

Hardware & Networking

Core Strikes Back as INTC Follows ARM in Underscoring CPU Renaissance; Raises the DELL Bull-Case Along with Positives for H/W and Networking Broadly

For much of the past several years, the AI narrative has been overwhelmingly dominated by GPUs and accelerators, while CPU was increasingly cast as a legacy component, important but structurally declining in relevance within the highest-growth segment. That narrative is now being rewritten as Intel (*INTC*; Covered by *Harlan Sur*) has now followed Arm (*ARM*; Covered by *Harlan Sur*) in underscoring CPU as not only retaining its importance but entering a new structural growth cycle, driven by the very same AI megatrend that was once thought to marginalize it. Both companies stressed that the CPU remains critical in the modern AI stack with agentic AI workloads in particular driving unprecedented and structurally growing demand for cores. Importantly, we view this emerging theme as a **positive more directly for IT Hardware suppliers within our coverage such as DELL and HPE, while other companies in networking, including ANET, CSCO, APH, CRDO, COHR and LITE stand to benefit from the higher I/Os and interconnects to support the higher compute.**

- **Intel highlights shift toward inference and agents positions CPU for strong growth.** Intel on its 1Q26 earnings call emphasized AI workloads are evolving with the shift from training toward inference as well as agentic and physical AI, where the computational profile moves toward tasks the CPU is uniquely suited to perform (e.g., orchestration, scheduling, data management, control plane operations). Thus, the GPU-to-CPU deployment ratio is anticipated to shift from 7-8 GPUs per CPU in training to 3-4 to 1 in inference and potentially flip in favor of CPU in agentic and multi-agent workloads. Importantly, the aforementioned is reinforcing Intel's outlook for double-digit server CPU unit growth to now extend into 2027. Longer-term, edge computing and physical AI environments, where power efficiency is paramount, were noted as potentially driving even more CPU demand growth over time.
- **Arm maps an expansion of 15x in tokens and 4x in cores with shift to agentic.** Arm at its "Arm Everywhere" event suggested the CPU's role expands as the data center evolves from traditional cloud to AI-augmented cloud and through to the emerging agentic data center, the latter of which represents a step-function change with agents. For example, Arm estimated: 1) agentic workloads increase tokens per human by 15x+ as they generate requests far faster and run continuously, creating an avalanche of asynchronous, CPU-bound tasks (e.g., scheduling, tool execution, container management); 2) CPU cores expand from ~30 mn per gigawatt with current AI data center workloads to ~120 mn with agentic workloads; and 3) an AI data center CPU TAM of \$100 bn in the future.
- **What does it mean for the bull-case for Dell?** The increasing opportunity for CPU compute attached to the GPU compute sale with existing Tier 2 Cloud customers that both Dell and HPE address strengthens the bull-case on both companies as the expectation of cyclical demand trends for CPU compute incrementally turning to a secular content opportunity driving visibility into sustainability of growth through content increases, already evidenced in their traditional compute businesses where revenue TAM is growing despite unit

IT Hardware/ Telecom & Networking Equipment

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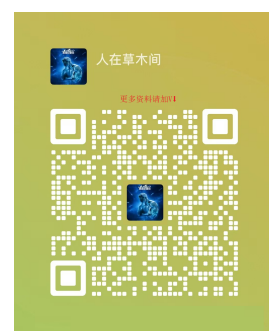
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declines. For DELL in particular, with its favorable positioning in relation to supporting both traditional compute and AI compute for Tier 2 Clouds, we expect the bull-case on the shares from investors to embed sustainability of the 25%+ EPS growth guided for FY27 (calendar 2026) in the out-year as well, leading to calendar 2027 earnings expectations closer to ~\$17 (vs. JPMe of \$15.20 and sell-side consensus of \$14.90), in conjunction with driving valuation multiples closer to high-teens (relative to consensus around mid-teens currently) as confidence in the sustainability of the earnings growth trajectory increases. The higher compute opportunity associated with AI infrastructure from Tier 2 Clouds should offset concerns around downside in traditional Enterprise demand, and drive the bull-case valuation on DELL to be viewed as materially higher than the current share price.