

# **MOTOROLA**



You sexy thing!  
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# Overview

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- Motorola is a *Fortune* 100 global communications leader that provides **Seamless Mobility** products and solutions across broadband, embedded systems and wireless networks.
- Motorola had sales of US \$31.3 billion in 2004.
- Motorola is comprised of four businesses: Connected Home Solutions, Government & Enterprise Mobility Solutions, Mobile Devices and Networks.
- Sales by region: U.S. 47%, Europe 19% China 9%, Latin America 9%, Asia-Pacific 7%, Other markets 6%, Japan 3%
- Successful restructuring in 2001, results in 2004-2005, still more room to grow

# Thesis Points

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- ***Reinventing the mobile device experience;*** Superior mobile devices product portfolio and product launch capabilities. There is so much room to grow.
- ***Sustainable competitive advantage;*** Motorola is the only one in the market with Integrated end-to-end solutions for mobile carriers and providers
- ***Relatively cheap within the industry on valuation;*** Motorola is still trading at a discount to the industry when it should be trading at a premium.
- ***They've achieved success without increasing expenses or capacity;*** R&D expenses, SGA expenses as a percentage of sales have decreased. No additional capacity increase

# Reinventing the mobile experience

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- The most exciting consumer technology market to be in.  
>700 million handsets in 2005 compared  
(189 million PCs, 22 million gameboys, and 12 million PDAs in 2004)  
(4 billion people have yet to make a wireless or landline telephone call)
- When sexy design meets technology...
  1. Razr (clamshell phone)
  2. PEBL (clamshell phone)
  3. SLVR (candybar phone)
  4. Q (qwerty phone)
- ... they create brand loyalty in a market lacking brand loyalty

# The Razr

- Only the beginning
- The best selling clamshell phone in the world (12 million units in 2 quarters)
- What's next??
  - Razr Magenta
  - Razr EV-DO
  - Razr V3x
- Competitors are frantically playing catch-up, but failing
- Sales of the Razr will peak in 2007
- Motorola is already developing the replacement of Razr
- Motorola regained brand leadership around the world



# The PEBL

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- Shipping to customers right now
- Flying off the shelves as soon as it hits the shelves
- Will launch at the beginning of 2006

## PEBL U6

*fashion fuses with function*

- quad-band connectivity
  - automatic opener
  - VGA camera
- and so much more!



# The SLVR

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- Now shipping to customers (SLVR L6), L7 will be shipped in the first half of 2006
- The global market for the candybar phone is twice the size of the clamshell market
- SLVR sales in Q1 2006 is expected to equal sales of the Razr
- Best designed candybar in the market



*ultra-slim and wickedly cool*

- tri-band connectivity
- 10MB embedded memory
- VGA camera
- et cetera, et cetera, et cetera!

**SLVR L6**

**SLVR  
L7**

*world's thinnest design*

- quad-band connectivity
- push to talk over cellular
- bluetooth
- VGA camera and much more!



# The Q

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- The Blackberry killer
- Shipping to customers in the 4<sup>th</sup> quarter and will launch in Q1 of 2006
- This smart phone has the competitive cost-structure, technology and design in the market
- Blackberry's patent troubles have not been settled





# Reinventing the mobile experience

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## Results:

- 19% global market share (up 5bps from 1 year ago)
- #1 in North and Latin America
- #2 in Europe and growing rapidly
- #3 in North Asia and high-growth markets (Africa, middle east, India, Pakistan, South-east Asia, Australia)

## Potential:

- In high growth markets (low penetration), the market leader has close to 70% market share
- In a normal market, leader usually has 35% market share
- These markets will continue to readjust in 2006
- Already #1 GSM and #2 CDMA in China

# Sustainable Competitive Advantage

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- Motorola's Networks Business (highest number of contracts in the industry at 38 & holds most patents)
- Motorola can offer customers end-to-end solutions, optimization solutions, handsets, network infrastructure, so they can go up to a new consumer base and offer value-added services.
- Competitors cannot compete with Motorola at this level

## *From*

Cellular  
Mobile Packet Data  
Bluetooth  
Data over Cable  
Set top box  
Push to Talk  
Conditional Access  
Video Coding – MPEG2

## *To*

Wi<sup>4</sup>. Softswitch  
Mesh, IMS, Mobile IP  
X-Internet  
FTTX/PON  
Media Management  
Push to Everything  
Digital Rights Mgmt.  
High Efficiency MPEG4

## **Market Leadership**

#1 in mission critical wireless communications systems  
#1 in two-way radio systems  
#1 in embedded telematics systems  
#1 in digital set-top shipments  
#1 in cable modem shipments  
#1 in digital headends  
#1 in PoC subscribers worldwide  
#1 in embedded computer systems for communications applications  
#1 in CDMA infrastructure sales (excluding U.S.)  
#2 in world-wide wireless handsets

# Sustainable Competitive Advantage

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- Supporting the convergence in network platforms
- Paving the way for the future standard of wireless devices
  - Providing the infrastructure and services for 3.5G and 4G  
(Leveraging Mobile Devices with Networks Business will grow Networks business to \$3 billion because of attractive end-to-end solutions)
  - Supporting the convergence to an IP-based network
- Leading the next wave of technologies
  - Providing mobile devices for 3.5G – 4G (Motorola invented the mobile protocol for 3.5G)
  - Early Leader in Wireless Soft Switching in China
  - Industry #1 in IP Multimedia Subsystem (IMS) Push-to-talk over Cellular (PoC/PTX)
  - Integrated Networks business: Cellular, Wireline, Mobile Broadband, Services and Platforms

# Valuation

	Motorola	Nokia	Qualcomm	Industry
P/E (trailing)	14.91	17.87	36.39	26.69
P/Sales	1.7	1.99	13.34	5.85
P/Cashflow	13.02	17.40	33.29	23.74
ROE	27.48	27.06	20.62	19.39
Revenue	\$23.4 B	\$24 B	\$5.6 B	
Operating Margin	12-15%	11-12%	34.84%	20.85%