

Advanced Micro Devices is the number-two player in x86-based microprocessors, behind Intel, and, with the 2008 acquisition of ATI, a top player in graphic processors. It now competes with Nvidia in the GPU processor space for AI applications. In 2021, Advanced Micro Devices acquired Xilinx, expanding its presence in embedded computing and data center. In 2025, AMD acquired ZT systems, which provides AI and general purpose infrastructure for the global hyperscale providers.

Analyst's Notes

Analysis by Jim Kelleher, CFA, May 7, 2025

ARGUS RATING: BUY

- Data Center growth, inventory charges due to China
- AMD delivered 1Q25 revenue and non-GAAP EPS ahead of consensus estimates, with both rising in double-digits year over year. Non-GAAP results for 2Q25 will be impacted by \$800 million in inventory reserves due to new export controls.
- The company is ramping shipments of AI accelerators and will be releasing new AI products in 2H25 as it seeks to strengthen its presence in generative AI.
- Despite the dynamic macro and regulatory environment, AMD believes its differentiated portfolio and consistent execution position the company for strong growth in 2025.
- We are reiterating our BUY rating and our 12-month target price of \$160.

INVESTMENT THESIS

BUY-rated Advanced Micro Devices Inc. (NGS: AMD) edged up less than 1% in a rising market on 5/7/25 after the company posted revenue and non-GAAP EPS ahead of consensus estimates. Management noted that 2Q25 non-GAAP results will be impacted by \$800 million in inventory reserves due to new export controls. These restrictions are also likely to impact upcoming quarters.

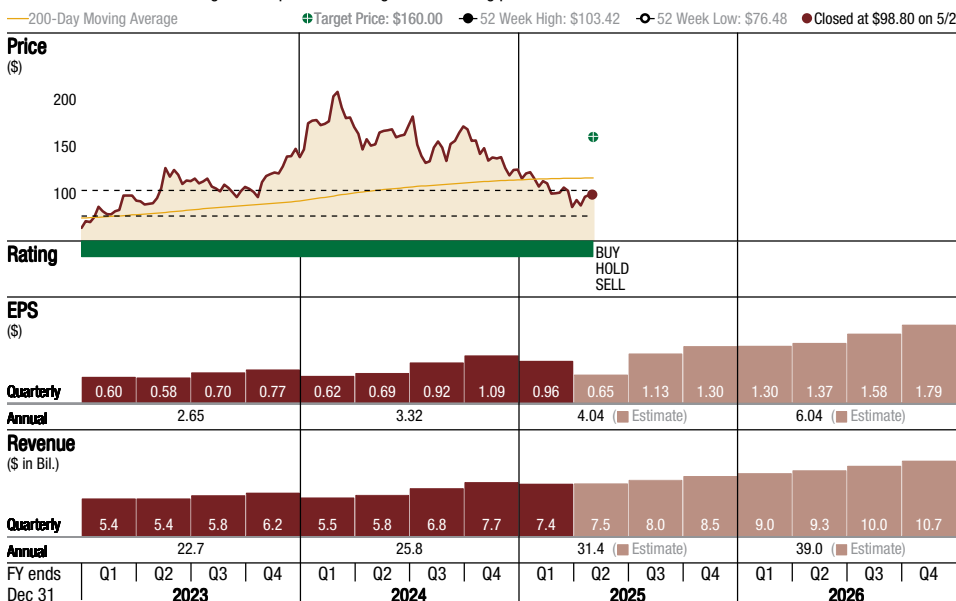
Both sales and adjusted EPS for 1Q25 grew in double-digit percentages year over year, extending year-end 2024 strength after single-digit growth in the first half of 2Q24. First-quarter 2025 revenue rose 36% from a year earlier, while non-GAAP EPS was up 56% from 1Q24.

Excitement around AMD's products for the generative AI opportunity has driven the stock in the past two years. The company's current AI product family features the latest iterations of its Instinct MI300 series accelerator group. During 1Q25, Data Center (DC) rose 57% annually and was better than consensus expectations. Growth was driven by ongoing ramp of AMD Instinct GPU products.

The company is currently the next-largest competitor in the GPU space, after Nvidia. AMD generated about \$5 billion in annual GPU sales in 2024, with at least \$3 billion

Market Data

Pricing reflects previous trading week's closing price.



Argus Recommendations

Twelve Month Rating	SELL	HOLD	BUY
Five Year Rating	SELL	HOLD	BUY
Sector Rating	Under Weight	Market Weight	Over Weight

Argus assigns a 12-month BUY, HOLD, or SELL rating to each stock under coverage.

- BUY-rated stocks are expected to outperform the market (the benchmark S&P 500 Index) on a risk-adjusted basis over the next year.
- HOLD-rated stocks are expected to perform in line with the market.
- SELL-rated stocks are expected to underperform the market on a risk-adjusted basis.

The distribution of ratings across Argus' entire company universe is: 73% Buy, 27% Hold, 0% Sell.

Key Statistics

Key Statistics pricing data reflects previous trading day's closing price. Other applicable data are trailing 12-months unless otherwise specified

Market Overview

Price	\$100.36
Target Price	\$160.00
52 Week Price Range	\$76.48 to \$187.28
Shares Outstanding	1.62 Billion
Dividend	\$0.00

Sector Overview

Sector	Information Technology
Sector Rating	OVER WEIGHT
Total % of S&P 500 Market Cap.	30.30%

Financial Strength

Financial Strength Rating	MEDIUM-HIGH
Debt/Capital Ratio	3.9%
Return on Equity	14.2%
Net Margin	8.0%
Payout Ratio	--
Current Ratio	2.62
Revenue	\$27.75 Billion
After-Tax Income	\$2.23 Billion

Valuation

Current FY P/E	24.84
Prior FY P/E	30.23
Price/Sales	5.86
Price/Book	2.80
Book Value/Share	\$35.82
Market Capitalization	\$162.72 Billion

Forecasted Growth

1 Year EPS Growth Forecast	21.69%
5 Year EPS Growth Forecast	15.00%
1 Year Dividend Growth Forecast	N/A

Risk

Beta	1.70
Institutional Ownership	64.62%

Analyst's Notes ...Continued

coming in the second half. But Nvidia's GPU revenue is at least 20-times that of AMD. The company expects first-half 2025 AI sales to roughly match 2H24 levels, as it goes through a product transition in advance of new AI products due in the second half of 2025.

AMD's client PC business delivered 68% annual growth and edged down a less than seasonal 1% sequentially from the holiday quarter. In the CPU space, AMD is competing with Intel and others with fifth-generation EPYC processors for demanding enterprise and HPC workloads and third-generation Ryzen AI 3000 series processors for AI PCs. We also look for a midyear refresh of the CPU lineup for PCs and servers.

Gaming was down in double-digit percentages on a year-over-year basis, but Embedded limited its decline to 3% annually - its best performance since 2Q23. The gaming business, down almost 60% in 4Q24, is likely to remain weak pending new generation consoles from Sony (PlayStation) and Microsoft (Xbox) - neither of which are scheduled. Embedded should continue to gain strength in 2025, based on timing of inventory normalization and demand recovery in industrial markets and assuming limited disruption from tariffs. Both markets could recover in 2025, but Gaming, in particular, will be growing off a very low base.

Despite the dynamic macro and regulatory environment, AMD's differentiated portfolio and consistent execution position the company for strong growth in 2025, according to CEO Dr. Lisa Su. In past years, AMD has gained meaningful global market share

in CPUs for data Center and client at Intel's expense. It is now taking aim at Nvidia in the GPU compute space for AI, although its market share deeply lags the leader. Share gains in client and in data center CPUs, market leadership in console gaming, and the much-enhanced embedded business all position AMD for long-term growth exceeding that of the peer group.

In our view, AMD's beaten-down share price does not fully reflect the company's long-term revenue and margin growth potential, and its ongoing market share gains at Intel's - and potentially at NVidia's - expense. We are reiterating our BUY rating and our 12-month target price of \$160.

RECENT DEVELOPMENTS

AMD is down 18% year-to-date in 2025, while the peer group is down 15%. AMD declined 21% in 2024, while the Argus semiconductor peer group advanced 12%. AMD soared by 128% in 2023, while the peer group rose 67%; declined 55% in 2022, while peers fell 36%; advanced 57% in 2021 versus a 34% gain for the peer group; and rose 100% in 2020, while peers advanced 49%.

For 1Q25, Advanced Micro Devices reported revenue of \$7.44 billion, which was up 36% year over year and down a less than seasonal 3% sequentially from the holiday quarter. Revenue topped the \$7.1 billion midpoint of the \$6.8-\$7.4 billion guidance range, and was above the consensus estimate of \$7.12 billion. Non-GAAP profit totaled \$0.96 per diluted share, up 56% from a

Growth & Valuation Analysis

GROWTH ANALYSIS

(\$ in Millions, except per share data)

	2020	2021	2022	2023	2024
Revenue	9,763	16,434	23,601	22,680	25,785
COGS	5,416	8,505	12,998	12,220	13,060
Gross Profit	4,347	7,929	10,603	10,460	12,725
SG&A	995	1,448	2,336	2,352	2,783
R&D	1,983	2,845	5,005	5,872	6,456
Operating Income	1,369	3,648	1,264	401	2,086
Interest Expense	39	26	23	-100	-90
Pretax Income	1,275	3,669	1,184	492	1,989
Income Taxes	-1,210	513	-122	-346	381
Tax Rate (%)	—	14	—	—	19
Net Income	2,490	3,162	1,320	854	1,641
Diluted Shares Outstanding	1,207	1,229	1,571	1,625	1,637
EPS	2.06	2.57	0.84	0.53	1.00
Dividend	—	—	—	—	—

GROWTH RATES (%)

Revenue	45.0	68.3	43.6	-3.9	13.7
Operating Income	117.0	166.5	-65.4	-68.3	420.2
Net Income	630.2	27.0	-58.3	-35.3	92.2
EPS	586.7	24.8	-67.3	-36.9	88.7
Dividend	—	—	—	—	—
Sustainable Growth Rate	29.1	72.1	7.4	0.4	3.3

VALUATION ANALYSIS

Price: High	\$97.98	\$164.46	\$152.42	\$151.05	\$227.30
Price: Low	\$36.75	\$72.50	\$54.57	\$60.05	\$117.90
Price/Sales: High-Low	12.1 - 4.5	12.3 - 5.4	10.1 - 3.6	10.8 - 4.3	14.4 - 7.5
P/E: High-Low	47.6 - 17.8	64.0 - 28.2	181.5 - 65.0	285.0 - 113.3	227.3 - 117.9
Price/Cash Flow: High-Low	122.2 - 45.8	61.9 - 27.3	58.7 - 21.0	132.3 - 52.6	175.0 - 90.8

Financial & Risk Analysis

FINANCIAL STRENGTH

	2022	2023	2024
Cash (\$ in Millions)	4,835	3,933	3,787
Working Capital (\$ in Millions)	8,650	10,079	11,768
Current Ratio	2.36	2.51	2.62
LT Debt/Equity Ratio (%)	5.2	4.0	3.8
Total Debt/Equity Ratio (%)	5.2	5.4	3.8

RATIOS (%)

Gross Profit Margin	44.9	46.1	49.4
Operating Margin	5.4	1.8	8.1
Net Margin	5.6	3.8	6.4
Return On Assets	3.3	1.3	2.4
Return On Equity	4.2	1.5	2.9

RISK ANALYSIS

Cash Cycle (days)	79.7	121.4	158.8
Cash Flow/Cap Ex	7.9	3.1	4.8
Oper. Income/Int. Exp. (ratio)	14.5	5.6	22.6
Payout Ratio			

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Analyst's Notes ...Continued

year earlier and down \$0.13 sequentially. AMD management does not provide explicit EPS guidance. The Street had projected non-GAAP EPS of \$0.93 for 1Q25.

Despite the dynamic macro and regulatory environment, AMD's differentiated portfolio and consistent execution position the company for strong growth in 2025, according to CEO Dr. Lisa Su. The company displayed significant operating leverage, according to CFO Jean Hu, as the overall company and particularly the AI business gains scale. Despite the uncertain environment, AMD continues to invest in R&D and in go-to-market initiatives, positioning the company for long-term growth.

In a recent SEC filing, AMD stated on 4/15/25 the company completed its initial assessment of a new license requirement implemented by the U.S. government for the export of certain semiconductor products to China. The export control applies to AMD's MI308 products, which are AI accelerators. The company will apply for licenses to ship to greater China but there is no assurance that licenses will be granted. Upon release of 1Q25 results, the company indicated that 2Q25 non-GAAP results will be impacted by \$800 million in inventory reserves due to new export controls. These restrictions are also likely to impact upcoming quarters.

Despite restrictions on Chinese business, AMD continues to experience overall strong demand across most its product line including CPUs for compute and GPUs for AI acceleration.

Embedded, which provides solutions for industrial and other applications, in 1Q25 enjoyed its best quarter in nearly two years. The gaming business remains soft given the lack of a refresh for industry-leading Xbox and PlayStation consoles from Microsoft and Sony. We believe both Embedded and Gaming will return to annual growth by year-end 2025, although tariff uncertainty could complicate those markets.

CEO Dr. Lisa Su has called 2024 a transformative year for AMD, setting the stage for strong growth particularly in AI data center in 2025. Data Center revenue of \$12.6 billion for 2024 almost doubled from \$6.5 billion in 2023 as EPYC processor adoption accelerated. AMD generated more than \$5 billion of AMD Instinct accelerator (GPU) revenue in 2024 including \$3 billion in the second half of the year.

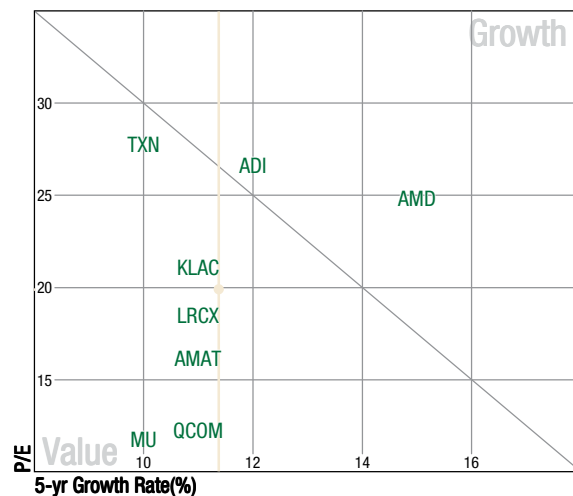
AMD expects first-half 2025 AI revenue to be little changed from 2H24 levels, due to what the CEO called product transitions. The company anticipates higher AI sales levels in 2H25 after it issues new products at mid-year. Even with a strong second half, AMD is likely to grow AI revenue in the low-20% range for 2025, at a time when rival Nvidia is growing in high-double-digit percentages. We are now estimating 2025 Data Center revenue of about \$15 billion, which would be up 21% from 2024.

At its 'Advancing AI' event in fall 2024, AMD laid out its comprehensive strategy for AI spanning Data Center, AI PCs, networking and more. AMD has built a strategy and AI eco-system based around what its portfolio of training and inference engines;

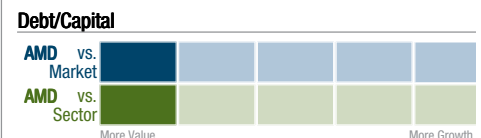
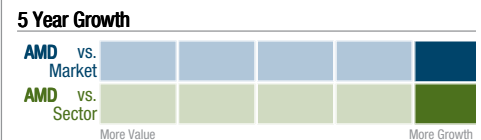
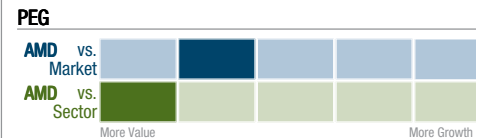
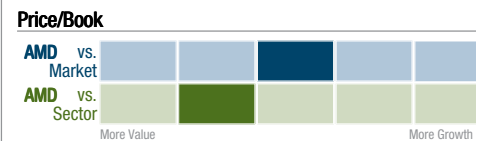
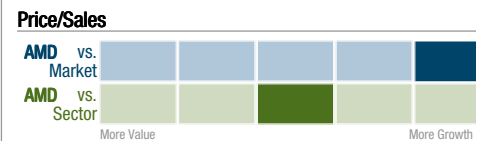
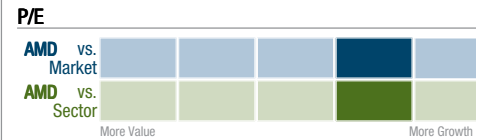
Peer & Industry Analysis

The graphics in this section are designed to allow investors to compare AMD versus its industry peers, the broader sector, and the market as a whole, as defined by the Argus Universe of Coverage.

- The scatterplot shows how AMD stacks up versus its peers on two key characteristics: long-term growth and value. In general, companies in the lower left-hand corner are more value-oriented, while those in the upper right-hand corner are more growth-oriented.
- The table builds on the scatterplot by displaying more financial information.
- The bar charts on the right take the analysis two steps further, by broadening the comparison groups into the sector level and the market as a whole. This tool is designed to help investors understand how AMD might fit into or modify a diversified portfolio.



Ticker	Company	Market Cap (\$ in Millions)	5-yr Growth Rate (%)	Current FY P/E	Net Margin (%)	1-yr EPS Growth (%)	Argus Rating
AMD	Advanced Micro Devices Inc.	162,724	15.0	24.8	8.0	49.5	BUY
QCOM	Qualcomm, Inc.	158,441	11.0	12.3	26.1	7.2	BUY
TXN	Texas Instruments Inc.	149,707	10.0	27.8	30.4	19.9	BUY
AMAT	Applied Materials Inc.	126,586	11.0	16.2	23.0	7.5	BUY
ADI	Analog Devices Inc.	99,126	12.0	26.6	16.7	13.6	BUY
LRCX	Lam Research Corp.	96,011	11.0	18.5	27.2	14.5	BUY
MU	Micron Technology Inc.	92,334	10.0	11.8	14.9	51.9	BUY
KLAC	KLA Corp.	91,822	11.0	21.1	32.0	6.0	BUY
Peer Average		122,094	11.4	19.9	22.3	21.3	



Analyst's Notes ...Continued

open software solutions; and Cluster-level systems design based on its newly acquired systems asset. In the evolving AI landscape, innovation is moving from silicon to nodes (servers), to racks, and to clusters in the hyperscale data center. AMD's approach to this opportunity is systems-based and includes both hardware and software.

For data center servers, AMD in 2024 announced availability for its fifth-generation EPYC processors (Turin). In the GPU space, AMD has its family of Instinct Accelerators. For networking, AMD has its Pensando product and is working within Ultra Ethernet Consortium protocols. AMD's open-source software solution, ROCm, is challenging Nvidia's CUDA.

On 3/31/25, AMD closed the acquisition of ZT Systems, which provides AI and general purpose infrastructure for the global hyperscale providers. AMD expects the combination to enable a new class of end-to-end solutions encompassing AMD CPU, GPU, and networking silicon, AMD ROCm software, rack-scale system capabilities. It will also accelerate the design of deployment of AMD-powered AI infrastructure at scale optimized for the cloud.

AMD is engaged with multiple potential strategic partners to acquire ZT Systems' U.S.-based data center infrastructure manufacturing business. AMD is disposing of this business to avoid competing with its customers. Specifically, AMD intends to install its chips into ZT servers, then spin the business off so that it is not competing with server customers such as Dell, HPE, and Super Micro Computer.

Data Center primarily includes EPYC server CPUs, GPUs, data processing units (DPUs) and FPGA and SoC families that came from the Xilinx acquisition. For 1Q25, Data Center revenue of \$3.67 billion (49% of total) was up 57% year over year and down 5% sequentially from record levels in 4Q24. Data Center operating profit of \$932 million advanced 72% from a year earlier while moderating sequentially. AMD Data Center margin of 25.4% for 1Q25 expanded from 23.1% in 1Q24.

Data center growth continues to be driven by the strong ramp of Instinct GPU shipments and growth in EPYC CPU sales. Fifth generation 'Turin' EPYC CPUs come in 3 nm process node, have up to 192 cores and 384 threads, and power up to 5GHz. The company has stated that based on prior generations, EPYC has attained 31% market share in server CPUs as of year-end 2024, after having just 2% share in 2018.

EPYC is available on 350-plus OEM server platforms and is being used for as many as 1,000 cloud instances. EPYC is in use by all the hyperscale CSPs, including AWS, Alibaba, Azure, Google Cloud, IBM Cloud, Oracle, Tencent, and Meta.

AMD Instinct MI300 accelerator shipments include its latest iteration MI325X and MI350 series. MI300 Instinct GPUs, according to the company, are powering the most popular Generative AI platforms from Microsoft, OpenAI, Meta, and others. The MI350 series is due in 2025.

Client includes CPUs, accelerated processing units (APUs) that integrate microprocessors with graphics processors, and chipsets for desktop and notebook PCs. Client revenue of \$2.29 billion (31% of total) for 1Q25 rose 68% annually and declined a less-than-seasonal 1% sequentially from the holiday quarter. Client posted an operating profit of \$496 million for 1Q25, up 109% from 1Q24 and up sequentially from 4Q24 on a richer mix. Client operating margin of 21.6% in 1Q25 improved from 17.3% in 1Q24 and expanded sequentially from 21.4% in 4Q24.

Strength in Client was led by strong demand for latest-generation Ryzen processors. These include Zen 5-based Ryzen PRO 7000 Series processors for desktops with RDNA 2 integrated graphics; and Ryzen 8000 Series Mobile processors including Ryzen 8000G series with an integrated AI engine.

Client growth was also driven by significant and ongoing ramp of third-generation Ryzen AI 3000 series processors for notebooks. For desktops, the upcoming Ryzen 9000 series processors on AM5 motherboards are expected to enhance performance and energy efficiency across productivity, gaming, and content creation. AMD is executing on its multi-year Ryzen AI roadmap to enable the new generation of AI PCs that it believes will redefine the PC experience.

AMD has gained meaningful global market share in CPUs for the data center and client space in the past several years, mainly at Intel's expense. AMD's share of x86 CPUs in both client and data center applications is in the 35%-40% range. As recently as 2017, AMD's all-in x86 CPU market share was below 20%.

Client is revving up after a dormant period, while Data Center is strengthening on cloud service provider focus on AI and recovery in enterprise. The other two businesses at AMD face intermediate-term challenges, with Gaming suffering from a stagnant console cycle, and Embedded Processing from weakness and inventory rebalancing in industrial and automotive end markets.

The Embedded segment includes a variety of CPUs, GPUs, FPGAs, adaptive SoCs, and Adaptive Compute Acceleration Platform (ACAP) products. For 1Q25, embedded revenue of \$823 million (11% of the total) declined 3% from a year earlier, representing the most moderate year-over-year decline since 2Q23, when this business last grew on an annual basis. Embedded operating profit of \$28 million was down 4% compared to a year earlier; the segment margin was 39.9% in 1Q25, down from 40.4% for 1Q24.

Key categories served by Embedded include aerospace-defense, industrial, medical, and semiconductor test & measurement, and communications infrastructure. AMD has announced multiple wins within the automotive space, including ADAS and LiDAR for semi-autonomous driving. AMD Embedded revenue declined by 33% for 2024. We look for this business to grow in low double-digit percentages in 2025, although tariffs represent a wild card that could inhibit recovery in industrial and particularly in automotive.

The Gaming segment primarily includes discreet graphics processing units (GPUs) under the Radeon name along with semi-custom SoC products and development services. Gaming revenue of \$647 million (9% of total) for 1Q25 was down 30% year-over-year though up 15% sequentially following 23% sequential growth in the holiday quarter of 4Q24.

In Gaming, semi-custom revenue SoC sales declined as Sony and Microsoft reduced channel inventory. Given the almost six-year-old console cycle, semi-custom is likely to remain depressed until new consoles are available, and none are firmly scheduled. Radeon series GPUs for the PC market were also depressed as AMD prepared for transition to new GPUs based on RDNA 4 architecture. These new Radeon RX 9079 XT and RX 9070 graphics cards are now available. AMD gaming revenue declined by 58% for 2024. While management expects this business to grow in 2025, it will be off an extremely low base.

Analyst's Notes ...Continued

Following a full-year 2023 revenue decline of 4%, AMD's revenue grew by 14% in 2024. The company is confident it can grow sales and adjusted profits in strong double-digit percentages in 2025. AMD has gained meaningful global market share in CPUs for data center and client at Intel's expense. It is now taking aim at Nvidia in the GPU compute space for AI.

EARNINGS & GROWTH ANALYSIS

For 1Q25, Advanced Micro Devices reported revenue of \$7.44 billion, which was up 36% year-over-year and down a less than seasonal 3% sequentially from the holiday quarter. Revenue topped the \$7.1 billion midpoint of the \$6.8-\$7.4 billion guidance range, and was above the consensus estimate of \$7.12 billion.

The non-GAAP gross margin was 53.7% for 1Q25 versus 54.1% for 4Q24 and 52.3% a year earlier. The non-GAAP operating margin was 23.9% for 1Q25 versus 26.5% for 4Q24 and 20.5% a year earlier.

Non-GAAP EPS totaled \$0.96 per diluted share, up 56% from a year earlier and down \$0.13 sequentially. AMD management does not provide explicit EPS guidance. The Street had projected non-GAAP EPS of \$0.93 for 1Q25.

For all of 2024, revenue of \$25.9 billion increased 14% from 2023, while non-GAAP EPS of \$3.32 increased 25% from 2023.

For 2Q25, AMD guided for revenue of \$7.1-\$7.7 billion, which at the \$7.4 billion midpoint is consistent with high-20% annual growth and no change on a sequential decline. The adjusted gross margin is forecast to be 43.0%, inclusive of the approximately \$800 million in charges for inventory reserve related to new export controls. Along with other elements of line-item guidance, AMD's 1Q25 guidance is consistent with EPS of \$0.60-\$0.70, which at midpoint would be down 5% from a year earlier.

Our full-year 2025 non-GAAP EPS estimate, in addition to assuming \$800 in inventory reserves in 2Q25, assumes an additional \$700 million in inventory reserves spread out across 3Q25 and 4Q25.

We are lowering our non-GAAP EPS estimate for 2025 to \$4.04 per diluted share from \$5.10. We are reducing our preliminary non-GAAP EPS projection for 2026 to \$6.04 per diluted share from an initial \$6.10. We regard our estimates as fluid and subject to revision. Our five-year non-GAAP annualized EPS growth rate forecast remains 15%, among the highest in Argus Technology coverage.

FINANCIAL STRENGTH & DIVIDEND

Our financial strength rating on AMD is Medium-High. AMD has successfully restructured its debt, which is helping reduce interest costs. The company has swung to a net cash position from a net debt position and has stepped up shareholder returns.

AMD issued debt partly to acquire ZT Systems. Cash from debt proceeds was still on the balance sheet as of 3/31/25 when the balance sheet for 1Q25 was finalized.

AMD's cash position was \$7.31 billion at the end of 1Q25. Cash was \$5.13 billion at the end of 2024, \$6.48 billion at the end of 2023, \$5.91 billion at the end of 2022 (reflecting the addition of Xilinx gross cash), and \$3.61 billion at the end of 2021.

Total debt was \$4.16 billion as of the end of 1Q25. Debt was \$1.72 billion as of the end of 2024, \$4.16 billion as of the end of 2023, \$2.47 billion as of the end of 2022 (reflecting the addition of Xilinx gross debt), and \$313 million as of the end of 2021.

Net cash was \$3.40 billion at the end of 2024. Net cash was

\$4.0 billion at the end of 2023, \$3.45 billion at the end of 2022, \$3.29 billion at the end of 2021, and \$1.96 billion at the end of 2020. Prior to mid-2019, AMD was in a net debt position for multiple years.

Cash flow from operations was \$3.04 billion in 2024. Cash flow from operations was \$1.67 billion in 2023, \$3.57 billion in 2022, \$3.52 billion in 2021, and \$1.07 billion in 2020.

In May 2022, AMD announced an \$8 billion share-repurchase authorization, in addition to the \$4 billion authorization announced in 2021. Previously, share repurchases were used primarily to offset dilution from stock-based compensation.

We do not expect AMD to pay a dividend in 2025 or 2026.

MANAGEMENT & RISKS

Lisa Su became CEO in October 2014 and was elevated to chairman of the board in 2023. Also in 2023, longtime finance industry professional Jean Hu became CFO, replacing Devinder Kumar who retired. Jean Hu previously served in the CFO role (and at times as interim CEO) at QLogic, Conexant, and Marvell, along with other postings.

In April 2023, AMD named Jack Hyun as SVP and General Manager of Computing & Graphics. Victor Peng, former Xilinx CEO and current AMD vice president, retired in August 2024. Executive transitions have largely been non-events at AMD and underscore the company's long-term planning and strategy.

The company's IP monetization strategy, as well as success in EE&SC, have contributed to growth. The pandemic turned around what had been structural decline in PCs, and AMD appears positioned for continued market share gains at the expense of Intel, which is wrestling with production issues.

The acquisition of Xilinx for \$35 billion carries multiple risks, including potential issues with cultural integration, a misreading of end-market outlooks, and potential end-market cannibalization. We believe these risks are worth the TAM opportunities afforded by XLNX. The all-stock nature of the deal also eliminates the potential for a cumbersome debt burden. The deal diluted the share base, but AMD acquired growing and higher-margin assets that have not been dilutive. Additionally, Xilinx's application acceleration tools further AMD's progress in AI and the cloud data center.

A main risk for AMD, as for other semiconductor companies, is the possibility of a general economic downturn and a corresponding dip in technology hardware sales due to inflation and rising interest rates. We believe that AMD has the financial strength, market leadership, and growth characteristics to weather this storm and emerge a stronger player. We also believe the percentage of hours worked away from the office will continue to increase. That should drive long-term demand for personal PCs served by AMD CPUs, for data center CPUs to manage fast-growing data traffic, and for GPUs for gaming applications.

AMD has been betting heavily on nontraditional businesses, including embedded, micro-server, and semi-custom (gaming console). Simultaneously, AMD is supporting both stand-alone CPU and GPU lines, as well as its APU line that combines compute and graphics processing on a single die.

COMPANY DESCRIPTION

Advanced Micro Devices is the number-two player in x86-based microprocessors, behind Intel, and, with the 2008 acquisition of ATI, a top player in graphic processors. It now competes with

Analyst's Notes ...Continued

Nvidia in the GPU processor space for AI applications. In 2021, Advanced Micro Devices acquired Xilinx, expanding its presence in embedded computing and data center. In 2025, AMD acquired ZT systems, which provides AI and general purpose infrastructure for the global hyperscale providers.

VALUATION

AMD shares are trading at 24.4-times our 2025 non-GAAP EPS estimate and at 16.3-times our 2026 projection. AMD trades at a two-year forward P/E of 20.4, below the multiple of 41.5 for the 2020-2024 period. The two-year-forward relative P/E of 1.05 is also below the historical average of 1.97 for 2020-2024. A historical comparable valuation for AMD indicates value in the \$220s, in a stable trend and above current prices.

Peer-group analysis suggests that AMD deserves to trade at a slight premium to peers on absolute and relative P/E; our peer-indicated value in the \$120s has fallen along with semiconductor peers during the 2025 IT sector correction. Our discounted free cash flow model renders a fair value in the \$300s. Blending these approaches, we arrive at a value above \$255, below peaks in the \$290s though well above current prices.

For the long term, we are encouraged by the progress of EPYC in cloud and enterprise data center, the success of Ryzen CPUs for desktop and notebook PCs, and the outlook for AMD's Radeon GPUs in PC gaming. The XLNX deal added high-growth complementary assets that help accelerate AMD's growth in the cloud data center. MI300 accelerators and ROCm software represent important new growth opportunities as the age of generative AI continues to unfold. And Pensando and ZT allow AMD to offer a complete suite of products and services for the age of AI.

In our view, current prices do not fully reflect AMD's revenue and margin growth potential, or ongoing market share gains at Intel's expense - and now, potentially, at NVidia's expense. We are reiterating our BUY rating and 12-month target price of \$160.

On May 7, BUY-rated AMD closed at \$100.36, up \$1.74.

About Argus

Argus Research, founded by Economist Harold Dorsey in 1934, has built a top-down, fundamental system that is used by Argus analysts. This six-point system includes Industry Analysis, Growth Analysis, Financial Strength Analysis, Management Assessment, Risk Analysis and Valuation Analysis.

Utilizing forecasts from Argus' Economist, the Industry Analysis identifies industries expected to perform well over the next one-to-two years.

The Growth Analysis generates proprietary estimates for companies under coverage.

In the Financial Strength Analysis, analysts study ratios to understand profitability, liquidity and capital structure.

During the Management Assessment, analysts meet with and familiarize themselves with the processes of corporate management teams.

Quantitative trends and qualitative threats are assessed under the Risk Analysis.

And finally, Argus' Valuation Analysis model integrates a historical ratio matrix, discounted cash flow modeling, and peer comparison.

THE ARGUS RESEARCH RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD, and SELL. Stocks are rated relative to a benchmark, the S&P 500.

- A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare expected risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.
- A HOLD-rated stock is expected to perform in line with the S&P 500.
- A SELL-rated stock is expected to underperform the S&P 500.

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