



Islander October 2013

Technology Update

Turf Wars in the Mobile Phone Industry

During the last few weeks, we have seen some major moves in the mobile phone industry. Power struggles, moves to dominate the market, technology dominance – the focus is on increasing the number of subscribers and the average revenue per user (ARPU).

We have seen Microsoft buy Nokia's devices and services business for a lot of money, followed by Vodafone's announcement of the sale of their 45% stake in Verizon to generate more money than God has. Vodafone then announced that they they intend to use a tiny amount of it, £6 billion in fact, to become the 4G LTE leader in Europe. Following on from that, Movistar let off a damp squib and announced that they plan to offer more for the same, to try and stem the loss of subscribers. And finally, to top it all Apple had to do something, and I am still trying to work out what was significant about their latest announcement!

Microsoft buys Nokia – not really a surprise

The timing of Microsoft's announcement was a surprise, but I think the deal to buy Nokia's Devices & Services unit was inevitable once the initial partnership agreement had been signed. The deal is for €5.44 billion in cash, with the ailing device maker stating that "we believe this transaction is the best path forward for Nokia and shareholders".

Microsoft said that it "cannot risk having Google or Apple foreclose app innovation, integration, distribution or economics" in a presentation made to support its acquisition.

In addition to the smartphone business, Microsoft will take on Nokia's feature phone business, "as well as an industry-leading design team, operations including all Nokia Devices & Services production facilities, Devices & Services-related sales and marketing activities, and related support functions".

Microsoft has also agreed a 10-year license agreement with Nokia to use the Nokia brand on "current Mobile Phone products" with some limitations.

The deal is expected to close in the first quarter of 2014, subject to approvals.

HEAD OFFICE

Palma de Mallorca, Spain

TEL +34 971 404 208

www.e3s.com

FAX +34 971 404 431

info@e3s.com



Vodafone clearly eyes 4G LTE leadership in Europe

Vodafone's sale of its 45% stake in Verizon Wireless for a staggering £84 billion (€100 billion) – the third-largest M&A deal in corporate history – will leave a £19.4 billion surplus for the UK-based mobile group once its shareholders have enjoyed a lucrative payday. However, not surprisingly, I hear the remaining Verizon shareholders think Verizon is paying too much.

It is clear Vodafone intends to reinvest this windfall to shape the group's strategy for many years to come.

So how will the £84 billion be allocated? The allocation will include a mere £6 billion to invest in existing network services and operations.

This £6 billion investment will take the form of 'Project Spring', a wide-ranging investment programme that will run over the next three years and accelerate the group's existing 'Vodafone 2015' strategy. Half of the budget for Project Spring has been earmarked for the acceleration of 4G deployments, with the aim of reaching 90% population coverage in the group's five main European markets – Spain, Germany, Italy, the Netherlands and the UK - by 2017.

Vodafone is acutely aware that 4G success requires aggressive network rollouts to quickly achieve greater population coverage than competitors, and subsequently tie customers in to 12-24 month contract plans before its rivals – a strategy that underpinned Verizon's successful 4G rollout in the US.

As of Q3 2013, Vodafone is currently the dominant 4G player in Germany (with a 53% 4G market share), Spain (86%), Romania (51%) and Ireland (42%), and also has significant shares of the market in Italy (41%) and Greece (43%). But this additional investment should allow Vodafone to drive 4G adoption right across its European footprint and to differentiate its offering around 4G services. The group showed its intent in this area in early September with the launch of its 4G network in the UK, which offered customers inclusive Spotify Premium or Sky Sports Mobile TV subscriptions to demonstrate the potential of the superfast network.

4G-LTE makes up just under 1% of Europe's total connections in Q3 2013, and as such the region is trailing markets such as South Korea (45%) and the USA (20%) by some distance. However, we expect the European 4G market to benefit greatly from Vodafone's investment, with the resulting increase in competition boosting 4G penetration in the region (as a percentage of total connections) to around 18% by 2017. By this time Vodafone will be ahead of the pack with 22% of the group's European connections on 4G.

HEAD OFFICE

Palma de Mallorca, Spain

TEL +34 971 404 208

www.e3s.com

FAX +34 971 404 431

info@e3s.com



Movistar Spain then start to get radical

Telefonica's Movistar unleashed a series of pricing initiatives on Friday 13th September dubbed 'Mas por lo mismo' (more for the same price).

They include the scrapping of 18-month post-paid contracts (except for those acquiring handsets using loyalty points), the expansion of voice and data limits on 4G without paying more than 3G prices (details still to be announced), starting to sell unlocked mobile phones so customers can use their purchased devices on other networks and a move to unlimited voice traffic.

Telefonica expects that its domestic 4G network will cover nearly 50 per cent of Spain's population by the end of the year and plans to avoid charging any premiums for upgrades to 4G.

All these moves are to try and stop the staggering loss of subscribers that hit a maximum of 700,000 in the first three months of 2013 according to figures by CMT, the Spanish telecoms regulator.

Apple iPhone announcement of new 5S model

In mid-September, after Samsung pipped Apple to the post with the announcement of their Galaxy Gear Smartwatch, Apple launched its new flagship smartphone, the iPhone 5S, sporting a fingerprint sensor and an improved camera which is up to twice as fast as the previous one. It's also available in gold, and it's more expensive than its predecessor! Nothing radical or earth shattering that will make this a "must have", I think.

However it does have a new Apple A7 processor, which combines new 64-bit architecture with improved processing capabilities. This should result in a doubling of the speed of the phone compared with the iPhone 5. In fact it's 56 times faster than the first iPhone! This increase in processing capability will allow app developers to build much more sophisticated games than previously.

The best new feature is the longer battery life with up to 10 hours talk time, 10 hours LTE browsing, and 250 hours standby.

And finally, the Google Chromecast

Very simply this is a \$35, internet to TV, cable free, streaming device. Cast movies or TV from your laptop, tablet or smartphone to your TV. This is one fantastic little gadget. Google it.

Roger Horner of e3 Systems

For further information on any of the above, please contact us.

email on info@e3s.com and website www.e3s.com

Tel: +34 971 404 208

HEAD OFFICE

Palma de Mallorca, Spain

TEL +34 971 404 208

www.e3s.com

FAX +34 971 404 431

info@e3s.com