

IHS TECHNOLOGY



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EMBEDDED MARKET UPDATE WITH IHS

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Simplified industry value chain

Semiconductor industry

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graph TD; A[Semiconductor industry] --> B[Captive embedded market]; A --> C[Our opportunity]; B --> D[Industrial, Medical, Transport, Defense, POS/POI, Gaming etc]; C --> D;
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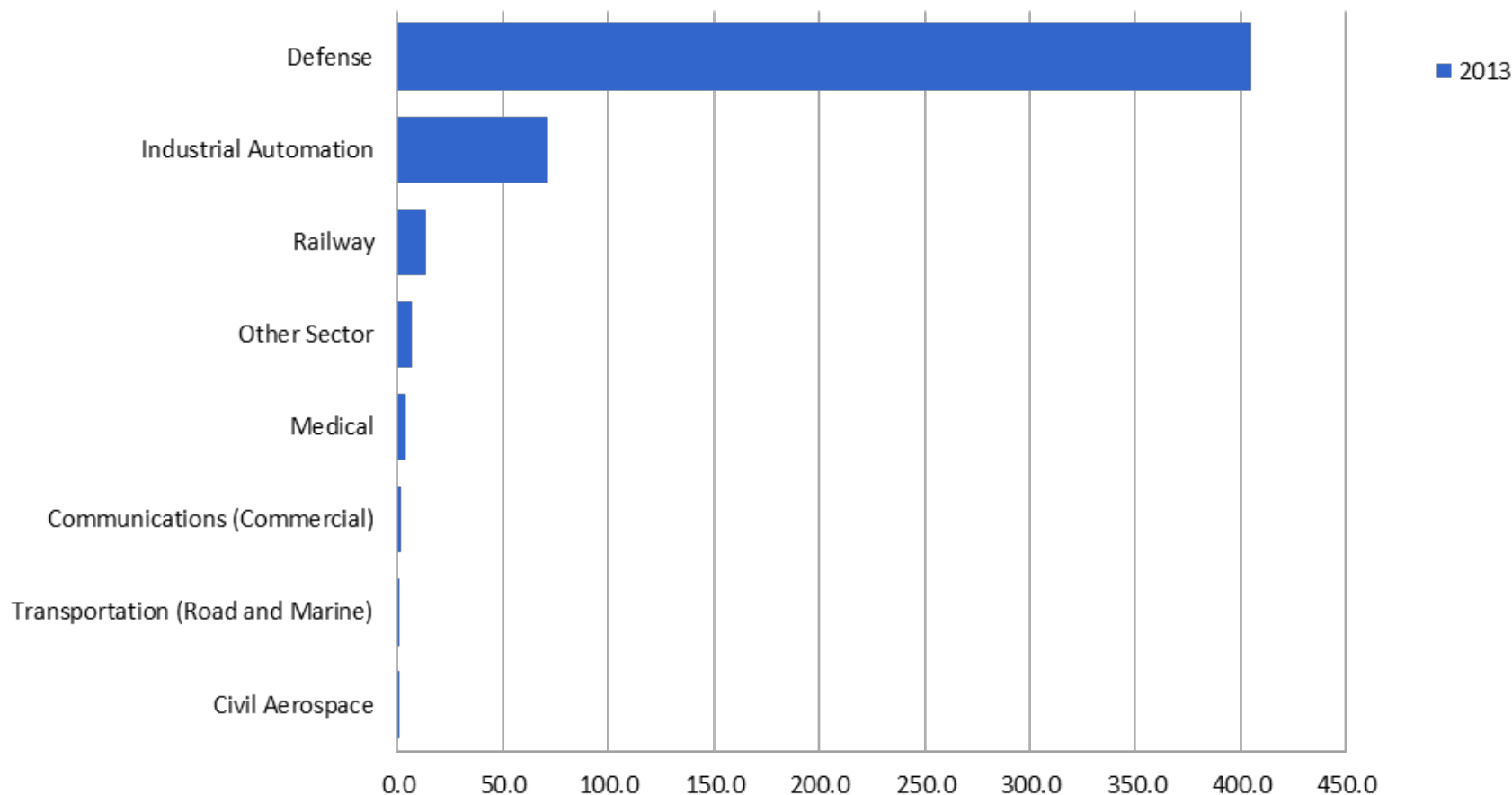
Captive embedded market

Our opportunity

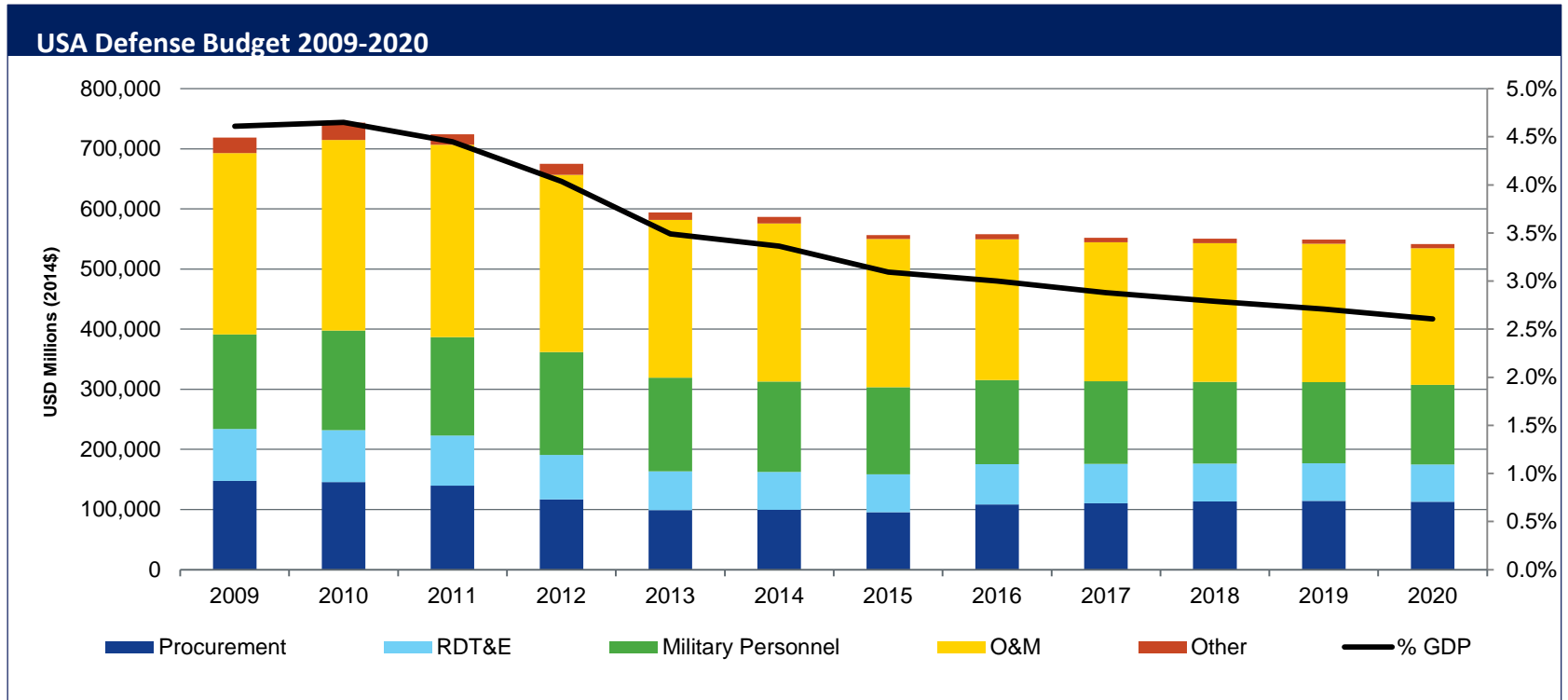
Industrial, Medical, Transport,
Defense, POS/POI, Gaming etc

VITA Market by sector:

World market for VME + VPX components by sector – Rev in M USD



United States Defense Budget Profile



- Defense % of GDP decreasing: 4.6% in FY09 → 3.4% in FY14
- FY14 Procurement + RDT&E reduced to USD162.4 billion
- FY14 investment smallest in a decade

Expect Investment to Bottom Out in FY15 @ USD158.4 B

DoD FY15 Budget Summary by Service

Key Points:

Nominal Base Budget flat, then increases; OCO declines as Afghanistan deployment winds down

Operating on Continuing Resolution (CR) in FY15 through 11 December

In FY14, Army largest service at 28.5%, but Navy to become larger in FY15 at 27.6%

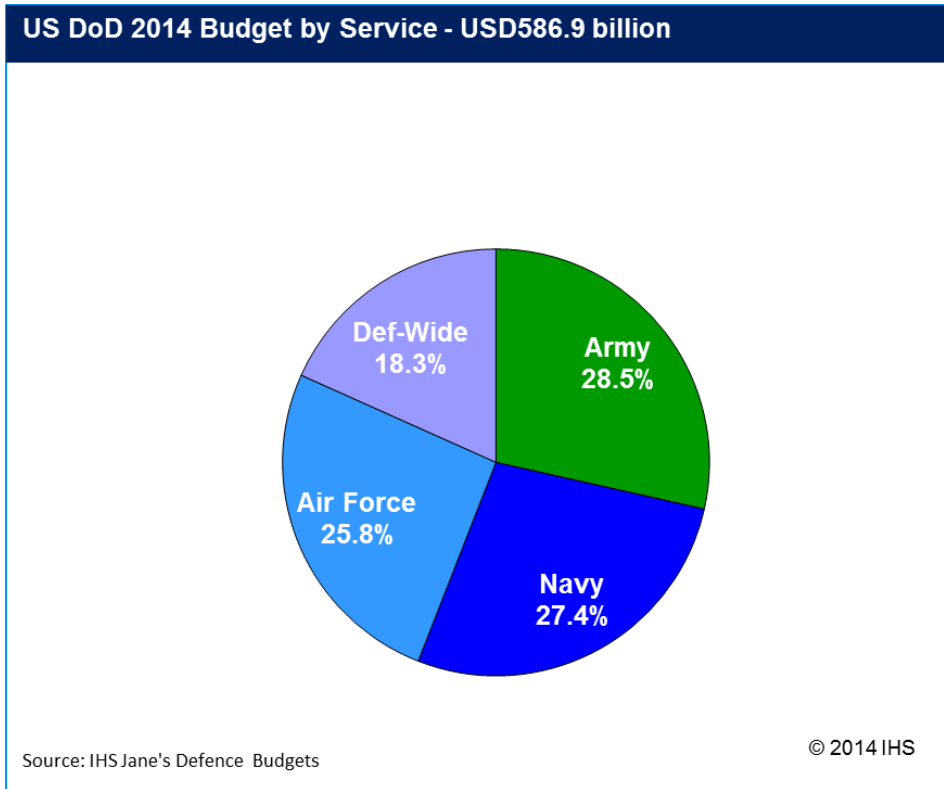
Active Duty troop reduction of ~171,000 from FY11 to FY17 (~12%)

Greatest reductions in Army end strength; USMC next largest - ground troops largest cuts

Target reduction in DoD civilians of 5% - 6% by FY17 (~ 50,000)

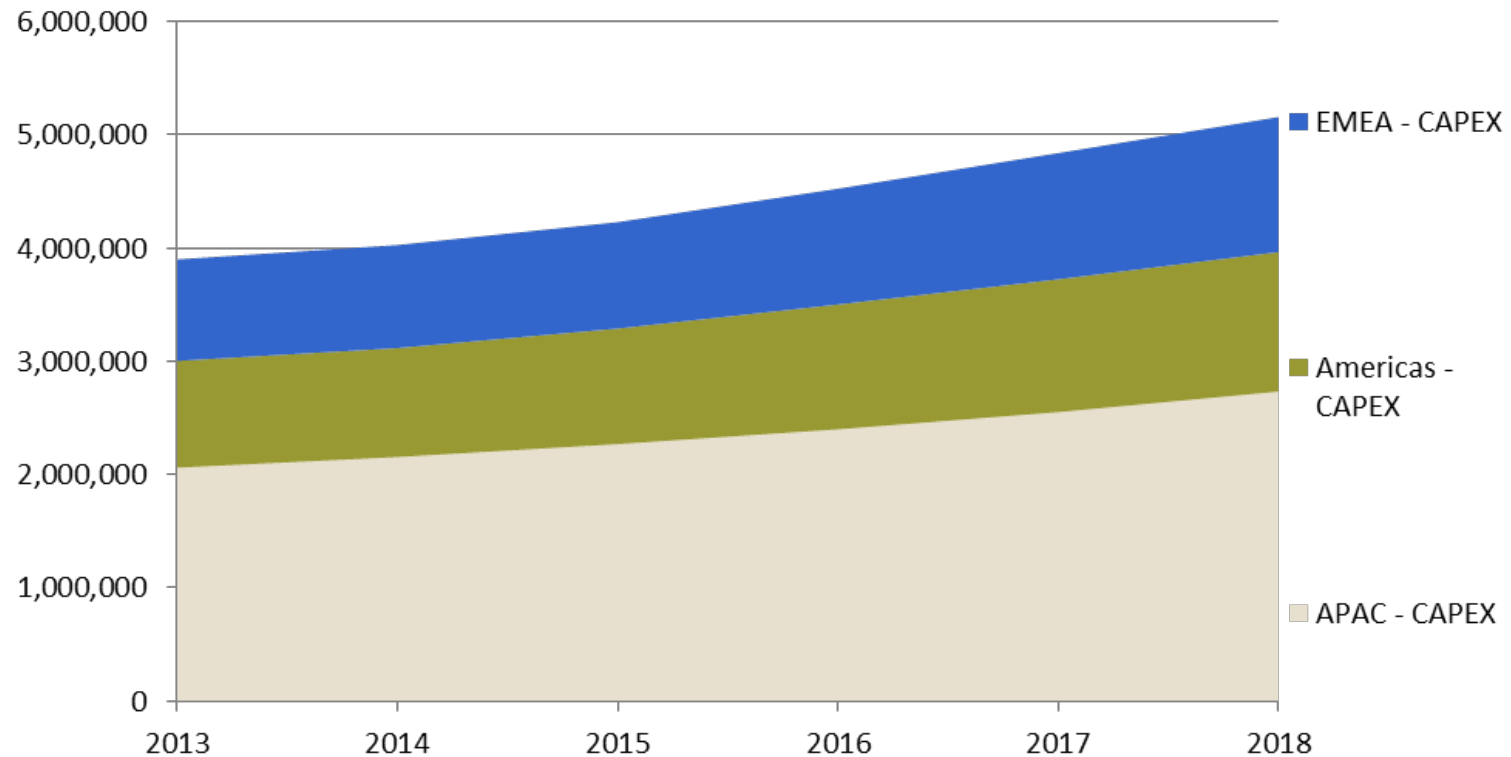
FY14 investment (Procurement + RDT&E) down to 27.7% of budget from 35.6% in FY08

O&M cuts affecting force readiness and training



Industrial Update:

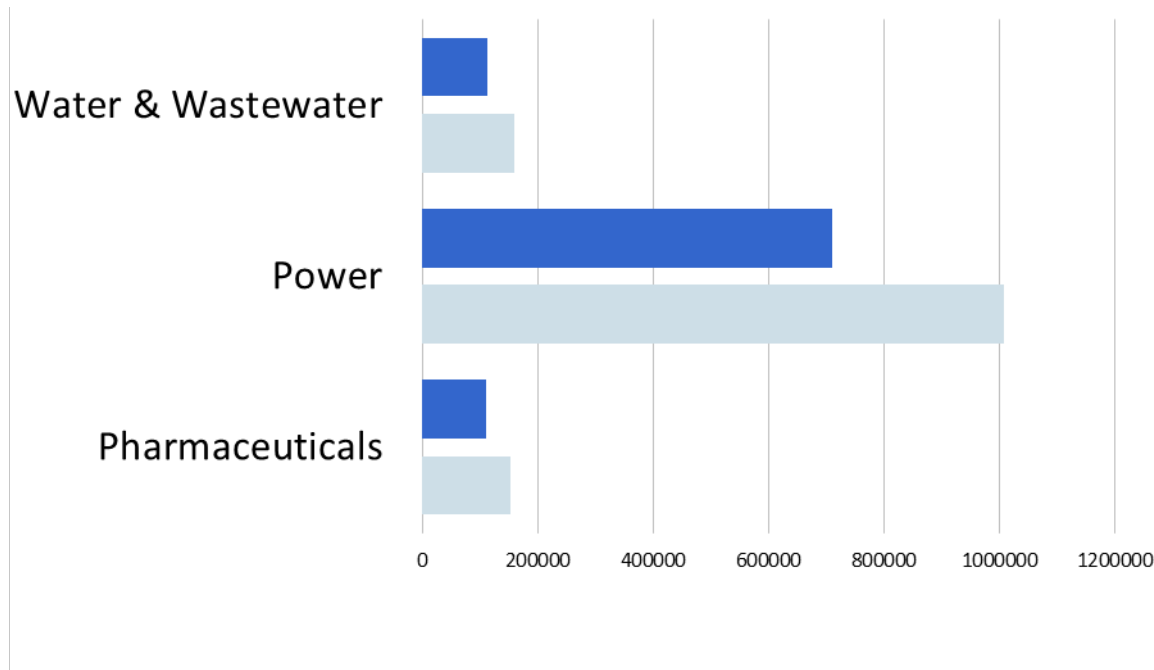
Industrial capital expenditure – Spending in M USD



- Spending on industrial projects is projected to reach over 4 Tn dollars in 2015
- Spending will grow at a rate of approximately 5%, annually, for the next five years, although with an uneven performance by sector

Focus on specific industrial markets

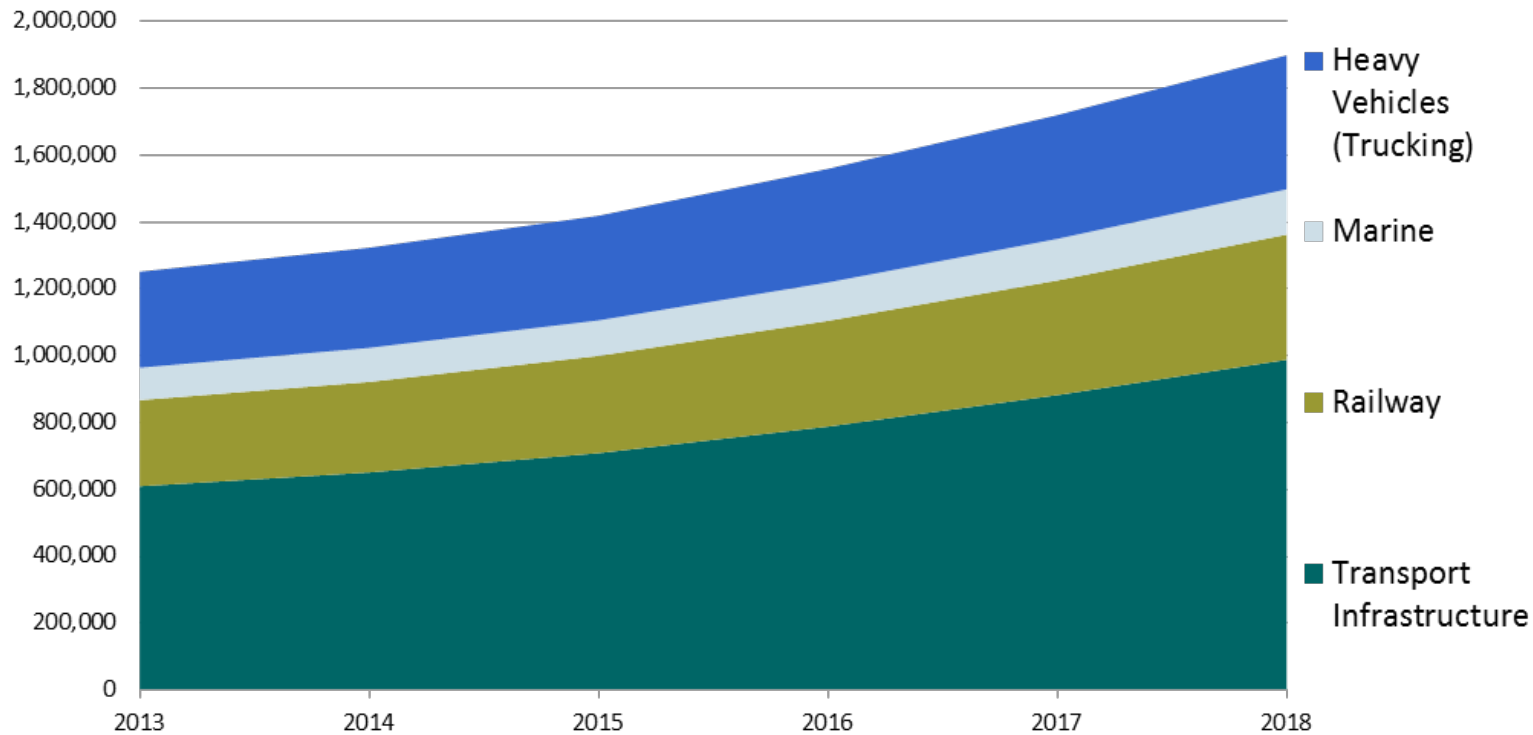
Industrial CAPEX - selected sectors in 2013 & 2018 – Spending in M USD



- Investment growing fastest in industrial markets which provide for goods with relatively little supply/demand elasticity
- Poorly performing sectors include metals/mining, oil and gas.

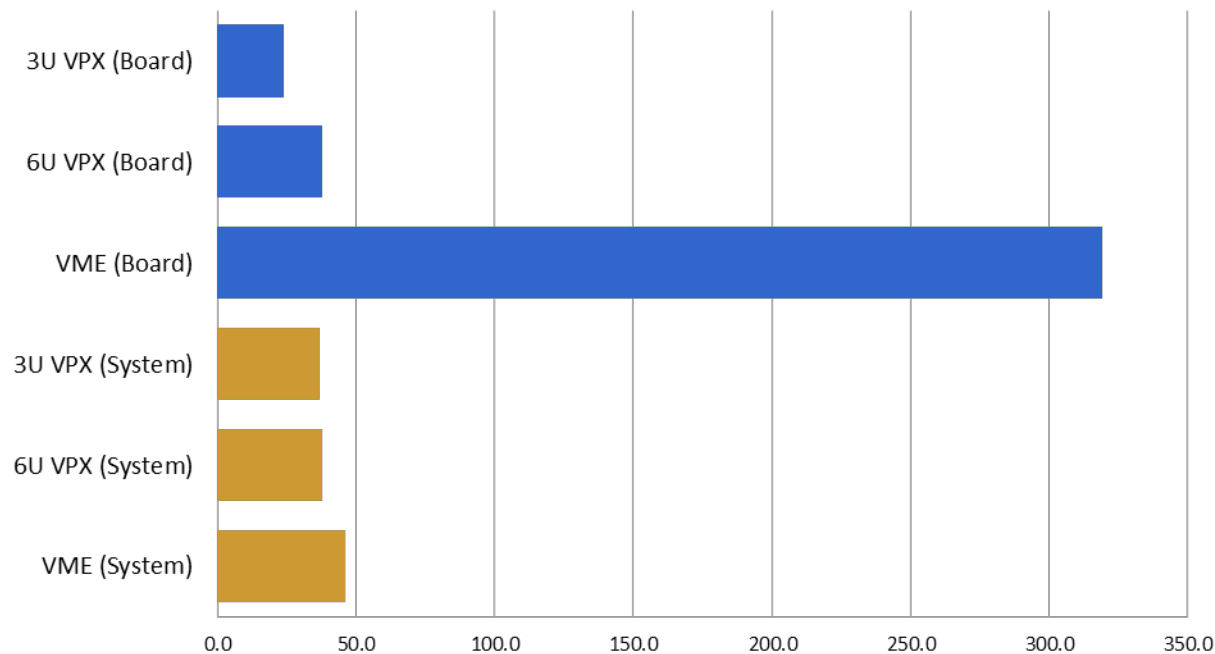
Transport – the most interesting opportunity today

Transport CAPEX - 2013 & 2018 – Spending in M USD



- Transport is expected to continued to see strong growth of 9% CAGR
- Electronics spending as a proportion of CAPEX will grow even faster – providing even stronger support.

Sales of VITA Products in 2013 – Sales in M USD – Boards and Systems



- VME accounted for approximately 70% of the market in 2013 – **but** –
 - The market for VME components is expected to shrink by between -5% and -10% for the next five years
 - The market for VPX components is expected to grow at a rate of +20% to +25% for the next five years
 - IHS expects 2017 to be the first year when VPX sales exceed those of VME.

**Thank you for
your attention.
Your questions?**

Key takeaways:

- VME/VPX market is reasonably sized but faces some headwinds due US DoD investing priorities.
- By contrast, industrial/transport offers some interesting potential growth opportunities.
- VME factory gate revenues reached 360 M USD in 2013
- VPX factory gate revenues reached 140 M USD in 2013
- Ongoing uncertainty regarding economic and political risks.