

Motorola Miss Mangles Nokia

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Discounts on new phones and rusty Razrs took a slice out of **Motorola's** (MOT) bottom line in the fourth quarter. Now investors worry that **Nokia's** (NOK) profit will be the next casualty in the wireless price war.

Shares of the Schaumburg, Ill. tech titan fell 8% Friday after the company warned that sales and particularly profits would drop far below expectations.

Motorola said late Thursday that earnings would be 13 cents to 16 cents a share for the quarter ended Dec. 31, far short of the 39-cent Thomson Financial analyst consensus estimate. Even excluding certain items, as companies are so apt to do, the latest quarter will come in at just 23 cents to 26 cents a share. And sales should be around \$11.7 billion, compared with a \$12 billion Wall Street target.

Motorola's failure to find an immediate successor to its popular ultra-thin Razr has forced the No. 2 phone maker to fight on price. And while the big discounts during the holiday buying season hurt the bottom line, the cuts helped move mountains of phones in the quarter.

"Motorola is selling enough phones but it is mostly discounted Razrs, which are generally being given away by the carriers with a service plan," RBC analyst Mark Sue writes in a research report Friday.

Analysts say Motorola was willing to sacrifice margins for the sake of volume growth and market share gains.

Tellingly, the average phone price fell \$10 to about \$121 compared to the third quarter. But the number of phones shipped jumped to 66 million, 12.3 million more than the prior quarter. JPMorgan analyst Ehud Gelblum estimates that is good for at least a percentage-point gain in market share for the quarter.

This isn't exactly good news for Nokia, the world's top mobile-phone maker.

"Motorola's big miss in EPS on higher-than-expected phone sales smacks of an intense price war with Nokia," Charter Equity Research analyst Ed Snyder wrote in a note Friday.

The shortfall and cut-throat competition helps revive investor fears that the scorching hot cell phone industry is falling into a pattern similar to what happened in the PC sector in the late 90s. Once growth started to taper, the battle turned bloody as price and cost cuts swept through the market.

For two years, Motorola defied that prediction by proving that consumers were as fashion conscious as they were price aware. The sleek half-inch thick Razr became wildly popular with more than 50 million units sold. Not only did the Razr set the standard for slim style, it lifted Motorola out of a deep slump.

But rivals like **Samsung** and **LG** were quick with their own sleek designs, and Motorola's newest models including the Razr-like Krzr and the **Research in Motion** (RIMM) BlackBerry-like Q phone have not been storming sales successes.

Meanwhile, Nokia has been successfully defending its 33% or so of the market largely through price negotiations with big wireless telcos. And the fourth-quarter outcome will be somewhat predictable, say analysts.

"Expect Nokia's results in the same vein, higher units and lower margins," writes Charter's Snyder.

Motorola shares hit a one-year low early Friday and were down \$1.60 to \$18.95 by midmorning. Nokia shares were down \$1.03 to \$19.89.

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