

# Andiamo (OTC Pink: ANDI) and the a \$100 Million Pipe Dream

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MIAMI, FLORIDA, USA, January 21, 2018 /EINPresswire.com/ -- Emerging Growth Newswire -

EmergingGrowth.com, a leading independent small cap media portal with an extensive history of providing unparalleled content for the Emerging Growth markets and companies, reports on [Andiamo](#) Corp (OTC Pink: ANDI).

The logo features the word "EMERGING" in a bold, black, sans-serif font. Below it, the word "Growth" is written in a large, elegant, red cursive script. The entire logo is set against a white background within a thin black border.

Following a reverse merger at the end of 2017, Andiamo Corp (OTC Pink: ANDI) currently owns Utopya, an emerging Canadian smartphone company. This deal, which will see ANDI manufacture mid-market [smartphones](#) targeting emerging markets through Utopya, has been positively received by the market.

At the time of writing, the hotly traded stock had soared into penny-plus territory, with a range, since the merger of \$0.0001-\$0.0149. It also had a 30 day average volume of 157 million, reflecting the sharp investor interest generated by its foray into the highly profitable smartphone market.

Operationally prepared

The company expects its phones to be available for purchase through retail channels in mid-late 2018, according to an update to investors. It says that its manufacturing company has been fully vetted and is prepared to scale according to the company's needs.

On the software end of the equation, its smartphones will run on Google's (NASDAQ: GOOG) Android platform, which is ideal since this is the dominant operating system in emerging markets where Apple's (NASDAQ: AAPL) iPhone's price is out of reach for the masses. The company also inked a strategic partnership with Cycloides, a Canadian software company with a presence in emerging markets like Singapore. This partnership will be instrumental in introducing a unique software proposition that differentiates Utopya's smartphones.

As far as onboarding retail partners such as carriers is concerned, ANDI lacks existing partners but expectations are high that it is in the process of signing agreements. The company's senior executives attended CES 2018 in Las Vegas from January 9 -12, 2018. Though they did not have an exhibition booth, the team is reported to have spent much of the CES week in meetings, raising expectations that it was hammering out distribution deals with potential retail partners. A major announcement touching on the team's activities at CES is expected in the next couple of weeks.

If ANDI secures a distribution contract with a sizeable carrier or electronics retailer, it should be able

to roll out its products by mid-late 2018, in line with its guidance to investors. The company is optimistic this will happen. Mike Starkweather, the company President, expects sales to surpass \$100 million by the end of 2018, according to an update published on Brodmann Enterprises.

Sales above \$100 million will undoubtedly send ANDI's shares on a spectacular bull run that will set the stage for up-listing. Investors seem to have already priced this possibility into the stock, if recent share price movement and trading volumes are anything to go by.

But will the company achieve these ambitious goals or is the \$100 million sales target a pipedream that will cost speculative investors a fortune? A look at the smartphone market dynamics answers this question.

### Smartphone market dynamics

Based on press statements, the company's initial product rollout will likely begin in India, an attractive emerging market for mid-tier smartphones. India is one of the world's most promising markets for mid-market smartphone producers due to steadily increasing smartphone penetration levels and a high population.

India smartphone penetration is steadily increasing, making it an attractive play for ANDI

India's potential is indicative of the potential in other emerging markets where ANDI may rollout its smartphones. These are markets such as the Caribbean, Asia/Pacific and Middle East/Africa. However, these markets are all price sensitive. Tellingly, smartphone manufacturers such as Tecno, Samsung, Lenovo (OTC Pink: LNVGY) , Oppo and Vivo all have popular budget offerings in these markets.

ANDI has indicated that it will use a competitive pricing strategy to penetrate these emerging markets. Commenting on Utopya's strategy for emerging markets, Starkweather said: "consumers want access to high quality smartphones without having to pay exorbitant pricing. Their selection is very limited, and that's where Utopya comes in."

This is the same strategy that competitors such as privately owned Blu Products have used. The Miami based company was among the first Latin-owned mobile phone manufacturers aimed at a Latin population. It used competitive pricing to corner the mid-market smartphone market in Latin America and other emerging markets in geographies such as Africa, producing an upwards of 15 million units as at 2014.

Starkweather's emphasis on competitive pricing is operationally sound, but will put tremendous strain on ANDI's finances in view of its target of hitting \$100 million in sales by end of 2018.

The average selling price for smartphones in Asia/Pacific, Latin America and Middle East/Africa (all of which are emerging markets) is \$215, \$246 and \$230 respectively, according to data from Statista. Considering ANDI will use competitive pricing to penetrate the market, it is probable that its unit price in these emerging markets will not exceed \$200.

Working with unit price of roughly \$200, a back-of-the-envelope calculation indicates that ANDI will need to sell at least 500,000 units to surpass \$100 million in sales by end of 2018.

The next logical question is: how much does it cost to produce a single unit; in other words, what is the unit cost of production?

ANDI has not yet given guidance about costs, but a look at other industry players such as Apple (NASDAQ: AAPL) and Samsung can help provide some critical insights.

The iPhone 7's (32GB) unit cost of production is estimated at \$224, according to research firm HIS Markit. Samsung's Galaxy Note 3 (32GB)'s unit cost of production is estimated at \$232. Older versions of the iPhone, such as iPhone 4S, cost \$188 to produce. Considering mid-range smartphones are at least 50% cheaper than flagships, the unit cost of production could be anywhere between \$80 and \$120.

Working off the higher end of \$120, ANDI would need at least \$60 million to produce 500,000 units and hit its goal of \$100 million in sales by end of 2018, assuming a unit sales price of \$200.

How will ANDI raise this money in less than a year considering it has zero revenues at the moment? This is a concern that investors should interrogate objectively.

A company that needs to raise \$60 million in less than a year could be tempted to turn to dilutive financing instruments such as convertible notes and warrants. Though the company expressly said in December that it would not take toxic debt, the nature of business decisions is such that they are not immune to changing circumstances. Businesses sometimes have to change tact to stay in the game. This can mean going back on previous commitments.

The current complete market value of ANDI, according to OTC Markets is only \$27 million, yet the company would need to raise almost 3X that number in the next 12 months.

## Conclusion

It may be argued that Darryl Green, who is involved with the company as a private financier and advisor, will help bankroll the production needed to hit \$100 million in sales. Green, who played an instrumental role in scaling up a well-known Sports Nutrition retailer from a market cap of roughly \$1 Billion to over \$3.7 Billion, is a man of proven business acumen.

Investors like Green generally do not put money in pink stocks unless they have done extensive due diligence. This heightens the possibility that ANDI has a sound business strategy. However, the fact that the amount that Green invested has not yet been publicly disclosed, nor what, or how he stands to benefit from his investment, suggests that it is not sufficient to support \$100 million in sales in 2018.

ANDI has made a couple of progressive announcements in the recent past, but it punched above its weight with its lofty sales estimate. \$100 million in 2018 sales is a pipedream. As long as market sentiment continue to ride on this, a correction that will send the share back to sub-penny territory is inevitable. Based on this analysis, we expect ANDI to step back to a target of \$0.007.

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