

Bouncing back after the crisis ?



“An economic recession next week is simply not possible because my diary is full busy”

Henry Kissinger



Executive Summary

1. This economic cycle is not of financial nature only: it is a recession of the “real economy”
2. During the past 15 years, corporate management has given the priority to short-term profitability thru globalization instead of long-term value creation thru innovation and “quality employment”
3. Such a strategy has generated a liquidity abundance and an industrial “pauperization”
4. This cycle could last 40 months and the rescue plan will not play a strong role in the return to growth
5. A solid and large recovery depends only on a new and strong wave of innovation all across the board: electronic components will be “as usual” the core of this new age ...



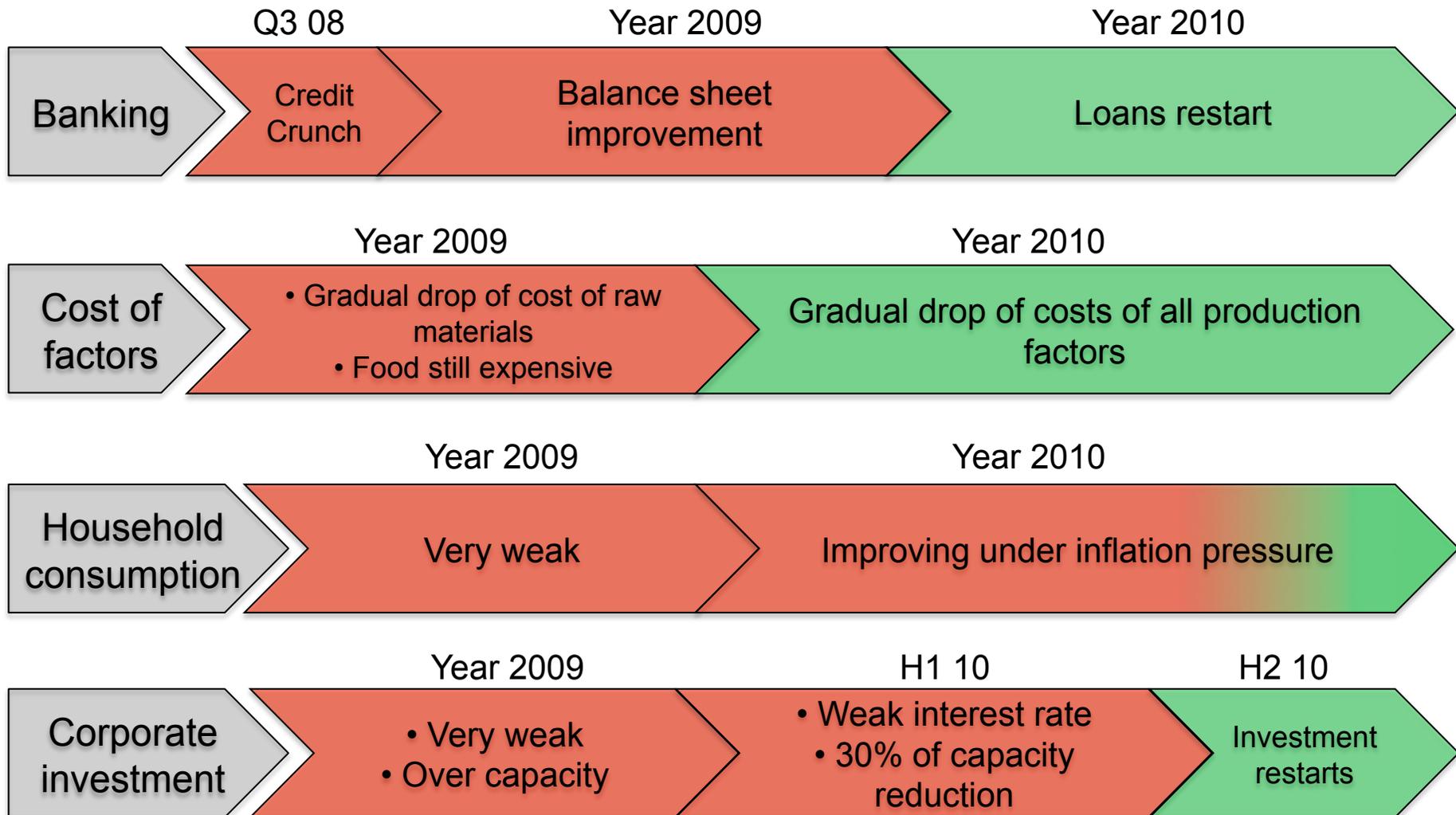
... However semiconductors and other components are today at a foothill of a strong growth over the next two years,

driven by :

- Technical factors in 2010
- Demand factors in 2011



Recovery process : bottom mid 2009, strong growth mid 2011



The risks

- Current “favorable” indicators are not structural improvements
- Massive unemployment starting Q1 2010
- Protectionist measures especially in Europe
- \$ currency crisis due to massive Chinese treasury bonds selling
- New wave of speculation on raw materials
- “Deglobalization”
- New behavior of households consumption bolstering low cost and low profit stuff ...
- ... And a H1N1 world pandemic which could negatively impact by 2% the GDP: *please wash your hands before applause this presentation!*
- In absolute value: 2012 = 2007 Best case!
- The growth of the next decade should be far below the past one!



Real Term growth
rate % Y/Y

Macro Forecast : GDP growth

	2007	2008	2009	2010	2011	2009 Share of World (Major areas)
NAFTA	2.3	0.5	-3.1	1.8	2	25%
South America	6.4	5.1	-1.5	1.5	1.5	6%
Japan	2.3	-1	-5	2	2	7%
Asia & China	10	7	6	7	8	20%
India	9	7	6	6	7	7%
Europe	3	1	-4	1	1.5	25%
Russia	8	0	-5	-2	1	6%
World	5	3	-1.5	2.5	3.0	100%

Source : BIPE



No resilience for electronic industry ?

- During the past economic cycles, the electronic industry was still growing demonstrating its resilience to crisis:
 - Low equipment ratio
 - Emerging countries strong demand
 - Continuous flow of component innovation generating virtuous market push-pull effect.
- No resilience this time:
 - This is a final demand crisis
 - Weak innovation in components
 - Total electronic industry to decrease by 7% in 2009



The drop in final demand

Electronic industry production

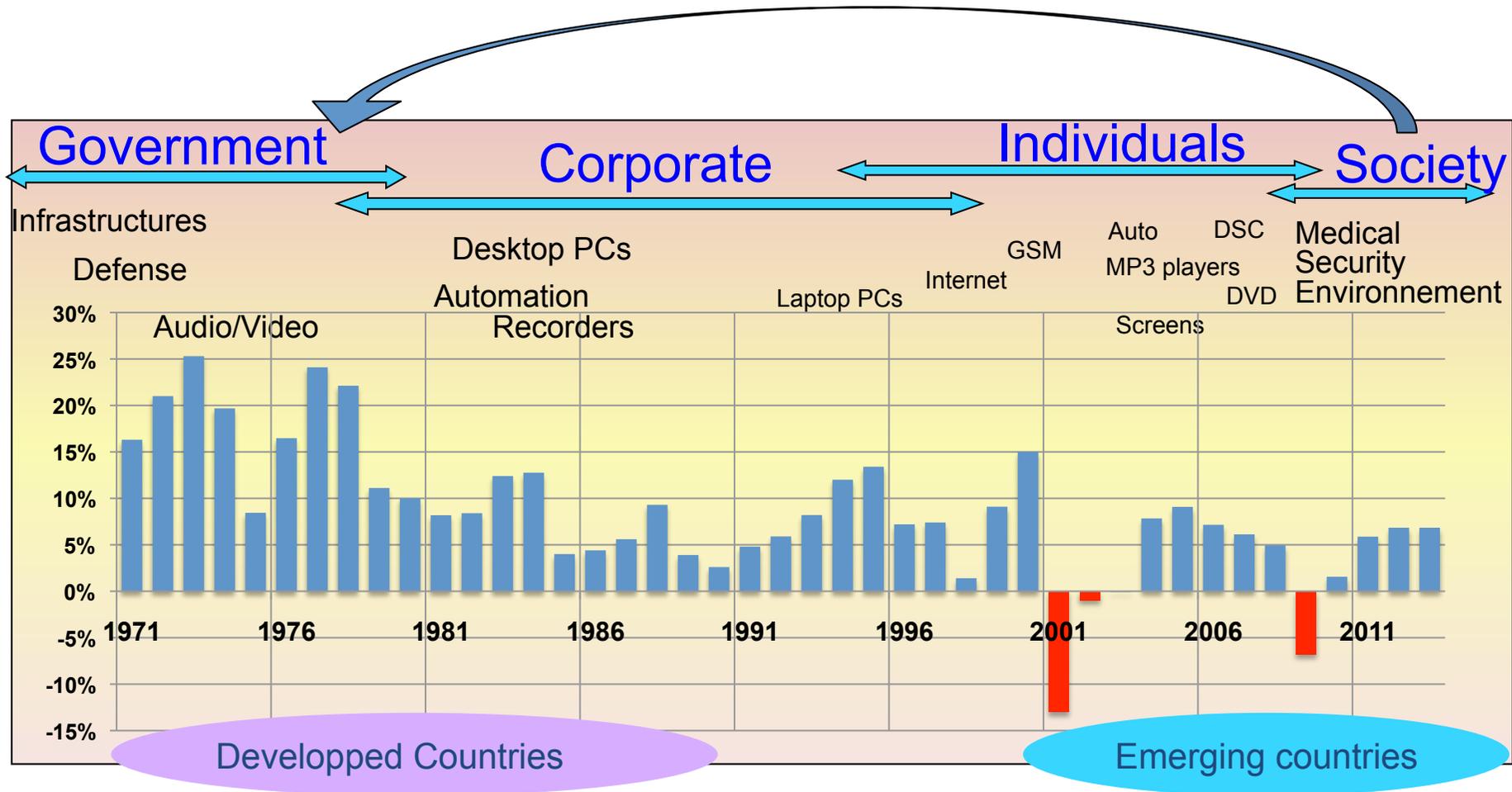
% growth Y/Y	2009	2010	2011	08/13 CAGR
Audio-Video	-7	0.4	4.3	2.2
Computer	-10	1.5	5.5	2
Telecom:				
• Mobile	-11	5	6.5	2
• Infrastructure	-5	0.2	6.3	3
Automotive	-18	8	10	2.7
Aerospace/ Defense	4.5	2.6	0.5	3.4
Industrial	-3.7	-0.1	8.6	4.5
Total	-7	1.5	6	2.7

% growth Y/Y	2009	2010	2011	08/13 CAGR
Europe	-12	0.3	3.3	-0.4
NAFTA	-7.3	-4.5	0.3	-2
Asia/Pac	-4.6	5	9	5.8
China	6.4	6.4	10.2	7
Japan	-9	-2.4	3.4	0.1
World	-7	1.5	6	2.7

Source : DECISION



The electronic industry's growth cycles



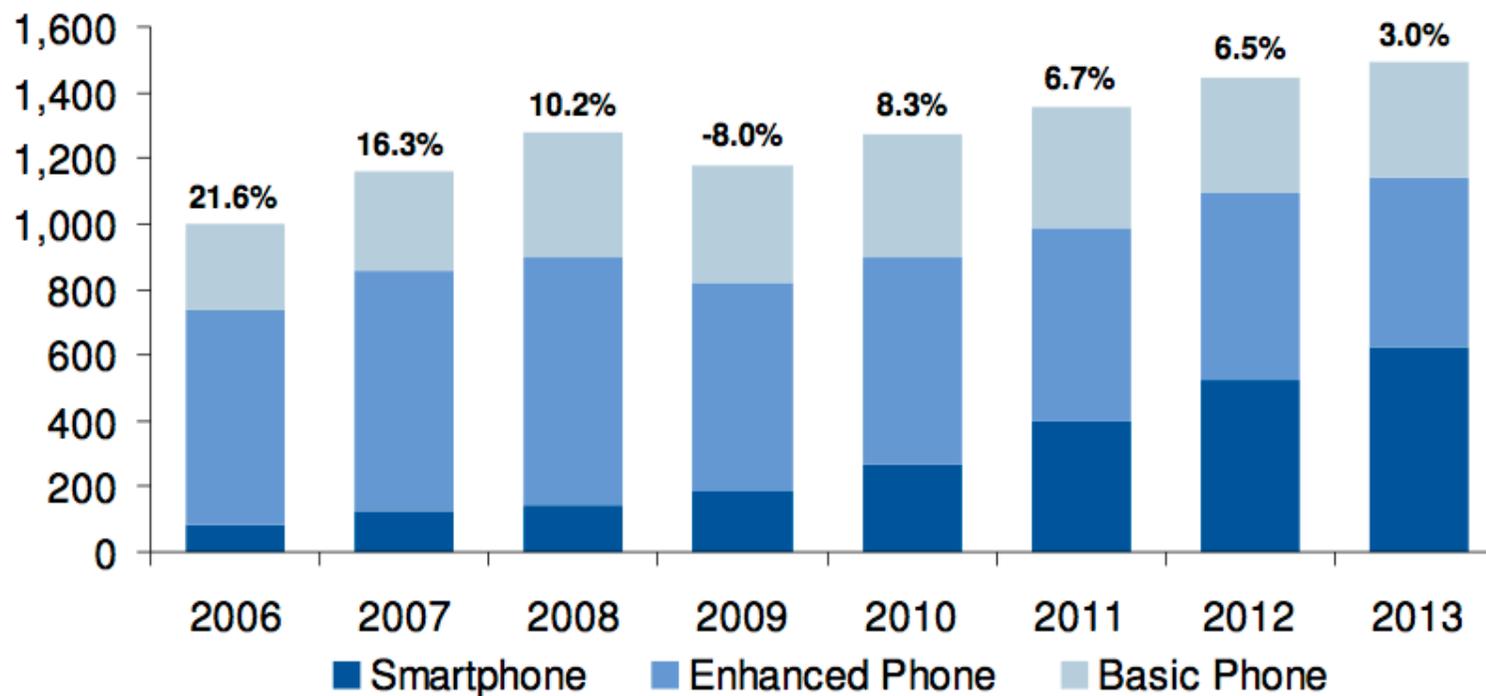
From low tech & high prices to high tech & low prices devices

Source : DECISION



Mobile phone market

Millions of Units and Growth (%)

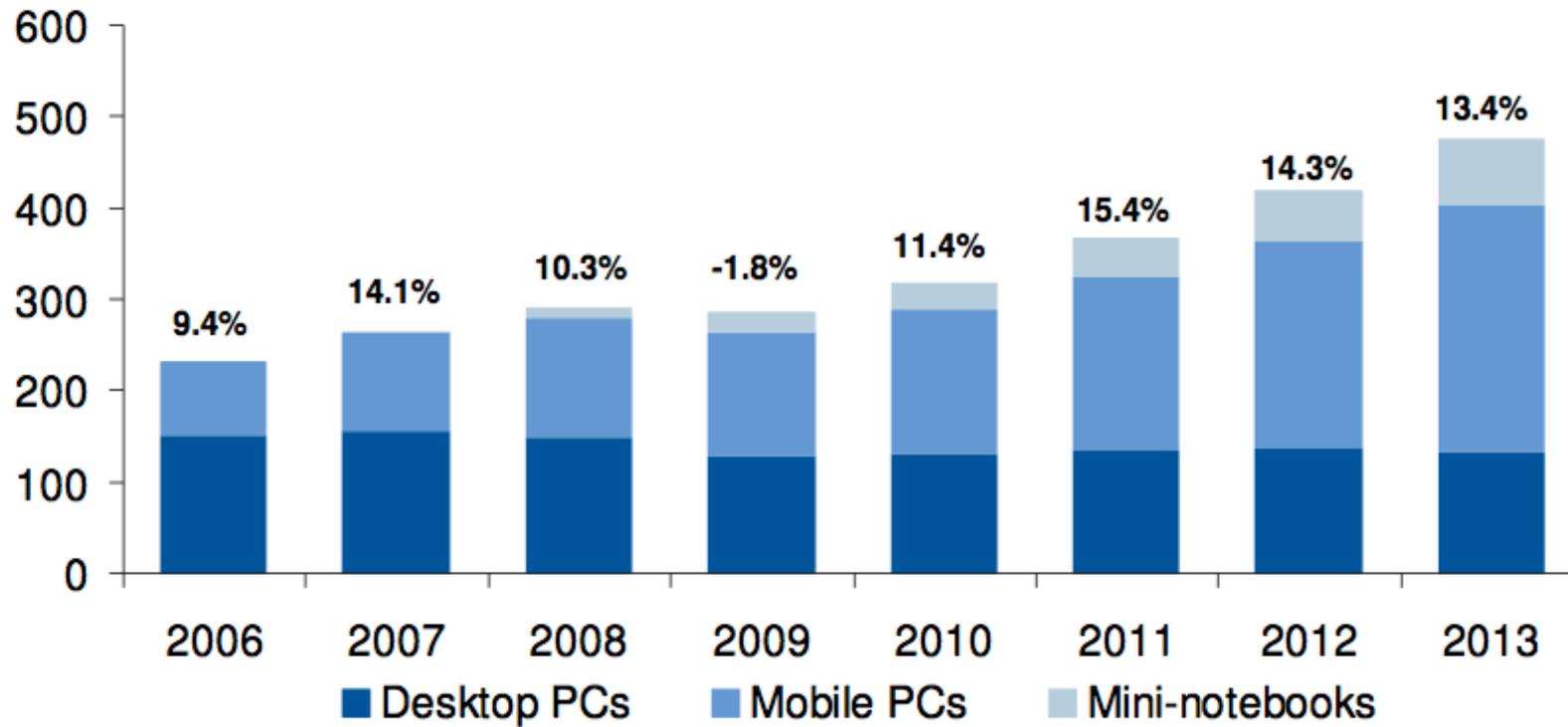


Source : Gartner



PC market

Millions of Units and Growth (%)

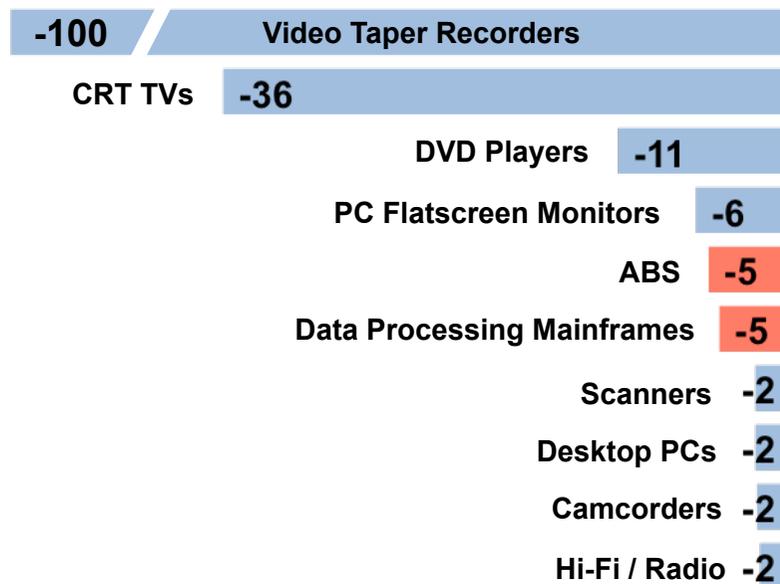


Source : Gartner



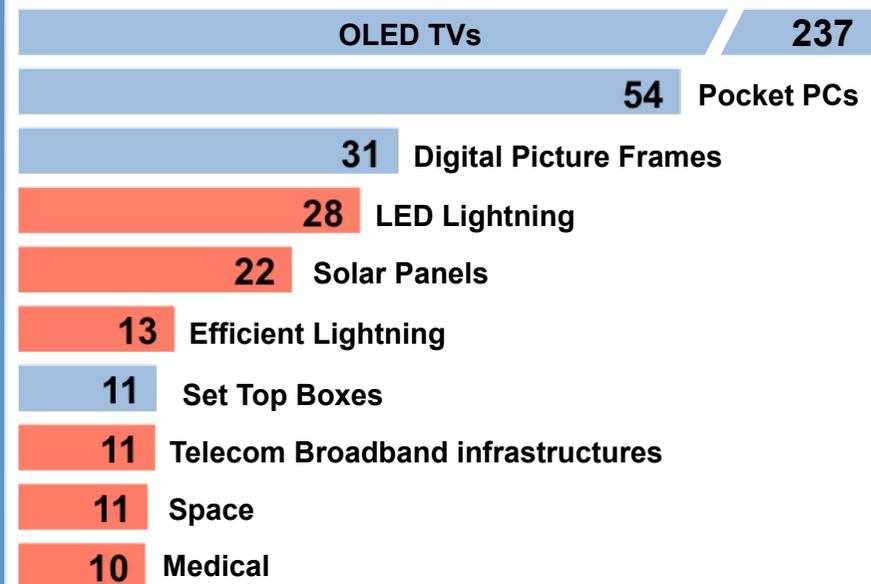
Electronics drivers some examples 2008 – 2013 CAGR %

The Losers



Mass-market
products

The Winners

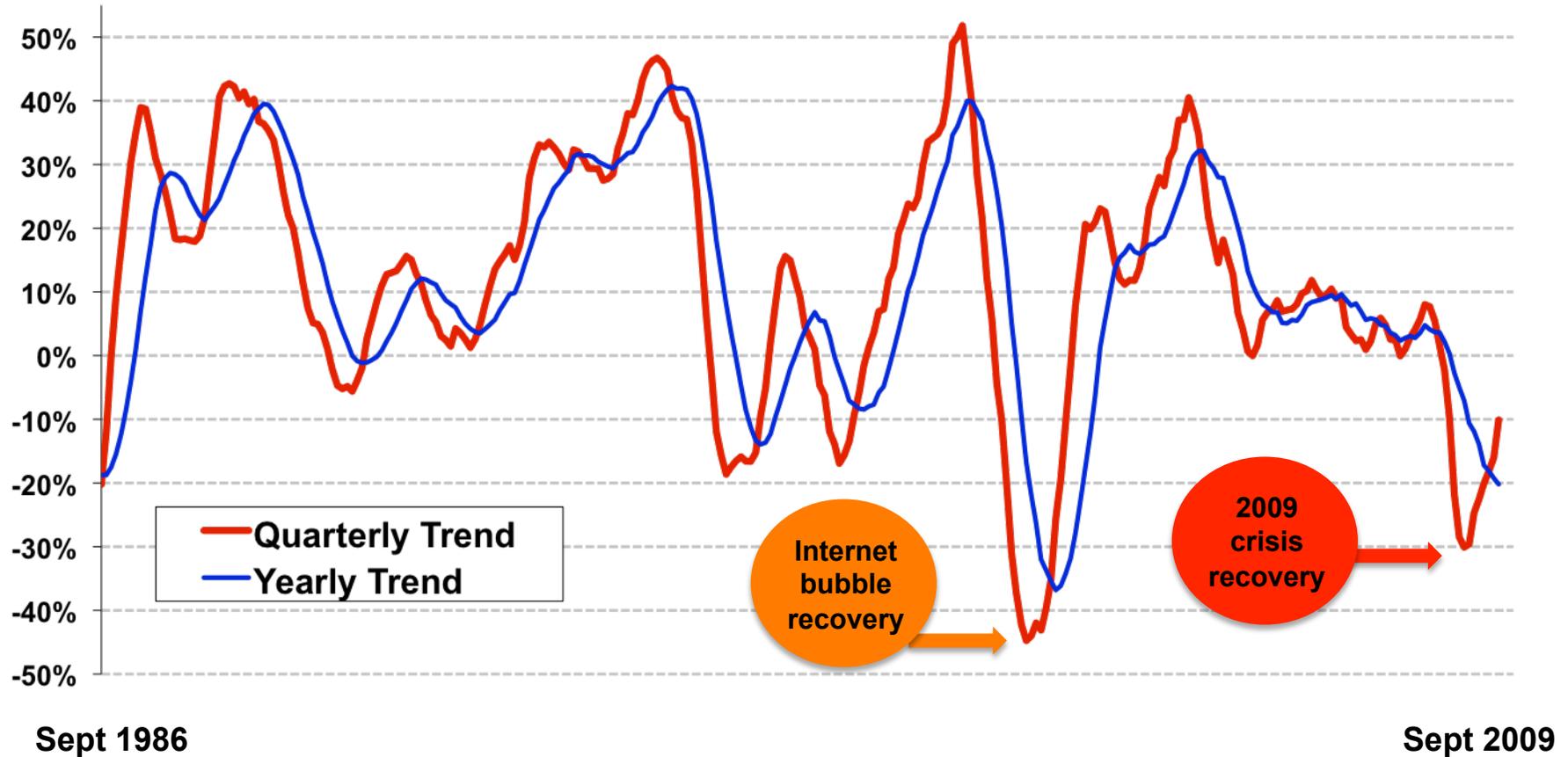


Professional
products

Source : DECISION



Semiconductor Market cycles

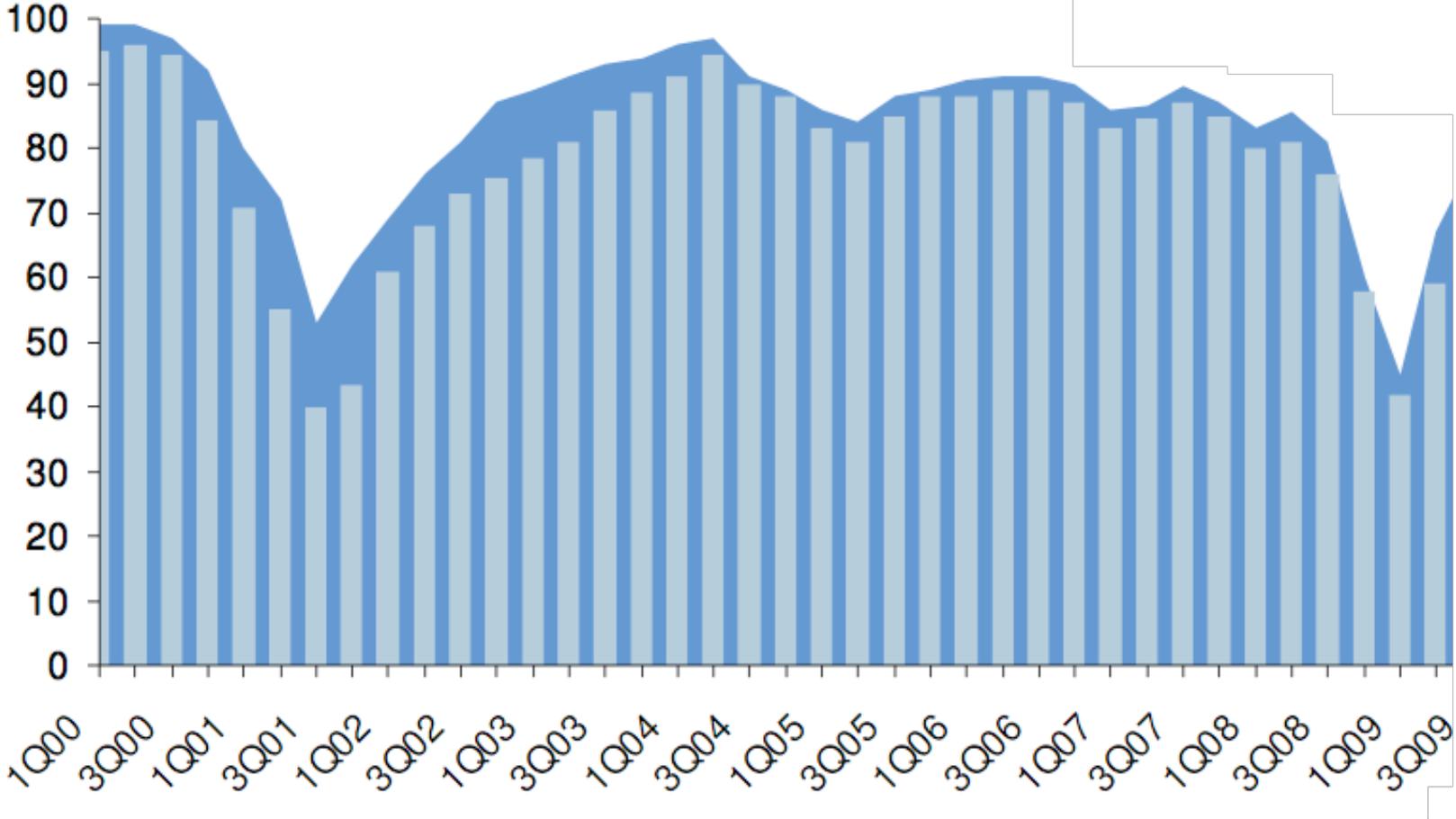


Source : WSTS



Improving factory utilization Semiconductor

Factory Utilization (%)



Source : Gartner



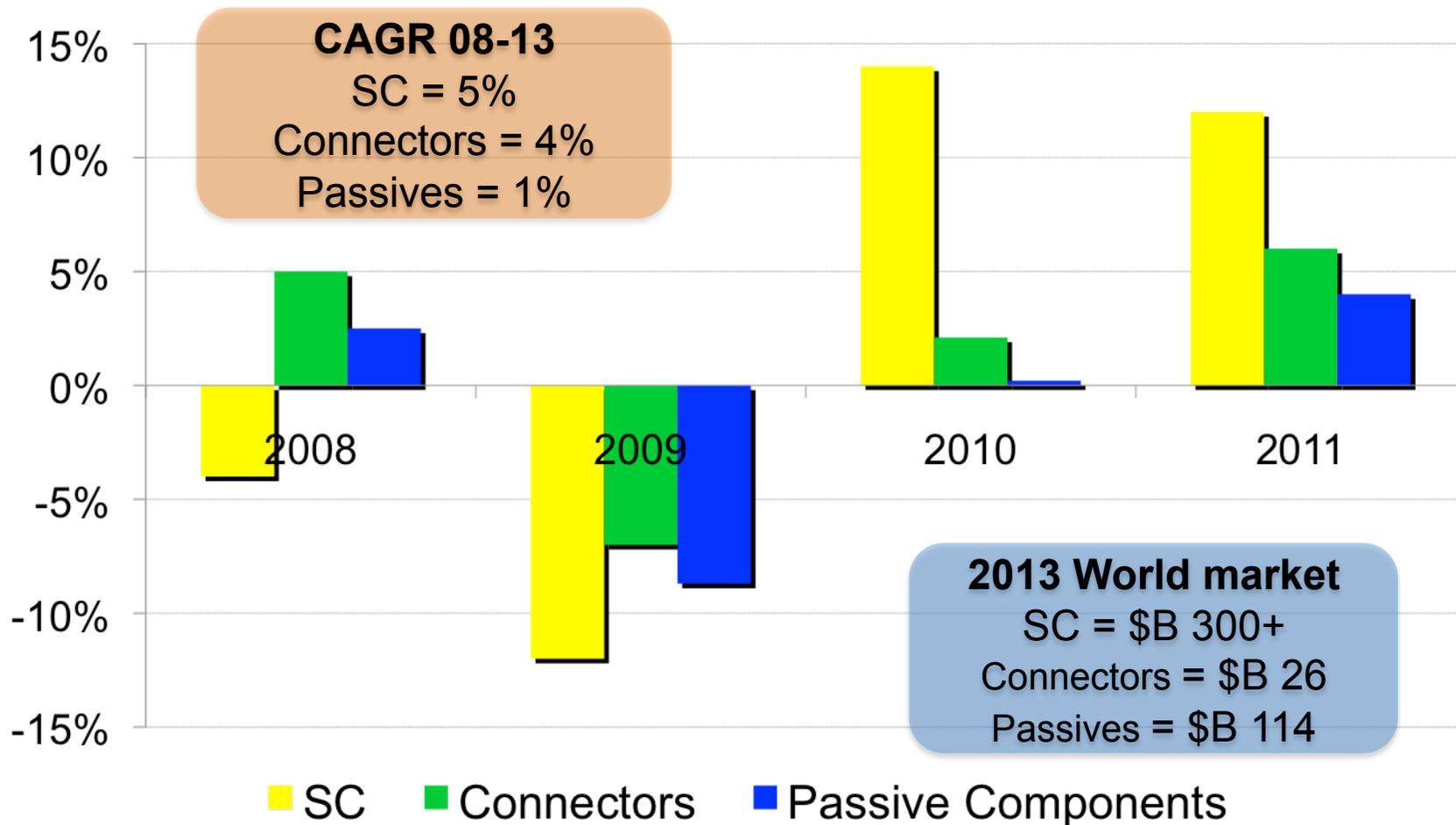
Ingredients for a strong recovery

- Large industry “house keeping”
 - Inventory at 2003 historical lowest level
 - Strong CAPEX reduction leading to a CAPEX-to-Sales ratio at 9% Vs. 20% past average
 - Capacity reduction by 20%
- Strong and rapid industrial restructuring
 - 50 SC fabs closed
 - 10% workforce reduction
 - Some significant M&A
- New volume applications with higher SC content
 - Maxi phones
 - Mini PCs

Industry has achieved the fastest and the largest restructuring process in its history



Electronic component market forecast



Source : DECISION



Innovation in electronic component drives economic progress



- MAIN FRAME
- DEFENSE

- MID-FRAME
- AUTOMATION

- PC MOTHERBOARD
- COMMUNICATION

- MOBILITY
- MULTIMEDIA

- MEDICAL & CARE
- ENERGY SAVING
- SAFETY, SECURITY

INFRASTRUCTURE
PRODUCTIVITY

CORPORATION
PRODUCTIVITY

INDIVIDUAL
PRODUCTIVITY

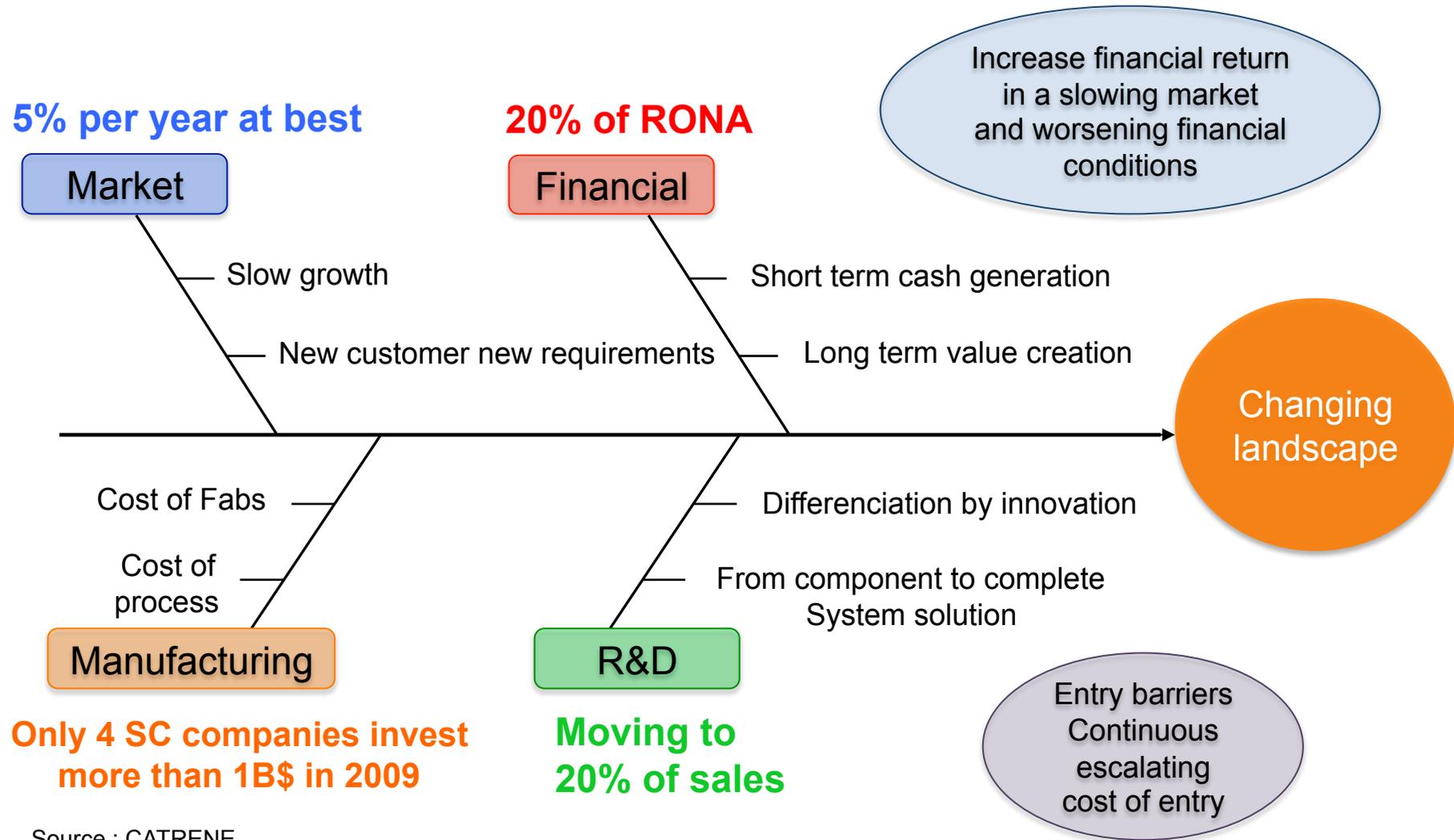
SOCIETAL NEEDS

From commodity components to integrated platforms

Source : ST/DECISION



Anyway to go to 2013 will not be a piece of cake !



Source : CATRENE



Changing Business Model

Old Paradigm	New Paradigm
Strong growth	Slow growth
World mass market	Regional mass-professional market
Few identified players	Many partners including competitors or services company & customers
Differentiation thru manufacturing science and cost performance	Differentiation thru heavy R&D effort and global innovation
Recruitment only among engineers	Recruitment also from commercial and marketing school
Monolithic company structure to reach Critical mass	Flexible company structure to achieve strategic agility
Deliver value to shareholders thru PRIORITY TO THE FINANCE	Deliver value to society thru PRIORITY TO INNOVATION IN PRODUCT & SERVICES

Source : CATRENE



Conclusion

- « *Recovery is around the corner* » : next 2 years are good.
- Beyond 2013, electronic industries will restart a new long-term growth period.
- Innovation will be again at the core of this new growth.



**The Stone Age did not disappear
because of a lack of stone but because
of innovation !**

