

TECH

Huawei Expects \$30 Billion Revenue Hit From U.S. Clampdown

It is the first time the Chinese tech giant has quantified the potential impact of American actions against it

By Dan Strumpf

Updated June 17, 2019 11:22 am ET

The U.S. campaign against Huawei Technologies Co. is taking a toll, with the company's founder forecasting a hit to revenue of about \$30 billion this year and next.

Ren Zhengfei said he expects revenue of about \$100 billion for Huawei in 2019, a decline from last year's roughly \$107 billion, following lower-than-expected growth in the wake of a U.S. export blacklisting and other actions against the Chinese technology giant. Mr. Ren had earlier targeted 2019 revenue to come in around \$125 billion. The privately-held company selectively discloses its finances, though it publishes an audited annual report.

Huawei, the world's largest maker of networking equipment and the No. 2 maker of smartphones, is reeling following a Commerce Department entity listing last month that restricts the ability of suppliers to sell it American technology. Huawei procured \$11 billion worth of U.S. technology last year out of a total procurement budget of \$70 billion, according to the company.

Mr. Ren's comments provide the first window into how the blacklisting is weighing on the company's financial outlook. Mr. Ren didn't detail how he arrived at the \$30 billion figure, or how specifically it would change the company's 2020 revenue forecast, which it hasn't disclosed.

Huawei has grown sharply over the years, as it made quick inroads into networking equipment and smartphones, with revenue growing 20% in 2018 from a year earlier. In the first quarter it surpassed Apple Inc. to become the second-largest maker of smartphones, behind Samsung Electronics Co.

The company was poised to capitalize heavily on investment in forthcoming 5G wireless technology, which is set to roll out in countries around the world in the next few years. But before the trade blacklisting, Washington had been pushing allies to avoid using Huawei's 5G gear

because of fears it could be used by Beijing to spy or disrupt communications networks. Huawei has long denied that, and Mr. Ren has said he would refuse any order to spy on customers.

The new forecast implies a sharp slowdown for Huawei in the wake of the U.S. blacklisting. Earlier this year, the company said its first-quarter revenue rose 39% from a year ago, indicating that its business had been accelerating in the first three months until it was slapped with the entity listing in May.

Huawei has said it has stockpiled inventories of components and has plans in place to procure supplies from non-American sources to weather the ban. Still, analysts point out that some high-end chips designed by U.S. companies will be difficult to source elsewhere. The blacklisting blocks Huawei from licensing Google's Android operating system for future phone models, imperiling its strides made in handset sales in overseas markets.

The company is contending with other American actions. Last month, the Trump administration issued an executive order seen as paving the way for banning Huawei's U.S. business, which is small. Huawei is also fighting in court a U.S. law passed last year that restricts U.S. agencies from contracting with companies that use Huawei. And U.S. authorities are seeking the extradition of the company's chief financial officer from Canada on charges related to evasion of U.S. sanctions on Iran.

Analysts say the supplier blacklisting, however, is Huawei's biggest threat by far, given its heavy reliance on U.S. components and the interconnected nature of technology supply chains. A similar but more strict supplier ban imposed on Huawei's Chinese rival ZTE Corp. last year nearly bankrupted that company, though Huawei is seen as more self-sufficient than ZTE. For example, the company designs billions of dollars worth of its own semiconductors at its HiSilicon chip unit.

Edison Lee, a Hong Kong-based telecom analyst at Jefferies, said Mr. Ren's revenue forecast "sends a dangerous signal" to the supply chain for communications gear, adding in a research note that he expects the loss of Android licenses to cost the company the bulk of its overseas smartphone sales.

Mr. Ren made the remarks at a roundtable event titled "Coffee with Ren," at the company's Shenzhen headquarters, the latest in a public-relations push by the formerly reclusive founder. On the panel were also two Americans, the investor George Gilder and the former Massachusetts Institute of Technology professor Nicholas Negroponte.

Last week, The Wall Street Journal reported that the company is delaying the release of its \$2,600 foldable Mate X smartphone to September from a previously expected launch of June,

due in part to the need to improve the screen. Problems with the screen on Samsung's Galaxy Fold smartphone led the company to postpone that device's launch earlier this year. Huawei also shelved the launch of a laptop, its first device to be pulled since the ban.

Huawei's U.S. customers are also taking a hit. Last week, U.S.-based chip giant Broadcom Inc. said its revenue will be \$2 billion less than expected due to the restrictions on supplying Huawei.

Separately, Mr. Ren said the company doesn't foresee any future business spinoffs or sales following the announcement earlier this month that it would sell its stake in its undersea-cable business, Huawei Marine Systems Co. He said the decision to sell the stake was made long ago and wasn't related to recent U.S. actions.

"It's not a decision we made recently," he said.

SHARE YOUR THOUGHTS

What do you think about the recent U.S. actions against Huawei? Join the conversation below.

Write to Dan Strumpf at daniel.strumpf@wsj.com

Appeared in the June 18, 2019, print edition as 'Huawei Projects \$30 Billion Revenue Hit From U.S. Ban.'

Copyright © 2019 Dow Jones & Company, Inc. All Rights Reserved

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers visit <https://www.djreprints.com>.