

# INVESTOR'S BUSINESS DAILY

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## THE NEW AMERICA

**VOLTERRA SEMICONDUCTOR** Fremont, California

### Chipmaker Thinks Small In Effort To Post Big Returns

BY MARILYN ALVA

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When Volterra Semiconductor went public July 29, the chip industry was in one of its periodic slumps.

To assure investor interest, Volterra<sup>VLTR</sup> cut its offering price 27% below its expected range to \$8 a share.

It might have been unnecessary. Though the chip industry has been going through an inventory correction due to overproduction, Volterra's shares have more than doubled since the initial public offering. Revenue has been on the fast track as well, growing in double digits.

Why is Volterra bucking the trend?

"It's definitely its technology," said analyst Cherrie Prinz of D.A. Davidson.

Volterra provides high performance mixed-signal power management products. It targets customers that are making new, ever more powerful high-end processors.

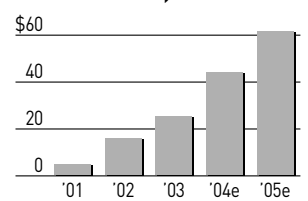
Since the new systems have more functionality and use more power than older products, they need more efficient power management abilities. That's Volterra's forte.

"Because of the increased power, traditional analog power management is no longer sufficient, so Volterra is not tracking the overall semiconductor market,"

#### Powering Up

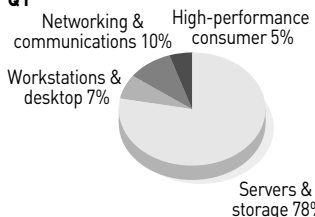
Volterra Semiconductor's integrated analog and mixed-signal power-management chips are starting to strike a nerve among customers on the high end of the spectrum

Annual revenue, in millions

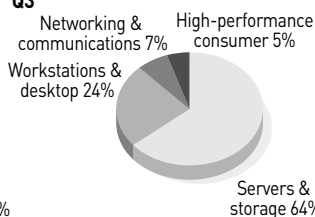


#### 2004 revenue breakdown

Q1



Q3



Sources: Company reports, Piper Jaffray

#### Volterra Semiconductor volterra.com

Ticker	VLTR
Share price	Near 21
12-month sales	\$35 mil
5-year profit growth rate	n.a.

#### IBD SmartSelect Corporate Ratings

Earnings Per Share	80
Relative Price Strength	99
Industry Group Relative Strength	B-
Sales+Profit Margins+ROE	n.a.
Accumulation/Distribution	A

See investors.com for more details

said analyst Tore Svanberg of Piper Jaffrey, which has done investment banking for Volterra.

Other chip firms have what Volterra provides: digital power management solutions, which contain both digital and analog circuitry. Unlike others, however, Volterra specializes in that area.

"Volterra was out early

with this type of technology, and their level of integration is probably above and beyond what I've seen from other companies," Svanberg said.

Volterra's chips use less space on circuit boards than other power-control products, watchers say. Customers don't have to redesign new boards when they upgrade processors or add on new functions. That saves them money.

"Servers used to be big, bulky things. Now the ones coming out are the size of an encyclopedia," Svanberg said. "If you can provide devices that allow a small overall form factor, you have an advantage."

He figures Volterra has a 12-month technology lead on close rivals such as Lin-

ear Technology<sup>LLTC</sup>, Maxim Integrated Products<sup>MXIM</sup> and Intersil<sup>SIL</sup>.

"It's a highly fragmented market," said Volterra Chief Financial Officer Greg Hildebrand. "We intend to continue to invest in research and development to stay in front."

Volterra is still a young company and a lot smaller than its main rivals. Last year it posted \$25 million in revenue. It's on track to record about \$44 million in revenue this year.

The company also is starting to produce black ink after five years of losses. It's logged three straight quarters of profit. Third-quarter earnings hit 7 cents a share vs. a 4-cent loss the prior year.

Volterra's biggest wins have been in the server/storage market, which made up 64% of overall revenue in the third quarter. That was down from 73% in the second quarter as the firm's workstation and desktop business gained traction.

The latter business grew to 24% of revenue during the third quarter from 17% in the second quarter.

One of Volterra's biggest orders in that area came from Nvidia<sup>NVDA</sup>, which signed a follow-on deal for more workstation and desktop graphics cards.

Recurring revenue is a trademark of the market, analyst Prinz says.

(Continued)

“Once you’re in these kind of (advanced) systems, you’re not inclined to be pulled out,” she said. “These are not consumer electronics that you replace every year.”

The company’s top customers include IBM Corp.<sup>IBM</sup>, Hewlett-Packard<sup>HPQ</sup>, Hitachi Ltd.<sup>HIT</sup> and Nvidia. Cisco Systems<sup>CSCO</sup> said it would use Volterra chips for its new high-end carrier routing system.

Volterra picked up a key customer in the third quar-

ter when it inked a deal with supercomputer system leader Cray Inc.<sup>CRAY</sup>

Cray will use Volterra to regulate voltage for its powerful new Red Storm system. The system will initially be supplied to two Energy Department research labs.

Volterra looks to increase its presence in high-end consumer electronics, which now generate just 5% of revenue. Most of its current work in the market involves integrated power

chips for wireless local area networks.

Svanberg says the company’s “product road map” calls for new-product launches in consumer electronics as early as next year or in 2006. That would include power-control chips for such things as notebooks and cell phones.

“We see that as more of a longer-term opportunity,” CFO Hildebrand said.

In a recent conference call, Chief Executive Jeff Staszak said new design

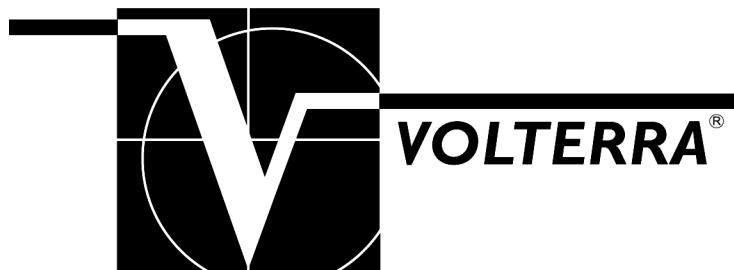
wins, which have doubled this year from last, will probably “taper off somewhat” next year as Volterra continues to work with and expand business with its current customers.

Still, the company projects 40% revenue growth in 2005.

Analysts polled by First Call expect Volterra to earn 22 cents a share this year and 44 cents next year. They predict double-digit earnings growth through at least 2008.

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