Motorola needs to win back Wall Street

Fifteen downgrades since Jan. 5 warning; rare meeting with analysts

By Dan Gallagher, MarketWatch
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SAN FRANCISCO (MarketWatch) - Motorola Inc.'s shares were seemingly in recovery mode Friday following the company's fourth-quarter report, but the company faces a long haul to win back the confidence of Wall Street.

Shares of the wireless phone maker picked up 3% Friday. The gains came after the company hosted a rare meeting with analysts following the release of its fourth-quarter results, which showed a 48% drop in earnings.

Motorola's profit margins in its handset business slid as it sold more lower-priced phones and prices on its snazziest handsets were hurt by intense competition.

The results were largely in line with a warning issued by the company on Jan. 5. Since that warning, fifteen analysts have downgraded Motorola. The changes shifted Wall Street's overall sentiment on the shares. According to data from Thomson First Call, only 14 analysts hold buy ratings on the stock while 21 rate the shares as neutral and three carry sell ratings,

At the meeting with analysts, Chief Executive Ed Zander highlighted strength in the company's other businesses, such as cable TV set-top boxes. The company plans to lay off about 3,500 workers in an effort to improve overall profit margins, which have suffered as sales of its newer phone models have failed to offset sharp price drops in its flagship RAZR line.

"The bottom line here is that while there is no change in strategy, there may be a change in tactics," Zander said at the gathering.

That message may not be enough for skeptics. Ed Snyder of Charter Equity Research, who downgraded Motorola from a buy to a market perform rating before the earnings report on Thursday, cut the stock again Friday following the analyst meeting.

"The problems they're facing are much more longer-term. They won't be able to turn this around in a quarter or two," said Snyder in an interview after downgrading the shares to a sell rating. "The CEO's strategy for turning things around, I don't think is aggressive enough."

Raimundo Archibold of Kaufman Bros. started Motorola with a buy rating earlier this week, under the theory that the company's profit margins have bottomed out. In an interview Friday, he said he is still positive on the stock but added that the analyst meeting probably would not sway many opinions in the near term.

"I think the jury is probably still out on that. Recovery of the handset business is going to take several quarters," Archibold said. "We didn't really get much of an updated product roadmap as people would have liked. Time will tell."

During the Friday gathering, one analyst challenged the company to improve its methods of disclosing timely information on its various business units.

"Doing what we're doing today is the first step," Zander replied. "If there are things we can do better, we'll take it under consideration. We want you guys to get it right and understand our business." ■

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