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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Qualcomm third quarter fiscal 2024 earnings conference call. (Operator Instructions)

As a reminder, this conference is being recorded July 31, 2024. (Operator Instructions)

I would now like to turn the call over to Mauricio Lopez-Hodoyan, Vice President of Investor Relations. Mr. Lopez-Hodoyan, please go ahead.

Mauricio Lopez-Hodoyan - *Qualcomm Inc - Vice President, Investor Relations*

Thank you and good afternoon, everyone. Today's call will include prepared remarks by Cristiano Amon and Akash Palkhiwala. In addition, Alex Rogers will join the question-and-answer session.

You can access our earnings release and a slide presentation that accompany this call on our Investor Relations website. In addition, this call is being webcast on qualcomm.com and a replay will be available on our website later today.

During the call today, we will use non-GAAP financial measures as defined in Regulation G, and you can find the related reconciliations to GAAP on our website. We will also make forward-looking statements, including projections and estimates of future events, business or industry trends, or business or financial results. Actual events or results could differ materially from those projected in our forward-looking statements.

Please refer to our SEC filings including our most recent 10-K, which contain important factors that could cause actual results to differ materially from the forward-looking statements.

And now to comments from Qualcomm's President and Chief Executive Officer, Cristiano Amon.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Thank you, Mauricio, and good afternoon, everyone. Thanks for joining us today.

In fiscal Q3, we delivered non-GAAP revenues of \$9.4 billion and non-GAAP earnings per share of \$2.33, which was above the midpoint of our guidance range. Revenues from our chipset business of \$8.1 billion reflect the sequential growth in automotive and IoT and continued traction of our Snapdragon mobile platforms across leading smartphones.

Our automotive and IoT revenues were the result of ongoing execution of our diversification strategy. Licensing business revenues were \$1.3 billion.

Now, I would like to share some key highlights from the business. In automotive, we secured more than 10 new design wins with global automakers during the quarter. These include next-generation digital cockpit, connectivity, and/or ADAS and autonomy. Our Snapdragon Digital Chassis continue to scale across virtually all OEMs and is now a key asset for the automotive industry.

As we look forward, we're focused on extending our industry-leading on-device AI solutions to the Snapdragon Digital Chassis to enable automotive-centric GenAI use cases and applications.

It's important to note that our architecture, with capabilities across all domains, is uniquely positioned to enable sensor data to be utilized simultaneously for ADAS autonomy workloads in user-centric GenAI experiences in the digital cockpit. A great example is our Snapdragon Ride Flex solution, which combines digital cockpit in ADAS on a single SoC.

Future drivers for automotive growth include GenAI experiences, the software-defined vehicle transition, central computing replacing microcontrollers, expansion into two wheelers, and car-to-cloud services. In handsets, we are pleased that all Galaxy Z Fold 6 and Flip 6 are powered by the Snapdragon 8 Gen3 for Galaxy, delivering extraordinary AI capabilities, premium level performance, and power efficiency for foldable devices.

Together with Samsung and our other partners, we continue to push the boundaries of on-device GenAI on mobile devices. To that end, we're pleased with the growth and trajectory of AI use cases on smartphones. This continued expansion of AI features is a precursor to next-generation smartphones, which we believe will become AI-centric, with pervasive on-device AI working across applications in the cloud. Qualcomm is very well positioned to help drive this transformation across the industry in the coming years.

At our upcoming Snapdragon Summit in October, we will reveal details of our next-generation Snapdragon 8 flagship mobile platform, the first to be powered by our custom Oryon CPU. This platform, combined with new and unparalleled NPU AI capabilities, is already exceeding both our and our customers' performance expectations.

In compute, we're very pleased that Copilot+ PCs, powered exclusively by Snapdragon X Series platforms, became available for purchase on June 18. This marks the start of one of the most significant transitions in personal computing since the launch of Windows 95 and is restoring performance leadership back to the Windows ecosystem. 20 Copilot+ PCs from Microsoft, Dell, HP, Lenovo, Acer, ASUS, and Samsung are now available across 20 countries and 47 retailers.

It's important to highlight the unique Copilot+ and Snapdragon X Elite dedicated retail spaces in Best Buy, Costco, Currys, Harvey Norman, and many more. We are very pleased with the initial response with several models sold out at retailers and online.

Our retail presence is expected to expand to more than 60 retailers across 25 countries in the coming months. We're also working closely with more than 50 global commercial customers to drive Snapdragon readiness in their respective environments.

Additionally, we added the Snapdragon X Series platforms to the Qualcomm AI hub, allowing developers to easily take advantage of optimized AI models to create responsive, power efficient, and compelling on-device generative AI applications for Copilot+ PCs.

As we look forward to 2025, we are already working with OEMs on the next wave of Copilot+ PCs. In addition to new design wins, our X Series product roadmap will expand to address PCs with retail prices as low as \$700 without compromising NPU performance.

Longer term, we believe the benefits of Snapdragon X Series platforms make it clear that the PC ecosystem has begun to transition to an ARM-compatible architecture. As we look forward, we're forecasting that at least 50% of PCs will be AI capable by 2027. Given our clear technology leadership and competitive roadmap, we expect to be positioned as one of the top silicon suppliers for these devices.

We also remain excited about the continued positive momentum in XR, particularly the success of Meta's Ray-Ban smart glasses. Sales are exceeding our expectations due in part to the integration of Llama into the experience. We foresee an acceleration in demand for extended and mixed reality devices as new use cases enabled by GenAI gain scale.

Snapdragon XR remains the industry platform of choice, and we are engaged with major ecosystem players, including Meta, Google, Microsoft, and others. Most recently at the augmented World Expo, we showcased two of the latest XR devices, NTT's augmented reality glasses and Sony's upcoming head-mounted mixed reality device.

In industrial IoT, we're pleased to report that we're now collaborating with Aramco on connectivity, AI, and advanced computing solutions for industrial and enterprise use cases in Saudi Arabia. This also includes accelerating development of the industrial 4G, 5G, and non-terrestrial networks ecosystem, including the first significant wide area private cellular network for IoT.

As the industrial sector is transformed by AI, we expect an increase in demand for more complex on-device processing. This trend aligns well with our core capabilities, especially the computing and AI roadmap we have built for auto and PC.

As high-performance processing and intelligence at the edge becomes critical for the next phase of enterprise digital transformation, we see a unique opportunity to build a leadership position in this space. In the next few months, we will announce our new dedicated product roadmap for industrial IoT, including support for multiple operating systems, ability to run multi-billion perimeter AI models, and a comprehensive development platform.

Finally, we're very pleased to share that we recently signed a key long-term licensing agreement with Honor, a leading Chinese smartphone OEM. We continue to be pleased with the company's diversification beyond mobile, and we're particularly proud of what we have accomplished to date in automotive and PC.

We will provide additional updates on our diversification strategy at our Investor Day in New York on November 19. I would now like to turn the call over to Akash.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Thank you, Cristiano, and good afternoon, everyone. I'll start with our third fiscal quarter earnings.

We are pleased to announce strong non-GAAP results with revenue of \$9.4 billion and EPS of \$2.33, both of which were above the midpoint of our guidance. QTL revenues of \$1.3 billion and EBT margin of 70% were in line with our expectations. QCT delivered revenues of 8.1 billion and EBT margin of 27%, which was at the high end of our guidance range, driven by upside in both IoT and automotive.

QCT handset revenues of \$5.9 billion were in line with expectations, reflecting our scale in premium Android handsets and greater than 50% year-over-year growth in revenues from Chinese OEMs. QCT IoT revenues increased 9% sequentially to \$1.4 billion as we continue to see a gradual recovery in the industry environment.

We delivered our fourth consecutive quarter of record QCT automotive revenues of \$811 million with sequential growth of 34%. Our revenue acceleration reflects content growth in new vehicle launches as we become the leading supplier of advanced computing and connectivity solutions to the automotive industry.

Lastly, we returned \$2.3 billion to stockholders during the quarter, including \$1.3 billion in stock repurchases and \$949 million in dividends.

Before turning to guidance, I would like to outline three factors included in our forecast. First, consistent with our long-term financial planning assumption of largely flat handset units, we continue to estimate global 3G, 4G, 5G units in calendar '24 to be flat to slightly up on a year-over-year basis.

Second, our license to export products to Huawei, which was set to expire in late calendar '24, was revoked on May 7. This change will impact our revenues in both the current quarter and the first quarter of fiscal '25. Lastly, our fourth fiscal quarter includes an additional week as we align our fiscal reporting period with the calendar quarter end every five to six years.

Now turning to fourth fiscal quarter guidance, we are forecasting revenues of \$9.5 billion to \$10.3 billion and non-GAAP EPS of \$2.45 to \$2.65. In QTL, we estimate revenues of \$1.35 billion to \$1.55 billion and EBT margins of 70% to 74%, reflecting normal seasonality for handset units. In QCT, we expect revenues of \$8.1 billion to \$8.7 billion and EBT margins of 27% to 29%. We expect QCT handset revenues to grow by low single-digit percentage sequentially. This forecast reflects an increase in purchases from a modem-only handset customer, partially offset by seasonally lower Android revenue ahead of our new Snapdragon premium chipset launch in the first quarter of fiscal '25. We expect QCT IoT revenues will increase by low double-digit percentage sequentially, driven by growth across consumer, networking, and industrial. Following our outperformance in the third quarter, we expect QCT automotive revenues to remain flat in the fourth fiscal quarter. We are on track to deliver approximately 50% year-over-year revenue growth in fiscal '24, providing confidence in our ability to execute to our long-term targets. Lastly, we expect non-GAAP operating expenses to be approximately \$2.2 billion.

In closing, we are pleased with our execution and financial performance in fiscal '24. Based on the midpoint of our guidance, we are on track to deliver strong non-GAAP EPS growth of approximately 20% relative to fiscal '23.

Over the last quarter, industry support for our vision for on-device AI has accelerated and been validated by several key players. Beyond handsets and PCs, we expect on-device AI to drive competitive differentiation for us in industrial, networking, automotive, and XR. Our leading technology and product portfolio has positioned us to continue to execute on our diversification strategy, and in the months ahead, we look forward to introducing new industry-leading products across all our end markets.

Finally, as Cristiano outlined, we'll be hosting our Investor Day on November 19, where we'll provide an update on our IoT and automotive diversification strategy.

This concludes our prepared remarks. Back to you, Mauricio.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Thank you, Akash. Operator, we're now ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Matt Ramsay, TD Cowen.

Matt Ramsay - *TD Cowen - Analyst*

Thank you very much. Good afternoon, everybody. I have a couple of questions, guys, really highlighting some of the diversification that the company is now starting to deliver on the revenue. I guess the first one is in the automotive business, pretty big upside there. If you could talk a little bit about -- like you're seeing some of this revenue come through now in OEM programs that no doubt you had one, two or three years ago.

Do you think that continues as we roll through the next several quarters? I mean, what kind of momentum could we see as some of these units start to roll out from programs you won a long time back?

And then, Cristiano, the second one, people keep asking lots of questions about AI PCs. As you know, you're getting really close here to when the holiday ramp period would start for you to sell in units. So maybe if you could give us your current take on your expectations of what the PC market could bring in terms of units of revenue for your company as we look forward into the next fiscal year. Thanks, guys.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Very good. Thank you, Matt. Thanks for asking the questions. Let me start with automotive.

Look, we're very pleased with automotive performance. And I want to start by saying this is -- you continue to see signs of the pipeline translated into revenue. There are a couple things we really like. The first one is our automotive revenue is all about share of new cars being launched with our content. Also, it's independent whether the industry is about internal combustion or EV because it's all about digital. The Snapdragon Digital Chassis really became a key asset for the automotive industry.

And just within the quarter we have not only the launch of 10 new models with our technology, but also, we actually have 10 new design wins which continue to add to the pipeline. So we're very excited about that. We will continue to see, as new cars get launched with our technology from the pipeline, the revenue to grow. And as Akash said in the script, we're actually on track to the metric we provided for \$4 billion in 2026.

One side comment on your question. An upside is what GenAI is doing in automotive. GenAI use cases, especially using large language models for audio, is a great user interface. From where behind the wheel, we're starting to see a lot of interesting use case being developed. That is upside to our model, it could be an upgrade of content in the digital cockpits that we have in.

The second comment, which is about PCs. I will start by saying we're very pleased. It's exceeding our expectations. It's a new version of Windows. The Copilot+ is a new architecture with an ARM compatible. We expect that that will ramp over a period of time.

But what we have seen in the market right now, with the 20 models that get launched, is exceeding our internal targets. Some models, as I mentioned in my prepared remarks, had sold out. And I think we should expect that that will continue to be a crescendo, slow and steady as the market transition. We will have new product announcements coming up at IFA, and you're going to continue to see more Copilot+ features coming from Microsoft.

We're very happy about that, as the same thing we did with auto expect PC to be the next biggest driver of diversification for the company. And we'll continue to track every quarter.

Operator

Samik Chatterjee, JPMorgan.

Samik Chatterjee - *JPMorgan - Analyst*

Hey. Thank you for taking the questions and congrats on the strong quarter. I guess, Cristiano, let's start you up with those smartphone questions, related to AI smartphones. One, can you share if you're seeing any depreciable difference in the demand for smartphones with AI features and then from consumers already.

And as you look to the pipeline in terms of design wins for next year, how are you thinking about proliferation of the AI features and then capabilities into more mid-tier or outside of the flagship tier phones that you work with your customers. Then I have a follow-up. Thank you.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Thank you for your questions, Samik. So on smartphones, I will start by saying one thing that we really like and I think was reflected by some of the metrics provided by Akash he talks about in his remarks, 50% growth within China, with Chinese OEMs. So AI has expanded the size of the premium tier.

So even in a market which it's kind of flattish to low single digits in growth, the premium tier is actually growing faster. And we've seen that. We've seen a larger premium tier enabled by AI.

And to your specific question, we are happy with the trajectory of AI features. We used to have a few; now we have tens of AI features. And eventually, when they get to hundreds, we're going to start to see a change that a smartphone with AI feature will become an AI smartphone. We don't have any heroic assumptions in our model, but we actually like the direction this is going that could create an interesting upside if we have an AI-driven upgrade cycle.

It's too early in the process, but the use cases are becoming more interesting. I pointed to the increase of use cases in the Galaxy Flip 6 and Fold 6. China has a number of use cases. They're going to be launched in the next flagship.

And I know you asked about bringing AI to the mass tier. We intend to do that. The same thing we're doing with the PC, which is as we expand the roadmap, we're not compromising on AI capabilities. We're going to see us doing that within our mobile roadmap.

But on the premium tier, I'm actually very excited given the upcoming launch of our next Snapdragon that has our custom CPU, and you're going to see the same shift in performance that we have done in the PC ecosystem, restoring the performance back to the Windows ecosystem. You're going to see us doing something similar in phones, and AI is going to be a big part of this story. Thank you.

Samik Chatterjee - *JPMorgan - Analyst*

And a quick one for Akash. I guess the guide for the September revenues that looks pretty similar to what you were soft guiding us back 90 days ago. Although you now have incremental headwinds with the license to export to Huawei. How should we think about sort of where you're finding the offsets? Where is the upside to help you offset that incremental headwind? Thank you.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Yeah. Thanks, Samik. Samik, we're pretty happy with the way the quarter's played out, right? If you look at our handset business, we are growing. We are guiding that we'll grow low single-digit percentage on a quarter-over-quarter basis. IoT, we're guiding low double-digit growth, and we're seeing strength across industrial, edge networking, and consumer.

And then auto, coming off of an extremely strong quarter in June, we're guiding flat revenue in the September quarter. And so all of these, both IoT and automotive, are incremental to our previous expectations. And you're seeing that benefit show up in our guidance.

Operator

Chris Caso, Wolfe Research.

Chris Caso - *Wolfe Research - Analyst*

Yes, hi. I guess first question is just clarification on the extra week in the quarter that you referred to. Can you speak about what impact you might -- you expected to have on both revenue and cost and if there's any implications on that absence of the extra week as you go into the following quarter, which is obviously a seasonally strong quarter?

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Yeah, sure, Chris. If you'd think about the two factors I outlined for the guidance, which is the extra week on one hand and then offset by the Huawei revenue reduction on the other side, those two largely offset each other. And so the net impact on our overall guidance is pretty limited when you consider the impact of both factors.

Specifically on the extra week, as you know, not all weeks are created equal as you think about the different parts of our business. So what we factored in is incremental revenue on the QCT side, incremental OpEx on the OpEx side, and then within -- sorry, incremental revenue in the QTL side. And then within QCT, revenue forecast and the benefit that we have from a flagship phone launch, that doesn't really change based on the number of weeks.

So that remains largely consistent. And these factors are already included in. But the big message is when you step back and look at the two key factors outlined, they pretty much cancel out against each other.

Chris Caso - *Wolfe Research - Analyst*

Okay, understood. And then moving over to QTL. The guidance for the fourth quarter is it's outside of the range that you have been talking about before. You haven't changed your expectation for global handset units. So can you speak to the reason for the QTL guidance and if that's sustainable going forward? Because typically, the first quarter is a stronger quarter for that segment?

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Yeah, sure. So the QTL guidance is relatively straightforward. If you look at June to September, we typically see very small growth on a quarter-over-quarter basis. So we factored that in. And then we have the extra week on top of it as well, which is also factored into our numbers. So that's how we got to the number we're guiding for QTL.

Operator

Stacy Rasgon, Bernstein Research.

Stacy Rasgon - *Bernstein - Analyst*

Hi, guys. Thanks for taking my question. I want to ask the second half of Chris's question again that he didn't quite get to. The extra week, how should I think about the implications for December quarter seasonality coming off of that? What are you guys thinking for December, if you could help us shape that a little bit?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Sure, Stacy. So as you know well, we typically grow into the first quarter into the December quarter, and we're expecting that it's the seasonally strongest quarter of the year going forward. And as we think about the quarter, there are couple of factors we consider.

First is the launch of our new Android premium-tier chip which is going to be a tailwind for us. We do go back from the 16 weeks -- 14 weeks back to 13 weeks within the quarter. And then relative to last year will not have Huawei product revenue going forward, which we did have last year.

So a net of all of this, when you look at a year-over-year basis, we expect revenue to be largely -- revenue growth to be largely consistent with the year-over-year growth we saw in December quarter last year.

Stacy Rasgon - *Bernstein - Analyst*

Got it. That's helpful. If you could also just give us any sort of incremental color, how much of the guide actually includes -- how much of the guide is PC revenue at this point for next quarter? I know you said the consumer piece sounds like it's growing in IoT, that's where it is, but how much of it actually is PCs?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Yeah. Stacy, in all candor, we're few weeks into our launch. And so it's too early to have either a bullish assumption or a specific assumption on PC. We do have indications from our customers, and we have tried our best to factor it in as we usually do.

But as Cristiano said to us, this is about the longer-term growth opportunity and being very specific on sell-through in the short term is not really something that we have insight into. But we will -- as we get to Investor Day, we're going to give a lot more disclosure and our specific plans on revenue ramp.

Operator

Joe Moore, Morgan Stanley.

Joe Moore - *Morgan Stanley - Analyst*

Great. Thank you. I want to come back to the 50% growth in China handset. And it sounds like you talked about growth in the premium tier there. Can you give us a sense of how much of that is price versus units, and is the market expanding? And then maybe market share commentary because your numbers seem better than your competitor.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Yeah. So if you look at the total handset market, our general assumption is that from '23 to '24, it's flat to slightly up. So the market is not growing. But within that, the premium tier, the trend has been very positive. We've gone from greater than \$400, representing 21% of the market, now to date, representing 31% of the market. And so that's very significant growth that we are benefiting from. And as you know, we are very strong at the premium tier. And as that market expands, we get to participate in that, not just from a revenue perspective, but content increase perspective as well.

Joe Moore - Morgan Stanley - Analyst

Thank you.

Operator

Christopher Rolland, Susquehanna.

Christopher Rolland - Susquehanna Financial Group LLLP - Analyst

Hey, guys. Thanks for the question. I guess in your latest Q, you talked about a bunch of new licenses coming up. I think they expire early fiscal '25, including Huawei. I guess first of all, the 4G at Huawei, this might affect these negotiations. Do you expect everyone else to sign in those negotiations as well?

And then lastly, do we think about Huawei, that impact is roughly \$150 million a quarter? Is that a fair number on the 4G stuff from Huawei? Thank you.

Alexander Rogers - Qualcomm Inc - President, QTL & Global Affairs

Hey, Chris, this is Alex. Thanks for the question.

So if you look at the licensing progress, basically over the last year or so, we set out to execute on a number of renewals and extensions. And we've done actually a really good job doing that. The most recent was getting Honor signed up to a long-term agreement.

And then as you know, Apple extended through '27. But we also noted recently that we have two major Chinese OEMs signed long term. We haven't named them, but there are significant handset manufacturers. And then we're working through negotiations with others that we still have optimistic expectations in terms of getting them signed up.

We also recently announced that we signed up Transsion into a 5G license and we're still negotiating with them. There's some litigation ongoing. But I think the important thing is to focus on the 5G license with that company and the ongoing negotiations.

So Huawei is a company that we've been engaged with just like the others in terms of trying to move negotiations forward. We expect that to continue. We don't really have any news on that just yet.

Akash Palkhiwala - Qualcomm Inc - Chief Financial Officer & Chief Operating Officer

And then from a revenue breakdown perspective, as you know, we don't break down our QTL revenue by OEM. But a reasonable way of thinking about it is look at the scale of the market and the number of units any specific OEM contributes to the scale of the market and apply that to our overall revenue stream.

Operator

Ross Seymore, Deutsche Bank.

Ross Seymore - Deutsche Bank - Analyst

Hey, guys. One question, one follow-up. Thanks for letting me ask.

First, one -- probably more for Cristiano. I just want to see how you feel with your leadership position on both the modem and the apps processor side in your handset business. How do you feel about the relative market share that you have in the penetration of given customers? There's kind of perpetual debate about what you're doing with your lead Korean customer year-to-year, gen-to-gen, same thing with your modem-only customer...

So as you look forward over the next year or two, how are you feeling about the penetration that Qualcomm can have at the major customers?

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

All right. So thanks for your question, Ross. Loaded question, so I'm going to have to unpack one by one.

I think the first part of the question, how do we think about our modem technology. We feel pretty good about our modern technology. I think this is one of the core competencies of the company. We continue to be the number one company in the country in number of wireless patents and standard essential patents and continue to be the company pushing forward the roadmap.

As it relates to our business with Apple, we still operate with the framework that we provided to you all. I think when we extended the chipset agreement and we expect to be operating within that, we have no new update to provide, everything above what we said before is an upside. So we don't have that in our financial planning assumptions above what we have disclosed.

When we think about the application processor, I think the conversation is a little bit more interesting, because always had the leadership in AI performance, we always had the leadership and peak and sustained performance in mobile gaming or in other applications with our Adreno GPU. And now, for the first time in a while, we're going to have our own custom CPU, which will be announced at the Snapdragon Summit and will be in the flagship devices launching towards the end of the year, beginning of 2025.

So I'll argue that our application processor advantages are accelerating. And as I said in this earnings, I think the launch of the Copilot+ PC was really graduation for Qualcomm as it used to be perceived as a communications company that isn't really a computing company to the point that now we become the benchmark for others to follow within the PC industry. And I think that is going to be reflected in handsets as well as we have our own custom CPU.

As it relates to relationship with Samsung, we have executed agreements with them. It's largely consistent to what you have seen with the launch of the GS24, how that's going to continue. We're pretty happy with the relationship. And I think we both have a lot of opportunity with the AI coming into premium smartphones. Thank you.

Ross Seymore - *Deutsche Bank - Analyst*

Thanks, Cristiano. I guess my follow up for Akash. One, in the answer to your prior question, you said that your year-over-year growth in December would be about the same as it was last December. Just a clarification, was that just for QCT?

And then I guess my bigger picture question, how should we think about gross margins in QCT going forward? Looks like you're implying them down a bit in the September quarter, but still flat year over year. As the diversification process happens, automotive, PCs, et cetera, how should we think about that line in your income statement?

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

Sure, Ross. So that comment was really focused on overall company, so not just QCT, but the overall Qualcomm metrics. From a gross margin perspective, we did slightly better than we expected, we had guided in the third quarter. And what we're doing is we're guiding fourth quarter in line with the guidance we had provided for third quarter. I think as you look forward beyond fourth quarter into fiscal '25, using fourth quarter as a way to model the going-forward path is a reasonable way of thinking about it.

Operator

Tal Liani, Bank of America.

Tal Liani - *BofA Global Research - Analyst*

Hi. Can you hear me?

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Yes, we can.

Tal Liani - *BofA Global Research - Analyst*

Okay. Perfect. Sorry. So I need help to define your addressable market in compute, meaning is it mostly about consumer laptops, enterprise? How do you envision your addressable market in the compute segment?

And the second thing is you talked a lot about AI, AI inclusion in handsets. When we talk to carriers, they seem to be far away from it in the sense that they can't find the applications yet. What do you think is going to drive the deployment? What kind of applications and what's the timing of applications that will drive the deployment of AI in handsets? Thanks.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

Hello, Tal. This is Cristiano. Thank you for your question. Let me take the first one.

You should think about addressable market the following way. First of all, it's Windows 11, addressable market. We're very focused right now on laptops, whether it's commercial laptops for enterprise, consumer laptops. We're ranging price points, I think, especially as we talked in the prepared remarks, extending the road map from \$700 and above.

And what is defined as AI PC, a metric that I can provide to you. And I think there has been a number of OEMs indicating their respective views, but we forecast about 50% of our computers sold in 2027 will be AI PCs. That's one way to think about it. And we continue to basically see the transition of -- as upgrades are happening to Windows 11 and Copilot+ PCs, an opportunity for us to participate with a highly differentiated solution.

I think your second question --

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

It was on AI applications.

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

It was about AI applications for devices. So here's how you should think about it. AI is going to do on phones, whether you're going to text, whether you're going to talk, whether you're going to touch, it's going to be a very important part of the human-computer interface. And this is going to start to change a lot of the user experience on apps. It's less of a carrier conversation. It's really more of an application conversation.

And those are going to start to change a lot of the use cases of existing apps or you're going to start to see as we see the development of new agents that become more relevant. For example, if you are like me, a user of WhatsApp, you're going to see the ability within WhatsApp for you to search with Llama, for you to do different things with their model. And eventually, a lot of their models are going to have multiple functionality across multiple apps.

The way to measure this is the number of use cases. And we're -- as I said before, we're actually very happy with the trajectory. I'd like to compare what happened with the smartphone. When the smartphone -- first, there were like 10 apps and then became 100 apps and became 1,000 of apps, became hundreds of thousands of apps, and then it became very clear what was happening.

I think we look at a little bit the same way. We're in the beginning, but we like the number of use cases increasing, and that's going to drive a lot more AI NPU performance in the silicon and hopefully continue to expand the premium and the high tier. Thank you.

Operator

Tom O'Malley, Barclays.

Tom O'Malley - Barclays - Analyst

Hey, guys. Thanks for sneaking me in. I have one for Cristiano and one for Akash. Just very recently here, obviously, in the quarter, there's a huge step-up in the auto portfolio, and I think you guys did a good job of kind of describing what drove that. But you've also, in your deck and in your commentary, talked more about AI PC being a driver.

Cristiano, if you look at the next 12 months, you hosted an Auto Analyst Day and you talked about the opportunity being back-end loaded, and I think the end date was kind of the late 2020s. But if you look at the next 12 months, what opportunity do you think is more exciting to you, the automotive side or the IoT in terms of revenue growth? Obviously, the buckets are different sizes, but I'm just breaking those two out as to what can drive some growth there.

And then on Akash's side, if you look into Q4, you obviously have an extra week there, but you are seeing OpEx step down. Could you just walk through the moving parts that are expected to be up a little bit just given the extra week? Thanks for all that. Appreciate it, guys.

Cristiano Amon - Qualcomm Inc - President & Chief Executive Officer

Thank you, Tom. Actually, I appreciate the question. I really like the question. It gave me an opportunity to explain this. You should think of Qualcomm, we're not just trying to build one big business of differentiation. Actually, we're building a number of business -- I'm sorry, of diversification. We're really focused on this.

And when we talk about Auto Investor Day, that was actually in the September 2022, we kind of outline how that is going to be turning into a big platform for Qualcomm and building into the financials. And then hopefully, you can see now, especially with this quarter, how that's materializing.

And that will continue. That's not going away. We expect -- given the size of our pipeline, we talk about \$4 billion in '26. We talk about \$9 billion towards the end of the decade. We're on track to do that.

But the second one is PCs. And as we get -- it's early. As I said, we're very happy. It's exceeding our expectations. Some models sold out. We just launched.

I think when we get to the Investor Day, we probably will feel comfortable putting a metric out there of what that's going to represent and how that's going to grow over time when we think about the total contribution to Qualcomm. That's one they're very excited. But we don't stop there.

The next one, and I encourage you, auto. So what we're going to do next quarter, I think AI and computing, it's driving the industrial road map towards Qualcomm. So we're completely redesigning our industrial roadmap, and we're going to unveil that road map in the coming months. So we think about this as there are many markets that can benefit from technology. We're super focused on growth and diversification, and it's about a number of bets, not just one bet. Thank you.

Akash Palkhiwala - *Qualcomm Inc - Chief Financial Officer & Chief Operating Officer*

And Tom, on your second question on OpEx, we had some non-labor material-related spend and tape-out related spend in the third quarter, which is why third-quarter OpEx was higher and it goes down into the fourth quarter despite the extra week. And so it's just timing of non-labor spend that drove it.

But fundamentally, no change in the way we are managing OpEx. We're very committed to operating discipline and hiring. Even when we do it, it is very focused on specific new skills that are required for diversification. So you won't see a difference in the way we are managing the OpEx for the company.

Operator

Thank you. That concludes today's question-and-answer session. Mr. Amon, do you have anything further to add before adjourning the call?

Cristiano Amon - *Qualcomm Inc - President & Chief Executive Officer*

No, I just want to just quickly thank all of our partners, our suppliers, our employees for great job on the PC execution. I think we're very proud of what we accomplished. We will continue to drive AI across each one of our businesses. We feel we have a very unique position in the ability to run AI at the Edge.

We're very happy with the automotive traction, and we're actually looking forward to the next generation of products launching coming months, as I said, hopefully creating a new vector for growth of the company in the future in industrial IoT. Thank you very much.

Operator

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

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