
INSIDE AMD'S Q3 2023 EARNINGS: DATA CENTER IMPACT

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BACKGROUND

Advanced Micro Devices, Inc. (AMD) reported its financial results for the third quarter of fiscal year 2023. AMD showcased strong performance across its key segments during the quarter, including Data Center, Client, Gaming, and Embedded, with a focus on AI and high-performance computing solutions.

In this research note, we provide an overview of AMD's key announcements and financial performance during the quarter, along with NAND Research's analysis of what the results mean for AMD's data center business.

FINANCIALS

In the third quarter of 2023, Advanced Micro Devices (AMD) reported robust financial results, demonstrating strong growth and performance across its various business segments. Here is a summary of AMD's overall financial results for the quarter:

- **Total Revenue:** AMD reported total revenue of \$5.8 billion, representing a 4% year-over-year increase and an 8% sequential increase.
- **Gross Margin:** The company's gross margin was 51%, showing a 1 percentage point improvement compared to the same period last year, primarily driven by stronger revenue and product mix.
- **Operating Expenses:** Operating expenses amounted to \$1.7 billion, reflecting a 12% increase year-over-year, mainly attributed to higher research and development (R&D) investment to support future AI growth opportunities.
- **Operating Income:** AMD's operating income was \$1.3 billion, resulting in an operating margin of 22%.

- **Earnings Per Share:** The company reported diluted earnings per share (EPS) of \$0.70 for the third quarter, compared to \$0.67 in the same period the previous year.
- **Cash Flow:** AMD generated \$421 million in cash from operations during the quarter, with free cash flow amounting to \$297 million.
- **Balance Sheet:** At the end of the quarter, AMD had a strong balance sheet with \$5.8 billion in cash, cash equivalents, and short-term investments.
- **Share Repurchases:** AMD returned \$511 million to shareholders through share repurchases, buying back 4.8 million shares.

AMD's financial results for the third quarter demonstrated impressive growth, particularly in the Data Center and Client segments. The company's strategic investments in AI capabilities and its competitive product offerings have positioned it for continued growth and profitability in the semiconductor market.

DATA CENTER BUSINESS

AMD reported strong performance in its Data Center and Server business segment. The segment achieved revenue of \$1.6 billion, which was flat year-over-year but marked a significant 21% sequential increase.

AMD's Data Center segment hit the following performance metrics:

- **Q3 Revenue:** \$1.6 billion
- **Year-over-Year Change:** Flat
- **Sequential Change:** Up 21%
- **Operating Income:** \$306 million (19% of revenue)

DATA CENTER MOMENTUM

AMD's Data Center and Server business continues to grow. CEO Lisa Su highlighted multiple factors that point to solid forward-looking momentum:

- **EPYC Processor Sales:** AMD experienced solid demand for both 3rd and 4th Gen EPYC processor families, resulting in record quarterly server processor revenue.
- **Cloud Growth:** The cloud segment saw strong double-digit percentage growth in EPYC CPU revenue as major hyperscale customers expanded deployments of EPYC processors to power their internal workloads and public instances.

- **Enterprise Success:** Despite soft overall demand in the enterprise sector, AMD saw strong indications of success due to the performance and total cost of ownership (TCO) advantages of its Genoa processors. Enterprise revenue grew by a double-digit percentage sequentially.
- **New Product Launches:** AMD expanded its 4th Gen EPYC processor portfolio with the introduction of Siena processors, designed for intelligent edge and telco applications. Several leading companies, including Dell, Lenovo, and Super Micro, launched new platforms based on these processors.
- **Next-Gen Turin Processors:** AMD is working on its next-generation Turin server processors, featuring the Zen 5 core, which is expected to deliver significant performance and efficiency gains. Turin is in the labs of top customers and is scheduled for launch in 2024.

Overall, AMD's Data Center and Server business showed strong momentum, driven by increased adoption of EPYC processors and successful product launches. The company is poised for further growth as it continues to invest in AI capabilities and expands its footprint in the data center market.

OUTLOOK

AMD is optimistic for the future of its Data Center segment. The company called out a number of key factors contributing to its positive outlook, including:

- **Strong Momentum:** AMD's Data Center segment has been experiencing strong momentum, driven by the adoption of its high-performance EPYC processors. The segment has reported robust sequential growth, which is expected to continue.
- **EPYC Processors:** The demand for 4th generation EPYC processors remains high, particularly among cloud and enterprise customers. These processors offer significant performance advantages, making them attractive for data center applications.
- **AI and Data Center Growth:** The growth of artificial intelligence (AI) and data center applications is expected to continue. AMD's investments in AI and its expanding product portfolio, including Instinct accelerators, position the company to benefit from this trend.
- **AI Accelerators:** AMD's Instinct accelerators, such as the MI300 series, have been well-received by customers. The company expects continued growth in its Data Center GPU revenue, driven by purchase commitments from cloud customers.
- **Expanded Portfolio:** AMD's Data Center segment continues to expand its product portfolio, including the launch of Siena processors, which are designed

for intelligent edge and telco applications. These expansions address a wider range of customer needs.

- **Competitive Positioning:** AMD's offerings in the data center space are competitive and have enabled the company to gain market share, particularly in the server CPU segment.
- **Long-Term Growth:** AMD's focus on AI, high-performance computing, and data center solutions positions it for long-term growth in the data center market.

The outlook for AMD's Data Center segment remains optimistic, with expectations of strong growth driven by its product offerings, AI investments, and expanding customer base in both cloud and enterprise markets.

ANALYSIS

At NAND Research, we focus on enterprise IT infrastructure, so our analysis will focus in on what AMD's performance means in the overall data center space.

AMD's third-quarter financial results demonstrate the company's solid growth momentum and strategic focus on high-performance computing solutions. With revenues reaching \$5.8 billion, a 4% year-over-year increase, AMD continues to make significant strides in the semiconductor industry.

The Data Center segment's revenue of \$1.6 billion remained flat compared to the previous year but surged 21% sequentially, fueled by strong sales of its 4th generation EPYC processors.

AMD's EPYC CPUs are gaining traction in the cloud and enterprise markets, with major hyperscale customers deploying them to enhance their data center capabilities. The acquisition of companies like Mipsology and Nod.ai positions AMD to accelerate its AI capabilities further, driving revenue growth and expanding its footprint in AI-driven computing.

Looking ahead, AMD anticipates strong growth in its Data Center business, driven by EPYC and Instinct processors. These processors are expected to gain rapid adoption in the AI and data center markets, contributing significantly to the company's revenue.

Additionally, AMD's efforts in AI software development and acquisitions position the company as a comprehensive provider of AI-driven solutions across its product portfolio. Overall, AMD's strategic focus on AI, coupled with its diverse range of high-performance computing products, bodes well for its growth and competitive standing in the semiconductor industry.

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