# Intel Corporation

| Recommendation | Price | 12-Mo. Target Price | Report Currency | Investment Style |
|---|---|---|---|---|
| BUY ★★★★★ | $48.43 (as of Aug 31, 2018 4:00 PM ET) | $60.00 | USD | Large-Cap Blend |

**Equity Analyst Angelo Zino, CFA**

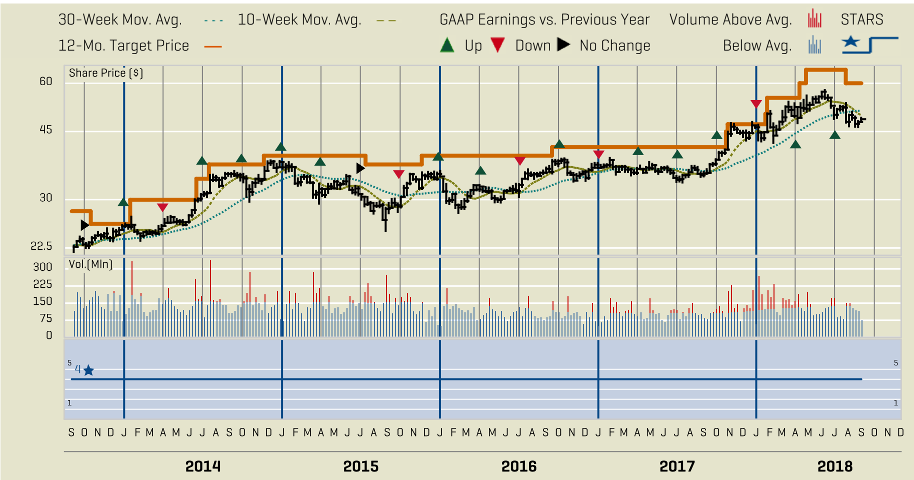
**GICS Sector** Information Technology
**Sub-Industry** Semiconductors

**Summary** This company is the world's largest manufacturer of microprocessors, the central processing units of PCs, and it also produces other semiconductor products.

## Key Stock Statistics (Source: CFRA, S&P Global Market Intelligence (SPGMI), Company Reports)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 52-Wk Range | $57.60 - 34.93 | Oper. EPS 2018**E** | 4.15 | Market Capitalization[B] | $223.3 | Beta | 0.96 |
| Trailing 12-Month EPS | 2.77 | Oper. EPS 2019**E** | 4.19 | Yield [%] | 2.48 | 3-Yr Proj. EPS CAGR[%] | 10 |
| Trailing 12-Month P/E | 17.40 | P/E on Oper. EPS 2018**E** | 11.62 | Dividend Rate/Share | $1.20 | SPGMI's Quality Ranking | B+ |
| $10K Invested 5 Yrs Ago | $25,582 | Common Shares Outstg.[M] | 4,611.0 | Institutional Ownership [%] | 69 | | |

## Price Performance




**Source: CFRA, S&P Global Market Intelligence**
**Past performance is not an indication of future performance and should not be relied upon as such.**
Analysis prepared by Equity Analyst **Angelo Zino** on Jul 27, 2018 01:40 PM, when the stock traded at **$52.16.**

## Highlights

- We see sales increasing 2.6% in 2019 after our outlook for an 11% rise in 2018. We see growth in the foreseeable future being driven by INTC's Data-Centric businesses, which were 49% of sales and grew 26% in the most recent quarter. Despite our view for decelerating growth, we positively view Data Center opportunities, driven by cloud and communications service providers. We see PC-centric sales relatively stable in 2018 and 2019, with growth of 6% in the second quarter, partly reflecting Windows 10 enterprise adoption, improvement in product mix and penetration in mobile devices. We envision higher cloud investments driving data center growth and we see significant opportunities within the Internet-of-Things and memory arenas.
- We see a gross margin between 61% and 62% for both 2018 and 2019, below the 63.8% margin for 2017. We see less favorable mix as INTC ramps modem sales to Apple, declining PC volume over time and higher start-up costs from the ramp-up of new process technologies.
- We forecast operating EPS of $4.15 in 2018 and $4.19 for 2019. We anticipate healthy server growth, greater memory exposure and penetration in mobility supporting earnings.

## Investment Rationale/Risk

- Our Buy opinion reflects valuation and a view that fundamentals will improve through 2019. We positively view further diversification away from PCs, and we note a growing emphasis in data-centric businesses, which we believe will comprise about half of INTC's profits this year. We believe INTC is benefiting from investments by major cloud providers, although likely to decelerate, as they shift towards artificial intelligence offerings, which we expect to persist in the intermediate term. We are optimistic about opportunities related to autonomous cars as well as growth within memory. We see manufacturing delays (10 nm production ramp in 2019), increasing competitive pressures from Advanced Micro Devices and uncertainty at the CEO position as concerns. However, we see shares as highly attractive and long term secular prospects as encouraging.
- Risks to our opinion and target price include slowing growth in emerging markets, an inventory correction, faster price erosion due to product mix, and greater competition from Advanced Micro Devices (AMD 19 ****).
- Our 12-month target price of $60 is based on a multiple of 14.3X our 2019 EPS estimate of $4.19, below peers to reflect margin concerns.

## Analyst's Risk Assessment

| LOW | MEDIUM | HIGH |
|---|---|---|

Our risk assessment reflects Intel's exposure to the sales cycles of the semiconductor industry and demand trends for personal computers, offset by its large size, long corporate history and its low debt levels compared to peers.

## Revenue/Earnings Data

**Revenue (Million U.S. $)**

| | 1Q | 2Q | 3Q | 4Q | Year |
|---|---|---|---|---|---|
| 2018 | 16,066 | 16,962 | -- | -- | -- |
| 2017 | 14,796 | 14,763 | 16,149 | 17,053 | 62,761 |
| 2016 | 13,702 | 13,533 | 15,778 | 16,374 | 59,387 |
| 2015 | 12,781 | 13,195 | 14,465 | 14,914 | 55,355 |
| 2014 | 12,764 | 13,831 | 14,554 | 14,721 | 55,870 |
| 2013 | 12,580 | 12,811 | 13,483 | 13,834 | 52,708 |

**Earnings Per Share (U.S. $)**

| | 1Q | 2Q | 3Q | 4Q | Year |
|---|---|---|---|---|---|
| 2019 | **E** 0.92 | **E** 0.99 | **E** 1.11 | **E** 1.16 | **E** 4.19 |
| 2018 | 0.93 | 1.05 | **E** 1.13 | **E** 1.10 | **E** 4.15 |
| 2017 | 0.61 | 0.58 | 0.94 | -0.15 | 1.99 |
| 2016 | 0.42 | 0.27 | 0.69 | 0.73 | 2.12 |
| 2015 | 0.41 | 0.55 | 0.64 | 0.74 | 2.33 |
| 2014 | 0.38 | 0.55 | 0.66 | 0.73 | 2.31 |

Fiscal year ended Dec 31. Next earnings report expected: Late Oct. EPS Estimates based on CFRA's Operating Earnings; historical GAAP earnings are as reported in Company reports.

## Dividend Data

| Amount ($) | Date Decl. | Ex-Div. Date | Stk. of Record | Payment Date |
|---|---|---|---|---|
| 0.30 | Jul 19 | Aug 06 | Aug 07 | Sep 01 '18 |
| 0.30 | Mar 15 | May 04 | May 07 | Jun 01 '18 |
| 0.30 | Jan 25 | Feb 06 | Feb 07 | Mar 01 '18 |
| 0.273 | Sep 14 | Nov 06 | Nov 07 | Dec 01 '17 |

Dividends have been paid since 1992. Source: Company reports.

**Past performance is not an indication of future performance and should not be relied upon as such.**
Forecasts are not reliable indicator of future performance.

# Intel Corporation

## Business Summary July 27, 2018

CORPORATE OVERVIEW. Intel is the world's largest chipmaker based on revenue and unit shipments, and is well known for its dominant market share in microprocessors for PCs. The microprocessor is the central processing unit of the computer system, and acts like "the brain" of the computer. The company also sells chipsets, which it refers to as "the nervous system" in a PC or computing device, sending data between the microprocessor and input, display and storage components.

Intel reports its businesses in the following operating segments: Client Computing Group (CCG), Data Center Group (DCG), Internet of Things Group (IOTG), Non-Volatile Memory Solutions Group (NSG), and Programmable Solutions Group (PSG). The PSG segment is derived from the Altera acquisition.

The Client Computing Group (55% of 2017 sales) makes microprocessors and related chipsets for the notebook, netbook, and desktop segments. Also, it includes motherboards designed for desktop and wireless connectivity products. This segment also concentrates on delivering platforms designed for the tablet and smartphone market segments, and mobile communications components, such as baseband processors, radio frequency transceivers, and global navigation satellite systems, among other things.

The Data Center Group (31%) makes products, including microprocessors, chipsets, motherboards, and wired connectivity devices that are used in servers, storage, workstations, and other applications that are used in the data center and for cloud computing.

The Internet of Things Group represented 5% of sales in 2017. This segment focuses on delivering platforms designed for embedded market segments including retail, transportation, industrial, and buildings and home, along with a broad range of other market segments.

The Non-Volatile Memory Solutions Group represented 6% of sales in 2017, while Programmable Solutions represented 3% of sales.

MARKET PROFILE. The microprocessor market accounts for about 20% of the total semiconductor industry's revenues and is dominated by two companies: Intel and Advanced Micro Devices (AMD). The two competitors have battled for preeminence in the segment for decades. Several years ago, as AMD improved its product line and cut prices, Intel lost market share and, in 2006, experienced notable earnings decreases. Later that year, Intel started to turn the tide by improving its product development, manufacturing and cost structure. Regaining market share, Intel now ships more than 85% of the world's microprocessors, and is still the clear leader in this space. It has accomplished this by extending its leadership in key technologies that have provided competitive advantages. Manufacturing technology enables it to produce chips with more transistors at a lower cost. Intel's powerful chips have done well in devices connected to a power source by a cord, such as PCs, but it has not had the same success in mobile devices powered by a battery. As mobile handset and tablet computers become more feature-rich, the need for more powerful processing grows in importance. Semiconductor companies have been developing application processors (a chip in mobile devices with functions that are comparable to microprocessors) that reach speeds of over 1 Gigahertz (GHz). Although Intel's ATOM processor, which boasts speeds of over 1.8 GHz, is starting to compete against application processors in the smartphone and mobile device segments, its offerings have not been as competitive when it comes to power consumption, an important factor for gadgets that depend on a long battery life.

IMPACT OF MAJOR DEVELOPMENTS. On June 21, 2018, INTC announced the resignation of CEO Brian Krzanich after it was uncovered that Krzanich had a past consensual relationship with an employee. An ongoing investigation has confirmed a violation of Intel's non-fraternization policy, which applies to all managers. CFO Robert Swan has been named interim CEO, effective immediately. While we view the news of former CEO Brian Krzanich as unfortunate, we believe the company is in good hands with Robert Swan and given the progress already made towards transitioning INTC into a Data Centric company. INTC is undertaking a robust succession planning process for a permanent CEO, which will include both internal and external candidates.

On August 21, 2017, INTC completed its acquisition of Mobileye for $15.4 billion in cash. Mobileye is a developer of computer vision and machine learning-based sensing products, mapping and driving policy technology solutions for advanced driver assistance systems, and autonomous driving technologies.

On December 28, 2015, INTC completed its acquisition of Altera for $54 per share, or $16.7 billion in cash. We think Altera presents greater opportunities within the attractive data center arena and we think INTC will enhance Altera's products through their existing manufacturing relationship (Altera is a foundry customer). While INTC leveraged its balance sheet, we think its substantial cash position and cash flow generation still give its ample financial flexibility. We like ALTR's diversified end-market exposure.

FINANCIAL TRENDS. Intel's revenues are cyclical, but less variable than the broader industry's because of its competitive position, a fairly stable computing end-market and the relative size of its revenues. Annual gross margins have been in the mid-50% to mid-60% area over the past few years, fluctuating with the competitive and economic environments. With Intel's "tick-tock" strategy, gross margins generally dip every other year to reflect scheduled equipment and technology additions. Because of the high fixed-cost structure in its business model, Intel depends on operating leverage for margin expansion. However, this has not been a problem for Intel, which has benefited from above-industry operating margins.

## Corporate Information

**Investor Contact**
R. Jacob (408-765-8080)

**Office**
2200 Mission College Boulevard, Santa Clara, California 95054

**Telephone**
408-765-8080

**Website**
www.intel.com

**Officers**

**Senior VP & Chief Technology Officer**
M. C. Mayberry

**Interim CEO, Executive VP & CFO**
R. H. Swan

**Executive Vice President and General Counsel**
S. R. Rodgers

**Executive Chairman**
A. D. Bryant

**Board Members**

A. Bhusri
A. D. Bryant
A. Wilson
F. D. Yeary
G. D. Smith
O. S. Ishrak
R. E. Hundt
R. J. Lavizzo-Mourey
T. Liu

**Domicile**
Delaware

**Auditor**
Ernst & Young LLP

**Founded**
1968

**Employees**
102,700

**Stockholders**
120,000

# Intel Corporation

## Quantitative Evaluations

**Fair Value Rank** 4

| 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|
| LOWEST | | | | HIGHEST |

Based on CFRA's proprietary quantitative model, stocks are ranked from most overvalued (1) to most undervalued (5).

**Fair Value Calculation** **$48.58** Analysis of the stock's current worth, based on CFRA's proprietary quantitative model suggests that INTC is fairly valued.

**Volatility** LOW | AVERAGE | HIGH

**Technical Evaluation** **NEUTRAL** Since July, 2018, the technical indicators for INTC have been NEUTRAL.

**Insider Activity** UNFAVORABLE | NEUTRAL | FAVORABLE

## Expanded Ratio Analysis

| | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Price/Sales | 3.56 | 2.98 | 3.09 | 3.40 |
| Price/EBITDA | 8.42 | 7.71 | 7.42 | 7.85 |
| Price/Pretax Income | 11.81 | 10.80 | 12.21 | 12.24 |
| P/E Ratio | 23.20 | 17.11 | 15.01 | 16.26 |
| Avg. Diluted Shares Outsg.(M) | 4835 | 4875 | 4894 | 5056 |

Figures based on fiscal year-end price

## Key Growth Rates and Averages

| Past Growth Rate (%) | 1 Year | 3 Years | 5 Years |
|---|---|---|---|
| Sales | 5.68 | 3.95 | 3.31 |
| Net Income | -6.93 | -6.39 | -2.69 |

| Ratio Analysis (Annual Avg.) | | | |
|---|---|---|---|
| Net Margin (%) | NM | NM | NM |
| % LT Debt to Capitalization | 26.13 | NA | NA |
| Return on Equity (%) | 14.20 | NA | NA |

## Company Financials Fiscal year ending Dec. 31

| **Per Share Data** (U.S. $) | 2017 | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| Tangible Book Value | 6.80 | 9.01 | 9.70 | 8.54 | 8.58 | 7.13 | 6.08 | 7.99 | 6.59 | 6.26 |
| Free Cash Flow | 2.20 | 2.58 | 2.47 | 2.10 | 2.02 | 1.41 | 1.93 | 2.06 | 1.20 | 1.01 |
| Earnings | 1.99 | 2.12 | 2.33 | 2.31 | 1.89 | 2.13 | 2.39 | 2.01 | 0.77 | 0.92 |
| Earnings (Normalized) | 2.34 | 1.89 | 1.82 | 1.94 | 1.52 | 1.79 | 2.02 | 1.72 | 0.97 | 0.95 |
| Dividends | 1.08 | 1.04 | 0.96 | 0.90 | 0.90 | 0.87 | 0.78 | 0.63 | 0.56 | 0.55 |
| Payout Ratio (%) | 53 | 48 | 40 | 38 | 47 | 40 | 32 | 31 | 71 | 59 |
| Prices: High | 47.64 | 38.36 | 37.49 | 37.90 | 26.04 | 29.27 | 25.78 | 24.37 | 21.27 | 27.27 |
| Prices: Low | 33.23 | 27.68 | 24.87 | 23.50 | 20.10 | 19.23 | 19.16 | 17.60 | 12.05 | 12.06 |
| P/E Ratio: High | 17.9 | 18.5 | 17.9 | 17.5 | 13.0 | 12.3 | 11.8 | 50.5 | 46.6 | 24.1 |
| P/E Ratio: Low | 13.2 | 12.1 | 11.0 | 12.4 | 8.4 | 9.1 | 8.8 | 10.6 | 9.7 | 9.7 |

| **Income Statement Analysis** (Million U.S. $) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | 62,761 | 59,387 | 55,355 | 55,870 | 52,708 | 53,341 | 53,999 | 43,623 | 35,127 | 37,586 |
| Operating Income | 18,375 | 15,147 | 14,356 | 15,642 | 12,531 | 14,638 | 17,477 | 15,588 | 8,639 | 9,664 |
| Depreciation + Amortization | 8,129 | 7,790 | 8,711 | 8,549 | 8,032 | 7,522 | 6,064 | 4,638 | 5,052 | 4,616 |
| Interest Expense | 637 | 725 | 345 | 195 | 244 | 90 | 41 | NA | 1 | 8 |
| Pretax Income | 20,352 | 12,936 | 14,212 | 15,801 | 12,611 | 14,873 | 17,781 | 16,045 | 5,704 | 7,686 |
| Effective Tax Rate | 52.8 | 20.3 | 19.6 | 25.9 | 23.7 | 26.0 | 27.2 | 28.6 | 23.4 | 31.1 |
| Net Income | 9,601 | 10,316 | 11,420 | 11,704 | 9,620 | 11,005 | 12,942 | 11,464 | 4,369 | 5,292 |
| Net Income (Normalized) | 11,336 | 9,189 | 8,907 | 9,797 | 7,733 | 9,213 | 10,945 | 9,811 | 5,501 | 5,446 |

| **Balance Sheet and Other Financial Data** (Million U.S. $) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash | 14,002 | 17,099 | 25,313 | 14,401 | 20,216 | 18,195 | 14,881 | 21,951 | 13,925 | 11,881 |
| Current Assets | 29,500 | 35,508 | 38,320 | 27,730 | 32,084 | 31,358 | 25,872 | 31,611 | 21,157 | 19,871 |
| Total Assets | 123,249 | 113,327 | 101,459 | 91,900 | 92,358 | 84,351 | 71,119 | 63,186 | 53,095 | 50,472 |
| Current Liabilities | 17,421 | 20,302 | 15,646 | 16,011 | 13,568 | 12,898 | 12,028 | 9,327 | 7,591 | 7,818 |
| Long Term Debt | 25,037 | 20,649 | 20,036 | 12,059 | 13,194 | 13,150 | 7,094 | 2,090 | 2,058 | 1,185 |
| Total Capital | 95,832 | 91,509 | 83,755 | 69,538 | 71,922 | 64,771 | 53,326 | 51,701 | 44,062 | 40,920 |
| Capital Expenditures | 11,778 | 9,625 | 7,326 | 10,105 | 10,711 | 11,027 | 10,764 | 5,207 | 4,515 | 5,197 |
| Cash from Operations | 22,110 | 21,808 | 19,018 | 20,418 | 20,776 | 18,884 | 20,963 | 16,692 | 11,170 | 10,926 |
| Current Ratio | 1.69 | 1.75 | 2.45 | 1.73 | 2.36 | 2.43 | 2.15 | 3.39 | 2.79 | 2.54 |
| % Long Term Debt of Capitalization | 26.1 | 22.6 | 23.9 | 17.3 | 18.3 | 20.3 | 13.3 | 4.0 | 4.7 | 2.9 |
| % Net Income of Revenue | 15.3 | 17.4 | 20.6 | 20.9 | 18.3 | 20.6 | 24.0 | 26.3 | 12.4 | 14.1 |
| % Return on Assets | 9.71 | 8.82 | 9.28 | 10.61 | 8.86 | 11.77 | 16.27 | 16.76 | 10.43 | 11.38 |
| % Return on Equity | 14.2 | 16.2 | 19.5 | 20.5 | 17.6 | 22.7 | 27.1 | 25.2 | 10.8 | 12.9 |

Source: S&P Global Market Intelligence. Data may be preliminary or restated; before results of discontinued operations/special items. Per share data adjusted for stock dividends; EPS diluted. E-Estimated. NA-Not Available. NM-Not Meaningful. NR-Not Ranked. UR-Under Review.

## Sub-Industry Outlook

We have a positive fundamental outlook for the semiconductors sub-industry for the next 12 months. We see an 11% increase in semiconductor revenue for 2018 and a 5% rise in 2019 after growing 22% in 2017 and 1.1% in 2016. We anticipate growth to be driven by greater demand in data centers as well as content growth within the automotive and industrial end markets. We expect a fairly normalized inventory supply chain to leave the supply-demand balance even to slightly favorable for inventory replenishment, which should contribute to potential upside as demand improves. We expect earnings per share to outstrip top-line growth through 2019, aided by greater earnings leverage and tight cost controls.

We see orders improving in the coming quarter following a seasonal slowdown in the first quarter in 2018, as an inventory build for next-generation product launches support higher wireless demand. While we expect secular declines to persist in the PC space, we see an aging infrastructure, innovation, and enterprise adoption for Windows 10 supporting a more stable outlook in 2018 and 2019. We think the communications and consumer end markets will remain healthy despite periods of lumpiness, as carrier comments globally suggest to us an improved spending outlook and continued growth in smartphones. We think the automotive segment has some favorable secular tailwinds despite soft global trends. We think industrials will improve. Given the high exposure to this end market, analog semiconductors are particularly exposed to this trend. All of this is against the backdrop of the proliferation of semiconductors across a range of electronic products and markets. Industry margins continue to be a function of manufacturing utilization and inventory supply-demand imbalances.

While companies that outsource manufacturing typically have more stability in gross margins (a trade-off for capped upside), others that have their own manufacturing see more variability. We think some companies, especially in analog, maintain higher inventory levels, reducing potential leverage. Companies in the industry seem more inclined to increase debt levels given their strong balance sheets and low interest rate environment. Healthy free cash flow generation will likely result in greater shareholder return via share repurchases and dividend increases.

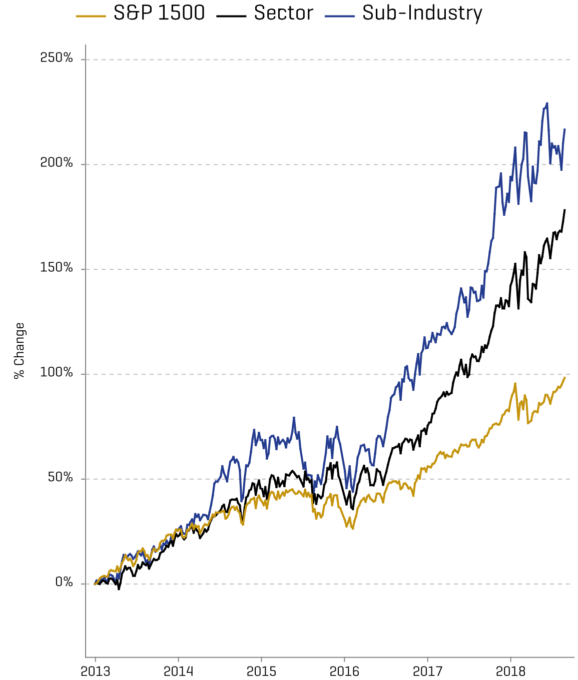
Year to date through June 29, the S&P semiconductors sub-industry index rose 6.5% versus a 2.0% increase for the S&P 1500 index. For the full-year 2017, the S&P semiconductors sub-industry index rose 32.8% versus an 18.8% increase for the S&P 1500 index.

**/Angelo Zino, CFA**

## Industry Performance

**GICS Sector:** Information Technology
**Sub-Industry:** Semiconductors

Based on S&P 1500 Indexes
Five-Year market price performance through Sep 01, 2018




NOTE: All Sector & Sub-Industry information is based on the Global Industry Classification Standard (GICS).

Past performance is not an indication of future performance and should not be relied upon as such.
**Source: S&P Global Market Intelligence**

## Sub-Industry: Semiconductors Peer Group*: Semiconductors

| Peer Group | Stock Symbol | Exchange | Currency | Recent Stock Price ($) | Stk. Mkt. Cap. (M $) | 30-Day Price Chg. (%) | 1-Year Price Chg. (%) | P/E Ratio | Fair Value Calc. ($) | Yield (%) | Return on Equity (%) | LTD to Cap (%) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Intel Corporation** | **INTC** | **NasdaqGS** | **USD** | **48.43** | **223,311** | **-0.8** | **38.1** | **17** | **48.58** | **2.5** | **14.2** | **26.1** |
| Advanced Micro Devices, Inc. | AMD | NasdaqCM | USD | 25.17 | 24,538 | 36.2 | 93.6 | 87 | 15.51 | Nil | 8.4 | 66.1 |
| Analog Devices, Inc. | ADI | NasdaqGS | USD | 98.85 | 36,740 | 2.9 | 18.1 | 26 | 95.89 | 1.9 | 9.5 | 41.9 |
| Broadcom Inc. | AVGO | NasdaqGS | USD | 219.03 | 91,592 | 1.0 | -13.1 | 8 | NA | 3.2 | 7.9 | 42.8 |
| Infineon Technologies AG | IFNN.Y | OTCPK | USD | 25.50 | 28,764 | -0.5 | 10.7 | 22 | NA | 1.2 | 14.8 | 20.2 |
| Micron Technology, Inc. | MU | NasdaqGS | USD | 52.52 | 60,913 | 0.4 | 64.3 | 5 | 117.18 | Nil | 31.4 | 29.5 |
| NVIDIA Corporation | NVDA | NasdaqGS | USD | 280.68 | 170,653 | 13.9 | 65.7 | 41 | 273.05 | 0.2 | 46.1 | 20.9 |
| NXP Semiconductors N.V. | NXPI | NasdaqGS | USD | 93.14 | 32,072 | -2.4 | -17.5 | 33 | 139.89 | Nil | 18.3 | 28.5 |
| QUALCOMM Incorporated | QCOM | NasdaqGS | USD | 68.71 | 100,944 | 6.8 | 31.5 | NM | NA | 3.6 | 7.9 | 36.9 |
| Taiwan Semiconductor Manufacturing Company Limited | TSM | NYSE | USD | 43.60 | 216,079 | 4.5 | 17.9 | NA | NA | 3.0 | 24.2 | 5.4 |
| Texas Instruments Incorporated | TXN | NasdaqGS | USD | 112.40 | 109,275 | 1.3 | 35.7 | 26 | 100.50 | 2.2 | 35.4 | 24.8 |

*For Peer Groups with more than 10 companies or stocks, selection of issues is based on market capitalization.
NA-Not Available NM-Not Meaningful.
Note: Peers are selected based on Global Industry Classification Standards and market capitalization. The peer group list includes companies with similar characteristics, but may not include all the companies within the same industry and/or that engage in the same line of business.

## Analyst Research Notes and other Company News

**July 27, 2018**
08:15 am ET... CFRA KEEPS BUY RECOMMENDATION ON SHARES OF INTEL (INTC 52.16****): We adjust our 12-month target price to $60 from $65 on peer-discount P/E of 14.3X our '19 EPS view to reflect gross margin concerns. We up our '18 EPS estimate to $4.15 from $3.99 and '19's to $4.19 from $4.14. INTC posts Q2 EPS of $1.04 vs. $0.72, beating the $0.97 consensus. Sales grew 15%, ahead of expectations, led by a 26% increase in data-centric and 6% rise in PC-centric sales. Gross margin of 62% was near our view but we see compression in the second half, on less favorable mix as INTC ramps modem sales to Apple and delays of its 10 nanometer chips. We positively view data center growth of 27%, driven by demand from cloud and communications service providers, but anticipate a sharp deceleration ahead on tougher comparables. We see manufacturing delays, increasing competitive pressures from Advanced Micro Devices and uncertainty at the CEO position as concerns; however, we see shares as highly attractive and remain optimistic about INTC's progression away from PC-related sales. /Angelo Zino, CFA

**June 25, 2018**
12:11 pm ET... CFRA SEES INCREASING RISKS FOR SEMICONDUCTORS GIVEN TRADE ISSUES WITH CHINA (INTC 52.5****): According to an unconfirmed WSJ report, by week's end, President Trump plans to block certain technology exports to China and bar Chinese companies with at least 25% Chinese ownership (ceiling may be lower) from investing in U.S. technology firms. While we have many of the same concerns that the Trump administration has in terms of Intellectual Property practices, we believe blocking technology exports could be harmful and negatively impact many U.S.-based chipmakers. Our analysis shows that the top 10 U.S. chipmakers within our coverage universe, in terms of market cap, generate about 37% of sales from China, with Skyworks (SWKS 96 ***) and QUALCOMM (QCOM 57 ***) having the most concentration. We still view the lingering trade issues with China as the biggest risk to the semiconductor industry and expect chipmakers to remain pressured near term until better clarity on the situation is realized. We believe the fundamentals for the sub-industry remain positive, but see increasing risks. /Angelo Zino, CFA

**June 21, 2018**
09:50 am ET... CFRA KEEPS BUY RECOMMENDATION ON SHARES OF INTEL CORPORATION (INTC 53.46****): We keep our 12-month target price at $65 on a near-peer P/E of 15.7X our '19 EPS estimate. We increase our '18 EPS estimate to $3.99 from $3.85 and keep '19's at $4.14. INTC announces the resignation of CEO Brian Krzanich after it was uncovered that Krzanich had a past consensual relationship with an employee. An ongoing investigation has confirmed a violation of Intel's non-fraternization policy, which applies to all managers. CFO Robert Swan has been named interim CEO, effective immediately. While we view the news of former CEO Brian Krzanich as unfortunate, we believe the company is in good hands with Robert Swan and given the progress already made towards transitioning INTC into a Data Centric company. INTC is undertaking a robust succession planning process for a permanent CEO, which will include both internal and external candidates. Separately, INTC provides preliminary Q2 revenue of $16.9B and EPS of $0.99, both ahead of S&P Capital IQ consensus' $16.3B and $0.86, respectively. /Angelo Zino, CFA

**May 14, 2018**
09:28 am ET... CFRA MAINTAINS POSITIVE FUNDAMENTAL OUTLOOK ON THE SEMICONDUCTOR SUB-INDUSTRY (INTC 54.67****): President Trump says he is working with Chinese President Xi Jinping to keep China-based telecom networking firm ZTE in business, after the company was hit with an order banning U.S. suppliers from selling components. We view President Trump's comments about ZTE as a positive for the semiconductor industry and for optical communications providers, although likely being done to gain leverage in discussions with China amid a period of tension over trade, 5G development and intellectual property owned by U.S. chipmakers. The U.S. Commerce Department is currently reviewing the ban and we see increasing likelihood of a potential appeal. Separately, an unconfirmed Bloomberg report cites that Chinese regulators have restarted their review of QUALCOMM's bid to acquire NXP Semiconductors. Should several pending chip deals (e.g. QUALCOMM/NXP Semiconductors and Microchip/Microsemi) obtain approval from Chinese regulators, we think it could act as a catalyst for the broader semiconductor industry. /Angelo Zino, CFA

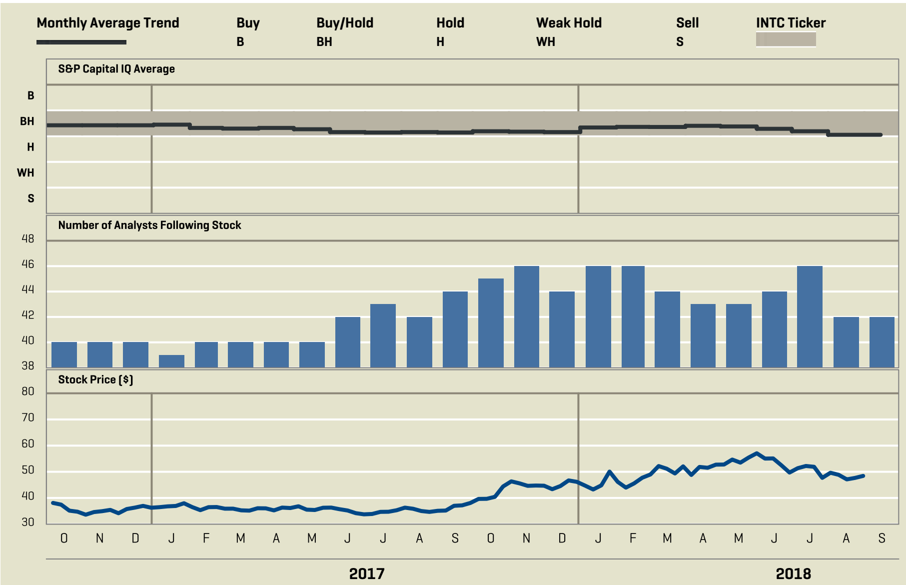
**April 26, 2018**
05:57 pm ET... CFRA MAINTAINS BUY OPINION ON SHARES OF INTEL CORPORATION (INTC 51.38****): We raise our 12-month target by $5 to $65 on a P/E of 15.7X our 2019 EPS estimate, near peers. We increase our '18 EPS estimate to $3.85 from $3.56 and '19's to $4.14 from $3.82. INTC posts Q4 EPS of $0.87 vs. $0.66, beating the $0.72 estimate. Sales rose 13%, well above expectations, driven by growth in its Data-Centric businesses, which were 49% of sales and grew 25%. We note PC-Centric businesses grew a modest 3%, benefiting from higher commercial spending. We positively view Data Center growth, up 24%, driven by cloud and communications service providers as well as improving selling prices. We believe INTC is benefiting from accelerating investments by major cloud providers, as they shift towards artificial intelligence offerings, which we expect to persist. We are optimistic about opportunities related to autonomous cars, aided by Mobileye, as well as growth within memory (up 20% in Q1). We see margins benefiting from efficiencies and like its investment shift to non-PC segments. /Angelo Zino, CFA

**April 11, 2018**
09:30 am ET... CFRA MAINTAINS BUY OPINION ON SHARES OF INTEL CORPORATION (INTC 51.27****): We raise our 12-month target by $5 to $60 on a P/E of 15.7X our 2019 EPS estimate, near peers. We up our '18 EPS estimate to $3.56 from $3.47 and '19's to $3.82 from $3.73. Despite INTC's high exposure to PCs, we see the potential for multiples to expand as the firm implements its execution strategy and bottom line results become more tied to Data-Centric businesses. Ahead of Q1 earnings results expected on April 26, we see Q1 EPS/revenue of $0.72/$15.1B and believe '18 consensus expectations are conservative. We expect commentary with regards to INTC's Data Center Group (33% of sales) to remain positive, led by demand from the cloud segment and communications service providers. We see sales supported by greater penetration for its Xeon Scalable processors and favorable pricing mix. We expect revenue from the Client Computing Group to remain stable and we think recent concerns related to its Apple business are overblown. We view INTC's above-peer dividend yield of 2.4% as attractive. /Angelo Zino, CFA

Note: Research notes reflect CFRA's published opinions and analysis on the stock at the time the note was published. The note reflects the views of the equity analyst as of the date and time indicated in the note, and may not reflect CFRA's current view on the company.

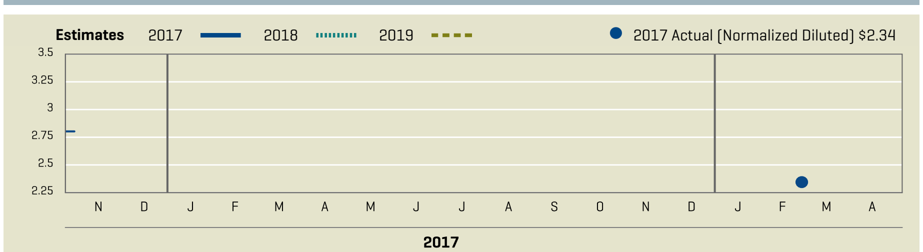
# Intel Corporation

## Analysts' Recommendations




| | No. of Recommendations | % of Total | 1 Mo.Prior | 3 Mos.Prior |
|---|---|---|---|---|
| Buy | 11 | 26 | 11 | 16 |
| Buy/Hold | 6 | 14 | 6 | 7 |
| Hold | 16 | 38 | 16 | 15 |
| Weak Hold | 3 | 7 | 3 | 2 |
| Sell | 2 | 5 | 2 | 2 |
| No Opinion | 4 | 10 | 4 | 2 |
| **Total** | **42** | **100** | **42** | **44** |

## Wall Street Consensus Estimates




| **Fiscal Years** | **Avg Est.** | **High Est** | **Low Est.** | **# of Est.** | **Est. P/E** |
|---|---|---|---|---|---|
| 2019 | 4.26 | 4.65 | 3.60 | 37 | 11.4 |
| 2018 | 4.16 | 4.29 | 4.00 | 35 | 11.7 |
| **2019 vs. 2018** | **▲2%** | **▲8%** | **▼-10%** | **▲6%** | **▼-3%** |
| | | | | | |
| Q3'19 | 1.14 | 1.30 | 0.83 | 28 | 42.6 |
| Q3'18 | 1.15 | 1.17 | 1.09 | 32 | 42.2 |
| **Q3'19 vs. Q3'18** | **▼-1%** | **▲11%** | **▼-24%** | **▼-12%** | **▲1%** |

Forecasts are not reliable indicator of future performance.
Note: A company's earnings outlook plays a major part in any investment decision. S&P Global Market Intelligence organizes the earnings estimates of over 2,300 Wall Street analysts, and provides their consensus of earnings over the next two years, as well as how those earnings estimates have changed over time. Note that the information provided in relation to consensus estimates is not intended to predict actual results and should not be taken as a reliable indicator of future performance.

**Note: For all tables, graphs and charts in this report that do not cite any reference or source, the source is S&P Global Market Intelligence.**

## Wall Street Consensus Opinion

**BUY/HOLD**

## Wall Street Consensus vs. Performance

For fiscal year 2018, analysts estimate that INTC will earn USD $4.16. For the 2nd quarter of fiscal year 2018, INTC announced earnings per share of USD $1.05, representing 25.2% of the total revenue estimate. For fiscal year 2019, analysts estimate that INTC's earnings per share will grow by 2% to USD $4.26.

## Glossary

**STARS**

Since January 1, 1987, CFRA Equity and Fund Research Services, and its predecessor S&P Capital IQ Equity Research has ranked a universe of U.S. common stocks, ADRs (American Depositary Receipts), and ADSs (American Depositary Shares) based on a given equity's potential for future performance. Similarly, we have ranked Asian and European equities since June 30, 2002. Under proprietary STARS (Stock Appreciation Ranking System), equity analysts rank equities according to their individual forecast of an equity's future total return potential versus the expected total return of a relevant benchmark (e.g., a regional index (S&P Asia 50 Index, S&P Europe 350® Index or S&P 500® Index)), based on a 12-month time horizon. STARS was designed to meet the needs of investors looking to put their investment decisions in perspective. Data used to assist in determining the STARS ranking may be the result of the analyst's own models as well as internal proprietary models resulting from dynamic data inputs.

**S&P Global Market Intelligence's Quality Ranking**

(also known as **S&P Capital IQ Earnings & Dividend Rankings**) - Growth and stability of earnings and dividends are deemed key elements in establishing S&P Global Market Intelligence's earnings and dividend rankings for common stocks, which are designed to capsulize the nature of this record in a single symbol. It should be noted, however, that the process also takes into consideration certain adjustments and modifications deemed desirable in establishing such rankings. The final score for each stock is measured against a scoring matrix determined by analysis of the scores of a large and representative sample of stocks. The range of scores in the array of this sample has been aligned with the following ladder of rankings:

| | | | |
|---|---|---|---|
| A+ | Highest | B | Below Average |
| A | High | B- | Lower |
| A- | Above Average | C | Lowest |
| B+ | Average | D | In Reorganization |
| NR | Not Ranked | | |

**EPS Estimates**

CFRA's earnings per share (EPS) estimates reflect analyst projections of future EPS from continuing operations, and generally exclude various items that are viewed as special, non-recurring, or extraordinary. Also, EPS estimates reflect either forecasts of equity analysts; or, the consensus (average) EPS estimate, which are independently compiled by S&P Global Market Intelligence, a data provider to CFRA. Among the items typically excluded from EPS estimates are asset sale gains; impairment, restructuring or merger-related charges; legal and insurance settlements; in process research and development expenses; gains or losses on the extinguishment of debt; the cumulative effect of accounting changes; and earnings related to operations that have been classified by the company as discontinued. The inclusion of some items, such as stock option expense and recurring types of other charges, may vary, and depend on such factors as industry practice, analyst judgment, and the extent to which some types of data is disclosed by companies.

**12-Month Target Price**

The equity analyst's projection of the market price a given security will command 12 months hence, based on a combination of intrinsic, relative, and private market valuation metrics, including Fair Value.

**CFRA Equity Research**

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**Abbreviations Used in Equity Research Reports**

CAGR - Compound Annual Growth Rate
CAPEX - Capital Expenditures
CY - Calendar Year
DCF - Discounted Cash Flow
DDM - Dividend Discount Model
EBIT - Earnings Before Interest and Taxes
EBITDA - Earnings Before Interest, Taxes, Depreciation & Amortization
EPS - Earnings Per Share
EV - Enterprise Value
FCF - Free Cash Flow
FFO - Funds From Operations
FY - Fiscal Year
P/E - Price/Earnings
P/NAV - Price to Net Asset Value PEG Ratio - P/E-to-Growth Ratio PV - Present Value
R&D - Research & Development ROCE - Return on Capital Employed ROE - Return on Equity
ROI - Return on Investment
ROIC - Return on Invested Capital
ROA - Return on Assets
SG&A - Selling, General & Administrative Expenses
SOTP - Sum-of-The-Parts
WACC - Weighted Average Cost of Capital

**Dividends on American Depository Receipts (ADRs) and American Depository Shares (ADSs) are net of taxes (paid in the country of origin).**

**Qualitative Risk Assessment**

Reflects an equity analyst's view of a given company's operational risk, or the risk of a firm's ability to continue as an ongoing concern. The Qualitative Risk Assessment is a relative ranking to the U.S. STARS universe, and should be reflective of risk factors related to a company's operations, as opposed to risk and volatility measures associated with share prices. For an ETF this reflects on a capitalization-weighted basis, the average qualitative risk assessment assigned to holdings of the fund.

**STARS Ranking system and definition:**

★★★★★ **5-STARS (Strong Buy):**
Total return is expected to outperform the total return of a relevant benchmark, by a notable margin over the coming 12 months, with shares rising in price on an absolute basis.

★★★★☆ **4-STARS (Buy):**
Total return is expected to outperform the total return of a relevant benchmark over the coming 12 months, with shares rising in price on an absolute basis.

★★★☆☆ **3-STARS (Hold):**
Total return is expected to closely approximate the total return of a relevant benchmark over the coming 12 months, with shares generally rising in price on an absolute basis.

★★☆☆☆ **2-STARS (Sell):**
Total return is expected to underperform the total return of a relevant benchmark over the coming 12 months, and the share price is not anticipated to show a gain.

★☆☆☆☆ **1-STAR (Strong Sell):**
Total return is expected to underperform the total return of a relevant benchmark by a notable margin over the coming 12 months, with shares falling in price on an absolute basis.

**Relevant benchmarks:**

In North America, the relevant benchmark is the S&P 500 Index, in Europe and in Asia, the relevant benchmarks are the S&P Europe 350 Index and the S&P Asia 50 Index, respectively.

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### Quantitative Stock Reports:

Quantitative recommendations are determined by ranking a universe of common stocks based on 5 measures or model categories: Valuation, Quality, Growth, Street Sentiment, and Price Momentum. In the U.S., a sixth sub-category for Financial Health will also be displayed. Percentile scores are used to compare each company to all other companies in the same universe for each model category. The five (six) model category scores are then weighted and rolled up into a single percentile ranking for that company. For reports containing quantitative recommendations refer to the Glossary section of the report for detailed methodology and the definition of Quantitative rankings.

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### STARS Stock Reports:

Global STARS Distribution as of June 30, 2018

| Ranking | North America | Europe | Asia | Global |
|---|---|---|---|---|
| Buy | 39.1% | 31.9% | 37.3% | 36.1% |
| Hold | 54.6% | 53.6% | 50.6% | 52.9% |
| Sell | 6.3% | 14.5% | 12.1% | 11.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% |

### Analyst Certification:

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