

Phone rivalry drives down RIM earnings

June 16 2011, By ROB GILLIES , Associated Press



In this May 3, 2011 photo, Nestor Martinez tries his hand on a racing game on the new Blackberry Playbook tablet on display at the Blackberry World conference in Orlando, Fla. Research In Motion Ltd. releases its quarterly financial report Thursday, June 16, 2011, after the market close.(AP Photo/Roberto Gonzalez)

(AP) -- BlackBerry maker Research In Motion Ltd.'s quarterly results on Thursday provided fresh evidence of the company's struggles to come up with a device to compete with the iPhone and smartphones running Google's Android operating system.

The Waterloo, Ontario, company reported a nearly 10 percent drop in its fiscal first-quarter net income.

RIM also said it has been hurt by product delays, announced layoffs and warned that its profit for the current quarter and full fiscal year would come in well below Wall Street's expectations.

It was the second time this year the company has pared back its profit outlook. Its stock fell more than 14 percent in extended trading.

"The existing portfolio of BlackBerry products has been in market for close to a year, and delivering new products has proven more challenging than anticipated," RIM Co-CEO Jim Balsillie said on a conference call with analysts.

The announcements are the latest signs of trouble for RIM. The company dominated the corporate smartphone market and has sought to expand its appeal to consumers, but has recently had trouble with consumers because the phones aren't perceived to be as sexy as its chief competitors.

BlackBerrys are known for their security and reliability as email devices, but they haven't kept pace with Apple Inc.'s iPhones or phones based on Google Inc.'s Android software when it comes to running third-party applications.

Balsillie also acknowledged that the April launch of the company's tablet computer could have gone better. RIM got poor reviews on the Playbook and about 1,000 of the devices had to be recalled because of defective software. The company said it shipped about 500,000 of the tablets in its fiscal first quarter.

"The PlayBook launch did not go as smoothly as we had planned," he said.

Co-CEO Mike Lazaridis made a rare appearance on the conference call as the two defended the business and their role as co-CEOs. RIM has an unusual leadership structure, where two executives, Balsillie and Lazaridis, serve as both co-CEOs and co-chairmen. Dissident shareholders are calling for RIM to separate the roles of CEO and

chairman.

Some industry analysts believe RIM is following the same trajectory as Finish handset maker Nokia, which last month warned that its second-quarter sales and margins are expected to be much lower than anticipated because of the competition on devices in both the high- and low-end market.

"We have a strong business," Lazaridis said. "We have made major platform upgrades, and we are almost through this transition."

Lazaridis said RIM was already far along in developing its next-generation BlackBerrys when it realized that U.S. customers wanted higher performance, requiring the company to upgrade the chips used. That posed an engineering challenge and delayed products, he said.

For the three months that ended May 28, RIM earned \$695 million, or \$1.33 per share. That's down from \$769 million, or \$1.38 per share, a year ago.

Revenue for the fiscal first quarter rose 16 percent to \$4.9 billion from \$4.2 billion.

Analysts polled by FactSet expected earnings of \$1.32 per share on revenue of \$5.1 billion.

Aurion Capital Management analyst Greg Taylor said the results indicate that RIM doesn't appear to have any new smartphones coming out soon.

"Everyone wants to have the newest and greatest device, and they don't have anything to sell right now," Taylor said. "Their guidance shows they're basically not expecting new smartphones this quarter."

For the current quarter, RIM forecast earnings of 75 cents to \$1.05 per share, excluding items. Analysts are looking for far higher earnings of \$1.36 per share. The company expects revenue of \$4.2 billion to \$4.8 billion, below analysts' average expectation of nearly \$5.3 billion

RIM lowered its full-year earnings outlook sharply. It now expects earnings of \$5.25 to \$6 per share for fiscal 2012. In April, it had forecast \$7.50 per share.

"That guidance was just awful," said Peter Misek, an analyst at Jefferies & Co. in New York. "I'm just surprised at the pace at which this is unraveling right now."

Misek said RIM carriers aren't supporting as before, consumers aren't buying their products as much as before and corporations are looking at alternatives. He said expects further delays in new BlackBerry's and said Apple and Google are "eating their lunch in a multiple of ways."

"As a Canadian, they are national heroes, and watching national heroes lose is not fun. It's kind of like watching the Vancouver Canucks lose. It's not fun," said Misek, referring to Vancouver's loss to Boston in hockey's Stanley Cup Finals.

RIM said earlier Thursday that Don Morrison, its chief operating officer, is going on medical leave.

It also said it is cutting an unspecified number of jobs to reduce costs. Balsillie said the job cuts are "an incredibly difficult decision" but said they do not constitute a restructuring of the company.

"We have grown so much over the past years and we've done 14 or 15 acquisitions over the last bit. This is just a streamlining," Balsillie said. "In no way shape or form would I call this a restructuring."

Lazaridis said company executives understand that recent times have been difficult for shareholders and employees, but said he's confident things will turn around.

Before the earnings RIM's stock was already off 50 percent from its 52-week high. In April, the company slashed earnings and sales forecasts as it faces increased competition. In extended trading after the results came out, RIM's stock fell \$5.07, or 14.4 percent, to \$30.26. In the regular session, the stock rose 16 cents to close at \$35.33 before the earnings were issued.

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Citation: Phone rivalry drives down RIM earnings (2011, June 16) retrieved 24 May 2024 from <https://phys.org/news/2011-06-motion-1q.html>

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