



### COMPANY UPDATE / ESTIMATE CHANGE / TARGET CHANGE

#### Key Metrics

|                                  |           |            |
|----------------------------------|-----------|------------|
| INTC - NASDAQ - as of            | 10/26/17  | \$41.35    |
| Price Target                     |           | \$52.50    |
| 52-Week Range                    | \$33.23 - | \$41.58    |
| Diluted Shares Outstanding (mil) |           | 4,709      |
| Market Cap. (\$bil)              |           | \$194.7    |
| 1-Mo. Average Daily Volume       |           | 22,403,256 |
| Institutional Ownership %        |           | 70.11      |
| Debt/Total Capital (net)         | FQ3'17    | 9%         |
| ROE %                            | LTM       | 21.79      |
| Book Value / Share               |           | \$15.13    |
| Price / Book Value               |           | 2.7x       |
| Indicated Dividend / Yield       | \$1.09    | 2.6%       |
| EBITDA Margin %                  |           | 40.66      |

#### non GAAP EPS

|      | Prior  | Current |   | Prior  | Current |
|------|--------|---------|---|--------|---------|
|      | 2016A  | 2017E   |   | 2018E  | 2018E   |
| 1Q   | \$0.54 | \$0.66  | A | \$0.70 | \$0.75  |
| 2Q   | \$0.59 | \$0.72  | A | \$0.78 | \$0.81  |
| 3Q   | \$0.80 | \$1.01  | A | \$0.80 | \$0.89  |
| 4Q   | \$0.79 | \$0.82  |   | \$0.84 | \$0.92  |
| Year | \$2.72 | \$3.00  |   | \$3.12 | \$3.37  |
| P/E  | 15.2x  | 12.6x   |   |        | 12.3x   |

#### Revenue (\$mil)

|      | Prior    | Current  |   | Prior    | Current  |
|------|----------|----------|---|----------|----------|
|      | 2016A    | 2017E    |   | 2018E    | 2018E    |
| 1Q   | \$13,801 | 14,796   | A | \$14,974 | \$14,922 |
| 2Q   | 13,533   | 14,763   | A | 15,397   | 15,468   |
| 3Q   | 15,778   | 16,149   | A | 16,470   | 16,770   |
| 4Q   | 16,374   | \$16,291 |   | \$16,951 | \$17,101 |
| Year | \$59,486 | \$61,627 |   | \$63,792 | \$64,261 |

**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

### Intel Q3 Results; Third Consecutive Beat and Raise Quarter

- Strong Results.** Intel reported non GAAP EPS of \$1.01, increasing 26% y/y, vs. our \$0.80 estimate. Revenue of \$16.15 billion increased 2% y/y; adjusting for the sale of Intel Security Group and Intel's Mobileye acquisition, revenue increased 6% y/y. Intel beat our revenue estimate of \$15.77 billion. Client Computing Group (CCG) or PC centric revenue of \$8.9 billion was flat y/y as unit volume decreased 7% while ASPs jumped 7%. This was in line with our expectation for flat y/y results. Data centric revenue represented 45% of total revenue increasing 15% y/y as Data Center Group (DCG) revenue of \$4.9 billion increased 7% vs. our view of \$4.7 billion. DCG unit volume increased 4% while ASPs increased 2%. Internet of Things Group (IoTG) revenue of \$931 million jumped 35% vs. our \$785 million view. Memory sales (NSG) increased 37% to a record \$891 million vs. our estimate of \$876 million. Programmable Solutions Group (PSG) revenue gained 10% y/y to \$469 million, roughly in line with our \$468 million expectation. Gross margin declined 90 bps to 63.9%, but beat our view of 62.9% on higher DCG revenue. Operating income of \$5.55 billion increased 8% y/y with operating margin expanding 180 bps to 34.4%, well above our forecast. Net income of \$4.85 billion jumped 25% y/y. Intel generated \$6.3 billion in operating cash flow and free cash flow of \$3.3 billion, up 5% y/y. Intel has \$13.2 billion remaining under its share repurchase plan. Total debt was flat at \$31.6 billion despite its acquisition of Mobileye as the company used overseas cash and sold McAfee & ASML holdings.
- Raised Guidance.** Guidance was raised for the third consecutive quarter. Management expects Q4'17 revenue of \$16.3 billion vs. our prior view of \$16.29 billion. Q4 EPS is expected to be \$0.86 vs. our prior \$0.82 estimate on reduced spending. Management now expects FY'17 revenue of \$62 billion vs. our prior \$61.622 billion view. EPS is expected of \$3.25 vs. our prior \$3.00 estimate. (See page 6 for our updated outlook.)
- Valuation.** We increase our price target to \$52.50 from \$44, as we extend our investment timeframe 12 months to FYE'19. We also increase our P/E multiple to 15x from 14x on an improved revenue and margin outlook.

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

**THIRD QUARTER 2017 SEGMENT RESULTS**

| SEGMENT DATA*:                      | 2015             | Q1 2016         | Q2 2016         | Q3 2016         | Q4 2016         | 2016             | Q1 2017          | Q2 2017          | Q3 2017         |
|-------------------------------------|------------------|-----------------|-----------------|-----------------|-----------------|------------------|------------------|------------------|-----------------|
| <b>Net revenue:</b>                 |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | \$ 32,219        | \$7,549         | \$ 7,338        | \$ 8,892        | \$ 9,129        | \$ 32,908        | \$7,976          | \$ 8,213         | \$ 8,860        |
| Data Center Group                   | 15,981           | 3,999           | 4,027           | 4,542           | 4,668           | \$ 17,236        | 4,232            | 4,372            | 4,878           |
| Internet of Things Group            | 2,298            | 651             | 572             | 689             | 726             | \$ 2,638         | 721              | 720              | 849             |
| Non-Volatile Memory Solutions Group | 2,597            | 557             | 554             | 649             | 816             | \$ 2,576         | 866              | 874              | 891             |
| Intel Security Group                | 1,985            | 537             | 537             | 537             | 550             | \$ 2,161         | 534              | —                | —               |
| Programmable Solutions Group        | —                | 359             | 465             | 425             | 420             | \$ 1,669         | 425              | 440              | 469             |
| All other                           | 275              | 50              | 40              | 44              | 65              | \$ 199           | 42               | 144              | 202             |
| <b>Total net revenue</b>            | <b>\$ 55,355</b> | <b>\$13,702</b> | <b>\$13,533</b> | <b>\$15,778</b> | <b>\$16,374</b> | <b>\$ 59,387</b> | <b>\$ 14,796</b> | <b>\$ 14,763</b> | <b>\$16,149</b> |
| <b>Operating income (loss):</b>     |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | \$ 8,166         | \$1,885         | \$ 1,911        | \$ 3,327        | \$ 3,523        | \$ 10,646        | \$3,031          | \$ 3,025         | \$ 3,600        |
| Data Center Group                   | 7,847            | 1,764           | 1,765           | 2,110           | 1,881           | \$ 7,520         | 1,487            | 1,661            | 2,255           |
| Internet of Things Group            | 515              | 123             | 89              | 191             | 182             | \$ 585           | 105              | 139              | 146             |
| Non-Volatile Memory Solutions Group | 239              | (95)            | (224)           | (134)           | (91)            | \$ (544)         | (129)            | (110)            | (52)            |
| Intel Security Group                | 213              | 85              | 97              | 115             | 103             | \$ 400           | 95               | —                | —               |
| Programmable Solutions Group        | —                | (200)           | (62)            | 78              | 80              | \$ (104)         | 92               | 97               | 113             |
| All other                           | (2,978)          | (994)           | (2,258)         | (1,225)         | (1,152)         | \$ (5,629)       | (1,082)          | (987)            | (947)           |
| <b>Total operating income</b>       | <b>\$ 14,002</b> | <b>\$ 2,568</b> | <b>\$ 1,318</b> | <b>\$ 4,462</b> | <b>\$ 4,526</b> | <b>\$ 12,874</b> | <b>\$ 3,599</b>  | <b>\$ 3,825</b>  | <b>\$ 5,115</b> |
| <b>Net revenue:</b>                 |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | 58%              | 55%             | 54%             | 56%             | 56%             | 55%              | 54%              | 56%              | 55%             |
| Data Center Group                   | 29%              | 29%             | 30%             | 29%             | 29%             | 29%              | 29%              | 30%              | 30%             |
| Internet of Things Group            | 4%               | 5%              | 4%              | 4%              | 4%              | 4%               | 5%               | 5%               | 5%              |
| Non-Volatile Memory Solutions Group | 5%               | 4%              | 4%              | 4%              | 5%              | 4%               | 6%               | 6%               | 6%              |
| Intel Security Group                | 4%               | 4%              | 4%              | 3%              | 3%              | 4%               | 4%               | 0%               | 0%              |
| Programmable Solutions Group        | 0%               | 3%              | 3%              | 3%              | 3%              | 3%               | 3%               | —                | —               |
| All other                           | 0%               | 0%              | 0%              | 0%              | 0%              | 0%               | 0%               | 1%               | 1%              |
| <b>Total net revenue</b>            | <b>100%</b>      | <b>100%</b>     | <b>100%</b>     | <b>100%</b>     | <b>100%</b>     | <b>100%</b>      | <b>100%</b>      | <b>100%</b>      | <b>100%</b>     |
| <b>Operating margin:</b>            |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | 25%              | 25%             | 26%             | 37%             | 39%             | 32%              | 38%              | 37%              | 41%             |
| Data Center Group                   | 49%              | 44%             | 44%             | 46%             | 40%             | 44%              | 35%              | 38%              | 46%             |
| Internet of Things Group            | 22%              | 19%             | 16%             | 28%             | 25%             | 22%              | 15%              | 19%              | 17%             |
| Non-Volatile Memory Solutions Group | 9%               | -17%            | -40%            | -21%            | -11%            | -21%             | -15%             | -13%             | -6%             |
| Intel Security Group                | 11%              | 16%             | 18%             | 21%             | 19%             | 19%              | 18%              | —                | —               |
| Programmable Solutions Group        | —                | -56%            | -13%            | 18%             | 19%             | -6%              | 22%              | 22%              | 24%             |
| All other                           | -1083%           | -1988%          | -5645%          | -2784%          | -1772%          | -2829%           | -2576%           | -685%            | -469%           |
| <b>Total operating income</b>       | <b>25%</b>       | <b>19%</b>      | <b>10%</b>      | <b>28%</b>      | <b>28%</b>      | <b>22%</b>       | <b>24%</b>       | <b>26%</b>       | <b>32%</b>      |
| <b>Y/Y Revenue growth:</b>          |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | -8%              | 2%              | -3%             | 5%              | 4%              | 2%               | 6%               | 12%              | 0%              |
| Data Center Group                   | 11%              | 9%              | 5%              | 10%             | 8%              | 8%               | 6%               | 9%               | 7%              |
| Internet of Things Group            | 7%               | 22%             | 2%              | 19%             | 16%             | 15%              | 11%              | 26%              | 23%             |
| Non-Volatile Memory Solutions Group | 21%              | -6%             | -20%            | -1%             | 25%             | -1%              | 55%              | 58%              | 37%             |
| Intel Security Group                | -1%              | 12%             | 10%             | 6%              | 7%              | 9%               | -1%              | —                | —               |
| Programmable Solutions Group        | —                | —               | —               | —               | —               | —                | 18%              | -5%              | 10%             |
| All other                           | -10%             | -34%            | -37%            | -43%            | 10%             | -28%             | -16%             | 260%             | 359%            |
| <b>Total net revenue</b>            | <b>-1%</b>       | <b>7%</b>       | <b>3%</b>       | <b>9%</b>       | <b>10%</b>      | <b>7%</b>        | <b>8%</b>        | <b>9%</b>        | <b>2%</b>       |
| <b>Y/Y Operating margin growth:</b> |                  |                 |                 |                 |                 |                  |                  |                  |                 |
| Client Computing Group              | -21%             | 34%             | 19%             | 37%             | 30%             | 30%              | 61%              | 58%              | 8%              |
| Data Center Group                   | 6%               | 4%              | -4%             | -1%             | -14%            | -4%              | -16%             | -6%              | 7%              |
| Internet of Things Group            | -12%             | 41%             | -39%            | 27%             | 37%             | 14%              | -15%             | 56%              | -24%            |
| Non-Volatile Memory Solutions Group | -6%              | -232%           | -343%           | -363%           | -479%           | -328%            | 36%              | -51%             | -61%            |
| Intel Security Group                | 30%              | 467%            | 341%            | 19%             | 30%             | 88%              | 12%              | —                | —               |
| Programmable Solutions Group        | —                | —               | —               | —               | —               | —                | -146%            | -256%            | 45%             |
| All other                           | -11%             | 49%             | 179%            | 83%             | 39%             | 89%              | 9%               | -56%             | -23%            |
| <b>Total operating income</b>       | <b>-9%</b>       | <b>-2%</b>      | <b>-54%</b>     | <b>6%</b>       | <b>5%</b>       | <b>-8%</b>       | <b>40%</b>       | <b>190%</b>      | <b>15%</b>      |

Source: Company data

**ADDITIONAL DISCUSSION**

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 about half of total revenue is derived from new data centric growth businesses. Our original thesis as to why we launched coverage on Intel is that we believe Intel's new data centric strategy, away from the PC, signals an inflection point for Intel's growth outlook, which we believe continues to be reaffirmed by three consecutive quarters of beating results and raising guidance. Intel also maintains strong free cash flow from its legacy PC business, which can be redeployed into growth markets. Of note, \$0.13 of Intel EPS in Q3 was from the sale of positions within Intel's ICAP portfolio. Cash flow also benefitted from long-term supply agreements obtained within its memory business.

In our opinion, Intel posted a strong quarter with improved guidance and continues to better position itself for future technology trends including the cloud, mobile, autonomous driving, A.I., high end gaming, and the 5G rollout. We believe whether in strong or weak economic times, Intel can use the high margin cash flow from its PC business to reinvest in high growth markets leading to a preferred investment on a risk adjusted basis vs. its peer group.

**INVESTMENT THESIS REITERATED**

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, modems, and autonomous cars. 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 its large scale restructuring effort is now at its inflection point returning Intel to stable top and bottom line growth. We forecast Intel's new growth businesses will represent 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 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.

## 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 2017   | Q4 2017E  | 2017E            | 2018E            | 2019E            |
|---|------------------|------------------|-----------|-----------|-----------|-----------|------------------|-----------|-----------|-----------|-----------|------------------|------------------|------------------|
| <b>Net revenue (GAAP)</b>                       | <b>\$ 55,870</b> | <b>\$ 55,355</b> | \$ 13,702 | \$ 13,533 | \$ 15,778 | \$ 16,374 | <b>\$ 59,387</b> | \$ 14,796 | \$ 14,763 | \$ 16,149 | \$ 16,437 | <b>\$ 62,145</b> | <b>\$ 64,261</b> | <b>\$ 66,635</b> |
| Revenue adjustments                             |                  |                  | \$ 99     |           |           |           |                  |           |           |           |           |                  |                  |                  |
| <b>Net revenue (Non GAAP)</b>                   | <b>\$ 55,870</b> | <b>\$ 55,355</b> | \$ 13,801 | \$ 13,533 | \$ 15,778 | \$ 16,374 | <b>\$ 59,486</b> | \$ 14,796 | \$ 14,763 | \$ 16,149 | \$ 16,437 | <b>\$ 62,145</b> | <b>\$ 64,261</b> | <b>\$ 66,635</b> |
| Cost of sales                                   | <b>\$ 20,261</b> | <b>\$ 20,676</b> | 5,572     | 5,560     | 5,795     | 6,269     | <b>\$ 23,196</b> | 5,649     | 5,665     | 6,092     | 6,350     | <b>\$ 23,756</b> | <b>\$ 24,419</b> | <b>\$ 25,321</b> |
| Cost of sales adjustments                       |                  | <b>\$ 343</b>    | 426       | 396       | 235       | 232       | <b>\$ 1,289</b>  | 209       | 198       | 270       | 275       | <b>\$ 952</b>    | <b>\$ 800</b>    | <b>\$ 800</b>    |
| <b>Gross margin (Non GAAP)</b>                  | <b>35,609</b>    | <b>35,022</b>    | 8,655     | 8,369     | 10,218    | 10,337    | <b>37,579</b>    | 9,356     | 9,296     | 10,327    | 10,362    | <b>39,341</b>    | <b>40,642</b>    | <b>42,113</b>    |
| Research and development (R&D)                  | <b>\$ 11,537</b> | <b>\$ 12,128</b> | 3,246     | 3,145     | 3,069     | 3,280     | <b>\$ 12,740</b> | 3,326     | 3,275     | 3,223     | 3,250     | <b>\$ 13,074</b> | <b>\$ 12,824</b> | <b>\$ 13,482</b> |
| Marketing, general and administrative (MG&A)    | <b>\$ 8,136</b>  | <b>\$ 7,930</b>  | 2,226     | 2,007     | 2,006     | 2,158     | <b>\$ 8,397</b>  | 2,104     | 1,854     | 1,666     | 1,900     | <b>\$ 7,524</b>  | <b>\$ 7,626</b>  | <b>\$ 7,733</b>  |
| Restructuring and asset impairment charges      | <b>\$ 295</b>    | <b>\$ 354</b>    | —         | 1,575     | 372       | 100       | <b>\$ 2,047</b>  | —         | —         | —         | —         | <b>\$ —</b>      | <b>\$ —</b>      | <b>\$ —</b>      |
| Amortization of acquisition-related intangibles | <b>\$ 294</b>    | <b>\$ 413</b>    | —         | 324       | 309       | 273       | <b>\$ 906</b>    | —         | —         | —         | —         | <b>\$ —</b>      | <b>\$ —</b>      | <b>\$ —</b>      |
| Other non GAAP operating expense                | <b>(589)</b>     | <b>(767)</b>     | 100       | (1,899)   | (681)     | (373)     | <b>(2,953)</b>   | —         | —         | 113       | 100       | <b>213</b>       | <b>—</b>         | <b>—</b>         |
| <b>Operating expenses (Non GAAP)</b>            | <b>19,673</b>    | <b>20,058</b>    | 5,372     | 5,152     | 5,075     | 5,438     | <b>21,137</b>    | 5,430     | 5,129     | 4,776     | 5,050     | <b>20,385</b>    | <b>20,450</b>    | <b>21,215</b>    |
| <b>Operating income (Non GAAP)</b>              | <b>15,936</b>    | <b>14,964</b>    | 3,283     | 3,217     | 5,143     | 4,899     | <b>16,442</b>    | 3,926     | 4,167     | 5,551     | 5,312     | <b>18,956</b>    | <b>20,192</b>    | <b>20,898</b>    |
| Gains (losses) on equity investments, net       | <b>\$ 411</b>    | <b>\$ 315</b>    | 22        | 478       | (12)      | 18        | <b>\$ 506</b>    | 252       | (387)     | 846       | 200       | <b>\$ 911</b>    | <b>\$ 450</b>    | <b>\$ 350</b>    |
| Interest and other, net                         | <b>\$ 43</b>     | <b>\$ (105)</b>  | (82)      | (126)     | (132)     | (104)     | <b>\$ (444)</b>  | (36)      | 403       | (31)      | (31)      | <b>\$ 305</b>    | <b>\$ (175)</b>  | <b>\$ (200)</b>  |
| Adjustments                                     |                  |                  |           |           |           |           |                  |           | 340       | (208)     |           | <b>\$ 132</b>    |                  |                  |
| <b>Income before taxes</b>                      | <b>16,390</b>    | <b>15,174</b>    | 3,223     | 3,569     | 4,999     | 4,813     | <b>16,504</b>    | 4,142     | 4,523     | 6,158     | 5,481     | <b>20,304</b>    | <b>20,467</b>    | <b>21,048</b>    |
| Provision for taxes                             | <b>\$ 4,097</b>  | <b>\$ 2,792</b>  | 462       | 340       | 940       | 878       | <b>\$ 2,620</b>  | 851       | 1,764     | 1,414     | 1,050     | <b>\$ 5,079</b>  | <b>\$ 4,279</b>  | <b>\$ 4,010</b>  |
| Income tax adjustments                          |                  | <b>\$ (189)</b>  | (132)     | (370)     | (173)     | (70)      | <b>\$ (745)</b>  | (73)      | (745)     | (104)     | 175       | <b>\$ (747)</b>  | <b>\$ —</b>      | <b>\$ 350</b>    |
| <b>Net income (Non GAAP)</b>                    | <b>\$ 12,293</b> | <b>\$ 12,193</b> | \$ 2,629  | \$ 2,859  | \$ 3,886  | \$ 3,865  | <b>\$ 13,139</b> | \$ 3,218  | \$ 3,504  | \$ 4,848  | \$ 4,256  | <b>\$ 15,826</b> | <b>\$ 16,188</b> | <b>\$ 16,689</b> |
| <b>Non GAAP Diluted EPS</b>                     | <b>\$ 2.44</b>   | <b>\$ 2.49</b>   | \$ 0.54   | \$ 0.59   | \$ 0.80   | \$ 0.79   | <b>\$ 2.72</b>   | \$ 0.66   | \$ 0.72   | \$ 1.01   | \$ 0.88   | <b>\$ 3.27</b>   | <b>\$ 3.37</b>   | <b>\$ 3.50</b>   |
| Weighted average shares - basic                 | <b>4,769</b>     | <b>4,722</b>     | 4,722     | 4,729     | 4,734     | 4,735     | <b>4,735</b>     | 4,723     | 4,731     | 4,734     | 4,735     | <b>4,731</b>     | <b>4,730</b>     | <b>4,730</b>     |
| Weighted average shares - diluted               | <b>4,940</b>     | <b>4,876</b>     | 4,875     | 4,866     | 4,877     | 4,881     | <b>4,881</b>     | 4,881     | 4,845     | 4,821     | 4,825     | <b>4,843</b>     | <b>4,805</b>     | <b>4,765</b>     |
| Gross margin % of revenue                       | <b>63.7 %</b>    | <b>63.3 %</b>    | 63.2 %    | 61.8 %    | 64.8 %    | 63.1 %    | <b>63.3 %</b>    | 63.2 %    | 63.0 %    | 63.9 %    | 63.0 %    | <b>63.3 %</b>    | <b>63.2 %</b>    | <b>63.2 %</b>    |
| R&D % of revenue                                | <b>20.6 %</b>    | <b>21.9 %</b>    | 23.7 %    | 23.2 %    | 19.5 %    | 20.0 %    | <b>21.5 %</b>    | 22.5 %    | 22.2 %    | 20.0 %    | 19.8 %    | <b>21.0 %</b>    | <b>20.0 %</b>    | <b>20.2 %</b>    |
| MG&A % of revenue                               | <b>14.6 %</b>    | <b>14.3 %</b>    | 16.2 %    | 14.8 %    | 12.7 %    | 13.2 %    | <b>14.1 %</b>    | 14.2 %    | 12.6 %    | 10.3 %    | 11.6 %    | <b>12.1 %</b>    | <b>11.9 %</b>    | <b>11.6 %</b>    |
| Operating Income % of revenue                   | <b>28.5 %</b>    | <b>27.0 %</b>    | 24.0 %    | 23.8 %    | 32.6 %    | 29.9 %    | <b>27.7 %</b>    | 26.5 %    | 28.2 %    | 34.4 %    | 32.3 %    | <b>30.5 %</b>    | <b>31.4 %</b>    | <b>31.4 %</b>    |
| Net income % of revenue                         | <b>22.0 %</b>    | <b>22.0 %</b>    | 19.2 %    | 21.1 %    | 24.6 %    | 23.6 %    | <b>22.1 %</b>    | 21.7 %    | 23.7 %    | 30.0 %    | 25.9 %    | <b>25.5 %</b>    | <b>25.2 %</b>    | <b>25.0 %</b>    |
| Effective income tax rate                       | <b>25.0 %</b>    | <b>17.2 %</b>    | 10.2 %    | (0.8)%    | 15.3 %    | 16.8 %    | <b>11.4 %</b>    | 18.8 %    | 22.5 %    | 21.3 %    | 22.3 %    | <b>21.3 %</b>    | <b>20.9 %</b>    | <b>20.7 %</b>    |

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           | Q3 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         | \$ 10,521         |
| Trading assets  | 5,685            | 8,441            | 9,063            | 7,323             | 9,103             | 9,503             | 9,747             | 8,314             | 8,314             | 9,303             | 14,242            | 6,983             |
| 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             | 5,954             |
| Inventories:  |                  |                  |                  |                   |                   |                   |                   |                   |                   |                   |                   |                   |
| Raw materials   | 478              | 458              | 462              | 532               | 628               | 651               | 688               | 695               | 695               | 786               | 1,014             | 1,115             |
| 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             | 3,965             |
| Finished goods  | 2,037            | 1,716            | 1,436            | 1,742             | 2,143             | 1,931             | 1,652             | 1,668             | 1,668             | 1,603             | 1,535             | 1,849             |
| <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>      | <b>6,929</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             | 2,767             |
| <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>     | <b>33,154</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            | 39,472            |
| 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             | 6,059             |
| 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             | 3,844             |
| Goodwill  | 9,710            | 10,513           | 10,861           | 11,332            | 16,942            | 16,992            | 13,868            | 14,099            | 14,099            | 14,099            | 14,102            | 24,389            |
| 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             | 13,058            |
| 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            | 7,112             |
| <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>\$ 127,088</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          | \$ 4,142          |
| 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            | 14,841            |
| 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             | 1,706             |
| 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>3,919</b>      | <b>1,706</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>     | <b>20,689</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            | 27,498            |
| 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             | 2,943             |
| 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             | 4,152             |
| <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>870</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>70,936</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> | <b>\$ 127,088</b> |

Source: Company data

## OUTLOOK

We forecast Q4'17 EPS of \$0.88 vs. our prior \$0.82 view. Our revenue estimate of \$16.437 billion increases slightly, which excludes over \$500 million in revenue from the Intel Security Group. We expect the company to report record FY'17 EPS of \$3.27 vs. our prior view of \$3.00 on revenue of \$62.145 billion vs. our prior view of \$61.627 billion. Our updated outlook excludes the recently sold Intel Security Group but includes the Mobileye acquisition. We also expect continued margin improvement from restructuring activity. We boost our FY'18 EPS estimate to \$3.37 from \$3.12 and raise our revenue view by \$500 million to \$64.261 billion. We inaugurate our FY'19 EPS forecast of \$3.50 on revenue of \$66.635 billion.

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. Now that the PC market has experienced more than 5 years of contraction, we believe 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 below the peer group and the S&P 500 Index.

## 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 substantially increase our price target to \$52.50 from our prior \$44 price target.** Our increased price target is based on our expectation for improved revenue and margin expansion. The stock currently trades at a forward price to earnings multiple of 14.5x, near the middle of its 5-year range but well below that of its peer group. We increase our price target to \$52.50 from \$44, as we extend our investment timeframe 12 months to FYE'19. We also increase our P/E multiple to 15x from 14x on an improved revenue and margin outlook. We believe the risk/reward of owning Intel shares remains compelling, possibly more compelling given Intel has proved itself to the investment community in recent quarters. We view it as a preferred investment on a risk adjusted basis vs. its peer group in the current market environment.

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



Source Company data and Thomson Reuters

Longer term, beyond our FYE'19 investment timeframe, we believe Intel's multiple could expand further as we expect strong growth in memory, A.I., and automotive. We believe in our longer-term 5 year outlook Intel can earn over \$4 per share and trade in line to above its peer group multiple. This unofficial price target could be above \$68 per share. As such we recommend accumulating a long-term position in shares of INTC as we believe the company has entered and is gaining market share within several new and adjacent markets.

**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: ASML Holdings NV (ASML-\$177.82)



### 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.





| <b>Rating</b>       | <b>Hilliard Lyons<br/>Recommended Issues</b> |                                | <b>Investment Banking<br/>Provided in Past 12 Mo.</b> |                   |
|---------------------|--|--------------------------------|---|-------------------|
|                     | <b># of<br/>Stocks Covered</b>               | <b>% of<br/>Stocks Covered</b> | <b>Banking</b>  | <b>No Banking</b> |
| <b>Buy</b>          | 39   | 32%                            | 8%  | 92%               |
| <b>Hold/Neutral</b> | 74   | 60%                            | 9%  | 91%               |
| <b>Sell</b>         | 8  | 7%                             | 0%  | 100%              |
| <b>Restriction</b>  | 2  | 2%                             | 100%  | 0%                |

*As of 5 October 2017*

#### Other Disclosures

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