Operator

Good day, ladies and gentlemen, and welcome to the Intel Corporation Q4 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 be given at that time. [Operator Instructions] As a reminder, this call is being recorded.

I would now like to turn the conference over to Mark Henninger. Please go ahead.

Mark Henninger

Thank you, Sabrina. Welcome everyone to Intel's fourth quarter 2015 earnings conference call. By now, you should have received the copy of our earnings release and the CFO commentary that goes along with it. If you have not received both documents, they are available 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 the 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 during this call, we will be using non-GAAP financial measures and references. GAAP financial reconciliations are available in earnings material, which was posted on our website, intc.com in advance of this call. The forecast Stacy speaks to today will be on a non-GAAP basis.

With that, let me hand it over to Brian.

Brian Krzanich

Thanks Mark. Our results for the fourth quarter were consistent with expectations. We marked a strong finished to the year. Taken as a whole, 2015 demonstrated the benefits of our strategy, which is designed to capitalize on the growing need for the infrastructure powering the smart and connected world. That strategy is also resulting and the evolution of our business model to focus on three keys areas of growth, the Data Center, the Internet of Things and Memory. Our results reflect that evolution.

Revenue for the year was nearly flat, despite a significant decline in PC demand. 2015 was also a year of revenue record and important milestones and I would like to take a minute to review some of them with you.

Even though the Client Computing Group ended the full year down 8%, we were excited to see that we were able to grow sequentially in the second and third and fourth quarters. As of November, 14 nanometer products made up more than 50% of the Client Computing volume. For the year, high-end Core i7 microprocessors and our K SKUs for gaming, both set all-time volume records, leading to our rich product mix.

In our Security business, we have refocused the organization on endpoint technology, where we enjoy a solid leadership position and we have driven material efficiencies as we fully integrated the McAfee organization into Intel. The results of these changes had been dramatic.

On a constant currency basis, Security revenue rose 6% for the year while the organization's tighter focus drove a remarkable 44% improvement in operating income. The IoT Group grew revenues 7% in 2015 to $2.3 billion, an all-time record as the retail transportation and video segments also strong double-digit year-over-year growth.

In our NAND Solutions group, we introduced a revolutionary new class of memory call 3D XPoint, the industry's first new memory technology in more than two decades. 3D XPoint is a great example of our growth strategy at work, using our technology expertise to innovate and expand into profitably adjacent markets. We think it is a game-changing technology moving forward.

Our confidence in the technology led us to announce in the fourth quarter that we were upgrading our Dalian, China fab to manufacture both 3D NAND and 3D XPoint, with production beginning later this year. For the full-year, our memory business grew more than 20% to $2.6 billion, another all-time record.

At the same time, the Data Center Group grew 11% over last year to an all-time record of $16 billion in revenue. Macro weakness weighed on enterprise demand and resulted in slower growth than we expected at the beginning of the year. However DCG's overall performance highlighted the underlying trends driving data center demand as cloud and communication service providers' revenue, both, grew more than 20% for the year.

Within the Cloud segment, 40% of our volume was custom SKUs as we left the year, demonstrating the ongoing value of working directly with the customers to tailor solutions to their needs.

Finally, just after our fiscal year ended, we closed our acquisition of Altera. We are thrilled to welcome the talented Altera team to Intel. Combined, our two companies will deliver powerful synergies based on Intel's process technology leadership and the integration of Altera's FPGAs.

Wrapping up, our results over the last year leave me increasingly confident in our strategy. While our outlook for the first quarter reflects some caution about overall demand, particularly in China, we continue to expect solid growth in the business in 2016.

Because it provides tremendous return to our shareholders, we will continue to drive innovation and differentiation in our core PC business. This business provides a foundation of IP and a source of cash flow, but it is not the sole driver of our growth.

Our future as a company will increasingly be a product of the virtuous cycle of opportunities in the data center, memory and IoT market segments. In fact, you can see the impact of that virtuous cycle in our 2015 results. DCG, IoTG and Memory, delivered nearly 40% of Intel's revenue and more than 60% of Intel's operating margin in 2015. Additionally, these three adjacent markets delivered $2.2 billion in profitable revenue growth in 2015 alone. As we look ahead to 2016, we will continue to build on that strategy.

With that, let me turn it over Stacy.

Stacy Smith

Thanks, Brian. The fourth quarter was a strong finish to the year, with record revenue a $14.9 billion. We had record revenues in the Data Center and Internet of Things businesses. Gross margin of 64% was up two points to outlook. Net income was $3.6 million, down 1% year-over-year and earnings per share was $0.74, flat over the same horizon.

I would like to provide context behind our full year 2015 financials as it provides insight into how we are executing to our strategy. Growth in the Data Center, Memory and Internet of Things businesses, partially offset a weaker than expected macroeconomic environment and weak PC client market.

Overall, revenue for the year was $55.4 billion, which was down 1% from the prior year. The Client Computing Group achieved $32 billion in revenue and was down 8% for the year. Within the Client Computing Group, we achieved almost $1 billion in mobile profitability improvements over the course of the year, exceeding our goal.

The Data Center business at about $16 billion in revenue grew 11%. The Memory business at over $2.5 billion in revenue grew over 20% and the Internet of Things business at about $2.3 billion, grew 7%.

Gross margin for 2015 was approximately 63%, down about a point from 2014. Higher unit costs as we ramp 40-nanometer were offset by an increase in ASPs, driven by strong results in the data center business and a rich mix in the Client Computing business. Operating profit for the year was $14 billion, down 9% year-on-year, earnings per share for the year was $2.33, up 1% from the prior year.

In 2015, the business continued to generate significant cash with $19 billion of cash from operations. We purchased $7.3 billion in capital assets. We paid $4.6 billion in dividends and repurchased about $3 billion of stock.

Total cash balance was $25.3 billion, up over $11 billion year-over-year. Our net cash balance, total cash less debt, and inclusive of our other longer-term investments was approximately $6.6 billion. We issued about $9.5 billion dollars of new long-term debt to finance our acquisition of Altera.

In November, we announced an $0.08 dividend increase to $1.04 per share on an annual basis effective in the first quarter of 2016. The acquisition of Altera was completed in early fiscal 2016, which means that the 2016 guidance includes the expected results for the FPGA business.

As I talked to our guidance for 2016, it is important to note that we have excluded non-cash and one-time acquisition-related charges for Altera. The CFO commentary pre-released before this call and available on intc.com includes the full GAAP and non-GAAP reconciliations.

For the first quarter of 2016, the mid-point of the revenue range is expected to be $14.1 billion. This forecast, which includes an extra work week and the newly acquired FPGA business, is on the low-end of the average seasonal range. This outlook represents a soft start to the year as we remain cautious on the level of economic growth, particularly in China.

We continue to believe the worldwide PC supply chain is healthy with appropriate levels of inventory. Gross margin for the first quarter is expected to be approximately 62% and spending is expected to be $5.5 billion.

Turning to the full year 2016, we are expecting revenue growth in the mid-to-high single digits relative to 2015. This outlook is higher than our previous guidance provided in November investor meeting. This higher range of driven by the addition of the FPGA business, partially offset by some caution as a result of uncertainty in the macroeconomic environment.

Gross margin for the year is expected to be 63% and spending is expected at $21.3 billion. The capital spending forecast for 2016 is $9.5 billion, up from 2015. As the economic useful life of our manufacturing equipment lengthens, we are extending the depreciable life of equipment in our factories from four to five years. This change in depreciable life drives approximately $1.5 billion and lower depreciation expense for the year. Inclusive of this change, we are forecasting depreciation expense to be $6.5 billion this year, down $1.3 billion from 2015.

Our results demonstrate that we are transforming the company. We are pivoting towards the cloud with a diversified portfolio of businesses. Client is still the largest segment, but the other businesses now make up about 40% of our total revenue and 2015 marked the first year where these businesses made up the majority of our operating profit.

The Data Center business is growing fast and is now a $16 billion business. That growth is being driven by growth rates in cloud computing that were over 40% year-on-year.

Our Memory business grew over 20% year-over-year and is as well positioned to disrupt the industry with the launch of 3D XPoint technology.

Internet of Things business grew in 2015, and is expected to contribute more growth this year. With the Altera acquisition, we expect to broaden our product portfolio in the Data Center and Internet of Things businesses and enable even more innovation.

Most importantly, we are pivoting towards the cloud, diversifying our client business and building a strong foundation for long-term growth for the company.

With that, I will turn it back over to Mark.

Mark Henninger

Alright, thank you Brian and Stacy. Moving on now to the Q&A, as is a normal practice, we would ask each participant ask one question and just one follow-up if you have one. Sabrina, please go ahead and introduce our first questioner.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from the line of Joe Moore of Morgan Stanley. Your line is now open.

Joe Moore

Great, Thank you so much. The Client average selling prices went up again for the second quarter is that the same trend you saw in Q3 as stronger high end and what is your assumption for the ASP trajectory going forward?

Brian Krzanich

Sure. I will start, Joe. This is Brian. It is same type of trend we saw throughout 2015, with client buy up the stack and you saw that our record revenue in Core i7 and K SKUs, which are really our top-end SKUs. Forecast for '16 has us relatively flat in this space, so we do not know if it will continue, but right now we forecast flat the ASPs for '16.

Stacy Smith

Just to add, Joe, so there was a client coming. In total we see ASPs up a little bit in '16. You can see it in the gross margin reckon. As Brian said, we are maintaining client ASP, but we are expecting that server becomes a larger percentage of the mix, so we get some mix impact based on what is going on in server.

Joe Moore

Okay. That makes sense. Thanks. My follow-up, the depreciation change, was that something you had known about when you had talked about the full-year guidance at the Analyst Day? What was it that prompted you to make that change now?

Brian Krzanich

Yes. The depreciation change was not included in my forecast that I provided back in November. We were in the middle of the analysis. What prompted it was, we did an in-depth analysis based on the cadence of moving from one process technology node to the next. We talked about that at the beginning of 2015, and the third wave of products and we kind of completed our long range planning in the fourth quarter and that has what triggered the change in the depreciation cadence.

I will also say, just to tie this out for you. In November, I was forecasting a 62% gross margin for the year. I am now projecting a 63% gross margin for the year and the difference there is this change in depreciation, so you can kind of see it in our gross margin reckon.

Joe Moore

Great. Thank you very much.

Brian Krzanich

You are welcome.

Operator

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

Vivek Arya

Thanks for taking my question. First, Brian, you mentioned that there is some uncertainty near-term in the broader environment. I was hoping you could provide us some more color around that if possible by your different segments and perhaps by geography.

Brian Krzanich

Sure, Vivek. It is the same type of trend we saw in 2015, emerging markets slower than the mature markets, U.S., Western Europe looking okay. China and the rest of Asia, slow. It was both, consumer and enterprise. I would say it is a little bit heavier on the client-side, so the PC side than the data center side, but we are seeing some of it on the data center side as well and those are the two big drivers and it is all the same geography.

Vivek Arya

I see. My follow-up maybe for Stacy, can you talk about the leverage in the model? Because, if I take your full year sales growth number, OpEx is roughly about 35-ish percent or so of sales, which is in line with what you had given at Analyst Day, but I am wondering what steps can you take to drive more leverage in the model. As an IDM, shouldn't the goal be to get to at least 30%-plus operating margins, so what steps can you take this year to help drive more leverage in the model? Thank you.

Stacy Smith

Sure. First let me just take a second to detangle the 2016 numbers, because with the extra workweek, the Altera acquisition, which includes some one-time costs and the change in depreciation, it becomes a little hard to, I think, get to the bottom of what's actually happening operationally in the business.

If you recall, in the investor meeting in November, Brian and I talked about the fact that we were looking to reduce spending as a percent of revenue by half-a-point. If you just take all of the adjustments out, so you don't adjust for the change in depreciation we do not adjust for Altera anything like that. We are getting that to half-a-point.

When we add all of that in, we are getting a bit more than the half-a-point improvement from 2015 to 2016 in terms of our projections, so we feel we are delivering what we committed to, and when you put some of these adjustments on top of it, we will deliver a little bit more.

In terms of the opportunities there, we articulated and I will let Brian comment over the top, but we articulated in the investor meeting we are still committed to drive spending as a percent of revenue down. We are in the midst of transformation right now, so we are going through a period where we are reading and feeding our portfolio, we are making some disinvestments, but very importantly we are investing in areas that we think are critical for long-term growth and health of the company and where we get lots of return i.e., the Data Center, the Internet of Things or process technology leadership, the Memory business, so we knew going into this year it would be a time of elevated investment, we are delivering what we committed, but there is more to come in future years. Thanks, Vivek.

Operator

Thank you. Our next question comes from line of C.J. Muse of Evercore. Your line is now open.

C.J. Muse

Yes. Good afternoon. Thank you for taking my question. I guess now with the Altera deal closed, I was curious if you could provide an update on your server chip roadmap and strategy as we look into 2016 and beyond.

Brian Krzanich

Sure, C.J. This is Brian. Let me just kind of give you a broad picture of Altera and where we are at. As you said, we just closed. We have just gotten through employee integration, everybody has got a badge, if you just go by the sign is out in front Intel now, we are really excited, we are starting to dig into some of the product roadmaps.

The good news is, we had been working as separate companies on the first of the server chips, which is a multi-chip package, so FPGA and our Xeon in the same package. That will actually start sampling to select customers in the first quarter of this year and it will continue to select - in limited quantities - it will continue to sample throughout this year, with production in '17.

Our roadmap will then - we are still working on our roadmap beyond that of when do we integrate the full IP into our silicon, so basically monolithic die and we are now actually spending an equal amount of time on that same kind of a roadmap in MCP or multi-chip package filed by monolithic die in the IoT space, so we feel pretty good about the progress and we are already in the first quarter going to be set going to the kind of leading edge [ph] if you think about.

C.J. Muse

Very helpful, and I guess as my follow-up, you provided a $10 billion CapEx budget and now it looks like it is about $500 million lower at the mid-point. I was curious what has changed there. Is that principally capacity on the logic side as opposed to memory given what we are seeing in the macro environment? Thank you.

Brian Krzanich

Yes. It is all logic for the most part and it is not as much a macro versus testing capacity or anything. That is just the ins and outs. As we went from the investor meeting into the actual firm forecast for 2016, the team has just sharpened down all the numbers and went through it in more detail.

I do not think there is anything more to it. I will let Stacy comment if he wants to give you any other light on this one.

Stacy Smith

No.

C.J. Muse

Great. Thanks so much.

Operator

Thank you. Our next question comes from the line of Harlan Sur of JPMorgan. Your line is now open.

Harlan Sur

Good afternoon. Thanks for taking my question. On the Data Center business, it decelerated as the team has expected, but 5% year-over-year growth in Q4 was a bit more deceleration than what we were anticipating, so I guess two questions. Was it all enterprise that drove the weakness and do you expect to get back to a double-digits growth trajectory in the March quarter and is the team still confident about driving mid-teens growth for DCG in 2016?

Brian Krzanich

Yes. There are a couple of things I want to talk about on the Data Center. First, when you compare Q4 to Q4, we you are looking at comparative where Q4 '14 was one of our strongest quarters, you know, as long as I can remember very strong - greater than 20% growth for the quarter, so that quarter was a little bit of unique so the quarter-to-quarter comparative is a bit tough.

If you take a look at how the second half it is really Q3 and Q4 kind of looked similar. Enterprise actually stabilized from the first half, so enterprise was weak in the first half and it has got a little bit more stable in the second half. What we saw was the normal, the cloud guys turned the slowdown in the fourth quarter, because that is when a lot of that cloud, you know, they do not want to be upsetting the cloud infrastructure while the holiday seasons are on people are buying things then we continued to see strong growth and strong share gain in the networking in Telco side.

Absolutely, we continue to look out. Again, we are very careful to not look at is this on a quarter-by-quarter basis. We are looking at the long view and we are very confident that yes we will continue into this double-digit growth in the Data Center. It will continue to be fueled by the cloud in the first side and then secondly by our growth in Telco and networking as our share grows there. Remember, we entered the year less than 10% share of that space and there is a lot of space there for us to grow in the networking and Telco space.

Stacy Smith

Let me just add one thing to the premise of your question. I think we were not surprised by where we ended up in the Data Center. If you recall back in November, we talked about Data Center growth rate for the year being in the low double digits. That is exactly where we came in.

Based on what Brian was just talking about in terms of the strength of Q4 '14, we were expecting this to be a tough compare that we would have growth rates in the single digits.

Harlan Sur

Great. Thanks for the insights there. Then for my follow-up, you know, the team is going to be launching its 6th generation V Core product line for enterprise desktop PCs, I think, next week. There also has not been a refresh of desktop for two years, so I guess the question is what are you hearing from your corporate and enterprise customers as to the potential uptake of these new platforms relative to the very muted enterprise demand profile that we had last year?

Brian Krzanich

As you said, we kind of went roughly a year or so without a desktop enterprise upgrade, and especially when you combine coming back now with the refresh, that refresh being Skylake, the combination of Skylake's great performance and great graphics. We are past the Windows 10 launch, which is another positive in this space.

We are hearing very good response as far as people's interest, the form factors you are seeing, right? You are seeing All-in-Ones, you are seeing classic desktop platforms, you are seeing great graphics, you are seeing OLED displays. Overall, it is just another segment, where we think the best computing device really is the computing industry has every built are going to be showcased.

The excitement there and we just got to get past the macroeconomics of enterprises saying we are going to go do the upgrade.

Harlan Sur

Thank you.

Operator

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

Stacy Rasgon

Hi, guys. Thanks for taking my questions. First, I wanted to go to the equipment life extension. I know you were hopeful that eventually you would be able to get your node migration trajectory back from three years to two, so this sounds like a fairly permanent change in terms of extending your equipment life time, so what should we take from this action in terms of how you view the potential improvement ability of your node migration trajectory going forward?

Brian Krzanich

It is not an impact at all, Stacy. This is whether we are at two years or two-and-a-half or three, it was not going to dramatically shift that life expectancy like this. This is more about the amount of reuse and the efficiency and speed at which we can do the conversion, so both of those numbers have improved.

Now the cycle, clearly it does not hurt to have from this perspective, the longer node cycle, but independent of that, this is a change that was fundamental to the shift and reuse and rate at which we are able to move tool from being able to run, say, 14 nanometers to 10 nanometers.

Stacy Smith

I would also just add. That is exactly right. The reuse is something that has been shifting over time and it gives us a lot of economic benefit. I will give you the accounting answer here too, which is if we got to 7 nanometer or 5 nanometer and there was something that caused us to look at the depreciable life, the economic usefulness of the equipment, we would change it, but we are certainly not expecting anything like that, but as we go through this analysis every year.

Brian Krzanich

Only thing I would add to finish is, within the manufacturing side, one of our objectives is to continue to improve on those vectors that I talked about, reuse and speed at which we are able to do these transitions, so we will be constantly trying to get this to be a longer and longer number if possible, independent of the nodes, because it just shows we are becoming more efficient.

Stacy Smith

Right.

Stacy Rasgon

Got it. Thank you, guys. For my follow-up, I just wanted to take a look at the extra week that is in Q4. How much of your guidance is actually coming from that extra week. Is it sort of the full, I guess the 7.5% of whatever it is or is less, because that week is happening at the end of '15 and beginning of '16? How should we think about how that may influence normal seasonality into Q2?

Brian Krzanich

Yes. Sorry. Maybe I did not hear you, and just I want to clarify that the extra work week is in Q1 of 2016, not Q4 2015.

Stacy Rasgon

Yes, but I think it is like December 28th through January 4th or something, so how did that.

Brian Krzanich

…earlier than that. The background on this is, we go through this every five years to seven years, because we are on a work week calendar over five-year to seven-year period. We get out of sync with the actual calendar and then we add in a workweek in order to get back on sync.

It is easy actually to quantify the spending associated with that extra workweek, because, you know, we have got lights on and factories running and we are paying people, so revenue associated with it is a little harder to calculate.

When you look at where the week actually falls, it is that week between Christmas and New Year's. Our fiscal year ended, I think, the day after Christmas, so it is that week between Christmas and New Year's that tends to be a billings week that is dramatically lower than any other week we see during the year, so some revenue impact kind of hard to quantify it.

The way I would look at it though, you know, when you look at our guide and you take out Altera and you take into account any impact for the extra workweek, what you would see is that the guide for the first quarter is, you know, kind of at the low-end of what we normally see from a Q4 to Q1, is how I think of it and then you add Altera back on top of that and you get to the revenue number that we provided.

Just to be totally transparent, the revenue number for Altera in Q1 is on the order of $400 million, so you can kind of do the math from there. Thanks Stacy.

Stacy Rasgon

Got it. Thank you, guys.

Operator

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

John Pitzer

Yes. Good afternoon, guys. Thanks for letting me ask the question. Brian, the first question I have is on the DCG business. This quarter, the December quarter, you saw a modest drop in ASPs both, sequentially and year-over-year, which is somewhat of anomaly for that business. I guess I understand the mix shift as cloud grows faster than enterprise. I am kind of curious; do you think this was a one-quarter anomaly? Is this something we should expect more of as networking grows faster in '16? Within the individual segments, are you still seeing customers buy up the stack?

Brian Krzanich

Okay. That is actually a great question, John. For Q4, the decline or the decrease in ASP was mostly driven by the much higher growth rate in the networking as you mentioned and the fact that the percentage of out add-on [ph] in networking tends to be a bit higher, so if you look at networking as a whole, the ASPs in networking tend to be lower than, say, cloud or enterprise.

However, if you look at Q4's networking ASP, so if you took out just that ASP and you compared that ASP relative to prior quarters, it was actually up as an average, selling at a lower average selling price, but that average selling price is increasing as more people buy - and as NFV and SDNs takeoff, more people tend to buy up to core, because they are really searching for that performance.

We do hope and expect this trend to continue into '16 as we gain share in networking, the relative strength. Then if you take a look at the cloud space and the enterprise space, we expect those to continue on the trends you have seen over the last few years. We do not expect any major shift there, but we have very strategic plans to continue to grow in the networking, storage and especially around the Telco and networking space as SDN and NFV really take hold.

You will see a slightly lower ASP from there, but we expect the ASP to continue to increase in that space as we bring more functionality. Does that answer your question?

John Pitzer

Yes. It does. Very helpful, then Stacy, as my follow-on, you raised sort of the full-year gross margin by about 100 basis points, but if I kind of do the math $1.5 billion decrease in depreciation on a $60 billion revenue stream is more than 100 basis points. In addition, the Altera gross margin was higher than your core, so I guess I am trying to understand what are the offsets? Is 10 nanometer cost kind of coming in higher than expected and if you could help us understand sort of the progression of 10 nanometer cost throughout the year? That would be helpful.

Stacy Smith

Sure, and a great question. I know there is a lot of moving parts here. Let me just focus in on the depreciation change for second. I actually try to be very transparent. In the CFO commentary that was released, you will see some of this written out, so you can always refer back to it.

The change in depreciation, you are right. In total, it was about $1.5 billion, but only about half of that is flowing through COGs impacting gross margins in 2016 and that is why you get to the kind of one-point shift, and that really is the primary difference, so there is a few other moving parts, but nothing that is material. That is the thing that changed from 62% gross margin forecast that we had in November to 63% gross margin forecast that we have today.

The rest of the change in depreciation, about a quarter that will flow through OpEx, because remember all of the spending we do for research and development facilities actually flows through our research and development lines, so you see a little bit of a benefit there. Then you have some of it that goes into inventory and then ships out over time.

John Pitzer

Thank you.

Brian Krzanich

You are welcome.

Operator

Thank you. Our next question comes from the line of Chris Danely of Citigroup. Your line is now open.

Chris Danely

Thanks, guys. Just another question on the weakness you are seeing. Can you just maybe going into some detail on, when it started, have you seen any stability? Is this just CPUs in your full-year forecast you are implying that we get back to normal seasonality in Q2 through Q4?

Stacy Smith

Yes. I would articulate, we have a cautious stance as we start the year. There were a couple of things that feed into that. Units were a little weaker for us in the Client segment and Q4. As we worked our way through the Christmas selling season, what we saw was the sell-through all the way to the end customer was a less than we thought. We made up for that with a rich mix, so that is why we ended up with a pretty good result, but a little - we are watching that carefully.

Then our team on the ground in China has gotten fairly cautious about what is going on in China right now. As you know, that is the largest PC market, so we are just little cautious on the growth rates there.

In terms of from here, I think Brian said it well, we are expecting this is the environment as we work our way through 2016, against the a backdrop of somewhat weak macroeconomic environment we kind of expect the year to play out kind of normally from here.

Chris Danely

Okay. Thanks. Then as far as the Altera revenue, I think you said $400 million. I think that is down like somewhere in the mid-teens or something like that, sequentially. Why the conservative forecast. Then do you have any forecast for the year for Altera business?

Brian Krzanich

Yes. I am not going to speak. They did not release results for 2015, so I am really not able to talk about their results for 2015. I can tell you from our perspective, we did not see anything that was surprising in terms of what we have seen about their business levels. We actually expect some revenue growth as we go from '15 to '16.

I will give you kind of in total what we expect for Altera. It is a little north of $1.6 billion in terms of revenue. Gross margin that as John was saying is a little higher than the corporate average, so it gives us a slight mix, but because it is a relatively small business against the backdrop of Intel, it is not a big shift in our gross margin and then we were expecting spending that is at run rate of a of $200 million a quarter.

In addition to all of that, there will be a bunch of kind of one-time acquisition deal related, there is amortization acquisition related intangibles, we see all those in the GAAP number. I have excluded them from the non-GAAP numbers I just gave you.

Chris Danely

Great. Thanks, guys.

Operator

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

Ross Seymore

Hi, guys. Thanks for letting me ask you questions. Stacy, one question on the OpEx side, back to that leverage question, you had a very useful slide at the Analyst Meeting about how you disinvest in some areas and increase investments in another.

I guess my next question is, given that ability to do a substitution in the past, is there any limitation on that going forward or if you going to keep spending more on some of the growth initiatives. Is that actually going to be all incremental to the level we have now?

Stacy Smith

No. I think that is actually part of our DNA. As we are pretty rigorous about trying to weed and feed where we invest and where we disinvest. As you referred to in the Investor Meeting, I showed up and down arrow chart and the magnitude of those shifts was on the order of a $1 billion for some of the big movers as we added investments in some areas and subtracted investments in others and I will also say there is a point at which we expect that we get more and more leverage in businesses like the Data Centers as well, so I think there is a lot of opportunities for us to bring down spending as a percent of revenues as we go forward.

Ross Seymore

I guess my final…

Stacy Smith

Add anything to that.

Brian Krzanich

No. Go ahead.

Ross Seymore

I guess as my follow-up question is, just any more color you can provide on the channel inventory? You mentioned that the unit demand was a little weaker than you had expected. How is the channel looking right now and what sort of expectation should we have for your internal inventory looking into this year? Thanks.

Brian Krzanich

Sure. We believe that 2015 ended with I would just call it very healthy inventories. In fact, one of the things we saw was a slight decrease in the inventory levels as we exited the fourth quarter. If you take a look at what we had originally projected and what would have been more an industry norm would have been a slight increase in inventory. We expect those kind of healthy inventory levels to extend through '16. There is no sign that anybody is adding inventory or not moving of a cautious position on inventory and that is what has been built into our forecast as well.

Stacy Smith

Yes. To the question on internal inventory levels, I would just say, we ended Q4 with a little more inventory than I was expecting and a little higher than I would like. Two drivers there, we saw as I said a little bit weaker units, so we made up for us in rich mix, a little bit weaker unit and we saw yields get better on 14 nanometer and the combination of that - little more inventory leaving Q4 than I would like.

You will see it, on a dollar basis, will go up in Q1 as a result of Altera, so Altera will cause the inventory levels to go up some, but when you look at it from a business standpoint, I think we will work through the inventory we have, and when we get into the back half of the year, we will bring inventory levels down.

Ross Seymore

Great. Thank you.

Stacy Smith

Welcome.

Operator

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

Blayne Curtis

Hey, guys. Thanks for taking my question. Stacy, the roughly $400 million of Altera, I do not expect you to report it going forward. Just curious how does that fit into reportable buckets just kind of levels that if the first quarter out.

Then secondly, could you just talk about how you are integrating or not integrating Altera. I think I have kind of heard both. It sounds like you wanted to keep the sales force separate, but just curious, kind of, where does that report under and how much integration are you going to do?

Stacy Smith

Sure. I will take the accounting question. Then I will ask Brian to give his insight and philosophy on the whole integration.

On the reportable segment, so actually I do plan to give you full visibility into Altera. It is a relatively small business for us. It does not hit the SEC reporting requirement, so it does not come across that threshold, but we just feel strongly that based on transparency and the size of the acquisition, we want to give you transparency, so you will see that in our financials going forward.

I will let Brian answer the integration question.

Brian Krzanich

Yes. From an integration standpoint, I think what you have seen we have done with McAfee as we have integrated it into Intel Security and you saw the great results that we have shown in the fourth quarter, those are somewhat an example of what happens as you integrate and you really get to focus on the business at a much higher level.

Same thing for Altera, we plan to fully integrate it. It is going to look like a business group, no different than say CCG that has PCs and modems, phones or DCG that has Data Center. It is called PSG, Programmable Solutions Group. It reports directly to me and it will be fully integrated.

The sales force at the beginning, because the sales tend to be a bit more technical and a bit more a field sales engineering-type role, we are keeping it separate, but that is something we are going to continue to evaluate, but the organization, the engineering, already were in the first two weeks. We had - really for me, I am really pleased with the level of integration and help that we have done to get products and the roadmaps focused and integrated into our internal systems, so you should expect it to be fully integrated.

Stacy Smith

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

Operator

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

David Wong

Thanks very much. What might we expect in the way or new 14 nanometer Data Center processors family in 2016?

Brian Krzanich

Let see. I think, we have got Broadwells, Xeon. It is going to launch in the first half here of '16, so that will be the first of the 14 nanometer or the next 14 nanometer into 2016, is that E5 on Broadwell. The rest of them, we have not put any other dates out there yet, so Skylake SKUs and so forth.

David Wong

Okay. Great. My follow-up, with startup and other charges, do you expect memory output in China in 2016 will be a positive or negative contribution to EPS and should we expect a positive contribution in 2017 from the China fab?

Stacy Smith

Let me think. There will be some pretty significant costs and that is in the gross margin reckon associated with the startup of the factory in China. We will be in production in the back half of the year, but we are just ramping production. I think if you were just looking at the six-month time period, you would say it is kind of negative and you can see it in the gross margin it is a slight negative on the gross margin.

It does not change the fact that we make these investments and then we get this, what I would say tremendous long-term benefit out of making that investments, so that does not - I do not want you to take from that that we are somehow less bullish on the transformational capabilities of what the team has managed to pull off for 3D XPoint, because we are actually quite bullish on that.

David Wong

Great. Thanks.

Operator

Thank you. Our final question comes from the line of Timothy Arcuri of Cowen & Company. Your line is now open.

Timothy Arcuri

Thanks a lot. I just had a question again on the depreciation change. I know, Stacy, you talked about it being due to reuse, but I guess relative to just the fundamental cadence of the migrations, your intent has been to get sort of back on a normal Morris low cadence. I just want to make sure that is still the case?

Brian Krzanich

Yes. We have said that - This is Brian, by the way, not Stacy. 10 nanometers would be closer to that two-and-a-half years than two years that we would continue to strive to get back on two years. Some of that was as we go to the fine 7 nanometers, what the complexity technology looks like, whether UV is ready or not, but absolutely we are pushing to get back on that two-year cadence.

Stacy Smith

Yes. I would just add, please do not take the accounting of the depreciable life to be somehow signal that we are letting our foot off the gas on process technology cadence and process technology leadership. That is the heartbeat of the company and we are driving it hard. The accounting just as looking at how long that equipment is economically viable in our factories and it is pretty clearly five years as we go forward.

Timothy Arcuri

Right. Okay. Got it. Then just last question, so on the mobile group, at the Investor Day you talked about another $800 million improvement this year in the losses. Is this still the target and maybe talk about the progress there and whether we could see any momentum for smartphone this year with 7360? Thanks a lot.

Brian Krzanich

It is absolutely still the target. That has not changed one bit. It is a little early in the year to talk about progress. I would tell you that we have a large percentage of $800 million, already I will call it planned out.

In other words, we have projects. We know what we need to do, introduce products, align which SKUs are coming and move products on to that, so I would say a large percentage of that is well-planned through the year, but it is throughout the year, so I cannot tell I have already get $200 million of it or something like that, not here in the second, third week of the year.

7360, it is out. It is sampling, the customers are going through their validations now at the systems, where they are building up systems and out testing them on networks and so forth. As far as the launches of those systems and the announcements, those are always up to our customers and we do not make sure that we are the ones announcing that.

Then what we have told you is that, what is even as important is that we are on a yearly cadence now of our modem technology and we are very confident on that as well for the next set of modems that comes out after the 7360.

Stacy Smith

Thanks, Tim. All right, thank you all for joining us today. Sabrina, you can please go ahead and wrap up the call.