



Building a better
working world

Technology quarterly

Executive insights from 4Q18
reporting season

Increasing focus on new business models, innovation and efficiencies as growing macroeconomic uncertainties create potential challenges for many leading technology companies

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

This quarter, companies addressed the dynamics of shifting portfolios to an “as a service” model, the impact of trade disputes and an overall slowdown in China’s economic growth, emphasizing operational efficiency to improve margins and the need for continued investment in new technologies to drive growth and innovation.



1

Companies are looking to build resilience by increasing their share of “as a service” revenues

- ▶ Hardware vendors redesign their business model to include more software and services
- ▶ Software and service vendors are looking to increase their recurring revenue base



2

The impact from the trade dispute and slower Chinese growth differs across the sector

- ▶ Declining growth in China impacts hardware vendors and component suppliers
- ▶ Software vendors and service providers show a lot more resilience



3

More cautious macro outlook prompts companies to intensify their cost-reduction programs

- ▶ Company restructurings to improve efficiency
- ▶ Working on operational efficiencies to maintain margins



4

Companies invest in new technologies

- ▶ 5G technology is expected to make an impact in the second half of 2019
- ▶ Early moves in quantum computing

Key themes discussed during earnings calls with analysts



1

Increasing “as a service” subscription revenue

To facilitate “as a service” business models and capture cross-selling opportunities, technology companies need to change their business models including different sales incentives, new (cloud) service delivery models, better customer insights and improved customer experience.

As more companies shift to subscription-based business models, sales plans, compensation, delivery channels and customer experience are now top-of-mind issues among leading technology companies.



2

Macro uncertainties around China are impacting hardware and component vendors

Companies are assessing the impact of macro and regulatory developments on their own business and their supply chain. Reacting to these changes and mitigating the potential impact require real-time insights into the supply chain.

The likelihood of geopolitical events, such as trade disputes, regulatory changes and nationalization, seriously disrupting the supply chain is only increasing. This is putting enterprise risk management and sourcing options on the top of the business agenda.



3

Cost-reduction programs are intensified

In uncertain economic times, operational excellence is the main driver to cut cost and improve profit margins. Digital technologies, cloud, automation and other new innovations are providing new opportunities to achieve operational excellence.

Intelligent automation will provide a lot of upside to back-office functions. Robotic process automation, machine learning and predictive analytics are having an impact today. Leading technology companies have already insourced their formerly outsourced activities with the help of automation.



4

Investments in 5G are ramping up

The rollout of 5G will boost investment in the second half of 2019. Semiconductor companies, component suppliers, equipment vendors and service providers will benefit. 5G will boost new Internet of Things (IoT)-related opportunities in various vertical industries, for which technology companies need to prepare.

New 5G technologies will provide a wealth of opportunities. Service providers across various verticals are scrambling to build economically viable business cases, but may experience delays in getting new solutions to market.

Ranking macro influences, business issues and technology themes mentioned

Top macro influences

Rank	Macro influence
1	Trade dispute
2	Slowdown in China's growth
3	Declining smartphone demand
4	Tax reforms
5	Brexit
6	Accounting changes
7	(Hyper-) inflation

The most talked about economic topic is the trade dispute and how it has caused a slowdown in demand in China.

Declining smartphone demand has caused a wave of revenue misses in the sector during the quarter.

Top business issues

Rank	Business issue
1	Product portfolio expansion
2	Cost reductions
3	Cash flow management
4	Talent management
5	Joint ventures and partnerships
6	Acquisitions
7	Divestments

Companies keep expanding their portfolio of digital solutions to increase revenues and be able to offer end-to-end solutions.

As the uncertainties in the market increase, companies have started to talk more about cost reductions and cash flow management to remain competitive.

Top technology themes

Rank	Technology theme
1	Cloud computing
2	AI and cognitive computing
3	5G and connectivity
4	Social platforms
5	IoT
6	Security solutions
7	Data analytics

Technology companies continue to focus on enabling technologies, such as cloud computing, artificial intelligence (AI), security solutions and social platforms.

Increasingly, investments in 5G are talked about as growth drivers, with expected rollouts starting to impact component and equipment companies in the second half of the year.

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.

EY resources, methodology and contacts

EY resources - want to learn more?

Transitioning to SaaS business model:



6 lessons from leaders in SaaS-based business:



EY-Parthenon: Software Strategy Group



Eight predictions for the technology sector in 2019

EY growing beyond borders tool:

A screenshot of the "Growing Beyond Borders" tool website, showing sections for "Global Business Insights", "Contact us", and "Watch our Growing Beyond Borders video".

EY supply chain offerings:



EY intelligent automation offerings:



Methodology

- This analysis reviews the top initiatives and issues of 26 leading global technology companies during the 4Q18 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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