



Passive & Discretes Insights

Component Digest – June 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, Backlogs Declining, Pricing Seen as More Aggressive in 2H23

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 < billings QTD, B2B stable but <1x, backlogs declining and expected to offer limited coverage in 2H23.
3. Pricing unchanged M/M, pricing pressures growing, concessions seen in Auto starting in 2H23, more acutely in 2024.

Top 3 Channel Comments

- *We would have to call the business lumpy right now at best... Our sales in April were down 23% M/M from March, then May was up 15% M/M, and June is basically flattish with May, but will be backend loaded, almost half of the month of May shipped in the last seven days.*
- *In our meetings with all our customers there are a couple of points that consistently arise: 1) the correction is going to take much longer than initially expected, 2) POS is slowing, and 3) inventory is up and still growing, this is going to take time to work down.*
- *In Auto, pricing for 2H is flat but pressure is growing further out. We are seeing several suppliers give lower prices for future Auto business. It also depends on the product/technology, for example we are pricing pressure in higher priced MOSFETs and in market like steering and braking, MOSFET suppliers know they need to get more competitive.*

Other Industry Datapoints of Interest

4. 3Q & 4Q outlook viewed as flat sequentially, rebound in bookings/B2B seen in 1Q24 at the earliest.
5. Inventory elevated both upstream and downstream, EMS inventory viewed increasingly problematic, EMS providers noted as actively attempting to go on credit watch to slow down shipments from distribution.
6. Inventory elevated across virtually all end markets & geos. Asia/Americas unchanged M/M, EMEA appears more elevated.
7. Asia demand viewed as stable Q/Q at low levels, Americas viewed as flattish, EMEA noted as weaker following strength in 1Q.
8. Auto weaker M/M, ICE/EMEA softer likely on elevated inventory; EV noted as unchanged/strong. Pricing pressure is growing in Auto, OEMs seeking pricing concessions in 2H23 and viewed likely more aggressive in 2024.
9. CE/PC/Mobile orders stable, unchanged M/M, order rebound is limited and 2H outlook muted; Comms/Server/Datacenter little changed M/M.
10. Industrial feedback unchanged M/M muted globally on inventory, Asia weak, Americas mixed, EMEA weaker following better 1Q.
11. TI execution issues continue, recently noted as seeing lead times double in certain regulator products to 84w vs. 42w previously, with no explanation given.
12. FPGA availability noted as improving, in particular for Lattice/Xilinx/Altera, in particular in EMEA; Lattice/Xilinx viewed as seeing more dramatic improvements in availability, Altera to a lesser extent.

Conclusion

2Q shipments continue to track inline with forecasts entering the quarter for 2Q and are expected to finish the quarter flat to down Q/Q, with China/Asia showing signs of stability (at low levels), Americas stable/down, and growing weakness in EMEA. The outlook also remains unchanged, and we continue to expect a more prolonged inventory drawdown likely lasting through year end, before potentially rebounding in early 2024. The most notable change in May and into June is pricing, which has gotten incrementally more competitive in the month, most notably in the Automotive markets. While we have been surprised that pricing has remained largely rational to date in this correction, the growing pricing pressures leaves us cautious both from a sales and profits perspective in 2H23 and into 2024 as the industry pushed through unprecedented price increases, which we believe was a significant contributing factor to the record sales and margins experienced for the industry over the last several years.

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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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