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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Qualcomm second quarter fiscal year 2025 earnings conference call. (Operator Instructions) As a reminder, this conference is being recorded, April 30, 2025. Playback number for today's call is (877) 660-6853. International callers, please dial (201) 612-7415. Playback reservation number is 13752782.

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

Mauricio Lopez - Qualcomm Inc - Vice President, 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 Amon - Qualcomm Inc - President and Chief Executive Officer

Thank you, Mauricio, and good afternoon, everyone. Thanks for joining us today. In fiscal Q2, we delivered non-GAAP revenues of \$10.8 billion and non-GAAP earnings per share of \$2.85. Revenues of \$9.5 billion from our chipset business were driven by strength across handsets, automotive

and IoT, all exceeding revenue expectations. Automotive and IoT revenues increased 59% and 27% year-over-year, respectively. Licensing business revenues were \$1.3 billion.

Demand for our industry-leading platforms continues to expand as high-performance connectivity and processing at the edge are increasingly important, and AI becomes more pervasive across industries. We have the industry's broadest product and IP portfolio, a strong track record of establishing a technology leadership position in every industry we enter and a clear vision for the future. As we navigate the current macroeconomic and trade environment, we remain focused on driving the next wave of AI smartphones, and growing our non-handset revenues to \$22 billion by fiscal '29.

We are excited by the ongoing developments in generative AI, including the proliferation of smaller models. In just six months, the AI landscape has been redrawn with a wide array of new consumer and enterprise applications. New players have emerged and AI video models are becoming more dependable, marking a significant expansion in capabilities. Additionally, smaller GenAI models that can run directly on device are also advancing rapidly. It now takes only a few months to match the performance of their larger cloud-based counterparts compared to 12 months just a year ago.

Several new state-of-the-art small language and multimodal models were recently released, including Microsoft Phi, Google Nano, Meta Llama, Mistral Ministral, OpenAI Whisper and Alibaba Qwen. Some of these models are already running on Snapdragon platforms. As these trends continue, the opportunity for Qualcomm is significant.

I will now provide some key highlights from across the business, starting with mobile. At Mobile World Congress, we announced our X85 5G platform, the world's most advanced AI-powered modem-to-antenna system delivering substantial improvements in speed, efficiency, coverage, and power consumption.

The X85 sets new benchmarks and brings connectivity leadership to the Android ecosystem. It also supports 5G Advanced capabilities with ultra-fast peak download speeds of up to 12.5 gigabits per second and delivers the connectivity required for hybrid and agentic AI experiences.

High-performance, low latency 5G is essential for AI applications, ensuring seamless and timely data transmission and information retrieval for real-time processing and decision-making. According to Google, the X85 is "designed for mobile AI and is the perfect match for Android and the agentic experiences of the Gemini era. This modem delivers breakthrough 5G speeds, network reliability and intelligent connectivity to Android phones, cementing Android and Qualcomm Technologies' leadership in the mobile AI world."

The X85 was also positively received by many of the largest operators in the U.S., China and Japan, who are excited about the superior connectivity X85 brings to 5G smartphones, the improved network performance and reliability, and potential for new AI-powered services. The X85 will be shipping in handsets, automotive and IoT products starting in the second half of the year. Within smartphones, we expect this platform to be available exclusively on Android devices.

In handsets, we continue to gain design traction with our Snapdragon 8 Elite, the industry's most powerful smartphone platform. To date, we have 90 flagship designs shipped or announced globally across major Android OEMs. During the quarter, subsidies in China had a positive impact on growing the premium tier which has continued to expand over the last several years.

Additionally, we're incredibly excited to see our customers launching innovative new flip-style devices featuring Snapdragon 8 Elite. This is now a flagship smartphone category. As an example, the recently announced flip-style Motorola Razr Ultra 2025 comes with MotoAI, a suite of AI-powered features such as Catch Me Up, which summarizes notifications and prioritizes urgent messages, Remember This, which saves screenshots, photos and notes to recall later and Magic Canvas, which lets users create AI-generated images as wallpapers. It also integrates Perplexity AI, Google Gemini, Microsoft Copilot and Meta Llama.

We remain excited about the PC opportunity for Snapdragon, and we're making progress toward achieving \$4 billion in revenues by fiscal '29. We are extremely focused on driving new OEM designs, expanding markets and channels, growing into the enterprise, and increasing the ecosystem

of native applications. Since the launch of the first Snapdragon X-powered devices in mid-2024, we have more than 85 designs in production or development, and we are targeting more than 100 designs to be commercialized through 2026.

In the first calendar quarter of 2025, according to third-party sources, Snapdragon-based PCs made up approximately 9% of Windows laptops above the \$600 price tier in retail US and the top five European countries. We now have more than 750 native applications running on Snapdragon X, including over 100 for the enterprise. Additionally, there are over 1,400 games running on the platform.

Microsoft has continued to add new Copilot+ AI capabilities. This includes the rollout in March and April of expanded live captions, which offers real-time audio and video translations in English during virtual meetings, podcasts or video playback and new voice access functions that enable users to interact with the AI assistant using natural language voice commands. Consumers can also experience Recall, improved Windows search and Click To Do, making it easier to pick up where you left off, find what you're looking for and do more with less time. We also continue to partner with Microsoft on their signature Surface PCs.

In XR, favorable consumer reception for smart glasses continues, particularly as AI enables more compelling use cases. Meta continues to add more capabilities to their Ray-Ban smart glasses powered by Snapdragon. These include enhanced AI assistant interactions, video AI support, location recall, live speech translation and more.

In addition to Meta, and Samsung's upcoming Android XR headset, we are pleased to report that we now have more than 15 designs of smart glasses from our global partners. Smart glasses are now the best example of a new device category gaining scale because of AI. We remain confident in our ability to achieve \$2 billion in XR revenues by fiscal '29. We continue to see strong demand in automotive for the Snapdragon Digital Chassis, and we are on course to reach our fiscal '29 revenue target of \$8 billion.

During the quarter, we secured 30 new designs, including five ADAS programs as well as designs from Chinese automakers, such as Nio, Zeekr, Great Wall, Dongfeng and more. We also saw 14 commercial vehicle launches from global automakers utilizing our platforms with a total of 29 commercial vehicle launches since the start of the fiscal year.

Additionally, last week, at the Shanghai Auto Show, we announced new collaborations with Visteon and PATEO to create next-generation AI intelligent cockpit solutions based on our Snapdragon Cockpit Elite. And with Desay SV to jointly deliver a suite of pre-integrated ADAS solutions that support L1 and L2+ functions.

Fiscal Q2 was a strong quarter for Industrial IoT, with notable new partnerships and recently, the completion of two strategic acquisitions, increasing our confidence in executing on our industrial IoT revenue target of \$4 billion by fiscal '29. In a major step toward advancing industrial intelligence at the edge, we're collaborating with Palantir to integrate their Ontology enterprise systems and AI capabilities on our advanced platforms. This collaboration will enhance real-time insights and data-driven decisions in remote and offline environments, enabling OEMs and enterprises to deploy scalable AI solutions for manufacturing, industrial and automotive applications.

We acquired Edge Impulse, one of the industry's leading edge AI development platforms, which enables more than 170,000 developers to build solutions for a wide range of applications, such as asset tracking and monitoring, manufacturing anomaly detection and predictive maintenance systems -- using various AI capabilities, including computer vision, time series data, audio events and speech recognition. The development platform includes a comprehensive set of tools and features for data collection and preparation, model training, deployment and monitoring, all with an easy-to-use, user-friendly interface requiring little or no code at all. As AI accelerates the next phase of digital transformation, Edge Impulse, combined with our AI hub, creates a true world-class industrial development platform for the age of intelligence.

We also acquired FocusAI, a leader in computer vision at the edge for an intelligent end-to-end edge AI and cloud management solution that enables real-time insights and analysis. FocusAI's solutions are now part of the new Qualcomm Dragonwing Intelligent Video Suite, enhancing our video analytics AI portfolio.

Finally, in edge networking, we launched the Dragonwing Fixed Wireless Access Gen 4 Elite Platform based on the X85 and is the world's first 5G Advanced FWA platform. It includes an AI coprocessor that delivers up to 40 TOPS of AI processing power to optimize wireless connectivity across 5G broadband and Wi-Fi 7 and unlocks new GenAI capabilities at the network edge.

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

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

Thank you, Cristiano, and good afternoon, everyone. I'll start with our second fiscal quarter earnings. We are pleased to announce non-GAAP revenues of \$10.8 billion and non-GAAP EPS of \$2.85, both of which are above the midpoint of our guidance.

QTL revenues of \$1.3 billion and EBT margin of 70% were flat on a year-over-year basis and slightly below the midpoint of our guidance due to lower handset units in emerging regions. QCT delivered revenues of \$9.5 billion and EBT margin of 30%, with revenues at the high end of guidance, due to upside across handsets, IoT and automotive. QCT handset revenues grew 12% year-over-year to \$6.9 billion, reflecting the benefit of increased premium tier Android shipments.

QCT IoT revenues of \$1.6 billion increased 27% versus a year ago period, driven by demand for our products with connectivity, processing and AI technologies. We delivered QCT automotive revenues of \$959 million, reflecting 59% year-over-year growth on increased content in new vehicle launches with our Snapdragon Digital Chassis platforms. Lastly, we returned \$2.7 billion to stockholders, including \$938 million in dividends and \$1.7 billion in stock repurchases.

Now turning to guidance. I'll first address the macroeconomic environment, including the impact of tariffs. There's uncertainty around the impact of the global trade landscape on demand across our businesses. Our guidance for the upcoming quarter is based on our current assessment of the financial impact of tariffs as they stand today. As the situation remains dynamic, we'll continue to closely monitor for potential changes.

For the third fiscal quarter, we are forecasting revenues of \$9.9 billion to \$10.7 billion and non-GAAP EPS of \$2.60 to \$2.80. We estimate QTL revenues to be approximately flat on a year-over-year basis, reflecting normal seasonality for handset units with revenues of \$1.15 billion to \$1.35 billion and EBT margin of 67% to 71%.

In QCT, we expect revenues of \$8.7 billion to \$9.3 billion, an EBIT margin of 28% to 30%. At the midpoint, this reflects year-over-year revenue growth of approximately 12%, led by strength in handsets, IoT and automotive. We expect QCT handset revenues to increase approximately 10% on a year-over-year basis, driven by growth in Android. We estimate QCT IoT and automotive revenues to grow approximately 15% and 20%, respectively, versus a year ago period, driven by the same factors I outlined in our second quarter results. Lastly, we estimate non-GAAP operating expenses to be approximately \$2.25 billion.

In closing, we are very pleased with our strong results in the first half of fiscal '25, with revenue and non-GAAP EPS growth of 17% and 21%, respectively, versus a year ago period. We are increasing our capital return target to 100% of free cash flow in fiscal '25, reflecting confidence in our strong cash flow generation and financial targets outlined at our recent Investor Day.

As the global trade environment continues to evolve, we remain focused on our execution priorities including our relationships with customers and partners globally and investing in our industry-leading technology and product roadmap. Despite the near-term macro uncertainty, our business strategy remains unchanged, and we remain committed to our long-term financial framework. Our disciplined capital allocation and balance sheet flexibility position us for success across varying market scenarios.

This concludes our prepared remarks. Back to you, Mauricio.

Mauricio Lopez - *Qualcomm Inc - Vice President, Investor Relations*

Thank you, Akash. Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Joshua Buchalter, TD Cowen.

Joshua Buchalter - *TD Cowen - Analyst*

Congrats on the solid results in a difficult backdrop. My first question, could you maybe spend a couple of minutes talking through what kind of assumptions you're baking into in particular, your guidance in the handset market? I mean, given there's pretty widespread concerns of tariff-related pull-ins. Are you seeing any signs of that yet? And in particular, your largest customer was up pretty meaningfully year-over-year. So was any change in order patterns there?

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

Yes. Thanks, Josh, for the question. Our approach on tariffs is really our guidance reflects our current assessment of the financial impact from it. We do not see any material direct impact to us at this point. The landscape obviously is dynamic, so we're closely monitoring, but we're very focused on things we control and very focused on supporting our customers as well.

One thing to remember is when you look at our supply chain, we have a very diversified global supply chain, and so that positions us very well to navigate challenges that might happen as a result of tariffs. And then maybe specifically on your question of pull-ins, we have not any material pull-ins from our customers. So this reflects kind of reasonable, consistent ordering patterns from them. And that's what's reflected in our guidance.

Joshua Buchalter - *TD Cowen - Analyst*

Understood. And to follow up, I think a quarter ago, you expressed some optimism but certainly didn't include any Huawei royalty revenue in the model. Any updates to share on those negotiations, obviously, given the difficult backdrop to be signing deals right now?

Alexander Rogers - *Qualcomm Inc - President - QTL and Global Affairs*

Josh, this is Alex. There really aren't any updates. Discussions will be ongoing, but we don't have any updates right now.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *JPMorgan Chase & Co. - Analyst*

So maybe if I can start on the IoT segment. And just in relation to the -- it seems like that is the segment you saw the most upside rated to your own expectations for the quarter. If you can just flesh out what drove that upside? And maybe just going back to following up on the last question as well, like is that a segment that you've seen any evidence of pull forward of demand? And then I have a quick follow-up.

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

Yes. Samik, this is Akash. So in the IoT area, we saw tremendous growth in the quarter. We reported 27% year-over-year growth and we saw growth across all three areas, so consumer, networking and industrial. The largest growth contributor was actually industrial. As we have discussed in the past, we have this premise of where the market is going, which is a transition from microcontrollers to microprocessors and AI and we're seeing the benefit of our technology portfolio as it applies to that transition. And so we're at the front end of the transition in our minds, and some of the upside in the quarter came through the benefit that came from that transition.

Then maybe the last thing I'll highlight is -- when you step back and look at all the different areas in our IoT revenue stream, which is PC, XR, industrial networking, our technology is becoming more relevant than ever to each of those areas. So that's what gives us confidence in our long-term forecast.

Samik Chatterjee - *JPMorgan Chase & Co. - Analyst*

Okay. And then maybe for my follow-up, if I can ask you about your M&A pipeline and strategy here. When I look at focus AI and Edge impulse, obviously, I don't know those businesses as closely, but how should we think about some of these acquisitions enhancing the capabilities in the current end markets that you're trying to diversify and enhance your position in, relative to maybe some acquisitions adding to the existing end markets and giving you more growth pillars in terms of additional incremental end markets that you can go into with some acquisitions?

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

Samik, this is Cristiano, thanks for the question. Look, this is very consistent to what we said before. And I kind of point you back to the plan we outlined on our last Investor Day. If you look, we have made acquisitions in the past to create our automotive business, which we feel very confident about how complete our roadmap is.

We made acquisitions such as Nuvia, which enables us to create an opportunity in compute, and we have been saying that the next focus for the company was to really augment our IoT space and especially in industrial as Akash outlined. We're 100% convinced there's a significant opportunity for advanced computing and AI at the edge in industrial. And what you see us doing with Edge Impulse, with FocusAI, is actually building a software platform, that we can scale our technology to all those different verticals and we'll probably continue to augment the platform with those types of acquisitions.

Operator

Timothy Arcuri, UBS.

Timothy Arcuri - *UBS Group AG - Analyst*

Akash, typically, September is like seasonally, it's up kind of mid-singles to high singles. I know there's a lot of uncertainty, but is there anything besides just the macro that you would sort of point us away from thinking of that as like a normal Q3?

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

Yes, Tim, you're right. I mean as we look at the fourth quarter, obviously, the underlying factor there is the macroenvironment. And so we've reflected the best information we have today, and we're going to watch -- obviously monitor that closely.

In QCT, specifically, when you look at Android, automotive and IoT, we expect normal seasonality, both from a quarter-over-quarter and year-over-year perspective. And then within the Apple product business, as we've said, we expect our share to go lower in the launches that happened in fall 2025. So we're forecasting approximately 70% share in that launch and the rest of the factors are kind of consistent with what you'd expect.

Timothy Arcuri - UBS Group AG - Analyst

Great. And then just on China, there's a few offsetting factors. I know you did speak about what's helping the market, but there's also tariffs on trade. So how do you handicap your China business? Are you seeing signs of the customers wanting to move away from U.S. suppliers like you and move more to MediaTek? How do you weigh those factors?

Cristiano Amon - Qualcomm Inc - President and Chief Executive Officer

Tim, thanks for the question. This is Cristiano. Look, at this point, we feel that our position is strong because it has to do with how unique our product is and how relevant our product is for the global ambition of our customers. I think we remind everyone that when we look at our China exposure, there are the products that stay within China, but there is a significant volume that goes from China to the rest of the world and I think that's what drives uniqueness, I think, of the Snapdragon position there.

And there are a couple of data points. I think just a couple of weeks ago, we had the Shanghai Auto Show. We had a number of new partnerships, including an expansion of the pipeline with new design wins in auto. We have seen no signs of a slowdown in design traction on Qualcomm products within our Chinese base, and that includes smartphones, PC, automotive, XR and we're excited about some traction in industrial as well.

Operator

Stacy Rasgon, Bernstein.

Stacy Rasgon - Bernstein Research - Analyst

I wanted to first ask about chipset gross margins. It looks like they were down a bit in Q2, maybe 90 bps or so. They seem like they're being guided out a similar amount in Q2. But like, why were they down in Q3 and Q2, especially given within handsets that presumed mix toward more premium given the weakness in the emerging regions smartphones that you talked about? Was it just mix between like the different segments? Or just like what was going on there?

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

Yes. So Stacy, this is Akash. It's really the mix across tiers and segments as well, right? We saw some upside that came through on lower tiers that kind of made a very small difference in gross margin. But kind of when you step back and think about broader gross margin trend, we're pretty very happy with kind of both our actuals and guidance and there's no new information versus what we've told you before. It's just how the mix plays out between quarters.

Stacy Rasgon - Bernstein Research - Analyst

Got it. And for my follow-up, I know you talked about no direct impact from tariffs, but you said you're baking in what you're seeing. Like what are you baking in for the indirect effect of tariffs? Like you talked about Android being seasonal, I guess, in the September quarter, which doesn't sound like you're baking in or suggesting any potential for demand destruction if tariffs or anything get put back on this. How should we be thinking about like the actual specific assumptions you're putting on the market in the wake of the current macro and the tariff situation as we go through the year?

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

Sure. So Stacy, what I said is we do not see any material direct impact. There is smaller direct impact and some minor changes in demand. We are reflecting that, and so it's in our numbers. But nothing that really is significant enough to change the direction of our guidance. So that's the data point I was giving. In terms of indirect impact, that's obviously something that we are watching closely. Difficult for us to predict that at this point.

Operator

Joe Moore, Morgan Stanley.

Joseph Moore - *Morgan Stanley & Co LLC. - Analyst*

Great, thank you. And you guys are continuing to show really strong results in auto in what's been a tough market for others. And you're talking about doubling by fiscal '29 from here. Can you talk about the growth drivers there? When does ADAS start to kick in more as a growth category and just what is it that gives you that confidence in that multi-year forecast?

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

Joe, this is Cristiano. There are a couple of drivers. I think if you remember when we outlined and disclosed the pipeline, we said one third of that was ADAS and we also had, Flex is really becoming a reality. We have some interesting designs and some upcoming SOPs with Flex that has both the digital cockpit and ADAS in the same chipset. But the key drivers of the revenue is really the mix improvement with more digital cockpit, more computer and content and then in ADAS coming up. On ADAS alone, I think we just announced in the quarter of five new designs of ADAS.

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

And Joe, to quickly add a datapoint to it. When you kind of step back and look at within the auto market, the car is being transformed, we play in the market that is being transformed. So digitization of car is happening, and we play in the area that is actually growing significantly, both in terms of the penetration within the established base of the auto market. But then also the silicon content multiplies as you get into the new type of cars, and so we are playing in this tremendous growth area within the car market, and that's what you're seeing in our numbers show up.

Operator

Chris Caso, Wolf Research.

Chris Caso - *Wolfe Research, LLC - Analyst*

The first question is with regard to handsets, and you talked about that being up about 10% year-on-year. Could you break out the relative strengths of, I guess, the two buckets that would drive that the China business and then your other large customer? And you also mentioned some impact from some of the subsidies that were happening in China. Could you give some more detail on that and perhaps is that sustainable demand? Or would perhaps that caused some pull forward as well?

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

Yes. From a subsidy perspective, in China, what you've seen is really the total units for the March quarter came in line with expectations. We are continuing to see a stronger mix play out, and this has been a trend for the last several years. So if you think about premium tier handsets over

\$400, they have increased from 21% of the installed -- 21% of new devices sold in 2019 to about 30% now in 2024, and so that part of the market is expanding, our customers are gaining share, and that is really what is informing the upside for us, both in the results quarter and the guidance quarter. And that's the primary driver of growth for us.

Chris Caso - *Wolfe Research, LLC - Analyst*

Got it, thank you. I guess with regard to the PC business, and you gave some data points on the -- in your prepared remarks. I know that your product line has changed a bit, so you can attack some lower price points there. What does that mean for the growth of the PC business within IoT this year? And as you attack some of those lower price points, are the margins on those products similar to what your IoT business is today?

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

Yes. So if you think about what we've done in the PC business, we started at the top of the roadmap and established ourselves as the performance leader. And since then, we've introduced a total of four platforms, which addresses PCs all the way down to \$600, and then the next generation of chips will come out later this year as well. So very, very happy with how the roadmap is playing out.

In terms of design wins, we expect 100 devices to be commercialized by -- in 2026. We have greater than 85 design wins today. And in terms of applications being ported and games being ported, we have now ported 1,400 games onto the platform and 750 native applications. So that's kind of preparing ourselves for a ramp in the market.

The data point that Cristiano provided in his prepared remarks is for Windows devices greater than \$600 in U.S. and the top five EU markets, we have approximately 9% share in the March quarter. So very happy with how the traction is playing out, and it positions us to achieve our target.

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

Yes. I just want to maybe a reminder. When you go back to our Investor Day, we're kind of projecting 12% share by fiscal '29. So I think that gives us confidence we're on the right track.

Operator

Christopher Rolland, Susquehanna International.

Christopher Rolland - *Wolfe Research, LLC - Analyst*

I guess my first one is if you guys could address maybe competition, whether you guys are seeing either more or less pressure, particularly at the high end? And kind of related, would you say that CSS design that might provide APs out of the box for handset OEMs, would you ever consider that a threat or probably just a very low-level threat to your business?

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

Good question, Chris. I'm assuming you're asking about the competitive landscape in smartphones. So that's what I'm going to address. Competitive landscape has not changed for us at all. I think if we break that down by customer group, I think we have on Samsung, a relationship that is very stable. We have been competing for decades with their own silicon. We have changed the baseline of that business, used to be 50% level and now our baseline share is about 75% level. And we have been executing multi-year agreements with that customer. So I think no changes in the landscape. When you look about the competition for China-based customers, the competition is really between two players, us and MediaTek. We like the

fact that the premium tier has expanded. We always have said it's a large enough market for two players and that's the competitive landscape we see going forward.

Christopher Rolland - *Wolfe Research, LLC - Analyst*

Excellent. And Cristiano, maybe my second one here around AI. You guys have been really successful in AI, adding NPU, adding ASP as a result -- but maybe Intel suggested that this isn't the case in PC, they're not getting better ASPs for increasing AI capabilities. So I guess my question is, I guess, first, kind of philosophical, why does this work so well in mobile? And then for your future products going forward here, do you think there's still that link more AI, more NPU, more ASP or is this an upgrade cycle that's really taken place and kind of ASP expansion from here related to AI might be more difficult?

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

This is a great question. Actually, Chris, I love this question. I am -- so I wanted to unpack this, and I think there are two separate conversations. So I'm going to start with the philosophical as you pointed out. It's interesting, there's -- it seems to be a little bit of an impatience, I think about what's happening with AI, especially with mobile and PCs. But what you have to look is really the trend and I think that's what's really important, and I will unpack the difference between phone and PC. In phones, is crystal clear, especially when you look at the maturity of AI today, the ability to have an assistant that does things for you -- even for productivity, you see now more clarity on use cases being developed for smaller screen. When you have a smaller screen -- systems are incredibly useful for you. And where we are in the cycle right now, it's kind of similar to what we saw in the feature phone to smartphone transition. You're in the part of the cycle, the most of the new features come from the OEM and from the OS provider on AI. And then eventually, they're going to start coming from third-party developers and that's where we get scale -- we like the trend. It's driving more NPU content into the phone, it's driving ASP, and it's going to be a game about once this thing is deployed at scale with a number of new use cases about who can deliver more NPU performance without compromising battery life.

And I think that's kind of most of our investment is in this area. We like everything we see. I think there's impatience, people expected everybody like tomorrow to buy an AI smartphone, but the trend is good and again measured by the of use cases where the beginning of third-party developers building use cases.

PC is a little different. PC, the first, when we enter the PC space, it's about we can deliver multi-day battery life and faster CPU in a better form factor. Now it's the same exact trend, it is a little bit different. I think that's why things like DeepSeek is incredibly helpful understanding a smaller model running on the PC. And for capabilities that you use AI all the time, there's an economic aspect of running that on devices at the edge.

So I think what we're seeing right now is we're winning PC designs because we have a better laptop. It's faster and it's smaller, multiday battery life. But the PC AI is just at the beginning. As more and more SaaS companies, especially as they get pressure from competition, smaller models make the cloud and the devices at the edge now competing for inference.

You're going to see more of those use cases and then the NPU is going to shine. And I think that you started to see that the OS vendor, Microsoft, talks about it a lot because they're building the AI use cases as an OS. But next, you're going to see the third party and it's going to be the same dynamics that we're seeing on the phone. So we remain encouraged by it. I think it's going to create a positive cycle and we are investing to have the best NPU out there.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - *Deutsche Bank - Analyst*

Akash, they're both going to, I think, be for you. So the first one is you mentioned about the market share at your U.S. customer going down to about 70% in this generation. I wanted to see what that means on the OpEx front for you. You guys have done a great job of controlling the OpEx dollars. But as that business goes away, in the trajectory you've said many times before, how does the OpEx change and maybe the margin structure of Qualcomm during that exit from that main customer?

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

Yes, Ross, thanks for the question. I think our strategy or OpEx has been very clear, and we put this in place a couple of years ago, where the idea was to keep the existing scale of the OpEx investment and transition the investment from handsets, while still maintaining leadership in handsets, to these new areas that we are focusing on within automotive and then PC, XR, and industrial within IoT. So -- that is the framework under which we are operating. We're continuing to move investment into those areas to create this tremendous growth opportunities for us. And then on the revenue side, as kind of Apple revenue goes down, we're looking -- we're very optimistic that the targets we laid out replaces that revenue and puts us in a good place from an overall P&L perspective. So that's the framework that we outlined at Investor Day as well, and that's what we're executing on.

Ross Seymore - *Deutsche Bank - Analyst*

Great. Then one more for you quickly. You guys boosted the free cash flow return to 100% return to shareholders. What was the reasoning behind doing that? I think everybody will obviously take it as a positive sign, but I just wanted to see what the catalyst was.

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

Well, I think we've had very strong cash flow for the last couple of years, and so we've seen our cash balance grow. And there's an opportunity, given where the stock price is, it's an opportunity for us to leverage that cash balance and increase our buybacks. But we are doing it while, of course, maintaining our strategic flexibility for M&A. And it's the same framework we laid out at Investor Day, not fundamentally changing how about it, but there's an opportunity, and we're investing as a result.

Operator

That concludes today's question-and-answer session. Mr. Amon, do you have anything further to add before adjourning the call?

Cristiano Amon - *Qualcomm Inc - President and Chief Executive Officer*

Yes. Just a few comments. Thank you all for listening to our call. I would like to say a big thank you to all of our employees, especially our supply chain teams, that have been doing a lot of great work. Thanks for all of our customers.

And I just want to leave you with this thought. As we navigate those times, this is a company that is not -- it's experienced with uncertainty. We always ask ourselves, is our technology relevant? And I think this is a time that we actually never felt stronger about our technology roadmap and how the company is positioned to be relevant to a number of different industries. So that's our North Star. We'll continue to execute to that, and I look forward to seeing you all in the next quarter. Thank you.

Operator

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

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