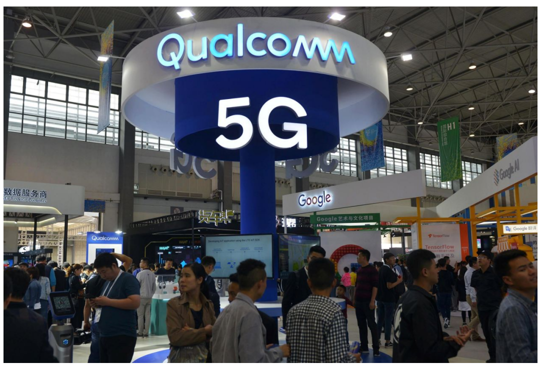
TECH

Qualcomm Abandons NXP Deal Amid U.S.-China Tensions

Company failed to get approval of Chinese regulators to buy Dutch chip maker, barring a last-minute reversal



Qualcomm is a U.S. leader in the development of so-called fifth-generation, or 5G, cellular technology. **PHOTO:** REUTERS

By Eliot Brown and Bob Davis

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Qualcomm Inc. QCOM **-0.40%** ▼ scrapped its $44 billion purchase of Dutch chip maker NXP Semiconductors NXPI **-1.17%** ▼ NV after a Wednesday deadline to gain approval in China passed, making the deal one of the most prominent victims of spiraling U.S.-China trade tensions and derailing a central part of the U.S. chip giant's strategy.

China was the last of nine markets that needed to approve the deal, which would have been among the biggest ever between technology companies. The acquisition was announced in October 2016 and extended in April as the chip makers sought approval from China's competition regulators.

Instead, the deal became mired in Beijing's trade fight with Washington.

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Qualcomm said Thursday it terminated the agreement with NXP after it expired late Wednesday. NXP is due to collect a $2 billion breakup and announced plans for a $5 billion share buyback.

Qualcomm's decision to walk away follows a round of last-minute lobbying on the company's behalf by senior U.S. officials including Treasury Secretary Steven Mnuchin and Commerce Secretary Wilbur Ross, who tried to persuade their Chinese counterparts to separate the deal's approval process from broader trade tensions, U.S. industry executives said.

Chief Executive Steve Mollenkopf told analysts Qualcomm's decision was "a difficult one," but that the company didn't believe "a change in the current geopolitical environment" was likely in the near future.

The deal's demise puts a leading U.S. technology company atop a list of those affected by the trade battle, which has produced tit-for-tat tariffs by the U.S. and China on billions of dollars of goods across a range of industries.

"It's not just a trade war anymore," said Eswar Prasad, a Cornell University economist who was a senior International Monetary Fund China specialist. "It's becoming a more open economic conflict between the two countries." The deal's collapse, he said, "certainly is a strong signal that China is going to use every available lever."

The Chinese Embassy didn't respond to a request to comment, but a Chinese Ministry of Commerce spokesman rejected suggestions that China's inaction was influenced by the bilateral trade fight.

"As far as I know, the case is a matter of antitrust law enforcement," the spokesman said. "It has nothing to do with China-U.S. trade frictions."

Qualcomm said it plans to spend up to $30 billion buying its own stock to placate shareholders, replacing an existing $10 billion buyback plan. The collapse of the planned merger also requires the San Diego chip maker to pay a $2 billion termination fee to NXP, based on their renewed agreement in April.

The deal's termination came as Qualcomm said profit jumped 41% in its latest quarter on a 4% gain in revenue. The big jump in profit partly reflects a comparison to a year-earlier quarter that was the first in years to not include patent royalties from Apple Inc. devices.

Qualcomm executives also told analysts they expect their modems wouldn't be used in the next iPhone, a move expected by investors.

The end of the NXP pursuit caps a remarkable period of tumult for Qualcomm, the world's top producer of communications chips used in smartphones and other gear.

Just four months ago, the Trump administration intervened to save Qualcomm from a $117 billion hostile takeover by Broadcom Ltd. on the grounds that Qualcomm's technology was vital to U.S. national security. Qualcomm is a U.S. leader in the development of so-called fifth-generation, or 5G, cellular technology that will help connect a slew of new devices to wireless networks, and the White House's intervention effectively designated Qualcomm a national champion essential to battling China's rising might in 5G.

Qualcomm had billed the NXP deal, announced 12 days before Donald Trump was elected president, as transformational, expanding its reach beyond smartphones into areas such as automobiles and smart-home devices. The deal would have added a company with $9.26 billion in revenue last year and some 30,000 employees to Qualcomm, which had $22.29 billion in sales in its latest fiscal year and a similar number of employees.

Qualcomm shares rose more than 5% in after-hours trading to nearly $63, though they remain below the nearly $69 level they traded at in January, when Broadcom pursued it. NXP, meanwhile, fell more than 3% as it now faces a future as a standalone company.

Originally expected to close by the end of last year, the NXP deal was approved by eight other regulatory bodies, including in the U.S. and Europe. But it dragged with China's antitrust authority, which has broad reach to claim say over deals in which at least one party has a significant presence in the Chinese market.

As the deal languished, trade tensions between the U.S. and China escalated from bellicose rhetoric to tariffs by each side that are aimed at $50 billion of imports from the other. Mr. Trump has threatened to put tariffs on all $505 billion of Chinese imports into the U.S.

With the clock ticking down to Wednesday's expiration, Mr. Mnuchin spoke with Chinese Vice Minister Liu He to push for approval, and Mr. Ross did the same with China's ambassador to the U.S., Cui Tiankai, according to the U.S. industry executives.

The U.S. officials argued the Qualcomm decision should be made on the merits of the deal. Spokesmen for the Treasury and Commerce departments declined to discuss the U.S. government's efforts.

Their moves came after President Trump worked to ease U.S. penalties on ZTE Corp. so that the Chinese telecommunications giant could continue to operate after it was found to have violated U.S. sanctions on North Korea and Iran. Some U.S. government and industry officials had expected the ZTE efforts would prompt China to reciprocate and approve the Qualcomm-NXP deal.

Qualcomm reported $1.22 billion in net income for its fiscal third quarter. Revenue came in at $5.6 billion. The results were buoyed by a $500 million partial settlement in a patent dispute with an unnamed company that licenses Qualcomm technology. The company has previously been identified as Huawei Technologies Co. A Huawei spokesman didn't respond to a request to comment.

Still, the NXP deal's collapse adds pressure on Qualcomm and Mr. Mollenkopf, who failed to win majority support from shareholders in a March board-election vote. Closing the NXP deal was seen as an important step toward restoring investor confidence after Qualcomm's shares lost over a quarter of their value in the past four-plus years, while the PHLX Semiconductor Index has more than doubled.

—Yoko Kubota contributed to this article.

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