Operator

Good day ladies and gentlemen, and welcome to the Intel Corporation Third Quarter 2015 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions]. As a reminder, this conference is being recorded.

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

Mark Henninger

Thank you, Amanda, and welcome everyone to Intel's third quarter 2015 earnings conference call. By now you should have received a copy of our earnings release and the CFO commentary that goes along with it. If you've not received both documents, they're available on our Investor website, intc.com.

I'm joined today by Brian Krzanich, our CEO; and Stacy Smith, our Chief Financial Officer. In a moment, we'll hear brief remarks from both of them, followed by Q&A.

Before we begin, let me remind everyone that today's discussion contains forward-looking statements based on the environment as we currently see it, and as such, does include risk and uncertainties. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially.

Also, if during this call we use any non-GAAP financial measures or references, we'll post the appropriate GAAP financial reconciliation to our web site, intc.com.

And finally, I'd like to remind everyone that we will be hosting our annual investor meeting here at our Santa Clara headquarters on Thursday, November 19. If you have questions about the event or logistics, please contact investor relations.

With that, let me hand it over to Brian.

Brian Krzanich

Thanks Mark. We executed well against our strategy in the third quarter, and delivered revenue just above the midpoint of our expectations; as a result of a richer client mix, driven largely by our new 6th Gen core products.

Despite ongoing macroeconomic headwinds, there are signs that the PC market is beginning to stabilize and we continue to benefit from a strategy designed to capitalize on the growing need for the infrastructure that powers the smart and connected world.

I'd like to take a moment to touch on a few highlights; the client confidence [ph] on these products and good, better, best segmentation strategy to record core mix. The third quarter saw the release of both Windows 10 and our 6th Generation core microprocessors, formerly known as Skylake. Our partners in the industry are using this combination to drive an unprecedented innovation, creating new generation of high performance enthusiast desktops and thinner, lighter and more versatile two-in-ones. There are more than 50 sixth generation core systems in the market, available and shipping now, and we expect to more than triple that number by the end of 2015.

We remain solidly on track to our previously committed goal to improve mobile profitability by $800 million. Over 75% of that goal has already been realized to-date. At the same time, our strategy to be a foundational supplier of internet infrastructure is delivering growth. Our Data Center, non-volatile memory and IOT groups all posted double digit growth year-over-year.

BCG grew 12% on strong cloud and networking volume. At the same time, the Internet of Things grew 10% year-over-year, driven by the video, manufacturing and retail segments.

The Altera transaction remains on-track to our original six to nine month closing schedule. During the quarter, both U.S. regulators and Altera stockholders approved the transaction. We are excited about the new opportunities and innovations that integrated FPGAs will make possible, in both the Data Center and the Internet of Things.

In the third quarter, the strength in our memory business continued, growing 20% year-over-year. We are excited about our 3D XPoint technology, the industry's first new memory category in more than two decades. This breakthrough technology is up to 1,000 times faster than NAND and up to 10 times denser than conventional memories, like DRAMs. This enables memory intensive applications to be performed at much faster rates and much lower costs, opening up entirely new opportunities.

3D XPoint is evidence of our commitment to innovation, and it’s a direct result of our 10 plus year research and development pipeline. While we have more work to do, together, these results reinforce my confidence in our strategy, to create shareholder value. I look forward to talking with you more about our opportunities and our plans during our November investor meeting.

And with that, let me turn the call over to Stacy.

Stacy Smith

Thanks Brian. Revenue for the third quarter was $14.5 billion, 10% growth quarter-on-quarter and above the midpoint of our outlook. The higher than expected revenue, was driven by higher notebook and desktop platform average selling prices, as we shipped a record core mix. Year-on-year revenue was flat.

Third quarter gross margin of 63% was in line with the outlook. Operating income of $4.2 billion was down 8% year-over-year and up 45% quarter-over-quarter. Net income was $3.1 billion, down 6% year-over-year and up 15% quarter-over-quarter, and earnings per share of $0.64 was down 3% year-over-year and up 16% quarter-over-quarter.

The Client Computing Group had revenue of $8.5 billion, a 7% decrease year-over-year. From a PC market perspective, we continue to see weakness in nine consumer segments in emerging markets.

The worldwide PC supply chain is healthy, as we ramp our sixth generation core microprocessors, formerly known as Skylake. Operating profit for the overall Client Computing Group was $2.4 billion, down 20% year-over-year. The Data Center, Internet of Things and Memory businesses continue to account for almost 40% of our revenue in the third quarter. The Data Center Group had record revenue of $4.1 billion. The 12% growth year-over-year is driven by strength in the cloud and improvement in our enterprise business. The Data Center Group had operating profit of $2.1 billion, up 9% year-over-year. The Internet of Things segment also achieved 10% year-over-year revenue growth of $581 million.

Additionally, the memory business grew at 20%. The business continued to generate significant cash, with $5.7 billion of cash from operations in the third quarter. We purchased $1.2 billion in capital assets, paid $1.1 billion in dividends and repurchased $1 billion of stock in the third quarter. Total cash balance at the end of the quarter was $20.8 billion, up $7 billion quarter-over-quarter. Our net cash balance, total cash less debt, and inclusive of our other longer term investments, is approximately $5.1 billion. Over the next two quarters, we expect to complete the acquisition of Altera. During the third quarter, we issued $8 billion of new long term debt, consistent with financing plan I outlined on the last earnings call.

As we look forward to the fourth quarter of 2015, we are forecasting the midpoint of the revenue range at $14.8 billion, up 2% from the third quarter, and we are forecasting the midpoint of the gross margin range to be 62%, a one point decrease from the third quarter. This revenue forecast, aligns with our prior full year 2015 revenue guidance of down approximately 1% when compared to 2014.

Overall, we are seeing a weak PC client business being offset by strong growth in the Data Center, memory and Internet of Things businesses. For the full year 2015, we expect the memory business to grow at a fast pace. Both the Data Center and Internet of Things businesses will also exhibit strong growth. But the annual growth rate for these businesses will be lower than expectations at the beginning of the year, as a result of weaker than expected macroeconomic growth.

We now expect the Data Center business to grow in the low double digits versus the prior forecast of approximately 15%. Relative to our forecast at the beginning of the year, we are seeing a weaker enterprise segment being partially offset by a stronger than expected cloud segment.

The third quarter results and the fourth quarter forecast reinforce our strategy. Despite weakness in the macroeconomic environment and the overall PC market, we are achieving solid financial results as we benefit from the growth in Data Center, memory, and Internet of Things businesses. More importantly, we are building the foundation for future growth. The combination of the 6th Generation core microprocessor and Windows 10 creates exciting devices for the PC segment. Our investments and leadership in the Data Center are resulting in strong growth. We have a strong and growing memory business, which is well positioned to disrupt the industry with a launch of 3D XPoint technology, and lastly, we are well positioned to benefit in the Internet of Things market.

Our process technology leadership and a broad range of leadership IP creates a competitive advantage that we believe will result in increased shareholder value, and as we complete the Altera acquisition, we expect to broaden our product portfolio and enable even more innovation.

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

Mark Henninger

Okay. Thank you Brian and Stacy. Moving on now 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. Amanda, please go ahead and introduce our first questioner.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question comes from Chris Danely of Citigroup. Your line is open.

Chris Danely

Hey, thanks guys. I guess just to kind of go over the revenue beat; so it sounds like, to paraphrase, it was mostly driven by -- or all driven by CCG and that it was mostly driven by pricing, is that true? And then why wouldn't -- gross margins haven't been a little better than expected, if pricing was so strong, or if you could just illustrate [ph]on that?

Stacy Smith

Yes. The first approximation, the revenue higher than expectations was a result of a richer mix inside of the client group. You can see that the unit and ASP trends in the supplemental materials that I put out. But pretty much to our expectations, it was all due to just a richer mix. We saw strength at the core i7 level literally across the core product line, as we launched Skylake.

The gross margin question, if you look at the margin recon, what we saw is we saw some good news associated with the richer mix. It was offset by higher 14-nanometer costs than we were anticipating. We are expecting some bad news. We had a little bit more bad news than we anticipated, and that comes down till we actually ramped the Ireland factory a little bit earlier and the first wafers out of that factory were pretty expensive, and so we saw a mixing up of costs in Q3 a little bit more than we thought.

Chris Danely

Okay, thanks. And for my follow-up, you mentioned some demand going on out there, some demand changes in the geos and everybody is concerned about China. Can you just comment on your business in China, and maybe just talk about how your geos did in general versus expectations?

Brian Krzanich

Sure. This is Brian. I think if you take a look at -- there has been a trend this entire year, where the mature markets have tended to do -- be the strongest for us, so U.S., western Europe. And Asia, PRC, parts of Eastern Europe, developing countries not being as strong, they are having some softness that carried into the third quarter as well. And so, if you just take a look at China in general, it kind of mimics that and -- if you look at it, sales are down slightly, they are softer, and its more of the consumer than the enterprise in that space, and across all the different segments. We saw it across the board.

Chris Danely

Okay. Thanks guys.

Operator

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

Ross Seymore

Hi guys. Thanks for letting me ask the question. I got a follow-up on the ASP side of things. Stacy, could you give us a little color underneath the covers on how the CCG ASPs can be up 15% year-over-year when the desktop and notebook breakdowns are up at most like half or a third of that? And then, how sustainable is that ASP increase going forward, as I notice you did not put it into your gross margin benefit in the fourth quarter?

Stacy Smith

Yeah. So on to your first question, the piece of the math you're missing is, what's going on tablets. And while it’s a relatively small portion of the business, if you remember, a year ago, we were seeing very significant counter revenue dollars which was coming out of ASP, and those for the large part, have abated. And so a change in the tablets is giving you that average that's higher than both desktop and notebook.

We provided the data. If you just look at desktop, the ASP is up about 8% year-on-year and notebook ASP is up about 4% year-on-year, and that's really just mix. I am not sure if it’s the second part of your question?

Ross Seymore

Just that the sustainability and what it would do to gross margin? You didn't mention it in the fourth quarter, as far as being an ASP benefit?

Stacy Smith

Yeah. We are shipping a rich mix, that has been true across 2015, if you just see -- against the backdrop of a relatively weak PC market. We have seen pockets of strength and a lot of that has been at the high end. And I think its coming down -- we have got some great technology there, we are doing a reasonably good job of segmenting the product lines, so its not one size fits all anymore, you have all in ones and gaming PCs. We have launched a specific line now for gamers, those kinds of things. I think its likely to stay a fairly rich mix. So that's not -- gross margin, we kind of -- this means we are expecting it to maintain, not necessarily grow from here, but also, not necessarily come down.

Ross Seymore

Great. And I guess, as my follow-up, looking at your MCG, which you used to call the MCG side, and more specifically, the cellular side, you have had another reasonably large player exit that market during this last quarter in Marvell. Can you just give us an update on where you are with your LTE and maybe SoFIA product lines, and strategically, have you noticed any change in that business, now that the number of suppliers at the high end seems to be down to two?

Brian Krzanich

Yeah. So I think, let me start with the first part of your question, which is how is the progress going inside. So we have our 7260 modem that's been shipping throughout this year. There are products throughout the world that are using that modem, including in the U.S. The 7360, which is our next generation modem, is -- we will be shipping by the end of this year, with products to be announced by our customers, next year. So the LTE modem ramp, basically you need to be on a -- yearly cadence with these modems is going well. SoFIA 3G and the 3G-R, which is the Rockchip version of the SoFIA is in market today, that you can see tablets and phones with those today. You will see the first of the SoFIA LTEs next year, first half of next year, and SoFIA with Intel 14-nanometer in the back half of next year, and so those continue on schedule as well.

And market dynamics, I guess the way I look at the modem business is, its not really dependent -- it’s a competitive market, and its not as much about how many players are in it. There is actually I think more than two. But its really about keeping that yearly cadence and having the right technologies in place and being competitive, and it doesn't really matter almost how many there are, there will be somebody there trying to compete with you at that leading edge. That's where the modem is really driven at that leading edge.

Ross Seymore

Great. Thank you.

Operator

Thank you. Our next question comes from Stacy Rasgon of Bernstein. Your line is open.

Stacy Rasgon

Hi guys. Thanks for taking my questions. First, can you tell us what drove the CapEx this quarter and what that implies for how you're viewing sort of forward unit trajectory, as we exit the year?

Stacy Smith

Sure. Actually, it's a pretty specific issue this quarter. We upgraded the configuration of a specific piece of equipment that we were going to buy [indiscernible] some delivery slots that were towards the end of this year. As we upgraded to a richer configuration, it swapped out to delivery slots from the end of this year, to Q1 of next year. So just shifted a few hundred million dollars worth of CapEx from 2015 to 2016.

In terms of outlook for next year, we are not providing that forecast now. We will talk obviously a lot more about that in November. You do have to keep in mind, this was an unusually low year, so I'd expect directionally, CapEx will be up some next year, but we will talk much more about that in November.

Stacy Rasgon

Got it. Thank you. So my follow-up, I just want to clarify, so you're essentially holding your Q4 revenue guidance, effectively unchanged versus what was implied before? We have got Data Center, which is basically lower. PC outlook is still weak, and it seems like the unit outlook there, maybe lower than it was. Your cap is cut again, suggest you don't see the unit trend improving. Is it fair to say then that really the pricing outlook is really all that's kind of helping you support the outlook into Q4? And I guess you sort of talked about a little bit on sustainability of that, as you see it. But I guess, would you to find sort of I guess the outlook on pricing now to be the biggest near term risk on beyond just -- with the channel doing great? I guess, was pricing the biggest near term risk, in terms of what's driving the business, if we are looking over the next couple of quarters, as we exit the year?

Brian Krzanich

So let me start with this, and then I am sure, Stacy is going to have something to add. I think first, in our comment that we are not -- given the CapEx shift, we are not thinking about units growing. Anything we spend in CapEx today is really about capacity, probably more towards the end of next year, maybe even into 2017. So you have to remember, there is this lag, and that's why, as we looked at the tool, actually, we are making an adjustment on the efficiency of that tool, basically the number of units per tool out. In order to get more capacity, when that tool is really required. So I want to just separate that, so people don't get the wrong message about the CapEx and what we will do in the future.

If you take a look at Q4, we said whilst it's absolutely relatively a seasonal, when you just take a look at the unit level standpoint. So there is a natural decline in the total number of units, as you go from Q3 into Q4, based on just holiday shift.

Now we are going to move -- if you take a look at Q4 versus Q3, there is a higher percentage of Skylake, which is our 6th Generation core as we talked about, and we think there will be a richer mix, as you move into there. So that's kind of how Q4 was laid out, and then as we said, we are not really talking about 2016 yet until the investor meeting. But I think we should separate out the CapEx, we have predicted -- the key -- seasonal Q4, but with a mix that is remaining rich, but that richness is based on both the great products that we have been producing, but also a richer percentage of Skylake/Intel 6th Gen Core.

Stacy Smith

I guess, I'd just add. I would just zoom out a little bit on the math. We exited Q3 with healthy worldwide supply chain inventories. We actually think we probably undershipped the market a little bit in Q3, and we are forecasting seasonal Q4, and there was a little bit of movement into the businesses, but nothing that really moves the numbers. So to us, it feels like a pretty natural forecast in support of all the data we have seen.

Brian Krzanich

Thanks Stacy.

Stacy Rasgon

Thank you guys.

Operator

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

John Pitzer

Yeah. Good afternoon guys. Thanks for letting me ask the question. Stacy, maybe just a follow-up on the September quarter; you said in your prepared comments that platform for client was up about 3% on a volume basis. Can you help me better understand what desktops and notebooks did sequentially, because if I kind of rack the year-over-years, I am getting up high single digit to low double digit sequentially; is that right? And then just relative to your comment about -- earlier about inventory, how does that [indiscernible] sort of a lean inventory, or do you actually feel like Skylake is producing a build or will continue to produce a build into the calendar fourth quarter?

Stacy Smith

Yeah I think -- we saw units up some in Q3. But I think the year-over-year compare probably tells the tale a little bit better. We were down 14%-15% between notebooks and desktops when you compare that against what the third parties would say happen with the TAM, they are kind of down in the more high single digits. So I think we undershipped a bit, relative to the overall TAM. And when we go do our test of inventory, we come back with healthy inventory levels, if that's what you're getting at.

John Pitzer

Well, I guess what I am getting at is, just a seasonal Q4, with a new product launch and undershipping in Q3. I would assume that Q4 could actually be better. I don't know what I am missing relative to that math.

Brian Krzanich

Maybe you and Stacy should go arm wrestle, and between the two of you, you can figure out whether you are too high or too low. So yeah, I mean, there could be headwinds and tailwinds, as we go into the quarter as always. But we are kind of looking at it, saying, we have got healthy inventory levels and we are going into the seasonally stronger selling season. It feels like we are kind of balanced in terms of the risks and opportunities.

John Pitzer

That's helpful. And guys, my follow-up, Brian, just on the Data Center Group, we are going to be a little bit shy of the long term target this year, because of macro. Do you have to rethink what that long term growth rate target should be? And I guess more importantly, at what point is the enterprise part of the business small enough, because that's actually the most macro sensitive, where these macro issues won't kind of be this significant?

Stacy Smith

Sure. So I don't want to -- I am not going to go rethink the long term growth. We are still very confident that we can keep this over the long term, growing at mid-teens level. You really have to take a look at this John, over a longer period of time. you can't live in this industry by a quarter. For example, we have talked about -- enterprise is a bit weak right now and the cloud has been basically helping us in growing at a rate faster than we'd even projected as we entered this year. But what typically happens in the fourth quarter, the cloud enterprises, and not to do large purchases in the fourth quarter. Well they have in the past at times, but in general, don't, because really fourth quarter is their selling season, and so they don't want to disrupt their systems during that quarter, and then it comes back in the first half of the follow-on year.

So there is always this lumpiness to this quarter-by-quarter and you have to look over a much longer period of time.

Your second kind of question built into that, when does cloud and networking and the rest of the infrastructure work. I really want to remind people that, what we are doing in the Data Center is not only just growing cloud versus enterprise, but we are driving hard into networking, we are driving -- next year you will see our Silicon Photonics, you will see FPGAs with Altera, so it’s a broad spectrum of products that should increase our footprint in the Data Center. We haven't set a date for when those are big enough, that they offset enterprise. But its not long, its in the near future that we can offset enterprise weakness.

John Pitzer

Thank you.

Operator

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

Jim Covello

Great guys. Thanks so much for taking the question. I will let Stacy and John arm wrestle over the near term stop. I will ask a couple longer term things. First I guess Brian, on the NAND market; obviously this has been a terrific market for you guys. There is a lot going on there, there is a lot of growth opportunities commensurate with what's going on in the Data Center. There seems to be a lot of consternation next year about which of the various players are going to do what, and potential consolidation on the industry.

Maybe you could just give us an update on how the NAND market looks to you, as you go out to 2016, and where you see the opportunities, and you know, what kind of investments you think you will need to make there?

Brian Krzanich

Sure Jim. So let's start at kind of the macro level and then work our way down. As you said, the non-volatile business has been very good to us, and it has grown at a better rate than we even anticipate, as we entered the year. We need to remember that, more than 80% of what we sell are enterprise SSDs that are going into those Data Centers. So we made a very tight connection. When we think of our NAND business, we think of it tied very closely to our Data Center business, and in fact, we trend a lot of synergy on the products, the efficiencies, the performance of these products, as we go to market and then, how we go talk to our customers.

If we take a look at next year, its really the ramp of our 3D NAND process, and that we believe gives us a performance and cost advantage over the competition. We are very comfortable with where we are positioned for next year, from that perspective.

In addition, we talked about our 3D XPoint, which is really a transformational product for the memory market. What we said was, we start shipping limited engineering samples end of this year. You have seen on-stage, we showed at IDF and a couple of other places now, working products with benchmarks, we will continue to show more and more of those as we go through this year, and we will start shipping product for that next year.

As I look out in next year and beyond, it really becomes the 3D NAND driving the real high volume, better cost and performance enterprise SSDs and in 3D XPoint, really transforming how memory and storage work together and again, we will target the Data Center and have that very close crosslink between these. But I think 3D XPoint, you will actually see in many-many other products, as the value of both memory, storage, and performance start to play out in a variety of applications, IOT, mobile, all over the place.

Jim Covello

That's very helpful. Thank you. Maybe for a follow-up, I will kind of ask about one of the other longer term drivers that you have talked about, the foundry business to kind of offset what you expect to be continued declines in the PC unit business over time, or continued slow growth in that business over time. So you have talked about NAND, you have also talked about foundry. Could you give us a little bit of an update on the thoughts around foundry, bringing Altera and how its notwithstanding, you still see incremental growth opportunities in that space, even though a lot of them, you can't really talk about too much publicly.

Brian Krzanich

Yeah. We do see incremental growth and as you said, there are deals and have [ph] that we cannot talk about publicly. But I do see it still as a growth business. Its not going to be one of those ones that's going to largely move the needle in the next couple of years, but we do see continued growth and continued acquisition of customers in that space.

Jim Covello

Very helpful. Thanks so much. Good luck.

Brian Krzanich

Thanks Jim.

Operator

Thank you. Our next question comes from Vivek Arya of Bank of America. Your line is open.

Vivek Arya

Thanks. So let me ask a question; for my first question, I am wondering what the current run rate of losses is tied to your division, which I guess formerly was called Mobile Communications Group. So I know last year, on a quarterly basis, you were losing about $1 billion a quarter in MCG, and this year you have made improvement, to $800 million for the year. So on a quarterly basis, Stacy, is it [indiscernible] to assume that the loss there is less than $900 million, so as you make improvements, it continues to be a source of accretion to your EPS?

Stacy Smith

I just want to be clear, we have completely reorganized. We no longer have the MCG segment. So when we talk about this, we are not talking about it in the context of the commitments we have made to improve the overall profitability of our mobile business broadly.

We are well on track to the commitment that we made at the beginning of the year. As Brian said, we have kind of loomed up to having achieved 75% of the overall target. I did say it was a little bit back end loaded, so if you are doing your quarterly math, you'd probably get to a little bit -- you wouldn't be linear, you get to a little bit of a bigger reduction as we move into the back half relative to the first half, because the counter revenue dollars really ramped up for us, as we bought SoFIA into the marketplace and that was more of a back half phenomenon for us.

Vivek Arya

Got it. And then for my follow-up, could you remind us, what is the core mix right now, and as a percentage of your PC clients, and where can it get to, and is that how we should think about, what determines the upper limit on when client ASPs start to saturate, because pricing has been an important part of stability in your PC division?

Stacy Smith

So we will go through some of the mix stuff in the investor meeting in November. The heart of your question, what's driving the upside; I really a lot of it is segmentation. And its interesting, if you use our desktop business as a proxy, we have been in a low unit growth environment for a while, that's kind of slightly down, slightly up kind of thing. This year down a bit more. But we have managed to maintain the profitability of that business, because we are seeing a lot more segmentation of the business. You still have the first time buyer PCs that happen in emerging markets, but increasingly, there is relatively expensive PCs that provide a lot of value to the consumer, in all-in-ones, and we now see dedicated gaming PCs that are doing quite well, and those kinds of things.

I think the future for us is, more segmentation of our product line. I think that helps us both from a standpoint of volume mix and should give us some opportunities in terms of price.

Vivek Arya

All right. Thank you.

Operator

Thank you. Our next question comes from Doug Freedman of Sterne Agee. Your line is open.

Doug Freedman

Hi guys. Thanks very much for taking my question. I am going to really follow-up on one that has already been asked, let's see if I can get a little bit more clarity. First off, congrats on getting the 75% target of the $800 million of savings. Do you want to introduce a new target, given that you are so far along in this, and just to try to get a handle on how much more cost reduction, or what your strategy is really going forward with the mobility side of the business. The tablet units look like they did soften here. So my question really is, what's your target for your mobility IP?

Brian Krzanich

So let me start a bit about the strategy, and we can then lay out. I think Stacy gave you some indication that we are well on our way, and in fact, if you take a look at it, its non-linear. So we should be handling $800 million and probably slightly above that number. How much, we are not going to forecast that right now. Our strategy really when you -- and as we get into the investor meeting, we will talk about it next year. But you can assume, we will have another goal next year, where we do another reduction and improve the P&L. That's fundamental, as we said, we are going to go into this business to make money and we have to get there.

That is absolutely the fundamental strategy. That said, what we said around mobility is that, on tablets, we pretty much keep our share and our position in the market relatively equal to where it was, and everybody sees tablets have shrunk this year as a category. And so we have been careful about not chasing the bottom as prices drop, figuring out where the value is, where we can go in and make a little bit of money, and actually add some innovation. So you're going to see some tablets as we go towards the holidays, with things like RealSense and that allow people new usages and new applications. And as we go into 2016, you will see more of that.

On phones, it’s the same thing. We will be even more careful there, doing partnerships with people, where we can go in, we can provide innovation and the right cost model, make some money for both us and our partners, and we have been very-very careful. And that's why, we have actually said our bigger, longer term strategy there is modems, to the general phone market, and then partnerships for specific products; and that's the Spectrum and Rockchip partnerships that we have right now.

Doug Freedman

Great. Terrific. Thanks for all that color. If I could, similarly, looking over at the Data Center business, clearly cloud has been quite an area of strength. I think investors continue to be concerned about your new competitors entering that market, some people talking about the progress ARM has made. Can you maybe talk about how you are feeling about your competitive positioning against that threat? Thank you.

Brian Krzanich

Absolutely. All these markets, there has always been a competitor. Whether you look in the PC market, or whether you look the Data Center market, or any of these, there has been competitors. We have worked our way up in this position. And our goal is always, to continuously push the product performance and the way we think about it is, is really, what does it take to replace ourselves even, in this market, especially the Data Center. How do we do a total cost of ownership, such that, it pays to go to our next generation, in both footprint, cost of operation and performance. All of those things are what we drive; that and system integration right, the whole [indiscernible] scale architecture and doing system integration, such that it's simpler, quicker and cheaper for people to install a cloud based system. We really focused on those and just really trying to have the best performance we can in that space.

And there will always be competitors and our goal is to just consistently outperform, and there will be new entrants and old entrants all along, trying to win share away from us. That's going to be a norm.

Doug Freedman

Great. And congratulations on the strong results.

Brian Krzanich

Thanks.

Operator

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

David Wong

Thanks very much. Your Client Computing Group, the operating margins you reported, jumped several percentage points in the September quarter. Can you give us some idea as to what you expect going forward in the near term, and also, do you have a long term goal for operating margin for this Group?

Stacy Smith

So we don't forecast at that level, David. On a long term view, we will -- as we always do, we will give you some thoughts in terms of what the long term growth potential and overall profitability goals are, when we get to November.

In general, what you are seeing there when you look at it sequentially is, you're seeing a quarter where volume was up some, and we had a nice rich mix as we launched Skylake. So that helped a lot from the same point of profitability, quarter-on-quarter.

David Wong

Okay, great. And are there any new major product launches for Data Center we might expect this year, in the remaining months?

Brian Krzanich

Nothing that we haven't already made public. No.

David Wong

Okay, great. Thanks very much.

Operator

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

Romit Shah

Yes, thank you. Had a question on the PC market. Brian, every year, we are looking for -- calling for a bottom in PCs. And last year, the units were better than expected, they were still down. This year has obviously been weaker. But now we are at the point, where you look at the supply chain as you guys characterize, it’s fairly lean. You have got the new operating system from Windows plus Skylake. So it just seems like all the pieces are there for PCs to finally bottom, but I wanted to gauge your confidence?

Brian Krzanich

I guess my answer to that would be, I do believe that we are in a unique situation, where we have, as you said, new operating system with Windows 10. We have our sixth generation core Skylake in place. We have a lot of innovation from OEMs. We have some additional product like -- our innovation like RealSense. You will see some unique memory architectures next year, even 3D XPoint gets into this space. I do think that, there is a good point for optimism. That said, some of these transitions are going to take some time, and so I am very cautious of people to say how fast and when.

So if you take a look at it, there is the ability to do Windows 10 upgrades today, but actually on-shelf, new systems is until later this month. So it’s not until later this month, that actually -- you can walk into the store and get an on-shelf system with Win 10.

Enterprises will go, I think quicker than Win 10 than some of the prior generations of Windows. But still enterprise takes a while to do these kinds of conversions, so it will be into next year, those conversions.

So I do see that this is a great opportunity, and that we should see some tailwinds pushing us into the PC market. But it’s going to be over time. It’s not going to be, boy next quarter it jumps. So I kind of want to lay out that its going to be over next year or so that it takes to get this transition through.

Stacy Smith

If I can just add, as Brian and I talk about the business and think about it. I think this quarter is a great illustration point of how we view it. In a time period, where PC units are down in high single digits at the TAM level. We still get enough growth from the Data Center and the Memory business and the Internet of Things to pretty much tread water in terms of revenue growth, right? And you can see it in our results in Q3, in fact you can see it in our results for the year.

If PC units are down in the mid-single digits, we actually grow at a pretty fast pace, and if we get to where the PC units are flat, we are growing at a very fast pace. That's kind of fixing the growth rate for everything else, but it’s a good way to think about what our strategy is and how we are driving the business. So we don't really need unit growth to grow the company at a fast pace, because we are much less dependent on the PC segment than we have historically been and our growth really comes from -- the Data Center is a very large business and then we are investing in things like Memory and the Internet of Things business that will add some growth to that.

Romit Shah

Helpful. Thank you.

Mark Henninger

Operator, I think we have time for two more questions.

Operator

Thank you. Our next question comes from Ambrish Srivastava with BMO Capital Markets. Your line is open.

Ambrish Srivastava

Hi. Thank you, Mark. Thanks for squeezing me in. I just had a question on the gross margin Stacy. Looking at the year-over-year comparisons for similar revenue run rate on gross margin is going to be down about 300 bips, is the biggest offsetting factor, on a year-over-year basis, is the startup costs; because unit costs should be getting lower, or am I not right?

Stacy Smith

No. The biggest difference compared to -- if you looked back to Q3 of 2014, if memory serves, I think we were at 65%, we were 63% in Q3 of this year. And units were down some from last year, we talked about this as a weaker TAM. So that's one piece. But the bigger piece is, 14-nanometer costs. And you're right, we are coming down the costs pretty rapidly on 14-nanometer, but its becoming a richer and richer percentage of the overall shipment mix and 14-nanometer still is more than 22-nanometer. And so we have seen a little bit of a mix-up in terms of costs, as we have worked our way through 2015.

Ambrish Srivastava

Got it. So the cadence of the usual tick-tock; the cadence of the startup costs shouldn’t change as much. So in Q1, we should be seeing an increase in startup costs for TAM, correct?

Stacy Smith

We are actually seeing a bit of an increase in startup costs starting in Q4. If you look at the Q4 margin reconciliation, you start to see that increasing startup costs.

Ambrish Srivastava

So it shifted more to Q4, and there won't be as much in Q1, is that the right takeaway there?

Stacy Smith

Well, keep in mind, the elevation started since the last, way more than one quarter. I am just saying, you are seeing the front edge of the elevated 10-nanometer startup costs as kind of starting as we speak.

Ambrish Srivastava

Got it. Okay. Thanks for the clarification. Thank you.

Stacy Smith

Thanks Ambrish.

Operator

Thank you. Our final question comes from Michael McConnell of Pacific Crest Securities. Your line is open.

Michael McConnell

Thank you. Just regarding DCG again. I think I recall in Q2, the weakness in enterprise was largely in China. Just in that bucket, are you starting to see the weakness spread out into different geographic regions, or is this still mostly isolated in China, relative to your original expectations?

Brian Krzanich

Yes. I think we said in Q2 that it was more pronounced in China, but it was general across the enterprise, and that is consistent with what we see now. I just want to come back to what Brian said earlier, the overall enterprise segment is weak, and when you look at it, that correlates very closely for us over time with GDP growth rates, and the GDP growth rates are quite a bit less than we thought, when we started the year.

We are offsetting much of that -- in fact, we are offsetting most of that, by a cloud growth rate that's significantly more than we thought when we started the year. So general macroeconomic weakness, it’s pronounced in China, but we see it elsewhere in the enterprise segment, being offset by, I'd say torrid growth rates and cloud computing, and we will share more of that when we get to November.

Michael McConnell

Okay, great. And then just my final follow-up would be, just relative to PC end demand, as far as you can tell the early part of this quarter, obviously we will get more signals here over the next month or so. What are you seeing right now with the end demand side, not necessarily the channel inventory ups and downs?

Brian Krzanich

We can't give you – we aren’t going to talk about the current quarter in this call.

Stacy Smith

I would just say, everything that we knew as of one o'clock this afternoon is reflected in our forecast.

Michael McConnell

Great. Thank you.

Stacy Smith

Thank you.