

# Samsung slashes profit estimate after Note 7 disaster

October 12 2016, by Jung Ha-Won

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Samsung Electronics on Wednesday slashed its latest quarterly profit estimate by one third in the wake of a highly damaging recall crisis that ended with the scrapping of its latest flagship smartphone.

In the first indication of just how much the Galaxy Note 7 fiasco might

end up costing the world's largest smartphone maker, Samsung revised its operating forecast for the third quarter to 5.2 trillion won (\$4.6 billion), compared to the 7.8 trillion won it announced just last week.

The company said the revision reflected the expected impact on sales and earnings of its decision on Tuesday to permanently discontinue production of the Note 7.

Song Myung-Sup, an analyst at Hi Investment & Securities, said the impact would be felt for many quarters to come.

"Halted production of the Note 7 will damage Samsung's brand image and trust and eventually hurt future sales of its smartphones," Song said.

"Given that it needs to spend more on research, development, inspection and marketing down the road, this crisis will affect its earnings until late 2017," he added.

The company also slashed its third-quarter sales estimate by four percent to 47 trillion won from 49 trillion won.

The announcement came after the close of trade Wednesday which saw Samsung's share price fall 0.7 percent, following an 8.0 percent plunge the day before.

## Samsung Electronics

**Founded in 1969**

Headquarters:  
Suwon, South Korea

Employees:  
Around 325,000 in 80 countries

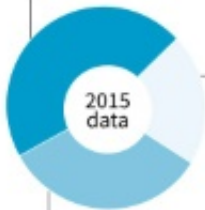
- 70,000+ engineers
- 1,900+ designers

Total patents registered:

- 5,072 (ranked 2nd in US)
- 2,300 (ranked 2nd in Europe)

### Sales by business division

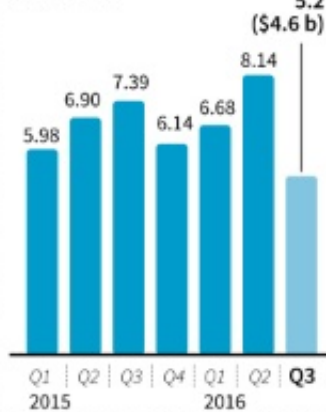
IT/mobile communications  
46%



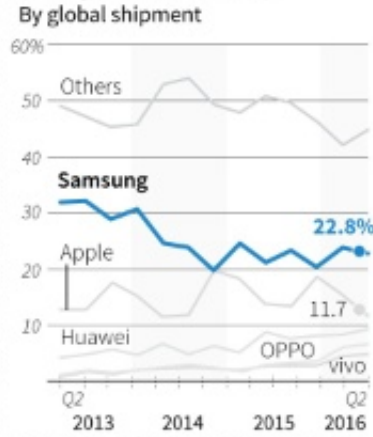
Consumer electronics  
(printing, digital  
appliances)  
21%

Device solutions  
(memory)  
33%

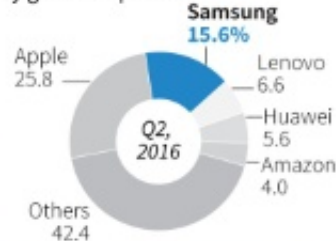
### Operating profits Trillion won



### Smartphone market share By global shipment



### Tablet market share By global shipment



Source : Samsung/Samsung Sustainability Report 2016/IDC/Photo:Jung Yeon-Je

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Factfile on Samsung Electronics, including quarterly operating profit, smartphone and tablet market share and sales by business division

Wednesday's revision would reflect a 30-percent drop in Samsung's quarterly operating profit from a year ago, compared to a 5.5-percent rise according to the earlier estimate.

Samsung announced a recall of 2.5 million units of the oversized Galaxy Note 7 smartphone in early September after several devices exploded or caught fire.

When replacement phones also started to combust, the company

eventually decided to scrap the Note 7 line entirely.

The company blamed faulty batteries made by an unnamed supplier—widely believed to be its sister company Samsung SDI.

But reports in the Wall Street Journal and Financial Times cited analysts, experts and other sources who suggested the fault may have been with the underlying technology—possibly the processor or voltage control system.

"If you try to charge the battery too quickly it can make it more volatile. If you push an engine too hard, it will explode. Something had to give," a source who had spoken to Samsung executives told the Financial Times.

Discontinuing the Note 7 leaves Samsung extremely vulnerable as the highly-competitive market for premium smartphones enters the holiday buying season.



After a month-long recall nightmare, Samsung announced on October 11, 2016, it is scrapping production and halting all future sales of its Galaxy Note 7 smartphone

Arch-rival Apple launched its latest iPhone 7 last month, and Google just came out with its Pixel smartphone, which runs on the same Android software as Samsung's devices.

Numerous analysts have suggested that the rush to release the Note 7 ahead of the iPhone 7 left Samsung's engineers little time to test the device's new built-in battery.

The Note 7 was meant to underpin growth this year as Samsung struggles to boost sales, squeezed by Apple in the high-end sector and Chinese rivals in the low-end market as profit has stagnated.

Wednesday's revised earnings forecast, which comes ahead of audited results to be released this month, did not provide a net income figure or breakdown of divisional earnings for the company's mobile, TV, semiconductor and display units.

Samsung's handling of the Note 7 recall has placed a spotlight on the South Korean conglomerate's management at a time when it is navigating a tricky generational power transfer within the founding Lee family.

Industry experts have criticised the Lee dynasty for controlling the vast group through a complex web of cross shareholdings, although they only directly own about five percent of total stocks.

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