Google acquisition of motorola term paper sample

[Business](), [Company]()

Introduction

Google is a large Multinational Corporation based in the United States. Since, it's rather humble and tumultuous beginning in 2004; Google has become a pioneer internet giant in its field. It provides top-notch search engine facilities, cloud facilities, advertising facilities as well as other software based services to their clients. Rapid growth which was fuelled after its incorporation has allowed the company to expand its product offerings rapidly as well. Now the company also provides other online applications meant to facilitate and meet the demand of superior software products, in the form of social networking, office suite products, as well as email facilities. They are also the pioneer behind the creation of the Android operating systems for mobiles as well as Google Chrome operating systems.

Acquisitions and partnerships for the expansion of the business is nothing new for Google. Since its inception, Google has already acquired a good number of small venture capitalist companies. As part of its recent initiatives, this tech giant has acquired Motorola, which was announced back in August 2011. Motorola was a large tech Multinational corporation established in 1928. The company initially dealt with selling set-top boxes and providing other infrastructures for wireless networking. The company had a relatively stable reputation of making profits, however, in the year 2007 it had made a record loss $1. 2 billion against a mere profit of $100 million during that given year. Apart from this, the company also lost a significant number of top level executives to the rival firms and the continuous streak of losses forced the company to pay off around 400 more employees in the subsequent years.

Motorola also continued to make losses until the 1st quarter of 2009, but managed to squeeze out a profit in the second quarter of 2009 and the stock prices also began to improve to a certain extent. However, the profits were not significant enough to propel Motorola out of the crisis that it had been facing for the previous years, so selling their company to a large tech giant like Google might have seemed like an easy way out.

Reasons of the Motorola Acquisition

Takeover or acquisition implies that a predator firm swallows up another firm by buying its shares. Usually, the company that is taken over remains distinct, but now a controlling interest is enjoyed by the predator firm. In a friendly takeover, the company being taken over actually encourages it. In a hostile takeover, the company being taken over fights to prevent the predator from obtaining a controlling interest. It should be realized that public limited companies are always open to take over as there are no restrictions on the transfer of shares in the company. This vulnerability is increased if shareholders are dissatisfied with the performance of the company or if it is undercapitalized.

Usually the main aim behind a takeover is that it will prove to be profitable, which may have been the case with Motorola. After experiencing a slump in profits for almost 2 years, Motorola may have decided that this takeover by Google would indeed help them stay in business and keep their brand name alive.

The company of Motorola itself was divided into two parts; Motorola Solutions and Motorola Mobility. As part of the acquisition deal, Google Inc decided to takeover Motorola Mobility. In the current era, where fierce competition exists between tech giants for the protection of intellectual property; this takeover would mean that Google can control patents of more than 24, 000. Although Motorola Solutions still operates independently, the Motorola Mobility has been acquired by Google for a staggering $12. 5 billion. The acquisition process was quite lengthy and by February 2012 it was finally approved by the European Union and the Department of Justice in the United States.

Financial Benefits of this Acquisition

The benefits stemming from this acquisition is certainly two tiered; firstly from this acquisition Motorola has been able to extract a part of its company which had become quite difficult to manage, due to the increasingly fierce competition. However, the benefit from this acquisition has been too overwhelming for Google. Apart from gaining a significant number of protected patents from this deal; it has also enabled Google to gain a stronger foothold in the Android operating system market.

Already, Apple and Microsoft have filed lawsuits against companies like Samsung, Motorola and HTC, therefore protecting the providing this OS for free was extremely crucial. The only way Google could continue to provide this OS for free was through the acquisition of Motorola. Apart from this, Google superior software offerings along with the high quality Motorola Mobility devices would mean that they could provide cheaper and better devices than their competitors once they merged together.

One of the prime benefits Google will enjoy from this acquisition is perhaps the tax cuts that it will received after the merger. This is mainly because Motorola Mobility had been incurring a loss for a couple of years as result of which they qualify for generous tax benefits, which can now be enjoyed by Google. This has indeed made this acquisition deal even more lucrative. As a rough estimate, Google is expected to save around $700 million in tax reductions for all the future profits up until the year 2019. Apart from this, Google Inc will also enjoy a tax cut of $1 billion immediately after the deal comes into effect; this is for covering the net losses made by Motorola Mobility over the years.

The deductions that Google Inc will enjoy after the acquisition is actually the reductions that Motorola Mobility had received due to failure make enough revenue. It also includes research and development, as well as tax losses incurred in the United States and in the foreign markets and the credits that has rolled over. Over the last three years Motorola Mobility has made a loss worth of $3. 9 billion in United States alone, before deduction of taxes and has managed to churn out a profit of $680 million pretax profit in the foreign markets. Conversely, Google Inc has managed to make a profit of approximately $11 billion globally in the last year alone.

In 2009, Internal Revenue authorities mentioned that the tax benefits resulting from this acquisition deal has certainly made the merger even more lucrative for Google Inc. The IRS authorities also have a separate rule which clearly states that a company cannot acquire another company for the sole purpose of getting tax benefits.

Valuation of the patents

One of the most complicated issues that Google Inc had to deal with was the valuation of the patents and other non-tangible assets acquired by the company. This acquisition has clearly shown how that the valuation of the patents and other non-tangible assets are not quite transparent in nature. Although, currently Motorola Mobility has an amortized intangible asset value worth of $176 million; the paid amount is expected to be far greater than this. In fact, some financial analysts believe, that the total bid amount of $12. 5 billion consists of $3 billion solely for the good will of the company. $4. 5 billion will be directed towards the patent portfolio of the company, $3. 2 billion for the cash currently held by the company, $2 billion for the set-top box and the hand-held devices business and the $1. 7 billion worth of net income loss taxes which it could not utilize.

The $1 billion allocated to the intangible assets will also include the know-how of the Motorola Mobility as well as the number of benefits that the company will be able to reap from the deal. Apart from this, the company can also enjoy cuts from the net income loss that Motorola Mobility had been incurring almost immediately, which is worth around $1 billion.

Financial Implications of the Acquisition

The graph above clearly illustrates the strong revenue generation capabilities of the Google Inc. It shows the combined revenues of the Motorola Mobility device and home revenue as well as the Google revenue. Clearly, Google has an edge when it comes to generating a healthy amount of revenue and the merger may seem to have breathed new life into the MMI Company. The overall revenue has been following an increasing trend, which appears to be quite healthy for the companies, however, the contributions of Motorola Mobility Inc does not seem to have expanded much over the years.

As the profitability graph shows the profitability trend of the acquisition and that of Google alone is also quite healthy. The profits have increased consistently since the last 3 quarters, after a fall in the 1st quarter of 2011. In the 1st quarter of 2011, the combined profits as well as the Google profits fell compared to the last quarter of 2010. However, the profits for the combined companies as well as Google alone recovered quite well for the next 3 quarters of 2011.

Financial implications of the Acquisition

This graph illustrates a clear picture of the financial condition of the Motorola Mobility branch and the losses that are being incurred. The decision of Google Inc to acquire a company which was consistently making losses has been criticized by a number of analysts. This is primarily because, after the merger Google's own percentage points is expected to fall by at least 10 points and its earnings per share is also expected to become one third of its current position. It is also speculated that the combination of the two companies may still not be able to make the phenomenal amounts of profits that it is expected to make.

During the 1st quarter of the year 2012, Motorola Mobility has managed to churn out a revenues worth of $3. 1 billion and non-GAAP net losses amounting to around $0. 03 loss per share. This shows an improvement in the position of MMI which faced a net operating loss of non-GAAP worth of $0. 08 loss per share during the 1st quarter of the year 2011. The MMI company also had a cash flow of about $98 million during the 1st quarter of this year and had around $3 billion worth of cash equivalents, cash and the cash deposits.

Impact of patents on the Accounts

Showing the value of patents and other intangible assets in the accounts is quite tough. According to the accounting rules, all the assets that have been created by the company such as patents, trademarks and goodwill cannot be shown in the financial statements, in the event of an acquisition or a merger. This does represent a major loophole in the accounting standards, which the Obama administration had also been trying to remedy through the implementation of stricter policies. The IRS is also quite concerned, since companies often charge less for products and the services in the acquired company to reduce the corresponding taxes. It is also presumed that if Google has a sustainable cost-sharing agreement in place then the Google can reduce their corporate taxes by as much as 80 percent.

The presence of a huge amount of patents under the Motorola Mobility is perhaps the most lucrative feature of the deal for Google. It will also allow Google to regain some control over the Android market, which it had seemingly lost considerably over the past years since its development. With the patents of Motorola, Google can expect to get a blanket of protection against any future lawsuits regarding the licensing rights of Android operating systems. This strategy is similar to what Microsoft had done with the licensing rights of the Windows Phones. In short, this acquisition will give Google a much needed cover for their intellectual properties.

As evident from the chart above, Google Inc did not make considerable amount of profits after the acquisition that it did before the deal. The revenue of Google after the acquisition is expected to be around $13. 1 billion more than it was before. However, both the net profit margin and operating profit is expected to fall by a significant percentage. The revenue increase may be attributable to the around 4% market share currently held by the Motorola Mobility Inc. Unfortunately, the company would also be transferring a portion of its losses, thereby reducing the combined profit margins of the company. These values are just an approximate for year 2012. The final results are expected to appear by the end of the fiscal year 2012. It must be noted that the Motorola section of the acquisition has already started to improve its operations since news of its acquisition spread.

The Acquisition of Motorola Mobility has finally been approved by both the European Union as well as the Department of Justice in the United States. The benefits of engaging in this deal are yet to unroll as it has been less than a year since the acquisition was announced by Google. Google has vowed to keep the MMI at an arm’s length; however, it does seem that Google is engaging quite closely with the company. The sales of Motorola Mobility have improved a bit and the lower losses were also incurred during the 1st quarter of the year 2012 as opposed to the 1st quarter of the year 2011. With the power of superior mobile devices from Motorola and enhanced software power of itself; Google seems to be aiming to become a pioneer in the field of mobile networking as well. However, the degree to which its endeavors will be successful or unsuccessful will be a matter of time to tell.

However, with this acquisition Google Inc has certainly managed to shield itself from future lawsuits stemming from the Android Operating systems.

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