



Interconnect Digest

Component Insights – May 2023

Important Disclosures in the Appendix

Note: This is not the full Insights report, if you are interested in receiving the full report, please reach out to schedule a call to discuss the requirements

Key Takeaways:

1. 2Q demand seen tracking in-line at flat to down Q/Q and largely supported by backlogs.
2. Bookings seen as mixed through May with strength in AI and AD&M, stability in Auto and weakness in Industrial, Telco.
3. 2H23 outlook moderating on declining backlog, soft bookings and inventory headwind. 3Q seen flat to up, 4Q flat to down.
4. Inventory at distribution/end customers noted slower to adjust, delaying order improvement and softening 2H optimism.

Top 3 Channel Comments:

- Everyone has been waiting for the shoe to drop in Auto. After spending time in Europe recently, we think Auto will come down but not as dramatic as we thought previously. The current view is 2Q to be flattish and if 2H comes down expect that to be modest.
- It feels like the higher rate environment is starting to impact demand. See increasing requests from customers asking for 120-day payment terms saying it is getting expensive for them to finance their WC needs.
- It feels like the concern in the industry is shifting from “we thought the lack of new orders was due to inventory” to now “the end-demand is getting weaker and that is driving the majority of weak bookings.”

Other Key Takeaways:

5. Backlogs viewed as continuing to normalize with degree of coverage varying from 1-2 months to +6 months depending on end mkts.
6. B2B noted as tracking to ~0.9x in 2Q, stable Q/Q with pockets of improvements but also areas of incremental weakness (Industrial).
7. Disti inventory rebalancing progress noted as limited. Arrow/Avnet noted less aggressive draining inventory, eyeing IP&E share gains.
8. End customers noted as still working down inventory in 1H; progress noted as slower with rebalancing expected throughout the 2H.
9. China/Asia still weak with limited order recovery in April; Europe seen as having peaked, moderating through YE; Americas stable.
10. Auto demand seen as steady. Europe/N.A./Japan demand strong in 2Q but potentially moderating in 2H on lower backlogs. China 2Q demand inconsistent but with optimism for 2H stability on expectations for gov stimulus and signs of subsiding OEM price war.
11. Industrial outlook noted weaker, (ex. Medical and Energy) with inventory rebalancing expected through most of 2023.
12. Datacom/Telco noted weak but tracking in-line for 2Q. AI orders seen as continuing through May. Non-AI orders remain weak.
13. CE/Mobile orders seen as stabilizing at low level in 2Q. 2H recovery projections seen as muted on weak end-demand.
14. Pricing seen as stable since the Jan increases. TE noted planning LSD price increase to distis in July for select products (AD&M, Medical, Energy) and not on backlog. Attempts for broader price increases seen by the supply chain as unlikely to stick.

Conclusion

Interconnect shipments/sales are largely tracking inline with forecasts/targets at the mid-point of 2Q, at flat to down Q/Q. Encouragingly, our work has pointed to early signs of bookings stabilization in the quarter, which is largely reflecting a bottoming pattern vs. any material signs of green shoots in bookings outside of AI related orders. Inventory remains stubbornly high, especially in distribution and we continue to believe that inventory will be a headwind to growth through the remainder of the year. While inventory remains a headwind, several interconnect suppliers appear to be prepping for another round of price increases, but when faced with increased inflation fatigue from both distributors and OEMs, the planned price increases for July appear to be more surgical vs. broad based increases experienced over the last several years. Overall, we continue to believe 2023 interconnect sales will be down for the year as the industry’s inventory digestion takes longer than initially expected. Long-term growth drivers like EV, datacenter growth, AI, etc. all remain in place, but would not expect any material broad based rebound in shipments until 2024.

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APPENDIX

We, Kevin Rottinghaus, Sean Muir, Dennis Reed, and Nik Todorov hereby certify that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities referred to in this research report. We certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report. The analyst(s) responsible for the preparation of this report have no ownership stake in this company. Edgewater Research Company provides no investment banking services on this or any company.

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