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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to Qualcomm's Fourth Quarter and Fiscal Year 2023 Earnings Conference Call. (Operator Instructions). As a reminder, this conference is being recorded November 1, 2023. Playback number for today's call is (877) 660-6853. International callers, please dial (201) 612-7415. The playback reservation number is 13741657.

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-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 fiscal Q4, we delivered non-GAAP revenues of \$8.7 billion and non-GAAP earnings per share of \$2.02, above the high end of our guidance. Revenues from our chipset business of \$7.4 billion reflect a more stable Android handset environment. Licensing business revenues were \$1.3 billion.

During the quarter, we also made significant progress on our leading technology and product road maps while improving operational efficiency. We remain fully focused on our future growth and diversification opportunities. Let me now discuss key highlights from the business.

As we enter the age of generative AI, we're seeing an unprecedented pace of innovation. On-device Gen AI is evolving in parallel with Gen AI in the cloud, enabling entirely new use cases. It has the potential to change how we interact with our devices, making the user experience more natural, intuitive, relevant and personal with increased immediacy, privacy and security.

We have quickly established Qualcomm as a leader in on-device Gen AI for smartphones, next-generation laptops, XR and automotive, and we are well positioned to benefit from this opportunity. We expect high-performance on-device AI to become a requirement over the next few years, driving content, units or both. Our Snapdragon platform is highly differentiated from its competitors. First, we significantly increased the AI processing performance and power efficiency of our best-in-class NPU, CPU and GPU. Second, we are collaborating with multiple partners and ecosystems to enable a host of consumer and productivity-based AI models running natively on our platform. Third, we're enabling multibillion parameter Gen AI models to run continuously and concurrently for multiple use cases, including multimodal.

For example, in the latest Snapdragon 8 Gen 3 smartphone platform, state-of-the-art large language models such as Llama and Baichuan. Up to 10 billion parameters are running at up to 20 tokens per second. In large vision models such as stable diffusion can generate images from text in less than 1 second with ultra-low power consumption.

As always running on-device Gen AI becomes pervasive, we believe it will create one of the most significant changes in user experience similar to the transition from the feature phone to the smartphone and the introduction of the graphical user interface for PCs. Snapdragon will play a significant role in this transformation.

We also reached an important milestone in our expansion into PCs with the announcement of our Snapdragon X Elite platform. It is the result of a relentless pursuit to create the ultimate intelligent computing experience and established Snapdragon as the industry leader in performance and power efficiency. The Snapdragon X Elite includes our first implementation of the custom Oryon CPU, which exceeds the multi-threaded CPU performance of any x86 or ARM competitor in its class. It also matches the single-threaded CPU peak performance of the leading x86 CPU competitors at 70% less power.

Additionally, our premium integrated Adreno GPU delivers up to 2x faster performance than the competition at ISO power or matches competitor peak PC performance at 74% less power. Snapdragon X Elite also features our newest Hexagon NPU. With 45 TOPS of performance, the Hexagon NPU is capable of running Gen AI models with over 13 billion parameters on device. In total, AI performance of the Snapdragon X Elite across CPU, GPU and NPU is 75 TOPS, the highest in the industry. Microsoft is redefining the entire Windows experience with the AI Copilot and the Snapdragon X Elite is built from the ground up for this opportunity. We look forward to PCs powered by Snapdragon X Elite from leading OEMs starting mid-2024.

The emerging of physical and digital spaces remains a significant future opportunity for Qualcomm, and we recently launched the Snapdragon AR1 platform, our first dedicated platform for smart glasses. AR1 Gen 1 was developed in close collaboration with Meta, empowers the new Ray-Ban Meta smart glasses. It features a dual ISP camera system for premium photos and videos as well as powerful on-device AI for image enhancement, virtual assistance, real-time translation, visual search and more.

Together with Meta, we're developing next-generation technologies to create the future of spatial computing. The AR1 Gen 1 along with the previously announced Snapdragon XR Gen 2 are a testament to the strength of this long-standing partnership. Across the industry, Snapdragon remains the platform of choice for all leading VR, MR and AR designs.

In networking, we continue to be a global WiFi leader across enterprise and home networks as well as broadband gateways. Our WiFi 7 solutions are seeing strong traction with more than 350 design wins across all categories to date. We recently announced several new collaborations including with Charter Communications in the U.S. and EE in the U.K., both of which are preparing to roll out enhanced next-generation WiFi 7 connectivity to the residential and small and medium-sized business customers.

We're excited about the launch of our Fiber Gateway platform, which adds 10 gigabit Passive Optical Network capabilities to our portfolio. With fiber, in addition to 5G and WiFi 7, we're now positioned to lead in next-generation broadband solutions.

Additionally, our unique service-defined WiFi technology, a signature feature introduced with our WiFi platforms offers a unified data flow management architecture from cloud to device. It delivers orchestration, classification, scheduling and insights to enable the end-to-end management of home networks and real-time optimizations across devices.

In automotive, the digital transformation of the industry continues to bring new levels of computing, intelligence and cloud connectivity to the vehicle. These trends are driving new user experiences, advancements in driver assistance, autonomy and safety. They also offer the potential for new revenue opportunities as vehicles gain the ability to evolve with over-the-air updates and digital services.

The vehicle is becoming software defined and the Snapdragon Digital Chassis remain at the center of this transformation. We are pleased that our Digital Chassis solutions will bring advanced capabilities to the upcoming Cadillac Escalade IQ, which is planned for commercial production in 2024. The Cadillac Escalade IQ will be equipped with the Snapdragon Cockpit, Snapdragon Auto Connectivity and Snapdragon Ride platforms. Additionally, we're proud of our partnership with BMW for all vehicles as well as the upcoming Neue Klasse. We're also excited that the Snapdragon digital cockpit and connectivity solutions now power the new Mercedes-Benz user experience starting with the 2024 E-Class sedan.

We recently expanded our Digital Chassis offering with the launch of 2 new platforms for 2-wheelers and other vehicle classes, such as motorcycles, e-bikes, scooters and all-terrain vehicles. Our new platform design wins and launches with Gogoro, Harley-Davidson and others are receiving positive feedback from the ecosystem on their ability to advance technology development and bring new user experiences to these vehicles.

Finally, we announced a new long-term relationship with Amazon Web Services to enable automakers to integrate cloud technologies into their vehicle development life cycle. The offering combines the Qualcomm Cloud AI 100 solution, our Snapdragon Ride platforms as well as AWS breadth of services and capabilities. This will advance the future of software-defined mobility and change how vehicles are designed and developed.

In handsets, we announced our latest premium mobile platform, the Snapdragon 8 Gen 3, which delivers industry-leading performance and extraordinary experiences to consumers for the upcoming Gen AI era. Some key features include intelligent capture with the world's smartest AI-powered camera, console level gaming with ray tracing with global illumination, studio quality audio, the world's first XPAN technology, best-in-class connectivity in the world's fastest on-device AI processing on a smartphone. We look forward to flagship device launches powered by the Snapdragon 8 Gen 3 by global OEMs and smartphone brands, including Xiaomi, Honor, OPPO, Vivo, OnePlus, Sony and more.

In addition, we recently entered into an agreement with Apple to supply Snapdragon 5G Modem-RF systems for smartphone launches in 2024, 2025 and 2026. This agreement reinforces our track record of sustained leadership across 5G technologies and products. We are proud of our ongoing relationship with Apple.

As we look forward, our technology road map has never been stronger, and the fundamentals of Qualcomm's growth drivers remain unchanged with significant opportunities in the coming years. We continue to focus on stockholder returns and executing on our ongoing diversification opportunities while maintaining operating discipline.

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 fourth fiscal quarter results. We delivered non-GAAP revenues of \$8.7 billion and EPS of \$2.02, which is above the high end of our guidance. QTL revenues of \$1.3 billion and EBT margin of 66% were in line with our expectations. QCT delivered revenues of \$7.4 billion, and EBT margin of 26%, which were near the high end of our guidance on strength in handset and automotive revenues.

Handset revenues of \$5.5 billion increased 4% sequentially and were higher than expectations due to the benefit from the early stages of recovery in Android demand. IoT revenues of \$1.4 billion were down 7% quarter-over-quarter, including softness in industrial IoT demand. Automotive revenue grew 23% sequentially to \$535 million, making this the 12th consecutive quarter of double-digit percentage growth on a year-over-year basis. Non-GAAP operating expenses decreased 1% sequentially to \$2.2 billion.

Before turning to guidance, I'll summarize our fiscal '23 results. We delivered non-GAAP revenues of \$36 billion and EPS of \$8.43 despite the challenging macro environment. We remain focused on our strategic priorities of extending technology leadership and driving revenue diversification while taking significant steps to improve our operating efficiency.

We continued our strong momentum in automotive and delivered record revenues of \$1.9 billion with year-over-year growth of 24%, progressing towards our target of greater than \$4 billion in revenue by 2026. We exceeded our fiscal '23 cost action target, reducing non-GAAP operating expenses by 7% relative to the fiscal '22 exit rate, executing on our commitment to manage the cost structure given the current operating environment. Our business continues to generate strong free cash flow with a record of \$9.8 billion. Lastly, our balance sheet remains strong with \$11.3 billion in cash and marketable securities.

Now turning to guidance. We are seeing early signs of stabilization in demand for global 3G, 4G, 5G handsets. We now estimate that calendar '23 handsets will be down mid- to high single-digit percentage relative to calendar '22 and improvement from our prior expectations. In the first fiscal quarter of '24, we are forecasting revenues of \$9.1 billion to \$9.9 billion and non-GAAP EPS of \$2.25 to \$2.45.

In QTL, we estimate revenues of \$1.3 billion to \$1.5 billion and EBT margins of 70% to 74% with sequential growth driven by an increase in global handset units for the holiday season. In QCT, we expect revenues of \$7.7 billion to \$8.3 billion and EBT margins of 26% to 28%.

On a sequential basis, we estimate double-digit percentage growth for QCT handset revenues and anticipate both IoT and automotive revenues to decline consistent with last year. QCT handset revenue forecast includes the benefit of normalization of Android channel inventory and higher demand due to the acceleration of flagship launches with our newly announced Snapdragon 8 Gen 3 mobile platform.

Notably, QCT handset forecast includes sequential revenue growth of greater than 35% from Chinese OEMs. QCT IoT revenue forecast reflects the industry-wide cyclical factors we have previously discussed, including lower demand and elevated channel inventory.

Lastly, we expect non-GAAP operating expenses to be flat relative to the fourth fiscal quarter. As we enter fiscal '24, we are encouraged by the early signs of demand stabilization in handsets and our strong competitive positioning across revenue streams. Key industry trends such as heterogeneous mobile computing and on-device generative provide a strong foundation for content growth and expansion to new device categories, driving growth opportunities for Qualcomm.

In closing, I want to thank our employees for their hard work and dedication and for remaining focused on execution and continuing to deliver industry-leading products. This concludes our prepared remarks. 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) And the first question comes from Samik Chatterjee with JPMorgan.

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

Congrats on the results here. I guess if I can start with, Cristiano, your comments about on-device AI becoming pervasive in a few years. I think investors are largely looking for more sort of evidence and validation that this is going to be a key focus area for a lot of OEMs -- smartphones and other device OEMs.

So as you look over the next sort of 12 to 18 months, what should investors look at in terms of more validation of either wins or revenues that you expect from the monetization of the trend in relation to what investors can really look to as milestones to validate that this is actually going to be sort of playing out over the next 3 to 4 years. And I have a follow-up.

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

Thank you so much, Samik, for your question. For those that have not seen, I think I would recommend to see the highlights of our Snapdragon Tech Summit that just happened a couple of weeks ago when we announced the results of our investments in Gen AI.

I'll tell you, Samik, that on-device Gen AI, as I mentioned in my prepared remarks, are evolving in parallel to the cloud. And it's going to have a significant impact in how you change the user experience. Just think about a simple use case as you're texting, every single text that you write could be an input to a model, and that could bring a prediction of your behavior and bring other applications.

We demonstrated a number of use cases. They are under development by many other OEMs. There are a number of different models from large language models to large visual models. One, unique position of Qualcomm, we have many of those models running natively on a platform. We're creating a model zoo for Snapdragon.

And you saw announcements from Microsoft, from Meta, from what we're doing on Android, what we're doing with our Chinese partners. And you're going to start to see those signed, especially with flagship devices launching in '24 as you started to see those use cases changing photography, changing messaging, changing scheduling, changing assistance. How you should think about this financially for us? You have the potential to create a new cycle for phones and will have an impact on increased silicon content.

Just to put in perspective, we have significant increase the processing performance of our AI processing in the device or NPU, it's going to have silicon content is going to have an impact on mix and it's going to have an impact on unit of all of it. And it's likely going to start as use cases get developed with flagships launch in '24, but it could be very significant as you look at the next 2 to 3 years.

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

Okay. Okay. Got it. And for my follow-up, I guess, you're sounding a lot more positive around the recovery in the Android OEMs [related] to the smartphone market. I think investors at the same time are grappling with the potential sort of puts and takes, particularly when it comes to your primary or large Android customer, Samsung, is using more in-house solutions going forward.

So when we think about sort of seasonality beyond the December quarter, particularly around the launch periods, how should we think about your market share with Samsung progressing? And what impact does that have on -- relative to your typical seasonality from December to March?

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

Very good question. Let me unpack that question. Let's divide the conversation in 2. I think the first part of the conversation, as we said in the prepared remarks, we're happy that the inventory dynamics that we have seen within the Android business are largely behind us right now. And one data point that we provided in a cautious, I think, remarks is sequentially from Q4 fiscal to our guide, we're seeing a total growth of revenue from Chinese OEMs, both in China and outside China of 35%. And I think that shows that our customers are in a great position, I think, even facing new entrants in the market. And it's also a strength of our road map and the stabilization of the market.

The second question is about Samsung. Look, we -- we're happy with our partnership with Samsung. There's the upcoming launch of the G S24. We expect to have the majority share. Our product is really great. I think as -- as I said, we probably have one of the best product road maps in the history of the company, especially in the Gen AI processing capabilities. And the product is getting better.

We were happy to talk about what we have done in PC with our new Oryon CPU. That CPU is coming to mobile. especially in '25, and we expect even more, I think, evolution of Gen AI. So the road map gets better over time. Overall, we're positive about our relationship with Samsung.

Operator

Our next question is from Matt Ramsay with Cowen.

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

I guess for my first question, Cristiano, I did pick up on the 35% growth sequentially with China OEMs. But you guys -- the question I've been getting a ton is around Huawei and what they're doing. So you guys called out, I think, last quarter that they were going to be getting some supply on 7-nanometer from SMIC and being able to do some devices themselves, and you called out an impact to your revenue.

But I think longer term into all of next calendar year, there's some expectation that they might get some more supply. Some of it from SMIC on 7, some of it from SMIC on 16, and that might be a unit headwind to some of your other OEM customers. Maybe you can sell into them as well on 4G. So if you could unpack a little bit of what's going on with Huawei and how you see it impacting the market in China, that would be helpful. And I have a follow-up.

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

Thank you for the question, Matt. I think maybe separate, and first, as we indicated in the last earnings call, I think we indicated that we don't have any more projection of selling our 4G, I think, SoCs to Huawei. And going forward, we do not expect to have any significance -- it's going to be a very small, I think, contribution from Huawei.

I think the more interesting answer to your question, and that's the reason I provide the 35% data point, is as Huawei launched the device, we -- what we are seeing from our customers is continue, I think, growth from our customers on the Android side. We see a mix improvement of our customers, moving towards flagship and it's kind of reflected in our numbers.

So it does not change, I think, the trajectory that we have with our Android customers in China. And there is a possibility that I think that Huawei is upgrading their existing customer base. There was a data point, there's about 100 million Huawei former customers with a 4- to 5-year-old Huawei phone, and that could have an impact on increasing the TAM.

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

Cristiano. I guess my follow-up, it was very impressive some of the products that you put forward for the PC market at the latest Snapdragon Summit. I think you were right to call out the performance levels, the power levels and the much, much different support from Microsoft.

I guess what I'm trying to understand a little bit more is support for ARM PCs, whether in gaming or in enterprise use cases by other ISVs. So folks that might need to use other end applications that wouldn't be touched directly by Qualcomm or directly by Microsoft.

Cristiano, could you give us a little bit of an update there? What are you seeing from the ISV ecosystem? And in what parts of the PC market do you see potential momentum for your products?

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

Look, there's a lot to unpack here. I can speak about this for a whole day, but I'm going to try to be succinct.

First thing, we're incredibly proud of the accomplishments of our team. I think Snapdragon X Elite took the leadership position in this space for any mobile computing device. We're incredibly happy with performance of the new CPU, both single-threaded and multi-threaded performance. But not only that, I think it's important to highlight the AI processing capabilities because that's key to answer your question.

If you look versus announcements on NPU or some of the other ARM competitors, we had 45 TOPS performance on the NPU, total TOPS performance on X Elite of 75. and that aligns with the transition that Microsoft is making towards Windows AI future, especially the new services with the Copilot and everything we're doing with Microsoft on on-device -- working together on-device AI with the cloud and with the Azure endpoint. We're excited about that.

And you should start thinking about the PC business, almost like the auto business. We're focused on next-generation PCs, not existing PCs, and as those -- Windows started to switch to Windows AI and our platform launches, it creates opportunity for us to start gaining scale.

Specifically to your question, Microsoft has been very active together with us of bringing a lot of applications natively to the platform. I think we had a significant progress made across consumer in commercial applications. You continue to see announcements in Windows 11 can also run every x86, 32 and 64 bit through the Microsoft emulation. We also made significant strides in the emulation performance.

So I think Snapdragon X Elite represents the results of this Microsoft-Qualcomm collaboration, and I'll finish the answer by saying, if you look at the announcements of other computing companies talking about having an ARM-based PC processor that is validation that that's our TAM now. It is going to be part of the expansion of TAM for Qualcomm. We're a new player, and we look at this as a growth opportunity. We're excited about it.

Operator

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

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

A quick question for Akash. You got strong cost execution come in ahead of plan for -- exiting the fiscal '23 and flattish into the start to Q1, how should we think about OpEx levels planned for the year? Is there more areas to cut? Or do you think you'll remain kind of flattish for the year from a good start?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. Thanks, Mike, for the question. Yes, we're very happy that we set a target for fiscal '23 of a reduction of 5% relative to the '22 exit rate, and we came in at 7%. As we've continued to mention, we have -- we're committing to operating discipline, and we did implement additional actions this quarter proactively. And the way we are managing our portfolio is really while we are reducing cost, we want to ensure that we continue to invest appropriately in technology leadership and diversification and some of the areas that Cristiano just went through.

So that's the balance we're trying to strike. And as we look at the rest of the year, again, we are committed to maintaining operating discipline as we move forward. I think we're in a very good place from an OpEx perspective, we are investing in the right areas and we'll focus on those -- that scale.

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

Great. And kind of building on that, my follow-up question to you, Cristiano. Just a follow up on the on-device Gen AI opportunity. How should we think about the increased dollar content per device for Qualcomm or increased ASPs relative to your high-end Snapdragon chip today?

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

Look, let me start and see if Akash wants to add something else to the answer. The way we think about this is rather than provide a specific dollar content is it has a mix improvement and it will drive towards a richer mix of higher and premium tier devices. It has an ASP increase, especially because of the accelerated performance for AI and we're combining that with significant advancements in CPU and GPU as well. And it has the opportunity to drive units, where there's a new upgrade cycle or share gains.

Akash, I don't know if you want to add anything?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Well and maybe just the other thing to keep in mind is outside handsets, as we talk about the PC opportunity, of course, our AI leadership becomes extremely important there. And then also within IoT we think about Gen AI as something that's going to be a key technology going forward. It will expand our addressable market, expand the dollars we make per device in that area as well. So it's a much broader play for us, including automotive with ADAS, IoT and PC.

Operator

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

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

My first one, I want to ask the March quarter seasonality question a little more directly. Akash, can you just give us some of the puts and takes on that March quarter seasonality.

I mean you've got a strong Apple quarter presumably in December that rolls off. You've got Samsung that launches, although we can question what the share is. You've got other things going on. Just how do we think about that seasonality in the context of everything that's going on, which we'd be expecting?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. So let me maybe try to address the shape of the year as a broader comment. I mean we do expect the first quarter and the fourth quarter to be the strongest quarters within the year. And then third quarter, as you know, is typically the lower quarter because we don't have a flagship phone launch that happens during the quarter.

But when you step back and kind of look at as we enter fiscal '24, we're very happy with kind of the early signs of stabilization in the global handset market. And so we are cautiously optimistic as we go forward with that stabilizing and the normalization of Android channel inventory. We are on a strong trajectory as we go through the year.

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

That's helpful. For my second question, I want to ask about the new Apple agreement. So you put that out a little while ago, you're modeling 20% share now in the phone that launches in '26. So that will be primarily a fiscal '27 issue.

How should we think about the shape of that in '24 and the launches that happen in '24 and '25. Do we assume that you've got close to 100% of the majority of the units there and then it drops down, for modeling purposes, to 20% on the '26 launch? Or like what does that look like?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So the way you should think about the new agreement without kind of going into specifics, the framework is very consistent with the previous agreement. It covers 3 launches, so the launch in '24, launch in '25 and launch in '26. And again, the framework is consistent with what we had before.

For financial planning purposes, we're taking the same approach as we did with last agreement, and that's the 20% you mentioned, where in the last year, we are planning as if we're going to get 20% share. But to the extent that we get more than that, that would be upside for our plan.

Operator

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

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

I just wanted to dive a little bit into the automotive and IoT sides of things. Just a clarification for your fiscal fourth quarter guide, Akash, I believe you said they'd be somewhat similar to last year. I just wondered what you meant by that.

And then a bigger cyclical question. We've heard a number of different companies talk about inventory burn in those 2 markets. You guys highlighted it in IoT. So I wondered where we were there. And are you seeing anything in automotive?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. So the financial guidance we gave is that the year-over-year -- the quarter-over-quarter trend from September quarter to the December quarter, in automotive and IoT will be consistent with last year. So if you look at last year, automotive was down, I think, 1% or 2%. And so we're guiding effectively down 1% or 2% or flat for automotive.

We obviously had a very strong quarter in the September quarter. The business traction continues to accelerate for us. The product road map is great. As Cristiano outlined in his prepared remarks, the relationship with the customers is very strong as well. So we continue to be optimistic, and we're well on our way to execute on the financial targets we have given long term.

From an IoT perspective, again, the same guidance that it's consistent with last year, what the trend we saw between the September and December quarter. And really, when you think about IoT, we're seeing some of the same factors that other players in the industry are seeing, some demand weakness coupled with channel inventory.

As we look forward, we think our first quarter as the bottom for the year for IoT. We expect to strengthen from that point on. And especially as we get into the second half of the fiscal year, with the environment normalizing, but then also a very increasingly strong traction for our products, we think we'll have a strong second half in IoT.

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

Just wanted to ask a follow-up on the gross margin side of things. Cristiano, you talked about AI at the edge and across a number of different products. whether it's the PC side, the handset side, et cetera. I just wondered, what does that mean to the gross margin within QCT. It seems like it opens up new TAMs on the unit side outside of handsets, probably increases the TAM from a dollar content on the handset side. Does that yield upside to gross margin? About the same? Just what are the puts and takes as we translate all that to the profitability side?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. So from a shorter-term perspective, as you'll see from our guide, we did very well in September quarter, we are guiding in line for December quarter. I think your question is more of a longer-term opportunity of the expansion of our gross margin as we get into these new areas. And we definitely agree that I think as we scale in -- outside handsets, especially in automotive and IoT, we have an opportunity for margin expansion.

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

Ross, this is Cristiano. Just 2 things I want to add real quick on the first question and then on this.

As we gain scale in markets, for example, such as auto and in certain segments of the IoT, like PCs, XR. Those things, they also have the opportunity to give us operating margin efficiency, because our R&D is highly leveraged, especially on the computing and the connectivity part. So the more that we get scale, we'll continue to probably be accretive to margins.

I want to make a quick comment on your IoT. You should look at our IoT dynamics, not all IoT are created equal. I think we have a lot of things within our IoT. So there's existing business that are subject to the -- some of the inventory dynamics, but there are new growth opportunities there. One of -- I'll remind everyone that PC is in there, which is likely going to be material in fiscal '25, if you think about devices with the X Elite are launching towards the second half of '24, you have XR, which we're still in the early phase of that opportunity. It has networking. We have fiber. We didn't have it before. So I think we're positioned now to expand networking with fiber and 5G and WiFi 7 is positive. And it has still an opportunity to move processing to the edge with IoT next.

So we're going to be -- those are less subject to some of the cyclical dynamics we're seeing right now for existing business.

Operator

Our next questions are from the line of Christopher Rolland with Susquehanna.

Christopher Adam Jackson Rolland - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

How are you guys thinking about global handset units over your next fiscal year? And then also, given your new product launches here, how should we think about Qualcomm ASPs as we progress for the next fiscal year as well?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Chris, it's Akash. So as we mentioned on the call, we've seen kind of early signs of stabilization in the handset market, including in China. And for calendar '23, we now expect mid- to high single digits versus '22, which is an improvement from what we had before.

As we look at '24, the recent demand stabilization obviously provides a positive setup as we go into the year. So we are cautiously optimistic on how '24 plays out. But specifically on 5G units, which is really our target market, we expect high single-digit to low double-digit growth from '23 into '24. So that's kind of the market that we pursue, and we think there's growth opportunity there going into next year.

From an ASP perspective, because of all the factors we discussed earlier in the call with the chips becoming way more capable, especially with Gen AI, we think we are on a good trajectory to continue to expand our ASP consistent with the last 3-year trend. So if you look at our last 3-year trend, we've added approximately 10% increase in any tier of chipset every year. And we think as we look forward, we have the opportunity to do that going forward.

Christopher Adam Jackson Rolland - Susquehanna Financial Group, LLLP, Research Division - Senior Analyst

That's a great update. Another question for you quickly. There was some new language in your 10-K around the European Commission proposing regulations around standard essential patents, potentially devaluing those patents. I wasn't familiar with this. How serious do you think that risk could be? And are there any other meaningful developments in any other geographies? Or are we all kind of status quo?

Alexander H. Rogers - QUALCOMM Incorporated - President of Qualcomm Technology Licensing (QTL) & Global Affairs

Yes. So thanks for that question. This is Alex. So we've been tracking these developments in the European Union. There's actually a variety of parts to this proposed regulation ranging from wanting more transparency and ownership of SEPs and essentiality of SEPs to other issues relating to kind of pre-legal processes and other sorts of regulations that would affect the licensing and go-to-court process.

The European Union right now is in what they call a trilogue process. It's going to take a while to get through parliament and the member states are going to weigh in. The commission is going to weigh in. The European patent office is actually opposed to parts of the regulation. Ericsson and Nokia, of course, weighing in as well.

So this is going to be a fairly messy, just call it, legislative process that will take some number of years to sort out. It's being followed in other jurisdictions. We're following it here in the U.S. The U.S. Patent Trademark Office has weighed in somewhat negatively, I think, and it's being followed in China as well.

So this will kind of play out over some years. It's not that unusual to have a variety of different SEP-related policy initiatives underway in different jurisdictions.

Operator

Our next question is from the line of Chris Caso with Wolfe Research.

Christopher Caso - Wolfe Research, LLC - MD

The first question is regarding the overall handset demand and understand the comments you made about 5G units going into next year. I guess one part of the question is with the increase that you saw in the China business, how much of that do you believe was associated with just inventory normalization as opposed to actual more end market units?

And then what does that mean for QTL, which has also been somewhat depressed because of the lower handset market? What should we expect on that as we go into next year?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes, Chris, it's Akash. So the way we think about the handset market is we've seen a stabilization in the market, and we're projecting forward, especially into the December quarter and QTL's guide as something that stable market represents. And so we're guiding a midpoint of \$1.4 billion, sequential growth of 11%.

From a -- in terms of breaking down the revenue growth in QCT between inventory and market, obviously, it's kind of difficult to do over a quarter. But we do think that inventory is a big part of it, and it's really the market is stabilizing where it's at with inventory really driving a majority of the improvement in addition to our market share position and revenue growth that comes with content increase as new chips get launched.

Christopher Caso - Wolfe Research, LLC - MD

Got it. And with regard to QTL and I guess I'd assume with -- to see the QTL numbers to come back closer to where we've seen them in the past, that's going to require some more improvement in end market demand, is that accurate?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes, that's right. I mean QTL revenue forecast is really a function of the scale of the overall handset market. And so as the scale changes, it would improve QTL revenues as well.

Operator

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

Brett William Simpson - Arete Research Services LLP - Senior Analyst

My question was really on fiscal '24 Android smartphone outlook. And I guess there's a lot of moving parts here with Huawei building up their own chipset. And we've all seen the volumes they're talking about for next year. And you've also got a fairly high share in flagship segments with Samsung.

So just looking at fiscal '24, can you perhaps just provide us a framework for whether or not Qualcomm can grow Android handset sales in fiscal '24?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Brett, we're not guiding the full year at this point. We gave you the guidance for first quarter, and I gave you an outline as well of how we expect the shape of the year to play out for the overall company. And I think those pointers should give you a sense of our view into the year.

Brett William Simpson - Arete Research Services LLP - Senior Analyst

Okay. And maybe just a follow-up, Akash, in terms of your OpEx plan for fiscal '24, I mean, we've seen your sales in fiscal '23 decline and operating profit down pretty significantly in fiscal '23.

How are you thinking about the OpEx for fiscal '24? And I guess, and specifically, when I look at Qualcomm's headcount, you have over 50,000 people in the business and a lot of your large fabless peers have about half that headcount. How do we think about the sort of spending plan for next year, just given the puts and takes here?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. So Brett, as you are aware, through calendar -- through fiscal '23, we took action on cost reductions a couple of times. And as I also mentioned, this quarter, we've taken additional actions.

So the idea is how do we maintain operating discipline while continuing to invest in the diversification initiatives that are so important for the company going forward. And what you're seeing in our forecast is a representation of those factors.

Operator

Our final 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

I want to ask about market share. Next year, MediaTek is saying that they are doing great and they're gaining share. Huawei published now their target for 100 million units versus 60 million that they had before. And the question is, how do you feel about your market share for handsets sourced within China? What are the areas maybe that you are strong at? What are the areas that you think you'll see more competition?

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

Akash, I will start and maybe you'll add some quantitative comments. Tal, I think I will say, if you -- just to recap, in fiscal '23 that just ended, we had a share increase both globally and in China of sell-through. And we like, I think, the direction that we have been going, as we said, we'll continue to retain a majority share at Samsung. We feel good about that relationship going forward. And we have seen traction from premium and high tier for Chinese OEMs. This in spite of the launch of and the successful I think, initial sales of a newcomer. And that's kind of also reflected in the sequential 35% growth.

Akash, I don't know if there's anything you'd like to add?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

No, I'll just say this competitive environment is no different than what we've had in the past. And really, if you look at our current products and going forward, we think our competitive differentiation is actually accelerating, both with our custom CPUs coming into our handset product line and with Gen AI in addition to other factors that differentiate us.

So we're pretty confident as we go forward, we're in a good place from a competitive positioning perspective and content increase.

Operator

Thank you. 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*

Thank you all for listening to and participating in the call. I just want to say thank you to our employees, our suppliers, our partners. And I think we've been focused on the things we can control and really focus on building incredible, I think, products as we continue to change Qualcomm from a communications company to a connected computer company and go into new markets.

Thank you again, and looking forward to talking to you all next quarter.

Operator

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

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