

**Chip Recovery Stalls**

**Negative Preannouncements Do Not Bode Well for 3Q Earnings**

**Anemic August:** Semiconductor industry statistics for August world-wide sales released by the Semiconductor Industry Association (SIA) earlier this month barely eked a three-month rolling average gain of +0.1%, which was well below average. August has averaged growth of +1.9% over the last 22 years with a high of +5.2%, a low of -3.5%, and declines only four times during that period. The Americas and Japan both lead with gains of +1.0%, while Asia-Pacific was flat and Europe lagged with a drop of -1.9%.

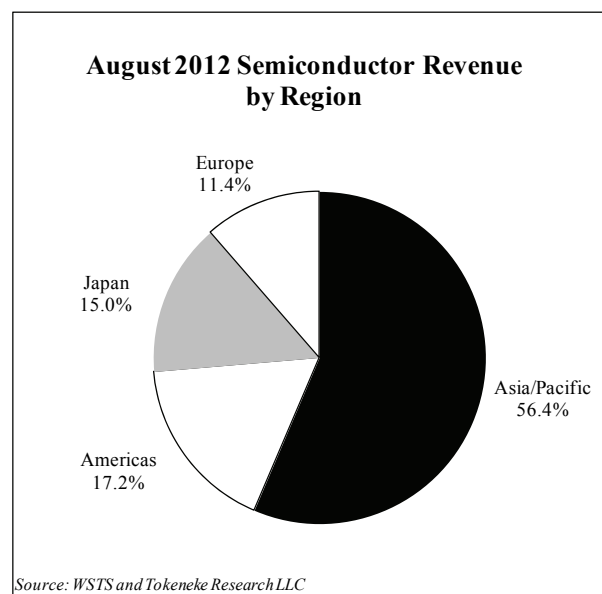
Next month’s release of September data should be an improvement over August given the back-end loaded nature of 3Q, but is also likely to be below par in the current business environment. September is traditionally strong with growth averaging +3.1%, a high of +8.2% and a low of -2.5%, which was also the only decline in the last 22 years.

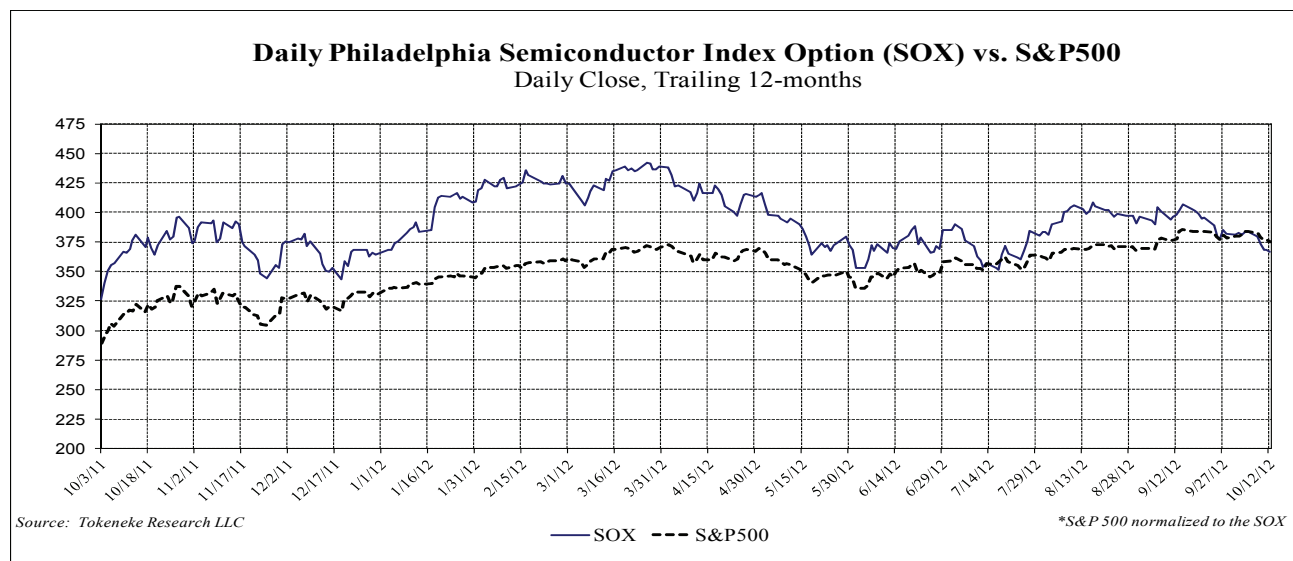
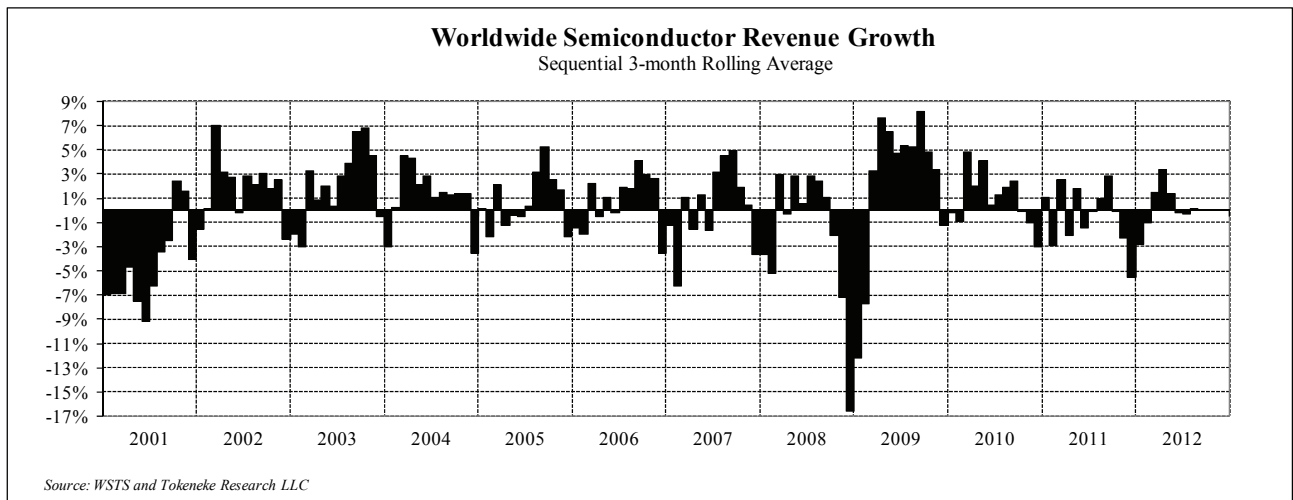
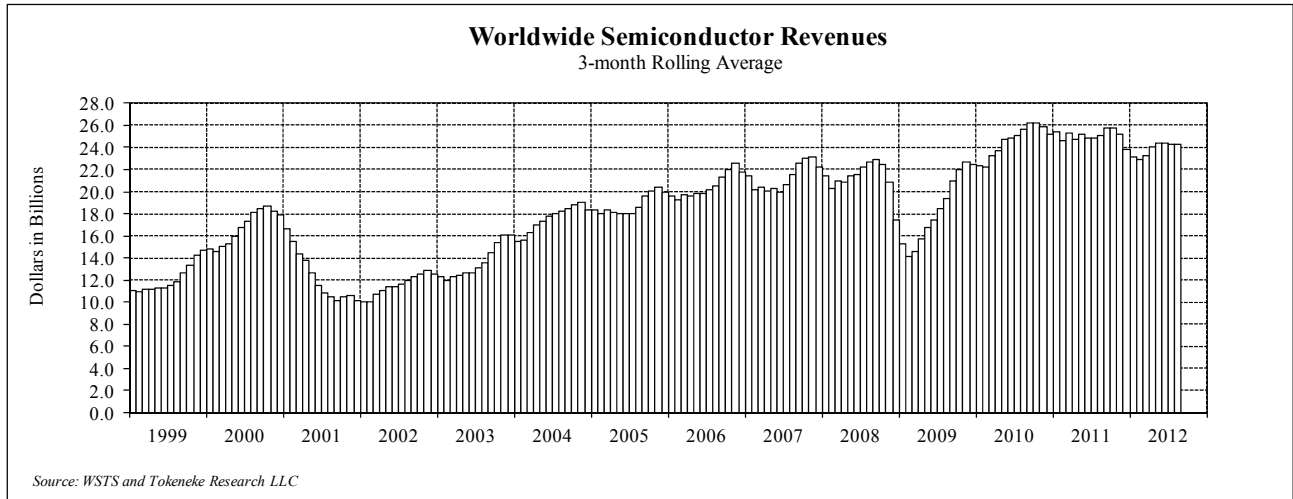
**3Q Weakness:** The 3Q earnings season begins this week with Intel reporting on Tuesday—and it doesn’t look good. Statistically, 3Q preannouncements have been mixed as of this writing with six companies expecting upside (ADNC, IDCC, MSPD, SWKS, TSM and TSRA), five reiterating or narrowing guidance (ALTR, DIOD, NXPI, TXN and UMC), and only four going negative: AMD, INTC, ISIL and OIIM. However, the bad news has captured the investor sentiment as bigger and more notable PC-market-related companies have revised expectations by larger magnitudes. And even the positive preannouncements have not been that inspiring: IDCC and TSRA had not provided initial guidance; SWKS mumbled something about the high-end of its range; TSM had already indicated strength; smaller MSPD has its own problems and increased expectations from down up to flat; and recent IPO ADNC got crushed as its expected gains were more than offset by the simultaneous announcement of the expected loss of its biggest customer Apple (oops). The numbers may be mixed, but sentiment is clearly negative

September				3Q				YTD				Indices			
Winners (43/104)		Losers		Winners (46/104)		Losers		Winners (49/104)		Losers			Sep	3Q	YTD
IKAN	49.5%	ADNC	-65.7%	AUTH	85.2%	ADNC	-67.8%	MLNX	212.5%	TXCC	-65.9%	SOX	-3.5%	-0.8%	4.9%
MSPD	33.6%	NLST	-23.1%	IKAN	60.7%	NLST	-42.5%	AUTH	149.8%	ADNC	-63.5%	SMH	-4.0%	-1.8%	4.0%
RMBS	29.4%	SWKS	-22.7%	MLNX	43.4%	AMD	-41.2%	CRUS	142.3%	CEVA	-52.5%	NAS	1.6%	6.2%	19.6%
ANAD	18.8%	GIG	-14.7%	MSPD	40.7%	MEMS	-38.8%	PLXT	100.3%	NLST	-48.2%	S&P500	2.4%	5.8%	14.6%
MOSY	18.5%	OVTI	-14.1%	MXL	34.9%	MTST	-31.4%	HIMX	96.0%	MEMS	-40.0%	DOW	2.6%	4.3%	10.0%
average stock -0.9%		SOX -3.5%		average stock -0.9%		SOX -0.8%		average stock +4.5%		SOX +4.9%					

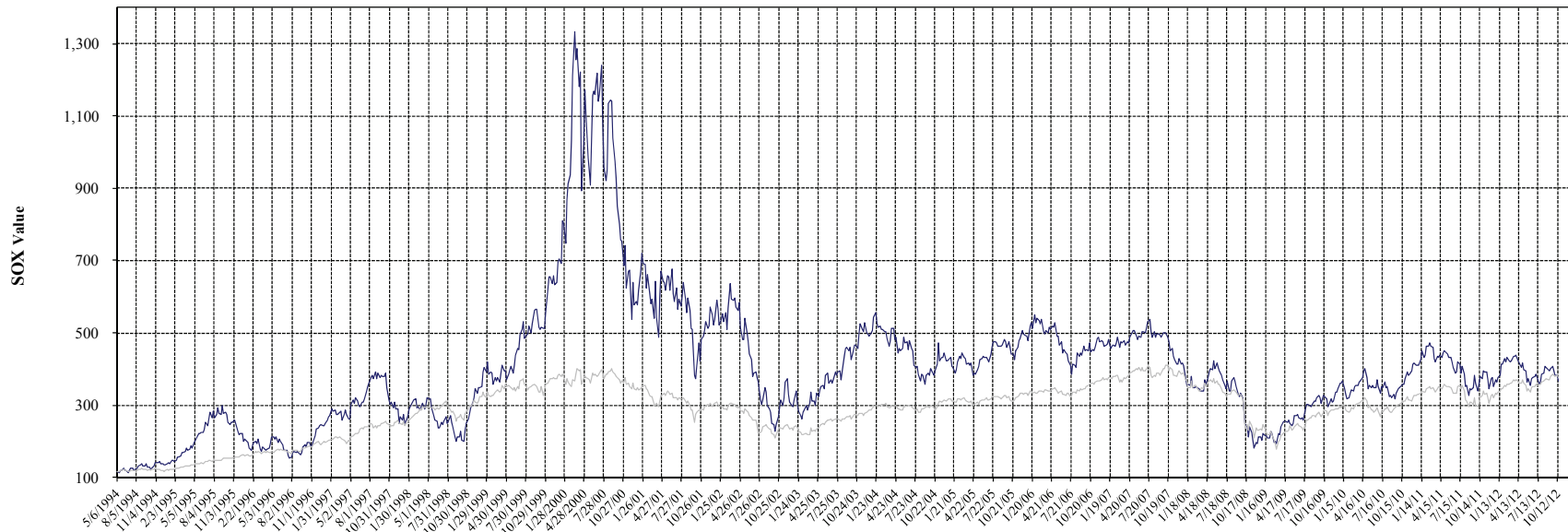
**Chip Stocks Dive:** Chip sector share price did not fare well last month and quarter—especially compared to broader market indices. The Philadelphia Semiconductor Index Option (SOX) fell by -3.5% during September, significantly underperforming to gains by the NASDAQ, S&P500 and DOW. Same story for 3Q with the SOX down by -0.8%.

**—Dan K. Scovel**  
*Semiconductor Analyst*





### Weekly Philadelphia Semiconductor Index Option (SOX) vs. S&P 500



Source: Tokeneke Research LLC

— SOX — S&P500

\*S&P 500 normalized to the SOX

## **The Company**

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

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## **My Background**

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnstock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

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