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QCOM.OQ - Q1 2023 Qualcomm Inc Earnings Call

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OVERVIEW:

Co. reported 1Q23 revenues of \$9.5b and non-GAAP EPS of \$2.37. Expects 2Q23 revenue to be \$8.7-9.5b and non-GAAP EPS to be \$2.05-2.25.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Qualcomm First Quarter fiscal 2023 Earnings Conference Call.

(Operator Instructions)

As a reminder, this conference is being recorded, February 2, 2023. The playback number for today's call is (877) 660-6853. International callers, please dial (201) 612-7415. The playback reservation number is 13735295. 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 Q1, despite the ongoing macroeconomic headwinds and short-term challenges impacting the semiconductor industry, we deliver revenues of \$9.5 billion and non-GAAP earnings of \$2.37 per share, including year-over-year growth in QCT Automotive in IoT. QCT revenues of \$7.9 billion were down 11% year-over-year as a result of weaker handset demand and inventory drawdown. In the current quarter, combined auto and IoT revenues represent 27% of total QCT revenues reflecting continued progress on revenue diversification.

QTL delivered \$1.5 billion in revenues within Q1. As the handset industry continues to experience reduced demand, we are now expecting elevated channel inventory levels to persist at least through the first half of calendar '23. In addition, multiple end industries within IoT are also experiencing weaker-than-expected demand and elevated inventory levels.

Given the current macroeconomic and demand environment, we're implementing further spending reductions and streamlining operations without losing sight of the significant growth and diversification opportunities ahead. This is consistent with our commitment to actively manage operating expenses as indicated during our last earnings call. Combined with the actions we have already taken in the quarter, we expect to reduce non-GAAP operating expenses by approximately 5% relative to a run rate exiting fiscal '22.

Despite near-term headwinds, our long-term growth opportunities remain unchanged. Our leading technologies, such as advanced wireless connectivity and high-performance, low-power compute and on-device intelligence are enabling the ongoing trends of digital transformation across industries. From a product and technology perspective, we believe we are in the strongest position in our history. Our strategy is working, and we remain focused on expanding our addressable market to approximately \$700 billion in the next decade firmly establishing Qualcomm as the connected processor company for the intelligent edge.

I will now provide key highlights from across our business. In automotive, the industry continues to evolve at an unprecedented rate, driven by the adoption of digital technologies. The software-defined vehicle is at the core of this transformation offering automakers a significant opportunity to deliver enhanced connectivity, improved safety and security features, increased levels of autonomy as well as new business models and revenue streams. We believe the Snapdragon Digital Chassis is the industry's preferred purpose-built platform to help drive this innovation for the next generation of vehicles. At CES, we announced Snapdragon Ride Flex, which enables digital cockpit, advanced driver assistance systems and automated driving functions to coexist on a single SoC a first for the automotive industry. Automakers and Tier 1s can now scale a unified center compute and software-defined vehicle architecture across their portfolio.

We also demonstrated our expansion into 2-wheelers with the latest infotainment and cloud connected digital services to enhance safety and deliver a more personal experience for riders. Our solutions also enable OEMs and fleet providers to deliver over-the-air updates, subscription services, remote diagnostics, geofencing, test protection and more. We are very proud of the progress we have made in automotive, and we believe that we are the best positioned technology partner to help drive this industry into the future.

In handsets, our recently announced Snapdragon 8 Gen 2 mobile platform begins a new era of AI accelerated experiences for smartphones. The Snapdragon 8 Gen 2 includes our first ever AI-powered camera processor that enables real-time semantic segmentation for photos and videos. A dedicated 5G AI processor that can enhance 5G data speeds, coverage, latency and battery life and an updated general purpose AI engine with a larger Tensor Accelerator for increased performance. We are also pleased to enable the world's first satellite-based two-way capable messaging solution for Android smartphones. Snapdragon Satellite will provide global connectivity for messaging, utilizing Iridium's weather-resilient L-band spectrum and will initially be available on next-generation premium smartphones using Snapdragon 8 Gen 2 within the second half of 2023.

Yesterday, I was pleased to join Samsung's Unpacked event, where they launched the Galaxy S23 family of smartphones, powered by the Snapdragon 8 Gen 2 mobile platform for Galaxy globally. This premium platform features accelerated performance and unique customizations made possible by our expanded strategic partnership with Samsung.

The Galaxy S23 represents the first smartphone announced from this partnership. In IoT, which is poised to become our largest addressable market, our revenue stream spans across 3 categories: consumer, edge networking and industrial. In consumer IoT our next-generation PC platform with integrated custom Oryon CPUs and upgraded AI engine, has sampled on time and is exceeding our internal KPIs, delivering disruptive CPU performance per watt across tiers.

In addition, Snapdragon's AI capabilities and leading battery life opens unique new possibilities for differentiated user experiences for the modern workforce. Key examples are Windows Studio Effects, including portrait blur, eye framing and noise cancellation with voice focus. Together with Microsoft, we're broadly engaged with the app ecosystem and are pleased that native applications have been launched for Windows on Snapdragon by market-leading ISVs such as Zoom, Amazon Prime Video, VMware Carbon Black, Cisco AnyConnect and CrowdStrike. Additionally, as Adobe announced at our Tech Summit, its creativity suite of apps, including Adobe Photoshop, Lightroom, Fresco and Acrobat will run natively on Snapdragon.

We're now engaged with major PC OEMs with multiple platform design wins across their product road maps for consumer and commercial. In edge networking IoT our WiFi infrastructure and networking products continue to gain share, led by strength in enterprise WiFi access points and carrier gateways. We see several trends that are favorable to our WiFi solutions. WiFi mesh networking continues to grow in popularity worldwide, increasing the number of WiFi chipsets installed per home. The hybrid work trend appears to have had lasting impacts on enterprise networking with workers relying on real-time collaboration tools regardless of whether they are in the office or remote.

Broadband Internet service providers are turning increasingly to a modular software development model, creating new opportunities for Qualcomm in next-generation home gateway routers. And the transition from WiFi 6 and 6E to WiFi 7, which we're currently leading across home, enterprise and carrier segments. In 5G, fixed wireless access, we're encouraged by the significant momentum in India following the recent 5G auctions. Operators have publicly stated their ambition to provide broadband services to 100 million homes using 5G FWA. Qualcomm is well positioned to enable the 5G FWA ecosystem in India with our leading product portfolio on 5G millimeter wave-based high-power CPE complemented by small cell and compact macro cell infrastructure Modem-RF platforms.

We are currently working with CPE and infrastructure OEMs on the commercial rollout in India spanning both millimeter wave and sub-6 spectrum. In industrial IoT Digital transformation is still in the early phases in the scale of the opportunity for Qualcomm in the long term across many verticals is significant. In the tracking and logistics space, we believe we have established one of the largest ecosystems of manufacturing partners. Last month, we announced a new IoT optimized modem, the QCX216 for applications such as smart utility meters, trackers, e-mobility, parking meters, home automation and security and other location-based solutions.

The QCX216 reduces power consumption by up to 80% versus the previous generation solution while also enabling customers to design modules with an up to 40% lower cost structure. In retail, our point-of-sale solutions continue to drive the transition from traditional terminals to full-feature android-based terminals. We have shipped over 70 million Snapdragon devices since 2016 into handheld and desktops point-of-sale terminals worldwide. In enterprise video collaboration, we're leading this rapidly growing segment, powering many of the key OEMs such as Poly, Logitech, [NEC], Cisco, Bose, AVer and Alibaba.

These are just a few examples of our traction within industrial, and we remain excited about the growth prospects as digital transformation accelerates. In summary, the overall long-term growth opportunity for Qualcomm remains unchanged as demand for technology extends to virtually every device at the edge. Our track record of innovation provides a unique perspective and capability to be at the forefront of the digital transformation 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, and thank you for joining our call during a busy earnings week. I'll start with our first fiscal quarter results. Consistent with our prior guidance, we delivered revenues of \$9.5 billion and non-GAAP EPS of \$2.37. QTL recorded revenues of \$1.52 billion and EBT margin of 73% and reflecting slightly lower global handset units. QCT revenues were \$7.9 billion, and EBT margin was at the

high end of our guidance range at 28%. Handset revenues of \$5.8 billion reflected the impact of industry-wide headwinds we had previously communicated.

IoT revenues were up 7% year-over-year to \$1.7 billion, mainly driven by growth from our Edge networking products. Automotive continued its momentum with year-over-year revenue growth of 58% to \$456 million, driven by the adoption of our Snapdragon Digital Chassis. Non-GAAP operating expenses were lower than our guidance, decreasing 6% sequentially, which includes the benefit of certain cost actions we outlined last quarter.

Our balance sheet remains strong with \$8.2 billion in cash and marketable securities at the end of the first fiscal quarter. In addition, we expect to receive a majority of the transaction price of \$1.5 billion on the completion of the sale of Veoneer's active safety business to Magna, by SSW Partners. We expect the transaction to close by the end of the fiscal year.

We returned \$2.1 billion to stockholders, including \$1.3 billion in stock repurchases and \$842 million in dividends in line with our capital return program. Lastly, our GAAP EPS results included a \$0.10 benefit from the U.S. tax requirement to capitalize and amortize R&D expenses. This benefit is excluded from our non-GAAP results.

Before turning to second fiscal quarter guidance, I'll provide an update on short-term cyclical headwinds facing the semiconductor industry. The environment continues to be dynamic with challenging macroeconomic conditions and COVID headwinds in China, driving industry-wide demand weakness. Given this uncertainty, we are incorporating a negative bias for 3G, 4G, 5G handset volumes for calendar '23 relative to calendar '22. The impact of broadening demand weakness across handsets and IoT products and the easing of supply constraints has contributed to elevated channel inventory. Based on our current assessment, we expect QCT customers to continue to draw down on inventory, at least through the second and third fiscal quarters. At this point, we're optimistic that the demand and channel inventory may normalize during the second half of the calendar year, and we remain in a strong position to take advantage of the opportunity when it occurs.

While our business is not immune to the macro environment, we are confident in our ability to navigate this landscape. As Cristiano summarized, we have continued to expand our actions to reduce operating expenses beyond the initiatives we previously outlined. While we are reducing spending on handsets and SG&A, we continue to fund our diversification investments in IoT and automotive, which is consistent with our long-term strategy for the business. The initial benefit of these actions reflected in our fiscal first quarter results and second quarter guidance. Overall, we are targeting a combined 5% reduction in non-GAAP operating expenses relative to our fiscal '22 exit rate.

Turning to guidance for the second fiscal quarter. We are forecasting revenues of \$8.7 billion to \$9.5 billion and non-GAAP EPS of \$2.05 to \$2.25. The midpoint of our guidance includes an assumption of lower end market demand and the continued drawdown of channel inventory. We are forecasting QTL revenues of \$1.25 billion to \$1.45 billion and EBT margins of 66% to 70%, reflecting a sequential seasonal decline in handset units. In QCT, we estimate revenues of \$7.4 billion to \$8 billion and EBT margins of 25% to 27%. We expect handsets and automotive revenue to be flat sequentially, offset by a reduction in IoT revenues due to the factors I just outlined. We estimate non-GAAP operating expenses of approximately \$2.25 billion. This reflects the typical calendar year increases for certain employee-related costs, offset by the savings from our cost reduction actions.

In closing, with the uncertainty of the macro environment, we will remain focused on operating discipline and managing the factors we control. Our diversification strategy is on track, as evidenced by our design win pipeline across IoT and automotive customers. In addition, our long-term secular growth opportunity remains unchanged. We are focused on executing on our strategy, enabled by our leading technology road map and best-in-class product portfolio.

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 coming from the line of Samik Chatterjee with JPMorgan.

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

I have a couple. Maybe for the first one, I hear you on the inventory digestion. But maybe one of the other concerns that investors have had for this year on the handset side is sort of delay, if any, in terms of launch plans from the Android OEMs about the sort of relative to their new handsets or any changes in their pricing strategy and sort of the chips that they intend to then sort of prioritize or sort of the high-end versus mid-end chips that they want to prioritize to achieve those pricing strategies in the market. Maybe if you can give us some color in terms of what you're seeing from the OEMs on that front outside of the inventory digestion? And I have a follow-up.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Sure. Samik, it's Akash. Really from a handset launch perspective, especially in the tiers that Qualcomm is very strong at, we're continuing to see our customers launch on time. So you're -- we obviously saw the Samsung launch happen yesterday. Our Chinese OEMs are also planning to launch their devices on schedule. So no change from our perspective on launch timing in the key tiers for us.

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

Okay. Okay. And maybe just a final follow-up. On the IoT side, you mentioned the weakness that you're seeing in that broader market. But maybe if you can delve into that a bit more. Are you seeing sort of more weakness just sort of being higher on consumer IoT? Or is that more worsening across industrial IoT and edge networking as well? And if you can quantify what -- how to think about the edge networking opportunity relative to India in 2023?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Sure. So from an IoT perspective, it's very similar impact to other parts of the industry. It's really the short-term cyclical headwinds that the entire industry is seeing, we're seeing a factor of that as well. And so it's 2 parts. It's demand weakness and then OEM inventory drawdown, both of those factors similar to handsets. And within our product line, we're seeing -- we obviously started seeing impact in consumer IoT that we've talked about previously, and we've seen expand a bit into industrial and edge networking. But as we look at this, the -- we see these are short-term factors that are clearly kind of driven by the cyclical nature in the industry that's going on. But when you step back and look at our design win pipeline, it still reflects the opportunity in front of us.

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

This is Cristiano. Just to add one thing ask about India. Yes. We we said in our prepared remarks, we're excited about that opportunity. It's probably likely it's going to be one of the largest opportunity for 5G as fixed wireless access. And as we mentioned, the opportunity will be across all the operators to connect in the order of 100 million homes. So that could be very significant. What we like about it is that millimeter wave has been utilized as well for fixed wireless access. So that's a great opportunity for us.

Operator

Our next question is from Matt Ramsay with Cowen.

Matthew D. Ramsay - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Akash, I wanted to ask a little bit of question -- a couple of questions about margins. You talked pretty explicitly about OpEx, but we're seeing no surprise maybe with the dynamics in the macro and the inventory correction that the QCT operating margins have come down some. And maybe you could just walk us through the puts and takes on margins from here. Is March the bottom? And how should we model sort of gross margin in QCT as we go forward given the mix of the segments might be a bit different during this inventory correction?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure, Matt. So let me address it in 2 parts. First, from a gross margin perspective, we did slightly better than our expectations and the results that we announced for the first fiscal quarter. And then we're going to similar margins into the second quarter. So from a gross margin perspective, we are holding well. And even in the challenging environment we're in, we are doing a relatively good job. As we've said in the past, we always expected that once we get to supply constraints, there'll be some gross margin pressure, and that was factored into our long-term target. So really nothing new that we haven't told you before on gross margin side.

On operating leverage, which is really the second driver here is the impact that we're seeing from the inventory drawdown reduces the operating leverage in the business temporarily in the short term. And so you're seeing the operating margins being impacted by that. But kind of once you step back and abstract out of that change, you should see the operating margin more in line with your expectations.

Operator

The next question is from Mike Walkley with Canaccord Genuity.

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

Cristiano, well, Qualcomm has done really well in premium to your Android. With supply easing, what's the appetite to maybe go down tier into the mid- to high-tier Android, and if so, what would be time lines to maybe take share if you have interest in that market?

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

Thank you, Mike, for your question. Actually, it's a great question. What we have seen in this current demand environment as well as the inventory drawdown, actually, the premium tier had done a little bit better than what the mass-tier has been impacted, I think, consistent with our expectations. I think you saw that in some of our customers' earnings call as well. However, we expect that as you get to the second half of the calendar year, we hope that the inventory drawdown situation improves as well as China reopens. And we will see an opportunity for the mid in the low tier to come back and our design traction is good in those tiers with the OEMs, and we'll see what happens. We're not factoring that better second half yet in our planning assumptions. I think we're waiting. But I think there's optimism just because of the inventory drawdown as well as China reopening.

Operator

Our next question is from Stacy Rasgon with Bernstein Research.

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

I have 2. For the first one, of course, you're talking about the inventory correction, I mean, March as well as in June. You're guiding handsets kind of flattish in March. I was wondering if there's any sort of like preliminary color you could give us on the June quarter trajectory? Like do you guys think March quarter in general is the bottom? And then I have a follow-up.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. So the way, Stacy, we are thinking about kind of how things play out is the short-term headwinds, cyclical headwinds that we're seeing that uncertainty remains, and we're seeing that in handsets and IoT, so both from a demand perspective and inventory drawdown. So we expect our QCT customers to be cautious. And until there is more visibility, they're going to be careful with additional purchases and drawdown inventory. So that's what's factored in our updated guidance.

When we look at the second half of the year, as Cristiano said, we're pretty optimistic that demand and channel inventory normalizes. And that allows us to take advantage of the growth from that point on, given our strong position when the dynamic occurs. In terms of bottom, the way I think about it is we're going to see impact for the March and June quarters, and I think there's an opportunity from that point on as we grow in the second half of the year.

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

Got it. If I could ask a quick follow-up. In your Q, you talked about you had a \$344 million tailwind from higher average selling price year-over-year in the quarter, and that was for the overall chip segment. But you used to give that number strictly for handsets. Can you give us some feeling for how pricing has been trending in the handset business relative to that overall benefit you see in QCT?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. So if you think about pricing in the handset business, it's usually a function of 2 things. First is within a given year more capabilities being added to the device, especially on the application processor side. And so you've seen us benefit significantly from that over the last 3 years. And as we look forward, we are continuing to see demand for additional functionality. So that's kind of a tier for tier improvement opportunity for us and for the overall industry.

And then the second factor is mix within tiers and that, of course, changes across quarters. And so that goes up and down based on what sells through in that quarter and which customer it is. But that's more timing versus kind of a fundamental trend of revenue growth.

Operator

Next question is from Ross Seymore with Deutsche Bank.

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

I want to focus on the handset guidance for the next quarter fiscal 2Q being flat sequentially. Can you just talk about the puts and takes that are getting you to flat? And Akash, last quarter, you gave a framework about, I think, \$2 billion of inventory burn headwind. I just wonder if you were indeed successful in getting halfway through that? Or is the issue now pervasive because just demand has dropped? So just the puts and takes on that would be helpful.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes, Ross. So from a handset perspective, what we've assumed in the March quarter is a standard seasonal decline, and I said this in my prepared remarks from December into March. So it's what you would expect seasonally happens once you go between the quarters. And so that's what we've assumed, and that informs our QTL forecast for the quarter as well.

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

But you guided flat sequentially. So I'm just trying to -- from December to March, are you saying it would be down, except for now it's going to be flat because you're burning less inventory?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Okay. So I understand the confusion. So the -- what I talked about was the total handset market, which we are expecting to be down quarter-over-quarter, consistent with seasonal trend. What we said was flat was QCT handset revenue, we expect to be flat. And of course, that's a function of mix of chips and also inventory drawdown differences.

Operator

The next question comes from Joe Moore with Morgan Stanley.

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

Going back to how much inventory you're reducing in handsets. What's your visibility into that? And I mean, are you -- are there certain customers where they sort of didn't take anything in December and so you know that they're coming back? Just can you give us a sense of are you sure this is all inventory reduction and not end demand?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes, Joe, will we have a sense of kind of what sell-through the OEMs had because of our QTL business. And then we have the ability to compare that with what's happening in QCT. So we do have a pretty good sense of what is happening in the industry, and we're confident that a large portion of it was inventory drawdown.

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

Okay. Great. And then specific to the China region, I think you mentioned some new launches in the March quarter, but it sounds like the situation there is pretty challenging in terms of visibility. Like is China different than the rest of the world for you right now?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. The uncertainty in China definitely reflects in our customers' purchases, and that's what we talked about that we expect until there is more visibility, we expect customers to be careful with additional purchases and drawdown on inventory. But in terms of handset launches, we are still seeing the OEMs being extremely active and planning handset launches on the regular cadence and driving functionality within the market.

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

This is Cristiano. Let me just add one thing. If you look at the China handset market, the majority of sales they have a big online component, the majority of sales is offline market. So as we have saw, with the lockdowns in the COVID situation, there was a big impact in the handset market in China. Common sense, and that's how some of our OEMs are also thinking is as the COVID gets behind China, you should expect the markets to open up. And what we have visibility right now is a lot of the new device launches preparing for that and some of it, which is going to be announced at Mobile World Congress. It's too early to draw a conclusion. So let's go back to that conversation that there is optimism that second half could be better.

Operator

Our next question is from Blayne Curtis with Barclays.

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

I guess kind of a combination of the 2. I'm curious, inventories are up on your balance sheet of cash. Just kind of curious whether you need to work those down as well? And then I guess for Cristiano, just going back to a prior question, on the mid range. I'm curious about the pricing environment. I mean, MediaTek is having a tough first half as well. Can you just comment on what that environment is? And then your kind of just thoughts in general about pricing and moving for share within the modem business? You did a good job navigating at the high end during the shortages, but just kind of curious, favoring profitability versus share? What are your thoughts?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Sure. Blayne, it's Akash. I'll take the first one, and then I think Cristiano will take the second one. From an inventory perspective on our balance sheet, you're seeing something similar to what you're seeing on our peers and customers as well, the same set of drivers. As you know well, for leading-edge nodes, which is where we operate, the lead time is 5 to 6 months now for the foundry and chip production. And so we were clearly starting wafers based on a different market expectation and before the inventory drawdown.

So we've calibrated that down. We are working with our suppliers and over time, we'll get to a reasonable place. It is important to also remember that when you look at 3 years ago, where just today, we've grown tremendously in terms of revenue and scale across our businesses, and then also supply has up to demand. So those 2 factors would naturally increase inventory anyways. But the remaining will be working through, as I mentioned.

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

Blayne, Cristiano, I'm going to take your second question. Look, as is probably clear, both us and the other chip supplier enhancement market, dealing with the same challenges, which is the demand weakness and inventory drawdown. We -- in the areas that we have more competition, which is mid- to low tier, we also saw that's the one that is most impacted by the demand weakness. So as we think about the market open up, our view is we're very well positioned from a competitive perspective. We have visibility into the design pipeline, and we will remain disciplined on pricing, which is consistent to how we have behaved over the past few years.

Operator

The next question comes from the line of Brett Simpson with Arete Research.

Brett William Simpson - Arete Research Services LLP - Senior Analyst

I wanted to ask about fixed wireless access and I think you talked about in the prepared remarks that you saw a big opportunity in India playing out over the next couple of years with fixed wireless access. But can you maybe just talk a bit about the ASPs that Qualcomm get from a typical device in fixed wireless access? And how do you see the business evolving in the next couple of years as you start to attack that [India] opportunity and you can see some of the success you've had in the U.S. so far here and maybe other markets? Just maybe help us understand how this really plays out for Qualcomm?

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

So I will start by saying that we really like that market, and we think the market is a long-term market. I think the -- it's clear to see now that home broadband for the first time, you have a wireless solution that can augment fiber. And it's really about fiber and 5G. You don't find cable everywhere outside the United States. So we think that's an opportunity for both developed and developing economies. And of course, if you look at the size of India, that's why we're very excited about it.

We saw the auctions, the investments are being put into place by the operators and infrastructure. When we sell into that market, I think why I can't really talk about the ASP. I tell you, it's accretive in margins to our handset business, especially because we have a lot of content in many cases, we also have the ability to do on WiFi access point in addition of the 5G modem and we are very well positioned with millimeter wave technology.

Brett William Simpson - Arete Research Services LLP - Senior Analyst

Okay. Did you say -- sorry, Cristiano, did you say you booked that in mobile systems? Or is that IoT -- an IoT business?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

It's within the IoT revenue stream.

Brett William Simpson - Arete Research Services LLP - Senior Analyst

Okay. Okay. Fantastic.

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

Yes. What I mentioned is it's compared to our handset business, the ASPs that we have for fixed wireless is really accretive to margins.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

That's a...

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

But it's in the IoT business.

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

Okay. Let be just a follow-up. I wanted to ask about the recent U.S. restrictions around Huawei. Are you seeing any impact in this at all? I mean it looks like while we've been shipping quite a lot of 4G devices recently. Have you been shipping components to Huawei? And if so, can you just help with the impact of the latest restrictions on the business?

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

Yes. So this is Alex. I'll start, and then maybe Akash can fill in if he has anything further. So I don't think it's fair to characterize it as the latest restrictions on Huawei. What we've seen are news reports to the effect that commerce is considering not issuing new licenses to Huawei. And we haven't heard anything from commerce itself. Qualcomm has a set of licenses that we've had for a while that basically allow us to ship 4G and other chipsets, including WiFi to Huawei. Those licenses where she becomes commerce reached the determination that they don't affect national security issues. Those will continue for some number of years. And so within the scope of those licenses, we don't see an impact. Akash, anything else?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Nothing to add.

Operator

The next 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*

Two questions. Inventory days doubled and it has been going up every quarter in the last 4 quarters, 5 quarters. Can you talk about inventory days? And what is it composed of if there is any anything special we to discuss just because of the high value? And second, more qualitatively, I want to understand what is the lag or what should be the lag on sales in China from inventory levels versus demand recovery as China reopens? Meaning from the time that China reopens and there is demand for handsets, how should we think about the lag from that to being translated into demand from you?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. So Tal, it's Akash. From our perspective, the way we're about our inventory, and it's really not necessarily inventory, it's really wafer starts. What we would like to do is, given the lead time of 5 to 6 months, start wafers, 5 to 6 months in advance, plus some room on top for mix changes that might happen during the period. So that's the framework under which we operate. You're right that our current inventory balance is higher than where we'd like it to be. And earlier in the call, I went through the rationale as to how we ended up there. So we're working with our suppliers, and we'll kind of normalize it over time, and we feel confident we can do that.

On your second question on the lag, I think that's already embedded in the way we provided our view into the future, which is as we expect inventory drawdowns to happen through the March quarter then going into the June quarter. But as we go into the second half of the calendar year, as demand comes back and normalizes, we have the ability to benefit from it.

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

Last question. I'm getting a repeated question on your licensing part. I saw today the -- what you said about Nokia and Ericsson. Can you discuss licensing portion in terms of any forthcoming discussions, negotiations or anything that we need to be aware of? Or is it as stable as it was the previous year?

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

So this is Alex. It really is just as stable as we've described previously. All the major OEMs are signed up long term. No other new renewals are coming up until fiscal year '25. The Nokia license basically split into a couple of parts, infrastructure to Nokia handset to Microsoft. Those licenses as they evolved we're not -- no longer material to the QTL business. So that's pretty much where things stand.

Operator

Our next question comes from C.J. Muse with Evercore ISI.

Christopher James Muse - Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Two, if I may. The first one, if you look back 3 months ago, you talked about kind of a 2-quarter correction. Now it's at least 3. And so just curious to level set kind of how things have transpired over the last 3 months? How much of the change statement here is just end demand declining versus your customers working down Qualcomm semiconductor inventory?

And then the second question, you kind of spoke to it earlier around building inventory. And would love to hear your thoughts around kind of wafer start volume commitments. How to think about the impact to QCT margins in calendar '23? And is there any risk of a onetime catch-up payment on reduced volumes?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

So on your first question, C.J., from an inventory perspective, there are a couple of drivers to it. So First is the weaker market. Second is inventory drawdown and both are significant factors. And then the third, I'd say, is we've also seen IoT having the same sum of the characteristics. And so you're seeing a combination of those factors impacting the time period for which the drawdown lasts. Again, as we look at it, this is a shorter-term thing that when you step back, it doesn't necessarily -- the drawdown doesn't impact the strength of the business. And so as the recovery happens, we'll be in a position to benefit from it. Can you repeat your second question? I'm not sure I understood it well.

Christopher James Muse - Evercore ISI Institutional Equities, Research Division - Senior MD, Head of Global Semiconductor Research & Senior Equity Research Analyst

Yes, sure. As it relates to your wafer commitment, particularly with TSMC, if you're taking down the volume purchases, any risk to pricing and/or catch-up payments?

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Yes. So a lot of our commitments were more in the form of prepayments rather than volume commitments. So that just means you get the prepayment back over a longer period of time. But we're navigating through those and nothing to report at this point.

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. Maybe just to summarize, I think how we see the earnings call. I think beyond 2023 for Qualcomm, we see many of our growth initiatives, increasing scale, including Auto, PCs, XR and 5G FWA, will talk about it in industrial. When we look at the current environment, we remain very confident in our ability to navigate the economic downturn and the short-term challenges, given our strong balance sheet and consistent history of strong free cash flow generation.

As you can see, we're taking action where we can control, and we believe we'll emerge even stronger as we continue to execute on our strategy. We're focused on Qualcomm's long-term success, and we'll work digitally to continue to drive growth, especially auto IoT, diversify the company and deliver value for stockholders. I'd like to thank all the employees for the dedication and contributions to Qualcomm as well as our many partners and suppliers, and thank you all for attending the call. I know it was a popular earnings day today. Thank you.

Operator

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

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