Broadcom financial outlook disappoints and shares fall

Tue, Feb 1 2011

NEW YORK (Reuters) - Chip maker Broadcom Corp (BRCM.O: Quote, Profile, Research, Stock Buzz) forecast on Tuesday an increase in first quarter expenses even as revenue is set to fall from the fourth quarter, sending its shares down 5 percent.

Investors were also disappointed by the company's fourth quarter profit margin, especially as its revenue was well ahead of Wall Street expectations.

"Semiconductors have had a pretty good run. Are we seeing a slow down in demand or more competition?" Charter Equity Research analyst Ed Snyder said. "People are getting skittish."

Broadcom's fourth quarter gross margin of 49.4 percent was below Snyder's expectation for 50.3 percent.

And while investors were expecting a boost to quarterly profit margins in the current quarter, Broadcom said the number would likely be unchanged from the fourth quarter.

Broadcom, whose chips are used in network equipment and consumer products such as Apple Inc's (AAPL.O: Quote, Profile, Research, Stock Buzz) iPhone, said its operating expenses would increase in a range of $45 million to $55 million this quarter.

Broadcom posted a 45 percent increase in fourth-quarter revenue to $1.95 billion from $1.34 billion a year ago, compared with analysts' average expectation for $1.9 billion, according to Thomson Reuters I/B/E/S.

While its forecast for first quarter revenue of $1.75 billion to $1.85 billion was in line with Wall Street expectations, investors were disappointed that the decline was accompanied by an increase in expenses.

"That's a bad combination," said Auriga analyst Daniel Berenbaum.

Its shares fell more than five percent to $43.86 in late trade after closing up 2.9 percent at $46.39 on Nasdaq.

The company said its first-quarter expenses increase was driven by items such as stock-based compensation for employees and by an increase in legal expenses.

Its fourth-quarter profit rose to $266 million, or 47 cents per share, compared with $59 million, or 11 cents per share, in the same quarter a year ago.

(Reporting by Sinead Carew; Editing by Tim Dobbyn)

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.