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Analysis: Texas Instruments investors want wireless pull back

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By [Sinead Carew](#)

NEW YORK (Reuters) - Shareholders of Texas Instruments, once the cellphone chip leader, want the company to reduce its money-losing investment in wireless or even exit the market.

TI, which makes chips for products as diverse as phones and cars, is already winding down its development of baseband chips that connect mobile phones to cellular networks. That process is expected to be completed by the end of 2012.

Now analysts want TI to take similar action with its two remaining wireless businesses: its OMAP application processors, which support mobile features like video and gaming, and its wireless connectivity chips, which include short-range technologies such as Bluetooth and Wi-Fi.

"I think most investors would like them to do something with it before it turns into baseband," said Bernstein Research analyst Stacy Rasgon, who questioned whether TI could have made money from exiting baseband if it had acted sooner.

"Having the wireless business is hurting the stock," said Rasgon who sees the business as a distraction from the analog business, where TI is the market leader. TI shares are down almost 13 percent since late March.

Like Rasgon, some TI investors want the company to focus its efforts on its more promising analog and embedded chip business.

Rasgon would like TI to either restructure or sell wireless. While there is no obvious buyer, he said that phone makers such as LG Electronics or Huawei Technologies Co could potentially take a look at the assets.

TI posted an operating loss for its wireless business in the first and second quarters, exacerbating investor worries about wireless, which accounts for about 10 percent of TI's revenue.

"If we don't see appreciable growth in the next year or so you'll probably see them pulling out," said Charter Equity Research analyst Ed Snyder.

RBC Capital Markets analyst Doug Freedman said he sees TI slowing down wireless spending. "Ultimately they're going to have to take an action to lower the investment level," he said.

TOUGH COMPETITION

Qualcomm Inc took TI's leadership position in cellphone chips sales in the fourth quarter of 2007 and has remained there ever since, according research firm IHS iSuppli.

Besides Qualcomm, Dallas-based TI also faces intense competition in application processors from newer rivals Broadcom Corp, Intel Corp and Nvidia Corp.

Perhaps more importantly, the leading smartphone makers Samsung Electronics and Apple Inc have been developing their own wireless chips. Even smaller cellphone maker Huawei is now developing its own chips.

While Samsung still buys some TI chips, analysts worry that TI's prospects at the South Korean company have diminished.

The increased competition TI faces has been compounded by the issues facing two of its key customers: Nokia and Research In Motion, which have been losing ground in smartphones.

INTEGRATED CHIPS

Unlike Qualcomm, which has done well with integrated products that combine a baseband and application processor, TI has bet that there would be a big enough market for dedicated application processors apart in high-end smartphones.

But analysts have long questioned TI on this bet. Josh Spencer, portfolio manager for T. Rowe Price, worries whether the market for stand-alone chips going forward will be big enough "to justify the investment."

TI's wireless connectivity business, which includes Wi-Fi and Bluetooth chips, also faces cut-throat competition from Broadcom, Qualcomm and others.

Spencer said TI should have already made a decision about the future of its connectivity business, and sees it as an "even tougher story (than OMAP) with virtually no overlap with the rest of the business."

As of March 31, T. Rowe Price listed ownership of 32 million TI shares as well as shares in Qualcomm and Broadcom. At the end of June it had \$541.7 billion in assets under management.

BEYOND WIRELESS

In an effort to offset its challenges in smartphones, TI now sells its OMAP application processors in other markets. For instance, the company is targeting industrial customers such as car makers, according to Avner Goren, TI's general manager for OMAP.

"The best thing we can do is to leverage the investment we're making in OMAP in multiple markets. The return is bigger, and over a longer period of time," said Goren, noting that products like cars have a longer lifespan than phones.

But even as investors say they are happy about the prospect of TI generating new sources of OMAP revenue, they worry that this strategy could lead to more hefty OMAP investments.

Goren declined to comment on the company's future investments beyond saying that wireless is still important.

Even if TI fails to make a big strategy change soon, Dan Fletcher, a managing director at TI shareholder Neuberger Berman, sees market changes sealing its fate in wireless. Neuberger Berman, which had \$194 billion assets under management as of June 30, held 7.6 million TI shares at the end of March.

"They need to recognize the market opportunity is not as big going forward as it has been," Fletcher said. "They can probably milk what they have for a while but ultimately it's going to get harder and harder."

(Reporting By Sinead Carew; Editing by [Peter Lauria](#), [Bernard Orr](#))

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