

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

EVENT DATE/TIME: OCTOBER 18, 2012 / 09:00PM GMT

OVERVIEW:

AMD reported 3Q12 revenue of \$1.27b, non-GAAP net loss of \$150m and non-GAAP loss per share of \$0.20. Co. expects 4Q12 revenue to decrease 9% sequentially, plus or minus 4%.



OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

CORPORATE PARTICIPANTS

Ruth Cotter *Advanced Micro Devices - VP of IR*

Rory Read *Advanced Micro Devices - President and CEO*

Devinder Kumar *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

Lisa Su *Advanced Micro Devices - SVP, General Manager, Global Business Units*

CONFERENCE CALL PARTICIPANTS

Ross Seymore *Deutsche Bank - Analyst*

Hans Mosesmann *Raymond James - Analyst*

JoAnne Feeney *Longbow Research - Analyst*

C.J. Muse *Barclays - Analyst*

Stacy Rasgon *Sanford Bernstein - Analyst*

Joseph Moore *Morgan Stanley - Analyst*

John Pitzer *Credit Suisse - Analyst*

Chris Danely *JPMorgan - Analyst*

Mark Lipacis *Jefferies - Analyst*

Dean Grummels *Stifel Nicolaus - Analyst*

Cody Acree *Williams Financial - Analyst*

Chris Caso *Susquehanna - Analyst*

Jim Covello *Goldman Sachs - Analyst*

Patrick Wang *Evercore - Analyst*

Vivek Arya *Bank of America Merrill Lynch - Analyst*

Steven Eliscu *UBS - Analyst*

Craig Berger *FBR - Analyst*

PRESENTATION

Operator

Good afternoon. My name is Huey and I will be your conference operator for today. At this time I would like to welcome everyone to AMD's third-quarter 2012 earnings conference call. All lines have been placed on a listen only mode. After the speakers' remarks you will be invited to participate in a question-and-answer session. As a reminder, this conference is being recorded today.

I would now like to turn the conference over to Ms. Ruth Cotter, Vice President of Investor Relations for AMD. Please go ahead.

Ruth Cotter - *Advanced Micro Devices - VP of IR*

Thank you, Huey. Welcome to AMD's third-quarter earnings conference call. By now you should have had the opportunity to review a copy of our earnings press release and CFO commentary. If you have not reviewed these documents, they can be found on AMD's website at quarterlyearnings.amd.com.



OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

Participants on today's conference call are Rory Read, our President and Chief Executive Officer; Devinder Kumar, Senior Vice President, Corporate Controller and Interim Chief Financial Officer; and Lisa Su, our Senior Vice President and General Manager Global Business Unit, and she will be present for the question-and-answer portion of the call.

This is a live call and will be replayed by via webcast on AMD.com. I would like to take this opportunity to highlight a few dates of note for you. Rory Read will present at the Credit Suisse Technology Conference on November 27. Devinder Kumar will present at the Raymond James Conference on December 11. And our fourth-quarter earnings quiet time will begin at the close of business on Friday, December 14.

Lastly, we intend to announce our fourth-quarter and fiscal 2012 earnings on January 17, 2013. Dial-in information for that call will be provided in mid-December of this year.

Please note non-GAAP financial measures referenced during this call are reconciled to their most directly comparable GAAP financial measures in the written CFO commentary posted on our website at quarterlyearnings.amd.com.

Before we begin today let me remind everyone that today's discussions contain forward-looking statements based on the environment as we currently see it. Those statements are based on current beliefs, assumptions and expectations, speak only as of the current date, and as such involve risks and uncertainties that could cause actual results to differ materially from our current expectations.

Please refer to the cautionary statements in our press release for more information. You will also find detailed discussions about our risk factors in our filings with the SEC and, in particular, AMD's quarterly report on Form 10-Q for the quarter ended June 30, 2012.

Now with that, I will hand the call over to Rory. Rory.

Rory Read - *Advanced Micro Devices - President and CEO*

Thank you, Ruth. Our third-quarter financial performance fell significantly short of our expectations. We understand the dynamics behind the shortfall, and we are taking decisive actions to address the core issues. To help return the Company to profitability we also announced a restructuring plan designed to strengthen AMD's competitive positioning and reduce our expense structure. I will cover that plan in greater detail shortly, but first I wanted to discuss our third-quarter results.

Broader macroeconomic issues are impacting consumer PC spend. OEMs are also taking a cautious approach to managing inventory in advance of the Windows 8 launch, and tablets continue to grow as a consumer device of choice. As a result, we face a very challenging selling environment, especially in the lower end of the consumer client space.

Yet against this backdrop, we saw continued consumer adoption of our Trinity APU in the quarter. Trinity notebook unit shipments increased more than [17%] sequentially and accounted for nearly one-third of our total notebook shipments in the third quarter.

Although Trinity is targeted at mainstream price points, ultrathin notebooks featuring the low-power APU are also competing effectively at higher system price points. As a result, we believe we gained share in the \$600 to \$799 retail notebook price band globally in the third quarter.

More than 125 AMD-based systems are expected to launch with Windows 8, including tablets and several new ultrathins. While we look forward to the introduction of Win 8, the fourth quarter will continue to be challenging, and we do not expect PC market conditions to improve for several quarters.

Our Graphics business performed in line with our expectations. Despite market softness, we continued to see an improvement in our desktop discrete channel business and game console revenue increased. Our industry-leading graphics technologies remain a cornerstone of our end-to-end product strategy, and we plan to further invest in our Graphics business to drive differentiation and future growth across the entire product portfolio.

Now let's turn to the changes in the market and how they are affecting our business and the steps we are taking to address them. Shortly after joining AMD I talked about the fundamental changes occurring in the PC industry. These trends are occurring now at an even faster rate than previously anticipated. We underestimated the speed of change in our industry, and we expected to have several years to transform the AMD business, but we must implement our transformation on a more aggressive timeline.



OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

Here is what we will do. First, we are restructuring our business and building a more efficient operating model. This reset will put in place a business model capable of delivering consistent profitability at lower breakeven revenue points.

Second, we must diversify behind the traditional PC market and become a leader in fast-growing and adjacent markets where we can differentiate and create leadership.

Our restructuring will simplify our product development cycles without jeopardizing our ability to innovate or deliver products in a timely manner. We will do this primarily by building reusable IP blocks that will help lower development costs and improve our speed of executions.

The restructuring plan is expected to lower our expense base by approximately 25%. This will result in an annualized cost savings of approximately \$190 million. A large portion of these savings will come from a headcount reduction of approximately 15%. These are difficult, but necessary steps to ensure our plan has the right scale and scope to address the market and competitive challenges we now face.

In addition, we are resetting to a new business model designed to deliver breakeven results with approximately \$1.3 billion of quarterly revenue. We expect to hit this level by the third quarter of 2013.

As we move through 2013 we will see the results of our work with a more efficient business and a portfolio of powerful new products. There is strong customer interest in our next-generation offerings. Design win momentum is solid, and we see opportunity to regain share in 2013. We already have working silicon for many of our new 2013 products in-house, including our next-generation 28-nanometer Kabini APU, which is the successor to our highly successful Brazos platform and our first true SoC design. We are making good progress with the bring-up of Kabini, which remains on track to launch in the first half of next year.

Our long-term strategy will rebalance our business towards faster growing segments of the market. Today approximately 85% of our business is focused on the legacy PC portions of the market, projected to have slowing growth over the next several years. We intend to drive 40% to 50% of our portfolio to faster growth markets where our IP is a key differentiator.

We have strong opportunities in three fast-growing areas. First, in server, the dense cloud market is one of the fastest growing parts of the datacenter market. Our long-term path to success is in providing customers with disruptive technologies and choice, just as we did when we brought 64-bit computing to the mainstream server market with AMD 64.

We will look to leverage AMD's full suite of processor and graphics IP, third-party processor cores and SeaMicro's innovative Supercompute Fabric to deliver differentiated solutions with industry-leading performance per watt.

Second, our low-power APUs, graphics IP, and reusable design blocks give us a distinct advantage to build semicustom APUs for new embedded markets. We are focused on growing our share in targeted, embedded markets. These include communications, industrial and gaming, which will outpace the PC industry growth for the foreseeable future.

Our semicustom APUs already have a number of confidential, high-volume design wins in place. We plan for our embedded business to comprise approximately 20% of our quarterly revenue by the fourth quarter of 2013, up from 5% today.

And finally as we noted earlier, we will continue to focus on driving down into the ultraportable and ultra-low-power form factors that continue to grow rapidly. APUs are ideally suited for these new products, from ultrathin and tablets to a new breed of entry-level notebooks that will drive growth in the emerging markets.

So in summary, we are facing the challenges in the global IT market head-on. We are resetting and restructuring our business to reduce our cost base from earlier this year by 25%. We are targeting a \$1.3 billion revenue breakeven point by third quarter 2013. We are also delivering powerful new APUs in 2013.

And, finally, we are aggressively pursuing fast-growing adjacent markets where our IP provides differentiation and the opportunity for AMD to grow share. These include dense serving, new embedded markets and new lower-power form factors. Together these actions will return AMD to profitable growth.

With that I would like to turn the call over to our Interim CFO, Devinder, to discuss our financial results for the third quarter. Devinder is an experienced financial executive with more than 28 years of experience at AMD. He has served as the Company's Corporate Controller since 2001. Devinder?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

Thank you, Rory. Revenue for the third quarter of 2012 was \$1.27 billion, down 10% sequentially, driven by an 11% decline in the Computing Solutions segment and a 7% decline in the Graphics segment revenue. Gross margin was 31%, down 15% sequentially, partially due to the \$100 million inventory write-down which adversely impacted gross margin by 8 percentage points. This write-down was the result of lower-than-anticipated future demand for certain products and mainly comprised of the first-generation A-Series APUs, code-named Llano.

Third-quarter gross margin was also negatively impacted by weaker-than-expected demand in the quarter and this contributed to lower ASPs for microprocessor products, as well as lower utilization of our assembly and test manufacturing facilities.

Non-GAAP operating expenses were \$516 million, 8% less than prior guidance, primarily due to tight spending controls and lower bonus and commission expenses. R&D was \$328 million, 26% of net revenue. SG&A was \$188 million, 15% of net revenue.

Non-GAAP net loss was \$150 million and non-GAAP operating loss was \$124 million, both of which include the aforementioned \$100 million inventory write-down.

Interest expense was \$44 million, flat compared to the prior quarter. The tax provision for the quarter was zero compared to a \$6 million tax benefit in the prior quarter. Non-GAAP loss per share, including the impact of the \$100 million inventory write-down, was \$0.20, calculated using 745 million basic shares.

Adjusted EBITDA was negative \$35 million, down \$208 million from the prior quarter due to an operating loss which resulted from lower revenue in the third quarter, as well as the \$100 million (sic - see press release, "\$100 million") inventory write-down.

Computing Solutions segment revenue was \$927 million, down 11% sequentially due to lower ASPs, driven primarily by weaker-than-expected demand, as well as lower unit shipments.

Client product revenue declined 11% sequentially due to lower unit shipments and ASPs in the third quarter, especially for desktop processors. We shipped a record number of Trinity-based products in the third quarter, and Trinity is a growing portion of our planned product mix. In addition, we made substantial progress in the desktop channel reducing Llano inventory in the third quarter.

Our server processor revenue declined from the prior quarter, mainly due to lower unit shipments and an ongoing mix change away from higher density servers. Chipset revenue declined sequentially, primarily due to lower unit shipments in the quarter.

Computing Solutions segment operating loss was \$114 million, down \$196 million sequentially, primarily due to lower revenue in the quarter and the previously mentioned \$100 million inventory write-down.

Graphics segment revenue was \$342 million, down 7% compared to the prior quarter due to lower GPU unit shipments to OEMs, partially offset by higher general sales and royalties. Game console royalty revenue was up sequentially.

Graphics segment operating income was \$18 million, down \$13 million from the prior quarter, primarily due to a decline in revenue.

Turning to the balance sheet. Cash, cash equivalents and marketable securities, including long-term securities, ended the quarter at \$1.5 billion. Cash declined \$279 million compared to the previous quarter, which was primarily the result of operational cash flows.

Given the reduced size of our current business and OpEx reductions, we are adjusting our optimal cash balance from \$1.5 billion to approximately \$1.1 billion.

Additional cash outflows that will occur in the fourth quarter of 2012 include a \$50 million cash payment to GLOBALFOUNDRIES in the fourth quarter related to the 28-nanometer product limited waiver of exclusivity, as provided in the 2012 amendment to the Wafer Supply Agreement, with the final payment of \$175 million related to the waiver to be paid by December 31, 2012.

Debt as of the end of the quarter was \$2.04 billion. In the third quarter AMD repaid in full all of the outstanding principal and accrued interest of the Company's 5 3/4% convertible senior notes due 2012 or approximately \$499 million, and issued a \$500 million aggregate principal amount 7.5% senior notes due 2022.

Accounts receivable at the end of the quarter was \$683 million, down \$61 million compared to the end of the second quarter of 2012 due to lower revenue. Inventory was \$744 million exiting the quarter, down \$89 million primarily as a result of the \$100 million inventory write-down.



OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

Now turning to the outlook. For the fourth quarter of 2012 AMD expects revenue to decrease 9% sequentially plus or minus 4%. Operating expenses are expected to be approximately flat sequentially.

As Rory stated in his opening remarks, we are realigning our Company with the business realities of today. We are reducing our workforce by approximately 15% in the fourth quarter. And we will have a restructuring charge of approximately \$80 million in the fourth quarter of 2012, primarily consisting of severance charges. Cash expenditures related to the fourth-quarter restructuring will be paid almost entirely in the fourth quarter of 2012 and the first quarter of 2013.

We are taking additional actions to reduce our expense base and align our cost structure with lower anticipated revenue. Our skills and capabilities must be realigned with our market opportunities in order to position AMD to execute on our strategic priorities while focusing on returning to profitability.

We continue to evaluate our cost structure and anticipate restructuring actions in the first half of 2013 which will result in additional restructuring charges; however, we are currently unable to quantify these amounts.

Finally, as part of our financial reset the Company is targeting to breakeven at the operating income level at a \$1.3 billion quarterly revenue and quarterly operating expenses of approximately \$450 million by the third quarter of 2013.

With that I will turn it back to Ruth. Ruth.

Ruth Cotter - Advanced Micro Devices - VP of IR

Thank you, Devinder. Operator, can we would now like to open the call to questions and answers please.

QUESTION AND ANSWER

Operator

(Operator Instructions). Ross Seymore, Deutsche Bank.

Ross Seymore - Deutsche Bank - Analyst

Hey, Rory, first a question on the restructuring actions. What is the math or the thought process behind choosing the \$1.3 billion revenue level to get to breakeven? It seems about 20% roughly above the fourth-quarter guidance, so it seems like you are baking in some pretty good news that is going to happen between now and then. Can you just talk about how that revenue level was chosen?

Rory Read - Advanced Micro Devices - President and CEO

We basically looked at how the market was beginning to change and how we could refocus, Ross, in terms of where the growth opportunities would be across the next 12 months. We think by focusing to take down cost is the right approach here in the tactical timeframe, because it is clear the trends that are reshaping the PC industry are clearly occurring faster than everyone anticipated.

We will continue to look at that, Ross, as we go through next year and make assessments as we see the year unfold. But we clearly wanted to set a breakeven point at a lower level than we have been running, and to be able to consider those opportunities as we move forward in those new growth areas, which we are going to target where we see bigger growth.

Ross Seymore - Deutsche Bank - Analyst



OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

I guess as the one follow-up, Devinder or Rory, whomever wants to enter it, how should we think about the OpEx trajectory to get to that total savings number you gave next year, especially considering you said you were going to have cost lowered in the fourth quarter but you are guiding OpEx to be flat?

Rory Read - Advanced Micro Devices - President and CEO

Yes, so, Ross, what we have talked about is from earlier in the year we have driven a set of programs and restructuring to reset the Company at a 25% lower expense structure. We believe that will position us to move forward at this lower breakeven point.

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

Yes, so just to remind you, as Rory said, the cost structure, if you go back and look at the OpEx in Q1, was what right about the \$600 million level. We have taken it down to about \$500 million plus.

To your specific question about Q3 and Q4 being flat, there are some offsets, in particular in the engineering area related to some 28-nanometer product tape-outs and other R&D expenses, there was some timing between Q3 and Q4. And, in particular, given the holiday season that is coming up, we have some marketing campaigns for which we can go spend some money, so there were some offsets there.

But if you read through the press release, we have said that with the restructuring actions that we are taking we will save about \$20 million this quarter, and then on a quarterly basis that will be \$40 million on a go forward standpoint.

Ross Seymore - Deutsche Bank - Analyst

And that will start in 1Q from an absolute perspective quarter-over-quarter?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

Yes, that will start in 1Q on an absolute basis. And then, as Rory said earlier, we are going to continue to drive the cost structure down to get to the \$450 million OpEx structure by Q3 of 2013.

Ross Seymore - Deutsche Bank - Analyst

Great, thank you.

Operator

Hans Mosesmann, Raymond James.

Hans Mosesmann - Raymond James - Analyst

Rory, I think you mentioned as part of your new strategy that you would be incorporating third-party cores. If you can just clarify the third-party cores, would that be for the server cloud market or is it more broad?

Rory Read - Advanced Micro Devices - President and CEO

We are clearly focused in terms of bringing those cores into the SeaMicro Freedom Fabric, the Supercompute Fabric. I think that is very important in terms of building that basis in which to lower the cost of those cloud compute environments, Hans.

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

Maybe, Lisa, you want to add a little bit to that?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Yes, let me just add some color to that. I think we have said from our strategy all along that we believe we want to build into the larger ecosystems in the industry, so we will continue to build x86 products. But as we've announced before, we also have a partnership with ARM in the TrustZone Security area. And we will continue to look at how we incorporate more third-party IP over time to address some of these higher-growing markets.

Hans Mosesmann - Raymond James - Analyst

Okay, and then as a follow-on, the timing for these types of products hitting the market, it is that say end of 2013/2014?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

It will probably be in the 2014 timeframe.

Hans Mosesmann - Raymond James - Analyst

Great, thank you.

Operator

JoAnne Feeney, Longbow Research.

JoAnne Feeney - Longbow Research - Analyst

I was hoping perhaps you could help us understand how you accomplished two seemingly divergent goals? One, being to accelerate the transition to these new adjacent faster-growing markets, while at the same time cutting your expense basis.

And given all the recent cuts there have been at the Company, that has really brought things down to some very efficient levels, it would seem, it seems now you're going to be stuck cutting sort of more of the creative talent. So I'm just wondering how you're thinking about doing both at the same time -- two things that seem kind of contradictory?

Rory Read - Advanced Micro Devices - President and CEO

Yes, thanks, JoAnne. I think what is important is to look at terms of how we are simplifying our product development cycles. And we have talked about this before, in terms of creating the reusable IP blocks to create the structure in order to streamline our development and also to lower our cost of that development. We believe with the work of many talented engineers across AMD their focus is to really streamline that productivity, lower that cost and deliver our base set of offerings.

And then to build off of that with our reusable IP base in order to go attack those markets. They're adjacent, JoAnne, they are not fundamentally different. These are APU graphics-oriented opportunities that allow us to take solutions like Kabini and like our APU base into those segments at the lower-cost base and across the portfolio.

JoAnne Feeney - Longbow Research - Analyst

That is helpful, thanks, Rory. And, then, perhaps related to that is you have talked about moving more into the embedded space. And you say you have some design wins in place now that you're not at liberty to reveal. But could you perhaps let us know what -- you have a target for something like 20% of the business. How far

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

along are you to that 20%. How many design wins? What is the state of the design wins in place now that gives you visibility to -- you know, are you halfway there, one-third of the way there?

How many more design wins do you have to get in place, because that tends to be a longer design-in process, so I am just wondering where you feel like you are there?

Rory Read - *Advanced Micro Devices - President and CEO*

Yes, thanks, JoAnne. From the standpoint of the market, today 85% of our core business is focused on the legacy PC market, and that is obviously a slowing segment. We believe those market trends that are affecting that are going to continue for the foreseeable future.

This embedded opportunity is one we have been working on for some time. It is also around semicustom. These opportunities are areas that are going to be significantly higher growth for the foreseeable future.

Those confidential design wins are in place. We have silicon in place already coming back to AMD that gives us the basis to execute those plans. We believe that those -- that we are on pace to deliver those objectives in the second half of next year.

JoAnne Feeney - *Longbow Research - Analyst*

Okay, great, thanks a lot. I appreciate the help.

Operator

C.J. Muse, Barclays.

C.J. Muse - *Barclays - Analyst*

I guess first question, running through the numbers on your new breakeven of \$1.3 billion and \$450 million OpEx, it would appear that your target here gross margin-wise is 35%, 36%. So curious, are we seeing a permanent reset on the gross margin side or how should we think about that?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

Let me answer then. That is not true. We are not giving guidance either -- and that is not a statement on either profitability or gross margin. It is really putting in place an expense structure that allows us to breakeven at the operating income level at \$1.3 billion by Q3 2013.

C.J. Muse - *Barclays - Analyst*

Right, but you told us for \$450 million in OpEx, so just doing the math suggests 35%, 36%. So I guess is there something that we should be thinking about in terms of your agreement with GLOBALFOUNDRIES or what is driving that lower run rate?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

Well, I think what you take away from that is at the \$1.3 billion revenue level we will have an expense structure, the OpEx level of \$450 million.

C.J. Muse - *Barclays - Analyst*

Okay, thank you, and if I could just quickly follow up. On the gaming side, you talked about impressive wins there. Can you comment on what the margin profile should look like in that business relative to the overall business?



Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

No, we are not going to give that kind of guidance at this time..

C.J. Muse - *Barclays - Analyst*

Okay, thank you.

Operator

Stacy Rasgon, Sanford Bernstein.

Stacy Rasgon - *Sanford Bernstein - Analyst*

One on the embedded growth. So you have got embedded about 5% today and in the ballpark of \$1.3 billion in revenues. You think you will be at 25% of revenues by Q4 of next year, and in Q3 of next year you expect to be at the same revenue level, about \$1.3 billion.

I guess it implies two things. One is a pretty big ramp of embedded over that timeframe. And, second, it seems like a permanent haircut to your outlook for your own PC and Graphics revenue. I just was wondering if you could comment a little bit on, I guess, the long-term outlook for your current business, and the trajectory that you think you have on those embedded wins?

Rory Read - *Advanced Micro Devices - President and CEO*

Sure, Stacy. We talked about 20% in fourth quarter of 2013. There is no doubt that the PC market trends that are obviously occurring are happening much faster than people had anticipated. And I think it is our judgment to make sure that we put in place the structure and the game plan, that breakeven point that reflects our understanding in the market as we see it today. That visibility is difficult at this point, and we need to see how Windows 8 rolls out, how we enter into next year.

The embedded -- that is in terms of this market step-down. But we do see the PC market as one that will continue to be under pressure for the foreseeable next several quarters.

In terms of the embedded and semicustom space, this is obviously a key area. It is an area that leverages the graphics and the APUs, and allows us to move that technology which we invested a huge amount of effort on with the talented engineers across AMD into an adjacent space that has a better competitive profile for us.

Lisa, did you want to add anything around the semicustom or embedded segment?

Lisa Su - *Advanced Micro Devices - SVP, General Manager, Global Business Units*

Yes, I think to the question of, Stacy, how long does it takes, they really are different segments, whether you talking about consumer or you're talking about communications and industrial. So as Rory stated, we are targeting about 20% of our revenue in the second half of 2013, and we will continue to grow that business as we go forward.

Stacy Rasgon - *Sanford Bernstein - Analyst*

And, I guess, along those lines though, if you're going to get back to \$1.3 billion by Q3, so Q4 is obviously pretty bad. Q1 would typically be seasonally down, and Q2 usually not that much better. That implies a pretty big healthy ramp seasonally into Q3 of next year to get there. But at the same time, if you're talking about your presence in PCs -- your focus on PCs declining and moving toward embedded, what is actually driving that big ramp into the back half of next year to get even back to your breakeven revenue?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

Let me take that question. I think you're taking away from the statement on the breakeven plan that we are targeting or guiding you towards a \$1.3 billion revenue plan in Q3 2013; that is not true. We have given guidance for Q4, right, as you heard Rory talk about the challenges in the PC market and some opportunities that we are pursuing. But we are not at this time giving any guidance on revenue either for Q1 or Q2, and definitely not for Q3 of 2013.

What we are talking about is an expense structure, whereby at the \$1.3 billion revenue level we have an OpEx structure in place at \$450 million. One is an OpEx statement and the other one is about a revenue statement in terms of what you can do the math on the gross margin.

I don't think the two are directly linked. But if you go and make some assumptions about the gross margin, you can draw your own conclusions in terms of either what the revenue levels would be or what the profitability levels would be.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Got it. And one last quickly, if I could. In terms of your expense cuts in OpEx to get to \$450 million, how much of that is coming from R&D versus SG&A? Are you holding more of your engineers in place and cutting sales and administrative, or where are those cuts coming from?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

After the actions we take in Q4 we are obviously going to continue to assess the situation, but we are not going to give the granularity in terms of where the cuts are coming from. Overall, we are going to continue to assess. We are going to continue to look at areas. In particular with a reduced -- our labor base there might be some opportunities to do some consolidations at certain sites or facilities that may trigger some savings. But we are not going to go ahead and give granularity in terms of how much is R&D and SG&A.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Well, just as a gross level can you give us some feeling for at least is more of it coming from one category versus the other, if you don't want to give any specific numbers?

Devinder Kumar - *Advanced Micro Devices - SVP, Corporate Controller, Interim CFO*

It is across all functions and globally.

Stacy Rasgon - *Sanford Bernstein - Analyst*

Okay, thank you, guys.

Operator

Joseph Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley - Analyst*

As I have talked to your OEM and ODM customers throughout the year, it seems like there is a fair amount of enthusiasm for the products, but it is also clear that the enthusiasm, there is some reluctance to build product lines around some of the products. I mean, Trinity brings some unique capabilities to the market, but with a tough environment and maybe people who had Llano issues last year, they haven't been as fully committed as maybe I would like to see.

When I talk to IT people about Opteron there is a lot of excitement around the product, but there is also issues of -- so is there enough OEM support? So there is not a clear line of when they are going to implement -- you know, Opteron -- sort of Opteron-based servers, even though it is good for a lot of the workload.

So my question is how does that gap get closed? And is there a risk when you talk about restructuring and financial streams of cutbacks that situation of kind of getting that credibility gets tougher?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

I would like to talk a little bit about both segments. So if you look at the client or our PC market we have had actually very strong product success with Trinity. And we continue to believe that we will see strong ramps as we go into the holiday season, into 2013. With Windows 8 we will see over 125 systems that will come out with AMD-based processors.

We do have to continue to build our execution credibility, and all the focus is on executing both our current products as well as our 2013 products. So that is job one from the product side.

On the Opteron side, similarly we continue to build stronger relationships with the OEMs as well as the end customer base. So on the product side I think there is a lot of focus on execution, and we continue to build that momentum with the customer set.

Rory Read - Advanced Micro Devices - President and CEO

And, Joe, we're interested to see the customer momentum around Win 8. As I mentioned earlier in the prepared remarks, we have over 125 platforms launching with Win 8 across tablet, ultrathins and across all the traditional space. I think that is a good reflection of the interest and the dynamics we have in place.

Joseph Moore - Morgan Stanley - Analyst

And then, second question in terms of -- and to follow up on Stacy -- I mean, the cuts that you're making you don't want to be specific about where they're coming from, and I can understand that. Are there any kind of the major initiatives that you guys talked about at the analyst meeting and talked about through the year, is everything they are still a priority or are there any kind of activity-based things that you want to take out?

Rory Read - Advanced Micro Devices - President and CEO

Yes, from the perspective of what we have done in terms of our business plan and roadmap and technologies, this Company is an engineering-based Company; there is no doubt about that. And our focus is to create those other products that allow us to move forward.

As I mentioned with Kabini, we already have most of the silicon in-house for our launches for 2013, and we believe that is a strong portfolio and positions us well. We have continued to identify and hire new talent to the Corporation to build our engineering and our bench strength across the portfolio.

Joseph Moore - Morgan Stanley - Analyst

Great, thank you very much.

Operator

John Pitzer, Credit Suisse.

John Pitzer - Credit Suisse - Analyst

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

I guess, Rory, on the embedded target of going from 5% today to 20% by, I guess, the fourth quarter of next year, can you just help me understand a little bit about the visibility around that? Is that just mostly gaming, some of the rumored wins you guys already have, or do you think by the time you get to 20% you are broad-based among many end markets, or is it concentrated? If you could help me there that would be helpful?

Rory Read - Advanced Micro Devices - President and CEO

I think we Lisa will kind of go into this in a little bit of detail, but the main point here is this is a segment -- it is an area that we can leverage our IP and the APU and the graphics prowess that we have. This is important because this segment will grow faster.

It has also got a better competitor framework. And we have the design wins in place on pace to deliver that objective in 4Q. We have got to continue to execute and continue to build that market. But we are not done there, we need to continue to grow that segment as we move forward.

Lisa, some additional thoughts?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Yes, I think to your question of do we have good visibility into what needs to happen to ramp those design wins, I think the answer is yes. I think there is execution to be done on our side, but we have good visibility. Our goal is to broaden into more end markets. And some of the other markets take a little bit longer in terms of developing, but we are creating vertical industry teams to attack some of those other verticals as well.

John Pitzer - Credit Suisse - Analyst

Great. And then you guys did a good job explaining the GLOBALFOUNDRIES payments through the balance of this year. As we think about next year, if I remember correctly, if nothing happens the contract reverts back to cost plus, or can you help me understand the GLOBALFOUNDRIES relationships beyond the calendar fourth quarter?

Rory Read - Advanced Micro Devices - President and CEO

From a GLOBALFOUNDRIES perspective, we have seen an improving relationship and partnership with this key partner across 2012. And we have also seen an improving environment around their execution, and we appreciate that. As we have talked about previously, we are in ongoing discussions around the WSA both for 2012 and 2013. Devinder?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

Yes, so I can add -- I have been involved, as you might know, with the WSA discussions for several years now, having worked on the deal from the inception when we formed GLOBALFOUNDRIES in 2009. And we continued discussion with our partners, and many times, as you have seen over the last couple of years, we have worked through some difficult situations in the spirit of partnership, but also what is mutually beneficial to both companies.

The 2013 take-or-pay WSA -- as well as a 2012 WSA discussions are ongoing. We continue those discussions, they are not yet complete, but from my standpoint, they are going very well.

John Pitzer - Credit Suisse - Analyst

Great, thanks, guys.

Operator

Chris Danely, JPMorgan.



Chris Danely - JPMorgan - Analyst

Are there any plans to sell the written-down inventory.

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

When you go ahead and take an inventory write-down from an overall standpoint, accounting wise, what happens is we have a product transition from Llano to Trinity. Trinity, as you heard Rory say, up [17%] quarter-on- quarter, doing well. And it with the market conditions from an accounting standpoint, that you also look at -- he valued the inventory against the future demand, and in particular customer commitments.

We did that in the early part of this quarter after Q3 ended. And we took the incremental inventory write-down. Typically in these situations it is not a plan to go ahead and sell that inventory.

Chris Danely - JPMorgan - Analyst

Okay, great. And then if you could just follow up on how you think gross margins can trend, and can you get back to the 45% mark you hit a few quarters ago?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

Without giving guidance at that level, but I can tell you from a Q4 standpoint at least, and especially given the market conditions, there are some factors that could be positive or negative, right? You have a weak macro environment. We are in a consumer-based holiday season quarter. And then there is some low-end competition from an overall standpoint and, obviously, those are negative factors.

The Trinity product being accretive to the margin, and especially being a higher mix of the product, in Q4 is going to be helpful. And then the other thing is the Win 8 launch. But beyond that, given especially the uncertainty, we are focused on our breakeven model, as I discussed earlier, \$1.3 billion at the \$450 million OpEx number, and not looking at it from a gross margin standpoint.

I can add that just to explain that further, if you take the \$1.3 billion and the \$450 million, if revenue is higher then obviously we could do better than breakeven. If gross margin is higher, we could do better than breakeven, better than the 35% that was computed earlier. And then if both are higher, we could go ahead and be better than breakeven.

But we are prepared in particular with the trending that is occurring to assess the situation, work specifically on the cost structure. And especially with the uncertainty that is out there, we want to stay nimble and be prepared to react as the case might be.

This is not a guidance for Q3 2013 revenue. It is not a guidance for Q3 2013 gross margin. It is just an expense statement as to how we are going to drive the expenses from where we are today to the \$450 million by Q3 of next year.

Chris Danely - JPMorgan - Analyst

So just to be clear, are you not telling us where your gross margins can go because you don't think they can get to 45%, or you just don't want to tell us?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

I am just not saying anything at this point.

Chris Danely - JPMorgan - Analyst

Got it. And then just for my last question, a quick clarification, I believe, on John's question on the embedded opportunity. Is it safe to say that by the end of next year most of that revenue will be coming from the gaming industry or what about between the economy and industrial side?

Rory Read - Advanced Micro Devices - President and CEO

There is no doubt that this is a set of confidential wins and we can't get into any of those specifics. We are clearly targeting industrial, communications, gaming, those areas where the APUs and our graphics IP make the most sense. But we can't announce them. We will announce them in due course over the course of the coming quarters.

Chris Danely - JPMorgan - Analyst

Fair enough, thanks, guys.

Operator

Mark Lipacis, Jefferies.

Mark Lipacis - Jefferies - Analyst

My question is in Q2, my understanding of the original miss in Q2 was driven in large part because you guys -- you had supply issues. You shorted the channel in favor of the OEMs, and you lost traction with the channel because of that. I guess my question is where do you think you are in winning back the channel? What do you have to do to win it back, and where do you think you are in that process? Thank you.

Rory Read - Advanced Micro Devices - President and CEO

We saw the channel stabilize in the third quarter at the 2Q levels. And we also began to work down the inventory that we discussed in that period. We saw an improvement in sales out velocity. That means the rate of sell-through through the channel. And we are going to continue to work on improving that sell-through rate and reducing that inventory in the coming quarters.

As we mentioned last quarter, that was a multi-quarter effort to go forward. But the progress and the stabilization of the channel in 3Q was a good step forward.

Mark Lipacis - Jefferies - Analyst

Thank you.

Operator

Kevin Cassidy, Stifel Nicolaus.

Dean Grumlose- Stifel Nicolaus - Analyst

This is Dean Grumlose calling in for Kevin. It seems that when we look at the PC industry lately there is a number of moving parts of potential share erosion to tablets and smartphones, Windows 8 and general macro decline.

As you had talked to your customers around the world, could you please expand your views on how you may allocate share, if you will, or blame amongst these various factors to what makes up the current declining situation?

Rory Read - Advanced Micro Devices - President and CEO

There is no doubt, Dean, that we are seeing three significant factors, as we mentioned in our earlier remarks that are affecting the overall PC industry. And these trends are definitely occurring at a faster rate than the industry had anticipated.

You are right to note that the macro environment is soft, and it is different across different geographies, and that weakness is likely to continue for the foreseeable future.

We also saw the OEMs in the market take a rather conservative approach to inventory in the lead up to Windows 8. This will be an interesting fourth quarter in terms of how Windows 8 moves forward. We think it is an interesting and important event, but this is one we need to see play out.

And, clearly, tablets have taken an important point in the consumer's mindset, both in the experience that the tablet creates, but also becoming an interesting device of choice at that lower end of the consumer client space. I think all three of these factors have accelerated this fundamental shift in the PC market, and we expect the shift and these pressures to continue for the next several quarters.

Dean Grumlose- Stifel Nicolaus - Analyst

When you look at the impact of smartphones and tablets, do you think this is temporary and can be reset by perhaps a more compelling portable solutions or do you think this is a permanent shift in demand, particularly in the mature developed economies?

Rory Read - Advanced Micro Devices - President and CEO

A statement like that is clearly hard to predict out in time. I do believe the PC market is a market that will be here for the next decade. I don't think there is any question about that. But the dynamics of it and its growth rates are really fundamentally shifting right now. A lot of the historical forecast and trend lines have broken over the past two quarters. And we need to see this reset stabilize and move forward.

I think what is most important is to innovate, to continue to create solutions that match the customers and the commercial market's needs -- All-Day Battery Life, touch. The right kinds of experiences with a graphical capabilities that we deliver are all important in this segment. I think that is key.

And at the same time while this is somewhat unpredictable, let's take our outstanding IP and engineering resources and focus those on areas we know will continue to grow and grow faster than a legacy PC market. That is core to our strategy moving forward, and we need to accelerate that strategy based on these shifting trends.

Dean Grummels - Stifel Nicolaus - Analyst

Thank you very much, it is very helpful.

Operator

Cody Acree, Williams Financial.

Cody Acree - Williams Financial - Analyst

Thanks for getting me in. And, Rory, thanks for the details. You have been very helpful. Maybe I will ask for a couple more. So you have given this target of 40% to 50% of revenue from IP differential products. Can you maybe talk about a timeline? I think Lisa said some of the new products probably wouldn't really be impactful until 2014. Is that correct, and can you draw a path between here and there?

Rory Read - Advanced Micro Devices - President and CEO

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

I think we have kind of laid out the basic concepts here across the call. Clearly, in the tactical timeframe continue to build on the semicustom embedded market. There is a good opportunity. It is where our IP and APUs play well. It is near adjacent segments, so it is easy to move there. And I like the competitive market there much better than the PC market, which is dominated by a single player in a big way.

I think also, as we move forward there are opportunities in dense serving. That market will continue to evolve as low-power and cloud serving becomes even more prevalent. This will be the fastest-growing segment going forward. And I think the SeaMicro acquisition and the work Lisa and her team are doing to build that out will occur over the next one, two, three years.

And at the same time, how do we take our deep engineering capability into the new low-power, ultraportable emerging form factors in the traditional client space? This is an opportunity that is already presenting itself with our next-generation APU called Kabini, replacing our highly successful Brazos. And we will follow that on with a series of other solutions.

Lisa, would you like to add anything more?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Yes, I think the best way to describe it is it is a portfolio that we are managing. So we have talked about semicustom embedded, having good visibility towards the end of 2013, and then as we get into some of the dense serving spaces beyond that, because it takes a little bit longer in those markets. But we are trying to build a portfolio to really enhance the growth prospects of our business.

Cody Acree - Williams Financial - Analyst

And, Lisa, on the micro server-side it is pretty nascent for you and for everyone from an ecosystem standpoint. I guess what are the hurdles? What are some of the marks that you need to hit or that the industry needs to hit to get through to make this more of a mainstream product?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Well, we continue to work with our differentiated IP base. So the SeaMicro acquisition has been helpful in terms of our work with the large datacenter customers. And then we continue to need to build out the ecosystem to really build broad-based support. So I think it is a several year journey, but it is certainly one that we are very committed to and continue to build out all the aspects of the ecosystem.

Cody Acree - Williams Financial - Analyst

I guess, but, Lisa, more specifically on that ecosystem are there certain elements that need to be knocked over first that could start to see adoption -- knowing it is going to take several years to get it fully built out, but others are certain hurdles that may be met in the near term?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Certainly there are, and they come with both the hardware and the software ecosystem as well as the ODM ecosystem, so all of those are aspects that we are working on.

Cody Acree - Williams Financial - Analyst

And then, lastly, on the pricing side, Intel was pretty adamant that they were actually seeing some stability in pricing, which doesn't really seem to make a lot of sense given the backdrop. Rory, I think you were pretty adamant that pricing has been competitive. What would you expect given what you're looking as a backdrop?

Rory Read - Advanced Micro Devices - President and CEO

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

As we talked about several times in the call, the market dynamics that are occurring now are going to continue. Those macro-economic factors, the Win 8 launch, as well as the tablet phenomenon will continue to impact the PC market.

I expect the market to be competitive, and I expect the market to continue to fall under pressure for the foreseeable future -- the next several quarters.

Cody Acree - Williams Financial - Analyst

Thanks guys. Good luck.

Operator

Chris Caso, Susquehanna.

Chris Caso - Susquehanna - Analyst

Just returning to some of the discussion about the breakeven point, and I understand you're not providing revenue guidance going forward, but could you talk perhaps in principle, and given the uncertainty in revenue and some of the strategic changes that need to be made, what further actions can you take or perhaps are contemplating to protect cash flow and prevent from going into a money-losing situation, if the transformation takes longer than what you expect?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

Actually, we are very focused on the free cash flow breakeven, and actually trying to get back to positive free cash flow. The restructuring actions that were announced today in the call will help. The OpEx reduction on a go forward standpoint will help.

I also referenced earlier about the continuing discussions of the WSA related to the 2012 take-or-pay and the 2013 WSA discussions that are ongoing, and that will obviously have an impact on the free cash flow on a go forward standpoint. So we are laser focused on getting to free cash flow breakeven at lower revenue levels. But we are not giving guidance from a standpoint of the revenue on a go forward basis, except for the Q4 guidance that we have given.

Chris Caso - Susquehanna - Analyst

As a follow-up to that, is there anything you could say about cash flow over the next several quarters? Should we expect cash flow to still come down as the cost cuts are being implemented or what is your view there?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

I think related to the restructuring actions, with the savings that we will have on a quarterly basis and for the year in 2013, for sure, the cash needs will come down and therefore then we will help the cash flow.

On the guidance for 2013, we are not prepared to talk about it right now, because a lot of open items that we need to go through, or in particular, as I talked about the WSA, our discussions that are going on. So it is really too early to tell.

Once we thought through those things and we look at where things fall, both from an expense standpoint and a WSA and the reduced cost structure, we can come back and give the guidance from a free cash flow standpoint on a go forward standpoint.

Chris Caso - Susquehanna - Analyst

Okay, thank you.

Operator

Jim Covello.

Jim Covello - Goldman Sachs - Analyst

I was just hoping to go back to a little bit of a follow-up from some of the other questions about pricing. I guess, what kind of pricing environment are you assuming in the restructuring actions that you're taking? And then both for yourself -- in other words, how much leeway are you leaving yourself for your prices to come down and still hit these targets, and then what are you assuming in the way of pricing and aggression from Intel in that regard as well?

Rory Read - Advanced Micro Devices - President and CEO

I believe as we have talked about several times on the call, we believe it will be a competitive pricing market, not unlike what we have seen over the past several quarters. What we are doing is basically restructuring our cost structure to position us for breakeven at a lower revenue level. We will continue to assess that as we move through the next several quarters, and make the appropriate adjustments.

Jim Covello - Goldman Sachs - Analyst

And then, I guess, I had heard you say that before in the call, but I guess maybe with some granularity. If you look at -- the pricing in the last couple of years has been abnormally high. And there is two ways to think about what has gone on in the last couple of quarters. It is sort of at the beginning of a resumption of a trend that would put us back on a trend line of lower pricing, or that was the new normal, the better pricing, and what we are seeing these last couple of quarters is just temporary. Which one of those do you think is the case as you begin to think about these restructuring actions?

Rory Read - Advanced Micro Devices - President and CEO

Yes, as we have talked about earlier, I think what is clear is the market trends that are driving the PC market right now have accelerated faster than we expected. And, clearly, effected the timelines and forecasting. Visibility is difficult right now, and I think what we have to do is look at how each of the next several quarters unfold. There is clearly pressure in the market, and there will be competition.

Jim Covello - Goldman Sachs - Analyst

Thank you.

Operator

Patrick Wang, Evercore.

Patrick Wang - Evercore - Analyst

Two quick ones, and then a longer one. The first one, Rory, just a quick clarification, you can you help us understand which buckets are being defocused in your actions right now?

Rory Read - Advanced Micro Devices - President and CEO

Patrick, from a standpoint is what we are trying to do with the restructuring efforts is to reduce and simplify our development cycles and development processes across our portfolio, as well as simplify our global structure. I think that is clear in terms of the focus we have in terms of reusable IP, how we are going to use the system, the

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

heterogeneous systems architecture. All of those strategies that we have talked about are reducing our complexity and shortening the development cycles. And we have to push for more efficiency on that. That is the basis of what we are trying to accomplish.

Patrick Wang - Evercore - Analyst

Okay, so there aren't any particular product lines or anything that was ongoing that is getting killed or canceled?

Rory Read - Advanced Micro Devices - President and CEO

Nope, we are not changing anything on that activity at this point.

Patrick Wang - Evercore - Analyst

Okay. And then just a second quick one, Devinder, just some clarification on the Wafer Supply Agreement. Can you disclose or walk us through what is left of your commitments for the fourth quarter? I think you guys had disclosed \$700 million or so for the second half of the year.

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

The way I would trend that is for 2012 we had a take-or-pay agreement for a certain number of wafers, and what we disclosed is the total cost of that will be \$1.5 billion. We have paid approximately \$1 billion of that, so \$0.5 billion remain.

But the question is the time period at which we take those wafers, which is the basis of the discussions that we continue to have with our partners. So I think you have to look at it in terms of the remaining 2012 take-or-pay, there is \$0.5 billion left. And what time frame is the -- are the wafers going to be taken, and what timeframe the cash is going to go out, if that is what you're asking.

Then the second thing we are discussing, as we typically do on a yearly basis, is go ahead and discuss the 2013 WSA, and both of them taken together is what we are trying to get to a conclusion to with our partners at GLOBALFOUNDRIES.

Patrick Wang - Evercore - Analyst

Okay, got it. And then just last question, I guess, Rory or Lisa, can you talk about the competition in this newfound embedded space, maybe perhaps where you feel your key advantage with system-on-a-chip are? Thank you.

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Maybe let me take that. I think the key differentiation we have is really in the high-performance design methodology, the microprocessor technology, as well as the graphics IP that we have. We are really going after high-volume opportunities that can really use this IP in adjacent markets. So I think it is a very unique capability that doesn't exist in many other places, and we really need to continue to build that model out over the next few years.

Patrick Wang - Evercore - Analyst

Okay, can you also quickly just mention a couple of the key competitors that are currently in that space today?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

I think you are familiar with many of our competition. I think our ability to be flexible and really put the semicustom approach in place is something that is unique to our capability.

Patrick Wang - Evercore - Analyst

Okay, I will go do some homework. Thanks so much.

Operator

Vivek Arya, Bank of America.

Vivek Arya - Bank of America Merrill Lynch - Analyst

I am wondering how should we should think about CapEx for next year. I think, Devinder, you did describe how you expect to breakeven on an operating basis, but how do you breakeven on a cash flow basis -- what are your CapEx plans?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

I think it is really too early to get into 2013 at this point. I think most likely if you come back in the quarter at the call that we have for the Q4 results, we could probably give you some visibility into the early part of 2013, and then give you the guidance from that standpoint.

Vivek Arya - Bank of America Merrill Lynch - Analyst

All right. Maybe, Rory, one for you. What is going on on the discrete graphics side? NVIDIA has had a strong product with their Kepler architecture for a few quarters. Is that a segment you think would be deemphasized going forward or is that still a priority business for you?

Rory Read - Advanced Micro Devices - President and CEO

There is no -- as I mentioned in my earlier remarks, that business performed in line with our expectations for the quarter. And the graphics business remains a cornerstone for our technology portfolio across AMD. But I think Lisa probably is the best person to take that question.

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Yes, let me give you some color around the Graphics business. The Graphics business is actually a fairly stable portion of our portfolio. We continue to believe it is one of our key differentiated.

In the third quarter we had the macro effects that affected the PC industry that also affected graphics, but we actually grew quarter-to-quarter in the discrete AIB channel. So I think we believe that our products are quite competitive and we will continue to invest in the graphics area to ensure that competitiveness.

Vivek Arya - Bank of America Merrill Lynch - Analyst

All right, and then one last one. Rory, in case things stay soft in the PC area next year, are there other -- is there a plan B? Are there other partnership or M&A arrangements that you can pursue or you can think about, because I think that is really the focus of a lot of these questions on the call, because the PC market is slowing substantially and you have a very large competitor with very significant competitive advantages. So beyond just breaking even, how do you position AMD and how do you reward shareholders going forward?

Rory Read - Advanced Micro Devices - President and CEO

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

I think it is around what we talked about. There are two steps that we need to take care. One, restructure and reset AMD. Reduce our cost structure and improve our efficiency by lowering our breakeven point on lower revenue. And as we have talked about several times in the call, we will continue to assess that as the market unfolds.

And then, second, take our IP and our differentiation in graphics and across our engineering portfolio and take them to the high-growth segments. We talked about driving over the next several years 40% to 50% of our portfolio on those growth segments. We had planned this strategy. What we have seen now with the trends accelerating that we need to move in a more aggressive path to tackle that now, both in the high-growth ultra-low-power new clients that dense server space, and then of course, in the embedded, semicustom space, all around the capabilities and IP that we have in AMD.

Vivek Arya - Bank of America Merrill Lynch - Analyst

Thank you.

Ruth Cotter - Advanced Micro Devices - VP of IR

Operator, we will take two more questions please.

Operator

Steven Eliscu, UBS.

Steven Eliscu - UBS - Analyst

I have a couple questions for Lisa. First question, I am trying to understand this reusable IP strategy. When I think about what that means from a P&L point of view, I just think of it as a shift of OpEx into COGS, because I just -- if you're going to cut staff, you're going to have compromises in terms of the IP blocks you can develop, and as a result, you're going to have some give-ups in die size, especially as you try to recover for some of the lost performance for those compromises that you're making.

Can you help me understand if I am thinking about that correctly or if I'm missing something?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

Yes, let me describe it this way. I think what we mean by reusable IP is really getting to a much more system-on-chip infrastructure, so that we are able to spin products faster as well as customize them for their various markets. So I wouldn't see it as a shift from R&D to COGS, but more as building a foundation so that we can move quickly into new markets as they develop, and that is a very key thing for us.

We still will invest very heavily in our differentiating IP, such as the graphics IP that we talked about, as well as our microprocessor IP. So that part doesn't change.

Steven Eliscu - UBS - Analyst

Okay. And as a second question here, just thinking more philosophically about your APU strategy, and you have differentiating graphics, yet when we look at the third-party market research data, you are not getting paid for it, at least when we look at what was done with Llano.

I am trying to understand if there is something we are missing in terms of maybe you are starting to get some of that uplift on Trinity and you will get more with Kabini, or is there perhaps a basis for rethinking your strategy and focusing, instead of high-performance GPUs, on smaller die sizes that could get your gross margin back to the mid to upper 40s where it has been your goal?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

22

Yes, I think the question around the APUs is a good one. We are very clear that the APU strategy is the right strategy for us. Now in terms of ensuring that we get the value for it, it is not just a piece of silicon, but it is also what we can do in the solutions environment. So we have been doing a lot of work to ensure that the applications can take advantage of all of the compute that we have on the silicon.

And you can see that with some of the moves that we have made with the heterogeneous systems architecture, creating industry consortium around the heterogeneous compute. And we have had a number of new members, we talked about Qualcomm and Samsung joining, as well as ARM and Imagination.

So I think it is an evolution over time, but it is clear that the APU strategy is the right strategy and we need to get more of the applications taking advantage of the APUs over time.

Steven Eliscu - UBS - Analyst

When do you -- just as a final follow-up -- when do you think that will show up in the average selling price data?

Lisa Su - Advanced Micro Devices - SVP, General Manager, Global Business Units

We continue to work on the APU evolution over time.

Steven Eliscu - UBS - Analyst

Okay, thank you.

Operator

Craig Berger, FBR.

Craig Berger - FBR - Analyst

Just in looking at your core business, do you have any idea where end consumption is relative to what your fourth-quarter guidance is? Is there channel inventory declines baked in? And where is kind of a bottom for this business as you're down 35% year-over-year?

Rory Read - Advanced Micro Devices - President and CEO

Yes, from a standpoint, as I commented earlier on the channel business, we have seen that business stabilize in 2Q and 3Q at the levels that we saw there. That is also continuing to work off that inventory that I talked about in the previous earnings call that was down channel from a sellout perspective, and we are going to continue to work that.

I think we are making good progress there. And the overall PC market, there is no doubt that these trends have occurred; they have accelerated. And we believe they will affect the market for the next several quarters for the foreseeable future. We are taking clear and decisive action to restructure our business, lower our cost structure to enable us to hit breakeven at a lower revenue base, which we think is prudent given the market trend.

Craig Berger - FBR - Analyst

Just as a follow-up on the gross margins, is it -- I guess we should be assuming that they continue to move lower from the normalized non-inventory write-down level that you printed in Q3? Is there a reason for the decreased transparency?

Devinder Kumar - Advanced Micro Devices - SVP, Corporate Controller, Interim CFO

OCTOBER 18, 2012 / 09:00PM GMT, AMD - Q3 2012 Advanced Micro Devices Earnings Conference Call

We just aren't giving guidance on gross margin at this point. The market environment, as you observed and many have observed, is uncertain.

Craig Berger - FBR - Analyst

Okay, thank you. Good luck.

Ruth Cotter - Advanced Micro Devices - VP of IR

Operator, thank you that concludes the call.

Operator

Thank you. Again, ladies and gentlemen, this does conclude today's conference. Thank you for your participation and have a wonderful day. Attendees, you may disconnect at this time.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

© 2012 Thomson Reuters. All Rights Reserved.