



Segment Update

Manufacturing: Intel's costs are coming down quickly

Intel expects costs declines to accelerate as the company migrates to 14nm in 2014 and 10nm thereafter. This will contrast to the foundry industry which is likely to see a flattening of the cost curve as they introduce FinFet into high volume manufacturing. Intel is not immune to rising wafer costs, but the company believes it can deliver higher density which will offset the higher wafer costs. At the 14nm Intel believes the company will have a cost/density advantage relative to the leading foundry a sharp contract to 22nm when the company trailed on most density and cost metrics.

PCG: High-end strength offset by share loss at low-end

The high-end of Intel's product line is doing very well. Despite a soft PC market in 3Q13, the company saw record Core i5/i7 mix and record Core and vPro unit shipments. This was offset by weakness at the low-end of the market (Atom/Celeron) as Intel lost share to traditional competitors like AMD and alternative architectures. Intel MSS below \$499 had dropped to below 50% in recent years as the company retreated from the low-end of the market, but Baytrail and gains on Android/Chrome should reverse those gains in 2014.

Intel expects the convertible category will generate meaningful growth in 2014 as OEMs bring more products to market. The company expects more than 50 designs to hit the market this holiday season, up from only 5 designs in 2012 and the value proposition appears to resonate with customers who may have instead opted for a tablet.

Enterprise represents about 50% of PCG revenue and it continues to be a bright spot for the company. Intel holds 90% MSS in Enterprise clients and the company is well positioned to benefit from a recovery in IT spending. Intel's has shipped over 100m VPro platform and the technology is now widely adopted by enterprise customers.

DCG: Intel growing share of wallet

Intel remains bullish about DCG and reiterated goals of +15% CAGR growth through 2017. This would suggest some acceleration in 2014 as the segment grew 7% in 2013, and +6% in 2012. The company expects more than 50% of DCG revenue to come from outside traditional enterprise in 2014 and this segment should grow at +20%. The company has observed a rebound in Enterprise spending in 3Q13 and the company models the segment up +8% through 2016. Intel will also boost revenue growth by delivering more platform solutions which carry higher ASP and GP \$ compared to MPUs. The company noted many cloud service providers are 30% more likely to adopt Intel's other products and therefore the company is making incremental investments in fabrics, silicon photonics, software, and non-volatile memory as Intel looks to grab a larger share of wallet within the data center.