



Impact of the Consumer Market on EDA and IP

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The Economy and the Consumer

- The Good News
 - 1q06 GDP +4.8%
 - Average hourly earnings +3.8%
 - Civilian unemployment 4.7%
- On the other hand
 - CPI +3.5%, but real inflation probably 2x.
 - Mortgage lending of questionable quality.
 - Deficit and current account financed by foreign buyers (Japan, China and Korea.)
 - Fed's 16 rate hikes designed to slow inflation and the economy.
- Can't control the economy and there will always be an opportunity for great products.

The EDA/ IP Challenge





Bricks and Mortar Matter

- Best Buy, Wal-Mart and Circuit City represent 40% of the domestic consumer electronics market.
- Best Buy strategy
 - “Customer Centricity”
 - Engaged employees. Geek Squad.
 - Solutions, not products. Ease of sale, use, installation and connectivity.
 - Financial targets
 - Growth - 7% total, 3-5% comp store and Bestbuy.com 60%.
 - Investments made over last two years lead to expanding operating margins from 5% to 7-9% on reduced SG&A.
 - Strong 52 week stock performance
 - BBY (\$55.76) +62%, CC (\$31.29) +100% and Dow +13%.



New Product Cycles

2006 - Flat panel TVs and MP-3

What's not – analog TVs, CDs, entertainment software and wireline phones.

2007

- Microsoft Vista and PCs

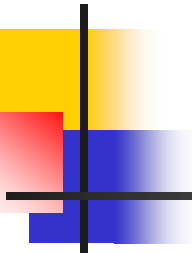
- HD DVD

 - “Best Buy has been clear in communicating to our technology partners that our company believes the “next generation” of hardware and software technology is best introduced into the marketplace via a “single best consumer solution” in order to ensure the greatest likelihood of consumer acceptance.”

 - Brad Anderson, CEO Best Buy, Consumer Electronics VISION, May/ June 2006

- Media centers

2008 - PS 3 and Entertainment software



Consumer Semiconductor Business Models

- Asian cost structures change the competitive environment.
- Platform SoC with software may create barriers to competition.
- OEM needs to sell the quality, complete solution and ease of installation, connectivity and use to the retailers.

Portal Player (PLAY, \$10.60, -39% 52 weeks)

- SoC solutions for MP-3 players. Standard in iPod to date.
- Spend 16-17% of revenue on R&D.
- Apple iPod 95% customer.
- Designed out of iPod Nano. Firmware and silicon did not create barrier to competition.

Actions Semiconductor (ACTS, \$11.41, +43% 11/05 IPO)

- SoC solutions for 40% of non-Apple MP3 market.
- Combine DSP, MCU, software, firmware. 0.25u moving to 0.18.
- Spend 4% of revenue on R&D.
- 210 engineers in India and China. \$6mm total R&D budget. Whole supply chain in China.
- Only analog companies have 40% operating margins

•SirF Technology (SIRF, \$33.02, +176% 52 weeks)

- GPS SoCs. Low-power, RF, DSPs, A/D converter, embedded software and application software.
- Spend 20% of revenue on R&D.
- Growth from proliferation of Personal Navigation Devices.

Dramatically Different Business Model in Asia

	Actions Semiconductor (MP3 SoCs)	Portal Player (MP3 SoCs)	SiRF Technology (GPS SoCs)
Gross Margin	53-55%	41-44%	55%
R&D	4%	16-17%	20%
SG&A	6%	6-7%	10%
Operating Margin	41-45%	17-22%	25%



Conclusions

- Fabless SoC companies should not just consider the needs of the consumer as their customer's customer, but of the retailer.
- International competitors bring dramatically lower cost structures.
- Fabless SoC barriers to competition are critical.
- EDA/ IP companies can make a difference for their SoC customers.