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# INSIDE QUALCOMM'S FISCAL Q4 2023 EARNINGS

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STEVE MCDOWELL, CHIEF ANALYST  
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## BACKGROUND

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Qualcomm (QCOM) this week released its fiscal Q4 2023 earnings. The company's CEO, Cristiano Amon, highlighted key achievements and strategic initiatives, including advances in generative AI, expansion into the PC market, developments in augmented reality (AR) and virtual reality (VR), and its growing presence in networking and automotive sectors.

In this research note, we provide an overview of Qualcomm's key announcements and financial performance during the quarter, along with NAND Research's analysis of Qualcomm's performance and outlook.

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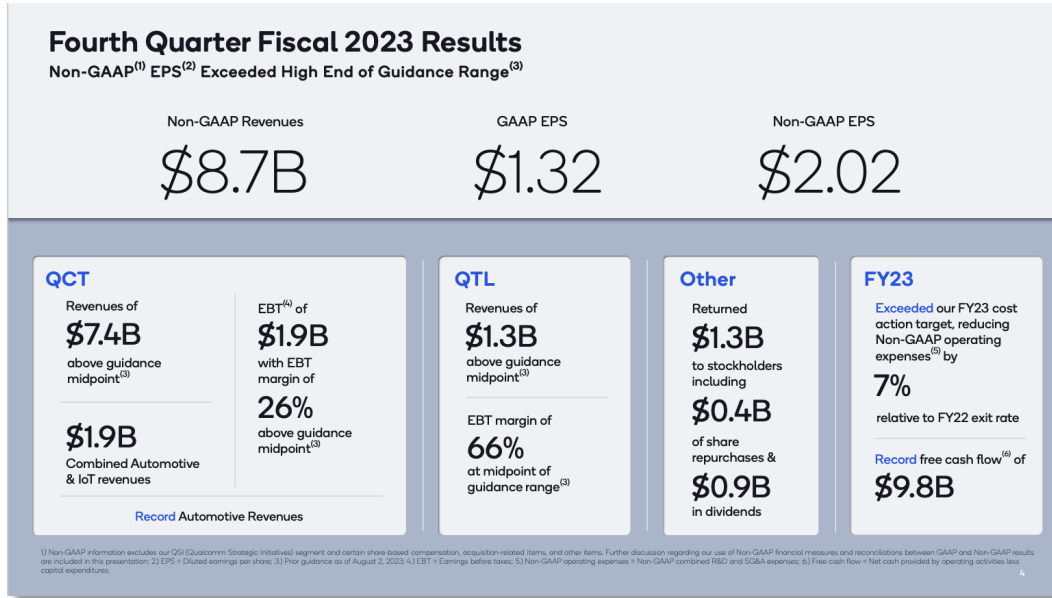
## FINANCIALS

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In its fiscal fourth quarter, Qualcomm reported robust financial performance. They achieved non-GAAP revenues of \$8.7 billion, surpassing their guidance, and non-GAAP earnings per share (EPS) of \$2.02, which exceeded the high end of their expectations.

Its chipset business contributed \$7.4 billion in revenues, indicating a stable Android handset market, while licensing business revenues reached \$1.3 billion.

Qualcomm also effectively managed its operational expenses, which decreased by 1% sequentially to \$2.2 billion.



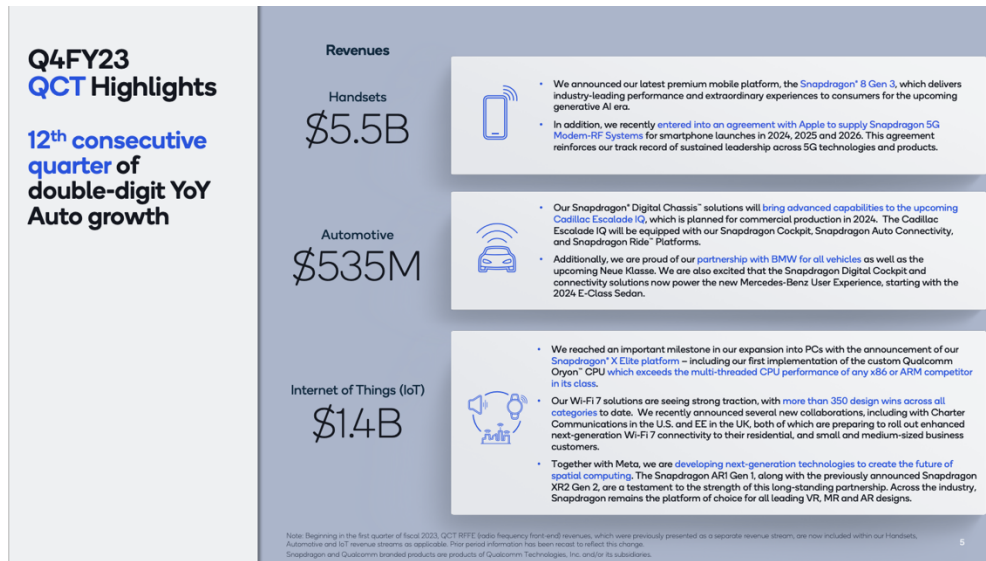
Qualcomm Earnings Overview (source: Qualcomm)

The company's performance can be summarized:

- Non-GAAP revenues reached \$8.7 billion, exceeding expectations, and indicating strong performance.
- Non-GAAP earnings per share (EPS) were \$2.02, surpassing the high end of their guidance, showcasing profitability.
- Chipset business revenues of \$7.4 billion reflected a stable Android handset market.
- Licensing business revenues stood at \$1.3 billion, contributing to overall revenue performance.
- Operating expenses decreased by 1% sequentially to \$2.2 billion, demonstrating improved operational efficiency.
- The company generated a strong free cash flow of \$9.8 billion during the fiscal year, showcasing financial strength.
- Qualcomm's balance sheet remained solid with \$11.3 billion in cash and marketable securities, ensuring financial stability.

Overall, the company's Q4 results demonstrated strong financial health and a solid foundation for future growth and diversification opportunities.

## MOMENTUM



Qualcomm Segment Momentum (source: Qualcomm)

A significant focus of Qualcomm’s earnings presentation was on the emergence of generative AI, both on-device and in the cloud, which promises to revolutionize user experiences. The company positioned itself as a leader in on-device Gen AI, spanning smartphones, laptops, extended reality (XR), and automotive applications.

Amon emphasized the potential for on-device AI to transform user interactions, enhancing immediacy, privacy, and security, while also highlighting their Snapdragon platform's differentiation, increased AI processing power, and collaboration with partners to run consumer and productivity-based AI models natively.

Earlier this quarter, Qualcomm unveiled its new Snapdragon X Elite platform for PCs as a major milestone, designed for superior performance and power efficiency. It features the custom Oryon CPU, rivaling x86 and ARM competitors in multi-threaded and single-threaded CPU performance. Additionally, the platform boasts the Adreno GPU, offering twice the performance of competitors at ISO power.

Its Hexagon NPU with 45 TOPS of performance enables on-device Gen AI models with over 13 billion parameters. Microsoft's AI Copilot is expected to redefine the Windows experience, and QUALCOMM aims to launch PCs powered by Snapdragon X Elite in mid-2024.

Another highlight was Qualcomm’s entry into smart glasses with the Snapdragon AR1 platform, developed in collaboration with Meta for Ray-Ban Meta smart glasses. The platform integrates dual ISPs for premium photos and videos and on-device AI for various functions like image enhancement, real-time translation, and visual search. The company remains a preferred choice for VR, MR, and AR designs across the industry.

In networking, Qualcomm continued to innovate in WiFi 7 solutions and collaborations with Charter Communications and EE to introduce WiFi 7 connectivity. The Fiber Gateway platform was launched, adding 10 gigabit Passive Optical Network capabilities to their portfolio. Their service-defined WiFi technology offers unified data flow management for home networks.

Automotive also remains a key focus for Qualcomm, as digital transformation drives advancements in computing, connectivity, and user experiences. The Snapdragon Digital Chassis plays a central role in this transformation, with partnerships with Cadillac, BMW, and Mercedes-Benz, among others.

The company expanded its offerings for 2-wheelers and other vehicle classes, collaborating with Gogoro and Harley-Davidson, and announced a long-term relationship with Amazon Web Services to integrate cloud technologies into vehicle development.

Finally, in handsets, Qualcomm introduced the Snapdragon 8 Gen 3, delivering industry-leading performance and features for the Gen AI era, including AI-powered cameras, console-level gaming, studio-quality audio, and unmatched connectivity.

Qualcomm also secured an agreement with Apple to supply Snapdragon 5G Modem-RF systems for smartphone launches through 2026, reaffirming their leadership in 5G technologies and products. The presentation concluded with strong optimism for Qualcomm's technology roadmap, growth prospects, and ongoing commitment to shareholder returns and operational excellence.

## OUTLOOK

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Qualcomm provided solid outlook for the coming quarter:

- The company anticipates that demand for global 3G, 4G, and 5G handsets will stabilize, with estimated calendar '23 handset shipments expected to decrease in the mid- to high single-digit percentage compared to calendar '22.
- For the first fiscal quarter of '24, Qualcomm forecasts revenues in the range of \$9.1 billion to \$9.9 billion.
- The company expects non-GAAP earnings per share (EPS) to be in the range of \$2.25 to \$2.45 for the same quarter.
- In QTL (Qualcomm Technology Licensing), revenues are estimated to be between \$1.3 billion to \$1.5 billion, with EBT (Earnings Before Tax) margins expected to range from 70% to 74%.
- In QCT (Qualcomm CDMA Technologies), revenues are projected to fall between \$7.7 billion to \$8.3 billion, with EBT margins anticipated to be in the range of 26% to 28%.

- The forecast includes expectations of double-digit percentage growth in QCT handset revenues on a sequential basis, driven by increased demand and flagship launches.

Overall, Qualcomm is encouraged by signs of demand stabilization in handsets and believes it is well-positioned for growth opportunities in various revenue streams.

## ANALYSIS

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Qualcomm's fiscal fourth-quarter earnings report underscores its strong performance and strategic positioning in various technology sectors. The company's revenue of \$8.7 billion, coupled with non-GAAP earnings per share of \$2.02, exceeded the high end of expectations.

A significant contributor to this success was the stability in the Android handset market, with \$7.4 billion in revenue from the chipset business. Additionally, licensing business revenues of \$1.3 billion further reinforced Qualcomm diversified revenue streams. This financial performance reflects the company's resilience and adaptability in a rapidly evolving tech landscape.

One of the standout highlights from the earnings call was Qualcomm's focus on generative AI, both on-device and in the cloud. The Snapdragon platform's enhanced AI processing capabilities, including a powerful NPU, CPU, and GPU, position the company at the forefront of AI innovation.

The Snapdragon X Elite platform, slated for mid-2024, promises to redefine the PC market with its impressive performance and power efficiency, potentially setting new standards for intelligent computing. Moreover, the foray into AR, particularly through the Snapdragon AR1 platform for smart glasses, underscores Qualcomm's commitment to shaping the future of spatial computing and its collaborative efforts with industry leaders like Meta.

Furthermore, the company's continued growth in automotive, networking, and its strategic partnership with Amazon Web Services (AWS) for cloud integration in the automotive sector showcase Qualcomm's pursuit of emerging opportunities.

With strong momentum in the automotive sector, digital transformation within vehicles, and the potential for over-the-air updates and digital services, Qualcomm is positioning itself as a key player in the software-defined mobility space.

Overall, Qualcomm's fiscal fourth-quarter performance reflects its commitment to innovation, diversification, and its readiness to capitalize on transformative technology trends in the years ahead.

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