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High-tech Sector

Week ended March 4, 2007

IT Service Sector Recovery Complete

Orders received by Japan's IT service sector in 2006 rose 4.5% compared to the previous fiscal year to ¥109.3 billion, recording a third consecutive year-on-year increase. Software products contributed a significant portion of the growth, increasing 20.4% YoY to ¥137.5 billion. Game software drove software product sales, rising 47.3% to ¥66.9 billion. Custom software development-related sales, the largest component of the IT service sector, increased 4.5% to ¥657.2 billion. IT service sales have been rising steadily since 2004. Growth accelerated in late 2006, with sales up 10.7% YoY in October, 10.1% in November and 7.2% in December.

Windows VISTA Off to a Slow Start

Sales of Microsoft Corp.'s Windows Vista operating system have been slow since the Jan. 30 launch, despite high hopes that its release would spur recovery in the sluggish personal computer market. According to figures released Monday by research firm BCN, PC sales at major electronics retailer chains logged year-on-year growth for the first time in 13 months in February, but the rise was just 1.2%.

Varister Demand Surges

Demand for varisters is surging, driven by their increasing use in cell phones for protection against ESD discharge. Varister production in Japan has been rising for the past few years, with the growth accelerating in 2006 to 39.4% year-on-year. Varister sales rose to 7,000 million pieces in 2006 from 5,000 million pieces in 2005, according to government statistics.

Production of Electronic Materials Rises Sharply

Production of electronic materials in 2006 was up 15% year-on-year to ¥454.4 billion, according to JEITA, the electronic industries association of Japan. Production of metal materials rose 24% to 48.9 billion and that of soft ferrites was up 13% to ¥18 billion. Output of dielectric ceramics rose 23% to ¥151.9 billion.

LCD Sales Projected to Rise 5.3% in FY2006

The combined sales of Japan's six major LCD manufacturers in fiscal 2006, the year ending March 31, 2007, are expected to increase 5.3% from the previous fiscal year to ¥2.2 trillion, according to a survey by a leading industrial newspaper. The six will also increase their capital investment in FY 2006 by 19% to ¥294.2 billion to cope with rising demand.

Production Printing Market Poised for Solid Growth

Japan's production printing machinery market (on-demand digital printing machinery market) is on the verge of entering the growth phase. Fuji Xerox expects sales to reach ¥200 billion by

fiscal 2009 and Konica-Minolta are projecting sales of ¥100 billion in fiscal 2008. Canon (Stock code: 7751) entered the market last year and Ricoh (Stock code: 7752) has tied up with IBM to strengthen its presence in the merging market. The market is expected to grow at a double-digit rate and reach ¥3 trillion by 2010, according to industry sources.

Earnings Roundup

Listed Firms' Pretax Profits Up Sharply in the First Nine Months of Current Fiscal Year

Pretax profit of firms listed on Japan's stock exchanges rose 13.1% during the April-December period as electronics manufacturers, automobile manufacturers and other exporters reported strong results on a weak yen, according to data compiled by Nikkei, the leading Japanese economic daily. The survey included 1,502 listed firms that close their books in March. Manufacturers saw pretax profits rise by 13.5%. Pretax profit at service firms increased 12.4% and in the manufacturing sector, electronic equipment manufacturers saw pretax profit surge by 27%. In the non-manufacturing sector, profits at general trading houses rose 31%, with real estate firms reporting a 38% jump.

Advantest (6857 TSE1) Projects Strong Profit for FY Ending March 2008

Advantest (Stock code: 6857) has forecasted a 23% increase in consolidated operating profit to ¥75 billion for the fiscal year ending March 2008 on a 13% increase to ¥270 billion on brisk shipments of testers for DRAMs. For the current fiscal year, Advantest expects sales to decline 5% year-on-year to ¥240 billion and operating income to drop 5% to ¥61 billion due mainly to sluggish shipments of testers to Intel.

Softbank's (9984 TSE1) 3Q Profit Jumps on Strong Handset Sales

Softbank (Stock code: 9984) posted a 260% increase in operating income in the third quarter (October-December) of the current fiscal year ending March 2008. The triple-digit income gain is due mainly to the introduction of installment payment plans for cellphones.

<http://www.tokyoipo.com/top/en/index.php?id=&seqid=>

DATALINKS (2145 JAQ)

DATALINKS Co., Ltd., a systems solution service provider, will list on the JASDAQ Securities Exchange on April 6. The company will offer 2,580 newly issued shares in its initial public offering. Nomura Securities, the lead underwriter of the offer, also has a green shoe option, allowing it to offer an additional 260 new shares in the event of exceptional demand. The fixed offering price will be announced on March 28.

URBANET (3242 JAQ)

URBANET Corporation, a real estate developer, will list on the JASDAQ Securities Exchange on March 28. The company will offer 4,200 issued shares in its initial public offering. Of those 3,000 will be newly issued and 1,200 are shares currently held in private. The tentative price range will be announced on March 8. The fixed offering price will be announced on March 16. Shinko Securities, the lead underwriter of the offer, also has a green shoe option, allowing it to offer an additional 300 existing shares in the event of exceptional demand. The company expects to net ¥956 million from the IPO and plans to use the proceeds for working capital. For the current fiscal year through March 31, 2007, the company forecasts non-consolidated net income of ¥652 million on sales of ¥7.2 billion and earnings per share of ¥37,561.85.

Jedat (3841 JAQ)

Jedat Inc., a design support software developer, will list on the JASDAQ Securities Exchange on March 15. The company will offer 3,300 newly issued shares in its initial public offering.

Ichiyoshi Securities is the lead manager of the offer.

Basic Electronics Industry Statistics

	Prod	Ship.	Inv.	Capacity utilization	H. Elec. machinery	Cons. appliances	Electronics Sector	Cons. electronics	Industrial electronics	Electronic devices	Semicon (Production)	Consumer electronics (sales)
Dec	108.2	114.5	82.7	83.9	2,490	1,438	16,787	2,326	6,438	8,023	3,465	336
Jan	110.7	116.5	82.4	81.1	2,197	1,291	14,977	1,754	5,420	7,803	3,521	282
Feb	108.2	112.3	81.8	94.8	2,440	1,500	16,763	2,055	6,704	8,005	3,572	181
Mar	101.4	109.7	81.4	103.4	3,440	1,549	20,718	2,305	9,447	8,967	4,103	225
Apr	106.9	110.1	86.9	101.6	2,244	1,698	15,977	2,308	5,655	8,014	3,586	214
May	105.6	113.5	85.6	98.6	2,118	1,585	15,650	2,300	5,218	8,132	3,681	205
June	109.6	115.6	86.7	116.7	2,523	1,902	17,173	2,370	6,292	8,810	3,780	227
July	107.7	113.7	84.2	99.4	2,353	1,627	16,169	2,005	5,552	8,613	3,794	256
Aug	114.3	116.8	81.9	71.8	2,306	1,271	15,894	1,990	5,286	8,618	3,918	208
Sept	109.8	115.5	81.5	85.8	2,849	1,456	18,072	2,472	6,461	9,139	4,022	203
Oct	113.2	118.7	83.4	80.5	2,474	1,500	17,032	2,897	5,311	8,823	3,904	218
Nov	112.9	118.2	85.0	82.9	2,507	1,545						238
YoY	3.2	2.2	-0.6	-2.5	4.5	4.1	8.5	18.3	2.2	9.5	9.3	-6.1

Base year 2000 = 100 (seasonally adjusted); 100 million yen, YoY: Year-on-year percentage change

Source: Ministry of Economy, Trade and Industry, Japan Electronics Industry Association and other trade associations