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Motorola's Inevitable Exit From Handsets

By MARK VEVERKA

AS PROSPECTS FOR MOTOROLA'S HANDSET BUSINESS DETERIORATE, what will be the effect on its component suppliers?

For the answer, I turned to Charter Equity Research analyst Ed Snyder -- a man whose predictions have often been early and accurate. Snyder was among the first to call the consolidation in telephone infrastructure ("Lucent's Lament," March 20, 2006). He cited Lucent as ripe for a takeover; just weeks later, Alcatel merged with Lucent. Since then, Nokia has partnered with Siemens.

In handsets, Snyder warned that Motorola's RAZR craze wouldn't last. I remember it well. It was a steamy summer day in 2005, and he and I were chatting during Motorola's (ticker: MOT) upbeat analyst meeting at the Rosemont Convention Center near Chicago's O'Hare airport. Barron's had just published my bullish cover story on Motorola that week ("Razor's Edge," July 25, 2005) predicting that RAZR handsets would drive the stock higher in the coming months, which they did. Snyder acknowledged RAZR's short-term success, but he told me that day, shortly after then-CEO Ed Zander extolled his "Seamless Mobility" strategy, why Motorola was doomed.

He characterized the RAZR as a one-hit wonder -- as opposed to a platform for the future -- adding that Zander was taking his eye off of the ball by diverting phone profits into a series of acquisitions aimed at tying communication devices together. On top of that, he said Moto's then-Mobile Devices President Ron Garriques' quest for market share at the cost of margins was ill-fated.

I was skeptical. How could that be? The RAZR was the hottest phone in the country, selling like the iPod. Nokia (NOK) didn't have a comparably thin flip-phone. Zander was being hailed as CEO of the year. The stock was on fire.

But eventually, the stylish yet unexceptional (from an engineering standpoint) phones ran out of gas, and RAZR prices plunged. Garriques was forced out. The pipeline was empty, and Zander was gone, too.

Now, Snyder is predicting that Motorola's exit from handsets is "inevitable." I think I'll pay attention this time. He's currently handicapping the impact on some of its suppliers:

Freescall Semiconductor, which was spun off by Motorola and later taken private by management, stands to lose the most among the chip vendors. The Austin, Texas company is Motorola's sole source on WCDMA (wideband) cellphone chips and the primary supplier of Global System for Mobile communications (GSM) chip sets. Qualcomm (QCOM) will also see sales to Motorola decline, Snyder predicts, but given

its monopoly position in certain CDMA chips, it is likely to make up the difference with other manufacturers.

Texas Instruments (TXN), which is a major Nokia supplier, sold components to Motorola for the ill-fated Motofone, but sales were meager and won't be terribly missed. Lost opportunities on future platforms may be the biggest losses for TI and Qualcomm, Snyder posits.

Outfits that make radio-frequency modules -- devices that use radio signals to send real-time data -- will continue to suffer as Motorola wanes. RF Micro Devices (RFMD), Skyworks Solutions (SWKS) and TriQuint Semiconductor (TQNT) each rely on Motorola's handset business for roughly 10% of their revenue. It appears these suppliers will need to find that revenue elsewhere.