

## TECHNOLOGY

# Even With Takeover Bid Blocked, Qualcomm 'Is in a Tight Spot'

By DON CLARK MARCH 13, 2018

SAN FRANCISCO — President Trump appeared to bail out Qualcomm on Monday by blocking Broadcom's hostile takeover attempt of the chip maker, citing national security fears about China.

But Qualcomm's management team may not be out of the woods.

Another arm of the United States government, the Federal Trade Commission, contends that some of Qualcomm's key business practices are illegal. So does Apple, the most influential trendsetter in wireless phones.

Such legal threats, and some signs of shareholder support for Broadcom's \$117 billion bid, suggest that Qualcomm's chief executive, Steven Mollenkopf, may still be in the hot seat. That means the company, which is based in San Diego, may need to take new steps to assuage investors unhappy with its performance.

"The feedback on the ground was a manifest dissatisfaction with the management team," Edward Snyder, an analyst at Charter Equity Research, said of what he had heard from Qualcomm's shareholders. "Qualcomm is in a tight spot at this point."

A Qualcomm spokeswoman declined to comment. Directors will likely give Mr. Mollenkopf more time to execute on promises to increase Qualcomm's profits, said a

**4**

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Changes have already been taking place. This month, Qualcomm's board had announced the replacement of Paul Jacobs, a son of one of the company's founders, as executive chairman in favor of an independent chairman. It has also made plans to trim \$1 billion in expenses and raise its dividend by 9 percent, further attempts to convince shareholders that management intends to improve returns.

Qualcomm had earlier decided to reshape its business by buying NXP Semiconductors, a \$44 billion transaction that would take Qualcomm into many chips used in cars and other products. Regulators in China have yet to approve that transaction, and Mr. Trump's order could prompt them to delay or block the deal, said Chris Caso, an analyst at Raymond James.

The chip maker will also be closely scrutinized for any progress on the legal front — particularly making peace with Apple, which has been withholding patent payments after starting a court battle over Qualcomm's licensing practices. The company is also under the microscope for how well it can exploit the next generation of cellular networks, based on a technology known as 5G.

Qualcomm has led cellular transitions before. The technology pioneer's chips manage communications and run apps in smartphones. But the company earns most of its profits by licensing patents to handset makers, using a royalty formula based on a percentage of the wholesale price of the phones.

That two-part structure has triggered many scraps with antitrust authorities over the years. Hock Tan, Broadcom's chief executive, repeatedly said Qualcomm's business model was broken, vowing to move quickly to change it and end the company's legal woes.

But Qualcomm says patent royalties are essential to allow the company to fund development of new wireless technologies years before chips incorporating them hit the market. The Committee on Foreign Investment in the United States, a government panel that recommended that Mr. Trump block the deal, argued that Broadcom's strategy of limiting spending on long-term research and development could impede Qualcomm's leadership and aid Chinese rivals like Huawei.

“Changes to Qualcomm’s business model would likely negatively impact the core R&D expenditures of national security concern,” the committee, known as Cfius, wrote in a March 5 letter to the companies.

The Federal Trade Commission attacked some patent-related practices in an antitrust suit filed against Qualcomm in January 2017. The suit said, among other things, that Qualcomm got an unfair advantage in negotiating patent licenses because its customers feared it could cut off supplies of chips they needed to keep making handsets. As a result, the F.T.C. argued, the company can press for higher royalties than other patent holders charge.

Qualcomm has denied wrongdoing, and is vigorously contesting the F.T.C. and Apple cases, as well as others in Europe, South Korea, Japan and Taiwan.

Broadcom may face fewer repercussions after its apparent loss in the four-month takeover battle. The company, which specializes in buying chip makers and selling off less-profitable pieces, may turn to other acquisition targets soon, analysts said.

Broadcom is scheduled to report quarterly financial results on Thursday. The company did not immediately return a request for comment.

Beyond the two chip giants, Mr. Trump’s blocking of the Broadcom bid raises already high barriers to foreign takeovers in the industry.

Cfius has repeatedly blocked semiconductor acquisitions by companies in China since 2016. But Mr. Trump broke new ground by taking action against a Singapore-based company that was in the process of moving its headquarters to the United States.

Members of Congress are now considering even tougher legislation to impede American companies looking to set up joint ventures in China, a frequent requirement for doing business there but one that critics feel can transfer sensitive technology to foreign rivals.

“The entire system is going to be under a lot more scrutiny,” said Robert Atkinson, president of the Information Technology and Innovation Foundation, a

policy think tank. “I think we’re living in a new world now.”

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