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Nvidia Snags PortalPlayer for \$357 Mil

By Jordan Robertson

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The acquisition of PortalPlayer by Nvidia makes perfect sense, according to Michell Prunty, a research analyst with Semico Research, because it makes the chip technology from both Nvidia and PortalPlayer more valuable to mobile gadget makers as they race to incorporate more graphics-heavy functions into their devices.

▶ Nvidia Corp., a maker of graphics chips for personal computers, said Monday it will acquire PortalPlayer Inc., a designer of chips for iPods and other digital media players, in a \$357 million deal.

Analysts said the acquisition reflects growing consumer demand for video-capable digital music players and the increasingly competitive and lucrative market for supplying the chips to power those devices.

Santa Clara-based Nvidia said it would pay \$13.50 in cash for each outstanding share of San Jose-based PortalPlayer, a 1 percent premium over PortalPlayer's closing price Friday. Nvidia said the deal has been approved by the boards of both companies.

Nvidia's stock rose 3 percent to close Monday at \$33.59, while PortalPlayer's shares were down a penny to close at \$13.35, both on the Nasdaq.

"Modern mobile devices are miniaturized yet powerful multimedia computers," Jen-Hsun Huang, Nvidia's chief executive officer, said in a statement. "With the products created through this combination, we intend to drive the next digital revolution, where the mobile device becomes our most personal computer."

PortalPlayer is best known for providing chips that power Apple Computer Inc.'s wildly popular iPod digital music players.

But the company suffered a major setback earlier this year when Apple chose to use

Samsung Electronics Co. chips instead of PortalPlayer's for the flash memory-based iPod Nano line, and PortalPlayer's stock price plummeted.

However, PortalPlayer's technology was included in recent versions of Apple's video iPods, and analysts said the relationship with Apple and other mobile device makers made PortalPlayer a lucrative target for Nvidia, which is accelerating its push into portable music players and other handheld devices.

Nvidia's core business is making the graphics processing units, or GPUs, that render photos, videos and game graphics in computers and cell phones.

"It's a very, very strategic expansion of the consumer markets for Nvidia, where they've only had a little bit of reach in cell phones in the past," said Richard Doherty, research director at the Envisioneering Group. "And it's a very fair price."

The deal will also help Nvidia as it squares off against rival graphics chip designer ATI Technologies Inc., which was recently acquired by Advanced Micro Devices and already has a substantial presence in the handheld market, analysts said.

Michell Prunty, a research analyst with Semico Research Corp., said the acquisition makes the technology from both companies more valuable to mobile gadget makers as they race to incorporate more graphics-heavy functions into their devices.

"That's really where the market is going -- having the absolute best picture and having a wide variety of uses," she said. "The consumer wants to pick up a device and have everything there for them. That's why this deal makes perfect sense."

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