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Loss of faith in RIM deepens as PlayBook debut nears

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By [Alastair Sharp](#)

TORONTO (Reuters) - Research In Motion is facing skeptical investors unsure the BlackBerry maker can pull off a difficult transition as it promises strong growth from a tablet and operating system few have seen.

Shares of the Canadian company plunged more than 10 percent on Friday, after it warned of weak profit and revenues in the short term as it ramps up for next month's launch of the long-anticipated PlayBook tablet.

To cushion the blow, RIM took the unusual step of providing Wall Street with a forecast for full-year earnings that topped the expectations of all but the most optimistic pundit. The number supported RIM's contention that the pain surrounding the PlayBook launch would set the stage for long-term gain.

By and large, investors and analysts were not buying that argument. Even Deutsche Bank analyst Brian Modoff - the lone analyst with a forecast that was above RIM's full-year figure - cut almost a full dollar off his earlier estimate on Friday. He also suggested clients sell their RIM shares.

Short-sellers - who profit on bets a stock will decline - may cash their chips but are unlikely to lose interest in RIM.

"It's probably going to underperform for quite some time until they can get some traction back," said Brad Lamensdorf, who co-manages AdvisorShare's Active Bear fund and had a roughly \$500,000 short position in RIM ahead of the earnings.

"They're giving you the bad news right now - they're airing their dirty laundry," he said.

RIM has spent heavily developing and marketing the PlayBook, designed to snatch some glory away from Apple's iPad, which virtually invented the now-crowded tablet market.

Highlighting the challenge, Apple fans queued up worldwide on Friday to be the first to get their hands on the iPad 2.

One of reasons that Deutsche's Modoff cut his rating was a loss of faith that RIM can reverse its fortunes with the introduction of the QNX operating system, which will make its debut on the PlayBook.

Modoff, among others, believes it's imperative that RIM move quickly to put QNX on its touch-based BlackBerry smartphones due out this year, replacing an outdated platform that's ill-equipped for today's data-heavy applications.

But RIM on Thursday said QNX won't appear on its phones until early next year.

"With no QNX on handsets until calendar 2012, we think RIM will likely continue to lose share to Android smartphones whose prices are rapidly falling," Deutsche's Modoff said in a note.

Google provides its Android software to Motorola Mobility, Samsung, HTC and other device makers.

IN NEED OF REBOOT

Susquehanna Financial analyst Jeff Fidacaro said RIM desperately needs a high-end smartphone to woo back disgruntled users in North America. The Torch, launched in August with an improved browser, didn't fill the void.

Adding to worries, RIM said the launch of the PlayBook would hit the company's prized gross profit margins and they would likely not recover anytime soon.

Yet the PlayBook, loaded with impressive parts and priced at par with the equivalent iPad 2, is only part of the reason RIM's margins are slipping.

"That is not 100 percent due to the PlayBook being put into the mix. There is some core degradation in the gross margin of their smartphone business," Susquehanna's Fidacaro said in an interview. "And I think that really surprised the bulls."

RIM is leaning on sales of its cheaper devices outside the lucrative North American and Western European markets as Apple's iPhone and Android-based devices steal thunder.

While those devices bring in decent income for the cost of production, sales volumes need to be high to keep revenue up.

When RIM finally brings out QNX-equipped smartphones -- what it dubs 'superphones' -- the big question is whether they will impress when stacked against the fast-moving competition.



More broadly, analysts are wondering if RIM should cling to its own platform and fight the Google software's scale coupled with rivals setting a furious pace of hardware innovation.

"We've got Google out there flipping OS by themselves three times in a year and then all their hardware partner guys, beating their feet to the market as fast as they can with their latest and greatest hardware," said Ed Snyder from Charter Equity Research.

Nokia, a global leader which for years poured money into its own software, last month dumped its platform in favor in Microsoft's Windows Phone.

"Any one company that tries to do this by themselves will probably lose - including Apple in the long run," he said.

RIM's shares lost more than \$7, or 11 percent, to \$56.89 on the Nasdaq and were 10.8 percent lower at C\$55.78 on the Toronto Stock Exchange.

The shares had risen fairly steadily from a trough near \$42 since RIM first showed the PlayBook back in late September.

The sell-off is "creating a buying opportunity over the next week or so," said Youssef Zohny, a fund manager at Van Arbor Asset Management, which holds about \$2.5 million of RIM stock. "However that doesn't necessarily alleviate all the concerns on potential future growth."

(Additional reporting by [Vaishnavi Bala](#) in Bangalore and Susan Taylor in Ottawa; Editing by Frank McGurty)

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