Sony, Ericsson: Better Off Alone?

Why are Japan's Sony and Sweden's Ericsson still together? On Friday, their mobile-phone joint venture warned of yet another quarterly loss, in the range of $475.6 to $543.6 million, on the back of some pretty dismal quarterly unit sales. Given that there is not much technological rationale for network-supplier Ericsson to stick with its consumer-electronics pal Sony, and even fewer financial benefits, it might be better off for the company if the two went their separate ways.

A divorce might take some time to work out, however, given that Ericsson (nasdaq: ERIC - news - people ) won't want to give up its 50.0% stake at fire-sale prices in a rapidly deteriorating market. Sony Ericsson's expected quarterly loss would be the third in a row, and the company is burning cash at an alarming rate -- a capital injection from both parents may be a necessary prelude to any divestment on more reasonable terms.

"Sony Ericsson burned free cash flow of 277.0 million euros ($376.8 million) in the fourth quarter of last year," said Nicolas von Stackelberg, an analyst with Sal. Oppenheim. "The way things are going, the first quarter of 2009 could top even that."

A spokeswoman for Sony Ericsson told Forbes that both Sony (nyse: SNE - news - people ) and Ericsson had reiterated their commitment to the joint venture on Friday, and that both saw it as "a strategic pillar" of the business. "That includes sufficient funding, if necessary," she added.

The joint venture's profit warning socked shares of Ericsson, down 7.8%, to 69.90 Swedish kronor ($8.60), in Stockholm, and didn't spare rival Nokia (nyse: NOK - news - people ) either. Shares of the Finnish mobile-phone champion fell 5.4%, to 8.42 euros ($11.45), during afternoon trading in Helsinki.

"You have to suspect that Nokia will have very, very poor volumes this quarter too," said Lars Soderfjell, an analyst with Kaupthing. "We don't know how much is Sony Ericsson-specific, and how much is the market, but Nokia won't get the benefit of the doubt from investors."

Sony Ericsson said quarterly unit shipments were expected to fall to 14.0 million phones, a 36.4% drop over the year. The company is on track to hit its target of 2,000 job cuts and an initial 300.0 million euros ($408.1 million) in cost savings by the second half of this year.