



Interconnect, Passives & Electromechanical Insights

Component Insights – October 2023

Important Disclosures in the Appendix

Cuts to Europe Auto/Energy; Broadening Pricing Impact From TI; No UAW Impact in Americas Yet

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

What's Changed/What's New?

1. 4Q outlook weaker M/M on cuts in Industrial, Telco, Energy and Auto Europe; projected down LSD-MSD Q/Q.
2. Auto feedback down ticking on 4Q23/2024 cuts to Europe production outlooks tied to weakening demand including EVs.
3. N.A. Auto outlook surprisingly stable on limited UAW impact to date; concerns growing for 1H on inventory build.
4. AI demand projected up 3x in 2024; non-AI flat. TE/Amphenol viewed as having oppo to win new Nvidia on board designs in 2H24.
5. Industrial outlook weaker M/M on softer bookings, 3Q backlog flush and cuts in Energy.

Top 3 Channel Comments:

- *Bookings in Europe missed targets by a wide margin. B2B finished at 0.6-0.7 vs 0.9x entering 3Q. We had hoped that 1H24 would be flat in disti vs 2H23 but given the sharp downturn in bookings that is no longer our forecast. We've shifted focus to 2H24 rebound.*
- *3Q Auto connector shipments hit targets in N.A. We have yet to see a measurable impact from the strike. Tier 1s and wire harness suppliers are demanding more clarity because OEMs keep telling them to maintain production which has resulted in inventory buildup. Tiers are preparing to trim down production expecting demand impact in late 4Q/1Q depending on the duration of the strike.*
- *EV demand in Europe has slowed meaningfully. In the UK retail sales, ex. Fleet, were down 14% in Sep while in Germany all EV sales were down 35% and PHEV down 46% Y/Y. We've seen considerable cuts to 4Q/2024 LVP outlook in Europe in recent weeks.*

Other Key Takeaways:

6. 3Q IP&E shipments seen finishing in-line with weaker disti POS offset by stable direct demand.
7. 3Q bookings feedback softer M/M on downside in distribution, Industrial, Comm Transportation and pockets of Auto Europe.
8. Connector inventory globally seen off-peak levels and in better shape vs. semis/passives but at levels still above targets on slow progress. Digestion projected into 1Q24 as inventory headwinds are seen as compounded by signs of softening end-demand.
9. China/APAC still weak; projected to remain soft through 1H24. Green shoots in China Auto direct demand seen continuing in Oct.
10. EMEA feedback weaker on cuts across Industrial/Energy and Transportation in part tied to pullback in government incentives.
11. Americas feedback more stable. Risk seen to 4Q if UAW strike stretches into mid-Nov.
12. Mil/Aero still strong but 4Q outlook choppy on some pushouts tied to supply constraints causing inventory mix issues.
13. TE AD&M BU seen struggling to keep up with demand. Supply chain speculating about efficiency/production headwinds.
14. 2024 pricing feedback more constructive with suppliers seen holding firm in N.A. and in direct negotiations, though connector pricing pressure is seen rising in European distribution and EMS.

Conclusion

IP&E fundamentals remain muted, and shipments are still viewed as sub seasonal through October and are expected to remain sub seasonal through likely 1H23 as inventory levels remain stubbornly high across most end markets. While inventory levels are still elevated, we would note that IP&E inventory levels do appear to be in a better relative position than what we have seen across our research in the semiconductor industry. Despite the elevated inventory levels, it is somewhat encouraging that we have started to see green shoots in several markets including AI, China EV, and some seasonal recovery in the smartphone market, which is also offset by weaker Automotive in Europe and a pronounced slowdown in Industrial, most notably in the Alternative Energy markets, while we have yet to see an impact from the UAW strike in North America. With inventory elevated and feedback by end market mixed, we maintain our cautious stance on IP&E fundamentals and continue to expect the industry to remain in an inventory digestion through 1H24.

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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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