

# Acer Inc

## Company Profile

Reference Code: AFCD3128-E3A5-4DAB-8D1C-32726B4473A8

Publication Date: Sep 2007

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## COMPANY OVERVIEW

Acer is engaged in the manufacture and sale of information technology (IT) products. The company primarily operates in Taiwan and Europe. It is headquartered in Taipei, Taiwan, and employs about 5,300 people.

The company recorded revenues of TWD369,093 million (approximately \$11,327.5 million) during the fiscal year ended December 2006, an increase of 16% over 2005. The operating profit of the company was TWD7,812 million (approximately \$239.8 million) during fiscal year 2006, an increase of 2.1% over 2005. The net profit was TWD10,218.2 million (approximately \$313.6 million) in fiscal year 2006, an increase of 20.5% over 2005.

## KEY FACTS

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<b>Web Address</b>	<a href="http://www.global.acer.com">http://www.global.acer.com</a>
<b>Ticker</b>	Taiwan: 2353
<b># Employees</b>	5,300
<b>Turnover (TWD Mn)</b>	369,093
<b>Financial Year End</b>	December

## **BUSINESS DESCRIPTION**

Acer is engaged in the manufacture and sale of IT products, and provision of computer software and maintenance services. The company operates in Taiwan, Europe, Asia, and North America.

The company operates through a single business segment and sells 'Acer' branded desktop personal computers (PCs), notebook PCs, and other related information technology (IT) products and services.

The IT product range includes computer system (desktops, notebooks, handhelds, and tablets), servers and storage products, cathode ray tube (CRT) monitors, liquid crystal display (LCD) monitors, peripherals, digital video disc (DVD) players, projectors, internet appliances (IA) and personal multimedia, LCD televisions (TV), digital still cameras (DSC), and digital home.

Acer provides two series of desktops: commercial and consumer series. The commercial series desktops include Veriton and AcerPower brands and the consumer series include the Aspire brand.

The notebooks provided by the company comprise of four series: Aspire series, TravelMate series, Tablet PC series, and Ferrari series. The Tablet series is Acer's latest high-mobility solution, which easily converts between notebook and slate modes. Acer also provides handheld devices, which are designed to enhance business and personal productivity.

The servers and storage products are sold under the brand name Altos and Acer. The company also provides LCD and CRT monitors to its customers. The LCD monitors consist of series such as P series, X series, Ferrari series, Prestige line, Office line, Gamers line, Performance line, and value line.

The LCD TV's are present in sizes starting from 20 inches to 42 inches. The DSCs provided by the company are sold under different series such as the Ultra slim series, Slim series, Performance series, Mainstream series, and Value series.

Acer's services are based on the 'MegaMicro' business model, which is defined by the company as a mega infrastructure that supports micro services. The services offered include e-Enabling Services Business, e-Enabling Information Platform Services, and Enterprise e-Caring Services. The company's e-Enabling offerings combine Acer's IT products and services, and are delivered through the company's infrastructure.

The company has distributors in over 100 countries around the world. Acer also has sales subsidiaries in around 60 countries. The company sells its products in major

markets such as Europe, Asia-Pacific, and North America. Acer's sales activities in these markets are coordinated by the company's regional headquarters located in Malaysia, Taiwan, Italy, and the US.

## HISTORY

Mr. Stan Shih, together with his wife, Carolyn Yeh, and five other partners co-founded Acer in 1976. Acer was originally known as Multitech. The company designed Taiwan's first mass produced computer product for export in 1976.

The company began its expansion into overseas markets in 1985 by setting up branch offices in Japan and Germany. The company started trading under the Acer brand and officially changed its name from Multitech to Acer in 1987.

Acer's initial public offering on the Taiwan Stock Exchange took place in 1988. The company acquired Altos, a manufacturer of multiuser and networked UNIX computer systems, in 1990 and Texas Instruments' mobile computing business in 1997.

Acer and Computer Associates, a leading mission-critical business computing software and services provider, entered into a joint venture to capture an increasing share of Asia's growing market for business management software in 1999. The company and International Business Machines (IBM), a multinational computer technology and consulting corporation, entered into a seven-year procurement and technology alliance.

In the same year, Acer and Cisco Systems signed a memorandum of understanding (MOU) to promote Cisco's IP Telephony solutions in Taiwan. Acer and General Electric (GE) information services also formed an alliance to set up B2B e-commerce services in the Asia-Pacific region.

Acer separated its original equipment manufacturer (OEM) and branded businesses by establishing the design and manufacturing services (DMS) and Acer brand operations (ABO) business units in 2000. Acer peripherals entered into a strategic alliance with Gallant Precision Machining. In the same year, Acer privatized its Mexican Stock Exchange listed subsidiary, Acer Computec Latino America.

The company sold 100% of its holdings in Taiwan Semiconductor Technology Corporation (TSTC) to Amkor Technology in 2001. In the same year, Acer Group's affiliate, Acer Communications & Multimedia (Acer CM), changed its name to Benq Corporation and began operations as an independent brand.

Acer licensed the Palm OS operating system in 2001, which helped the operating system to expand into the Asia-Pacific and Chinese markets. In 2002, Acer merged with Acer Sertek, a computer monitor manufacturer. Acer Foundation, a non-profit organization formed to promote research and development, and Cadence Design Systems, a supplier of electronic design technologies and services, formed a strategic alliance in Taiwan in the same year.

During the next year, Acer launched the Ferrari 3000, the first notebook in the world to have the patented Ferrari-red color. In 2005, Acer announced the release of the Ferrari 4000 notebook, the world's first notebook to incorporate technology pioneered in the Formula One and the aerospace industry.

In January 2006, Acer was the first to provide a wide range of notebooks with the innovative dual-core processing technology covering all market segments. In September 2006, Acer and Yahoo! formed a multi-year partnership to set Yahoo! as the default search engine on all Acer PCs sold globally.

During March 2007, Acer partnered with Yamaha Motors to become the official sponsor of Yamaha's Factory Racing Team.

Acer signed an agreement to acquire Gateway, the fourth largest PC company in the US and a leading retail PC provider, in August 2007.



## **MAJOR PRODUCTS & SERVICES**

Acer is engaged in the manufacture and sale of information technology products, as well as the provision of computer software and maintenance services.

The company's key products and services include the following:

Products:

- Desktops
- Notebooks
- Tablet PCs
- Servers and storage
- Handhelds
- Monitors
- Projectors
- Digital still cameras (DSC)
- Liquid crystal display television (LCD TV)

Services:

- e-enabling services business
- e-enabling information platform services
- Enterprise e-caring services

Brands:

- Acer
- Altos
- Aspire
- Ferrari
- Gamers
- Mainstream
- Office
- P series
- Performance
- Prestige
- Tablet PC
- TravelMate
- value
- Veriton
- X series

## REVENUE ANALYSIS

### Acer

The company recorded revenues of TWD369,093 million (approximately \$11,327.5 million) during the fiscal year ended December 2006, an increase of 16% over 2005. For the fiscal year 2006, Europe, the company's largest geographic market, accounted for 48.1% of the total revenues.

### Revenues by Geography

Europe, Acer's largest geographical market, accounted for 48.1% of the total revenues in the fiscal year 2006. Revenues from Europe reached TWD184,892.5 million (approximately \$5,674.3 million) in 2006, an increase of 13.9% over 2005.

Taiwan accounted for 20.3% of the total revenues in the fiscal year 2006. Revenues from Taiwan reached TWD77,991.4 million (approximately \$2,393.6 million) in 2006, a decrease of 5.6% compared to 2005.

Asia accounted for 16.6% of the total revenues in the fiscal year 2006. Revenues from Asia reached TWD63,887.9 million (approximately \$1,960.7 million) in 2006, an increase of 37.2% over 2005.

North America accounted for 15% of the total revenues in the fiscal year 2006. Revenues from North America reached TWD57,488.7 million (approximately \$1,764.3 million) in 2006, an increase of 54.5% over 2005.

## KEY EMPLOYEES

Name	Job Title	Board	Total Annual Comp.
J T Wang	Chairman (Since: 2005)	Executive Board	-
Gianfranco Lanci	President (Since: 2005)	Executive Board	-
Stan Shih	Director (Since: 2005)	Non Executive Board	-
Jim Wong	Director (Since: 2005)	Non Executive Board	-
Pier Carlo Falotti	Director (Since: 2005)	Non Executive Board	-
Philip Peng	Director (Since: 2005)	Non Executive Board	-
Yen-Liang Yin	Director (Since: 2005)	Non Executive Board	-
T Y Lay	Vice President (Since: 2001)	Senior Management	-
Scott Lin	Vice President (Since: 2001)	Senior Management	-
Ben Wan	Vice President (Since: 2002)	Senior Management	-
Jim Wong	Vice President (Since: 2001)	Senior Management	-
James Chiang	Vice President (Since: 2002)	Senior Management	-
Steve Lin	Vice President (Since: 2001)	Senior Management	-
Peter Shieh	Vice President (Since: 2001)	Senior Management	-
Winston Fong	Vice President (Since: 2002)	Senior Management	-

## KEY EMPLOYEE BIOGRAPHIES

### J T Wang

Board: Executive Board  
Job Title: Chairman  
Since: 2005

Mr. Wang has been the Chairman of Acer since 2005. After Acer's second group reengineering in 2000, he became the President of Acer. He served Multitech, the forerunner of Acer, as the President of Acer Sertek, the sales and marketing division of Acer, in Taiwan. He joined Multitech as a Sales Engineer in 1981. He holds a Bachelor's degree in Electric Engineering from the National Taiwan University and completed an Executive MBA from the National Cheng-Chi University, Taiwan.

### Gianfranco Lanci

Board: Executive Board  
Job Title: President  
Since: 2005  
Age: 57

Mr. Lanci has been the President of Acer since 2005. In 2003, he was promoted as the President of Acer's International Operations Business Group. He also served as the President of Acer Europe. Prior to joining Acer, he worked with Texas Instruments Italia from 1981 to 1996. After Texas Instruments Italia's merger with Acer in 1997, he was made the Managing Director of Acer Italy. He graduated from the Politecnico of Turin with a degree in Civil Engineering.

### Stan Shih

Board: Non Executive Board  
Job Title: Director  
Since: 2005

Mr. Shih has been a Director of Acer since 2005. He is the founder of the company. In 1976, together with four partners, he co-founded Multitech International Corporation, the forerunner of Acer. In 1972, he helped establish Qualitron Industrial and led the team that designed the world's first pen watch. He began his career at Unitron Industrial in 1971, where he successfully designed, developed, and commercialized Taiwan's first desktop calculator.

## LOCATIONS & SUBSIDIARIES

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## COMPANY VIEW

A statement by J.T. Wang, Chairman and Chief Executive Officer of Acer is given below. The statement has been taken from the company's 2006 annual report.

Acer was faced with intense competition from the top PC players in 2006, yet in spite of this, Acer Inc. consolidated revenues reached NT\$369.09B (US\$11.32B), up 16% from the previous year and reached 92.3% of the annual target; while our profit after tax (PAT) of NT\$10.22B (US\$313.47M) and earning per share (EPS) of NT\$4.45 both hit targets. In addition, operating income of NT\$7.81B (US\$239.66B) exceeded on the previous year and hit 72.5% of target.

Although the PC industry's intense price competition directly influenced Acer's revenue and operating income, we still achieved significantly higher growth rates than the industry's major players. Acer endured a tough period and has emerged winning, proving once again that our business model is adaptable to volatile market changes. Hence, we are confident in securing the No. 3 global PC ranking during the course of 2007.

In 2006, the Acer brand business achieved commendable growth around the world. For global PC unit shipment, Acer retained the No. 4 position for Total PCs, rose to become the No. 3 notebook, and grew significantly for desktop PCs to rank at No. 4; all with highest growth rates among the top five vendors. For LCD monitors, Acer also maintained the No. 4 position.

Regionally, in EMEA (Europe, Middle East and Africa) Acer ranked No. 3 for Total PCs and stood firmly as the No. 1 notebook brand. In Asia Pacific, Acer notebooks obtained No. 1 ranking across five countries. In the target growth markets, our growths in the U.S. for notebook, desktop and Total PCs were the highest among the top ten vendors; and in China we climbed to the top five for notebooks.

Over the recent years, Acer has established an effective business model; this sustainable and evolutionary channel business model has laid the foundation for our growth and profitability forward. In fact, the PC industry's channel model has gradually become mainstream practice to share equal presence with the direct model. We expect the channel model will continue to expand, with Acer staying committed to our channel partners.

Acer has set itself clear goals for 2007: aim for better balance of revenue contribution from our regional operations; establish distinct product differentiation to satisfy commercial and consumer customer needs; build closer ties with key component suppliers; lower operating expenditure percentage while company grows; and develop

the LCD TV and new handheld PC devices. Acer shall persist in researching and developing Empowering Technology that enables our customers to truly benefit from technology.

Year 2006 was the thirtieth anniversary of the company founding and represented a major accomplishment. In 2007, we are confident in setting another milestone by becoming a world top-three PC brand. On behalf of all Acer employees, I wish to thank all our shareholders for your unrelenting support and guidance. Together, Acer shall continue to advance in the global PC market.



## SWOT ANALYSIS

Acer specializes in the manufacture and sale of IT products and provision of maintenance services. The Acer brand is well recognized amongst most consumers in Taiwan and other regions such as Europe and North America. The company's strong brand gives it a competitive advantage and enables it to command a premium pricing for its products. The company generates majority of its revenues from Eurozone, and an economic slowdown in Eurozone could put pressure on the company's revenues.

<b>Strengths</b>	<b>Weaknesses</b>
Brand image	Low returns
High employee efficiency	Dependence on few key buyers and suppliers
Increasing presence in Asia and North America	Declining margins
<b>Opportunities</b>	<b>Threats</b>
Increasing global IT spending	Economic slowdown in Eurozone
Expanding global LCD display market	Intense competition
Growing PC market	Commoditization of personal computers

### Strengths

#### Brand image

The Acer brand is well regarded amongst most consumers in Taiwan and other regions such as Europe and North America. Acer also enjoys a high level of brand awareness and recognition for its products in its key markets. According to Interbrand, a leading global branding company, Acer's brand value improved from fourth position in 2005 to third in 2006. Acer also improved its market position in 2006, as the fourth largest desktop PC manufacturer, the third largest notebook manufacturer, and the fourth largest manufacturer of LCD monitors in the world. Acer leverages its brand image to differentiate its product offering and drive sales. The company's strong brand enables it to command a premium pricing for its products, which include notebooks such as the Ferrari series, giving it a competitive advantage.

#### High employee efficiency

The company's employee efficiency, measured as total revenue generated per employee, has been high compared to its industry peers. Revenue per employee of the company for the trailing twelve months was TWD68.2 million (approximately \$2.1 million) in fiscal year 2006, significantly higher compared to the industry average of TWD33.6 million (approximately \$1 million) during the same period. High employee

efficiency reflects that the group has been able to utilize its human resources efficiently.

#### Increasing presence in Asia and North America

The company's revenues from its operations in Asia and North America increased during the fiscal year 2006. There was a 54.5% increase in the revenues generated from North America compared to 2005. The revenue increased from TWD37,202.5 million (approximately \$ 1,141.7 million) in 2005 to TWD57,488.7 (approximately 1,764.3) in 2006. Also, the 2006 revenues from Asia recorded an increase of 37.2% compared to 2005, from TWD46,573.8 million (approximately \$1,429.3 million) in 2005 to TWD63,887.9 million ( approximately 1,960.7 million) in 2006. Asia and North America are relatively new markets for the company. The increasing revenues from these markets indicate the company's growing presence. Asian and North American markets could further drive the company's top line growth and offer it a geographically diversified revenue base.

## **Weaknesses**

#### Low returns

Acer's average returns have been low when compared to the industry averages. For the five year period 2002 to 2006, the company's average return on assets, average return on investment, and average return on equity were 6.2%, 11.9%, and 12.9%, respectively, compared to corresponding industry averages of 11.8%, 20.8%, and 22.4%, respectively, for the same period. Weak returns indicate the inability of the management to deploy assets profitably, and this could reduce investor confidence.

#### Dependence on few key buyers and suppliers

Historically, Acer has been dependent on a limited number of customers for generating majority of its revenues. In fiscal year 2006, the company generated 66% of its total revenues from its top two customers, and generated 70% of its total revenues from these customers in 2005. The lack of a diversified customer base results in the company being over-dependent on a few customers. Due to the absence of any long-term contracts, loss or order reduction by a major customer could significantly affect the company's overall financial position. Concentration of customers subjects the company to significant default risks. Similarly, the company depends on a limited number of suppliers for IT related components. The four major suppliers accounted for 64% and 62% of the company's total sales in 2006 and 2005, respectively. The inability of these suppliers to provide Acer with a sufficient supply of these components on a timely basis could harm the company's ability to fulfill orders, resulting in loss of revenues.

### Declining margins

The company has been recording low margins in the past few years. The company's five year average operating profit margin and net profit margin for the period 2002 to 2006 were 1.5% and 3.6%, respectively, lower compared to industry averages of 6% and 6.1% for the same period. Weak margins indicate a high cost structure and could adversely affect the company's long term financial position.

## Opportunities

### Increasing global IT spending

The worldwide IT spending is expected to increase from \$1.2 trillion in 2006 to \$1.5 trillion in 2010. The worldwide hardware market spending is estimated to reach \$562 billion in 2010. The rise in spending on volume servers; peripherals and storage; and networking equipment globally is driven mainly by the increased spending from the home business and consumer, communications, and government sectors. Additionally, the spending on IT services worldwide is expected to reach \$587 billion by 2010, reflecting a CAGR of 5.8% from 2005 to 2010. Acer offers its customers a diversified range of products, and IT services, including desktops, notebooks, servers, PCs, and E-enabling services. Growing IT spending could provide the company with an opportunity to increase its revenues and market share.

### Expanding global LCD display market

Increasing demand for liquid crystal display (LCD) screens for televisions is expected to increase to \$42 billion by 2007, twice the corresponding figure in 2005. The LCD industry is likely to boom with prices of LCD TVs set to fall after major production capacity in South Korea and Taiwan comes on stream. The shift from the traditional cathode-ray boxes to LCDs is expected to be the biggest change in TV technology since the change from black and white to color televisions. Acer offers LCDs and projection equipment and is well positioned to gain from the positive market outlook.

### Growing PC market

Demand for PCs is growing worldwide. Global PC shipments are expected to rise to 264 million units in 2007, up by 11.2% from 239 million in 2006. The notebooks are expected to account for almost 40% of total 2007 PC market shipments. The company provides a wide range of PCs and notebooks, including the Veriton, AcerPower, Ferrari, TravelMate, and Aspire series, which caters to enterprise and residential users. The expanding worldwide PC market provides Acer with a significant opportunity of increasing its sales.

## Threats

#### Economic slowdown in Eurozone

Acer's key markets are Europe and Taiwan. According to the IMF World Economic report, GDP growth in the Eurozone is expected to slowdown in 2008. The real GDP growth in the Eurozone is forecast to decline from 2.6% in 2006 to 2.3% in 2008. The company generated 48.1% of its total revenues from Europe. A weak economic outlook for Eurozone could put pressure on the company's revenues.

#### Intense competition

The PC industry is dominated by a few large branded and several smaller branded and generic competitors. The company faces severe competition from its branded competitors such as Apple, Dell, Fujitsu, Hewlett-Packard, Lenovo, Toshiba, Palm, Siemens, and Sony. The company also faces significant competition from generic PC manufacturers. In recent years, the industry has faced severe pricing pressures. Intense competition threatens to erode the company's margins and reduce its market share.

#### Commoditization of personal computers

The personal computers (PC) market is becoming more commoditized. Demand for branded PCs is decreasing as standardization reduces the quality difference between branded and unbranded PCs and components. Although, standardization has made the assembly of PCs easier and cheaper, benefiting company's operations, it has also become harder for the company to successfully differentiate its products from those of firms producing unbranded goods. Commoditization of PCs could dilute the brand image of the company.

## TOP COMPETITORS

[Apple Computer, Inc.](#)  
[Dell Inc.](#)  
[Founder Holdings Ltd.](#)  
[Fujitsu Limited](#)  
[Fujitsu Siemens Computers \(Holding\) BV](#)  
[Hewlett-Packard Company](#)  
[IBM Global Services](#)  
[Lenovo Group Limited](#)  
[Matsushita Electric Works, Ltd.](#)  
[Medion AG](#)  
[NEC Corporation](#)  
[Palm, Inc.](#)  
[Samsung Electronics Co., Ltd.](#)  
[Siemens Aktiengesellschaft](#)  
[Sony Corporation](#)  
[Sun Microsystems, Inc.](#)  
[Tatung Co.](#)  
[Toshiba Corporation](#)