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RIM buys itself breathing room for BB10 launch

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By [Euan Rocha](#)

TORONTO (Reuters) - Research In Motion Ltd shares jumped on Friday after the embattled BlackBerry maker posted quarterly results that showed it was still able to pull off a surprise as it tackles the formidable task of getting consumers excited over its new smartphone line.

While RIM's performance gave Wall Street a modicum of optimism, analysts stressed RIM has to now prove that the BlackBerry 10 devices, due early next year, can halt its brand's downward spiral. That won't be easy, they said.

"I have to admit they did a very good job making the best out of a really tough situation. You've got to give management some credit for that, but they still need to nurse the company back to health," said Sterne Agee analyst Shaw Wu.

RIM stunned investors on Thursday with stronger-than-expected BlackBerry sales in the quarter ended September 1. It even managed to build up its cash reserves, giving it a fighting chance to market the new BlackBerry 10 line effectively, while ramping up production of the reengineered smartphones.

Investors responded to the rare glimmer of good news for the embattled company by pushing up RIM's downtrodden share price up by more than 8 percent in afternoon trading on Friday.

Until Thursday's results, RIM was being written off by analysts because of its failure to keep pace with innovations from rivals such as Apple Inc and Samsung Electronics Co.

Analysts said RIM needs to generate enough excitement about the new devices to be able to sell them at a healthy profit.

"The question is, even if they do sell BB10 units, what is the margin profile going to be," said Wu, who notes that RIM once realized gross margins in the mid-40 percent range. Margins are now below 30 percent.

"If the gross margin profile stays where it is, then it is going to be very tough to be profitable, even if they sell a lot of BlackBerry 10 phones," he said.

To be sure, RIM managed to boost average selling prices in its latest quarter compared with the previous three months. That was a positive signal in the lead-up to the BB10 launch in early 2013.

"The bad news is that these results have little or no bearing on what remains true, and that is, RIM still needs to execute on BB10 and do it in a way that draws clear and resonant distinctions between what it has to offer and what the rest of the market has to offer," said CCS Insight analyst John Jackson.

The company is counting on BB10, equipped with a revamped operating system, to arrest a precipitous decline in market share over the past year and longer.

But in the end, the success or failure of the BB10 will hinge by how warmly it's embraced by consumers, many of whom have already switched to high-end devices like Apple's iPhone and Samsung's Galaxy S III, especially in North America and Europe.

"In the big picture, nobody, not even RIM knows whether this is going to work for them," cautioned Charter Equity Research analyst Ed Snyder.

Test versions of the BB10 have won praise from carriers and developers, but the true test still hinges on RIM's ability to win over fans of touchscreen devices.

"I want to regain market share in the U.S. and I want to win back market share in the full touch segment - that's what the company is geared up to and that's what we are working toward," said RIM Chief Executive Thorsten Heins in an interview with CNBC on Friday.

RIM's second-quarter performance also reminded investors that the company still enjoys a strong franchise in emerging markets, where consumers have gravitated to its reliable though outmoded legacy smartphones.

Even though RIM's aging line-up has lost ground in North America and Europe, the BlackBerry maker managed to top shipment and revenue expectations in its second quarter, thanks largely to strong sales of smartphones in countries like India and Indonesia.

"This performance is nothing short of shocking as RIM has found a formula to entice its global carrier customers to sell (its)



product," said National Bank Financial's Kris Thompson.

On Friday National Bank Financial upgraded RIM's stock, while BMO Capital Markets and Barclays Capital were among brokerages that raised price targets on the company's shares.

Thompson, who is rated five stars by Thomson Reuters StarMine for the accuracy of his estimates on RIM's earnings, upgraded the stock to "outperform" and increased his price target on the stock to \$12 from \$8.

Shares of RIM, which rose 20 percent after the closing bell on Thursday, were up 8.5 percent at \$7.75 in afternoon trading on the Nasdaq on Friday. Its Toronto-listed shares rose more than 9 percent to C\$7.57.

(Reporting by Euan Rocha in Toronto, [Fareha Khan](#) and Aditi Sharma in Bangalore; Editing by Frank McGurty)

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