



### COMPANY UPDATE / ESTIMATE CHANGE / TARGET CHANGE

#### Key Metrics

INTC - NASDAQ - as of	7/28/17	\$35.31
Price Target		\$44.00
52-Week Range	\$30.44 -	\$38.45
Diluted Shares Outstanding (mil)		4,709
Market Cap. (\$bil)		\$166.3
1-Mo. Average Daily Volume		22,403,256
Institutional Ownership %		70.11
Debt/Total Capital (net)	FQ2'17	9%
ROE %	LTM	17.55
Book Value / Share		\$14.15
Price / Book Value		2.5x
Indicated Dividend / Yield	\$1.09	3.0%
EBITDA Margin		38.6%

#### non GAAP EPS

	Prior	Current		Prior	Current
	2016A	2017E		2018E	2018E
1Q	\$0.54	\$0.66	A	\$0.68	\$0.70
2Q	\$0.59	\$0.72	A	\$0.73	\$0.78
3Q	\$0.80	\$0.73		\$0.75	\$0.80
4Q	\$0.79	\$0.77		\$0.79	\$0.84
Year	\$2.72	\$2.84		\$2.96	\$3.12
P/E	13.0x	11.8x			11.3x

#### Revenue (\$mil)

	Prior	Current		Prior	Current
	2016A	2017E		2018E	2018E
1Q	\$13,801	14,796	A	\$14,699	\$14,974
2Q	13,533	14,763	A	\$14,789	\$15,397
3Q	15,778	\$15,370		\$15,987	\$16,470
4Q	16,374	\$16,262		\$16,758	\$16,951
Year	\$59,486	\$60,778		\$62,233	\$63,792

**Company Description:** Santa Clara, California based - Intel Corp. is a leading global supplier of semiconductors. The company designs, manufactures and markets microprocessors and other platform technologies to major end markets. Intel groups these end markets into segments including the Client Computing Group (55%), Data Center Group (29%), Internet of Things Group (4%), Non Volatile Memory Solutions Group (4%), Programmable Solutions Group (3%), and All Other.

## Intel Corp.

### INTC - NASDAQ – Long-term Buy - 2

#### A Beat and Raise Quarter

- Results.** Intel reported non GAAP EPS of \$0.72 increasing 22% y/y, vs. our \$0.68 estimate. Record revenue of \$14.76 billion increased 14% y/y, excluding Intel Security Group (ISG), beating our \$14.35 billion view. Client Computing Group (CCG) or PC centric revenue of \$8.2 billion jumped a better than expected 12% y/y as unit volume increased 3% while ASPs jumped 7%. Premium Notebook chip sales led to the outperformance. Data centric revenue represented 40% of total revenue increasing 16% y/y as Data Center Group (DCG) revenue of \$4.4 billion increased 9%. DCG unit volume increased 7% while ASPs increased 1%. Internet of Things Group (IoTG) revenue of \$720 million jumped 26%, Memory sales (NSG) increased 58% to a record \$874 million, while Programmable Solutions Group (PSG) revenue declined 5% to \$440 million below expectations. Gross margin improved 120 bps on higher end chip sales, while operating income increased 30% with operating margin expanding 400 bps to 28% on restructuring initiatives, this is expected to expand further. Net income of \$3.5 billion increased 22% despite a higher tax rate during the quarter. Intel generated \$4.7 billion in operating cash flow and free cash flow of \$1.9 billion. Intel has \$14.2 billion remaining under its share repurchase plan. Management expects to close on the Mobileye acquisition during the current quarter, a few months before schedule. Total debt stood at \$31.9 billion, while cash & investments was \$36.3 billion. We expect net debt to be significantly higher following the acquisition than any time in Intel's history, however expect debt levels to decline briskly.
- Outlook.** Intel now expects Q3'17 revenue of \$15.7 billion vs. our prior view of \$15.37 billion. Q3 EPS is expected of \$0.80 vs. our prior \$0.73 view, however y/y results will be impacted due to the divestiture of ISG. Management now expects FY'17 revenue of \$61.3 billion vs. our prior \$60.7 billion view. EPS is expected of \$3.00 vs. our prior \$2.84 estimate. Much of the EPS gain is from higher revenue, operating profit, and Mobileye adding roughly \$0.02. Our current forecast calls for Q3'17 EPS of \$0.80 on revenue of \$15.77 billion. We expect the company to record FY'17 EPS of \$3.00 on revenue of \$61.6 billion. We expect a slight improvement to margins as higher ASPs and restructuring efforts lead to improved operating results.
- Valuation.** We increase our FYE'18 price target to \$44 from \$41, based on INTC shares trading at 14x (vs. 12.5x current forward multiple) our increased FYE'18 EPS estimate of \$3.12.

**Note Important Disclosures on Pages 8-9**  
**Note Analyst Certification on Page 8**

**SECOND QUARTER 2017 SEGMENT RESULTS**

SEGMENT DATA*:	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017
<b>Net revenue:</b>								
Client Computing Group	\$ 32,219	\$7,549	\$ 7,338	\$ 8,892	\$ 9,129	\$ 32,908	\$7,976	\$ 8,213
Data Center Group	15,981	3,999	4,027	4,542	4,668	\$ 17,236	4,232	4,372
Internet of Things Group	2,298	651	572	689	726	\$ 2,638	721	720
Non-Volatile Memory Solutions Group	2,597	557	554	649	816	\$ 2,576	866	874
Intel Security Group	1,985	537	537	537	550	\$ 2,161	534	—
Programmable Solutions Group	—	359	465	425	420	\$ 1,669	425	440
All other	275	50	40	44	65	\$ 199	42	144
<b>Total net revenue</b>	<b>\$ 55,355</b>	\$13,702	\$13,533	\$15,778	\$16,374	<b>\$ 59,387</b>	\$ 14,796	\$ 14,763
<b>Operating income (loss):</b>								
Client Computing Group	\$ 8,166	\$1,885	\$ 1,911	\$ 3,327	\$ 3,523	\$ 10,646	\$3,031	\$ 3,025
Data Center Group	7,847	1,764	1,765	2,110	1,881	\$ 7,520	1,487	1,661
Internet of Things Group	515	123	89	191	182	\$ 585	105	139
Non-Volatile Memory Solutions Group	239	(95)	(224)	(134)	(91)	\$ (544)	(129)	(110)
Intel Security Group	213	85	97	115	103	\$ 400	95	—
Programmable Solutions Group	—	(200)	(62)	78	80	\$ (104)	92	97
All other	(2,978)	(994)	(2,258)	(1,225)	(1,152)	\$ (5,629)	(1,082)	(987)
<b>Total operating income</b>	<b>\$ 14,002</b>	\$ 2,568	\$ 1,318	\$ 4,462	\$ 4,526	<b>\$ 12,874</b>	\$ 3,599	\$ 3,825
<b>Net revenue:</b>								
Client Computing Group	58%	55%	54%	56%	56%	55%	54%	56%
Data Center Group	29%	29%	30%	29%	29%	29%	29%	30%
Internet of Things Group	4%	5%	4%	4%	4%	4%	5%	5%
Non-Volatile Memory Solutions Group	5%	4%	4%	4%	5%	4%	6%	6%
Intel Security Group	4%	4%	4%	3%	3%	4%	4%	0%
Programmable Solutions Group	0%	3%	3%	3%	3%	3%	3%	
All other	0%	0%	0%	0%	0%	0%	0%	1%
<b>Total net revenue</b>	<b>100%</b>	100%	100%	100%	100%	<b>100%</b>	100%	100%
<b>Operating margin:</b>								
Client Computing Group	25%	25%	26%	37%	39%	32%	38%	37%
Data Center Group	49%	44%	44%	46%	40%	44%	35%	38%
Internet of Things Group	22%	19%	16%	28%	25%	22%	15%	19%
Non-Volatile Memory Solutions Group	9%	-17%	-40%	-21%	-11%	-21%	-15%	-13%
Intel Security Group	11%	16%	18%	21%	19%	19%	18%	
Programmable Solutions Group		-56%	-13%	18%	19%	-6%	22%	22%
All other	-1083%	-1988%	-5645%	-2784%	-1772%	-2829%	-2576%	-685%
<b>Total operating income</b>	<b>25%</b>	19%	10%	28%	28%	<b>22%</b>	24%	26%
<b>Y/Y Revenue growth:</b>								
Client Computing Group	-8%	2%	-3%	5%	4%	2%	6%	12%
Data Center Group	11%	9%	5%	10%	8%	8%	6%	9%
Internet of Things Group	7%	22%	2%	19%	16%	15%	11%	26%
Non-Volatile Memory Solutions Group	21%	-6%	-20%	-1%	25%	-1%	55%	58%
Intel Security Group	-1%	12%	10%	6%	7%	9%	-1%	
Programmable Solutions Group							18%	-5%
All other	-10%	-34%	-37%	-43%	10%	-28%	-16%	260%
<b>Total net revenue</b>	<b>-1%</b>	7%	3%	9%	10%	<b>7%</b>	8%	9%
<b>Y/Y Operating margin growth:</b>								
Client Computing Group	-21%	34%	19%	37%	30%	30%	61%	58%
Data Center Group	6%	4%	-4%	-1%	-14%	-4%	-16%	-6%
Internet of Things Group	-12%	41%	-39%	27%	37%	14%	-15%	56%
Non-Volatile Memory Solutions Group	-6%	-232%	-343%	-363%	-479%	-328%	36%	-51%
Intel Security Group	30%	467%	341%	19%	30%	88%	12%	
Programmable Solutions Group							-146%	-256%
All other	-11%	49%	179%	83%	39%	89%	9%	-56%
<b>Total operating income</b>	<b>-9%</b>	-2%	-54%	6%	5%	<b>-8%</b>	40%	190%

Source: Company data

**FINANCIAL MANAGEMENT**

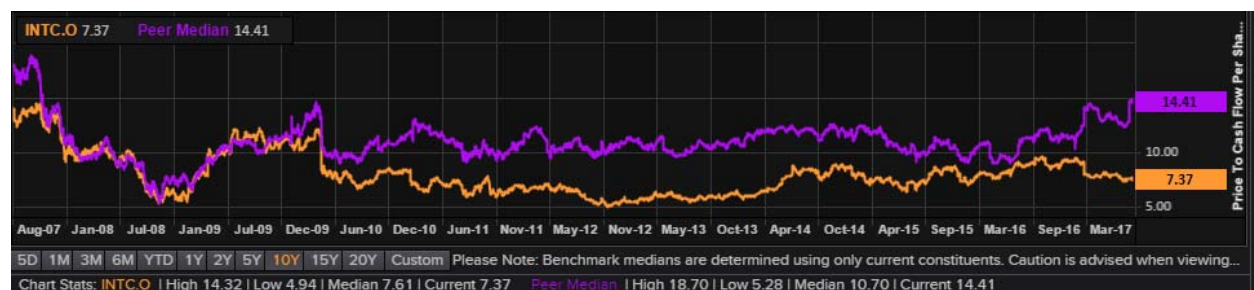
We have a constructive view of the company's business model and strong balance sheet. About 80% of Intel's revenue is from outside the U.S. and soon half of total revenue could be derived from new growth businesses. We believe this signals an inflection point for Intel's strategy and growth outlook. The company has also maintained strong free cash flow, currently yielding ~4.5%, despite heavy capital expenditures.

As of FQ2'17, Intel has a strong financial position, cash and investments totaled \$36.3 billion. After deducting the company's debt of \$31.9 billion the company had a net cash and investment position of \$4.3 billion or \$0.89 per share. We note Intel's debt position will increase substantially when the company closes on the Israeli-based Mobileye acquisition for over \$15 billion, lowering Intel's overseas cash position. We note Intel's balance sheet will become highly levered, with significantly more risk than in Intel's prior history, but with the expectation for it to be paid down quickly in coming quarters. We believe Intel's use of funds to pursue acquisitions is positive for shareholders in the current low interest rate environment. We expect other cash uses to include continued capital spending as a major ongoing concern, as well as dividends, and share repurchases. Intel has Board authorization to repurchase \$14.2 billion or ~8% of its market capitalization. In the latest quarter, cash flow from operations totaled \$4.7 billion, \$2.8 billion was spent on capital assets, \$1.3 billion was paid in dividends, and \$1.3 billion allocated to buybacks.

Intel has paid a dividend since 1992 and has sustainably raised the dividend significantly over time since inception. The dividend has increased at a 5 year compound annual growth rate of ~4%. Management recently raised the dividend to \$0.2725 per share on a quarterly basis, currently yielding 3.07% on an annual basis, based on the most recent closing price. We view the current payout ratio as easily maintainable and would expect future dividend increases largely on an annual basis.

**Intel Corp. - Dividend Yield vs. Peer Median**

Source Company data and Thomson Reuters

**Intel Corp. – Price to Cash Flow Per Share vs. Peer Median**

Source Company data and Thomson Reuters

## Intel Corp. Consolidated Income Statement (Adjusted)

(In millions, except per share amounts)	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017	Q3 2017E	Q4 2017E	2017E	2018E
<b>Net revenue (GAAP)</b>	\$ 55,870	\$ 55,355	\$ 13,702	\$ 13,533	\$ 15,778	\$ 16,374	\$ 59,387	\$ 14,796	\$ 14,763	\$ 15,777	\$ 16,291	\$ 61,627	\$ 63,793
Revenue adjustments			\$ 99	\$ —	\$ —	\$ —							
<b>Net revenue (Non GAAP)</b>	\$ 55,870	\$ 55,355	\$ 13,801	\$ 13,533	\$ 15,778	\$ 16,374	\$ 59,486	\$ 14,796	\$ 14,763	\$ 15,777	\$ 16,291	\$ 61,627	\$ 63,793
Cost of sales	\$ 20,261	\$ 20,676	5,572	5,560	5,795	6,269	\$ 23,196	5,649	5,665	6,050	6,350	\$ 23,714	\$ 24,241
Cost of sales adjustments		\$ 343	426	396	235	232	\$ 1,289	209	198	200	245	\$ 852	\$ 800
<b>Gross margin (Non GAAP)</b>	35,609	35,022	8,655	8,369	10,218	10,337	37,579	9,356	9,296	9,927	10,186	38,765	40,352
Research and development (R&D)	\$ 11,537	\$ 12,128	3,246	3,145	3,069	3,280	\$ 12,740	3,326	3,275	3,150	3,200	\$ 12,951	\$ 13,304
Marketing, general and administrative (MG&A)	\$ 8,136	\$ 7,930	2,226	2,007	2,006	2,158	\$ 8,397	2,104	1,854	2,100	2,150	\$ 8,208	\$ 8,216
Restructuring and asset impairment charges	\$ 295	\$ 354	—	1,575	372	100	\$ 2,047	—	—	—	—	\$ —	\$ —
Amortization of acquisition-related intangibles	\$ 294	\$ 413	—	324	309	273	\$ 906	—	—	—	—	\$ —	\$ —
Other non GAAP operating expense	(589)	(767)	100	(1,899)	(681)	(373)	(2,953)	—	—	100	100	200	—
<b>Operating expenses (Non GAAP)</b>	19,673	20,058	5,372	5,152	5,075	5,438	21,137	5,430	5,129	5,150	5,250	20,959	21,520
<b>Operating income (Non GAAP)</b>	15,936	14,964	3,283	3,217	5,143	4,899	16,442	3,926	4,167	4,777	4,936	17,806	18,832
Gains (losses) on equity investments, net	\$ 411	\$ 315	22	478	(12)	18	\$ 506	252	(387)	300	200	\$ 365	\$ 525
Interest and other, net	\$ 43	\$ (105)	(82)	(126)	(132)	(104)	\$ (444)	(36)	403	—	—	\$ 367	\$ (175)
Adjustments									340			\$ 340	
<b>Income before taxes</b>	16,390	15,174	3,223	3,569	4,999	4,813	16,504	4,142	4,523	5,077	5,136	18,878	19,182
Provision for taxes	\$ 4,097	\$ 2,792	462	340	940	878	\$ 2,620	851	1,764	1,150	980	\$ 4,745	\$ 4,181
Income tax adjustments		\$ (189)	(132)	(370)	(173)	(70)	\$ (745)	(73)	(745)	70	200	\$ (548)	\$ —
<b>Net income (Non GAAP)</b>	\$ 12,293	\$ 12,193	\$ 2,629	\$ 2,859	\$ 3,886	\$ 3,865	\$ 13,139	\$ 3,218	\$ 3,504	\$ 3,857	\$ 3,956	\$ 14,535	\$ 15,001
<b>Non GAAP Diluted EPS</b>	\$ 2.44	\$ 2.49	\$ 0.54	\$ 0.59	\$ 0.80	\$ 0.79	\$ 2.72	\$ 0.66	\$ 0.72	\$ 0.80	\$ 0.82	\$ 3.00	\$ 3.12
Weighted average shares - basic	4,769	4,722	4,722	4,729	4,734	4,735	4,735	4,723	4,731	4,734	4,735	4,731	4,730
Weighted average shares - diluted	4,940	4,876	4,875	4,866	4,877	4,881	4,881	4,881	4,845	4,835	4,830	4,848	4,809
Gross margin % of revenue	63.7 %	63.3 %	63.2 %	61.8 %	64.8 %	63.1 %	63.3 %	63.2 %	63.0 %	62.9 %	62.5 %	62.9 %	63.3 %
R&D % of revenue	20.6 %	21.9 %	23.7 %	23.2 %	19.5 %	20.0 %	21.5 %	22.5 %	22.2 %	20.0 %	19.6 %	21.0 %	20.9 %
MG&A % of revenue	14.6 %	14.3 %	16.2 %	14.8 %	12.7 %	13.2 %	14.1 %	14.2 %	12.6 %	13.3 %	13.2 %	13.3 %	12.9 %
Operating Income % of revenue	28.5 %	27.0 %	24.0 %	23.8 %	32.6 %	29.9 %	27.7 %	26.5 %	28.2 %	30.3 %	30.3 %	28.9 %	29.5 %
Net income % of revenue	22.0 %	22.0 %	19.2 %	21.1 %	24.6 %	23.6 %	22.1 %	21.7 %	23.7 %	24.4 %	24.3 %	23.6 %	23.5 %
Effective income tax rate	25.0 %	17.2 %	10.2 %	(0.8)%	15.3 %	16.8 %	11.4 %	18.8 %	22.5 %	24.0 %	23.0 %	22.2 %	21.8 %

Source: Company data & Hilliard Lyons estimates, highlighted figures used for valuation methodology.

## Intel Corp. Balance Sheet

(In millions)	2012	2013	2014	2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	2016	Q1 2017	Q2 2017
<b>Current assets:</b>											
Cash and short-term investments	\$ 12,477	\$ 11,646	\$ 4,991	\$ 17,990	\$ 5,988	\$ 8,186	\$ 8,022	\$ 8,785	\$ 8,785	\$ 7,992	\$ 11,687
Trading assets	5,685	8,441	9,063	7,323	9,103	9,503	9,747	8,314	8,314	9,303	14,242
Accounts receivable, net	3,833	3,582	4,427	4,787	4,216	4,426	4,952	4,690	4,690	4,921	5,397
Inventories:											
Raw materials	478	458	462	532	628	651	688	695	695	786	1,014
Work in process	2,219	1,998	2,375	2,893	2,980	3,218	3,443	3,190	3,190	3,412	3,775
Finished goods	2,037	1,716	1,436	1,742	2,143	1,931	1,652	1,668	1,668	1,603	1,535
<b>Total inventories</b>	<b>4,734</b>	<b>4,172</b>	<b>4,273</b>	<b>5,167</b>	<b>5,751</b>	<b>5,800</b>	<b>5,783</b>	<b>5,553</b>	<b>5,553</b>	<b>5,801</b>	<b>6,324</b>
Assets held for sale	—	—	—	71	—	23	5,100	5,210	5,210	5,138	—
Other current assets	2,512	1,649	3,018	2,982	2,339	3,250	2,612	2,956	2,956	2,903	2,967
<b>Total current assets</b>	<b>29,241</b>	<b>29,490</b>	<b>25,772</b>	<b>38,320</b>	<b>27,397</b>	<b>31,188</b>	<b>36,216</b>	<b>35,508</b>	<b>35,508</b>	<b>36,058</b>	<b>40,617</b>
Property, plant and equipment, net	27,983	31,428	33,238	31,858	32,644	33,804	34,707	36,171	36,171	36,911	38,130
Marketable equity securities	4,424	6,221	7,097	5,960	6,377	5,394	6,022	6,180	6,180	6,831	5,904
Other long-term investments	493	1,473	2,023	1,891	3,097	3,567	4,189	4,716	4,716	5,149	4,481
Goodwill	9,710	10,513	10,861	11,332	16,942	16,992	13,868	14,099	14,099	14,099	14,102
Identified intangible assets, net	6,235	5,150	4,446	3,933	11,140	10,821	9,524	9,494	9,494	9,157	8,867
Other long-term assets	4,142	5,514	6,575	8,165	7,870	8,065	7,691	7,159	7,159	7,443	10,006
<b>Total assets</b>	<b>\$ 82,228</b>	<b>\$ 89,789</b>	<b>\$ 90,012</b>	<b>\$ 101,459</b>	<b>\$ 105,467</b>	<b>\$ 109,831</b>	<b>\$ 112,217</b>	<b>\$ 113,327</b>	<b>\$ 113,327</b>	<b>\$ 115,648</b>	<b>\$ 122,107</b>
<b>Current liabilities:</b>											
Short-term debt	\$ 312	\$ 281	\$ 1,596	\$ 2,634	\$ 3,594	\$ 4,560	\$ 3,573	\$ 4,634	\$ 4,634	\$ 5,073	\$ 4,130
Accounts payable and accrued liabilities	10,630	11,166	12,188	10,768	11,300	11,344	12,915	12,030	12,030	12,788	10,733
Deferred income on shipments of components to distributors	694	852	944	920	1,318	1,484	1,553	1,475	1,475	1,461	2,332
Deferred income from software, services and other	1,238	1,244	1,261	1,268	1,314	1,323	171	243	243	237	1,587
<b>Total current deferred income</b>	<b>1,932</b>	<b>2,096</b>	<b>2,205</b>	<b>2,188</b>	<b>2,632</b>	<b>2,807</b>	<b>1,724</b>	<b>1,718</b>	<b>1,718</b>	<b>1,698</b>	<b>1,587</b>
Liabilities held for sale	—	—	—	56	—	—	1,881	1,920	1,920	1,746	—
<b>Total current liabilities</b>	<b>12,874</b>	<b>13,543</b>	<b>15,989</b>	<b>15,646</b>	<b>17,526</b>	<b>18,711</b>	<b>20,093</b>	<b>20,302</b>	<b>20,302</b>	<b>21,305</b>	<b>18,782</b>
Long-term debt	13,070	13,104	12,059	20,036	21,775	24,053	24,043	20,649	20,649	20,678	27,855
Long-term deferred tax liabilities	1,379	1,914	1,909	954	1,247	1,293	1,211	1,730	1,730	2,285	2,502
Other long-term liabilities	3,702	2,972	3,278	2,841	2,851	3,517	2,869	3,538	3,538	3,658	3,469
<b>Temporary equity</b>	<b>—</b>	<b>—</b>	<b>912</b>	<b>897</b>	<b>894</b>	<b>890</b>	<b>886</b>	<b>882</b>	<b>882</b>	<b>878</b>	<b>874</b>
<b>Total stockholders' equity</b>	<b>51,203</b>	<b>58,256</b>	<b>55,865</b>	<b>61,085</b>	<b>61,174</b>	<b>61,367</b>	<b>63,115</b>	<b>66,226</b>	<b>66,226</b>	<b>66,844</b>	<b>68,625</b>
<b>Total liabilities, temp equity, and stockholders' equity</b>	<b>\$ 82,228</b>	<b>\$ 89,789</b>	<b>\$ 90,012</b>	<b>\$ 101,459</b>	<b>\$ 105,467</b>	<b>\$ 109,831</b>	<b>\$ 112,217</b>	<b>\$ 113,327</b>	<b>\$ 113,327</b>	<b>\$ 115,648</b>	<b>\$ 122,107</b>

Source: Company data

**INVESTMENT THESIS**

We have a positive opinion of Intel Corp. as we believe there are several long term investment catalysts focused on the ability for consumers, companies, countries, and the global economy to process, analyze, store, and share an ever increasing and complex amount of data. Long term industry trends centered on Intel processors include data center growth, Internet of Things, memory, and smart connected devices. All new experiences will shape consumers lives and how businesses operate including the use of artificial intelligence, autonomous driving, augmented reality, virtual reality, the internet of things and the global rollout of 5G networks. We believe the growth in data from these sources will be parabolic with the speed and intensity requirements only a few companies can provide. We also view industries such as businesses operating purely through connected devices such as Uber, or, for example, hospital data and autonomous driving technology as requiring a premium processor with speed and cost advantages backed by a trusted name such as Intel. While we note competition is fierce and continues to increase, we believe Intel is in a strong position to outperform peers on a risk-adjusted return basis over the coming five year timeframe.

We believe Intel's strategy following a large scale restructuring effort is entering an inflection point that will return Intel to stable top line growth. We forecast Intel's new growth businesses representing a larger portion of total revenue in coming periods, growing at a double-digit compound annual growth rate. Intel's large growth areas include programmable solutions (FPGAs), non-volatile memory (3D XPoint, Optane SSD memory) with a total addressable market of over \$100 billion, a \$100 billion autonomous vehicle market (Mobileye), and the rollout of a nationwide 5G wireless network (Xeon Scalable Processors) expected to connect over 50 billion devices. We expect these growth businesses to represent over half of total revenue in future periods, at which point it will offset declines from Intel's mature PC focused business. However, we note Intel's Client Computing Group business is a high margin business and will provide significant cash flow going forward that, in our opinion, can fund acquisitions, dividend growth, debt repayment, share repurchases, and fund the required heavy capital spending within its new growth businesses. With recent restructuring efforts we believe Intel will grow operating margin at a faster rate than revenue which should, along with share buybacks, boost EPS growth similar to Q2 and above the company's prior performance.

**OUTLOOK**

We forecast Q3'17 EPS of \$0.80 vs. our prior \$0.73 view on flat y/y revenue of \$15.77 billion, which excludes over \$500 million in revenue from the recently sold Intel Security Group. We expect the company to record FY'17 EPS of \$3.00 vs. our prior view of \$2.84 on revenue of \$61.62 billion vs. our prior view of \$60.78 billion, an increase of 3.77% y/y. Our updated outlook excludes the recently sold Intel Security Group but includes the Mobileye acquisition which is expected to close in the current quarter. We expect a slight improvement to margins as higher ASPs/revenue and restructuring efforts lead to improved operating results. However, capital expenditures are expected to remain at elevated levels above \$12 billion on an annual basis through 2018 to support recent acquisitions and new growth markets.

Longer term, we believe Intel is leveraged well for future industry trends through the growing demand for data. Intel's TAM is increasing rapidly and set to reach \$250 billion by 2021 as the company enters new markets. We believe now that the PC market has experienced more than 5 years of contraction, the market should begin stabilizing while at the same time representing less of a percentage of Intel's overall revenue. Also, as the global economic expansion grows long in the tooth, we believe Intel, a value semiconductor stock, could outperform growth peers as its forward P/E multiple remains 30% below the peer group and is currently trading at a 40% discount to the S&P 500 Index.

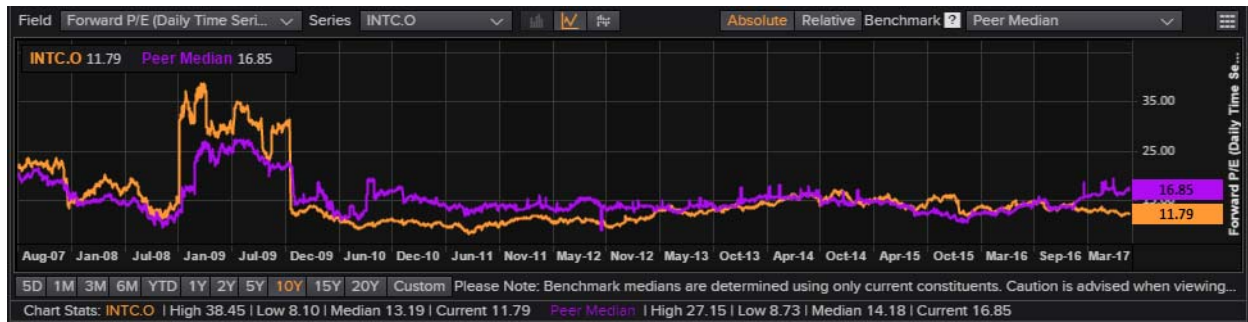
From a balance sheet perspective, Intel has leveraged its overseas cash position to issue debt to acquire Altera and most recently Intel will use this overseas cash position for the pending Mobileye acquisition. We anticipate Intel will hold a multi-billion dollar net debt position following the Mobileye acquisition. However, we believe Intel is capable of paying down debt quickly with the company's superior ability to

generate free cash flow. We have a favorable view of the company's balance sheet, including the company's ability to spend heavily on capex/R&D, share repurchases, and increased dividend payments. Intel has paid a dividend since 1992 and typically raises the dividend every year. Going forward, we expect Intel to raise the dividend in line with non GAAP EPS growth, or slightly over 4% per year.

## VALUATION

We value shares of INTC based on several factors including long-term revenue growth, non GAAP EPS, operating margin, free cash flow generation/DCF, and enterprise value to sales. **We reiterate shares of INTC at a Long-term Buy rating and increase our price target to \$44 up \$3 from our prior \$41 price target.** Our increased price target is based on our expectation for improved earnings growth of 10% and 4% in FY'17 & '18. The stock currently trades at a forward price to earnings multiple of 12.5x, near the low end of its multi-year range.

### Intel Corp. – Forward P/E vs. Peer Median



Source Company data and Thomson Reuters

### Intel Corp. – Enterprise Value To Sales vs. Peer Median



Source Company data and Thomson Reuters

We believe Intel's multiple could expand further as we expect operating margin expansion from restructuring initiatives, strong growth in memory and programmable solutions, as well as strong ASPs from the current demand environment. We recommend accumulating a long-term position in shares of INTC as we believe the company is poised to enter and regain lost share within several new vertical markets. Our FYE 2018 price target of \$44 is based on INTC shares trading at 14x our 18 month forward EPS estimate of \$3.12, an increase vs. our prior estimate of \$2.96. Our \$44 price target would provide investors a potential total return of 28% over our 18 month investment timeframe. We believe the risk/reward of owning Intel shares is compelling in the current market environment.

## SUITABILITY

We assign shares of INTC a suitability rating of 2 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 2 rating is given based on Intel's industry leading market position in several mature markets and Intel's overall profitability. We also believe the company generates significant free cash flow. However, Intel has made several acquisitions that could create integration risk, has missed or is late to several multi-billion computing trends, and is expected to have increased debt levels following the Altera

and Mobileye acquisitions. We believe a suitability rating of 2 incorporates these attributes. Shares of INTC are suitable for more conservative investors seeking a balanced portfolio & income oriented investors who seek long-term capital appreciation and dividend growth and have considered the cyclical nature of the semiconductor industry.

## **RISKS & CONSIDERATIONS**

Risks to our valuation include but are not limited to:

- Changes in macroeconomic conditions causing cyclical business patterns from trends in consumer and enterprise spending.
- Changes in product demand may reduce revenue, increase costs, lower margins, or impair assets.
- Product mix and new product introductions could have a negative financial impact
- Lack of innovation designing new products could lead to lower future sales.
- Product related liabilities and defects.
- Disruption of internal manufacturing facilities located in Arizona, California, Oregon, New Mexico, Ireland, Israel, Malaysia, Vietnam, and China.
- Risks resulting from international business including foreign currency exchange effects could have a significant impact on financial results as 78% of total revenue was derived from outside the U.S. in 2016.
- New disruptive technology enters the marketplace or the introduction of defective products.
- Increased competition as Intel extends into adjacent markets could pressure margins, increase capex or have other unintended consequences.
- Retaining key personnel.
- Supply chain risk as the company relies on third party suppliers and product resellers.
- Potential integration issues resulting from newly acquired Altera and Mobileye businesses.
- Ineffective legal protection involving intellectual property rights and other business activities.
- Cybersecurity and privacy risks

*Additional information is available upon request.*

Other stocks mentioned: Mobileye NV (MBLY-\$63.33)

### **Analyst Certification**

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### **Important Disclosures**

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

### **Suitability Ratings**

**1** - A large cap, core holding with a solid history

**2** - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

**3** - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

**4** - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

### **Investment Ratings**

**Buy** - We believe the stock has significant total return potential in the coming 12 months.



**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price setback in the next 12 months.



	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	36	29%	14%	86%
<b>Hold/Neutral</b>	79	63%	5%	95%
<b>Sell</b>	10	8%	0%	100%

As of 7 July 2017

#### Other Disclosures

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