



Signals to Investors

Portfolio Manager's Summary:

LTE proliferation and cheaper handsets push data demand around the globe, creating a buzz for infrastructure players

The buzz returned this year to Mobile World Congress and we contributed as best we could, running between meetings, downing café con leches and snacking on jamon sandwiches. What was different was the focus of the buzz, which if last year was centered on smartphone growth and LTE unit volumes, then this year it was infrastructure. Almost every network equipment vendor we met with sounded optimistic about operator spending in the year ahead.

In terms of an overarching theme, OTT (Over The Top) took the spotlight as Facebook announced that Whatsapp would be launching voice services. Remember two years ago when carriers tried to launch RCS? Well this Facebook announcement was salt on the old wounds of that struggling attempt to compete with fast moving OTT vendors. Nevertheless, what the announcement does highlight in a positive sense is that carriers will likely be pushed to offer better coverage and capacity as we move forward. There were other themes, which, while not as overt as OTT, will likely have ramifications for players around the industry. Specifically: a continued race in the baseband space - there is still no clear number two behind Qualcomm here, the frontend industry consolidation, LTE deployment acceleration, Firefox redefining the cheap smartphone and the struggle to differentiate in high end handsets.

Our key takeaways:

- **State of the Baseband – number two still undecided:** As most of our readers know, we suggested a few months ago that Qualcomm would see little competition in 2014. In short, Mobile World Congress only reinforced this viewpoint. In Barcelona we met with most of the merchant baseband players and a number of industry contacts across the handset foodchain, and what is increasingly clear to us, is that this year the fight will be for a foothold, in hopes to make a play for meaningful volume, and the second spot, behind Qualcomm in 2015. While we have argued that Mediatek was the clear number two behind Qualcomm (they remain so in unit volumes and profits), this point has been muddled a bit by the mixed progress in LTE of a few others and what we feel are challenges in LTE for Mediatek.
- **Smartphones – high end struggles to differentiate, while Firefox redefines cheap:** It is strikingly obvious that differentiating on the high-end with hardware is limited. Every major handset OEM at the show had shiny new handsets (and tablets), as well as a wearable to go along with it. The good news for many across the globe is that smartphones are only getting cheaper. Firefox (Mozilla) took this one step further, introducing a \$25 smartphone at the show. The phone runs on a 1 Ghz application processor, and has a Spreadtrum 2G GSM/Edge baseband and WiFi connectivity. We were able to demo the device, which we felt was a large improvement on the year before, when they had the OS running on a more expensive 800 mhz processor. Ubuntu also was demonstrating an interesting multimedia OS which was improved from last year and eliminates any physical buttons on the screen.