

# Qualcomm (QCOM)

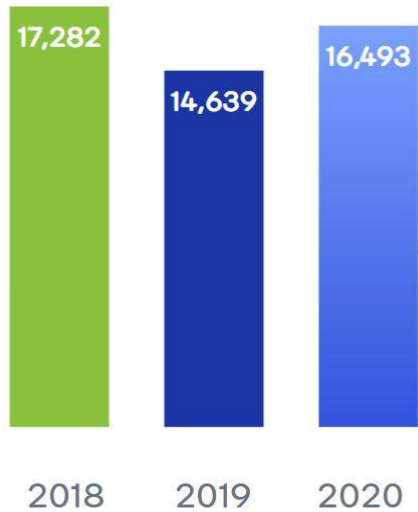
## Value Hidden in Plain Sight: Look Beyond the Cell Phone

Scott Inglis – September 2021

# Chips: Design & Sell Processors, Modems, RF modules, etc.

## Historical Revenues

IN \$ MILLIONS



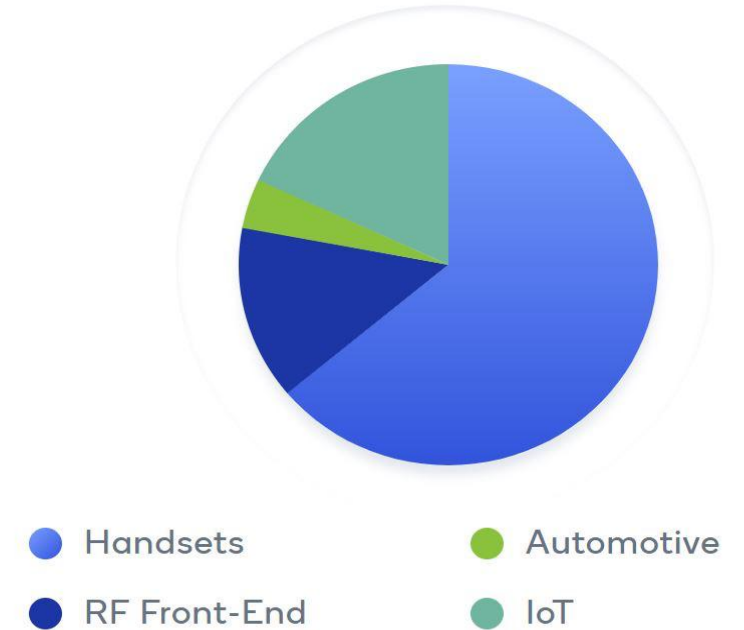
## EBT %

FOR FY 2020



## QCT Revenue Streams, in millions

FOR FY 2020



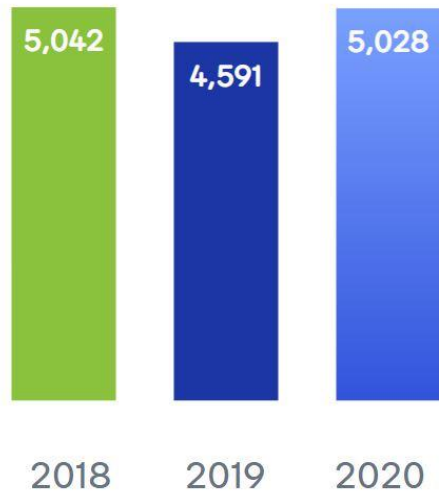
Total \$16,493

Semiconductors for mobile phones **and** commercial wireless applications. Provides integrated solutions, including Snapdragon processors, GPS, WiFi, baseband modems, and RF modules for smartphones, tablets, and mobile PCs.

# Licensing: Contracts to Use Patents for 3G/4G/5G

## Historical Revenues

IN \$MILLIONS



## EBT %

FOR FY 2020



## Key highlight

FOR FY 2020



Global 3G/4G/5G  
licensees

Licensing:  $< \frac{1}{4}$  of Revenues  
 $> \frac{1}{2}$  of Profits

# 2018-2020

Patent Lawsuits  
(Apple + Android World)

Failed Acquisitions  
(by Broadcom + of NXP)

Business Model Under FTC attack  
("no license/no chip")





# 2021

Customers Licensed

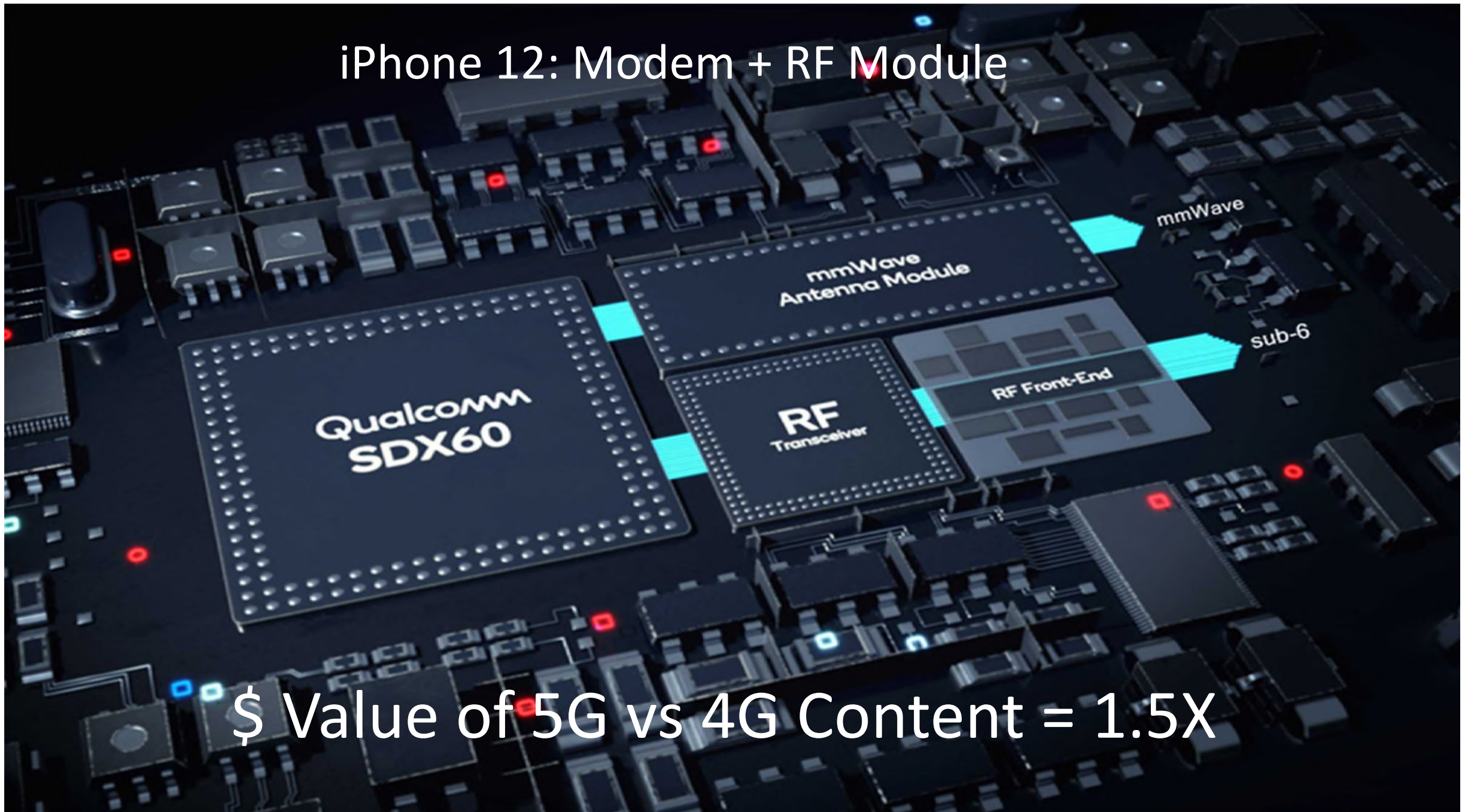
Licensing/Chip model  
validated vs. FTC

National Champion (i.e.  
big Huawei winner)

5G Handsets + > 100%



# iPhone 12: Modem + RF Module



\$ Value of 5G vs 4G Content = 1.5X



## Segment Results

### Chips

### Licensing

<i>(in millions, except percentages)</i>	Q3 Fiscal 2021	Q3 Fiscal 2020	Change	Q3 Fiscal 2021	Q3 Fiscal 2020	Change
Revenues	\$6,472	\$3,807	+70%	\$1,489	\$1,044	+43%
EBT	\$1,795	\$603	+198%	\$1,053	\$646	+63%
<i>EBT as % of revenues</i>	<b>28%</b>	<i>16%</i>	<i>+12 points</i>	<b>71%</b>	<i>62%</i>	<i>+9 points</i>

## Chips Detail

*(in millions, except percentages)*

	Q3 Fiscal 2021	Q3 Fiscal 2020	Change
Handsets	\$3,863	\$2,457	+57%
RF front-end	957	447	+114%
Automotive	253	138	+83%
IoT	1,399	765	+83%
Total QCT revenues	<b>\$6,472</b>	<b>\$3,807</b>	<b>+70%</b>

Microsoft CEO Satya Nadella – January 2021

“What we have witnessed over the past year is the dawn of the second wave of digital transformation sweeping every company and every industry.”

NVIDIA CEO Jensen Haung – March 2021

“We are seeing the smartphone moment for every industry”

Qualcomm CEO Christiano Amon – August 2021:

“Non-handset business is growing at 1.6X mobile and represented 40% of Q3 handsets”

“we will continue to show the numbers and tell the story at Analyst Day [November 2021]...the opportunity for technology of Qualcomm exists in every industry.”

Source: 8/11/21 Canaccord Genuity Fireside chat



# Internet of Things

Connected intelligent edge for cloud-based economy

← 13,000  
Customers!

**\$1.4B**

Q3FY21 revenues

↑83% prior-year-quarter



## Consumer

Drive mobile technology adoption  
in consumer electronics

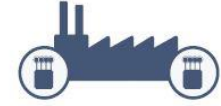
- Computing (Tablets, PCs)
- Voice & Music
- XR
- Wearables



## Edge Networking

Wireless edge connectivity  
and networking leadership

- Mobile Broadband
- Wireless Access Points



## Industrial

Digital transformation & connectivity  
of industries with mobile technologies

- Energy & Metering
- Logistics & Warehousing
- Industrial Handheld
- Retail
- Asset Tracking

**Revenue scale**

**Gross Margin improvement**

**Technology reuse is accretive to EBT margins**

# Automotive

*Qualcomm CFO Akash Palkhiwala on prospects in Automotive:*

“This is, again, not a two, three-year growth curve for us. This is a five-to-ten year growth curve for us.”

Source: 8/11/21 Morgan Stanley Fireside chat



**Growing Backlog: \$10bn Q3 (\$8bn Q1, \$9bn Q2)**

**Telematics = Telecom + Informatics**

**Digital Cockpit**

**ADAS - Veoneer acquisition**

Qualcomm  
(QCOM)  
\$145

**QCOM US** \$ ↑ 144.64 -0.48  P144.63 / 144.65N 1x6  
 At 14:25 Vol 3,039,570 O 145.12Q H 145.99Q L 144.23D Val 440.364M

**QCOM US Equity** Export Settings Earnings Trends  
 QUALCOMM Inc Periodicity Quarterly Source Standard Currency USD

Measure	EPS, Adj+						1) YoY % Growth						2) PoP % Growth					
	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024	2025	2020	2021	2022	2023	2024	2025
Q1 Dec	0.99	2.17	2.57	2.78	2.85	2.91	-18%	119%	19%	8%	3%	2%	-18%	119%	19%	8%	3%	2%
Q2 Mar	0.88	1.90	2.10	2.17	2.46	2.52	14%	116%	10%	3%	13%	2%	14%	116%	10%	3%	13%	2%
Q3 Jun	0.86	1.92	2.06	2.13	2.46	2.54	7%	123%	7%	3%	15%	3%	7%	123%	7%	3%	15%	3%
Q4 Sep	1.45	2.26	2.49	2.57	2.91	3.00	86%	56%	10%	3%	13%	3%	86%	56%	10%	3%	13%	3%
Year	4.19	8.25	9.21	9.47	10.65	10.97	18%	97%	12%	3%	12%	3%	18%	97%	12%	3%	12%	3%
Cal Yr	5.36	8.66	9.42	9.72	10.74	--	60%	61%	9%	3%	10%	--	60%	61%	9%	3%	10%	--

(Fiscal Period: Reported, Estimated)

3) Values Chart



4) Growth Chart



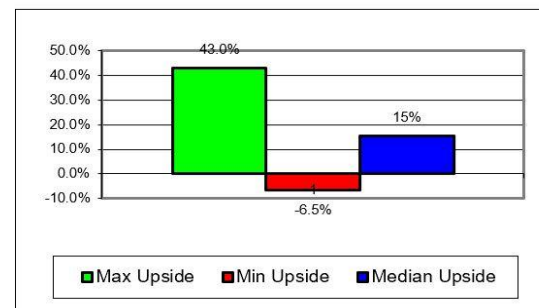
Multiple	Last 4Q	Next 4Q	FY 21	FY 22	FY 23
P/E	21.40	16.10	17.55	15.71	15.28
P/S	5.03	4.55	4.95	4.48	4.36
P/B	19.97	17.30	17.46	11.37	8.32
P/CF	14.62	6.07	14.14	13.78	13.15
EV/Revenue	5.10	4.63	5.04	4.56	4.44
EV/EBITDA	13.98	11.67	12.70	11.51	11.27
EV/EBIT	16.07	13.13	14.46	13.08	12.54
EV/OPP	16.07	13.35	14.46	13.09	12.79
Dvd Yield	1.82	1.94	1.84	1.94	2.02



Major Assumptions

		# Estimates: <b>31</b>										
		<b>Last Year</b>	<b>FY1</b>	<b>FY2</b>	<b>NE</b>	<b>10YE</b>	<b>Payout-High Growth Phase=</b>					1
		9/2020	09/2021	09/2022			31%					100%
<b>Actual EPS =</b>	4.52	8.37	9.95	2.22	8.06	<b>Cost of Equity =</b>					164.9255	
<b>P/E Ratio</b>	32.1 x	17.3 x	14.6 x	55.9 x	18.0 x	<b>Growth Rate-Stable Phase =</b>					162.42	
<b>PE/G Ratio</b>	0.4 x	0.9 x	0.8 x	<b>FCF Yield</b>	<b>Div Yield</b>	5.0%					1.5%	
<b>Actual Net Income =</b>	\$ 5,198	<b>+/- 0.065</b>	<b>+/- 0.547</b>	<b>6.4%</b>	<b>1.8%</b>	<b>Payout Ratio-Stable Phase =</b>						
		<b>EPS Growth Yrs 3-5 =</b>			8.72%	<b>Cost of Equity-Stable Phase =</b>						
		<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	
<b>Expected Growth Rate</b>	84.9%	18.9%	8.7%	8.7%	8.7%	8.7%	8.0%	7.2%	6.5%	5.7%	5.0%	
<b>Earnings per share</b>	8.37	9.95	10.82	11.76	12.79	13.81	14.81	15.77	16.67	17.50		
<b>Payout ratio</b>	31%	31%	31%	31%	31%	31%	35%	39%	42%	46%	50%	
<b>Dividends per share</b>	2.61	3.10	3.37	3.67	3.99	4.82	5.73	6.70	7.71	8.75		
<b>Cost of Equity</b>	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	
<b>Cumulative Cost of Equity</b>	108.00%	116.64%	125.97%	136.05%	146.93%	158.69%	171.38%	185.09%	199.90%	215.89%		
<b>Present Value</b>	2.42	2.66	2.68	2.70	2.71	3.04	3.34	3.62	3.86	4.05		
		(\$142.51)	\$3.10	\$3.37	\$3.67	\$3.99	\$4.82	\$5.73	\$6.70	\$7.71	\$315.09	
<b>at the end of growth phase =</b>	<b>306.33</b>											

Valuation Results			
<b>Valuation</b>	Present Value of Dividends:	<b>31.08</b>	
	+ Present Value of Terminal Price	<b>141.89</b>	
	<b>= DDM Value of the stock</b>	<b>172.97</b>	
145	Vs. Current Price of:	<b>145.12</b>	
	<b>Upside</b>	<b>19.2%</b>	
	<b>IRR</b>	<b>11.4%</b>	
Growth Rate Comparisons			
	<b>PEG Ratio</b>	<b>0.38</b>	
	Est 5 Yr Growth Rate=	<b>23.1%</b>	
	Market Implied 3-5 Yr Growth Rate=	<b>6.5%</b>	
	5-yr Historical Earnings Growth=	<b>7.1%</b>	
	Growth Rate Required for 15% IRR=	<b>17.5%</b>	



<u>Max</u>	<u>Min</u>	<u>Median</u>	<u>Reward/Risk</u>
<b>43.0%</b>	<b>-6.5%</b>	<b>15%</b>	<b>2.38</b>
<b>207.56</b>	<b>135.69</b>	<b>167.52</b>	<b>1.23</b>
IRR		<b>10.9%</b>	

Probability Table			
	<u>IRR</u>	<u>Upside</u>	
Negative IRR	0%	0%	Return < -10%
0-5% IRR	0%	3%	-10% - 0%
5.0-6.5% IRR	0%	22%	0% - 10%
6.5-8.0% IRR	0%	50%	10% - 20%
8.0%-9.5% IRR	7%	23%	20% - 30%
> 9.5% IRR	93%	2%	> 30%
	7%	98%	

# What lies ahead?

## Key Questions and Considerations for 2021–2025

- Apple relationship – baseband modem and timing for replacement?
- How much of \$10bn Huawei revenue will go to Qualcomm?
- More RF Front End market share gains?
- Five-year growth rate for IoT? 15-20%?
- Five-year growth rate for Automotive? 25%?
- Veoneer and Nuvia acquisitions – outcome and impact?
- Revenue diversification vs. handset maturity/cyclicality?

\*\* Analyst Day: November 16, 2021 in New York City



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