



Building a better working world



Technology quarterly 4Q21

Insights from the earnings season

Supply chain conditions set to improve

During the 4Q21 results earnings calls, technology companies said they expected supply chain constraints to decline in the next quarters. Although the downside risks remain significant, it is a clear change of tone compared with previous expectations. Other discussion topics included increased demand for analytics and automation to make companies more resilient and investments in new technologies to prepare for the arrival of the metaverse.



We expect continued growth across the high-tech ecosystems given the overall decline in supply chain constraints. While not over, we see sequential improvements in key components and systems resulting from prior quarters' operational decisions.

Ken Englund, EY Americas Technology Sector Advisory Leader

This report analyzes the issues addressed by leading global technology company leaders during their earnings calls for the fourth quarter of 2021. It provides a snapshot of the main themes representing the top-of-mind issues of technology leaders and investors.

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The worst in chip shortages is predicted to be behind us.

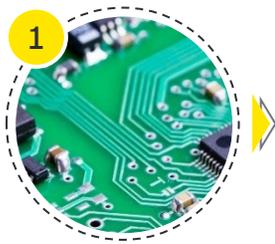
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Demand for supply chain tools and automation is in the spotlight again.

3

The metaverse will boost investments in new technologies.

Key themes taken from earnings calls with analysts



The worst in chip shortages is predicted to be behind us

Companies talked to analysts about how they expected current component shortages to improve over the next quarters.

As demand for end products normalizes and the chip sector is picking up steam, technology companies have been able to address the availability of components. Some have changed the design of their products and the chip content that goes in them. Others have partnered with chip vendors and changed their sourcing and inventory policies. This has given the sector the confidence to tell analysts that the current component shortages will be less of an issue in the future. Depending on the type of chips that are needed and the speed at which additional manufacturing capacity comes online, some companies predict next quarter to be better, while other companies predict a more gradual process starting in the second half of 2022.

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Semiconductor users are going to have to pay attention to their chip life cycles in a new way and ensure that they're not using older technologies with decreasing availability. This particularly applies to companies using custom chips; those designs are going to need to be updated, which takes time and comes at a cost.

Dave Lubowe, Managing Director, Consulting, Supply Chain & Operations, Ernst & Young LLP



Demand for supply chain tools and automation is in the spotlight again

Companies highlighted demand for supply chain tools and automation with the goal of creating solutions to mitigate resource constraints and talent shortages.

The digital transformation remains a firm revenue growth driver in the sector. Companies migrate their workloads to the cloud and add analytics and automation. In the current environment, data analytics tools are needed to build resilient supply chains, while robotics and process automation can help mitigate the negative effects of talent shortages. It is therefore not surprising that software companies reported an increase in demand for analytics and automation, which could replace collaboration tools as major growth driver at a time when companies are readying themselves for a post-pandemic society.

Key themes taken from earnings calls with analysts



The metaverse will boost investments in new technologies

Discussions with analysts about the metaverse focused on the development of new technologies and the need to create new ecosystems.

The metaverse is being touted as the next big thing. It will fundamentally change the way we interact online, the way enterprises do business. Analysts were keen to ask questions about the future role of companies in the metaverse. Tech companies talked about how they would enable gaming in the metaverse, about their role in creating better customer experiences and about future collaboration and enabling smart factories. They also stressed it is still very early days and there currently is a big need to invest in new technologies and to forge partnerships to create platforms for immersive computing. They especially expected an acceleration in investments in augmented reality, virtual reality and content development as enabler of the metaverse.

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While the metaverse is new, it's fast growth is causing companies to ask themselves how and when to participate. Early movers are already taking steps to build their brands and explore new forms of customer experience, but the key is to balance innovation with sufficient scale against current and prospective customers to drive ROI.

Janet Balis, EY Americas Marketing Practice Leader

Recurring topics during the earnings calls

Top market drivers

- 1) Cost inflation
- 2) Component shortages
- 3) Artificial intelligence
- 4) Digital transformation
- 5) Cloud migration
- 6) 5G
- 7) Normalization of demand

Top company responses

- 1) Partnerships
- 2) Pricing measures
- 3) Supply chain resilience
- 4) Investments and capex
- 5) Customer experience focus
- 6) Product innovation
- 7) Headcount increase

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

EY resources, methodology and contacts

EY resources



Dave Lubowe
Managing Director, Consulting,
Supply Chain & Operations, Ernst & Young LLP
dave.lubowe@ey.com



Janet Balis
EY Americas Marketing Practice Leader
janet.balis@ey.com

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 EY authors 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.

Authors



Ken Englund
EY Americas Technology Sector
Advisory Leader
kenneth.englund@ey.com



Stephan van Rhee
EY Global Technology Sector Analyst
stephan.van.rhee@nl.ey.com

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