

# BlackBuried: Last gasps of a computing pioneer

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SAN FRANCISCO — BlackBerry's calls have dropped for good.

This week's \$4.7 billion bailout bid by Fairfax Financial Holdings, a Canadian insurer, isn't going to save the company's consumer handset business.

In the late 1990s, BlackBerry ruled the roost in mobile e-mail, practically inventing the category and eventually dominating the segment for nearly a decade. Its chunky device with its signature QWERTY keyboard was de rigueur on Wall Street and in boardrooms.

But that was before the emergence of the smartphone — especially Apple's iPhone, which leapfrogged nearly every incumbent wireless handset in existence. BlackBerry, formerly Research In Motion, was slow to incorporate voice telephony, 3G technology and Internet browser capability into its pocket-sized communication devices. The Canadian telecommunications giant has been playing catch-up ever since and has lost the smartphone race.

"Absent a miracle turnaround, BlackBerry will shrink to irrelevance in handsets," says telecom analyst Edward Snyder, principal of Charter Equity Research. "I don't think the Fairfax deal will change the end game for BlackBerry's handset business."

Prior to the announcement of the Fairfax deal, Snyder suggested that BlackBerry was likely to die like a lithium battery, unable to muster one last charge. "With its best efforts in smartphones failing and its market share in its enterprise business in decline, (BlackBerry) will slip further into a handset death spiral until it is purchased at a deep discount or ceases operations," Snyder says.

Obviously, it now appears the company will likely get acquired, but the Fairfax bid for \$9 a share isn't a done deal. Several weeks of due diligence must pass while the company is free to entertain competitive bids. Snyder is skeptical whether other bidders will come forward as the company "had already been shopping itself pretty aggressively without much results."

The acquirer is an insider, having amassed a 10% stake. Fairfax CEO Prem Watsa is familiar with BlackBerry's operations since joining its board in 2012. At the same time, BlackBerry would have to pay \$150 million breakup fee if the company accepted another offer. BlackBerry shares closed Tuesday at \$8.53, down more than 50% from its 52-week high.

Conventional wisdom is Fairfax would likely shutter the consumer handset business and focus on secured enterprise wireless, which is a viable business with loyal customers.

Still preferred by a shrinking minority of corporate users, BlackBerry's enterprise e-mail business had long been its strength. So much so, it may have masked the company's delayed entry into smartphones — essentially covering up for the company's weakness in voice telephony — where it needed to compete with Apple, Samsung, Nokia, Motorola, Palm and others.

Snyder presciently predicted in a research note last week that BlackBerry would either get acquired or whither, downgrading his stock recommendation to "market underperform," which is the Wall Street research equivalent of a "sell."

The downgrade was pegged to the company's recent announcement that it plans to start slashing 4,500 employees from its payroll. The lackluster sales of the BlackBerry Z10 smartphone forced management to shift into survival mode, Snyder says.

Struggling handset makers such as BlackBerry, and others before it, including Palm, have tried to keep investment levels high to keep product development and carrier relationships intact. But unless new phones become a hit with consumers, these cash outlays become liabilities. As BlackBerry's losses accelerated, management's priority shifted to cash conservation, which is likely to cause operations and sales to atrophy, Snyder explains.

Re-opening sales channels isn't easy. Even if the company managed to eke out one more semi-hit smartphone model, a smaller sales channel exacerbated by depleted resources could limit what BlackBerry might sell before a new device is even "cloned and mass-marketed by Samsung," Snyder says.

Motorola Mobility, prior to its acquisition by Google in 2011, was in a similar situation. Sanjay Jha, its handset chief at the time recruited from Qualcomm, stabilized Motorola's business long enough for the company to offer competitive handsets.

At the time, Snyder applauded Jha for quickly implementing a strategy that embraced Google's Android mobile operating system. It was the telecom executive's only choice, and he had little room for error, Snyder explained.

In the end, Jha turned around Motorola's handset business well enough to sell it to Google for \$40 billion, a 60% premium to the company's market capitalization. Fairfax has agreed to pay little more than \$1 billion after backing out BlackBerry's \$2.6 billion in cash and an intellectual portfolio reportedly worth around \$1 billion.

BlackBerry needed the Z10 to succeed, but instead it bombed. And that proved to be the difference between survival and death spiral.