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QCOM.OQ - Q1 2022 Qualcomm Inc Earnings Call

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OVERVIEW:

QCOM reported 1Q22 non-GAAP revenues of \$10.7b and non-GAAP EPS of \$3.23. Co. expects 2Q22 revenues of \$10.2-11.0b and non-GAAP EPS of \$2.80-3.00.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Qualcomm First Quarter Fiscal 2022 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded, February 2, 2022. The playback number for today's call is (877) 660-6853. International callers, please dial (201) 612-7415. The playback reservation number is 13726028.

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 - VP 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 & Chief Executive Officer

Thank you, Mauricio, and good afternoon, everyone. Thanks for joining us today. Based on our performance over the past several quarters and the strong fiscal second quarter guidance, it is clear that our strategy is working. Demand for our products and solutions continues to accelerate as our one technology road map is driving the growth of premium Android smartphones as well as enabling the connected intelligent edge, which is driving digital transformation for the cloud-connected economy.

As you can see from our results today, strong performance in our chipset and licensing business led to record fiscal first quarter revenues of \$10.7 billion and record non-GAAP earnings per share of \$3.23. Our chipset business had its second consecutive quarter of record performance with revenues of \$8.8 billion, EBT of \$3.1 billion and EBT margin of 35%. Notably, QCT revenues exceeded those of any fabless semiconductor company. These results demonstrate the continued success of our diversification strategy.

In IoT, we continue to see strong momentum with revenue growth of 41% year-over-year in the first quarter across consumer, edge networking and industrial. In consumer IoT, our early investments, collaboration with Microsoft and the recent acquisition of NUVIA uniquely positions us to drive the PC industry transition to ARM-based computing for next-generation connected laptops.

We recently introduced 2 new platforms, the 8cx Gen 3 and 7c+ Gen 3. And at CES, we highlighted broad support from ecosystem partners, including Acer, ASUS, HP, Lenovo and Microsoft as well as 200 enterprise customers currently testing or deploying Windows on Snapdragon laptops in 2-in-1 devices. We're also seeing strong growth in premium and high-tier Android tablets, further highlighting the convergence of mobile and PC. Notably, we have already doubled the total number of premium tier and/or tablet design wins launch or in the pipeline versus all of fiscal '21.

Additionally, as the metaverse opportunity materializes, we continue to build on our industry leadership position in VR and AR devices with key ecosystem players, including Meta and Microsoft. At CES, we announced a collaboration with Microsoft to expand and accelerate the adoption of augmented reality in both the consumer and enterprise sectors. This partnership includes custom AR chips to enable a new wave of power-efficient, lightweight AR glasses to deliver rich and immersive experiences as well as plans to integrate our Snapdragon Spaces XR developer platform into Microsoft mesh.

We're also very pleased that Time Magazine named our Snapdragon XR2 platform as one of the best inventions of 2021. And we're seeing strong support for our VR and AR platforms from virtually all ecosystem providers, OEMs and content creators.

In edge networking, we continue to lead in current and next-generation high-performance Wi-Fi 6 and Wi-Fi 6E solutions, which now make up more than 80% of our WiFi access point revenues. Recently, we launched the world's first quad-band Wi-Fi 6E mesh system with NETGEAR, which was rated the best-in-class mesh platform by PC Magazine.

Additionally, our Wi-Fi 6 immersive home platforms continue to gain momentum across regions, with significant growth now expanding into China, one of the fastest-growing markets for Wi-Fi 6 for both retail and carrier deployments.

5G as wireless fiber continues to gain scale and expand globally. In addition to our extended range millimeter wave platforms, we recently expanded our portfolio to include 5G fixed wireless access solutions with extended range sub-6, and we're seeing strong traction.

In industrial, we're still in the early phases of digital transformation across many industries. And demand for our solutions continues to accelerate. As an example, combined smart utility meter, tracking robotics and retail revenues more than double over the last year.

In robotics, specifically, we expect total fiscal '22 product launches using our platforms to increase by over 50% year-over-year, spanning applications from warehouse automation to public safety, delivery services and in-home assistance.

The diversity of vertical segments and applications reflects our ability to provide a common platform that integrates advanced computer vision, on-device AI high performance in low-power computing and industry-leading connectivity technologies.

In RF front end, we successfully launched our latest 5G modules, which now include our ultraBAW technology. Our modem-to-antenna strategy is working, enhancing power and performance with average generation of Snapdragon. Notably, virtually all our Snapdragon 8 Gen 1 design wins now include Qualcomm ultraBAW filter technology.

Building on our success in handsets, we're seeing traction with our modem-to-antenna solution across automotive and IoT. As examples, we're well positioned to address up to \$30 of 5G RF content per vehicle, and we're also intersecting our RF front end road map with Wi-Fi 7.

In automotive, Qualcomm is becoming the technology partner of choice for the industry, and we're enabling the transition of the automobile to a digital cloud-connected platform. Our innovative Snapdragon digital chassis is an open and scalable cloud-enabled platform for telematics, connectivity, digital cockpit and ADAS, and uniquely position us as the leading system solution provider for silicon, software, systems and services across multiple domains.

As a reminder, General Motors, BMW and now Renault Group are cornerstone customers for our platform, including ADAS. At CES, we announced an addition to our ADAS and autonomy platform, the Snapdragon Ride Vision System, a new modular computer vision solution that combines our Snapdragon Ride SoCs with the next-generation vision perception software from Arriver.

It supports the various compute functions needed for enhanced perception around the vehicle, and it scales across applications from entry tier in-cap front camera to comprehensive front and surround view camera for enhanced autonomy. We expect the Snapdragon Ride Vision System to be available in production in 2024.

In handsets, we recently announced our most advanced 5G mobile platform for flagship smartphones, the Snapdragon 8 Gen 1 at our annual Snapdragon Tech Summit. The announcement was viewed by more than 50 million people worldwide. The news Snapdragon 800 Gen 1 leads the way to a new era of premium mobile technology with category-defining enhancements across modem RF, camera, AI, gaming, security and more.

Snapdragon 800 Gen 1 is the world's first 5G modem RF solution to reach 10 gigabit download speeds. It's the first to include commercial 18-bit mobile image sensor and the world's first platform compliant with the Android-ready Secure Element Alliance. We also announced new mobile platforms in every Snapdragon series to address global customer demand across every smartphone tier.

In our licensing business, first quarter results reflect a favorable mix in the strength of smartphone shipments. With over 150 5G license agreements, QTL is well positioned for the future, and we continue to expect 5G to have a longer life cycle than prior generations due to its broad application across multiple industries.

Lastly, demand remains strong across all of our technologies and continues to exceed supply. Despite ongoing challenges across the global supply chain, our multisourcing and capacity expansion initiatives will provide incremental improvements to our supply throughout the year.

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. We are extremely pleased to report strong results to start our fiscal year. We delivered our second consecutive quarter of record non-GAAP earnings, with revenues of \$10.7 billion and non-GAAP EPS of \$3.23. These results reflect year-over-year increases of 30% and 49%, respectively, driven by strength across both QCT and QTL.

For QCT, this was another record quarter with revenues of \$8.8 billion and EBT of \$3.1 billion, up 35% and 62%, respectively, versus the year ago quarter. QCT EBT margins of 35% surpassed the high end of our guidance range and increased 6 points versus the year ago quarter driven by revenue scale and operating leverage.

Handset revenues of \$6 billion increased 42% year-over-year due to greater than 60% growth in revenues from Snapdragon chipsets for Android devices.

RF front-end revenues of \$1.1 billion grew 7% versus the year ago quarter, reflecting the previously mentioned pull-in of demand into the fourth fiscal quarter. Our RF front-end revenues for Android devices grew by greater than 25% versus the year ago quarter as we continued to see strong traction across all major OEMs.

IoT revenues were up 41% year-over-year to \$1.5 billion on continued demand for our cloud connected intelligent edge devices. Each of the consumer, edge networking and industrial categories grew by at least 30% compared to the year ago quarter.

Automotive revenues of \$256 million grew 21% year-over-year on the strength of our design wins across our Snapdragon digital chassis. We recorded QTL revenues of \$1.8 billion, an increase of 10% year-over-year, and EBT margins of 77%, which was above the midpoint of the guidance. These results reflect a favorable mix and slightly higher handset shipments.

Turning to global handsets and our guidance for the second fiscal quarter. For calendar 2021, consistent with the previous guidance, we estimate global 3G, 4G, 5G handsets grew 7% year-over-year, including approximately 535 million 5G handsets. For calendar 2022, there is no change to the forecast provided at our Investor Day with greater than 750 million 5G handsets.

For the second fiscal quarter, we are forecasting revenues of \$10.2 billion to \$11 billion and non-GAAP EPS of \$2.80 to \$3. In QCT, we expect revenues of \$8.7 billion to \$9.3 billion and EBT margins of 32% to 34%.

At the midpoint, this implies year-over-year revenue growth of 43% and EBT dollar growth of \$1.4 billion. For handsets and RF front end, we expect revenues to be in line sequentially as seasonal decline in Apple revenues is offset by continued growth in revenues from Android devices.

Within handsets, the increase in Android revenue is driven by the launch of our new Snapdragon premium chipset and additional shipments across high and mid-tiers due to our second sourcing efforts. Additionally, we expect strong year-over-year and sequential growth in our IoT and automotive revenue streams.

We estimate QTL revenues of \$1.45 billion to \$1.65 billion and EBT margins of 70% to 74%. This reflects the normal pre-COVID trends following the strong holiday quarter.

We anticipate non-GAAP operating expenses to be up 7% to 9% sequentially on normal seasonality, including calendar year resets for certain employee-related costs. The remaining increase reflects select investments in long-term growth initiatives that we outlined at our Investor Day.

Looking forward to the third fiscal quarter, we are forecasting year-over-year non-GAAP EPS growth of greater than 30%. For QCT, this reflects the seasonality following Chinese New Year purchases and the launch of our new Snapdragon premium chipset in the second quarter. We expect the next inflection point in QCT to be in the second half of the calendar year, with launch of new 5G handsets across several major OEMs.

Lastly, we published our annual corporate responsibility and ESG report yesterday, which outlines progress against our company-wide targets, including environmental sustainability, diversity and inclusion, and power efficiency of our Snapdragon products.

We are pleased to have been recognized by several organizations, including making the Dow Jones Sustainability Index and Newsweek's most responsible company list for the third consecutive year.

Thank you. Back to you, Mauricio.

Mauricio Lopez-Hodoyan - QUALCOMM Incorporated - VP of Investor Relations

Thank you, Akash. Operator, we are now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Samik Chatterjee with JPMorgan.

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

Congrats on the results. I guess if I can start with -- you talked about the strong launch with Android customers that you've had in both phones and tablets. And I think you mentioned doubling the pace of launches with Android.

As we look to the -- beyond the first half, that is your fiscal first half December and March, how should we think about how much of the Android share gains for you or launches for you is already in the run rate?

And how much of that is like weighted for the remainder of the year beyond sort of this first half of the year? If you can share some color on how to think about share gains continuing for the remainder of the year with Android. And then I have a follow-up, please.

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

Samik, this is Cristiano. Look, Android is a success story for us. This quarter continues to validate what we said before. OEM shared in shifts in China is benefiting Qualcomm, and we saw significant growth of Qualcomm share within the market as we have this new 10 opportunity. And we've seen that reflected in the growth -- we've seen in premium and high tiers.

So it continues to be a story. It was the highlight of what happened in the handsets within the quarter. Akash outlined 60% year-over-year growth on Android. And I'll shift over to Akash to talk about seasonality.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Samik, I think this is something that'll sustain for us going forward. We're in a very strong position as you see in the numbers. Our product portfolio is very strong as well. So as we keep -- go forward, we continue to expect to see this benefit in our financials.

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

Yes. Got it. And just for my follow-up, I know you talked about the second source helping in terms of, obviously, in terms of realizing better revenues. But if you can talk about what you're seeing in terms of the cadence of the improvement there. Do you get to where you want to be with supply during the year? Or does it take longer? If you can just give us an update on how you're thinking about supply here.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. So overall, the demand, as Cristiano mentioned in his prepared remarks, extremely strong across the board. And so we are continuing to see demand outpacing supply. As you rightly mentioned, we had put plans in place very early in the process, anticipating some of these challenges.

And you're seeing the benefit of that, right? We have 3 second sourcing parts, especially in the mid high tiers that are shipping at scale now, and that shows up in our financial performance. And we have additional parts coming up as well. So that's definitely something that's helping us.

The second is we're seeing capacity builds from some of our suppliers, and that's playing a role as well. As you look forward, we expect supply to continue to improve gradually through the year in addition to where we are at now. And this entire picture, obviously, as you'd expect, is factored into our guidance.

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

Look, it's Cristiano. Nothing more to add other than in simple terms, we see supply improvements. Our forward guide, it contemplates the visibility we have in supply. And we still have more demand than supply. We'll ship more if we could.

Operator

Our next question is coming from Chris Caso with Raymond James.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I wanted to ask about the commentary about the June quarter and the second half of the calendar year, your commentary there. Can you give a little more color on that? It's not typical for you to provide color 2 quarters in advance. So I imagine it's purposeful of why you're doing that.

And maybe talk a little bit about the second half of the calendar year. Is that really a function of more supply coming on, allowing you to perhaps balance supply and demand as you get to the second half of the calendar year?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure, Chris. Thanks for the question. So overall, when you look at our fiscal year, we are tracking well ahead of plan. We're very, very happy with how the year is playing out for us. And that obviously puts us in a very strong position to meet and exceed our long-term Investor Day targets.

If you look at the first half outperformance, beyond that, as we go into the third fiscal quarter, we are projecting EPS growth of at least 30%, an opportunity beyond that. And then as you get into the September quarter, as you know well, that's kind of the next inflection point for us with launches -- additional phone launches in -- across several major OEMs. So we're going to -- we're expecting very strong year-over-year growth in the September quarter as well.

Also, when you look beyond handsets and we look at second half of fiscal '22, RF front end, IoT and automotive all are poised to continue to show very strong year-over-year growth as we go through the year. So generally, when you step back, we had a very strong second half fiscal '21. Fiscal '22 is shaping up just like that, very strong year-over-year growth rates.

Christopher Caso - *Raymond James & Associates, Inc., Research Division - Research Analyst*

That's very helpful. In addition to the longer-term goals you presented at the Analyst Day, you also talked about fiscal '22 guidance for at least 20% EPS growth. Based on what you're saying for June, again, it seems like you're well ahead of that as well. Any commentary update on that fiscal '22 guidance?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Chris, that's the right conclusion. We're tracking well ahead of it. We're not updating that number yet. But I think based on the guidance that you have for second fiscal quarter and third fiscal quarter and the comments I gave on the fourth, what you're drawing is a very reasonable conclusion.

Operator

Our next question is coming from Rod Hall with Goldman Sachs.

Roderick B. Hall - Goldman Sachs Group, Inc., Research Division - MD

Appreciate the question. I was just taking a look, and we've been looking at this for a while, the quarter-on-quarter marginal contribution. So the QCT marginal contribution, if I look at the change in EBT and the change in revenue, I'm calculating 58% there in this quarter.

And I know some of that is scaling, but I wonder if there's any way you could maybe at least give us some color on how much of that is the new marginal sales in QCT being higher margin and how much of it is just scaling effect on the revenue. And then I have a follow-up.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Rod, just to confirm -- and this is Akash. Just to confirm, your question was about the actuals for the December quarter?

Roderick B. Hall - Goldman Sachs Group, Inc., Research Division - MD

Yes. So Akash, what all I've done is taken the EBT of the December quarter less the EBT of the September quarter and put it over the revenue difference.

Akash Palkhiwala - QUALCOMM Incorporated - Chief Financial Officer

Correct. Correct. Great. So I think it's a great story. You're seeing a combination of all 3 drivers, right? You have revenue scale benefiting us. Gross margin strength quarter-over-quarter also benefiting us. And then operating leverage of the business. So it's a combination of all 3.

And we're pretty excited that not just gross margin performance was great. When you look at operating margins as well, 35% is really a great benchmark for us. It's the highest margin in a long time for us. So pretty excited about where we are at and where we're going with it.

Roderick B. Hall - Goldman Sachs Group, Inc., Research Division - MD

Great. And then on my follow-up, I wanted to ask you, Cristiano, if you could maybe comment on the -- there's been a lot of noise in the high-end Android chip market about upcoming competition and so on. And I just wonder maybe could you comment on the competitive environment a little bit there, what you're seeing -- what you anticipate seeing in the next 6 or 9 months?

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

Happy to do it. Before I answer that question, I just want to add one thing to the prior question that Akash answered. Look, we've been talking about our one technology road map that really scales.

And this is exactly what you see as our diversification strategy unfolds and more or more of the revenue coming towards QCT from non-handset business, it gives us scale to the business, is all accretive to margins, and I think that's reflected in the numbers. And I think that will continue to be the story as we are able to leverage the road map.

Now back to your question on competition, we're very happy where we are. Look, I provided a metric that we not usually do that in my prepared remarks. When we launched the new Snapdragon 8 series, we had 50 million views in -- of the launch event. And we have done that simultaneously both in the United States as well in 2 different locations in China. Snapdragon is becoming the preferred brand for premium tier Android. Not a single one of our customers think about flagship without thinking of Snapdragon 8 series. It's a very strong position to be in.

As our customers move to the premium tier, we're seeing that turn into gains of share of the market for Qualcomm. That's why Android is the story of our handset business right now.

And the reality is as we look at the OEM share shifts that happened in China, there's plenty of opportunity for us to grow and our competitors to grow. And I expect that we'll continue to have good results, and more and more our customers will be betting on the Snapdragon brand.

Operator

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

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

Congratulations on the results also. I guess question for me on the \$10 billion SAM opportunity within Android that you've previously highlighted, how do you think much of that benefiting this first half of the year guidance? And how much further you think you have to go in penetrating that SAM?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Mike, this is Akash. What's really happening with the \$10 billion SAM opportunity is with the OEM mix change in China, all of our customers, Xiaomi, OPPO, Vivo, Honor, they're all picking up share. And as they pick up share and also go up tier, going into the high and the premium tier, as Cristiano just outlined, it gives us a tremendous opportunity to tap into it.

So we've done a lot of it through, obviously, our products being great, but also working on the second sources that we mentioned in our prepared remarks. We still think that there is an opportunity to continue to expand into that SAM going forward.

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

Right. And just my follow-up question. I think you previously highlighted to start the first half of the year, you've kind of prioritized the strong Android premium tier handsets. And you talked about demand outstripping supply. Is it get to maybe a softer handset quarter in the June quarter? Should we see maybe automotive and IoT start to close that supply-demand balance and those businesses maybe accelerate in terms of a sequential growth trend?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes, Mike. We're definitely -- that's a decision that we definitely make where if we can bias the supply in certain directions based on the market demands, we take advantage of that. And so it's something that we'll definitely do as we get to the June quarter.

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

Look, this is Cristiano. Let me just add one thing. I want to -- hopefully, this will explain. We're seeing demand for all of our product lines. We're seeing more demand than supply right now. I think demand continues to be up, but I think we're a very fortunate position to be in.

When you think about the handset business, and you did see this very high growth rate on Android, 60% growth of Android within the quarter, we prioritize supply, as we said in the prior quarters, for the Chinese New Year launches. We will still have more demand than supply in all the growth business.

As we go through the next quarter, you're going to see the growth business, and a lot of the non-handset business could -- growing, and then the next inflection point for handsets is the holiday season, which is our September quarter.

And as we expect supply improvements throughout the year, I think we'll be able to continue to drive growth in all business. We're very happy with how the year is unfolding. And as I said, our supply picture is reflected in our forward guide. Having said that, demand continued to go up, and it's a good thing.

Operator

Our next question is coming from Stacy Rasgon with Bernstein Research.

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

First, I wanted to ask about chipset gross margins in the quarter. I know you don't report them. But if I sort of stare at it, I think they probably were up a couple of hundred basis points. And I find that interesting just given the relative strength of handsets versus the adjacencies, which I think do have higher margins.

Was that just the Android strength that you talked about that drove that margin in the quarter? And then how should we think about that into March as sort of the mix reverses? But you should have some of the higher margins of the adjacencies actually growing sequentially into March. I mean is there room for more margin expansion as we go into the next quarter?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Stacy, it's Akash. So it's a combination of, obviously, the adjacent outside non-handsets businesses helping the gross margin. Within handsets, you're seeing the benefit come through, especially as premium and high-tier devices at the high end of Android are being consumed, and we're selling into that market. And as you'll see in the guidance that we gave, we are still continuing to be optimistic with the gross margin picture.

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

Got it. That's helpful. For my follow-up, I wanted to ask about the buyback. You bought back quite a bit of stock, I believe, in the quarter. And I think at the Analyst Day, you talked about buybacks is only really being anti-dilutive, but it looks like we are seeing share counts come down.

I guess how should we be thinking about the buyback going forward given the cash generation? And I noticed this quarter, you didn't guide the share count on a more structural level. It does look like it's down a little lower. Should we be thinking about share count continue to go down through the year given the capital return that we're seeing?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Stacy, no change on the framework that we've given on buybacks before. We're continuing to focus on prioritized anti-dilutive buybacks and opportunistically look for, on top of that, if we can do additional buybacks. And so what you're seeing in the quarter is a portion of that showing up. But fundamentally, our framework doesn't change.

Operator

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

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

I have 2 questions. The first one is other suppliers of Apple noted that orders for March in -- were strong, but then at least one of them said that the guidance for June is very weak because there's going to be a reversion to the mean. And the question I have is, is there any concentration of QCT handsets this that gives you some concerns over any big customer that might be reducing orders -- that there is any abnormal behavior this quarter might be reducing orders later on? That's my first question.

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. Yes. Tal, nothing to look there. I mean there isn't a story. We're going -- Apple is going to have their buying pattern across the quarters. And so that will flow through. But really, our focus is on the Android market, and there isn't a specific story that we're worried about there. Our position is good, and design traction going forward looks great.

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

Okay. The second question, and I don't know how to look at it, but when I look at handset revenues, we are well above the consensus estimates. But RF, auto and IoT, you reported below -- slightly below consensus estimates for the quarter. And I'm just wondering, is there any -- first of all, can you discuss the quarter for these non-handset markets or maybe RF as part of handsets? And then can you discuss seasonality? What -- these are new markets, relatively speaking. What should we think about seasonality here?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Yes. Sure. So Tal, as we had said at previous earnings call, December being a strong quarter for the handset business, we definitely prioritize the handset business over some of the other new opportunities. Still great demand in those areas. And as we go forward, you'll see that growth rates ramp in each of those businesses. It's reflected in our guidance.

As I said in my prepared remarks, we expect auto and IoT to see strong sequential growth in the second quarter and also a strong year-over-year growth. As you look at the second half of the year, you're going to see the same trend, strong year-over-year growth across the board.

Operator

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

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

Whether it's Cristiano or Akash, I'm not sure who this is better aligned to, but I wanted to see what your strategy is on the pricing side of the equation. Costs are increasing. Everybody is trying to get more supply. Are you passing along those costs? Is it margin accretive? And how are you using price on the revenue side of things as a tailwind? Should we be assuming that some of the goodness that we're seeing year-over-year is coming from the price side of the equation or not?

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

Thanks, Ross. This is Cristiano. Thanks for the question. Here's how you should think about it. One thing that probably separate us, we've been very focused in premium and high-tier devices, high-value devices, a lot of new technology. And therefore, it's -- we're kind of less impacted by semiconductor cost increases. It's more about the value of the platform we offer.

The second part of the answer is what we said, I think, earlier. Our one technology road map really scales. And as we use the technology in our R&D to serve more markets, we gained scale with our application processor in premium Android, and Android becomes the key story of mobile, not the modem. It's really the application processor. And the Snapdragon 800 is the key story.

Plus, we have the processing and connectivity into automotive and IoT. It is accretive to margins. The business gains scale, and those are highly profitable, I think, product offerings. So those 2 things have a factor, and it's reflected in the QCT 35% operating margin.

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

I guess as my follow-up, one probably for Akash, on the OpEx side of things. It looks like the March quarter is doing what it typically does in your guidance, up seasonally. Any sort of puts and takes for the rest of the year that would be different than your traditional seasonality in that line?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Not really. It'll be consistent with our historical seasonality. The one thing to keep in mind is as we closed the Veoneer transaction, they'll become a factor in our OpEx trend going forward. But overall, there's -- you should expect the trend to be consistent with historical.

Operator

Our next question is coming from Matt Ramsay with Cowen.

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

Cristiano, I wanted to -- a lot of the conversation here has been focused on supply versus demand for your products and the wafers and et cetera that takes to make your products. But a lot of the calls we all do in semis, we're hearing about match set issues and kitting issues for your end customers making devices.

And what I've heard more about in the last 6 months and I expect to going forward is maybe a push by Qualcomm to use your scale to help your OEM customers get the remainder of the kit to make phones, pushing people more closely to be strictly aligned around the reference design where you can control more of the components in those reference designs.

I wonder if you're finding your scale to be an advantage, one. And number two, does that have implications on attach rates of RF and other types of components that might generate revenue for Qualcomm in those designs?

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

Thanks for the question. Here is -- it's a complicated thing here. I'll try to provide a simple answer. Look, when we talk, for example -- and I was just going to pick this product an example. We talked about Snapdragon 8 Series Generation 1, and it's a leading node SoC, but it has a lot of attach. Yes. Yes. The transceiver has entire front-end attach. It has power management IC.

And at the end of the day, when we provide a chipset solution to our customers, we need capacity across a number of different nodes. So when we think about multisourcing our products and put capacity expansion plans in place, so we have supply to support both our handsets in the growth business, we have been building capacity across all those different technologies.

And as an example, when you think of things like a power management IC or even transceiver, we work with 4 or 5 foundries. So in the semiconductor supply chain shortage, it is across everything.

Now having said that, the second part of the answer is scale has been very helpful. Two things have been very helpful for Qualcomm. One is the high predictability we have on our demand. We can bet on ourselves, and therefore, we have the ability to make long-term capacity planning and get long-term capacity commitments from our vendors. And also, the scale that we have to be able to utilize multisourcing, that has put us in a good position to navigate through this.

Now having said that, so I'll repeat what I said before, we still have more demand than supply, even though we're very happy with the growth rates and how good was the quarter, the guide how we've been managing, I think the seasonality between handsets and the growth business. But -- and as we said, supply is going to get better as we get to the second half of 2022.

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

Very helpful. Just as a follow-up. On the auto business, you guys presented a very compelling story around ADAS at the Investor Day, but I was a bit surprised at the Ultra Cruise announcement so quickly. Congrats on that. Maybe if you could give a little bit more details behind that relationship with GM and if you have other irons in the fire of similar profile.

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

Thanks for the question. Automotive is really an incredible opportunity for Qualcomm. We're super excited about everything that's happening in automotive has happened in a very short period of time.

And I think we have something that is very unique. It's separate us from everybody else. It's not about having a component. It's about creating a digital chassis with capabilities in all domains, from connecting the car to the cloud telematics, the entire immersive digital cockpit experience and, of course, ADAS and autonomy, plus a service platform.

GM is, as we said, a cornerstone customer that is not only looking into the capability of ADAS, and we're super proud of the work with them, both of Super Cruise and Ultra Cruise, but also the ability to look at the entire chassis. BMW was another one, which we announced towards our Analyst Day. At CES, we announced Renault as in addition to the digital chassis.

We -- you should expect that we have a lot of other irons in the fire. And overall, automotive is a good story for Qualcomm. It's something that we can actually take a platform approach and take some of the things we have done in mobile, it's take the technology to scale up and down to every tier of automobile. And I think we're just in the beginning of having more ADAS design wins and having the chassis be recognized as a key platform going forward.

Operator

Your next question is coming from Joe Moore with Morgan Stanley.

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

I wonder if you could talk about RF for the year, the RF business' ability to keep pace with handsets overall. And kind of what are the metrics we should look at as millimeter wave roll out kind of more broadly an important factor? Or is it content growth in the sort of next 200 million 5G handsets, just how are you thinking about overall RF for the year?

Akash Palkhiwala - *QUALCOMM Incorporated - Chief Financial Officer*

Sure. Joe, it's Akash. If you go back to what we said at Analyst Day and the target that we set for the RF business, really, no change there. We -- '22 is playing out as we expected. It's on track to position us to achieve the target that we laid out. You should also think of RF as not just handsets.

And today, most of the business is handsets, but we're going to have RF opportunities with 5G and automotive, with 5G and IoT and then WiFi RF as well. So tremendous growth opportunities outside of handsets that's in front of us.

On millimeter wave, the guidance that we gave at Analyst Day did not have any heroic assumptions of growth of millimeter wave globally. We think of that as an upside opportunity.

Operator

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

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

I have a question for Cristiano. You talked a lot about Android strength this year. But I guess on China smartphones, we've seen some volatility in sort of sell-in versus sell-through last quarter. Is this sort of typical kind of buildup ahead of Chinese New Year that we should expect?

And I guess when you look at new product launches in China, last year, we didn't get any new premium Android launches in the June quarter. Nothing meaningful from Chinese customers. So I'm just keen to get your perspective around demand from Chinese customers in the March and June quarters as things look a little bit more volatile than we'd expect.

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

No, it's a great question. And I think as we've been trying to talk about on this call, when you think about the handset Android revenue for us and the growth for having in Android, you see a lot of growth right now. You saw that 60% year-over-year growth of Android, and we also have sequential growth. That's because of the Chinese New Year. And we're more skewed towards premium and high tier.

And then we have -- the next inflection point will be the holiday season. And I think this is all contemplated in our guide. And the market -- we continue to see demand high. And because I think we're more concentrated in the premium and high tiers, we have been a little bit less impacted by some of the puts and takes that you see towards in the mid and the low tier of handsets.

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

Great. And maybe just a follow-up on Windows and ARM. I mean this is something you guys have led over the last, I don't know, 3 or 4 years, but can you talk a bit about your share ambitions? I mean what do you think that an ARM platform and Windows ecosystem can command on a sort of 2- or 3-year view with -- especially with the NUVIA asset you've got now and the MAKENA project? Any sort of market share ambitions you can share with us, just to give us some perspective on how you see this opportunity playing out.

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

Great question. Look, let's talk about short term, and then let's talk about midterm. The way we look at this -- and we have been very clear and very consistent with our vision. At the end of the day, for Qualcomm, it's inevitable that you're going to have a big portion of the PC market moving towards the connected ARM platform.

I think you saw that happening already with Apple when you think about the Apple devices. And then when you think about the use cases of PC, PCs are changing at least for the workhorse of a laptop. It's about cameras. It's about connectivities. It's about multimedia. It's about streaming with 5G, including streaming of gaming, et cetera.

So our view is very clear. There's going to be a big portion of the market is going to transition to an ARM architecture. And when you think of everybody else in the industry, we are the best positioned company to do that for the Windows ecosystem. I think that's reflected not only in the developments and the partnership we have with Microsoft for the years, but also the acquisition of NUVIA.

Short term, as we prepare for Windows 11, Windows 11 is really the time that you have the ARM ecosystem able to support 32-bit, 64-bit. You have things like the Android apps coming to Windows, our new partner we just announced, the 8cx Gen 3.

We talk about CES about having now the device being tested in 200 large enterprises. And it's a step function. We'll continue to work with our partners on that transition. But I think every OEM that you're going to talk to, especially on the PC Windows side, they believe there's going to be a room for ARM-based laptop, and that's what Qualcomm is doing.

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 & Chief Executive Officer

Yes. First of all, I would like to thank everyone for joining on the call today. I'm really excited for what 2022 will bring. Demand for technology is accelerating across virtually every sector, and we remain at the beginning of one of the largest opportunities in our history.

Our one technology road map with incomparable capabilities in wireless communications, low-power advanced computing and on-device AI extends from mobile to automotive and IoT, expanding our addressable market by more than 7x to approximately \$700 billion in the next decade.

In closing, we have the vision and the execution capabilities that will ensure we are at the forefront of innovation. As the world transforms, we will continue to move early and quickly to address these new opportunities and deliver technologies that enable industries and communities to advance.

Most important, I would like to thank our 45,000 employees worldwide. I'm incredibly proud of the significant achievements we made. Thank you.

Operator

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

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