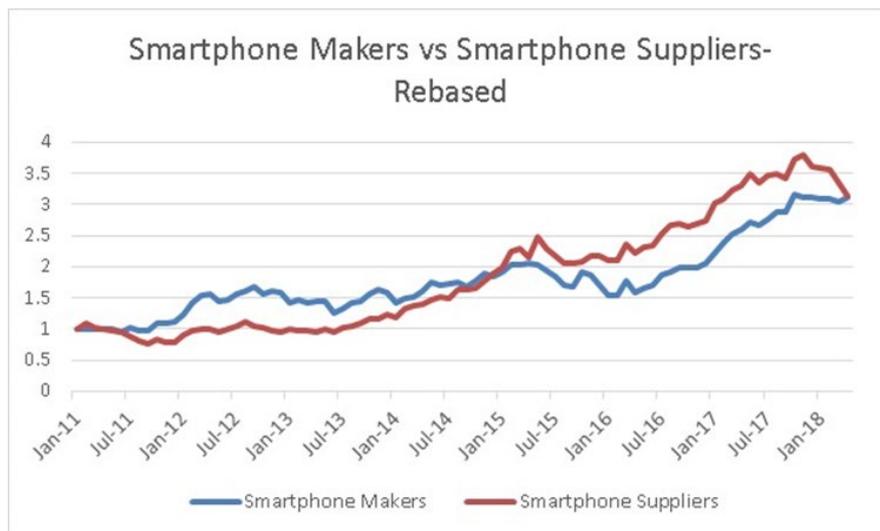


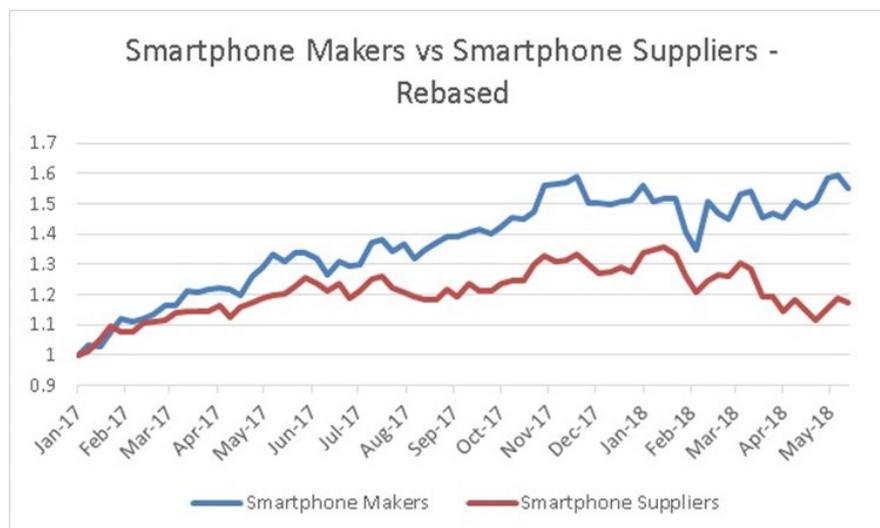
SMARTPHONES – SQUEEZING THE SUPPLIERS



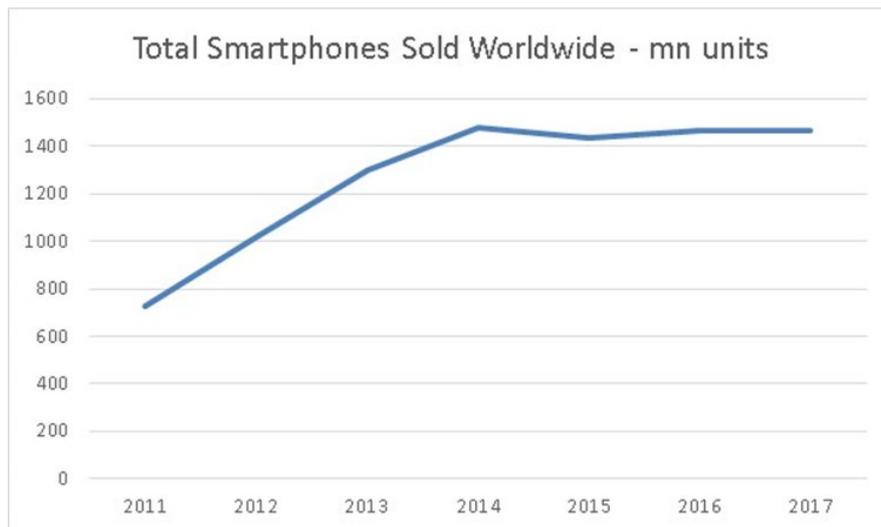
Smartphones have been one of the best-selling consumer products of all time. Leading smartphone makers have seen their share prices trade very well in recent years. The share prices of smartphone suppliers have also performed very well.



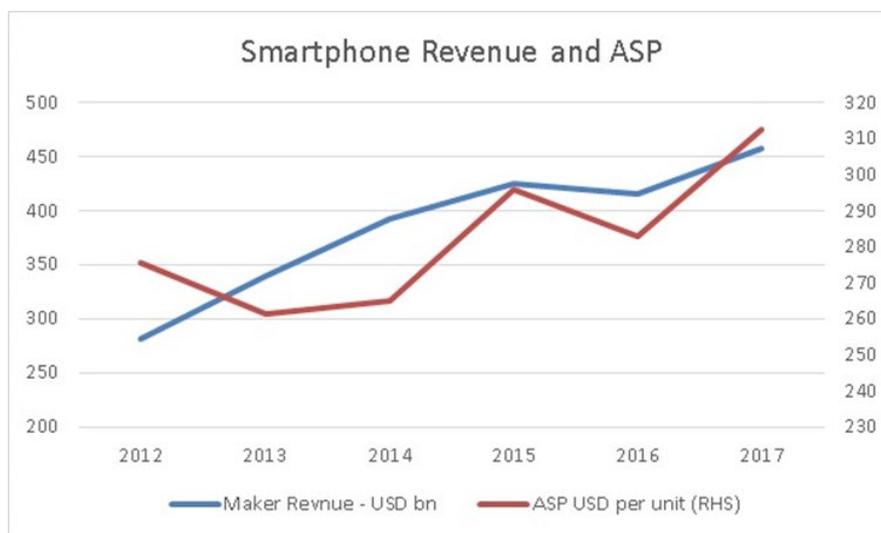
However, over the last year, and in particular in last few months, the share prices of major non-Chinese smartphone makers and suppliers have begun to diverge.



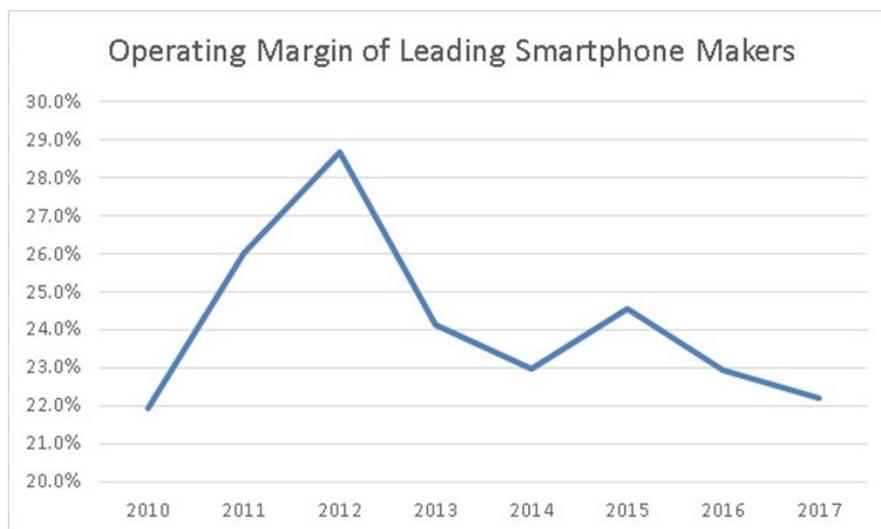
There are several reasons for this. One is that global volume of smartphones sold have been flatlining for the last few years.



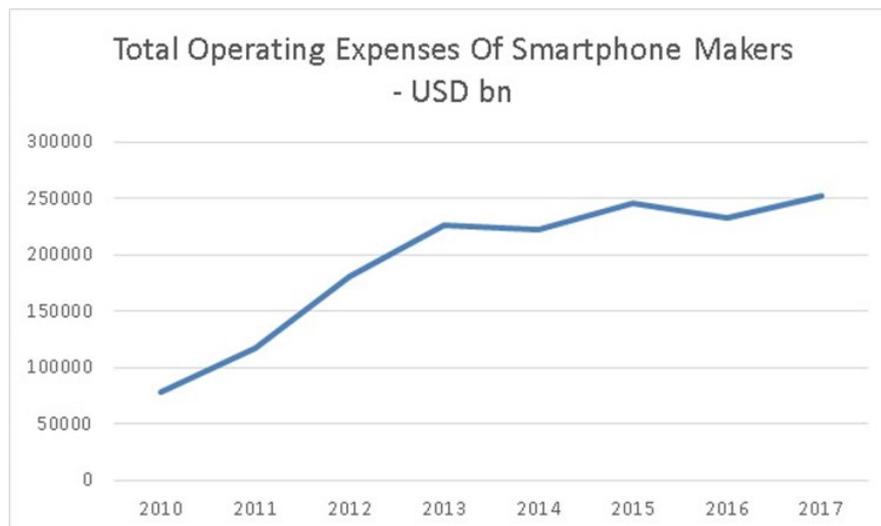
Revenue growth has continued for major non-Chinese smartphone makers, as they have been able to raise prices (ASP).



While smartphone makers have been able to raise prices, they have not been able to defend margins. Operating margins for the leading smartphone makers have been trending down for 5 years now. Note that if the smartphone maker also has a smartphone supplying business, this margin has been stripped out.



If we take operating expenses as a proxy of the smartphone makers as a proxy for smartphone supplier sales, we can see the last few years have been good for suppliers.



Recently major smartphone makers have reacted to the mature nature of their markets to commit to returning large amount of cashflow to shareholders. Giving the slowing nature of their business, this suggest that smartphone makers will look to squeeze expenses. I would be cautious on suppliers to smartphone makers.

INFORMATION

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