Forbes http://onforb.es/PKwgSb

Eric Savitz Forbes Staff

Covering the intersection of tech and investing.

CIO NEXT 9/28/2012 @ 9:24AM | 987 views

RIM: While Q2 Beat Estimates, Analysts Still Skeptical

OK, calm down.

Yes, Research In Motion did report better-than-expected results for its fiscal second quarter ended August 31. The company posted revenue of $2.9 billion, which while down 31% from a year ago, was actually up 2% sequentially, and well ahead of the Street consensus at $2.5 billion. Meanwhile, the non-GAAP loss for the quarter was 27 cents a share, narrower than the loss of 46 cents the Street had been projecting. RIM did better than analysts had expected selling BlackBerry phones in some international market; shipments of 7.4 million phones topped forecasts. And despite the ongoing losses, the company managed to bolster its cash position by $100 million, boosting the total to $2.1 billion.

Thanks to the impressive beat, and no doubt aided by short-covering, RIM's shares are going to open this morning with a fat gain. But the Street still remains skeptical about the company's prospects. There are few on analysts who think that the company's much discussed BlackBerry 10 OS, due to launch in early 2013, will make much of a dent in the smartphone market against Apple iOS, Google Android and Microsoft Windows Phone 8.

Also, RIM gave little new information on its ongoing strategic review process, saying only that it has had discussions with a number of parties about potential licensing deals. (But it named no names.) RIM is about half way through its plan to cut 5,000 people from the payroll, a move which will reduce ongoing operating costs but pressure on near-term cash.

In short, while Q2 was a not surprise, it did not change a lot of minds on the stock in the analyst community, which remains highly skeptical about the company's future prospects.

Here is a rundown on some of what the Street is saying this morning about the quarter, the company and the stock:

- **Tavis McCourt, Raymond James**: He maintains a Market Perform rating. "Although August was better than anticipated, we believe trends will continue to erode with continued losses at least until BB10 launches," he writes.
- **Brian White, Topeka Capital**: "RIM will be competing with Apple's launch of the iPhone 5 in 100 countries by the end of the year, a daunting task for any smartphone vendor and especially one that is undergoing a platform transition," he writes. "The new BlackBerry 10 platform remains on track for a Q1 2013 launch and RIM has received positive feedback from carriers; however, we believe this new launch will need to be an absolute home run for RIM to stay in the game."
- **Shaw Wu, Stene Agee**: He remains Neutral on the stock. "Our concern remains sustainability with receivables declining by $1 billion over the last 2 quarters and its core operation still losing money," he writes. "BB10 is on track to ship in Q1 2013 but profitability remains unclear and we're not sure if it will be effective vs. iOS, Android, and Windows."
- **Edward Snyder, Charter Equity Research**: He keeps his Underperform rating. "Given the tendency for management teams experiencing challenging business conditions to limit guidance, it's not uncommon for the Street to misjudge revenue and earnings forecasts. We believe this quarter's upside is a direct result of such phenomena," he writes. "So while tonight's report demonstrates incremental improvement, we believe the worst has yet to come. Given BlackBerry 10's late arrival, and the extensive lead that Apple and Samsung have established in the handset market, gaining traction among consumers will most likely be costly and gradual."
- **Peter Misek, Jefferies**: He maintains his Underperform rating. "Management surprised us with impressive execution; however, we believe this was due to aggressive promotions, upgrade programs, and was ultimately at the expense of subscriber ARPU," he writes. "We believe FY Q3 will face tougher headwinds due to the iPhone 5 and other competition. As management continues its strategic review, we believe an acquisition or licensing is unlikely before BB10."
- **Tim Long, BMO Capital**: He keeps his Market Perform rating. "The timing for Blackberry 10 products remains early 2013. The success or failure of those products is more meaningful than the August and November quarter results."
- **Pierre Ferragu, Bernstein Research:** He continues to rate the stock Underperform. "The quarter's performance supports our view that underneath the disastrous performance of the company's high end products, RIM has a profitable core business in entry level and corporate devices and continues to generate healthy service fees," he writes. "However, we remain worried about the company's turnaround strategy centered on Blackberry 10. We maintain our view that there is no room left for a third Smartphone ecosystem, unless it offers genuine breakthroughs, which we do not see in BB10." He adds that BB10 is "still very likely a failure," and advises investors to "stay away."
- **William Power, Baird**: He keep his Underperform rating. "While we applaud the cost and balance sheet improvements, we'd note that selling devices below cost to boost its subscriber base is likely not a viable business solution long term," he writes. "We expect operating results to remain challenged, with prospects for a BB10 fueled turnaround still uncertain."

RIMM this morning is up $1.06, or 14.9%, to $8.20.