

Telecom vendor update Q2 2022

Author: Siddhant Ranjan & Shubhangi Pathak

Key Takeaways

- All the three network equipment vendors covered in this insight experienced good growth in Q2 2022. Ericsson and ZTE registered good growth across all geographies they participate, while Nokia saw decline in its Europe and India business. Their business grew a combined 14.5 percent in this quarter.
- The carrier business is still the mainstay for these vendors, the focus on enterprise business is beginning to payoff. Enterprise business now accounts 13.7 percent to the total business.
- COVID-19 continued to disrupt the supply chain in several regions such as China. Geo-political factors such as the war in Ukraine impacted the revenues for the European vendors.
- Airtel, one of India's leading telcos with over 350 million subscribers awarded its first 5G contract to its 25-year long-standing technology partner Ericsson.
- Ericsson concluded its acquisition of Vonage Holdings Corporation on July 1, 2022.
- R&D spending of all the three vendors have seen growth on a YOY basis.

This report reviews the performance of three top global telecom vendors Nokia, Ericsson and ZTE for Q2, 2022. It covers:

- a. Industry challenges
- b. Financial performance in Q2 2022
- c. 5G deployment gains momentum
- d. Market and technology trends
- e. Way forward for vendors

Top industry challenges

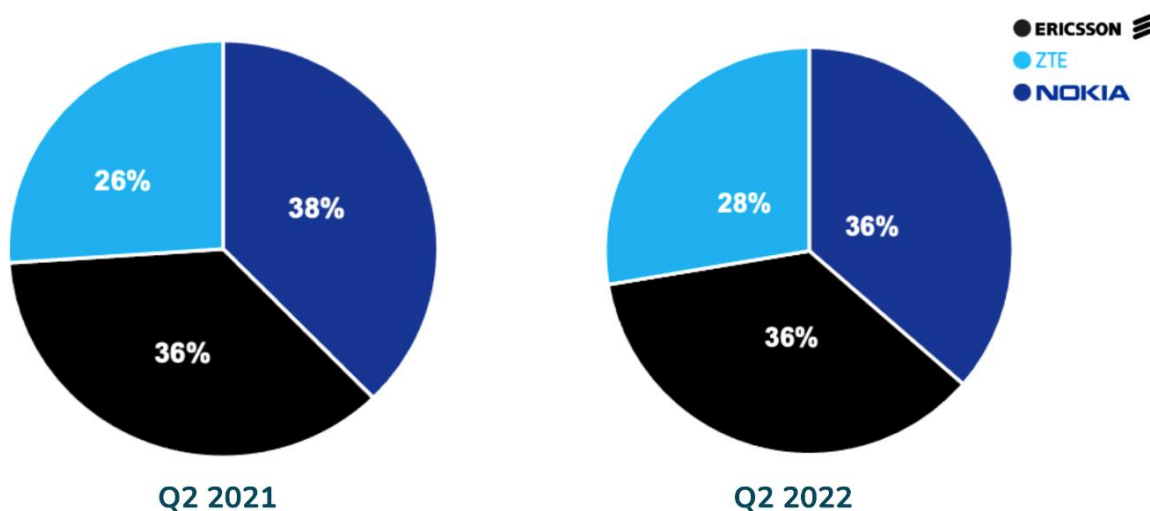
- a. Continuing impact of Covid-19
 - Covid -19 impacted Ericsson's network deployments and consequently its revenues.
 - Covid-19 containment measures in China impacted ZTE in Q2. It is expected to be back on track by Q4, 2022
- b. Global supply chain slows network deployment
 - Nokia is still facing supply chain issues arising from the shortage of chips that impacted their network deployments.
 - ZTE has streamlined and strengthened its supply chain by adopting a dual distribution center strategy to gain an edge over its competitors.
- c. Geopolitical factors have an impact on vendors
 - Suspension of business in Russia due to the Russia-Ukraine war slowed Nokia's growth in the EU, affecting H1 growth, with Nokia expecting the trend to continue into H2 2022.
 - Nokia's exit from Russia has also impacted the R&D spending of the company.
 - Ban on ZTE by Indian government shut off direct business for ZTE in India

Financial performance in Q2 2022

After a good start to the year in Q1 2022, Nokia, Ericsson, and ZTE continued to perform well in the second quarter with strong year-on-year revenue growth.

- a. Ericsson grew 14 percent
- b. Nokia grew 11 percent
- c. ZTE grew 18.86 percent

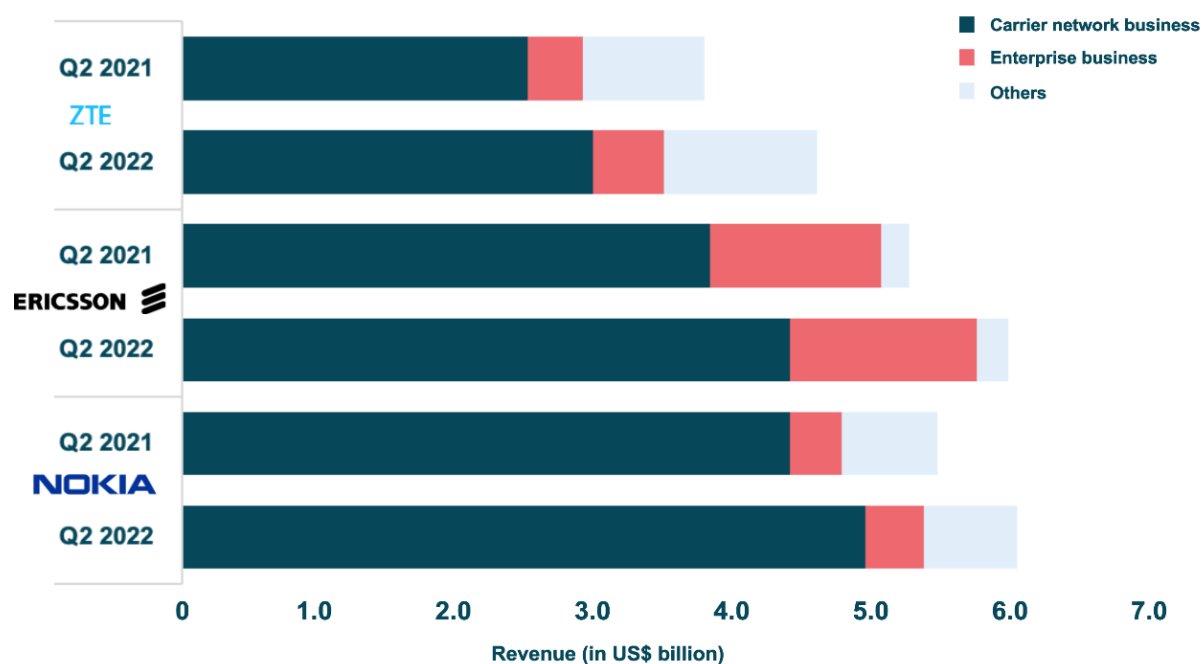
Exhibit 1
Share of vendors in total revenue



Source: twimbit analysis

Despite all the challenges and roadblocks, Q2 was another profitable quarter for all vendors. All three vendors reported significant increases in revenue from carrier network businesses.

Exhibit 2
Revenue by customer type, Q2 2022

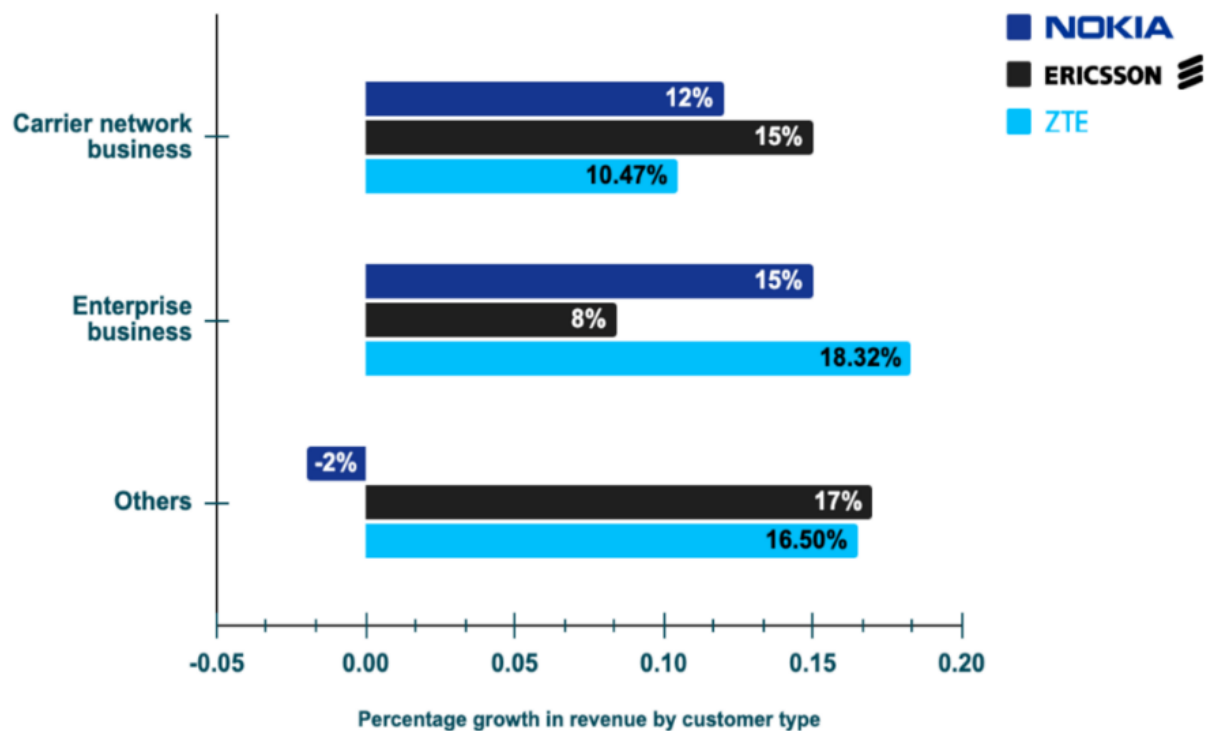


Source: twimbit analysis

Nokia added 76 new enterprise customers in Q2 2022, but this is still below the overall expectations. Nokia's wireline network business is quickly becoming a revenue growth engine, providing more opportunities to enter the direct-to-enterprise market. The revenue from the licensing business declined by 24 percent, but its revenue from the submarine network registered a good growth rate.

Exhibit 3

Percentage growth in revenue by customer type in Q2 2022



Source: twimbit analysis

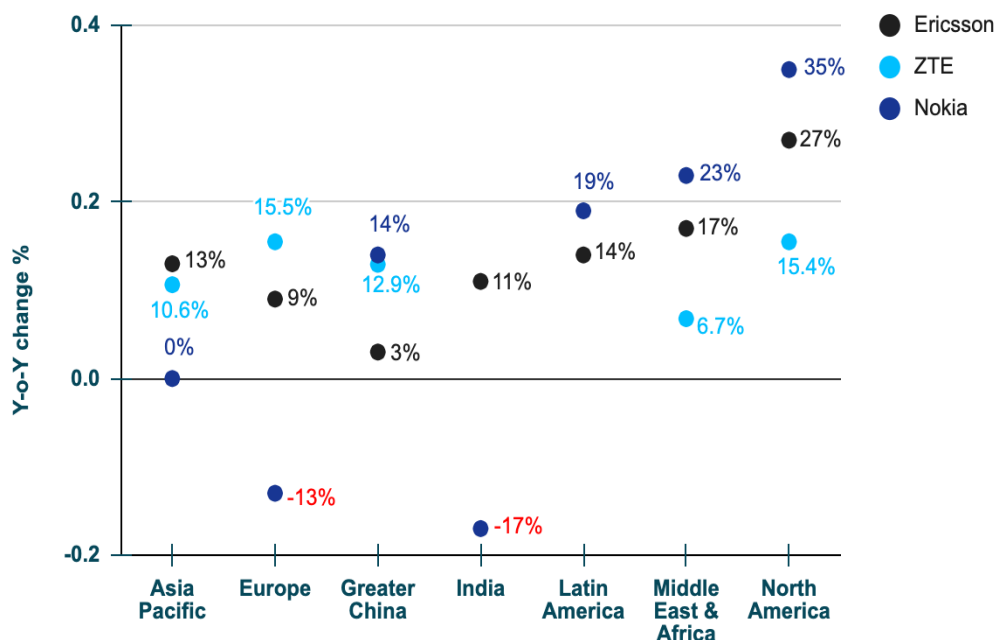
Vendors expect significant growth in revenue from their enterprise business as the global 5G enterprise business is expected to grow with a CAGR of 29.7 percent from 2022 to 2027.

Region wise performance

- ZTE and Ericsson are doing well in all regions, while Nokia has had a poor performance in Europe and India.
- Nokia and Ericsson's performance in North America has been impressive. Ericsson has registered good growth in Europe, while Nokia is facing challenges.
- Nokia and Ericsson forecast an increase in 5G investments driven by network expansion initiatives and the transition to 5G standalone for telcos.

Exhibit 4

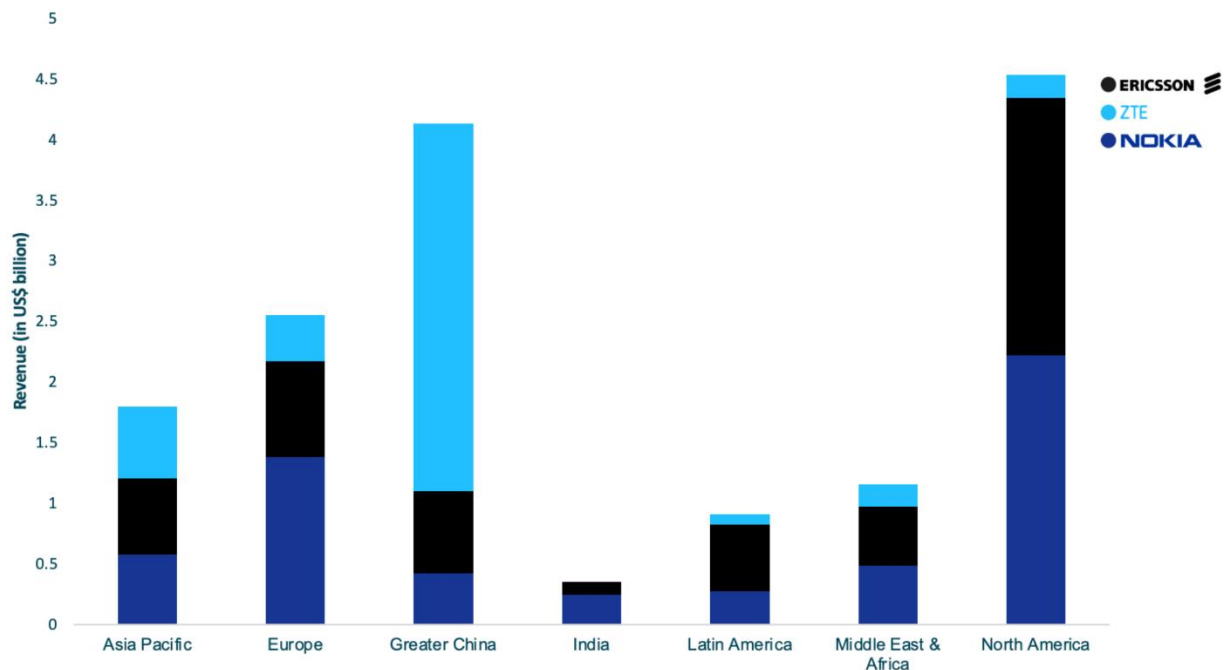
Percentage growth in different regions



Source: twimbit analysis

- ZTE's growth is driven largely by the Chinese market, and it has significant revenues from all the three major telcos in the country. ZTE generates 67.9 percent of its revenues from China with 32.1 percent from rest of the world. Nokia and Ericsson have a distributed global business.

Exhibit 5
Revenue by region



Source: twimbit analysis

5G deployments gain momentum

Openness to 5G in various countries enables Nokia, Ericsson, and ZTE to increase their investment in building 5G network infrastructure. Key contracts announced in this quarter include:

- a. Bharti Airtel (India) & Ericsson
 - Airtel continued with their long-standing connectivity partner from past 25 year for 5G deployment in India.
 - Ericsson will deploy power-efficient 5G Radio Access Network (RAN) products and solutions for Airtel from their Ericsson Radio System and Ericsson microwave mobile transport solutions.
- b. Bharti Airtel (India) & Nokia
 - Bharti Airtel selected Nokia for the roll-out of 5G RAN (Radio Access Network) and enterprise solution
 - Modular, scalable baseband and high-capacity 5G massive MIMO radios from its market-leading AirScale portfolio will also be deployed

c. TIM (Italy) & Ericsson

- TIM has chosen Ericsson's 5G commercial hardware, software and solutions including RAN for their initial 5G deployment phase.
- Ericsson will also provide the Massive MIMO from its mid-band portfolio.
- Ericsson will help in developing 4G-5G dual connectivity technology for TIM to provide top data speeds to deliver a superior user experience.

d. AIS (Advanced Info Service Plc.), Thailand & ZTE

- AIS has chosen ZTE as a comprehensive strategic partner to upgrade key technologies such as 5G to enhance network quality and provide an excellent user experience to AIS customers.
- ZTE will upgrade the AIS 5G network to an autonomous network capable of precise autonomous network management during the processing of big data and AI.
- ZTE will also help in expanding AIS 5G capabilities to various industries.

In addition to building network infrastructure, vendors are racing to develop multiple metaverses across industrial, enterprise and consumer market applications.

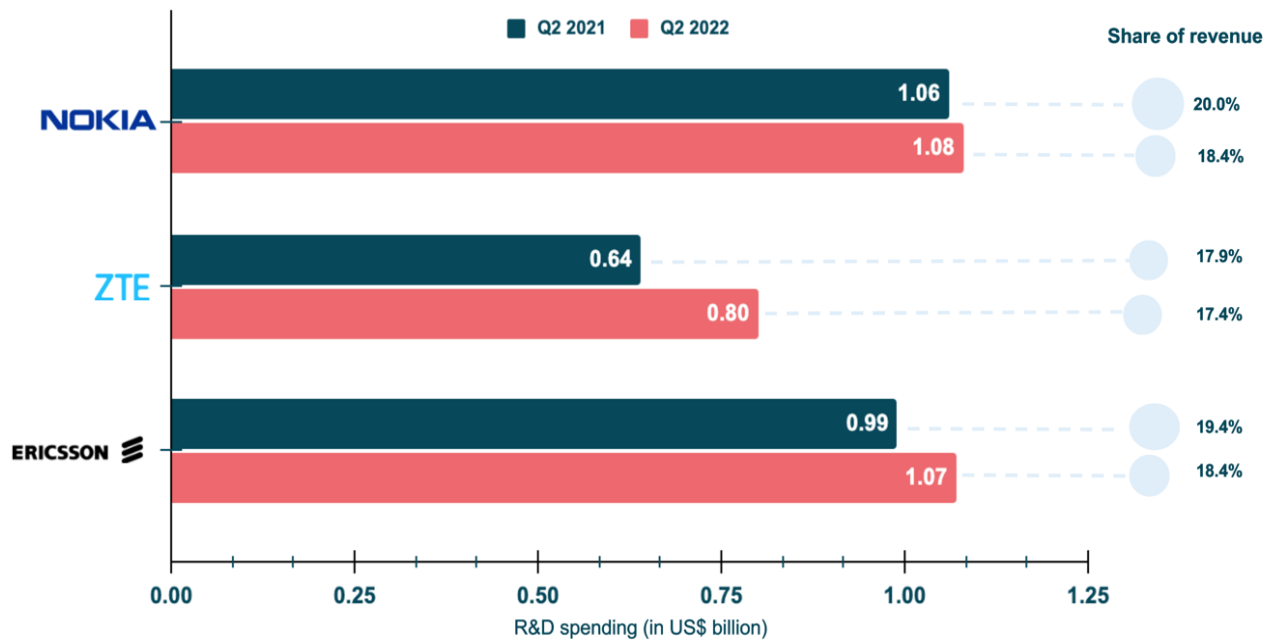
- ZTE is focusing on building a consumer metaverse with VR and ZTE mobile devices.
- Nokia and Ericsson are developing a metaverse for enterprise solutions for day-to-day operations and employee training in the manufacturing industries using MR (mixed reality) and XR (extended reality).

Market and technology trends

a. R&D investment

- The percentage of revenue invested in R&D is a key driver which will determine long term success with 5G. All three vendors' financial reports share evidence of strengthening R&D investments.

Exhibit 6
R&D spending by vendors



Source: twimbit analysis

- ZTE increased R&D investment to accelerate their research to support operations beyond the PRC region. Nokia and Ericsson have increased their spending by 2.1 percent and 9.7 percent year-on-year.

b. Regional trends

- Asia-Pacific dominates the global 5G services market in 2022, accounting for approximately 51 percent of total sales of 5G network infrastructure, followed by EU and NA.
- Nokia's decision to leave Russia affected its growth in Europe which declined by 13 percent in Q2 22. Nokia struggled in China due to its absence from the Chinese RAN market and expansion of the FWA network infrastructure
- ZTE is struggling with its business operation in the NA and EU regions due to the ban on equipment sales placed by several nations.

c. Enterprise trends

- All three vendors have registered growth in revenue from their enterprise business. 5G is a key driver for growth and several contracts have been announced or extended.
- China coal Technology & Engineering Group extended its partnership with ZTE for 3 years.

- TOYOTA Production Engineering selected Nokia for establishing a 5G private wireless network at their premises. Nokia will provide private networks to support IoT devices, equipment digitisation and visualisation to further automate the manufacturing process.

d. Other trends

- Ericsson will focus on strategic corporation activities and joint ventures in the upcoming quarter to meet the expected demand for 5G technology.
- The limited competition in the wireline business is leading Nokia to increase its investment in this business. Nokia is also increasing the CAPEX spending for developing the Submarine network. It has benefitted from a revenue growth of 28 percent YOY.
- ZTE will be launching new R&D centers to build enterprise solutions to increase their revenue outside of China.
- Qualcomm & Ericsson have established close partnerships and created several 5G technology milestones over the years. Ericsson Spectrum Sharing and Qualcomm Snapdragon 5G Mobile Platforms enable service providers to tap into the spectrum currently used for 4G to launch nationwide 5G coverage with a simple network software upgrade.

Acquisitions in Q2 2022

a. Ericsson and Vonage

- Vonage an American cloud service provider becomes wholly owned subsidiary of Ericsson from July 1, 2022. With Vonage on board, Ericsson will create a market for simple global network Application Program Interfaces ("APIs"), driving the next wave of digitalization.
- Ericsson will benefit from bringing Vonage Unified Communications as a Service (UCaaS) and Contact Center as a Service (CCaaS) solutions to its existing customers in the near term.
- Vonage CEO Rory Read has been appointed to Ericsson's Executive Team.

Way forward for vendors

5G technology is expected to cover 67 percent of the world's population by 2027. The 5G global network infrastructure (Radio Access Network, Core network, transport solutions) investment is expected to grow at a CAGR of 56.7 percent between 2021 to 2027. This combined with the growth in enterprise private 5G networks augurs well for the overall growth of the industry in the immediate to mid-term.