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Dear BEIS Select Committee Members

Re: Newport Wafer Fab (NWF)

I feel obligated to share with you my concern regarding the oral testimony of Mr Toni Versluijs of Nexperia in front of the BEIS Select Committee on 5th July 2022 as well as statements made by both him and Nexperia in various press articles. I have provided both a short summary of the key points, which I am happy to be made public, along with a longer narrative as an appendix to support these key points, for BEIS eyes only.

I believe I can speak with a high degree of authority given my role as a long-standing and highly regarded internationally experienced independent semiconductor industry expert analyst (my career in semiconductors started in 1962), together with my intimate knowledge of the circumstances as a previous non-executive director of Newport Wafer Fab up to its acquisition by Nexperia, a wholly-owned subsidiary of the Chinese firm Wingtech.

In the case of the testimony given on 5th July 2022, in my professional opinion, several statements were made which might cause the BEIS Select Committee to have been mis-informed or even mis-lead.

For example:

1. In response to Q78, Mr Versluijs claimed " *When it comes to regular investment, over the past 15 months Nexperia has invested £160 million in the UK equally between the Newport site and the Manchester site*".

The semiconductor industry is very prone to 'bragging rights' when it comes to announcements regarding investments, often in order to obfuscate or to gain a political or marketing advantage. In my professional experience, general statements like this can never be taken on face value.

I cannot comment of what investment has been made in Manchester, other than to point out, having checked our media database, it was nothing news-worthy enough to warrant media coverage.

From a Newport perspective, however, given Nexperia only gained control of the site 12 months ago; there was (and still is) a worldwide global shortage of semiconductor production equipment, with leadtimes stretching from 12-24 months after receipt of order; the time needed to properly assess the existing line capability, floorplan and new equipment needed and then order and take delivery of and install, it would have been nothing short of miraculous to have spent and installed any significant amount of capital equipment within the last 12 months.

2. In response to Q80, regarding return on investment of taxpayers money Mr Versluijs claimed *"(Nexperia) provides spin-offs in the cluster; it provides co-operation with academia ; I would see that there is quite a benefit to having a healthy semiconductor industry in the UK"*

To the best of my knowledge, Nexperia has neither provided nor created any such spin offs or cooperation at Newport, in fact, more the opposite, my understanding is Nexperia, has either modified, pulled out of (or declined to accept) existing and natural follow-on projects within the UK's Compound

Semiconductor (CS) Cluster causing major issues for both the associated academic community and the CS Cluster's expansion plans.

In particular, Rockley Photonics and Microlink have been obliged to move their ongoing research, development & production plans for these projects overseas, to the UK's obvious economic and scientific detriment.

3. In response to Q84 about why parts of the community are upset about Nexperia's takeover, Mr Versluijs replied *"If you look at the facts around it, Nexperia saved Newport Wafer Fab from bankruptcy. I mentioned already the £160 million investment. By the way, there were no strings attached for any additional Government support on that. We have secured the jobs over there. We also enabled the needs of the local cluster by providing an option to the previous owner to continue the aspirations of doing activities in compound semiconductors".*

Far from [*sic*] 'saving Newport Wafer Fab from bankruptcy', Nexperia stood by whilst the firm experienced cash flow difficulties as it ramped to full production following COVID 19, first refusing it access to a contractually agreed working capital loan and then secondly withholding approval of a multi-million pound injection of capital by a significant UK Private Equity fund, events which forced the firm to the brink of bankruptcy, thereby opening the door for Nexperia to launch a hostile takeover of the firm.

The GBP 160m investment comment has been addressed in point 1 above.

There was indeed an *outline* agreement for the previous owner to continue doing some compound semiconductor activity at the site, but our information is this option was effectively rendered meaningless due to the subsequent unreasonable conditions imposed by Nexperia. This practice, namely committing to promises but then seeking unrealistic implementation terms, is quite commonplace in the industry.

4. In response to Q85 about whether people were angry because of the potential for compound semiconductors had been taken away, Mr Versluijs said *"The illusion has been raised that there was a compound semiconductor open access fab. Such a fab did not exist and does not exist."*

This answer is simply untrue. I know from personal experience, as a non-executive director and author of the original Due Diligence Report used to set up Newport Wafer Fab, that the site was specifically developed and set up to offer open access chip processing services to both the compound semiconductor industry as well as its silicon customers.

Furthermore, to my knowledge, Newport Wafer Fab was involved in over 20 compound semiconductor projects, many funded by the UK Government, and is in fact still involved in all four of the key compound semiconductor projects in the flagship UK Government GBP42 million levelling up 'Strength in Places' initiative.

Granted there was not a standalone, dedicated compound semiconductor factory at the site, and perhaps that is what Mr Versluijis is referring to, but the compound semiconductor and silicon processes used a lot of common equipment so, as is again quite normal in the industry given the associated economic constraints, both production lines ran side by side in parallel in a single fab building but as two separate process lines.

Contrary to Mr Versluijs statement, a compound semiconductor open access facility unequivocally did exist at the time of the takeover and was processing compound semiconductor wafers.

5. In response to Q86 about using another part of the site for compound semiconductor manufacture, Mr Versluijs said *"Actually, we have provided such an option to use a currently unused building on the site of Newport Wafer Fab to start exactly such an activity. What it would require is funding, a viable business case and a viable business plan. This option, to be quite honest, is outstanding for almost a year."*

This statement is incomplete and misleading. First, I understand that Nexperia is still using part of the building in question, so it is not completely unused as Mr Versluijs claims, and second, my further understanding is that they have sought an unreasonably large cost to move their existing operations out of that building. This cost alone would render any business plan unviable. Again, as previously mentioned, this type of obfuscating and obstructing negotiating stance is quite commonplace in the industry.

Furthermore, the option was not as clear cut as Mr Versluijs implies, given it still had Nexperia in control of the ancillary services, so it would never be fully independent or in control of its operating costs and overheads, effectively making any prospective external investment impractical.

6. In response to Q88 regarding any plans to shut and move operations abroad in the next six to 12 months? Mr Versluijs said *"We are not planning to shut any operations. We have been in the UK on the site in Stockport for more than 50 years; we have been in Hamburg for more than 50 years. We invested big time in Manchester; we invested big time in Newport. We created the jobs. We are here to stay. We want to work in the local ecosystem and enable the local ecosystem and the UK semiconductor industry to be successful."*

This answer is seemingly meant to convey the impression of 'being here to stay' but in truth history does not commit anyone to anything in the semiconductor industry, indeed the UK's semiconductor experience is littered with foreign companies setting up and maintaining operations for several decades before deciding to close down and move back to their origins.

In the end, simple economics will always win out. Nexperia's parent, Wingtech, is on the verge of completing a partially Chinese government funded new high-volume factory in Shanghai, five times the size of Newport, destined to produce the identical parts but at a fraction of the cost.

The eventual transfer of production from the UK, and subsequent factory closures, to China is not only highly probable from an economic perspective but potentially politically convenient too, given the Chinese Government's Semiconductor 5-year plan to become self-sufficient. Once the Wingtech fab comes on line, power semiconductors is an area where this objective can now be very easily achieved.

I would be more than happy to discuss my concerns with you in person or via video link at your convenience.

Yours sincerely

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Over 40 years of UK & European semiconductor industry and government support