

Qualcomm Inc. Ratings Lowered To 'A-' On NXP Termination And New Share Repurchase Authorization; Outlook Negative

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[View Analyst Contact Information](#)

Qualcomm Inc. terminated its purchase agreement to acquire NXP Semiconductors N.V. and announced its intention to repurchase up to \$30 billion in stock by the end of fiscal 2019.

We project adjusted leverage will reach near mid-2x by end of fiscal 2019 as the company moves to a meaningful net debt position from a current net cash position, although the resolution of licensee disagreements could materially improve its credit profile.

We believe Qualcomm's competitive position has weakened over the past several years because of the competitive industry environment as well as various legal and regulatory challenges

We are lowering the long-term component of our issuer credit rating on Qualcomm to 'A-' from 'A' and the short-term and commercial paper rating to 'A-2' from 'A-1'. We are also lowering the rating on Qualcomm's senior unsecured debt to 'A-' from 'A'.

The negative outlook reflects the higher leverage arising from the significant shareholder returns that Qualcomm is undertaking and the potential for a lower rating if the company is unable to reduce leverage to under 2x by fiscal 2020.

SAN FRANCISCO (S&P Global Ratings) July 30, 2018--S&P Global Ratings today lowered its long-term issuer credit rating to 'A-' from 'A' and the short-term rating to 'A-2' from 'A-1' on U.S. semiconductor manufacturer Qualcomm Inc. We also removed all ratings from CreditWatch, where we placed them with negative implications on February 20, 2018. The outlook is negative.

At the same time, we lowered our rating on Qualcomm's senior unsecured debt to 'A-' from 'A' and the commercial paper rating to 'A-2' from 'A-1'.

The downgrade reflects our expectation that Qualcomm's adjusted leverage will exceed 2x over the near term as the company depletes much of its cash balances for share repurchases of up to \$30 billion over the next five quarters, and that it may remain above 2x if operating performance does not improve. However, we note the company's credit metrics could improve quickly should it reach a resolution with customers currently in licensing disputes. The downgrade also reflects weakening of its overall business risk profile in recent years as the smartphone industry matures, competition intensifies, and conflicts with regulators and customers continue.

The negative outlook reflects the higher leverage arising from the significant shareholder returns that Qualcomm is undertaking and the potential for a lower rating if the company is unable to reduce leverage to under 2x by fiscal 2020.

We could lower our issuer credit rating on Qualcomm if the company is unable to reduce adjusted leverage to below 2x over the next two years following the completion of the share repurchase program. This could occur if Qualcomm faces additional regulatory challenges or disputes with licensees leading to reduced QTL cash flow or if QCT business contracts due to customers moving to alternative suppliers or designing the chips in-house. A debt-funded acquisition that prohibits the company from reducing leverage below 2x by fiscal 2020 would also be a cause for a downgrade.

We could revise the outlook to stable if Qualcomm is able to reduce adjusted leverage below 2x post current share repurchases and commits to sustaining leverage at this level. This would occur if the company is able to generate modest revenue and EBITDA growth while avoiding additional regulatory challenges or disputes with licensees. Alternatively, a successful resolution with its licensees including receipt of catchup payments would enhance company's credit profile and likely lead to a stable outlook.

RELATED CRITERIA

Criteria - Corporates - General: Reflecting Subordination Risk In Corporate Issue Ratings (/en_US/web/guest/article/-/view/sourcelid/10486915), March 28, 2018
 General Criteria: Methodology For Linking Long-Term And Short-Term Ratings (/en_US/web/guest/article/-/view/sourcelid/10011703), April 7, 2017
 Criteria - Corporates - General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers (/en_US/web/guest/article/-/view/sourcelid/8956570), Dec. 16, 2014
 General Criteria: Group Rating Methodology (/en_US/web/guest/article/-/view/sourcelid/8336067), Nov. 19, 2013
 Criteria - Corporates - Industrials: Key Credit Factors For The Technology Hardware And Semiconductors Industry (/en_US/web/guest/article/-/view/sourcelid/8333079), Nov. 19, 2013
 Criteria - Corporates - General: Corporate Methodology: Ratios And Adjustments (/en_US/web/guest/article/-/view/sourcelid/8330212), Nov. 19, 2013
 Criteria - Corporates - General: Corporate Methodology (/en_US/web/guest/article/-/view/sourcelid/8314109), Nov. 19, 2013
 General Criteria: Country Risk Assessment Methodology And Assumptions (/en_US/web/guest/article/-/view/sourcelid/8313032), Nov. 19, 2013
 General Criteria: Methodology: Industry Risk (/en_US/web/guest/article/-/view/sourcelid/8304862), Nov. 19, 2013
 General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities And Insurers (/en_US/web/guest/article/-/view/sourcelid/7629699), Nov. 13, 2012
 General Criteria: Use Of CreditWatch And Outlooks (/en_US/web/guest/article/-/view/sourcelid/5612636), Sept. 14, 2009

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Primary Credit Analyst: Andrew Chang, San Francisco (1) 415-371-5043;
andrew.chang@spglobal.com (<mailto:andrew.chang@spglobal.com>)

Secondary Contact: David T Tsui, CFA, CPA, New York (1) 212-438-2138;
david.tsui@spglobal.com (<mailto:david.tsui@spglobal.com>)

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