Technology and Channel Predictions 2019

CONTEXT

INTRODUCTION & OUTLOOK

CONTEXT has brought together key channel representatives with its own experts to make its summary of predictions about 2019. Our focus is three-fold:

1) The big issues facing technology companies in 2019 in EMEA
2) The key IT trends to watch out for, in particular insofar as they impact the channel
3) A country view from some of the major economies in the region.

2018 has been a strong year for the channel with **6.7%** year-on-year growth. This growth has been accelerating quarter on quarter reaching **9.1%** in Q4 2018. As we go into 2019, we see some headwinds, coming from macro-economic factors mainly. In CONTEXT's view of the market, we estimate growth in the channel to be positive in 2019, but in the range of **3-6%**, lower than the rates seen in 2018, with a slowdown starting in Q2 2019. Slowing demand as forecast by the OECD for the major EU economies and the impact of Brexit will feed through into the IT market. Consolidation will continue to be an important part of the distribution landscape in 2019.

Tim Curran, retiring CEO of the Global Technology Distribution Council, the GTDC, and an influential champion of the value that distribution brings to the channel, summarises his outlook for the year ahead:

> “*My own view is that 2019 may be rocky but that the fundamentals of ICT remain strong and poised for long-term growth. In Europe, until the Brexit issue is finally and clearly resolved, market demand will be muted. Similarly, market demand will be soft in the US for the short term as the PC and smartphone and Trump eras slow down.”*

He offsets these predictions with an upbeat message about the future:

> *“Looking further out, however, the demand for new technologies such as AI and IoT, VR and AR, digital health and robotics especially will drive growth and lead to new industrial and business applications. The channel will remain vital to implementing all these new technologies and distributors will remain at the centre of this vital and dynamic industry.”*

These words are echoed by **Alessandro Cattani, CEO, Esprinet:**

> “*Innovation in business models driven by the quest for added value will reshape the landscape even more than consolidation itself.”*

Several issues will be keeping the C-suite and boards of European distributors awake at night.

We highlight five here, along with the questions executives are asking themselves in the face of these challenges.

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1. Brexit – an unknown outcome for all Europe

Do you have a contingency plan for a no-deal Brexit?

There is still major uncertainty about the outcome of the Brexit discussions, and the situation evolves daily. A no-deal exit, which the British government has still not ruled out, would cause a traumatic shock to trade between EU and its partners as the UK would move to WTO tariffs and see its currency drop. Any distributor who depends on supplies from the UK should have a contingency plan and stock to cover this transition. There are reports of stockpiling in the UK and we hear that warehouses near ports in the UK are nearly full. Pharma companies on both sides of the English Channel are building up enough stocks of critical drugs to cover six months to a full year.

2. Politics and technology are a **toxic mix** – particularly when they lead to tariffs

*Rising prices bring opportunities as well as threats: how can you best prepare for any **future tariffs**?*

Politics is closely linked to technology: witness the questions around Facebook and privacy; the threatened break-up of GAFA companies (Google, Apple, Facebook, Amazon); and the trade war. While the rise in US tariffs on $200 billion of Chinese imports has been delayed by 90 days following the recent G20 summit, the 25% tariff is going to have a significant impact on networking and routing equipment as well as metals and other materials and components used by the IT industry. Increased prices will lead to a reduction in demand for consumer tech goods: previous hikes have shown that there are particular price points consumers are unwilling to cross. Other categories may be included in further rounds of tariffs: if watches and fitness trackers – which were reprieved this time – are included, Apple would be vulnerable as its manufacturing is concentrated in China.

“*I believe that politics and economies will have a major impact on the IT industry in 2019: the trade war with China, the strength of the US dollar causing devaluation in other currencies, security fears in Western countries influencing purchasing decisions, the aftermath of Brexit and more. Huawei, Kaspersky, ZTE, Facebook are all in the news and affected by political decisions.”*
Ali Baghdadi, SVP and CEO, Ingram Micro Middle East, Africa & Turkey

“*Emerging markets have been battered by global trade tensions over the past 2 years. Both USA and China represent opportunities and while the tech tug of war will not in itself be material in my view, it’s the macro effect these issues have on our currencies that is the major challenge for all players to manage. Africa is inherently risky and all players are prepared for this but the volatility and size of the swings on our currencies, and access to foreign currency in many markets make the environment very tough to see growth and investment.”*
Craig Brunsden, Managing Director, Axiz

3.

The rise of telecoms in European distribution

*Are you geared up to make the most from the **telecoms** opportunity in 2019?*

Telecoms has been the big growth story of 2018 with €1 billion added in year-on-year growth. Huawei's European sales through distribution grew by €1 billion and Xiaomi by €280 million. Apple ended the year as the top vendor in the European distribution panel after a quarter in which they sold €3.8 billion (all products included). There is a risk in 2019 that the growing trade tensions between China and the US, which are already touching Huawei and Apple, and the UK's decision to follow other countries in banning Huawei telecoms infrastructure equipment could also have an impact on sales of consumer products.

4.

Social upheaval may cause economic damage

*Do your budget plans for **2019** also include systems to deal with **temporary downturns** in revenues?*

The yellow-vest movement in France has caused billions of euros of economic damage; although it has hit the tourism industry hardest, it has also impacted industry.

The movement has shown signs of spreading to countries such as Spain and Italy – and even to countries less prone to popular revolt, such as the Netherlands. Since popular protests disrupt logistics, they will have an impact on distributors: with reductions in demand following delays in goods reaching end customers.

5.

Consolidation is happening

Are you geared up to identify potential acquisition targets in ***2019?***

2018 was a good year for European distributors with high year-on-year growth. This has allowed them to focus on organic growth rather than growth by acquisition. But, given the negative factors mentioned earlier, this situation may not last and there have already been signs of change. ALSO have recently announced the acquisition of ABC Data which increases their size and geographical reach and makes them a $10 billion company. Companies such as CMS Distribution, Exclusive Networks, Infinigate and Crucial Networks have also been acquiring. Although it is likely Ingram Micro will be sold to private equity, a trade deal or partial sell-off would lead to market consolidation.

> “*Hyper-transparency in pricing and product specs, brought by the widespread availability of internet and of ecommerce sites will push vendors, distributors, resellers and retailers to consolidate in search of economies of scale and to innovate in search of new sources of value by means of differentiation; but both consolidation and innovation will end up in fewer and fewer ‘hyper-winners’ and more and more barely surviving (or not surviving at all) companies.*”
> ***Alessandro Cattani, CEO, Esprinet***.

> “*As tech spend on traditional equipment slows, vendors are asking distributors to grow SMB and find new sources of growth in order to earn compensation. Channel rationalisation is a reality reducing the number of distributors and leading to a change in go-to-market models in order to succeed. These channel tensions will play out further in 2019, with distributors entering services more aggressively and big consolidations across the region.*”
> ***Craig Brunsden, Managing Director, Axiz***

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"On the channel side, we are still observing the industry consolidation, which started a couple of years ago with quite vibrant M&A activity on both reseller/integration and distribution levels. In our region (Middle East), cash is king as the credit crunch has taken a toll on the channel's ability to invest in new opportunities. The healthy-balance-sheet organisations are, undoubtedly, overpowering their rather anaemic competitors, taking full advantage of their financial muscle and, consequently, increasing their market share and influence."

Nicholas Argyrides, Chief of Sales & Marketing and Deputy GM, Mindware

"I also believe we shall see more consolidations and some divestments by key vendors and some partners. Look at IBM's latest divestments of large parts of its software portfolio to India's HCL."

Ali Baghdadi, SVP and CEO, Ingram Micro Middle East, Africa & Turkey

For 2019 we focus on the impact of two key **IT trends** – digital transformation and the fourth Industrial Revolution.

As companies undergo digital transformation, the secure management of data is the key driver of IT growth

DIGITAL TRANSFORMATION

As data and cloud services grow exponentially, so interesting competences and solutions are developing as a result:

- Companies are looking for the right mix of cloud and on-premises solutions. Edge computing is growing in response to the need to diversify risk and find solutions which are not cloud or internet-dependent.
- The 2018 data-privacy scandals – notably those surrounding Facebook– and the EU GDPR legislation have put renewed focus on the need for secure solutions.
- The channel has to find new ways to work effectively with the new consumption model.
- As Patrick Zammit of Tech Data says below, distributors have to be able to provide the services their partners need to help them transform themselves.
- Distributors are already seeing significant growth from lucrative hyper-converged infrastructure deals. Our panels show 100% year-on-year growth in in this area during Q4 2018. The challenge for distributors in 2019 is to capture a high share of this market and demonstrate the value they bring to vendors and end users in large datacentre transformation projects.

> “*The need for compute and data storage will continue to rise exponentially. What remains top-of-mind for me is the move to cloud and consumption models for infrastructure. It will continue to impact the mix between on-premises investments and cloud investments and impact the channel revenue accordingly. It also requires a new value proposition from distributors who need to help partners to transform and provide new services and solutions to enable partners to help their end customers.*”
>
> ***Patrick Zammit, President Tech Data EMEA***

CONTEXT

"Data volumes and their management will drive some of the most important IT changes of 2019. Whether it is multi-tiered cloud environments to facilitate the sophisticated data processing that needs to take place, new start-up vendors capitalising on the data created, or how 5G networks will be operated to ensure this data can move with speed and scale, the IT industry in 2019 will be largely shaped around data and its potential for business value."

Ralf Jordan, VP Distribution, Dell EMC EMEA

"Security, both physical and cyber, will be one of the key areas where IT managers will focus as users become more conscious of their privacy online. On the corporate side, more customers will be adopting DaaS, IaaS, PaaS and SaaS rather than making traditional IT investments.

Raj Shankar, Managing Director, Redington Gulf

"There is no question that, these days, more and more vendors are rapidly transforming into more 'cloud-relevant' organisations with subscription offerings. As we move into 2019 these offerings are progressively becoming part of our suppliers' standard pricelists and, naturally, being adopted further down by rest-of-the-chain stakeholders."

Nicholas Argyrides, Chief of Sales & Marketing and Deputy GM, Mindware

Opportunities from the fourth Industrial Revolution

The fourth Industrial Revolution – driven by the development of Artificial Intelligence ("AI"), the blockchain, Internet of Things ("IoT"), robotics, 5G, 3D printing and autonomous vehicles (e-mobility) – is set to continue through 2019.

DRIVERS OF ARTIFICIAL INTELLIGENCE

The growth of big data and the simultaneous increase in computing power seen over recent years has propelled us into an era of copious and rapid analysis using AI. This trend will continue through the next year – especially as even more data will be collected through channels such as IoT. There are three areas which shed a light on the growth of AI:

Skilled data-based storytelling will grow as businesses leverage omnipresent data collection to create useful personalised insights to satisfy their customers. An example is the popular Spotify 2018 Wrapped, which gives customers a year's personalised history and recommendations from knowing their personal music tastes. This hunger for storytelling goes beyond traditional analysis and is supported by the demand for machine learning (ML) and deep learning (DL). However, a shortage of people with the right skills is a problem: for example, there are twice as many jobs on offer in London as there are data scientists qualified to fill them.

Developments in AI tools have led to a growing range of software packages which offer automatic ML/DL infrastructures, enabling computing power to compensate for lower skills in AI deployment by using models to choose and optimise the most relevant solutions for the user. This should enable more people who are not IT specialists to benefit from AI and use it to make informed and faster decisions.

Two key computing trends have had an impact on the growth in AI: scalability through cloud (hardware on demand) and the hardware market itself. The growing popularity of cloud solutions, where AI models are typically deployed, is accelerating the development and deployment of ever more AI products (scale factor) and goes in hand with the demand for cybersecurity for the new data streams. On the other hand, AMD's line of new products, released in 2018, challenged Intel's dominance and revived competition in the PC market, stimulating growth. AMD have now announced a new line of powerful processors, built using 7nm technology, that are expected to be a third of the price of those of their Intel competitors – so we should soon see a drop in costs for computing to deliver AI applications

“On the bright side, customers are getting excited by the potential of extracting intelligence from data. Machine learning, deep learning and AI, coupled with superfast computing platforms than can learn with significant speeds have opened new applications and opportunities. The demand for data scientists and experts in artificial neural networks is rising rapidly. Couple this with cybersecurity concerns and the move to the cloud, and one can see a real transformation in technology needs and direction driven by tangible solutions. Solutions which are understood by non-IT executives. This, in my opinion, will drive growth and will require more specialisation from the IT industry.”

Ali Baghdadi, SVP and CEO, Ingram Micro Middle East, Africa & Turkey

THE MOST IMPORTANT ISSUES, EVENTS AND TRENDS IN THE 3D PRINTING ADDITIVE MANUFACTURING "3DPAM" INDUSTRY IN 2018

2018 was all about the industrial side of additive manufacturing. On the metals side, the industry saw shipments of new, lower priced multi-ASTM process printer technologies like material extrusion solutions from Markforged and Desktop Metal. Interest also gathered around forthcoming alternative multi-process metal technologies like the various Binder Jetting solutions from HP (Metal Jet) and Desktop Metal and for Stratasys' LPM. 'Green part' was the phrase-du-jour at many a trade event as metal printer vendors explained the steps by which they envision lower priced metal parts can be cost-effectively mass-produced in the not-too-distant future. In the world of polymer printers, vendors like Carbon and HP continued to see strong shipments and share gains as vat photopolymerization and powder bed fusion technologies took centre stage. Not to be outdone by these new kids on the 3D printing block, the once-again market leader 3D Systems charged ahead with a host of new products in 2018 including first deliveries of its Figure-4 platform.

Predictions for 2019

It will be interesting to see how pre-announcements of products continue to disrupt the competitive landscape. HP's MultiJet Fusion technology impacted the market long before the machines began to ship, a trend that HP seems to hope for again with the slow roll-out of their Metal Jet technology. Formnext shave made a multitude of pre-announcements including the tease by EOS of its forthcoming LaserPro Fusion technology. The good news is that this one-upmanship was not just industry hype, but it led to real growth. Shipments for Industrial-class 3D Printers (those selling for $100K+) were up +22% in 2017 and are on pace to see +27%+ year-on-year growth when 2018 is in the books as well. The continued challenge for all vendors is to work collectively to push additive manufacturing further into the mainstream

IoT

One of the most important opportunities for the Channel

GROWTH OF IOT

CONTEXT data shows Smart Home was the fastest growing category of 2018 with +47.4% year-on-year growth. Although the wearables category, which is largely driven by smart watches, only grew by +14%, distributors' turnover from it nevertheless exceeded €500 million. It should be noted that there are also many business-focused uses of IoT that, in our standard data, are contained in categories such as servers and networking.

“ *IoT has been connecting us, our homes, cars, gadgets, and health to the cloud for the last few years. Considered a largely wireless technology for many, IoT and its cloud requirement remain a hidden technology to most consumers unaware of the benefits they are receiving from the ongoing growth of IoT in consumer products. While security, ongoing costs and upfront costs weigh heavily on the minds of consumers, for industry and commerce, IoT has a measurable impact on the bottom line that means upfront costs are ranked lower in the scale of importance when weighed against the benefits IoT brings. We have seen continued growth in the Exertis business for categories that feature IoT capabilities. Our business has focussed for the last four years on IoT, a focus that continues to pay dividends. In that time, we have seen significant yearly growth from new product introductions, new companies entering the market with excited investors and partners engaging across many levels of the Exertis worldwide business. We have high expectations for the IoT categories in 2019.*
Rod Slater, Head of Smart Technology & IoT, Exertis UK

“ *IoT is one of the technologies that continue to grow at an exponential rate. Vehicles, wearable gadgets, RFID sensors and software are advancing past basic function and the network is growing to include even more advancements each day. Industry analysts predict that by 2020 over 30 billion end-point devices will be connected with the internet. All of this data cannot just reside on the cloud because by the time data gets into the cloud, it is historical. IoT has been a focus for Western Digital over the past few years. At WDC, we are at a vantage point to understand and cater to the different data types and use cases in the IoT ecosystem and is creating environments for data to thrive.* ***Khwaja Saifuddin, Senior Sales Director, WDC***

E-mobility

2019: the year of ***accelerated adoption***

CARS – WHAT IS IN IT FOR DISTRIBUTION?

One of our experts has highlighted the importance of this area, including components which should be an important attraction for distribution.

> *“2018 and beyond will be a stepping stone in the process of converting physical mobility (cars, motorbikes, bikes etc.) into a new IT platform as we witnessed in the past with our office desks, with our sitting rooms at home and, lately, with our pockets now full of smartphones. E-mobility is more and more a reality. If 2018 was an inflection point, 2019 will be the year of accelerated adoption, especially of e-bikes. Anyhow, I see batteries as a future battleground for the entire European manufacturing industry, especially for the car industry, and a tremendous long-term opportunity for electronics distributors.”*
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> ***Alessandro Cattani, CEO, Esprinet***

The view from the regions

In these final pages, our inhouse and channel experts comment on the regional perspective of the channel in their countries.

	2018	2019
Italy	10.8%	→
Spain	9.4%	↘
UK	8.7%	↘
France	5.8%	↘
Germany	3.8%	→

ITALY

Italy grew more than any other European region in 2018. We, therefore, start by analysing developments in this country in detail to highlight the positives of the channel in the past year, and then we cover six other countries.

For the IT distribution market Italy, 2018 was an excellent year with year-on-year growth of +10.8% and €7,443 million, a performance in line with those of 2014 (+12.5%) and 2015 (+11.1%).

The retail channel posted the highest level of growth (+19.7%) having benefited from the decision of some vendors who had previously used the distribution channel less extensively to change their route to market. The SMB channel also performed well, growing by +7.4%, whereas the consumer etail channel showed a slowdown (-2.2%). The corporate reseller channel grew by +10%.

Smartphones continued to drive revenue growth and added +24.4% in 2018 (compared to year-on-year performance of +5% in 2017) mainly from the consumer segment. Apple is the leading vendor with a 45.4% market share in distribution and an increase in sales of +49.2% on the previous year, followed by Huawei with 25.7% market share, and a year-on-year increase in sales of +12.5%.

Notebooks, the second largest category in distribution, grew by +4.5% while desktops decreased by -1% despite the positive performance of the two biggest vendors, HP (+5%) and Lenovo (+20%).

There was outstanding growth of +40% in the server category where Dell reached a panel share of 50% having grown +80.7% overall and +143.2% in the corporate reseller channel.

Other areas seeing significant growth were data-management software (+37.6%), headsets and headphones (+96.3%) and smartphone accessories (+ 36.9%).

Looking forward

Expectations for the Italian distribution market in 2019 are positive and it is hoped its performance will be in line with that seen in 2018. In the 2018 ChannelWatch survey, almost 70% of Italian resellers said they were optimistic about the coming months and the sales revenues that subsequently appeared in CONTEXT SalesWatch distribution reports justified their opinion.

SMB and corporate reseller channels are also expected to continue to grow, driven by new IT trends (digital solutions, cloud services and security) and government funds allocated in the 2019 budget. However, it is not expected that the retailer channel will be able to sustain double-digit growth since its success in 2018 has led to a much higher comparison base for 2019.

Smartphones should remain the dominant product category as they are used for social media, apps, videos, tracking and IoT as well as traditional voice. Vendors and mobile operators are already looking to 5G technology, and 5G models will start arriving in the second half of 2019 or in 2020, but there is as yet little understanding among consumers of the benefits of 5G. Large-scale deployments should begin in 2020 and mobile carriers are beginning to introduce trial 5G networks. In fact, trials have already started in the metropolitan area of Milan which has become a real open innovation lab as more than fifty 5G antennas have been installed in strategic locations throughout the city.

PCs, one of the biggest product categories for distributors, should continue to see the same trend in 2019 as in 2018.

The Smart Home market will grow in 2019, following the recent launch of Google and Amazon voice assistants in Italy. Thanks to the availability of new hardware, it is also expected that there will be growth in related product categories such as home automation, home security, video surveillance and connected white goods as well as virtual reality (VR) and augmented reality (AR).

In the enterprise area, both the cloud computing and software and licences sectors are set to be the most dynamic areas of IT distribution market. The shift towards subscription-based models will continue, driven by data-management software and security solutions as the leading trends such as e-commerce, mobile payments, cloud computing, Big Data and analytics, IoT, AI, ML and social media, with increased cyber risk for users and businesses.

Government funding for technology

The 2019 budget set up an ad hoc fund of €45 million (€15 million per year for 2019 to 2021) to encourage the development of new technologies such as AI, the blockchain and IoT. However, progress in AI, ML and blockchain applications is such that new technologies will be available in 2019, presenting opportunities for businesses and for consumers. This measure is intended not only to increase the competitiveness and productivity of the Italian economic system but also promote the Industry 4.0 programme (smart manufacturing) in the Italian SMB sector.

In addition to this, the Ministry of Defence has allocated €3 million over the next three years to a cybersecurity fund. Vouchers to enable innovation managers from SMB to acquire the professional skills needed to support innovation and digital technologies in their companies have been also included in the 2019 budget and can draw on funds of €75 million (€25 million for each of the years 2019, 2020 and 2021).

SPAIN

The IT distribution market closed 2018 with +9.3% year-on-year growth, like that of the previous year (+9%), and total revenues of €5.208 million. Growth was higher in the last two quarters of the year (+11% in each quarter) than in Q1 (+6.6%) and Q2 (+8%).

If we analyse the monthly data across all channels, it seems that there has been a change to the usual pattern in 2018: October and November are now the most important months in terms of revenue. Advance buying by retailers and etailers getting ready for Black Friday and Christmas campaigns has a significant impact on results for October (+17%) and November (+16%), pushing them well above those for December (growth of just +1.5%). The back-to-school period was also good this year – growth of +15.6% in August and +10% in September – which shows the importance of the education sector for the IT market. Both vendors and distributors are making a big effort to support digital transformation in the education sector, and they are investing in and promoting dedicated events such as SIMO where Microsoft, Google, HP, Dell, Epson and others provide product training for end users and resellers and highlight innovations.

There is no change to the traditional monthly pattern in the value channels: December was the strongest month of Q4 2018. The SMB reseller channel is growing, although more slowly than the overall market, and corporate and etailer business channels are shrinking. The main reason for this is possibly the current political instability in Spain and other countries that is also affecting the confidence in the economy. The IMF has recently reduced its predicted value for growth in Spain in 2019 by one point to +2.2% – and to only +1.8% for 2020 –whereas in 2018 it was 2.8%–2.7%.

So, taking into consideration those predictions for the economy, that 2019 will be a year full of elections in Spain, and the difficulties the government is having in approving a 2019 budget, we predict that growth will be lower in 2019 than in 2018 – unless all the business deals that didn't happen in 2018 does take place in 2019. And, if that happens, it will be very good news for Spain and the market.

UK

2018 was a very good year for the UK with +8.7% year-on-year growth. With the Brexit deadline fast approaching, predicting how the UK will perform in the next twelve months is probably one of the toughest jobs after that of Prime Minister Theresa May. Following the heavy defeat of the proposed deal in parliament, the country is in limbo with no certainty about what will happen next: will there be further negotiations? another referendum? the dreaded no-deal Brexit? UK companies are desperate to know the outcome in order to take the appropriate actions to keep their business stable. This uncertainty may explain reports of distributors stockpiling products in case of issues at ports after 29 March.

While security is a threat to most, if not all businesses, it provides a great opportunity to the channel. GDPR came into effect in May 2018 and, with fines potentially running into their millions, let alone the reputational damage high profile breaches can cause, the stakes have never been higher. Companies will continue to look to their IT suppliers to provide the hardware, software and solutions to help minimise risks and ensure their technology and data are secure. We can expect to see continued strong year-on-year growth for security software and network security products.

Further Brexit developments may lead to currency fluctuations that could be a threat if transactions in dollars and euros are set against a depreciating pound. Already in the UK, Beta Distribution has gone out of business in part due to cash losses from foreign-exchange currency contracts.

Despite all the possible problems that 2019 could bring, the UK remains a technology and business hub for the world so we believe the UK will continue to see growth – but whether it will match the +8.7% we saw in 2018 remains to be seen.

FRANCE

In France, IT distributors registered a healthy growth of +6% in year-on-year in revenues in 2018 – well above that registered the previous year (+3%). The best quarter, Q4 2018, saw +7% growth in revenues while the second quarter was the weakest, with +5% year-on-year growth.

Despite the national yellow-vests protests that impacted the retail arena in France, especially at the end of the year, the retail channel registered the healthiest revenue growth and its figure of +12% was driven by an increase in smartphone sales. Things were not so bright for the consumer etail segment which suffered negative growth of -3% in terms of overall revenue. On the business front, there was growth in both for the corporate channel (annual revenues up by +6% year-on-year) and the SMB channel (+5% increase).

With a 13% market share, smartphones became the leading product category for French distributors for the first time ever – ahead of notebooks which held a 10% market share when measured in terms of revenue for 2018, despite negative growth of -1% year-on-year. Smartphones, on the other hand, maintained their very healthy revenue growth and recorded +29% for the year, largely driven by the retail segment.

IT distribution in France should continue to see growth in 2019 even though the political and economic climate in the country are creating some uncertainties and GDP forecasts for 2019 were revised down to +1.6% at the end of the year. The gloomy landscape could have an impact on distribution which may, therefore, see slightly lower growth in 2019 than in 2018.

Future growth is likely to come from the ultra-portable and premium notebooks, sales of which are on the rise. In 2018, an impressive 65% of all notebook transactions made in French distribution were of ultra-portable models and, having also registered +12% year-on-year revenue growth, this segment will continue to gain market share.

Conversely, revenue from tablets is expected to shrink and we expect some vendors to disengage from this space. While there was growth in 2018, it was mainly fuelled by the retail channel and is expected to go down in 2019. Corporate demand for these products has fallen significantly, while growth in the SMB segment was a very modest +4% in 2018.

Servers saw double-digit revenue growth in 2018 (+18% year-on-year) and this should remain at a healthy level in 2019. The number of datacentres in France is expected to continue to grow as a result of increasing IT externalisation, the cloud migration trend and the development of Big Data and IoT. This should bring value to the market as a whole, and servers, datacentre networking, storage and cloud will all benefit from it.

The 5G network will have little impact in France until 2020 as the new-generation network is still in the test phase and, in terms of deployment, France is lagging slightly behind some other European countries.

GERMANY

Germany closed 2018 with a solid +3.8% panel revenue growth. This represents a € 16.1 billion total turnover for the year and means Germany retains its number 1 slot as the largest country for distribution in Europe.

2018 was the ninth year in a row in which there was upward movement in the German economy. In Q4 2018, economists reduced their earlier forecast of +2.0% growth in GDP because Germany depends on exports and there is economic uncertainty in some of its major markets such as the UK (Brexit or not), Italy (debt crisis), Turkey (politics of Erdogan) and the US (Trump). Germany's GDP grew by +1.7% in 2018 and almost all banks and economists predict the same level for 2019.

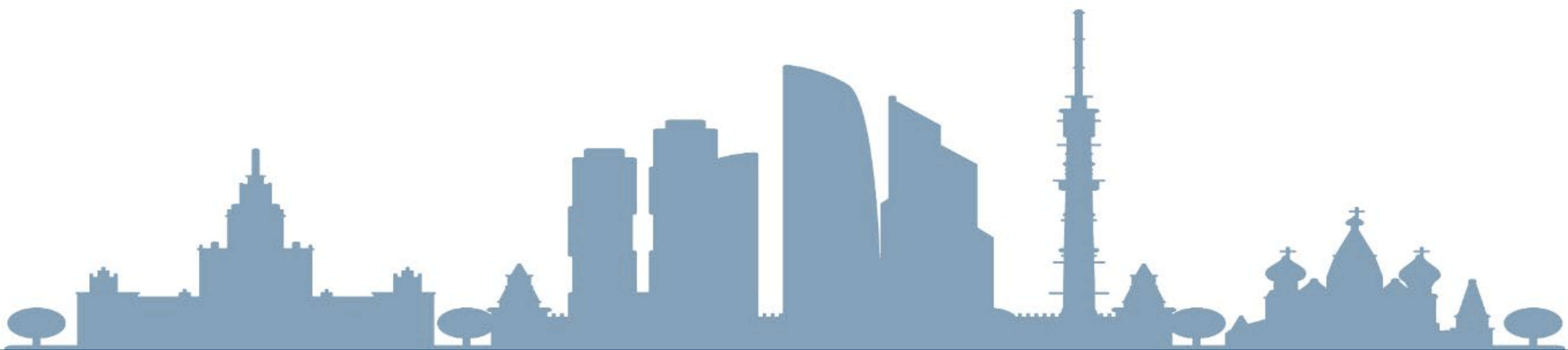
After consulting broadline distributors and vendors in Germany, we expect IT distribution to grow by about the same amount as in 2018. But we forecast shifts in the sales channels: etail will grow faster than traditional sales channels. Online competition is putting retail in Germany under pressure and some retailers are considering closing stores because they are no longer profitable. German etailers, on the other hand, are reporting record growth rates.

The availability of Intel processors and SSD drives is a potential problem: if the shortages we have seen in Germany continue into 2019, they could have a negative impact on the IT sector overall.

RUSSIA

The Russian distribution panel has grown by +11.7% in 2018 but, unfortunately, the outlook for 2019 is less positive: growth will be muted as a result of prolonged and new sanctions. Oil exports kept the country going in 2018, allowing some losses to be recovered, but no one knows what will happen this year. Other important factors are the lack of foreign investment, the outflow of US dollars and the weakness of the rouble. However, the government is happy for the latter situation to continue, as cheap money is needed for domestic projects, and is simultaneously allowing the national debt to grow. Predictions for 2019 depend on the government's monetary policy (which is currently very strict) and the strategy it chooses to manage currency reserves.

We have been expecting distribution to undergo the consolidation we saw in retail, but no big deals have gone through. As it is becoming harder and harder for smaller businesses to survive, maybe 2019 will be the year of change.



MIDDLE EAST

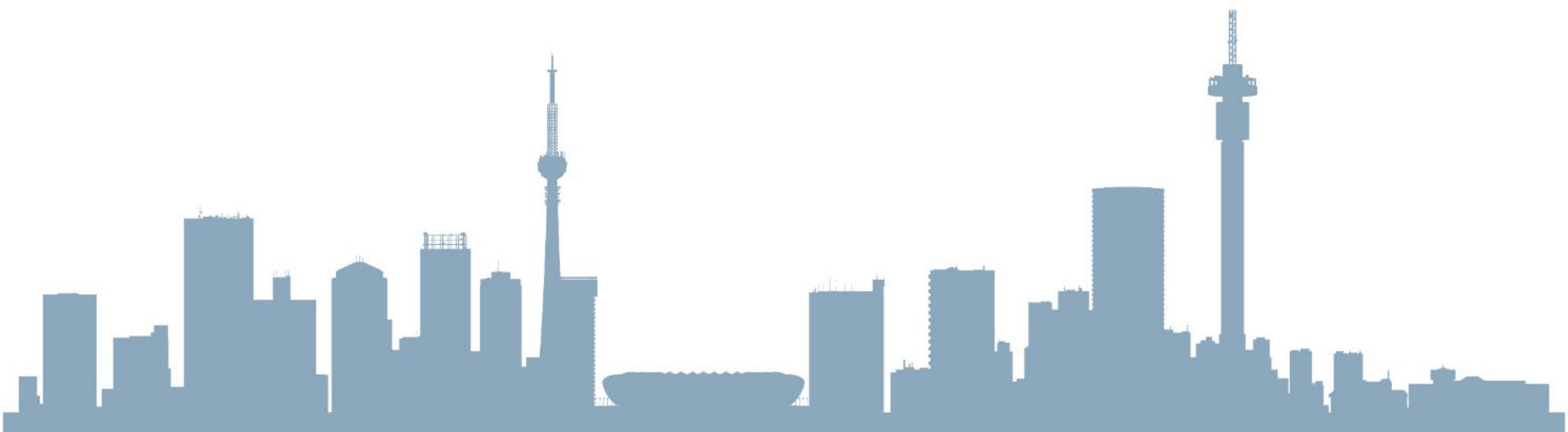
"In 2019, the GCC countries could witness a higher level of economic activity as some global events happening in the region near their launch date, such as the Expo 2020 in Dubai. For the IT industry, this would translate into opportunities which could not be measured from a traditional perspective. For example, volume of PC shipments may not see growth, but we could expect an increase in the average selling price of PCs. More countries in the region are expected to implement VAT (value-added tax) in 2019, which would result in lower demand during the initial stage of implementation and compel companies working regionally to re-think their financial processes in order to comply with new regulations. Additionally, companies will have to become more prudent in managing their financial capital as the cost of capital is expected to increase in 2019 as also there could be some liquidity challenges. Overall, 2019 is expected to be a positive year for the IT industry in the Middle East subject to political stability in and around the region."

Raj Shankar, Managing Director, Redington Gulf

S AFRICA

"With datacentres planned by Microsoft and Amazon for South and East Africa during 2019, the market will come to terms with clouds impact on hardware and software sales more than ever before. This is an opportunity for some, but we expect a major negative impact on big hardware and software players for 2 to 3 years. Southern and East Africa are wrestling with local political, corruption and security instability as well as the impact of new governments, "state capture" and terror threats on commerce. South Africa, Zimbabwe and Kenya are cases in point. These markets can ill afford more problems to discourage foreign investment, in particular the impact it has on infrastructure and government strategy. All this points to low GDP growth and tech spend in 2019."

Craig Brunsden, Managing Director of Axiz



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Top of the list of challenges faced during 2018 must be the volatility in exchange rate (not necessarily that it has changed, but the constant and unpredictable spikes – both up and down) which has caused our industry to be a lot more cautious in the procurement process. I remember a change of around 15% in a single month. For our ultimate end customers, it made spending against a budget very difficult, as a R10m budgeted network upgrade could cost anywhere between R1.1 and R1.2m or more. I believe a lot of customers then waited for the exchange rate to stabilise before making decisions. We are only now seeing projects planned earlier in the year coming to fruition. At the same time our country's, and continent's political and economic instability has not helped in stimulating IT spend, and similarly the view of ratings agencies has not led to major IT investments either. Everyone in the channel scrambling for the business that was available unfortunately continued to put pressure on margins that often led to business being done at low / no margin just to pick up the related services. Continued skills shortages and the cost of certification and maintenance thereof have not helped the channel either. A lot of these challenges have opened doors to new thought processes in the channel i.e. consumption-based models, anything as a service, and distributors like Westcon backfilling anything from skills, systems, to supply chain services to the channel. I also believe that this will continue into the new year – I don't think we will have overcome the economic, political or currency issues in the next year, so continued strategic thinking to ensure we create profitable business in the entire channel, while focussing on addressing the cost of generating that business will remain top of mind. At Westcon we will assist the channel in reducing the cost of doing business by providing portals to transact with us, continually adding to our support capability to complement our customers, aggregating services across a wide spectrum to assist with channel profitability and cost containment.”

Uwe Brandkamp, Sales Director, Westcon Southern Africa

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