



Nokia Sales Slump Puts Pressure on Elop to Consider Split

By Jonathan Browning - Apr 12, 2012

Less than two months ago, [Nokia Oyj \(NOK1V\)](#) Chief Executive Officer Stephen Elop stood up at the mobile-phone industry's annual jamboree to declare that the company had turned the corner as sales of its new smartphone blossomed.

The prediction proved premature. Yesterday, the Finnish company reported a surprise operating loss at its handset unit for the first three months and forecast no improvement this quarter. While sales of the Lumia model it developed with [Microsoft Corp. \(MSFT\)](#) topped estimates, competition ate into margins and sales of lower-priced devices plunged in [emerging markets](#).

As Nokia's cash pile dwindles and a junk credit rating looms, Elop will have to consider more radical steps such as selling its low-end phone business, whose revenue slumped by a third last quarter, said Adnaan Ahmad, an analyst at Berenberg Bank in London. Nokia makes about 70 percent of its handset sales outside Europe and [North America](#), where competition from Chinese companies including [ZTE Corp. \(000063\)](#) is intensifying.

"Why not try to sell its mobile-phone business and hence just remain a smart devices company?" said Ahmad, who has been covering the telecommunications industry for more than a decade and is [ranked fourth](#) based on the total return of his Nokia rating over the past year according to Bloomberg data. He advises selling the shares with a price estimate of 3.20 euros.

Shares Slide

The stock fell 7.2 percent to 3.04 euros in Helsinki, cutting the company's value to 11.4 billion euros (\$15 billion). Yesterday, the company dropped 14.5 percent, the steepest fall since May 2011. Espoo, Finland-based Nokia has lost almost 70 billion euros of market capitalization since [Apple Inc. \(AAPL\)](#) started shipping the iPhone in 2007.

Morgan Stanley and Credit Suisse are among banks that cut their price estimates, while Grupo Santander and Societe Generale analysts lowered their ratings.

Elop, 48, shifted to Microsoft's Windows Phone system 14 months ago, after determining Nokia's Symbian and Meego couldn't keep up with [Google Inc. \(GOOG\)](#)'s Android system and the iPhone. Nokia reported an operating loss of about 3 percent of sales at the devices and services division last quarter, citing weak sales in [India](#), the [Middle East](#), [Africa](#) and [China](#).

Samsung Electronics Co., [Asia](#)'s largest electronics maker, probably overtook Nokia as the top handset seller for the first time, helped by the popularity of the Galaxy smartphones, according to analyst estimates. The South Korean company may have shipped about 92 million mobile phones, including basic types, in the first quarter, according to the median of five estimates in a Bloomberg News survey.

Like Motorola

Nokia's low-end handset sales declined to 2.3 billion euros from 3.4 billion euros in the year-earlier quarter, while shipments dropped to 71 million units from 84.3 million a year earlier, the company said yesterday.

"They may sell their low end business to a Chinese maker, they may sell some IP assets -- we know there's a market for that, we know Microsoft is interested in that kind of thing," said Horace Dediu, a former Nokia analyst who now runs the Asymco industry-research website. "Then they would essentially become a Motorola, which is a smartphone-only company that ended up getting acquired."

[Motorola Mobility \(MMI\)](#), which has pared down its low-end phone lines in favor of Android, sold its handset business last year to Google for \$12.5 billion.

Asset Sales?

Sony Ericsson, the mobile-phone venture [Sony Corp. \(6758\)](#) bought out from its Swedish partner Ericsson AB in February and renamed Sony Mobile Communications, is also exiting cheaper feature phones to focus on making smartphones.

A potential sale of Nokia's smartphone business to Redmond, Washington-based Microsoft wouldn't make sense as the U.S. partner already has access to the hardware through their partnership, said [Lee Simpson](#), an analyst at Jefferies International in London. Nokia may instead focus on offloading a part of its patent portfolio to generate cash and buy time for its reorganization, he said.

[Frank Shaw](#), a Microsoft spokesman, declined to comment on the possibility of mergers involving Nokia, citing company policy on not commenting on rumors and speculation.

Speaking on a conference call yesterday, Elop, a former Microsoft executive who took the helm at Nokia in September 2010, said the Finnish company may prioritize certain devices and markets at the expense of others.

Running Out of Time

"When we talk about what those structural changes might be, we have to make decisions about, are we concentrating on certain markets, are we emphasizing certain product opportunities over others, do we sell off certain non-core assets along the way?" Elop said.

Since taking over, Elop has announced more than 10,000 job cuts and shut production in [Europe](#) to move more manufacturing to Asia. He also tried to sell a stake in the phone-equipment venture Nokia Siemens Networks before talks collapsed last year.

Nokia may seek to accelerate a sale of assets within Nokia Siemens, according to a person familiar with the company, who asked not to be identified because the deliberations aren't public. Another sale target may be the Navteq Corp. map unit Nokia took over in 2008 for about \$7.3 billion, the person said.

"We have absolutely changed the clockspeed of Nokia. The pace at which we are accomplishing this, you're going to see this continue," Elop said on Feb. 28 at the Mobile World Congress in Barcelona, comments he reiterated yesterday. "The next waves of devices, the next software, all of that will continue at an accelerating pace."

Job Cuts

To make that happen, the manufacturer may also need to cut more jobs, said [Edward Snyder](#), an analyst at Charter Equity Research in San Francisco. Nokia employed about 130,000 people at the end of 2011.

"That looks like a boilerplate statement to prepare employees and the government for big layoffs," said Snyder. "The smartphone business is sucking the most wind, but they can't get rid of that, it's their future."

Nokia doesn't have much time left and needs radical measures to win back market share and investors' trust, Simpson at Jefferies said. Nokia would benefit from moving its headquarters out of [Finland](#) to a lower-cost country, he said.

"There's something very stale that suggests their relevance in the medium term will be gone unless something really serious happens," Simpson said.

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