

U.S. Semiconductors and Semiconductor Capital Equipment

Intel, NVDA: Break out the cognac?



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Yesterday Intel and NVIDIA [announced a partnership](#) to "develop AI infrastructure and personal computing products" as well as [held a joint press conference](#); we also got a chance to catch up with each. Our initial take [can be found here](#). Hilariously, we actually met with both companies on Wednesday afternoon in Silicon Valley, kudos to the respective management teams for keeping Thursday's news close to their chests during our meetings...

Break out the cognac? NVIDIA will take a \$5B stake in their rival (at \$23.28/share), who will build custom x86 datacenter CPUs to integrate into NVIDIA's AI platforms, and will integrate NVIDIA GPU chiplets into new x86 PC SoCs. Following the investment NVIDIA will own ~215M Intel shares (**Exhibit 1**), or ~4% of the company following the other stakes taken by the US government and Softbank (**Exhibit 2**). The \$5B will add to the recent \$8.9B from the US and \$2B from Softbank as well as the recent Altera deal, bringing close to \$16B into Intel's coffers once all the transactions close and helping to further improve their balance sheet position (**Exhibit 3**).

The blessing of Jensen... The news is clearly taken as a positive for the beleaguered Intel, with the stock rising 23% during the trading session; NVDA's shares also rose ~3.5%, while AMD's fell ~0.8% (presumably as they will be competing with these new products). However, we note that the market cap change for NVDA (+\$147B) actually dwarfed Intel's change (+\$26B) (**Exhibit 4**); NVDA's \$5B seems like money well spent at this point..

Product play, no foundry fun... As both CEOs made it abundantly clear during the press conference this is a product deal only at this point, not a foundry deal. On the datacenter side NVDA will be a customer, purchasing custom x86 server CPUs to be integrated into their rack-scale AI infrastructure platforms via NVLink. On the PC side NVDA will be a supplier, providing RTX GPU chiplet dies for Intel to package into CPU SoCs for consumer notebooks. There is, as of yet, no foundry arrangement to go with this; in fact both companies went out of their way to sing TSMC's praises (which makes sense as neither can afford to alienate their most important supplier at this point).

But they can still use the help... Intel's share in client has steadily eroded over the years (**Exhibit 5, Exhibit 6**) as their roadmap has steadily fallen behind AMD, and of course their server share has been steadily eaten away by both AMD and Arm-based alternatives (**Exhibit 7**). We aren't sure this deal does much for Intel's standard server business but should provide some incremental opportunity in NVDA's AI offerings (and perhaps give more meat to Intel's AI "strategy" which has been mostly absent for some time). And on the PC side increased competitiveness vs AMD would clearly be welcome.

Perhaps a bit less negative for AMD datacenter than our initial take? On the client side a more competitive Intel seems like an incremental negative for AMD, certainly. But on the datacenter side these new NVIDIA-customized CPUs appear targeted toward NV72-type racks that today broadly use NVIDIA's own Arm-based Grace CPUs, rather than the 8-GPU boxes that typically can have a variety of offerings including AMD. Hence, the potential datacenter impact on AMD from this deal may be a bit less impactful than we might have thought at first blush.

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Big moves in semicap as well? Much of the semi space rose in sympathy yesterday, including the semicaps (with most of the names up 3-8%), though we do note again that this deal does not involve a foundry arrangement, and in fact Intel IR told us these new products will intersect the process roadmap at 18A (so there is no read across to the health, or not, of Intel's 14A progress). We suppose one might argue having NVDA and Intel engineers working in close proximity is a good thing, and perhaps if and when Intel can get their foundry ducks in a row NVDA might make a good anchor customer. However, we believe these product moves and any foundry decisions are probably orthogonal to each other; NVDA is already undoubtedly "engaging" with Intel to at least evaluate their foundry prospects as, presumably, are many others as everyone wants to be able to have Intel as a second source. If Intel can prove they can deliver they will have customers lined up around the block, and if they can't, no customer in their right mind will put any meaningful volume there (product partnership or not). We broadly like the semicap space and get the sentiment improvement on the announcement, but believe there are better reasons to own it besides this deal.

So what now? We understand the move in **Intel's** stock, and (notwithstanding company statements that the government was not involved in this deal) the idea that the administration is now likely keenly interested in Intel might be a decent (if somewhat soiled) long case for now in this new world we live in. That being said, Intel appears to be entering this deal from a position of weakness rather than strength, it really does nothing to strengthen the manufacturing story, and it will probably be several years for any new products to make their way to market. For now their biggest asset obtained from it is probably Jensen's goodwill; we remain sidelined. For **NVIDIA**, they are clearly flexing their muscles, got a good deal on their investment (already up over a billion dollars) and perhaps gain further goodwill from the administration; we remain buyers. For **AMD** the move seems like at least an incremental negative on the PC side, though again they probably still have several years to continue strengthening their position; probably not much changes for now though the collaboration remains something to watch going forward.

We rate NVDA Outperform; Intel and AMD Market Perform; AMAT and LRCX Outperform.

BERNSTEIN TICKER TABLE

Ticker	Rating	Cur	18 Sep	Price	TTM	Adjusted EPS				Adjusted P/E (x)		
			2025		Rel.	Cur	2024A	2025E	2026E	2024A	2025E	2026E
			Closing	Target	Perf.							
NVDA	O	USD	176.24	225.00	37.4%	USD	2.99	4.44	5.84	58.9	39.7	30.2
INTC	M	USD	30.57	21.00	29.1%	USD	(0.13)	0.11	0.60	(231.2)	273.9	50.9
AMD	M	USD	157.92	140.00	(11.5)%	USD	3.31	3.80	4.90	47.7	41.5	32.3
AMAT	O	USD	189.76	195.00	(16.1)%	USD	8.65	9.38	9.50	21.9	20.2	20.0
LRCX	O	USD	126.32	105.00	49.1%	USD	4.14	4.43	5.09	30.5	28.5	24.8
SPX			6,631.96									

O - Outperform, M - Market-Perform, U - Underperform, NR - Not Rated, CS - Coverage Suspended

NVDA, LRCX base year is 2025;

Source: Bloomberg, Bernstein estimates and analysis.

INVESTMENT IMPLICATIONS

NVDA (Outperform, \$225): The datacenter opportunity is enormous, and still early, with material upside still possible

INTC (Market-Perform, \$21): Intel's problems have broken through to the forefront.

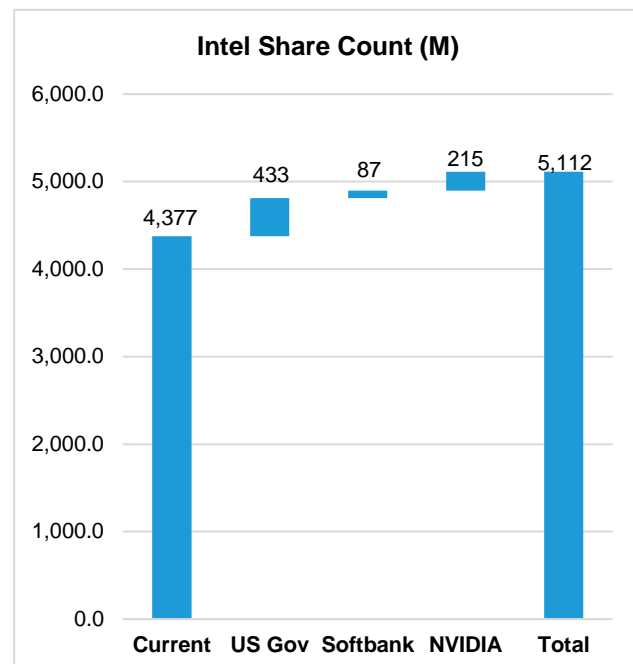
AMD (Market-Perform, \$140): AI expectations remain high, and shares remain expensive.

AMAT (Outperform, \$195): We maintain a positive view on secular WFE growth and see a number of drivers for AMAT including SAM growth, an increasing services narrative, and capital return.

LRCX (Outperform, \$105): CY25 commentary seems supportive, and a NAND upgrade cycle may be starting

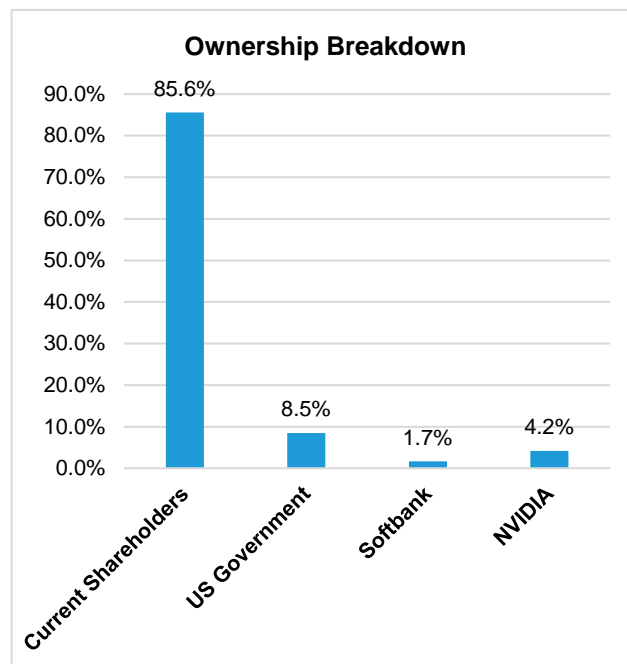
DETAILS

EXHIBIT 1: **NVIDIA will be investing \$5B at \$23.28/share, buying ~215M Intel shares...**



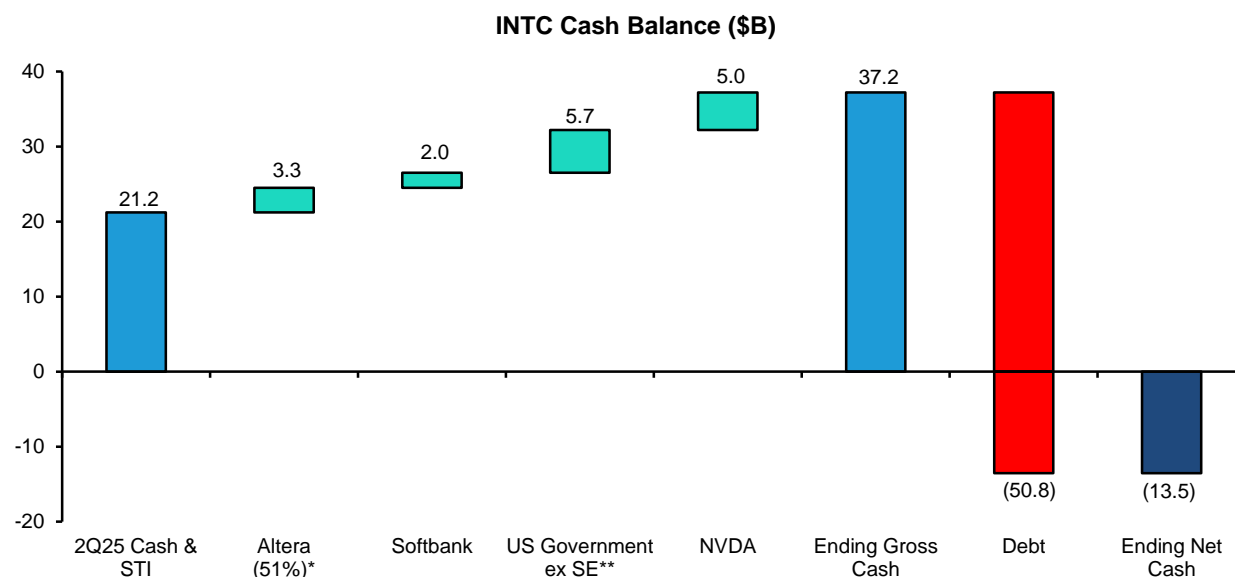
Source: Company reports, Bernstein estimates and analysis

EXHIBIT 2: **...and will own ~4% of the company following the transaction**



Source: Company reports, Bernstein analysis

EXHIBIT 3: **Intel raised ~\$16B over the last few months from the sale of a majority stake in Altera and from equity investments by the US Government, Softbank and NVDA**

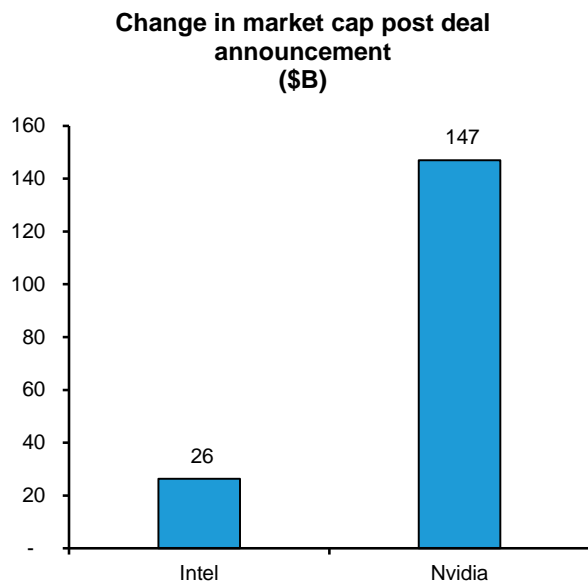


*Excluding \$1B of Altera purchase price deferred into 2026/27.

**Excluding Secure Enclave payments of \$3.2B which are milestone-based and are expected to be received ratably alongside milestone achievements. Also excludes any changes in cash balance in the current quarter

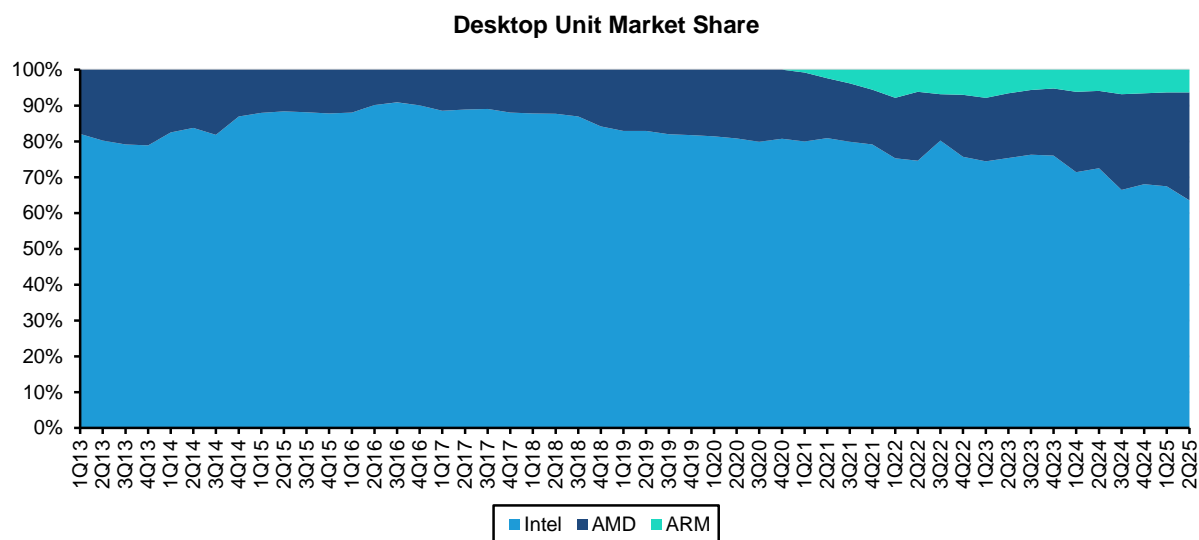
Source: Company reports, Bernstein analysis

EXHIBIT 4: While Intel shares surged 20%+ following the announcement compared to ~3.5% for NVDA, NVDA added ~5-6x the market cap



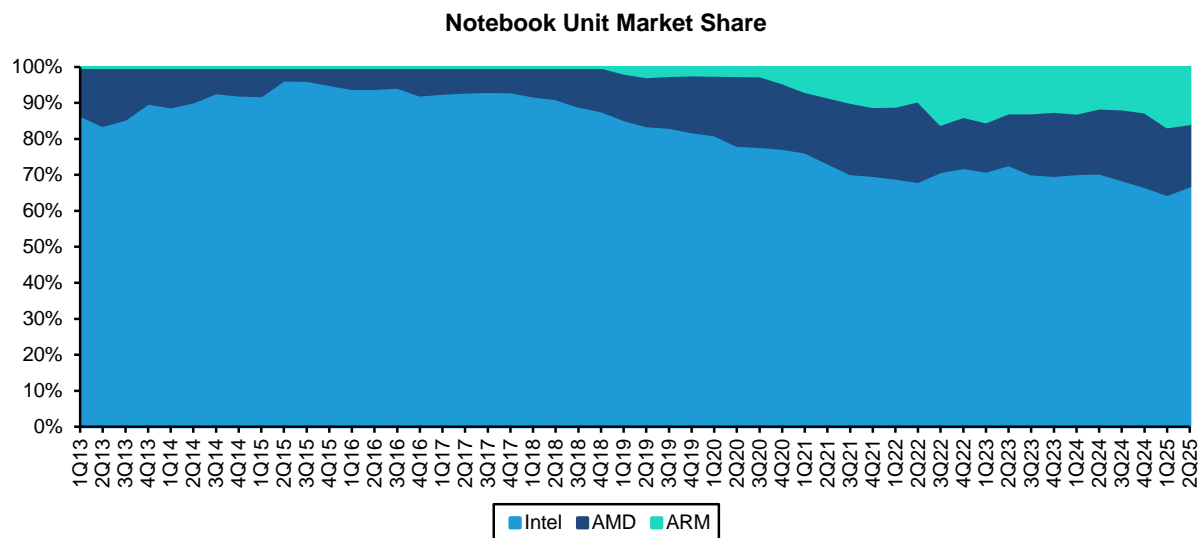
Source: Bloomberg, Bernstein analysis

EXHIBIT 5: Intel's desktop share has been trending down over the last several years...



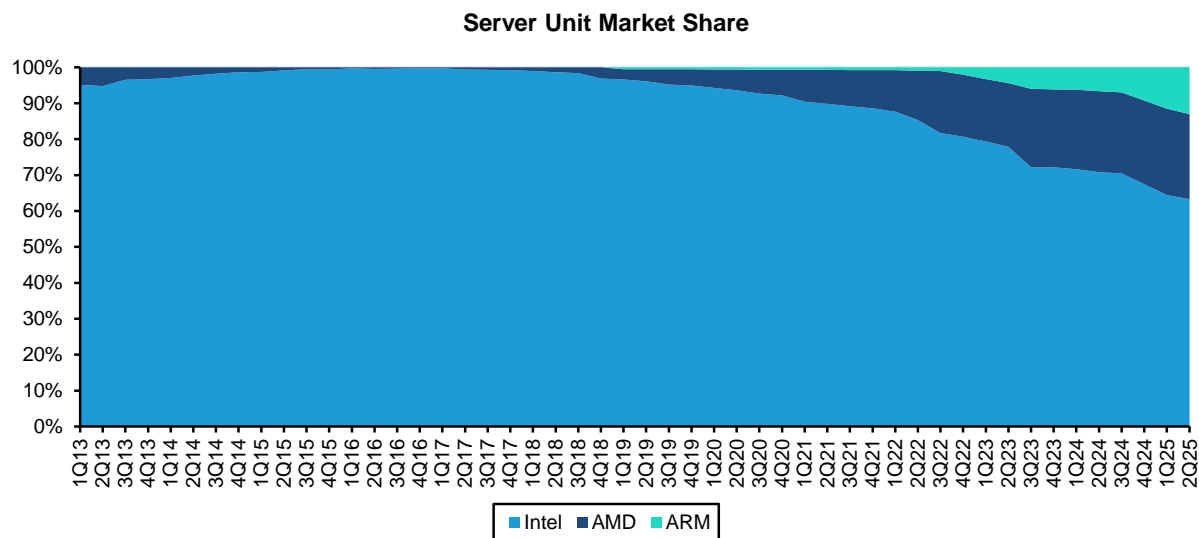
Source: Mercury Research, Bernstein analysis

EXHIBIT 6: ...as has their notebook share...



Source: Mercury Research, Bernstein analysis

EXHIBIT 7: ...and Intel's server share has been under substantial pressure



Source: Mercury Research, Bernstein analysis

DISCLOSURE APPENDIX