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Intel CEO Remarks
Pat Gelsinger
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Good afternoon, everyone. Thanks for joining our second-quarter earnings call.

It's a thrilling time for both the semiconductor industry and for Intel. We're seeing unprecedented demand as the digitization of everything is accelerated by the superpowers of AI, pervasive connectivity, cloud-to-edge infrastructure and increasingly ubiquitous compute.

Our depth and breadth of software, silicon and platforms, and packaging and process, combined with our at-scale manufacturing, uniquely positions Intel to capitalize on this vast growth opportunity.

Our Q2 results, which exceeded our top and bottom line expectations, reflect the strength of the industry, the demand for our products, as well as the superb execution of our factory network. As I've said before, we are only in the early innings of what is likely to be a decade of sustained growth across the industry. Our momentum is building as once again we beat expectations and raise our full-year revenue and EPS guidance.

Since laying out our IDM 2.0 strategy in March, we feel increasingly confident that we're moving the company forward toward our goal of delivering leadership products in every category in which we compete. While we have work to do, we are making strides to renew our execution machine: 7nm is progressing very well. We've launched new innovative products, established Intel Foundry Services, and made operational and organizational changes to lay the foundation needed to win in the next phase of our company's great history.

Here at Intel, we're proud of our past, pragmatic about the work ahead, but, most importantly, confident in our future.

Now, let me share some more detail on what we are seeing in the market.

As compute is becoming more ubiquitous, we're seeing sustained strength in client demand. The ecosystem is back to shipping over 1 million PC units a day despite grappling with component shortages. I expect PC TAM growth will continue in 2022 and beyond, driven by three factors:

First, PC density, or PCs per household, is increasing as COVID has irreversibly changed the way we work, learn, connect and care for each other. For example, even as we emerge from COVID, we're seeing many companies opt for hybrid work models versus a full return to the office.

Second, replacement cycles are shortening on a larger and aging installed base. The shift to notebooks, the deployment of new operating systems, and new and better experiences, such as our EVO platform, will continue to drive refresh on the 400 million PCs over 4 years old that are running Windows 10.

Finally, new markets and users are adopting the PC as the device of choice, and penetration rates are increasing as worldwide GDP growth makes the PC more affordable to more people. In areas like

education we see huge potential as the number of PCs per 100 students and teachers remains in the single digits.

These trends underpin my belief that we are still in the early stages of a sustainable cycle of PC growth, and our OEM and channel partners have resoundingly affirmed this perspective.

Beyond client, we are seeing near-term recovery across traditional data center markets as well as explosive long-term demand from the cloud to the intelligent edge. Our digital society is creating data at an unspeakable pace, and AI is the key to unlocking the value from this data and turning it into information. As the appetite for meaningful data grows and the cost of compute falls, AI workloads are proliferating into more areas and, as a result, we expect the AI market to grow at more than 20% a year. This is why we are infusing AI across everything we do.

Similar revolutions are occurring in the areas of connectivity, where the data center will be transformed by silicon photonics; in 5G, which is hitting its stride with Open RAN; and in autonomous driving – all markets in which we have substantial leadership positions.

On the other side of the equation, the strong demand environment continues to stress the supply chain. While I expect the shortages to bottom out in the second half, it will take another one to two years before the industry is able to completely catch up with demand.

IDM 2.0, which combines our internal manufacturing capacity with the use of third-party foundries, best positions us to weather these challenges and work with our ecosystem partners to build a more resilient supply chain.

With major fab construction projects underway in Oregon, Arizona, Ireland and Israel, we are investing for the future, but we are also taking action today to find innovative ways to help mitigate industry constraints.

For example, on our Q1 call, I talked about using our internal Assembly Test network to help with portions of the substrate manufacturing process, a benefit uniquely enabled by our IDM2.0 strategy. I am pleased to say that that this effort is now online and is significantly accelerating the availability of millions of substrates for our products.

We are also working to build the EUV ecosystem, which requires significant support around the equipment, including photoresists, mask generation and metrology. A great example is IMS Nanofabrication, a wholly owned subsidiary of Intel. Using a novel multibeam technology, IMS provides the large majority of EUV mask-writing tools to the industry, and we plan to accelerate investments to advance this pivotal ecosystem capability.

In the second quarter, we continued to see Intel Foundry Services build momentum. We are now engaged with more than 100 potential customers on the basis of our three key value propositions:

First, IFS will have the widest offering of IP ranging from x86 to ARM to RISC-V, which allows our customers the flexibility to design products using our IP catalog as well as their own.

Second, we will offer our customers comprehensive access to a range of mature and leading-edge process and packaging capabilities. I am pleased to announce we recently signed our first major cloud

customer to use IFS packaging solutions. I'll have even more news to share on IFS customer momentum on Monday.

Third, IFS will offer scale manufacturing that gives our customers confidence we can meet their demand. As part of that, we are committed to creating a more robust, geographically balanced and secure supply chain. Along with our $20 billion fab investment in Arizona and $3.5 billion advanced packaging investment in New Mexico, we plan to build additional capacity to support both internal and IFS growth. The U.S. Innovation and Competition Act is a tremendous step forward to catalyze investments in manufacturing here in the U.S. and will serve as a tailwind to our IFS efforts. After my recent visit to Europe, we are seeing similar enthusiasm from EU governments, customers and overall ecosystem … and we expect to announce our plans for our next U.S. and European sites by the end of this year

Moving to our continued focus on execution ... as I said at the start of our call, we are pragmatic about the work in front of us, but supremely confident of our future.

Under IDM 2.0, our factory network continues to deliver and we are now manufacturing more 10nm wafers than 14nm. As 10nm volumes ramp, economics are improving, with 10nm wafer costs 45% lower year over year with more to come. We will talk more about our plans for process and packaging leadership in our Intel Accelerated event this Monday – I hope you will join me for that critical update.

On our path back to unquestioned product leadership, customers continue to choose Intel. Using our broad portfolio of assets, we will continue to compete aggressively for market segment share.

In Q1, we gained PC share with record notebook sales … following that with record Q2 revenue. We launched 12 new processors, and "Tiger Lake" is ramping even better than expected, with more than 50 million units shipped to date. Finally, our future client roadmap remains strong. And we expect to ship several million units of "Alder Lake" to customers in the second half, and "Meteor Lake" remains on track for production in 2023.

Beyond the CPU, we reached a major milestone with our partners at Microsoft with the announcement of Windows 11. We deepened our co-engineering efforts to enable new experiences, including running Android applications seamlessly on Windows PCs and optimizing for Intel-based platforms.

We're gaining similar momentum through the year in the data center. Q1 was the low point in revenue for the year and we exceeded our plan in Q2. We expect DCG to grow sequentially, achieving double-digit YoY growth in the second half as it accelerates through the year. "Ice Lake" is ramping broadly to customers, including Microsoft, Alibaba, Baidu, Oracle and other major service providers and enterprise customers. Additionally, we continued to extend our leadership in networking by delivering a truly cloud-agnostic platform using Intel® Xeon® Scalable processors and accelerators in partnership with Ericsson. This will allow operators like Verizon to introduce a virtualized RAN solution across all deployment scenarios, including existing footprints.

Finally, Mobileye further solidified its position as the leading supplier of advanced driver-assistance platforms. In Q2, we announced a major win with Toyota and closed 10 additional design wins for over 16 million total lifetime units. Earlier this week, we hit another exciting milestone as Mobileye became the first industry player to start testing autonomous vehicles in New York City -- a challenging driving environments for humans, let alone AVs. With vehicles in Israel, Germany, Detroit, Tokyo, Shanghai and coming soon to Paris, Mobileye has the largest global footprint in the AV industry, enabled by our

unique REM™ distributed mapping technology. By year-end, we will have over 1 million vehicles providing telemetry for dynamic crowdsourced mapping, a unique and powerful advantage of Mobileye's.

At Intel we have a saying: "We begin with sand … and the rest is our people." At no other point in our history have our people and culture been more important to our success.

We recently made strategic organizational changes to further strengthen our technology leadership and accelerate our execution. We have restructured our Data Platform Group into two new business units: the Datacenter and AI Group led by Sandra Rivera, an Intel veteran with deep knowledge of data center silicon and software, and the Network and Edge Group, which will be led by Nick McKeown, a renowned leader in the networking industry.

We have also created the Accelerated Computing Systems and Graphics Group led by Raja Koduri to increase the company's focus in key growth areas of high-performance computing and graphics.

We're also highly encouraged to have Shlomit Weiss rejoin to strengthen our design engineering core.

Finally, Greg Lavender, who joins us as Intel CTO and GM of the Software and Advanced Technology Group will drive a unified vision for our software strategy across Intel and ensure it remains a competitive differentiator for us.

I have the utmost confidence in our leadership team to drive the future of Intel. Together, we will continue to sharpen our focus and execution, accelerate innovation, and unleash the talent inside Intel.

While there is more work ahead, we are moving at a torrid pace, and I look forward to providing several updates in the coming months.

On Monday, I invite you to attend Intel Accelerated where we will lay out our roadmap to regain process performance leadership and share what comes next for our world-class packaging technologies.

In October, we will hold our Intel Innovation event, a geek fest for the industry to come together and explore the technology that will drive the next decade and beyond.

Finally, at our Investor Day on November 18, we'll pull it all together and present a compelling long-term business plan to drive sustained growth and shareholder value creation.

As you can see, we have a lot planed for the rest of the year, but for now I'll turn it over to George Davis to discuss our Q2 performance and outlook.