

**Rev/Employee: \$713.62 k**
**Number of Employees: 35,400**
**Avg ROIC: 3.45%**
**Telecom**

## QCOM: New CFO at the Cusp of 5G

Qualcomm's CEO Steve Mollenkopf (51) told investors this week that he thinks QCOM has "...the best products and the best technology roadmap that we've ever had in the company's history." The CEO says Snapdragon versions 6 and 7 will be launching this quarter and brand extensions into the industrial IOT market and automotive sector are a top priority for 2020. New CFO Akash Palkhiwala (44) took over the finance function earlier this month after holding the interim role since August when SVP and interim CFO David Wise retired. We like CFO Palkhiwala's prior years at the firm as finance head for the Technologies "QCT" division. He is taking his new role as the firm's potential operating leverage from restructuring, reduced share count, and 5G revenue streams are poised to deliver superlative results.



**Management Update:** The only major change in QCOM's senior ranks this year ([see our prior reports](#)) is new CFO Palkhiwala who has worked at QCOM for 18 years, the last 3 as the SVP in the QCT Technologies division. He is a seasoned insider, well qualified to take over the books and his timing in taking the CFO role is fortuitous. CFO Palkhiwala told investors that the firm has accretively retired about 22% of its shares outstanding, at an average price of \$65, over the last three years despite 21 acquisitions, a \$2 billion break-up fee, and an R&D spend of over \$17 billion. The return of AAPL revenues, pending Huawei settlement, and acceleration of 5G deployments indicates a strong financial year ahead. Palkhiwala was previously the SVP and head of QCT from 2016 to August 2019 under QCT division president, Christiano Amon (himself an 18 year veteran of the firm). Prior to that, he was QCOM's SVP & Treasurer from October 2014 to December 2015, running the global cash management and treasury investment portfolio. The CFO has spent most of his career in the QCT division as a VP finance from 2009-14. Palkhiwala started his career at QCOM in 2001 and was an Analyst at KeyBank's private equity group, Key Principal Partners, for 2 years after graduating from business school. Palkhiwala has a mechanical engineering degree from Lalbhai Dalpatbhai College of Engineering in Ahmedabad, India and an MBA from the University of Maryland (1999). At Investor Day this week, Alex Rogers EVP of Licensing spoke about QCOM's 140k patent library and told investors "...when you walk into the front door of Qualcomm's main building, and I know a number of you've been there, this is what you see. You see a two-story wall of patents, and these are actual Qualcomm patents, and it reflects our culture. It's not just a culture of innovation, but it's a culture that prizes novelty, getting out ahead, creating technology that is groundbreaking, there is a tremendous focus on being an inventor and on being an inventor that matters. And when in the history of our company, we hear the words that a problem can't be solved, you can't commercialize that technology, we'll never be successful. It's like a call to action for Qualcomm. It's a rallying cry." We continue to think its likely that the Board and CEO Mollenkopf will look to spin-off the QTL division in calendar 2020 as the firm's licensing revenues, ex-Huawei settlement, continue to grow to about \$1.3 billion a quarter this year.

**Pay & Incentives:** We like the long term alignment of QCOM's executives with their shareholders and that about 77% of their total pay is based on long term equity/option awards geared to operating performance (CEO Mollenkopf's total cash pay (salary + bonus) was only 18% of his \$20 million in total pay last year, although we note that \$6 million of that total was in a one-time option grant. Management's annual cash bonuses are determined by a 60/40% mix of EPS and Revenue targets (exceeded in 2019) and perquisites are minimal. Long term equity LTIPs are a 50/50% mix of time vesting restricted stock (vesting ratably over 3 years) and three year PSUs that vest on a 50/50% mix of ROIC and relative total return vs the Nasdaq 100 index. CFO Palkhiwala's new annual salary will be \$750k with a 100% cash bonus target each year. Palkhiwala received a three year time vesting equity grant

### Continued evolution to deliver on the 5G vision



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worth \$3 million when he became the interim CFO in August. The prior full time CFO, George Davis had targeted LTIP equity grants of \$5.5 million in 2018. Assumably, the new CFO will also receive a material equity grant associated with the promotion when he 2020 LTIP awards are made late this year. Earlier this year, the Board made special one-time equity grants to its five executive officers in recognition of their tenacity and success in the Apple litigation and settlement. CEO Mollenkopf received 40,794 shares (worth \$3 million), former CFO Wise received 2,958 shares, QCT President Cristiano Amon received 24,930 shares, and CTO Jim Thompson received 19,264 shares.

CEO Mollenkopf is the largest personal stockholder and beneficially owns about 602k shares of QCOM (worth about \$54 million). The CEO has been a modest seller of shares, mostly for tax reasons, with net proceeds to him of about \$9 million in the last 18 months. Former CFO George Davis has sold only a small amount of stock in the last year and still owns a stake of about 162k shares (\$13 million). Management's weighted average strike price on their vested option is deeply in-the-money at about \$44.5 a share. We note that QCT President Amon has been a steady seller of his shares over the last 18 months with net proceeds to him of about \$15 million. Fidelity is the largest non-ETF institutional holder with about 4% of the shares followed by: T Rowe Price (2.15%), PRIMECAP (2%) and Capital Research (1.7%, down from about 7.3% in the first quarter).

**Fiduciary & Other:** Chairman Mark McLaughlin (54) took over leadership of the Board in August 2019 and has been a Director for 4 years. He is a retired US Army officer and the former CEO and current Vice Chairman of Palo Alto Networks. The Chairman beneficially owns about 37k shares of QCOM. Former Mondelēz International CEO Irene Rosenfeld (66) is the newest Director, joining in November of 2018. We note that Director Barbara Alexander (71), who Chairs the Compensation Committee, has been on the Board for 13 years and we think she is past due on her retirement. She is a former managing director at Dillon Read and Salomon Brothers. The CEO's brother, Jim Mollenkopf is a VP at the company with total pay of about \$300k last year.