

Goodbye, Mr. Chips

Transmeta will likely leave the microprocessor business.

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Five years after Transmeta surprised the PC chip industry with a low-power processor, the company is expected to announce Friday that it plans to stop making chips and find a business that earns money for its shareholders.

Transmeta has no choice. Originally positioned as a threat to Intel, the company has become an insignificant player in the cutthroat chip market. If it continues with business as usual, it would run out of cash in two quarters, said Richard Shannon, an analyst with Piper Jaffrey. The Santa Clara, California, company has lost money since it went public in 2000. "The business model right now does not work," said Kevin Krewell, editor in chief of Microprocessor Report.

Three weeks ago, Transmeta said it would evaluate its business plans. While it didn't come out and say it would no longer design and sell x86-compatible chips, it declared it would focus on licensing its power management technologies. Company representatives opted to keep mum until Friday's press conference. But, in a January 4 press release, CEO Matthew Perry said the switch to research and licensing would "reduce our cash needs substantially and improve our results for our shareholders."

Transmeta may finally find success in licensing its technology. The company made more money through licensing than selling chips in the third quarter last year, when it reported \$3.7 million in licensing revenue and \$3.3 million from processor sales. The company started the licensing program two years ago and has lined up NEC and Fujitsu as customers for its LongRun2TM, which helps chips run cooler. The technology hasn't produced products yet, but it looks promising, said Mr. Shannon.

What Transmeta plans to do with its microprocessor business is less clear. Analysts agreed that the fabless company simply can't beat Intel or Advanced Micro Devices in the PC market. Since Transmeta doesn't manufacture microprocessors, it wouldn't be "a lot of pain involved in shutting down the chip business," said Mr. Shannon.

Tony Massimini, an analyst with Semico Research, said Transmeta is not retreating. He noted that plenty of other chip developers have made money by focusing on design and licensing. "They are still part of the chip business. It isn't an admission of failure by any means," he said.

There's also the possibility that someone might want to buy Transmeta's failed microprocessor business. But analysts said it's unlikely that Intel or AMD would make an offer. If Intel is interested, it may simply pick up a few of Transmeta's patents, said Mr. Krewell. AMD, which doesn't have a low-power notebook chip to match Intel's at the moment, may find Transmeta's microprocessors attractive. But the Sunnyvale, California, company just reported a disappointing fourth quarter and doesn't have much money to spare.

Transmeta hasn't always been such a loser. David Ditzel, chief architect of Sun Microsystems' SPARC processor, founded the company in 1995. The company was in stealth mode for five years before trotting

out its Crusoe chip in 2000. The low-power chip impressed analysts and computer makers like Toshiba and Sony.

But Transmeta quickly ran into problems with delivering the chips to its customers. Then Intel took notice. Intel, which at the time wasn't focused on producing low-power chips, swiftly turned around and came out with a microprocessor that was almost as good as Transmeta's, said analysts. The world's largest chip maker had no problem finding buyers, delivering the chips, or lowering prices to push aside Transmeta.

The company reported \$17.3 million in revenue and a loss of \$87.3 million for 2003. Transmeta's stock closed at \$1.16 per share Thursday. On the day the company went public in 2000, its stock closed at \$45.25 per share.

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