

BlackBerry maker Research In Motion enters 2012 with a lot riding on its name

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MONTREAL - BlackBerry maker Research In Motion will likely have but one goal in 2012: stop the terrible skid that started a year ago before it gets horribly out of control.

RIM (TSX:RIM) enters the new year a very different company than the tech darling it was just 12 months earlier: stock price severely beaten down, PlayBook tablet branded a failure, sliding market share, ever hotter competition, a global server outage, continuing troubles with foreign governments.

It's no wonder the Waterloo, Ont.-based company's leaders, Jim Balsillie and Mike Lazaridis, have come under fire.

The road to recovery will begin with the launch of a new line of smartphones. But critics say even they will only help it catch up to the Internet-friendly Apple iPhone and Google-powered Android smartphones.

"I just don't see how these guys can turn the tide around," said analyst Anil Doradla.

"I don't think there's any strategic vision for them in 2012 that will turn the company around, short of them releasing an Apple-like experience or an Apple-like phone," said Doradla, of Chicago-based William Blair & Co.

With RIM losing 70 per cent of its market value year-to-date and announcing in early December that it will take a US\$485-million charge before tax on the cost of discounting the price of PlayBooks and \$50 million in lost revenues from an October service outage that affected millions of BlackBerry email and text users, "we believe the stakes for RIM have never been higher," says UBS Securities analyst Phillip Huang.

RIM stock hit a high of \$140 per share in 2008. By early 2011, it had dropped to slightly under \$70 a share, giving it a market capitalization just shy of \$37 billion. By December, its stock was trading around \$16, and its market value stood at \$8.7 billion.

Huang says it's time for the company's board "to make a bold move," perhaps a change in leadership, a shift in strategy or some kind of corporate deal — including possibly the sale of the company.

"We struggle to identify a buyer with compelling strategic rationale, though any number of large-cap tech firms, may contemplate such a move (either in part or whole)," Huang says.

"To a potential buyer, RIM's enterprise footprint and patents on messaging/security may be appealing."



An Apple iPad, left, and BlackBerry Playbook tablet are seen Thursday, December 8, 2011 in Montreal. RIM enters 2012 with a beaten down stock price, poor sales of its PlayBook tablet, criticism of its leadership — and the launch of a new smartphones that critics say will only catch up to the Internet-friendly Apple iPhone and Google-powered Android phones.

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A lot is riding on a new operating system, now called BlackBerry 10, that will power the new RIM smartphones, expected to hit stores early next year.

Doradla views the rollout of new BlackBerry smartphones as primarily a defensive measure to help mitigate the loss of consumer market share.

"RIM always thought they could define the consumer experience just like they defined the enterprise experience."

But that strategy didn't work because of Apple's and Google's ability to take a user's experience to a "different level," he said.

But Brigantine Advisors analyst Kevin Dede is more positive, saying there's an opportunity for RIM to change its perception in the marketplace with a "really neat, new design."

Dede notes that consumers want a big screen on their smartphones to watch video, a fast processor and lots of different software applications.

"I'm hopeful they've learned from some of their mistakes," said Dede, who's in San Francisco.

"The market is still growing hand-over-fist. It's a matter of can they do it right this time around or at least get closer to stabilize their handset sales."

If RIM can stabilize the situation, Dede says the generally sour opinion of the company's prospects could change.

"That can mean a lot of great things if you are somehow able to show consumers some neat, hot app that is really only available in the BlackBerry experience," Dede said, citing the success of the BlackBerry's instant text messaging service.

As RIM lost market share in the important and lucrative American market in 2011, sales in international markets grew.

But Wunderlich Securities analyst Matthew Robison said RIM will face more competition in overseas markets next year with the introduction of new, low-cost smartphones. Robison doesn't believe the new generation of BlackBerry smartphones will make much difference for RIM.

"I don't think their brand circumstances change in North America and I think they decay further overseas," Robison said from San Francisco.

Nor does he see the PlayBook as having any significance in the market.

"Nobody cares about the PlayBook since the quarter before last."

Robison said a recent service outage has done damage to BlackBerry maker in its business markets.

"The outage has expedited efforts to accommodate iPads and iPhones by IT personnel," he said.

National Bank financial analyst Kris Thompson says he thinks a turnaround is unlikely, even though many investors are expecting the company's new operating system to "resurrect" RIM next year.

"While we are cheering for this outcome, we have little confidence that any management team could save RIM in its current form," Thompson wrote in a research note.

Thompson says RIM's subscriber base will peak in fiscal 2013 as post-paid BlackBerry smartphone contracts expire and prepaid BlackBerrys become "archaic" compared with competing devices.

Technology analyst Carmi Levy says RIM should probably abandon its PlayBook tablet, on which its new operating system is based, but can't.

"It's about the future of a platform that now spans both tablets and handhelds and RIM is stuck with it for better or worse," says Levy, an independent analyst in London, Ont.

"RIM is essentially in defensive mode through the holiday season and through the beginning of 2012 until it can launch new products that can divert attention away from its current troubles."

With its hardware sales flagging, Huang suggests that RIM's salvation could lie in spending less energy developing hardware and more on its very successful

"On strategy, we believe RIM should consider opening its application suite (push email, calendar, secure browser) to other platforms and operating systems (e.g. Android, iOS), de-emphasizing hardware, and morphing into a software company," Huang says

"With this strategy, RIM will be a smaller firm but could get software-like valuation."

RIM closed out 2011 on a few final items of bad news, though they were more black eyes than body blows.

The company was forced to change the name of its new BBX smartphone operating system to BlackBerry 10 after the company lost a trademark ruling in the United States.

The head of Research In Motion's operations in Indonesia could be hit with charges related to a stampede at a recent BlackBerry promotional event that injured dozens of consumers.

And RIM fired two Canadian executives who were slapped with a big fine after their drunken rowdiness forced an Air Canada flight to Beijing to be diverted to Vancouver.