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Intersil's Obstacles: Intel And Broadcom

Chipmakers Battle For Sector

Latest product offerings from a pair of big players heat up wireless field

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Intersil Corp.'s story is one of slow and steady growth.

The maker of wireless chips took seven years to increase annual sales from $550 million to $650 million.

The days of Intersil's measured growth might be numbered. Two tough chipmakers – Intel Corp. and Broadcom Corp. – are taking on Intersil in the wireless chip market.

Intel is the world's biggest chipmaker, with sales of $26.8 billion last year. On March 12, amid much hoopla, it launched its Centrino wireless chip line for mobile devices. Broadcom, with 2002 sales of $1.08 billion, is rolling out a flurry of wireless chips as well.

The stakes are high. The wireless chip segment is one of the few bright spots in the sluggish chip market. Wireless chips let laptop computers and other mobile electronic devices connect to the Internet without a telephone line.

"It's a hot market," said analyst Will Strauss, president of market research firm Forward Concepts Co. "We forecast 49% revenue growth at a compound annual rate through 2006." That would push the industry over $1 billion a year.

Strauss says revenue will grow at that pace even though wireless chip prices are falling 18% a year.

But it won't be smooth sailing for chipmakers. They'll compete hard on both technology and price.

Jeff Thermond, a Broadcom vice president, says he's digging in for a long fight. "Our engineers were working around the clock the last two years to develop the world's best wireless technology," he said.

Wireless chips are used to create local area networks, or LANs. Such LANs are already popular in Starbucks coffee houses and other public places. Users can go into these "hot spots" and surf the Web without plugging into a telephone jack.

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Forward Concepts expects the number of wireless chips sold to double every year through 2005, when it will reach 116.8 million.

Makers will sell more and more wireless chips. But not everyone thinks revenue will go up. Merrill Lynch & Co. analyst Joseph Osha in San Francisco says revenue in the wireless chip sector is peaking.

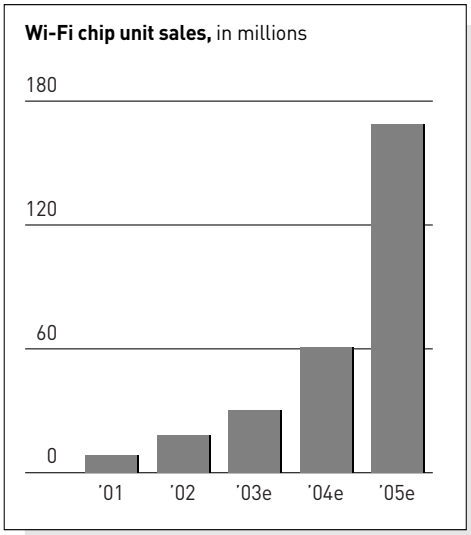
"Although there is quite dramatic unit growth, average selling prices are beginning to go down," Osha said. "That doesn't mean it's a complete disaster. But it does mean the guys that win will be ones that consolidate and gain market share."

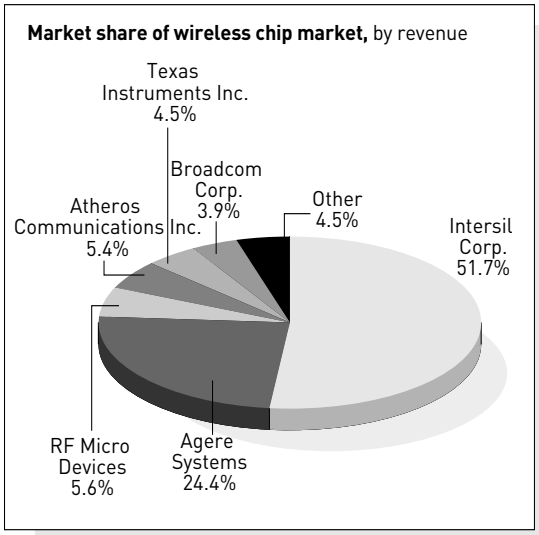
Wireless chips use a technical standard called 802.11, or Wi-Fi – short for wireless fidelity. There are a few flavors of Wi-Fi. Most common is 802.11b.

A new Wi-Fi version, G, is faster. There's a hitch, though: The industry has yet to approve that standard.

Wireless Race

Wi-Fi chip sales are expected to pass 30 million this year. Intersil dominates the market. But chip giants including Intel, Broadcom and Texas Instruments and others are likely to eat into its lead, analysts say





Sources: Forward Concepts Co., International Data Corp.

Analysts expect the Wi-Fi standards body to approve it in June. But in a bid to keep Intel from taking over the market, Broadcom, Intersil and others have jumped the gun. They're shipping chips that comply with the draft Wi-Fi G standard.

On Monday, Broadcom plans to announce it's shipping dual A/G Wi-Fi chip in volume. It claims to be the first with a device that supports the two approved Wi-Fi standards – B and a less-used version, called A – as well as the draft standard for G.

Dell Computer Corp. will be among the first to use Broadcom's dual-version Wi-Fi chips in its new Latitude D line of notebook PCs.

"We are now making wireless standard technology on all of our wireless notebooks. Before, it was an option," said Dell spokeswoman Anne Camden. Dell unveiled the Latitude D line in March.

On March 31, Hewlett-Packard Co. said it would use Broadcom's Wi-Fi chips in its notebook PCs.

Despite Broadcom's gains, researcher International Data Corp. says Intersil held the top spot last year. Its wireless chip sales soared 125% year over year to $239 million. That was enough to account for 51% of all wireless chip sales. It had total revenue of $650 million last year.

Intersil Chief Executive Richard Beyer says pretty much anybody can make Wi-Fi chips at this point. That's one reason prices keep falling. He says about 25 companies are trying to make the stuff.

But he expects only a few companies will survive. His short list includes Intersil, Intel, Broadcom and Texas Instruments Inc.

Beyer says Intersil's best chances are in consumer electronics. Its customers include consumer firms Samsung Group and Sony Corp.

Broadcom and Intel didn't rank among the biggest wireless chipmakers last year. But IDC expects the pair to come on strong.

There is "no question that Broadcom is strongest in wireless LAN," said IDC analyst Ken Furer. He expects Broadcom and Intel to turn up the heat. "Intel's goal is to win the wireless LAN market, which it sees as the next big thing," Furer said.

There will be 2 billion devices hooked up to the Internet by 2006. And there will be in the area of $10 trillion in online business by then. Many customers will want to connect wirelessly, says Intel Chief Executive Craig Barrett.

Intel has the marketing might, Furer says, but it still needs to get the technology down.

This is one of those rare instances where Intel lags its rivals in technology. Intel doesn't even make its own Wi-Fi B chip. It's reselling the Texas Instruments chip, Strauss says. But once Intel rolls out its own Wi-Fi chips, it will fight to the top, Strauss says.

Mike Angell and Michael Krey contributed to this story.