

MACROCOSM

Intel: Dead in the Water

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Intel's eagerly awaited mid-quarter update last night was perfectly emblematic of the frustrating impasse in which technology investors find themselves -- paying top dollar in forward earnings multiples for growth that always seems to be another couple quarters in the future. The bulls will crow that Intel "reaffirmed." But perhaps it is more accurate to say, "the *best they could do* was reaffirm."

On the surface, Intel did nothing. Intel didn't raise guidance. Intel didn't warn. Instead, with [a press release](#) even more terse than an **FOMC** statement, Intel narrowed the range of guidance for the first quarter that [they gave last January](#) -- from revenues of \$6.4 to 7.0 billion then, to \$6.6 to \$6.9 billion now. The only insight Intel would share from its perch at the summit of the global high-technology industry was: "Intel's microprocessor business continues to follow seasonal patterns, while the communications businesses remain weak."

In the Q&A after [the conference call](#), the very first analyst question for **CFO Andy Bryant** was about *pricing*. Average selling prices for desktop processors are key, because Intel has been in a vicious price war with **Advanced Micro Devices** that amplifies the natural technology-driven forces that militate for ever-lower prices anyway. As a result, Intel has found itself in a steep revenue decline even as it has delivered record unit sales. But Bryant refused to answer the question -- and he refused again when the same question was asked again by other analysts later in the call. His reticence does not encourage one to expect good news.

Intel is used to rigorous price competition, as is any seasoned player in semiconductors. And long-term, a gorilla like Intel can win any price war. But you have to grow your way out of pricing problems by shipping enough units to make it up in volume. So it's a race between volume and price -- and it's a race that Intel lost last quarter, with sales down 20% year-over-year despite record volume. The volume just wasn't record enough.

Always having to run that race means that Intel and most other competitive technology companies are like sharks. They have to keep moving rapidly forward through the water in order to breathe. With a global economy unable to generate enough demand to drive really big sales growth, we're in the situation **Woody Allen** talked about when describing his relationship with [Annie Hall](#): "I think what we got on our hands is a dead shark."

The prospect of economic recovery was a subject on which Bryant was willing to answer questions. When asked whether the traditional three-year PC upgrade cycle could cause a business surge in 2002, he said bluntly that he sees "...no evidence yet of any recovery in our business. We've seen nothing that would indicate that's happening yet. The consumer is still acting pretty normally, the business is still acting normally, off the current business environment level that doesn't seem to be changing."

So while Intel didn't warn -- in the sense that they didn't lower guidance -- what they had to say should still stand as a warning to investors. For all the excitement this week about economic

recovery -- and for all the excitement about the updates in Alan Greenspan's [Senate Testimony yesterday](#) to reflect very latest recovery omens -- isn't it a little strange that the world's premiere technology company doesn't seem to have heard anything about any of that?

And isn't it a little strange that investors are willing to pay so much for stocks of companies that haven't heard? **TM**