

# Damp PC sales chip Intel Q1 profits by 90%

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INTEL appears to be playing it safe with an ugly first-quarter forecast. The chip maker reported on Thursday that profit plunged 90% and sales slipped 23% during the last three months of the year, matching analysts' subdued estimates. Wall Street was braced for the bad news: Intel had lowered its fourth-quarter guidance twice, including once just last week, warning that weaker-than-expected PC demand was hammering down demand for its microprocessors.

So what about 2009? Intel said it doesn't know when demand will pick up, so the Santa Clara-based company set the bar low and offered first-quarter guidance at the low end of what analysts were expecting.

Intel said its 2009 sales is likely to be around \$7 billion, which translates to a decline of more than 25% from the first quarter of 2008. Gross profit margin should also sink sharply, falling from more than 50% of sales to the low-40% range, it said. Gross profit is a key measure of how well a company is controlling its costs, but falling demand, heavy investment in factory upgrades and big costs for running factories at less than full throttle will all take their toll on Intel's bottom line.

Intel said the financial crisis has made it so difficult to predict revenue that the company wouldn't offer a precise estimate. Analysts surveyed by Thomson Reuters were expecting \$7.3 billion in sales, on average, but estimates ranged from \$6.6 billion to as high as \$9.3 billion. The profit forecast was below many estimates, but was good enough to send Intel's shares up 3.8% in after-hours trading. "I don't think they're good numbers, but they're good numbers to start from," said Cody Acree, senior semiconductor analyst with Stifel, Nico-

laus & Co. "We all knew they would be bad, and that they'd come down, but they've set a base to work from."

Intel's chief financial officer Stacy Smith said in an interview that computer-makers' inventory levels fell in the fourth quarter and continued falling into the first quarter, which means they're not buying as many new chips. He said Intel's product line-up positions the company well to take advantage when demand starts rising again, but Smith cautioned that no one knows yet when that might be.

"It's very difficult to precisely call when we'll hit the bottom," he said. In the fourth quarter, Intel's net income was \$234 million, or 4 cents per share compared with \$2.3 billion, or 38 cents per share, in the year-ago period.

Profits were squeezed by a freeze in information-technology spending and a shift towards low-margin processors for a class of little laptops known as "netbooks." A big reason for the severity of the fourth quarter drop, though, was a \$1-billion writedown of the value of Intel's investment in internet provider Clearwire. Clearwire specializes in a new type of wireless broadband technology called WiMax that Intel is building into its chips, and has stumbled on fears the credit crunch will derail its ambitious network buildout plans.

Intel's sales were \$8.2 billion, a 23% shortfall from last year. For all of 2008, Intel earned \$5.3 billion, 24% lower than a year ago, on sales of \$37.6 billion, a 2% decline. PC demand is sinking fast, which takes its toll on Intel because Intel owns 80% of the market for microprocessors, the brains of personal computers. Market research firms IDC and Gartner reported this week that PC sales growth in the fourth quarter was the worst it's been in six years, with the slump expected to drag out until possibly 2010.

