Altera Doubles Down with Intel, Tessera Dumps DigitalOptics

Altera *(ALTR, $35.91 -0.52, Hold/Not Compelling in my latest Semiconductor Investment Ideas)*
Intel *(INTC, $25.38 -0.08, Hold/Not Compelling, Target $27, 2014: $1.79 on $52.6B, 2015: $2.09 on $55.0B)*
Altera Expands Foundry Deal with Intel: A year ago ALTR announced that it would be using Intel to manufacture next-generation FPGAs in advanced 14nm FinFET/3D transistor technology—but that it will also continue to partner with TSMC as it has for the previous 20 years. Then yesterday, ALTR and INTC expanded their relationship to include co-development of multi-die per package modules.

As I noted last year, I considered the ALTR-INTC alliance a short-term win for both companies as ALTR got access to leading edge technology and INTC got foundry experience with a real fabless customer. But longer-term it would not be successful due to INTC's cost and margin structure and lack of customer sensitivity and flexibility limiting the scope of its supplier relationship with ALTR. I also gave ALTR credit for taking a calculated risk to pay INTC's premium to buy time for a jump on technology, but that for volume production TSMC's subsequent support would prove more advantageous.

The soap-opera since then has been entertaining. First we saw ALTR's competitor XLNX engage with TSMC despite the historical partnership between XLNX and UMC, TSMC's rival. Then we saw steady technological progress from TSMC arguably closing the gap on its lag to INTC. And then last month a rumor surfaced that ALTR was considering returning to TSMC after INTC delayed the introduction of its first 14nm-based microprocessor, Broadwell, to 4Q14. And then yesterday ALTR and INTC make nice on a packaging deal.

I think I'll stick with my opinions from last year. ALTR would do best to stick with TSMC, and I don't think INTC will prevail as a foundry competing with TSMC.

Tessera *(TSRA, $22.81 -0.49, Hold/Not Compelling in my latest Semiconductor Investment Ideas)*
Finds a Buyer for DigitalOptics: TSRA announced early yesterday plans to sell its DigitalOptics Corp. (DOC) business to O-Film out of China for $50M. Actually, it's just a letter of intent for a deal that TSRA hopes to consummate.

I was fairly impressed with the solid-state MEMS voice-coil motor technology for focusing cameras in thin smartphones that the company tried to launch with a fabless business model two years ago. But then activist shareholder Starboard Value forced a restructuring; then gained control and changed management; was going to revert the DOC business to the company's traditional IP model; but then decided to re-evaluate; and now looks like it has found a buyer—maybe. I guess the good news is that TSRA appears to be preserving the consistency of its intellectual-property business model; but the bad news is that at only $50M (including assets, patents and certain rights) maybe I overestimated the value of some of that IP. I remain on the sidelines with respect to the shares.

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