

The image features the Qualcomm logo in a bold, black, sans-serif font, centered against a dark blue background. A bright, vertical lens flare effect emanates from behind the logo, creating a glowing blue and white light that spreads outwards. The overall aesthetic is high-tech and futuristic.

QUALCOMM

The Bad Assets



Company Overview

Ticker: QCOM

Recent Price: \$53.30

Incorporated: 1985

Headquarters: San Diego, CA

Market Cap: 95.4 B

Enterprise Value: 85 B

Return on Equity: 18.4%

Return on Capital: 14.2%

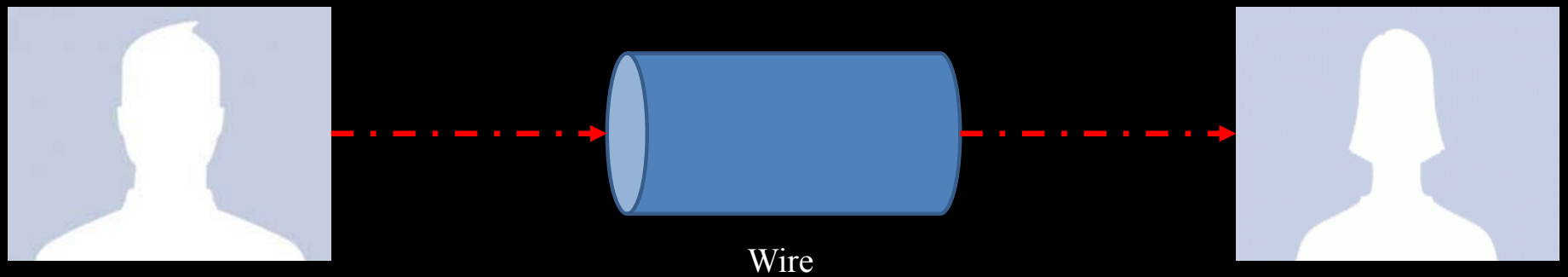
Return on Assets: 11.7%

P/E (TTM): 14



History of Multiple Access

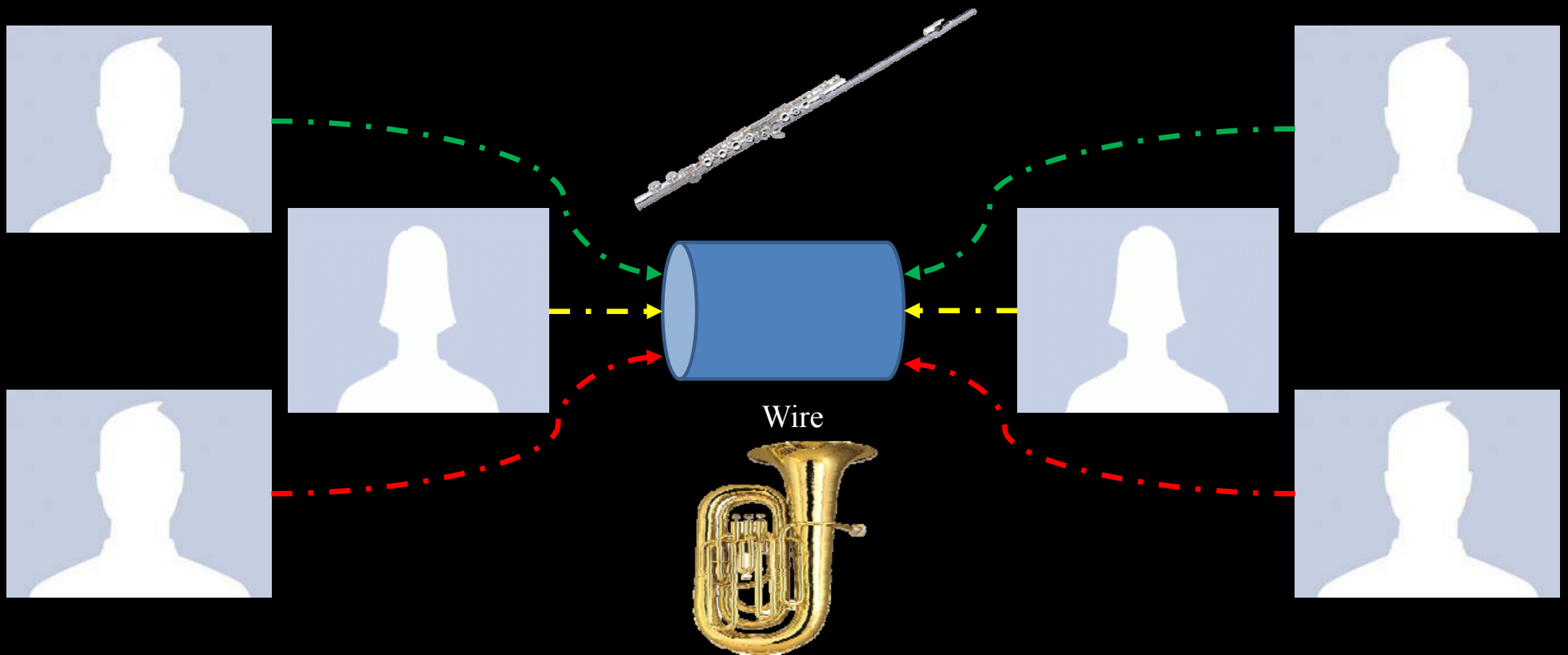
1800s: Morse Telegraph





History of Multiple Access

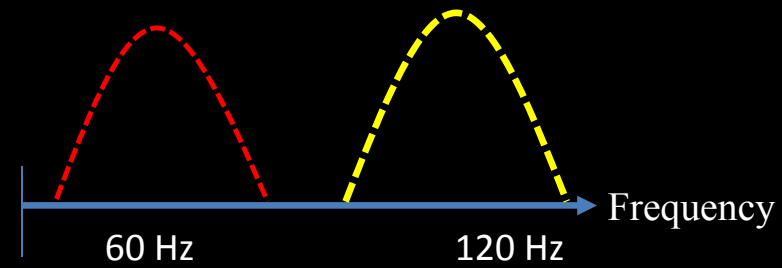
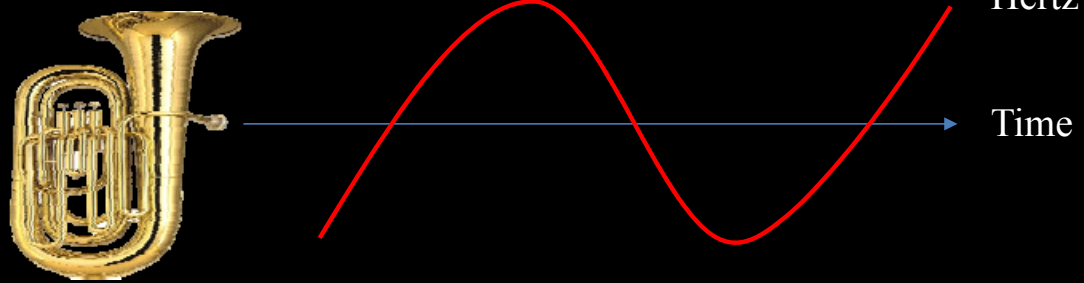
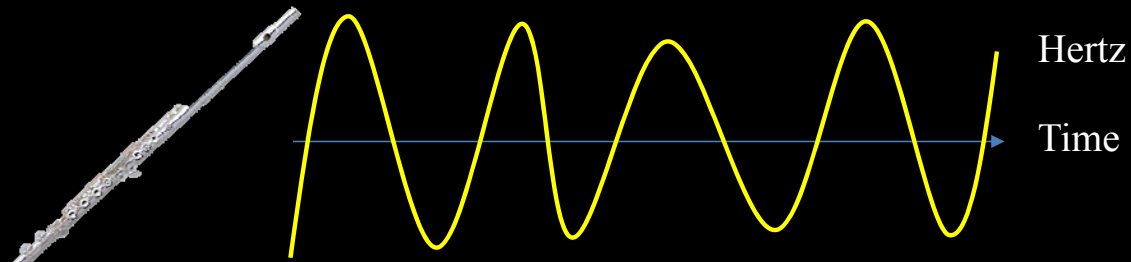
1860s: Bell Multiple Telegraph





History of Multiple Access

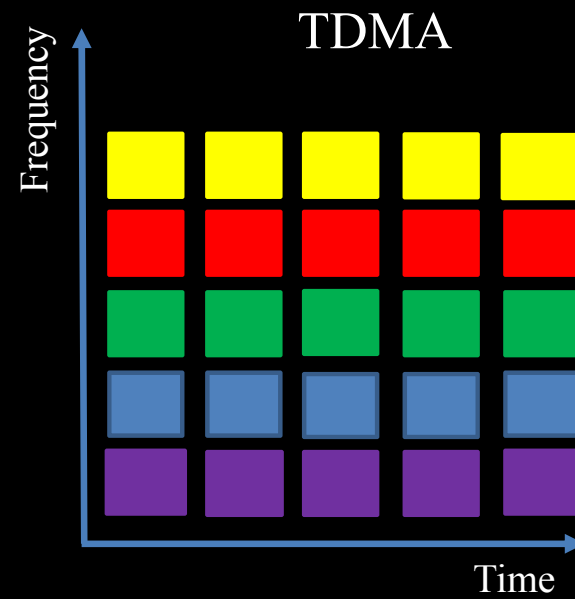
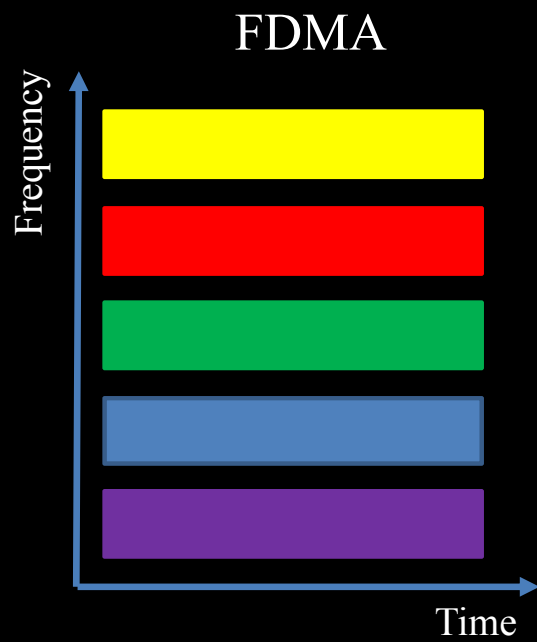
1G - Frequency Division Multiple Access (FDMA)





History of Multiple Access

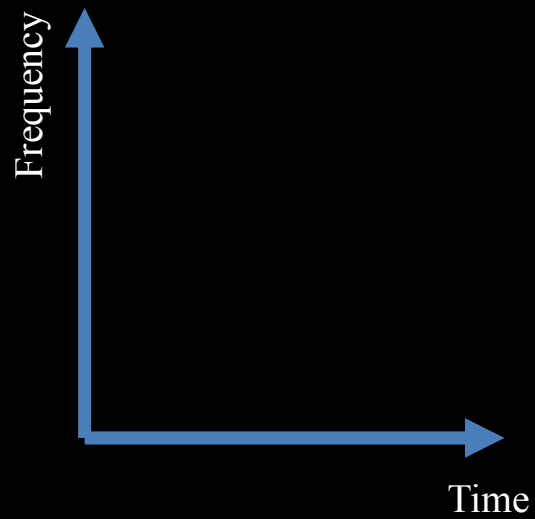
2G - 1982: Time Division Multiple Access (TDMA)





History of Multiple Access

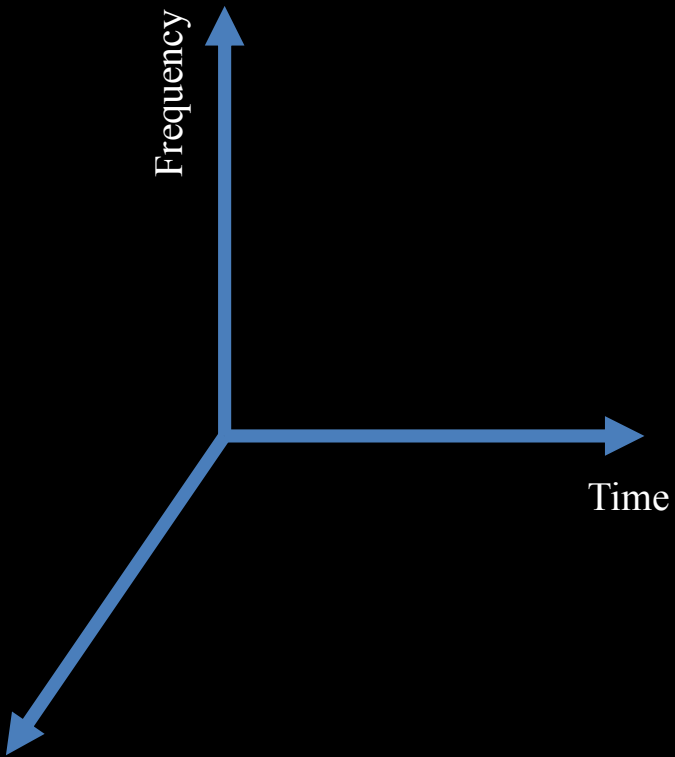
2G/3G/4G – 1987: Code Division Multiple Access (CDMA)





History of Multiple Access

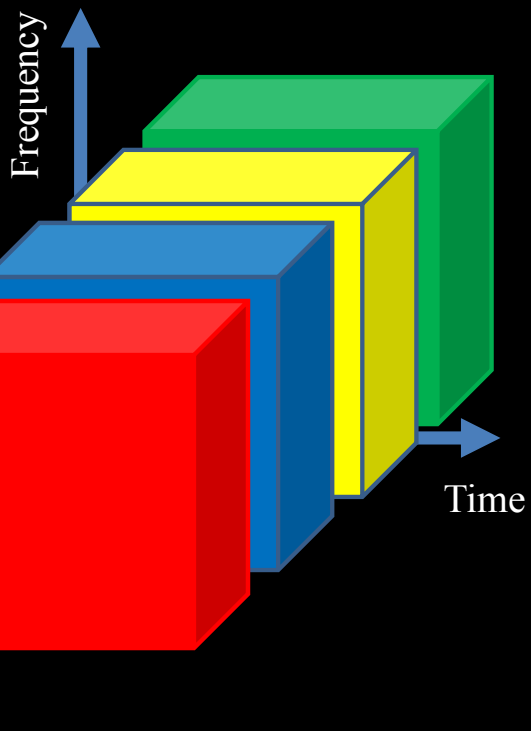
2G/3G/4G – 1987: Code Division Multiple Access (CDMA)





History of Multiple Access

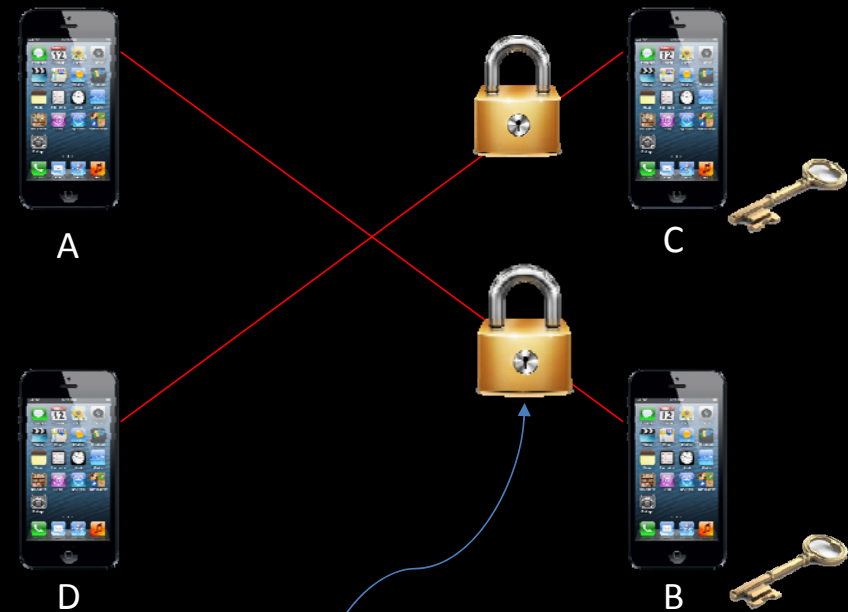
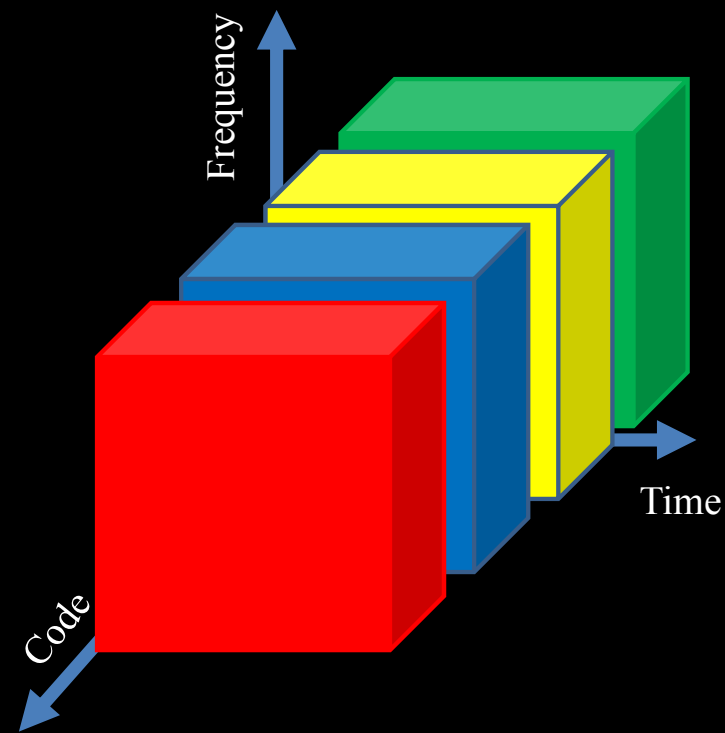
2G/3G/4G – 1987: Code Division Multiple Access (CDMA)





History of Multiple Access

2G/3G/4G – 1987: Code Division Multiple Access (CDMA)



Orthogonal-Frequency Division Multiple Access



History

1985 – “Quality Communications” (Qualcomm) is founded

1989 – CDMA is proven during San Diego convention

1991 – Qualcomm goes public

1993 – CDMA is made an industry standard

1998 – Qualcomm unveils world’s first CDMA smartphone

1999 – Qualcomm joins the S&P 500 and the Fortune 500

History



- 2000 – Qualcomm releases first multimedia CDMA chipset
- 2003 – Qualcomm spearheads the evolution of wireless broadband
- 2007 – Qualcomm named the world's leading mobile chipset provider
- 2010 – 3G connections surpass 1 billion users
- 2011 – Qualcomm acquires Atheros
- 2013 – Qualcomm powers the world's first LTE Smartphone



Business Overview

Leader in development and commercialization of CDMA

- Coded Division Multiple Access

Owner of several substantial intellectual property rights

- Coded Division Multiple Access (CDMA)
- Time Division Multiple Access (TDMA)
- Orthogonal Frequency - Division Multiple Access (OFDMA)

Manufacturer and developer of industry standards

Manufactures chips and system software



Business Segments

Qualcomm CDMA Technologies (QCT)

- Voice and Data Communications
- Networking
- Application Processing
- Multimedia
- Global Positioning Systems

Qualcomm Technology Licensing (QTL)

- Grants licenses and rights to use portfolio of intellectual property
- Licensees pay QCOM fees and royalties for use of intellectual property



How Qualcomm Makes Money



QCT is responsible for manufacturing and developing software

QTL collects royalties and fees on intellectual rights

9 Key Business Applications of QCT



Automotive

Healthcare

Education

Mobile Computing

Networking

Smart Cities

Smart Homes

Wearables

Internet of Everything



How Qualcomm Collects Money

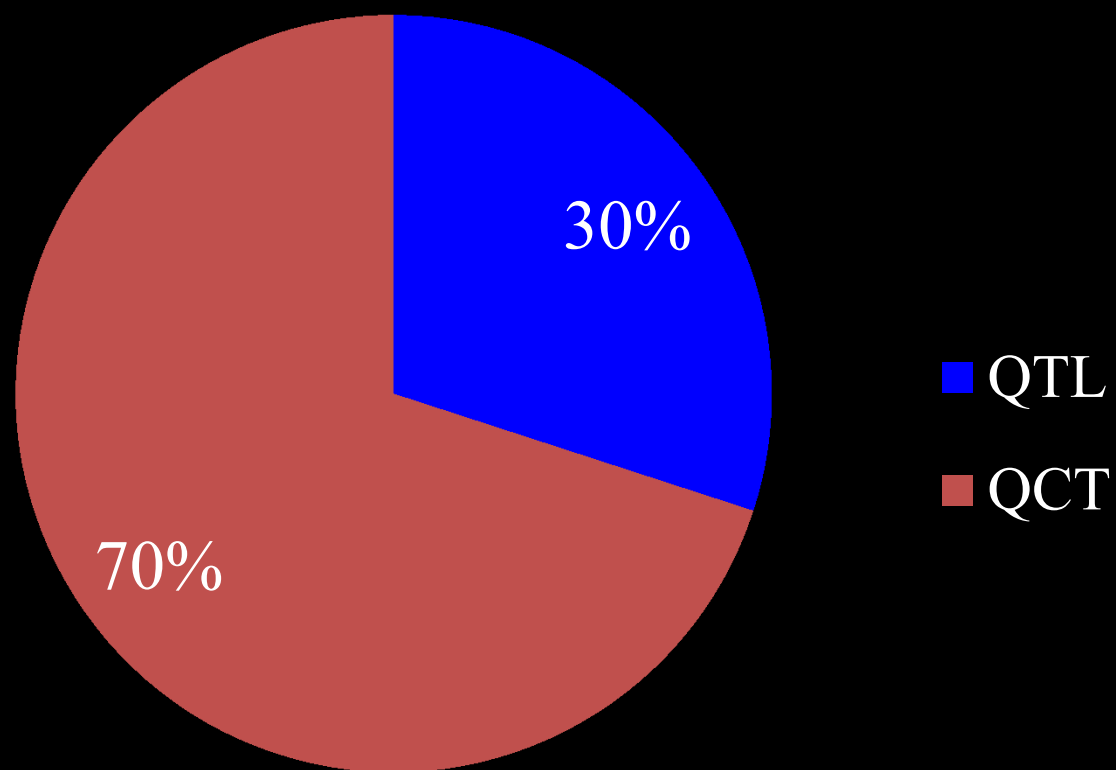


Smartphones cannot use modern networks without paying QTL
Qualcomm is essentially a “highway system” with tolls





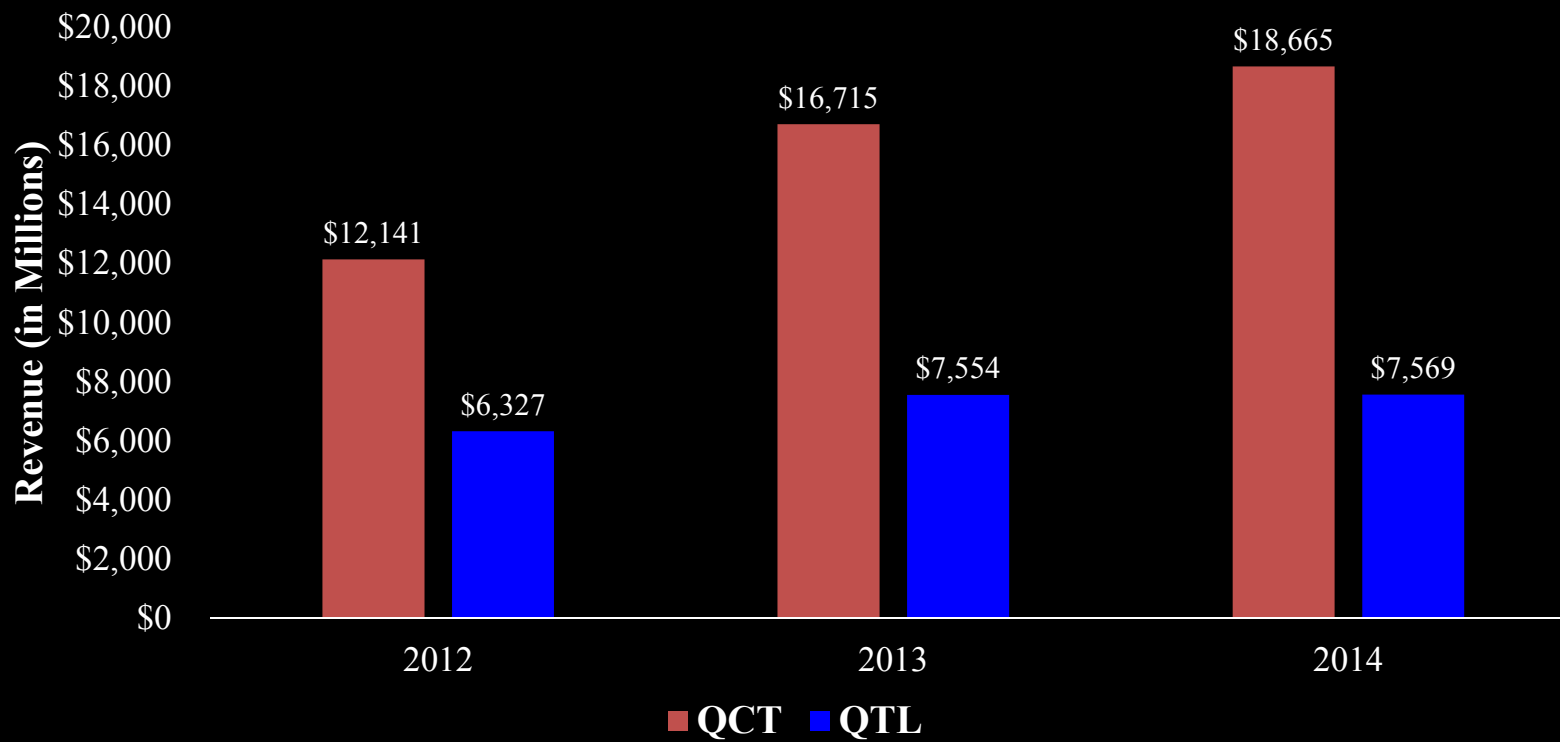
Percent of Total Revenues



Source: Qualcomm 10-K Filing



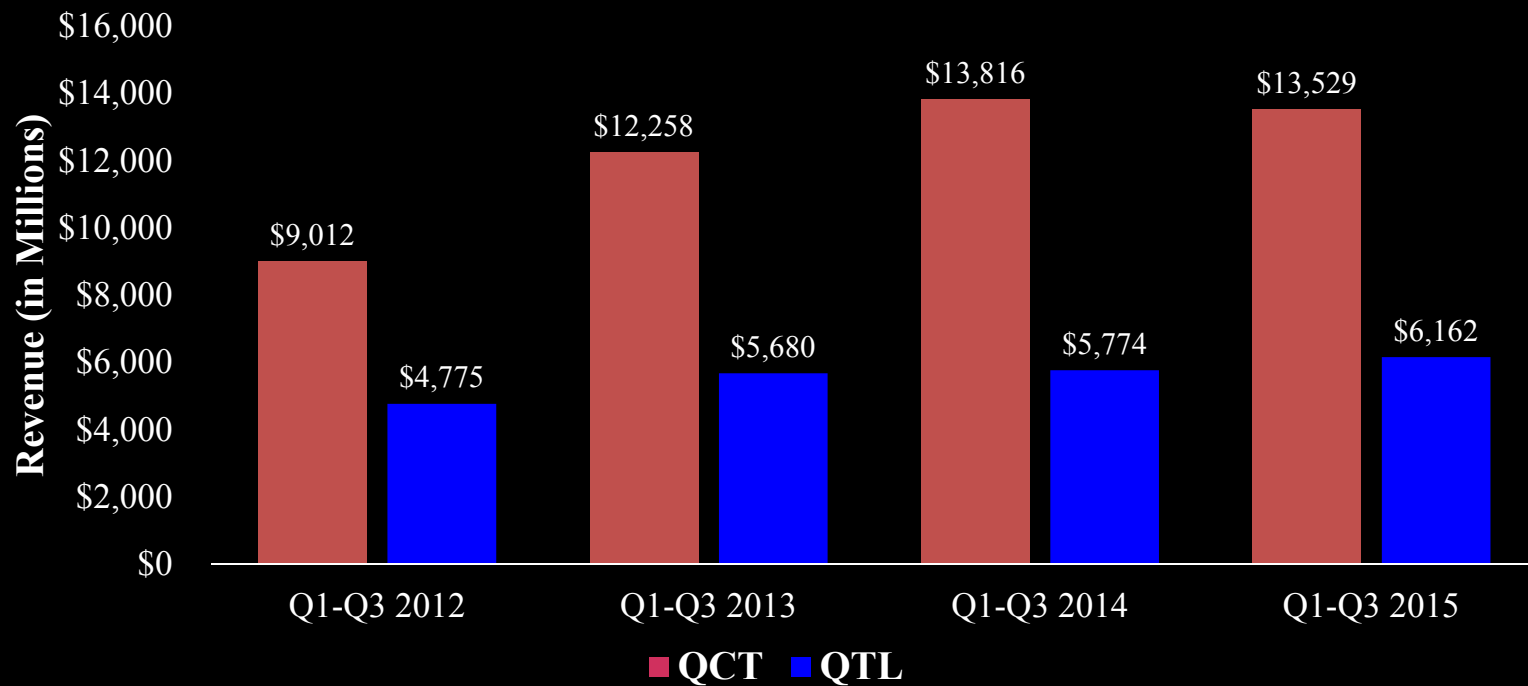
Revenue by Segment



Source: Qualcomm 10-K Filing



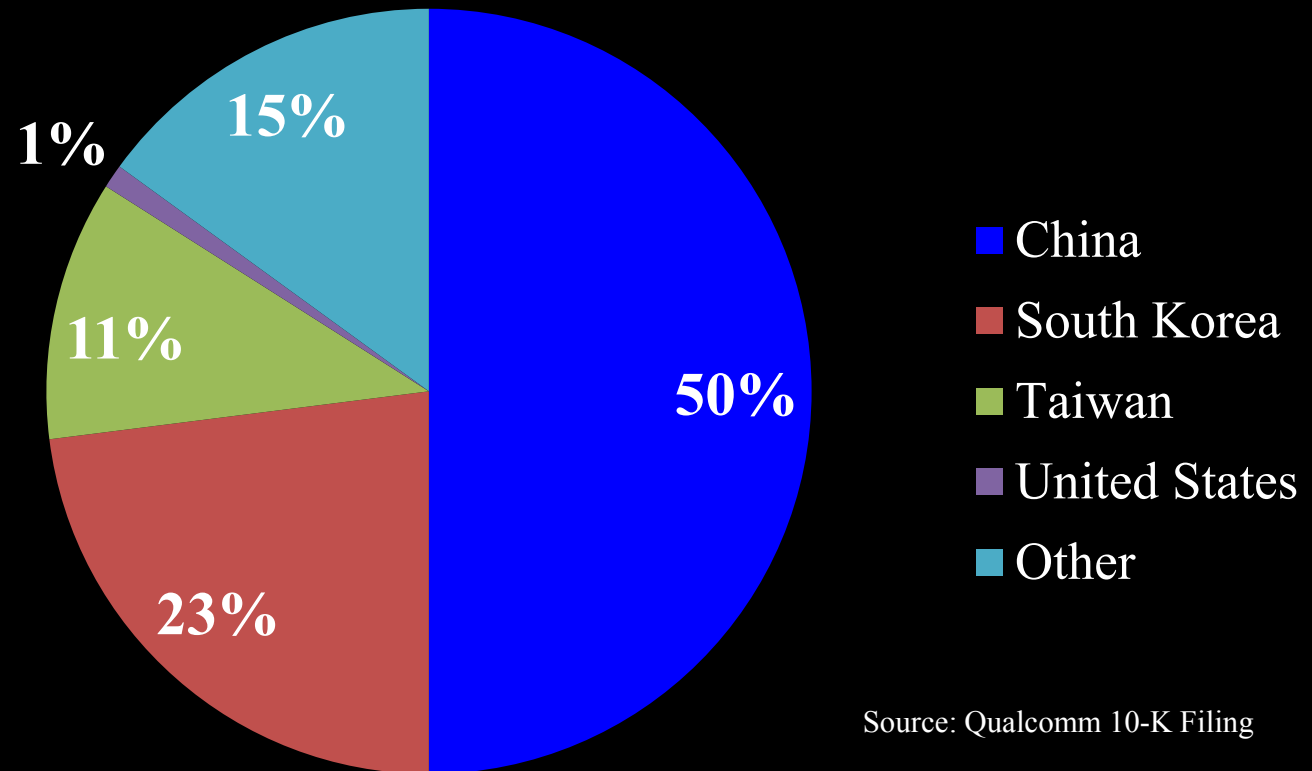
9 Month Revenues by Segment



Sources: Qualcomm Q3 2015, 2014, 2013, 2012 Reports



Percent of Revenue by Location



Source: Qualcomm 10-K Filing

Employees



31,300 Employees

40 Countries

Highly Educated & Skilled

120 Different Nationalities

New Board Members





Identifying the Moat

Monopoly like business

Ability to charge fees and royalties on property rights

CDMA is an industry standard

Growing market for wireless connectivity

Biggest spender of R&D in the industry



Is There Opportunity Today?

Samsung and Q4 earnings outlook

Chinese Investigation

Trading at multi-year lows

Strong financial track record

Growing wireless markets

Strategic realignment plan

New board members

Separation of QCOM Segments??



Risks

Inability to innovate faster than the competition

Subject to tax increases

Unsecured floating rate debt

Inability to efficiently collect revenues

Key customers

Qualitative Review



Qualitative Question

What type of business is this: commodity or sustained competitive advantage?	Competitive Advantage
Can you easily explain what the business does?	Yes *sweats*
Is it heavily unionized?	No
Does it require heavy capital infusion?	No
Does it require lots of research and development?	Yes
Can inventory become obsolete?	No
Are there chronic "one time" write offs?	No
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
If I gave you \$1 billion could you develop a competitor? If the answer is "no" your business has a sustained competitive advantage.	No

In the News



Q4 Earnings

FDA Approval

Jana Partners

Steve Mollenkopf takes over as CEO

Dr. Paul E. Jacobs is named CFO

Recent Acquisitions



Cambridge Silicon Radio (CSR)

Ikanos

Capsule Technologie



Strategic Realignment Plan

Designed to:

- Improve execution
- Enhance financial performance
- Drive profitable growth
- Create sustainable long-term value for stockholders

Implementation of a cost realignment plan

- Targeted reductions that will not threaten growth
- Reduction of annual share-based compensation grants

Total restructuring costs are expected be \$350 to \$450 million



China's National Development and Reform Commission (NDRC)

Qualcomm was found guilty of violating Anti-Monopoly Law (AML)

The abuse:

- Licensing of patents
 - Non adjusting royalty rates with changing patents
 - Non disclosed list of patents in licenses sold
 - Creating cross-license agreements without offsetting the royalties charged
- Baseband chipsets
 - Requirement of licensees to sign a contract that violates the AML
 - Requirement of licensees to promise not to challenge Qualcomm's patents

China's National Development and Reform Commission (NDRC)



Qualcomm must now:

- List the patents to be licensed in the portfolios and stop licensing expired patents
- Stop bundling Standard Essential Patents (SEPs) with non-SEPS
- Change cross-licensing methods
- Stop including no-challenge clauses in supply contracts
- Pay a penalty of \$975 million

Qualcomm committed to a voluntary rectification plan



Quantitative Analysis

Interpretation of the Financial Statements



TTM	Value	Low Threshold	Pass?
Gross Profit Margin	58.96%	$\geq 20\%$	Yes
% SGA	14.29%	$\leq 80\%$	Yes
% R&D	35.17%	$\leq 10\%$	No
% Depreciation	7.58%	$\leq 10\%$	Yes
Interest % of OP	5.46%	$\leq 15\%$	Yes
Net Profit Margin	23.02%	$\geq 10\%$	Yes
Current Ratio	4.26	≥ 1	Yes
Obligation Ratio	0.00	< 5 years	Yes
Adj. Debt to Shareholder Equity	0.58	< 0.8	Yes
Return on Equity	18.38%	$\geq 15\%$	Yes
Return on Capital	14.16%	$\geq 15\%$	No
Dividend Payout Ratio	46.60%	$\leq 60\%$	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	17.12%	$\leq 25\%$	Yes
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

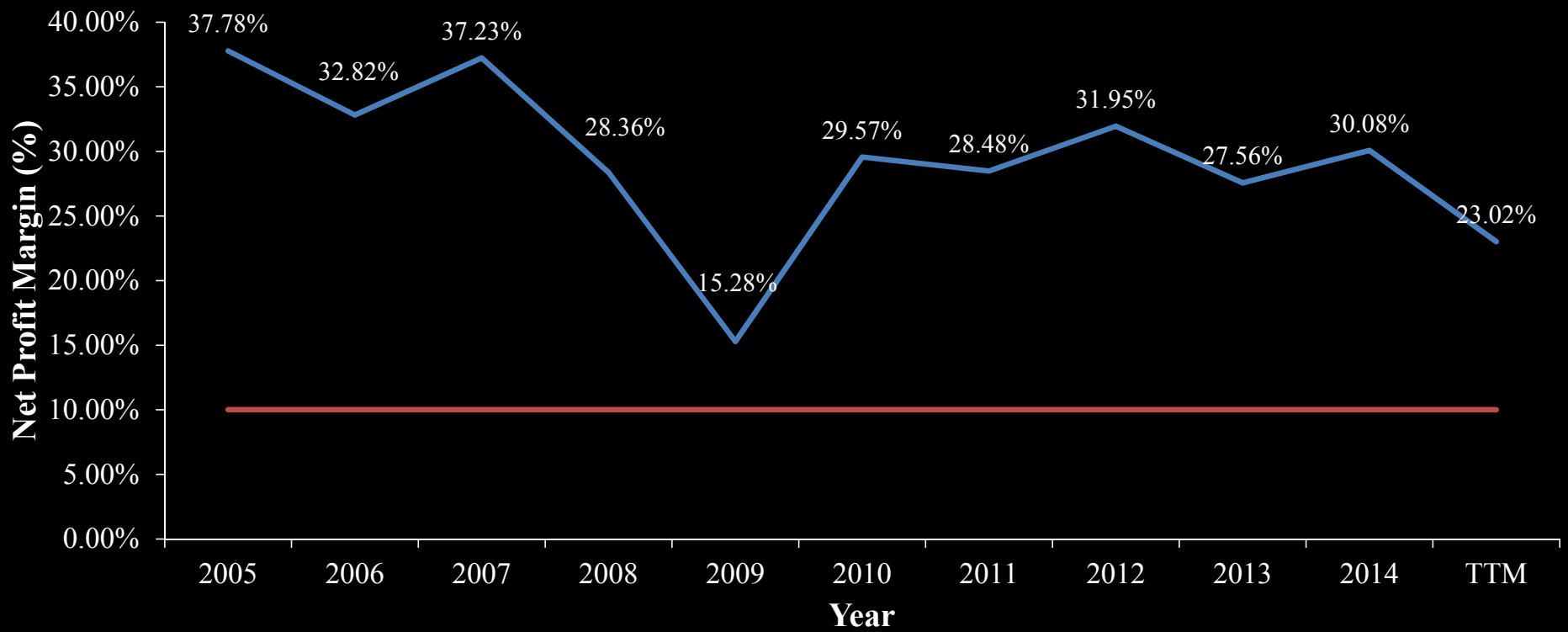


DuPont Analysis

Year	Return on Equity (%)	=	Net Profit Margin (%)	*	Total Asset Turnover	*	Financial Leverage Multiplier
2010	15.57		29.57		0.36		1.47
2011	15.81		28.48		0.41		1.35
2012	18.22		31.95		0.44		1.28
2013	18.99		27.56		0.55		1.26
2014	20.34		30.08		0.55		1.24
TTM	18.38		23.02		0.51		1.58

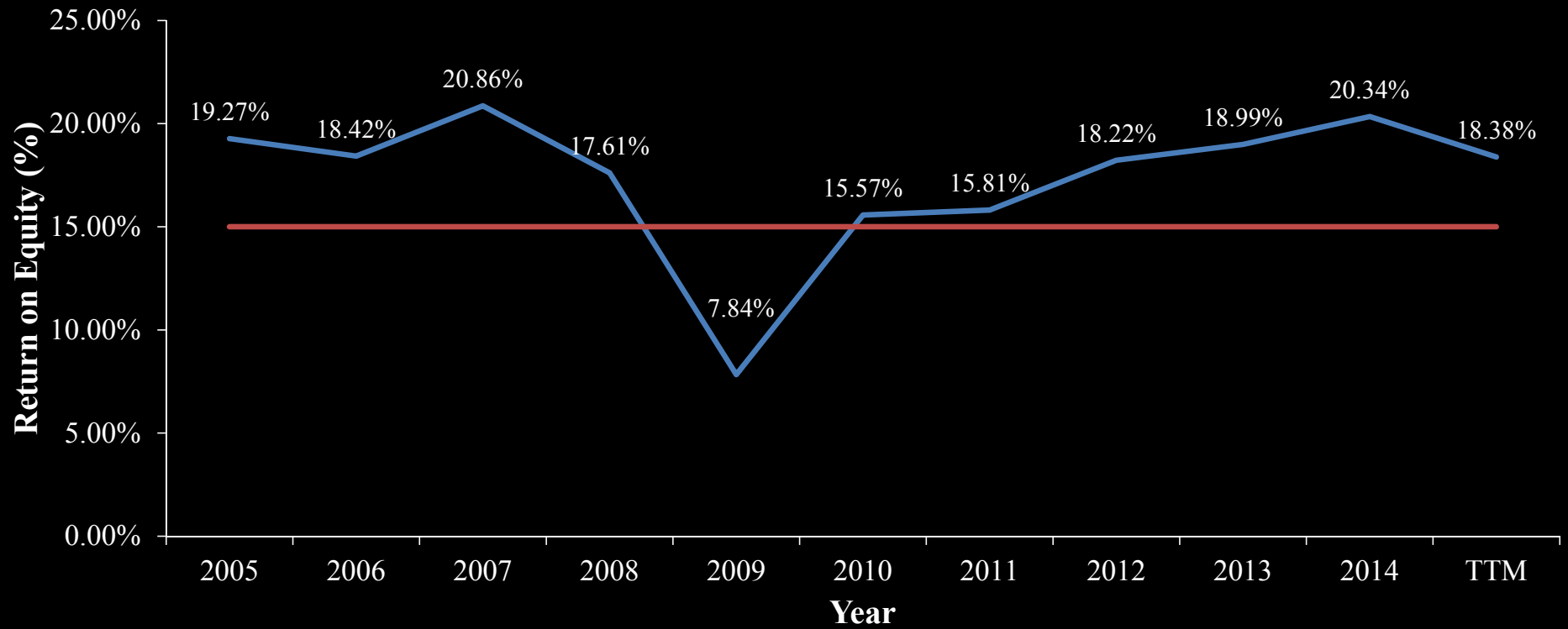


Net Profit Margin





Return on Equity



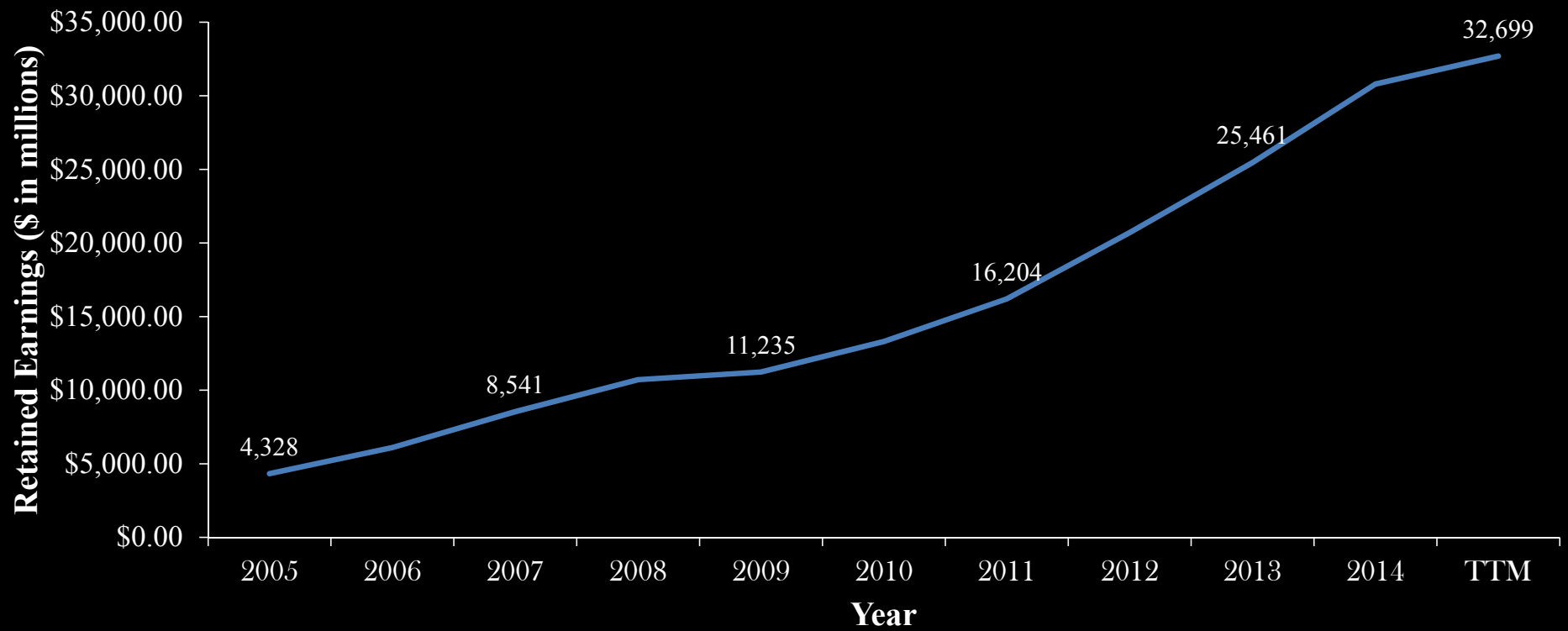


Return on Capital



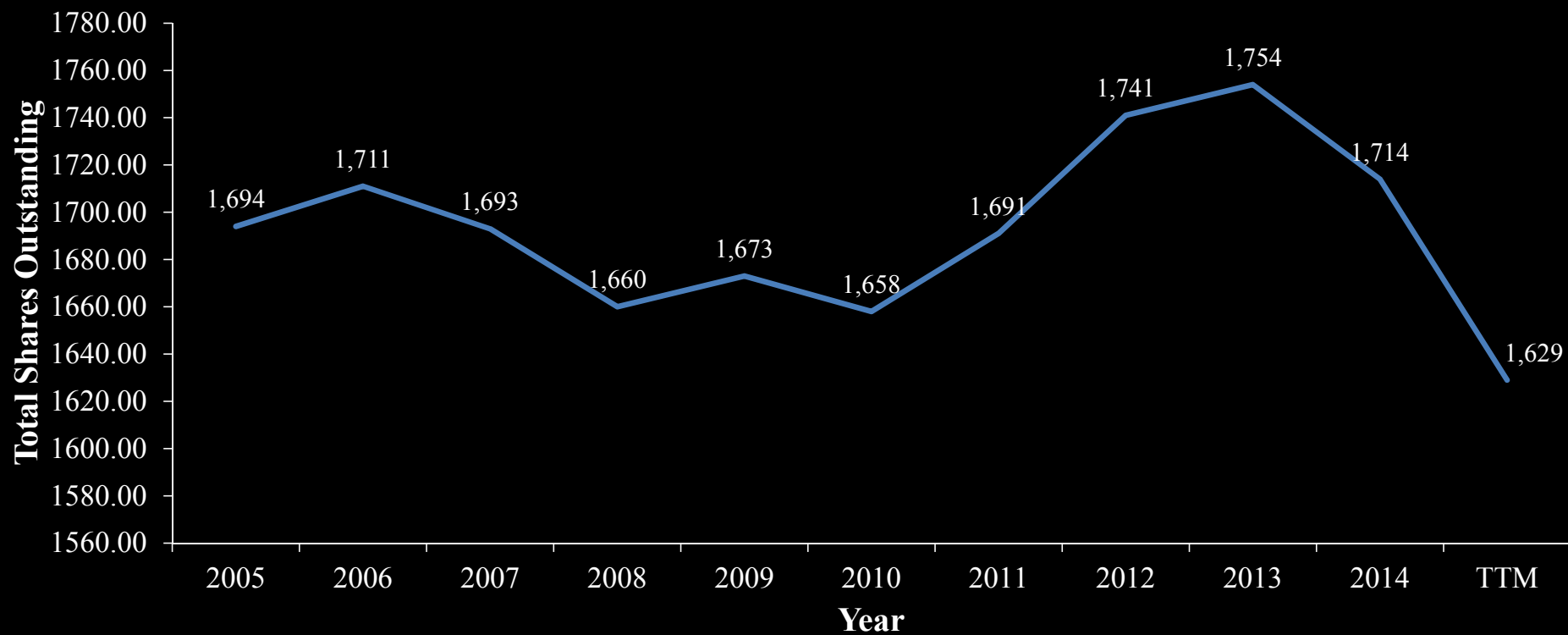


Retained Earnings





Shares Outstanding (in millions)





Buffettology

Increasing trends?	
Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing*
Dividends Declared per Share	Increasing
Capital Spending per Share	Increasing
Book Value per Share	Increasing*
Revenues (Sales)	Increasing*
Gross Profit Margin	Decreasing
Operating Profit Margin	Decreasing
Number of Stores	N/A
Net Profit	Increasing*
Net Profit Margin	Decreasing
Shareholder's Equity	Increasing
Return on Total Capital	Increasing
Return on Shareholder's Equity	Increasing*
Common Shares Outstanding	Decreasing
LT Debt	Increasing
All Dividends to Net Profit under 60%	Yes
Annual Growth Rate Analysis	Decreasing

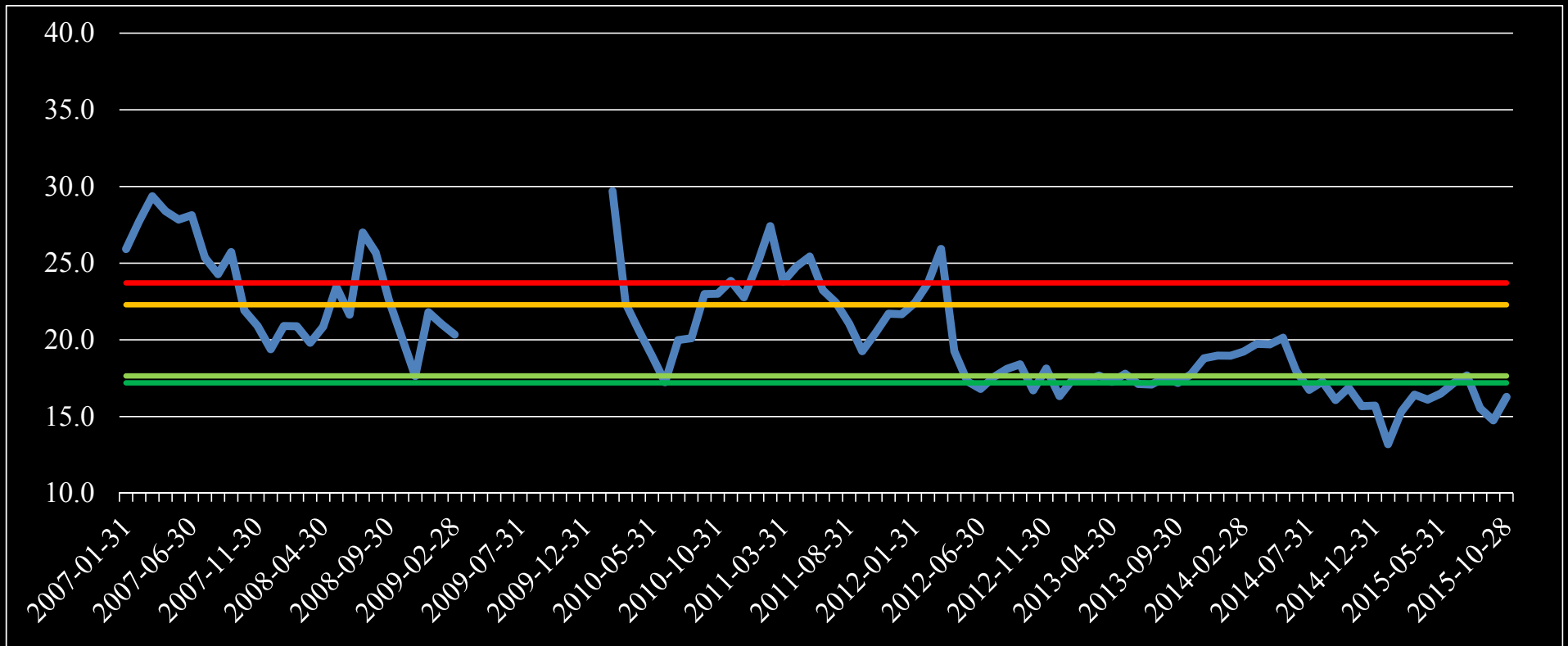


Value Bands

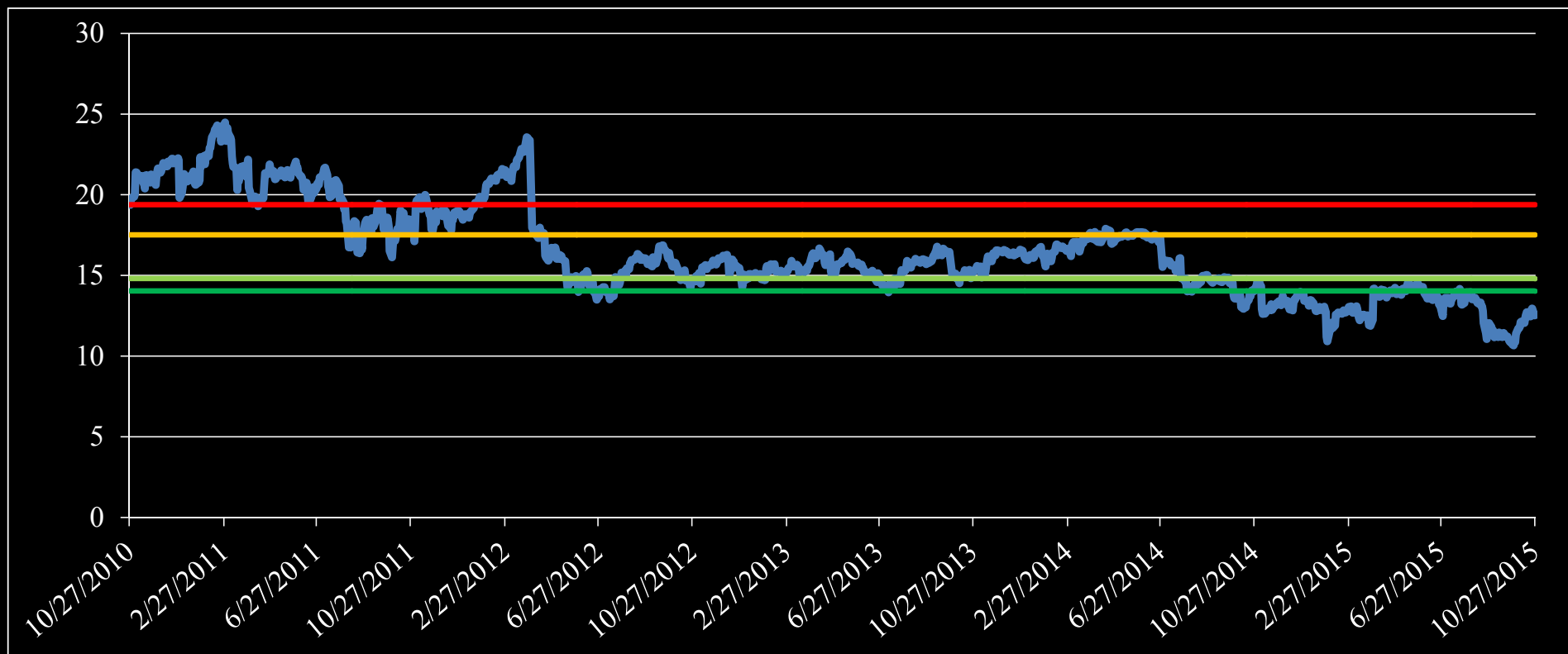




Price/Earnings

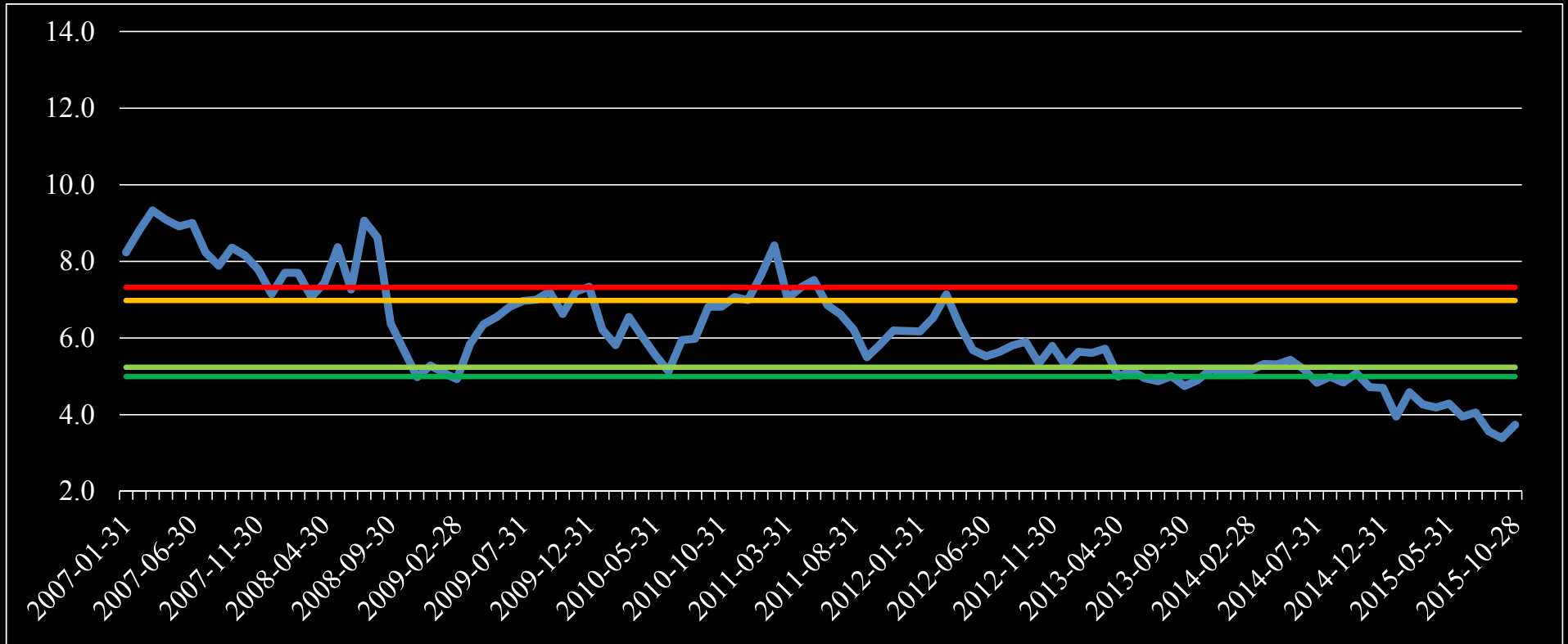


Price/Normalized Earnings (Less Cash)



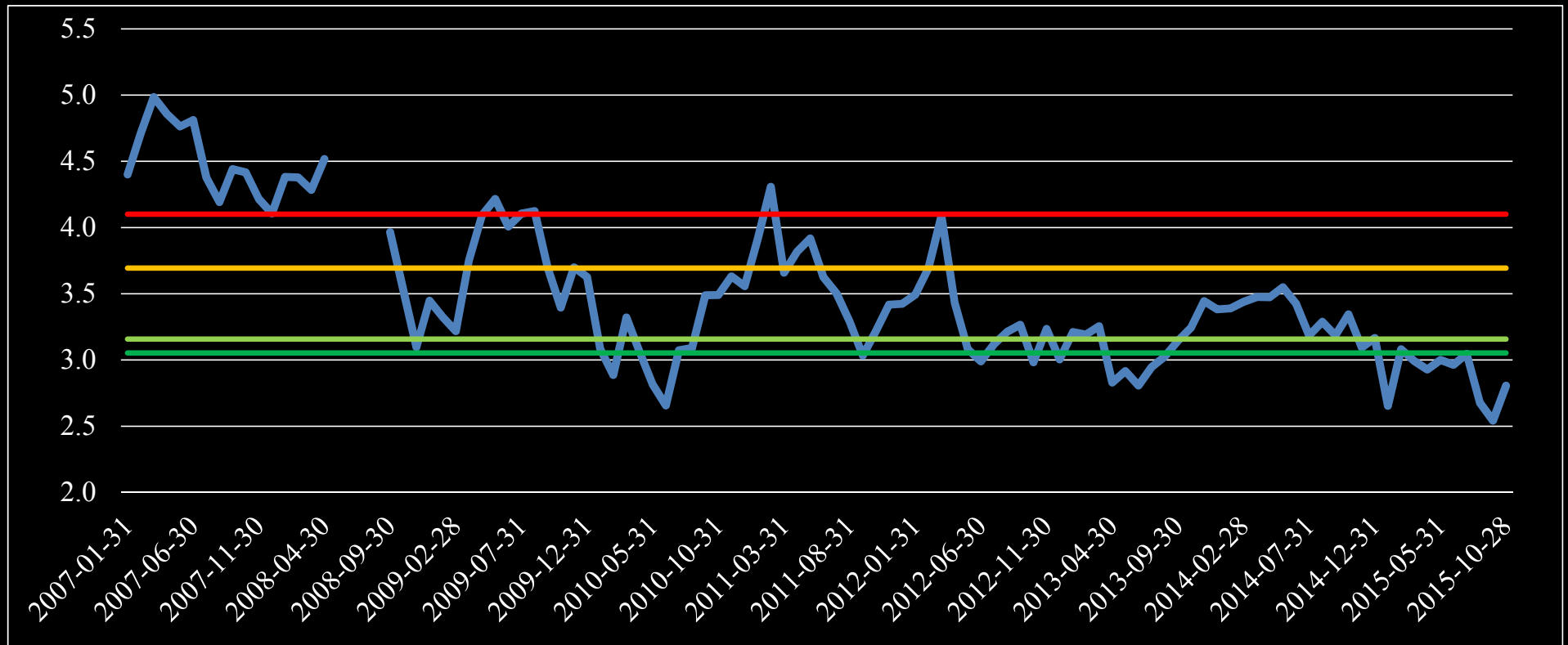


Price/Sales



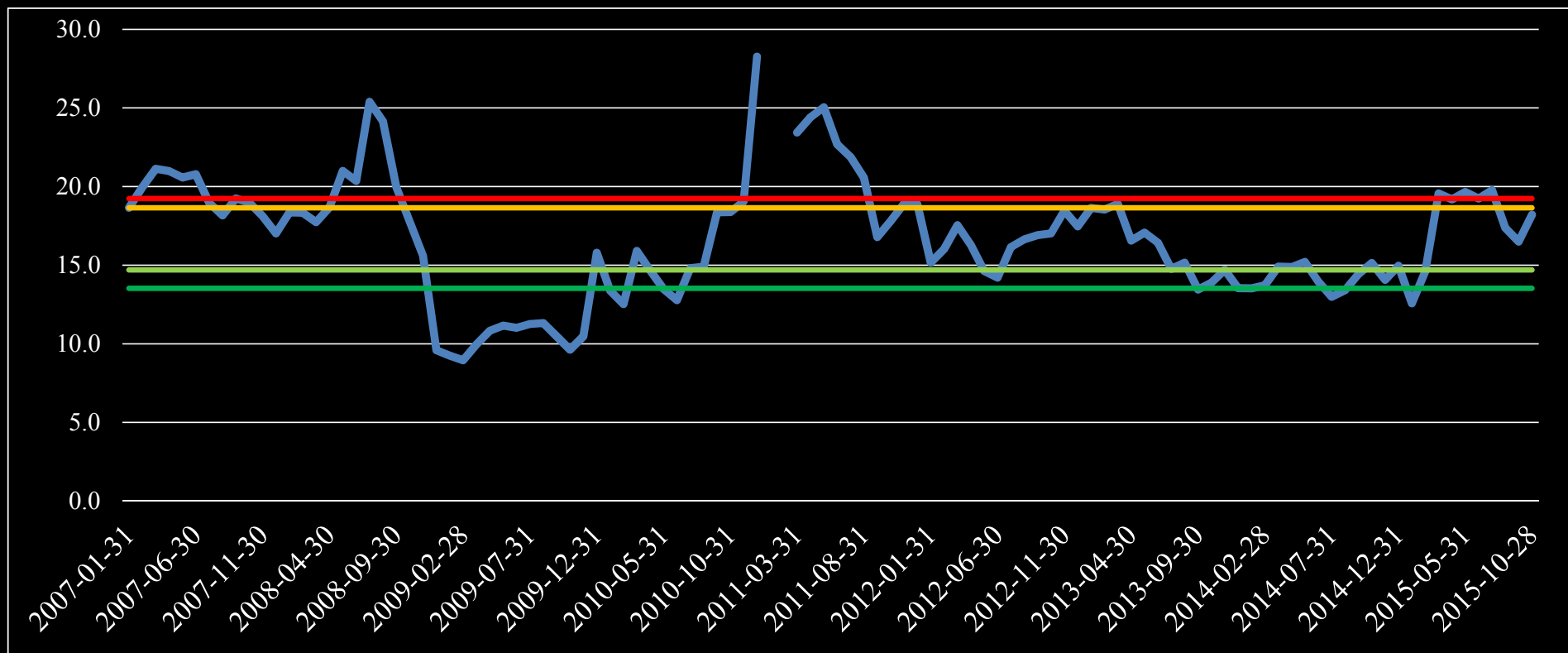


Price/Book



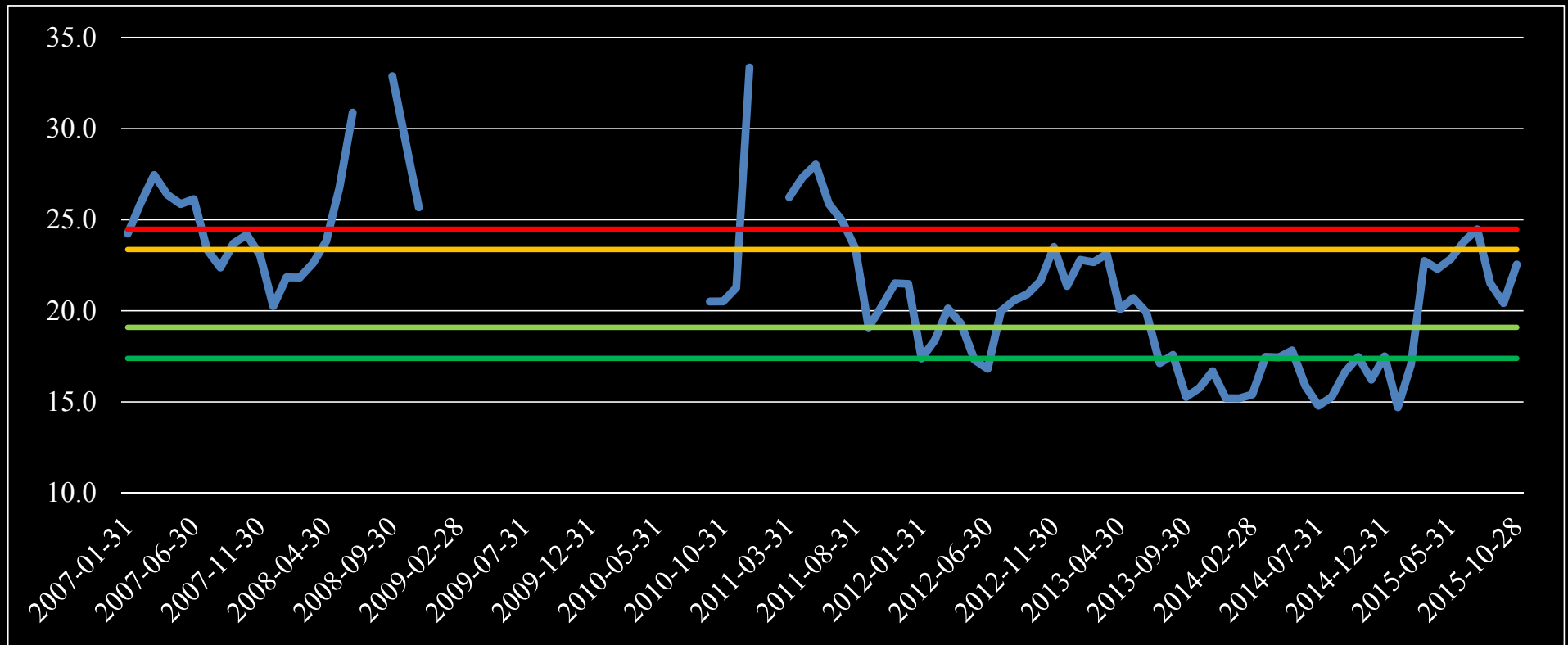


Price/Cash Flow



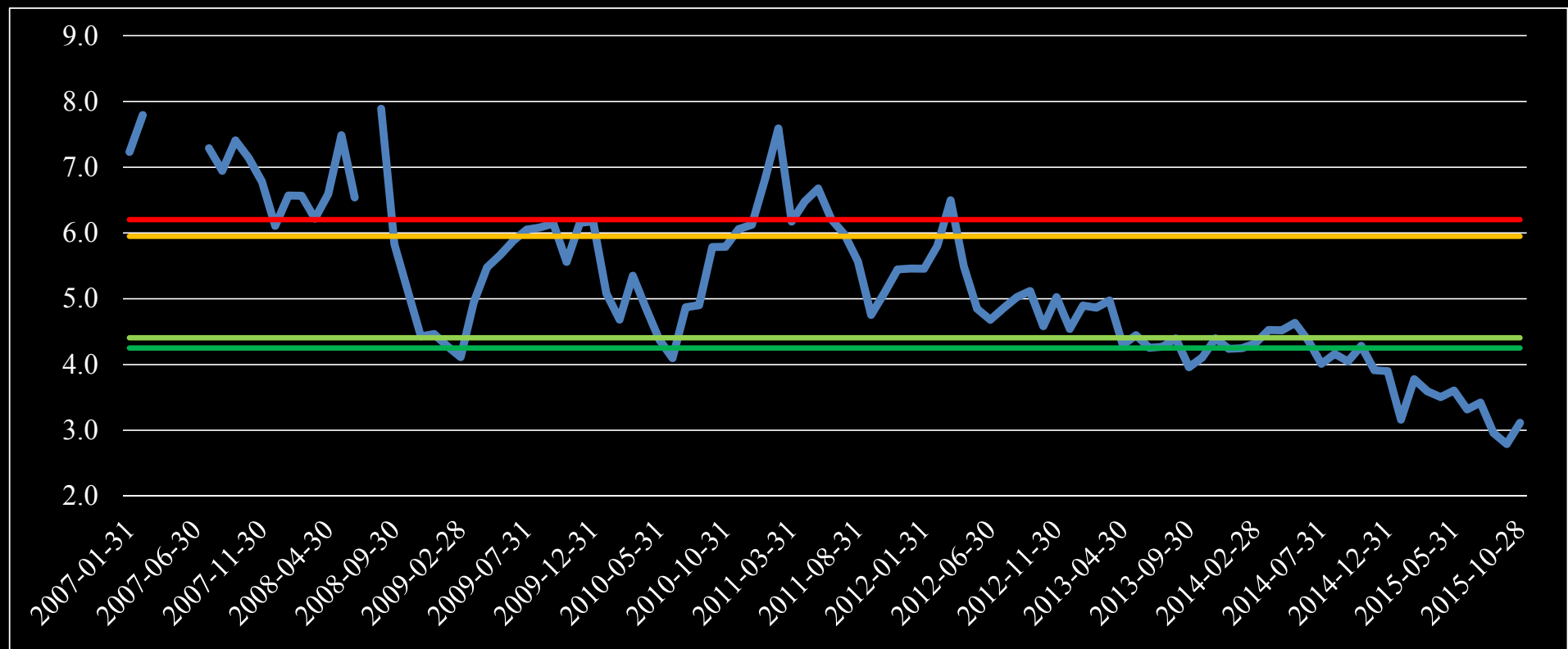


Price/Free Cash Flow



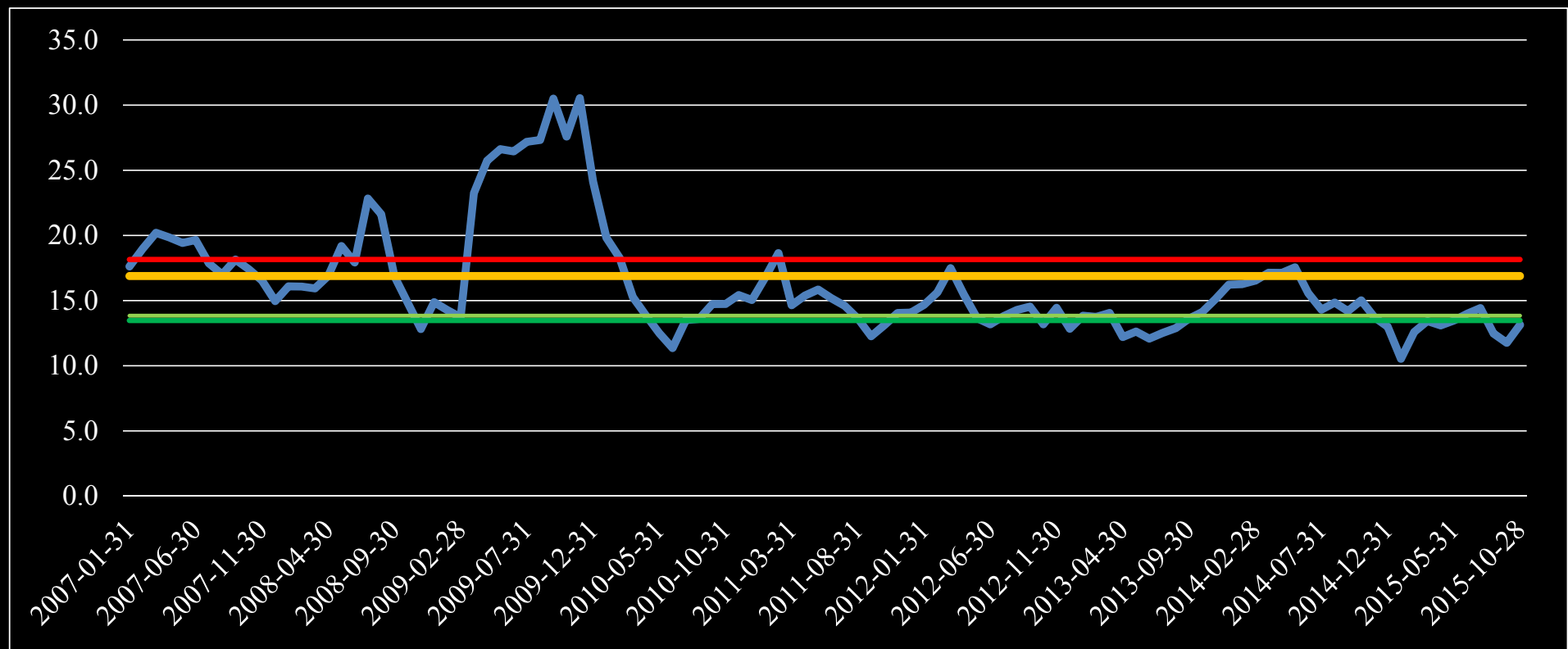


Enterprise Value/ Revenue



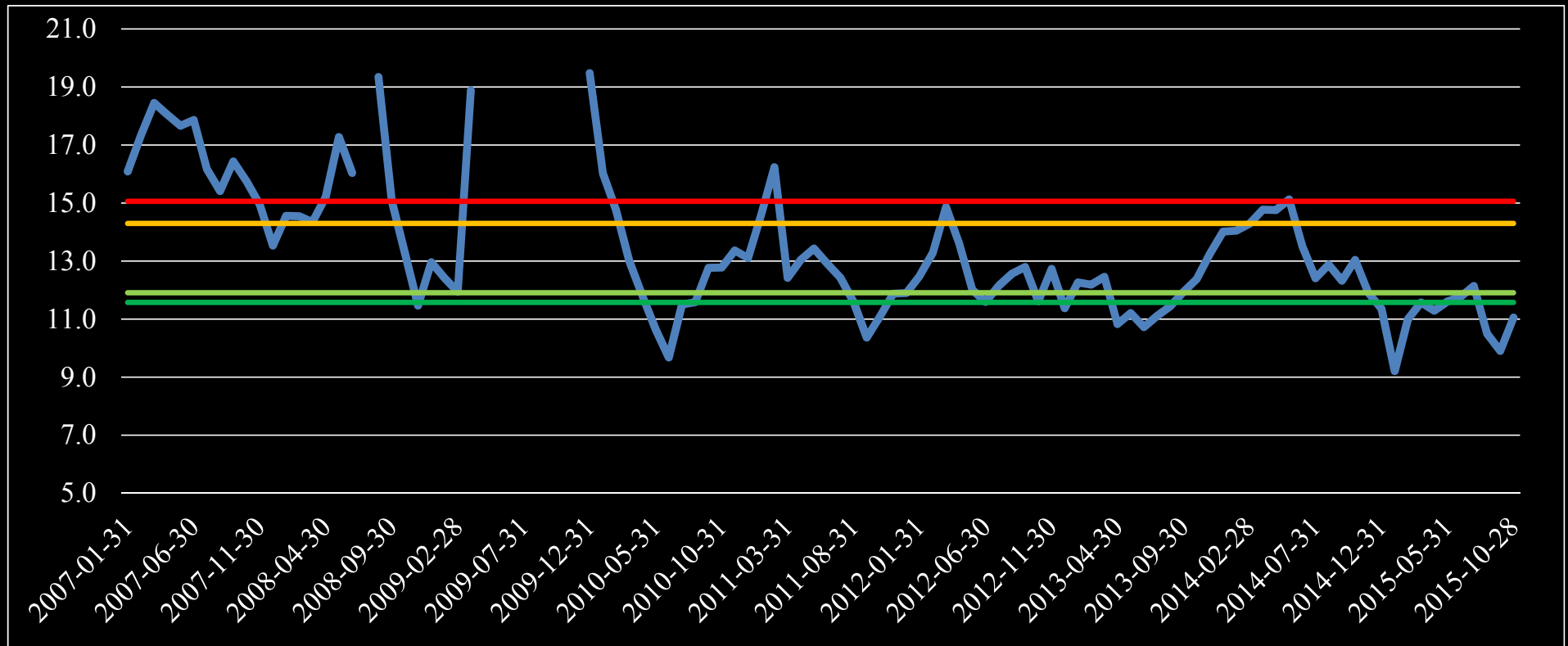


Enterprise Value/ Earnings Before Interest and Taxes





Enterprise Value/ Earnings Before Interest, Taxes, Depreciation, and Amortization





Discounted Cash Flow Model





Valueline's Growth Rate

Earnings Per Share : \$?

Growth Rate In the Next: Years : % ?

Business Predictability ?

Terminal Growth Rate: % ?

Years of Terminal Growth: ?

Discount Rate: % ?

DCF Reverse DCF ^{NEW}

Tangible Book Value: \$ Add to Fair Value ?

Growth Value: \$ 46.65 ?

Terminal Value: \$ 38.33 ?

= Fair Value: \$ 84.98 ?

Margin Of Safety: 29%

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '12-'14 to '18-'20
Sales	18.5%	18.0%	5.0%
"Cash Flow"	20.5%	17.0%	5.0%
Earnings	21.0%	17.0%	5.0%
Dividends	29.5%	15.5%	9.5%
Book Value	16.5%	14.5%	3.5%





Guru Focus Default

Inputs for DCF model:

- Earnings Per Share : \$ 3.64
- Growth Rate In the Next: 10 Years : 14.40 %
- Business Predictability: 4 stars (highlighted with a red box)
- Terminal Growth Rate: 4 %
- Years of Terminal Growth: 10
- Discount Rate: 12 %

DCF Model Output:

- DCF (selected) Reverse DCF NEW
- Tangible Book Value: \$ 16.89 Add to Fair Value
- Growth Value: \$ 40.98
- Terminal Value: \$ 30.62
- = Fair Value: \$ 71.59**
- Margin Of Safety: 15%

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	17.70	22.30	4.00
EBITDA Growth (%)	13.20	22.00	-9.50
EBIT Growth (%)	13.40	25.30	-5.50
EPS without NRI Growth (%)	14.40	31.70	-12.30
Free Cash Flow Growth (%)	13.90	8.80	-47.20
Book Value Growth (%)	15.00	15.40	-8.60





Kill It

The screenshot shows a DCF calculator interface. On the left, a dashed box contains input fields: Earnings Per Share: \$ 3.64; Growth Rate In the Next: 10 Years: 12 % (the '12' is circled in green); Business Predictability: 4 stars (the stars are highlighted with a red box); Terminal Growth Rate: 4 %; Years of Terminal Growth: 10; Discount Rate: 12 %. An arrow points from this input section to the right, where the results are displayed. The results include: DCF (selected) and Reverse DCF (NEW); Tangible Book Value: \$ 16.89; Growth Value: \$ 36.4; Terminal Value: \$ 24.77; = Fair Value: \$ 61.17 (highlighted in a grey box); and Margin Of Safety: 1%.

Cut 10 Year Growth Rate by 16.6%





Conscious Investor



5 Years



	9/05	9/06	9/07	9/08	9/09	9/10	9/11	9/12	9/13	9/14	EPSitm	Years	HGROWTH	STAEGR [®]
EPS (\$)	1,260	1,440	1,951	1,904	0,952	1,958	2,510	3,510	3,910	4,650	23,682	5	24.31%	96.58%
SPS (\$)	3,459	4,556	5,421	6,728	3,874	6,818	8,898	11,208	14,757	15,870		5	24.60%	96.66%



5 Year Safety



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET [®]
Default	60.73	\$3.652	17.42	24.31%	32.4%	23.43%
Safety	60.73	\$3.652	14.13	14.24%	32.3%	12.05%

Cut Earnings Growth by 41.42%

Cut P/E by 17.91%



10 Years



	9/05	9/06	9/07	9/08	9/09	9/10	9/11	9/12	9/13	9/14	EPSttm	Years	HGROWTH	STAEGR [®]
EPS (\$)	1.260	1.440	1.951	1.904	0.952	1.958	2.510	3.510	3.910	4.650	\$3.652	10	15.12%	76.46%
SPS (\$)	3.459	4.556	5.421	6.728	3.874	6.818	8.898	11.208	14.757	15.870		10	17.69%	82.37%



10 Year Safety



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	60.73	\$3.652	17.42	15.12%	32.4%	14.85%
Safety	60.73	\$3.652	14.13	10.09%	32.3%	8.45%

Cut P/E by 18.89%
Cut Earnings Growth by 33.27%



Kill It



	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	60.73	\$3.652	17.42	15.12%	32.4%	14.85%
Safety	60.73	\$3.652	14.13	10.09%	32.3%	8.45%
Saved	53.73	\$4.550	16.00	5.00%	35.0%	11.47%

Cut P/E by 3.9%
Cut Earnings Growth by 66.93%

	9/05	9/06	9/07	9/08	9/09	9/10	9/11	9/12	9/13	9/14	High/Low	Current
P/E High	35.75	36.81	24.46	29.87	51.18	25.43	23.84	19.62	18.00	17.63	21.50	16.63





Kill It Again

	Price	EPS _{ttm}	P/E Ratio	HGrowth	Payout	STRET [®]
Default	60.73	\$3.652	17.42	15.12%	32.4%	14.85%
Safety	60.73	\$3.652	14.13	10.09%	32.3%	8.45%
Saved	60.73	\$3.652	15.78	6.00%	32.4%	5.92%


15.78

Cut P/E by 9.41%
Cut Earnings Growth by 60.32%





..... And Again

	Price	EPS _{ttm}	P/E Ratio	HGrowth	Payout	STRET [®]
Default	60.73	\$3.652	17.42	15.12%	32.4%	14.85%
Safety	60.73	\$3.652	14.13	10.09%	32.3%	8.45%
 Saved	60.73	\$3.562	10.00	2.90%	32.4%	0.03%

Cut P/E by 42.59%
Cut Earnings Growth by 80.82%



Industry Breakdown



Company	Qualcomm, Inc.	Broadcom Corporation	Ericsson	Samsung Electronics Co Ltd.	Texas Instruments, Inc.
Market Cap (in billions)	93.9	32.06	31.63	135.78	60.22
Yield (%)	3.05	1.05	4.09	1.78	2.31
P/E (ttm)	16.32	29.73	11.88	9.90	20.97
P/B	2.79	2.87	0.80	0.99	6.10
P/FCF	22.56	20.26	8.85	36.83	17.31
P/S	3.74	3.81	1.21	0.79	4.74
EV/EBIT	13.10	26.77	4.71	4.84	14.51
ROE (%)	18.38	14.16	9.54	11.87	29.84
ROA (%)	12.46	8.78	4.07	8.40	17.09
Operating Margin (%)	25.26	13.26	7.37	11.30	32.35
Net Margin (%)	23.02	12.66	4.81	9.97	22.74
Number of Guru Holdings	1,567	656	240	-	896

DuPont Analysis



Company	Qualcomm, Inc.	Broadcom Corporation	Ericsson	Samsung Electronics Co Ltd.	Texas Instruments, Inc.
Net Profit Margin (%)	23.02	16.67	4.81	9.97	22.74
Total Asset Turnover	0.51	0.64	0.96	0.86	0.79
Financial Leverage Multiplier	1.58	1.32	2.05	1.38	1.66
Return on Equity (%)	18.38	14.16	9.54	11.87	29.84



Intra-Portfolio Valuations



Price/Earnings

	Ticker	Price / Earnings
▷	AIG-WT	-
▷	IBM	9.6
▷	CMI	11.0
▷	BBBY	11.1
▷	WMT	12.1
▷	AIG	12.5
▷	UNP	15.5
▷	QCOM	16.4
▷	ORCL	18.2
▷	PM	18.6
▷	BRK.B	18.9
▷	CHRW	20.9
▷	FAST	21.9
▷	WBA	25.0
▷	NSRGY	25.5
▷	AAP	28.8
▷	PEP	30.5
▷	MDT	34.2
▷	MSFT	35.5

	Ticker	5-Year Price / Earnings Range
▷	AIG-WT	
▷	NSRGY	
▷	BBBY	10.9 - 18.7
▷	IBM	9.4 - 16.0
▷	FAST	20.0 - 45.2
▷	AIG	2.1 - -
▷	WMT	11.0 - 19.0
▷	QCOM	13.2 - 27.4
▷	CMI	8.3 - 23.2
▷	UNP	12.7 - 24.0
▷	CHRW	13.9 - 36.1
▷	ORCL	13.3 - 25.3
▷	WBA	10.0 - 43.6
▷	BRK.B	13.3 - 19.9
▷	MDT	10.5 - 36.5
▷	PM	13.0 - 18.8
▷	MSFT	8.8 - 36.2
▷	PEP	15.1 - 30.6
▷	AAP	11.5 - 28.3




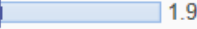
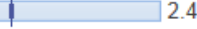
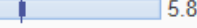
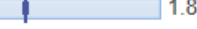
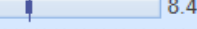



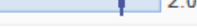
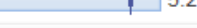
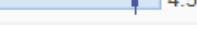
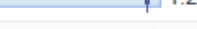
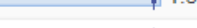
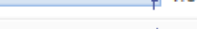
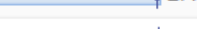
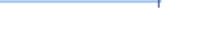
Price/Book

	Ticker	▲ Price / Book
▷	PM	-
▷	AIG-WT	-
▷	AIG	0.8
▷	BRKB	1.4
▷	MDT	2.0
▷	WMT	2.4
▷	CMI	2.4
▷	QCOM	2.8
▷	WBA	3.0
▷	ORCL	3.5
▷	BBBY	3.7
▷	UNP	3.7
▷	NSRGY	4.1
▷	MSFT	5.5
▷	FAST	6.3
▷	AAP	6.3
▷	CHRW	9.0
▷	IBM	10.3
▷	PEP	11.1



Price/Sales

	Ticker	Price / Sales
▷	AIG-WT	-
▷	WMT	0.4
▷	CHRW	0.7
▷	BBBY	0.8
▷	CMI	1.0
▷	WBA	1.0
▷	AIG	1.4
▷	AAP	1.5
▷	IBM	1.7
▷	BRK.B	1.7
▷	PEP	2.4
▷	NSRGY	2.7
▷	FAST	3.0
▷	UNP	3.5
▷	QCOM	3.8
▷	MDT	3.9
▷	ORCL	4.6
▷	MSFT	4.8
▷	PM	4.8

	Ticker	▲ 5-Year Price / Sales Range
▷	AIG-WT	
▷	NSRGY	
▷	WMT	0.4  0.6
▷	BBBY	0.8  1.9
▷	IBM	1.6  2.4
▷	FAST	2.7  5.8
▷	CMI	0.9  1.8
▷	QCOM	3.3  8.4
▷	CHRW	0.6  1.5
▷	ORCL	3.6  5.4
▷	UNP	2.1  4.9
▷	BRK.B	1.1  2.0
▷	PM	3.6  5.2
▷	MDT	2.0  4.5
▷	WBA	0.4  1.2
▷	AAP	0.7  1.5
▷	MSFT	2.9  4.9
▷	PEP	1.5  2.4
▷	AIG	0.1  1.4



Price/ Free Cash Flow

	Ticker	▲ Price / Free Cash Flow
▷	AIG-WT	-
▷	IBM	10.2
▷	WMT	12.8
▷	BBBY	14.1
▷	ORCL	14.6
▷	CMI	15.1
▷	CHRW	16.6
▷	BRK.B	18.7
▷	MSFT	18.7
▷	MDT	19.0
▷	PEP	19.7
▷	PM	21.0
▷	WBA	22.1
▷	QCOM	22.8
▷	AIG	23.1
▷	UNP	24.7
▷	NSRGY	26.1
▷	FAST	28.3
▷	AAP	30.0

	Ticker	▲ 5-Year Price / Free Cash Flow Range
▷	AIG-WT	
▷	NSRGY	
▷	WMT	12.7 27.7
▷	IBM	10.0 16.9
▷	FAST	25.8 -
▷	CHRW	14.9 55.9
▷	CMI	12.2 45.1
▷	BBBY	12.1 21.3
▷	PEP	16.4 24.2
▷	QCOM	13.9 40.1
▷	ORCL	10.1 19.7
▷	UNP	15.0 37.8
▷	BRK.B	11.4 26.5
▷	WBA	9.8 29.0
▷	MDT	9.4 20.4
▷	AAP	9.3 34.1
▷	MSFT	7.7 19.0
▷	AIG	0.3 -
▷	PM	10.6 21.2

Enterprise Value to Earnings Before Interest, Taxes, Depreciation, and Amortization



	Ticker	▲ EV / EBITDA
▷	AIG-WT	-
▷	BBBY	6.0
▷	CMI	6.1
▷	WMT	6.5
▷	IBM	7.3
▷	UNP	8.2
▷	AIG	8.9
▷	ORCL	9.4
▷	QCOM	10.8
▷	BRK.B	12.2
▷	FAST	12.4
▷	CHRW	12.7
▷	PM	13.4
▷	AAP	13.7
▷	MSFT	14.8
▷	PEP	16.1
▷	NSRGY	16.4
▷	WBA	17.0
▷	MDT	20.2



52-Week Price Range

Ticker	52-wk Range
WMT	\$57.16 - \$90.97
BBBY	\$56.01 - \$79.64
CMI	\$99.76 - \$151.25
IBM	\$137.33 - \$176.30
UNP	\$79.31 - \$124.52
QCOM	\$52.17 - \$78.53
ORCL	\$35.14 - \$46.71
FAST	\$34.45 - \$48.43
BRK.B	\$125.50 - \$152.94
CHRW	\$61.46 - \$77.49
NSRGY	\$70.34 - \$79.99
AIG-WT	\$20.17 - \$29.56
WBA	\$62.28 - \$97.30
MDT	\$55.54 - \$79.50
PM	\$75.27 - \$90.25
AIG	\$48.68 - \$64.93
MSFT	\$39.72 - \$54.37
PEP	\$76.48 - \$103.44
AAP	\$137.17 - \$196.09



Conclusion

Historically undervalued

Strong operating and profit margins

Developer of industry standard

Effective use of licenses

Recommendation



Limit Order at \$53.14

"I try to buy stock in businesses that are so wonderful that an idiot can run them. Because sooner or later, one will."

-Warren Buffett

