Operator

Good day, ladies and gentlemen, and welcome to the Intel Corporation First Quarter 2014 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, today’s conference is being recorded.

I would now like to turn the conference over to Mark Henninger, Head of Intel Investor Relations. Please go ahead, sir.

Mark Henninger

Thank you. And welcome everyone to Intel's first quarter 2014 earnings conference call.

By now, you should have received a copy of our earnings release and the CFO commentary that goes along with it. If you've not received both documents, they're available on our investor website, intc.com. I'm joined today by Brian Krzanich, our CEO; and Stacy Smith, our Chief Financial Officer. In a moment, we'll hear brief remarks from both of them followed by Q&A.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it and as such, does include risks and uncertainties.

Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially. Also, if during this call we use any non-GAAP financial measures or references, we'll post the appropriate GAAP financial reconciliation to our website, intc.com.

So, with that let me hand it over to Brian.

Brian M. Krzanich

Thanks Mark. 2014 is off to a solid start with our first quarter closing much as we expected. PC client platform unit volume was up year-over-year for the second consecutive quarter. Even as challenges remain in the consumer client segment, we saw continued improvement in enterprise clients, driven by increasing form factor innovation and refresh.

Mobile unit volume was up year-over-year for the first time since Q2 2012, while desktop units were flat year-over-year, with all-time record core volume and mix.

Our Data Center revenue grew 11% year-over-year and the enterprise segment was again in positive territory, up 3% over last year. While cloud, networking and storage were all up in excess of 20%.

The newly formed Internet of Things Group, which includes our embedded business, grew 32% year-over-year, with particularly strong demand in in-vehicle infotainment and retail. While the Internet of Things Group Atom volume nearly doubled over Q1 of last year.

We had all-time record NAND revenue driven by the Data Center and particularly, in cloud. And McAfee reported record Q1 bookings along with an 8% year-over-year increase in consumer bookings.

Perhaps more importantly, we made progress against our most critical strategic objective. And I'd like to take a few minutes to highlight that progress.

In PCCG, where we're working to reinvent computing with new form factor innovation, longer battery life and OS of choice, we saw 2 in 1 volume increase more than 20% sequentially in a seasonally down quarter.

We're now expecting more than 70 two-in-one designs for the back-to-school selling season and many will be offered at $699 or less. These trends, in combination with renewed interest in Windows 8 from our customers, are encouraging.

At the same time, we're ramping more than 130 Atom microarchitecture notebook and desktop designs with our Bay Trail M&D platforms, significantly increasing our presence in the value segment. And we exit the quarter with market segment share leadership on Chrome Systems and saw positive traction in small form factor and all-in one computing.

In DCG, we launched our Ivy Bridge MP server CPU family known as Xeon E7. The new E7 line, which features the largest memory footprint in the industry, saw particularly strong reception from enterprise as a result of its high speed, real-time data analytic capabilities.

We also announced an important strategic alliance with an investment in Cloudera which is designed to accelerate Hadoop innovation and penetration, particularly on IA.

We've broken out MCG results for the first time this quarter. In order to achieve long-term success in all of our market segments, from 2 in 1s all the way through to the Internet of Things, we're making the investments necessary for leadership, and you can see these investments in MCG's results.

For example, at Mobile World Congress in February, we announced multi-year, multi-device agreements with Lenovo, Asus, Dell and Foxconn to expand availability of out-of-base smartphones and tablets.

We set an aggressive goal of shipping 40 million tablet SOCs this year. And I'm happy to say we've tallied more than 90 designs on Android and Windows and shipped 5 million units in the first quarter, placing us squarely on track to that goal.

Our first LTE solution, the 7160, is now available in the Samsung Galaxy Note 3 Neo and the Asus Fonepad 7, in addition to the previously announced Samsung Galaxy Tab 3. Our Cat 6 LTE solution, the 7260, with carrier aggregation, is on track to ship this quarter. And Samsung, Asus, Lenovo, and Dell are all committed to the platform on a combination of phone and tablets, along with module vendors like Huawei and Sierra Wireless.

We demonstrated SoFIA, our first integrated apps processor and baseband, after adding it to the roadmap late last year. We're on track to ship the 3G solution to OEMs in Q4 2014, with the LTE version following in the first half of 2015.

In the new devices and Internet of Things Group, we're working to extend Intel technology into the fast-growing world of interconnected devices. We completed the acquisition of BASIS. BASIS provides access to new world-class technology and a team of proven innovators.

We also shipped our first Quark SoCs for the Internet of Things and announced an upgrade of Edison to the Silvermont Atom architecture. Edison is on track to ship this summer.

And in the Technology and Manufacturing Group, who've worked to advance Moore's Law as foundational to our long-term success, we began production on our 14-nanometer process technology and remain on track to launch Broadwell in the second half of the year.

And the foundry team extended our collaboration with Altera to the development of multi-dye devices that take advantage of our world-class package and assembly capabilities and Altera's leading-edge programmable logic.

Taken together, these milestones give me confidence that the pace inside our company and our progress with our customers is accelerating. We've made a lot of changes. We have more work to do, but I'm confident that we will continue to transform and realize our vision that if it computes, it does it best with Intel.

With that, let me turn the call over to Stacy.

Stacy J. Smith

Thanks, Brian. The first quarter came in consistent with expectations, demonstrating financial growth and a solid start to the year. For the first quarter, revenue came in at $12.8 billion, up 1% from a year ago and in line with expectations.

PC Client Group revenue was down 1% from a year ago. We saw PC Client Group platform unit volumes grow 1% year-over-year. And inclusive of tablets, we saw high single-digit unit growth. PC platform average selling prices declined 3% on a year-on-year basis.

Our Data Center Group revenue grew 11% from a year ago, with platform volumes up 3% and platform average selling prices up 8% over the same period.

Some insights into the revenue results of our new segments. The Mobile and Communications Group is down 61% from a year ago. The underlying dynamics are consistent with what we shared at the investor meeting last November.

We're seeing a decline in our feature phone and 2G/3G multi-[com] [ph] business, as we're in the midst of a transition to integrated LTE solutions. In addition, the ramp in tablet volume is being offset by an increase in contra revenue dollars.

The Internet of Things Group is up 32% year-on-year. We continue to see robust growth across segments with particular strength in point-of-sale devices in retail and automotive in-vehicle infotainment systems.

Gross margin of 60% was down two points from the fourth quarter and one point above our guidance. Spending came in at $4.9 billion, $100 million above our outlook, primarily driven by a current period charge relating to ongoing litigation.

Operating income for the first quarter was $2.5 billion; up 1% from a year ago, and earnings per share was $0.38, down 5% from a year ago.

As we look forward to the second quarter of 2014, we're forecasting the midpoint of the revenue range at $13 billion, up 2% from the first quarter. This forecast is in line with the average seasonal increase for the second quarter.

We're forecasting the midpoint of the gross margin range for the second quarter to be 63%. The three point increase from the first quarter is primarily driven by lower factory startup costs as we ramp 14 nm.

We're also forecasting higher platform volume and lower platform write-offs on the qualification of our first 14-nanometer products. This is partially offset by the increase in tablet volume and related contra revenue dollars.

Turning to full year 2014. We're still planning for revenues to be approximately flat to 2013. We expect PC Client Group revenue to decline in the mid-single-digits and the Data Center Group revenue to grow in the low double-digits.

We're forecasting the midpoint of our gross margin range at 61%, up one point from the outlook provided in January. This increase is primarily driven by lower unit costs across both our PC and tablet products and lower non-production manufacturing costs.

We are forecasting spending for the year at $18.9 billion. This $300 million increase over the prior outlook is driven by increased R&D investments and litigation expenses. We still expect capital spending to be flat to 2013 with the midpoint at $11 billion.

The first quarter was a solid start to 2014, reinforcing our view of the underlying market trends. The PC market has stabilized and on a year-over-year basis, we saw unit growth for the second quarter in a row.

In the Data Center, we continue to see robust growth rates in the cloud segment and the enterprise segment grew in the first quarter. These trends led to Data Center growth of 11% year-over-year.

We're winning designs and ramping our tablet volume rapidly and we have design wins in LTE that will result in a second half revenue ramp.

Our Internet of Things business grew over 30% in the first quarter on a year-on-year basis. And we're driving significant innovation in this area as we invest to extend our architecture into the very low power space and acquire IP and capabilities.

At IDF Beijing two weeks ago, we showcased the broad range of products we're bringing to the marketplace. These products range from servers in the Data Center to innovative PC form factors like detachables and all-in ones, to tablets, to phones, and to wearables. This is our strategy in action. If it computes, it does it best with Intel Inside.

With that, let me turn it back over to Mark.

Mark Henninger

All right. Thank you, Brian and Stacy. We're getting a little bit of feedback that some of you may be having a hard time hearing us, so I'm trying a different mic here and we'll hope that that's better.

Moving on to the Q&A, as is our normal practice, we'd ask each participant to ask one question and a follow-up if you have one. Jamie, please go ahead and introduce our first questioner.

Question-and-Answer session

Operator

(Operator instructions)

The first question comes from Chris Danely from JPMorgan.

Christopher Danely - JPMorgan

Hello. Thanks guys. A question on gross margins. So, it's going up nicely in Q2, but if we look at the yearly guidance, it looks like it's dropping in the second half. Can you just talk about the reason that is happening?

Stacy J. Smith

Sure, Chris. This is Stacy, I'd be happy to. Let me -- I'll do the walk kind of from Q1 to Q2 and then I give you a sense of what I see in terms of the pluses and minuses as we move into the back half of the year.

As we go into the second quarter, so we ended Q1 at 60%, we're forecasting Q2 at 63%. The big driver there is we get about two and a half points of good news associated with the fall off of 14-nanometer startup costs, so it's pretty consistent with what we've been talking about and what you've seen from us in the past.

We'll get a little bit more good news associated with Q2 being a bit up in terms of volume, so that's about half a point and then we get half a point in Q2 associated with lower platform write-offs as we qualify those first 14-nanometer products towards the end of the quarter.

And then there's a bit of an offset, as we ramp tablets and start to see some of the associated contra revenue dollars with tablets, we saw some of that in Q1 but we'll see a bit more in Q2 and so that's about half a point offset. So that gets us to 63 for Q2.

And then yeah, the math if you triangulate a 61% for the year would say that we have a gross margin in the back half of the year that's in the low 60s. I think the plus that we see going in is we expect seasonally stronger volume in the back half so that gives us a little bit of a plus.

On the minus side it's two things. One, the tablet volume is backend loaded for us. Again as you'd expect it's primarily a consumer product, so we'll see in the back half of the year the ramp of tablets and the associated contra revenue dollars so that's a bit of an offset.

And then we'll also see costs coming down from Q1 to Q2 and Q3 and then in Q4, we'll see a lot of volume coming out of multiple factories on 14-nanometer. And so you get a bit of a mix up in cost from those early wafers coming off of 14-nanometer and again that's a phenomenon you'd see from us in the past, we'd expect that to come down pretty rapidly after that, but the first quarter tends to be pretty expensive.

Christopher Danely - JPMorgan

Got it. Thanks. And for my follow-up, maybe just give us your take on the PC space, just talk about how the market is feeling now versus your expectations three months ago? And then any impact from the expiration of Windows XP, either in your expectations for Q2 or with what happened in Q1?

Brian M. Krzanich

Sure. I can give you kind of an overall look at how we see the PC market, this is Brian. In general, if you look at Q1 and even as we head into Q2, it's playing out as we pretty much expected. We continue to see strength in the enterprise and that's pretty much across-the-board everywhere.

Consumer still remains a bit weak for us. Emerging markets starting to strengthen a little bit in the consumer, but the rest of the world still showing some weakness at the consumer level.

We think what's driving kind of the overall stabilization is a series of things that started to play out in Q4 and we see them playing out into Q1 and we think throughout this year and some of it is a mixture of things from yes -- there is Windows XP. It is a part of this equation.

I don't think it's the driver. If you look at the form factors that we're bringing out, the price points that we've been able to enter, you're seeing strong PCs down in the $200 range now. Haswell really coming to market as we enter into Q1 and Q2. You saw the 130 Atom designs that we have out there. So, it's a series of real vectors that are driving the stabilization we believe.

Operator

The next question comes from Jim Covello from Goldman Sachs.

Jim Covello - Goldman Sachs

Great, guys, thanks so much. Just one point of clarification first. The segment -- the year-over-year segment numbers, is that apples-to-apples or does that include this year's reclassification, but it's versus last year's old reclassification?

Stacy J. Smith

No, no, it's apples-to-apples, Jim.

Jim Covello - Goldman Sachs

Apples-to-apples, okay great.

Stacy J. Smith

Everything got restated.

Jim Covello - Goldman Sachs

Great, terrific. Thank you. In terms of the contra revenue support going forward for the tablets, can you talk about the pushes and pulls as we maybe go into 2015 or whatever period you want to talk about going forward, about what would cause you to continue to do that versus maybe cutting that off? That will obviously be a critical part of our model as we start to look forward into next year.

Stacy J. Smith

Yeah, I'd be happy to, Jim. Let me even back up and give you -- again restate the strategy of what we're doing here. And Brian can come in over the top with some of the technology. But what we're doing is we're taking Bay Trail, which is a product really designed for the PC market, and we made the decision to take it broadly across different segments of the tablet market this year.

It brings along with it, at least over the course of 2014, a higher bill of materials. And that's independent from the SOC cost. It's the power management subsystem, it's the motherboard that it goes on, it's the memory solution, those kinds of things. And so, we're providing some contra revenue to offset that bill of material delta over the course of 2014.

Now, as we said, we're doing value engineering with our customers and our partners. And so we're bringing down that bill of material over the course of 2014 independent of any changes to our SOC.

I'll pause there and actually let Brian if he wants to come in over on the top on any of the technology.

Brian M. Krzanich

I think Stacy's absolutely got it right. We have a series of improvements. They have already started to kick-in in some cases around our power management systems, the number of layers in our motherboards, the memory system integration. All of those things we've worked on and actually have started to see the advantages already in our costs.

Stacy J. Smith

So, I think on a like dollars per unit, it comes down pretty dramatically over the course of 2014. And it should be relatively small, if at all, as we get into 2015. And it's, again, the enablement we're doing around the bill of materials.

And then we also have new products coming into the marketplace, like SoFIA, that's targeted at the low end, and then in 2015 you'll see Broxton, which is an SOC more for the mid-range to high-range of the market coming into our product portfolio.

So, the combination of all of that gives us a better cost structure with our own products and a better cost structure overall with the bill of materials as we enter 2015 and then work through 2015.

Jim Covello - Goldman Sachs

Terrific. Thanks so much. Good luck.

Operator

The next question comes from Ambrish Srivastava.

Ambrish Srivastava - BMO Capital Markets

Hi, thank you. I had a question on DCG, Stacy, just to make sure it's apples-to-apples. The guidance that you provided for this year as well as for the long term CAGR, does that change now that you have a common infrastructure part also within that group?

Stacy J. Smith

Yeah. So, interesting what we're doing here Ambrish is we're actually now restating the segment to match how we've been talking about this segment. If you go back to the investor meeting presentations over the last couple of years, we've included the communications infrastructure piece of that because we do view it as part of the server market.

So, you need to go back to Kirk's original presentation, I think it was two years ago, 2011, and you'll see it's clearly laid out in that long-term CAGR. Brian and Renée have now organized the company more in line with that, so we have all of that under one group. So, we've redone our segments as a result.

I'll also say for Q1, because I don't think you can see this anywhere else, but the DCG year-on-year growth rate was 11% in the restated segments. If you took out the CID piece, so if we had not made that change, it still would have been 10% plus. So, it's worth about one point of growth in Q1. So, I think we're pleased with the growth rate with and without, I guess is how I'd say it.

Ambrish Srivastava - BMO Capital Markets

Okay, that is helpful. Because you're right, at the last analyst day, also, you did have that piece in there when it was not part of DCG. My follow-up then is a quicker one. On the MCG side, are we looking at this revenue run rate bottoming out here, because now you're going into the back half, you also talk about Cat 6 shipments?

I think, Brian, you were at IDF or somewhere in Shanghai or in China. So, is this the bottom for this segment in the quarter? Thank you.

Stacy J. Smith

I think you'll see two phenomena as we move into the back half. As we said, we're seeing on the com side that transition from 2G/3G. So, we're seeing a trough-ing of that business. And as we move into the back half we'll see the LTE, particularly the 7260, coming to market. So, we'll start to see, I think, a nice ramp in revenue on that segment.

We'll have significant unit growth in tablets. But remember that contra revenue isn't just a gross margin impact; it's actually a subtraction from revenue. And so that will mute the revenue growth for the segment because you have that negative as we get into the back half and ship more tablets. To the prior question, I expect that to abate as we get into 2015, but you'll definitely see that in the back half of 2014.

Operator

The next question comes from Christopher Rolland from FBR.

Christopher Rolland - FBR Capital Markets

Hey, guys, thanks for faking the question. So, I think a lot of us were surprised to see Q1 notebook platforms up year-over-year, as you guys alluded to. Why is third-party data off year, perhaps even ODM data, off so much? I imagine some of that's market share, but what might be the rest there?

Stacy J. Smith

Let me give you the one key finance and then I'll turn it over to Brian to talk about our notebook strategy and kind of how that's playing out across the products. From a year-on-year comparison, from our billings standpoint, you have to remember that Q1 of 2013, there was a big contraction in the worldwide supply chain terms of inventory levels and I think that impacted our billings. So, we're, I think, getting the advantage of a good year-on-year comparison point there.

We still expect for the year that units are down in the low single-digits. And by the way we would love to be wrong on that but that's our view of the market. And I think that's pretty aligned with the third parties.

Brian M. Krzanich

Yeah, I would agree with that. And that's not to say that inventories have grown. Actually inventories are in very good shape as we look across the entire supply chain, both within Intel and outside. So, we think inventories, after that correction in the beginning of 2013, are actually normalized now where they will probably stay.

And as Stacy said -- and as we said in the call, you're seeing us in all price points in this space. So, you're seeing Bay Trail and even core products down at lower price points. You'll also see us gaining market share in Chrome over this time period.

We're in a significant percentage of the Chrome systems out there. So, there's a variety of things that are allowing us to get some upswing a bit in the mobile market, as well.

Christopher Rolland - FBR Capital Markets

Great. Thank you. As a follow-up, at one point there was Bay Trail T, M, and D for tablet, mobile and desktop. Is the M and D still accounted for in PC, and T in tablet? And with that 8% ASP decline that you guys had in mobile, was that natural or is that a mixing of Bay Trail M? Thanks.

Stacy J. Smith

Yes, great question. The first answer is yes, the M and D would be included in PCCG's results. The T is included in MCG's results and would be in the tablet volume that we're talking about.

And, yes, the notebook ASP that you saw was exactly consistent with our strategy. We're bringing Bay Trail in there. It's got the right cost structure. It's actually the volume is a little ahead of what we thought in Q1. It's enabling us to grow units a bit and maintain and grow profitability and the overall company's gross margin looked pretty good, too.

Operator

The next question comes from Doug Freedman from RBC.

Doug Freedman - RBC Capital Markets

Thanks for taking my question, guys. And a few of the things that you've guided to we've really never seen in the history of Intel and that being OpEx dropping rather materially in the back half of the year. Can you give us a little bit of color on what you're doing to make that happen?

Stacy J. Smith

Yeah. I mean as we said at quarter a go, we're bringing employment down over the course of the year. In particular, we're driving for some efficiencies in the engineering organization. But they're happening a little later than we thought. But we're -- what Brian and Renée are driving for is to get more output and more products and more derivatives for the engineering teams and that will result in some efficiency as we get into the back half.

Doug Freedman - RBC Capital Markets

And for my follow-up, also another spending question, that being on the CapEx. I believe there was a change to the longer-term roadmap on your move to get to 450 and yet we're not seeing really any change on your CapEx spending. Is there a change that we should be thinking is possible in the future? How would you talk about your CapEx? In the past you talked about maintenance and then the other if you could give us an update on that.

Brian M. Krzanich

The 450, let's start with that. We haven't changed. We've said that actually our 450 is similar in the latter half of this decade, right? So, we're still saying that. You're going to see gives and takes on 450 spending.

These are long, drawn-out programs over multiple years. And so I think don't grade the whole program by one shift in when we buy a tool or when we move out some spending, in some cases.

And don't forget, any time we do that you typically have just more 300-millimeter that you're going to go spend money on. We continue to hold our forecast flat for CapEx. We are comfortable with the CapEx where we're at to maintain our business based on the demand we're seeing for our core products.

Doug Freedman - RBC Capital Markets

Great. Thanks for taking my questions.

Brian M. Krzanich

Thanks Doug.

Operator

The next question comes from John Pitzer from Credit Suisse.

John Pitzer - Credit Suisse

Yeah, good afternoon, guys, congratulations. Stacy, a question on gross margins. Has the full year expected impact for tablets changed at all? And if memory serves me correct, that was 150 basis points. And if I do the math right, would that alone account for about two and a half percentage points of decline in Q3, Q4? Am I doing that correctly?

Stacy J. Smith

The answer to your first question is that our expectations haven't changed. There may be -- the second decimal may have changed, but directionally it's the same. And as Brian said in his prepared remarks, we're actually feeling pretty good about the line of sight we have across the customers, the longer term agreements we have in place and design wins that we know are coming to market, as well as the Q1 volume.

In terms of the impact in the second half, I haven't done the math that way, but just to manage your math, you're probably not too far off because it's 150 basis points more or less for the year, and it's backend loaded, so it's going to be in that kind of a range.

I did do the math for the back half saying that -- that as well as the Q4 cost of 14-nanometer out of multiple factories, is the thing that keeps us in the low 60s as opposed to higher. So, I think your math probably is pretty close.

John Pitzer - Credit Suisse

Perfect. Thanks, guys. And as my follow on, Brian, you talk a little bit about the expectations around the Grantley product launch? Nehalem clearly drove good growth in DCG. Romley was a little more mixed. What's the expectation for Grantley? And is there a concern of a pause of buying in DCG ahead of the launch and how do you manage that?

Brian M. Krzanich

We look at the Grantley as a great product. I don't think there will be a pause. We've factored that into all of our forecasts, the launch dates. Those haven't moved. I don't see it as being a shift. Customers typically line up their products around our product launches, and they have several months to work around those and forecast there's, as well. So, I don't see a stall in our business based on what we see with the forecasts right now.

John Pitzer - Credit Suisse

Perfect. Thanks, guys.

Brian M. Krzanich

Thanks John.

Operator

The next question comes from C.J. Muse from ISI Group.

C.J. Muse - ISI Group

Yeah. Good evening. Thank you for taking my question. I guess first question, since you announced a vision for being a larger foundry at your Analyst Day, I'm curious what you've learned in your discussion with potential clients in terms of what may be bigger opportunities than what you initially thought and perhaps what could be bigger challenges?

And I guess as part of that, as you think about offering those foundry services to potential customers, how do you think about maybe some of the changes you need to do in terms of tool sets with Fab 42?

Brian M. Krzanich

So, let's answer the first part first. I'd say the interest since we opened up the foundry has been high. These interactions, just getting people comfortable with what the technology is, take several months typically.

There's deep interaction between the technical teams on both sides, really understanding what the process of silicon technology incorporates, what the design tools are, what IP we have to offer, where they can go get third-party IP, all of those kinds of interactions. Those have been ongoing with many customers. And then, you start the business discussions around pricing and availability and all of that.

So, I'd tell you that the uptake has been strong. We've been in many interactions. As far as what does it tell us about what needs to change within Intel, I think we still have a lot to learn about how to be a good foundry.

Altera, who is really our lead premier customer -- I'd say big customer has really been helpful. They've helped us see where we're strong and where we are not and what it takes to become strong in those areas. They are making good progress on their products.

I don't think there's a lot of change from a technology standpoint that's outside the changes we're going to make, say, at 10-nanometers of our own product. We're driving to lower power, more mobility, able to integrate better, all of those things into our own products. Integration of memory capabilities, that's driven by our own need to move into those mobile spaces. And that's helping us with the same roadmaps that are being required by the foundry partners.

Fab 42 is purely a capacity-driven based on demand. We'll trigger that as we trigger demand both either internally or from the foundry. Remember though the foundry partners signed up today.

It's probably two years -- 18 to 24 months before first silicon and probably 30 to 36 months before they really have ramped to any volume. And Fab 42 is probably 12 to 18 months from when you would be able to bring it into capacity. So, the two have a great deal of overlap.

Stacy J. Smith

And I would just add, just reading into your question -- maybe I'm reading too much, C.J., if you're viewing the foundry business as we would have a specific foundry factory, that's probably not the case. These will be run side by side with our own products and taking advantage of the same technology and technology features that we need for our product line.

Brian M. Krzanich

That's correct.

C.J. Muse - ISI Group

Got it. Very helpful. If I could sneak in a second one here. In terms of integrated LTE, you've talked about when we'll first see that. But curious when you expect to bring that in house at Intel.

Brian M. Krzanich

We'll bring that in on our 14-nanometer process either late 2015 or early 2016. We're still battling back and forth on how fast we can bring it in and at what impacts that has. 14-nanometer is the technology there.

C.J. Muse - ISI Group

Great. Thank you.

Operator

The next question comes from Blaine Curtis from Barclays.

Blaine Curtis - Barclays Capital

Hey, good afternoon, guys. Thanks for taking my question. Maybe actually follows up on CJ's prior question. The MPG business that you're now breaking out, it's pretty clear it's losing $3 billion, $3.5 billion. How do you think about this business?

Obviously you're trying to ramp the product set you are a bit behind. You're entering from the low end and that pricing seems quite tough. You're facing some subsidies that you have to do on the tablet side.

Are there some milestones that you look at to get this business back profitable? Or maybe would you consider this strategic enough that you would consider continuing to run this as a loss?

Brian M. Krzanich

So, you asked several questions in there, so let me start to pars it apart. Absolutely this is a strategic business, so let's just start with that. We think this is critical and we said this in our prepared statements. It's critical from 2 in 1 devices down through the Internet of Things.

You look across the connectivity requirements there; more and more of the devices are requiring integrated connectivity, whether it be LTE, 3G, Wi-Fi, Bluetooth and all of these connectivities are becoming more and more required.

We don't go into these businesses thinking that we're going to lose money. We believe we have a roadmap to get to profitability in that business. The milestones that I look at -- and so I'll give you those for yourself to look at, we have the 7160, the current LTE version out there. We're the second in LTE. We have the 7260 launch this quarter. I think that's a critical there.

Again, we're closing the gap with our competition. We're bringing out leading edge Cat 6 capability with carrier aggregation. That's a critical milestone. That puts -- that closes the gap and puts us firmly in the LTE capability.

The next one is SoFIA. If you look at the SoFIAs at the end of this year with 3G integration and then a big first half of next year with LTE integration. Remember those products weren't even on our roadmap six or seven months ago. So, that shows that we're acting quickly integrating and bringing those products to production.

Then after that is, as Stacy said earlier, Broxton, which is our internal 14-nanometer product. That's targeted towards the mid to high level. And as we bring that into the second half of 2015 and into 2016, there will be various levels of integration on that.

So, when I look across this, those are the milestones I look at, because those are what drive that along with just the basic cost reduction capabilities we talked about for this year as we get out of this contra revenue into 2015. Those products then place us firmly in leadership capability from the low end to the high end with integration. And those are the milestones to me that will lead to profitability long-term.

Stacy J. Smith

And I'll just add to that, I think you left it off because it was so obvious, but the 40 million tablets is one of the things I see Brian just laser focused on. And as we've talked about before, it gets us into the 15% to 20% range of the total tablet market.

It gives us a big enough footprint that we start to see people developing on our architectures. It becomes a self-sustaining ecosystem as we're bringing these other products to the marketplace. So, don't lose sight of that one, Blaine.

Brian M. Krzanich

Yeah.

Blaine Curtis - Barclays Capital

Thanks. And then just as a second question, in terms of Broadwell timing you had the one quarter slip. It seems like no change so far. Are there any more hurdles in terms of yields or anything before this product is ready to ship in the back half?

Brian M. Krzanich

Well, as we said, we qualified for startup production this month. We will qualify for shipment to customers towards the end of this quarter. Those are the first two milestones, so we've passed one of them. And then you'll start to see our customers bring products to market as we progress into the second half of this year.

These things are hard. There are always yield improvement efforts that we have and cost deductions that we're going through. But I think we're past the first of the two big milestones by turning on the production internal. And we have the next big one at the end of this quarter with certifying to ship to customers. We don't see any roadblocks, don't see any issues. But that's still out there at the end of this quarter.

Blaine Curtis - Barclays Capital

Great. Thanks.

Operator

The next question comes from Stacy Rasgon from Sanford Bernstein.

Stacy Rasgon - Sanford C. Bernstein & Co

Hi, guys. Thanks for taking my question. For my first one, I wanted to dig a little bit into the mobile and wireless group. So, you've talked a bit about having I guess developing leadership products, leadership position in order to drive profitability. We're looking at this right now, though. So, we had the business fall more than 50% sequentially.

You have your 7160 which is shipping but apparently it's not really driving much volume. We have the 7260 which is forthcoming, but we really haven't heard much about design wins. And you launched at Mobile World Congress without really saying very much there.

We have SoFIA coming, which absolutely is integrated, but it's being made at TSMC for the next few years which means you lose any potential benefits from your own process technology. And you would seem to be well behind what the market leaders are shipping in terms of 4G.

Just what should we be looking for and over what timeframe should we be looking for, for the ramp? I guess what I'm asking is, how can we get confidence that we're going to actually see the revenue ramp that is built into the short-term expectations for this year and then going forward, to make sure that you can actually get a profitable business, which obviously would be driving quite a bit of upside to where the models are today?

Brian M. Krzanich

Sure, Stacy. I'll start and then Stacy can jump in. Remember, the 7160, we gave you a series of products that it's shipping in. And on the 7260, which will qualify this quarter, we gave you a list of OEM partners that have committed to that platform. So, we're fairly confident that the ramp in the second half of this year will continue on that product. And it is a leadership product.

SoFIA, you're right, is built at TSMC. We went for speed and integration. And it was simply quicker to get to market with a competitive product from both a price and performance. We actually believe that the IA core will give us better performance than the competition. And the competition is at that same node at TSMC. And it's 3G at the end of this year and LTE in the first half of next year.

We then told you that in the second half of next year -- and again, we're debating whether it's the second half or the first quarter of 2016, but we'll move all of that internal on to 14-nanometers. And it's really based on other products that we have moving in at that time and just overall resources all right.

We had a lot going on -- the ramp of Broadwell, the ramp of Skylake in the second half of next year, plus bringing these products inside. But I'm very confident that when you do that, plus you add in Broxton, which is targeted towards the mid to high range and again is integrated with leading-edge LTE.

And don't forget we have a roadmap of LTE products beyond the 7260 that continue the level of carrier aggregation and product leadership. We're fairly confident that we can continue to grow this business and turn it profitable over that time.

Stacy J. Smith

And let me just comment on the question about the long-term profitability. It sounds basic, but it really stems from our manufacturing leadership. If we're two years ahead of the rest of the industry, and extending it gives us the ability that, as we target our products into the right space from a power standpoint, we will have power advantage or performance advantage and a cost advantage.

That really is our strategy playing out. You're seeing the first products hitting that theme over the course of this year and into early next year. Bay Trail is a really good product. For the high end of the market, you'll see products coming into the market that are more targeted at the mid-range and lower end of the market next year. But that's how the strategy plays out.

I'd say for 2015, I would expect to see reduction in the loss. Not profitability, but a reduction in the loss will feel pretty good when we get there and then we'll keep driving towards the long-term profitability goal.

Stacy Rasgon - Sanford C. Bernstein & Co

Got it.

Brian M. Krzanich

Did you have a follow-up Stacy?

Stacy Rasgon - Sanford C. Bernstein & Co

I did. I'd like to drill in a bit more. I'm actually into the tablet efforts now. So, we're obviously subsidizing. And I get the idea of reducing BOM cost in order to make up for the deficiencies with the idea being that you can drive improved product set down the road.

But at the same time, if you look at the tablet market, where it is today, you're obviously not going to be going after Apple any time soon. Maybe there's a little bit of volume at Samsung. But I mean if you take those guys out, 75% of what's left is systems that are $250 and below, where your competitors are shipping quad-core chips for much less than $10.

I'm curious to know what kind of economics and pricing you see from that market long-term. And are the -- I guess the total revenue pool and profit pool that's available, even if you were to succeed at your goals, why does that make it a worthwhile effort to actually go after? Or is this simply, as you said, strategic? Is this an attempt to limit further penetration of tablets into the core market?

Brian M. Krzanich

So, I'll start and Stacy is welcome to jump in. You've asked a question that has multiple questions built into it. But let's start with what we told you was we've got multiple OEM partners building tablets and phones on our products. And we gave you Asus and Dell and Lenovo and Samsung on those products.

If you look at the tablet business overall, it's broken up into a series of segments. And you're right; there is a large percentage of them that are $250 and below. Products like SoFIA are specifically designed for that segment.

And our dual-core SoFIA already performs quite well against quad-core systems. As we move into next year, we'll bring quad-core SoFIA-based products out, as well. And so we believe that we can stay very cost competitive and have a performance leadership.

Remember, Intel has two assets. We have our silicon technology, but we also have our architecture. And one of the things an OEM gets when they build with Intel technology is that they can go into any OS and they can build a single platform and move that on to Chrome, on to Android, on to Windows. And that's a very unique capability that we provide to OEMs for flexibility.

So, we believe with a product like SoFIA, as we bring that into the market next year, we can absolutely compete in those spaces and make money. You're probably not going to make as much revenue dollars and as much margin dollars as the PC business, but we think this is still critical. And it's critical for a variety of reasons. Part of it is simply the scale. You want to have those units. You want to have a presence in all areas of computing.

And the second one is developer attention. You want developers creating new products, doing innovation on your architecture. This is a space that's got innovation. We are going to bring some of that innovation to this market. You're going to see some tablets as you go into the end of this year.

We showed them at CES, some of the highlights where you have 3D cameras, you have perceptual computing capabilities for gaming. All of those kinds of things can change the tablet market, along with the PC market.

So, we believe that we can bring a lot of the innovation that we do in the PC down into the tablet space. And again, that keeps the developers developing and interested in our platform. I think for all of those reasons, we want to be in this space and we will be in this space from now on.

Stacy J. Smith

I would just add. That was very complete, but we don't fear the low end of the market. You look at how we played out in PCs. You can drive a lot of unit growth by participating in PCs now that are $199 to $250. We can have the cost structure because of our manufacturing lead to participate nicely there. And you see that as markets mature, they also segment.

And so we have look, you look at our PC business, we have great demand and profitability in core I7s and it spans down to Bay Trail at the Atom segment of the market. So, it's a misconception to think that we only want to play at the high end. Our manufacturing leadership can give us the cost structure to play profitably at the low end, as well.

Stacy Rasgon - Sanford C. Bernstein & Co

Thank you, guys.

Brian M. Krzanich

Thanks Stacy. And operator we'll go ahead and take two more questions.

Operator

The next question comes from Ross Seymore from Deutsche Bank.

Ross Seymore - Deutsche Bank

Hi, guys. Thanks for letting me ask a question. Back on to the PC Client Group for a second and on to the ASP side of the equation, between the desktop and notebook obviously there's very different dynamics.

Do you see a point in which the notebook side starts flattening out and starts to act like the desktop side, where ASPs have been up strongly both last year and year-over-year in the first quarter? Or is that pressure to the low end going to persist and so we shouldn't think of a flattening out any time soon?

Stacy J. Smith

I actually think more about the two markets together. I think you have this range of devices that are computers and they range from a high end all-in-one down to a $199 very low cost notebook computer that's being sold. And I think what we're seeing is strength at both ends of the market.

If you look at our pricing over the last three years, it's been pretty dead flat on average across the PC market. You can see from my gross margin forecast from 2014, I'm not expecting ASP to be one of the big drivers. So, you can take from that that we continue to see a pretty benign pricing environment. So, that's how I think about it, I don't know, Brian, if you have--

Brian M. Krzanich

No, I would agree. I don't see it behaving any differently moving forward.

Ross Seymore - Deutsche Bank

And as my follow-up, switching over to the OpEx side, it's good to see the headcount coming down in the second half, down versus the first half. But you're still significantly elevated versus your target model.

I know you're not going to guide for 2015 with any specifics whatsoever. But can you remind us, if you do end this year with lower headcount than you ended the prior year, so you're going into the year down year-over-year is the tick-tock of process engineering moving from R&D into COGS a headwind or a tailwind in 2015? Are there any big moving parts that we can think about for that year's OpEx versus this year's?

Stacy J. Smith

Yeah, it's the reciprocal to what happens to gross margins. So, in a year like this year where you see startup costs coming down, that means that the engineers that were working on 14-nanometer that were being classified as cost of sales, now move to 10-nanometer and they are being classified as R&D. So, next year you should see gross margin -- some headwind in terms of gross margin and some tailwind in terms of the R&D spending.

Ross Seymore - Deutsche Bank

Thank you.

Brian M. Krzanich

Thanks Ross. And operator can you go ahead and introduce our last question?

Operator

The final question comes from Mark Lipacis from Jefferies.

Mark Lipacis - Jefferies

Thanks for taking my question. First one, Brian, when you talk about the 40 million unit bogey on tablets this year, could you go through the taxonomy of that a little bit? To what extent do you think this is Windows versus Android? And what's the class of product you think will represent the mode or the mean? Like where do you think your sweet spot is going to be this year on tablets?

Brian M. Krzanich

Sure. Our mix of OSs reflects pretty much what you see in the marketplace. So, I think, depending on how you look at it, it's probably something on the order of 90% Android, 80% Android, 10% to 20% Windows.

Our percentages look very much like the marketplace. So, if Windows continues to grow and gain traction I think our percentage would just align directly to that. So, you can -- don't separate what we ship from what's basically in the marketplace. We're leadership capability on all of the OSs now.

As far as what is the price point, again, it reflects fairly close to what the marketplace is. You see us in systems below $100 now. The majority of the systems are say $125 to $250, somewhere in there. And then you see us in some of the upper end systems, $250 to $400. And so -- but the majority is in that -- I'd call it, $125 to probably $250 range.

Mark Lipacis - Jefferies

Okay. Thank you. And then as a follow-up, did you discuss, do you expect to have the Android tablets ramping in volume this quarter? Are we going to be -- should we expect to see the Bay Trail Android products at Computex this year? When do we really see the material ramp in the Android products? Thank you.

Brian M. Krzanich

Sure, absolutely. You can go out to the store today and buy an Android -- in fact, I'd love you to go buy one of the 40 million we'll sell. But, yes, you can buy Android. It continues to ramp through this quarter. At Computex, we'll show a series of Android and Windows-based tablets. And they just continue to ramp through this year. But they're on shelves today. I saw them in the store this weekend.

Stacy J. Smith

The majority of the 5 million units, for example, are Android. Just as Brian said, it more or less follows the distribution between Windows and Android.

Mark Lipacis - Jefferies

Thank you. That's helpful.