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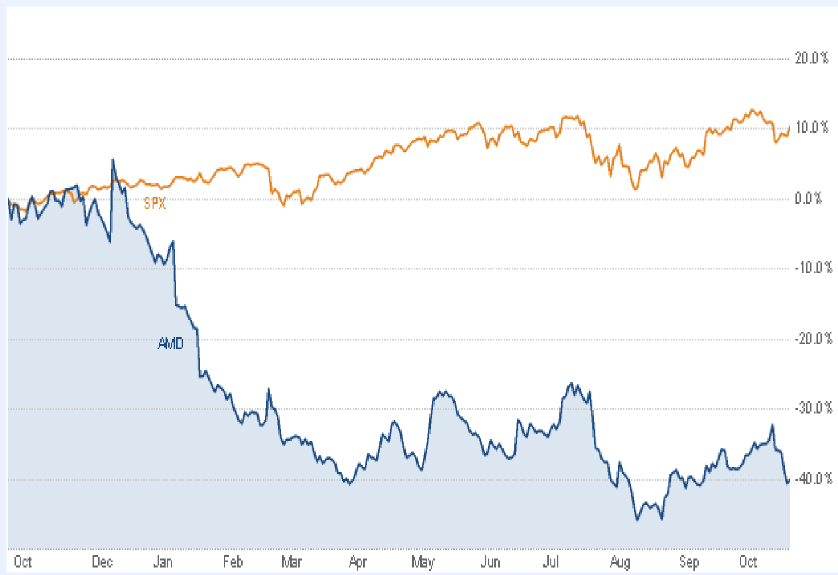
Advanced Micro Devices (AMD): Advancing in the right direction, or is it?
October 29, 2007

Recommendation: HOLD
Time Horizon : 12 months

Target Price Range	$11- $15
Share price as of 10/26/07	$12.89
Market Cap as of 10/26/07	$7.13B
52-week range	$11.27 – $23.00
52-week change	(40.7%)
Shares outstanding	552.9M
Diluted EPS	(3.99)
Price/Sales	1.17
Price/EPS	NM
ROA	(7.15%)
ROE	(47.8%)
Current ratio	1.3
Short ratio as of 09/11/07	3.9

Source: Reuters, Yahoo! Finance



Source: Reuters (as of 10/26/07), % change in share price YTD

Due to shareholder pressure and shrinking gross margins we expect the focus of the competition between AMD and Intel to shift from pricing to execution of technology roadmaps over the next 12 months. Although this will definitely benefit AMD's gross margin, AMD's future performance hinges on the following factors:

Bearish factors:

- Unresolved manufacturing problems that have resulted in the delay of Barcelona's launch and might continue to plague upcoming (in 2008) critical product launches (Phenom which is desktop version of Barcelona and Fusion which is an integrated microprocessor and graphics processor),
- Mounting debt due to acquisition of ATI and lack of significant cash on hand due to the weak performance in 1H07, and
- Potential capacity constraints due to lack of sufficient in-house 45nm fabrication facilities.

Bullish factors:

- ATI's contribution to AMD's product line-up due to its strong market position in graphics processing,
- Strong overall PC market that will continue to drive microprocessor demand in 2008 and beyond, and
- Industry support for AMD from R&D partners such as IBM that will help AMD reduce its R&D costs

Given the equally strong bearish and bullish factors underlying AMD's performance and our conviction that the market has incorporated these factors into AMD's current share price, we are initiating coverage on AMD with a "HOLD" rating.

Please see the disclaimer at the back of this report for important information

Investment Thesis

Our investment thesis takes into account the factors outlined in the following table. Based on these factors, we have a target price range of $11-$15 for AMD. Many of these factors are widely known in the market and therefore we believe that the market has incorporated the impact of these issues into its current valuation of AMD. *Note:* Please refer to the Appendix on Page 12 for a description of AMD's business and its 3Q07 earnings.

Factor	Future impact on AMD's performance	Description
Revenue growth	+	Given that 1) ASPs are likely to rise due to AMD's high performance new product lineup, 2) contribution to overall sales from ATI's graphics products and 3) the fact that the demand in the overall PC market is expected to grow at a healthy rate, we have a positive outlook for growth of AMD's sales.[1]
Overall growth of end-markets	+	The overall end-markets that use AMD products-desktops, notebooks, servers and consumer electronics such as game consoles and cell phones are all expected to grow at a healthy rate in 2008.
Gross Margin	+	AMD is actively pursuing an "Asset-lite" (strategic outsourcing) path. We expect this strategy to bode well for AMD's gross margin over the next year.
Operating Expenses	+	AMD is taking a lot of measures to reduce its operating expenses- R&D partnership with IBM to share R&D costs, reduction in headcount, etc
Liquidity	-	AMD's acquisition of ATI was financed partly with debt and partly with cash. This acquisition combined with low sales in early 2007 has left AMD in a liquidity crunch; its current ratio is 1.3 compared to the industry's current ratio of 3.9.[2] This cash crunch can impair AMD's flexibility to invest in crucial R&D or capital expenditures
Credit Rating	-	S&P has a B- credit rating for AMD and has warned of a rating downgrade in 2008 if the firm is not able to improve its cash flow.[3] A depressed credit rating will impair AMD's ability to raise more debt in the future to finance operating expenditures.
Capital Expenditures	+ (Short-term), - (Long-term)	By selectively outsourcing fabrication and thus delaying capital expenditures, AMD's profit margin will benefit in the short-term. However, delayed investment in critical capacity expansions can impair AMD's competitive position against Intel in the long-term
Technology Roadmap	+/-	The addition of ATI's graphics capabilities and historically superior technological products than its competition has enabled AMD to create a powerful long-term technology roadmap that could help AMD gain market share. However, rival Intel has deep pockets as well as agility in development and production which implies that it can stay a step ahead of AMD. Therefore, AMD's success hinges on AMD's execution capabilities, prudent usage of capital and its management's foresight.
Management	+	Although AMD has had some management turnover issues in the summer of 2007, AMD's Corporate Governance Quotient (CGQ) as of October 1, 2007 was greater than 94.8% of S&P500 companies and 98.8% of Semiconductor and Semiconductor Equipment Companies.[4]

[1] Gartner report 2Q07 Update, Global PC Scenarios: 2006-08
[2] Reuters
[3] EETimes
[4] CGQ is a corporate governance rating system provided by Institutional Shareholder Services (ISS) on over 8,000 companies worldwide, evaluates the strengths, deficiencies, and risks of a company's corporate governance practices and board of directors. The rating system includes underlying data points for up to 63 corporate governance variables, categorized under four areas of focus: 1) board of directors, 2) audit, 3) anti-takeover provisions, 4) executive and director compensation.

Key scenarios that could change our valuation:

- **Future product launches:** If upcoming product launches such as for Phenom (desktop version of Barcelona) are delayed, AMD's revenue growth will be adversely affected. In the past (mid-2007), a delay in launching the desktop version of Barcelona had a negative effect on AMD's 2Q07 revenues. So far, AMD has provided no indication of any delay in upcoming product launches. Therefore, our revenue growth estimates assume that these product launches will be on-schedule.
- **Overcapacity:** Overcapacity at AMD or over-ordering by the supply chain would result in an inventory glut that would depress ASP (Average Selling Prices) and drive down AMD's gross margin.[5] However, we think that positive signs in AMD's 3Q07 earnings (sequential QoQ 6% decrease in inventory levels and sequential QoQ 3% rise in ASP) indicate that the probability of this scenario is low.[6]
- **Antitrust Lawsuits:** Favorable outcome of antitrust lawsuits filed by AMD against Intel in several courts (EU, USA, Japan), will benefit AMD due to monetary (settlement) as well as marketing benefits. Please refer to the appendix for a list of Intel's actions that AMD claims to be adverse to its own performance. Given the nature of this litigation, it is difficult to predict an outcome.
- **Merger/Acquisition:** In February 07, there were rumors that AMD was about to be acquired. This caused a temporary spike in AMD's share price. The 2 prime candidates that could buy out AMD were rumored to be 1) IBM[7] and 2) A private equity group.[8]

  These rumors had probably originated because of AMD's weak financial position. The first rumored suitor, IBM, does have a R&D partnership with AMD as well as the expertise to understand AMD's business well while the other rumored suitors, private equity firms, are traditionally attracted to semiconductor firms due to low debt ratios and cash-rich balance sheets. However, we feel that although AMD is currently trading close to its 52-week low, the debt-ridden balance sheet of AMD might make it an unattractive takeover target.

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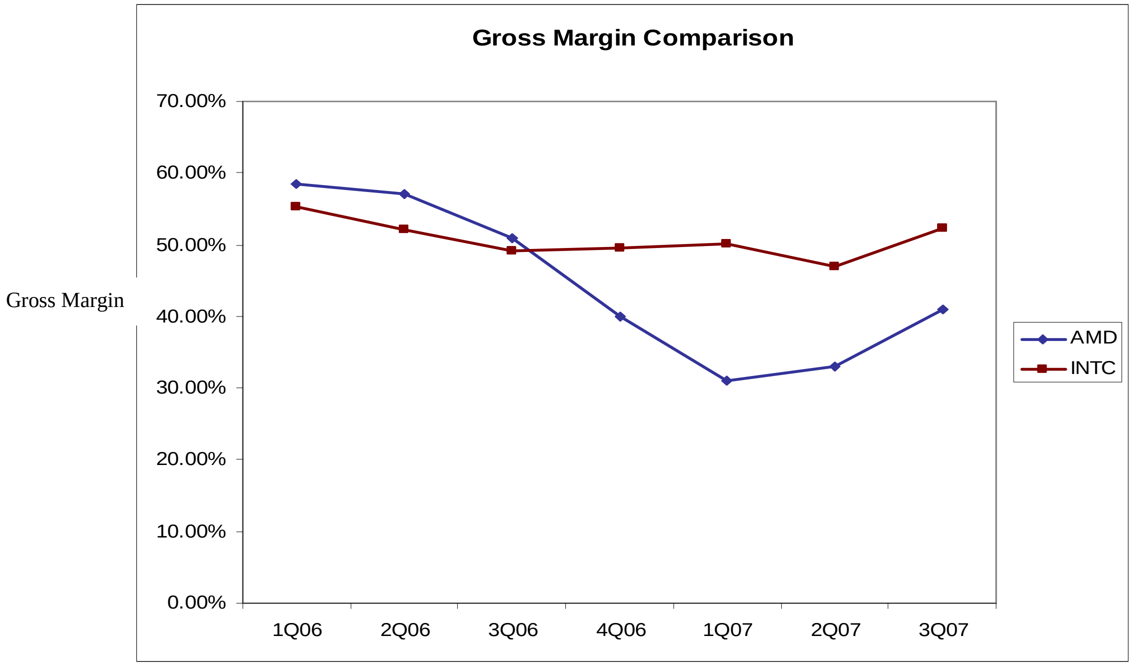
[5] Morgan Stanley report dated 10/02/2007.
[6] Lehman Brothers report dated 10/19/2007
[7] http://www.xbitlabs.com/news/cpu/display/20070228085519.html
[8] http://www.bloggingstocks.com/2007/03/02/this-weeks-rumor-round-up/

Revenue drivers

Excess inventory and fierce price competition between AMD and Intel resulted in a reduction in the ASP (Average Selling Price) of microprocessors in 1H07. AMD's gross margins were worse-hit as seen in the graph below. However, AMD's 3Q07 earnings (released on 10/18/07) have shown some marked positive trends (41% gross margin compared to 33% in earlier quarter), sequentially higher ASPs (3% higher than in second quarter) and inventory levels 6% lower than in previous quarter.[9]



Source: AMD and Intel SEC filings-10Qs

Overall, microprocessor shipments are expected to grow due to a healthy demand in the mobile and server markets. Given this backdrop, we consider two factors central to the future sales growth of AMD- new product introductions and contribution of ATI's graphics (see discussion of these two factors below). AMD will be introducing several new microprocessors and graphics processors in 2008 which we expect will result in an 18% growth in its revenues (refer to our Discounted Cash Flow analysis assumptions section on Page 9 for a discussion of the sales growth rate). This growth rate is higher than our expected semiconductor industry growth rate of 11% because we expect that AMD/ATI will be successful in gaining some market share from Intel and also from Nvidia, ATI's main rival in graphics computing products, in 2008.[10]

1. Technology Roadmap:

AMD Microprocessor Roadmap

	2007		2008		Beyond
Desktops	Athlon X2 (Brisbane, 2Q07) Phenom (Quad core, 4Q07) Phenom (Dual core, 2H07)		Greyhound (1H08);	Zamora (2H08) Cadiz (2H08)	
Notebooks	Athlon 64 X2 Mobile (2Q07) Turion 64 (Tyler, 2Q07) Mobile Sempron (Sherman, 2Q07)		Spica (1H08) Griffin (2Q08) Puma Platform (2Q08)		Fusion (2009) Bobcat (2009)
Servers	Barcelona: Launch 2GHz (3Q07); 2.4GHz(4Q07)	Budapest (4Q07); Deerhound (4Q07)	Barcelona 2.6Ghz (1Q07)	Shanghai (2H08)	Bulldozer (2009)

Sources: Company reports and Lehman Brothers estimates

[9] Lehman Brothers report dated 10/19/2007
[10] In October 2007, analyst Doug Freedman at American Technology Research downgraded Nvidia to "SELL" rating based on concerns regarding Nvidia's competitive positioning against AMD/ATI in 2008.

AMD's latest Opteron processor, code-named "Barcelona", is the market's first true quad-core processor. Intel's current quad-core chip is two chips with two cores on each packaged together. In AMD's quad-core chips, all the cores are placed on a single piece of silicon. Barcelona currently has a clock speed of 2.3 GHz, compared to Intel's 3.0 GHz Xeon processor.[11] However, a CPU is much more than just clock speed.

One of Barcelona's most noticeable attributes is its higher power efficiency. Another important attribute is the greater computing power of four processors, allowing it to more easily run multiple kinds of computer operating software at the same time, a feature known as "virtualization." The desktop version of Barcelona called Phenom is expected in 1Q08. The new Barcelona will be offered by several major OEM vendors, including Hewlett-Packard, IBM, Dell, and Sun Microsystems.[12]

As seen from the above technology roadmap, AMD has a slew of new products scheduled for launch in 2008 and 2009. AMD's performance in the future depends upon on-time launch of this products (to prevent Intel from gaining a lead by beating AMD to the market), their technical performance as well as how their attributes stack up against Intel's similar products.

2. ATI's contribution to revenues:

ATI's operations were consolidated into AMD's operations starting in 4Q06. The ATI team brought in the system architecture expertise that AMD had been lacking. AMD has announced a new range of products for late 2008-early 2009, with a combined CPU and graphics processor in a single chip - "Fusion," This new product should deliver better power efficiency, lower production cost, and a smaller combined package to install in future applications.[13]

Although graphics competitor, Nvidia supplies chips for the PlayStation 3, ATI's graphics processors are used in both the Xbox 360 and the Wii.[14] Before being acquired by AMD, ATI acquired Bitboys, a developer of mobile graphics technology strengthening its handheld graphics portfolio.[15] As the cell-phone market continues to grow, this acquisition will benefit AMD.

However, there are potential risks to the ATI acquisition. The acquisition's success hinges on how well AMD is able to integrate ATI's operations with its own. Development time for graphics chips is generally shorter (6-12 months) than for microprocessors (18-24 months). We have concerns regarding the time-frame within which AMD will be able to adapt to this shorter development cycle time.

[11] Wall Street Strategies Update and Critical Assessments Report: Barcelona Launch
[12] Tom Sanders, http://www.vnunet.com/vnunet/news/2198310/amd-lines-partners-barcelona
[13] AMD reports
[14] Wikipedia, http://en.wikipedia.org/wiki/NVIDIA
[15] ATI/AMD Press Release http://ir.ati.com/phoenix.zhtml?c=105421&p=irol-newsArticle&ID=850313

Cost drivers

In order to stay competitive and gain market share, AMD has to make significant investments in R&D as well as plant and equipment. AMD has taken on a lot of debt to finance its ATI acquisition and its operating expenditures and is looking to repay about $5.1 billion in debt.[16] As this debt is due in 2012, on average, AMD will have to repay just under $1 billion per year (a little less than $250 million per quarter).

Although AMD will be paying down some of its debt, we feel that the Company would need to take on additional debt in order to fund future Capital Expenditure and Research & Development expenses which it would need to incur in order for it to compete with Intel. Hence we feel that the current debt equity ratio would remain constant in the projection period.

Following is a discussion of AMD's key expenditures in the future.

1. **Operating Expenses:**

AMD is undertaking several measures to reduce costs such as manufacturing and design partnerships. For example, AMD is partnering with IBM to share early-stage R&D costs for fabrication processes through the 22nm generation.[17]

AMD is also partnering with IBM to devise new ways to ensure that Moore's Law continues to hold true and to drive down unit costs through high-volume production techniques. AMD and IBM have announced plans to replace the silicon dioxide insulator layer of processors with new hafnium-based high-k materials, which increase charge transmission and reduce electrical leakage.[18] The doped polysilicon used in transistor gates will be replaced with a combination of metals. This helps manufacturers pack more transistors onto chips while increasing energy efficiency and continuing to use current chip-making techniques, thereby avoiding expensive capital expenditures. Intel is working on developing this capability independently.

AMD has also adopted a strategic outsourcing policy called "Asset-lite strategy".[19] It will be outsourcing the lower-margin 65nm microprocessor products to Chartered Semiconductor while keeping the "bleeding-edge" 45nm production in-house. Additionally, AMD will outsource graphics processor fabrication to Taiwan Semiconductor Manufacturing Co. (TSMC) and United Microelectronics Co.(UMC) in order to keep costs low.

This might help AMD improve its profit margin in the near future. However, it may hamper AMD's position in the future. We have concerns that potential capacity backlogs at TSMC and UMC may result in delayed delivery of AMD products to market. Such delays might be extremely adverse for AMD because the rapid rate of technical obsolescence implies that delayed products might be too "stale" and Intel might gain a lead over AMD.

2. **Capital Expenditures:**

The acquisition of ATI coupled with a prolonged price war with Intel has left AMD in a cash crunch. AMD is therefore delaying several capital expenditures till 2008. It has lowered its capital expenditure budget from $2 billion to $1.7 billion in 2007.[20]

AMD was originally planning to upgrade its 200-mm Dresden, Germany plant to 300-mm. Now, however, AMD is planning to delay this upgrade for a few months.[21] A 300 mm wafer can fit more than twice as many chips into

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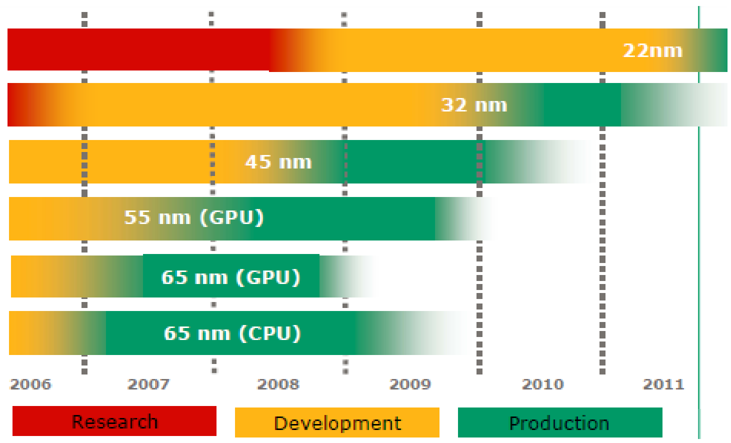
[16] AMD SEC filings, 10Q, 3Q07
[17] AMD's July 2007 Analyst Day Presentation
[18] George Lawton, "*The Next Big Thing in Chipmaking*", Technology news, www.computer.org
[19] AMD July 2007 Analyst Day presentation
[20] AMD SEC filings, 10Q, 3Q07

one production run as a 200 mm one, so we think that AMD might be delaying a critical capital expenditure and reducing its 2008 production capacity a bit.

AMD also has no dedicated 45nm (next generation process technology) fabrication facilities. All of its 45 nm test projects will happen at its plant in Dresden. On the other hand, rival Intel's has a full-fledged 300 mm 45nm production fab in Oregon. Another of its fabs in Arizona went online in October 2007 and two more (in Israel and New Mexico) will go online by the end of 2008.[22] Intel uses a "copy exactly" strategy to build new fabs. This enables Intel to bring fabs online quickly by duplicating previous fabs, reducing time to market and increasing yields.[23] Therefore, the lack of a dedicated 45nm plant may put AMD at a significant capacity disadvantage compared to Intel and prevent it from competing on volume.



Source: AMD July 2007 Analyst Day Presentation

The delay in critical capital expenditures and potential capacity constraints in 45nm production implies that in the long-term, AMD's competitive position against Intel might be weakened. Please refer to our Discounted Cash Flow Analysis assumptions on Page 9 for a discussion of our capital expenditure projections.

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[21] AMD reports
[22] Intel Company Reports
[23] Intel Backgrounder, Intel web-site

Valuation

Valuation Multiples:

	AMD	INTC (closest competitor)	Industry	Sector	S&P500
Price/Earnings (LTM)	NM	24.4	24.3	28.6	20.8
Price/Book (MRQ)	1.7	3.7	4.7	6.1	4.4
Price/Sales (LTM)	1.1	4.1	5.4	5.2	2.9
Price/Cash Flow	NM	13.6	23.9	23.7	15.9

Source: Reuters (as of 10/26/07), our calculations

Financial Ratios:

	AMD	INTC (closest competitor)	Industry	Sector	S&P500
Current ratio	1.3	2.8	3.9	2.4	1.8
Interest coverage	NM	NM	11.4	10.4	13.4
LT Debt/Equity	1.2	0.05	0.2	0.2	0.6
Gross Margin (LTM)	35.2	49.8	49.4	52.4	44.6
Operating Margin (LTM)	(28.5)	18.1	16.2	16.9	19.5
ROA (LTM)	(20.2)	12.6	11.7	10.9	8.6
ROI (LTM)	(26.6)	15.1	14.2	15.9	12.5
ROE (LTM)	(47.7)	16.5	15.7	20.9	21.4
Receivables Turnover (LTM)	8.8	11.9	9.5	8.1	10.4
Inventory Turnover (LTM)	5.9	4.7	5.1	13.7	12.4
Asset Turnover (LTM)	0.6	0.8	0.8	0.8	0.9
Short Ratio	3.9 (as of 09/11/07)	1.2 (as of 09/25/07)	NA	NA	NA

Source: Reuters (as of 10/26/07), Yahoo! Finance, our calculations

We tried to value AMD using peer group multiples but given the fact that the microprocessors market is almost a duopoly with Intel and AMD being the two key players, we were not able to find public comparables that shared similar profitability and growth patterns. Although Intel is the other player in the microprocessor market, the huge size difference (Intel has a market cap of $151.5B compared to AMD's $7.1B market cap), and different leverage ratios make it difficult to make an apples-to-apples comparison between the two companies (please refer to the Appendix for a comparison between AMD's and Intel's share price % changes). Other segments of the semiconductor industry such as the Memory and Analog segments are quite different from the microprocessor segment.

Moreover, since AMD has negative earnings, the Price/Earnings ratio is meaningless. Price/Cash Flow multiple also appears to be distorted due to negative cash flows. Using our revenue estimate of approximately $7 billion for 2008 (18% growth over 2007 revenues), a Price/Sales multiple range of 1.0x to 1.2x (current P/S ratio is at 1.1) gives us a trading range of approximately $12-$15. Our Discounted Cash Flow Analysis also gives us a range of $11 to $15 for AMD's share price (this range is based on a sensitivity analysis for WACC). A combination of both these approaches suggests that AMD's target price is within a 20% range of the current trading price of $12.89 (at close of market on 10/26/07). This justifies our HOLD rating.

We have built our DCF model on the basis of the following assumptions and projections:

(a) Revenues

We project revenues for 07 to grow by 4% over 06 revenues. In 2008, we expect an 18% sales growth over 07.

Rationale: AMD posted revenues of $4,243M in the first 3 quarters of 2007. If we were to extrapolate these revenues for a 12 month period, revenues would record a 0.15% increase over 2006. However, given the fact that historically revenues in the second half of the year have always been higher than those recorded in the first half, we assume that revenues in the fourth quarter will at least remain at the same level as 3Q07 recorded revenues. Given this assumption, 2007 revenues would record a 4% growth rate. For 2008, we project a revenue growth rate of 18%. We feel that the launch of several new product lines would help boost revenues in FY2008. We feel that the revenue growth rate for this period would at least equal the 16% growth rate in 2005 when AMD launched its innovative product-line which helped it gain market share from Intel. The launch of Barcelona, Phenom and Fusion would boost the revenue growth to 18%, which is in line with consensus revenue growth estimates.

We believe that the revenues for the remaining forecast period would eventually be in line with the growth rates projected for the PC market (approximately 11%).[24]

(b) Gross Margins

5-year average of gross margin is 37%. In 3Q07, gross margins were at 41% bringing the YTD gross margins to a level of 35%. We expect margins to move upwards in the fourth quarter to average around 37% for FY2007. This will imply a gross margin of 43% in 4Q07 which is in line with historical gross margins in the fourth quarters.

For 2008 and the remainder of the forecast period, we expect Gross Margins to stay at 4Q07 level of 43% as production shifts to smaller line widths, unit shipments increase, and new chip offerings gain traction. The new product launches are expected to be more technologically sophisticated and hence would command higher margins. Also, the reduced price competition between AMD and Intel will help stabilize AMD's gross margin.

(c) Selling, General & Administrative Expenses

SG&A expenses for YTD 2007 amounted to approximately 25% of revenues. Expenses for this period were on the higher end as it included severance charges related to workforce reduction which are non-recurring. We expect charges for Q4'07 to be at or around the same levels as those recorded in Q3, bringing the average to around 24% for 2007 (excluding non-recurring charges, the average would be 22% for 2007).

We expect a linear reduction in SG&A expenses as management attempts to reduce them down to historical average of 18% of revenues. We expect these expenses to be 20% of sales for 2008 and then further downwards to 18% for the remainder of the forecast period.

(d) Research & Development Expenses

R&D expenses for YTD2007 averaged around 33% of revenues. Expenses for this period were significantly higher than the historical average, on account of an increase in product design costs for next generation microprocessor products and the inclusion of research and development expenses attributable to integration of ATI's chipset products.

With the proposed launch of a slew of new processors in 2008; we expect R&D levels to resemble the R&D expense levels in 2006 (22% of sales) when AMD was working on R&D for Barcelona. For the remainder of the forecast period, we anticipate that R&D expenses will be reduced due to AMD's R&D partnership with IBM. Therefore, we expect these expenses to be approximately 20% of revenues for the remainder of the forecast period. This would be in line with the historical average of 20%.

[24] Gartner report 2Q07 Update, Global PC Scenarios: 2006-08

(e) Capital expenditures

Following the third quarter earnings report, AMD's Management publicly announced plans to curb Capex levels in 2007 and projected 2008 levels to be at the same level as the $1.7B. In line with the Company's proposed strategy of moving to an asset lite strategy, we project Capital expenditure to grow by approximately 5% in the forecast period. This estimate is based on the lowest level of capex growth recorded in the near historical period.

(f) Working capital

In order to calculate working capital requirements we have used expectations for Days Sales Outstanding, Inventory Days and Days Payables Outstanding. We expect DSO (Days Sales Outstanding) to be maintained at LTM2007 levels of approximately 40 days for forecast period. Historically, inventory days were at 79. Owing to more prudent inventory management and a healthy demand for microprocessors, we expect a reduction in the inventory days. Therefore, inventory days are assumed to be at 70 days. Historically, Payables Outstanding has been approximately 84 days. We expect the Company to negotiate favorable credit terms with its creditors, especially in light of the asset-lite strategy, which would require AMD to enter into long term contracts with its suppliers. Therefore, Days Payable Outstanding is assumed to be at 90 days.

(g) Depreciation & Amortization

We have projected D&A expenditure to be in line with the historical average of 25% of revenues.

(h) Cost of Capital

Cost of equity:

- We have assumed a Market Risk Premium of 7% (56 year average of risk premium over 10 year T-bills.[25])
- We have taken the risk-free rate as 4.37% (10 year US Treasury bond yield as at October 26, 2007.[26])
- AMD's equity beta is 1.25 (2-year weekly beta from Bloomberg)

Cost of debt[27]:

Description	Type	Principal	Coupon	Seniority	Secured	Weight
7.75% Senior Notes Due 2012	Bonds and Notes	390.00	7.75%	Senior	No	0.6%
Fab 36 Term Loan	Term Loans	893.00	7.13%	Senior	No	1.2%
Term Loan	Term Loans	1,694.00	7.62%	Senior	Yes	2.5%
6% Convertible Senior Notes	Notes	2,200.00	6%			2.5%
Total		5,177.00			**Wtd. Avg.**	**6.9%**

Debt ratio:

As mentioned on Page 6, we expect the debt ratio to remain constant

(i) Terminal Value

We have assumed a terminal growth rate of 4% which is in line with the GDP growth.

[25] Ibbotson Associates
[26] http://www.treas.gov/offices/domestic-finance/debt-management/interest-rate/yield.shtml
[27] AMD 10Q

Discounted Cash Flow Valuation

(figures in millions)

	3 months ended	Projected FYE December 31,			
	31-Dec-07	2008	2009	2010	2011
Revenue	$1,468.740	$6,933.205	$7,903.854	$8,852.316	$9,826.071
Revenue Growth %		*18.0%*	*14.0%*	*12.0%*	*11.0%*
Less: Cost of Goods Sold	925.306	3,951.927	4,505.197	5,045.820	5,600.861
Less: Selling, General & Administrative	352.498	1,386.641	1,422.694	1,593.417	1,768.693
Less: Research & Development	440.622	2,150.235	1,580.771	1,770.463	1,965.214
Add: Adjustments (2)	0.000	0.000	0.000	0.000	0.000
Adjusted EBIT	**($249.686)**	**($555.598)**	**$395.193**	**$442.616**	**$491.304**
EBIT Margin %	*-17.0%*	*-8.0%*	*5.0%*	*5.0%*	*5.0%*
Add: Option Expense	0.000	0.000	0.000	0.000	0.000
Adjusted EBITO	(249.686)	(555.598)	395.193	442.616	491.304
Less: Taxes	0.000	0.000	138.317	154.916	171.956
Debt-Free Earnings	**($249.686)**	**($555.598)**	**$256.875**	**$287.700**	**$319.347**
Less: Capital Expenditures	(425.000)	(1,700.000)	(1,750.000)	(1,837.500)	(1,929.375)
Less: Working Capital Requirements	(63.455)	(245.191)	(156.102)	(152.534)	(156.601)
Add: Depreciation and Amortization	323.123	1,386.641	1,968.060	2,204.227	2,446.692
Total Net Investment	($165.332)	($558.550)	$61.958	$214.193	$360.716
Net Debt-Free Cash Flows	**($415.018)**	**($1,114.148)**	**$318.833**	**$501.893**	**$680.063**
Discount Period	0.13	0.75	1.75	2.75	3.75
Discount Factor @ 8.07%	0.99	0.94	0.87	0.81	0.75
Present Value of Net Debt-Free Cash Flows	**($411.013)**	**($1,051.179)**	**$278.362**	**$405.480**	**$508.415**

Terminal value

Growth rate	**4%**
Terminal year FCF	**$680.063**

DCF Assumptions	
Discount Rate	8.07%
Tax Rate	35.0%

Discount rate	2007	2008	2009	2010	2011	Discounted TV	EV
7.00%	($408.06)	($1,023.80)	$273.81	$402.82	$510.11	$17,683.98	**$17,438.88**
7.25%	($407.82)	($1,020.81)	$272.38	$399.78	$505.08	$16,162.57	**$15,911.18**
7.50%	($407.58)	($1,017.85)	$270.95	$396.77	$500.11	$14,860.33	**$14,602.73**
7.75%	($407.35)	($1,014.90)	$269.54	$393.78	$495.19	$13,733.39	**$13,469.67**
8.00%	($407.11)	($1,011.96)	$268.14	$390.83	$490.34	$12,748.86	**$12,479.10**
8.25%	($406.87)	($1,009.04)	$266.75	$387.90	$485.55	$11,881.60	**$11,605.88**
8.50%	($406.64)	($1,006.13)	$265.37	$385.00	$480.81	$11,112.03	**$10,830.44**
8.75%	($406.41)	($1,003.24)	$264.00	$382.13	$476.13	$10,424.72	**$10,137.33**
9.00%	($406.17)	($1,000.37)	$262.64	$379.29	$471.51	$9,807.31	**$9,514.20**
9.25%	($405.94)	($997.51)	$261.29	$376.48	$466.94	$9,249.79	**$8,951.05**
9.75%	($405.48)	($991.83)	$258.61	$370.93	$457.96	$8,283.15	**$7,973.35**

Selected Enterprise Value Range	**$11,605.881**	--	**$13,469.665**
Less: Total Interest-Bearing Debt	5,335.000	--	5,335.000
Equity Value	**$6,270.881**	--	**$8,134.665**
No. of shares outstanding as at October 26, 2007 (in millions		552.912405	
Per share value	**$11.34**		**$14.71**

Appendix

Business Description:

Advanced Micro Devices, Inc. (AMD) is a global semiconductor company with facilities worldwide. It provides processing solutions for the computing, graphics and consumer electronics markets. During the year ended December 31, 2006, the Company offered primarily x86 microprocessors, for the commercial and consumer markets, which are used for control and computing tasks, and embedded microprocessors for commercial and consumer markets. On October 25, 2006, the Company acquired ATI Technologies Inc. As a result of the acquisition, the Company began to supply three-dimensional (3D) graphics, video and multimedia products, and chipsets for personal computers (PCs), including desktop and notebook PCs, professional workstations and servers, and products for consumer electronic devices, such as mobile phones, digital television and game consoles. It operates through four segments: Computation Products, Embedded Products, Graphics and Chipsets, and Consumer Electronics.

AMD was highly successful in capturing market share in the microprocessor market in the period from 2003 to 2006. This success could be directly attributed to AMD's improved microprocessor performance and more competitive prices; it created chips that were both faster as well as more power efficient. However, while AMD was trying to integrate its newly acquired businesses (ATI Technologies) with a view to meeting consumer demand for integrated computer solutions, Intel improved its technological performance, and introduced a new line of microprocessors in 2006, which helped Intel regain market share in early 2007.

AMD reported 3Q07 revenue of $1.632 billion, an 18% increase compared to the second quarter of 2007 and a 23 percent improvement compared to the third quarter of 20061. In the third quarter, AMD reported an operating loss of $226 million, and a net loss of $396 million, or $0.71 per share. Third quarter results include a negative impact of $120 million, or $0.22 per share, due to ATI acquisition-related, integration and severance charges and impairment of assets.

	Q3'07		
Particulars	**Actuals**	**Street Estimates**	**Variance**
Revenue	1632	1523	109
Gross Profit	669	567	102
GM%	41.0%	37.2%	3.8%
R&D	467	823	0
SG&A	350		0
Operating Profit	(148)	(256)	108
OM%	-9.1%	-16.8%	7.7%
Other Income/(Expense)	(77)	(82)	5
Income before taxes	(225)	(338)	113
Taxes	27	(11)	38
Tax%	NM	0	NM
Net Income	(318)	(349)	31
EPS	**(0.57)**	**(0.62)**	**0.05**

Source: Company Reports, Thomson One, Lehman Brothers Research

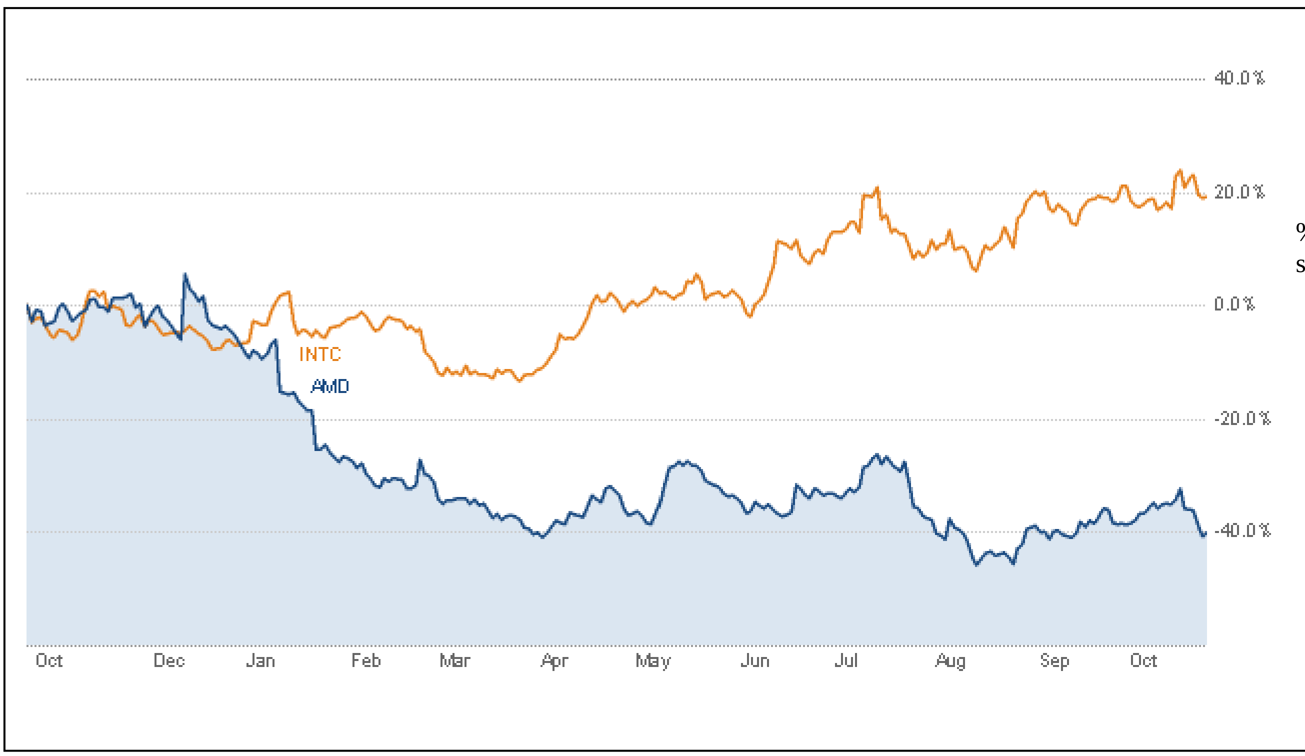
AMD's 3Q07 results showed progress on several fronts vs. modest expectations. As reflected in the table above, AMD was able to beat street estimates on both the revenue as well as gross margins. This impressive performance could be attributed to market share gains in the laptop segment and impressive growth recorded by the graphics segment. This in turn contributed to an increase in average blended ASP's.[28]

[28] Lehman Brothers Report dated October 19th, 2007

The effect of Intel's actions on AMD's performance:

AMD details Intel actions that have hurt AMD operations
• Control over industry standards, PC manufacturers and PC industry participants
• Product mix and product introduction schedules
• Greater R&D and capital expenditure budgets
• Business practices, including rebates, allocation and pricing strategies
• Product-bundling, -marketing and -merchandising strategies
• Exclusivity payments to current and potential customers
• Higher marketing and advertising expenditures in support of Intel brand

Source: AMD



% change in share price

Please see the disclaimer at the back of this report for important information

Financial Performance of AMD (Historical vs. Projections up to 2008):

Representative Levels

(figures in millions)

	3-Year Average	December 31, 2004	2005	2006	LTM Ended 09/29/2007	NFY (2007)	NFY + 1 (2008)
Reported Revenue	$5,499.333	$5,001.000	$5,848.000	$5,649.000	$4,243.000	$5,874.960	$6,933.205
Revenue Growth %		*42.1%*	*16.9%*	*-3.4%*		*4.0%*	*18.0%*
Less: Cost of Goods Sold		3,033.000	3,456.000	2,826.000	2,766.000	3,701.225	3,951.927
Gross Profit		$1,968.000	$2,392.000	$2,823.000	$1,477.000	$2,173.735	$2,981.278
Gross Margin %		*39.4%*	*40.9%*	*50.0%*	*34.8%*	*37.0%*	*43.0%*
Less: SG&A		812.000	1,000.000	1,187.000	1,290.000	1,409.990	1,386.641
Less: Research & Development		934.000	1,144.000	1,205.000	1,374.000	1,762.488	2,150.235
Add: Depreciation & Amortization		1,225.000	1,219.000	837.000	999.000	1,292.491	1,386.641
Adjusted EBITDA	$1,394.000	$1,447.000	$1,467.000	$1,268.000	($188.000)	$293.748	$831.043
EBITDA Margin %	*25.3%*	*28.9%*	*25.1%*	*22.4%*	*-4.4%*	*5.0%*	*12.0%*
Less: Depreciation & Amortization		1,225.000	1,219.000	837.000	999.000	1,292.491	1,386.641
Adjusted EBIT	$300.333	$222.000	$248.000	$431.000	($1,187.000)	($998.743)	($555.598)
EBIT Margin %	*5.5%*	*4.4%*	*4.2%*	*7.6%*	*-28.0%*	*-17.0%*	*-8.0%*

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