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Market Place

Motorola Expects Its Earnings Euphoria to Continue

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In his student days, Edward Zander, the plainspoken chief executive of [Motorola](#), knew how to let the good times roll.

"When I was in college and went to a good party, I never asked: 'How long is it going to last?' " he said with a laugh Tuesday after his company reported third-quarter earnings.

These days, Mr. Zander expects the euphoria at Motorola to last as well. The company surprised Wall Street by posting earnings of 30 cents a share in the third quarter, 2 cents ahead of analysts' forecasts. Motorola's sales jumped 26 percent in the quarter, to \$9.42 billion, compared with \$7.5 billion in the comparable period last year.

The big sales driver, the company said, was the record 38.7 million mobile phones it shipped, 66 percent more than in the year-ago quarter. Its share of the global handset market grew to 19 percent, 5.5 percentage points above the year-ago period.

Motorola's profit grew not just because of increasing sales but because of the success of its high-end Razr phones. The company raised its sales targets for the fourth quarter because, like [Nokia](#), Samsung and its other rivals, it expects demand for phones to continue growing.

Investors were encouraged by Motorola's performance. Shares rose 85 cents, or 4.2 percent, yesterday, to \$21.02. It was the largest single-day gain for Motorola in six months.

While encouraged by Motorola's performance, industry analysts are starting to question how long the streak will last. They also said they wondered whether Motorola, which remains a distant second in the global handset market, can become as profitable as Nokia, the leader.

"With the brand power Motorola has, it should be able to reap higher benefits," said William Choi, an analyst with Kaufman Brothers, an investment bank.

Motorola's operating margins, a crucial gauge of profitability, improved to 11.7 percent in the third quarter, compared with 11.3 percent in the previous period. That still lags behind the 15 percent to 20 percent margin at Nokia.

Increasing profitability is not easy in an industry where the pressure to cut prices and introduce more sophisticated handsets is intensifying. The stakes are particularly high for Motorola, which relies on cellphones for 55 percent of its revenue.

Motorola has certainly trimmed costs. Its expenses as a percentage of sales fell to 10.8 percent in the third quarter, compared with 13.9 percent in the comparable period a year ago.

Mr. Zander is also relying on a lineup of fancier and higher-priced phones to increase profit. The Razr phone is an undisputed hit; Motorola shipped 6.5 million of the superslim handsets in the quarter. The company is also banking on its new Rokr phones that can play songs downloaded from Apple's iTunes.

"We are planning some more wild products in 2006," Mr. Zander told investors on Tuesday.

Mr. Choi from Kaufman Brothers said Motorola needed eye-catching phones to win customers in Europe and the United States, where many people already have phones and need a strong incentive to buy new ones.

More than most of its rivals, Motorola has benefited from sales in countries like Brazil, China, India, Indonesia and Russia, where demand is surging, said Susan Kalla, an analyst at Caris & Company

Over all, companies are expected to sell about 801 million handsets this year, 19 percent more than in 2004, according to estimates by [Citigroup](#).

Yet even Mr. Zander said that Motorola had "a lot more to do." He said that some of the company's jump in market share came at the expense of smaller rivals, some of whom, like Siemens, are leaving the market. Those gains cannot last indefinitely.

One of Motorola's largest customers in the United States, Nextel, has merged with [Sprint](#). Motorola has been the main provider of network equipment and handsets to Nextel, which uses iDEN technology. But Sprint plans gradually to shut down the iDEN network, forcing Motorola to make up for those sales elsewhere.

Motorola could also be hurt if [Verizon Wireless](#), Sprint and Cingular fail to interest consumers in the new high-speed data networks they are building, which have faster connection speeds for downloading pictures, e-mail messages and videos.

If consumers balk at spending more for the extra convenience, they are unlikely to buy as many of Motorola's high-end phones, said Edward Snyder, an analyst with Charter Equity Research, who has a buy rating on the stock.

Still, the ever optimistic Mr. Zander sees bright skies ahead. For him, the fact that two billion people have cellphones means that "three-quarters of the world still isn't connected; there is tremendous opportunity."