

Intel's third-quarter sales beat forecast

By Brandon Bailey

Updated: 10/14/2009 03:50:34 AM PDT

Intel delivered on its own predictions of economic recovery Tuesday, as the Santa Clara chip maker — whose microprocessors are the brains inside many tech products — reported third-quarter sales and profit were higher than analysts and the company's own forecast had predicted.

The company said it earned \$1.9 billion in profit on \$9.4 billion in revenue for the quarter, which ended Sept. 26.

While the numbers were lower than Intel reported a year ago, they represent a second consecutive quarter of improvement since the recession clobbered the tech industry last winter. Analysts said Intel's latest earnings show that consumers are starting to resume spending on desktop PCs, notebook computers and other gadgets.

"They are the ones that the hardware manufacturers go to, to get their supplies. That's why everybody watches Intel, because it is a bellwether for the rest of the industry," explained Leslie Fiering, a vice president at Gartner, the tech industry research firm.

"They did a fabulous job," she said of Intel. "They blew out all their numbers."

The company had raised its own revenue forecast a month ago, citing "stronger than expected demand" for its chips as it predicted total sales between \$8.8 billion and \$9.2 billion. Analysts polled by Thomson Reuters were expecting Intel to report sales of \$9 billion.

Intel CEO Paul Otellini said the higher revenue was driven primarily by stronger demand for consumer tech products, including a better-than-expected back-to-school shopping period in the United States. He said businesses are not expected to resume tech spending in earnest before next year.

Profit also exceeded expectations. The company said its earnings per share amounted to 33 cents, while analysts had predicted 27 cents. Chief Financial Officer Stacy Smith said the company had improved its gross margins, a key measure of profitability, by keeping a lid on spending and making better utilization of its manufacturing facilities as demand improved.

Intel's sales and profit numbers were higher a year ago, when the company reported \$2 billion profit on \$10.2 billion in sales. But that was a time when most big tech companies were still resisting the effects of a recession that had begun to buffet other industries. Since then, Intel's sales and profit plunged in the first part of 2009, as businesses and consumers cut back on tech spending.

In recent months, however, Intel CEO Paul Otellini has been citing signs of a turnaround, even predicting that worldwide PC shipments for the year could show an increase over 2008. The company did better than expected in its second quarter, despite reporting a loss of \$398 million on \$8 billion in sales. And the numbers released Tuesday showed improvement again.

While the recession forced consumers to cut back spending earlier this year, they are once again looking to replace older PCs with outmoded features, said analyst **Unni Narayanan, CEO of Primary Global Research**. "There's a lot of pent-up demand."

Intel benefited both from an overall uptick in PC sales as well as from the increasing popularity of downsized "netbooks," added Matthew Wilkins, an analyst at the iSuppli research firm. Most netbooks use Intel's less-expensive Atom chip, which he said is still highly profitable for Intel because it relies on an older design.

Intel still faces other challenges. While the company is trying to gain a foothold for its chips in the growing smart-phone market, some PC-makers are starting to introduce low-cost portable computers with processors from competing chip companies that use a design known as ARM.