# DEALTALK-Sizing up who might buy Motorola's phone business

Thu, Aug 18 2011

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* Asian vendors, Sony Ericsson seen as potential buyers

* Motorola's distribution and operations valuable

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SAN FRANCISCO/NEW YORK, Aug 18 (Reuters) - The ink on Google Inc's (GOOG.O: Quote, Profile, Research, Stock Buzz) $12.5 billion plan to buy Motorola Mobility (MMI.N: Quote, Profile, Research, Stock Buzz) is barely dry, but speculation has already begun about its next deal -- expected by some to be the sale of Motorola's handset business.

That is because there is no shortage of interested buyers for Motorola's hardware, with analysts naming Huawei [HWT.UL] and Sony Ericsson as early contenders.

Google's primary interest is in Motorola's rich trove of technology patents, which the company needs to defend its fast-growing Android business from legal challenges mounted by rivals including Apple (AAPL.O: Quote, Profile, Research, Stock Buzz), Microsoft (MSFT.O: Quote, Profile, Research, Stock Buzz) and Oracle (ORCL.O: Quote, Profile, Research, Stock Buzz), say analysts.

Analysts are divided on whether Google will sell or keep Motorola's handset business.

Some think there is a good chance it could ultimately end up keeping the unit and try to mimic Apple's wildly successful strategy of marrying hardware and software.

Others, however, are convinced that Google will sell the division and stay true to its promise to keep Android as an open platform able to run on multiple harware makers' devices. There are 38 other phone makers using Android software that Google could alienate if it pursues the former strategy.

"I think they'll likely sell it," said Deutsche Bank analyst Brian Modoff, adding that competing with the other Android providers would not make sense.

Analysts said a sale would attract many interested buyers. Valuations on the unit vary wildly, with one analyst suggesting a price as low as $1 billion and others saying it could fetch as much as $5 billion.

Huawei, which has long been trying to expand in the U.S. market, and Sony Ericsson, which is strong in Europe but has so far failed to make any real inroads in the U.S. market, would be among the potential buyers, analysts said.

"Sony Ericsson would be the perfect fit," said Avian Securities analyst Matthew Thornton, noting that Motorola needs to build up its business in Europe while it has a good presence in China, where Sony Ericsson is weak.

Sony Ericsson, a joint venture of Sony Corp (6758.T: Quote, Profile, Research, Stock Buzz) and Ericsson (ERICb.ST: Quote, Profile, Research, Stock Buzz), like Motorola also uses Android software.

Asian phone manufacturers, such as Huawei, HTC Corp (2498.TW: Quote, Profile, Research, Stock Buzz) and ZTE (0763.HK: Quote, Profile, Research, Stock Buzz), could also benefit from picking up Motorola's handset business because of its strong relationships with wireless carriers in the United States, say analysts.

"If you wanted to penetrate (the U.S.) market and start from the ground up it would be extremely difficult," said Lawrence Harris, an analyst with C.L. King & Associates. Buying Motorola "would give anyone who purchases those assets instant credibility, instant market share," he said.

Moreover, Harris said that combining operations with Motorola could deliver valuable economies of scale in manufacturing and procurement of components, a key benefit in an industry that requires heavy spending on research and development.

While the past attempts by China's Huawei at acquisitions in the United States have been thwarted by the government because of security concerns, the fact that Motorola's patents would be owned by Google could help overcome objections.

"It could be more attractive to a Chinese purchaser because, without the intellectual property piece, there wouldn't be as much of an uproar from the U.S. State Department," said Mark McKechnie, an analyst with ThinkEquity.

Google's planned acquisition of Motorola comes at a tumultuous time for the tech industry, as consumers increasingly buy mobile gadgets such as smartphones and Apple's iPad tablet instead of PCs.

On Thursday, Hewlett-Packard (HPQ.N: Quote, Profile, Research, Stock Buzz), the world's No. 1 PC maker, said it was considering strategic alternatives for its PC business and said it was discontinuing its efforts to develop mobile devices based on the WebOS software.

Charter Equity Research Analyst Ed Snyder said that if Google doesn't sell Motorola's handset business and keeps it as a bolt-on unit, it could end up dwindling away due to a lack of advantages over its Android rivals.

"You can't afford [for] them to do too well or you'll alienate the people you're dependent on to grow Android," Snyder said.

ThinkEquity's McKechnie went so far as to suggest that it would be hard for the Motorola brand to thrive under the Google banner. "If it stays with Google, in ten years kids wouldn't know who Motorola was." (For more M&A news and our DealZone blog, go to www.reuters.com/deals) (Reporting by Sinead Carew; editing by Peter Lauria, Gary Hill)