

QCOM F1Q Exceeds on Chinese Android Smartphone Strength

QCOM	21 est.	Qualcomm		FY24rev:	-1%
Qtr:	F1Q	Grade:	C	Growth (qtr-qtr)	
Rev:	9,922	Rev:	+++	Rev:	14.5%
GM:	57.2%	EPS:	+++	Fcst:	-10-2%
EPS:	\$2.75	Fcst:	o	Div:	\$0.80

Qualcomm (QCOM \$152.69 -3.29 on 2/16/24)

F1Q Earnings: QCOM announced December-ended F1Q earnings on January 31 that exceeded the high-end of both guidance and expectations due to greater than expected Chinese OEM Android smartphone growth. F2Q guidance for a sequential revenue decline is primarily due to seasonality from a modem-only handset customer.

F1Q Results: Revenue increased by +14.5% sequentially driven by Snapdragon 8 Gen 3 device sales to Chinese OEM smartphones, as well as sales to automotive customers. Gross margin expanded by 140bps to 57.2% and EBT by 590bps to 36.1% on higher sales, a richer-mix of premium products, and an accelerated 5% reduction in operating expenses to \$2.1B. 6M shares were repurchased for \$784M and dividend payments totaled \$895M.

QCT Device Strength: QCT device sales increased by +14.2% sequentially and accounted for 85% of revenue, while segment EBT improved by +520bps to 30.8%, both above the high-end of guidance due to handset strength.

Handsets grew by +22.6% and accounted for 79% of QCT sales. The new Snapdragon 8 Gen 3 device drove Android flagship launches with Chinese OEMs exceeding expected growth of +35%, as well as most of Samsung's new Galaxy S24 models. A multiyear agreement with Samsung relating to Snapdragon platforms was inked. The company estimates global smartphone units declined by a slightly better than expected mid-single-digit percentage last year, and expects flat to slightly up growth this year including 5G growth of +8+12%.

Automotive grew by +11.8% for 7% of QCT sales reflecting increasing content per vehicle. Applications have broadened from telematics to digital cockpits and ADAS, and last year 75 models launched with QCOM tech.

IoT declined by -17.7% to 14% of QCT sales. Management believes IoT has bottomed out quarterly after last year's -19% decline. Consumer inventory has stabilized and industrial and edge networking are close behind.

QTL Licensing/Royalties Persist: QTL licensing revenue increased by +15.7% sequentially on slightly higher handset units and accounted for 15% of revenue, while segment EBT improved by +830bps to 74.0%, both at the high end of guidance. Apple extended its agreement, two Chinese OEMs renewed long-term agreements, and negotiations continue on additional renewals and new agreements. The current run-rate is expected to continue.

Diversification Initiatives: The Snapdragon X Elite for Windows PCs with gen AI will launch mid-year amid favorable design win traction since it was announced last October. The recent Snapdragon XR2+ Gen 2 expands the company's virtual/mixed reality headset offering with partners that include Samsung and Google. And the Snapdragon X35 5G modern RF system is the world's first commercial Release 17 5G Red Cap solution for edge networks, with systems expected to launch 1H24. Management believes industrial edge devices will become one of the company's largest markets and is accelerating investments in solutions, the ecosystem and channel for growth.

Guidance (non-GAAP): F2Q revenue of \$8.9-9.7B and EPS of \$2.20-2.40, with the decline due to seasonality from a modem only handset customer (*Apple*). QTL sales of \$1.2-1.4B and EBT margin of 69-73%, QCT revenue of \$7.6-8.2B and EBT margin of 27-29%, and op ex up slightly to \$2.2B. Android sales are expected to be flat, automotive down slightly, and IoT to grow by a mid- to high single digit percentage.

Valuation: At well over 80% of sales, QCOM is primarily subject to the vagaries of a mature and slowly declining smartphone market—hence the search for growth in automotive, PCs and edge networking. On a TTM, current and next FY basis, price/sale is at 4.7x, 4.9x and 4.5x, respectively, while price/earnings is at 17.4x, 16.9x and 15.3x. Dividend yield is 2.1%, price/book at 7.5x goes up to 15.7x on a tangible basis, and net cash is negative. While valuation metrics indicate the potential for incremental upside, in my opinion most of the action in these shares will come from its diversification initiatives delivering growth.

Qualcomm Financials

FYE September

FYE September	FY2022							FY2023					FY2024
	FY20	FY21	1Q	2Q	3Q	4Q	FY22	1Q	2Q	3Q	4Q	FY23	1Q
Revenue													
GAAP	22,531	33,566	10,705	11,164	10,936	11,396	44,201	9,463	9,275	8,451	8,631	35,820	9,935
QCT	16,493	27,019	8,847	9,548	9,378	9,904	37,677	7,892	7,942	7,174	7,374	30,382	8,423
QTL	5,028	6,320	1,818	1,580	1,519	1,441	6,358	1,524	1,290	1,230	1,262	5,306	1,460
QSI/adjustments	133	128	32	30	31	42	135	40	36	38	29	143	39
Non-GAAP	21,654	33,467	10,697	11,158	10,928	11,387	44,170	9,456	9,268	8,442	8,665	35,831	9,922
non-GAAP													
Gross Margin	58.9%	58.2%	60.3%	58.8%	56.6%	58.0%	58.4%	58.0%	55.7%	55.7%	55.8%	56.3%	57.2%
EBT Margin	25.3%	33.7%	40.3%	38.1%	35.6%	36.4%	37.6%	33.5%	30.8%	28.8%	30.2%	30.9%	36.1%
EPS (GAAP)	4.52	7.87	2.98	2.57	3.29	2.54	11.37	1.98	1.52	1.60	1.32	6.42	2.46
EPS (non-GAAP)	4.19	8.54	3.23	3.21	2.96	3.13	12.53	2.37	2.15	1.87	2.02	8.43	2.75
Dividend													0.80
Shs Repurchased													6,000
Segment Percent													
QCT	76.2%	80.7%	82.7%	85.6%	85.8%	87.0%	85.3%	83.5%	85.7%	85.0%	85.1%	84.8%	84.9%
QTL	23.2%	18.9%	17.0%	14.2%	13.9%	12.7%	14.4%	16.1%	13.9%	14.6%	14.6%	14.8%	14.7%
adjustments	0.6%	0.4%	0.3%	0.3%	0.3%	0.4%	0.3%	0.4%	0.4%	0.5%	0.3%	0.4%	0.4%
Total Non-GAAP	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Segment Growth													
QCT	13%	63.8%		7.9%	-1.8%	5.6%	39.4%	-20.3%	0.6%	-9.7%	2.8%	-19.4%	14.2%
QTL	10%	25.7%		-13.1%	-3.9%	-5.1%	0.6%	5.8%	-15.4%	-4.7%	2.6%	-16.5%	15.7%
Non-GAAP	12%	54.6%		4.3%	-2.1%	4.2%	32.0%	-17.0%	-2.0%	-8.9%	2.6%	-18.9%	14.5%
EBT Margin													
QCT	16.8%	28.7%	35.2%	35.0%	31.9%	34.2%	34.1%	27.7%	26.5%	24.3%	25.6%	26.1%	30.8%
QTL	68.5%	73.2%	77.3%	73.0%	71.1%	68.6%	72.8%	73.3%	67.5%	65.9%	65.7%	68.4%	74.0%
Non-GAAP	25.3%	33.7%	40.3%	38.1%	35.6%	36.4%	37.6%	33.5%	30.8%	28.8%	30.2%	30.9%	36.1%
QCT End Market													
Handsets	12,823	20,988	6,989	7,349	7,047	7,431	28,816	5,754	6,105	5,255	5,456	22,570	6,687
Automotive	644	975	288	371	385	465	1,509	456	447	434	535	1,872	598
IoT	3,026	5,056	1,570	1,828	1,946	2,008	7,352	1,682	1,390	1,485	1,383	5,940	1,138
Total	16,493	27,019	8,847	9,548	9,378	9,904	37,677	7,892	7,942	7,174	7,374	30,382	8,423
End-Market Percent													
Handsets	77.7%	77.7%	79.0%	77.0%	75.1%	75.0%	76.5%	72.9%	76.9%	73.3%	74.0%	74.3%	79.4%
Automotive	3.9%	3.6%	3.3%	3.9%	4.1%	4.7%	4.0%	5.8%	5.6%	6.0%	7.3%	6.2%	7.1%
IoT	18.3%	18.7%	17.7%	19.1%	20.8%	20.3%	19.5%	21.3%	17.5%	20.7%	18.8%	19.6%	13.5%
End-Market Growth													
Handsets		63.7%		5.2%	-4.1%	5.4%	37.3%	-22.6%	6.1%	-13.9%	3.8%	-21.7%	22.6%
Automotive		51.4%		28.8%	3.8%	20.8%	54.8%	-1.9%	-2.0%	-2.9%	23.3%	24.1%	11.8%
IoT		67.1%		16.4%	6.5%	3.2%	45.4%	-16.2%	-17.4%	6.8%	-6.9%	-19.2%	-17.7%
		63.8%		7.9%	-1.8%	5.6%	39.4%	-20.3%	0.6%	-9.7%	2.8%	-19.4%	14.2%

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LEGEND

	Grade
+++ exceeded the high-end of the range	A all +++
++ above consensus, within the high-end of the range	B all +
+ slightly above consensus	C all o/+
o met consensus	D mixed -o/+
- slightly below consensus	E all o/-
-- missed consensus, within the low-end of the range	F all -
--- missed the low-end of the range	

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