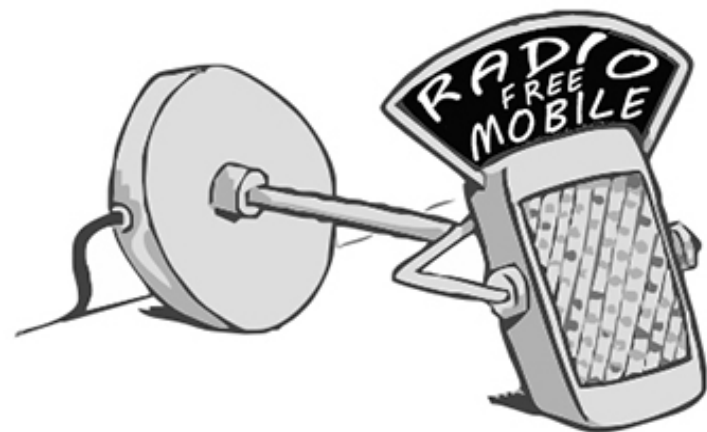


Mobile Ecosystems

The second derivative



- It is time to look for the second derivative as smartphone growth is grinding to a halt and is moving into the ecosystem...
- ...where users will double again over the next few years.
- Android is not an ecosystem...
- ...but an OS upon which ecosystems are based.
- Investors should be positioned in the ecosystems of Yahoo!, Google, Baidu and Microsoft...
- ...avoiding commoditising hardware makers

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20th February 2014



Mobile Ecosystems

The second derivative

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It is time to look for the second derivative. Smartphones have been the belle of the ball so far but the place to now look is the ecosystem. This is because ecosystem users are likely to continue growing long after revenue growth in the smartphone market has fallen to zero. Here RFM would look to Yahoo!, Baidu, Google and Microsoft and forget about trying to eke out a painful commodity existence in Android.

- **Low puff.** The smartphone market is running out of growth and this year prices could easily fall hard, resulting low or no revenue growth. Commoditisation is everywhere and where 6 months ago Samsung and Apple were sitting pretty, even they now are feeling the pinch. This investment theme is out of breath.
- **High puff.** On the other hand the ecosystems appear to have lots of growth left in them. There are currently around 1.5bn mobile ecosystem users globally which RFM expects to more than double by 2017E to 3.5bn. Any business model that has exposure to user numbers rather than smartphone shipments has a much stronger basis for growing revenues over the next few years.
- **Myth.** Most commentators think that the ecosystem war is over with iOS having 30% of the users and Android 70%. While this is an accurate split of operating systems it bears no resemblance to reality when considering the ecosystems. The main reason for this is that Android is not an ecosystem. It is an operating system upon which a number of ecosystems are based.
- **Reality.** There are three big ecosystems with more than 300m subs. (iOS, Google and China), Two medium sized ecosystems with more than 100m subscribers (Yahoo! and Samsung) and a number of small ones all trying to become viable. 100m+ subs are needed to be viable and 300m to make a proper return.
- **Investment positioning.** First and foremost Radio Free Mobile is looking for companies with exposure to the size of the ecosystem rather than device shipments. In that regard Yahoo!, Baidu and Google immediately move to the top of the list. Facebook and Twitter are also candidates but they are both seeing slowing growth in their user counts. Microsoft is also a contender but this piece is so small inside the company that it is more a play on a recovery in PCs than it is an ecosystem investment. Apple is likely to be hobbled by falling hardware margins and has significant problems when it comes to delivering an ecosystem of its own. Commodity Android should be avoided at all costs.

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