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 third-quarter 2024 earnings.

The following are the prepared remarks provided on Intel's third-quarter 2024 earnings conference call held at 2 p.m. PT on October 31, 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 third-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.

October, 31, 2024 – Pat Gelsinger, Intel chief executive officer (bio):

We delivered Q3 revenue above the midpoint of our guidance, and we made significant progress on our cost reduction plan. That said, Q3 profitability was negatively impacted by the charges we referenced on our Q2 call. This reflects the aggressive actions we are taking to lower our costs, improve our efficiency and enhance our market competitiveness. Dave will go into these charges in detail shortly.

Operationally, Q3 results exceeded our expectations as we achieved key milestones across Intel Foundry and Intel Products. Underlying trends in the business are improving at a measured pace, and our outlook for Q4 is modestly above current consensus.

Overall, our stepped-up focus on efficiency and execution across the business is having a positive impact. We have a lot more ahead, and we are acting with urgency to deliver on our priorities. We need to fight for every inch and execute better than ever before, and our teams are embracing this mindset as we build a leaner, more profitable Intel.

Now, let me provide more detail, starting with an update on our cost reduction plan that we announced three months ago.

First, we completed the vast majority of our headcount actions during Q3, and we are on track to our greater than 15% workforce reduction before the end of the year. These were hard but necessary changes that are reducing complexity, and making us a leaner, faster and more agile company.

Second, we have reduced our capital expenditures by over 20% relative to the plan we had entering the year. We are now well positioned with our "shell-ahead" strategy to react quickly to market demand. With our transition to EUV now complete and the launch of Intel 18A on the horizon, we have a more normal cadence of node development at Intel 14A and beyond. In addition, our teams are maniacally focused on improving fab productivity, allowing us to produce more with less, over time.

Third, we have begun to simplify and streamline parts of our portfolio to unlock efficiencies and create value. We are re-establishing product portfolio leadership by narrowing our focus on fewer projects, with the top priority being to maximize the value of our x86 franchise across the client, edge and data center markets.

As part of our portfolio simplification, we will move our edge business into CCG (Client Computing Group) and refocus our NEX (Network and Edge Group) portfolio on networking and telco. We will also integrate our software business into our core business units to foster more integrated solutions that address our customers' most difficult challenges. We are evaluating other portfolio actions, which we will communicate when appropriate, and we plan to provide new segment reporting that reflects these portfolio shifts in Q1 of 2025.

Related to our cost and efficiency actions, the restructuring charges we took in Q3 were significant and necessary to right-size the company as we reduce spending by over $10 billion in 2025. There was also a sizeable impairment mostly related to Intel 7 equipment and space, reflecting excess COVID-era spending that we have concluded cannot migrate to more advanced nodes now that we have fully transitioned to EUV processing.

From a broader financial perspective, the actions we took in Q3 go a long way towards delivering the 2025 financial commitments we outlined last quarter. Specifically, we plan to reduce non-product cost of sales by $1 billion, lower OpEx (operating expenses) to $17.5 billion and drive gross and net CapEx (capital expenditures) to between $20 billion to $23 billion and $12 billion to $14 billion, respectively. We expect adjusted free cash flow to be positive next year, and we will focus on decreasing leverage and improving liquidity.

Let me go into greater detail on the business, starting with Intel Products. We continue to focus on our core x86 franchise and the ecosystems we have developed over 40-plus years of investing. They are a tangible source of value and differentiation for Intel, our partners and our collective customers, and help to cement the x86 architecture as uniquely positioned to meet customer demands going forward.

We are taking steps to supercharge and further unlock the value of our x86 franchise. We intend to drive new levels of customization, compatibility and scalability needed to meet current and future demands of next-generation computing. And we see this unlocking a range of meaningful opportunities across all our businesses.

I am particularly excited about our recent announcement with AMD to create the x86 Ecosystem Advisory Group. We are bringing together leaders from across the ecosystem to help shape the future of x86, with a focus on simplifying software development, ensuring interoperability and interface consistency across vendors and equipping developers with standardized architectural tools and guidelines. Broadcom, Dell, Google, HPE, HP Inc., Lenovo, Meta, Microsoft, Oracle and Red Hat have signed on as founding members, as have industry luminaries Linus Torvalds and Tim Sweeney.

Turning to our product segments, in CCG, we continue to lead the AI PC category. In September at IFA, we launched our Intel® Core™ Ultra 200V series processors, formerly code-named Lunar Lake. This is the most efficient family of x86 processors ever created – setting a new standard for mobile AI performance and significantly outperforming competitor platforms. Lunar Lake's combination of superior performance at comparable and competitive battery life positions us well to continue to define and lead the AI PC category.

We also continue to nurture the most robust AI PC ecosystem in the industry category, with more than 100 ISVs (independent software vendors), 300 applications and 500 AI models powered by

Core Ultra. And we remain on track to ship more than 100 million AI PCs accumulative by the end of 2025.

Next up is Arrow Lake, which launched earlier this month and brings the power of the AI PC to the desktop – delivering a huge leap in performance per watt and bringing an NPU (neural processing unit) to enthusiast desktop and entry workstation platforms for the first time.

All of this is paving the way toward the launch of Panther Lake in the second half of 2025. Panther Lake will be our first client CPU on Intel 18A – a more performant and cost-competitive process that will allow us to bring more wafers home and improve overall profitability.

Overall, we are making good progress in CCG. Our share position is strong with a product roadmap and ecosystem that is increasingly setting us apart from our competition – especially in the enterprise market, as customers continue to see increasing value from our vPro solutions.

Turning to DCAI (Data Center and AI Group), our focus is squarely on delivering powerful AI systems that provide enterprise customers with greater choice and flexibility, optimal performance per watt and lower total cost of ownership (TCO). And this quarter's launches significantly enhance our market competitiveness, even as we recognize we have more work to do.

We launched our latest Xeon 6 product – code-named Granite Rapids – which doubles the performance of the prior generation with increased core counts, memory bandwidth and embedded AI acceleration. The new Xeon 6 is tailor-made to handle compute-intensive workloads with exceptional efficiency from edge to data center and cloud environments.

This solidifies our position as the head node of choice in AI servers. Greater than 70% of GPU-accelerated servers are already using Intel Xeon as the host CPU, and we have a significant opportunity to build on this as we continue reestablishing Xeon's competitive strength and market leadership.

This quarter we also launched our Gaudi 3 AI accelerator, which delivers twice the networking bandwidth and 1.5x the memory bandwidth of its predecessor for large language model efficiency. While the Gaudi 3 benchmarks have been impressive – and we were pleased by our recent collaboration with IBM to deploy Gaudi 3 as a service on IBM cloud – the overall uptake of Gaudi has been slower than we anticipated as adoption rates were impacted by the product transition from Gaudi 2 to Gaudi 3 and software ease-of-use. As a result, we will not achieve our target of $500 million in revenue for Gaudi in 2024.

That said, taking a longer-term view, we remain encouraged by the market available to us. There is clear need for solutions with superior TCO based on open standards and we are continuing to enhance the Gaudi value proposition.

In NEX, we announced last month that we will be focusing the business on networking and telco as part of our efforts to simplify our portfolio, drive productivity and enhance our market position. We will move our edge business into CCG, which creates a meaningful opportunity to more efficiently leverage our core client business and extend our leadership to a wide range of vertical edge solutions, especially as AI-on-the-edge accelerates.

As a simpler, more focused NEX, we are better positioned to gain profitable share in our most attractive markets. In networking, we continue to further open-source Ethernet solutions for connectivity through our Ultra Accelerator Link and Ultra Ethernet Consortium.

Let me now turn to Intel Foundry. A key part of our strategy is returning to process leadership through disciplined execution of our roadmap. Intel 18A, our fifth node in four years, is healthy and continues to progress well at this stage in the development process. Our lead vehicles for Intel 18A, Panther Lake and Clearwater Forest, have met early 18A milestones ahead of next year's launches.

In addition, we have seen good traction with the release of our 1.0 PDK (process design kit) last quarter and the material increase in the engagements and the number of RFQs (request for a quote) we are actively quoting. While we will not win them all, we are confident in our head-to-head position based on feedback from potential customers. Most recently, as announced, we are finalizing a multi-year, multi-billion-dollar commitment by AWS to expand our existing partnership to include a new custom Xeon 6 chip on Intel 3 and a new AI fabric chip on Intel 18A.

Beyond AWS, we added two additional 18A wafer design wins this quarter from compute-centric companies and our pipeline of potential wafer designs has grown nicely over the quarter. Given our leadership in advanced packaging capabilities, we also added multiple back-end design wins this quarter.

We were also awarded an additional $3 billion in direct funding under the Secure Enclave program to produce leading-edge semiconductors for the U.S. government. We are proud to be the U.S. government's partner of choice to fortify the domestic semiconductor supply chain and ensure the U.S. maintains its leadership in advanced manufacturing, microelectronics systems and process technology.

Moving forward, as we shared last month, we are creating clearer separation for Intel Foundry by establishing the business as an independent subsidiary. This is important to our external foundry customers and will give us future flexibility to evaluate independent sources of funding and optimize the capital structure of Intel Foundry and Intel Products. We are in the process of forming a fiduciary board for the new Foundry subsidiary, which will include independent directors with deep semiconductor expertise.

In our "All Other" category, our number one priority is to unlock shareholder value. For Altera, revenue increased 14% sequentially and operating profit turned positive in Q3. We also announced the introduction of our new mid-range and small-form-factor products, Agilex 5 and Agilex 3, to serve broad market customers and segments. With an increasingly competitive roadmap, the business is well positioned to show continued top- and bottom-line improvements. Consistent with what we have said previously, we remain focused on selling a stake in Altera on a path to its IPO in the coming years. To that end, we have begun discussions with potential investors and expect to conclude in early 2025.

For Mobileye, the company continues to be a leader in the development and deployment of advanced driver assistance systems (ADAS). And by providing Mobileye with separation and autonomy, we have enhanced its ability to capitalize on growth opportunities and accelerate its path to creating even greater value. The company recently hosted an AI event laying out a comprehensive strategy for camera-centric, compound AI systems providing a full range of autonomous driving solutions.

Wrapping up, our Q3 results reflect heightened focus, discipline and execution you can expect moving forward. We are rigorously managing our costs and improving our profitability to create long-term shareholder value. We are carefully managing our cash to strengthen our balance sheet and improve our liquidity. And we are staying closely connected with customers and partners as we innovate to meet their most challenging needs.

Q3 also reflected some very difficult decisions we made to right-size the business and I want to recognize the hard work of our employees. We put some points on the board over the past few months, but we are far from satisfied. We view every quarter as a new opportunity to up our game and continue to execute well, and that is our mindset entering Q4.

Dave Zinsner, Intel chief financial officer (bio):

Third-quarter revenue was $13.3 billion, up 4% sequentially and in the upper half of the range we provided in August. Intel Products and Intel Foundry both delivered sequential revenue growth even as we navigated an inventory drawdown in client.

Turning to non-GAAP gross margin – as you know, last quarter we guided gross margins of 38%, but indicated that we expected incremental costs associated with our spending reduction plan and some of those costs would likely impact non-GAAP gross margin. We recognized approximately $3 billion of non-cash impairment and accelerated depreciation charges, primarily for Intel 7, which are above and beyond our quarter-to-quarter asset adjustments, driving our non-GAAP gross margin down to 18% and EPS (earnings per share) to a loss of $0.46. This $3 billion charge reduced non-GAAP gross margin by approximately 2300 basis points and EPS by approximately 61 cents per share.

Beyond those impairment charges, we also were impacted by $15.6 billion of charges that are excluded from our non-GAAP results. These charges have three main components. First, we impaired our deferred tax asset balance by nearly $10 billion, which was triggered by cumulative GAAP-based losses over the last three years. Second, a $2.6 billion goodwill impairment related to Mobileye, which shows up in our consolidated earnings. And lastly is $2.2 billion associated with the severance of approximately 15% of our employees, aligned with our plan to reduce operating expenses to $17.5 billion and take out $1 billion of other cost of sales next year. This last charge is the only charge with a cash impact. The tax asset impairment charge will not affect cash taxes going forward. Full details are in the 10-Q, which will be available tomorrow.

Q3 operating cash flow was $4.1 billion, up approximately $1.8 billion sequentially on better working capital. We had gross CapEx of $6.5 billion in the quarter, resulting in adjusted free cash flow of negative $2.7 billion. We expect the principal cash cost associated with the restructuring charges to land in Q4 of 2024. We have $24.1 billion of cash and short-term investments, paid down $2.8 billion of debt in the quarter and remain focused on de-levering next year as cash from operations continues to improve.

Moving to segment results, Intel Products revenue was $12.2 billion, up 3% sequentially. CCG revenue was down 1% quarter-over-quarter as customers worked down their inventory as expected. DCAI revenue was up 10% sequentially as demand for traditional servers improved. Revenue for NEX was up double digits sequentially as elements of this business start to recover off a cyclical bottom.

Q3 operating profit for Intel Products was $3.3 billion, 27% of revenue and up $400 million quarter-over-quarter, on higher revenue and reduced operating expenses. Operating income was negatively impacted by a $300 million write down of accelerator inventory due to reduced revenue expectations.

Intel Foundry delivered revenue of $4.4 billion, up slightly sequentially, driven by increased wafer mix of Intel 4 and Intel 3. Foundry operating loss of $5.8 billion was down sequentially, materially driven by the $3 billion impairment charges I discussed earlier. We expect losses to continue at approximately the same rate in Q4, minus this impairment charge. Next year, as we move to nodes with a better cost structure and realize the savings associated with the restructuring actions, we expect operating losses to improve significantly. Additionally, we're intensely focused on driving improved returns on our roughly $80 billion of tangible book value, most of which is associated with Intel Foundry.

Mobileye reported revenue of $485 million and maintained full-year guidance for revenue and adjusted operating income. Q3 revenue was down 8% year-over-year primarily driven by a more than 50% reduction in shipments to China, where comparisons will become easier as the exposure is now significantly smaller. Cash generation was quite strong as operating cash flow was well above operating income.

Altera delivered revenue of $412 million, up 14% sequentially consistent with guidance, to support improved lead times by our distribution partners. Operating margins increased sequentially by 900 basis points on better gross margins and spending discipline. For Q4, we expect high single-digit sequential revenue growth as we work with our distribution partners to prepare for the cut-over to Altera independent warehouse operations. Overall, billings remain below consumption as end customers continue to work down inventory tied to previous supply constraints. We anticipate inventory normalization will continue through the first half of next year.

Now turning to our Q4 guidance, we successfully worked down client customer inventory levels in Q3 in line with our expectations, and despite continued client customer inventory reductions in Q4, CCG should grow towards the higher end of seasonal off an abnormal Q3. Revenue is expected to be flat sequentially across DCAI and NEX businesses, in aggregate.

Based on these factors, we expect revenue of $13.3 billion to $14.3 billion in the fourth quarter. At the midpoint of $13.8 billion, we expect gross margin of approximately 39.5%, with a tax rate of 13% and EPS of 12 cents, all on a non-GAAP basis. On a GAAP basis, as we continue to execute on our cost actions and portfolio decisions, we expect additional restructuring charges in Q4.

We continue to size the business to support trend line revenue growth of 3% to 5% annually with the ability to scale up to 7% to 9% as demand dictates. We anticipate that our 2024 gross and net capital investments will be approximately $25 billion and $11 billion, respectively. Our expectation is for adjusted free cash to be negative in 2024 due to the restructuring charges disclosed today and the uncertainty around the timing of capital offsets as we approach year-end. In 2025, with OpEx of approximately $17.5 billion and gross and net CapEx of $20 billion to $23 billion and $12 billion to $14 billion, respectively, we expect to achieve positive adjusted free cash flow.

Before I close, let me take a moment to remind you of a couple items as you model 2025 and that today's restructuring and impairment charges are in service to achieving this financial model.

First, we are positive on the growing market adoption of the AI PC and our strong product positioning. As our mix of outsourced products in CCG grows in calendar year 2025 and we ramp Intel 18A to support Panther Lake, gross margin expansion could be muted, particularly in the second half. We expect gross margin fall through to significantly improve in 2026, driven by the vastly improved cost structure of Intel 18A, the return of tiles to a meaningfully underutilized Intel Foundry and operational efficiencies.

Second, the estimated $700 million, on a GAAP basis, of noncontrolled income from Mobileye, Altera and IMS and the portion of the SCIPs (Semiconductor Co-Investment Programs) earned by our partners, is expected to be heavily weighted to the second half of 2025 and will continue to grow in future years with the ramping of wafer outs at our SCIP fabs in Arizona and Ireland.

In closing, our profitability remains well below the standards we've set and recognize there's much more work to be done to improve the efficiency of the business. We're encouraged by the progress we made this quarter to right-size the spending, and our process and product execution combined with the strong external customer traction in the quarter give us confidence our strategy will deliver compelling shareholder returns.

Closing – Pat Gelsinger, Intel chief executive officer:

Thank you all for joining the call today. I appreciate the opportunity to discuss our progress and the actions we are taking to improve our performance.

We know what we need to do – now it is all about execution. And my commitment to you is that we will be methodical about delivering on the plan we have laid out.

Q3 was a good first step. Now we need to finish the year strong and lay the groundwork for 2025. We are determined to get it right – and I look forward to sharing updates along the way. Thank you again and speak with you soon.

About Intel

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