

## Intel Bolsters Hopes for PC Rebound

By DON CLARK, October 14, 2009

Intel Corp. served up evidence that the computer market is healthier than many people suspected, reporting third-quarter results that were well above upbeat projections it issued several weeks ago.

The chip giant predicted business conditions will improve even more in the current quarter, including a jump in its closely watched gross profit margin to the highest level since late 2005. It predicted revenue of about \$10.1 billion, up about 7% from the third period.

Intel, maker of the chips that act as electronic brains in personal computers, is seen as an early proxy for changes in PC demand because manufacturers typically stock up on chips to prepare for sales to their customers.

Intel executives said they saw signs of strong purchasing of laptop PCs, led by back-to-school purchases in the U.S. and demand from consumers in China.

The company's third-quarter profit and revenue remained about 8% lower than the same quarter in 2008, before the recession took hold. But revenue was up 17% from the second quarter, and profit—excluding a \$1.45 billion antitrust fine levied by the European Union—was up 77% over the same period.

Global semiconductor sales rose 5 percent in August, but were 16.1 percent lower than the same period a year ago. Plus, Larry Ellison on cloud computing and Sun loses a top sales exec to HP (Oct. 2).

"It's a nice indication of what we can achieve when the market is cooperating and we are executing well," said Stacy Smith, Intel's chief financial officer, in an interview.

Intel reported income for the period ended Sept. 26 of \$1.86 billion, or 33 cents a share, compared to profit in the year-earlier period of \$2.01 billion, or 35 cents a share. Revenue declined to \$9.39 billion from \$10.22 billion.

Intel in late August predicted that its third-quarter revenue would be about 6% higher than it estimated the prior month, citing improving chip demand. The numbers reported Wednesday were 4% higher than the revised projection, and also higher than analysts' average estimates.

The improvement in profitability was more striking. Intel had projected in August that its second-quarter gross profit margin would be in the upper half of its prior prediction of 53% "plus or minus two percentage points." Instead, the company said its profit margin hit 57.6%, and projected it would likely rise to 62% in the current quarter. It predicted revenue would rise about 7% from the third period.

"People have been underestimating demand for a long time," said **Unni Narayanan, chief executive of Primary Global Research**. Among other things, he said, PC makers are placing orders on the expectation that Microsoft Corp.'s Windows 7 operating system—to be formally released Oct. 22—will get customers buying.

Paul Otellini, Intel's chief executive officer, told analysts that the company was seeing unit sales of chips for conventional notebook PCs growing at a faster rate than sales of its Atom chip for popular low-end portable computers called netbooks.

Fears that demand for netbooks would cannibalize sales from Intel's more profitable chip lines have dogged the company since last year.

Mr. Otellini also reported strong demand for chips used in server systems, based on a new technology line called Nehalem, despite the sour economy. The company's stock, which has risen sharply since July on expectations of a PC rebound, rose 5% to \$21.54 in after-hours trading, after closing at \$20.49.

"The market had set high expectations for Intel this quarter, and Intel delivered," said Bill Kreher, an analyst at Edward Jones.

