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QCOM.OQ - Q2 2023 Qualcomm Inc Earnings Call

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OVERVIEW:

Co. reported 2Q23 revenues of $9.3b and non-GAAP diluted EPS of $2.15. Expects 3Q23 revenues to be $8.1-8.9b and non-GAAP diluted EPS to be $1.70-1.90.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Qualcomm's Second Quarter Fiscal Year 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded today, May 3, 2023. Playback number for today's call is (877) 660-6853. International callers, please dial (201) 612-7415. The playback reservation number is 13737-571.

I would now like to turn the call over to Mr. Mauricio Lopez-Hodoyan, Vice President of Investor Relations. Mr. Lopez-Hodoyan, please go ahead.

Mauricio Lopez-Hodoyan - *QUALCOMM Incorporated - Vice President of Investor Relations*

Thank you, and good afternoon, everyone. Today's call will include prepared remarks by Cristiano Amon and Akash Palkhiwala. In addition, Alex Rogers will join the question-and-answer session. You can access our earnings release and a slide presentation that accompany this call on our Investor Relations website. In addition, this call is being webcast on qualcomm.com, and a replay will be available on our website later today.

During the call today, we will use non-GAAP financial measures as defined in Regulation G., and you can find the related reconciliations to GAAP on our website. We will also make forward-looking statements including projections and estimates of future events, business or industry trends or business or financial results. Actual events or results could differ materially from those projected in our forward-looking statements. Please refer to our SEC filings including our most recent 10-K, which contain important factors that could cause actual results to differ materially from the forward-looking statements.

And now, to comments from Qualcomm's President and Chief Executive Officer, Cristiano Amon.

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Thank you, Mauricio, and good afternoon, everyone. Thanks for joining us today.

In a challenging macroeconomic environment and broad downturn across the semiconductor sector, we're pleased to deliver fiscal Q2 results consistent with our prior guidance. We delivered fiscal Q2 revenues of $9.3 billion. Non-GAAP earnings of $2.15 per share were at the midpoint of our guidance. Our chipset business delivered revenues of $7.9 billion, near the high end of our guidance range. Our licensing business delivered revenues of $1.3 billion, at the low end of the guidance range on weaker demand for handsets.

The evolving macroeconomic backdrop has resulted in further demand deterioration, particularly in handsets, at a magnitude greater than we previously forecasted. As a result, we're operating under the assumption that inventory drawdown dynamics remain a significant factor for at least the next couple of quarters. Additionally, while expectations are for a rebound in China demand in the second half of the calendar year, we have not seen evidence of meaningful recovery and are not incorporating improvements into our planning assumptions. While the challenges we are facing are impacting the semiconductor industry, we remain focused on managing what is within our control and will continue to execute on our diversification strategy and leading technology and product roadmap.

As market visibility remains limited, we're actively managing operating expenses and will continue to evaluate additional opportunities to drive greater operating efficiencies without losing sight of the automotive and IoT growth opportunities ahead.

Let me now provide key highlights from across our business.

In handsets, we extended our 5G technology and product leadership with the Snapdragon X75 5G Modem-RF system, the world's first 5G advance-ready Modem-RF platform that will drive the next phase of new 5G capabilities globally starting in 2024 across segments, device types and networks. The X75 modem is now the benchmark for 5G performance and features for all flagship smartphone launches next year. Our Snapdragon 8 Gen 2 mobile platforms is the standard for Android flagship devices globally, with launches across leading OEMs, including Samsung, Xiaomi, Vivo, Oppo, OnePlus, Honor, Motorola, ASUS and ZTE.

Additionally, our Snapdragon 7 Series is redefining the high tier. Our recently-launched Snapdragon 7+ Gen 2 mobile platform outperform its competitors' premium-tier solutions, winning multiple accolades for its superior power and performance. We are seeing excellent adoption across Chinese OEMs, resulting in share gains. OEMs are also reporting strong initial sales for products powered by the 7+ Gen 2.

In automotive, we see continued traction across global automakers and Tier 1 customers, driven by the increased adoption of our Snapdragon digital chassis. We are very pleased to be partnering with Mercedes-Benz on our next-generation Snapdragon Digital Cockpit platforms. This is a result of our long and close collaboration with the ambition Mercedes-Benz software factory and engineering teams and various partners to create an industry-leading [MBOS] premium cockpit experience. The new platforms will be featured in Mercedes vehicles beginning in 2023.

Additionally, our OEM partners recently launched vehicles with our third-generation Snapdragon Cockpit platform, including the Xpeng P7i and Lotu's new Eletre SUV. Notably, during the quarter, we won 12 new designs across our Snapdragon Cockpit and Snapdragon Connectivity 5G platforms with automakers across the globe. We remain on track to execute on the milestones outlined during Automotive Investor Day.

In consumer IoT, we continue to be encouraged by the positive momentum with Windows on Snapdragon. Dell recently launched the Inspiron 14-inch laptop powered by the Snapdragon 8cx Gen 2 Compute platform. In addition to OEMs, we're expanding our ecosystem across [vials], hardware, software, ODM and channel partners. We're also launching the Windows on Snapdragon developer portal to enable consumer and enterprise ISVs to test, port and optimize their applications directly on Qualcomm Silicon. Our next-generation Snapdragon Compute platform, with custom Orion CPUs and industry-leading AI acceleration, is on schedule to enable commercial device launches in 2024.

As a reminder, we remain the platform of choice for all significant ecosystem players for XR, notably Meta, the joint partnership with Samsung and Google and broadly in China. While still in its early phases, we believe the merger of physical and digital spaces will become a significant opportunity for Qualcomm. We also continue to win designs for home robotics, smart appliances and smart camera applications with household names such as Bosch, LG Electronics, Panasonic, Samsung and Sony.

In Edge Networking IoT, we're very pleased to share that we're now collaborating with Reliance Jio on rolling out 5G FWA across India, servicing millions of residents. We also recently announced the Qualcomm 5G Fixed Wireless Access Platform Gen 3, offering operators the ability to expand their service coverage to new areas while lowering cost and enabling faster deployment. Additionally, we continue to lead the transition to Wi-Fi 7 with more than 175 cumulative designs across all product categories. Access points account for 89 of these designs, with 16 launches in the quarter.

In Industrial IoT, we announced the Qualcomm Aware platform to empower developers and enterprises to easily build real-time intelligence and visibility solutions. The platform combines simple, secure and scalable cloud-based services with power optimized and precise location tracking and an extensive hardware ecosystem to deliver tailored edge solutions across many industries.

Additionally, we led the Bluetooth SIG working group to help establish a new standard for electronic shelf labels that are scalable, ultra-low power and highly secure. This will help enable large retailers to accelerate the digital transformation of the store with electronic labels that can interact with both store and consumer devices. Our OEM partner, SES-imagotag, recently announced an agreement with Walmart to deploy electronic shelf labels across 500 stores over the next 12 to 18 months.

I would now like to provide a perspective on the disruptive trends in the artificial intelligence space and the significant opportunity for Qualcomm.

Demand for generative artificial intelligence models is growing at an exponential rate. Generative AI models such as ChatGPT, Stable Diffusion and DALL-E have already scaled to millions of users in a short period of time. We believe that this models will evolve quickly, continue to grow in popularity and change user experiences across mobile, personal computing and automotive. Beyond changing Internet search, this model will have an impact on content creation such as text, images, audio and video for both entertainment and productivity. It will also transform many industries.

For these models to realize their full potential and scale, they will need to run locally on devices at the edge. At Mobile World Congress, we demonstrated the world's first on-device Stable Diffusion, a greater than 1 billion parameter foundational model for text-to-image applications running completely on a Snapdragon-powered Android smartphone. In the coming months, we will see significantly improve performance and be able to run models in excess of 10 billion parameters locally on the device, and we will increase this capability substantially for our products in 2024.

Qualcomm is uniquely positioned to enable the proliferation of AI use cases on edge devices. We're advancing AI to make core on-device capabilities ubiquitous such as perception, reasoning, action and now, content creation. With millions of AI-enabled platform shipments per year, unparalleled AI processing performance per watts in the broadest range of device categories from smartphones to PCs, automotive and IoT, Qualcomm is firmly at the forefront of this upcoming transformation. Further, very large AI models are placing significant incremental demands on energy-intensive and expensive cloud computing infrastructure. As such, a hybrid AI architecture leveraging accelerating computing at the edge can offload or support cloud processing by running AI inferencing directly on the device.

Beyond cost optimization, additional benefits of running generative AI on device include improved latency, security, privacy and the ability to meet data compliance requirements. This is a new and exciting opportunity for Qualcomm in one of our priority investment areas.

As I close my prepared remarks, I would like to reiterate that the secular technology trends driving the long-term growth opportunities for Qualcomm remain unchanged. Despite the disappointing macroeconomic environment, our investments in technology leadership, our best product roadmap and history and strategic customer relationships across multiple industries position us well to execute on our strategy and expand across new and diverse end markets.

I would now like to turn the call over to Akash.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Thank you, Cristiano, and good afternoon, everyone. I'll start with our second fiscal quarter results.

Despite a difficult operating environment, we delivered revenues of $9.3 billion, which was above the midpoint of our guidance, and non-GAAP EPS of $2.15. QTL recorded revenues of $1.3 billion and EBT margin of 68%, reflecting lower-than-expected global handset units. On a year-over-year basis, we estimate global handset sell-in units declined by approximately 14%. QCT revenues of $7.9 billion and EBT margin of 27% were both near the high end of our guidance. Handset revenues increased 6% sequentially to $6.1 billion, benefiting from device launches with Snapdragon 8 Gen 2, our latest premium-tier chipset platform. IoT revenues of $1.4 billion reflected a larger-than-expected impact of macroeconomic environment on demand and channel inventory drawdown. Automotive revenues of $447 million grew 20% year-over-year, driven by the adoption of our Snapdragon digital chassis and are aligned with our long-term revenue target.

Non-GAAP operating expenses of $2.2 billion were favorable relative to our guidance by approximately $80 million. We returned $1.7 billion to stockholders, including $903 million in stock repurchases and $834 million in dividends. Additionally, we are pleased to have announced a 7% increase in our quarterly dividend, consistent with our commitment to dividend growth.

Before turning to our third fiscal quarter guidance, I'll give you an update on cyclical challenges impacting the semiconductor industry.

Financial headwinds have increased meaningfully relative to our initial expectations going into the fiscal year. With a combination of an uncertain macroeconomic outlook, persistent inflation and a slower recovery in China, which continued to impact demand globally. We now expect global 3G, 4G, 5G handset units in calendar '23 to be down at least a high single-digit percentage relative to calendar '22, which is lower than our prior expectation. Given the weaker handset forecast, until demand normalizes and visibility improves, we anticipate that customers will remain cautious with purchases and reduce channel inventory risk further.

Within IoT, we continue to see the impact of similar factors as Handsets. Since it remains difficult to predict the timing of a sustained recovery, we are operating under the assumption that the inventory drawdown dynamics will remain a significant factor for at least the next couple of quarters. To effectively navigate this uncertain landscape, we are focused on driving operating efficiencies while maintaining our commitment to invest in diversification and long-term technology leadership. We believe we remain well positioned to capture a rebound in demand once it occurs. We are on track to meet our commitment of a 5% reduction in non-GAAP operating expenses relative to our fiscal '22 exit rate. This includes a further reduction of spending in handsets to fund diversification investments in Automotive and IoT. As the environment continues to evolve, we will evaluate and execute additional cost-reduction opportunities to help exceed our operating expense target.

Turning to guidance for third fiscal quarter. We are forecasting revenues of $8.1 billion to $8.9 billion and non-GAAP EPS of $1.70 to $1.90. Our guidance reflects the impact of macroeconomic headwinds, weaker global handset units and channel inventory drawdown. In QTL, we estimate revenues of $1.15 billion to $1.35 billion and EBT margins of 64% to 68%. In QCT, we expect revenues of $6.9 billion to $7.5 billion and EBT margin of 23% to 25%. Based on the midpoint of QCT revenue guidance, we estimate a larger-than-normal sequential decline primarily due to the timing of purchases by a modem-only handset customer.

On a sequential basis, we are forecasting Android handsets and Automotive revenues to be roughly flat, with mid-single-digit growth in IoT. Consistent with our previous messaging and second quarter results, QCT gross margins reflect the impact of the transition from supply constraints to elevated channel inventory in addition to foundry cost increases. Lastly, we expect non-GAAP operating expenses to be approximately flat sequentially.

As we look ahead, we expect the dynamics impacting the third fiscal quarter to extend to the fourth quarter, including the timing of purchases by a modem-only handset customer resulting in muted seasonality in QCT revenues.

In closing, while we are not immune to near-term headwinds, we are well-positioned to benefit from an eventual recovery in the macro environment. Despite a reduction in global handset units and the continued drawdown of elevated channel inventory, QCT handset revenues has benefited from increased content per device, expanded traction with OEMs and improved mix across tiers. We remain focused on executing our diversification strategy and positioned ourselves for success in our largest growth opportunities, including Automotive, Industrial and Networking IoT, personal computers and XR. We're confident in our ability to navigate the current operating environment, given our strong balance sheet and debt rating.

Thank you. Back to you, Mauricio.

Mauricio Lopez-Hodoyan - *QUALCOMM Incorporated - Vice President of Investor Relations*

Thank you, Akash. .

Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question is from Samik Chatterjee with JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

Thanks for all the details in the prepared remarks. I had one on smartphone and one on auto, so if I can just start on the smartphone one.

I think I know you're sort of taking down your guidance for the overall market outlook today for 2023. But if I look at your QTL guide, it does sort of imply that you're looking at more of a stabilization in the sell-through at an absolute level. So when I look at your QCT guide rate there, it does suggest that most of the headwinds you're seeing or expecting there are inventory and timing of the purchases. Maybe just sort of confirm if that's the way sort of -- if I'm interpreting that right? And what's the maybe magnitude of the timing and the inventory headwinds to the QCT revenue guide for fiscal third quarter? And I have a follow-up.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes, Samik, you're thinking about it the right way. It's the right thing to connect the market forecast to QTL, and then QCT really has this additional factor that is related to the inventory drawdown. Our view of inventory drawdown is really the macro headwinds increase -- have increased meaningfully since the beginning of the fiscal year, and so what we've seen is the impact on market is driving a scenario where it takes longer to run through the existing inventory. We don't have a fundamental change in how much inventory we think the channel had going into the year that was accessed. It's just how long it takes to run through it as a result of the market forecast.

Samik Chatterjee - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. Okay. Good.

And on the auto side, Cristiano, you talked about the 12 design wins, but you mentioned them being in Cockpit and Connectivity. So I wanted to check if you have an update on ADAS and the engagement from your customers on that front and your product road map? And related to auto, I think there's been some concern about exposure to China volumes in terms of your pipeline. If you can sort of maybe just some ballpark estimate about how much of your pipeline is reliant on China electric vehicle volumes? And how should we -- how are you thinking about sort of the risk around those production numbers.

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Very good. The 12 designs is what happened in the quarter. So we just highlight in the quarter, we had designs on the digital cockpit as well as 5G for telematics. We do -- we are working on some new designs on ADAS that is going to take us throughout the second half of the year, but we're not announcing at that time -- at this time.

The second comment is on China market. We have seen, I think, consistent with the overall theme of China, some weakness in China auto. I think consistent with the rest of the market. But our design and presence with the China EV, with the local OEMs is very, very high. And I think we continue to gain share.

Operator

The next question is from the line of Matt Ramsay of TD Cowen.

Matthew D. Ramsay - *TD Cowen, Research Division - MD & Senior Research Analyst*

I have 2 questions. I guess I'll just ask them at the same time to make this quicker.

The first one, Cristiano, in China, you were pretty clear in your script and I think you were -- you guys were earlier than most bellwether companies in flagging this, but the recovery in China in the second half of the year might be a bit more muted. And I think during the peak, obviously, things were being overshipped into China during the peak. I think we were 500 million units, give or take, on an annualized basis in China, and I think we're running closer to $300 million now on a sell-through basis. Maybe you could update us, are those numbers roughly right? And what are you guys seeing in terms of a recovery? And maybe how much are you undershipping that today that could still help your numbers in the back half of the year as you come back to shipping with parity of sell-through?

And I guess I do have a follow-up, but maybe I'll just do that one first.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Matt, it's Akash.

In terms of China sell-through, I think if you're looking at any of the analyst resources that's sizing the scale of the market, we're seeing pretty much the same number. So if you're -- that's what you're quoting, I don't have the exact numbers in front of me, but that's what you're quoting, it'd be consistent.

The way we are thinking about the inventory drawdown is, of course, it's a near-term phenomenon. We're going to get past it. The strength of our design win pipeline is very strong, so if you -- if one way to measure it in our minds as we look at our share of sell-through. And we've seen that share grow from '22 to '23, so that should give you a sense of our position going into the next year.

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Just -- Matt, this is Cristiano. I just want to add one thing.

Common sense, and I think the overall expectation is following the reopening, the China market was going to bounce back. It has been very suppressed, I think, during the lockdown and during the pandemic. I think what we're basically saying is we have not seen those signs yet, so therefore, we thought that prudent not to put in our planning assumptions, but you're going to be monitoring the situation. But the dynamic we see right now is exactly what Akash outlined. It's an inventory drawdown, and that's why I think the difference between the QCT and the QTL business.

Matthew D. Ramsay - *TD Cowen, Research Division - MD & Senior Research Analyst*

As my follow-up, mid-single digits up, I think, in the guidance you mentioned for IoT, there are sort of 3 different segments of the business there. If you could -- that there's been an inventory correction across the IoT business, and I think many of us have less visibility on a granular basis there than in your handset business. So if you could just talk through the dynamics of that business recovering a bit in June, that'd be helpful.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. So it's Akash.

When -- the initial weakness that we saw in IoT was in consumer, and then we've kind of seen that expanded into industrial and edge networking, and specifically China playing a significant role in that weakness. So it's a combination of all 3 areas. Now as we look forward, a lot of the growth that we're expecting within the quarter is actually going to be across -- recovery across all 3, so there isn't one that stands out that I would point to.

And then maybe the last point on IoT is really when you step back and think about the broader digital transformation process and where we are at, our technologies continue to become more relevant. Cristiano talked about Edge AI, and that's going to be another technology that's going to be extremely important in Industrial, PC, XR and other areas. So still very optimistic about how things look longer term, and we'll kind of work through everything in the short term.

Operator

Our next question is from the line of Mike Walkley with Canaccord Genuity.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

Cristiano, just a follow-on question for you just on the market dynamics. You made some comments about how well the Snapdragon 7 is performing relative to premium tier from your competitor. Can you talk about design win traction and share gains that you're seeing maybe further downstream from the premium tier? And once inventory clears, do you think that you start to see some sharper share gains coming back maybe in the Chinese New Year into calendar Q4? Is that too early to call on the inventory side?

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Mike.

I will say we are no longer in and that's probably an understatement, right? We're no longer into a supply-constrained environment. So as the supply-constrained environment got resolved, we have the ability to gain share. And I think as Akash outlined, if you look at our share of activations and sell-through compared to '22, you see a very positive picture for us in China. We've been gaining share on what we call the high tier. The 7 -- the new 7 Series, we made a lot of investment including leveraging the Snapdragon brand and the position of the 7, very well received in the market. Our 7+ outperform, I think, the competition premium tier, and we like because it sets the floor. And then you have Snapdragon very uniquely positioned in the 8 series. And I think as outlined from a share perspective, we're gaining share. Just the whole market to go into the dynamic that we just outlined on inventory, but we like our position in the marketplace.

Thomas Michael Walkley - *Canaccord Genuity Corp., Research Division - MD & Senior Equity Analyst*

Great. And maybe a quick follow-up for Akash.

Just on QCT margins, just given the inventory work there, is there any mix or anything else we should think about on QCT margins as you go through this inventory clearing and less modem-only shipments over the next couple of quarters?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So from a gross margin perspective, as we've consistently said, and I said this in the last call -- last earnings call as well. Once we get past supply constraint, we expected some pressure on gross margins, so you're seeing that come through. But if you step back from that and just look at mix of devices and how that drives margin 1 way or the other, there isn't anything that's significant enough to discuss. It's really the current environment playing through. And then as we look forward, us remaining disciplined with pricing as we grow in a mature market.

Operator

Our next question is from the line of Stacy Rasgon with Bernstein Research.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

For the first one, I was wondering if you could define what you mean by muted seasonality for September quarter? I think you're usually up. I mean, it's not uncommon for you to be up double digits. What are you thinking now? And I guess maybe if you could talk a little bit about the different drivers, Handset, IoT, Auto into Q4?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure, Stacy. It's Akash.

If you look at our typical seasonality from third quarter to fourth quarter, it's really driven primarily by the launch of a new flagship device and the build that happens for that device. Outside of that, there are some other puts and takes, but that's the primary driver of the growth.

What we're suggesting is, as I outlined in the prepared remarks, we expect that to be muted because the lower demand from the modem-only handset customer extends from June into the September quarter as well. And the reason for this is we saw them buy a little more earlier in the year, and so this is just kind of balancing purchases of chips from us. To be clear, this is not a comment -- to be clear, this is not a comment on their sell-through and it's not a comment on our share within the OEM either. This was just the timing of purchases from chips from us.

Stacy Aaron Rasgon - *Sanford C. Bernstein & Co., LLC., Research Division - Senior Analyst*

For my follow-up, like, I know you said you expect the inventory driving the last next couple of quarters. But I guess, in the June, do you think the magnitude of the drawdown is better or worse or about the same as what you saw in March? I'm just trying to gauge directionally, is it getting at least better or worse even though we know it's still there?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So honestly, Stacy, there's a different story with every OEM. There are certain OEMs who are much further ahead in reducing the inventory profile and there are others, including the ones we just discussed, happening over the next couple of quarters. So I haven't specifically sized it in terms of scale, but I would say each of the quarters has an impact from that phenomenon.

Operator

Next question is from the line of Ross Seymore with Deutsche Bank.

Ross Clark Seymore - *Deutsche Bank AG, Research Division - MD*

Cristiano, I just wanted to focus on the diversification side of things. I know organically what you're doing in IoT and Automotive. Are there inorganic opportunities to accelerate that? Or is the diversification effort going to just simply take time because Automotive and IoT are great markets, but they take a reasonable amount of time to penetrate, especially given their relatively smaller size versus your Handset-oriented businesses?

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Ross.

Look, there are inorganic opportunities that we continue to look into the market. We've been clear. We have been focused in identifying M&A opportunity to help us to accelerate diversification. We've been very careful just because in the current environment, we wanted to do something that is actionable and we'll continue down this process of identifying, but we are looking at inorganic options as well to accelerate diversification. And we're also very excited about what -- I mentioned into the prepared remarks, I think this incredible opportunity that we now have. We're very uniquely positioned to do AI in a very high performance and low power and all the devices at the edge, and I think that's going to accelerate our diversification strategy across all the new segments. Even though it could create a new upgrade cycle in phones, but it's going to be relevant to all of the other segments of diversification as well.

Ross Clark Seymore - *Deutsche Bank AG, Research Division - MD*

I guess one for Akash as my follow-up.

On the Handset segment, it looks like you're guiding that down kind of low teens sequentially. I know you said Android's flat and the modem-only customer would be the headwind. How is Android flat if you still are saying macro is a problem, inventory burn's a problem, et cetera? Is that just evidence of the share gain? Or what's going on there?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. I assume your question, Ross, was related to QCT?

Ross Clark Seymore - *Deutsche Bank AG, Research Division - MD*

Just QCT, that's what you guys call it. That's not aggregate answer.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So if you think about our historical kind of trend between these 2 quarters in the Android business, we're staying very consistent with that -- this quarter. I mean, if you look at last year, second quarter to third quarter, our Android business was roughly flat, and we're guiding the same this year. So it's just following the same trend and the factors, the market and inventory drawdown exist in both quarters.

Operator

Next question is from the line of Joe Moore with Morgan Stanley.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

I guess as you look at the year-on-year decline in handsets, how much of that would you attribute to inventory build in a year ago, inventory depletion now or any kind of change in kind of like-for-like pricing? Can you just kind of separate out those 3 factors?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Joe, we haven't talked about it or given specific numbers on it. But one of the frameworks to look at it would be to look at the 2 years combined. One year had the bill, the second year has the bleed. And if you look at that combined, it will give you a framework of what the run rate strength of the business is.

The other thing I would say is just the one thing to calibrate in that framework is also to look at the market size as the overall market has continued to come down. But that's, I think, a good way to at least start figuring out the run rate of the business.

Joseph Lawrence Moore - *Morgan Stanley, Research Division - Executive Director*

Okay. And then you mentioned you always sort of felt like as you came out of an allocation mode that there be a little bit of a gross margin headwind. What causes that? Is it just that -- are their expertise, you were getting before? Is it more promotional now? And has there been any change in kind of like-for-like pricing as you've kind of moved out of the tight supply environment?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So it's a combination of them. I mean given supply constraints, we were able to exercise some pricing leverage that gets neutralized in the current excess inventory environment, and so that's just playing out through the numbers.

The other 2 factors to keep in mind is we had a price increase from foundry that ran through starting first of January as well and some underutilization in our RF front-end fabs that over time will get filled back in as demand comes back, and so that should be a tailwind for us going forward.

Operator

Our next question is from the line of Blayne Curtis of Barclays.

Blayne Peter Curtis - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

But maybe just following up on that last one on gross margin. I mean I guess if I'm looking at the numbers, it seems like your ASP is still going up. So is it really just the higher cost?

And I guess second part of it is, I think there's a lot of concern about more competitive environment, MediaTek moving up to the high end. So just can you go back and just talk about that environment? I think you said there's no more like-for-like, but I mean, I think there's a lot of concern about maybe people buying older products and not taking Gen 2 and MediaTek moving up, Just kind of touch on those points.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes, Blayne, so I'll address the first part and then Cristiano will address the second part.

On gross margin percentage, I think it's a reasonable way of thinking about it. Our gross margin dollars per device continues to grow, and that's the strength and it kind of adds scale and profitability to the business, but we have seen gross margin percent get impacted by the couple of factors I just outlined. But again, those are, to me, kind of ins and outs of the business. It's better to kind of step back and look at the broader longer-term opportunity for us to continue to add content to our chips, which we have done very successfully over the last 3 years. And we have an opportunity to do that, especially with our new custom CPU course coming into play into all of our product lines, including Handsets. And then with the AI that Cristiano just outlined, that will create an opportunity for us as well...

Blayne Peter Curtis - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Go ahead.

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

No, I'm sorry, I'm just going to add a couple of comments to your specific questions.

Look, the way we see this, we have done, I think, the right choices of investment. We feel pretty good about the road map and we took this very, very focused strategy and make sure that our 7 tier outperforms the competition premium tier. And that changes the landscape, which means we are very well positioned above that in the 8, as I outlined. Our design traction is very good especially within all of the OEMs, no exception.

I remind you that we are globally with Samsung. Our agreement with them, we have the launch of G S23, that just happened, then we have the Fold and Flip. And then we have the G S24. It's going to be a number of years of association of Samsung with Snapdragon brand globally. And the size of the market is not good, but our position is very strong. And as I outlined before, we're gaining share.

Blayne Peter Curtis - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

Got you.

And then if I could just follow up with the modem-only? In terms of the timing, there's -- I guess you guys have been waiting if there's any decision of that customer to move away. I'm just curious if that timing you would be notified at this point? Or if you thought that the timing of shipments had anything to do with their transition?

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

No, it has nothing to do with the transition. Further transition, I think we said a number of earnings calls ago that we're expecting to be in the product that they launched in '23. And in '24, we have no change to our planning assumptions.

Operator

Our next question come from the line of Brett Simpson of Arete Research.

Brett William Simpson - *Arete Research Services LLP - Senior Analyst*

Cristiano, I wanted to ask about the state of the Android market. There seems to be a sort of consistent structural share loss here. And I guess, even going back pre-COVID, Apple has been growing their business since COVID and Android just seems to keep losing share. So what do you think is going on? And how much of the structural decline in Android, do you think, is the secondhand iPhone market? And then I don't know whether you can size this, how big do you think the secondhand market is and how it's affecting Android? And what do you think the Android value chain is going to do to reboot their business?

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Yes. No, it's a great question, and there are a number of things to unpack.

So first, I just want to go back a little bit in recent history. I think there was an addressable market for premium devices, and to some extent, premium and high-tier devices that became available as Huawei declined in share. And the reality, Apple pick a significant amount of their share. We did as well, I think. So our competition, I think everyone had grew, as the expense of the market. And I think that is resulting to a much larger -- you look at that Huawei Android as a net loss of Android, and that's for the areas that Apple gained share.

The market is smaller and those -- even the component of hand-me-down phones, it's accounted in our planning of a smaller market. I think that's a -- that's where we are until we go to the next upgrade cycle, cyclical business. But our position in Android has improved, and I think if you look of our trajectory actually on the smaller Android market, we've been gaining share and focus on the value share of the market with concentration in the high and the middle tier.

Brett William Simpson - *Arete Research Services LLP - Senior Analyst*

Do you think the secondhand market is growing structurally? I mean, just to understand the dynamics because some of the data we've seen, it would suggest that this is starting to have an impact on the Android volumes.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes, Brett, it's Akash.

So I divide this into 2 parts. I think there's a second end market that has been around for a long period of time in emerging markets as a hand-me-down device, and so that obviously still exists. There has been a little bit of a change at the top with the refurbished phone market, and so that's something that we're definitely closely watching and definitely contemplated in our numbers at this point.

Operator

Our last question is from the line of Tal Liani with Bank of America.

Tal Liani - *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

Akash, sometimes you give us more indications of future quarters and I wanted to ask about QTL, QCT for the September quarter. Can you provide us some comments on your expectations?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure, Tal.

For QTL, typically, the market size is relatively flat between the June and the September quarter. There is a slight change in the market and our revenue is relatively flat as well, so you should think of that as a proxy based on historical trend. There isn't something specific going on this year that I'd say is different than last year, pending a recovery in the market.

From a QCT perspective, on the fourth quarter, we typically have seasonality -- seasonal growth. And what I said in my prepared remarks is that we expect muted seasonality this year because of all the factors that we've been discussing on this call and have been outlined in the prepared remarks as well. So that would be a framework to come up with number for September. And then obviously, as we go from there, you go into holiday season, that's typically a strong quarter for us and we would realize benefits as we go there.

Tal Liani - *BofA Securities, Research Division - MD, Head of Technology Supersector & Senior Analyst*

Got it. And what's normal seasonality for Q4 for QCT? When you say muted, what's your benchmark?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Well, I would say if you look at last year, you would probably come with a number that would be normal, and we don't expect to be close to that. We'll see a lot of different factors. We don't have, to be honest, that clear insight into quarters at this point to give a forecast. So if you can wait for the next call, we'll definitely be updating you on that.

Operator

That concludes today's question-and-answer session.

Mr. Amon, do you have anything further to add before adjourning the call?

Cristiano Renno Amon - *QUALCOMM Incorporated - President and Chief Executive Officer*

Yes. Thank you so much for listening to our call. Here's the summary.

Like from our perspective, while the market conditions remain challenging, we're very confident to reach our Q3 estimates at this point. We're taking action where we can control as we navigate the near-term headwinds, but it's -- most important, we'll continue to execute on our strategy. We like our strategy. I think we're investing in the right technologies for growth and diversification, especially in the IoT and Auto. I feel we have a very competitive road map, so we're well positioned to benefit when the market returns to growth.

And I think the last comment is we are going to become very relevant in AI. As you look at the speed of new models appearing, new companies investing, new use cases, the ability to run those things locally. I talk about having ability to run 10 billion parameter models on the phone without compromising battery life and be able to demonstrate that very shortly in this year, and you can see how that creates an even larger opportunity for us in Automotive as well the entering of next-generation personal computing. So excited about that, we'll continue to invest in this area.

In summary, we're very focused on our long-term success and we're steadfast in our commitment to drive maximum value for our stakeholders. And I want to thank all the employees for their dedication and contributions to Qualcomm and also our many partners and suppliers. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.
