Intel CEO Paul Otellini to retire in surprise move

MICHAEL LIEDTKE - AP Technology Writer - Associated Press

Intel CEO Paul Otellini is retiring in May, giving the world's largest maker of microprocessors six months to find a new leader as it confronts two major challenges: a shaky economy and a shift toward mobile devices that is reducing demand for its PC chips.

Although Otellini's impending departure was announced Monday, he notified Intel Corp.'s board of his retirement plan last Wednesday. The decision surprised Intel's board of directors, which had been expecting Otellini to remain CEO until the company's customary retirement age of 65. Otellini is 62.

"The decision was entirely Paul's," said Intel spokesman Paul Bergevin. "The board accepted his decision with regret."

Otellini will be ending a nearly 40-year career with Intel, including an eight-year stint as CEO by the time he leaves. He joined the Santa Clara, California company after graduating from the nearby University of California at Berkeley and worked his way up the ranks before succeeding Craig Barrett as CEO in May 2005.

"It's time to move on and transfer Intel's helm to a new generation of leadership," Otellini said in a statement.

In another statement, Intel Chairman Andy Bryant praised Otellini for leading the company through "challenging times and market transitions."

Intel's board plans to consider candidates inside and outside the company as it searches for Otellini's successor. Otellini will be involved in the search.

Otellini and the four other men who have been Intel's CEO during the company's 45-year history have all been promoted from within. The company's board is believed to be leaning in that direction again.

Intel identified the leading internal candidates Monday by anointing three of Otellini's current lieutenants as executive vice presidents. They are: Renee James, head of Intel's software business; Brian Krzanich, chief operating officer and head of worldwide manufacturing; and Stacy Smith, chief financial officer and director of corporate strategy.

If recent history is any indication, Krzanich has the inside track to become Intel's CEO. Both Barrett and Otellini served as chief operating officer before becoming CEO.

Although Otellini is generally well regarded, he has faced criticism for initially underestimating the impact that smartphones and tablet computers would have on

the personal computer market. It was a pivotal change that also confounded Microsoft Corp. CEO Steve Ballmer, whose software company makes the Windows operating system that runs most of the PCs relying on Intel's chips.

"The shift came more quickly than they expected, and when they did finally see what was happening, they were a little late to react," said technology analyst Patrick Moorhead of Moor Insights & Strategy.

Indeed, in 2008, nearly 300 million PCs were sold and most of them were powered by Microsoft's Windows and Intel's microchips, according to Forrester Research. Some 142 million smartphones sold that year, at a time when the tablet market hadn't really taken off. That wouldn't happen until Apple's 2010 release of the iPad.

By contrast, this year, Forrester estimates 330 million PCs will be sold worldwide compared with 665 million smartphones and just over 100 million tablets. By 2016, Forrester predicts annual sales of PCs will rise only slightly to 370 million machines while more than 1.6 billion smartphones and tablets will be purchased.

The fates of Intel and Microsoft have been so tightly wound for the past 30 years that computers using a combination of their chips and software are famously known as "Wintel" machines.

Now, much of the technology industry is questioning whether Intel and Microsoft can catch up in the mobile market to ensure their products remain as essential — and profitable — in the future as they have been in the past three decades.

It's a challenge that Ballmer, 56, is confident he can tackle. He signaled his intent to remain Microsoft's CEO earlier this month when he ushered out the head of the company's Windows division because of philosophical differences over the company's future direction. For whatever reasons, Otellini concluded it was time for new leadership at Intel — an opinion that many investors share, according to RBC Capital Markets analyst Doug Freedman.

"A shift in leadership could be welcome news to investors as Intel could be in greater position to broaden its portfolio into higher growth markets," Freedman wrote in a Monday research note.

Intel's stock was unchanged at $20.19 shortly before the market closed Monday. The stock has fallen more than 20 percent during Otellini's reign. Most of the decline occurred this year amid concerns about the company's ability to adjust to mobile computing and weakening demand for its core products in countries with troubled economies, particularly in Europe and China. The company blamed the poor economy for a 14 percent drop in its earnings during its most recent quarter.

Intel's chips have become even more dominant in the PC computer market during Otellini's tenure, helping to boost the company's annual revenue from $39 billion in 2005 to $54 billion last year. Besides supplying Windows-powered PCs, Otellini also scored a coup in 2006 when he convinced Apple to start using Intel chips in Mac computers instead of IBM Corp.'s microprocessors.

But Apple's pioneering work in smartphones and tablet computers also muddled Intel's future. Both the iPhone and iPad inspired a wave of sophisticated handheld devices that are undercutting demand for desktop and laptop machines that house Intel processors.

Most tablets rely on a technology licensed from British chip designer ARM Holdings Plc. Even Microsoft has tweaked the latest version of the Windows operating system so it works on ARM chips.

Other chip makers such as Qualcomm Inc. have developed less expensive microprocessors that have eclipsed Intel in the smartphone market. Qualcomm's inroads in the mobile market are a key reason why its stock has soared by more than 70 percent while Otellini was running Intel.

The contrasting performances of the two companies' stocks enabled Qualcomm to surpass Intel as the world's most valuable chip maker. Qualcomm's market value now stands at about $106 billion versus $100 billion for Intel.

Even though its stock under Otellini has lagged the rest of the market, Intel's ongoing prosperity has enabled the company to reward shareholders in other ways. Intel has paid stock dividends totaling $23.5 billion under Otellini as its quarterly payments rose 8 cents per share in 2005 to 22.5 cents per share currently.

Source URL (retrieved on *08/01/2014 - 7:21pm*):
http://www.ecnmag.com/news/2012/11/intel-ceo-paul-otellini-retire-surprise-move?qt-most_popular=0