



# Analog Semiconductor Supply Chain Component Digest – November 2023

Important Disclosures in the Appendix

## More Signs of Automotive Pushouts in the West, Several Suppliers Showing Increased Pricing Flexibility for 2024 and Beyond

**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. Auto feedback mixing lower with pockets of analog digestion in Europe spilling over to N.A, with impact projected in 1Q/2Q.
2. Auto pushouts in N.A. seen tied to inventory, delays in EVs from Detroit 3 and lower than expected Telsa production.
3. Uptick in China Auto demand seen persisting through YE on new model launches and ramp up in YE production. xEV outlook still favorable, but semi demand sustainability questioned on inventory digestion concern due to forced shipments in '22/'23.
4. Anecdotal feedback suggests semi suppliers turning more flexible on price for +2024. NXP/Microchip seen facilitating notable cost reliefs for customers via moving demand direct and like-for-like cost downs, in return for new designs and higher share allocation.

### Top 3 Channel Comments:

- *The market is very uneven; 30-45 days ago, we felt confident in calling the bottom of the cycle; today we are not sure. A month ago, we saw increases in order velocity and turns and even B2B started to creep up, though that was so low that it didn't take much to move up. But a month later we are just not seeing sustainability and much of a rebound in bookings. We are looking daily at bookings charts trying to figure out a trend, but we just can't discern one.*
- *In 3Q European Auto customers began requesting pushouts citing inventory rebalancing. Recently in November we are starting to notice the same development in N.A. which will hit 1Q/2Q shipments. We are working with the LTAs to find a win-win resolution.*
- *TI is dragging everyone into the mud with their pricing strategy. For new business, for anything above 10 million parts TI is priced 20% below the market. For drop-in replacement TI is even more aggressive at 30-40% lower. Everyone like us that took business from TI via drop-ins is now ceding share.*

### Other Key Takeaways

5. 4Q demand through mid-Nov seen as still soft, projected to persist through 1H24 on lack of consistent recovery in bookings.
6. China demand noted as still weak but now more stable relative to weakening trends in Europe and N.A.
7. China ICs competitive threats seen proliferating from Asia to Europe where tier 2 and below customers are seen exploring multi-BOM strategies based on end consumption and increasingly considering Chinese IC due to lower price. Impact still noted mostly in mid and low range analog though anecdotal instances observed in higher end products incl. BYD gaining in BMS (likely Analog Devices).
8. TI still seen as price aggressive for new designs/share gains; pricing even lower for previously lost share via drop-in replacements.
9. onsemi seen pivoting on plans to EOL some high margin products, re-engaging with customers, offering sustained support.
10. Industrial/DC/Comm feedback little changed and still weak. PC/CE demand seen as uneven following pockets of 3Q uplift in Asia.

### Conclusion

Feedback in our work remains weak, and the trend is expected to persist through the 1H24 as the Auto and Industrial sectors navigate through inventory correction over the next few quarters. While still early to have a strong conviction in 2H24 recovery we finally see the ingredients of a healthy correction with more suppliers intentionally under shipping demand, reduced capacity utilization and customers and distributors gradually working through inventory, albeit at a slow pace. With those factors in play and absent a macro meltdown, we anticipate expectations for 2H24 recovery to firm up in the coming months. Historically that has been a good indicator to turn more constructive on the industry. However, one dynamic leaves us still somewhat cautious – the feedback of pricing flexibility led by TI, and now seen by others, which we think could prevent the industry from regaining the peak margins from the prior cycle.

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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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