



Building a better
working world

Technology quarterly

Executive insights from 3Q19 reporting season

Companies talk about slower markets, aggressive competitors and hardware

Discussing the results of the third quarter of 2019, companies focused on increased competitiveness in the market, triggered by softer demand and trade uncertainties. During the earnings calls, there was a lot of attention for hardware market introductions. Cloud migration and 5G are still considered to be solid long term growth drivers, but uncertainties could delay their implementation and slow down growth.



The increasing interest from data-intensive companies into hardware reflects the fact that the online world is moving to the edge. Connected devices in the edge is where data is gathered and experiences are created.

Ken Englund, EY Americas Technology Advisory Leader

This report analyzes the most important issues addressed by 26 leading global technology companies during their earnings calls for the most recent calendar quarter. It provides a snapshot of four of the main themes representing the top-of-mind issues of technology leaders and investors.

In this quarter's earning calls, leading technology companies discussed:

- 1 Aggressive competitors and market softness
- 2 Digital platform providers expanding hardware offerings
- 3 Companies reassessing their 5G growth path
- 4 Wave of partnerships to enable cloud migration



Cloud first strategy is not about moving to a single cloud provider, but it is about migrating your workloads and services to an environment that best fits your needs, most likely across multiple clouds.

Amr Ahmed, EY Infrastructure and Service Resiliency Leader

Key themes discussed during earnings calls with analysts



1

Aggressive competitors and market softness

The trade dispute still features in most earnings calls, but the focus of the discussion is shifting from supply chain effects to increased competitiveness in the markets and slower decision-making from enterprise customers.

Diminishing growth, tariffs, reduced market access and lower operational leverage drive changes in the cost structure of companies. The exact impact depends on organizational design and supply chain and varies across the sector. Confronted with the prospect of lower sales and margins, some companies are trying to capture market share through competitive pricing.



2

Digital platform providers expanding hardware offerings

The top digital and social platform providers have spent considerable time during the earnings calls on hardware introductions.

The increasing interest from data-intensive companies into hardware reflects the fact that the online world is moving to the edge. On devices in the edge is where data is gathered and experiences are created. The proposition to integrate the entire technology stack to offer seamless experiences continues to be compelling. This will offer further opportunities for ecosystem partnering.



3

Companies reassessing their 5G growth path

Companies still talk about 5G, about network rollouts, product introductions and investments. But the tone is a lot more cautious than in previous quarters.

5G still is a tremendous growth opportunity, but most discussions so far have been around infrastructure investments and consumer applications. There have been limited talks about compelling enterprise business cases, that justify the investments needed to build out dense 5G networks. And when uncertainty in the markets increases, companies become more cautious about the investments needed and the expected time it takes to earn back these investments.



4

Wave of partnerships to enable cloud migration

Cloud providers still report high double-digit growth percentages for their cloud business, although the growth is at times unevenly distributed over the quarters. Most providers announce several key partnerships per quarter.

Cloud migration is a complicated process that requires a lot of preparations. Cloud providers are proactively looking to conclude partnerships to make migration easier and quicker for enterprises that are considering moving their workloads to the cloud. This way, cloud providers can grow faster and capture market share. It also means that software, services and workloads are likely being operated across multiple cloud environments.

Ranking macro influences, business issues and technology themes mentioned

Top macro influences

Rank	Δ	Macro influence
1	▶	Trade dispute
2	▲	Increased competitiveness
3	▼	China slowdown
4	▶	Currency headwinds
5	▲	Delayed investment decisions
6	▼	Slowdown in global trade
7	▲	Slowdown in manufacturing

The trade dispute is still top of mind for technology companies. Additionally, companies talk about increased competition and about weakness in specific end markets.

Companies highlight that delayed investment decisions can cause order intake and revenues to disappoint.

Top business issues

Rank	Δ	Business issue
1	▲	Cost reductions
2	▶	Strategic partnerships
3	▲	Increased deal size
4	▲	Supply chain transformation
5	▲	Hardware expansion
6	▲	Cloud services expansion
7	▼	Shift to recurring revenues

Discussions about cost reductions have increased amidst uncertainty and disappointing margin developments.

The digital transformation leads to larger deals that include multiple digital solutions, including cloud (infrastructure, platform and software), analytics and automation.

Top technology themes

Rank	Δ	Technology theme
1	▲	AI and cognitive computing
2	▶	Cloud migration
3	▲	Datacenter investments
4	▲	Autotech solutions
5	▼	5G connectivity
6	▲	IoT
7	▼	Mobile applications

Cloud migration and cognitive computing remain solid growth drivers in the sector. Artificial intelligence is used to optimize business processes internally and it is offered as a service externally.

Datacenter investments are increasing again, after a period that saw the large cloud vendors absorb existing capacity.

Rankings are based on conversation topics during the quarter's earnings calls, which are grouped into influences, issues and themes. Tallying up is highly subject to interpretation and by no means objective.

Change (Δ) is ranking compared to the previous quarter.

EY resources, methodology and contacts

EY resources - want to know more?

Cloud computing



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5G and IoT



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Methodology

- ▶ This analysis reviews the top initiatives and issues of 26 leading global technology companies during the latest financial reporting season. The number of companies analyzed in this report may vary depending on the timing and availability of scheduled earnings calls and published transcripts. The analysis was limited to the review and examination of summaries and transcripts of the latest earnings conference calls that were available to us at the time this report was created. This review does not take into consideration information from other sources, such as news reports, annual reports and company press releases.

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