

STRATEGIES

Rewired possibilities

Wall Street turns bullish on TriQuint after the company repackages wireless products

BY ALIZA EARNSHAW / BUSINESS JOURNAL STAFF WRITER

After years of struggling to regain its former glory — and profitability — TriQuint Semiconductor Inc. appears to have turned the corner.

The Hillsboro-based maker of microchips for wireless communications had record sales of almost \$476 million in 2007, finally surpassing 2000's high-water mark.

Even more important, TriQuint recorded its third consecutive year of profits after four straight years of losses. Now the company is poised to extend a strategy that's been a winner in its single largest market—cell phones -- to other, higher-profit markets.

An acquisition announced two weeks ago plays into that strategy. TriQuint is buying San Jose, Calif.-based WJ Communications Inc., a 50-year-old company that, like TriQuint, makes radio frequency chips and components. The company, which has less than a tenth of TriQuint's annual revenue, competes with TriQuint in a few limited areas.

But for the most part, WJ's products and technology are complementary to TriQuint's. Its products will be incorporated into TriQuint's strategy of combining many tiny components into "modules" that are easier and quicker for electronics manufacturers to install than trying to assemble and test many small communications parts from different manufacturers.

"I see this as a technology acquisition, not buying the company because they had a great business," said Taunya Sell, an analyst with Ragen MacKenzie in Seattle.

Indeed, the purchase price of \$72 million,



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After record sales of \$476 million in 2007, Wall Street is taking notice of TriQuint Semiconductor CEO Ralph Quinsey.

**TRIQUINT
SEMICONDUCTOR
INC.**

CHIEF EXECUTIVE

Ralph Quinsey

WHAT WE DO:

Make Microchips for several wireless applications

LOCATION: Based in Hillsboro TriQuint has operations in several states, as well as Costa Rica.

CONTACT: 2300 N.E. Brookwood Parkway, Hillsboro, 503-615-9000.

On the Web at www.triquint.com

or \$1.00 per share, is less than two times WJ's 2007 revenue of \$43.9 million. WJ lost \$7 million in 2007. Like TriQuint, WJ suffered a sharp sales decline after the telecom crash of 2001. Unlike TriQuint, WJ has recorded a loss in every year since 2001.

WJ has been burning cash recently, and publicly seeking a buyer. It's a sharp contrast to TriQuint, which has been generating cash from operations and will still

have about \$130 million in cash left over after the WJ purchase is completed.

'We have quite a bit of clean room floor in Texas. **We can expand for much longer just by adding equipment.** It's a lot cheaper than putting up a new building.'

Ralph Quinsey
TriQuint Semiconductor CEO

But WJ has specific products that TriQuint doesn't, said Sell.

"It broadens their portfolio for applications that are radio frequency driven," she said, which includes a huge range of products, including wireless routers for the home and laptop computers.

Adding WJ's products gives TriQuint more to sell into what TriQuint calls the "wireless infrastructure market," or the

networks that cellular companies build to transmit customers' calls.

Increasingly, cellular customers and laptop toters are demanding data services on these networks, and cell phone companies are anxious to offer these lucrative services. TriQuint's and WJ's products enable the faster performance needed to transmit data, rather than voice calls.

Half of TriQuint's revenue now comes from the cell phone market. That's where the company has proven its module strategy, which works well because cell phone makers are trying to cram more and more services, such as data, Bluetooth and other connectivity at different frequencies, into each phone.

TriQuint's small modules package the radio devices needed for all of these at a competitive price. In effect, TriQuint cuts out competitors' products by providing more of what the manufacturers need in each product.

As a result, TriQuint's cell phone revenue grew more than the overall market in 2007, and more than its competitors' revenues, say analysts who follow the company.

Building on its success with cell phones, TriQuint has been selling radio chips for laptops for some time, including to Intel Corp., a large, prestigious and demanding customer. TriQuint has targeted the laptop market for increased sales of its integrated modules, and investors should see increasing sales there this year, said CEO Ralph Quinsey. The company's eventual goal is to increase its share of the market from less than 10 percent today to 20 percent.

Laptops are a great place for TriQuint's modules, said Francis Sideco, a senior analyst for wireless communications at iSuppli Corp., based in El Segundo, Calif.

"Consumers want their stuff now wherever they are," said Sideco. That means making laptops connect with Wi-Fi networks, cellular phone company networks,

and increasingly, WiMAX, a popular wireless data technology.

The module strategy solves the same problems in laptops as in mobile phones: It enables multiple means of connection while solving interference problems and lowering costs for manufacturers.

TriQuint isn't planning to stop with laptops. The same strategy can be used in all its markets, including military.

With its manufacturing volumes high, TriQuint investors can expect reliable profitability. The company is using 85 percent of its manufacturing capability, up from a low point of 10 percent to 15 percent several years ago, said Chairman Steve Sharp.

TriQuint also shouldn't have to invest too much capital if it sees a sudden uptick in orders, said Quinsey.

"We have quite a bit of clean room floor space in Texas," he said. "We can expand for much longer just by adding equipment. It's a lot cheaper than putting up a new building."