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### Freescale and NXP can't repay debts, says BNP Paribas

by **David Manners, Paris**

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There is no way that **Freescale** and **NXP** can repay the debt which has been loaded on to them by their private equity owners, according to Jerome Ramel, of Exane BNP Paribas, talking this morning to the **European Nanoelectronics Forum 2008** in Paris. "There is no way they can repay the debt they have", said Ramel.

The **debt imposed** on Freescale and NXP by their private equity owners, Blackstone and KKR, could not be repaid even if they are broken up and sold off piece-meal, said Ramel, so the only way forward for them is consolidation. "Refinancing will kill some businesses," Ramel told the Forum.

Asked by Electronics Weekly how Freescale and NXP would cope with the re-financings they will be obliged to undergo starting in 2011, Ramel replied: "Freescale was bought at 4 times sales, NXP at 1.6 times sales. The valuations were too high. The private equity companies thought there was something wrong about an industry which operated without any debt."

"In 2006, what the private equity companies thought about the industry was that it would create large amounts of cash and should have debt on its balance sheet" added Ramel,

"But they didn't pay a reasonable price and the market was collapsing. What happened in 2006 will bring about the consolidation of this industry. It is clear we're going to see consolidation in the industry, even if NXP and Freescale are broken up there is no way they can repay the debt which they have."

Ramel said there was an 'on-going de-rating' of the semiconductor industry in financial circles with a generally downbeat view of the semiconductor industry's ability to make money. He said that for every unit of gross cash invested in the industry, only half a unit of gross cash in terms of sales had been returned.

"It was the fastest growing sector, it was seen as an innovation sector, but now we can forget about 15 per cent growth", said Ramel, "semiconductor growth is converging to the GDP growth of 3 per cent. So why is it perceived as a growth sector?"

Ramel added: "The consumerisation of the semiconductor industry has the following implications: time to market is critical which is positive for companies with lots of IP or for IP companies; cost reduction is key which raises the IDM vs Fabless question; market share is the key which will lead to consolidation."

Finally, Ramel ended with a warning: that there is a risk that the foundries could become too powerful. "If foundries become too powerful", said Ramel, "that becomes a central issue for the fables and the fab-lite."

*See also:* **Mannerisms**, the blog of David Manners. Updated twice daily, it's the distinctive, entertaining, authoritative and never dull commentary on the semiconductor industry, from someone who knows. **Sign up for the Mannerisms eNewsletter.**

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