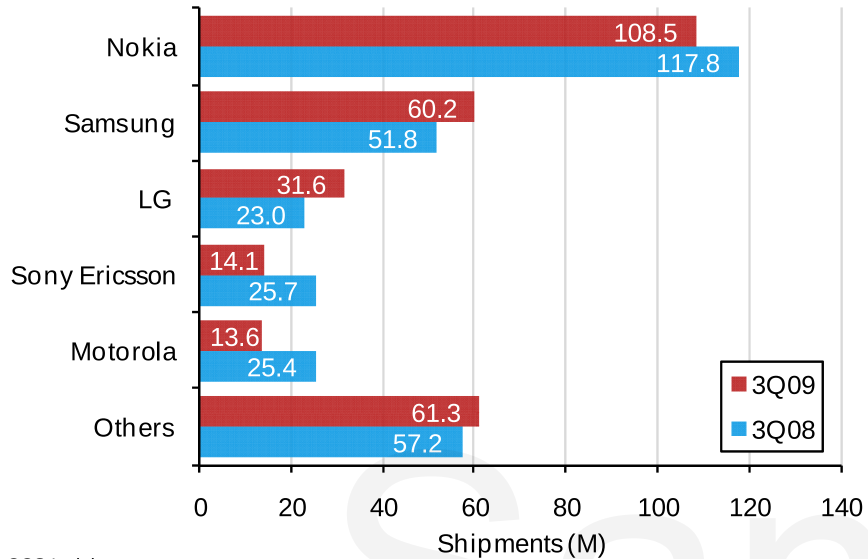
Global Mobile Phone Market Analysis, 3Q09

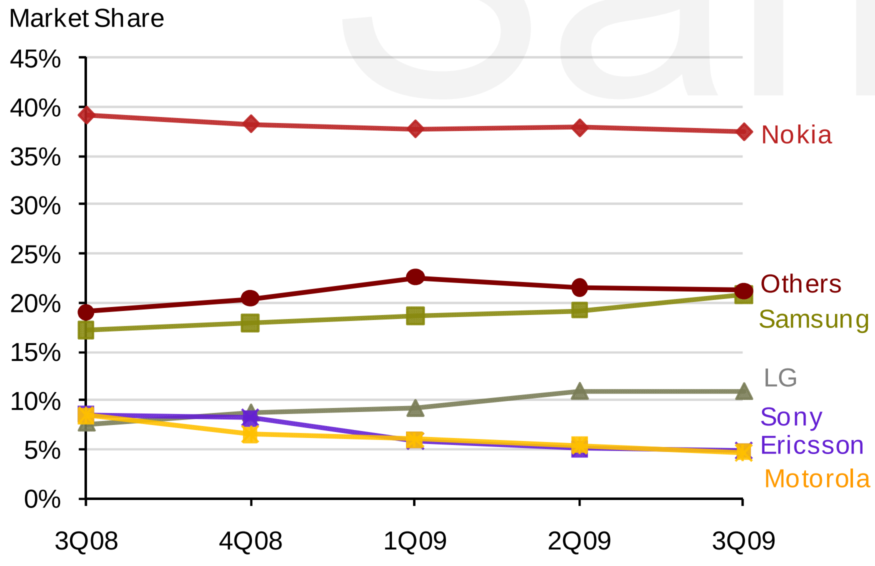
CCS Insight

Market Overview, 3Q09



Source: CCS Insight

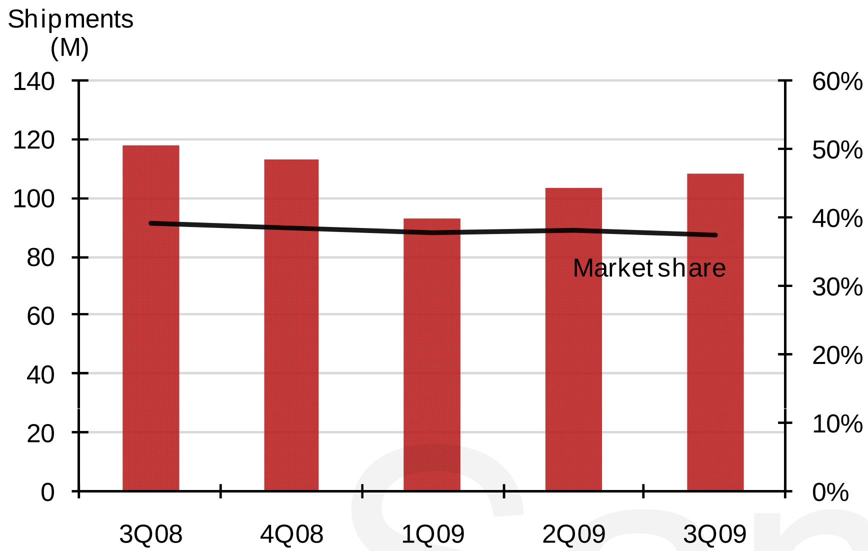
- CCS Insight estimates 3Q09 shipments at 289.3 million units — a year-on-year decline of 3.9%. However, quarter-on-quarter growth of 6.2% underscores improving market conditions.
- Growth in high- and low-tier segments continued to drive the market back toward growth, with 4Q09 expected to deliver the first year-on-year increase in shipments since 3Q08. Channel demand appears to have recovered following two consecutive quarters of restocking.
- The strength of consumer demand remains uncertain, despite increased channel demand and reports of component shortages. The final quarter will provide a measure of consumer demand against a weak 4Q08.
- Consolidation around the top three players continued in 3Q09, with Nokia, Samsung and LG accounting for 69% of shipments compared with 68% the previous quarter. LG and Samsung continued to outperform the market. However, despite year-on-year shipment growths of 137.4% and 16.2%, both manufacturers suffered declines in profit margins.



Source: CCS Insight

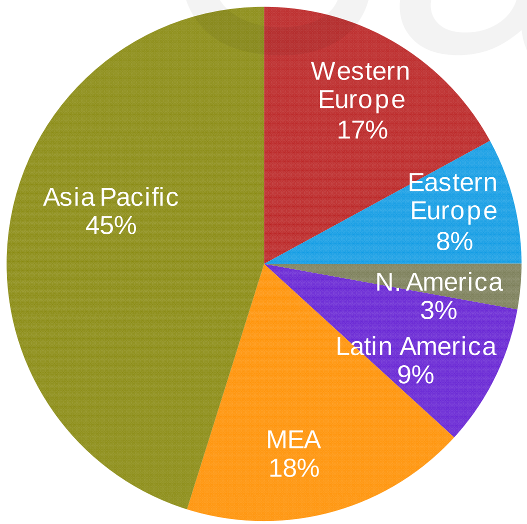
- Nokia narrowly exceeded expectations, with shipments rising 5.1% quarter-on-quarter, to 108.5 million units. However, its market share continued to fall, to 37.5% down from 39.1% in 3Q08.
- Samsung maintained momentum, increasing shipments by 16.2% year-on-year and 15.1% sequentially, to 60.2 million units. This strong performance meant Samsung achieved its long-held ambition of a 20% market share, although operating margin declined slightly, to 9.6%.
- LG continued to outperform the market, with shipments growing by a phenomenal 37.4% year-on-year to 31.6 million units. But profitability fell sequentially, with operating margin down from 10.6% in 2Q09 to 8.4%.
- Sony Ericsson's performance saw further incremental improvement, with shipments of 14.1 million units growing 2.2% sequentially. Operating loss improved quarter-on-quarter, to 12%, compared with a 16% loss in 2Q09 .
- Motorola's shipments of 13.6 million units were down 8.1% from 2Q09 as the company continued to phase out mid- and high-end feature phones. Improvements to its product mix and supply chain efficiencies saw operating loss fall to $183 million from $253 million in 2Q09.

Nokia — 3Q09 Analysis



Source: CCS Insight

Estimated Nokia shipments by region, 3Q09



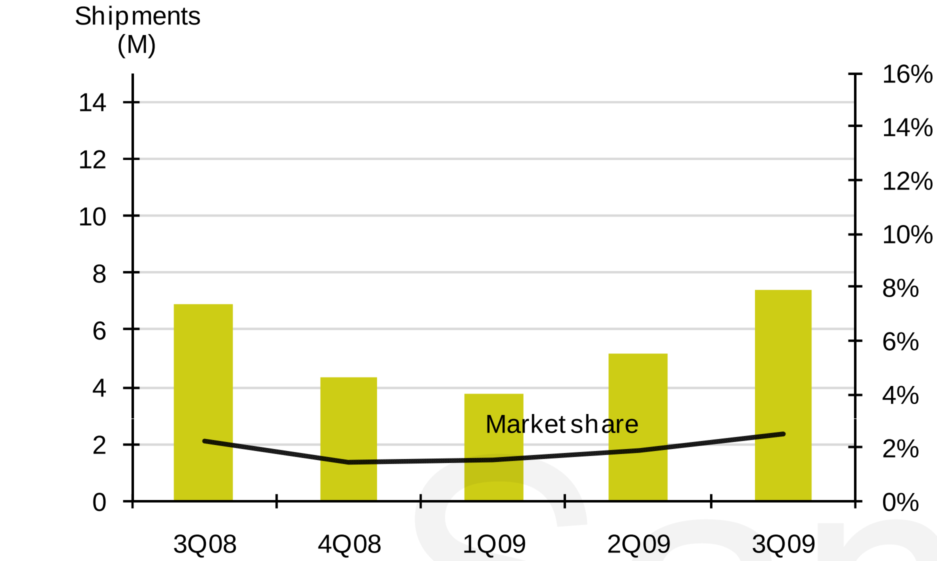
Source: CCS Insight

- Nokia slightly exceeded expectations in 3Q09, despite component shortages, with shipments of 108.5 million units and quarter-on-quarter growth of 5.1%. However, its market share declined in the face of strong performances from LG and Samsung. Nokia's share reached 37.5% in 3Q09, compared with 39.1% in 3Q08.
- Although Nokia maintained 2Q09's average selling price (ASP) of €62, device and service operating margin declined marginally from the previous quarter, to 11.4%. This compares with 18.6% in 3Q08 and underlines the competitive pressure Nokia is facing in high-tier segments. The impact of component shortage on high-end devices contributed to the slight sequential decline in operating margin.
- Eseries device shipments fell quarter-on-quarter to 4.4 million units from 4.7 million units in 2Q09. Nokia's touch-screen portfolio shipped a total of 5.7 million units, representing sequential growth of 35%, with N97 devices accounting for 1.8 million. The N79, 5800, 6700 and 5130 were the leading contributors to net sales.
- For Nokia, all regions except China and North America saw sequential growth from 2Q09. Europe recorded strong sequential growth of 16.3%. Europe and Latin America saw quarter-on-quarter rises in market share.
- North America suffered a further drop of 31.1% year-on-year as Nokia still struggles against the dominance of LG and Samsung and the high-profile launches of Palm, BlackBerry and Android-based devices.

Outlook

- Nokia maintained its guidance that its market share will remain roughly flat sequentially in 4Q09. Following Nokia's sequential fall in converged device shipments in 3Q09 to 16.4 million, CCS Insight expects a stronger performance from the company in 4Q09 following launches of the N900, X6, N97 mini, E72 and 5230.
- Although new product launches in 4Q09 should strengthen the portfolio, we believe the high tier still requires extensive reinforcement in the face of mounting competition, most notably from the iPhone and Android platform. This will be critical if Nokia is to strengthen margin in 2010.

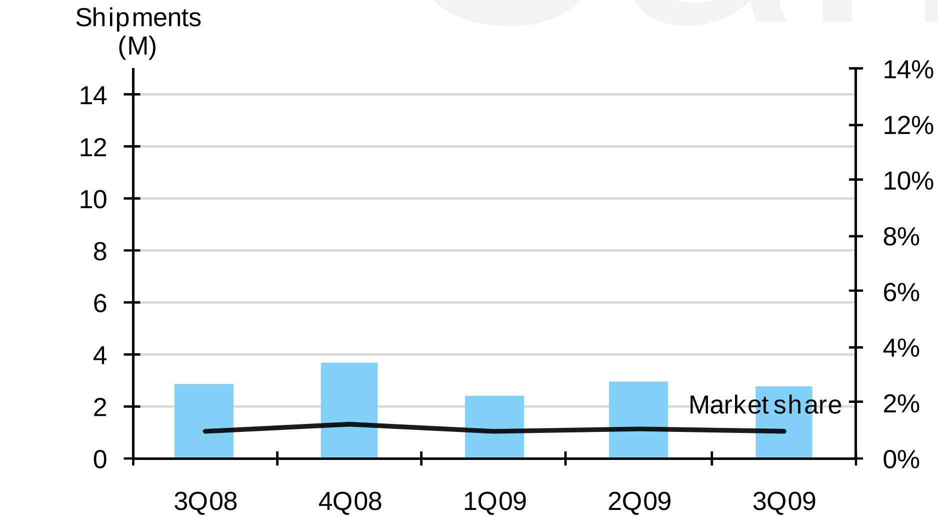
Apple — 3Q09 Analysis



Source: CCS Insight

- iPhone shipments of 7.4 million units in 3Q09 exceeded expectations. Year-on-year growth of 7.2% and sequential growth of 42% were driven by a full quarter of availability for the iPhone 3G S and competitive pricing of the iPhone 3G ($99 on AT&T).
- iPod sales fell year-on-year to 10.2 million units from 11 million in 3Q08, despite the launch of a new nano. This underlines the challenge Apple faces now it is embracing subsidy with the iPhone. Declines in iPod sales in 2010 would heighten the need for a mid-tier iPhone or "iPhone nano".
- iPhone shipments were hindered by supply constraints despite high sell-in. Although Apple stated this was overcome in late September and October, we expect it to remain a problem in 4Q09 in light of further geographic expansion into markets such as China.
- CCS Insight predicts that Apple could exceed 25 million iPhone shipments in 2009, taking the total to over 42 million units. This extraordinary level of demand will exert greater pressure on Apple to make more significant revisions to differentiate the next-generation iPhone in 2010.

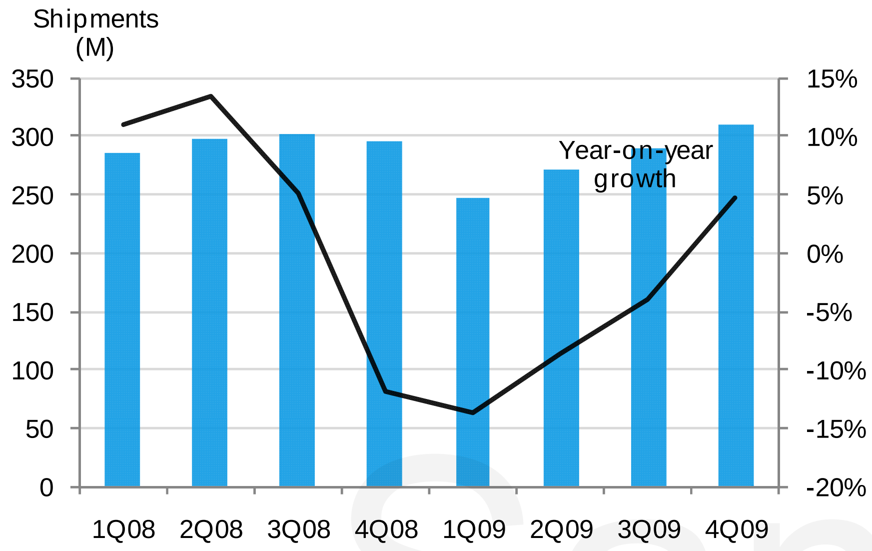
HTC — 3Q09 Analysis



Source: CCS Insight

- HTC suffered another disappointing quarter as shipments fell by 3.4% year-on-year and 6.7% sequentially to 2.8 million units. It continues to suffer from problems related to moving to new platforms and from product delays, which were cited when it revised its revenue guidance for 2H09.
- ASP declined further, to $348 from $358 the previous quarter, though operating margin improved slightly quarter-on-quarter from 18% to 18.6%, owing to flat operating expenditure.
- We expect HTC's margins will see increased pressure in 4Q09, despite new products such as the Tattoo and HD2. An increase in marketing expenditure associated with its new brand strategy and a further decline in ASP will put more pressure on operating margin.
- Branded HTC shipments should see mid single-digit growth in 4Q09, which will offset the termination of its ODM business. However, growth in full-year shipments is unlikely to exceed 1.5%, with 2009 volumes expected to total 12 million units.

Market and Manufacturer Outlook



Source: CCS Insight

- In light of further recovery in channel demand in 3Q09 and a bright outlook for the final quarter, we have raised our full-year guidance to 1.12 billion units, equating to a year-on-year decline of 5.3%. This is a change from our previous estimate of 1.09 billion units.
- We predict robust year-on-year and sequential shipment growth in 4Q09 of 4.6% and 6.8% respectively, driven by a full recovery in channel demand, a swathe of new product launches and a gradual improvement in consumer demand. Shipments in 4Q09 are estimated at 309 million units.
- While the final quarter is likely to demonstrate further improvement in the global mobile phone market, uncertainty remains. Forecast year-on-year growth of 4.6% in 4Q09 must be taken in the context of the dramatic downturn seen in 4Q08. The market size in the final quarter is likely to be at least 25 million units lower than that in 4Q07.
- A huge range of new products reinforces our view that ASPs will come under further pressure in high-end segments. CCS Insight believes that an oversupply of handsets in 2010 risks inhibiting market recovery.

Manufacturer Outlook

- Nokia maintained its guidance that market share will remain roughly flat sequentially in 4Q09. Following a sequential decline in converged device shipments in 3Q09 to 16.4 million, CCS Insight expects a stronger performance in 4Q09 following the launch of the N900, X6, N97 mini, E72 and 5230. We forecast Nokia's full year shipments to exceed 422 million units.
- Samsung is positioned to surpass its target of 200 million units in 2009 by a considerable margin and has achieved its ambition of a 20% market share. However, the maintenance of a double-digit operating margin will be challenging and is likely to mean a leaner, more-focussed portfolio in 2010.
- LG will surpass its target of 100 million units. It has maximised the opportunity presented by Motorola's and Sony Ericsson's difficulties and should secure a full-year market share of 10%. However, CCS Insight believes LG is likely to suffer significant pressure on margins given its dependence on a high-tier portfolio with a proprietary operating system.
- Sony Ericsson has stated that over half its products launched in 1H10 will run open platforms. CCS Insight expects the company to de-emphasise Symbian and Windows Mobile in favour of Android and build on the Xperia X10, which is due to launch in 1Q10. Although shipments are unlikely to exceed 60 million in 2009, cost savings and portfolio improvements have created a basis to improve profitability in 2010.
- Although Motorola is likely to see sequential decline in unit shipments in 4Q09 as feature-phone shipments continue to decline, the launch of Cliq , Dext and Droid products should further improve profitability. CEO Sanjay Jha has set expectations in stating that he would be "surprised" if the devices division did not break even in at least one quarter in 2010.
- Revenue growth will continue to be driven by a small number of high-end players, including Apple and RIM. However, CCS Insight expects margins to suffer significant erosion in 2010 in response to aggressive positioning of Android and Symbian products.