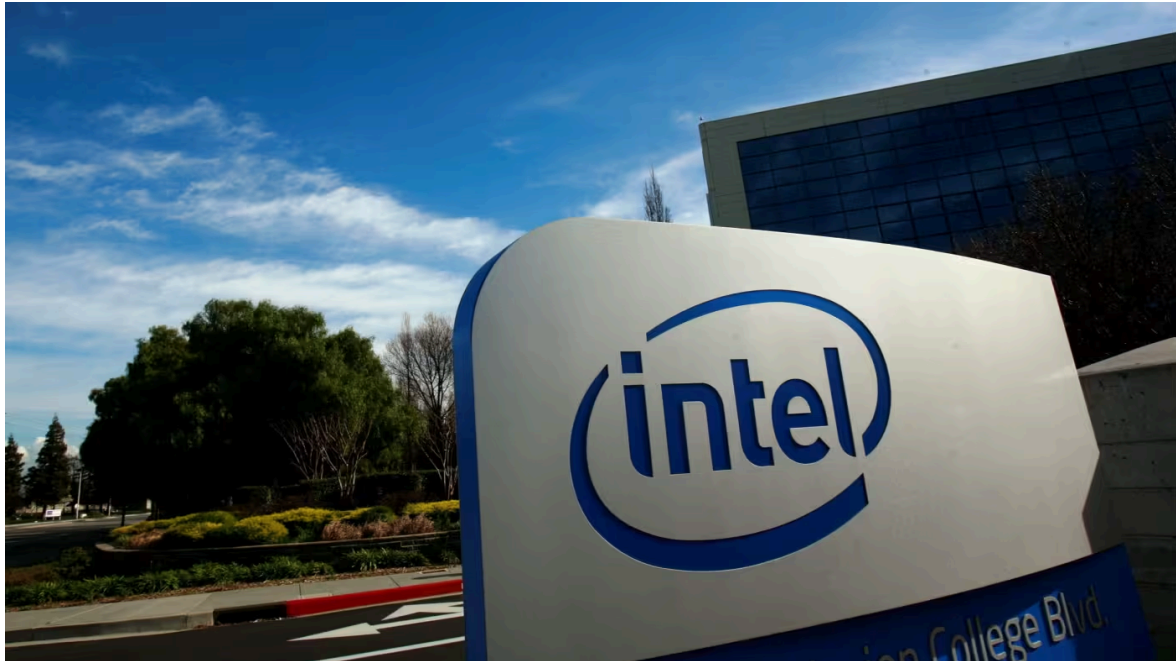


Intel Corp

Intel outlines plans to cut costs and boost chip business in turnaround push

US chipmaker will pause plans to build new plants in Germany and Poland while partnering with Amazon to build AI chip



Intel shares, which have been battered since it released earnings in August, were up following the announcements on Monday © Reuters

Michael Acton in Austin and **Guy Chazan** in Berlin SEPTEMBER 16 2024

Intel unveiled cost-cutting and restructuring measures, including a two-year pause on planned chip plants in Germany and Poland, as chief executive Pat Gelsinger seeks to turn around the chipmaker's flagging fortunes.

The announcement follows a crunch board meeting last week for the US chipmaker, whose shares have fallen sharply since August when it reported [disappointing earnings](#) results and an initial round of cuts, as well as a pause to its dividend.

As well as making further moves to establish its chip manufacturing business as an independent subsidiary, [Intel](#) also plans to "reduce or exit" about two-thirds of its real estate globally by the end of the year. A plant in Ireland, which is being built with funding from private equity group Apollo, will remain the company's "lead European hub", Gelsinger said in a note to employees.

The announcement of a pause to Intel's multibillion-dollar project in Magdeburg, Germany, is a major blow to the government of Olaf Scholz, which had touted the €30bn (\$33.4bn) project as the largest foreign investment in Germany's postwar history.

The plant was also seen as pivotal to EU plans to double its share of the global [semiconductor](#) market from less than 10 per cent today to 20 per cent by 2030.

But some parts of the government will greet Intel's move with relief. Berlin had promised the company €9.9bn in subsidies, which many economists had criticised as excessive. With Intel pausing the project, the financial incentives may not now have to be paid — a prospect that will relieve pressure on the German treasury at a time of intense focus on the country's budget.

At the same time, Intel said it would build an artificial intelligence chip for Amazon using its new and most advanced "18A" manufacturing process, in what it described as a "multiyear, multibillion-dollar framework". The companies say they will co-invest in custom chip designs.

Amazon has its own line of AI chips, dubbed Trainium and Inferentia, as it seeks to manage costs by designing chips in-house and reduce its reliance on market leader Nvidia.

Analysts say securing major customers for 18A is critical for Intel's long-term fortunes. Microsoft is one of the first public customers for Intel's latest 18A manufacturing process.

Intel shares were up 8 per cent in after-hours trading.

Gelsinger has been working to separate the company's chip manufacturing business more clearly from its product business as he seeks to compete with Taiwan's TSMC and build a client-facing chip manufacturing powerhouse in the US.

Filings earlier this year revealed a \$7bn loss for its chipmaking business in 2023, as the company poured billions of dollars into building new facilities in Arizona, Ohio, New Mexico and Oregon.

Gelsinger said the company's manufacturing unit would have a new governance structure with its own operating board of independent directors. Clearer separation from the rest of Intel, he wrote, would "unlock important benefits" including "flexibility to evaluate independent sources of funding" and optimising the capital structure of each business.

The revelation of the \$7bn loss in April added to anxieties about the company's financial health as it seeks to compete with Nvidia and AMD in the AI chip space and with PC chips built on Arm's architecture, which pose a challenge to its own X86 architecture.

Gelsinger on Monday said the company would also be "streamlining" and "simplifying" its X86 portfolio by reorganising the company's internal product groups. Intel is in the middle of cutting 15,000 employees, and he said the group is "more than halfway" towards the target.

Earlier on Monday, the US Department of Commerce and Department of Defence announced a further \$3bn in direct funding for Intel to help it build chips for the US military. That comes on top of a preliminary agreement between the US government and the company for a \$8.5bn grant and \$11bn loan under the Chips Act, designed to boost domestic chipmaking capacity, unveiled in March.

In his message to Intel staff, Gelsinger said the company had a "strong" board "whose job it is to challenge and push us to perform at our best". Discussions with them last week, he said, were "highly productive and supportive".

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