

Analysis: High hopes for AMD's ATI buyout

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Intel still dominates the chip market, but Advanced Micro Devices is slowly trying to chip at the monolith's dominance, with some success. What's more, AMD's latest decision to buy out a Canadian technology group might shrink the gap still further between the world's biggest chipmaker and the number two manufacturer.

On Monday, the company announced that it would acquire ATI Technologies for about \$5.4 billion -- or \$4.2 billion in cash and 57 million shares of AMD valuing the stock at \$20.47 per share -- in a bid to beef up its portfolio. Specifically, the purchase will allow AMD to compete head-on with Intel for personal computer microprocessors by doubling its current capacity in the sector, expanding its foothold in consumer products such as cellular phones.

The plan is to start production under the new structure by next year, and by 2008, AMD said it expects to move beyond current technologies to develop silicon-specific platforms that integrate microprocessors and graphics processors, the latter being the forte of ATI, which is the world's second-largest supplier of personal computer graphics chipsets.

"All of our product lines will benefit. Joining with AMD will enable us to innovate aggressively on the PC platform, and continue to invest significantly in our consumer business to stay in front of our markets," said Dave Orton, chief executive of ATI. What's more, the companies said that they expect to save about \$75 million as a result of the merger by the end of 2007, which is anticipated to increase to \$125 million by the end of 2008.

Corporate clients too appear to be upbeat about the latest deal.

"Windows Vista will deliver incredible advances in the user experience as a result of advancements in graphics integration and performance," said Jim Allchin, co-president of Microsoft's platforms and services division, pointing out the use of new chips in the software giant's upcoming Office software. "We're excited by the potential of what AMD and ATI can deliver together to enhance the Windows Vista experience for our customers even further."

Others, however, remain more cautious about the deal.

New York credit rating agency Standard & Poor's, for instance, gave ADB a corporate credit rating of B-plus with negative implications Monday following the buyout announcement. S&P pointed out that the "acquisition would likely reduce ATI's access to Intel's technology roadmap, weakening its competitive position as a vendor to major personal computer manufacturers." It did point out, however, that "the planned acquisition will provide AMD with an internal source of graphics processors, as well as providing it with an entry into the consumer electronics and cell phone industries. Over the longer term, AMD intends to develop platforms that combine microprocessors and graphics processors for a variety of graphic-centric and media-centric applications."

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