29-Aug-2024

QUALCOMM, Inc. (QCOM)

Deutsche Bank Technology Conference

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Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

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Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

All right, everyone. Let's get started with the next fireside chat. We're very pleased to have Akash Palkhiwala, the CFO and COO, I think from last year – I don't know. When did the COO...

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Since January.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Got you. So since last ...

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Not too long ago.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

...you've added another C title for you. So we can get into a little bit of what that means later.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Of course.

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Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

But, first and foremost, thank you so much for coming up.

QUESTION AND ANSWER SECTION

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

I know that we're going to get into some of the diversification and longer term strategies in a bit. But why don't we start off a little bit on the near term? Are we back to kind of normal seasonality in your core handset business? And so the normal puts and takes, good quarters, bad quarters, relatively speaking, are how people should look at it or are we still dealing with some cyclical inventory dynamics?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

I think from an inventory perspective, and we've been consistent on this, we've kind of normalized over the last couple of years, right? And so we went through a build cycle. We went through a drain cycle on the inventory. And then, I think we've been kind of normal for the last two or three quarters on the handset side. There's some inventory dynamics still left on industrial, but I think we're pretty close to the end of it as well. But, yeah, overall, I think when you step back from all of that, we're back to kind of running our business on a normal cadence. The products that we have in our pipeline very excited about what's coming up. I think I've said this in previous conversations.

We have a new chip coming out and we typically announce it at our technology summit. So this maybe a plug in for that. If you listen in, in October, we'll be talking about our new chip and we'll bring our custom designed CPU into our chip. A lot of advances on genAI, new architectures on camera and GPU. So very excited about what's coming up in the business.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

So if normal seasonality is implying or starting to come in, again, this will be the last near-term question, I promise.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Fine.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

You guys have a further confusing variable. You have an extra week in September.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yes.

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Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And then you alluded to kind of, I think, 5% year-over-year growth in December, which seems to imply sub-seasonality at a time when some of your customers are actually applying better than 5% year-over-year growth. So the net question is, how do we reconcile all of these? Because it sounds like it's a little worse than seasonal, but the extra week and everything can confuse it.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah. So first of all, let me maybe give a broader context on the business, right? So, the business has normalized. There is no change in share versus any expectations. I think we're doing extremely well on the premium tier. As I said earlier, we're excited about what's coming up as well. So, this is not a question about share.

The second is content. As we've said in the past, we've seen tremendous content growth. There's a lot more complexity going into chips. And I think we've been rewarded for it for the last couple of years. We're seeing that going forward as well.

So, when you kind of step back from those two factors or those two comments, then you're talking about kind of shorter term dynamics that are related for other issues. And so, I'll start with the 13 versus 14-week. Don't blame me for it. I didn't come up with this fiscal year structure where every six years we have an extra week that shows up in one of our quarters. And so, good news is I don't have to deal with this for another six years.

But when you look at the June to the September quarter, what happens is we go from 13 to 14 weeks. So, clearly, there is a benefit that comes from it contemplated in our guidance. And what happens is, QTL, you have an extra week of revenue. For OpEx, you obviously have an extra week of OpEx. On the QCT side, what you end up seeing is not a relative increase in the extra week because a lot of the build that happens for the Apple launch, happens earlier in the quarter. And so, you see a benefit, but not as much.

However, the other factor we are seeing that goes from June to September and we've been – we've been very clear about this as well, is that, our license to sell to Huawei got revoked. And as a result, we have Huawei revenue, had Huawei revenue in the June quarter, we don't have it in the September quarter. So those are the two factors that go into guidance. It doesn't kind of fundamentally change what's happening with the business.

When you go from September to December, we obviously, go from 14 weeks back to 13, but otherwise, it's just timing of purchases by customers. The underlying business is very strong and I think, when you look at what we're doing on the diversification side are very excited going into fiscal 2025.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

Perfect. As promised, we'll move away from the very, very short term, think a little more structural now. So let's talk about the diversification side of things. Why don't we start at the highest level and talk about the organic versus inorganic side, because I think, it'll probably be the shorter part of it. Let's do the inorganic first. How do you – how does Qualcomm look at M&A to accomplish that with the fact that your handset-related businesses can be 80% plus of the company, but is going down over time? Do you accelerate that via acquisitions? If so, small, large. How do you think about that?

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Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Yeah. So maybe I'm going to take this opportunity to step back a little bit and talk about our broader strategy, how it fits into what is happening into the industry and how the company has evolved. Right? So a lot of you have known Qualcomm for a while. You remember us as a connectivity company. We've transitioned to, I'd say, a computing-first company. Of course, we are still the leaders in connectivity, but tremendous assets in computing. And the fundamental premise of the company is, can we take the assets we've built for handsets and apply to new industries as they are going through inflection points. So, automotive is a great example where we've succeeded. The industry is going through an inflection point, the digitization trend, obviously everyone knows about it, that's happening in the car. There's electrification as well. We are not a part of that. We're really focused on digitization, and we're seeing very significant benefits which shows up in our numbers now that's happening.

The next market in our minds that is changing massively is the PC market. We're going to see the market transition over with or without Qualcomm. And our, obviously, our assumption and our claim is that it's going to happen because of Qualcomm. The market is going to transition over to a different kind of chipset platform, more like the phone that has not just CPU competence, but very low power GPU, camera, audio/video competence as well, and connectivity. So, there's a lot of things that are changing and we get a chance to intercept that.

Doing XR devices, AR/VR devices, I think there's a lot happening there as well. And Qualcomm, we are by far the leader in our minds in that area as well. And then finally industrial. So, we're at this place where we're sitting with a great set of assets in handsets and we are applying those assets to all these new areas. And the way we're applying it is we're taking advantage of inflection points that are happening in each of these markets. While we were going through this journey, AI happened. And we have a very specific view on how AI plays out in devices.

Of course, there's a lot of training inference happening in the cloud, but our view is like computing, which happens in the cloud and happens on the devices. We are going to see AI happen in the cloud, and happen on the device. There's just a lot of sense in terms of cost, performance, new use cases that can be enabled when you run inference use cases on the device. And the rationale is pretty simple, why send the run inference where the data sits. The data sits on the device. You run inference on the device rather than send the data to the cloud to run inference there. And you take advantage of the resources that are sitting dormant in the device versus using pretty expensive cloud resources to run those things.

So we have a pretty clear view and in our mind it's kind of a no brainer that a lot of the AI inference activity is going to happen on the device. And we have a really strong portfolio of technologies that can run AI on the device. We, of course, have the CPU and the GPU, but more importantly, we have our neural processing unit, NPU. That is really the basis for the Copilot+ service that Microsoft is coming out with. And so they're taking advantage of the power efficient NPU that we have in place. So we think we're in this journey of taking advantage of handset assets, bringing it to other industries. But when you combine AI on top of it, we think it becomes a no brainer and that's the opportunity in front of us.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

So before going into some of the specific end markets, I want to dive a little bit into the technology side of it.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Sure.

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Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

You mentioned about kind of ARM based PCs, low processing – low power processing at the edge been a Qualcomm quality for many, many years. I guess my question is, is it because of the architecture or because of what Qualcomm does with it? Let's say ARM does penetrate all these different markets. Why does Qualcomm win even if, is it just because of ARM and you're a leader there or are you doing special things on top of it?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah. So we've used off the shelf ARM cores to build chips for PCs for a long period of time, and I'd say we have not been very successful. One of the big changes that's happening now is that we've built that custom Arm CPU core with the team that we acquired. And the performance of it has been outstanding. And now it's in products, right? So everyone can test products that are out there. And it's clear that the performance is very strong, and we do it at extremely low power, and that really adds a different dimension to computing devices. So we really think that's what's unique about us and that's why Qualcomm is well-positioned to make the transition happen.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

When we've had some of the x86 competitors or incumbents up on stage, they talk about they are not being necessarily a core advantage in that they're going to have battery lives that can equal yours. How – what do you think the core advantages of a Qualcomm-enabled or Snapdragon X-Elite-enabled laptop versus a traditional?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Well, I think the battery life advantage is significant. It's improved in devices today. I think you have Apple doing the same thing. And you've – we've seen the performance of their devices relative to x86 systems. So, to me, it's – what we are claiming is not a speculative statement. It's now in proven devices and everyone can test it out.

And then the second advantage I think we have is it extends to on-device AI. And being able to run it on our NPU, which has been kind of the, the basis of the technology comes from the DSP that we've been running our modem on for a very, very long period of time at very low power, that is another technology that is extremely low power. So even if other people have an NPU, the power advantage is going to be extremely significant. And so we're very excited, very confident that the product leadership's positioned for us for the next several years is going to be very strong in PCs.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And to the extent ARM has core advantages over x86, [ph] and I don't know (11:55) people debate that, but to the extent it does, if other ARM entrants, ARM-based entrants come in, is that where the NUVIA technology, the customized chip, the more specialized NPU that Qualcomm offers, will differentiate versus that potential threat?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

First of all, I'd say this is a very large market and it's all x86 today. So to the extent that it transitions over to a different architecture and Qualcomm gets a large portion of it, we'll be very happy with that transition. So for us,

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the incumbents are x86 and who we're competing against are the x86 incumbents. And we would – we obviously have a great product.

From a new ARM competitors' perspective, I think we welcome the competition. I mean, you've seen in ARM devices, Qualcomm has been very, very strong in every other device and phone, obviously, the main example, and we're seeing it in automotive happen as well. So we're okay with that competition. We've done well. We've led on performance. We've done extremely well in the high-end premium tiers, and we are ready to do that in PCs as well. So, we welcome the competition.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

So, last question about the AI PC side of things. What's Qualcomm's definition of success in that market?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah. So we'll obviously talk about it a lot more at our [ph] Auto and IoT Investment Diversification Day (13:17) Investor Day later in the year. So I'm not going to try to preempt that.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

November 19 for everyone.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

November 19. But there's really two players in the industry today, and there is a share mix between the two players. And what we want to be is one of the top players in the industry. So I think that's the framework under which we are operating.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

So, let's switch over to the auto side of the diversification story. I think your business is up about 50% this year. It's amazing when we're having so many other auto-related companies saying the pace of the recovery is slower or the cyclical downturn is persisting. You guys keep growing right through it. Talk about what's, no pun intended, driving that success.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah. Yeah. So, as I said earlier, for us, the most important thing is to enter these new markets when there's an inflection point on the technology side. The automotive industry, massive inflection point happening. Digitization is how I would outline the inflection point to be. And so we're going from all cars are getting connected. The inside of the car, you have a tablet-like experience. We have obviously ADAS happening. And then the car architecture is changing. More and more technology is going into a central compute rather than being at the edge within the car, and that puts us at an advantage.

So, everything that's happening in the automotive industry is something that plays to Qualcomm advantage. And what we've been able to do is really take the technology we have and build the right products for what that

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industry needs. It needed us to learn new things. It needed us to learn autograde, how to build autograde products to how to handle different temperature ranges. In terms of quality and software reliability, the bar is different.

ADAS, we have the hardware platform, our chipset, but then we also built, acquired a software team and we have built an ADAS stack as well. Sometimes, the conversation stays on chips. But one of the things that gets missed is the asset that we have in terms of our software expertise. If you think about digital cockpit within the car, the platform is very complex. There are several different operating systems that are present in the car. You also have to deal with the real-time operating system that the OEM needs for the car functions, but then you also have to deal with the – whether it's Android or some other version of it that is required for the consumer experiences. And you have to make all this work at the same time, sometimes with one piece of silicon, including certain ADAS features, and then you've connected all to the cloud through telematics.

And so it is a very complex system, and you can't think of it as a component anymore. The sale happens at the OEM, not really kind of tier 1s and tier 2s anymore for us. And then we're selling the entire system, and that's the advantage. We can sell all components to you and we go from the highest tier car to the lowest tier car. And we're clearly a reliable customer, supplier for all these OEMs. And that's what are our advantage is.

Ross Seymore Q
Analyst, Deutsche Bank Securities, Inc.

So, and again, not to front run November 19. But from where you are today, you seem like you're well on pace to at least meet your $4 billion target, I think fiscal and not calendar 2026.

Akash Palkhiwala A
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

That's right.

Ross Seymore Q
Analyst, Deutsche Bank Securities, Inc.

Either way, a couple of years out.

Akash Palkhiwala A
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Yeah.

Ross Seymore Q
Analyst, Deutsche Bank Securities, Inc.

Talk about how that – what drives the growth from today till then and how it evolves between connectivity, infotainment, ADAS, those sorts of how those layer in?

Akash Palkhiwala A
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

So we've talked about our design win pipeline, right. And that's the kind of what we're trying to do is when the revenue stream was smaller, we're trying to give a sense of how are we doing in winning the designs. Because as everyone knows, the way the automotive market works, you win something today, revenue shows up in three to four years. And our design win pipeline is extremely strong. Last number we gave was $45 billion, and a third of it

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is related to ADAS. And so that is what is translating into revenue as new cars get launched, new platforms get launched.

And the trend that's in our favor, I think is, in some ways the digitalization change within the automotive industry is accelerating. It's not just a high end car feature. Every car wants the feature. It's not just a car feature, two wheelers want that feature. And so it's something that is going to hit the broader transportation industry, not just consumer vehicles. And so I think this is a trend that we're well positioned to benefit from. The trend is accelerating, and we have all the right technologies. So the revenue growth is really about product launches now because a lot of the design wins has already happened.

Ross Seymore Q
Analyst, Deutsche Bank Securities, Inc.

So I think you guys are going to talk a lot more about all of that, the diversification side. But let's talk a little bit about the handset side as well.

Akash Palkhiwala A
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Yeah.

Ross Seymore Q
Analyst, Deutsche Bank Securities, Inc.

AI into handsets. We talked a bit about AI into PCs before. How do you see the handset as a vehicle for the same sort of compute intensity rising and how Qualcomm is positioned?

Akash Palkhiwala A
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Yeah. So we think the handset is actually a perfect device for a lot of AI use cases. When you get constrained by real estate, and obviously the size of the screen is a constraint, being able to offer new user experiences that are based on AI are going to become extremely important, in our minds.

We started talking about this a year ago, and the conversation was about is it really going to make sense to do it on a device? I think a year later, now the conversation has moved on to so what's going to be the use case? Because we all believe that it's going to happen on the device, but what's going to be the use case? And the use case, my view on it is it's very similar to what happens with – happen with applications.

We started off – when app stores came in, we started off with five applications, and then we had 50, and then we had 500, and then we had a lot more. The same thing is going to happen to AI. We're going to start with a select set of use cases, which are being deployed right now. I'd say Microsoft is doing a lot on the PC side. Google, Samsung, the Chinese OEMs, they're doing on the handset side.

But we're in the front-end of the innings. When we have this conversation a year from now at this conference, we're going to be talking about a lot more use cases happening. And in our minds, it's a certainty that a lot of the use cases on the phone is going to run on the device. It helps from a security privacy perspective, it helps from a latency perspective. It helps a lot on the cost side because you're using free compute power on the device. And then there are new use cases which you can only do on the device. You can't really keep going back to the cloud. So all of those reasons make it very obvious to us that a lot of AI use cases are going to happen on the device.

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The real conversation is does it really change the smartphone completely, right? Is the use case the way you interact with the device, and is it going to change from there? Right now, we use the smartphone as if you're using a machine. Are you going to use a smartphone as if you're talking to a person? And does the concept of an AI assistant completely transform the way a smartphone is used? And in our minds and [ph] Cristiano were (20:52) here, he would say in five years we know that is definitely going to happen. I don't know if it's going to happen in two years or three years or four years.

But by the time we go through the next five years, the way we interact with the phone will be a lot more user intuitive as if you're talking to a person and you don't have to give the kind of specificity in terms of instructions. You don't have to go into a specific app and say, I want to look for a flight from this place to this place at this time. You should be able to talk, and the AI assistant should be able to do something for you. And I think that UI transition is going to happen, which is going to really make it a transition that requires a different set of technologies and that's why we're excited about it because we are clearly the leader in having AI capability on the device and this transition is going to help us.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

In your view, whether it's near-term, mid-term, long-term, your answer might be different. But do you think it's a content game for Qualcomm or unit game or both?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Well, content game for sure. And it happens in two ways, right? One, is if you look at the premium tier, more technology going into devices. Across the other tiers, people are buying more expensive devices. So the content game kind of shows up in different ways across tiers, but it happens across all tiers. The real question is how likely is it that the handset market transforms? And when it does, you're going to see the size of the market expand because people are going to upgrade handsets, because they want a different experience, and that obviously is very significant factor for all of us who are in the industry. Our differentiation from a share perspective is also very strong, and so we see it as a longer term share opportunity as well. So those are the kind of the three vectors; content, share and TAM. And then we know that the content benefit is coming through and then the remaining two, we're going to have to see how it plays out.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And is this what gives you the confidence in thinking at least at the high end of your stack that you should have double-digit ASP or content increases gen to gen?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah, this gives us the confidence and also history gives us confidence. We've done that over the last three or four years and you've seen it show up in our numbers. And so we − and we know − we also know the next two or three chips that we're making already, and so that also gives us the confidence and we're talking to our customers about it and the features that they want in those chips. So it's a combination of those factors.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

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Or the fact that you can do that sort of increase and you're not relying upon a 4G to 5G transition that at times would be the catalyst for it that you can bridge the gap to the next G with AI also helps?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Yeah. And I think one of the conversations that sometimes gets lost in Qualcomm is the conversation ends up being about connectivity. And as far as we're concerned as I said earlier, we are a processing company that is still the best in the world on connectivity.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

Right. So let's talk a little bit more about kind of how the various markets are working either geographically or by kind of the operating system. You guys, I think you're 50% year-over-year in your China business ex-Huawei in this last quarter. Talk a little bit about what's driving that growth and how sustainable it is going forward.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Yeah. So year-over-year, when you look at this year versus last year, I'd say there's two significant factors. First one is the content increase and the market shifting up within China. That has clearly happened and you're seeing the benefit of that show up in our business. And I think those are, as I said earlier, kind of sustainable trends in the longer term, because the phone continues to be an extremely important device for people. And as consumers upgrade their phones, they're continuing year after year to buy more expensive devices and you'll see the benefit of that show up in our numbers.

The second factor is last year there was an inventory impact in terms of revenue that we had in the quarter. And this year we think it's of – think of it as normalized revenue. So the – clearly, the year-over-year growth benefits from that as well. But I'd say obviously the second factor is transitory. The first one is really the underlying growth in the business.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

And on the Huawei side of things, you've been very clear about what was in the business and is now not in it and it's all 4G stuff anyway. But as you think about going forward, how do you think about their aspirations in 5G and what that may or may not do to your market share in that China market?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Yeah. I mean, I think generally when you step back and you look at how we've competed in these markets, we're not relying on one or two customers. We obviously sell to every major OEM at scale and we're probably the largest supplier for each one of them. So, I think we have diversity of customers, which is what really matters in the longer term in this market. From a Huawei perspective, what we're confident about is our product roadmap, right? We're in 4 nanometer, going to 3 nanometer, going to 2 nanometer, very, very strong product roadmap across a variety of technologies. And our customers are really looking at making great products with it. So, we'll stick to our strategy of leading in technology and delivering leading node chipsets, and that's – that I think will hold us in good stead.

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Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And then the last customer that, that US modem-only customer. You can say the name if you want, but I won't. One they don't seem to fit with [ph] you we're (26:22) a compute company now. That's a connectivity company because of their own choices. You've talked about in a couple of years' time, I think the latest guidance you gave was that you dropped to about 20% penetration there. One, is that still the case? And two, what's the magic about stopping at 20%? Is it a dual-source assumption? Is it a QTL versus QCT assumption?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

So this entire conversation is about QCT. QTL is kind of a separate conversation. We have a license agreement in place. And so really kind of I think what you're asking is a QCT question. From a QCT perspective, here's – we're very focused on what we control. We have a three-year agreement with them. That covers 2024, 2025, 2026 launches. We've said very clearly that in the last year, we expect to have 20% share of the launch, the 2026 launch.

That's how we've always modeled our business. When we had the previous agreement, we modeled it the same way. We're going to model it the same way here. What we control is that we deliver the best modem, the best product. And so we're continuing to do that. We're going to be a great supplier and we're going to deliver leading technology to them. The rest we don't control. So, we're focused and we're transparent about what we're doing, how we're planning our business. And so, when we make financial decisions, it's based on the assumption that our share is going to go down, and they're going to use their internal chip. If something else happens, that'd be upside to our forecast.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

So why don't we switch over to QTL for a bit and then we'll get to some of the financials to wrap things up. On the QTL side of things, it's been relatively stable. You'll have some renewals at different points in time. But is there anything that, any significant large renewals risks to the upside or downside that we should think about? Or is it pretty much stable with seasonal gyrations from here?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah, I think we've kind of given an update on all the renewals that have happened. And as I'm sure you've seen that we've been very consistent in our renewals, and none of the renewals have impacted our revenue run rate. So, I think we're in a good place. There's some more work to do as we've been transparent about it as well. But I think we're in a good spot. The patent portfolio is great. I think we're seeing 5G advance now being deployed in China. We're going to see 6G come through at the end of the decade and we're leading that as well. So, feel pretty good about our patent position.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

And just because it's a question I get from some of the more risk-focused folks. When somebody is no longer a modem customer of you, when somebody is no longer a 4G purchaser customer of yours, does that in any way, shape, or form add risk to the QTL side of the equation?

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Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Well, I think what really matters in this business and this has played out over the last lot of years, is when you have the best portfolio and you have a policy of licensing consistently across the ecosystem. That is the right way to do this business. And we've been very successful at doing that. Pretty confident as we go forward that business model structure is the right way to proceed.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

So let's switch gears over to the financial side of things and some of the margins, and specifically, the QCT side. I think everybody knows QTL is pretty darn stable there at a very high level. On the QCT side, you guys have been pretty consistent in the upper-40s, maybe lower-50s and a quarter here and there. If we tie that together with the diversification efforts that we started off talking about, how do you see that QCT gross margin changing, if at all going forward?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

Yeah. I think generally, our long-term guidance on QCT gross margin has been that we expect diversification to be accretive at the dollar level and not specific gross margin movement as a result of it. I think it depends a lot on which business within our portfolio scales up faster [ph] versus (30:23) slower and then, is it automotive, is it PCs, is it industrial, XR, various things happening in the business. And so, each one kind of has its own profile and largely connected to the industry they're from. Right? The industry they're competing in.

So when we think of QCT gross margin, we talk about the weighted average for the business and we don't think diversification kind of materially changes it one way or the other. And of course, as we kind of grow into different areas, we'll update that.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

If we think about the automotive side, for example, is it in aggregate, it should be accretive or is – does it really depend what you're doing in automotive that matters?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.
A

So I think, when you step back and look at our strategy, our strategy is to reuse technology we've created in mobile, apply it to all these [ph] two areas. (31:13) And that strategy by definition is accretive when you get to scale in each of these businesses. And that's what's important for us, is really, about leveraging one large pool of R&D, expanding the addressable market for that R&D pool. And that obviously longer term is a margin accretive approach for the business.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.
Q

So if it had to be one or the other, the QCT gross margin or the EBT as you guys describe it, if the diversification continues to work really well, automotive goes to $4 billion and beyond, AI PCs work, do you think there will be more leverage on the GM or the operating margin line?

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Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Well, GM, I'll stick to what I just said, which is kind of our profile is that it stays in the range that it's in. And of course, there will be some minor weightings on either side, but we think longer term, that's the framework for the business. Operating margin should benefit as we scale in a bigger way. One of the things that I think is also going to be important when we talk about margin is what happens with the growth in our industrial business because we're – it's like talking about automotive at the beginning of the curve.

The industrial market is going through a very significant change in our mind. So it's been an MCU market to a large extent. With AI coming in, MCU was already moving to processor plus connectivity. And now with AI coming in, on-device AI is going to become extremely important. Think about robotics, drones, cameras, manufacturing lines, agriculture, transportation, all these industries are going to want to do AI at the edge. And I think the minute you make the assumption that that market is transforming, it's very much like automotive. The market was changing and what we had perfectly intersected the new needs of the market.

You're going to see that happen in industrial over the next three or four years and we are already seeing that happen by the way. But the journey of the revenue growth is going to be over that period of time and I think there's this tremendous opportunity that is not well understood today but over the next several months, it's going to become a lot more clearer. And we'll talk about it at our Investor Day as well.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Q

So last question I have and this will tie back into that diversification theme, and again, hopefully not just front run the November event. M&A to accelerate this, you made an attempt with a big deal. It basically got blocked through no fault of yours or NXP's. then you've done relatively smaller deals that have been complementary and have gone very well. What's Qualcomm's philosophy on M&A?

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

A

Yeah. Our strategy is unchanged, right? We've clearly outlined our organic plan and we think that's a great plan. And if there are assets that we need to acquire, to accelerate the organic plan, we're going to do that. Those are typically smaller acquisitions. Larger acquisitions we've looked at consistently, obviously over the last several years since NXP, got turned down and we've chosen not to pursue it. So, I think our approach to M&A is not going to change. We are going to look at both kinds of acquisitions, but really what fits mostly in our portfolio is smaller acquisitions that accelerate our plan.

Ross Seymore
Analyst, Deutsche Bank Securities, Inc.

Got you. Well, Akash, we are pretty much right on time. So thank you so much for coming.

Akash Palkhiwala
Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Of course.

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Ross Seymore

Analyst, Deutsche Bank Securities, Inc.

And sharing your insights.

Akash Palkhiwala

Chief Financial Officer & Chief Operating Officer, QUALCOMM, Inc.

Thank you. Thank you very much.

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