

Intel 4Q a window into industry's inflection point

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Intel Corp.'s 48 percent jump in fourth-quarter net income, driven by strong corporate spending, comes at a turning point in the personal computer industry's 30-plus year history.

The results, reported Thursday after the market closed, topped Wall Street's forecasts and sent Intel shares up 2 percent.

The numbers reflect the PC industry's steady growth, as Intel, the world's biggest maker of PC processors, is feeding a market that is bigger now than it has ever been.

Some 350 million PCs were shipped in 2010, according to data released this week, and Intel CEO Paul Otellini says that more than 1 million PCs are now being sold every day.

Yet that momentum has slowed and major players have been shaken as economic hardship has depressed consumer spending, and the rise of mobile gadgets such as Apple Inc.'s iPad are offering a new vision of personal computing.

Intel's fourth-quarter numbers reflect those pressures.

Net income was \$3.39 billion, or 59 cents per share, higher than the 53 cents per share analysts polled by FactSet were expecting. In the same period in 2009, Intel earned \$2.28 billion, or 40 cents per share.

The year-ago figures would have been higher were it not for Intel's \$1.25 billion payment to rival Advanced Micro Devices Inc. to settle claims that Intel abused its market dominance to bully computer makers into avoiding AMD's chips — charges Intel has long denied. Intel's chips are inside 80 percent of the world's PCs. Earlier this week, AMD ousted its CEO over the company's growth prospects.

Intel's revenue rose 8 percent to \$11.5 billion, up from \$10.6 billion last year. Analysts had forecast \$11.4 billion.

For the first quarter, Intel expects revenue of \$11.1 billion to \$11.9 billion, ahead of analysts' expectation for \$10.8 billion.

And Otellini predicted that Intel's revenue would rise 10 percent in 2011 — which translates to about \$48 billion, up from \$43.6 billion in 2010 and higher than the \$45.5 billion analysts expected.

What saved Intel's fourth quarter was strong corporate spending.

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Companies, many of which froze their technology budgets during the Great Recession, are buying new servers for their data centers and PCs for their workers as their business prospects have brightened.

Operating profit in the Intel division that sells server chips jumped 47 percent to \$1.43 billion, while the division that makes desktop and laptop chips grew at a slower rate, up 8 percent to \$3.62 billion.

Server chips tend to carry higher profit margins than chips for PCs. The PC industry in general struggles with increasing commoditization, which lowers PC prices and benefits consumers, but erodes profits.

Although Intel's results were strong compared with the previous year, revenue in each of its major divisions, except for server chips, was flat from the third quarter.

That showed the strain that emerged toward the end of the year, from economic problems such as prolonged unemployment and the European debt crisis, and competition from Apple Inc.'s iPad.

Intel's chief financial officer, Stacy Smith, said in an interview that the extent of sluggish consumer demand was in line with what the company was predicting.

Intel has a pulse on consumer and corporate spending on technology. And as the first major technology company to report fourth quarter results, its numbers help set the tone for other large tech firms' reports in the coming weeks.

IBM Corp., the biggest technology services provider and a seller of Intel-based servers, reports Tuesday. AMD reports next Thursday.

Computer companies have shifted gears quickly to get in on the mobile computing craze.

Intel is expanding with low-power chips called Atom to compete with so-called ARM chips, which are mainstays of the mobile world and use designs from U.K.-based ARM Holdings. Intel says its chips will be used in 35 different tablets and an unspecified number of smart phones, but it's behind competitors such as Qualcomm Inc., Texas Instruments Inc. and even Apple, which makes its own chips for the iPad.

Intel's shares rose 45 cents, or 2.1 percent, to \$21.74 in extended trading after the release of results Thursday. Earlier, it finished the regular session down 1 cent at \$21.29.

Shares in other semiconductor industry companies also rose in after-hours trading Thursday. KLA-Tencor Corp. rose 6 percent, Applied Materials Inc. was up 5 percent, Novellus Systems Inc. added 3 percent.

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