

Intel Earnings. What does the future REALLY look like?



Intel announced earnings for Q4 2022. The earnings were not great and the guidance was horrible.

Q1 2023 Projections

Revenue 11B, GM 39%, EPS of (-.15) . This INCLUDES the impact of Intel change to depreciation from 5 years to 8 Years in order to make earnings look better.... For the first 5 years. Then it becomes problematic

Status

Intel continues to lose ground. Pat blames macro but Intel is performing much worse than the macro and worse than its main competitor. It is possible that the Intel (and AMD) sell in to the OEMS is much lower than OEM sales due to inventory burn off. But Intel said three months ago 1 month into the quarter.... That Q4 was low point. They were wrong, so we need ask whether Intel is losing share faster than expected. A look at GAAP impacts and businesses like the graphics group shows additional concern.

Intel's plan is to spend a lot of money on product development while eliminating jobs. They claim they will build many fabs (6-8??) over the next 3-5 years. This is a great plan but it is not clear that any company can go from trailing in technology to leading while losing money, losing cash, losing market share, and losing employees.

So the question is: What is the Intel claimed future vs the realistic future?

What Intel Claims: 5 nodes in 4 years: Intel still claims to be on track. Since Intel 3 will not ship until Q4 2023 in volume at the earliest, It appears intel plans to ship and ramp 4 nodes in 2 years. This seems impossible, even though two are half nodes. Aside from process, that would require a collision of new product announcement and ramps.

What will happen: IF Intel executes flawlessly and they achieve they goal, the new nodes will ramp slowly and will not be more than 10% of the wafer starts at launch. This might be a good strategy, but it will lead to multiple parallel products on parallel nodes.... which is always difficult to manage.

If nodes or products are delayed, the roadmap and process ramp will fall apart. and this becomes a problem since Intel 4/3 are learning nodes for EUV and Intel20 is learning node for GAA. Short answer they must execute flawlessly (We can provide milestones and probability of success to see if this is happening and impacts if it does not.) But Intel 7 might be a dominant node like 14nm

What Intel claims: Intel will be number two foundry in world in 2025+. Intel want to build 6-8 factories to become a dominant foundry (in parallel with Arizona, Israel, Oregon internal factories). Intel has design discussions with multiple foundry customer and some test chips planned or running. Intel is building two factories now in Arizona and is doing site prep on Ohio. They have plans for Germany/Italy.

What will happen: The Plan was made to get major customers to sign with Intel and show they are serious (good idea). However it was high risk to begin with due to spending and the fact that Intel is not a major foundry today. Now that Intel financials are dropping, cash flow is negative, and the fact that you need to build it and spend billions before getting revenue.... it is not mathematically clear how this is possible.

We have the details what the actual roadmap and timing for each fab will be (call us) but when the smoke clears, expect ONE factory in Arizona to tool out in 2024 and the rest to be slowed until Intel achieves revenue from foundry. Intel needs to get to be number five in the world (not an easy task) before being number two. IF everything goes well, Intel will add 1 wafer fab every year after 2025. This is about 25% of what they have promised multiple government entities.

We can discuss impact of Brookfield, subsidies and possible JVs to add more scenarios.

What Intel Claims: Cutting spending by 3B this year and 8B in 2025. If the plan is to change the accounting so that depreciation is now 8 years (Increasing cost dramatically years from now), then this is possible. If starting less silicon and lowering revenue is the way planned, this is possible. If taking all the write offs, reorgs at once, saying it is non-GAAP, then saying expenses are lower later.... This is possible. BUT actually reducing spending 3B while getting revenue to 2021 levels seems difficult.

***What will happen:** Intel will cut headcount and some spending to claim 3B is reduced spending but they will not be able to show it on P&L as other spending went up. Expect big differences in GAAP vs non-GAAP (We can show the impact of layoffs on spending including severance pay and fab cost reductions).

A positive note: What Intel needs to do to be successful:

Slowly move into foundry. Do actual foundry work before adding more fabs. Major customers are not going to run significant wafer starts at unproven foundry. Also, customers are allowed to cancel orders so have backup customers to fill factories like TSMC does

Get product roadmap competitive and hit all milestones. No changes or excuses

If you don't succeed in graphics, stay out. Intel strengths (methodical and dominant leader) does not match graphics market. Focus on what you do well ... processors and architecture for Datacenter and Client.

Be aggressive on Datacenter, paranoid on PCs. Datacenter will grow forever. PCs might hit 300M TAM... but there is a good chance they will not.

Do this and return to be a profitable cash machine who leads in PC and Datacenter architecture.

We have lots of details and milestones so you can track Intel progress. Call or text for more info

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