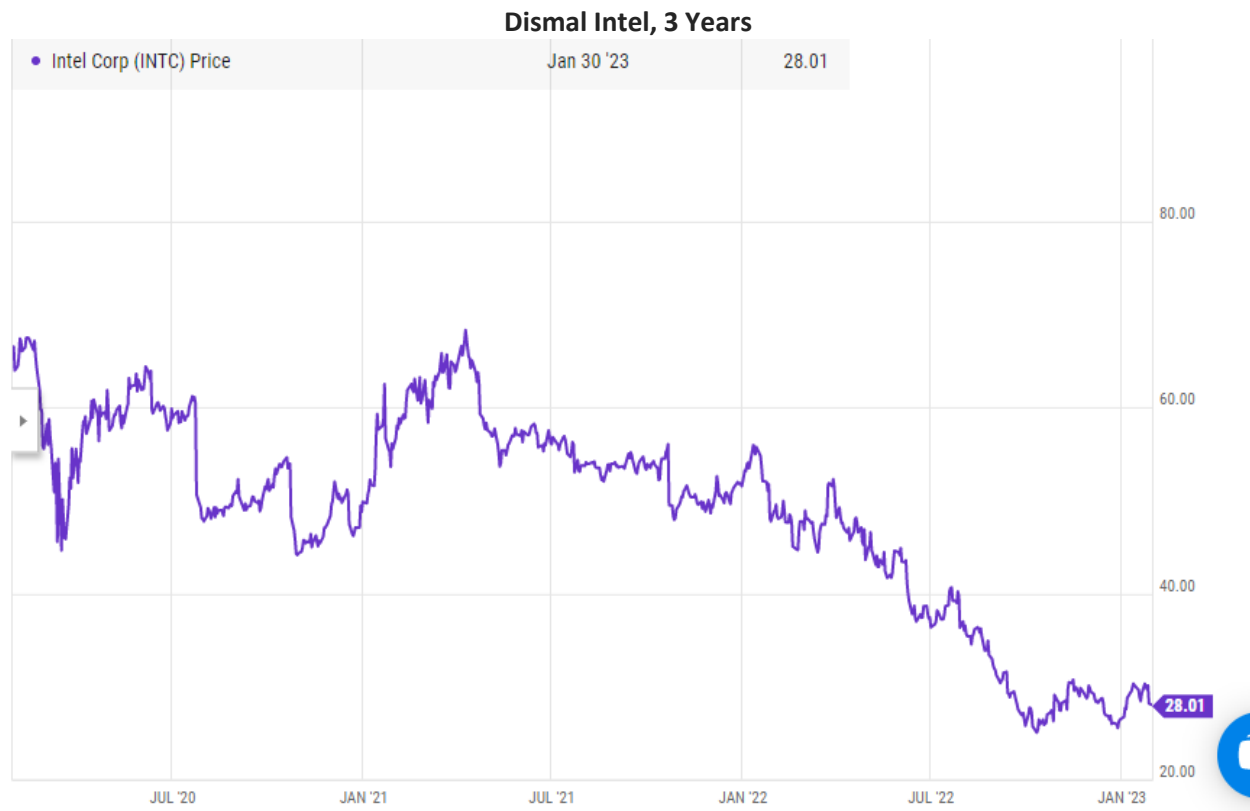


The Outlook: Jan. 30, 2023

Dismal Intel. Determined, too.



The headline writers had fun with Intel last week: “shocking,” “calamitous,” and “collapsing” were some of the milder adjectives, after Intel’s “catastrophic” quarterly report. A good many of Wall Street’s most famous analysts were just plain mad at Intel. It showed in the words and tone of their normally-highbrow reports. A typical peeved expert wrote something along these lines: “One must wonder about management’s basic competence, when such a negative surprise is possible.” For us non-highbrow types, it’ll help us understand this if we remember that the Street’s finest minds spend their careers forecasting their target companies’ next quarterly earnings: right down to tenths of a percentage point in profit margins. They were wrong, last quarter, by 50 to 100 such “tenths.” It’s only human to get annoyed when the subjects of our expertise make us look bad.

But we investors shouldn’t be annoyed; we should be fascinated by what’s going on at Intel. At Outlook we owned plenty of Intel long ago, and not much now; but we’ve kept track of the company like an old friend fallen on hard times. This old friend is going through hell right now, and it’ll be there for a good while to come. But as we’ve mentioned once or twice, hell brings out the best in good people. Sometimes it’s the place where business miracles are born. That’s something the smartest people on Wall Street can’t see when they’re peering through microscopes at tenths of points in profit margins, 3 months from now.

Mighty Intel lost several of its 18 wheels a few years ago. Somehow it lost the thing which had made it great: its ability to make the world’s most advanced semiconductors at high volume and least cost. A

couple of CEO's paid the price for this, which is what they're supposed to do. Then along came Pat Gelsinger in late 2021, whose job is to put the wheels back on. Mr. Gelsinger said, "We must change this company and take big risks, or we're finished: meaning, we'll slowly stagnate and shrink forever because without our technical and factory lead, our river of customers will gradually flow away." That meant spending shocking amounts of money for several years to regain those leads. That meant, in turn, no dividend growth and flat profits for those several years . . . unless Murphy's Law struck, in which case it would be "collapsing" profits and more wheels falling off the truck.

Of course Murphy's Law struck—like a sledgehammer. The Lockdown Calamity and Supply Chain Chaos of 2020 and 2021 (which accompanied the "work from home" boom in all Tech spending) was instantly followed by 2022's nosedive in spending as "Everyone buy a home office!" naturally turned into "Enough already! Do we really need a PC in every room?" Add the year-long "Recession Watch!" all over the world, and Main Street turned its back on Intel chips to buy Caterpillar tractors instead. It was Murphy's Law all right . . . but also perfectly normal human behavior, which creates cycles in just about everything. They turn back up, after they've gone down for a time—no matter which alarming adjectives the media uses on them.

But for Mr. Gelsinger and Intel it means intense suffering while the company turns itself around: not merely, "flat dividends and profits" but "plunging profits and maybe no dividends." This last quarter began the suffering. It also began the time when we'll see if Mr. Gelsinger deserves his pay. He must stick with his big-spending plan no matter how awful the quarterly results and how ferocious the criticism ("Question basic competence!" will only be the start of it) and at Outlook we're pretty sure he must cut Intel's dividend, maybe by 100%. Fearsome suffering indeed.

If he sticks with it, and if his company pulls off its "moonshot" attempt to climb back to the top of the chip-making world (and believe it or not, last quarter there were signs that moonshot just might work), Intel's profits by 2025 or so will force a moonshot by the stock price itself. We plan to watch, at Outlook, and we'll be cheering our old friend on. But the real value of Intel's grim story is the reminder that behind the fog of highbrow words and sophisticated analysis in our investment world, what really happens on Main Street is the oldest story of all: determined people, with courage, taking risks to fix big problems. They do, pretty often, and our payoff for backing them can be at least a little "out of this world."

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