

Stocks in motion

Inside Intel's Turnaround

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Key takeaways

- Understanding where a company sits in the Corporate Life Cycle framework is vital when identifying investment opportunities
- Companies classified as Turnaround have re-aligned their strategies and are recovering after a period of underperformance
- Intel is a good example of a Turnaround company that we think is reviving its competitive position in the global semiconductor industry

Within our Corporate Life Cycle framework, Turnaround companies represent businesses that are striving to recover after a period of underperformance. These firms focus on improving returns and restoring competitiveness by streamlining operations, refocusing on core strengths, and reversing declining trends. For investors, Turnaround companies can potentially offer contrarian opportunities, when much of the market is looking the other way and disregarding these fallen stars. Thorough research can shine a light on those companies that have been re-aligning their strategies and ways of working, to effectively to turn around their fortunes.

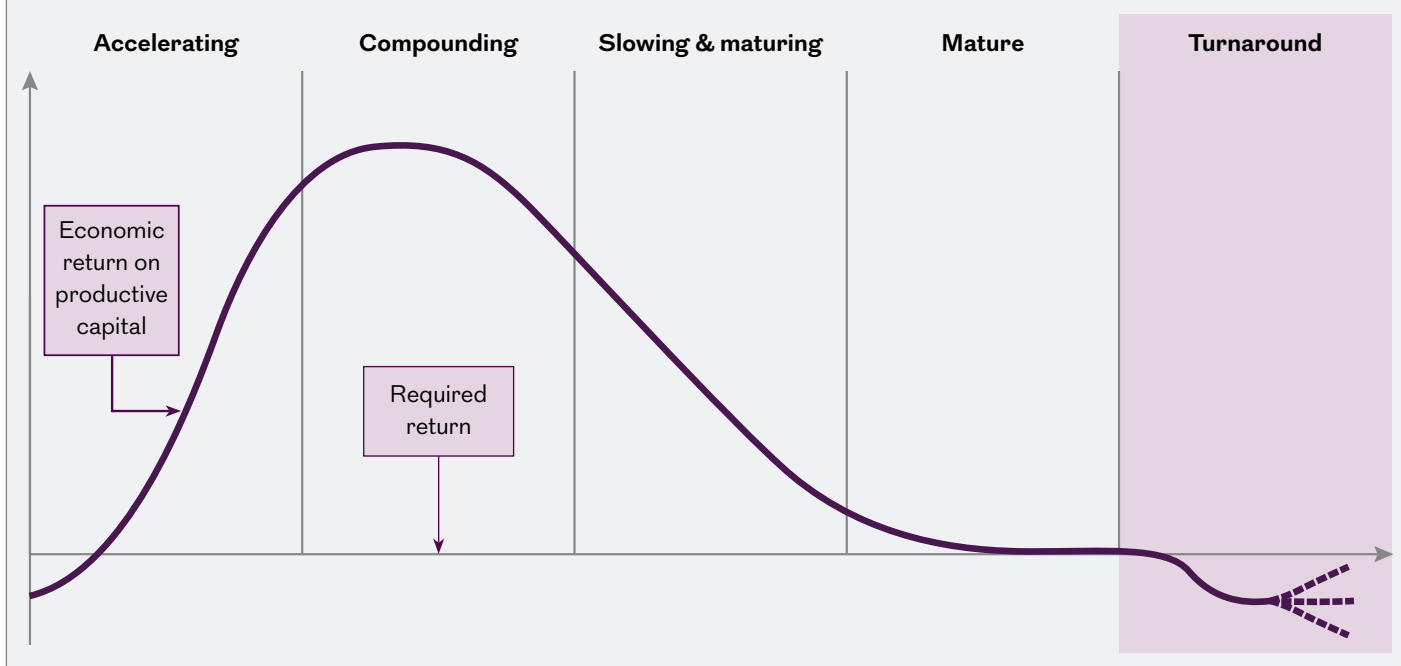
How did Intel succeed early in its Life Cycle?

From its founding in 1968 by semiconductor pioneers Robert Noyce and Gordon Moore, Intel rapidly ascended as a leader in semiconductor memory and, critically, microprocessors. A few years prior, Moore had posited that the number of transistors on a microchip would roughly double every two years – a phenomenon referred to as Moore's Law. This empirical observation evolved into a strategic imperative for Intel, driving continuous investment into research and development (R&D) and manufacturing.

As Intel produced more advanced transistors at lower costs, it enabled the creation of new, higher-performance, and increasingly affordable products. This expanded the market, increasing demand for Intel's chips. Higher demand led to greater production volumes, which further drove down unit costs, continuously reinforcing Intel's scale advantage and making it difficult for competitors to catch up organically. After layering on an impressive brand campaign that established it as a recognisable household name, Intel was an enviable leader in its industry.

Figure 1: Corporate Life Cycle

Corporate returns on productive capital and growth tend to progress along a Life Cycle. Every company can be located economically in a Life Cycle category.



For illustrative purposes only.

What went wrong in the middle of Intel's Life Cycle?

Intel has had a turbulent decade, marked by a significant erosion of its once-dominant position in the semiconductor industry. Management issues stemmed from a critical loss of process technology leadership, intensified competition from rivals like AMD, and a series of missed market opportunities in mobile and artificial intelligence (AI) end-markets. These challenges culminated in substantial financial and operational turbulence, exacerbated by the capital-intensive nature of its traditional Integrated Device Manufacturer (IDM) model.

In response to this decline, Pat Gelsinger, upon his return as CEO in 2021, initiated the ambitious IDM 2.0 strategy. This represented a bold pivot aimed at regaining manufacturing prowess, diversifying into the contract-manufacturing (foundry) market, and re-establishing product leadership. However, while IDM 2.0 presented a coherent path for future success, its execution has been fraught with challenges. The strategy's efficacy hinged on Intel's ability to consistently achieve competitive yields and performance for its advanced nodes,

attract sufficient external foundry customers to reach economies of scale, and make profitable inroads into highly competitive AI/GPU markets. As Intel struggled to overcome these challenges, the immense capital intensity and long payback periods associated with these investments exerted financial pressure on the business.

Returns deteriorated and its share price suffered accordingly. In the early 2020s, a period in which many technology stocks enjoyed bumper gains, Intel's value halved.

Early signs of a successful Turnaround

Over the past year, Intel has enjoyed a distinct reversal in fortunes. In March 2025 Lip-Bu Tan took the reins as CEO, beginning a strategy reset that involves a change in focus for the foundry business and extracting value from its maturing central processing unit (CPU) business. This reset, alongside subsequent developments have helped drive a share price gain of more than 100%.

In August, Mr Tan was summoned to the White House to account for the nearly \$8 billion of funding Intel had received from President Biden's CHIPS funding act, which aimed to bolster the

US semiconductor industry. The US government emerged with a 10% strategic stake in Intel, marking a significant escalation of US industrial policy in the semiconductor industry, which aims to secure national security interests.

This pivotal shift coincided with a \$2 billion investment from Japanese technology investor Softbank, which further helped to fuel the company's foundry business transition, increase customer trust in Intel's commitment to this business, and support Intel's efforts to develop products that could make the company a global leader again. Nvidia recently gave a vote of confidence in the latter, taking a \$5 billion equity investment in Intel and accelerating chip co-developments.

Technologically, Intel is building a strong menu of offerings manufactured by a revitalised foundry business. The upcoming 14A node (1.4 nm) could help Intel leapfrog competitors by enabling even denser, more powerful chips. And if Intel indeed successfully scales these leading-edge processors internally, it could attract additional third-party customers that seek similar benefits, re-establishing the dynamic that Intel leveraged at the beginning of its Life Cycle.

Meanwhile, Intel is in the position to potentially move faster than its foundry rival TSMC, whose foundry leadership could start to work against it. If Intel successfully executes, with a large portion of its leading-edge wafer capacity being eaten up by its largest customers, TSMC is at risk of becoming a second-choice partner to new industry disruptors.

Capital discipline done differently

Part of Intel's issue as a Turnaround had been the need to invest its way out of a precarious situation. These setups tend to be where the risk of capital destruction is highest and would typically be something that we seek to avoid. However, Intel is a little different, prompting us to initiate a position in the third quarter of 2025.

Given that the US government needs Intel to succeed for geopolitical reasons and many of its customers need Intel to succeed for commercial reasons, a commitment – either by choice or force – from large tech companies to support Intel's development of leading node chips could be the ideal solution to help the firm successfully scale manufacturing.

In our view this leaves Intel in a unique position where it can build power in a capital-intensive industry in a way beyond purely commercial dynamics. And while Intel gradually utilises its capacity, its CPU business is pushing forward with new product cycles amid the important role that these play in the next phase of AI computing. A new foundry-product flywheel is emerging.

Lip-Bu Tan's initial threat to walk away from the foundry business struck fear into key stakeholders, prompting the US government and customers to act to support Intel's future. This support improves revenue visibility. Capital discipline done differently.

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