THE WALL STREET JOURNAL.

Leading the News: Intel Turns In a Memorable Quarter; Profit More Than Doubled On Strong Sales, Margins, Led by Mobile Computing


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Source Type: Newspaper
ISSN/ISBN: 00999660
ProQuest document ID: 423870841
Text Word Count: 1001

Abstract (Article Summary)

The company's profitability is accelerating at an unusual rate. The company on Aug. 22 predicted its gross profit margin would reach 56% in the third quarter, plus or minus a couple of points, compared with just 50.9% in the second period and a prior estimate of around 54%. Instead, Intel's gross margin surged to 58.2% in the third quarter, and it predicted the closely watched percentage would rise in the fourth quarter to about 60%, a level the company hasn't seen for several years.

One reason is that Intel's selling prices have risen slightly. Its microprocessors for mobile computers often cost as much as $100 more than comparable chips for desktop computers, Mr. [John Lau] estimated. Another factor is the increasing popularity of Intel chips in servers, which also command higher prices.

The worst mark on Intel's report card comes from flash memory, a kind of data-storage chip favored in phones and some other portable computing products. Intel's revenue from the segment that includes flash chips fell 23% from the year-earlier period. The business lost about $124 million, flat with the third quarter and more than four times the loss of the year-earlier period, Mr. [Andy Bryant] said.

Full Text (1001 words)

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Intel Corp.'s recovery kicked into a higher gear in the fiscal third quarter, as the chip maker reaped big benefits from the rise in mobile computing and strong demand in Asia.

The Santa Clara, Calif., company said net income more than doubled in the period ended Sept. 27 on revenue that rose 20% from a year earlier. Unit shipments of its microprocessor chips hit a record. Intel also forecast another healthy jump in sales for the fourth period, as well as further improvement in its already formidable gross profit margin.

"It was an outstanding quarter," said Andy Bryant, Intel's chief financial officer.

Intel's results come despite continued weakness in corporate technology spending, particularly in the U.S., as well as new competing chips and challenges in moving to a new manufacturing process.

The company reported third-quarter net of $1.66 billion, or 25 cents a share, compared with a profit of $686 million, or 10 cents a share, a year earlier. Earnings per share in the latest period topped analysts' consensus of 23 cents,
Revenue rose to $7.83 billion from $6.5 billion a year earlier and $6.8 billion in the second period. Mr. Bryant said it was the sharpest growth between the second and third periods in 25 years and the fastest year-over-year jump since 1996.

On Aug. 22, Intel had forecast third-quarter revenue of $7.3 billion to $7.8 billion, up from a prior range of $6.9 billion to $7.5 billion. Less than two weeks later, it narrowed its prediction to a range of $7.6 billion to $7.8 billion. Analysts' consensus estimate before the announcement was $7.7 billion, according to Thomson First Call.

For the fourth quarter, Intel set a revenue range of $8.1 billion to $8.7 billion. At a midpoint of $8.4 billion -- slightly above the average analyst estimate of $8.3 billion -- the company's prediction suggests sales would increase 7% over the third period, in line with seasonal growth.

But the company's profitability is accelerating at an unusual rate. The company on Aug. 22 predicted its gross profit margin would reach 56% in the third quarter, plus or minus a couple of points, compared with just 50.9% in the second period and a prior estimate of around 54%. Instead, Intel's gross margin surged to 58.2% in the third quarter, and it predicted the closely watched percentage would rise in the fourth quarter to about 60%, a level the company hasn't seen for several years.

"It's absolutely amazing," said John Lau, an analyst at Banc of America Securities. "They can actually expand their gross margin in a gradual economic environment."

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Demand for those products is likely to continue. Intel, meanwhile, isn't expected to gain full advantage until next year of a new manufacturing process and a larger generation of silicon wafers, which lower production costs per chip. "The margins on this thing could go a long way," said Joseph Osha, an analyst at Merrill Lynch & Co.

Intel announced its results after the close of regular trading. As of 4 p.m. in Nasdaq Stock Market trading its shares were up 28 cents at $31.08. In after-hours trading following the announcement, the stock rose to $31.84.

Intel, like other chip makers, experienced a historic peak in 2000 that was followed by the industry's worst-ever slump. It has gradually improved its profit through the year, but only recently has revenue growth begun to accelerate.

In the latest quarter, sales were particularly strong in China, Taiwan, India and Japan, as were emerging markets in Russia, the Middle East, Turkey and South America, said Paul Otellini, Intel's president and chief operating officer, during a conference call. The company even saw strong revenue growth from corporate buyers in Europe, he said.

Intel has helped stimulate demand with an expensive marketing campaign for Centrino, a technology package for mobile computers that combines its new Pentium M microprocessor and accessory chips that are designed for wireless networking and to increase battery life. Mr. Otellini said unit sales of the Pentium M doubled between the second and third quarters.

The company stands to face greater competition in the current quarter, with new chips from rivals that include Advanced Micro Devices Inc. and Transmeta Corp. In the third period, however, Mr. Otellini said the company believes it picked up a percentage point of market share in microprocessors.

Intel's momentum partly reflects massive investments in manufacturing capacity that were made despite the downturn. At the moment, however, some analysts believe that manufacturing problems may be delaying two chips -- code-named Prescott and Dothan -- that are designed for desktop computers and mobile computers, respectively. Computers based on them aren't expected until the first quarter of next year.

For the moment, however, Mr. Lau of Banc of America Securities said there is no hurry, since the company's...
current chips will be more profitable until Intel refines its next-generation production process.

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One factor is that Intel imposed a price increase late last year that caused some customers to turn to other suppliers. "Intel has been losing share as the year has gone on," said Andrew Root, an analyst at Goldman Sachs.

Intel said it now expects to spend between $3.6 billion and $3.7 billion on new plants and equipment, compared with a prior forecast of between $3.5 billion and as much as $3.9 billion.

(END)