Company Name: Qualcomm
Company Ticker: QCOM US
Date: 2018-07-25
Event Description: Q3 2018 Earnings Call

Market Cap: 87,294.58
Current PX: 59.42
YTD Change($): -4.60
YTD Change(%): -7.185

Bloomberg Estimates - EPS
Current Quarter: 0.761
Current Year: 3.240
Bloomberg Estimates - Sales
Current Quarter: 5458.400
Current Year: 21987.722

Q3 2018 Earnings Call

Company Participants

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

Other Participants

- Amit Daryanani
- T. Michael Walkley
- Timothy Patrick Long
- Chris Caso
- Stacy Aaron Rasgon
- James E. Faucette
- Matthew D. Ramsay
- Ross C. Seymore
- Timothy Arcuri
- Christopher Brett Danely
- Srini Pajjuri
- Brett Simpson
- Edward. Snyder

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

Q3 Highlights

NXP

- We reported very strong results this quarter, which I will comment on shortly, but first I want to update you on the status of the NXP transaction
- As you've seen from our press release, pending any new material developments, we intend to terminate our agreement to acquire NXP at the end of the day

- The decision for us to move forward without NXP was a difficult one
    - Continued uncertainty overhanging such a large acquisition introduces heightened risk
- We weighed that risk against the likelihood of a change in the current geopolitical environment, which we didn't believe was a high probability outcome in the near future
- In the end, we determined this was the best path forward for our customers, partners, employees, and stockholders
    - To say the least, the 21 months since we announced the NXP acquisition have been volatile
- In spite of all the potential distractions, Qualcomm and NXP leadership remained focused on laying the foundation for the successful integration of our two companies

Management Team

- I want to personally thank Rick Clemmer and his management team for being tremendous partners and compliment them on the excellent company they have built at NXP.
- Consistent with our prior commitment to return capital that was previously earmarked for the NXP acquisition, our board has approved a new $30B stock repurchase authorization
    - We intend to execute on a large majority of the authorization by the end of FY2019

Strategy

- The rationale for the NXP acquisition was to accelerate our strategy of growing into adjacent opportunities where mobile compute was becoming ubiquitous
- This strategy remains unchanged
- Over the past two years, we continued to leverage the powerful industry dynamics of mobile everywhere
- The results of these efforts are strongly evidenced in the growth of our adjacencies and RF front-end opportunities, which we estimate will contribute to our FY, ending this September, approximately $5B in revenue, up more than 70% in the last two years

Infotainment Solutions

- In key industries like auto, our pipeline of awarded design wins has expanded dramatically this year to $5B, up $2B from January, as auto makers and Tier 1 suppliers leverage the strength of our roadmap and begin gearing up for 5G-enabled cars in 2021
- Our infotainment solutions account for more than half of the $5B pipeline, just four years after we announced our entry in this category

Snapdragon Franchise

- We've continued to gain share in Wi-Fi and have now achieved leading positions in several Wi-Fi segments
- Our Snapdragon franchise has moved well beyond mobile devices, becoming the leading platform in areas like AR and VR, and is positioned to be a critical enabler in AI and machine learning at the edge

- We are also transforming the notebook segment to a true smartphone experience and are growing our ecosystem of partners, including recently adding Samsung

Industrial IoT Product

- Our industrial IoT product revenues are also growing rapidly and are on track to double this FY vs. two years ago
- We anticipate our addressable opportunity in the industrial IoT space to grow at approximately a 20% CAGR over the next few years, and we expect to exceed that growth for our industrial IoT revenues

Investments

- In the past two years, we brought forward 5G R&D spending to ensure Qualcomm's sustained leadership in the next generation of mobile technologies
- Today, with every passing week, carriers around the world are announcing an expansion of their 5G rollouts, and we are a partner in nearly all of them
- Our significant investment in 5G leadership will become even more tangible with the early rollouts and device launches in 2019 along with larger deployments in 2020 and beyond

OEMs

- As a complement to our 5G modem leadership, our RF front-end technology will continue to be differentiated in the market, as we bring a systems approach to solve many of the technical challenges of delivering a 5G experience
- This transition presents a win-win for us and our customers, enabling us the opportunity to grow our dollar share of content in mobile devices while lowering the total cost for handset OEMs

Growth Strategy

- With continued execution on our growth strategy combined with systematic cost discipline and capital return, we are very well positioned to drive shareholder return in FY2019 and beyond
- As you can see from our quarterly results, our business continues to perform well, and the timelines we have previously highlighted to resolve our licensing disputes remain unchanged

Non-GAAP EPS

- Our fiscal third quarter results were very strong, with non-GAAP EPS $0.31 above the midpoint of our prior guidance range
- Our results reflect continued strong execution across our businesses and continued focus on expense management

QTL

- In QTL, our third quarter results reflect $500mm payment from the other licensee that is in dispute with us
- This is a partial payment made while the negotiations continue for past royalties due going back to Q3 FY2017
- The payment does not reflect the full amount of royalties due under their existing licensing agreement, but we believe it is a positive step as we continue the negotiations in an effort to reach a resolution

- Also within QTL, we continue to make progress on signing agreements under our new 5G licensing framework
- Recently, we have concluded more than 10 multiyear 5G multi-mode handset license agreements, including agreements with Xiaomi and Sharp, and we are in active negotiations with many more OEMs

QCT

- In QCT, we shipped 199mm MSMs in our third fiscal quarter, above the midpoint of our guidance range, reflecting stronger than expected demand in China due to the strength of our roadmap, particularly our 700 and 800 series Snapdragon solutions

Snapdragon

- Looking ahead, our fiscal fourth quarter guidance reflects continued favorable trends in our businesses
- We estimate calendar 2018 global 3G/4G device shipments to be approximately 1.8B to 1.9B units, consistent with our prior forecast, and continue to see handset selling prices trending stronger than expected
- In QCT, demand for our Snapdragon 845 continues to grow, and we now have more than 130 Snapdragon 845 device designs in development
- Consistent with our prior statements, we continue to see our key Chinese OEM partners leveraging our Snapdragon roadmap to improve their products in the domestic Chinese region and grow share in new regions, including Europe

RF Front-End Growth Strategy

- We have also seen very favorable third-party test results with our Snapdragon 845 and X16, X20 modems significantly outperforming other merchant modem solutions in premium-tier devices
- We are also seeing further momentum supporting our RF front-end growth strategy and product differentiation, with four design wins of our complete modem-to-antenna solutions
- Our gallium arsenide, MMPA, and module solutions have launched in customer premium-tier devices, with more key Tier 1 launches coming this CY.

5G Devices

- We have also made two RF product announcements earlier this week, which are extremely important Qualcomm innovations to help solve the challenging, complex antenna requirements for 5G devices
- We announced commercial shipment of the world's first commercial 5G New Radio millimeter-wave RF solution and also announced a fully integrated sub-6 GHz RF solution
  - These announcements further expand our industry-leading 5G product and technology position, and there are 18 network operators and 20 manufacturers who have selected our X50 5G modem for trials in 5G devices
- We are leading the industry to 5G commercialization next year and are pleased to see our OEM partners finalizing their 2019 5G smartphone launch plans
- Qualcomm's chipsets are now the leading 5G development platform of choice for operators, infrastructure suppliers, and smartphone OEMs

Conclusion

In closing, we are pleased to report very strong results this quarter and look forward to continuing to update you on our progress across the key strategic areas we have outlined for shareholders

This is a very exciting time for Qualcomm

With 5G approaching, our core technologies of advanced computing, connectivity, and security are continuing to drive growth and disruption in mobile, automotive, IoT, and networking

George S. Davis

Q3 Highlights

Revenue and Non-GAAP EPS

- Before I discuss our quarterly results, I would like to join Steve and thank the NXP team for their partnership and collaboration over the past 21 months
- Now turning to the quarter
- We are pleased to report very strong fiscal third quarter results with revenue of $5.6B and non-GAAP EPS of $1.01
- As Steve mentioned, these results reflect $500mm of revenue in QTL related to an interim payment with the other licensee in dispute
  - This is a partial payment made while the negotiations continue for past royalties due going back to Q3 FY2017 and does not reflect the full amount of royalties due from the underlying license agreement or our expectations of royalties that will be due once the dispute is settled
- The interim agreement provides for an additional $200mm, with $100mm paid in each of the next two quarters

EBT Margin

- Non-GAAP EPS of $1.01 was $0.31 above the $0.70 midpoint of our guidance range
- The partial payment accounted for $0.26, with the remaining $0.05 above the midpoint driven by favorable interest expense, tax rate, and QTL OEM mix during the quarter
- QCT earnings before tax was up 6% y-over-y, representing the ninth consecutive quarter of y-over-y growth in EBT
- EBT margin was 15%, at the high end of our guidance range, on higher volume and favorable product cost initiatives
- In QCT, MSM shipments were 199mm, above our 195mm guidance midpoint, on stronger-than-anticipated demand from Chinese OEMs. QCT revenue for the quarter was $4.1B, flat on a y-over-y basis, reflecting strong demand from Chinese OEMs, offset by lower demand from Apple
- In QTL, excluding the $500mm payment from the other licensee in dispute, revenue was modestly above the midpoint of our prior guidance range on mix

OEM Mix

- QTL EBT margin was 72%, including the partial payment
- Excluding the partial payment, EBT margin was 57%, coming in above our prior guidance range of 50% to 54% on OEM mix as well as lower-than-expected litigation expenses
- In our fiscal third quarter, non-GAAP combined R&D and SG&A was up approximately 1% sequentially, in line with the midpoint of our guidance range

Litigation Expenses

- In the fiscal third quarter, excess litigation expenses were approximately $140mm, and we expect litigation expenses to be similar next quarter, as the cases against Apple continue, including hearings in several of our patent infringement cases in the U.S., Germany, and China

Cost Plan

- We continue to execute on our $1B cost plan, and as a result incurred approximately $110mm in restructuring costs, primarily related to severance and asset impairments
- These items were excluded from our non-GAAP results
- For FY2019, we remain on track to reduce total operating expenses by $1B from our prior baseline of $7.4B

Non-GAAP Effective Tax Rate

- Our non-GAAP effective tax rate for the quarter was a 6% benefit, lower than our prior expectations, reflecting the change in our estimates of U.S. earnings, principally due to the interim payment in QTL.
- We returned approximately $1.9B to stockholders during the quarter, including approximately $900mm in dividends paid and $1B in stock repurchases

NXP Acquisition

- Our Q3 cash and marketable securities balance was $36B, which excluded $2B held to collateralize letters of credit for the NXP acquisition and $2.8B restricted for our recent redemption of acquisition-related debt
- We ended the quarter with total debt outstanding of $22.5B

Guidance

Revenue and Non-GAAP EPS

- Turning to our fiscal fourth quarter guidance, we estimate revenue to be in the range of approximately $5.1B to $5.9B
- We estimate non-GAAP EPS to be approximately $0.75 to $0.85 per share
- We expect non-GAAP combined R&D and SG&A expenses will be flat sequentially, including the impact of an extra week in our fiscal fourth quarter
- Excluding the extra week of operations, we estimate that non-GAAP combined R&D and SG&A expenses would be down mid-single digits percentage sequentially, in line with the timing of our cost program despite the ramp in 5G development activities

QTL Revenue

- We expect QTL revenues for the fiscal fourth quarter to be in the range of $1B to $1.2B.
- This revenue guidance includes the expected $100mm payment from the other licensee in dispute while negotiations are ongoing
- We expect QTL's EBT margin to be between 58% and 62%
- It is worth noting that beginning in our fiscal Q1 2019, we will implement the new ASC 606 revenue recognition guidance
- This requires that we estimate QTL royalty revenues each quarter rather than recognizing them one quarter in arrears, and then make revenue adjustments in the following quarters once actual amounts are reported by our licensees

Licensing Business

- Accordingly, the September quarter results for our Licensing business will not be reported in our fiscal Q1 results, but will be recorded on the balance sheet into retained earnings, with offsetting entries in accounts receivable
- And our first fiscal quarter will now reflect estimated December royalty revenues for our Licensing business, consistent with the absence of a one-quarter lag
    - This change will alter QTL typical seasonality, as the busy holiday quarter for our licensees will now be recognized in our fiscal first quarter rather than our fiscal second quarter each year
- Of course, the impact of our two disputes, in particular Apple, has also impacted seasonality over the past year given the absence of the usual impact of the flagship launches of these large OEMs

QCT

- Turning to QCT, we anticipate MSM shipments in the fiscal fourth quarter to be in the range of 205mm to 225mm units, up approximately 8% sequentially at the midpoint, on seasonality and strength of our roadmap with Chinese OEMs. We expect QCT EBT margin to be approximately 16% to 18%, up 200BPS at the midpoint sequentially, on a favorable mix toward Snapdragon 700 and 800 tiers, partially offset by lower shipments to Apple
- We believe Apple intends to solely use our competitors' modems rather than our modems in its next iPhone release
    - We will continue to provide modems for Apple legacy devices

Non-GAAP Interest Expense

- We expect that non-GAAP interest expense net of investment income will be approximately flat sequentially
- We expect our non-GAAP tax rate for the fiscal fourth quarter and the full year to be approximately 2% expense

NXP Transaction

- As Steve mentioned, we expect to terminate the NXP transaction after today's end date, subject only to receipt of evidence of a material change of circumstances related to the deal

- Termination will trigger payment of the $2B termination fee

Share Repurchasing

- Consistent with our previously announced Plan B alternative, following the termination of the agreement, our board has authorized the purchase of up to $30B of stock, replacing the existing $10B authorization
- We intend to execute on a large majority of the authorization by the end of FY2019
- Our repurchases will be funded almost entirely from balance sheet cash, and we will update you on the specific plans as we come to market
- Our fourth quarter guidance does not include any impact of this new stock repurchase program or the impact of the $2B termination fee
- The termination fee is expected to have approximately $1.35 impact on GAAP earnings when recorded
  - We remain committed to a strong balance sheet, maintaining a strong investment-grade rating, and to ongoing growth in our dividend over time

QUESTION AND ANSWER SECTION

<Q - Amit Daryanani>: I guess just a question on the NXP dynamic. I guess, Steve, how do you think about M&A to achieve what you really wanted to get out of NXP going forward? And is your sense that Qualcomm can't really do any deals until the global macro tariff issues improve, or do you think NXP was perhaps something unique that you couldn't do and you could still go do other deals? I just want to understand. How do you go about the divorce that you talked about with NXP?

And then on buybacks, how do we think about the pace, and how do you execute such a large buyback in a short timeframe?

<A - Steven M. Mollenkopf>: Amit, this is Steve. I'll take the first one. George, why don't you take H2 that? So I'm not sure there was anything particular about this transaction or any engagement around the transaction. I think it's probably more a statement of the overall macro environment that everyone's operating in right now.

For us, I don't know if it signals any difference in terms of our ability to do things in the future. We are obviously from a capital allocation point of view obviously moving very rapidly into a stock buyback, which is where the focus is right now. But I don't know if I see anything closed down outside of the fact that it's just an unusual window, I think, for everybody involved in the industry right now.

<A - George S. Davis>: On the pacing of the buybacks, we'll come out with some information on that soon. But obviously, if we're going to get a large majority done within 2019, there will have to be some form of accelerated buyback as a part of that plan.

<Q - T. Michael Walkley>: And just following up on the buyback and your guidance, is there any changes to the $5.25 in 2019 that you expect to generate assuming that the two licensing agreements are not settled? Can you maybe just walk us through the puts and takes towards getting towards that number, if that's still the case?

<A - George S. Davis>: Let me just give you an update. So first off, we've not changed our FY2019 guidance. And as a reminder, resolution of our licensing disputes will be critical to our $6.75 to $7.50 objective. And if you think about the legal milestones that we've talked about in the past in support of driving these disputes towards resolution, we believe those milestones are on track and fundamentally unchanged.

In terms of the timing and impact of the share repurchase accretion relative to NXP, obviously the share repurchase will depend on the timing of when the shares come in. It will also depend on the timing of the licensing resolution. You can get to actually a higher number than the NXP accretion that we talked about for 2019 of $1.50 with share repurchase.

But of course that requires the licensing disputes to be completed. So right now, no change in our outlook of $6.75 to $7.50. On the $5.25, we'll have to look at really what the timing is on the share repurchase and the implications of that.

<Q - Timothy Patrick Long>: Just two, if I could. First, a lot of talk about 5G. Could you just update us on what you think that will mean to the Qualcomm model for both the chip and royalty businesses as far as ASP increases or market share gains you think that would result in?

And secondly on the chip business, it sounds like with thin modems going down and a pretty favorable mix, I'm assuming you're expecting a pretty good ASP and probably gross margin move the next few quarters. If you could, discuss that a little bit. Thank you.

<A - Cristiano R. Amon>: Hi, Tim. This is Cristiano. So I'll start with the 5G chip, and I'll shift to Alex for the license, and then we can come back and talk about the modem. We're very happy with what we've seen in 5G right now. 5G is accelerating. I think we said there are a large number of operators. And I can say that all of our Snapdragon 800 OEMs today are planning to launch a 5G device smartphone in 2019. I think that positions us well. It's early ramp of a technology. But while we have seen revenue generations, I think if we are in a good leadership position as the market moves, it could be a significant event in the later part of 2019 and 2020. And as you would expect, we see an opportunity for both revenue and margin expansion on the chip business.

<A - Alexander Rogers>: So this is Alex. On the QTL side, the 5G transition is very good for the QTL business. We have a strong IP leadership position, including within the standards arena and standard essential patents. We're also very well positioned with the licensing framework that we rolled out, as evidenced by the over 10 license agreements that we have just recently signed. And so we think that we're in a very good position for long-term stability through the 5G transition.

<A - George S. Davis>: Tim, on the gross margin, as you think about Q4, probably the biggest single impact pulling margin down is the absence of the other licensee payment which came in. What we're seeing is, despite lower Apple business, both quarter over quarter and y-over-y, you're seeing strength in the 700 and 800 tiers in China in the chip business, and that's actually really moderated what otherwise would have been a more difficult margin story.

<Q - Chris Caso>: Just a question on the 606 adoption and how that affects FY2019 guidance. Was that already incorporated in the FY2019 guidance that you have provided previously? Because I guess my understanding, as I'm thinking it through, is it would be a benefit to the fiscal first quarter against prior assumptions because that would capture the strong season. Am I thinking about that correctly?

<A - George S. Davis>: 606 was always in our estimates for 2019. And really, if you think about it, it just affects the shape of the year, not the size of the year. You get all four seasonal quarters in.

<Q - Stacy Aaron Rasgon>: I have two. First on the timing of the buyback, if the buyback was supposed to give $1.50 for the full year, but it's going to take you through the full year to actually execute on it, how does it give you the full $1.50 in 2019?

For my second question, the $100mm in revenue you have built into your guidance for next quarter and the quarter after, is that $100mm representative at all of your expectations for the run rate following settlement? And effectively, did you take down your QTL revenue guide? It used to be $1B to $1.1B. Now it's $1B to $1.2B, but it includes an additional $100mm. So it looks like ex-that $100mm, the core business was taken down. Is that in fact the case, or is that just some sort of seasonal or other issues that are going on? Thank you.

<A - George S. Davis>: Yeah. Let me maybe just start on the back end of it, on the numbers with respect to the $100mm. And maybe, Alex, after I'm finished with the answer, you can jump in. But the $100mm really does not represent a change, or the $1B to $1.2B guide is really not a change. We said that depending on seasonal factors, we expect to be roughly between $1B and $1.1B each quarter. And as you know, we're seeing the more seasonally weak quarter, although, quite frankly, a lot of the seasonality has come out as we look at the year because we're missing some of those flagship launches. So, the absolute market is generally pretty flat relative to that period. So, I think, overall, you're actually seeing a little bit better mix from QTL along with the $100mm.

In terms of the buyback, really you're going to need the – you would be below $1.50 absent any resolution, and you could be well above $1.50 with resolution, which is the dynamic between the accretion that would come from a full year of NXP with the synergies in place and the share repurchase program, no real change in the math.

<A - Alexander Rogers>: So, this is Alex. Really quickly, the $100mm in the quarter does not set an expectation for the licensing revenue should there be a resolution to the negotiation process. That is just a partial payment, but it does not reflect what's owed under the agreement.

And as we said before, we're in active negotiations. And this is just a partial payment, and the negotiations are ongoing. As long as we think the negotiations are heading in a positive direction, we'll keep driving them. And we think this payment is a good faith indication that they are heading in a positive direction.

<Q - James E. Faucette>: Steve, I wanted to ask you a big picture question back on the decision-making process, and hopefully we can help interpolate a little bit into how you're thinking about the future. But wonder if you could give a little more color as to where you saw the opportunity cost of continuing to wait for China to go through its process and, as you described it, that political window to change maybe back more favorably. How are you thinking about the opportunity cost of continuing to wait, and why make the decision to move on now? And how should we be thinking about that and how you're thinking about the future opportunities for Qualcomm, particularly in some of these new areas that you're pursuing? Thanks.

<A - Steven M. Mollenkopf>: Sure, James. So, I think the situation – a quick reminder. We signed the agreement about 21 months ago. We also had already extended the agreement once. And I think very good discussions, by the way, with the regulators worldwide and, in particular, in China.

It was very clear to us that the macro environment was a very difficult macro environment to get something of this size through. And it was not clear that that was going to change in the future dramatically, particularly in the time window that we saw that we had to really move, and I'd say move toward two things. One is, I think, the company needs to focus on the opportunities that are ahead. I think that's important. The other aspect is we just need to provide certainty, not only to our partners and shareholders, but also to the employees as to where we're going. And we looked at that all together in a big mix and basically decided the right thing to do was to move on. We obviously have some time left on the clock here today, to be exact, but hopefully that helps you understand where we're headed.

I think you should also view it as a statement of what we feel very good about the business, where we're headed and the forward aspects, and we want to move on and really deliver that to shareholders, as we said we would.

Q – [061FWW-E Romit Shah]>: George, going from 14 weeks in September to 13 weeks in the calendar fourth quarter, do you anticipate any impact to MSM shipments? Is that something we should contemplate?

And then can I just ask you about Apple and your thin modem share? Do you guys believe that you're locked out of that account indefinitely? What will it take for Qualcomm to win back that business? Thank you.

<A - George S. Davis>: Really, what we see with an extra week is more the purchasing dynamics and decisions tend to be more indifferent to whether there's an additional week in the quarter or not. It's really around timing of launches. So it's really the – we're seeing the major effect on the cost side of the extra week, really of the run rate.

<A - Cristiano R. Amon>: Hi, this is Cristiano. Talking about your question on Apple, look, this is a very dynamic industry. I think we've been very clear, and we don't expect to be in the next product launch, and we'll continue to support them with the legacy. And I think those are decisions that are made as the industry moves and design by design.

I think we continue to be focused on technology. We feel pretty good about our modem leadership. I think we disclosed there are some very interesting, I think, third-party customer reports that show our performance, and we will continue to be investing on the modem. And if the opportunity presents itself, I think we will be a supplier of Apple.

<Q - Matthew D. Ramsay>: Steve, I wanted to ask a little bit about the adjacencies. One of the big thesis points of doing the NXP transaction was to give you guys or sort of jump-start the scale, particularly in automotive and the micro-controller IoT businesses. And now that the deal seems to be off the table, if you could, talk a little bit about the scale that you currently have in the adjacent businesses that you're ramping and how you think about that competitively without getting NXP done. Thank you.

<A - Steven M. Mollenkopf>: Matt, I think maybe I'll differentiate it. The answer depends on which market you're in. So I think in the automobile segment, we already feel that we're a pretty large player. We benefited from the fact that we are strong in the technologies that are defining many of the new use cases, in particular telematics and the connected car through telematics as a product line, but also in our infotainment business. So we feel today we already have significant scale. Obviously, we'd have a much stronger scale with NXP, and we liked the transaction as a result. But our auto business is already a significant business, as I mentioned, $5B backlog and growing. So we're pleased with that, and I think we're well positioned in the technologies that will define the key excitement in the future as well.

In IoT, again, I think we're in the right place with the core technologies and the technologies that the industry is working toward. We do not have as strong an organic channel as would be brought to us by the NXP transaction. It's growing and it contributes to the business today, but we're going to have to augment that a bit here in the future. We hope to also move forward on that, but also deliver on the stock buyback in the interim as well. So this is a two-pronged capital allocation perspective I think from the company, but we feel lucky and pleased to have a strong position in the technologies, which we think are the key technologies to winning in those markets long term.

<Q - Ross C. Seymore>: Steve, just a follow-on to that is the first part of my question. How do you reconcile the $1B of cost-cutting where there's a number of press reports saying that adjacencies are exactly where the trimming is occurring with your goal to diversify?

And then my second question, which is somewhat unrelated is, George, it looks like your MSM guidance is at least seasonal if not above seasonal at up 8%. Considering what you said about Apple, is there something else going on there? Does the extra week benefit the revenue outlook for QCT? Any color on that would be helpful.

<A - Steven M. Mollenkopf>: Ross, this is Steve. Let me answer that first question about where the focus is. Our focus of the cost-cutting is really more about focusing the company's resources on these areas as opposed to taking R&D or resources away. As you know the history of the company, we've had a number of other bets that I think are a little bit further outside of the core competency of the company, and we're trying to focus on R&D in the areas where we think there are growth. Industrial IoT, automotive, networking are clearly above the line there for us, which we are excited about. We are moving some focused R&D toward those businesses vs. away from them in total.

We are also looking at how we can spend money to execute on the licensing business with less spend. We hope to move into more of a peacetime situation with the licensing business, but rest assured we are very focused on focusing the company toward the areas that we've mentioned.

<A - Cristiano R. Amon>: Hi, Ross. On the MSM, I think there are a number of things that we see in our business, and I think that's reflected in the guide. I think number one is we see an extension of our key China customer going towards the premium tier. We mentioned I think we saw high demand on Snapdragon 700 and 800 as they expand into the segment. We also see large-scale Chinese OEM international expansion that's increasing the MSM sales for us. As an example, some of our key customers now have products in the UK, Germany, Spain, Italy, Portugal, and France, which is a new geographical region for them. And we expect that to continue, as China will bring large-scale 5G deployment in the later part of 2019.

<Q - Timothy Arcuri>: I have two. First of all, on the payments in the QTL, George, with the $100mm that you're going to get in September and the $100mm that you'll get in December, does that fully catch you up by the end of December? That's the first question.

And then the second question is on the potential to get an injunction in China against Apple. I think there's a practical process around you to validate your IP. So my question is what is the process and whether you've checked all the boxes so that if you did want to pursue that, you could? Thanks.

<A - George S. Davis>: Tim, in terms of the payments, the $700mm in total is a portion but does not represent the full amount that we would expect to receive. In fact, I would say it's a fraction of the full amount that we would expect to receive under an agreement. It's not meant to be a catch-up, it's meant to be a good faith payment while negotiations are going on.

<A - Donald J. Rosenberg>: Tim, this is Don. So I think your question was about China and our patent litigation there against Apple. And the answer is yes, we are seeking injunctive relief there. In some cases in China, you're not only entitled to permanent injunctions, but you're entitled to preliminary injunctions on occasion. But China is definitely a jurisdiction which is willing to enjoin infringers for patent infringement.

<Q - Christopher Brett Danely>: Just a couple quick ones. On the dispute with the $700mm in catch-up payments, I think before you've commented that you expect that to end or to close before the end of the year. Do you still expect that? And would you expect the royalty rate to decline there? And then could other customers get wind of that and have their royalty rates go lower? Then any update on when you think the Apple resolution will be settled.

<A - Alexander Rogers>: This is Alex. Again, I would not characterize this $700mm as catch-up payments because, as we've said, what these payments are, are partial payments during the context of a negotiation which we feel has been moving along somewhat slowly but in a positive direction. And the partial payments are an empirical data point that we're making progress in the negotiation. So it's not final by any means. It doesn't represent what is at issue in the agreement and what the values are at issue in the agreement and what the end result might be.

And so this is not a data point for other licensees to take and say somebody else is getting a different sort of deal. These negotiations are ongoing. We think they're positive. If they don't result in an amendment or a resolution, then as we've said in the past, there's an opportunity for dispute resolution. So again, I would just think about this as a good faith partial payment, not indicative of the value of the overall agreement. What was the question again on Apple?

<A - John T. Sinnott>: What the timing is, is there any timing question?

<A - Alexander Rogers>: Okay, got it. So with respect to Apple, the way you should think about it is we're on the same schedule we've laid out over the last several quarters. We continue to talk. We also have a number of legal strategies that are in flight. They're further in flight than they were the last time we spoke. And we hope that through the combination of either of those paths, we could get to a resolution, and we're confident that we will. No change in the timeline from what we've said previously.

<Q - Srini Pajjuri>: I have a clarification and a question. George, on the ASC 606, I think you said, the September quarter revenue for the devices that are shipped in the September quarter, you said that's going to go on the balance sheet. I think it's going to be more than $1B going on to the balance sheet. Just curious, when do you expect to recognize that? When will that flow through to the income statement?

And then my question is on the OpEx, the $1B savings, could you give us an update in terms of where you are in terms of achieving that $1B? And once we get to that level, what do you expect the OpEx on a non-GAAP basis excluding legal range to be? Thank you.

<A - George S. Davis>: So, under 606, the quarter that goes on to the balance sheet goes basically directly to retained earnings, never flows through the income statement. So, we shift ahead one quarter, which is where we talked about on the call the change in the seasonality. So, our old Q2 is now Q1, and then Q4 the following year will be the old Q1 of the year after that. So, you're going to get all four quarters in the year under 606, but you basically lose one quarter on to the balance sheet. Obviously, we get all the cash flow and other elements associated with it, and we will just report the December quarter instead of the September quarter.

We continue to make progress on the timing of the cost program. We've said the baseline was $7.4B for OpEx and that we believe we'll be able to take out $1B in 2019, which would put it at $6.4B. We'd be down about 5% quarter over quarter in Q4 or mid-single digits, as we said, 5%-plus quarter over quarter, absent the extra week. So, that gives you an indication directionally. And we would expect another step down in the quarter following that as we make progress into the year. We believe we're on track and we're still confident we'll take $1B out relative to the baseline.

<Q - Brett Simpson>: Can you, perhaps, just talk us through the timing of the court cases you have with Apple, so the timing of the cases, but more importantly the timing of the judgments, and when you expect these to be finalized for Germany, for China, for ITC, for FTC, that would be very helpful? I've got a follow-up. Thank you.

<A - Donald J. Rosenberg>: Hi, this is Don. So, that's a tall order. I don't think I can give you all the precise dates, but we've got, as you said, in the ITC, for example, our first case has already had hearings. We're expecting what's called an initial determination in September and a final determination there in January. We've got another ITC case that will be going to hearings sometime very early in the year, I think in January as well.

In China, we have multiple patent cases running in at least three jurisdictions there. Each of those is on a different schedule, but they are moving along quite quickly. And so, we would expect something either by the end of this year in terms of hearings and trials or early in next year. In Germany, we've got a number of patent cases filed there as well in both Munich and Mannheim, and those are moving toward – same type of later this year, early next year in terms of trial dates.

<Q - Brett Simpson>: Okay, that's great. Thanks very much, Don. And then just maybe for Cristiano, on the RF business, you're talking a bit about design wins for the first time on 5G RF. Can you maybe just talk about what type of attach rates you're getting with 5G RF with your 5G modem wins? Could you talk about addressing system solution modem to antenna? And where do you think Qualcomm is really differentiating in 5G RF, specifically?

And I just wanted to circle back to the revenue targets for FY2019 for RF. You talked about $2B to $3B, I think, of RF revenue in FY2019. What's the revenue opportunity that 5G might give you on top of this, over time? Thank you.

<A - Cristiano R. Amon>: Thank you for the question. So, I think maybe I'll start by saying we are expanding RF today. We have a number of designs that we have been reporting throughout the year. I think those designs, some are getting to market; some will get into the market soon. We'll be able to see the teardowns, and we're happy that not only we're getting the complete end-to-end solutions in the low band, but also the mid and the high band, including the PAMiDs, and the filters, and we expect that will continue.

With 5G, the reason we're optimistic about the opportunity of increasing attach rate is, when you think of millimeter-wave, you have to design the front end in the antenna and the transceiver integrated into a package, and also you have to optimize performance of a new technology in a new environment, where we have a time-to-market leadership. Those things are great trends for us to expand the RF business, which we're actually pleased with the results we're starting to get right now.

<A - Donald J. Rosenberg>: This is Don again. I just wanted to correct something. I believe I said the ITC second case is going to hearing in January. In fact, it's going to hearing in September.

<Q - Edward. Snyder>: I'd like to hit, if I could, the QCT results, especially with regard to the Snapdragon 700 series. I'm sure you guys have seen the uptick in wins for MediaTek's P60. They've seemed to have abandoned the high end to you, which is obviously very good news for your Snapdragon 800 series. I know the Snapdragon 700 series has been positioned to fight back on that platform. The checks said they have gotten quite a few dozens of wins on that. Can you just help us out with the dynamic between your Snapdragon 700 series and their P60 series, especially in the mid-tier 4G market?

And then if I could also, China has lagged in 4G overall. They've really got basic 4G, and I know they've put a flag in the ground about commercial 5G deployments by next year. That would suggest they're going to have to cover a lot of ground between LTE Advanced and LTE Pro between now and then to make that target. Do you think there are some risks to their deploying 5G? Or maybe it will be delayed a bit beyond where they have targeted while they're trying to catch up? And what impact does LTE Pro or LTE Advanced increase in mix that China's going to have on your modem business especially? Thanks a lot.

<A - Cristiano R. Amon>: Thank you, Ed. So let me just start with the Snapdragon 700. The dynamic we saw in the China market with our key OEMs have been consistent with what we have said for probably the past two years is the market is moving up. And I'll answer two of your questions with the Snapdragon 700 series. The Snapdragon 700 series, it basically was an opportunity, as a lot of – some of the mid-tier devices – OEMs are more interested in bringing that to a more premium feature set. And one of the features that also drove a lot of the Snapdragon 700 is the advanced modem performance on LTE. In some other markets, especially outside China, you see some markets advertising that even as a 4.5G technology. We saw that, for example, in Latin America. That was how the Snapdragon 700 series got labeled in terms of performance. So this is a good sign.

But also the Snapdragon 800 series, we saw pickup as some of the key customers entered the market. So our view is the market continues to move into the right direction for us, and that bodes well with the expansion of our customers into other markets. Not to single anyone out in particular, but just looking at Xiaomi as an example, they’re now in 70 countries, and they were the number four smartphone in Europe within one year. That’s a good thing, and look at the global feature set of LTE as the design point for our customers in China, not only China domestic.

Going to 5G, that’s where things become more interesting. The scale of the user-friendly trial of the largest operator in China, China Mobile, which everyone on the infrastructure side and the OEM side is working towards H2, is very large. And that gave us an indication that the transition could be as meaningful as we saw with 4G, so that creates an opportunity for basically, jump in feature set in China towards the 5G with 5G in radio standalone, and we’re excited about that as well.

Steven M. Mollenkopf

Closing Remarks

Just an observation that obviously the company has been through a lot in the last year, but I also want to recognize that we’ve accomplished a lot as well, not only the strong quarter and outlook that we’ve put in, but also just the breadth and the depth of the product delivery that’s occurred, the 845, the products Cristiano mentioned, as well as the leadership position in 5G

I think it’s a testament to the tenacity and the dedication and the competitive spirit that Qualcomm has been known for

And I just want to thank the employees and our partners and our customers for supporting us through this period and look forward to delivering for them in the future.