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Qualcomm Incorporated (NASDAQ: QCOM)

The market has priced the Apple exit as if nothing replaces it

RATING	PRICE (7/16/26)	12-MO TARGET	TOTAL RETURN	RISK / REWARD
BUY	\$170.61	\$205	+22.4%	1.2 : 1

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We are initiating on Qualcomm with a BUY and a \$205 target.

QCOM trades at roughly **15–16x forward earnings** — near the low end of its history and a deep discount to semiconductor peers — not because the business is failing, but because Apple is designing Qualcomm’s modem out of the iPhone on a known, published timeline. That loss is real. It is also the most-telegraphed event in the sector, and the market is extrapolating it as if the rest of the company stands still.

Our thesis rests on three legs. **One:** the replacement engine is already visible — automotive grew 38% to a record last quarter and is on track to a \$6B+ run rate, and it roughly backfills the Apple modem revenue by itself. **Two:** you are paid a **~7.5% shareholder yield** to wait, via a \$20B buyback and a growing dividend. **Three:** the licensing business (QTL) throws off high-margin cash that is largely independent of who wins any single chip socket.

This is a more balanced setup than a typical high-conviction call — risk / reward is ~1.2:1, not 2:1 — and we say so plainly. The China handset trough and the fiscal Q3 print on **~July 29** are the near-term swing factors.

SNAPSHOT	
Market cap	~\$179.8B
Shares outstanding	~1.05B
Forward P/E (FY26E)	~15.8x
FY25 revenue	\$44.3B
FY25 non-GAAP EPS	\$12.03
Dividend / yield	\$3.68 / 2.2%
Buyback authorization	\$20B (Mar '26)
Shareholder yield	~7.5%
FCF yield	~6.4%
52-week high	\$259.92
52-week low	\$121.99
Below 52-wk high	~34.4%
Op. cash flow (FY25)	\$10.0B
Street consensus	Hold, ~\$220 avg

Prices as of the July 16, 2026 close. FY = fiscal year ending late September.

1 · What the market is missing

The Apple loss is real, dated, and fully disclosed — which is exactly why it is priced

CEO Cristiano Amon has told analysts Qualcomm expects to supply modems for only around 20% of iPhones in 2026, and none at all by 2027, when the licensing agreement expires. Estimates put the lost modem revenue at roughly **\$5.7B–\$5.9B a year**, or \$7.3B–\$7.8B once you add RF and other content. That is a real hole. But it is also the single most-modeled event in the semiconductor sector — the company itself has publicly assumed near-zero Apple modem revenue by 2027, and at least eight brokers have downgraded the stock on it over the past year. When a risk is this well-telegraphed, the question is not whether it is real, but whether it is *over-priced*.

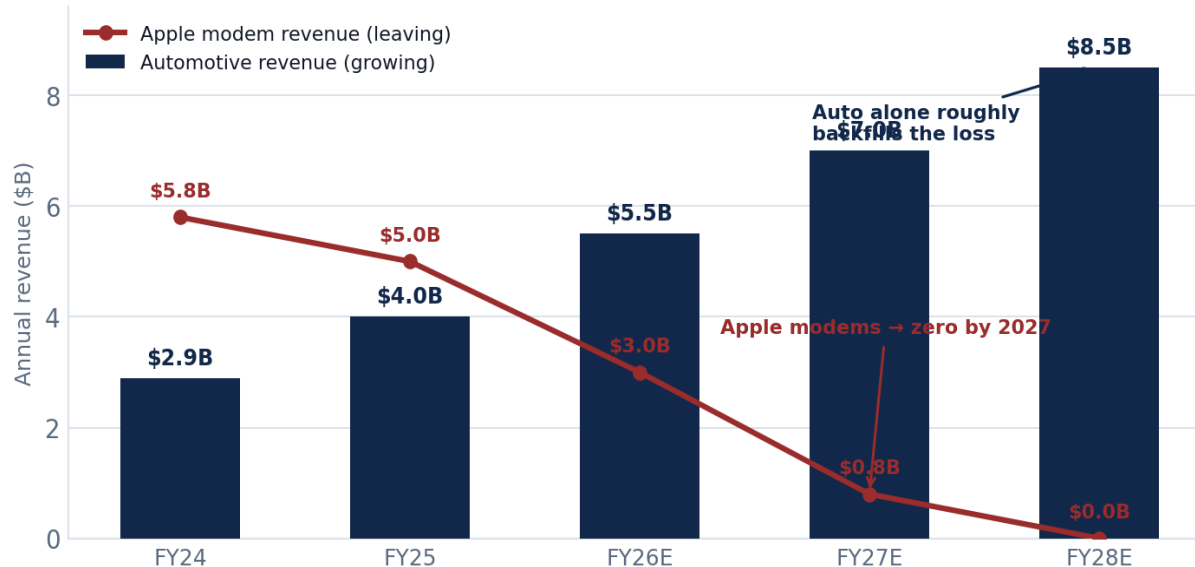
The replacement engine is not a promise — it is already in the results

In fiscal Q2 2026, automotive revenue grew **38% year over year to a record \$1.33B**, and Qualcomm crossed a \$5B annualized automotive run rate for the first time, guiding to above \$6B exiting fiscal 2026. IoT grew 9% to \$1.73B. Put those next to the Apple modem revenue that is leaving, and automotive growth alone roughly backfills the loss over the next two to three years — before counting IoT, PCs, or the data-center effort. The market is treating a revenue *rotation* as a revenue *cliff*.

The buyback and dividend pay you to wait

In March 2026 the board authorized a new **\$20B** repurchase program — about 11% of the entire market cap — on top of ~\$2.1B still remaining from the prior authorization, and raised the dividend from \$0.89 to \$0.92. In fiscal 2025 the company returned **\$12.6B** to shareholders (\$8.8B of buybacks plus \$3.8B of dividends). Between repurchases and the dividend, the shareholder yield is roughly **7.5%**. That is the margin of safety in this call: even if the multiple goes nowhere, the capital return compounds the share count down while you wait for the diversification to prove itself.

Fig. 1 — The replacement engine: what leaves vs. what arrives



Source: company filings & Q2 FY26 call (auto 5B + run – rate, exiting FY26 > 6B); Apple modem revenue est. 5.7–5.9B at peak, →0 by FY27. FY26E–FY28E are 2 Comma Investor estimates.

Licensing is the quiet anchor

The QTL licensing segment generated \$1.38B in Q2 at an EBT margin above 70%. That revenue arrives largely regardless of which company wins a specific chip design, and it is a big reason operating margins have held around 34% over the past year, well above the five-year average near 27%. It is one of the more durable, high-margin income streams in the entire industry, and it is not going anywhere when Apple's modem does.

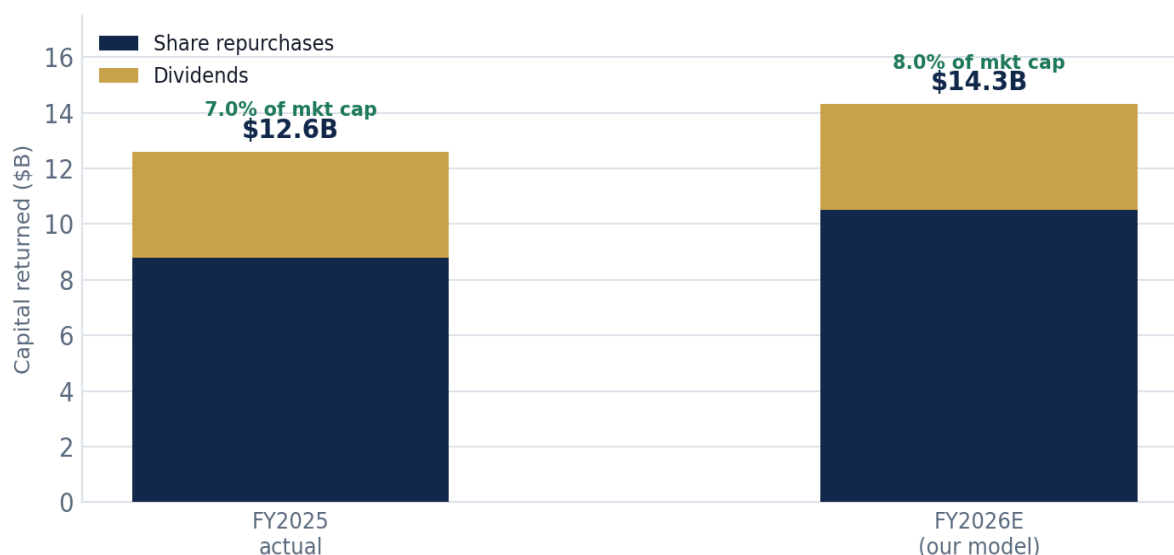
2 · The capital return engine

Qualcomm is a cash machine that happens to design chips. It generated **\$10.0B of operating cash flow** in fiscal 2025 and returned more than that to shareholders — **\$12.6B** — by leaning on a strong balance sheet (\$13.7B cash against \$15.2B debt). The market is currently offering an unusually high cash return to own it: at roughly \$170, the free-cash-flow yield is about **6.4%**, against a ~4.1% median for the S&P; 500.

A buyback that is bigger at a lower price

This is the part the Apple narrative obscures. A repurchase is an investment decision, and its return depends entirely on the price paid. The \$20B authorization is being executed while the stock sits ~34% below its 52-week high. Every dollar spent at ~16x earnings retires far more earnings than the same dollar spent at the ~25x the stock has fetched in better moods. In fiscal 2025, Qualcomm repurchased 56 million shares; the buyback yield alone was recently around 5.4%, roughly 159% above its ten-year median. Fewer shares means the same profit is divided across a smaller base — an EPS tailwind that is entirely independent of Apple.

Fig. 2 — Paid to wait: a ~7.5% shareholder yield



Source: FY2025 = 12.6B returned (8.79B buyback + 3.81B dividend), company filing. 20B buyback authorized Mar 2026 (+2.1B remaining). Marketcap 179.8B. FY26E is a 2 Comma Investor estimate.

The dividend: small yield, serious growth, easily covered

The \$3.68 annualized dividend yields about **2.2%** — modest on the surface, but it was just raised, it has a long record of increases, and it consumes only a fraction of free cash flow. A ~2% yield that grows, sitting on top of a ~5% buyback yield, is the definition of a shareholder-return compounder. The honest counterpoint: the company is returning more than 100% of free cash flow and carrying \$15.2B of debt, so this pace relies on the cash flow continuing to show up. That is the thing to watch, and it is why the fiscal Q3 print matters.

3 · The Apple debate, adjudicated

This is the whole argument. QCOM is down sharply from its highs almost entirely on the belief that losing Apple, plus a soft China smartphone market, breaks the earnings power. We take the bear case seriously — and conclude the market has priced a permanent impairment on the basis of a transition the company has been preparing for, and is visibly offsetting.

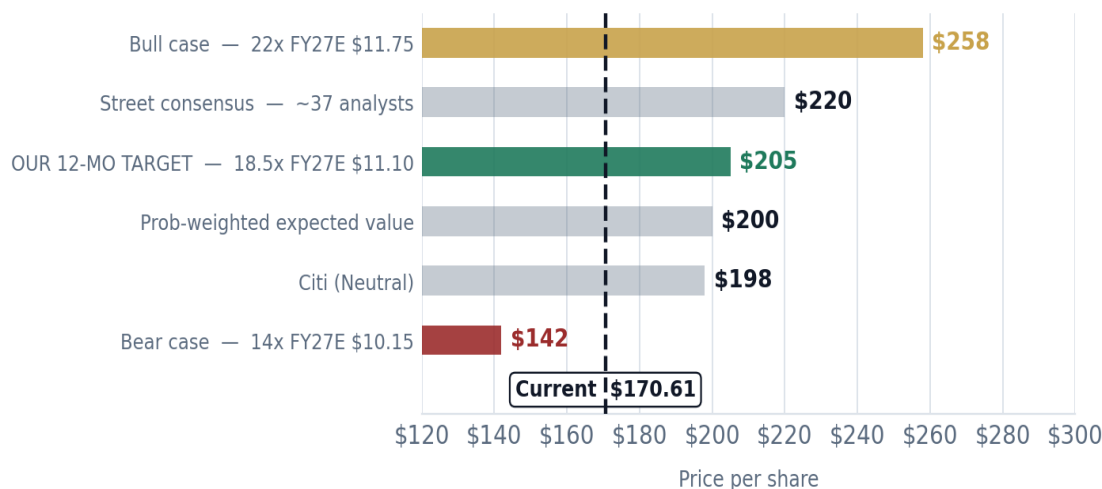
THE BEAR CASE (fair points)	THE REBUTTAL (what the results show)
The Apple cliff. ~\$5.7–\$5.9B of modem revenue, plus RF, goes to zero by 2027. For a company Apple once represented ~a fifth of, that is a serious hole.	Real — and fully disclosed. Management has assumed near-zero Apple modem revenue by 2027 for a while. Automotive at a \$6B+ exit run rate, growing ~38%, roughly backfills the modem loss by itself over 2–3 years.
China / handset weakness. A memory (DRAM) shortage is squeezing mid-range Android demand; handset revenue fell 13% last quarter. BNP Paribas cut the stock to Neutral, citing “no end in sight.”	Management sized fiscal Q3 as the <i>bottom</i> for China handset revenue, with sequential growth after. If that call is right, the compares turn easy into fiscal 2027. If it is wrong, the bear case gets a quarter of fresh evidence — which is why the print is the catalyst.
The multiple should stay low. A business losing its largest modem customer with a maturing core deserves a discount, not a re-rating.	Some discount, yes — we underwrite ~18.5x, below peers, not the ~25x of better days. But ~16x prices <i>permanent</i> decline, and the licensing annuity plus auto/IoT growth argue the earnings base holds and grows past the trough.
Data center is hype. The bull case leans on an unproven pivot into AI infrastructure against entrenched incumbents.	Fair — we give it little weight in the base case and treat it as free optionality. A custom-silicon engagement with a leading hyperscaler is expected to begin shipping this calendar year; if it works, it is upside to our target, not a load-bearing assumption.
Concentration and geopolitics. A large share of the business touches China, exposed to U.S.–China trade and national-security tension, and a handful of customers drive premium-tier volume.	No rebuttal — this is a permanent tax on the multiple, and we do not model it away. It is in the bear case and it is why we underwrite a discounted multiple rather than a full re-rating.

The conclusion. Qualcomm has spent five years telling investors Apple would leave and building the businesses to replace it. The market is now pricing the leaving and ignoring the building. As CFO Akash Palkhiwala and CEO Cristiano Amon have framed it, the diversification into automotive, IoT, and edge AI is not a someday story — it is in the quarterly results. We think ~16x forward earnings says the market does not yet believe them. We do.

4 · Valuation and scenarios

We value QCOM on forward non-GAAP EPS. Fiscal 2025 non-GAAP EPS was **\$12.03** (GAAP was depressed by one-time items; fiscal Q2 2026 GAAP was inversely inflated by a one-time \$5.7B tax benefit — we look through both and value on the adjusted number the business actually earns). Fiscal 2026 is a trough year on the China and Apple headwinds; we carry **~\$10.85** for FY26E and **~\$11.10** for FY27E as auto/IoT growth and the buyback offset the Apple loss.

Fig. 3 — Valuation football field



Source: 2 Comma Investor estimates; street targets & consensus per S&P Global / stockanalysis.com / TipRanks, July 2026 (Benchmark street-high 300; *BNP*low120). Weights: 55% base, 20% bull, 25% bear.

Scenario	Wt.	FY27E EPS	Mult.	Value	Return	What has to happen
Bull	20%	\$11.75	22.0x	\$258	+51%	China recovers fast, auto accelerates, the data-center pivot delivers, and the multiple re-rates toward peers.
Base	55%	\$11.10	18.5x	\$205	+20%	Auto/IoT growth offsets the Apple loss, China bottoms in fiscal Q3 and recovers, buyback shrinks the share count, partial multiple repair.
Bear	25%	\$10.15	14.0x	\$142	-17%	Apple loss bites harder than modeled, China weakness persists, DRAM pricing pressures margins, the multiple stays structurally de-rated.
Weighted EV	100 %	—	—	\$200	+17%	Even carrying a 25% weight on a structurally-weak bear case, expected value sits ~17% above spot — and you collect ~7.5% a year to hold.

Risk / reward is **~1.2:1** — base-case upside of ~\$34 against bear-case downside of ~\$29 from the \$170.61 reference price. That is positive but modest, and more balanced than a high-conviction call. What tilts it to a BUY is the ~7.5% shareholder yield: you are paid to hold through the trough, and the expected value sits ~17% above spot even with a full quarter of weight on the bear case.

Financial summary

Metric	FY2025A	Q2'26A	FY2026E	FY2027E
Revenue	\$44.3B	\$10.6B	~\$43B	~\$44B
Non-GAAP EPS	\$12.03	\$2.65	~\$10.85	~\$11.10
QCT revenue	—	\$9.1B	—	—
— Handsets	—	\$6.0B (–13%)	—	—
— Automotive	\$4.0B	\$1.33B (+38%)	~\$5.5B	~\$7.0B
— IoT	—	\$1.73B (+9%)	—	—
QTL (licensing)	—	\$1.38B (+5%)	—	—
Op. cash flow	\$10.0B	—	~\$10B	~\$10.5B
Buybacks	\$8.8B	\$2.8B	~\$10.5B	~\$10B
Dividends	\$3.8B	\$0.95B	~\$3.8B	~\$3.9B
Cash / debt	\$13.7B / \$15.2B	—	—	—

A = actual, E = 2 Comma Investor estimate. Fiscal year ends late September. FY2025 GAAP EPS was materially below non-GAAP on one-time items; fiscal Q2 2026 GAAP EPS of \$6.88 was lifted by a one-time \$5.7B tax benefit. We value on non-GAAP. Segment lines shown where disclosed.

5 · Catalysts

- **Fiscal Q3 2026 earnings — on or about July 29 (days away).** Consensus sits near \$2.27 non-GAAP EPS on ~\$9.85B revenue; guidance was \$2.10–\$2.30 on \$9.2B–\$10.0B. The swing factor is China: management called this quarter the bottom for China handset revenue. Confirmation of sequential recovery re-rates the stock more than the EPS line does.
- **Automotive momentum.** Q3 automotive guidance is for ~50% year-over-year growth, and commercial shipments of the next-generation Snapdragon Digital Chassis begin by fiscal year-end. Each print that confirms the \$6B+ run rate validates the replacement-engine thesis.
- **Data-center optionality.** Custom silicon for a leading hyperscaler is expected to begin shipping this calendar year. It is not in our base case; any traction is upside and is the core of the bull (Benchmark's street-high \$300 target rests on it).
- **Continued buyback execution.** \$20B authorized with no expiration. Each quarter of repurchase shrinks the share count and lifts EPS independently of end-market demand.

6 · Risks to the thesis

Sev.	Risk	Assessment
HIGH	Apple modem loss accelerates	The core structural risk. If the non-Apple business does not grow fast enough to absorb the ~\$5.7–\$5.9B modem loss by 2027, margins and EPS come under more pressure than we model. We underwrite it; we do not dismiss it.
HIGH	China / handset weakness persists	A DRAM shortage is compressing mid-range Android demand. If the fiscal Q3 bottom slips, the flat-revenue period extends and the earnings recovery pushes out. This is the single most important near-term variable.
MED	Memory (DRAM) cost pressure	Rising memory prices squeeze both Qualcomm's component costs and its customers' build economics. It is a live headwind on gross margin and on OEM order patterns.
MED	Multiple stays de-rated	The stock is cheap and can stay cheap. If sentiment toward the Apple transition and China does not improve, the re-rating in our base case simply does not happen, and you are left with the ~7.5% yield and little multiple lift.
MED	Concentration & geopolitics	Heavy China exposure amid U.S.–China trade and national-security tension; a small number of customers drive premium-tier volume. Largely unquantifiable and largely permanent.
LOW	Data-center pivot disappoints	If the hyperscaler engagement stalls, the bull case evaporates — but since we assign it little base-case weight, the downside to our target is limited.
LOW	Capital-return pace	Qualcomm returns more than 100% of free cash flow and carries \$15.2B of debt. Fine while cash flow compounds; a problem quickly if it does not.

The bottom line

Qualcomm converts roughly a third of revenue into operating profit, generates \$10B+ of operating cash flow, is retiring shares under a \$20B authorization, just raised its dividend, and is growing automotive at ~38% into a record. It trades at ~16x forward earnings because the market has decided the loss of Apple's modem business is the whole story. We think the replacement engine — auto, IoT, licensing, and optional data center — is being given almost no credit, and that ~16x prices permanent decline for a business that is rotating, not shrinking. You collect ~7.5% a year to wait, and the clock starts with the fiscal Q3 print on ~July 29.

Rating: BUY. 12-month target: \$205. Risk / reward: ~1.2:1 — balanced, with the capital return as the cushion.

Methodology, sources & disclosures

Methodology

Target price derived from a probability-weighted scenario analysis applying an exit multiple to fiscal 2027 estimated non-GAAP EPS. Base-case FY27E non-GAAP EPS of \$11.10 reflects automotive and IoT growth plus buyback-driven share-count reduction offsetting the loss of Apple modem revenue, with a partial recovery in China handset demand. The 18.5x base exit multiple sits below the semiconductor peer group and above the current ~16x, reflecting partial — not full — repair of the Apple/China de-rating. Risk / reward of ~1.2:1 computed as base-case upside (\$34.39) divided by bear-case downside (\$28.61) from the \$170.61 reference price. Shareholder yield computed as estimated fiscal 2026 buybacks plus dividends over the ~\$179.8B market capitalization.

Primary sources

Qualcomm fiscal Q2 2026 earnings release and call transcript (April 29, 2026); fiscal Q4 / full-year 2025 results release (November 5, 2025); fiscal 2025 Form 10-K and interim Form 10-Q filings; the March 17, 2026 capital-return press release (\$20B repurchase authorization; dividend raised to \$0.92). Market data and consensus per S&P; Global Market Intelligence, stockanalysis.com, Investing.com, Google Finance, and TipRanks (July 2026). Apple modem-transition estimates and analyst commentary referenced from Bloomberg, Bank of America, Mizuho, BNP Paribas, Benchmark, TD Cowen, Citi, and The Futurum Group. All figures reflect information available as of the July 16, 2026 close and are subject to revision; readers should verify current prices and any post-July 16 developments, including the June 24, 2026 Investor Day and the pending fiscal Q3 report.

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