phone manufacturers, such as NEC (Stock code: 6701) and Kyocera (Stock code: 6971) have lowered their cell phone shipment forecasts. NEC lowered its fiscal 2005 forecast by 5 million units from the previous forecasts to 15 million units, a drop of 24% from the previous fiscal year. Kyocera scaled back its shipment forecast by three million units to 12 million units.

Japan' Semiconductor Manufacturers Not Competitive Globally

Japan's semiconductor manufacturers are facing a serious crisis as they seem to be losing competitiveness in global markets. While profit margins on microcomputers and system LSIs are falling rapidly, foreign semiconductor manufacturers are being challenged in CCDs and LCD drivers for digital consumer products, devices in which they have so far had a clear edge. Japan's share of the global flash memory market is also falling due to a strong challenge put up by Samsung.

IA Server Sales Strong

Shipments of IA servers (a server based mainly on the Intel CPU) are brisk, rising 14% year-on-year in the first half of the current fiscal year ended September. The value of shipments was up 3%. Shipments rose by double-digit figures in all four major application areas: finance, manufacturing, services and the public sector. Shipments of IA servers at NEC (Stock code: 6701), the leading vendor, rose 17% during the same period, lifted by strong demand for use in data centers.

Concerns Over a Possible Bubble in the Electronic Component Sector Arise

The cell phone market is expanding globally, with shipments expected to reach 800 million units. Japan's electronic component manufacturers have started to worry that the sector may be experiencing a bubble, like the one seen in the IT sector a few years earlier.

LCD TV Demand Shifting to Larger Sizes

In LCD televisions, while the 32" model accounts for the largest market share (unit terms) at present, demand is clearly shifting to the 37" and larger sizes, according to retail sources in Japan. The most popular LCD TV models at present are those in Sharp's LC32GD series. In plasma televisions, the PX500 models are the most popular ones.

Semiconductor Market Outlook

Global semiconductor demand is expected to increase at an annual average rate of 10% through 2008, with total sales reaching \$309.2 in 2008, according to the Semiconductor

Industry Association. In 2006, demand for flash memories will increase 15.9%, with that for the NAND type rising by 23.5%. Demand for the NOR type is expected to increase 6.1%. Demand will be driven by the consumer electronics sector, including PCs, cell phones, and digital home electronic devices.

Sony (6758 TSE1) and NEC (6701 TSE1) to Merge Their Optical Disk Drive Operations

NEC (Stock code: 6701) and Sony (Stock code: 6758) will merge their optical disk drive businesses. They plan to set up a new joint venture, to which their optical disk drive businesses will be transferred. NEC will hold 55% of the equity capital of the new firm, with Sony investing the remaining 45%. The companies claim that the move will position them better to capture leadership in this area.

Earnings Roundup

Home Electronics Mass Merchandisers Report Strong Interim Earnings

Japan's five leading home electronics mass merchandisers reported higher ordinary income in the first half of the current fiscal year ended September. They are benefiting from strong demand for flat-panel televisions and digital home electronic devices, in addition to a shift in white goods' demand toward high-end models. Yamada Denki (Stock code: 9831) reported a 1.9% increase in same-store sales. But Kojima (Stock code: 7513) saw same-store sales declined 5.2%. Yamada Denki reported a 41% increase in ordinary income to ¥250 million on a sales gain of 16% to ¥5,934 million. Edion (Stock code: 2730) saw its interim ordinary income double from the same period in the previous fiscal year to ¥91 million on sales of ¥3,492 million, up 62%.

Electric Cable Manufacturers See Profit Recovery

Among the six major electric cable manufacturers, the leading three companies reported strong gains in their interim sales and earnings. Sumitomo Electric Industries (Stock code: 5802) saw its interim net income increase 2.7-fold from the same period a year earlier to ¥249 million on a sales gain of 13.7% to ¥9,232 million. Ordinary income was 2.1 times higher (¥225 million) on sales of ¥4,032 million, an increase of 7.1% at Furukawa Denko (Stock Code: 5801). Fujikura (Stock code: 5803) also posted a 2.8-fold increase in ordinary income as the ordinary income margin improved to 6.6%, up 2.9 percentage points. On the other hand, ordinary income fell 34.3% to ¥34 million at Hitachi Cable (Stock code: 5812).

Machine Tool Manufacturers Announce Bullish Forecasts

The combined operating income of Japan's 11 major machine tool manufacturers in the current fiscal year to March 2006 is expected to increase 40.3% to ¥79,100 million. In addition to strong orders from the automotive sectors, orders from the electrical machinery and precision machinery sectors are also rising. Japan's machine tool manufacturers remain bullish on the outlook for the next fiscal year also.

Interim Results of IT Service Firms - Mixed Picture

Profit at IT service firms are under pressure although sales are recovering as demand for system integration and for the development of software for financial, telecommunication systems is strong. Demand for software for personal data security systems is also up sharply. Sales of the IT service industry increased 2.1% YoY in the first half of the current fiscal year ended September 2005. Orders were up 4.6% in September. Orders for embedded software are also strong. On the other hand, demand for ERP have turned sluggish, hurting SAP Japan and other foreign vendors.

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

Nihon Parking (8997 JAQ)

Nihon Parking Corp., a parking lot operator, will list on the JASDAQ Securities Exchange on December 21. The company will offer 4,000 newly issued shares to the public in its initial public offering. The tentative price range will be announced on December 1. The fixed offering price will be announced on December 12. The company expects to net ¥1.3 billion from the IPO and plans to use ¥640 million for building new parking lots and the remaining amount to finance working capital requirements. The company is forecasting consolidated net income of ¥312 million on sales of ¥9.15 billion. Daiwa Securities SMBC is the lead underwriter of the offer.

Yujin (7828 JAQ)

Yujin Co., Ltd., a toy manufacturer, will list on the JASDAQ Securities Exchange on December 20. The company will offer 3,500 shares to the public in its initial public offering. Of those 3,000 are newly issued shares and 500 are shares currently held in private. The lead underwriter of the offer also has a green shoe option, allowing it to offer an additional 450 shares in the event of exceptional demand. The tentative price range will be announced on December 1. The fixed offering price will be announced on December 12. The company expects to net ¥1.1 billion from the IPO and plans to use the proceeds for capital investment and repayment of loans. The company is forecasting consolidated net income of ¥377 million on sales of ¥10.9 billion for the current fiscal year to March 2006. Nikko Citigroup Securities is the lead underwriter of the offer.

Fue Trek (2468 MTH)

Fue Trek Co., Ltd., a mobile phone network service and engineering company, will list on the Mothers Market of the Tokyo Stock Exchange on December 27. The company will offer 4,100 shares to the public in its initial public offering. Of those 2,800 are newly issued shares and 1,300 are shares currently held in private. The lead underwriter of the offer also has a green shoe option, allowing it to offer an additional 300 shares in the event of exceptional demand. The tentative price range will be announced on December 7. The fixed offering price will be announced on December 15. The company is forecasting consolidated net income of ¥86 million on sales of ¥1.5 billion for the current fiscal year to March 2006. Daiwa Securities SMBC is the lead underwriter of the offer.

Ebara-Udylite (4975 TSE2)

Ebara-Udylite Co., Ltd., a manufacturer of plating chemicals and plating equipment, will list on the Second Section of the Tokyo Stock Exchange on December 22. The company will offer 383,000 shares to the public in its initial public offering. Of those, 168,000 are newly issued shares and 215,000 are shares currently held in private. The tentative price range will be announced on December 1. The fixed offering price will be announced on December 12. The lead underwriter of the offer also has a green shoe option, allowing it to offer an additional 57,000 shares in the event of exceptional demand. Nomura Securities is the lead underwriter of the offer.

Startia (3393 MTH)

Startia Co., Ltd., a company providing mobile phone marketing, servicing and subscription services, will list on the Mothers Market of the Tokyo Stock Exchange on December 20. The company will offer 4,100 shares to the public in its initial public offering. Of those 3,000 are newly issued shares and 1,100 are shares currently held in private. The tentative price range will be announced on November 29. The fixed offering price will be announced on December 8. The company reported non-consolidated net income of ¥86,647 thousand on sales of ¥1,105,373 thousand for the fiscal year to March 2005. Shinko Securities is the lead underwriter of the offer.

Kanemitsu (7208 OSE2)

Kanemitsu Co., Ltd., a company engaged in the design, development, manufacturing and marketing of steel pulleys for automobiles, agricultural machinery and general machinery, will list on the Second Section of the Osaka Securities Exchange on December 22. The company will offer 1,150,000 shares to the public in its initial public offering. Of those 600,000 are newly issued shares and 550,000 are shares currently held in private. The tentative price range will be announced on December 2. The fixed offering price will be announced on December 13. Mitsubishi UFJ Securities is the lead underwriter of the offer.

Production I. G. (3791 JAQ)

Production I. G., Inc., a producer of animation films for television, video, and game machines, will list on the JASDAQ Securities Exchange on December 21. The company will offer 2,500 shares to the public in its initial public offering. Of those 1,400 are newly issued shares and 1,100 are shares currently held in private. The tentative price range will be announced on November 30. The fixed offering price will be announced on December 9. Mizuho Investors Securities is the lead underwriter of the offer.

Nippon Office Systems (3790 JAQ)

Nippon Office Systems Co., Ltd., a company specializing in services and systems for recycling IT equipment, will list on the JASDAQ Securities Exchange on December 14. The company will offer 750,000 shares to the public in its initial public offering. Of those 100,000 are newly issued shares and 650,000 are shares currently held in private. The tentative price range will be announced on November 25. The fixed offering price will be announced on December 5. The company plans to use the proceeds from the IPO for developing ERP systems in-house. Mitsubishi UFJ Securities is the lead underwriter of the offer.

Gamepot (3792 SSE)

Gamepot Co., Ltd., an online game and mobile game service provider firm, will list on the Sapporo Stock Exchange on December 20. The company will offer 2,200 newly issued shares to the public in its initial public offering. The tentative price range will be announced on November 29. The fixed offering price will be announced on December 8. NIS Securities is the lead underwriter of the offer.

S Grant (8943 NSE)

S Grant Co., Ltd., a real estate firm specializing in the construction, sale and renting of condominiums for investment and also engaged in staffing services, will list on the Nagoya Stock Exchange on December 20. The company will offer 1,600 newly issued shares to the public in its initial public offering. The tentative price range will be announced on November 29. The fixed offering price will be announced on December 8. Kobe Securities is the lead underwriter of the offer.

Network Value Components (3394 MTH)

Network Value Components Co., Ltd., a Japanese system integrator, will list on the Mothers market of the Tokyo Stock Exchange on December 16. The company will offer 1,600 shares to the public in its initial public offering. Of the total 1,000 are newly listed shares and 600 are shares currently held in private. The tentative price range will be announced on November 28. The fixed offering price will be announced on December 7. Mizuho Investors Securities is the lead underwriter of the offer.

Sony Communication Network (3789 MTH)

Sony Communication Network Co., Ltd. a Japanese Internet provider and a portal site operator, will list on the Mothers Market of the Tokyo Stock Exchange on December 20. The company will offer 90,000 shares to the public in its initial public offering. Of the total 20,000 are newly listed shares and 70,000 are shares currently held in private. The lead underwriter

has a green shoe option, allowing it to offer an additional 12,000 shares in the event of exceptional demand. The tentative price range will be announced on November 21. The fixed offering price will be announced on December 8. Nomura Securities is the lead underwriter of the offer.

GMO Hosting & Security (3788 MTH)

GMO Hosting & security Inc., a Japanese hosting and securities services provider, will list on the Mothers Market of the Tokyo Stock Exchange on December 16. The company will offer 3,500 shares to the public in its initial public offering. Of the total 1,500 are newly listed shares and 2,000 are shares currently held in private. The tentative price range will be announced on November 25. The fixed offering price will be announced on December 7. 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)
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	2.7	7.6	4.5	-6.0	2.0	-8.2	-2.4	6.3	-6.8	-0.8	-0.3	-5.5

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