Intel Crimped by Slump in PCs

Chip Giant's Profit Falls 29% as Consumers Continue Shift to Tablets, Smartphones

By Don Clark

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Updated July 17, 2013 6:53 p.m. ET

[Intel](http://quotes.wsj.com/INTC) Corp. [INTC +0.41%](http://quotes.wsj.com/INTC) [**INTC**](http://quotes.wsj.com/INTC) **in** Your Value Your Change Short position once again showed the ill effects of a widening personal-computer slump, which helped drive the chip giant's profit down 29% in the second quarter.

The Silicon Valley company, despite years of efforts to move its microprocessors into smartphones and tablets, still is suffering from the way those devices have drawn consumer spending away from PCs that use its chips.

Total revenue slid 5% in the second period, and Intel lowered its forecast for PC sales for the year. It now expects its revenue to be flat for all of 2013, versus its prior expectations for slight growth.

Intel CEO Brian Krzanich, in his first earnings conference call since taking the post in May, conceded that the company has been struggling due to its late entry into the market for "ultra-mobile" devices such as tablets.

"Intel was slow to respond to ultramobile trends," Mr. Krzanich said. "I understand that we've not always lived up to the standard that we have set for ourselves."

Mr. Krzanich, in his first weeks in office, ordered an internal reorganization that he said should help Intel jump on future trends more quickly. He also assigned a higher priority to its low-price Atom chips for mobile devices, despite lower price points than other products that could reduce the amount of money Intel makes per chip.

There were some upbeat signs in Intel's results. The company's closely watched gross profit margin was 58%, up two percentage points from the first quarter.

Intel said it expects that figure to improve to 61% in the third quarter. It put revenue for the current period at a range of $13.5 billion, plus or minus $500 million, which would be roughly flat with the year-earlier period.

Unit sales for chips in Intel's PC client group were off 5% from the year-earlier period. The drop is considerably less severe than recent PC-sales estimates by researchers IDC and Gartner, which said unit shipments declined about 11% in the second quarter.

"It looks to me like the PC market is not as weak as people thought," said Rick Whittington, an analyst at Drexel Hamilton.

In after-hours trading following the news, however, Intel's shares declined as much as 4% to $23.17, off 98 cents.

Intel said it now expects to spend about $11 billion on factories and manufacturing equipment, trimming about $1 billion off its prior expectations.

Stacy Rasgon, an analyst at Sanford C. Bernstein, said the company's reduced sales forecast for the year and spending cut are signs Intel is being more realistic about its outlook. But he predicted Intel may have to make further revisions, given the weak environment.

"I just wonder if it's enough," Mr. Rasgon said.

Intel is betting that a new design for its flagship Core microprocessors called Haswell, which was formally introduced in June, will fuel the design of attractive new notebook computers and devices that convert from clamshell to tablet mode. Stacy Smith, Intel's chief financial officer, said Wednesday that more than 50 of such "two-in-one" models are now being designed.

At the same time, Intel has high hopes for new version of its Atom design, dubbed Silvermont. Mr. Krzanich said chips based on that technology offer as little as one-fifth the power consumption at the same level of performance—extending battery life on mobile devices—or a threefold improvement in performance at the same power consumption.

Intel said net income for the second quarter ended June 29 came to $2.0 billion, or 39 cents a share, down from the year-earlier figure of $2.8 billion, or 54 cents. Revenue declined to $12.8 billion from $13.5 billion, compared with analysts' average estimate of nearly $12.9 billion, as reported by Thomson Reuters.

In April, Intel had also projected second-quarter revenues of $12.9 million, plus or minus $500 million. It put its gross margin at 58%, plus or minus a couple of percentage points.

**Corrections & Amplifications**   
An earlier version of this story erroneously said unit sales for chips in Intel's PC client group were off 7% from the year-earlier period. They were down 5%.