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CORPORATE PARTICIPANTS

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PRESENTATION

BLAINE All right, thank you again for joining. It's the second day here, very happy. I'm Blaine Curtis, US Semi and Semicap Equipment.

Very happy to have with us Qualcomm from the company, Akash Palkhiwala. He's the CFO, COO, so thank you for joining.

AKASH Thank you for having me.

BLAINE I thought maybe a way to start off, obviously Qualcomm is so well known for handsets, but I think the non-handset story is definitely an area of focus for the company. So maybe from a very high level, can you just talk about where that mix is today, where you would like to see that mix and what's driving it?

AKASH Yeah, of course. First of all, thanks for coming. Since it was an 8 a.m. start, I was wondering if I'm going to be the only one in the room, so I'm happy to see folks here. So as Blaine mentioned, one of the key priorities for the company is really kind of taking our strong position in smartphones and using the technology that we've created for smartphones and applying it to all these other edge devices that are all being disrupted with technology. So automotive is a great example to look at. It used to be a car that would primarily run on microcontrollers, and you're seeing this tremendous change in the kind of chips and kind of electronics that are needed in automotive, and Qualcomm has been one of the big beneficiaries of that transition.

And so we're seeing similar transitions happening in industrial, happening in augmented virtual reality, in PC, and robotics, and we're very well positioned to take advantage of all of that. And so that's been our primary focus as a company, is apply the handset technology to all these new areas. Financially, we've set this target of approximately 50-50 revenue split between handsets and non-handsets by the end of the decade, and very confident that as the world changes, as AI comes in and becomes so much more relevant to all these devices, our technology portfolio puts us in a great place to take advantage of it.

BLAINE Perfect. Lots of different businesses within the non-handsets to go into. I wanted to start with data center.

You obviously just announced this AlphaWave deal, so maybe you can explain the rationale behind that deal, and what are your grander plans in data center?

AKASH Yeah, so if you're going to maybe step back and think about the belief system that we've always had for AI and for data centers is that there's a lot of core technology that we have in Qualcomm that has relevance to the data center. So we have a CPU core that is a custom-designed, high-performance, low-power CPU core, very important, I think, in data centers going forward. We have an AI NPU, Neural Processing Unit, that can run neural networks very, very efficiently.

It's something that is also very relevant going forward. We also think that AI, as much as people talk about cloud AI, and of course there has been tremendous adoption of it, we think AI will eventually settle to a place where it's hybrid between the device and the cloud. It's no different than how computing works today.

You see computing happen on the device, you see computing happen on the cloud. The same is going to happen with AI. And we think that those two kind of fundamental beliefs put us in a place where we've been looking for the right opportunity to enter the data center market using those technologies.

When you look at the data center market, a couple transitions happening within data center. First is a lot of the workload used to be training. Inference is what's driving the growth going forward.

So that's a pretty significant change. Second is power is becoming a lot more important. You're seeing even power plants being driving where the location of the data center is going to be because power is so important.

And so Qualcomm comes from a heritage of low-power technology, high-performance, low-power, and so that is relevant to the data center as well. So that's kind of the framing of the starting point before AlphaWave. When we look at AlphaWave's technology portfolio, they're really the leader in wired connectivity technology in data center.

That's a set of technologies we do not have at Qualcomm. And so what they bring to us is really the missing piece in completing our technology portfolio. So we'd have computing, CPU.

We would have AI. And then we would have wired connectivity technologies. And so when you combine those, I think it's an incredibly strong technology portfolio, and it positions us to participate and take advantage of these transitions.

BLAINE Just to follow up because I do get this question, I think you've been in the edge area. Obviously, phones can be considered edge, but other areas, drones, robotics, whatever, also is a good fit, or even VR you've talked about too. I mean, the split between edge and data center, do you expect to also have chips within a data center?

And do you feel like you need both halves of that equation? Do they work better together?

AKASH So I think there are certainly applications where it works better together. I'll give you an example in ADAS. There is a lot of simulation that gets done for ADAS.

And so what you want to do is when you do a simulation for certain scenarios and how your ADAS stack would behave, you want to do it in the cloud, and you want to use the same silicon that you're going to eventually use in the device. Because if you do simulation on different silicon, it's not going to give you the same results, and you'll not be able to predict how the device will behave. So that's a great example of where you want to have something that is similar on the edge in the cloud.

Another example is certain camera workloads. So if you think about industrial applications and cameras being deployed, sometimes you're going to run AI on the device itself. Sometimes you're going to run it on the cloud, and you want the same set of results coming through in a scenario like that.

And then finally, if you think also about hybrid AI, where you might start running something on the device, and then you might use the cloud to improve the answer that the device gave you. If you need a second tier derivative on the answer as well, you might want the same silicon running on both sides. So there are good reasons why you'd want it, but that necessarily by itself is not the driver of our strategy.

The core driver of the strategy is that we have this technology portfolio. It is relevant to the data center. Power, low power, and high performance is becoming important in data center, and so that automatically lends itself to Qualcomm's strengths.

BLAINE Perfect. I do want to talk about the auto market. We were talking before this, and my personal view is the auto market is not actually that much different than the handset market where the Chinese took a ton of share by just adding features at a faster pace.

Can you maybe just talk about where Qualcomm is today? Obviously, infotainment has been a big driver, more screens, bigger screens. Where is your penetration?

And maybe just address the Chinese opportunity, because a lot of people look at it and say they want localization, but when you're talking about maybe infotainment processor or ADAS, maybe that's something they can't do.

AKASH Yeah, so when you look at our position in automotive, let's first talk about the industry and what's happening there. Tremendous transition in the industry. The cars are getting connected.

The inside of the car, the experience is becoming like a family room or living room experience with screens and content. And then finally, ADAS becoming a big part of the value proposition as well. So when you look at those things, the silicon that we participate in is growing north of 15%, 20% every year because just an incredible amount of digitization happening in the car.

And so Qualcomm's in a great position to take advantage of that change and really offer the technologies that are required in the car. So we've been very successful. I think we've won, I'd say, a very strong position in wireless connectivity.

So whether it's 4G, 5G networks, Wi-Fi, Bluetooth, position location, Qualcomm is the leader in the industry. Digital cockpit, the experience inside the car, we are by far the leader as well. And it's really a combination of the chips that we make.

It's a combination of software environments. You have to support the software environment for the instrument cluster, which is usually Linux or QNX. You have to support the software environment for the entertainment center, which in several cases is Google, Android.

And so we've been supporting all those networks and we've done incredibly well. The third part of this tool is silicon for ADAS. And so we've built the chips, leveraging a lot of what we do in cockpit, extending it to ADAS, a very strong portfolio.

And we have traction across global OEMs and Chinese OEMs. And I'll come back to the Chinese OEM in a second. And then the fourth part is building the ADAS stack that allows you to really implement autonomous driving at scale. And so we're building that as well.

And so we really have a full portfolio. And so if you're an OEM saying, who do I partner with, who is my technology partner of choice that will bring me all the technologies that I need to deploy at scale, Qualcomm is probably at the top of the list. What you're seeing in China, as you rightly said, very similar to what happened in the handset industry.

Very quick innovation, more of a consumer electronics mentality being applied to the auto industry. A lot of different OEMs all moving extremely fast. Qualcomm is very, very closely associated with the industry.

When you think about these OEMs, just like the handset OEMs in China, they think of not just what they do in China, they think of what they need to do internationally. And so they have global ambitions. Qualcomm is one of the key partners for them for their global ambitions, not just on Cockpit, but on ADAS as well.

So we're very confident. We've laid out a financial target of approximately $8 billion in revenue by fiscal 29. And I think we're in an incredible place to meet and exceed that.

BLAINE Yeah, I want to dig in a little bit more because obviously ADAS and autonomous driving is a big driver of your auto growth going forward. You have a deal with BMW to kind of develop a stack. And then I guess once that launches, you can kind of sell it.

So maybe just talk about the opportunity for just the silicon and then who wants the stack. And I thought it was interesting talking to you yesterday about the competitive landscape in China where there's a local player, but maybe they can't address the global, very much like handsets. Maybe you can elaborate on that.

AKASH Yeah, so think of two separate parts to the ADAS opportunity. There's a chip opportunity, which is independent. And then there's a stack opportunity, which is incremental to the chip opportunity.

Specifically, within China, we're seeing OEMs use China developed stack for ADAS, but they still need a silicon partner. And we are one of the key players in the industry for that. We're also seeing as these OEMs go internationally, also as other OEMs internationally need a ADAS stack, Qualcomm becomes an alternative for them.

And the BMW relationship for us is extremely interesting because what we have done with them is we brought our assets to the table. They brought their experience and their assets to the table. And so we're developing an ADAS stack together.

The cars get launched over the next couple months. They'll be the initial launches of the cars. And I think a lot of the OEMs are looking at what happens with the launch of those cars, because BMW is clearly seen as one of the technology leaders in the industry.

As they launch this stack, and assuming the stack has really good performance, it creates an opportunity for us to apply those stacks to other OEMs. We already have a couple other OEM wins, but we could scale this very significantly now that we'll have deployed with BMW in a global scale in commercial cars in large quantities. And so very excited about what's in front of us. I think it's just the beginning.

BLAINE Perfect. I wanted to pivot to the PC market. We were just talking about how I've been here about a year since I launched, and I went to Asia right away, and I think that was right around when the AI PC story came out, and UIs were obviously a key partner for Microsoft.

I thought when I saw the product, they weren't really marketing it as aggressively as they should have with the battery life. Kind of priced the same, and the sales were kind of okay, but maybe not a home run. I think you've kind of ground out some share there, so maybe talk about where your share is, why you think you'll still be successful, and do you think the landscape will change such that people will care more about battery life to drive Arm?

AKASH Yeah, so I think you have to have certain core beliefs in a market, and so from our perspective, for us it's very clear that when we think about the PC market, the PC is becoming as much of a communication device as it is a computing device, especially with video calls and such happening. Battery life and performance of the battery life is incredibly important, but no one is going to sacrifice performance of the device to get better battery life, and so what Qualcomm embarked on is to really deliver the best product in the industry, and so in our minds, from a chip and hardware performance perspective, we clearly have the best chip in the industry, performance and performance relative to power as well. The next kind of step for us was to address the consumer market, especially in the developed world, so Western Europe plus U.S., and I think we've done an incredible job with it. We had to cover a lot of applications, printers, other peripherals, and make sure that those work as the consumers would want it to work, and so we talked about approximately 9% share in the previous quarter in U.S. plus Western Europe in the consumer PC market, which to us is extremely, extremely attractive. We fundamentally believe as this market moves forward, as the Windows ecosystem has to compete with Mac, the transition to Arm is something that is going to happen, and as that transition happens, Qualcomm will be the primary beneficiary. Financially speaking, the target we've set is approximately 12% share of TAM, which is approximately $4 billion four or five years from now, and so we're very confident that that's a number that's achievable if you believe in the product that's in front of us and if you believe in that transition that we think is going to happen in the industry.

BLAINE We will get to handsets, but it crosses over between PCs and handsets as the AI piece, and I think it came out and people went right to it's going to be processed locally, but it feels like still a lot is in the data center, so as part of differentiation being an AI PC, do you see a path that a lot of these models will be run locally and it'll actually be something a consumer wants to buy?

AKASH Yeah, so I think if you step back and think about AI for us, it's not a thread just between handset and PC. It carries over to augmented virtual reality devices. It carries over to industrial.

It carries over to robotics, and of course automotive, especially with ADAS. So AI is a technology thread that cuts across every device we're in, and so it is a source of competitive differentiation for us, and our view on it is pretty clear. I think you're going to have hybrid AI as the basis going forward.

You're going to have several use cases that'll happen on the device, and Microsoft is actually one of the companies that have a more clear vision on what they want to do with it, and so over the next, let's say, 12, 18 months, we will, in our minds, it's very clear that we're going to see a lot of use cases being deployed at the edge, and that shows the advantage of our chip. Actually, today, yesterday, I guess, in the U.S., at AWE AR/VR conference, we showed off on a simple pair of glasses, we showed a billion-parameter model running and being able to answer questions and do tasks for you running on the device. You don't need to go to the cloud.

You don't need to go to the phone. You don't need to go anywhere else, just being able to run it on that form factor, and so that's just another example of how good the technology we have is, and so I think as the use cases come together, it creates an advantage for us.

BLAINE You brought up the XR/VR. I mean, when the first Google Glasses came out, I was like, that's never going to work, but then you do see people wear the Meta Glasses. Can you talk about your position there in that market, and then actually, do you see, what use cases do you see that this actually might be something more material?

AKASH Yeah, yeah. We have a very strong conviction, especially on the augmented reality, simple glasses market, so first, let me talk about the position. So we've been the leader from a chip perspective in that market, and so whether it's anything that Meta is doing, anything Google is doing, any of the Chinese OEMs doing something similar, you have several OEMs in India who are trying to do the same as well, so pretty much all these ecosystems use Qualcomm's chip, and so we are in a very strong position.

We've built not just the chip, but a lot of the stack that is needed as well to do things like object tracking, ASIC stuff and other

technologies that are very critical in making augmented virtual reality happen, so very strong portfolio on the chip side, very strong portfolio on the software side and working closely with the partners that drive the ecosystem. I think on the glasses on augmented reality, our view is that increasingly what is going to happen is it becomes the personal device that can see everything you can see. It can hear everything you can hear.

It can be the AI agent interaction point for you as well, being able to ask questions, and so as an example, I could look at you, Blaine, and say, who is this, and it could answer that question for me, or what watch is so and so wearing, and if I look at the watch, it can figure out what the watch is. There's just a lot of examples of being able to leverage the fact, as I said before, it can see what you can see, it can hear what you can hear. One of the use cases that we talked to a startup recently, what they're using is using glasses as a hearing aid replacement because once you're wearing it and it has speakers, it can amplify based on what you're hearing is in any given ear and make it a much easier transition to hearing aids.

Hearing aids, a lot of social taboo. People don't wear it until it's very, very bad. This is a very different conversation.

Another use case is being able to use a wearable device as a way to control, and so this is something that we showed yesterday as well, is if you have a ring and you're wearing a ring on your hand like I am, you can use motions because the ring moves to control the screen in your glasses, and so that combination of those devices becomes very interesting. If you saw Google I.O. last month, two weeks ago, it was really Gemini I.O., right? They talked about all these incredible AI use cases, and one of the things they showed is if you're wearing glasses and I walk by the Jefferies hallway and there was, say, a book in a shelf in one of the conference rooms, and I come back here and say, hey, I saw a book on the shelf in a previous conference room.

What was the book? And because it saw everything I saw, it can remember and tell you what it was, and so there is just directions is a great example. If you put a small display in it, being able to, if you're walking on the street and you have Google Maps turned on

and you can see in the side of your eye what the directions are for where you're going.

So it becomes a very significant personal computing device, and these are all examples, by the way. I'm not smart enough to figure out which one of these will take off, but the fact that you have a personal computing device between the watch, the earbuds, and the glasses, we think we're in an incredible place to drive the next paradigm of a personal computing device that is powered then by agentic AI, and that, I think, is a big opportunity.

BLAINE Yeah, super interesting. Maybe finishing off on the non-mobile. The industrial market means a lot.

Maybe you can talk about where this business is for you today. I don't know if you've given the size of it, but then what are the major pieces within it?

AKASH Yeah, so in the industrial market, we've set a target of $4 billion of revenue over the next few years, and, again, we think of it as very similar to what happened with automotive. Automotive was very much a microcontroller market. We see that similarly the industrial market is very much a microcontroller market.

We think it's going to move over to processing. It's going to move over to AI. It's going to move over to wireless connectivity.

And so let me give you an example of a camera is an easy way to think about it. Today, we have all these security cameras, and the way it works is those cameras are connected to a room with TVs on it, and there's a person sitting in the room staring at the TVs to figure things out. What you really should be doing is add AI to the camera itself, and then the stream that is coming in from the camera, AI would run a workload on it and make a decision on something that doesn't look right or something that requires an action.

Very, very simple example. If you think about any handheld devices, so if you go to a restaurant, your checkout device that they come in

with, if you go to a retail store, if you go to a Home Depot or a Walmart, the associates have a handheld device. You can use those devices to ask questions, and so someone comes in and says, hey, I'm looking for this and this screw.

What aisle is it in? You could just use agentic AI with the device. The agent could answer a question like that.

One of the things we're working with Aramco in the Middle East is using handheld devices to control equipment. So you could hold your phone up with a camera, not a normal phone but a ruggedized phone for that industry, hold up the camera to a piece of equipment and ask a question, how do you turn this on? And it should be able to answer that question.

So there is just so much, so many use cases in industrial that have not been enabled by technology so far. It's really what technology is used for is to turn off and on things. That's all that's done in industrial.

Now the idea is how do you take the information that is available at the edge and make smarter decisions using AI? And that's kind of the next paradigm of industrial. We are incredibly convinced that this is going to happen.

And it's kind of not a long-term, it's not a small opportunity for us. It's a tremendously large opportunity for us. And so very excited that we enabled that transition.

And within that, one of the categories is robotics. And so you think about robotics at the very low end. The largest robotics market today is a Roomba in your house that cleans your house.

At the very high end, you have ADAS. But there are several categories of physical AI in between that. So you have manufacturing robots.

You have distribution center robots. You have storage robots. You have drones.

And then finally, you have humanoids. And in each of these areas, when you think about, say, humanoids as an example, what you need in a humanoid is wireless connectivity, very good battery life, high performance. You need a very good camera.

You need a lot of the technologies that AR/VR has because it needs to look and make decisions on it. It needs a stack like ADAS does. So it takes a lot, advantage of pretty much everything Qualcomm has in one device.

And so we're very, very excited that that's a market that we can be one of the top two players in and that the market takes off. Qualcomm will be one of the big beneficiaries.

BLAINE Super interesting stuff. I do want to talk about handsets. You know, I think people look at the handset market, say it's kind of mature, modest growth.

What's so interesting? You actually have seen a pretty good ASP tailwind. So maybe you talk about what's going on in the market dynamics, why it's still a growth business, and then we can get into some of the other details.

AKASH Yeah, so I think a lot of interesting things happening in the market. First is tremendous makeshift up. I think we sit in developed markets and we see that devices are getting more expensive and more capable.

But really, when you go to emerging markets, tremendous change in the mix of devices that are sold. And so as people upgrade, they're buying more expensive devices, they're playing a lot of games. I think I heard this metric, I'm not even sure if it can be true, but someone said college students in China play eight hours of gaming every day.

And so it just seems crazy. I know in the emerging markets, the primary TV watching device is the phone. And so a lot more expensive devices are being purchased.

So that's great for our business. Specifically, within China, we're seeing kind of the market split into a barbell market where you have a very big market at the top and then a market at the bottom and the middle thins out and moves to the top. We're seeing the benefit of that as well.

Also, as you go from one generation to the other to the next, as devices become more capable, as more and more AI features are absorbed in it, that increases the ASP for us. And so we've benefited from that. When you take kind of this combination of these things over the last several years, in a flat handset market, we've grown tremendously.

And so it's funny because sometimes we diversify and grow revenues in all other areas and then handset grows faster and we come back to the same problem statement, which is no problem for us. But that's what's happening in the handset market. There are a couple very interesting things that are also happening.

First is within China, the Android ecosystem is winning share against Apple. This is a trend over the last couple of years. And so we're seeing the benefit of that show up in our financials.

And also when you think about the transition to an AI smartphone, we have firm conviction that it happens over the next several years. The Android ecosystem, especially with Google, is leading it and Apple is trailing. So that's another opportunity for us is as share moves over from Apple to the Android ecosystem, tremendous benefit for Qualcomm as the leader in that tier of Android.

BLAINE Yeah, maybe just to finish, because we're going to run out of time. It's just on the competitive landscape. I do get this question a lot.

And Apple, you've been very clear that's going to go away over time. Last time you said it took longer, but it's really going away this time, I guess. But I think people look at Samsung and say maybe you're over-earning there because obviously Samsung's internal effort has not worked at the high end.

I think you hear stories of at least one Chinese company doing their own modem. Can you just update us on that landscape in terms of if you see any shift happening?

AKASH And you know this well as well. We've heard this story and seen this movie for the last 20 years. We used to be in a market where there were 12 chip companies, and now there are two merchant chip companies, us and MediaTek.

And within this, we've not just maintained our position, we've strengthened it. And you've seen that over the last few years as well. So it's nothing new for us. In our industry, the most important thing is for you to have the best product. That's the core belief which makes you win in this market.

And so we're very confident when we look at us versus Samsung, when we look at us versus Xiaomi. We're in a very, very strong position from performance perspective. Lot of new capabilities coming into chips and we're going to lead in each one of them.

BLAINE Perfect. We'll leave it there. Thank you, Akash.

AKASH All right. Thank you very much. Thank you.