

Global Handset Shipments Reach 308 Million Units in Q2 2010

Summary

Global handset shipments reached 308 million units worldwide in Q2 2010, rising 13% from 273 million units a year earlier. Lower-end 2G models in emerging markets and high-end 3G touchphones in mature regions drove growth. Among the top-five brands, RIM and Samsung outgrew their major rivals, due to robust demand for QWERTY phones and touchphones. Samsung captured 21% share, while RIM maintained fourth position. Meanwhile, Apple held steady with 3% marketshare. Operating profits among major vendors remain volatile, as the 3G smartphone wars continued to rage.

Analysis

1. **Nokia** shipped a slightly lower-than-expected 111.1 million handsets worldwide in Q2 2010, growing just 8% annually, slightly below the industry average. We estimate Nokia's global marketshare of legitimate handset shipments dipped to 36%, compared with 38% a year earlier. The much-awaited flagship N8 smartphone, with an upgraded Symbian^3 user-experience, should arrive well in time for the European holiday season and help to stabilize profit margins during the second half of the year. However, we caution that a lack of retail presence and media coverage in the high-value US 3G market mean the N8 may not meet its full global sales potential.

Meanwhile, the MeeGo OS has taken a useful step forward with its multi-screen strategy. The GENIVI car-industry alliance has chosen low-cost MeeGo as a reference platform for its open-source in-vehicle infotainment (IVI) system. This means vehicles from GENIVI members, such as GM and BMW, could start appearing with front-seat or back-seat services based around the MeeGo platform in 2011 or 2012. The announcement is a timely boost for Nokia, and it will help them to compete better in the multi-platform wars with Android, Microsoft and others.

2. **Samsung** shipped 63.8 million handsets worldwide during the second quarter of 2010, up an above-average 22% from 52.3 million units a year earlier. We believe North and South America were robust, while Europe was a little soft. Samsung's global marketshare reached 21% in Q2 2010, doubling from 10% in Q2 2002. Samsung continues to edge ahead of LG (10%) and nearer to Nokia (36%). Samsung's multi-tier range of candybars, sliders and touchphones is still selling relatively well. The Galaxy S superphone, with a 1GHz processor and 4-inch screen, is the vendor's next shot at the premium market and we believe it has gotten off to a relatively good start so far since its recent launch.

3. **LG** shipped 30.6 million handsets worldwide in Q2 2010, growing just 3% annually and well below the industry average. Due to sluggish smartphone sales, LG recorded an operating loss for its handset division for the first time since Q2 2006. It has been known for at least two years that LG's smartphone portfolio is weak, and that under-performance in a high-profit sub-segment has finally caught up with it. To drive a recovery in 2011, LG will need to deliver at least one flagship premium 3G smartphone with above-average usability and an attractive portfolio of fun media services.

4. **RIM** shipped 11.2 million handsets worldwide during Q2 2010, up 40% from 8.0 million units a year earlier. RIM was the fastest growing handset vendor among the big 5 global players. However, there are some regional challenges facing the Canadian brand. We believe Asia, Europe, Africa and South America were relatively healthy during the quarter, but its North American position is still coming under pressure from Apple, Android and others. The Blackberry OS 6 upgrade, which should deliver a better touchscreen user-experience in time for the western holiday season, is sorely needed to improve its outlook in North America.

5. **Sony Ericsson** shipped 11.0 million handsets worldwide in Q2 2010, down 20% annually but up 5% sequentially. The vendor is still delivering below-average growth in volumes, due to fewer available models and a smaller geographical footprint. We estimate Sony Ericsson's global marketshare stood at 4% during the quarter. Like Motorola, Sony Ericsson's handset ASP jumped through the US\$200 barrier as the vendor refocused on high-end 3G phones, helping the company's financial outlook to recover. Despite an improving hardware lineup, we believe Sony Ericsson's services strategy remains a little confusing and its portfolio of multiple sub-brands, such as PlayNow Arena, needs attention.

Apple shipped 8.4 million iPhones worldwide in Q2 2010, up 61% from 5.2 million units in Q2 2009. Its global marketshare has edged up from 2% in Q2 2009 to almost 3% in Q2 2010. The vendor, however, had a mixed second quarter of 2010. Apple's iPhone shipments, revenues and profitability continued to outperform, but public criticism of the company is mounting. Apple was criticized for its intensive production methods in China, while the iPhone has been heavily criticized for its poorly designed touchable antenna. The honeymoon period for Apple in the mobile world is clearly coming to an end. We believe Apple may have lost some heartshare in recent weeks because of its perceived mishandling of the antenna problem, and Apple will have to work hard during the second half of the year to stop lost heartshare converting into lost marketshare.

Motorola shipped 8.3 million handsets worldwide in Q2 2010, with smartphones accounting for roughly one-third of the total. Volumes almost halved from a year ago, but this was offset by a surging ASP that has breached the US\$200 barrier for the first time in a decade. North America (59%), South America (22%) and Asia (16%) were its three largest regions during the quarter, making up 97% of total global turnover. Motorola's reincarnation as a smartphone specialist is broadly on track, with much riding on the success of the premium Droid X model over the coming months.

MARKET OVERVIEW

Global handset shipments reached 308 million units worldwide in Q2 2010, rising from 273 million units a year earlier. The market grew +13% year-on-year in Q2 2010, slower than the +17% YoY average over the previous two quarters, but still well above the -8% annual rate recorded in Q2 2009. Lower-end 2G models in emerging markets, particularly South America, and high-end 3G touchphones in mature regions drove growth during the quarter. There are no credible signs yet of any major double-dip downturn in the handset industry, but that could of course quickly change if overall economic conditions were to deteriorate again across the major markets of North America, Western Europe and Asia in the coming months.

Strategy Analytics forecasts **325 million** handsets to be shipped worldwide in Q3 2010, for an annual increase of 12%. We expect the second half of the year to be categorized by an escalation in the **3G wars**, as Nokia, Samsung, LG, RIM, Sony Ericsson, Motorola, ZTE, Huawei and others flood the market with smartphones and **superphones** in their attempts to gain share in these high-value markets. Examples will include the Nokia N8, Motorola Droid X and Blackberry OS 6. The ramp-up in supply will drive higher volumes, but this will inevitably place downward pressure on margins as vendors fight to outsmart rivals.

Exhibit 1: Q2 2010 Global Handset Shipments and Market Share Estimates – Top 5 Vendors

Global Handset Shipments (Millions of Units)	2008	Q1'09	Q2'09	Q3'09	Q4'09	2009	Q1'10	Q2 '10
Nokia	468.4	93.2	103.2	108.5	126.9	431.8	107.8	111.1
Samsung	196.6	45.8	52.3	60.2	68.8	227.1	64.3	63.8
LG	100.8	22.6	29.8	31.6	33.9	117.9	27.1	30.6
RIM	23.5	7.3	8.0	8.5	10.7	34.5	10.6	11.2
Sony Ericsson	96.6	14.5	13.8	14.1	14.6	57.0	10.5	11.0
Others	292.4	61.1	66.0	67.7	82.4	277.2	71.1	79.8
Total	1178.3	244.5	273.1	290.6	337.3	1145.5	291.4	307.5

Global Handset Vendor Marketshare %	2008	Q1'09	Q2'09	Q3'09	Q4'09	2009	Q1'10	Q2 '10
Nokia	39.8%	38.1%	37.8%	37.3%	37.6%	37.7%	37.0%	36.1%
Samsung	16.7%	18.7%	19.1%	20.7%	20.4%	19.8%	22.1%	20.7%
LG	8.6%	9.2%	10.9%	10.9%	10.1%	10.3%	9.3%	10.0%
RIM	2.0%	3.0%	2.9%	2.9%	3.2%	3.0%	3.6%	3.6%
Sony Ericsson	8.2%	5.9%	5.1%	4.9%	4.3%	5.0%	3.6%	3.6%
Others	24.8%	25.0%	24.2%	23.3%	24.4%	24.2%	24.4%	26.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Growth Year-over-Year %	2008	Q1'09	Q2'09	Q3'09	Q4'09	2009	Q1'10	Q2 '10
Nokia	7.2%	-19.3%	-15.4%	-7.9%	12.2%	-7.8%	15.7%	7.7%
Samsung	22.0%	-1.1%	14.4%	16.2%	30.3%	15.5%	40.4%	22.0%
LG	25.2%	-7.4%	7.6%	37.4%	31.9%	17.0%	19.9%	2.7%
RIM	92.6%	69.8%	42.9%	41.7%	40.8%	46.8%	45.2%	40.0%
Sony Ericsson	-6.6%	-35.0%	-43.4%	-45.1%	-39.7%	-41.0%	-27.6%	-20.3%
Others	-10.9%	-13.5%	-8.2%	-14.8%	17.0%	-5.2%	16.4%	20.9%
Total	5.0%	-13.7%	-8.1%	-4.3%	14.8%	-2.8%	19.2%	12.6%

Exhibit 2: Annual Global Handset Shipment Growth: Q1 2008 to Q2 2010

STRATEGYANALYTICS

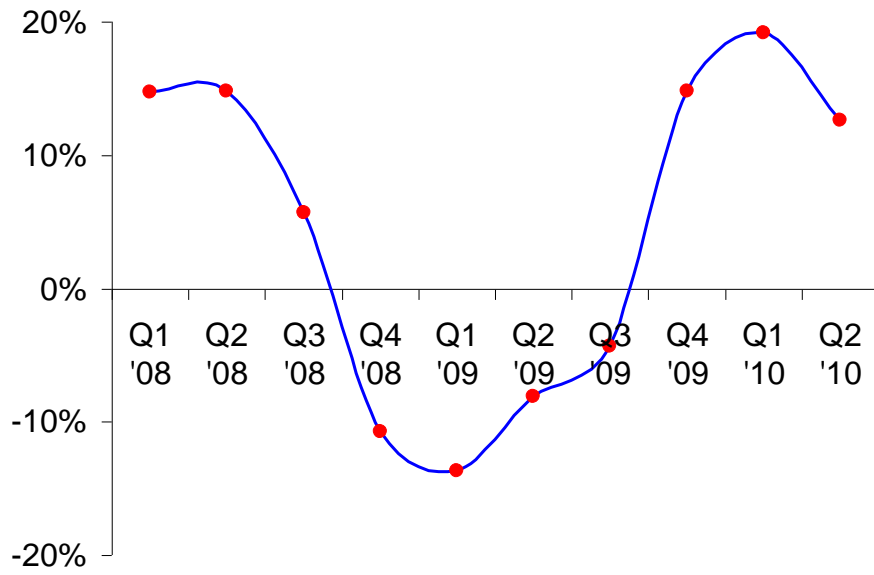
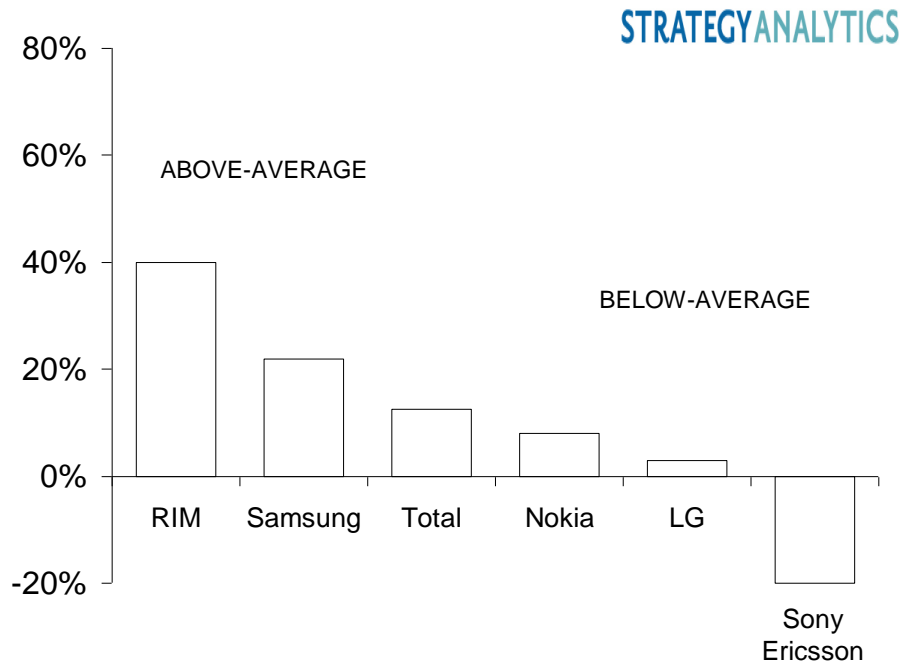


Exhibit 3: Annual Global Handset Shipment Growth by Vendor in Q2 2010



STRATEGY ANALYTICS INSIGHT

Wireless Device Strategies

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