Qualcomm (QCOM)

Thesis and analysis — October 11, 2026

The thesis

TRIM

An elite, fortress-balance-sheet wireless franchise, but even crediting about 25% after-tax returns on the capital its auto/IoT growth needs, at $175.50 the market pays far above the about $105 a share the business is worth on its own cash flows (about $105 base, about $130 even in a research-grounded bull) — so trim toward about 2% weight and add only well below about $93.

The score

4.5 / 10 — hold signal



Lifting it: Return on capital (ROIC), Operating margin

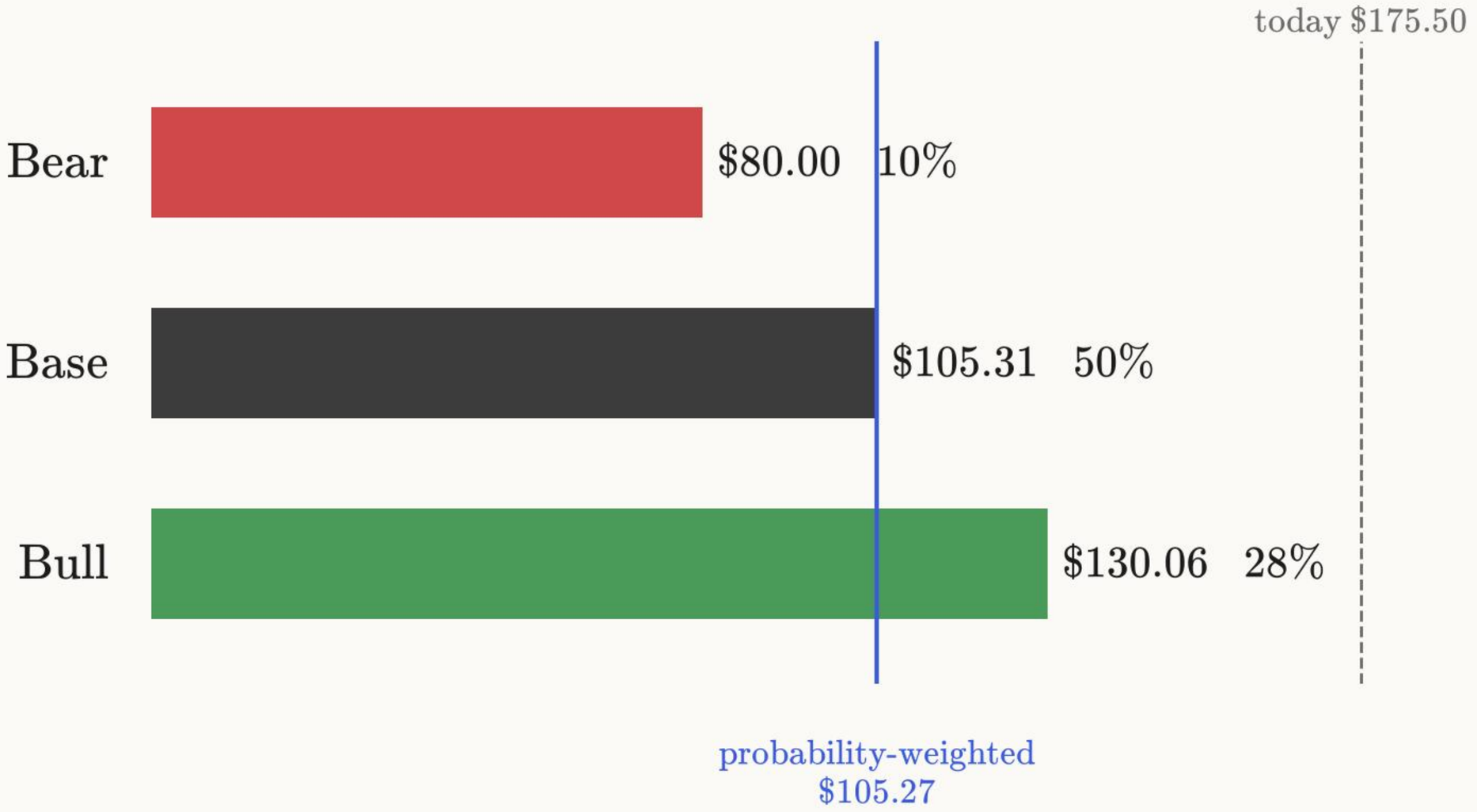
Holding it down: Price

The key numbers

EV / EBIT, normalized	14.4×
P / E, normalized	19.3×
ROIC, normalized	101%
Operating margin, average	30.4%
Marginal return on capital	—

normalized FY2025-FY2025

What one share is worth



Filings and accounting quality

Filings are clean and complete; the only accounting-quality issue is the one-off FY2025 tax charge, which normalization removes.

- FY2025 reported tax $7.1B on pretax $12.7B = a 56% effective rate, a one-off deferred-tax item; normalized at the 13.4% median-of-normal-years rate, so normalized net income is about $11.3B vs $5.54B reported.
- Seven 10-Ks (FY2019-FY2025) and 21 10-Qs filed on time; the latest annual is the FY2025 10-K (filed 2025–11-05), with three FY2026 10-Qs since; XBRL complete, 38/38 key-number inputs verified; normalized EBIT $13.5B ties to EBITDA $13.96B + $56M one-offs - $0.53B maintenance capex.

Balance sheet

Fortress balance sheet: near net cash, very light tangible capital, the hallmark of a capital-efficient franchise.

- FY2025 total assets $50.1B, equity $21.2B, goodwill + intangibles $12.5B; cash + short-term investments $10.2B vs total debt $14.81B (no current maturities) → net debt only $4.66B, about 0.3× normalized EBIT.
- Tangible operating capital just $11.1–13.4B on $44.3B sales → sales/capital about 3.3×; net working capital swung from about 0 (FY2019–21, suppliers/customers fund it) to $6.46B as the business de-risked supply.
- Excess cash about $10.2B held beyond operating needs.

Cash flow statement

Strong, growing cash generation; free cash flow converts after a real charge for stock-based pay.

- FY2025 operating cash flow $14.0B less stock-based pay $2.78B less capex $1.19B = free cash flow $10.0B (5.4% FCF yield); normalized FCF $8.57B = about 62% of normalized EBIT.
- Capex only $1.19B (maintenance about $0.53B) on $44.3B sales — a fabless, asset-light model; about $12.6B returned to shareholders in FY2025.
- Stock-based pay $2.78B (6.3% of sales) is material and deducted before free cash flow; watch dilution.

Income statement

A high-margin franchise with the operating margin trending down on chip-mix shift.

- FY2025 revenue $44.3B (+13.7% on the year), operating income $12.4B = 27.9% margin; normalized EBIT $13.5B.
- Normalized operating margin 31.0% (5-year), 28.2% (3-year) — falling about 3 points as growth comes from lower-margin QCT chips while high-margin QTL licensing is flat (gross margin also eased from about 65% in FY2019 to about 55% in FY2025).
- Normalized net income about $11.3B, EPS $10.24; reported EPS $5.01 distorted by the one-off tax charge.

Debt tables

Modest, well-laddered long-term debt with ample coverage — no leverage risk.

- FY2025 long-term debt $14.81B, no current maturities; interest expense $664M; interest coverage 18.6× normalized EBIT.
- Net debt $4.66B (about 0.3× normalized EBIT); the debt is permanent, fixed-rate notes, used for buybacks rather than operations.

Commitments and contingencies

The central contingency is QTL licensing: standard-essential-patent royalties under persistent FRAND/antitrust pressure, with the key licenses expiring fiscal 2027–2031.

- Key OEM patent licenses "expire at varying dates between fiscal 2027 and 2031"; Qualcomm seeks to renew ahead of expiry, with binding-arbitration renewal provisions in some.
- Item 1A details the adverse-ruling remedies: a forced cut to the royalty rate or base (e.g. chipset-level vs device-level licensing), compulsory licensing to chipmakers, or agreements declared invalid — any of which "could have a material adverse effect" and could force Qualcomm to cut the capital-return program.
- New fact this year: Huawei's license expired and QTL royalties excluded Huawei from Q2 FY2025; offset by new long-term licenses with two Chinese OEMs and Transsion.

Receivables and provision for credit losses

Receivables are low-risk and revenue recognition is reliable — no channel-stuffing or quality-of-earnings flag.

- Payment terms are short: product sales due shortly after delivery; QTL sales-based royalties due within the following quarter.
- Sales-based royalties are estimated from licensee reports; FY2025 and FY2024 actuals were "materially consistent" with estimates, with no significant revenue reversals from prior-period adjustments.
- Receivables (incl. unbilled) are a component of current assets $25.75B; no allowance/credit-loss concern disclosed for trade receivables (customers are large OEMs: Apple, Samsung, Xiaomi).

Market and segment analysis

Two businesses pulling in opposite directions: a growing but lower-margin chip arm (QCT) and a flat, ultra-high-margin licensing arm (QTL), with heavy China and customer concentration.

- FY2025: QCT revenue $38.4B (87% of group), +9.2%/yr FY2021–25, about 30% margin; QTL revenue $5.6B (13%), -3.1%/yr, 72% margin but still 26% of segment profit.
- Within QCT: handsets $27.8B (flat, Apple drag), automotive $4.0B (+18–20%, about $45B design-win pipeline), IoT $6.6B (+5–10%) — so group growth about 3%/yr as auto/IoT offset flat handsets and declining licensing.

Inventory analysis

Receivables are low-risk and revenue recognition is reliable — no quality-of-earnings flag from the working-capital accounts.

- Inventory FY2025 $6,526m, essentially flat vs FY2024 $6,423m (+1.6%) against revenue +13.7%; turns about 3.0× (about 121 days). The step-up from $1.4B (FY2019) to $6.3B (FY2022) reflects the premium-tier/RFFE build and multi-sourcing; stable since, so no growing overhang.
- Receivables FY2025 $2,855m → DSO about 24 days, very low; grew far slower than the multi-year sales rise. Short OEM payment terms; QTL royalties collected the quarter after licensee sales.
- Revenue recognition reliable: QTL sales-based royalties recognized on licensee sales from preliminary estimates, and actual royalties have been "materially consistent" with estimates with no significant reversals.

Depreciation analysis

Depreciation is conservative and does not distort the economics; acquired-intangible amortization is handled by the normalization.

- D&A $1,602m FY2025 vs capex $1,192m (1.34×); FY2024 $1,706m vs $1,041m (1.64×).
- D&A exceeds capex partly because it includes amortization of acquired intangibles (no reinvestment required); normalized EBIT = EBITDA − maintenance capex ($533m FY2025) strips this out, so it does not distort normalized EV/EBIT or ROIC (key_numbers_guide).
- Capex only about 2.7% of sales; management flags a modest near-term rise for integrated-circuit test capacity.

Business quality and moat

A wide but narrowing moat: extraordinary returns on in-place capital, only modest returns on new capital.

- Normalized tangible ROIC about 146% and about 47% on invested capital (incl. goodwill) vs about 10% cost of capital — a vast spread from standard-essential-patent licensing (QTL) and premium-SoC scale/integration.
- But incremental capital earns only about 20% pretax (about 17–18% after tax) consolidated, and about 10% pretax on the tangible, capital-consuming segments — barely above the cost of capital — so growth is only mildly value-accretive, not a compounding machine.
- The moat erodes at the edges: Apple in-sourcing its modem and FRAND/antitrust pressure on QTL royalties.

Management and governance

Competent, shareholder-friendly management; sensible capital allocation, no governance red flags.

- Diluted share count fell 1,220M → 1,105M (-9.4%) over FY2019–25 despite $2.78B/yr stock-based pay — net buybacks reduce the count.
- FY2025 returned about $12.6B (dividend + buyback), above the $10.0B free cash flow (topped up from the cash pile); the rest of cash flow funds automotive/IoT R&D and the diversification.
- Standard US large-cap governance; candid segment reporting; no related-party or integrity concerns noted.

Valuation

At $175.50 QCOM trades far above intrinsic value on its own cash flows; the probability-weighted two-stage APV is about $105 a share, a price-to-value of about 0.60, and the price sits above even the about $130 bull case.

- Normalized EV/EBIT 14.6, P/E 17.0; reported P/E 33.5 is distorted by the FY2025 one-off about $5.7B deferred-tax valuation allowance, normalized out at the 13.4% median rate.
- Two-stage APV at a 9.5% discount rate (US 10-year 5.24% + about 4.3% premium): worst $70, bear $80.00, base $105.31, bull $130.06; probability-weighted $105.27, value without the bull case $95.82.

Risk and margin of safety

The margin of safety is negative and the chief risk is a QTL FRAND/antitrust ruling; permanent-loss odds about 12%, but the fortress balance sheet caps the downside short of impairment.

- Price $175.50 vs probability-weighted value $105.27 = 1.67×; every scenario lies below the price (even the about $130 bull is -26%), so the chance a share is worth more than the price is about 0%.
- QTL licenses expire fiscal 2027–2031 and Huawei royalties ended in FY2025; an adverse royalty-rate or licensable-base ruling drives the about $70 worst case.
- Concentration risk: about 46% of revenue in China; Apple in-sourcing its modem toward about 0 by the 2027 cycle; Taiwan/TSMC foundry reliance.

Decision, sizing and portfolio fit

Trim toward about 2% target weight; with the price above the $150 trim-above level and no margin of safety, the standing decision is trim/hold, not add.

- Current weight 2.64% (CAD 32,830, #8 of 9 in a about CAD 1.24M book); target 2.0% — about 0.64pt / about CAD 8,000 trim that modestly cuts single-name, semis and China-supply concentration.
- Final score about 4.5/10 sits in the hold band (buy 7.0 / sell 4.0), up from 3.7 on the business_changed return-on-capital mechanics, not on any improvement in value; the decisive price/DCF factor is at its floor (-1.0, 30% weight) (scorecard_QCOM).
- Price $175.50 is above trim-above $150 and 1.67× the about $105 weighted value; buy-below about $93 (valuation_QCOM).

Monitoring and selling

Monitor the Apple modem roll-off, the fiscal 2027–2031 QTL license renewals, auto/IoT momentum and the operating margin; sell triggers are set and the position is to be trimmed toward 2%.

- Watch each 10-Q for: QCT handset revenue as Apple's C1 modem displaces Qualcomm, QTL renewal terms and any FRAND/antitrust ruling, automotive progress toward the about $8B FY2029 target, IoT/AI-PC recovery, and whether the operating margin holds about 27%.
- Re-rate up only on evidence of sustainably >5% a year group growth with QTL renewed at current economics (toward the about $130 bull); re-rate down on an adverse FRAND ruling or margin sustained <25% (toward the $80 bear / $70 worst).

The decision

TRIM

The decision: trim. Buy below $93.00. Trim above $150.00. Target weight 2.0 percent of the portfolio. What would change our mind: A price near or below the base-case about $105 (margin of safety restored); evidence QTL renews FY2027–2031 at current economics and auto/IoT sustainably lift group growth above about 5% a year; or a durable step-up in normalized operating margin back toward 30%+.