

# Passive & Discretes Insights

## Component Digest – March 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**

**2Q Tracking Inline at the Mid-Point of the Quarter, 2H Outlook Weaker M/M on Prolonged Inventory Rebalancing**

### Key Takeaways:

1. 2Q sales/shipments tracking inline with targets at the midpoint of quarter; sales viewed flat to down LSD Q/Q.
2. Bookings remain below billings, B2B <1 across all geographies, backlogs declining.
3. 3Q sales forecasted sub-seasonal at flattish. 2H outlook more muted M/M, recovery now seen in late 4Q23/1Q24.
4. Pricing unchanged M/M, expectations for concessions in 2H23 continue to grow on elevated inventory, more supply, slow demand.

### Top 3 Channel Comments

- *The industry has gone from just in time, to just in case, to just too darn much. The problem is customers are running out of space and they have run out of money.*
- *The pricing tone from the Auto customers has changed, for 2023 we held flat and even raised prices in certain areas, that is clearly not going to happen in 2024 negotiations, we would expect it to be much more aggressive. The OEMs are out for blood, and we will have to play ball just to maintain market share.*
- *The biggest concern/question is 2H demand based on overall B2B; it was as low as 0.5x when the order cancellations happened late last year. All those cancellations were for 2H23, and we have not really been able to replace them.*

### Other Industry Datapoints of Interest

5. Inventory still viewed as elevated/excess at distribution/EMS and taking longer to clear; balance not expected until 4Q/1Q24.
6. Inventory at OEMs still elevated, lack of rebound in orders leaves the supply chain cautious regarding inventory drawdown progress.
7. Inventory elevated across all end markets, Asia 4-6> tgts., Europe 4-5w, Americas well above targeted level.
8. Backlogs still declining, providing limited sales support beyond 2Q; lack of orders rebounding pressuring 2H outlooks.
9. Asia sales still disappointing, 2Q seen as stable vs 1Q; Europe more mixed at flat to down Q/Q; Americas seen flattish.
10. Auto feedback little changed M/M, China viewed as softer, relative strength in Europe and stability in Americas. China EV prices showing signs of stabilization; China consumer preference seen as continuing to shift to domestic OEMs from multinational.
11. CE/PC/Mobile order cuts viewed as stabilizing, but order rebound is limited and 2H outlook muted; Comms/Server/Datacenter little changed M/M.
12. Concerns growing regarding extended payment terms, in particular from EMS customers; distribution noted as gone from chasing product to chasing payments.
13. Industrial feedback unchanged M/M. Inventory still an overhang. Asia weakest, Europe/Americas more mixed.
14. Diodes noted as continuing to push product into the distribution channel, we see further risk to 2H estimates.
15. Feedback on Vishay's new mgmt. positive for 3<sup>rd</sup> month; MOSFET capacity expansion (ramp in 2H24) also viewed as positive.

### Conclusion

Passive & discrete fundamentals remain mixed, with our research continuing to point to relative outperformance in discretes vs. passives. Near-term, sales are tracking inline with forecasts entering the quarter, with backlogs continuing to support near-term sales, however B2B ratios have been < 1 for 6+ months and concerns on 2H are growing. Additionally, the inventory digestion appears to be taking longer-than expected, with expectations now pushing into late 4Q23/early 1Q24. While the outlook is cautious for 2H, and we continue to expect sub-seasonal growth, it is encouraging that the pace of order cuts/cancellations have stabilized in more consumer centric markets like PC/Smartphone/Consumer. While the cuts appear to have stabilized, end demand is still weak and with elevated inventory in other markets, we remain comfortable with our forecasts for a stable/weaker 2H.

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**APPENDIX**

*We, Kevin Rottinghaus, Sean Muir, and Dennis Reed, 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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