Good day, ladies and gentlemen, and welcome to your Intel Corporation Q3 2013 Earnings Conference. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Mark Henninger. Sir, you may begin your conference.

Mark Henninger

Thank you, Nova, and welcome everyone to Intel's third quarter 2013 conference call. By now you should have received a copy of our earnings release and the CFO commentary that goes along with that. If you have not received both documents, they are currently available currently on our Investor website, intc.com. I am joined today by Brian Krzanich, our CEO and Stacy Smith, our Chief Financial Officer. In a moment, we will hear brief remarks from both of them followed by Q&A.

Before we begin, let me remind everyone that today's discussions contain forward-looking statements based on the environment as we currently see it, and as such, it 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 will post the appropriate GAAP financial reconciliation to our website, intc.com.

And finally, I would like to remind everyone that we will be hosting our Investor Day here at our Santa Clara headquarters on November 21. If you have questions about the event or the logistics, please contact Investor Relations.

So with that, let me hand the call over to Brian.

Brian Krzanich

Thanks, Mark. During the third quarter, our revenue grew 5% sequentially and was flat versus the third quarter of 2012. Year-over-year PC CPU volume declines slowed and were offset by solid growth in the data center and enterprise. While consumer demand in emerging markets was sluggish, we started to see early signs of improvement in North America and Western Europe. I see our performance in this environment as evidence of an increasingly broad and diverse product portfolio. I would like to highlight a few of the most important results from the quarter.

Following the launch of Ivy Bridge EP and the Atom-based Avoton SoCs, the Data Center group delivered all-time record revenue. DCG saw strength across its lines of business and geographies. Cloud revenue was up 40% year-over-year, storage was up 20%, and high performance computing was up 27%. Even traditional enterprise servers were up a bit over the last year on the strength of our MP product line.

While the Data Center Group's results demonstrate some of Intel's core capabilities, we saw strong performance beyond DCG. Our embedded business grew 21% year-over-year, reaching an all-time record for revenue driven by communications infrastructure, transportation, the internet of things, and retail. Embedded revenue is well on its way to a double-digit growth year.

Just a few weeks ago, we announced our newest product family, Quark, an ultra-low power and low-cost architecture. And while any significant revenue impact is some time away, the architecture and the speed with which we are bringing it to market are evidence of the changes we are making to ensure we are in a better position to lead and define technology trends moving forward.

Finally, our NAND business grew 20% over last year. As enterprise and data center customers increasing use of high-performance SSDs have put this segment on a path to double-digit growth for the year. We continue to make progress with the industry's first 14 -nanometer manufacturing process and our second-generation 3D transistors. Broadwell, the first product on 14 nanometers is up and running as we demonstrated at the Intel Developer Forum last month.

While we are comfortable with where we are at with yields, from a timing standpoint, we are about a quarter behind our projections. As a result, we are now planning to begin production in the first quarter of next year.

In the Wireless business, I was pleased with our progress on LTE. Our multimode data modem is now available in the Samsung Galaxy Tab 3. By the end of the year, we expect to have voice-over-LTE versions available for customers and our second generation of voice-over-LTE product with carrier aggregation will be available in the first half of next year.

Over the past couple of months, we have also launched 15 new 22-nanometer Atom SoCs. These products are designed for markets ranging from consumer tablets to cloud data centers. During the holiday selling season, you will see Atom SoCs and tablets as low as $99, and in 2-in-1 systems as low as $349.

At the same time, you will also find Haswell Systems with outstanding performance and 50% better battery life using Windows 8, Mac OS, and Chrome as low as $299. Together, Bay Trail and Haswell are making possible a range of innovative new form factors at breakthrough price points.

The past few years have seen dramatic changes in the way consumers use and interact with technology, and those trends aren't slowing down. While preferences for form factor OS's and price points have evolved, the market's appetite for computing has continued to grow.

We are going into the fourth quarter with the broadest portfolio in Intel's history, positioned to fully participate in all of that growth.

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

Stacy Smith

Thanks, Brian. The third quarter revenue came in as expected and gross margin was slightly better than the mid-point of the forecasted range. Third quarter revenue came in at $13.5 billion, up 5% from the second quarter. At the segment level, the PC Client Group grew 4%, sequentially, and the Data Center Group grew 6%. The Data Center Group returned to double-digit year-on-year growth in the third quarter growing 12% from a year ago. As expected, inventory levels across the worldwide PC supply chain grew slightly as customers built Haswell-based PCs, but inventory levels are still being managed well below historical averages.

For the fourth quarter of 2013, we are forecasting the mid-point of the revenue range at $13.7 billion, up 2% from the third quarter. Relative to the historical seasonal increase, the fourth quarter forecast reflects the orders we are receiving from our customers and their desire to keep inventory levels lean.

Moving to gross margin, third quarter gross margin of 62% was up 4 points from the second quarter and up 1 point from our guidance. The increase from the second quarter was as a result of lower platform unit costs, higher platform revenue, and lower write-offs. In addition, factory start-up costs came down in the third quarter as spending on process engineers was reclassified from cost of sales to R&D.

For the fourth quarter, we expect gross margin to decrease by 1 point to 61% as we increase factory spending on 14 nanometer. For the third quarter, spending was down $100 million from expectations and flat from the second quarter at $4.7 billion. The $100 million decrease from expectations was as a result of a lot of small actions across the company to reduce spending. For the fourth quarter, we are forecasting spending consistent with the third quarter at $4.7 billion.

In order to better align resources with our priorities, during the third quarter we approved and communicated several restructuring actions. Restructuring charges in the third quarter were just north of $100 million and we expect restructuring in the fourth quarter to be roughly flat. Operating income for the third quarter was $3.5 billion with earnings per share of $0.58.

Taking a look at the balance sheet, total cash investments ended the quarter at $19.1 billion, up $1.8 billion from the second quarter. In the third quarter, we generated approximately $6 billion in cash from operations, paid approximately $1 billion in dividends, purchased almost $3 billion in capital assets, and repurchased over $0.5 billion in stock.

Inventories were flat from the second quarter. The fourth quarter revenue forecast of up 2% reflects the caution we are seeing from our customers due to weak consumer end markets for the PC segment of our business. That said, we are seeing some important positive trends. The enterprise market for PCs strengthened in the third quarter and the consumer markets in the U.S. and Europe appear to have bottomed out. Our Data Center business returned to double digit year-on-year growth based on a resumption of growth in the enterprise market segment and continued robust growth in cloud, high-performance computing, and storage.

From a product perspective, we have an unprecedented line-up of products coming to the market this holiday season. Haswell delivers a historical increase in battery life across the diverse lineup of ultra-mobile form factors by like 2-in-1 convertibles, tablets, and other touch enabled devices. We are also starting to see our customers come to market with Bay Trail based designs that will further extend our product line across screen sizes and price points in both tablets and PCs. This extension of our product lineup across devices, price points, and operating systems positions us to grow our business across a broad range of compute devices.

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

Mark Henninger

Alright. Thank you, Brian and Stacy. Moving on to Q&A, as is our normal practice we would ask each participant to ask one question and just one follow-up, if you have one. Nova, would you like to go ahead and introduce our first question please?

Question-and-Answer Session

Operator

(Operator Instructions). Our first question comes from the line of Joe Moore of Morgan Stanley. Your line is open.

Joe Moore - Morgan Stanley

Great, thank you. Can you talk about the future client market, if you look a the IDC data, they actually showed sequential growth was a little higher than yours. So I know you have got tired of us asking all the time why you guys were above them when they were negative, just any reconciliation that you could give us on – they looked like they showed 8% sequential growth, a reconciliation of their numbers to yours.

Stacy Smith

Joy, I think when you get into the quarter-on-quarter movements, its hard to tie out. When we look at their view of the year and our view of the year, it still is roughly in line. So it could come down to just what's happening in the inventory pipeline, sometime differences come down to what's happening in China. But I think we are pretty aligned with their view. Remember, our unit growth will be a little higher than what they show in their headline PC number because our unit growth will include things like tablets and 2-in-1's and things like that.

Joe Moore - Morgan Stanley

Great, and then the comment that inventories in the PC supply chain built slightly sequentially, but it is still below normal. Can you characterize what's going on there and where do you expect that to go over the course for the rest of this year?

Stacy Smith

Yes, I think it's a continuation, Joe, of what we have seen over the last four or five quarters that our customers are managing the worldwide inventory of PC supply to lean levels. I think it's a reflection of just how dynamic the industry is and in some of the markets how volatile it is, so they are keeping inventory levels low. That was true in Q2. It's true in Q3, and the expectation in Q4 is that people will continue to manage things lean. I would say for our own inventory levels, you know, we have taken $1 billion-plus out of our aggregate inventory, it was relatively flat quarter-on-quarter. Again, as I think about Q4, I think we will keep our inventory levels flat-to-down from this.

Operator

Our next question comes from the line of Blayne Curtis of Barclays. Your line is open.

Blayne Curtis - Barclays

If you could just provide some general color on when you look at your outlook of plus-2 within desktops, notebooks, and servers, did you expect all three segments to grow into December? Thanks.

Brian Krzanich

Sure. This is Brian. We don't see those as varying greatly amongst them, so we see all of those segments growing as we move into the fourth quarter. As we said in our prepared statements, what we saw in the third quarter and we believe will move into the fourth quarter as well is stabilization in what I will call the mature markets, the U.S., Western Europe, and with Asia and especially China still remains relatively volatile, and that's where we see the growth as well as in mature and emerging Western Europe and U.S. markets.

Stacy Smith

If I can get some color on the server portion, Brian, was talking about the clients there. In the server market, we saw nice unit growth in Q3, and I would actually expect that unit growth on a year-over-year basis to accelerate in Q4, so I think we will have an acceleration of server, DCG revenue growth when we get into the fourth quarter and that will be significantly above the corporate average.

Blayne Curtis - Barclays

Thanks for that. Then maybe a little early on Bay Trail, but if you could just talk about the customer adoption and then any early indications of sales of those products, and then as you look at just kind of touch-enabled device, have those expectations of adoption of that progressed through the year and as you look into the holiday season?

Brian Krzanich

Sure. This is again, Brian. Remember, Bay Trail has always been a second half and really a late second half introduction product and that was a pull-in, so we pulled that in in order to bring it into 2013. We've seen great adoption. We have over 50 design wins with about half of those being 2-in-1 devices. We've talked about those devices hitting new price points. The other place Bay Trail is going into is tablets. We think that by Black Friday, you will see 8 to 10 SKUs on shelf, so that's the last thing we had hoped for, but that still shows – the 50 design win shows really strong adoption.

The second part of your question was around touch, which is a broader question. We continue to see touch adoption growing month-by-month as the price points come down, and the price points at are now is below $50. We have put touch as a requirement for the fourth-generation Core Ultrabooks, and you are seeing Bay Trail clamshells with touch enabled at $299, which is a new real price point for touch-enabled devices, so we see it continuing to grow as we enter next year.

Operator

Our next question comes from the line of Patrick Wang of Evercore. Your line is open.

Patrick Wang - Evercore

Great. Thanks a lot. You guys talked a lot about traction in your low-priced tablets, Chromebooks, handset, handset. Even you talked about Avoton and low power server. Your notebook ASP, I think, was also down slightly year-over-year. Can you give us some perspective on the trajectory of your ASPs longer term, and then -- I mean is there something that really concerns you guys?

Stacy Smith

ASP for us will really be a function of mix. I think, we have a very strong competitive position. When you think about the server segment of our business, the core segment of our product line, I think the pricing within the bands in those markets is pretty stable. We haven’t been increasing pricing even at that time period where our ASP increases has just been a function of mix. If I think out the next couple years, what is think often is is you will see those higher end price bands were driving for some low level of growth. You will see faster growth at the low end price bands and then you will see faster growth in the server segment of our business. And how it plays out to the average is going to be a function of mix.

The thing you don't want to lose here though, and we have talked about before is that we have very different cost structures among the different segments of the business. So for us, Bay Trail effect has a lower ASP, it isn’t necessarily a bad thing relative to a Celeron, but it also has a much better cost structure relative to the Celeron.

Patrick Wang - Evercore

I understand. Okay, thanks very much for that and then also, I think you talked about delays of Broadwell production by quarter. If you had ramped it this quarter, what would the impact have been to gross margins? I guess, in other words, what is some of the things we should think about when that production actually ramps?

Stacy Smith

So, no impact to Q3 gross margin. I think you are going to see that on reconciliation. And no impact to Q4 gross margin from what we are expecting. As I kind of telegraphed on the call last time, 14-nanometer spending was projected and will increase quarter-on-quarter. That will be about 0.5 point decrement to gross margin, but that's the same decrement. It will probably hit us in different buckets, but it's the same impact in gross margin.

Patrick Wang - Evercore

Okay, and nothing different in the first quarter?

Stacy Smith

Yes, I also would give you the same answer as I think about 2014. Roughly speaking, the spending on 14-nanometer is going to be the same, which means that the gross margin impact over the course of 2014 will be the same as it was. Again, it may hit in different buckets, but it will be the same gross margin impact.

Operator

Our next question comes from the line of Doug Freedman of RBC Capital.

Doug Freedman - RBC Capital

Hi, guys. Thanks for taking my question. And Stacy, if I could just build on that a little bit going through. Can you give us an idea of what type of startup charges we are going to weather next year?

Stacy Smith

Yes, that's probably a better conversation for the investor meeting that’s in a month. I will start to give some of the puts and takes in 2014 gross margin and how we are viewing the business. But it is related back to the question that was just asked on the 14-nanometer push. So let me walk you through a little bit about the categorization in Q4, which may give you some insight into how this could play out.

As I said and as Brian said, we are moving production on 14 nanometer out about a quarter. We are seeing an increase in 14 nanometer spending in Q4 as we would have expected. What we thought a quarter ago and what I telegraphed on the call is, that as that spending increases and we start production, we move cost from startup to production costs, but then we reserve it out. And if you remember last quarter on the call, I said expect some headwinds in Q4 to gross margin because we would have an increase in reserves. Well, as we push the production date, what you will see is the same impact on gross margin but in Q4 there is likely to be a little bit of an increase in startup cost and then you won't see the reserve impact that we had expected a quarter ago. So slightly different buckets. I still expect next year you will see a reduction in startup cost. It maybe a little less than what we have seen in other even number years but then you will see an offset on the other side of that of reserves, and so the same gross margin impact over the course of the year.

Doug Freedman - RBC Capital

Great. So my follow-up, Brian, could you give us an idea of your first couple of quarters here and we have noticed clearly, with Quark and your move to try to make the company move a little quicker, we are now having restructuring charges. What are those restructuring charges targeted at and what might be some the trigger points that you have to make you move the shift in a different direction? Is the slowdown in PCs or notebooks? Is there a trigger point that makes you change the way in which you attack some of these businesses?

Brian Krzanich

Sure. So first I would separate a bit the restructuring charges from our desire to move quicker and into broader markets. Restructuring charges were mostly around the shutdown of the Hudson, Massachusetts factory. That was really talking about a factory, that was our last 200 millimeter factory on 130 nanometer. That factory had just finished its life as factory and it couldn't be upgraded to 14-nanometers, so that what most of that was. In general, restructuring charges aren't necessarily driven by how you move an organization like this into innovative new areas.

For me, the way I look at this is, this is really about pushing our architecture in both directions. It's moving down and moving Atom to be more integrated, more capable with higher graphics and higher connectivity. Then moving up on the data center side with more robust products there, more integration up there and more unique products by customers and by workload to target those areas that can utilize our core technology.

The trigger pose for me as we move through these is really around how fast the organization able to adapt, so we have a process coming where we want to be able to adjust products, because we believe these markets haven't been changing up until the last minute before you shipped something, so three or four months before product is going to shipped, we want to get to a point where we could make changes in the characteristics of those products and we are always away from that maybe a year, year-and-a-half, but we believe we can get to a place where we have to kind of flexibility and IT configuration that we can do that.

Stacy Smith

I think that I will give Brian a little more credit revenue he is giving himself. He is right there in the restructuring piece, the asset impairment is almost entirely driven by the factory. The larger portion of that is the people movement piece of it and I think Brian and Renee are both, moving fast in terms of picking areas where they want to make investment, picking areas where we are going to invest less and so that's the lion share of that particularly line item and in almost all of the Q4 number is just as we are looking to move people from one part of the company to make investments in area where we think we are going to get an enhanced return.

Operator

Our next question comes from the line of John Pitzer of Credit Suisse. Your line is open, sir.

John Pitzer - Credit Suisse

Brian just a follow-up on the Broadwell. I am just kind of curious why the push out? Can you elaborate a little bit? Is this is technical issue and if it is, why are you confident you overcame it or is this really a market issue? I.e. there's a little bit excessive Ivy Bridge inventory which is pushing out Haswell, which is the ramp, which is pushing Broadwell. If you could elaborate on that that would be great.

Brian Krzanich

Sure. It's absolutely not the latter. It was simply a defect density issue. This was on the issue -- as we develop these technologies, what you are doing? You are continually improving the defect densities and those resulted in the yield, the number of die per wafer that you get out of the product and what happened as you insert a set of fixes in groups, you will put four or five, maybe sometimes six or seven fixes into a process and group it together, run it through and you will expect an improvement rate occasionally as you go through that. The fixes don't deliver all of the improvements [stock], we had one of those.

Why do I have confidence? Because, we have got back now and added additional fixes, gotten back onto that curve, so we have confidence that the problem is fixed, because we have actually data and defects and so that gives us the confidence that we are to keep moving forward now and that happens sometimes in these development phases like this, so that's why we are going to over it a quarter.

Member of Broadwell and Haswell are incompatible for the unit for the most part these will slide into existing systems and it delivers the next generation of the low-power Broadwell. Why? Which is you give even more capability for fanless core products, so we and our OEM partners have a strong desire to get Broadwell to the market, so if I could there would be nothing slowing down. This is a small blip in schedule and we will continue on from here.

John Pitzer - Credit Suisse

Perfect. That's helpful, Brian. As my follow-up, Stacy, the last couple of quarters relative to the gross margin bridge or puts and takes you have kind of given ASP as a potential allowance on the downside and I guess I didn't see that in Q4, which it kind of confuses me a little bit given that that's the Bay Trail quarter ramp and so - or are you just getting more confidence as you are mixing lower that that ASP is not a factor in gross margin and how should I think about that.

Stacy Smith

Well, I think it goes back to the question I asked earlier, so as we are successful with Bay Trail, it will cause the average ASP to come down in the client group but keep in mind, we are forecasting a very robust growth rate in the data center. So you have the highest end of the Intel product family growing significantly faster than the rest.

John Pitzer - Credit Suisse

Okay, thank you.

Stacy Smith

By the way, I think it is also notable in Q3. Our AFP was up a measure. There was about 0.5 point of gross margin good news which was better than I expected.

Operator

Our next question comes from the line of Romit Shah of Nomura. Your line is open.

Romit Shah - Nomura

Great, thank you. On DCG, you guys have been talking about double digit annual growth target for the year. and just based on my math, you would need to grow data center plus 20% in the fourth quarter to get there. So could you talk a little bit about near-term momentum? Then as a follow-up, I just wanted to ask about the Federal shut down. It seems like its dragging on. I am wondering if you are seeing any impact here, broader enterprise business?

Stacy Smith

This is Stacy. I will take those and Brian can editorialize on our elective representatives. On the data center, don't pin me down to exactly 10% growth but we are going to be within spitting distance of that for the year. That does imply a growth rate that's significantly accelerated from the 12% that we had in Q3 and that's what I expect and that's what Brian expects and GM of that business. Generally what we are seeing, and Brian talked about the really robust growth rates we are seeing in the cloud, high-performance computing, storage and we have seen a resumption of some growth rate in the enterprise which has been the headwind that we have been facing in that business.

To your question on the debt deal and debate, I would say, we have not seen any impacts in our business. I think generally the financial markets have been pretty tame in their reaction to this. It is, in U.S. is going to make good on its debt applications.

Brian Krzanich

I am not going to comment any further on that one.

Operator

Our next question comes from the line of Glen Yeung of Citi. Your line is open.

Glen Yeung - Citi

Brian, I probably heard this one but just wanted to clarify. You made a reference earlier to MacOS. Were you suggesting that you would see Bay Trail devices in the MacOS?

Brian Krzanich

No, I said that we would have products across the board. It's Haswell.

Glen Yeung - Citi

Okay, very good. Just wanted to clarify.

Brian Krzanich

That was a group thing. I think that comment was around Bay Trail and Haswell and all OS forms.

Glen Yeung - Citi

Okay, glad we clarified that then. As a follow-up, I did want a little more color, if you would on what you are seeing in enterprise? It's just did what I have been seeing in the quarter as well but what I don't understand and hopefully you may have more color on it. Is the fact that as enterprise suggest they are back at maybe a more sustainable trend than we would otherwise see? And do you see any underlying reasons to why enterprise is maybe getting there?

Brian Krzanich

Well, so you are talking about the classic enterprise? I think this is a case where the restuff until recent times, especially in the U.S. as companies became more comfortable with what the spending horizon was going to be and what their projections for the rest of the year were, they started to unleash IT budgets and so we started to see an uptick in that, especially Western Europe and the U.S. started to grow again slightly. Do we think it will be continually at least through the fourth quarter? We are not making any projections yet for 2014. We will talk about those at our investor meeting. But you can imagine that given where we are with cloud and networking and storage and the enterprise, we are seeing the same kind of projections.

Operator

Our next question comes from the line of Christopher Roland of FBR. Your line is open.

Christopher Roland - FBR

Guys, thanks for the question. I thought maybe you guys could give us a little more granularity into what's going on with the other IA operating loss. Do we think that this is about as large as it gets as Bay Trail ramps? How do we think about that on an ongoing basis? Is this a good run rate, or how do you guys sort of forecast that going forward?

Stacy Smith

I think, I can [anecdotally] say for right now it is not a good run rate. We don't enter businesses to lose money, so our intent is to improve it. I think it's probably worthwhile to talk about what's happening year-over-year, quarter-on-quarter, probably year-over-year is the more illustrative portion of that.

What you see going on in other IA is, first and foremost the embedded or the Intelligent Systems Group had a very good quarter, record revenues, robust growth rate, very profitable, offsetting that is really three things that impact the operating profit. First, netbooks are coming to the end of their life as category. We are down to some single-digit millions of revenue from netbooks. A year ago, that was pretty robust and those were pretty profitable products.

A year ago, if you recall, we were talking about a buying pattern from one particular customer in modem space that didn't repeat this year, so you get a little bit of a year-on-year comp and then the other impact is this is a place where we have been making significant investments. The things that we have been talking about here of having products SoCs that span across price points, across operating systems. Those are places where we are making investments. We believe that investment is really important to the future of the company and we believe that investment gives us a differentiated competitive advantage out in time and lets us bring the best products to the market out in time.

Christopher Roland - FBR

Okay. Great. Thank you for that. Also on the Broadwell quarter push out, do we make up for that at some point in the future, or would this also push Skylake?

Brian Krzanich

We do not think it will push Skylake, so this is just - and in fact will even make up in total volume within a quarter or two after the one quarter push, so we tend to make these up very quickly. The two are independent. The early learning that's going on during the process development has no impact on Skylake's ability to come to market.

Operator

Our next question comes from the line of Kevin Cassidy of Stifel, Nicolaus & Company. Your line is open.

Kevin Cassidy - Stifel, Nicolaus & Company

Thanks for taking my question. I just wanted few more details on the data center some of the moving parts. Stacy, you said that you expected unit growth to accelerate fourth quarter. Would that be because of the Avoton, or do you expect the ASPs to go up also. Is that the mix shift going to higher performance servers?

Stacy Smith

Before you give an [inch], I think I am not going to get more granular than I got. I would expect that unit growth accelerates from what we saw in Q3 and revenue growth accelerates from the 12% year-over-year growth we saw in Q3. Can I get more granular than that?

Kevin Cassidy - Stifel, Nicolaus & Company

Okay. Maybe if you could just tell us about the third quarter with ASPs up 2%, was that mostly driven by the introduction of E5 or is it an overall shift towards higher performance computing?

Stacy Smith

Yes. I would say it was probably more tied to the fact that the Enterprise segment went from decline to some single-digit growth and that is tied to the E5. It's a combination of those two things, but the enterprise tends to buy pretty rich mix of MP that's why it's such an important segment for us and so single-digit growth there is pretty helpful.

Operator

Our next question comes from the line of Ambrish Srivastava from BMO. Your line is open.

Ambrish Srivastava - BMO

Thank you very much. My first question is on the guidance, Brian, and you told us that your guidance is based on what you are seeing, the order patterns that you are seeing. Just wanted a little bit more color as to in terms of form factors from your OEM customers as well as from you. There seems to be more out there, so in your opinion, what is it? Is it not the right form factor from OEMs, which is causing - we wanted to understand the macro is pretty anemic, but in the contest of new products that are coming on, it has to be disappointing for you to see the order pattern, so what is in your opinion that's causing that and I had a quick follow-up after that please.

Brian Krzanich

I am not sure I can fully understand your question. If you question is around the number and variety of form factors, we are actually pretty excited about the rate of innovation we are seeing in 2-in-1s, in convertibles, in OS forms, Android, chromebooks and Win8, 8.1. So we have been pretty enthusiastic about what we are seeing. In fact we have been meeting with most of our customers and OEMs and looking at their Q1 lineup with them and I have been astonished by the amount of innovation and creative designs that are coming.

I think when you talk about just the market in general how we see it, we are trying to bring innovation to the PC but we are also trying to move into these markets that are growing already like tablets and phones. So our view is that at the end of the day, the customers are going to choose their form factors.

Tablets are absolutely here to stay and we plan to participate in those and that's why you see us in tablets from $99 to $350. Our job is try and innovate and actually drive capabilities into the tablet space that nobody else could deliver and bring that valuation and drive up in those markets.

Across PCs, we believe that as 2-in-1s, especially Haswell based 2-in-1s with all-day battery come to life, we are already seeing some signs of tablet market share win back as these 2-in-1 devices, especially in enterprise and the business side hit the market and people see the value of having both devices. The best of both devices, a tablet and a PC, all-in-one.

So we believe that as we go through the fourth quarter and we get more of these devices out there, we will see how this plays out over time now.

Ambrish Srivastava - BMO

Okay, that's helpful. Then on the pricing front. Stacy, you highlighted, yes, pricing could be lower on the mix but then cost is lower for Bay Trail. But I am just looking at the dichotomy in desktop and notebook and maybe there is a very simple explanation. Desktop volume is down year-over-year, ASP is up, notebook is the reverse on the ASP front, their ASP is down year-over-year but volume is down as well. So could you just help me understand why the difference in the two trends? Thank you.

Stacy Smith

Well, I think what we are seeing is, we have seen notebook pricing coming down over time as that becomes a broader and broader market. So I think its as simple as that. I think the desktop piece is really interesting. What we are seeing in the desktop, again I am kind of zooming out and taking a two-year view. You have seen a segment that's been relatively slow growth

I think of it as a single-digit percent growth but a lot of segmentation happening within the category. So it has gone from the desktop business being primarily these beige boxes to all-in-ones and detachable all-in-ones and pretty high-performance devices that are doing gaming as well as these very cost-effective machines for first-time buyers in emerging markets. So you are seeing this hyper segmentation as a category and more stability in the pricing as a result because we have these different segments.

I think we are on the verge of seeing that kind of segmentation play out now in the notebook segment with what we are seeing with 2-in-1s and ultrabooks and detachables and convertibles. So it will be interesting to watch that play out.

Mark Henninger

Operator, please go ahead and introduce the next question.

Operator

Our next question comes from the line of Timothy Arcuri of Cowen and Company. Your line is open.

Timothy Arcuri - Cowen and Company

Thank you. First question is on CapEx. Stacy, is the cut due mostly to 450. You had said before that there was no push out in the timing but some of the companies selling equipment are saying that there has been some push outs. So I am just wondering where that cut is coming from? Thanks.

Stacy Smith

You are talking about the $200 million. No, there is actually no cut in there. We are just refining our forecast as we get down to one quarter left in the year.

Timothy Arcuri - Cowen and Company

Got it, great. So just to be specific on the timing on 450, nothing has changed there?

Brian Krzanich

So let me answer that one. We have not changed our timing. We are still targeting the second, latter half of this decade. We continue to see great value in 450. It brings tremendous economic value to everybody who participates in it. We continue to work with our partners. We are here part of the joint development program in New York, continuing to work on 450. We continue to work with our partners, especially TSMC and Samsung and we are still targeting the back half of this decade. This is a long 10-year program when you really take a look at it. So I think you will get mixed signals throughout those 10 years, take a look at the long-term trend and then really start to understand the economic value here and you will see we will get there in the end.

Operator

Our next question comes from the line of David Wong of Wells Fargo. Your line is open.

David Wong - Wells Fargo

Thanks very much. Bay Trail. If I'm not mistaken there are Android tablets using Clover Trail+ the currently available, when might we expect Android tablets using Bay Trail in the market?

Brian Krzanich

You are absolutely right there, several tablets out there currently today with Clover Trail+ using Android. What I told you was, there are about 50 designs on Bay Trail, about 20 of those are 2-in-1s, probably 25, 20 of them are Bay Trail tablets on Android, there is going to be about eight systems on shelf, eight to 10 systems on shelf, we believe, by the say Black Friday timeframe. Most of those will be Android tablets.

David Wong - Wells Fargo

Okay. Great. Could you -knocking on what proportion of your core family sales will be Haswell in the December quarter and are you seeing Haswell, why being extensively adopted in tablets or is it primarily the regular Haswell that goes into tablets in 2-in-1s?

Stacy Smith

Yes. We don't give to that level of granularity to break out our sales by product family. I think, Brian gave you some good insight into the number of systems that we see coming to the market, a lot of which will be there before Black Friday and then even more of that kind of build out over the course of Q1. I'll let Brian answer the Haswell-Y.

Brian Krzanich

You asked Haswell-Y versus [Haswell]. First, most of the tablets we are building with OEM partners are Bay Trail or as you said Clover Trail+ based. There are some that are being based on core; most of those are being based on the standard core product. Haswell-Ys are going into the fanless systems or extremely low powered 2-in-1s.

Mark Henninger

Operator, we would like to go ahead and take two more questions, please?

Operator

Thank you. Our next question comes from the line of Jim Covello, Goldman Sachs. Your line is open.

Jim Covello - Goldman Sachs

Great. Thanks so much for taking the question. Stacy, something you had alluded to in your presentation at the Developer Forum. I wonder where you think die sizes are headed on average for the company given some of the moves into these different markets that you talked about.

Stacy Smith

Again, it's going to be similar to the ASP question. When you are talking average die size, it's really going to be a function of mix, so it becomes hard to answer. I think when you look at it by segment, we are improving our cost structure in each of the segments of the business. The die size is going to get better and the core family, it's going to get better and Bay Trail. It's going to get better in the tablet segment of the business, but the mix will really dictate the average. I don't know Brian, if you want to add anything to that.

Brian Krzanich

Yes. I would agree with Stacy. Each of one of the families of the products we have roadmaps even with integration, but because of Moore's Law we are able to continually drive down the die size. It's going to be mix dependent, we think if you look at the average mix, it will be down slightly, but it's not a dramatic drop at least. Again, it will be mix-driven.

Jim Covello - Goldman Sachs

Okay. That's helpful. Then if I could ask for my follow-up, in terms of the mobile market, the handset market in particular, how important do you think connectivity in the other surrounding pieces around the processor are for

Intel to be successful in this market? How do you feel you are positioned in those complementary pieces around the processor?

Brian Krzanich

Sure. The connectivity and comps both are very important. We had Wi-Fi for 12-plus years, so our position in Wi-Fi is good. We have made acquisitions in GPS and GNSS lately to add to our portfolio. We talked about in the prepared statements about our progress on LTE and we actually believe we are making great progress in LTE.

We added LTE data now, LTE data and voice by the end of the year, LTE with carrier aggregation first half of next year. That's very good progress in our mind on LTE. I want to remind you though, but it's really when you take a look at these SoC products, it's about all of the IPs.

So you have got to get the graphics right. You have got to get the connectivity right. You have got to get the comps right. We really have a drive to both our individual IPs correctly there and then to integrate them into the silicon. That's kind of the order that you have to do with it. You have to go get the IP correct. That's why you see our LTE products are standalone now. Then you integrate them in once you get the capability in a standalone product. We will be working on that next year.

Mark Henninger

Operator, please go ahead and introduce our last question.

Operator

Our final question comes from the line of Vivek Arya from BoA/Merrill Lynch. Your line is open.

Vivek Arya - BoA/Merrill Lynch

Thanks for taking my question. Brian, my first question is, within DCG can you help us quantify traditional enterprise versus some of the growth categories in cloud storage and networking? And where I am going with that is, when does this latter growth part start dominating and what are the implications on ASP when that happens?

Brian Krzanich

I have never done a calculation on when they would overtake enterprise. If you take a look at it, we said that cloud, storage, networking, we are growing plus 20%. But I would have to go back and take a look. We can have that discussion maybe at the Investor Meeting on how those percentages of the business change over time.

Stacy Smith

Vivek, if you go back and look at last year's Investor Meeting, you will see something presented by Diane that actually very explicitly breaks out the size of the different segments and the growth rate and what you will see there is enterprise is 40%, 50% of the overall enterprise segment. These other segments in aggregate are overtaking it, kind of as we speak and growing really fast. We will talk a lot more about that in a month.

Vivek Arya - BoA/Merrill Lynch

Got it, and then as my follow-up. I wanted to just get a sense for how much of a leapfrog advantage will 14 nanometer provide in the mobile market because recently we saw very impressive benchmarks from Apple on their A7 SoC. I understand that they optimized a lot of things within their system that other customers may not be able to do but they were able to show very impressive benchmarks on 28 nanometer silicon. I am wondering as you think about your 14 nanometer products and the fact that you will really need to leapfrog to get major share in mobile how should we think about how big those advantages will be, like what the discussion with customer have been so far?

Brian Krzanich

Sure. So, let's make sure, I mean you just kind of used the generic word of benchmarks and there are lot of different ones that are out there. So I am not sure exactly which ones you are talking about. But if you just take a look at our products and all of our products are 64-bit. So we have had that for an extended period of time and products that we are shipping today are already 64-bit. If you take a look at things like transistor density and you compare, pardon the pun, apples-to-apples and you compare, say, the A7 to our Bay Trail, which is the high density 22 nanometer technology then our transistor density is higher or more dense than the A7 is. So it's a good product. I am not in any way trying to deface that, but we do see the Moore's Law advantage from 28 to 22 nanometer as an example, when you compare dense technologies to dense technologies.

We believe 14 nanometer it just an another extension of Moore's Law. So it will have that same roughly twice density that you will see between 28 and 22 nanometer. You will see that same kind of increase or improvements as you move to 14. It is a true 14 nanometer technology. Did I answer your question?

Vivek Arya - BoA/Merrill Lynch

Yes. So Brian, maybe what I was trying to get to was, as you look at the kind of Android customers or Chrome customers that you might engage with 14 nanometer. How is that changing from the engagement that you have with Bay Trail? Basically the question is, is the level of engagement accelerating as they look at your 14 nanometer progress?

Brian Krzanich

So, yes. From that perspective, they see a roadmap now. I think more importantly than just 14 nanometer. What they see is a roadmap from us around the Atom SoC. They see Bay Trail as a great first step and great product. You have seen some of the performance benchmarks out there. We just talked about the transistor density. Stacy has talked about our cost and ability to hit these lower prices points. It has got good graphics performance. As I said we are able to provide a 64-bit solution across all OS options as well.

So they look at that and then they look at our roadmap, and say okay, they have got LTE, they have got connectivity, they have got a standalone, they have plans to integrate those technologies in, in a basic SoC. They are starting to build confidence in our roadmap along with us. That's, I think, what they really look at this as they see our Atom roadmap that's highly competitive.

Vivek Arya - BoA/Merrill Lynch

Thank you.

Mark Henninger

Thanks, Vivek, and thank you all for joining us today. Nova, please go ahead and wrap up the call.