



Comments from CEO Pat Gelsinger and CFO Dave Zinsner

Intel's chief executive officer and chief financial officer offer comments after the company released its first-quarter 2024 earnings.

The following are the prepared remarks provided on Intel's first-quarter 2024 earnings conference call held at 2 p.m. PDT on April 25, 2024. These remarks include forward-looking statements that are based on the environment as seen by the company as of the time of the call and, as such, are subject to various risks and uncertainties. They also contain references to non-GAAP financial measures that the company believes provide useful information to investors. Refer to the company's earnings release for the first-quarter 2024, most recent annual report on Form 10-K and other filings with the SEC for more information on the risk factors that could cause actual results to differ materially from the company's expectations and additional information on non-GAAP financial measures, including reconciliations where appropriate to the corresponding GAAP financial measures.

April 25, 2024 – Pat Gelsinger, Intel chief executive officer ([bio](#)):

We reported solid Q1 results, delivering revenue in line and EPS (earnings per share) above our guidance as we continue to focus on operating leverage and expense management. Our results reflect our disciplined approach on reducing costs as well as the steady progress we are making against our long-term priorities.

While 1H (first-half 2024) trends are modestly weaker than we originally anticipated, they are consistent with what others have said and also reflect some of our own near-term supply constraints. We continue to see Q1 as the bottom, and we expect sequential revenue growth to strengthen throughout the year and into 2025, underpinned by (1) the beginnings of an enterprise refresh cycle and growing momentum for AI PCs, (2) a data center recovery with a return to more normal CPU (central processing unit) buying patterns and ramping of our accelerator offerings, and, (3) cyclical recoveries in NEX (Network and Edge Group), MBLY (Mobileye) and Altera.

We had an extremely productive Q1 and achieved several important milestones along our journey to reposition the company for improved execution, competitiveness and, perhaps most importantly, financial results.

- We hosted our first-ever Intel Foundry Direct Connect, which drew nearly 300 partners, customers and potential customers to hear about the momentum we are building with our foundry offerings. We were pleased to announce Microsoft as our fifth Intel 18A customer. We also updated our lifetime deal value to greater than \$15 billion and extended our roadmap with Intel 14A, the first process node in the industry to use High NA (High Numerical Aperture) EUV (Extreme Ultraviolet) technology.
- Shortly following Direct Connect, we were thrilled to join with President Biden and Commerce Secretary Raimondo to announce our position as the national semiconductor champion along with the single-largest award from the CHIPS and Science Act of more than \$45 billion of proposed grants, tax incentives and loans.
- During the second week of April, we brought together more than 1,000 of our top customers and partners at Intel Vision 2024, where we introduced our next-generation Gaudi® 3 accelerator. We were joined by NAVER, Dell, Bosch, SuperMicro and Roche, among many others, who shared how they are benefitting from Intel solutions.



- Vision led straight into Open Source Summit, where we led the launch of the Open Platform for Enterprise AI project. This industry initiative aims to accelerate Gen AI deployments in what will be the largest market for AI applications starting with retrieval-augmented generation, or RAG. Our Xeon® plus Gaudi use cases, along with our established enterprise ecosystem have a big role to play here.
- Lastly, we hosted the industry's first Sustainability Summit, underscoring our deep commitment to building a more geographically diverse, resilient, trusted and, of course, sustainable supply-chain for semiconductors. We are proud of our leadership position in chemical conservation, renewable energy and water reclamation.

Our accomplishments YTD (year to date) build on all the work we have done to execute on the strategy I laid out when I rejoined the company three years ago. Job No. 1 was to accelerate our efforts to close the technology gap that was created by over a decade of underinvestment. The heart of phase one was five nodes in four years (5N4Y), the rallying cry was torrid. It combined accelerating our node transitions with improving our product execution and cadence to regain customer trust.

We have rebuilt our Grovian culture and execution engine and are on-track to completing our 5N4Y goal, which many of our stakeholders thought impossible at inception. In so doing, we are in a unique position with at-scale EUV technology, Western-based capacity and, at the very least, a level-playing field with the market leader.

Intel 20A, which helps pave the way for Intel 18A, begins production ramp in the second half of this year with Arrow Lake. We expect to release the 1.0 PDK (process design kit) for Intel 18A this quarter. Furthermore, our lead products – Clearwater Forest and Panther Lake – are already in fab, and we expect to begin production ramp of Intel 18A and these products in the 1H of '25 for product releases in the middle of next year. Given this progress, now is the time to turn our focus to matching technology leadership with a competitive cost structure.

Establishing a foundry relationship between our products group and our manufacturing group was a critical step to achieving better structural cost. This quarter, we officially transitioned to our new operating model and introduced Intel Products and Intel Foundry. Today, for the first time, we are reporting our results to reflect the new way in which we are running the company.

Separating the internal financial reporting between Intel Foundry and Intel Products was a critical step needed to provide transparency, accountability and the proper incentives to allow both groups to make better decisions to optimize their own cost structures.

This change also provided the added benefit of giving more transparency to our outside owners. We knew that the "Day One" P&L (profit-and-loss statement) for Intel Foundry was going to spark debate, but we also knew it was important to establish a baseline and provide a target model based on reasonable-to-conservative revenue and cost assumptions that we have a high degree of confidence we will achieve.

I want to reiterate that point so it is heard and understood: Our target model is reasonable, conservative and reflects a high degree of confidence in our ability to deliver – and you can rest assured that we will be working hard to beat these targets. If we can move faster and do better, we will, and our new operating model is already catalyzing change and driving efficiencies across the organization.



Let me highlight three important aspects of our business and our strategy that is underscored by the new model.

First, with Intel Products, we have exposed a solid fabless franchise with established, powerful and hard-to-displace installed base and ecosystems across enterprise, consumer and edge that provide meaningful benefits to our customers and partners. Intel Products is a solidly profitable business today, despite just recently emerging from a semiconductor downturn and still competing with legacy process technology. That is changing rapidly as we ramp Intel 3 in 2024 and Intel 18A in 2025.

Within client, we are defining and leading the AI PC category. IDC indicates the overall PC market is now expanding, and, as stated earlier, as standards emerge and applications begin to take advantage of new AI-embedded capabilities, we see demand signals improving, especially in 2H of the year helped by a likely corporate refresh. Our Core® Ultra™ ramp, led by Meteor Lake, continues to accelerate beyond our original expectation, with units expected to double sequentially in Q2, limited only by our supply of wafer level assembly. Improving 2H MTL supply and the addition of Lunar Lake and Arrow Lake later this year will allow us to ship in excess of our original 40 million AI PC CPU target in 2024. Next year, with Panther Lake, we will extend our lead with Intel 18A and further product enhancements. Our share position is strong and continues to strengthen as we execute on our product roadmap.

Within DCAI (Data Center and AI Group), as committed, we have achieved product release on our first Intel 3 server product, the first-generation E-core Xeon® 6, code-named Sierra Forest. The next-generation P-core Xeon 6 product, Granite Rapids, will be released in Q3. At Vision we demonstrated a 70B parameter model running natively on Xeon 6 with good performance. We continue to expect share trends to stabilize this year before improving in 2025. While budgets are still being prioritized to generative AI build-out, where we have a very strong position in the head-node, customer conversations continue to show improving signs for traditional server CPU refresh starting in late Q2 and into the 2H. Our first Intel 18A product, Clearwater Forest, is slated to launch next year and will allow us to accelerate share gains.

Our Gaudi 3 launch gives us a strong offering to improve our position in accelerated computing for the data center and cloud. We now expect over \$500 million in accelerator revenue in 2H of 2024, with increasing momentum into 2025 based on Gaudi 3's vastly superior TCO (total cost of ownership) as well as our own expanding supply. In addition, we are finding good traction with the Intel Developer Cloud, with customers onboarding with this platform including Dell and Seekr, our largest IDC win to date. We are encouraged by our progress, but far from satisfied.

Lastly within NEX, the business has stabilized and beat our Q1 targets with channel inventories approaching normal levels and business acceleration expected thru the year as a result. We also recently announced our plans for scale-up and scale-out Ethernet-based AI networking delivered as discrete NIC's and chiplets for AI foundry customers with numerous key providers in the industry and market standardization thru the Ultra Ethernet Consortium.

So, that is Intel Products; good momentum and a lot for us to build on. Let me turn to Intel Foundry.

We are executing on our strategy to drive meaningful improvement in profitability over time. We are obviously not there yet, given the large upfront investment needed to build out this business, but we always said this was going to be a multiyear plan, and we are right on track with where we expected to be right now.



As we discussed during our webinar at the beginning of the month, the transition from pre-EUV wafers to post-EUV wafers is a powerful tailwind for us. We expect our blended average wafer pricing to grow 3x faster than costs over the decade, driving significant margin expansion. In addition, more competitive wafers will allow us to bring home many of the tiles that today are being manufactured at external foundries. Both dynamics are in our control and not dependent on revenue growth and are key elements to drive the business to break-even, more than doubling our current earnings power at the Intel consolidated level.

Of course, more competitive wafers, combined with our position as the only company manufacturing with leading-edge wafers outside of Asia is drawing strong interest from potential external customers. It is important to note that our leadership in advanced packaging creates more value in our wafer technologies, and wafer-level assembly and base die opportunities further fill our factories and extend the useful life of our tools for increased financial returns.

I am pleased to announce that this quarter we signed another meaningful customer on Intel 18A bringing our total to six. A leader in the aerospace and defense industry, this customer chose Intel Foundry based not only on the process technology benefits of Intel 18A but also because of their desire to have a secure, U.S.-only supply base. Just this week, we were very pleased to announce that the DoD (U.S. Department of Defense) awarded Intel Foundry Phase 3 of the Ramp-C program, which we are confident will lead to additional federal, aerospace and defense customers.

More broadly, we are seeing growing interest in Intel 18A, and we continue to have a strong pipeline of nearly 50 test chips. The near-term interest in Intel Foundry continues to be strongest with advanced packaging, which now includes engagements with nearly every foundry customer in the industry, including five design awards.

While we are highly focused on improving the near-term profitability of Intel Foundry, it is also important that we keep sight of the long-term opportunity here. The foundry market is expected to grow from \$110 billion today to \$240 billion by 2030, with almost 90% of the growth coming from EUV nodes and advanced packaging. Given this backdrop, we have clear line of sight to becoming the largest system foundry for the AI era and the second largest overall by 2030, building on our EUV/High NA process technology, leadership in advanced packaging, manufacturing capacity, our systems expertise and the surge in AI demand.

Put another way, our \$15 billion of external revenue embedded in our Intel Foundry target model would represent less than 15% of the leading-edge foundry market. It is not a question of if, but when, Intel Foundry achieves escape velocity, and every day we are proving to the market that Intel Foundry is a resilient, sustainable and trusted alternative to serve a semi market on a path to top \$1 trillion by the end of the decade.

Let me wrap up by speaking to our "All Other" category – where our No. 1 priority is to unlock shareholder value. This quarter, we formally rebranded our Programmable Solutions Group, "Altera, an Intel Company." We look forward to bringing in a private equity partner this year to help prepare the company for an IPO in the coming years. This puts Altera on a similar path as Mobileye. We are excited about the future of both companies. By providing them with separation and autonomy, we believe we enhance their ability to capitalize on their growth opportunities in their respective markets and accelerate their paths to create value.

Combined with IMS, our mask-writing equipment business, we believe these three assets represent more than a quarter of our overall market value today. Along with a solid Intel Products franchise and an Intel Foundry business rapidly approaching \$100 billion in net tangible assets, we see the opportunity to unlock significant value for our shareholders as we meet our financial



commitments, stand up Intel Foundry and drive it to profitability, and further leverage our opportunity in AI.

So overall, I'll say that there is a lot for us to build on coming out of Q1. We are systematically executing to our strategy, and we are making steady progress. We are maniacally focused on executional excellence and fiscal discipline. And we are relentless in our drive to regain process leadership and bring next-generation solutions to solve our customers' hardest problems. All of this gives me confidence in where we are headed. Yes, we have a lot of hard work in front of us, but we know what we need to do, and the payoff will be significant in the end.

Semiconductors are the currency that will drive the global economy for decades to come. We are one of two, maybe three, companies in the world that can continue to enable next-generation chip technologies and the only one that has Western capacity and R&D, and we will participate in the entire AI market. Quarter by quarter, we are positioning ourselves well to capitalize on the immense opportunities ahead.

Dave Zinsner, Intel chief financial officer (bio):

We delivered solid results in the quarter, with revenue finishing in line and gross margin and EPS again beating guidance. Forward-looking demand signals in our core markets improved at a measured pace through the first quarter, and we expect to deliver full-year revenue and EPS growth in 2024, with the pace of revenue growth accelerating in the second half.

First-quarter revenue was \$12.7 billion, up 9% YoY (year over year) and just above the midpoint of our guidance with product segments performing in line with expectations. Intel Products delivered 17% YoY growth, offset by inventory headwinds impacting Mobileye, Altera and our 5G customers, as well as the sunset of several non-core lines of business, including the traditional packaging business within Intel Foundry. These non-core revenue headwinds drove a sequential decline of just over \$1 billion, in line with our Q1 guidance. Gross margin was 45.1%, 60 basis points above guidance, and EPS of \$0.18 beat guidance by \$0.05 on operating spending discipline and strong sell-through of previously reserved inventory.

Q1 operating cash flow was negative \$1.2 billion. Net CapEx was \$5 billion, resulting in an adjusted free cash flow of negative \$6.2 billion, and we paid dividends of \$0.5 billion in the quarter. We expect Q1 to be the low point for adjusted free cash flow driven by seasonal factors, including timing of annual bonus payments, along with upsides from larger capital offsets expected in the second half.

As Pat mentioned, this is our first quarter reporting in the new operating segments. The revised structure creates a foundry relationship between manufacturing and our products groups, with Intel Products purchasing wafers and services from Intel Foundry at fair market prices. This quarter represents another important step in our transformation with increased transparency and accountability across all layers of the organization, which is already having a positive impact on decision-making, efficiencies and financial discipline. As I talk about our results, I will categorize them between Intel Products, Intel Foundry and All Other, with the All Other category including the results of Mobileye and Altera. Additional detail can be found in our earnings release and SEC filings.

Intel Products revenue was \$11.9 billion, up 17% YoY. The client business grew by more than 30% YoY with a strong product portfolio and share position and significantly improved customer inventory levels. The Data Center and AI business contributed 5% YoY growth, driven by higher Xeon ASPs (average selling prices) and improved enterprise demand. NEX revenue declined 8%



YoY. As discussed last quarter, we saw significant declines in the 5G market, partially offset by approximately 10% YoY growth in our network and edge markets, which we expect to continue to recover through the year.

Intel Products operating profit expanded by more than \$2.1 billion YoY, driven by higher revenue, better sell-through of reserved inventory and operating spending discipline, resulting in an operating margin of approximately 28% in the quarter.

Intel Foundry revenue was \$4.4 billion, down 10% YoY on lower backend services and samples revenue along with lower IMS tool sales. In addition, wafer volume was modestly higher in the quarter with ASPs modestly down driven by pricing for mature nodes. Operating profit declined by approximately \$100 million YoY with lower revenue being partially offset by improved factory utilization. Operating margin declined significantly QoQ (quarter over quarter) driven by higher startup costs and the conclusion of the traditional packaging business impacting revenue.

The Foundry P&L will remain challenged through the year, and we expect operating margins to trough in 2024 as startup costs associated with 5N4Y peak and the P&L absorbs an expected increase of roughly \$2 billion in depreciation. Beyond 2024, as volume begins to shift toward leadership manufacturing nodes with a competitive cost structure, scale improves, including the return of compute tiles to internal process nodes, and our efficiency actions begin to flow through the P&L, we expect to see rapid profitability improvement.

Mobileye revenue of \$239 million and an operating loss of \$68 million were both down meaningfully YoY due to a well-publicized drawdown of EyeQ customer inventory. Mobileye reiterated full-year guidance on their earnings call this morning. With the inventory digestion process on track, financial results are expected to recover quickly.

Altera revenue was \$342 million, down significantly YoY, with results impacted by the industrywide inventory digestion following supply constraints in 2022 and '23. Altera's \$39 million operating loss is a result of lower revenue and spending associated with standing up Altera as a standalone company. We continue to expect Altera to exit 2024 at a \$2 billion revenue run-rate as inventory positions normalize.

I want to acknowledge the hard work and focused execution across the company to transition our systems and processes to our new reporting structure. We are already seeing the results of the increased transparency catalyzing change and driving efficiencies across the company.

Now turning to our Q2 guidance. We expect revenue of \$12.5 billion to \$13.5 billion in the second quarter, with the midpoint aligned to typical seasonal growth. At the midpoint of \$13 billion, we expect gross margin of approximately 43.5%, with a tax rate of 13% and EPS of \$0.10, all on a non-GAAP basis.

We see the client and data center businesses roughly flat to Q1 results, at the low end of seasonal. Q2 client revenue is constrained by wafer level assembly supply, which is impacting our ability to meet demand for Core™ Ultra-based AI PCs. We do expect sequential growth from Mobileye, NEX and Foundry Services. As we look beyond Q2 guidance, we expect growth across all segments in the second half of the year, led by improved demand for general-purpose servers from both cloud and enterprise customers, and increased Core Ultra assembly capacity to support a growing PC TAM (total addressable market) driven by enterprise refresh and the AI PC. We should also see accelerating growth from our network and edge businesses, a return to growth for Altera and a meaningful Gaudi ramp in the second half.



Despite 2024 representing the peak for 5N4Y-driven factory startup costs, we expect roughly 200 basis points of FY24 (fiscal year) gross margin improvement compared to FY23. Our net capital intensity forecast of mid-30s as a percent of revenue across 2023 and 2024 in aggregate remains unchanged. With significant capital offsets expected to land in the second half of the year, we continue to expect approximately neutral 2024 adjusted free cash flow.

While first half demand signals have been a bit weaker, Q1 played out largely in line with our expectations. We achieved several important milestones towards our IDM2.0 vision, and we are participating in a large and growing TAM with encouraging market signals for the 2H of the year and into 2025. By capturing margin at both the foundry level and the fabless product level, we have a margin stacking advantage unique in the industry. We are three years into our transformation, and 2024 represents the steepest part of the climb – with 5N4Y startup costs peaking and the majority of our volume on pre-EUV process nodes with uncompetitive economics. However, as we crest the hill and look toward the next few years, we have strong winds at our back and a clear path to achieving the mid- and long-term financial targets we laid out earlier this month.

Closing – Pat Gelsinger, Intel chief executive officer:

Let me say thank you for the questions and for joining us on the call today. We appreciate the opportunity to update you on our solid Q1 results and to recap the numerous accomplishments we've made since the start of the year. We continue to make steady progress driving product and AI innovation, executing our leadership process roadmap, and delivering new foundry customers as we transform the company for improved competitiveness and financial results.

And if any of you will be attending Computex in Taiwan in a few months, I look forward to seeing you there. We'll be announcing a wide range of products and offerings all centered on AI momentum and competitiveness.

We look forward to speaking with you again next quarter.

About Intel

Intel (Nasdaq: INTC) is an industry leader, creating world-changing technology that enables global progress and enriches lives. Inspired by Moore's Law, we continuously work to advance the design and manufacturing of semiconductors to help address our customers' greatest challenges. By embedding intelligence in the cloud, network, edge and every kind of computing device, we unleash the potential of data to transform business and society for the better. To learn more about Intel's innovations, go to newsroom.intel.com and intel.com.

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