

INTC 3Q Revenue Strength on Servers and PCs Gross Margin Soft, PC Channel Inventory Build? Raising Est., Reiterate Hold

Diluted Shares (mil):	5,045	<u>Closing Price 10/14/14</u>	<u>fye Dec</u>	2014	2015	2016
Market Cap (\$mil):	\$162,146	\$32.14	Revenue (\$mil)	\$55,749	\$58,345	\$60,962
Avg Volume (,000):	32,480		EPS	\$2.22	\$2.34	\$2.44
Net Cash/Share:	\$1.75	<u>Recommendation/Target</u>	Price/Sales	2.9	2.8	2.7
Dividend Yield:	2.8%	Hold-Not Compelling/\$30 from \$28.50	Price/EPS	14.5	13.7	13.2

Intel is the world's largest semiconductor manufacturer and supplies microprocessors and chipsets to PC and server markets.

Summary: INTC modestly exceeded the mid-point of 3Q revenue guidance and consensus expectations with sequential growth of +5% due to persistent server and PC strength, and secured EPS a penny better than consensus as operating cost savings, lower taxes and a decreasing share count offset gross margin weakness due to higher 14nm technology start-up production costs. It also guided for 1% revenue growth this quarter assuming seasonally normal consumer PC trends. Good news for INTC and PCs, although I fear risk of a channel inventory build given the lack of unit growth in the overall PC market. I am raising my estimates and target price and am introducing a 2016 estimate, but reiterate my Hold/Not Compelling recommendation on the shares. My revised 12-month target price is based on a 12.5-times peer-average price-earnings ratio for 2016, down from 13-times based on 2015.

PCs Outperform the Market: Quarter revenue achieved a record high and the company shipped over 100M units for the first time. INTC's highly profitable server/data center business continues to do well, but I am concerned that PC strength may reflect an inventory build in the channel. PC unit shipments grew by +15% over last year amid a flat market due to incremental share gains, differing methodologies with market researchers accounting for the Microsoft Surface as a PC rather than a tablet, and what management characterizes as an 'appropriate' inventory build for consumer PC consumption ahead of the holiday season. I guess we will see what holiday consumption proves to be, soon enough. Management is also excited about extending the Intel architecture into new markets with its recent Chinese deals with Rockchip and Spreadtrum, although I think these initiatives will be challenging.

3Q Review: Revenue of \$14.55B increased by +5.2%, slightly better than expected on persistent data center and PC strength. Gross margin of 65.0% missed the mid-point of guidance by 100 basis points due to higher start-up costs associated with the 14nm production ramp that is running slightly behind schedule, but expanded by 50 basis points sequentially due to higher volume and lower unit manufacturing costs of current 22nm technology. EPS of \$0.66 beat consensus by a penny and my estimate by 3-cents as upside from a combination of revenue and a mix of factors more than offset gross margin weakness. Inventory increased by \$172M to \$4.1B on the ramp of Broadwell and 14nm technology, cash (including long-term marketable securities) fell by \$1.25B to \$22.1B, and operating cash flow was \$5.7B with \$2.4B going to capital expenditures, \$4.2B to repurchase 119M shares, and \$1.1B in dividends.

FYE December in millions, GAAP	3Q14					
	Estimate	Actual	EPS Impact	Guidance	Consensus	Range
Revenue	\$14,400	\$14,554	\$0.02	\$13,900-14,900	\$14,450	\$14,380-14,660
Revenue Growth	4.1%	5.2%		+0.5%+7.7%	4.5%	+4.0%+6.0%
Gross Margin	66.0%	65.0%	(\$0.02)	64%-68%		
R&D + MG&A	\$4,920	\$4,821	\$0.01	\$4,900		
Restruct/Impairment	\$85	\$97		\$85		
Equity/Interest/Other	\$0	\$10		\$0		
Tax Rate	28.0%	27.1%	\$0.01	28.0%		
Diluted Shares	5,121	5,045	\$0.01			
Diluted EPS, GAAP	\$0.63	\$0.66	\$0.03		\$0.65	\$0.62-\$0.68

Data Center and PC Strength: PC Client sales of \$9.2B accounted for 63% of total sales and grew by +6.0% sequentially as a volume increase of +7% was partially offset by an ASP decline of -2%, and operating profit of 44.8% increased by 170 basis points. Mature markets remain stable while emerging markets remain weak. The ramping Broadwell processor in cost-effective 14nm technology supports a range of PC price points and configurations including two-in-ones, all-in-ones, convertibles and detachable.

Data Center sales of \$3.7B accounted for 25% of sales and grew by +5.4% sequentially on a +6% increase in volume partially offset by a slight ASP decline of -1%, while operating profit remain unchanged at 51.8%. This highly profitable business is expected to continue to grow at a low-double digit percentage rate on strength from cloud servers, enterprise servers, networking and high-performance computing. The Xeon E5 'Grantley' processor launched five weeks ago and already accounts for 10% of dual-processor server sockets.

The new IoT group accounted for \$530M or 4% of total sales and fell by -1.7% sequentially as operating profit of expanded by 10 basis points to 28.9%. The rest of INTC's businesses accounted for an unprofitable 8% of sales. Management remains committed to Mobile/Communication business serving tablets and smartphones for strategic reasons and hopes to alleviate losses that totaled \$1B this quarter on only \$1M in sales sometime after next year. INTC shipped 15M processors for tablets last quarter after 10M and 5M the prior quarters, respectively, and remains on-track to exceed its 40Mu goal this year, although contra-revenue sales incentives continue to adversely impact gross margins. It also claims to be the world's second largest tablet processor supplier, and the largest merchant provider. In addition to baseband design wins at Samsung and other customers, it expects the baseband attach rate on PCs to double to 15% by 2018. INTC changed reporting segments this year, but my Sales analysis reflects both.

Management Guidance: 4Q guidance includes: revenue of \$14.7B +/- \$500M, up a seasonally normal +1% at the mid-point; gross margin down by 100 basis points to 64% +/- a couple of points as lower 14nm production costs are more than offset by tablet subsidies and start-up costs for next-generation 10nm technology; R&D and MG&A at \$4.9B; restructuring costs of \$45M; amortization of \$65M; interest and other at \$175M; depreciation at \$1.9B; and a tax rate of 28%. Capital expenditures for 2014 remain unchanged at \$11B +/- \$500M.

Raising Estimates: I am raising my 4Q14 estimate just below the mid-point of revenue guidance, and the higher expectations are trickling through this year and next as noted below.

in millions, GAAP	4Q14		2014		2015		2016
	Previous	Update	Previous	Update	Previous	Update	New
Revenue	\$14,400	\$14,600	\$55,395	\$55,749	\$57,545	\$58,345	\$60,962
Revenue Growth	0.0%	0.3%	5.1%	5.8%	3.9%	4.7%	4.5%
Gross Margin	61.0%	64.0%	62.9%	63.8%	61.8%	62.8%	62.4%
R&D + MG&A	\$4,674	\$4,918	\$19,397	\$19,542	\$19,742	\$20,147	\$20,883
Restruct/Impairment	\$80	\$110	\$528	\$570	\$300	\$300	\$300
Equity/Interest/Other	\$0	\$175	\$238	\$423	\$200	\$200	\$200
Tax Rate	28.0%	28.0%	28.1%	27.9%	28.0%	28.0%	28.0%
Diluted Shares	5,121	5,045	5,121	5,083	5,121	5,045	5,045
Diluted EPS, GAAP	\$0.57	\$0.64	\$2.13	\$2.22	\$2.21	\$2.34	\$2.44

Reiterate Hold: INTC is somewhat compelling based on historical average fundamental valuation ratios. However, this potential upside disappears when considering valuation relative to its peers in the current equity market environment. I have two peer groups for INTC on Page 6: the first is a set of large-cap, technology-related companies that includes AAPL, AMAT, CSCO, GE, HPQ, IBM, MSFT and ORCL; and the second consists of large semiconductor companies that includes AMD, BRCM, MU, NVDA, QCOM, SNDK, STM, TSM and TXN.

INTC is currently trading at valuation levels above that of both peer groups. However, it is trading just below the average price-earnings ratios of its more richly-valued semiconductor peers, at least on a trailing and current basis. Unfortunately, INTC tends to trade more consistently with its large-cap technology peers, in my opinion. Nevertheless, its dividend yield of 2.8% remains the fourth highest of all peers on both lists. I continue to rate the shares as Hold/Not Compelling, but admit its attractive dividend yield and discount to semiconductor peers and historical averages is likely to limit potential downside risk.

The valuation metrics of both peer groups has decreased over the last three months. The average price-earnings ratios based on 2015 estimates has declined to a spread of 11.8- to 13.0-times from 12.5- to 15.5-times, and the average price-sales ratio for next year to 2.4- from 2.6-times. I am raising my 12-month target price to \$30 from \$28.50 based on 12.5-times 2016 earnings down from 13-times, but still in between the two peer groups.

Diluted EPS, GAAP	4Q14	2014	2015	2016	Revenue, 39 estimates	4Q14	2014	2015	2016
Tokeneke-revised	\$0.64	\$2.22	\$2.34	\$2.44	Tokeneke-revised	\$14,600	\$55,749	\$58,345	\$60,962
Tokeneke-previous	\$0.57	\$2.13	\$2.21		Tokeneke-previous	\$14,400	\$55,395	\$57,545	
Consensus-previous	\$0.62	\$2.19	\$2.31		Consensus-previous	\$14,490	\$55,510	\$56,950	
Highest Est-previous	\$0.69	\$2.28	\$2.87		Highest Est-previous	\$15,100	\$56,360	\$60,040	
Lowest Est-previous	\$0.57	\$2.11	\$1.57		Lowest Est-previous	\$14,200	\$55,080	\$49,440	

—Dan K. Scovel
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Income Statement

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GAAP

Dollars in millions. * restated
fiscal year ends December

			2013				2013	2014 est				2014	2015				2016	
	2011	2012	Q1	Q2	Q3	Q4		Q1A	Q2A	Q3A	Q4		Q1	Q2	Q3	Q4		2015
Sales	53,999	53,341	12,580	12,811	13,483	13,834	52,708	12,764	13,831	14,554	14,600	55,749	13,578	14,257	15,255	15,255	58,345	60,962
COGS	20,242	20,190	5,514	5,341	5,069	5,263	21,187	5,138	4,914	5,096	5,256	20,404	5,295	5,275	5,492	5,644	21,707	22,897
Gross Profit	33,757	33,151	7,066	7,470	8,414	8,571	31,521	7,626	8,917	9,458	9,344	35,345	8,283	8,982	9,763	9,611	36,638	38,065
R&D	8,350	10,148	2,527	2,516	2,742	2,826	10,611	2,846	2,859	2,842	2,899	11,446	2,899	2,957	2,986	2,986	11,828	12,186
MG&A	7,670	8,057	1,947	2,165	1,970	2,006	8,088	2,037	2,061	1,979	2,019	8,096	2,019	2,059	2,121	2,121	8,319	8,697
Amort/Restruct/other	260	308	73	70	198	190	531	210	153	97	110	570	75	75	75	75	300	300
Operating Expenses	16,280	18,513	4,547	4,751	4,910	5,022	19,230	5,093	5,073	4,918	5,027	20,111	4,992	5,091	5,182	5,182	20,447	21,182
Operating Income	17,477	14,638	2,519	2,719	3,504	3,549	12,291	2,533	3,844	4,540	4,317	15,234	3,290	3,891	4,581	4,428	16,191	16,883
Interest & Other	304	235	-76	-26	420	2	320	160	78	10	175	423	50	50	50	50	200	200
Pretax Income	17,781	14,873	2,443	2,693	3,924	3,551	12,611	2,693	3,922	4,550	4,492	15,657	3,340	3,941	4,631	4,478	16,391	17,083
Taxes	4,839	3,868	398	693	974	926	2,991	746	1,126	1,233	1,258	4,363	935	1,104	1,297	1,254	4,589	4,783
Net Income	12,942	11,005	2,045	2,000	2,950	2,625	9,620	1,947	2,796	3,317	3,234	11,294	2,405	2,838	3,334	3,224	11,801	12,300
EPS-Basic	\$2.46	\$2.20	\$0.41	\$0.40	\$0.59	\$0.53	\$1.94	\$0.39	\$0.56	\$0.68	\$0.66	\$2.29	\$0.49	\$0.58	\$0.68	\$0.66	\$2.42	\$2.52
Shares-Basic	5,256	4,996	4,948	4,978	4,981	4,971	4,970	4,974	4,981	4,880	4,880	4,929	4,880	4,880	4,880	4,880	4,880	4,880
EPS-Diluted	\$2.39	\$2.13	\$0.40	\$0.39	\$0.58	\$0.51	\$1.89	\$0.38	\$0.55	\$0.66	\$0.64	\$2.22	\$0.48	\$0.56	\$0.66	\$0.64	\$2.34	\$2.44
Shares-Diluted	5,411	5,160	5,080	5,106	5,100	5,103	5,097	5,117	5,123	5,045	5,045	5,083	5,045	5,045	5,045	5,045	5,045	5,045
Margin Analysis																		
GM	62.5%	62.1%	56.2%	58.3%	62.4%	62.0%	59.8%	59.7%	64.5%	65.0%	64.0%	63.4%	61.0%	63.0%	64.0%	63.0%	62.8%	62.4%
R&D	15.5%	19.0%	20.1%	19.6%	20.3%	20.4%	20.1%	22.3%	20.7%	19.5%	19.9%	20.5%	21.3%	20.7%	19.6%	19.6%	20.3%	20.0%
SG&A	14.2%	15.1%	15.5%	16.9%	14.6%	14.5%	15.3%	16.0%	14.9%	13.6%	13.8%	14.5%	14.9%	14.4%	13.9%	13.9%	14.3%	14.3%
Operating Income	32.4%	27.4%	20.0%	21.2%	26.0%	25.7%	23.3%	19.8%	27.8%	31.2%	29.6%	27.3%	24.2%	27.3%	30.0%	29.0%	27.8%	27.7%
Pretax Income	32.9%	27.9%	19.4%	21.0%	29.1%	25.7%	23.9%	21.1%	28.4%	31.3%	30.8%	28.1%	24.6%	27.6%	30.4%	29.4%	28.1%	28.0%
Tax Rate	27.2%	26.0%	16.3%	25.7%	24.8%	26.1%	23.7%	27.7%	28.7%	27.1%	28.0%	27.9%	28.0%	28.0%	28.0%	28.0%	28.0%	28.0%
Net Income	24.0%	20.6%	16.3%	15.6%	21.9%	19.0%	18.3%	15.3%	20.2%	22.8%	22.2%	20.3%	17.7%	19.9%	21.9%	21.1%	20.2%	20.2%
Qtr-to-Qtr Growth																		
Revenue			-6.7%	1.8%	5.2%	2.6%		-7.7%	8.4%	5.2%	0.3%		-7.0%	5.0%	7.0%	0.0%		
Gross Profit			-9.6%	5.7%	12.6%	1.9%		-11.0%	16.9%	6.1%	-1.2%		-11.4%	8.4%	8.7%	-1.6%		
Operating Income			-20.2%	7.9%	28.9%	1.3%		-28.6%	51.8%	18.1%	-4.9%		-23.8%	18.3%	17.7%	-3.3%		
Net Income			-17.1%	-2.2%	47.5%	-11.0%		-25.8%	43.6%	18.6%	-2.5%		-25.6%	18.0%	17.5%	-3.3%		
EPS			-16.9%	-2.7%	47.7%	-11.1%		-26.0%	43.4%	20.5%	-2.5%		-25.6%	18.0%	17.5%	-3.3%		
Year-to-Year Growth																		
Revenue	23.8%	-1.2%	-2.5%	-5.1%	0.2%	2.6%	-1.2%	1.5%	8.0%	7.9%	5.5%	5.8%	6.4%	3.1%	4.8%	4.5%	4.7%	4.5%
Gross Profit	18.5%	-1.8%	-14.5%	-12.7%	-1.2%	9.6%	-4.9%	7.9%	19.4%	12.4%	9.0%	12.1%	8.6%	0.7%	3.2%	2.9%	3.7%	3.9%
Operating Income	12.1%	-16.2%	-33.9%	-29.0%	-8.8%	12.5%	-16.0%	0.6%	41.4%	29.6%	21.6%	23.9%	29.9%	1.2%	0.9%	2.6%	6.3%	4.3%
Net Income	12.9%	-15.0%	-25.3%	-29.3%	-0.7%	6.4%	-12.6%	-4.8%	39.8%	12.4%	23.2%	17.4%	23.5%	1.5%	0.5%	-0.3%	4.5%	4.2%
EPS	18.8%	-10.8%	-23.7%	-28.0%	0.3%	6.2%	-11.5%	-5.5%	39.3%	13.7%	24.6%	17.7%	25.3%	3.1%	0.5%	-0.3%	5.3%	4.2%

Intel Corporation

Financial Summary

Dollars in millions

Fiscal year ends December

	2010	2011	2012	2013	3Q13	4Q13	1Q14	2Q14	3Q14
Assets									
Cash and short-term investments	16,792	10,246	12,477	11,646	11,373	11,646	10,011	7,540	6,594
Trading assets	5,093	4,591	5,685	8,441	7,773	8,441	9,035	9,771	9,000
Net accounts receivable	<u>2,867</u>	<u>3,650</u>	<u>3,833</u>	<u>3,582</u>	<u>3,719</u>	<u>3,582</u>	<u>3,505</u>	<u>3,489</u>	<u>3,647</u>
Quick Assets	24,752	18,487	21,995	23,669	22,865	23,669	22,551	20,800	19,241
Inventories	3,824	4,096	4,734	4,172	4,533	4,172	3,763	3,943	4,115
Other	<u>2,987</u>	<u>3,289</u>	<u>4,629</u>	<u>4,243</u>	<u>3,952</u>	<u>4,243</u>	<u>4,240</u>	<u>4,263</u>	<u>4,607</u>
Current Assets	31,563	25,872	31,358	32,084	31,350	32,084	30,554	29,006	27,963
Property, plant and eqt, net	17,899	23,627	27,983	31,428	30,346	31,428	32,502	33,115	33,135
Marketable securities	4,034	1,451	4,424	6,221	6,514	6,221	6,085	6,044	6,514
Goodwill, net	4,531	15,521	15,945	15,663	15,901	15,663	15,553	15,318	14,935
Other assets/L-T investments	<u>5,111</u>	<u>4,648</u>	<u>4,641</u>	<u>6,962</u>	<u>6,440</u>	<u>6,962</u>	<u>7,211</u>	<u>8,310</u>	<u>8,547</u>
Total Assets	63,138	71,119	84,351	92,358	90,551	92,358	91,905	91,793	91,094
Liabilities and Shareholders Equity									
Short-term debt	38	247	312	281	350	281	36	14	79
Accounts payable	2,290	2,956	3,023	2,969	2,996	2,969	3,010	2,960	2,597
Deferred distribution income	622	1,929	1,932	2,096	2,093	2,096	2,171	2,171	2,189
Income taxes payable/other	<u>6,120</u>	<u>6,896</u>	<u>7,631</u>	<u>8,222</u>	<u>8,436</u>	<u>8,222</u>	<u>8,291</u>	<u>7,106</u>	<u>8,954</u>
Current Liabilities	9,070	12,028	12,898	13,568	13,875	13,568	13,508	12,251	13,819
Long-term debt	2,077	7,084	13,136	13,165	13,157	13,165	13,172	13,180	13,188
Deferred tax liabilities	927	2,617	3,412	4,397	4,384	4,397	4,302	4,187	4,029
Other	<u>1,426</u>	<u>3,479</u>	<u>3,702</u>	<u>2,972</u>	<u>3,683</u>	<u>2,972</u>	<u>2,868</u>	<u>2,928</u>	<u>3,070</u>
Total Liabilities	13,500	25,208	33,148	34,102	35,099	34,102	33,850	32,546	34,106
Common stock	16,178	17,036	19,464	21,536	21,113	21,536	22,166	22,475	22,809
Retained earnings	33,127	29,656	32,138	35,477	33,291	35,477	34,733	35,652	33,233
Other	<u>333</u>	<u>(781)</u>	<u>(399)</u>	<u>1,243</u>	<u>1,048</u>	<u>1,243</u>	<u>1,156</u>	<u>1,120</u>	<u>946</u>
Total Shareholders Equity	<u>49,638</u>	<u>45,911</u>	<u>51,203</u>	<u>58,256</u>	<u>55,452</u>	<u>58,256</u>	<u>58,055</u>	<u>59,247</u>	<u>56,988</u>
Total Liabilities and Equity	63,138	71,119	84,351	92,358	90,551	92,358	91,905	91,793	91,094
Sales and Income									
Revenue	43,623	53,999	53,341	52,708	13,483	13,834	12,764	13,831	14,554
COGS	14,808	20,242	20,190	21,187	5,069	5,263	5,138	4,914	5,096
Net income	11,672	12,942	1,005	9,620	2,950	2,625	1,947	2,796	3,317
Other									
Capital Expenditures	5,207	10,764	11,027	10,711	2,866	2,948	2,689	2,828	2,445
Depreciation	4,398	5,141	6,357	6,790	1,729	1,667	1,720	1,880	1,891
Shares (weighted average diluted)	5,696	5,411	5,160	5,097	5,100	5,103	5,117	5,123	5,045
Employees (units)	82,500	100,100	105,000	107,600	107,200	107,600	106,300	104,900	105,600
Dividends paid	3,503	4,127	4,350	4,479	1,121	1,121	1,119	1,126	1,095
Shares repurchased	70	642	191	94	24	22	22	76	119
Value of Shares Repurchased	1,500	14,133	4,765	2,147	536	528	545	2,081	4,166
Ratios									
Liquidity									
Quick Ratio	2.73	1.54	1.71	1.74	1.65	1.74	1.67	1.70	1.39
Current Ratio	3.48	2.15	2.43	2.36	2.26	2.36	2.26	2.37	2.02
Leverage									
Debt Ratio	0.21	0.35	0.39	0.37	0.39	0.37	0.37	0.35	0.37
Long-term Debt/Capital	0.07	0.19	0.24	0.22	0.23	0.22	0.22	0.22	0.22
Asset Management									
Fixed Asset Turnover	2.5	2.6	2.1	1.8	1.8	1.8	1.6	1.7	1.8
Total Asset Turnover	0.8	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Receivables DSO	24	24	26	24	25	23	25	23	23
Inventory Days	93	73	84	71	80	71	66	72	73
Inventory Turnover	4.4	5.1	4.6	4.8	4.5	4.8	5.2	5.1	5.1
Revenue/Employee (\$000)	702	721	707	664	126	129	119	131	138
Profitability									
Gross Margin	66.1%	62.5%	62.1%	59.8%	62.4%	62.0%	59.7%	64.5%	65.0%
Net Margin	26.8%	24.0%	1.9%	18.3%	21.9%	19.0%	15.3%	20.2%	22.8%
Return on Assets	20.1%	19.3%	1.3%	10.9%	13.4%	11.5%	8.5%	12.2%	14.5%
Return on Equity	25.6%	27.1%	2.1%	17.6%	21.6%	18.5%	13.4%	19.1%	22.8%
Per Share Data									
Book Value/Share	\$8.71	\$8.48	\$9.92	\$11.43	\$10.87	\$11.42	\$11.35	\$11.56	\$11.30
Tangible Book Value/Share	\$7.92	\$5.62	\$6.83	\$8.36	\$7.76	\$8.35	\$8.31	\$8.57	\$8.34
Cash/Share (incl long-term)	\$4.55	\$3.01	\$4.38	\$5.16	\$5.03	\$5.16	\$4.91	\$4.56	\$4.38
Cash/Share (net, incl long-term)	\$4.18	\$1.66	\$1.77	\$2.52	\$2.38	\$2.52	\$2.33	\$1.98	\$1.75
Earnings/Share	\$2.05	\$2.39	\$0.19	\$1.89	\$0.58	\$0.51	\$0.38	\$0.55	\$0.66

Intel Corporation

Sales Analysis

dollars in millions

* restated

	2011	2012	2013	2011				2012				2013				2014		
				1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q
By Territory																		
Revenue Percent																		
Singapore	25.2%	23.7%	20.9%															
Taiwan	15.8%	17.5%	16.9%															
US	16.7%	15.7%	17.2%															
China/Hong Kong	13.2%	15.6%	18.8%															
Japan	8.4%	8.1%	7.1%															
other	20.7%	19.6%	19.2%															
Total	100.0%	100.0%	100.0%															
Growth Rate																		
Singapore	26.9%	-7.4%	-12.9%															
Taiwan	18.7%	9.3%	-4.7%															
US	40.8%	-7.3%	8.9%															
China/Hong Kong	26.6%	16.3%	19.2%															
Japan	-2.5%	-5.2%	-13.4%															
other	23.9%	-6.5%	-3.1%															
Total	23.8%	-1.2%	-1.2%															
By Customer																		
Hewlett Packard	19.0%	18.0%	17.0%															
Dell	15.0%	14.0%	15.0%															
Lenovo	9.0%	11.0%	12.0%															
By Product Line																		
PC Client Group																		
Revenue		34,688	33,270									8,054	8,160	8,440	8,616	7,941	8,667	9,190
Operating Income		13,008	11,751									2,488	2,646	3,243	3,374	2,802	3,734	4,120
Operating Margin		37.5%	35.3%									30.9%	32.4%	38.4%	39.2%	35.3%	43.1%	44.8%
Data Center Group																		
Revenue		11,219	12,161									2,777	2,944	3,178	3,262	3,087	3,509	3,700
Operating Income		5,231	5,569									1,144	1,302	1,520	1,603	1,317	1,817	1,915
Operating Margin		46.6%	45.8%									41.2%	44.2%	47.8%	49.1%	42.7%	51.8%	51.8%
Internet of Things																		
Revenue		1,600	1,801									365	434	464	538	482	539	530
Operating Income		278	550									67	123	152	208	123	155	153
Operating Margin		17.4%	30.5%									18.4%	28.3%	32.8%	38.7%	25.5%	28.8%	28.9%
Mobile/Comm																		
Revenue		1,791	1,375									404	292	353	326	156	51	1
Operating Income		(1,776)	(3,148)									(703)	(761)	(810)	(874)	(929)	(1,124)	(1,043)
Operating Margin		-99.2%	-228.9%									-174.0%	-260.6%	-229.5%	-268.1%	-595.5%	-2204%	NM
Software/Services																		
Revenue		2,072	2,190									520	534	545	591	553	548	558
Operating Income		12	24									(6)	(1)	1	30	7	8	29
Operating Margin		0.6%	1.1%									-1.2%	-0.2%	0.2%	5.1%	-1.3%	1.5%	5.2%
Other																		
Revenue		1,971	1,911									460	447	503	501	545	517	575
Operating Income		(2,115)	(2,455)									(471)	(590)	(602)	(792)	(773)	(746)	(634)
Operating Margin		-107.3%	-128.5%									-102.4%	-132.0%	-119.7%	-158.1%	-141.8%	-144.3%	-110.3%
Total Revenue		53,341	52,708									12,580	12,811	13,483	13,834	12,764	13,831	14,554
Total Operating Income		14,638	12,291									2,519	2,719	3,504	3,549	2,533	3,844	4,540
Revenue Percent																		
PC Client		65.0%	63.1%									64.0%	63.7%	62.6%	62.3%	62.2%	62.7%	63.1%
Data Center		21.0%	23.1%									22.1%	23.0%	23.6%	23.6%	24.2%	25.4%	25.4%
IoT		3.0%	3.4%									2.9%	3.4%	3.4%	3.9%	3.8%	3.9%	3.6%
Mobile/Comm		3.4%	2.6%									3.2%	2.3%	2.6%	2.4%	1.2%	0.4%	0.0%
Software/Services		3.9%	4.2%									4.1%	4.2%	4.0%	4.3%	4.3%	4.0%	3.8%
Other		3.7%	3.6%									3.7%	3.5%	3.7%	3.6%	4.3%	3.7%	4.0%
Total		100.0%	100.0%									100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth																		
PC Client			-4.1%										1.3%	3.4%	2.1%	-7.8%	9.1%	6.0%
Data Center			8.4%										6.0%	7.9%	2.6%	-5.4%	13.7%	5.4%
IoT			12.6%										18.9%	6.9%	15.9%	-10.4%	11.8%	-1.7%
Mobile/Comm			-23.2%										-27.7%	20.9%	-7.6%	-52.1%	-67.3%	-98.0%
Software/Services			5.7%										2.7%	2.1%	8.4%	-6.4%	-0.9%	1.8%
Other			-3.0%										-2.8%	12.5%	-0.4%	8.8%	-5.1%	11.2%
Total			-1.2%										1.8%	5.2%	2.6%	-7.7%	8.4%	5.2%
By Product Line--OLD																		
PC Client Group																		
Microprocessors	29,924	34,804	33,039	6,823	6,533	7,521	9,047	8,499	8,754	8,991	8,560	7,992	8,100	8,387	8,560			
Chipset_mbd_other	5,482			1,798	1,788	1,896												
Total Revenue	35,406	34,804	33,039	8,621	8,321	9,417	9,047	8,499	8,754	8,991	8,560	7,992	8,100	8,387	8,560			
Operating Income	14,793	13,106	11,827	3,543	3,284	4,014	3,952	3,491	3,440	3,346	2,829	2,513	2,659	3,260	3,395			
operating margin	41.8%	37.7%	35.8%	41.1%	39.5%	42.6%	43.7%	41.1%	39.3%	37.2%	33.0%	31.4%	32.8%	38.9%	39.7%			
Microprocessor growth	25.8%	16.3%	-5.1%	11.6%	-4.3%	15.1%	20.3%	-6.1%	3.0%	2.7%	-4.8%	-6.6%	1.4%	3.5%	2.1%			
chipset growth	-16.2%			12.6%	-0.6%	6.0%												
Subtotal Rev growth	16.7%	-1.7%	-5.1%	11.8%	-3.5%	13.2%	-3.9%	-6.1%	3.0%	2.7%	-4.8%	-6.6%	1.4%	3.5%	2.1%			
Data Center Group																		
Microprocessors	8,950	10,511	11,238	2,061	2,054	2,118	2,717	2,405	2,734	2,596	2,776	2,585	2,743	2,912	2,998			
Chipsets_other	1,179			403	382	394												
Total Revenue	10,129	10,511	11,238	2,464	2,436	2,512	2,717	2,405	2,734	2,596	2,776	2,585	2,743	2,912	2,998			
Operating Income	5,100	5,020	5,134	1,222	1,204	1,221	1,453	1,135	1,365	1,203	1,317	1,079	1,230	1,363	1,462			
operating margin	50.4%	47.8%	45.7%	49.6%	49.4%	48.6%	53.5%	47.2%	49.9%	46.3%	47.4%	41.7%	44.8%	46.8%	48.8%			
Microprocessor growth	21.6%	17.4%	6.9%	-4.8%	-0.3%	3.1%	28.3%	-11.5%	13.7%	-5.0%	6.9%	-6.9%	6.1%	6.2%	3.0%			
Chipset growth	-11.5%			12.9%	-5.2%	3.1%												
Subtotal Rev growth	16.5%	3.8%	6.9%	-2.3%	-1.1%	3.1%	8.2%	-11.5%	13.7%	-5.0%	6.9%	-6.9%	6.1%	6.2%	3.0%			
Other Intel Architecture																		
Revenue	5,005	4,378	4,092	1,149	1,389	1,368	1,099	1,075	1,108	1,177	1,018	978	942	1,067	1,105			
Revenue growth	63.8%	-12.5%	-6.5%	41.2%	20.9%	-1.5%	-19.7%	-2.2%	3.1%	6.2%	-13.5%	-3.9%	-3.7%	13.3%	3.6%			
Operating Income	(577)	(1,377)	(2,445)	(36)	(33)	(140)	(368)	(312)	(335)	(235)	(495)	(611)	(608)	(606)	(620)			
Other/Corporate																		
Software Revenue	1,870	2,381	2,502	240	511	541	578	571	586	588	636	588	610	621	683			
Growth	608.3%	27.3%	5.1%	220.0%	112.9%	5.9%	6.8%	-1.2%	2.6%	0.3%	8.2%	-7.5%	3.7%	1.8%	10.0%			
Operating Income	(32)	(11)	1	(52)	(14)	18	16	7	14	4	(36)	(24)	(8)	(5)	38			
Other Revenue	1,589	1,567	1,837	373	375	395	446	356	319	405	487	437	416	496	488			
Growth	23.8%	-1.4%	17.2%	12.0%	0.5%	5.3%	12.9%	-20.2%	-10.4%	27.0%	20.2%	-10.3%	-4.8%	19.2%	-1.6%			
Operating Income	(1,807)	(2,100)	(2,256)	(519)	(506)	(328)	(454)	(511)	(652)	(477)	(460)	(438)	(554)	(538)	(726)			

Intel Corporation

Valuation

Relative Valuation

Company	Ticker	Price 10/14/14	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield
			Low	High	2012	2013	2014	2015	2012	2013	2014	2015			TTM	Cur FY	Nxt FY			
Intel *	INTC	32.14	23.03	35.56	2.13	1.88	2.22	2.34	15.1	17.1	14.5	13.7	5,045	162,146	2.9	2.9	2.8	Dec	\$0.225	2.8%
Apple	AAPL	98.75	69.91	103.74	6.30	5.76	6.62	7.51	15.7	17.1	14.9	13.1	6,052	597,605	3.4	3.3	3.0	Sep	\$0.47	1.9%
Applied Materials	AMAT	19.34	16.40	23.46	0.63	0.76	1.14	1.41	30.7	25.4	17.0	13.7	1,233	23,840	2.7	2.6	2.4	Oct	\$0.10	2.1%
Cisco Systems	CSCO	23.06	20.22	26.08	1.94	2.03	2.12	2.23	11.9	11.4	10.9	10.3	5,172	119,266	2.5	2.4	2.3	Jul	\$0.19	3.3%
General Electric	GE	24.10	23.90	28.09	1.49	1.68	1.67	1.81	16.2	14.3	14.4	13.3	10,110	243,651	1.7	1.6	1.6	Dec	\$0.22	3.7%
Hewlett Packard	HPQ	32.24	22.40	38.25	3.96	3.64	3.76	4.00	8.1	8.9	8.6	8.1	1,899	61,224	0.5	0.5	0.6	Oct	\$0.16	2.0%
IBM	IBM	183.80	172.19	199.21	15.30	15.59	17.90	19.81	12.0	11.8	10.3	9.3	1,005	184,737	1.9	1.9	1.9	Dec	\$1.100	2.4%
Microsoft	MSFT	43.73	33.57	47.57	2.79	2.65	2.47	3.08	15.7	16.5	17.7	14.2	8,345	364,927	4.2	3.7	3.5	Jun	\$0.31	2.8%
Oracle	ORCL	38.46	32.44	43.19	2.61	2.80	2.91	3.15	14.7	13.7	13.2	12.2	4,548	174,916	4.5	4.4	4.2	May	\$0.12	1.2%
Average									15.6	14.9	13.4	11.8			2.7	2.6	2.4			2.4%

Relative Valuation

Company	Ticker	Price 10/14/14	52-Week		CY EPS				CY P/E				Shares (mil)	CAP (\$ mil)	Price-Sales			FY Ends	Qtr Div/sh	Div Yield
			Low	High	2012	2013	2014	2015	2012	2013	2014	2015			TTM	Cur FY	Nxt FY			
Intel *	INTC	32.14	23.03	35.56	2.13	1.88	2.22	2.34	15.1	17.1	14.5	13.7	5,045	162,146	2.9	2.9	2.8	Dec	\$0.225	2.8%
Advanced Micro Devices	AMD	2.62	2.6	4.8	-0.16	-0.12	0.12	0.15	NM	NM	21.8	17.5	764	2,002	0.3	0.3	0.3	Dec		
Broadcom	BRCM	35.41	24.60	41.65	2.92	2.71	2.84	3.26	12.1	13.1	12.5	10.9	626	22,167	2.7	2.7	2.6	Dec	\$0.12	1.4%
Micron Technology*	MU	27.39	16.17	34.85	-1.12	1.15	3.26	3.48	NM	23.8	8.4	7.9	1,203	32,950	2.0	1.9	1.9	Aug		
NVIDIA	NVDA	17.175	14.52	20.15	1.17	0.99	1.02	1.1	14.7	17.3	16.8	15.6	571	9,800	2.2	2.1	2.0	Jan	\$0.09	2.0%
Qualcomm	QCOM	71.86	66.25	81.97	4.01	4.51	5.49	5.64	17.9	15.9	13.1	12.7	1,714	123,168	4.7	4.6	4.3	Sep	\$0.42	2.3%
SanDisk	SNDK	83.67	61.56	108.77	2.37	5.36	5.7	6.71	35.3	15.6	14.7	12.5	241	20,148	3.1	3.0	2.6	Dec	\$0.30	1.4%
STMicroelectronics	STM	6.81	6.64	10.00	-0.33	-0.23	0.19	0.52	NM	NM	35.8	13.1	895	6,098	0.8	0.8	0.7	Dec-ADR	\$0.10	5.9%
Taiwan Semiconductor Mfg.	TSM	20.14	16.44	23.07	1.09	1.22	1.63	1.7	18.5	16.5	12.4	11.8	5,186	104,446	4.9	4.2	3.9	Dec-ADR	\$0.03	0.5%
Texas Instruments *	TXN	42.31	39.19	49.77	1.5	1.79	2.43	2.83	28.2	23.6	17.4	15.0	1,086	45,949	3.7	3.5	3.3	Dec	\$0.34	3.2%
Average									21.1	18.0	17.0	13.0			2.7	2.6	2.4			2.4%

* Tokeneke estimate
Source: consensus as of 10/14/14

Historical Valuation

Company	Ticker	Price 10/14/14	Trailing 12-month					
			Price/Earnings		Price/Sales		Price/Book	
			Current	Historical*	Current	Historical*	Current	Historical*
Intel	INTC	\$32.14	15.3		2.9		2.8	
			Average	21.3	Average	4.3	Average	4.3
			High	65.4	High	15.7	High	14.3
			Low	7.9	Low	1.6	Low	1.7

* weekly since 1990

The Company

Tokeneke Research is an independent research firm specializing in semiconductor industry business issues, providing fundamental research focused on US equities across all market capitalizations within the sector to investors. The company was founded in 2005 and is based in Connecticut.

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My Background

I have an electrical engineering background, nearly 12 years of semiconductor industry experience, and was on Wall Street for nearly eight years where I was selected as the Best On The Street semiconductor analyst for 2002 by The Wall Street Journal, and third-rated Best of the Best across all sectors.

I obtained my undergraduate BS degree in electrical engineering from the University of Washington, and my MBA from Santa Clara University. My industry experience consists of nearly 12 years in various technical sales and marketing roles at four different semiconductor firms located in Silicon Valley beginning with Advanced Micro Devices in 1984, followed by two small start-up companies, and ending at Cirrus Logic where I supported the firm's Japanese market development. I joined Fahnstock & Co. as a senior semiconductor analyst in 1996 and was recruited by Needham & Co. in April 2000.

My formal coverage list as a sell-side analyst included the following equities: AMD, ALSC, ALTR, ARTI, ATML, CUBE, CY, ESST, GNSS, INTC, ISSI, LSI, MOSY, MU, OIIM, OVTI, RMTR, SIII, SMSC, STEC, SVTG, TDFX, TSRA, TXN, and ZRAN.

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