Intel Investor Meeting February 2022

Summary from investing perspective:

- Expect margins to drop in 2022 and then remain flat for a few years – expect single digit growth for a while, acceleration only by 2025/2026! **This could keep the pressure on the stock as the market usually wants confirmation, not promises. Gross margin 2022 around 52%, stay around that for 2023 and 2024, then increase back to higher (54% to 58%).**
- **Revenue growth is forecasted to be 1.7% for 2022 with a margin drop, single digit growth and then acceleration to double digits after 2025.**
- I would say Intel is relatively cheap in the $40ties, cheap in the $30ties and incredibly cheap in the $20ties.
- **The risks come from missing the growth projections stated (12% growth in 2026). If it doesn't materialize, it will look ugly when the market loses faith in promises (so the risk is high as there is execution but also competition risk) There is a big difference between hitting the mark in 2026 or 2028, if they hit it at all as the competition isn't staying still.**
- **Intel could be a China hedge as if there is mumbo jumbo there, Intel is the global counterparty for supply.**

Investment scenarios:

1) **Reward: Double by 2026, with biggest part of the gain in the latter years as the 'great growth plan' gets traction.**
2) **RISK: Missing the set growth targets, having a low return on invested capital (could be due to competition or to economic situation and demand – hard to predict what will the world look like in 2026/2030)**

Value investing strategy: Wait for it to be an absolute bargain where you can't lose and left is only the upside (market capitalization in the $150 billion on all else equal). It is unlikely it will happen, but it is worth to watch it).

Normal investing strategy: Intel looks undervalued on a relative basis given the potential of 15% FCF in 5 years.

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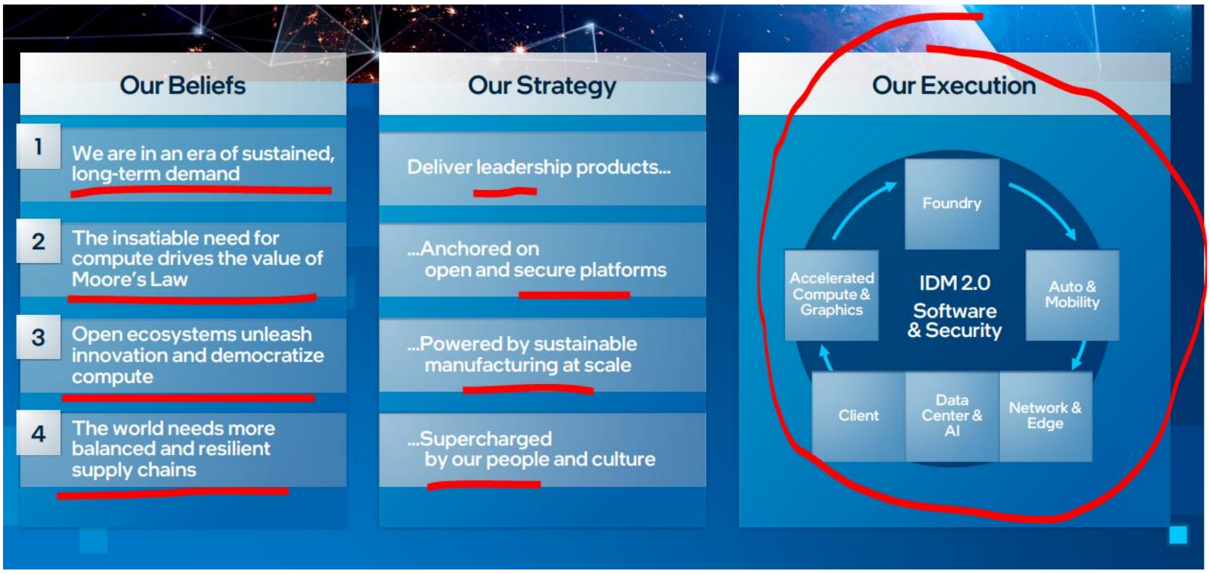
Intel Business Overview From Investor Day February 2022

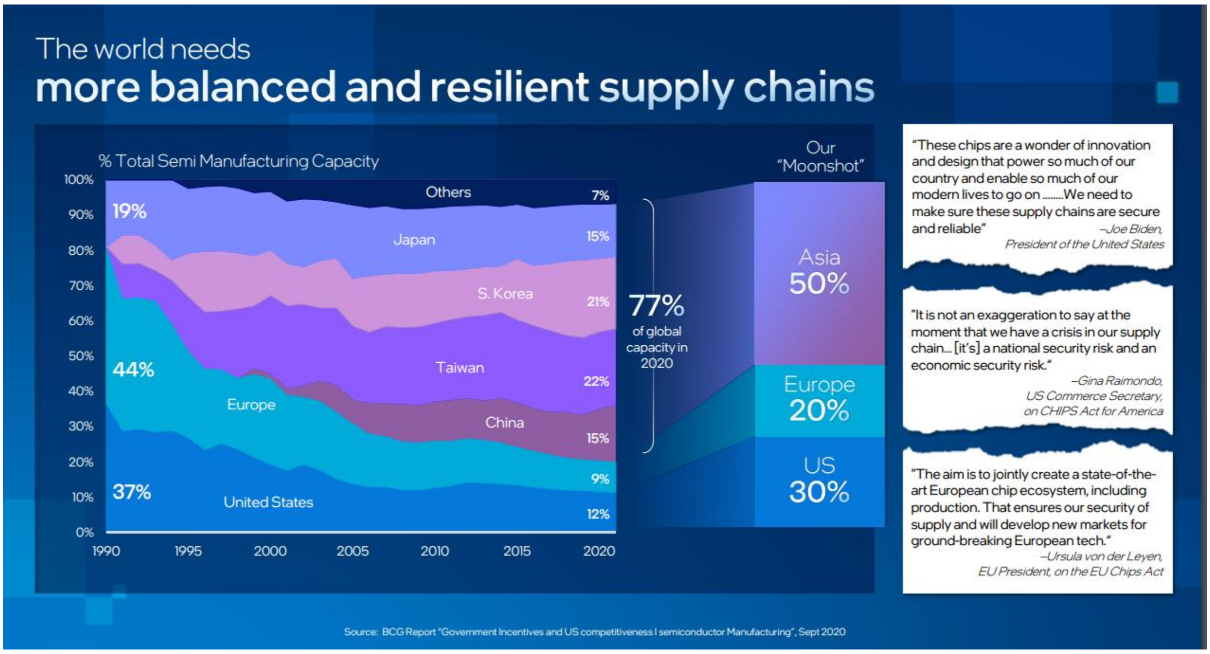
The following slide tells us a big part of the investing risk and reward we need to know. They are presenting Intel as the 'Next Great Growth Story'.

We as investors have to now put what is going on into a risk (what can go wrong) and reward (great growth story) perspective and also how much can we lose if it goes wrong and how much one can gain if it goes right.

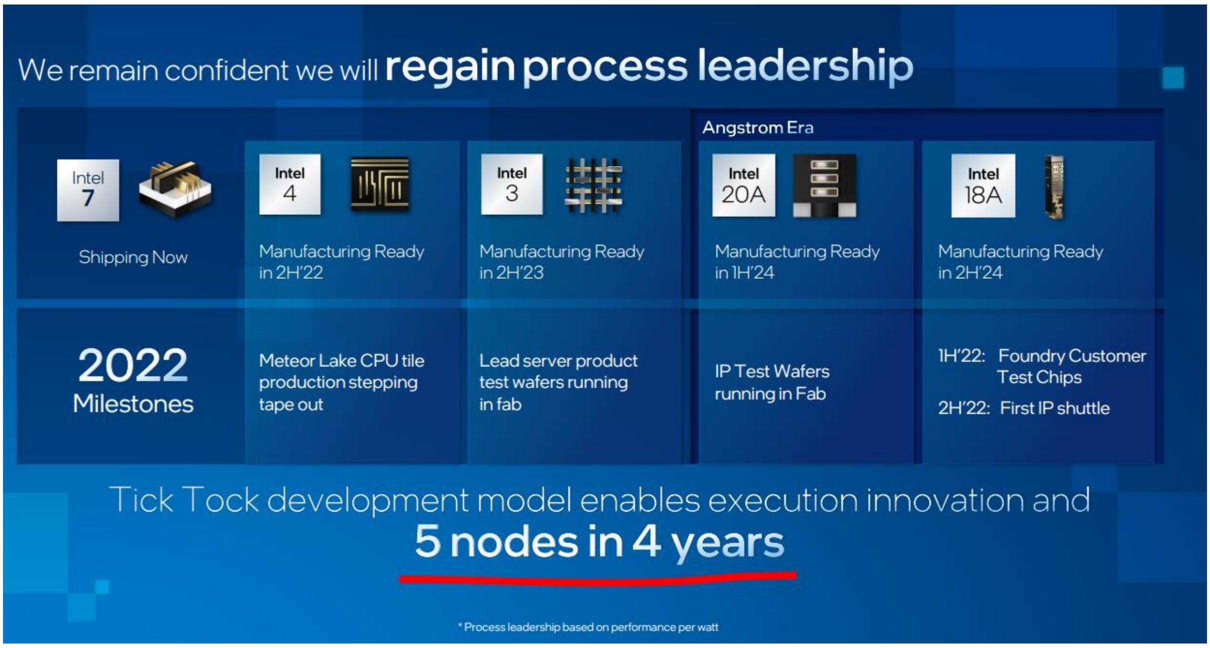
The following is the plan:



But growth also includes risks and even they call it 'Moonshot', because the below implies high growth and global market share gains. Politics will also have a great impact on the below, and you never know how will that work. But, Intel could be a China, Taiwan hedge – but let's hope no mumbo jumbo happens there as then we would have other things to think about rather than our stock portfolios.

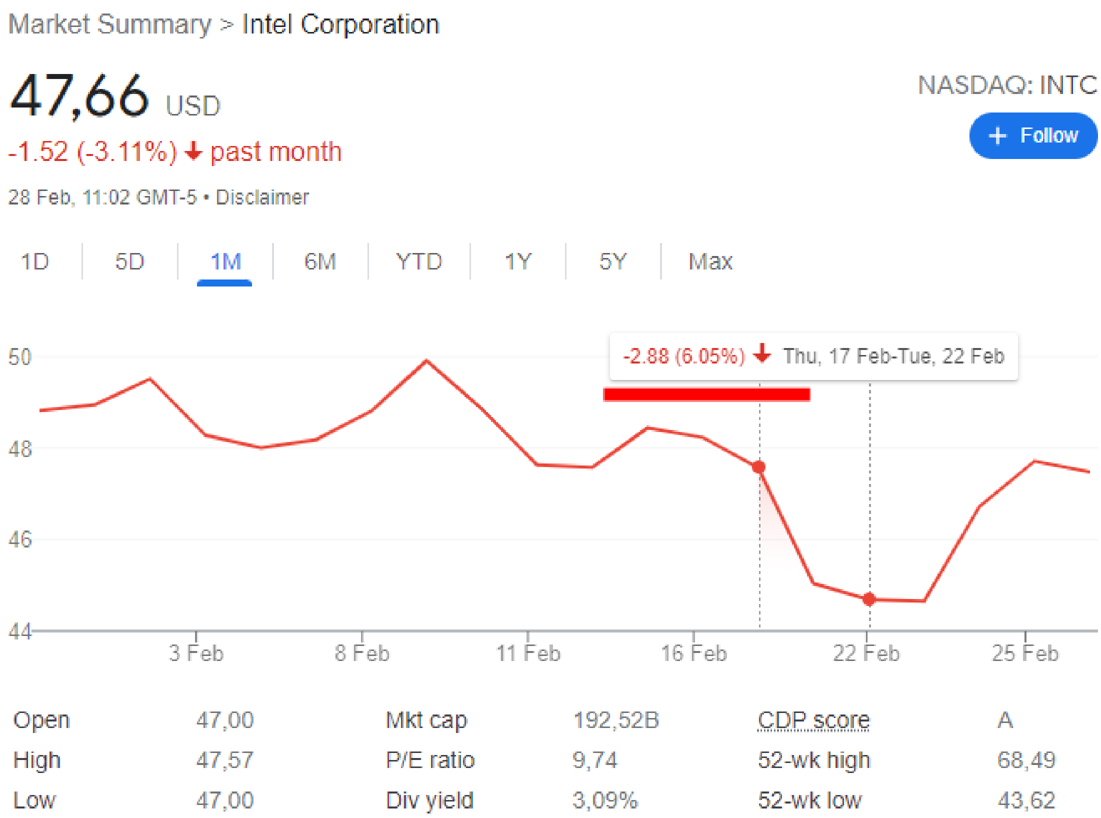


Intel has lost leadership in some segments, and we will see whether they will gain it back, others aren't staying still.



The following, from an investing perspective, tells me there is time, but not much time. Namely, the market rarely reacts before something happens, the market always waits for something to happen, but you need to anticipate that to get the most gains. (That is also the risk and reward)

Intel projects seeing accelerating growth, but still slow in 2022 – which means the stock could still be down or stay flat for longer. As it was the case after the investor day presentation:



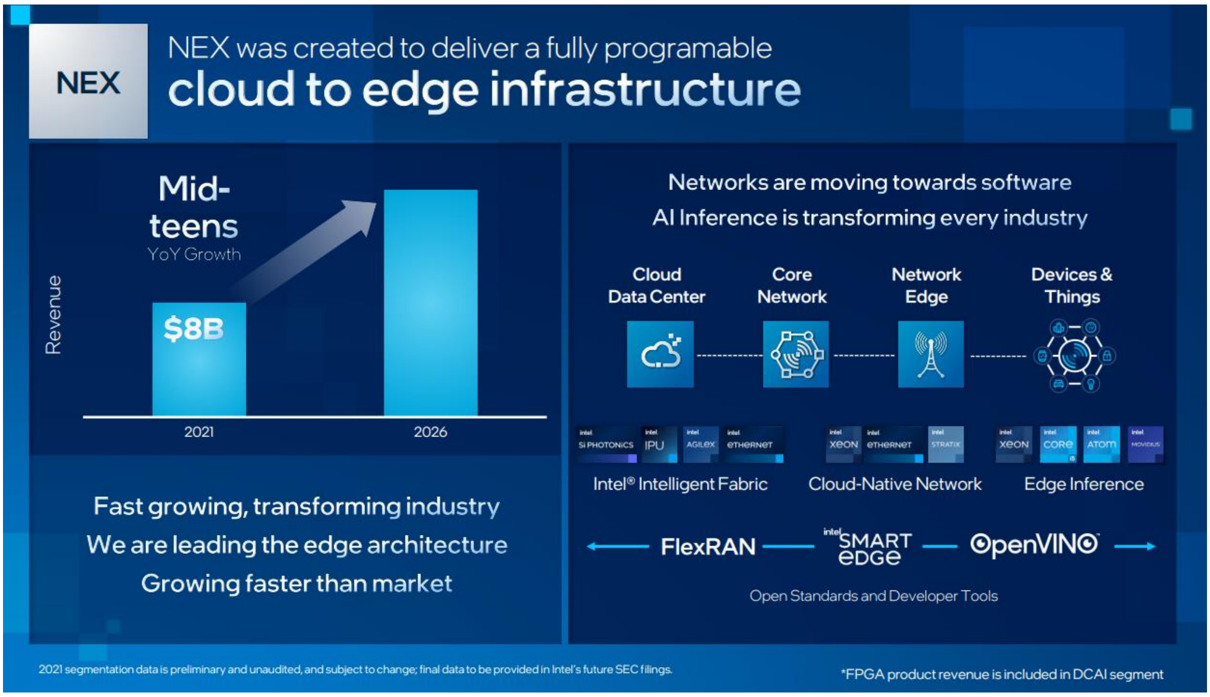
Plus, Intel doesn't see margin improvements until 2025 (that can also go to 2027, if ever, you never know as this is just their plan, then we will see what reality will be – so hard to know from an investing perspective).

Segmented, we have the following:

Low to mid single digit growth expected in CCG (Client Computing Group)

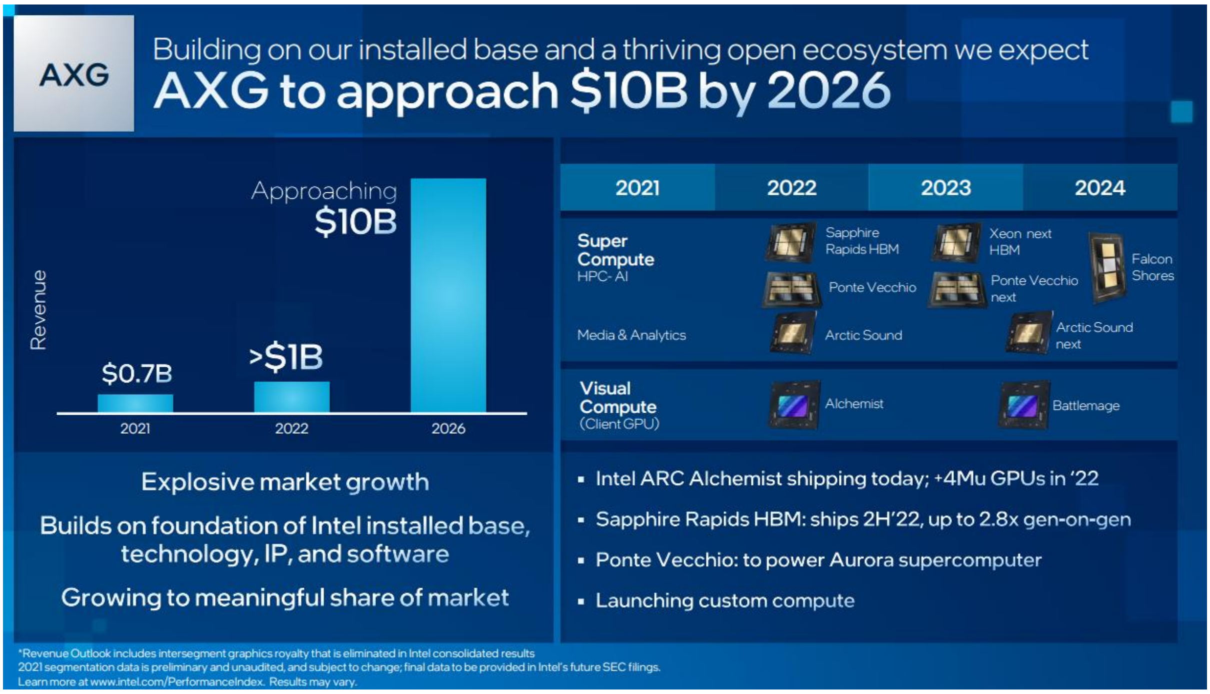
2026 acceleration in DCAI (Datacenter and AI Group)

Mid teens growth in NEX (Network and Edge Group):

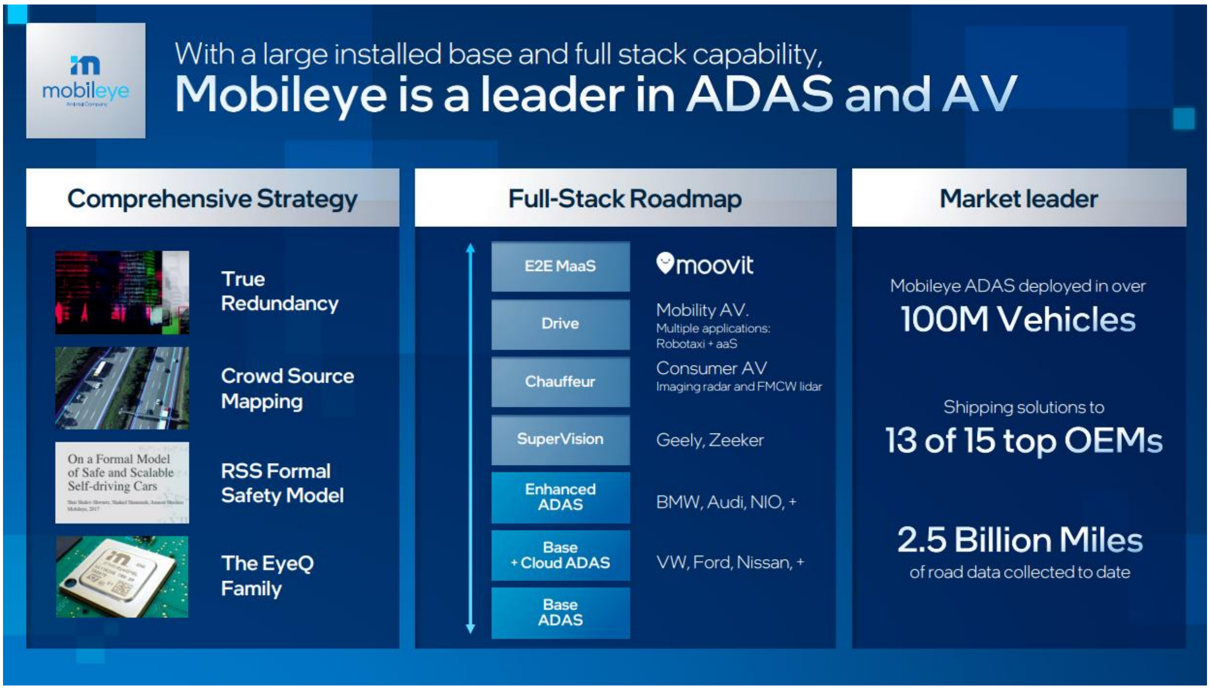


Summary:

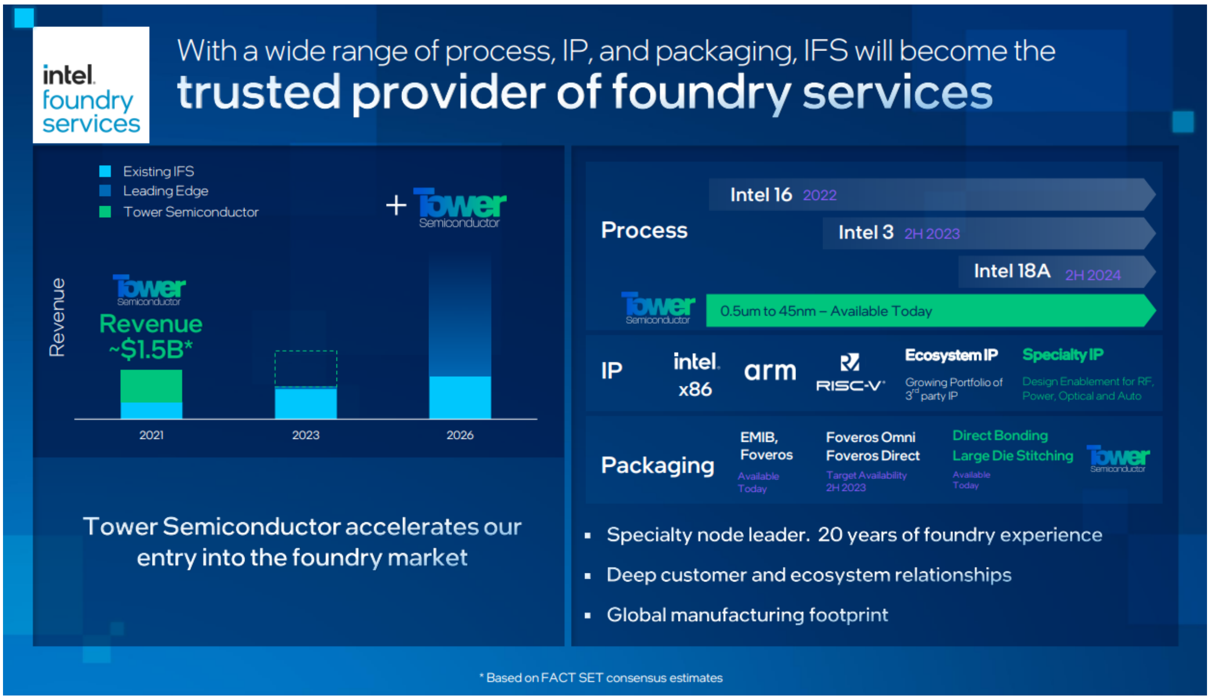
New businesses include AXG (Accelerated Computing Systems and Graphics Group) – which is minimal now.



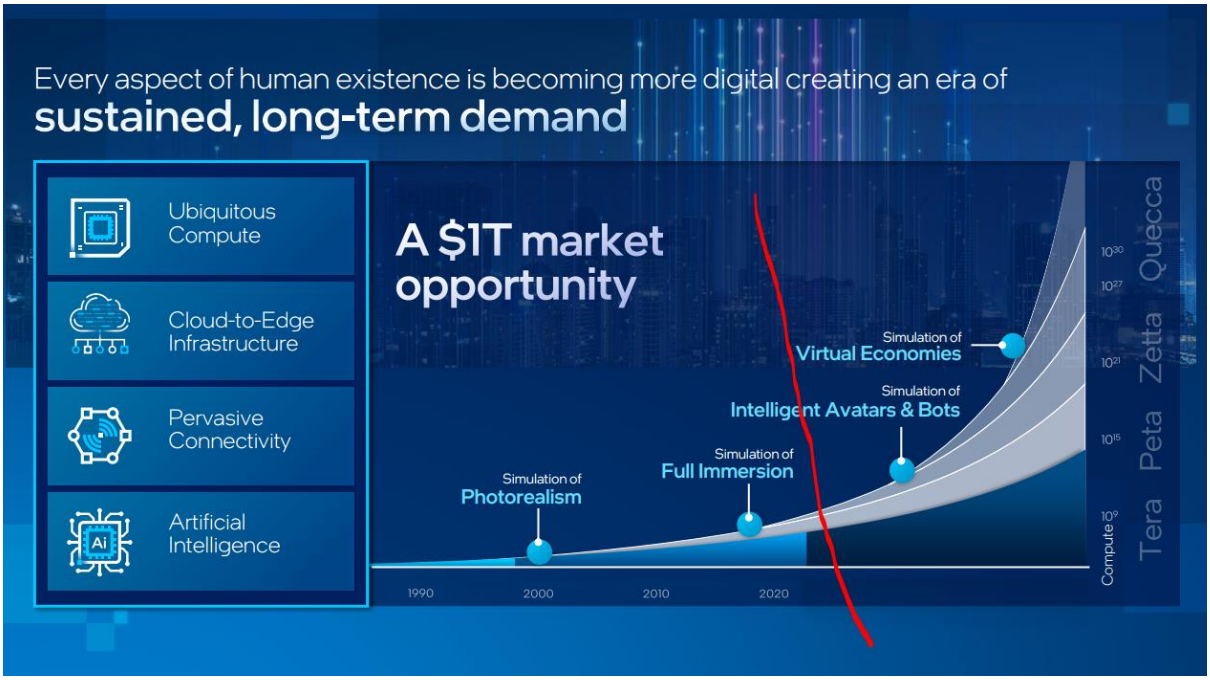
Mobileye



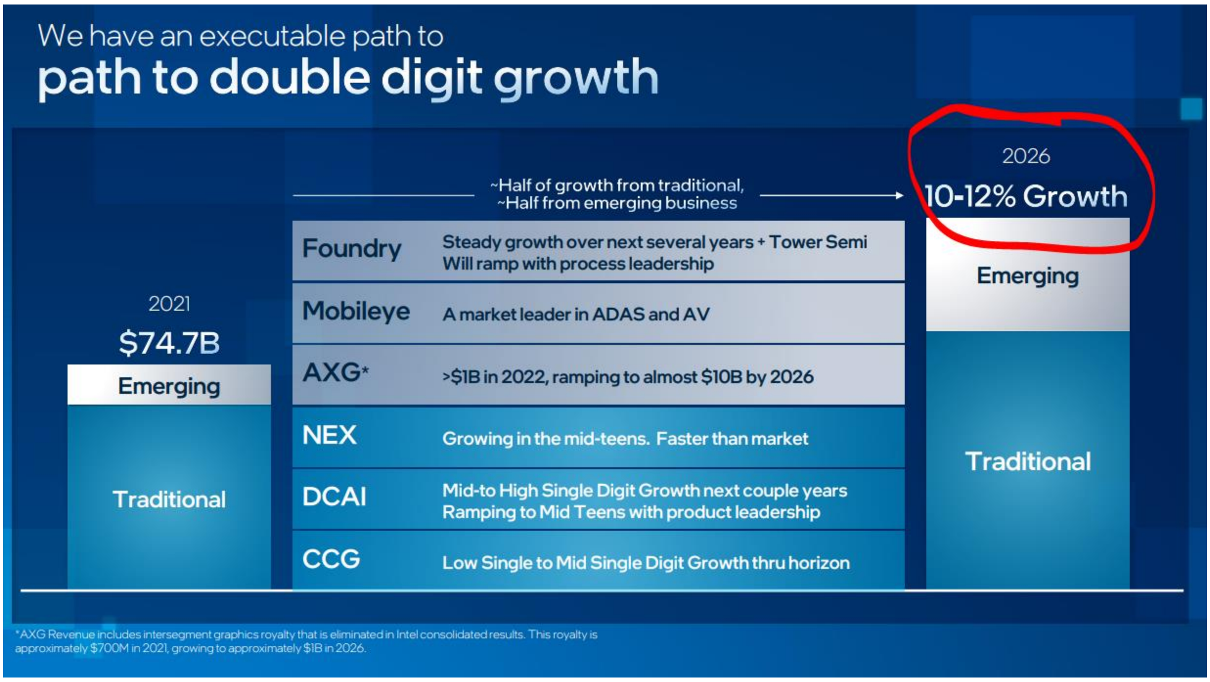
And there is also foundry, where a lot of the investments are going into:



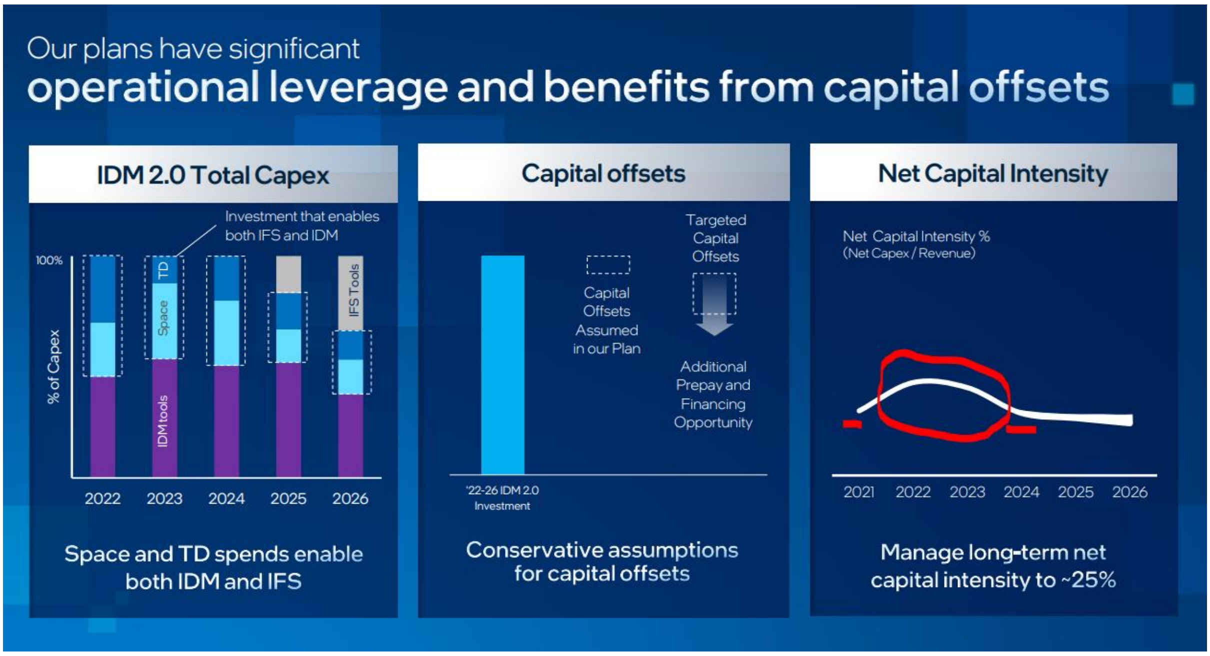
But, there is also risk – can we know now what will the future look like in 5 to 10 years? Will we have the need for so much computing power, will there be the necessary money for investments, will it make us happier? It will be interesting, we will see but for now, the underlying trend seems strong, which is always a positive when it comes to investing as it helps with mistakes and increases the gains.



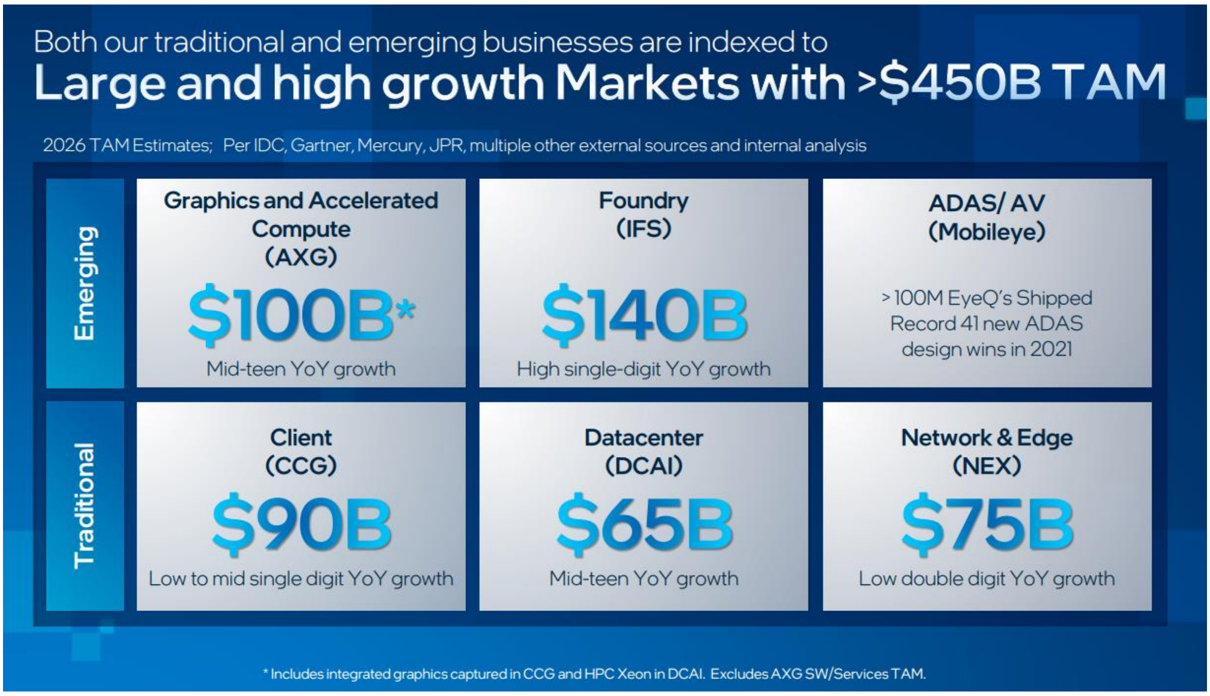
Ok, if they can deliver on the below, then it can get interesting:

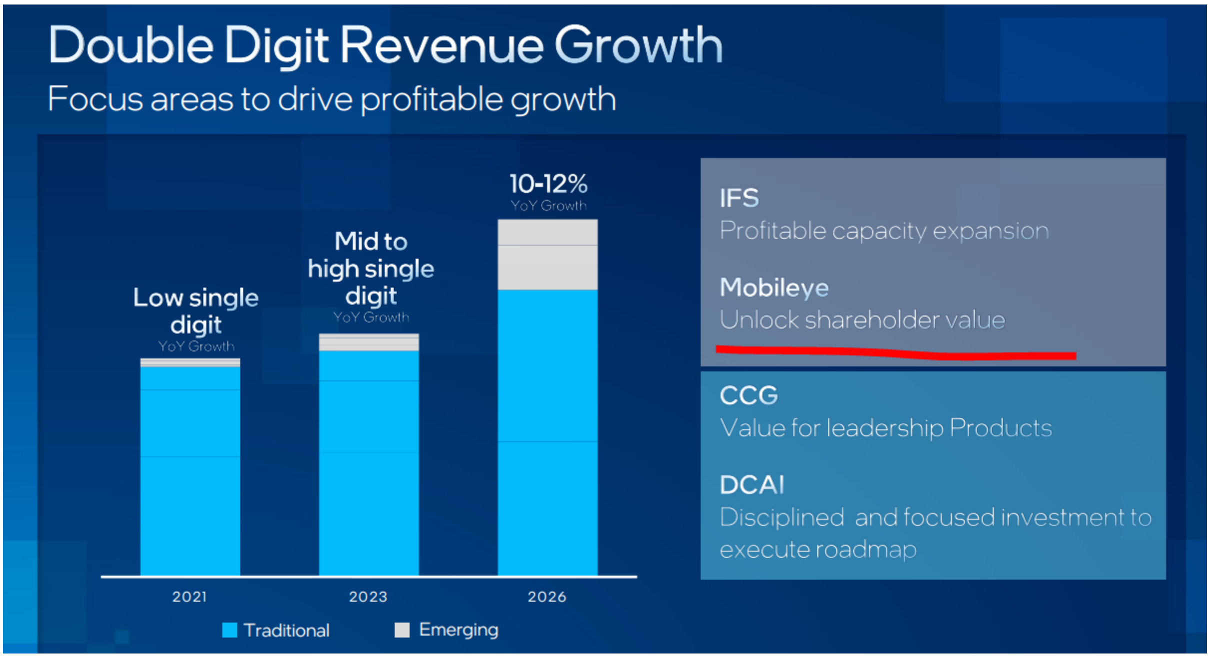


To achieve it, they are entering a high capital intensity period:

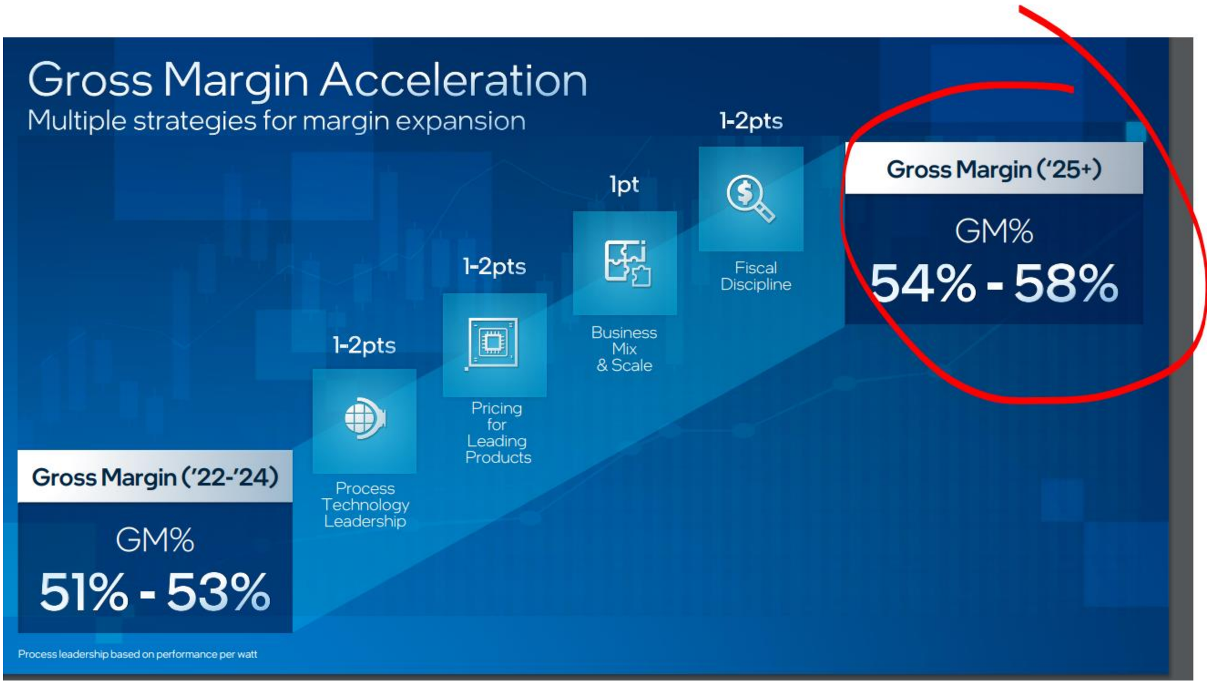


CFO Presentation:

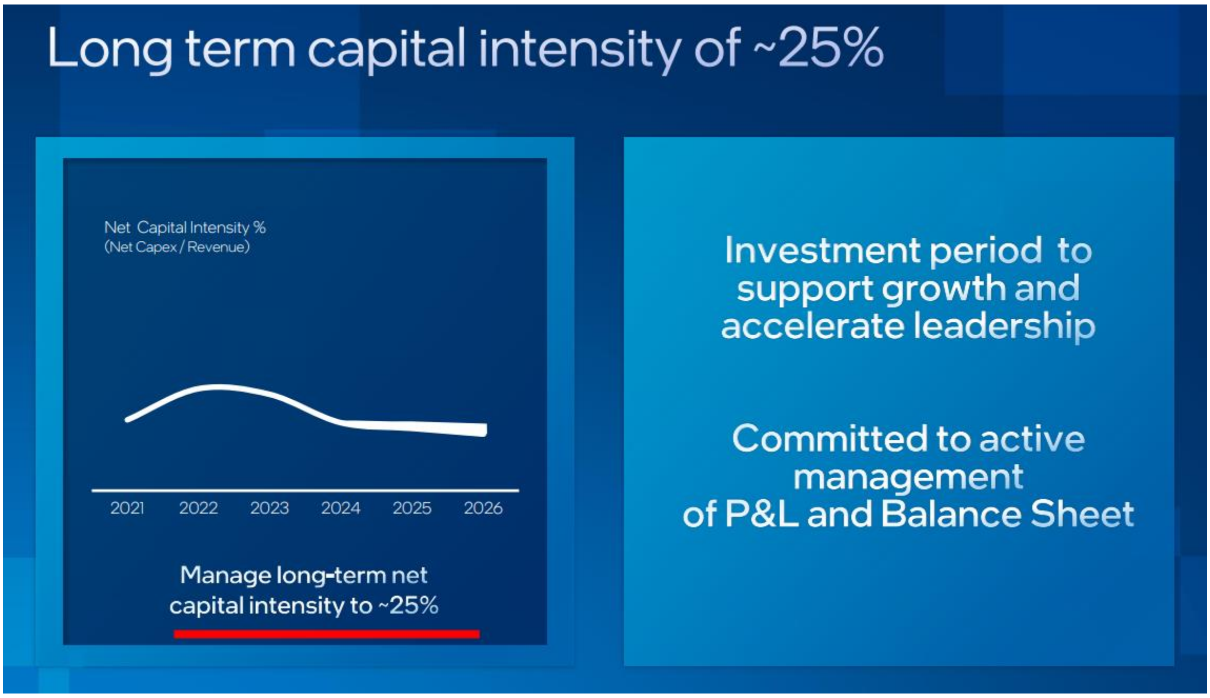




54% OR 58% gross margin makes A HUGE DIFFERENCE?!?!? But it will also depend on the economy and the demand for products. Something nobody can know, of course. Plus, such a wide margin also covers their behinds, so for a margin of safety calculation, take 54% gross margin, which shaves 4 to 5 billion from FCF..



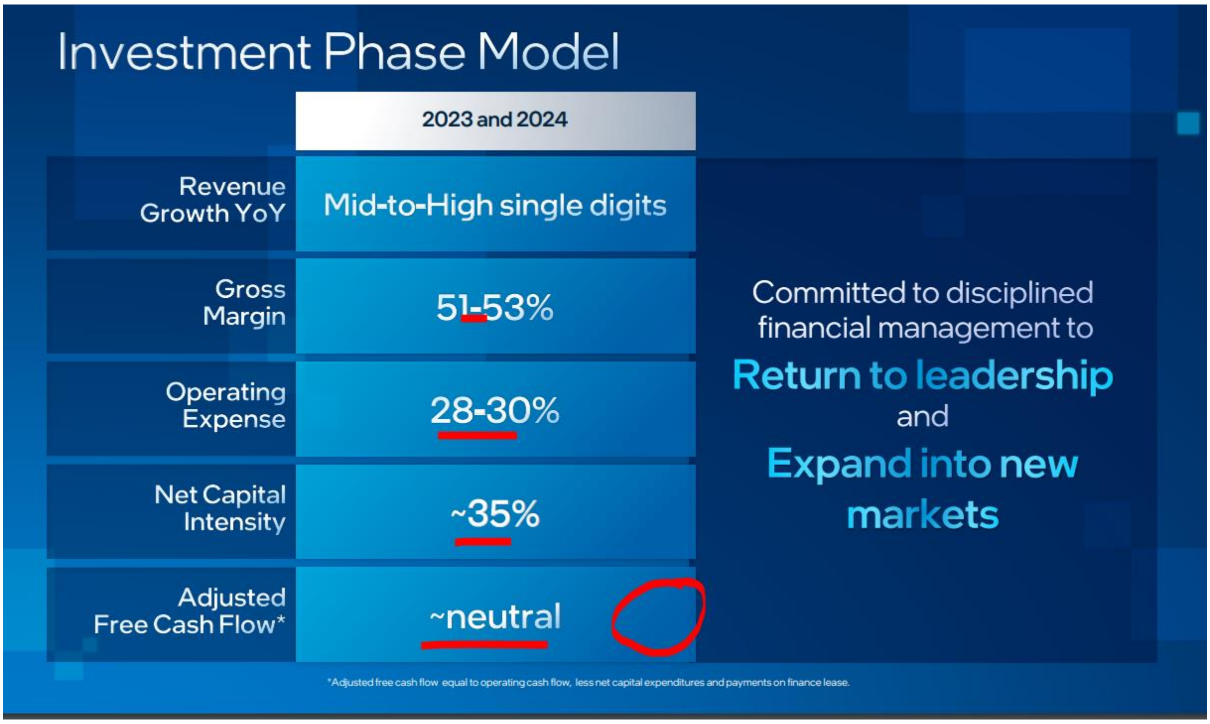
They will keep spending:



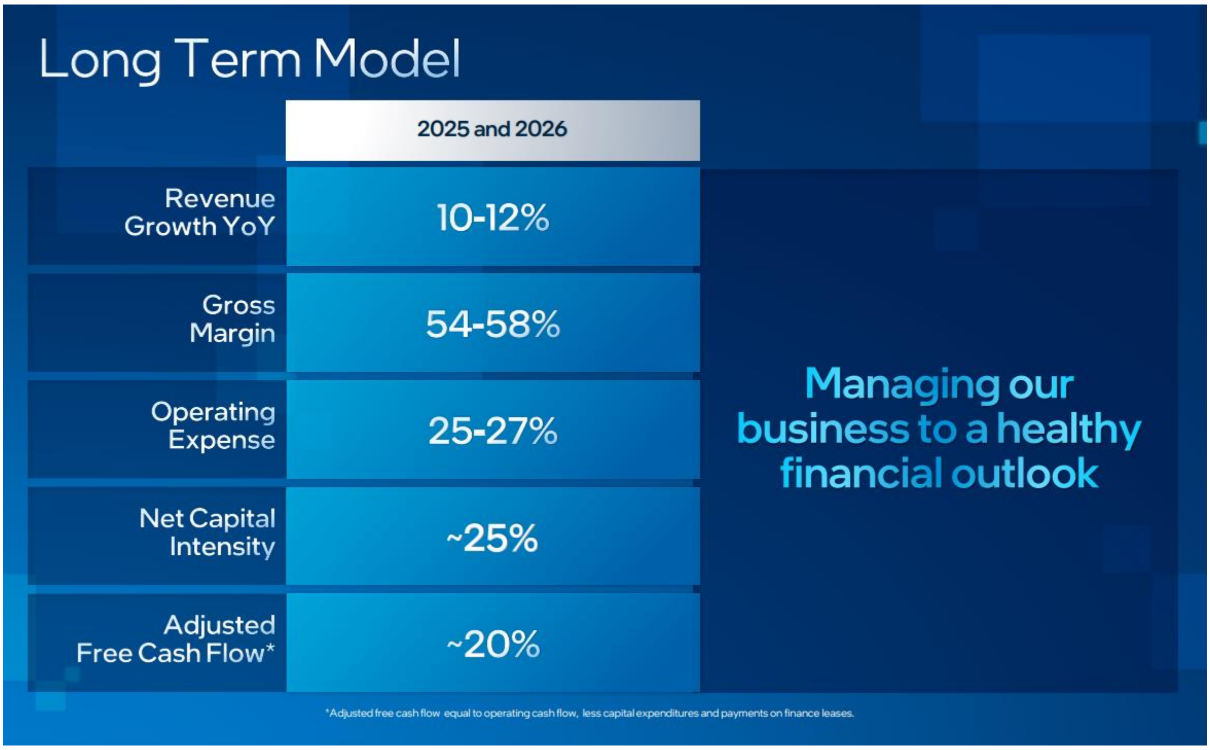
By 2026 they should be at 20% FCF of revenue:

High investments in 2022

Next 3 years no free cash flow:



Then it should boom:



Let's put the above into a valuation.

Intel Stock Valuation 2022

If Intel grows revenues 4% for the first 5 years and then 10% for the next 5 years. It should reach revenues of $151 billion in 2031.

2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Terminal Value [illegible]1	Growth rate
											4%
76.00	79.04	82.20	85.49	94.04	103.44	113.79	125.17	137.68	151.45	[illegible]	10%

If they have 20% of that as FCF, that is $30 billion! On a price to FCF ratio of 15, the valuation could reach 450 billion. A double in a decade is a return of around 7.2%.

Let me assume no cash flows up to 2026 and then various cash flows depending on the scenarios.

STOCK VALUE LIST'!A1

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Terminal Value 2031	Growth rate	
Scenario 1	FCF												4%	next 5 years
normal case			0.00	0.00	0.00	20.00	22.00	24.20	26.62	29.28	32.21	439.23	10%	5 to 10 years
	10%)	0.00	0.00	0.00	0.00	7.45	7.45	7.45	7.45	7.45	7.45	169.34	10%	Discount rate
	INTRINSIC VALUE	214.05											15.0	Terminal multiple

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Terminal Value 2031	Growth rate	
Scenario 2	FCF													next 5 years
best case	20.00	0.00	0.00	0.00	0.00	25.00	28.00	31.36	35.12	39.34	44.06	786.76	12%	5 to 10 years
	10%)	0.00	0.00	0.00	0.00	9.31	9.48	9.66	9.83	10.01	10.19	303.33	10%	Discount rate
	Present value sum	361.82											20.0	Terminal multiple

		2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	Terminal Value 2031	Growth rate	
Scenario 3	FCF													next 5 years
worst case	12.00					12.00	12.60	13.23	13.89	14.59	15.32	145.86	5%	5 to 10 years
	10%)	0.00	0.00	0.00	0.00	4.47	4.27	4.07	3.89	3.71	3.54	56.24	10%	Discount rate
	Present value sum	80.19											10.0	Terminal multiple

Scenario	Probability	PV	Part
Scenario 1 (normal case)	0.6	214.05	128.43
Scenario 2 (best case)	0.2	361.82	72.36
Scenario 3 (worst case)	0.2	80.19	16.04
		Sum	216.83

SVEN CARLIN

RESEARCH

If they make $20 billion and then grow 10% per year next, with a terminal multiple of 15, I get to a value of $439 billion 10 years down the road.

In the best case scenario, one with faster growth and an even better multiple, the market capitalization could reach $800 billion which is a 4X from now. But for that multiple things should work well for Intel.

In the worst case scenario, where the returns on investment Intel is making don't reach expected levels, but still some cash flows, the value is around $145 billion down the road.

Intel Stock Investing Review – Margin of Safety – Risk and Reward

The investing risk is related to the success of Intel's next great growth story. If they deliver by 2025, great, the stock should get traction over time and go higher. But, if there are any delays that often happen in the sector, expect the stock to continue in its limbo of going nowhere.

What would be a margin of safety?

It seems the stock has a bottom at $45 as then it is seen like value, but that is just the perception offered by the chart.

For a margin of safety, a low risk and higher reward investing situation, I think one has to think in billions. Is Intel, with all that it has and has built over time worth $200 billion? Is it worth $150 billion?

$150 billion is already something one would say yes because the world as we know it depends on the company. And this likely explains the stock price hitting a bottom between $150 and $200 billion. Also, over the last years and the next few just the capital investments will reach $150 billion, thus practically buying at book value. With $33 billion of debt, the investments are there:

Debt	33,510	33,897
Contract Liabilities	185	1,367
Income taxes payable, non-current	4,305	4,578
Deferred income taxes	2,667	3,843
Other long-term liabilities	4,886	3,614
Commitments and Contingencies (Note 19)		

On the upside, it will all depend on the profitability of the company and the return on current investments. Only the future will tell us exactly how that story will develop, but we have to see the potential and the compare it to the risk.

If they really grow and do well, they could be valued at $400 billion in 2026 ($20 billion in FCF and 20 valuation on that – maybe even $25 billion or $30) – so a double in 4 years. That is a 19% return over the period. Of course, if the stock goes nowhere for two years and then you buy before it doubles by 2026, you also double your return.

I would say Intel is relatively cheap in the $40ties, cheap in the $30ties and incredibly cheap in the $20ties. What is the best buy range? That depends on the market and where it pushes the stock based on its current sentiment.

The risks come from missing the projections stated (12% growth in 2026). If it doesn't materialize, it will look ugly when the market loses faith in promises (so the risk is high as there is execution but also competition risk). They can miss projections due to the economic environment (less spending on tech products), competition (offering other options that eats margins), internal business issues (delays) etc…

All in all, a lot can happen, there is definitely uncertainty and that is also what creates an opportunity.