

INTC 4Q and Guidance In-Line

Server and ASP Strength Offset PC Unit Decline. Fine-Tuning Est., Reiterate Hold

Diluted Shares(mil):	4,940	<u>Closing Price 1/15/15</u>	<u>fye Dec</u>	2014act	2015	2016
Market Cap(\$mil):	\$178,779	\$36.19	Revenue(\$mil)	\$55,870	\$58,531	\$60,568
Avg Volume(,000):	30,525		EPS	\$2.31	\$2.46	\$2.57
Net Cash/Share:	\$1.51	<u>Recommendation/Target</u>	Price/Sales	3.2	3.1	3.0
Dividend Yield:	2.7%	Hold-Not Compelling/\$36 from \$30	Price/EPS	15.7	14.7	14.1

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

Summary: INTC largely met consensus expectations for 4Q results and 1Q guidance as server business and PC ASP strength offset PC unit weakness. Gross margin upside due to ASP gains was offset by slightly greater than expected operating expenses, and virtually all of the reported 8-cent upside to consensus EPS was due to lower than expected taxes. My operating estimates over the next two years are largely unchanged with my 12-cent EPS gain this year and 13-cent gain next year due solely to fewer shares and lower taxes. I am also raising my 12-month target price to \$36 from \$30 based on 14-times peer average earnings for 2015 up from 12.5-times last quarter due to equity market valuation inflation. Nevertheless, I reiterate my Hold/Not Compelling recommendation on the shares.

Server Strength and PC ASPs: Servers remain INTC's core strength, growing by +11% sequentially on both unit and ASP gains to 28% of total sales at a very impressive 54.5% operating profit—and are expected to grow +15% again during 2015. However, PC sales declined by -3.5% sequentially on a -5% drop in units; continue to account for over 60% of total sales; and the market is unlikely to grow, in my opinion. Management is bullish on the new Broadwell processor adding PC system performance and features, but I think lower processor ASPs driving lower system price points will go further to rejuvenate PC unit sales, and the short-term 'good news' of last quarter's +3% gain in PC processor average selling prices (ASPs) is actually endemic of overall PC market unit weakness.

4Q Review: Revenue of \$14.7B increased by +1.1%, slightly better than expected on persistent data center strength and PC price gains. Gross margin of 65.4% was at the high-end of guidance and up by 40 basis points sequentially on both server and PC ASP gains. EPS of \$0.74 beat consensus by 8-cents primarily due to lower taxes associated with the reenactment of the US R&D tax credit. Inventory increased by \$158M to \$4.3B on the ramp of Broadwell in 14nm technology, cash (including long-term marketable securities) fell by \$957M to \$21.15B, and operating cash flow was \$5.8B with \$2.1B going to capital expenditures, \$4.0B to repurchase 115M shares, and \$1.1B in dividends.

FYE December in millions, GAAP	4Q14					
	Estimate	Actual	EPS Impact	Guidance	Consensus	Range
Revenue	\$14,600	\$14,721	\$0.01	\$14,200-15,200	\$14,700	\$13,810-15,000
Revenue Growth	0.3%	1.1%		-2.4%+4.4%	1.0%	-5.1%+3.1%
Gross Margin	64.0%	65.4%	\$0.03	62%-66%		
R&D + MG&A	\$4,918	\$5,039	(\$0.02)	\$4,900		
Restruct/Impairment	\$110	\$129		\$110		
Equity/Interest/Other	\$175	\$206		\$175		
Tax Rate	28.0%	21.4%	\$0.07	28.0%		
Diluted Shares	5,045	4,940	\$0.01			
Diluted EPS, GAAP	\$0.64	\$0.74	\$0.10		\$0.66	\$0.62-\$0.69

Servers Drive Growth: PC Client sales of \$8.87B accounted for 60% of total sales and declined by -3.5% sequentially as a volume decrease of -5% was partially offset by an ASP increase of +3%, and operating profit of 44.9% increased by 10 basis points. Notebook units dropped by -6% and ASPs grew by +5%, while desktop units declined by -2% and ASPs increased by +1%. Mature consumer markets continue to outperform emerging markets and the ramping Broadwell processor in 14nm technology supports a range of PC price points and configurations including two-in-ones, all-in-ones, convertibles and detachables. For 2014, sales grew by +4.2% with notebook units up +11% amid an ASP decline of -7% and desktop units up by +3% and ASPs up by +2%.

Data Center sales of \$4.1B accounted for 28% of sales and grew by +10.6% sequentially on a +5% increase in volume and a +7% increase in ASP, with operating profit improving by 270 basis points to 54.5%. The Xeon E5 'Grantley' processor is amid a steep production ramp and this highly profitable business is expected to grow some

+15% this year on strength from cloud servers, enterprise servers, networking and high-performance computing. Revenue growth totaled +18.3% for 2014.

The new IoT group accounted for \$591M or 4% of total sales and grew by +11.5% sequentially as operating profit of expanded by 240 basis points to 31.3%. IoT sales grew by +18.9% for all of last year. 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 \$1.1B this quarter on no sales sometime after next year. INTC shipped 46M processors for tablets last year, successfully exceeding its 40Mu goal, although contra-revenue sales incentives continue to adversely impact gross margins.

Management Guidance: 1Q guidance includes: revenue of \$13.7B +/- \$500M, down a seasonally normal -7% at the mid-point; gross margin down by 540 basis points to 60% +/- a couple of points on higher 14nm production costs, start-up costs for next-generation 10nm technology, and lower unit volumes; R&D and MG&A at \$4.9B; restructuring costs of \$40M; amortization of \$65M; interest and other at zero; and depreciation of \$1.8B. Guidance for 2015 calls for: revenue growth in the mid-single-digit percent; gross margin of 62% +/- a couple points due to higher 14nm production costs; R&D and MG&A at \$20B +/- \$400M with R&D at \$12.2B and MG&A at \$7.9B; amortization at \$255M; a tax rate of 27%; depreciation of \$8.1B +/- \$100M; and capital expenditures at \$10B +/- \$500M. Guidance for 2015 was originally provided on November 20, 2014. The \$500M decrease in expected capital expenditures is due to better than previously expected manufacturing efficiencies and technology advances.

Raising Estimates: I am fine-tuning my 1Q15 estimate with revenue near the mid-point of guidance and gross margin above the mid-point of guidance. EPS gains across all periods in the table below are due to fewer expected shares (accounting for two-thirds of the incremental upside) and the lower expected tax rate (one-third).

<i>in millions, GAAP</i>	1Q15		2015		2016	
	Previous	Update	Previous	Update	Previous	Update
Revenue	\$13,578	\$13,691	\$58,345	\$58,531	\$60,962	\$60,568
Revenue Growth	-7.0%	-7.0%	4.7%	4.8%	4.5%	3.5%
Gross Margin	61.0%	61.0%	62.8%	62.8%	62.4%	62.4%
R&D + MG&A	\$4,918	\$4,910	\$20,147	\$20,109	\$20,883	\$20,780
Restruct/Impairment	\$75	\$105	\$300	\$300	\$300	\$260
Equity/Interest/Other	\$50	\$0	\$200	\$75	\$200	\$100
Tax Rate	28.0%	27.0%	28.0%	27.0%	28.0%	27.0%
Diluted Shares	5,045	4,915	5,045	4,880	5,045	4,786
Diluted EPS, GAAP	\$0.48	\$0.50	\$2.34	\$2.46	\$2.44	\$2.57

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 the averages of its large-cap technology peers and the average price-sales ratios of its semiconductor peers, although it is trading below the average price-earnings ratios of the more richly-valued semiconductor group, and its dividend yield of 2.8% trades above the averages of both peer groups. Unfortunately, INTC tends to trade more consistently with its large-cap technology peers, in my opinion. Nevertheless, I continue to rate the shares as Hold/Not Compelling, but admit its attractive dividend yield and partial discount to semiconductor peers and historical averages could limit potential downside risk.

The average price-earnings ratios of both peer groups has increased over the last three months, with the 2015 estimates growing to a spread of 13.0- to 15.9-times from 11.8- to 13.0-times, although the average price-sales ratios for next year remains unchanged at a spread of 2.4- to 2.6-times. I am raising my 12-month target price to \$36 from \$30 based on 14-times expected 2016 earnings up from 12.5-times, but still in-between the two peer groups.

<i>Diluted EPS, GAAP</i>	1Q15	2015	2016	<i>Revenue, 39 estimates</i>	1Q15	2015	2016
<i>Tokeneke-revised</i>	\$0.50	\$2.46	\$2.57	<i>Tokeneke-revised</i>	\$13,691	\$58,531	\$60,568
Tokeneke-previous	\$0.48	\$2.34	\$2.44	Tokeneke-previous	\$13,578	\$58,345	\$60,962
Consensus-previous	\$0.51	\$2.37		Consensus-previous	\$13,770	\$58,190	
Highest Est-previous	\$0.56	\$2.70		Highest Est-previous	\$14,280	\$60,180	
Lowest Est-previous	\$0.44	\$1.64		Lowest Est-previous	\$13,150	\$54,200	

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Income Statement

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GAAP

Dollars in millions. * restated
fiscal year ends December

				2014 act					2015					2016				
	2011	2012	2013	Q1*	Q2	Q3	Q4	2014	Q1	Q2	Q3	Q4	2015	Q1	Q2	Q3	Q4	2016
Sales	53,999	53,341	52,708	12,764	13,831	14,554	14,721	55,870	13,691	14,375	15,309	15,156	58,531	14,095	14,800	15,836	15,836	60,568
COGS	20,242	20,190	21,187	5,151	4,914	5,096	5,100	20,261	5,339	5,319	5,511	5,608	21,777	5,638	5,550	5,701	5,859	22,749
Gross Profit	33,757	33,151	31,521	7,613	8,917	9,458	9,621	35,609	8,351	9,056	9,798	9,548	36,754	8,457	9,250	10,135	9,977	37,819
R&D	8,350	10,148	10,611	2,846	2,859	2,842	2,990	11,537	2,990	3,035	3,080	3,111	12,216	3,111	3,158	3,189	3,221	12,680
MG&A	7,670	8,057	8,088	2,047	2,061	1,979	2,049	8,136	1,920	1,920	1,997	2,057	7,893	1,995	1,995	2,035	2,076	8,100
Amort/Restruct/other	260	308	531	210	153	97	129	589	105	65	65	65	300	65	65	65	65	260
Operating Expenses	16,280	18,513	19,230	5,103	5,073	4,918	5,168	20,262	5,015	5,020	5,142	5,233	20,410	5,171	5,218	5,289	5,362	21,040
Operating Income	17,477	14,638	12,291	2,510	3,844	4,540	4,453	15,347	3,336	4,037	4,656	4,316	16,344	3,286	4,032	4,846	4,615	16,779
Interest & Other	304	235	320	160	78	10	206	454	0	25	25	25	75	25	25	25	25	100
Pretax Income	17,781	14,873	12,611	2,670	3,922	4,550	4,659	15,801	3,336	4,062	4,681	4,341	16,419	3,311	4,057	4,871	4,640	16,879
Taxes	4,839	3,868	2,991	740	1,126	1,233	998	4,097	901	1,097	1,264	1,172	4,433	894	1,095	1,315	1,253	4,557
Net Income	12,942	11,005	9,620	1,930	2,796	3,317	3,661	11,704	2,436	2,965	3,417	3,169	11,986	2,417	2,962	3,556	3,387	12,322
EPS-Basic	\$2.46	\$2.20	\$1.94	\$0.39	\$0.56	\$0.68	\$0.77	\$2.39	\$0.51	\$0.63	\$0.73	\$0.68	\$2.55	\$0.52	\$0.64	\$0.77	\$0.74	\$2.67
Shares-Basic	5,256	4,996	4,970	4,974	4,981	4,880	4,769	4,901	4,745	4,721	4,698	4,674	4,710	4,651	4,628	4,605	4,582	4,616
EPS-Diluted	\$2.39	\$2.13	\$1.89	\$0.38	\$0.55	\$0.66	\$0.74	\$2.31	\$0.50	\$0.61	\$0.70	\$0.65	\$2.46	\$0.50	\$0.62	\$0.74	\$0.71	\$2.57
Shares-Diluted	5,411	5,160	5,097	5,117	5,123	5,045	4,940	5,056	4,915	4,891	4,868	4,844	4,880	4,821	4,798	4,775	4,752	4,786
Margin Analysis																		
GM	62.5%	62.1%	59.8%	59.6%	64.5%	65.0%	65.4%	63.7%	61.0%	63.0%	64.0%	63.0%	62.8%	60.0%	62.5%	64.0%	63.0%	62.4%
R&D	15.5%	19.0%	20.1%	22.3%	20.7%	19.5%	20.3%	20.6%	21.8%	21.1%	20.1%	20.5%	20.9%	22.1%	21.3%	20.1%	20.3%	20.9%
SG&A	14.2%	15.1%	15.3%	16.0%	14.9%	13.6%	13.9%	14.6%	14.0%	13.4%	13.0%	13.6%	13.5%	14.2%	13.5%	12.8%	13.1%	13.4%
Operating Income	32.4%	27.4%	23.3%	19.7%	27.8%	31.2%	30.2%	27.5%	24.4%	28.1%	30.4%	28.5%	27.9%	23.3%	27.2%	30.6%	29.1%	27.7%
Pretax Income	32.9%	27.9%	23.9%	20.9%	28.4%	31.3%	31.6%	28.3%	24.4%	28.3%	30.6%	28.6%	28.1%	23.5%	27.4%	30.8%	29.3%	27.9%
Tax Rate	27.2%	26.0%	23.7%	27.7%	28.7%	27.1%	21.4%	25.9%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Net Income	24.0%	20.6%	18.3%	15.1%	20.2%	22.8%	24.9%	20.9%	17.8%	20.6%	22.3%	20.9%	20.5%	17.1%	20.0%	22.5%	21.4%	20.3%
Qtr-to-Qtr Growth																		
Revenue				-7.7%	8.4%	5.2%	1.1%		-7.0%	5.0%	6.5%	-1.0%		-7.0%	5.0%	7.0%	0.0%	
Gross Profit				-11.2%	17.1%	6.1%	1.7%		-13.2%	8.4%	8.2%	-2.5%		-11.4%	9.4%	9.6%	-1.6%	
Operating Income				-29.3%	53.1%	18.1%	-1.9%		-25.1%	21.0%	15.3%	-7.3%		-23.9%	22.7%	20.2%	-4.8%	
Net Income				-26.5%	44.9%	18.6%	10.4%		-33.5%	21.7%	15.3%	-7.3%		-23.7%	22.5%	20.1%	-4.7%	
EPS				-26.7%	44.7%	20.5%	12.7%		-33.1%	22.3%	15.8%	-6.8%		-23.3%	23.1%	20.6%	-4.3%	
Year-to-Year Growth																		
Revenue	23.8%	-1.2%	-1.2%	1.5%	8.0%	7.9%	6.4%	6.0%	7.3%	3.9%	5.2%	3.0%	4.8%	3.0%	3.0%	3.4%	4.5%	3.5%
Gross Profit	18.5%	-1.8%	-4.9%	7.7%	19.4%	12.4%	12.3%	13.0%	9.7%	1.6%	3.6%	-0.8%	3.2%	1.3%	2.1%	3.4%	4.5%	2.9%
Operating Income	12.1%	-16.2%	-16.0%	-0.4%	41.4%	29.6%	25.5%	24.9%	32.9%	5.0%	2.6%	-3.1%	6.5%	-1.5%	-0.1%	4.1%	6.9%	2.7%
Net Income	12.9%	-15.0%	-12.6%	-5.6%	39.8%	12.4%	39.5%	21.7%	26.2%	6.0%	3.0%	-13.4%	2.4%	-0.8%	-0.1%	4.1%	6.9%	2.8%
EPS	18.8%	-10.8%	-11.5%	-6.3%	39.3%	13.7%	44.1%	22.6%	31.4%	11.1%	6.8%	-11.7%	6.1%	1.2%	1.8%	6.1%	9.0%	4.8%

Intel Corporation

Financial Summary

Dollars in millions
Fiscal year ends December

	2011	2012	2013	2014	4Q13	1Q14	2Q14	3Q14	4Q14
Assets									
Cash and short-term investments	10,246	12,477	11,646	4,991	11,646	10,011	7,540	6,594	4,991
Trading assets	4,591	5,685	8,441	9,063	8,441	9,035	9,771	9,000	9,063
Net accounts receivable	<u>3,650</u>	<u>3,833</u>	<u>3,582</u>	<u>4,427</u>	<u>3,582</u>	<u>3,505</u>	<u>3,489</u>	<u>3,647</u>	<u>4,427</u>
Quick Assets	18,487	21,995	23,669	18,481	23,669	22,551	20,800	19,241	18,481
Inventories	4,096	4,734	4,172	4,273	4,172	3,763	3,943	4,115	4,273
Other	<u>3,289</u>	<u>4,629</u>	<u>4,243</u>	<u>4,976</u>	<u>4,243</u>	<u>4,240</u>	<u>4,263</u>	<u>4,607</u>	<u>4,976</u>
Current Assets	25,872	31,358	32,084	27,730	32,084	30,554	29,006	27,963	27,730
Property, plant and eqt, net	23,627	27,983	31,428	33,238	31,428	32,502	33,115	33,135	33,238
Marketable securities	1,451	4,424	6,221	7,097	6,221	6,085	6,044	6,514	7,097
Goodwill, net	15,521	15,945	15,663	15,307	15,663	15,553	15,318	14,935	15,307
Other assets/L-T investments	<u>4,648</u>	<u>4,641</u>	<u>6,962</u>	<u>8,584</u>	<u>6,962</u>	<u>7,211</u>	<u>8,310</u>	<u>8,547</u>	<u>8,584</u>
Total Assets	71,119	84,351	92,358	91,956	92,358	91,905	91,793	91,094	91,956
Liabilities and Shareholders Equity									
Short-term debt	247	312	281	1,604	281	36	14	79	1,604
Accounts payable	2,956	3,023	2,969	2,748	2,969	3,010	2,960	2,597	2,748
Deferred distribution income	1,929	1,932	2,096	2,205	2,096	2,171	2,171	2,189	2,205
Income taxes payable/other	<u>6,896</u>	<u>7,631</u>	<u>8,222</u>	<u>9,462</u>	<u>8,222</u>	<u>8,291</u>	<u>7,106</u>	<u>8,954</u>	<u>9,462</u>
Current Liabilities	12,028	12,898	13,568	16,019	13,568	13,508	12,251	13,819	16,019
Long-term debt	7,084	13,136	13,165	12,107	13,165	13,172	13,180	13,188	12,107
Deferred tax liabilities	2,617	3,412	4,397	3,775	4,397	4,302	4,187	4,029	3,775
Other	<u>3,479</u>	<u>3,702</u>	<u>2,972</u>	<u>3,278</u>	<u>2,972</u>	<u>2,868</u>	<u>2,928</u>	<u>3,070</u>	<u>3,278</u>
Total Liabilities	25,208	33,148	34,102	35,179	34,102	33,850	32,546	34,106	35,179
Common stock	17,036	19,464	21,536	21,781	21,536	22,166	22,475	22,809	21,781
Retained earnings	29,656	32,138	35,477	33,418	35,477	34,733	35,652	33,233	33,418
Other (including temp equity)	<u>(781)</u>	<u>(399)</u>	<u>1,243</u>	<u>1,578</u>	<u>1,243</u>	<u>1,156</u>	<u>1,120</u>	<u>946</u>	<u>1,578</u>
Total Shareholders Equity	<u>45,911</u>	<u>51,203</u>	<u>58,256</u>	<u>56,777</u>	<u>58,256</u>	<u>58,055</u>	<u>59,247</u>	<u>56,988</u>	<u>56,777</u>
Total Liabilities and Equity	71,119	84,351	92,358	91,956	92,358	91,905	91,793	91,094	91,956
Sales and Income									
Revenue	53,999	53,341	52,708	55,870	13,834	12,764	13,831	14,554	14,721
COGS	20,242	20,190	21,187	20,261	5,263	5,138	4,914	5,096	5,100
Net income	12,942	1,005	9,620	11,704	2,625	1,947	2,796	3,317	3,661
Other									
Capital Expenditures	10,764	11,027	10,711	10,105	2,948	2,689	2,828	2,445	2,143
Depreciation	5,141	6,357	6,790	7,380	1,667	1,720	1,880	1,891	1,889
Shares (weighted average diluted)	5,411	5,160	5,097	4,940	5,103	5,117	5,123	5,045	4,940
Employees (units)	100,100	105,000	107,600	106,700	107,600	106,300	104,900	105,600	106,700
Dividends paid	4,127	4,350	4,479	4,409	1,121	1,119	1,126	1,095	1,069
Shares repurchased	642	191	94	332	22	22	76	119	115
Value of Shares Repurchased	14,133	4,765	2,147	10,792	528	545	2,081	4,166	4,000
Ratios									
Liquidity									
Quick Ratio	1.54	1.71	1.74	1.15	1.74	1.67	1.70	1.39	1.15
Current Ratio	2.15	2.43	2.36	1.73	2.36	2.26	2.37	2.02	1.73
Leverage									
Debt Ratio	0.35	0.39	0.37	0.38	0.37	0.37	0.35	0.37	0.38
Long-term Debt/Capital	0.19	0.24	0.22	0.21	0.22	0.22	0.22	0.22	0.21
Asset Management									
Fixed Asset Turnover	2.6	2.1	1.8	1.7	1.8	1.6	1.7	1.8	1.8
Total Asset Turnover	0.8	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Receivables DSO	24	26	24	29	23	25	23	23	27
Inventory Days	73	84	71	76	71	66	72	73	75
Inventory Turnover	5.1	4.6	4.8	4.8	4.8	5.2	5.1	5.1	4.9
Revenue/Employee (\$000)	721	707	664	677	129	119	131	138	139
Profitability									
Gross Margin	62.5%	62.1%	59.8%	63.7%	62.0%	59.7%	64.5%	65.0%	65.4%
Net Margin	24.0%	1.9%	18.3%	20.9%	19.0%	15.3%	20.2%	22.8%	24.9%
Return on Assets	19.3%	1.3%	10.9%	12.7%	11.5%	8.5%	12.2%	14.5%	16.0%
Return on Equity	27.1%	2.1%	17.6%	20.3%	18.5%	13.4%	19.1%	22.8%	25.7%
Per Share Data									
Book Value/Share	\$8.48	\$9.92	\$11.43	\$11.49	\$11.42	\$11.35	\$11.56	\$11.30	\$11.49
Tangible Book Value/Share	\$5.62	\$6.83	\$8.36	\$8.39	\$8.35	\$8.31	\$8.57	\$8.34	\$8.39
Cash/Share (incl long-term)	\$3.01	\$4.38	\$5.16	\$4.28	\$5.16	\$4.91	\$4.56	\$4.38	\$4.28
Cash/Share (net, incl long-term)	\$1.66	\$1.77	\$2.52	\$1.51	\$2.52	\$2.33	\$1.98	\$1.75	\$1.51
Earnings/Share	\$2.39	\$0.19	\$1.89	\$2.37	\$0.51	\$0.38	\$0.55	\$0.66	\$0.74

Intel Corporation

Sales Analysis

dollars in millions
* restated

	2011	2012	2013	2014	2011				2012				2013				2014				
					1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q*	2Q	3Q	4Q	
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	23.7%	19.8%	19.2%																		
Total	100.0%	100.0%	100.0%	0.0%																	
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%	-100.0%																	
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	34,669										8,054	8,160	8,440	8,616	7,941	8,667	9,190	8,871
Operating Income		13,008	11,751	14,635										2,488	2,646	3,243	3,374	2,802	3,734	4,120	3,979
Operating Margin		37.5%	35.3%	42.2%										30.9%	32.4%	38.4%	39.2%	35.3%	43.1%	44.8%	44.9%
Data Center Group																					
Revenue		11,219	12,161	14,387										2,777	2,944	3,178	3,262	3,087	3,509	3,700	4,091
Operating Income		5,231	5,569	7,279										1,144	1,302	1,520	1,603	1,317	1,817	1,915	2,230
Operating Margin		46.6%	45.8%	50.6%										41.2%	44.2%	47.8%	49.1%	42.7%	51.8%	51.8%	54.5%
Internet of Things																					
Revenue		1,600	1,801	2,142										365	434	464	538	482	539	530	591
Operating Income		278	550	616										67	123	152	208	123	155	153	185
Operating Margin		17.4%	30.5%	28.8%										18.4%	28.3%	32.8%	38.7%	25.5%	28.8%	28.9%	31.3%
Mobile/Comm																					
Revenue		1,791	1,375	202										404	292	353	326	156	51	1	(6)
Operating Income		(1,776)	(3,148)	(4,206)										(703)	(761)	(810)	(874)	(929)	(1,124)	(1,043)	(1,110)
Operating Margin		-99.2%	-228.9%	NM										-174.0%	-260.6%	-229.5%	-268.1%	-595.5%	-2204%	NM	NM
Software/Services																					
Revenue		2,072	2,190	2,216										520	534	545	591	553	548	558	557
Operating Income		12	24	55										(6)	(1)	1	30	(7)	8	29	25
Operating Margin		0.6%	1.1%	2.5%										-1.2%	-0.2%	0.2%	5.1%	-1.3%	1.5%	5.2%	4.5%
Other																					
Revenue		1,971	1,911	2,254										460	447	503	501	545	517	575	617
Operating Income		(2,115)	(2,455)	(3,032)										(471)	(590)	(602)	(792)	(796)	(746)	(634)	(856)
Operating Margin		-107.3%	-128.5%	-134.5%										-102.4%	-132.0%	-119.7%	-158.1%	-146.1%	-144.3%	-110.3%	-138.7%
Total Revenue		53,341	52,708	55,870										12,580	12,811	13,483	13,834	12,764	13,831	14,554	14,721
Total Operating Income		14,638	12,291	15,347										2,519	2,719	3,504	3,549	2,510	3,844	4,540	4,453
Revenue Percent																					
PC Client		65.0%	63.1%	62.1%										64.0%	63.7%	62.6%	62.3%	62.2%	62.7%	63.1%	60.3%
Data Center		21.0%	23.1%	25.8%										22.1%	23.0%	23.6%	23.6%	24.2%	25.4%	25.4%	27.8%
IoT		3.0%	3.4%	3.8%										2.9%	3.4%	3.4%	3.9%	3.8%	3.9%	3.6%	4.0%
Mobile/Comm		3.4%	2.6%	0.4%										3.2%	2.3%	2.6%	2.4%	1.2%	0.4%	0.0%	0.0%
Software/Services		3.9%	4.2%	4.0%										4.1%	4.2%	4.0%	4.3%	4.3%	4.0%	3.8%	3.8%
Other		3.7%	3.6%	4.0%										3.7%	3.5%	3.7%	3.6%	4.3%	3.7%	4.0%	4.2%
Total		100.0%	100.0%	100.0%										100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Growth																					
PC Client		-4.1%	4.2%																		
Data Center		8.4%	18.3%																		
IoT		12.6%	18.9%																		
Mobile/Comm		-23.2%	-85.3%																		
Software/Services		5.7%	1.2%																		
Other		-3.0%	17.9%																		
Total		-1.2%	6.0%																		
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	-18.2%				12.6%	-0.6%	8.0%														
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.																		

Intel Corporation

Valuation

Relative Valuation

Company	Ticker	Price 1/15/15	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	36.19	23.50	37.90	2.13	1.88	2.31	2.46	17.0	19.3	15.7	14.7	4,940	178,779	3.2	3.1	3.0	Dec	\$0.240	2.7%
Apple	AAPL	106.82	70.51	119.75	6.30	5.76	6.90	8.14	17.0	18.5	15.5	13.1	5,972	637,940	3.5	3.0	2.9	Sep	\$0.47	1.8%
Applied Materials	AMAT	23.33	16.40	25.71	0.63	0.76	1.10	1.40	37.0	30.7	21.2	16.7	1,236	28,836	3.2	2.9	2.7	Oct	\$0.10	1.7%
Cisco Systems	CSCO	27.41	21.27	28.70	1.94	2.03	2.11	2.26	14.1	13.5	13.0	12.1	5,156	141,326	3.0	2.9	2.8	Jul	\$0.19	2.8%
General Electric	GE	23.58	23.41	27.53	1.49	1.64	1.65	1.76	15.8	14.4	14.3	13.4	10,119	238,606	1.6	1.6	1.6	Dec	\$0.23	3.9%
Hewlett Packard	HPQ	38.19	27.89	41.10	3.96	3.64	3.74	4.00	9.6	10.5	10.2	9.5	1,896	72,408	0.6	0.7	0.7	Oct	\$0.16	1.7%
IBM	IBM	154.57	150.50	199.21	15.30	16.67	16.13	16.83	10.1	9.3	9.6	9.2	998	154,214	1.6	1.6	1.7	Dec	\$1.100	2.8%
Microsoft	MSFT	45.48	35.52	50.05	2.79	2.65	2.59	2.91	16.3	17.2	17.6	15.6	8,351	379,803	4.2	3.9	3.7	Jun	\$0.31	2.7%
Oracle	ORCL	42.63	35.44	46.71	2.61	2.80	2.91	3.03	16.3	15.2	14.6	14.1	4,505	192,048	4.9	4.9	4.7	May	\$0.12	1.1%
Average									17.0	16.2	14.5	13.0			2.8	2.7	2.6			2.3%

Relative Valuation

Company	Ticker	Price 1/15/15	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	36.19	23.5	37.9	2.13	1.88	2.31	2.46	17.0	19.3	15.7	14.7	4,940	178,779	3.2	3.1	3.0	Dec	\$0.240	2.7%
Advanced Micro Devices	AMD	2.52	2.35	4.8	-0.16	-0.12	0.07	0.09	NM	NM	36.0	28.0	785	1,978	0.3	0.4	0.4	Dec		
Broadcom	BRCM	41.01	28.30	44.33	2.92	2.71	2.94	3.32	14.0	15.1	13.9	12.4	627	25,713	3.1	3.1	3.1	Dec	\$0.14	1.4%
Micron Technology*	MU	29.3	21.02	36.59	-1.12	1.15	3.43	3.26	NM	25.5	8.5	9.0	1,195	35,014	2.1	2.0	2.0	Aug		
NVIDIA	NVDA	19.63	15.32	21.25	1.17	0.99	1.06	1.16	16.8	19.8	18.5	16.9	558	10,957	2.4	2.4	2.2	Jan	\$0.09	1.7%
Qualcomm	QCOM	71.38	67.67	81.97	4.01	4.51	5.26	5.36	17.8	15.8	13.6	13.3	1,701	121,417	4.6	4.4	4.0	Sep	\$0.42	2.4%
SanDisk	SNDK	78.52	66.8	108.77	2.37	5.36	5.58	6.12	33.1	14.6	14.1	12.8	241	18,900	2.9	2.8	2.6	Dec	\$0.30	1.5%
STMicroelectronics	STM	7.68	6.27	10.00	-0.33	-0.23	0.18	0.37	NM	NM	42.7	20.8	891	6,845	0.9	0.9	0.9	Dec-ADR	\$0.10	5.2%
Taiwan Semiconductor Mfg.	TSM	22.89	16.44	23.54	1.09	1.22	1.66	1.72	21.0	18.8	13.8	13.3	5,186	118,708	4.7	4.3	no est	Dec-ADR	\$0.03	0.4%
Texas Instruments *	TXN	52.38	40.33	56	1.5	1.79	2.53	3.07	34.9	29.3	20.7	17.1	1,074	56,256	4.4	4.3	4.0	Dec	\$0.34	2.6%
Average									22.9	19.8	20.2	15.9			2.8	2.7	2.4			2.2%

* Tokeneke estimate
Source: consensus as of 1/15/15

Historical Valuation

Company	Ticker	Price 1/15/15	Trailing 12-month					
			Price/Earnings		Price/Sales		Price/Book	
			Current	Historical*	Current	Historical*	Current	Historical*
Intel	INTC	\$32.14	15.7		3.2		3.2	
			Average	20.7	Average	4.2	Average	4.1
			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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