



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 second-quarter 2024 earnings.

The following are the prepared remarks provided on Intel's second-quarter 2024 earnings conference call held at 2 p.m. PDT on Aug. 1, 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 second-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.

Aug. 1, 2024 – Pat Gelsinger, Intel chief executive officer ([bio](#)):

Q2 profitability was disappointing despite continued progress on product and process roadmaps. With our new operating model firmly in place, we are accelerating actions to improve profitability and capital efficiency by more than \$10 billion in 2025, which I will discuss shortly.

For the quarter, we delivered sequential revenue growth in line with our forecast despite the unexpected timing of new export control restrictions announced in May. Q2 profitability was below our expectations, due in part by our decision to more quickly ramp Intel® Core™ Ultra AI CPUs, as well as other selective actions we took to better position ourselves for future quarters, which Dave will address fully in his comments.

We previously signaled that our investments to define and drive the AI PC category would pressure margins in the near-term. We believe the trade-offs are worth it. The AI PC will grow from less than 10% of the market today to greater than 50% in 2026. We know today's investments will accelerate and extend our leadership and drive significant benefits in the years that come. Our efforts will culminate with the introduction of Panther Lake in the second half of 2025. Panther Lake is our first client CPU on Intel 18A, a much more performant and cost-competitive process, which will additionally allow us to bring more of our tiles in-house, meaningfully improving our overall profitability.

Another important driver of improved financial performance is the cost-reduction plan we announced today. This plan represents structural improvements enabled by our new operating model, which we are pulling forward to adjust to current business trends. Having separate financial reporting for Intel Products and Intel Foundry clarifies and focuses roles and responsibilities across the company. It also enables us to eliminate complexity and maximize the impact of our resources. Taking a "clean sheet" view of the business is allowing us to take swift and broad-based actions beginning this quarter.

As a result, we expect to drive a meaningful reduction in our spending and headcount beginning in the second half of this year. We are targeting a headcount reduction of greater than 15% by the end of 2025, with the majority of this action completed by the end of this year. We do not do this lightly, and we have carefully considered the impact this will have on the Intel family. These are hard but necessary decisions. Our actions will reduce OpEx (operating expenses) to approximately \$20 billion in 2024, and we see a bigger impact next year, with 2025 OpEx



targeted at \$17.5 billion, more than 20% below prior estimates. We expect further benefits in 2026, with OpEx to decline in absolute dollars yet again. Even as we lower overall spending, we will continue to fund the investments needed to deliver our strategy.

Our new operating model is also driving benefits to our capital requirements, giving us the transparency to more rigorously scrutinize every project and every dollar of capital. As a result, we now expect gross CapEx (capital expenditures) in 2024 to be between \$25 billion and \$27 billion. That is a reduction of over 20% from our plan entering the year and additionally reflects expectations for softer second-half demand. Combined with strong execution of our Smart Capital strategy, including our second SCIP (Semiconductor Co-Investment Program) with Apollo, we expect net capital spending in 2024 of between \$11 billion and \$13 billion.


These benefits will carry forward to next year, as well. For 2025, gross capital spending is targeted between \$20 billion and \$23 billion and net capital spending between \$12 billion to \$14 billion. Increased capital efficiency has a positive impact to gross margins over time, but we will also accelerate improvements by generating roughly \$1 billion of savings in non-variable cost of sales in 2025. Once again, these reductions do not impact our ability to execute our plan. We designed our Smart Capital strategy to enable us to conservatively manage the day-to-day business to trend-line growth, while maintaining the operational flexibility to quickly and cost-effectively capture upside when it comes.

We are taking the added step of suspending the dividend at the beginning of the fourth quarter, recognizing the importance of prioritizing liquidity to support the investments needed to execute our strategy. We reiterate our long-term commitment to a competitive dividend as cash flows improve to sustainably higher levels. Reductions across OpEx, CapEx and cost of sales total well over \$10 billion in direct savings in 2025 and provide clear line of sight to a sustainable model with the ongoing financial resources and liquidity needed to support our long-term strategy. We remain confident that we have, and will continue to make, the investments needed to drive long-term shareholder value, and we view cost discipline as the compass that drives effective execution, helping teams stay on track to both prioritize and achieve measurable results.

The operational and capital improvements we are driving will be especially important as we manage the business through the near term. While we expect to deliver sequential revenue growth through the rest of the year, the pace of the recovery will be slower than expected, which is reflected in our Q3 outlook.

Specifically, Q3 will be impacted by a modest inventory digestion in CCG (Client Computing Group), with DCAI (Data Center and AI Group) and our more cyclical businesses of NEX (Network and Edge Group), Altera and Mobileye trending below our original forecasts. Our outlook reflects industrywide conditions, without any meaningful change in our market share expectations. As we look into Q4, normal seasonal revenue growth has historically been in a range of flat to up 5% quarter-over-quarter. With improved client inventory levels exiting Q3, we see Q4 revenue at the high end of that range.

Let me now provide more details by our key business units starting with Intel Foundry. A key part of our strategy is returning to process leadership with our aggressive five-nodes-in-four-years march – and the finish line is officially within sight. We are well into the ramp of Intel 4, Intel 3; and Intel 20A is being readied for production next quarter. On Intel 18A, we released the 1.0 PDK (Process Design Kit) last month and are on track to be manufacturing-ready by the end of this year with production wafer start volumes in the first half of 2025. Panther Lake for client is now running Windows and looking very healthy. This is the first microprocessor to use RibbonFet, PowerVia and advanced packaging, achieving a significant milestone. Clearwater Forest for



server, which also includes Foveros Direct and other key advanced packaging capabilities, is booted and likewise looking very healthy. These are the first of many Intel 18A products on track to bring Intel 18A to the mass market.

Importantly, the launch of 18A will be our fifth node in four years, completing a historic pace of design and process innovation, and returning Intel to process leadership. Our team is resolute and determined to finish what we started – and once we do, it will unlock further growth and value creation across our foundry and product businesses.

Our investments in a global footprint of leading-edge capacity continues to weigh on near-term profitability, but long term they position us to profitably participate in the largest and fastest growing parts of the semiconductor market. We continue to expect the investments we're driving through this year to put us on a course for meaningful financial traction, with operating profits for Intel Foundry troughing in 2024 and then driving to break-even.

To help accelerate our progress, we recently appointed Kevin O'Buckley to lead our Foundry Services business. Kevin has led large foundry and fabless businesses outside Intel and is a great addition to our leadership team. He has hit the ground running and is spending considerable time with current and future foundry customers as we ramp our process, packaging and chipset capabilities for the AI era.

We are also pleased to welcome Naga Chandrasekaran from Micron later this month to lead our Foundry Manufacturing and Supply Chain organization. He brings more than 20 years of leadership and deep technical, R&D and manufacturing expertise that will help advance our priorities.

Overall, our foundry team is driving excellent collaboration with our design ecosystem partners. In Q2, Ansys, Cadence, Siemens and Synopsys all announced the availability of reference flows for Intel's embedded multi-die interconnect bridge (EMIB) advanced packaging technology. EMIB makes it possible to cost-effectively scale to a larger silicon area by connecting multiple die in a single package, which simplifies the design process and offers design flexibility. These same partners also declared readiness for Intel 18A designs – and we will be collaborating closely with the ecosystem in the second half to prepare for next year's 18A launches.

Beyond Intel 18A, we are well underway on Intel 14A and Intel 10A development. Even as we continue to extend leadership and innovation on our process roadmap, we are transitioning to a more normal cadence of node development. The normalized cadence will have positive implications for both pace and magnitude of on-going R&D and capital spending requirements.

Let's now turn to Intel Products. In our largest and most profitable business, CCG, we continue to strengthen our position and execute well against our roadmap. The AI PC category is transforming every aspect of the compute experience, and Intel is at the forefront of this category-creating moment. Intel Core Ultra volume more than doubled sequentially in Q2 and is already powering AI capabilities across more than 300 applications and 500 AI models. This is an ongoing testament to the strong ecosystem we have nurtured through 40 years of consistent investments. We have now shipped more than 15 million Windows AI PCs since our December launch – multiples more than all of our competitors combined – and we remain on track to ship more than 40 million AI PCs by year-end and over 100 million accumulative by the end of 2025.

Lunar Lake, our next generation AI PC, which achieved production release ahead of schedule in July, will be the next industrywide catalyst for device refresh. Lunar Lake delivers superior performance at half the power, with 50% better graphics performance and 40% more power



efficiency versus the prior generation. Lunar Lake delivers 3x more TOPs gen-on-gen with our enhanced NPU (neural processing unit) and will be the ultimate AI CPU on the shelf for the holiday cycle. Microsoft has qualified Lunar Lake to power more than 80 new Copilot+ PCs across more than 20 OEMs (original equipment manufacturers), which will begin to ship this quarter.

Lunar Lake will quickly be joined by Arrow Lake, which will scale AI to the desktop category next quarter. And as mentioned earlier, we are already gearing up to launch Panther Lake next year to further extend our leadership position. So, very good progress in CCG and a super strong roadmap over the next 18 months.

Let me now turn to DCAI. This is one of the most important areas of focus as we work to improve our performance and market position. We have a strong foundation on which to build – including the more than 130 million Xeons powering data centers around the world today. And our roadmap is designed to build upon this vast install base to deliver greater performance and efficiency; enable AI solutions that are open, flexible and scalable; and reduce total cost of ownership for customers.

We took some important steps forward this quarter, starting with the launch of Intel® Xeon® 6 with E-core processors, formerly code-named Sierra Forest. This is our first Intel 3 product, and it is particularly well suited for high-density, scale-out workloads. It drives performance up, power down and dramatic rack consolidation. Early adopters are already seeing 25% better performance per watt versus competitive solutions.

This will be followed by Xeon 6 with P-core, code-named Granite Rapids, which delivers greater performance for the most demanding workloads and will begin shipping this quarter. Looking to the future, we are excited about the launch of Clearwater Forest, our first Intel 18A server product featuring our industry-leading hybrid bonding. Clearwater Forest has achieved power-on and is on-track to launch in 2025.

As we re-establish Xeon's competitive position, we are strongly positioned as the head node of choice in AI servers. We are also focused on improving our accelerator roadmap. We're delivering a combination of performance, flexibility and value that is very compelling to customers – particularly cloud and enterprises seeking scalable, cost-effective GenAI (generative AI) solutions. Our focus on open models, open developer frameworks and reference designs combining Xeon with accelerators through OPEA, or Open Platform for Enterprise AI, are gaining considerable market traction.

Launching in Q3, Intel® Gaudi® 3 will take our accelerator performance to the next level – at just two-thirds the cost of competitive offerings. To put it into perspective, we expect Gaudi 3 to deliver roughly 2x performance per dollar on both inference and training versus H100. Gaudi 3 has strong ecosystem support including Dell Technologies, Hewlett Packard Enterprise, Lenovo, Supermicro, Foxconn, Gigabyte, Inventec, Quanta Cloud Technology and Wistron.

Turning to NEX, we continued to see stability in Q2 while introducing new products that will expand our leadership in edge and networking into the future. As a founding member of the Ultra Ethernet Consortium, we announced an array of AI-optimized scale-out Ethernet solutions – including the Intel AI Network Interface Card and foundry chiplets, which will launch next year. Our recent IPU (infrastructure processing unit) adapter for the enterprise supported by Dell Technologies and Red Hat, broadens access to the solution co-developed with Google Cloud. We expect the IPU to be accretive to growth and profitability as it becomes an increasingly important part of acceleration in the AI data center.



We also announced the creation of the Ultra Accelerator Link, a new industry standard dedicated to advancing high-speed, low-latency communication for scale-up AI systems communication in data centers. Combined with a growing number of use cases of AI on the edge, NEX is well positioned to be an accretive growth driver in 2025 and beyond.

Lastly, as Altera reaches full operational separation by year-end, we are actively working toward capitalizing the business to generate proceeds for Intel on a path to an IPO in the coming years. We are excited to provide Altera with the mandate, focus and resources to realize their growth opportunities and execute their strategy. We expect their increased autonomy will help to drive value for our shareholders, similar to the decisions we made with Mobileye two years ago and IMS last year.

Before I turn to Dave, let me sum up by saying it has been a hard-fought first half of the year. We have achieved several important milestones, and we are taking clear and decisive actions to improve our sustainable financial performance. We have entered Q3 with a very clear focus and renewed intensity to up our game, and are motivated by the progress we are seeing, as we execute our strategy and realize our vision. That is the mindset driving us forward as we continue to build a stronger Intel.

Dave Zinsner, Intel chief financial officer ([bio](#)):


Second-quarter revenue was \$12.8 billion, down one point year-over-year and up 1% sequentially. Revenue was in line with the range we provided in May after receiving notice of an export license restriction which negatively impacted our client business in China. Intel Products and Intel Foundry both delivered 4% year-over-year growth, offset by headwinds in our more cyclical businesses.

Profitability was significantly more challenged versus our previous expectations with Q2 gross margin of 38.7% and EPS (earnings per share) of \$0.02.

Weaker-than-expected gross margin was due to three main drivers: The largest impact was caused by an accelerated ramp of our AI PC product. In addition to exceeding expectations on Q2 Core Ultra shipments, we made the decision to accelerate transition of Intel 4 and Intel 3 wafers from our development fab in Oregon to our high-volume facility in Ireland, where wafer costs are higher in the near term. However, this change resulted in approximately \$1 billion of capital savings and will improve Intel 4 and Intel 3 gross margin long term as we scale up the Ireland fab. Margins were also impacted by higher-than-typical period charges related to non-core businesses and charges associated with unused capacity. Finally, we saw an unfavorable product mix and more competitive pricing than expected.

Q2 operating cash flow was \$2.3 billion, up approximately \$3.5 billion sequentially on better working capital. Gross CapEx of \$5.7 billion was more than offset by \$11.5 billion in grants and partner contributions, highlighted by Apollo's SCIP investment in our Ireland factory operations, resulting in adjusted free cash flow of \$8.2 billion.

Intel Products revenue was \$11.8 billion, up 4 percent year-over-year. The client business grew 9% year-over-year as the AI PC ramp contributed to higher volume and ASPs (average selling prices), partially offset by export license restrictions communicated during the quarter. DCAI revenue was roughly flat sequentially and down 3 points year-over-year. We expect sequential growth in the data center through the second half as demand for traditional servers improves modestly. Revenue for the NEX business was approximately flat both sequentially and year-over-year,



though excluding the previously discussed inventory digestion impacting the telco market, NEX delivered 10 percent year-over-year growth in the first half.

Q2 operating profit for Intel Products was \$2.9 billion, 25% of revenue, and up approximately \$400 million year-over-year on higher revenue and reduced inventory reserves.

Intel Foundry delivered revenue of \$4.3 billion, down 1 point sequentially and up 4% year-over-year, driven by increased wafer volume on Intel 7 and our first EUV nodes, Intel 4 and Intel 3. Foundry Services revenue more than doubled sequentially off a small base, including the start of advanced packaging revenue.

Foundry operating loss of \$2.8 billion was worse sequentially. We expect operating losses to continue at approximately the same rate in Q3, with more than 85 percent of wafer volume still coming from pre-EUV nodes with an uncompetitive cost structure and power, performance and area deficits reflected in market-based pricing. The continued ramp of our Intel 4 and Intel 3 Ireland facility and elevated R&D and startup cost to support the rapid progression of our leading-edge technology development will also weigh on profitability.

Mobileye revenue of \$440 million improved 84% sequentially due to non-recurrence of the significant inventory drawdown that occurred in Q1. The rapid revenue and margin recovery indicates digestion occurred in an organized, predictable fashion, and we believe it is now complete. However, difficult conditions in China, which are impacting many western automotive suppliers, led Mobileye to lower their revenue and income guidance for the second half.

Altera delivered revenue of \$361 million, up 6% sequentially, with operating margins improving 4 points in the quarter. Revenue remains below consumption as inventory positions tied to previous supply constraints are worked down. We expect double-digit sequential revenue growth through the second half as customers return to more normal buying patterns.

Now turning to our Q3 guidance. Weaker spending across consumer and enterprise markets, especially in China, and continued focus on AI server investments in the cloud, have reduced our TAM (total addressable market) expectations for 2024. As a result, customer inventory levels are elevated. We expect customers to reduce inventory over the second half of the year, along with the continued modest negative impact from export controls. These market dynamics should result in below seasonal revenue growth in Q3, with the client business flat-to-down and modest growth in data center and edge markets. With an expectation of healthier inventory positions exiting the quarter, and the continuation of an enterprise refresh cycle, we should see revenue growth at the high end of seasonal in the fourth quarter.

We expect gross margins to be moderately weaker sequentially, with modest revenue growth and efficiencies offset by a continued ramp of new manufacturing nodes. While we will continue our work to improve near-term profitability, a heavier dependence on external wafers as we ramp AI PC products over the next several quarters will pressure gross margins.

As a result of these factors, we expect revenue of \$12.5 billion to \$13.5 billion in the third quarter. At the midpoint of \$13 billion, we expect gross margin of approximately 38%, with a tax rate of 13% and EPS of negative 3 cents, all on a non-GAAP basis.

As Pat discussed earlier, lower-than-anticipated revenue in the back half of the year is putting pressure on gross margins and earnings. We are taking aggressive actions to significantly reduce spending in response. These actions, while difficult, will help streamline the organization to improve productivity and make better decisions more quickly. Please note that we are likely to



have charges associated with these actions, some of which may be included in our non-GAAP results. Since we have not yet estimated these charges, they are not included in our guidance.

Smart Capital continues to guide the pace and breadth of our global capacity expansion, and our new operating model has uncovered opportunities to build and utilize manufacturing capacity more efficiently. Additionally, we have responded to lower revenue by reducing 2024 gross capital investments to a range of \$25 billion to \$27 billion, with net capital spending of \$11 billion to \$13 billion, including our SCIP programs. These adjustments ordinarily would bring us back to approximately break-even adjusted free cash flow, but we now expect adjusted free cash flow to be modestly negative as we make payments related to the restructuring charges necessary to achieve our spending targets. In 2025, with OpEx of approximately \$17.5 billion and net CapEx of \$12 billion to \$14 billion, we expect to achieve positive adjusted free cash flow.


The suspension of the dividend, initial Altera capitalization and positive adjusted free cash flow should significantly improve our liquidity in 2025 and position us to begin the process of meaningfully decreasing our leverage.

Before I close, let me take a moment to highlight a couple items as you model 2025. As previously mentioned, we expect operating expenses to be reduced from street expectations of \$21 billion to approximately \$17.5 billion. We will also reduce spending within non-variable cost of sales by approximately \$1 billion. While that will obviously have a positive impact on gross margins, we still only expect a roughly 60% fall-through for gross margin next year. The AI PC is a big winner for the company and the early signals on the performance of Lunar Lake are very positive. We therefore intend to ramp that product significantly next year to meet market demand. While the part is great, it was originally a narrowly targeted product, using largely external wafers and not optimized for cost. As a result, our gross margins will likely be up only modestly next year. The good news is the follow-on product, Panther Lake, is internally sourced on 18A and has a much-improved cost structure. As the momentum of AI PCs drives Panther Lake demand, together with the improvements from our new operating model and the cost savings from lower capital spending, we will be in a great position to see meaningful gross margin expansion in subsequent years. Lastly, the noncontrolled income from Mobileye, Altera and IMS, and the portion of the SCIPs earned by our partners, show up on a line below net income called noncontrolling interest (NCI). The NCI adjustment has been negligible so far, but we expect it to be a more meaningful driver, reducing our controlled share of income by approximately \$700 million on a GAAP basis in 2025, and increasing as wafer production at our SCIP fabs in Arizona and Ireland increases in subsequent years.

In closing, the market has not recovered as expected and we are obviously not satisfied with our results. We are responding by aggressively adjusting 2025 spending to achieve profitability and positive adjusted free cash flow that is commensurate with the current market conditions, while continuing to invest in and execute our strategy. In addition to these near-term actions, we are also seeing meaningful opportunities to improve financial results leveraging our new operating model. We remain optimistic that reduced spending, operating efficiencies and more competitive products will keep us on track to our target model of 60% gross margin and 40% operating margin by the end of the decade.

Closing – Pat Gelsinger, Intel chief executive officer:

I want to thank everyone again for joining the call today. We appreciate your time and the thoughtful questions from our analyst community. I hope to see many of you at the end of the month at the Deutsche Bank Technology Conference. In closing, I'd like to reiterate our resolve to close the gap between our improving operational performance and our financial performance,



which has lagged. The actions we announced today are difficult decisions but necessary and a crucial step in refocusing and resizing the company. A leaner, more agile and more cost-effective organization will improve decision making, accelerate action and provide the financial resources to advance the long-term strategy. Thanks, and good afternoon.

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