

Intel Corp.

Large Reset May Still Not Be Enough

The substantial miss smells like the clearing the decks moment that some investors have been looking for but we aren't even sure if estimates are reset enough and we struggle with what exactly the bull case is with the continued roadmap issues and such a disconnect between the company's optimism and the current reality.

INTC signaled risk to the quarter in early June but we didn't see the magnitude of the miss being this severe on much larger than expected OEM inventory corrections. If you take these reset number numbers for INTC along with AMD's FY guide, we still get 295M units this year, suggesting there is still downside to estimates for INTC and/or AMD given the PC market likely resets further than that and INTC needs to work through >30M units of inventory. Perhaps more interesting, DCAI (Data Center) missed St. estimates by nearly 25% in Q2 and management doesn't expect much improvement in the 2H. The passage of the CHIPS act yesterday removes another catalyst for the bull case and the rubber will truly meet the road with INTC's flawed foundry strategy as the market moves from shortages to oversupply. We are tempted to warm up to the story after 4 years with an UW but we just don't see the path forward with such roadmap, strategy, and market struggles.

INTC: Quarterly and Annual EPS (USD)

| | 2021 | 2022 | | | 2023 | | | Change y/y | |
|--------|--------|-------|-------|-------|-------|-------|-------|------------|------|
| FY Dec | Actual | Old | New | Cons | Old | New | Cons | 2022 | 2023 |
| Q1 | 1.34A | 0.87A | 0.87A | 0.87A | 0.73E | 0.47E | 0.76E | -35% | -46% |
| Q2 | 1.36A | 0.68E | 0.29A | 0.69E | 0.75E | 0.48E | 0.80E | -79% | 66% |
| Q3 | 1.45A | 0.81E | 0.38E | 0.82E | 0.85E | 0.57E | 0.88E | -74% | 50% |
| Q4 | 1.15A | 0.96E | 0.70E | 0.92E | 0.85E | 0.58E | 0.92E | -39% | -17% |
| Year | 5.30A | 3.32E | 2.24E | 3.39E | 3.18E | 2.10E | 3.36E | -58% | -6% |
| P/E | 7.5 | | 17.7 | | | 18.9 | | | |

Consensus numbers are from Bloomberg received on 28-Jul-2022; 12:50 GMT
Source: Barclays Research

| CORE

| | |
|---------------------------|---|
| INTC | UNDERWEIGHT Unchanged |
| U.S. Semiconductors | NEUTRAL Unchanged |
| Price Target | USD 35.00 lowered -13% from USD 40.00 |
| Price (28-Jul-22) | USD 39.71 |
| Potential Upside/Downside | -11.9% |

U.S. Semiconductors

Blayne Curtis

+1 617 342 4101

blayne.curtis@barclays.com

BCI, US

Adam Kozek

+1 212 526 8385

adam.kozek@barclays.com

BCI, US

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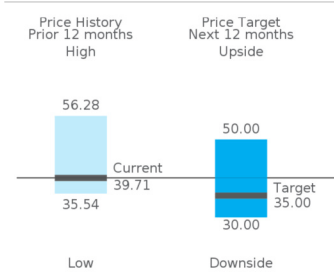
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U.S. Semiconductors

NEUTRAL

Intel Corp. (INTC)

UNDERWEIGHT

| Income statement (\$mn) | 2021A | 2022E | 2023E | 2024E | CAGR | Price (28-Jul-2022) | USD 39.71 |
|---|--------------|--------------|--------------|--------------|----------------|--|---|
| Revenue | 74,718 | 66,366 | 65,029 | N/A | N/A | Price Target | USD 35.00 |
| EBITDA | 36,052 | 23,695 | 25,863 | N/A | N/A | Why UNDERWEIGHT? We are UW as the company continues to lose share, has an unproven and aggressive process roadmap, and now has an additional fight in foundry. | |
| EBIT | 24,260 | 10,498 | 10,342 | N/A | N/A | | |
| Pre-tax income | 23,778 | 10,024 | 9,842 | N/A | N/A | | |
| Net income (adj) | 21,650 | 9,220 | 8,661 | N/A | N/A | | |
| EPS (adj) (\$) | 5.30 | 2.24 | 2.10 | N/A | N/A | | |
| Diluted shares (mn) | 4,084.9 | 4,115.9 | 4,124.2 | N/A | N/A | Upside case USD 50.00 Our upside case of \$50 is based upon 17x our upside CY23 PF EPS of \$3.00, which assumes improved yields, greater government money, better growth in Data Center and PC markets. | |
| DPS (\$) | 1.39 | 1.46 | 1.53 | N/A | N/A | | |
| Margin and return data | 2021A | 2022E | 2023E | 2024E | Average | | Downside case USD 30.00 Our downside case of \$30 is based upon 17x our downside CY23 PF EPS of \$1.75, which assumes greater share loss to AMD, a slowdown in server spending, a slowing PC market, sustained yield issues, and/or outsourcing of leading edge Compute and DC chips, leading to further share loss. |
| EBITDA margin (%) | 48.3 | 35.7 | 39.8 | N/A | 41.2 | | |
| EBIT margin (%) | 32.5 | 15.8 | 15.9 | N/A | 21.4 | | |
| Pre-tax margin (%) | 31.8 | 15.1 | 15.1 | N/A | 20.7 | | |
| Net (adj) margin (%) | 26.6 | 15.9 | 10.6 | N/A | 17.7 | | |
| ROA (%) | 14.1 | 5.5 | 5.0 | N/A | 8.2 | Upside/Downside scenarios  | |
| ROE (%) | 26.7 | 9.7 | 8.4 | N/A | 14.9 | | |
| Balance sheet and cash flow (\$mn) | 2021A | 2022E | 2023E | 2024E | CAGR | | |
| Tangible fixed assets | 63,245 | 77,009 | 88,388 | N/A | N/A | | |
| Intangible fixed assets | 34,233 | 34,014 | 34,014 | N/A | N/A | | |
| Cash and equivalents | 28,413 | 22,957 | 17,249 | N/A | N/A | | |
| Total assets | 168,406 | 172,611 | 177,097 | N/A | N/A | | |
| Short and long-term debt | 38,101 | 35,634 | 43,348 | N/A | N/A | | |
| Other long-term liabilities | 7,738 | 5,750 | 5,750 | N/A | N/A | | |
| Total liabilities | 73,015 | 68,954 | 76,155 | N/A | N/A | | |
| Net debt/(funds) | 9,688 | 12,677 | 26,099 | N/A | N/A | | |
| Shareholders' equity | 95,391 | 103,656 | 100,943 | N/A | N/A | | |
| Change in working capital | 7,761 | -9,797 | -14,092 | N/A | N/A | | |
| Cash flow from operations | 29,991 | 16,712 | 25,611 | N/A | N/A | | |
| Capital expenditure | -18,733 | -22,946 | -25,000 | N/A | N/A | | |
| Free cash flow | 11,258 | -2,034 | 611 | N/A | N/A | | |
| Valuation and leverage metrics | 2021A | 2022E | 2023E | 2024E | Average | | |
| P/E (adj) (x) | 7.5 | 17.7 | 18.9 | N/A | 14.7 | | |
| EV/sales (x) | 2.3 | 2.6 | 2.9 | N/A | 2.6 | | |
| EV/EBITDA (x) | 4.8 | 7.4 | 7.3 | N/A | 6.5 | | |
| Equity FCF yield (%) | 6.9 | -1.2 | 0.4 | N/A | 2.0 | | |
| P/Sales (x) | 2.2 | 2.5 | 2.5 | N/A | 2.4 | | |
| P/BV (x) | 1.7 | 1.6 | 1.6 | N/A | 1.6 | | |
| Dividend yield (%) | 3.5 | 3.7 | 3.9 | N/A | 3.7 | | |

Note: FY End Dec

Source: Company data, Bloomberg, Barclays Research

Substantial Q2 Miss as Inventory Worked Down: Reported revenue of \$15.3B (-17% Q/Q), well below St. \$18B as INTC cited weaker macro, much larger than expected OEM inventory corrections and COVID-induced supply/demand disruption in China. Pronounced weakness for Client Computing (-18% Q/Q to \$7.67B vs. St. \$8.76B) and Data Center/AI (-23% to \$4.65B vs. St. \$6.04B) effectively explain the miss. CCG saw global TAM weakness (especially in consumer, education and small to medium business) along with OEM inventory reductions. We'd note that CPU ASPs were up >11% Y/Y on better mix and demand for high-end products, which would imply a fairly substantial decline for units (>30%). DCAI saw similar OEM inventory reductions, mix-related ASP declines and competitive pressures. Accelerated Computing/Graphics (-15% Q/Q to \$186M vs. St. \$231M) and IFS (-57% Q/Q to \$122M vs. St. \$298M) both missed as well while Network/Edge (+5% Q/Q to \$2.33B vs. St. \$2.26B) was ahead. GMs were well below (44.8%

vs. St. 51%) on the lower top line and Sapphire Rapids pre-production charges. This, along with lower opex (\$5.45B vs. St. \$5.87B), collectively netted EPS of \$0.29 well below St. \$0.69.

FIGURE 1. June Quarter Results

| JUNE QUARTER RESULTS | | | | | |
|----------------------|----------|---------------------|----------------|----------|---|
| | Actual | Prior Barclays Ests | Consensus Ests | Guide | Comments |
| Revenues | \$15.32B | \$17.58B | \$17.96B | \$18.00B | large OEM inventory corrections |
| Q/Q | -16.5% | -4.2% | -2.1% | -1.9% | |
| GMs | 44.8% | 51.2% | 51.0% | 51.0% | Sapphire Rapids pre-production charges |
| Opex | \$5.45B | \$5.73B | \$5.87B | | |
| Tax Rate | 10.3% | | | 12.0% | |
| GAAP EPS | -\$0.11 | \$0.48 | \$0.55 | \$0.50 | |
| EPS | \$0.29 | \$0.68 | \$0.69 | \$0.70 | |
| Share Count | 4.10B | 4.10B | 4.11B | | |
| Capex | \$7.24B | \$7.00B | \$7.04B | | |
| Revenues: | | | | | |
| CCG | \$7.67B | \$8.58B | \$8.76B | | global TAM weakness and inventory reductions |
| DCAI | \$4.65B | \$5.91B | \$6.04B | | inventory reductions, ASP declines, competition |
| NEX | \$2.33B | \$2.30B | \$2.26B | | |
| AXG | \$186M | \$230M | \$231M | | |
| IFS | \$122M | \$241M | \$298M | | |
| Other | \$32M | \$67M | \$65M | | |

Source: Company Reports, Barclays Research and Bloomberg

Big Cut to Q3 and FY22: Guides Q3 revenue to \$15.5B (+1% Q/Q), well shy of St. \$18.7B on deteriorating macro and risk of further COVID disruption. Guides GMs to 46.5% vs. St. 51.4% along with lower opex, netting EPS of \$0.35 well below St. \$0.82. For FY22 INTC slashed its revenue guidance to \$66.5B from \$76B prior, which assumes continued weakness in CCG and DCAI. Management now sees the PC market down 10% Y/Y, with INTC revenues picking up in the 2H on seasonal strength, a reversion of OEM inventory levels and price increases. More surprising was the outlook for DCAI, which calls for muted growth amid competitive/macro pressures, further OEM inventory reductions and component constraints. Also reduced FY22 GMs to 49% from 52% prior though expects to get back to 51% in Q4. This, along with lower opex, yields EPS of \$2.30 vs. \$3.60 prior (also assumes lower tax). Capex lowered to \$23B (\$27B gross) from \$27/28B prior, assuming only a \$1B capacity cut and \$3B yet to be granted EU offsets.

FIGURE 2. September Quarter Guide

| SEPTEMBER QUARTER GUIDE | | | | |
|-------------------------|----------|---------------------|----------------|---|
| | Guide | Prior Barclays Ests | Consensus Ests | Comments |
| Revenues | \$15.50B | \$18.53B | \$18.70B | FY22 guide now \$66.5B |
| Q/Q | +1.2% | 5.4% | 4.1% | |
| GMs | 46.5% | 51.5% | 51.4% | expects to get back to 51% in Q4 |
| Opex | | \$5.63B | \$5.78B | |
| Tax Rate | 13.0% | 12.0% | | |
| GAAP EPS | \$0.12 | \$0.65 | \$0.69 | |
| EPS | \$0.35 | \$0.81 | \$0.82 | |
| Share Count | | 4.11B | 4.12B | |
| Capex | | \$7.75B | \$7.45B | FY22 capex lowered to \$23B (\$27B gross) |
| Revenues: | | | | |
| CCG | | \$9.03B | \$8.61B | PC market down 10% Y/Y in FY22 |
| DCAI | | \$6.27B | \$6.34B | muted growth in 2H |
| NEX | | \$2.39B | \$2.40B | |
| AXG | | \$264M | \$275M | |
| IFS | | \$229M | \$319M | |
| Other | | \$67M | \$65M | |

Source: Company Reports, Barclays Research and Bloomberg

Changes to Estimates

Our CY22 revenue/EPS move to \$66.37B/\$2.24 (prior \$74.06B/\$3.32), and CY23 moves to \$65.03B/\$2.10 (prior \$74.31B/\$3.18).

Our price target of \$35 is based upon 17x our CY23 PF EPS of \$2.10. Our prior price target of \$40 was based upon 13x our CY23 PF EPS of \$3.18.

FIGURE 3. INTC Barclays vs. Consensus

| Changes to Revenue and PF EPS Estimates - New vs. Old vs. Consensus | | | | | |
|---|----------|-----------|-----------|-----------|-----------|
| | | Sep Q | Dec Q | CY22 | CY23 |
| NEW | Revenues | \$15,832M | \$16,860M | \$66,366M | \$65,029M |
| | EPS | \$0.38 | \$0.70 | \$2.24 | \$2.10 |
| OLD | Revenues | \$18,528M | \$19,595M | \$74,057M | \$74,312M |
| | EPS | \$0.81 | \$0.96 | \$3.32 | \$3.18 |
| CONSENSUS | Revenues | \$18,697M | \$19,500M | \$71,871M | \$77,688M |
| | EPS | \$0.82 | \$0.92 | \$2.90 | \$3.36 |

Source: Company Reports, Barclays Research and Bloomberg

FIGURE 4. INTC Income Statement

| Intel Corporation | | | | | | | | | | | | | | | | |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Fiscal Year-End: December | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | 2020 | 2021 | 2022 | 2023 |
| \$ in millions | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | CY | CY | CYE | CYE |
| Revenues | \$18,566 | \$18,533 | \$18,087 | \$19,532 | \$18,353 | \$15,321 | \$15,832 | \$16,860 | \$15,966 | \$15,822 | \$16,497 | \$16,744 | \$77,867 | \$74,718 | \$66,366 | \$65,029 |
| QoQ | (7.1%) | (0.2%) | (2.4%) | 8.0% | (6.0%) | (16.5%) | 3.3% | 6.5% | (5.3%) | (0.9%) | 4.3% | 1.5% | | | | |
| YoY | (6.4%) | (6.1%) | (1.3%) | (2.2%) | (1.1%) | (17.3%) | (12.5%) | (13.7%) | (13.0%) | 3.3% | 4.2% | (0.7%) | 8.2% | (4.0%) | (11.2%) | (2.0%) |
| Cost of Goods | 7,667 | 7,482 | 7,560 | 8,631 | 8,608 | 8,454 | 8,467 | 8,245 | 7,861 | 7,694 | 7,948 | 8,101 | 33,044 | 31,340 | 33,774 | 31,604 |
| Gross Profit | \$10,899 | \$11,051 | \$10,527 | \$10,901 | \$9,745 | \$6,867 | \$7,365 | \$8,615 | \$8,106 | \$8,128 | \$8,548 | \$8,643 | \$44,823 | \$43,378 | \$32,592 | \$33,425 |
| R&D | 3,274 | 3,251 | 3,372 | 3,681 | 3,953 | 3,898 | 3,850 | 3,775 | 4,190 | 4,190 | 4,140 | 4,155 | 13,556 | 13,578 | 15,476 | 16,677 |
| SG&A | 1,104 | 1,319 | 1,408 | 1,709 | 1,551 | 1,553 | 1,775 | 1,740 | 1,613 | 1,583 | 1,588 | 1,623 | 5,976 | 5,540 | 6,618 | 6,406 |
| Total Operating Expense | 4,378 | 4,570 | 4,780 | 5,390 | 5,504 | 5,450 | 5,625 | 5,515 | 5,803 | 5,773 | 5,728 | 5,778 | 19,532 | 19,118 | 22,094 | 23,083 |
| Operating Income | \$6,521 | \$6,481 | \$5,747 | \$5,511 | \$4,241 | \$1,417 | \$1,740 | \$3,100 | \$2,302 | \$2,355 | \$2,820 | \$2,865 | \$25,291 | \$24,260 | \$10,498 | \$10,342 |
| Gains (losses) on Investments | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,904 | 0 | 0 | 0 |
| Interest Income (expense) | (156) | (96) | (76) | (154) | (124) | (100) | (125) | (125) | (125) | (125) | (125) | (125) | (378) | (482) | (474) | (500) |
| Profit Before Taxes | 6,365 | 6,385 | 5,671 | 5,357 | 4,117 | 1,317 | 1,615 | 2,975 | 2,177 | 2,230 | 2,695 | 2,740 | 26,817 | 23,778 | 10,024 | 9,842 |
| Taxes | 889 | 834 | (251) | 656 | 531 | 136 | 48 | 89 | 261 | 268 | 323 | 329 | 4,388 | 2,128 | 805 | 1,181 |
| Net Income | \$5,476 | \$5,551 | \$5,922 | \$4,701 | \$3,586 | \$1,181 | \$1,567 | \$2,886 | \$1,916 | \$1,962 | \$2,372 | \$2,411 | \$22,429 | \$21,650 | \$9,220 | \$8,661 |
| EPS - Pro Forma | \$1.34 | \$1.36 | \$1.45 | \$1.15 | \$0.87 | \$0.29 | \$0.38 | \$0.70 | \$0.47 | \$0.48 | \$0.57 | \$0.58 | \$5.31 | \$5.30 | \$2.24 | \$2.10 |
| EPS - GAAP | \$0.82 | \$1.24 | \$1.67 | \$1.13 | \$1.98 | (\$0.11) | \$0.21 | \$0.49 | \$0.33 | \$0.37 | \$0.47 | \$0.50 | \$4.94 | \$4.86 | \$2.57 | \$1.67 |
| Dividends per share | \$0.35 | \$0.35 | \$0.35 | \$0.35 | \$0.37 | \$0.37 | \$0.37 | \$0.37 | \$0.38 | \$0.38 | \$0.38 | \$0.38 | \$1.32 | \$1.39 | \$1.46 | \$1.53 |
| Fully Diluted Shares | 4,096 | 4,084 | 4,086 | 4,095 | 4,107 | 4,100 | 4,105 | 4,110 | 4,115 | 4,120 | 4,125 | 4,130 | 4,224 | 4,085 | 4,116 | 4,124 |
| Percent of Sales | | | | | | | | | | | | | | | | |
| Gross Margin | 58.7% | 59.6% | 58.2% | 55.8% | 53.1% | 44.8% | 46.5% | 51.1% | 50.8% | 51.4% | 51.8% | 51.6% | 57.6% | 58.1% | 49.1% | 51.4% |
| R&D | 17.6% | 17.5% | 18.6% | 18.8% | 21.5% | 25.4% | 24.3% | 22.4% | 26.2% | 26.5% | 25.1% | 24.8% | 17.4% | 18.2% | 23.3% | 25.6% |
| SG&A | 5.9% | 7.1% | 7.8% | 8.7% | 8.4% | 10.1% | 11.2% | 10.3% | 10.1% | 10.0% | 9.6% | 9.7% | 7.7% | 7.4% | 10.0% | 9.9% |
| Operating Income | 35.1% | 35.0% | 31.8% | 28.2% | 23.1% | 9.2% | 11.0% | 18.4% | 14.4% | 14.9% | 17.1% | 17.1% | 32.5% | 32.5% | 15.8% | 15.9% |
| Tax Rate | 14.0% | 13.1% | (4.4%) | 12.2% | 12.9% | 10.3% | 3.0% | 3.0% | 12.0% | 12.0% | 12.0% | 12.0% | 16.4% | 8.9% | 8.0% | 12.0% |
| Net Income | 29.5% | 30.0% | 32.7% | 24.1% | 19.5% | 7.7% | 9.9% | 17.1% | 12.0% | 12.4% | 14.4% | 14.4% | 28.8% | 29.0% | 13.9% | 13.3% |
| Sequential Change | | | | | | | | | | | | | | | | |
| R&D | (10.4%) | (0.7%) | 3.7% | 9.2% | 7.4% | (1.4%) | (1.2%) | (1.9%) | 11.0% | 0.0% | (1.2%) | 0.4% | 1.5% | 0.2% | 14.0% | 7.8% |
| SG&A | (35.2%) | 19.4% | 6.8% | 21.3% | (9.3%) | 0.1% | 14.3% | (2.0%) | (7.3%) | (1.9%) | 0.3% | 2.2% | (2.8%) | (7.3%) | 19.5% | (3.2%) |

Source: Company Reports, Barclays Research Estimates

Reconciliation of Pro Forma to GAAP

| | | | | | | | | | | | | | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|---------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|----------------|
| Restructuring and other | (2,209) | (346) | (42) | (29) | 2,332 | (869) | (600) | (600) | | | | | (198) | (2,626) | 263 | 0 |
| SBC - COGS | (50) | (75) | (75) | (75) | (148) | (188) | (175) | (175) | (100) | (100) | (100) | (100) | 0 | (275) | (686) | (400) |
| SBC - OPEX | (375) | (550) | (470) | (385) | (559) | (702) | (700) | (700) | (650) | (550) | (550) | (450) | 0 | (1,780) | (2,661) | (2,200) |
| NAND - COGS | 317 | 544 | 616 | 518 | | | | | | | | | 0 | 1,995 | 0 | 0 |
| NAND - Opex | (146) | (142) | (174) | (164) | | | | | | | | | 0 | (626) | 0 | 0 |
| Acq-related - COGS | (312) | (314) | (322) | (335) | (353) | (329) | (300) | (300) | (300) | (300) | (300) | (300) | (1,211) | (1,283) | (1,282) | (1,200) |
| Acq-related - Other | (52) | (52) | (53) | (52) | (51) | (48) | (50) | (50) | (50) | (50) | (50) | (50) | (204) | (209) | (199) | (200) |
| Gain(Loss) on Equity Investments | 368 | 295 | 1,707 | 359 | 4,323 | (90) | 615 | 615 | 350 | 350 | 350 | 350 | (126) | 2,729 | 5,463 | 1,400 |
| Tax Impact | 344 | 150 | (286) | 85 | (1,017) | 591 | 525 | 350 | 200 | 200 | 200 | 200 | 209 | 293 | 449 | 800 |
| Net Income - GAAP | \$3,361 | \$5,061 | \$6,823 | \$4,623 | \$8,113 | (\$454) | \$882 | \$2,026 | \$1,366 | \$1,512 | \$1,922 | \$2,061 | \$20,899 | \$19,868 | \$10,567 | \$6,861 |
| Pro Forma Shares | 4,096 | 4,084 | 4,086 | 4,095 | 4,107 | 4,100 | 4,105 | 4,110 | 4,115 | 4,120 | 4,125 | 4,130 | 4,232 | 4,090 | 4,106 | 4,123 |
| EPS - GAAP | \$0.82 | \$1.24 | \$1.67 | \$1.13 | \$1.98 | (\$0.11) | \$0.21 | \$0.49 | \$0.33 | \$0.37 | \$0.47 | \$0.50 | \$4.94 | \$4.86 | \$2.57 | \$1.67 |

Source: Company Reports and Barclays Research

FIGURE 5. INTC Balance Sheet

| Intel Corporation | | | | | | | | | | | | | | | | |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Fiscal Year-End: December | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | 2020 | 2021 | 2022 | 2023 |
| \$ in millions | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | CY | CY | CYE | CYE |
| BALANCE SHEET | | | | | | | | | | | | | | | | |
| Assets | | | | | | | | | | | | | | | | |
| Cash and Cash Equivalents | \$22,397 | \$24,857 | \$34,635 | \$28,413 | \$38,696 | \$27,044 | \$23,203 | \$22,957 | \$20,996 | \$19,664 | \$18,284 | \$17,249 | \$23,895 | \$28,413 | \$22,957 | \$17,249 |
| Accounts Receivable | 7,208 | 7,460 | 8,400 | 9,457 | 7,074 | 6,063 | 6,437 | 6,855 | 6,492 | 6,433 | 6,707 | 6,808 | 6,782 | 9,457 | 6,855 | 6,808 |
| Total Inventories | 8,487 | 8,817 | 9,798 | 10,776 | 11,935 | 12,174 | 12,095 | 11,779 | 10,798 | 10,569 | 10,481 | 10,683 | 8,427 | 10,776 | 11,779 | 10,683 |
| Other | 7,681 | 8,238 | 8,471 | 9,072 | 4,863 | 5,307 | 5,484 | 5,840 | 5,531 | 5,481 | 5,714 | 5,800 | 8,145 | 9,072 | 5,840 | 5,800 |
| Total Current Assets | \$45,773 | \$49,372 | \$61,304 | \$57,718 | \$62,568 | \$50,588 | \$47,220 | \$47,432 | \$43,816 | \$42,146 | \$41,187 | \$40,539 | \$47,249 | \$57,718 | \$47,432 | \$40,539 |
| Property and Equipment | 57,330 | 58,166 | 59,733 | 63,245 | 66,718 | 71,660 | 74,822 | 77,009 | 80,012 | 82,902 | 85,684 | 88,388 | 56,584 | 63,245 | 77,009 | 88,388 |
| Goodwill & Intangible Assets, Net | 35,379 | 34,786 | 34,470 | 34,233 | 33,824 | 34,014 | 34,014 | 34,014 | 34,014 | 34,014 | 34,014 | 34,014 | 35,997 | 34,233 | 34,014 | 34,014 |
| Other Assets | 12,140 | 12,273 | 12,455 | 13,210 | 13,246 | 14,156 | 14,156 | 14,156 | 14,156 | 14,156 | 14,156 | 14,156 | 13,261 | 13,210 | 14,156 | 14,156 |
| Total Assets | \$150,622 | \$154,597 | \$167,962 | \$168,406 | \$176,356 | \$170,418 | \$170,211 | \$172,611 | \$171,998 | \$173,219 | \$175,041 | \$177,097 | \$153,091 | \$168,406 | \$172,611 | \$177,097 |
| Liabilities | | | | | | | | | | | | | | | | |
| Accounts Payable | \$5,434 | \$5,917 | \$6,792 | \$5,747 | \$7,210 | \$7,945 | \$6,978 | \$6,795 | \$6,479 | \$6,341 | \$6,114 | \$6,232 | \$5,581 | \$5,747 | \$6,795 | \$6,232 |
| Accrued Liabilities (Compensation and | 2,757 | 3,176 | 4,026 | 4,535 | 2,731 | 2,730 | 3,080 | 3,430 | 2,430 | 2,780 | 3,130 | 3,480 | 3,999 | 4,535 | 3,430 | 3,480 |
| Other Current Liabilities | 13,313 | 12,048 | 14,060 | 12,589 | 14,922 | 13,661 | 13,661 | 13,661 | 13,661 | 13,661 | 13,661 | 13,661 | 12,670 | 12,589 | 13,661 | 13,661 |
| Current Portion of Notes Payable | 2,647 | 3,695 | 4,694 | 4,591 | 4,459 | 2,882 | 2,851 | 3,086 | 12,088 | 13,307 | 12,943 | 10,800 | 2,504 | 4,591 | 3,086 | 10,800 |
| Total Current Liabilities | \$24,151 | \$24,836 | \$29,572 | \$27,462 | \$29,322 | \$27,218 | \$26,570 | \$26,972 | \$34,658 | \$36,089 | \$35,848 | \$34,173 | \$24,754 | \$27,462 | \$26,972 | \$34,173 |
| Notes Payable | 33,237 | 31,714 | 35,610 | 33,510 | 32,788 | 32,548 | 32,548 | 32,548 | 32,548 | 32,548 | 32,548 | 32,548 | 33,897 | 33,510 | 32,548 | 32,548 |
| Income Taxes Payable, Non-Current | 4,605 | 4,172 | 4,223 | 4,305 | 4,372 | 3,684 | 3,684 | 3,684 | 3,684 | 3,684 | 3,684 | 3,684 | 4,578 | 4,305 | 3,684 | 3,684 |
| Other Liabilities | 8,822 | 8,668 | 8,470 | 7,738 | 6,738 | 5,750 | 5,750 | 5,750 | 5,750 | 5,750 | 5,750 | 5,750 | 8,824 | 7,738 | 5,750 | 5,750 |
| Total Liabilities | \$70,815 | \$69,390 | \$77,875 | \$73,015 | \$73,220 | \$69,200 | \$68,552 | \$68,954 | \$76,640 | \$78,071 | \$77,830 | \$76,155 | \$72,053 | \$73,015 | \$68,954 | \$76,155 |
| Shareholders' Equity | | | | | | | | | | | | | | | | |
| Shareholders' Equity | \$79,807 | \$85,207 | \$90,087 | \$95,391 | \$103,136 | \$101,218 | \$101,659 | \$103,656 | \$95,358 | \$95,148 | \$97,211 | \$100,943 | \$81,038 | \$95,391 | \$103,656 | \$100,943 |
| Total Shareholders' Equity | \$79,807 | \$85,207 | \$90,087 | \$95,391 | \$103,136 | \$101,218 | \$101,659 | \$103,656 | \$95,358 | \$95,148 | \$97,211 | \$100,943 | \$81,038 | \$95,391 | \$103,656 | \$100,943 |
| Total Liabilities & Equity | \$150,622 | \$154,597 | \$167,962 | \$168,406 | \$176,356 | \$170,418 | \$170,211 | \$172,611 | \$171,998 | \$173,219 | \$175,041 | \$177,097 | \$153,091 | \$168,406 | \$172,611 | \$177,097 |
| CHECK | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| VALUATION RATIOS | | | | | | | | | | | | | | | | |
| Profitability Ratios | | | | | | | | | | | | | | | | |
| Return On Invested Capital | 15% | 22% | 29% | 20% | 31% | (1%) | 4% | 8% | 5% | 5% | 7% | 7% | 21% | 22% | 10% | 6% |
| Return On Equity | 27% | 28% | 28% | 21% | 15% | 5% | 6% | 11% | 7% | 8% | 10% | 10% | 29% | 27% | 10% | 8% |
| Return On Avg Equity * | 27% | 27% | 27% | 20% | 14% | 5% | 6% | 11% | 8% | 8% | 10% | 10% | 28% | 25% | 9% | 8% |
| Return On Assets | 14% | 15% | 15% | 11% | 9% | 3% | 4% | 7% | 4% | 5% | 5% | 6% | 16% | 14% | 5% | 5% |
| Return On Net Assets | 28% | 27% | 26% | 20% | 14% | 5% | 7% | 12% | 9% | 9% | 10% | 10% | 35% | 27% | 10% | 9% |
| Return On Sales | 29% | 30% | 33% | 24% | 20% | 8% | 10% | 17% | 12% | 12% | 14% | 14% | 29% | 29% | 14% | 13% |
| * Avg Over Last 4 Qtrs | | | | | | | | | | | | | | | | |

Source: Company Reports, Barclays Research

FIGURE 6. INTC Cash Flow Statement

| Intel Corporation | | | | | | | | | | | | | | | | |
|--|------------------|------------------|-------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|-------------------|-------------------|-------------------|-------------------|
| Fiscal Year-End: December | Mar-21 | Jun-21 | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | 2020 | 2021 | 2022 | 2023 |
| \$ in millions | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3QE | 4QE | 1QE | 2QE | 3QE | 4QE | CY | CY | CYE | CYE |
| CASH FLOW | | | | | | | | | | | | | | | | |
| Cash Flow from Operations | | | | | | | | | | | | | | | | |
| Net Income | \$3,361 | \$5,061 | \$6,823 | \$4,623 | \$8,113 | (\$454) | \$882 | \$2,026 | \$1,366 | \$1,512 | \$1,922 | \$2,061 | \$20,899 | \$19,868 | \$10,567 | \$6,861 |
| Share Based Compensation | 425 | 619 | 543 | 449 | 707 | 892 | 875 | 875 | 750 | 650 | 650 | 550 | 1,854 | 2,036 | 3,349 | 2,600 |
| Depreciation | 2,454 | 2,408 | 2,495 | 2,596 | 2,847 | 2,681 | 2,838 | 2,913 | 3,247 | 3,360 | 3,468 | 3,546 | 10,482 | 9,953 | 11,279 | 13,621 |
| Amortization | 448 | 449 | 464 | 478 | 501 | 467 | 475 | 475 | 475 | 475 | 475 | 475 | 1,757 | 1,839 | 1,918 | 1,900 |
| Other | 1,910 | 90 | (516) | (316) | (5,429) | 200 | (500) | | | | | | (1,787) | 1,168 | (5,729) | 0 |
| <i>Changes in Operating Assets & Liabilities</i> | | | | | | | | | | | | | | | | |
| Accounts Receivable, net | (426) | (252) | (940) | (1,056) | 2,384 | 1,013 | (374) | (418) | 364 | 59 | (274) | (101) | 883 | (2,674) | 2,605 | 47 |
| Inventories | 180 | (306) | (1,086) | (1,127) | (1,147) | (239) | 79 | 317 | 981 | 229 | 88 | (202) | (687) | (2,339) | (991) | 1,096 |
| Accounts Payable | 303 | 122 | 670 | 95 | (128) | 245 | (967) | (183) | (317) | (137) | (227) | 118 | 412 | 1,190 | (1,033) | (564) |
| Accrued Compensation & Benefits | (1,283) | 447 | 820 | 531 | (1,884) | (101) | 350 | 350 | (1,000) | 350 | 350 | 350 | 463 | 515 | (1,285) | 50 |
| Income Tax Payable & Receivable | 383 | (269) | (684) | 129 | 1,219 | (3,451) | | | | | | | 1,620 | (441) | (2,232) | 0 |
| Prepaid Supply Agreements | (1,566) | (5) | (6) | (6) | (6) | (6) | | | | | | | (181) | (1,583) | (12) | 0 |
| Other Asset & Liabilities | (641) | 382 | 1,317 | (599) | (1,286) | (438) | | | | | | | (331) | 459 | (1,724) | 0 |
| Net Cash From Operations | \$5,548 | \$8,746 | \$9,900 | \$5,797 | \$5,891 | \$809 | \$3,657 | \$6,354 | \$5,866 | \$6,497 | \$6,451 | \$6,797 | \$35,384 | \$29,991 | \$16,712 | \$25,611 |
| Cash Flow from Investing | | | | | | | | | | | | | | | | |
| PP&E | (\$3,972) | (\$3,602) | (\$4,005) | (\$7,154) | (\$4,604) | (\$7,242) | (\$6,000) | (\$5,100) | (\$6,250) | (\$6,250) | (\$6,250) | (\$6,250) | (\$14,259) | (\$18,733) | (\$22,946) | (\$25,000) |
| Acquisition (Divestiture) of Business | (416) | (266) | (436) | (687) | (193) | (13) | | | | | | | (1,031) | (1,805) | (206) | 0 |
| Maturities and Sales (Purchases) of Available-for- | 639 | (2,639) | 1,474 | 1,942 | (8,601) | 8,494 | | | | | | | (81) | 1,416 | (107) | 0 |
| Maturities and Sales (Purchases) of Trading Asse | 796 | (371) | (7,955) | 859 | 4,682 | 93 | | | | | | | (6,810) | (6,671) | 4,775 | 0 |
| Other | 406 | (26) | 240 | 6 | 6,076 | (1,164) | | | | | | | 1,385 | 626 | 4,912 | 0 |
| Net Cash from Investing | (\$2,547) | (\$6,904) | (\$10,682) | (\$5,034) | (\$2,640) | \$168 | (\$6,000) | (\$5,100) | (\$6,250) | (\$6,250) | (\$6,250) | (\$6,250) | (\$20,796) | (\$25,167) | (\$13,572) | (\$25,000) |
| Cash Flow from Financing | | | | | | | | | | | | | | | | |
| Proceeds from (repurchase) of common | (\$1,736) | (\$90) | \$427 | \$4 | \$589 | \$0 | | | | | | | (\$13,332) | (\$1,395) | \$589 | \$0 |
| Proceeds from (payment for) term loan | | (500) | 4,974 | (2,000) | (299) | (1,389) | | | | | | | 5,722 | 2,474 | (1,688) | 0 |
| Payment of Dividend to Shareholders | (1,411) | (1,410) | (1,410) | (1,413) | (1,487) | (1,499) | (1,498) | (1,500) | (1,577) | (1,579) | (1,581) | (1,583) | (5,568) | (5,644) | (5,984) | (6,320) |
| Others | (527) | (288) | (85) | (397) | (666) | 86 | | | | | | | 261 | (1,297) | (580) | 0 |
| Net Cash from Financing | (\$3,674) | (\$2,288) | \$3,906 | (\$3,806) | (\$1,863) | (\$2,802) | (\$1,498) | (\$1,500) | (\$1,577) | (\$1,579) | (\$1,581) | (\$1,583) | (\$12,917) | (\$5,862) | (\$7,663) | (\$6,320) |
| Effects of FX Fluctuations on Cash | | | | | | | | | | | | | 0 | 0 | 0 | 0 |
| Cash and Cash equiv at beginning | \$5,865 | \$5,192 | \$4,746 | \$7,870 | \$4,827 | \$6,215 | \$4,390 | \$549 | \$303 | (\$1,658) | (\$2,990) | (\$4,370) | \$4,194 | \$5,865 | \$4,827 | \$303 |
| Net Increase in cash and cash equiv. | (673) | (446) | 3,124 | (3,043) | 1,388 | (1,825) | (3,841) | (246) | (1,961) | (1,332) | (1,380) | (1,036) | 1,671 | (1,038) | (4,524) | (5,709) |
| Cash and Cash equiv at end | 5,192 | 4,746 | 7,870 | 4,827 | 6,215 | 4,390 | 549 | 303 | (1,658) | (2,990) | (4,370) | (5,405) | 5,865 | 4,827 | 303 | (5,405) |
| Marketable Securities | 17,205 | 20,111 | 26,765 | 23,586 | 32,481 | 22,654 | 22,654 | 22,654 | 22,654 | 22,654 | 22,654 | 22,654 | 18,030 | 23,586 | 22,654 | 22,654 |
| Total Cash and Cash eqv plus MS at end | \$22,397 | \$24,857 | \$34,635 | \$28,413 | \$38,696 | \$27,044 | \$23,203 | \$22,957 | \$20,996 | \$19,664 | \$18,284 | \$17,249 | \$23,895 | \$28,413 | \$22,957 | \$17,249 |
| Check | 22,397 | 24,857 | 34,635 | 28,413 | 38,696 | 27,044 | 23,203 | 22,957 | 20,996 | 19,664 | 18,284 | 17,249 | 23,895 | 28,413 | 22,957 | 17,249 |
| Cash Flow from Operations | \$5,548 | \$8,746 | \$9,900 | \$5,797 | \$5,891 | \$809 | \$3,657 | \$6,354 | \$5,866 | \$6,497 | \$6,451 | \$6,797 | \$35,384 | \$29,991 | \$16,712 | \$25,611 |
| Capex | (3,972) | (3,602) | (4,005) | (7,154) | (4,604) | (7,242) | (6,000) | (5,100) | (6,250) | (6,250) | (6,250) | (6,250) | (14,259) | (18,733) | (22,946) | (25,000) |
| Adjustments | | | | | 4,200 | | | | | | | | | | 4,200 | 0 |
| Free Cash Flow | \$1,576 | \$5,144 | \$5,895 | (\$1,357) | \$1,287 | (\$6,433) | (\$2,343) | \$1,254 | (\$384) | \$247 | \$201 | \$547 | \$21,125 | \$11,258 | (\$2,034) | \$611 |
| FCF Per Share | \$0.38 | \$1.26 | \$1.44 | (\$0.33) | \$0.31 | (\$1.57) | (\$0.57) | \$0.31 | (\$0.09) | \$0.06 | \$0.05 | \$0.13 | \$4.99 | \$2.75 | (\$0.50) | \$0.15 |

Source: Company Reports and Barclays Research

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Intel Corp. (INTC, 28-Jul-2022, USD 39.71), Underweight/Neutral, A/CD/CE/D/E/J/K/L/M/N

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II-VI Incorporated (IIVI)

| | | |
|---------------------------------------|-----------------------------------|--|
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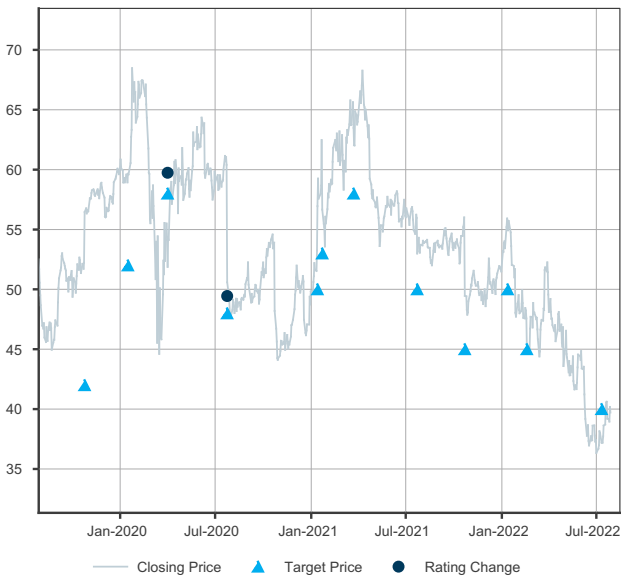
Stock Rating: **UNDERWEIGHT**

Industry View: **NEUTRAL**

USD 39.71 (28-Jul-2022)

Rating and Price Target Chart - USD (as of 28-Jul-2022)

Currency=USD



Source: IDC, Barclays Research

[Link to Barclays Live for interactive charting](#)

| Publication Date | Closing Price* | Rating | Adjusted Price Target |
|------------------|----------------|--------------|-----------------------|
| 11-Jul-2022 | 38.14 | | 40.00 |
| 18-Feb-2022 | 47.57 | | 45.00 |
| 12-Jan-2022 | 55.21 | | 50.00 |
| 22-Oct-2021 | 56.00 | | 45.00 |
| 23-Jul-2021 | 53.00 | | 50.00 |
| 23-Mar-2021 | 63.48 | | 58.00 |
| 22-Jan-2021 | 56.66 | | 53.00 |
| 13-Jan-2021 | 56.95 | | 50.00 |
| 24-Jul-2020 | 50.59 | Underweight | 48.00 |
| 01-Apr-2020 | 51.88 | Equal Weight | 58.00 |
| 16-Jan-2020 | 59.66 | | 52.00 |
| 25-Oct-2019 | 56.46 | | 42.00 |

On 29-Jul-2019, prior to any intra-day change that may have been published, the rating for this security was Underweight, and the adjusted price target was 40.00.

Source: Bloomberg, Barclays Research

*This is the closing price referenced in the publication, which may not be the last available closing price at the time of publication.

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Valuation Methodology: Our price target of \$35 is based upon 17x our CY23 PF EPS of \$2.10.

Risks which May Impede the Achievement of the Barclays Research Valuation and Price Target: Risks to our thesis include continued PC growth at above historical rates, better share in PC and Server markets, technology transitions accelerating, and poor execution by AMD.

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