



PRESS RELEASE

Emerson Acquires Motorola Embedded Communications Computing Group **Creates \$620 Million Embedded Systems Market Leader**

Emerson Electric Company (NYSE: EMR) agreed to acquire the Motorola Embedded Communications Computing (MECC) business from Motorola Corporation (NYSE: MOT) for \$350 million US.

MECC is headquartered in Tempe, Arizona, has 1,100 employees and reported approximately \$520 million US in sales in 2006. Founded in 1980, MECC supplies high-availability embedded communications and computing platforms for a wide range of equipment and system OEMs in communications, industrial, defense/aerospace and medical markets.

Emerson plans to integrate MECC into the Embedded Computing Division of its Network Power Unit.

The deal, which is expected to close by year-end, follows years of speculation as to when Motorola would sell MECC, and months of chatter about the odds that Emerson would be the buyer.

This is one of the biggest deals in the history of the embedded systems market. So naturally, it requires analysis. Ours is framed by a few simple questions:

1. Why would Motorola sell such a strong business?
2. What is Emerson's interest in embedded computing?
3. Is the ATCA market ready to produce returns?
4. What does this mean for the industry?

More Focus for Motorola. Motorola has been in a state of restructure for most of the past 5 years, shedding businesses considered non-core, and investing in mobile device, software and related services businesses. The results have been mixed. And with the cell phone business now ranked #3 globally in share, the stock price down 26.5% during the past 12 months, investors are impatient.

More to the point, Motorola has a number of significant, immediate challenges in its core business of mobile solutions:

1. Its mobile device business accounts for 66% of sales in 2006. Sales are uneven and profits elusive. The company's share, momentum and margin have been persistently uneven for the past few years. This is job one for CEO Ed Zander and his team.
2. Motorola invested billions acquiring Symbol Technologies just about a year ago. That deal expanded Motorola's footprint in mobile solutions for businesses on a number of dimensions. It also brings new challenges.



While MECC has a major focus and solid presence in the communications industry, its participation is not highly related to the rest of the Motorola business. Furthermore, MECC itself had recently completed a number of significant strategic and operational realignments. That work created a more efficient, focused MECC, operating at a high level in the growth segments of the embedded hardware and systems markets. That work created an attractive business – to run or sell.

Consider this sale the latest in a long line of divestitures of businesses not considered core to Motorola's 'DNA.' That DNA is rooted in mobile devices and the differentiated core components of high-performance mobile solutions.

Emerging Market Leadership for Emerson. With this deal, Emerson is betting big that a new set of standards in the embedded and high-availability computing markets – ATCA, MicroTCA and AMC, collectively known as xTCA – will grow rapidly and profitably. Last year, Emerson acquired \$100 million worth of embedded computer boards when it bought Artesyn. Artesyn became the centerpiece of Emerson Network Power's Embedded Computing Business, with \$100 million in revenues, and an attractive xTCA product development pipeline. MECC brings a complimentary \$520 million in revenues to that business – including even more business and opportunity in xTCA by way of its #1 share position in xTCA globally.

The businesses are largely complementary:

1. MECC is largely a systems business, with equal emphasis placed on hardware components, systems integration and software to enable the next generation of platform, shelf and system management;
2. Emerson Network Power Embedded Computing is largely a hardware component business, with the lion's share of revenue being derived from board-level products;
3. MECC has an enviable pipeline of customers and partners in communications and defense, with budding positions in medical and instrumentation;
4. Emerson Network Power's business is largely automation and infrastructure.

Emerson's vision of converged networks is virtually all-encompassing – while most of its peers talk convergence, they cite voice, data, video, multimedia. Emerson, sees that convergence as a fact of every industry reliant on power beginning with, but not limited to, communications applications.

Combined, Artesyn and MECC bring Emerson Network Power to an irrefutable position of prominence in the embedded computing business overall, and specifically in the emerging market for xTCA solutions.

ATCA Market Is Developing. How much risk is Emerson taking on investing so much in ATCA? VDC has been covering the xTCA markets for more than three years. Our forecasts for the market are among, if not the most conservative in the industry. We believe xTCA products will be a multibillion market by 2010. Will it be a \$10 billion market by 2010, we do not think so. But we do think, based on our interviews with equipment OEMs from all the major consuming market segments, that xTCA systems will be a growth and margin business, offering potential for scale for a fair number of companies.

Most recently, we participated in the ATCA Summit in Paris last month. Most noticeable in the crowd were a growing number of Tier 1 TEMs (Telecommunications Equipment Manufacturers). As ATCA was designed most specifically for TEMs, their active participation, announcements and investments are worthy of note.



**EMBEDDED HARDWARE AND
SYSTEMS PRACTICE**

The TEM participation expanded beyond Alcatel-Lucent – the ‘patron saint’ of ATCA. Nortel Networks shared details on the live traffic that it is running over ATCA platforms. Siemens and Nokia shared a glimpse of their implementation plans. Many others, from a wide range of NGN (Next Generation Network) segments shared status updates as well. The reports of progress were markedly different from events past – the pace, scale and challenges of their xTCA work were rooted in their experiences to date more than their visions of the future. Said another way, it was a much more sober picture of the requirements to migrate to xTCA, not just the potential rewards.

We think the market might be growing up a bit – with engineers not evangelists shaping the agenda.

Industry Gains a New ‘Giant.’ ATCA a New Sponsor. The embedded computing systems market structure does not change fundamentally with this deal. MECC was long considered one of the few suppliers of significant scale – along with peers of scale that included Kontron, RadiSys, and Sun Microsystems – among others. With this deal we are ‘simply’ trading one Fortune 500 parent for another. Or are we?

During the past five years, the embedded computing business at Motorola was undergoing a number of changes in strategic direction, including many violent changes in direction, including:

1. Buying one of its largest peers – FORCE Computers – only to exit FORCE’s main business, VME, two years later; and
2. Championing PowerPC for embedded applications for more than a decade, and abruptly migrating to Intel platforms across all of its business lines.

While we call out these strategy shifts, it is important to note that they did re-align Motorola with the broader market requirements – including, obviously, Emerson’s. But, there was a fair amount of change that confused a wide range of customers and partners.

Perhaps now that the business is more focused, and managed by a parent that sees it as core, we are changing a disinterested parent for an engaged one. If so, the results – revenue growth, share, margin – are likely to be much more positive.

Overall, we believe that this deal will be good for the industry. We believe that having a number of significant and strong competitors in the embedded computing market was not, and will not be a bad thing for customers or competition. And having two leaders in the xTCA market – Emerson and RadiSys – will be very good for the xTCA markets. These companies have solutions-oriented approaches that will reassure customers on two levels:

1. Either company is a legitimate source for xTCA total solutions. From AMC through boards and platforms, all the way to system management software and professional services, these companies will serve the needs of customers looking for a single source for total solutions; and
2. Either company will be a market unto itself for xTCA component and subsystem suppliers. These companies will help consolidate and drive markets for developers of application-specific xTCA components. And they will do it more efficiently than the market on its own.

We like the deal. It helps two companies get closer to their visions of their respective futures. It helps the xTCA markets develop with more confidence, speed, and efficiency.



ABOUT VDC

Earlier this year, VDC released the report, *AdvancedTCA and microTCA Components and Solutions, 2nd Edition: Global Market Demand Analysis*, comprising an examination of the present and future markets for these emerging technologies. Included are current market sizes and forecasts through the year 2011, along with brief descriptions of the technologies involved. Trends are identified, markets analyzed, and strategies recommended.

VDC recently launched an upcoming research report on *microTCA Market Intelligence*. This report includes important new, geographic, and technology coverage that is critical to understanding this rapidly changing marketplace. The microTCA platform has the unique ability to deliver an optimal technical and commercial profile to meet increased functionality, time-to-market constraints and cost reduction requirements. VDC believes that analysis on recent and near-term installations of microTCA will assist in identifying microTCA impact in real-world implementation. This market intelligence will provide:

- Definition and segmentation of current and emerging market opportunities
- Identification of proven microTCA value propositions realized by early adopters
- Proposed solutions in the target markets, segments and applications
- Estimates and forecast demand for microTCA products and solutions
- Screening, ranking and prioritization of client and segment opportunities
- Key success requirements and barriers to entry for the highest ranking opportunities

The proposal for this report can be viewed by [clicking here](#).

Venture Development Corporation (VDC) is an independent technology market research and strategy consulting firm that specializes in a number of industrial, embedded, component, retail automation, RFID, AIDC, datacom/telecom, and defense markets. VDC has been operating since 1971, when the firm was founded by graduates of the Harvard Business School and Massachusetts Institute of Technology. Today, we employ a talented collection of analysts and consultants who offer a rare combination of expertise in the market research process; experience in technology product and program management; and formal training in engineering and marketing. VDC's clients include thousands of the largest and fastest-growing technology suppliers in the world and the most successful investors participating in the markets we cover.

For further information, contact:

Eric Heikkila, *Practice Director, Embedded Hardware and Systems Practice*, 310.393.9086, erich@vdc-corp.com

To purchase this report, contact:

Tim Callahan, Sales Manager, 508.653.9000 ext. 113, timc@vdc-corp.com

Tim Shea, Sales Manager, 508.653.9000 ext. 119, tims@vdc-corp.com

Join the VDC mailing list to receive future updates at: <http://www.vdc-corp.com/OptIn.asp>



**EMBEDDED HARDWARE AND
SYSTEMS PRACTICE**