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Q & A

Spotting The Serial Bus Trend Has Given Pericom A Nice Ride

Connecting-chip maker focused on a technology now standard on devices

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INVESTOR'S BUSINESS DAILY

Pericom Semiconductor seems to be in the right place at the right time.

Pericom[PSEM] makes "connecting" chips for some hot products. Its chips connect the chips and components inside high-definition TVs, smart phones and other devices.

In the 1990s, Pericom made some basic types of chips that were clones of those made by bigger rivals such as **Texas Instruments**[TXN]. About five years ago, Chief Executive Alex Hui moved his company in a new direction when he saw the trend toward the use of what's called a serial bus.

A bus is the circuit board that connects chips and components in computers and consumer devices. A serial bus sends data in a single stream. It's replacing the older parallel bus, which is slower, in all the many electronic products that use a bus.

Hui's decision to focus on serial bus chips is paying off. Pericom's sales rose 17% last year to $123 million. That's up from just $45 million as recently as 2003. Customers include **Dell**[DELL] and **Cisco Systems**[CSCO].

Pericom recently said that first-quarter sales would come in at the top end of its January guidance of $38.5 million to $40.7 million. It's slated to report results April 30.

Hui recently spoke with IBD about the growth at Pericom.

IBD: *You say Pericom is nearly done with its transformation, but into just what?*

Hui: We started in 1990. For the first 10 years I would describe Pericom as a superior second-source company. We were a start-up that said, let's go after the bigger guys like **IDT**[IDT] and Texas Instruments. We said, let's grab some market share away from them.

We grew from zero to $50 million revenue in five years. And we were profitable from the first year. But as you know, the dot-com bubble came and then the downturn.

Four or five years ago we began to say, hey, we really have to change direction.

IBD: *What direction did you take?*

Hui: At Pericom, we have always been a pure-play connectivity company. Our job is really to (design chips to) connect components inside systems. That's all we do. We do not do memory. We don't do processors. We are a connectivity company.

About four or five years ago, one thing that became apparent to us — now it's obvious to everyone — was that the world was going from parallel bus to serial bus. We believed this was the trend and it was going to drive billions of dollars of content. And we could be there first and get the benefits.

Alex Chi-Ming Hui

- Pericom Semiconductor
- Chairman, CEO and president
- 51 years old
- B.S., electrical engineering, Massachusetts Institute of Technology; M.S., electrical engineering, UCLA
- Favorite book: The Bible. "It helps me in many ways. I became a Christian when I was a freshman at MIT. And I find reading the Bible helps me through the ups and downs of this business."

IBD: *What sorts of products use your connectivity chips?*

Hui: We target three areas. The first is PCs and servers with our serial port solution (connecting chips). The second area is digital video in HDTVs, PCs and other equipment.

The third area where we see a lot of growth is what we classify as ultra-mobility. That includes things like GPS devices and smart phones.

IBD: *What are your strongest markets?*

Hui: About three years ago, we saw that digital TV needed chips to provide multiple inputs (from PCs, stereos and other devices). That has served us quite well, and I think it will continue to serve us quite well.

This year, we began to see that digital video is going not only into TVs, but also into monitors and notebook computers. So the unit volume is expanding.

IBD: *You said PCs are a target market. How is the switch to notebooks changing that market?*

Hui: Notebooks are a key driver for Pericom this year. Going forward, I believe there is a major PC upgrade cycle coming.

So I tell my staff (not to) buy a notebook now. Wait until the second half of the year.

IBD: *How long will this notebook upgrade cycle last?*

Hui: At least a few years.

IBD: *You recently signed an agreement with China to build a $45 million factory there. What's the status of that?*

Hui: We are going through the bidding stage. We're at the final stage of choosing the architect. We are looking at starting construction in May. We will maybe put in the first piece of equipment at the end of this year.

IBD: *You have said you expect to be in volume production there in 2009. Is that still the case?*

Hui: Yes. We expect we will get some incremental benefit in calendar 2009 and then full benefit in 2010.