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Motorola: Will It Shut Down The Phone Business?

Posted by Eric Savitz

Is **Motorola** (MOT) going to simply shut down its ailing phone business?

Charter Equity Research analyst Ed Snyder raised that question in a report late Tuesday in which he downgraded his rating on the stock to Market Underperform from Market Perform. Snyder notes that “history suggests turnarounds are more difficult than exits.” He says the company will keep downsizing the mobile devices business until it “coalesces around a small profitable product core or disappears.” Snyder says the company could shrink down to a vendor of phones for **Sprint**’s iDEN network, a market he says is profitable for the company, but which only amounts to 3 million phones a quarter.

Snyder contends that “Motorola’s fortune in phones is precisely predicted by the decline and fall of the handset divisions of both **Ericsson** (ERIC) and **Siemens** earlier this decade.” He notes that Siemens eventually saw its phone operations shut down after selling them to BenQ. Ericsson’s phone business shrank even after the creation of Sony Ericsson but later rebounded in music phones, he notes.

Meanwhile, he notes that [the abrupt departure of the CFO, suspension of its dividend and repatriation of significant sums of overseas cash](#) “indicate that management’s top priority has shifted from spinning out mobile devices towards preserving the health of the consolidated company by avoiding a liquidity crunch.”

Snyder says the best case scenario is that a rebound in Motorola’s non-phone businesses in the second half of this year props up the phone business until a projected turnaround in 2010. “This scenario depends largely on events outside of management’s control; the CATV market must hold up and government spending for public safety must remain robust,” Snyder writes. “If conditions deteriorate further, the cash stockpile may be used instead to fund the exit from handsets and further rounds of restructuring.”

MOT on Tuesday fell 50 cents, or 11%, to \$4.04.