Intel Corp INTC [XNAS] | ★★★★

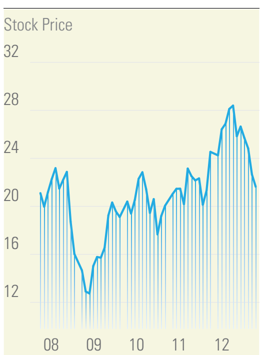
Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Stewardship	Morningstar Credit Rating	Industry
19.51 USD	27.00 USD	18.90 USD	36.45 USD	Medium	Wide	Standard	AA	Semiconductors

Intel CEO Otellini to Retire in May 2013

by Andy Ng
Senior Stock Analyst
Analyst covering this company do not own its stock.

Pricing as of Nov 20, 2012.
Rating as of Nov 20, 2012.

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.



Analyst Note Nov. 19, 2012
On Monday, Intel INTC announced that CEO Paul Otellini will retire in May 2013 after almost 40 years at the firm. We are maintaining our fair value estimate following the news.

We believe Otellini has done a fairly good job at the helm over the past eight years, as he set the course for Intel to embark on its "tick tock" strategy, where the firm advances its semiconductor manufacturing technologies every two years (the tick) and launches a new microprocessor architecture during the years in between (the tock). This aggressive strategy has helped strengthen Intel's competitive position in its core processor business. Additionally, he has streamlined Intel's cost structure to make the firm more profitable, which has benefited shareholders. However, one of the bigger knocks on Otellini is that he responded late to the smartphone and tablet phenomenon, as Intel has struggled to get its chips designed into those devices.

Intel announced that it will consider both internal and external candidates for the CEO job. It should be noted that the firm has a deep management bench and has a history of promoting from within for its CEO spot.

Thesis Oct. 16, 2012
Intel holds long-term advantages over smaller rival Advanced Micro Devices AMD in the microprocessor industry. While there have been rising fears that Intel may have trouble competing with emerging processor design firm ARM ARMH, we believe this has been blown out of proportion.

Intel is the dominant force in the roughly $30 billion computer processor market. It has benefited tremendously from the proliferation of personal computers in the past few decades. Intel has long held the lead in microprocessor technology and performance, while AMD has mostly been an also-ran. Although AMD has emerged periodically as a threat, such occurrences are few and far between. After being caught off-guard several years ago when AMD narrowed the competitive gap between the two firms, Intel has gone on an impressive streak of outinnovating its smaller foe while reasserting its stranglehold on the microprocessor market.

The runaway success that Intel has had in the processor market can be traced back to the firm's economic moat. As the world's largest semiconductor company, Intel has a massive research and development budget that is unmatched. In addition, it has the financial resources to invest in cutting-edge semiconductor manufacturing technologies. These advantages enable Intel to push processor performance and lower manufacturing costs at a much faster pace than AMD. Although AMD has shown it can trump Intel in a particular processor generation, it has never been able to maintain its lead in successive generations.

Intel continues to go full throttle and has laid out aggressive plans to introduce new chip architectures every two years, in an effort to widen its lead over AMD in the processor performance race. In 2011, the firm launched its Sandy Bridge chips, which combine computer and graphics processors onto the same silicon, and has further pushed the envelope of semiconductor fabrication technologies in 2012 with the release of its latest cutting-edge, 22-nanometer (circuit size) Ivy Bridge chips.

We believe the biggest obstacle facing Intel in the coming years is the maturation of the PC market, which could pose challenges for growth. In addition, the firm has begun to see the emergence of a new competitor in ARM, whose processor designs populate most smartphones and tablets. The line between PCs and mobile devices has been blurring, with ARM attempting to move upstream while Intel tries to extend its presence downstream with its Atom chips. The emergence of the tablet has provided a battleground for the two, and ARM has been much more successful than Intel so far.

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Close Competitors	Currency (Mil)	Market Cap	TTM Sales	Oper Income	Net Income
Advanced Micro Devices Inc	USD	1,338	5,958	-563	-887

Although there is the risk that ARM-based tablets will eventually become powerful enough to cannibalize low-end PCs, which in turn would cut into Intel's processor sales, we believe ARM's threat to Intel has been overblown. ARM has been highly successful in chips for mobile devices and tablets because of the low power consumption of its designs, something that Intel has been unable to match despite being able to offer higher processor performance. Nonetheless, we expect Intel's Atom processors to become much more competitive on the power efficiency front in the next couple of years, which should allow the firm to achieve design wins in tablets and smartphones and ultimately encroach upon ARM's turf. Intel also bolstered its capabilities as a chip supplier for mobile devices when it bought Infineon's IFNNY wireless chip business in 2011. In addition, the firm now has partnerships with Motorola Mobility and Lenovo to supply some of their upcoming smartphone models with Atom processors.

No matter how successful Intel ends up faring against ARM in tablets, we believe the mass proliferation of these devices will ultimately be beneficial to Intel. The emergence of tablets is part of the trend toward cloud computing, where computing tasks are offloaded onto the cloud and users access the cloud with an interface such as a tablet. As adoption of tablets and other mobile devices continues to rise, it will require substantial server buildouts to create the infrastructure necessary for the cloud. This will provide significant long-term tailwinds for the growth of Intel's server processor segment, which is the firm's most lucrative business.

Valuation, Growth and Profitability

Our fair value estimate is $27 per share. Intel is facing some near-term headwinds, as the challenging macroeconomic environment has weighed on global computer demand, resulting in a cyclical slowdown in its microprocessor sales.

In our model, we forecast that revenue will decline 2% in 2012. We expect Intel's business to improve somewhat in 2013, and we project that revenue will grow 3% for the year. Over the long run, we think Intel can grow in the 7%-8% range, on average, annually. Our assumptions are based on our projections for the processor market as well as other segments, including chipsets, motherboards, and flash memory. We believe the server processor segment will be Intel's fastest-growing business, as the trend toward cloud computing will require substantial server buildouts. For the time being, we assume that Intel will see limited success in its foray into smartphone and tablet processors with its Atom chips. Profitability has improved during the past several years, partly as a result of the firm's cost-cutting work, and we think Intel's operating margin will come in at 27% in 2012. We forecast that operating margins will run in the 23%-24% range over the long term.

Risk

The semiconductor industry is cyclical, which causes fluctuations in Intel's financial performance. Intel must hold on to its technology lead in order to maintain its position as the behemoth of the microprocessor market. Failure to do so would result in share loss to AMD.

Bulls Say

- Intel is the largest semiconductor company in the world. The firm has sustained its position at the forefront of technology by investing heavily in R&D.
- The firm holds roughly four fifths share in the microprocessor market.
- Intel has an immense budget for capital expenditures, allowing it to maintain the most cutting-edge semiconductor manufacturing technologies in the world.
- Intel's platform strategy, in which processors are bundled with chipsets, allows the firm to incorporate more

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features into its products.

- The firm subsidizes marketing efforts by customers when they highlight the Intel brand. As a result, it benefits from powerful brand recognition.

Bears Say

- Growth of the PC industry has slowed from the heady rates of the 1990s. As a result, Intel's opportunities to expand may be limited.
- Intel must successfully maintain its technology lead in the processor market. Any missteps by the firm could cause market share loss to AMD.
- AMD's purchase of ATI in 2006 has given Intel's smaller rival the know-how and technology to offer platform solutions as well.
- ARM-based processors power most of the mobile devices, including smartphones and tablets, on the market today. The firm is becoming a bigger competitive threat to Intel.

Financial Overview

Financial Health:Intel is in solid financial shape. At the end of the third quarter, the firm had $6.0 billion in cash and short-term investments, compared with $7.2 billion in debt. Intel generates significant amounts of free cash flow, including $10.2 billion in 2011.

Company Overview

Profile: Intel is the largest chipmaker in the world. It develops andmanufactures microprocessors and platform solutions for the globalpersonal computer market. Intel pioneered the x86 architecture formicroprocessors.

Management: President and CEO Paul Otellini became CEO in 2005. Otellini has been with Intel since 1974; before taking the helm, he had been president and COO since 2002. Stacy Smith became CFO in 2007. Smith joined Intel in 1988 and has held various positions at the company, including finance, information technology, and sales and marketing roles. Former CFO Andy Bryant remains at Intel and is now chairman of the board.

We think Otellini has done a good job of reinvigorating Intel, as the firm had been seeing market share losses to AMD when he took over. He has since gotten Intel to refocus on its strengths by consistently coming out with new lines of processors on a yearly basis and by taking advantage of its semiconductor manufacturing technology lead, which has allowed the firm to win back lost market share from AMD.

While management has made the right moves to allow Intel to maintain its dominant position in computer processors, the success of the firm's recent forays into new markets is still up for debate. Intel has been making a concerted effort to break into smartphone and tablet processors, which has traditionally been the stronghold of ARM, with its Atom chips, and even paid $1.4 billion to acquire Infineon's wireless connectivity chip business in 2011 to support the endeavor. Although Intel has seen limited success so far, there are signs that it is starting to make some progress on that front. In addition, Intel acquired antivirus and security software maker McAfee for $6.7 billion (net of cash) in 2011, with the vision of adding security features to its chips and hardware, which when integrated with software will provide more effective security solutions. Although strategically sound, we think it remains to be seen whether Intel can successfully execute its vision for McAfee.

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Report Says Apple May Move Away From Intel for Macs, but This Is Far From a Done Deal Nov. 06, 2012
On Monday, a story from Bloomberg reported that Apple AAPL may be looking to switch from Intel INTC processors to its own in-house designed chips based on the ARM ARMH architecture to power its Mac line of computers. While such a move is possible, we believe it is hardly a done deal, though it's worth keeping an eye on in the next several years. Although Apple is a key customer, a switch would not be devastating to Intel, as we estimate Apple accounts for just 3% of total revenue.

Apple has been using Intel microprocessors for its Mac product line since 2005, after previously using PowerPC chips, which were backed by an alliance among IBM IBM, Motorola, and Apple. The firm made the switch because PowerPC could no longer keep up with Intel's processors in terms of performance. However, Apple uses its own internally designed A-series processors, which are based on the ARM architecture, to power its iPhones and iPads. The Bloomberg story indicated that the firm may also look to design ARM-based processors to replace Intel in its Macs a few years from now. We believe it is likely that Apple is looking into alternatives, but such inquiries are common research and development practices at tech companies, as it is necessary for firms to investigate various options before choosing the best technology solution. For example, the firm was rumored to have considered using Advanced Micro Devices' AMD Fusion processors for its MacBook Air notebooks last year.

We think the biggest obstacle to a possible switch is that Apple will need to be convinced that it will be able to come up with a better processor technology road map than Intel for years to come, or it will face the risk of having Mac products that aren't as competitive with PCs that incorporate Intel chips. This is a tall task, given that Intel, as the world's largest chipmaker, has a large R&D budget and the most advanced semiconductor manufacturing technologies at its disposal to focus on creating the most cutting-edge processors. The knock on Intel in recent years has been that its chips are too performance driven and lack the power efficiency that ARM-based chips can provide for mobile devices, such as smartphones and tablets. While this is given in the article as a reason behind a possible switch by Apple down the road, performance remains a paramount consideration in computers, which would play to Intel's strength. In addition, Intel has made significant strides in

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Analyst Notes (continued)

increasing the power efficiency of its chips in recent years, and we expect it to become more competitive with ARM's solutions on that front in the coming quarters. Even if Apple were to turn to internally developed processors in the years ahead, we suspect that it would do so in consumer-focused Macs, such as the MacBook Air, while continuing to rely on Intel's most advanced processors for Macs that require extensive computing power, such as MacBook Pro. Such a scenario would be similar to Microsoft's MSFT Windows 8 launch, where some less functional Windows RT devices are powered by ARM-based processors while Intel continues to be the processor of choice in more powerful Win8 products.

Bloomberg said Apple may eventually use its in-house A-series chips for Macs, in order to offer a unified user experience based on a single operating system among the Mac, iPhone, and iPad, which would be possible with a common processor architecture. While we recognize the value of a unified user experience, it probably wouldn't make much sense for Apple to entirely switch away from Intel if it would be a detriment to the performance of its Mac computers. While the Bloomberg article highlights a potential risk for Intel, we believe the issue is far from decided. Nonetheless, it is something that bears following over the next several years. We estimate that Apple currently accounts for roughly 3% of Intel's total revenue. Therefore, Intel wouldn't be significantly affected if Apple did make a switch, though it would certainly be egg on the face for the firm.

Near-Term Slowdown in the Global PC Market Affects Intel's Third-Quarter Results Oct. 16, 2012

Intel INTC reported third-quarter results that were affected by the near-term slowdown in the global PC market. We are maintaining our fair value estimate. For the quarter, revenue was $13.5 billion, roughly flat from the second quarter, but down from sales of $14.2 billion in the year-ago period. Nonetheless, third-quarter revenue came in at the high end of the revised forecast of $12.9 billion-$13.5 billion that the firm provided in early September. Intel typically sees healthy seasonal growth in the third quarter, driven by higher PC manufacturing activity in anticipation of the back-to-school period and the holiday season. However, the slowing macroeconomic environment has caused softness in both the consumer and enterprise PC markets, which in turn put some pressure on processor sales at Intel in the quarter. As a result, the firm's PC processor segment posted revenue of $8.6 billion, down 1% sequentially and a decline of 8% year over year.

Intel's server processor business reported sales of $2.7 billion, down 5% from the record-setting $2.8 billion in revenue achieved during the second quarter, but up 6% year over year. While the firm saw some softness in the corporate server market, management noted that server processor sales for cloud infrastructure build-outs were strong. We are encouraged that the server processor unit as a whole appears to be holding up better than the PC processor segment in light of current macroeconomic conditions. As we've previously written, we expect the server chip business to provide Intel with key growth opportunities in the coming years, as the build-out of the cloud will drive significant demand for server processors. On the profitability front, gross margin came in at 63.3%, down very slightly from 63.4% in the second quarter. Intel achieved an operating profit of $3.8 billion in the third quarter, flat from last quarter.

For the fourth quarter, management expects revenue to be between $13.1 billion and $14.1 billion, which would indicate a sequential increase of 1% at the midpoint. This forecast is below seasonal trends and can be attributed to the cautious outlook for both the consumer and enterprise PC markets, as

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Analyst Notes (continued)

well as for global economic conditions. For the time being, it doesn't appear that the firm expects a significant business pick-up from the upcoming Microsoft MSFT Windows 8 release, but management indicated that it has seen some processor demand related to PC builds by computer manufacturers ahead of the launch. We believe that business conditions at Intel will largely depend on the macroeconomic environment in the coming months. Nonetheless, investors should keep in mind that chip stocks tend to fluctuate with industry cycles, and the current near-term business slowdown may present an attractive buying opportunity for Intel.

Intel Lowers 3Q Outlook Sep. 07, 2012

On Friday, Intel INTC lowered its forecast for the third quarter, as macroeconomic weakness has been weighing on the microprocessor and PC markets. We are likely to lower our fair value estimate by 5%-10%.

Intel now expects revenue of $12.9 billion-$13.5 billion, down from a previous outlook of $13.8 billion-$14.8 billion. It forecasts a gross margin of about 62%, compared with the prior expectation of 63%. The firm attributed the reduced outlook to weaker-than-expected processor demand, as computer manufacturers manage chip inventories in the PC supply chain in response to challenging economic conditions. Additionally, Intel mentioned softness in the enterprise PC segment and slower demand from emerging markets, two areas that had been healthy in recent quarters. On a brighter note, the server processor segment has been meeting the firm's expectations.

While the uncertain economic environment appears to be causing a near-term cyclical slowdown at Intel, we believe the headwinds are temporary. The microprocessor market is notoriously cyclical and will ebb and flow with macroeconomic conditions over time. While weakness in global PC and microprocessor demand is certainly a negative for Intel, we are encouraged that the firm's server processor business is on track. We believe that segment will be the main growth driver for Intel in the coming years, as the proliferation of smartphones and tablets will continue to drive the buildout of the cloud infrastructure, which will propel demand for the firm's server chips.

Intel Reports Second-Quarter Results Jul. 17, 2012

Intel INTC posted solid second-quarter results and appears so far to have been able to defy the broader uncertain global macroeconomic conditions that have affected some other tech companies. We are maintaining our fair value estimate. For the quarter, revenue was $13.5 billion, up 5% sequentially, and in line with Intel's prior outlook of $13.1 billion-$14.1 billion from April.

Intel noted that it continued to benefit from robust computer demand from enterprises and emerging countries, which provided some tailwinds for chip sales during the quarter. Further, Intel no longer appeared to be hampered by the hard disk drive shortages that had affected the PC supply chain and demand for processors from computer manufacturers over the past couple of quarters. However, the firm acknowledged that consumer PC demand in developed markets continued to be soft. The firm's PC processor segment reported revenue of $8.7 billion, up 3% sequentially, and management noted that the new Ivy Bridge chips from Intel accounted for nearly one fourth of PC processor volumes in the quarter. The server processor business achieved record sales of $2.8 billion, an increase of 14% sequentially, thanks to Intel's new Romley server platform. Sales of Intel's server chips had previously declined slightly in the first quarter, as customers reduced near-term demand in anticipation of the launch of Romley in March. Nonetheless, it is encouraging to

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Analyst Notes (continued)

see that segment resume its healthy growth trajectory in the second quarter. As we've written previously, we expect the server processor unit to provide Intel with a major growth opportunity in the coming years, as the build-out of the cloud infrastructure to support the proliferation of smartphones and tablets will drive significant demand for server chips. On the profit front, gross margin came in at 63.4%, down slightly from 64.0% in the first quarter, due to a faster ramp in the manufacturing of Intel's new Ivy Bridge processors. The firm posted an operating income of $3.8 billion, about flat with last quarter.

For the third quarter, management expects revenue to be $13.8 billion-$14.8 billion, which would indicate a sequential increase of 6% at the midpoint. This projection would imply a below-seasonal increase, which Intel attributes to PC manufacturers managing chip inventory levels because of the uncertain macroeconomic environment and in anticipation of the launch of Microsoft MSFT Windows 8 later in the year. While Intel had a nice second quarter and provided a solid third-quarter outlook, investors should keep in mind that the computer processor business is notoriously cyclical, and a slowdown in the macroeconomic environment could push the firm into a cyclical downturn. Nonetheless, given that chip stocks tend to fluctuate with industry cycles, an attractive buying opportunity could arise for Intel if the firm were to see a near-term business slowdown.

ASM Lithography Announces Customer Co-Investment Program; Intel to Participate Jul. 10, 2012

On Monday, ASM Lithography ASML announced a new program that will allow its largest customers to take minority equity investments in the firm and to make commitments to help fund a significant portion of ASML's research and development spending for the next five years. ASML will issue up to an aggregate 25% minority equity stake to customers, and Intel INTC will be the first chipmaker to participate in the program.

The purpose of the program is to help ASML accelerate its development of next-generation extreme ultra-violet, or EUV, lithography tools, as well as future lithography tools for creating circuits on 450-millimeter diameter semiconductor wafers. The firm has been investing heavily in the past couple of years to develop EUV lithography technology, which will be needed to enable continued advances in chip manufacturing technologies in future years. In addition, the semiconductor industry has begun to prepare for the migration to larger silicon wafers used in the chip manufacturing process (a phenomenon that typically occurs once every 10 years or so), with the transition likely to happen later this decade. By using larger wafers, chipmakers can fit more chip devices onto a single wafer during the fabrication process, thereby allowing them to lower manufacturing costs over time.

Intel will be the first customer to participate in the program, and has agreed to commit up to a total of EUR 3.3 billion ($4.1 billion) in equity investments and R&D funding. In the first phase of Intel's participation, ASML will issue the chipmaker the equivalent of 10% of ASML's pre-transaction outstanding shares for EUR 1.7 billion ($2.1 billion), or EUR 39.91 per share, and commit EUR 553 million ($680 million) in R&D funding to help ASML develop 450-millimeter lithography equipment. In the second phase, which is subject to the approval of ASML's shareholders, Intel will be issued an additional 5% of ASML shares for EUR 838 million ($1 billion), and will contribute R&D investments of EUR 277 million ($340 million) to ASML's EUV lithography commercialization efforts. Other ASML customers are currently evaluating the program, and ASML intends to return the cash proceeds from the share issuance transactions to

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Analyst Notes (continued)

shareholders.

We are maintaining our fair value estimate for Intel, given that this is a minor deal for the firm. However, we will likely raise our fair value estimate for ASML slightly, as the firm will be issuing shares for Intel's minority equity investment at a price above our current fair value estimate. We view the newly announced program at ASML as an innovative way for the firm to help fund the costly R&D investments that will be needed to successfully commercialize EUV and 450-millimeter lithography tools, and believe that Intel's commitment further validates ASML's strong technology position in the photolithography space.

Intel Corp INTC

Sales USD Mil	Mkt Cap USD Mil	Industry	Sector
53,751	100,764	Semiconductors	Technology

Intel is the largest chipmaker in the world. It develops and manufactures microprocessors and platform solutions for the global personal computer market. Intel pioneered the x86 architecture for microprocessors.

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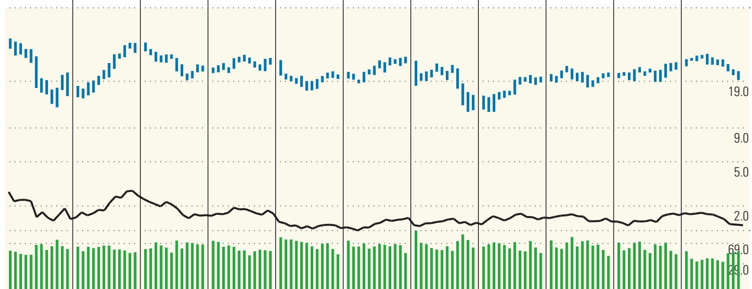
Morningstar Rating	Last Price	Fair Value	Uncertainty	Economic Moat™	Stewardship
—	20.25	—	—	—	—

per share prices in USD

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	
36.78	34.51	34.60	28.84	26.63	27.99	26.34	21.27	24.37	25.78	29.27	Annual Price High
12.95	14.88	19.64	21.89	16.75	18.75	12.06	12.05	17.60	19.16	19.73	Low
											Recent Splits



Price Volatility
Monthly High/Low
Rel Strength to S&P 500
52 week High/Low
29.27 - 19.73
10 Year High/Low
36.78 - 12.05
Bear-Market Rank
5 (10=worst)
Trading Volume Million

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	**Stock Performance**
-50.2	106.4	-26.5	8.1	-17.3	33.9	-43.0	43.0	6.2	19.0	-12.9	Total Return %
-26.8	80.0	-35.5	5.1	-30.9	30.4	-4.5	19.6	-6.6	19.0	-26.9	+/- Market
0.4	16.6	-7.2	-4.5	-11.7	27.1	1.4	-21.9	-11.3	22.9	-13.5	+/- Industry
0.5	0.3	0.7	1.3	2.0	1.7	3.7	2.8	3.0	3.2	4.3	Dividend Yield %
103151	209351	147895	150484	116762	155881	81539	112669	115896	123481	100764	Market Cap USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	**Financials**
26764	30141	34209	38826	35382	38334	37586	35127	43623	53999	53751	Revenue USD Mil
49.8	56.7	57.7	59.4	51.5	51.9	55.5	55.7	65.3	62.5	63.8	Gross Margin %
4382	7533	10130	12090	5652	8216	8954	5711	15588	17477	16082	Oper Income USD Mil
16.4	25.0	29.6	31.1	16.0	21.4	23.8	16.3	35.7	32.4	29.9	Operating Margin %
3117	5641	7516	8664	5044	6976	5292	4369	11464	12942	11897	Net Income USD Mil
0.46	0.85	1.16	1.40	0.86	1.18	0.92	0.77	2.01	2.39	2.29	Earnings Per Share USD
0.08	0.08	0.16	0.32	0.40	0.45	0.55	0.56	0.63	0.78	0.86	Dividends USD
6759	6621	6494	6178	5880	5936	5748	5645	5696	5411	5197	Shares Mil
5.35	5.79	6.10	6.00	6.37	7.31	7.11	7.55	8.97	9.02	9.90	Book Value Per Share USD
9129	11515	13119	14823	10620	12625	10926	11170	16692	20963	19488	Oper Cash Flow USD Mil
-4703	-3656	-3843	-5818	-5779	-5000	-5197	-4515	-5207	-10764	-11367	Cap Spending USD Mil
4426	7859	9276	9005	4841	7625	5729	6655	11485	10199	8121	Free Cash Flow USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	**Profitability**
7.0	12.4	15.8	18.0	10.4	13.4	9.9	8.4	19.7	19.3	16.4	Return on Assets %
8.7	15.4	19.7	23.2	13.8	17.6	12.9	10.8	25.2	27.1	24.9	Return on Equity %
11.6	18.7	22.0	22.3	14.3	18.2	14.1	12.4	26.3	24.0	22.1	Net Margin %
0.60	0.66	0.72	0.81	0.73	0.74	0.71	0.68	0.75	0.80	0.74	Asset Turnover
1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.6	1.5	Financial Leverage

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-12	**Financial Health**
12330	16003	16052	11960	9766	15314	12053	13566	22284	13844	11061	Working Capital USD Mil
929	936	703	2106	1848	1980	1886	2049	2077	7084	7100	Long-Term Debt USD Mil
35468	37846	38579	36182	36752	42762	39088	41704	49430	45911	49269	Total Equity USD Mil
0.03	0.02	0.02	0.06	0.05	0.05	0.05	0.05	0.04	0.15	0.14	Debt/Equity

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	**Valuation**
33.9	37.7	20.2	17.8	23.5	22.6	15.9	26.5	10.5	10.1	8.8	Price/Earnings
—	—	—	—	—	—	—	—	—	0.6	—	P/E vs. Market
3.9	7.0	4.4	4.0	3.4	4.1	2.2	3.3	2.8	2.5	2.0	Price/Sales
2.9	5.5	3.8	4.2	3.2	3.6	2.1	2.7	2.3	2.7	2.0	Price/Book
11.5	18.4	11.6	10.5	11.3	12.5	7.7	10.3	7.2	6.4	5.4	Price/Cash Flow

Growth Rates Compound Annual

Grade: B	1 Yr	3 Yr	5 Yr	10 Yr
Revenue %	23.8	12.8	8.8	7.4
Operating Income %	12.1	25.0	25.3	22.7
Earnings/Share %	18.9	37.5	22.7	28.8
Dividends %	24.2	12.6	14.4	25.6
Book Value/Share %	2.4	9.3	7.6	5.6
Stock Total Return %	-13.1	5.3	-1.2	4.2
+/- Industry	-12.4	-2.5	-2.5	-1.4
+/- Market	-31.6	-4.0	-0.3	-0.0

Profitability Analysis

Grade: B	Current	5 Yr Avg	Ind	Mkt
Return on Equity %	24.9	18.7	13.5	22.8
Return on Assets %	16.4	14.2	8.0	9.3
Fixed Asset Turns	2.2	2.3	2.2	7.7
Inventory Turns	4.2	4.8	4.5	17.0
Revenue/Employee USD K	537.0	502.8*	—	1055.7
Gross Margin %	63.8	58.2	46.3	39.7
Operating Margin %	29.9	25.9	19.0	16.6
Net Margin %	22.1	19.0	11.7	11.1
Free Cash Flow/Rev %	15.1	19.9	12.1	0.1
R&D/Rev %	18.3	0.1	—	9.5

Financial Position

Grade: A	12-11 USD Mil	09-12 USD Mil
Cash	5065	3520
Inventories	4096	5319
Receivables	3650	3938
Current Assets	25872	23014
Fixed Assets	23627	27157
Intangibles	15521	15844
Total Assets	71119	74441
Payables	2956	3188
Short-Term Debt	247	56
Current Liabilities	12028	11953
Long-Term Debt	7084	7100
Total Liabilities	25208	25172
Total Equity	45911	49269

Valuation Analysis

	Current	5 Yr Avg	Ind	Mkt
Price/Earnings	8.8	17.1	18.8	—
Forward P/E	9.5	—	—	13.2
Price/Cash Flow	5.4	8.8	8.3	—
Price/Free Cash Flow	12.9	15.3	20.2	—
Dividend Yield %	4.3	—	2.4	2.0
Price/Book	2.0	2.7	2.4	—
Price/Sales	2.0	3.0	2.1	—
PEG Ratio	1.5	—	—	0.3

Quarterly Results

Revenue USD Mil	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	13887.0	12906.0	13501.0	13457.0
Prior Year Period	11457.0	12847.0	13032.0	14233.0

Rev Growth %	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	21.2	0.5	3.6	-5.5
Prior Year Period	8.4	24.7	21.1	28.2

Earnings Per Share USD	Dec 11	Mar 12	Jun 12	Sep 12
Most Recent Period	0.64	0.53	0.54	0.58
Prior Year Period	0.56	0.56	0.54	0.65

Industry Peers by Market Cap

	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Intel Corp	100764	53751	8.8	24.9
Advanced Micro Devic	1367	5958	—	-64.9

Major Fund Holders

	% of shares
	—
	—
	—

*3Yr Avg data is displayed in place of 5Yr Avg

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.

Morningstar's Approach to Rating Stocks

Our Key Investing Concepts

- Economic Moat™ Rating
- Discounted Cash Flow
- Discount Rate
- Fair Value
- Uncertainty
- Margin of Safety
- Consider Buying/Consider Selling
- Stewardship Grades

At Morningstar, we evaluate stocks as pieces of a business, not as pieces of paper. We think that purchasing shares of superior businesses at discounts to their intrinsic value and allowing them to compound their value over long periods of time is the surest way to create wealth in the stock market.

We rate stocks 1 through 5 stars, with 5 the best and 1 the worst. Our star rating is based on our analyst's estimate of how much a company's business is worth per share. Our analysts arrive at this "fair value estimate" by forecasting how much excess cash--or "free cash flow"--the firm will generate in the future, and then adjusting the total for timing and risk. Cash generated next year is worth more than cash generated several years down the road, and cash from a stable and consistently profitable business is worth more than cash from a cyclical or unsteady business.

Stocks trading at meaningful discounts to our fair value estimates will receive high star ratings. For high-quality businesses, we require a smaller discount than for mediocre ones, for a simple reason: We have more confidence in our cash-flow forecasts for strong companies, and thus in our value estimates. If a stock's market price is significantly above our fair value estimate, it will receive a low star rating, no matter how wonderful we think the business is. Even the best company is a bad deal if an investor overpays for its shares.

Our fair value estimates don't change very often, but market prices do. So, a stock may gain or lose stars based just on movement in the share price. If we think a stock's fair value is $50, and the shares decline to $40 without much change in the value of the business, the star rating will go up. Our estimate of what the business is worth hasn't changed, but the shares are more attractive as an investment at $40 than they were at $50.

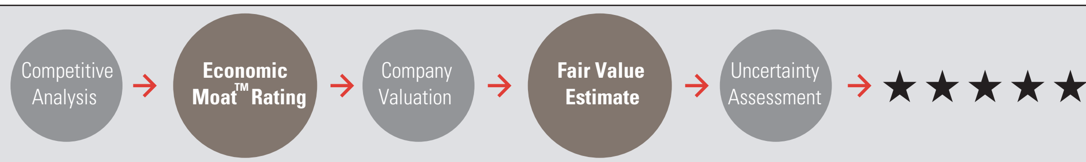
Because we focus on the long-term value of businesses, rather than short-term movements in stock prices, at times we may appear out of step with the overall stock market. When stocks are high, relatively few will receive our highest rating of 5 stars. But when the market tumbles, many more will likely garner 5 stars. Although you might expect to see more 5-star stocks as the market rises, we find assets more attractive when they're cheap.

We calculate our star ratings nightly after the markets close, and issue them the following business day, which is why the rating date on our reports will always be the previous business day. We update the text of our reports as new information becomes available, usually about once or twice per quarter. That is why you'll see two dates on every Morningstar stock report. Of course, we monitor market events and all of our stocks every business day, so our ratings always reflect our analyst's current opinion.

Economic Moat™ Rating

The Economic Moat™ Rating is our assessment of a firm's ability to earn returns consistently above its cost of capital in the future, usually by virtue of some competitive advantage. Competition tends to drive down such

Morningstar Research Methodology for Valuing Companies



Competitive Analysis	Economic Moat™ Rating	Company Valuation	Fair Value Estimate	Uncertainty Assessment	★★★★★
Analyst conducts company and industry research: • Management interviews • Conference calls • Trade-show visits • Competitor, supplier, distributor, and customer interviews	The depth of the firm's competitive advantage is rated: • None • Narrow • Wide	Analyst considers company financial statements and competitive position to forecast future cash flows. Assumptions are input into a discounted cash-flow model.	DCF model leads to the firm's Fair Value Estimate, which anchors the rating framework.	An uncertainty assessment establishes the margin of safety required for the stock rating.	★ ★★ ★★★ ★★★★ ★★★★★ The current stock price relative to fair value, adjusted for uncertainty, determines the rating.

economic profits, but companies that can earn them for an extended time by creating a competitive advantage possess an Economic Moat. We see these companies as superior investments.

Discounted Cash Flow

This is a method for valuing companies that involves projecting the amount of cash a business will generate in the future, subtracting the amount of cash that the company will need to reinvest in its business, and using the result to calculate the worth of the firm. We use this technique to value nearly all of the companies we cover.

Discount Rate

We use this number to adjust the value of our forecasted cash flows for the risk that they may not materialize. For a profitable company in a steady line of business, we'll use a lower discount rate, also known as "cost of capital," than for a firm in a cyclical business with fierce competition, since there's less risk clouding the firm's future.

Fair Value

This is the output of our discounted cash-flow valuation models, and is our per-share estimate of a company's intrinsic worth. We adjust our fair values for off-balance sheet liabilities or assets that a firm might have--for example, we deduct from a company's fair value if it has issued a lot of stock options or has an under-funded pension plan. Our fair value estimate differs from a "target price" in two ways. First, it's an estimate of what the business is worth, whereas a price target typically reflects what other investors may pay for the stock. Second, it's a long-term estimate, whereas price targets generally focus on the next two to 12 months.

Uncertainty

To generate the Morningstar Uncertainty Rating, analysts consider factors such as sales predictability, operating leverage, and financial leverage. Analysts then classify their ability to bound the fair value estimate for the stock into one of several uncertainty levels: Low, Medium, High, Very High, or Extreme. The greater the level of uncertainty, the greater the discount to fair value required before a stock can earn 5 stars, and the greater the premium to fair value before a stock earns a 1-star rating.

Margin of Safety

This is the discount to fair value we would require before recommending a stock. We think it's always prudent to buy stocks for less than they're worth.The margin of safety is like an insurance policy that protects investors from bad news or overly optimistic fair value estimates. We require larger margins of safety for less predictable stocks, and smaller margins of safety for more predictable stocks.

Consider Buying/Consider Selling

The consider buying price is the price at which a stock would be rated 5 stars, and thus the point at which we would consider the stock an extremely attractive purchase. Conversely, consider selling is the price at which a stock would have a 1 star rating, at which point we'd consider the stock overvalued, with low expected returns relative to its risk.

Stewardship Grades

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.