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Qualcomm Inside

By MARK VEVERKA

The global market for smartphones is expected to double, to one billion per year, by 2015. Qualcomm's chips will power much of that growth.

Your smartphone probably has Qualcomm inside. And if it doesn't, it soon will.

Just as **Intel** (ticker: INTC) has been the dominant supplier of silicon chips for personal computers since the 1980s, **Qualcomm** (QCOM) has assumed that mantle in the burgeoning world of mobile computing and communications. The PC may not be dead, but increasingly smartphones and tablets are the new PC, and Qualcomm looks like the new Intel.

"We haven't built a consumer brand" like Intel, but "we've worked very hard to get in this position," Qualcomm Chief Executive Paul Jacobs told *Barron's* during an interview at the company's sprawling campus headquarters in San Diego.

But if Qualcomm isn't a household name, the companies it sells chips and licenses its technology to are, starting with **Apple** (AAPL). Though neither Qualcomm nor the notoriously secretive Apple will confirm that Qualcomm's technology is in the latest iPhones and iPads, tear-downs of the latest iPhone, and the iPad released on Friday, found the company's chipsets inside. Charter Equity Research telecom analyst Ed Snyder, says Apple selected Qualcomm over Intel's Infineon division as the supplier of its communications chips with the launch of the iPhone 4S in 2011.



[Enlarge Image](#)

Daniel Acker/Bloomberg News

CEO Paul Jacobs says mobile Internet "is the biggest trend in the world right now."

Jacobs, 49, who succeeded his father, Qualcomm founder Irwin Jacobs, as CEO in 2005, says the mobile Internet "is the biggest trend in the world right now." According to Gartner, the global market for smartphones is expected to double, to one billion, by 2015. And Qualcomm's position at the center of the market is due not least to decisions the company made over a decade ago about how they believed the technology would unfold.

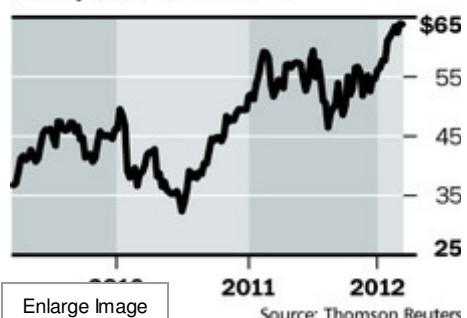
Qualcomm's shares, which traded late last week at about \$65, could rise 30% or more over the next year

SINCE THE EARLY 1990S, Qualcomm has invested tens of billion of dollars to establish a standard for mobile phone technology, garnering thousands of patents along the way. Today it makes communications chips or licenses the technology for virtually every 3G smartphone made in the world. Nokia, Samsung, Motorola and HTC, among others, pay Qualcomm a license fee of around \$6 for every phone they sell. Apple's arrangement is more oblique but is no doubt quite lucrative.

Royalties accounted for 38% of Qualcomm's \$15 billion in revenue in fiscal 2011, which ended in September, but generated roughly 80% of its \$4.26 billion, or \$3.20 a share in earnings—a 37% increase over 2010. This year earnings are expected to jump another 17%, to \$3.75, on a 29% rise in revenue.

Qualcomm (QCOM - Nasdaq)

Weekly close on March 15



Enlarge Image

[Qualcomm/QCOM](#)

Recent Price	\$65.21
52 Week Hi-Lo	\$65.56 - \$45.98
Market Val (bil)	\$110.3
EPS 2011	\$3.20
EPS 2012E	\$3.75
P/E 2012E	17.4

E=Estimate; September fiscal year.

Source: Thomson Reuters

nonetheless. Thanks to Apple, the mobile web developed faster than most expected, and the rapid adoption of smartphones by wireless carriers created a demand for Qualcomm's technologies geared at handling more data faster.

QUALCOMM ALSO SELLS connectivity chips, which provide the cellular, WiFi and Bluetooth technology, through its \$3.1 billion Atheros acquisition in January 2011. And it makes and sells applications processors under the Snapdragon moniker that are the brains that drive video, photos and graphics. Bundled together these chip sets, which are already in high demand, will allow Microsoft's Windows 8 tablets and notebook computers to deploy touch-screen technology, when they go to market next year.

The Bottom Line

Qualcomm's communications chips and high patent walls make it a key player in mobile computing. Its shares could rise 30% or

Qualcomm's so-called baseband digital signal-processing technology is vastly complex, and the company's huge stream of royalty payments has allowed it to build its patent wall ever higher, particularly when it comes to the new fourth-generation, high-speed mobile technology known as LTE.

While rivals, including Intel, fought hard for a technology called WiMax to become the 4G standard, Qualcomm focused on the more complex LTE. A vocal minority of tech executives in Silicon Valley were hoping that WiMax would prevail, freeing them of the need to pay royalties to Qualcomm.

Jacobs recalls that, as far back as the hey-day of the dot-com boom, he went to the Valley with his vision of cellphones that would shoot video and surf the Web. "They almost threw shoes at me," he recalls. The company pursued its next generation strategy

Scott Chapman, portfolio manager for Lateef Investment Management, thinks that Qualcomm's low-power chipsets gives it a big advantage over Intel in Windows mobile operating systems. But even with no contribution from Windows 8, which is due late this

year, he thinks the company could earn \$6.4 billion, or \$3.80 a share in 2012. Factoring in his \$13.1 billion estimate for adjusted net cash on the balance sheet, he thinks the stock is worth \$85. Snyder's target is \$90.

At the shareholder meeting two weeks ago, CEO Jacobs announced a \$4 billion stock buyback plan, which would reduce the share count by 4%; the company also raised the quarterly dividend 16%, for a yield of 1.5%.

The long-term knocks on the stock, which is up 19% this year, have mostly dissipated. Its per-unit licensing fee has been falling for years, but the number of devices it earns on is growing substantially faster than that, and fears that manufacturers would not re-up their licensing deals have been greatly reduced, mostly because Qualcomm's technology can no longer be avoided.

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