

**AMD 3Q Exceeds, Seasonally Soft Guidance is Pronounced**

AMD		Advanced Micro Devices		
<b>Qtr:</b>	3Q	<b>Grade:</b>	B	<b>Growth(qtr-qtr)</b>
<b>Rev:</b>	1,307	<b>Rev:</b>	+++	<b>Rev:</b> +27.3%
<b>GM:</b>	31%	<b>EPS:</b>	+++	<b>Fcst:</b> -21-15%
<b>EPS:</b>	\$0.03	<b>Fcst:</b>	+	<b>Div:</b>

**Advanced Micro Devices (AMD, \$6.96 +0.19)**

**3Q Earnings:** AMD reported 3Q results late yesterday above the high-end of the range of expectations primarily due to the ramp of semi-custom products into three new gaming platforms, but also new graphics product strength. Guidance exceeded consensus, but the pronounced seasonal decline from gaming systems after 3Q strength will more than offset expected growth from computing and graphics.

The 3Q GAAP loss of (\$0.50) included a \$340M charge associated with the 6<sup>th</sup> amendment to the Wafer Supply Agreement (WSA) with GlobalFoundries as well as a \$61M loss from debt redemption. AMD raised over \$1.4B in cash last quarter (and early this quarter) by issuing \$690M in shares and \$805M in converts due 2026 to retire the \$226M ABL and \$208M note due 2020. The basic share count now totals 930M.

Enterprise, Embedded and Semi-Custom (EESC) segment revenue of \$835M increased 41% sequentially and 31% year-over-year due to record sales of semi-custom SoCs which included the ramp of three new FinFET-based products for use in the Xbox One S, updated PlayStation 4, and the new Sony PlayStation 4 Pro. Operating income was \$136 million. The quarter included a \$24 million IP licensing gain. A non-game SoC is forthcoming.

Computing and Graphics (CG) segment revenue of \$472M increased 9% sequentially and 11% year-over-year. Sequential growth was primarily driven by graphics chips and partially offset by decreasing desktop processors and chipsets. Annual growth was also primarily driven by graphics chips but also mobile processors, both of which were partially offset by weak desktop processors and chipsets. The operating loss was \$66 million.

Mobile processor revenue and unit shipments increased for the fourth straight quarter (although ASPs declined) as 7<sup>th</sup>-generation APU shipments continued ramping, highlighted by the new PRO series launch at HP.

Discrete graphics revenue and unit shipments grew by double-digit percentages both sequentially and year-over-year driven by higher channel and professional graphics ASPs. Radeon RX GPUs now account for over half of channel revenue and professional graphics sales grew for the fourth straight quarter. The company expanded its Polaris architecture family offerings based on 14nm FinFET technology and virtual reality apps were highlighted by a design win in a limited edition Oculus-ready PC. Multiple cloud datacenter providers are now engaged with the Radeon PRO, and the next-generation Vega architecture will be introduced 1H17.

Desktop processor weakness in units and ASPs is expected to improve 1Q17 with the ramp of its Zen-architecture Summit Ridge product for the high-end that management claims is competitive with Intel's Core I5/I7 and will hopefully restore AMD's PC market share from 10% to its more historical average around 20%. A Zen-based processor for server applications with 32 cores and 64-threads will be introduced 1H17.

AMD appears to be on the cusp of finally restoring sustainable growth and profitability as it ramps new offerings into production. The shares are up over 140% this year, but are still trading at a modest 1.5-times sales. While business can still be characterized as distressed, I think upside potential continues to exceed downside risk.

**—Dan K. Scovel**  
*Semiconductor Analyst*

**Tokeneke Research LLC**  
**Rowayton, CT 06853**  
[dscovel@tokenekeresearch.com](mailto:dscovel@tokenekeresearch.com)  
[www.tokenekeresearch.com](http://www.tokenekeresearch.com)  
203-554-4621

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