

Motorola posts first quarterly sales gain since 2006

October 28, 2010

(Reuters) — Motorola Inc. made money from its phones for the first time in more than three years in the third quarter, helped by smartphones running Google Inc.'s Android software.

The stock shot up as much 7 percent after the company reported its earnings on Thursday morning but gave back nearly all its gains by late afternoon.

Investors turned their focus to how the phone maker would cope once its most important customer, Verizon Wireless, started selling Apple Inc.'s iPhone -- which is widely expected in early 2011. Verizon Wireless is a joint venture of Verizon Communications Inc. and Vodafone Group Plc.

The sale of Motorola's Droid phones at Verizon Wireless has being largely responsible for putting the phone maker back on the map after years of losing out hugely to rivals.

Motorola, which plans to split itself in two early next year, said it would counter new competition with more marketing spending, diversifying its phone lineup with more mid-range phones and deepening ties with operators other than Verizon.

Sanjay Jha, co-chief executive and head of the phone unit, warned of first-quarter pressure due to competition and a typical dip in sales when the holiday shopping season ends.

But he was confident he could keep strong ties with Verizon, which has promoted Motorola Droid phones heavily.

"In our business we don't get assurances," Jha told Reuters, but added: "It's a matter of understanding the economics that drive each of the partners. I believe Verizon will continue to support the Droid franchise."

Charter Equity Research analyst Ed Snyder said investors were less than certain Motorola would be able to keep phones profitable in the first quarter.

"Business is getting better, but it's also getting more expensive," Snyder said.

Another analyst, Tavis McCourt from Morgan Keegan, said investors are happy Jha is at least planning for a Verizon iPhone, which he sees hurting sales for a quarter or two.

"We'll see how well they manage around it," he said. "They'll be impacted but ... there's plenty of business for Motorola to be profitable, despite the iPhone coming to more carriers."

Motorola said its phone unit posted a \$3 million operating profit for the third quarter, compared with a year-earlier operating loss of \$183 million.

It promised its mobile phone operating profit would rise this quarter, despite an expected increase in marketing spending around new product launches.

Motorola's total third-quarter profit rose to \$109 million, or 5 cents per share, from \$12 million, or 1 cent per share, a year earlier. On an adjusted basis, earnings per share were 17 cents, compared with analysts' average estimate of 11 cents, according to Thomson Reuters I/B/E/S.

Revenue rose 6 percent to \$5.8 billion, compared with Wall Street expectations of \$5.66 billion. It included \$871 million from the network equipment unit.

Motorola said it expects fourth-quarter earnings per share of 14 to 16 cents from continuing operations. The forecast excludes items such as earnings from the networking unit, which it is selling to Nokia Siemens Networks, a joint venture of Nokia and Siemens AG.

Jha said full-year smartphone unit-sales would hit the high end of Motorola's previously announced target range of 12 million to 14 million.

This implies fourth-quarter smartphone sales of as much as 5.2 million and likely means that concerns about rival devices such as the Galaxy Android phone from bigger rival Samsung Electronics Co Ltd. were overblown, Morgan Keegan's McCourt said.

"There was some fear competition at Verizon had gotten fierce enough that Motorola wouldn't see the normal uptick in sales in Q4, but it appears they will," the analyst said.

Since the end of 2006, Motorola has been losing out to rivals such as Apple, Nokia and Samsung due to the lack of stand-out phones after its once-lauded Razr matured.

But in the third quarter, it shipped 9.1 million phones, including 3.8 million smartphones, which was ahead of the average expectation for 3.57 million smartphones, according to six analysts contacted by Reuters.

Motorola shares closed up 4 cents at \$8.13 on the New York Stock Exchange after reaching as high as \$8.70 earlier in the session