



OBJECTIVE ANALYSIS

Semiconductor Market Research

OBJECTIVE ANALYSIS ALERT!

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QIMONDA PETITIONS FOR INSOLVENCY PROCEEDINGS

Qimonda has filed today to open insolvency proceedings. Citing a massive drop in DRAM prices and dramatically decreased access to financing on the capital markets, the company has asked for the German courts to oversee a restructuring.

Qimonda was pursuing a financing package but explains that negotiations could not be completed in time. This investment was needed to implement productivity improvements to maintain the company's competitive standing. This financing package would have combined funds from the Free State of Saxony, Qimonda's parent company Infineon, a leading Portuguese financial institution and other banks.

Not a Big Surprise

For the past several months rumors about Qimonda have been circulating fast and furious. Most pertained to the possibility that the company would be taken over by another DRAM firm. In part that has already happened with Micron's acquisition of Qimonda's share of Inotera. From a larger perspective, however, several other concerns about the company have prevented its parent, Infineon, from reaching agreements with suitors who placed a much lower value on the company. As a result, Qimonda has tried to work out negotiations with entities that are already involved with the firm (local governments, their parent company, and customers) to find a mutually-beneficent way to keep the company afloat. This resulted in talks that the company called: "involved intensive but also very complex negotiations...over the past days and weeks."

Qimonda is trying to either sell the company's IP or to keep themselves afloat long enough to collect on it themselves. They cite their "leading-edge and innovative Buried Wordline technology, a strong product portfolio, particularly in the areas of graphics and infrastructure, and more than 20,000 patents and patent applications." In the end, though, the DRAM business lives on production prowess and this is an area which has caused difficulties for the firm.

A Little History

Not all that long ago the DRAM business was a shining star of the Siemens empire. In the mid 1990s Siemens decided that the path to excellence in the electronics industry was to become a leading semiconductor manufacturer, and the way to gain leadership in semiconductors was to become a significant DRAM player. The company aligned itself with technology leaders like IBM, Toshiba, and Motorola and made significant capital investments to transform itself from "A DRAM supplier to Germany" into "A German DRAM supplier."

By 1999 Siemens decided that this strategy did not fit their profitability goals, and spun off all semiconductor operations as a new company “Infineon.” This move was taken largely because of the difficulty of running a large DRAM operation profitably. By 2006 Infineon had reached a similar conclusion and shed Qimonda as a way to keep DRAM losses from watering down the profits of the rest of Infineon’s semiconductor business.

The Impact of Today’s Announcement

How will Qimonda’s announcement impact other companies? Parent firm Infineon, which owns 77.5% of Qimonda, has already seen its stock price slide 12% as a result of the announcement. Inotera, a wafer supplier to Qimonda, has expressed concerns about receivables of NT\$3.2B (roughly \$100M US) owed by Qimonda, even while these companies are phasing out of their relationship. Mosaid, a Canadian IP licensing firm that collects royalties from Qimonda issued a release explaining that their revenue stream from Qimonda is insured. A Powerchip spokesperson said Qimonda’s insolvency “should be good for us,” while a Winbond spokesperson said that they may face a revenue decline of 25 - 30 percent.

Various governments are concerned about job losses should the company go out of business. Qimonda has 12,200 employees worldwide, many of them in Germany and Portugal. Negotiations with the labor unions in Germany have presented many challenges over the past few years that should continue. Qimonda was Portugal's biggest exporter in 2007, and Portugal’s prime minister has promised to: “do everything to keep the Qimonda plant in our country functioning.”

What’s Next?

If Qimonda exits the DRAM business, their competitors are likely to prosper while their partners will suffer. Should the company remain intact, they are still more likely to be taken over than not. In any event, we anticipate that, by the end of 2009, there will exist at least one less DRAM maker.

The Qimonda move is simply one more step towards the inevitable process of consolidation in DRAM, spelled out by our brief: ***DRAM Vendor Consolidation***, available at www.Objective-Analysis.com.

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