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High-tech Sector

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Digital Cycle at Turning Point

Japan's eight major home electronics manufacturers reported higher sales and profit or returned to profitability in the first half of the current fiscal year ended September 2004. However, intensifying competition and declining prices pulled down profit at firms that failed to come up with proper product strategies. In addition, higher raw material prices, such as that for steel and oil, are starting to weigh heavily on profit. Higher raw material prices combined with declining end-user prices are likely to give a double punch to the industry, and in all likelihood, the economy on the whole.

First-half Mobile Phone Shipments Down Sharply

Shipments of mobile phones in the first half of the current fiscal year ended September, fell 17.9% to 21.1 million units, the first year-on-year decline in semi-annual sales. In the first half of last fiscal year sales were driven by camera-equipped mobile sales. Sales of 3G phones are rising but the number of 2G phones fell by 3.6 million during the same period. NEC managed to maintain its leadership position for the seventh time in a row, with a market share of 19.2%. However, shipments were down 33.4% and its market share fell by 4.5 percentage points. Matsushita Mobile Communications came in second, with a market share of 17.7%, up 1%. Third ranked Sharp had a market share of 10.7%.

Softbank(9984 TSE1) Acquires C&W's Japan Fixed-line Operations

Softbank will acquire Cable and Wireless IDC, the fixed-line phone subsidiary of Cable and Wireless, a major British telecommunications firm. The ¥14.2 billion acquisition will help Softbank strengthen its presence in the corporate telecommunications sector, effectively turning it into a comprehensive telecommunications firm. Softbank's plans envision entry into the mobile phone market to become a major telecommunications services firm in Japan, in the same league as NTT and KDDI.



SPE Orders Likely to Slow Down

Orders for Japan-made semiconductor production equipment in September fell 3% year-on-year to ¥106 billion, the first YoY decline in monthly orders since May 2003. Major SPE manufacturers feel that demand has entered a correction period. Most manufacturers, however, do not expect orders to plunge like they did when the IT bubble burst in 2001. Advantest, a major tester manufacturer, expects demand to stay weak for a while, recovering only from the first quarter of 2005. Tokyo Electron does not expect demand to pick up again before mid 2005. Some manufacturers estimate that orders in 2005 will remain below the 2004 level. SPE orders have also been affected by a sharp decline in investment in Taiwan, the industry's major customer.

Consumer Electronics Sales Down in September

Sales of consumer electronics products in September fell 8.4% year-on-year to ¥146.6 billion, according to NEBA, an association of large consumer electronics chains. This was the second consecutive year-on-year decline in monthly sales. Television and DVD sales continue to be favorable even after the Olympic demand but sales of personal computers and air conditioners slowed. Television demand is underpinned by the shift to digital TVs and the popularity of flat panel models.

Earnings Roundup

Electronics Manufacturers Report Strong First-half Profit but Picture is Mixed

Driven by strong demand for electronic components and helped by cost cutting, Japan's major electronics manufacturers reported strong first-half sales and profit, with operating income at all companies topping ¥30 billion. However, their profit is under intense pressure. Sharp's operating profit margin was 6.1% and that of all other firms was below 4%. Results also reflected their product strategies. While Sharp and Matsushita benefited from flat panel televisions, Sony was adversely affected by a limited line-up of products in this category.

Interim consolidated net sales at Sharp rose 14.9% to ¥1.2 trillion and net income was up 40.7% to ¥39.3 billion. Net income at Sony more than doubled to ¥76.4 billion despite sluggish sales in its electronics division. Revenues from its movie business contributed significantly to drive profit.

Net income at Matsushita also increased 2.4-fold to ¥56.2 billion as it benefited from strong sales of white goods, including flat panel TVs and DVD decks. NEC's net income rose 62.6% to ¥25.1 billion, but it chalked up ¥10 billion in losses in its mobile phone business. Slower domestic shipments and rising R&D cost for the development of 3G phones for overseas markets affected its mobile phone business.



Fujitsu Returned to profitability at the operating and ordinary profit levels for the first time in four years and its net loss shrank to ¥8.1 billion, a ¥50 billion improvement from the same period a year ago. Net income fell sharply at Sanyo Electric, plunging 65% YoY due mainly to higher raw material prices and declining end-user prices. Higher raw material prices affected its battery and semiconductor operations.

Mitsubishi Electric posted sales and earnings gains, as its industrial mechatronics division drove profit. Sales of factory automation systems to Asia, particularly to China, were strong, while sales of automotive equipment rose both at home and overseas. Divisional sales rose 17% to ¥395.7 billion while operating income was up 66% to ¥43.3 billion. On the other hand, telecommunications equipment sales, particularly mobile phones, were slow.

***VeriServe(3724 TSE Mothers)
Nearly Doubles Ordinary Income***

Interim non-consolidated ordinary income at VeriServe rose 95% year-on-year to ¥420 million on sales of ¥2,3, up ¥2,300 million, up 73%. Sales in the mainstay testing division rose 85% to ¥2,114 million. Sales related to car navigation systems rose as manufacturers outsourced testing, reflecting more complex systems.

***Fanuc (6954 TSE1) Revises
Forecasts***

Fanuc revised its current fiscal year (to March 2005) forecasts upward. The revised forecasts see consolidated ordinary income rising 37% to ¥123,700 million, ¥97,800 million higher than the previous forecast. The company cited strong sales of CNC devises to China for the revision. Assuming that the forecasts hold, Fanuc will renew its past sales and earnings records. In view of the better-than-expected sales and profit, Fanuc raised its annual dividend forecast to ¥28, up ¥5 from the previous forecast.



Initial Public Offerings News (For detailed information, go to: <http://www.ipotokyo.com>)

E*Trade Securities (8701 JASDAQ)

E*Trade Securities Co., Ltd., an online securities broker, will list on the JASDAQ market on November 30. The company will offer 55,000 shares to the public in its initial public offering. The company also has a green shoe option that allows its existing shareholders to offer an additional 8,250 shares in case of exceptional demand. The tentative price range will be announced on November 10. The fixed offering price will be announced on November 18. E*Trade expects to net ¥22.61 billion from the IPO. Proceeds are to be used for working capital and to expand its margin trading business. Nomura Securities is the lead underwriter of the offer.

Care Service (2425 OSE Hercules)

Care Service Co., Ltd., a operator of nursing care services for the elderly, will list on the Hercules market of the Osaka Securities Exchange on November 26. The company will offer 2,000 shares to the public in its initial public offering. Of those 1,500 are newly issued shares and 500 are shares currently held in private. The tentative price range will be announced on November 8. The fixed offering price will be announced on November 16. Kobe Securities is the lead underwriter of the offer. In the fiscal year ended March 31, 2004, the company posted net profit of ¥57.1 million on revenues of ¥2.65 billion. Earnings per share were ¥7,935.65

Takara Bio (4974 TES Mothers)

Takara Bio Inc., the biotech subsidiary of Takara Holdings Inc., will list on Tokyo Stock Exchange's Mothers market on December 7. The company will offer 40,000 newly issued shares to the public in its initial public offering. The company also has a green shoe option allowing it to offer up to 5,000 additional shares to be borrowed from Takara Holdings in case of exceptional demand. The tentative price range will be set on November 15. The fixed offering price will be announced on November 25. Takara Bio expects to net ¥7.38 billion from the IPO. Proceeds are to be spent for research and development, capital expenditures and for loans to subsidiaries. Takara Bio is forecasting a net loss of ¥5 million on revenues of ¥15.62 billion. Nomura Securities is the lead underwriter of the offer.

Taiyo Industrial (6663 JASDAQ)

Taiyo Industrial Co., Ltd., a company engaged in the production of printed circuit boards (flexible printed board prototypes, and rigid printed circuit boards) PCB testers, and surface polishing devices will list on the JASDAQ market on December 2. The company will offer 450,000 shares to the public in its initial public offering. Of those 240,000 are newly issued shares and 210,000 are existing shares currently held in private. The tentative price range will be set on November 12. The fixed offering price will be announced on November 24. The proceeds from the IPO will be used for repayment of debt, working capital, and for capital investment. Nikkociti Group is the lead underwriter of the offer.



Certo (3354 JASDAQ)

Certo Co., Ltd will list on the JASDAQ market on December 3. The core businesses of the company are Internet auction-based business supplies and back office support services. The company will offer 1,200,000 shares to the public in its initial public offering. Of those 600,000 are newly issued shares and 600,000 are existing shares currently held in private. The tentative price range will be set on November 15. The fixed offering price will be announced on November 25. Nikkociti Group 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)
Sept	94.1	96.4	82.7	74.3	2,495	1,313	18,078	2,314	7,335	8,430	3,761	209
Oct.	98.6	104.9	80.8	75.2	2,005	1,397	16,942	2,473	6,100	8,370	3,698	228
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	3,629	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	89.6	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	10,950	1,502	1,927	7,521	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	2,163	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.	98.0	101.3	82.4									217
YoY	4.1	3.5	-0.8	30.7	19.2	25.5	5.7	18.9	-3.0	9.6	11.1	4.2

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

