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UPDATE 3-RIM results raise concerns about its prospects

Thu, Apr 1 2010

- * Results, outlook a mix of good, bad news
- * Analysts raise estimates, stock targets
- * Good times may be short-lived, analysts say
- * Shares fall 6 percent (New throughout. In U.S. dollars unless noted)

By Susan Taylor

OTTAWA, April 1 (Reuters) - Research In Motion (RIM.TO: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) (RIMM.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) shares fell 6 percent on Thursday after the company posted quarterly results that magnified market jitters about rivals stealing market share from the BlackBerry smartphone.

Still, opinion is divided on RIM's prospects. Naysayers point to waning North American demand as a sign of worse things to come, while supporters say new products and an international market push will continue to stoke growth.

RIM reported quarterly profit, revenue, and phone shipments that were below expectations after markets closed on Wednesday, but it also posted forecast-beating gross margins and subscriber growth.

The company, which has promised that analysts will be "blown away" by product launches it has planned for the year ahead, said a one-time customer inventory adjustment hurt both sales and shipments in its fourth quarter.

But questions linger about the health of RIM's North American operations and its high-profit corporate customer base. Corporate demand sagged during the recession and executives are now slower to replace phones with new models that boast extra features.

"What I see going on here is that RIM is encountering an increasingly competitive landscape in the U.S. and that's to be expected with Android starting to gain traction and the iPhone doing well," said Needham & Co analyst Charles Wolf in an interview.

"If we look out at the North American market for BlackBerry, you have to conclude that they're not going to be as strong in this market as they were before, and indeed could well lose market share. In fact, I think it's highly likely they will," he said.

As RIM's position in North America weakens, however, international sales are bustling. They made up 48 percent of total revenue in the fourth quarter versus 37 percent in the third quarter and 31 percent a year earlier.

SLOWING DEMAND IN NORTH AMERICA

RIM has done a good job expanding in the international market, said Susquehanna Financial Group analyst Jeff Fidacaro. The company's Curve 8500 series, designed for the lower-end smartphone market, has healthy margins and is attracting customers.

"That's the positive. The negative is that they're starting with above 55 percent smartphone share in the U.S., 63 percent of their revenues were from the United States and their North American subscriber base is now slowing," he said.

"The second derivative of growth - the new net (subscriber) additions - have really slowed down in North America and that is a concern. It's one of the reasons why we remain neutral on the stock - we like to see the international growth, but we're a little bit concerned about the North American slowdown."

The international market is currently a stronghold for Nokia (NOK1V.HE: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)), analysts said, and isn't expected to attract Apple, though it could lure Motorola's (MOT.N: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) Droid.

RIM phones may also lose luster in North America because they lack the user-friendly features on rival devices, even if they do have such technical advantages as data compression.

"Weak offerings in touch (phones) and 3G leave the company heavily exposed to a slew of new smartphones now hitting the market," said Charter Equity Research analyst Ed Snyder in a note.

"While it will certainly maintain its lead in email-based smartphones, we see little chance it can sustain its market share, pricing or margins long-term."

Snyder said Motorola's Droid appears to be "gobbling up share" at U.S. carrier Verizon Wireless, which has heavily promoted the phone.

Apple's (AAPL.O: [Quote](#), [Profile](#), [Research](#), [Stock Buzz](#)) iPhone also looks to be taking a bite out of RIM's market share. Apple is poised to pull more attention from the BlackBerry with the hotly anticipated launch of its iPad touchscreen tablet on Saturday and a 4G iPhone that is rumored to go on sale in June.

consumer."

RIM's shares fell 6 percent on Nasdaq to \$69.50 and declined 6.8 percent on the Toronto Stock Exchange to C\$70.11 on Thursday. (\$1=\$1.01 Canadian) (Reporting by Susan Taylor, editing by Frank McGurty)

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