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## **IC Insights' Opinion on AMD's New Business Model**

*New organization will not significantly alter MPU or IC foundry balance of power*

### **Overview**

As seen in the recent headlines, AMD plans to undergo a major restructuring of its business model beginning in early 2009. The core of the restructuring revolves around creating a new company (now being called Foundry Company) that will be responsible for the IC manufacturing portion of its business. Foundry Company will also enter the foundry segment of the IC market and produce ICs for other companies.

As reported:

### **MORE INFORMATION CONTACT**

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- 1) Advanced Technology Investment Company (ATIC) of Abu Dhabi will form a U.S.-based foundry company (Foundry Company), of which AMD will own a 44.4% share and ATIC will possess the remaining 55.6% stake. It is nice to see at least some petro dollars being re-cycled back into the U.S.!
- 2) ATIC will invest \$2.1 billion to purchase its share in Foundry Company with \$1.4 billion going to the new company and \$700 million going to AMD.
- 3) The Foundry Company will assume \$1.2 billion of AMD's outstanding debt.
- 4) AMD will contribute its two Dresden, Germany, fabrication facilities and associated intellectual property rights to the Foundry Company. With numerous long-time Intel/AMD patent cross-licensing agreements in place, Intel has mentioned its concerns regarding AMD's licensing of technology to Foundry Company (stay tuned on this one).
- 5) The Foundry Company has joined IBM's consortium of companies developing IC processing technology for silicon-on-insulator (SOI) and feature sizes down to 22nm.
- 6) ATIC plans to spend from \$3.6 billion to \$6.0 billion in capital investment in the Foundry Company over the next five years.
- 7) AMD's proposed New York-based 300mm fabrication facility is back in play and is expected to be built as part of the capital spending budget listed above. This facility is not expected to be in high volume production until 2011.

## IC Insights' Opinion on Foundry Company:

- 1) This deal is a positive for AMD's balance sheet. Without it, the company most surely would have continued to die a slow death. However, this is a "survival" move, not a strategy that will help them gain marketshare.
- 2) Foundry Company's 2009-2013 capital spending budget is forecast to be **\$4.8** billion (when using the mid-point of its announced \$3.6-\$6.0 billion spending plan). The funds will be used to install capacity to produce devices for AMD as well as to enter the IC foundry business. IC Insights believes that this financial commitment is uninspiring at best. It should be noted that AMD's capital expenditures over this and the previous four years (2004-2008) are expected to total **\$6.4** billion, and look at what shape the company is in today.
- 3) Intel is expected to spend **\$25.6** billion dollars in capital expenditures from 2004-2008, four times what AMD will spend over the same timeperiod. IC Insights believes that Intel's capital expenditures over the next five years will total about **\$30** billion, which would be five times the Foundry Company's most optimistic plan of investing \$6.0 billion over that time!
- 4) TSMC, the largest pure-play foundry in the world, is on track to spend **\$11.3** billion in capital expenditures from 2004-2008. Although TSMC is likely to be more conservative in its spending going forward, IC Insights believes that the company will still spend at least **\$10** billion in capital expenditures over the next five years. It should also be noted that there is a lot more to being in the IC foundry business than hanging out a sign and announcing you are a foundry, just ask some of the Malaysian and Chinese foundry startups about the difficulties of gaining marketshare in this segment of the IC industry.
- 5) Given that Foundry Company's capital spending budget for the next five years is forecast to be less than AMD's capital spending outlays over the previous five years, it is highly unlikely Foundry Company will help AMD gain additional marketshare. In fact, AMD will be lucky to sustain flat marketshare in the MPU segment. Moreover, a significant portion of the Foundry Company's budget must be allocated to the new foundry business, and this, of course, will take away precious spending needed for MPU production!

### The Bottom Line:

***In IC Insights' opinion, AMD's new strategy and business model keeps them in the MPU game, however, it will not shift the balance of power in the MPU or foundry segments of the IC industry over the next five years.***

#### About IC Insights

IC Insights, Inc., based in Scottsdale, Arizona USA, is dedicated to providing high-quality, cost-effective market research for the semiconductor industry. Founded in 1997, IC Insights offers coverage of global economic trends, the semiconductor market forecast, capital spending and fab capacity trends, product market details, and technology trends, as well as complete IC company profiles and evaluations of end-use applications driving demand for ICs.

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