Company Name: Qualcomm
Company Ticker: QCOM US
Date: 2017-11-01
Event Description: Q4 2017 Earnings Call

Market Cap: 94,493.95
Current PX: 64.10
YTD Change($): -1.10
YTD Change(%): -1.687

Bloomberg Estimates - EPS
Current Quarter: 0.909
Current Year: 3.566
Bloomberg Estimates - Sales
Current Quarter: 5941.765
Current Year: 22930.389

Q4 2017 Earnings Call

Company Participants

- John T. Sinnott
- Steven M. Mollenkopf
- George S. Davis
- Donald J. Rosenberg
- Alexander Rogers
- Cristiano R. Amon

Other Participants

- Matthew D. Ramsay
- James E. Faucette
- Stacy Aaron Rasgon
- Timothy Patrick Long
- Ross C. Seymore
- David M. Wong
- Vijay Raghavan Rakesh
- Christopher Brett Danely
- Brett Simpson
- John William Pitzer

MANAGEMENT DISCUSSION SECTION

John T. Sinnott

GAAP and Non-GAAP Financial Measures

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

Steven M. Mollenkopf

Q4 Highlights

Opening Remarks

- We are pleased to report better-than-expected results in our fourth fiscal quarter, completing a year where we saw strong performance across our chip businesses, healthy global demand growth for 3G/4G devices, and we expanded on Qualcomm's fundamental leadership in 5G technologies
- I am particularly pleased with the actions our teams have taken this year to advance the strategic objectives we set for the company
- Almost two years ago, we set an ambitious target to significantly grow our serviceable available market by 2020

- This past year saw substantial progress in the most critical new opportunities for the company

Acquisition of NXP

- First, the announced acquisition of NXP provides important capabilities to grow our footprint in automotive, IoT and security
- Second, we closed the RF front-end joint venture providing us with the remaining products and capabilities to fully compete in this growing area
- Third, we announced the partnership with Microsoft to bring the advantages of low-power, high-performance computing to the mobile PC market

QCT

- In QCT, product demand and mix trends continue to be favorable and profitability improved again this quarter; now six quarters in a row of y-over-y growth in EBT and EBT margin expansion
- For FY2017, QCT EBT dollars grew more than 50% y-over-y driven by our strong product portfolio, favorable product mix, and growth in China and adjacent areas
- QCT revenues outside smartphones in adjacent areas were more than $3B in FY2017, up more than 25% y-over-y driven by better-than-expected growth in auto, networking and IoT, as we continue to successfully execute on our strategy to extend our mobile technologies into these new growth areas

China

- We continue to see good trends in our business in China
- We increased our share in FY2017 with approximately 25% y-over-y growth in both QCT revenues and MSM chip shipments to Chinese OEMs. And looking ahead, we are pleased to see 5G momentum there, including our 5G NR trial with China Mobile

QTL

- In QTL, H2 FY2017 results were impacted by disputes with Apple and its contract manufacturers, as well as one other licensee
- And we remain focused on defending our business and the value of our patented inventions for the long-term
- 3G/4G trends around the world are very positive
- We are pleased to see that global shipments of 3G/4G devices remain strong, and we continue to forecast calendar 2017 device shipments to grow 6% y-over-y at the midpoint

End Market Trends

- Looking ahead to calendar 2018, we forecast stronger growth with 3G/4G device shipments expected to grow approximately 8% y-over-y at the midpoint, reflecting continued handset shipment growth, as well as stronger y-over-y growth in non-handsets
- In addition, estimated global 3G/4G device ASPs are trending better-than-expected with ASPs in FY2017 flat vs FY2016

- The favorable end market trends for 3G/4G, the accelerating commercial timing for 5G, as well as the adoption of wireless technologies into new industries continues to be very positive for us
- And our global scale, combined with our technology and product road map, are leading the industry

5G

- We are very excited about the increased momentum in 5G around the world
- We are leading the industry and are accelerating the commercial launch of 5G across millimeter wave and sub-6 gigahertz in early 2019
- We recently announced the world's first 5G data connection achieved on the Snapdragon X50 modem chip set, and our leading 5G 3GPP standards development, ongoing prototype efforts and are supporting global 5G new radio trials
- In September, we announced our 5G new radio millimeter wave prototype that will be used for interoperability testing with our infrastructure vendor partners along with our previously announced sub-6 gigahertz prototype
  - With 5G commercial devices shipping in 2019, we expect to further expand our product and technology leadership position in modems

Gigabit LTE

- Gigabit LTE is the first step in network operator's transition to 5G, and there are now 41 operators in 24 countries supporting Gigabit LTE
- We have demonstrated download speeds of greater than 1 gigabits using our X20 LTE modem in the U.S. with both Ericsson and Verizon, as well as Nokia and T-Mobile
- Most leading device-makers are rapidly adopting Gigabit LTE into their device portfolios

New Launches

- In the premium tier, our gigabit-enabled Snapdragon 835 now has more than 120 designs launched and in development, including recent flagship devices like the Samsung Galaxy Note 8, Pixel 2 and Pixel 2 XL, LG V30, and the Xiaomi Mi MIX 2
- We have also introduced new high-tier and mid-tier Snapdragon products to further expand our competitive position in China across all tiers

Pending Acquisition of NXP

- Turning to our pending acquisition of NXP
- We remain focused on the last few regulatory approvals
- We believe this acquisition will provide us with greater scale in automotive, IoT, security and networking, with their highly complementary products and world-class sales channel, serving a long tail of customers that are driving growth
- Of the nine jurisdictions reviewing, we have approvals from five, including here in the U.S. and Taiwan with China and the EU the largest remaining

    - We are constructively working with each remaining regulator
- And while the clock is stopped in Europe, there is nothing unexpected or surprising in that process for an acquisition of this size

Stockholders

- Significant effort was expended throughout the year on integration planning with NXP
- Along with NXP, we continue to see this as an attractive deal for both our stockholders and NXP stockholders at $110 per share, as the combination brings together a comprehensive set of capabilities to address next generation auto and IoT devices
- We continue to focus on closing the acquisition by the end of calendar 2017 with a potential for the close to slip into 2018 based on the current status of approvals

KFTC

- On the regulatory matters, we are pursuing appeals and resolutions and are confident in the pro-competitive nature of our business
- We will continue to appeal the KFTC ruling and look forward to presenting our case in the U.S. FTC matter in early 2019

Taiwan

- In Taiwan, we strongly disagree with the recently announced decision and have significant objections concerning the lack of due process that led to the decision
- We will appeal and seek to stay the decision
- The TFTC ruling was not by consensus
    - We understand there was dissent among the commissioners resulting in a split decision
- We were also pleased to see the Taiwanese Ministry of Economic affairs publicly question the TFTC process and decision

Strategy

- Finally, I would like to thank our employees for their hard work and focused execution throughout this past year
- The team reported strong results in the product business validating both our strategy and the strength of our product portfolio
- We will maintain our strong commitment to and focus on technology and product leadership as we drive innovation into new opportunities and toward the path of 5G

George S. Davis

Q4 Highlights

Non-GAAP Revenue and EPS

- I will begin with comments on our fiscal fourth quarter and 2017 results, followed by our fiscal Q1 2018 guidance and some additional perspective on 2018 overall
- In our fiscal fourth quarter, we delivered non-GAAP revenues of $6B and non-GAAP EPS of $0.92
- Performance was strong in our operating businesses relative to expectations, particularly in QCT
- Non-GAAP EPS results exceeded the high end of our prior guidance range by $0.07 with the majority of that outperformance coming from QCT with the balance from QTL and better-than-expected performance in our investment portfolio

QCT EBT Margin

- QCT delivered strong results with revenues of $4.7B, reflecting MSM shipments above the midpoint of expectations
- QCT EBT margin was 21%, above the high end of expectations on the higher unit volume, improved product mix, and product cost initiatives
- QCT earnings before tax was up 42% y-over-y in the quarter

QTL

- In QTL, revenues were $1.2B and EBT margin was 68%, both above the midpoint of expectations, driven primarily by better-than-expected 3G/4G device ASPs due to a favorable mix of premium tier devices, as well as strong ASPs from Chinese OEMs in the quarter

R&D and SG&A Expenses

- Non-GAAP combined R&D and SG&A expenses were up 3% sequentially, at the high end of expectations on increased 5G investment and litigation expenses as we continue to defend our business model on several fronts
- Investment income in the quarter came in ahead of expectations due to market favorability as we nearly completed the liquidation of our [ph] RISC (11:42) portfolio in advance of the NXP deal close
- Our non-GAAP tax rate was 18% in the quarter, and our GAAP rate at 61% reflected the impact of the non deductible TFTC fine

Non-GAAP Revenue and Gross Margin

- Now, turning to FY2017
- Non-GAAP revenues for the year were $23.2B and non-GAAP EPS were $4.28
- Non-GAAP gross margin at 60% of revenues was a good story for the company in 2017 as strong gross margin performance in QCT nearly offset the impact of the licensing disputes
- Non-GAAP FCF was approximately $6.1B, down 15% y-over-y
- We returned $4.6B to shareholders in FY2017, including approximately $3.3B of cash dividends paid, an increase of 9% y-over-y; and $1.3B in share repurchases

3G/4G Device

- Turning to 3G/4G devices
- The trends were strong in FY2017 with estimated global 3G/4G device sales growing at a mid-single digit percentage y-over-y, consistent with prior expectations
- Underpinning this growth was a flat ASP for global 3G/4G devices vs FY2016 despite some FX headwinds
- For CY2017, we continue to forecast approximately 1.75B to 1.85B 3G/4G device shipments, which projects growth of approximately 6% y-over-y at the midpoint, consistent with our prior estimates

QCT

- In QCT, we saw strong performance in FY2017 with 52% y-over-y growth in earnings before tax dollars and EBT margin expansion of approximately 500BPS to 17%
- The business delivered these strong results despite the full year impact of the second source decision at Apple
- Three elements were the key drivers of the strength in QCT
  - First, we had a strong y-over-y growth in MSM shipments to OEMs based in China
  - Second, QCT revenues from adjacent areas, which includes auto, IoT, networking and mobile compute, grew more than 25% y-over-y and now provide revenues of just over $3B
  - Finally, QCT results also benefited from seven months of our RF360 joint venture, which closed in February; a very strong year overall for QCT

QTL

- In QTL, results in FY2017 were impacted by the disputes with Apple and another licensee, primarily in H2, as well as by the increased cost of litigation and spending on brand defense
- Absent these disputes, we believe revenue would've shown healthy y-over-y growth, in line with the strength of the underlying markets

Outlook

Revenue and Non-GAAP EPS

- Let's now turn to our financial outlook for the first fiscal quarter of 2018
- We estimate fiscal first quarter revenues to be in the range of approximately $5.5B to $6.3B, roughly flat sequentially at the midpoint
- We estimate non-GAAP EPS to be approximately $0.85 to $0.95 per share, down 2% sequentially at the midpoint
- We anticipate first quarter non-GAAP combined R&D and SG&A expenses to be down approximately 1% to 3% sequentially, on both seasonal and operating cost savings

QTL

- In QTL, we expect revenues of $1.1B to $1.3B in the fiscal first quarter, approximately flat sequentially at the midpoint
- We expect fiscal first quarter QTL EBT margin to be approximately 68% to 72%, flat to slightly up sequentially

QCT

- In QCT, we expect approximately 220mm to 240mm MSM chip shipments for the fiscal first quarter, up 5% sequentially at the midpoint, reflecting typical seasonality trend and strength in our product portfolio
- There's potential upside to these estimates on indications of a possible build ahead on a customer's flagship launch
  - We expect QCT's fiscal first quarter EBT margin to be approximately 18% to 20%, down slightly sequentially on product mix

Tax Rate and Net Interest Expense

- As a reminder, the fiscal first quarter is the seasonally strong fourth quarter for QCT and we expect the fiscal second quarter to reflect normal seasonal trends with lower demand for units impacting margins
- We estimate our non-GAAP fiscal first quarter 2018 tax rate to be approximately 7%, reflecting the lower mix of licensing revenues in our business at this time
- Net interest expense is expected to be approximately $60mm to $75mm in the fiscal first quarter
- Net expense is up nearly $175mm on the effects of lower realized gains on sales of marketable securities and lower investment returns now that we have substantially completed the liquidation of our longer term investment portfolio and our holding assets in short-term liquid investments

CY2018

- Turning to 2018
- Consistent with last year, we're providing selective guidance points for the year
- For CY2018, 3G/4G device shipments, we are estimating approximately 1.9B to 2B units, up approximately 8% at the midpoint, reflecting strong growth of 3G/4G handsets in India and other emerging regions, as well as above-average growth in 3G/4G non-handsets, primarily in IoT

Global 3G/4G Handset ASPs

- In FY2018, we expect mid-single digit percentage growth in global 3G/4G device sales y-over-y, and estimate that the global 3G/4G device ASP will decline at a low-single digit percentage y-over-y, primarily from strong unit growth in the non-handset category at lower ASPs
- This includes our estimate that global 3G/4G handset ASPs will be roughly flat y-over-y with continued ASP growth for Chinese OEMs [indiscernible] (18:33) premium tier handsets, offset by increasing shipments into lower ASP emerging regions
- We estimate our full year non-GAAP tax rate to be approximately 7%, lower vs FY2016, reflecting a full year assumed impact of lower licensing revenues resulting from the licensing disputes with Apple and the other licensee

QUESTION AND ANSWER SECTION

<Q - Matthew D. Ramsay>: Steve, you might have seen there has been some sort of questions about the position of your chipset business with premium tier OEMs going forward. And it occurred to us that with 5G trials coming online and lots of work being done both with carriers and with those premium OEMs as the industry moves toward 5G, you guys might be well-positioned to retain and maybe even expand some of those positions. So maybe you could talk a little bit about the competitive position of your QCT business for 5G and the engagements that you have on the OEM and with the carriers as we move forward in those trials? Thank you.

<A - Steven M. Mollenkopf>: Hi, Mike (sic) [Matt] (20:39), it's Steve. I didn't hear the front part of that. And also, it's kind of hard for me to talk about rumors or any particular, let's say, media report. I will say that our road map and the positioning of, in particular, our modem road map, we feel very good about. Not only the ones that are already launched, but if you look at the upgrades that are going to occur to LTE upstream of 5G and then when you get to 5G, I think we're going to be – we feel very good about that positioning. We can go into that in some detail. But I would say, the overall sense of the competitive dynamic, we feel quite good about.

<Q - James E. Faucette>: Wanted to ask quickly on the NXPI process. I think, Steve indicated that you're making good progress with the regulators even though that deal might slip into next year. How are you feeling about your part of the process, et cetera, and whether if you feel like you're on the same page with regulators as to the things they may need to ask for?

And then, my second question is, in the past you've talked about a non-Apple licensee that there were some collection issues with. Can you give us an update on any progress there? Thank you.

<A - Donald J. Rosenberg>: James, this is Don Rosenberg. I'll take the first part of that. On the regulators, we are, as we said before, working with the rest of the regulators that haven't yet cleared. As you recall, we have five regulators who have cleared already. We are deeply engaged with the others and we are making progress. It's a little slower than we'd like to make, but that's more the process than anything else. And we are feeling good about our engagement and that we were going to get to the end as quickly as we can with them.

<A - Alexander Rogers>: James, this is Alex. On the other part of your question regarding the non-Apple licensee, the short answer is we're still in negotiations with that licensee. Other than that there's really no other news.

<Q - Stacy Aaron Rasgon>: For my first question, I wanted to ask about the licensing results and the guidance. I know last quarter there had been some, I think you've characterized it as substantial catch-up in the quarter and that was the reason for the flat guide on revenues into Q4. Was there any catch-up or anything unusual or otherwise one-time that impacted either Q4 licensing results or Q1 guidance? And if so, what was it?

<A - George S. Davis>: Yes. Stacy, this is George. Q4 results had a very small amount of, what I would call, out-of-period or catch-up dollars in it. So no material effect. Really, the improvement was driven by the strength of the market relative to our expectations in the guide. If you look at our Q1 guide, I would say we probably would be up a little bit more if we had out-of-period amounts similar to what we had in Q4. So it's having a little bit of impact Q4 to Q1, but we're still showing the strong guide.

<Q - Stacy Aaron Rasgon>: Got it. Thank you. For my second question, I wanted to ask a little bit about the linkages or lack thereof between the various disputes. I know, again, on the last earnings call, I think, Derek had made some statements that sort of essentially dismissed any linkage or contagion worries. Your attorneys in court told Judge Curiel the opposite, and I think the injunction was denied partially on the basis of that discrepancy.

Can you give us a little more color, like which one of those statements is more valid in terms of the linkage between Apple and any of the other disagreements that seem to be developing at this point? And how can investors kind of get a little more comfort that going forward the disputes that exist as they are today don't continue to give rise to more?

<A - Donald J. Rosenberg>: Stacy, I'll take the first part of it. It's Don. First of all, there is really no contradiction to be cleared between our arguments in court and statements that, as you indicate, Derek and others made. And I think we'll get into the second part of your question in a minute.

What we argued in court, under the court standard, which as we've said is a very strict standard, which is very hard to meet in the context of a contract case. We thought we had a pretty strong argument. And, unfortunately, the judge didn't ultimately agree with that. But the court arguments were not inconsistent with what we've said. If you're thinking about the notion of irreparable harm versus, as you describe it, kind of linkage to others, it's a different concept. And I think we were pretty clear in how we argued that position.

<Q - Timothy Patrick Long>: Maybe just two, if I could as well. I guess, it seems like you didn't give out the standard. You gave the industry view of units and ASP. I'm just curious if we can get any color on kind of what was paying it and what was paying units ASPs implied royalty rate in the quarter. And is that, going forward, going to not be given or is that just because of the disputes?

And then, separately, be interested to hear on the chip business. Obviously, doing great with the Chinese OEMs and the adjacencies. Just any color you can give us on what the mix of those businesses would mean to the margin profile of that business. Margins seem to be going up with them, so is that a trend that we should expect to continue? Thank you.

<A - George S. Davis>: Hey, Tim. It's George. On the TRDS, we took a look at whether or not once we had the two disputes, whether the TRDS number that we used to give out really had any information in it. And we felt it was actually just confusing and we find ourselves reconciling a bunch of numbers. So we went straight from Point A to Point B and just guided revenue, which we think gives a lot of visibility into what we think is happening in the business.

We do think the underlying trends are actually quite strong. And you're seeing the benefit of that both in growth of the licensable market even if we're not fully participating in it. We've seen good growth in device sales globally. And it's being driven by strong ASPs, which is also having a positive impact in the mix and the performance of the company, where we're very well-positioned in the markets where we're seeing the largest impact and, in particular, China.

So I think we're sensitive to your concern. And if we can find a way to get out more information that is actually helpful and gives insight into the business on TRDS, we will. But in the meantime, we feel like guiding revenue is perhaps the best alternative.

<Q - Timothy Patrick Long>: Okay.

<A - George S. Davis>: Maybe, Cristiano, you want to start off on the adjacents and I can jump in if you want.

<A - Cristiano R. Amon>: Hi, Tim. This is Cristiano. You had a question on China and adjacencies. China has been a good story for us. I think China is the world's most competitive market, and our product road map has done well for us in China. We remain confident in maintaining our position there as a market leader. And the trends have been very good. We saw, in China, when we look at FY2017, we saw 25% y-over-y growth in our China business. When we think about that market going forward, we saw good transitions on modem technologies to 4G+. And I think a lot of the activity towards an early 5G in China as well is positive for us.

One other comment to note, just a commentary on China. One of the data points in 2017 was consistent with the trends we have talked over the year. We start to see an increase in exports of the Chinese OEMs as they become a larger percent of the global market. And the adjacent business, we saw growth across multiple segments, automotive, IoT, networking. And we can leverage mobile technology, so they have been providing a good margin story for QCT.

<Q - Ross C. Seymore>: The first one is on the Apple litigation. It seems like whether it's in press reports mainly or otherwise, that it's escalating, not actually getting closer to resolution. So maybe, Don, if you could provide us a timeline in the upcoming court cases if we're going to come to the conclusion that this probably will be decided in the courts or at least have to get a lot closer to these court cases before any resolution comes to pass?

<A - Donald J. Rosenberg>: Yes, it's Don. It's important to keep in mind that litigation of this size and magnitude takes a while, and you can't focus on any particular event in the short-term. As you know, there are multiple cases that have been brought by Apple and multiple cases that have been brought by us, and we're going through a process.

There'll be some motion practice; there'll be some discovery disputes. But that process is going to proceed under the court's schedule.

I would say that, as you know, we brought a couple of patent cases against Apple in the ITC and district court here in the United States, in Germany, and in China. And those tend to move a little faster in the ITC, Germany and China, than litigation generally. And so, I would say that those will be on somewhat faster track, including potentially Germany by some time mid to end of 2018.

And China, too, we expect to be on a fairly fast track. And as you know, the ITC action will move forward rather quickly. But until then, I don't think you're going to see much that's going to be of any particular consequence in terms of the ultimate outcome. And it'll play out the way a lot of this kind of complex litigation plays out generally.

<Q - Ross C. Seymore>: I think as a quick follow-up on that litigation side of things. The unnamed dispute that you have, seems like that's been coming up on a year's time. I know you're still in negotiations. You're not really going to comment on the name of the party, et cetera. But is that duration typical for one year? And what's the trigger point that changes it from an informal to a formal dispute where we can get more information?

<A - Alexander Rogers>: This is Alex. So it's a fairly lengthy discussion, but I don't think that that's atypical. There are a lot of issues involved to work the way through. I think when it changes over to some formal litigation, obviously, that's when we'll go ahead and disclose that.

<Q - David M. Wong>: Following up from the earlier question, we can see what's happening between you and Apple publicly in terms of the filings and the counter filings. But can you give us any feel as to whether there is direct dialogue between you and Apple outside of what we can see publicly?

<A - Steven M. Mollenkopf>: Hi, this is Steve. I would echo what Don said earlier. It's very difficult to look at any one particular data point, whether it's true or not and kind of come to a conclusion. I think it's also important for investors to understand, we really try to compartmentalize our engagement with Apple. We have a product engagement and we have a dispute over, really, the price of IP. And I think if you net that all together, we do have a lot of engagement with the company and we do speak and are engaged on a daily basis with them across multiple areas that I've mentioned.

But we try to compartmentalize those two discussions. And as I've said many times before, I think there are a lot of levers between the company to figure out things. I just think we're not at a point where we're announcing anything different, and I think we want to be upfront that this could take some time to resolve. But we're working very hard on the product side to make sure that we continue to be a good supplier and a good showcase for our innovation products.

<Q - Vijay Raghavan Rakesh>: Just one thing on NXPI. Do you still expect it to close in the year, in 2017?

<A - George S. Davis>: Yes. We've said that we're still working towards closing in the year. But, clearly, we have some activities going on at regulators that are taking a bit longer than we thought. So we could see it slip into early 2018, but we're confident it's on track to close and are still working to close it in the year.

<Q - Vijay Raghavan Rakesh>: Got it. And on the second IT litigation, I know you guys haven't given a lot of color there. But do you expect it to get resolved at the same time as the Apple IP? Or do you think that's more of a mutual discussion that you're having outside court, and so that should see a faster resolution there? Thanks.

<A - George S. Davis>: Yes. The second licensee, the facts and circumstances around that actually started before the other dispute and have issues that are unique to that licensee. And that will go play at its own pace and will be unrelated to – unless it's coincidentally resolved at the same time as the Apple dispute.

<Q - Christopher Brett Danely>: I guess, another question on NXP, why not? So if we get through all the approvals, but the tender doesn't go through or is rejected, can you talk about what would cause you to walk away vs. just raise the price? What would be the circumstances there?

<A - George S. Davis>: Yes. Right now, we're really just focused on the regulatory close. We think $110 is a very full price. And I think as you saw on NXP's earnings release, the management team there is also reinforcing that $110 is an attractive price for their stockholders as well. So, right now, we'll stay focused on just getting this thing to the finish line.

<Q>: I apologize if this was asked earlier in the call, I'm juggling two concurrent calls right now. But going to QCT operating margins, I know you did very well in this quarter on that. Can you give any directional, I guess, guidance as for the trajectory for FY2018 for operating margins in QCT?

<A - George S. Davis>: We are not putting out full year guidance, but we did give an indication of Q1, which again continues the strength in margins in QCT. 2017 was a very, very strong year. You saw EBT up over 50% and six straight quarters of margin expansion. So we think that the fundamentals of strong markets, strong products, growth in the adjacencies, are all factors that will continue into 2018 and help margins.

<Q - Brett Simpson>: Just a question on the business structure at Qualcomm. I mean, when you consider the antitrust that's underway with regulators and the litigation with Apple now that's impacting your chip market share and the issues with your other licensee, can you perhaps talk about the benefits that QTL, being combined with QCT, particularly after you close NXP, to become much more diversified chip business. What's the real benefit, do you think, of having the combined businesses there together? And is there scope for a fresh review into a potential split between QTL and the enlarged QTC?

<A - Steven M. Mollenkopf>: Brett, hi, it's Steve. I would say it's something that we look at all the time. We have, as you know, over the course of the company's history, looked at this in I think a formal way a number of times. But it's something that we always look at. And, however, I think I would just remind folks that we're now sitting here – if you look at what most people are working on in the company, we're trying to drive 5G and we're very excited about that. And I think that's good for both businesses and it's something that we think is going to have a long-term payoff for the company.

And I think as you could tell from our actions, we really view the ability to drive both innovation ahead of the market and have a channel to move that into the market is very important. So that continues to be something we think contributes to long-term growth, but it's also an area or it's a topic that we look at all the time to make sure that we are driving shareholder value as best we can. But nothing really to talk about here other than, I would say, the primary focus on driving 5G and what that means really to our business structure is very important at the moment for us.

<Q - Brett Simpson>: And maybe just a quick follow-up for George. In the QTL business, you booked $95mm of additional revenue in non-GAAP for QTL for licensing that wasn't in GAAP sales. Can you perhaps just talk about that and give us a sense for why QCT margins are falling sequentially at 18% midpoint for December quarter? Thank you.

<A - George S. Davis>: Yes. We had a dispute settlement. And because the dispute settlement was with a customer, it has to be taken as counter revenue. So that was the difference between the GAAP and the non-GAAP revenue.

<Q - John William Pitzer>: Steve, just on the 5G front, you've been perhaps a little bit more aggressive than some others in the ecosystem talking about timeline. And, clearly, trials are coming up and you guys will have to be an integral part of those trials. I'm just kind of curious, how do you think about the timeline for 5G to be meaningful volume to the chipset business? And, I guess, equally important, to the extent that that might be 2020 or beyond, what can you do around the feature set and/or cost in 4G to kind of keep or maintain or even widen [ph] perhaps sort of (41:19) your dominant lead there?

<A - Steven M. Mollenkopf>: Okay. I'll give you my perspective on it, which I think is, we're already in the position in the industry where the impact of 5G coming in 2019 is impacting the feature set even in 4G. So if you look at 4G, the push to Gigabit LTE – and actually there's even another update before we get to 5G that you'll see roll out into the networks.

So I would say, we're already in the early stages where it's very important to have that road map, not only to deliver products into 2019, but I think to be meaningful in the networks that lead up to that 2019 transition.

And so, if you're getting the sense that we are more aggressively pushing 5G and the higher tier feature set of 4G, I think that will be an accurate read. I would also say that it's not just us, our OEM customers and, in particular, I would say leading tier, high tier Android OEMs are taking that modem feature set aggressively as well.

So we think that's a good strategic position to be in. We are driving it hard. And I think we're all going to be pleased with the initial ramps and the speed by which people are going to go to 5G, and we're certainly going to try to make that happen.