

AMD's Disappointing Outlook

AMD		Advanced Micro Devices	
Qtr:	4Q	Grade:	<i>E</i>
Rev:	1,239	Rev:	o
GM:	34%	EPS:	-
EPS:	\$0.00	Fcst:	- - -

Advanced Micro Devices (AMD, \$2.24 -0.15, Rated Long—But Distressed in my latest Chip Investment Ideas)

Disappointing 1Q Guidance: Late yesterday AMD announced 4Q results generally consistent with expectations, although 1Q revenue guidance was very disappointing. Technically, 4Q revenue missed by \$1M and break-even EPS missed by a penny, although I consider the revenue miss to be insignificant on a percentage basis and the qualitative expectations for non-GAAP EPS to be slightly above break-even satisfied. Regardless of 4Q hair-splitting, revenue guidance for 1Q was below the low-end of the range of published expectations and worse than seasonal as desktop PC processor channel inventory continues to correct.

GAAP EPS was a loss of (\$0.47) and included a \$233M goodwill impairment charge, a \$58M inventory write-down, and \$71M in restructuring. Computing/Graphics (desktop and notebook PC processors and graphics processors) revenue declined by -15% sequentially to \$662M or 53% of sales on a (\$56M) operating loss. Desktop and graphics sales declined, although notebooks grew and dragged ASPs higher. EESC (Enterprise, embedded, and semi-customer) declined by -11% to \$577M or 47% of sales due to seasonally soft semi-custom video game sales, although operating margin expanded by +220 basis points to 18.9% on higher royalties. These 'growth products' are expected to account for half of sales by year-end and include FirePro professional graphics, two new semi-custom design wins beyond Sony and Microsoft video games, dense server processors based on both ARM and X86 processors, embedded products across diverse applications, and ultra-low power thin client offerings.

The shares are now trading very close to a 10-year low and only 0.3-times sales—basically a call-option on survival. Distressed? You bet: not making money, not growing, and twice as much debt as cash. Nevertheless: it has been profitable on a non-GAAP basis for six quarters and guided for 2015 profitability, excluding \$20M/quarter charges in stock comp; sequential quarterly revenue growth is expected to resume 2Q15 after this quarter's seasonal trough as the PC/Graphics business stabilizes and it's other half-ish of revenues continues to grow (albeit probably not at last year's +50% rate); and cash is expected to remain at \$1B and debt has been restructured for its first \$600M tranche due in March of 2019 after this year's nominal \$42M. Worth a mad-money gander, in my opinion.

—Dan K. Scovel
Semiconductor Analyst

LEGEND

	Grade
+++ exceeded the high-end of the range	
++ above consensus, within the high-end of the range	A all +++
+ slightly above consensus	B all +
o met consensus	C all o/+
- slightly below consensus	D mixed -/o/+
-- missed consensus, within the low-end of the range	E all o/-
--- missed the low-end of the range	F all -

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