

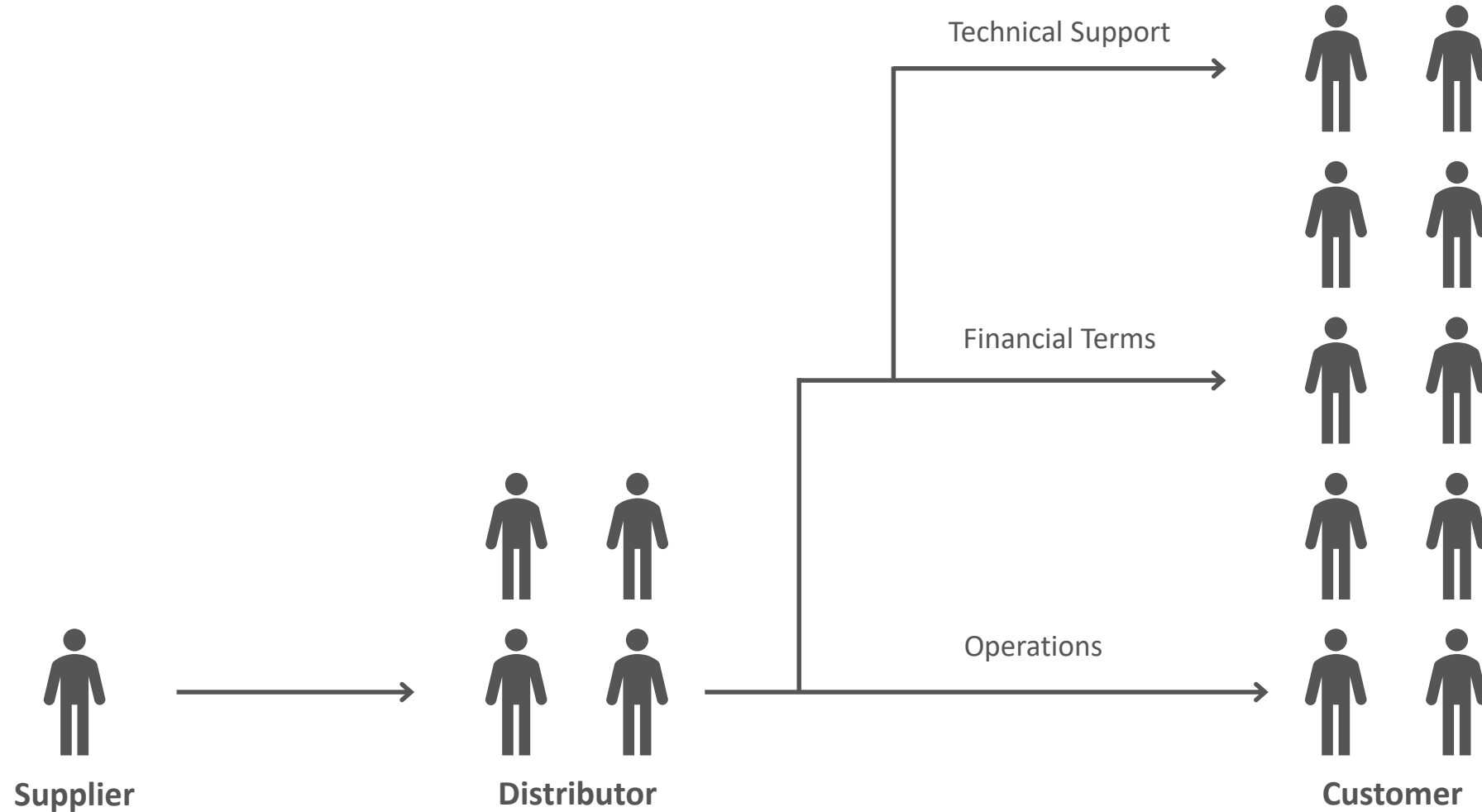


China Distribution Changes

JOHN DIXON, VICE PRESIDENT, GLOBAL DISTRIBUTION | NOVEMBER 2018



Role of a Distributor



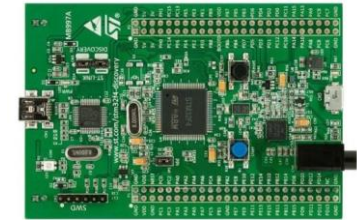
Traditional Distribution Networks – Field Based



Traditional Distribution Networks – Online

	Global Online Distributors	APAC Online Distributors	Other (TaoBao, Alibaba etc)
Shipping Costs	High	Low	Low
Silicon Costs	Market	Market	Low
Shipping Time	Long	Short	Short
Field Sales	Low	High	None
Technical Support	Low	High	None

Other Factors



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Market Trends



Distribution Margin Pressure



Margin pressure increasing

- Suppliers are reclaiming margin to the benefit of global distributors putting more pressure on Chinese distributors
- Suppliers are consolidating, reducing distribution margin due to economies of scale

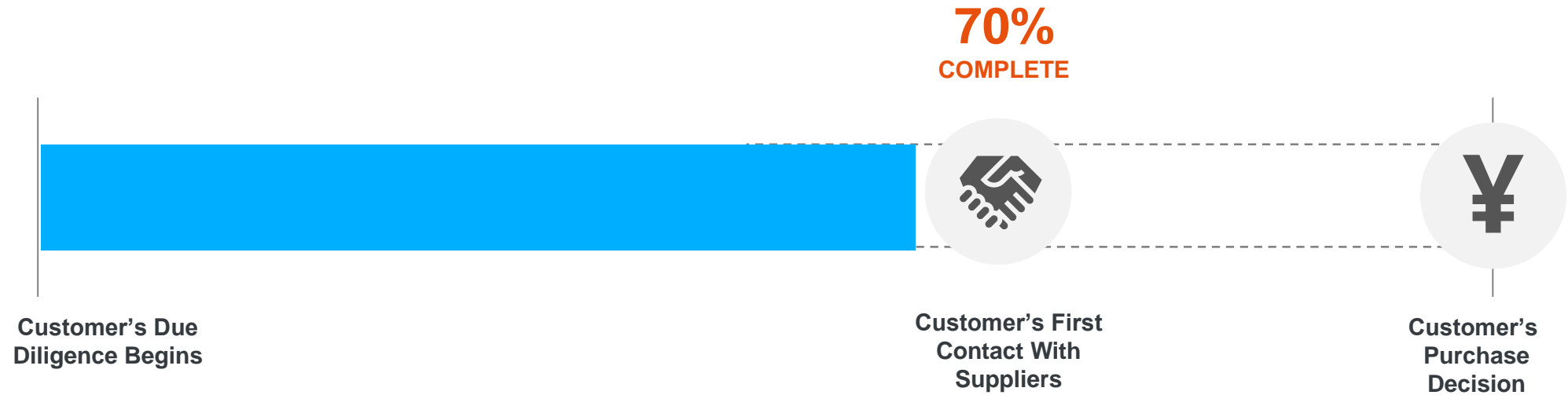
Silicon Labs Broadcom Cypress Semi Nvidia Taiwan Semi Analog Devices Intel Microchip Samsung Texas Instruments On Semi NXP AMD

Distribution Field Sales Dilution



- Sales & technical support becoming more diluted with more lines and support needs being added at traditional distributors
- Suppliers are seeing less demand creation from the distribution network and moving towards fulfillment-only margin models

More Non-traditional Online Market Places Emerging

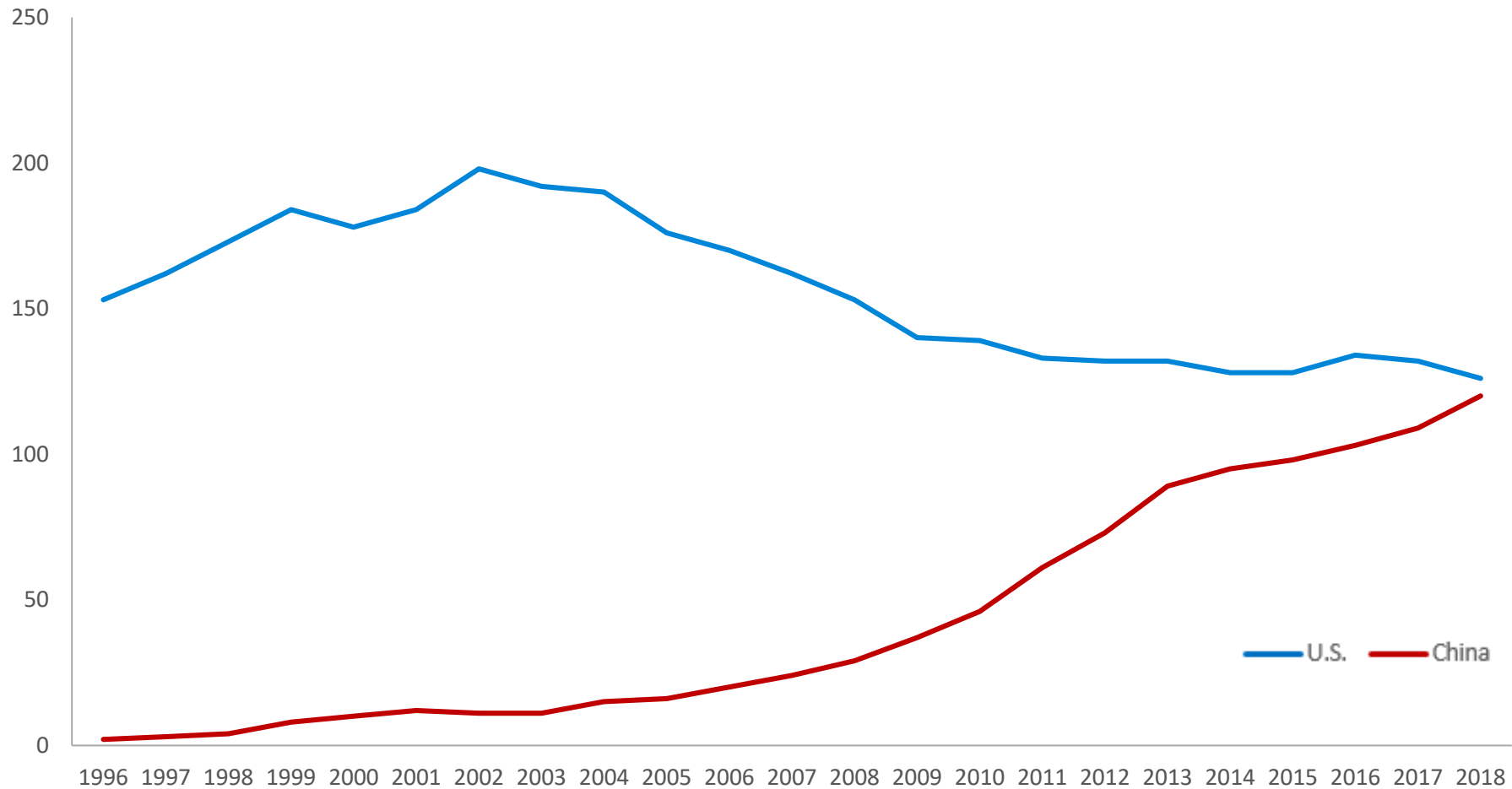


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Chinas Expansion into Worldwide Economy

Fortune Global 500 Companies: 1996-2018



\$70B in investor funds set up to develop Chinese IC market

	Description	Deal size \$ MM	Key Institutions
	Jun'14 ▪ PDSTI ¹ , a Shanghai government investment group privatized Montage Tech , a fabless analog chip maker	\$ 693	▪ Shanghai Gov. ▪ CEC
	Aug'14 ▪ Omnivision , a leading CMOS imaging provider, was acquired by Chinese government-backed Hua Capital and CITIC Capital	\$1,900	▪ Beijing Gov ▪ CITIC Capital
	Dec'14 ▪ JCET , SMIC , and National IC Fund formed an investment consortium (JCET \$ 260 mm , SMIC \$ 100 mm , National IC Fund \$ 300 mm , Bank of China loan \$ 120 mm) to acquire STATS chipPAC	\$ 780	▪ CICF
	Jan'15 ▪ A Chinese investment consortium led by SummitView Capital and Hua Capital acquired ISSI , a memory fabless	\$ 640	▪ SummitView Capital ▪ Hua Capital
	Jun'15 ▪ JAC Capital , a subsidiary of China Jianyin Investment (a large financial SOE), acquired the RF Power BU of NXP	\$ 1,800	▪ JAC Capital
	Feb'17 ▪ JAC Capital acquired NXP standard product BU for \$ 2.8 bn	\$ 2,800	▪ JAC Capital
	Apr'17 ▪ Shanghai Capital acquired Analogix Semiconductor to accelerate growth in E2E interface connectivity solutions. China IC Industry Investment Fund as one of the limited partners for Shanghai Capital	\$ 500	▪ Shanghai capital, China IC Industry Investment Fund

Technical Trends – Online Search

20,000+ MCU Part #'s



1,000+



2,000+



3,000+



3,000+



3,000+

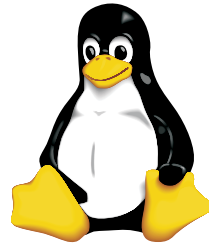


8,000+

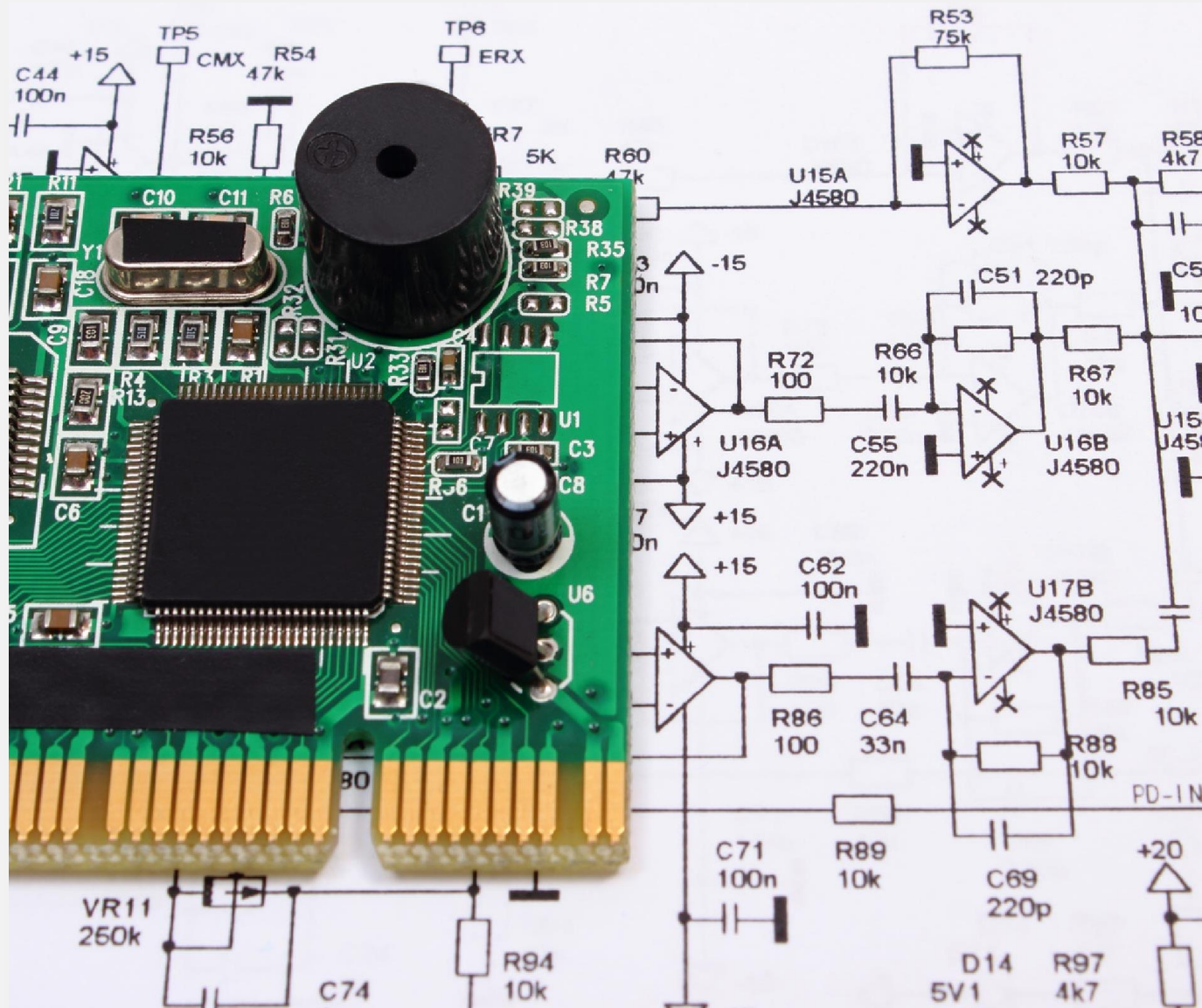
Artificial Intelligence enabling online technical support

- AI (Watson) adding contextual search to engineering whitepapers/ application notes
- More companies investing in live online support
- Parametric search becoming easier and more comprehensive
- Communities becoming more robust answering engineering questions

Technical Trends – Online Communities

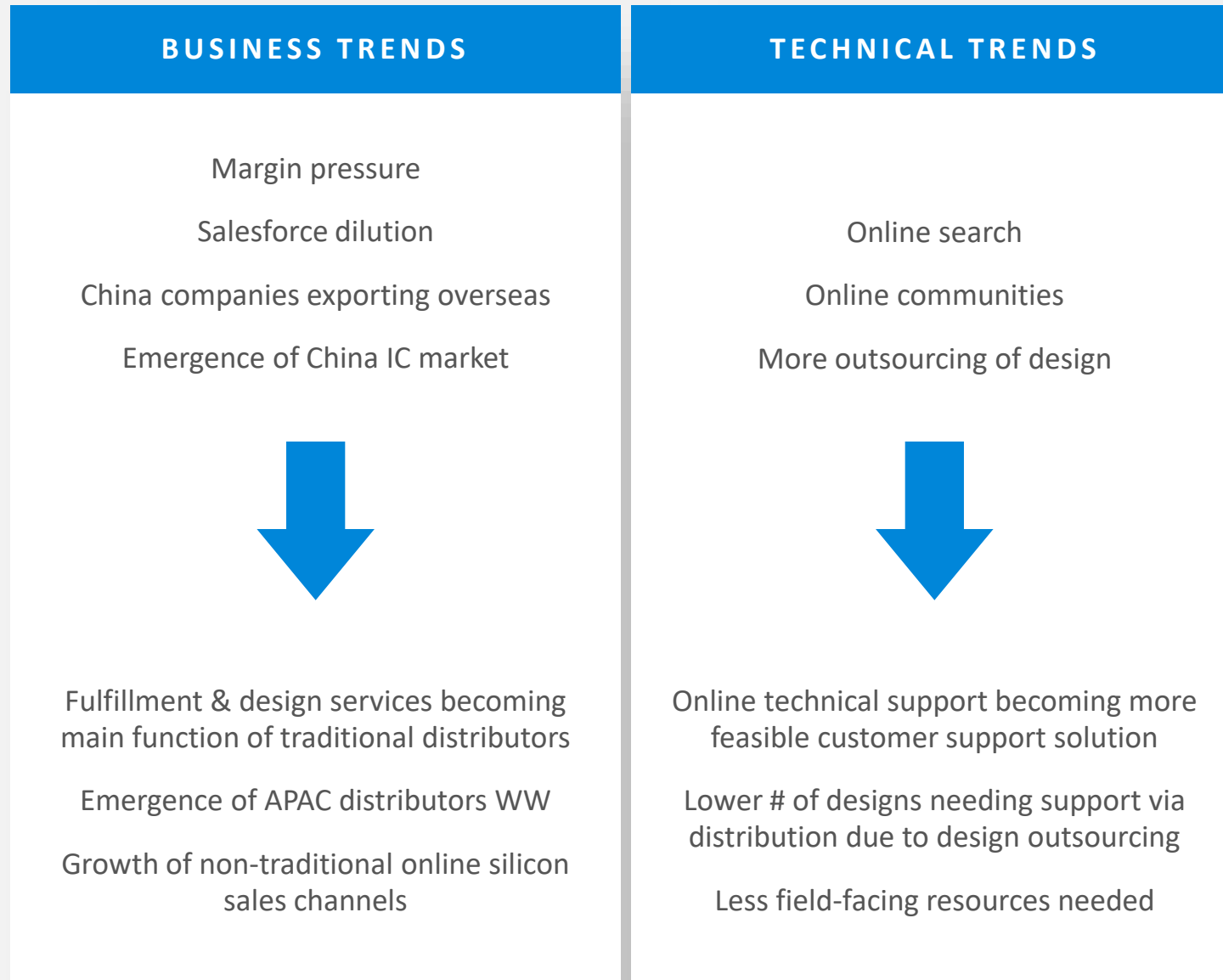


Technical Trends – Outsourcing of Design



- IDHs becoming more utilized as electronic design becomes more complex (Wireless, application processor etc)
- CMs/ Distributors taking a more active role in electronics design

Market Trends



Evolution of Traditional Distribution Networks for Next 5-10 Years

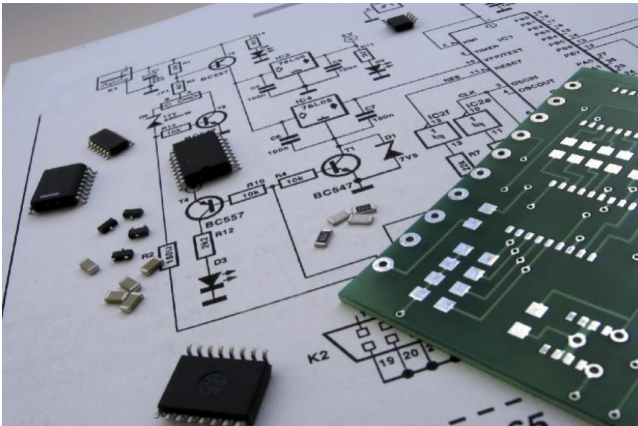
Worldwide Distributors (>\$10B)	APAC Distributors (>\$1B)	China Distributors (<\$1B)
<p>Field support becomes more diluted due to negative margin pressure</p> <p>Move towards fulfillment models</p>	<p>Gain traction in WW market due to Chinese customer WW adoption</p> <p>APAC margin levels able to absorb fulfillment models</p>	<p>Business gets consumed by APAC/ WW distributors</p> <p>Business model change to design house</p>
Global Online Distributors	APAC Online Distributors	Other (TaoBao, Alibaba etc)
<p>Continue to be popular with large OEMs</p> <p>Challenges maintaining continued momentum with mass market</p>	<p>Challenges to create large scale business due to infrastructure needed for economies of scale</p>	<p>Mass adoption by mass market</p>

Next Chapter

Global distributors move toward design services & fulfillment model

Reduced margin and online technical resources reducing field effectiveness

Focus demand creation value on design services model



APAC distributors win the global fulfillment battle

Expansion of Chinese customers

Flexible financial terms



Online stores in China win in the mass market in China

Popular communities

Part availability

Ease of doing business



Thank You.

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