

# Accelerating Financial Momentum

Cautionary Statement and Non-GAAP financial measures can be found at the end of the transcript.

## **DEVINDER KUMAR**

Executive Vice President, Chief Financial Officer and Treasurer

It's a pleasure to be here. Just two years ago, we had our financial analyst day and a lot has changed in the company. A lot has changed. With everything you have heard from my colleagues, I'm sure you'll be please on what they have done, what we have achieved financially.

But more importantly, I think what you're here to see is with everything you have heard about technology and roadmap products, what we can deliver over the next few years. We've had an incredible journey at AMD for the last few years, I'll share that with you, but more importantly, how we advance, our financial journey going forward.

So if you look at our journey the last few years, there's been a lot said and a lot done at AMD, and we have put out, in terms of scale transformation with the acquisition of Xilinx, delivered outstanding financial performance. As a CFO, it gives me a pleasure to be able to say outstanding financial performance, and then a strong foundation for the continued success and future growth.

So if you look at it from a viewpoint of the priorities, these are exactly the priorities I laid out when we met two years ago, strong revenue growth, expanding gross margin, increasing operating margin and profitability, and significant cash generation.

Because when we met a couple of years ago, we were just coming off of 2019, where we generated a very small amount of cash, and many of you in the audience would ask me, when is AMD going to start generating cash with all the technology that you have within the company? So what did we do? Here's the revenue.

Lisa shared earlier the CAGR growth. We had less than \$7 billion of revenue coming off of 2019 when we met in March 2020. Since that time, we've added in two short years, more than \$10 billion of revenue, more than \$10 billion of revenue in two years. And we have also had growth in all of our businesses, in all of our businesses.

With the diversified portfolio and the product that we have, having growth in all the businesses is something that's excellent from a \$16.4 billion revenue that we delivered in 2021.

Text on screen: 56% CAGR at the top of the chart

The top line, growing as it has. The other important thing is the diversification of the revenue. We had about \$1 billion of revenue in 2019 from data center and embedded. \$1 billion.

About 15% of revenue. Lisa and I have talked in many earnings calls that we want to take the percentage of revenue in data center embedded up. And in 2021, at \$16.4 billion, the data center and embedded revenue quadruple in that time frame in two short years.

Text on screen: Two doughnut charts showing PCs & Gaming and Data Center & Embedded Revenue in 2019 vs 2021. \$6.7 billion in 2019 vs \$16.4 billion in 2021.

25% (text on screen approximately \$4 billion) of revenue in 2021 came from data center embedded, which is high margin, high growth and very stable from that standpoint.

And we feel very good about that. If you look at it on the metrics of the financials, gross margin grown a lot. The trajectory is very good, 43, 45, 48. Text on screen: Gross Margin +560bps from 2019 to 2021

Operating margin more than doubling in the two year time frame, more than doubling in the two year time frame.

Text on screen: Operating Margin +1230bps with chart showing 12% in 2019, 17% in 2020 and 25% in 2021

And earnings per share quadrupling since the time we saw the first full year for 2019. All in all, that's why I said earlier, outstanding financial performance in the last couple of years. And then cash, I talked about it earlier.

Text on Screen: Earnings per share 109% CAGR with a chart showing \$0.64 in 2019, \$1.29 in 2020 and \$2.79 in 2021.

When we met in 2020 coming off of 2019, there was about \$300 million of cash generation, significant cash flow generation. And by the way, Lisa talked about it earlier, we are investing in the future. In 2021, there's another \$1 billion of reduction in free cash flow because we invested in supply and capacity to get to the 2022, 2023 growth that we want to invest in our growth for the future.

Text on Screen: Free Cash Flow chart showing \$0.3B in 2019, \$0.8B in 2020 and \$3.2B in 2021. Free Cash Flow Margin chart showing 4% in 2019, 8% in 2020 and 20% in 2021.

And the free cash flow margin and free cash flow impacted by that. And we continue to make investments for the future growth that you've heard from my colleagues talking about how we can grow. The strong balance sheet that we have at AMD allows us, allows us to do that. And we have in that regard, a very strong financial foundation for the company for the next few years.

Then you talk about Xilinx. It's truly a transformational acquisition. The markets, the products, the technology, the customers that we get with the business that Xilinx bring to us. And more importantly, from my standpoint, when I looked at it and now we look at it from a financial standpoint, margin expansion, EPS and free cash flow accretive for 2022 just in the first year of acquisition.

We just closed it a couple of months ago, and here we are with the accretive nature across the board from what Xilinx brings to the equation from a financial standpoint and excellent from that standpoint. And then if you look at the revenue mix. With Xilinx, if you look at the right, \$20.1 billion is the pro forma revenue if you add AMD and Xilinx together for 2021.

That sets the base for what we're going to talk about for the future. As I said earlier, of the \$16 plus billion, we had \$4 billion of revenue, 25% in data center and embedded. You add the two companies together, in 2021 on a pro forma basis, 40%, \$8 billion double of the \$4 billion coming from data center and embedded.

And that is something that drives the diversity of revenue that you see in what we can call the new AMD as we look forward to 2022 and beyond. That's the base that I will use in talking about the long-term model as we go forward. So advancing our journey. We've had significant success over the last few years from strong execution.

The company has grown. The company has transformed. We have had acquisition of Xilinx, and right after that, acquisition of Pensando. We are a very different company than we were just a few years ago.

The journey starts with the expanding market opportunities that you have seen my colleagues talked about. The market time growing to about \$80 billion when we met a couple of years ago to \$300 billion TAM is just incredible. And we have the products for significant growth opportunities in each of these markets, in each of these markets.

Text on Screen: \$50 billion for PCs, \$37 billion for gaming, \$125 billion for data center, \$33 billion for embedded, \$27 billion for automotive and \$32 billion for communications.

And it gives us the diversification of having multiple levers for growth when we look at the long-term model.

The long-term financial priorities on the left, revenue growth and diversification and diversification is really important with the markets that we are now attacking, continuing to expand the margins and profitability of the company.

Being very disciplined, very disciplined in the capital allocation approach and finally, having significant shareholder returns, but disciplined from a capital allocation standpoint. So here's the long-term model. Revenue growth, as I said earlier, is based on the 2021 pro forma AMD and Xilinx combined.

From there, we expect to grow approximately 20% on a CAGR basis over the next three to four years. It comes really from the leadership products and market share gains. It also comes from the new market opportunities that we have that you heard about from some of my colleagues with the new businesses that are growing.

Revenue growth from leadership products, market share gains, and then on top of that, continuing to expand the gross margin trajectory of the company from a richer mix of revenue, new data center opportunities that I'll talk about and cost improvements. We also want to invest in the business for growth, for R&D, and for the product roadmap that you've heard about today.

Text on screen: Gross margin >57%

That's the operating expenses at about 23% to 24% investing for growth R&D and the roadmaps. The operating margin getting to the mid 30s with expanding margins and profitability, and then the tax rate and the free cash flow margin.

Text on screen: Effective tax rate: approximately 13% combined company tax structure.

I showed you earlier about 20%, getting to greater than 25% free cash flow margin and generating significant amount of cash, not just so that we can invest in the business and the roadmaps, but also return capital to the shareholders. And then if you look at the revenue mix, we talked about the \$8 billion earlier.

In 2021 pro forma, \$8 billion of revenue, 40% of revenue of the \$20.1 billion in data center and embedded. Data center embedded, growing faster than the other segments allows us to get to greater than 50% of revenue from a mix standpoint, which has been a goal for a long, long time.

Text on screen: LTM is approximately 20% CAGR

All segments in the business grow, but data center and embedded grows faster than the rest of the business, and therefore takes us to the tripping point of greater than 50% of revenue coming from data center, embedded from a mix standpoint. And that is something that sets the foundation for AMD as you look forward over the next few years.

And then the margin drivers. This is our path to greater than 57%. If you look at the far left, that's exactly where AMD, on a standalone basis, ended in 2021. 48% gross margin. And that is something that improved from the last couple of years when we just stripped over the 40%. We got to 48% in 2021. You add Xilinx to the equation.

On a pro forma basis, 2021, I talked about the 20 plus million of revenue. It is 52% margin. So you get beyond the 50% level just by combining AMD and Xilinx on a pro forma basis in 2021. Then where does

the growth come from? Servers, PCs and gaming. You heard about some of the premium products that we are targeting from a company standpoint that drives margin improvement.

And those are really, as I would call it, the traditional AMD businesses. Then we have the new businesses that I just talked about, embedded and new data center. New data center is Xilinx, is Pensando, is some of the networking stuff that you heard about that is higher margin, and we can capture that from a value standpoint. It drives the margin.

And then the last thing is scale. When you have scale, you can reduce costs faster, the mix gets better.

And all of those three things taken together get us to greater than 50% margin in the long-term model. In the next three to four years.

Text on screen: Diversification and Scale Driving Margin Expansion has >57% Long Term Model

The diversification and scale of the company allows us to continue on the margin trajectory that we have been on many, many years, and now, we get to the greater than 50% level in gross margin. And then let me spend a minute on Xilinx synergies.

When we announced the Xilinx transaction, we had talked about approximately \$300 million of synergies on an annualized basis out in time, 12 to 18 months after the transaction closes. As we got to the integration execution, we could actually do the work to look at all the details, we have found additional opportunities for synergies.

Now, it's greater than \$400 million of cost synergies. It comes from supply chain, from infrastructure and engineering. So we are projecting greater than \$400 million of cost synergies as we put the two companies together and execute on all the integration plan over the next 12 to 18 months.

And then, Victor talked about earlier, we've identified, there was a lot of planning going on, but now that we are able to go together to the customers, we have identified additional revenue synergies. The biggest area, of course, is AI that Victor talked about. But you also have opportunities in data center, in communications, in automotive and embedded. Large markets, same customers.

You go with a portfolio of products that is synergistic, and you get the business. And we've identified that over \$10 billion over the next five years. It happens a little bit later because it takes time to put some of the products together, as all of you know, but it's about \$10 billion over the next five years.

And not a lot of it is baked into this current long-term model right now because of the long-term nature of the synergies, especially on the revenue side.

And then the long-term capital allocation priorities, number one priority, bar none, as Sayid said, invest in the business. In technology, in products, in go-to-market infrastructure and talent, we continue to hire.

We want to invest in the infrastructure. We will be strategic about M&A. We just did a couple and many people ask about whether we want to do more. If it makes sense from a strategic technology standpoint, equity is, for example, getting talent acquisition, we will do it. And then shareholder returns.

Greater than 40% of the free cash flow that I just talked about return to the shareholders in terms of shareholder returns. From a balance sheet standpoint, we want to have a significant net cash position. We are committed to strong investment grade ratings. And then the capital expenditures in our fabulous model is very small. It's about 2% to 3% of revenue.

So the fabulous model gives us the leverage in terms of everything I talk about from a long-term target model. And then 2022 financial outlook. There's a lot going on in the market, even from when we gave guidance in the Q1 time frame. You have supply chain. You have macro. You have a lot going on in the market and some consumer facing businesses might have weakened a little bit.

We are reiterating our guidance for 2022. We expect to grow approximately 60% from a revenue standpoint in 2022. It really comes from the fact that we have a diversified business model, diversified revenue, and many levers in terms of where we could get our revenue from.

Text on screen for Revenue Growth: approximately \$26.3 billion, Gross Margin approximately 54%, Operating Expenses and Revenue approximately 24%, effective tax rate approximately 13% of pre-tax income, and diluted share content is approximately 1.58 billion shares.

And that's why we are confident in terms of reiterating the guidance at approximately 60% revenue growth year on year. Xilinx helps, but even the AMD traditional businesses are also growing year on year from that standpoint. And we are focused, very focused on delivering another strong year in 2022 after what we did in 2020 and 2021.

And in Q1, Lisa and I talked about-- in the Q1 earnings, we talked about the new financial reporting segments. I know many of you have been asking about it for multiple number of years, but this is the way we view our business.

So data center, comprising of server CPU, data center GPUs and the Xilinx portion, which is data center related in FPGAs and adaptive SOCs, would be in the data center segment. In the embedded, it's Xilinx, excluding the data center portion.

And then you add what we brought over from the AMD embedded business that those of you know about.

Client, desktop and notebook processors, really the PC business.

And finally, gaming, gaming GPUs and the game console SOCs that Rick just talked about.

When we report the results for Q2, we will provide historical annual 2020 and quarterly 2021 revenue and operating income so that you can see what it looked like in the past and then get the results going forward from a go forward standpoint. And of course, the Q2 results will be in line with these reporting segments when we report results for Q2.

So if I look at it from an overall standpoint, we have delivered what we said in each of our financial analyst in 2017 and 2020, really an outstanding financial trajectory. We are focused on continuing our momentum with strong revenue growth, starts with the top line and margin expansion, getting value for the products that we deliver to our customers.

Text on screen: Large and Diverse Markets is a part of the Financial Momentum.

We plan to be very disciplined from a capital allocation standpoint.

And let me end with a personal perspective that I have. I've been with this company almost 38 years, almost 38 years. I started way back in 1984. We are a completely different company, completely different company. Our markets are the biggest they have ever been, the biggest they've ever been.

Our products and roadmaps are the best we've ever had, the best we've ever had. We've executed consistently, executed consistently for the last of multiple number of years. And from my standpoint, we have the strongest financial model in the history of the company, strongest financial model in the history of the company. Thank you very much.

Text on Screen: AMD logo together we advance

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