QUALCOMM Incorporated (NASDAQ:QCOM) Q2 2024 Earnings Conference Call May 1, 2024 4:45 PM ET

Company Participants

Mauricio Hodoyan - Vice President, Investor Relations
Cristiano Amon - President and Chief Executive Officer
Akash Palkhiwala - Chief Financial Officer and Chief Operating Officer

Conference Call Participants

Matt Ramsay - TD Cowen
Samik Chatterjee - JPMorgan
Mike Walkley - Canaccord Genuity
Stacy Rasgon - Bernstein Research
Chris Caso - Wolfe Research
Timothy Arcuri - UBS
Tal Liani - Bank of America
C.J. Muse - Cantor Fitzgerald

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Qualcomm Second Quarter Fiscal Year 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded, May 1, 2024. The playback number for today's call is 877-660-6853. International callers, please dial 201-612-7415. The playback reservation number is 13745532.

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

Mauricio Hodoyan

Thank you, and good afternoon, everyone. Today's call will include prepared remarks by Christian 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 accompanied 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 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

Thank you, Mauricio. And good afternoon, everyone. Thanks for joining us today. In Fiscal Q2, we delivered non-GAAP revenues of $9.4 billion. Non-GAAP earnings per share of $2.44 was above the high end of our guidance. Revenues from our chipset business of $8 billion reflect strong premature demand for Android smartphones and continued momentum in automotive. Licensing business revenues were $1.3 billion. During the quarter, we also made significant progress on our leading technology and product roadmaps as well as executing on our growth and diversification opportunities.

Let me share some key highlights from the business. As we drive intelligent computing everywhere, we are enabling the ecosystem to develop and commercialize on-device GenAI applications across smartphones, next-generation PCs, XR devices, vehicles, industrial edge, robotics, networking, and more. To that end, we recently launched the Qualcomm AI Hub, a gateway for developers to enable at scale commercialization of on-device AI applications. It features a library of approximately 100 pre-optimized AI models for devices powered by

Snapdragon and Qualcomm platforms, delivering four times faster inferencing versus non-optimized models. As AI expands rapidly from the cloud to devices, we are extremely well positioned to capitalize on this growth opportunity, giving our leadership position at the edge across technologies, including on-device AI.

In automotive, the Snapdragon Digital Chassis is the industry's leading technology solution, and we're pleased to announce that our design win pipeline has increased to approximately $45 billion. We're growing faster than the addressable market and remain on track to achieve more than $4 billion of automotive revenues in fiscal Â‘26.

In premium and high-tier smartphones, our Snapdragon mobile platforms continue to set the bar for performance in on-device GenAI capabilities. Recently launched flagship Android devices powered by Snapdragon 8 Gen 3 are seeing strong demand globally, especially in China. We are extending the most sought after 8 series capabilities, including on-device AI, to a broader range of flagship and high-tier smartphones with the new Snapdragon 8S Gen 3 and Snapdragon 7 Plus Gen 3 mobile platforms launching in the second half of 2024.

In cellular modems, we have again established a new industry benchmark with the Snapdragon X80, the world's most advanced 5G modem RF system. The X80 supports 5G advanced, the next era of 5G, in addition to direct to mobile, 3GPP compliant satellite communications and leading release 18 features. Additionally, our networking solutions continue to gain traction as the Wi-Fi 7 transition expands to the enterprise. We are excited about the upcoming launches of next-generation Windows AI PCs powered by Snapdragon. The Snapdragon X Elite is the leader in performance on-device AI and power efficiency for the Windows ecosystem and is optimally positioned to lead the transition to true AI PCs. I'm also pleased to share that we recently expanded our compute portfolio with the Snapdragon X Plus platform, which is designed to address a broader range of device tiers. In XR, we're seeing good momentum in augmented and virtual reality. In particular, the Ray-Ban Meta glasses powered by our Snapdragon AR1 Gen 1 platform continue to gain traction with consumers. Additionally, the Meta Horizon OS running on Snapdragon is now open and available to third-party hardware makers. This is a significant milestone as it will expand the device ecosystem.

Finally, at the Embedded World Conference in Germany, we announced two new solutions for the industrial IoT ecosystem, the Qualcomm QCC730 micro-power Wi-Fi SoC and the Qualcomm RB3 Gen 2 platform. The QCC730 is specifically designed for IoT connectivity in battery power industrial, commercial, and consumer applications, featuring 88% lower power consumption than previous generations. And the RB3 Gen 2 platform is a complete hardware and software solution designed for a wide range of products, including various types of robots, drones, industrial handheld devices, and more. The RB3 is supported by the recently announced AI Hub and also feature support for Qualcomm Linux, a comprehensive package of operating system, software, and developer tools for our IoT platforms.

In summary, we're very pleased with the continued progress on our growth and diversification strategy. Beyond handsets, we have established leadership positions across automotive, XR, and networking, and we are well positioned to do the same in PCs, industrial, and Edge AI. We're optimistic about the opportunities ahead for the company and will continue to execute on our plan to deliver long-term growth and value for shareholders. I would now like to turn the call over to Akash.

Akash Palkhiwala

Thank you, Cristiano, and good afternoon, everyone. I'll start with our second fiscal quarter earnings. We are pleased to announce another quarter of strong non-GAAP results with revenues of $9.4 billion and EPS of $2.44, which was above the high end of our guidance range. QTL revenues of $1.3 billion and EBT margin of 71% were in line with our expectations. QCT delivered revenues of $8 billion and EBT margin of 29%, which was at the high end of our guidance range, reflecting strength across handset and automotive. QCT handset revenues of $6.2 billion included the benefit of flagship Android smartphone launches powered by our Snapdragon 8 Gen 3 mobile platform. QCT IoT revenues increased 9% sequentially to $1.2 billion, which was slightly better than our expectations. We had another record quarter in QCT automotive, with revenues increasing by 35% on a year-over-year basis, reflecting increased content in new vehicle launches with our Snapdragon Digital Chassis products. We returned $1.6 billion to stockholders during the quarter, including $731 million in stock repurchases and $895 million in dividends.

During the quarter, we also announced an increase in our quarterly dividends from $0.80 to $0.85 per share, consistent with our commitment to dividend growth. Lastly, the sale of the restrained control system business

successfully completes the divestitures of the Non-Arriver businesses related to our acquisition of Veoneer. We are very pleased with this acquisition, and the Arriver team is executing on the development of our computer vision and drive policy ADAS software stack targeting vehicle launches starting in late Â‘25.

Now turning to guidance, our forecast for global 3G, 4G, 5G handset units remains unchanged for calendar Â‘24. We estimate that global handset units will be flat to slightly up on a year-over-year basis. This includes expected growth of high single-digit to low double-digit percentage in 5G handsets. For the third fiscal quarter, we are forecasting revenues of $8.8 billion to $9.6 billion, and non-GAAP EPS of $2.15 to $2.35. In QTL, we estimate revenues of $1.2 billion to $1.4 billion, an EBT margins of 69% to 73%, reflecting normal seasonality for handset units. In QCT, we expect revenues of $7.5 billion to $8.1 billion, an EBT margins of 25% to 27%. Consistent with our previous comments, we anticipate QCT handset revenues to decline by mid-single digit percentage sequentially, reflecting a seasonal trend due to the absence of flagship handset launches in the quarter. We expect QCT IoT revenues to grow sequentially by low to mid-single digit percentage as we continue to see a gradual recovery from the macro factors impacting the industry.

Following our record performance in the second fiscal quarter, we expect QCT automotive revenues to grow by low double digit percentage quarter-over-quarter as the increase in our design wind pipeline continues to materialize into revenue. Lastly, we expect non-GAAP operating expenses to be approximately $2.2 billion.

In closing, we are pleased with our execution and financial performance for the first half of the fiscal year. Specifically, we saw year-over-year handset revenues from our Chinese OEM increase by greater than 40% in the first half of fiscal Â‘24, reflecting our strong competitive positioning and recovery of demand. Looking forward, our technology leadership positions us to continue to execute on our diversification strategy across IoT and automotive. In IoT, we look forward to normalization and demand across our customer base exiting fiscal Â‘24. In addition, we're excited about the launch of our next generation AI PCs powered by our Snapdragon X Elite and X Plus platforms from all leading PC OEMs starting in mid-24. These PCs will deliver industry-leading processor performance advanced on-device Gen AI features, and extended battery life. In automotive, we are pleased that our design win pipeline has increased from $30 billion in September Â‘22 to approximately $45 billion, providing confidence and executing to our long-term revenue targets. This concludes our prepared remarks. Back to you, Mauricio.

Mauricio Hodoyan

Thank you, Akash. Operator, we are now ready for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

The first question from Matt Ramsey with Cowen.

Matt Ramsay

Thank you very much. Good afternoon, everybody. Cristiano, I wanted to ask you a question about sort of handset modem and RF architecture as we move into sort of the era of AI in handsets and mobile devices where I think it's likely that the compute system and the memory system of the phone take up more battery life potentially as we try to compute some of these applications for AI inference on the device. And I wonder if that how that changes your potential opportunity for your modem business integrated with your RF business. There was a one of your competitors talked about a socket loss last night and I think it went to you guys I wonder if you might comment on how or why, but I think it's a bigger picture question as the compute subsystem of the phone puts pressure on the modem and RF, does that give you opportunities for further integration? Thanks.

Cristiano Amon

Hello, Matt. Thanks for the question. Well, let me unpack this. I think as far as modem RF, we believe we have a very competitive RF front end portfolio and we have been really delivering unique features across the modem RF for system especially on power, as a general comment not related to AI but a general comment I think as you look at AI running on devices and AI running on the cloud modem becomes more important especially

things like latency of response or hybrid AI models has a new importance of real-time connectivity. So we're starting to see more and more the modem becoming more important. The real advantage for Qualcomm is not only on the modem RF even though I think we're very proud of having the leadership position there is the fact that we actually created the ability to run AI pervasive on devices without compromising battery life. And that has been reflected within our NPU performance both on phones as well as PCs, and in cars and I think that's the key I think technology leadership position for AI which is the best possible performance per watt. Thank you.

Operator

Our next question is from the line of Samik Chatterjee with JPMorgan.

Samik Chatterjee

Hi, thanks for the question. And maybe if I can start with Cristiano asking sort of you mentioned the strong performance you're seeing in the China market but maybe any more details in terms of just what you're seeing in the market relative to any specific numbers that you can share because there's been a lot of conflicting data points about the market being strong in 1Q and then maybe taking a breather so curious to understand what you're seeing on the ground there in terms of the China market. Also it's always been a sort of a leader in adopting new technology and seems like the AI phones are doing well, so how much of the recent strength do you attribute to AI led upgrade cycle versus a normal market rebound? And I have a quick follow-up after that. Thank you.

Cristiano Amon

Thank you, Samik. So what moves the market for us is it's a premium and high tier and I think what we're seeing in the China market is that the mix it's improving, as the market has stabilized it when in return to some form of normality what we really liked is that within that market premium and high tier as a percentage continue to increase and that's actually what's driving the results and we are seeing the very first instances of on-device AI and GenAI being launched in premium devices and that has been resonating well to consumers, so it's a positive trend that we like. The other color I'd like to add is we have not seen signs of weakness in the Android premium market in China especially with our OEMs so a lot of the strength really coming from premium devices from Xiaomi, Honor, OPPO, OnePlus, Vivo. And I think Huawei entering that market actually increased the overall term of premium Android.

Akash Palkhiwala

Maybe to add a couple of quick data points on top. As we mentioned in our prepared remarks, first half of fiscal Â‘24, our revenue from Chinese OEMs grew by greater than 40% year-over-year. And that is also reflected in our third quarter guidance. So it's a trend that's holding up as we look forward. And then from a roadmap perspective, as you look into our new premium tier launches coming up later this year, in addition to GenAI, we'll have our Oryon custom CPU core is coming in as well. So we're very excited about the roadmap.

Samik Chatterjee

Got it. And for my follow up, maybe Akash, this is more for you. When you talked about the seasonality into the June quarter, hence if seasonality is sort of the typical seasonality that you see and the aggregate results or revenue being better than seasonal is really being driven by autos here with the low double date growth that you talked about, clearly very strong sort of pipeline of wins, but how sustainable is this sort of pace of improvement quarter-over-quarter in terms of revenue? Just want to get a sense if this is when we start to see more sort of inflection and auto revenue is given the strong pipeline you have and that drives better seasonal results going forward even into the September quarter. Thank you.

Akash Palkhiwala

Yes, from an automotive perspective, as we've given out a target of greater than $4 billion revenue in fiscal Â‘26 and what you are seeing is really our design win pipeline materializing into revenue on our way to that number. And so that's the framework as to how I think about it. Two key kind of data points on our design win pipeline, so as you'll recall the last number, we had given was $30 billion in September, about 18 months ago, September Â‘22. The updated number that we just provided is $45 billion of design wins, so obviously a very

significant increase and off note within that approximately one-third is driven by ADAS, so we're seeing a tremendous success now in ADAS and that's adding to our design win pipeline.

Operator

Our next question is from Mike Walkley with Canaccord Genuity.

Mike Walkley

Hey, thanks. And maybe just building off the 40% increase in shipments to the Chinese OEMs holding through the June quarter guidance, just based on your expanding on-device AI portfolio, is this level of demand sustainable into the back half of the calendar year or ask another way do you expect the smartphone market to have kind of normal seasonal turns after the June quarter dip?

Akash Palkhiwala

Yes, so as you'll recall, Mike, we had said earlier that we expect the third quarter to be the low quarter from a financial perspective, just given the seasonality of our business. That still holds true, so as we go from third to fourth quarter and then into fiscal first quarter, which is the December quarter, and then into fiscal first quarter, which is the December quarter, we expect growth as new launches of phones happen across all major OEMs. And as I said earlier, we're going to have the launch of our Snapdragon 8 Gen 4 chip as well. And we're extremely excited about what that chip does and the launches that will come through that chip later in the year.

Specifically, as you think about fourth quarter, we expect the EPS growth from third to fourth quarter to be consistent with fiscal Â‘23. And then we'll grow beyond that into the December quarter.

Mike Walkley

Great. That's very helpful. Maybe just for a quick follow up on the IoT business, it sounds like March is the bottom as you laid out. Can you maybe update us on the three segments, just what you're seeing in terms of the inventory correction?

Akash Palkhiwala

Yes, so Mike, we talked about December fiscal first quarter as the bottom quarter. We grew from that into March by 9% sequential growth, which was better than our expectations. And then now we're guiding low to mid-single digit growth into the September quarter. So as we'd outlined at the beginning of the year, we would see improvement through the year. And that trend is holding, and we expect it to hold in the fourth fiscal quarter as well. In terms of different parts within IoT, consumer is more aligned with phones.

So we've seen that recover faster. And then the industrial networking is consistent with what our peers are seeing within those industries. And the recovery timeline is aligned with that. If you kind of step back and think about our business there, we're pretty excited about new products that are coming out. So Cristiano talked about the PC set of products coming out later this year. Device launch coming out later this year. But then in addition to that, we also have new products in industrial and Wi-Fi 7 that will drive growth into this IoT segment as well.

Operator

Our next question comes from Stacy Rasgon from Bernstein Research.

Stacy Rasgon

Hi, guys. Thanks for taking my questions. For my first question, just on the PC outlook, it does sound like devices are going to be available for purchase in the back half. So like how much PC is actually in the Q3 outlook, and what should we expect for the PC in the numbers like into the second half and beyond? Like when does the PC actually get big enough for us to see it?

Cristiano Amon

Hey, Stacey. Thanks for the question. We have a lot of product momentum right now, and especially with all the launches. I would encourage everybody to go watch the Microsoft Build event, especially what is happening

with on-device AI. There's a lot of product momentum and launches. As those devices start ramping up in volume, and since a lot of them are going to be back to school, it's going to be more of a fiscal Â‘25 event in terms of being material within the IoT segment. Anything you'd like to add, Akash?

Akash Palkhiwala

Just maybe in our June quarter guidance, there isn't material PC volume forecasted in our numbers.

Cristiano Amon

One thing we're going to do, sorry, just real quick. One thing we're going to do, like we provide an update on auto this quarter, we're going to provide a more detailed update next quarter on PC, especially as we're going to have those devices out launched.

Stacy Rasgon

That's helpful. For my follow up, I wanted to ask about Huawei revenue. So in the Q, it says that you're not expecting any further product revenue from Huawei beyond the end of the calendar year. So I know it's only low end 4G that's left, like but how big is that now in the numbers, and how much of that will be going away into the calendar year?

Akash Palkhiwala

Yes, so Stacy, if you look at Huawei, as you've seen, they've launched multiple tiers of 5G devices already with their own chips. And clearly, we don't participate in those devices. What we're shipping at this point is the license that we have is for 4G chips. And as you rightly pointed out, it's at the low end of the spectrum. What we outlined in the Q is, since the devices will eventually transition all to 5G, we don't expect any revenue from Huawei product business in Â‘25.

Operator

Our next question comes from the line of Chris Caso with Wolfe Research.

Chris Caso

Yes, thank you. Good afternoon. A question is on QTL. And it sounds like that you're starting to see some degree of improvement, particularly among the China OEMs in the QCT business. But that thus far hasn't translated to the QTL business. Can you talk about sort of the lag between the recovery in those segments, and what your level of optimism or not is for sort of breaking out of this range in QTL business?

Akash Palkhiwala

Yes, so as well, QTL business is really driven by the size of the market, and there is a cap on the total ASPs up to which the royalty rates, the percent royalty rate applies. So, as we've seen the benefit on the QCT side is a lot driven by more units at the premium especially above $400 in price. It does not, it's not something that benefits the QTL business directly the way the royalty program is structured. So that's the disconnect between the two.

Chris Caso

Got it. That's helpful. As a follow-up, with regard to the AI handsets, a lot of the questions that we receive on this is, sort of why and what are the applications, what are the reasons for a consumer to upgrade their handsets to AI? Cristiano, you talked about the developer hub that you're running, perhaps that gives you some insight into what the developers are doing, what's going on in the pipeline that will drive these AI handsets out.

Cristiano Amon

Look, it's a great question, and I want to step back and say, in general, I think AI is going to benefit all the devices. I think AI, when it extends to running on device, besides the benefit of working alongside the cloud, it has completely new use cases, privacy, security, latency, cost, personalization, et cetera. Here's how you should look into this. In the same way that when the smartphone started, you have a handful of apps that eventually grew to thousands and hundreds of thousands of apps, and that was really the user experience. I think we're in

the very early stage, and you're starting to see some of those use cases, and you have exactly that moment. Some of the phones have 10 apps, and they're growing. And one of the reasons we have the AI Hub, because this is a new, I think, moment for the industry, it works a little bit different. It's different than how you think about the traditional app store.

You have many models, many in the open source models, they can run on the device and they can be attached or built into any application. So I think what's starting to see is a lot of developer interest, as we said in the prepared remarks, we have over 100 different models, models from OpenAI to YAMA3 and many that are quantized and optimized to the NPU. When they are optimized using the tool, they run four times faster than the model without optimization. And those models and those use cases started to be implemented in apps, whether it is an image or associated with a camera, it's associated with language. So we're at the beginning of that transition. We really like what we see because it's really creating reason for people to buy a new device. It's going to be the same on PCs, it's going to be the same as they come to cars as well and in industrial. So it's an exciting tailwind, I think, for our strategy of actually driving, computing, and connectivity at the edge.

Operator

Our next question is from the line of Timothy Arcuri with UBS.

Timothy Arcuri

Thanks a lot. I wanted to ask about the mix of the business and as you said, Akash, China is holding up quite well. It's up 40% year-over-year in the fiscal first half, but it's within shadowing distance of kind of where it peaked on a quarterly basis back in fiscal Â‘22 when they were obviously overbuilding at that time. So can you talk a little bit about what's happening there, how much of the year-over-year growth is units versus pricing?

Akash Palkhiwala

Yes, thanks, Tim. As we said earlier, it's really the biggest benefit we are seeing is the mix being stronger. And as you know, competitive positioning is stronger at the higher tiers, and so that's helping us. The second is when you look at generation over generation, the chips, especially at the premium tier are getting more capable as more not just GenAI, but other additional capabilities are being integrated into the chips and there's strong competition between the OEMs, so there's demand for those capabilities. So we're seeing that come through as well, and it's really a combination of those things that is driving strength versus a unit upside. The unit size we are seeing is very much aligned with the market forecast, which says flat market versus last year.

Timothy Arcuri

Got it. Okay. And then just as a quick follow-up. How sustainable are these RF wins that you've obviously gotten for this upcoming phone? Should we consider that as kind of part of the modem? So when the modem goes away, the RF wins also go away?

Akash Palkhiwala

So of course, we'll not talk about any specific customer here. But I think I'd go back to the very first question that Cristiano answered. The key thing for us is the modem RF architecture and how when we develop the end-to-end together it creates an advantage for us in terms of performance, in terms of time to market for our customers as well and that's a sustainable advantage that will stay going forward for us.

Operator

Our next question is from the line of Tal Liani from Bank of America.

Tal Liani

Hi, guys. When I look at your numbers, you bid the numbers mainly on headsets. It's both for QTL and QCT, of course, and I'm trying to understand how much of the odd performance is just China versus the rest of the world? So when you look at the rest of the world, what were the trends? When it comes to your QCT shipments and QTL and then within China where are we in the recovery cycle, right? There is ongoing growth but there is what we're seeing now in the first half of the year is mainly recovery from last year. So are you now at normal

levels and from here it should trend? Normally based on demand or are we still recovering from the low of last year? Thanks.

Akash Palkhiwala

Yes, so a couple comments. First is on the overall picture across OEM. So China saw a very significant benefit, but we had strength across other parts of the Android ecosystem as well. And so it's not something that was isolated to one or two OEMs. It was a broad trend that is just representative of the overall market and the mix shift that we discussed in the overall market. On your second question, as we think about our strength in handsets, we are very optimistic that as we go forward, this is a trend that holds forward. This is not about inventory. As I said earlier, the units are actually aligned with the size of the market and the trends are really driven by mix and increased content.

Tal Liani

Okay. Second question, just on the AI, I don't know if it's possible to quantify at all, but if you look at the non-AI QCT contribution versus an AI QCT contribution, when AI is included in the mix, is there a number where it comes to the increase in content per phone? Does it mean that the semiconductor there is going to be more expensive, higher price for you? So even if the market doesn't grow, can you grow just by the market shifting to AI? That's theoretical, but I'm trying to isolate the impact of AI. Thanks.

Cristiano Amon

A lot of people are talk, but let me try to give you maybe an answer to help explain this. In first step, a lot of the increased content in ASP on QCT chipsets, including premium, has been driven by the compute part and it's more performance on the compute, CPU, GPU, the NPU. Second, the NPU, it has been the largest area of silicon growth in those chips, so generation over generation, and one of the largest improvements has been the NPU for AI, and AI is driving a lot of silicon content in those devices because they expected computational capability to run those models. The benefit financially, I think it's going to come probably in the way that you're starting to see the beginning of it right now, which improves the mix. Users want to buy a more capable phone that can run AI, so it drives the market towards a richer mix of higher improvement here, share gains, and then an upgrade cycle as people want to buy a new phone. That's how we should think about it in phones.

PC is a little different. As we enter the PC, I think the AI and the ability to run on-device AI better than any of our peers on a laptop, I think it's going to be a tailwind to the capability. Car, it builds more value on top of the platforms that are being commercialized and design win with the increase of the pipeline, especially in many of those platforms we can do a softer upgrade to be able to run GenAI on those vehicles, so I think that's how this is going to materialize for Qualcomm. The last part of my answer is industrial which is a new area that we're trying to upgrade to higher performance from microcontrollers to higher performance computing connectivity. I think Edge AI is proving to be a key attribute of this market going forward.

Operator

Our final question is from the line of C.J. Muse with Cantor Fitzgerald.

C.J. Muse

Yes, good afternoon. Thank you for taking the question. I guess I was hoping you could speak to QCT gross margins They impressively held flat despite revenues down 5% and I guess the real question here is, it's not just how you did at this quarter, but how should we be thinking about as you bring on non-handset revenues to the model, what incremental gross margins might look like for QCT particularly as we think about the AI PC and IoT as well as you know auto given that growing backlog.

Akash Palkhiwala

Yes, thanks CJ. Yes, I think the first couple quarters of this fiscal year we've seen definitely seen strength and margin and it's driven by the richer mix that we've discussed on the call. What we're guiding for the third quarter is a sequential decline again reflecting kind of lack of flagship launches in the quarter. No change to what we've said on gross margins before. We've given a range and we've been operating at the high end of the range, but no kind of fundamentally change on the framework of it going forward.

C.J. Muse

Great. As a quick follow-up on the auto side, you talked about the higher backlog reiterated the $4 billion plus. Should we be thinking about kind of amortizing that 26 plus percent growth equally into fiscal Â'25-Â'26 or might that come in sooner with faster growth into Â'25?

Akash Palkhiwala

Yes, so I mean obviously we're not guiding quarters that far out at this point, but if you kind of take the current run rate and extend it forward towards the $4 billion target kind of generally a slope growth increase between the two data points is a reasonable way of thinking about it.

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

Yes. Just a few comments. I think we're incredibly pleased with our technology and product roadmap evolution, and we're really looking forward to our next generation PCs with Snapdragon. As I said during the call, I encourage everyone to look at the announcement from Microsoft Build and how that's going to drive much more AI into the future -- onto the Qualcomm platform. And I was just going to leave you all with a thought. One great thing is about the execution of the company. Every time we enter a new market or we set ourselves to go to a new market, and we end up building a very strong position. We went from mobile to RF front end. We became number one. Same thing when we went to Wi-Fi. Automotive, it was something that we had ambition to build as part of the diversification. I think we're quickly becoming the industry partner of choice.

We are -- believe that there's a long-term opportunity with virtual reality, augmented reality. And now we have the absolute majority of the designs. And with PC, we clearly build the leading platform. And we have the product momentum that we hopefully will translate into financial in the coming years. So I just wanted to state that we feel good about the company technology capabilities and how we're driving growth and diversification for shareholders. Thank you very much for the support. Thank you to all our employees. And I'm looking forward to talk to you on the next call.

Operator

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