

TECH

Qualcomm's Bet on 5G Pays Off

Chip maker's lead in nascent technology offered a defense against Broadcom's bid and spurred Apple settlement



Qualcomm CEO Steve Mollenkopf in 2017. He has pushed to keep pace with an industry seeking to bring 5G wireless technology to market in 2019, a year faster than expected. PHOTO: RICK WILKING/REUTERS

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Through more than two years of takeover threats and legal strife, Qualcomm Inc. [QCOM +1.13% ▲](#) trained its focus on the future promises of 5G. That fixation is paying off so far.

The chip maker's lead in fifth-generation wireless technology persuaded the Trump administration last year to block a hostile bid by Broadcom Inc. [AVGO -0.24% ▼](#) out of national-security concerns. It helped muscle Apple Inc. to the table to settle a patent-royalty dispute on Tuesday and it contributed to Intel Corp.'s [INTC +0.03% ▲](#) decision to discontinue developing rival 5G modem chips for smartphones.

The success of Qualcomm's strategy—accelerate spending on 5G while staring down existential threats—has pushed up the company's stock 38% since Monday's close to \$79.08, hitting highs not seen since 2014.

“They positioned their company to execute on this specific opportunity,” said Charles Lemonides, portfolio manager of ValueWorks LLC, which has roughly 5% of its holdings in Qualcomm. “It’s not like they hedged their bets,” he added. “They were all about this technology roadmap.”

While the Apple deal removes a significant overhang, it doesn't clear away all of Qualcomm's challenges.

Qualcomm moves from fending for its life to needing to fulfill sizable new chip supply for a demanding tech giant. The 5G chip Qualcomm released in 2019 was designed to work alongside its own processor with 4G LTE functionality. For Apple, it will need to deliver a stand-alone modem chip with 5G capabilities that can work with the iPhone's custom processors.

And Qualcomm isn't out of the legal woods yet, either. It still faces an antitrust challenge from the U.S. Federal Trade Commission that could upend its patent-royalty business, which had accounted for half of its profit before its legal tussle with Apple erupted. A federal judge's ruling in that case, which wrapped up in late January, could come any minute.

It also needs to finish development of its first processor with built-in 5G capabilities, a product it demonstrated at Mobile World Congress that will be crucial to helping the company maintain its leading position as a provider of smartphone chips world-wide.

“5G is in its infancy,” said Patrick Moorhead, president of the technology firm Moor Insights & Strategy. “To make it go mainstream, Qualcomm has to deliver these chips on time and at quality.” A Qualcomm spokesman declined to comment on those challenges.

5G promises to supercharge smartphones and unlock the power of connected devices, homes and cars by transferring data at faster speeds. Qualcomm envisions a future where everything will be connected—manufacturers can put chips in every part of their machines, farmers can put internet-connected sensors on livestock—and all powered by the company’s chips.

Qualcomm’s emphasis on 5G had its share of doubters. Some analysts said Apple didn’t need Qualcomm’s chips. Other analysts said that it would be years before 5G would be widespread enough to save Qualcomm from the threats it faced.

Chief Executive Steve Mollenkopf ignored critics and added more than \$500 million in spending on 5G, racing to keep pace with an industry pushing to bring the wireless technology to market in 2019, a year faster than expected. He faced withering criticism. In its takeover pitch, Broadcom said Qualcomm failed to earn money on 4G. “Why will 5G be any different?” it asked.

Qualcomm used 5G to lobby the Trump administration to reject Broadcom’s more than \$100 billion offer for its business a year ago. In December, it demonstrated the speed and potential of its first 5G modem chips inside Samsung Electronics Co. smartphones at a Qualcomm event in Hawaii.

The exhibitions made clear that Qualcomm was leading the pack in 5G, and ultimately might have prompted Intel to exit the business, said Srinji Pajjuri, an analyst at Macquarie Group. “Qualcomm had a better technology and a better modem, and their roadmap is much better for 5G,” Mr. Pajjuri said.

An Intel spokesman declined to comment.

Without Qualcomm, Apple might have struggled to get 5G chips into the iPhones it expects to launch late next year, analysts say. With the legal settlement behind the companies, however, Apple’s path to 5G becomes clearer.

Jeff Helfrich, a portfolio manager at Dallas-based Penn Davis McFarland Inc., said the Apple deal returned Qualcomm to a status quo of dominance in the mobile-chip industry, but it didn’t solve the problem of a cooling global smartphone market or erase the challenge of diversifying into new business areas.

“The wireless market has been their go-to market for years,” he said. “They tried to branch out into displays and other markets, and none of it really stuck. They have a great business and great franchise, but the question is, ‘What’s next?’ ”

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