



# Qualcomm Inc (QCOM)

Updated November 7<sup>th</sup>, 2019 by Nate Parsh

## Key Metrics

<b>Current Price:</b>	\$90	<b>5 Year CAGR Estimate:</b>	2.9%	<b>Volatility Percentile:</b>	95.9%
<b>Fair Value Price:</b>	\$64	<b>5 Year Growth Estimate:</b>	6.6%	<b>Momentum Percentile:</b>	96.9%
<b>% Fair Value:</b>	140%	<b>5 Year Valuation Multiple Estimate:</b>	-6.5%	<b>Growth Percentile:</b>	71.0%
<b>Dividend Yield:</b>	2.8%	<b>5 Year Price Target</b>	\$89	<b>Valuation Percentile:</b>	14.3%
<b>Dividend Risk Score:</b>	D	<b>Retirement Suitability Score:</b>	D	<b>Total Return Percentile:</b>	20.8%

## Overview & Current Events

“Quality Communications” was started in the living room of Dr. Irwin Jacobs in 1985. The company’s first product and service was a satellite used by long-haul trucking companies that could locate and message drivers. Qualcomm, as it is known today, develops and sells integrated circuits for use in voice and data communications. The chip maker receives royalty payments for its patents used in devices that are on 3G and 4G networks. Qualcomm has a current market capitalization of \$103 billion and generated sales of more than \$22 billion in fiscal 2018.

On 5/22/2018, a U.S. District Judge ruled that Qualcomm’s business practices had violated antitrust law. The decision would force the company to renegotiate its licensing agreements with customers. This ruling would also prevent the company from signing exclusive supply agreements with smartphone makers. Qualcomm has appealed the decision.

On 4/16/2019, Qualcomm and Apple (AAPL) agreed to settle all disputes, dismissing all litigation between the two companies. Qualcomm recognized \$4.7 billion in licensing revenue in the third quarter of fiscal 2019 related to its settlement with Apple. The two companies have a six-year license agreement with options to add two additional years.

Qualcomm reported earnings results for the fourth quarter of fiscal 2019 on 11/6/2019. The company earned \$0.78 per share, topping estimates by \$0.07, but declining 13.3% from the previous year. Revenue declined 17.6% to \$4.8 billion, though this was \$90 million higher than expected. For the fiscal year, earnings-per-share declined 2.7% to \$3.59, but was \$0.12 above updated guidance from the last quarter.

Revenues for Qualcomm CDMA Technologies, or QCT, declined 22% to \$3.6 billion, but improved 1% sequentially. Chip shipments were down 34% year-over-year, while total shipments dropped 3% from the previous quarter. Qualcomm Technology Licensing, or QTL, revenues for the quarter were up 4% to \$3.6 billion, but down 10% from Q3 Fiscal 2019. Qualcomm retired \$706 million worth of stock during the quarter and has \$7.1 billion remaining on its \$30 billion stock repurchase authorization. Qualcomm should benefit from 5G rollout. The company signed several agreements during the fiscal year that should allow it to take a leadership position with 5G. Shares ended the trading session up more than 6% following the earnings release. Analysts expect Qualcomm to earn \$4.13 in fiscal 2020. Achieving this target would result in a 15% improvement from fiscal 2019.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$2.46	\$3.20	\$3.71	\$4.51	\$5.27	\$4.66	\$4.44	\$4.28	\$3.69	\$3.59	<b>\$4.13</b>	<b>\$5.69</b>
<b>DPS</b>	\$0.72	\$0.81	\$0.93	\$1.20	\$1.54	\$1.80	\$2.02	\$2.20	\$2.43	\$2.48	<b>\$2.48</b>	<b>\$3.41</b>
<b>Shares<sup>1</sup></b>	1612	1681	1706	1685	1669	1524	1476	1474	1470	1470	<b>1190</b>	<b>1150</b>

Qualcomm’s earnings-per-share declined almost 16% during the last recession. The company has grown earnings-per-share at a rate of 6.6% per year over the last decade. An agreement with Apple, a lower share count and leadership in

<sup>1</sup> Share count in millions

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5G should allow the company to grow earnings-per-share by at least 6.6% through 2025. Applying the expected growth rate to our guidance for fiscal 2020 of \$4.13, Qualcomm could earn \$5.54 by fiscal 2025.

Qualcomm has increased its dividend for 16 consecutive years, while the average raise over the past five years is 9.6%.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	16.5	16.4	15.9	14.2	14.3	14.5	12.1	13.7	17.7	21.2	<b>21.8</b>	<b>15.6</b>
Avg. Yld.	1.8%	1.5%	1.6%	1.9%	2.0%	2.7%	3.8%	3.8%	3.9%	3.3%	<b>2.8%</b>	<b>3.8%</b>

Shares of Qualcomm have increased \$19, or 27%, since our 8/8/2019 report. Based off of the updated earnings forecast for fiscal 2025, the stock trades with a price-to-earnings ratio of 21.8. Qualcomm's stock had an average price-to-earnings ratio of 15.6 from 2009 through 2018. Due to the dispute resolution with Apple, we have increased our 2025 valuation target to 15.6 from 14 previously. If the stock were to revert to our new P/E target by 2025, valuation would be a 6.5% headwind to annual returns over this time period.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

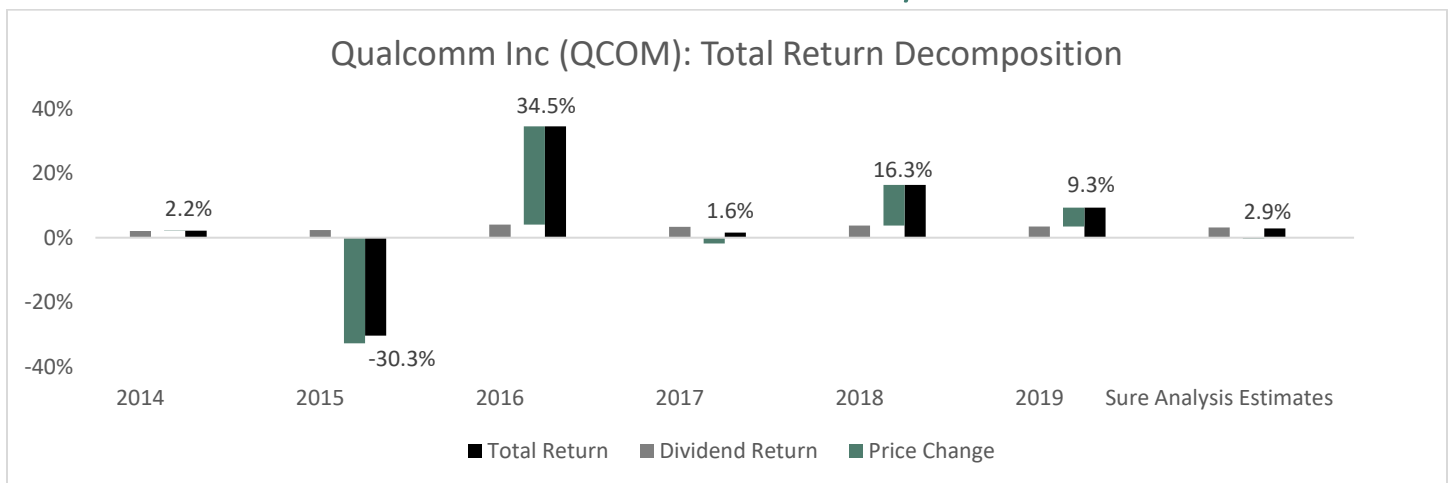
Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	29%	25%	25%	27%	29%	39%	46%	51%	67%	69%	<b>60%</b>	<b>60%</b>

Qualcomm earnings declined during the last recession, and would likely do so in the event of the next one. While handheld devices have become a necessity amongst consumers, the company would likely see a decline in earnings-per-share due to their high costs. The components that Qualcomm produces are considered to be the best available, so phone makers will likely continue using the company's products in future iterations of their devices. This is especially true as 5G launches occur.

## Final Thoughts & Recommendation

Shares of Qualcomm are up almost 57% since the beginning of 2019. This has removed much our expected total returns. Qualcomm is now expected to offer a total annual return of 2.9% through 2025, down from our previous estimate of 4.8%. The company's agreement with Apple has been the primary driver of this growth. We have increased our 2025 target price \$3 to \$89, but note that the stock trades above this level. Due to low expected total returns from an elevated valuation, Qualcomm now receives a sell recommendation from Sure Dividend.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	10982	14957	19121	24866	26487	25281	23554	22258	22611	24273
<b>Gross Profit</b>	7681	10080	12025	15046	15801	14903	13805	12466	12367	15674
<b>Gross Margin</b>	69.9%	67.4%	62.9%	60.5%	59.7%	58.9%	58.6%	56.0%	54.7%	64.6%
<b>SG&amp;A Exp.</b>	1503	1945	2270	2518	2290	2344	2385	2658	2986	2195
<b>D&amp;A Exp.</b>	666	1061	897	1017	1150	1214	1428	1461	1561	1401
<b>Operating Profit</b>	3727	5026	5682	7230	7550	5776	6495	2581	621	7667
<b>Op. Margin</b>	33.9%	33.6%	29.7%	29.1%	28.5%	22.8%	27.6%	11.6%	2.7%	31.6%
<b>Net Profit</b>	3247	4260	6109	6853	7967	5271	5705	2445	-4964	4386
<b>Net Margin</b>	29.6%	28.5%	31.9%	27.6%	30.1%	20.8%	24.2%	11.0%	-22.0%	18.1%
<b>Free Cash Flow</b>	2586	4307	4714	7730	7702	4512	7093	4311	3124	6399
<b>Income Tax</b>	973	1132	1279	1349	1244	1219	1131	543	5356	3095

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	30572	36422	43012	45516	48574	50796	52359	65486	32718	32957
<b>Cash &amp; Equivalents</b>	3547	5462	3807	6142	7907	7560	5946	35029	11777	11839
<b>Acc. Receivable</b>	730	951	1418	2066	2362	1941	2194	3576	2667	1046
<b>Inventories</b>	528	765	1030	1302	1458	1492	1556	2035	1693	1400
<b>Goodwill &amp; Int.</b>	4510	6531	6855	6529	7068	9221	9179	10360	9453	8454
<b>Total Liabilities</b>	9714	9450	9467	9429	9408	19382	20591	34740	31911	28048
<b>Accounts Payable</b>	1014	969	1298	1554	2183	1300	1858	1971	1825	1368
<b>Long-Term Debt</b>	1086	994	0	0	0	10969	11757	21893	16370	15933
<b>Total Equity</b>	20858	26951	33523	36088	39169	31421	31778	30746	807	4909
<b>D/E Ratio</b>	0.05	0.04	0.00	0.00	0.00	0.35	0.37	0.71	20.29	3.25

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	11.2%	12.7%	15.4%	15.5%	16.9%	10.6%	11.1%	4.1%	-10.1%	13.4%
<b>Return on Equity</b>	15.8%	17.8%	20.2%	19.7%	21.2%	14.9%	18.1%	7.8%	-31.5%	153.5%
<b>ROIC</b>	15.4%	17.1%	19.9%	19.7%	21.2%	12.9%	13.3%	5.1%	-14.2%	23.1%
<b>Shares Out.</b>	1612	1681	1706	1685	1669	1524	1476	1474	1470	1470
<b>Revenue/Share</b>	6.62	8.85	10.98	14.18	15.45	15.42	15.72	14.94	15.46	19.90
<b>FCF/Share</b>	1.56	2.55	2.71	4.41	4.49	2.75	4.74	2.89	2.14	5.25

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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