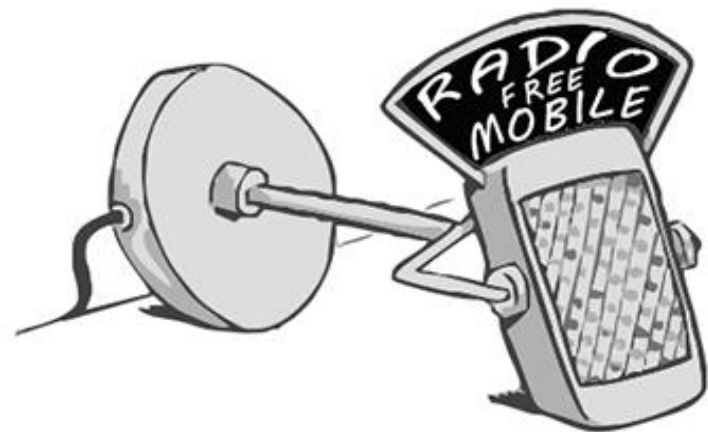


# Android

## Bits and bytes



- Updates RFM's in depth coverage of the Android ecosystem
- A position in the ecosystem (bytes) or technology (bits) required to make a return in Android.
- Google dominates Android but has serious problems to solve.
- Samsung now driven by semiconductors.
- Xiaomi is the first mover in China but the behemoths are coming.
- Cyanogen's future looks very uncertain.

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**15<sup>th</sup> June 2015**



# Android

## Bits and bytes

15<sup>th</sup> June 2015

One has to be good at bits or bytes to succeed in Android. Those with an ecosystem (bytes) desired by users, an edge in hardware (bits), technology or huge scale can make a decent living but everyone else is fighting for the scraps. Of these Google and Xiaomi have the best outlook for succeeding in the ecosystem while Samsung is now being driven by its component supply businesses. Of the public companies, Google remains the most attractive but RFM thinks that the downside risk in Samsung has now passed.

- **Android.** The best of the growth is over in devices but the total number of Android users should grow nicely in the medium term. This is good for the ecosystems but will leave hardware makers fighting tooth and nail for share and margin. .
- **Google's** growth is primarily driven by mobile advertising on Android devices. RFM thinks that this provides the motivation for almost everything it does. Google remains vulnerable to market share loss which is why it must take complete control of the Android user experience and of software distribution. It cannot challenge iOS or effectively fend off competitors until it does. Fortunately the valuation of its shares do not demand this in the short-term. .
- **Samsung.** The outlook for Samsung has improved. It has managed to stabilise handset margins around the levels (10-12%) that RFM thinks is sustainable even without an ecosystem. Strength in semiconductors now makes Device Solutions the engine of growth at Samsung which is what RFM thinks will underpin the share price around current levels.
- **Xiaomi** makes very little money but critically it really understands the ecosystem and has a substantial first mover advantage in China. Its current momentum is enough to win 214m ecosystem users by 2018E which RFM thinks provides enough scale to lift EBIT margins to 8-9% up from 2-4% where RFM thinks they are today. This outlook is uncertain as Xiaomi has 4 very large competitors all pursuing the Chinese ecosystem. These companies can invest much more for much longer than Xiaomi can.
- **Cyanogen** has the market's attention but its future is far from certain. Cyanogen offers software and tools to build an ecosystem on Android without being reliant on Google. The chopping and changing in company strategy leads RFM to think that Cyanogen is finding life much more difficult than it had initially anticipated.