

» [Print](#)

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.

RIM results focus to be on price, profit margin

Mon, Mar 29 2010

By Susan Taylor

OTTAWA (Reuters) - Research In Motion RIM.TO is expected to report this week it sold a whopping 11 million BlackBerries in its latest quarter, which may offset the impact of falling prices and narrower profit margins.

As RIM moves further into the broad consumer smartphone market, it has been offering cheaper devices to compete with Apple's (AAPL.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) iPhone and Motorola's MOT.N Droid.

Sales and subscriber growth, particularly in international markets, have gone up as a result. But analysts said the brisk demand for low-end devices, which drives down the company's average selling price (ASP), may pressure profit when RIM reports its fourth-quarter results on Wednesday.

"That's where everybody's going to be focusing their attention: margins and ASPs," said Ed Snyder, managing director at Charter Equity Research.

"They have to hit a strong unit number because it's been talked about ad nauseum...and that's what has caused some of the strength in the stock. If they miss that, they're toast," he said, referring to the company's share price.

Sanford C. Bernstein analyst Pierre Ferragu said RIM's "trading down" strategy will deliver a couple of good quarters. But the growth and margins are not sustainable, and he also expects RIM's handset sales to corporate customers to wane.

What's more, RIM's will lose the advantage it currently has over companies whose phones use more bandwidth as data costs drop and traffic moves from email to images and video.

But not everyone agrees lower prices mean leaner profits.

"What we think you're going to see is that units and subscribers are going to show considerable growth. And we think you're going to see ASPs will have eroded, but gross margins will have improved," said Canaccord Adams analyst Peter Misek.

"Some of their lower-cost devices are actually their higher margin products."

He estimates that the Curve 8520 phone has a gross margin that is 100 to 200 basis points above the rest of RIM's product line.

Other analysts say RIM can withstand competitive pressure. They point to its strong third-quarter results as proof that RIM's loyal customers and the BlackBerry's strong security features protect it from a scrappy consumer market.

"IT (information technology) departments still look at BlackBerry as a best of breed," said Research Capital analyst Nick Agostino.

DON'T BET AGAINST RIM

For its fourth quarter ended February 28, RIM estimated it would sell between 10.6 million and 11.2 million phones at an average price of \$320 for a gross margin of 43.5 percent.

It forecast earnings per share of \$1.23 to \$1.31 and revenue of \$4.2 billion to \$4.3 billion while adding 4.4 million to 4.7 million new subscribers.

"I would not bet against RIM this quarter, it seems like the whole handset industry is doing well," Snyder said. "We haven't seen a big erosion in pricing yet."

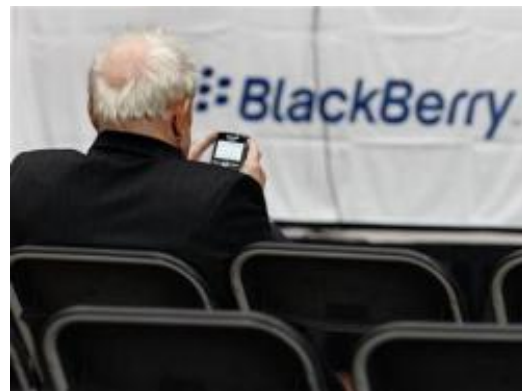
Analysts say their sales checks show brisk demand, partly driven by the lower-end 8520 model and new Bold 9700 handset, in a December-February quarter that straddles Christmas, end-of-year corporate budget spending and Valentine's Day.

On average, analysts expect profit of \$1.27 per share and revenue of \$4.3 billion, according to Thomson Reuters I/B/E/S.

"We believe investor sentiment is already anticipating earnings and guidance strength," said UBS analysts Maynard Um and Phillip Huang.

RIM shares gained roughly 4 percent over the past week, and some analysts said it will likely take market-beating profit or stellar forecasts to spark further gains.

Most see little gain in the first quarter over the fourth quarter. For the typically slow sales period, analysts expect revenue of \$4.3 billion and earnings of \$1.22 per share.



"I remain concerned in the long run, which could be as soon as next quarter, but certainly the next couple of quarters after that," Snyder said.

"If you look at Nokia's (NOK1V.HE: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) product plans and everybody else's, they're pretty aggressive. And if you get another carrier with a touchscreen 3G phone that works fairly decently, RIM usually struggles."

(\$1=\$1.02 Canadian)

(Reporting by Susan Taylor; editing by [Janet Guttman](#))

© Thomson Reuters 2010. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.

This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to colleagues, clients or customers, use the Reprints tool at the top of any article or visit: www.reutersreprints.com.