Telecom vendor update Q3 2022

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Key Takeaways

- The leading vendors have seen positive revenue growth momentum in Q3 2022, with the combined business growing by 10.1 percent this quarter.
- Huawei experienced an overall growth of 6.5 percent in revenues YoY, while its enterprise and carrier network business grew by 21.1 percent YoY.
- In China, Ericsson witnessed a decline in revenue growth, while Huawei is estimated to have seen positive growth.
- Nokia and ZTE have registered revenue growth across all regions, while challenges continue to impact Huawei's ability to do business in Europe and the US.
- The Carrier business continues to be the mainstay for the vendors. The combined revenue from the Carrier business grew by 13.7 percent.
- Vendors have been investing to grow their enterprise business. It experienced robust growth in Q3 2022, with the combined revenue growing by 46.2 percent.
- Ericsson entered a long-term strategic partnership with Jio to roll out 5G infrastructure in India.
- Vendors continue to increase their R&D spending as a percentage of total revenues.

This report reviews the performance of the top global telecom vendors – Nokia, Ericsson, ZTE and Huawei in Q3 2022. It covers:

a. Financial performance in Q3 2022
b. Region-wise performance
c. Market and technology trends
d. Network business for vendor shines in Q3 2022
e. Enterprise business is the new hotspot for vendors
f. New products and solutions announced in Q3 2022

Financial performance in Q3 2022

Building on a promising start to H1 2022, Ericsson, Nokia and ZTE continued to register significant growth. Huawei ended Q3 2022 with a positive YoY revenue growth compared to H1 2022, where it reported a decline in its revenue.

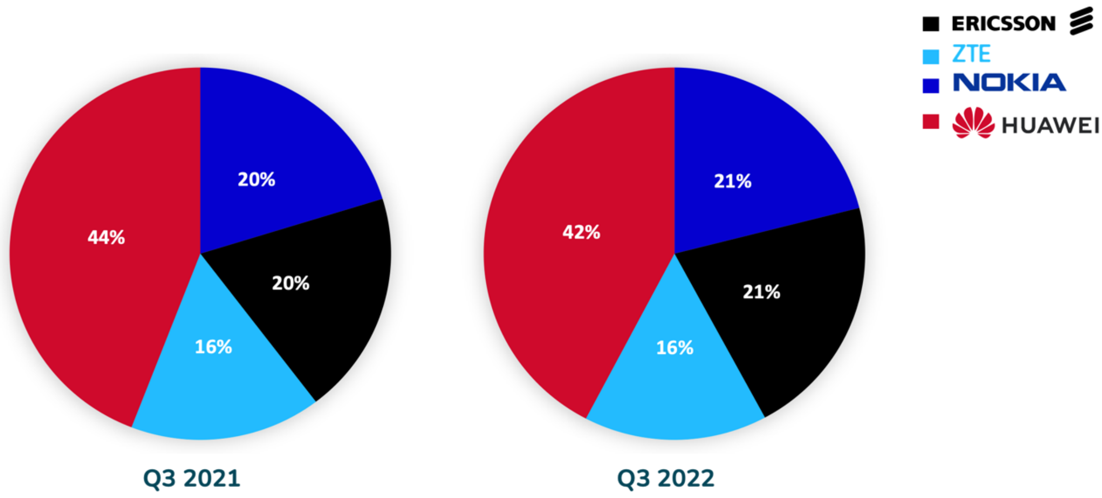
- Ericsson grew by 20.8 percent
- Nokia grew by 15.6 percent
- ZTE grew by 6.5 percent
- Huawei grew by 21.1 percent (excluding consumer business) *

The acquisition of Vonage in the second quarter of 2022 boosted Ericsson's overall growth as a company. Ericsson was also able to report an organic growth of 18.4 percent (excluding Vonage) in Q3 2022.

**Huawei does not disclose detailed quarterly financial performance. Huawei only discloses revenue and net profit margin at a consolidated level on a quarterly basis. To ensure an unbiased analysis among vendors, Huawei's consumer business (smartphone and appliance sales) data are excluded in this report as it accounted for 43 percent of its total revenue in Q3 2021 and 38 percent of its total revenue in Q3 2022.*

Exhibit 1

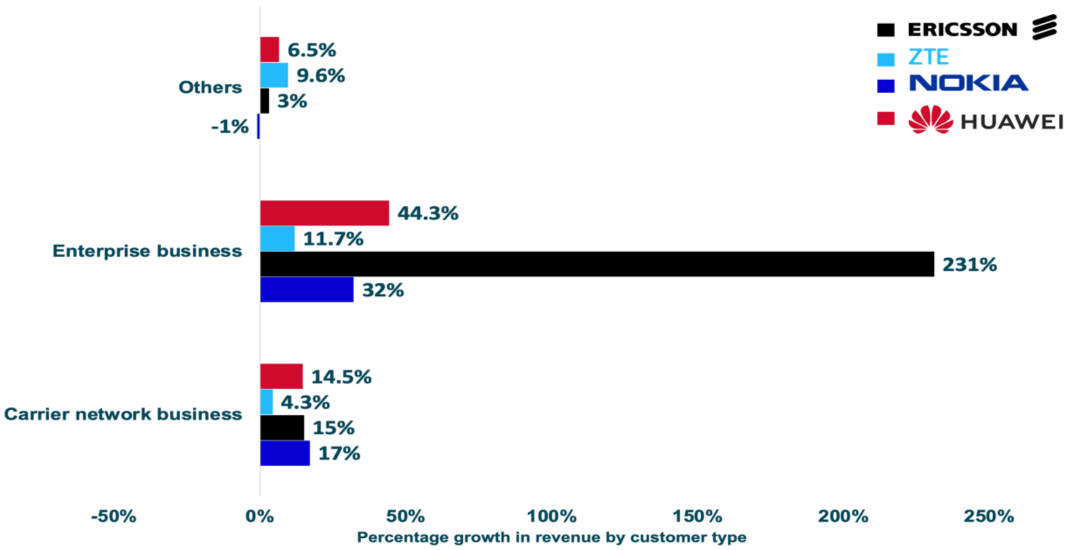
Revenue share by vendor, Q3 2022



Source: twimbit analysis

Exhibit 2

% Growth in revenue by customer type, Q3 2022



Source: twimbit analysis

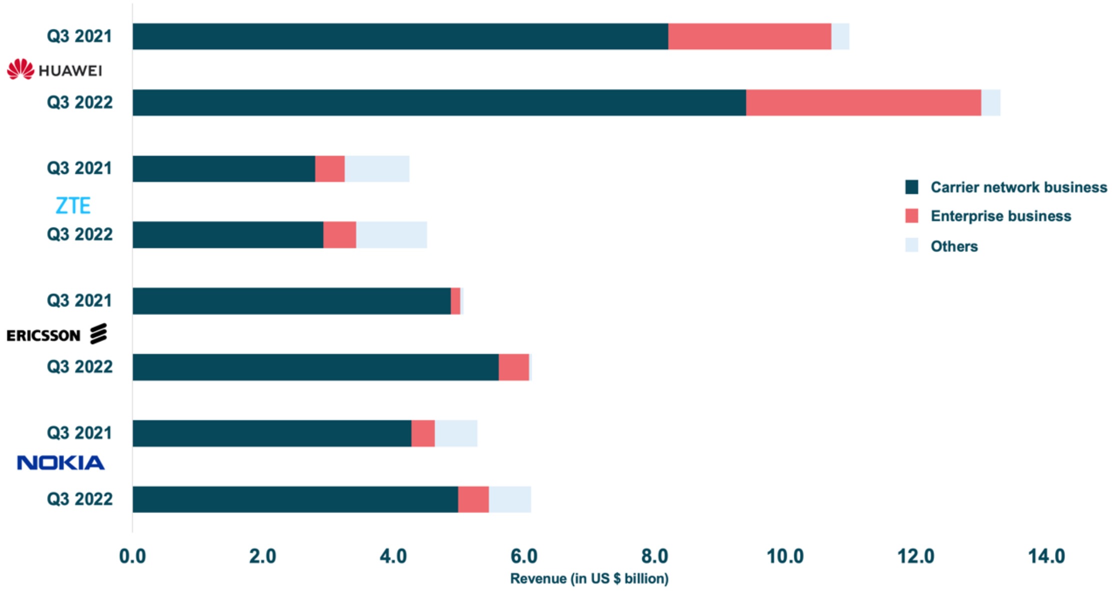
All vendors reported growth in their enterprise businesses and significant revenue increases in their carrier network businesses.

The revenue from the licensing business of Nokia continued to decline by 17 percent, but its revenue from the submarine network registered a growth rate of 15 percent.

Ericsson also increased its RAN market share by 6 percent from Q3 2021 to Q3 2022 (33 percent to 39 percent). The most notable achievement for Ericsson, however, is its tremendous 231 percent growth rate in the enterprise business due to the acquisition of Vonage (cloud communications provider), which helped to dramatically boost its cloud service revenue.

Exhibit 3

Total revenue by customer type in Q3 2022



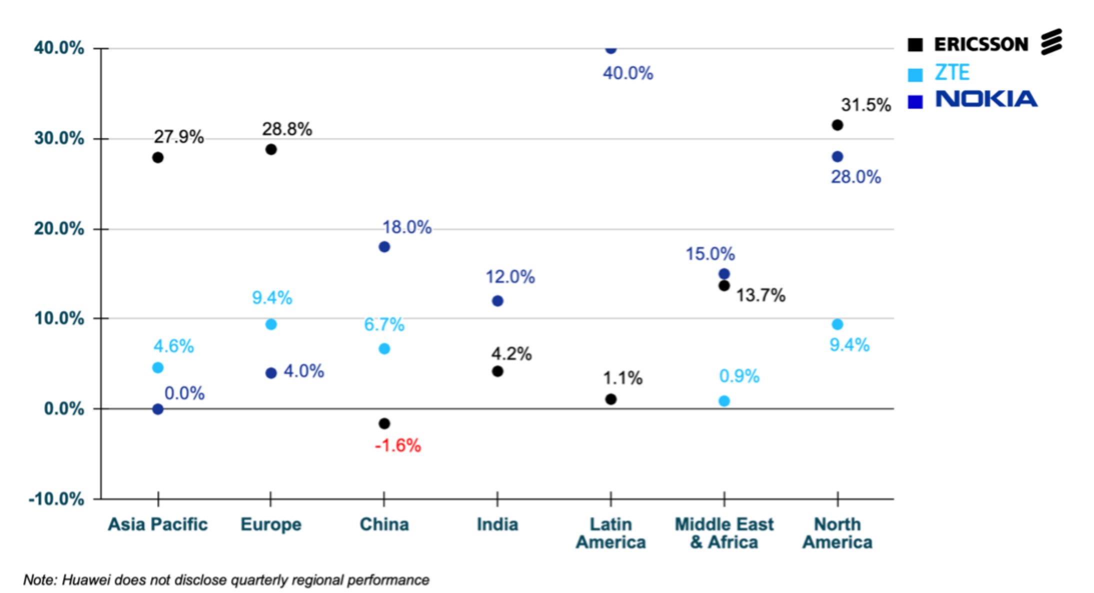
Source: twimbit analysis

In Q3 2022, vendors experienced combined revenue growth of 10.1 percent.

Region-wise performance

Exhibit 4

Percentage growth in different regions



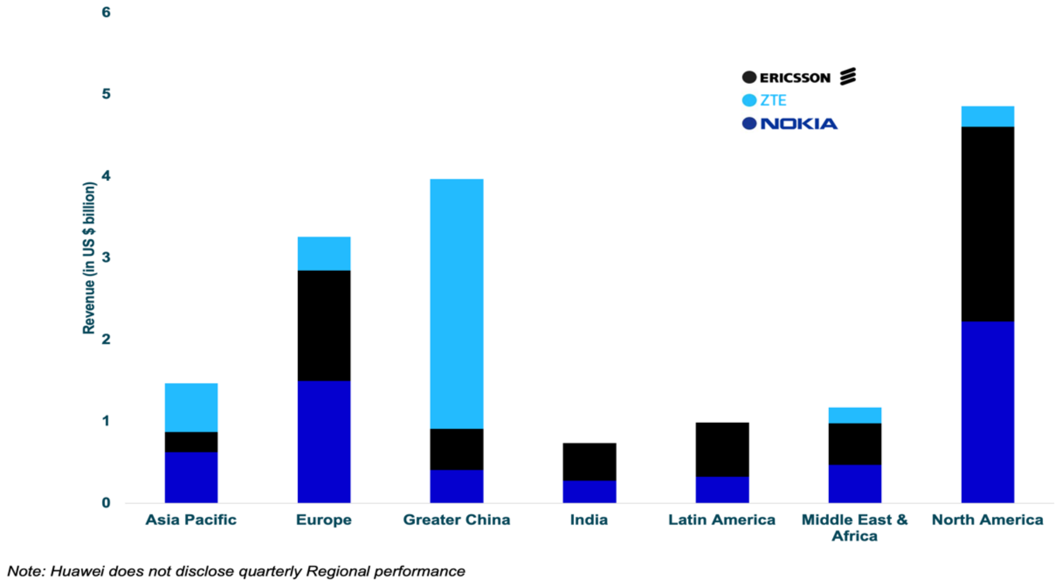
Source: twimbit analysis

- Ericsson has reported a weak financial performance in China, while Nokia performed well in all regions.

- At constant currency levels, Nokia reported a decline of 1 percent and 5 percent in India and Asia Pacific, respectively.
- Ericsson's overall performance in China declined 24 percent from Q2 2022 to Q3 2022.
- The cloud & network services fueled Nokia's impressive growth in North America, while mobile and network infrastructure are strong contributors to its growth in Latin America.

Exhibit 5

Revenue by region



Source: twimbit analysis

ZTE's growth is fueled by the Chinese market, which accounts for 65.4 percent of its revenue. Additionally, ZTE is expanding into Middle Eastern nations like Turkey.

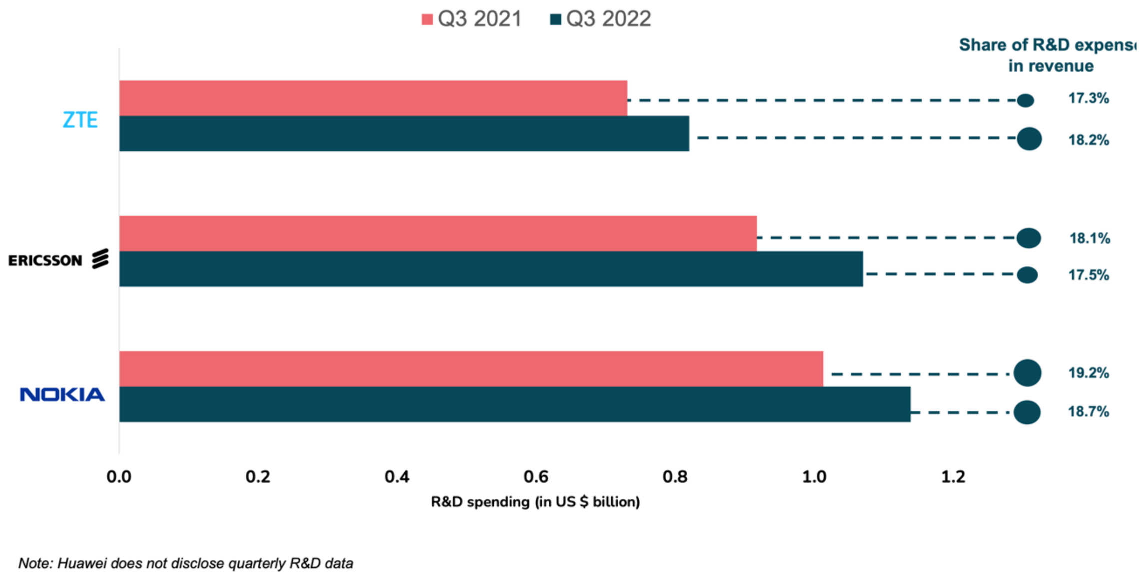
Despite a strong global footprint, Nokia and Ericsson have their major revenues coming from Europe and the Americas.

Market and technology trends

a. R&D investment

Exhibit 8

R&D spending by vendors



Source: twimbit analysis

- Nokia led the R&D investment with 18.7 percent of revenue.
- Ericsson increased its R&D spending by 16.7 percent, primarily in cloud RAN and Ericsson Silicon (ASICs)
- Nokia, ZTE and Huawei increased R&D spending by 12.5 percent, 12.2 percent and 14.2 percent, respectively.
- In terms of revenue spent on R&D –Nokia at 18.7 percent, ZTE at 18.2 percent and Ericsson at 17.5 percent.
- Huawei annual R&D spending increased by 0.5 percent from 2020 to 2021. It has maintained its R&D spending despite a steep decline in revenues in 2021. Consequently, its R&D spending as a percent of revenues has registered a sharp increase of 6.5% YoY. Huawei is estimated to spend approximately US$20 billion in R&D for 2022.

b. Regional trends

- The ongoing Russia-Ukraine war continues to negatively impact the process of renewing expired licenses, further slowing Nokia's license business in Europe.
- Spectrum licensing and geopolitical issues has led to low CAPEX investments in some regions, which delayed vendor network infrastructure deployment.

- The overall Chinese smartphone market revenues declined by 11.3 percent in Q3 2022. Huawei experienced a higher decline of 13.1 percent in revenues.
- Huawei and ZTE continue to struggle with their business operation in Americas due to the ban on obtaining US licenses for network equipment.
- Fibre optic roll-out in Europe gained momentum as Nokia partnered with the Eurofiber group.

Network business for vendors shine in Q3 2022

Vendors continue to experience good growth in their network business, despite the supply chain constraints. Some of the key wins this quarter by the vendors include:

- ZTE expands in the Middle East by partnering with Turk telecom (Turkey) for an OTT app.
- AIS (Thailand) signed an MoU in Q3 2022 for a strategic partnership announced in Q2 2022 to develop 5G tech with ZTE.
- Ericsson entered a long-term strategic partnership with Jio (India) to roll out 5G Standalone (SA).
- Nokia and Vodafone New Zealand entered a strategic partnership and signed an innovation-focused MoU to accelerate network innovation with 5G Advanced and 6G.

Enterprise business is the new hotspot for vendors

Enterprise revenue has seen a strong revenue acceleration in Q3 2022. Key collaborations and partnerships announced in this quarter include:

- Nokia collaborated with Flex Brazil to deploy a 5G SA private wireless network.
- Nokia announces partnership with MEXT, the Turkish Employer's association of metal industries and technology centre, to advance the digital transformation of the industrial sector.
- The Public Transport Authority of Western Australia selected Nokia to modernise rail communication in Perth with private wireless technologies.
- In partnership with Ericsson, Telstra announced a suite of 5G standalone automated and orchestrated services for enterprises.

Major announcements Q3 2022

- ZTE, in partnership with China Mobile, launched the industry's first 5G industrial deployment emulator and analyser.
- Ericsson raises its sustainability bar by introducing its new product, Radio 6646, an energy-efficient 5G RAN equipment for the mid-frequency band (3.5GHz).
- Nokia introduces a new SaaS service AVA charging to help telcos and enterprises by providing real-time rating and charging capabilities. This enables them to monetise new opportunities for quick commercial availability of their offerings.
- In partnership with Google, Nokia and Ericsson completed a trial in different regions for a new solution. This solution will help connect the smartphone to multiple network slices across consumer and enterprise applications simultaneously. Each slice can have different network capabilities.