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Freescale's future uncertain

Chip maker might be combined with smaller companies or chopped up and sold, analysts say.

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It's far from a sure thing that Freescale Semiconductor Inc. will become a larger company as a result of the proposed $17.6 billion buyout of the company, a chip-industry analyst said Tuesday.

Freescale's private investors, led by the Blackstone Group, might combine the Austin company with some smaller semiconductor companies. But the new owners also could chop up the company and sell its less promising businesses, the strategy most commonly associated with buyout firms.

Bill McClean, head of the IC Insights market research firm in Scottsdale, Ariz., said the latter scenario is more likely.

"This is not a positive for Freescale," McClean said during a visit to Austin. "I don't see these companies (Freescale and Philips Semiconductor, which also was bought by private investors) being major players in the semiconductor industry.

"Freescale has some good products, but they don't have 100 percent good products. So this is going to be a smaller company. It is not going to grow faster than the industry. Maybe when they get it down to one-third of its original size, they can grow it again. In the meantime, there will be paring down. On (product areas) that are iffy, those guys are gone."

The Blackstone Group has not disclosed its plans, but Freescale CEO Michel Mayer said Friday in a letter to employees: "We do not contemplate major changes to either our organizational or leadership structure."

Sherry Garber with Semico Research in Phoenix said Freescale has some strong product areas that can be expanded under new ownership.

"I think there are some good opportunities," Garber said. "They will pick and choose with some consolidation and cleaning up and some change in management. I am looking forward to seeing how it could be honed down and cleaned up and look a little bit better."

McClean and Garber were in Austin on Tuesday for a meeting of the Central Texas chapter of the trade group the Semiconductor Equipment and Materials Institute.

Freescale was sued Tuesday by a stockholder who thinks the company could get more money if it were sold to a buyout firm that might want to break up the chip maker. Freescale agreed Friday to be bought for $40 per share, or about one-third more than its stock had been trading during the previous month. Shareholder Joel Gerber says in a lawsuit filed Monday in state District Court in Travis County that the company could have received a higher offer from a competing investment group headed by Kohlberg Kravis Roberts & Co.

Gerber speculates that Freescale's board and Mayer are settling for a lower bid by Blackstone because they think that Blackstone will keep management in place. An investor group headed by Kohlberg Kravis recently bought Philips Semiconductor, which might cause Freescale managers to have to compete with Philips executives to keep their jobs.

The lawsuit offers no evidence of a higher bid by Kohlberg Kravis but cites speculation in a Saturday story in The Wall Street Journal.

Freescale offered only a limited response to the lawsuit. "Unfortunately, complaints of this type are not unexpected in a transaction like this," said Tim Doke, Freescale's vice president of communications. "We think the suit is without merit and intend to vigorously defend it."

Two other publicly traded companies, Netsolve Inc. and Encore Medical Corp., also were sued by shareholders after they announced deals to be acquired.

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