

Wednesday, 2 February 2011

Dear Stephen (Nokia CEO) and Steve (Microsoft CEO),

I hope I find you both in good health. As you know, I have followed the technology industry for over 13 years. Times are a-changin', as they say, and many of the predictions I put out in the market when I was at Merrill Lynch wearing polo necks, Timberlands and jeans, trying to look like Steve Jobs, are now, a decade later, coming to fruition. Yes, my timing has never been a *forte!*

We are finally seeing the convergence of communications and computing creating sizeable opportunities for future winners, but also challenges and threats for slower-moving incumbent vendors. You both must remember how a whole host of mainframe makers lost out in the shift to PCs and client servers such as WANG, Unisys, IBM and Burroughs. Or how Xerox and Kodak have been eclipsed by Adobe and Sandisk. And, Steve, you and Bill must remember how you ate IBM's lunch. That's brought a smile to your face, Steve, hasn't it? Well, this 'convergence' thing is as seismic a shift and may take that smile off!

I know you are both sick and tired of hearing how great and innovative Apple and Android (Google) ecosystems are, and that they have hundreds of thousands of applications, growing revenue at 50%+ per annum and gaining market share globally. I remember the days when Nokia (with Jorma Olilla at the helm) ruled the roost, European market share was above 50% and US market share was in the 35% range. Well, those days are long gone, and as you so sweetly put it, Stephen, in your recent Q4 earnings release, 'Nokia faces some significant challenges in our competitiveness and our execution. In short, the industry changed, and now it's time for Nokia to change faster'. That is a positive, Stephen, as it shows that Nokia is no longer in denial - unlike your predecessors who were wedded to a 'Not invented here' syndrome. Indeed, one of the internal candidates for the CEO post described a shift to alternative platforms as 'peeing in your pants for warmth'. It is good to see that you are challenging this internal viewpoint. Steve, you are not going to get off scot-free! Microsoft also faces very big strategic challenges as smartphones and tablets attack your highly profitable installed base business. Windows Phone 7 (WP7) is good, but let's be serious, guys: two million units in Q4 in a ~100m market; that is just not going to cut it!

So why I am ranting on here? Well, Stephen, you have just announced that you are going to 'build, join and CATALYSE' an ecosystem. If you really want to achieve that, you have to try to be different. So here is my proposal to you on what you should do at your Capital Markets Day on 11 February:

1. Android a no-go for now. This may have been a good idea one to two years ago, but it is not today. You will never be able to catch up with Samsung, which should rule the Android show mid-term given its economies of scale, product breadth (TVs, PCs, phones and tablets), as well as its captive component base. And that market is going to get even more crowded with China Inc (ZTE, Huawei *et al*) joining Sony Ericsson, HTC, Motorola and PC vendors. And more significantly, how is anyone going to differentiate on Android long-term?

2. Announce an EXCLUSIVE deal with your ex-colleague, Steve: you get access to their WP7 intellectual property (IPR) scot-free and access to the US market where your share has dived to the low single-digit level, and in so doing cut your bloated handset business R&D budget by at least

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€1bn, or 30%, which should add 300bps to your operating margin. Get rid of your own proprietary high-end solution (MEEGO) – it's the biggest joke in the tech industry right now and will put you even further behind Apple and Google. Focus your high-end portfolio around WP7, and over time you can take the cost down (that's Steve's job and cost base) to get this into the mid-range market. Push your Symbian solutions into the low-to-mid-range smartphone market as quickly as possible to defend market share versus Android's upcoming lowered cost ecosystem.

3. You are going to have to cut headcount severely in Finland, where Nokia accounts for around 7-8% of GDP and employment (including ecosystem), but I am sure the Government will be more amenable to restructuring with your share price down 70% since the introduction of the iPhone in 2007. It could obviously get worse if you wait. And the best time to announce it is now.

4. Tell the market by what time you expect the initial products from your exclusive deal with Steve to be released.

Steve, you are probably thinking, 'What do we gain on the back of this?' Well, two million units shipped in the last quarter is not really much to write home about, given \$500m in marketing programmes (ouch), but with Nokia on-side, you get access to a potential 20-25% global share over time – and EXCLUSIVITY. Right now, do you really think HTC, Samsung and LGE are pushing your products ahead of Google's? You need to tie yourself to a high-volume player to be relevant, which I know goes against your DNA. But do not forget that your MS-DOS software was originally only for IBM and then claimed a near-monopoly in the market. And, Steve, if you are successful, we will all forget your quotes from 2007. Do you remember this one: 'Apple is a cute, little, tiny niche guy?' Or this one: 'No chance Apple iPhone is going to get any significant market share?' (Ouch x2.) More importantly, your shareholders are going to be impressed that you have not gone after an expensive acquisition strategy in what is really (let's face it) a consumer electronics industry.

When you are both next in London, let's go for lunch and I can take you through my thoughts in more detail.

With compliments,

Adnaan

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