



The Slow Build: Smart Wearables Forecast, 2014-2020

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Agenda

- Definitions
- Market Dynamics
- Worldwide Wearables Market
 - Units
 - Revenues
- US Wearables Market
 - Units
 - Revenues
- Conclusions



Terminology and Definitions

- A smart wearable device is a portable electronic device worn on a human body that offers some level of onboard processing and runs some type of integrated software. Most wearables have integrated sensors of various types as well as connectivity options (either wired or wireless) on other smart devices, such as smartphones. Electronic devices that are worn on the body but don't have their own intelligence, such as basic Bluetooth headsets or heads-up displays, are not considered smart wearables.
- The six sub-segments of the smart wearable market, as defined by TECHanalysis Research, are broken out by where they are worn on the body. The six include:
 - **Head-worn wearables**, such as smart glasses
 - **Ear-worn wearables**, such as smart earbuds
 - **Wrist-worn wearables—Smart watches**, one of two wrist-worn wearable categories, have high-resolution displays and both look and function like traditional watches
 - **Wrist-worn wearables—Smart bracelets** are bands that either have no display or limited displays, such as fitness trackers
 - **Finger-worn wearables**, such as smart rings
 - **Other** is the catch-all category for devices that don't neatly fit into the other categories. Examples include small pedometers carried in pockets or used in necklaces.

Market Dynamics

- Wearables market launch is still progressing slowly
 - Many products still searching for a purpose
 - Hype levels starting to dissipate as market realities kick in
- Several key new product launches
 - Products still in early stages; need to evolve and mature
 - Apple Watch impact may prove to be more muted than originally thought
- Focus continues to be consumer, but growing interest in commercial opportunities
 - More specialized devices for vertical markets
- Shift in understanding and positioning
 - Moving from stand-alone devices worn all the time to peripherals that are used on occasion
- Modest but increasing interest in cellular connected wearables

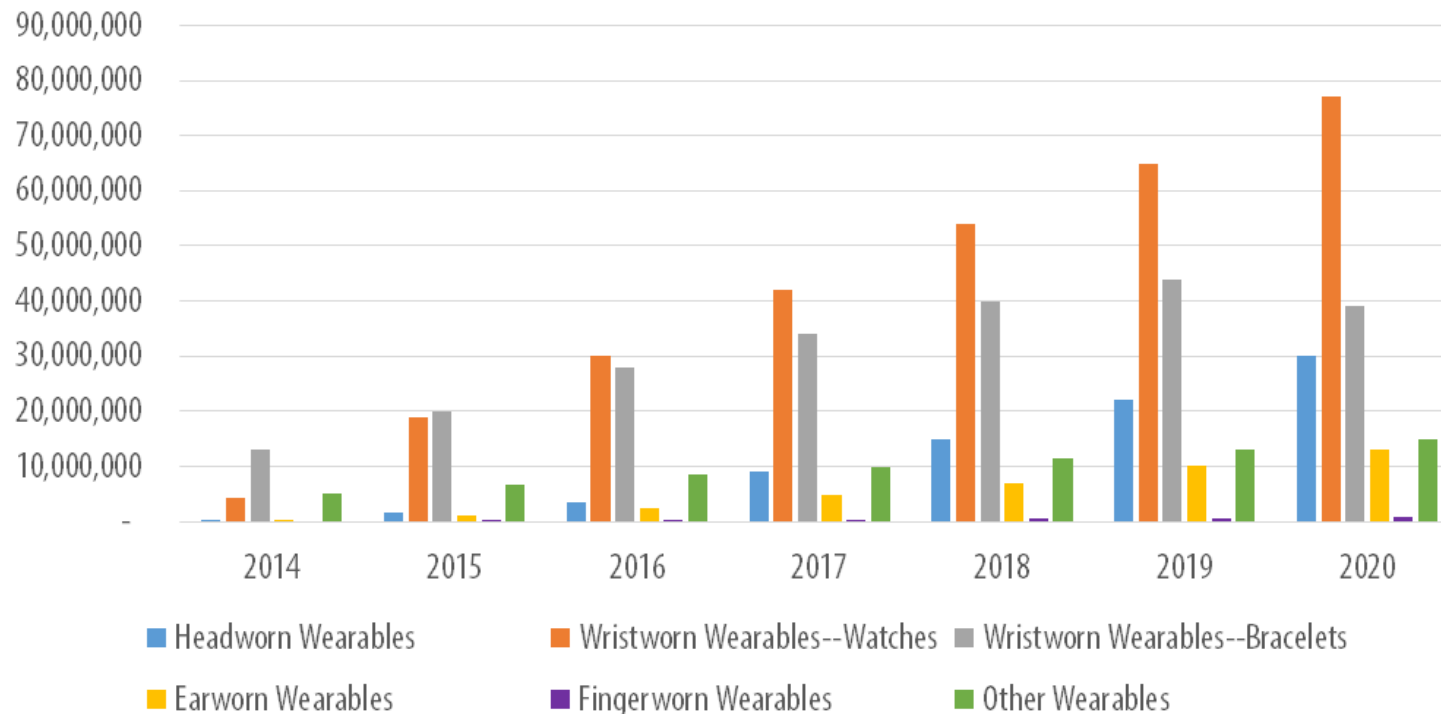


Opportunities and Challenges

- Wearables need to better leverage what makes them unique and worry less about duplicative functions with other devices
 - Type, number and quality of sensors is key
- Fitness offers near-term opportunity, but likely to remain relatively modest
 - Health opportunities much larger, but will take much longer
- Not all wearables need screens
 - Opportunities for “screenless” devices with haptics and other forms of direct body feedback should be further investigated
- Ultimately need to deliver simple usefulness
 - Doesn't need to be overcomplicated
 - Can't just be “smart” or just be “connected”
 - Do simple things well
- New business models may be necessary to drive faster adoption
 - Reduced insurance premiums for those reporting regular health metrics, etc.

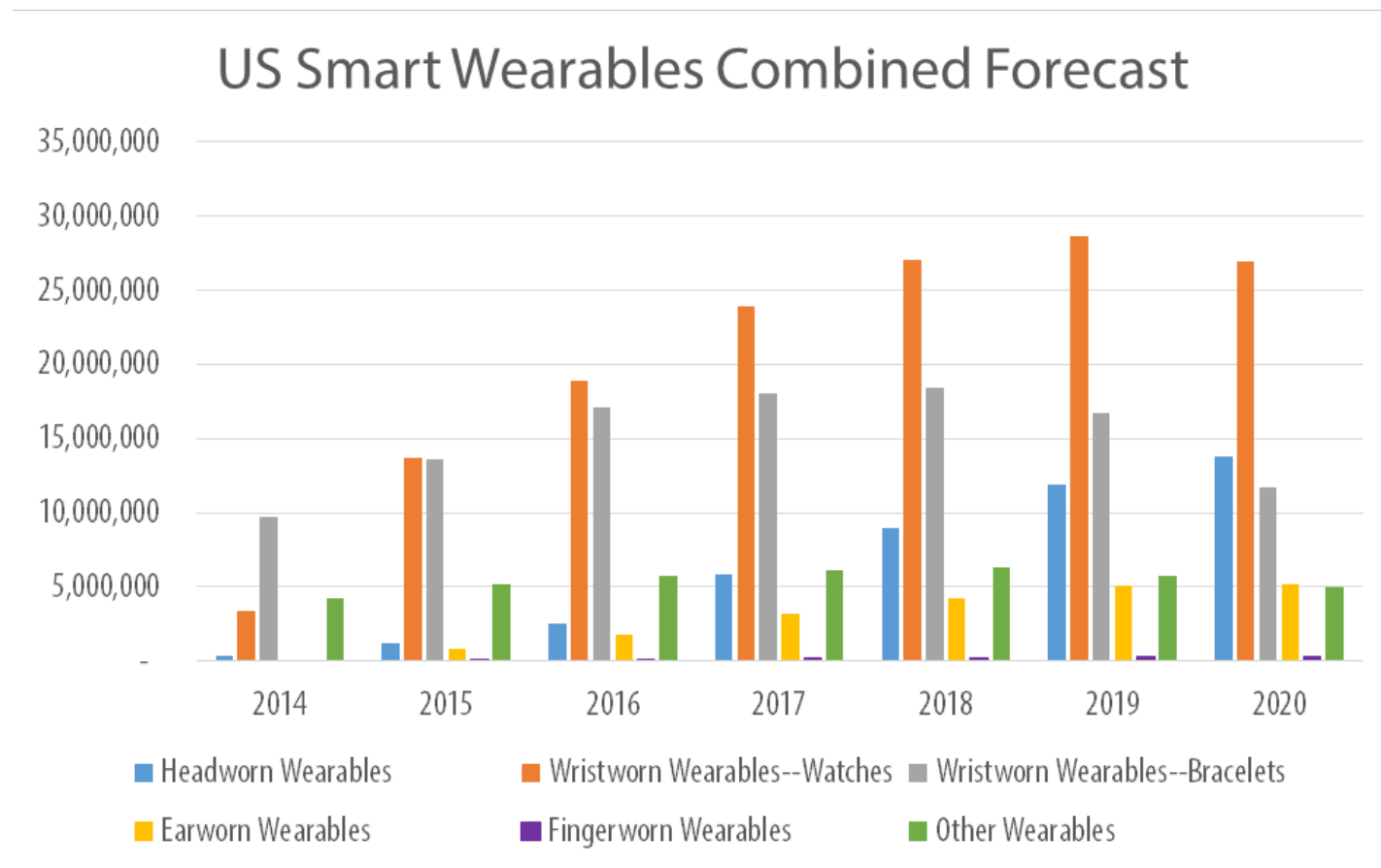
Worldwide Wearable Unit Shipments

WW Smart Wearables Combined Forecast



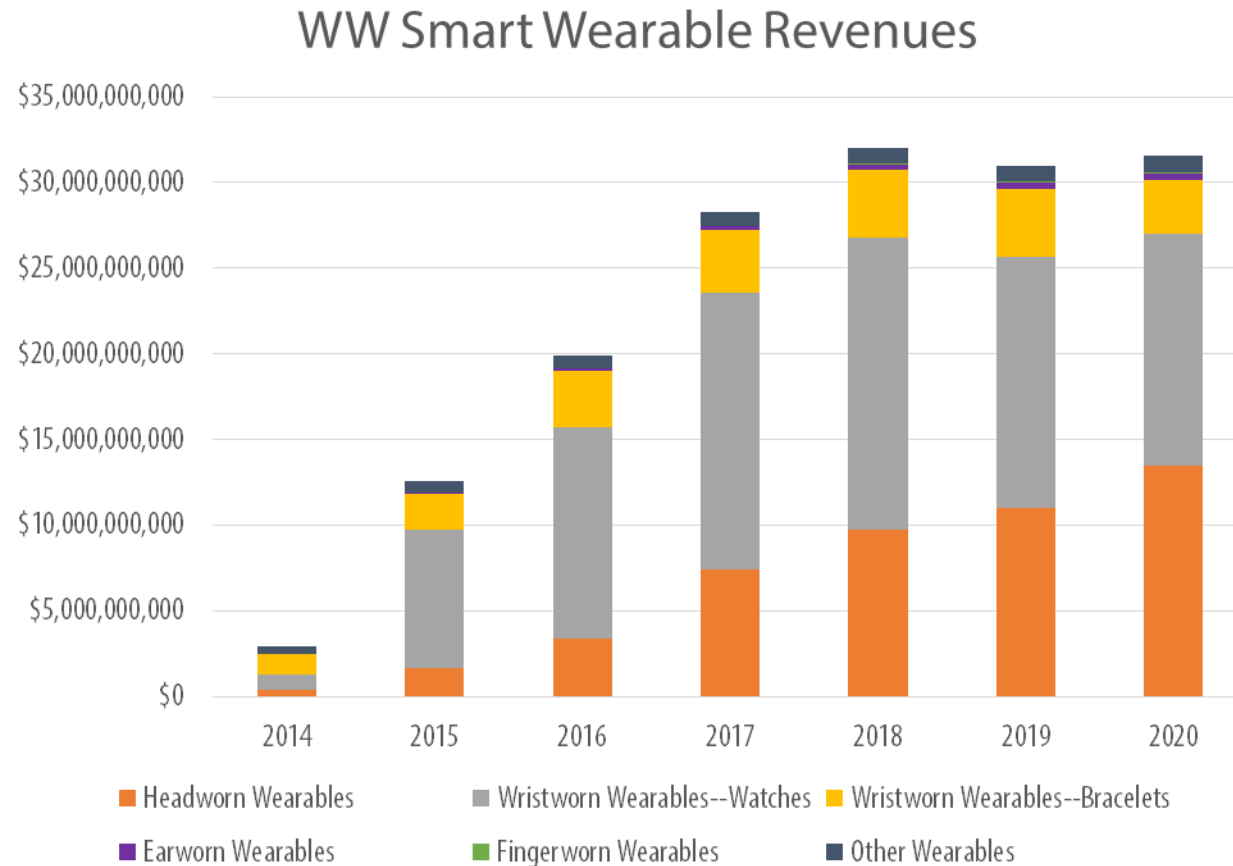
- Total wearable market to grow from 22 million in 2014 to 175 million by 2020
- Smart watches will be dominant category starting in 2016 and will start cannibalizing smart bands by 2020
- Headworn wearables such as smart glasses to reach 30 million units by 2020

US Wearable Unit Shipments



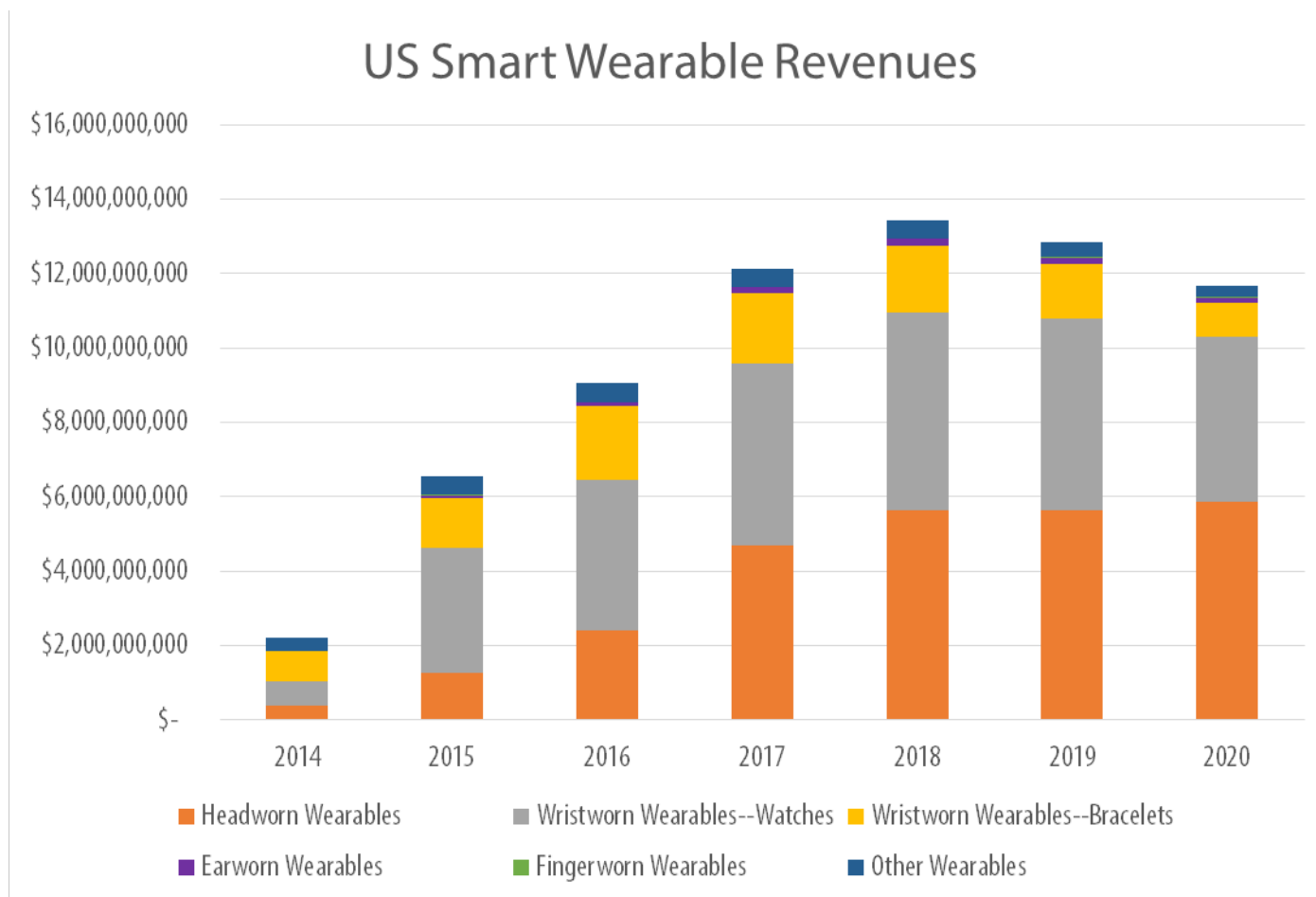
- The US market for wearables is forecast to evolve more quickly than worldwide, leading to a peak of 68.3 million units in 2019, then dropping to 62.9 million in 2020
- Smart watches will be the top category as of this year in the US, followed by smart bands/bracelets
- In 2020, headworn wearables are expected to become the number two segment

Worldwide Wearable Revenues



- Wearables revenues to peak in 2018 at just under \$32 billion and then flatten out
- Rapidly falling prices for smart watches and smart glasses in latter periods of forecast cause this
- Smart watches dominate revenues for most of forecast, but are barely beat out in 2020 by headworn wearables (\$13.5 billion vs. \$13.48 billion)

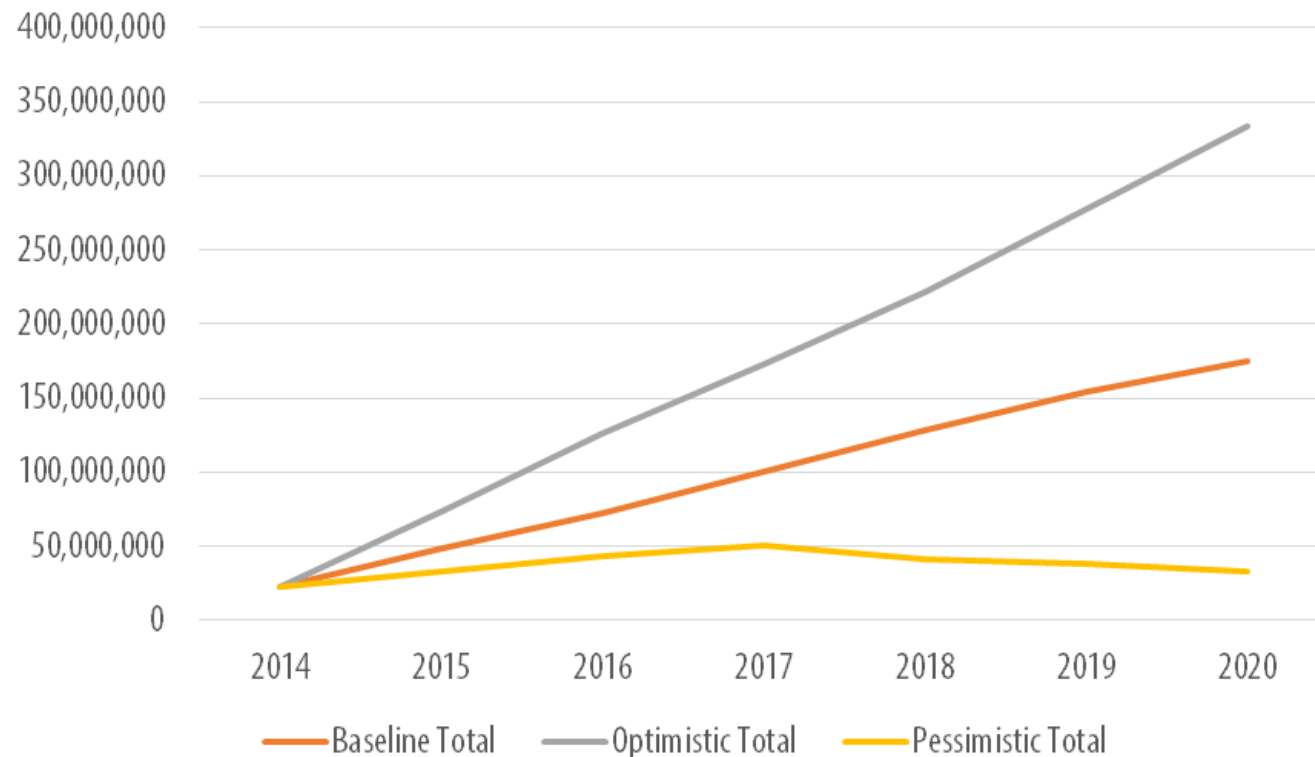
US Wearable Revenues



- As with worldwide, US revenues are forecast to peak in 2018, driven by a combination of falling prices and a shifting mix in products
- Headworn wearables will surpass smart watches as the top revenue-generating US category as of 2018

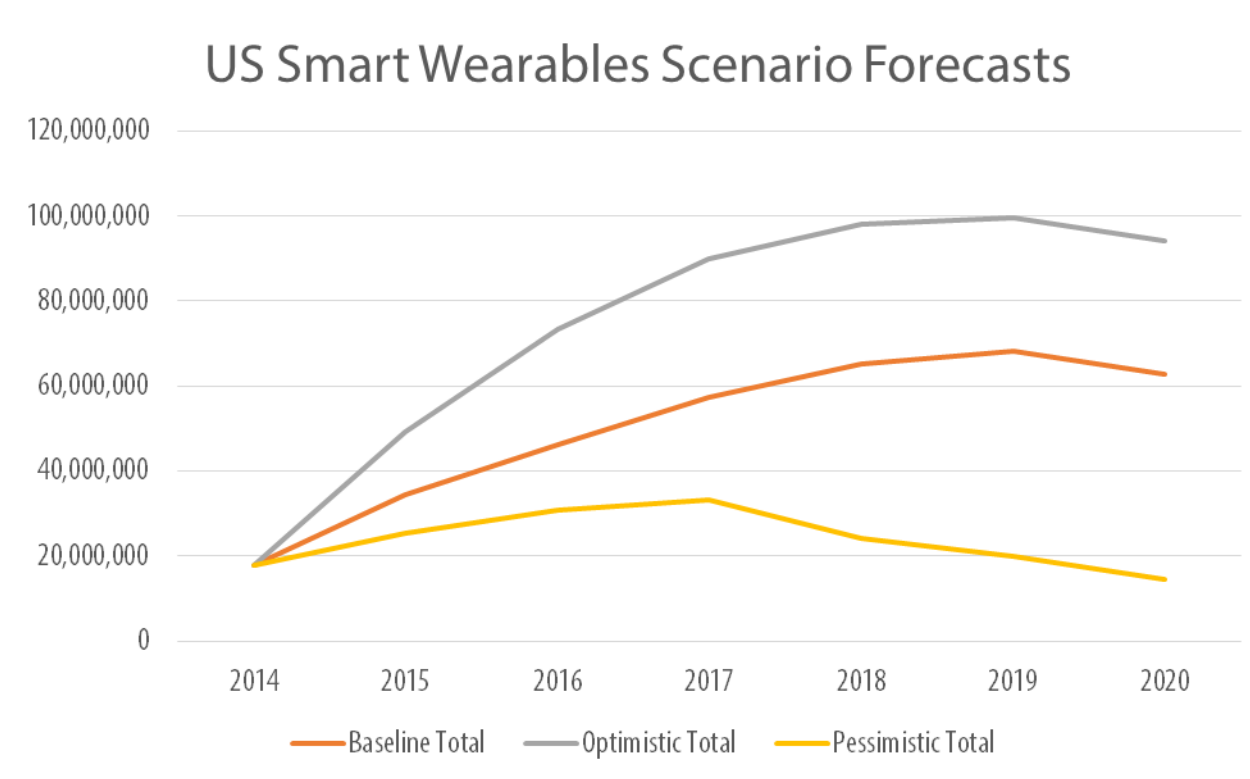
Worldwide Wearable Forecast Scenarios

WW Smart Wearables Scenario Forecasts



- Given the highly dynamic nature of the wearables market, TECHanalysis Research created three different scenarios
- The core baseline numbers are presented throughout this report, but the optimistic and pessimistic totals show the potential range of the market
- Optimistic presumes several key products drive major adoption and pessimistic presumes that the reality never meets the hype and after 2017, the market starts to decline

US Wearable Forecast Scenarios



- Regardless of the scenario, the US wearables market is expected to flatten by the end of the forecast period
- The most optimistic view has the market hitting nearly 100 million before the modest slide, while the most pessimistic view remains well below 40 million units

Conclusions



- The worldwide market for wearables offers a number of decent opportunities, but a number of significant challenges as well
 - Some of the best ones may be in overlooked areas, such as business wearables for vertical industries
- Expectations continue to run higher than we believe is warranted
 - Unit shipment volumes are likely to remain modest, especially in the near term, as device makers struggle to deliver truly compelling applications
 - Wearables continue to be seen as “nice-to-have” not “need to have”
- Design and fashion-related concerns will continue to be important and will likely prove to be a challenges for many tech device-focused companies
- The consumer market will remain the largest, but long-term profitability for consumer wearables will be challenging
 - Average selling prices (ASPs) are expected to be low in most categories
 - In the few categories where ASPs start out higher, commoditization is likely to push those prices down very quickly

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