Good day, ladies and gentlemen and welcome to the Intel Corporation Fourth Quarter 2013 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, today's conference is being recorded.

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

Mark Henninger

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

Before we begin, let me remind everyone that today's discussions contain forward-looking statements based on the environment as we currently see it and as such, it does include risks and uncertainties. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially. Also if during this call, we use any non-GAAP financial measures or references, we will post the appropriate GAAP financial reconciliation to our website, intc.com.

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

Brian Krzanich

Thanks Mark. Q4 was a solid finish to a year of transition both for the computing market and for Intel. We spent the year of building a foundation in important growing segments of computing and as a result we are better positioned to enter 2014. Importantly, the big way of innovation inside the company has also improved.

I will touch on each of these things, but I would like to start with our results. The company's revenue was down 1% for the year driven by a declining PC payout. The PC Client Group was down 4% for the year, but the business began and stabilized and actually grew a bit in the fourth quarter achieving all-time records of i5 and i7 unit shipments. The desktop business was particularly strong in Q4 growing 11% over last year. In the data center, we finished the year up 7% with record solar unit and revenue. Cloud was up 35%. Storage was up 24%. And high performance computing was up 18%. Enterprise, however, fell short of our expectations for the fourth quarter and the year as we overestimated the rate of recovery among corporate buyers. In our other businesses the intelligent systems business we saw a growth of 21% in retail up 16% and transportation up 21% in the year. Networking grew 31% for the year and rounding out the list, our NAND and (indiscernible) businesses grew 15% and 4% respectively both achieving record revenue.

When I spoke with you in November I shared my vision. If a device computes it does it with Intel from the internet of things to the data center. I outlined the areas that are changing to make that vision a reality. Among the changes was a shift towards a more outside in view of our industry and an intense focus on bringing innovation to market quickly. Last week at CES there was evidence of our progress as we demonstrated technologies that were on our road map just six months ago. Technologies that we expect will be available this year. We showed you Edison, an Intel based platform for internet of things in the form of an SD card. We unveiled several innovative wearable solution and we announced Intel device for technology to hardened IA based Android (indiscernible).

Our disclosure in November of a new smartphone and tablet road map that will include SoFIA our first IA SSD with integrated comps later this year is further evident that we’re innovating and bringing products to market at faster pace. Looking ahead 2014 will be an exciting year as we build further on this new foundation. We have established a goal to grow our tablet volumes to more than 40 million units. Within an emphasis on the value segment. As we’re finishing 2013 with more than 10 million units and a strong book of design wins we’re off to a good start.

We also exit the year having made important strides on our 14-nanometer process technology. Yields improved significant in Q4 putting it squarely on track with the Broadwell production later this quarter. Our customers and partners also continue to evolve the computing exercise. By the time we enter the back to school selling season we have nearly 70 unique 2-in-1 designs with outstanding battery life and performance across a range of price points in those markets. And later this quarter we will launch Ivy Bridge-EX which will bring the largest generation to generation improvement in MT Server performance in 2010. Our work to improve our velocity and position the company for the future is containing isn't done. But our recent progress is testament to what’s possible when we focus and bring all of those aspects to bear. We are building on a foundation upon which we will compute the years to come and we’re beginning this year in a better position than we have been last year.

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

Stacy Smith

Thanks Brian. The fourth quarter came in consistent with expectations with the returns of financial growth and was a solid ending to a challenging year. For the fourth quarter revenue came in at $13.8 billion up 3% from a year ago. PC Client Group revenue was flat from year ago. Our data center group grew 8% from the year ago and relative to our expectations at the beginning of the quarter we saw higher PC Client Group revenue partially offset by lower growth than our data center group. Gross margin of 62% was flat till third quarter and one point above our guidance.

Operating income for the fourth quarter was $3.5 billion up 12% from a year ago. Earnings per share was $0.51 up 6% from the year ago. For full year 2013 revenue was $52.7 billion, gross margin was 60%, operating income was $12.3 billion, net income was $9.6 billion and earnings per share was $1.89. Well the PC market was down on the year, we saw the market stabilize in the back half of the year with fourth quarter PC units up from a year ago. Additionally we saw strong tablet growth in the back half of the year and inclusive of PC and tablets are unit growth in the fourth quarter was up almost 10% from a year ago. We decreased inventory levels by almost $400 million in the fourth quarter and across the worldwide supply chain, inventory levels continue to be whole.

Gross margin of approximately 60% in 2013 is down two points from 2012 driven by higher 14-nanometer factory startup cost. Spending and R&D and MG&A was $18.7 billion in 2013, 35% to revenues down from the forecasted at the beginning of the year at higher than our long term model. Operating income was $12.3 billion down 16% year-over-year.

Earnings per share was $1.89 down 11% from a year ago. The business continued to generate significant cash with almost $21 billion of cash from operations in 2013. Total cash balance at the end of the year was roughly $20 billion, up approximately $2 billion from a year ago. We purchased $11 billion in capital assets, paid $4.5 billion in dividends and repurchased over $2 billion of stock.

As we look forward to the first quarter of 2014, we are forecasting the midpoint of the revenue range at $12.8 billion, down 7% from the fourth quarter. This forecast is in line with the average seasonal decline for the first quarter. We are forecasting the midpoint of the gross margin range for the first quarter to be 59%. The 3 point decline from the fourth quarter is primarily driven by higher platform write-offs as we started pre-production builds of Broadwell and 14-nanometer and overall lower platform volumes in line with seasonal trends.

Turning to 2014, we are planning for revenues to be approximately flat. We expect the Data Center Group revenue to be up in the low double-digits and PC Client Group revenue to be down in the mid-single-digits. We are forecasting the midpoint of our gross margin range at 60% flat to 2013. We expect startup cost to decline partially offset by the impact of tablets as we ramp our volume and provide contra revenue support to our customers. And we are forecasting spending for the year at $18.6 billion and expect capital spending of $11 billion both of which are approximately flat to 2013. Within the flat spending, we are advancing the strategy of the company by shifting investments towards the data center, tablets and low-power SoCs.

The fourth quarter was a solid finish to a challenging year. Financially, the fourth quarter of 2013 was better than the fourth quarter of 2012. More importantly, we are making changes that continue to improve our competitive position. For devices that compute, our vision is if it computes, it does the best with Intel. Towards that end, we are well on our way to reinventing the personal computer. With all-in-ones, 2-in-1s, convertibles and detachables, the amount of innovation in the PC market is unprecedented. Building on this leadership, we will start production of wafers on Broadwell, a 14-nanometer product targeting these form factors in the first quarter. In the tablet market, we launched the Bay Trail SoC and have started to expand our footprint and market signature in this growing market. And in the internet of things market, we are bringing new architectures like internet of thing to build on our current leadership position. We are uniquely situated to benefit from the other end of the compute continuum as the infrastructure that supports all these devices expands.

Our data center business continues to see robust growth as a result of the build out of the cloud and the exposure of devices that compute and connect to the internet. From 2013, we extended our leadership at the high end of the data center with the launch of the Ivy Bridge-based Xeon product line. And at the low end of the data center, we extended our leadership with the launch of Avoton targeting the micro-server market. We are planning to build on the foundation as we launched the Haswell-based Xeon family in 2014. At the foundation of this innovation, we continue to enhance more growth faster than the rest of the industry. This gives us the world's highest performance and lowest power transistors and will result in a growing cost advantage over time.

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

Mark Henninger

Alright. Thank you, Brian and Stacy. As we move 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. Jamie, please go ahead and introduce our first questioner.

Question-and-Answer Session

Operator

(Operator Instructions) The first question comes from Mark Lipacis from Jefferies.

Mark Lipacis - Jefferies

Thanks for taking my question. At the Analyst Day, you addressed your view on transistor density and your expectation for leadership on that vector, but I have to say this discussing that idea with investors is a consensus view that seems to be that Intel has an inherent wafer cost disadvantage that relative to TSSC that neutralizes or more than neutralizes your transistor density advantage and the argument is that TSSC ships more wafers and therefore has more better purchasing power than you and its lower labor cost, so net-net, they have just a big huge advantage of wafer cost that you should have a hard to, too hard of a time to overcome. So my question is do you think that's a fair view. Can you help us talk to the relative elements of the wafer cost and how you think you can compare? Any kind of help that you give us on the cost dimension would be extremely helpful. Thank you.

Brian Krzanich

You know I think the first thing to remember is that what really counts in all of this is transistor cost and what we really talk about in our Moore's Law of Curves and when we talk about transistor density is driving a consistent cost reduction of the transistors and so wafer cost is one segment of that. I'm not going to comment on you know (indiscernible) wafer cost versus our wafer cost but we feel confident that our relative level of scaling and our internal wafer cost are such that we believe we have a leadership position in transistor cost.

When you're talking about any product whatever it is, a logic product that's a low-end microprocessor for wearable or internet of things or high-end Xeon server. You're talking about the number of case and hence the number of transistors required to put that logic device together, it doesn't matter whose technology it's on to some extent. It doesn't matter what node and so the more cost effective those transistors are whether it's 500 million or 3 billion the lower the product cost there is and that's really what we focus on and why we focus on transistor cost. So I think we stand by our what we said at the investor meeting.

Mark Lipacis - Jefferies

Thank you and if I could have a follow-up, there has been some news report about the Fab 42, could you help us understand what's going on? How we should think about what's going on there? Thank you.

Brian Krzanich

Sure I will start and then Stacy can talk to you about the financial discussion of it. You know you start these construction projects, we talked about in the past, yes it starts three years roughly in advance. They are very complex, some of the most complex if not the most complex construction projects you could imagine. If you start those three years in advance so when you're ready for operation. We started this one about three years ago, if you go back and look three years ago our view of the PC Industry and PC growth it was you know much more robust than what has played out and is our forecast today and so what we have done as we have brought it online as we have been very conservative with our how we manage the project, we brought it up and so the shell is complete and facilitating from a construction standpoint and we have held back putting equipment in and so we see the demand requirement and that's really what we have done. We've done that in the past, you can I have been in Intel's manufacturing for 30 years. You can go back in time and we did that fairly frequently and that's what we have done with Fab 42 as well. We have held it back until the demand requirement comes about.

Stacy Smith

Well don't have a lot to add to that. I would just say that that financial impact of this is actually pretty minimal. As Brian said we have built a shell but we didn't equip it and we did that before we needed we will ultimately use it to the economic cost is just time value of the money which is pretty modest cost and this is pretty normal for us since, we actually always want to have some preposition space to grow into as the market grows. As Brian said it's three years to construct one of these things so it's economically quite detrimental to get cut short and the cost of having all those extra spaces is pretty high. Doesn't impact depreciation, doesn't impact gross margin.

Operator

The next question comes from Ross Seymore from Deutsche Bank.

Ross Seymore - Deutsche Bank

I guess the first one is on DCG. Can you give us a little more color what happened in the fourth quarter especially given the confidence that you had as recently as November and the growth there and also what gives you confidence given the fourth quarter miss in forecasting still a low digit growth in 2014?

Stacy Smith

So if you look at the trends in the fourth quarter I think the trends actually reinforce the growth rate among cloud, high performance computing, networking storage they all came in consistent with what we thought Brian went through a lot on the year-over-year growth rates there so very robust growth rate. So it actually increased our confidence in that. What we saw very specific to the enterprise was we did return to growth, it was a little bit less growth than what we had thought as we entered the quarter. As we kind of step back and look at what happened there, we think there is two elements that hit us. One was we had a pretty robust growth rate in Q3. As we entered Q4, we saw that we had there is more inventory out in the world than we knew when we started the quarter so that had to be burned off. And then secondly, we saw a tapering off in order patterns across certain customers in certain segments at the end of the quarter and we think that, that was driven by the government shutdown and the uncertainty around the debt too, because when you look at the customers in the segments, it's pretty clearly in those segments. We had a range around growth rates for 2014 in the investor meeting with 10% to 15% based on a slower growth in enterprise in Q4 and maybe a slower recovery in enterprise over the course of 2014, I would say we are now at the lower end of that range. So we are more at the 10% range than the 15% part of that range.

Ross Seymore - Deutsche Bank

Great. And I guess as my follow-on switching gears a little bit to the OpEx side, you guided sequentially flat, but it looks like if you just hold R&D as part of that sequentially flat, for the full year, it seems to imply that R&D as a singular expense will be coming down as the year progresses, is that math correct and if so what's driving that decline throughout the year?

Brian Krzanich

Yes, that math is correct. So I think Q1 will be the high point in terms of quarterly spending, it will come down quarter by quarter. We will be bringing employment down over the course of the year. And beyond that, as we talked about at the investor meeting, we are going to be making some significant new investments and things like the data center tablets, low power SoCs those kinds of things. So even beyond the headline number, there was going to be kind of a significant shift in investments over the course of the year, but you have the math right and it's going to be due to just shifting on projects than bringing down employment over the course of 2014.

Ross Seymore - Deutsche Bank

Okay, thank you.

Brian Krzanich

Thanks Ross.

Operator

Your next question comes from Glen Yeung from Citi.

Glen Yeung - Citi

Alright, thanks. Brian or Stacy either one, to what extent could you be misreading the enterprise server market in the sense that the virtualization curve is probably now over and maybe you don't see the recovery in enterprise server with the economy that one might normally see?

Brian Krzanich

Okay. I think we would say there is some impact. To answer, we are showing a kind of long-term growth rate in enterprise that's less than what it was three years ago. I think as you said there was some impact associated with the virtualization curve having played out, but that doesn't stop the fact that we think that there is growth in the enterprise segment. We have just changed our view for 2014. We think the recovery just plays out a bit slower than we would have thought a quarter ago.

Glen Yeung - Citi

Okay. And then kind of similar question on the PC side, to what extent do you think that the strength you are seeing, relative strength you are seeing in PCs today, is it a function of the software transition at Microsoft and does it therefore end in April or do you think this is a more sustainable recovery?

Brian Krzanich

So as we said in our script that what drove a lot of it was desktop and we are seeing the mature markets enterprise is the strongest with the emerging markets still flat to slightly down. So our view that if you look out from a PC perspective was that we forecast with a relatively cautious and careful view looking out. We compared against the third parties. We think we are in line with what third-parties have forecasted as well. Some of the contributions of fourth quarter was the XP transition, which is really what you are talking about. We don't think that was the only thing. As I said, it was most – lot of the growth came from desktop, but the desktop was largely enterprise in the mature markets. That really we think has to do with a lot of great form factors that are coming in the all-in-ones, the great innovation that's coming in there. We saw some of the highest units of i5 and i7 in the enthusiast area. I think those are some great gamming platforms. So we think there is a lot more to the desktop growth. We also introduced the Haswell-based NUC, which is a smallest form factor desktop machine that you can have. So it's those kinds of innovations that are driving this desktop growth as much and more than the software transition.

Glen Yeung - Citi

That's great. Thank you very much.

Operator

The next question comes from Stacy Rasgon from Sanford Bernstein.

Stacy Rasgon - Sanford C. Bernstein & Co

I want to dig into the full year guidance a little bit; there is something I don't understand. See you just basically took your data center guidance down for 2014 by a little bit. It doesn't sound like you're taking; you're improving your full year PC guidance at all. You're still saying kind of like single digits and you didn't take your full year revenue outlook down. So what's making up a difference? And if there is nothing making up the difference why didn't you take the full year revenue guidance down?

Stacy Smith

Yeah I think Stacy you're assuming a level of precision around approximately flat that doesn't exist you know approximately flat can cut us a little bit up, a little bit down. If you think about the data center being $10 billion if we're at the higher end of the range versus the lower end of the range that we put out here you changed the full year on a $50 billion plus business by a few $100 million.

Stacy Rasgon - Sanford C. Bernstein & Co

So is the bias like more to a little bit down versus a little bit up at least more than it was in November?

Stacy Smith

At this point again you're assuming a level of precision that I think isn't appropriate when you're talking something that you know will play out over the next 12 months. Yeah we had a positive data point on PCs, we had a little bit of a negative data point on one element of the enterprise, our tablet momentum looks good, so you just kind of look at it and I would say our view is pretty consistent with what it was back in November.

Operator

The next question comes from Christopher Danely from JPMorgan.

Christopher Danely – JPMorgan

My first question is on gross margin so you gave us the Q1 and the full year guidance, can you just talk about how things are supposed to trend after Q1 and then maybe also talk about some of the levers on gross margins up or down?

Stacy Smith

Well I will anchor it on Q1 and then give you a sense of how I see it pulling out over the course of the year since we provided specific guidance for Q1. We have guided Q1 at 59% coming down from Q4 it was 62% in Q4 so down to 59. The elements that bring us down we have about a 1.5 down associated with the start of production on Broadwell prior to it's qualification for sale so you've seen this from us in the past that build [ph] will be reserved out and so we have reached the formal qualification day. And then we're about a point down in Q1 as a result of it just being like seasonally lower quarter and so yeah I think you kind of understand and expect both of those, 60% for the year or so, algebra would say an improving gross margin over the course of the year. I think when we get into the back half of the year we have a gross margin back into the low 60s. But I think about the headwinds and tailwinds to that you know the tailwinds are that we expect that we will see a falling off 14-nanometer startup cost. We talked about that at the investor meeting and I think that's consistent with what you would expect from us. We see volume and unit cost getting better over the course of the year and reserve will get a bit better as we progress through the year. Again we have these Broadwell reserve in the first quarter.

The big offset to that have been are the dollars that we're providing in terms of contra revenue dollars for tablets. We also talked about it in some depth at the investor meeting. We're not seeing a lot of those in the first quarter, they really build over the course of the year so we have the positives that I outlined and then you will see that offset as a result of you know there is temporary contra revenue dollars that we're providing to our customers as we take our tablets product volume kind of broadly through the different OSs and price points.

Christopher Danely – JPMorgan

Great and for my follow-up I guess it's kind of on that question. So on the tablet strategy to get the 40 million you're saying it's going to be a 1.5 percentage hit. Let's say you guys get into the second half of the year and you're not quite to the 40 million if it's a pretty significant short fall. Would you consider canning that strategy I guess I'm just wondering what the commitment is if the volumes aren't there but the cost is there by the end of the year?

Brian Krzanich

Sure. This isn't a price reduction as normal price reduction would be; it's not where you are just simply reducing. It's truly a BOM cost equalizer and remember a lot of our 40 million tablets in '14 will be based on Bay Trail. Bay Trail was originally designed for Avoton-based PC segments and the upper end tablet. And so it's what we are doing here is doing a BOM cast delta relative to the, what the mid and lower end tablets require. And so those are things like Bay Trail may require more layers of a printed circuit board for the board itself, more components on the board and tighter power management controls and things like that. We have a whole program to reduce those throughout the year. So that gives us confidence that as we go through the year, the BOM cast delta will shrink, but if the volume didn't show up for some reason and I am not going to say that, that's what's going to happen, but I am confident it will, but if it didn't it's on a per unit basis. And so the spending on that contra would be reduced equivalently.

Stacy Smith

And I would just add as Brian said we are doing a lot of enabling across the industry to take the BOM cast out in equivalent. These are costs at the system level not at our chip level and it will vary a lot by SKU, but to give you a sense for a Bay Trail platform from the beginning of the year to the end of the year we think that, that BOM penalty drops by more than half. And so it kind of gets better out in time. And then when we get to the Broxton generation we think it's de minimis.

Brian Krzanich

Yes, both Broxton and SoFIA are just specifically designed to eliminate that delta.

Christopher Danely - JPMorgan

Got it. Okay, thanks a lot guys. That's very helpful.

Brian Krzanich

Sure.

Stacy Smith

Thanks Chris.

Operator

Your next question comes from Tristan Gerra from Baird.

Tristan Gerra - Baird

Hi good afternoon. If we look at tablets and smartphone, what type of units do you need to reach for that business to stop having a material impact in gross margin from is 10 points higher utilization rates and excluding the contra revenue impact and that's it?

Brian Krzanich

You were asking tablets and phones?

Tristan Gerra - Baird

Yes. So just looking at the 40 million units target for this year, what type of volume do you need to get in order for gross margin to start appreciating from the west of the business if you exclude the contra revenue impact?

Brian Krzanich

Yes, it's hard to say. I mean, I will bridge back to our strategy here. Our strategy is that we are going to use our process technology leads. We will have leadership products that also are competitive or maybe even leadership in terms of cost and I showed some data at the investor meeting that just kind of showed the die size as we progress from Bay Trail to Broxton to SoFIA and so you can get a sense of the kinds of cost structure that we are going to have on a per unit basis. I don't think it causes on a percentage basis. Yes, I can't – I am not envisioning if this causes the gross margin percentage to go up, but you can definitely get to a space once we get through these contra enabling dollars where every unit we sell is accretive on a gross margin dollars per unit. It's utilizing factories that we have in place for PCs. And so it's a nice adder of that gross margin dollar per unit standpoint.

Tristan Gerra - Baird

Okay. And then a quick follow up, you talked about enterprise desktop being strong, any color that you can provide in notebooks in terms of whether it's right in line with expectation and whether was it more driven by consumer or enterprise?

Brian Krzanich

It was pretty much in line with the expectation. We didn't see any surprise on the notebook side result, overall PC units a little bit higher and that was really desktop and that was as Brian said broad-based across desktops. So all-in-ones and corporate and consumer everything was just a little stronger on the desktop side.

Tristan Gerra - Baird

Great, thank you.

Operator

The next question comes from John Pitzer from Credit Suisse.

John Pitzer - Credit Suisse

Yes, good afternoon guys. Congratulations on solid result. Brian, I guess my first question relative to the seasonal guide for the March quarter, is there any sort of granularity you can give us between sort of the PC Group, the Data Center Group and kind of other IA and I guess the reason why I am asking the question is I get in the absence of knowing just guiding the seasonal makes sense, but you do have Bay Trail Android tablets in Q1 that you didn't have in Q4. And then when you look at the availability of SKUs in the PC Group, you obviously have a lot better availability of kind of the SKUs, I think people like in Q1 versus Q4, both of which would kind of argue for better seasonality. So maybe you can give us a little granularity that will be helpful?

Brian Krzanich

Sure. Let me try and if you can add some of the financial detail. Part of it is, let's go back, it's seasonality off growth on Q4 right? So a stronger Q4. So it's a good quarter, I don't want to say that just growing at seasonality is not a good thing. Second thing I would say is you're right on the PC we do see a lot of the 2-in-1s come in but also Q1 is just you know there is not a lot of events that happen that can drive upsides like holidays and things like that. Now in one of your comments you said we will start seeing Bay Trail Android tablets. Most of the Bay Trail Android tablets really start showing up more in Q2 than in Q1 and that's again purely you know remember we made a shift, an original program for Bay Trail was all Windows. As we came into the midpoint of the year we sandbox [ph] shift and make it Windows and Android and so you know our OEM partners as well are targeting more towards Q2 and it's just when you do you go and start putting back in that back to school event which is a next seasonal place where upside usually occur.

Stacy Smith

The only thing I would add to that, sorry, I guess I would say I certainly hope you're right and it's better than seasonal and we have all of the ability in the world to respond to that. So that is a being good answer. The thing you might want to keep in mind is you work through seasonality over the course of the year as that these contra revenue dollars that we're providing to the customers for a tablet enabling, that will come off of revenue so it's a gross margin hit but it will also be a decrement to revenue while we support them. So it's not so much a key to issue but to get into the back half it's going to be one of the minuses out there.

John Pitzer - Credit Suisse

That's helpful and then guys just relative to DCG, at the Analyst Day in November you talked about your expectation for enterprise kind of being I believe a 7% or 8% type long term growth. I know relative to Glen's question around virtualization you answered that. I guess my question is have you taken into account sort of cloud and enterprise is kind of offloading infrastructure into the cloud. I know at the Analyst Day we talked about two thirds of cloud growth being consumer and not business if you start to lose dollars in enterprise to cloud is it kind of a one to one loss if you lose in enterprise, you will just make it up in cloud or how do I think about that dynamic?

Stacy Smith

I think it's close enough for government work. If that's how it plays out it should be you know dollar for dollar, close enough that you don't care. One of the phenomenon that we have seen is that we have seen the mix in the cloud actually moving up so if you look at the ASP impact inside of servers John, it's more driven by cloud than anything else right now and so they are a buying a richer and richer mix and that's why I think you're probably pretty close if you start to see an offload that way and utilization rates inside the enterprise tend to be pretty high on the kinds of things that they move into the cloud. So you know I think you're pretty close to one to one.

Operator

The next question comes from Alex Gauna from JMP Securities.

Alex Gauna - JMP Securities

I was wondering if you could talk about how you see Asia specifically and what's going on for you with the holiday build there and how that's factoring in to your Q1 expectations? Thank you.

Brian Krzanich

We like we said in Q4 we saw Asia continue to be soft. We have built-in a seasonal growth; we don't expect anything big to shift there. We see Asia continuing to; they will have that same seasonal growth as well. The forecast stands; we don't see anything different occurring there so to speak.

Alex Gauna - JMP Securities

Is there any evidence within your build and your ODM build into the server market that I know some of that's coming back to service data center but what about the opportunity in Asia for them to become a stronger data center enterprise customer going forward?

Brian Krzanich

Certainly I mean if you look at one of the places we look at for data center growth and we're seeing it for both but I mean it's across enterprise, cloud is growing very well. Lot of the cloud growth is driven out of Asia. You know we absolutely see Asia as a growth area for the data center in general.

Stacy Smith

Exactly and I would just say on the client side, we think what we're seeing in Asia is just that the tablet penetration rate increased that's offset by a couple of years from what we saw in mature markets and so that's why and we're seeing some stabilization and improvement in mature markets. It's ahead of emerging markets is we have just reached saturation points on tablet penetration and then the emerging markets are still increasing. It's much more of a client phenomenon than a datacenter phenomenon.

Alex Gauna - JMP Securities

Would you expect the lag in Asia to be driven more by Bay Trail later on in the year or Haswell?

Brian Krzanich

Hey, I must appreciate the question, but we are trying to get it for everybody. Thank you.

Alex Gauna - JMP Securities

Thank you. That's helpful.

Operator

The next question comes from Vivek Arya from Bank of America.

Vivek Arya - Bank of America

Thanks for taking my question. So first on the smartphone or on tablet space, I think it is true that Intel has a manufacturing lead, but do you think your cost reduction efforts and then the Moore's Law advantages ever progressed faster than the ASP declines in the space. In other words, do you think Intel can be sustainably profitable in the mobile space which is maturing?

Brian Krzanich

Yes, we absolutely do. You saw at the investor meeting products like SoFIA, which really are going to be put on to 14-nanometer are fully integrated all the way through with the 3G option or an LTE option and that LTE is with carrier aggregation. Those kinds of products we believe are very, very cost competitive in fact leading from a cost position. In addition, we don't talk a lot about, but we are already in that low cost Asia market. We are inch and then we are working with ODMs there. That's actually where a lot of the innovations coming out of for some of these cost reductions on tablets and where we are getting the cost reduction ideas. So we are in that market now. We sold out of that Shenzhen low cost market in Q4. We will continue though it – through 2014 and with products like SoFIA on leading edge technology, we are very comfortable that we can get into those very low price points.

Vivek Arya - Bank of America

Thanks Brian. And as for my follow-up, there seems to be these ways to provide 64-bit capability and application processor, then I think you guys have always had 64-bit support with that and like in fact all your products.

So the question is what do you think is a value proposition of 64-bit and how can you leverage your 64-bit capabilities to win market share a little bit?

Brian Krzanich

Sure, you are right. All of our products have always been 64-bit including Atom. And so OEMs who build with our products now can already go out and start to utilize 64-bit. We are out there working with the OSs, all of the OSs and the OEMs to go enable that. The real usages and the values are going to be in those high compute areas, things like video, things like media, transfer media manipulation. All the classic things around computing that you saw drive the compute cycles on PC and people are doing more and more with tablets and phones or that will be the same things that drive 64-bit utilization on these mobile devices. I think you will also see it in insecurity. All of those things are going to drive a desire for 64-bit.

Vivek Arya - Bank of America

Okay, thank you.

Operator

The next question comes from Mike McConnell from Pacific Crest.

Mike McConnell - Pacific Crest

Thanks. I wanted to ask about again going back to enterprise and DCG, since you said that some of the fall-off late in the quarter was due to some of the government issues shutdown and debt ceiling, etcetera and now that the debt deal has been reached, have you gotten any feedback from some of these enterprise customers that they are feeling more comfortable now with respect to re-spend?

Stacy Smith

We will watch it over the first quarter. I think the headline here is that the first half of the year we saw an enterprise market that was declining and we got into the back half of the year, it was growing. It was just growing a little less fast than we thought and the recovery was a little less fast than we thought. My expectation is we will see that segment kind of pop back to the normal rate. I would also think that we were just a bit ahead of ourselves in terms of how fast the enterprise market was going to recover and grow. So we have a little bit more of a cautious view of that as we progressed through 2014. So I guess the short answer is, yes, I'd expect that piece to come back. I still believe we'll be at the lower end of the guidance. We are probably just a little overheated in Q4.

Mike McConnell - Pacific Crest

I understand. And then my follow-up would be just, Stacy, can you remind us about linearity in DCG, I guess, would we have to wait till the second half of '14 to kind of see the reacceleration or do you think we could still see growth in the first half of the year? Thanks.

Stacy Smith

No. I think you will see, I think you will see year-on-year growth. I mean remember DCG is, the order pattern particularly with some of these big cloud customers can be very lumpy but when you step back and look it on a year-on-year basis I think we will see year-on-year growth rates. It's kind of progressed through the year.

Mike McConnell - Pacific Crest

Sequentially though as well or that's?

Stacy Smith

Sequentially it will be more based on kind of abnormal seasonality but again for DCG you might be (indiscernible) sense it's always year-on-year growth rates tends to be more meaningful indicator.

Operator

The next question comes from Hans Mosesmann from Raymond James.

Hans Mosesmann - Raymond James

Brian real simple if you can, can you split out the types of servers that you sent or shipped in the quarter via you know enterprise networking if you can provide that level of granularity. Thanks.

Stacy Smith

Yeah we don't provide that level of granularity but if you go back to Brian's prepared there is a safety, go back to Brian's prepared remarks what you heard a lot of data on year-on-year growth rates across cloud, networking, high-performance computing and then I'm giving you for the enterprise piece it was growth, it was just the lower level of growth than we thought. So it's pretty, if you go back to the investor meeting stuff and then take what Brian showed you what you will see is for all those other segments was very consistent with how we modeled it. Enterprise growth a little bit less growth.

Hans Mosesmann - Raymond James

Okay and then as a follow-up the Broadwell SoC, I mean still second half of ’14?

Brian Krzanich

Yes I said that you know we had made great progress on our 40 nanometer yield than we were actually very happy with the results that we got out of Q4 and we’re squarely on target for our second half launch and for and as Stacy said starting production in Q1.

Operator

The final question comes from Jim Covello from Goldman Sachs.

Jim Covello - Goldman Sachs

I know that on the PC and the pickup in desktops you had said it wasn’t all corporate refresh but obviously some of it was. Is there any chance that you know enterprise just had a fixed budget and some more of it went to the corporate refresh in the fourth quarter and so you know they had a little bit less to spend on the data center and you know that could account for some of the delta there?

Brian Krzanich

We don’t have a single that suggest that Jim you know from what we have heard from the OEMs and the customers is more around like Stacy said a little bit of inventory coming into Q3 and in the Q4 and then the government shutdown and if you looked at the order pattern it will kind of follow that from what we can tell on the, from our position as well.

Stacy Smith

And I would just add to that as Brian said earlier we have had record shipments in the desktop on the core i7, we know that SKU is not an enterprise SKU at all, that’s a customer SKU. So our data as we look across was consumer was strong, all-in-ones were strong. So lot of i7 was strong, a lot of things that we know don’t go and the enterprise were strong. So I don’t think that was the driver of what happened in the client side of enterprise and we don’t have any data points that would suggest that was what happened on the server side of enterprise.

Jim Covello - Goldman Sachs

Yeah if I could just on quickly on the follow-up on the tablet, could you give us some perspective on the design wins that are not being supported by the contra revenue? In other words sort of maybe a split between design win activity that is supported by contra revenue versus ones that aren't?

Brian Krzanich

Yeah I mean we can't go into specifics of each one.

Jim Covello - Goldman Sachs

No sure, maybe just percentages or something.

Brian Krzanich

But I would say the majority of the projects that we have in 2014 use some level of contra revenue to bring their BOMs, their Bill of Materials or actually we don't use our acronyms everywhere. Their Bill of Materials it's a parity and so it's really is very SKU by SKU dependent. It's not a fixed number out there. We work with each OEM and that's how I'm comfortable that we're going to work this out over the next year or so. We work with each OEM depending on what you know are they try getting a high end SKU or midrange SKU or low level SKU? What type of display and graphics and all of those things they want to put in that system. We have a delta involved that we're working out and so we go and work with them on that and it's literally at that level, SKU by SKU.

Jim Covello - Goldman Sachs

Terrific, very helpful. Thank you.