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EDITED TRANSCRIPT

QCOM.OQ - Qualcomm Inc at JPMorgan Global Technology, Media and Communications Conference

EVENT DATE/TIME: MAY 19, 2026 / 4:35PM GMT

OVERVIEW:

Company Summary

LSEG DATA & ANALYTICS

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PRESENTATION

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Good afternoon, everyone. We are here to host the fireside chat with Qualcomm and one of my favorite sessions from the -- at the conference every year and with one of my favorite people here, Akash, who we were discussing outside, proves me wrong every time. It's always a good time.

Akash, thank you for being here. Akash, who is the Chief Financial Officer and Chief Operating Officer of Qualcomm. Thank you for the time here.

QUESTIONS AND ANSWERS

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

A lot going on. So let's get into them one by one. You've talked about three different opportunities in accelerators, CPUs and custom silicon now over different points of time. Let's maybe start on custom CPUs. That's driving the most amount of discussion with shareholders or investors at this time.

How should we think about Qualcomm's opportunity, differentiation in custom CPUs, and remind me of timelines and any acceleration on the timelines as well?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Sure, sure. So first of all, it's great to be here. Thanks for hosting. So we're very excited. I think we've kind of waited for the right opportunity to have a set of assets that's extremely relevant and material to what's happening in Data Center.

And so at our earnings recently, we talked about how we're going to enter the Data Center business. And there's three key areas that we outlined. The first one is custom silicon.

So to Samik's question, what we discussed is that we are working with a hyperscaler, and we're going to have revenue starting later this year from that engagement. So very excited. This is, I think, an opportunity that's going to be very material for us in '27. And then hopefully, it's a stepping stone to an ongoing engagement and then scaling up from there.

So we're leveraging the fact that we have an incredible technology portfolio. We recently acquired Alphawave and they have -- they have been doing custom silicon for a long period of time. So we are leveraging their expertise as well.

And then as these hyperscalers look to make chips and look for partners who can help them with the silicon execution, Qualcomm quickly emerges at the top of the list. I mean we've -- obviously, lots of experience in doing chips. We have expertise in 2-nanometer, 3-nanometer, 4-nanometer, other technologies. We have obviously tremendous scale at the foundries as well. And all of these things become very relevant when the hyperscalers are looking for a partner. So, happy to have this engagement. I think this is an opportunity for us to grow from there.

The second area where we'll be entering in Data Center is the CPU. As several of you might know, we have a custom CPU that we deploy in handsets, where we are the performance leader. We also deployed that same CPU in PC. And so if you compare us to the x86 players, Intel or AMD, we think we have a very significant performance advantage. And we're going to bring all of that to bear in a Data Center CPU solution.

So that comes in as well and excited about how the CPU use is changing in Data Center. It was a very large market. I think it's expanded very significantly now. And so as agentic comes in, the role of the CPU in Data Center expands, and now this allows us to play in that larger market.

The third thing we're doing is we're building an AI accelerator that is really optimized for certain workloads and inference. So as the Data Center kind of drives growth in inference, within inference, you have Prefill and Decode and what we're building something that is really optimized for certain workloads that happen in Decode, and so very excited about that as well.

So it's a series of products, we think of this as something that layers into our portfolio over the next couple of years and excited about being hopefully a very significant player in Data Center going forward.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

So custom silicon this year and the other two CPUs and accelerators over the next couple of years from a timeline perspective?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. We think those three layer on top of each other, right? And so happy to kind of have that come through. If you look at several of the chips at data center players, they're focused on one or two of these areas. And the fact that we have such a large portfolio of technologies and now it's coming together into products, we get a chance to play in all three of them.

So, very excited. I think it puts us in a unique position in data center and semiconductor companies. And you know, we've not had a position there in a very, very large market. So, super excited about it.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Let's talk about competition and maybe starting with CPUs, how are you thinking about competing against Arm, which is now vertically integrating further?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So we compete with Arm at edge devices, right? So we have a core, that's a custom core. If you look at our phones, we use that custom core into our phones. Our competition uses a custom Arm CPU in those devices as well. And if you look at the performance of the two, we're pretty comfortable that we have a significant performance advantage when you compare the two.

When you take that to PCs, we're using the same in our Snapdragon PC products. And if you compare our CPU core to the x86 ecosystem, we think we have an advantage as well. So I think we are unique on the edge where we use this custom core and we have an advantage across the other players, and that same advantage shows up as we get into data center.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Interesting. Okay. Accelerators. You talked about the opportunity with sovereign customers. How is the target customer for maybe AI200 different from AI250? And how are you thinking about customer adoption right now?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So I think this product line, the AI200, 250 product line, is very much a merchant product line, right? So we're developing it and we'll make it available to really all hyperscalers globally. And we think we're bringing our low-power heritage that we've worked on for several years on the neural processing unit, NPU, on edge devices. We're bringing that to Data Center. We're bringing some novel techniques in terms of how we solve the memory bandwidth problem in decode solutions for inference.

So it requires us to kind of combine memory along with logic. And it's a unique way of solving the problem. We don't think there's anyone else in the industry who does that, and we think it brings tremendous performance advantage in terms of how strong the memory bandwidth performance is.

So, excited about that as well. We are engaged with multiple customers. And then, of course, looking forward to giving a lot more details when we do our Investor Day on June 24.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Yeah. So any more color on what -- how is the product line for AI200 different from 250, Who do you exactly target as a customer?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

So we'll talk about it at our Investor Day, so I don't want to front-run it. But I think you should think of the -- a lot of the innovation that we're doing coming through with the AI250 product and AI200 becomes kind of the set up for that launch.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Maybe just taking a step back, I think one of the questions we hear often on these initiatives that you have is, okay, you have a design here like is it that easy to come into the market, break into the market and scale? As you're thinking about it, what are the primary hurdles you think about as you have to scale these platforms and address customer demand? What are the primary hurdles you have to overcome?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

So as you know about Qualcomm, right, we're all about technology. And so we have a very, very strong portfolio of technologies. We're bringing all of those to bear. We're very confident that we can take those and deliver chipset solutions at scale, whether it's for custom silicon engagement or whether it's for merchant engagement. So I think given our track record, hopefully, everyone in the industry believes that.

One of the things that we had to work through is the software ecosystem. It doesn't apply to the custom solutions because those are built custom for a hyperscaler and they are typically working on the software. But as we get to CPU, which is porting workloads onto the Arm architecture, which has largely happened already, but there's some additional work to do. And then when we get to our merchant solution for AI accelerator kind of fitting into the architecture that already exists and supporting the industry standards on it is what we're working on.

So that, to us, is kind of normal execution when we get to a new market. But when you start from a position of strength where you have competitive differentiation, if you think about the data center players, most important thing is how does performance per watt -- power is a very important metric now in Data Center and performance per watt leadership is critical. Performance per dollar leadership is very critical as well and both of these translate into a lower total cost of ownership.

And so when we engage with customers, really the key question is, can you deliver significantly lower cost of ownership -- lower total cost of ownership. And that's where the advantage of Qualcomm comes in through performance. So what we think of as best-in-class performance per watt translates into a better TCO. And that's what the hyperscalers are looking for.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Akash, another follow-up on this is a lot of constraints on the industry from a supply perspective as you scale, you need to have visibility that not only that there's demand, but that you will be able to meet that demand with supply. What have you -- what actions have you taken on that front already to secure that?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. And so I think one of the advantages of Qualcomm is just the scale we have, right? So we're obviously a very large player for TSMC, a very large customer for them. We work across 2-nanometer, 3-nanometer, 4-nanometer. We work across foundries as well.

And so when you -- when a hyperscale customer looks at Qualcomm as a supplier, the scale that we have in the industry, the knowledge that we have of leading nodes, the experience we have in building complex chips becomes very important. And so I think given our scale, we have some flexibility across our product categories, across the nodes, and we're able to leverage that into having supply assurance.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Maybe let's move to the third one of that order of initiatives or sort of areas of growth that you're looking at custom silicon. How is it different from the other two opportunities, CPUs and accelerators that you defined? And maybe more than that, how much of it was an opportunity Qualcomm could have addressed organically relative to the Alphawave acquisition helping you address it?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So Alphawave has been in the custom silicon business for a long period of time. They also have key connectivity IP, SerDes, optical, other things that become also important when you have some of these engagements. And so you kind of take that advantage, combine it with the technology portfolio and scale of Qualcomm and the combination becomes a very interesting alternative to an industry that has a couple of suppliers still now at scale, and we become an alternative to those suppliers.

And what we're seeing is really the interest from the industry in having a new supplier that enters with our scale, with our technology competence. And the traction we're getting is a result of those factors coming together.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Got it. Before we move further, just that your competitors on the CPU front are pretty well known. When you think about your opportunities in custom silicon and accelerators, who would you define as the competitive set that you'll be running up against just for investors to better visualize that you will have different competitors in these aspects, right?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I mean, I think it's well known in the industry, but the custom silicon, the largest players who are probably are Broadcom and then maybe Marvell is the number two player. When I think about the amount of assets that we bring together, especially between us and Alphawave, and the scale that Qualcomm has, I think we compare very favorably to the existing players. And if someone is looking for one or two alternatives, I think we would make that cut.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. On the accelerator front?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Sorry?

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Accelerator?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

On the accelerator side, I think the same framework applies, right, whether you're doing a custom CPU solution or custom accelerator solution, it's the same set of players who are competing for those sockets. And I think what I outlined just applies to this as well.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

So now that you are taking a view on these three opportunities, you are expecting them to layer on over the next few years. But is there a view yet -- early view yet on which of these three will be the largest for the company medium term, if we can rank order them in terms of size of how they play out?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I think just generally, when you look at the SAM in the market, by far the largest -- and this is not a largest opportunity for Qualcomm comment. This is just a TAM comment. The accelerator market is the largest market. Now the CPU market, especially with agentic workloads coming in, there's a significant change upwards in the size of that market as well, and then you have the custom chip market. So those are the three.

But the way I think about it is Qualcomm has an opportunity to be successful in all three. And each one by itself would be extremely significant. So whether you believe we can be successful in three of them, two of them, one of them, each one would individually be very significant to our financials.

So super excited. I think we always -- we've always believed technology always wins in the long term, and we're going in from a position of strength. We are going from a position of technology and excited about what we can do for our customers there.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Great. So maybe let's move to another end market since we've talked about Data Center for a while, Autos. It's remarkable what the company has done in Autos and position itself to be a leader in -- I want to say short time, but we know Autos takes a bit long cycle. But relative to some of your incumbents, you've done really well.

You guided to an acceleration in the growth into the June quarter as well. So maybe outline for us what are the incremental growth drivers that are benefiting the company? How sustainable is this acceleration that you're seeing?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. I think, first of all, super excited about what's happening in the auto industry and our role in it now.

We have three set of products that make up the Snapdragon digital chassis. The first set of products are connectivity chips. I would say it's clear that we are the global leader in that. The second is digital cockpit chips. So these are chips that empower the screens inside the car. And clearly, we are the leader in that as well. And the way this -- and then the third is autonomous driving chips as well and then stack that goes with it.

The way this has layered in is very similar to the data center conversation we had. We started with one area, which was connectivity, then we had Cockpit and now we have ADAS. And what you're seeing come through in the recent quarters is this take-up rate that is ADAS, that's now on top of the other two which are still growing in themselves.

What is interesting in ADAS is as we go from one generation to the other, the industry is accelerating, right? Companies are looking to go in from Level 1 to Level 2 to Level 2++ to Level 3 and Level 4. And the silicon content increase across all of those is extremely significant, right? So Level 3 going to Level 4 is what is coming through in our financials right now. Later this year, we're going to start seeing OEMs, car OEMs in China start deploying Level -- sorry, our next-generation Gen 5 chips as well.

So a very strong portfolio of chips, very significant increase in content as you go to more capable chips and more capable autonomous driving capabilities. And then Cockpit still by itself continues to grow. So the setup is perfect. Our product leadership is, I think, very significant and clear. The entire industry has a very good understanding of it.

But agentic AI now is coming on top of it, right? What used to be the Cockpit experience where you had to touch the screen to do everything in the car increasingly is going to become an experience where you're talking to the car and you're having an agentic AI conversation. The car has the capability to understand the driver, understand the preferences, things like directional mic, being able to ask questions about the performance of the car, turn up the temperature, all kinds of things. And so I think transformation is continuing to happen, more digitization in the car is great for Qualcomm and you're seeing that come through in our numbers.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

On the ADAS front, there's been a broader conversation about the impact of AI, right, on autonomous driving. And whether it makes it easier for new competitors to enter the space with the help of AI on the software stack.

Are you seeing anything change on that front? Where do you -- given your position now in terms of the pipeline that you have for ADAS wins? Where do you see the competitive moat that sustains your leadership here?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So I think our ADAS leadership is multifold. I'll say the first leadership is we have a single chip that does digital Cockpit and ADAS. So for lower-tier cars, that solution is optimal, and we create a sandbox environment where you can implement both at the same time.

The second leadership vector is how strong our stand-alone ADAS solutions are at the premium tier and how -- when we go from one gen to the other, the content expands very significantly.

And then the final, the third vector is bringing in an ADAS stack that we've developed working with our customers. And then we are advancing that towards now Level 3 and Level 4. That's the third vector of differentiation.

And it's really all of these things coming together in an end-to-end platform that, if you're a car OEM and you're looking for a technology partner because this is not just a supplier relationship, this is a technology partner relationship, our portfolio puts us in a great place and that's what you're seeing come through in the relationship with the customers.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Got it. Got it. Maybe let's move to talk about your opportunity in physical AI and how different or similar is it from what you're doing in Automotive. And how, again, are you thinking about the market scaling in relation to physical AI?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So super excited about that as a long-term opportunity for Qualcomm, right? So new areas that we are pursuing in addition to what we've been doing in Automotive and IoT is Data Center and robotics, right? Robotics is -- it's an incredible extension for us from what we are doing in Automotive. In some ways, robotics is kind of the next step of ADAS.

You were able to leverage all the technologies that we've developed for ADAS. But Automotive is even more suited to Qualcomm's strength. Robotics is even more suited to Qualcomm's strength because you need to be -- have like very low power consumption, small form factor, wireless technology, very good camera, sensor fusion. All the things that Qualcomm does well comes together in the platform that's required for robotics and so very excited.

I think we're at the very beginning of what this market is going to turn out to be. It's going to be a massive market. There's no question. The debate is really just how long it takes to get there. And for us to be able to work with each of the leaders in the industry, both the US and the global ecosystem -- pretty excited about it.

I think we've talked about a relationship with Figure AI, with KUKA, with Booster, with VinGroup in Vietnam, with NEURA. There's a lot of different companies and then several customers, potential customers in China as well. There are several companies that are using our solution to build robotics at scale. And I think it's going to take a lot of different form factors.

You're going to have something that is manufacturing robotics. You're going to have something that is toy-like robotics. There's going to be a distribution center robotic solution, and then finally, humanoid. And each one kind of stresses on different things and requires incredibly capable chipset solutions. So very excited about it.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

In aggregate, when do you see these opportunities starting to be material to Qualcomm?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I would say we expect this in kind of the next three- to five-year timeframe. You're going to start with simpler robotic solutions. So think about home cleaning robots where we are already a very significant presence, they're going to become a lot more capable in the next couple of years. So that's one place to start.

I think manufacturing robots now transitioning from fixed form factor to AI-based manufacturing robots that transition is going to happen faster. Warehouse robotics is probably a two- to three-year cycle, and you're going to see significant things at scale. And then finally, humanoid after that. So lot of different steps, and I think we get to participate in all of them.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. And you start with the way it starts, you start with the lower content opportunities and as the volume grows and you get to humanoids, you have a higher front-end opportunity.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. I think the amount of complexity in robotics is incredible because you need a solution for the locomotion, the movement. You need a solution for the brain, which is mostly AI-based. And then you need now, I think, distributed computing within the robot with chipset solutions in each limb, in arms and legs as well. So there's a lot of silicon content that will be required. And obviously, a great opportunity for us.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Is there any way to think about the content eventually on a humanoid robot? Like I remember the Automotive Investor Day, whether you outlined the Automotive opportunity long term is like multiple thousands per vehicle, where does robotics opportunities say, related to Automotive?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I think we had a range of, if I remember correctly, $300 to $2,000, something like that. I think actually, using a range like that for robotics is a reasonable starting point. I think it's going to evolve, a lot might change. But using a very similar range to think of the range of robotics is probably a reasonable way of starting.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Great. So last 10 minutes, let's move to smartphones. What's your vision of what happens to smartphones with agentic or what are agentic smartphones like?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. I think in some ways a very interesting time to be in the kind of consumer device industry. If we just kind of quickly go through the history, you have the PC, the phone came in and the PC remained in its place and the phone drove a massive expansion of the SAM. There's this tremendous move towards a personal AI device. So what we used to think of as an XR device where you have virtual reality, augmented reality device that has evolved into a very different form factor now.

I think -- there's a lot of companies who think of a device that is a personal AI device that can see what you can see, hear what you can hear and you can have a conversation with it. So we're seeing companies build glasses, companies build watches, earbuds with cameras, necklaces, broaches, just different form factors that people are experimenting with, but the core silicon content and the core function remains the same. It's this personal device that sits with you all the time and learns and understands about you and can be an assistant for you.

And so we see this trend as an incremental device that is on top of what we have in phones. And don't know yet which device form factor it will take in the end. We don't know if this is going to be a 50 million unit market, 200 million unit market or a phone-size market. But any which way you look at it, it's a great expansion of our SAM. So that's one way of looking at the personal device market is an expansion of SAM through a different form factor.

Specifically to your question on smartphones, we're also seeing very interesting changes happening to smartphones. If you've seen a couple of the devices that have been launched in China, the idea is the interaction of the user changes from the classic app format to an agent format. And you can ask the agent to do an action, you could ask the agent to download an app or make a reservation, and the agent takes care of it from there.

And so you take this movement towards Claws, combine it that -- combine that with agents and I think you put the two together and now you have a unique way of interacting with your device. I believe Google I/O is happening today, and there's some of those discussions that outlines their vision on how the world will evolve.

So I think super exciting time to be in smartphones in some ways from a technology perspective. This is not -- now putting those two things together, the personal device trend and the smartphone trend, this is not just something that the five, six smartphone OEMs are working on, right? We have hyperscalers across US, across China, across other parts of the world, thinking about how to build this personal AI device.

And so we are very excited about what's coming up over the next several months. I think you're going to see a very large number of devices launched in the second half of the year. And it's -- each device is going to bring in a new kind of use case with AI. And I think it becomes a lot more clear about how different use cases are going to get implemented on devices with AI and then how the split works between the cloud and the device in each of those use cases.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Any more color on your engagement with either hyperscalers or Frontier Labs and helping them develop these devices?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I'd almost say pretty much -- everyone is working with us. We are in a very, very large percentage of those devices. The form factor of these devices are pretty challenging because if you are, say, building a chip for glasses, it needs to be very low power. It needs to have wireless connectivity. It needs to be very small.

These are things that Qualcomm does well. And so I think we're very optimistic. We have a strong multiyear road map multi-design engagement with these hyperscalers. And I think just the beginning of a new category of devices, that's going to be super exciting.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

From a content opportunity standpoint, in the past, you've talked about sort of this mid-teens content opportunity with some of your Android OEM partners. Do you see the move to agentic AI driving a chipset capability that drives an inflection in that content increase?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Yeah. So there's different architectures that people are experimenting with, right? There is a concept of having an AI co-processor in a phone that can allow agentic AI experiences that are persistent, that are always on at very, very low power. So if the architecture changes to something like that, that's a very, very significant increase in the content opportunity for us.

There is also all these new devices that have different vectors of what it requires in terms of performance. And so there would be an expansion in some ways on a per user basis for us as well.

So a lot of conversations about how best to address this problem, but I think it follows the use cases. And when you think about a persistent AI use case where someone has to -- something has to stay on all the time, it will require a different architecture than what we have today, and that becomes an opportunity for us.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Got it. So maybe let's move away from the long term to the near-term dynamics. You did highlight confidence about getting to trough levels in F3Q rate of the smartphone market and seeing growth beyond that with your Android OEM partners, and I think you specifically called out the China market or Chinese OEM handset OEMs.

What is driving the confidence that there's no further inventory adjustment from their end?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Well, so there's two factors that can get -- that impact the revenue in the short term, right? First is just what is happening with the handset market given the memory industry dynamics. Second is the OEM decision to draw down on channel inventory.

And so we have seen two quarters of drawdown, and we have seen this in history. Typically, the second quarter is the largest portion of the drawdown. We also have data on the channel inventory at this point. And so you -- at some point, you just get to a place where the channel inventory is too low and you cannot keep drawing down on it anymore. And so then our sales would reconcile to the size of the handset market. And that's what's reflected in our confidence.

We also are going to have new devices launched in the September quarter, going into the December quarter, and that also helps us from a revenue perspective. So put those factors together, we feel pretty confident that June will be the bottom and we grow from there.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

And what about the other consumer devices? So for example, when you look at PCs or consumer IoT or even maybe switching beyond that industrial IoT, are they dealing with the same dynamic on the memory availability?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I mean the PC industry dynamics are well documented. I think the tablet industry is very similar to handsets as well, a lot of the same components go into those devices like handsets. But I think you go up from here for those devices as well as the OEMs have drained as much of the channel inventory as they could. And then now you reconcile closer to the size of the market.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. Okay. Good. So before we wrap up, maybe a couple of questions. How are you thinking about as you put all these opportunities together, Data Center, you have Autos already going well and scaling. You're doing well in PCs as well relative to your margin targets to keep 30% EBT margin for QCT.

How do you feel about that? And whether we, in the long term, are thinking about something higher than that just given the amount of opportunities we are pursuing?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I mean, at this point, obviously, we are not changing our target. We will address it at Investor Day. A lot of our op margin targets are tied to the revenue scale in the business, right? And so when you think about Data Center and if we significantly scale revenue in Data Center, that should help us on op margin. That's just kind of a logical conclusion. And that will be the primary dynamic on upside opportunities to our target.

The other thing to think about is as we enter into data center, we are investing incrementally to build our product road map. And so that is -- and it's already reflected largely in our OpEx run rate, but that does have an impact in the short term on our operating margin. But I think as you look forward and the revenue that we're expecting now in the data center area, we feel very confident that the 30% is a reasonable target to have.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Any gross margin implications as you build out?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I mean the way I think about gross margin is that when we enter new industries, our gross margin in those industries reflect what other players in the industry have. Of course, if you're the new player, initially, you have to take a lower gross margin to get in. But in the end, it will reflect the set of markets we are in.

As we get into data center, I think one of the most important things for us is to look for opportunities where it's -- their operating margin accretive, independent of the gross margin impact.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. And final one, how are you thinking about capital allocation, including any potential M&A or further M&A that you need to fill in gaps in the portfolio to address the data center opportunity?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

I mean, our M&A strategy has been, I think, very consistent, very successful. We have bought companies that have allowed us to accelerate our organic diversification plan. Example is Alphawave now latest one. Before that, it was NUVIA. We bought an ADAS stack company before that. And each one of these were extremely important for us in accelerating our diversification strategy. And we'll probably stick to the strategy we've had for M&A.

Of course, we've looked at the larger transactions. And so far, we've chosen not to pursue those. Never say never, but the focus is not on those things. The focus is on executing on transactions, the strategy that we've outlined.

Samik Chatterjee - *JPMorgan Chase & Co - Analyst*

Okay. No, that is great. I'll wrap it up there. Thank you, everyone, for coming to the conference. Thank you, Akash, for coming.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer and Chief Operating Officer*

Thank you.
