

STM and Ericsson Join Forces to Boost Wireless Chip Sales

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STMicroelectronics and Ericsson's joint venture will be well-placed to compete with Qualcomm and Texas Instruments in the wireless chip market. But the new entity faces challenges integrating its wireless businesses.

NEWS ANALYSIS

Event

On 20 August 2008, semiconductor vendor STMicroelectronics (STM) and telecommunications systems provider Ericsson announced a joint venture that will combine their wireless businesses: ST-NXP Wireless and Ericsson Mobile Platforms (EMP). Each company will hold a 50% stake in the venture. Ericsson will contribute \$1.1 billion to the joint venture, which will pay STM \$700 million, while STM will contribute assets worth \$1.2 billion.

Analysis

This deal follows the joint venture between STM and chipmaker NXP in April 2008 that combined the companies' wireless resources under ST-NXP. STM stated that it will exercise its option on NXP's 20% stake in ST-NXP before the deal with Ericsson closes.

ST-NXP will be well-positioned to compete in the fast-growing third-generation (3G) and future fourth-generation (4G) markets with the addition of EMP. We expect the joint venture to:

- Strengthen ST-NXP's position as the third-largest wireless application-specific semiconductor vendor, behind Qualcomm and Texas Instruments (TI). The joint venture will have the technology and intellectual property to compete with these vendors. We expect TI to feel the initial impact through increased competition for Sony Ericsson's business, with the impact on Qualcomm likely to occur once 3.5G and 4G technologies begin to take off.
- Further highlight the importance of scale in the wireless semiconductor market, especially among Tier 1 handset vendors. Semiconductor vendors require significant market share and revenue to sustain the large R&D budgets needed to be key players in the wireless market.
- Create a strong customer base that includes four of the top five handset-makers, using ST-NXP's strong relationships with Nokia, Samsung and Sony Ericsson, and EMP's strong relationships with Sony Ericsson and LG.
- Face serious challenges integrating the wireless businesses of STM, NXP and EMP. The companies' 3G solutions overlap and it will be critical for the joint venture to sort out its product line quickly to maintain morale and productivity. ST-NXP needs to incorporate EMP's platform, along with the design team STM acquired from Nokia in August 2007.

RECOMMENDATIONS

STM and Ericsson:

- Invest significant managerial and procedural resources to help merge the joint venture's associated business units efficiently and quickly. Focus on retaining talented employees and maintaining morale.
- Reassure customers that the company will be able to deliver value and key products

Mobile-handset chip vendors:

- Explore opportunities for a joint venture or acquisition to increase your market share or R&D resources. These factors are crucial for long-term success in the mobile-handset chip market.
- Look for opportunities to win key talent during the uncertain times created by the merging of the joint venture's different business units.

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RECOMMENDED READING

- "STMicroelectronics and NXP Restructure the Mobile Phone Chipset Vendor Landscape" — The joint venture between the wireless business units of STMicroelectronics and NXP will have an important impact on the mobile phone chipset industry, leading to further consolidation among suppliers of mobile-phone chipsets. **By John Barber, Al Velosa and Stan Bruederle**
- "Dataquest Insight: Wireless Semiconductor Vendor Competitive Landscape, 2007" — Wireless semiconductor revenue grew by 3.3% in 2007 and application-specific wireless revenue rose by 8.5%. **By Stan Bruederle**

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