

# *The Chip Industry's Future?*



**Silicon** *South West*

*Promoting the UK's South West electronics sector*

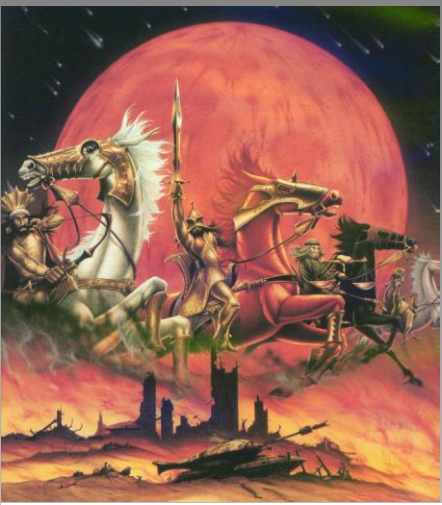
**Silicon 2010 Conference**  
**The F-Word: Funding for silicon start-ups**  
19<sup>th</sup> November 2010  
the Innovation Centre, Bath

**Malcolm Penn, Chairman & CEO, Future Horizons**

*The Global Semiconductor Industry Analyst*



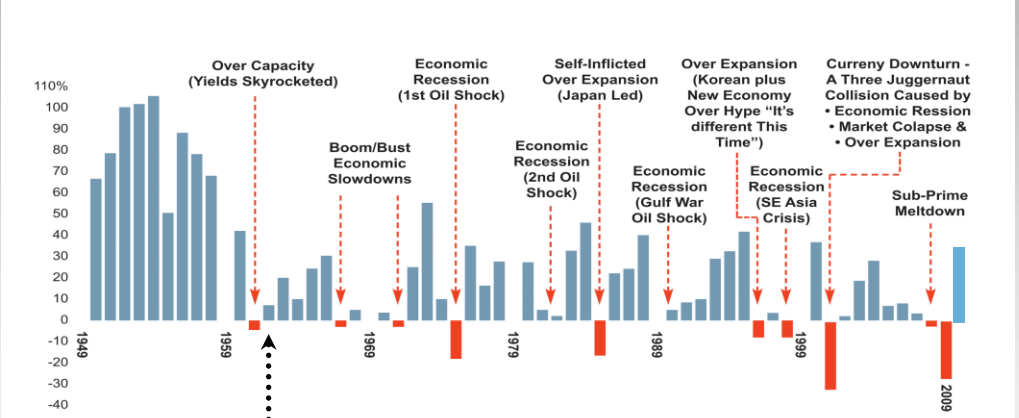
# Future Horizons Research Philosophy



## Analysing The Industry Fundamentals

- ◆ The Economy
- ◆ Fab Capacity
- ◆ Unit Demand
- ◆ ASPs

All Inter-Dependent But Mathematically Disconnected  
 (Overlaid By Industry Emotion, Fashion & Sentiment)  
 Impossible To Model (Equation Or Algorithm)



- ◆ Focus On The Basic Fundamentals
- ◆ Look For Changes In Industry Characteristics
- ◆ Analyse Deviations From Long-Term Trends
- ◆ Analyse Cause Of Cycles, Not 'Best Historical Fit'
- ◆ Sales Value = Units Sold x Price Sold For
- ◆ Markets Don't Buy Chips - Only Customers
- ◆ All Markets Are Finite - They Eventually Saturate
- ◆ Over Capacity => Meltdown => Revenue Downturn
- ◆ Look For The Facts Not Hype, Fashion Or Denial
- ◆ Past Industry Cycles Poor Indicator Of The Future
- ◆ Good Old-Fashioned Common Sense & Experience (Slide Rule Sanity Check Mentality)

**Our Industry Experience Started Here ...**

Longer Than Any Other Analyst & Most Industry Execs (Except Morris Chang)

**We Have An Unmatchable Technology Due Diligence Core Competence ...**

That Makes Us Unique & Unbeatable

**History May Not Repeat Itself ... But It Does Rhyme A Lot (Mark Twain)**

**"Plus ça change ... plus c'est la même chose"**



# ***The Start Up Enigma***

- ◆ Most Innovation Is Driven By Start-Ups ...  
Most Start-Ups (New Businesses) Fail!
- ◆ Only 25% Make It To 15 Years Or More
- ◆ The First 10 Years Are the Worst
- ◆ Top 6 Reasons New Businesses Fail
  1. Not Investigating The Market
  2. Business Plan Problems
  3. Too Little Financing
  4. Bad Location, Internet Presence & Marketing
  5. Rigidity ... Only The Paranoid Survive
  6. Expanding Too Fast

**Never Forget ... Cash Flow Is King  
Money In / Money Out**



# ***The Market - The Top Reason For Failure!!***

**Rule #1 – There's No Such Thing As A Market ... Show Me The Customers Wanting & Willing To Buy (L Micic, ITTSC)**

- ◆ **Is There A Realistic Opportunity ?**
- ◆ **How Many/How Much ?**
- ◆ **Who Would Be The Customers ?**
- ◆ **Where Are They Located ?**
- ◆ **What Are the Competing Approaches ?**
- ◆ **Who Else Is Working In This Area ?**
- ◆ **What Are Their IP Positions ?**
- ◆ **What Are The Big Players Doing/Likely To Do ?**
- ◆ **Who Would Be Appropriate Partners ?**
- ◆ **How Can We Take This Forward ?**

**All This Needs To Be Reconciled Against The Traditional Moore's Law Background**



# ***Yes ... Marketing Makes THE Difference***

- ◆ Innovation Drives The Truly Breakthrough Inventions
- ◆ Small/Entrepreneurial Firms Are The Best At Innovating
  - But Also Highest Failure Rate
  - Most Fail Through Poor Execution Not Lack Of Technology
- ◆ Gaining Share Of Mind In A High Mortality Rate Industry
- ◆ Right Place/Right Time ... Yes Luck Too Makes A Difference
  
- ◆ Why Is Europe's "Fabless" Industry So Small Internationally ?
- ◆ Why So Few Billion Dollar European "Fabless" Firms ?
- ◆ Why Are There Few High-Growth Electronics Firms In Europe ?
- ◆ Excluding ARM, Can The IP Model Survive Given Its Low Overall \$ Potential ?
- ◆ Why Are Investors So Unwilling To Invest In Europe ????



# ***Better Never Than Timid Or Late***

**Six Months Is One Quarter Of A Moore's Law Cycle**

**Good Plan Today Beats A Perfect Plan Tomorrow**

**Having The Best Plan/Solution Means Nothing  
Vs. First To Market With Something That Works**

**Marketing Wins Hands Down On Technical Best**

**In General Europe Doesn't Do This Very Well**



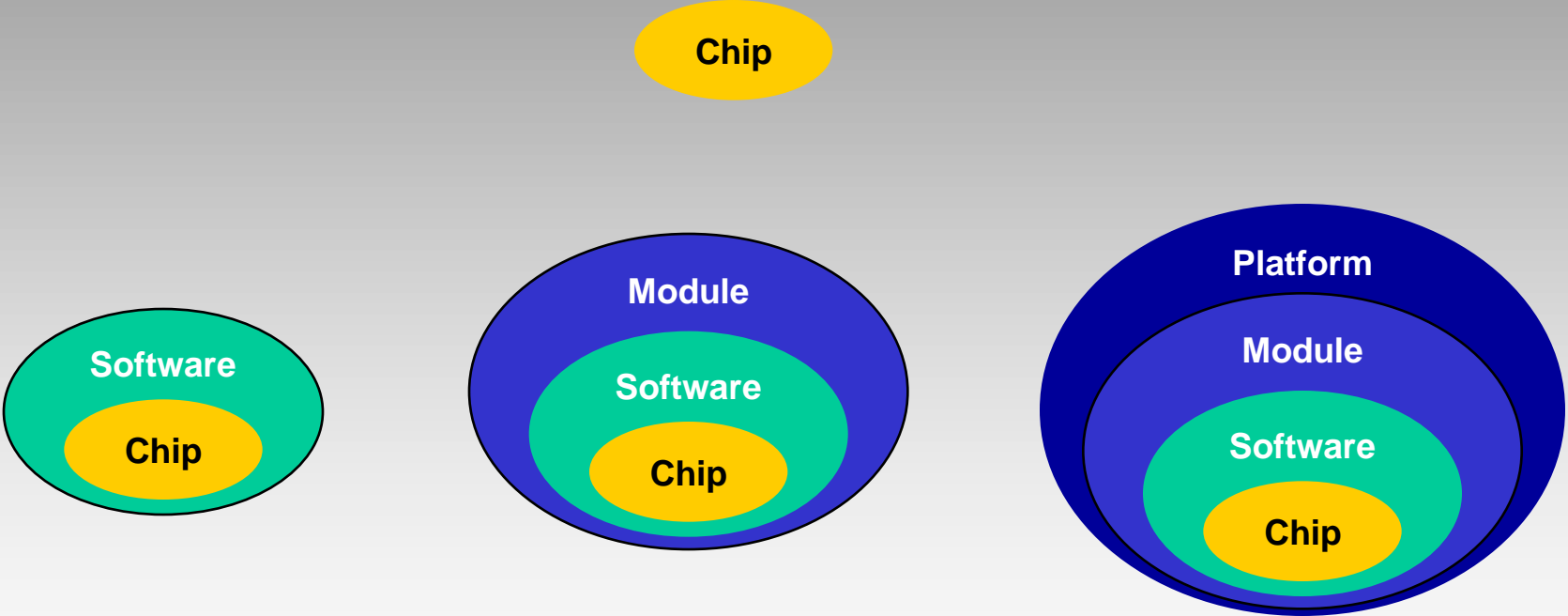
# ***We All Need “Converged” Skills***

- ◆ **Hardware Designers Understand Software**
- ◆ **Software Programmers Understand Hardware**
- ◆ **Analog Engineers Understand What Digital Gives Them**
- ◆ **All Must Understand Software Dependencies**
  - **Is It A Core Part Of Your Product Or Service?**
  - **Does It Enable Competitive Advantage?**
  - **Does Getting It Wrong Represent A Threat?**
  - **Does It Dictate Time To Market?**
  - **Does It Consume Disproportionate Resources?**
- ◆ **Marketing Needs Full Knowledge Of Your Technology**
- ◆ **Technologists Need To Know About “Business”**
- ◆ **All Need To Know About The “Customer’s Customer”**
  - **Relationships With Carriers / Service Providers / Content Owners Etc Give Early Insight To Chip Features**



# *Complex Routes To Market*

## Impact On The Value Chain & Competitive Positioning



# ***Do's & Don'ts For Success***

- ◆ **Don't Make Outsourcing Decisions Just Because They Are Easy**  
(Especially If There's No Way Back)
- ◆ **Don't Make Strategic Cut-Backs Just To Fix The Bottom Line**  
(Some Decisions e.g. R&D Take A Long Time To Impact, Then It's Too Late)
- ◆ **Do Show Strong Leadership & PASSION**  
(If You Don't Believe It Can Be Done It Won't Be Done)
- ◆ **Do Have A Long-Term Plan & Stick With It**  
(Even If It Negatively Impacts 'The Next Quarter' Balance Sheet)
- ◆ **Do Show A Commitment & Determination To Succeed**  
(Profits Are Deterministic ... They Come From Doing The Job Right)
- ◆ **Do Stay Focused & Resistant To External Meddling**  
(Especially From Non-Sympathetic Investors & 'Bean Counters')
- ◆ **Do Execute Ruthlessly**  
(This Is The Key Competitive Differentiator)
- ◆ **Do ... Just Do It!**



***“Just Do It !!”***

**This Industry Has Nowhere Near Run Out Of Steam**

**Technology - Moore's Law / Learning Curve (Market Pull)**

**Legislation - Energy Saving / Conservation (Market Push)**

**Structural - The Relentless Analogue To Digital Conversion**

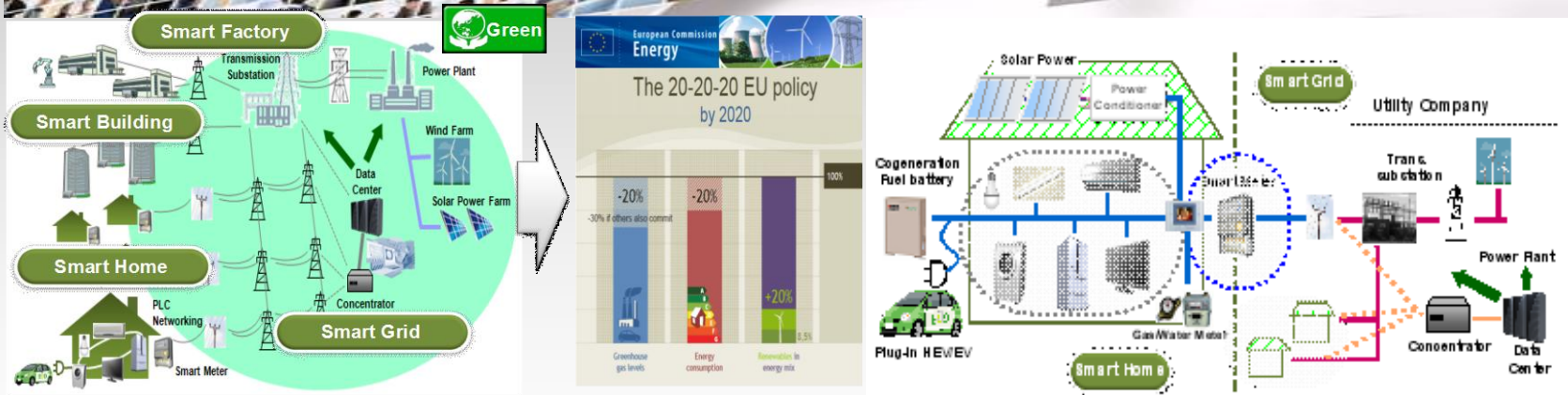
**Combining To Do What The Chip Industry Does Best ...**

**Enabling Something That Was Previously Impossible  
(Either Technically, Practically Or Commercially)**



# The Really Good News ...

## So Many New Markets, Products, Solutions



## Industrial & Green ... Europe's Leading The Way



# What's Needed? - Semiconductor Devices

## Lots Of Them, Everything, Everywhere

- ◆ A Broad Range Of Semiconductor Devices - Sensors - Analog - Microprocessors - Output Displays - Display Drivers - Memory - Power Components Plus A Wide Variety of Small, Low Cost Packages
- ◆ Uptake Is Usually Down To Regulations Or Cost
- ◆ No Magic Bullets, Just Old Fashioned Hard Work & Execution

Mixed Signal IC	Power Device	Compound Semiconductor	Display Driver
<ul style="list-style-type: none"><li>➤ Power Factor Correction IC</li><li>➤ Smart Battery System IC</li><li>➤ Scalable Voltage Regulator</li><li>➤ HDD/ODD/DSC Motor Dr.</li><li>➤ Automotive Analog IC</li><li>➤ AFE, LED Driver</li><li>➤ Standard SRAM</li><li>➤ EEPROM</li></ul>	<ul style="list-style-type: none"><li>➤ LV MOSFET</li><li>➤ HMOSFET</li><li>➤ IGBT + FRD</li><li>➤ Triac / Thyristor</li><li>➤ Intelligent Power Device</li><li>➤ Diode</li><li>➤ Transistor</li><li>➤ Standard logic/linear IC</li></ul>	<ul style="list-style-type: none"><li>➤ Photo-Coupler</li><li>➤ Blue-Violet Laser Diode</li><li>➤ Photo-Detector IC</li><li>➤ RF Switch IC</li><li>➤ GaAs Low Noise FET</li><li>➤ Low Noise Amplifier IC</li></ul>	<ul style="list-style-type: none"><li>➤ Large Sized LCD Driver</li><li>➤ PDP Driver</li><li>➤ Small Sized LCD Driver</li></ul> <p><b>More Moore ...</b> <b>More Than Moore</b></p>

**Europe's Good At All This Stuff ...**



# ***What's Needed? - Product & Applications***

## **Lots Of Them Too, Everything, Everywhere**

### **1. Lifestyle Segments**

- ◆ Smart Home Appliances
- ◆ Personal Healthcare
- ◆ Home Energy Management
- ◆ DIY Power Tools

### **2. E-Factory:**

- ◆ Industrial Communications (Ethernet, I/O Link, Zigbee, Wireless, Industrial WiFi)
- ◆ Industrial Drives
- ◆ Industrial Sensors
- ◆ Industrial Control (PLC, CNC, I/O Modules)

### **3. Smart Energy**

- ◆ Smart Grid (Meaning For Our Market High intelligence Connected Devices, Low Power, Enhanced Control & Advanced User interfaces)
- ◆ Lighting
- ◆ Smart Metering
- ◆ Micro Power Generation
- ◆ Energy Efficient Pumps

**Europe's Good At All This Stuff Too ...**



# ***“Just Do It” Isn’t Easy! - #1***

## **◆ Will Your IC Work ?**

- Modern Design Tools & Methodologies Combined With Well Documented Processes Mean Your IC Design Is Virtually Guaranteed To Work**
- In The Past This Was NOT A Given**

## **◆ The Cost Of Fabbing A New Design Is Not As High As It Could Be**

- Making State Of The Art ICs Before The Foundries Came Into Existence Meant Setting Up Your Own Fab !**
- Multi Project Wafers Reduce Prototype Costs To Acceptable Levels**



## ***“Just Do It” Isn’t Easy! - #2***

- ◆ **Gordon Moore - Probably Optimistically At The Time - Stated That The Number Of Transistors Per Unit Area Will Double Every Two Years**
  - **That Our Industry Has Kept To This Shows The Quality Of People Involved In It**
  - **This Will Carry On For Many Years to Come - The Path to 1.2nm Is Clear To Those With Vision**
  
- ◆ **But ...Our CTO Mike Bryant Has Added Two Rather More Sobering Additional Observations To This ...**
  - **The Cost Of Development Of A New Process Is Inversely Proportional To The Node Length**
  - **The Cost Of Producing A Design Using A New Process Is (Almost) Proportional To The Process Transistor Density**



# ***“Just Do It” Isn’t Easy! - #3***

- ◆ **The Cost Of Development Of A New Process Is Inversely Proportional To The Node Length**
  - **So The Cost Of Developing 22nm Technology Will Be Twice The Cost of Developing 45nm**
- ◆ **The Cost Of Producing A Design Using A New Process Is (Almost) Proportional To The Process Transistor Density**
  - **A Doubling Of Transistor Density As Achieved At Each Node Raises Design Costs By Typically 1.9 Times**
  - **Average IC Development Costs At Any Node (Excluding Embedded Software Costs) Rise At This Rate**
  - **It Is Not That Our Industry Has Not Got To Grips With Design Productivity Improvements ...**
    - **The Design Process Gets Ever More Complex As More Issues Have To Be Handled With Each Process Step**
    - **Recent Examples Are DFM & Power (Leakage) Management, Next Is Variance**



## ***“Just Do It” Isn’t Easy! - #4***

- ◆ **Thus Whilst Developing New Processes Is Becoming Much More Expensive, Developing New Designs Using That Process Is Becoming Cripplingly So Too**
- ◆ **Yet Despite This The Price Per Sq Cm Of A Silicon Chip Remains Fairly Constant**
- ◆ **The Only Variable Left Is Therefore Sales Volume**
- ◆ **The Only Way To Cover The Increased Cost Of Development Is To Sell More Of The Product ...  
"Failure Is Not An Option"**



# ***“Just Do It” Isn’t Easy! - #5***

- ◆ **Thus If Your Product Is Not Of An Ever Increasing High Volume It Can’t Use The Latest Processes**
  - ◆ **This Isn’t A Killer - Nobody Else Can Use Them Either**
  - ◆ **Instead Think “More Than Moore”**
  - ◆ **Push The Limits Of What Are Now Very Well Understood & Established Technologies**
  - ◆ **There Are Numerous Well Depreciated Fabs Waiting To Work With You On Such Projects**
  - ◆ **Multi Chip Packages Are No Longer Just For The Intels Of This Industry**
  - ◆ **Your Customer Can’t Tell The Difference Between An SiP Or SoC .... And Doesn’t Care Anyway Provided It’s Cheaper**
    - **Indeed Your Die May Have Major Sales Opportunities Inside An SiP Produced By An Established Chip Firm**
    - **Let Someone Else Sell The Overall Product**



# ***“Just Do It” Isn’t Easy! - #6***

## **◆ Can You Raise Funding ?**

- Apart From Possibly A Few Silly Years Such As the ‘Internet Bubble’ This Has Always Been An Issue**
- The Current Giants Of Our Industry Were Often Founded On Credit Cards, Part Time Work Or House Remortgages**
- If You Don’t Believe In Your Product Enough To Invest In It Why Should Investors Using Other People’s Money?**

## **◆ Is Your Exit Strategy Viable ?**

- No Matter How Hard You Try You Are Not Going To IPO In Five Years ... In Our Industry It's 10+ Years Of Hard Slog**



# ***“Just Do It” Isn’t Easy! - #7***

- ◆ **Know the Value of Your Company & Stick To It**
  - **Business Plan Must Cover ALL Future Investments**
  - **The CEO Should Be Outward Facing**
    - **Customer Sales & Raising Investment Is A Full Time Job**
    - **He Cannot Be A Surrogate CTO As Well**
- ◆ **Too Many Startup Businesses We See Are Constantly in ‘Raising More Money’ Mode To The Detriment Of All Else**
  - **Seek Out Investors Who Will Fund ALL The Stages Of Your Business Plan On A Milestone 'No Surprises' Basis**
  - **This Does Not Mean All Investors Invest At All Stages, Just That You Make It Clear To All What Is Really Needed & Try To Have Them Already In Place**
  - **Investors Obviously Want To Make Money So Want The Highest Equity For The Lowest Investment**
    - **Don’t Moan About It - That’s Their Job - Plus They Do Understand Our Business More Than You May Think**
    - **Offer a Value Proposition & Persevere**



# ***Just Do It ... Just Do It!***

- ◆ **Build Products The Market Wants To Buy At A Price The Customer Is Willing To Pay**
- ◆ **Service The Hell Out Of The Customer**
- ◆ **R&D USP / New & Innovative Products / Sound Marketing / Solid Business Plan / Strong Leadership Matter**
- ◆ **Don't Agonize / Blame / Worship 'The Model' ... Execute!**
- ◆ **Don't Overdo 'Stealth-Mode' Trying To Protect Your Idea**
  - **Just Get Out There & Sell Your Company & Product Idea**
- ◆ **If At First You Don't Succeed, Try Again**
  - **ALL Of The Industry Greats Have Seen Bad Times**
  - **Learn From the Experience !!**
- ◆ **To Succeed You Need All The Help You Can Get**
  - **Friends & Industry Contacts**
  - **Government Agencies & Networking Initiatives**
  - **Watch The Excellent BBC Drama "Micro Men"**
  - **Future Horizons**



# Instant Gratification - Something For Nothing



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**Get a career ... welfare needs you**

THE TIMES January 27, 2008

**Disgraced Lehman Brothers boss 'sold' \$14m Florida mansion to wife for \$100**

**NEWS**

**Lehman boss 'sold' mansion to wife for \$100**

The disgraced chief executive of Lehman Brothers transferred ownership of a \$14 million Florida mansion to his wife for \$100 in a possible attempt to avoid paying taxes on the worth of his vast fortune, it is alleged.

Richard Fuld, who led the 178-year-old investment bank to its lowest point in September, sold the beach-front home to his wife, Katherine, for \$100 (£12) on November 21, according to Martin

Lehman was denied permission to sell the mansion to his wife for \$100. Fuld's wife was an attempt to get away with the worth of his fortune, who asked to see the money that executive for corporate tax, using leverage, and Fuld's allegedly provided her with the cash, leaving her home in the event of a lawsuit or bankruptcy.

To take advantage of these rules the couple would have to prove that they

are, the 52-year-old having twice earlier in his career. The court has ordered the couple to disclose the source of the money, but was angry with Wall Street.

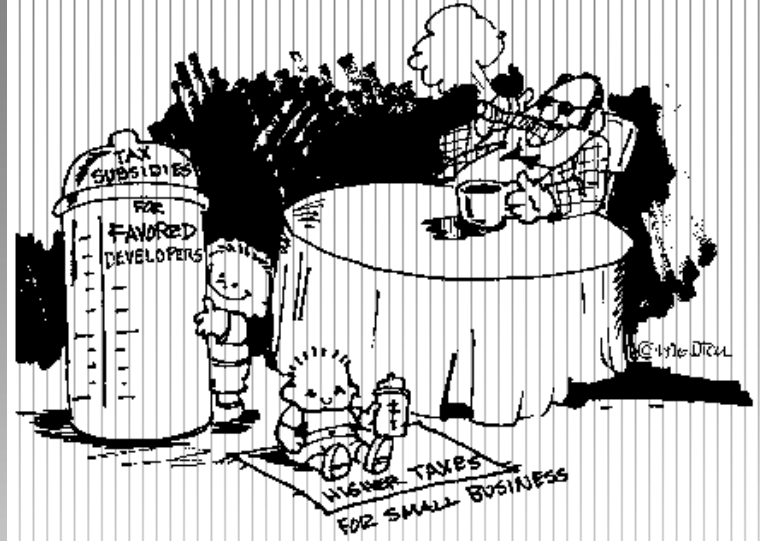
This also causing Lehman's largest bankruptcy. Mr Fuld has refused to admit responsibility for the fall of Lehman Brothers, spokesman for a congressional committee last October. Mr Fuld said that he had "no idea about what had happened to his company" but insisted that financial regulators and Congress should share the blame for the demise of the bank.

According to reports, Mr Fuld was accused of a head-on collision in the bank's gym, but he did not admit that Lehman Brothers was bankrupt, when he was promoted to the floor by his boss.

Mr Fuld's attorney did not return calls for comment yesterday.



Fuld's team could save Richard and Katherine Fuld from losing the house.



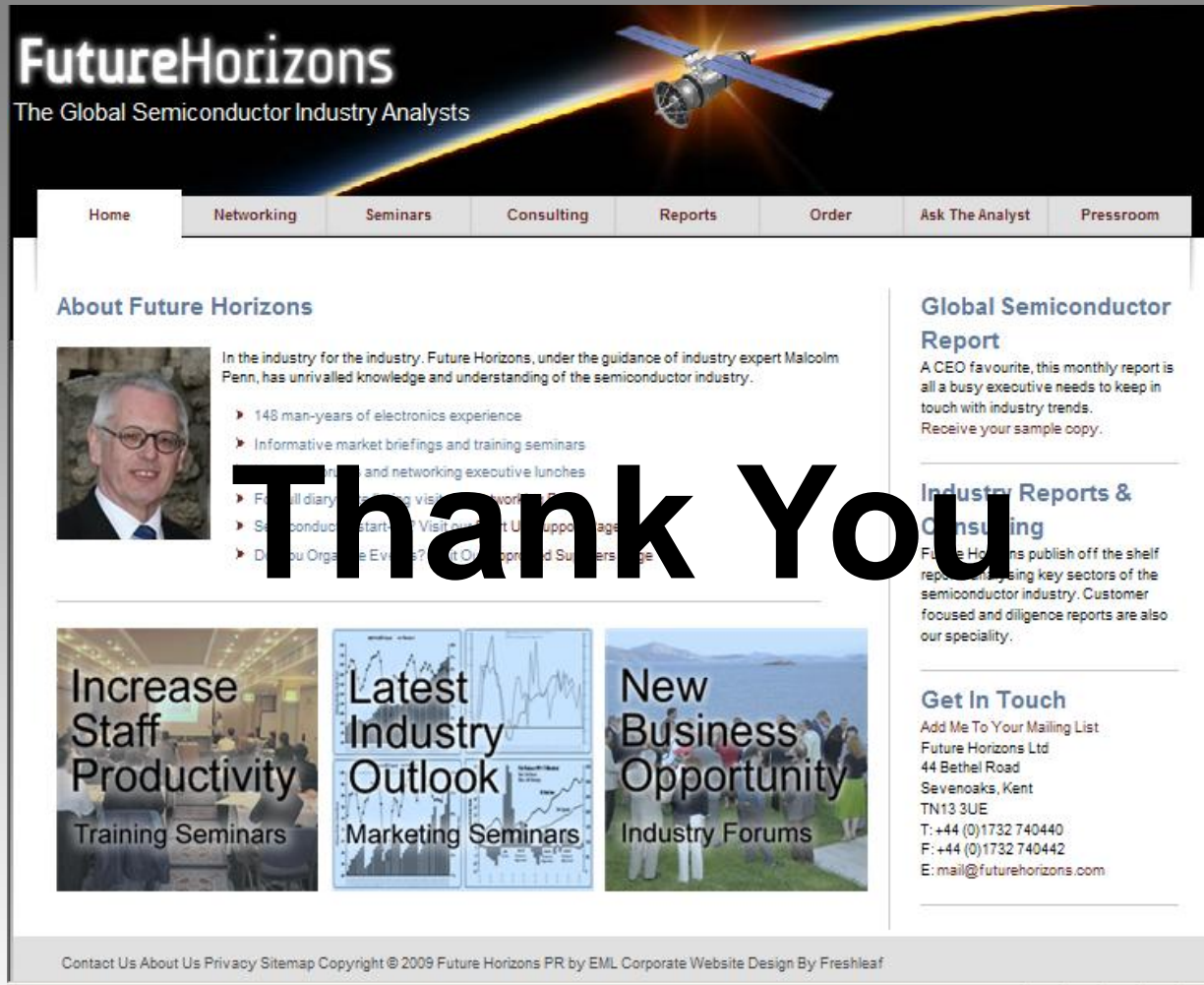
"Some are more equal than others!"



# ***Support Options From Future Horizons***

- ◆ **SME / Start Up Support Service**
  - Access To Our Reports & Conferences for €4.8k P.A.
- ◆ **First Look Technology & Market Evaluation**
  - An Initial Warts & All Report You Need to Act Upon
  - Followed By A Cleaned Up Report You Can Use to Raise Seed Funding, Typically From EPSRC, RDAs or Angels
- ◆ **Due Diligence**
  - Although We Can't Magically Open Doors to Them, VCs Worldwide Do Know Us and Take Notice of Our Reports
  - Our Report Is Just One Part of Your Presentation To Investors So We Can Also Assist Produce Or Review Your Business Plan, Documentation & Slide-Sets
- ◆ **We Constantly Introduce Start-Ups To CEOs Potentially Interested In Purchasing You/IP**






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Home Networking Seminars Consulting Reports Order Ask The Analyst Pressroom

### About Future Horizons



In the industry for the industry, Future Horizons, under the guidance of industry expert Malcolm Penn, has unrivalled knowledge and understanding of the semiconductor industry.

- ▶ 148 man-years of electronics experience
- ▶ Informative market briefings and training seminars
- ▶ In-house and networking executive lunches
- ▶ Full diary of visiting and working in the industry
- ▶ Semiconductor start-up Visits and support packages
- ▶ Do you Organise Events? Get Our Approved Suppliers Edge

### Global Semiconductor Report

A CEO favourite, this monthly report is all a busy executive needs to keep in touch with industry trends. Receive your sample copy.

### Industry Reports & Consulting

Future Horizons publish off the shelf reports covering key sectors of the semiconductor industry. Customer focused and diligence reports are also our speciality.

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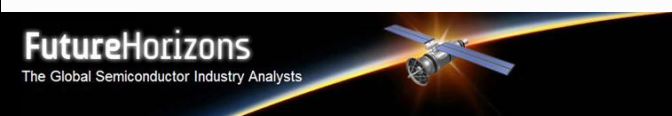
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**Plus Affiliates In India, Israel, Japan, Russia & USA**



## **Additional Slides Not Part Of The Main Set**



# ***OEM System Design Challenge***

- ◆ Fickle Markets Driven by Fashion
- ◆ Customers Expect Solutions Not Components
- ◆ Short TTM, Once The Customer's Need Gels
- ◆ Short Market Window, As The Customer Moves On
- ◆ Good Margins ... Until Product Is Established & Competition Moves In
- ◆ Getting Products On The Shelf Early Enough To Command A Good Price (& Margin)
- ◆ Optimisation Of The Design For Subsequent Product Evolutions To Create A Sustainable Advantage

**If You Can't Address These Issues  
You Are Dead In The Water**



# Future Horizons SME/Start Up Support Service

Too Busy ... Too Niche ... Too Stealth ... Too Knowledgeable ... Too Poor ...

Too Soon ... Too Unnecessary ... Too Everything? ... **Not Any More**

Sign Up Now To Future Horizons SME/Start Up Option ...

The Optimum Way To Feel & Tap Into The Industry Pulse

Conveniently Packaged Into A Single Affordable Offering

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The Global Semiconductor Industry Analysts

**Start Up/SME Company Support Service**

Too Busy ... Too Niche ... Too Stealth ...  
Too Knowledgeable ... Too Poor ... Too Soon ...  
Too Unnecessary ... Too Everything ... ?  
Think Again!

*Like It Or Not, From Day One You Are Part Of  
The Big Semiconductor Picture; The Sooner You  
Get Networked, The More Likely You'll Succeed*

**Future Horizons**  
"Start-Up/SME Company Support Service" Offers:

- Access To FH Market Research Reports - for a database of industry/market statistics
- Global SC Monthly Report Subscription - to keep abreast of the industry outlook
- Report Site Licence - for information dissemination throughout your organisation
- Delegate Industry Forecast Seminar Attendance - in January and July
- Delegate Electronics Industry Forum Attendance - for top-level industry networking
- Initial Business Appraisal - for an independent market opportunity assessment
- Referral To Freshleaf Media & EML - for corporate web design and PR support
- Potential Investors & Media Contacts - for business development support

Mail our website [www.futurehorizons.com](http://www.futurehorizons.com) for further details & registration

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- ◆ Access To FH Annual Semiconductor & Key Applications Reports
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  - to keep abreast of the industry outlook
- ◆ Report Site Licence
  - for information dissemination throughout your organisation
- ◆ Single Delegate Industry Forecast Seminar Attendance
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  - for top-level industry networking
- ◆ Initial Business Appraisal
  - for an independent market opportunity assessment
- ◆ Referral To Freshleaf Media & EML
  - for corporate web design and PR support
- ◆ Potential Investors & Media Contacts
  - for business development support

**All This For Just €4.8k Per Year (€400 Per Month)**



# ***Why Use Future Horizons ?***

- ◆ **We have a long experience of actually doing it. We are not MBAs but have run fab plants and design centres. Our contact list of experts we can call upon when needed reads like a Who's Who of the industry**
- ◆ **We don't do market hype or PR bull-shit. We tell it like it is !**
- ◆ **Time and again our market forecasts are proven to be the most accurate - We don't change our forecasts monthly as many of our competitors do**
- ◆ **The EU and many governments worldwide come to Future Horizons to evaluate the effectiveness of research programmes (FPx, ENIAC, MEDEA and CATRENE) and investment support for funded design centres & fabs**
- ◆ **We often perform work for many of the top 25 semiconductor companies as well as the top EDA companies**
- ◆ **Investment banks also ask us to place a value on companies or ideas - e.g. our valuation of NXP has been proven over time to be remarkably accurate as the very public crippling debt problems caused by the inflated amount paid by a PE that didn't ask our opinion has proven**



# *Other Support Options From Future Horizons*

## ◆ **First Look Technology and Market Evaluation**

- Is your idea truly original and likely to succeed ?
- You receive a 'warts and all' report detailing all the good AND bad points of your idea and company - if you think Dragon's Den is probing you should listen to our comments ! (Of course we realise they do full due diligence after the programme before actually parting with the money)
- Also our suggestions on your best way to market which may not always be the one you initially considered
- Once you have addressed the issues we have raised we supply an edited more positive evaluation document
- This is not a due diligence report but should assist you raise seed finance, be it from EPSRC, RDAs or others
- Can be done before patents are applied for - we offer a very strict NDA agreement and it's never in our interest to leak information from our clients
- In our experience UK and some other EU companies overdo 'stealthmode'
- The driving factor must be time to market as any idea no matter how good or protected by patents has a shelf life in months not years
  
- Typical cost around £5k upwards



# *Other Support Options From Future Horizons*

## ◆ **Due Diligence**

- Although we can't magically open doors to them, VCs worldwide do know us and take notice of our reports
- Some VCs commission us to produce due diligence on companies they wish to invest in
  - sorry but usually the company and not the VC pays for our services
- Remember our report is just one part of your presentation to VCs so we can also assist produce or review your business plan, supporting documentation and slidesets
- Of course VCs have to maximise their own profit but we can suggest a realistic value of your company that you should use in negotiations
- Later on and as an alternative to an IPO and provided we consider it viable we can introduce you to the CEOs of companies in the industry who may have an interest in buying your company
  
- Typical cost around £15k upwards depending on the project length required
- Obviously we are a business too and need to make a profit but we occasionally have entered into stock options deals to help amortise some of the upfront costs

