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Motorola 2nd-qtr results beat Street, shares rise

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By [Sinead Carew](#)

NEW YORK (Reuters) - Motorola Inc MOT.N posted stronger-than-expected quarterly results on strength in its enterprise and network units, boosting its shares despite investors' frustration that its phone sales target wasn't raised.

Investors had hoped that the popularity of Motorola's Droid X, its latest phone being championed by Verizon Wireless, would result in a new, higher forecast for 2010 smartphone sales.

Instead, Motorola, which counts on sales of smartphones based on Google Inc's (GOOG.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Android software for growth, affirmed its previous 2010 target for smartphone sales.

When pressed by analysts on a call, executives cited concerns about the economy, component supply shortages and stiff competition in the smartphone market.

"The quarter was modestly better than people expected but guidance wasn't commensurately strong," said Charter Equity Research analyst Ed Snyder, who noted that Motorola's caution in the face of stiff competition was justified.

Gleacher & Co analyst Mark McKechnie said investors wanted Motorola to raise its smartphone outlook and push its phone unit profit target to the third quarter from the fourth. Still, McKechnie said "the handset business turnaround is under way."

The stronger-than-expected results, including a six-fold increase in profit, helped lift shares in Motorola, which is selling its network equipment unit this year and plans to split the rest of the company in two next year.

Co-Chief Executive Greg Brown said the network unit, which Motorola is selling to Nokia (NOK1V.HE: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Siemens SIEGn.DE>, was helped by strong demand from U.S. operators Verizon Wireless and Sprint Nextel (S.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)). He said the enterprise business was helped by a return to spending by big corporate clients.

"The superstar of the quarter was the enterprise market. They're spending again," he told Reuters in an interview.

Motorola's second-quarter profit rose to \$162 million, or 7 cents per share from \$26 million, or 1 cent per share, in the year-ago quarter. Before items, its earnings of 9 cents per share beat analysts' average expectations for 8 cents according to Thomson Reuters I/B/E/S.

Net sales fell to 1.5 percent to \$5.4 billion, ahead of analysts' average expectation for \$5.19 billion.

But hopes that shortages of an HTC Corp (2498.TW: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) phone at Verizon Wireless would boost Motorola did not pan out.

Motorola shipped 8.3 million phones in the quarter, including 2.7 million smartphones, in line with the average estimate for 8.13 million total phone sales and 2.69 million smartphones, from seven analysts contacted by Reuters.

INVENTORY/IPHONE WORRIES

One concern among some investors is that Verizon Wireless, a Verizon Communications Inc (VZ.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Vodafone Group Plc (VOD.L: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) venture, would promote Motorola less if it gets rights to sell Apple Inc's (AAPL.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) iPhone. Many analysts expect this to happen.

Co-CEO and phone chief Sanjay Jha told analysts on a conference call that he sees Verizon's interest in Motorola continuing. "As long as we continue to execute the way we're doing Verizon will continue to invest in Droid," he said.

But Jha noted that competition will intensify as BlackBerry maker Research In Motion Ltd RIM.TO and Microsoft Corp (MSFT.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) both plan to launch brand new smartphone operating systems.

Along with the entire industry, Motorola is suffering from component supply shortages. As a result, Jha said he is cautious about building up too much phone inventory as customers often over-order when they hear about shortages.

"I don't think I will allow a missed opportunity," he told Reuters. "I'm being prudent about managing the business."

While Apple launched its latest iPhone in the second quarter, Motorola's Droid X did not go on the market until the third quarter. Jha said Droid X would help push third-quarter smartphone sales volume above the second quarter.



This would be welcome news for Motorola, which has lost out to rivals such as Apple, Samsung Electronics (005930.KS: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) and Research In Motion for years.

Motorola forecast third-quarter earnings per share of 10 cents to 12 cents, excluding items. The midpoint of the range was a penny ahead of Wall Street expectations.

Motorola shares were up 2 percent at \$7.83 in early afternoon trading on the New York Stock Exchange.

(Reporting by Sinead Carew; Editing by [Derek Caney](#), Dave Zimmerman and [Richard Chang](#))

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