

Intel plans \$7B on factory upgrades

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SAN FRANCISCO — Intel Corp. plans to spend \$7 billion upgrading its U.S. factories over the next two years, a sign that the recession hasn't extinguished chip makers' lust for cutting-edge equipment.

The company's investment, announced Tuesday by Intel CEO Paul Otellini at a speech in Washington, speaks to the semiconductor industry's need to keep investing heavily, regardless of the economic climate.

That could be a boon to companies that produce chip-making equipment, like Applied Materials Inc. and KLA-Tencor Corp., and is another example of how Intel's deep pockets have kept rival Advanced Micro Devices Inc. at bay.

AMD, having lost nearly \$7 billion over the past two years, wants to break off its factories into a separate company to unload debt and save money. A shareholder vote was scheduled for Tuesday, but was postponed until next week because only 42 percent of investors had voted. AMD needed at least half to go forward. AMD said nearly all the votes were in favor of the plan, but Wall Street apparently viewed the news as another setback for the beleaguered chip maker. AMD shares dropped 17 cents, or 7.2 percent, to \$2.19.

Intel's stock fell 57 cents, or 3.8 percent, to \$14.34.

Santa Clara, Calif.-based Intel is struggling with the worst PC market in years. Overall semiconductor sales fell in 2008 for the first time in seven years, slipping about 3 percent to \$249 billion, according to the Semiconductor Industry Association.

Yet Intel says its latest investment is the most it has ever spent on a transition to new manufacturing technology.

Every couple of years, chip companies make the multibillion-dollar switch to new equipment that enables chips with smaller and smaller circuitry. The change lets them make each chip more powerful, and is essential to maintaining Moore's Law, the prediction by Intel co-founder Gordon Moore that the number of transistors on a chip will double about every two years.

Moore's Law has been the industry's benchmark for technological progress for more than 40 years, but chip makers are finding it harder to maintain because of physical limitations of the materials used in making microprocessors.

Intel said the \$7 billion will pay for new machinery at factories in Arizona, Oregon and New Mexico, which will be outfitted to produce chips based on 32-nanometer technology. The most advanced chips are currently made with transistors as small as 45 nanometers wide. Intel says 2,000 of those transistors would fit across the width of a human hair.

But Intel's investment doesn't necessarily mean lots of new jobs will be created.

The money will pay the salaries of about 7,000 “high-wage, high-skill” jobs that already exist at those plants.

Otellini said in a call with reporters that Intel spent about \$5 billion on the previous technological transition. A big reason for the higher price tag this time is the equipment for 32-nanometer production is more expensive, he said.

Otellini said some construction jobs will be created as the factories are outfitted with the new gear, but added that Intel wanted to deploy the technology in facilities where the company already had lots of engineers and technicians, to speed the time to market.

“From our perspective this is a cheaper, better technology,” he said. “Spending this money will lower our costs and give us more competitive products. It's something that's fundamental to our business model.”

The investment comes as Intel is cutting up to 6,000 manufacturing jobs by closing plants in Malaysia and the Philippines and stopping production at facilities in Oregon and California.

Intel is also closing a factory in China, where 2,000 workers will have their jobs shifted to other cities. Intel says those workers will be offered the chance to relocate.