



Signal Hill

Channel Buoys

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Newsletter Highlights:

- What does 2008 hold in store?

-Networking Smarter, not harder ...

-Focus on product cycles to find winners...

- Channel checks for Comm ICs remain sound.

-Are we talking ourselves into a recession...

- It's a flat world, stupid!

-Can Int'l markets bail out U.S. slowdown...

- EPS Season Upon us again.

-Seasonal winds blowing...

-Conservatism may win the day...

-Separate the trees from the forest...

-Questions to look for on EPS calls...

- *If you are a client and would like to receive copies of our prior research reports, write to us at the address below.*

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The Beginning or the Eye of the Storm, and Can Overseas Markets Serve as A Saving Grace?

- ❖ As we look into the abyss that has characterized investing in smaller-cap chip stocks and, more specifically, Comm ICs (see Table 1) we grapple with reconciling the datapoints that are coming back from our recent channel checks with the poor stock performances. And while Intel (NASDAQ: INTC;NR) recently provided us a disappointing glimpse into some of the traditionally weaker seasonal markets, specifically PCs, last night XLNX (NASDAQ: XLNX;NR) and next week several of our Comm-related companies we expect could paint a different picture of the future when they report. While we obviously expect them to express a level of conservatism given the macro-environmental issues in the U.S., we believe many of these companies have meaningful revenue opportunities in Europe and Asia as well as new product cycles that could help provide better performance compared to other more cyclical or seasonal segments, on a relative basis.
- ❖ Our channel contacts include: manufacturers' reps (reps), industrial distributors (disty's), contacts within various chip companies as well as contacts throughout the OEM and ODM channels. We found surprisingly that a number of our checks provided anecdotal comments that suggest that the demand and outlook for the more Comm-related chips remains relatively intact for 2008 to this point. So while we are not hearing the doomsday scenarios (that stock performance would otherwise suggest) from our Comm-related checks, we are left asking ourselves if this is because end-demand is not as bad as we think and a rebound in stocks is imminent or has the anticipated recessionary-related slowdown simply not showed its hand in the Comm markets yet? We also believe that the International exposure and global expansion in demand for broadband services should help diffuse the macro challenges for our group versus other segments in the technology ecosystem. Additionally, many of these companies have been optimizing their models and we therefore think have some capability to manage margins effectively to help maintain profitability even in the face of a cut to revenue. These "rainy day funds" are surely to be tested in the next 2-3 quarters and could help provide a buffer for EPS.
- ❖ The feedback we are getting from other, more OEM-related checks continues to support our long-term investment thesis for the Comm sector. In addition, there have been a number of favorable comments and articles in the press and at recent trade events such as CES that suggest that the battle between the various service providers, MSO's and DBS providers is expected to continue in light of any macro environmental issues that may emerge in the U.S. We also see the build-out of a number of platforms and technology enhancement worldwide as a viable catalyst to support active investment in the sector and to take advantage of current prices to establish or add to positions.
- ❖ At the end of the day, only time will tell us as to the depth and breadth of any "impending" recession and until we run the course we can only guess and try to accommodate our expectations accordingly. But at this point we remain optimistic in our view specifically to the Comm sector for 2008.

Please see the last page of this report for important disclosures.