

THE ECONOMIC CLUB

O F W A S H I N G T O N, D. C.

**Excerpts from the Signature Event featuring Steve Mollenkopf,
Chief Executive Officer, Qualcomm Incorporated**

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“The unique thing about *[Qualcomm]* ... is that we’re at the center of most industries. We’re relevant in a lot of different industries. So, I feel like the majority of what the company is working on are things that every company wants to deal with, and so it’s an exciting place to work.”

“The company started in 1985. It was started by about seven founders who were really trying to work on how *[to]* drive what at the time was a new technology, which was digital communications. It was at the time something that was just used for military applications, but it had a lot of opportunity to really revolutionize ... the way consumers and people communicate. And we spent about 30 years trying to figure out how we connect people. And *[what]* the company *[was]* founded on was really how do we drive quality communications, so Qualcomm.”

“...What happened was we had the idea that, in addition to communicating with voice, could we connect and put data in your pocket? And at the time, although it’s considered to be very normal today, people argued, why would you want to have a data connection? Why would you want to have an internet connection on a device that you carry around with you? ... Qualcomm always said that’s going to revolutionize a lot of industries, and so we worked on really the fundamental technology that enables that to occur.”

“...The smartphone is sort of like pasta. The number of people that say that they invented it are pretty large. By the way ... we have our own claim on it... But independent of who actually invented it ... it really comes down to what were the key technologies ... that allowed that technology to exist. And we clearly have a claim on that.”

“1G *[and 2G are]* really about how do you get voice communication in an efficient way to people. At first it was analog. Then it became digital cellular. 3G was, how I figure out how to get a little bit of data in a device. And if you remember, in the 3G timeframe, people didn’t understand why I would even want to have data in a device. That was the argument that people had. Of course, Qualcomm worked very hard on that. 4G was how I get the same IP connection that exists on my laptop, but I want to get it in a smart, connected computer in my pocket. It ended up that all of those technologies sort of came together at the 4G time, and then we’ve had tremendous growth in industries as a result... But 5G is, I think, the first time that industries that are not traditionally cellular will be disrupted in a large way by cellular technologies.”

“If you look at 5G – and we think the economic impact of 5G will be equivalent to the world GDP impact of a country the size of India today. Twenty percent of that impact – so the big impact – will actually accrue to the automobile industry, which is counterintuitive. But it just

shows how much connectivity and mobile computing will influence industries that are different than cellular.”

“We knew at the time, and I knew at the time of becoming CEO *[of Qualcomm]*, that we would have to make some big changes to the company to deal with ... change ... The first 28 years of the company’s history – we’re 32 years old – we had almost unlimited market growth at our back. *[W]*e had everything from the smartphone wave in front of us, digital communication in front of us, the end market growing at 20, 30 percent a year. But we knew that at some point that was going to slow down ... So how do we position the company so that we continue to be profitable in the slower growing but still growing cellular business, *[and]* how do we go into these new opportunities that are expanding? That was really ... the challenge of my CEO tenure.”

[On Qualcomm’s ongoing dispute with Broadcom, which offered to buy the company for \$70 a share, and when it will be resolved]: “The shareholder meeting is in March, so there’s an endpoint on that for sure. And I think in that case there’s not much more I can say than what was in the press release, which essentially is we didn’t think that the offer was in the ballpark of value, and there’s a lot of uncertainty or at least unknown timing related to regulatory... If you look at our board ... it’s a pretty strong board. Actually, it’s a world-class board that has a strong resume not only outside of Qualcomm, but directly as to what they’ve done in Qualcomm. In our view, it’s probably the wrong next step. It’s kind of an unusual case. But, we’re pretty comfortable with where we’re going to take the company, and we’ll let the shareholders decide.”

[On Qualcomm’s possible acquisition of NXP, a Dutch-based semiconductor company]: “It’s a well-positioned company as part of Qualcomm. It really helps us get into some of these areas that I was talking about in 5G. We’re focused on getting through regulatory approval. And it’s a very complementary merger. And, by the way, even being complementary, it takes about 14 months to get through. We’re *[in]* I would say the late innings of that. We think it’ll close either this calendar year or early next year. And then there will be some discussion about how to get closed. We think the price is a full price, but I’m sure there will be lots of discussion about that.”

“*[I]*f you look at our two big businesses, we have a licensing business and we have a chip business. The chip business ... is firing on all cylinders. The licensing business also is firing on all cylinders, with one exception, which is that we have a dispute with ... Apple over the licensing fee. And that’s not unusual. If you look at the history of that business, it tends to have somewhat lumpy revenue from time to time as a result of these disputes. But if you look, it’s really a contract dispute. We have a valid contract with *[Apple’s]* contract manufacturers. We’re in the process of enforcing that contract. It’s in the legal process. We’re very confident that we have the stronger hand, and it’ll play forward.”

“Big technology companies always have a complicated relationship. If you look, it’s not uncommon for Qualcomm to have a dispute with an *[original equipment manufacturer]*, maybe use them as a supplier. They might be a customer of ours two different ways. And I think that’s really the challenge of being a CEO in a big technology company, is you have to try to figure out how to resolve all of those things.”

“*[If someone opened up their smartphone, y]ou would find [the chip].* It’ll be rectangular. It’s about the size of a dime. And in our case, you might see several Qualcomm chips. If you look at our latest chip, it probably has 5 billion transistors. If you were to compare that kind of on the scale of human achievement, it’s probably some of the most complicated things, if not the most complicated single structure that we’ve created.”

“We read about *[Broadcom’s plans to buy Qualcomm]* through the leak, like everyone else. Now, we had had some discussions about a year earlier, but since those broke off we heard about it the same way. But ... I think that’s not unusual in a hostile *[acquisition effort]*... [L]ike everyone in the industry, we always have discussions: Could we find shareholder value in some form of combination? We had had discussions in the past. But I would just caution everyone to understand the industry that we’re in. The semiconductor industry is going through a period of consolidation, and so everyone talks to everyone else all the time. So ... everyone knows everyone.”

“I think for *[Qualcomm]* the argument is – probably the best is, one, there’s no real path to value that we see, at least in terms of offers now, in terms of an alternative.... [W]e are probably the best-positioned company for 5G and the connected world. We are sitting in a momentary spot where our revenue is a little bit difficult to model because of these licensing disputes. But those will get resolved, and what you’ll see is a company that really is providing the fundamental technology – probably one of the only companies in the world that can provide technology at scale into the connected world when the connected world is disrupting almost every industry, and *[has]* a track record of being able to do it.”

“The ethos of the company *[is]* probably less of a semiconductor company. We view ourselves as an innovation company that uses semiconductors and software to distribute that innovation worldwide. We ... as a semiconductor company, probably have more systems engineers and software engineers. That’s the majority of the people... [W]e also then lobby for semiconductor issues. And we think it’s very important ... for the U.S. to maintain its lead in this area, because it’s so important to the fundamental technologies that will drive economic growth in the future.”

“Driverless cars, I think, will be a reality. I think it’s a 30-year journey. There/’s/ a lot of work to be done, the least of which is we need to get every car connected to every car and get it connected to the internet. And I think we’ll have a lot more safety as a result.

“People talk about artificial intelligence. And a lot of when they think about it, they think about something that happens ... in a Microsoft data center or Facebook or at Amazon... But what’s happening is, we’re putting all of that technology in the device that’s in your pocket, and it’s essentially going to make decisions based on what it sees in its local environment – what you allow it to see, of course. And it’s going to adapt itself to what your needs are going to be. It’s going to anticipate what you need. [W]e’re just beginning that phase, and that will have a tremendous improvement in ... how this device helps you run your life.”