MONDAY, MARCH 31, 2008
FOLLOW UP

A Motorola Spinoff Is No Panacea

A return to topics discussed in earlier issues.

GOODBYE MOTO? MOTOROLA'S DECISION LAST WEEK TO TRY -- and we emphasize "try" -- to spin off its beleaguered handset division is just another step in what seems like a death march for the business. It isn't a buying opportunity.

Carl Icahn's rejection of Motorola 's offer of two board seats -- the activist investor, who owns 6.3% of the company, is mounting a proxy fight to gain four -- seemed to trigger the plan outlined by Motorola Chief Executive Greg Brown. The proposed spinoff also is aimed at appeasing Icahn, who favors a split.

The problem is, there isn't much of a plan. The announcement was bereft of details as to how or specifically when, other than "sometime in 2009," the spinoff would occur. Why take so long? (Icahn asked that very question in an open letter to Motorola's board.)

Nor has Brown, with little handset expertise, found an executive to manage the new handset company. Word is Motorola, a cellphone pioneer, can't find anyone qualified to take the job.

Motorola's shares (ticker: MOT) jumped 2.7% Wednesday on news of the spinoff, but closed down four cents, to 9.21, on the week.

Although investors seem pleased the Schaumburg, Ill.-based company is intent on taking action to unlock value, that's no reason to buy the stock, says RBC Capital Markets analyst Mark Sue. He rates Motorola Sector Perform, the equivalent of a Hold, and has downgraded his price target to 12 from 13.

Sue sees the company's modestly profitable non-handset businesses -- that is, set-top boxes, radio gear and wireless infrastructure equipment -- earning about 75 cents a share in calendar 2009; he values these operations at $9 a share, and the money-losing handset business at $3, which might be generous.

"There's a lot of execution risk" to the spinoff plan, Sue says.

INDEED, THE NOTION that a spinoff would improve the chances of a turnaround in handsets is seriously flawed. Instead, Motorola needs to hire a proven cellphone executive, and invest large sums to develop an efficient platform that would spawn a variety of next-generation handset models. At the moment, the handset division's greatest asset is the Motorola name.

Charter Equity Research analyst Ed Snyder estimates Motorola would have to spend about $8 billion over three years to develop a compelling new cellphone platform.

Without the cash flow and credit rating of the healthier half of the company, "who is going to fund that?" Snyder asks.

An excellent question. A buyer for the handset division is not out of the question, but nobody has stepped up so far, and the clock is ticking.

-- *Mark Veverka*