

# Nokia's Hardware Business In Relation To Microsoft's Aggregate Revenue

tl;dr: The net sales in cal 2013 from the Nokia assets that Microsoft will purchase in calendar 2014 will total roughly 18.17% of Microsoft FQ3, FQ4, FQ1-14 and FQ2-14 revenue (the comparable calendar period), using market estimates for each company's current financial period when needed.

tl;dr2: What this means is that while Nokia will bring revenue to Microsoft roughly commensurate with two quarters of its new Devices and Consumer top line.

tl;dr3: On a revenue basis, Microsoft is about to get cheaper, but by less than one-fifth.

tl;dr4: Microsoft's operating margins about to go down, as will its net profit and EPS. However, as we calculate, the EPS decline will be minor.

Process:

- Microsoft will purchase "substantially all of Nokia's Devices & Services business."
- According to Microsoft, in 2012, the portion of the D&S group that it is buying generated 14.9 billion Euros in net sales.
- The full D&S group had net sales of 15.686 billion Euros in that period.
- So, Microsoft is buying 95% of Nokia's D&S net sales.
- We can use that % figure to estimate calendar 2013 revenue for D&S at Nokia.
- Nokia calendar 2013 Q1-3 net sales: 17.209 billion Euros.
- 8.51 E came from D&S.
- This fits with Microsoft's note that it is buying about half of Nokia's net sales.
- $8.51/17.209 = 49.5\%$
- Investors expect full Nokia cal Q4 2013 revenue to be 6 billion Euros
- This means D&S and will have revenue of ~3 billion Euros in Q4, bringing the full Nokia cal 2013 D&S net sales to 11.51 billion.
- That is \$15.8 billion at current exchange rates.
- Microsoft gets 95% of that, or \$15.01 billion
- To compare that dollar figure to MSFT, we need to compare same time-period quarters, meaning we need to work around Microsoft's incredibly annoying fiscal calendar. So, we want fiscal Q3 and Q4 of 2013, and Q1 and Q2 of 2014.
- Revenue breakdown thereof:

FQ3 2013: \$20.49 billion

FQ4 2013: \$19.90 billion

FQ1 2014: \$18.53 billion

FQ2 2014: \$23.7 billion [Expected]

- Total: \$82.62 billion
- So, Nokia's D&S net sales that Microsoft would have collected in 2013, would have been 18.17% of the parent company's stand alone revenue in the same period.

## Financial Impacts

Comparing both companies' most recent quarters, we have the following notes. Nokia figures are ONLY for its Devices and Services business.

### Microsoft:

- Revenue: \$18.53 billion
- Net Income: \$5.244 billion

### Nokia:

- Revenue: 2.898 billion Euros
- Net Income: -85 million Euros
  - In dollars:
- Revenue: \$3.99 billion
- Net Income: -\$116.97 million

Portion of that net loss that Microsoft will have to deal with? 95% of -\$116.97 million works out to -\$111.12 million

- Microsoft EPS on its FQ1 net income: \$0.62
- EPS:Net Income ratio \$8.46 billion:\$1
- So, if we deduct the \$111.12 million from the \$5.244 billion figure, we can calculate what Microsoft's EPS would be if it had absorbed Nokia's D&S loss in the period:
- \$5.244 billion - \$111.12 million = \$5.133 billion
- \$5.133 billion divided by our \$8.46 billion:\$1 ratio will generate our projected EPS: \$0.6067 per share.
- So, that's a barely 1 cent per share decline in Microsoft's EPS.

Vetting that bit of math, let's calculate the same number in a slightly different fashion:

- \$111.12 million divided by \$5.244 billion = 2.11%
- $100 - 2.23 = 97.77$
- $\$0.62 * 97.77 = \$0.6069$  per share.
- Hooray we were right.

Similar analysis could be undertaken to calculate expected margin impacts and the like.