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EDITED TRANSCRIPT

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PRESENTATION

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Good morning, everyone. I'm Samik Chatterjee and I have the pleasure of hosting Qualcomm for the next fireside chat here. With me is Akash Palkhiwala, who is the Chief Financial Officer and COO as well. That's a more recent addition. So congratulations in person. I don't think I've met you in person since then.

Akash, I'll start you off with a question on sort of on the device side just because I think it's great timing with Microsoft at that conference last -- I think yesterday or -- yes, Monday, yesterday. So we saw some announcements. We know Qualcomm is a close partner. Just help us think about which are the impactful product announcements for Qualcomm and how to think about the road map with the partner from here on?

QUESTIONS AND ANSWERS

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. Okay. First of all, I want to thank JPMorgan for setting up this conference, the day after the announcement came out. So that timing worked out well. So what Microsoft announced yesterday is the next-generation PCs and they're calling it Copilot+ PCs. And the whole premise behind the device is that this device would be able to do AI on the Edge, on the device itself, GenAI use cases. And so to us, that's very exciting because this is something Qualcomm has been talking about for a while that GenAI will happen on the device in addition to the cloud. And it will happen on phones. It will happen on PC. It will happen in cars. It will happen in industrial devices. It will happen in XR devices.

And so we were very happy to see Microsoft kind of lay out a vision that takes advantage of what we bring from a chip perspective. The product we've announced of as our kind of next PC chip is called Snapdragon X Elite and then we had a second chip that we announced Snapdragon X Plus. And both of these chips have 3 very significant advantages over the existing chips, the x86 chips.

First is processing power. It far exceeds what the chips from -- the x86 processors do. The second is very, very good battery life. Obviously, an extremely important thing in devices and we were able to deliver devices and Satya talked about 22 hours plus of continuous video watching on the device before the battery runs out, which is obviously extremely exciting and we're very happy to bring that low-power legacy from the phone into the PCs. And then the third one is Gen AI and being able to do on-device GenAI using our NPU, neural processing unit that is extremely low power and that's the technology that actually allows the use cases that Microsoft is envisioning.

So we're very excited about it. Along with the Microsoft announcement, they also announced 3 devices with using our chip, 2 Surface books and another -- Surface laptops and a Surface book. And then in addition to that, we had over 20 different devices launched, PCs launched with our chip yesterday. This comes from Dell, HP, Lenovo, Samsung, Acer, ASUS, really every player in the industry. So we're very excited. It's obviously a very large silicon TAM that's now available to us in a leadership position and we have great support from the software partner, from Microsoft. So excited about the announcement. I think there's a lot more for us to do there and we'll talk -- we'll be talking about it more coming up in our events.

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Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. So our team was looking at all the announcements that came out. And I think one thing was also that we noted that I think one of the partners has mentioned the AI features will be available on these devices even before the Intel counterparts -- the counterparts with the Intel chips get it. I mean clearly it shows us leadership that you're taking in terms of share on these devices. How do you think about sustaining that leadership? What do you need to do on the technology road map to make sure competition doesn't come up with the same?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So kind of going back to 3 things I outlined, processor leadership; second is battery life; third is GenAI. We think the first 2 are -- which are completely independent of GenAI, are very sustained leadership alternatives for us. So we are going to continue to have a very aggressive processor road map. This is just our first custom processor.

We're going to have new generations of custom processors come through and we believe that will extend our leadership from just a raw processing power perspective. The second is battery life, which we think that's a sustained advantage we'll have versus ARM versus x86. Our architecture fundamentally is structured for low power and that doesn't change. The third one, which I think you're asking about is GenAI. And the key thing to keep in mind here is the advantage that Qualcomm has is a neural processing engine that again is built for extremely low power. We will see what our competitors come out with. But in my mind, we're going to continue to have this advantage because we have a low-power architecture.

And when you're running these models, I think yesterday, Satya talked about 40 different models that are constantly running on device, at the Edge, when the user is using the device. And that is what creates the graph of the user, that creates the recall function that they talked about. Because these models are constantly running, you need an engine that's extremely low power and we are unique in our position to do that. The next thing I'll say is, we're going to bring the same AI capability across tiers. And I think that is also going to set us apart versus our competitors.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

In relation to some of the product announcements from your partners. We saw that the price points are, obviously, there are different tiers but you're starting to compete against some of the premium devices in the market already. From Qualcomm's perspective, how should investors think about the content opportunity with having to -- going after these premium device tiers? And in terms of share, this is a new market that you're entering, what would you consider a success in terms of share in this market?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So from a content perspective, we clearly wanted to start at the premium tier. The reason to do that is to establish ourselves as the performance leader to bring the best of what we have to personal computers and to clearly be the player to look out for in terms of performance versus the other players. So that's our strategy to start. But what we're planning to do is bring this advantages -- these advantages across tiers.

And so as we go to fiscal '25 -- into calendar '25, we're going to see the same performance advantages translate across tiers and our desire is to hit most of the PC market with our performance, with our set of chips. So that's our focus. I will stay away from forecasting specific share in the market. That's not something we've talked about publicly. That's something that we will address as we go forward. What we're focused on now is the partnership with the PC OEMs, partnership with Microsoft, delivering significantly unique and at advantageous performance versus the x86 ecosystem and then having the devices launch very shortly and driving volume from there.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

I'll ask you another one on PC and maybe trying to sort of go at it at another angle is, what are you hearing from your partners in terms of how material this becomes in fiscal '25 -- for your fiscal '25, is it more of a pricing opportunity? We are tracking some of these AI PCs, at least there's a

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10%, 15% premium, if not more to the comparable older devices -- prior generation devices. But is this more about a pricing incremental opportunity with the customer? Or does it really lead to a volume replacement cycle with both the consumer and the enterprise segment?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

We kind of had similar set of questions when we entered the auto business. And I don't think of -- for us, I don't think of this as does this increase replacement rate? I don't necessarily think of it as does this increase ASP. Yes, those things are beneficial but we have close to 0% share in the market today. And it's a very large established silicon market. And we're entering it with a product that has significant and sustained advantage. So for us, it is about how do we participate in the largest portion of the market, independent of the replacement, right? And that's what we're focused on. Based on the launches and the product excitement that there is, based on what all of us heard yesterday, we're pretty optimistic this is something that becomes very significant for Qualcomm going forward.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Great. I'll move to IoT and autos in a bit but before that, wanted to expand this AI discussion beyond sort of the PC opportunity to, when you think about XR or any other sort of platforms that you think of at the Edge, how are you thinking about where those material sort of buckets are, where it is important and material for Qualcomm?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I think that's a great question. The conversation on GenAI at the Edge gets stuck on a specific device. And for us, the fundamental strategy for the company is, how do we take the technology we've created for handsets and apply it to PCs, apply it to automotive, apply it to XR devices, apply it to industrial devices. And that same argument applies to GenAI as well. So we're going to bring the same features across our entire road map. You're going to see that in handsets. Automotive, we've shown some initial use cases. Industrial, I think GenAI is going to be extremely important for industrial use cases. And that's going to be kind of the inflection point that allows us to become a significant player there.

So what we're building is a horizontal technology platform that is leveraged across every end market that we participate in today and we're going to participate in tomorrow. One of the exciting products that we've also launched is something called AI Hub. The whole idea of the AI Hub -- and we have over 100 models, popular GenAI models that are quantized on our chips for performance and available to any developer. So if you're a developer, you can go to the hub, pick a model that you want, all the famous models in the world are available, most of them are available on the hub. You can take that model, put it in your application, test it on a live device and then put that application in the app store for people to buy. So we allow the entire experience to become completely frictionless. And once you've done this, you can deploy it not just in phones, not just in PC but every device that Snapdragon is enabling. So we think it's an extremely significant advantage, which lowers the barrier for someone to deploy GenAI use cases on chips.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Let's move to IoT and we'll eventually get to smartphones as well. But IoT, you're starting to see recovery there. How sustainable do you think the improvement is given that at the end of the day, when you classify the macro that we are in today, it's sort of lackluster. We're not seeing huge sort of green shoots of growth. So how sustainable are you thinking this IoT sort of recovery is.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I would kind of break the IoT conversation in 2 parts. One is clearly the industry is dealing with kind of short-term dynamics. And we think we are on our way to recover. We had called December quarter as the bottom quarter. We grew into March. We are forecasting growth into June as well, on top of that. And then we continue to expect to grow from there. So structurally, the inventory challenge in the industry will get resolved and we'll kind of be at a normal run rate as we go into fiscal '25.

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I think when you step back from that short-term discussion and think about the broader discussion, the way Qualcomm has diversified is we've taken advantage of inflection points in industries. So there was an inflection point in auto where cars were getting digitized and we were able to take advantage of it. There's an inflection point in PCs right now with ARM-based computing coming in but also more importantly, GenAI coming in. We think there's an inflection point in industrial coming. And the inflection point there is you're going to see devices go from microcontrollers to microprocessors. These devices are going to need cloud connectivity, they're going to need AI at the Edge. And these are all things that we do very well. So we feel like there's an inflection point coming in the industry and an opportunity for us to go become a significant player there.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Got it. So let's move to auto then. You talked about a expansion in the design win pipeline, which now stands at $45 billion. That's grown rapidly. What has been the driver of the recent expansion there? And how are you thinking about how this sort of enables you to scale the business further?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I think automotive has been a tremendous success story for us. We've gone from being a relatively small player in automotive really just focused on some connectivity assets, 4G in cars, we've grown from that to all other connectivity technologies, WiFi, Bluetooth, position location, powerline communications.

We also added RF Front End and we created a full connectivity portfolio for cars. Then we extended into digital cockpit as the experience inside the car is transforming for consumers, we've been able to take the technologies we created for smartphones and tablets, applied to the inside of a car and that's the cockpit. And I think we are now, by far, the leader for modern digital cockpits. And then the last one is ADAS, where that industry is clearly going through an acceleration in the transition. And when I -- when we think of ADAS, we think of Level 2, Level 3 as kind of the key areas for growth in the short term, eventually, you're going to see Level 4, level 5 play in as well.

We've done extremely well there because, again, the chip assets that we have, we were able to take there and then we've acquired an ADAS stack from an acquisition called Veoneer, one of the tier 1s in the industry and we were able to deploy that as a part of our chipset solution as well. So we think we have a very strong portfolio and we think of it as a system. It's -- they're not individual components. But what we've created is Snapdragon Digital Chassis that sits on top of the car physical chassis that allows us to connect all these technologies into 1 system and apply it to the vehicles.

There's kind of 2 significant advantages that come with it. First is, we can sell in a very high tier car, in a very low tier car. And our ability to scale across all tiers in a car is a unique advantage that our competitors don't have. The second advantage is we have 1 chipset solution that can also address both ADAS and digital cockpit. We call it Flex. And that becomes an advantage, especially as you get to lower tiers in the car, carmakers want to be able to use a piece of silicon to do both and we allow that to happen as well.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

On the ADAS pipeline there that you mentioned, what's the competitive landscape like? Because to be fair, there's a lot of puts and takes, right, like there's investor concern on whether full autonomy will ever be possible. There's some conversation about EVs also starting to moderate and a lot of the ADAS pipeline wins for a lot of companies were on the EV front. When you're looking at the ADAS wins, is it coming from displacing competitors? Or is the underlying market really growing in terms of adoption that's driving your growth?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So there's a lot in that question. So let me first talk about just the market. As I said earlier, our view is Level 2, Level 3 becomes a requirement in most cars. And that's the main stay of the opportunity for us over the next several years. Level 4, Level 5 will eventually come into play longer term.

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But really, when you think about cars launching today and for the foreseeable future, globally, Level 2, Level 3 is an opportunity for us. And we think of that trend as separate from EV. Clearly, all EVs have this capability. But internal combustion engine cars are also going to have that capability because it's something that the consumers want. And so while they move in concert a bit, I almost think of it as an independent trend. From our success perspective, of the $45 billion design win pipeline, we said 1/3 of it is tied to ADAS, which to us is extremely substantial. We were not, I'd say, not the main player in the industry a few years ago. Mobileye clearly was the incumbent. And we've been able to come in and become one of the major suppliers in the industry. And kind of as you look forward, as you think about our full system advantage, I think we have some unique positioning that allows us to continue to win in that market.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

When you think about the full-stack solution, software, hardware for autos, what else do you need to add there? Because obviously, you tried to add V2X through Autotalks and that hasn't happened. But do you still see it as critical that you need to add more functionality to get the stack complete?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

So I don't think of it as there is any assets that are required at this point. I think we have a full portfolio that can become the basis for the transition to software-defined vehicles and we can bring the whole system to that transition. And so it's not something where we feel like there's an asset missing.

ADAS software was the asset that we thought was missing and we acquired that through, as I mentioned, the Veoneer acquisition. So now our portfolio is full. There's obviously a lot of other silicon content in the car. And could that be a potential expansion opportunity for us in the future? For sure. But I don't see it as a required asset to be extremely competitive and to grow to the targets we have laid out.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Okay. Last one on autos. You've talked about the $4 billion target for revenue that you have in 2026 to assume linear growth to it. That is slightly counterintuitive to me, having done -- covered autos in the past. What you typically tend to see is, you get more vehicles that you design, then in ramping in production, your content per vehicle automatically on a blended basis starts to go up and you typically see an acceleration over that time horizon. Is it more to say that, that should be the normal trajectory and sort of that we should expect? Or is there anything different why it's not following the normal sort of ramp that we expect for a supplier?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

I mean the way I think about it is we are not that far from '26, right? So we're not talking about a big, necessarily a long period of time between now and then. And really our confidence in meeting the target comes from our design win pipeline, where we have a very good insight into cars that are launching over the next x -- 18 months and we have a very good expectation on the scale of revenue that it will add to us. So it's really -- that's how I'm informing it. One of the things we have not done is, we've not given an annual forecast, right? And so I think from where we are at today, you have a sense of the run rate of the business. And I think projecting that forward to the target is a reasonable way of thinking about it.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Let's move to smartphones. I wanted to see if you can compare the AI smartphone cycle to the 5G cycle. And the success we saw for Qualcomm in 5G, how would we compare that to what we should expect in AI?

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Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I think if you kind of step back and look at the handset market, look at 5G but also look at kind of transitions that came in the handset market before that. Typically, what happens is, a new technology hits, it gets adopted into a lot of phones. The volume goes up and then it goes back down and then goes back up. So you have a market that kind of changes based on a new cycle of technology adoption. As you rightly mentioned, the last one was 5G. And it happened in the 2000-2001 time frame, depending on which geography you're in. We think GenAI has the potential to do the same, that as it goes forward, it is something that will drive a transition in handsets, new capabilities that don't exist today.

And if history were any guide, it typically causes the handset market to expand as that happens. But again, that's a speculative statement based on history. Our focus has been, think of -- financially, we think of the market as the scale at -- it's at and we're focused on increasing content within that market, which has been a very strong trend for us. The mix in the market has continued to shift up and that has also benefited us very significantly.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Maybe I want to sort of follow up on the content part of it because 5G is, at the end of the day, once in a decade transition. To me, sort of seems like AI has to be more a frequent upgrade for the customer or even for the OEMs where you have a content growth story but that is more frequent now in terms of the refreshed cycle. And how do you think about the content growth story being similar or dissimilar to the 5G side?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes, that's a great question. If you think about content growth in modems, what happens is, you get a big cycle, 5G was the last one, 4G before that. It drives growth in content, not just in the modem but in RF front end. And so that behaves -- modem inherent behaves differently than application processors. What happens in application processor -- and is a CPU is a great example, we've continued to see very significant growth in the capability of the CPU. GPU is the same way, camera is the same way. So those are not analog changes -- those are not digital changes. Those are analog changes. You continue to see growth across periods of time.

And we think AI falls into consistent with how application processors behave, where people are going to continue to find new use cases. We're going to need a bigger core to serve it. We're going to need more memory bandwidth. We're going to need more memory capability. And it's just a set of things that go together that are going to keep increasing in terms of content as we look forward.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Great. Moving to the OEM customers that you work with, there's a changing market dynamics in the global smartphone market in terms of market share, right, where we see Apple, Huawei really fighting it out at the premium market in China. You have Apple, Samsung being the primary players in the global market. When we look at who you support. You support Apple as well but there's a lower content versus some of the other companies. How do you see longer term, the share dynamics within the global smartphone market playing out in favor or unfavorably to Qualcomm? How would you sort of think about that share dynamics impacting you?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So if you look back, what has happened in the market over the last year is, with Huawei coming back, they have taken some share in China, especially at the premium tier. But simultaneously, what has happened is -- and a lot of the share actually that Huawei came from Apple. But at the same time, the premium tier has grown significantly. And what we are seeing is, our customers are actually, even with Huawei coming into the market are actually holding or expanding their position in the premium tier. And you're seeing that show up in our numbers, right? We talked about a 40% year-over-year growth in first half of the fiscal year. We're projecting that forward into our third quarter guidance as well.

So it is something that is a trend that's extremely favorable for us. And it's an indication of what is happening in the handset market where the total units may not be growing but as people are upgrading devices, they are buying more expensive devices and that's obviously a great benefit for

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us. As you know well, Qualcomm is very strong at the premium and high tier. That's where kind of our mainstay is in the handset market. And so when anything happens in the market that benefits those tiers it's something that shows up in our numbers.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Great. I'll ask you one more on the smartphone side before I open it up to the audience. We also have this dynamic where Samsung moved some of the share in-house that you have talked about relative to their flagship devices that always keeps investors a bit concerned about the likelihood of customers like Oppo, Vivo, Xiaomi, your sort of OEMs that they might pursue a similar strategy in the future.

How do you mitigate those concerns for investors, particularly when you think about the road map on the technology side that you have, how do you think about the likelihood or the mitigating factors for that?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I'd say we have competed very successfully with Samsung against their internal initiative. I mean it's -- over time, our content position in the premium tier has grown. And kind of as you step back and -- I saw the earlier presenter make this comment as well, in our industry, it's all about technology leadership. And the only constant that you can bet on is, if you have the best technology, you're going to continue to hold your position, even expand it. And that's what we've seen happen to us as we've -- as we look forward, we're going to bring in our custom CPU cores into our next set of chips and you've already seen the performance be extremely strong in the PC chip, the same advantage is going to come in into handsets.

The GenAI road map is looking really, really good. We continue to have by far the best GPU and best camera in the -- on the Android side of the world. So our road map is as strong, if not getting stronger going forward. And so that's what gives us confidence. And again, you have the best technology, you're probably in a very good position.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Let me open it up and see if anyone in the audience has a question, who want to ask any questions?

Unidentified Analyst

How do you think about the share dynamics that you're seeing in China in light of the export restrictions that the U.S. has implemented in terms of semiconductor manufacturing equipment? Is this something that you think will be temporary while they're using multi-patterning on legacy process nodes? Or do you think that they'll continue to be able to, again, take share in the future?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So in some ways, your question is really a Huawei question, right? They're obviously doing their own chip, own 5G chip. As you'll recall that we had a 4G license and we were selling 4G chips to them. And our assumption, even as of the recent earnings release was that we would continue to sell 4G chips to them through the end of the year.

And then in 2025, we did not have any expectations of revenue from them. Based on the new decision by U.S. government, we are not allowed to ship 4G chips anymore for the rest -- even of rest of '24. So that's a change versus our prior expectations. But for the current quarter, we did say, we are going to keep our guidance range the same. We think as we compete with Huawei going forward, our customers have just an incredible set of devices. They have competed with Huawei in the past. Our road map -- chip road map is looking great. So in some ways, I would say business as usual. Competition kind of comes and goes in the handset industry and we are focused on just having the best product portfolio, working with our customers to have the best handsets. And we think that will hold us in good stead going forward.

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Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Any other questions? Okay. So Akash, let me move the topic to QTL for a bit here. You always talk to investors about assuming stability in that business. One, I can think of as we sort of go forward with AI led -- the replacement cycle, there's more premium devices. And you've talked about the growth in the premium tier. That's a positive. But at the same time, I think investors are a bit concerned that with the export controls to Huawei, how to think about the risk of losing that royalty payment as well. So help us think about those puts and takes? And how would you really ask investors to model QTL?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So general premise on QTL is: market stable. We have license agreements with all major OEMs and they're continuing to pay and we think we're in a good spot. We've also done several key renewals. So we have renewed Samsung. We have renewed Apple. We've extended 2 other major Chinese OEMs for the long term as well. So we feel like the program is in a very good spot. As far as Huawei is concerned, we have an existing license agreement with them. They are continuing to pay royalties under that license agreement. When that expires, there is going to be a negotiation with them. But I mean, in our minds, the fact that there is an existing license puts us in a good place to continue to talk about an extension with them.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Got it. Moving back to QCT, just for the margin commentary that you had on the last call. You've said margins flat from F3Q onwards, what is leading you to guide to that? It seems like you're anticipating either some headwind or some mix effect in that gross margin guide itself. Just walk us through that.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So we've given a historical range for our gross margins and we've definitely been operating at the high end of it. We've always said we'll be in that range. We have a transition to 3-nanometer coming up. Obviously, the products get more expensive as we go into the next set of nodes. And we think given the competitive environment, given the Moore's Law impact and going to the next node, we think the historical range that we've given on our business is a prudent way of modeling it.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. On the cash flow and the balance sheet, you have $14 billion of cash and cash equivalents on the balance sheet, you generate about $10 billion of cash annually. There's about $6 billion to $7 billion that you use in buybacks and dividends. It seems like that leaves a lot of room, right? How should we think about capital allocation, particularly in this geopolitical backdrop, how to think about M&A and your intent to sort of do any major transactions?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So if you look at our M&A history, we've done a lot of transactions in the sub $5 billion range and those have been extremely successful for us. And that's kind of a range of acquisitions that we continue to like. So to the extent that we find assets we like, we'll continue to look at that. So no change to fundamentally to the M&A strategy we've operated in. We've obviously looked at larger acquisitions in the past and we've chosen not to pursue them in the recent past at least. And so never say never but that's not kind of the main part of our strategy. We don't see it as a requirement for us going forward.

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Going to your capital return question. No change to what we've said before. We want to return most of our free cash flow to shareholders and we'll continue to do that. Strong balance sheet is important for us. It's -- this is an industry where things change very quickly. And if you want to acquire an asset that's a technology leader, you need to have a strong balance sheet. But no different than the way we've operated in the past. We're pretty happy with the way our balance sheet has been over the last couple of years and you'll keep us -- you'll probably see us continue to do the same going forward.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Yes. I mean if you don't mind, for the last question, I'll press you on the buyback a bit more in the sense I can see autos inflecting smartphone led by the AI replacement cycle inflecting what stops you from being more proactive with the buyback, just given where you are in the cycle as well.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Yes. So I mean our buyback strategy, the whole premise is consistency, right? And I'm not -- I don't feel like we're in the business of trying to time the market or trying to time buybacks. What we want to do is, we want to lay out a policy and behave consistently according to the policy and make it as predictable as possible for shareholders. And that's how we're executing to it.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Head of IT Hardware and Networking Equipment*

Okay. Great. We're almost up on time, so I'll wrap it up there. Akash, thank you for coming to the conference and thank you to the audience as well.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer & Chief Operating Officer*

Thank you.

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