Operator

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

I would now like to turn the conference over to Mr. Mark Henninger, Head of Intel Investor Relations. Sir, you may begin.

Mark Henninger

Thank you, Saied, and welcome everyone to Intel's second 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 discussions contain 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 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 investor website, intc.com.

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

Brian M. Krzanich

Thanks, Mark. The second quarter exceeded our expectations. The improving economic environment, PC refresh, form factor innovation and the end-of-life of Windows XP combined to drive better than expected demand. In fact microprocessor volume in the second quarter was an all-time record.

From the most powerful supercomputers to the smallest energy-efficient embedded machines, the breadth and strength of our results suggest that our reach is extending. The PC Client Group's results reflect the third consecutive quarter of year-over-year unit growth. In Q2, both the desktop platform revenue and the notebook platform revenue grew year-over-year.

The installed base of PCs that are at least four years old is now roughly 600 million units and we are seeing clear signs of a refresh in the enterprise in small and medium businesses. While there are some signs of renewed consumer interest and activity, the consumer segment remains challenging, primarily in the emerging markets.

The Bay Trail family of SoCs has been a standout that has helped us expand into [new] [ph] segments. Bay Trail's performance allows us to deliver a much smaller and lower cost Atom based core in our Pentium and Celeron brands for the first time. Our Bay Trail SoC volume in desktops and clam shells more than doubled over the last quarter and now represents more than 60% of our Pentium and Celeron mix and nearly 20% of our notebook mix.

This is enabling our growth at lower price points and in new segments like Chrome-based systems without sacrificing margin. The data center business had a strong quarter with 19% growth year-over-year leading to all-time record revenue $3.5 billion. Following last quarter's launch of the Ivy Bridge-based Xeon E7 processor family, we saw strong NP volume and a richer product mix and ASP mix.

Cloud, networking, high-performance computing and enterprise revenue all grew more than 15% in the second quarter. Demand and revenue growth in several segments demonstrated the growing reach of Intel technology beyond CPUs for PCs and servers. Our Internet of Things Group grew 24% year-over-year and set a revenue record, as the retail and manufacturing sectors performed especially well. NAND revenue grew 20% and McAfee revenue grew 5%.

Finally, we are squarely on track to our 40-million-unit tablet goal shipping 10 million units in the second quarter. We also achieved some important milestones during the quarter. We qualified the first Broadwell-based Core M processors and at Computex we highlighted the form factor innovation that 14-nanometer Core M product family will enable. Systems like Llama Mountain reference design, a fanless detachable two-in-one that is razor thin at 7.2 millimeters and weighs just 24 ounces.

We also announced a landmark strategic relationship with Rockchip to accelerate and expand our SoC roadmap for the value and entry tablet market segment. And our foundry business announced that Panasonic joined the growing list of companies that will use our leading-edge 14-nanometer process technology.

While I'm pleased with the second quarter results and the strength in the enterprise in small and medium businesses, we're watching for signs of sell-through in consumer PCs in the second half of this year. Additionally, we have important work to do in the months ahead. We are working towards qualification of our 7260, our Category 6 LTE product with carrier aggregation early this quarter.

Later this quarter, we'll launch our next generation Haswell-based Xeon E5 platform codenamed Grantley. We also expect the first 14-nanometer Broadwell Core M processor-based systems including fanless two-in-ones will be on shelves for the holiday selling season, followed by broader OEM availability in the first half of 2015.

In SoFIA, our integrated baseband and apps processor for smartphones and tablets remains on track for Q4 of this year. All of this work is critical to growing the business. Along with our earnings results, we announced a $20 billion increase to our buyback authorization and we intend to pursue a sizable repurchase of stock over the second half of the year.

Stacy will talk more, specifically about our plan, but this change to our capital structure and allocation is a direct result of our ongoing commitment to delivering shareholder value and a thoughtful stewardship of our owner's capital.

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

Stacy J. Smith

Thanks, Brian. The second quarter came in above the expectations we provided in the April earnings call and consistent with the revised outlook we released on June 12. It was a good quarter representing financial growth and solid momentum as we enter the second half of the year.

Focusing on our second quarter results, revenue came in at $13.8 billion, up 8% from a year ago. Both the PC Client Group and the Data Center Group achieved better growth than we expected at the beginning of the quarter. PC Client Group revenue was up 6% from a year ago.

We saw PC Client Group platform unit volumes grow 9% year-over-year and inclusive of tablets, we saw almost 20% unit growth. PC platform average selling prices declined 4% on a year-on-year basis. Our Data Center group revenue grew 19% from the year ago with platform volumes up 9% and platform average selling prices up 11% over the same period.

Looking beyond the PC and data center businesses, the mobile and communications group is down 83% from the year ago. The underlying dynamics are consistent with what we shared at the investor meeting last

November. We are ahead of our expectations in tablet volume but the billing increase is being offset with an increase in contra revenue dollars.

We are seeing a decline in our feature phone and 2G/3G multi-comm business as the industry transitioned to integrated LTE solutions. The Internet of Things Group is up 24% year-on-year. We continue to see robust growth across segments with particular strength in the retail and manufacturing segments.

Gross margin of 64.5% was up almost five points from the first quarter and one a half points above our original Q2 guidance. The five-point increase relative to the first quarter is due to lower 14-nanometer start-up costs, higher platform volumes and lower platform unit costs. Spending came in at $4.9 billion in line with our revised outlook provided on June 12.

Net income for the second quarter was $2.8 billion, up 40% from the year ago and earnings per share was $0.55, up 41% from the year ago. The business continued to generate significant cash with over $5 billion of cash from operations in Q2. We purchased $2.8 billion in capital assets, paid $1.1 billion in dividends and repurchased over $2 billion of stock.

Total cash balance at the end of the quarter was roughly $17 billion, down approximately $1.7 billion from the prior quarter. Our net cash balance, total cash less debt, is approximately $4 billion, and inclusive of our other longer term investments is closer to $7.5 billion.

Our capital allocation philosophy is to first invest in our business, then generate shareholder return through our dividend and then to return cash to shareholders via stock repurchases. Our business generates healthy free cash flow through economic cycles but as a result of this capital allocation philosophy, we have brought down our net cash balances plus longer term investments from over $23 billion in 2010 to around $7.5 billion today.

We plan to continue our journey returning cash to our shareholders by adjusting our capital structure to further bring down our net cash balances. The intention is to repurchase $4 billion of stock in the third quarter with additional buybacks in Q4. This strategy enables the sufficient liquidity for our operations and provides strategic flexibility to invest in our business while continuing to return cash to our shareholders.

As we look forward to the third quarter of 2014, we are forecasting the midpoint of the revenue range at $14.4 billion, up 4% from the second quarter. This forecast is in line with the average seasonal increase for the third quarter that we are seeing over the last several years.

We are forecasting the midpoint of the gross margin range for the third quarter to be 66%. The one and a half point increase from the second quarter is primarily driven by lower platform unit costs and higher platform volumes. This is partially offset by lower platform average selling prices.

Turning to full year 2014, we are planning for revenue growth relative to last year. This is approximately 5%. We are forecasting the midpoint of our gross margin range at 63%, up two points from the midpoint of the outlook provided on April 15. This increase is primarily driven by lower platform unit costs, higher platform volumes partially offset by lower platform average selling prices.

As I reflect on the first half of 2014, I believe the strategy that we put in place for this year are playing out nicely to extend the reach of Intel technologies across the spectrum of the smallest embedded devices to the most powerful supercomputers. We have seen better than expected trends in the overall PC market but strength in both non-consumer and desktop segments.

We're enabling innovative two-in-one devices and lower price points and we are growing our market segment share. We have brought new products into the data center which drive a strong return on investment for our customers to upgrade their infrastructure and we are benefitting from both our product line up and the build out of the cloud.

The Internet of Things business is growing fast as we bring intelligence to more and more devices and we are making investments in communications and tablets that benefit the breadth of our businesses and set us up for improving financial results going forward. As a result of these trends and our execution, our financial results are improving. We're generating free cash flow and we were returning more of that cash to our shareholders.

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

Mark Henninger

Okay. Thank you, Brian and Stacy. Moving on to the 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. Saied, please go ahead and introduce our first questioner.

Question-and-Answer Session

Operator

Thank you. (Operator Instructions). Our first question comes from Vivek Arya from Bank of America. Your line is open. Please go ahead.

Vivek Arya - Bank of America Merrill Lynch

Thank you for taking my question. I have the first question on the PC side and the second one on smartphones. So, Brian, on the PC side, obviously a good growth in enterprise and obvious question is how long does that last? And then I think you had mentioned in your comments that the consumer has not yet recovered and the industry has tried lots of things, different form factors, price points, et cetera, but it has not seem to revive the consumer. So what will it take to revive the consumer side because that will be an important factor for next year on the PC market?

Brian M. Krzanich

Sure. So let me try and answer your questions. The first one was good growth on the enterprise side, small and medium business, how long will it last? We think it's driven by multi-factors, it's driven by the good form factors, the 600 million systems four years or older, new price points and Windows XP end-of-life. So all of those things are coming together to drive this. We see it at least lasting through this year we believe and that's built into our forecast. So that's as far as we're looking out today. The second part of your question was what does it take to reinvigorate the consumer? We've got a lot of things lined up for the second half of this year to work on that; everything from marketing to really – we talked about in the call, the Core M Broadwells, those are going to allow really a whole new class of system as we go out through the holidays and into next year where they're two-in-one devices but they now become fanless, ultrathin, very portable, long-battery life, strong Core performance or Core like performance. We believe that will bring another class of system into the market as well along with just an overall general refresh of many, many of the form factors. We think that all of those things will start to move it but that is part of why we put this caution on we're still going to watch as the consumer trend goes through the second half of this year.

Vivek Arya - Bank of America Merrill Lynch

Understand. And as my follow-up, you have said previously that you plan to bring baseband production in-house to set the SMC today, but I think you have said in the past that you plan to bring it in-house sometime late next year or 2016. Is that still an important milestone? Are you on track to do that? And importantly will it require any incremental CapEx or OpEx? Thank you.

Brian M. Krzanich

Yes, it is still important to bring the baseband and it's always important – one of the real advantages of Intel is an integrated device manufacturer, an IDM, and we believe that the integration of the process technology and the design and our leadership in Moore's Law just gives us a real advantage when you look at the whole ecosystem. So it's always critical for all of our products to move them inside as fast as we can. And yes, we're still targeting towards end of '15 or beginning of '16 to move those products inside.

Stacy J. Smith

And I'd just say to the last part of your second question from an OpEx standpoint it's in our run rate. We're investing in the modem technology today and from a CapEx standpoint it won't meaningfully move the needle in terms of CapEx.

Vivek Arya - Bank of America Merrill Lynch

Thank you.

Operator

Thank you. Our next question comes from Joe Moore from Morgan Stanley. Your line is open. Please go ahead.

Joe Moore - Morgan Stanley

Great, thank you. It was really nice gross margin guidance and if I look back historically a couple of years ago and I think four years ago, you had some gross margin headwinds in midyear when you ramped all of the fabs in the new process at once and obviously you don't seem to be seeing those headwinds in Q3. Am I thinking about that the right way and is there still some cost of ramping 14-nanometer that's still ahead of us?

Stacy J. Smith

So, yes, you're thinking about that the right way and I think if you do the algebra and you look at our actual gross margin in Q1 and Q2 and the projection for Q3, you're going to come up with a number in Q4 that comes down a few points from what we're forecasting for Q3. We haven't locked in on the forecast yet but it's down a bit and that is exactly the phenomenon of what you said. When we get to Q4, we're ramping multiple 14-nanometer factories simultaneously. We think we'll see a little bit of an increase in cost in Q4. And in addition in the fourth quarter, because our 14-nanometer products Broadwell is a family of products, we'll still see some pre-PRQ quals that will cause reserves to go up a little bit in Q4 is our best prediction at this time.

Joe Moore - Morgan Stanley

Great, thank you. And then separately looking at the buyback, what's the timeframe of the 20 billion repurchase and can you talk about what's kind of the optimal net cash flow that you'd like to maintain on the balance sheet?

Stacy J. Smith

Yes, great question. Let me answer the second one first because I'm not actually going to give you a ton of clarity on the timeline to the 20 billion, but if you think about this as a multiyear focus that we've had, I think you can see this playing out. And if you go back to 2010, as I said in my prepared remarks, and you look at net cash plus some of the other investments the treasury group makes, we had a net cash balance that was running in the mid-to-high 20s back then. We brought it down to sub 10 as of Q2. I think it's really a sign. And along the way we've stress-tested our business in terms of cash generation through things like the economic downturn and it's increased our confidence that we generate free cash flow even in kind of macroeconomic situations that are a less favorable. So, we're taking the next step there to bring cash balances down further. From my perspective as CFO if we're targeting kind of what the definition of cash I just gave, something around 0 net cash, it still gives us a positive gross cash balance. We have plenty of cash for strategic reasons and operational reasons. That feels like a pretty comfortable number. And then to do that we'll do 4 billion of buyback in Q3 on top of the 2 billion that we executed too in Q2. We'll do another sizable buyback in Q4 TBD exactly the size of that, and that will get us pretty close to that goal. And then you can do the math of cash generation next year and kind of figure out how in your model we'll go through the 20 billion, but I think we'll go through a chunk of it just over the next six months.

Joe Moore - Morgan Stanley

Great, thank you very much.

Stacy J. Smith

You're welcome.

Operator

Thank you. Our next question comes from John Pitzer from Credit Suisse. Your line is open. Please go ahead.

John Pitzer - Credit Suisse

Brian and Stacy, congratulations on the strong results. Brian, I guess my first question is just whether or not you can go into a little bit more detail into DCG and with ASPs being up 11%, I know you gave us some color in your commentary but I am kind of curious to what extent was that a better mix of enterprise, was it hyper scale mixing up even more than they did in the calendar first quarter? And to the extent that you said the Grantley doesn't come until this calendar quarter, I'm kind of curious as to how you see that ramp playing out and how accretive that might be to the data center business?

Brian M. Krzanich

Sure, I'll start and then Stacy can add in since you've got a mix of the product and then how the financials roll into that as well. I think if you just take a look, what we said if you look back at the remarks, we said almost all of the segments of the enterprise were up 15%. That was a mix of volume and ASPs across the board there. You were correct to that Grantley doesn't go until this quarter, but we did continue to launch the E7 during this quarter and see that ramp, which definitely helps our ASP and overall product mix.

Every one of these launches is a little bit different. They always have a mix of kind of what are our customers doing? If you just take a look at the data center volume in general, it tends to be a bit lumpy. There were big orders as people fill out their data centers. Whether it's an HPC order or a cloud order or an enterprise order, they tend to come in big pieces. And so as we move into the Grantley launch, we'll have to see how the customers place their orders and what the volume is. So we don't look at it on a quarterly basis when we look at something like a Grantley launch. We really look at it over a longer period of time. Over a longer period of time we think it's going to be a very powerful product. But exactly how that transition will occur, we don't try and look at it that closely on a quarterly basis.

Stacy J. Smith

If I may just add a couple of things, John. So in terms of the Q2 ASP uplift, as Brian said, it's a combination of things but one thing you need to keep in mind we are shipping and selling Grantley today into cloud and HPC customers and we saw the E7 moving into production. So, we had a combination of things in the second quarter and I think where Brian was taking is we're really happy with that 19% growth rate in the second quarter but we're expecting a nice robust growth rate when we move into the back half but not 19%. We think there was some specific purchasing going on with some of the large cloud providers that probably don't repeat exactly as we get into the back half.

John Pitzer - Credit Suisse

That's helpful, Stacy. Then Stacy going to solving the algebra equation for Q4 gross margins, it kind of implies gross margins could be down as much as 400 basis points sequentially from doing the math right and that would be about 2x kind of the hit you saw as you were ramping the 22-nanometer node about a year ago. And I'm just kind of curious is that because you're ramping more volume? And there's clearly been a lot of speculation about how 14 is going and how Broadwell is going in the popular press, so I am wondering if you can comment whether or not the margin trends you're seeing in the calendar fourth quarter are kind of as expected and generally just kind of characterize how that 14-nanometer Broadwell ramp is going from your perspective?

Stacy J. Smith

Sure and I'll let Brian come in on the 14-nanometer but I'll help you with the algebra. So first I think we have to be careful not to get trapped in the rounding here because if you're at 0.2 on gross margin you get to a different answer for the Q4 number. I'd expect it to be down a bit but there's nothing untoward there other than the fact that we're ramping multiple factories at once and that we'll still have some – either way Broadwell is rolling out of the family of products. We'll some preproduction builds that will cause reserves to go up. So, I guess I'd be cautious if not. It will be down some but I wouldn't hit any alarm bells. There is nothing beyond that that's happening in the fourth quarter. In terms of 14-nanometer, I'll let Brian take that more from the operational standpoint.

Brian M. Krzanich

Yes, 14-nanometer it's going along exactly as we said in April. We said we would during this quarter qualify and we did qualify our 14-nanometer product and we actually are shipping product today to our customers and partners. We said we would have products on shelves for the holiday season and we continue to work with our partners and we're on schedule to have product on shelf in the holiday. We talked to you about this. We focused on Core M which is the Broadwell part that we think really highlights the power of 14 nanometers and the Broadwell architecture. As I said, it will be the first class of core level PC products that are fanless. We talked to you about the Llama Mountain product 7.2 millimeters thick, 24 ounces in weight, fanless. Those are going to be devices that we think will start to transform how people think about a two-in-one device in the PC versus the tablet.

That's what we focused on. The rest of the products, as we said, it will launch and ramp as we go through 2015.

John Pitzer - Credit Suisse

All right, thanks guys and congratulations again.

Operator

Thank you. Our next question comes from Jim Covello from Goldman Sachs. Your line is open. Please go ahead.

Jim Covello - Goldman Sachs

Hi, guys. Congratulations. Thanks for letting me ask a question. You guys, Stacy, have been real helpful in giving us some idea on the algebra for the gross margins in the fourth quarter. If I do the same on the revenues, it looks like kind of flattish revenues which should be a little bit below seasonal. You guys have done a great job executing versus your plan in the last couple of quarters. You're leaving some room for conservatism in there or is that more of a function of kind of the XP end-of-life which Brian referred to sort of playing itself out? Thank you.

Stacy J. Smith

Sure. I wouldn't say conservatism. It's exactly what Brian said which is we've seen some nice indications of strength and enterprise that mature and we can see those selling through. What we're seeing from our customers is more optimism on the back half than we've seen in the last couple of years for the consumer segment, but we won't see the sell through data on that for a while yet. And so what we have in for Q3 is a roughly seasonal third quarter. And I think if you look at the last few years, you'd see flattish Q4 as also being roughly seasonal. So I'd say nothing unusual there and we're really watching carefully what happens in the consumer segment. We've got some great devices coming to the market and to add on Brian's answer earlier, one of the things that's really exciting is the price points that we're enabling with Bay Trial in terms of touch enabled clam shells. We think that those will share and drive excitement in the market but we just have to watch it.

Brian M. Krzanich

Jim, the only thing I would add is what I said was we believe the XP end-of-life kind of replacement will at least play through the end of the year and that's as far as we've looked at it. It can go beyond that. What I'm not doing is predicting on '15 yet and that was really – I want you to walk away with I think that’s the end of it versus we just haven’t really started to put our predictions and our estimates for '15 together yet.

Jim Covello - Goldman Sachs

That’s very, very helpful and I’ll leave it there on the questions. That’s great. Thank you.

Brian M. Krzanich

Thanks, Jim.

Operator

Thank you. Our next question comes from Ross Seymore from Deutsche Bank. Your line is open. Please go ahead.

Ross Seymore - Deutsche Bank

Hi, guys. One clarification I think might be helpful to people. Can you just give us a rough idea in your PC Client Group how much of that is the commercial side and how much is consumer?

Brian M. Krzanich

Of the overall – are you saying how much is of the business?

Stacy J. Smith

In terms of the TAM, so I’ll give you some high level numbers. I actually haven’t looked at it this way in a while, Ross. I’ll put a asterisk by this data, it could be off a little bit but what we’ve seen generally in the PC market is a shift. If you go back four or five years, it was kind of 60% plus business and 40% consumer and those numbers have shifted. It’s 60% plus consumer now and 40% business. In rough numbers I think that’s true for the market.

Brian M. Krzanich

That is our estimate and it’s very difficult to track this down to the percentage, especially small and medium business, they go into the same place consumers do a lot to buy a system. So tracking where did that system end up is a bit difficult, but 60-40 is probably not far off.

Ross Seymore - Deutsche Bank

I guess really what I was getting at is that representative for Intel as well or are you a little more skewed? I realize you have the dominant market share, but it's within – good enough for government's work to have that sort of approximation?

Stacy J. Smith

Yes, that would be indicative of our mix. I mean our mix is going to look like the market's mix for the most part.

Ross Seymore - Deutsche Bank

Got you. And then getting off that topic to one that's a little more specific to you guys, Stacy you talked in an earlier question, I think John asked about the gross margin in the fourth quarter and how much it was implied being down. When you have those multiple fabs ramping it 14-nanometer, can you walk us through what a typical duration is of that higher cost inventory working its way through before the lower cost benefits actually start to kick in?

Stacy J. Smith

It's probably a couple of quarters is the way I think about it. The first wafers from qualification for sale you have the phenomenon of a big factory that's fully equipped with pretty small amounts of volume going through it. But we ramp the factories pretty fast. So within a couple of quarters we're getting to a point until the factories are ramped and then the cost would continue to come down for another 12 months or so after that.

Ross Seymore - Deutsche Bank

Great, thank you.

Operator

Thank you. Our next question comes from David Wong from Wells Fargo. Your line is open. Please go ahead.

David Wong - Wells Fargo

Thanks very much. With the current schedule for the Broadwell ramp on 14 nanometers, what are your expectations for 10-nanometer timing? And will there be a follow-on 14-nanometer family after Broadwell or would you go straight to 10 nanometers?

Brian M. Krzanich

So let me try to answer your question. There's a series of products that are on 14 nanometers. We always remember to do a Tick-Tock kind of products, plus we do a refresh of the Atom line typically, so we have Cherry Trail coming in at the end of this year and ramping in the first half. We have Broxton which is the follow-on Atom product as well and then the [Talk] [ph] or the real architectural shift on 14 nanometers is SkyLake which is also scheduled for '15. We have done no changes or shift to our 10-nanometer schedule but we won't really talk about 10-nanometer schedules until next year.

David Wong - Wells Fargo

Okay, great. And could you give us any numbers on your 4G baseband, until shipments or revenue for June and the growth momentum going into September for 4G basebands?

Stacy J. Smith

Well, LTE and this is pretty consistent with what we had showed at the investor meeting, we're just moving into qualification of LTE, as Brian said in his remarks, so a little bit later than we thought. So we kind of thought it was going to be the end of Q2. It's now going to be early part of Q3 and then we'll see a ramp that is offset. It's going to be more towards the end of this year or early next year. And in the meantime the market is transitioning part away from the 2G/3G platform to LTE. So that part of the curve is consistent with what we saw and you can see it in our overall revenue results from the second quarter for the segment.

David Wong - Wells Fargo

Great, thanks.

Brian M. Krzanich

Thanks, David.

Operator

Thank you. Our next question comes from Mike McConnell from Pacific Crest Securities. Your line is open. Please go ahead.

Mike McConnell - Pacific Crest Securities

Thank you, guys. Looking at just the traditional enterprise segment of DCG, it is encouraging to see that recovery here in Q2. Regarding sustainability with Grantley kind of coming out this fall and then Microsoft planning to end-of-life Windows Server 2003 in July, can you comment on kind of the sustainability within that bucket within DCG? Are you getting more confident that we could see multiple quarters of a recovery there please?

Brian M. Krzanich

Sure. I'll start and Stacy can jump in. If you take a look at the data center in general and this gets back to that comment we made earlier about just the lumpiness of each one of these segments. We said that we believe we can continue to grow the data center in the low double digits out into time of which the enterprise is a portion of that. As we said, this quarter was extremely strong in the enterprise and we don't necessarily – there was a lumpiness or kind of a pattern to the orders where customers came in and made some purchases. What we've built into that low double digits for the whole data center is an enterprise that's in the mid-ish single digits growth over time. So that's more what we've projected. We do believe Grantley will be a good product. The enterprise so we think is still going to grow in about that mid range.

Mike McConnell - Pacific Crest Securities

Okay. And then just for my follow-up, I wanted to ask about market share in Q2. If I look at PCG, volumes were up about 4% year-over-year; IDC just reported about a 2% decline in overall PC sales and you had some pretty optimistic commentary on volumes for Bay Trial on the desktop and the notebook side. So that growth relative to the market, that outsized growth, was that mostly market share gain or was it something else to do with maybe inventory build, et cetera?

Stacy J. Smith

I think it's a couple of things. One is, I think it's pretty clear to us that we are gaining some share and it's not just from the traditional competitors. I think we're seeing at these price points some shift back of tablet where we're shipping a really nice two-in-one type touch enabled clam shell into these price points. So that's a piece of it. And then I think the other piece is as you look at this in terms of year-on-year comparisons, if you recall last year what we saw is that our customers were managing inventories very, very lean. I think they had very little confidence in a back half seasonal selling season and so part of it is just the year-on-year comparison. What they're doing now is putting in more of a normal build for a more seasonal back half. And last year that was not the case. So it's a combination of those two things.

Mike McConnell - Pacific Crest Securities

Thank you.

Operator

Thank you. Our next question comes from Stacy Rasgon from Sanford Bernstein. Your line is open. Please go ahead.

Stacy Rasgon - Sanford C. Bernstein & Co.

Guys, thanks for taking my questions. I had a first question on the tablets and the contra revenue. Presumably you've got tablets ramping into Q3 and into the back half but you're not calling out contra revenues as a margin driver for Q3. Is this a function of the tablet volume or is this a function of contra revenues rolling off? I think they were supposed to start to decline as we go through the year. Any color you could give us on that would be helpful?

Brian M. Krzanich

So let me start with just kind of an overall, Stacy, discussion on the tablets and on and I'll let our Stacy comment on the contra versus margin discussion. We are on schedule for our 40 million. We did 10 million in Q2, so we did roughly 5 million in the first quarter, 10 million in the second quarter. So you can kind of break out how the rest of the 40 million come in Q3 and Q4 with clearly Q4 being probably the bigger of the two quarters remaining. We did say that we would continue to drive down our cost and hence the contra revenue. We're continuing to do that. Bay Trail adds to that capability. As we exit this year we said they were on schedule with SoFIA. SoFIA is a fully integrated part really designed for this segment. That allows us to move into '15 with a much, much better cost structure and really drive down the contra revenue to near 0 on those products. So, we are on schedule as far as we had stated through the year of what we're doing on our cost reductions and driving down the contra. I'll let Stacy comment on how contra is reported versus the margin.

Stacy J. Smith

Yes. So you're getting into a little bit of I think a math issue here, Stacy. Let me walk you through it. First, we saw more or less a full point of margin in Q2 associated with our ramp of tablets. If you think about the volume curve that Brian just laid out, let's just both take a precise number 40 million just to anchor. We did 15 in the first half that we did 10 in Q2. That says we have 25 to do in Q3 and Q4. Let's say it's 12.5 million per quarter. It's not really that linear but just take that for the sake of argument. The change isn't that great. So you're really into a kind of change in gross margin dollars. It doesn't add up to something that's significant or else it would have been on my gross margin recon.

Stacy Rasgon - Sanford C. Bernstein & Co.

Got it. You're close to the run rate anyways. I get it.

Stacy J. Smith

Yes, exactly. So you saw the big change in Q1 to Q2 where it was kind of a full point of gross margin impact. It was a little hidden – it's on the recon but it's a little hidden and the fact that we were up five points quarter-on-quarter.

Stacy Rasgon - Sanford C. Bernstein & Co.

Got it, that's helpful. For my follow-up question I wanted to dig into mobile a little bit. I don't want to take away from the results of the rest of the business which arguably look quite strong, but at this point until it picks up there really isn't much of a mobile business to speak of anymore. I was wondering if you could give us more of a feeling for how mobile presence fits into the long-term goals. Are you in this for I guess the profit pool that's available or is this a strategic imperative for the rest of your business is to succeed here? I guess what milestone should we be looking for and how do you see the loss rate in this business trending I guess into the second half and into 2015? This is presumably some of the new products that are in 4G hopefully start to ramp.

Brian M. Krzanich

Sure. So I'll start this and again Stacy can jump in and cut it on the profit side. To answer your question, Stacy, is a bit of yes to both. Clearly we don't go into businesses to lose money and we believe that over time we can make this a profitable business. We have some ground to make up both in getting our LTE to Cat6 and in our products being specifically designed for this segment. We said we moved some of the early products Clover Trail and Bay Trail that were really targeted towards clam shells and almost the netbook era down into this space to get there quickly. And as we turn into SoFIA next year and you'll see a family of products in SoFIA including some from Rockchip. You will see us really targeting this space and that's how we become profitable in this space. But aside from that, this is we believe a strategic area for us. We've talked about all of our products have become more personal, more mobile, more connected and we're seeing modems work their way into PCs, for example, especially two-in-one devices. It's going to probably start with Chromebooks. Chromebooks are best when they are connected and so all these connected requirements are going to drive modems into there, for example. But you can go from a PC down through tablets, phones and into the Internet of Things in the industrial space where you're looking at a pump that's out in the middle of the desert someplace or wherever. It's going to want a 2G or 3G connection probably to get that data back into the system. So we believe modems and connectivity in this space is critical to almost every segment of our business, but we also believe that we can be in this mobile space and make money. We just got to get our products there and get the right price structures.

Stacy J. Smith

Well said. I'll specifically answer the second part of your question. Looking at it from the reciprocal, from the CFO seat, if we don't have the ability to integrate in comms, I think three, four years from now we are locked out of large segments of the market. So it's a critical capability. That said we acknowledge that's a big loss and our goal and our plans would suggest that we'll have a significant improvement in this segment next year. It won't be profitable but we should be able to improve it nicely next year and stay on a trend. That's what we're driving the business to.

Stacy Rasgon - Sanford C. Bernstein & Co.

Got it. Thank you, guys.

Brian M. Krzanich

Thanks, Stacy.

Operator

Thank you. Our next question comes from Romit Shah from Nomura Securities. Your line is open. Please go ahead.

Romit Shah - Nomura Securities

Thank you. Great quarter. I was hoping for some more color on the PC Client business here in Q3 specifically how you're projecting business versus consumer PC?

Stacy J. Smith

We don't break out that level of detail. Did you mean Q3 or did you mean Q2?

Romit Shah - Nomura Securities

Q3.

Stacy J. Smith

Yes, we don't break out that level of detail. We don't even forecast this segment level much less at a consumer versus enterprise inside to segment.

I guess I'd say from a market trend standpoint we would expect that the same market trends that we've seen which is relatively stronger, enterprise relatively stronger, mature markets are kind of the more dominant factors in the quarter. And then a consumer market that's maybe a bit more seasonal and continue to see some weakness in emerging markets. But none of that is new news. That's just what we're seeing now and so we're continuing those trends.

Romit Shah - Nomura Securities

Okay, thanks. And my follow-up is on the buyback and trying to figure out the pace of the $20 billion repurchase, Stacy, you shared with us that roughly 6 billion is in U.S. cash which is about a third of your total cash balance. If I just flow that through to cash flow, it would imply roughly 2 billion a quarter in U.S. cash flow before 1 billion in dividend and the CapEx commitments. So, I'm struggling to see how you can fund this $20 billion buyback without going into a net debt position? Appreciate your perspective on that.

Stacy J. Smith

It's a little hard to follow that math on the fly, so I apologize, but the way I would look at it is we'll do $4 billion in Q3. That as you mentioned comes out of U.S. cash. As we get into the back half of the year, I expect that I'm generating cash and a reasonable amount of cash is available to me in the U.S. Just simple math; net of any cash generation I'll still have a couple of billion dollars in the U.S. I'll generate some cash. That gives me a reasonable amount of potential to do another leg of this buyback in Q4. Did that answer your question?

Romit Shah - Nomura Securities

Yes, that's helpful. Thank you.

Stacy J. Smith

All right.

Operator

Thank you. Our next question comes from Hans Mosesmann from Raymond James. Your line is open. Please go ahead.

Hans Mosesmann - Raymond James

Thanks. Congratulations on the quarter. Brian, just going back to the 14-nanometer Broadwell, the availability to OEMs in the first half of 2015 seems to be about a year late. I understand that you made comments about Core M in April and that's on track, but what's driving the delay for the broader portfolio of Broadwell products? And the follow-up is what does that do if anything to the cadence without Tick-Tock? Thanks.

Brian M. Krzanich

Yes, I wouldn't have said we're a year late. I'd tell you we're six months on. We targeted Broadwell and the Core M because we really feel like it's a product that highlights the real power of 14 nanometers and Broadwell, right. It's the one that's going to really target the fanless thin and light highly mobile systems which is really going to differentiate I think in my mind 14-nanometer from prior technologies. But it will be the technology that brought the fanless PC to your laptop. Every one of these process nodes that we do takes – if you take a look at it going all the way out through the mobile products, the desktop products, the server products, the Atom products, it's always a year and a half of product launch to be honest with you, every one of these. By the time you get to the E7 version and look we're still launching the Haswell server products this quarter and that's a technology that's more than two years old. That part in the boarder availability is more skews out into next year. Six months yes, it's not a year. And you'll see a series a products through next year. It's always a shift between our customers and OEM partners, availability and readiness to do a new skew and our readiness of the product, they'll move as we move through the year next year. I think what's key to me is that the process is healthy. We've got the product in a yield capability to be able to launch, we have a set of criteria that we use on every technology, so to be shipping to customers it's met that quality requirement, those yield requirements and that's we're shipping to customers today and you're going to have product on shelf.

Hans Mosesmann - Raymond James

Okay. And just a follow-up, does that delay SkyLake by six months?

Brian M. Krzanich

We're still looking at the actual launch date. We've set it in 2015 so it's a pretty broad window there. We're trying to pin down and I think we go through the second half of this year, we'll pin down exactly when SkyLake will come to market. Again it's going to be – as we launch these other Broadwell products (indiscernible) consumers, everybody, when are they ready for SkyLink. That will drive it as much as anything on the process readiness and the product readiness.

Hans Mosesmann - Raymond James

Thank you.

Mark Henninger

Thanks, Hans. Operator, we'll go ahead and take two more questions.

Operator

Our next question comes from Christopher Rolland from FBR Capital Markets. Your line is open. Please go ahead.

Christopher Rolland - FBR Capital Markets

Hi, guys. Great quarter. Thanks for letting me ask a question. I missed a brief segment there, so forgive me if this was asked, but on PC guidance and operating profits for the PC segment, you guys previously said down, I think it was mid single digits there and Op profits were flat and I guess given the strong results here and guidance, can you update us for the year?

Stacy J. Smith

Sure. I would say that guidance is no longer valid based on what we saw in the first half. So on the PC market if you go and look at some of the third parties out there, you got a range of estimates and actually they're fairly divergent at this point but some of the ones I was looking at earlier today kind of show a PC TAM that's flat, maybe down a little bit once you adjust for things like Chromebooks and two-in-ones and detachables. I don't think we'd be far off of that from the standpoint of our view of the TAM. And then we'll see we believe some unit growth based on the things we talked about earlier, more normal inventory levels and more importantly some share gain and that will equate to some revenue growth for us. We haven't gotten more granular than that and it probably won't get more granular than that at this point. We'll just watch the results play out in the back half.

Christopher Rolland - FBR Capital Markets

Okay. Last time I looked I think Gartner was down maybe 3% so that discrepancy is growing pretty dramatically there…?

Stacy J. Smith

There is one caveat and it's gotten really confusing because we see these form factors all coming together and so you have to get really precise about what you call a PC Client. In our PCG results we would include Chromebooks, we would include two-in-ones, things like the Microsoft Surface, we would include detachable; so the definitions become pretty important here in terms of what are they telling versus what shows up in PCG.

Christopher Rolland - FBR Capital Markets

Okay, great. And then on the 4% sequential growth for next quarter, maybe you guys can give us a little color on sort of first rank perhaps those segments where you see the most strength?

Mark Henninger

Chris, we'll go ahead and answer that one as a courteously but I just want to remind everyone we ask people to ask just one question and one follow-up. Thanks.

Stacy J. Smith

I'm sorry, could you say the question again?

Christopher Rolland - FBR Capital Markets

Yes, just some color on the 4% sequential growth for next quarter, how that sort of shakes up between the segments?

Stacy J. Smith

Yes, again, we're not going to provide that level of granularity. I'd just step back and say it's roughly seasonal but it's not what we've seen in the last several years and it kind of feels like the right place to be after a fairly strong first half.

Christopher Rolland - FBR Capital Markets

All right, thanks, guys. Great quarter.

Brian M. Krzanich

Thanks Chris.

Mark Henninger

Operator, please go ahead and introduce our last question.

Operator

Thank you. Our next question comes from Ian Ing from MKM Partners. Your line is open. Please go ahead.

Ian Ing - MKM Partners

First question in foundry you've been highlighting this three and half year manufacturing lead. Any other improvements in your foundry offerings or collateral as you target the next node? It seems the window is closing here to go after some new 14-nanometer customers?

Brian M. Krzanich

So, I mean you saw we signed up Panasonic this quarter. We're still in discussions with several other potential partners, so I wouldn't necessarily agree that the window is closing in on 14 nanometers. We have already started carrying the learning that we've had on 14-nanometer from all segments both from our own efforts into the mobile space, our partnerships with our current foundry partners, the work we've done with third parties in design like synopsis and cadence. So we are carrying that off into the 10-nanometer space and we already have people that are talking to us about 10-nanometer foundry but I guess I wouldn't have said that a 14-nanometer window is closing. I mean if you still take a look at the 14-nanometer technology relative to what anything else is available out there, we're still the only company on the planet who is shipping a (indiscernible) transistor of any geometry and we're currently the only people out shipping 14-nanometer products. So I think our leadership is – we've got some window where people could still jump in and have a leadership product.

Ian Ing - MKM Partners

Okay. Thanks, Brian. And then a housekeeping for Stacy, domestic versus overseas cash, is there a mix there and should there be a repatriation holiday? Would that free up even more cash for buybacks and dividends or are those already being invested overseas?

Stacy J. Smith

So there is a mix and we disclose it. If you look at domestic cash and this is not taking into account some of the longer term investments, it's on the order of 6 billion out of the total. In terms of our priorities from the standpoint of tax reform, we actually like to see a more comprehensive tax reform for corporations that bring down our tax rate to make it more in line with what we see in other industrialized countries. That's a bigger issue for us. We're a big manufacturer, so the manufacturing credits become important. We think those help us create jobs here in the U.S. The cash piece for us is less important than it is for maybe others because remember we generate cash all over the world but we also make investments all over the world. We have factories in Ireland and Israel and China and the U.S. and so we consume cash. We don't end up with the same kind of trapped cash problem that companies do that have minimal operations outside the U.S.

Ian Ing - MKM Partners

Thanks. I'll take it up with the politicians then.

Brian M. Krzanich

Sounds good.