Intel sees weak 4Q, little Windows 8 bounce (Update)

October 16 2012, by Peter Svensson

Intel Corp., the world's largest chipmaker, expects cold winds to blow this fall, as consumers shift their spending toward tablets and a weak global economy curbs corporate spending on computers.

When it reported third-quarter results Tuesday, Intel said the usual bounce in sales due to the holiday season is likely to be cut in half this year —even though Microsoft is launching a new operating system that it says will get consumers excited about PCs again.

In the quarter that just ended, Intel's revenue from PC chips fell 8 percent from a year ago, in line with reports from research firms IDC and Gartner that said worldwide PC sales fell more than 8 percent.

The shift away from PCs and toward tablets is a threat to Intel because most tablets don't use Intel processors. Instead, they use cheaper chips similar to the ones found in smartphones.

Intel wants to get its chips into tablets. The launch of Windows 8, Microsoft's new operating system, on Oct. 26 gives it a chance to do that, since the software is designed both for PCs and tablets.

But Intel's expectations for the Windows 8 launch are muted.

Normally, PC makers ramp up production for the holiday season, but Intel CEO Paul Otellini said he expects that increase to be halved this year, in part because manufacturers are cautious about how consumers

will take to Windows 8.

The new software is a radical departure from previous Windows versions in terms of how people are expected to use it to control their PCs.

"I'm very excited about this new operating system," Otellini said, but "we haven't had a chance to really judge how consumers will embrace this in the PC space or not."

Patrick Moorhead with research firm Moor Insight said PC makers have been cautious about building up big stocks of new Windows 8 PCs. That means they put in fewer orders with Intel, though it did see a bit of a spike in September as PC makers built initial stock for this month's launch.

Intel's stock fell 77 cents, or 3.5 percent, to $21.58 in extended trading, after the release of the results. In regular trading, the shares rose 2.9 percent. The stock hit a 52-week low of $21.40 on Friday.

While the outlook for the fourth quarter was glum, Intel beat expectations for the third quarter, after it had lowered those expectations twice.

The Santa Clara, California, company said its third-quarter net income was $2.97 billion, or 58 cents per share, down from $3.47 billion, or 65 cents per share, a year ago.

Excluding the amortization of some acquisition-related assets and related tax effects, Intel earned 60 cents per share, handily beating the average estimate of analysts polled by FactSet, at 50 cents per share.

Revenue fell 5.5 percent to $13.5 billion. Analysts were expecting $13.22 billion, in line with the midpoint of Intel's own forecast.

Intel said it expects about $13.6 billion in fourth-quarter revenue, below the analyst forecast of $13.7 billion. More significantly, it said it expects a gross margin of 57 percent, well below the average for the last three years of 64 percent. The gross margin is Intel's revenue minus the cost of making and selling the chips, so the lower forecast points indirectly to lower profit in the fourth quarter. The reduction is due to lower utilization of its factories, and a shift toward to a new processor technology, which will idle some factories for retooling.

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