

# **Tech Sector Overview**

Blyth Technology Coverage Group

# Areas of Focus

- Mobile Payments
- Internet of Things
- Smartphone Market
- Mergers and Breakups

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# Mobile Payments Overview

- Strengthening relationships between buyers and sellers by increasing convenience for loyal customers
- Industry path still wide open
- Key Players:
  - Apple Pay
  - Google Wallet
  - Paypal (Braintree and Venmo)
  - Square (Snapcash)
  - Bitcoin

# Key Players

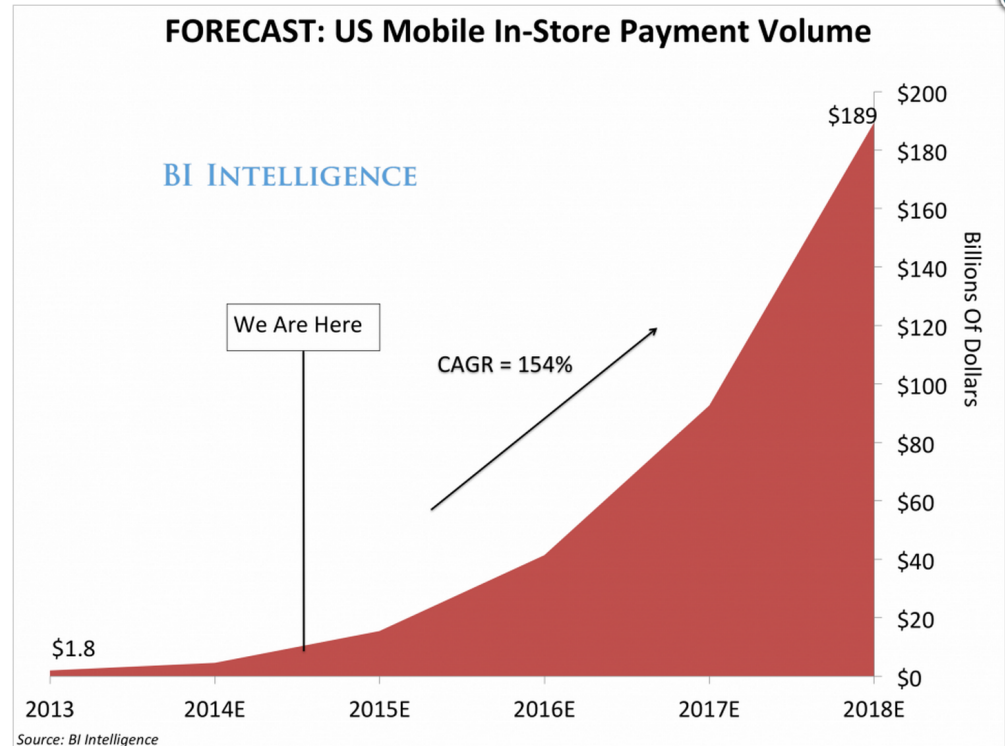
- Paypal
  - Splitting from eBay, could lead to increased adoption
  - Own Venmo for peer-to-peer transactions
  - Existing relationships with banks, credit cards
- Square
  - Now partnering with Snapchat: “Snapcash”
- Bitcoin/Cybercurrency
  - Allow for anonymous, secure transactions
  - Could face increasing regulation

# Key Players

- Apple Pay/Google Wallet
  - Embedded into iOS/Android
  - Seamless, secure experience using NFC technology
  - Reliant on data collection
- Current-C
  - Created and backed to keep Apple Pay/Google Wallet, monopolize payment data
  - Backed by 7-Eleven, CVS, Lowe's, Target, Wal-Mart, and others
  - Clunky QR-code based payment system
  - Could face pushback from consumers

# Predictions

- About to explode
  - Increased consumer and merchant adoption
  - Currently led by Apple
- Changing the way we pay for things
  - Pay directly from phone app
  - Bypass payment terminal



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# Internet of Things

- Definition: “the interconnection of uniquely identifiable computing devices within the existing internet infrastructure”
- Idea has been around since the 1980s
- Think Internet ecosystem:
  - Physical appliances, home, office interconnected through internet

# Large Companies Showing Interest

- Google
  - Major acquisitions of Nest, Revolv
  - Bought at high valuations; bullish on growth prospects
  - Aiming to bring IoT to consumer markets
- General Electric
  - Investing in “Industrial Internet”
  - Using Big Data, interconnected machines to provide cost savings to business customers

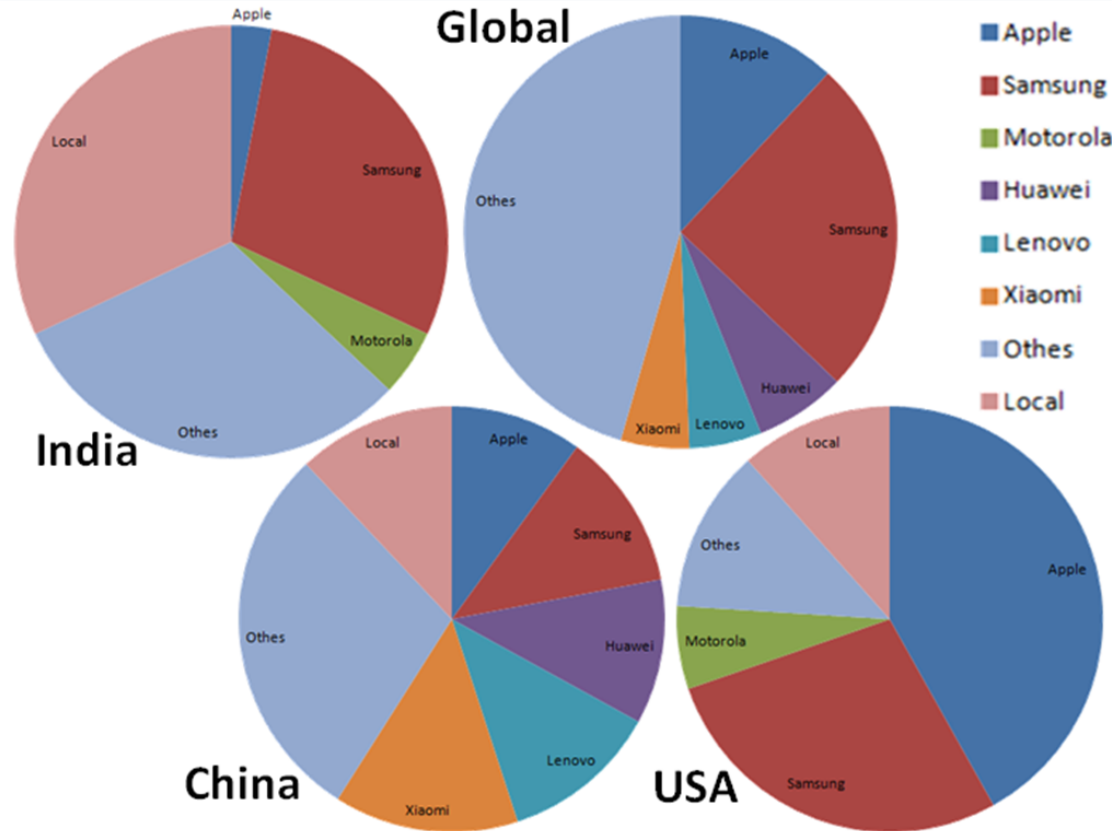
# Whirlpool: Cautionary Tale?

- Released “smart” washing and drying machines
- Steep \$1700 price for limited added benefit
- Need to provide massive advantage over existing products to justify making a switch

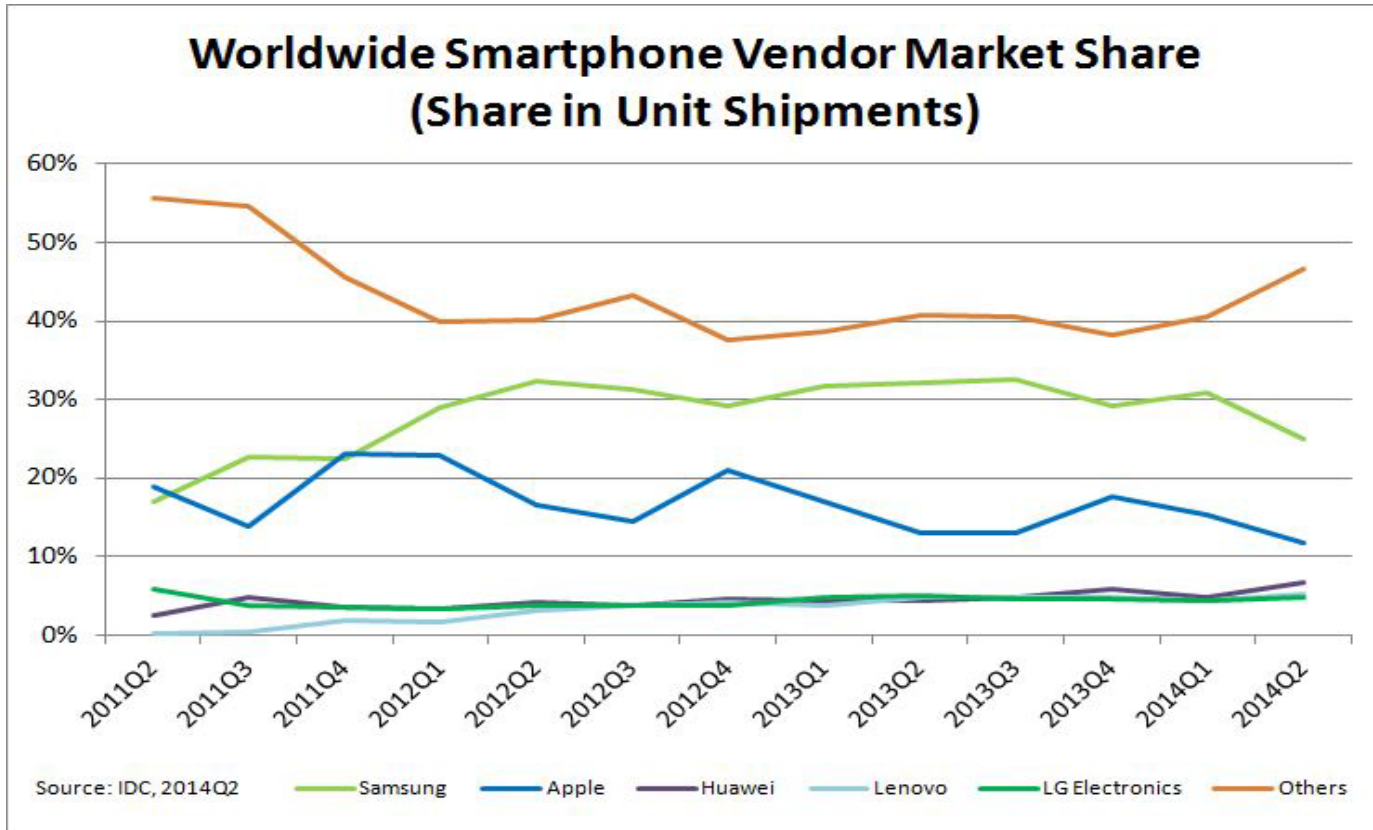
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# Global Market Share

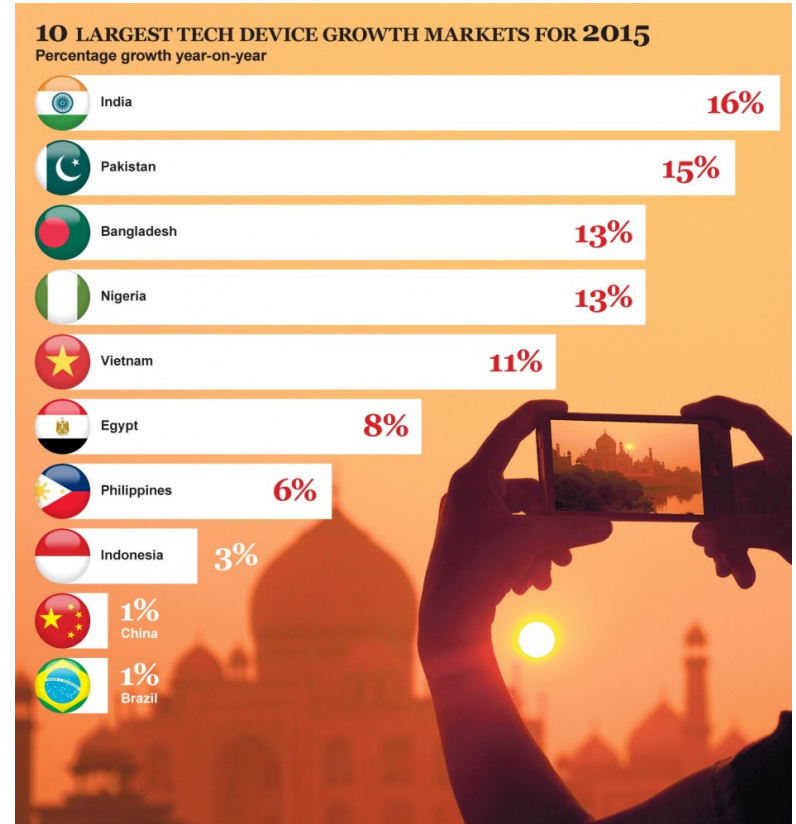


# Global Market Share



# International Markets

- Largest growth in emerging markets
  - Lower-end devices
  - Razor-thin margins
  - Fragmented markets
- Outlook for Apple and Samsung
  - Still dominate premium market
  - Having trouble making headway with lower-end devices



# Areas of Focus

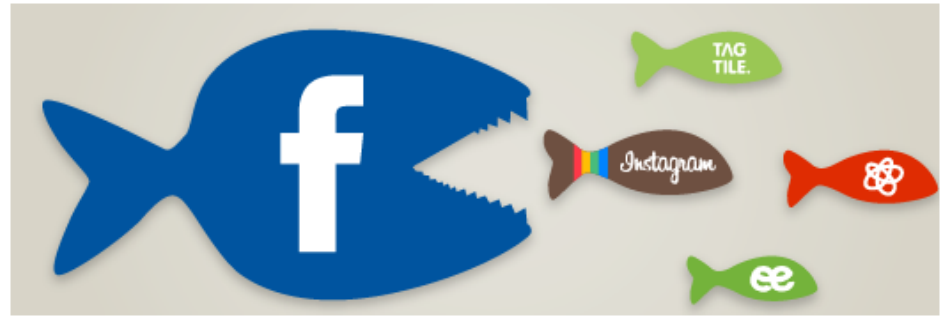
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- **Mergers and Breakups**



# Tech Mergers

- Large companies constantly buying startups
  - Improve current function
  - Create new products
  - Crush competition early
- Why try to create new in-house expertise when you can just buy it?

# Further Examples



- Google
  - Every Google product has many acquisitions behind it that are responsible for a significant part of it
  - Google Maps: ZipDash (traffic), Where2 (maps), etc
  - Android, Youtube, Nest
- Facebook
  - Acquired 40 companies, recent most notably \$19 B Whatsapp, which
  - Mostly “acqui-hire”: oftentimes products get shut down - instagram was first notable exception

# Yahoo's Situation

- Core businesses: ads, search, and mobile apps
- Most of their value comes from acquisitions/investments
  - Alibaba
  - Yahoo Japan (joint venture not administered by Yahoo)
- CEO Marissa Mayer criticized for acquisitions (e.g. Tumblr in 2012) that haven't boosted earnings

<b>Yahoo Market Cap</b>	<b>49.71</b>
<b>Alibaba stake</b>	<b>26.84</b>
<b>Yahoo Japan stake</b>	<b>7.34</b>
<b>Cash</b>	<b>12.10</b>
<b>Those 3 things</b>	<b>46.28</b>
<b>Tumblr, Flickr, BrightRoll, etc.</b>	
<b>Other Yahoo Services</b>	

# Yahoo/AOL

- Pushed by activist investor Starboard Value to “unlock value”
- Want to merge core Yahoo businesses with AOL
  - Could be 3rd largest Internet ad company after Google and Facebook
  - Hoping for up to \$1.5B in cost savings
- Heavy on financial engineering
  - Spin off core Yahoo businesses into separate company to merge with AOL
  - Leave original company as proxy for Alibaba and Yahoo Japan
- Opposed by Mayer and current board

# Tech Breakups

- Sell/spin off different aspects of the business
- Makes sense for conglomerates with many different arms
  - Different branches can have different levels of risk, growth, etc.
  - Mispricing likelier for companies with many disparate divisions
  - Let more rapidly growing divisions be better rewarded by investors
- Often pushed by activist investors
  - Marc Andreessen predicts that all tech companies older than 20 years will break up to become “smaller and more nimble”
  - Andreessen on the boards of HP and Ebay
- How will newer companies (Facebook, Google, etc.) navigate this?

# HP

"I believe that 2014 will in fact be the year you will see real recovery and expansion at HP. We should see every business unit recover and grow."  
-Meg Whitman, October 3, 2012

"We do continue to believe that revenue growth is possible."  
-Meg Whitman, May 22, 2013

"I do expect that we'll see pockets of year-over-year revenue growth across certain parts of the business in 2014."  
-Meg Whitman, August 21, 2013

"I have an even more specific view of what you can expect from us in 2014...We expect total revenue to stabilize and to start driving real pockets of growth."  
-Meg Whitman, October 9, 2013

## Hewlett-Packard

NYSE: HPQ - Nov 19 6:50 PM ET

**37.18** +0.32 (0.85%)

After-hours: 37.72 +0.54 (1.45%)

1 day 5 day 1 month 3 month 1 year 5 year max



Open 37.51  
High 37.52  
Low 37.09

Market cap 70B  
P/E ratio (ttm) 14.04  
Dividend yield 1.72%

# HP Breakup

- Splitting into two public companies:
  - Hewlett-Packard Enterprise: focused on business technology, data storage, software as a service
  - HP Inc: PCs and printers, keeping current logo
- Reasons for breakup:
  - Potential for better management
  - Enterprise marketing solutions
  - Regulatory considerations

