

### Mobile World Congress feedback

The Mobile World Congress (MWC) took place in Barcelona from 2-5 March. Below we highlight some interesting points from the conference.

#### Tablets and 2 in 1s:

European tablet sales managed to beat laptops for the first time in 4Q13, with sales reaching a high of 4.5mn units accounting for 57% of the combined notebook, netbook and tablet segment. However, the Tablet segment has seen a decline in growth despite these sales numbers (which suggests it might have already reached maturity). In terms of Tablets we highlight the following:

- Growth from 1Q13-4Q14 is down from 204.5% to 39.1% due to these devices becoming increasingly commoditised.
- Android leads as operating system (OS) of choice, taking more than 69.8% European market share with 82.2% YoY growth.
- The budget 7-inch Android devices are the most popular, with 4Q13 sales growing by 100%, while larger 10.1-inch Android devices recorded 38.7% growth and the 8-inch devices grew by 578%. This indicates to us that consumer preference is for smaller devices and these devices are also still utilised as a companion device.
- There was a huge belief at the conference that the smartphone would become smarter, taking the place of Tablets in the near future.
- Two devices were acceptable, phone and ultra-thin notebooks as opposed to phone, tablet and notebooks (three devices).
- Tablets could not reproduce the computing power of a notebook.

#### Apple iOS

In terms of tablets the iPad has a 28.9% market share and is growing by just 2.7% p.a. However, this is still very strong growth considering it is competing against all Windows and Android tablets on all brands in the market.

#### Microsoft

Microsoft has a very small footprint and its Surface 4Q13 market share remained flat at 0.9%, however, we think it might see slow growth. On the other hand the enterprise segment is showing growing interest.

Tablets are expected to move into commercial environments as well and this will likely happen slowly and would for the time being represent an addition to, rather than a replacement of, the traditional clamshell systems. Recent efforts by vendors to provide ultra-portable solutions such as thin and light clamshell laptops and hybrid solutions will also increasingly find their way into the commercial space and successfully compete with tablets. The UK was the largest European tablet market in 4Q13, with sales reaching around 1.5m units, followed by Germany with 950,000 units sold.

#### Smartphones

##### Total sales of all smartphones for 2013 ('000):

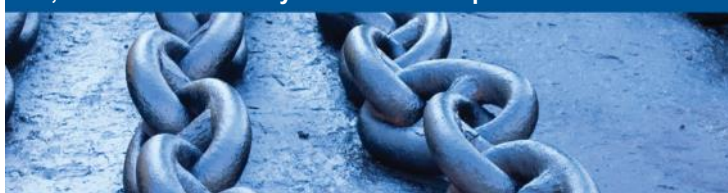
Company	2013	2013 Market Share (%)	2012	2012 Market Share (%)
	Units		Units	
Samsung	299,794.9	31.0	205,767.1	30.3
Apple	150,785.9	15.6	130,133.2	19.1
Huawei	46,609.4	4.8	27,168.7	4.0
LG Electronics	46,431.8	4.8	25,814.1	3.8
Lenovo	43,904.5	4.5	21,698.5	3.2
Others	380,249.3	39.3	269,526.6	39.6
<b>Total</b>	<b>967,775.8</b>	<b>100</b>	<b>680,108.2</b>	<b>100</b>

Source: Gartner



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**Total sales of all smartphones for 4Q13 ('000)**

Company	4Q13	4Q13 Market Share (%)	4Q12	4Q12 Market Share (%)
	Units		Units	
Samsung	83,317.2	29.5	64,496.3	31.1
Apple	50,224.4	17.8	43,457.4	20.9
Huawei	16,057.1	5.7	8,666.4	4.2
Lenovo	12,892.2	4.6	7,904.2	3.8
LG Electronics	12,822.9	4.5	8,038.8	3.9
Others	106,937.9	37.9	75,099.3	36.2
<b>Total</b>	<b>282,251.7</b>	<b>100</b>	<b>207,662.4</b>	<b>100</b>

Source: Gartner

**Vendors will look to emerging markets for growth**

Mature markets face limited growth potential as these markets are saturated with smartphone sales, leaving little room for growth. Vendors will therefore increasingly look to emerging markets (EMs) for growth. We highlight the following:

- Longer smartphone replacement cycles will take place.
- Consumers might skip a full refreshment cycle if the device has not evolved enough.
- Hardware and software innovations will have to be compelling to ensure change.
- Relevance to applications and solutions in local markets might become the driver and not necessarily the device itself.

Samsung has a 31% smartphone market share globally and analysts believe its focus is on the high-end value proposition and that it risks losing market share if the company does not have a clearer value proposition for the mid-market segment (simpler user interface being a key driver).

Apple had a record quarter (50.2mn iPhone units sold) in 4Q13 and it remains in second place. Although its market share is declining, Apple added NTT Docomo in Japan for the first time in September 2013 and signed a deal with China Mobile during the quarter. Consequently we are already seeing increased growth in the Japanese market and we should see the impact of the China Mobile deal in 1Q14.

Huawei smartphone sales grew 85.3% in 4Q13 to maintain the No. 3 spot YoY. Huawei has moved quickly to align its organisation to focus on the global market. The company's overseas expansion delivered strong results in 4Q13 with growth in the Middle East and Africa, Asia/Pacific, Latin America and Europe.

We believe Lenovo is the brand to watch and the acquisition of Motorola will allow it to grow even faster. Lenovo saw smartphone sales in 2013 increase by 102.3% YoY and by 63.1% in 4Q13.

For 2014, analysts predict that smartphone sales will continue driving overall mobile sales, with more vendors focusing on the low-cost segment of the market. High-end smartphone sales should slow down as low-and mid-tier device sales in high-growth EMs shift the product mix, leading to declining average selling prices (ASPs) and a slow-down in revenue growth.

**Smart Watches**

Global 2013 shipments of smart watches reached 1.9mn units, up from all of 300,000 units in 2012, with Samsung leading this by some way. Less than 1% of worldwide smartphone shipments come as a smart watch bundle, pointing out the "huge scope" for future growth. Android dominates this device category, shipping 1.2m smart watches with a 61% OS market share. The market does see other contenders in the shape of Firefox and Pebble, but both suffer from limited ecosystems and a "modest" retail presence.

Looking ahead, *Strategy Analytics* points out that smart watches are still in need of significant improvement, from hardware and apps to prices. The firm notes that "there is quite a big gap between what smart watches cost and what most people are willing to pay,".

**On-board car systems**

There was a substantial display of on-board systems in motor vehicles with Tablet and android applications measuring the health of vehicle surroundings and Wi-Fi and internet connectivity built into the system. In some instances the controls were voice and touch-screen activated. It also integrates with the user's phone and displays voice messages as text on the on-board display or even reads it back to you, if required. Apple was not present at MWC but they launched a similar product at the Geneva Motor Show called CarPlay with Ferrari, Mercedes and Volvo the initial participants.

**Conclusion**

For us the MWC reconfirms that the traditional giants of the industry like Microsoft and Intel are on the back foot due to their failure to successfully crack the mobile market. More interestingly Apple is losing share in most markets in an industry they seemed to own a few years ago. However, we do note that the iPhone maker has nevertheless held strong shares in some key markets including the US and the UK.

We also needs to keep in mind that above the consumer devices there is the enterprise business with more complex and annuity based solutions on both the hardware and software side. Currently Lenovo, already at number 1 in worldwide PC shipments, are positioning themselves nicely to take advantage of all these verticals. With the Motorola acquisition we could see Lenovo move into the number 3 position in the smartphone market and with its acquisition of IBM's low-end servers business we could even see the company expanding beyond smartphones and personal computers into the booming business of selling networking equipment to businesses.

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