

# Advanced Micro Devices

October 09, 2019

NASDAQ: AMD

AMD has been thriving on its high-performance EPYC processors recently, built on the Zen microarchitecture, giving tight competition to industry rivals Intel and Nvidia. The company's successful entry into the x86 processor market and the growing demand for GPUs are helping it expand market share. It bets on the next-generation Ryzen and Radeon processors, based on the 7nm architecture, to drive growth going forward.

## Financials

In 2018, AMD generated total revenues of \$6.5 billion, representing a 19% increase from the preceding year. Net profit came in at \$337 million or \$0.32 per share, compared to a loss of \$33 million or \$0.03 per share in 2017. There was a four percentage-point increase in gross margins to 38%, aided mainly by the solid shipment volumes of the new Ryzen, EPYC and Radeon chips.

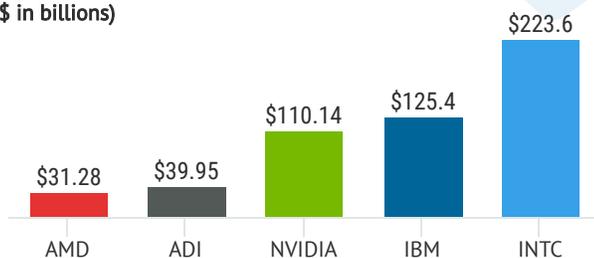
(\$ in millions, except EPS)	2Q19	1Q19	2Q18
Revenue	\$1,531	\$1,272	\$1,756
GAAP EPS	\$0.03	\$0.01	\$0.11
Non-GAAP EPS	\$0.08	\$0.06	\$0.14
Operating Income	\$59	\$38	\$153

## Market Share and Rivals

Other than Intel and Nvidia, AMD competes with International Business Machines (IBM) and Analog Devices Inc. (ADI). Intel's market cap is \$223.7 billion, much higher than AMD's \$30.9 billion. IBM has a market cap of \$123.7 billion.

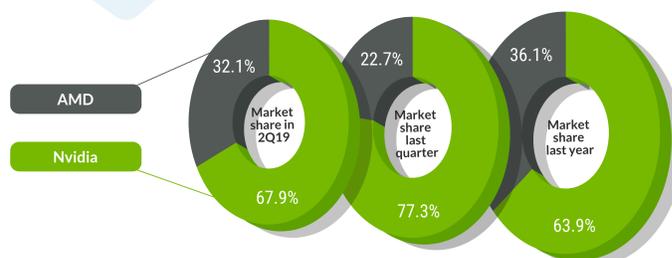
When it comes to desktop discrete GPU, Nvidia dominates the market. As on March 2019, the company accounted for about 81.2% of the market share in that segment, while the remaining 18.8% went to AMD.

Market Cap  
(\$ in billions)



\*Market Cap as of October 08, 2019

Desktop Discrete GPU Suppliers' Market Share



Source: Jon Peddie Research (Add-in-Board Quarterly Report for Q2 2019)

## Cash Flow

AMD's cash position has improved in recent years after staying in the negative territory for a long time. However, an increase in spending on developmental initiatives has squeezed its cash balance. Though operating cash flow increased to \$34 million last year from \$12 million, it was not enough to meet the capital requirements. Cash and cash equivalents at the end of 2018 was \$1.08 billion, down 9% from the prior year.

## Outlook

There is a great deal of interest among the stakeholders in AMD's new launches, with stress on the revamped versions of the 7nm series. The mid-single-digit percentage revenue growth predicted by the management for the current fiscal year is in line with the market's consensus projection. The company's leverage in PC, gaming and datacenter segments are likely to help it achieve this goal.