Taking Stock: Motorola: The big engine that can't

by Malcolm_Berko

Dear Mr. Berko: I have owned several Motorola phones and I'm pleased with how they work. I would like to invest $1,000 for my son, who also owns a Motorola cell phone, and buy him 50 shares of Motorola stock, which sells for less than $20. Do you think this would be a good, long-term purchase for him?

P.N.

Aurora, Ill.

Dear P.N.: It's almost inconceivable that back in early 2000, Motorola Inc. (MOT-$18.71) was trading at $180 a share then split 3-for-1. MOT's revenues in 2000 were $37 billion and this year MOT believes it will post $42 billion in revenues. That's wondrously unimpressive.

In 2000, MOT's free cash flow was $1.94, it earned 90 cents a share, book value was $8.94 and net profit margins were 5.9 percent. This year, MOT's free cash flow might be 85 cents, earnings could reach 50 cents, book value will probably fall to $6.50 while net profit margins may collapse to 2.6 percent. That's roundly underwhelming!

Most folks know that MOT designs, manufactures, sells and services cell phones, accessory products and licenses intellectual products to carriers. Most of us also know that MOT is a powerful player in the network and enterprise markets.

In the past few years, MOT has become a textbook example of incompetent management. Chief Executive Officer Ed Zander was paid $5 million plus perks to visit his office a few days each week and have rugelach and coffee with his toadies. MOT is also a textbook example of a quintessential rubber-stamp board of directors, each of whom ought to be publicly pilloried for allowing incompetent and sophomoric management to run the company. One prime directive of a corporate board is to patrol the company in the best interest of shareholders. MOT's hugely paid but inutile puppets and pawns miserably failed shareholders.

Meanwhile, Zander would play golf at a private, prissy Chicago country clubs rather than run a $40 billion company. MOT's board prefers to party rather than perform their elected duties. Zander publicly admitted that laziness and mistakes have crippled the stock and faults his board for refusing to adopt 3G technology while the competition was gobbling market share in the U.S. and abroad. Why MOT's stockholders blithely accept this malfeasance is an enigma to me.

With falling revenues and earnings, Zander and his pigeons on the board approved a massive stock repurchase program and will lay off 5 percent of the work force to reduce costs. That's really bloody stupid because neither will improve revenues or net profit margins.

Zander and his sycophantic board need to hire creative research and development people to create exciting, new products. Zander and his apple-polishers must hire inspired marketing people with vision to improve revenues. Finally, Zander and his pawns must find professionals who can bring efficiency to MOT's development, production and distribution process. Failing that, MOT might as well fold its tent and steal away.

Because I doubt that Zander and his board have the capability to accomplish those goals, I would not want to own the stock. And this seems to be the prevailing opinion on Wall Street. So far in 2007, Bear Stearns, Oppenheimer, CIBC World Markets, Deutsche Securities, Jeffries, Lehman Bros., Charter Equities, Value Line, BMO Capital Markets, Goldman Sachs and RBC Capital Markets have all downgraded Motorola. In fact, there's not one "buy" recommendation among the 11 analysts.

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