

HTC Seen Luring Lenovo to ZTE With Smartphone Finesse: Real M&A  
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By Bloomberg News

Aug. 21 (Bloomberg) -- HTC Corp. has never been cheaper for buyers attracted to the smartphone maker's hardware and engineering prowess.

After peaking in 2011, HTC's stock has plunged 88 percent as the Taiwanese company lost market share to industry leaders Samsung Electronics Co. and Apple Inc. Now, Chinese vendors including ZTE Corp., Lenovo Group Ltd. and Huawei Technologies Co. could zero in on the \$4.2 billion company as a takeover target to help them gain technological know-how and a still well-regarded and recognized brand as they expand in mobile devices, according to Sanford C. Bernstein & Co.

"They continue to produce the best phones of the industry," Pierre Ferragu, an analyst at Bernstein in London, said of HTC. "They have good brand recognition. From that perspective, they could be an acquisition target for a company with more scale but less product development expertise and weak brand positioning."

HTC shares touched an almost eight-year low this month after the company signaled it may post its first quarterly loss since at least 2008 on a consolidated basis. The stock drop left the smartphone maker trading at a 56 percent discount to sales, its cheapest valuation ever, according to data compiled by Bloomberg.

Chairwoman Cher Wang and her family hold a stake in HTC and may stand in the way of a takeover so long as the phone maker still has cash to keep its business going, according to JI Asia. Without a pickup in sales, the company would enter a period of decline that may lead to a sale, Wedge Partners Corp. said.

Short Reign

HTC, the first maker of phones using software from Google Inc., was a contract manufacturer before it began promoting its own brand in 2006. The company had a short-lived reign at the top of the U.S. market in the third quarter of 2011, when it accounted for 24 percent of smartphone shipments, according to researcher Canalys.

Amid intensifying pressure from Samsung and Apple at the high end and Chinese makers among less expensive handsets, HTC's share of the global smartphone market has fallen to 2.8 percent as of the second quarter from 5.8 percent a year earlier, data

compiled by Bloomberg show.

While growth for more expensive phones is slowing, HTC still offers “the best piece of hardware outside the iPhone” with its HTC One, Brian Blair, a New York-based analyst at Wedge Partners, said in a phone interview.

### Lenovo Interest

The company in February 2012 said it had “dropped the ball” on products, pointing to weaknesses in design and engineering. The HTC One, which was supposed to herald a reversal of fortune, has so far failed to stop a slide in the company’s sales since the phone’s introduction was delayed to the same timeframe as Samsung’s flagship Galaxy S4. Chinese vendors, such as Huawei and ZTE, are the most likely acquirers for HTC as they expand in mobile devices, according to Blair and Charles Golvin at Forrester Research Inc. Beijing-based Lenovo, the world’s largest maker of desktop and laptop personal computers, is also a potential buyer, Bernstein’s Ferragu said in an e-mail.

Lenovo is “definitely seeking opportunities” for acquisitions in both PCs and smartphones, Chief Executive Officer Yang Yuanqing said in an interview last week.

“The industry is in a period of consolidation, so we definitely should take the opportunity if we can find the right target,” Yang said, declining to identify specific targets.

Angela Lee, a Hong Kong-based spokeswoman for Lenovo, this week declined to comment on HTC as a target.

### Samsung Dominance

For Huawei and ZTE, which make equipment for phone networks and are expanding in smartphones and tablets, acquiring HTC would offer better brand identity and presence in the high-end market, said Golvin, a Cambridge, Massachusetts-based analyst.

“It’s very, very difficult for any of the smartphone manufacturers today, who are not Samsung or Apple, to be successful in the smartphone business,” Golvin said in a phone interview.

Samsung and Apple dominate the global smartphone market with a combined 43.5 percent share in the second quarter, according to data from IDC in July.

ZTE doesn’t expect HTC to be sold this year because Chairwoman Wang has many times indicated her confidence in the company’s outlook, said David Dai, a spokesman for ZTE.

“ZTE will continue monitoring the situation of HTC and will seek an appropriate strategy at the right time,” Dai said in an e-mail this week.

Scott Sykes, a spokesman for Huawei, said he couldn't comment on speculation about acquisitions.

## HTC 'Resurgence'

Speculation that HTC could be sold is "untrue," Laura Kao, a spokeswoman for HTC, said in an e-mail. HTC will continue to deliver new designs and products that will lead to a "full resurgence of the HTC brand," Kao said.

"HTC is taking a number of assertive steps to improve the financial performance of our business," Kao said. "We also have plans under way to launch a range of innovative and competitive mid-tier products in the coming months. This will address our challenge of mid-tier products competitiveness."

HTC is pinning its hopes on the introduction of those new products, including models that build on the HTC One franchise, to halt declining sales. The company recently unveiled the HTC One mini, a phone with a 4.3-inch display and a more slender design.

In July, HTC forecast an eighth consecutive drop in quarterly sales and indicated it may post a loss this quarter, its first on a consolidated basis since at least 2008.

## Resisting Sale

The stock fell to as low as NT\$143 on Aug. 2, valuing HTC at 0.44 times revenue -- its cheapest price-sales ratio on record, data compiled by Bloomberg show.

HTC probably doesn't want to sell at this level, and Chairwoman Wang's stake would help block the company from a hostile takeover, according to Jean-Louis Lafayeedney, an analyst at JI Asia in Hong Kong.

Buyers may wait for HTC's value to fall further. James Faucette, an analyst at Pacific Crest Securities, expects the company to continue losing money. He estimates HTC's fair value is closer to \$NT100, compared with the stock's closing price of NT\$149.5 yesterday.

"Acquisition always makes sense at a low enough price," he said in a phone interview. "I am concerned the price is quite a bit lower than where the stock is now."

It's becoming critical for HTC to make a move as its options become more limited as a standalone entity, said Will Stofega, a program director at researcher IDC.

"The game now is, if you are going to be in this, you've got to have partnerships," Stofega said in a phone interview. "You can't do it alone."

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